

BAROMETER ON CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

November 2016

Executive Summary



British Chamber
of Commerce in Spain



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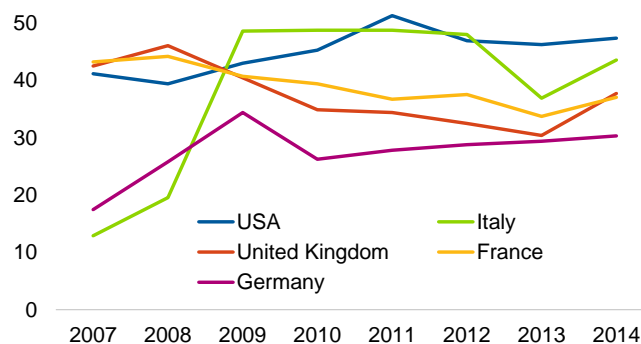
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1. Executive summary

- The United Kingdom represented over 11% of the Spanish economy's total stock of FDI in 2014 (€37.7 billion using UIC criteria), marking growth of €7.3 billion with respect to 2013.

Investment position: stock by country
(UIC criteria, ETVEs excluded, € billion)

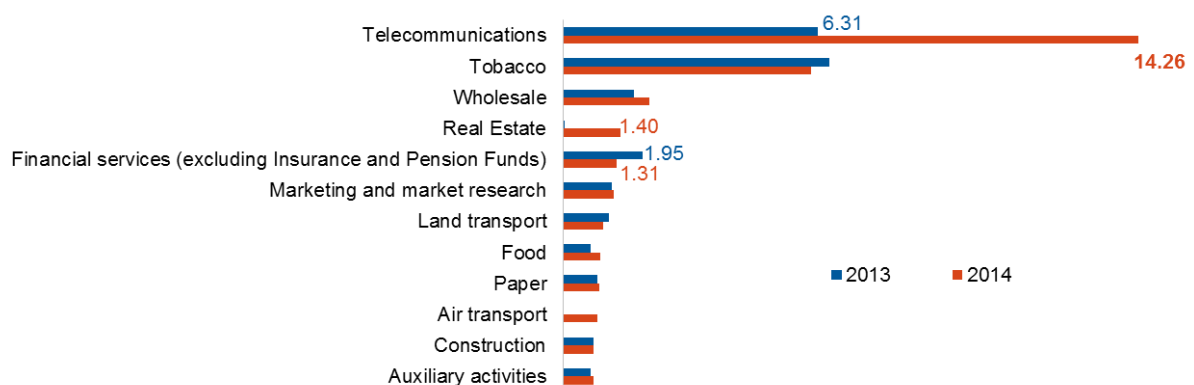


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- The stock of British FDI in Spain is concentrated in telecommunications, tobacco and wholesale trade sectors.

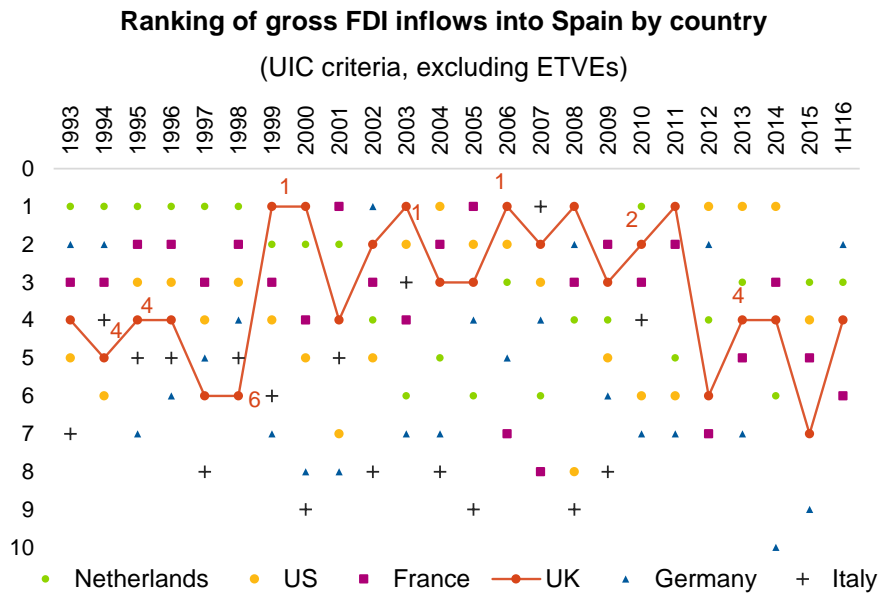
Stock of British FDI in Spain in 2014 vs. 2013

(UIC criteria, ETVEs excluded, € billion)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

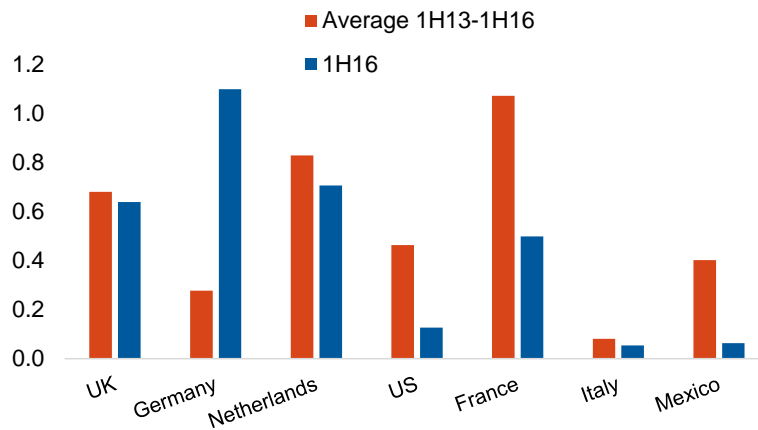
- The UK is Spain's most committed investor accounting for the largest cumulative FDI flows into Spain since 1993 (start of current register). Only twice (in 2001 and 2005) have British disposals exceeded gross investments. The United Kingdom has invested annually over €1.37 bn., in line with investment in 1H16.



- Neither the uncertainty surrounding the ability to form a government in Spain in 2016 nor the EU referendum in the UK have affected British FDI flows in the first half of the year. British inflows remained stable, confirming the UK's solid commitment to investing in Spain.

Gross British FDI during the first semesters of the economic recovery

(UIC criteria, € billion, excluding ETVEs)

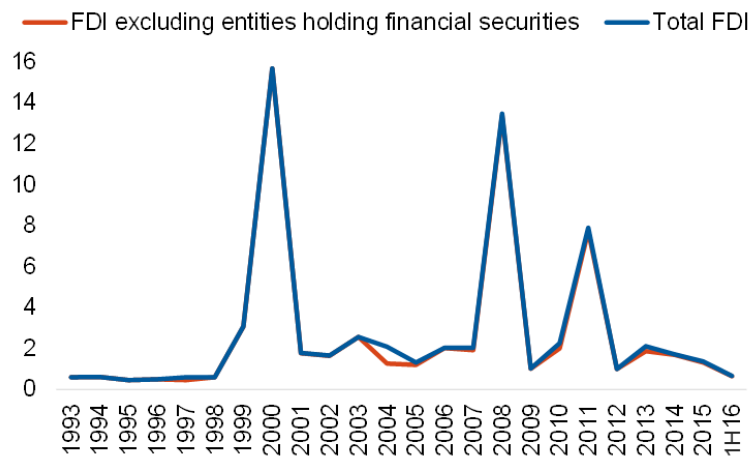


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- British FDI in Spain is predominantly productive investment, rather than investments articulated through foreign security holding companies.

Gross UK FDI in Spain broken down by productive versus ETVE investments

(UIC criteria, € billion)

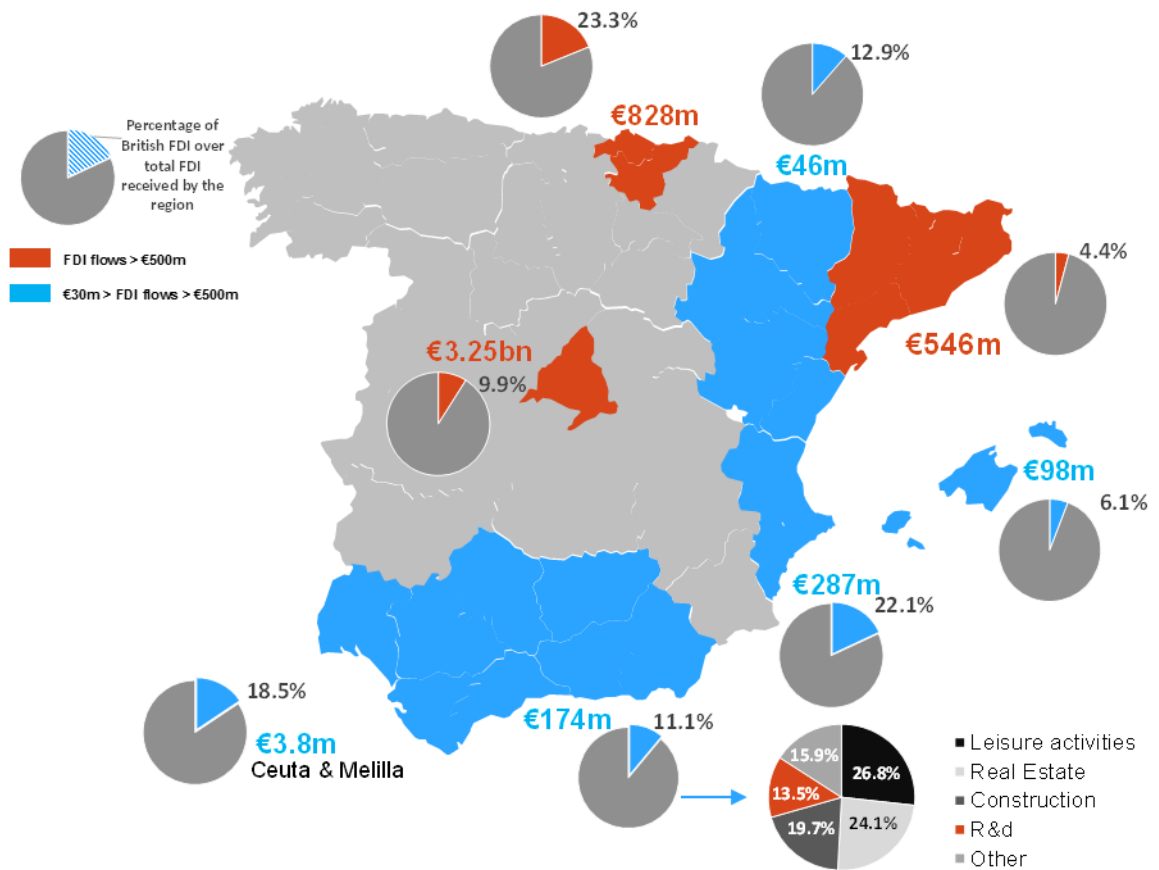


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- Since the start of the recovery (2013-1H16), British FDI has mainly concentrated in the Madrid, Catalan and Basque regions. It is also worth highlighting that the UK has been the main investor in R&D in Andalusia since the start of the series.

Main recipients of British FDI during the economic recovery, 2013-1H16

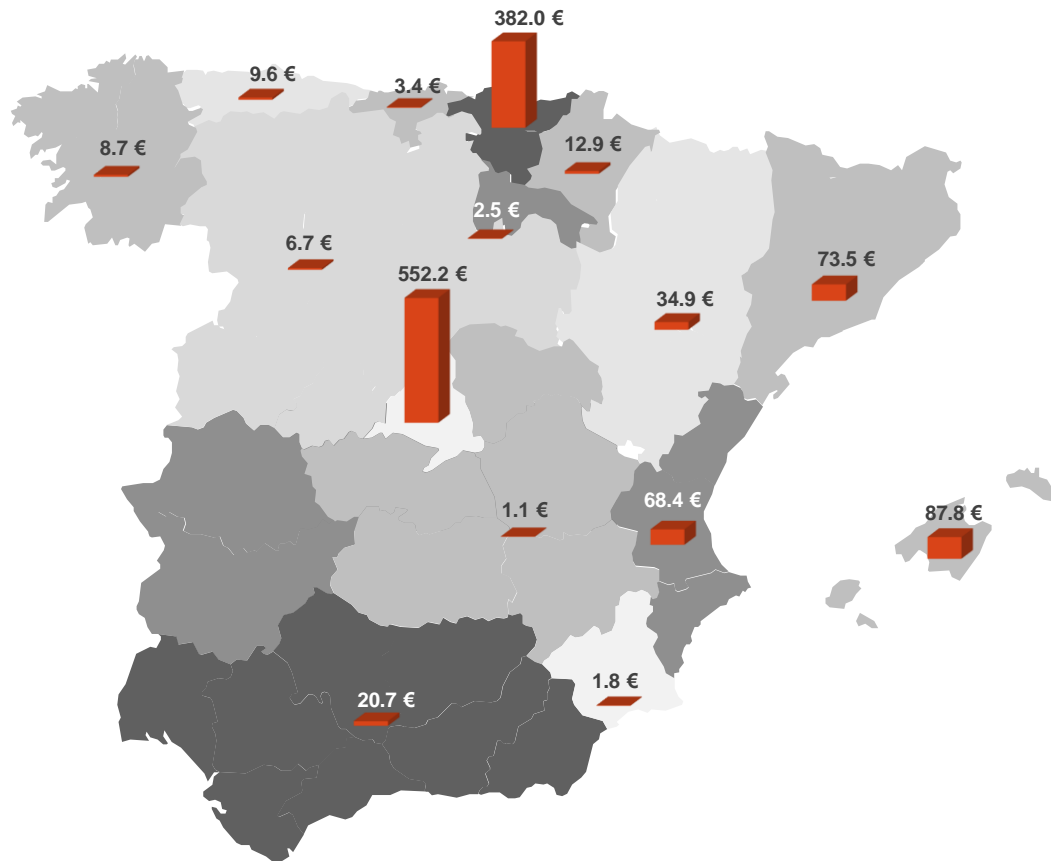
(Volume of gross inflows in millions of euros excluding ETVEs and corresponding percentage of total gross inflows)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- Inflows of British FDI on a per capita basis between 2013 and 1H16 have been particularly significant in the Basque and Madrid regions.

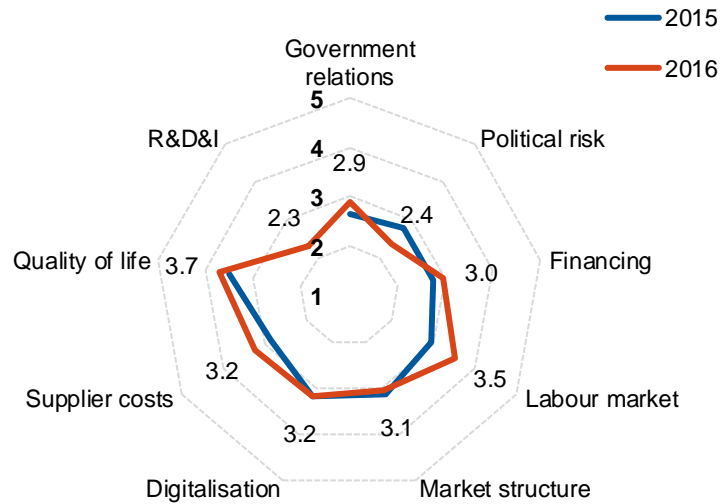
Total gross flows of British FDI during the economic recovery, 2013-1H16
(€ per capita by region)



Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

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- British FDI in Spain has resulted in the creation of 161,353 jobs in total (equivalent to 0.9% of all employment as of 2014). The most important recipient regions for British FDI are:
 - In Andalusia, British FDI accounted for 13,868 jobs in total (0.5% of all those employed in the region in 2014).
 - In Catalonia, British FDI accounted for 33,366 jobs, which is equivalent to 20.6% of all jobs created by overall FDI on a national level and accounted for 0.9% of all jobs in Catalonia in 2014.
 - British FDI in the Madrid region generated 41,585 jobs in the local economy. That is equivalent to 25.7% of all jobs generated by British FDI in Spain and 1.4% of region-wide jobs in 2014.
 - The income generated by British FDI generated €3.65 billion of tax revenue for the Spanish tax authorities via various taxes. In addition, British investments contributed €2.46 billion to the Social Security Administration. In all, the contribution came to €6.14 billion, which was 3.5% of all tax revenue at the state level in 2014.

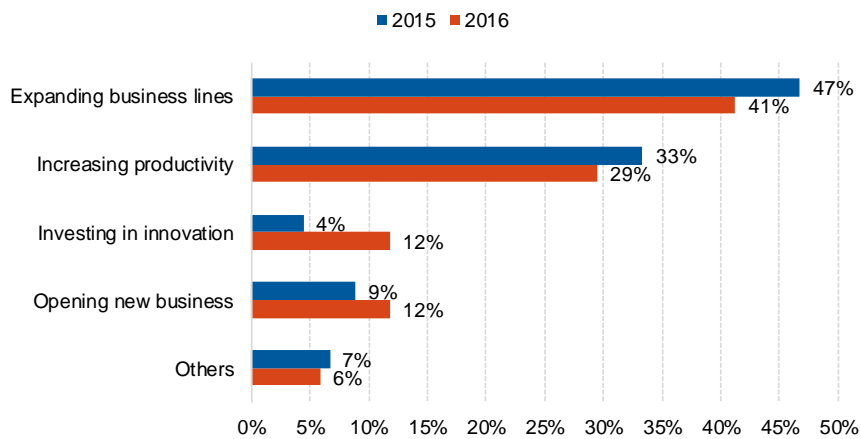
Assessment of the business climate in Spain by category (scores weighted from responses, where 1 is poor and 5 is excellent)



Source: Afi, "Survey of British investment in Spain".

- British companies sense an improvement in their business variables with respect to last year, but a worsening of the environment, most likely due to the expected deceleration in economic activity over the coming years.
- Over half of the British companies surveyed plan on increasing their investments in Spain within the next two years with the aim of expanding their business lines and boosting labour productivity. Investment in innovation is also becoming more important to them.

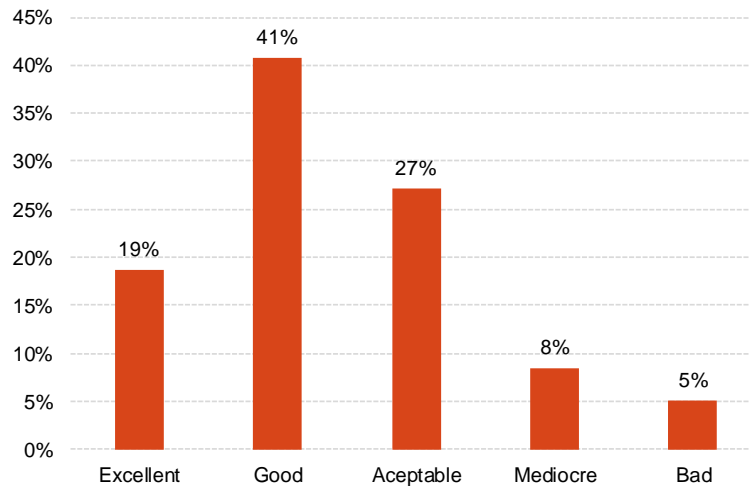
Aim of British investment in Spain (% of total)



Source: Afi, "Survey of British investment in Spain".

- Most British companies expect that Britain's exit from the European Union will not affect their investments in Spain. However, nearly 30% believe Brexit will adversely affect their investments, with the majority of these firms expecting to scale them back by over 10%.
- Nevertheless, nearly all of the British companies consulted believe it is feasible, over the medium term, to create a new framework for economic ties conducive to stable flows of direct British investment in Spain.

Assessment of the scope for generating a new framework, in the medium term, for economic ties conducive to stable flows of British investment in Spain (scores weighted from responses), 2016



Source: Afi, "Survey of British investment in Spain".

- Among the principle ideas within each area in the business climate in Spain, the following might be highlighted:
 - The main strengths in the business climate in Spain are:
 - Quality of life is once again the business climate attribute best rated by British companies, scoring even higher than in 2015.
 - The assessment of the labour market has also improved compared to 2015, underpinned by more than acceptable skill levels and commitment on the part of British companies to employees' continuous learning.
 - The perception of the market structure was stable year-over-year, scoring acceptably, favoured once again by the fact that Spain constitutes a valuable gateway to Latin America.
 - Regarding those areas which present room for improvement:
 - Relations with the public authorities (specifically referring to bureaucracy and regulatory stability) are seen by British companies as the third-biggest business climate weakness, despite scoring acceptably.

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- Political risk is the second lowest-scoring business climate attribute in Spain. Moreover, its score deteriorated year-over-year, probably due to the lack of a central government and the surge in separatist sentiment.
 - Although the 30% of the British companies expect to increase their R&D&I spending in 2016, they believe greater public support is necessary to encourage additional corporate investment in research.



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