

BEST'S COUNTRY RISK REPORT

Spain CRT-2

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Spain is a CRT-2 country, with low levels of economic, political, and financial system risk. The economy has benefited from improved global competitiveness. Real GDP growth is forecast at 2.8% in 2018, driven mainly by rising consumer consumption and exports.
- The government will need to continue to make structural changes to bolster economic stability, including implementing labor, pension, healthcare, and education reforms.
- The majority of countries pictured in the map are categorized as CRT-1 and CRT-2. The notable exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Western Europe

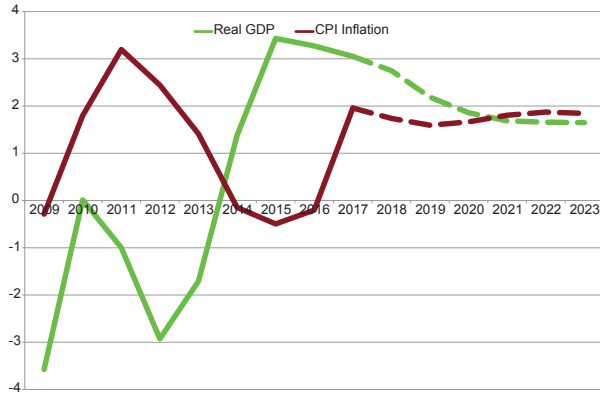
- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

Vital Statistics 2017		
Nominal GDP	USD bn	1313.95
Population	mil	46.3
GDP Per Capita	USD	28,359
Real GDP Growth	%	3.1
Inflation Rate	%	2.0
United Nations Estimates		
Literacy Rate	%	98.3
Urbanization	%	80.0
Dependency Ratio	%	51.0
Life Expectancy	Years	81.8
Median Age	Years	42.7
Insurance Statistics		
Insurance Regulator	Director General of Insurance under the Ministry of Economy and Finance	
Premiums Written (Life)	USD mil	33,216
Premiums Written (Non-Life)	USD mil	37,331
Premiums Growth (2016 - 2017)	%	-2.6
Regional Comparison		
	Country Risk Tier	
Spain	CRT-2	
France	CRT-1	
Germany	CRT-1	
Italy	CRT-2	
Switzerland	CRT-1	
United Kingdom	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Low

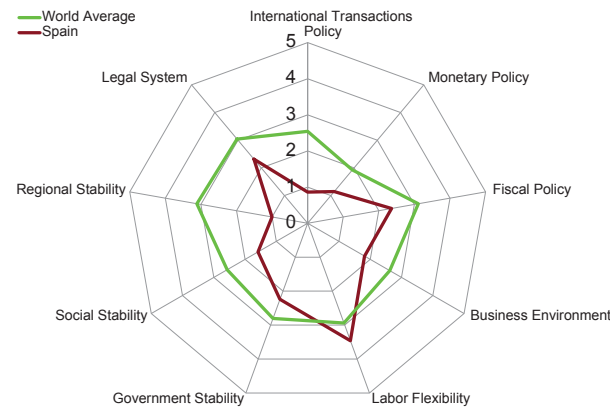
- Spain's economy is supported by strong domestic consumption and resilient exports. Spain ranks number 1 in the world, out of 190 countries, in the trading across borders category in the World Bank's 2018 Doing Business Index.
- Accommodative monetary policy on the part of the European Central Bank has supported Spain's economic growth. Tighter monetary policy, higher inflation, and increased international trade tensions, however, could mute growth in the medium term.
- Labor market reforms have provided both workers and employers more flexibility, although unemployment remains high. Spain's unemployment rate as of June 2018 was estimated at 15.3%, down from over 26% in 2013.

Political Risk: Low

- Spain has been a member of the European Union since 1986 and a member of the Schengen Area since 1995. Spain is also part of the eurozone.
- Prime Minister Mariano Rajoy received a no-confidence vote on June 1, 2018, and was replaced by Pedro Sánchez, of the center-left Partido Socialista Obrero Español (PSOE) party. Sánchez proposed relaxing the 2019 deficit targets from 1.3% of GDP to 1.8% and providing more regional aid. Because of a weak coalition government, the measures were unable to pass.
- In an independence referendum on October 1, 2017, the Catalan region voted to leave Spain. Spain held that the vote was unconstitutional, which led to a suspension of the region's political autonomy and the jailing of eight Catalan government members.
- Spain is dealing with civil unrest due to the Catalan separatist movement, as well as labor union disputes and opposition to social program reforms. The country has experienced large marches, roadblocks, protests and occasional riots.
- As a result of the weak coalition government and continued legislative policy paralysis, early elections, currently slated for June 2020, are possible.

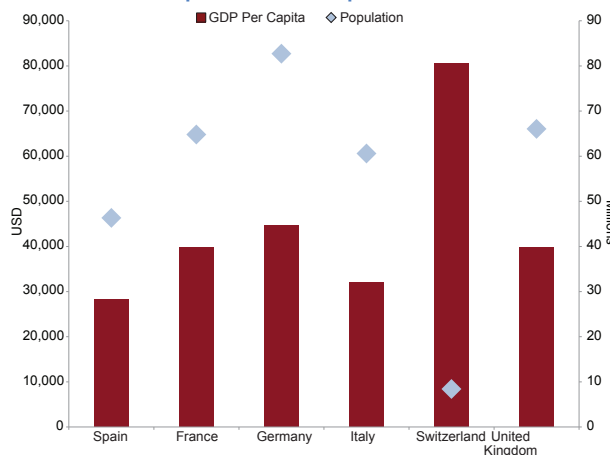
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Low

- The insurance industry is regulated by the Director General of Insurance and Pension Funds, an agency of the Ministry of Economy and Finance.
- The banking sector has made significant improvements in strengthening its balance sheets. Non-performing loans accounted for 6.7% of total loans as of May 2018. Further efforts to bolster the financial sector and assessments of risk should be implemented.
- Banks' concentrated exposures to the real estate market remains a risk for the sector. Compared to other EU nations, overall household wealth is lower in Spain, providing less of a buffer. Household debt, however, is on the decline.