



Afi



BAROMETER ON CLIMATE
AND OUTLOOK
**FOR BRITISH INVESTMENT
IN SPAIN**

November 2016

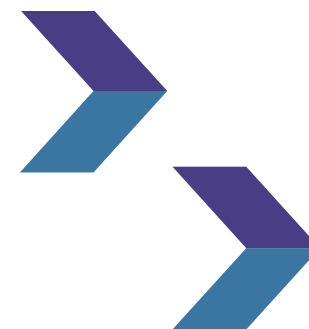


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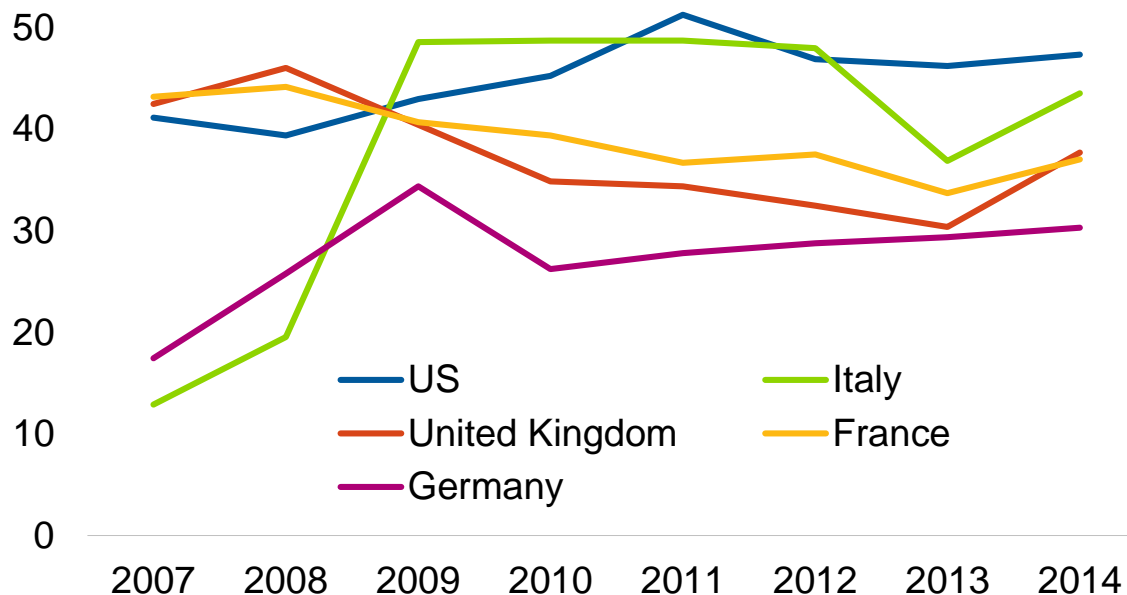
1 | Overview of foreign investment developments in Spain



1. The United Kingdom is the third most important investor in Spain. In 2014, the stock of British FDI increased for the first time since 2008

- 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 compared to 2013.

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

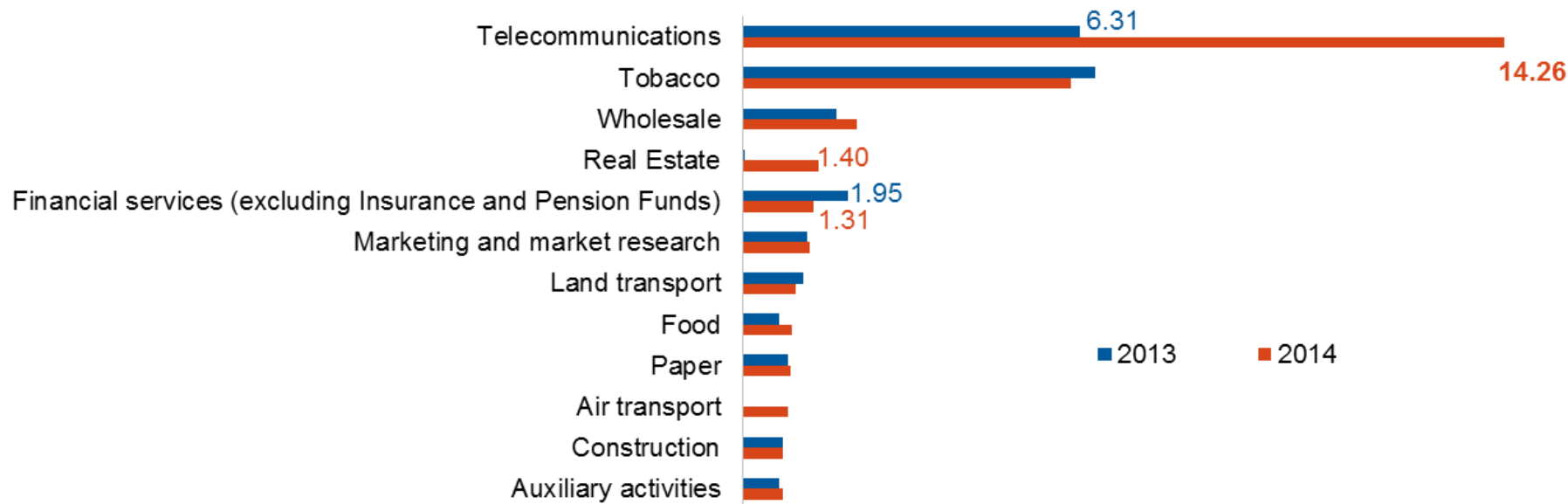


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

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

- In 2014, the stock of British FDI increased significantly in the telecommunications sector, where it more than doubled compared to 2013 (going from €6.3 billion to €14.26 billion).
- Elsewhere, the stock of FDI in the financial sector fell somewhat, from €1.95 billion to €1.3 billion. Note that these two sectors have been historically the biggest recipients of FDI in Spain.

Stock of British FDI in Spain in 2014 vs. 2013
(UIC criteria, ETVEs excluded, € billion)



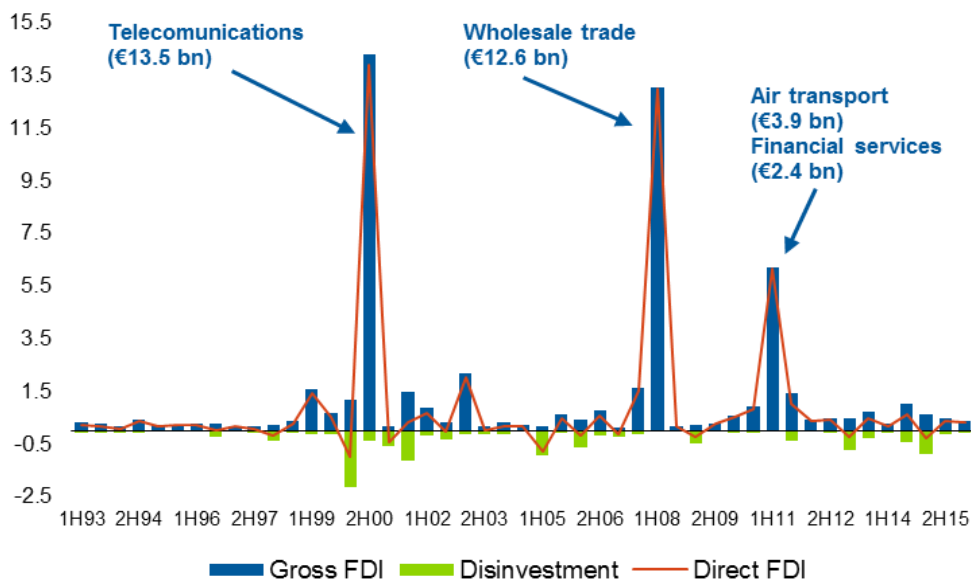
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce



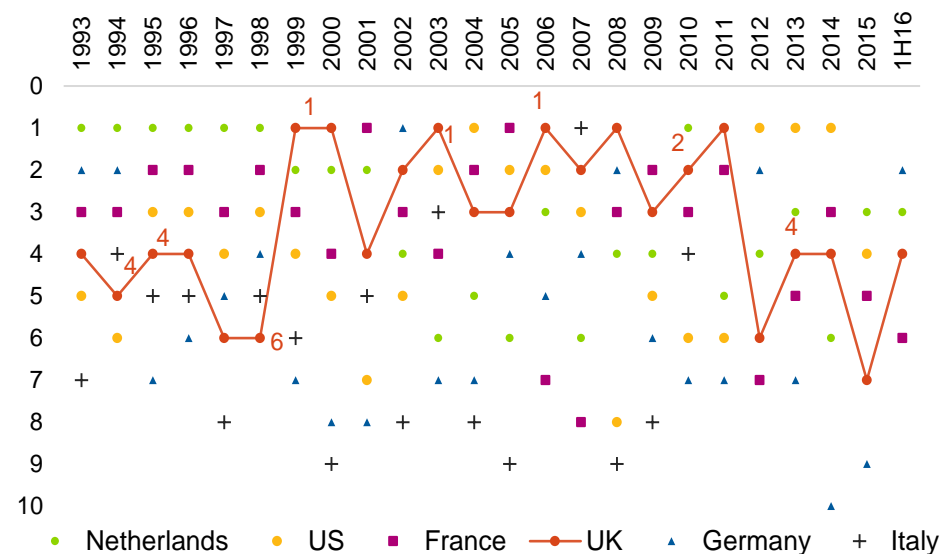
3. The UK is Spain's most committed investor

- In cumulative terms, throughout the period for which data is available (1993-1H16), the United Kingdom has invested annually over €1.37 bn., in line with investment in 1H16.
- This strong commitment contrasts the overall decrease in other countries' FDI, which has allowed the United Kingdom to rank fourth in 1H16. If this trend continues in the second half of the year, the United Kingdom would rank similarly as it has in previous years.

Net UK FDI in Spain
(immediate investing country - IIC - criteria, € billion)



Ranking of gross FDI inflows into Spain by country
(UIC criteria, excluding ETVEs)



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

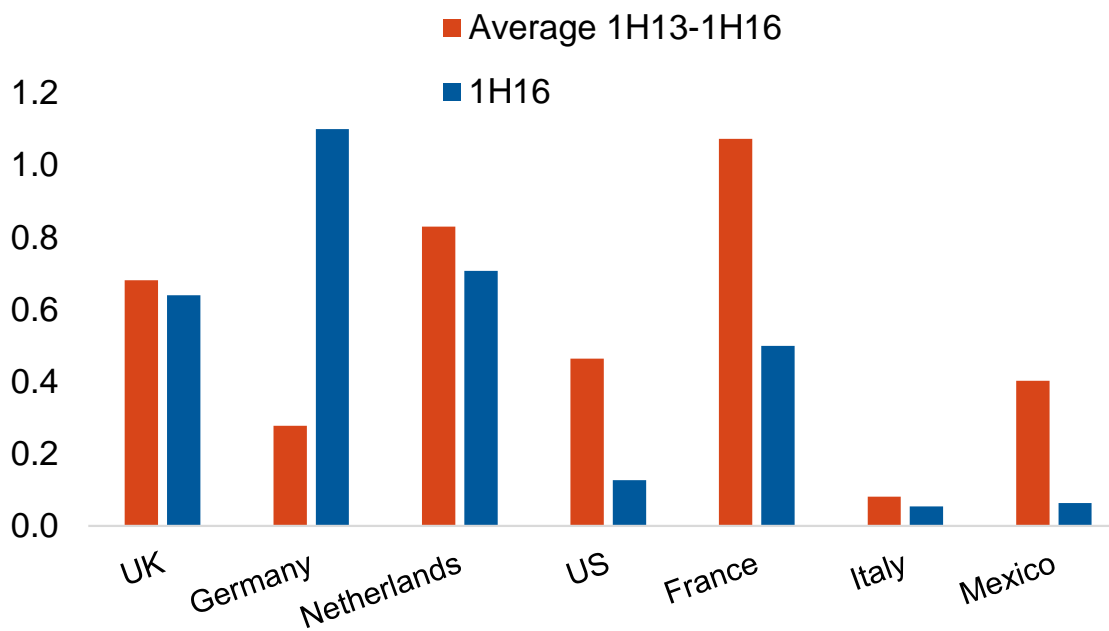
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

4. Domestic political risk has so far not affected FDI inflows into Spain from the UK

- 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

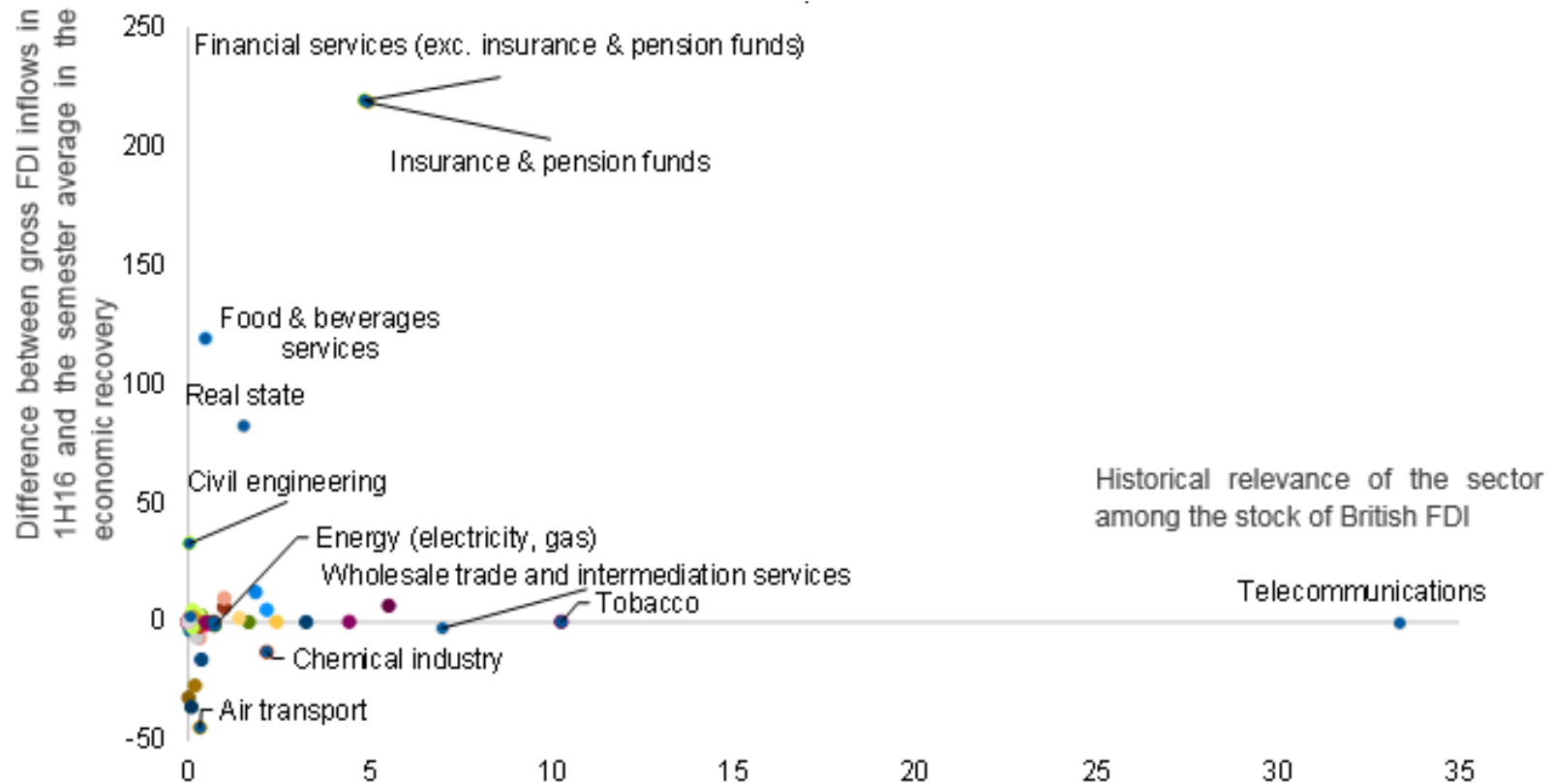
(UIC criteria, € billion, excluding ETVEs)



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

5. Those sectors that have traditionally attracted the most investment are still receiving approximately the same amount

Difference between gross FDI inflows in 1H16 and the semester average during the economic recovery 2013-2015 (€ million, vertical axis) vs the historical relevance of investment in each sector (total stock %, horizontal axis) (UIC criteria, excluding ETVEs)



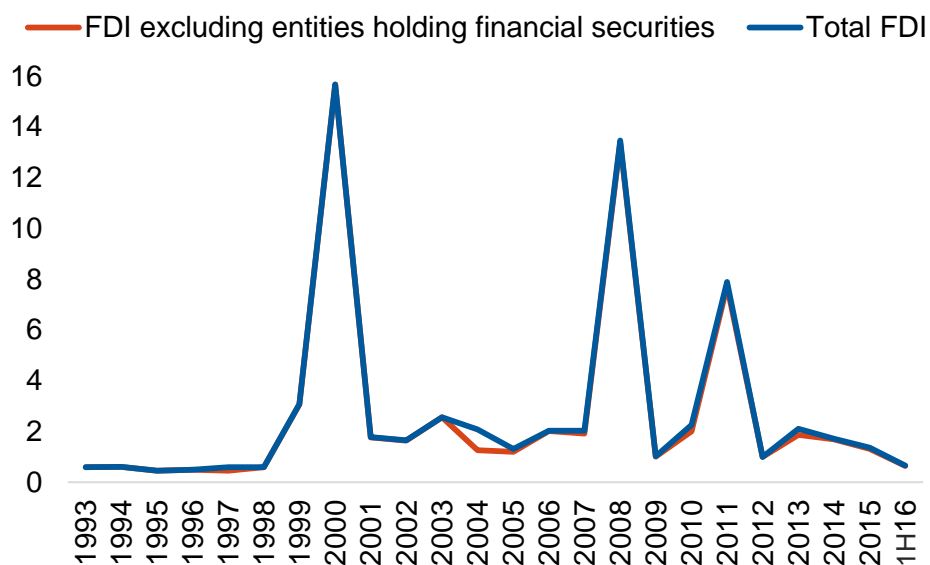
Source : Afi, Foreign Investment Register of the Secretary of State for Commerce



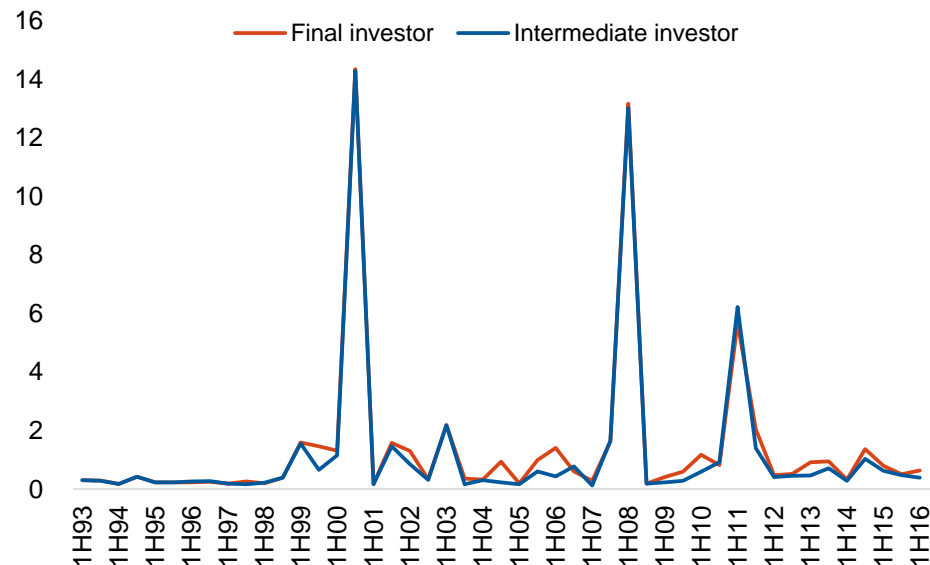
6. British FDI in Spain is predominantly productive investment, rather than investments articulated through foreign security holding companies

- The difference in flows using immediate versus ultimate investing criteria is very small, which means that most investments originate in the UK itself and that the country is not being used as a staging post for foreign investments.

Gross UK FDI in Spain broken down by productive versus ETVE investments (UIC criteria, € billion)



Gross UK FDI in Spain, immediate versus ultimate investing country criteria (€ bn)



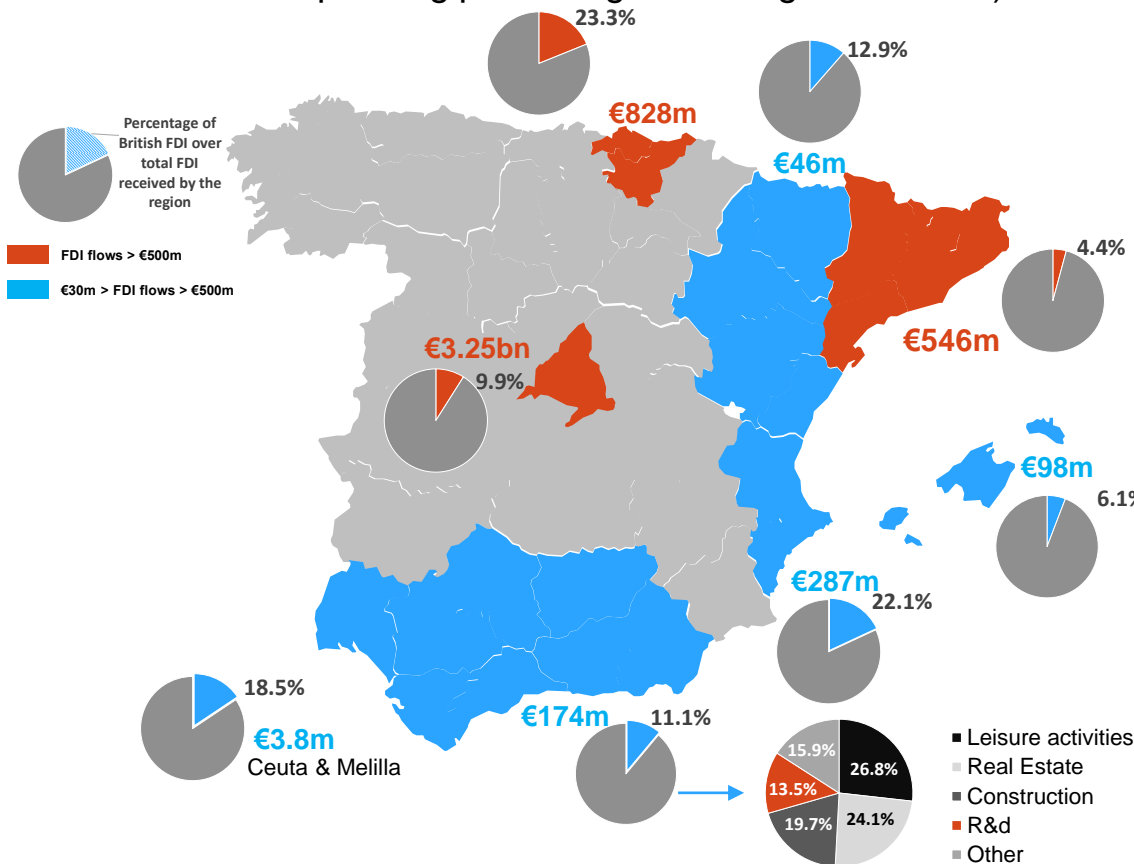
Source : Afi, Foreign Investment Register of the Secretary of State for Commerce

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

7. Since the start of the recovery (2013-1H16), British FDI has mainly concentrated in the Madrid, Catalan and Basque regions

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)

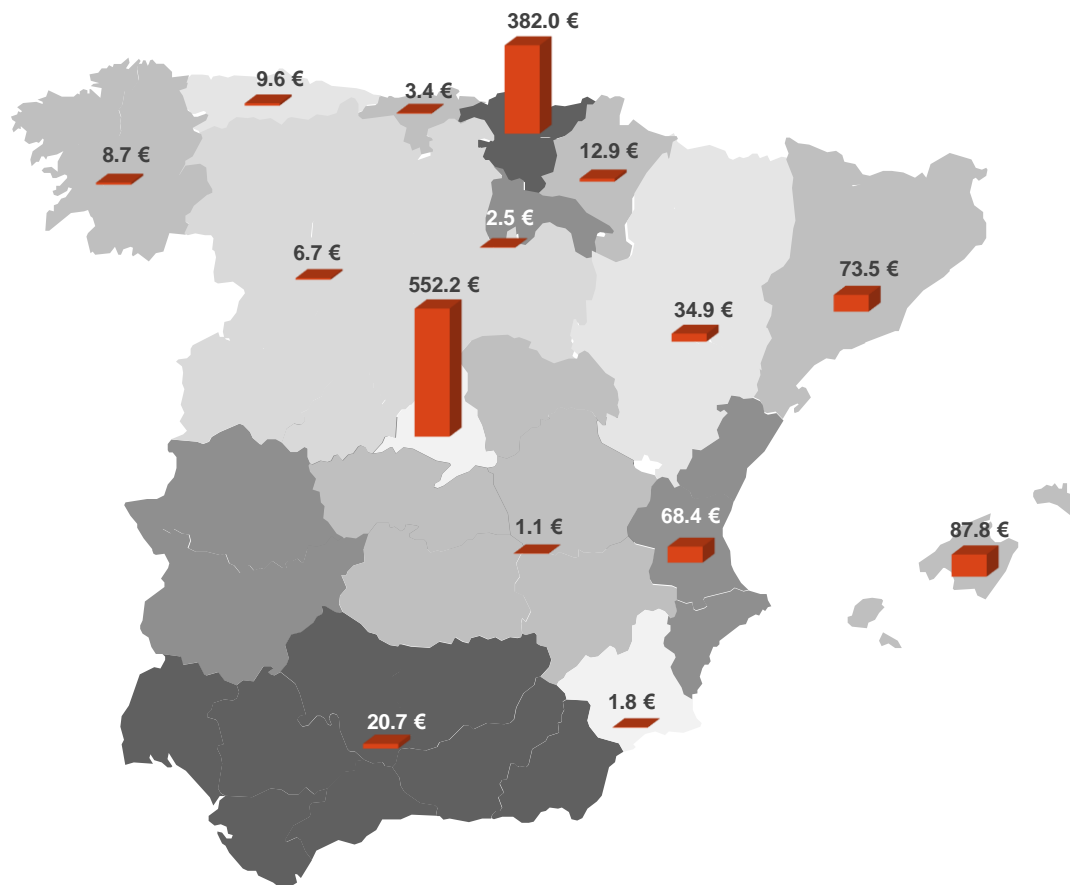


- In percentage terms, British FDI is particularly significant in the Basque and Valencia regions, representing over 20% of all FDI received by these two regions.
- Regarding Catalonia, the percentage of British FDI in the region has diminished over the last three years of economic recovery. However, the decreasing trend in British FDI appears to have been reversed in recent quarters.

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

8. 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)**

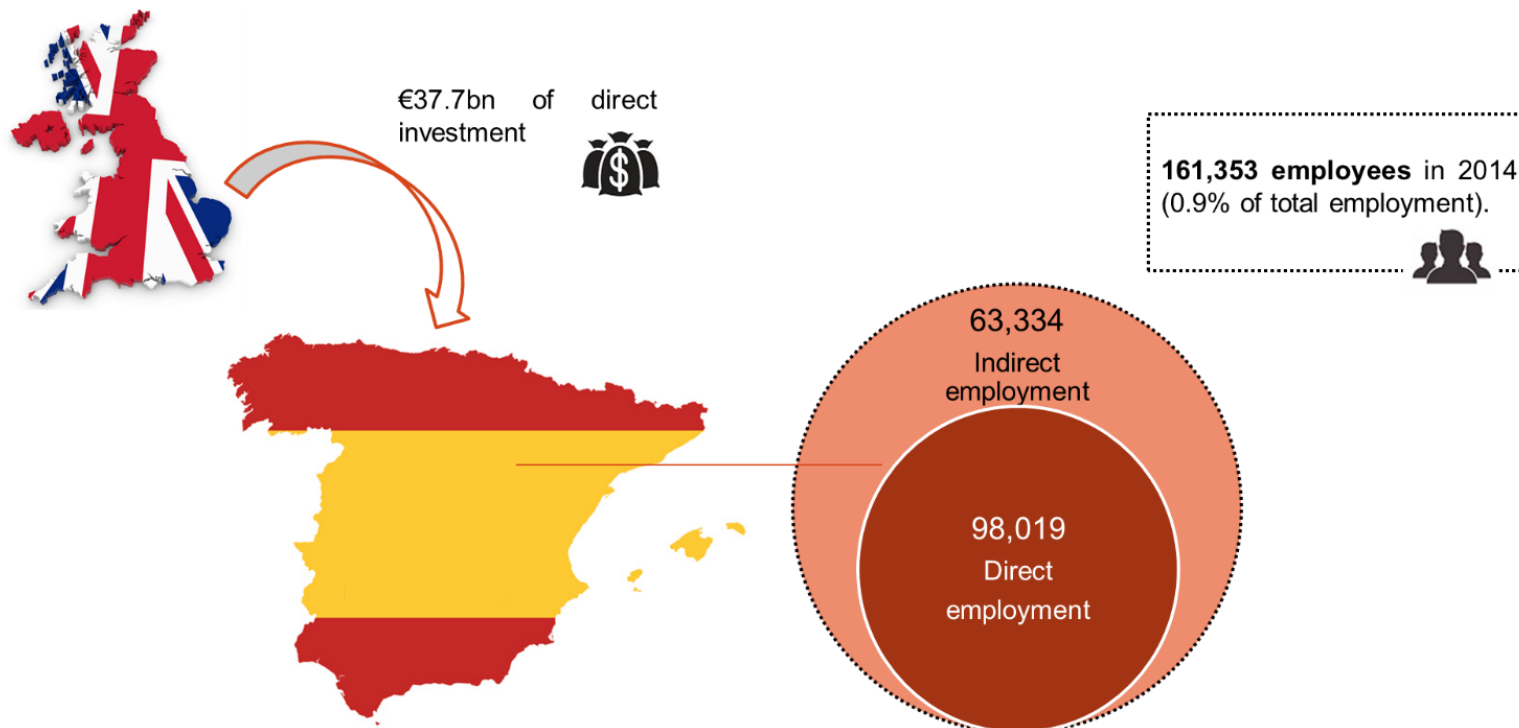


Source : Afi, Foreign Investment Register of the Secretary of State for Commerce

9. British FDI in Spain has resulted in the creation of 161,353 jobs in total

- British FDI in Spain helped sustain 98,019 direct jobs in the Spanish economy, which is equivalent to 8.5% of all jobs generated by overall FDI in Spain.
- It also generated a total of 63,334 indirect jobs in supply chain and auxiliary activities.

Impact of British FDI on employment in Spain, 2014



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

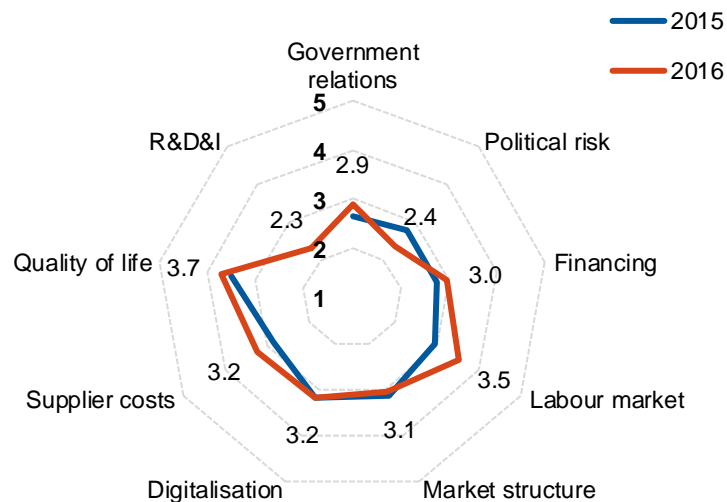


2 | Business climate in Spain: British companies' valuation



1. Quality of life is once again the business climate attribute best rated by British companies, scoring even higher than in 2015. Public support in R&D&I expenditure, political risk and government relations are still seen as the biggest weaknesses

Assessment of the business climate in Spain by subject areas (score based on % of replies, on a scale of 1 to 5 where 1 is poor and 5 excellent), **2015**

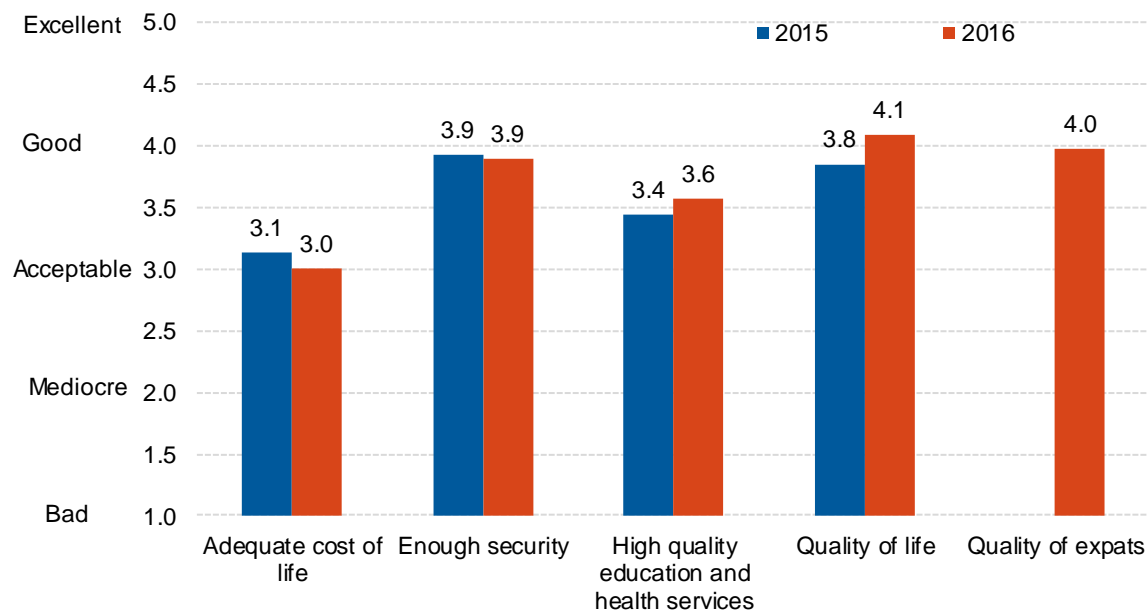


Source: Afi, "Survey of British investment in Spain".

- British companies continue to rate the business climate as acceptable.
- Quality of life is once again the the business climate attribute best rated by British companies. In the labour market area, British firms' commitment to their employees' continuous learning is highly valued.
- The only area they believe requires a stronger governmental commitment is R&D&I expenditure. Like last year, the least valued areas of the Spanish business climate are political risk and government relations (bureaucratic burden and regulatory stability).

2. Quality of life and security level are once again the business climate attributes best rated by British companies

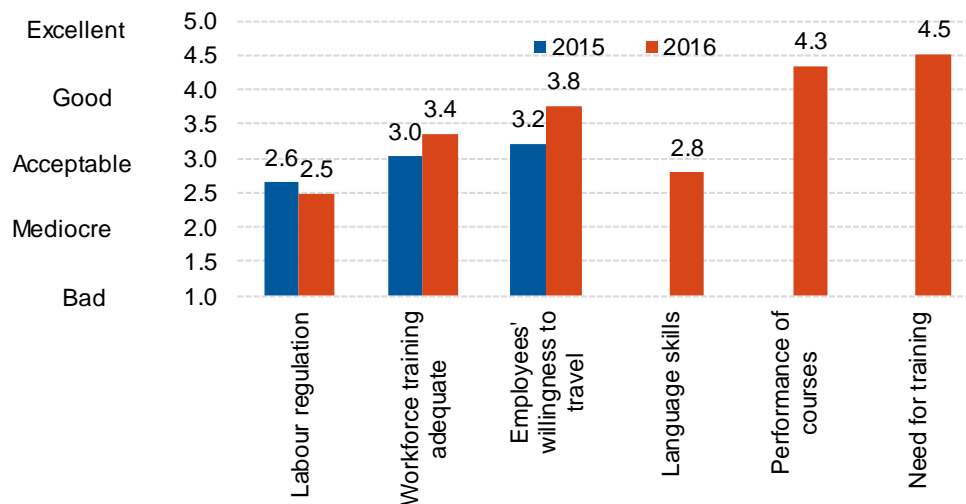
Assessment of the quality of life in Spain by British companies (scores weighted from responses, on a scale of 1 to 5 where 1 is poor and 5 excellent)



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

3. Other strengths: (i) acceptable skill levels of employees and (ii) British firms' commitment to their employees' continuous learning

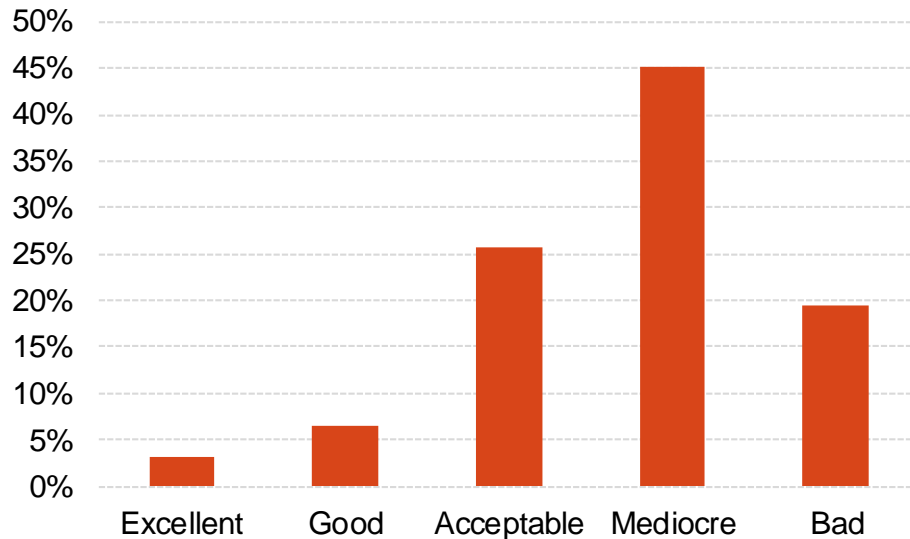
Assessment of the labour market in Spain by British companies (scores weighted from responses, on a scale of 1 to 5 where 1 is poor and 5 excellent)



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

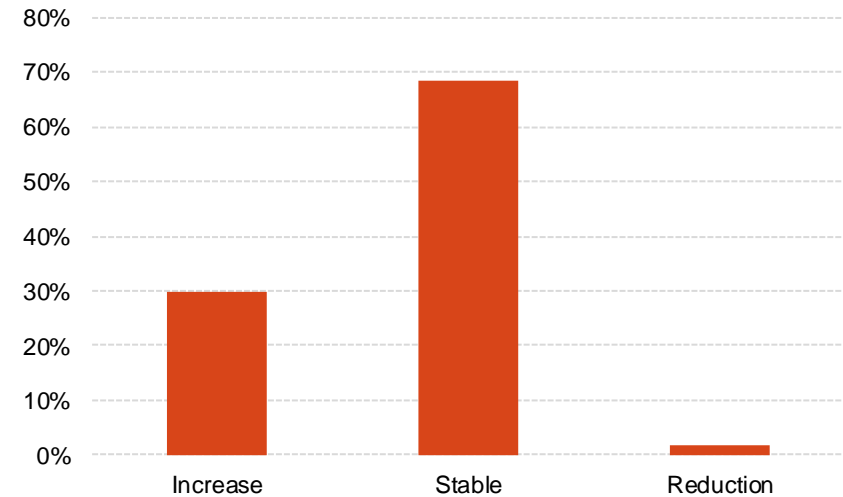
4. Thirty-percent of British companies expect to increase their R&D&I spending in 2016, although they believe greater public support is necessary to encourage additional corporate R&D&I investment

Assessment of public support for R&D&I spending in Spain by British companies (% of responses), 2016



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

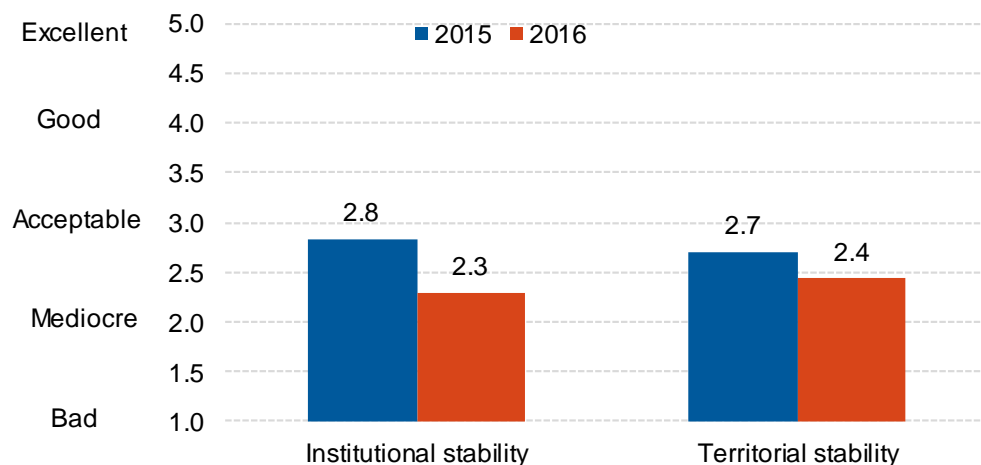
Outlook for change in R&D&I spending in Spain by British companies (% of responses), 2016



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

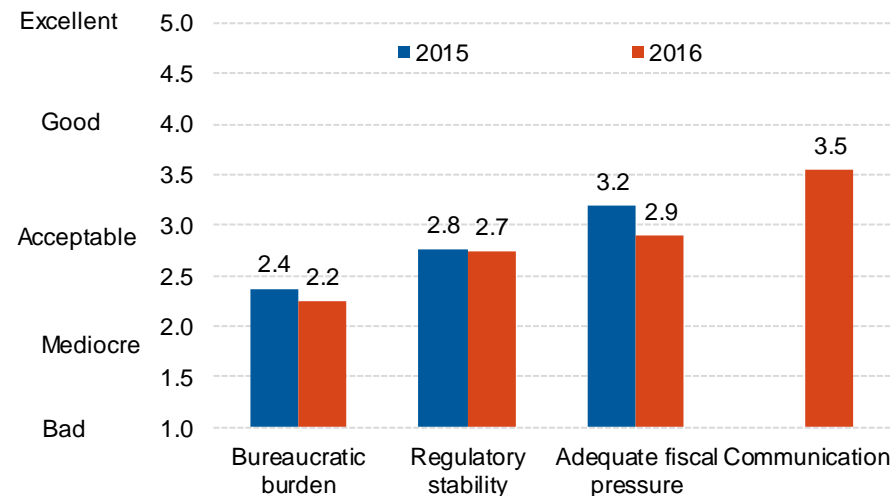
5. Political risk and government relations are the least valued areas of the business climate in Spain

Assessment of political risk in Spain by British companies (scores weighted from responses)



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

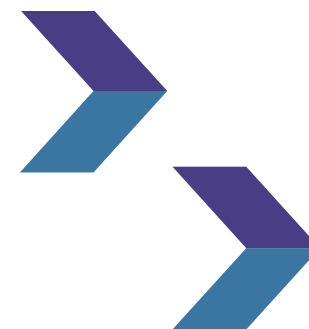
Assessment of relations with public authorities in Spain by British companies (scores weighted from responses)



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



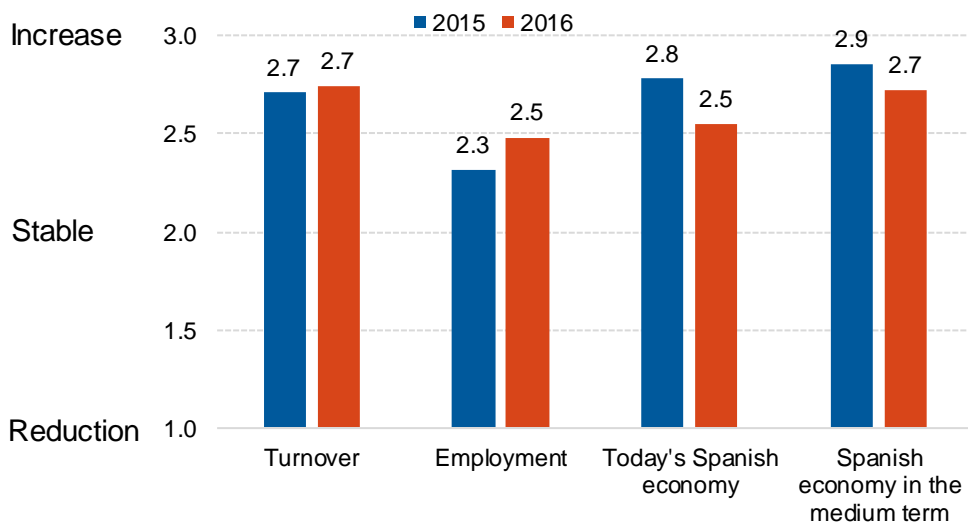
3 | Outlook for British investment in Spain





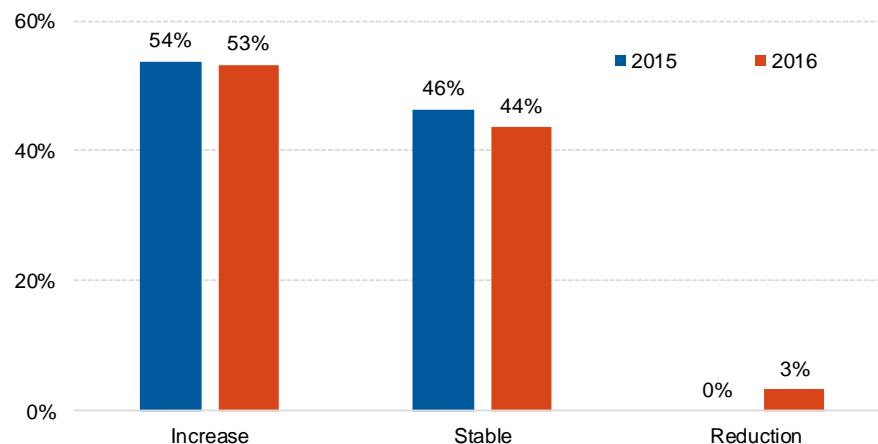
1. Most British companies expect their revenues and employment level to rise and, at the same time, to increase their investment in Spain

British companies' outlook for their key business variables (scores weighted from responses, where 1 indicates decrease and 3 increase)



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

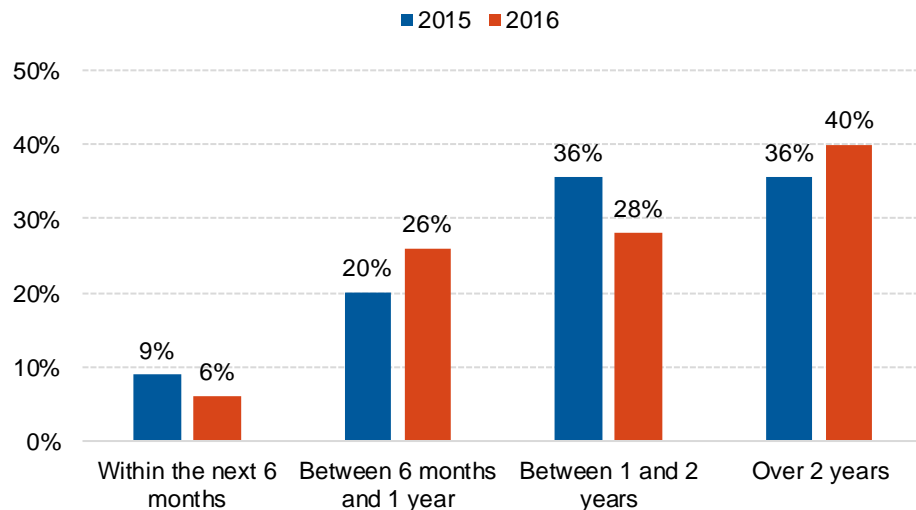
British companies' outlook for their investments in Spain (% of total)



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

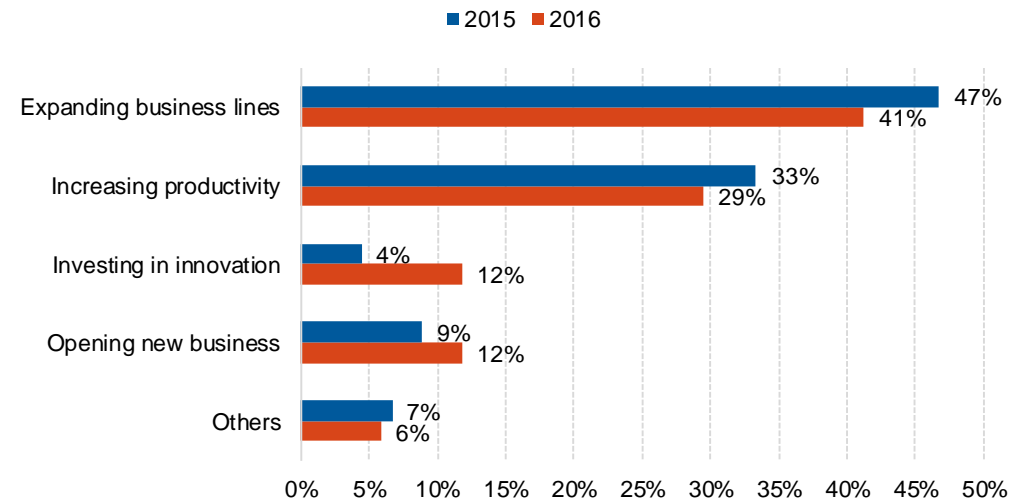
2. British companies surveyed plan on increasing their investments in Spain within the next two years with the aim of expanding their business lines and boosting labour productivity. Investment in innovation is also becoming more important to them.

Forecasted duration of increase in British investment in Spain (% of total)



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

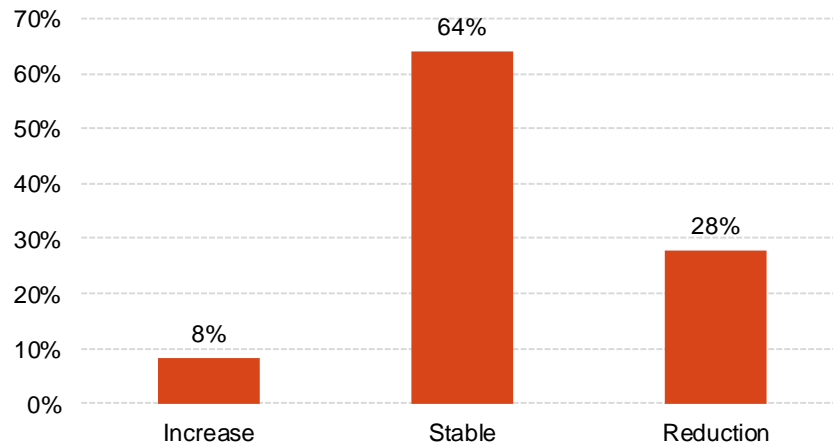
Aim of British investment in Spain (% of total)



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

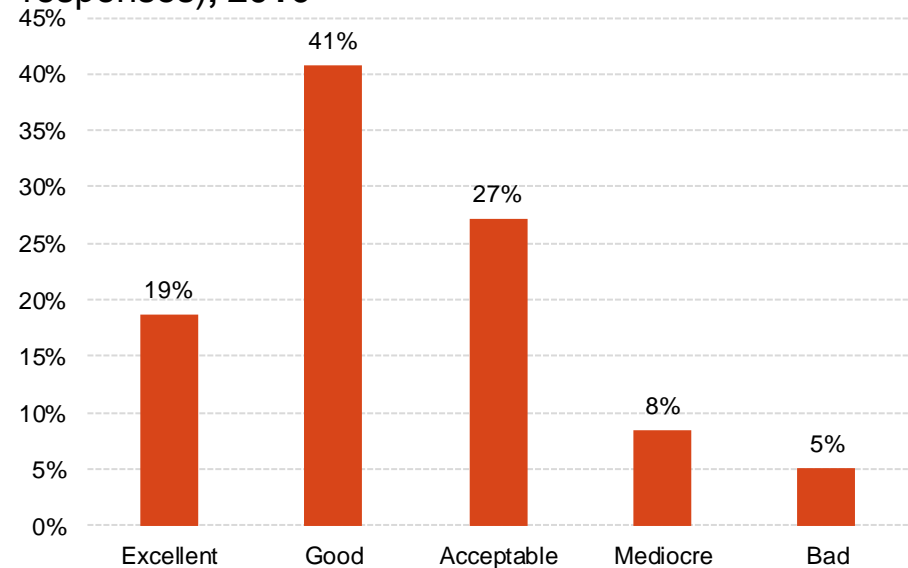
3. United Kingdom's exit from the European Union will not affect the planned investments in Spain of most British companies

Assessment of the impact of Brexit on British investment in Spain (scores weighted from responses), 2016



Source: Afi, "Survey of 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".



4 | Appendix





Characteristics of the survey (1/2)

Objective: compliment the facts identified in hard data with company opinion.

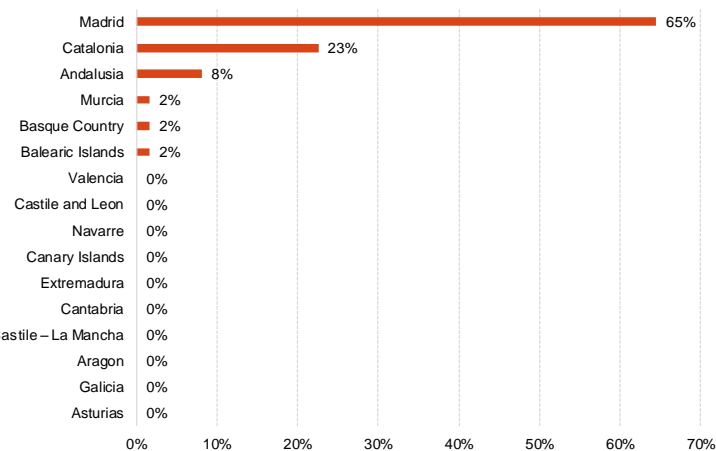
Data: an annual survey which provides information about business climate, perspectives and opinion on a range of issues.

Sample: 374 companies have been sent the survey during the months of July and September in 2016:

- Companies associated with British Chamber of Commerce in Spain or enterprises obtained through SABI database.
- Spanish based.
- In operation in 2016.
- With one or more British shareholders, representing in total at least 51% of the global capital of the company.
- Company responses were obtained via an online survey.
- 62 answers were obtained i.e. an answer rate of 17%.

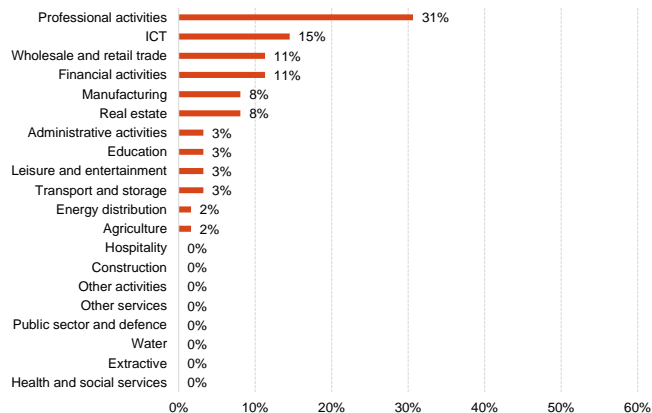
Characteristics of the survey (2/2)

Sample British companies by region (% of the total), 2016



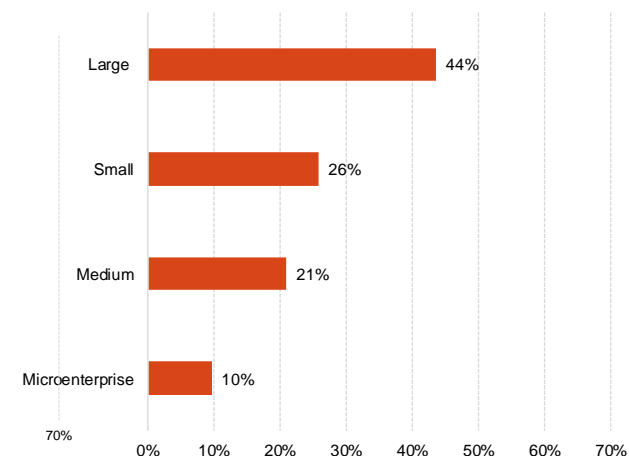
Source: Afi, SABI, British Chamber of Commerce in Spain.

Sample British companies by sector of the economy (% of the total), 2016



Source: Afi, SABI, British Chamber of Commerce in Spain.

Sample British companies by size (% of the total), 2016



Source: Afi, SABI, British Chamber of Commerce in Spain.



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