
dun & bradstreet

Country Insight Report

Spain

October 2022



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OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2022 (DB3c → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

WorldWatch Headline

Spain to continue taxing HNIs and excess profits of banks and energy companies; though it is trying to encourage reduced household energy consumption and provide VAT concessions on gas usage.

Multi-Dimensional Analysis (MDA) Scores

Metric	Country/Region				
	Spain	Germany	UK	France	Portugal
Overall Country/Region Risk Indicator	DB3d	DB3a	DB3b	DB3c	DB4b
Short-Term Economic Outlook	DB5a	DB4d	DB4a	DB5c	DB5c
Long-Term Economic Potential	DB4a	DB4b	DB3d	DB3c	DB5a
Market Potential	DB3a	DB2c	DB2a	DB2c	DB3a
FX Risk	DB3c	DB3a	DB3c	DB3c	DB4a
Transfer Risk	DB2a	DB1d	DB1d	DB1d	DB1d
Business Regulatory Environment	DB3d	DB2a	DB2a	DB3a	DB3c
Business Continuity	DB4c	DB3c	DB3d	DB4d	DB4d
Political/Insecurity Risk	DB4a	DB2a	DB2b	DB3a	DB2a
Expropriation/Nationalisation Risk	DB3d	DB1c	DB2b	DB2b	DB3d

Low Risk: DB1 - DB2 Moderate Risk: DB3 - DB4 High Risk: DB5 - DB7

Source: Dun & Bradstreet

Recent Changes

- No respite for Spain's ultra-rich from under additional tax burden over 2023-24.
- The VAT on natural gas will be reduced to 5% from 21% in October and last until the end of the year, to lower the heating bill.
- Hydropower generation has fallen 44%, leading to an increase in gas consumption for electricity generation.
- Consumer price inflation stood at 10.5% y/y in August, with prices of food and drink rising 13.8%, the biggest increase since the data series began in 1994.

Events to Watch

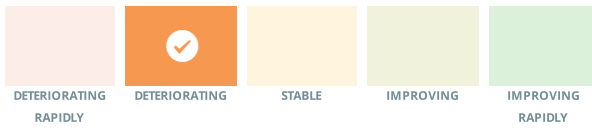
- The shortage in hydropower is causing increased use of gas for power generation, keeping electricity prices high and exacerbating the tight supply situation.
- Monitor developments in talks with Algeria as relations are increasingly getting strained; this is a threat to Spain's energy security.
- The euro risks lagging further behind the dollar and the pound as both the Federal Reserve (Fed) and Bank of England (BoE) are further ahead in the rates normalisation curve than the ECB.
- According to a private study, almost one third of the respondents are struggling with their finances and 60% of them believe Spain is already in a recession.

Call to Action

- Factor in elevated utility costs and high overall inflation into business plans.
- Expect the euro to remain under pressure for the rest of this year.
- Be wary of payment delays and default from Russian entities due to EU sanctions.
- Look for opportunities in the EV sector, which is set to receive a boost under the Spanish Recovery and Resilience Plan.

GLOBAL INSIGHT

Current Trend Indicator:

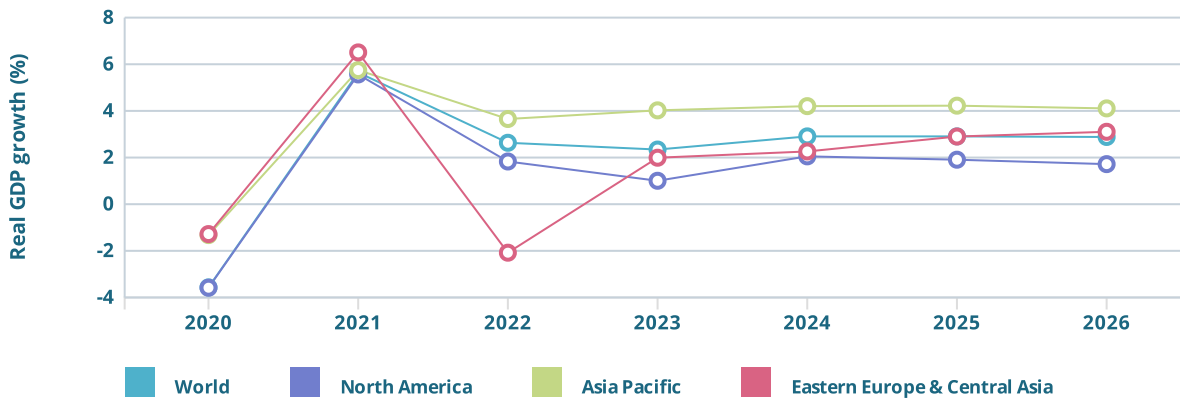


- Current Trend is **DETERIORATING**
- Last Change: March 2022 (Stable → Deteriorating)

Recent Developments

- The US Fed delivered a third consecutive 75 bps rate hike as core inflation remains strong.
- The Middle East's outlook moved to stable from deteriorating, to reflect healthier near-term economic prospects and an elevated geopolitical profile of several countries in the region.
- Risk to economic growth has increased across Europe, exerting additional pressure on the Euro, and prompting monetary and fiscal policy actions (e.g., the UK).
- Ukraine's counteroffensive has invoked a strong rhetoric from the Russian President, elevating risks of further escalation.
- Exports in APAC began waning; also, leading indicators suggest China's economy may see a better H2 vs. H1 2022, but overall growth prospects remain weak.

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

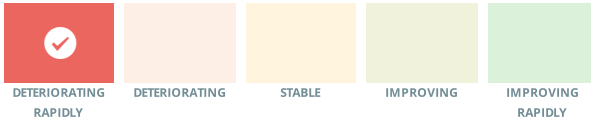
- Domestic political risks remain elevated globally; upcoming presidential elections in Brazil and Italy, and the US midterms remain key events to watch.
- Aggressive US Fed tightening exerts downward pressure on the currencies of developing economies.
- Due to the rising cost of debt, highly-leveraged households and debt-laden sovereigns and corporates may create pockets of distress, especially in emerging markets.
- China's reopening from lockdowns can support manufacturing, but higher Covid case numbers remain a risk to supply chain normalisation.
- The fragility of the EU's energy security has been exposed by the Ukraine war; this may test the EU's cohesion as Russia uses its leverage by reducing/stopping gas supplies.

Call to Action

- Focus on volumes, not revenues, as price rises could obfuscate underlying business strength.
- Expect further monetary tightening in the US as inflation remains the Fed's top priority.
- Establish alerts for negative changes in customers' and suppliers' viability.
- Review payment terms and ensure timely collections to minimise credit risks.
- Conduct end-to-end supply chain reviews; European businesses should specifically work to secure energy supplies before winter.

REGIONAL INSIGHT

Current Trend Indicator:



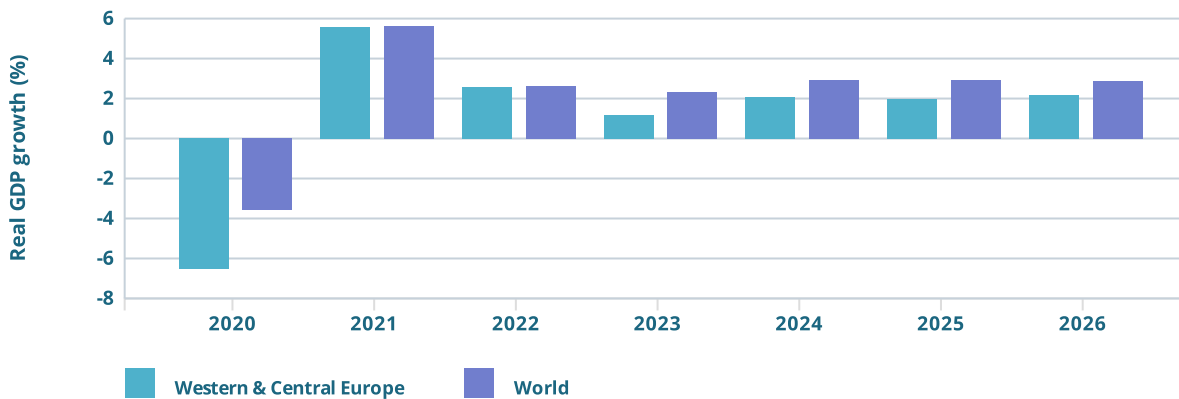
- Current Trend is **DETERIORATING RAPIDLY**
- Last Change: March 2022 (Deteriorating → Deteriorating Rapidly)

Recent Developments

- While governments across Europe seek to provide fiscal support against squeezing incomes, recession fears intensify.
- In September, rampant inflation (9.7 y/y in the three months to August) has led the ECB to increase interest rates by a record margin (0.75bps), to 1.25%.
- Across the channel, the Bank of England maintains a hawkish posture, increasing rates by 0.5bps in September, to 2.25%
- Despite this, both the GBP and the Euro remain under pressure relative to the USD, suggesting that the macroeconomic outlook in Europe is likely to deteriorate further.
- In several Eastern European economies, double-digit harmonised CPI inflation continues to increase or to remain elevated: in August, prices grew by 18.6% (14.6% in July) in Hungary, 14.8% (14.2%) in Poland and 17.2% (17.1%) in the Czech Republic.

REGIONAL OUTLOOK

Regional Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Both the euro and the GBP have depreciated against the USD, increasing FX risk.
- Pressure on prices has reached new heights, pushing costs up for businesses while reducing demand.
- We foresee higher bankruptcies, possible increases in payment delays and possibly a recession in key European economies, including Germany and the UK.

Call to Action

- Exchange-rate volatility increases risks for businesses that trade internationally.
- When possible, businesses should use multiple currencies, and assess FX risk, as well as **supply-chain risk** both upstream (vs sellers) and downstream (vs buyers).
- To spot cash flow problems and stress test the vulnerability of their business to policy changes or to the re-orientation of supply chains towards alternative energy exporters, businesses need to have a **holistic view of the risks along their supply chain**.
- As the number of business failures is likely to rise, **monitor counterparty risk** closely in order to reduce the risk of non- and late payments.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: March 2022 (DB3b → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- The drought has caused a decline in hydroelectricity power generation, which accounts for about 16% of Spain's generating capacity.
- Consumer price inflation stood at 10.5% y/y in August, with prices of food and beverages rising 13.8% - the biggest increase since the data series began in 1994.
- According to a private study, almost one third of the respondents are struggling with their finances, and 60% of them believe Spain is already in a recession.
- Spain gained European Commission (EC) approval for a second instalment worth EUR12bn of pandemic recovery funding, with approved funds at 45% of the total funds allocated.
- The euro sank to parity with the dollar in July, and we expect the euro to remain under pressure for the rest of this year.

Trade Terms

Description	Terms
Minimum Terms	SD
Recommended Terms	SD
Usual Terms	90-120 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
US Eximbank	Full cover available
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- Factor in elevated utility costs and high overall inflation into business plans.
- Note that the strengthening of the dollar bodes well for exporters and for the competitiveness of locally produced products, but risks losing capital flows to the higher-yielding currency.
- The euro risks lagging further behind the dollar and the pound as both the Fed and the BoE are further ahead in the rates normalisation curve than the ECB.
- Given the deterioration of payment performance during the pandemic, counterparty risk should be monitored closely.



SUPPLY ENVIRONMENT

Current Risk Indicator:



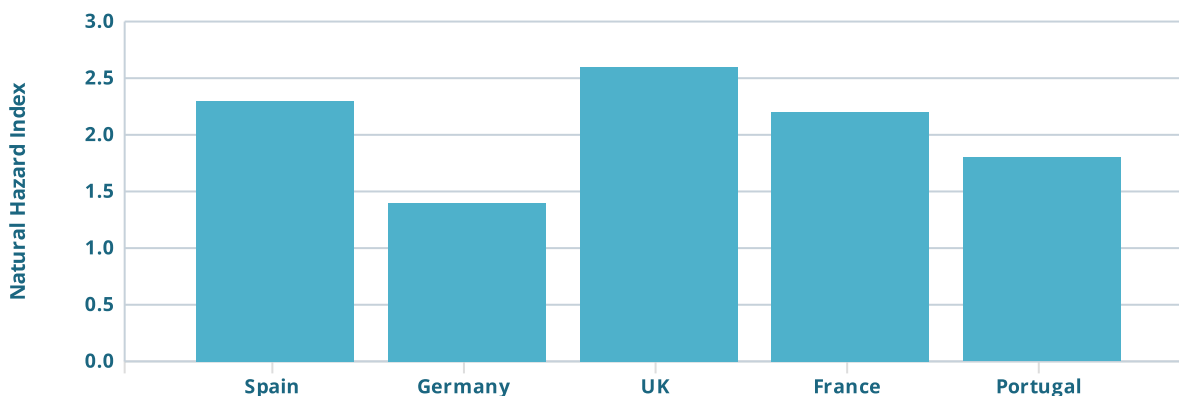
- Last change: September 2022 (DB4b → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- The VAT on natural gas will be reduced to 5% from 21% in October and will last until the end of the year, to lower the heating bill.
- Hydropower generation has fallen 44% in Spain over the past year, leading to increase in gas consumption for electricity generation.
- In addition to limit air-conditioning in public buildings and requiring establishments to switch off lights at 10 PM, the government has issued further recommendations for households, like lowering the thermostat and not leaving appliances on standby.
- The deterioration of democratic relations with Algeria, which is Spain's primary gas supplier, does not pose an immediate threat but might be a long-term concern for energy security.
- Spain has extended schemes such as EUR6bn in aid for companies and households and fuel discounts, and has extended VAT reduction on energy costs until September.

Risk Index: Hazard & Exposure



Note: 0 = lowest risk, 10 = highest risk **Source:** Haver Analytics

Call to Action

- Be wary of elevated utility costs in the short to medium term.
- Monitor the **solvency of businesses**, especially small and medium-sized enterprises (SMEs), as government initiatives are gradually withdrawn and conditions for business continuity deteriorate.
- Make use of our Procurement and Supplier Management service, which can uncover risks for suppliers in their procurement process.



MARKET ENVIRONMENT

Current Risk Indicator:



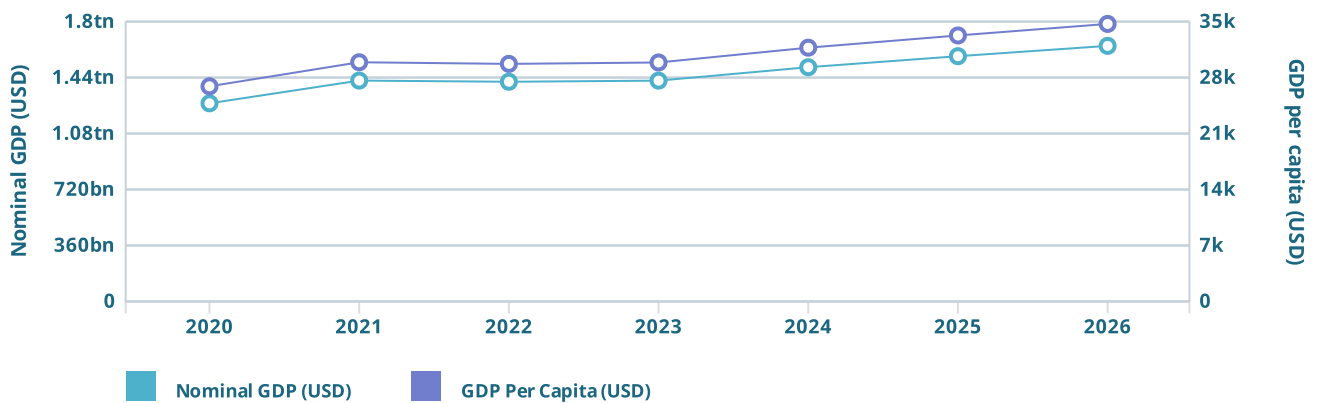
- Last change: September 2022 (DB3d → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Spain seeks to set a 4.8% tax on Spanish banks on profits made from net interest and fees charged to clients, as well as a 1.2% levy on the domestic sales of energy firms.
- Residents whose wealth exceeds EUR3 million will be subject to a new asset tax in 2023 and 2024.
- A new tax on air conditioners, freezers and refrigeration, which came into effect in September, will see equipment prices go up by up to 10% as part of a law approved in July.
- France is looking to revive a gas pipeline project linking Spain and Germany, which was shut down in 2019, having been deemed unprofitable.
- The EC approved Spain's plan to lower the prices of natural gas used by power utilities, bringing down wholesale electricity prices on the Iberian electricity market.

Nominal GDP and GDP per capita - Spain



Source: Haver Analytics/Dun & Bradstreet

Call to Action

- Note that the tax on interest and fees income will negatively impact banks' profitability.
- Be aware that the Russia-Ukraine conflict might lead to a restructuring of the energy supply chain, which will keep supply tight in the short to medium term.
- Make use of analytical tools to identify potential customers and market opportunities.
- Customs agencies should take steps to improve connectivity with other agencies and trading partners.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: August 2022 (DB3d → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Algeria has suspended a two-decade-old friendship treaty with Spain after the latter reversed its neutral position on the Western Sahara dispute between Algeria and Morocco.
- Morocco and Spain have agreed to reopen their economic borders at Ceuta and Melilla by January 2023 to guarantee the beginning of a smooth and progressive transit of goods through land customs posts.
- There have been sporadic protests across the country over a number of issues, ranging from protests against NATO to proposed changes to the country's abortion law.
- Russia being a smaller trading partner than other EU members implies relative insulation for Spain from the geopolitical tensions arising from the Russia-Ukraine conflict.
- Prime Minister Sanchez is expected to hold back from calling a general election until December 2023, as late as possible, in the hope of an economic upturn.
- The risk of forcible expropriation has risen, as the government has imposed a rent cap on housing and a surcharge on the local property tax.

Political Freedom

Location	Electoral Process	Pluralism & Participation	Functioning of Government	Freedom of Expression & Belief	Association & Organization Rights	Rule of Law	Personal Autonomy & Individual Rights
Spain	12	16	9	14	11	13	15
Western & Central Europe	11	15	10	14	11	13	14
OECD Average	11	15	10	14	11	13	14

Note: Higher score = greater degree of freedom **Source:** Freedom House

Call to Action

- Monitor developments in talks with Algeria, as relations are increasingly strained; this is a threat to Spain's energy security.
- Note that investors in strategic sectors and from countries without bilateral investment treaties may wish to take out guarantees against expropriation.
- Keep up-to-date with information on entities and individuals that threaten national security or bypass lawful trade and commerce.



DETAILED ANALYSIS

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

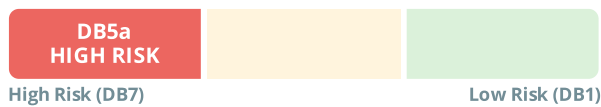
The core categories that we analyse as part of our broader risks and opportunities model are as follows:

- **Short-Term Economic Outlook**
- **Long-Term Economic Potential**
- **Market Potential**
- **FX Risk**
- **Transfer Risk**
- **Business Regulatory Environment**
- **Business Continuity**
- **Political/Insecurity Risk**
- **Expropriation/Nationalisation Risk**

Descriptions for each of these categories can be found in the User Guide.

SHORT-TERM ECONOMIC OUTLOOK

Current Risk Indicator:



- Last change: September 2022 (DB4d → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **DETERIORATING**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

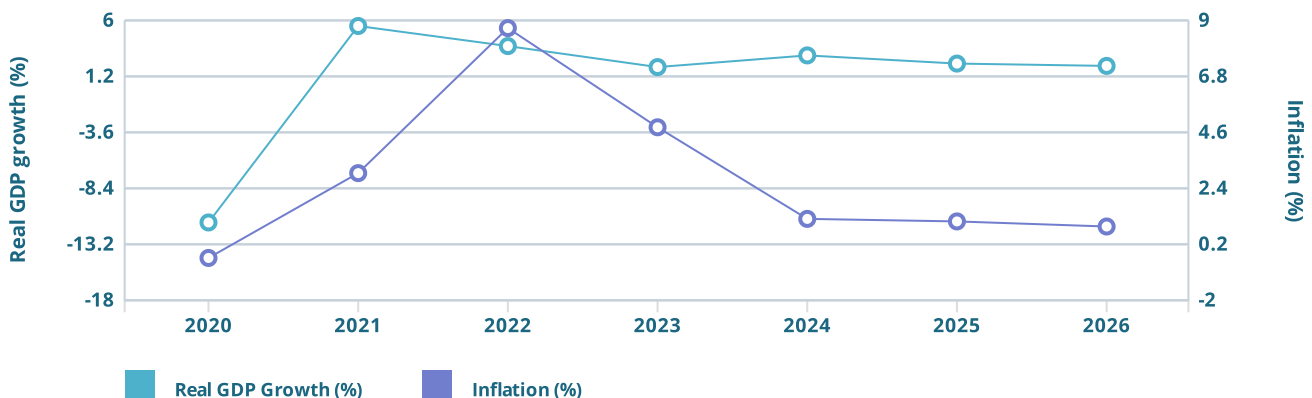
Short-Term Economic Outlook Overview

We have maintained the outlook at 'deteriorating' as Spain grapples with drought, which is disrupting hydropower generation and leading to increasing gas usage. This accentuates the existing problems of persistently high inflation, especially for food and fuel, which is pushing the cost of living higher. Prices of agricultural products have also seen a sharp spike, given that Russia and Ukraine are major exporters of wheat and maize. We are also wary of further downside risks due to the tightening of monetary policy conditions globally. Russia is a moderately important source of petroleum for Spain, though supply is highly diversified. The EU has expressed intentions to reduce gas imports by two-thirds and ban oil imports from Russia by the end of 2022; as a result, supply is running low, with Spain facing higher prices as a consequence.

Recent Developments

- The drought has caused a decline in hydroelectricity power generation, which accounts for about 16% of Spain's generating capacity.
- According to a private study, almost one third of the respondents are struggling with their finances, and 60% of them believe Spain is already in a recession.
- Consumer price inflation stood at 10.5% y/y in August, with prices of food and drink rising 13.8% - the biggest increase since the data series began in 1994.
- Spain has launched a scheme allowing free travel on suburban and middle-distance trains to address increasing fuel costs, which is likely to benefit residents as well as tourists.
- The number of people registering as jobless rose slightly in August from a month earlier but remained at a 14-year low.
- Spain has passed two economic packages worth around €25 billion combined since June.

Real GDP Growth and Inflation - Spain



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- The shortage in hydropower is causing an increased use of gas for power generation, keeping electricity prices high and exacerbating the tight supply situation.
- The uncertainty regarding energy prices and plans to curb Russian energy imports will continue to keep electricity prices elevated in the short to medium term.
- Subsidies on transport expenditure and an 80% reduction in energy bill taxes will provide some relief to consumers.

Call to Action

- Factor elevated utility costs and high overall inflation into business plans.
- Prepare for a further tightening of monetary conditions.
- Note that the Russia-Ukraine conflict has the potential to create some debilitating disruption across industries, from energy to agriculture.

LONG-TERM ECONOMIC POTENTIAL

Current Risk Indicator:



- Last change: November 2021 (DB4b → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

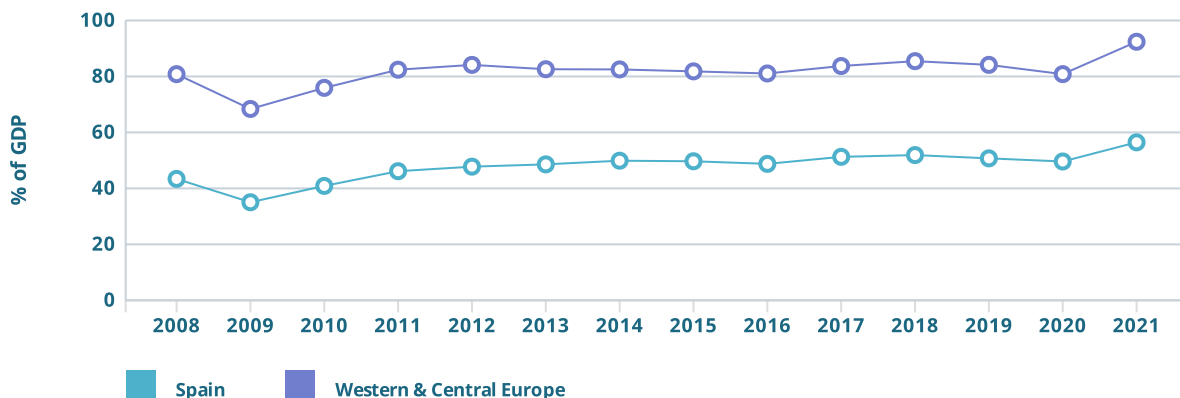
Long-Term Economic Potential Overview

Spain has the potential for modest growth over the next decade - 0.5% a year in an adverse scenario and 3.0% in a favourable scenario. The economy is efficient, ranked 23rd in the world in the World Economic Forum's latest Global Competitiveness Report, and Spain has good access to the European, North African and Latin American markets. The country has successfully implemented key reforms conditional to receiving funds under the National Recovery Plan, including labour market reforms and the sustainability of public finances. However, growth is at risk from high levels of debt, political divisions and recessionary fears in the euro zone.

Recent Developments

- Spain got EC approval for a second instalment worth EUR12bn of pandemic recovery funding, with approved funds at 45% of total funds allocated.
- Spain plans to relax work permit rules for foreigners to address labour shortages in industries such as tourism and construction.
- The Russia-Ukraine conflict might lead to a restructuring of the energy supply chain, which will keep supply tight in the short to medium term.
- The energy crisis has accelerated the installations of solar panels by residential communities in Spain with the goal of becoming self-sufficient and reducing gas consumption.

Exports and Imports



Source: International Monetary Fund Direction of Trade Statistics/Haver Analytics

Risks and Opportunities

- The EU Recovery Fund is expected to lift Spain's GDP by 1.8%, to 2.5%, by 2024 and create 250,000 additional jobs.
- Additional pension funding to be assessed at the end of 2022 will lead to an increase in public spending, already one of the highest in the EU as a percentage of GDP.
- Labour market policies will need to be more proactive in reskilling and enhancing the employability of displaced workers.
- The adoption rate of digital technologies by Spanish firms is close to the OECD average, but below that of the best-performing countries.

Call to Action

- Expect stronger focus on green energy, especially wind and solar.
- Expect services such as IT, tourism and light manufacturing to provide the best long-term commercial opportunities.
- Monitor the rollout of 5G, initially in the major cities.

MARKET POTENTIAL

Current Risk Indicator:



- Last change: September 2022 (DB2d → DB3a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Market Potential Overview

As the 13th largest economy in the world and the fourth-largest economy in the EU, with a wealthy and growing population, Spain offers good opportunities for exporters. At 1.0%, the country's trade-weighted average tariff rate is low by international standards. More than half of products from non-EU countries enter the EU tariff-free and no tariffs apply to goods imported from elsewhere in the 27-member bloc. There are downsides though, stemming from the Russia-Ukraine crisis and its fallout on businesses.

Recent Developments

- Olive oil production might be down by more than 30% by November due to drought and high temperatures in Spain, which accounts for two-fifths of the world's production.
- 9 million tourists visited Spain in July, about 800,000 fewer than those in the same month of 2019.
- Spain's large automobile sector is struggling, owing to a global shortage of microchips and semiconductors, and high input costs; a full recovery may take until 2023.
- Ford Motors has chosen a Valencia-based plant to build its next generation of EVs; Spain aims to be a leader in EVs in Europe's competitive automotive market.
- France is looking to revive a gas pipeline project linking Spain and Germany, which was shut down in 2019 having been deemed unprofitable.

Main Restrictions on Imports

Tariff Barriers	Spain	Germany	UK	France	Portugal
Overall Weighted Mean Tariff	1.5	1.5	1.3	1.5	1.5
Manufactures Weighted Mean Tariff	1.8	1.8	2.1	1.8	1.8
Primary Products Weighted Mean Tariffs	0.8	0.8	0.8	0.8	0.8
Overall MFN Tariff	1.8	1.8	1.8	1.8	1.8
Manufactures MFN Tariff	0.2	0.2	0.2	0.2	0.2
Primary Products MFN Tariff	5.6	5.6	6	5.6	5.6
Services Restrictiveness Index	16.1	17.5	14.3	26.4	21.8

Note: Tariff data displayed as %. For SRI data, 0 = completely open, 100 = completely closed **Source:** Haver Analytics/World Bank

Risks and Opportunities

- The Spanish government has approved a plan to spend EUR12.25bn on the semiconductor and microchip industry by 2027, including EUR9.3bn to fund the building of plants.
- The Bank of Spain anticipates that the deterioration in Russia-EU trade relations will negatively impact sectors such as transport, metal and chemical.
- A consortium led by Volkswagen Group and SEAT S.A. is looking to turn Spain into a hub for EV manufacturing in Europe.

Call to Action

- Consider investing in one of Spain's free-trade zones, where commercial operations may be conducted without incurring tax or levies.
- Look for opportunities in the EV sector.
- Monitor free-trade talks between the EU and Mercosur.
- Use analytical tools to identify potential new customers and market opportunities.

FX RISK

Current Risk Indicator:



- Last change: April 2022 (DB3b → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING RAPIDLY**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

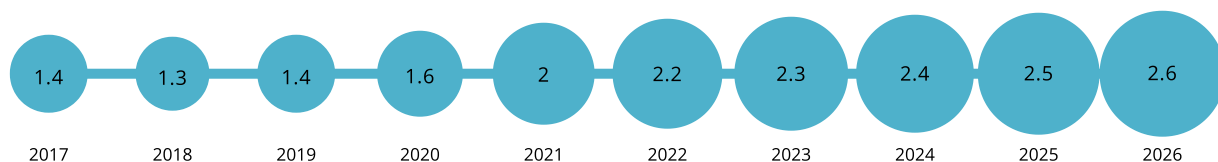
FX Risk Overview

The outlook for FX risk has been downgraded to 'deteriorating rapidly'. The EUR:USD exchange rate reached parity about a month ago for the first time since 2002. The fact that the rate remains stuck at 1 despite the ECB hiking the repo rate by 50bp signals that an increase in risk is warranted. Growth potential for the euro area is weak, with an increasing likelihood of recession, as suggested by several lead indicators, especially in Germany, where orders, inventories and confidence all point in the same direction. FX risks also remain elevated as a result of the Russia-Ukraine crisis and its repercussions on euro-zone economies, trade balances, the depreciation of the euro against other major currencies, the freeze on Russian assets, the high exposure of EU banks to Russia and the payment crisis resulting from the eviction of Russian banks from the SWIFT payment system.

Recent Developments

- The euro sank to parity with the dollar in July, and we expect the euro to remain under pressure for the rest of this year.
- At its September meeting, the ECB increased interest rates by 75bps - the steepest hike since the central bank was established.
- Despite this, pressure on the currency is coming from different angles, including anaemic growth in major euro area members like Germany and a massive deterioration of the euro zone trade balance.
- With major central banks being much more hawkish than the ECB, the euro could depreciate further.
- The EC has warned that Spain's vulnerabilities relate to high external debt, public and private, in a context of high unemployment and have cross-border relevance.

Import Cover (Months)



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- The strengthening of the dollar in response to tightening monetary policy in the US bodes well for exporters and for the competitiveness of locally produced products.
- However, it also risks losing capital flows to the higher-yielding currency.
- The euro risks lagging further behind the dollar and the pound as both the Fed and the BoE are further ahead in the rates normalisation curve than the ECB.
- Loss of tourism revenue due to a decline in tourists from Russia might impact FX earnings.

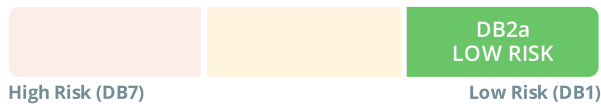
Call to Action

- Watch the ECB's policy: an anti-fragmentation tool aimed at avoiding a sovereign spread crisis has been announced by President Lagarde and other council members.
- Importers may wish to hedge against the risks of a weakening euro.
- Investors should monitor wider developments in the eurozone, particularly the Mediterranean, which is at risk of financial stress.



TRANSFER RISK

Current Risk Indicator:



- Last change: March 2022 (DB1d → DB2a)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Transfer Risk Overview

There is no imminent risk of the government imposing exchange or capital controls that might prevent non-Russian entities converting local currency into foreign currency and transferring it out of the country. The government is bound by national law and various international treaties to ensure free and unrestricted repatriation of profits in foreign currency and is under no immediate pressure to resile from these commitments. The few controls on capital transactions result from Spain's adoption of EU banking and anti-money-laundering laws.

Recent Developments

- Europe, including Spain, has moved to block access to the SWIFT international banking payment system for certain Russian financial institutions.
- Russian individuals and business owners in Spain, especially in the Costa del Sol, are struggling to transfer funds to and from accounts registered in Russia.
- Spain will look to impose a levy on companies deemed to have profited from high gas prices.

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-2 months

Note: Length of delay for completion of local and foreign transfers **Source:** Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Spain	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.12	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.36	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) **Source:** International Monetary Fund

Risks and Opportunities

- Data from our Worldwide Network partner Informa shows that between January and October 2021 business liquidations in Spain increased 40% against that period in 2020.
- The sharp rise in bankruptcies is a cause for concern.
- Once fiscal support is removed and the moratorium on bankruptcy lifted, there is heightened risk of payment delays and insolvencies in H2 2022.
- The government can block remittances if firms fail to provide proof of having paid all tax or notarised evidence of distributed profits to shareholders.

Call to Action

- Be prepared for additional payment difficulties, particularly from firms exposed to Russian or Belarusian entities.
- Comply with EU banking and anti-money-laundering regulations in order to avoid delays to the remittance of funds.
- Take advantage of Spain's membership of the eurozone, which makes for easy transfer to other parts of the currency union.

BUSINESS REGULATORY ENVIRONMENT

Current Risk Indicator:



- Last change: August 2022 (DB3c → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

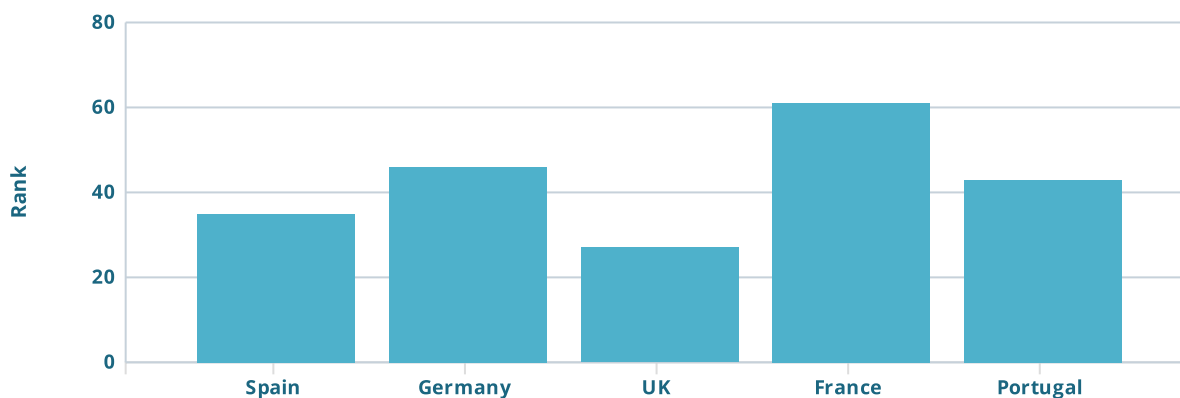
Business Regulatory Environment Overview

We have maintained the outlook for business regulatory environment score at 'deteriorating', after the government tabled a proposal to impose additional taxes on financial institutions and energy companies. In Spain, the general corporate tax rate is 25%, with tax incentives for investing, particularly in R&D and technological innovation. Trading across borders is easy, the state administration is efficient and the enforcement of contracts is relatively quick and easy. However, problems remain around starting a business, getting credit and dealing with construction permits.

Recent Developments

- Spain seeks to set a 4.8% tax on Spanish banks on profits made from net interest and fees charged to clients, as well as a 1.2% levy on the domestic sales of energy firms.
- Residents whose wealth exceeds EUR3 million will be subject to a new asset tax in 2023 and 2024.
- A new tax on air conditioners, freezers and refrigeration equipment has come into effect since September, which will see their prices go up by up to 10% as part of a law approved in July.
- The EC approved Spain's plan to lower the prices of natural gas used by power utilities, bringing down wholesale electricity prices on the Iberian electricity market.

Ease of Paying Taxes, 2019



Note: Low score = best, High score = worst **Source:** World Bank, 'Doing Business Report'

Risks and Opportunities

- The proposed tax on banks will lead to an additional tax burden of EUR3bn over the next two years and has been criticised as threatening to the financial system and as being in violation of EU guidelines.
- The 2021-25 SME digitalisation plan aims to establish programmes to promote entrepreneurial and management training in digital processes.
- The government is proposing to charge fees on all of Spain's highways from 2022, although its annual budget lacks details on how much this drive will cost.
- Remote tech workers can use a non-resident tax status with lower rates for five years, forming part of a wider legislation to help start ups, including investors' fiscal incentives.

Call to Action

- Monitor tax law changes closely to enhance effective tax cost management, as tax rules remain in flux; consult a tax specialist on any tax-related issues.
- Be alert to the risk of high-level corruption, especially when bidding for public tenders, where firms with connections or a willingness to pay bribes have an advantage.
- Take steps to minimise exposure to financial, legal and reputational risk.

BUSINESS CONTINUITY

Current Risk Indicator:



- Last change: September 2022 (DB4b → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

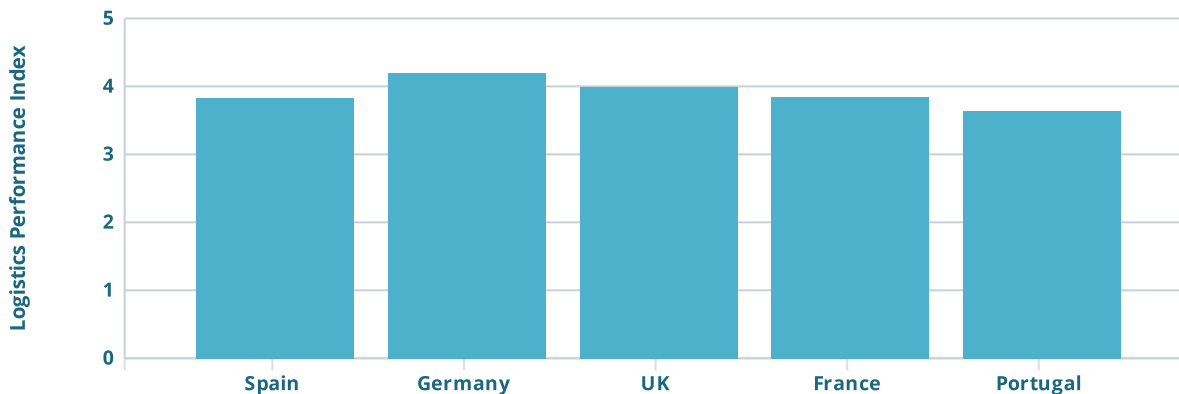
Business Continuity Overview

The business continuity has been downgraded to DB4c as a prolonged drought and heat waves are impacting Spain's energy supply dynamics. The highly uncertain energy outlook is keeping utility costs elevated in the short run, which, combined with supply-chain bottlenecks, will hamper the ability of manufacturers to increase production. Global commodity markets surged to multi-year highs after traders backed away from Russia, disrupting supply of everything from wheat to natural gas. Shortfall of supply in aluminium from Russia and neon from Ukraine will be detrimental for the already struggling automobile manufacturers.

Recent Developments

- The VAT on natural gas will be reduced to 5% from 21% in October and last until the end of the year, to lower the heating bill.
- Flights were cancelled across Spain's Canary Islands as storm Hermine moved in from over the Atlantic, bringing heavy rains to the popular holiday destination.
- In addition to limit air-conditioning in public buildings and requiring establishments to switch off lights at 10 PM, the government has issued further recommendations for households, like lowering the thermostat and not leaving appliances on standby.
- Hydropower generation has fallen 44% in Spain, leading to an increase in gas consumption for electricity generation.
- Transmission system operator, Enagas, will sell extra slots for tankers to unload at terminals for converting liquefied natural gas (LNG) to gas to address supply concerns.

Logistics Performance Index, 2018



Note: 1 = worst performance, 5 = best performance **Source:** World Bank/Haver Analytics

Risks and Opportunities

- August was the most expensive month for electricity on record, with the average price climbing to EUR308/MWh on the wholesale market.
- High temperatures are making it difficult to adhere to air conditioning restrictions.
- Conditions for automobile manufacturers will come under major strain due to diversion of supply routes and escalating costs of raw materials.

Call to Action

- Be wary of elevated utility costs in the short to medium term.
- Monitor the **solvency of businesses**, especially for small and medium-sized enterprises (SMEs); the coronavirus continues to affect business continuity.
- Firms should continually monitor supplier risk.

POLITICAL/INSECURITY RISK

Current Risk Indicator:



- Last change: August 2022 (DB3d → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

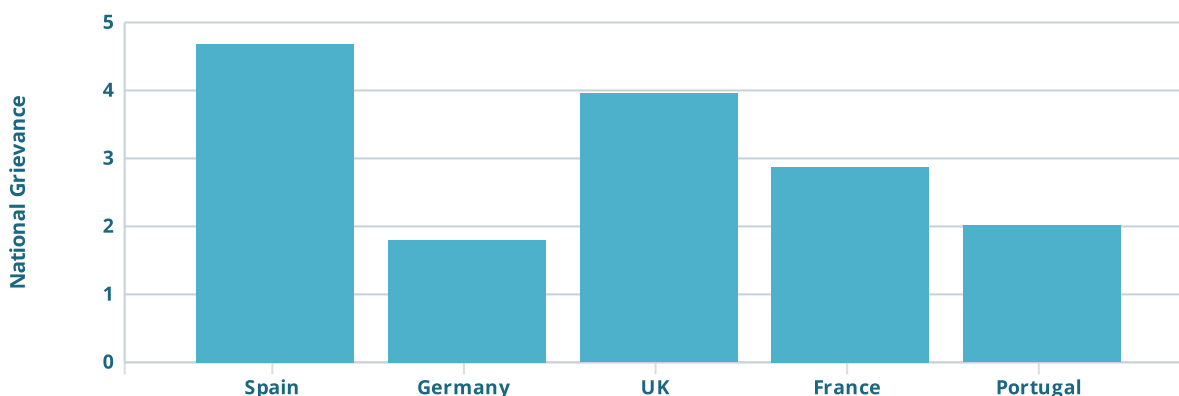
Political/Insecurity Risk Overview

We have maintained the political risk score at DB4a, with a 'deteriorating' outlook, following the deterioration in diplomatic relations with Algeria, a primary supplier of natural gas to Spain. Spain has also experienced civil unrest as a consequence of the rise in inflation that is eroding standards of living. Different groups have expressed dissent following high fuel prices and restrictions related to the coronavirus. There is a risk of escalation ahead of the general election in 2023 if the surges in production costs and the costs of living cause sustained hardship.

Recent Developments

- Algeria has suspended a friendship treaty with Spain after Spain reversed its neutral position on the Western Sahara dispute between Algeria and Morocco.
- Morocco and Spain have agreed to reopen their economic borders at Ceuta and Melilla by January 2023 to guarantee the beginning of a smooth and progressive transit of goods through land customs posts.
- The prime minister's popularity has been damaged by the rising cost of living, with the conservative People's Party overtaking his Socialists in national polls and winning a decisive victory in a regional election in Andalucía two months ago.
- Spain is increasingly concerned that its gas supply could be affected after Rome's move to secure large volumes of Algerian gas.

Level of National Grievance, 2022



Note: 1.0 = lowest grievance, 10.0 = highest grievance **Source:** Fund for Peace, 'Fragile States Index'

Risks and Opportunities

- Algeria is committed to honouring its gas supply contracts with Spain, but deteriorating diplomatic relations and increasing interest from Italy might pose headwinds.
- A hunger crisis worsened by Ukraine's disrupted grain exports may trigger migration from the Sub-Saharan areas to autonomous African regions under Spanish governance.
- Prime Minister Sanchez is expected to hold back from calling the general election until December 2023, as late as possible, in the hope of an economic upturn.

Call to Action

- Monitor developments in talks with Algeria, where relations are increasingly strained; this is a threat to Spain's energy security.
- Factor the consequences of terrorism into business plans, be it disruption to supply lines, higher insurance costs or direct collateral damage.
- Keep up-to-date with information on entities and individuals that threaten national security or bypass lawful trade and commerce.

EXPROPRIATION/NATIONALISATION RISK

Current Risk Indicator:



- Last change: December 2021 (DB3c → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

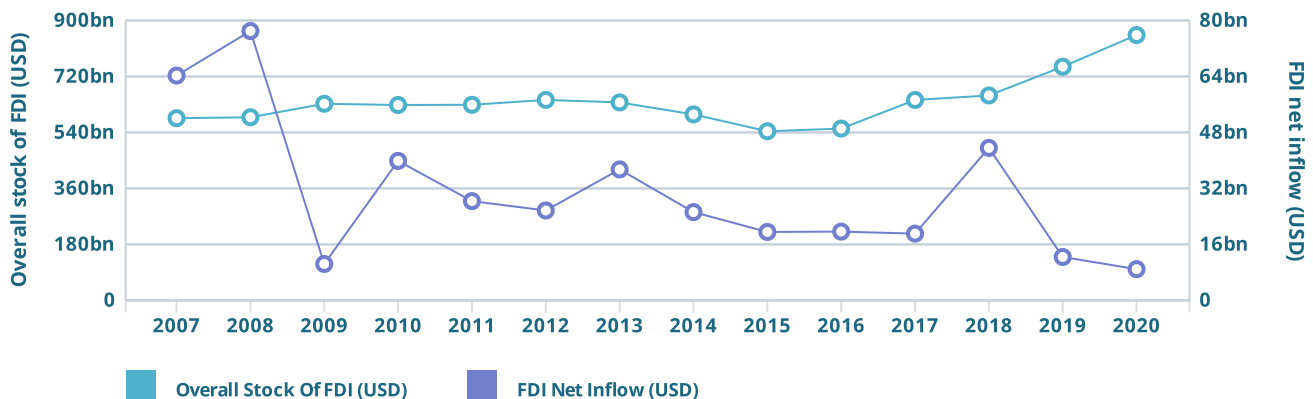
Expropriation/Nationalisation Risk Overview

The risk of forcible expropriation is low. In October, the government agreed to various reforms to Spain's housing laws, including a rent cap on landlords with more than 10 properties and a new surcharge to the local property tax of up to 150%, justified by the need to make rented property more accessible for young people. This follows the imposition of a price cap on gas and electricity prices for consumers in September, to contain what the government has described as the 'extraordinary profits' of energy companies. In response, energy companies accused the government of creating a climate of legal insecurity.

Recent Developments

- The government's housing bill contains plans to stop subsidised housing from being sold to its occupiers, as has happened in the past.
- The cap on gas prices imposed in September posed difficulties for energy companies, which were unable to pass on the rise in cost of wholesale gas.
- Spain has signed a new bilateral investment treaty with Columbia; the treaty provides explicit protections to Colombian investors.

Foreign Direct Investment - Spain



Source: United Nations Conference on Trade and Development

Risks and Opportunities

- The end of the state of alarm ends the government's previous right to requisition property and equipment without legal process.
- In case of a dispute, foreign companies may take their case to one of Spain's three arbitration courts or pursue the case internationally.
- The Multilateral Investment Guarantee Agency insures investments against political risk, and the Overseas Private Investment Corporation offers guarantees for US firms.
- Expropriations are generally carried out in a non-discriminatory manner, with reasonable compensation paid and in accordance with due legal process.

Call to Action

- Note that investors in strategic sectors and from countries without bilateral investment treaties may wish to take out guarantees against expropriation.
- Before buying land, investigate whether it might be subject to exemptions under Spain's expropriation laws.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Key Indicators and Forecasts

Historical Data/Forecasts

Metric	2017	2018	2019	2020	2021	2022f	2023f	2024f	2025f	2026f
Real GDP growth (%)	3	2.3	2	-11.3	5.5	3.8	2	3	2.3	2.1
Nominal GDP in USDbn	1,310	1,421	1,394	1,274	1,421	1,413	1,420	1,507	1,577	1,644
Nominal GDP in local currency	1.2tn	1.2tn	1.2tn	1.1tn	1.2tn	1.4tn	1.5tn	1.5tn	1.6tn	1.6tn
GDP per Capita in USD	28,129	30,374	29,584	26,905	29,914	29,710	29,886	31,735	33,264	34,708
Population (year-end, m)	46.6	46.8	47.1	47.4	47.5	47.6	47.5	47.5	47.4	47.4
Exchange rate (yr ave, USD- LCU)	0.9	0.8	0.9	0.9	0.8	1	1	1	1	1
Current Account in USDbn	36.3	27.6	29.7	10.5	13.1	10.8	-3.1	-13.2	-17.6	-21.3
Current Account (% of GDP)	2.8	1.9	2.1	0.8	0.9	0.8	-0.2	-0.9	-1.1	-1.3
FX reserves (year-end, USDbn)	353.2	378.4	386.6	422.9	568.7	591.8	622	673.2	743.1	836.4
Import Cover (months)	1.4	1.3	1.4	1.6	2	2.2	2.3	2.4	2.5	2.6
Inflation (annual ave, %)	2	1.7	0.8	-0.3	3	8.7	4.8	1.2	1.1	0.9
Govt Balance (% GDP)	-3.1	-2.6	-3.1	-10.3	-6.9	-5.5	-4.3	-4.2	-3.7	-3.3

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Spain	Germany	UK	France	Portugal
Income per Capita (USD)	29,710	49,883	48,178	43,527	24,443
Country Population (m)	47.6	83.4	67.5	64.6	10.3
Internet users (% of population)	93.2	89.8	94.8	84.8	78.3

Source: Various sources/Dun & Bradstreet

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