

## The sun rises every morning, which is no mean feat

### General Information



<b>GDP</b>	USD1,199.057bn (World ranking 14, World Bank 2015)
<b>Population</b>	46.418mn (World ranking 29, World Bank 2015)
<b>Form of state</b>	Parliamentary monarchy
<b>Head of government</b>	Mariano Rajoy Brey (centre-right), since 2011
<b>Next elections</b>	General elections 2020 (4-year term)



### Strengths

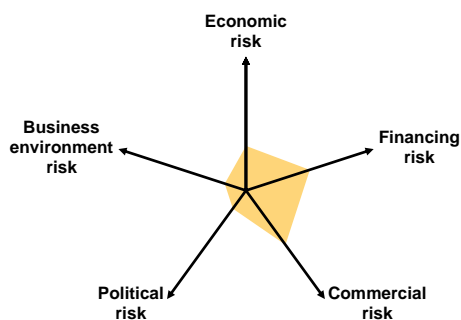
- Good performance and competitiveness in some specific sectors
- Presence of large international companies
- Bridge between the world and Latin America
- Large economy
- Infrastructure network

### Weaknesses

- High fiscal deficit and public debt
- High private debt
- Weak legal system
- Disastrous labor market
- Poor education and training
- Faulty territorial organization
- Polarized politics, lack of accountability and corruption

### Country Rating

A2



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
France	15% 1	13% Germany
Germany	11% 2	11% France
Italy	7% 3	9% China
United Kingdom	7% 4	6% Italy
Portugal	7% 5	5% United States

By product (% of total)

Exports	Rank	Imports
Vehicles	18% 1	14% Mineral fuels
Industrial machinery	8% 2	13% Vehicles
Electrical machinery	6% 3	10% Industrial machinery
Mineral fuels	5% 4	8% Electrical machinery
Pharmaceutical	4% 5	5% Pharmaceuticals

Source: Comtrade (2015)

## Economic Overview

### Pot luck

Real GDP grew by +0.7% q/q and +3% y/y in Q4 2016. Production echoed 2015 although it was below the average +3.9% recorded in the decade preceding the global financial crisis. Private consumption and exports are once more considered the engines of growth, despite a moderate deceleration. Public consumption, investment, and imports are expected to change on a similar scale as in 2016.

Rebalancing has led to a much healthier composition of GDP. The share of construction increased from 16% to 22% between 1998 and 2007, before the housing bubble burst in 2008, resulting in construction to shrink by -38% until 2013. Collaterally, the aftermath of the housing bubble shrank tax collection by -EUR70.7bn between 2007 and 2009 and revenues are still -EUR28.7bn below the 2007 peak. Meanwhile, the share of exports in GDP increased from 23% to 32% between 2010 and 2016. Combined with the decline in imports, this has enabled Spain to benefit from a surplus in the trade balance.

### Fight with cudgels

Mariano Rajoy was sworn in as Prime Minister for a second term after winning a parliamentary confidence vote. This allowed him to lead a minority government after ten months of political impasse. The new cabinet will need to build consensus across a hostile and polarized parliament to push through reforms.

Spain appears to be on track for meeting its -4.6% fiscal deficit target for 2016, down from -5.1% in 2015. The trend is largely supported by a better than expected output performance. The government submitted to Brussels an amendment on its 2017 budget to meet the -3.1% fiscal deficit target for the year, which currently falls short by +EUR7.5bn. The estimated increases of tax collection include +EUR4.65bn by limiting corporate tax deductions, +EUR850mn by raising special taxes, +EUR1.5bn by improving tax effectiveness, and +EUR500mn from fighting fraud. However, the Social Security fund is expected to run a -EUR2.6bn deficit in 2017 after having exhausted a +EUR66.8bn reserve fund within seven years. In addition, 0.9pp should be raised in 2018 to meet the -2.2% fiscal deficit target for 2017.

### Mondays in the sun

The condition of the Spanish labor market is a long-standing issue. High-skilled employment is scarce and the labor force lagged behind regarding human capital. The unemployment rate fell below 20% for the first time in six years, although it still remains the second-highest among EU members. The 30-year average exceeds 17% and the employment rate is over 15 percentage points below European top performers.

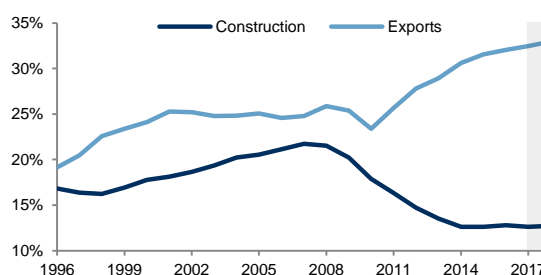
Spain shows a marked duality in terms of protection and wages. The country also comes second in terms of the incidence of temporary contracts, which accounts for about one-fifth of employees, twice higher than the regional average. In addition, the share of involuntary part-timers (out of overall part-time employment) climbed to more than 60% in recent years.

### Key economic forecasts

	2015	2016e	2017f	2018f
GDP (real, %)	3.2	3.2	2.5	2.2
Private consumption (%)	2.9	3.2	2.4	1.9
Public consumption (%)	2.0	0.8	1.1	1.1
Investment (%)	6.0	3.1	3.9	4.1
Construction (%)	4.9	1.9	2.9	3.1
Machinery and equipment (%)	8.9	5.0	4.7	4.9
Exports (%)	4.9	4.4	4.1	3.8
Imports (%)	5.6	3.3	4.0	3.8
Current account (% of GDP)	1.4	2.1	1.5	1.4
Fiscal balance (% of GDP)	-5.1	-4.6	-3.8	-3.1
Public debt (% of GDP)	99.8	99.9	99.7	99.3
Inflation (average-of-period, %)	-0.6	-0.3	2.2	2.1
Employment (%)	3.0	2.7	2.2	2.1
Unemployment rate (%)	22.1	19.6	18.0	17.0
Wages (%)	0.2	-0.4	1.0	1.9

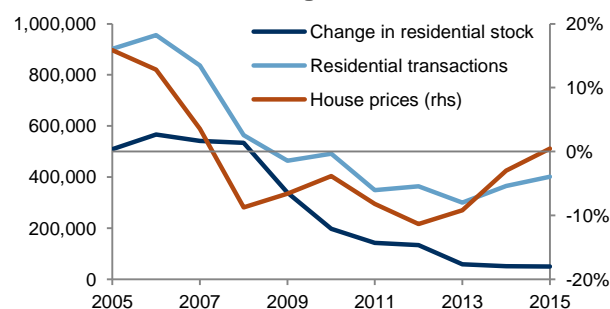
Sources: National statistics, Euler Hermes

### Share of GDP



Sources: INE, Euler Hermes

### Housing market



Sources: National sources, Euler Hermes

### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.

View all Euler Hermes Economic Research online

<http://www.eulerhermes.com>

Contact Euler Hermes Economic Research Team

[research@eulerhermes.com](mailto:research@eulerhermes.com)

Last review: 2017-03-22  
Country Risk Analyst:

Alberto González de Aledo Pérez  
[alberto.gonzalez@eulerhermes.com](mailto:alberto.gonzalez@eulerhermes.com)