



FOURTH EDITION OF THE BAROMETER ON CLIMATE AND OUTLOOK FOR **BRITISH INVESTMENT IN SPAIN**



Executive summary

- The UK remains the second-biggest 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.
- The stock of British FDI in Spain is concentrated in the telecommunications and tobacco sectors, in head office activities and in management consultancies.
- 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).
- 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.
- Since the start of the economic recovery (2013), British FDI has been concentrated in Madrid (capital city effect), the Basque region, Catalonia and Valencia.
- Despite the fact that, as in prior years, British FDI in Spain remains predominantly productive investment, i.e., investments that are not articulated through foreign security holding companies, or ETVEs for their acronym in Spanish, ETVE-channelled investments spiked in 2017.
- Flows of British FDI into Catalonia have rebounded slightly in the last year (particularly in the construction sector) to levels that are above their long-run average. This trend is in contrast with FDI flows into the region from the rest of the world.
- British FDI in Spain contributed to the generation of 187,423 jobs in 2016, which is over 4,000 more than in 2015.

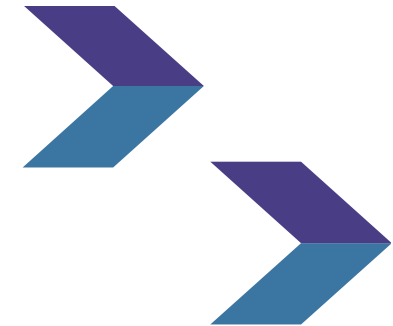


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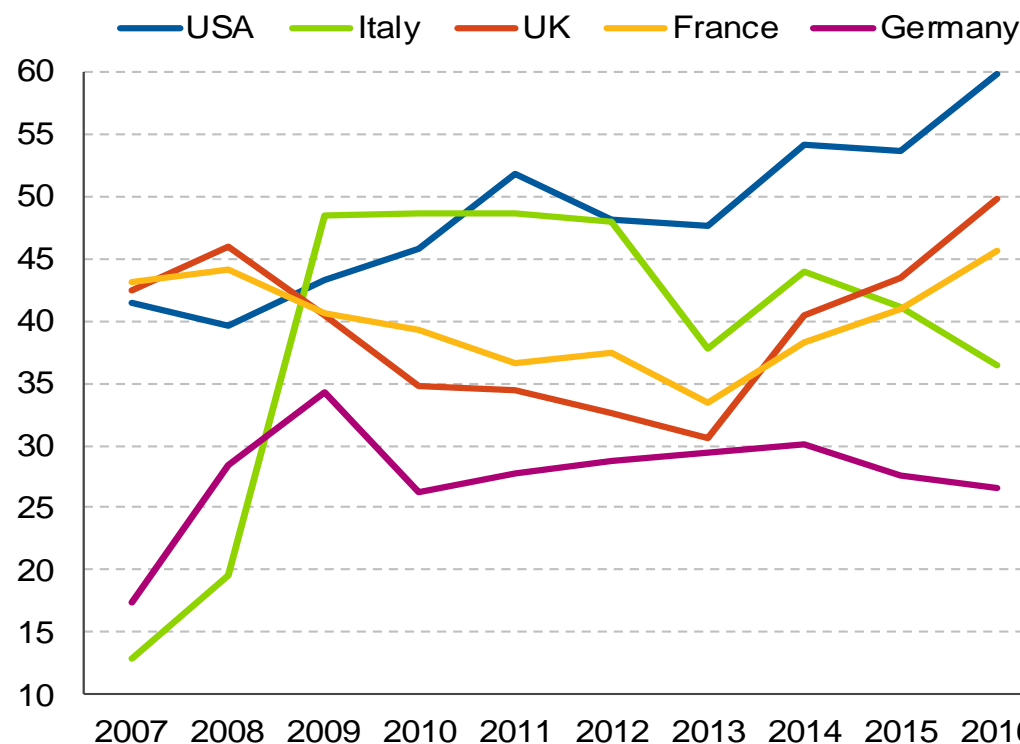
Foreign investment in Spain



1. 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, or €49.81 billion using ultimate investor country (UIC) criteria, marking growth of €6.35 billion from 2015

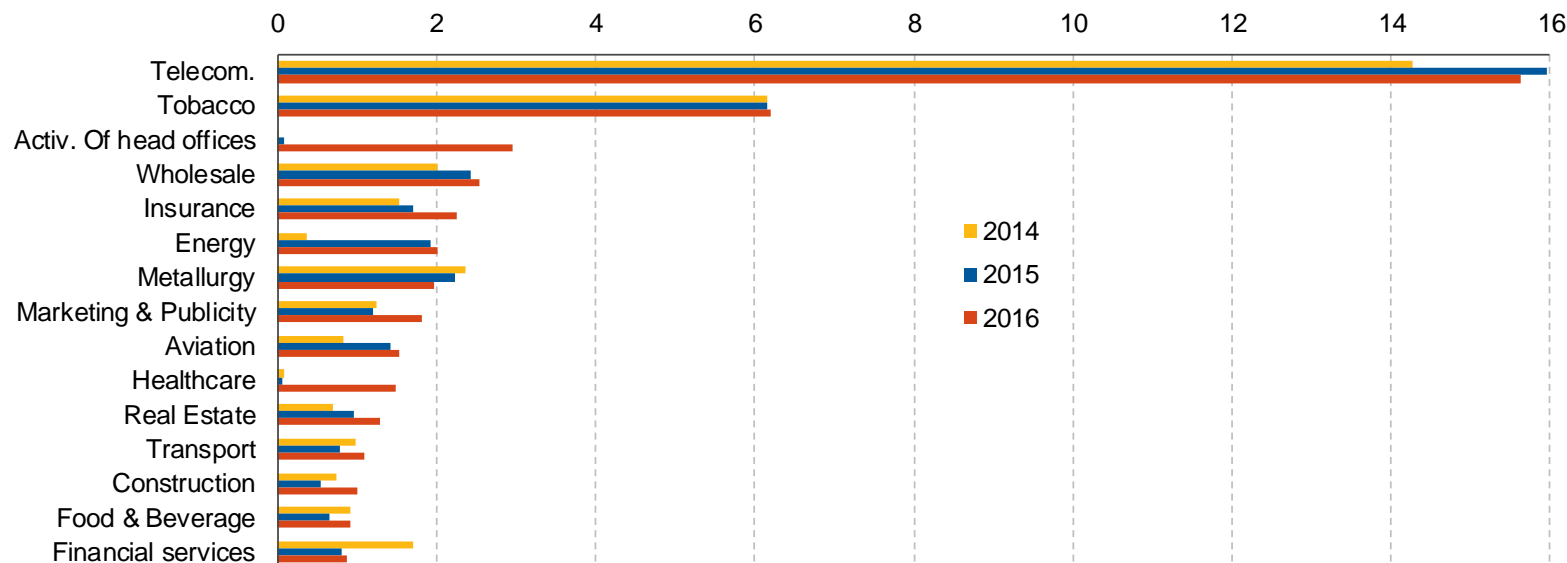
Stock of FDI by country
(€ billion, UIC criteria)



2. The stock of British FDI in Spain is concentrated in the telecommunications, tobacco and energy industries

- 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.
- The increase in British investment in head offices and management consultancies in recent years stands out: from a scant €12 million in 2014 to nearly €3 billion in 2016. The growth in British FDI in the Spanish health sector is similarly noteworthy: from €54 million in 2015 to €1.5 billion in 2016.

Stock of FDI in Spain by sector, 2014, 2015 and 2016
(UIC criteria, ETVEs excluded, € billion)

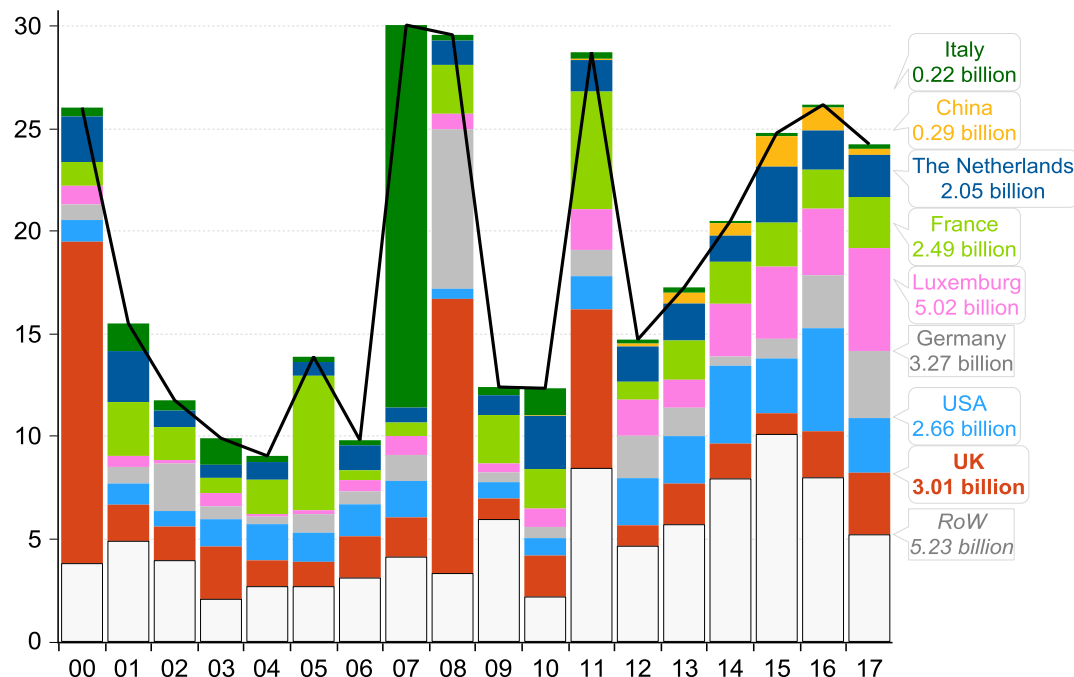


Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

3. The UK is Spain's most committed investor

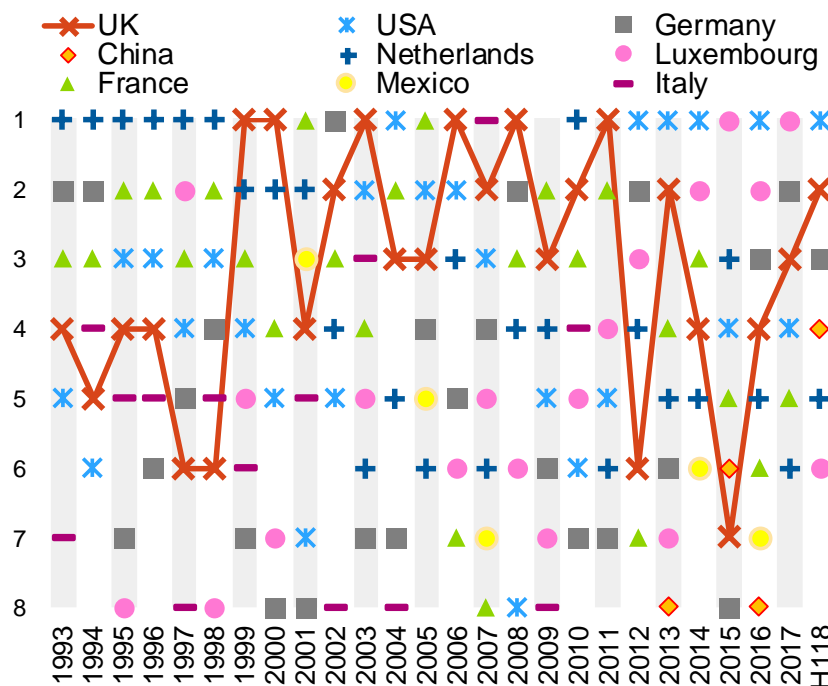
- The volume of FDI flows from the UK has gone from being the sixth largest source for Spain in 2015 to the second so far this year (1H18).
- The UK has consistently ranked among the top-seven investors since 1993 (in gross terms) and as the top-ranked investor during six of the last 24 years (1999, 2000, 2003, 2006, 2008 and 2011). In total, since the start of the series, the UK has invested €71.2 billion directly in Spain.
- British FDI between 3Q17 and 2Q18, excluding that articulated through ETVEs, amounted to €3.85 billion, which is above the average of €1.75 billion of 'ordinary' years.

Gross flows of FDI into Spain by country
(€ bn, UIC criteria, ETVEs excluded)



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

Ranking of FDI inflows into Spain by country
(UIC criteria, ETVEs excluded)



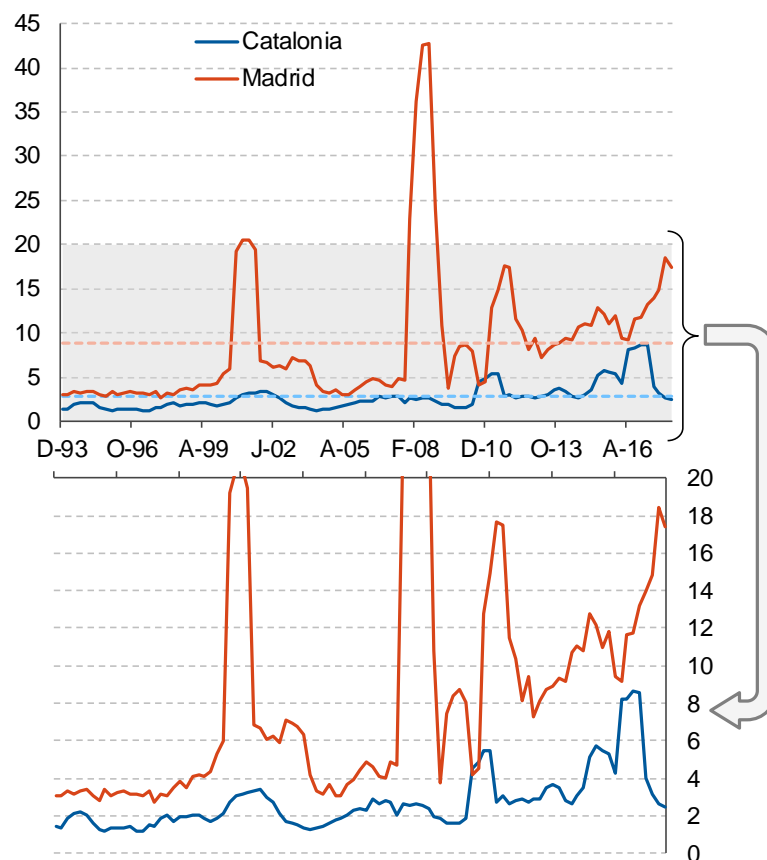
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

4. The gap opening up between Madrid and Catalonia is not evident in British FDI

- Flows of direct investment into Catalonia have been trending lower since early 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) to levels that are above their long-run average: they sum to over €500 million from 3Q17 to 2Q18, compared to an annual average of €234 million.

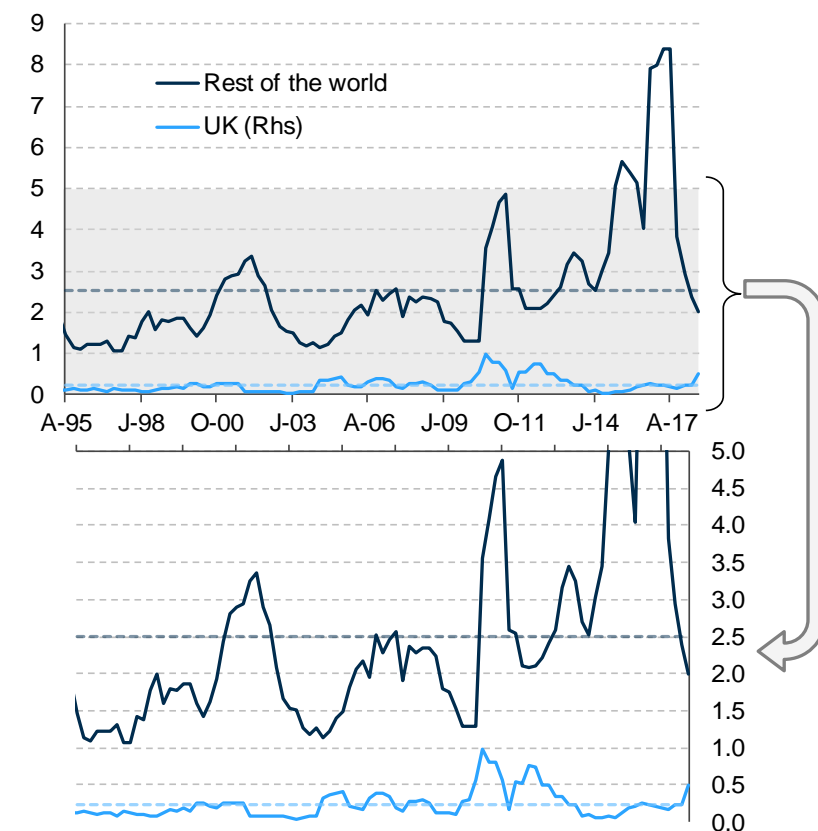
Gross flows of FDI into Catalonia and Madrid from all over the world

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



Gross flows of FDI into Catalonia, British vs. RoW

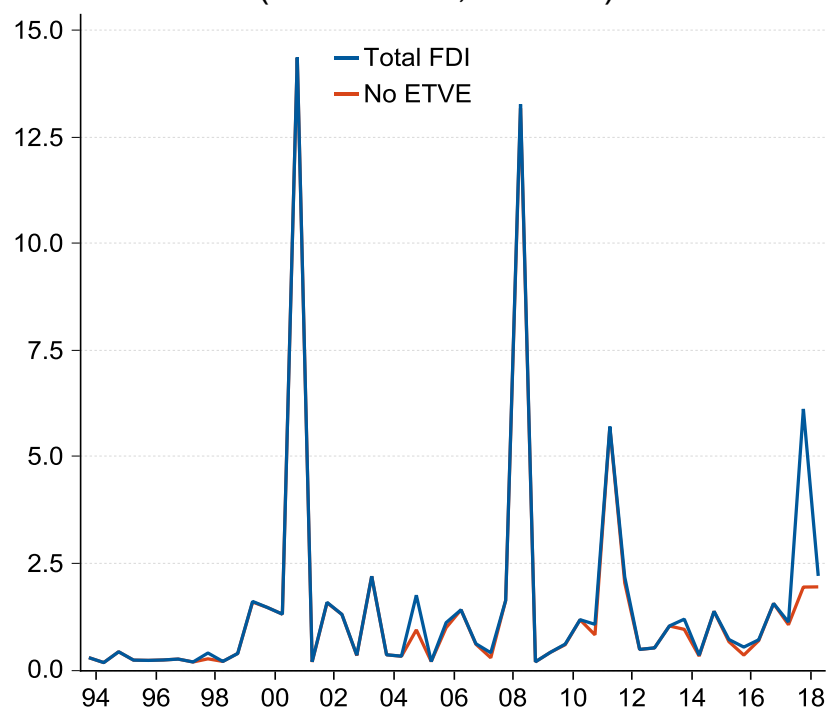
(rolling sum for trailing four quarters, UIC criteria, ETVEs excluded, quarterly, € billion)



5. Although British FDI in Spain remains predominantly productive investment, ETVE-channelled investments have increased

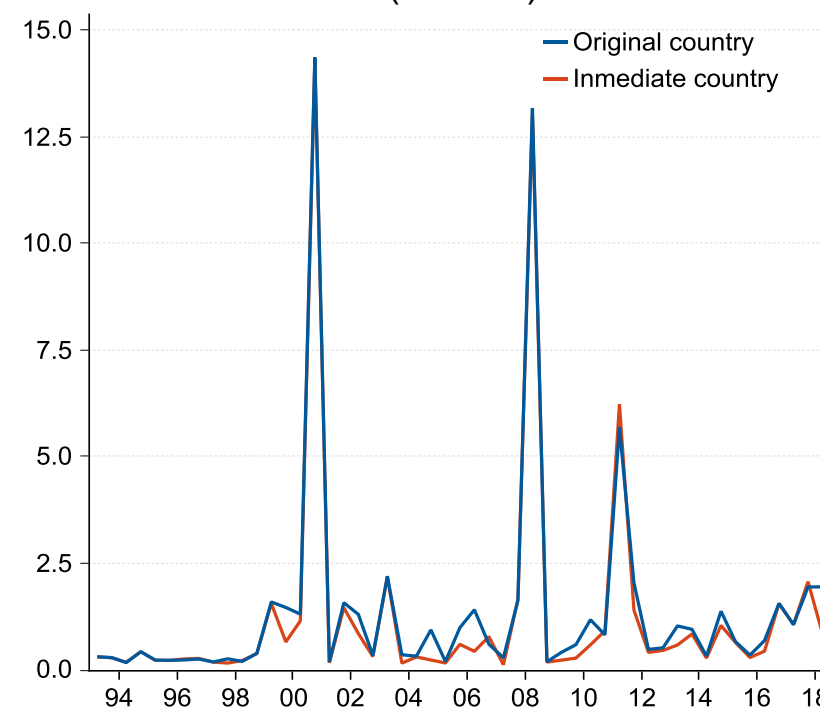
- The difference in flows using immediate versus ultimate investing country criteria is very small, which means that the source of the investments is the UK itself and that the country is not being used as a pass-through (unlike others such as Luxembourg).

Gross flows of British FDI into Spain broken down by productive versus ETVE investments
(UIC criteria, € billion)



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

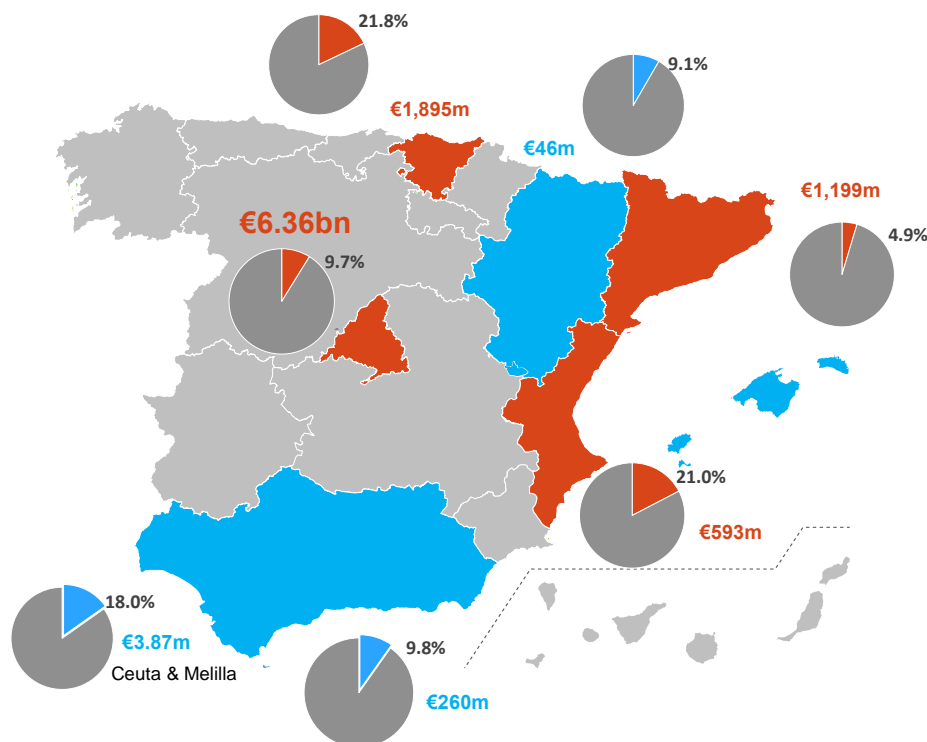
Gross British FDI, immediate versus ultimate investing country criteria
(€ billion)



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

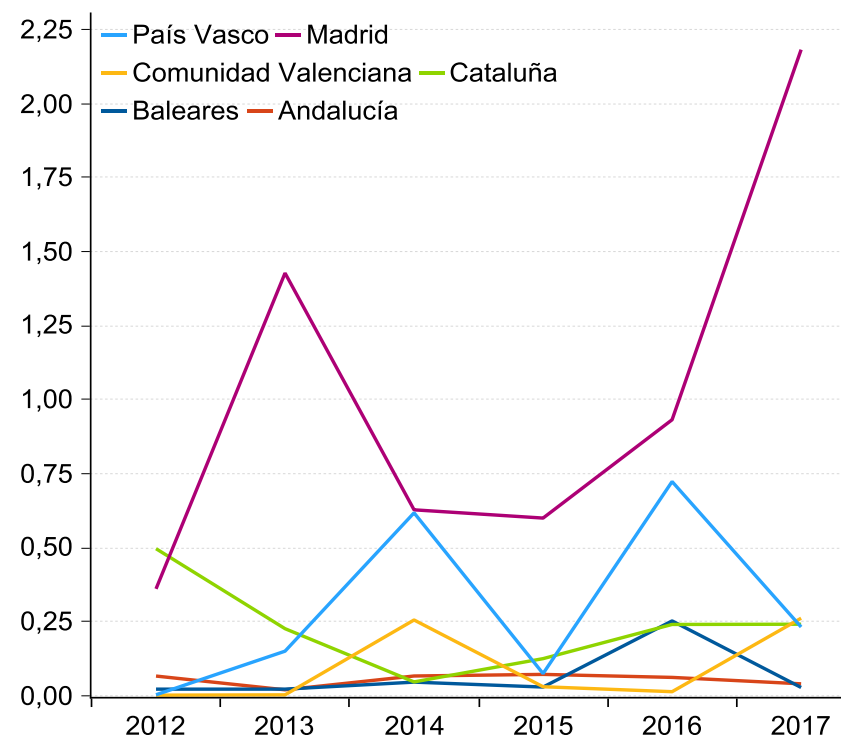
6. The majority of the growth in British FDI post-Brexit has been concentrated in the Madrid region

Recipients of British FDI during the economic recovery (2013-1H18)
(Volume of gross inflows in € millions and corresponding percentage of FDI in the region)



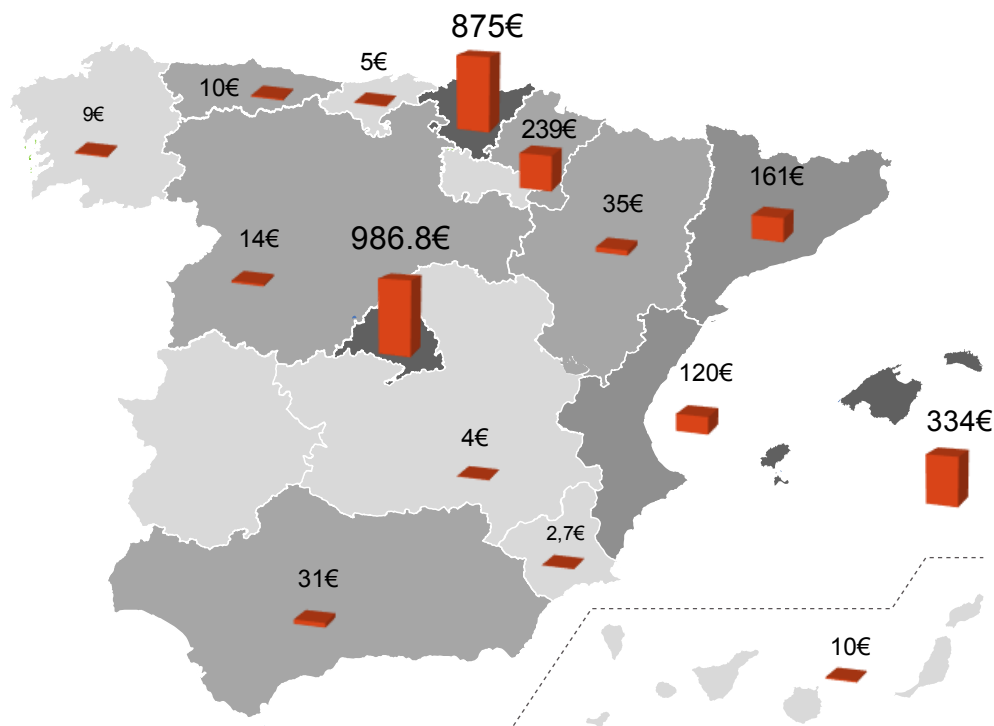
Source: Afi, Foreign Investment Register of the Secretary of State for Commerce

Gross inflows of British FDI by Spanish region throughout the recovery
(rolling sum for 2 trailing six-month periods, UIC criteria, € billion)



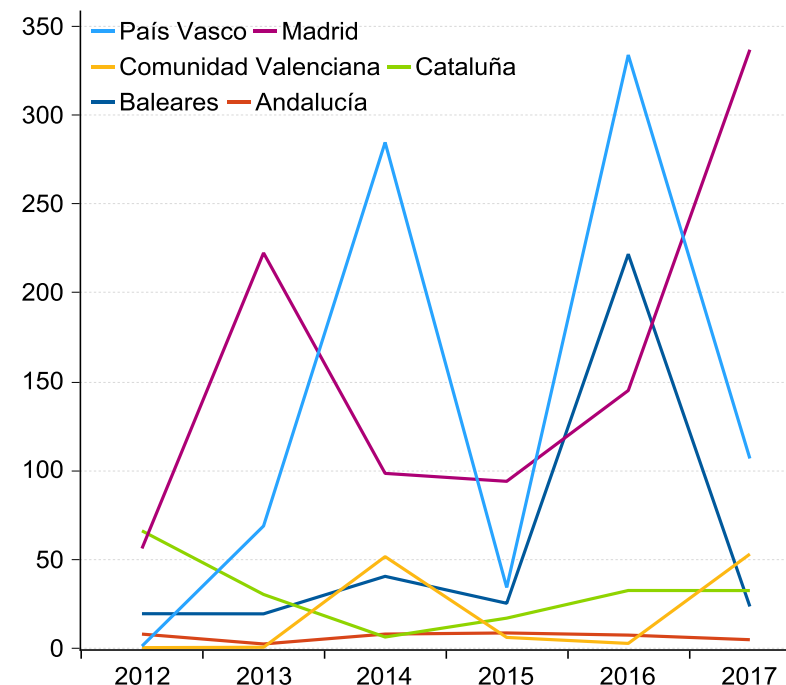
7. In per capita terms, British FDI has increased sharply in Madrid, the Basque region and Navarre since the last barometer

Gross flows of British FDI during the economic recovery (2013-1H18)
(€ per capita by region)



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

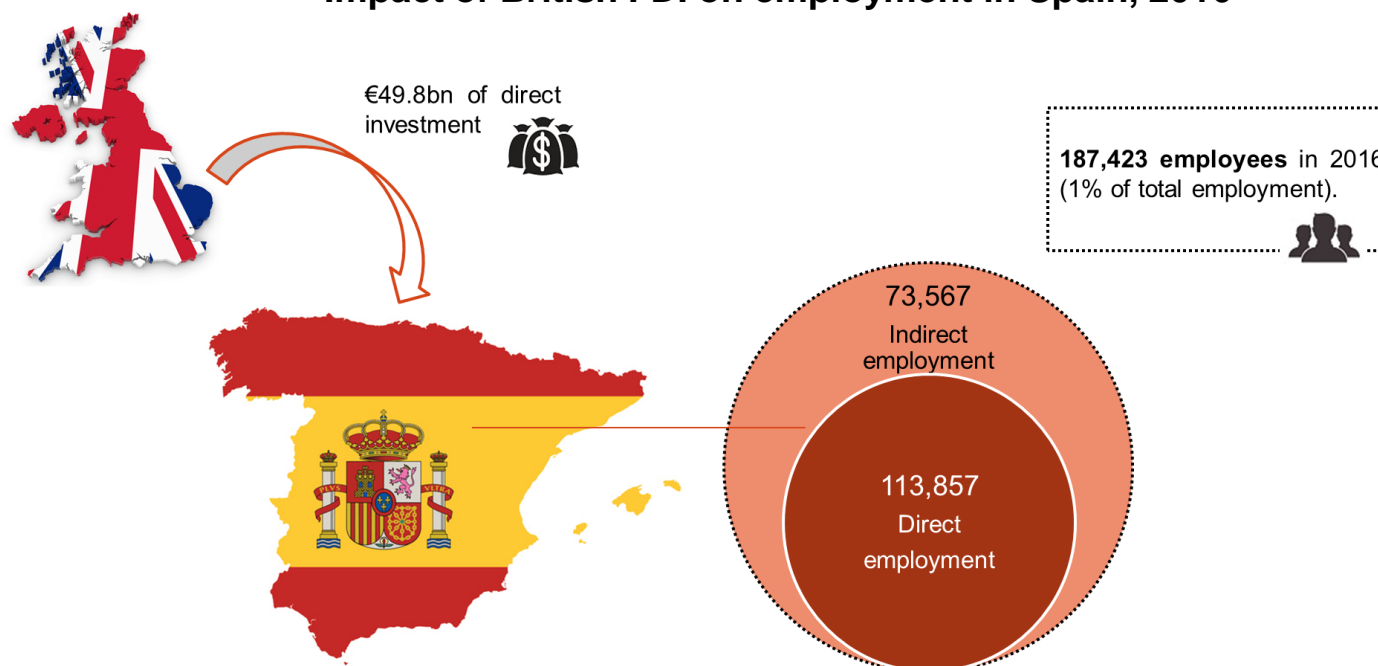
Gross flows of British FDI per capita during the economic recovery (2013-1H18)
(moving average for 2 trailing six-month periods, € per capita by region)



8. British FDI contributed to the generation of 187,423 jobs in 2016, 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 over 4,000 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.

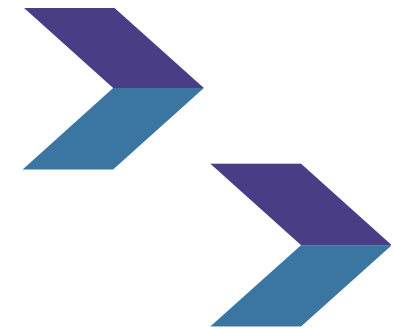
Impact of British FDI on employment in Spain, 2016



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

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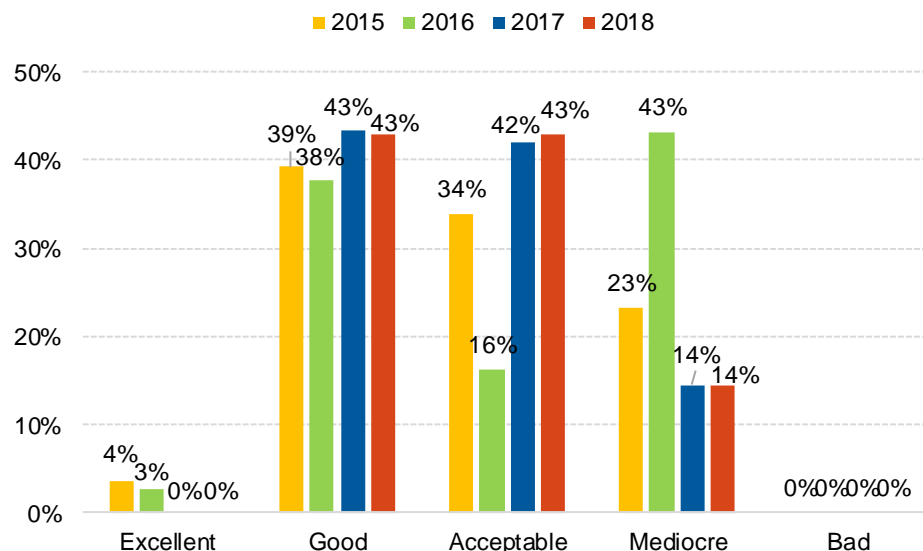
British companies' assessment of the business climate and outlook in Spain



The British companies' assessment of the business climate in Spain barely changed in 2018.

- This stability in how the business climate is perceived can be considered positive in an environment marked by the uncertainty surrounding the terms of Brexit.
- Although, the number of British companies that foresee a growth of the Spanish economy for 2018 has been reduced.

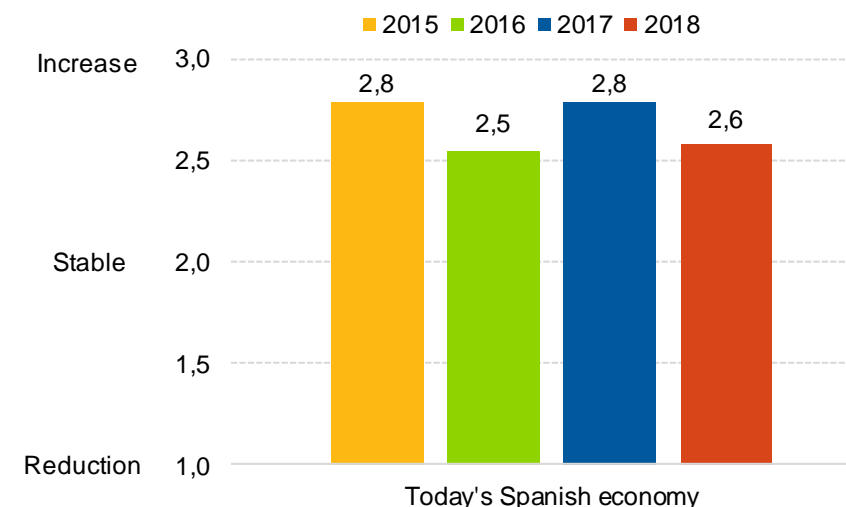
General assessment of the Spanish business climate by the British companies surveyed
(% of responses)



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

Current outlook for the Spanish economy of British companies in Spain

(scores weighted from responses, where 1 indicates contraction and 3 growth)

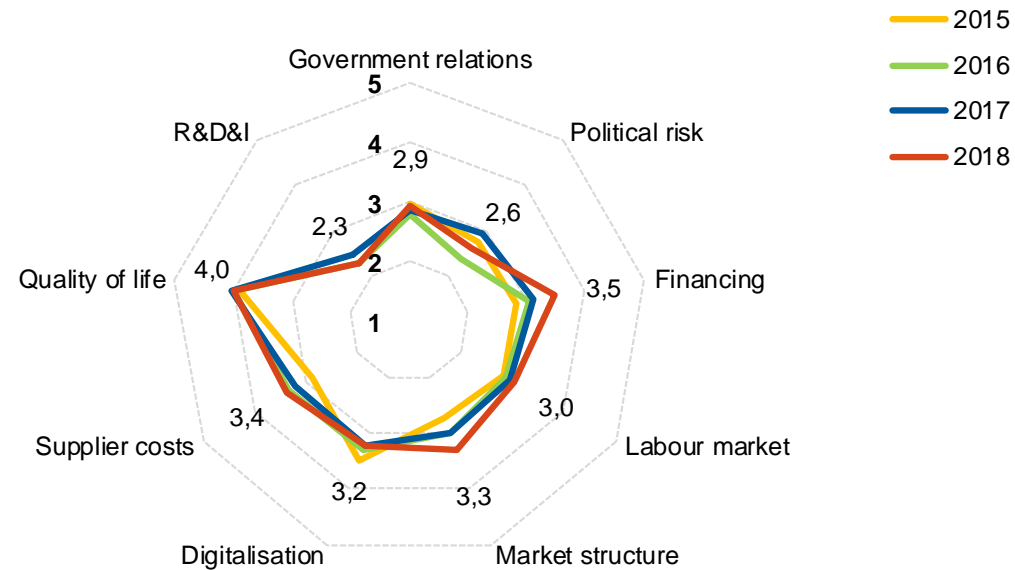


Source: Afi, "Survey of British investment in Spain".

Public support for R&D and political risk receive a worse score.

- In 2018, the Spanish business climate as a whole obtained an overall score of 3.14 points out of 5.
- Public support for R&D remains the worst-rated aspect, with a score of 2.3 points, while the score for financing conditions and market structure has improved. The quality of life is still the aspect most valued.

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

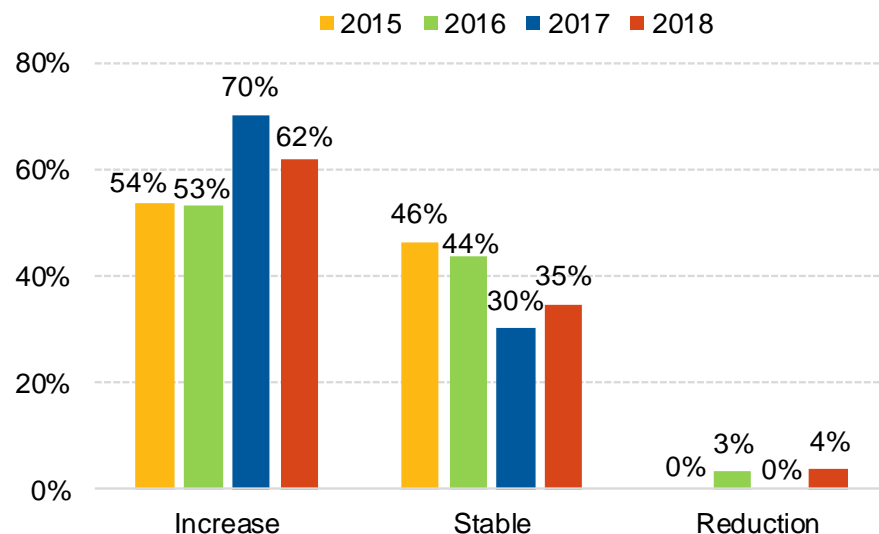


Source: Afi, "Survey of British investment in Spain".

There are still a majority of companies that plan to increase their investment in Spain.

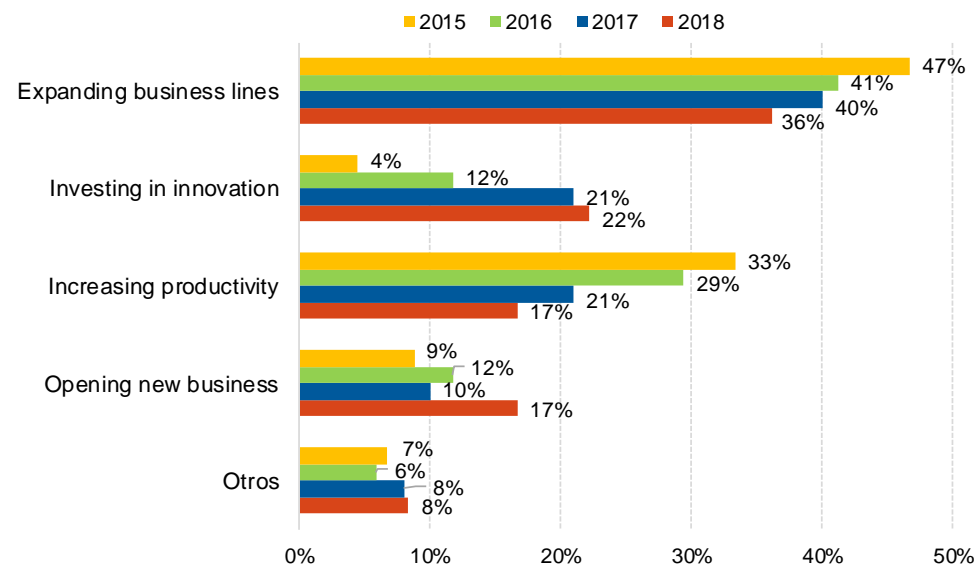
- However, British companies with expectations of maintenance or reduction of their investments have increased.
- Among companies who wish to increase their investment in Spain, 80% plan to do so within a year. And now there are more who seek to invest in innovation and, above all, open new businesses in Spain.
- British investment in Spain is becoming more geographically diverse. Sector-wise, it is concentrated in the information and communications sector.

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



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

Reasons underpinning British investment in Spain (% of responses)

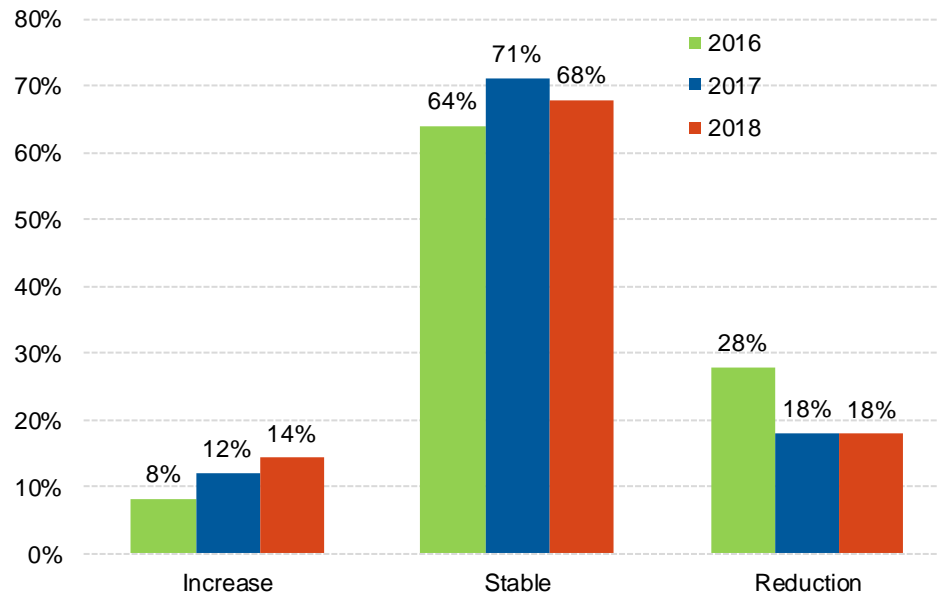


Source: Afi, "Survey of British investment in Spain".

Brexit does not alter business investment plans in Spain in the short term.

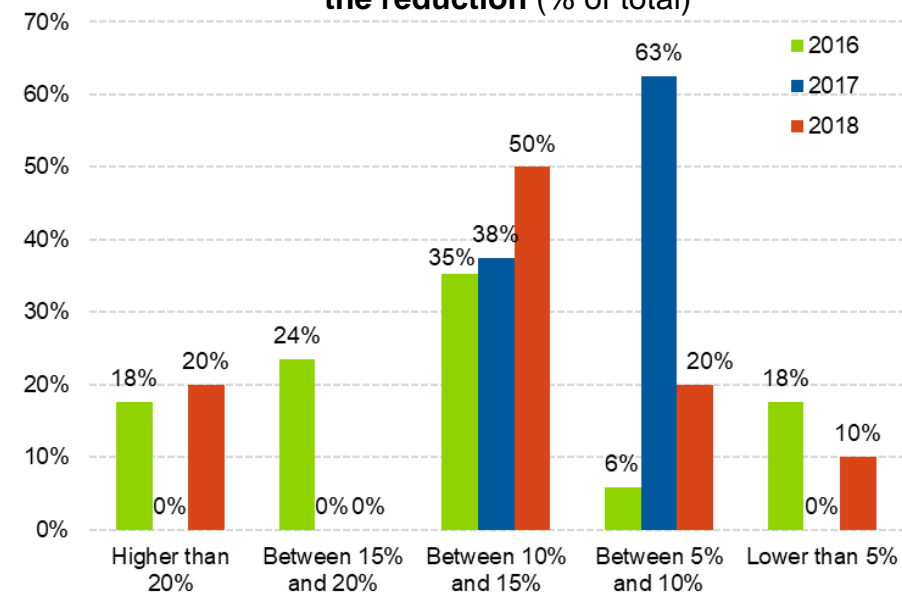
- Two years on from the referendum, 82% of the British companies surveyed expect that Britain's exit from the European Union will not lead them to reduce their investments in Spain in 2018 and 2019.
- However, among the companies that expect a negative impact, the magnitude of it has increased. More than half (70%) consider that it will be higher than 10% (compared to 38% of the companies in 2017).

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



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

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

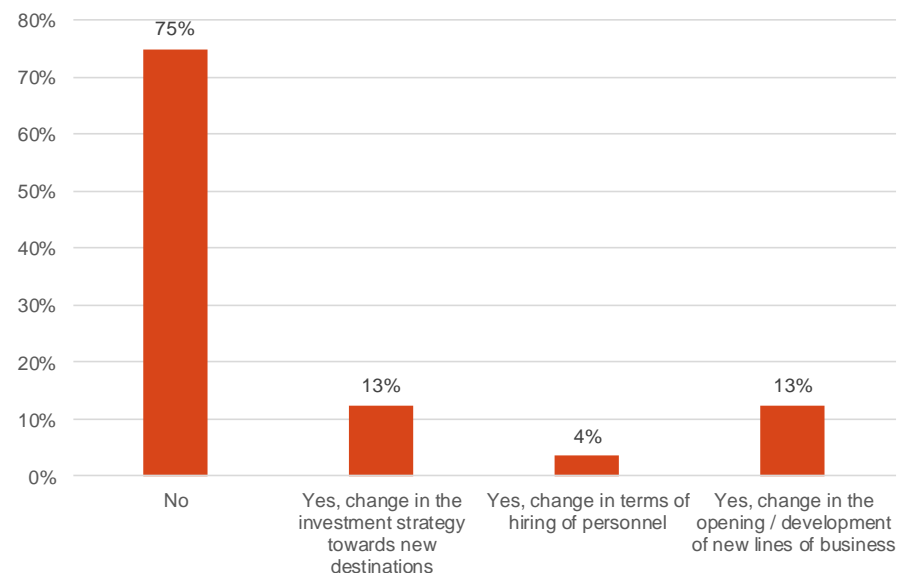


Source: Afi, "Survey of British investment in Spain".

Three out of four companies have not changed their investment policy in Spain.

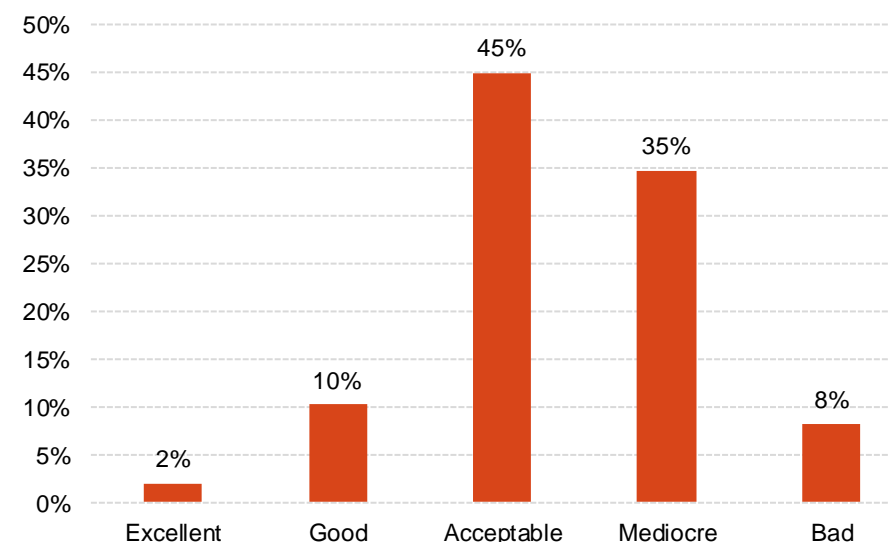
- Since the start of the Brexit negotiations, only 26% of the firms surveyed said they have registered significant changes in their investment policy in the Spanish market.
- The prioritisation of economic aspects in the negotiations underway between the UK and the European Union is considered insufficient (overall score of 2.6 points out of 5).

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



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

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

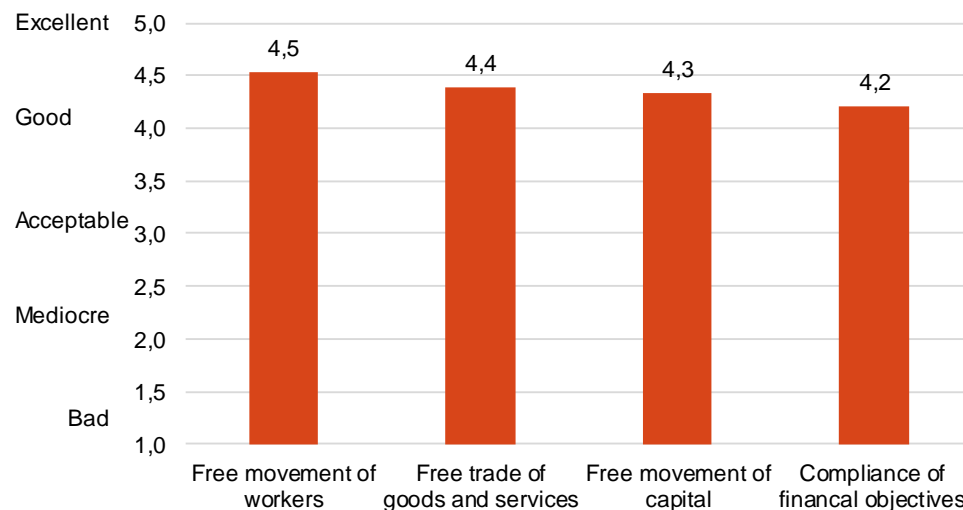


Source: Afi, "Survey of British investment in Spain".

The free movement of labour is the aspect believed of greatest concern, but it is not the only one.

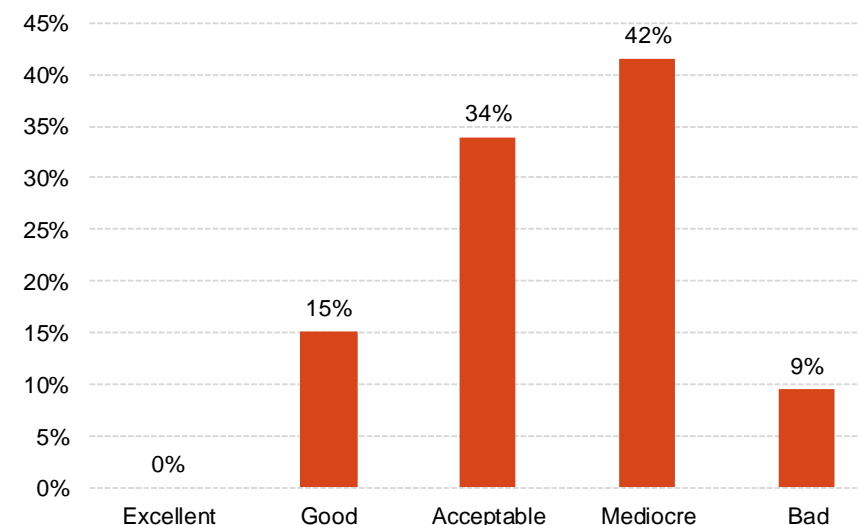
- In order to mitigate the impact of Brexit on economic relations, the free movement of workers, free trade, free movement of capital and financial commitments are considered relevant (score higher than 4, out of 5).
- The percentage of British companies that believe that the Spanish government is not doing enough to try and influence the Brexit negotiations has increased.

Importance in the negotiations between the UK and Spain (scores weighted from responses, ordered from most to least important), 2018



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

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".

