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# Country Insight Snapshot

## Spain

October 2022



Written 30 September 2022

## 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.

### 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.

## 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.

### 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.

### 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.

### 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.

## 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

#### 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



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