

BAROMETER ON CLIMATE AND OUTLOOK FOR BRITISH INVESTMENT IN SPAIN

November 2017



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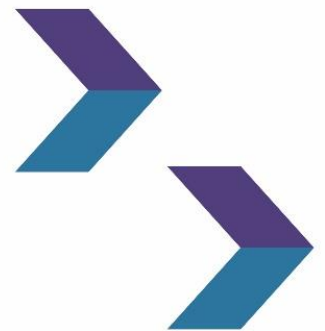


British Chamber
of **C**ommerce in Spain



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IN SPAIN**

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British investment in Spain

[Barometer on climate and outlook]

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Ten key facts about British investment in Spain

- | | |
|-----------------|--|
| Stock | <ol style="list-style-type: none"> 1. The United Kingdom is the second most important investor in Spain. The stock of British FDI in Spain rose again in 2015. 2. British FDI in Spain is concentrated in the telecommunications (where it has doubled since 2013), tobacco and energy sectors. |
| Flows | <ol style="list-style-type: none"> 3. The UK is the largest investor in Spain in terms of cumulative FDI inflows since 1993 (start of the current register). The flow of British investment has remained stable over time, confirming the UK's commitment to investing in Spain. 4. The real estate sector is a focal point for British investors, as well as the insurance and telecommunications sectors. 5. Political risk factors over the last year have not deterred UK investment into Spain, which has increased slightly, underlining the UK's long-term investment relationship with Spain. |
| Nature | <ol style="list-style-type: none"> 6. British FDI in Spain is predominantly productive investment, rather than investments articulated through foreign security holding companies (ETVEs). 7. The bulk of British investment originates from the UK itself (ultimate investing country basis) as opposed to being a staging post for investment from elsewhere. |
| Regional | <ol style="list-style-type: none"> 8. Since the start of the recovery in 2013, British FDI has mainly focused on Madrid (headquarters effect), Catalonia, the Basque Country and Valencia. 9. Inflows of British FDI over the period 2013-17 have been particularly significant in the Madrid region. 10. British FDI led to the creation of 183,194 jobs and generated €6.6 billion in tax revenues in 2015. |

This update covers data on the stock of FDI up to 2015 and FDI flows up to the second half of 2017 (latest available data).

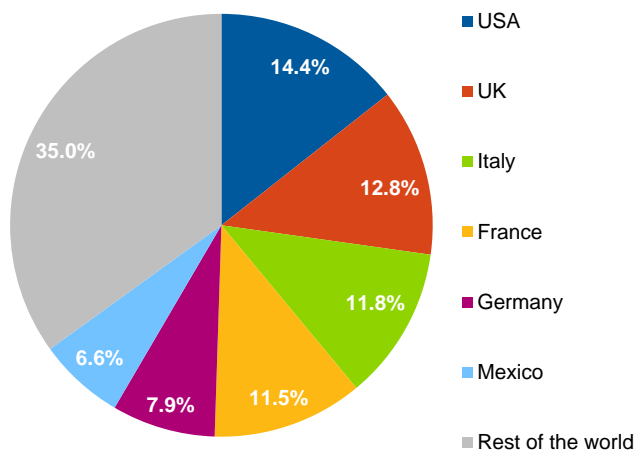
Total FDI stock by country

The United Kingdom is the second most important investor in Spain. The stock of British FDI in Spain rose again in 2015.

The United Kingdom accounted for over 12% of the total stock of foreign direct investment in Spain in 2015 (€44.6bn using Ultimate Investing Country - UIC - criteria). **This represents an increase of €4bn since 2014, which means that the UK now has the second-highest stock of FDI in Spain** (after being third in 2014 and fourth in 2013).

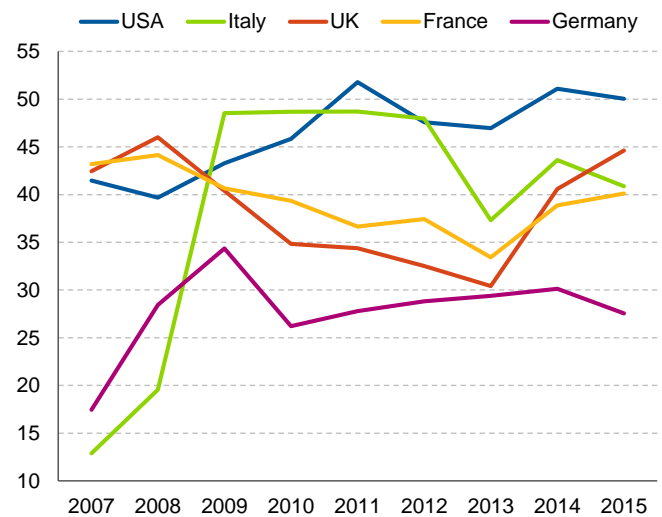
The UK was the only major investor to significantly increase its investment in 2015 (the stock of American, Italian and German FDI fell), underlining UK investors' commitment to Spain. The stock of British investment in Spain is now almost back to its pre-crisis peak (only €1.4bn below 2008 level).

Stock of FDI in Spain in 2015 by country
(percentage breakdown)



Source: Afi, Secretary of State for Commerce

Investment stock position by country
(€ billion, UIC criteria)



Source: Afi, Secretary of State for Commerce

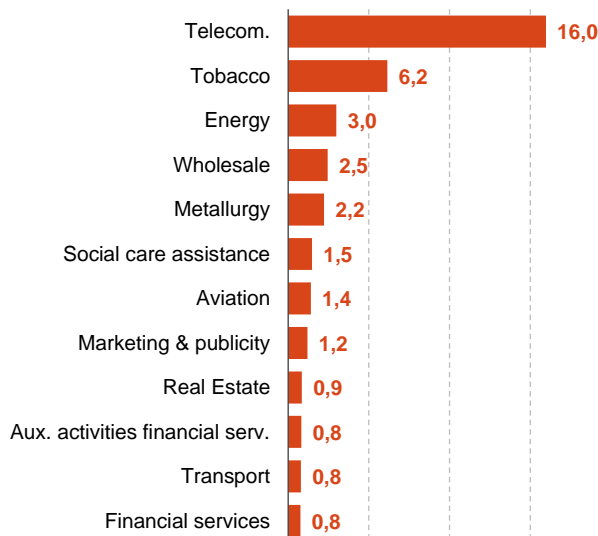
Cumulative FDI stock by sector

The stock of British FDI in Spain is concentrated in the telecommunications (where it has doubled since 2013), tobacco and energy sectors.

The cumulative stock of British FDI in Spain is concentrated primarily in the telecommunications (€16bn), tobacco (€6.2bn) and energy supply (€3bn) sectors.

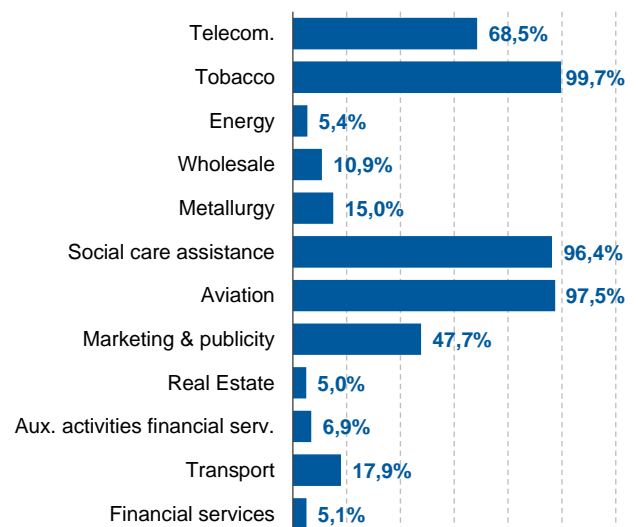
Relative to the overall stock of FDI in Spain, the UK is very heavily invested in the tobacco (99.7% of total FDI in the sector), aviation (97.5%) and residential social care assistance (96.4%) industries.

Stock of British FDI by sector
(€ billion), 2015



Source: Afi, Secretary of State for Commerce

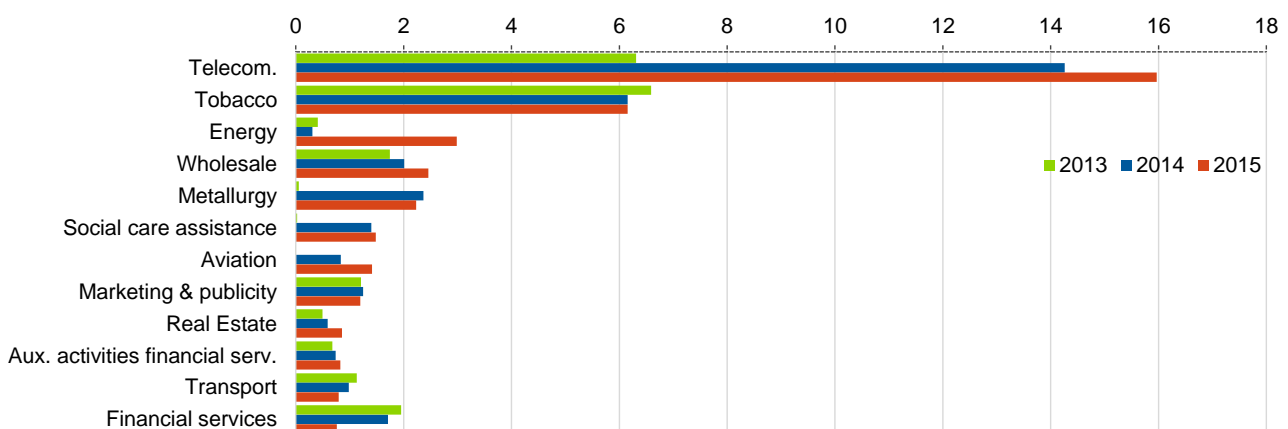
British FDI as a percentage of total FDI per sector, 2015



Source: Afi, Secretary of State for Commerce

In 2015, the telecommunications and energy sectors saw a significant increase in the stock of British FDI. In the case of the latter, the British FDI stock rose tenfold from €300m in 2014 to nearly €3bn in 2015. Elsewhere, the stock of FDI in the financial sector continued to fall from €2bn in 2013 to barely €800m in 2015.

Cumulative stock of British FDI in Spain by sector: 2013, 2014 y 2015
(UIC criteria, excluding ETVEs, € billion)



Source: Afi, Secretary of State for Commerce

Total cumulative flows in the first half of 2017

The UK is Spain's largest investor on the basis of cumulative FDI inflows since 1993 (start of the current register). British investment flows into Spain have remained stable over time, confirming the UK's long-term investment outlook.

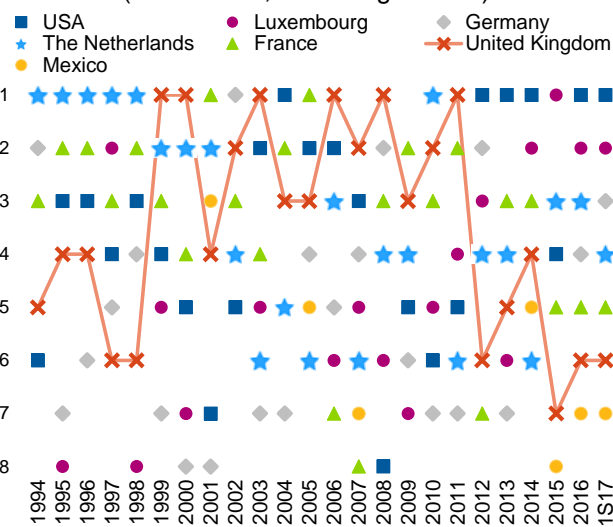
In cumulative terms, throughout the period for which data is available (1993 to first half 2017), **the United Kingdom has invested over €66.6bn in Spain** (gross investment using UIC criteria), accounting for some 18% of all FDI inflows into Spain over the period.

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 (1999, 2000, 2003, 2006, 2008, 2011). In 2016 and the first half of 2017, the UK was the sixth-largest source of FDI in Spain. This represents an increase in the ranking from 2015 with the overall position reflecting a pick-up in FDI flows from other countries, rather than a decline in British FDI.

UK investors has proven to be highly resilient to political uncertainty so far. One year on from the Brexit referendum, UK investment in Spain has shown no signs of abating and British FDI over the period from Q316 to Q217, excluding ETVEs, amounted to €1.9bn, above the average of €1.4bn recorded during “normal” years.

Ranking of gross FDI inflows into Spain by country

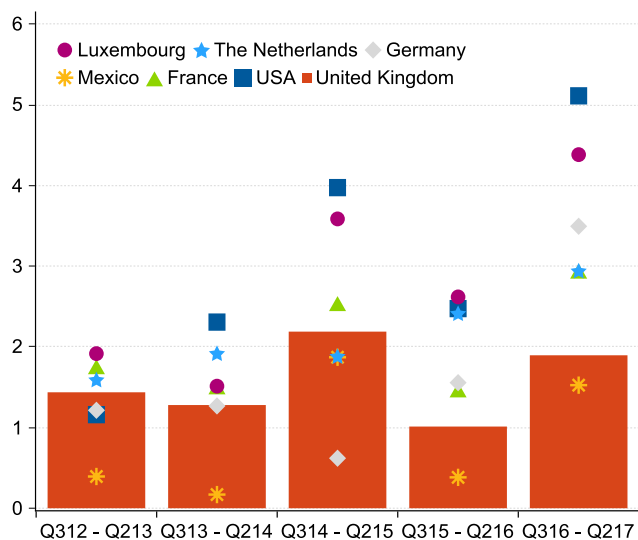
(UIC criteria, excluding ETVEs)



Source: Afi, Secretary of State for Commerce

Gross flows of FDI into Spain by country

(€ billion, UIC criteria, excluding ETVEs, Q316-Q217)



Source: Afi, Secretary of State for Commerce

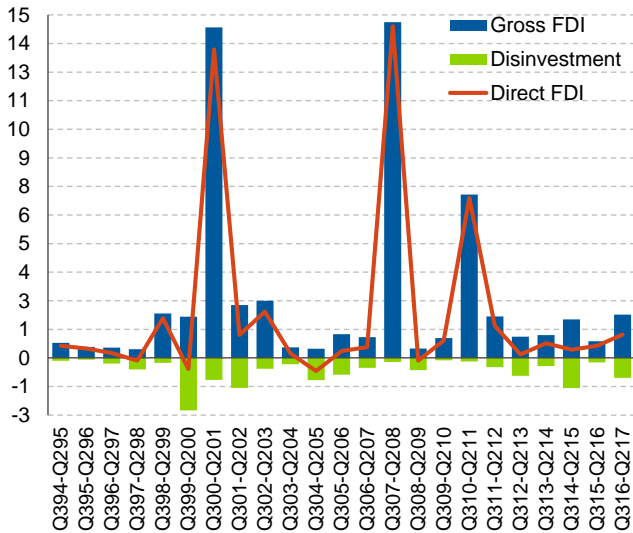
Net British FDI has remained in positive territory since 2005. Moreover, **the difference in flows using immediate versus ultimate investing criteria is very small**, which means that most investment originates in the UK itself and that the country is not being used as a staging post (like Luxembourg).

Only twice (in 2001 and 2005) have British disposals exceeded gross investments. Inflows of British FDI into Spain spiked in 2000, 2008 and 2011 on the back of one-off transactions in the telecommunications (2000), wholesale (2008) and aviation and financial services industries (2011). In those years, the United Kingdom accounted for 60%, 45% and 31% of all gross FDI in Spain respectively.

Total gross inflows of British investment (including ETVEs) amounted to just under €2bn in the four quarters following the Brexit referendum and €1.1bn in the first half of 2017. If this trend were to continue, 2017 would be an above average year for British investment.

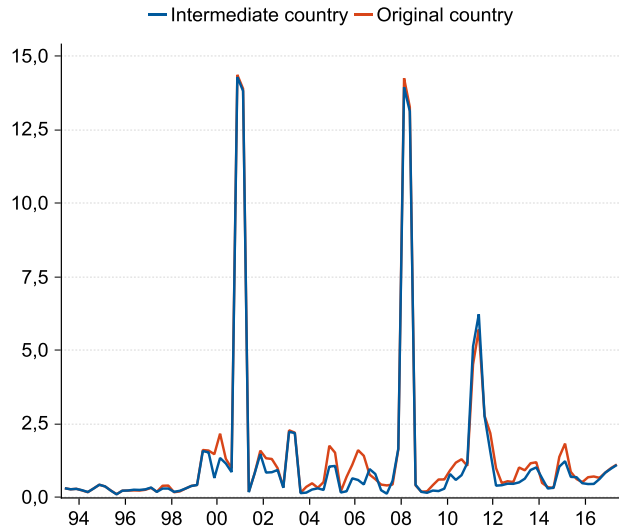
Net British FDI in Spain

(IIC criteria, € billion, cumulative four quarter, 12 months from Q316-Q217)



Source: Afi, Secretary of State for Commerce

Gross UK FDI in Spain, immediate vs. ultimate investing country criteria (€ billion, moving-two quarter sum)



Source: Afi, Secretary of State for Commerce

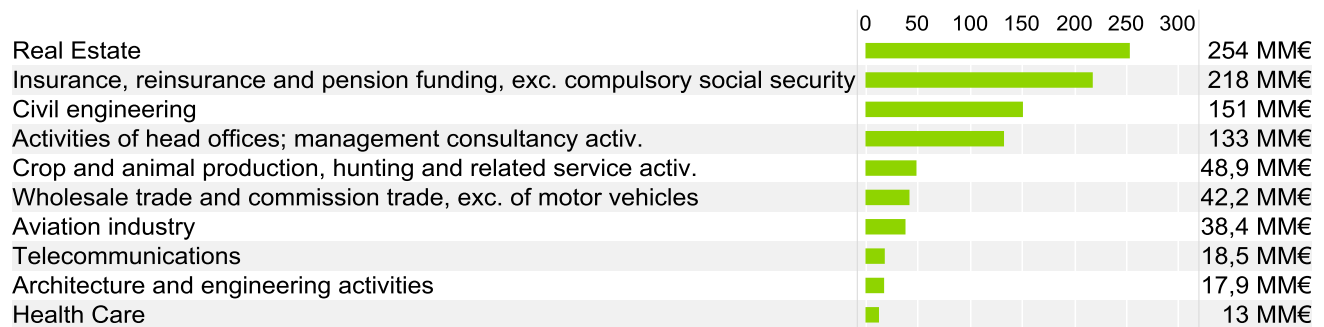
Flows in the first half of 2017

The real estate sector remains a focal point for British investors in net terms, alongside the insurance sector.

The real estate sector remained one of the key sectors receiving net British investment in the first half of 2017, partly reflecting the sector's revival during the recovery and **the development of SOCIMIs** as real estate investment vehicles (similar to REITs). The insurance and pension fund sectors have also received significant British FDI inflows, in line with past trends.

The main sectors which have historically dominated receipt of British FDI receipts (such as the aviation industry, telecommunications and wholesale trade), have received around the same amount of investment as in previous periods. Civil engineering has also seen significant inflows of British investment in recent quarters.

Top ten industries receiving net British investment in the first half of 2017
(€ million, IIC criteria, excluding ETVEs)



Source: Afi, Secretary of State for Commerce

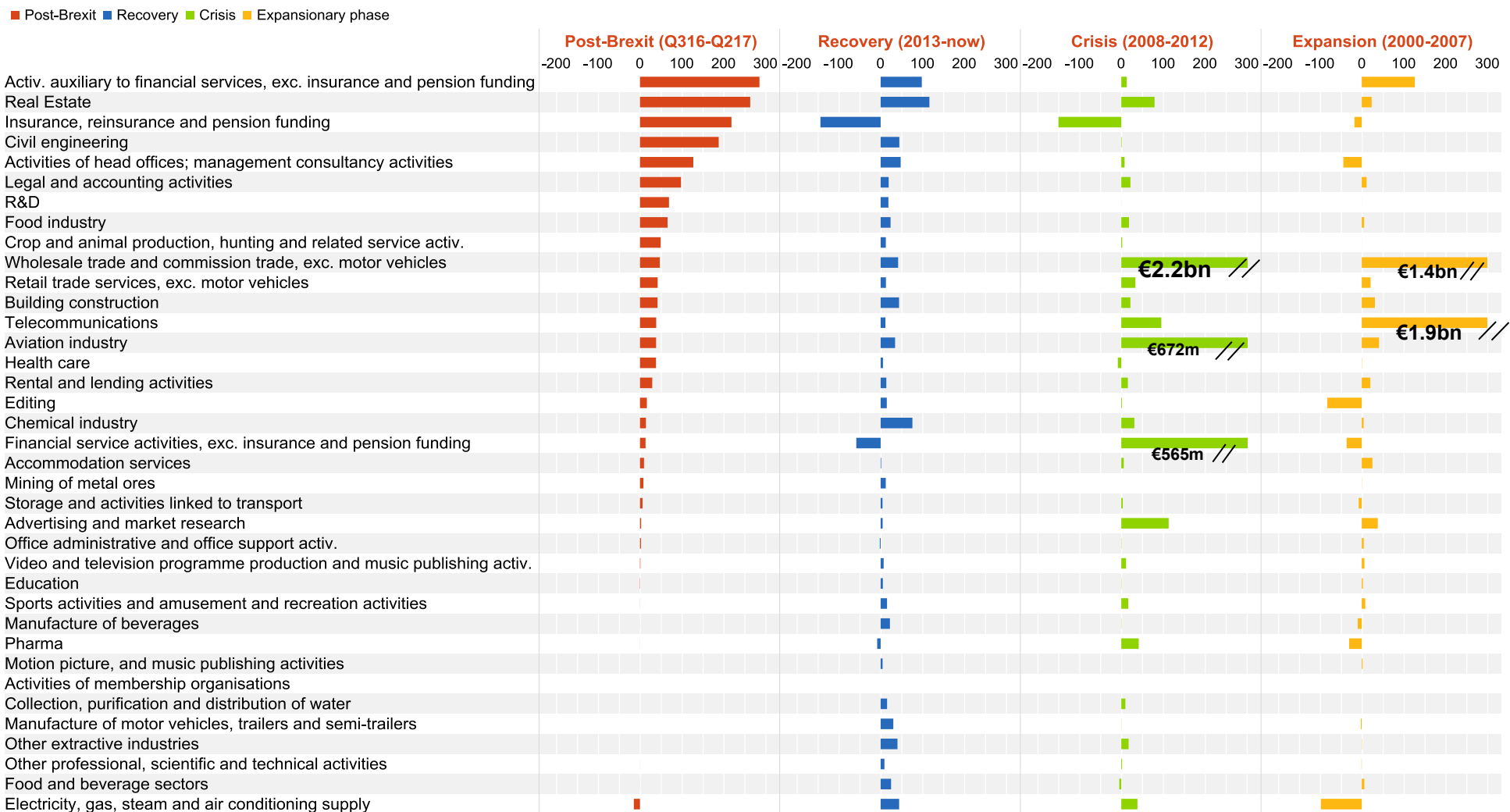
Cumulative inflows by sector

British FDI inflows have been well-diversified during the recovery (2013 to first half of 2017).

Since the turn of the century, some clear patterns have emerged in terms of British sectoral FDI trends into Spain depending on the stage of the economic cycle:

- **Expansion (pre-crisis: 2000-07): major investment in telecommunications** combined with a reduction in exposure to the energy and financial sectors.
- **Economic crisis (2008-12): surge in investment in commerce and transport** and significant investment in the financial sector (effect on insurance sector).
- **Recovery (2013-current): diversification across sectors and reduction in financial sector investment (especially insurance).**
- **Post-Brexit (Q316-Q217): continuation of inter-sectoral diversification** with significant investment in real estate, insurance and civil engineering sectors.

Average annual net British FDI flows by phase of the economic cycle, since the turn of the century (€ million, IIC criteria, excluding ETVEs)



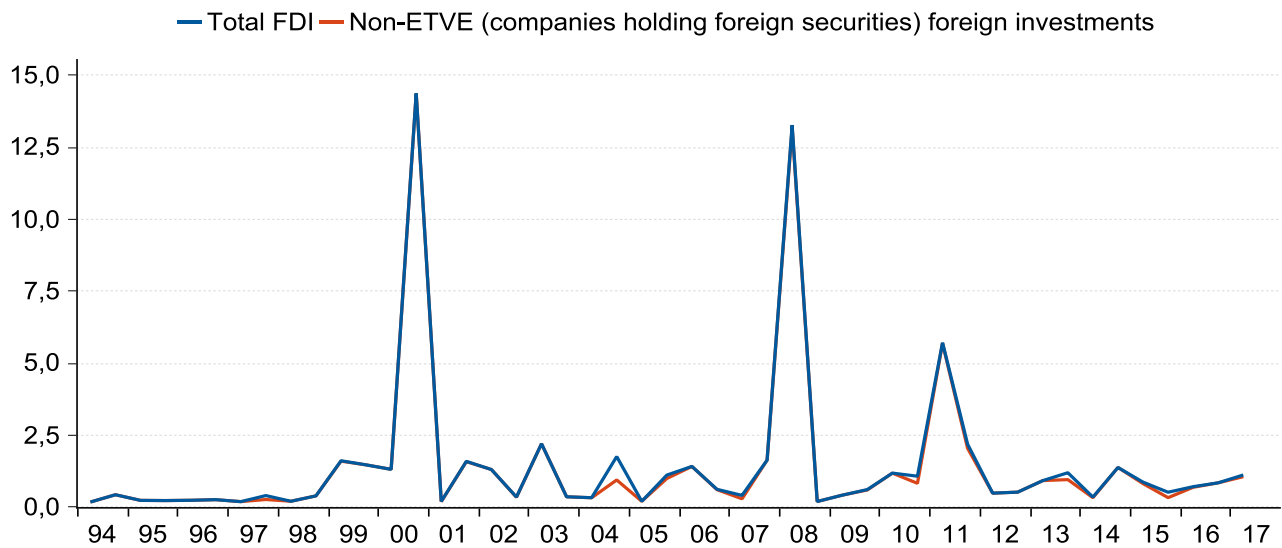
Source: Afi, Secretary of State for Commerce

Investment via foreign security holding companies (ETVEs)

British FDI in Spain is predominantly productive investment, rather than investment articulated through foreign security holding companies.

Since 1993, just 5.9% of all British FDI inflows into Spain have been made through foreign security holding companies (ETVEs). This level has only been exceeded in four of the last 24 years. Relative to the overall stock, non-productive British FDI represented a mere 0.28% of all British FDI in 2015.

Gross UK FDI in Spain, including and excluding ETVEs
(six-month frequency, UIC criteria, € billion)



Source: Afi, Secretary of State for Commerce

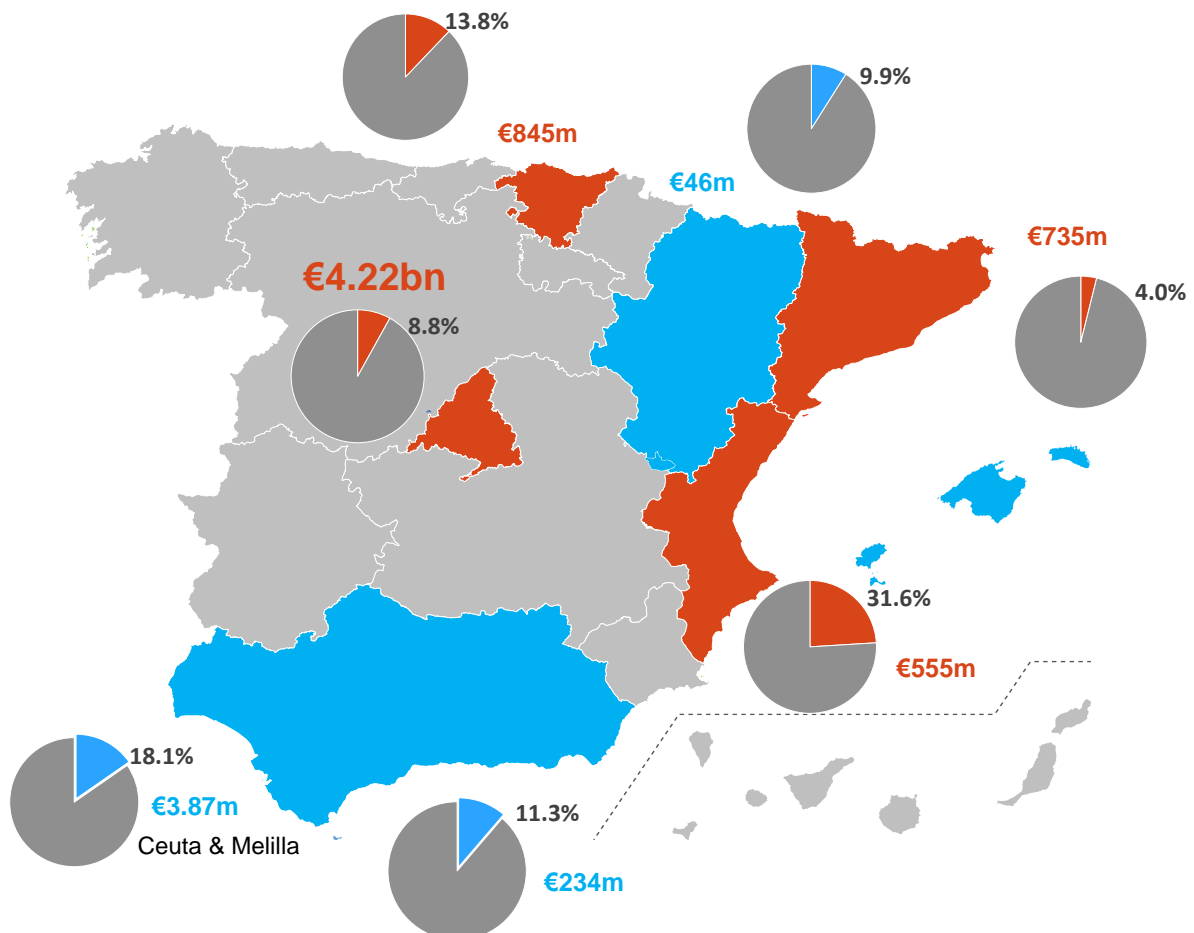
Flows by Spanish region

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

As with FDI from the rest of the world, inward FDI from the United Kingdom focuses on the Madrid, Basque and Catalan regions. The Valencia region has also received a significant amount of British FDI in recent quarters, accounting for over 30% of total FDI received by the region during the economic recovery.

In addition to Valencia, British investment accounts for a significant share of total foreign investment in the Basque Country and the Balearic Islands, accounting for over 13% in both cases. Finally, whilst the total volume of FDI in Ceuta and Melilla is small, British investment represents nearly 20% of the total.

Main recipients of British investment during the economic recovery (2013- first half of 17)
(Volume of gross inflows in € millions and corresponding percentage of total inflows)



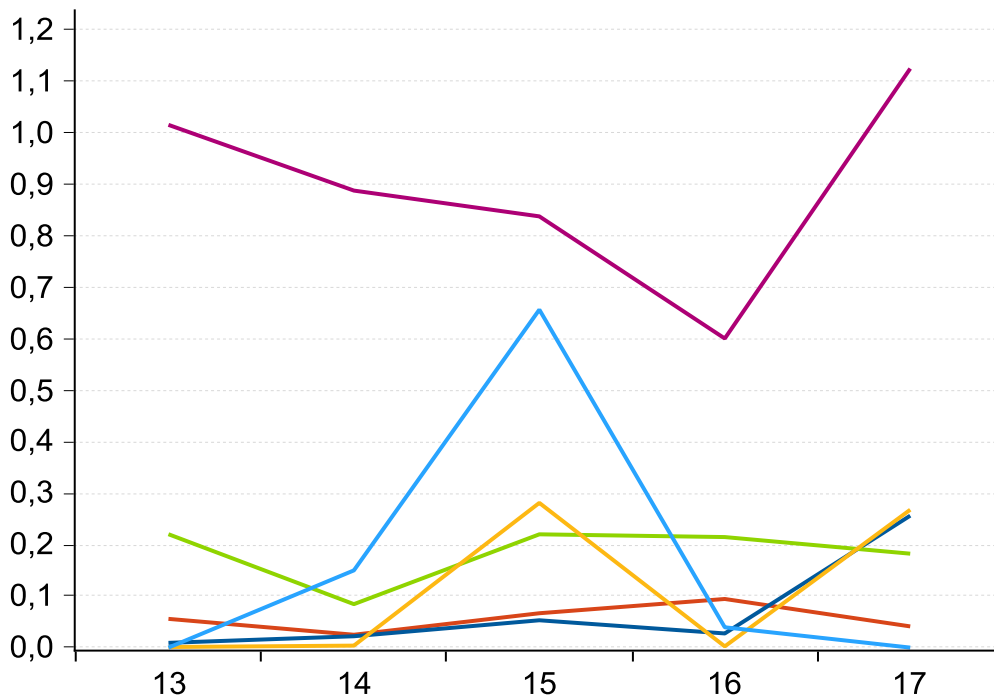
Source: Afi, Secretary of State for Commerce

The **Madrid** region remained the main recipient of British investment in the first half of 2017. There has also been a significant increase in British FDI flows into the **Valencia region and the Balearic Islands** since Q316.

Meanwhile, in terms of the other main regions receiving a significant amount of British FDI, there was a very **slight decline in Catalonia and Andalusia, and a significant reduction in the Basque Country.**

Inflows of British FDI by region during the recovery
(UIC criteria, excluding ETVs, € billion, four-quarter moving sum Q316-Q217)

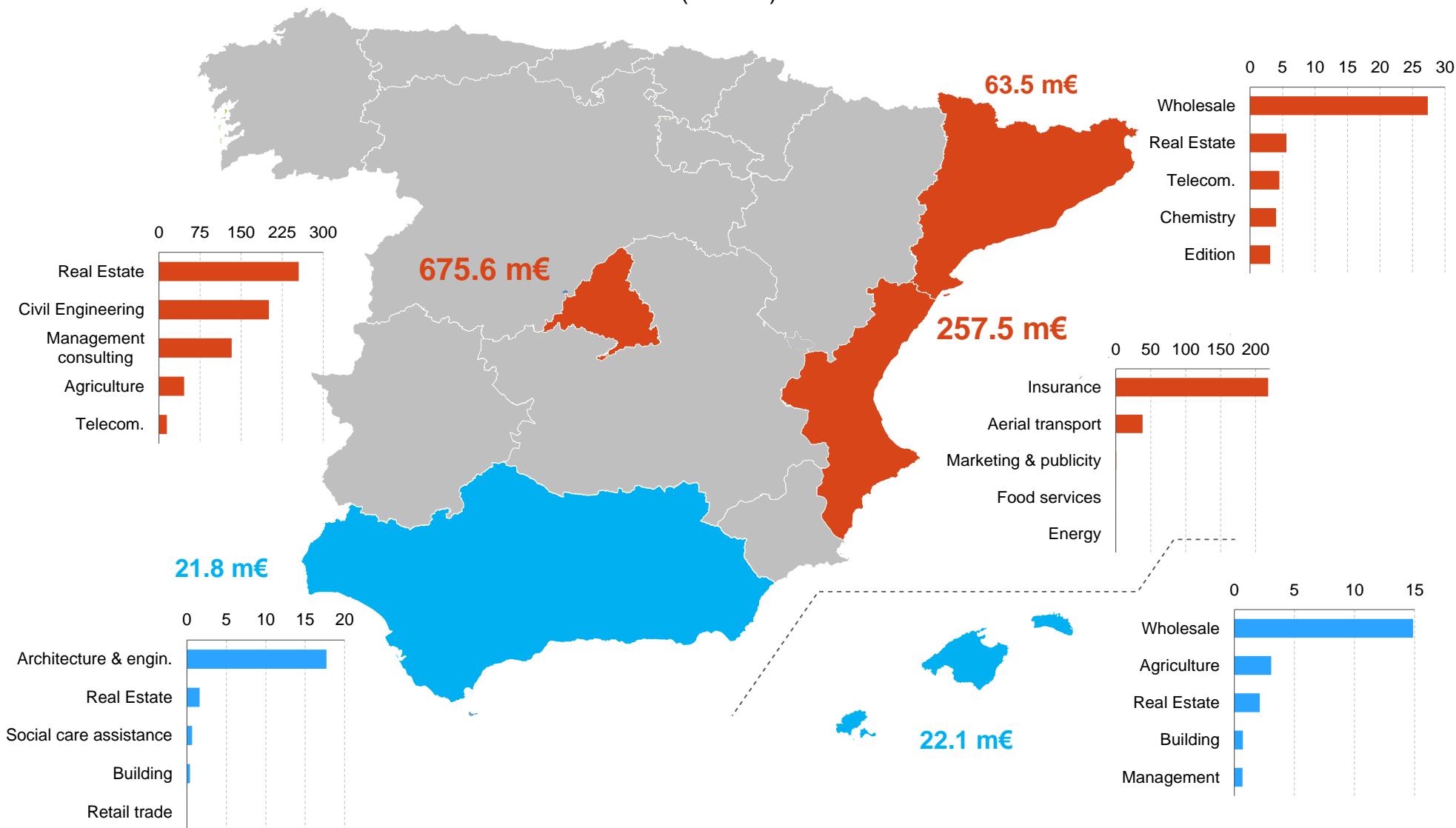
- Basque Country — Autonomous Community of Madrid
- Autonomous Community of Valencia — Catalonia — Balearic Islands
- Andalusia



Source: Afi, Secretary of State for Commerce

The **real estate and civil engineering sectors in Madrid** received a significant share of British FDI in the first half of 2017 (some €400m across both sectors). The same can be said of the **insurance and pensions fund sectors in Valencia** (over €200m) and the **wholesale sector in Catalonia** (over €25m).

Inflows of British FDI by region and sector in the first half of 2017 (€ billion)



Source: Afi, Secretary of State for Commerce

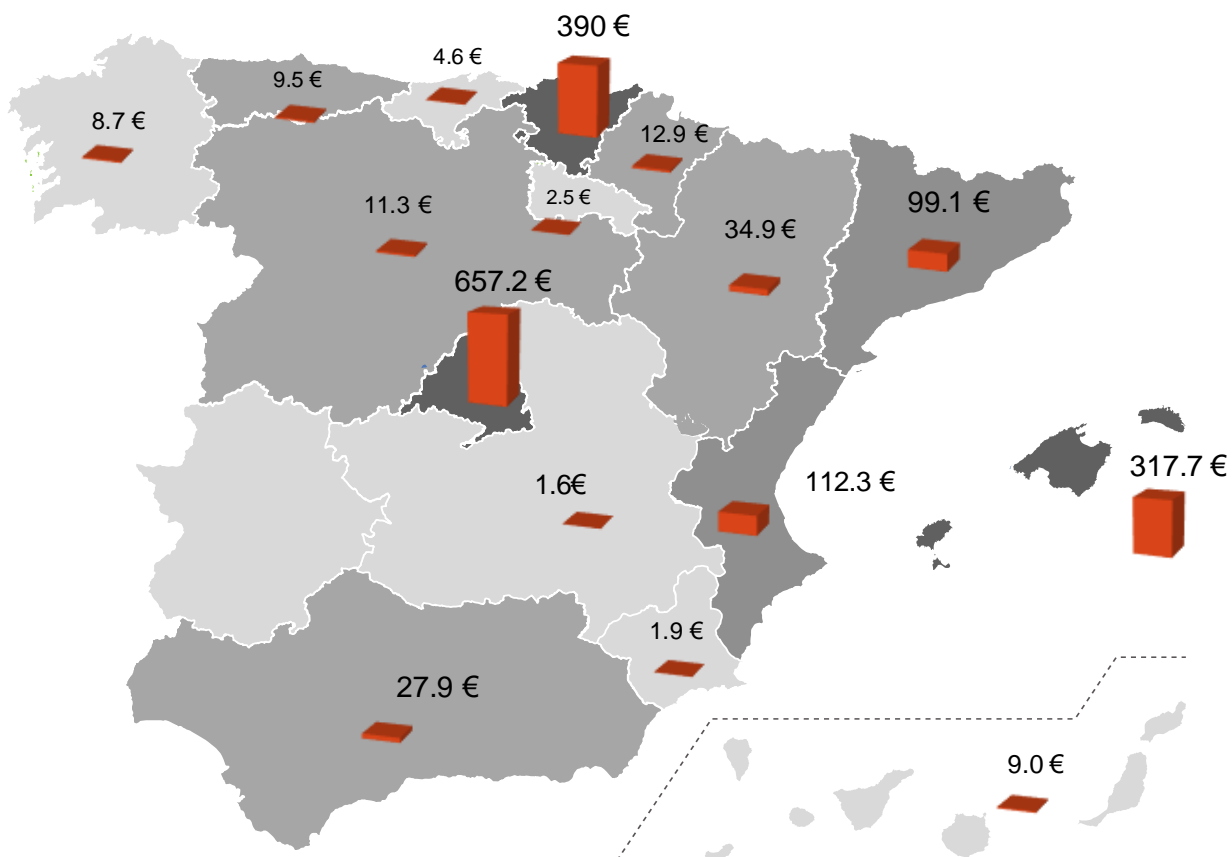
Inflows per capita per region

Inflows of British FDI on a per capita basis between 2013 and the first half of 2017 have been particularly significant in the Madrid, Basque and Balearic regions.

Inflows of British FDI per capita between 2013 and the first half of 2017 were particularly strong in the Madrid region (€657.2 per capita), reflecting a degree of bias caused by the capital city's "headquarters effect". The equivalent figures for the Basque Country are also noteworthy (€390 per capita). In addition to these two regions, inward British FDI per capita has also been relatively robust in the Balearic Islands (€317.7) and the Valencia region (€112.3).

In the case of both these two regions, British investment per capita has increased significantly over the last four quarters, rising by over €220 per person in the Balearic Islands and almost doubling in Valencia (from €67.3 to €112.3), testament to the relative importance of British FDI in the latter.

Cumulative gross inflows of British FDI during the recovery (2013-Q217) (euros per capita per region)

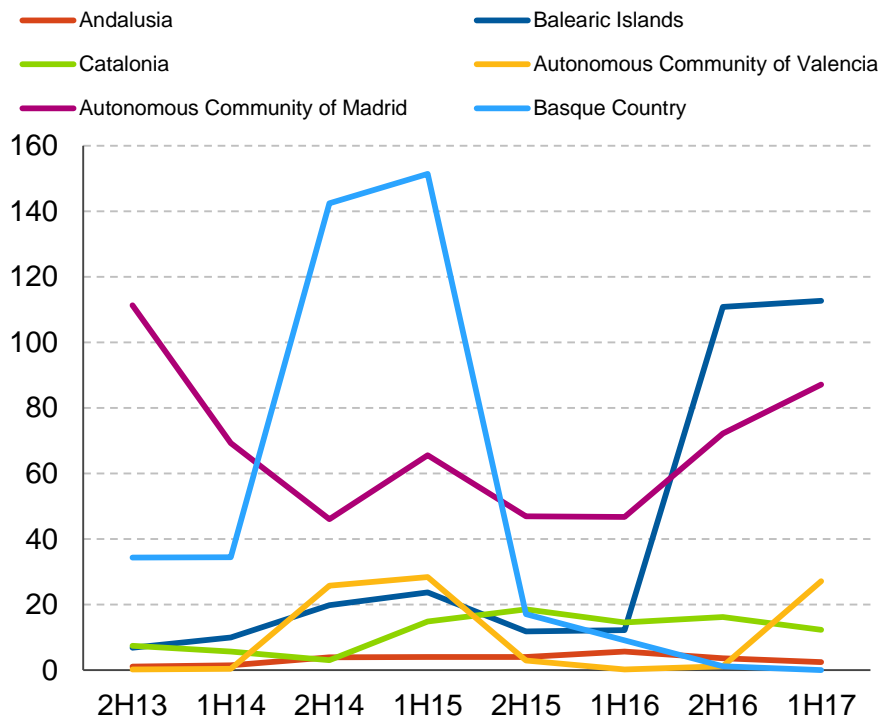


Source: Afi, Secretary of State for Commerce

In recent years British FDI per capita has grown particularly strongly in the Madrid region and has also picked up in the Balearic Islands as of the end of the last year. Both regions have seen an increase in their population since the start of the crisis meaning that the increase in British FDI per capita is down to a pick up in investment and not due to population effects.

Meanwhile, British FDI per capita has remained largely stable in Catalonia and Andalusia in recent quarters.

Gross flows of British FDI per capita during the economic recovery (2013- first half of 2017)
(euros per capita per region)



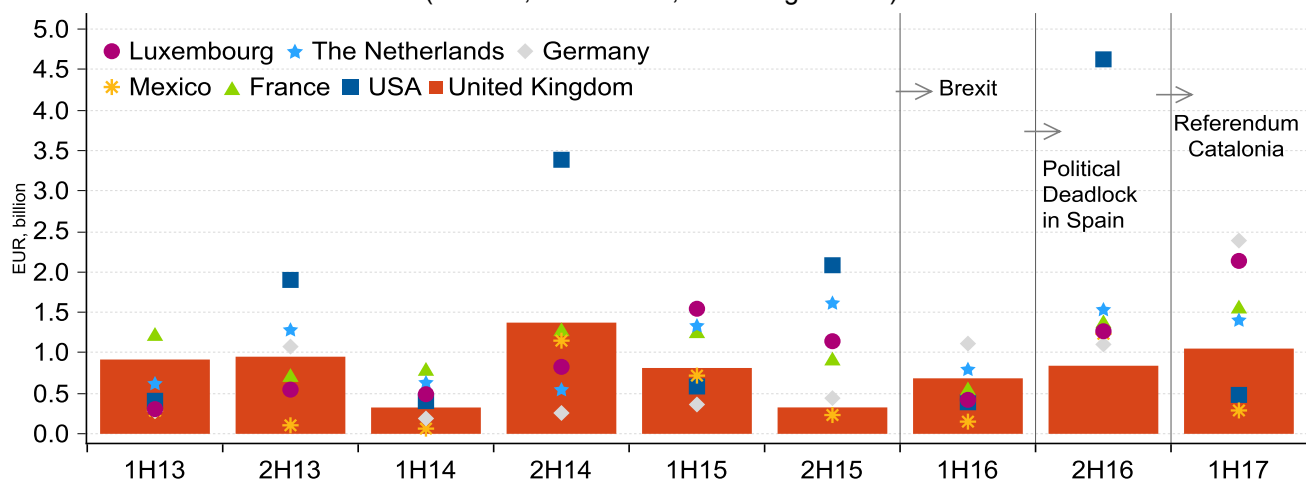
Source: Afi, Secretary of State for Commerce

FDI and political risk: Catalonia

British FDI flows into Spain appear to have been unaffected by various political risk developments over the last year (including the uncertainty following the result of the referendum on UK membership of the European Union, the caretaker government situation in Spain until the end of 2016 and the state of play in Catalonia). In fact, British investment flows have increased slightly, demonstrating UK investors' strong commitment to Spain.

British FDI flows during the first half of 2017 have been in line with previous periods, showing greater stability in than FDI than from other countries such as the United States or the Netherlands.

Gross inflows of FDI in Spain by six-month period during the recovery
(€ billion, UIC criteria, excluding ETVEs)



Source: Afi, Secretary of State for Commerce

The latest available data on FDI flows (Q217) reveal no discernible impact on British FDI from the situation in Catalonia, which have remained generally stable in recent quarters, easing slightly.

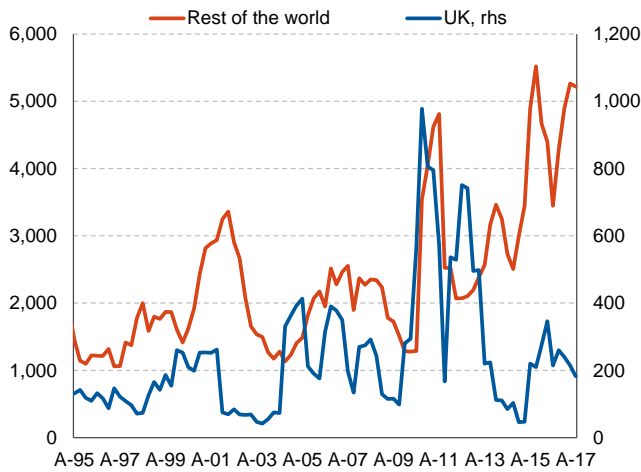
Although the data for Catalonia show **a degree of divergence with global FDI flows into the region, which have been growing since 2011** (which is not the case in other regions such as Andalusia), **this cannot be directly attributed to the political situation in the region.**

On the one hand, this divergence is seen in other regions such as the Basque Country (increase in FDI from rest of the world compared to a reduction in pace of growth of UK FDI inflows) and on the other hand, **the reverse is true for some other regions (e.g. Valencia and the Balearic Islands)** where British FDI has been grown by more than the rest of the world. In fact, the UK was the first and second biggest investor respectively in these regions during the first half of 2017.

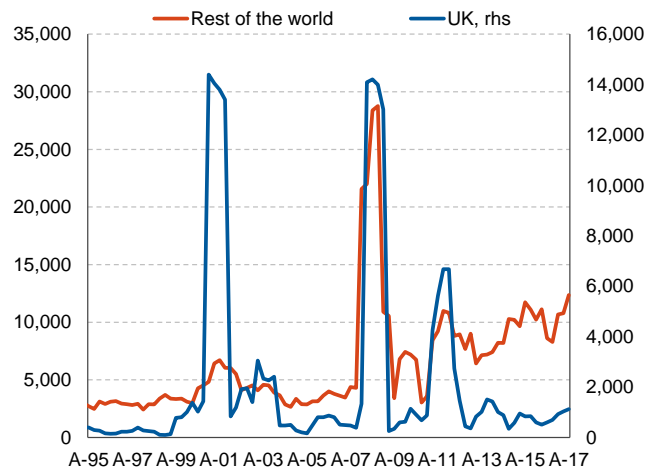
There are no obvious signs of a difference in British FDI in Catalonia relative to the rest of the world. Relative to historical trends, British investment in the region has focussed particularly on the publishing and civil engineering sectors, in line with trends in FDI inflows from the rest of the world. Energy supply and social work without accommodation are the only sectors in Catalonia registering a reduced concentration of British investment (relative to the historical average and in contrast with FDI from the rest of the world).

Overall, as of June 2017, there is no firm evidence of a diminishing in British investors' appetite to invest in Catalonia due to the political situation in the region. However, it is not inconceivable that this could change over the coming quarters following the spikes in tension since the 1st of October, although FDI flows are typically more stable than other types of investment (e.g. financial) and the impact could take some time to materialise. Any such effect could arise either through a diversion of flows away from Catalonia towards other regions, or outside of Spain itself, reflecting concerns about breakup risk.

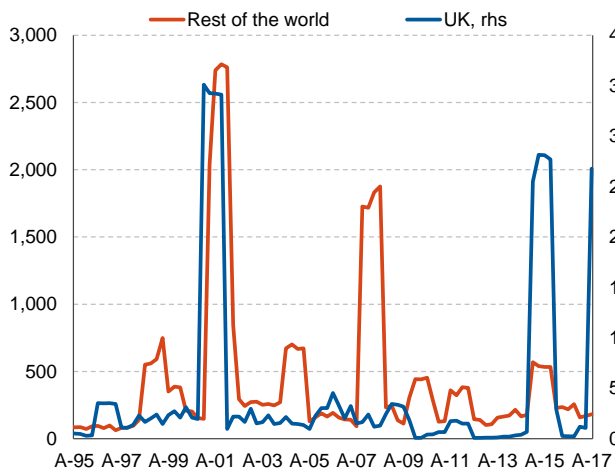
Gross FDI flows into Catalonia
(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



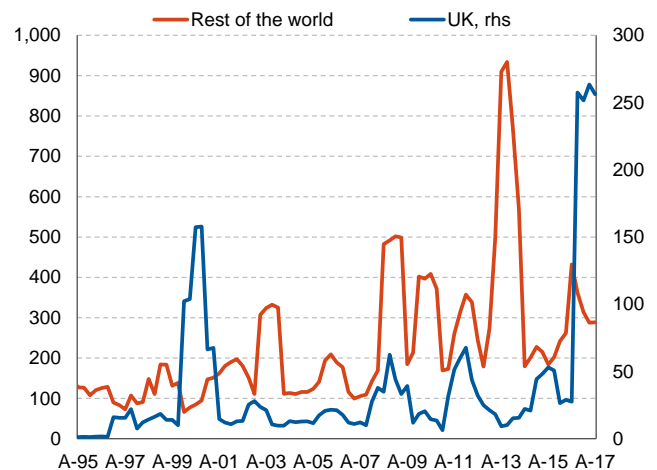
Gross FDI flows into Madrid
(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



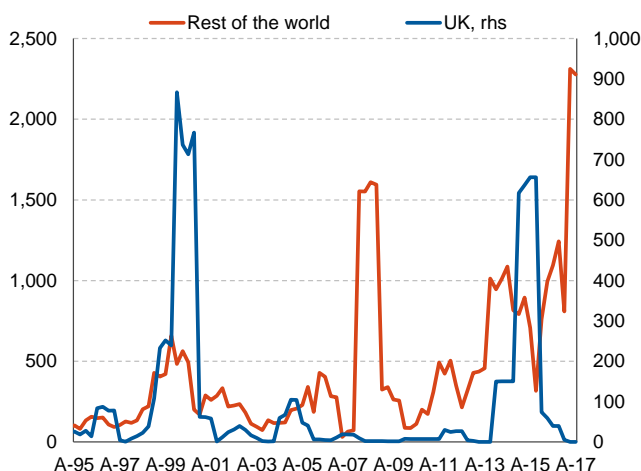
Gross FDI flows into the Valencia Region
(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



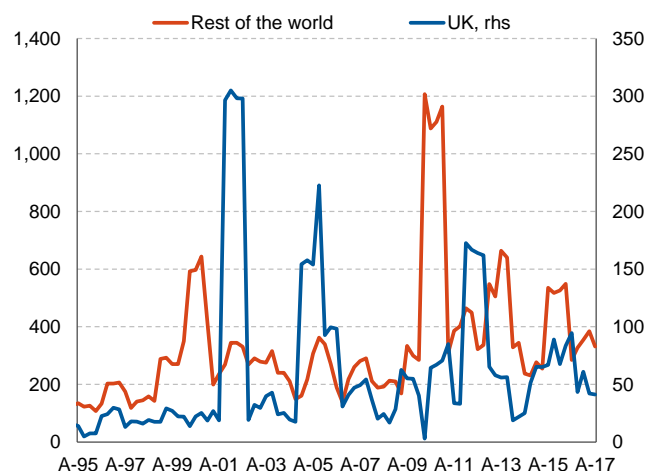
Gross FDI flows into the Balearic Islands
(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



Gross FDI flows into the Basque Country
(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)

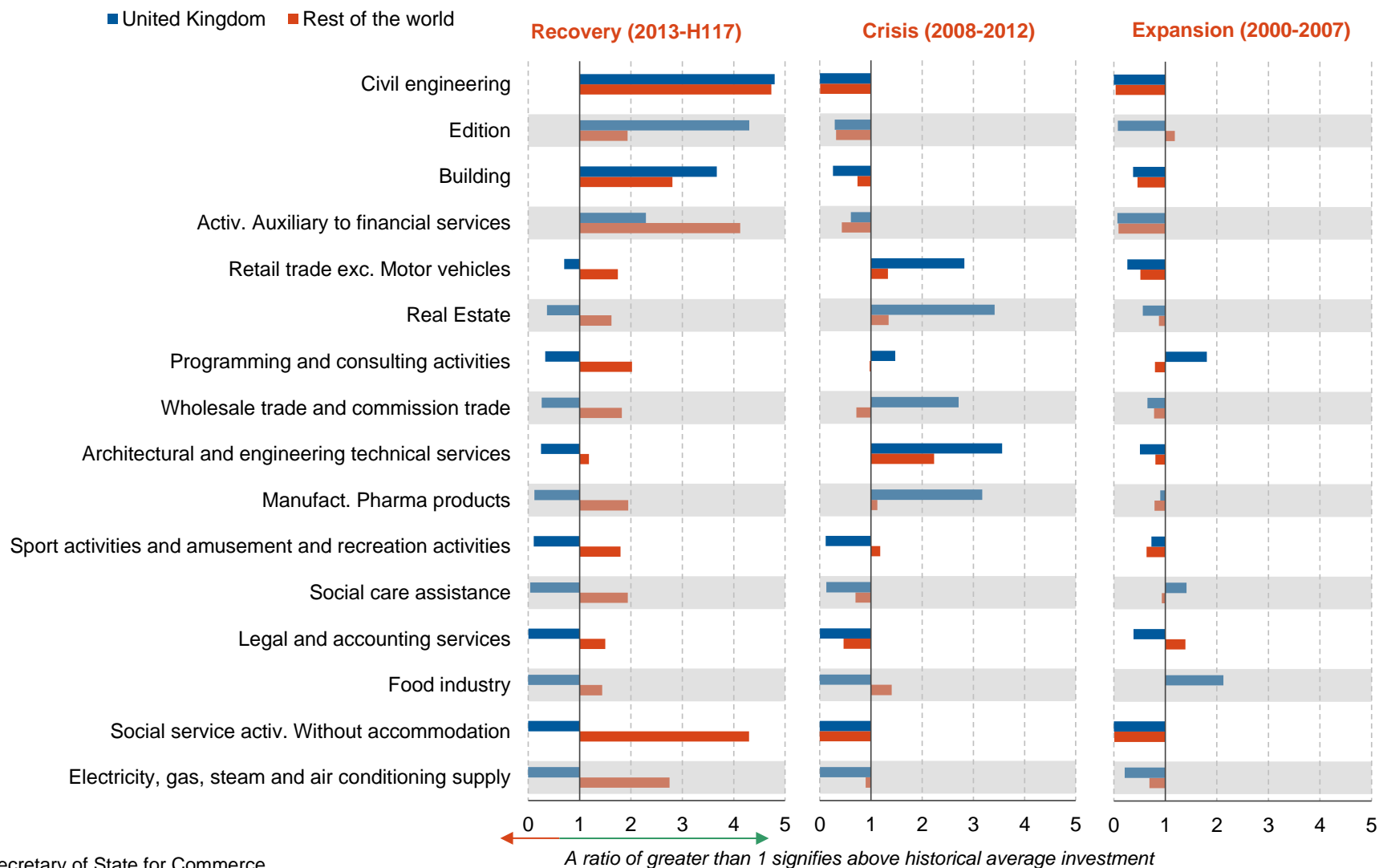


Gross FDI flows into Andalusia
(Moving four-quarter sum, UIC criteria, excluding ETVEs, quarterly, € million)



Source: Afi, Secretary of State for Commerce

Deviation of gross FDI inflows into Catalonia relative to historical average in each period
(IIC criteria, UK and ROW investment, ratio between average during period and historical average)



Source: Afi, Secretary of State for Commerce

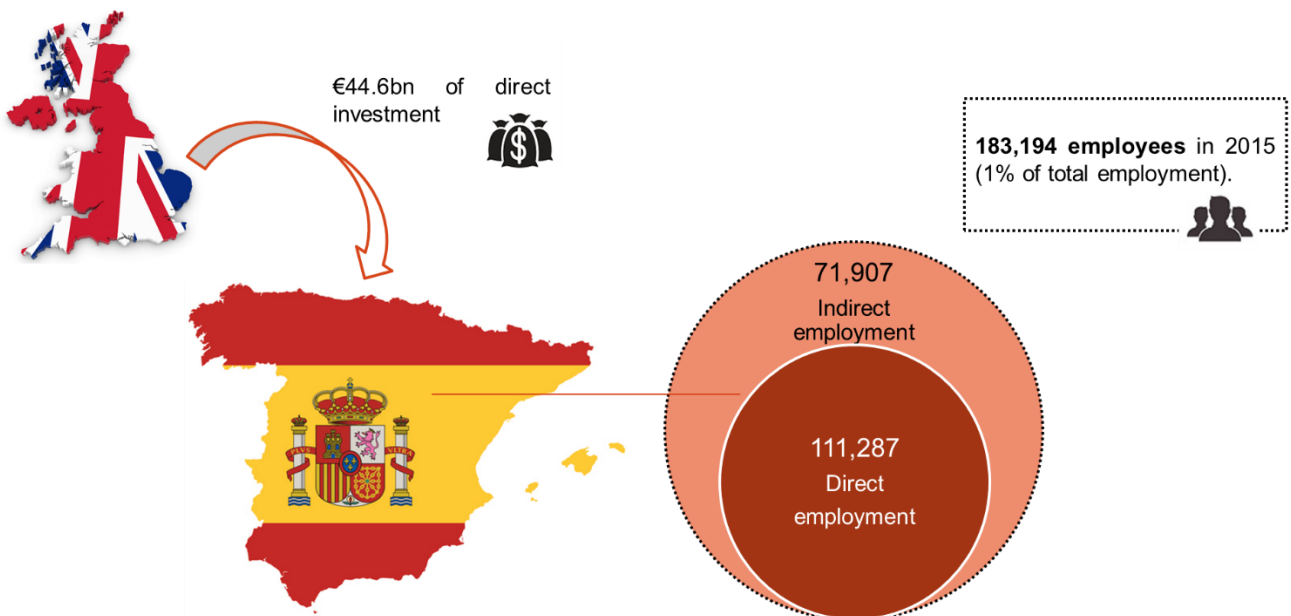
Effects of British FDI on jobs and tax revenue

British FDI has led to the creation of 183,194 jobs in total and €6.6 billion in tax revenues.

British FDI in Spain helped sustain 111,287 *direct* jobs in the Spanish economy in 2015, which is equivalent to 0.6% of all jobs in Spain. It also generated a total of 71,907 *indirect* jobs in supply chain and auxiliary activities¹.

The total impact in terms of jobs (direct plus indirect) was 183,194, equivalent to 1% of all employment in 2015. This represents an increase of nearly 22,000 jobs relative to the estimated impact last year.

Impact of British FDI on employment in Spain, 2015



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

Meanwhile, the income generated by British FDI amounted to €4.02 billion in revenue for the Spanish authorities² in various tax receipts. In addition, British investment contributed €2.59 billion to the Social Security Administration through social security contributions.

In total, the contribution of British FDI to Spanish tax revenues came to €6.61 billion, which was 3.6% of all tax revenue³ at a state level in 2015. In line with the larger impact on job creation in 2015, the tax contribution from British FDI in Spain also increased relative to the estimated €6.14bn collected in 2014.

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

2 The tax contribution has been estimated using the effective tax rates associated with the various different taxes (corporate income tax, personal income tax, VAT).

3 The state total includes some of the revenue collected by the regional and local governments. However, certain regional and local taxes are excluded.

Fiscal contribution by British FDI to Spain’s public finances and Social Security system, 2015

UK FDI's Contribution to Tax and Fiscal Authorities (2015)		
Tax figure	€ million	% Share on tax contribution
Taxes	4.020	2,2%
Payroll Taxes Employer	2.593	1,4%
Total	6.613	3,6%

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

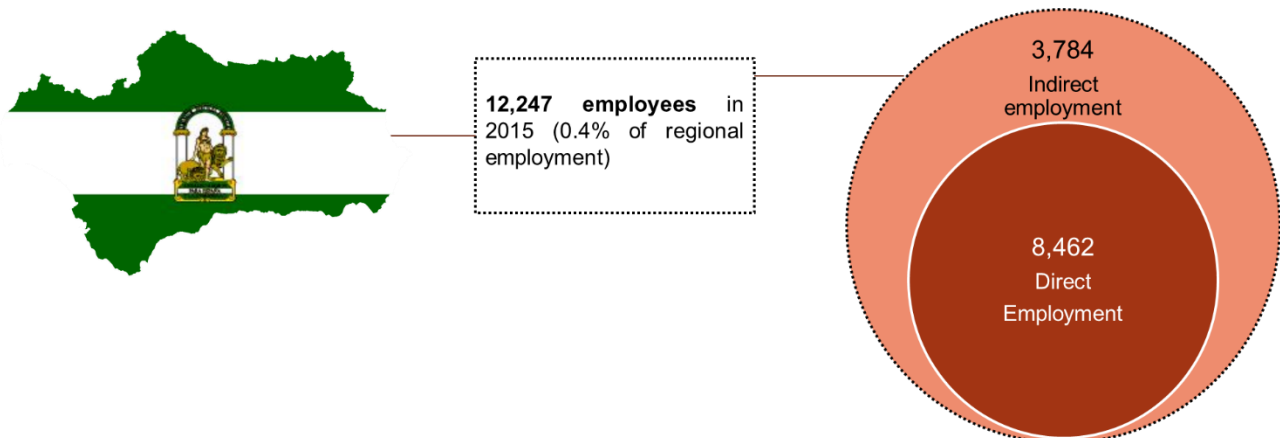
Effects of British FDI on jobs in Andalusia

British FDI in Andalusia accounted for 12,247 jobs in total, some 0.4% of total employment in the region in 2015.

British FDI was responsible for sustaining 12,247 jobs in the Andalusian economy, equivalent to 0.4% of total employment in the region in 2015. This was down from the previous year, when the overall employment impact amounted to 13,868 jobs.

8,462 jobs were created directly, with the remaining 3,784 corresponding to supply chain effects⁴ associated with British FDI.

Impact of British FDI on employment in Andalusia, 2015



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

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

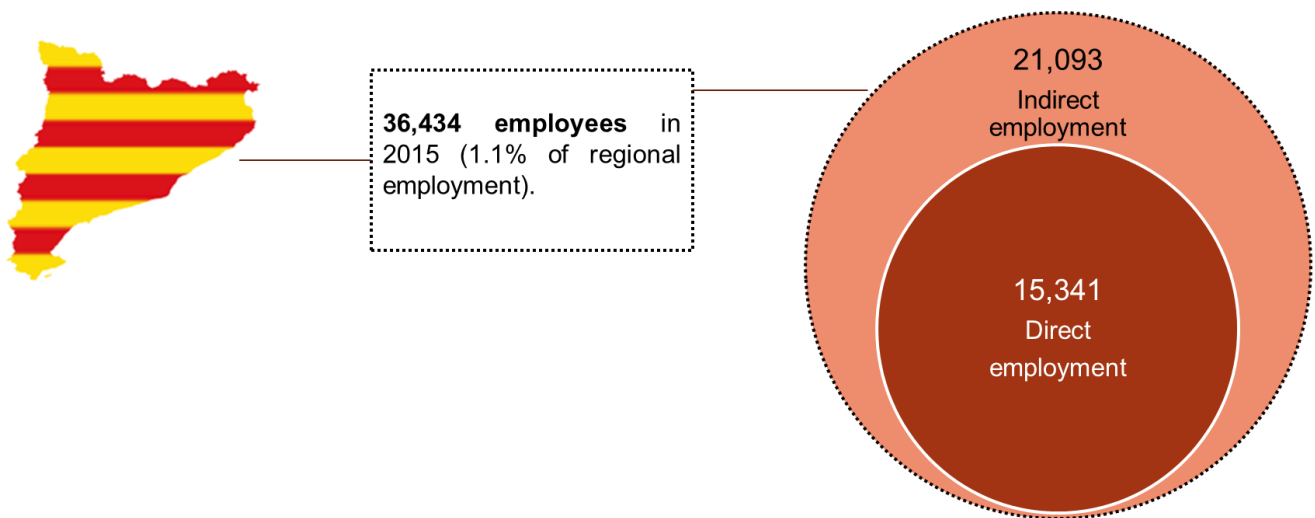
Effects of British FDI on jobs in Catalonia

British FDI in Catalonia was responsible for sustaining 36,434 jobs, which is equivalent to almost 1.1% of total employment in the region.

British FDI in Catalonia was responsible for sustaining 36,434 jobs, which is equivalent to almost 1.1% of total employment in the region in 2015. The jobs impact of British FDI in the region increased by over 3,000 relative to the previous year.

A total of 21,093 jobs were generated directly, while the remaining 15,341 were created indirectly⁵ via spillover effects into other economic activities.

Impact of British FDI on employment in Catalonia, 2015



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

⁵ Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2011 Input-Output Tables).

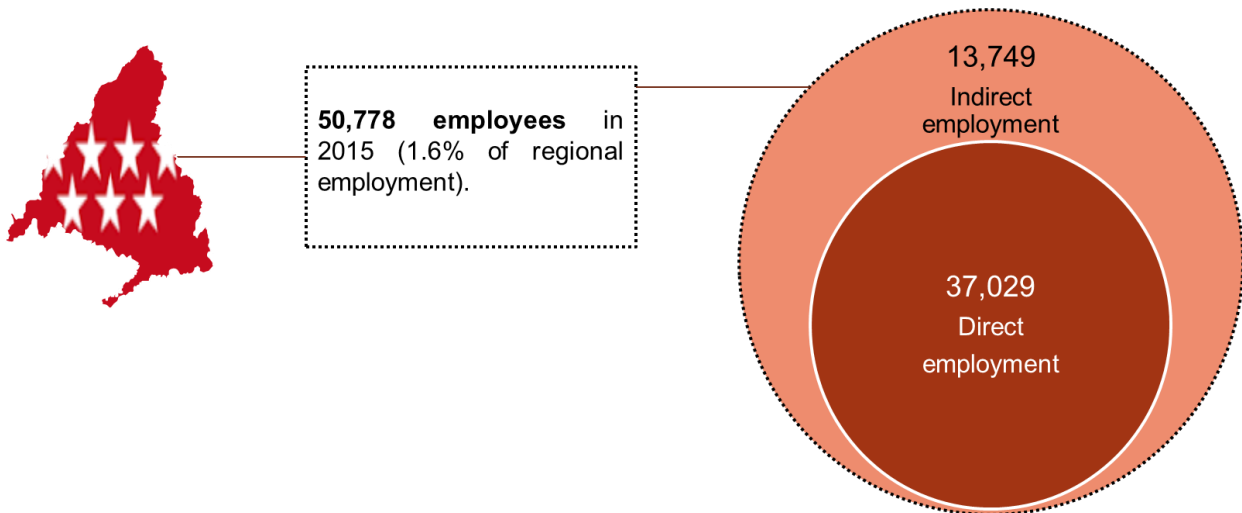
Effects of British FDI on jobs in the Madrid region

British FDI was responsible for creating 50,778 jobs in the Madrid region in 2015, accounting for 1.6% of total employment in the region.

British FDI was responsible for sustaining 50,778 jobs in the Madrid region's economy, equivalent to 1.6% of total employment in the region. This represents an increase of 9,000 jobs relative to the estimated impact in 2014.

A total of 37,029 jobs were generated directly, while the remaining 13,749 were created indirectly⁶. As noted in previous years, the smaller spillover effect from other economic activities is once again evident relative to the estimates for the other two regions under analysis. This reflects the nature of the sectors receiving British investment in the Madrid region - generally more associated with services - and the greater degree of dependence in other regions on the supply of goods and services.

Impact of British FDI on employment in the Madrid region, 2015



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

⁶ Indirect employment was estimated using Leontief Type I input-output multipliers for the various productive areas of the Spanish economy (2010 Input-Output Tables).

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

[Barometer on climate and outlook]

November 2017

Key aspects of the business climate in Spain from the perspective of British companies:

General 11. British companies have significantly revalued their assessment of the Spanish business climate in 2017, which was already deemed to be acceptable. There is a noticeable improvement in nearly all areas, though British businesses continue to see a need for greater commitment and budgetary support for spending on R&D.

The improvement in the business outlook is likely to be closely associated with the positive growth outlook for the Spanish economy as the recovery has gained momentum.

Outlook 12. 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, thus reflecting the strength of commitment to Spain.

British investment is set to become more geographically diverse, whilst at a sectorial level companies are focusing investment on the manufacturing sector.

Government 13. Although classed as acceptable, British companies consider the relationship with the public authorities to be the second weakest element of the Spanish business climate.

This reflects a more downbeat assessment of the tax burden this year.

Political risk 14. British companies (surveyed between May and July of this year) regard political risk as being acceptable, in line with last year.

Financing conditions 15. British businesses believe that the improvement in financing conditions in Spain is supportive of a good business climate.

Labour market 16. The Spanish labour market is contributing to the promotion of a favourable business climate supported by appropriate staff training and an improving command of the English language.

However, British companies highlight the need to continue making progress on labour regulation.

Market structure 17. British firms regard the market structure as being acceptable for the purposes of their business. This perception is underpinned by

transparency and good governance, as well as the absence of unfair competition.

Digitalisation 18. British companies consider that progress is being made towards the digital economy.

R&D 19. British businesses perceive an increase in Government commitment to promoting R&D spending, albeit still with room for improvement.

Supplier costs 20. The assessment of the availability, quality and cost-competitiveness of firms supplying British companies is down from last year but nonetheless remains one of the most highly-valued aspects of the Spanish business climate.

Quality of life 21. Quality of life is once again the best-rated business climate attribute by British companies, supported by a continued improvement in lifestyle and security.

Brexit 22. One year on from the referendum, 71% of British businesses believe that Brexit will not affect their investment in Spain, 11 percentage points higher than last year.

Meanwhile, companies foreseeing a potential impact on investment believe that the scale will be smaller than originally anticipated in the immediate aftermath of the referendum.

General

British companies have significantly revalued their assessment of the Spanish business climate in 2017, which was already deemed to be acceptable. There is a noticeable improvement in nearly all areas, though British businesses continue to see a need for greater commitment and budgetary support for spending on R&D.

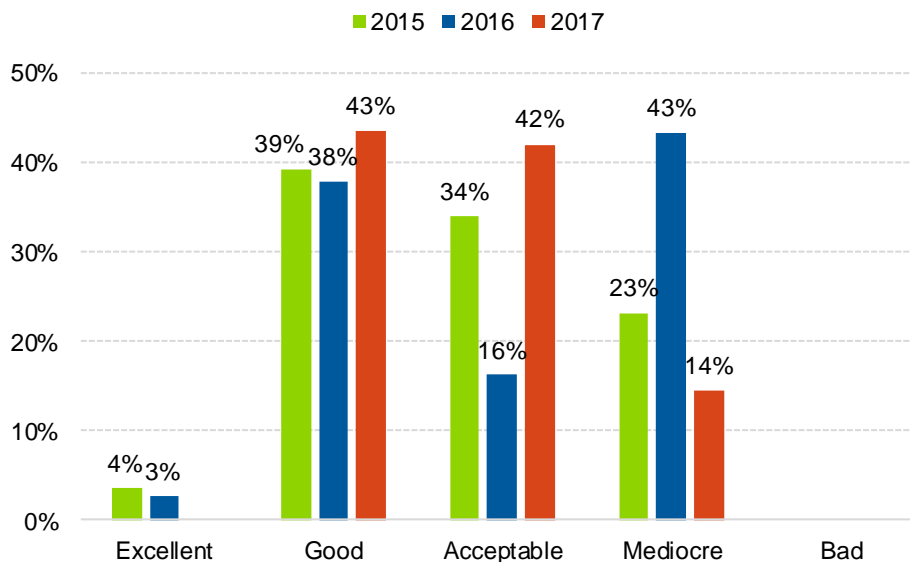
The improvement in the business outlook is likely to be closely associated with the positive growth outlook for the Spanish economy as the recovery has gained momentum.

In order to analyse how the Spanish business climate is perceived by British companies, a representative sample of firms (69) were surveyed between May and July. For further information on the design of the survey, size of the sample and characteristics of the companies surveyed, please refer to the methodological description in the appendix.

This third consecutive annual survey provides an overview of the developments in British companies' assessment of the business climate in Spain, their investment outlook and views regarding the strengths, and areas for improvement necessary to boost their investment.

British businesses have significantly revalued their assessment of the business climate in 2017, which was already deemed acceptable. The proportion of companies which describe the business environment as mediocre has decreased with an increase in the share of companies which regard it as good or acceptable (43% in both cases). On a scale from 1 to 5, where 1 is poor and 5 is excellent, Spain's business climate is currently rated at 3.3, up from an average of 3.0 in 2016.

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

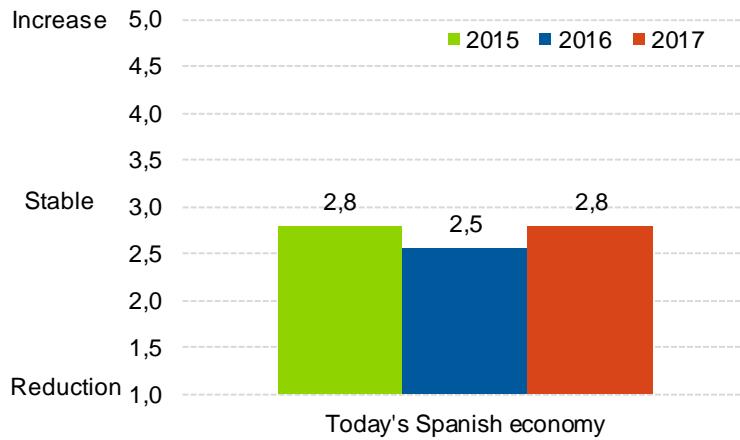


Source: Afi, "Survey of British investment in Spain".

The strengthening of the Spanish economic recovery and the favourable growth outlook for next year are contributing to an improvement in the perception of the current business climate in Spain.

78% of companies expect that the Spanish economy will grow next year, compared to 55% last year.

Current outlook for the Spanish economy according to British companies in Spain (score based on % of responses, where 1 is a decline and 3 is an increase)



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

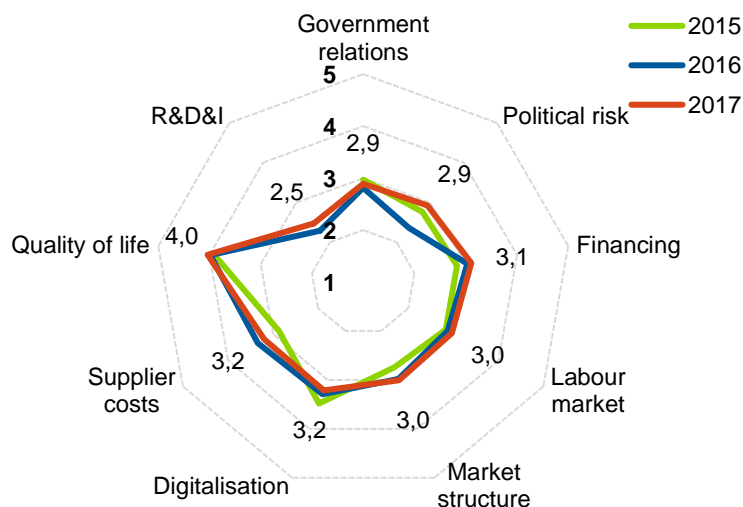
Various aspects impinge on the assessment of the business climate and the corresponding level of British investment in Spain. It is therefore important to identify which areas are favourable or unfavourable to investment.

The combined score for all areas in 2017 comes in at 3.1 out of 5.0. On a comparable basis⁷, British companies' assessment of the Spanish business climate has improved relative to the two previous years.

Overall, British firms have an improved opinion of all aspects this year, except for digitalisation. In the case of the latter, the score is down from last year but nonetheless remains one of the best-rated areas. However, R&D remains by far the worst-rated area, with a significant margin for improving R&D spending.

The following sections provide a detailed analysis of each of the thematic areas included in the assessment of the business climate.

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".

⁷ To increase participation in survey, the number of questions included in this year's survey were reduced relative to previous editions.

Outlook for British investment in Spain

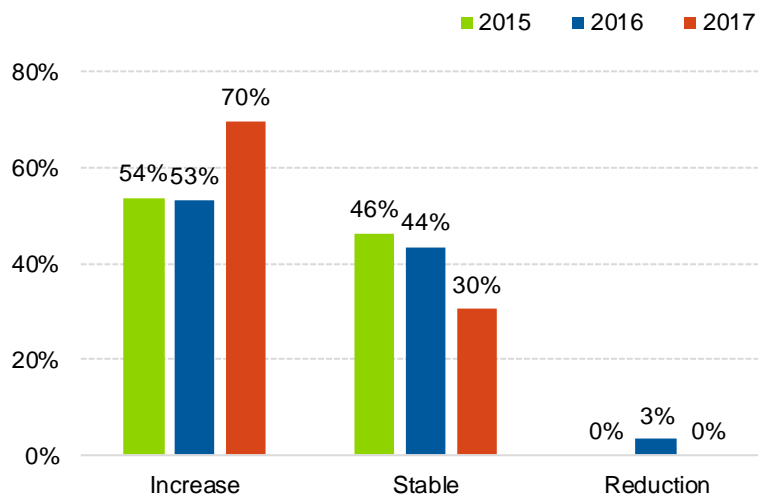
The improved perception of the business climate means a larger proportion of British companies plan to increase their investment in Spain.

The bulk intend to do so within the next year, channelling investment towards innovation, thus reflecting the strength of commitment to Spain.

British investment is set to become more geographically diverse, whilst at a sectorial level, companies are focusing investment on the manufacturing sector.

70% of British companies now plan to increase their investment in Spain this year, up significantly from 53% in 2016, with a corresponding decline in the number of companies planning to keep investment on hold. British companies are therefore strengthening their commitment to the Spanish economy.

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

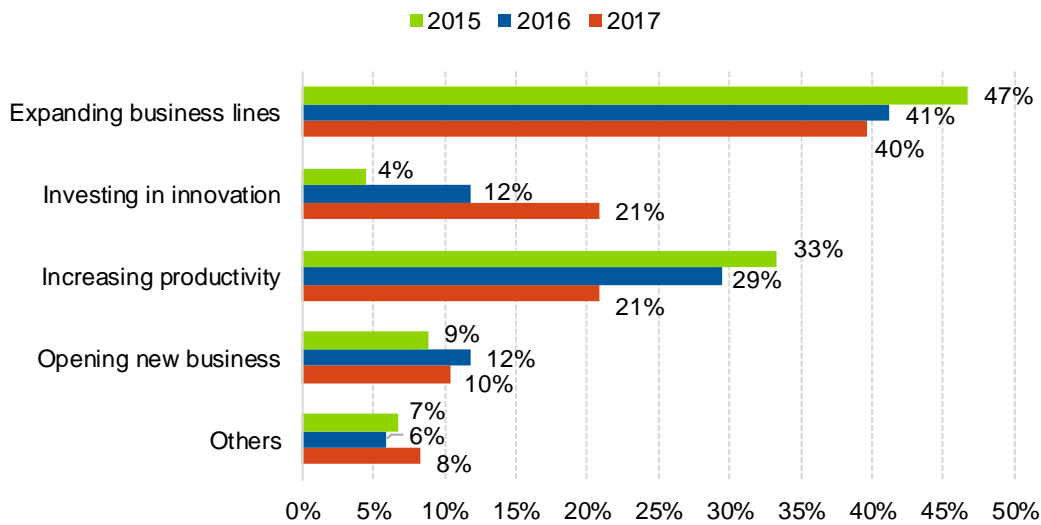


Source: Afi, "Survey of British investment in Spain".

Expanding existing business lines remains the focus of British companies' investment plans (40% of the total). Meanwhile, double the proportion of firms intend to invest in innovation relative to last year, with a decline in the share investing for productivity purposes.

The focus on innovation as a means of improving company competitiveness reflects the long-term commitment of British companies' involvement in the Spanish market.

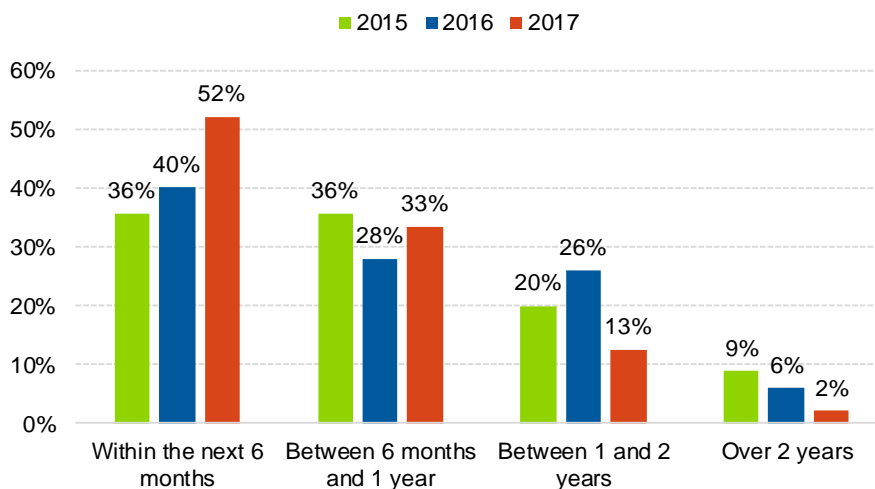
Purpose of British investment in Spain (% of responses)



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

85% of British companies have immediate short-term investment plans (less than one year), up significantly from 68% in 2016. The presence of imminent investment plans suggests that British companies are intending to make the most of current momentum in the Spanish economy.

Anticipated schedule for increasing investment in Spain by British companies (% of responses)



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

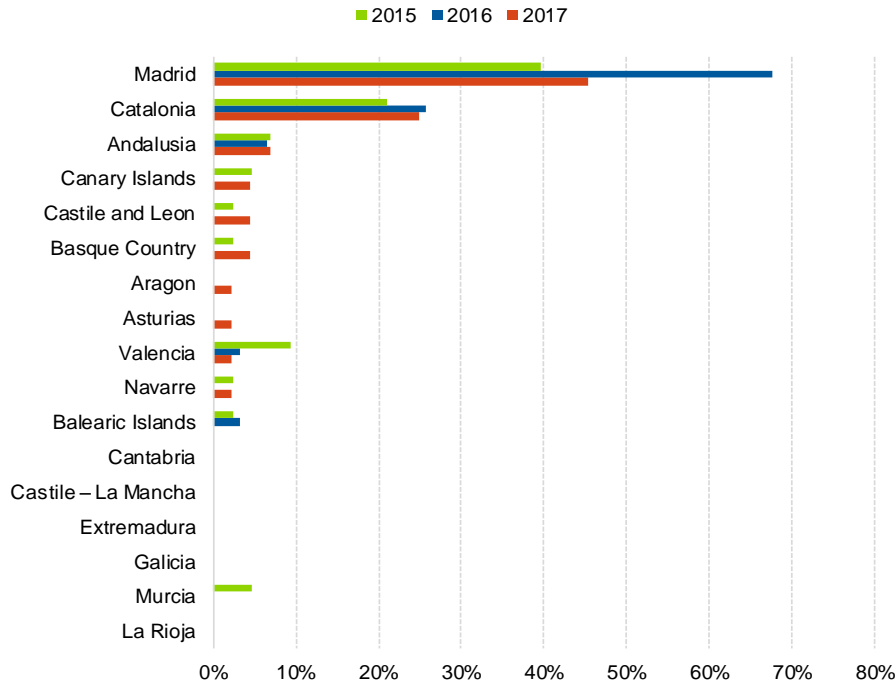
British businesses also appear to be diversifying their investment across Spain, focusing on regions where until recently their investment was relatively limited, such as the Canary Islands, Castile Leon and the Basque Country. The latter was highlighted last year⁸ as receiving a significant increase in British investment, reflecting the growing interest of British companies in the Basque region.

The increasing geographical distribution of British investment reduces the relative share received by the region of Madrid, although the capital region nonetheless remains the main destination for British investment in Spain. Catalonia and Andalusia also continue to be important focal points for British investment, maintaining the same share as in 2016. However, these results are affected by changes in the sample of companies this year which includes a smaller number of British companies with headquarters in Madrid.

⁸ See 2016 edition of Barometer on climate and outlook for British investment in Spain

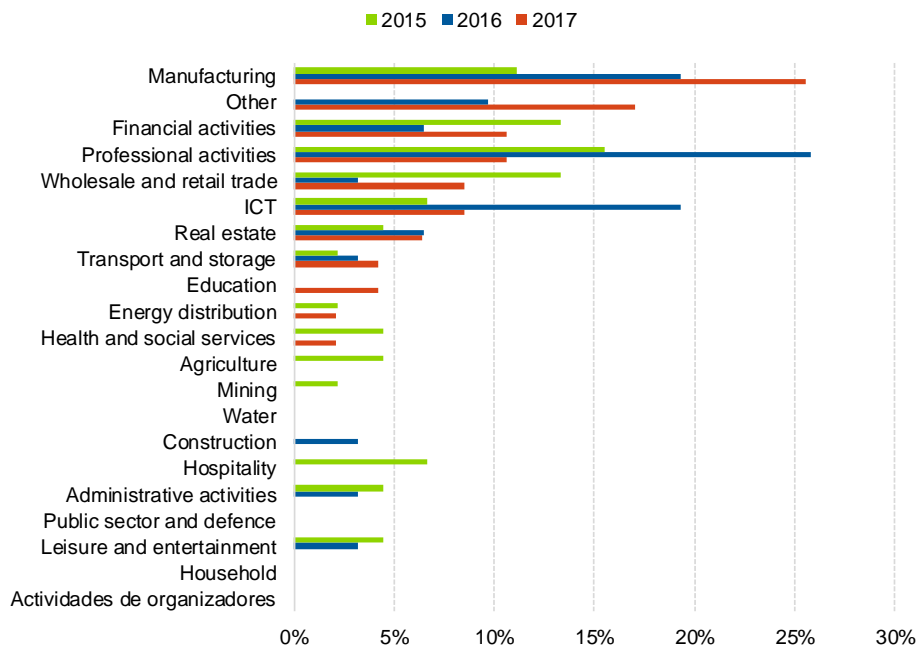
In contrast, British investment is set to be concentrated in a smaller number of sectors than in previous years. The increase in investment will mainly focus on the manufacturing industry.

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



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

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



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

Relations with the public authorities

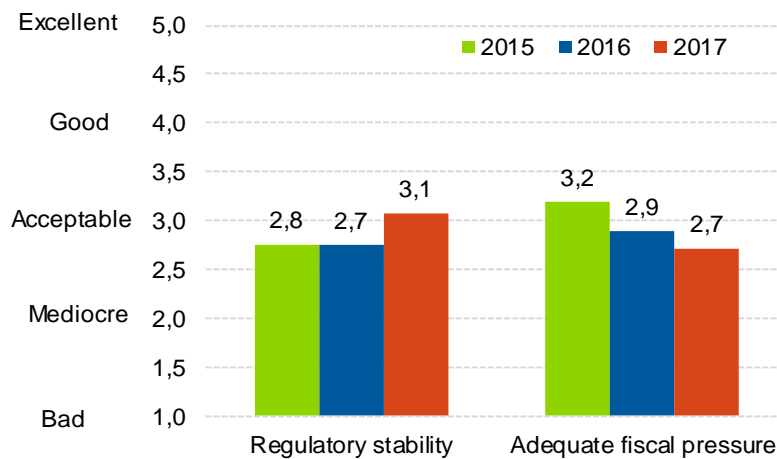
Although classed as acceptable, British companies consider the relationship with the public authorities to be the second weakest element of the Spanish business climate.

This is related to a more downbeat view of the tax burden this year.

Relations with the public authorities - characterised this year by regulatory stability and tax pressure - are rated by British companies as being the second weakest aspect of the business climate after support for R&D. Even so, the overall score is consistent with being acceptable (2.9 out of 5) and slightly better than last year.

British companies perceive an increase in regulatory stability this year (71% consider the degree of regulatory stability to be good or acceptable, relative to 56% in 2016). However, companies continue to cite the tax burden as being an obstacle to the business climate with 38% of surveyed companies considering this aspect of operating in Spain to be poor or mediocre.

British Companies' assessment of relations with the public authorities in Spain (score based on % of responses)



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

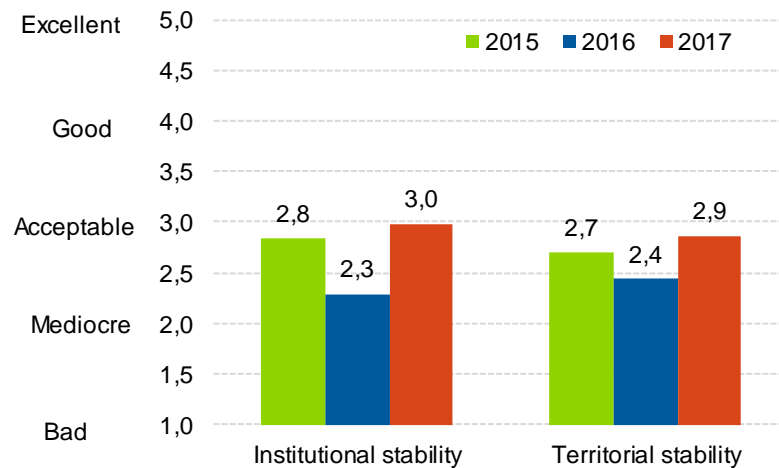
Political risk

British companies (surveyed between May and July of this year) regard political risk as being acceptable, in line with last year.

Although British companies continue to regard political risk as one of the less positive elements of the business climate, the formation of a central Government in mid-2016, the approval of the state budget in May of this year and institutional stability have helped improve the overall assessment of political risk in Spain (2.9 out of 5.0).

In fact, when this survey was conducted (May-July of this year), British companies considered that both institutional and territorial stability had returned to acceptable levels with scores of 3.0 and 2.9 respectively. This assessment does not take into account the latest developments in Catalonia, which occurred after the completion of this survey.

British companies' assessment of political risk in Spain (score based on % of responses)



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

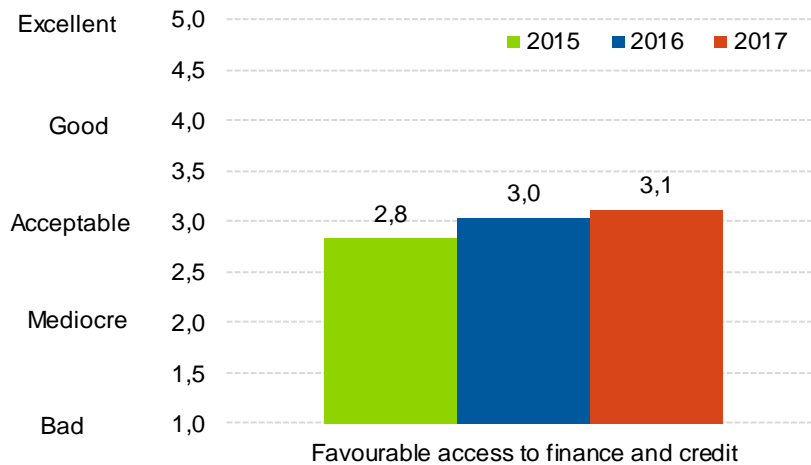
Financing conditions

British businesses believe that the improvement in financing conditions in Spain is supportive of a good business climate.

Financing conditions and the availability of bank lending continue to improve according to the British companies in this survey, receiving a score of 3.1, equivalent to slightly more than acceptable.

This is primarily because of a doubling of the proportion of companies rating financing conditions as being good, reaching 34%. Some of the factors behind this improvement include the strengthening of the economic recovery and a lowering of implicit credit risk, together with a continuation of the ECB's expansive monetary policy.

British companies' assessment of financing conditions in Spain (score based on % of responses)



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

Labour market

The Spanish labour market is contributing to the promotion of a favourable business climate supported by appropriate staff training and an improving command of the English language. However, British companies highlight the need to continue making progress on labour regulation.

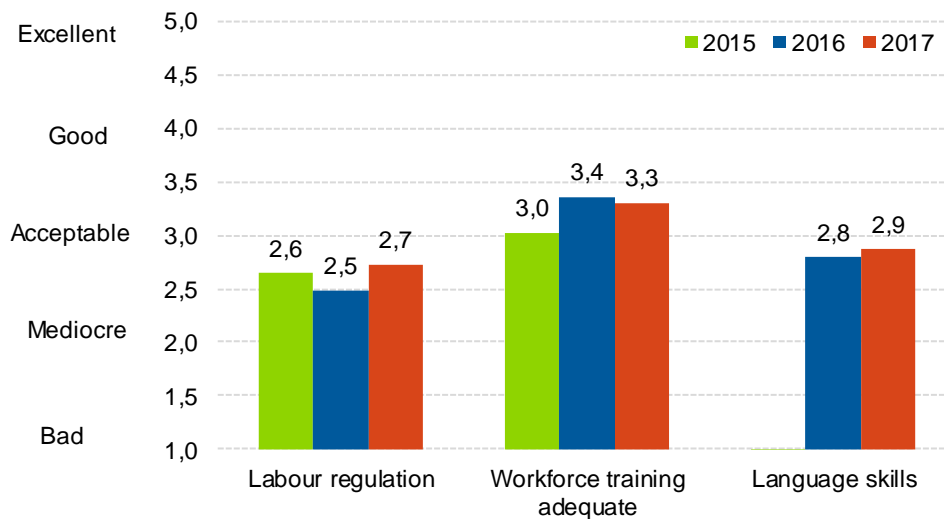
According to British companies, the Spanish labour market is contributing to the promotion of a good business climate, receiving a score of 3.0 (“acceptable”) and representing a slight improvement on 2016 (when comparing the same three indicators).

Appropriate staff training is the most highly-rated aspect of the labour market by British companies. 43% believe that the matching of workers’ skills to the requirements of their job position is good or excellent.

Command of the English language, which is crucial for British companies, has also improved to close to acceptable levels.

However, companies are more critical regarding labour regulation where they see scope for improvement. Only 22% of companies believe that current regulation is a good or excellent fit for the needs of the business community, although the assessment is somewhat better than in previous editions of the Barometer.

British companies’ assessment of the labour market in Spain (score based on % of responses)



Source: Afi, “Survey of British investment in Spain”.

Market structure

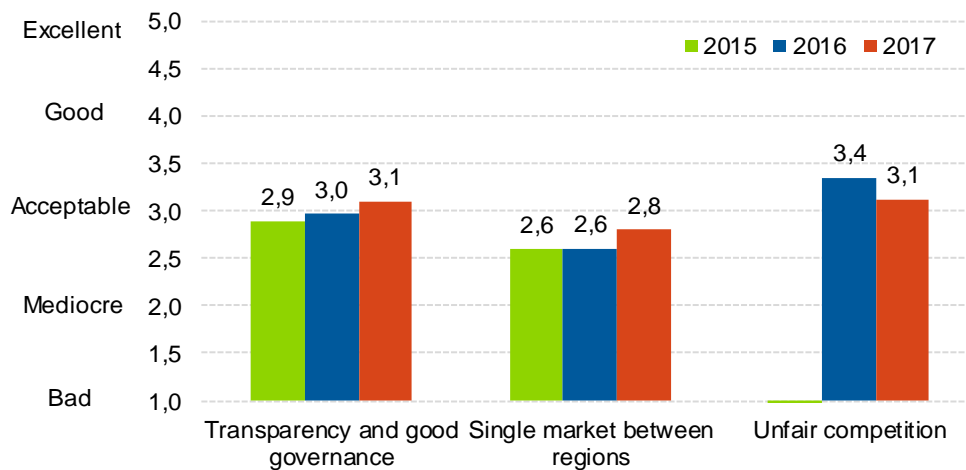
British companies regard the market structure as being acceptable for the purposes of their business. This perception is underpinned by transparency and good governance, as well as the absence of unfair competition.

British companies continue to regard the structure of the Spanish market as acceptable (3.0).

Companies note an improvement in transparency, good governance and market unity across regions. 80% of British companies believe that levels of good governance and transparency in Spain can be classed as acceptable or excellent, compared to only 71% in 2016. Meanwhile, a smaller proportion of companies than in 2016 consider market unity to be mediocre or poor (42% vs. 51%).

In terms of unfair competition - a new indicator included in last year's survey - British companies do not regard this issue as being a particular problem, although the proportion of companies which have encountered this issue has increased from 21% in 2016 to 36% this year.

British companies' assessment of the market structure in Spain (score based on % of responses)



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

Digitalisation

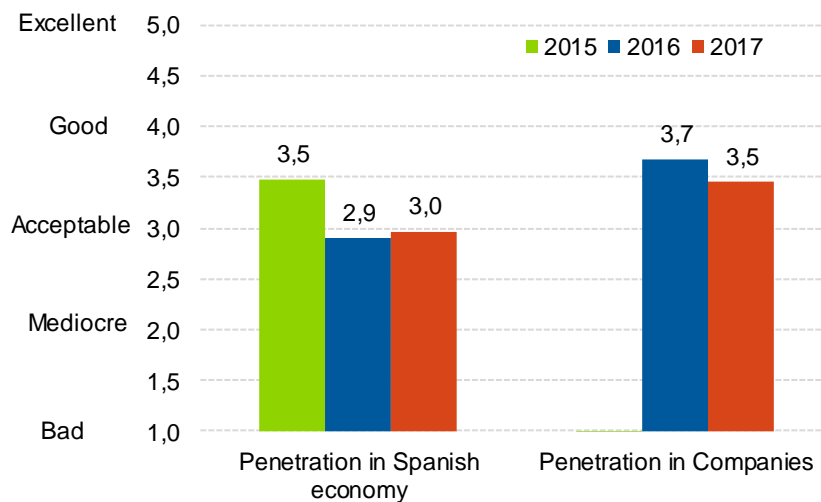
British businesses consider that progress is being made towards the digital economy, with the gap relative to their own company reducing.

British companies report a positive perception of progress towards digitalisation, which receives an overall score of 3.2 out of 5.0, and is the second best-rated thematic area together with supplier costs.

Although British firms still believe that digitalisation in their own company is somewhat more advanced than the overall Spanish economy, the gap is narrowing relative to 2016. 87% of companies regard the level of digitalisation in their own firm to range from acceptable to excellent compared to 77% for the Spanish economy.

Companies which are more critical regarding the state of digitalisation in their industry mainly belong to sectors where adoption of digital processes has been slower, such as the manufacturing industry.

British companies' assessment of digitalisation in Spain (score based on % of responses)



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

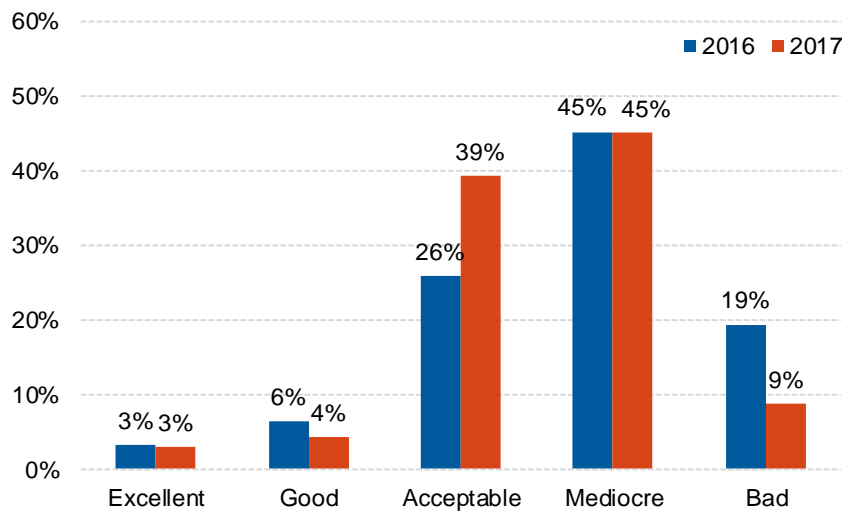
R&D

British companies perceive an increase in Government commitment to promoting R&D spending, albeit still with room for improvement.

British companies have improved their opinion of the public support provided for spending on R&D, although this continues to be the biggest hindrance to the business climate in Spain, with a score of 2.5 out of 5.0. 39% of British businesses rate Government support for R&D as being acceptable in 2017, up from the previous year with half the number of companies considering such support to be insufficient.

However, the companies consulted in the survey believe there is room for improvement; they call for a stronger commitment from the Government in the areas of research and innovation, as they are the fundamental drivers of commercial and economic competitiveness.

British companies' assessment of public spending on R&D in Spain (% of responses)



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

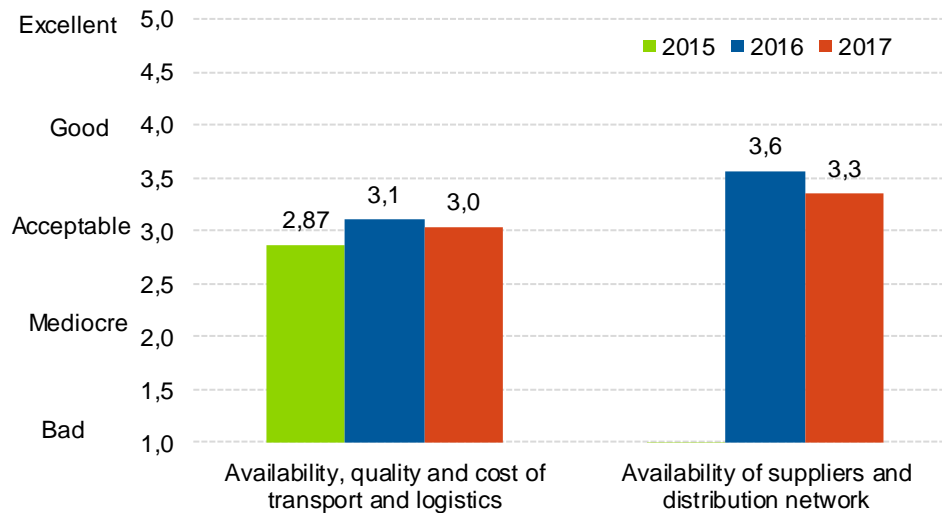
Supplier costs

The assessment of the availability, quality and cost-competitiveness of firms supplying British companies is down from last year but nonetheless remains one of the most highly-valued aspects of the Spanish business climate.

The costs associated with supply chain logistics and having an available network of suppliers and distributors has a positive impact on the ability of companies to efficiently meet customer demand. With a score of 3.2, this is one of the most highly-valued aspects of operating in Spain for British companies, as it is supportive of the business environment, and fosters investment in the country.

However, companies report a deterioration in both indicators in this thematic area relative to 2016. This year, three-quarters of firm assess the availability, quality and cost of transport and logistics as being acceptable or excellent, with 84% assigning the same rating to supplier and distribution networks (compared to 88% and 97% respectively in 2016).

British companies' assessment of supplier costs in Spain (score based on % of responses)



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

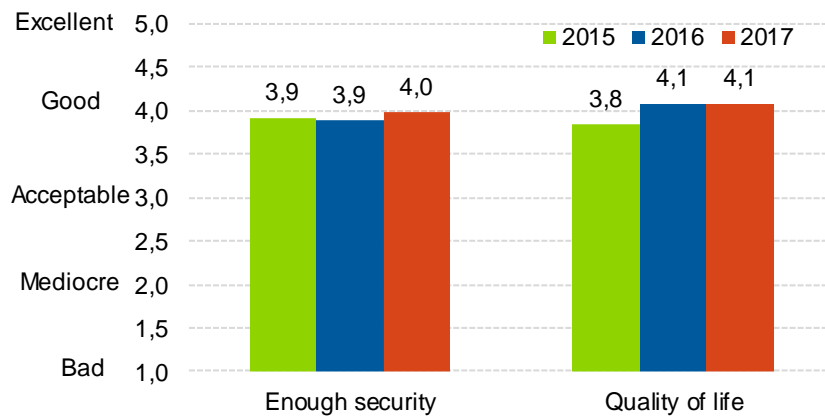
Quality of life

Quality of life is once again the best-rated attribute by British companies, supported by a continued improvement in lifestyle and security.

Quality of life is by far the most highly-valued aspect of operating in Spain for British companies, receiving a total score of 4.0 out of 5.0.

Both lifestyle and security are considered by British companies to be good, with their rating of this aspect improving since the first edition of the Barometer. Indeed, such is the optimism around the quality of life in Spain that 84% and 82% of British businesses rate security and lifestyle respectively as either good or excellent.

British companies' assessment of the quality of life in Spain (score based on % of responses)



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

Other aspects of importance to British companies: Brexit

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 foreseeing a potential negative impact on investment believe that the scale will be smaller than originally anticipated in the immediate aftermath of the referendum.

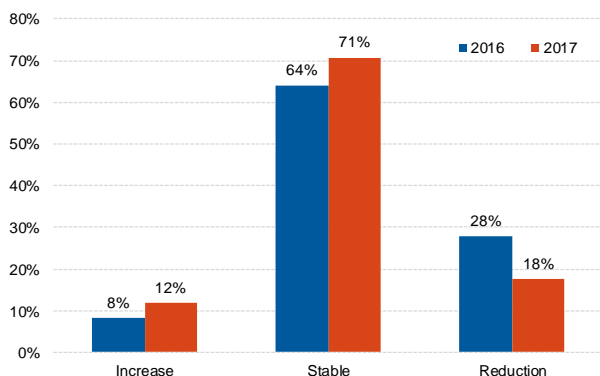
Monitoring the impact of the United Kingdom's withdrawal from the European Union (known as Brexit) is particularly relevant when analysing the outlook for future investment by British companies in Spain.

One year on from the referendum, the effects of Brexit on investment plans appear to have dissipated. Some 71% of British companies believe that Brexit will not alter their investment in Spain, compared to 60% in the immediate aftermath of the referendum. This reflects a decline in the proportion of companies stating that the UK's withdrawal from the EU will reduce their investment. On the contrary, the survey shows a jump in the number of companies expecting to increase their investment because of Brexit.

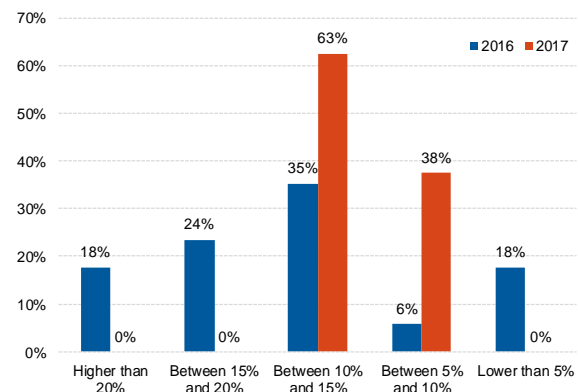
Similarly, those companies envisaging a potential negative impact on investment no longer anticipate as big an impact. A year after the referendum, no company now expects the impact on their investment to exceed 15% (compared to 41% in 2016).

The British companies foreseeing a negative impact on their investment in Spain come from a variety of sectors, especially manufacturing companies. The bulk of the impact is expected to affect investment in the regions of Madrid and Catalonia.

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



Distribution of British companies regarding the United Kingdom's withdrawal from the European Union as having a negative impact on their investment in Spain by size
(% of responses)

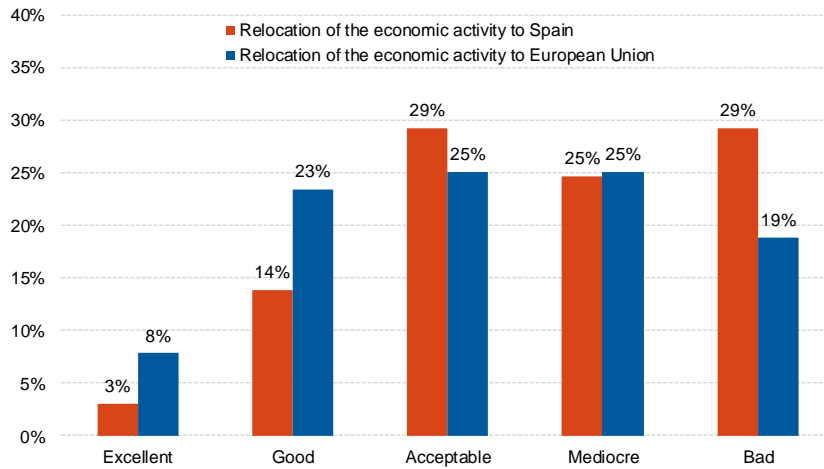


Source: Afi, "Survey of British investment in Spain".

Given the importance of the United Kingdom's withdrawal from the European Union, this edition of the barometer includes an expanded set of questions relating to this process in order to provide a more comprehensive analysis of the implications for British companies' investment in Spain.

One of the aspects considered in the Barometer is the possibility of British companies relocating their activity to Spain or the European Union. However, only 17% of consulted companies see Brexit as potentially leading to a relocation of their activity in Spain, though a larger proportion (31%) believe it could lead to relocation to the wider European Union. Companies located in Madrid and Catalonia are the most prone to seeing potential for relocation towards other EU member states, especially among businesses focused on professional, scientific, technical, trade and repair activities.

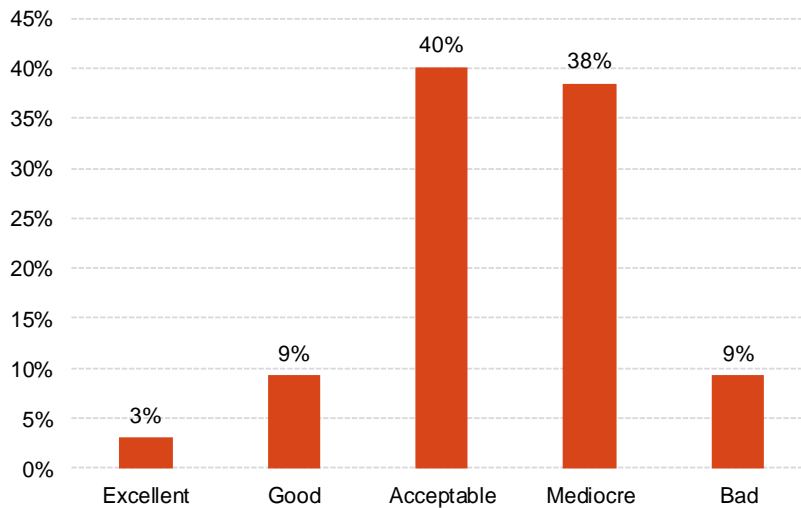
Assessment of the potential for relocation of activity from the United Kingdom to Spain and the rest of the European Union (% of responses), 2017



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

British companies are also of the opinion that insufficient priority is being given to the economic aspects of negotiations between the United Kingdom and the European Union. Nearly half of companies (48%) stress the need for more effort in this regard, whilst only 12% describe the current prioritisation of these issues as being excellent or good.

Assessment of the priority of economic aspect in the negotiations between the United Kingdom and the European Union (% of responses), 2017

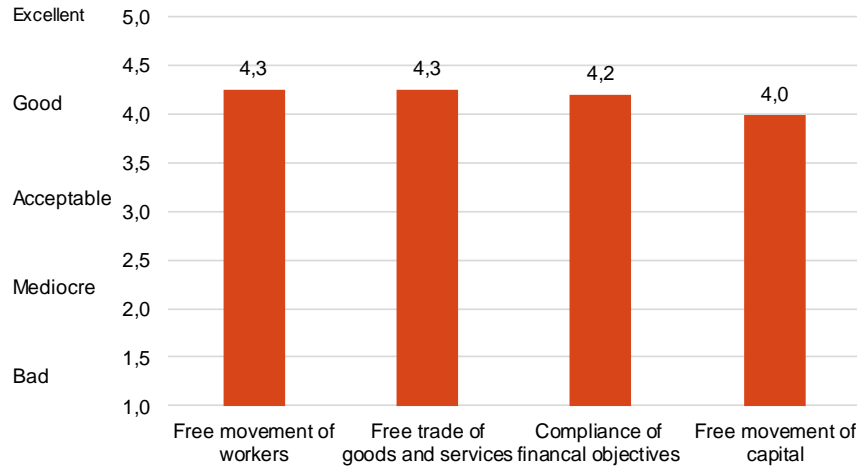


Source: Afi, "Survey of British investment in Spain".

Free movement of people and trade in goods and services are the main focus for British companies when it comes to negotiating a new economic framework for relations between the United Kingdom and Spain. Nearly half of the consulted companies regard both areas as being of crucial importance to negotiations.

This is closely followed by financial commitments and the free movement of capital. 41% of British companies identify these aspects as being key to the negotiations in order to avoid a negative impact from the United Kingdom's withdrawal from the European Union.

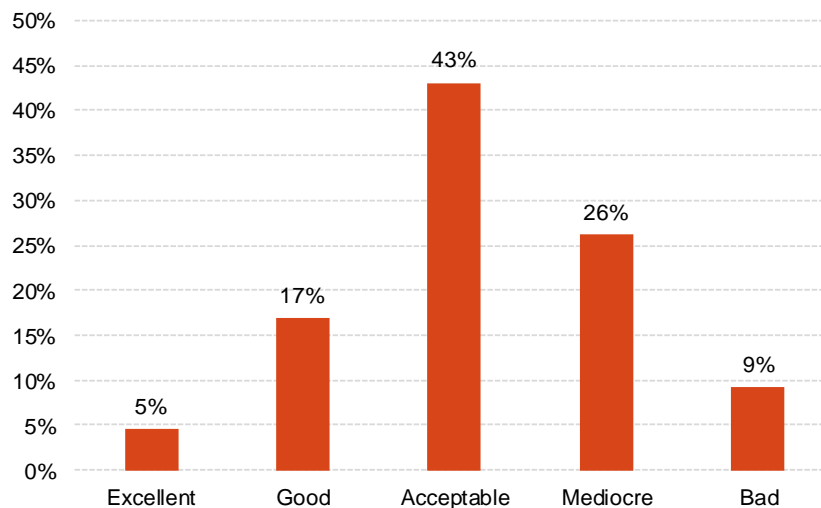
Assessment of the importance that should be assigned to the following aspects of the negotiation in order to mitigate the impact on relations between the United Kingdom and Spain (score based on % of responses, from more to less important), 2017



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

Based on the opinions of the British companies 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 proactive involvement in this negotiation process would help to avoid negative impacts on the bilateral economic relationship between Spain and the United Kingdom.

Assessment of whether the Spanish Government is taking account of the opinion of British companies in Spain and Spanish companies in the United Kingdom when influencing Brexit negotiations (% of responses), 2017



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

Appendix: methodology and characteristics of the company sample

The sample of British companies used as the basis of the results of the Barometer on climate and outlook for British investment in Spain consists of 69 companies deemed representative of the entire corporate population.

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

The fieldwork involved in this annual survey was conducted via an email containing an MS Excel questionnaire which enabled the gathering of all the information needed for subsequent handling, analysis and application.

The survey was similar in structure to last year's edition, with the same aim of facilitating a comparative analysis of British companies' perceptions and assessments. The survey comprises a section intended to delineate the company in question (essentially size, sector or CNAE-09 code and region of registered office), a section on the business outlook in Spain, and another on British investment in Spain, finishing with a section devoted to the business climate.

The questions contained in these sections have been shortened with a view to increase the response rate and include a greater number of questions concerning Brexit, which formed a part of the 2016 survey and has been given further emphasis in the 2017 edition. Therefore, a larger number of questions have been included this year aimed at attaining detailed knowledge of the possible implications of the United Kingdom's withdrawal from the European Union on British investment in Spain.

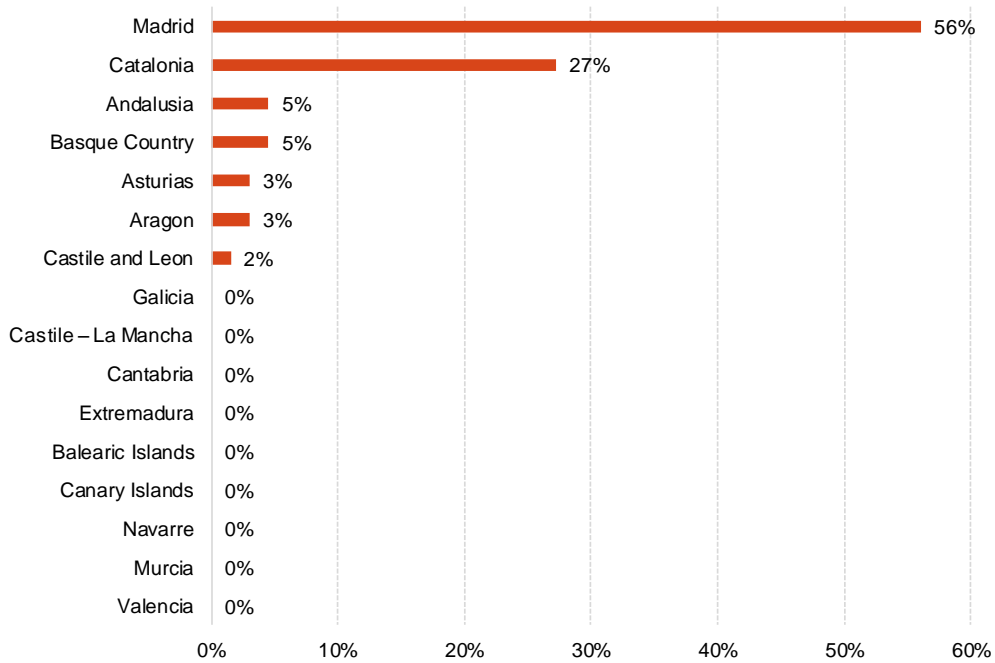
A British company is defined as one whose equity is predominantly British, i.e. at least 51% of its equity is held by a company of British nationality or, equivalently, the British shareholder exerts control over the investee.

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

Assuming a response rate of 15%, the sample size required to arrive at the number of companies needed to provide the feedback necessary for compiling the Barometer was 421 companies. This sample was selected so that it could be representative of the structure of the population of British companies invested in Spain in term of economic sectors, regional footprint and size.

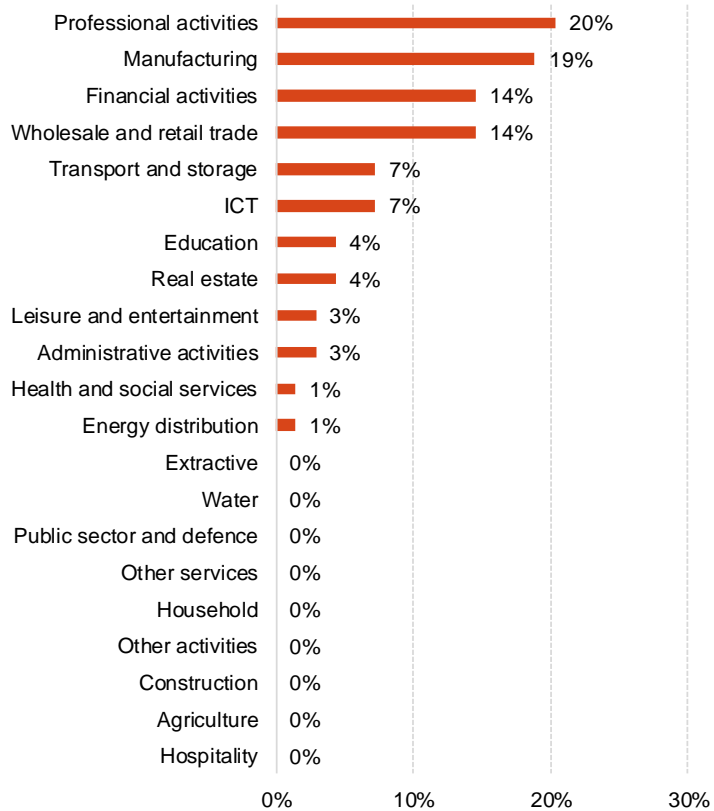
Thanks to the fieldwork carried out between May and June 2017, the size of the sample of British companies is 69 firms. The breakdown of the regions in which their registered offices are located, their business sectors, and their size is provided in the following tables.

Sample of British companies by region (% of the total), 2017



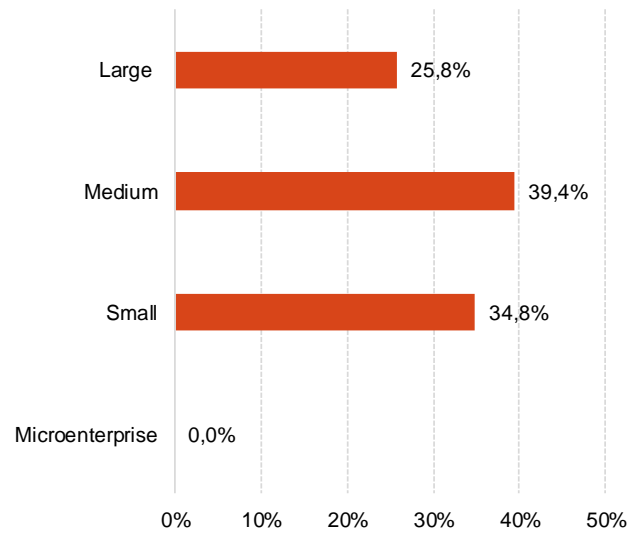
Source: Afi, "Survey of British investment in Spain".

Sample of British companies by sector of the economy (% of the total), 2017



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

Sample of British companies by size (% of the total), 2017



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



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

