

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

Ninth edition



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Note: the findings, assessments, forecasts and opinions presented in this report do not necessarily reflect the standpoint of the businesses that sponsor it, the British Chamber of Commerce in Spain or their partners.

Executive summary

- **The backdrop to this edition of the Barometer is a climate conducive to investment in Spain, which spearheaded eurozone growth in 2023 (annual growth of 2.7%) and continues to perform ahead of expectations this year. The UK, on the other hand, registered growth of 0.1% in 2023, but has since rebounded, posting growth of 0.7% and 0.5% in the first and second quarters of 2024, respectively.** The central banks have embarked on monetary easing, as inflation appears to be under control. The labour market continues to normalise in 2024, whereas demand is showing some signs of weakness and investment has yet to fully recover.
- **According to the data published by the Secretary of State for Commerce, the stock of foreign direct investment (FDI) in Spain originating in the UK contracted by 4% in 2022.** The stock of British FDI in Spain amounted to €57.65 billion at the end of 2022. Despite the small contraction, the UK remained Spain's third most important foreign investor, accounting for 10.5% of its total stock of FDI.
- **In 2022, Telecommunications was responsible for 15% of total British investment in Spain, followed by Energy supply and Manufacture of basic metals, with shares of 11% and 10%, respectively.** Historically, British investment in Spain has been concentrated in the *Telecommunications*, *Manufacture of basic metals* and *Manufacture of tobacco products* sectors, which between them account for 43% of the stock of FDI originating in the UK since there are records (2007). As for the relevance of the UK as a source of investment for specific sectors in Spain, it is worth highlighting two where the UK accounts for all of the direct investment received by Spain as of 2022: *Postal and courier activities* and *Activities of membership organisations*.
- **Having contracted by 12% in 2023, Spain's inward FDI flows doubled year-on-year in the first half of 2024.** From the start of the series in 1993 to the end of the first half of 2024, gross flows of British FDI to Spain have totalled €92 billion, which is 15.6% of all inward FDI flows to Spain, making it Spain's largest foreign investor over that timeframe.
- **Recently, British investment flows to Spain have been consistent but highly varied by sector.** Between 1993 and 2024, two sectors attracted 40% of all FDI flows: the *Wholesale trade* (19.9%) and *Telecommunications* (19.3%). Since the Secretary of State for Commerce has been keeping records, British investments have been relevant across the board. Out of a total of 88 sectors, 86 have received flows of British FDI of some kind and, on average, almost 65% of the total universe receive FDI flows annually.
- **Historically, British FDI has been concentrated in four Spanish regions: Madrid, Catalonia, the Basque region and Valencia, albeit exhibiting greater diversification in recent years, with Andalusia, the Balearics and Asturias attracting rising flows.** In the first half of 2024, British investment in Spain amounted to €2.5 billion, spearheaded by Madrid, which received €1.64 billion (or 44%) of the total. Growth in British investment in Asturias and Castile-La Mancha increased notably in the first half of 2024.

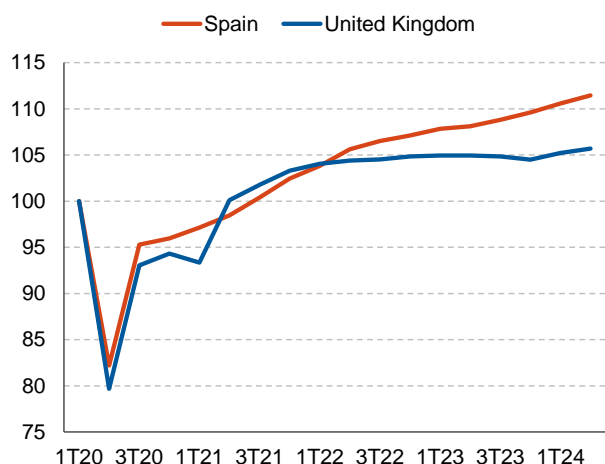
- **British investment was spread across a number of sectors in the first half of 2024.** In Madrid, *Architectural and engineering activities*, the *Wholesale trade* and *Construction of buildings* were the noteworthy recipients. In Catalonia, *Real estate activities* stood out. *Energy supply* was the main recipient in Asturias, while the sector winner in Castile-La Mancha was *Repair and installation of machinery and equipment*.
- **The UK is one of Spain's main trading partners, ranking among its top 10 import and export markets.** Trade in semi-finished goods, capital goods and automotive parts remains key for the British companies established in Spain in terms of subsequent transformation and sale with more value-added.
- **British FDI in Spain contributed to the generation of over 260,000 jobs in 2022**, which is equivalent to 0.4% of total employment in Spain. In Madrid, British FDI is estimated to have contributed to the generation of over 80,000 jobs in 2022, which is equivalent to 2.2% of all employment in the region.
- **The British companies surveyed believe that the Spanish economy will be stable in 2025.** Among the firms surveyed, 40% said they expected the economy to improve, with the remainder saying they expected it to remain stable. Sixty per cent of the respondents said they planned to increase their investments in Spain in 2025 and of those, an average of close to 70% said they expected to increase their investments by between 5% and 10% by comparison with 2024.
- **The British firms surveyed said they saw potential in the Spanish market in terms of growth and investment opportunities, highlighting the supply of talent and development of innovation hubs.** A total of 25 companies of British origin with direct investments in Spain were interviewed about the opportunities and barriers around investing in Spain. They reported that regulatory divergence in the wake of Brexit had made it harder to move employees around and increased legal costs and red tape. More specifically, they noted that a simplified, consistent and predictable regulatory framework would have a positive influence on their decisions to invest in Spain.

1. Macroeconomic environment in the UK and Spain: Favourable for investment, with both economies resilient

The Spanish economy grew by 2.7% in 2023 and this year continues to beat expectations. In the second quarter of the year it grew at an annual rate of 3.1%, having registered growth of 0.8% that quarter. That means that Spain is currently the fastest-growing of the eurozone's major economies. The UK, on the other hand, registered annual growth of 0.1% in 2023, but has since rebounded, posting growth of 0.7% and 0.5% in the first and second quarters of 2024, respectively. The central banks have embarked on monetary easing, as inflation appears to be under control, while demand is showing some signs of weakness. Looking forward, GDP growth is expected to remain positive, albeit slowing. Inflation is expected to converge gradually towards the central banks' targets.

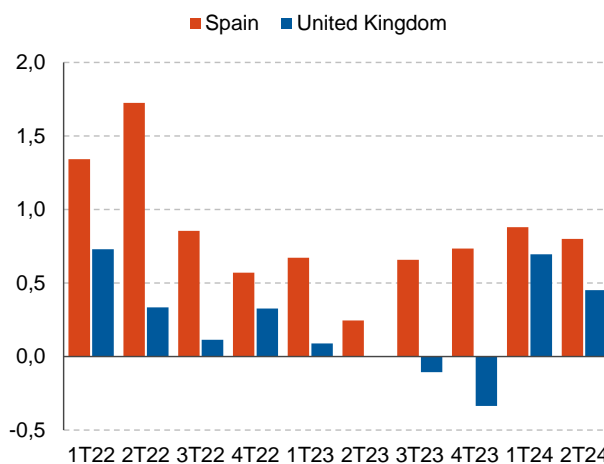
Among the major eurozone economies, Spain was the fastest growing in 2Q24, when its GDP expanded at a quarterly pace of 0.8% (above the consensus forecast of 0.5% and Afi's forecast of 0.6%). As a result, the year-on-year rate of growth reached 3.1% in 2Q24. Domestic demand once again drove growth, especially private consumption, which contributed 1.3 percentage points to GDP growth, with public consumption providing 0.8 percentage points. On the down side, the rate of growth in gross fixed capital formation was disappointingly low, increasing at a quarterly pace of 0.4%, with this metric barely revisiting pre-pandemic levels. This underperformance is primarily attributable to scant growth in investment in capital goods.

Real GDP growth in the UK and Spain
(rebased to 100 = 1Q20)



Source: Afi, Macrobond.

Real GDP growth in the UK and Spain
(quarterly %)



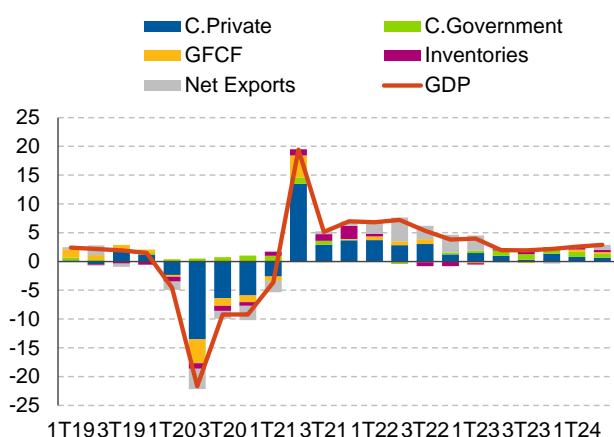
Source: Afi, Macrobond.

Foreign demand has been making a less significant contribution to GDP growth in recent years. It did nevertheless make a positive contribution in the first half of 2024 (0.3 and 0.7 percentage points in 1Q24 and 2Q24, respectively), having detracted from growth towards the end of 2023 (-0.6 percentage points in 4Q23). Overall, the Spanish economy registered annualised real GDP growth of 2.8% in the first half of 2024, with domestic demand contributing 2.3 percentage points and foreign demand, the remaining 0.5 percentage points.

In the UK, GDP growth rebounded during the first half of 2024, having dipped to an annual rate of 0.1% in 2023. In the last quarter, the British economy grew at a quarterly rate of 0.5% and an annual rate of 0.7%. That growth was fuelled by domestic demand, mainly public consumption, which contributed 0.4 percentage points. Private consumption has, however, been stagnant since mid-2022,

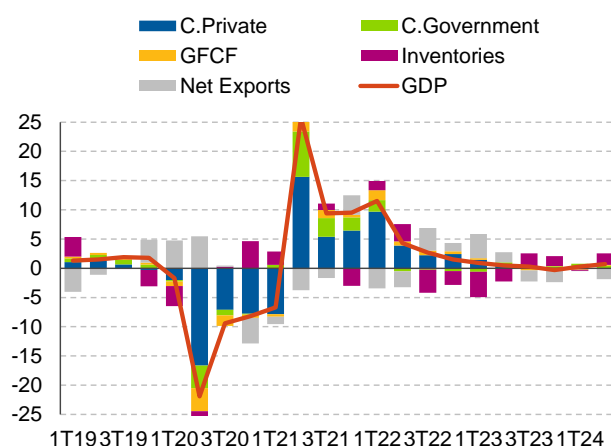
when it revisited pre-pandemic levels. Although real household income has recovered, consumption remains weak, suggesting that the spate of monetary tightening cycle drove considerable growth in household savings. Investment, like private consumption, is registering meagre growth, contributing just 0.1 percentage points to GDP growth in 2Q24. Foreign demand has been less dynamic than in Spain, detracting from growth in much of 2023 and so far in 2024. Overall, we expect growth to continue to recover gradually, fuelled by internal demand against the backdrop of monetary easing. Afi is forecasting annual growth in the UK of 1.1% in 2024 and 1.3% in 2025.

GDP growth in Spain
(% YoY | drivers)



Source: Afi, Macrobond.

GDP growth in the UK
(% YoY | drivers)



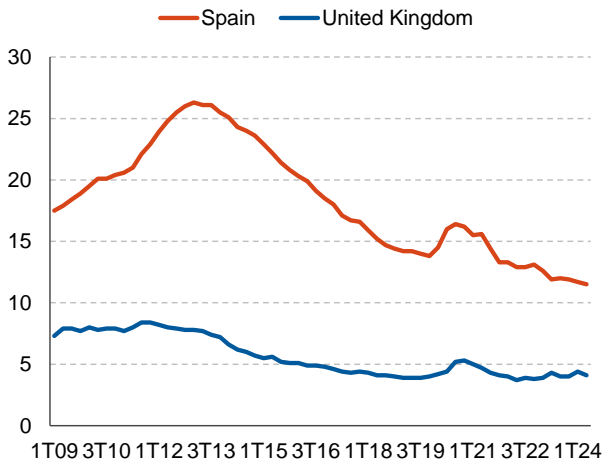
Source: Afi, Macrobond.

The labour market has continued to settle down in 2024 in both Spain and the UK. The Spanish economy created over 400,000 jobs in 2Q24 to put the number of people in work at 21.7 million, with the unemployment rate falling to 11.3%. This tells us that although the Spanish labour market remains strong, momentum is easing, as job creation decreased year-on-year (600,000 jobs in 2Q23). In the UK, the labour market is also cooling a little but remains tight in historic terms. Through to August 2024, employment was running 0.4% higher year-on-year (+122,000 more jobs than in August 2023), to leave 30.3 million people in work. The British unemployment rate has stabilised at a historically-low level of around 4% since early 2022.

As for labour costs, inflationary pressures have meant that wages have been rising more intensely in both Spain and the UK than in the recent past. So far in 2024, the let-up in inflation has translated into reduced pressure on pay. In Spain, it is estimated that the pay increases negotiated under collective bargaining agreements are running at around 3%, slightly above the rate of inflation. In the UK, wage gains have lost ground but are also slightly above inflation, so translating into real growth in household purchasing power. Looking forward it is likely that the downtrend in inflation will be accompanied by lower wage growth, in line with labour market cooling.

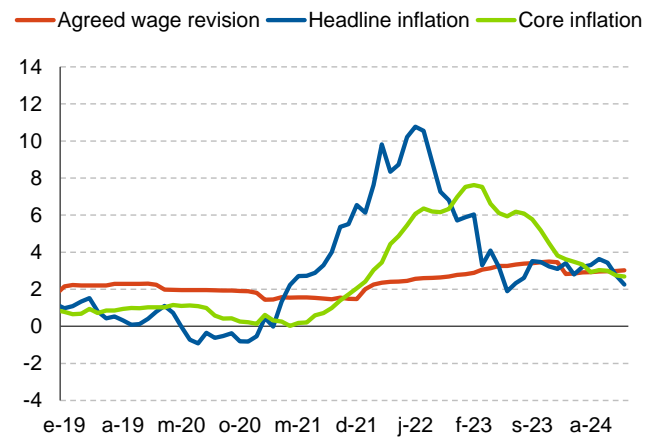
Although inflation remains above most of the central banks' targets, it has eased quite sharply and, in general, faster than initially expected. Specifically, year-on-year rates of growth in the consumer price index (CPI) have plummeted from over 10% mid-2022 to close 2.0% in the last few months of 2024. Price dynamics have been similar in both economies, with the food and energy components making significant contributions to the disinflation trend. This has translated into less pressure on the prices of goods, although in services, inflation is proving more stubborn. This is why core inflation has been decelerating more slowly and is currently above headline inflation in both economies. In Spain, headline inflation dipped to 1.5% in September, its lowest rate since early 2021, while inflation in the UK held steady at 2.2%.

Unemployment rate in Spain and the UK
(% of labour force)



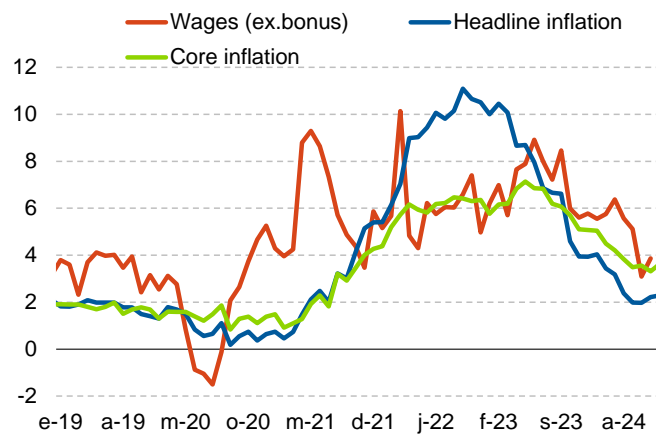
Source: Afi, Eurostat, ONS.

Wage increases and inflation in Spain
(YoY %)



Source: Afi, INE.

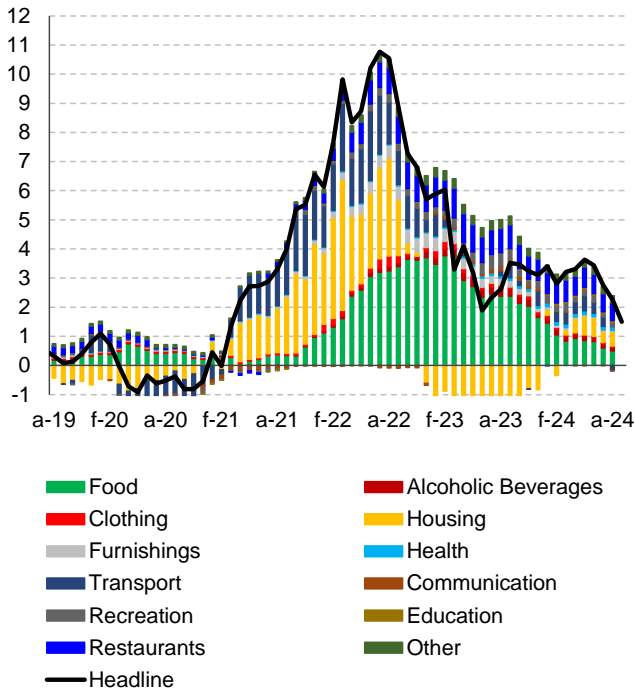
Wage increases and inflation in the UK
(YoY %)



Source: Afi, ONS.

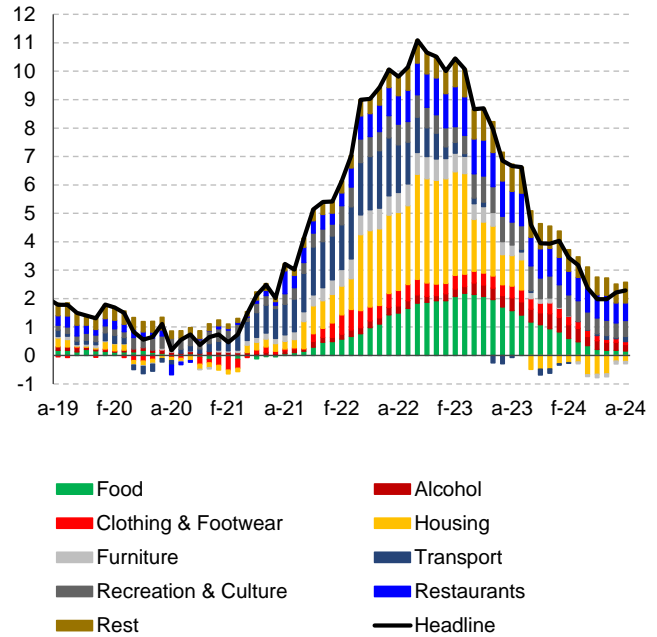
This year, the central banks embarked on monetary easing as inflation gradually closes in on their targets (c.2%) and against the backdrop of still-resilient economic growth and job creation. In the US, the Fed started its cycle of rate cuts with a 50bp reduction in September to put its benchmark rate at 5.0%, whereas in Europe, the European Central Bank has lowered its deposit facility rate to 3.5% (following two 25bp cuts since June). In the UK, the Bank of England also embarked on rate reduction with a 25bp cut in August.

Inflation in Spain by component
(YoY %)



Source: Afi, Eurostat.

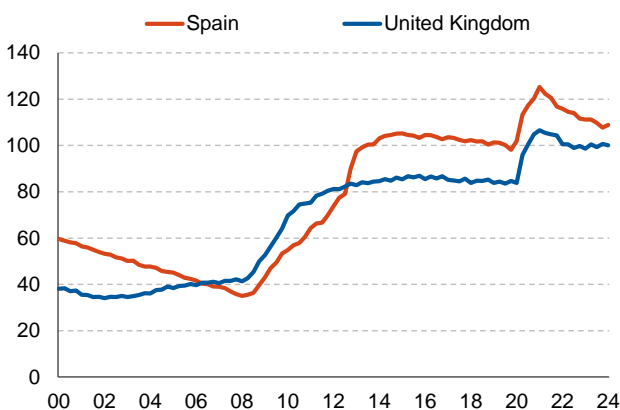
Inflation in the UK by component
(YoY %)



Source: Afi, Macrobond.

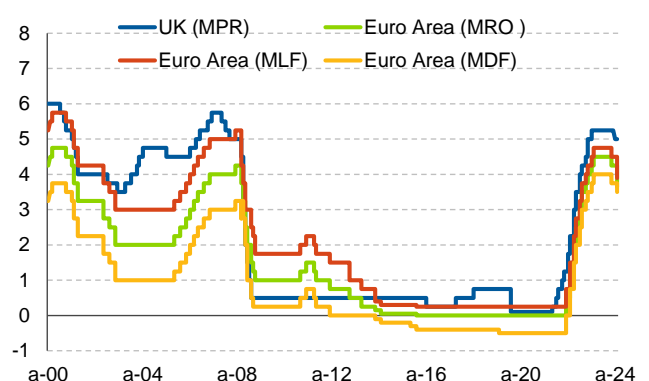
During the last 12 years, Spain has had higher public debt than the UK. In fact, Spain has the fourth-highest public debt ratio among the 27 EU member states (108.9% in 1Q24), behind only Greece (160% in 1Q24), Italy (137.7% in 1Q24) and France (110.8% in 1Q24). Nevertheless, Spain has deleveraged by 16 percentage points since the peak recorded in early 2021. Elsewhere, the UK presented a public debt-to-GDP ratio of 100% in 1Q24, a level where it has been steady since early 2021. As a result, the gap between Spain's and the UK's public debt ratios has narrowed since early 2021.

Gross consolidated debt of Spain and the UK
(% of GDP)



Source: Afi, Eurostat, ONS.

Official monetary policy rates (%)

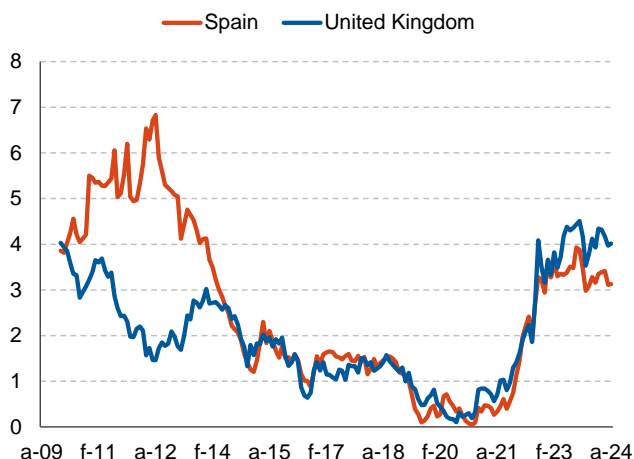


Source: Afi, Bloomberg.

Ten-year sovereign bond yields have been stable: at around 3% in Spain and close to 4% in the UK. Both economies' sovereign spreads (and the gap between the two) have been more volatile, particularly in the British economy, where they went from 100bp at the start of 2023 to 170bp in September (spread between the 10Y British and German sovereign bond rates). The interest rate increase in the UK has had the effect of increasing its sovereign spread; the rate on British 10-year

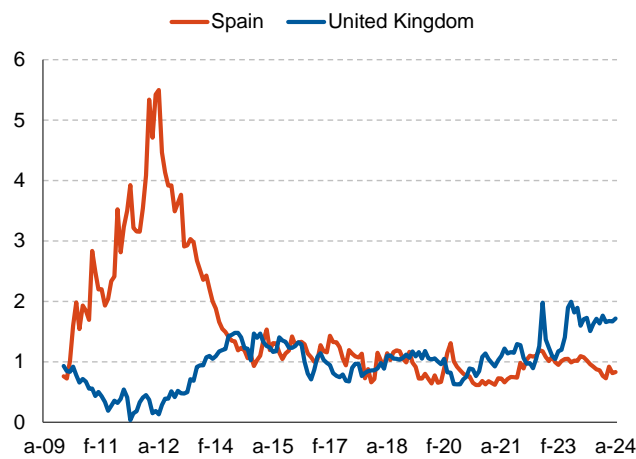
sovereign bonds is currently almost 100bp above the Spanish yield. The Spanish 10-year bond, meanwhile, is currently trading at around 83bp over the German equivalent.

10Y government bond yields (%)



Source: Afi, Macrobond.

10Y bond spreads over the German equivalent (percentage points)



Source: Afi, Macrobond.

Disinflation has continued throughout 2024, fuelled by lower energy and food prices, as well as a let-up in supply chain friction (which had been putting pressure on prices, particularly via goods). Although inflation in services is proving more stubborn, it is likely that reduced pressure on wages and other costs will eventually pass through to the end prices paid by consumers.

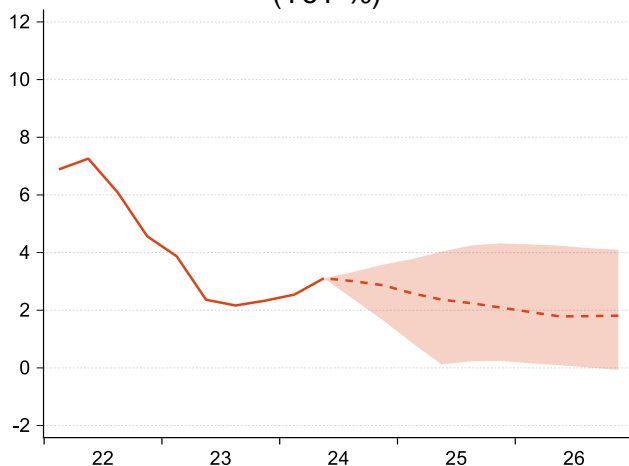
Against this backdrop, the world's main central banks have embarked on monetary easing, with the European Central Bank cutting its benchmark rate by 25 basis points twice already (June and September) and the Federal Reserve making a surprising 50bp cut following its meeting in September, while the Bank of England has made a 25bp rate cut. The central banks argue that the balance of risks has shifted towards one of an economic slowdown while inflation appears to be on track for returning to targeted levels.

As for the economic outlook, lastly, we are expecting the Spanish economy to remain dynamic, underpinned by domestic demand, particularly household consumption, which is expected to remain strong throughout our projection horizon. We are also expecting an ongoing recovery in the investment cycle, led by higher investment in capital goods. We think foreign trade will make a positive contribution to growth in 2024, followed by a smaller contribution in 2025, as global trade loses steam. As a result, we are forecasting economic growth of 2.9% in Spain in 2024 and of 2.2% in 2025, so that it should continue to spearhead growth in the eurozone. The Bank of England also expects the British economy to continue to rebound for the rest of this year and the remainder of the projection horizon. The anticipated recovery reflects the dissipation of the negative effects of the outgoing contractionary monetary policy and the incipient spate of monetary easing. Household expenditure is expected to register steady growth throughout the projection horizon, with the savings rate coming down in parallel. Investment in the UK is also expected to continue to recover. As a result, GDP is expected to grow by 1.25% in 2024 and 1.0% in 2025.

As for our forecasts for inflation, we think inflation will converge towards targeted levels faster in Spain than in the UK. The most recent figures released by Spain's statistics office, the INE, put inflation below 2.0%, thanks to the slowdown in price growth in energy and food. Reduced international pressure on energy commodities and lower inflation in goods (thanks to the resolution of friction in the global supply chains) should leave average annual headline inflation of 2.8% in 2024. The services component is expected to continue to exert pressure throughout the early part of 2025, but reduced wage pressure should also bring core inflation down to 2.0% next year. For its part, the Bank of

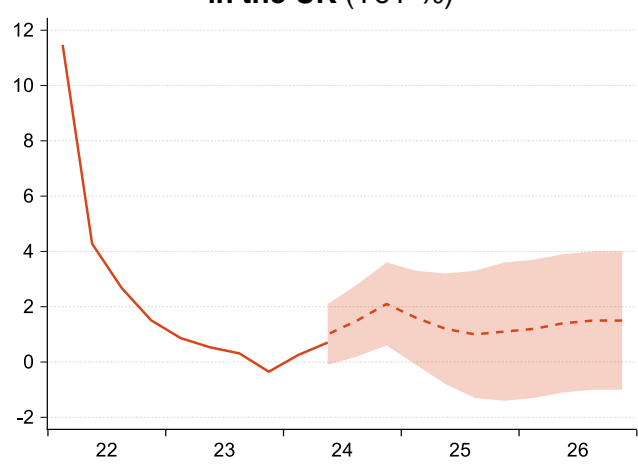
England maintains that its restrictive monetary policy has helped curb inflation, which has fallen to close to 2% in recent months. In the near term, inflation in the UK is expected to rebound as a result of a higher contribution by energy prices, while the less volatile components are expected to prove more persistent, in line with domestic inflationary pressures. The Bank of England is also expecting second-round effects via domestic prices and wages (which continue to rise sharply) to take somewhat longer to dissipate, so that inflation is forecast to remain above the monetary authority's target of 2% at the end of this year. Specifically, annual inflation is currently forecast at around 2.8% in 2024, easing to 2.3% on average in 2025.

Afi's forecasts for GDP growth in Spain (YoY %)



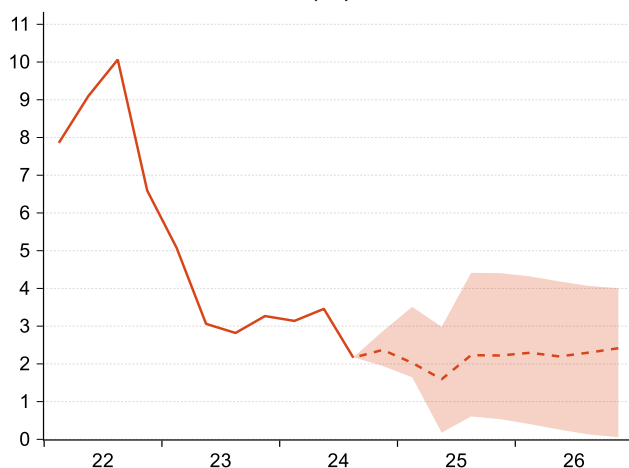
Source: Afi, Macrobond.

Bank of England's forecasts for GDP growth in the UK (YoY %)



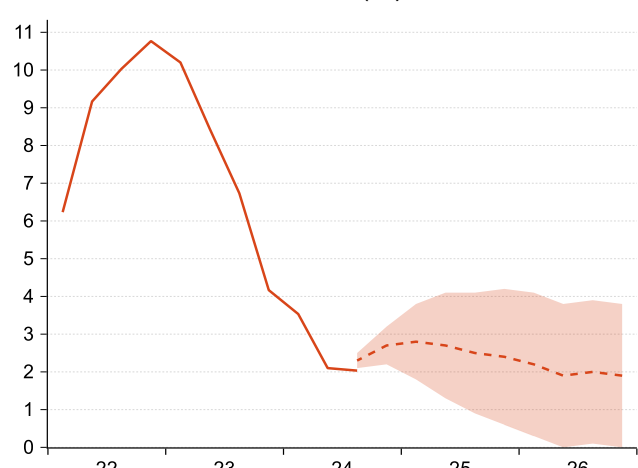
Source: Afi, Macrobond, Bank of England.

Afi's forecasts for inflation in Spain (%)



Source: Afi, Macrobond.

Bank of England's forecasts for inflation in the UK (%)



Source: Afi, Macrobond, Bank of England.

2. Stock of British FDI in Spain

According to the data published by the Secretary of State for Commerce, the stock of foreign direct investment (FDI) in Spain originating in the UK contracted at an annual rate 4% in 2022 to €57.65 billion, marking cumulative shrinkage of 13.8% since 2020. Nevertheless, the UK remained Spain's third most important foreign investor, accounting for 10.5% of its total stock of FDI that year.

In 2022, the total stock of FDI in Spain increased by 3.7% from the year before (having increased by 4.4% in 2021) to €551.62 billion (excluding transactions channelled through foreign security holding companies, hereinafter “ETVEs”¹ for their acronym in Spanish). The UK ranks third among the economies that invest the most in Spain, with a stock of FDI of €57.65 billion in 2022, which is 10.5% of all FDI in Spain (using the Spanish criterion²), behind just France (11.7%) and the US (19.4%). Therefore, the UK is no longer the European economy with the highest volume of investments in Spain, for the first time since 2021. Starting in 2013, Britain's stock of investment in Spain started to trend higher, closing the gap with the US and registering annual growth of 10.2% in 2019 (highest rate on record, i.e., since 2007). However, the global health crisis marked a turning point in the trend in the stock of British FDI in Spain, contracting by a cumulative 13.8% between 2020 and 2022.

In 2007, which is when the Secretary of State for Commerce began to track the stock of FDI in Spain, the UK held the largest share of Spain's stock of FDI (with a volume of €45.8 billion), a position it held until 2008. Following the European debt crisis, the UK's investment position weakened, with the US taking first place in 2013, going on to increase the gap with the rest of the countries over the years.

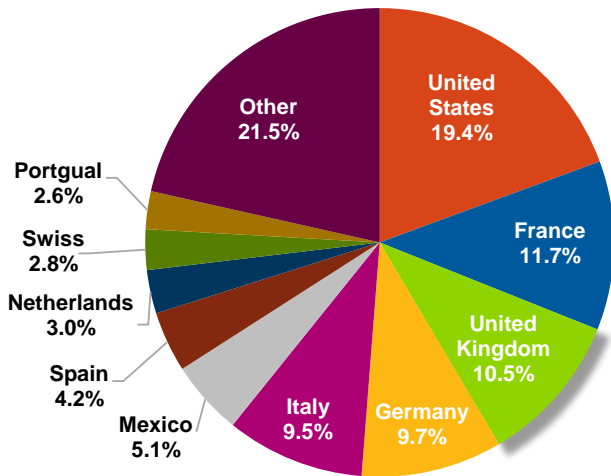
In percentage terms, British investment accounted for 10.5% of Spain's total stock of FDI in 2022, which is similar to its share in 2012, against the backdrop of the European debt crisis, and far from the record level of 18.1% recorded in 2007 (the first year in which the Secretary of State for Commerce began to track FDI stock statistics). Despite the recent contraction in Britain's investment position in Spain, the UK remained the third-largest source of Spain's stock of FDI in 2022, evidencing the historical importance of the relationship between the two countries in terms of productive investments. The sector responsible for the biggest volume of British direct investment, *Telecommunications*, reduced its stock by 4.8% in 2022. The next most important sectors, however, increased their stocks of investment in Spain that year: *Energy supply* (whose stock increased by 11.4% in 2022), *Manufacture of basic metals* (15.2%) and *Mining support service activities* (9.9%).

As for the countries with bigger stocks of FDI in Spain, the US has ranked first since 2013 and has been widening the gap with respect to other investors since 2017 to account for 19.4% of total direct investment in Spain in 2022. The UK remained Spain's second most important investor country between 2015 and 2020. However, the global health crisis made a dent in that position which has not reverted, to leave it in third position in terms of Spain's FDI stock, with a share of 10.5% in 2022. In second place, since 2021, lies France, whose stock of investment in Spain has been increasing since 2014 for a share of 11.7% in 2022. Among Spain's main investor countries (between them, the US, France, the UK, Germany and Italy account for 61% of the total stock of FDI in Spain in 2022), the UK is the only country to reduce its share since 2020 and also to have reduced its investment position in 2022 by comparison with 2021.

¹ ETVEs are corporations set up in Spain whose “main” object is to hold shares in companies located abroad. They are special-purpose vehicles incorporated within corporate groups for tax optimisation strategy purposes and in many instances their investments do not have direct economic effects.

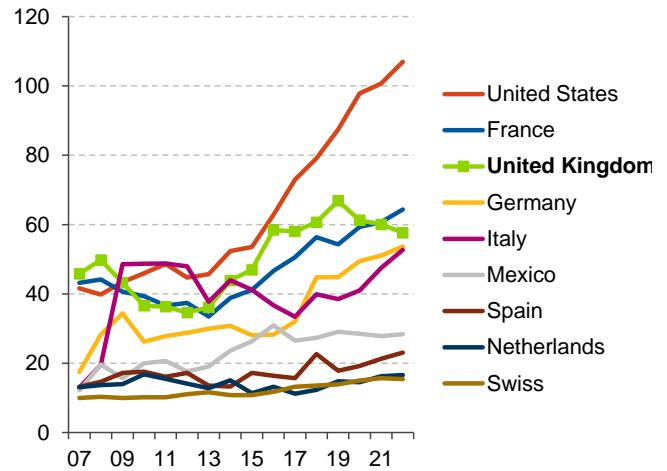
² Ultimate investing country: country of residence of the ultimate owner of the investment, i.e., where the ownership chain ends.

Stock of FDI in Spain as of 2022 by country of origin (% of the total)



Source: Afi, Secretary of State for Commerce.

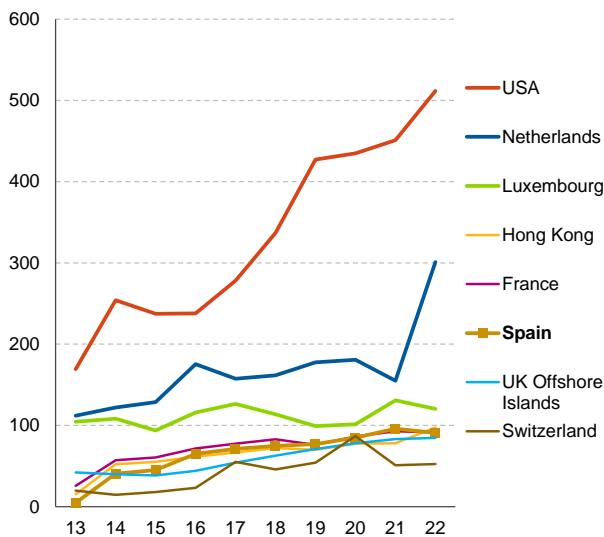
Long-term trend in the stock of FDI in Spain, by country of origin (€ billion)



Source: Afi, Secretary of State for Commerce.

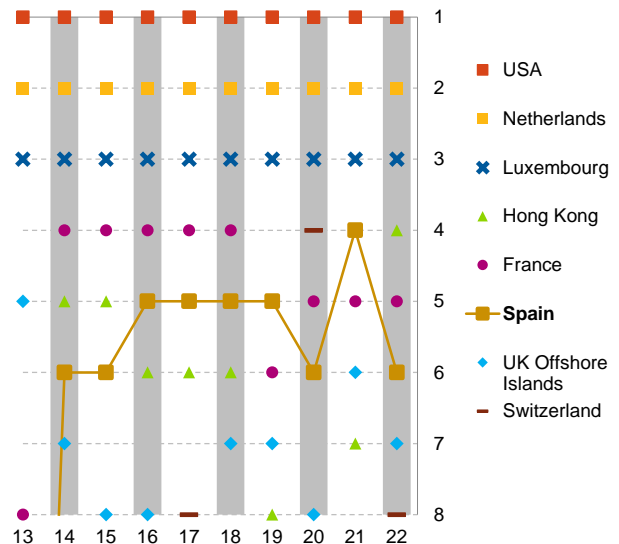
According to the data published by the UK Office for National Statistics (ONS), Spain was the sixth most important destination for British foreign investment in 2022 (the last year in which the ONS has published these statistics), accounting for 5.1% of all British FDI based on a stock of €106.42 billion³. In 2021, Spain was home to the fourth-highest stock of British FDI, at €111.62 billion, its highest position in the last 10 years, shaped by annual growth in the stock of FDI of 17% that year.

Trend in the stock of British FDI by destination country (€ billion)



Source: Afi, Office for National Statistics.

Ranking of destination countries for British (position)



Source: Afi, Office for National Statistics.

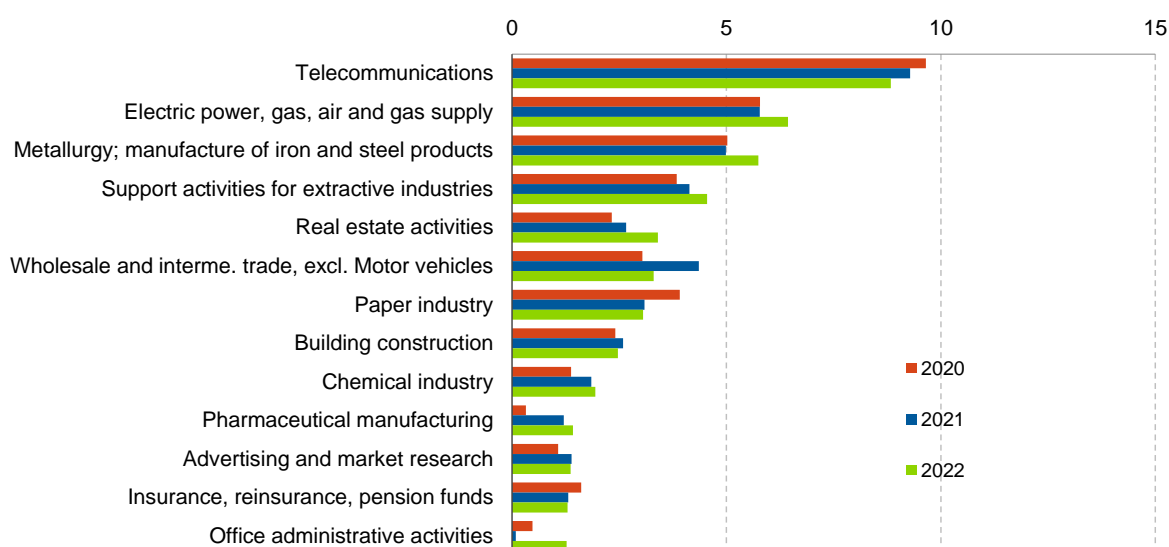
³ The data published by the ONS are stated in pound sterling and have been translated to euros using the average annual exchange rate published by the European Central Bank in Eurostat.

3. Stock of British FDI in Spain by sector

Investment in Spain originating in the UK has historically been concentrated in the *Telecommunications* sector, which has accounted for 25% of the total stock of British investment in Spain since there are records (2007). In 2022, *Telecommunications* was responsible for 15% of total British investment in Spain, followed by *Energy supply* and *Manufacture of basic metals*, with shares of 11% and 10%, respectively. As for the relevance of the UK as a source of investment for specific sectors in Spain, it is worth highlighting two where the UK accounted for all of the direct investment received by Spain as of 2022: *Postal and courier activities* and *Activities of membership organisations*. As for the sectors that have garnered the highest volumes of investment, the stock of British direct investment in Spain's *Telecommunications* and *Energy supply* sectors accounted for 36% and 7.6% of total foreign investment in 2022, respectively.

Historically, British investment in Spain has been concentrated in the *Telecommunications*, *Manufacture of basic metals* and *Manufacture of tobacco products* sectors, which between them account for 43% of the stock of FDI originating in the UK since there are records (2007). In 2022, Spain's stock of British FDI increased in many of the sectors that have traditionally attracted investment from the UK: *Energy supply*, *Manufacture of basic metals* and *Mining support service activities* registered annual growth of between 10% and 15% in 2022, while *Real estate activities* stood apart, garnering 28% more investment than in 2021. The big exception was *Telecommunications*, the sector that is home to the highest volume of British FDI; specifically, its stock of productive investment contracted by 4.8%, with the depletion concentrated in *Wireless telecommunications activities*. The other sectors did not perform particularly well in 2022. In fact, the *Manufacture of chemicals* and *Manufacture of pharmaceutical products*, sectors that have historically attracted significant amounts of British investment, saw their stock of investment shrink by a notable 5.3% and 17.8%, respectively. The stock of investment in *Office administrative activities* increased sharply from €88 million in 2021 to €1.28 billion in 2022. At the other end of the scale, the stock of British FDI in *Warehousing and support activities for transportation* contracted by 17%.

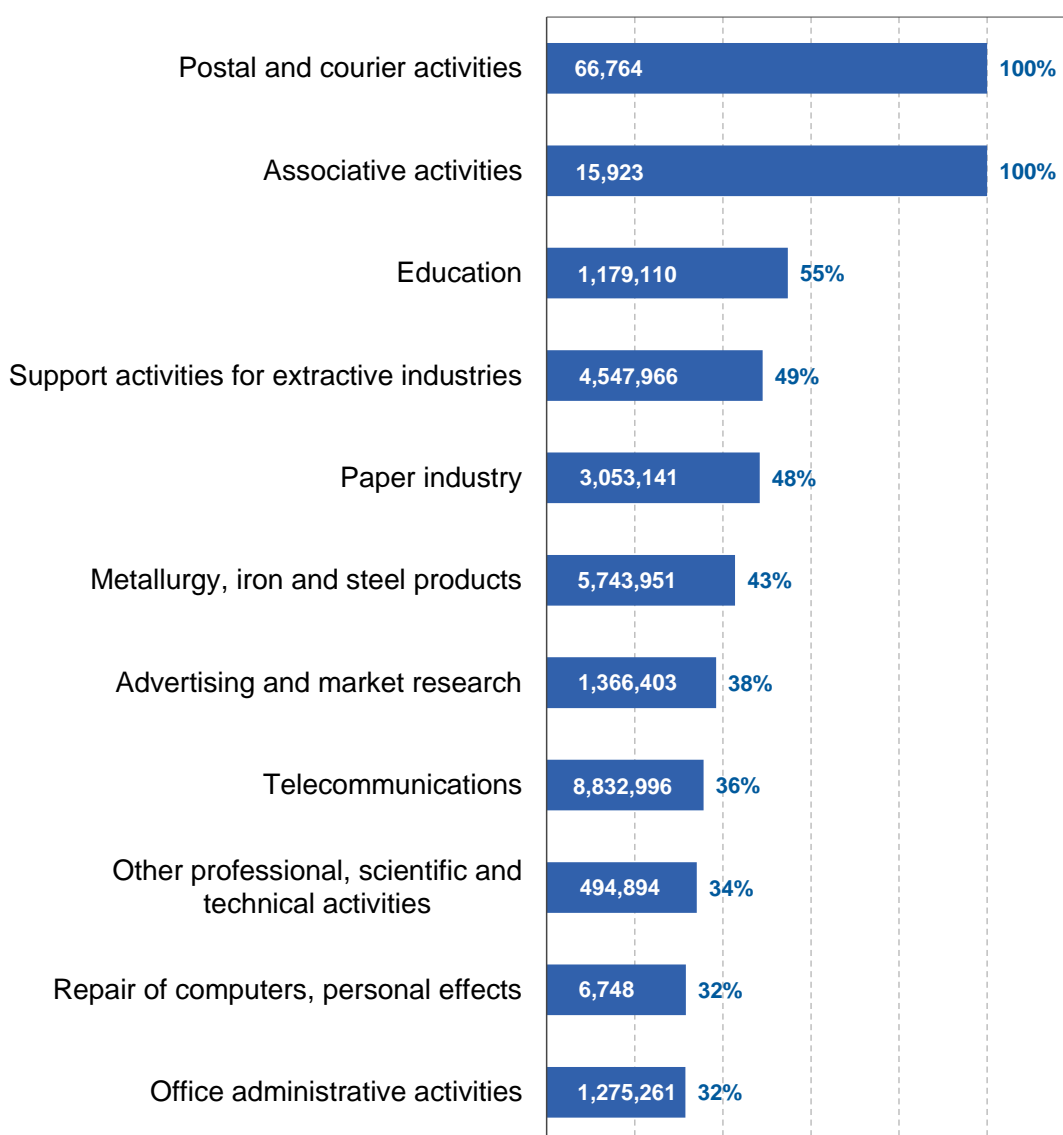
Stock of British FDI in Spain by sector, 2020, 2021 and 2022
 (excluding investments channelled through ETVs | € billion)



Source: Afi, Secretary of State for Commerce.

In analysing the importance of the UK as a source of investment for specific sectors in Spain, we see that it is the only foreign country with investments in *Postal and courier activities* and *Activities of membership organisations*, with exposures of €67 and €16 million, respectively. Other sectors in which the UK plays a dominant role as foreign investor include *Education*, *Mining support service activities* and the *Manufacture of paper*, where British investment accounts for roughly 50% of the stock of total FDI in Spain in those sectors. As for the sectors with the highest investments in absolute terms, the stock of British FDI in the *Telecommunications*, *Manufacture of basic metals* and *Energy supply* account for 35.6%, 42.8% and 7.6% of total FDI in those sectors in Spain, respectively.

British FDI in Spain by key sector: percentage of total FDI in Spain by sector and absolute investments as of year-end 2022 (% | € k)



Source: Afi, Secretary of State for Commerce.

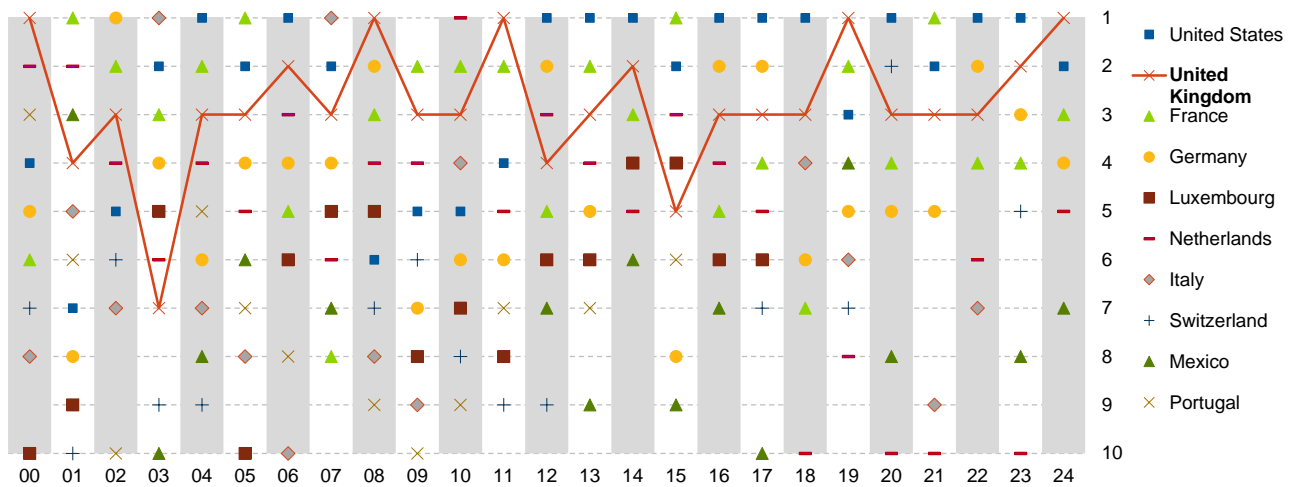
4. Flows of British FDI to Spain

From the start of the series in 1993 to the end of the first half of 2024, gross flows of British FDI to Spain have totalled €92 billion, which is 15.6% of all inward FDI flows to Spain, making it Spain's largest foreign investor over that timeframe. Flows of FDI from Britain to Spain have averaged €2.8 billion per annum in the last 30 years, peaking in 2000 (at €15.57 billion). Having contracted by 12% in 2023, Spain's inward FDI flows doubled year-on-year in the first half of 2024. Flows of FDI from the UK multiplied by a factor of 4.5 in the first six months.

In cumulative terms, during the period for which the Secretary of State for Commerce has been tracking these figures (from 1993 until the second quarter of 2024), Spain has received over €588 billion of FDI (gross investment using the ultimate investing country criterion, excluding ETVEs), of which close to €92 billion came from Britain. Between 1993 and 2010, Spain received €2.57 billion of average annual flows of inward FDI from Britain, with 2000 and 2008 standing out: in those years, flows totalled €15.57 and €13.24 billion, respectively. Those peak years, the flows were concentrated in the *Wholesale trade* and *Telecommunications* sectors. Although the Great Financial Crisis had a significant impact on flows of British investment to Spain, its effect proved transitory: from 2010 on flows of British FDI to Spain picked up, averaging €3.17 billion between 2010 and 2024. Flows of British FDI in Spain averaged €2.87 billion per annum between 1993 and 2024. In the first half of 2024, Spain received investment flows of €2.46 billion, which is twice the figure received in the first half of 2023 (and 65% of the €3.75 billion received in all of 2023).

According to the data published by the Secretary of State for Commerce, between 1993 and the end of the first half of 2024, the UK accounted for 15.6% of total inward FDI flows to Spain, so that it remains Spain's largest historical investor in cumulative flow terms. The US climbed to second position in 2018, having invested a cumulative €88.7 billion, while France lies in third place with cumulative FDI flows of €70 billion, implying shares of total flows of 15.1% and 11.9%, respectively. Since 2010, the United Kingdom has consistently ranked among the top five investing countries in Spain, reaching the number one position in 2010 and 2019. Although it lost this position in 2020, overtaken by the United States, British investment flows rebounded significantly in the first half of 2024, reaching €2.46 billion. This allowed the United Kingdom to reclaim the top spot, surpassing the United States and France, whose investment flows amounted to €2.34 billion and €1.21 billion, respectively.

Ranking of FDI flows to Spain by year and issuer country (1993-2024)*
(excludes investments channelled through ETVEs)

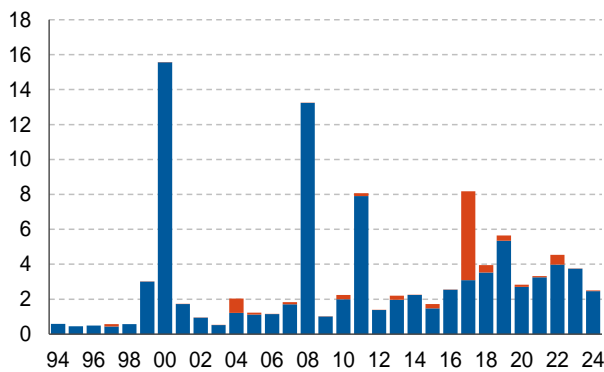


Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

The nature of British investment in Spain is eminently productive, as evidenced by the fact that the vast majority is not channelled through ETVEs, i.e., investments whose main purpose is to hold interests in companies based abroad rather than to benefit from a special tax regime associated with investments in foreign entities. On a cumulative basis, since 1993, under 10% of FDI flows from the UK have been channelled through ETVEs. 2017 was the only year in which flows of British investments to Spain articulated through those vehicles were significant, at close to €5.1 billion.

Flows of British FDI to Spain: ETVE vs. non-ETVE* (€ billion)

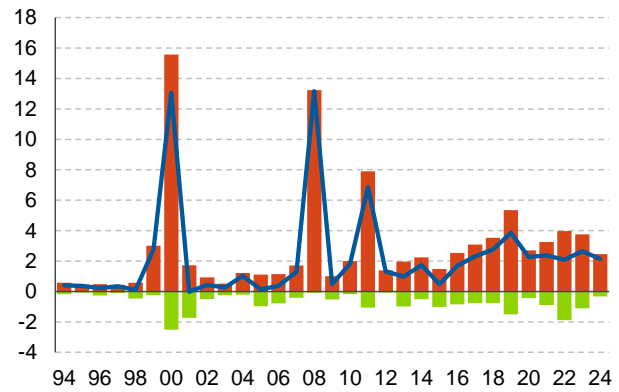
■ NO ETVE ■ ETVE



Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

Flows of British FDI to Spain, gross and net* (€ billion)

■ Gross FDI ■ Disinvestment — Net FDI



Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

5. Flows of British FDI to Spain by sector

Recently, British investment flows to Spain have been consistent but highly variable by sector. Between 1993 and 2024, two sectors attracted 40% of all FDI flows: the *Wholesale trade* (19.9%) and *Telecommunications* (19.3%), while the next 14 sectors garnered another 40%. Since the Secretary of State for Commerce has been keeping records, British investments have been relevant across the board. Out of a total of 88 sectors, 86 have received flows of British FDI of some kind and, on average, almost 65% of the total universe receive FDI flows annually.

During the period for which the Secretary of State for Commerce has been keeping records (1993 until the end of the first half of 2024), cumulative flows of FDI from Britain to Spain have been concentrated in the *Wholesale trade* and *Telecommunications* sectors, at €18 billion and €17.5 billion, respectively, representing 38.7% of the total. These same two sectors received the highest ever annual flows of British FDI, of €12.6 billion and €13.5 billion, in 2000 and 2008, respectively⁴ (28.5% of the historical total). The flows garnered by the next four most important sectors - *Financial services* (5.3%), *Utilities* (5.0%), *Air transport* (4.4%) and *Real estate activities* (4.1%) - account for 20% of total cumulative flows.

As for the continuity of British investment flows, 21 of the 88 sectors in the classification have received flows every year. The two most important sectors, the *Wholesale trade* and *Telecommunications*, have received flows of FDI from Britain every year since 1993. The next 30 sectors, which account for 55% of total cumulative flows, received investments 90% of the years in the sample⁵. Although flow volumes have increased since 2010, the number of sectors receiving those flows has remained stable, with no remarkable composition changes. Between 2014 and 2018, the *Wholesale trade*, *Telecommunications*, *Financial services*, *Utilities*, *Air transport* and *Real estate activities* accounted for 41% of the cumulative flows received (€5.32 billion) and between 2019 and 2023 increased their concentration marginally to 44% of FDI flows, which amounted to €8.3 billion.

As already outlined in the last section, during the years following the Great Financial Crisis and again during the eurozone debt crisis, Spain's inward FDI flows, including those received from Britain, experienced sharp volatility. Between 2014 and 2023, the UK was a steady investor in Spain: its FDI flows increased by 12.6% on average during that period. Against that backdrop, the sectors receiving British FDI flows were a little more volatile, ranging between 52 and 62 sectors, with the *Wholesale trade* remaining the biggest recipient. In 2019, however, the *Manufacture of paper* sector stood out, attracting investment flows from Britain equivalent to €1.65 billion. The most significant flows in recent years were triggered by *ad-hoc* investments in certain sectors. However, the remaining sectors remain regular recipients, displaying significant continuity in this respect.

⁴ Leaving aside those two years, the *Telecommunications* sector continues to rank among the top five in terms of highest flows of British FDI, while the *Wholesale trade* remains the biggest recipient.

⁵ The only sectors not receive any FDI flows during the period analysed were *Activities of households as producers of goods and services* and *Activities of extraterritorial organisations and bodies*.

Gross flows of British FDI to Spain by year and sector (2003-2024*)
(€ k | UIC | excluding ETVEs | the colour scale reflects the volume of annual FDI flows by sector)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Wholesale and interme.commerce except motor vehicles	14,374	17,553	11,006	18,648	29,269	12,640,383	192,737	31,486	45,564	14,695	25,993	9,628	545,114	93,799	49,547	591,210	246,567	46,105	251,785	527,290	1,838,959	261,345
Telecommunications	3,087	12,301	5,822	201,086	2,227	4,795	1,803	6	580,693	97,018	3,486	247,643	20,671	20,008	235,909	484,714	109,359	727,451	38,592	99,674	182,591	9,265
Financial services except insurance and pension funds	3,685	49,358	229,033	37,280	545,625	12,032	44,902	16,341	2,395,896	132,362	263,170	9,012	99,743	19,002	11,541	114,000	22,179	55,066	75,383	39,649	1,773	1,017
Supply of electricity gas steam and air	1,770	65,540	15	719	1,673	2,547	15	13,480	191,420	11,507	140,842	109,708	10	16,724	29,204	800,051	40,277	252,518	547,771	1,183,490	34,943	493,134
Air transport	-	14,345	-	10,034	1	4	-	-	3,481,139	115	106,270	-	27,515	-	38,376	24,410	-	173	-	-	-	-
Real estate activities	23,724	65,831	40,811	41,248	61,538	27,464	36,998	464,717	113,780	37,625	70,691	498,620	255,053	141,332	490,705	56,887	136,615	112,585	143,175	254,999	370,530	121,039
Chemical industry	5,014	4,009	85,584	21,247	35,847	-	2,000	68,005	83,036	18,030	53	257,499	10,000	10,015	451	1,208	629,967	166,653	109,827	6	53,011	6
Food industry	98,789	98,306	51,195	6,742	21	7,279	107,724	290,871	560,435	50,000	6	2,766	13	414	7,586	103,533	137,172	388,759	130,632	278,967	-	27,637
Activities auxiliary to financial services	32,695	299	7,701	95	5,527	19,811	3,877	5,875	7,981	24,048	40,932	228,801	6,950	82,425	17,772	1,115	14,522	133,590	118,873	86,125	71,416	4,713
Paper industry	-	3	-	3	-	-	-	3	-	172,752	1	-	34,397	9,751	1,703	-	1,647,659	322,656	21,736	-	97	-
Advertising and market research	17,896	10,615	6,986	303,837	6,560	2,248	36	678,305	580	9,223	9,851	9,634	7	2,010	6,878	32,473	702,261	64,279	68,412	1,979	3,045	3
Retail trade except motor vehicles	1,970	483,082	19,147	23,908	78,385	41,798	1,949	4,083	20,162	65,272	26	57	3,375	65,649	403,244	7,508	14,678	3,032	22,643	1,720	219,651	32,855
Sports recreation and entertainment activities	8,622	38,831	83,948	4,869	9,070	553	97,245	3,894	41,288	126,901	940,079	6	43,438	4,567	49	864	3,484	367	9,641	54,973	317	854
Building construction	62,667	39,693	32,600	44,487	49,027	38,315	8,735	17,634	91,843	36,336	25,870	29,517	98,056	343,763	27,720	55,883	93,734	13,206	61,525	59,031	36,862	84,557
Publishing	41	1,214	12,221	332	404	2,525	12,278	3,513	-	1,684	154,176	212	2,259	18,455	40,095	2,653	1	33,698	19,180	269	4	-
Land and pipeline transport	11,506	43	2,048	1,323	319,774	64	3	3,568	8,003	62	3	8,844	81	136,205	635,280	9,015	9,995	170	11,000	15,478	3	30
Headquarters activities; consulting and management activities	7,715	45,775	688	1,106	57,494	8,350	8,856	84	1,601	5,601	5,070	28	109,555	3,998	308,729	1,162	3,266	3,297	504	19,862	275	1,160
Storage and activities related to transport	681	134	108	8,019	8,936	63	363,530	15	82	43	8,815	512,874	142	40,118	45	12	50,029	62,384	57	5,089	2,522	1
Administrative office activities	2,906	2,939	1,254	12,804	239,527	49,654	118	161	6,505	8,384	3,611	11,089	1,014	5,822	1,413	5,968	13,780	4,929	622	362,091	49,585	336,857
Food and beverage services	16,002	561	17,156	634	27,684	1,494	698	494	1,730	2,069	229	1,565	1,495	120,486	13,269	69,109	4,248	16,123	677,924	14,691	63,400	9,111
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year.

6. Flows of British FDI to Spain by region

Historically, British FDI has been concentrated in four Spanish regions: Madrid, Catalonia, the Basque region and Valencia, albeit exhibiting greater diversification in recent years, with Andalusia, the Balearics and Asturias closing the gap with the leading regional recipients. In the first half of 2024, British investment in Spain amounted to €2.5 billion, with Madrid continuing to garner the lion's share, receiving €1.64 billion (or 44% of the total). Growth in British investment in Asturias and Castile-La Mancha increased notably in the first half of 2024.

Cumulative flows of British FDI to Spain between 1993 and the end of the first half of 2024 are concentrated primarily in Madrid, Catalonia, the Basque region and Valencia. Those four regions, coupled with Castile & Leon, Andalusia and the Balearic Islands, have garnered the majority of overall FDI flows into Spain. So far this year, however, Madrid and Asturias have registered significant growth in flows received. The last edition of the Barometer, which was prepared in 2022, showed that these two regions had received a total of €17.54 billion and €26.9 million, respectively, between 2014 and 1H22, figures that, according to the latest available data (up to 1H24), have risen sharply to €19.76 billion and €528 million, respectively. By the same token, Britain's relative position in both regions increased by 1.3 and 10.1 percentage points, respectively, during the same timeframe, going from 9.2% to 10.5% of total inward FDI in the case of Madrid and 1.0% to 11.1% in the case of Asturias.

As a percentage of the total, British investment is very significant in Castile & Leon, where it accounts for 54.7% of the total received, albeit down from last year's edition of the Barometer (when it reached close to 61%). That being said, British investment in Spain is well diversified geographically. In three regions (in addition to Valencia and Castile & Leon), British FDI represents more than 15% of total flows received: La Rioja (34.6%), the Balearic Islands (18.7%) and Andalusia (18.5%).

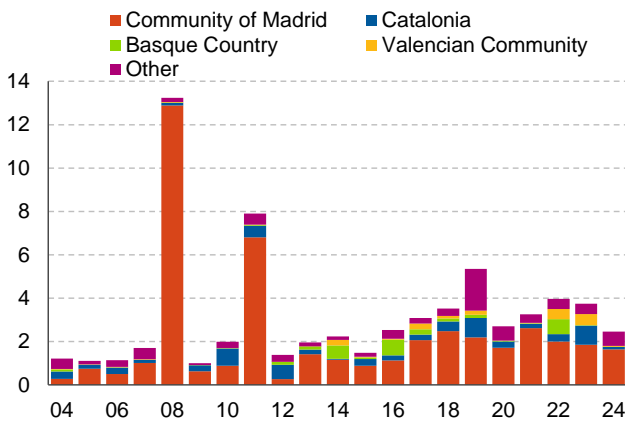
In the first half of 2024, British investment in Spain amounted to €2.5 billion, with Madrid continuing to garner the lion's share, receiving €1.64 billion. It is worth highlighting the growth in investment in Asturias and Castile-La Mancha, where flows of British FDI amounted to €486 million and €92 million in the first half of the year, respectively. Other noteworthy recipients included Catalonia (€111 million), Valencia (€50 million), Aragón (€35 million), Andalusia (€28 million); and Castile & Leon (€10 million).

British investment was spread across a broad variety of sectors in the first half of 2024. In Madrid, *Architectural and engineering activities*, the *Wholesale trade* and *Construction of buildings* were the noteworthy recipients. In Catalonia, *Real estate activities* stood out. *Energy supply* was the main recipient in Asturias, while the sector winner in Castile-La Mancha was *Repair and installation of machinery and equipment*.

Lastly, British FDI flows per capita between 2014 and 1H24 have remained particularly high in Madrid, at €2,973 (€2,591 in 2014-1H22), evidencing a degree of bias shaped by the capital city's 'headquarters effect'. The per-capita figure is likewise noteworthy in the Basque region, at €1,243 (€947 in 2014-1H22), and Asturias, where this variable has jumped from under €50 per person to over €500. In addition to those two regions, British FDI flows per capita have reached reasonable levels in the Balearic Islands (€661), Catalonia (€520) and Navarre (€313).

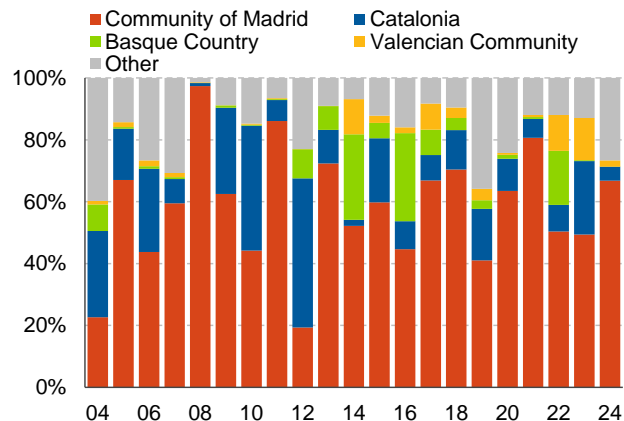
In short, British FDI flows continue to be strongly concentrated in Madrid, drawn by the ‘headquarters effect’ induced by so many companies being based in the capital city, boosted further by the significant investment in the region’s *Architectural and engineering activities* sector in the first half of this year. However, in recent years, British investment has been diversifying across the main Spanish regions, with recent strong investment intensity in Valencia and Asturias and steady track records in the Basque region, Catalonia, Balearics and Castile & Leon. The Appendices attached to this report analyses the flow of British FDI to each of Madrid, Catalonia, the Basque region and Andalusia in greater detail.

British FDI flows by recipient Spanish region*
(€ billion)



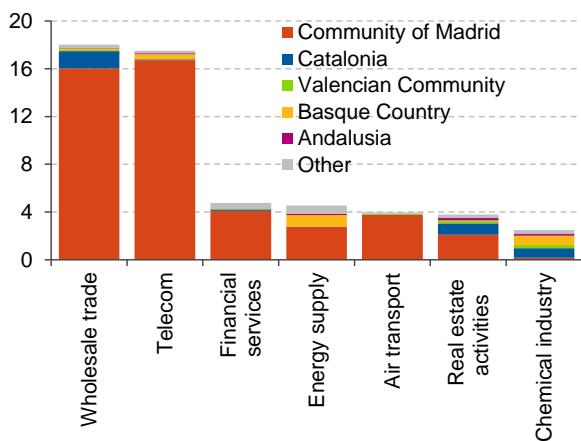
Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

Breakdown of British FDI flows by recipient Spanish region*
(%)



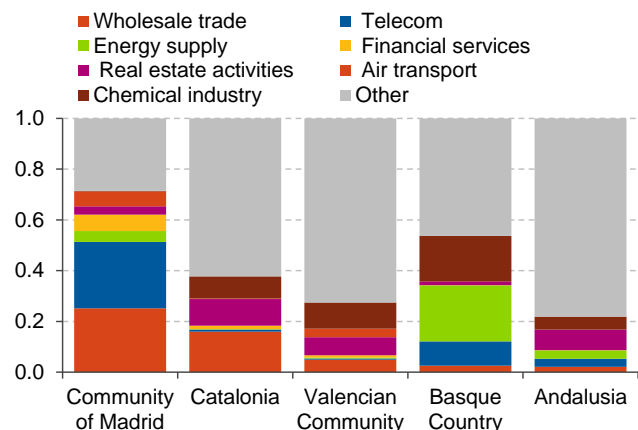
Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

Cumulative British FDI flows by region and sector
(1993 - 1H24 | € billion)



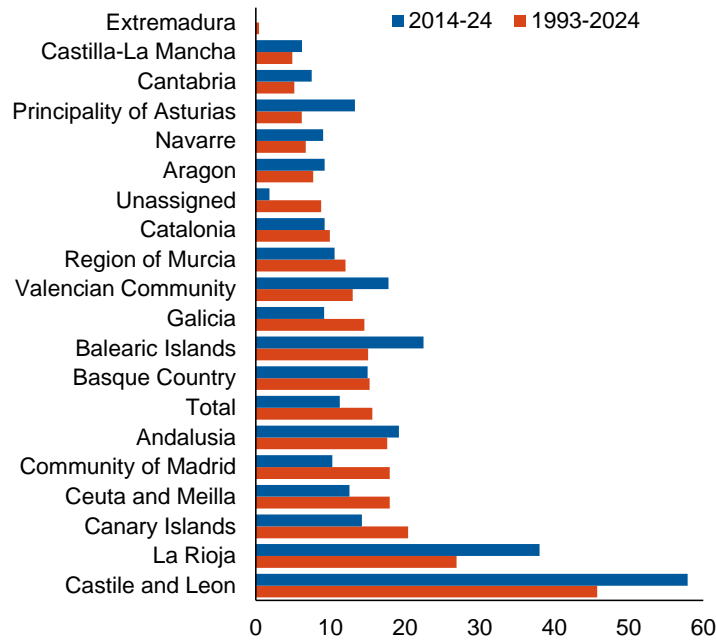
Source: Afi, Secretary of State for Commerce.

Cumulative British FDI flows by region and sector
(1993 - 1H24 | %)



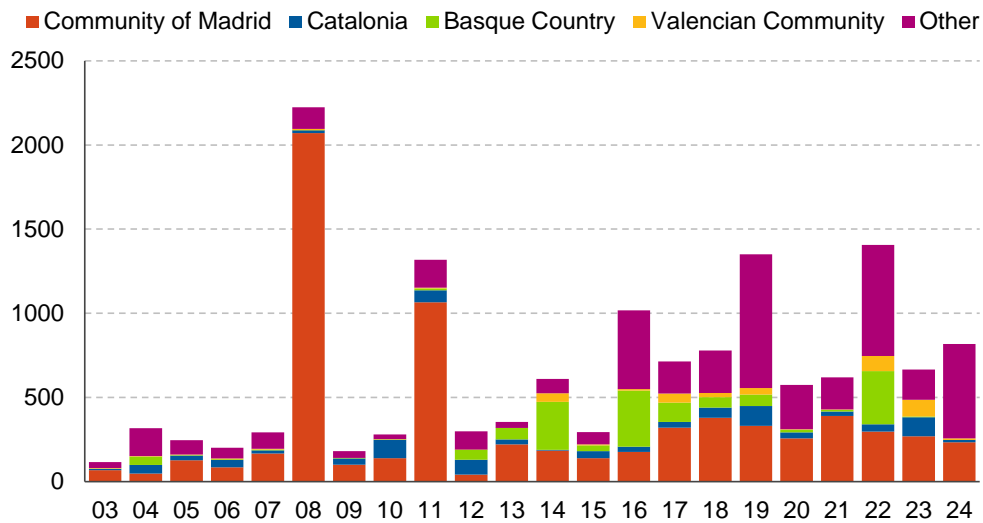
Source: Afi, Secretary of State for Commerce.

Cumulative British FDI flows by region*
(% of total for the period)



Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

British FDI flows per capita per region*
(€)



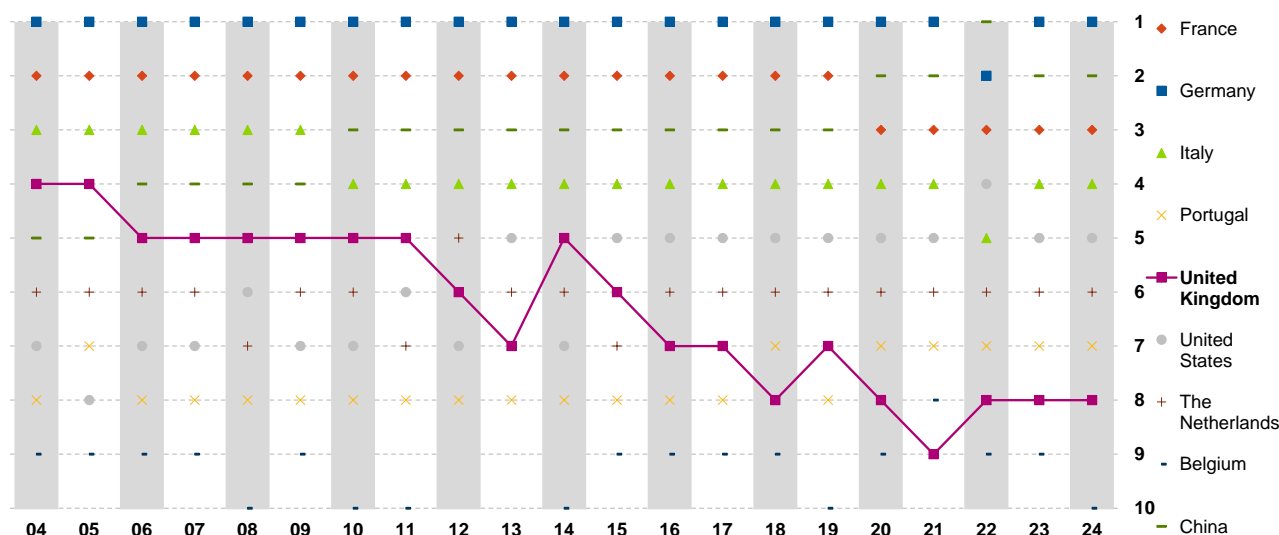
Source: Afi, Secretary of State for Commerce, INE. (*) The 2024 figures relate to the first half of the year

7. Foreign trade between the UK and Spain

Trade in goods and services between Spain and the UK has historically been significant. The UK is one of Spain’s main trading partners, ranking among its top 10 import and export markets. Trade in semi-finished goods, capital goods and automotive parts remains key for the British companies established in Spain in terms of subsequent transformation and sale with more value-added.

Trade in goods and services between Spain and the UK has historically been significant. Spain exported €425.06 billion worth of goods to the UK between 1995 and July 2024, whereas imports during that same period amounted to €326.1 billion. That makes the UK one of Spain’s most important trading partners. In fact, the UK has historically ranked among the top 10 sources of Spanish imports, ranking fourth for 11 consecutive years (1995-2005) and fifth for the following six years (2006-2011). The UK has been dropping in that ranking since 2012 albeit remaining in the top 10 (between January and July 2024, the UK was the eighth largest source of imports for Spain).

Ranking of Spanish imports by source country and year*

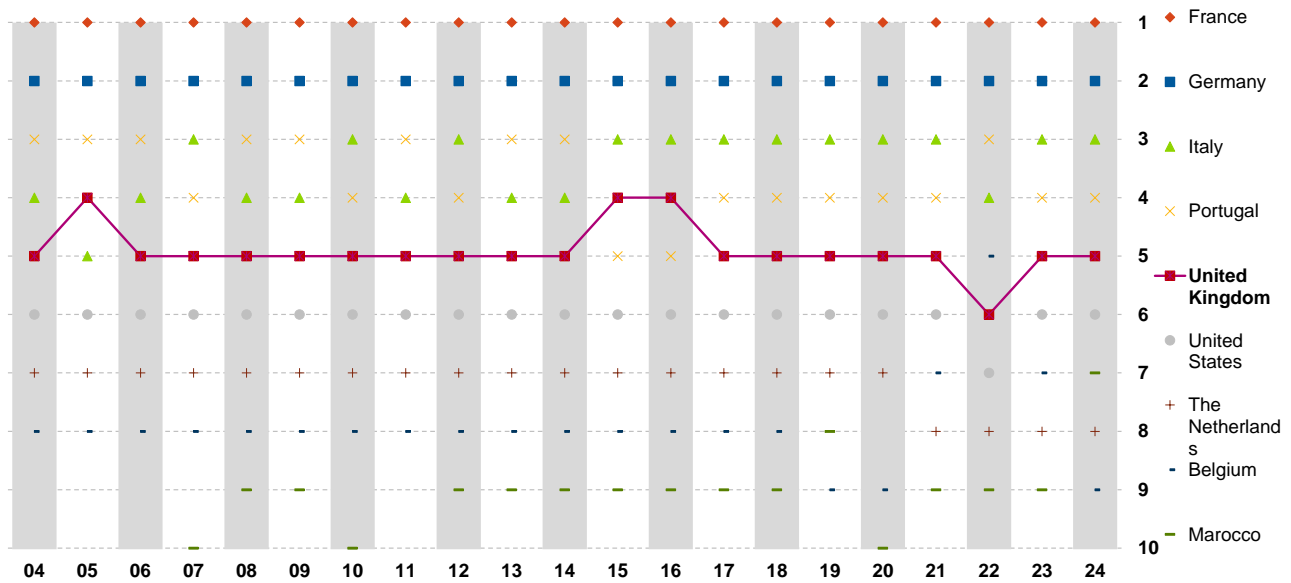


Source: Afi, Secretary of State for Commerce. *2024 up to and including July (latest figure available).

On the export front, the UK has cemented its position as the fifth largest destination for Spanish exports, having even ranked fourth on five occasions (2001, 2002, 2005, 2015 and 2016).

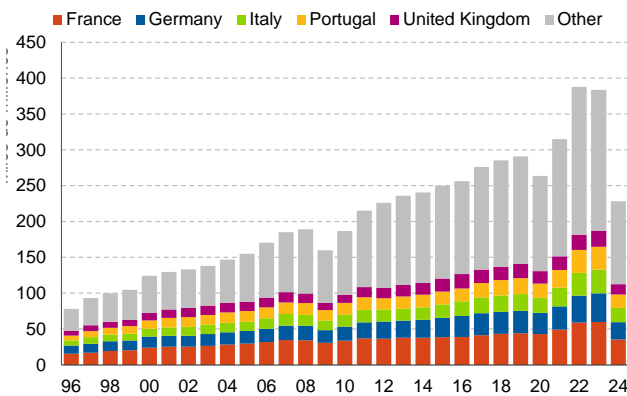
Spain’s exports are concentrated across five countries: France, Germany, Portugal, Italy and the UK, which between them have, on average, accounted for 51.5% of annual exports between 1995 and July 2024. On the other hand, China, Germany, France, the US, Italy and Portugal, along with the UK, have between them accounted for over 50% of Spanish imports during the last two decades. Considering total trade volumes (Spanish imports plus exports), the UK ranks as Spain’s seventh most important trading partner.

Ranking of Spanish exports by destination country and year*



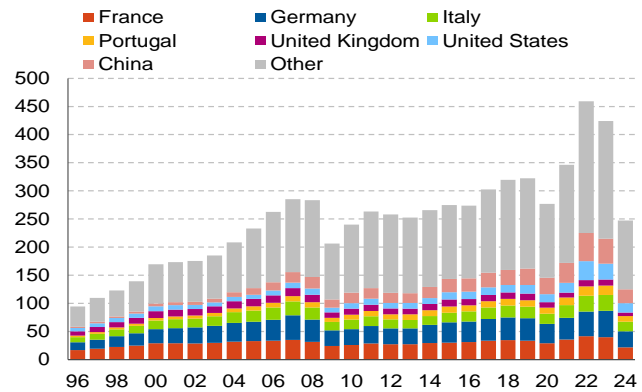
Source: Afi, Secretary of State for Commerce. *2024 up to and including July.

Spanish exports*
(€ billion)



Source: Afi, Secretary of State for Commerce. *2022 up to and including July.

Spanish imports*
(€ billion)

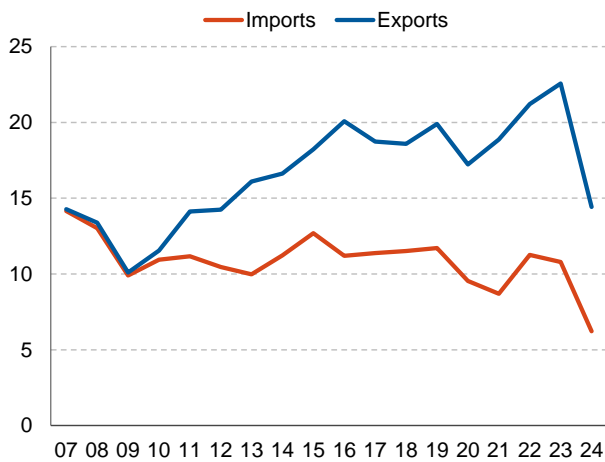


Source: Afi, Secretary of State for Commerce. *2024 up to and including July.

Focusing on the UK, Spain has imported a total of €305.02 billion of British goods since 1995, importing an annual average of over €11 billion between 2014 and 2019. Subsequently, following the slump induced in both economies by the pandemic and the ensuing supply chain bottlenecks (which translated into a scarcity of certain products at the global level, interrupting some global supply chains, among other ramifications), imports have lost steam, dipping to €9.54 billion in 2020 and €8.63 billion in 2021.

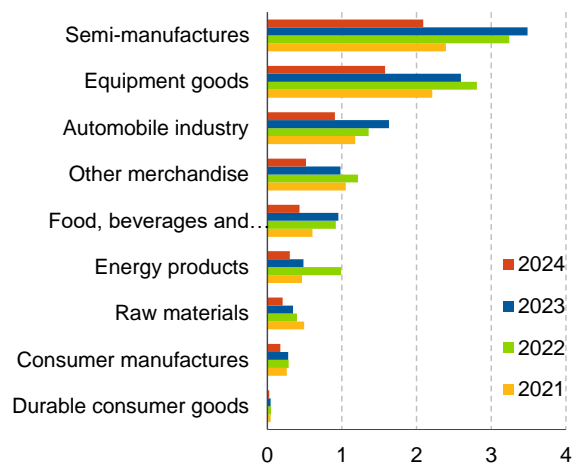
That negative trend continues: as of July 2024, Spanish imports of British goods were running at €7.27 billion, which is 2.4% of total imports, below the long-run annual average (5.2%). The prevailing uncertainty caused by the war between Russia and Ukraine and the subsequent and related energy shock and persistent inflation, coupled with the attendant slowdown in demand and economic activity, are likely to have weighed on the flow of trade between the two countries.

Foreign trade between Spain and the UK*
(€ billion)



Source: Afi, Secretary of State for Commerce. *2024 up to and including July.

Spanish imports from the UK by sector
(€ billion)

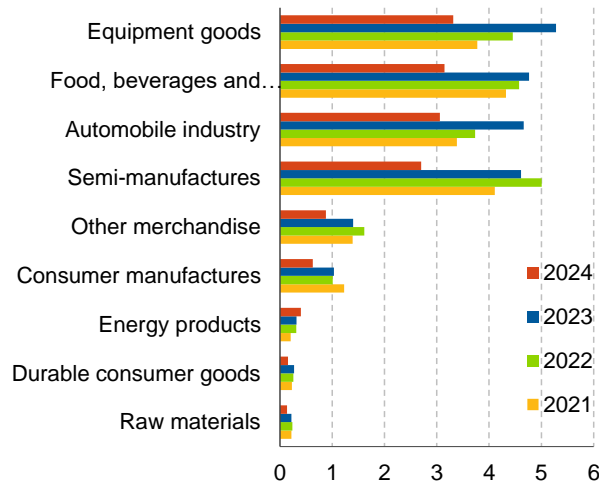


Source: Afi, Secretary of State for Commerce. *2024 up to and including July.

By sector, during the last four years the volumes of imported semi-manufactured goods, capital goods and automotive goods stand out at €11.2 billion, €9.2 billion and €5.1 billion, respectively. In the 12 months to July 2024 (the most recent figure available), imports of semi-manufactured goods were running slightly lower year-on-year, while imports of capital goods were tracking above the volumes observed in the same periods of both 2023 and 2022. The automotive industry, which was affected by global supply chain problems throughout 2022, is recovering slightly year-on-year. However, cumulative imports in the first seven months of the year are down year-on-year. Two of the main reasons for this trend are the financial environment and the significant penetration of Chinese electric vehicles.

On the export side, in addition to the above-listed three sectors, Spain is also a major exporter to the UK of food, beverage and tobacco products. In the last four years, over 80% of Spanish goods exports to the UK have been concentrated in these four sectors, with all of them, except for semi-manufactured goods, registering volume growth in the 12 months to July 2024. Lastly, trading volumes in energy products have fallen in the last 12 months, shaped by volatile energy commodity prices.

Spanish exports to the UK by sector
 (€ billion)



Source: Afi, Secretary of State for Commerce. *2024 up to and including July.

In short, semi-manufactured, capital goods and automotive parts remain key for the British companies invested in Spain, with those sectors traditionally accounting for two-thirds of all British imports. Within those sectors it is worth highlighting specific sub-industries: (i) Automotive vehicles and tractors; (ii) Machines and mechanical devices; (iii) Pharmaceutical products; and (iv) Organic and non-organic chemical products. The transformation of those imported goods into finished goods with more value-added is not only beneficial for the companies and Spanish economy but also guarantees the continuity of investment and trade flows from Britain to Spain.

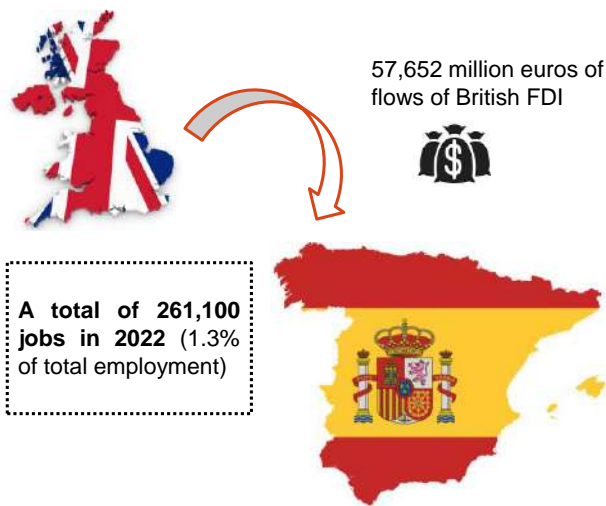
8. Effects of British FDI on jobs in Spain

British FDI in Spain contributed to the generation of over 260,000 jobs in 2022, which is equivalent to 1.3% of total employment in Spain.

British FDI in Spain contributed to the generation of an estimated 260,000 jobs in 2022, which is equivalent to 1.3% of total Spanish employment. That means that the contribution by British FDI to Spanish employment was 5.4% higher in 2022 than in 2021 (248,000 jobs) and 16.4% above that of 2016, in contrast with the annual contraction of 4% in the stock of British FDI in Spain 2022 (to €57.65 billion). The increased employment intensity reflects the shift in sector mix (in terms of productivity) shaped by the movement in the stock of British investment in Spain. The Appendices attached to this report outline the trend in the impact of British FDI on each of Madrid, Catalonia, the Basque region and Andalusia in greater detail.

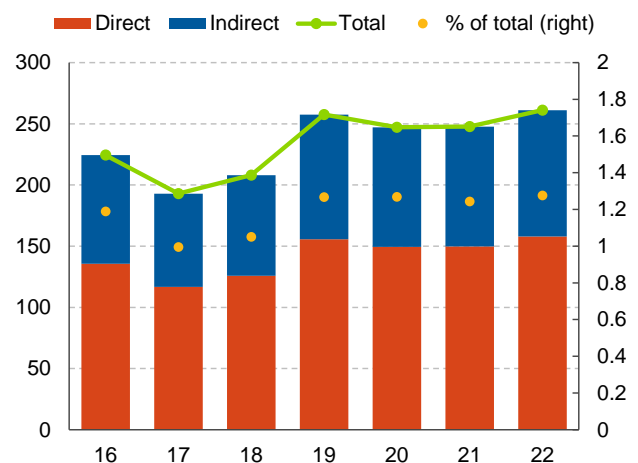
Of all the jobs generated by British investment in 2022, 157,900 are considered direct jobs, with the remaining 100,000 positions considered indirect jobs created via knock-on effects on other supplier activities.⁶

Impact of British FDI on employment in Spain, 2022



Source: Afi, Secretary of State for Commerce.

Trend in the impact of British FDI on employment in Spain by type of employment (number of jobs | % of total)



Source: Afi, Secretary of State for Commerce.

⁶ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Spanish economy (2015 Input-Output Tables).

9. British firms' assessment of the business climate in Spain

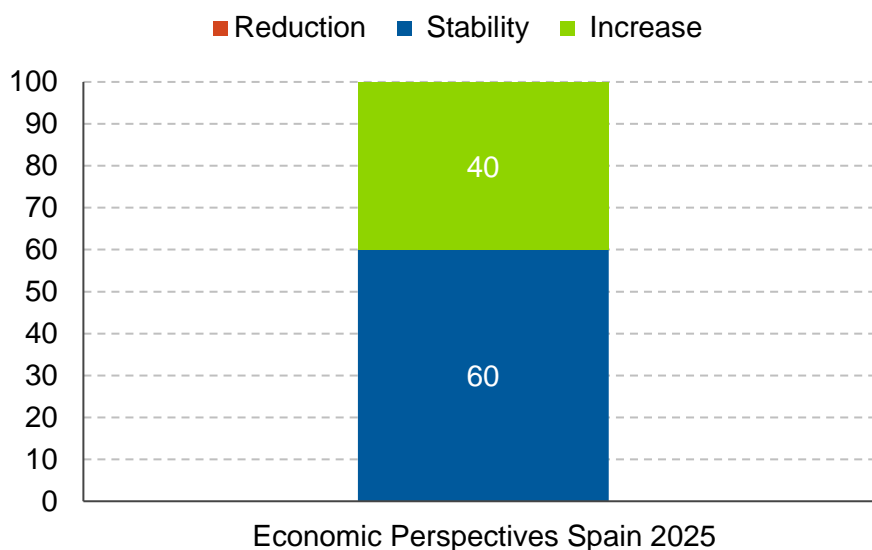
The British companies surveyed believe that the Spanish economy will be stable in 2025. None of the firms surveyed reported a negative outlook for their business activities, with 40% saying they expected the economy to improve.

When asked about their investment plans, 60% of the respondents said they planned to increase their investments in Spain in 2025 and, of those, an average of close to 70% said they expected to increase their investments by between 5% and 10% by comparison with 2024, shaped mainly by business expansion projects.

This section reflects how the British firms with investments in Spain perceive the business climate in Spain. The analysis provided in the following sections is based on the results of a survey carried out between July and October 2024 polling British companies with investments in Spain.

In general, the results of this year's Barometer survey reflect continuity in the British firms' perception of the economic situation in Spain, with 40% of the companies reporting that they expect the economic situation to improve in 2025 by comparison with 2024, with the remaining 60% not anticipating major changes in the current climate.

Outlook for the Spanish economy in 2025 (% of responses)

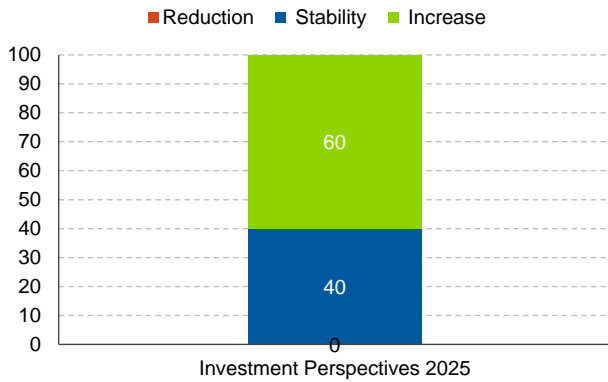


Source: Afi, "2024 Survey of British inward investment into Spain"

As for their investment plans for 2025, the large majority of British firms expects the investment climate to improve, with none of them saying that they expect the conditions for investing in Spain to deteriorate. Among the firms that said they were planning to invest more in 2025, almost 70% said they planned to step up their investments by between 5% and 10% with respect to the investments made in 2024. And over 15% of the firms surveyed said they expect to increase their investments by over 10% year-on-year. The leading motive for increasing their investments was "Business expansion" (39%), followed by "Digitalisation processes" (21%) and "Innovation" (13%). Note that just 5.2% of the companies surveyed plan to divest in 2025; those that do cited unfavourable prospects and tighter restrictions or new requirements under the Trade and Cooperation Agreement between the EU and UK.

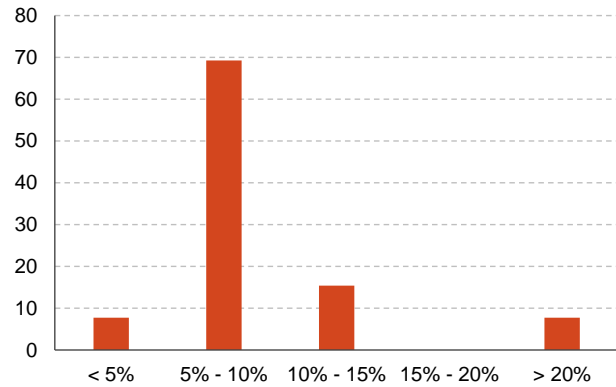
In short, the feedback provided by the British firms surveyed depicts a positive assessment of the business climate in general and the outlook for their business development in Spain in particular.

Investment plans for Spain in 2025 (% of responses)



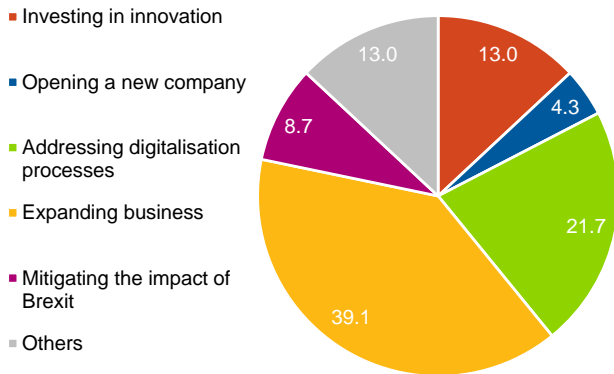
Source: Afi, "2024 Survey of British inward investment into Spain"

Investment plans for Spain in 2025 (annual percentage change | % of responses)



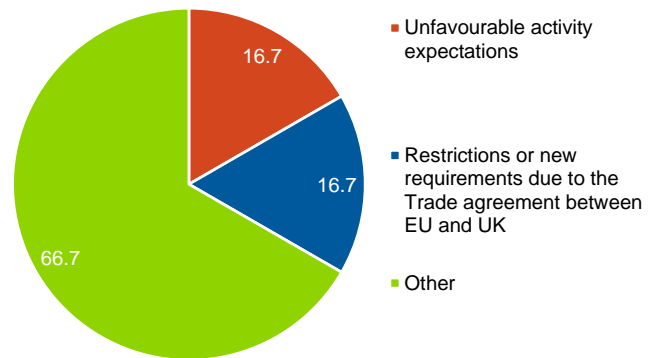
Source: Afi, "2024 Survey of British inward investment into Spain"

Main reason for investing more in 2025 (% of responses)



Source: Afi, "2024 Survey of British inward investment into Spain"

Main reason for divesting in 2025 (% of responses)



Source: Afi, "2024 Survey of British inward investment into Spain"

10. Focus groups delving into the investment climate in Spain: opportunities and barriers

A total of 25 companies of British origin with direct investments in Spain were interviewed about the opportunities and barriers around investing in Spain. The firms surveyed said they saw potential in the Spanish market in terms of growth and investment opportunities, highlighting the ample supply of talent, which in turn implies challenges around talent retention, especially among the younger generations. Brexit has made it harder to move employees between Spain and the UK, as well as increasing legal costs and red tape. The British firms agree that a simplified, consistent and predictable regulatory framework would have a positive influence on their decisions to invest in Spain.

To get a better understanding of the vision and experience of the British firms doing business in Spain, we ran a number of focus groups in which 25 companies from a variety of sectors participated. During those sessions we asked them about the opportunities they see for increasing flows of British FDI to Spain and any related barriers. They shared their ideas for an investor climate that is more propitious to fostering economic ties with Spain. The questions were grouped around six main issues that have historically been relevant to British firms' decisions to invest in Spain: (i) the reasons underpinning the choice of Spain as an investment destination; (ii) the impact of regulatory and fiscal divergence in the wake of Brexit; (iii) the opportunities and challenges posed by the Spanish job market as a source of talent; (iv) the relevance of country risk; (v) the role of environmental, social and governance (ESG) factors; and (vi) the impact of and outlook for innovation in Spain.

The conversations were based on word clouds per topic so as to identify the concepts used the most and highlight the opportunities and barriers of greatest importance to the companies interviewed.

As for the choice of Spain as an investment destination, the firms stressed the Spanish market's potential in terms of growth, size and returns. However, they noted that the Spanish market was neither the most mature nor the deepest in the region. Robust economic activity in 2024, together with stable development of an ecosystem propitious to doing business and innovating, has made Spain more attractive as an international investment destination, particularly for the British firms that are well positioned in Spain thanks to the long-standing investment relationship between these two important economies.

Asked about regulatory divergence and fiscal changes since the UK exited the European Union, the firms interviewed acknowledged teething problems during the transition. Differences between the legal frameworks and increased red tape have had a notable effect on the costs of adapting to the new regulations and on being able to relocate employees. In terms of the labour market, the British firms highlighted the talent available in Spain, emphasising the quality of its universities and research centres. Among the biggest challenges in human capital management, the firms cited employee retention, especially among the younger generations, who attach greater importance to work-life balance, the flexibility to work from home and working hours than their older colleagues.

Education is one of the sectors that has been affected in particular by the regulatory differences emerging in the wake of Brexit. So much so, that it warranted its own focus group. The education companies and institutions flagged Spain as an investment destination in which families are increasingly looking for quality and are more willing to pay for an international education. However, the respondents noted that the UK's exit from the European Union has generated issues for the British educational centres in Spain related with the recognition of British qualifications, the reduced attractiveness of the universities in the UK and difficulties in hiring British teachers. Nevertheless, Spain remains an attractive destination for the multinational enterprises thanks to its pool of talent and

hiring-friendly legislation. There are concerns, however, about increasing intervention in the education sector by the local authorities and the unpredictable nature of regulatory changes.

The British firms also acknowledged political uncertainty as one of the most significant country risk factors when it comes to investing in Spain. The companies interviewed believe that regulatory and legislative uncertainty at both the regional and local levels harms flows of FDI to Spain in general and the various recipient regions in particular. By way of recommendation, the firms suggested creating a simplified, consistent and predictable regulatory framework to create greater certainty for investors and ultimately boost flows of foreign investment to Spain.

All of the companies interviewed talked about the importance of sustainability with respect to both their strategic objectives and its impact on customer and employee perceptions and decisions. The companies' priorities in this area include reducing their carbon footprint (decarbonisation), achieving sustainable operations and increasing transparency. They also mentioned the significant growth in the renewable energy sectors in Spain over the last decade, highlighting the role played by public support, particularly the government-sponsored plan for fostering renewable sources between 2000 and 2010.

Lastly, the companies cited innovation, research and the use of artificial intelligence as a key and high-potential topic. They underlined the importance of innovation to their growth strategies, suggesting closer public-private collaboration, accompanied by a reduction of red tape, so as to benefit the development of talent, research centres and productive investments.

Focus groups with British investors in Spain (word clouds)

Choice of Spain as an investment destination



Regulatory and fiscal divergence in the wake of Brexit



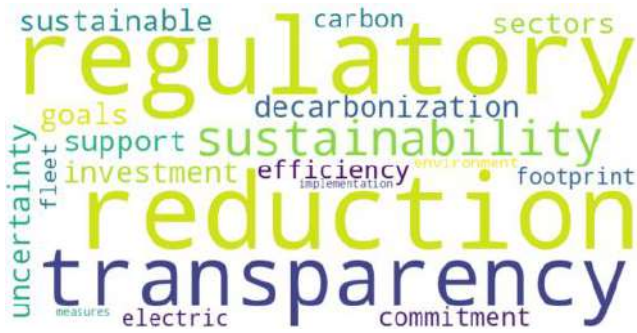
Labour market



Country risk



ESG and sustainability



Innovation



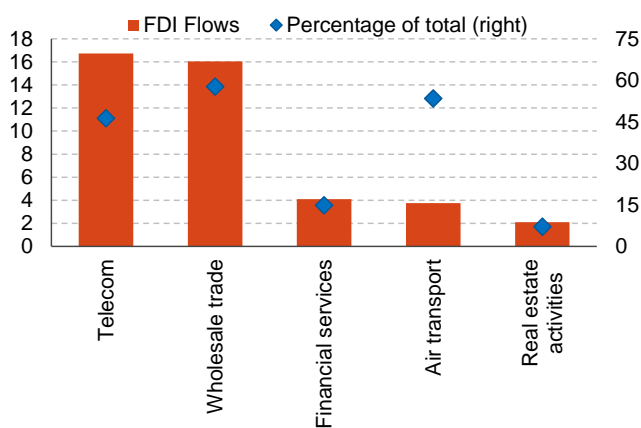
Source: Afi, "Focus groups addressing the investment climate in Spain, 2024".

Appendix 1: Region of Madrid

The region of Madrid is the largest recipient of British FDI flows. Between 1993 and the first half of 2024, cumulative flows reaching this region totalled €63.8 billion, concentrated in the *Telecommunications, Wholesale trade, Financial services, Air transport and Real estate activities* sectors. British FDI in Madrid contributed to the generation of over 80,000 jobs in 2022, which is equivalent to 2.2% of total employment in the region.

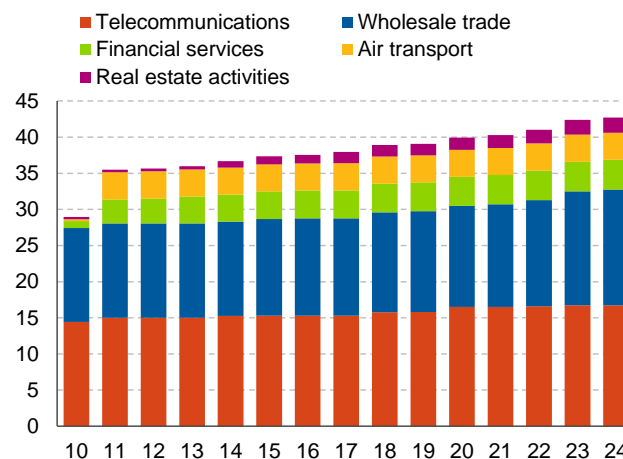
Madrid has been the Spanish region to receive the highest volume of flows of British investment since there are records. By the end of the second half of 2024, it had received €63.8 billion, which is equivalent to 70% of total British investment in Spain. The main beneficiaries have been the *Telecommunications, Wholesale trade, Financial services, Air transport and Real estate activities* sectors, which between them have received around €40 billion (67% of British FDI in the region).

Cumulative flows of British FDI by sector and as a percentage of the total (1993-1H24, € billion | %)



Source: Afi, Secretary of State for Commerce.

Cumulative flows of British FDI by sector* (€ billion)



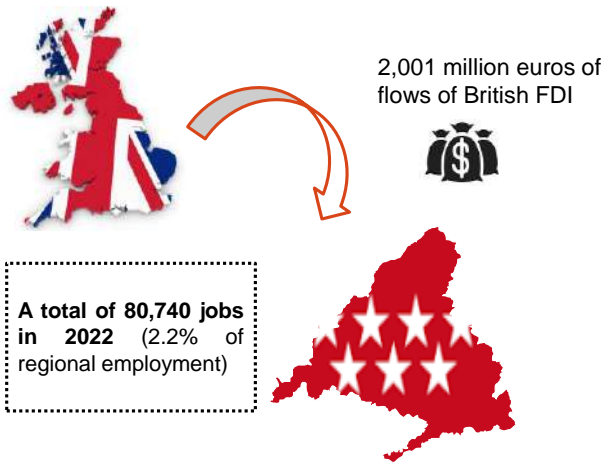
Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

British FDI in Madrid contributed to the generation of an estimated +80,000 jobs in 2022, which is equivalent to 2.2% of total employment in Madrid. That means that the contribution of British FDI to employment in Madrid was 7.8% higher in 2022 than in 2021 (74,900 jobs) and 14.3% above that of 2016, in line with the annual growth in the stock of British FDI in Madrid of 3.7% in 2022 (to €60.4 billion).

Of all the jobs generated by British investment in 2022, 58,800 are considered direct jobs, with the remaining 21,860 positions considered indirect jobs created via knock-on effects on other supplier activities.⁷

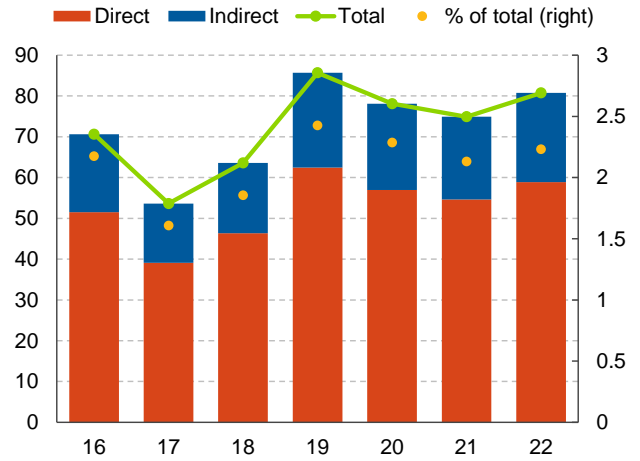
⁷ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Madrid economy (2015 Input-Output Tables).

Impact of British FDI on employment in Madrid, 2022



Source: Afi, Secretary of State for Commerce.

Trend in the impact of British FDI on employment in Madrid by type of employment (number of jobs | % of total)



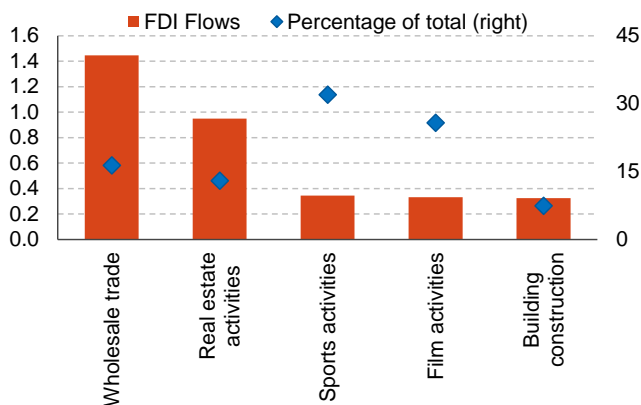
Source: Afi, Secretary of State for Commerce.

Appendix 2: Catalonia

Catalonia is the second-largest recipient of British FDI flows. Between 1993 and the first half of 2024, cumulative flows reaching this region totalled €9.8 billion, concentrated in the Wholesale trade, Real estate activities, Sports activities, Motion picture activities and Construction of buildings sectors. British FDI in Catalonia contributed to the generation of over 42,800 jobs in 2022, which is equivalent to 1.2% of total employment in Catalonia.

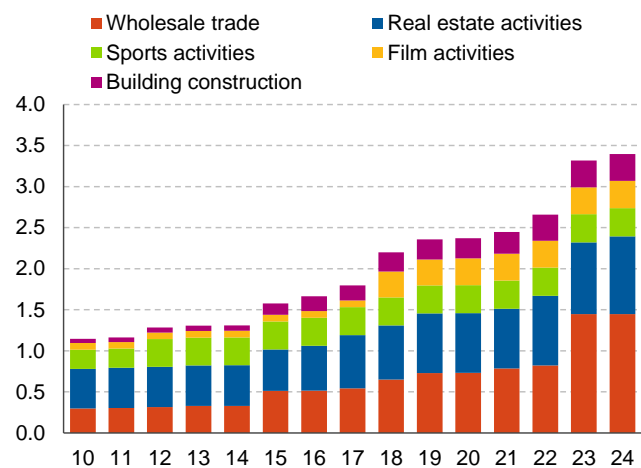
Catalonia has been the second Spanish region to receive the highest volume of flows of British investment since there are records. By the end of the second half of 2024, it had received €9.8 billion, which is equivalent to 10% of total British investment in Spain. The main beneficiaries have been the Wholesale trade, Real estate activities, Sports activities, Motion picture activities and Construction of buildings sectors, which between them have received around €3.4 billion (38% of British FDI in the region).

Cumulative flows of British FDI by sector and as a percentage of the total (1993-1H24, € billion | %)



Source: Afi, Secretary of State for Commerce.

Cumulative flows of British FDI by sector* (€ billion)



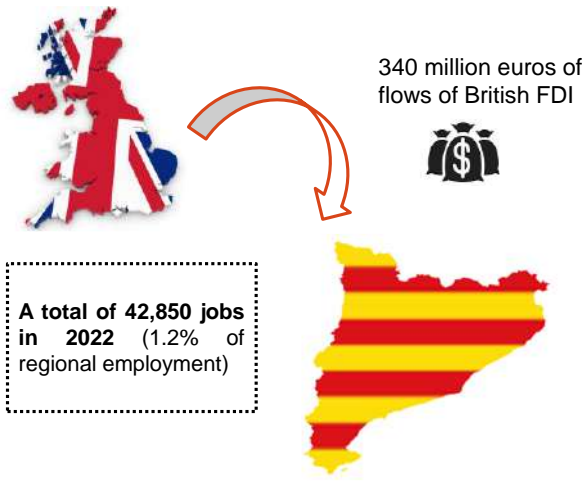
Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

British FDI in Catalonia contributed to the generation of an estimated 42,800 jobs in 2022, which is equivalent to 1.2% of total employment in the region. That means that the contribution by British FDI to Catalan employment was 14.2% higher in 2022 than in 2021 (37,300 jobs) and 17.1% above that of 2016, above the annual growth in the stock of British FDI in Catalonia of 4.4% in 2022 (to €8.5 billion).

Of all the jobs generated by British investment in 2022, 24,800 are considered direct jobs, with the remaining 18,050 positions considered indirect jobs created via knock-on effects on other supplier activities.⁸

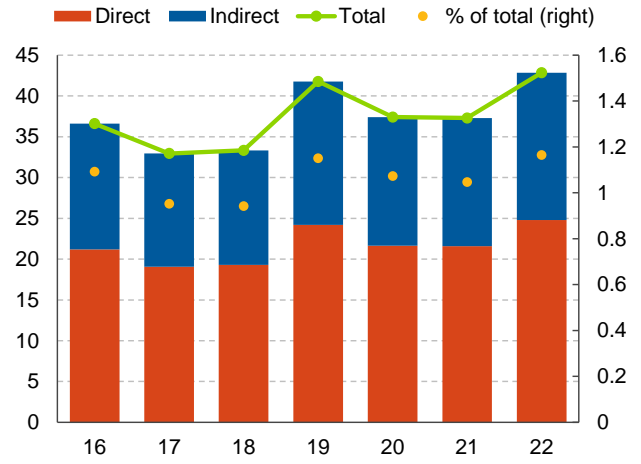
⁸ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Catalan economy (2015 Input-Output Tables).

Impact of British FDI on employment in Catalonia, 2022



Source: Afi, Secretary of State for Commerce.

Trend in the impact of British FDI on employment in Catalonia by type of employment (number of jobs | % of total)



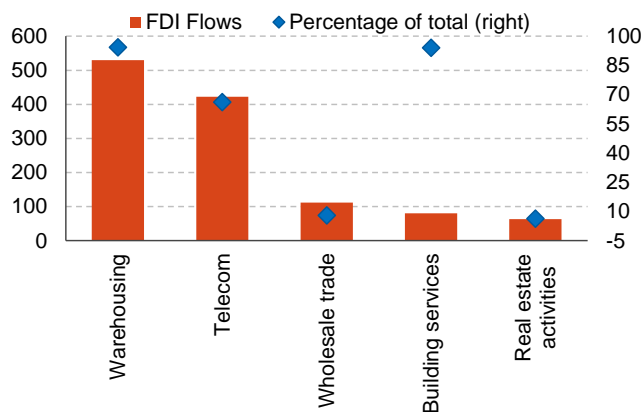
Source: Afi, Secretary of State for Commerce.

Appendix 3: Basque region

The Basque region has cemented its position as the third-largest recipient of cumulative British FDI flows. Between 1993 and the first half of 2024, cumulative flows reaching this region totalled €4.4 billion, concentrated in the *Warehousing activities, Telecommunications, Wholesale trade, Building services* and *Real estate activities* sectors. British FDI in the Basque region contributed to the generation of over 10,600 jobs in 2022, which is equivalent to 1.0% of total employment in the region.

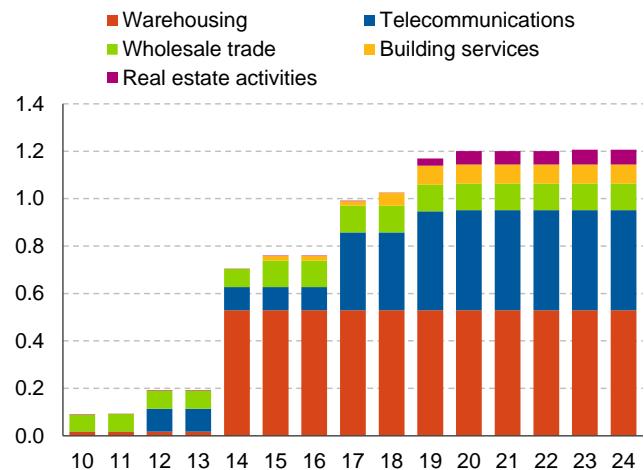
Flows of British investment to the Basque region have increased sharply since 2014, thanks to which it is now the third-biggest recipient on a cumulative basis. Those flows have stagnated since 2022, however. By the end of the second half of 2024, it had received €4.4 billion, which is equivalent to 5% of total British investment in Spain. The main beneficiaries have been the *Warehousing activities, Telecommunications, Wholesale trade, Building services* and *Real estate activities* sectors, which between them have received around €1.4 billion (27% of British FDI in the region).

Cumulative flows of British FDI by sector and as a percentage of the total (1993-1H24, € billion | %)



Source: Afi, Secretary of State for Commerce.

Cumulative flows of British FDI by sector* (€ billion)



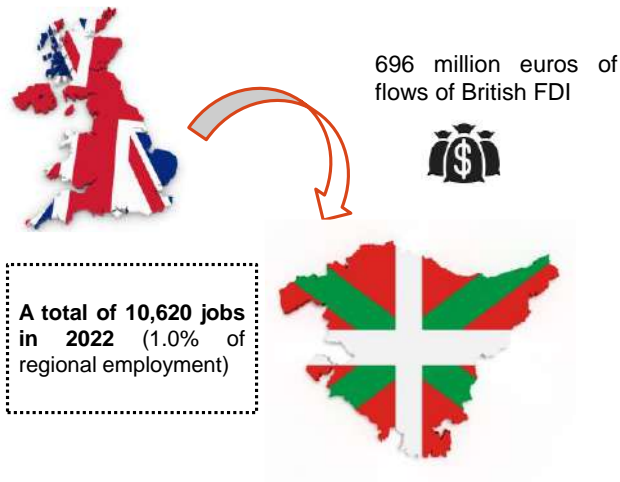
Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

British FDI in the Basque region contributed to the generation of an estimated 10,600 jobs in 2022, which is equivalent to 1.0% of total employment in the region. That means that the contribution by British FDI to Basque employment was 7.5% higher in 2022 than in 2021 (11,480 jobs) and 12.8% above that of 2016, below the annual growth in the stock of British FDI in the Basque region of 18.7% in 2022 (to €4.42 billion).

Of all the jobs generated by British investment in 2022, 7,430 are considered direct jobs, with the remaining 3,190 positions considered indirect jobs created via knock-on effects on other supplier activities.⁹

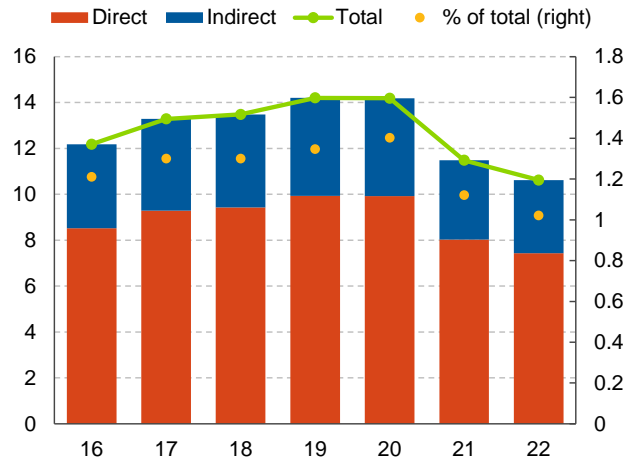
⁹ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Basque economy (2015 Input-Output Tables).

Impact of British FDI on employment in the Basque region, 2022



Source: Afi, Secretary of State for Commerce.

Trend in the impact of British FDI on employment in the Basque by type of employment (number of jobs | % of total)



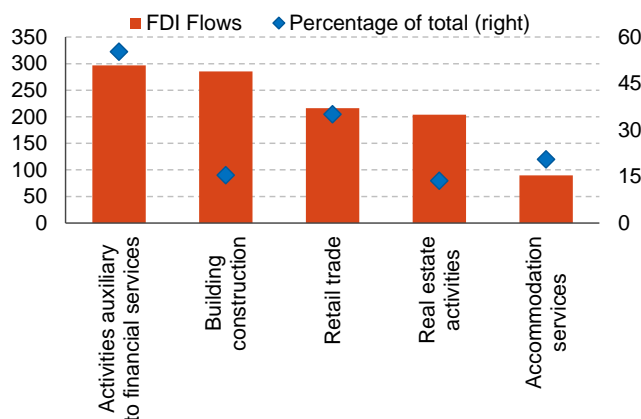
Source: Afi, Secretary of State for Commerce.

Appendix 4: Andalusia

Flows of British investment to Andalusia have been increasing consistently in recent years and although this region continues to trail Madrid, Catalonia and the Basque region, by the end of the first half of 2024, it had received cumulative flows of over €2.5 billion. Investment in Andalusia has been noteworthy in the *Activities auxiliary to financial services, Construction of buildings, Wholesale trade, Real estate activities and Accommodation services* sectors. British FDI in Andalusia contributed to the generation of over 21,300 jobs in 2022, which is equivalent to 0.7% of total employment in Andalusia.

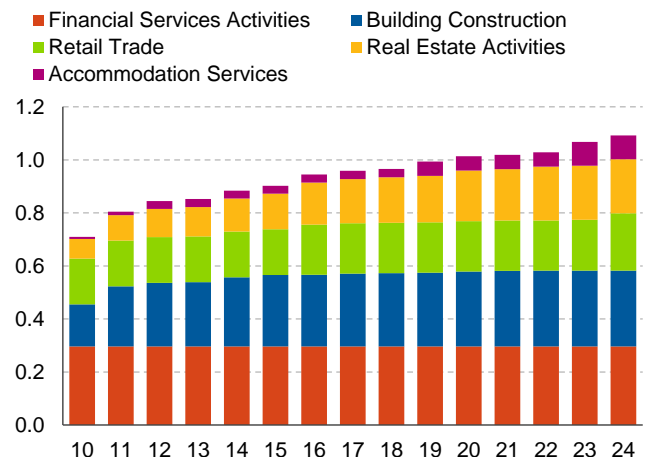
Since there are records, Andalusia has attracted a steady flow of British investment, thanks to which it had received over €2.5 billion in total by the first half of 2024. It has garnered close to 3% of total flows reaching Spain from Britain (since there are records). The sectors receiving the highest flows include the *Activities auxiliary to financial services, Construction of buildings, Wholesale trade, Real estate activities and Accommodation services* sectors, which between them have collected over €1 billion (43% of British FDI in the region).

Cumulative flows of British FDI by sector and as a percentage of the total (1993-1H24, € billion | %)



Source: Afi, Secretary of State for Commerce.

Cumulative flows of British FDI by sector* (€ billion)



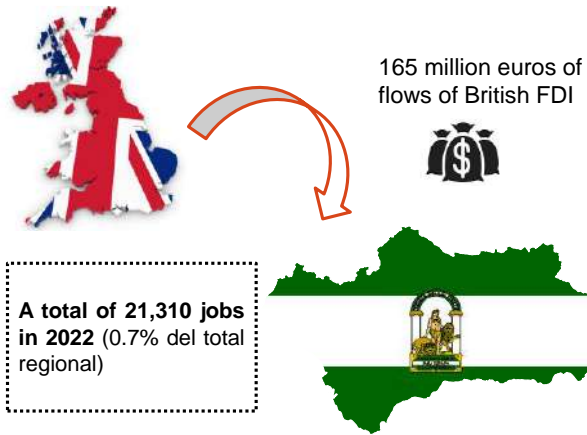
Source: Afi, Secretary of State for Commerce. (*) The 2024 figures relate to the first half of the year

British FDI in Andalusia contributed to the generation of an estimated 21,300 jobs in 2022, which is equivalent to 0.7% of total employment in the region. That means that the contribution by British FDI to employment in Andalusia was 44.2% higher in 2022 than in 2021 (14,800 jobs) and 37.6% above that of 2016, well above with the annual growth in the stock of British FDI in Andalusia of 7.6% in 2022 (to €2.3 billion).

Of all the jobs generated by British investment in 2022, 14,700 are considered direct jobs, with the remaining 6,580 positions considered indirect jobs created via knock-on effects on other supplier activities.¹⁰

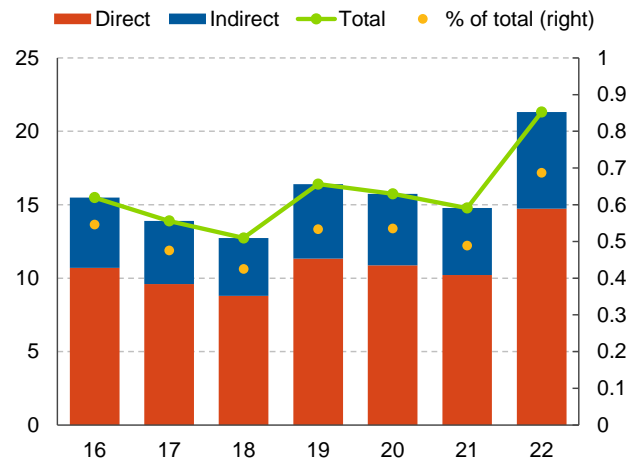
¹⁰ Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the Andalusian economy (2015 Input-Output Tables).

Impact of British FDI on employment in Andalusia, 2022



Source: Afi, Secretary of State for Commerce.

Trend in the impact of British FDI on employment in Andalusia by type of employment (number of jobs | % of total)



Source: Afi, Secretary of State for Commerce.

Special thanks to the companies that participated in the
“Focus groups addressing the investment climate in Spain, 2024”



November 2024



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