



## 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

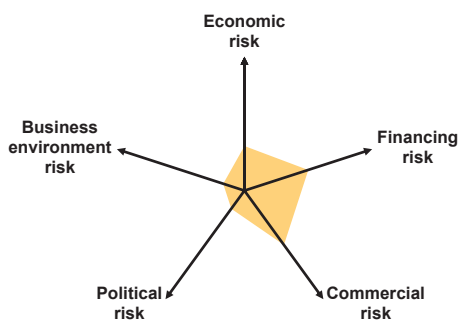
- Good performance and competitiveness in some specific sectors
- Presence of large international companies
- Bridge between the world and Latin America
- Large economy
- Infrastructure network

### 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.

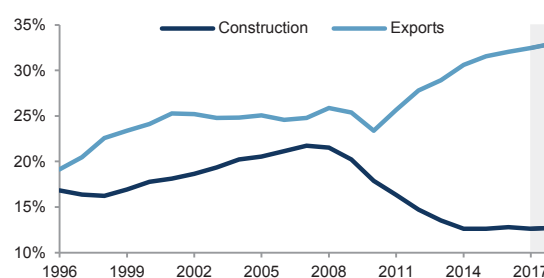
Spain shows a marked duality in terms of protection and wages. The country also comes second in terms of the incidence of temporary contracts, which accounts for about one-fifth of employees, twice higher than the regional average. In addition, the share of involuntary part-timers (out of overall part-time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

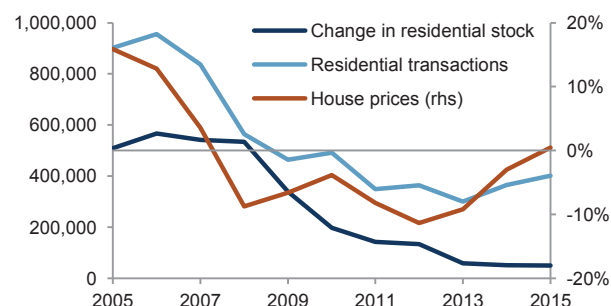
Sources: National statistics, Euler Hermes

### Share of GDP



Sources: INE, Euler Hermes

### Housing market



Sources: National sources, Euler Hermes

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