

8TH BAROMETER ON THE CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT SPAIN

December 2022



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British Chamber
of **Commerce in Spain**

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Note: the finding and opinions contained in this Barometer do not necessarily reflect the opinions of the sponsoring firms.

Executive summary

Stock of investment

1. In 2020, the UK was, for the sixth year in a row, Spain's second largest overseas investor. However, Britain's investment position in Spain, measured in terms of its stock of FDI, has shrunk a little, pausing the upward trend embarked on in 2013, to €62.03 billion (down €4.5 billion from 2019), which is 13% of total foreign direct investment in Spain.
2. The stock of British FDI in Spain as of 2020 was concentrated in the telecommunications, energy supply, tobacco, metallurgy and paper industries. British firms in Spain are also significantly invested in the chemicals and education sectors, where the stock of FDI has multiplied by factors of three and 10, respectively, over the last three years.

Investment flows

3. The UK accounts for the largest cumulative flow of FDI since the start of the historical series (1993). Flows of British FDI into Spain have been on the rise since 2015, despite the Brexit referendum and Britain's subsequent exit from the EU, the Covid-19 health crisis and the onset of war between Russia and Ukraine. The cumulative volume of inward FDI from the UK has gone from being the sixth highest for Spain in 2015 to the second highest as of the second half of 2022, ahead of historically important investors such as France and Germany. In the first half of 2022, the UK has invested a total of €3.23 billion in Spain, year-on-year growth of 261%.
4. British FDI in Spain continues to be primarily productive in nature, i.e., not articulated through foreign security holding companies (ETVEs for their acronym in Spanish) and divestments have been and remain scant.
5. British investment in Spain is well diversified between services, industry and construction, albeit dominated by the services sector. The sectors that have garnered the highest volumes of flows since the start of the series are: telecommunications; the wholesale trade; financial services; air transport; the sports sector; real estate activities; electricity supply; and chemicals. According to the figures for the first half of this year, the sports sector was by far the biggest recipient of British FDI, at close to €2 billion as of June.
6. Despite the uncertainty generated by Brexit and the entry into effect of the TCA, Spain has continued to welcome a steady and sizeable flow of British FDI, specifically €5.52 billion during the last four quarters, which is twice the volume recorded in the previous 12-month period (the four quarters between 2H20 and 1H21). The UK has remained one of Spain's most important investors during the 12 semesters elapsing since the Brexit referendum.
7. Since 2014, British FDI has been concentrated in four Spanish regions: Madrid, Catalonia, the Basque region and Castile & Leon, albeit exhibiting greater diversity in recent years, with Valencia, Andalusia and the Balearics closing the gap with respect to the frontrunners. So far in 2022, British investment in Spain is running at €3.23 billion and remains heavily concentrated in Madrid, which has garnered close to €2.7 billion, although the growth in inward FDI in Valencia and Catalonia stands out.
8. Trade in goods and services between Spain and the UK has historically been significant. Indeed, the UK is one of Spain's most important trading partners, ranking in the top 10 countries for Spanish imports and exports in recent

years. Trade in semi-finished goods, capital goods and automotive parts remains key for the British companies established in Spain in terms of subsequent transformation and sale with higher value-added.

9. The aggregate stock of British and Spanish investment reached €120 billion in 2020, which is equivalent to 3.4% of both countries' GDP. In both countries the sectors that attract overseas investments generate a lot of value and knock-on effects for other sectors of their economies.

Business climate

10. The British companies with investments in Spain reported an improvement in how they view the business climate in Spain by comparison with last year. Seventy-two per cent of respondents rated the economic and business environment as good or acceptable, up eight percentage points from 2021.
11. Despite that general improvement, inflationary pressures are evident in an impaired assessment of the quality of living and quality of supplies, two aspects that have traditionally emerged as perceived strengths of the Spanish business climate.

Outlook (economy and investments)

12. Although the British firms' outlook for the Spanish economy is positive, the percentage of respondents who expect the Spanish economy to deteriorate somewhat in 2023 has increased.
13. A little over half of the British companies surveyed plan to increase their investments in Spain next year, mainly for the purpose of expanding their business lines.
14. In addition, 85% of respondents reported plans to adopt environmental, social and governance (ESG) criteria, mainly via initiatives related with environmental sustainability and workplace diversity.

Brexit

15. Two out of every three British firms said they had not modified their investment strategies in Spain in the wake of Brexit, in line with the snapshot provided by previous editions of the Barometer.
16. That being said, the main sources of friction encountered since the Trade and Cooperation Agreement took effect relate to individual mobility and customs red tape.

Current events

17. Eighty-seven per cent of the British firms with investments in Spain reported being affected by the war in Ukraine, mainly due to the surge in energy prices.
18. Fifty-nine per cent said they expected the increase in eurozone interest rates to hurt their business activities by weighing on consumption and sales, among other channels.
19. Nevertheless, all of the British firms that participated in this year's edition of the Barometer expect Spain to remain a strategic market within their global operations.

1. Investment position (stock of FDI in Spain) by country

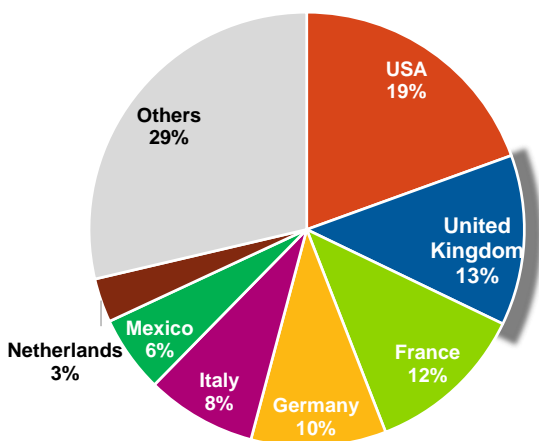
In 2020, the UK was, for the sixth year in a row, Spain’s second largest overseas investor. However, Britain’s investment position in Spain, measured in terms of its stock of FDI, has shrunk a little, pausing the upward trend embarked on in 2013, to €62.03 billion (down €4.5 billion from 2019), which is 13% of total foreign direct investment in Spain.

The United Kingdom’s investment position in Spain stood at €62.03 billion in 2020, down a little over €4.5 billion from 2019 (when it amounted to €66.58 billion). The reduction in the stock in 2020 was attributable to transaction flows but also to other factors of relevance. The correction in financial asset valuations in 2020 (when Spain’s benchmark stock index, the Ibex-35, corrected by 16%) in the wake of the pandemic, coupled with deflationary pressures and depressed economic activity, drove a reduction in the stock of British investments in Spain that year. The growth in FDI flows of €2.83 billion that year was insufficient to offset the correction in the value of British assets located on Spanish soil.

Nevertheless, the share of the pie commanded by British investment held steady with respect to 2019, at 13% of all foreign direct investment (FDI) in Spain, ahead of the stock accounted by other important investors for Spain, such as France (12%), Germany (10%) and Italy (8%).

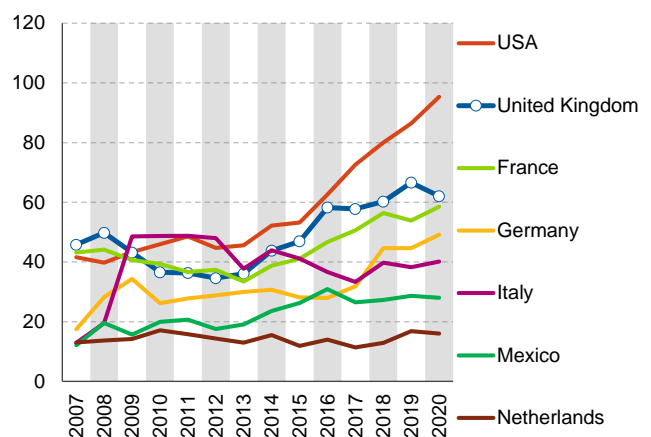
Note with respect to last year’s Barometer, the seventh edition, that statistical adjustments have implied a considerable increase in the stock of British FDI in Spain in 2019, from the initially estimated €64.43 billion to €66.58 billion, increasing the scale of the growth in Britain’s investment position that year, which marked a record. In short, that position topped €60 billion in 2020, extending the growth embarked on in 2013 although the gap between the UK and Spain’s third-biggest investor, France, narrowed.

Stock of FDI in Spain in 2020, by country
(UIC criterion¹, percentage split)



Source: Afi, Secretary of State for Commerce

Long-term trend in the stock of FDI in Spain, by country (UIC criterion | € billion)



Source: Afi, Secretary of State for Commerce

¹ Ultimate investing country: country of residence of the ultimate owner of the investment, i.e., where the ownership chain ends

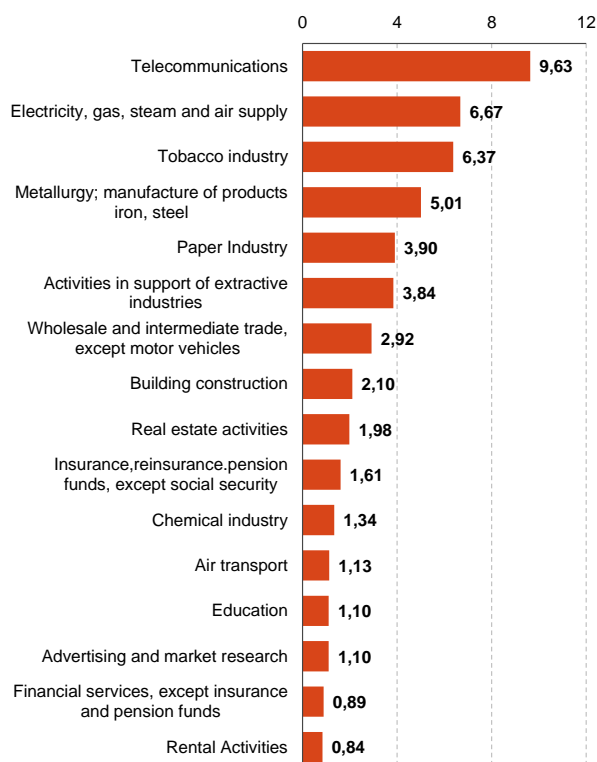
2. Stock of British FDI in Spain by sector

The stock of British FDI in Spain as of 2020 was concentrated in the telecommunications, energy supply, tobacco, metallurgy and paper industries. British companies in Spain are also significantly invested in the chemicals and education sectors, where the stock of FDI has multiplied by factors of three and 10, respectively, over the last three years.

The stock of British FDI in Spain as of 2020 was concentrated primarily in the following sectors: telecommunications (€9.63 billion); energy supply (€6.67 billion); tobacco (€6.37 billion, which represents 91.7% of all FDI in the sector); the manufacture of basic steel, iron and iron alloy products (€5.1 billion, accounting for 91.2% of all FDI in the sector); and paper (€3.9 billion).

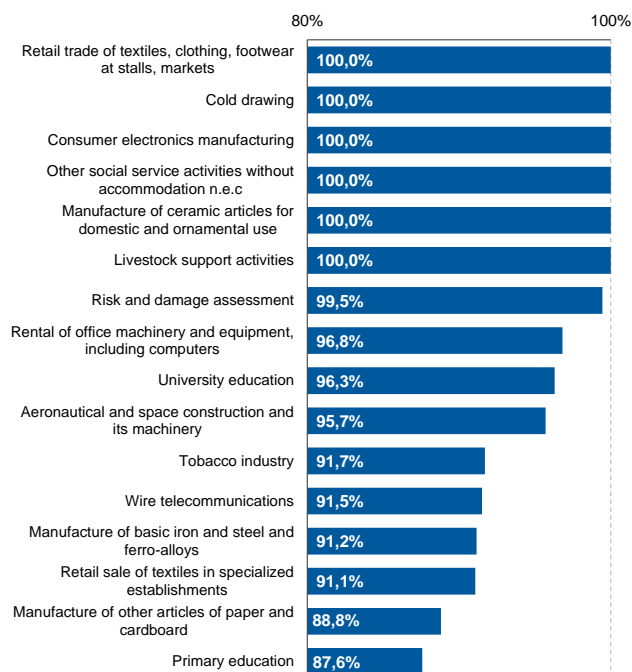
In terms of the relative importance of Britain's investment position, its presence in the following sectors stands out: textile retailing; cold drawing; consumer electronics products; other social work activities without accommodation; the production of ceramic goods for domestic use and decoration; and breeding support activities. In all instances, the stock of British investment represents 100% of the FDI received by the sectors in question. There is also a range of activities in which British investment represents over 90% of all FDI, including risk and damage assessment; machinery and office equipment rental; university education; aeronautical and space construction; wired communications; and textile retailing in specialist establishments. It is also worth highlighting the UK's investment presence in the education sector, specifically primary education, where it accounts for 87% of all FDI in that field.

Stock of British investment in Spain by sector in 2020 (€ billion | excluding investments channelled via ETVEs)



Source: Afi, Secretary of State for Commerce

Stock of British FDI in Spain as a percentage of total sector FDI in 2020 (excluding investments channelled via ETVEs)

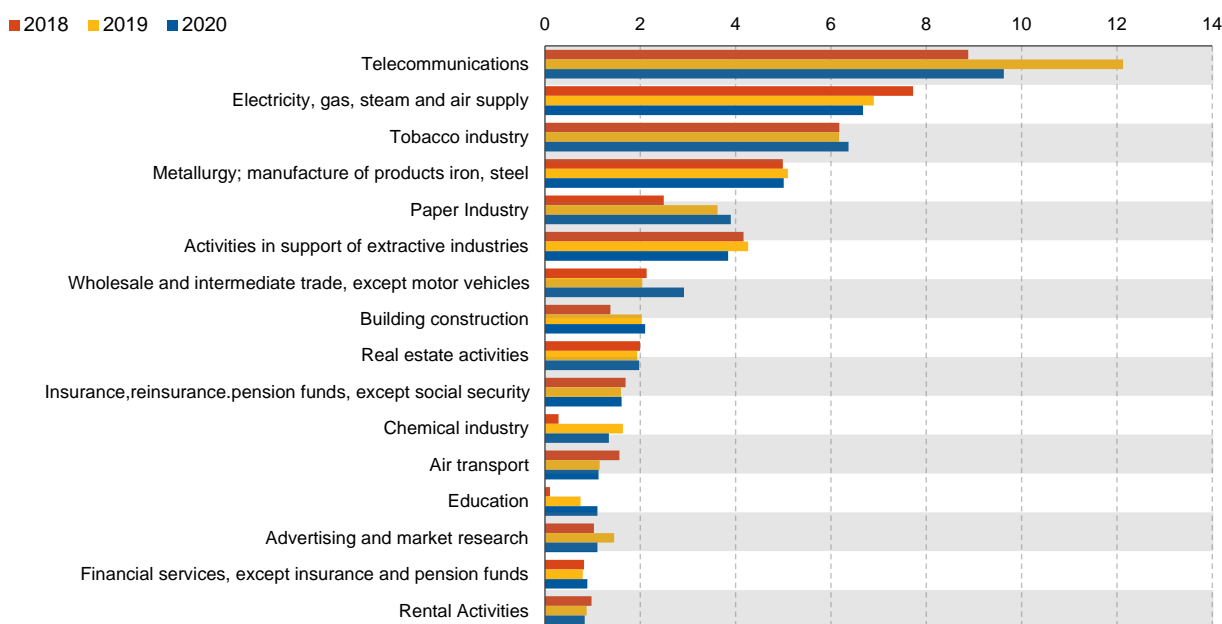


Source: Afi, Secretary of State for Commerce

British investment is also strategic in telecommunications, electricity distribution, the tobacco industry and metallurgy, sectors in which the stock of investment is most significant in absolute terms and has been very steady in recent years. It is worth singling out the growth in the stock of British investment the paper and building construction sectors in 2020, having more than doubled between 2018 and 2020.

Lastly, the stock of British investment in the chemicals and education sectors has multiplied by factors of three and 10 in the last three years, evidencing the strategic nature of British investment and the country's commitment to a growing number of sectors in Spain.

Stock of British FDI in Spain by sector, 2018, 2019 and 2020
(excluding investments channelled through ETVEs | € billion)



Source: Afi, Secretary of State for Commerce

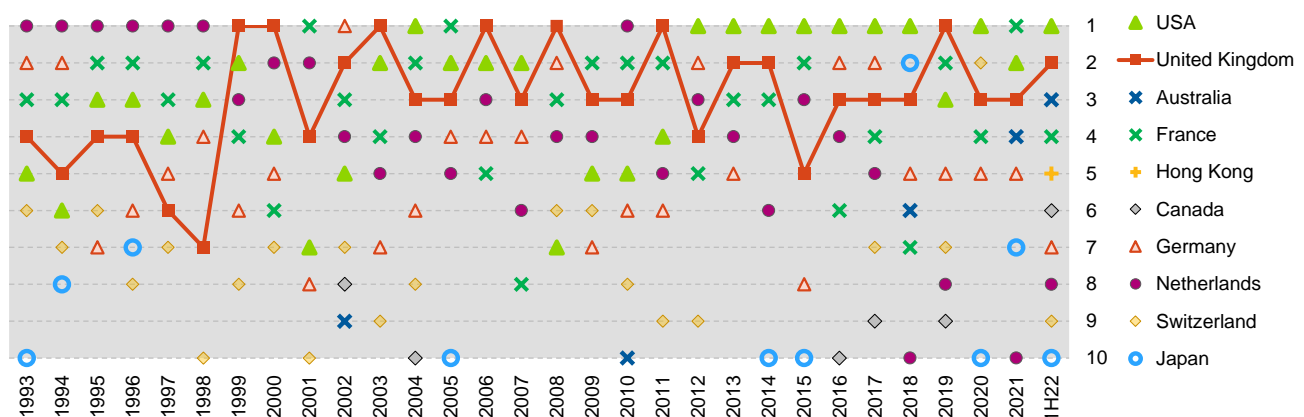
3. Cumulative flows to 2H22

The UK accounts for the largest cumulative flow of FDI since the start of the historical series (1993). Flows of British FDI into Spain have been on the rise since 2015, despite the Brexit referendum and Britain’s subsequent exit from the EU, the Covid-19 health crisis and the onset of war between Russia and Ukraine. The cumulative volume of inward FDI from the UK has gone from being the sixth highest for Spain in 2015 to the second highest as of the second half of 2022, ahead of historically important investors such as France and Germany. In the first half of 2022, the UK has invested a total of €3.23 billion in Spain, year-on-year growth of 261%.

On a cumulative basis, over the course of the period for which the data is available (the period elapsing between 1993 and the first half of 2022), Spain has received over €90.35 billion of British FDI (gross investment, excluding transactions channelled through foreign security holding companies, or ETVEs for their acronym in Spanish), which is 17.6% of all inward FDI received by Spain. The UK has channelled the highest volume of flows of investment to Spain by a wide margin (€90.35 billion, over 20% more than the volume invested by the US during the same period), evidencing British businesses’ interest in establishing a presence in the Spanish market with a view to doing business over the medium and long term. Compared to last year’s edition of the Barometer, the stock of British FDI increased by over €5.72 billion (3Q21-2Q22 vs. 3Q20-2Q21), highlighting the resilience and solidity of British investment.

Year after year, since 2003, the UK has consistently ranked among the top six investors in Spain (in gross terms) and has ranked first seven of the last 24 years (in 1999, 2000, 2003, 2006, 2008, 2011 and 2009). The volume of inward FDI from the UK has gone from being the sixth highest for Spain in 2015 to the second highest so far this year (1H22), with only the US investing more.

Ranking of FDI flows received by Spain, by country and year (excluding investments channelled through ETVEs)



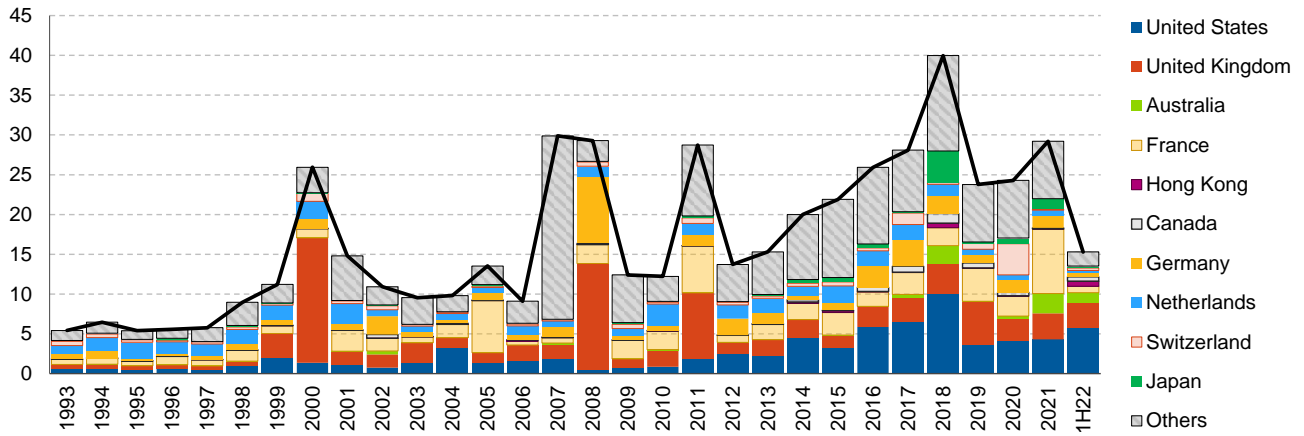
Source: Afi, Secretary of State for Commerce

During the 24 quarters elapsing since the Brexit referendum (between the third quarter of 2016 and the second quarter of 2022, both included), flows of British investment into Spain have summed to over €23.5 billion, which is 13.3% of all inward FDI flows to Spain during that timeframe. In the first half of 2022, the UK has invested a total of €3.23 billion in Spain, year-on-year growth of 261%. That growth primarily reflects the investment by British fund CVC in the Spanish premier football league, LaLiga, which brought nearly €2 billion of investment into the sports sector in the first quarter of this year, equivalent to nearly 62% of all first-half FDI flows.

As a result, the UK has jumped to second place, behind only the US, Spain’s biggest investor, ahead of historically important investors such as France and Germany.

Annual trend in gross FDI flows received by Spain, by country of origin, to 1H22

(€ billion | UIC criterion | excluding ETVEs)



Source: Afi, Secretary of State for Commerce

4. Nature of British FDI flows into Spain

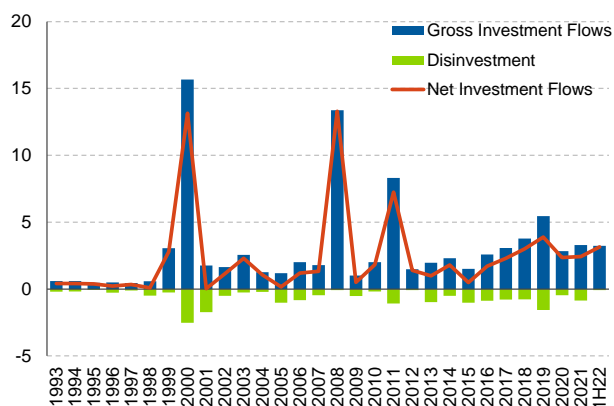
British FDI in Spain continues to be primarily productive in nature, i.e., not articulated through foreign security holding companies (ETVEs for their acronym in Spanish) and divestments have been and remain scant.

British investment in Spain is predominantly productive, as is evidenced by the fact that it is not generally articulated through foreign security holding companies (i.e., entities that benefit from a special tax regime that exonerates them from paying tax on the dividends or capital gains obtained from holding shares or shareholdings in foreign companies). Since 1993, British FDI flows to Spain through such entities account for just 9% of the total, despite rising notably in 2017 (over €5.09 billion that year, compared to an annual average of €352 million).

Another characteristic trait of British investment in Spain is the scarcity of divestments throughout the historical series, leaving net positive investments flows and explaining the systematic increase in the stock of British FDI in Spain. Net British FDI has been in positive territory since 1998. British disposals have only come close to gross investment volumes in two years (2001 and 2005). Inflows of British FDI rose sharply in 2000, 2008 and 2011 related with one-off transactions in the telecommunications (2000), wholesale trade (2008), air transport and financial services sectors (2011). Those years, the UK accounted for 60%, 45% and 31% of total gross FDI in Spain, respectively, demonstrating that the years that Spain attracted higher volumes of FDI were also characterised by significant inflows from the UK.

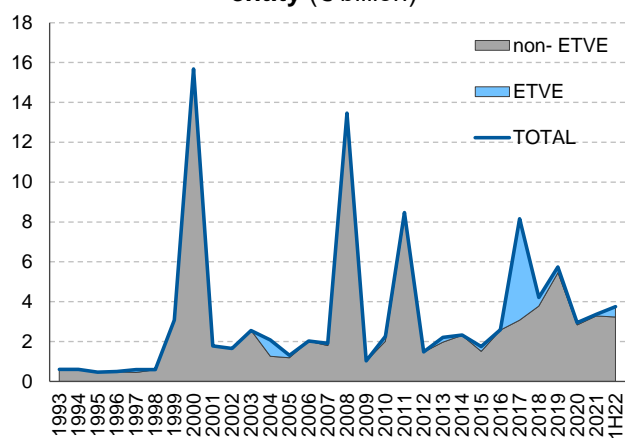
So far, with data as of 2Q22 (inclusive), there are no signs that Brexit, the pandemic or, more recently, the war between Russia and Ukraine have triggered major divestments. It is true, however, that between 2017 and 2019, some of the disposals observed were related with the increase in political uncertainty. Indeed our surveys those year revealed that the firms were very concerned about that aspect, suggesting that the retrenchment trend could continue. However, the 2020, 2021 and the 1H22 figures show that divestments have returned to low levels, even dipping below the thresholds observed since 2015. Indeed, in the first half of 2022, disposals have hit a seven-year low, once again highlighting the stable nature of the British investments welcomed by Spain.

Flows of British FDI into Spain to 2Q22
(€ billion | excluding ETVE)



Source: Afi, Secretary of State for Commerce

Flows of British FDI into Spain to 2Q22, by type of entity
(€ billion)



Source: Afi, Secretary of State for Commerce

Note, lastly, that the difference between ultimate investing country and immediate country investments in the case of the UK is generally very small throughout the historical series, which means that the inflow is really coming from the UK and that the country is not being used as a 'gateway'.

5. Spanish FDI flows by sector

British investment in Spain is well diversified between services, industry and construction, albeit dominated by the services sector. The sectors that have garnered the highest volumes of flows since the start of the series are: telecommunications; the wholesale trade; financial services; air transport; the sports sector; real estate activities; electricity supply; and chemicals. According to the figures for the first half of this year, the sports sector was by far the biggest recipient of British FDI, at close to €2 billion as of June.

British FDI in Spain is highly diversified, with as many as 21 sectors receiving investment flows every year in the series (i.e., the 30 years elapsing since 1993). Other sectors have been coming to the fore more recently, including:

- i. Electricity supply, which received €1.04 billion of British investment between 2020 and June 2022;
- ii. The paper industry, where investment during that same timeframe amounted to €446 million; and
- iii. The chemicals industry, which in 2019 received €647 million, having received a further €288 million since then.

The sports sector, meanwhile, has received steady flow of investment in recent years, plus an inflow of nearly €2 billion in the first half of 2022, thanks to British private equity fund CVC's investment in the Spanish premier league, LaLiga, as noted in section 3.

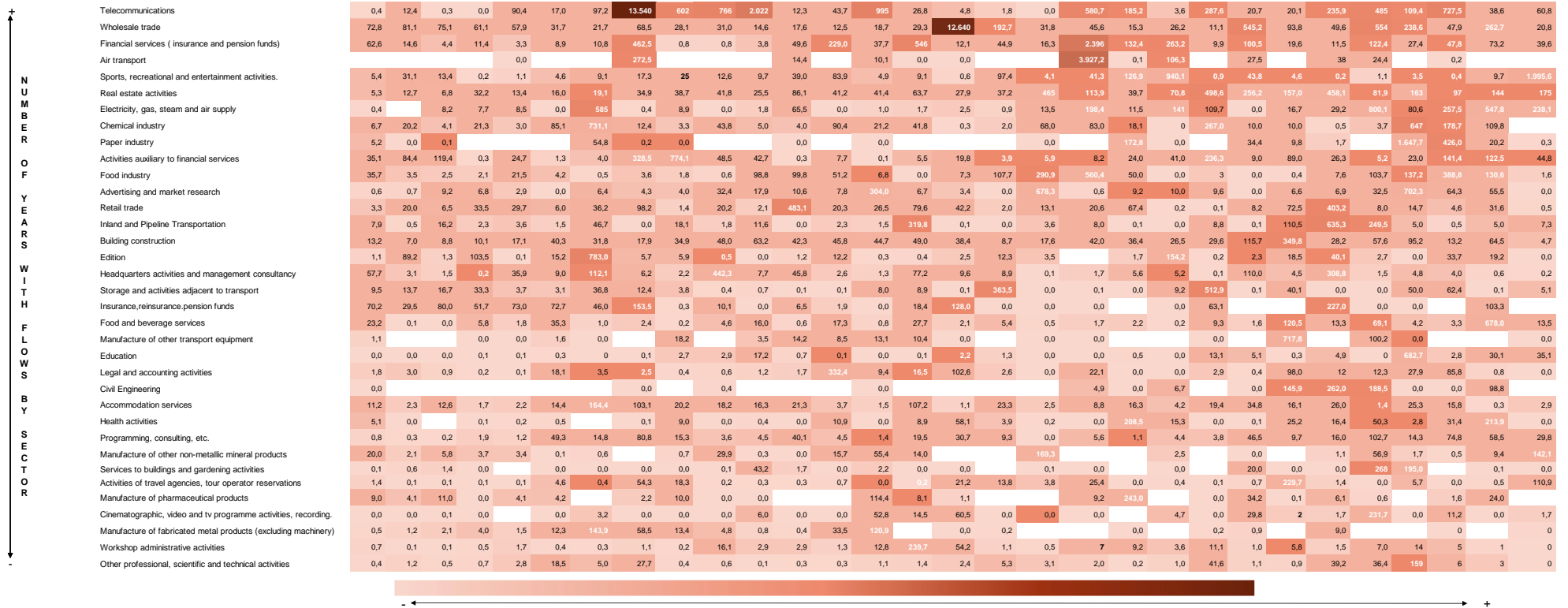
On the other hand, the 2022 dynamics to date show a drop in flows to a multitude of sectors, probably as a result of the uncertainty triggered by the war between Russia and Ukraine, together with the resulting energy shock and enduring high inflation, which has left Europe as a whole more vulnerable on account of its proximity to the conflict and its high dependence on overseas energy.

Uncertainty tends to bode poorly for investment and with several central banks waging a war on inflation by hiking their benchmark rates, investing set to become a lot more expensive in the months to come. The one element that could give investment a fresh boost are the NGEU funds, which in Spain are expected to reach €77.23 billion (in the form of aid and grants), 6% of Spanish GDP.

The economic activities that have received the highest volumes of British investment flows throughout the series are the telecommunications, wholesaling, financial services, air transport, real estate activities, electricity supply, chemicals, paper, auxiliary financial services and food industries.

Gross flows of British FDI to Spain by sector since the start of the series (1993)

(€ million | immediate country criterion | excluding ETVEs | the vertical ordering corresponds to the total volume of flows | the colour scale reflects the volume of annual FDI flows)



Source: Afi, Secretary of State for Commerce

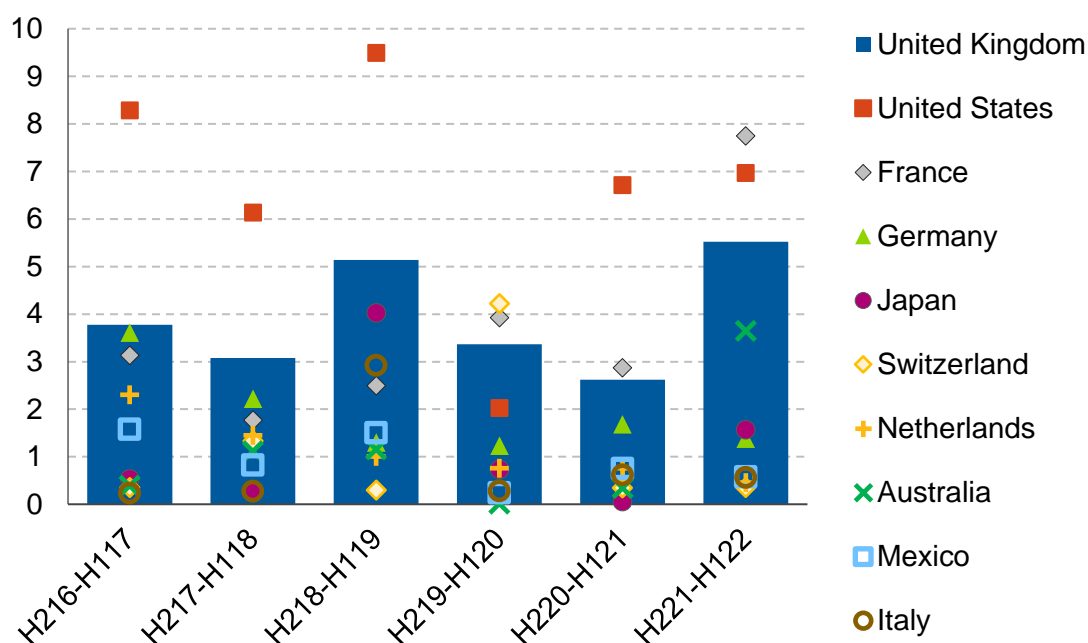
6. British FDI flows to Spain since the Brexit referendum and effectiveness of the TCA.

Despite the uncertainty generated by Brexit and the entry into effect of the TCA, Spain has continued to welcome a steady and sizeable flow of British FDI, specifically €5.52 billion during the last four quarters, which is twice the volume recorded in the previous 12-month period (the four quarters between 2H20 and 1H21). The UK has remained one of Spain's most important investors during the 12 semesters elapsing since the Brexit referendum.

Entry into effect of the new agreement governing trade relations between the UK and EU does not appear to be affecting the two countries' close investment ties, at least not for now. Based on the data for the last four quarters (2H21-1H22), the UK has revisited its pre-pandemic dynamics, establishing itself as the third-biggest source of FDI for Spain (€5.52 billion), which is twice the level invested between 2S20 and 1H21.

In the six years elapsing since the Brexit referendum, British flows of investment to Spain have remained at their usual levels. During the period elapsing between 3Q16 and 2Q22, flows of British FDI, excluding ETVEs, amounted to €23.5 billion, for an annual average of €3.92 billion, which is higher than the long-run annual average of €3.13 billion of British FDI into Spain.

Main sources of FDI flows to Spain since the Brexit referendum
(excluding ETVEs | € billion | rolling four-quarter sum 3Q-2Q)



Source: Afi, Secretary of State for Commerce

7. Flows by Spanish region

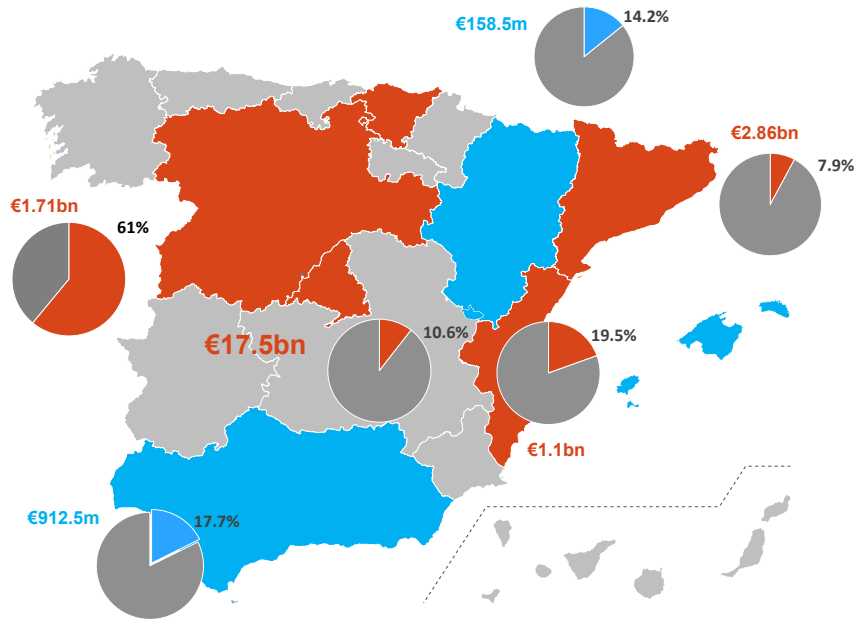
Since 2014, British FDI has been concentrated in four Spanish regions: Madrid, Catalonia, the Basque region and Castile & Leon, albeit exhibiting greater diversity in recent years, with Valencia, Andalusia and the Balearics closing the gap with respect to the frontrunners. So far in 2022, British investment in Spain is running at €3.23 billion and remains heavily concentrated in Madrid, which has garnered close to €2.7 billion, although the growth in inward FDI in Valencia and Catalonia stands out.

Cumulative flows of British FDI between 2014-1H22 are concentrated primarily in Madrid, Catalonia, the Basque region and Castile & Leon. Those four regions, coupled with Valencia, Andalusia and the Balearic Islands, have garnered the majority of overall FDI flows into Spain. In the last year, however, Valencia and Madrid stand out: the volume of flows received both those regions has increased by 42% and 37% year-on-year, respectively. As of the previous reporting period, the regions had received a total of €797 million and €12.79 billion, respectively between 2014 and 1H21, figures that, according to the latest available data (2014 - 1H22), have risen sharply to €1.13 billion and €17.54 billion euros, respectively. By the same token, Britain's relative position in both regions increased by 3.4 and 1.2 percentage points, respectively, during the same timeframe, going from 16.1% to 19.5% of total inward FDI in the case of Valencia and 9.3% to 10.6% in the case of Madrid.

As a percentage of the total, British investment is very significant in Castile & Leon, where it accounts for over 61% of the total received, albeit down slightly from last year's edition of the Barometer (when it reached close to 73%). Nevertheless, British investment in Spain is characterised by its regional diversification. In another five regions, on top of Valencia and Castile & Leon, British investment accounts for more than 15% of the total received: the Balearics (25.5%), Murcia (20.9%), Andalusia (17.7%), the Basque region (17.5%) and La Rioja (15.4%).

So far in 2022, British investment in Spain is running at €3.23 billion and remains heavily concentrated in Madrid, which has garnered close to €2.7 billion, although the growth in inward FDI in Valencia and Catalonia in the first six months of the year stands out, with those regions garnering €184 million euros and €116 million euros, respectively. They were followed by: the Basque region (€73 million), Balearics (€54.1 million), Navarre (€26.4 million), Canary Islands (€22.7 million), Andalusia (€21.3 million), Castile-La Mancha (€18.5 million), Galicia (€14.6 million), Asturias (€1 million), Aragon (€0.7 million), Cantabria (€30,000), Castile & León (€7,500) and Murcia (€2,100).

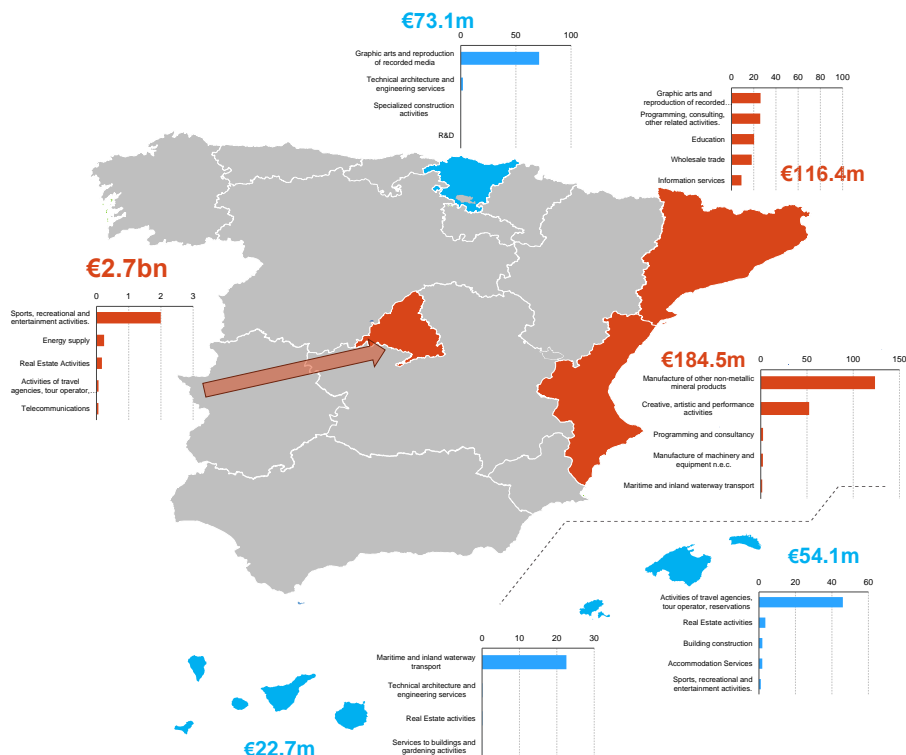
Key destinations for British FDI during period of economic recovery (2014-1H22)
(Gross flows in € billion | % of total flows)



Source: Afi, Secretary of State for Commerce

By sector, British investment was highly diversified in 1H22. As already mentioned, the major investment in the sports sector in Madrid stands out but it is also worth highlighting the flows received by the ‘other non-metallic mineral products’ sector and creative, artistic and performance activities in Valencia; the graphic arts sector in Catalonia and the Basque region and the tourist sector in the Balearics.

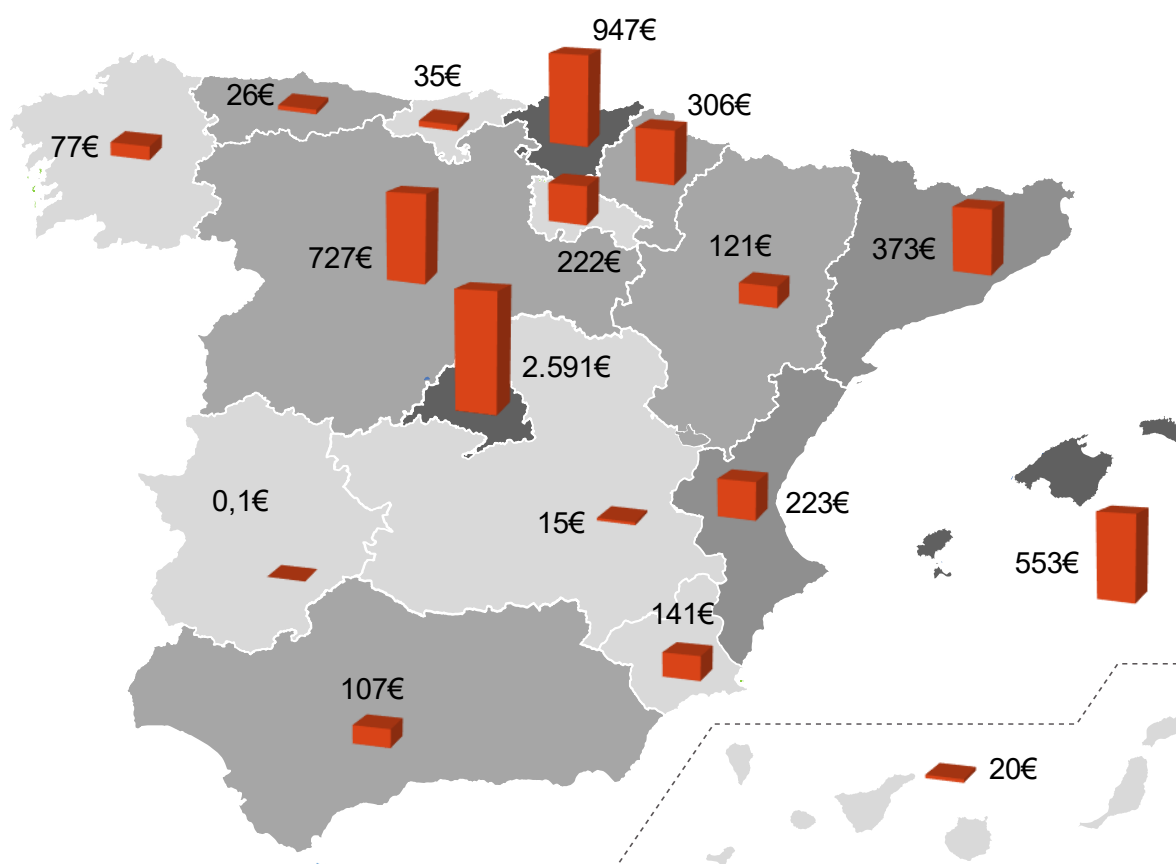
Flows of British FDI by region and sector YTD (1H22)
(€ million)



Source: Afi, Secretary of State for Commerce

Lastly, British FDI flows per capita between 2014 and 1H22 have remained particularly high in Madrid, at €2,591 (€1,894 in 2014-1H21), evidencing a degree of bias shaped by the capital city's 'headquarters effect'. The Basque region also stands out, at €947 per capita (€910 in 2014-1H21), as does Castile & Leon, which following the rebound in British investment received between 2021 and 1H22, continues to present a high volume of British FDI per capita of €727 (€717 in 2014-1H21). In addition to those two regions, British FDI flows per capita have reached reasonable levels in the Balearic Islands (€553), Catalonia (€373) and Navarre (€306).

Gross flows of British FDI accumulated during the recovery period (2014-1H22)
 (€ per capita by region)



Source: Afi, Secretary of State for Commerce

In short, British FDI flows continue to be strongly concentrated in Madrid, drawn by the 'headquarters effect' induced by so many companies being based in the capital city, boosted further by the significant investment in the region's sports sector in the first half of this year. However, in recent years, British investment has been diversifying across the main Spanish regions, with a recent strong trend in Valencia and steady track records in the Basque region, Catalonia, Balearics and Castile & Leon.

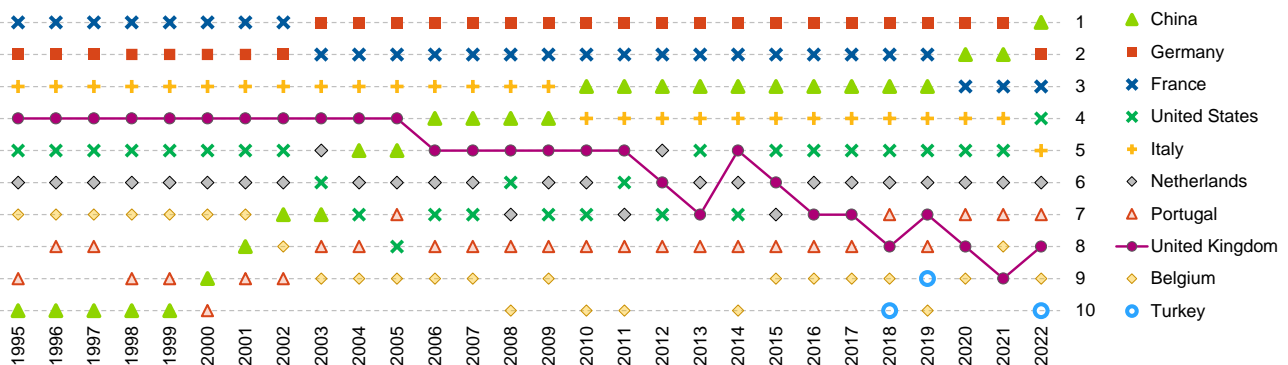
8. Foreign trade between the UK and Spain

Trade in goods and services between Spain and the UK has historically been significant. Indeed, the UK is one of Spain’s most important trading partners, ranking in the top 10 countries for Spanish imports and exports in recent years. Trade in semi-finished goods, capital goods and automotive parts remains key for the British companies established in Spain in terms of subsequent transformation and sale with higher value-added.

Trade in goods and services between Spain and the UK has historically been significant. Spain exported €380.75 billion worth of goods to the UK between 1995 and August of this year, whereas imports during that same period amounted to €305.02 billion. Spain presents the trade surplus, therefore (of €75.73 billion during that period of time), having exported more goods to that market than it imported from the UK (imports which are also very relevant in terms of the transformation of intermediate goods into finished goods and end consumption by businesses and households).

That makes the UK one of Spain’s most important trading partners. In fact, the UK has historically ranked among the top 10 sources of Spanish imports, ranking fourth for 11 consecutive years (1995-2005) and fifth for another six (2006-2011). The UK has been dropping in that ranking since 2012 albeit remaining in the top 10 (between January and August 2022, the UK was the eighth largest source of imports for Spain).

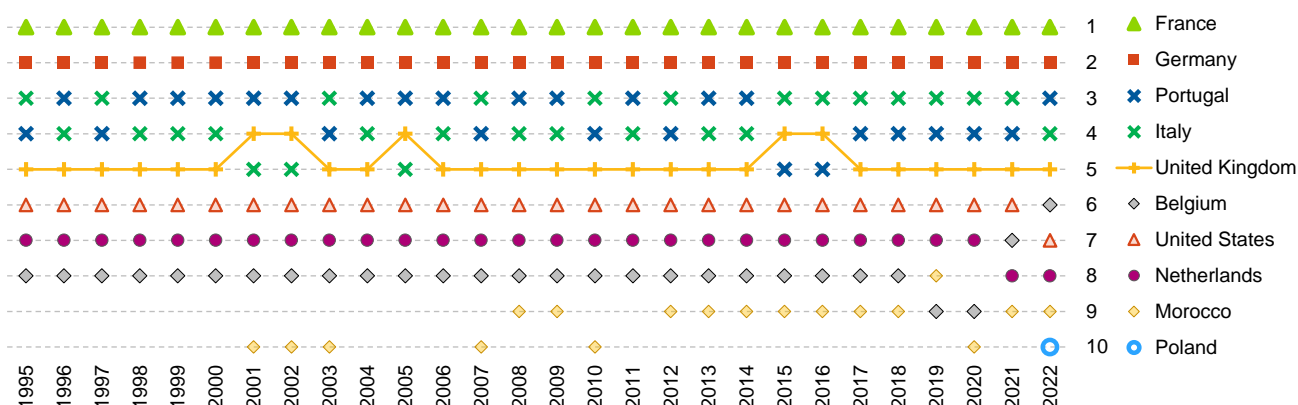
Ranking of Spanish imports by source country and year*



Source: Afi, Secretary of State for Commerce *2022 up to and including August (latest figure available).

On the export front, the UK has cemented its position as the fifth largest destination for Spanish exports, having even ranked fourth on five occasions (2001, 2002, 2005, 2015 and 2016).

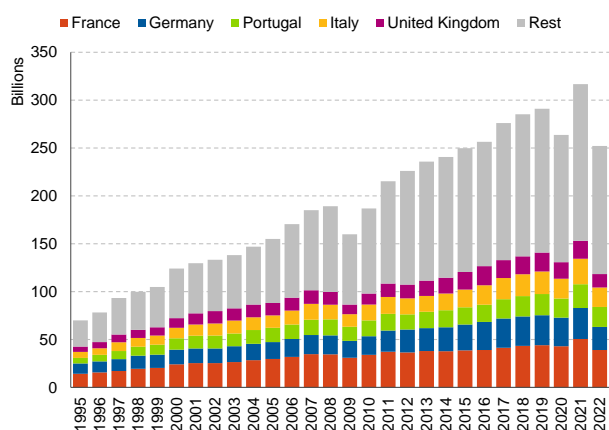
Ranking of Spanish exports by destination country and year*



Source: Afi, Secretary of State for Commerce *2022 up to and including August.

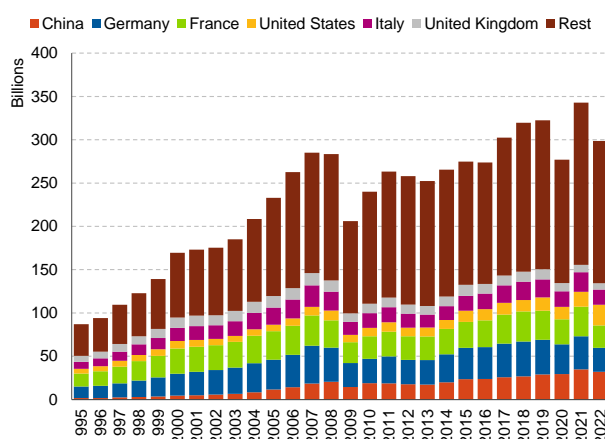
Spain's exports are concentrated across five countries: France, Germany, Portugal, Italy and UK, which between them have, on average, accounted for 53% of annual exports between 1995 and August 2022. On the other hand, China, Germany, France, the US and Italy, along with the UK, have between them accounted for over 50% of Spanish imports during the last two decades.

Spanish exports* (€)



Source: Afi, Secretary of State for Commerce *2022 up to and including August.

Spanish imports* (€)

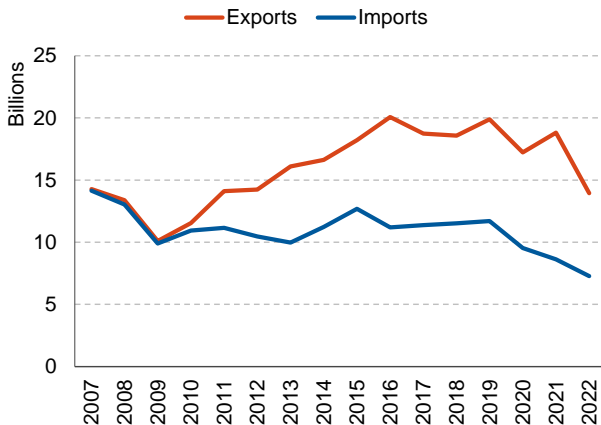


Source: Afi, Secretary of State for Commerce *2022 up to and including August.

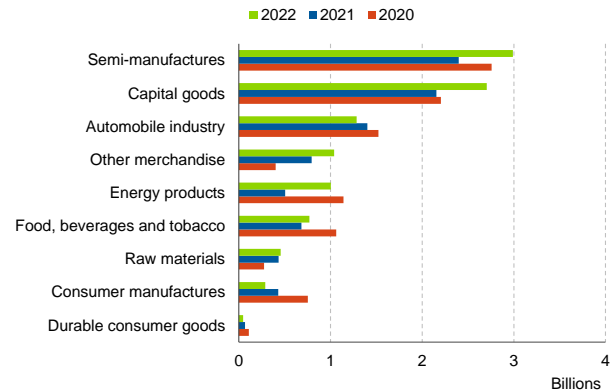
Focusing on the UK, Spain has imported a total of €305.02 billion of British goods since 1995, for an annual average of over €11 billion between 2014 and 2019. Subsequently, following the slump induced in both economies by the pandemic and the ensuing supply chain bottlenecks (which translated into a scarcity of certain products at the global level, interrupting certain global supply chains, among other ramifications), imports have lost steam, dipping to €9.54 billion in 2020 and €8.63 billion in 2021.

That negative trend has carried over so far this year: as of August 2022, Spanish imports of British goods were running at €7.27 billion, which is 2.4% of total imports, below the long-run annual average (5.2%). The prevailing uncertainty caused by the war between Russia and Ukraine and the subsequent and related energy shock and persistent inflation (causing the central banks to hike their interest rates sharply in an attempt to tame inflation), coupled with the attendant slowdown in demand and economic activity, are likely to have weighed on the flow of trade between the two countries.

Foreign trade between Spain and the UK*
(€)



Spanish imports from the UK by sector
(trailing 12 months to August in each year, €)



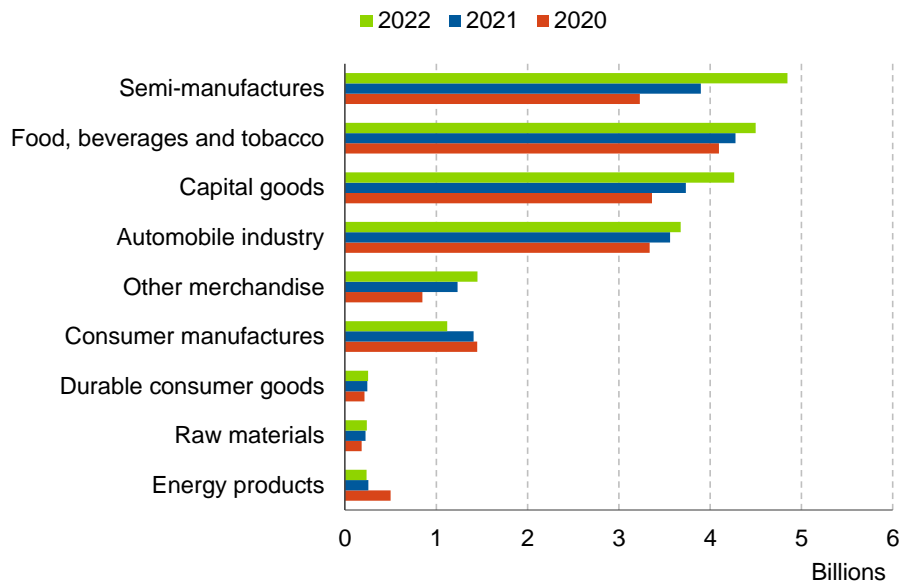
Source: Afi, Secretary of State for Commerce *2022 up to and including August.

Source: Afi, Secretary of State for Commerce

By sector, during the last three years the volumes of imported semi-manufactured goods, capital goods and automotive parts stand out at €7.2 billion, €6.17 billion and €3.52 billion, respectively. On a trailing 12-month basis as of August 2022 (latest figure available), imports of semi-finished and capital goods were trending above the volumes observed in the same periods ending August 2021 and 2020, whereas the automotive industry has lost momentum in the wake of the pandemic, affected by the issues experienced across the global supply chains (shortages of certain parts, such as chips, which are essential for vehicles' electronic systems), which intensified in early 2022, even forcing the industry to pause production and sales.

On the export side, in addition to the three above-listed sectors, Spain is also a major exporter of food, beverages and tobacco to the UK. In the last three years, over 80% of Spanish goods exports to the UK have been concentrated in these four sectors, with all of them registered volume growth in the 12 months to August 2022. The exceptions are: (i) energy products, given the high volatility in energy commodity prices; and (ii) manufactured consumer goods, probably as a result of high inflation eroding consumer purchasing power and confidence, while increasing production costs substantially in both economies.

Spanish exports to the UK by sector
 (trailing 12 months to August in each year, €)



Source: Afi, Secretary of State for Commerce

In short, semi-finished, capital goods and automotive parts remain key for the British companies invested in Spain, with those sectors traditionally accounting for two-thirds of all British imports. The transformation of those imported goods into finished goods with more value-added is not only beneficial for the companies and Spanish economy but also guarantees the continuity of investment and trade flows from Britain into Spain.

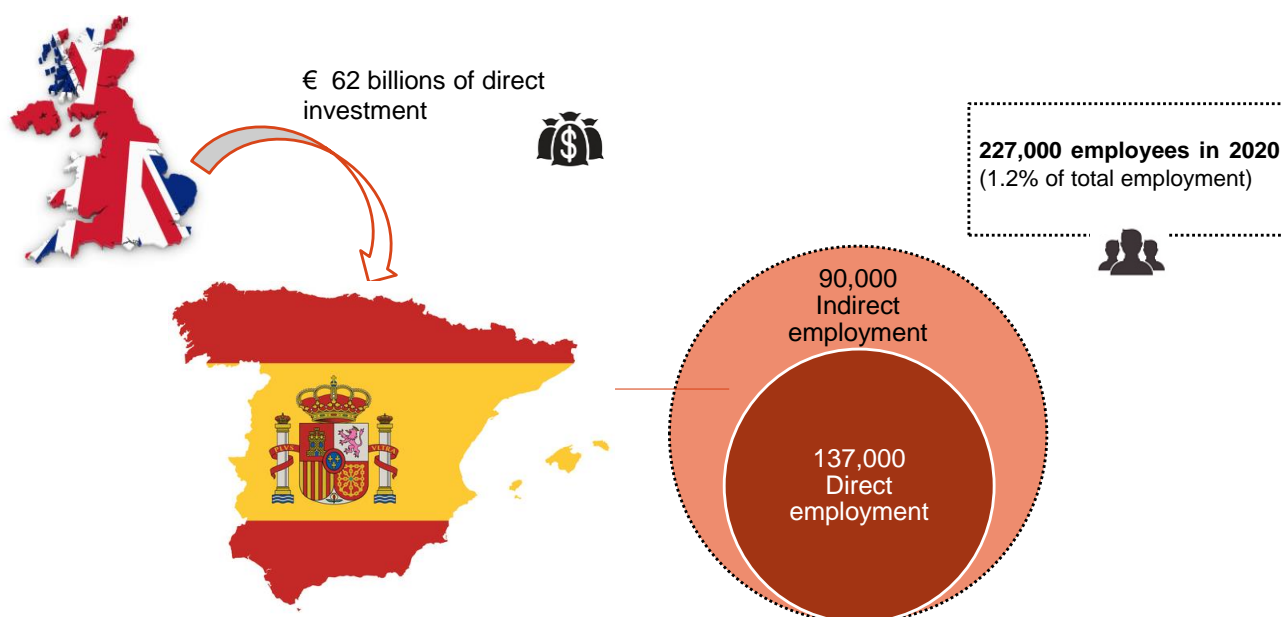
9. Effects of British FDI on jobs in Spain

British FDI in Spain contributed to the maintenance of 227,000 jobs in 2020, which is equivalent to 1.2% of total nationwide employment that year.

British FDI in Spain contributed to the maintenance of a total 227,000 jobs in 2020, which is equivalent to 1.2% of the total, flat year-on-year.

Of all the jobs generated in Spain by British investment, around 137,000 are considered direct jobs, with the remaining 90,000 considered indirect jobs created via knock-on effects on supply chains.²

Impact of British FDI on employment in Spain, 2020



Source: Afi, Secretary of State for Commerce, INE

² Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Spanish economy (2015 Input-Output Tables).

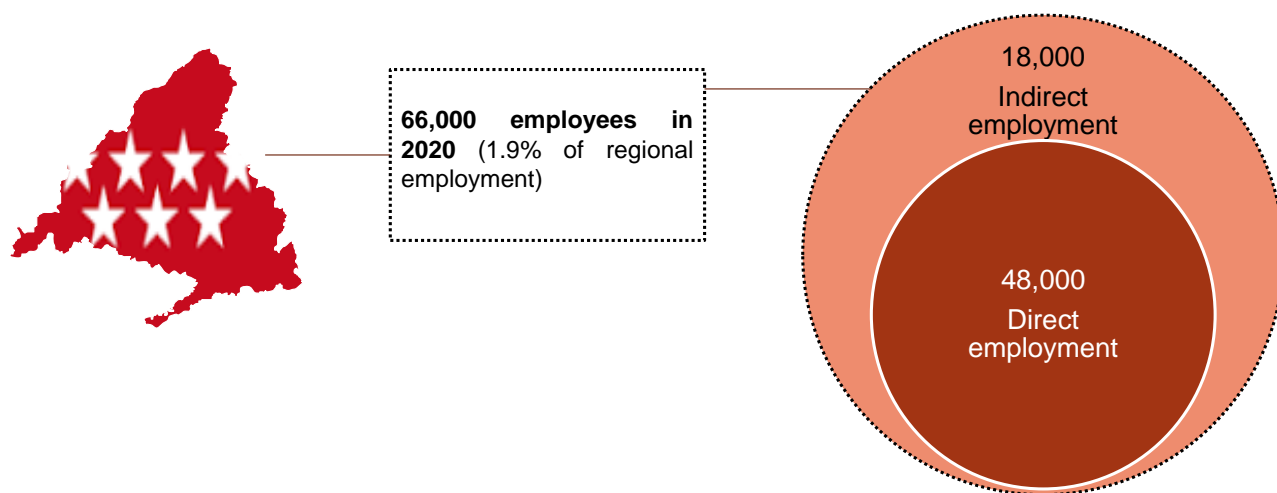
9.1. Effects of British FDI on jobs in Madrid

British FDI contributed to the maintenance of around 1.9% of all jobs in the Madrid region in 2020, which is equivalent to around 66,000 positions in total.

British FDI helped maintain a total of 66,000 jobs in Madrid, 1.9% of the total. By comparison with the previous year, the employment underpinned by British investment decreased by roughly 4,000 positions.

As for the breakdown between direct and indirect jobs, the results show that of the total, around 48,000 corresponded to direct jobs and the remaining 18,000 to indirect jobs³.

Impact of British FDI on employment in Madrid, 2020



Source: Afi, Secretary of State for Commerce, INE

³ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Spanish economy (2015 Input-Output Tables).

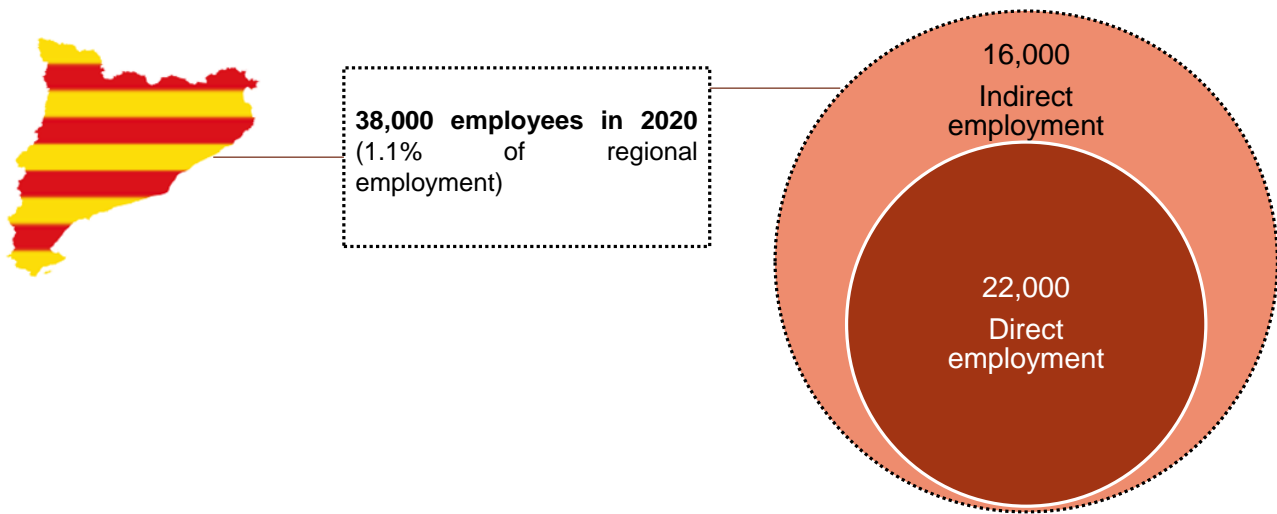
9.2. Effects of British FDI on jobs in Catalonia

British FDI contributed to the maintenance of around 1.1% of all jobs in Catalonia in 2020, which is equivalent to around 38,000 positions in total.

British FDI in Catalonia contributed to the maintenance of 38,000 jobs in 2020, which is 1.1% of total regional employment, marking a decline of 2,000 jobs by comparison with 2019.

The knock-on impact of British FDI has triggered the creation of 16,000 indirect jobs since the beginning of the series⁴, whereas the number of direct jobs created stands at 22,000.

Impact of British FDI on employment in Catalonia, 2020



Source: Afi, Secretary of State for Commerce, INE

⁴ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Spanish economy (2015 Input-Output Tables).

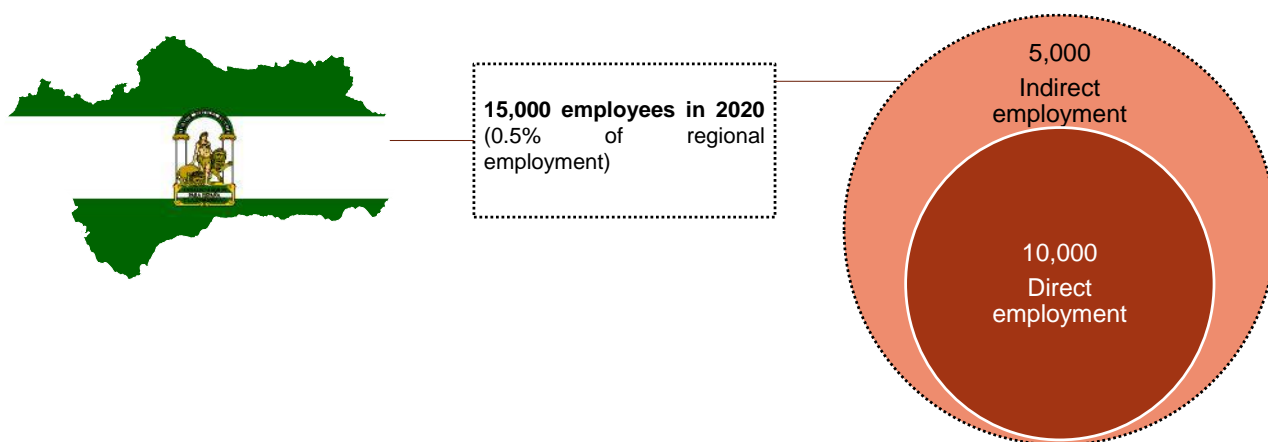
9.3. Effects of British FDI on jobs in Andalusia

British FDI contributed to the maintenance of around 0.5% of all jobs in Andalusia in 2020, which is equivalent to around 15,000 positions in total.

British FDI in Andalusia was responsible for the maintenance of 15,000 jobs in 2020, which is equivalent to 0.5% of all regional employment and up roughly 1,000 positions from 2019.

Of all the jobs created in Andalusia by British FDI in the region, 10,000 are considered direct jobs and the remaining 5,000 are indirect jobs created by knock-on effects on the regional economy⁵.

Impact of British FDI on employment in Andalusia, 2020



Source: Afi, Secretary of State for Commerce, INE

⁵ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Spanish economy (2015 Input-Output Tables).

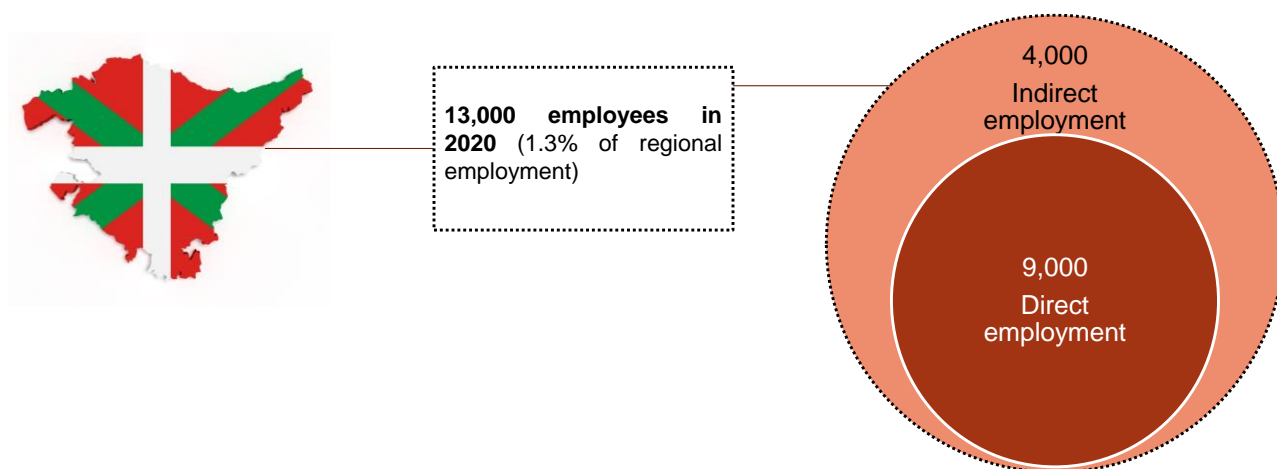
9.4. Effects of British FDI on jobs in the Basque region

British FDI contributed to the maintenance of around 1.3% of all jobs in the Basque region in 2020, which is equivalent to around 13,000 positions in total.

British FDI in the Basque region was responsible for the maintenance of 13,000 jobs in 2020, which is equivalent to 1.3% of all regional employment.

Of all the jobs created in the Basque region by British FDI, 9,000 are considered direct jobs and the remaining 4,000 are indirect jobs created by knock-on effects on the regional economy⁶.

Impact of British FDI on employment in the Basque region, 2020



Source: Afi, Secretary of State for Commerce, INE

⁶ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Spanish economy (2015 Input-Output Tables).

10. British FDI in Spain and Spanish FDI in the UK: a mutual affair

The aggregate stock of British and Spanish investment reached €120 billion in 2020, which is equivalent to 3.4% of both countries' GDP. In both countries the sectors that attract overseas investments generate a lot of value and knock-on effects for other sectors of their economies.

The close bilateral relationship between the two countries is evident in an analysis of British FDI in Spain and its corollary, i.e., Spanish FDI in Britain.

As of 2020, the stock of investment by British firms in Spain stood at €62 billion (using the ultimate investing country criterion), whereas the stock of Spanish corporate investment in the UK that same year amounted to €60 billion. Figures that sum to over €120 billion, which is 3.4% of the two countries' GDP.

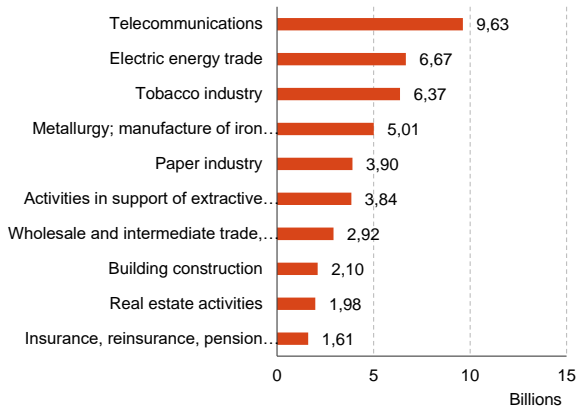
Analysing the sectors in which that stock of British and Spanish money is invested reveals two aspects worth highlighting. British investment in Spain is spread across multiple sectors (75% of the current stock encompasses at least the top-10 sectors ranked by investment volumes), whereas Spanish investment in the UK is more homogeneous, concentrated in fewer sectors (with just three accounting for 75% of the total stock). Secondly, the investments by both countries generate significant value-added and knock-on effects. The sectors of greatest appeal to British investors are the telecommunications, electricity supply, tobacco and metallurgy sectors, along with a good string of companies from the Spanish manufacturing sector. Spanish investors, on the other hand, are also drawn by the financial services, real estate activities and chemicals sectors.

That stock of FDI has been built up over years of accumulating FDI flows. Although those flows can be volatile, occasionally shaped by one-off transactions in a given sector or even involving one company in particular, FDI flows from the UK into Spain and vice versa have been remarkably stable over time, highlighting the long-term nature of both countries' investment commitments.

On aggregate, the bilateral flow of investments between the UK and Spain over the last 15 years has gone from €30 billion in 2007 to €5 billion in 2021 (a figure potentially affected by the major financial crisis of 2008 and, more recently, the uncertainty induced by the Covid-19 pandemic on both sides). In terms of the two countries' aggregate GDP, those flows have gone from accounting for 1% in 2007 to 0.2% in 2021. The trend in flows in the first half of 2022 points to reinforcement of this indicator of openness to foreign investment in both absolute terms and relative to GDP.

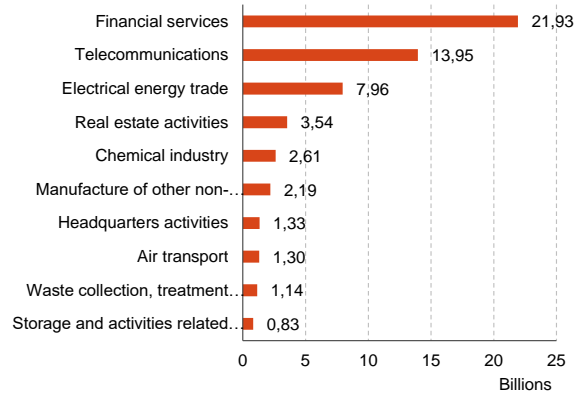
By sector, the aggregate of all flows of British FDI received by Spain highlights as recipients the same sectors identified above as attractive to British investors: telecommunications, electricity supply, the tobacco industry and metal-working. Those sectors are by far and away the biggest recipients of British investments on a cumulative basis. Spanish investment in the UK, on the other hand, is particularly concentrated in financial and telecommunications services, among the others flagged above.

Stock of British FDI in Spain by sector (2020)



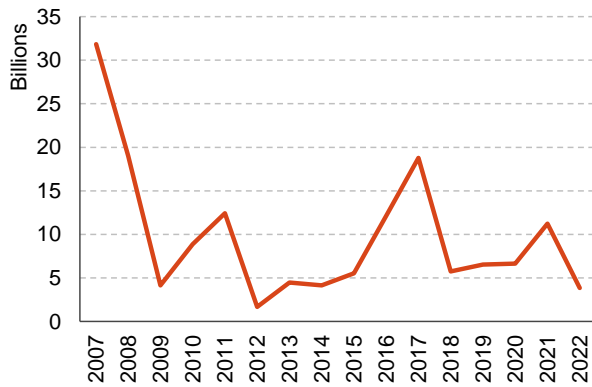
Source: Afi, Secretary of State for Commerce

Stock of Spanish FDI in the UK by sector (2020)



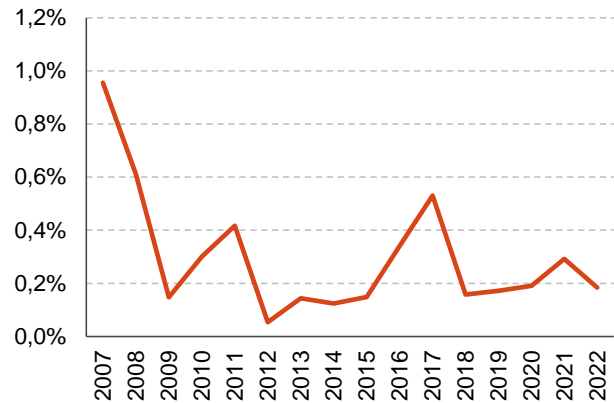
Source: Afi, Secretary of State for Commerce

Gross flows of British FDI into Spain and of Spanish FDI into the UK (excluding ETVEs)



Source: Afi, Secretary of State for Commerce

Degree of openness to foreign investment⁷



Source: Afi, Secretary of State for Commerce

⁷ The level of openness to investment between the two countries is measured as the percentage of the sum of FDI flows between the two countries (gross FDI flows from the UK into Spain plus gross FDI flows from Spain to the UK) as a percentage of the two countries' GDP.

11. British firms' assessment of the business climate in Spain

This section shows how the British firms with investments in Spain perceive the business climate in Spain.

The analysis provided in the following sections is based on the results of a survey carried out between August and October 2022 polling British companies with investments in Spain (refer to the annex for more about the methodology).

The British companies with investments in Spain reported an improvement in how they view the business climate in Spain by comparison with last year. Seventy-two per cent of respondents rated the economic and business environment as good or acceptable, up eight percentage points from 2021.

Despite that general improvement, inflationary pressures are evident in an impaired assessment of the quality of living and quality of supplies, two aspects that have traditionally emerged as perceived strengths of the Spanish business climate.

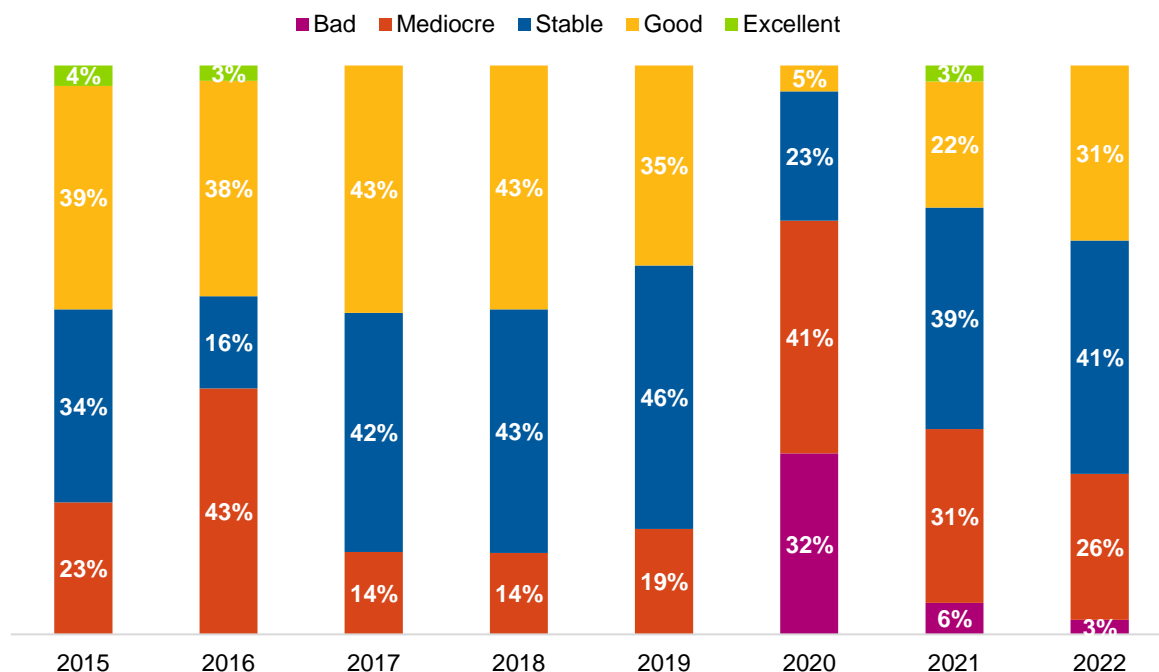
In general terms, the results of the 2022 Barometer extend the improvement in how the British firms perceive the economic situation and business climate in Spain in the wake of the Covid-19 pandemic. Indeed, the overall assessment of the participating firms has improved by eight percentage points.

Thirty-one per cent of the firms rate the business climate in Spain as excellent or good (+6 points from last year) and 41% view it as acceptable (+2 points). On the other hand, the percentage that views it as mediocre has decreased from 31% to 26% and that describing it as bad, from 6% to 3%.

Those figures evidence the British firms' confidence in the outlook for their businesses in Spain insofar as neither the inflationary pressures, value chain friction or conflict in Ukraine prevented an improvement in the overall assessment year-on-year. This situation, while positive, should not mask the fact that the respondents have yet to revisit their pre-pandemic optimism when 86% of the British firms rated the Spanish business climate as good or acceptable, 14 more points than today.

Aside from the overall assessment of the business climate, it is interesting to look at how the different aspects comprising the economic and business paradigm in Spain are individually perceived. In fact, despite the improvement in the overall assessment, the scores given to a significant number of attributes actually worsened between 2022 and 2021. What's more, the only aspects that improved by comparison with 2021 are perceived political risk and digitalisation levels. The political climate assessment improved by 0.2pp to 2.8 points out of 5, the highest reading since 2017. The score given to digitalisation rose by 0.1pp from 2021 to 3.2 out of 5.

Trend in the overall assessment of the business climate in Spain according to the British firms, 2015-2022 (% of responses)



Source: Afi, "2015 - 2022 Surveys of British inward investment into Spain"

The fact that the British firms perceive a reduction in political risk has not translated into an improved assessment of their relationship with the authorities, which has dropped by 0.3 points, making it one of the worst-rated aspects (with a score of 2.6 out of 5) of the business climate, with only public support for corporate investment in R&D ranking worse (at 2.5), having also deteriorated (by 0.1pp) year-on-year.

The British firms' perception of the quality of living in Spain has also deteriorated (from 4.3 to 4 points), as has their assessment of the quality of supplies (from 3.5 to 3.2). In all likelihood that trend is related with the impact of inflation (in energy, food, fuels, etc.) which is weighing so significantly on consumer spending and business costs. Despite those lower assessments, both attributes, quality of living and supplies, remain the top-rated aspects of the business climate in Spain in the eyes of the British investors, as has been the case since 2015.

Although the European Central Bank's decision to raise interest rates this year could affect the borrowing terms and conditions available to the British firms, their assessment of this attribute has, so far anyway, declined a scant 0.1pp year-on-year. Elsewhere, the limits imposed on temporary hiring arrangements as part of the labour reforms pushed through in 2021, coupled with growing scarcity of skilled labour in a number of sectors, may be behind the slight labour market deterioration perceived by the British firms (-0.1pp year-on-year).

Assessment of the business climate in Spain by attribute, 2015 - 2022

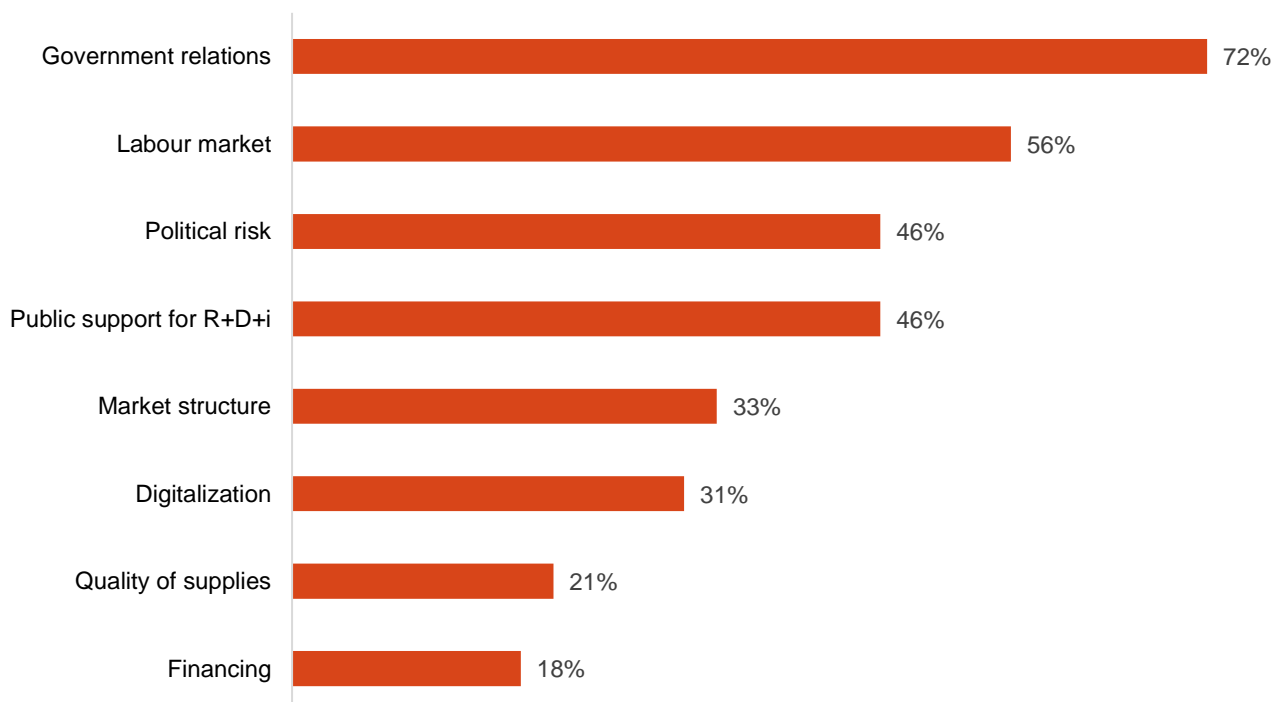
(score based on the % of responses on a scale of 1 to 5, where 1 is very bad and 5 is very good)

	2017	2018	2019	2020	2021	2022
Government relations	2,9	2,9	2,8	2,3	2,9	2,6
Political risk	2,9	2,6	2,5	2,0	2,6	2,8
Financing	3,1	3,5	3,4	3,0	3,3	3,2
Labour market	3,0	3,0	3,1	2,6	3,0	2,9
Market structure	3,0	3,3	3,0	2,7	3,1	3,1
Digitalization	3,2	3,2	3,3	3,0	3,1	3,2
Quality of supplies	3,2	3,4	3,4	3,3	3,5	3,2
Quality of life	4,0	4,0	4,1	3,7	4,3	4,0
Public support for R+D+i	2,5	2,3	2,2	2,2	2,6	2,5

Source: Afi, "2017 - 2022 Surveys of British inward investment into Spain"

Nearly three-quarters of the British firms surveyed (72%) believe the government should make more of an effort to facilitate dealings with the authorities; 56% believe the firms should receive more support in labour matters; and 46% call for more public support for research, development and innovation work.

Areas in which the British firms want to see more government support in the current economic scenario (% of respondents)



Note: a given company may select more than one area.

Source: Afi, "2022 Survey of British inward investment into Spain"

12. British firms' outlook for business and investment in Spain

Having looked at how the British firms surveyed perceive the business climate in Spain, we now look at their appraisal of the country's overall macroeconomic environment and their near-term investment plans.

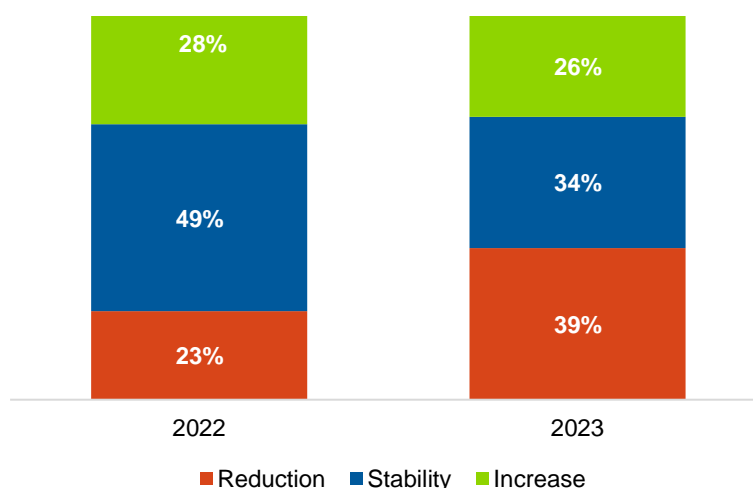
Although the British firms' outlook for the Spanish economy is positive, the percentage of respondents who expect the Spanish economy to deteriorate somewhat in 2023 has increased.

A little over half of the British companies surveyed (53%) plan to increase their investments in Spain next year, mainly for the purpose of expanding their business lines.

In addition, 85% of respondents reported plans to adopt environmental, social and governance (ESG) criteria, mainly via initiatives related with environmental sustainability and workplace diversity.

The results of the survey reveal a gloomier outlook for the Spanish economy, possibly shaped by the increase in gas prices since the end of 2021, exacerbated by the war in Ukraine since the beginning of 2022. Although 49% of the respondents said the economy was somewhat stable in 2022, 39% said they expected the economic climate to deteriorate in 2023. Despite those somewhat gloomier prospects, one out of four British companies remains optimistic about Spain's economic performance.

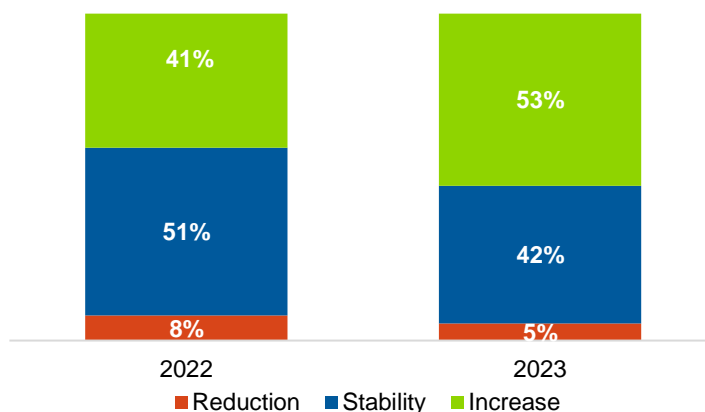
Outlook for Spain's economic performance year-on-year (% of firms surveyed)



Source: Afi, "2022 Survey of British inward investment into Spain"

A little over half of the British firms surveyed (53%) plan to increase their investments in Spain in 2023 and just 5% expect to reduce their investment presence. That paints a brighter investment picture for 2023 than for 2022, when 8% of the respondents expect to pare back their investments, with a lower 41% planning new investments.

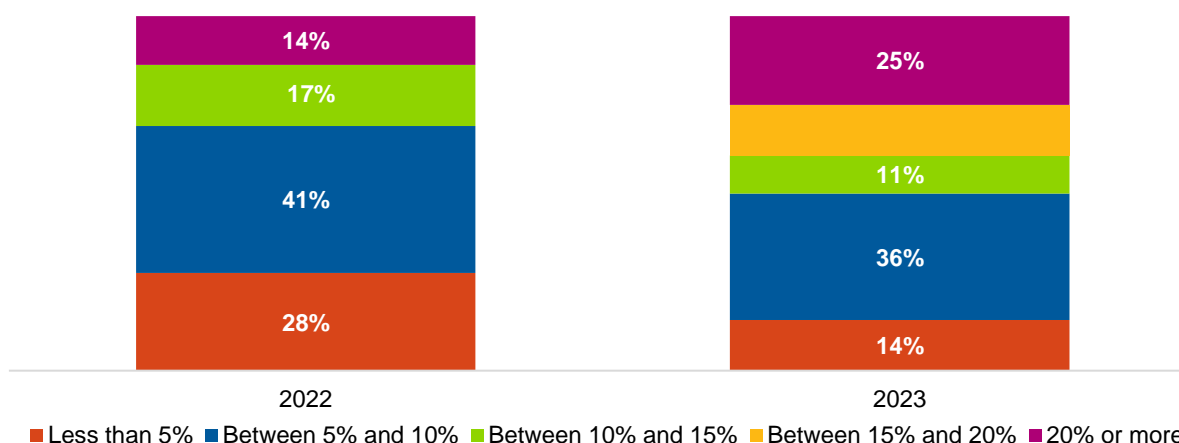
British firms' investment intentions in Spain in 2022 and 2023 year-on-year (% of respondents)



Source: Afi, "2022 Survey of British inward investment into Spain"

Moreover, of the firms planning to increase their investments in Spain in 2023, one in four expects to do so by more than 20% (with just 14% planning investments of a similar magnitude in 2022). In contrast, the percentage of firms planning to increase their investments by less than 5% year-on-year is half as low in 2023 than in 2022 (14% vs. 28%).

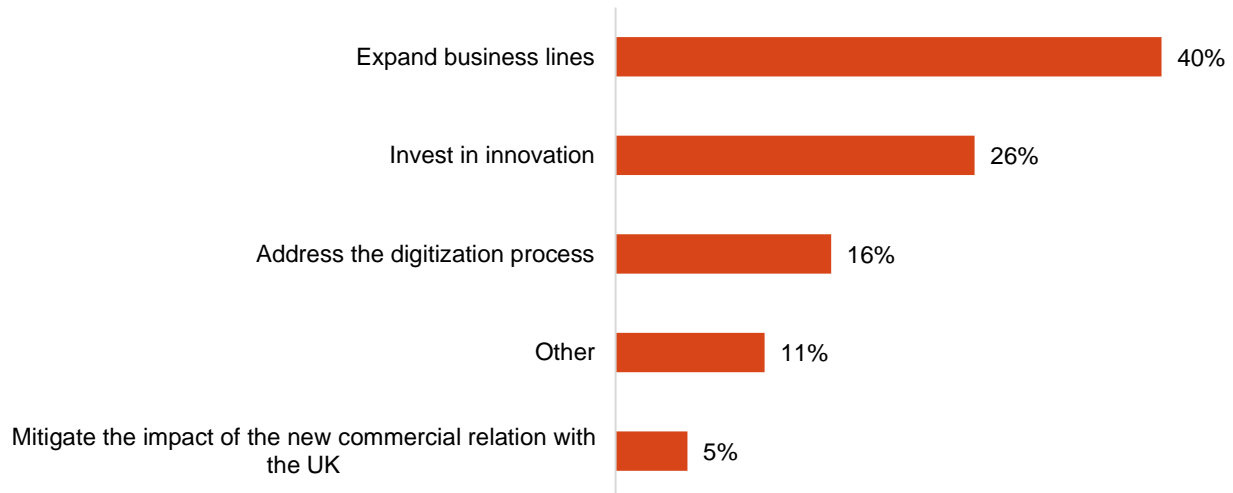
Magnitude of the planned increase in British firms' investments in Spain (among the firms planning to increase their investments in 2023)



Source: Afi, "2022 Survey of British inward investment into Spain"

Sixty-one per cent of the British firms who say they are planning to increase their investments in Spain in 2023 are looking to broaden their business lines; 42% want to invest in innovation; and 25% are planning to tackle digitalisation processes.

Purpose of additional British firms’ investments in Spain (among the firms planning to increase their investments in 2023)

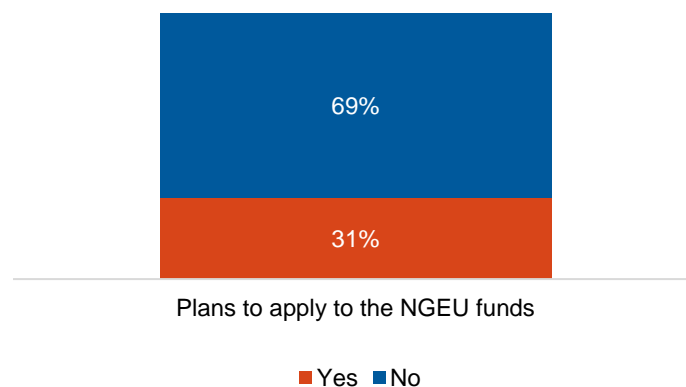


Note: a given company may select more than one purpose.

Source: Afi, “2022 Survey of British inward investment into Spain”

The Next Generation EU (NGEU) funds imply a considerable opportunity for the business community, not only in terms of recovering from the impact of the Covid-19 pandemic but also reinforcing their competitive positioning. Spain could receive over €160 billion (€77.23 billion in the form of grants) under the NGEU funds between 2021 and 2026. However, just 31% of the respondents expect to present tenders for NGEU funding. That percentage is similar to that reported for last year’s Barometer (37%).

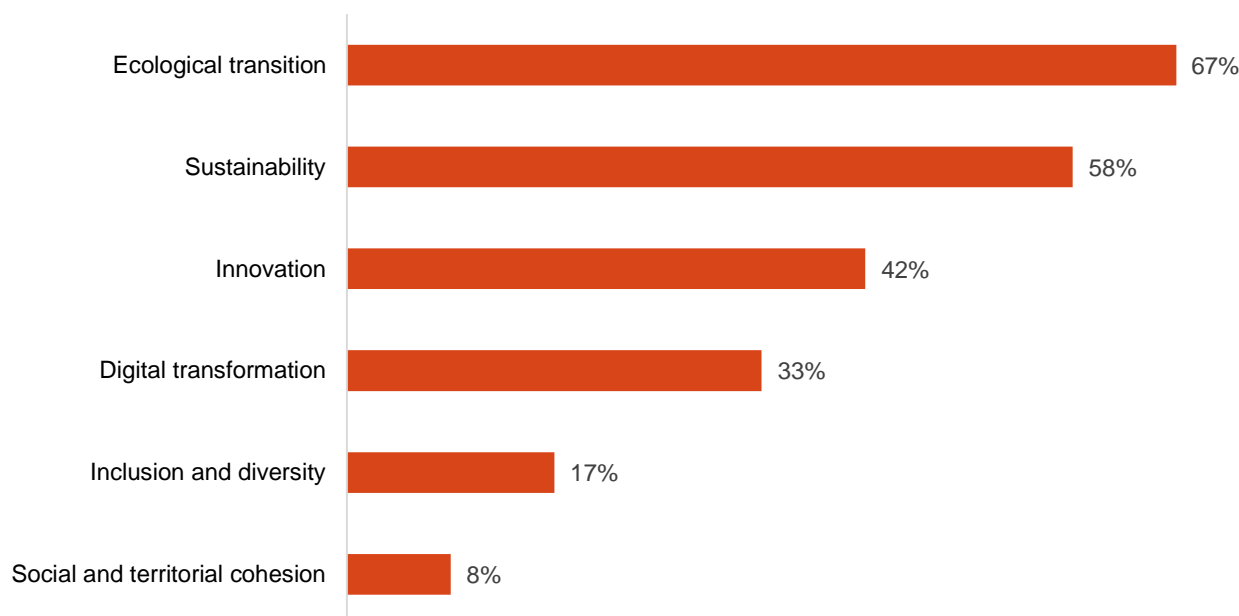
Intentions regarding participation in the tenders for applying for NGEU funds in Spain (% of respondents)



Source: Afi, “2022 Survey of British inward investment into Spain”

Among the firms that do plan to apply for NGEU funds in 2023, 67% will pursue energy transition related projects and 58% will tender for projects related with sustainability and the circular economy. In addition, 42% are hoping to fund initiatives related with R&D work and 33%, projects related with digitalisation.

Targeted areas of investment for projects availing of NGEU funds (among the firms planning to tender for fund adjudication)

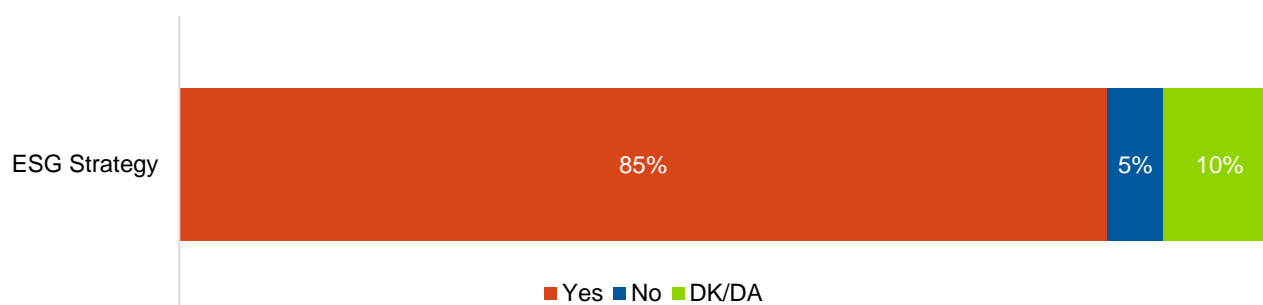


Note: a given company may select more than one area.

Source: Afi, "2022 Survey of British inward investment into Spain"

Elsewhere, sustainability policies are emerging as an increasingly important component of the firms' strategies and operations. Specifically, the large majority (85%) of British firms participating in the survey reaffirmed their commitment to embracing environmental, social and corporate governance (ESG) policies.

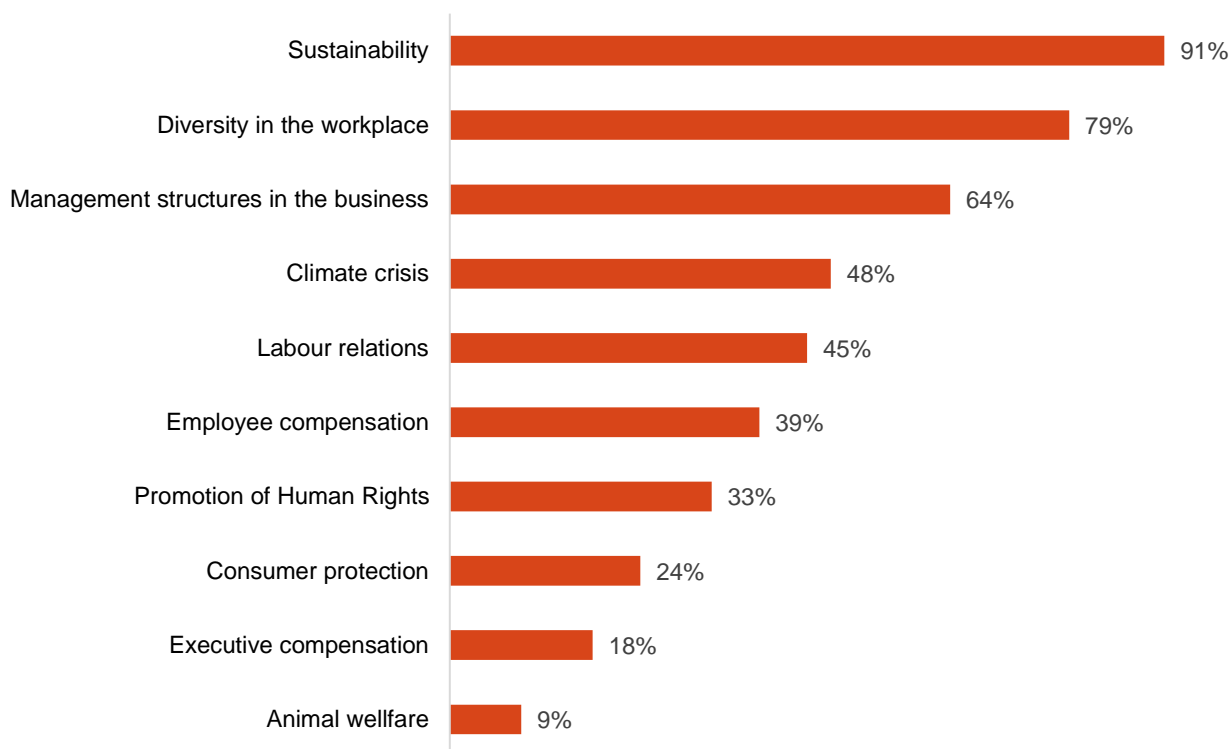
Plans to adopt ESG criteria and policies at the firm (% of firms surveyed)



Source: Afi, "2022 Survey of British inward investment into Spain"

Nearly all the firms planning to adopt ESG criteria are looking to introduce environmental sustainability measures (91% of those firms) and/or workplace diversity initiatives (79%). In turn, two out of every three firms (64%) expect to change their management structures in order to adapt them for the new ESG criteria.

ESG policies the British firms are working on (among the firms planning to adopt ESG criteria)



Note: a given company may select more than one policy.
 Source: Afi, "2022 Survey of British inward investment into Spain"

13. Assessment of the impact of Brexit

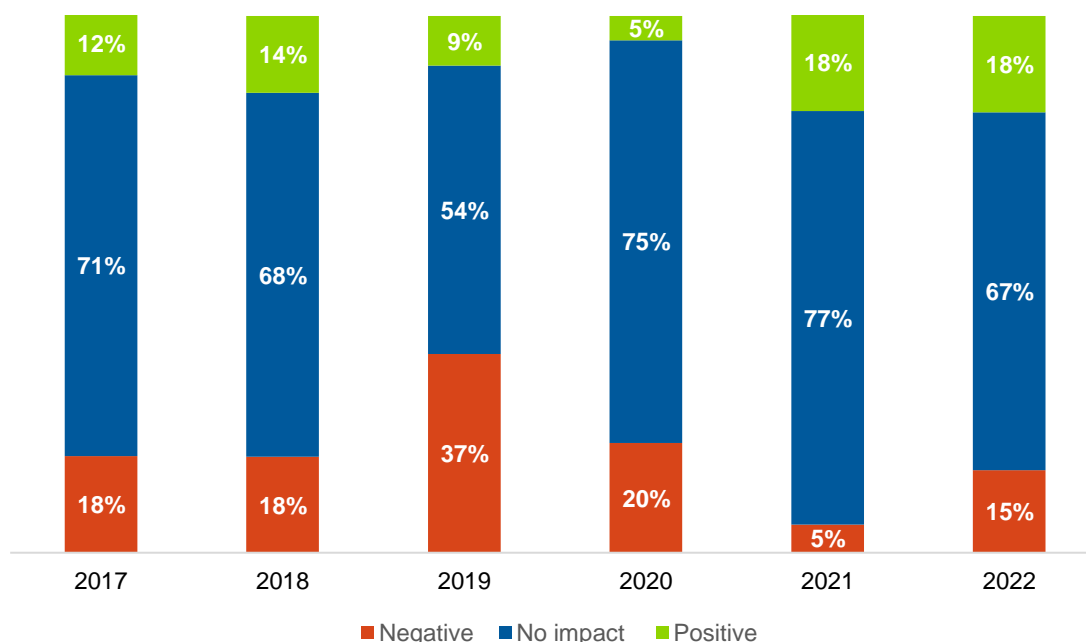
Nearly three years on from Britain’s withdrawal from the EU and with the Trade and Cooperation Agreement (TCA) in effect for two years now, the fallout from Brexit continues to affect a number of areas of economic and political life. Against that backdrop, below is a snapshot of how the British firms surveyed feel Brexit has impacted their investment decisions in the Spanish market.

Two out of every three British firms said they had not modified their investment strategies in Spain in the wake of Brexit, in line with the snapshot provided by previous editions of the Barometer.

However, the main sources of friction encountered since the Trade and Cooperation Agreement took effect relate to individual mobility and customs red tape, according to half of the firms polled.

The results of the 2022 Barometer survey show that the percentage of British firms polled that believe that Brexit has had a negative impact on their operations in Spain (15%) has increased from last year (5%), albeit remaining below the 2017-2022 average (19%). The increase in negative responses came at the cost of those reporting that Brexit has not impacted their operations (which has gone from 77% to 67%), which nevertheless remain in the clear majority, while the percentage who believe Brexit has had a positive impact on their investments is unchanged.

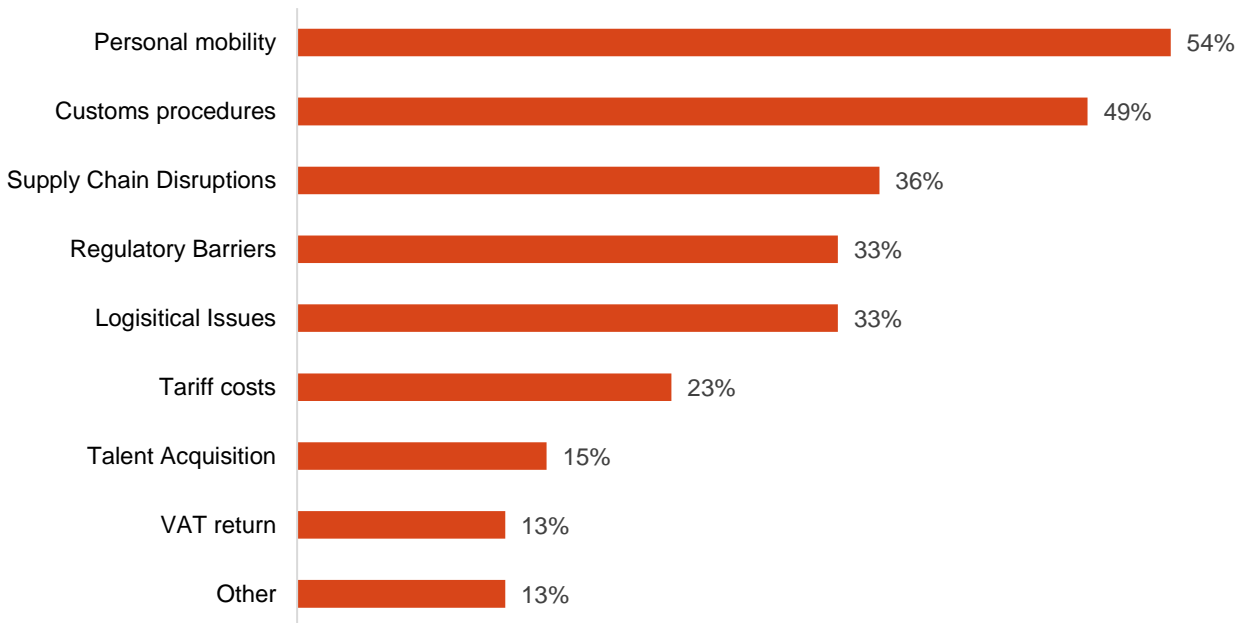
Impact of Brexit on the investments of the British firms located in Spain (% of responses)



Source: Afi, “2017 - 2022 Surveys of British inward investment into Spain”

The British firms surveyed also shared their views of which aspects have been most affected since the Trade and Cooperation Agreement took effect. The biggest sources of friction identified are personal mobility (with 54% of the respondents flagging this as an issue) and customs red tape (49%). By comparison with last year’s Barometer, the mobility issue remains the source of Brexit-induced friction flagged by the highest number of companies, while the percentage identifying customs bureaucracy as the issue affected the most by Britain’s withdrawal from the EU has doubled.

Perceived impact of the TCA between the EU and UK (% of firms surveyed)



Note: a given company may select more than one aspect.
 Source: Afi, “2022 Survey of British inward investment into Spain”

14. Assessment of other aspects of the current economic climate

The sections above provide clear insight into the impact the current environment, marked by inflation and economic slowdown, has had on the British companies with investments in Spain. Despite that climate, 53% of the British firms surveyed plan to increase their investments in Spain in 2023. Nevertheless, their outlook for the Spanish economy has deteriorated somewhat. In this section we provide additional insight into how the British firms perceive the current economic climate.

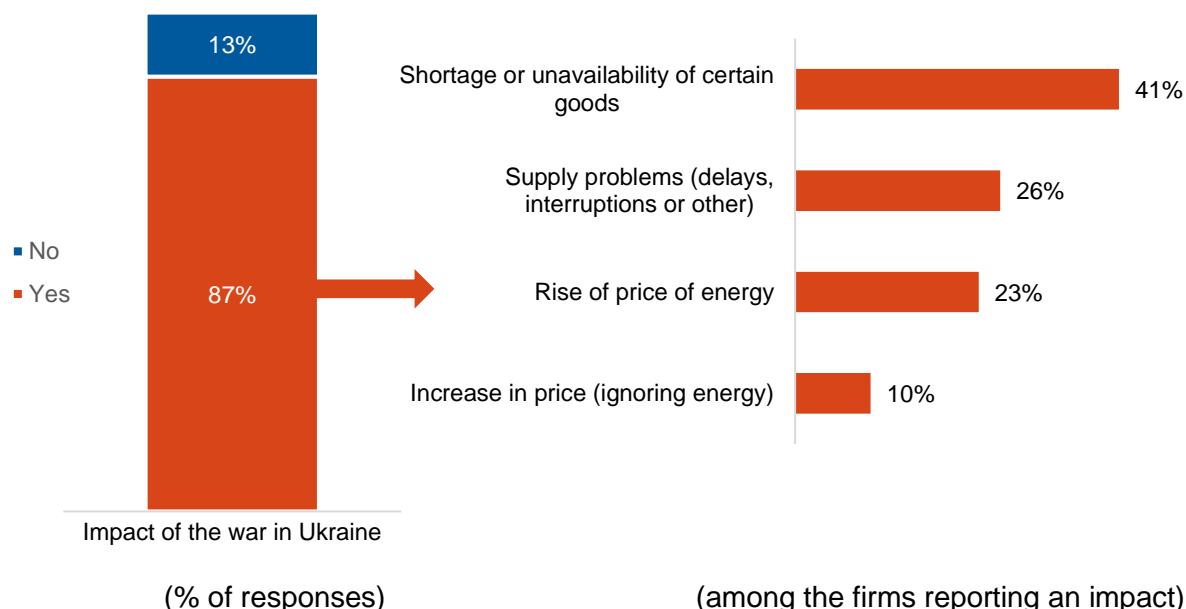
Eighty-seven per cent of the British firms with investments in Spain reported being affected by the war in Ukraine, mainly due to the surge in energy prices.

Fifty-nine per cent said they expected the increase in eurozone interest rates to hurt their business activities by weighing on consumption and sales, among other channels.

However, all of the firms surveyed said that Spain will remain a strategic market within their global operations.

The onset of war in Ukraine in February 2022 has disrupted the activity of most (87%) of the British firms invested in Spain. Among those affected, three out of five reported an impact via higher energy costs and half of them said they had been hurt by growth in the prices of other inputs. In addition, 44% said they had encountered supply issues on account of the war in the form of order delays or supply chain interruptions.

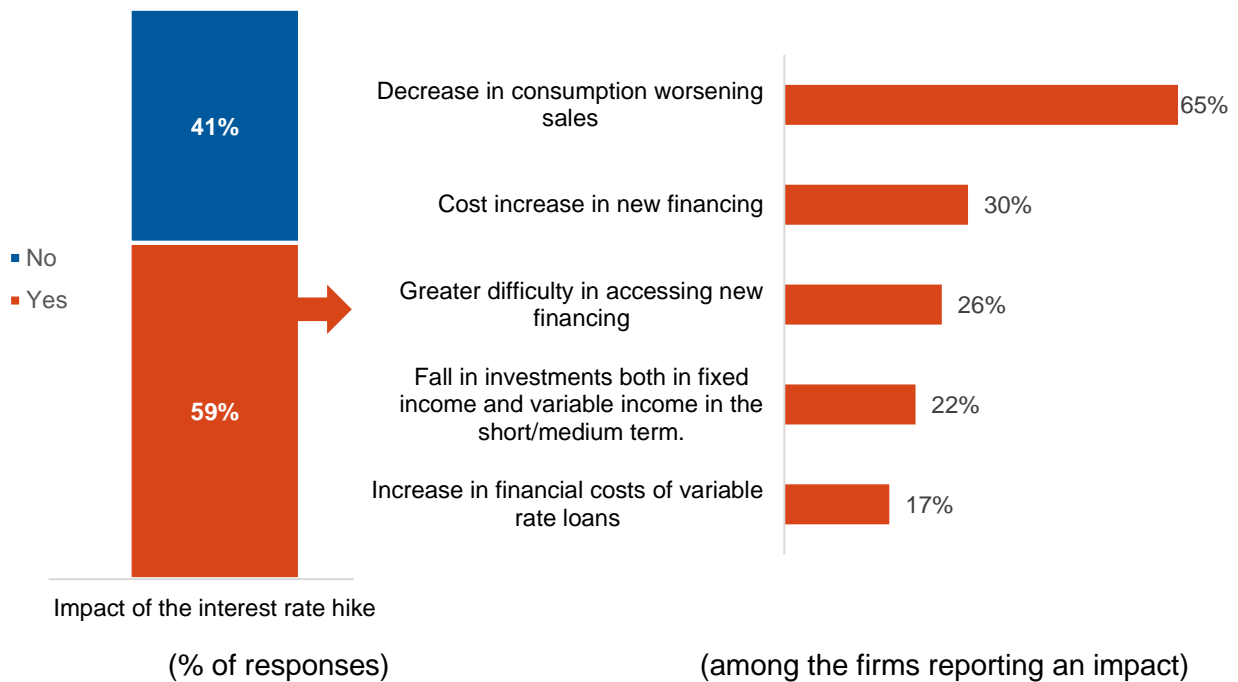
Impact of the war in Ukraine on the British companies with operations in Spain



Source: Afi, "2022 Survey of British inward investment into Spain"

In an effort to tame inflation in the eurozone, the European Central Bank (ECB) has been raising its benchmark rates since the summer of 2022 (to 2% as of the end of October, their highest level since 2009). That monetary policy measure is adversely affecting 59% of the British firms surveyed (although official rates in the UK were a higher 2.25% at the end of October). Of the firms who report being affected by the rate hikes, 65% believe the monetary policy shift will affect consumption and, by extension, their sales. In addition, 30% anticipate higher borrowing costs on new transactions and 26% believe they will find it harder to secure new financing.

Impact of the ECB interest rate increases



Source: Afi, "2022 Survey of British inward investment into Spain"

Overall, despite the foreseeable deterioration of the economic situation, **all of the British firms that participated in this year's edition of the Barometer expect Spain to remain a strategic market within their global operations.**

Appendix: methodology and characteristics of the company sample

A total of 39 British firms with a presence in the Spanish market participated in this, the eighth edition of the *Barometer on climate and outlook for British investment in Spain*.

This edition of the Barometer on climate and outlook for British investment in Spain

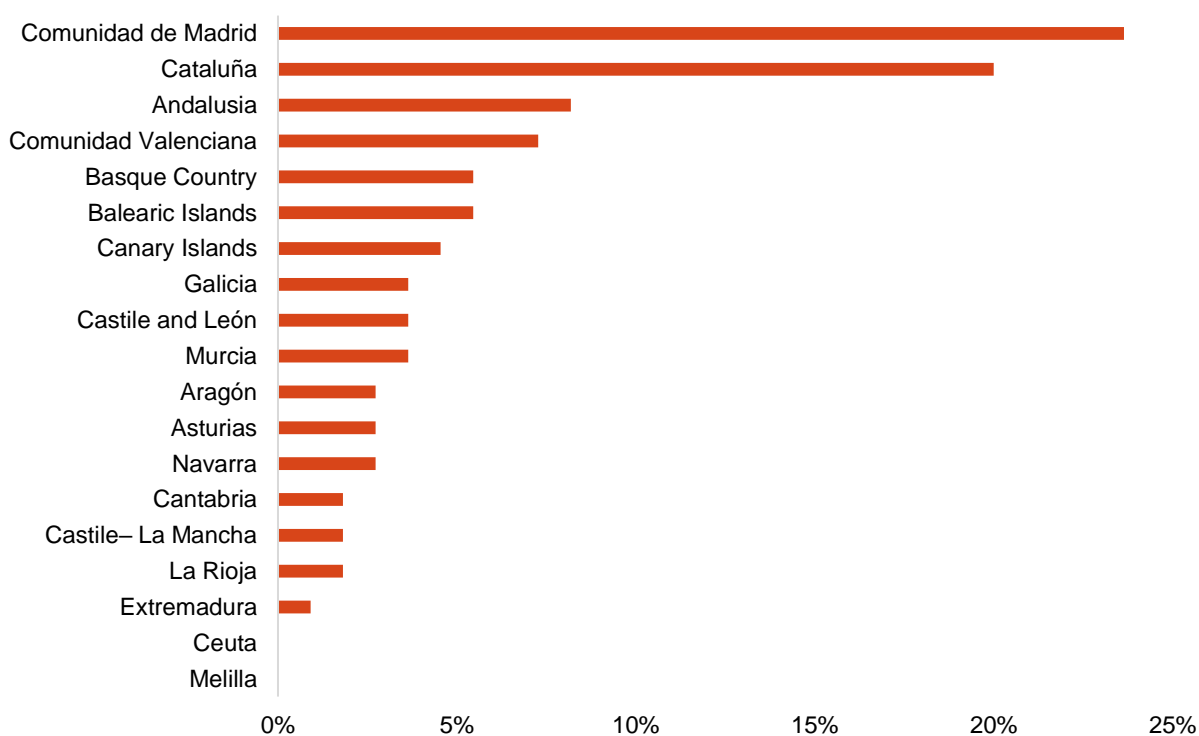
relays the feedback provided by British firms, collected by means of an online survey distributed by the British Chamber of Commerce in Spain between August and October 2022. Thirty-nine British firms with direct investments in Spain participated in the survey.

The structure of this year’s Barometer is similar to that of last year, articulated around the firms’ assessment of the business climate in Spain and their investment expectations. However, this year’s edition does address a couple of new aspects, including the impact of the war in Ukraine and the new interest rate scenario and the companies’ plans to embrace environmental, social and governance (ESG) policies.

To ensure the participating firms constituted a representative sample with respect to the target population, we relied on the information registered with the Companies House (specifically the SABI database) and data provided by the British Chamber of Commerce in order to delineate the number of firms established in Spain whose parent resides in the UK. It was estimated that 2,285 firms met that condition. Therefore, the sample of 39 participating firms paves the way for conclusions with a confidence level of 90% and a margin of error of around 13%.

The regional and sector breakdowns of the 39 firms surveyed is heterogeneous, as shown in the following charts.

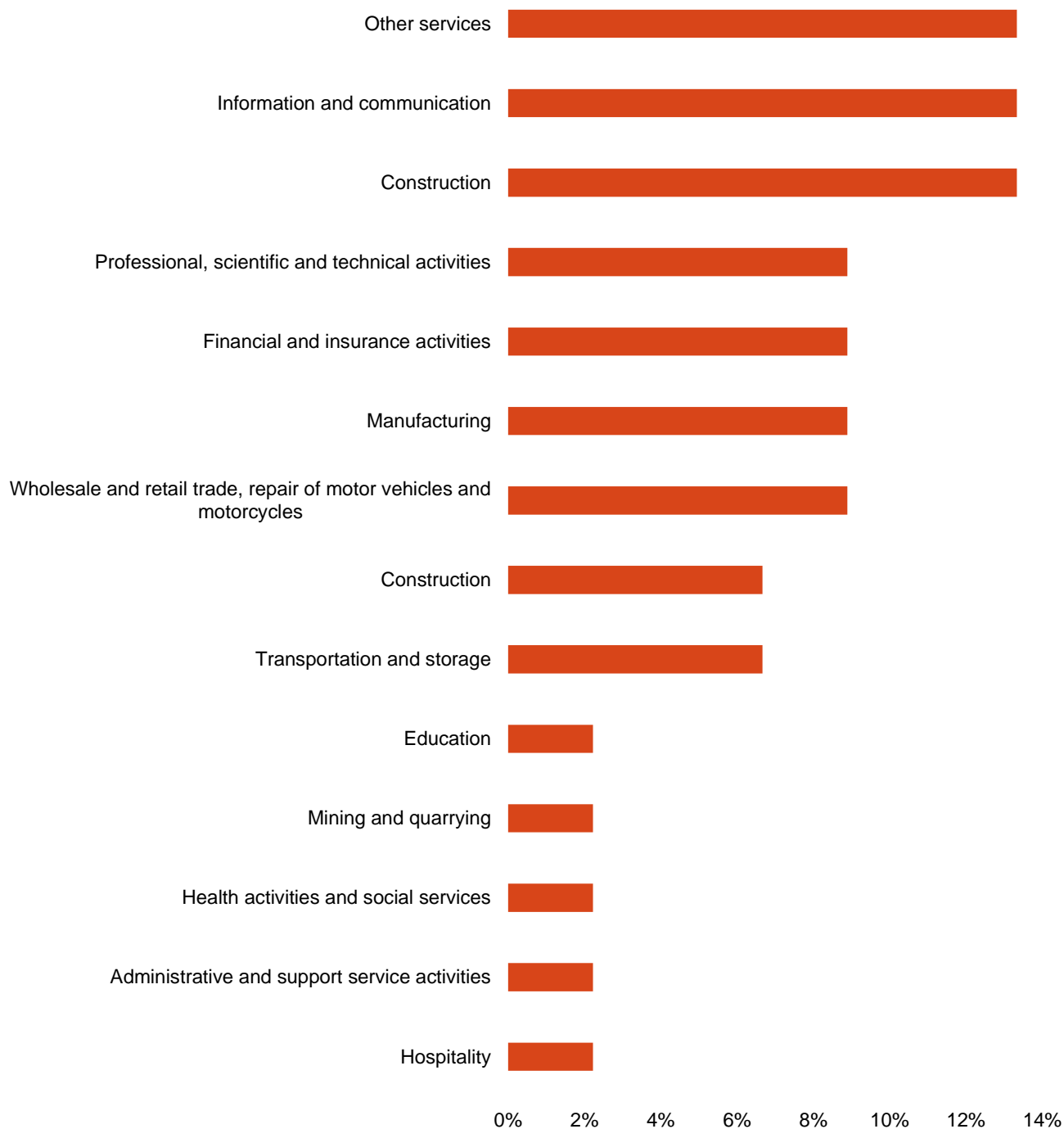
British firms surveyed by region (% of responses), 2022



Note: a given company may do business in more than one region.

Source: Afi, “2022 Survey of British inward investment into Spain”

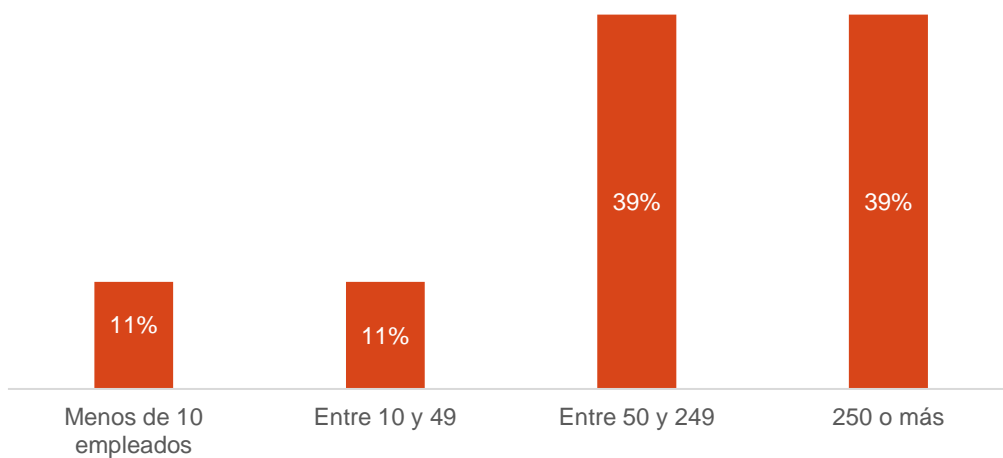
British firms surveyed by business sector (% of responses), 2022



Note: a given company may do business in more than one sector.

Source: Afi, "2022 Survey of British inward investment into Spain"

British firms surveyed by size (% of responses), 2022



Source: Afi, "2022 Survey of British inward investment into Spain"

