

BAROMETER ON CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

November 2017

Executive Summary



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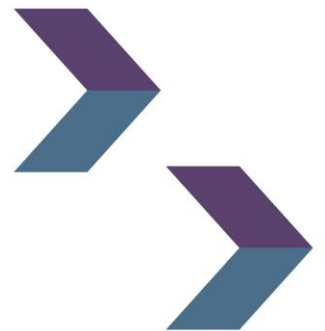


British Chamber
of **C**ommerce in Spain



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

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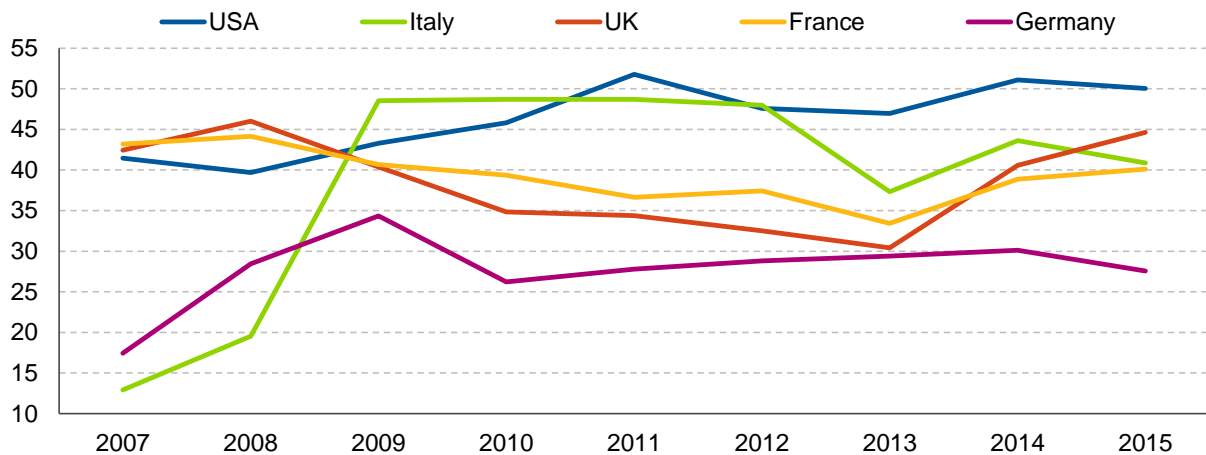


1. Executive summary

- The United Kingdom is the second most important investor in Spain. The stock of British foreign direct investment (FDI) in Spain increased once again in 2015.

Stock of investment by country

(€ billion, UIC criteria)

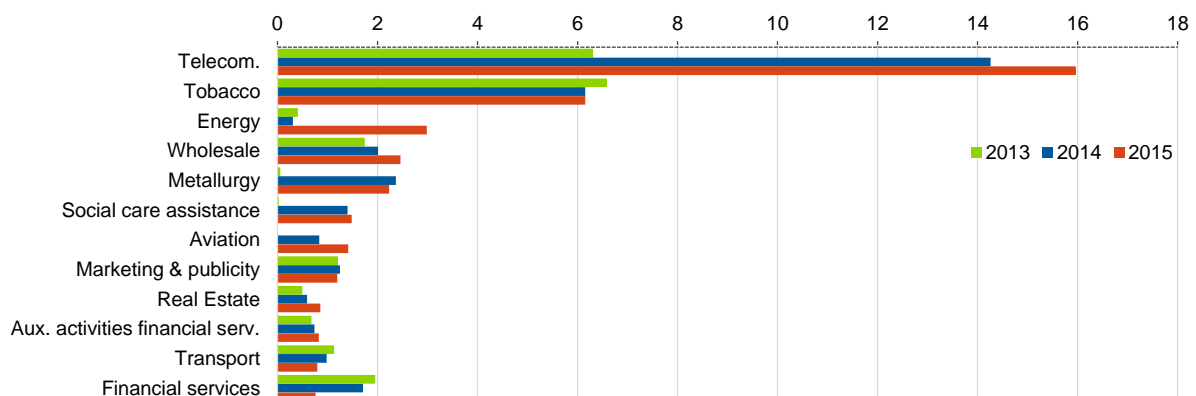


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.

- British FDI in Spain is concentrated in the telecommunications (which has doubled since 2013), tobacco and energy sectors.

Cumulative stock of British FDI in Spain by sector: 2013, 2014 and 2015

(UIC criteria, excluding ETVEs, € billion)

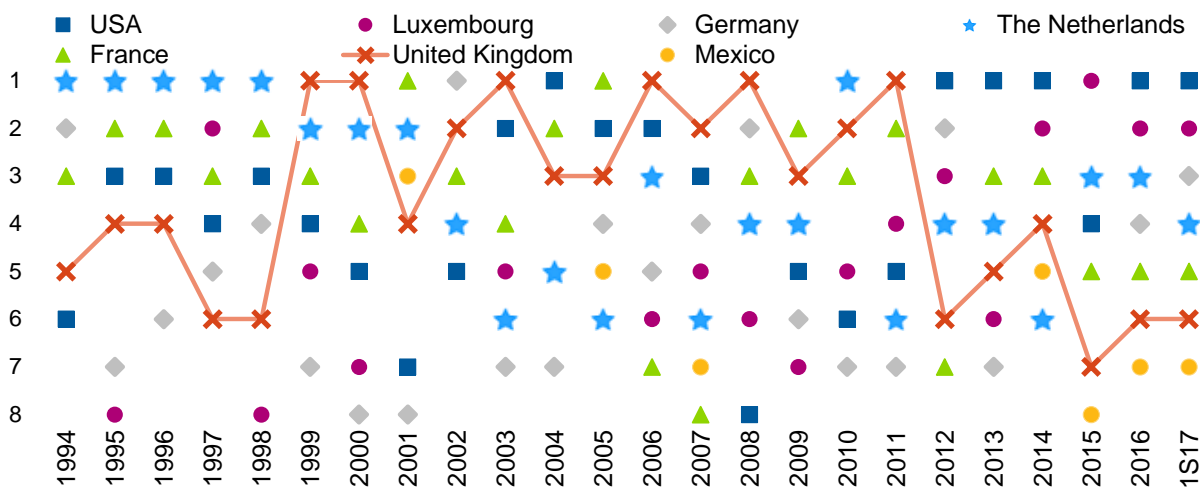


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.

- The UK is Spain's largest investor based on cumulative FDI inflows since records began (over €66bn since 1993). The UK has consistently ranked among the top seven investors on an annual basis since 1993 (in gross terms) and was the number one investor in six of the last 24 years. The UK ranked seventh in the first half of 2017.

Ranking of gross FDI inflows into Spain by country

(UIC criteria, excluding ETVEs)

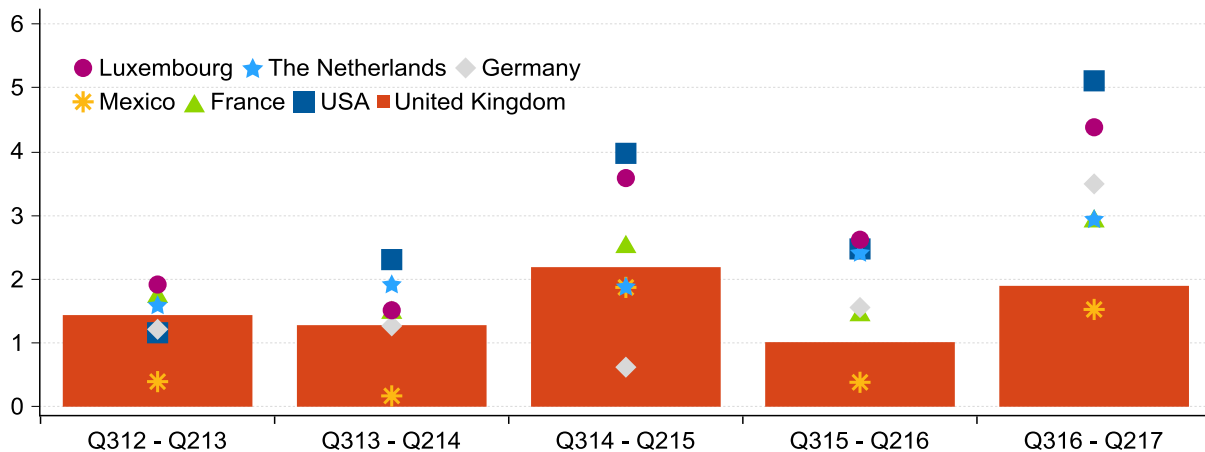


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.

- British investment has proved resilient to political uncertainty. A year on from the Brexit referendum, British investment flows into Spain have remained at normal levels.

Gross inflows of British FDI into Spain during the first six months of each year of the economic recovery

(€ billion, UIC criteria, excluding ETVEs)



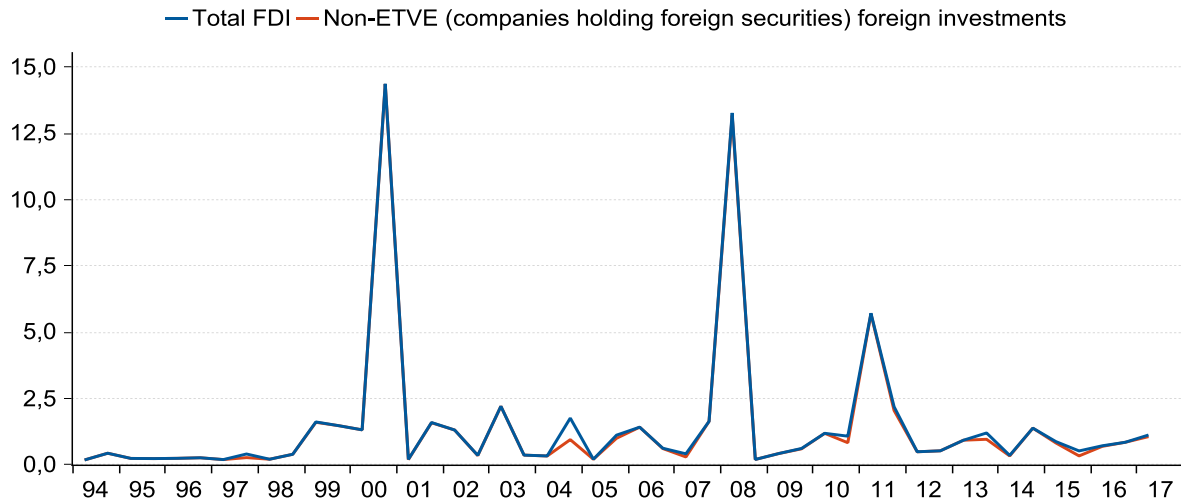
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.



- British FDI in Spain is predominantly productive investment, rather than investment channelled through foreign security holding companies (ETVEs).

Gross British FDI flows into Spain, including and excluding ETVEs

(six-month frequency, UIC criteria, € billion)

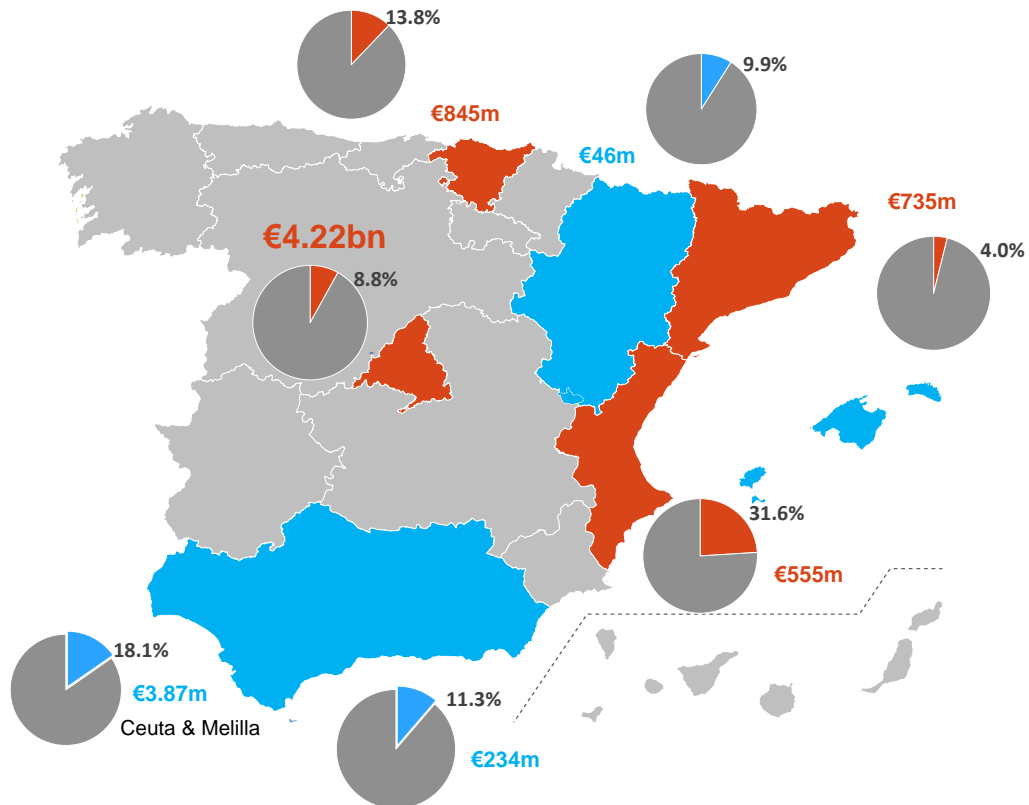


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.

- Since the start of the economic recovery, British FDI has mainly focused on the Madrid, Catalonia, the Basque Country and Valencia.

Main destinations for British FDI during the economic recovery (2013-Q217)

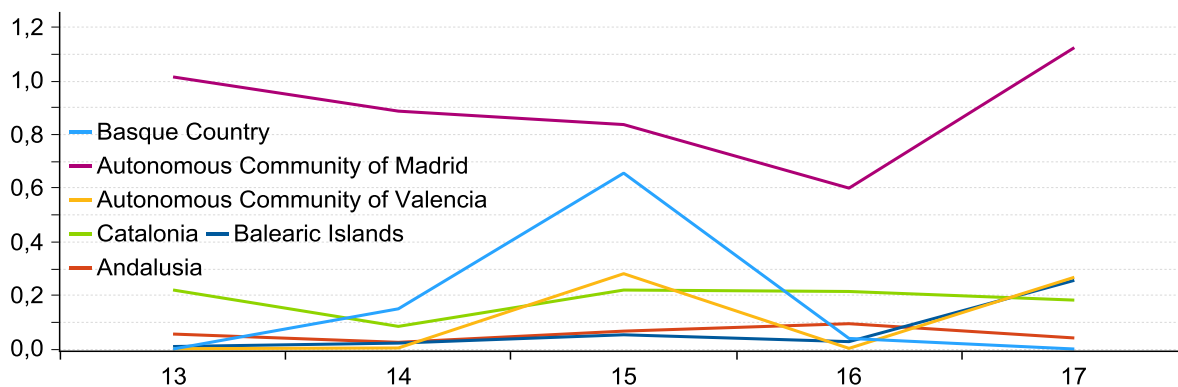
(Gross inflows in € million and percentage of total flows)



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

Inflows of British FDI by region during the recovery

(UIC criteria, excluding ETVEs, € billion, four-quarter moving sum Q316-Q217)



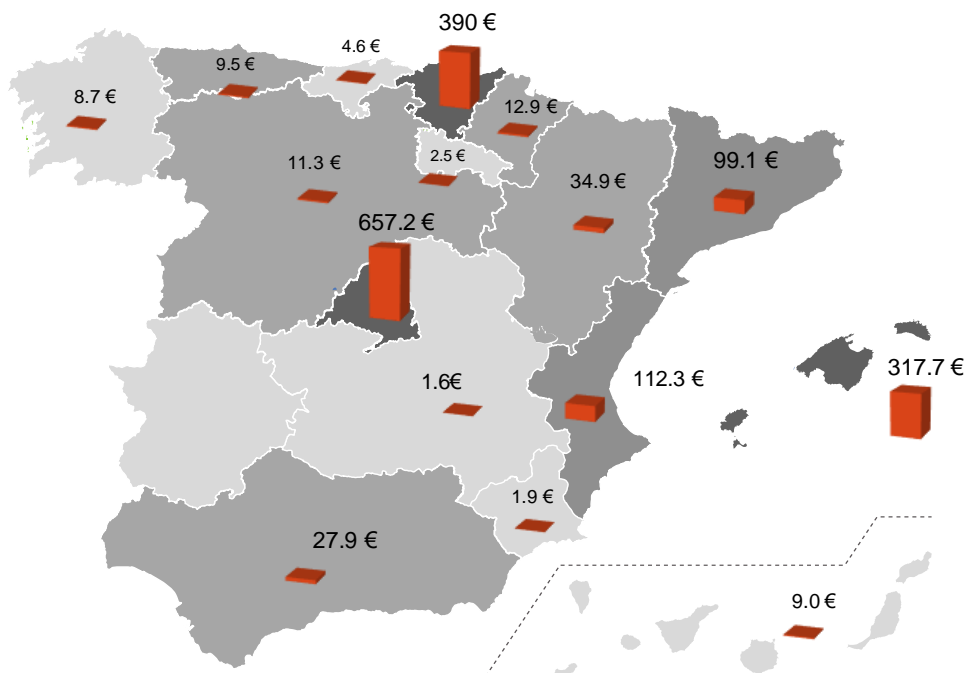
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.



- Inflows of British FDI on a per capita basis between 2013 and the first half of 2017 have been particularly significant in Madrid, the Basque Country and the Balearic Islands. In recent years, British FDI has grown especially strongly in per capita terms in the Madrid region, as well as in the Balearic Islands since the end of last year. This is despite a rise in population in both regions.

Gross inflows of British FDI during the economic recovery (2013-Q217)

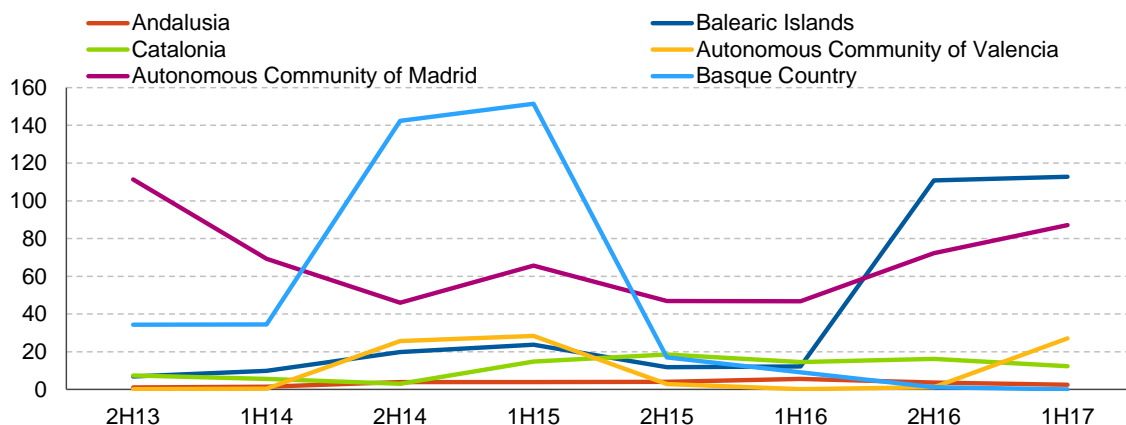
(euros per capita by region)



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

Gross inflows of British FDI during the economic recovery (Q313-Q217)

(euros per capita by region)



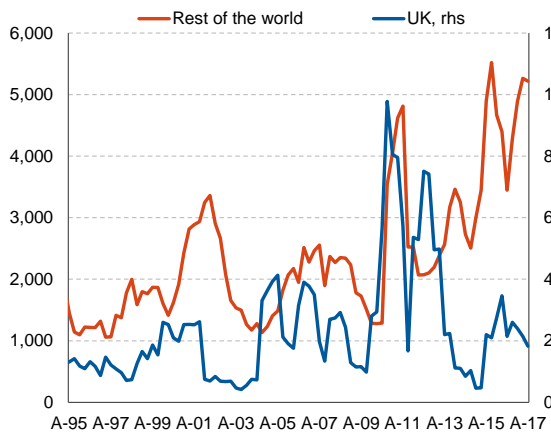
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce.



- Various political risk developments over the last year do not appear to have had an impact on British FDI flows over the last four quarters. Indeed, inflows of British investment into Spain have even increased slightly over the last six months.
- Although in Catalonia there is a degree of divergence relative to global FDI flows into the region which have been growing since 2011 (relative to a slight decline in British FDI), this is not limited to Catalonia and cannot be directly attributed to the political situation in the region.
- It is not inconceivable that this could change in the aftermath of the increase in tensions in the region at the beginning of October, although any such effect could take time to materialise.

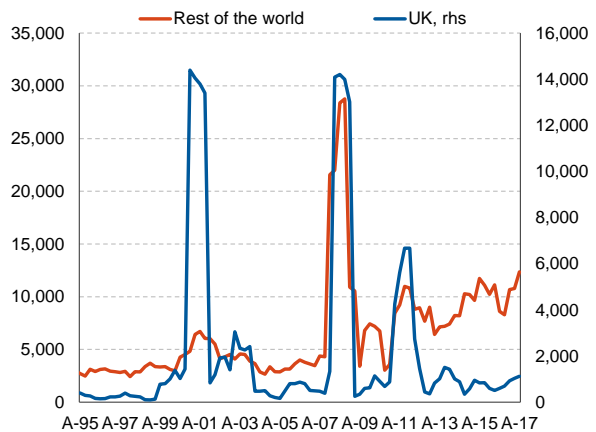
Gross FDI flows in Catalonia

(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



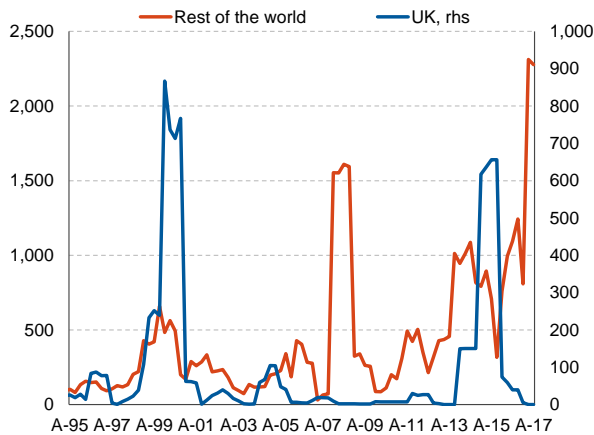
Gross FDI flows in Madrid

(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



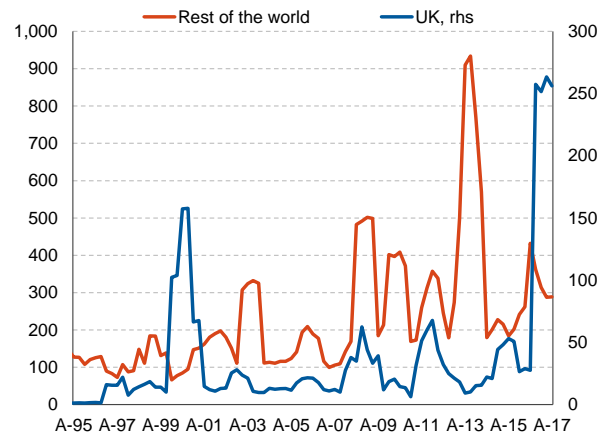
Gross FDI flows in the Basque Country

(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



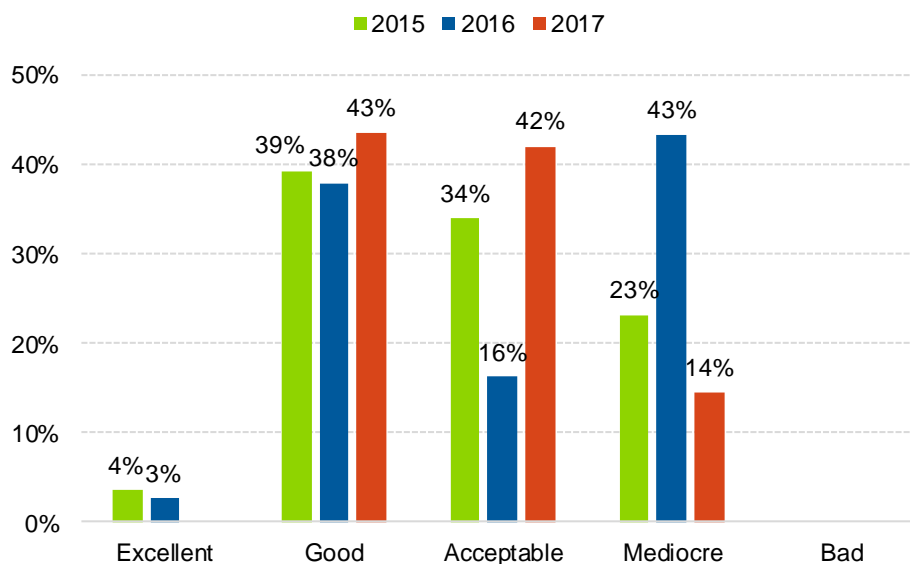
Gross FDI flows in the Balearic Islands

(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



- British companies have significantly upgraded their assessment of the Spanish business climate in 2017, reflecting the positive growth outlook for the Spanish economy as the recovery has gained momentum.

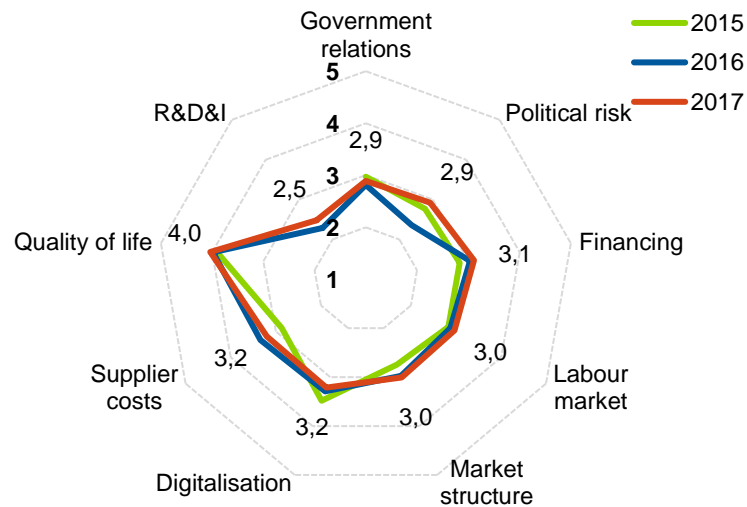
British companies' overall assessment of the Spanish business climate (% of responses)



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

- British companies perceive an improvement in nearly all areas included in the survey, though British business continues to see a need for greater commitment and budgetary support for spending on R&D.

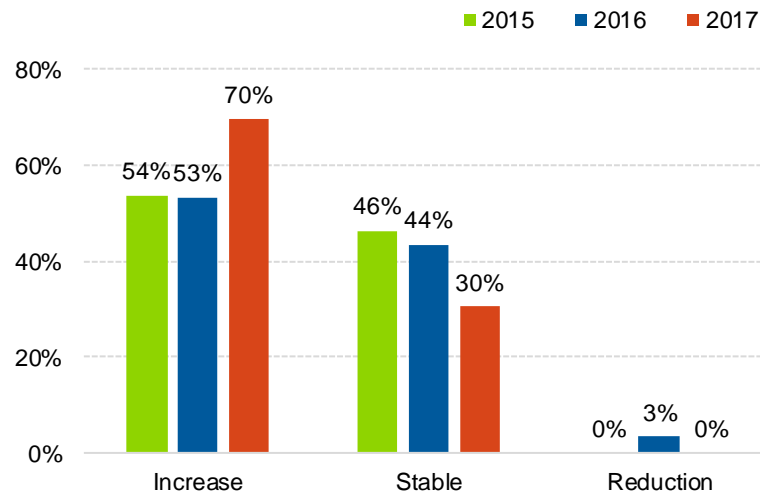
Assessment of the business climate in Spain by category
(scores based on % of responses, where 1 is poor and 5 is excellent)



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

- The improved perception of the business climate means a larger proportion of British companies plan to increase their investment in Spain. The bulk intend to do so within the next year, channelling investment towards innovation, underlining the strength of their commitment to Spain.

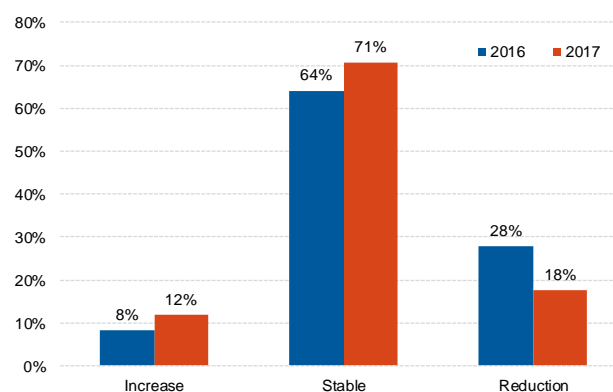
British companies' outlook for their investment in Spain (% of responses)



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

- One year on from the referendum, 71% of British companies believe that Brexit will not affect their investment in Spain, 11 percentage points more than last year.
- Meanwhile, companies which do envisage a potential impact on investment believe that the scale will be smaller than originally anticipated in the immediate aftermath of the referendum.

Assessment of the impact of the UK's withdrawal from the European Union on British companies' investment in Spain (% of responses)

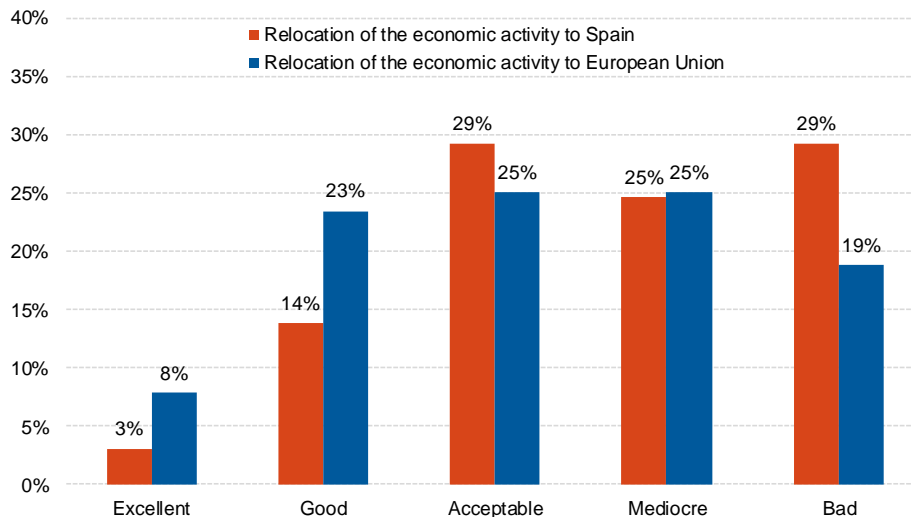


Source: Afi, "Survey of British investment in Spain".

- The main conclusions regarding the United Kingdom's withdrawal from the European Union are as follows:

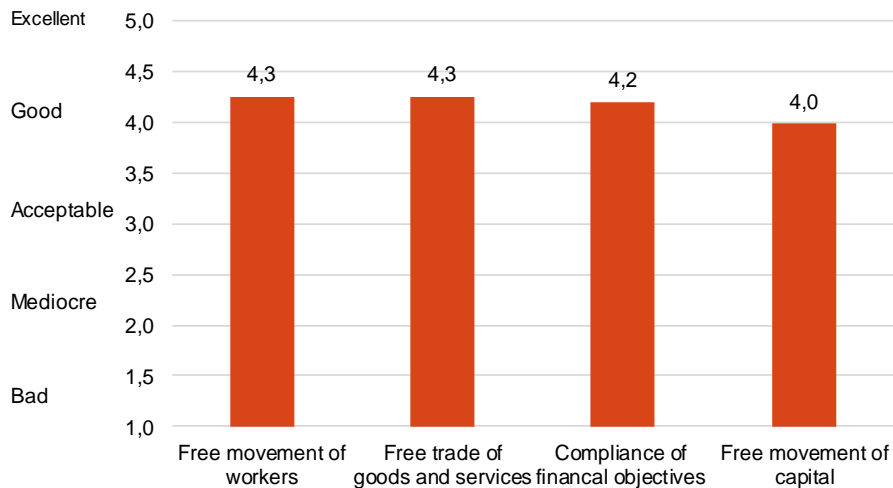
- Only 17% of consulted companies see Brexit as potentially leading to a relocation of their activity to Spain, though a larger proportion (31%) believe it could lead them to relocate operations to the wider European Union.
- British businesses believe that insufficient priority is being given to the economic aspects of negotiations between the United Kingdom and the European Union.
- Free movement of people and free trade in goods and services are the main focal points for British companies when it comes to negotiating a new economic framework for relations between the United Kingdom and Spain, closely followed by financial commitments and the free movement of capital.
- According to the British businesses consulted in this edition of the Barometer, a larger proportion of companies believe that the Spanish Government is not taking their opinion into consideration when negotiating the terms of Brexit, believing that more pro-active involvement in this negotiation process would be desirable.

Assessment of the potential for relocation of activity from the United Kingdom to Spain and the rest of the European Union (% of responses), 2017



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

Assessment of the importance that should be assigned to the following aspects of the negotiation to mitigate the impact on relations between the United Kingdom and Spain (score based on % of responses, from more to less important), 2017



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

- According to British companies, some of the main advantages of doing business in Spain are:
 - The exceptional quality of life, which is once again the best-rated attribute, supported by a continued improvement in lifestyle and security.
 - The continued progress towards creating a digital economy, which is the second most highly-valued aspect of the business environment.
 - The availability, quality and cost-competitiveness of firms supplying British companies, which – although less well-rated than last year – nonetheless remains one of the most highly-valued aspects of the Spanish business climate.
- In terms of areas for improvement:
 - British companies perceive an increase in the Government's commitment to promoting R&D spending, but still see room for improvement.
 - Although acceptable, British companies consider the relationship with the public authorities to be the second weakest element of the Spanish business environment. This is primarily to do with the tax burden.
 - Political risk remains one of the less favourable aspects of doing business in Spain. However, British companies (surveyed between May and July) consider that political risk is acceptable, in line with last year's Barometer.



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