

# BAROMETER ON CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

November 2018



British Chamber  
of Commerce in Spain



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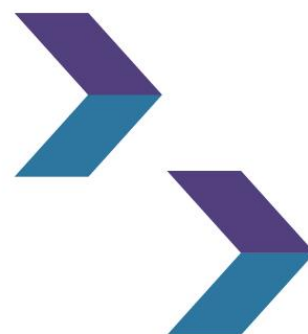


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## British investment in Spain

### Barometer on climate and outlook

### October 2018

#### British investment in Spain: the highlights

##### **Stock of investment**

1. The UK remains the second-biggest foreign investor in Spain (and the largest at the European level). In 2016, the stock of British FDI in Spain extended the upward trend initiated in 2013.
2. The stock of British FDI in Spain is concentrated in the telecommunications and tobacco sectors, in head office activities and in management consultancies.

##### **Investment flows**

3. The UK accounts for the largest cumulative 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).
4. In net terms, the Spanish financial sector remains highly attractive to British investors, as do the real estate and telecommunications sectors.
5. Flows of FDI from Britain into Spain have continued to increase in the wake of the Brexit referendum, highlighting the UK's commitment to investing in Spain. For British companies, Spain is perceived as an attractive place to do business from which they can serve the broader European market, as well as connecting with markets in Latin America and North Africa.
6. As for political risk in Spain, flows of FDI into Catalonia have been trending lower since early 2017, in contrast with the trend observed in the region of Madrid. Nevertheless, flows of British FDI into Catalonia have recovered slightly in the last year (particularly in the construction sector) to levels that are above their long-run average.

##### **Investments by type**

7. The flow of British FDI into Spain considered 'productive', i.e., not articulated through foreign security holding company (hereinafter an "ETVE" for its acronym in Spanish) has been constant and high in recent years. However, investments channelled via ETVEs also sustained an increase in 2017.
8. The majority of British FDI originates from the UK itself (i.e., it is the ultimate investor) such that the UK does not tend to serve as a platform for third-country investments in Spain.

##### **Regional breakdown**

9. Since the start of the economic recovery (2013), British FDI has been concentrated in Madrid (capital city effect), the Basque region, Catalonia and Valencia.

**10.** Inflows of British FDI per capita have been particularly high in Madrid, the Basque region and Navarre between 2013 and 1H18 (having rebounded sharply in the latter region in the past year).

**11.** British FDI in Spain, using 2016 stock data, provides work for 187,423 people, 1% of total employment.

*This update contains FDI stock data to 2016 and flow data until 2Q18 (latest figures available).*

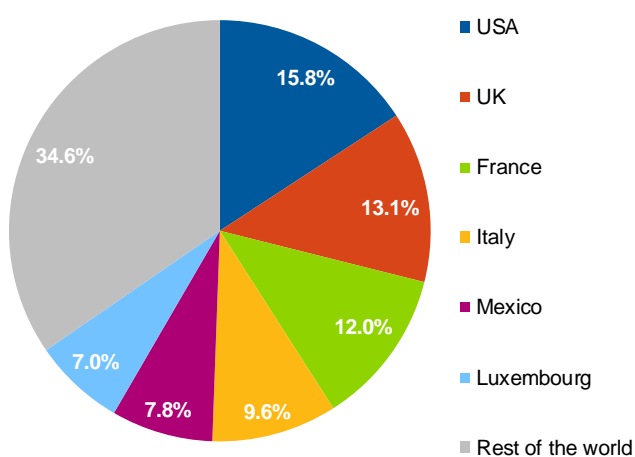
## Total FDI stock by country

**The UK is the second-largest investor in Spain. In 2016, the stock of British FDI in Spain extended the upward trend initiated in 2013.**

The UK represented over 13% of the Spanish economy's total stock of FDI as of 2016 (€49.81 billion using ultimate investor country, or "UIC" criteria). **That marks growth of €6.35 billion from 2015, such that the UK remains Spain's second most important foreign investor.**

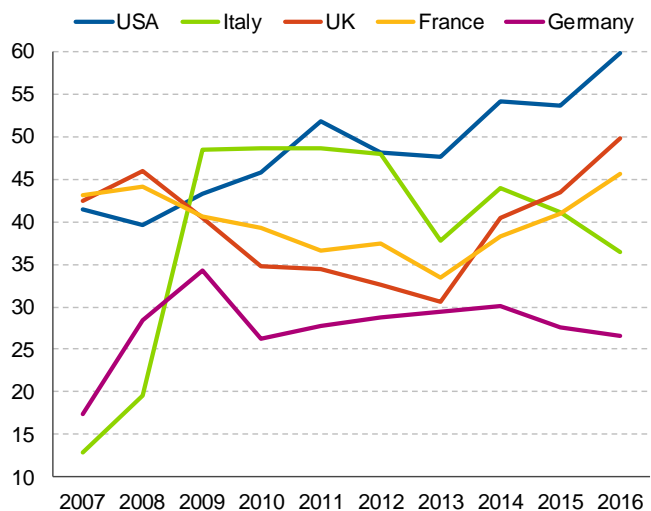
That growth evidences the UK's commitment to investing in Spain. The stock of British FDI in Spain stands at an all-time high (since the start of the series in 2007) and above the level attained prior to the financial crisis (the stock of British FDI stood at €46 billion in 2008, over €3 billion below the 2016 figure).

**Stock of FDI in Spain by country as of 2016**  
(percentage breakdown)



Source: Afi, Secretary of State for Commerce

**Stock of FDI by country over time**  
(€ billion, UIC criteria)



Source: Afi, Secretary of State for Commerce

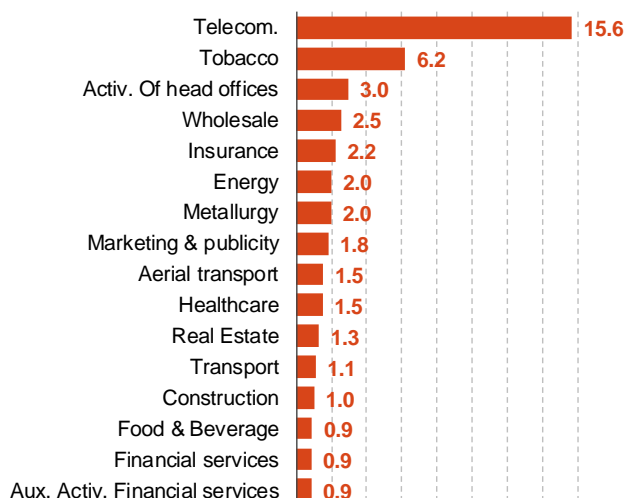
## Outstanding FDI stock by sector

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

The stock of British FDI in Spain is concentrated primarily in the telecommunications (€15.63 billion), tobacco (€6.2 billion) and head office and auxiliary services (€2.95 billion) sectors.

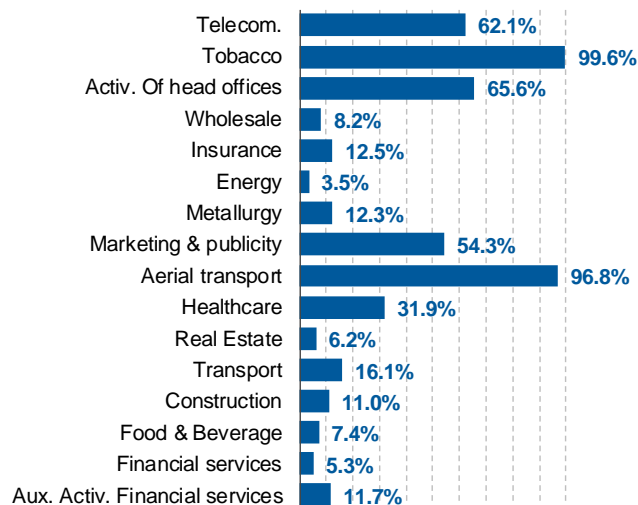
Relative to the overall stock of FDI in Spain, the UK is heavily invested in the tobacco (99.6% of total FDI in the sector) and in the airline industries (97.5%).

**Stock of British FDI by sector**  
(€ million), 2016



Source: Afi, Secretary of State for Commerce

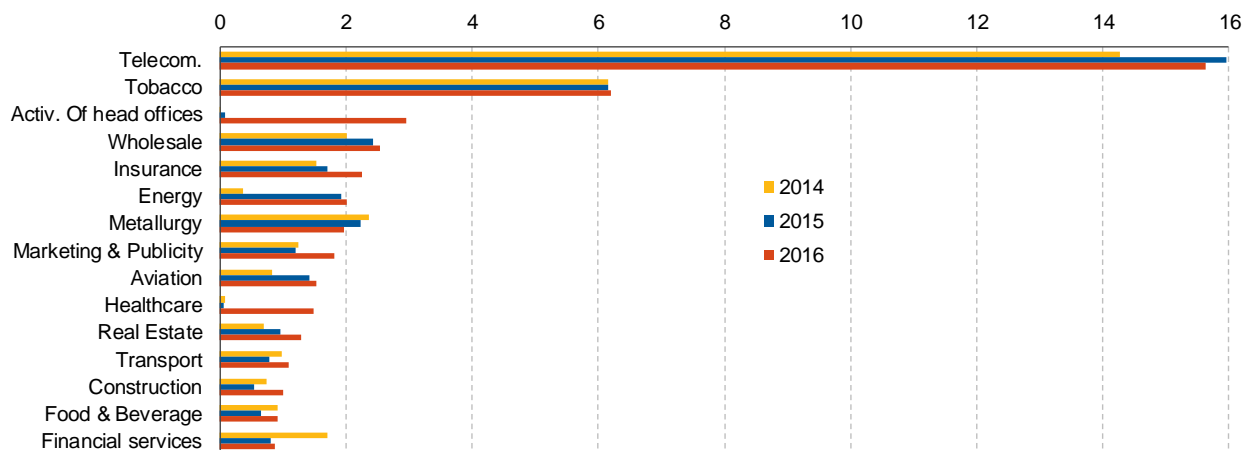
**British FDI as a percentage**  
**of total FDI per sector, 2016**



Source: Afi, Secretary of State for Commerce

**British investment is particularly committed to the telecommunications and tobacco industries, where the stock of FDI has barely changed in the last three years.** It is also worth highlighting the increase in investment in head offices and management consultancies, which has jumped from a scant €12 million in 2014 to nearly €3 billion in 2016. Lastly, the growth in investment in the health sector stands out: here, British FDI has increased from €54 million in 2015 to €1.5 billion in 2016.

**Stock of FDI in Spain by sector, 2014, 2015 y 2016**  
(UIC criteria, ETVs excluded, € billion)



Source: Afi, Secretary of State for Commerce

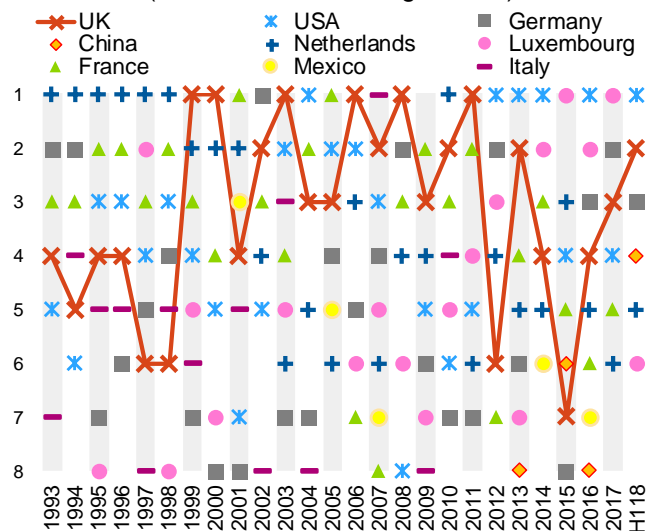
## Cumulative flows to 1H18

**The UK accounts for the largest cumulative 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).**

In cumulative terms, throughout the period for which the figures are available (1993-1H18), the **UK has invested over €71.2 billion in Spain** (gross investment using UIC criteria and excluding ETVEs), practically 18% of all FDI inflows into Spain during that timeframe. In the four quarters elapsing since the last barometer was published (i.e., 3Q17, 4Q17, 1Q18 and 2Q18), nearly €3.9 billion of British FDI has flowed into Spain.

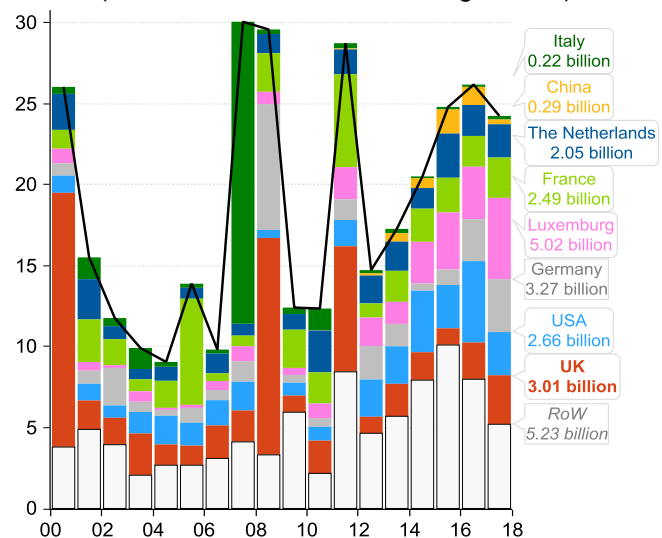
**The UK has consistently ranked among the top-seven investors since 1993 (in gross terms) and as the top-ranked investor during six of the last 24 years (1999, 2000, 2003, 2006, 2008 and 2011).** The volume of FDI flows from the UK has gone from being the sixth largest source for Spain in 2015 to the second so far this year (1H18).

**Ranking of FDI inflows into Spain  
by country to 1H18**  
(UIC criteria, excluding ETVEs)



Source: Afi, Secretary of State for Commerce

**Gross flows of FDI into Spain  
by country to 2017**  
(€ billion, UIC criteria, excluding ETVEs)

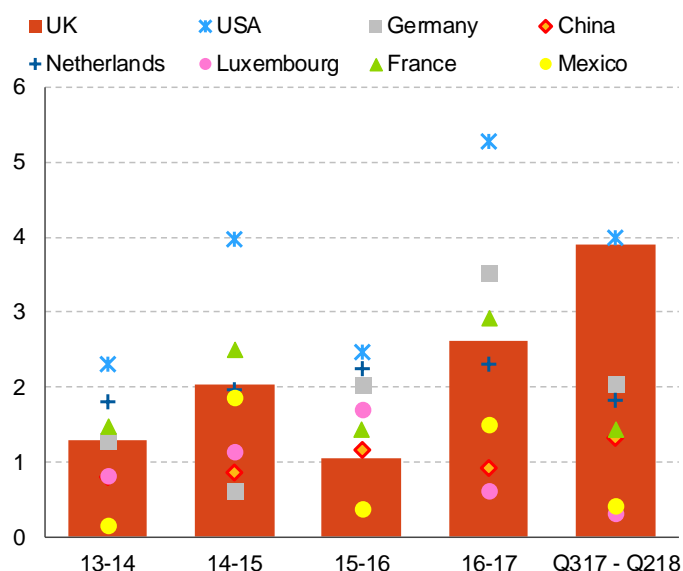


Source: Afi, Secretary of State for Commerce

An aspect of this investment commitment worth highlighting is the resilience demonstrated in response to the various sources of political risk to have emerged in recent times. In the two years since the Brexit referendum, the flow of investment from Britain to Spain has remained at normal levels. Moreover, 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.

### Net British FDI in Spain

(UIC criteria, ETVEs excluded, € billion, rolling sum for last 4 quarters)

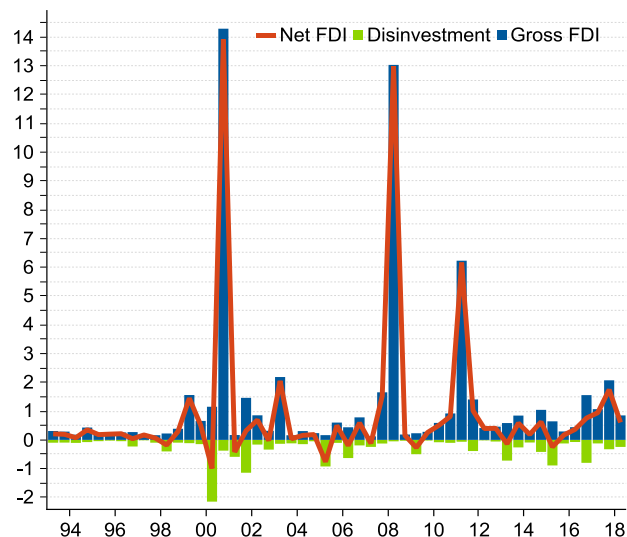


Source: Afi, Secretary of State for Commerce

Net British FDI has been in positive territory since 2005. Moreover, **the difference in flows using ultimate versus immediate investor criteria is, generally speaking, over the historical series, very small**, which means that the source of the investments is the UK itself and that the latter is not being used as a pass-through platform. **Only twice (in 2001 and 2005) have British disposals exceeded gross investments.** Inflows of British FDI into Spain spiked in 2000, 2008 and 2011 on the back of one-off transactions in the telecommunications (2000), wholesale (2008) and airline and financial services industries (2011). In those years, the UK accounted for 60%, 45% and 31% of all gross FDI in Spain, respectively.

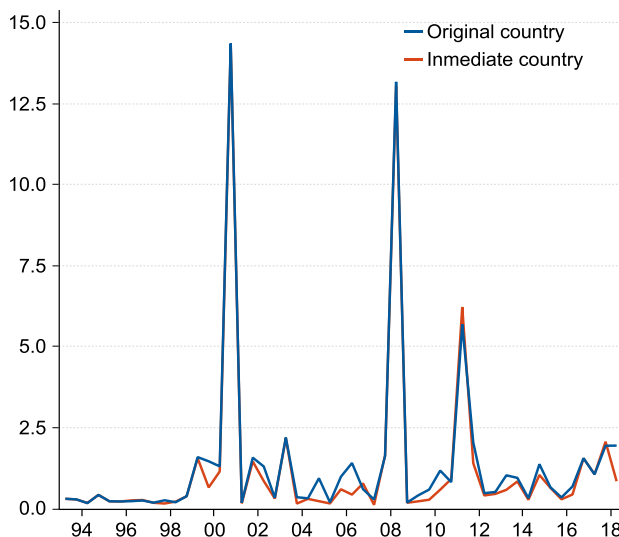
### Net British FDI in Spain

(immediate investor country - IIC - criteria, € billion, rolling sum for last 4 quarters)



Source: Afi, Secretary of State for Commerce

### Gross British FDI, IIC vs. UIC criteria (€ billion, rolling sum for last two quarters)



Source: Afi, Secretary of State for Commerce



## FDI flows in 1H18

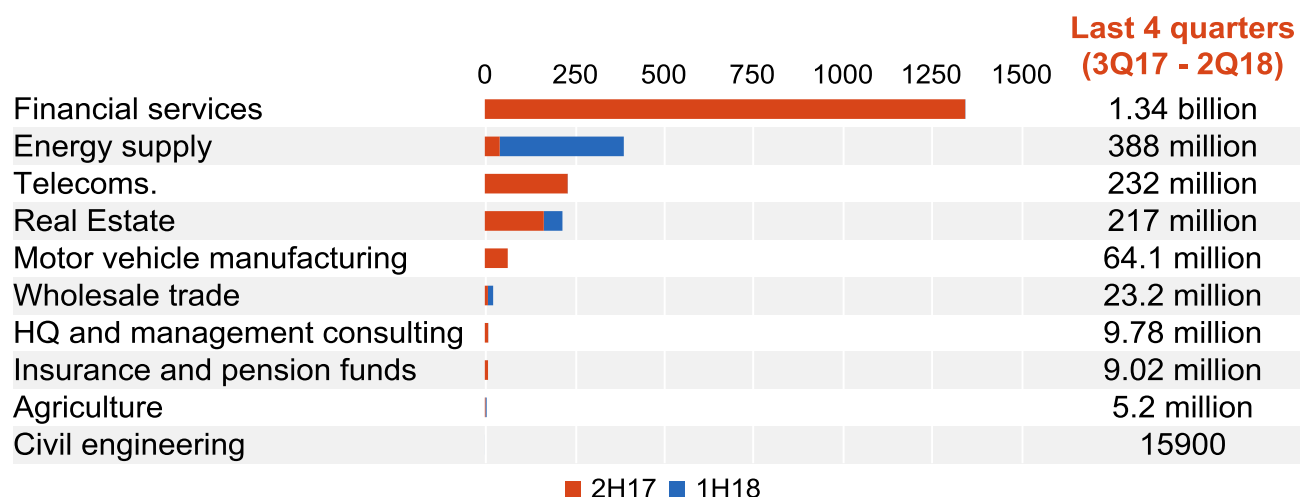
**In net terms, the Spanish financial sector remains highly attractive to British investors, as do the real estate and telecommunications sectors.**

Turning to the recipients of net investment in the first half of 2018, the attractiveness of the Spanish financial sector to British investors remains evident, despite the inflows and outflows of capital in recent years. It is also worth highlighting the significant inflow of British FDI into the real estate sector, in part due to the recovery underway in this sector, coupled with the **development of SOCIMIs**, real estate investment vehicles similar to a REIT.

**The sectors that have historically garnered the bulk of British FDI (such as the telecommunications, insurance and wholesale industries) received roughly the same inflows as in prior six-month periods.** Another sector that has received a sizeable sum of British investment in recent quarters is civil engineering.

**Top 10 sector recipients of net British investment flows in the last four quarters (3Q17-2Q18) by six-month periods**

(€, IIC criteria, ETVEs excluded)



Source: Afi, Secretary of State for Commerce

## Inflows by sector

**The investment flowing into Spain from Britain has remained well diversified sector-wise throughout the years of recovery (2013-1H18), although the draw exerted by the Spanish financial sector over British investors since the Brexit referendum stands out.**

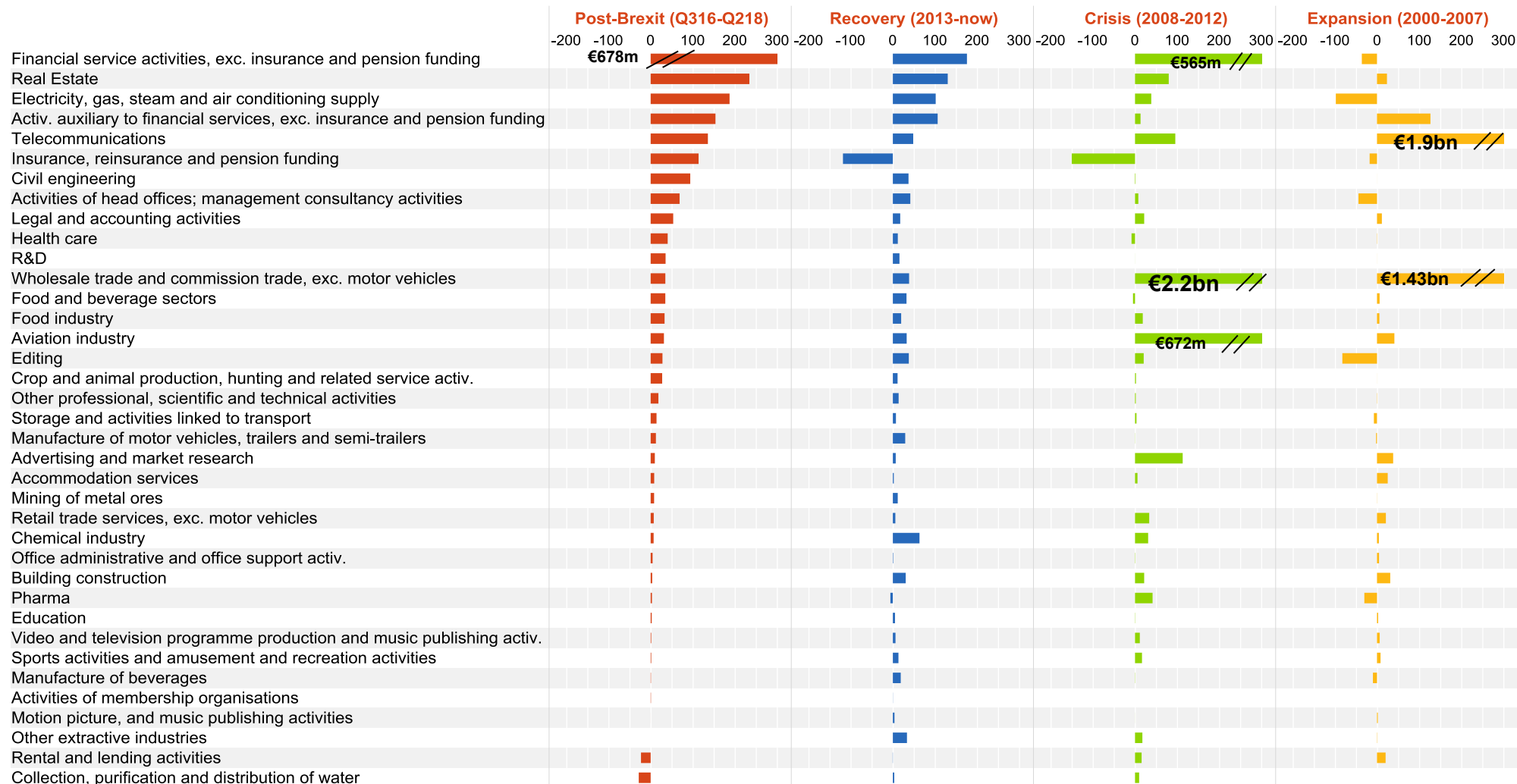
Breaking down the last few years (since the start of the century) as a function of the economic cycle, the inflows of British FDI follow clear-cut patterns:

- **Growth (pre-crisis: 2000 - 2007):** major investment in telecommunications combined with reduced exposure to the energy and financial sectors.
- **Economic crisis (2008 - 2012):** sharp increase in investment in retailing and strong investment in the financial sector (other than the insurance segment).
- **Recovery (2013 - present):** diversification by sector coupled with reduced exposure to the financial sector (especially the insurance segment).
- **Post-Brexit (3Q16-2Q18):** continued diversification sector-wise with notable investment in the financial sector.

## Average annual net inflows of British FDI by economic cycle period since the turn of the century

(€ billion, IIC criteria, ETVEs excluded)

■ Post-Brexit ■ Recovery ■ Crisis ■ Expansionary phase



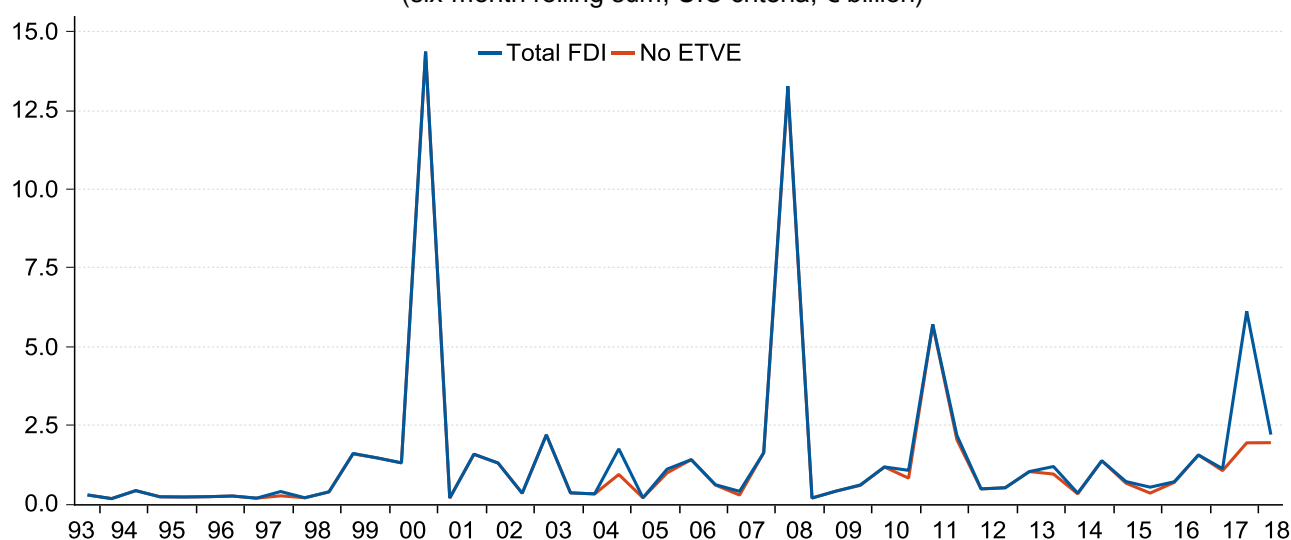
Source: Afi, Secretary of State for Commerce

## Investment via foreign security holding companies or ETVEs

**British FDI in Spain mainly takes the form of productive investment, i.e., investments that are not articulated through foreign security holding companies, or ETVEs for their acronym in Spanish, despite the uptick in ETVE-channelled investments in 2017.**

Since 1993, the percentage of British FDI in Spain channelled via ETVEs is equivalent to 8.7% of the total. The volume articulated via these vehicles rose sharply in 2017 (topping €4 billion that year, compared to an annual average of €260 million). Relative to the overall stock, non-productive British FDI represented a scant 0.24% of all British FDI as of 2016.

### Flows of gross British FDI into Spain broken down by productive versus ETVE investments (six-month rolling sum, UIC criteria, € billion)



Source: Afi, Secretary of State for Commerce

## Flows by Spanish region

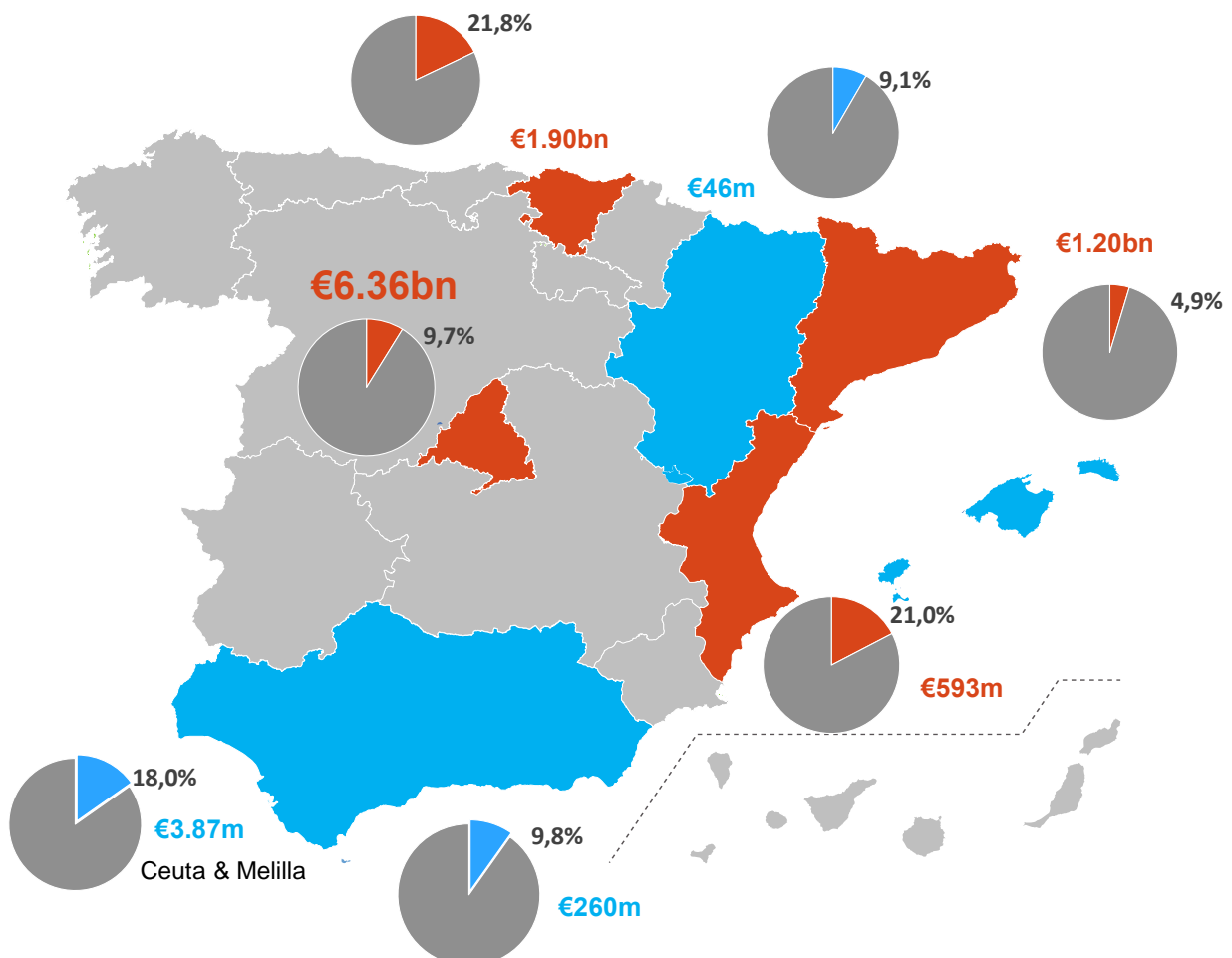
**Throughout the economic recovery, British FDI has been concentrated in Madrid, Catalonia, the Basque region and Valencia.**

As with the FDI received from the rest of the world, inward FDI from the UK is concentrated in the Madrid, Basque and Catalan regions. In recent years the growth in investment in the region of Valencia stands out: British FDI peaked at 30% of all FDI received in that region (it has since trended back to 21% of the total).

In percentage-of-total terms, the weight of British investment is also noteworthy in the Balearics, where it accounts for over 15% of all FDI received in the region, and, particularly, the Basque region, where it accounts for over 20% of all foreign investment received during the economic recovery.

Lastly, it is worth highlighting the increase of over €2 billion in British investment in Madrid in the last year to €6.3 billion, which is equivalent to 9.7% of all foreign investment in the region.

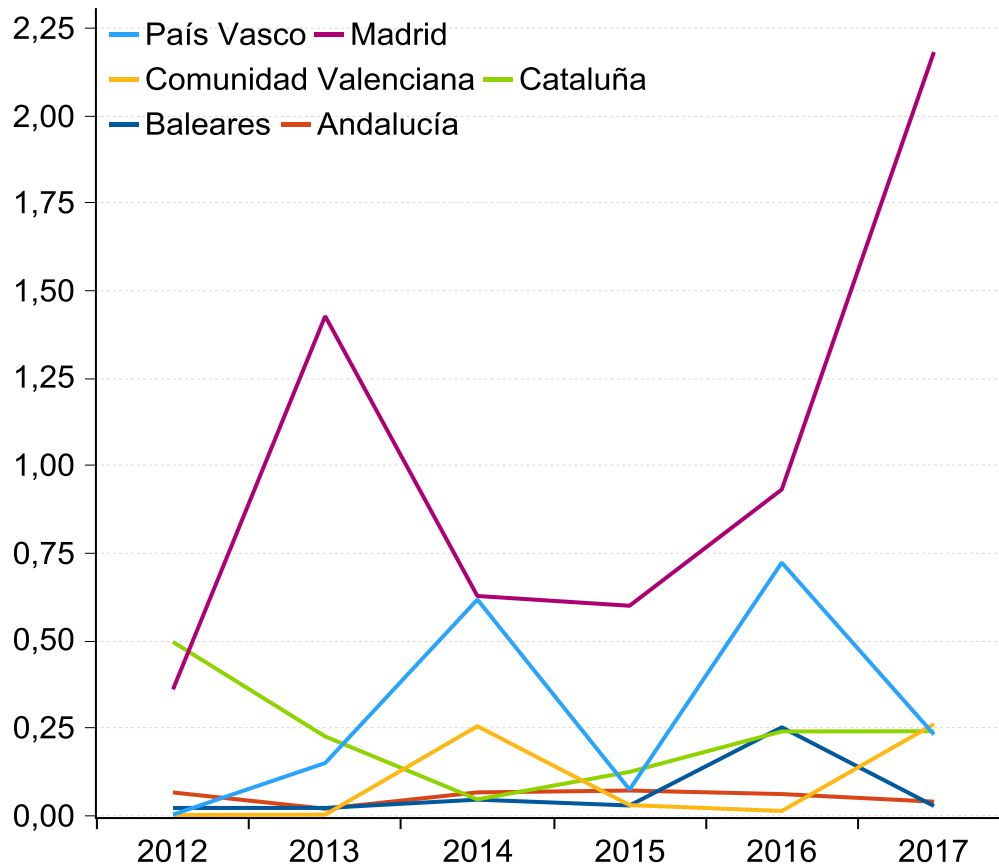
**Main recipients of British FDI during the economic recovery, (2013-1H18)**  
(Volume of gross inflows in millions of euros and corresponding percentage of total inflows)



Source: Afi, Secretary of State for Commerce

The region of **Madrid** remained the top recipient of British investment in the first half of 2018. It is also worth highlighting the growth in investment in the Basque region and, to a lesser degree, Catalonia, where the rebound has been concentrated primarily in the construction sector.

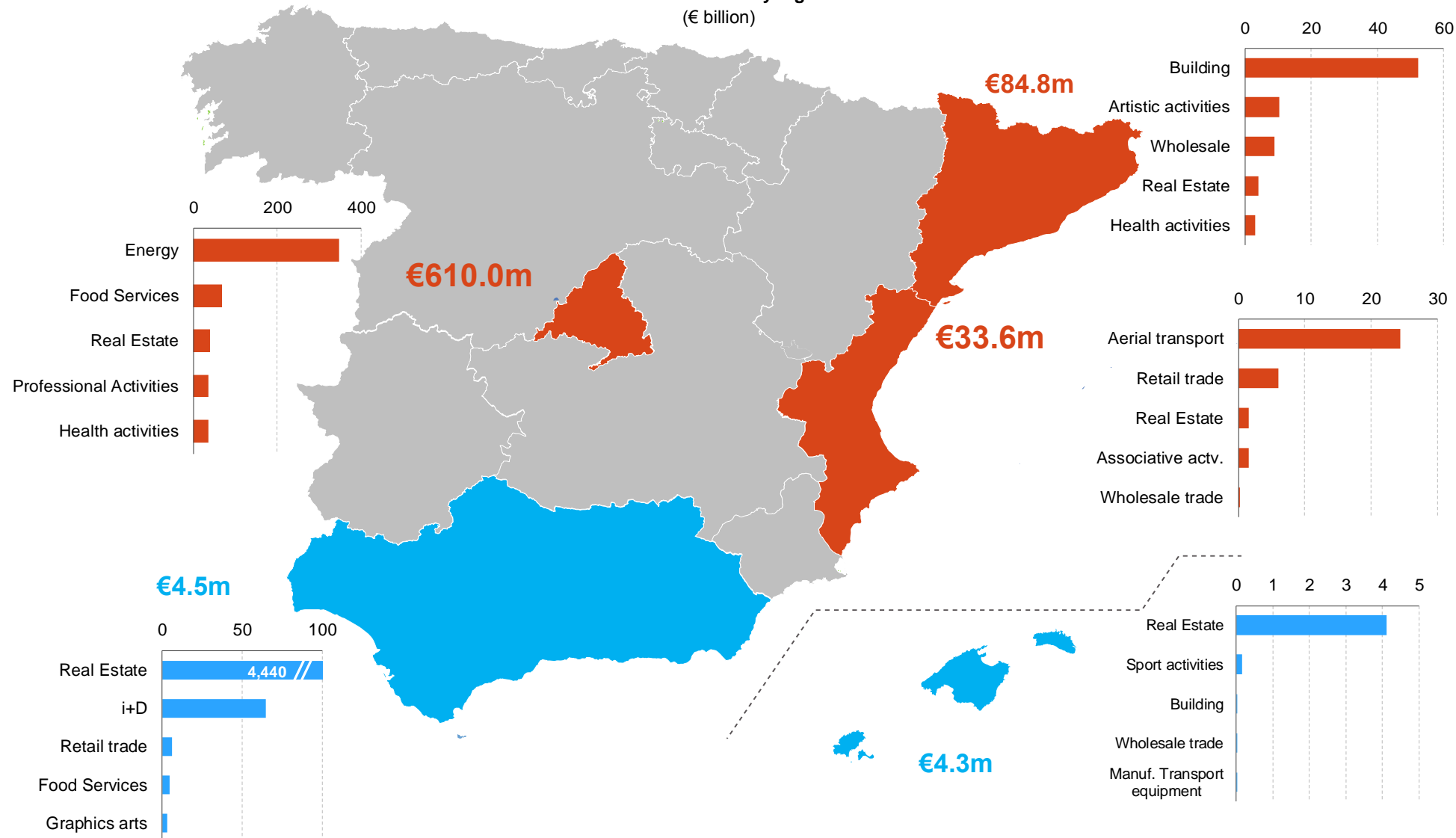
**Gross inflows of British FDI by Spanish region throughout the recovery**  
(UIC criteria, ETVEs excluded, € billion)



Source: Afi, Secretary of State for Commerce

Among the main sectors receiving British FDI by region in the first half of 2018, the **energy sector stands out in the case of Madrid**, having garnered over €300 million. Notable too is the volume of British FDI in the wholesale sector in Navarre (€130 million), the construction sector in Catalonia (> €50 million) and, to a lesser degree, air transportation in Valencia (~ €25 million).

**Flows of British FDI in 1H18 by region and sector**  
(€ billion)



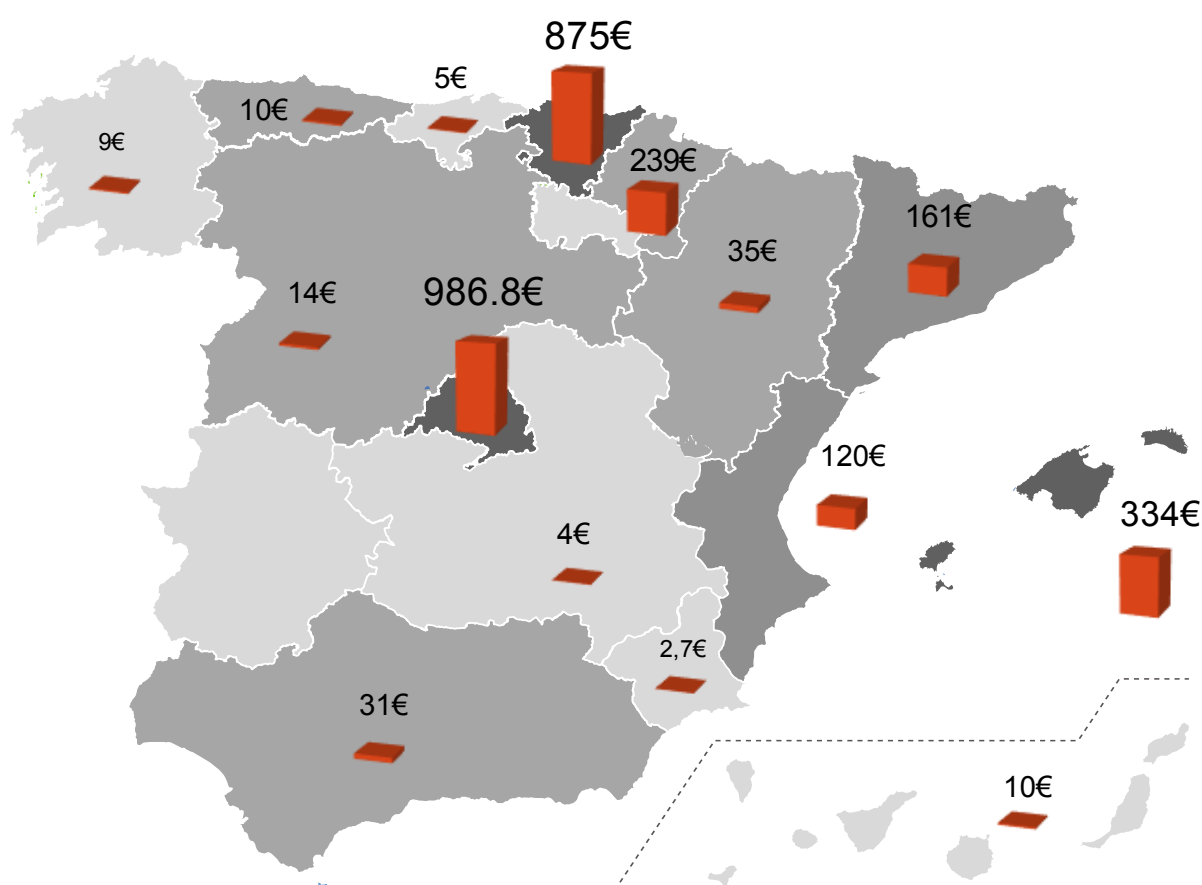
Source: Afi, Secretary of State for Commerce

**Flows of British FDI have been high in per capita terms in Madrid, the Basque region and the Balearics between 2013 and 1H18.**

Inflows of British FDI have been particularly strong in per capita terms between 2013 and 1H18 in the Madrid region (€986.8 per capita), revealing a degree of bias caused by the 'capital city effect'. The Basque figures also stands out: following the uptick in British investment in the last year, FDI per capita in that region stands at €875. Besides these two regions, inward British FDI per capita has also been healthy in the Balearics (€334) and Navarre (€239) during the years of recovery.

The increase of over €220 per capita in British FDI in Navarre follows a jump in investment of over €130 million.

**Cumulative gross flows of British FDI throughout the recovery, 2013-1H18**  
(€ per capita by region)

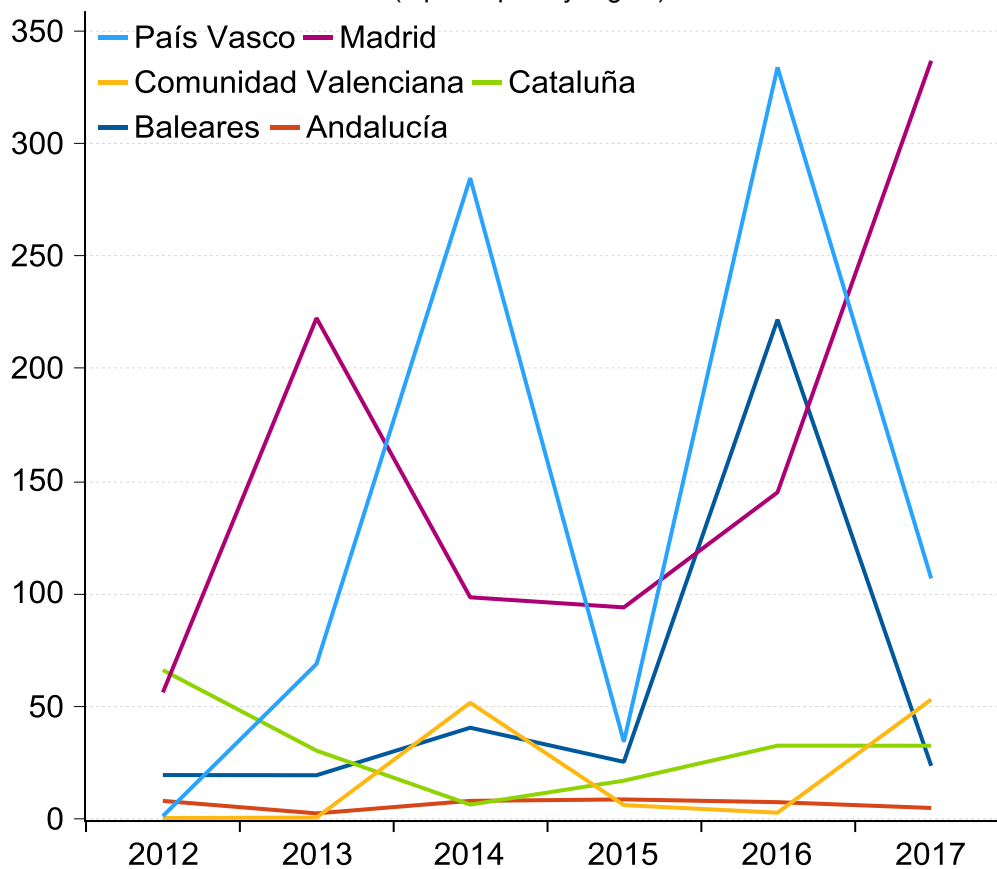


Source: Afi, Secretary of State for Commerce

It is worth flagging the upward trend in British FDI per capita in Madrid in recent years, as well as the sharp growth observed in the Basque region this year. These two regions have been experiencing population growth since the start of the crisis such that the increase in British FDI per capita is the result of growth in investment and not a decline in population.

As for Catalonia, British FDI per capita increased slightly during the last two quarters (having stood at €99.1 per capita for 2013-1H17 as of the date of publication of the last barometer). The trend in the remaining regions was one of stability.

**Gross flows of British FDI per capita during the economic recovery (2013-2017)**  
(€ per capita by region)



Source: Afi, Secretary of State for Commerce



## FDI and political risk in Spain

**As for political risk in Spain, flows of direct investment into Catalonia have been trending lower since 2017, in contrast with the trend observed in Madrid.**

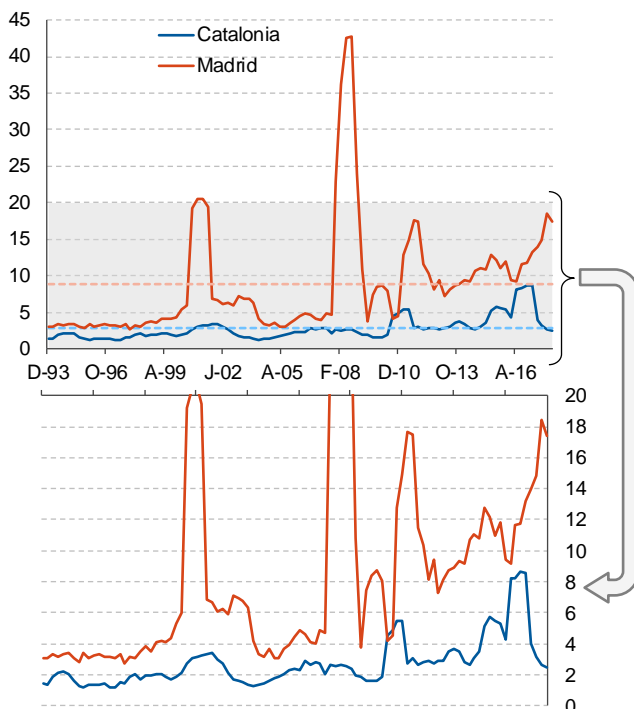
**Nevertheless, flows of British FDI into Catalonia have rebounded slightly in the last year (particularly in the construction sector) and are at levels that are above their long-run average: they sum to over €500 million from 3Q17 to 2Q18, compared to an annual average of €234 million.**

Political uncertainty in Catalonia would appear to have had an impact on inflows of FDI into the region: investment in Catalonia has been reverting towards the long-run average since 2017, in contrast to the trend in Madrid, where total FDI receipts have been increasing over the same timeframe. Nevertheless, it is well known that these flows are by nature volatile and it is hard to establish a direct cause-and-effect relationship between the downturn and the heightened political risk.

In contrast with this drop in overall flows of FDI into Catalonia, inflows from the UK have rebounded slightly since 2017, evidencing the British investment commitment to this region.

### Gross flows of FDI into Catalonia and Madrid from all over the world

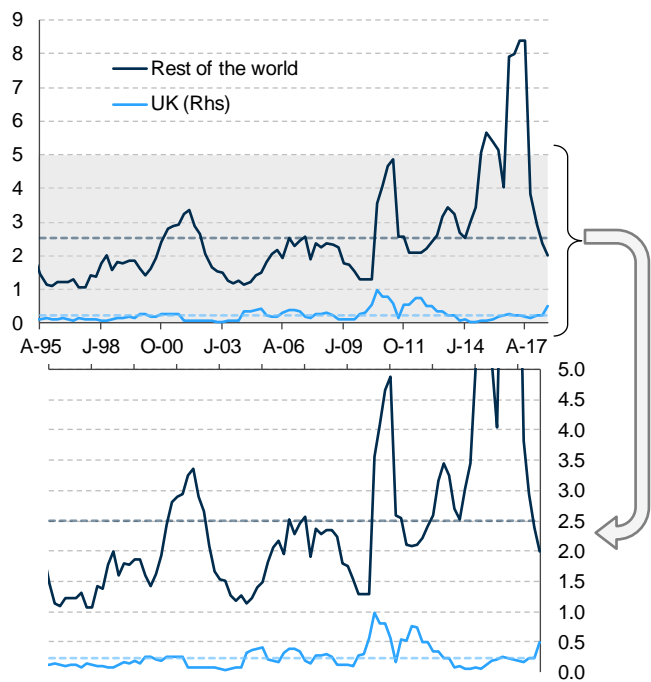
(rolling sum for trailing four quarters, UIC criteria, ETVEs excluded, quarterly, € billion)



Source: Afi, Secretary of State for Commerce

### Gross flows of FDI into Catalonia, British vs. RoW FDI

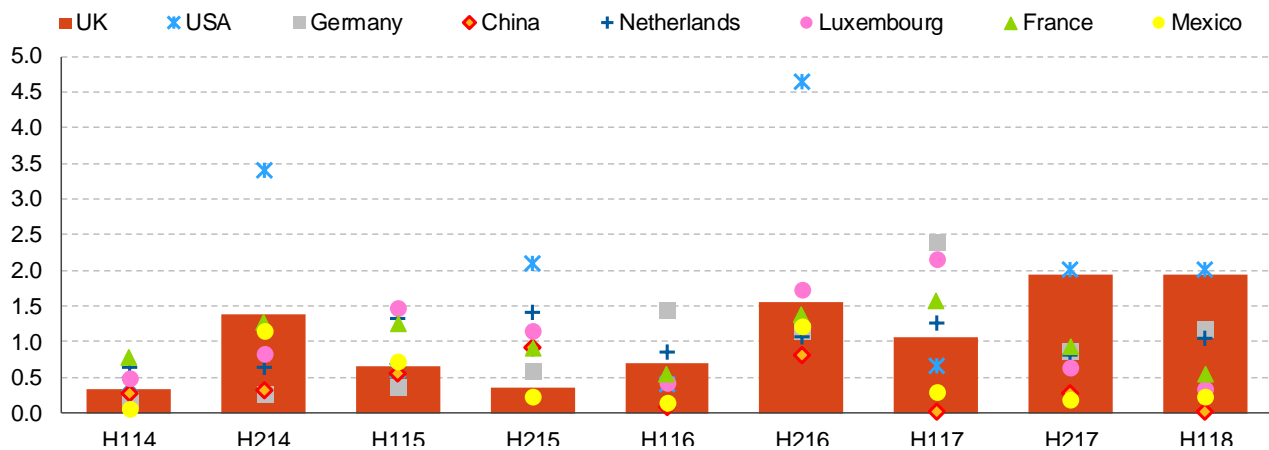
(rolling sum for trailing four quarters, UIC criteria, ETVEs excluded, quarterly, € billion)



Source: Afi, Secretary of State for Commerce

Elsewhere, the political changes in Spain in recent quarters have not had any discernible impact on FDI inflows. Neither the prolonged absence of a government in 2016 nor the parliamentary fragility has affected foreign investment. Although there are no figures yet with which to assess the impact of the sudden change of government in May of this year, the fact that it has had zero impact on other higher-frequency financial variables suggest that it will not have had a major impact on FDI either.

### Gross FDI flows into Spain from main source countries, by six-month periods



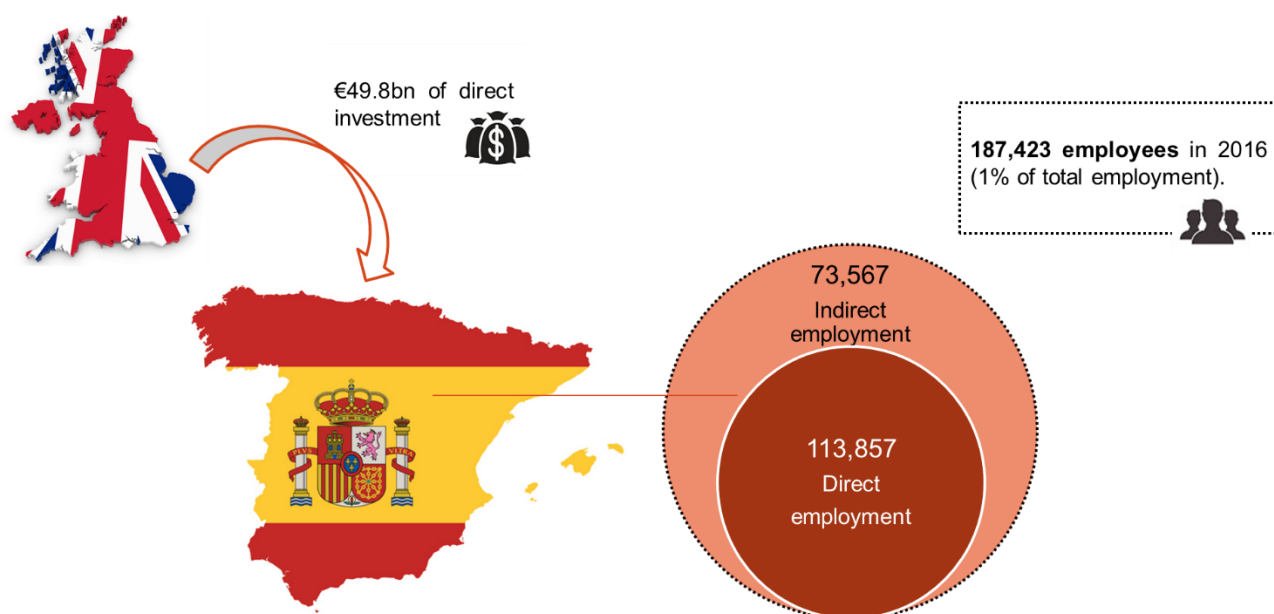
## Effects of British FDI on jobs in Spain

**British FDI in the Spanish economy as a whole contributed to the generation of 187,423 jobs in 2016, which is 1% of the national total.**

British FDI in Spain helped generate a total of 187,423 jobs in 2016, which is 1% of the nationwide total and growth of 4,229 jobs from 2015.

Of all employment generated in Spain in 2016, 113,857 jobs are accounted for by direct jobs, while the remaining 73,567 are indirect jobs generated as a result of the supply chain knock-on effect.<sup>1</sup>

### Impact of British FDI on employment in Spain, 2016



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

<sup>1</sup> Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2010 Input-Output Tables).

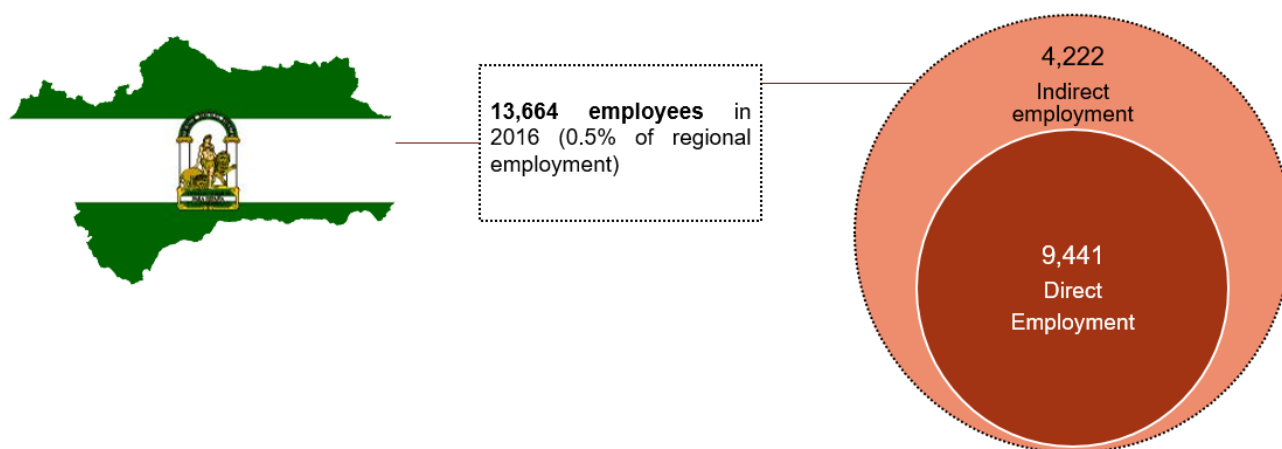
## Effects of British FDI on jobs in Andalusia

**In 2016, British FDI in Andalusia generated a total of 13,664 jobs, which is 0.5% of all jobs in the region.**

British FDI in Andalusia generated a total of 13,664 jobs over the course of 2016, which is equivalent to 0.5% of all jobs in the region. Year-over-year, job creation increased by 1,417 jobs, thus returning to the levels of two years previously.

Of total jobs generated in Andalucía, 9,441 were direct jobs and the remaining 4,222 were indirect jobs created thanks to the knock-on effect.<sup>2</sup>

### Impact of British FDI on employment in Andalusia, 2016



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

<sup>2</sup> Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2010 Input-Output Tables).

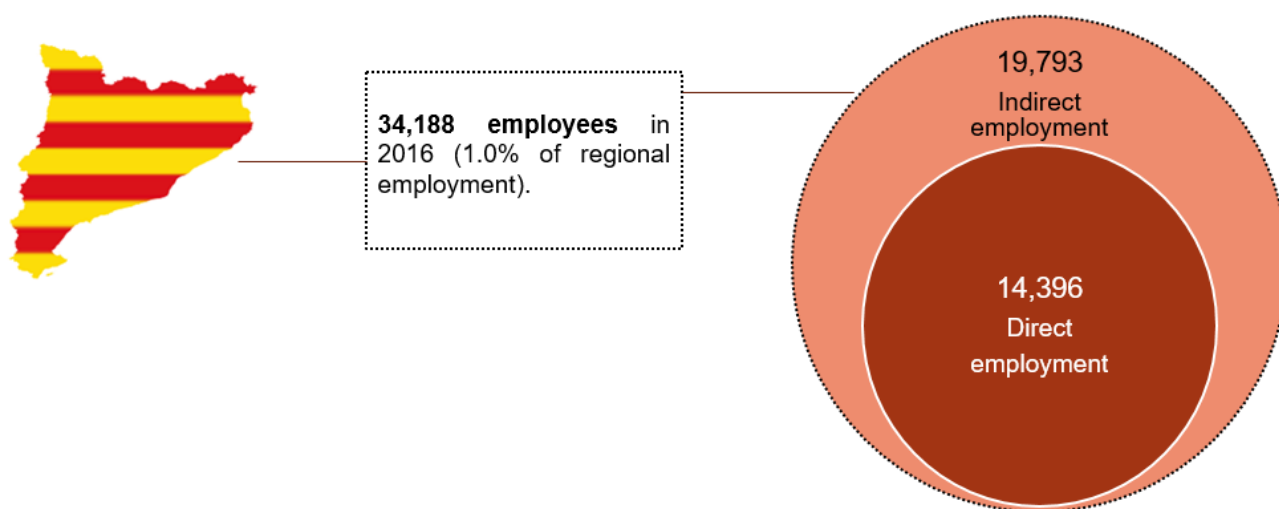
## Effects of British FDI on jobs in Catalonia

**In 2016, British FDI generated a total of 34,188 jobs in Catalonia, which is 1% of the regional total. Year-on-year, however, this marks a decline of 2,246 jobs.**

FDI in Catalonia generated 34,188 jobs over the course of 2016, which is equivalent to 1% of the regional total. However, this marks a decline of 2,246 jobs year-on-year.

The knock-on effect of British FDI prompted the creation of 19,793 indirect jobs<sup>3</sup>, while the number of direct jobs created stood at 14,396. Catalonia stands out by comparison with the rest of the regions analysed because indirect job creation outnumbers direct job creation.

### Impact of British FDI on employment in Catalonia, 2016



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

<sup>3</sup> Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2010 Input-Output Tables).

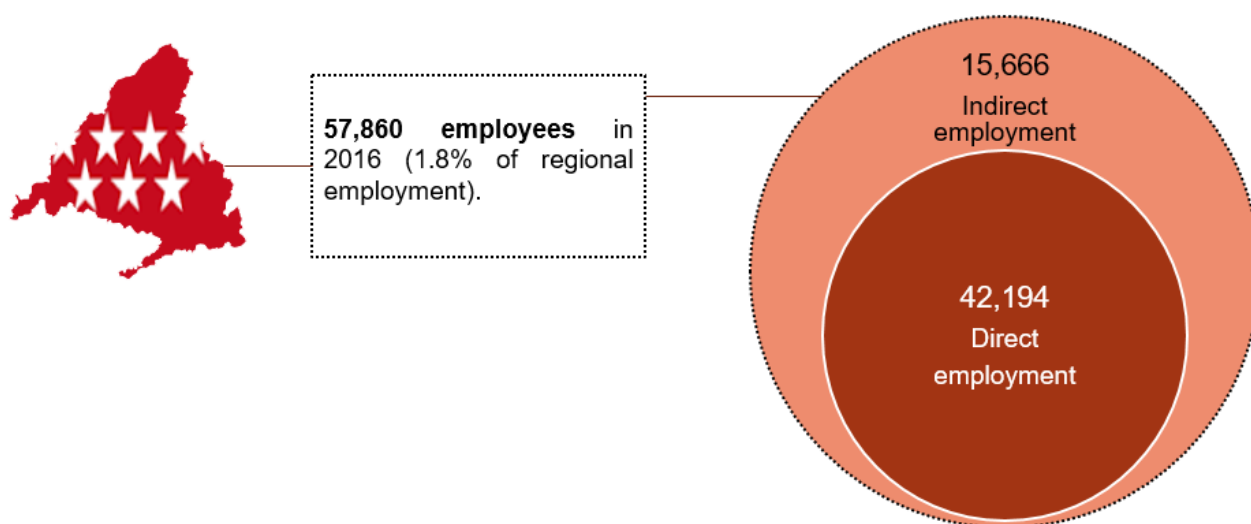
## Effects of British FDI on jobs in the Madrid region

**British FDI generated 1.8% of all jobs created in the region of Madrid in 2016, some 57,860 jobs in total.**

In 2016, British FDI generated a total of 57,860 jobs in Madrid, which is 1.8% of the regional total. Compared to 2015, job creation increased by 7,082 positions.

Turning to the breakdown between direct and indirect jobs, of the total, 42,194 were direct jobs and the other 15,666 were indirect<sup>4</sup>. As observed in prior years, the region of Madrid generates fewer knock-on jobs in other areas of activity than the other regions analysed in this report. In fact, the ratio of indirect-to-direct jobs in the Madrid region is just 37%, compared to 137% and 45% in Catalonia and Andalusia, respectively.

### Impact of British FDI on employment in Madrid, 2016



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

<sup>4</sup> Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2010 Input-Output Tables).

## British companies' assessment of the business climate and outlook in Spain

[Barometer on climate and outlook]

October 2018

### Key aspects of the business climate in Spain in the eyes of British companies:

**General** 12. The British companies' perception of the business climate in Spain barely changed in 2018. However, the British business community in Spain continues to call for more support for R&D and greater political stability.

This stability in how the business climate is perceived can be considered positive given the uncertainty surrounding the terms on which Brexit will materialise.

**Outlook** 13. The perception of the business climate in Spain in 2018 remains stable, which is translating into a reduced appetite for business expansion in an environment of 'wait and see'.

Of those companies who wish to increase their investments in Spain, 80% plan to do so within a year.

It is worth highlighting the growing geographic diversification of British investments in Spain, which are concentrated in the IT and communications sector.

**Public relations** 14. 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).

**Political situation** 15. 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. This means that political risk is now the #2 perceived weakness of the Spanish business climate.

**Financing conditions** 16. The British enterprises surveyed perceive a significant improvement in financing conditions in Spain, so that this factor ranks as the second-best attribute of the Spanish business climate.

**Job market** 17. The perception of the job market in Spain proved stable thanks to positive assessments of labour regulations and training. However, the assessment of English language mastery deteriorated from 2017 to a score of 2.6 out of 5.

**Market structure** 18. The score ascribed to the market structure improved from 3 points in 2017 to 3.3 out of 5 in 2018.

The improved assessment was driven by higher scores for attributes such as the absence of unfair competition, transparency and corporate governance.

**Digitalisation** 19. The digitalisation score was unchanged on the whole at an acceptable 3.2 out of 5.

**R&D** 20. 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.

**Supplier costs** 21. 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.

**Quality of living** 22. Quality of living in Spain remains the business climate's greatest asset, with no change since 2017.

**Brexit** 23. 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, they believe that Brexit will have a bigger impact on British investment than they did one year ago. The percentage of companies that believes that Brexit will have an impact of over 10% has increased from 43% in 2017 to 54% in 2018.



## General

**The British companies' perception of the business climate in Spain is largely unchanged in 2018. However, the British business community in Spain continues to call for more support for R&D and greater political stability.**

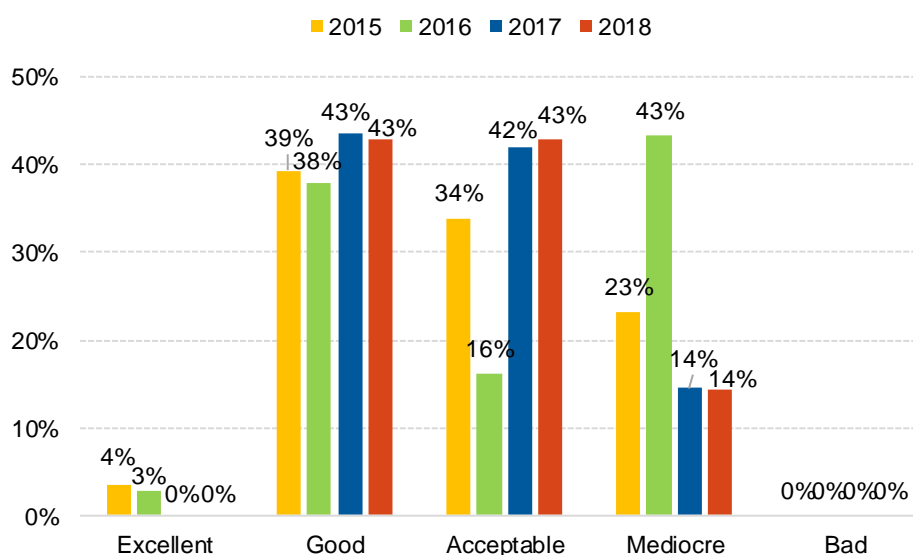
**This stability in how the business climate is perceived can be considered positive given the uncertainty surrounding the terms on which Brexit will materialise.**

In order to analyse the assessment and opinions of the British firms with investments in Spain regarding the country's business climate, a sample of 56 enterprises were surveyed between June and the middle of September. The methodology used to design and carry out the survey is described in further detail in an appendix to this report.

This survey, which is in its fourth consecutive year, enables the researchers to identify the outlook for investment in the months to come, pinpoint the Spanish business climate's strengths and weaknesses and, lastly, analyse shifts in how the Spanish business climate is perceived by the British firms.

The British firms' overall perception of the business climate in Spain is stable, at somewhere between acceptable (43% of assessments) and good (also 43%). The changes with respect to the prior-year survey are scant. Overall, on an interval from 1 to 5, in which 1 is equivalent to 'poor' and 5 to 'excellent', the business climate obtained a score of 3.3 points for the second year in a row.

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

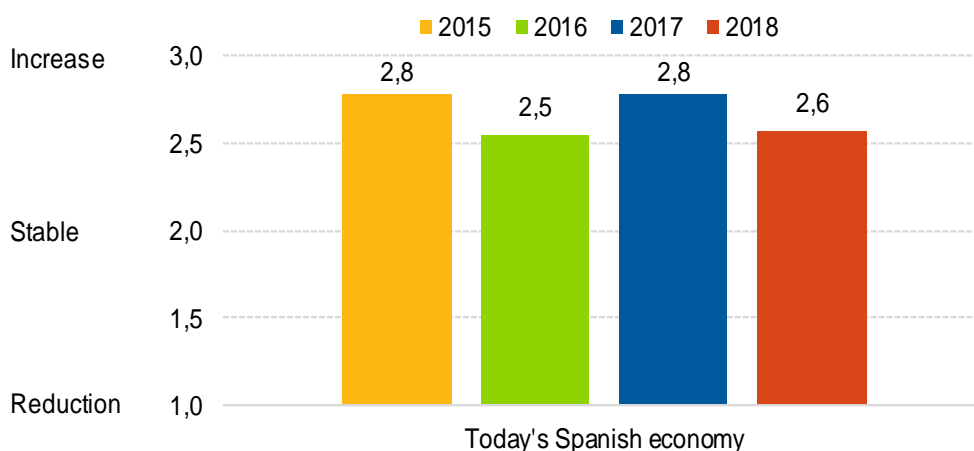


Source: Afi, "Survey of British investment in Spain".

The most recent growth forecasts point to a slowdown in the Spanish economy, contributing to the outlook for lower growth compared to the respondents' outlook this time last year.

This year, 63% of the British enterprises surveyed said they expect the Spanish economy to grow, compared to 78% in last year's survey, a reduction of 15pp.

### Current outlook for the Spanish economy of British companies in Spain (scores weighted from responses, where 1 indicates contraction and 3 growth)



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

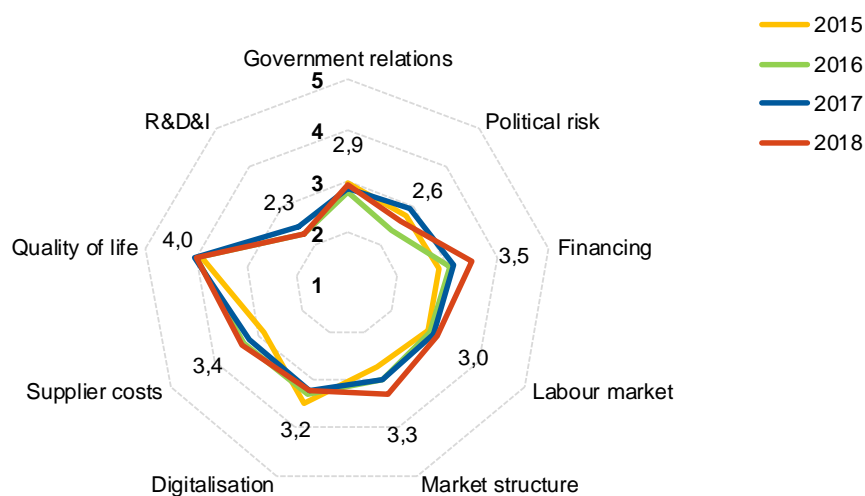
Multiple factors can foster or, to the contrary, hinder British investment in Spain and how British investors perceive the Spanish business climate.

This year the global assessment of all of these factors was 3.1 points out of 5, unchanged from last year, thus marking a pause in the improvement sustained throughout the historical series.

In short, this year's assessment is stable as a whole. However, the scores obtained in politics and R&D deteriorated considerably, by 10% and 7%, respectively. On the other hand, the assessments of financing conditions and market structure improved a noteworthy 12% and 10%, respectively.

This section analyses each of the areas contemplated in the business climate survey in detail.

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



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

## Outlook for British investment in Spain

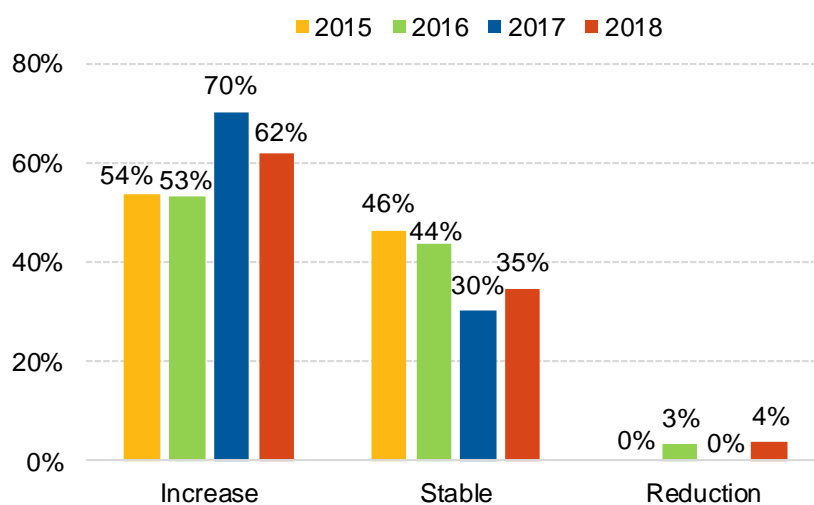
**There are still a majority of companies that plan to increase their investment in Spain. Among those companies, 80% plan to do so within a year. And now there are more who seek to invest in innovation and, above all, open new businesses in Spain.**

**However, British companies with expectations of maintenance or reduction of their investments have increased.**

**It is worth highlighting that British investment in Spain is becoming more geographically diverse. Sector-wise, it is concentrated in the information and communications sector.**

The results of the survey point to a slowdown in anticipated British investment in Spain: the percentage of companies expecting to increase their investments has fallen to 62%, from 70% just one year ago. On the other hand, the percentage companies that expect their investments to remain stable increased to 35%. Unlike in prior years, there are companies that expect to pare back their investments; however, they represent just 4% of the total.

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



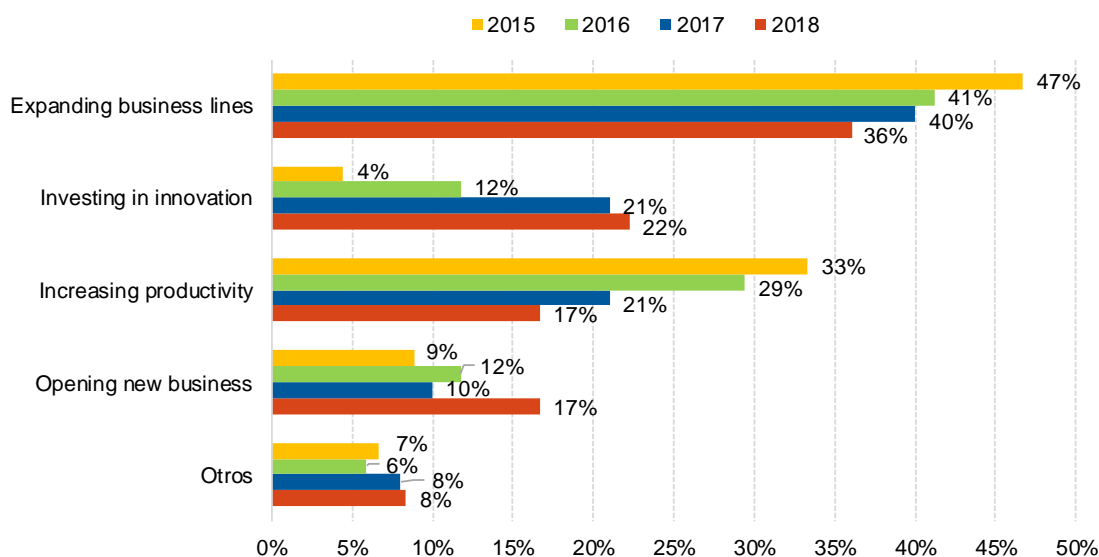
Source: Afi, "Survey of British investment in Spain".

'Expansion of the business line' ranks for the fourth year running as the main purpose of investment by British companies. However, its weighting as a percentage of total responses also fell for the fourth year running, to 36%. The same trend is true of 'increasing productivity' as the reason for investment, which declined to 17%, having been twice as high four years ago.

On the other hand, the 'opening of a new business' as the reason for investment increased considerably to 17% of responses, from 10% the year before, evidencing the community's commitment to the Spanish economy.

Lastly, 'investment in innovation' also increased its weight among the reasons for investment to 22% of all responses, indicating that British firms see Spain as a good place for developing new ways of doing business or producing goods.

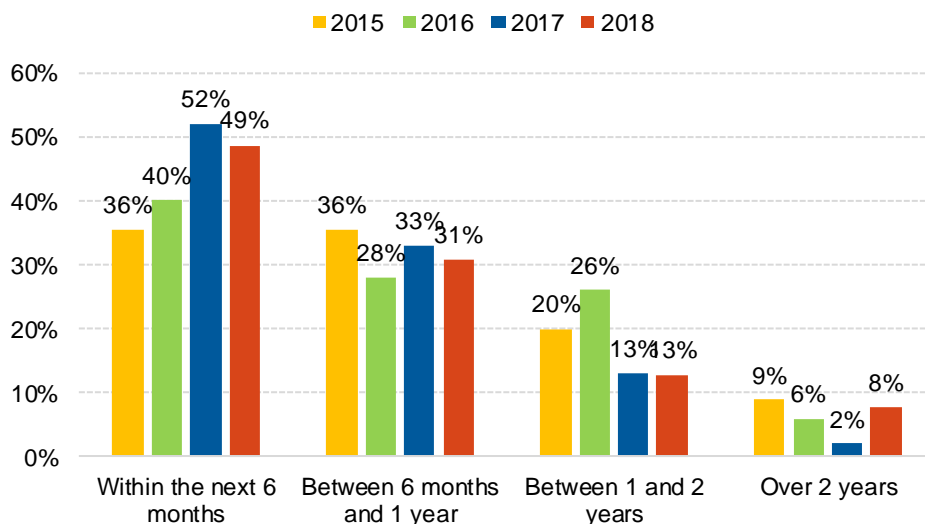
### Reasons underpinning British investments in Spain (% of responses)



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

The number of firms that expect to increase their investments in Spain within less than one year has decreased slightly. Nevertheless, this percentage remains at 80%, evidencing the British companies' firm interest in continuing to grow and take advantage of the prevailing and foreseeably sustainable favourable economic climate.

### Expected timeframe for increasing investment in Spain (% of responses)

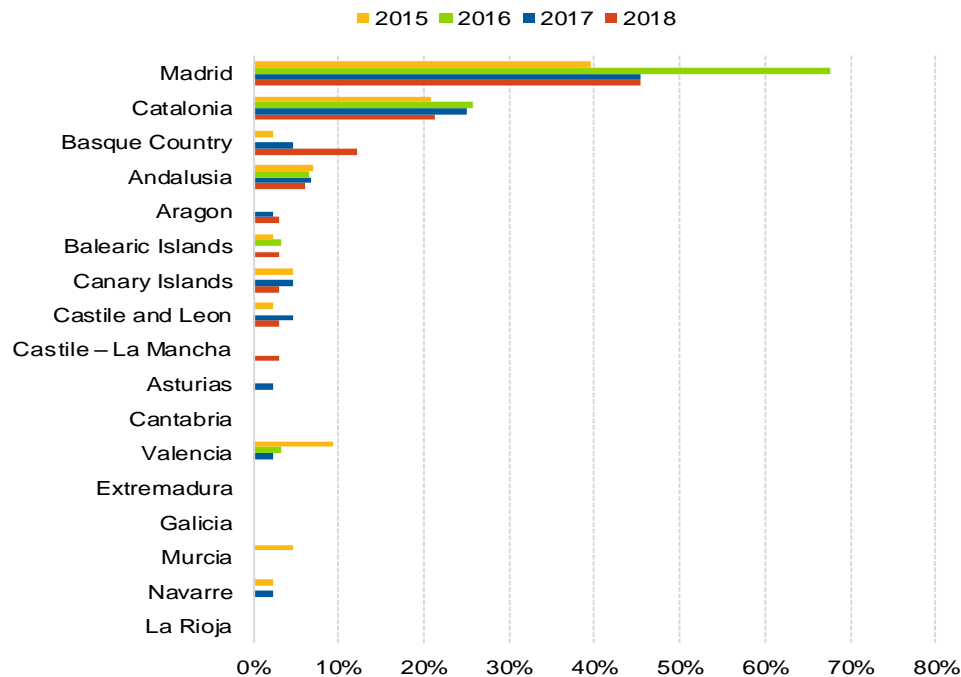


Source: Afi, "Survey of British investment in Spain".

British investment in Spain is becoming increasingly geographically diverse. This is partly attributable to the fact that British firms are moving some of their investments from benchmark regions such as Madrid and Catalonia, where their investments remain concentrated, into other regions where their presence has been less palpable, such as Aragon, the Balearic Islands and the Basque region, where British FDI was previously nil or negligible. The Basque region stands out in this respect, accounting for 12% of responses as to where British firms plan to allocate their new investments, compared to 5% the year before, confirming the growing interest of British firms in this region, a trend that has been gaining force over the years.

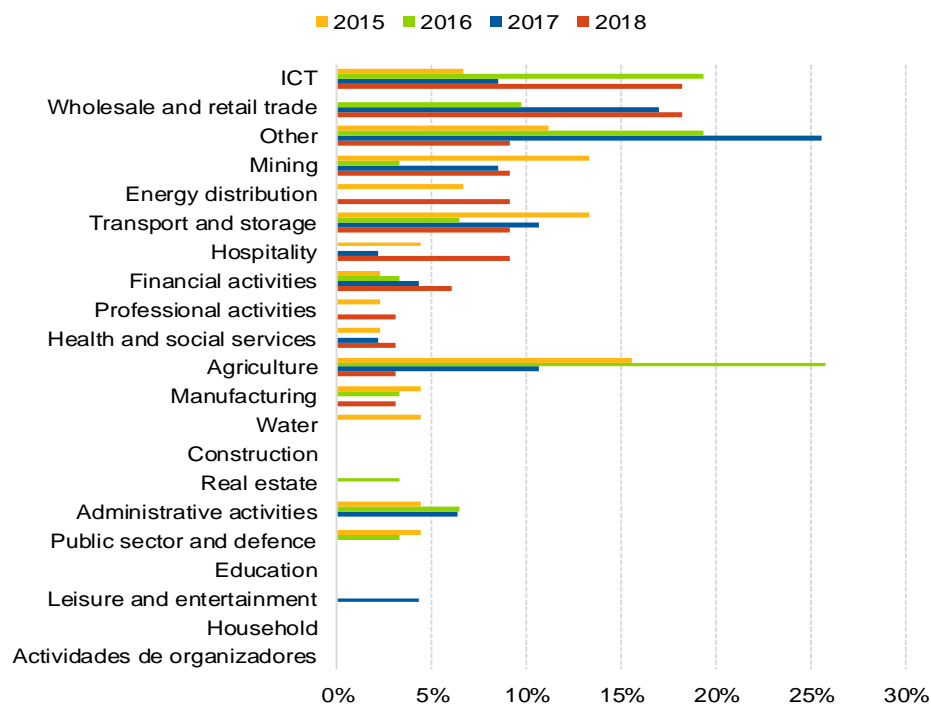
In contrast, the sectors to be targeted by British investment are displaying greater concentration than in the past. The six main sectors to which British FDI is set to be targeted account for 75% of the total. The IT and communications sector tops the sector ranking, garnering 19% of all planned British investment.

### Spanish regions where new British investment is to be allocated (% of responses)



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

### Sectors where new British investment is to be allocated (% of responses)



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

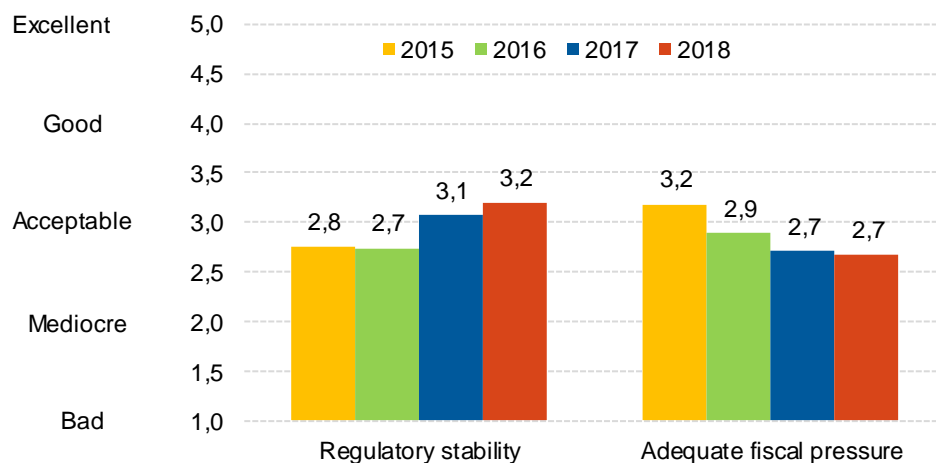
## Relations with the public authorities

**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).**

A smooth relationship with the public authorities is essential to the development and growth of a foreign company in Spain, to which end the survey addresses two factors when assessing the role played by the authorities: regulatory stability and the tax burden.

British firms' assessment of regulatory stability in Spain improved a scant 0.1 points, but was offset by the slight decline in the tax burden score, so that the overall assessment of relations with the public authorities was flat.

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



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

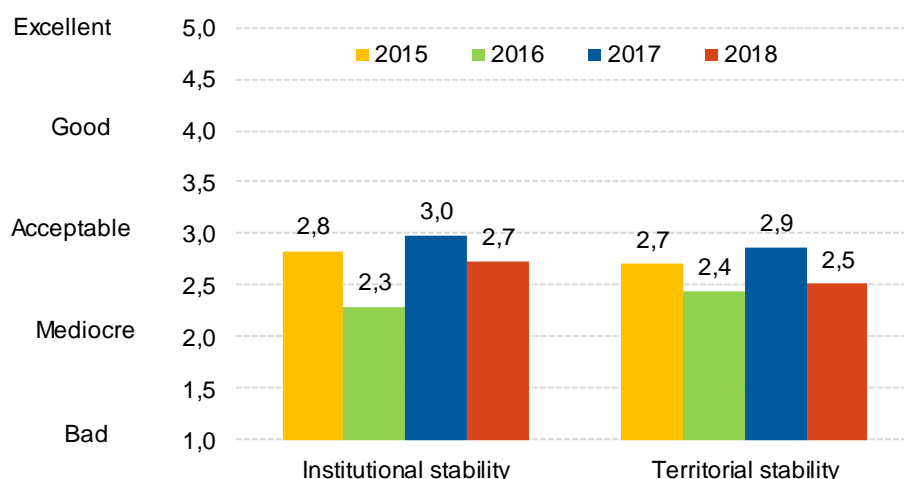
## Political situation

**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.**

Political risk has emerged as one of the key factors impeding foreign investment in Spain, specifically the number-two weakness in the current business climate. Specifically, political risk was given a score of 2.6 points out of 5, a year-on-year deterioration of 10%.

Multiple factors have added to uncertainty over the past year (change of government, tensions in Catalonia). As a result, perceived institutional stability has suffered, with its score dropping to 2.7 points out of 5. Territorial stability has also been affected, with its score declining to 2.5 points out of 5.

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



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

## Financing conditions

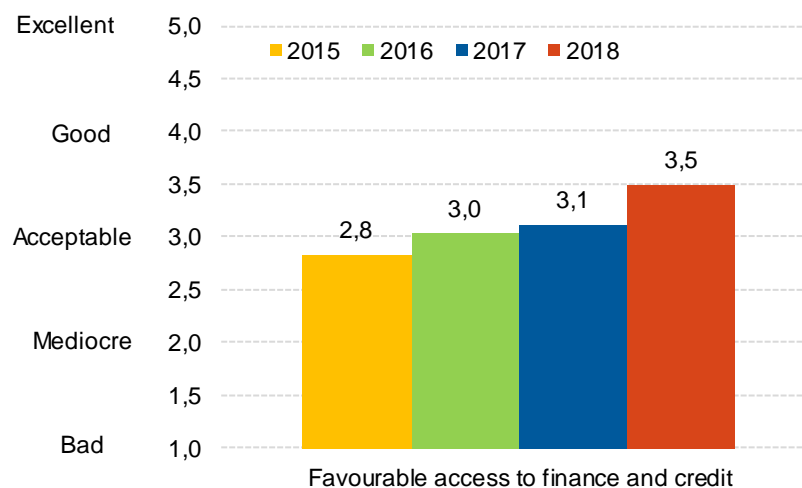
**The British enterprises surveyed perceive a significant improvement in financing conditions in Spain, with this factor ranking as the #2 strength of the Spanish business climate.**

The perception of financing conditions in Spain has improved considerably, scoring 3.5 out of 5, a year-on-year increase of 0.4 points and mid-way between acceptable and good.

Fifty-four per cent of the firms surveyed rated prevailing conditions in Spain as good or excellent. Financing conditions therefore constitute a major strength for the Spanish business climate, setting it apart from other countries where access to high-quality financing is not as easy and the terms may be less favourable.

The favourable financing conditions for foreign companies with investments in Spain are underpinned by the expansive monetary policy being pursued by the European Central Bank and greater competition among banks, among other reasons.

### **Assessment of financial conditions in Spain by British companies** (scores weighted from responses)



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



## Job market

**The perception of the job market in Spain was stable thanks to positive assessments of labour regulations and training. However, the assessment of English language mastery deteriorated from 2017 to a 2.6 out of 5.**

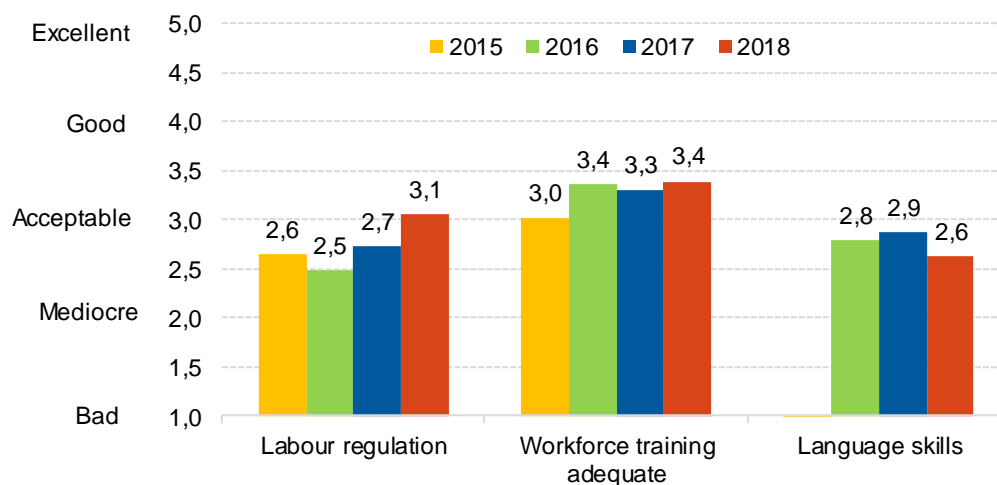
No change in the overall assessment of the Spanish labour market, which scored an acceptable 3.0 out of 5. The Spanish labour market is an asset for its business climate thanks particularly to the improvements observed in perceived skills training and labour regulations.

Fluency in English is obviously a factor of importance for the British firms looking to invest or already established in Spain. However, the British firms surveyed perceive a deterioration in the level of English mastery in Spain. This is an area where Spain needs to improve in order to compete with foreign markets and attract investment into the country.

The assessment of tax regulations in Spain tops the acceptable threshold, at 3.1 out of 5, marking a significant improvement of 0.4 points from 2017.

However, the aspect displaying the strongest gain is skills training, an area on which Spain has consistently stood out throughout the series and the backbone of the perceived strength of the Spanish labour market.

**Assessment of the labour market in Spain by British companies** (scores weighted from responses)



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

## Market structure

**The score ascribed to the market structure has improved from 3 points in 2017 to 3.3 out of 5 in 2018.**

**The improved assessment was driven by higher scores for attributes such as the absence of unfair competition, transparency and corporate governance.**

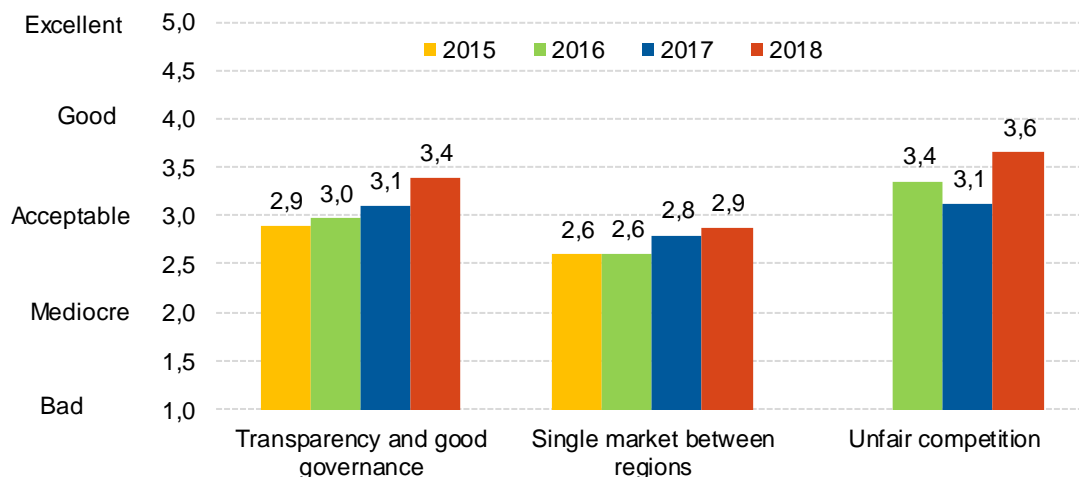
It is worth noting that the improvement in the overall assessment of the structure of the Spanish market was driven by improved scores in all related categories: transparency and corporate governance, market unity and the absence of unfair competition.

The absence of unfair competition had been the only indicator to deteriorate the previous year. This year, not only was the downtrend interrupted, this attribute obtained the highest score of all the indicators in this category: 3.6 points out of 5.

The other indicator sustaining a significant improvement was transparency and corporate governance in Spain. This indicator had experienced scant score improvements of 0.1 points during the first three years in the series; this year, however, it registered an improvement of 0.3 points.

As for market unity, the British firms surveyed rate this the weakest of the market structure indicators, flagging it as the area with the greatest margin for improvement; nevertheless, at 2.9 points out of 5, the score is bordering on acceptable.

### Assessment of the market structure in Spain by British companies (scores weighted from responses)



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

## Digitalisation

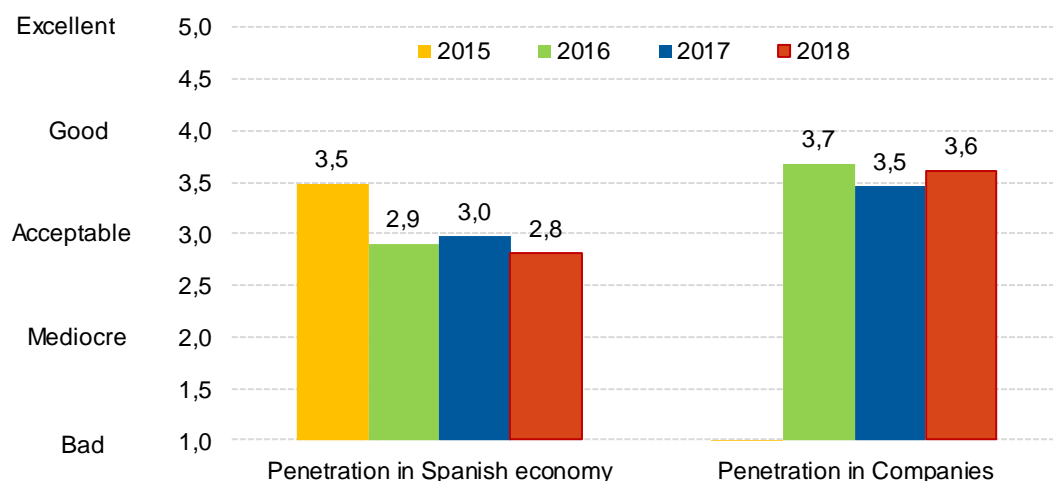
**The digitalisation score was unchanged on the whole at an acceptable 3.2 out of 5.**

The British companies' assessment of digitalisation in Spain was unchanged this year. However, it is no longer the second best-rated category within the business climate in Spain due to the significant improvement registered in other categories.

The British companies surveyed believe that digitalisation is more advanced within their firms than in the Spanish economy. This has been a consistent trend throughout the series and is accentuated this year by the gap opening up between the two indicators.

While the assessment of the progress made by British companies in the digital transformation process improved from 2017, the score given to the penetration of digitalisation in the Spanish economy fell to a series low.

### **Assessment of digitalisation in Spain by British companies** (scores weighted from responses)



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

## R&D

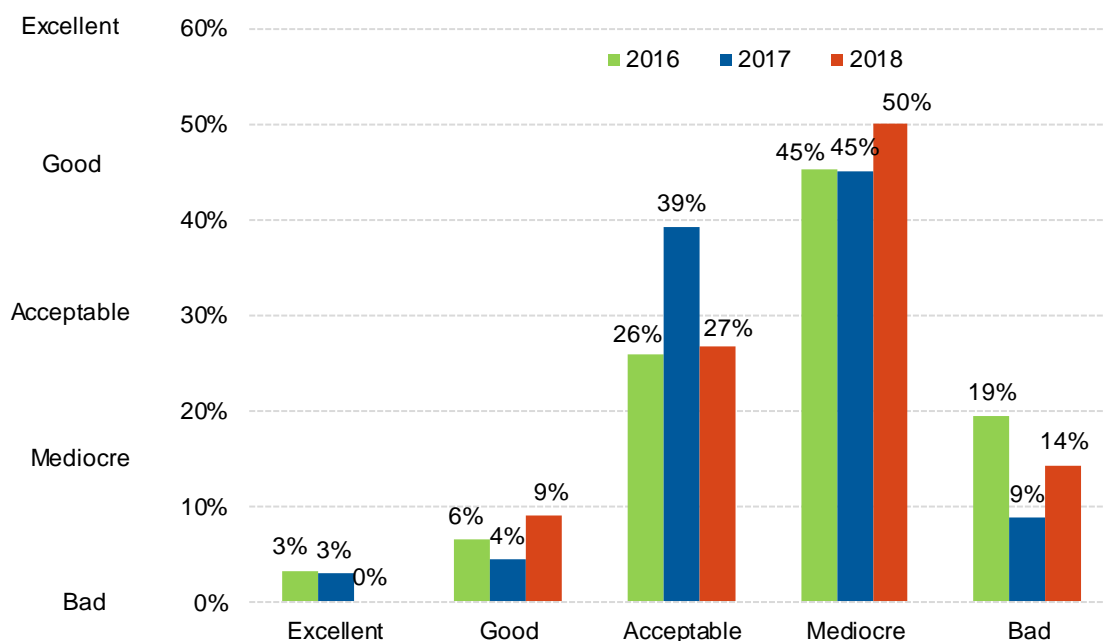
**For the third year in a row the companies' assessment of public support for R&D spending was the lowest-scoring attribute of the Spanish business climate.**

The assessment of public support for R&D deteriorated to a score of 2.3 points out of 5, a reduction of 0.2 points from 2017. As a result, public support for R&D ranked as the greatest impediment to doing business in Spain for the third year in a row.

2018 stands out for the number of companies that rate public support for R&D in Spain as mediocre or poor: 64% of all responses. This suggests that a stronger commitment by the government to supporting investment in R&D would translate into a more propitious business climate which would in turn attract greater foreign investment.

According to the most recent figures published by Spain's statistics office, the INE<sup>5</sup>, public spending on R&D declined by over 20% between 2010 and 2016. However, the expectation is that rapid and stable economic growth in Spain will translate into growth in R&D spending, which should recover to pre-crisis levels.

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



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

<sup>5</sup> R&D statistics, 2016 Total internal expenditure on R&D activities by year and source.

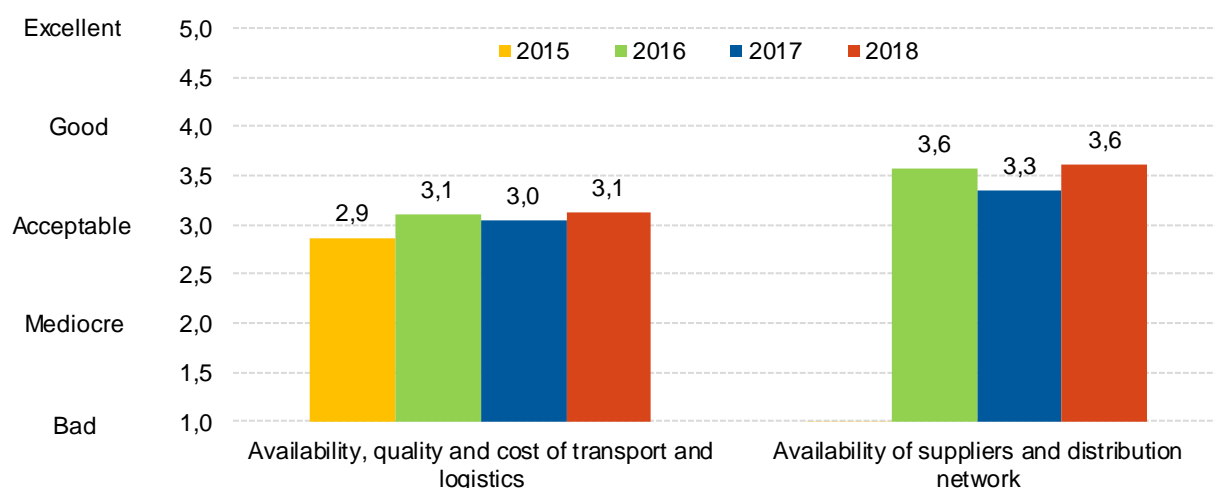
## Supplier costs

**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.**

The availability and quality of transportation and logistics in Spain and the associated costs are a key factor for foreign investment in Spain due to the importance of being able to respond to customer demands effectively and at an appropriate cost. The British firms with investments in the country give Spain an acceptable score of 3.1 points out of 5 in this respect, implying a recovery to 2016 levels.

The availability of supplier and distribution networks, meanwhile, obtained a score of 3.6, moving this attribute away from 'acceptable' towards the 'good' threshold and making this one of the top-rated aspects of the business climate in Spain.

### Assessment of supplier costs in Spain by British companies (scores weighted from responses)



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

## Quality of living

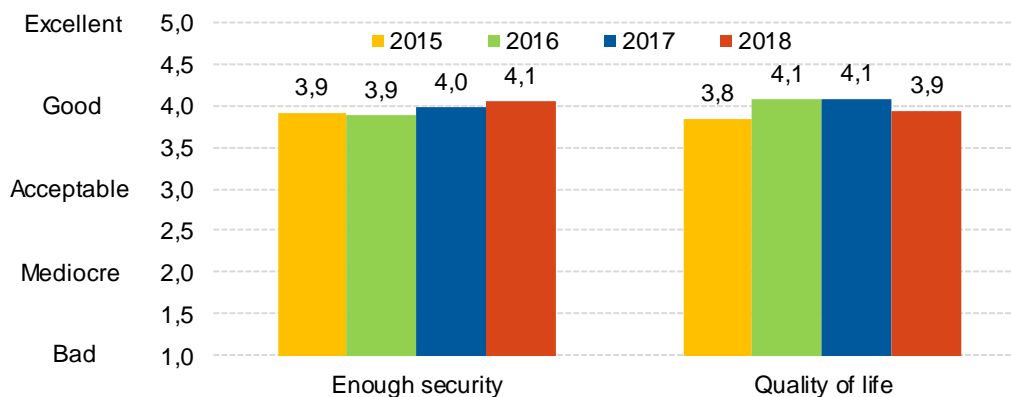
### Quality of living in Spain remains the country's greatest asset, albeit unchanged from 2017.

For the fourth year in a row, quality of living in Spain is the top-rated attribute of the business climate. The two criteria comprising this attribute are security and lifestyle.

The assessment of security in Spain continues to improve, topping the 'good' threshold with a score of 4.1 points out of 5, making it the best-rated individual aspect within the Spanish business climate.

Although the lifestyle in Spain once again obtained a high score, it declined for the first time to 3.9 points, with 81% of the companies surveyed responding that they believe the efforts being made in this area are sufficient.

#### Assessment of the quality of living in Spain by British companies (scores weighted from responses)



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

## Other aspects of importance to the British companies surveyed: Brexit

**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, they believe that Brexit will have a bigger impact on British investment than they did one year ago.**

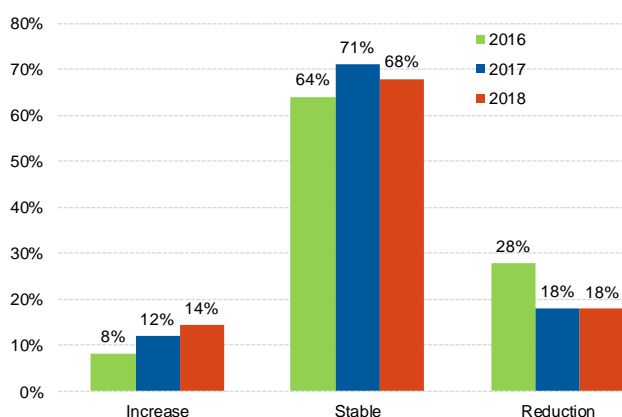
Britain's impending exit from the European Union is of particular importance when it comes to analysing the outlook for British investment in Spain and the consequences for the business climate in Spain.

Two years on from the referendum and with the effects becoming more tangible, 68% of the British companies surveyed believe that Brexit will not affect their investments in Spain, down from 71% a year ago. The percentage of companies that believe they will increase their investments in Spain in the wake of Brexit has increased to 14%, while those that expect to pare back their investments as a result is unchanged at 18% of the total.

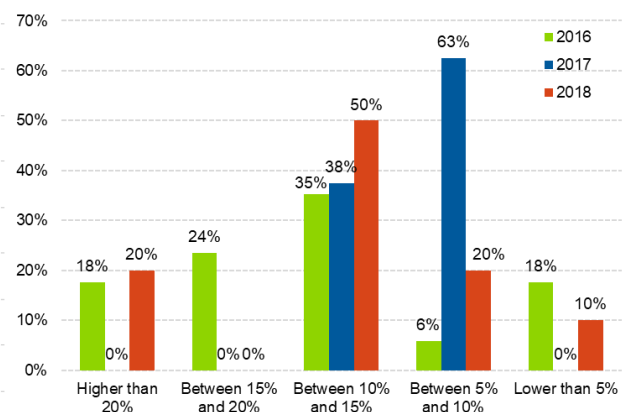
The magnitude of the impact has risen among the British companies that expect a negative impact of Brexit on their investments in Spain. 70% of these companies estimate an impact of more than 10%, while in 2017 only 38% of the companies foresee a negative impact of such magnitude. Moreover, companies expecting an impact of more than 20% represent 20% of the total, while a year ago there were no companies with such a negative perception of the impact of Brexit on their investments in the Spanish market.

The companies that expect to increase their investments in the wake of Brexit are mainly invested in the Madrid region but belong to a highly varied universe of sectors.

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



### Breakdown of the British companies that believe that Brexit will lead them to reduce their investments in Spain by magnitude of the reduction (% of responses)

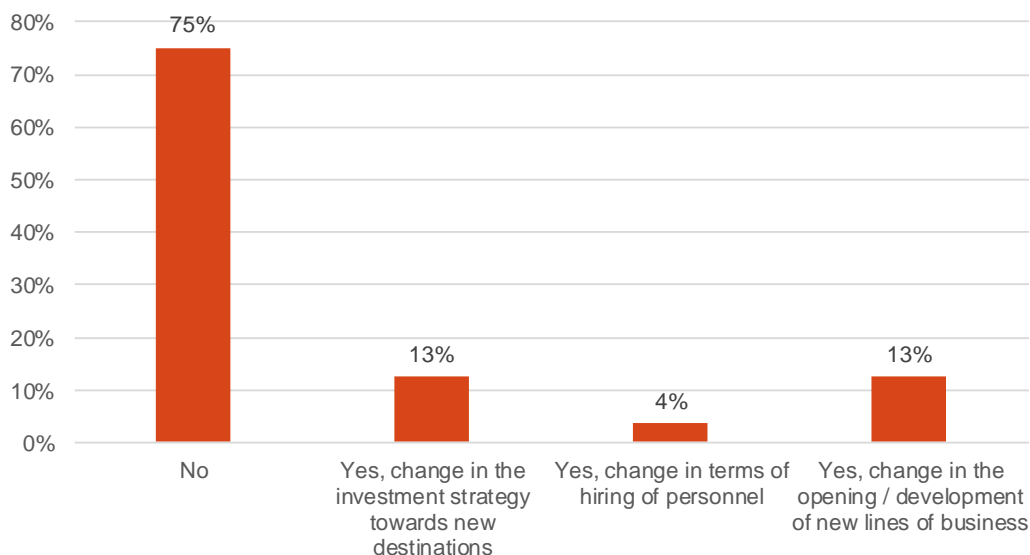


Source: Afi, "Survey of British investment in Spain".

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.

Within that 26% who anticipate changes in their policies, 12pp expect the changes to imply new destinations for their investments, another 12pp plan to make changes in new business line developments and the remaining 4pp expect the changes to affect hiring.

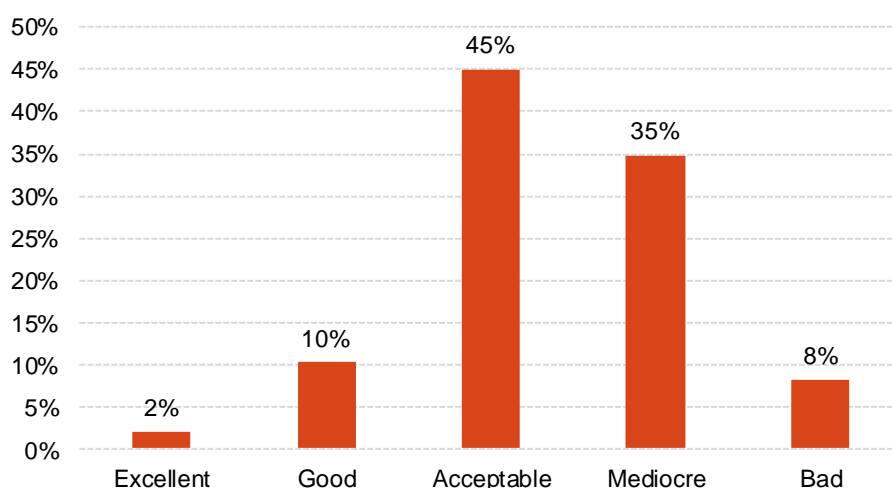
**Assessment of likelihood of significant changes in company policies regarding their investments in Spain since the start of the Brexit negotiations (% responses), 2018**



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

Elsewhere, 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 effort being made in this area is insufficient.

**Assessment of the prioritisation of economic aspects in the negotiations between the UK and EU (% responses), 2018**



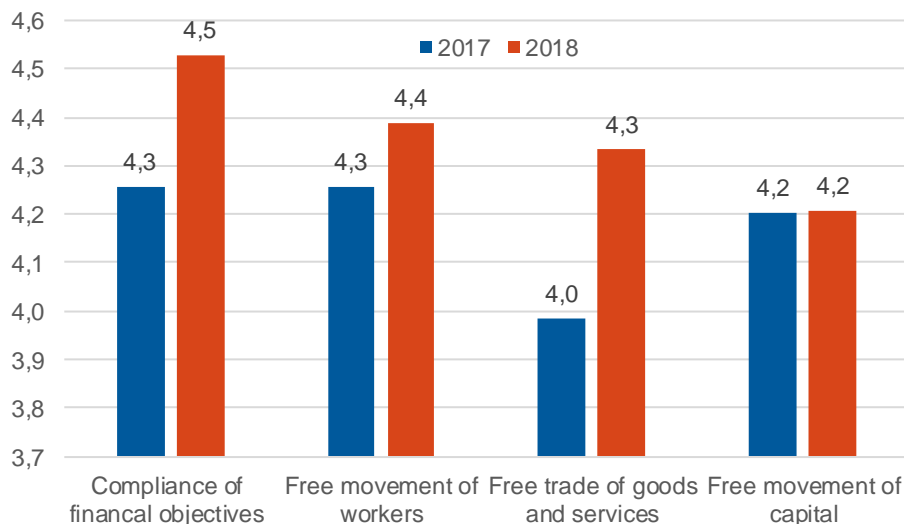
Source: Afi, "Survey of British investment in Spain".

The free movement of labour and free trade in goods and services are the aspects of the negotiations between the UK and EU considered of greatest importance. The British firms assigned greater importance to both aspects in this year's survey compared to last year's.

The free movement of capital and financial commitments are the other two aspects considered of vital importance in the negotiations, obtaining scores of 4.3 and 4.2 out of 5, respectively.



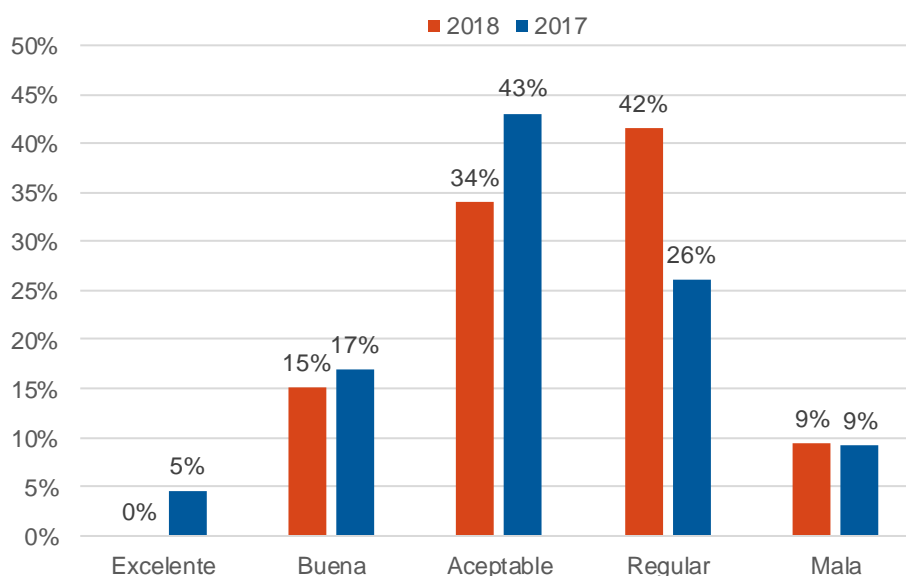
**Assessment of the importance that should be given to the following aspects of the negotiations in order to mitigate the impact on economic relations between the UK and Spain**  
(scores weighted from responses, ordered from most to least important)



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

In 2018, the percentage of British companies that believe that the Spanish government is not doing enough to try and influence the Brexit negotiations increased to a high of over 50% of all responses.

**Assessment of whether or not the Spanish government is taking into consideration the opinions of the British firms in Spain and Spanish firms in the UK in terms of influencing the Brexit negotiations** (% of responses), 2018



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

## Appendix: methodology and characteristics of the company sample

**This year's sample of British companies used as the basis for the results of the Barometer on climate and outlook for British investment in Spain consists of 56 companies deemed representative of the overall corporate population.**

The results outlined in this report regarding British firms' assessment of the climate and outlook for British investment in Spain are underpinned by the results obtained from a survey of British companies that carry out business operations on Spanish soil.

The fieldwork entailed to perform this annual survey was conducted by sending a questionnaire in Excel format via e-mail, which enabled the gathering of all of the information needed for subsequent handling, analysis and application.

The survey was similar in structure to last year's edition with the aim of facilitating a comparative analysis of the British companies' perceptions and assessments. The survey contains a section intended to delineate the company in question, a section on the outlook for business in Spain and another on British investment in Spain, finishing with a section devoted to the business climate.

The questions asked throughout these sections were unchanged from last year's survey with the exception of one question related with Brexit, a section added in the last two editions. The question added this year was designed to gain further insight into the possible implications of Britain's exit from the European Union on British investment in Spain.

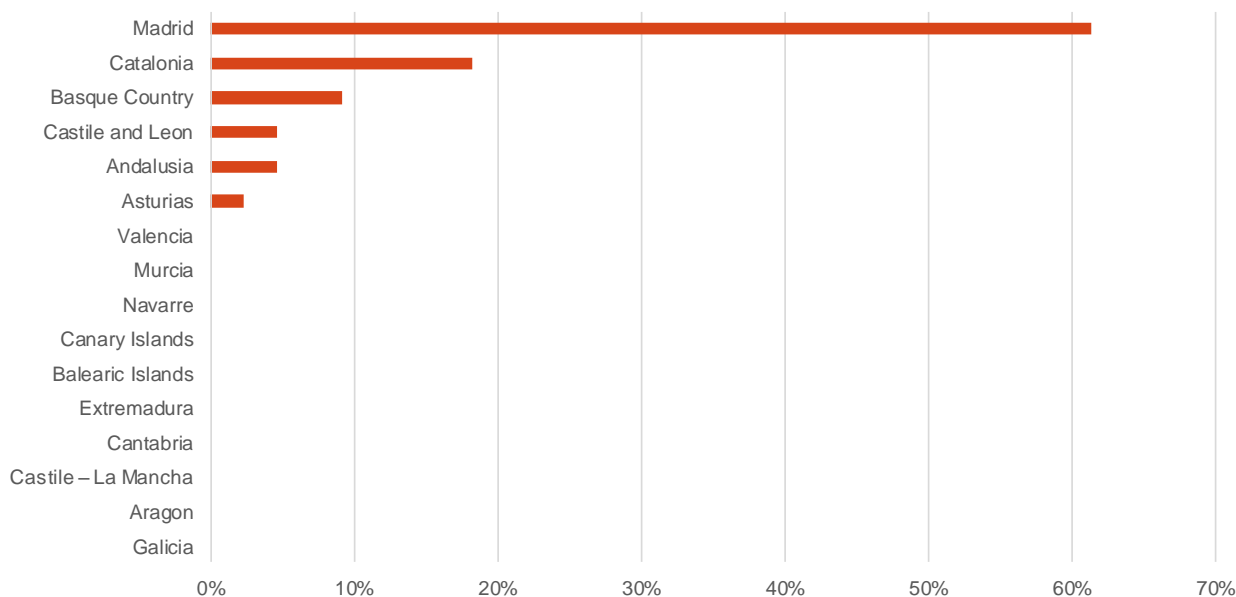
A British company is defined as one whose equity is predominantly British (i.e., at least 51% of its equity is held by a company of British nationality or, equivalently, the British shareholder exerts control over the investee).

The sample was built using the British Chamber of Commerce's database and the SABI database (which compiles information from the financial statements filed by the companies in the Companies Register). According to the latter database, there are approximately 1,000 companies with a British parent. Assuming a confidence interval of 90% and a margin of error of 10%, the sample would need to have a population of 50 companies for the results to be representative of the overall universe of British companies.

Assuming a response rate of 15%, the sample size required to arrive at the number of companies needed to provide the feedback necessary for compiling the Barometer was 422 companies. This sample was selected so as to be representative of the structure of the universe of British companies invested in Spain in terms of economic sectors, regional footprint and size.

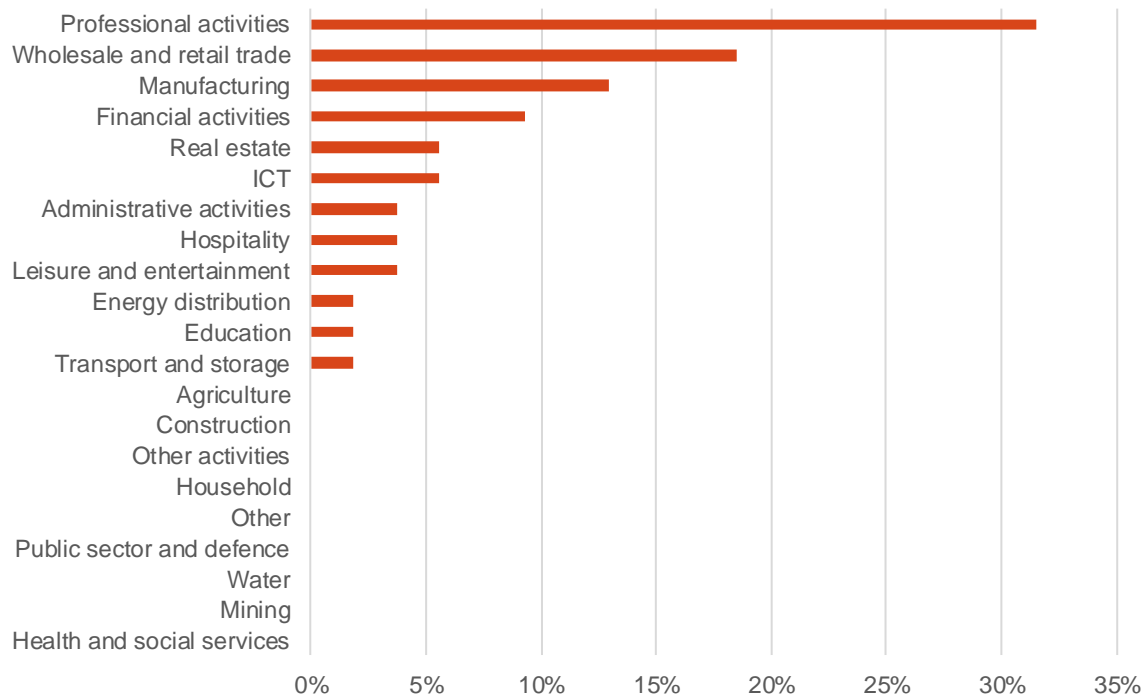
Thanks to the fieldwork performed between June and mid-September 2018, the size of the sample of British companies is 56 firms. The breakdown by the regions in which their registered offices are located, business sectors and company size is provided in the following tables.

### Sample of British companies by region (% of total), 2018



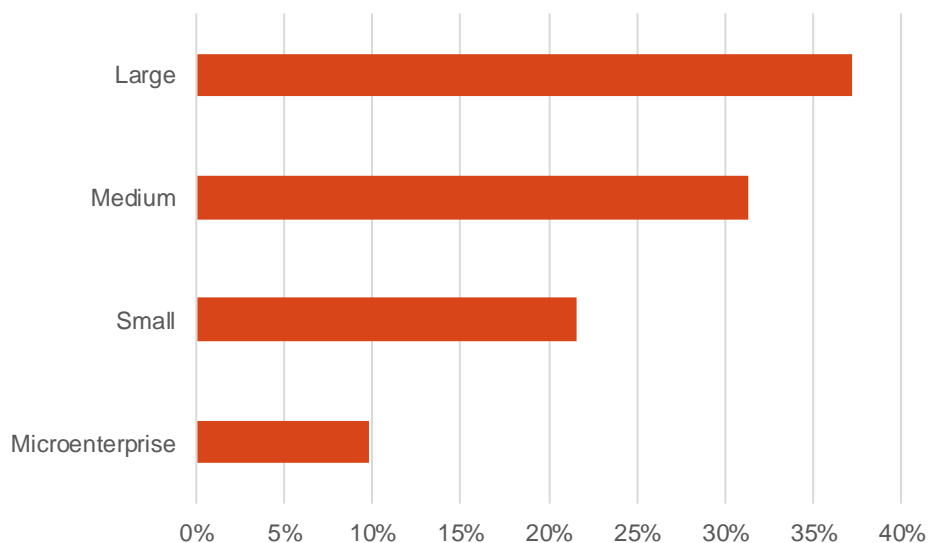
Source: Afi, "Survey of British investment in Spain".

### Sample of British companies by sector of the economy (% of total), 2018



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

### Sample of British companies by size (% of total), 2018



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



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