



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

# VI BAROMETER ON THE CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

November 2020



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November 2020



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

## Executive Summary:

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### **Stock of investments**

1. In 2018, the UK was Spain's second largest investor for the fourth year in a row. This continues the upward trajectory of Britain's investment position in Spain stemming back to 2013, reaching an all-time high of EUR 63.225 billion (EUR 4.0 billion more than in 2017) or 14% of total foreign direct investment in Spain.
2. In particular, British investments flow into telecommunications, the tobacco industry and the iron and steel industry, remaining practically unchanged in these sectors over the last three years. The rebound in investments in the energy supply sector is also noteworthy, with British inward investment quadrupling between 2016 and 2018.

### **Investment flows**

3. Since the historical series began in 1993, the UK has been responsible for the largest volume of inward foreign direct investment (FDI) into Spain: EUR 80.016 billion – 18.1% 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 second place this year (to June 2020).
5. In the 16 quarters since the Brexit referendum (from the third quarter of 2016 to the second quarter of 2020, both inclusive) British inward investment into Spain has totalled more than EUR 14.665 billion – more than 13% of global FDI in Spain over 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. Over the last year, British companies have become far gloomier about the business climate in Spain, giving the lowest scores in the six editions of the Barometer. Only 27% of businesses deem the business climate to be “Acceptable” or “Good”.
10. “Political risk” and other areas concerning institutional measures received the worst scores. Managing political risk, relations with public administrations, and the job market were identified by companies as areas where more support from government is needed in a post-Covid world.

***Outlook  
(economy and  
investments)***

11. While around half the British companies surveyed reported plans to invest more in Spain pre-Covid, the impact of the pandemic has resulted in just 16% now having plans to invest in Spain during 2020.
12. Nonetheless, buoyed by the brighter economic outlook for 2021, 30% of British companies plan to invest in Spain next year. The percentage of companies expecting to cut their investments has also decreased (to 25%).

***Brexit***

13. Following the UK’s exit from the EU, the overriding trend is that investments by British firms in Spain will remain consistent in 2020 and 2021. This perception of stability is greater than in previous editions of the Barometer.
14. Only 20% of companies foresee investing less due to Brexit this year, and slightly fewer (16%) in 2021. The main Brexit-related aspects concerning British companies are regulatory barriers and requirements and tariffs.

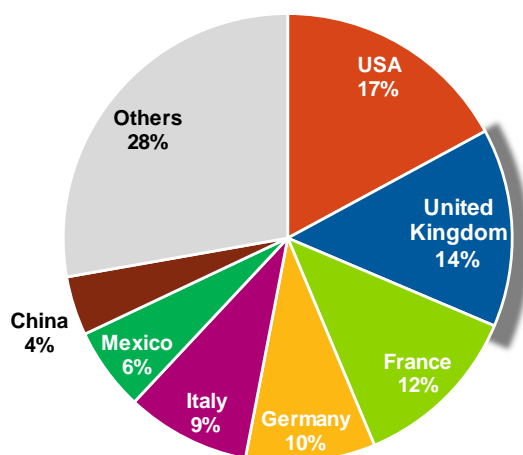
## 1. Investment position (FDI stock) in Spain by country

**In 2018, the UK was Spain's second largest investor for the fourth year in a row. This continues the upward trajectory of Britain's investment position in Spain stemming back to 2013, reaching an all-time high of EUR 63.225 billion (EUR 4.0 billion more than in 2017) or 14% of total foreign direct investment in Spain.**

The UK's investment position in Spain hit a new record of EUR 63.225 billion in 2018 – EUR 4.0 billion more than in 2017 (EUR 59.241 billion). Nevertheless, despite this growth, the UK's share is down 1 percentage point (pp) at 14% of total FDI in Spain (compared to 15% in 2017). This is principally due to the increase in the shares of Germany (from 8% in 2017 to 10% in 2018) and other countries (from 27% in 2017 to 28%).

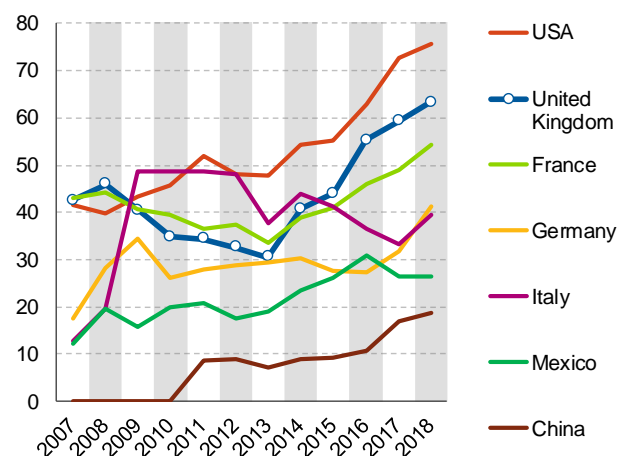
Although the historical series have been heavily altered, leading to a sharp rise in Britain's investment position in Spain in 2017 (the figure has been revised from an initially estimated EUR 56.918 billion to the aforementioned figure of EUR 59.241 billion in 2017), the position has continued to grow, reaching another all-time high in 2018 well above the 2017 figure and the maximum in 2008 before the financial crisis (when the stock of British FDI in Spain amounted to EUR 46.004 billion).

**Stock of FDI in Spain by country, 2018** (ultimate investing country criterion, percentage distribution)



Source: Afi, Secretary of State for Trade

**Historical trend in stock of FDI in Spain by country** (ultimate investing country criterion, EUR billion)



Source: Afi, Secretary of State for Trade

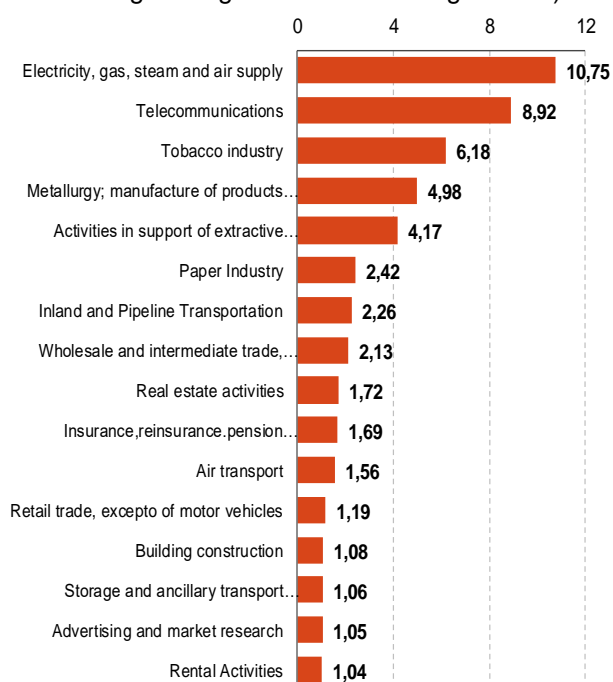
## 2. Stock of British FDI in Spain by sector

**The cumulative stock of British FDI in Spain is concentrated in the energy supply, telecommunications, tobacco, iron and steel, and extractive activities support services sectors.**

The cumulative stock of British FDI in Spain in 2018 is primarily in: the energy supply sector (EUR 10.745 billion); telecommunications sector (EUR 8.917 billion); tobacco industry (EUR 6.177 billion, 99.5% of FDI in the sector); basic iron, steel and ferro-alloy product manufacturing (EUR 4.982 billion, 98.2% of FDI in the sector); and oil and gas extraction support services sector (EUR 4.168 billion).

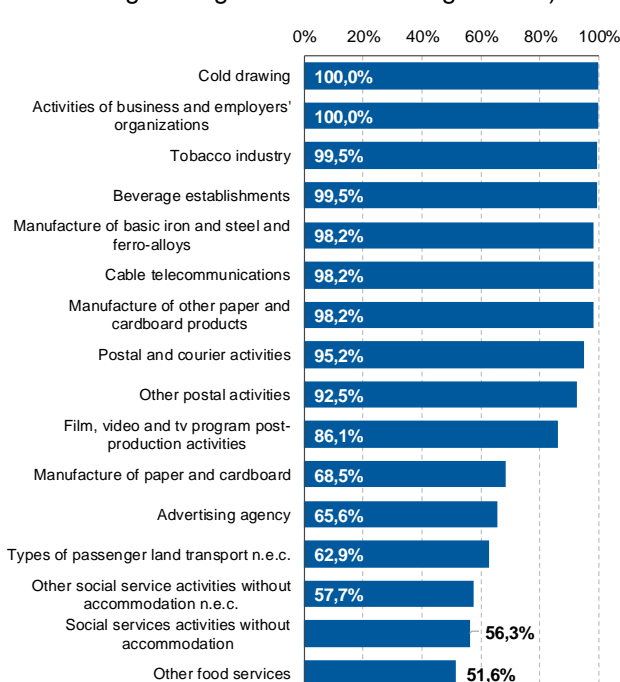
In terms of the relative importance of Britain's investment position, investments in the cold drawing sector; trade associations and employers' organisations; tobacco industry; and beverage businesses stand out. In all of these, at least 99% of total FDI in the sector comprises stock of British investments.

**Stock of British investments in Spain by sector, 2018** (EUR billion, excluding investments made through foreign securities holding entities)



Source: Afi, Secretary of State for Trade

**Stock of British FDI in Spain as a percentage of sector's total FDI** (excluding investments made through foreign securities holding entities)

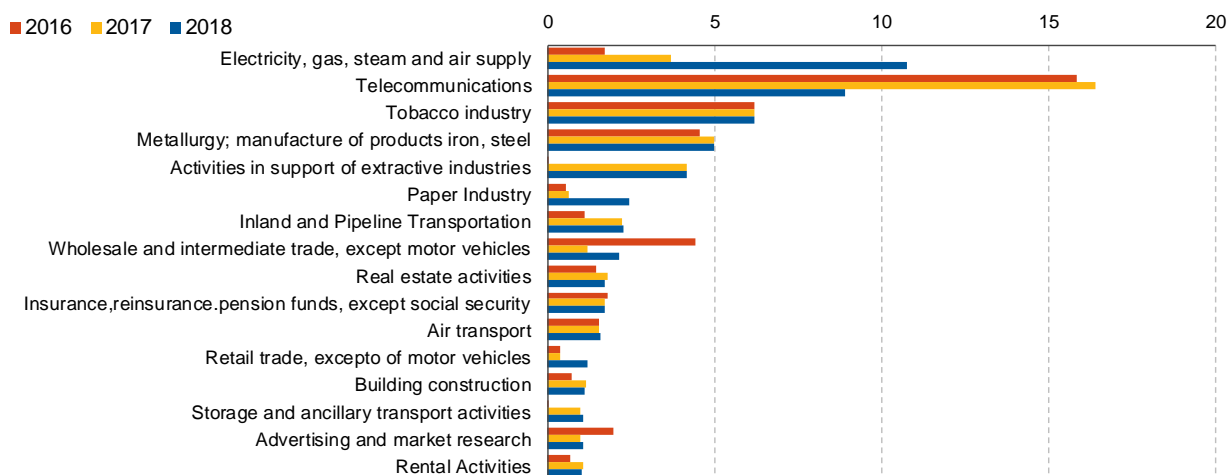


Source: Afi, Secretary of State for Trade

In particular, British investments flow into telecommunications, the tobacco industry and the iron and steel industry, remaining practically unchanged in these sectors over the last three years. The rebound in investments in the energy supply sector is also noteworthy, with the UK's investment position having quadrupled between 2016 and 2018.

Lastly, the extractive activities sectors and land transport and transport via pipelines sector have continued attracting capital since 2016 and are very good examples of UK investors' unwavering commitment to Spain.

**Cumulative stock of British FDI in Spain by sector in 2016, 2017 and 2018**  
(EUR billion, excludes investments through foreign securities holding entities)



Source: Afi, Secretary of State for Trade



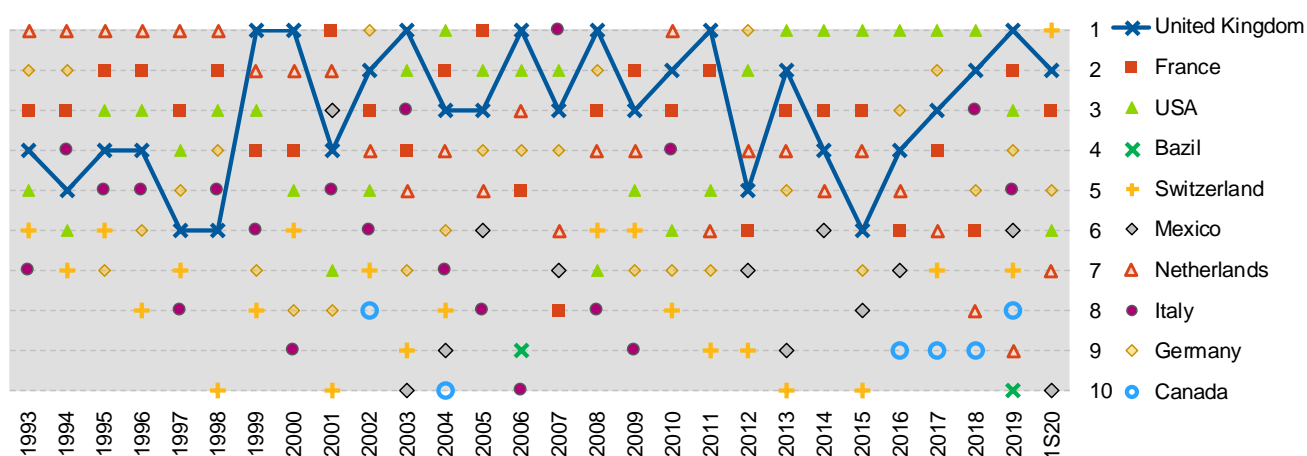
### 3. Total cumulative flows until H20

**The UK accounts for the largest volume of inward FDI since the beginning of the historical series (1993). British inward investment into Spain has risen since 2015, despite the referendum decision to leave the EU. The UK was ranked sixth in terms of inward FDI into Spain in 2015, rising to second place in the first half of 2020, with flows of EUR 1.004 billion. The overall decline in total flows may derive from the current public health crisis and is consistent with the trend in global FDI.**

In cumulative terms, Spain has received more than EUR 80.016 billion of British FDI (gross investment excluding operations carried out by foreign securities holding entities), or 18.1% of total inward FDI into Spain in the period figures have been available, i.e. from 1993 to the first half of 2020. The UK has accounted for easily the largest volume of inward investment into Spain (EUR 80.016 billion compared to the EUR 56.435 billion from the US), demonstrating British businesses' interest in being in the Spanish market with prospects of generating business in the medium and long term.

Year after year, since 1993, the UK has consistently ranked among the top six investors in Spain (in gross terms) and has ranked first in seven of the last 24 years (1999, 2000, 2003, 2006, 2008, 2011 and 2019). The UK was ranked sixth in terms of inward FDI into Spain in 2015, rising to second position year-to-date (H120).

**Ranking of inward FDI into Spain by country and year**  
(excludes investments made through a foreign securities holding entity)

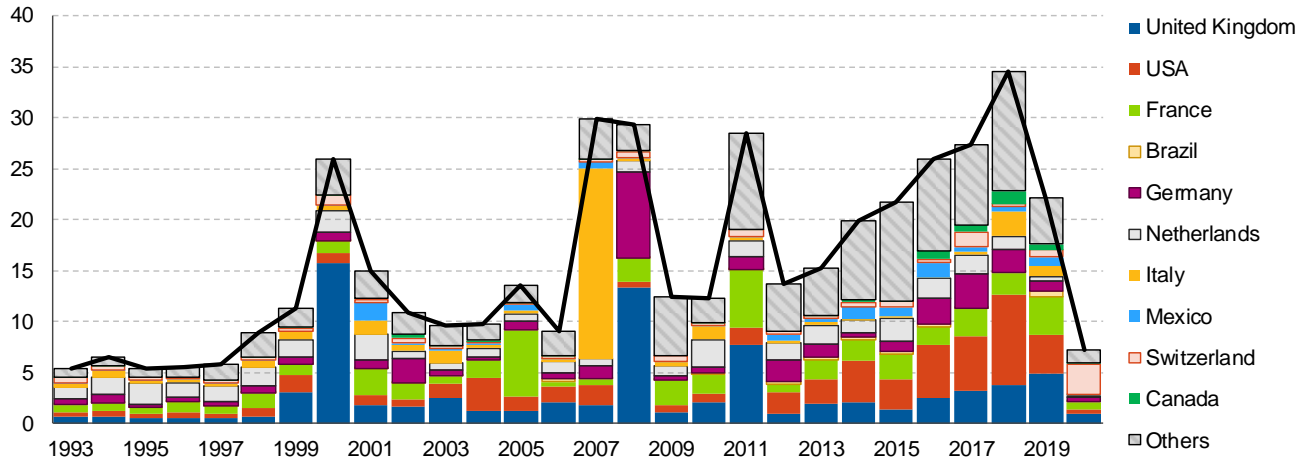


Source: Afi, Secretary of State for Trade

In the 16 quarters since the Brexit referendum (from the third quarter of 2016 to the second quarter of 2020, both inclusive) British inward investment into Spain has totalled more than EUR 14.665 billion – more than 13% of global FDI in Spain in that period. Despite the general decline that could be the result of the impact of the health crisis on investment, the UK invested a total of EUR 1.004 billion in Spain during the first six months of 2020 (latest information available): the second highest volume of FDI in Spain after Switzerland, less affected than other countries.

In this regard, the decline in inward FDI into Spain during 2020 appears to be more the result of a general reduction in FDI globally, possibly because of the negative effects of the Covid-19 pandemic, rather than due to British investors losing interest in the Spanish market.

**Historical trend in gross inward FDI into Spain by country to H120**  
(EUR billion, ultimate investing country criterion, excluding foreign securities holding entities)



Source: Afi, Secretary of State for Trade

## 4. Nature of British inward FDI into Spain

**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.**

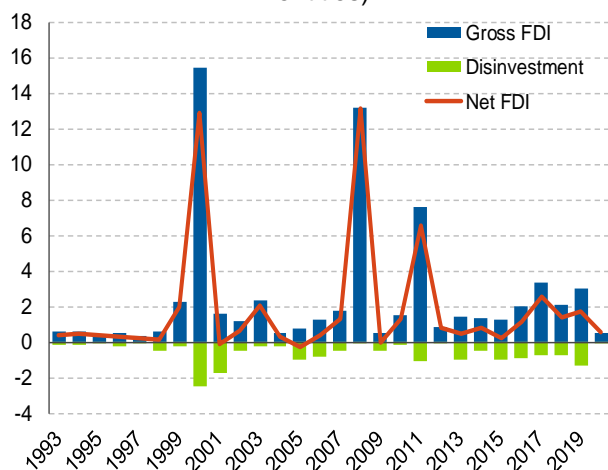
The nature of British investment in Spain is predominantly productive, as shown by the fact that most of it is not made through a foreign securities holding entity (that is, it is not carried out through an entity holding foreign securities, companies that benefit from a special tax regime that exempts from tax dividends or capital gains obtained by holding shares or holdings in foreign companies). Since 1993, the percentage of British inward FDI into Spain by foreign securities holding entities relative to the total has been 5.5%, with an especially notable rise in 2017 (over EUR 5.090 billion in 2017, when the annual average is EUR 351 million).

Another feature of British investment in Spain is the scant divestment flows in the historical series, which has made net investment flows positive and explains the systematic increase in the stock of British FDI in Spain. British net investment has been positive since 2005. British divestments have only exceeded gross investments on two occasions (2001 and 2005). The years 2000, 2008 and 2011 saw sharp increases in British inward FDI, linked to major deals in telecommunications (2000), wholesale (2008), and air transport and financial services (2011). In those years, the UK accounted for 60%, 45% and 31% of total gross FDI in Spain, respectively. This demonstrates that the years in which Spain attracted a large volume of FDI were also characterised by major inward investment from the UK.

Looking at available data (to Q220, inclusive), it does not appear Brexit has led to significant divestment. That said, it is the case that some divestments between 2017 and 2019 were related with political uncertainty and our survey reveals that there is considerable concern in this regard, which could prolong this trend in the future. However, data available for the first half of 2020 does show that the flow of divestments has once again reduced.

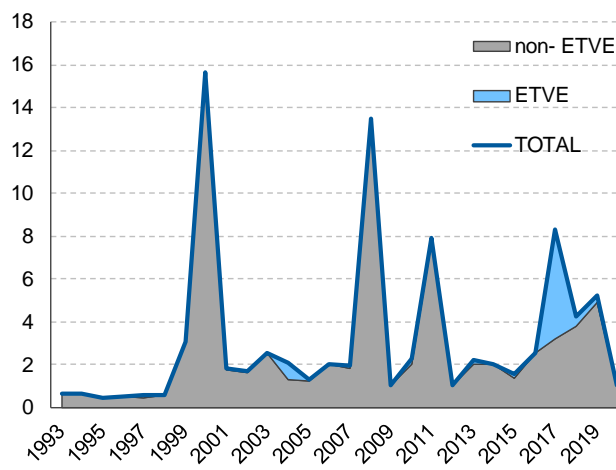
Lastly, in the UK's case, the difference in flows as per the intermediate and ultimate investing country criterion is generally very small across the historical series, which means the source of investment is the UK itself and that the country is not merely a "bridge".

**British inward FDI into Spain to Q220**  
(EUR billion, excluding foreign securities holding entities)



Source: Afi, Secretary of State for Trade

**British inward FDI into Spain by type of entity to Q220 (EUR billion)**



Source: Afi, Secretary of State for Trade

## 5. Inward FDI into Spain by sector

**British inward investment into Spain is highly diversified across services, industry and construction, although services make up the lion's share. This is expected given the extremely tertiary nature of the two economies. The sectors receiving the greatest flows since the beginning of the historical series are: telecommunications, wholesale, financial services, air transport, real estate activities, electricity supply and chemicals.**

British inward FDI into Spain is highly diversified and up to 21 sectors have received inward investment in every year of the historical series (over the 28 years since 1993). Other sectors receiving less notable inward FDI over time are: the paper industry, which received EUR 1.648 billion in 2019; education (EUR 421 million in 2019); and the chemicals industry (EUR 647 million last year). Year to date (YTD), there has been a fall in numerous sectors in 2020, although the data available is still provisional.

Some of the sectors receiving British inward investment every year in the series are: retail; food; advertising and market research; sports, entertainment and recreation; and building construction.

### Gross British inward FDI into Spain by sector since the beginning of the historical series

(EUR million, intermediate country criterion, excluding foreign securities holding entities, vertical arrangement corresponds to the volume of investment flows, colour scale corresponds to the amount of annual FDI)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	1H20
<b>NUMBERS</b>																												
Telecommunications	0,4	12,4	0,3	0,0	90,4	17,0	97,2	13.540	602	766	2.022	12,3	43,7	995	26,8	4,8	1,8	0,0	9,0	88,2	3,6	287,6	20,7	20,1	235,9	485	20,5	100,0
Wholesale trade	72,8	81,1	75,1	61,1	57,9	31,7	21,7	68,5	28,1	31,0	14,6	17,6	12,5	18,7	29,3	12.640	192,7	25,8	45,6	15,3	26,2	8,9	571,7	93,8	49,4	554	238,6	20,3
Financial services ( insurance and pension funds)	62,6	14,6	4,4	11,4	3,3	8,9	10,8	462,5	0,8	0,8	3,8	49,6	229,0	37,7	546	12,1	44,9	16,3	2.396	132,4	263,2	9,9	100,5	19,6	11,5	122,4	27,4	176,2
Air transport					0,0			272,5				14,4			10,1	0,0	0,0		3.927,2	0,1	106,3		27,5		38	24,4		0,2
Real estate activities	5,3	12,7	6,8	32,2	13,4	16,0	19,1	34,9	39	41,8	25,5	86,1	41,2	41,4	63,7	27,9	37,2	459,2	113,9	39,7	70,8	271,0	99,6	157,0	458,1	81,9	157,0	48,5
Chemical industry	6,7	20,2	4,1	21,3	3,0	85,1	731,1	12,4	3,3	43,8	5,0	4,0	90,4	21,2	41,8	0,3	2,0	68	83,0	18,1	0,1	267,0	10,0	10,0	110,5	3,7	647	11
Electricity, gas, steam and air supply	0,4		8,2	7,7	8,5	0,0	585	0,4	8,9	0,0	1,8	65,5	0,0	1,0	1,7	2,5	0,9	13,5	198,4	11,5	141	109,7	0,0	16,7	29,2	800,0	80,3	1,3
Paper industry	5,2	0,0	0,1				54,8	0,2	0,0			0,0		0,0				0,0				0	34,4	9,8	1,7		1.648	320,5
Activities auxiliary to financial services	35,1	84,4	119,4	0,3	24,7	1,3	4,0	328,5	774,1	48,5	42,7	0,3	7,7	0,1	5,5	19,8	3,9	5,9	8	24,0	41,0	236,3	9,0	89,0	26,3	5,2	23,0	94,2
Advertising and market research	0,6	0,7	9,2	6,8	2,9	0,0	6,4	4,3	4,0	32,4	17,9	10,6	7,8	304,0	6,7	3,4	0,0	678,3	0,6	9,2	10,0	9,6	0,0	6,6	6,9	32,5	702,5	
Sports, recreational and entertainment activities.	5,4	31,1	13,4	0,2	1,1	4,6	9,1	17,3	25,0	12,6	9,7	39,0	83,9	4,9	9,1	0,6	97,4	4,1	41,3	126,9	940,1	4	43,8	4,6	0,2	1,1	3,5	0,0
Food industry	35,7	3,5	2,5	2,1	21,5	4,2	0,5	3,6	1,8	0,6	98,8	99,8	51,2	6,8	0,0	7,3	107,7	290,9	560,4	50,0	0,0	2,8	0,0	0,4	7,6	103,7	0,0	66,8
Retail trade	3,3	20,0	6,5	33,5	29,7	6,0	36,2	98,2	1,4	20,2	2,1	483,1	20,3	26,5	79,6	42,2	2,0	13,1	20,6	67,4	0,2	0,1	8,2	72,5	403,2	8,0	11,7	2,0
Inland and Pipeline Transportation	7,9	0,5	16,2	2,3	3,6	1,5	46,7	0,0	18,1	1,8	11,6	0,0	2,3	1,5	319,8	0,1	0,0	3,6	8,0	0,1	0,0	8,8	0,1	119,7	635,3	249,5	1,7	
Building construction	13,2	7,0	8,8	10,1	17,1	40,3	31,8	17,9	34,9	48,0	63,2	42,3	45,8	44,7	49,0	38,4	8,7	17,6	42,0	36,4	26,5	29,6	115,7	349,8	28,2	57,6	60,5	2,2
Headquarters activities and management consultancy	57,7	3,1	1,5	0,2	35,9	9,0	112,1	6,2	2,2	442,3	7,7	45,8	2,6	1,3	77,2	9,6	8,9	0,1	1,7	5,6	5,2	0,1	110,0	4,5	308,8	1,5	3,5	1,2
Edition	1,1	89,2	1,3	103,5	0,1	15,2	783,0	5,7	5,9	0,5	0,0	1,2	12,2	0,3	0,4	2,5	12,3	3,5		1,7	154,2	0,2	2,3	18,5	40,1	2,7	0,0	0,3
Storage and activities adjacent to transport	9,5	13,7	16,7	33,3	3,7	3,1	36,8	12,4	3,8	0,4	0,7	0,1	0,1	8,0	8,9	0,1	363,5	0,0	0,1	0,0	16,7	512,9	0,1	40,1	0,0	0,0	50,0	62,3
Insurance, reinsurance, pension funds	70,2	29,5	80,0	51,7	73,0	72,7	46,0	153,5	0,3	10,1	0,0	6,5	1,9	0,0	18,4	128,0	0,0	0,0	0,0		0,0				227,0	0,0	0,0	
Manufacture of other transport equipment	1,1			0,0	0,0	1,6	0,0		18,2		3,5	14,2	8,5	13,1	10,4	0,0		0,0	0,0			0,0		717,8		100,2	0,0	
Legal and accounting activities	1,8	3,0	0,9	0,2	0,1	18,1	3,5	2,5	0,4	0,6	1,2	1,7	332,4	9,4	16,5	102,6	2,6	0,0	22,1	0,0	0,0	2,9	0,4	98,0	12,5	12,3	27,9	32,3
Accommodation services	11,2	2,3	12,6	1,7	2,2	14,4	164	103,1	20,2	18,2	16,3	21,3	3,7	1,5	107,2	1,1	23,3	2,5	8,8	16,3	4,2	19,4	34,8	16,1	26,0	1	25,3	0,0
Civil Engineering	0,0							0,0		0,4				0,0					4,9	0,0	6,7		0,0	145,9	262	188,5	0,0	41,0
Services to buildings and gardening activities	0,1	0,6	1,4	0,0		0,0	0	0,0	0,0	0,1	43,2	1,7	0,0	2,2	0,0	0,0		0,1	0,0		0,0		20,0	0,0	0,0	268,4	195,0	
Education	0,0	0,0	0,0	0,1	0,1	0,3	0,0	0,1	2,7	2,9	17,2	0,7	0,1	0,0	0,1	2,2	1,3	0,0	0,0	0,5	0,0	13,1	5,1	0,3	4,9	0,0	421,9	2,7
Manufacture of pharmaceutical products	9,0	4,1	11,0	0,0	4,1	4,2		2,2	10,0	0,0	0,0			114,4	8,1	1,1			9,2	243,0		0,0	34,2	0,1	6,1		0,0	
Programming, consulting, etc.	0,8	0,3	0,2	1,9	1,2	49,3	14,8	80,8	15,3	3,6	4,5	40,1	4,5	1,4	19,5	30,7	9,3	0,0	5,6	1,1	4,4	3,8	3,0	9,7	16,0	102,7	11,3	9,3
Manufacture of fabricated metal products (excluding machinery)	0,5	1,2	2,1	4,0	1,5	12,3	143,9	58,5	13,4	4,8	0,8	0,4	33,5	120,9		0,0	0,2			0,0		0,2	0,9		9,0			
Cinematographic, video and tv programme activities, recording.	0,0	0,0	0,1	0,0		0,0	3,2	0,0	0,0	0,0	6,0	0,0	0,0	52,8	14,5	60,5	0,0	0,0	0,0		4,7	0,0	29,8	2,2	1,7	232	0,0	0,0
Workshop administrative activities	0,7	0,1	0,1	0,5	1,7	0,4	0,3	1,1	0,2	16,1	2,9	2,9	1,3	12,8	239,7	54,2	1,1	0,5	6,5	9,2	3,6	11,1	1,0	5,8	1,5	7,0	13,9	0,0
Activities of travel agencies, tour operator reservations	1,4	0,1	0,1	0,1	0,1	4,6	0,4	54,3	18,3	0,2	0,3	0,3	0,7	0,0	0,2	21,2	13,8	3,8	25,4	0,0	0,4	0,1	0,7	229,7	1,4	0,0	5,7	0,0
Manufacture of other non-metallic mineral products	20,0	2,1	5,8	3,7	3,4	0,1	0,6		0,7	29,9	0,3	0,0	15,7	55,4	14,0			169,3			2,5		0,0		1,1	56,9	1,7	
Food and beverage services	23,2	0,1	0,0	5,8	1,8	35,3	1,0	2,4	0,2	4,6	16,0	0,6	17,3	0,8	27,7	2,1	5,4	0,5	1,7	2,2	0,2	9,3	1,6	120,5	13,3	69,1	4	3
Other professional, scientific and technical activities	0,4	1,2	0,5	0,7	2,8	18,5	5,0	27,7	0,4	0,6	0,1	0,3	0,3	1,1	1,4	2,4	5,3	3,1	2	0,2	1,0	41,6	1,1	0,9	39,2	36,4	159	1
Rental activities	1,7	0,0	0,0	0,0	0,6	0,7	0,6	0,2	9,1	16,3	12,4	43,9	18,2	22,5	6,5	2,3	23,7	22,5	10,4	22,5	24,4	19,3	0,7	39,5	5,0	0,1	35	0

Source: Afi, Secretary of State for Trade

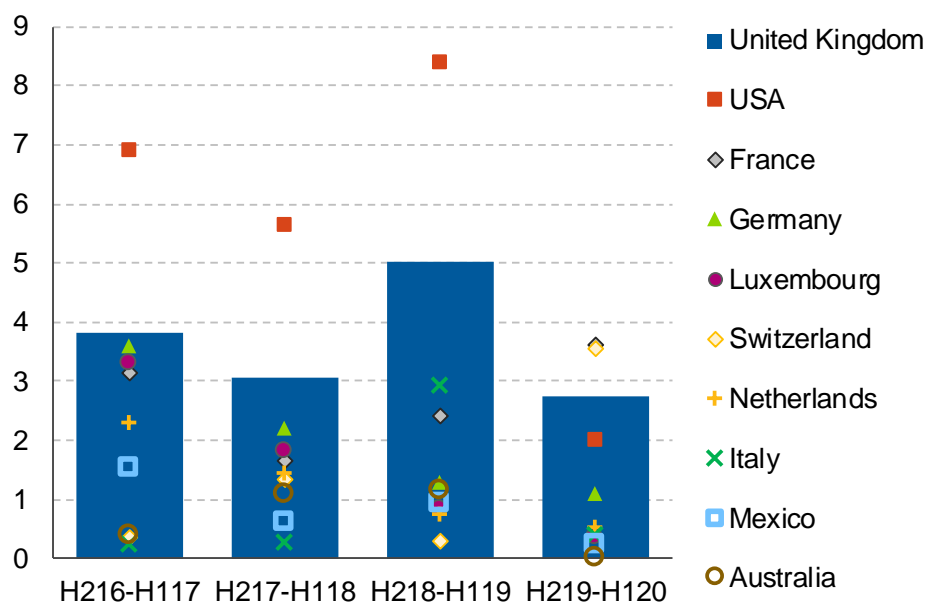
## 6. British inward FDI into Spain since the Brexit referendum

**Despite doubts about the forthcoming negotiations between the UK and the EU, FDI flows into Spain have remained high and constant, totalling over EUR 2.7 billion in the last four quarters. The UK has consistently ranked among Spain's biggest investors in the last 12 quarters since the Brexit referendum.**

The UK's exit from the EU is not currently affecting British investors' commitment to Spain. Completely on the contrary, the country has been one of the largest contributors of inward FDI into Spain over the last four quarters (EUR 2.731 billion).

In the four years since the Brexit referendum, the flow of investments from the UK to Spain has remained at its normal level and British FDI between Q316 and Q220, excluding foreign securities holding entities, totalled EUR 14.665 billion. The average was EUR 3.666 billion for each of the four quarters, which is higher than the historical average of British inward FDI into Spain of EUR 1.880 billion.

**Main contributors of inward FDI into Spain since the Brexit referendum** (excluding foreign securities holding entities, EUR billion, running total of four quarters, Q3-Q2)

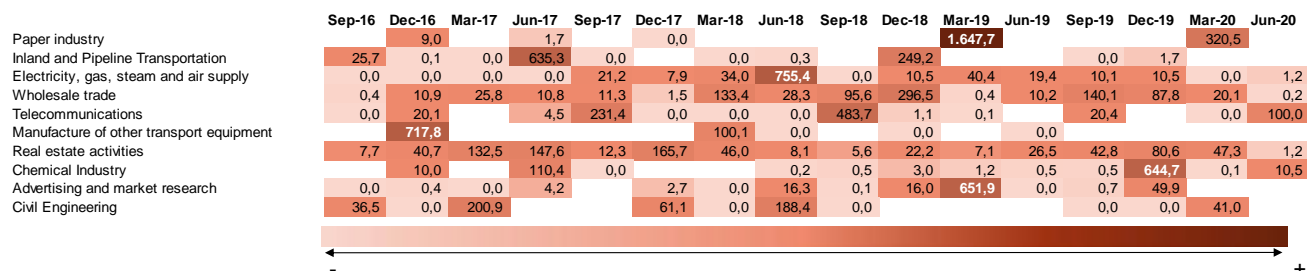


Source: Afi, Secretary of State for Trade

An examination of the sector breakdown also reveals no changes since the Brexit referendum suggesting that British investor interest in Spain has weakened owing to the UK's future exit from the European Union. The wholesale and real estate sectors have continued to receive a constant and substantial flow of British investment, as have the telecommunications and energy supply sectors. Investment in the paper and chemicals industries is also significant.

### Gross British inward FDI into Spain by sector since the Brexit referendum

(EUR million, intermediate country criterion, excludes foreign securities holding entities, vertical arrangement corresponds to the number of quarters with investment flow, colour scale corresponds to the amount of quarterly FDI)



Source: Afi, Secretary of State for Trade

## 7. Flows by autonomous community

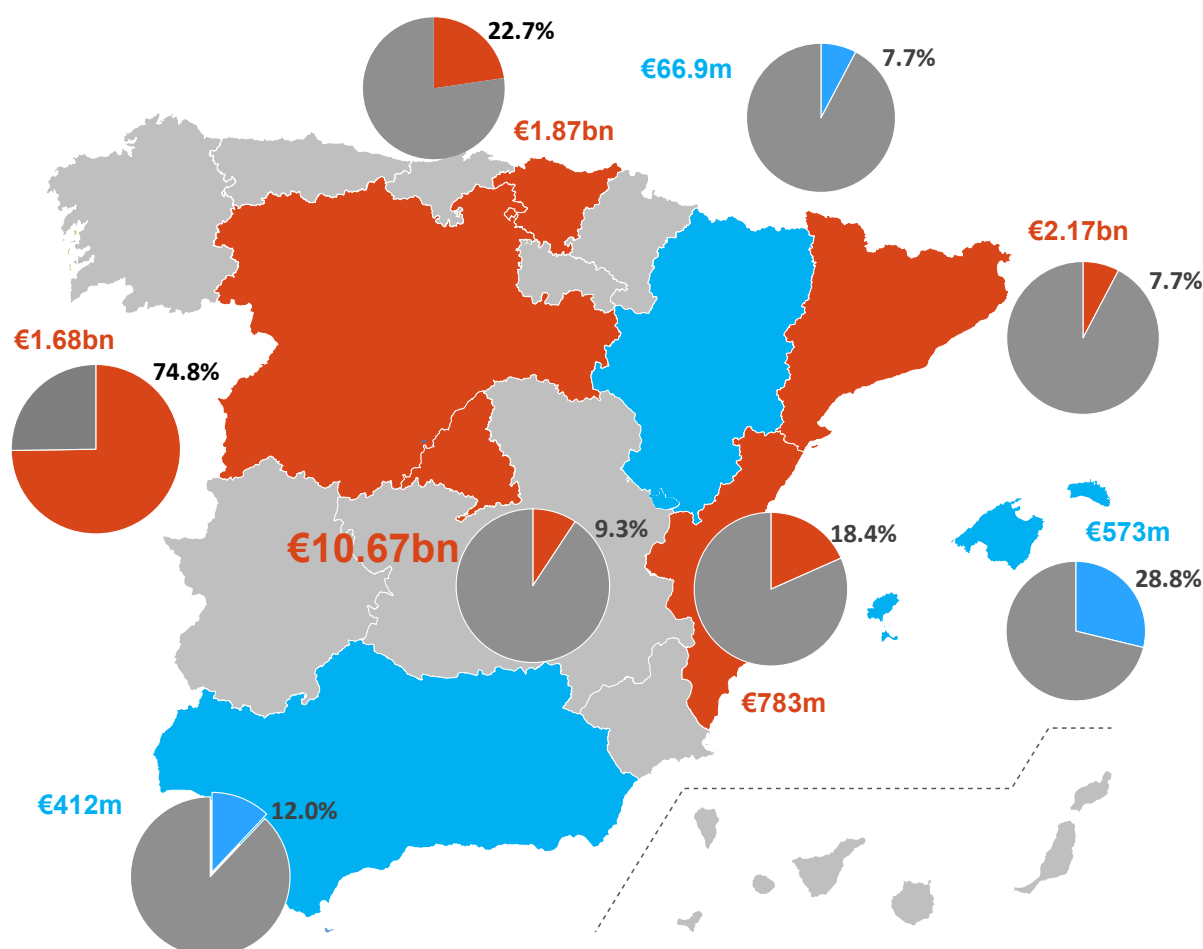
**During the economic recovery, British FDI has been concentrated in the autonomous communities of Madrid, Castile-Leon, the Basque Country, Catalonia and Valencia.**

As is the case with total investments from the rest of the world, cumulative inward FDI from the UK during the economic recovery (2014-H120) is concentrated in the autonomous communities of Madrid, Catalonia, the Basque Country and Castile-Leon. Furthermore, there has been a striking rise in British investment in Castile-Leon in recent years. British inward FDI into this region from 2014 to the first half of 2020 equated to 74.8% of the total, slightly less than up to the same period in 2019 (80%).

British investment in the Balearic Islands also stands out, accounting for more than 28.8% of total FDI received by the region. In Andalusia, this figure exceeds 12% of total foreign investment during the economic recovery. In the autonomous community of Valencia, British FDI peaked at over 30% of total inward FDI into the region over the last few years, although this has dropped to 18.4% during the last four quarters.

There has been a noteworthy rise of more than EUR 773.1 million in British investment into the autonomous community of Madrid over the course of the year (first half of 2020), taking cumulative flows to EUR 10.671 billion during the economic recovery, which equates to 9.3% of total foreign investment in the region.

**Main destinations of British FDI during the economic recovery (2014-H120)**  
(volume in EUR million of gross flows and these flows as a percentage of total flows)

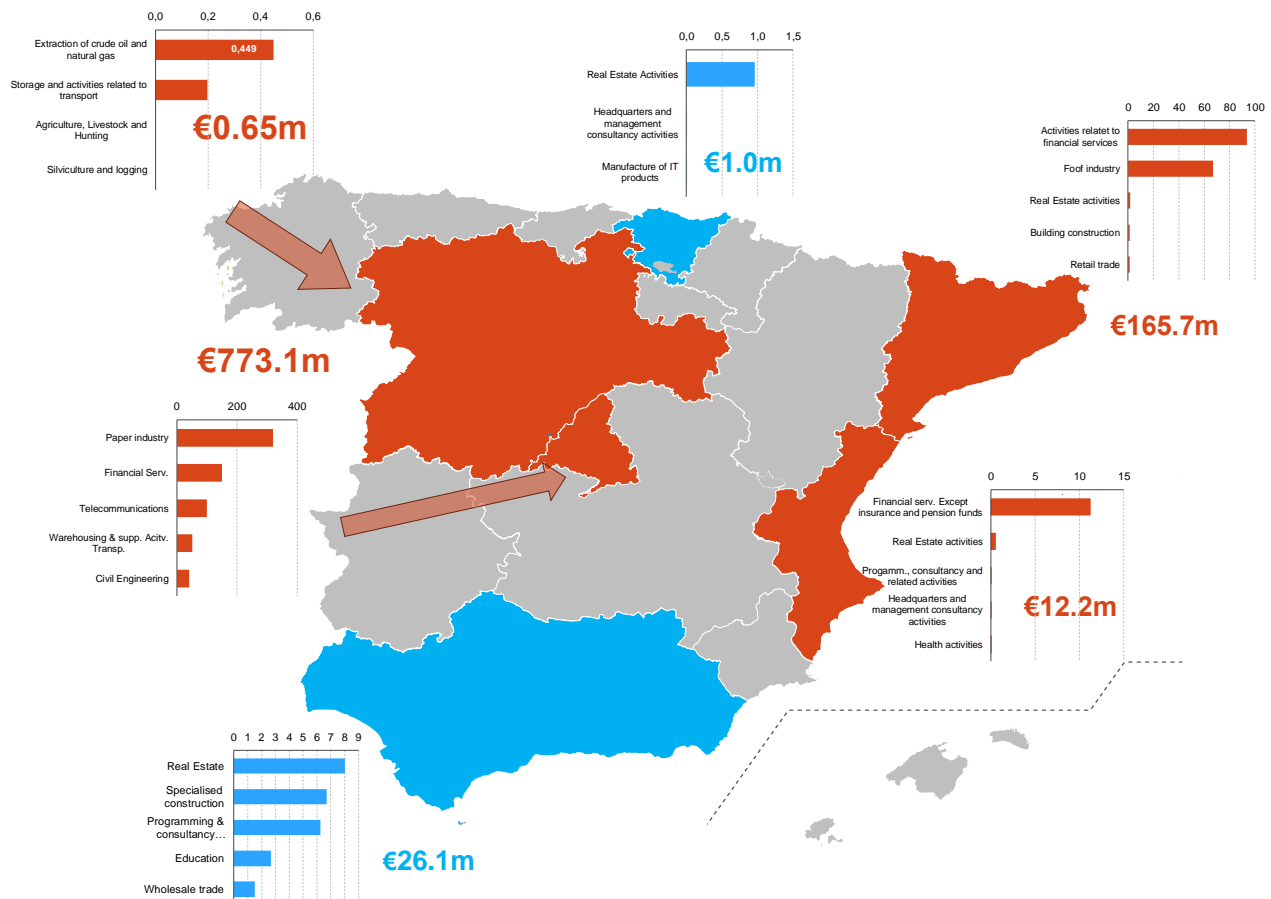


Source: Afi, Secretary of State for Trade



By sector, inward FDI received by the paper industry and financial services in the autonomous community of Madrid stands out, as does that received by the telecommunications sector. In contrast to 2019, YTD the greatest inward FDI has been received by the paper industry in the autonomous community of Madrid in 2020.

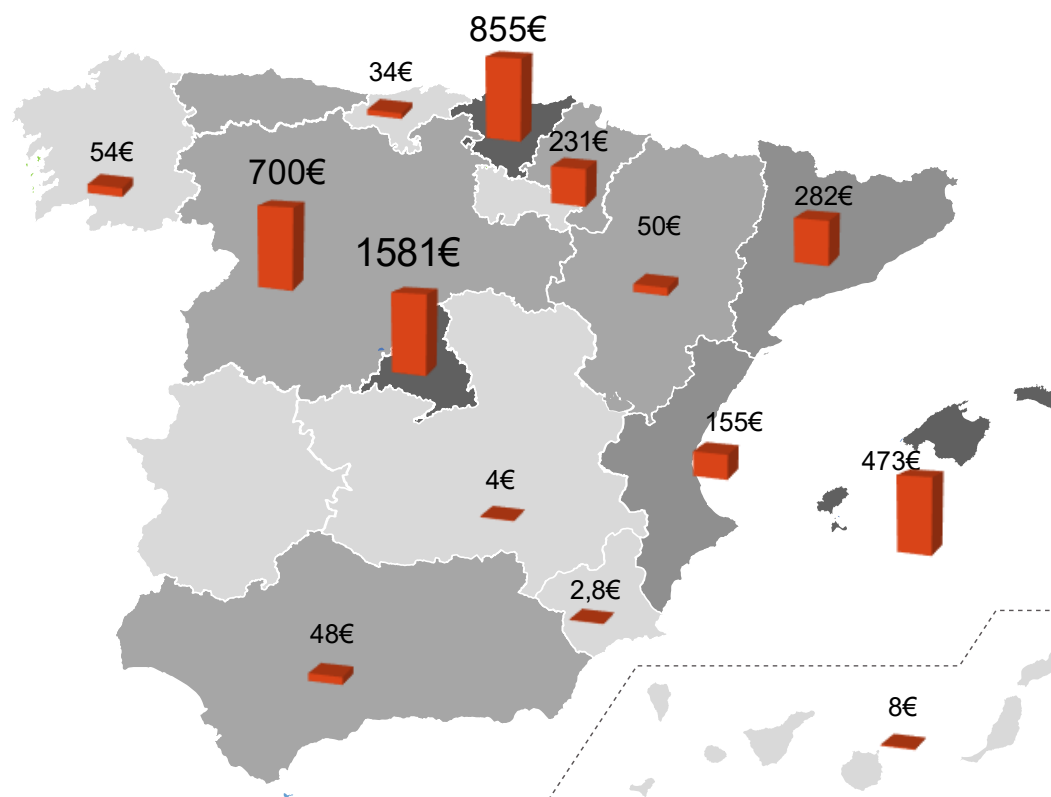
**British inward FDI by autonomous community and sector YTD (H120)**  
(EUR million)



Source: Afi, Secretary of State for Trade

Lastly, British FDI per capita between 2014 and H120 has been especially high in the autonomous community of Madrid at EUR 1,581 (EUR 1,233 during the period 2014-H119), which reveals somewhat of a skew deriving from the “head office effect” of the capital city. Figures for the Basque Country also stand out (EUR 875 per capita, EUR 821 between 2014 and H119), as do those for Castile-Leon, which received British FDI amounting to EUR 700 per capita (EUR 689 between 2014 and H119) after the uptick in British investment it enjoyed in 2019. Aside from these two regions, per capita British FDI reached reasonable levels during the recovery in the Balearic Islands (EUR 473), Catalonia (EUR 282) and Navarra (EUR 242).

**Cumulative gross British FDI during the recovery (2014-H120)**  
(EUR per capita by autonomous community)



Source: Afi, Secretary of State for Trade

The growth in per capita British FDI in the autonomous community of Madrid in recent years catches the eye, as does the considerable increase in the Basque Country. The population of these two regions has grown since the crisis hit, whereby the increase in British FDI per capita stems from higher investment not a declining population.

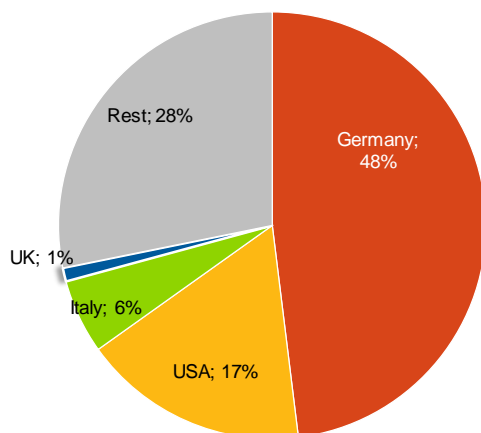
## 8. British inward FDI into Spain's pharmaceuticals industry

**Although British investments only made up 1% of the stock of FDI in Spain's pharmaceuticals industry in 2018, it has grown continuously since 2013. The UK also contributed 13% of cumulative inward investment between 1993 and H120, putting it third in the country ranking of investment in the sector. The share of British investment in this sector in autonomous communities such as Valencia and Madrid is also noteworthy.**

As a result of the public health crisis in Spain and the international effort to find a vaccine, governments around the world and pharmaceutical companies are investing heavily in the pharmaceuticals sector. It is therefore well worth examining how British inward FDI into this sector in Spain has changed over time and where it stands at present.

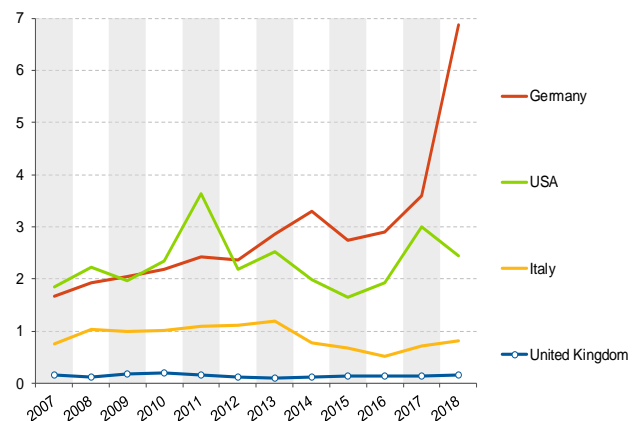
The UK's investment position in the sector totalled EUR 147 million in 2018, similar to in 2017 (EUR 147 million), although below the all-time high of EUR 187 million in 2018. While this is a significant sum, it only equated to 1% of total FDI in Spain's pharmaceuticals sector during 2018 because of Germany's significant and growing share of close to 50%. That said, the British investment position has consistently increased since 2013.

**Stock of gross FDI in the manufacture of pharmaceutical products by country in 2018**  
(ultimate investing country criterion, excluding foreign securities holding entities, percentage distribution)



Source: Afi, Secretary of State for Trade

**Historical trend in the stock of FDI in the manufacture of pharmaceutical products in Spain by country**  
(ultimate investing country criterion, EUR billion)

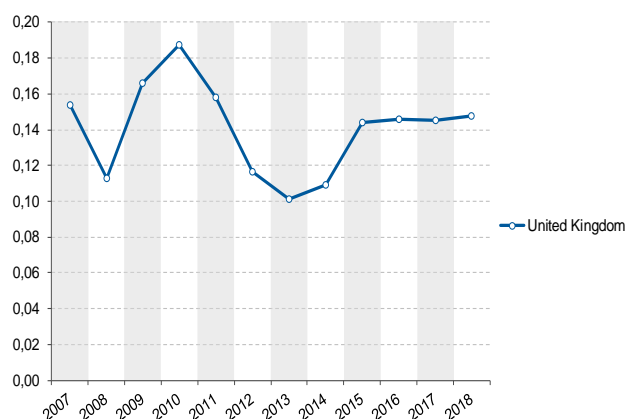


Source: Afi, Secretary of State for Trade

Looking at cumulative flows, over the years for which data is available (1993 to first half of 2020), the Spanish pharmaceuticals sector has received more than EUR 460 million of British FDI (gross investment excluding operations carried out by foreign securities holding entities), or 13% of total FDI received by the Spanish pharmaceuticals sector during that period. The UK has accounted for a third of the investment flows, only sitting behind Germany and the US (with EUR 962 million and EUR 689 million, respectively).

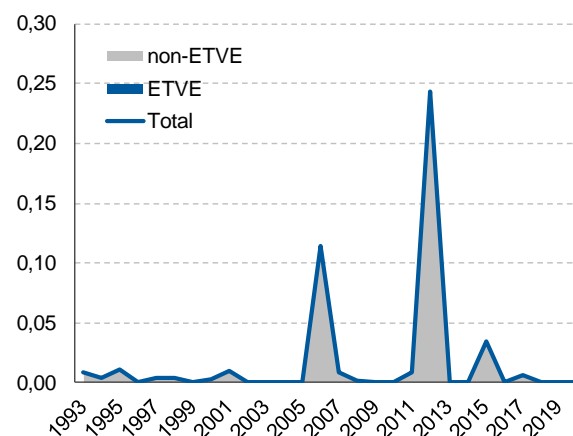
The nature of British investment in the Spanish pharmaceuticals industry is predominantly productive, as shown by the fact that most of it is not made through a foreign securities holding entity (that is, it is not carried out through an entity holding foreign securities, companies that benefit from a special tax regime that exempts from tax dividends or capital gains obtained by holding shares or holdings in foreign companies). In fact, it is worth mentioning that the share of British investment in the sector attributable to foreign securities holding entities has been zero in most years for which figures are available.

### Historical trend in the stock of British FDI in the manufacture of pharmaceutical products in Spain (ultimate investing country criterion, EUR billion)



Source: Afi, Secretary of State for Trade

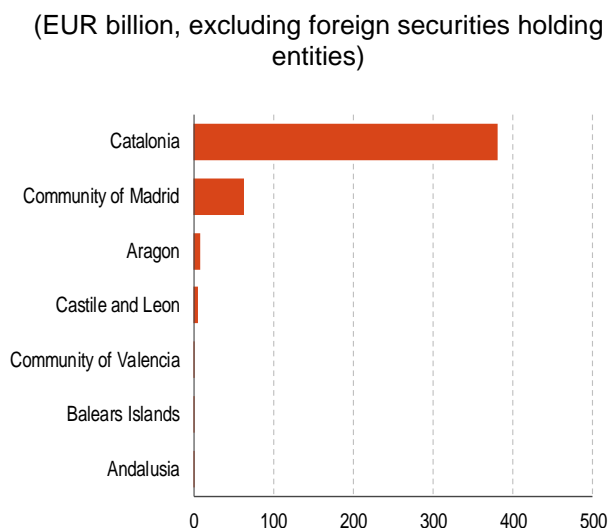
### British inward FDI into Spain by type of entity to Q220 (EUR billion)



Source: Afi, Secretary of State for Trade

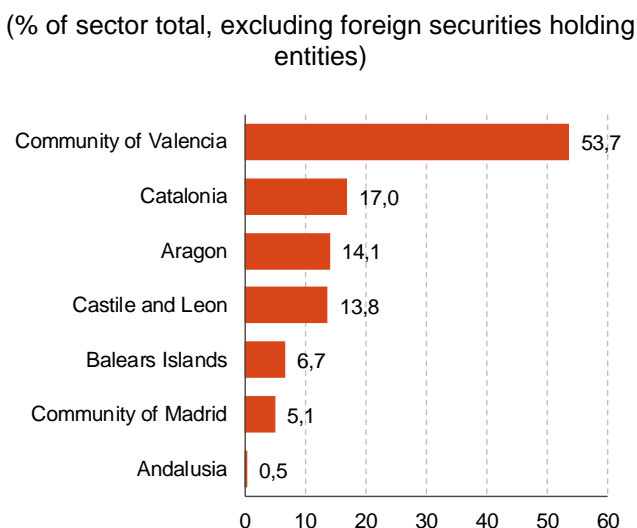
By autonomous community, Catalonia has enjoyed the greatest cumulative inward investment over the period 1993 to H120 of more than EUR 300 million. Nonetheless, analysing British inward FDI as a percentage of the total investment in the sector by autonomous community shows that it is especially notable in the autonomous community of Valencia (53.7% of the cumulative total for the period), followed by Catalonia (17%), Aragon (14.1%) and Castile-Leon (13.8%). This demonstrates the important role of British investment in this sector.

### Cumulative gross British FDI in the manufacture of pharmaceutical products in Spain by autonomous community (EUR billion, excluding foreign securities holding entities)



Source: Afi, Secretary of State for Trade

### British FDI as a percentage of total investment in the pharmaceuticals industry in Spain by autonomous community (% of sector total, excluding foreign securities holding entities)



Source: Afi, Secretary of State for Trade

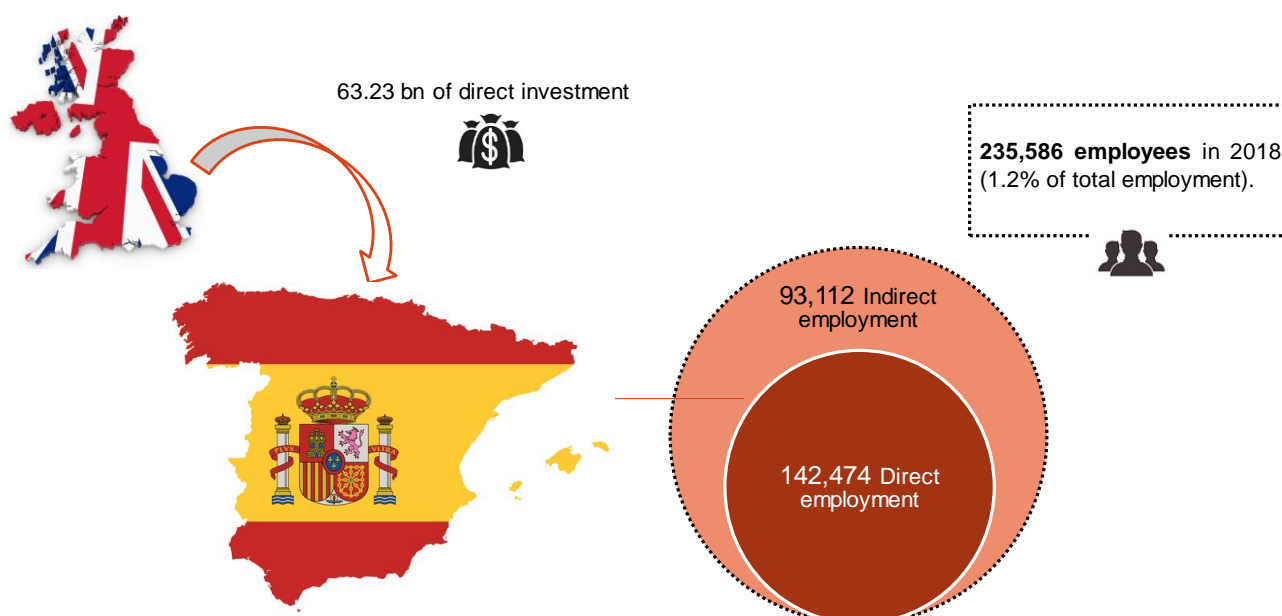
## 9. Effects on employment of British FDI in Spain

**British FDI in Spain has helped maintain 235,586 jobs, i.e. 1.2% of total employment in the country.**

British FDI in Spain helped maintain 235,586 jobs in 2018, which equates to 1.2% of the total and is up 33,979 on the previous year.

Of the total employment generated by British FDI across Spain, 142,474 jobs are direct jobs, while the remaining 79,682 are indirect generated as a result of the knock-on effect in the supply chain.<sup>1</sup> Some 20,549 additional direct jobs and 13,430 indirect jobs were created compared to the prior year.

**Impact of British FDI on employment in Spain, 2018**



Source: Afi, Secretary of State for Trade, Spanish National Institute of Statistics (INE).

<sup>1</sup> Indirect employment has been estimated on the basis of Leontief type I multiplier effects for the different productive branches of the Spanish economy (2010 Input-Output Tables).

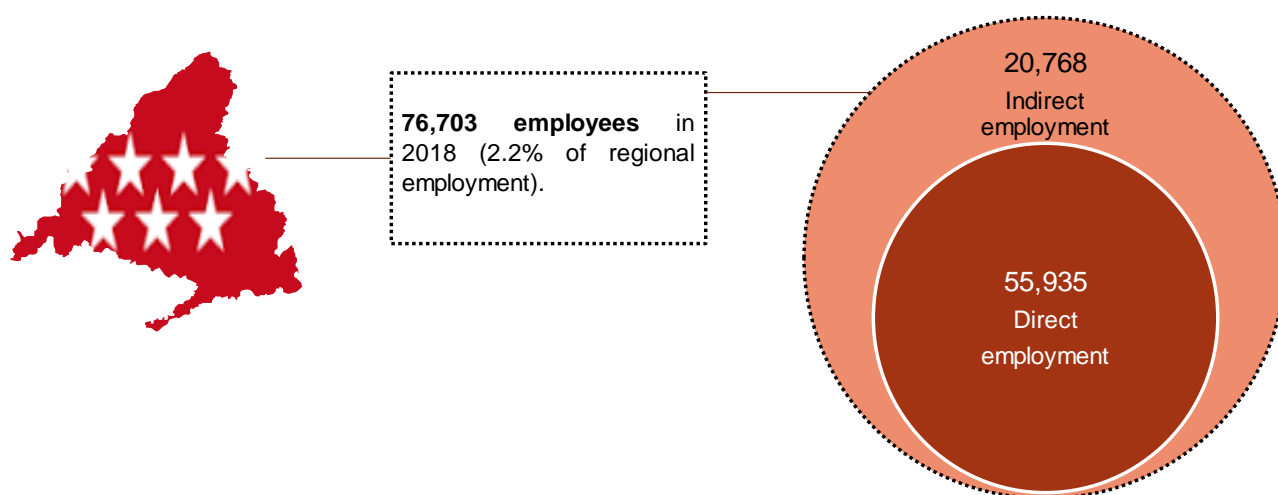
## 9.1. Effects on employment of British FDI in Madrid

**In 2018, British FDI helped maintain 2.2% of total jobs in the autonomous community of Madrid, which equates to 76,703 posts.**

In 2018, British FDI helped maintain some 76,703 jobs across the autonomous community of Madrid, i.e. 2.2% of total employment, having risen by 17,917 jobs year-on-year (YOY).

Of the total, 55,935 comprise direct jobs (up 13,066 YOY) and the remaining 20,768 are indirect<sup>2</sup> (only 4,851 more than in 2017). As was the case in prior years, the autonomous community of Madrid has seen a smaller knock-on effect on other economic activities compared to other autonomous communities analysed in this report. Indeed, the proportion of indirect jobs equates to only 37% of total direct employment in the autonomous community of Madrid, compared to other autonomous communities such as Catalonia and Andalusia, with figures of 72% and 44%, respectively.

### Impact of British FDI on employment in the autonomous community of Madrid, 2018



Source: Afi, Secretary of State for Trade, Spanish National Institute of Statistics (INE).

<sup>2</sup> Indirect employment has been estimated on the basis of Leontief type I multiplier effects for the different productive branches of the Spanish economy (2010 Input-Output Tables).

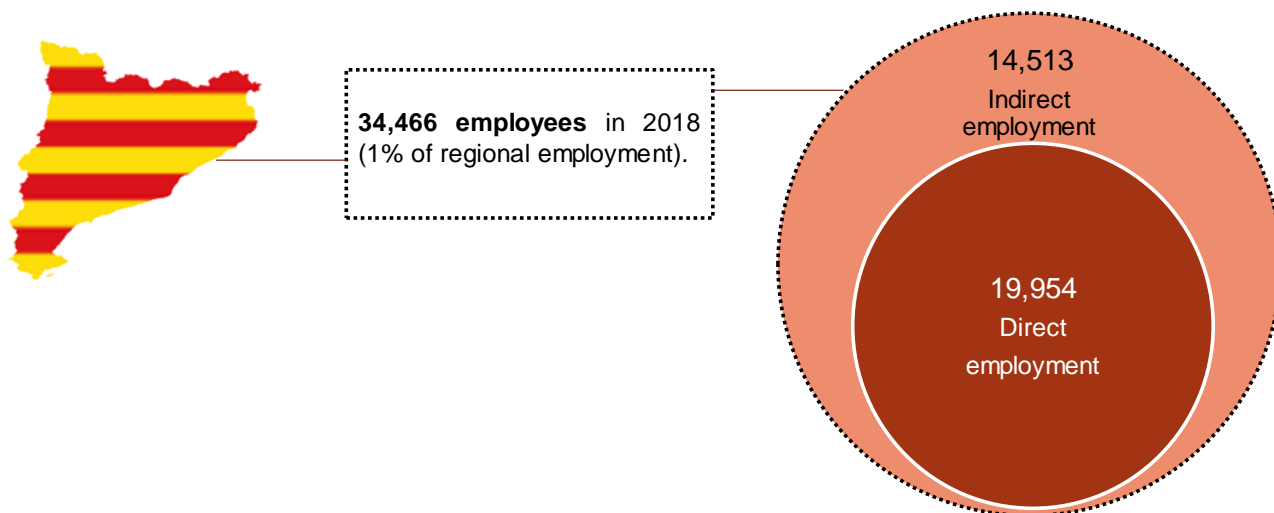
## 9.2. Effects on employment of British FDI in Catalonia

**In 2018, British FDI helped maintain 1% of total jobs in Catalonia, which equates to 34,466 posts.**

British FDI in Catalonia helped maintain 34,466 jobs in 2018, which equates to 1% of total regional employment – down slightly on 2017 (34,506 jobs).

The knock-on effect of British FDI has led to 19,954 indirect posts being generated since the start of the historical series<sup>3</sup> (22 jobs fewer than in 2017), while 14,513 direct jobs were created (16 fewer YOY). Catalonia stands out compared to the other autonomous communities examined because it is the only one with negative growth in the number of jobs in 2018 compared to the previous year.

### Impact of British FDI on employment in Catalonia, 2018



Source: Afi, Secretary of State for Trade, Spanish National Institute of Statistics (INE).

<sup>3</sup> Indirect employment has been estimated on the basis of Leontief type I multiplier effects for the different productive branches of the Spanish economy (2010 Input-Output Tables).

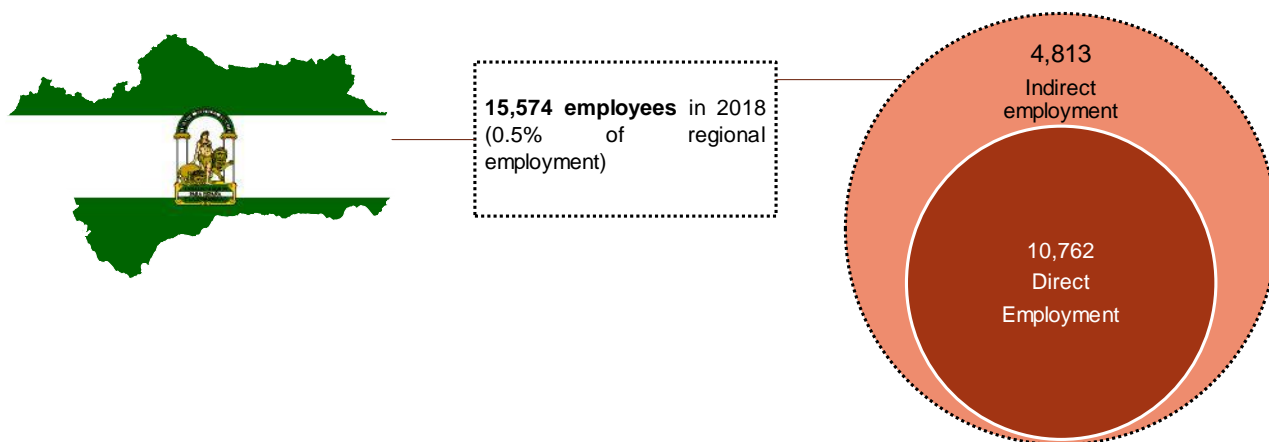
### 9.3. Effects on employment of British FDI in Andalusia

**In 2018, British FDI helped maintain 0.5% of total jobs in Andalusia, which equates to 15,575 posts.**

British FDI in Andalusia helped maintain 15,574 jobs in 2018, which equates to 0.5% of total regional employment – up 2,027 on 2017).

Of the total jobs generated in Andalusia by British FDI in the region, 10,762 were direct and the remaining 4,813 were indirect jobs resulting from the knock-on effect<sup>4</sup>, up 1,401 and 627, respectively.

#### Impact of British FDI on employment in Andalusia, 2018



Source: Afi, Secretary of State for Trade, Spanish National Institute of Statistics (INE).

<sup>4</sup> Indirect employment has been estimated on the basis of Leontief type I multiplier effects for the different productive branches of the Spanish economy (2010 Input-Output Tables).



## 10. Overall assessment by British companies of the Spanish business climate

The assessment and perspectives of British companies in Spain regarding the Spanish business climate and their investments in the country form a substantial part of the Barometer. The views of companies responding to the survey carried out between July and October 2020 (see methodological annex) are set out in this and subsequent sections.

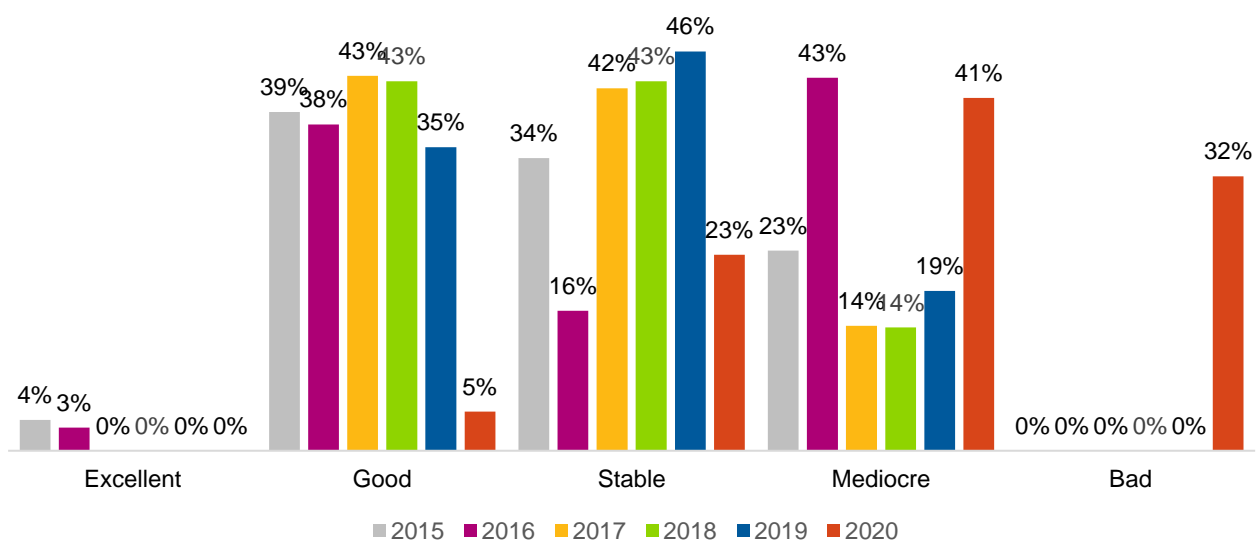
**Over the last year, British companies have become far gloomier about the business climate in Spain. Only 27% of businesses deem it to be “Acceptable” or “Good”, representing close to a third of the share in the 2019 Barometer.**

**Political risk and other areas concerning institutional measures received the worst scores, although all areas defining the business climate scored lower this year.**

**Specifically, relations with public administrations, managing political risk and the job market were identified by companies as areas where more support from government is needed in a post-Covid world.**

The overall assessment of British companies in Spain of the Spanish business climate has continued to deteriorate, and even more significantly over the last year. The percentage of survey respondents considering that the business climate is “Good” has shrunk to 5% (having not fallen below 35% in the previous five years) and only 27% of companies deem it to be “Good” or “Acceptable”. Meanwhile, the number of businesses perceiving it to be “Mediocre” or “Bad” has risen sharply and now stands at over 70%. For the first time in six years, Spain’s business climate has been classed as “Bad”, and by more than three in ten companies.

**General assessment of the business climate in Spain by British firms**  
(% of responses)



Source: Afi, “Survey on British investment in Spain, 2016-2020”.

Scores given for the business climate in Spain (on a scale of 1 to 5) are conditioned by British companies’ perceptions in nine thematic areas: relations with public administrations (regulatory

stability and tax system); political risk (institutional and territorial stability); access to finance (bank credit); job market (labour regulation and adequate workforce training); market structure (transparency, market unity and competition); digitisation (maturity of the digital economy); quality of supplies (number of suppliers/providers, suitability of available services and supplies); quality of life; and public sector support for R&D and innovation.

Scores for all the thematic areas are down in this edition of the Barometer compared to 2019<sup>5</sup>. The area receiving the lowest score from British businesses concerns political risk (2 out of 5). This is lower than the worst score given to “public sector support for R&D and innovation”, which ranked lowest in the five preceding Barometers and scored the same this year as in 2019 (2.2 points). “Relations with public administrations” also scored below 2.5 points. These scores highlight somewhat of a critical view of institutional measures currently.

“Quality of life”, on the other hand, continued to be the most valued aspect of the Spanish business climate, despite obtaining a lower score than in the previous five years (3.7 points). The only other area to score above 3 points was “Quality of supplies”.

**Assessment of the business climate in Spain by thematic area**  
(score based on % of responses on a scale of 1 = very poor to 5 = very good)

	2015	2016	2017	2018	2019	2020
Government relations	3,0	2,8	2,9	2,9	2,8	2,3
Political risk	2,8	2,4	2,9	2,6	2,5	2,0
Financing	2,8	3,0	3,1	3,5	3,4	3,0
Labour market	2,8	2,9	3,0	3,0	3,1	2,6
Market structure	2,7	3,0	3,0	3,3	3,0	2,7
Digitalization	3,5	3,3	3,2	3,2	3,3	3,0
Quality of supplies	2,9	3,3	3,2	3,4	3,4	3,3
Quality of life	3,9	4,0	4,0	4,0	4,1	3,7
Public support for R+D+i	n/a	2,3	2,5	2,3	2,2	2,2

Note: unlike in previous years, the score has been calculated directly for each thematic area in 2020, rather than using the scores for the different sub-areas comprising each area.

Source: Afi, “Survey on British investment in Spain, 2015-2020”.

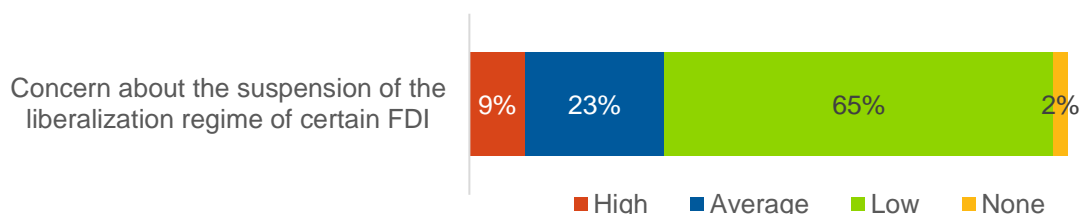
Looking at the regulatory framework, a raft of extraordinary measures have been rolled out in response to the outbreak of the Covid-19 pandemic, including suspending the liberalisation of policies affecting certain foreign direct investments in the Spanish market<sup>6</sup>. This regulatory change worries three in nine British companies, although the majority (65%) are not particularly concerned about it.

**Level of impact perceived by British companies of the recent change in the liberalisation of policies affecting certain foreign direct investments in Spain**

(% of survey respondents)

<sup>5</sup> There has been a change in methodology as a score at thematic area level was asked for in 2020 rather than for each sub-area in the previous Barometers.

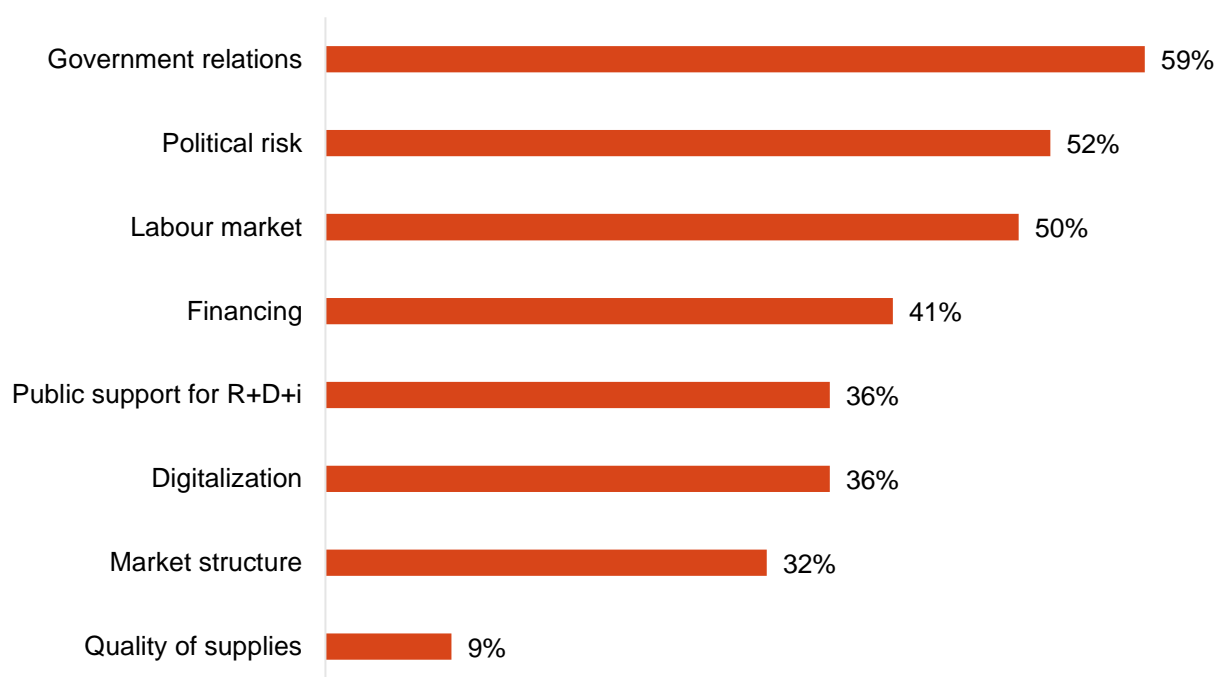
<sup>6</sup> Royal Decree-Law 8/2020, of 17 March 2020, on extraordinary urgent measures to curb the economic and social impact of Covid-19; and Royal Decree-Law 11/2020, of 31 March 2020, approving additional urgent measures in the economic and social sphere to tackle Covid-19.



Source: Afi, "Survey on British investment in Spain, 2020".

On the other hand, in a post-Covid world, British firms are calling for more support from the Spanish government vis-à-vis relations with public administrations (regulatory stability and tax system), managing political risk (institutional and territorial stability) and the job market (labour regulation and adequate workforce training). These three areas of the business climate are deemed to be crucial by at least half of survey respondents to increase government support.

**Areas in which British businesses are calling for more government support in a post-Covid world (% of survey respondents)**



Note: A company may select more than one option.

Source: Afi, "Survey on British investment in Spain, 2020".

## 11. British businesses' expectations for their investments and activity in Spain

This gloomier assessment of Spain's business climate has stemmed, at least in part, from the recent performance of the Spanish economy. Expectations for the economy also shape the investment plans of UK companies in Spain.

The current crisis caused by the Covid-19 pandemic, which has hit the Spanish market especially hard, has altered the plans of British investors, as illustrated hereon.

**In a pre-Covid world, around half (51%) of British companies surveyed expected to invest more in Spain.**

**However, the impact of the pandemic has altered business investment plans, particularly in 2020, at the same time that forecasts for Spanish economic growth have been downgraded. Only 16% of survey respondents will invest more in Spain this year.**

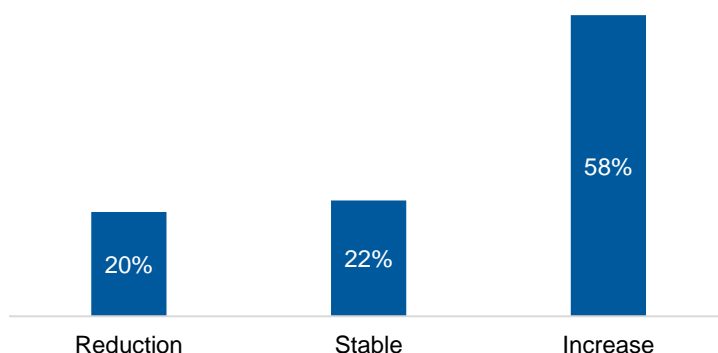
**Perspectives on how the Spanish economy will perform in 2021 are brighter, which is also reflected in a higher number of British businesses reporting they plan to invest in the Spanish market next year: 30%. The share of companies looking to reduce their investments has also fallen to 25%.**

Positive expectations regarding the performance of the Spanish economy prompted British companies to make new investments in Spain in recent years, although lower economic growth was already envisaged in 2019.

Before Covid-19 struck and the various measures restricting activity were imposed to contain the pandemic, British companies were upbeat about the Spanish economy. Over half (58%) of survey respondents believed the economy would grow throughout 2020 (versus 29% in the 2019 Barometer).

### **Pre-Covid expectations for the Spanish economy of British companies in Spain**

(% of survey respondents)

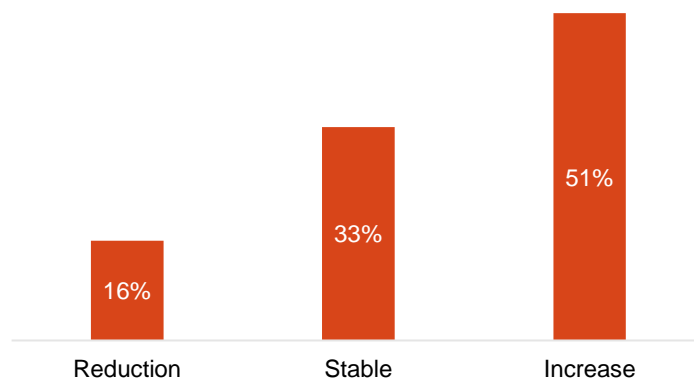


Source: Afi, "Survey on British investment in Spain, 2020".

Given how expectations about economic growth affect business investment decisions, in a pre-Covid world, 51% of British companies responding to the survey reported that they planned to invest more in Spain. It is worth noting that in the 2019 Barometer, 35% expected to boost their investments. That said, another 16% of UK companies planned to pare back their investment position in the Spanish market because of the impact of the current crisis caused by the pandemic; this is 5 pp above the rate

in 2019.

**British businesses' pre-Covid expectations for investing in Spain** (% of survey respondents)



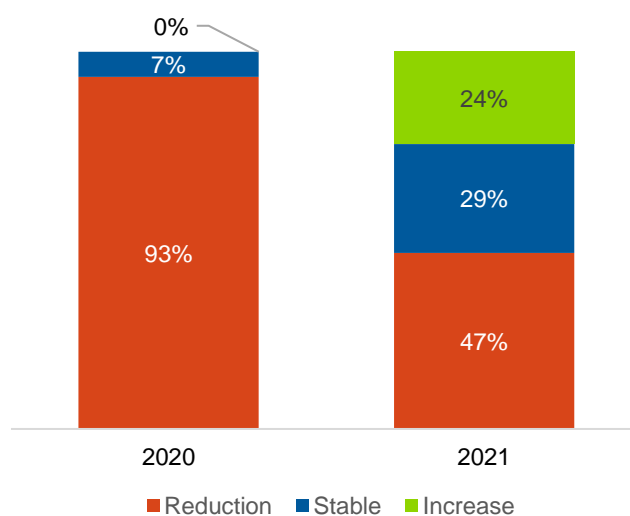
Source: Afi, "Survey on British investment in Spain, 2020".

Plans to invest more in 2020 have, however, thinned out since the pandemic struck. The economic outlook has changed notably, as reflected by the vast majority of survey respondents' expectations for this year.

Looking ahead to 2021, while 47% of businesses still do not expect the Spanish economy to grow, another 24% are more confident that there will be somewhat of an economic rebound.

**Expectations for the Spanish economy of British companies in Spain for 2020 and 2021, following the outbreak of the pandemic**

(% of survey respondents)

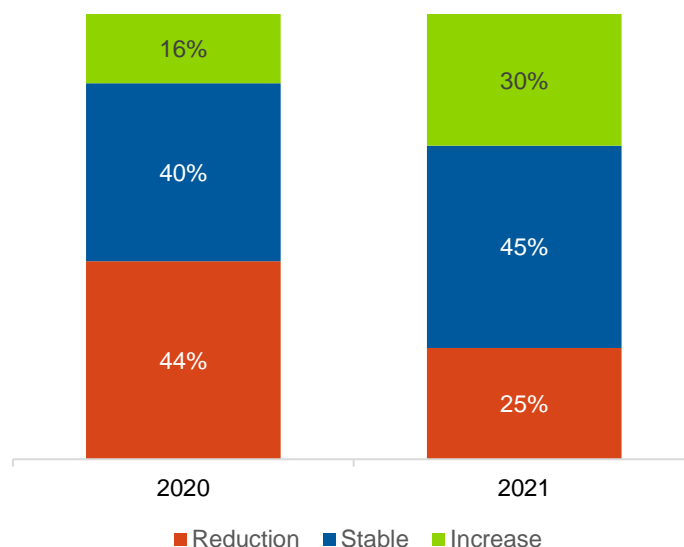


Source: Afi, "Survey on British investment in Spain, 2020".

On the one hand, looking at British investment plans in Spain since the pandemic hit, only 16% of survey respondents plan to invest more in the Spanish market in 2020 (i.e. 19 pp below the percentage in 2019). While 44% of companies have divestment plans (compared to 11% last year).

However, expecting the economy to rebound in 2021, around 30% of companies intend to invest more in Spain next year. The share of companies expecting to reduce their direct investment in the country has fallen further to 25%.

**British companies' expectations for their investments in Spain for 2020 and 2021, following the outbreak of the pandemic (% of survey respondents)**

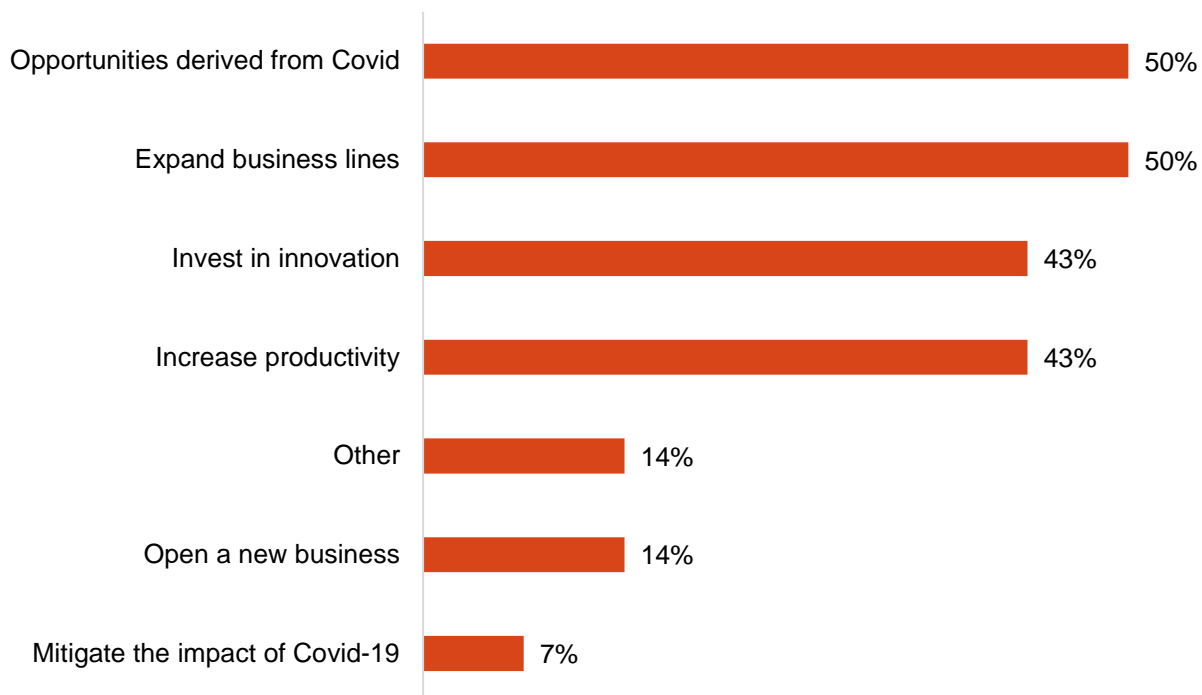


Source: Afi, "Survey on British investment in Spain, 2020".

Half the companies planning to increase their investments in Spain in 2020-2021 cite exploiting business opportunities arising from the Covid-19 crisis and expanding their business lines as being the main investment objectives. This latter objective was also chosen by three in ten companies with investment plans in the Spanish market in 2019, according to the results of the previous edition of the Barometer.

Forty-three percent of companies intending to make new investments also said that innovation and productivity objectives lay behind their plans.

**Objective of British investment in Spain** (% of companies planning to invest more in 2020-2021)



Note: (i) A company may select more than one objective. (ii) "Others" includes digitalisation processes.

Source: Afi, "Survey on British investment in Spain, 2020".

## 12. Perception of impact of Brexit

The transition period for establishing a future relationship between the UK and the EU ends on 31 December 2020, 11 months after the Withdrawal Agreement was signed.

British businesses with operations in the Spanish market have been closely following the rounds of bilateral negotiations in recent months and the prospects for the framework shaping relations between the UK and the EU that will be in place as from 2021. In light of this, this edition of the Barometer has once again analysed the perception of the impact of Brexit on these businesses' investments in Spain (for the whole of 2020 and for next year).

**With Brexit in mind, the overriding trend is that investments by British firms in Spain will remain consistent in 2020 and 2021. This perception of stability is greater than in the previous five editions of the Barometer.**

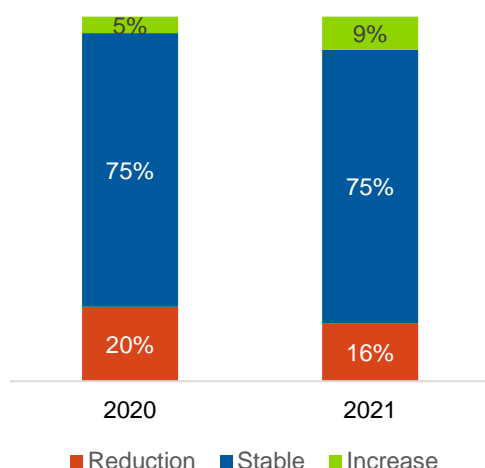
**Only 20% of companies foresee investing less due to Brexit in 2020, and slightly fewer (16%) in 2021.**

**The main Brexit-related aspects concerning British companies are regulatory barriers and requirements and tariffs.**

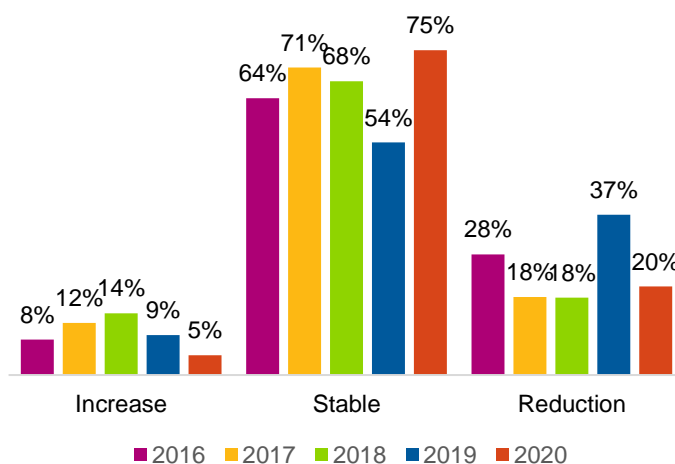
Three out of four companies report that their investment plans in Spain for this year and next will remain unchanged, despite Brexit. The fact that a majority consider their investment plans will stay the same suggests that firms had already factored Brexit in when deciding whether to invest in the Spanish market.

It is worth noting that the share of companies reporting their investment plans remain unchanged despite Brexit is the highest in the six years that the Barometer has been produced. In last year's edition, 54% of businesses said their investments would remain the same, while 37% said they planned to cut them.

**Perception of the impact of Brexit on the investments of British companies in Spain for 2020 and 2021** (% of survey respondents)



**Changes in the assessment of the impact of Brexit on the investments of British companies in Spain** (% of survey respondents)



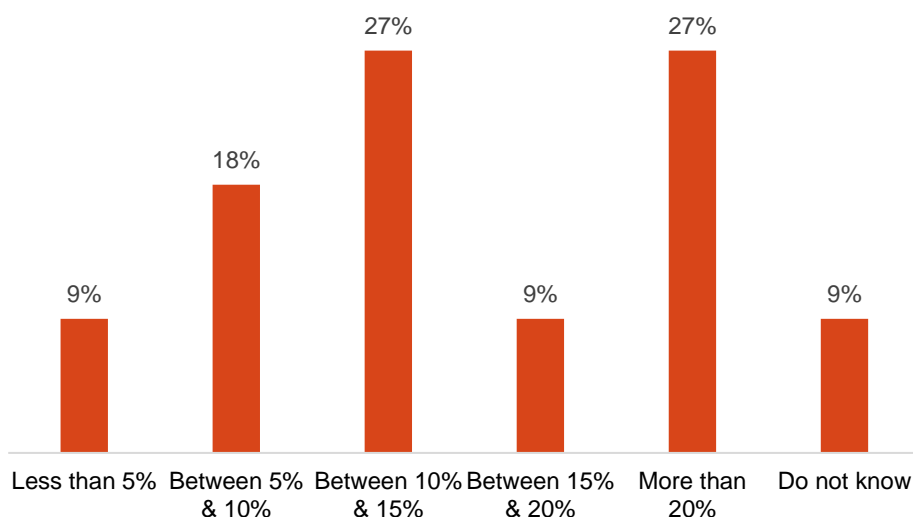
Source: Afi, "Survey on British investment in Spain, 2016-2020".



Overall, one in five British businesses surveyed expect to pare back their investments in Spain over 2020 as a result of Brexit. This share is four pp lower (16%) for 2021, when another 9% of companies foresee investing more. A further 75% report their investment plans remain unaffected. The result is that the percentage of firms looking to reduce their investments has decreased versus the 2019 Barometer, and will hit a low next year.

Companies envisaging that Brexit will affect their investment plans in Spain in 2021 were not in agreement about the intensity of the impact (increase or decrease), although over half did estimate it would not exceed 15%.

**Size of the impact of the UK's withdrawal from the EU on British investment in Spain expected for 2021** (% of companies planning to increase or reduce their investments)

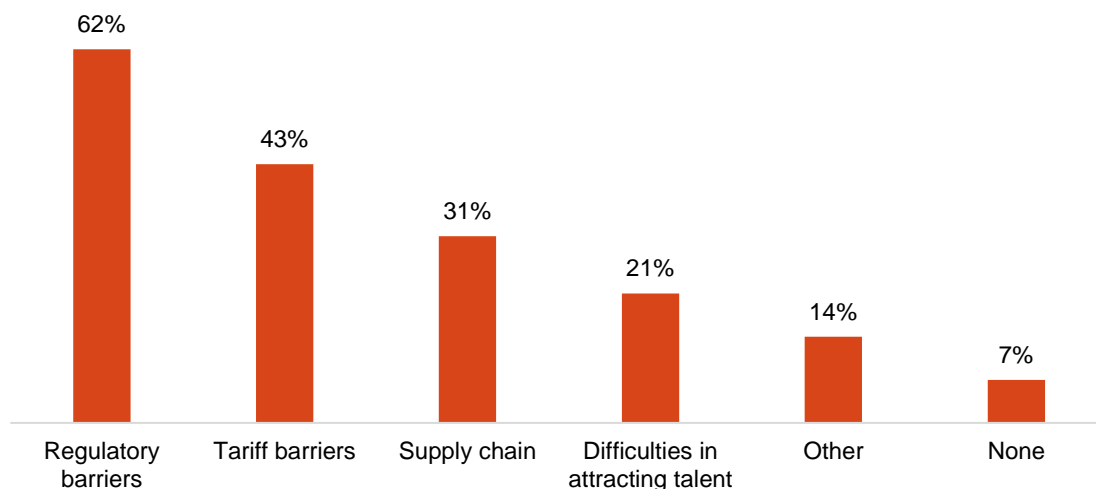


Note: the number of responses was low (11).

Source: Afi, "Survey on British investment in Spain, 2020".

Meanwhile, new regulatory requirements or barriers were cited as the biggest Brexit-related factor affecting British companies in Spain in 2021 (reported by 62% of survey respondents). The potential cost of tariff barriers (43%) and the impact on supply chains (31%) were also popular answers.

**Factors with the biggest impact perceived by British businesses for 2021 when the UK leaves the EU (% of survey respondents)**



Note: (i) a company may select more than one factor; (ii) travel restrictions, fluctuations in exchange rates and bureaucratic burden and uncertainty are included in "Others".

Source: Afi, "Survey on British investment in Spain, 2020".

The nature of the framework governing economic and trade relations between the UK and the EU after 31 December 2020 will determine if the factors likely to be detrimental to the operations of British companies in Spain actually arise or disappear.

## Methodological annex: characteristics of the sample of companies

**The Sixth Barometer on the climate and prospects for British investment in Spain drew on the responses of 45 British companies operating in the Spanish market.**

The findings concerning business investment plans and the assessment of the Spanish business climate were based on information obtained through an online survey disseminated by the British Chamber of Commerce in Spain.

The survey was conducted between 9 July and 8 October 2020 among British firms with direct investments in the Spanish market. A total of 45 businesses took part in the survey for this edition of the Barometer.

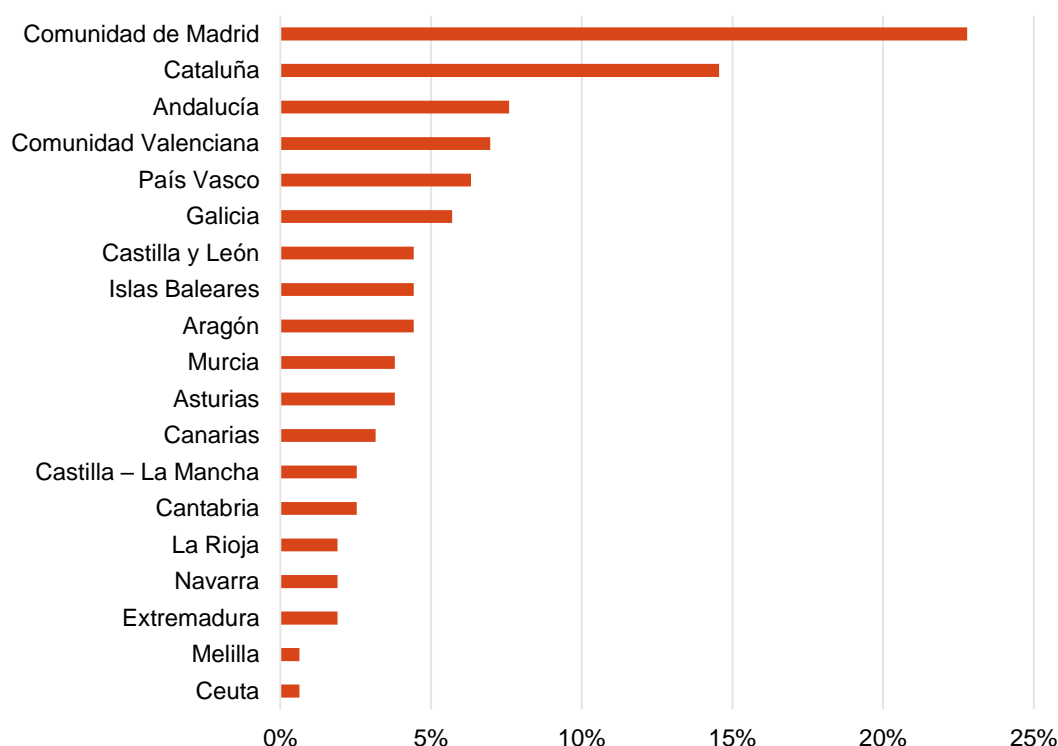
The criterion for classifying a business as British is that most of its capital is held in the United Kingdom, i.e. at least 51% is held by a company/shareholder with British nationality.

The sample of companies to be surveyed was drawn up using the database of the British Chamber of Commerce and of the Iberian Balance Sheet Analysis System (SABI) containing information from the financial statements filed by businesses in the companies register. According to the latest SABI data, there are just over 1,550 companies operating in Spain whose capital is majority owned by British shareholders. Consequently, the size of the sample of companies taking part in the 2020 survey means the results can be estimated with a confidence level of 90% and a margin of error of 12%.

This year's survey was structured slightly differently to prior editions, focusing in particular on the reported and expected impact of the Covid-19 pandemic on the activity of survey respondents. However, it once again includes British businesses' views on the Spanish business climate (albeit at a more aggregated level) and their expectations regarding the impact of Brexit.

The regional and sectoral spread of companies taking part in the 2020 survey was considerable:

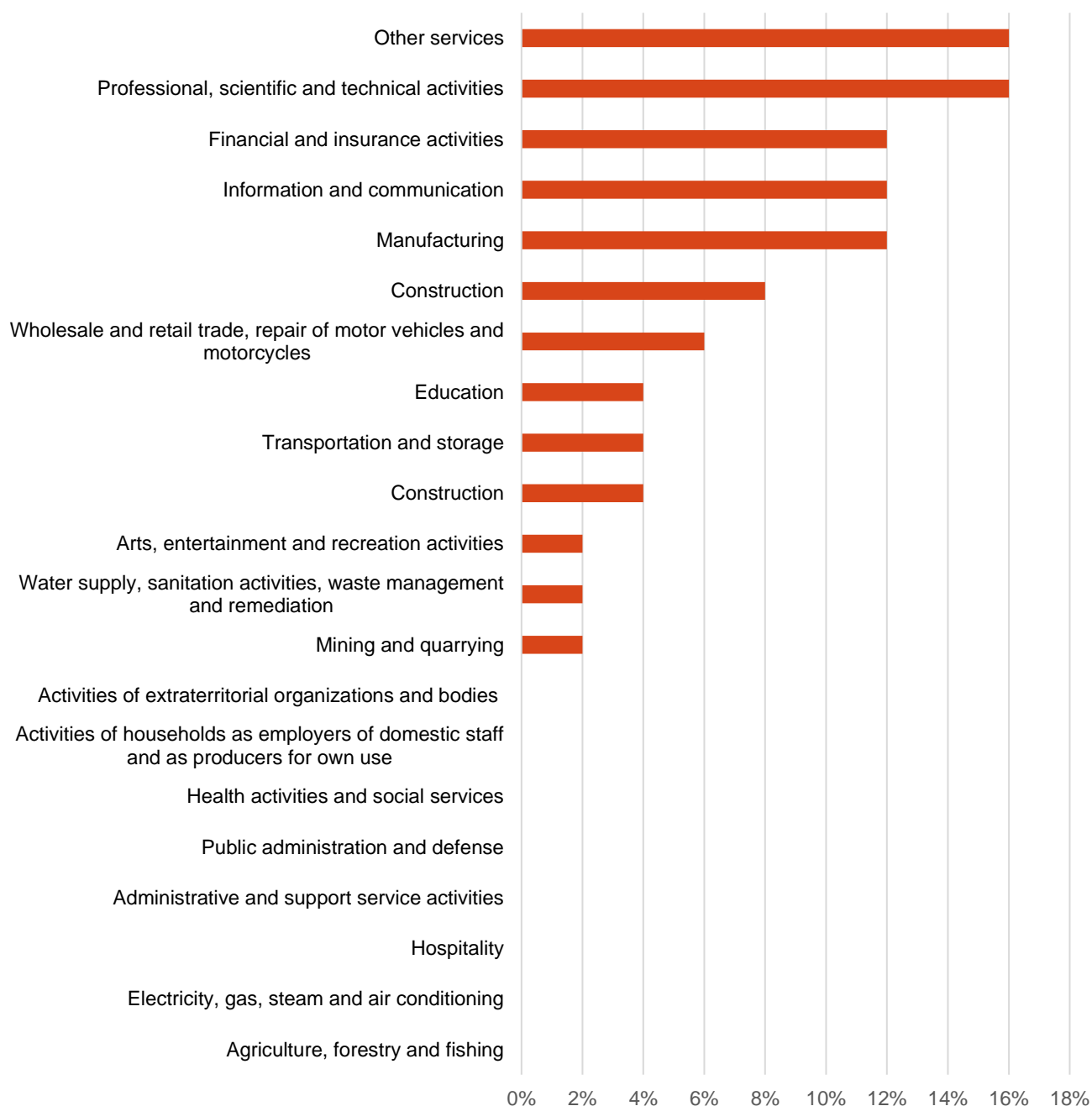
**British companies by autonomous community, 2020 (% of responses)**



Note: A company may operate in more than one autonomous community.

Source: Afi, "Survey on British investment in Spain, 2020".

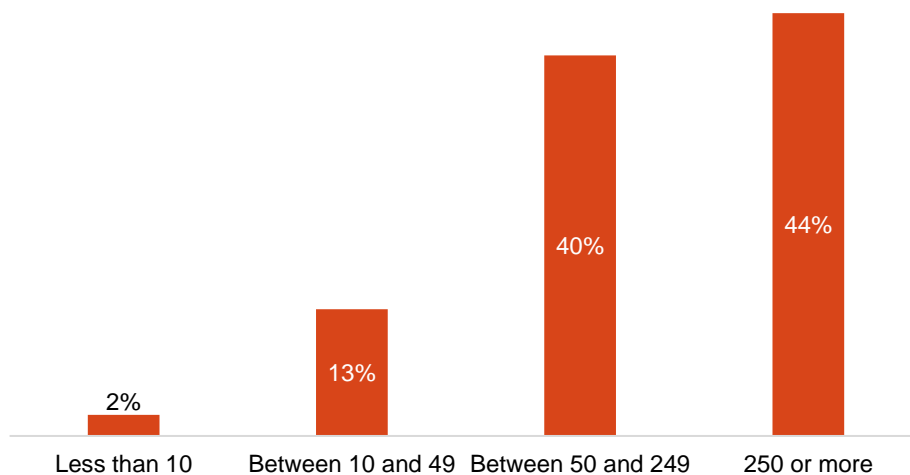
**British companies by economic sector, 2020 (% of responses)**



Note: A company may operate in more than one sector.  
Source: Afi, "Survey on British investment in Spain, 2020".

Lastly, measured in terms of their workforce, participants were mainly medium-sized and large companies.

**British companies by size, 2020 (% of responses)**



Source: Afi, "Survey on British investment in Spain, 2020".

