

COUNTRY PROFILE:
DATED:
CREDIT GUARANTEE:

KINGDOM OF SPAIN
JUNE 2009

IES/02: ATTACHMENT A

Recent Political Highlights

- ❑ Chief of state since November 1975 has been King Juan Carlos I with head of Government President of the Government (Prime Minister equivalent) Jose Luis Rodriguez Zapatero.
- ❑ The monarchy is hereditary. Following legislative elections, the leader of the majority party is usually proposed president by the monarch and elected by the National Assembly. The next election is due in March 2012.
- ❑ In the May 2009 state-of-the-nation debate, Mr Zapatero promised a laptop for every schoolchild, €2,000 for new-car buyers and tax breaks for small businesses who held on to employees, but he failed to explain how he would pay for this, in light of the deep recession. He managed to escape the frustration of many Spaniards as unemployment races to dangerously high levels.

Recent Economic Highlights

- ❑ Spain has a population of 40.5m with an expected growth rate of 0.1% in 2009.
- ❑ The Economist expects GDP growth to contract by 4.1% in 2009 and 1.1% in 2010, from growth of 1.2% in 2008. The Foundation of Savings Bank predicted that the economy would shrink 3.8% this year and 1.2% in 2010. The economy shrank 2.9% in the first quarter of 2009. The bank said that prospects for the construction in housing sector will remain negative and the sector will not start to recover until surplus stock of housing has significantly reduced. Residential construction is said to fall by 22.9% this year and 16.3% in 2010.
- ❑ Financial assistance for the purchase of new vehicles became available in May and the amount available depends on which part of Spain you live in as some regional authorities are not participating in this measure. Government hopes to boost car sales, which have fallen 43.7% during the first four months of 2009 from the previous year.
- ❑ Rising unemployment coupled with the fall in consumption has led to a four-fold increase in the number of individuals and companies have gone bankrupt in the first quarter of 2009. The total number of bankruptcies in 2009 is estimated to be twice that of 2008. The statistics on companies going into administration in the first quarter of 2009 show that this period has been the worst phase of the current economic crisis so far with an increase of 44% from last year.
- ❑ External pressure from the EU to bring the budget balance back under the 3% deficit ceiling is likely to add pressure on Government to stabilise finances in subsequent years. The Economist expects a gradual improvement but says the improvement will depend on economic recovery as well as central and regional Government spending controls. Spain could face difficulty in reigning in finances in 2009-10.
- ❑ ACS Group, Spain's biggest building group wants to diversify out of construction into energy and has purchased a 12.6% stake in Iberdrola, Spain's largest energy utility and the world's biggest operator of wind farms. Iberdrola announced plans to raise €1.25bn in new capital through a share issue to reduce debt and maintain its credit rating. Iberdrola's chairman stated that the company does not have financing problems, but wanted to strengthen its balance sheet and optimise its capital structure to allow it to improve financial ratios linked to cash flow and ultimately preserve its credit ratings. Net Debt at the end of the first quarter 2009 stood at €31.2bn.
- ❑ The Spanish Government and the World Bank announced the creation of a \$40m trust fund to finance projects for technical assistance and knowledge sharing in Latin America. The fund will channel this money in two years, of which \$2m will be directed to the [International Finance Corporation (IFC) arm of the] World Bank. The objective of the fund is to impel the transfer of knowledge from Spain to the LAC region (Latin America and the Caribbean).

Latest Trade Developments

- ❑ Main export commodities: machinery, motor vehicles, food, pharmaceuticals, medicines and other consumer goods.
- ❑ Main import commodities: machinery and equipment, fuels, chemicals, semifinished goods, food, consumer goods, measuring and medical control instruments.
- ❑ Major trading partners: France, Germany, Portugal, Italy, UK, US, Netherlands and China.
- ❑ Spanish wine and olive oil producers have decided to try to boost the export market for their products in order to combat the crisis in falling prices and falling sales in the domestic market. Programmes to promote olive oil and wine will be launched over the next few years. Producers, Government and the EU will jointly provide the financing of as much as €45m. Spain is currently the biggest exporter of olive oil with an annual export market of 630,000 tonnes. Spain is also the second biggest exporter of wine behind Italy but ahead of France, with an export market of 17m hectoliters.
- ❑ SA's exports to the Spain totaled R12bn in 2007, R15bn in 2008 and R2.7bn in the year to March 2009.
- ❑ SA's imports from Spain totaled R7.8bn in 2007, R8.8bn in 2008 and R1.5bn in the year to March 2009.