

BAROMETER ON CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

November 2018

Executive Summary



British Chamber
of Commerce in Spain



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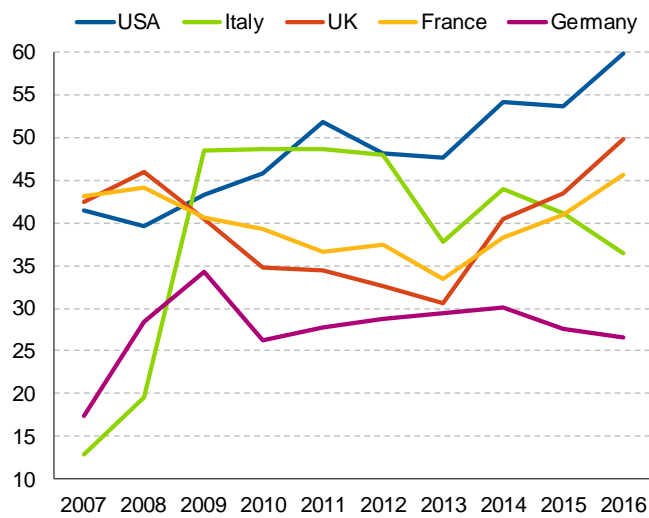


1. Executive summary

- The weight of British FDI in Spain increased to over 13% of the total stock of FDI in 2016 (€49.81 billion, up €6.35 billion from 2015) such that the UK remained Spain's second-largest investor

Stock of FDI by country

(€ billion, UIC criteria)

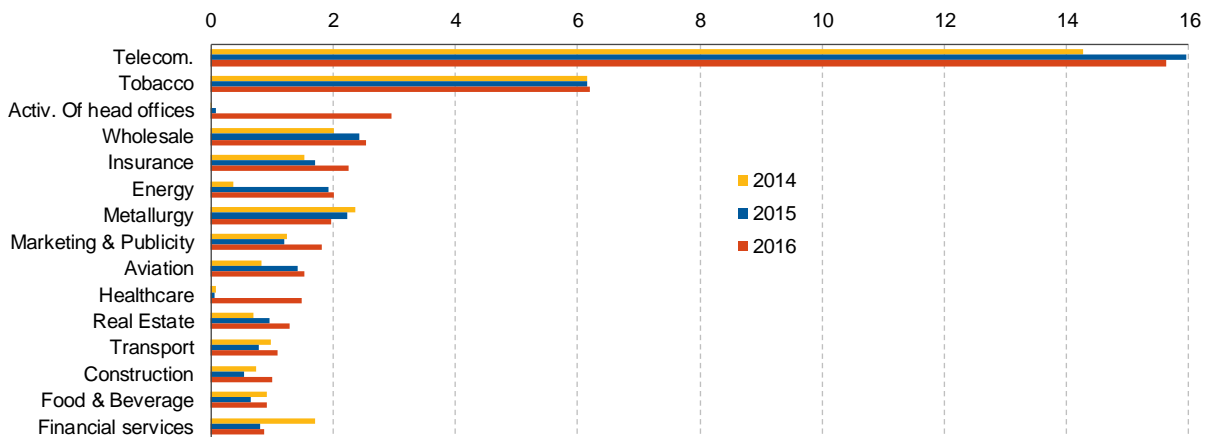


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- The stock of British FDI in Spain is concentrated in the telecommunications, tobacco and wholesale sectors and in head office activities.

Stock of FDI in Spain by sector, 2014, 2015 and 2016

(UIC criteria, ETVEs excluded, € billion)

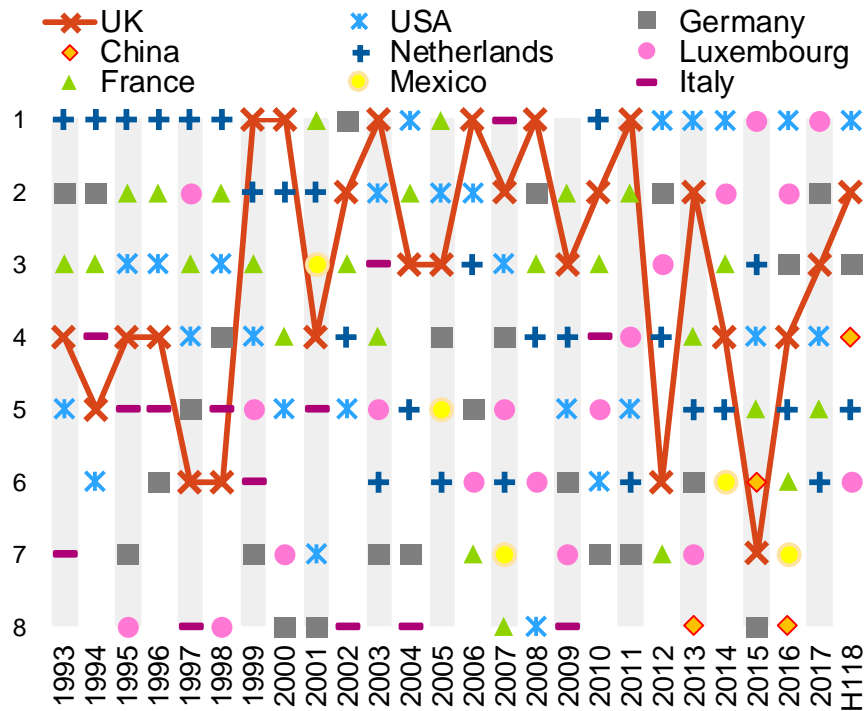


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- The UK accounts for the largest flow of FDI since the start of the historical series (1993). Moreover, the flow of British investment into Spain has increased considerably during the last three years. The volume of FDI flows from the UK has gone from being the sixth largest source for Spain in 2015 to the second so far this year (1H18).

Ranking of FDI flows into Spain by country

(UIC criteria, ETVEs excluded)

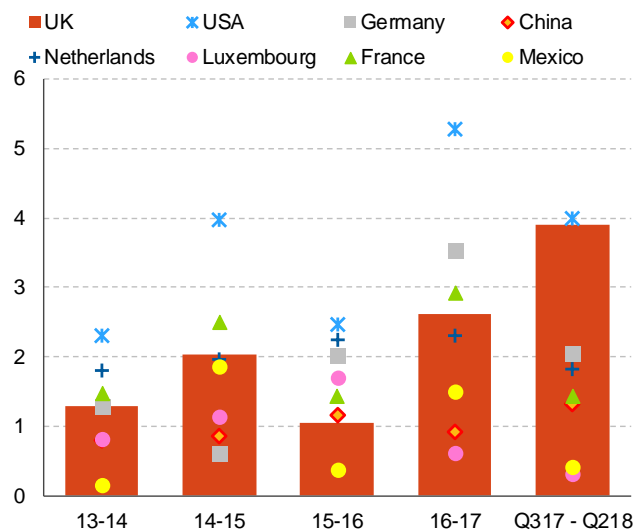


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- British FDI between 3Q17 and 2Q18, excluding that articulated through ETVEs, amounted to €3.85 billion, which is above the average of €1.75 billion of 'ordinary' years.

Gross flows of British FDI into Spain during the economic recovery

(€ billion, UIC criteria, ETVEs excluded)

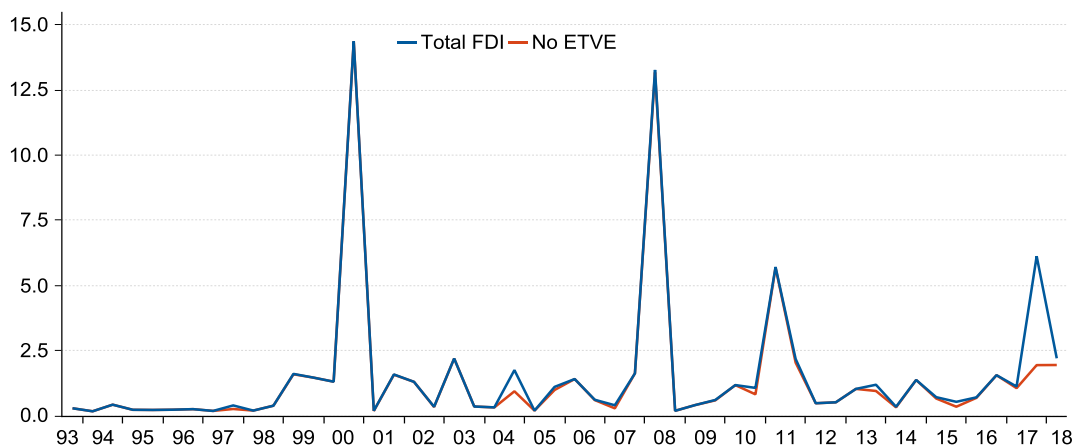


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- Despite the fact that British FDI in Spain is predominantly productive investment, the volume of investments channelled through foreign securities holding companies (ETVEs for their acronym in Spain) increased to over €4 billion in 2017 (compared to an annual average of €260 million).

Flows of gross British FDI in Spain broken down by productive versus ETVE investments

(six monthly, UIC criteria, € billion)



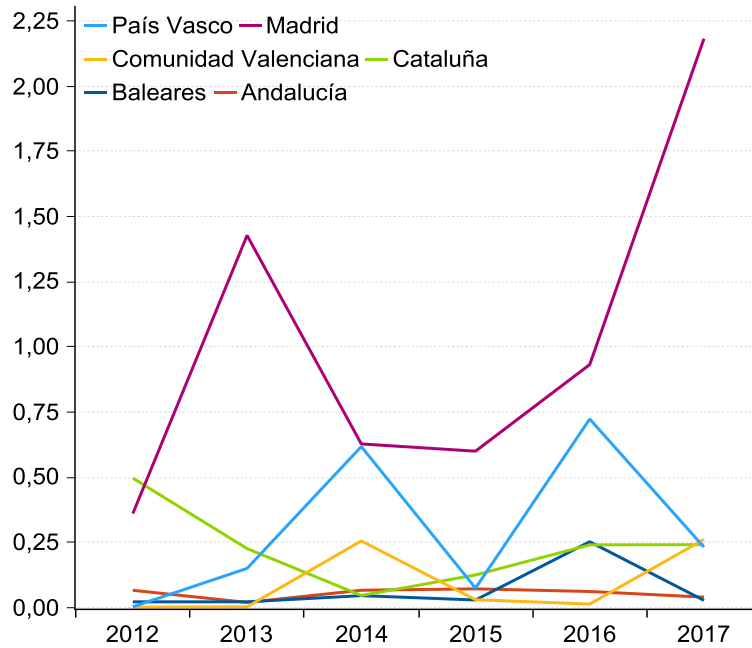
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce



- Since the economic recovery began, British FDI has been notably and increasingly concentrated in Madrid.

Gross inflows of British FDI by Spanish region throughout the recovery

(UIC criteria, ETVEs excluded, € billion, rolling sum 3Q17-2Q18)

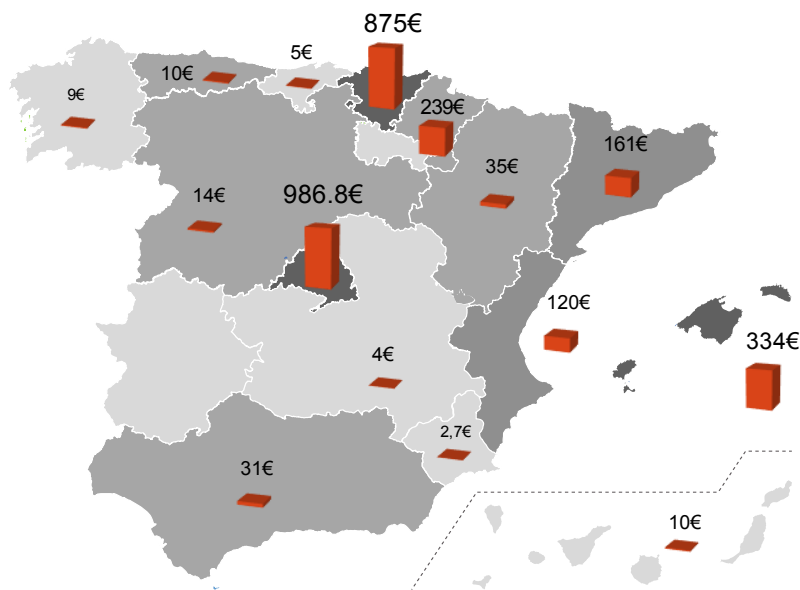


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- Inflows of British FDI per capita between 2013 and 1H18 have been particularly strong in the Madrid region, revealing a degree of bias caused by the 'capital city effect'. Flows per capita in the Basque region and Navarre also stand out throughout the years of recovery.

Gross flows of British FDI during the economic recovery (2013-1H18)

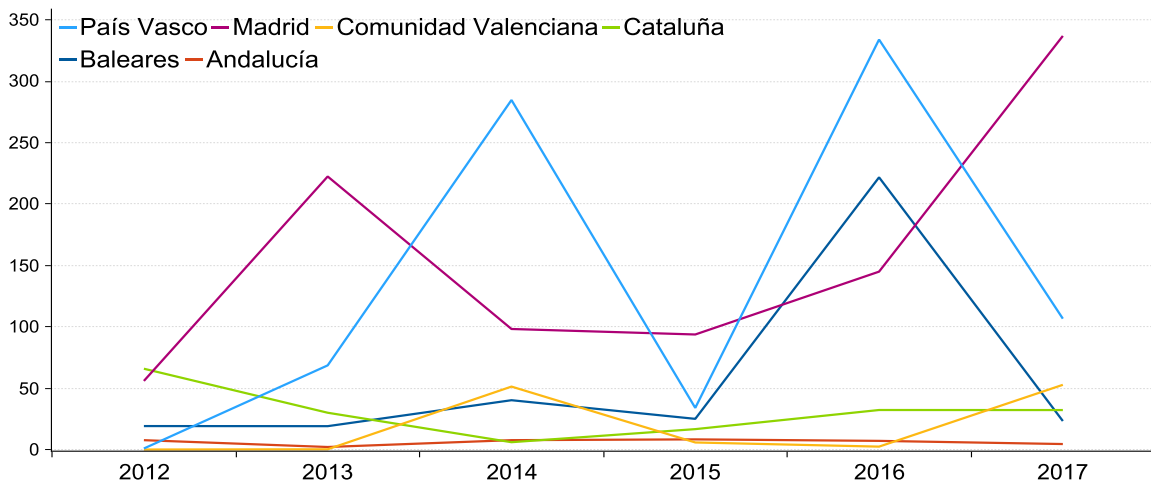
(€ per capita by region)



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

Gross flows of British FDI per capita during the economic recovery (2H13-1H18)

(€ per capita by region)

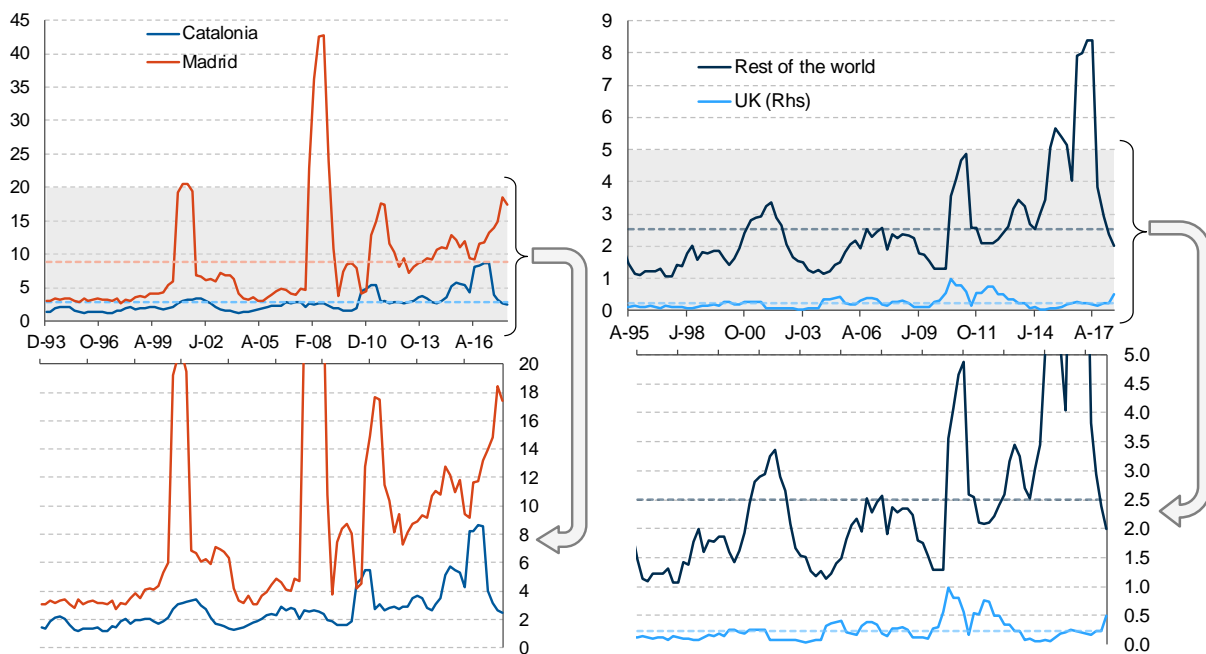


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

- As for political risk in Spain, flows of direct investment into Catalonia have been trending lower since early 2017, in contrast to the trend observed in Madrid. Nevertheless, flows of British FDI into Catalonia have rebounded slightly in the last year to levels that are above their long-run average: they sum to over €500 million from 3Q17 to 2Q18, compared to an annual average of €234 million.

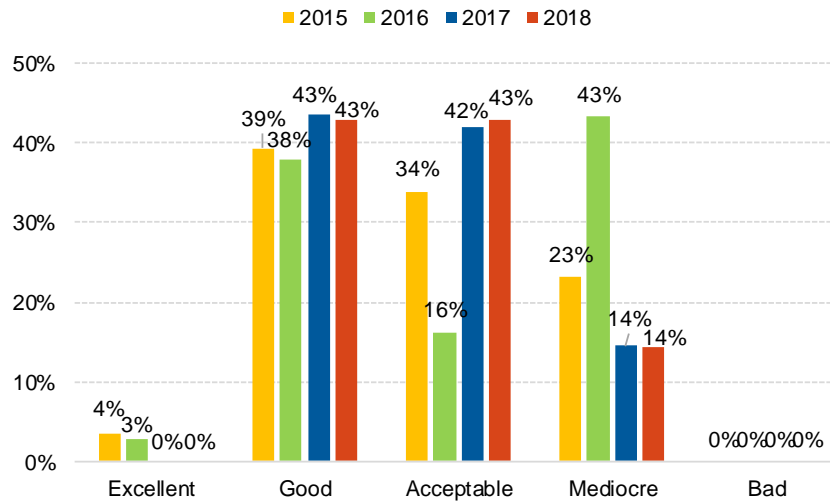
Gross flows of FDI into Catalonia and Madrid from the UK and RoW

(rolling sum for trailing four quarters, UIC criteria, ETVEs excluded, quarterly, € billion)



- The British firms' overall perception of the business climate in Spain is stable, which can be described as positive given the uncertainty surrounding the terms on which Brexit will materialise.

General assessment of the Spanish business climate by the British companies surveyed
(% of responses)

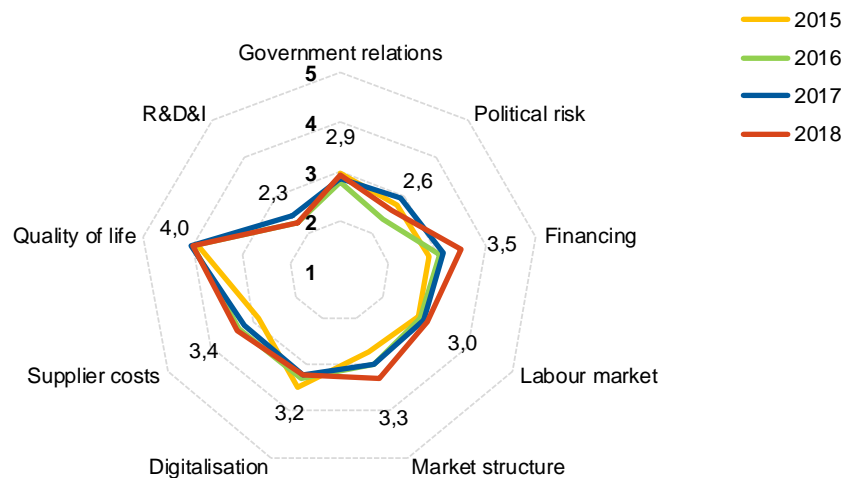


Source: Afi, "Survey of British investment in Spain".

- In 2018, the Spanish business climate as a whole obtained an overall score of 3.14 points out of 5. Public support for R&D remains the worst-rated aspect, with a score of 2.3 points.

Assessment of the business climate in Spain by category

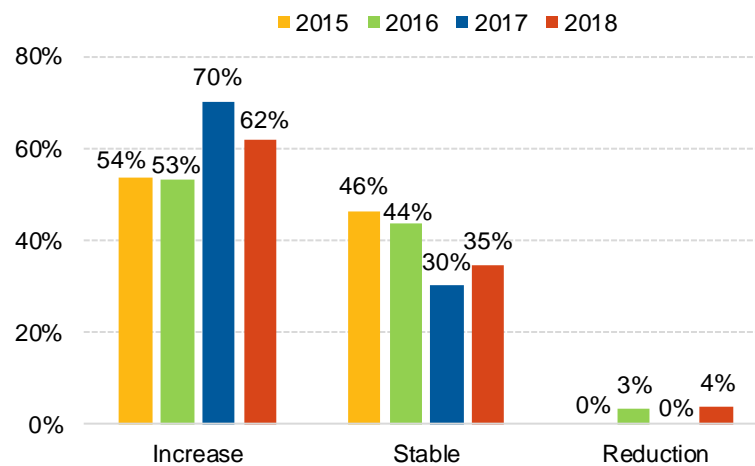
(scores weighted from responses, where 1 is poor and 5 is excellent)



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

- The British firms' assessment of the business climate in Spain was stable in 2018 and the majority (62%) plans to increase their investments in the country. In addition, 80% of them intend to do so within a period of less than one year. However, companies with expectations of maintenance or reduction of their investments also increase.

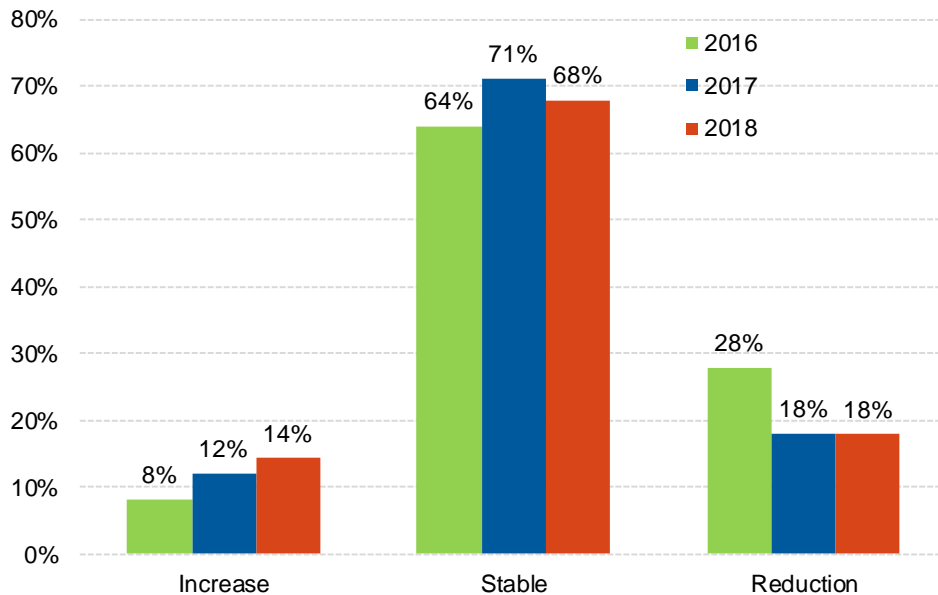
British companies' outlook for their investments in Spain
(% of responses)



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

- Two years on from the referendum, 82% of the British companies surveyed expect that Britain's exit from the European Union will not lead them to reduce their investments in Spain.
- However, the magnitude of the impact of Brexit on the investment of British companies that expect a negative impact increases, compared to the previous year. By 2018, 70% of those companies said they expected Brexit to impact by a magnitude of over 10%, compared to 38% of the companies in the 2017 survey.

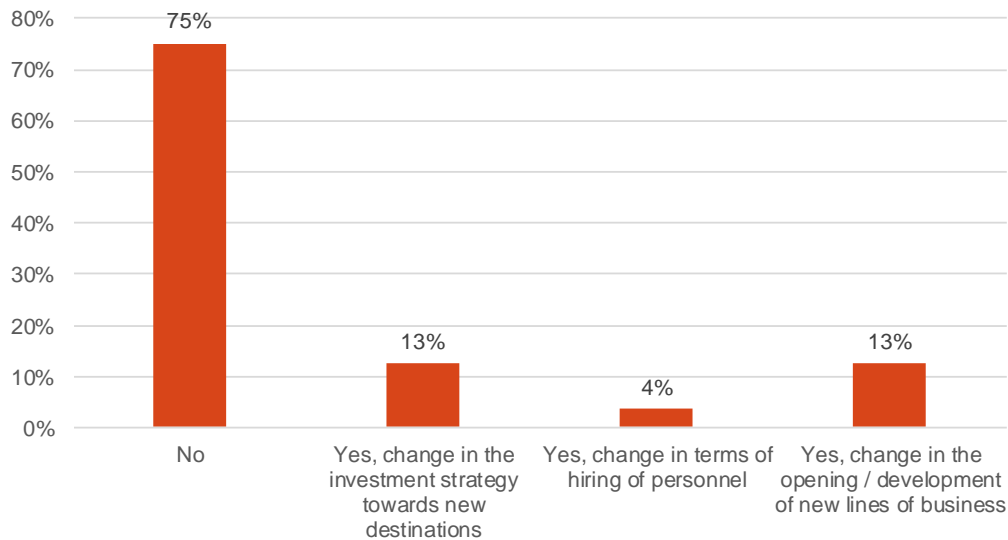
Assessment of the impact of Brexit on British investment in Spain (% of responses)



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

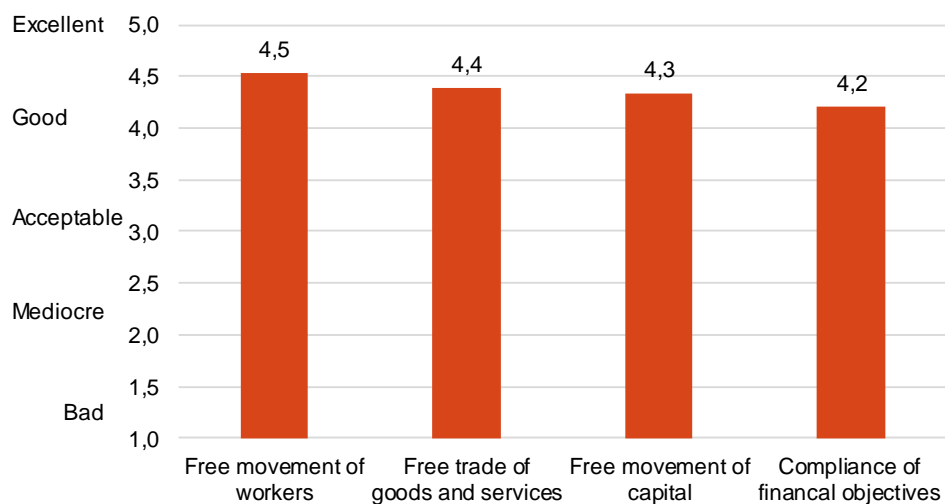
- Among the key conclusions regarding the UK's withdrawal from the European Union, the following stand out:
 - Asked about changes in the companies' policies regarding their investments in Spain since the start of the Brexit negotiations, 74% of the firms surveyed said they did not anticipate changes, with the remaining 26% answering that they did.
 - The British firms surveyed gave the prioritisation of economic aspects in the negotiations underway between the UK and the European Union an overall score of 2.6 points out of 5, suggesting that the effort being made in this area is insufficient.
 - The free movement of capital and financial commitments are the other two aspects considered of significance in the negotiations, obtaining scores of 4.3 and 4.2 out of 5, respectively.
 - The percentage of British companies that believe that the Spanish government is not doing enough to try and influence the Brexit negotiations taking into account companies' opinion has increased to 50% of the firms.

Assessment of likelihood of significant changes in company policy regarding their investments in Spain since the start of the Brexit negotiations (% of responses), 2018



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

Assessment of the importance that should be given to the following aspects of the negotiations in order to mitigate the impact on economic relations between the UK and Spain (scores weighted from responses, ordered from most to least important), 2018



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

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- Key observations regarding the individual factors comprising the overall assessment of the business climate in Spain:
 - The strengths of the Spanish business climate are:
 - Quality of living in Spain remains the country's greatest asset, albeit unchanged from 2017.
 - The British enterprises surveyed perceive a significant improvement in financing conditions in Spain, with this factor ranking as the #2 strength of the Spanish business climate.
 - Supplier costs in Spain are becoming consolidated as one of the highlights of the country's business climate, underpinned by a score of 3.4 points out of 5 thanks to higher scores for the availability, quality and pricing offered by suppliers.
 - As for the areas presenting room for improvement:
 - For the third year in a row the companies' assessment of public support for R&D spending was the lowest-scoring attribute of the Spanish business climate.
 - The British companies have reduced their assessment of the political situation in Spain to 2.6 out of 5, a year-on-year decline of 0.3 points. As a result, political risk has emerged as the #2 perceived weakness of the Spanish business climate.
 - Government relations are considered the third-weakest aspect of the Spanish business landscape, scoring just 2.9 out of 5 (unchanged from the year before).



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