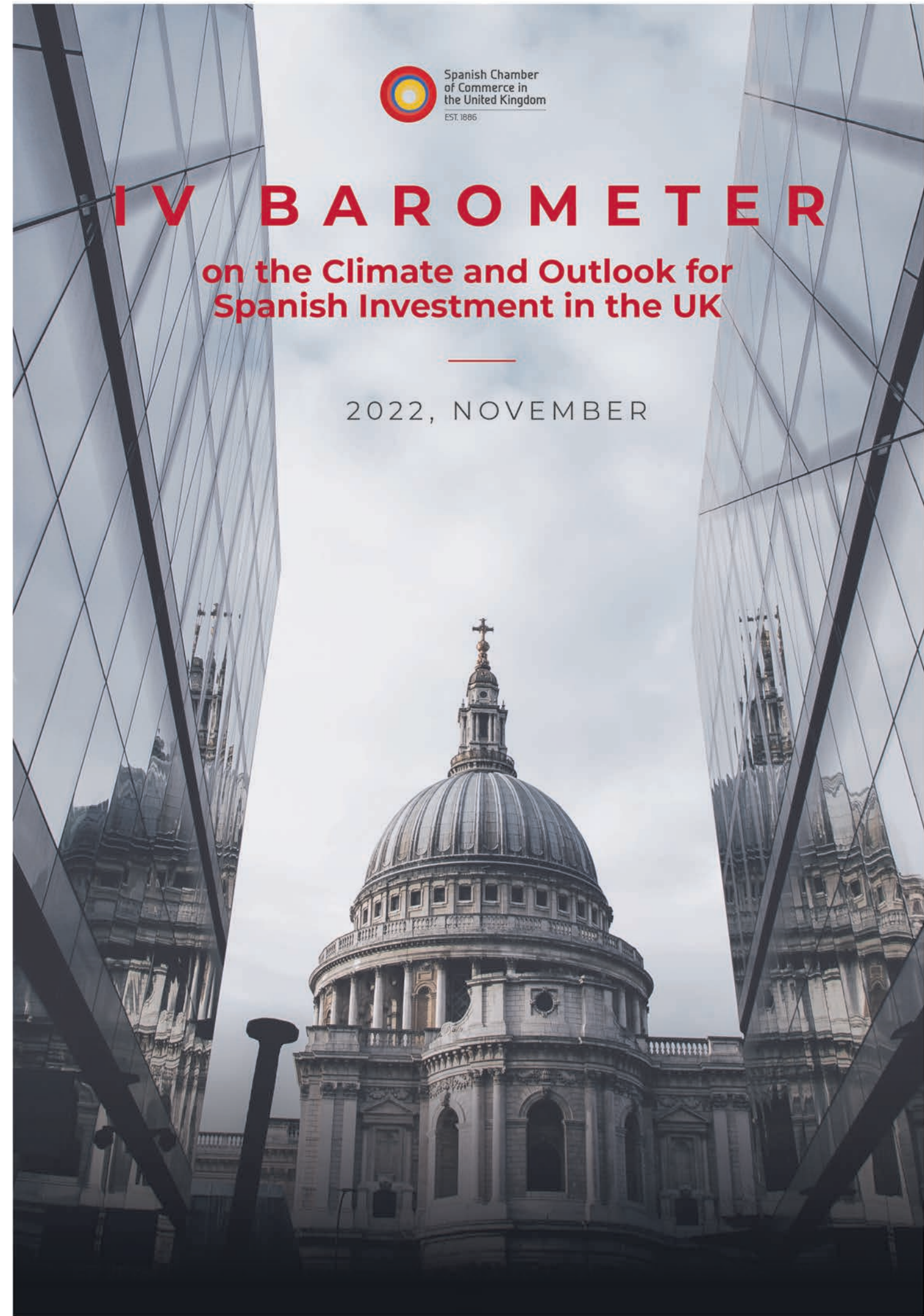
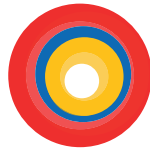


IV BAROMETER

on the Climate and Outlook for
Spanish Investment in the UK

2022, NOVEMBER





Spanish Chamber
of Commerce in
the United Kingdom

EST. 1886

THE SPANISH CHAMBER OF COMMERCE IN THE UK WOULD LIKE TO THANK THESE COMPANIES FOR THEIR SUPPORT IN THE IV BAROMETER

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MESSAGE FROM THE PRESIDENT OF THE SPANISH CHAMBER OF COMMERCE IN THE UK

More than ever, we live in a shock-prone world. Changes are happening with hardly any warning, which makes analysis difficult at times. Geopolitical and social tensions have risen. Inflation in many countries has increased precipitously and public debt is reaching new highs. Russia's invasion of Ukraine has dramatically altered many of the economic and political foundations upon which we had built our societies. The economic consequences of the Ukrainian invasion continue to resonate. Energy prices are soaring, hitting the most vulnerable and poorest. Climate change and extreme weather are steadily increasing their pressure on economies and societies. Trade wars, the conflict in Ukraine and highly ideological governments are escalating the risk of the world fragmenting into geopolitical blocs that could change the pattern of our living standards.

Yet, in spite of these global difficulties, the Spanish Chamber of Commerce in the UK presents for the fourth time its Barometer on the Climate and Outlook for Spanish Investment in the UK. The **Barometer puts together an incredible amount of data and analysis on how Spain invests in the UK**, and even though trade and investment have gone through important readjustments to adapt to the Trade and Cooperation Agreement and the new post-pandemic world, the UK remains the second destination for Spanish investments.

The actual presentation of the Barometer is a bilateral exercise in which both governments actively participate. I want to express our gratitude to the **Spanish Trade Minister Xiana Méndez** and to the **UK Minister for Trade Policy, Greg Hands MP** for their support. In this uncertain world, we remain extremely keen on bringing together governments and companies.

The Chamber never works alone. Our efforts are strengthened by a wide range of partnerships. We continue working closely with the **British Chamber of Commerce in Spain** and the level of collaboration is of the highest possible calibre. They also produce their own barometer but of course one that looks at the other way round, that is, British investments into Spain. Both barometers should be read together. I am certain such exercise will provide new angles and dimensions to understand the **British-Spanish investment relationship**.

Every year the Barometer provides the result of a survey to **more than 100 Spanish companies** that invest in the UK. I am not aware of any other survey of such nature. Their responses give us an insight into what investors (from large listed companies to SMEs) think of the British market. It is extremely helpful and **I am most grateful to all those companies who took the time to complete the survey**. Their opinion is invaluable and to me, this is an excellent example of our active engagement with the Members. Although reasons for optimism may look scarce, it is fair to say that **Spanish companies feel optimistic about the British market. Indeed, 94% of the surveyed companies consider the UK a strategic market**.

Finally, it is only left for me to **thank all the companies that made this year's barometer possible**. Without their commitment, we could not publish this document. This year, **15 companies** are supporting it so this clearly shows that British-Spanish trade relations remain vibrant, active and dynamic.

Eduardo Barrachina
President of the Spanish Chamber of Commerce in the United Kingdom

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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 Spanish Chamber of Commerce in the UK or their partners.

EXECUTIVE SUMMARY

-
- **The inflationary pressures derived from supply chain friction, coupled with the outbreak of war between Russia and Ukraine, have marked macroeconomic developments during the past year.** Despite a better than expected economic performance in the first quarter, the outlook for the short and medium term is increasingly pessimistic, with scarcely any developed economies expected to post growth of more than 1% in 2023.
-
- **The UK remains the top destination for Spanish overseas investment over the long run.** Although the pace of outward investment in the UK by Spanish firms has slowed in recent years, so too have Spanish investments in other markets of long-standing importance. In 2020, the last year for which data is available, the UK accounted for 13% of the stock of Spanish FDI, second only to the US, which also lost weight year-on-year to represent 17.3% of the total.
-
- **Spanish FDI in the UK contributed to the generation of 170,000 jobs in 2020,** which is equivalent to around 0.53% of total nationwide employment.
-
- **The cumulative stock of Spanish FDI in the UK as of 2020 remained high but investment in the financial and telecommunications sectors declined,** remaining stable, however, in electricity distribution and real estate activities. The growth in investment in the chemicals industry stands out.
-
- **The UK has received the highest volume of FDI flows since the start of the series, in 1993, €155.8 billion in total.** In addition, the flow of outward Spanish investment into the UK has been rising since 2018, a year in which global investment flows suffered considerably. In the wake of the health crisis, the flows of Spanish FDI into the UK more than doubled year-on-year in 2021, notching up annual growth of €8 billion. However, flows into the UK in the second quarter of 2022 represented a mere 8% of the year-earlier figure, collapsing from €7.4 billion in 2Q21 to €630 million in 2Q22.
-
- **Spanish investment in the UK remains particularly concentrated in the services sector, within which, however, it is highly diversified.** Although certain industrial sectors are attractive to Spanish investors, the financial, retail, telecommunications and energy supply sectors top the rankings. However, investment in some of those sectors stagnated during the first half of 2022, when virtually all FDI flows went to the financial and telecommunications sectors.
-

• **Spain's investment appetite for the UK market waned in 2018 and 2019, which is when Brexit-related uncertainty was at its height.** Despite the health crisis, FDI flows staged a noteworthy recovery in 2020 and 2021. Nevertheless, the data as of the end of the first half of 2022 point to a slowdown in total flows and in flows into the UK.

• **The Spanish firms established in the UK reported a similar overall assessment of the British business climate as in 2021.** Over half of the firms surveyed rated the climate as acceptable or better. Moreover, a higher number of firms perceived an improvement in the business climate over the past year.

• **The top-rated attribute of the business climate is once again the existence of a favourable ecosystem for digital transformation.** The least valued attribute: quality of life in the UK.

• **Half of the Spanish companies established in the UK view the Covid-19 pandemic as the phenomenon with the biggest impact on their businesses over the past two years,** with 40% singling out Brexit in this regard. On the other hand, when asked about the effects of the war in Ukraine, most Spanish companies said they had not changed their plans for investing in the UK as a result of the increase in energy prices or supply chain friction.

• **Eighty-eight per cent of the firms reported encountering business friction since effectiveness of the new UK-EU Trade and Cooperation Agreement.** The main results of that friction remain higher costs and hiring difficulties. However, on the whole, for 76% of the firms, the British market remains as important or has become even more so within their overall businesses.

• **The firms' outlook for their business performance in the UK** is brighter than reported in previous surveys. Over half of the Spanish firms consulted expect their UK turnover and headcounts to increase in 2023. In addition, **43% are planning to increase their investments in the country next year.** To that end, many companies plan to undertake new marketing initiatives and devote more resources to recruitment in the UK. Specifically, London and the rest of England are expected to receive a higher volume of investment projects in 2022-2023.

• **The large majority (94%) of Spanish companies expect the UK to remain a strategic market for them.**

PART I

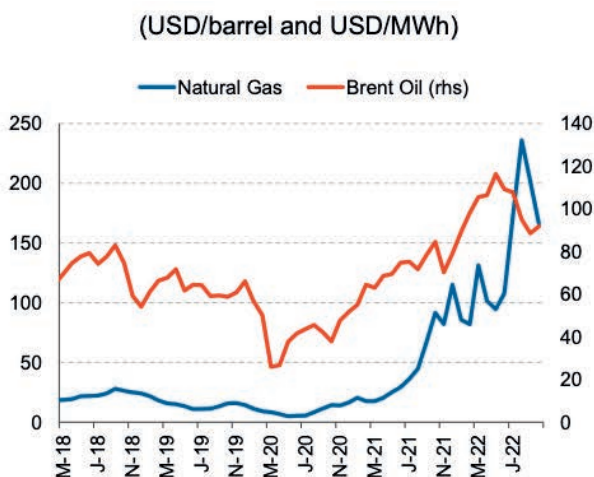
SPANISH INVESTMENT IN THE UK

1. MACROECONOMIC CONTEXT IN THE UK AND SPAIN: ECONOMIC RECOVERY AND THE IMPACT OF THE WAR BETWEEN RUSSIA AND UKRAINE.

The inflationary pressures derived from supply chain friction, coupled with the outbreak of war between Russia and Ukraine, have marked macroeconomic developments during the past year. Despite a better-than-expected economic performance in the first quarter, the outlook for the short and medium term is increasingly pessimistic, with scarcely any developed economies expected to post growth of more than 1% in 2023.

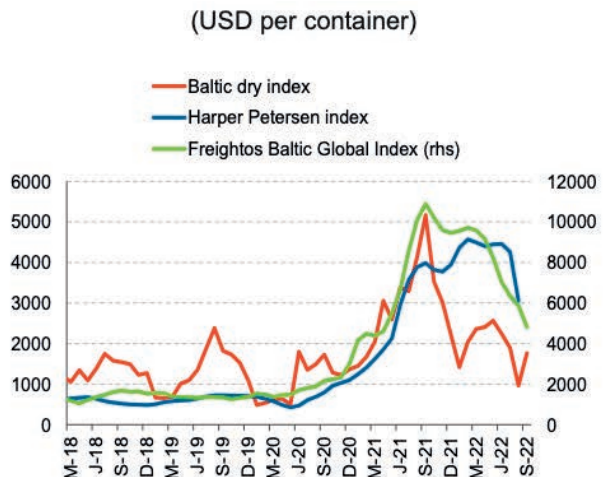
The inflationary pressures derived from supply chain friction, coupled with the outbreak of war between Russia and Ukraine, have marked macroeconomic developments during the past year. Following the severe health crisis, the accumulation of household savings, buoyed by the monetary and fiscal stimulus measures rolled out during and after the lockdown, unlocked sharp growth in internal demand (private consumption and investment) in both Spain and the UK. However, the structural damage to the business community caused by the pandemic meant that supply could not keep up with that burgeoning demand, sparking a major imbalance which started to affect prices from the second half of 2021. At that juncture, the well-known supply chain restrictions and their consequences emerged as the main risk for the global economy.

TREND IN KEY ENERGY COMMODITY PRICES



Source: Afi, Macrobond

BENCHMARK SHIPPING COSTS

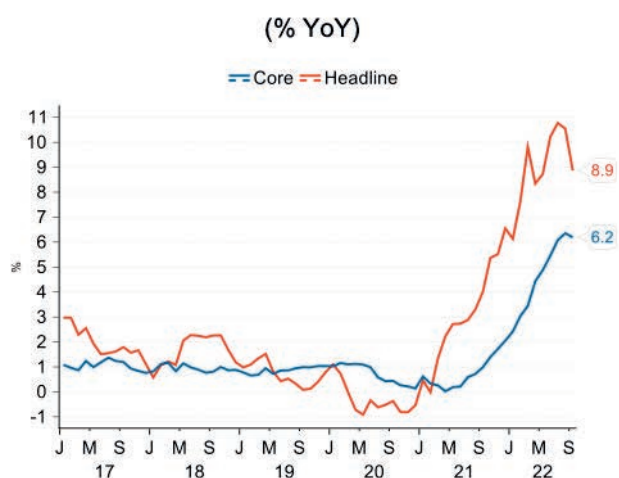


Source: Afi, Macrobond

The supply-side problems were first observed in shipping costs which multiplied five-fold in just a few months, peaking in around October 2021. In parallel, the sharp growth in manufacturing, which found itself operating at 100% of capacity, led to considerable growth in demand for energy. OPEC+, whose oil and gas production was severely interrupted during the pandemic, was unable to match the pace of the recovery in demand for energy, due to a shortfall of investments in previous years. As a result, energy commodity prices (and the prices of some non-energy commodities) embarked on an upward ascent which continues today, since exacerbated by the war. It didn't take long for these tensions to show up in national consumer price indices. By the end of 2021, headline inflation in the UK and Spain was running at 5.4% and 6.5% year-on-year, respectively.

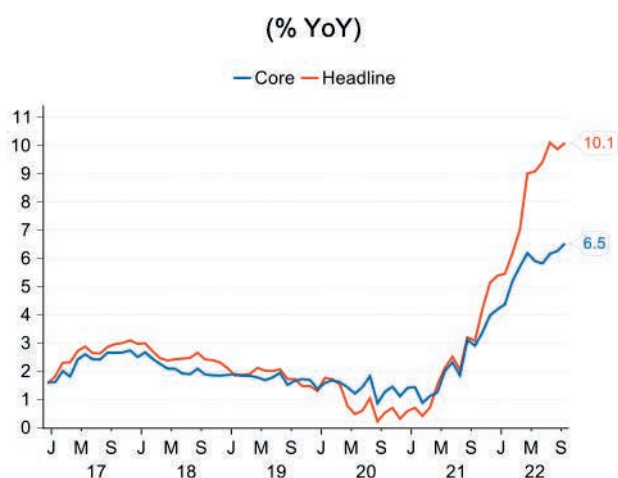
However, the inflation dynamics were very different across the various economies. Those more reliant on energy imports proved more vulnerable to increased energy price volatility, while other countries, less dependent on outside energy, saw their prices rise on account of the sharp mismatch between aggregate demand and aggregate supply in their economies. The Spanish economy unquestionably fell into the first category. Highly dependent on energy imports (75% in 2018), the inflationary dynamic was largely attributable to the energy component, whereas core inflation, which includes the less volatile goods and services, remained contained at 2% at year-end 2021. In contrast, the more vigorous economic recovery in the UK, where the unemployment rate quickly reached record lows, coupled with reduced dependence on energy imports (35% in 2018), pushed the country's core inflation to 4.2% as of that same date.

HEADLINE AND CORE INFLATION IN SPAIN



Source: Afi, Macrobond

HEADLINE AND CORE INFLATION IN THE UK



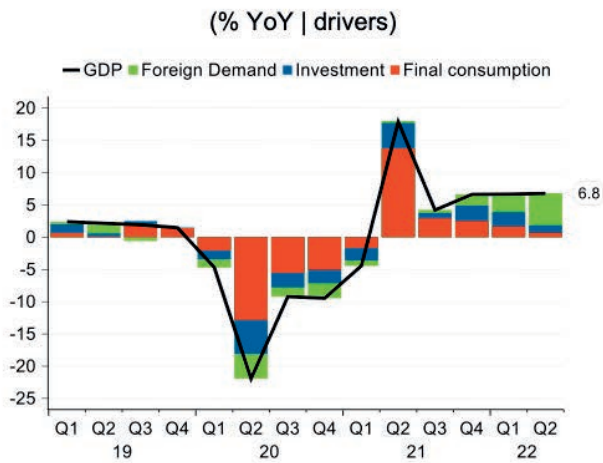
Source: Afi, Macrobond

So, 2022 started with rapid growth and strong inflationary pressures. Those dynamics continued for the first few months of the year, albeit with supply chain issues easing somewhat. However, the onset of war between Russia and Ukraine radically changed the international panorama in general and the macroeconomic environments in Spain and the UK in particular.

Russia's invasion of Ukraine dealt the international economy a harsh blow, hitting the eurozone particularly hard on account of its geographic proximity to the conflict. The ripple effects on the international markets materialised swiftly. Mainly, the prices of commodities, energy and food products, rose anew, unleashing fresh inflationary pressures. The trend in oil and gas prices drove headline inflation indicators to levels not seen in decades. The fact that Ukraine is considered Europe's granary (its sunflower oil, corn and wheat exports account for 34%, 13% and 7% of the total, respectively) drove the prices of these food commodities higher, impacting the UK in particular.

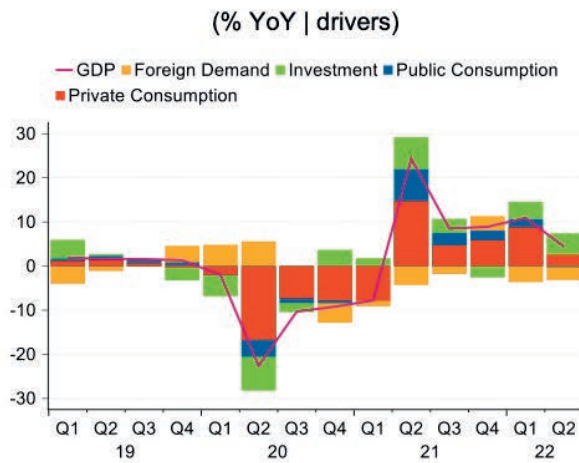
The reaction by the major economies to the conflict has also been a key driver of international commodity prices since March. The Russian invasion spurred the developed economies to position around blocks in a way not seen since the Cold War. The US, UK and other Anglo-Saxon economies, together with the eurozone, imposed strict sanctions on trade with Russia in addition to significant restrictions on its financial system with a view to weakening the Russian economy and forcing it to reconsider its stance on Ukraine. Those sanctions and restrictions fuelled inflation further, a situation which continues today. In response to the economic sanctions, Russia has been gradually choking off supply of energy to Europe, aware of the continent's significant dependence on its resources. Underpinned by the array of geopolitical events set in motion, gas prices peaked at €350/MWh in August 2022 and Brent oil prices topped \$120 in June, both marking all-time highs.

GDP GROWTH IN SPAIN



Source: Afi, Macrobond

GROWTH IN GDP IN UK



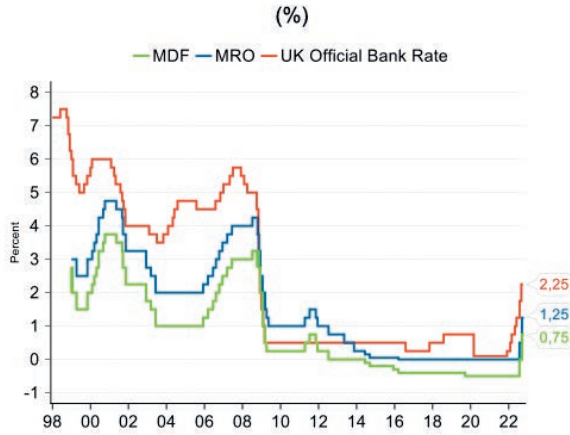
Source: Afi, Macrobond

Despite the intensification of uncertainty and volatility in the international markets, the main economies were all affected by materialisation of an energy and inflation shock in a similar manner. In Spain, the economy contracted slightly in the first quarter of 2022 (-0.2% for the quarter) due to the impact of the onset of war on business and consumer sentiment. Growth in foreign trade, which has performed remarkably well since the depths of the pandemic, was not sufficient to offset the contraction in private consumption and investment. In the UK, the economy remained strong in the first quarter (growth of 0.7%), albeit slowing significantly from the fourth quarter of 2021, when the British economy had reported quarterly growth of 1.6%.

In the second quarter, restored confidence and arrival of the high season for tourism drove sharp economic recovery in Spain (1.5% for the quarter) with private consumption, investment and foreign trade all making positive contributions. The slowdown only exacerbated, however, in the UK, whose economy etched out just 0.25% of growth in 2Q22, with private consumption and trade hurt by the broader international backdrop. British households have suffered the impact of consumer price inflation more keenly than others for two reasons: i) international market tension, a factor common to most economies; and ii) the increase in trade barriers on European product imports as a result of its exit from the European Union.

More recently, both economies have been showing signs of more pronounced slowdown. Important high-frequency economic indicators, such as the PMIs (both manufacturing and services) are in contractionary territory (below 50 points). Business confidence is below the levels observed during the pandemic and close to (actually already below in the UK) those seen during the financial crisis. Consumer confidence is in a similar state, dented significantly by: (i) the relentless inflationary pressure, which has sharply eroded household purchasing power and minimised their ability to save (the savings rate in both countries is at its lowest level since the start of the pandemic); and (ii) considerably harsher financing conditions, shaped by the measures taken by the central banks to control inflation.

OFFICIAL INTEREST RATES IN THE EUROZONE AND UK



Source: Afi, British Government

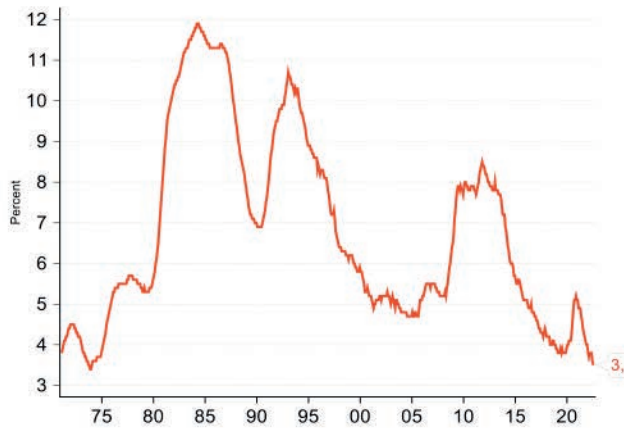
Indeed, the tightening of borrowing terms and conditions has been a major factor for the past year. Across the globe, the majority of central banks, faced by the threat of higher and more persistent inflation than initially expected, decided to deploy a host of measures to control the run-up in prices, casting aside their interest in propping up growth and employment for the time being. In the UK, the Bank of England was one of the frontrunners in rolling back its monetary stimulus measures. Since its first official rate hike, in November 2021, that central bank has raised rates a further six times, to 2.25% today, with the outlook for fresh increases in the near term. The European Central Bank, the last of the major central banks to join the tapering fray (other than Japan), has raised its benchmark rates twice since June 2022 (by more than initially expected), with the repo rate at 1.25% at the time of writing (the ECB is expected to continue to move along its roadmap with further rate increases slated for the next Governing Council meetings).

UNEMPLOYMENT IN SPAIN (%)



Source: Afi, ONS

UNEMPLOYMENT IN THE UK (%)



Source: Afi, Macrobond

Despite monetary policy tightening, the job market has continued to perform well throughout this past year. In the UK, the sharp growth in internal demand in 2021 and part of 2022 drove a recovery in the job market and job vacancies. Unemployment has been coming down steadily and is now below pre-pandemic levels and close to its record low, although some of that trend is attributable to the decrease in the economically-active population since the start of the pandemic as a result of long-term sickness and early retirement in the over-55 age category. In tandem, the reduced flow of job-seekers from overseas due to the new restrictions has exerted additional pressure on the British job market, particularly in

sectors which make intensive use of less skilled labour, such as the transport and restaurant sectors. In Spain, although labour market dynamics have also been good (better than expected), unemployment remains well above the levels observed prior to the financial crisis of 2008. However, Spanish unemployment is close to reaching its structural rate (11.6%⁽¹⁾), suggesting a degree of labour tightness (albeit less pronounced than in the UK).

The outlook for the rest of this year and 2023 is increasingly pessimistic. The current prognosis is that hardly any developing economies will be capable of eking out annual growth of more than 1% next year. Energy prices (oil and gas prices in particular) will continue to fuel inflation. Indeed, inflation looks set to remain at frankly high levels across most of the developed economies, providing a further drag on consumption, among other GDP components. Financial market uncertainty and volatility looks likely to remain a risk factor and monetary policy, at least in the short term, is on course for further tightening.

(1) The non-accelerating wage rate of unemployment (NAWRU) estimated by the European Commission for Spain in 2023

2. STOCK OF SPANISH FDI BY RECIPIENT COUNTRY

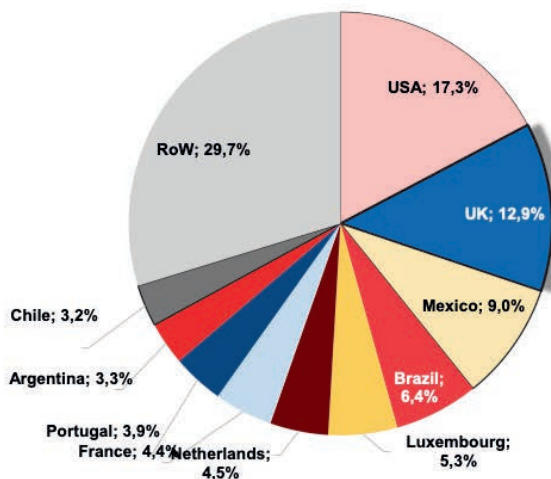
The UK remains the top destination for Spanish overseas investment over the long run. Although the pace of outward investment in the UK by Spanish firms has slowed in recent years, so too have Spanish investments in other markets of long-standing importance. In 2020, the last year for which the data is available, the UK accounted for 13% of the stock of Spanish FDI, second only to the US, which also lost weight year-on-year to represent 17.3% of the total.

The UK accounted for 13% of the total stock of Spanish FDI in 2020 (€60.03 billion using the ultimate investing country (UIC) criterion⁽²⁾), down almost €9.64 billion from 2019 and well below the all-time high recorded in 2015 (€81.23 billion). The reduction in the stock in 2020 was attributable to transaction flows but also to other factors of relevance. The correction in financial asset valuations in 2020 (the British stock market corrected by 15% that year) in the wake of the pandemic, coupled with depressed economic activity, drove a considerable reduction in the stock of Spanish investments in the UK. The growth in FDI flows of €3.6 billion that year was insufficient to offset the correction in corporate asset values.

Expressed as a percentage of the total, the UK lost ground in Spain's outward FDI for the third year running, to 13% of the total in 2020, down from 17.3% in 2017. However, the weight of Spanish investments in other countries of long-standing importance, such as the US, Mexico and Brazil, has also been declining, notably in 2020, probably on account of the pandemic. The exception is Luxembourg, which in 2020 was the only country to continue to increase its absolute and relative share of the stock of Spanish FDI, at 5.3% of the total, on account of the only two major transactions that year in the financial and energy sectors, an equity injection into a reinsurance firm and an acquisition in the electricity distribution sector, respectively.

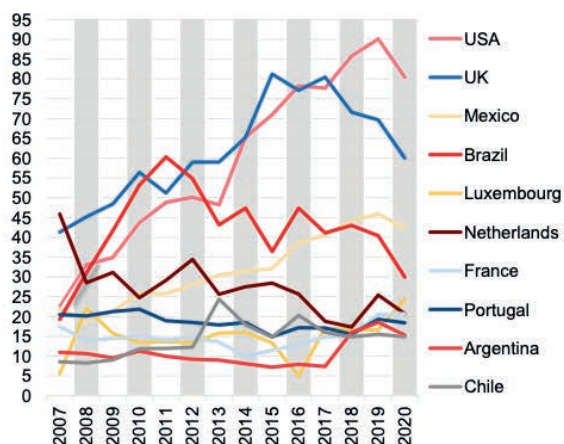
The stock of outward FDI into the UK had registered constant and sustained growth between 2007 and 2015. However, since 2016 that trend has reverted, with momentum losing steam in the last three years (2018 - 2020), ceding first place to the US. Nevertheless, Spanish investment remains significantly concentrated in the British market, well established in the second spot, albeit at a narrowing distance from Mexico, in third place, and Brazil, which ranks fourth. Moreover, taking a longer-term perspective, the UK remains the most important recipient of outward FDI from Spain in the past 13 years, followed by the US.

STOCK OF SPANISH FDI AS OF 2020, BY COUNTRY (PERCENTAGE BREAKDOWN)



Source: Afi, Secretary of State for Commerce

LONG-TERM TREND IN THE STOCK OF SPANISH FDI, BY COUNTRY (€ BILLION)

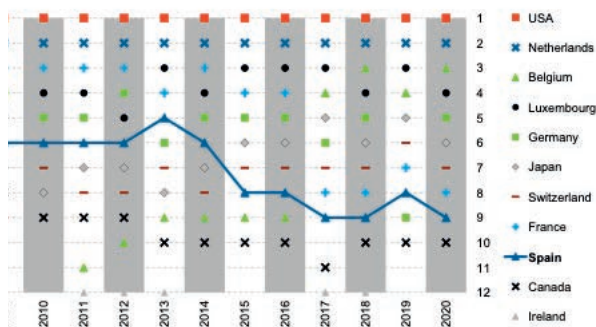


Source: Afi, Secretary of State for Commerce

From the UK's perspective (i.e., based on the data published by the UK's Office for National Statistics, or ONS), Spain has ranked among the top ten international investors since 2009, falling slightly in the rankings between 2014 and 2017, since when it has held steady in ninth position. The US remains the UK's biggest overseas investor. The figures therefore once again highlight the close and long-lasting trade and investment ties between the two Anglo-Saxon economies.

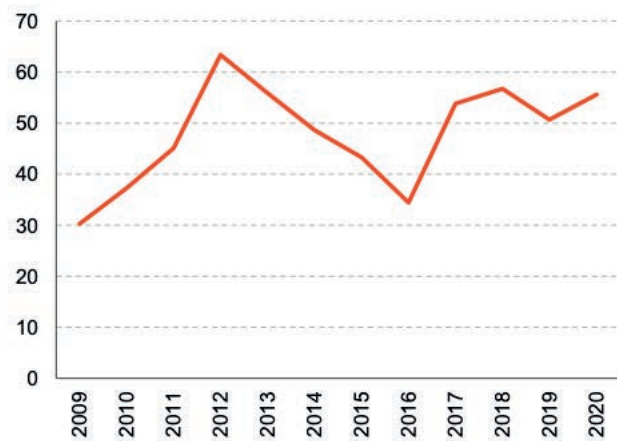
In terms of the stock of FDI⁽³⁾, Spain's investment position in the UK amounted to €55.6 billion in 2020, up 10% from the 2019 figure (€50.7 billion), having remained above €50 billion since 2017. All the same, Spanish investments in the UK remain below the high of €63.4 billion recorded in 2012.

RANKING OF THE STOCK OF FDI IN THE UK BY COUNTRY AND YEAR



Source: Afi, Office for National Statistics

LONG-TERM TREND IN THE STOCK OF SPANISH FDI IN THE UK (€ BILLION)



Source: Afi, Office for National Statistics

(2) Country of residence of the ultimate owner of the investment, in other words, where the chain of ownership ends

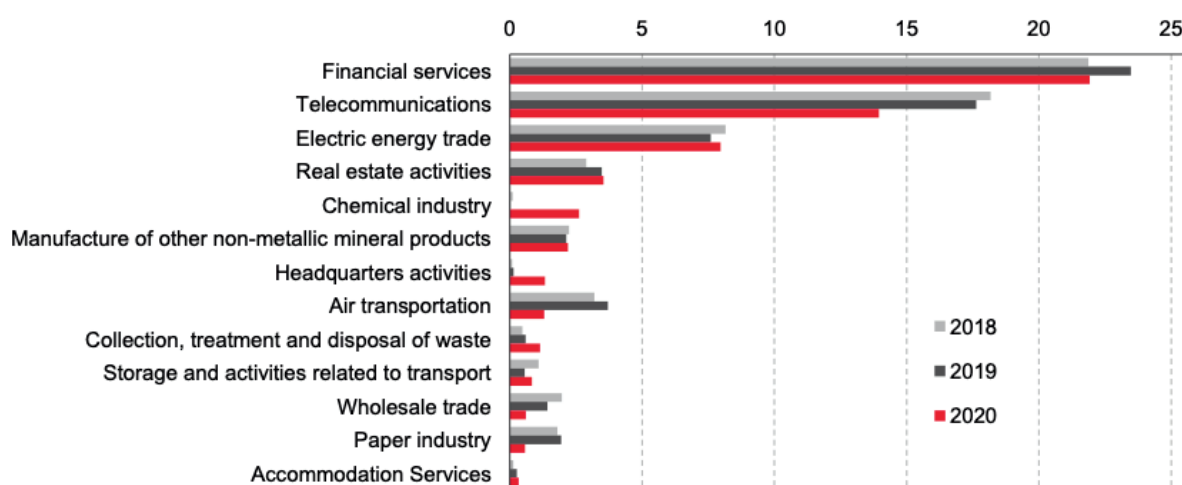
(3) The metric used to calculate the stock of FDI by country published by the ONS is not the ultimate investing country criterion, so that the data published by Spain's Secretary of State for Commerce and the UK's ONS can differ significantly.

3. STOCK OF SPANISH FDI IN THE UK BY SECTOR

The overall stock of Spanish FDI in the UK as of 2020 remained high but investment in the financial and telecommunications sectors declined, remaining stable, however, in electricity distribution and real estate activities. The growth in investment in the chemicals industry stands out.

In 2020, the stock of Spanish FDI in the UK was concentrated in three core sectors: financial services (€21.93 billion); telecommunications (€13.95 billion) and energy supply (€7.96 billion). In the first two, investment declined in 2020 albeit remaining, as in prior years, above €20 billion and €13 billion, respectively, echoing these sectors' importance to the British economy. However, 2020 was also marked by significant disinvestments and the repayment of intragroup loans between parents and subsidiaries. In the telecommunications sector, the players sold off assets to raise money to finance and streamline their business models with a view to attaining sustainable levels of debt and refocusing on their core businesses. Those factors are behind the decrease in Spanish FDI in this sector in the UK. In the energy sector, on the other hand, the stock of Spanish FDI remains constant at significant levels.

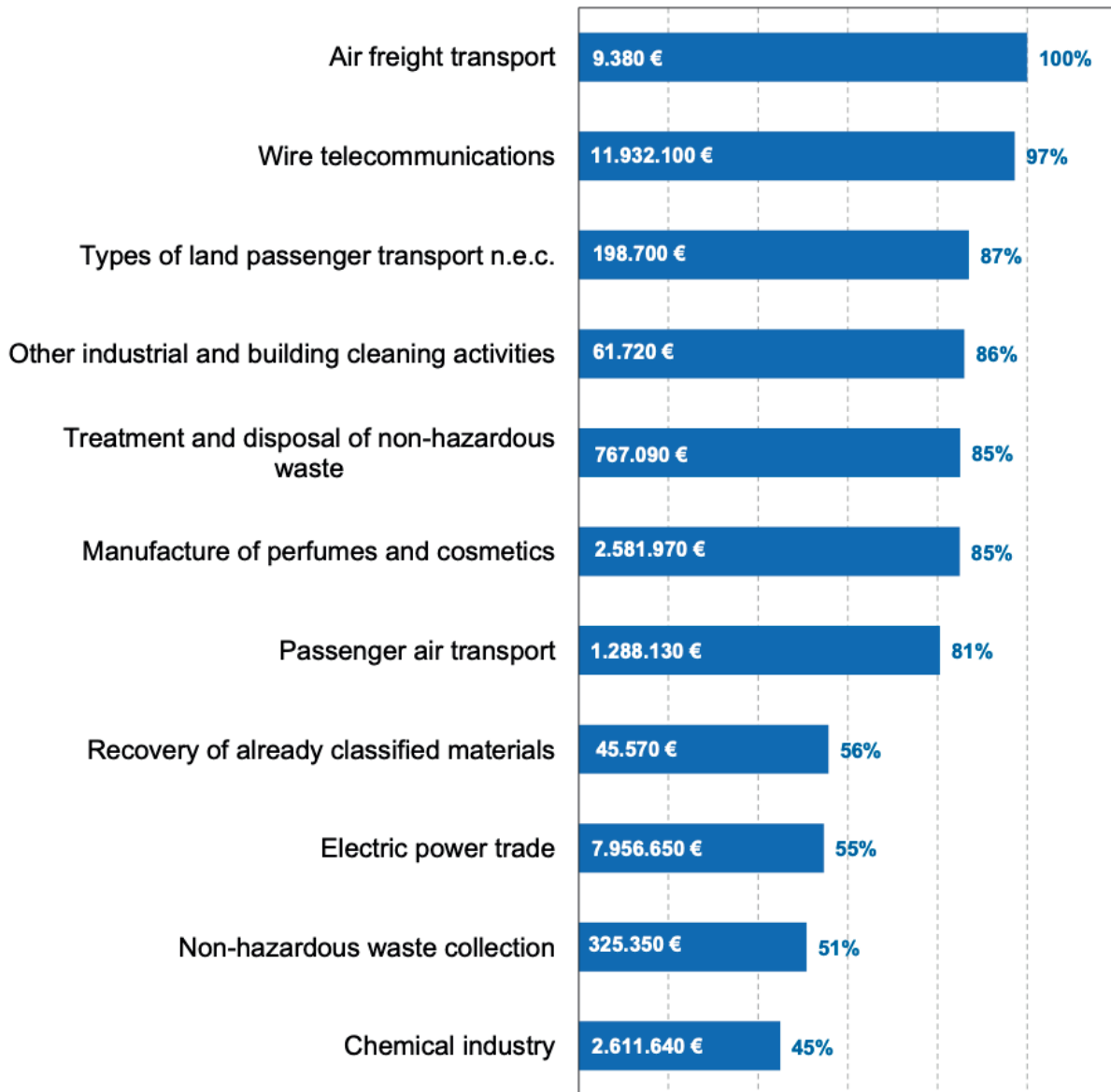
STOCK OF SPANISH FDI IN THE UK BY SECTOR, 2018, 2019 AND 2020 (EXCLUDING INVESTMENTS CHANNELLED THROUGH ETVES | € BILLION)



Source: Afi, Secretary of State for Commerce

Drilling down into the sector figures, however, we observe that Spanish investment in the UK accounts for significant percentages of the overall stock of Spanish outward FDI in numerous sectors and subsectors. Firstly we note that virtually all of Spanish investment in the *Air freight transport* has gone to the UK, with *Ground passenger transport* and *Air passenger transport* also standing out (with the UK garnering 87% and 81% of all Spanish FDI in those subsectors, respectively). Other subsectors within the telecommunications field are also prominent, for example *Wired communications*, where over 97% of the stock of Spanish FDI is concentrated in the UK. Lastly, investment in the UK is also significant in *Other industrial cleaning and building activities* and *Treatment and disposal of non-hazardous waste* (86% and 85%, respectively), *Manufacture of perfumes and cosmetics* (85%) and *Electricity retailing* (55%).

SPANISH FDI IN THE UK BY KEY SECTOR: PERCENTAGE OF TOTAL SPANISH FDI IN THE VARIOUS SECTORS AND ABSOLUTE INVESTMENTS AS OF YEAR-END 2020.



Source: Afi, Secretary of State for Commerce

Here it is worth adding that Financial services, which account for a significant percentage of Spanish FDI in the UK in absolute terms (€21.93 billion), represents around 16% of the total stock of outward Spanish FDI in that sector: although that percentage is lower than those displayed in the chart above, it highlights its importance in the Spanish companies' investment decisions.

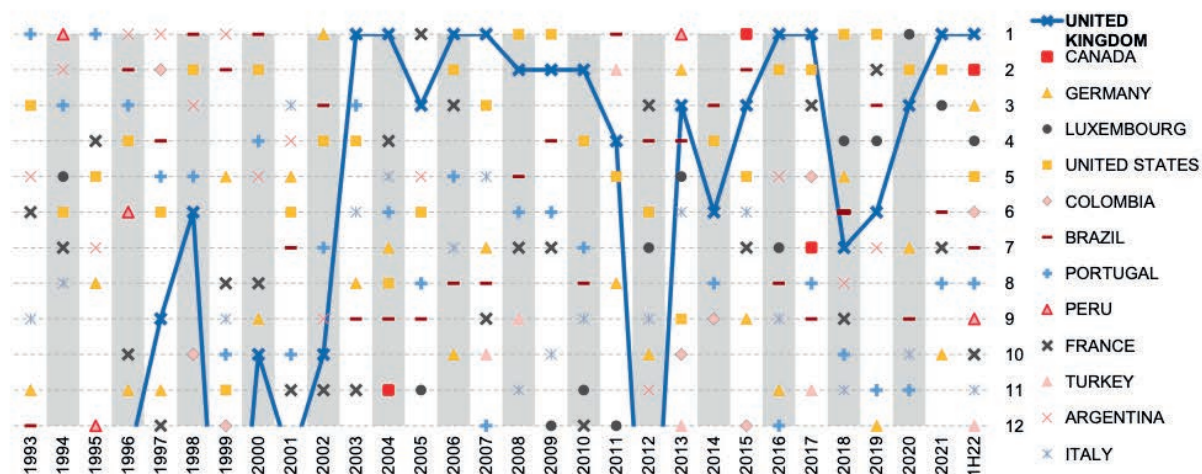
4. CUMULATIVE FLOWS TO 1H22

The UK has received the highest volume of FDI flows since the start of the series, in 1993, €155.8 billion in total. In addition, the flow of outward Spanish investment into the UK has been rising since 2018, a year in which global investment flows suffered considerably. In the wake of the health crisis, the flows of Spanish FDI into the UK more than doubled year-on-year in 2021, notching up annual growth of €8 billion. However, flows to the UK in the second quarter of 2022 represented a mere 8% of those a year earlier, collapsing from €7.4 billion in 2Q21 to €630 million in 2Q22.

On a cumulative basis, over the course of the period for which the data are available (from 1993 to the end of the first half of 2022), the UK has received over €155.8 billion of Spanish FDI (gross investment by immediate investing country and excluding transactions channelled through foreign security holding companies, or ETVEs for their acronym in Spanish), which is 17.9% of all Spanish outward investment during that timeframe. During the period of time elapsing since the Brexit referendum, i.e., between the third quarter of 2016 and the second quarter of 2022, investment flows into the UK have summed to over €40.74 billion, which is over 20% of all Spanish FDI flows during that timeframe.

Comparing the figures with last year's Barometer (2021), when the data was only available until the first half of 2021, neither the health crisis nor the war between Russia and Ukraine would appear to have had an adverse impact on Spanish outward investments. In the case of the UK, cumulated outward investments ended 2021 €8 billion higher, improving on the initial first-half figures.

RANKING OF SPANISH FDI FLOWS BY COUNTRY AND YEAR (EXCLUDES INVESTMENTS CHANNELLED THROUGH ETVES)



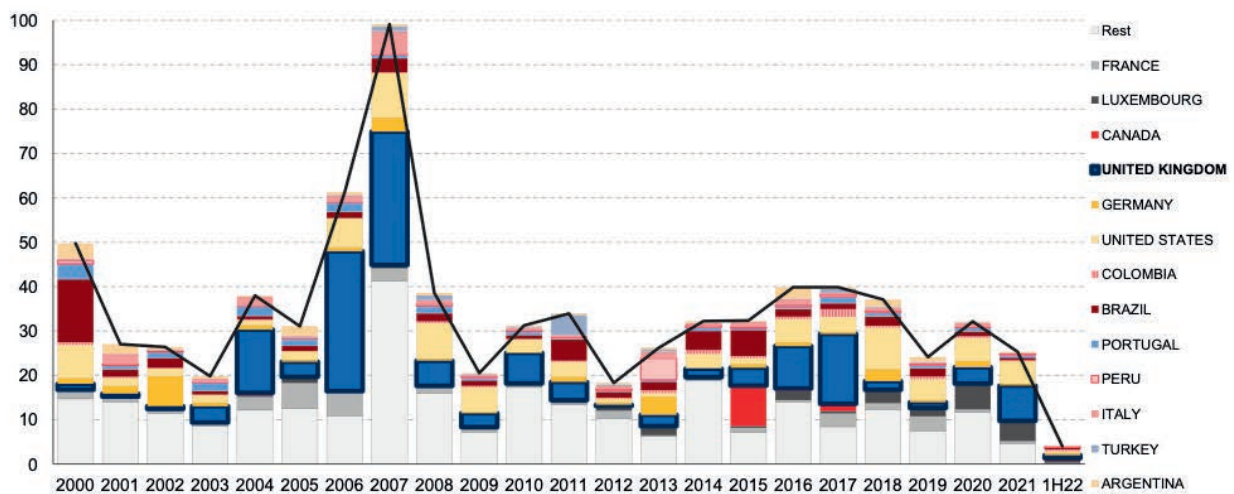
Source: Afi, Secretary of State for Commerce

Year after year, the UK has consistently ranked among the top destinations for Spanish investments (in gross terms) and since the start of the series, in 1993, it has ranked first eight out of the last 20 years (in 2003, 2004, 2006, 2007, 2016, 2017, 2021 and, so far, in 2022) and second on another three occasions. Spanish FDI flows into the UK had been rising steadily since 2014; the drops in 2018, 2019 and 2020, when flows shrank from €15.6 billion in 2017 to €1.9 billion, €1.2 billion and €3.6 billion in 2018, 2019 and 2020, respectively, may be attributable to the heightened uncertainty associated with Brexit and, later, the pandemic. Although volumes recovered partially in 2021 (to €8 billion, more than twice the prior-year figure), thanks in part to record earnings at the multinationals, the outlook for this year is poor judging by the first-half figures: €630 million, just 35% of the 1Q21 figure.

It is not, however, a uniquely UK phenomenon. Globally, the outlook for FDI in 2022 is not good. According to the United Nations Conference on Trade and Development (UNCTAD)⁽⁴⁾, in 2021 global flows of FDI (gross) increased by 64% compared to 2020, the year of Covid-19. However, the lingering effects of the pandemic, exacerbated by the onset of war in Ukraine, lead that organisation to believe that global FDI flows will decline in 2022, holding steady year-on-year in the best-case scenario. Therefore, the partial recovery in flows of Spanish FDI into the UK in 2021, with the health crisis lingering and the onset of the armed conflict in the first half of 2022, along with the attendant energy and financial crises in many countries, including the UK, are factors that could exert considerable downward pressure on FDI flows this year.

Elsewhere, the UK remains the country receiving the highest volume of investment flows from Spain by a wide margin (€155.8 billion compared to the €95 billion of Spanish investments accumulated by the US, the €80.4 billion received by the Netherlands (clearly influenced by fiscal conditions) and the €70.3 billion captured by Brazil, these being the main recipients of Spanish FDI flows on an accumulated basis), evidencing the Spanish companies' interest in establishing a presence in the British market with a view to generating business over the medium term. The years in which Spanish investments peaked in overall terms - 2006 and 2007 - were characterised by significant volumes of flows to the UK (€31.49 billion in 2006, which was more than Spain invested in the rest of the world that year, and €30.04 billion in 2007, the highest volume of Spanish investments garnered by any country in a single year).

GROSS SPANISH FDI FLOWS BY COUNTRY TO 2Q22 (€ BILLION | UIC | EXCLUDING ETVES)



Source: Afi, Secretary of State for Commerce

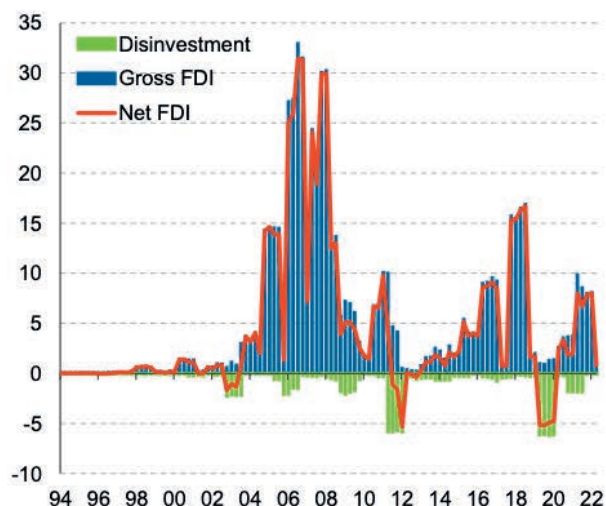
Importantly, the nature of Spanish investments in the UK is eminently productive, as evidenced by the fact that the vast majority are not channelled through ETVEs. Another defining trait of Spanish investment in the UK is the fact that divestment flows have been very small throughout the series, barring easily identifiable periods such as the great financial crisis starting in 2007, the European sovereign debt crisis of 2012 and 2013 and the periods of greatest uncertainty regarding how and when Brexit would materialise between 2019 and 2020, so that net investment flows are consistently positive, which is why the stock of Spanish FDI in the UK has been increasing steadily. In addition, the fear that the health crisis would have an adverse impact on the investment decisions of the Spanish firms operating in the UK would not appear to have materialised judging by the better than expected Spanish FDI flows to the UK in 2020.

(4) For further information, refer to the UNCTAD 2022 report

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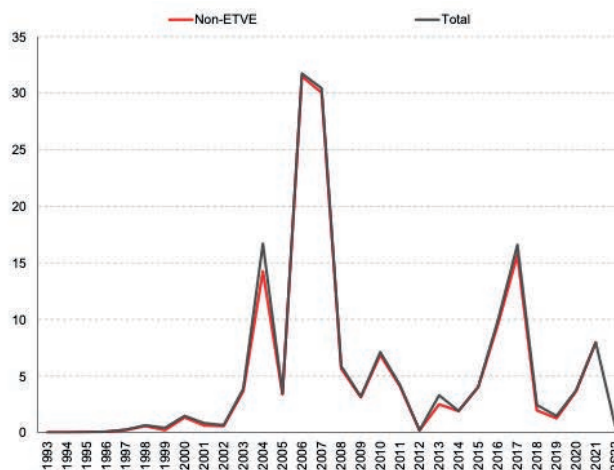
In 2021, the reopening of international trade and easing of health restrictions in most countries drove a more than twofold increase in Spanish FDI flows into the UK, from €3.6 billion in 2020 to €8 billion. In the first half of 2022, however, flows of Spanish FDI into the UK amounted to €630 million, which is very significantly below the 1H21 figure (€7.43 billion), possibly the direct fallout from the war between Russia and Ukraine, which has prolonged supply chain friction, weighing on trade between Spain and the UK.

STOCK OF SPANISH FDI AS OF 2020, BY COUNTRY (PERCENTAGE BREAKDOWN)



Source: Afi, Secretary of State for Commerce

SPANISH FDI FLOWS TO THE UK TO 2Q22 BY TYPE OF ENTITY (€ BILLION)

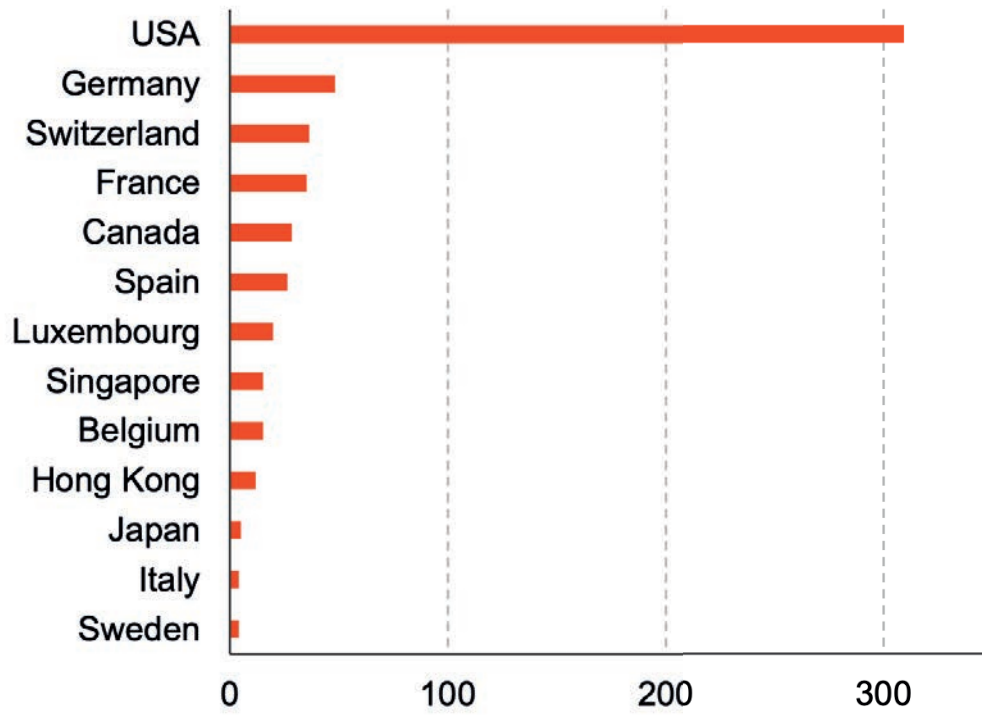


Source: Afi, Secretary of State for Commerce

For the UK, on the other hand, Spain has been one of the most important countries of origin in terms of the net flows accumulated between 2009 and 2020, according to ONS data. Specifically, it has cemented its position as the sixth most important market in cumulative terms. Spain fell down the ranks in 2020, losing out to other countries with larger FDI flows. Over the period in question, Spain has invested close to €26.34 billion, investing €872 million in 2020, albeit far from the volumes received from the UK's biggest investor, the US, which has invested over €309 billion (net) during the period. As for the countries just above and below Spain in the ranking, Spain has invested €8.9 billion less than France and €2 billion less than Canada, while it is ahead of Luxembourg by €6.5 billion and of Singapore, by €11.1 billion.

(5) Not channelled through a foreign security holding company, ETVEs for their acronym in Spanish, entities that benefit from a special tax regime that exonerates them from paying tax on the dividends or capital gains obtained from holding shares of shareholdings in foreign companies.

**NET FDI FLOWS TO THE UK BY COUNTRY OF ORIGIN BETWEEN 2009 AND 2020
(€ BILLION)**



Source: Afi, Office for National Statistics

5. SPANISH FDI FLOWS BY SECTOR

Spanish investment in the UK remains particularly concentrated in the services sector, within which, however, it is highly diversified. Although certain industrial sectors are attractive to Spanish investors, the financial, retail, telecommunications and energy supply sectors top the rankings. However, investment in some of those sectors stagnated during the first half of 2022, when virtually all of the FDI flows went to the financial and telecommunications sectors.

Recent Spanish investments in the UK have been chasing the buoyant British financial sector. Monetary intermediation and credit granting activities have received Spanish investment flows every year since 1993. Indeed, in recent years Spain has emerged as one of the main foreign investors in the British financial sector.

The three financial service categories included in the statistical classification of economic activities, NACE⁽⁶⁾, have garnered investments totalling €29.82 billion throughout the historical series. After rebounding in 2020, when Spanish firms invested close to €400 million, in 2021 the sector lost intensity, capturing €40 million. However, in the first half of 2022, flows rebounded to over €320 million, boding well for this sector's outlook this year.

In addition to the financial sector, other sectors stand out for either the consistency with which they have received investments from Spain over time or the high volumes of investments received. The first category, sectors to which Spain has demonstrated a sustained commitment over the years, includes the wholesale and retail trade (with the two accumulating €9.85 billion of investments and with the wholesale trade attracting investments all 29 years of the series), real estate activities (€2.67 billion) and, within technical activities, architectural and engineering activities (with lower volumes, at €176 million, but a recipient 21 of the 29 years comprising the series). However, replicating the general trend, investments in those sectors stagnated in the first half of 2022, evidencing more signs of potential fallout from the war between Russia and Ukraine on the global supply chains, in addition to heightened uncertainty over the macroeconomic panorama, affecting the strategic decisions involved in investing in another country.

As for the British sectors attracting the highest flows of Spanish investments, besides the financial sector, it is worth singling out the telecommunications sector (€46.8 billion over the 29 years of the series); electricity and gas supply (€23.05 billion, largely concentrated in electricity); the manufacture of other non-metallic metals (mainly cement; €17.93 billion); warehousing and support activities for transportation (€5.22 billion) and air transport (€4.71 billion, mainly in passenger air transport).

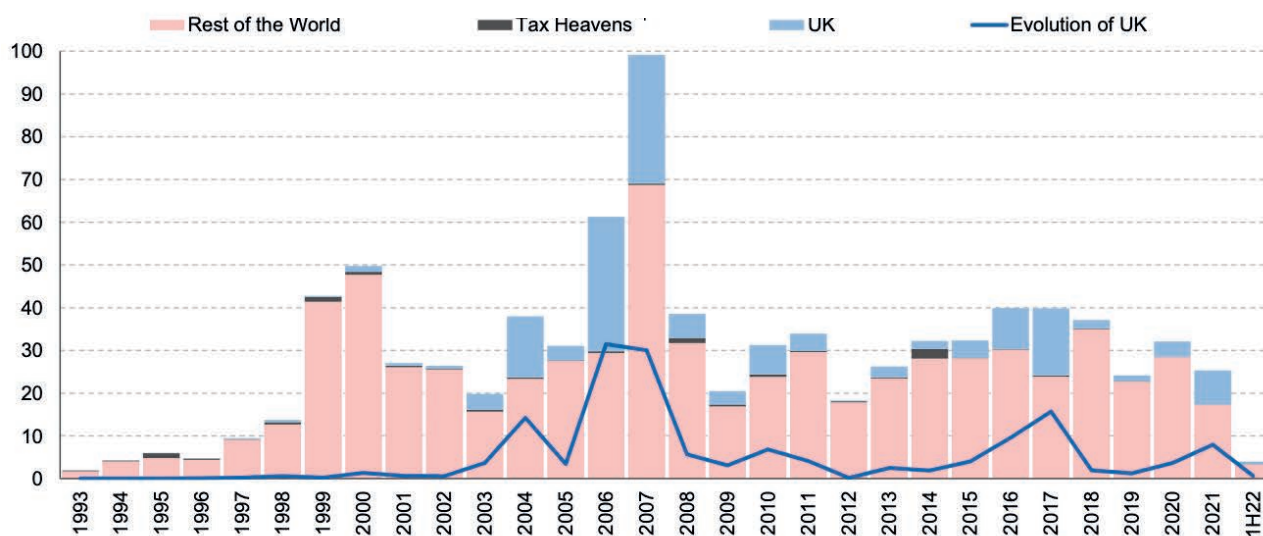
(6) The financial services category, which includes monetary intermediation and credit granting; activities auxiliary to financial services, mainly fund management; and insurance, reinsurance and pension funding.

6. SPANISH FDI FLOWS SINCE THE BREXIT REFERENDUM (JUNE 2016)

Spain’s investment appetite for the UK market waned in 2018 and 2019, which is when Brexit-related uncertainty was at its height. However, despite the health crisis, Spanish FDI flows into the UK staged a noteworthy recovery in 2020 and 2021. Nevertheless, the data as of the end of the first half of 2022 point to a slowdown in total flows and in flows into the UK.

In the first years since the Brexit referendum, Spanish investment in the UK looked to be withstanding the political uncertainty and the Spanish firms’ investment commitment showed little signs of wavering. However, between 2018 and 2019, FDI flows to the UK deteriorated, revisiting levels close to those of 2012. In 2020, in spite of the health crisis, the volume of Spanish outward FDI, including to the UK market, increased with respect to 2019. In 2021, the momentum of prior years continued into the British market (not so to other markets, where flows contracted by over €10 million), doubling those of 2020, to €8 billion. Nevertheless, against the current geopolitical backdrop, the first half of 2022 was marked by a slowdown in both total investment flows and flows to the UK.

GROSS FLOWS OF SPANISH FDI TO THE UK AND ROW (EXCLUDING ETVES | QUARTERLY | € BILLION)



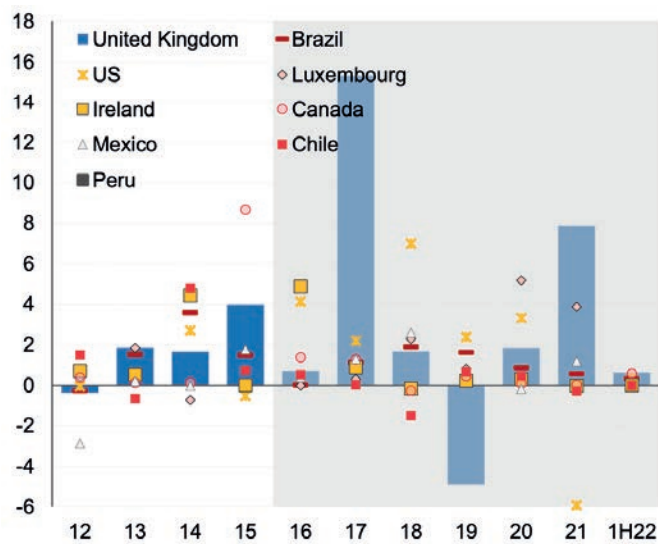
Source: Afi, Secretary of State for Commerce

¹ Tax havens as per Spanish legislation⁽⁷⁾: Anguilla, Antigua and Barbuda, Bahrain, Bermudas, Brunei, Dominica, Fiji, Gibraltar, Granada, Guernsey, Isle of Man, Cayman Islands, Cook Islands, Maldives, Northern Mariana Islands, Solomon Islands, Turks and Caicos Islands, British and US Virgin Islands, Jersey, Jordan, Lebanon, Liberia, Liechtenstein, Macao, Mauritius, Monaco, Montserrat, Nauru, Saint Vincent & the Grenadines, Saint Lucia, Seychelles and Vanuatu.

(7) Countries itemised in Royal Decree 1080/1991, of 5 July 1991.

Analysing the trend during the years elapsing since the referendum (from mid-2016 to 2021), we note that flows decreased between 2018 and 2019, which is when uncertainty regarding the outcome of Brexit was at its highest. Even though Spanish outward FDI flows declined across the board during that period, the reduction in flows to the UK was more pronounced. However, flows went on to recover considerably in 2020 and 2021, particularly the latter, showcasing the resilience of Spanish investment in the UK despite the sharp and long-lasting impact of the global health crisis on those investments. The first-half 2022 figures, however, reveal a significant slowdown in the flow of Spanish FDI into the UK (€630 million), a phenomenon also affecting other destination markets. As noted elsewhere, the expectation is that Spanish FDI flows overseas in general and into the UK in particular will continue to trend lower, due partly to the global supply chain friction and heightened uncertainty currently clouding the economic and financial panorama.

**MAIN RECIPIENTS OF NET SPANISH FDI FLOWS SINCE 2012
(ETVES EXCLUDED, € BILLION)**



Source: Afi, Secretary of State for Commerce

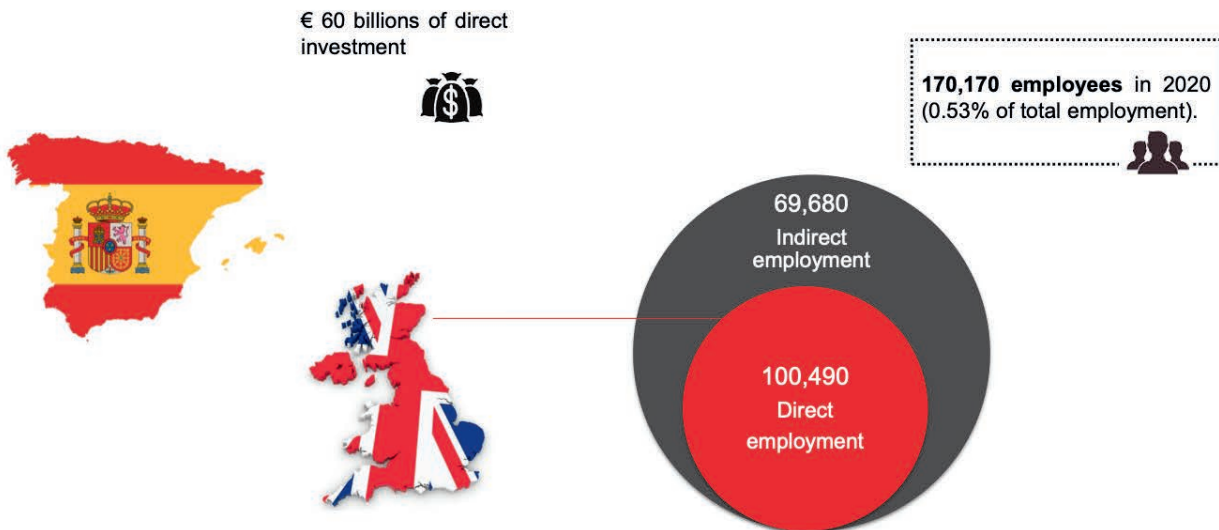
7. EFFECTS OF SPANISH FDI ON JOBS IN THE UK

Spanish FDI in the UK contributed to the generation of 170,170 jobs in 2020, which is equivalent to 0.53% of total nationwide employment.

Spanish FDI in the UK contributed to the generation of a total 170,170 jobs in 2020, which is equivalent to 0.53% of total UK employment. The contribution of Spanish FDI to British employment in 2020 is higher than it was in 2019 (161,000 jobs), despite the fresh reduction in the stock of investment.

Of all the jobs generated by Spanish investment in 2020, 100,490 are considered direct jobs, with the remaining 69,680 positions considered indirect jobs created via knock-on effects on other supplier activities ⁽⁸⁾.

EMPLOYMENT GENERATED BY SPANISH FDI IN THE UK



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

8. SPANISH FDI IN THE UK AND BRITISH FDI IN SPAIN: NO ONE-SIDED AFFAIR

The aggregate stock of Spanish and British investment reached a total of €120 billion in 2020, which is equivalent to 3.4% of both countries' GDP. In both countries, the sectors that attract overseas investments generate a lot of value and knock-on effects for other sectors of their economies.

The close bilateral relationship between the two countries is evident in an analysis of Spanish FDI in the UK and its corollary, i.e., British FDI in Spain.

As of 2020, the stock of investment by Spanish firms in the UK, stood at just over €60 billion (using the ultimate investing country criterion), whereas the stock of British corporate investment in Spain that same year amounted to €62 billion. Figures that sum to over €120 billion, which is 3.4% of the two countries' GDP.

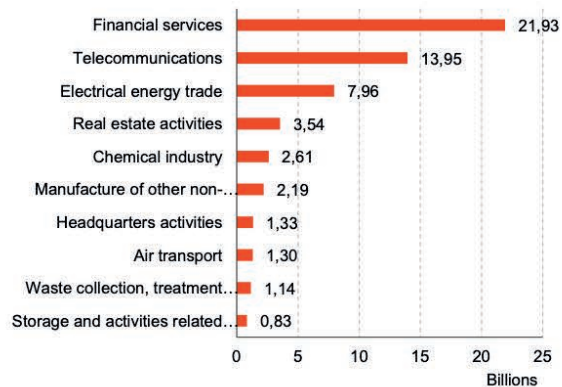
Analysing the sectors in which that stock of Spanish and British money is invested reveals two aspects worth highlighting. Firstly, whereas Spanish investments in the UK are concentrated in just a few sectors (three account for 75% of the total), British investment in Spain is far more spread out (to reach 75% of the total one needs to tick off at least 10 sectors). Secondly, the investments by both countries generate significant value-added and knock-on effects. The sectors with the biggest draw for Spanish investors are financial services, telecommunications and electricity retailing, among others. For British investors, the list also includes the tobacco and metallurgy sectors, as well as a good smattering of companies from all across the Spanish manufacturing industry.

That stock of FDI has been built up over years of accumulating FDI flows. Although those flows can be volatile, occasionally shaped by one-off transactions in a given sector or even involving one company in particular, FDI flows from Spain into the UK and vice versa have been remarkably stable over time, highlighting the long-term nature of both countries' investment commitments.

On aggregate, the bilateral flow of investments between Spain and the UK over the last 15 years has gone from €30 billion in 2007 to €5 billion in 2021 (a figure potentially affected by the uncertainty induced by the financial crisis of 2008, and more recently, the Covid-19 pandemic on both sides). In terms of the two countries' aggregate GDP, those flows have gone from accounting for 1% in 2007 to 0.2% in 2021. The trend in flows in the first half of 2022 points to reinforcement of this indicator of openness to foreign investment in both absolute terms and relative to GDP.

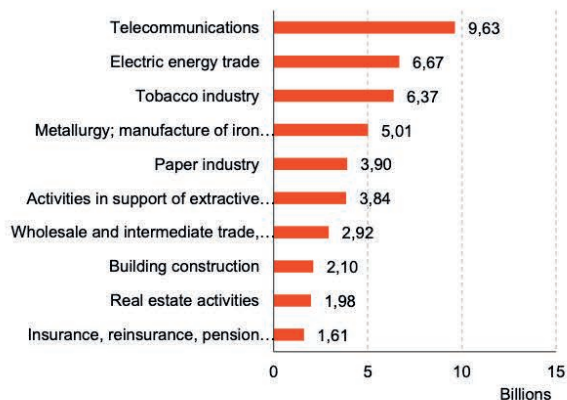
By sector, the stock of Spanish FDI received by the UK is highly concentrated in the sectors already identified above as those most attractive to Spanish investors: energy supply, telecommunications, the manufacture of non-metallic mineral products and financial services. Those sectors are by far the biggest recipients of Spanish investments overseas on a cumulative basis. British investment in Spain, in addition to the sectors mentioned above, is particularly noteworthy in the retail and wholesale trades and in air transport.

STOCK OF SPANISH FDI IN THE UK BY SECTOR (2020)



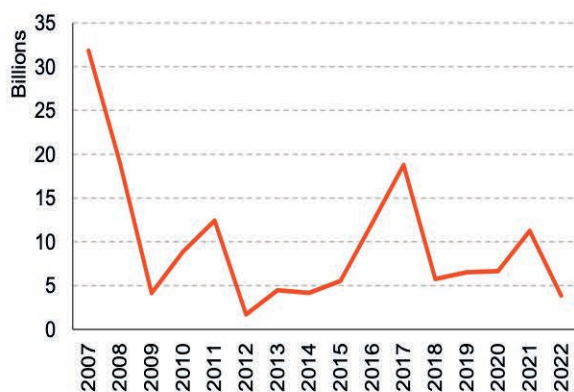
Source: Afi, Secretary of State for Commerce

STOCK OF BRITISH FDI IN SPAIN BY SECTOR (2020)



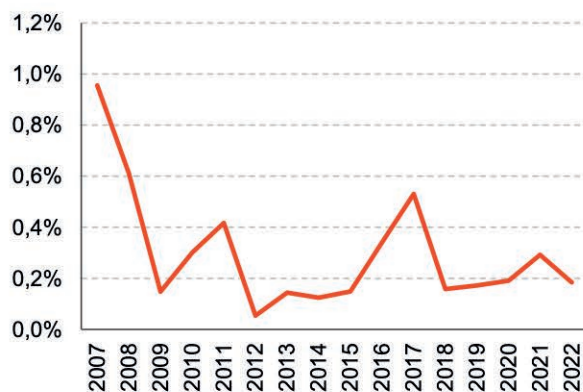
Source: Afi, Secretary of State for Commerce

GROSS FDI FLOWS FROM SPAIN INTO THE UK AND FROM THE UK INTO SPAIN (ETVES EXCLUDED)



Source: Afi, Secretary of State for Commerce

DEGREE OF OPENNESS TO FOREIGN INVESTMENT⁽⁹⁾



Source: Afi, Secretary of State for Commerce

(9) The level of openness to investment between the two countries is measured as the percentage of the sum of FDI flows between the two countries (gross FDI flows from Spain into the UK plus gross FDI flows from the UK to Spain) as a percentage of the two countries' GDP.

PART II

OUTLOOK FOR INVESTMENT IN THE UK

1. HOW SPANISH COMPANIES WITH AN INVESTMENT PRESENCE IN THE UK VIEW THE BRITISH BUSINESS CLIMATE

The opinions of the Spanish companies and organisations established in the UK, interviewed for this fourth edition of the Barometer (refer to the methodological annex for further details) are provided in this and the following sections.

This section analyses how the companies surveyed perceive the business climate in the UK through their assessments of a host of factors that shape conditions for investing and doing business there.

OVERALL ASSESSMENT AND RECENT TRENDS

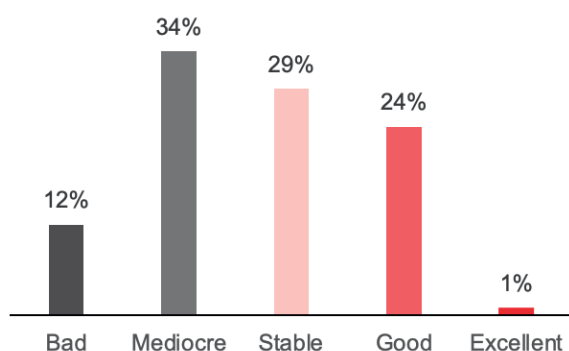
The Spanish firms established in the UK reported a similar overall assessment of the business climate there as in 2021, with over half of the firms surveyed rating the climate as acceptable or better. However, the number of firms perceiving an improvement in the business climate over the past year increased.

The Spanish firms interviewed for this year's edition of the Barometer gave an overall score of 2.7 (on a scale from 1 to 5) to the business climate in the UK in 2022. That is up 0.1pp from the 2021 score, with the same percentage of businesses (54%) describing the climate as acceptable or better (a score of at least 3).

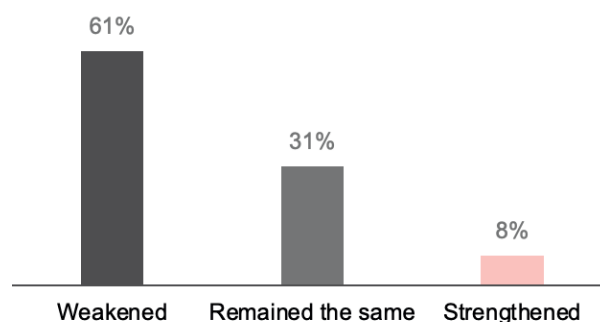
However, 5% more companies described the climate as good or excellent, with the number calibrating it as bad also declining. Along this same vein, it is noteworthy that the percentage of firms reporting a perceived improvement in the business climate over the past 12 months was four times higher than in 2021, at 8%.

Nevertheless, a majority (61%) continued to perceive a deterioration in the business climate in the past year, marked by the effects of the Covid-19 pandemic, the run-up in energy prices and inflationary pressures exacerbated by the fallout from Russia's invasion of Ukraine and the friction association with implementation of the Trade and Cooperation Agreement between the UK and EU, among other factors.

OVERALL ASSESSMENT OF THE BRITISH BUSINESS CLIMATE (% OF RESPONSES)



PERCEIVED CHANGE IN THE BUSINESS CLIMATE IN THE UK IN THE LAST 12 MONTHS (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

2. ASSESSMENT OF THE MAIN ASPECTS OF THE BUSINESS CLIMATE

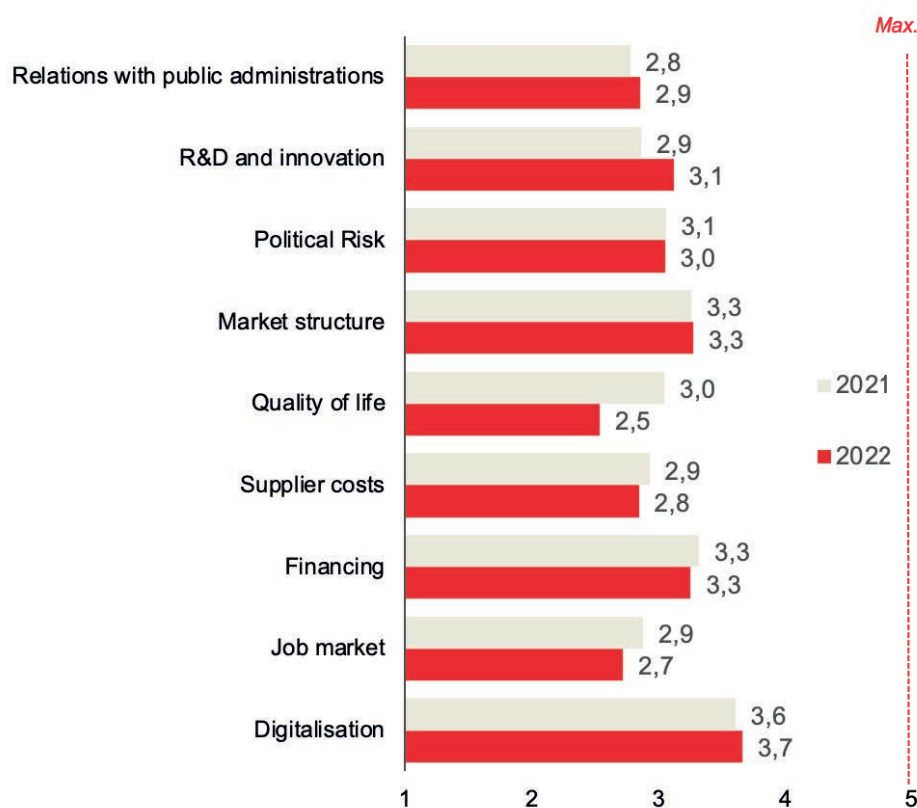
The top-rated attribute of the British business climate is once again the existence of a favourable ecosystem for digital transformation (with a score of 3.7 out of 5). The Spanish firms' worst-rated attribute (2.5 points): quality of life in the UK.

The level of digitalisation, encompassing digitalisation at both the firm and economy levels, is the highest-rated aspect most for the Spanish firms participating in this year's Barometer. With a score of 3.7 out of five, it once again takes the top spot out of the nine areas assessed for the fourth year in a row.

On the flip side of the coin lies the quality of life factor, which this year ranked last with a score of 2.5 points, down 0.5pp from last year. Inflationary pressures and job market tightness may well be behind this impaired perception.

The aspect registering the biggest improvement is that related to support for research, development and innovation (R+D+i), whose score improved by 0.2 points from 2021 to 3.1.

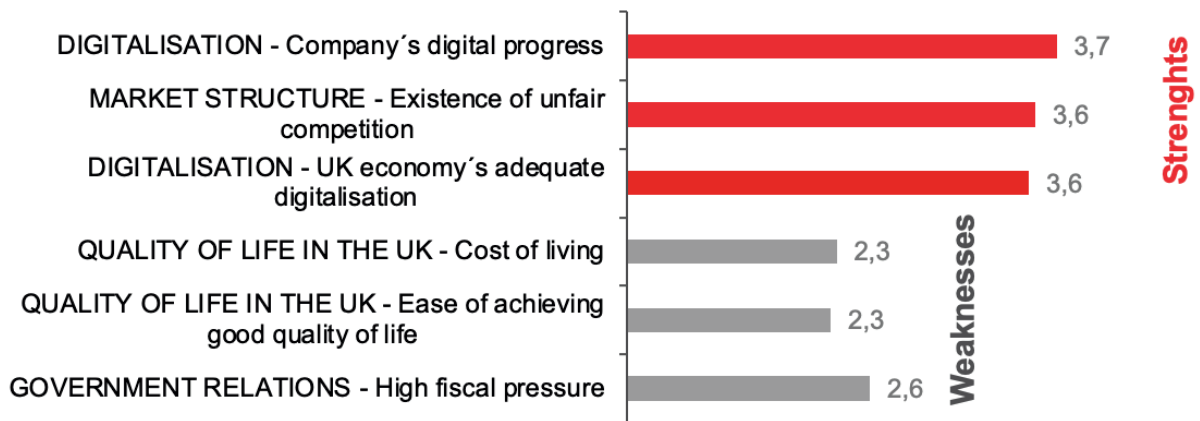
ASSESSMENT OF THE BUSINESS CLIMATE IN THE UK BY ASPECT (SCORES BASED ON % OF RESPONSES, WHERE 1 IS BAD AND 5 IS EXCELLENT)



Source: Afi, "2021 and 2022 Surveys of Spanish outward investment into the UK"

Britain's top perceived business climate strengths were, for the second year in a row, the existence of an ecosystem conducive to digital transformation and a market structure not conducive to unfair competitive practices (lack of a shadow economy). The main weaknesses flagged, on the other hand, were two aspects related with quality of life in the UK: the cost of living and the difficulty in attaining high standards of living or wellbeing. The tax burden was also singled out and undermined the assessment of government relations.

**KEY STRENGTHS AND WEAKNESSES OF THE BRITISH BUSINESS CLIMATE
(SCORES BASED ON % OF RESPONSES)**



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

Next we analyse each of the nine attributes appraised in order to provide additional insight into how the Spanish firms rated the business climate in the UK.

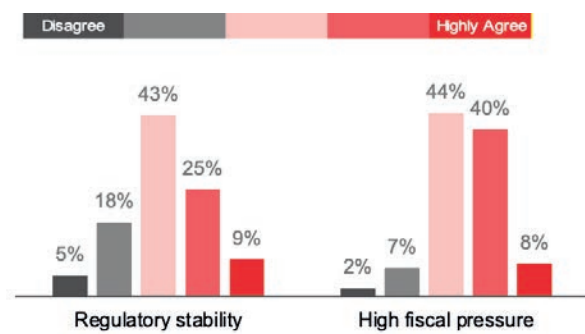
GOVERNMENT RELATIONS

Government relations were one of the worst-rated aspects of the British business climate due mainly to the fact that roughly half of respondents described tax pressure as high.

Specifically, 48% of the Spanish firms surveyed believe tax pressure in the UK is high, with just 9% believing the opposite. This aspect, one of the factors defining government relations, received a score of just 2.6 points out of 5 (2021: 2.7).

The other aspect - regulatory stability - obtained a score of 3.2 points this year, which is better than in previous years (2021: 2.8 points).

ASSESSMENT OF GOVERNMENT RELATIONS (% OF RESPONSES)



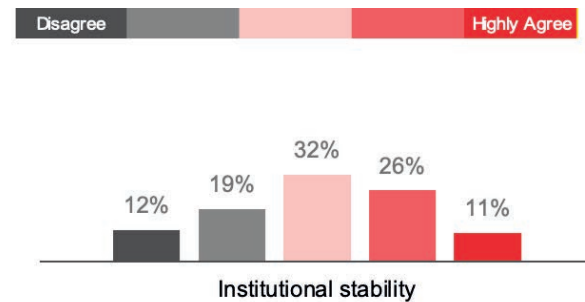
Source: Afi, "2022 Survey of Spanish outward investment into the UK"

POLITICAL RISK

The Spanish companies in the UK gave institutional stability a similar score as last year.

Thirty-seven per cent of the Spanish firms with a presence in the UK described institutional stability as very good, for an overall a score of 3 out of 5. Although that was 0.1pp lower than in 2021, it was still better than in earlier years (having hit 2.2 points in 2019).

ASSESSMENT OF POLITICAL RISK (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

MARKET STRUCTURE

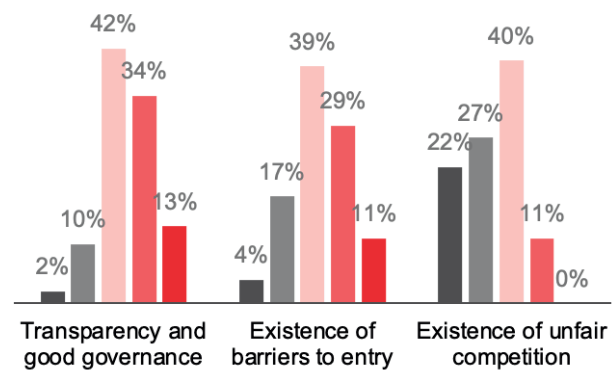
Last year the Spanish companies with investments in the UK reported a perceived increase in market entry barriers in the wake of Brexit and the percentage of firms who believe those barriers exist remained unchanged in 2022. The scores attributed to business dealings with the public institutions and the absence of unfair competition remained high.

Forty-seven per cent of the firms surveyed answered that their relations with the public institutions are framed by transparency and good governance. Although that percentage dipped a little from 2021 (53%), this attribute repeated last year's score of 3.5 points.

The perceived openness of the British market also remained unchanged from 2021. Some 40% of the firms surveyed said they perceived barriers to entry, with this attribute earning a score of 2.7 out of 5, the same as last year.

Meanwhile, 49% said they did not encounter unfair competition as a result of a shadow economy (with just 11% flagging this as an issue), so that this attribute scored 3.6 points out of 5, similar to the level of the last three years.

ASSESSMENT OF THE MARKET STRUCTURE IN THE UK (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

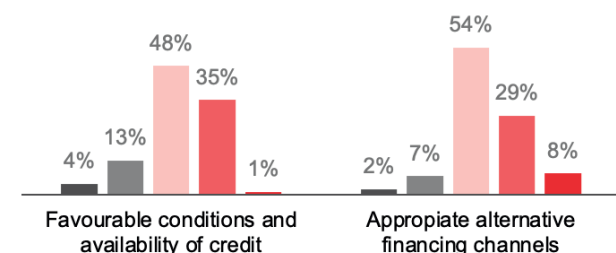
FINANCING

Access to financing in the UK, in terms of both the availability of credit and the existence of alternative channels, was well rated by the Spanish firms, which gave this attribute similar scores to those of prior years.

Thirty-six per cent of those surveyed described the terms of access to credit in the British market as adequate. This aspect obtained a score of 3.2 out of 5, stable since 2019.

A similar percentage, 37%, described the alternative financing channels in existence (business angels, private equity firms, direct lending, etc.) as adequate. As a result the overall financing attribute received a score of 3.3, similar to the readings for the last two years.

ASSESSMENT OF FINANCING CONDITIONS (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

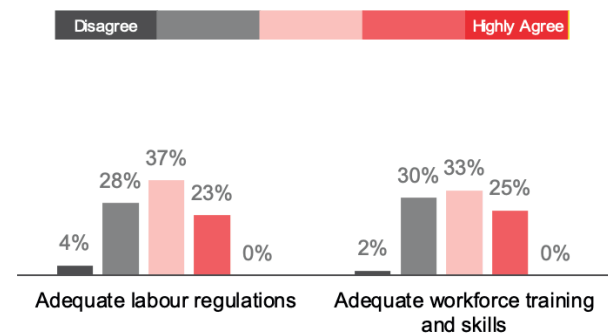
LABOUR MARKET

The Spanish firms' perception of the British labour market has deteriorated over the past year. At present, a majority of respondents' described prevailing labour market regulations and the availability of skill profiles as inadequate.

The Spanish companies' perception of British labour regulations has deteriorated, as is evident in the score of 2.7 out of 5. That result extends the negative trend of the last couple of years, when the score dipped by 0.1 and 0.7pp, respectively.

In parallel, the Spanish companies are perceiving a greater scarcity of human capital with the training and skills they need. In fact, 32% reported shortfalls in this respect, leading to assessment of workforce training and skills deteriorating by 0.2pp from 2021 to 2.7 points. The effects of the limits on labour mobility in the wake of Brexit may well be behind this weaker assessment of labour market conditions in the UK.

ASSESSMENT OF THE BRITISH LABOUR MARKET (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

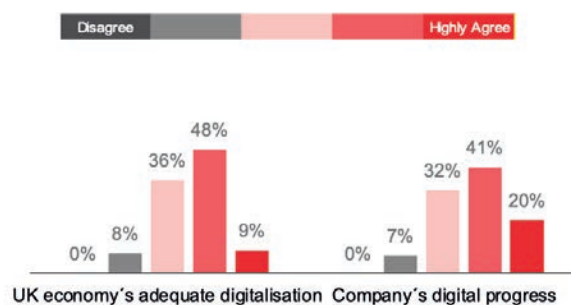
DIGITALISATION

Digitalisation at the firm and economy levels ranked, for the fourth year, as the best-rated aspect of the British business climate among the Spanish companies doing business from the UK.

Fifty-six per cent of respondents described the level of digitalisation of the British economy as adequate, in line with the 2021 reading. This attribute obtained a score of 3.6 out of 5.

Progress on digital transformation at the firm level was also well-rated by 61% of those interviewed. The resulting average mark was 3.7 out of 5, identical to the scores observed in 2020 and 2021.

ASSESSMENT OF DIGITALISATION IN THE UK (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

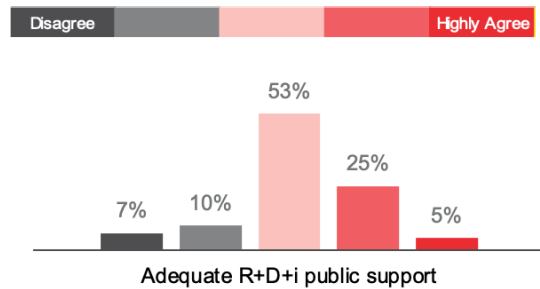
R+D+I

The Spanish firms' assessment of public support for research and development efforts improved from last year, this being the attribute reporting the biggest improvement in 2022.

Thirty per cent of the Spanish companies operating in the UK describe the framework of public support for corporate investment in R&D activities as adequate, up considerably from the percentage rating this attribute positively in 2021 (23%). As a result, this aspect obtained a score of 3.1 out of 5, up 0.2 points from 2021 and 2020.

This support for R&D and innovation, coupled with the digital transformation thrust, are good levers for reinforcing corporate competitiveness.

ASSESSMENT OF PUBLIC SUPPORT FOR R+D+I IN THE UK (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

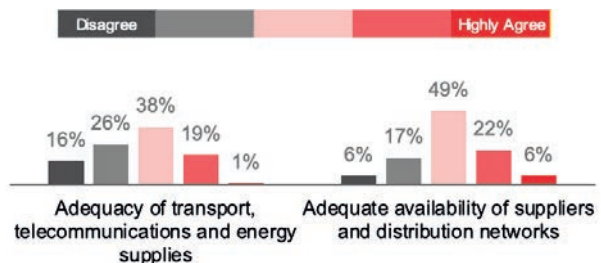
SUPPLIER COSTS

The Spanish companies reported a slight deterioration in the state of transport, telecommunications and energy services and in the capabilities of supplier and distribution networks in comparison to last year. It is conceivable that the friction derived from Brexit and the energy crisis could be shaping the slight impairment of this perception.

Just 20% of the Spanish companies surveyed said they found the availability, quality and cost of transport, telecommunications and energy services adequate, with 42% saying the opposite. This attribute therefore scored 2.6 out of 5, down 0.1pp from 2021 and down 0.8 from 2020, making it likely that at least some of the deterioration is attributable to the logistics and transport friction emerging in the wake of Brexit, in addition to the run-up in energy prices.

The percentage of companies who find supplier and distribution networks sufficient fell even more significantly from 2021 to 28% of the total (down from 37% last year). And the score given this attribute accordingly fell by 0.2pp to 3 points.

ASSESSMENT OF SUPPLIER COSTS IN THE UK (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

QUALITY OF LIFE IN THE UK

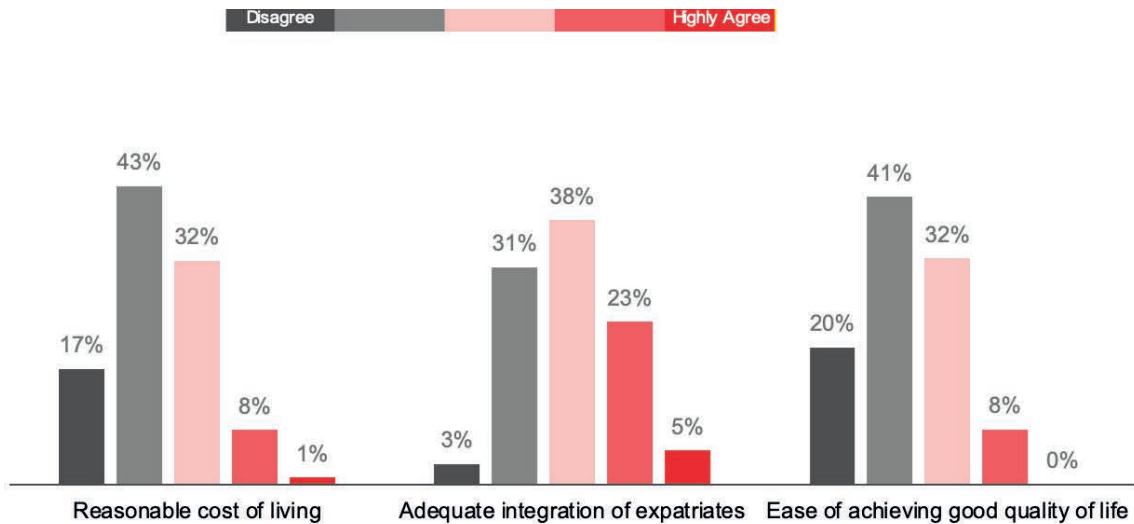
The quality of life indicators have been affected the most in the post-Brexit era. The Spanish companies located in the UK reported a considerable decline in the perceived ease of attaining a good quality of life as well as worse perceptions of the cost of living and integration of expats into society.

Quality of life is the worst-rated aspect of the British business climate in the eyes of the Spanish business community residing there. Sixty per cent view the cost of living as too high, up from 47% in 2021. As a result, this quality-of-life indicator obtained a score of 2.3 out of 5, down 0.3pp from 2021.

The perception of how well integrated expats are also suffered a considerable decline, with just 28% of respondents describing this attribute as adequate, down 9pp year-on-year, on top of the 15-point decline already reported in 2020. The resulting score is 3 out of 5.

Nevertheless, the greatest source of dissatisfaction for the reporting firms relates to the ease of achieving high living standards in the UK, with just 8% seeing it as feasible, compared to 61% who believe the opposite. The overall assessment came out at 2.3 points out of 5, well below the 3.4 reported in 2021. As already noted, this, coupled with the cost of living, is the worst-rated aspect of the British business climate.

ASSESSMENT OF QUALITY OF LIFE IN THE UK (% OF RESPONSES)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

ASSESSMENT OF THE IMPACT OF A RANGE OF SIGNIFICANT FACTS⁽¹⁰⁾

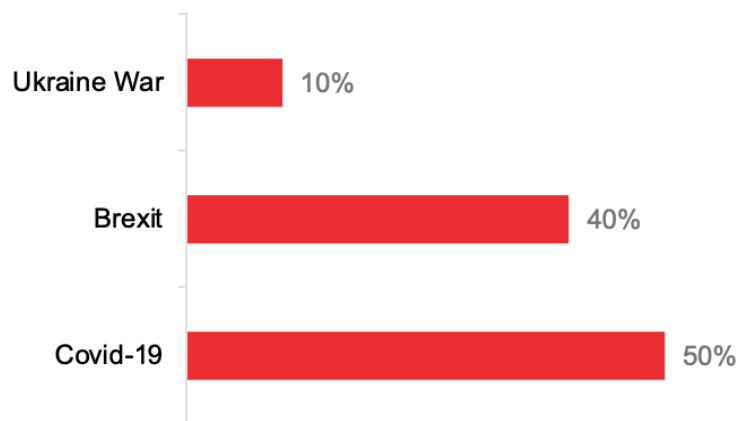
The activities of the Spanish companies invested in the UK last year were marked by the process of adapting to the trade framework introduced by the Trade and Cooperation Agreement between the EU and UK, in effect since 2021. On top of that, the pandemic continued to have an impact on many sectors of the economy, with the effects of the war in Ukraine coming into play more recently.

Here we analyse the intensity of those impacts through the eyes of the Spanish companies with business operations in the UK.

Half of the Spanish companies established in the UK view the Covid-19 pandemic as the phenomenon with the biggest single impact on their businesses over the past two years, with 40% singling out Brexit in this regard.

Half of the firms surveyed continue to see the pandemic as the event with the biggest impact on their businesses over the last two years. Brexit was the source of the biggest business impact for a further 40% of those companies. Just 10% think the war in Ukraine is of greater impact.

EVENT WITH BIGGEST IMPACT ON BUSINESS IN LAST 2 YEARS (% OF RESPONDENTS)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

(10) Note that the survey was conducted between the middle of August and the end of September 2022.

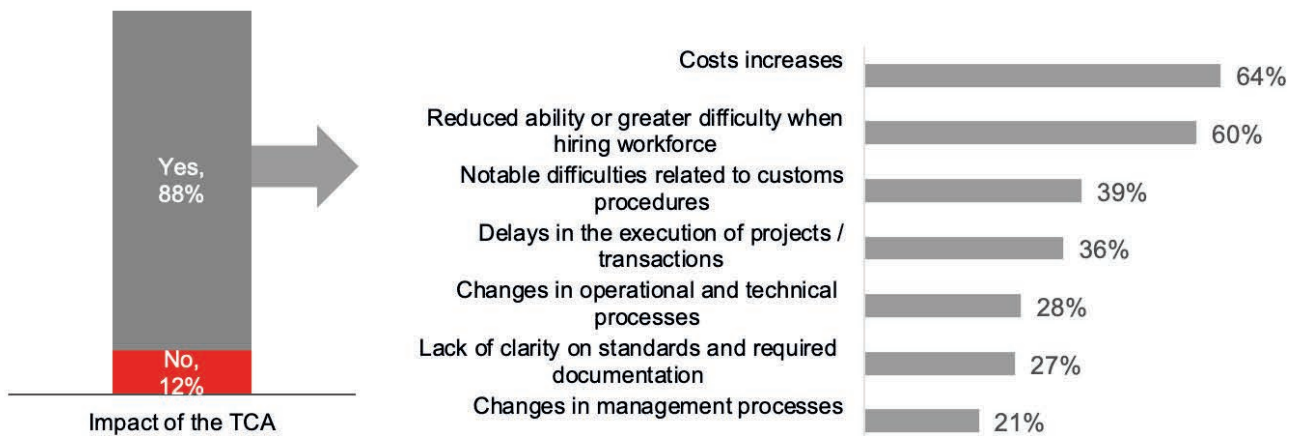
IMPACT OF THE NEW TRADE AND COOPERATION AGREEMENT BETWEEN THE EU AND UK

Eighty-eight per cent of the firms reported encountering business friction since effectiveness of the new UK-EU Trade and Cooperation Agreement. The main results of that friction remain higher costs and hiring difficulties. However, on the whole, for 76% of the firms, the British market remains as important or has become even more so within their overall businesses.

Eighty-eight per cent of the firms that participated in this year's Barometer survey reported having encountered certain issues or friction since effectiveness of the TCA. That marks year-on-year growth in the number of firms experiencing such friction of 5 percentage points.

The main sources of friction reported by the affected firms are similar to those flagged for the 2021 edition of the Barometer (even though the percentage of affected firms increased year-on-year), namely: higher costs (64% of the time) and limits on the ability to hire staff (60%). Albeit less prevalent, the Spanish firms are also experiencing difficulties related with customs dealings (39%) and delays in executing projects or transactions (36%). However, the percentage of firms reporting changes in their operating or technical processes declined year-on-year (to 28% in 2022 from 41% in 2021), as did the number highlighting a lack of clarity regarding the required standards and documentation (27% vs. 41%).

FRICION SUSTAINED IN BUSINESS ACTIVITY FOLLOWING EFFECTIVENESS OF THE UK-EU TRADE AND COOPERATION AGREEMENT (COMPARED TO THE SITUATION PRE-BREXIT)



(% firms)

(% answers, of firms that experience friction)

Note: a given company may have experienced changes within more than one category

Source: Afi, "2022 Survey of Spanish outward investment into the UK"

Nevertheless, 63% of the companies surveyed reported no change in the relative importance of the British market in their overall corporate businesses. In fact, another 13% said the UK market had become more important for them (which is 32% of the firms reporting that the TCA has changed the relative importance of the British market).

CHANGE IN THE RELATIVE IMPORTANCE OF THE BRITISH MARKET IN THE REPORTING FIRMS' OVERALL BUSINESS SINCE IMPLEMENTATION OF THE TCA (% OF RESPONDENTS)



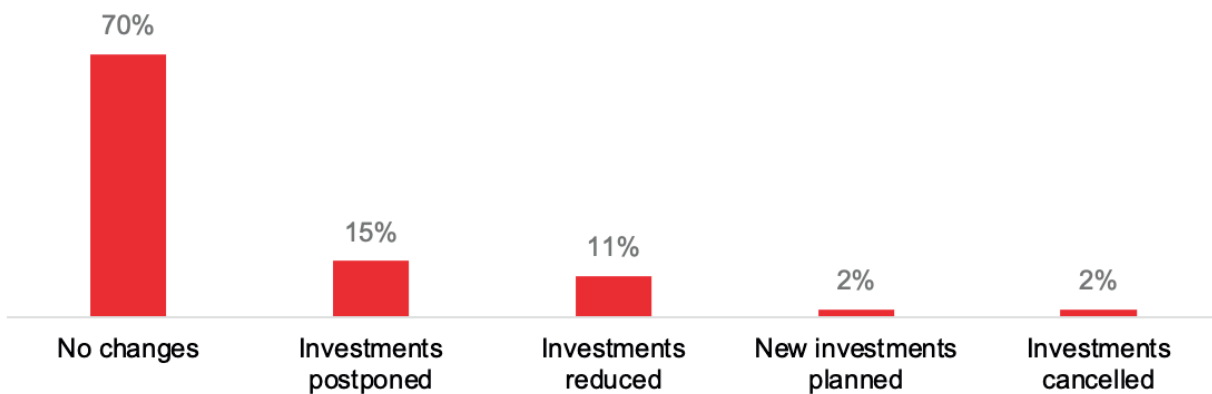
Source: Afi, "2022 Survey of Spanish outward investment into the UK"

IMPACT OF THE WAR IN UKRAINE

The majority of Spanish companies (70%) said they had not changed their plans for investing in the UK in the wake of the increase in energy prices or supply chain friction resulting from the war in Ukraine.

When asked about the perceived impact of the consequences of the war in Ukraine, 70% of the Spanish companies interviewed said they were not changing their plans for investing in the UK as a result of the increase in energy prices or supply chain friction.

PERCEIVED CHANGES IN SPANISH COMPANIES' INVESTMENT PLANS FOR THE UK AS A RESULT OF THE RUN-UP IN ENERGY PRICES AND/OR SUPPLY CHAIN FRICTION ATTRIBUTABLE TO RUSSIA'S INVASION OF UKRAINE (% OF RESPONDENTS)



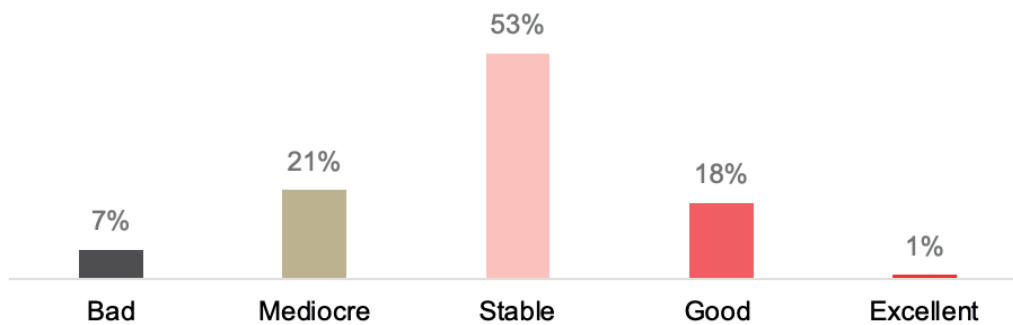
Source: Afi, "2022 Survey of Spanish outward investment into the UK"

GOVERNMENT SUPPORT

The Spanish companies interviewed believe the British government could lend more support. Moreover, their perception of that support has deteriorated by comparison with last year's Barometer.

In a stressful economic context, the Spanish companies award the British government a score of 2.8 out of 5 points for the support received. Although a little over half of them (53%) described that support as acceptable, just 19% consider it good or excellent, down from 41% last year.

ASSESSMENT OF THE BUSINESS SUPPORT PROVIDED BY THE BRITISH GOVERNMENT (% OF RESPONDENTS) (SCORES BETWEEN 1= WORST AND 5 = BEST)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

3. OUTLOOK FOR ACTIVITY IN THE UK IN 2022 AND 2023

In this last section we analyse the Spanish firms' outlook for business in the UK in terms of revenue, employment and investment plans for 2022 and 2023. We also provide details of the nature of the investments planned.

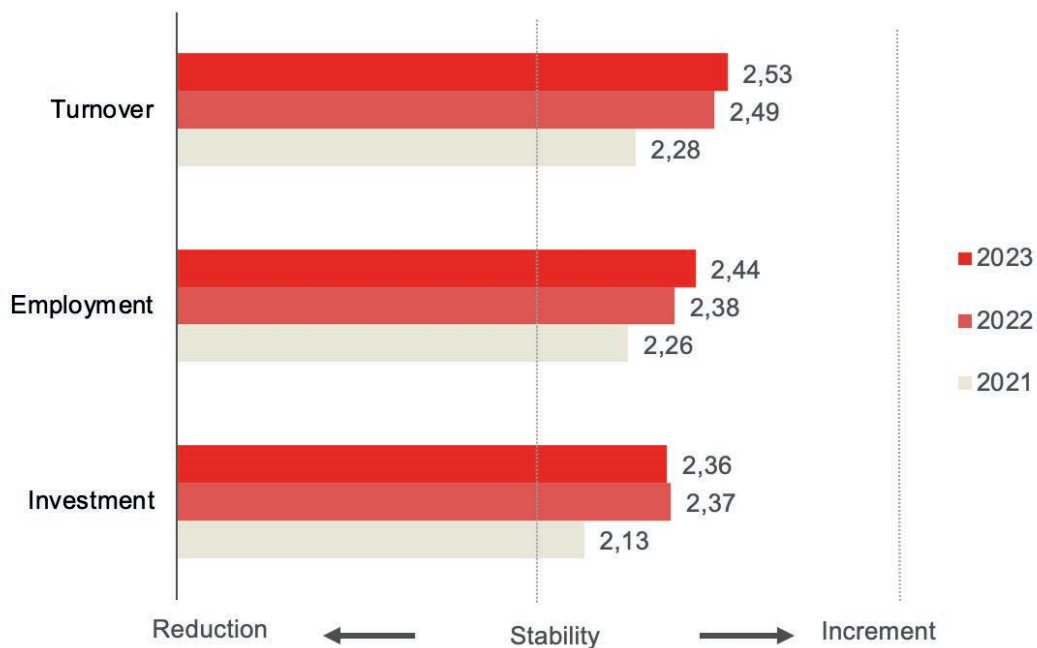
BUSINESS EXPECTATIONS

The firms' outlook for their business performance in the UK is brighter than reported in previous surveys. Over half of the firms surveyed expects their UK-based turnover and headcount to increase in 2023, and 43% plan to increase their investments next year.

The outlook for business of the Spanish companies with operations in the UK is positive, especially for 2023. Sixty-five per cent of the firms surveyed expects their revenue to increase next year and 53% expect to increase their headcount in the UK.

As for their investments in the British market, 43% of the respondents said they planned to increase them in 2023 (similar to the percentage (44%) that expects to increase them in 2022 as a whole), with another 50% expecting their investments to remain stable (only the remaining 7% actually expects to scale down).

SPANISH COMPANIES' OUTLOOK FOR GROWTH IN ACTIVITY (SCORES BASED ON % OF RESPONSES, WHERE 1 MEANS REDUCED ACTIVITY AND 3 MEANS INCREASED ACTIVITY)



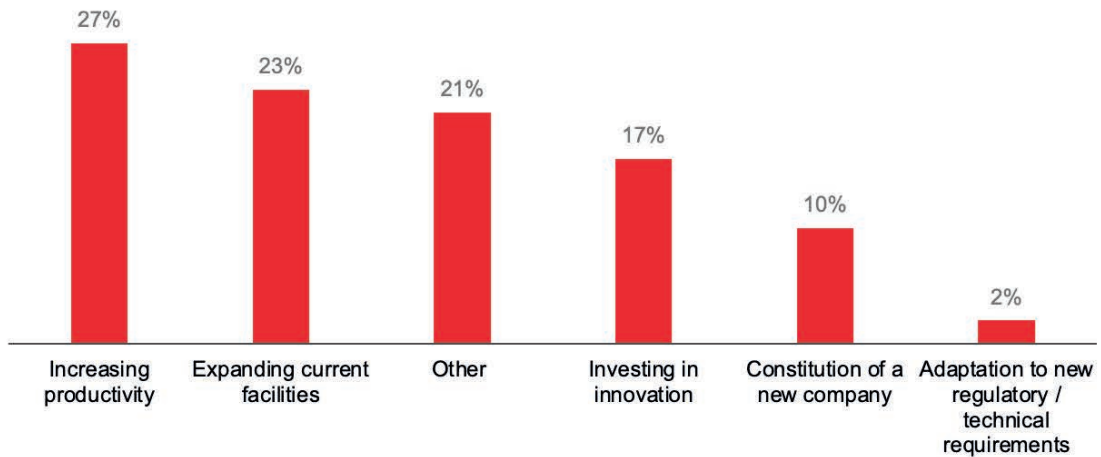
Source: Afi, "2021 and 2022 Surveys of Spanish outward investment into the UK"

EXPECTED BUSINESS INVESTMENTS

Productivity gains remains one of the main goals pursued by new investments by the Spanish firms in the UK. More specifically, many companies plan to undertake new marketing initiatives and devote more resources to recruitment. Regionally, London and the rest of England are expected to receive a higher volume of investment projects in 2022-2023.

One of the main goals pursued by the Spanish companies with plans to increase their investments in the UK in 2022-2023 continues to be boosting their productivity (a goal sought by 27% of respondents). In comparison to the reasons for investing reported last year (in the 2021 Barometer), the expansion of existing facilities has increased in importance (the choice ticked by at least 22% of respondents), to the detriment of investments in innovation (17%).

MAIN OBJECTIVES PURSUED BY THE NEW INVESTMENTS PLANNED BY SPANISH FIRMS IN THE UK IN 2022-2023 (% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS DURING THAT TIMEFRAME)



Note: "other" includes initiatives related with hiring, marketing activities and expansion of business lines, among others.

Source: Afi, "2022 Survey of Spanish outward investment into the UK"

As for the specific activities in which the new investments will be earmarked, as in 2021, the option checked by over half (58%) of the Spanish companies was investment in new marketing initiatives. Hiring also increased in importance to rank second among the areas in which the companies plan to dedicate most resources, ahead even of the implementation of new technology or the development of new products.

AREAS IN WHICH THE SPANISH FIRMS IN THE UK PLAN TO EARMARK THEIR ADDITIONAL INVESTMENTS IN 2022-2023 (% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS DURING THAT TIMEFRAME)

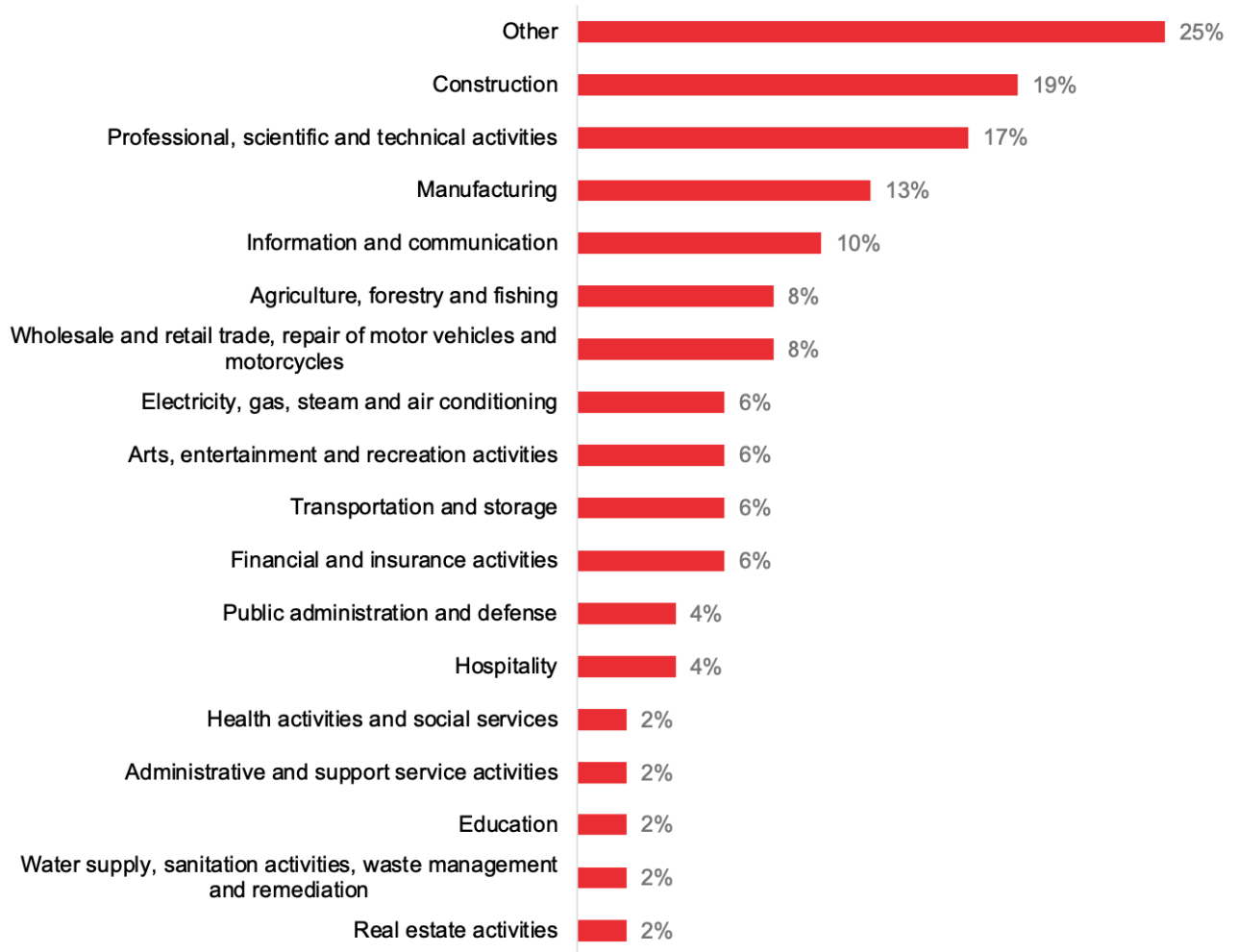


Note: a given company may be planning to invest in more than one area.

Source: Afi, “2022 Survey of Spanish outward investment into the UK”

Looking at the sectors that are expected to receive new investments, “other services” and construction topped the ranking. Professional, scientific and technical activities and information and communication services also remained in the top five sectors. Additionally, manufacturing activities joined the top five this year.

**SECTORS IN WHICH THE SPANISH FIRMS IN THE UK PLAN INVEST IN 2022-2023
(% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS
DURING THAT TIMEFRAME)**

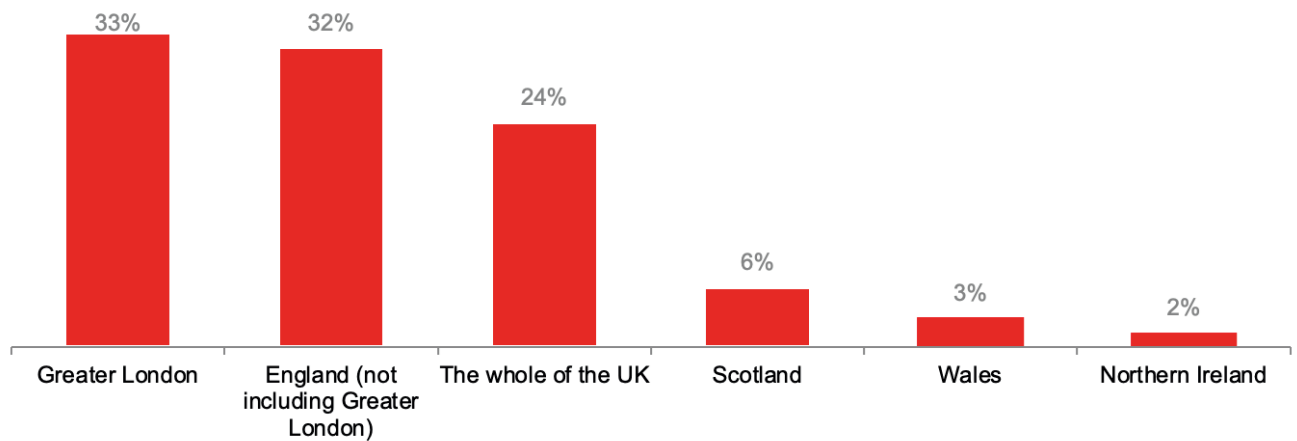


Note: a given company may be planning to invest in more than one sector. Sectors classified using the single-digit 2009 NACE classification.

Source: Afi, "2022 Survey of Spanish outward investment into the UK"

Lastly, when asked about where they plan to invest geographically, a large proportion of the planned investments are slated for London and its greater metropolitan area and the rest of England.

REGIONAL BREAKDOWN OF THE SPANISH INVESTMENTS PLANNED FOR THE UK IN 2022-2023 (% OF RESPONSES NOTING PLANS TO INCREASE INVESTMENTS DURING THAT TIMEFRAME)

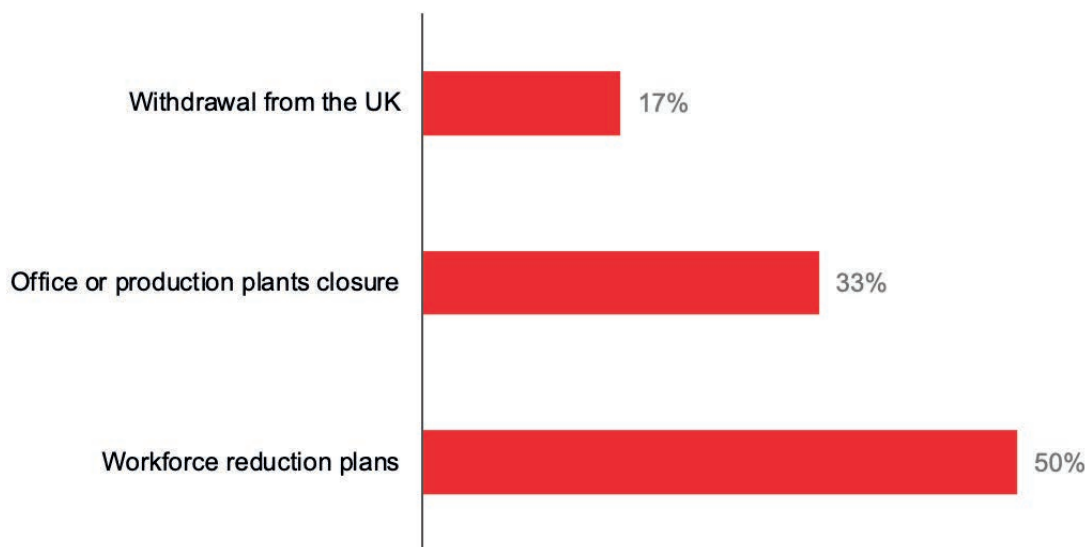


Note: (i) a given company may be planning to invest in more than one region; (ii) the investment plans that encompass all regions are accounted for as 'nationwide'.

Source: Afi, "2022 Survey of Spanish outward investment into the UK"

Elsewhere, with regard to the companies planning to reduce their investments on British soil (7% of all firms surveyed), half plan to pare back their presence by reducing their headcounts, which was also the most common formula cited for the 2021 Barometer.

CHANNELS FOR REDUCING INVESTMENT IN THE UK IN 2022-2023 (% OF COMPANIES POLLED THAT PLAN TO REDUCE THEIR INVESTMENTS DURING THAT TIMEFRAME)



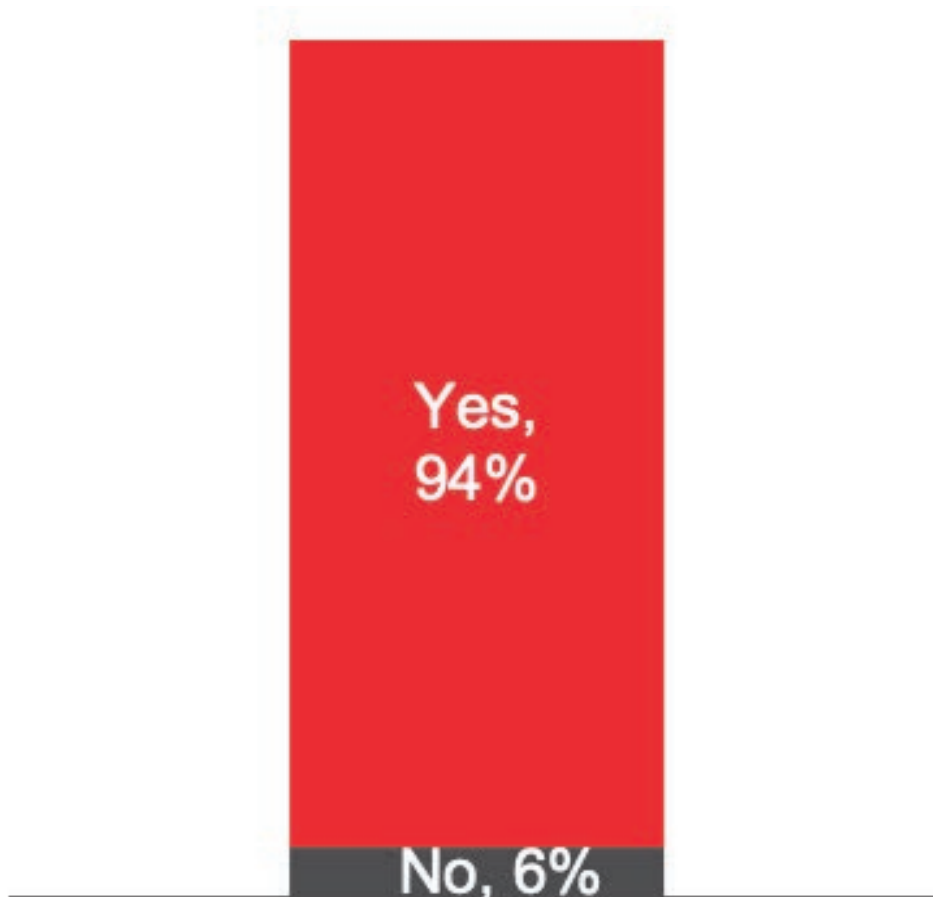
Source: Afi, "2022 Survey of Spanish outward investment into the UK"

RELATIVE IMPORTANCE OF THE BRITISH MARKET

The large majority (94%) of Spanish companies expect the British market to remain strategic for them.

Despite the current economic context, 94% of the firms surveyed reiterated the strategic importance of the British market to them. It is therefore expected that Spain will reinforce its investment footprint in the UK in the future.

ONGOING STRATEGIC IMPORTANCE OF THE BRITISH MARKET FOR THE RESPONDENTS IN THE CURRENT ECONOMIC CLIMATE (% OF RESPONDENTS)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

APPENDIX: METHODOLOGY AND CHARACTERISTICS OF THE COMPANY SAMPLE

The 2022 edition of the Barometer captures the insight and perceptions of more than 100 Spanish participating firms established in the UK from a wide range of sectors.

As in prior years, the Spanish companies established in the UK market were surveyed by means of an online questionnaire. That questionnaire featured a combination of questions related with the companies' own profiles, their assessments of the business climate in Britain and their expectations for their activity levels and investments in the UK market.

For this fourth edition of the Barometer there continued to be specific questions designed to analyse the perceived impact of the Trade and Cooperation Agreement between the UK and EU and the effects of the pandemic; this year, questions were added to address the perceived impact of the war in Ukraine.

The survey took place between 16 August and 30 September 2022, with a total participation of 114 Spanish companies with a business presence in the UK.

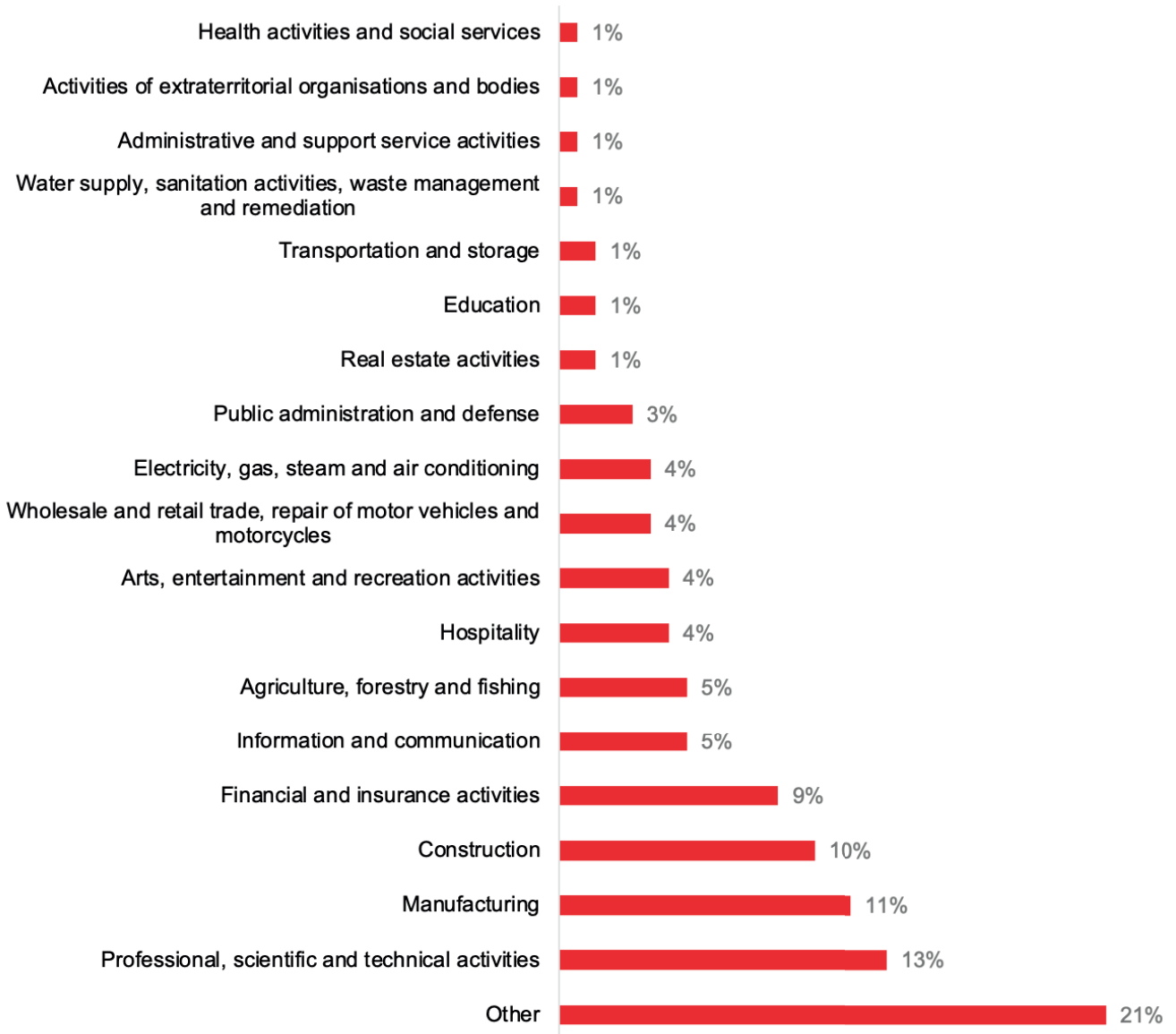
The respondents, of all sizes, come from a wide range of sectors, as illustrated in the following charts.

BREAKDOWN BY COMPANY SIZE (% OF ALL FIRMS SURVEYED)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

SECTOR BREAKDOWN (% OF ALL FIRMS SURVEYED)



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

**REGIONAL BREAKDOWN OF THE PRESENCE OF SPANISH FDI
IN THE UK (% OF ALL FIRMS SURVEYED)**



Source: Afi, "2022 Survey of Spanish outward investment into the UK"

ABOUT THE SPANISH CHAMBER OF COMMERCE IN THE UK

In 1886 a group of Spanish and British merchants, industrialists and professionals founded the Chamber with the main objective of promoting the economic and commercial relationships between both countries.

Today, our **main goal** is to facilitate the **development and promotion of trade and investment** between Spain and the United Kingdom, playing a fundamental role in the commercial and economic relations between the two countries.

Our mission:

- To provide an optimal platform for **facilitating business opportunities** within the British-Spanish business community.
- To provide support and advice to our members, offering **tailor-made solutions** for the particular requirements of each company that we work with.



SERVICES OF THE CHAMBER

EVENTS:

The Chamber organises more than 50 events each year to which we welcome senior representatives from an expansive variety of Spanish, British and other international companies, as well as government representatives and other influential figures from both countries. Each event provides a **profitable networking opportunity** for representatives from companies of all industries and sizes.



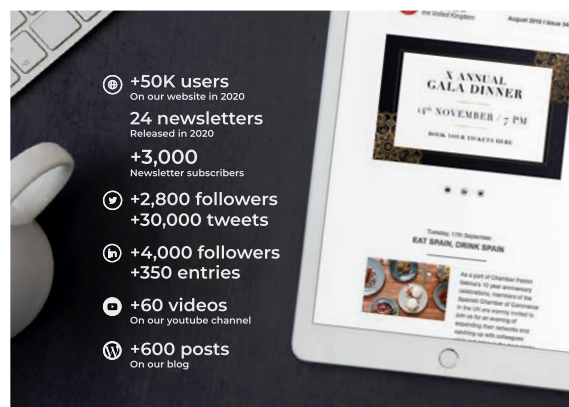
BILATERAL TRADE:

From making new commercial contacts to introducing your company to new markets: both member and non-member companies can benefit from the variety of services that we offer with the aim of **improving bilateral trade relations** between Spain and the UK.

COMMUNICATIONS:

The Spanish Chamber of Commerce in the UK offers a variety of tools to help you reach your target audience.

If you are an organisation **looking to increase your brand or product visibility**, we can provide the perfect advertising package for your products and services.



WHAT CAN THE CHAMBER DO FOR YOUR COMPANY?

EXPAND YOUR NETWORK:

participate in our networking events, which provide an optimal opportunity for companies to meet new business partners

INCREASE YOUR VISIBILITY:

benefit from the Chamber's communication channels (social media, webpage, newsletter).

CONNECT AND INTERACT with our wide member network.

EXPLORE NEW OPPORTUNITIES:

benefit from one of our frequent sponsorship opportunities.

DEVELOP YOUR BRAND:

organise a seminar in collaboration with the Chamber.

BENEFIT FROM OUR WIDER INSTITUTIONAL NETWORK:

which we have acquired through promoting bilateral commercial relationships between the two countries for over 130 years.

YOUR PARTNER AFTER BREXIT

Over the course of recent years our institution has continuously supported a stable UK exit from the EU. Our aim is to continue to strengthen our links with both the British and Spanish Governments, in order to support all Spanish companies with interests in the UK.

The Chamber has doubled its efforts to support its members during the transition period by providing first-hand information from HM's government. Senior representatives from different departments such as the DIT, FCO and BEIS have regularly participated in our events, sharing their insight with our members and answering any questions that they may have.



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