

V BAROMETER ON THE CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

Executive summary

November 2019

 **British Chamber**
of **Commerce in Spain**

 **arriva**
a DB company



DIAGEO

gleeds



HAYS Recruiting experts
worldwide

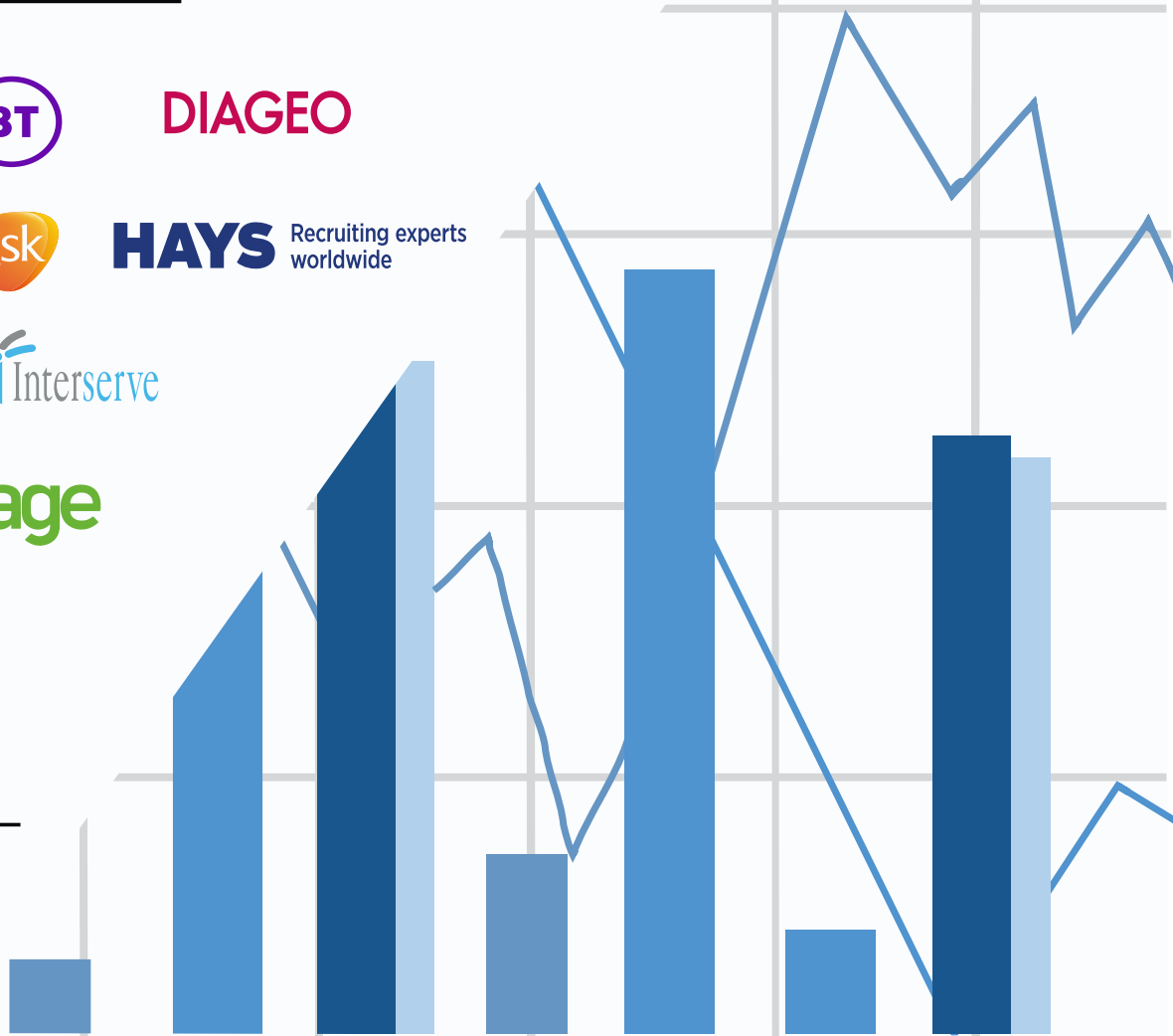


intu

sage



In collaboration with:



V BAROMETER ON THE CLIMATE AND OUTLOOK FOR SPANISH INVESTMENT IN THE UK

Executive summary

November 2019



DIAGEO

gleeds



HAYS Recruiting experts worldwide

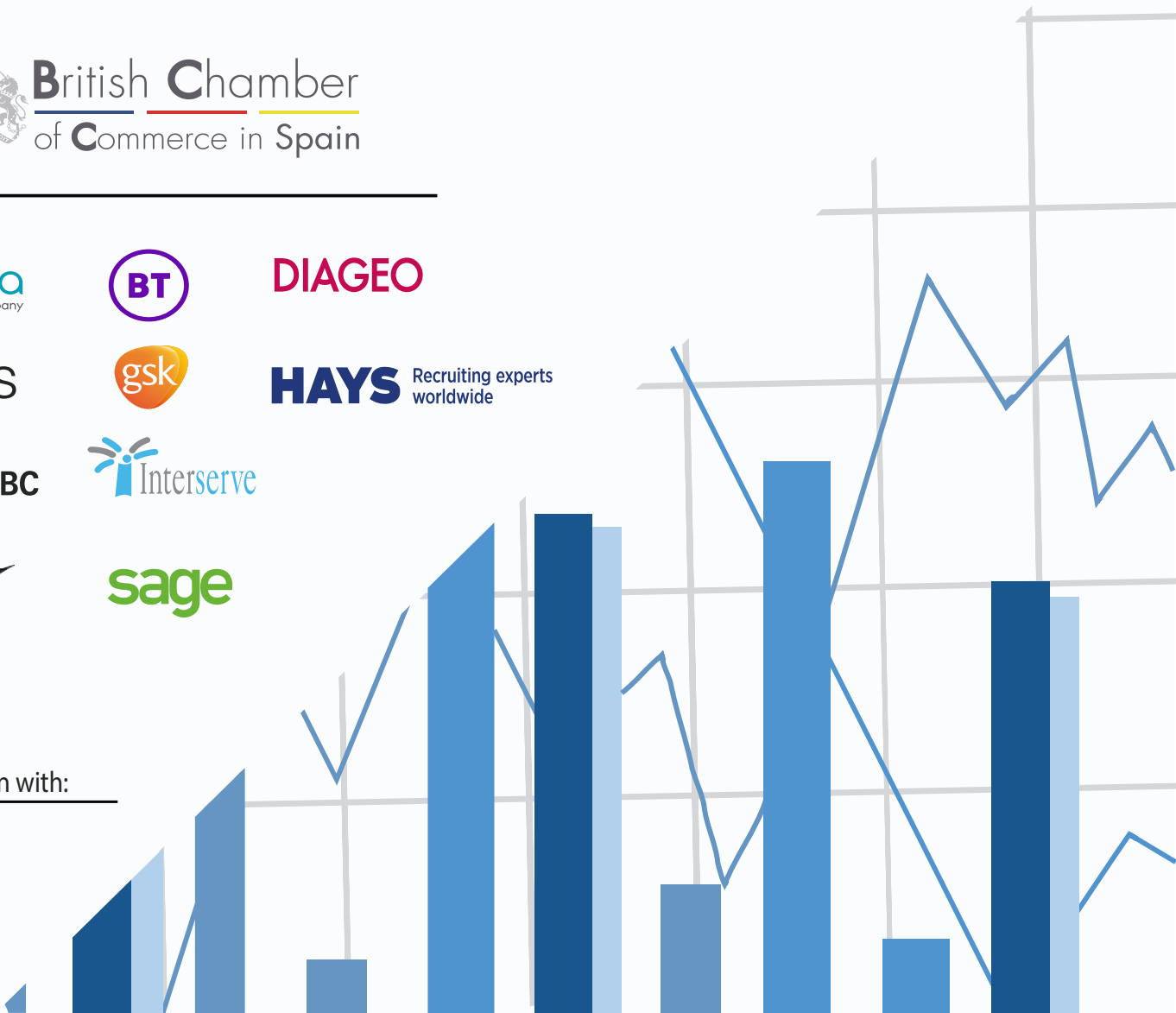


intu

sage



In collaboration with:



We are now on our 5th edition of the Barometer on climate and prospects for British investment in Spain, within this five-year period, it has become a benchmark study for foreign investment, and has even served as an example for other organizations. But most importantly, it has served to highlight the close ties that unite our two countries.

This edition of the Barometer is also special due to the current situation in both countries. Brexit has marked the political agenda during these last three years, an exit that has aroused the concerns and fears of both many British and Spanish companies. An effective EU exit risks the jeopardy of huge flows of investment and bilateral trade between the two countries. But not only the United Kingdom is seeing moments of instability. In Spain, we have been without a government for months and without a government action plan that advocates the promotion of foreign investment.

Despite all this, British investment has not only not declined in these last three years, but has also grown, demonstrating the great commitment that British companies have to Spain. This year's data reinforces its position as the first European investor in our country with an increase in stock and has also gained title of the foreign country that has made the most investment in the first half of 2019. At this critical environment, with the possibility of a no-deal Brexit forever lurking, the data reinforces the enormous confidence that Britain has in Spain. In addition, it is a positive message for our country that, despite government paralysis, we continue to attract British investment.

The analysis was created with the aim of assessing the amount of British investment in Spain and revealed that the United Kingdom is one of the most committed investors in Spain. Since analysing the investment, the British country has gone from being the fifth largest investor in Europe to being the first, only behind the United States globally.

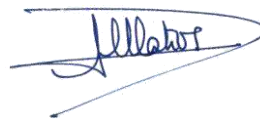
The Barometer is commissioned by the British Investment Committee in Spain, a working group formed by eleven of the most important British companies in our country. The group seeks to defend and represent the interests of British subsidiaries before the Spanish government with the aim of improving the business climate and attractubly foreign investment, in particular British investment.

Hopefully, this data encourages the institutions of both countries to reach agreements so that investment and trade remain so robust after the EU leaves.



Christopher Dottie
President

British Chamber of Commerce in Spain



Ángel Mateos
President

British Invesment in Spain Committee

Contents

Executive Summary:.....	3
1. Investment position (FDI stock) in Spain by country.....	5
2. British FDI stock in Spain by sector.....	6
3. Total cumulative flows until H12019.....	8
4. Nature of British inward FDI to Spain.....	10
5. Spanish FDI flows by sector.....	11
6. British inward FDI into Spain since the Brexit referendum.....	13
7. Flows by autonomous community.....	15
8. FDI and political risk in Spain.....	18
9. Effects on employment of British FDI in Spain.....	20
9.1. Effects on employment of British FDI in Madrid.....	21
9.2. Effects on employment of British FDI in Catalonia.....	22
9.3. Effects on employment of British FDI in Andalusia.....	23
10. Overall assessment by British companies of the Spanish business climate.....	24
10.1. Overall assessment of Spain's business climate.....	24
10.2. Assessment of the main aspects of the business climate.....	25
11. British businesses' perspectives for their investments and activity in Spain.....	31
11.1. Factors driving investments in Spain.....	31
11.2. Expectations for Spanish economic performance and business investments.....	32
11.3. Investment prospects in 2019.....	32
12. Perception of the impact of Brexit.....	35
12.1. Impact of Brexit on the investment plans and policies of British companies in Spain.....	35
12.2. Key factors in the Brexit negotiations and affecting companies' future investments.....	38
12.3. Degree of preparedness of companies and their opinion on institutional measures.....	39
13. Perception of the impact of political instability in Catalonia.....	42
13.1. Relevance and impact on business investment plans.....	42
13.2. Expectations for Catalonia.....	43
Methodological annex: characteristics of the sample of companies.....	44

Note: the results and opinions in this Barometer are not necessarily the opinions of the sponsoring companies.

Executive Summary:

Stock of investments

1. In 2017, the United Kingdom was Spain's second largest investor for the third year in a row. This continued the upward trajectory of Britain's investment position in Spain stemming back to 2013, reaching an all-time high of EUR 56.918 billion (EUR 2.4 billion higher than in 2016). This equates to 15% of total foreign direct investment (FDI) in Spain.
2. In Particular, British investments flow into telecommunications and the tobacco industry, remaining practically unchanged in these sectors over the last three years. The growth in flows into the sector providing support to oil and gas extraction activities (which were non-existent until 2016) is also striking. The UK is also practically the only foreign investor in Spain's secondary education sector; trade associations and employers' organisations; and the postal and mail business, where British FDI accounts for at least 99% of total FDI in the sector.

Investment flows

3. Since the historical series began in 1993, the UK has been responsible for the largest volume of inward FDI into Spain: EUR 75.776 billion – 18.0% of total inward FDI into Spain over the period.
4. The UK was ranked sixth in terms of inward FDI into Spain in 2015, rising to the top slot this year (to June 2019).
5. In the 12 quarters since the Brexit referendum (from the third quarter of 2016 to the second quarter of 2019, both inclusive) British inward investment into Spain has totalled more than EUR 20.266 billion – more than 23% of Spanish FDI flows worldwide in that period.
6. British inward FDI into Spain is primarily productive investment, not carried out through foreign securities holding entities (entidades de tenencia de valores extranjeros or ETVEs in Spanish) and there is very little divestment activity.
7. British inward investment into Spain is highly diversified across services, industry and construction, although services make up the lion's share. The sectors receiving the greatest flows since the beginning of the historical series are: telecommunications, wholesale, financial services, air transport, real estate activities, and electricity, gas, steam and air conditioning supply.
8. Since 2014, during the economic recovery, British FDI has been concentrated in the autonomous communities of Madrid, Catalonia, Castile-Leon and Valencia.

**Business
climate**

9. Of the British firms with investments in Spain responding to the survey, 81% rated the business climate in Spain as “Acceptable” or “Good” – a very high percentage, but somewhat more pessimistic than in previous years.
10. “Quality of life” in Spain is still the most valued aspect of Spain’s business climate which, alongside “digitalisation” and “the job market”, scored slightly higher than in the last two years. On the contrary, the greatest reported deficiencies are in public sector support for R&D and innovation, the score of which is down. The perception of political risk is also heightening.

**Outlook
(economy and
investments)**

11. The decent growth forecasts for the Spanish market have been the main driver of British investment in Spain over recent years. As well as expecting the Spanish economy to grow less in 2019, British businesses are somewhat more pessimistic about investments. Nonetheless, 35% of companies surveyed expect to ramp up their investments in Spain in 2019.

Brexit

12. In the lead-up to the UK leaving the EU, most British firms surveyed do not believe Brexit will result in them cutting their investments in Spain in 2019 and 2020, although the percentage reporting this has decreased. Moreover, 60% say that their investment policies have not changed significantly since talks began, while up to 80% declare they have not considered diverting their investments earmarked for Spain to other countries due to Brexit.
13. On a more negative note, the relative weight of companies expecting to cut their investments in Spain is at the highest level for four years. One in four companies believe the impact of Brexit on their operations in the Spanish market has worsened in 2019 (to October).
14. In this context, the number of survey respondents believing the Spanish government is taking into account the views of British companies in Spain and Spanish companies in the UK in the Brexit negotiations is low. Nonetheless, firms highly value the measures (dissemination of information, advice and others) taken by the central government to deal with the challenges thrown up by Brexit for British investments in Spain. They also responded positively to the steps taken by government agencies and business associations.

**The situation in
Catalonia**

15. The majority (58%) of British businesses attach little importance to the political instability in Catalonia vis-à-vis their investments in Spain, despite only 21% considering the political instability will wane over the next two years. Just 30% favour other regions in Spain as places to invest.



DIAGEO

gleeds



HAYS Recruiting experts
worldwide



intu 

sage



In collaboration with:

