



Barometer of the Business Climate in Spain

From the Foreign
Investor's Perspective

Results 2020



International
Center for
Competitiveness





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Presentation



1. Presentation

1. Presentation

The “Barometer of the Business Climate in Spain from the Foreign Investor’s Perspective” is now in its 13th edition and has become a benchmark in Spain.

The 2020 edition features an assessment by over 830 foreign companies of the importance of the business climate in Spain in 2020 and gives their forecasts for the next two years. It identifies, in the medium term, the strengths that must be maintained and the main spheres of action that require more work.

The answers given by the participating companies were collected in October and November 2020 and reflect the impact of the COVID-19 pandemic on the business climate and on the companies’ results and perspectives. The overall view is the assessment of the business climate in Spain is down on what it was for the previous year.

This year’s edition includes a specific chapter on the impact of the COVID-19 crisis in order to assess and restrict this circumstance.

The investing companies confirmed that they had performed well in 2019 but that the perspectives for 2020 were unfavorable in all the aspects analyzed (investment, workforce, invoicing and exports), although a significant improvement is expected for 2021.

According to the data in the Foreign Investment Register at the Ministry of Industry, Trade and Tourism, foreign investment in Spain, excluding non-holding companies (ETVE in Spanish), from January to September 2020, fell by 11% compared to the same period in 2019.

The Barometer was compiled jointly by ICEX-Invest in Spain, the association of *Multinacionales por marca España* (Multinationals for the Spain Brand), and the International Center for Competitiveness (ICC) at the IESE.

The purpose of the Executive Management of ICEX España Exportación e Inversiones (hereinafter ICEX or ICEX-Invest in Spain) is to promote and attract foreign investment in Spain, and reinvestment by foreign companies that are already established in the country. It is also a benchmark for foreign investors and a meeting point for institutions working to promote and attract investment in the national, regional and local sphere. ICEX undertakes activities to position Spain as a global platform for international business and investment. Another of ICEX’s areas of action is the enhancement of the business climate in Spain by means of an ongoing dialog with other ministerial departments and with companies and business associations established in Spain, with both Spanish capital and from third countries.

Multinacionales por marca España is an association of multinational companies from a variety of industries with operations in Spain that wish to demonstrate their commitment to Spanish society and the Spain brand. Its functions include promoting collaboration with Spain’s government agencies to drive the Spain brand, defend the country’s common interest, and convey to government authorities the aspects that are most highly valued by these multinationals in their decision-making and that position Spain as a destination that guarantees the successful undertaking of their operations.

The IESE (Institute for Advanced Business Studies) is an institution dedicated to higher business studies. The objective of the ICC, one of its research centers, is to promote research and meticulous learning in the field of competitiveness and its implications across different areas. Headed by Professor Pascual Berrone and created in collaboration with the Institute for Strategy and Competitiveness under Professor Michael Porter at Harvard University, the ICC places particular emphasis on the European Union and on its role in creating a favorable business climate.

Executive Summary



2. Executive Summary

2. EXECUTIVE SUMMARY

Spain's rating declined with regard to 2019

The results of this year's Barometer of the Business Climate in Spain, with an average rating of 2.8 out of 5, represents a decrease of two decimal points compared to the ratings in the previous edition. These results are due to the exceptional circumstances arising this year due to the COVID-19 pandemic and the resulting economic crisis.

The highest rated areas are Infrastructures, Human Capital and Quality of Life

The most important area for investors in the present edition, as in previous years, was Human Capital together with Market Size. Other significant areas are Infrastructures, and Quality of Life.

The most highly rated areas by investors were those relating to Infrastructures, a clear strength in Spain, followed by Human Capital and Quality of Life. It is encouraging that these are once again this year among the most important areas for investors.

The worst-rated aspects continue to be those relating to the Regulatory Environment. This group also includes Taxation and Innovation.

The investors point to the need for measures in regard to the Labor Market (particularly in terms of adapting labor legislation to company requirements); Costs (such as electricity) and the Regulatory Environment (namely a reduction in the bureaucratic burden). Certain aspects of Human Capital are also considered to be essential and are highly rated as a whole, although there is room for improvement in several areas such as language skills, the capacity for learning and the acceptance of responsibilities and targets. The scores for the Infrastructures area were very similar in importance and met investors' expectations in general terms, and the scores for Quality of Life were also favorable.

The forecasts for investment, sales, generation of employment and the volume of exports for 2020 were not positive and reflect the impact of COVID-19, but they are better for 2021

The COVID-19 pandemic and the subsequent economic crisis clearly affected the outlook for foreign investors in Spain for 2020, although companies forecast a significant improvement in 2021 but results are not expected to reach the levels prior to the pandemic.

The outlook for investment by foreign companies in Spain for 2020 is not favorable. 60% of the companies surveyed planned to increase or maintain their investments in Spain in 2020, compared to 91% in the previous year. For 2021 the percentage of companies intending to increase or maintain their investments in Spain has once again increased, this time to 73%.

It is possible that the implementation of Temporary Employment Regulation Files (ERTE in Spanish) has played a significant role in defining forecasts with regard to employment, because these are somewhat less negative, and causing the percentage of companies planning to increase or maintain their workforce to fall to 70% in 2020 from the 87% they confirm for 2019.

The forecast for invoicing in Spain for 2020 is where the greatest impact has been felt due to the special circumstances present during the year. So only 36% of companies expect to increase or maintain their invoicing for 2020, although this percentage increases to 69% in 2021.

Finally, with regard to export volume, 75% of the foreign companies surveyed export to third markets from Europe. 29% of companies expect to reduce their exports in 2020, although for 2021 this percentage is expected to go down to 15%.

Context



3. Context

3. Context

The thirteenth edition of this Barometer of the Business Climate in Spain from the Foreign Investor's Perspective is based, as it is each year, on the responses received from a survey that examines the most important aspects of the business climate in Spain.

The political, economic and social context prevailing during the period when the replies were given to the survey will always profoundly affect the results, as is logical. However, this year the context that acts as the framework for the Barometer, with clear links to the COVID-19 pandemic, has played a much more significant role than in previous editions, because it is not only reflected in the replies given by the managers surveyed, but has also been clearly seen in the actual process for drawing up this Barometer.

Firstly, the surveys were conducted in October and November 2020, much later than in previous editions. This change was not only due to the fact that in April, May and June, the months when the surveys were conducted in previous editions, Spain was still under the effect of the first wave of COVID-19, but because in October and November there was already a certain perspective regarding the pandemic and its initial consequences and this perspective was completely necessary for this edition of the Barometer to be sufficiently significant.

Secondly, the survey that was sent to the managers of the foreign capital companies consulted, contained five questions directly related to the crisis caused by COVID-19. The questions were answered at a time when, in addition to the uncertainty arising from the Brexit negotiations and existing protectionist tension, there was also ignorance of how the pandemic would develop and the implementation of a Recovery Plan.

The Barometer could not fail to take into account the unexpected global emergency arising from a virus that had hardly been heard of a year ago, even though its impact will foreseeably only last for a limited period of time. The world has been severely shaken by the health and economic crisis caused by this COVID-19 pandemic, that has probably been the greatest global emergency since the great wars of the first half of the twentieth century.

Beyond the dramatic impact on the lives of millions of people throughout the world, this pandemic is having a negative effect on the global economy, directly affecting not only production volumes worldwide, but also causing disruption to supply and distribution chains, thus leaving its mark on company financial results and on the stock markets. Even though we are facing a highly uncertain scenario, the fact is that according to the most recent IMF estimates, global GDP will fall around 4.4% in 2020. If this forecast is confirmed, it will be the greatest fall that the world economy has experienced since 1984, the year when the IMF implemented its statistical data base.

This means that the COVID-19 emergency is causing a severe impact on the main economic dimensions and direct foreign investment is no exception. According to UNCTAD, direct foreign investment fell by 49% worldwide in the first six months of 2020. This decrease had an impact especially on developed economies, where in the first six months of the year, they received DFI equivalent to 98 billion dollars, just a quarter of that received in the first six months of 2019.

The Spanish economy was also particularly intensely affected by this health emergency, given relatively high dependence of the economy on sectors directly affected by the decrease in activity and demand, such as tourism, transport, the automotive industry, and commerce. So, if we started 2020 with national and international bodies predicting that Spain would continue along the pathway of solid growth in line with the last five years, the panorama underwent a radical change from mid-march onward and now we are facing period of recession.

Spain has also experienced a decrease in the flow of direct foreign investment received, although this has not been as severe as has been observed in other countries. According to the data in the Foreign Investment Register at the Ministry of Industry, Trade and Tourism, foreign investment in Spain, excluding non-holding companies (ETVE in Spanish), from January to September 2020, fell by 11% compared to the same period in 2019.

3. Context

Nevertheless, this decrease is mainly due to the reduced volume of FDI recorded in the first quarter of the year, when the greatest impact of the COVID-19 emergency was felt on foreign direct investment received by Spain. Meanwhile, the FDI received by Spain experienced an encouraging upturn in the second and third quarter of 2020.

In fact, productive FDI received by Spain in the second and third quarter of 2020 saw not only a substantial improvement over that recorded in the first quarter of the year, but significantly saw an improvement over that recorded in the second and third quarter of 2019, long before we had even heard about COVID-19. So, FDI received in the second quarter of 2020 was 17% more than that received in the same period in 2019 and that received in the third quarter of 2020 was 30% more than that recorded for the third quarter of 2019.

These figures would appear to indicate that, after the initial negative impact of the COVID-19 pandemic and coinciding with a progressive downturn from June onwards of the strict limitations to mobility established during the first weeks when the state of emergency was in force, investors have returned to undertaking operations in Spain.

It should also be pointed out that the global COVID-19 crisis did not generate a significant volume of disinvestment by foreign companies in Spain. In fact, during the first half of 2020 disinvestment by foreign companies decreased by 6% compared to that recorded for the same period in 2019. From this we may conclude that, looking beyond the current situation, foreign companies are still confident about the future of their investments in Spain.

The figures provided by FDI Markets follow this pattern. In Spain during the period from January to October 2020 a total of 422 greenfield foreign capital projects were undertaken, which is 40% less than for the previous year.

In spite of this, given the widespread decrease of this type of projects globally, Spain was the fourth highest receiver of greenfield projects in the world during the first ten months of the year, behind the United States, United Kingdom and Germany.

The resilience shown by the investment of foreign capital companies in Spain to fluctuations resulting from the pandemic is excellent news. Direct foreign investment received by developed countries is not only an important source of capital for the recipient economies, it also provides diversification, knowledge and additional technological development to the entrepreneurial fabric and it is also an important vehicle for establishing direct, stable links between the different economies.

The latest figures available from the INE's Statistics on Subsidiaries of Foreign Companies confirm the crucial role played by foreign investment in Spain in those sectors that are most technology-intensive and have the highest added value. The business volume generated by subsidiaries of foreign companies in the sectors of industry, commerce and other non-financial market services represents 29.1% of the total for these sectors, and up to 40% in the industrial sector. In certain areas of activity these percentages are far greater, as much as 84.4% in transport material (including vehicle manufacture), 55.8% in electrical, electronic and optical material and equipment manufacturing, 48.5% in the chemical and pharmaceutical industry, 40.5% in rubber and plastics, and 34.3% in computer programming and information services. Foreign investment also has a substantial impact on exports, significantly increasing the export base in Spain, especially in sectors such as the automotive and chemical industries. According to the INE, 41.9% of Spanish exports originate in subsidiaries of foreign companies.

All these figures eloquently demonstrate the importance of the role played by foreign investment in Spain. The Barometer, as far as the gauging of foreign investors' opinion and perception of the Spanish business climate is concerned, is intended as being eminently practical, with the ultimate purpose of becoming a definitive, useful tool for the Administration in its regulatory function, and also for guiding companies and investors in the complex process of making decisions regarding direct investment in Spain.

Impact of the COVID-19 crisis



4. Impact of the COVID-19 crisis

4. IMPACT OF THE COVID-19 CRISIS

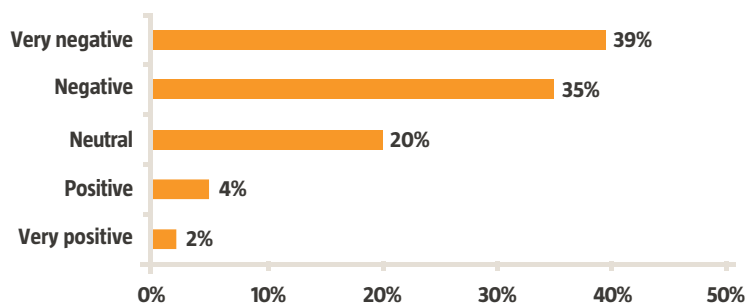
The economic crisis generated by the global pandemic is having a clear, negative impact on the economy and on society. This can clearly be seen in companies' results, perceptions and outlooks. For this reason, this year's edition includes a special chapter designed to help us understand the impact of the COVID-19 crisis on the business climate in Spain. With this in mind, we asked foreign capital companies in Spain a series of questions: their general appraisal of the impact of COVID-19 on the business climate in Spain, which aspects of the business climate they felt were most affected, the situation in Spain compared to other countries, the impact on certain company dimensions and the date when balance is expected.

4.1. Impact of the COVID-19 crisis on the business climate in Spain

Foreign companies agree that the impact on the business climate has been very negative. 74% of the companies participating feel that the impact has been negative or very negative. Only 6% of the companies feel that the impact has been positive.

Figure 1

Impact of the COVID-19 crisis on the business climate in Spain



4.2. Aspects of the business climate most affected by the COVID-19 crisis

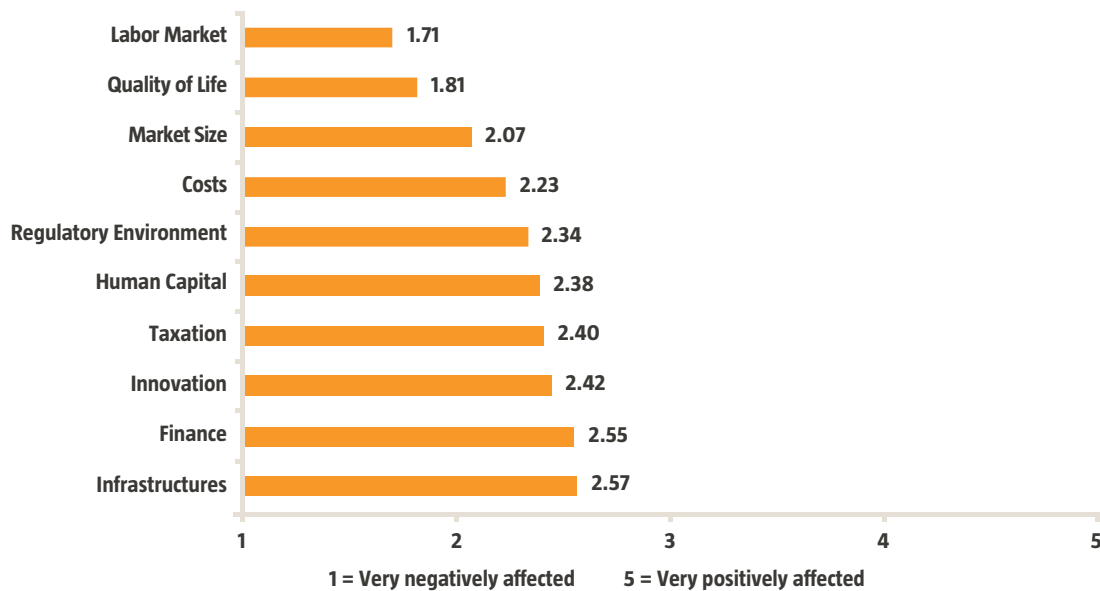
The pandemic and the subsequent crisis have had an especially negative impact on the business climate, but not all the aspects analyzed have been affected to the same extent. As can be seen in figure 2, the impact on the Labor Market has been especially negative. 56% of the companies feel that the impact has been very negative, and 25% feel it has been negative. Quality of Life has also been very affected, with 47% of companies rating it as very negative. This is followed by Market Size, with a logical reduction in the size of the local market because of the crisis.

There has also been a negative impact but somewhat more moderate impact in the business climate for areas such as Infrastructures and Finance.

4. Impact of the COVID-19 crisis

Figure 2

Aspects of the business climate most affected by the COVID-19 crisis

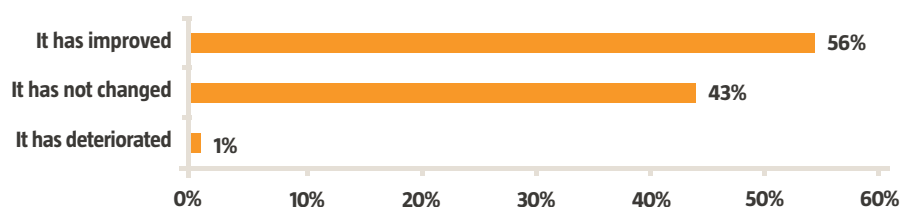


4.3. Situation in Spain compared to other countries as a result of the COVID-19 crisis

Even though most countries have suffered damage as a result of the pandemic, the impact has not been the same for all of them. This could result in a change of attitude toward a country compared to others as the destination for foreign investment. With regard to Spain, 56% of foreign investors feel that it is less attractive as a destination for investment compared to its two main competitors, as can be seen in figure 3.¹

Figure 3

The attraction of Spain as a destination for investment compared to its two main competitors



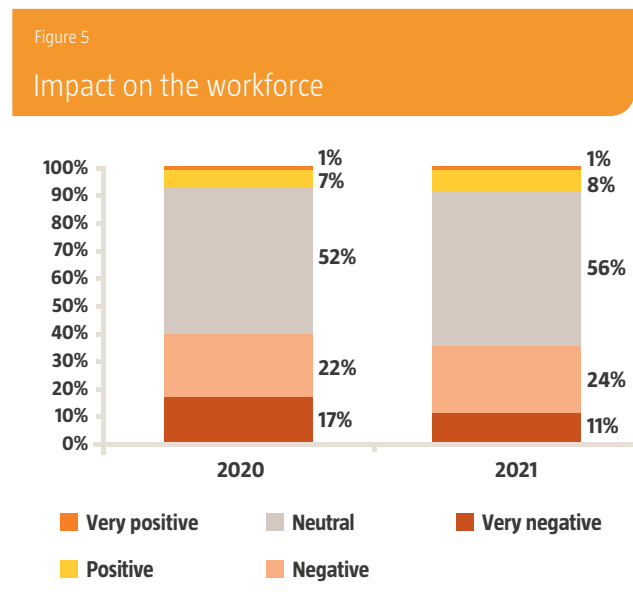
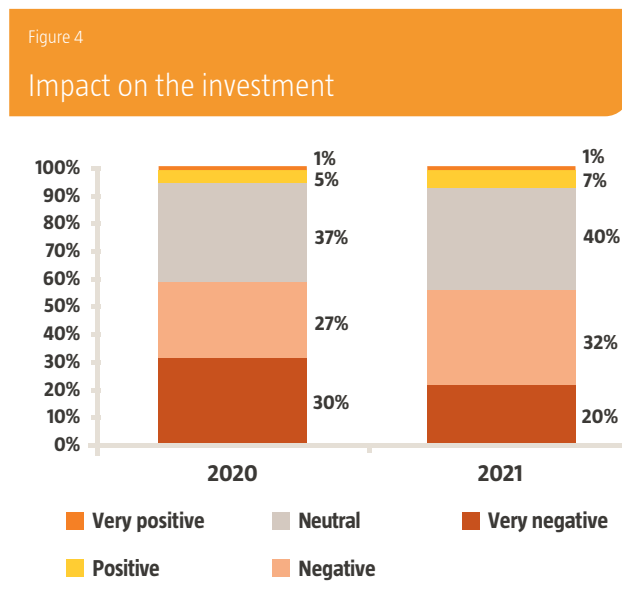
1. The data in figure 3 correspond to the following question: "How has the attraction for Spain as a destination for your company's investment changed compared with the two main countries with which you are competing?" The competitors referred to differ depending on the company surveyed.

4. Impact of the COVID-19 crisis

4.4. Impact on different entrepreneurial dimensions

Foreign investors in Spain were asked for their opinion on how COVID-19 had affected their investments, invoicing, workforces, and exports, both in 2020 and foreseeably for 2021. In all four dimensions that impact was negative and is expected to be somewhat more positive in 2021. The impact of the pandemic and the subsequent crisis was felt most with regard to investment and invoicing, and somewhat less with regard to workforce and exports.

With regard to investments, 57% of companies feel that the impact was very negative or negative in 2020, and the percentage is still high for 2021, when it stands at 52%. The effects of COVID-19 on employment in foreign companies were also very unfavorable, although a little more moderate. 39% reported a very negative or negative impact in 2020, and 35% feel it will remain unchanged in 2021.



The entrepreneurial dimension most intensely affected by COVID-19 in the opinion of investors was in invoicing. 60% reported a very negative or negative impact for 2020, and 49% feel this will remain unchanged in 2021. Exports also suffered, with 44% of companies reporting a very negative or negative impact for 2020, but in 2021 55% of companies expect the impact to be neutral.

4. Impact of the COVID-19 crisis

Figure 6

Impact on invoicing

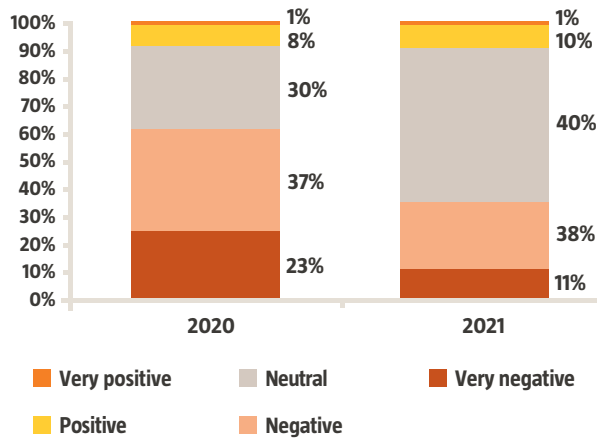
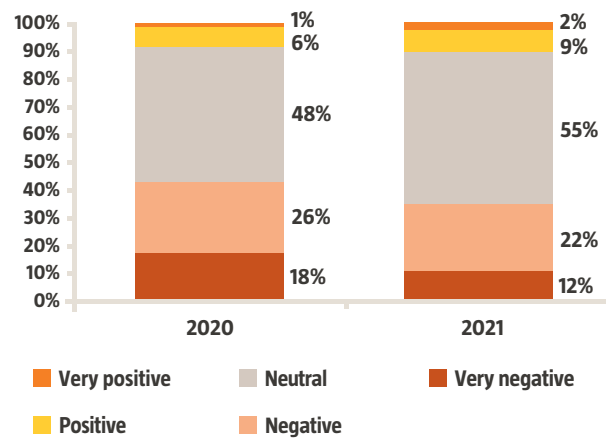


Figure 7

Impact on exports

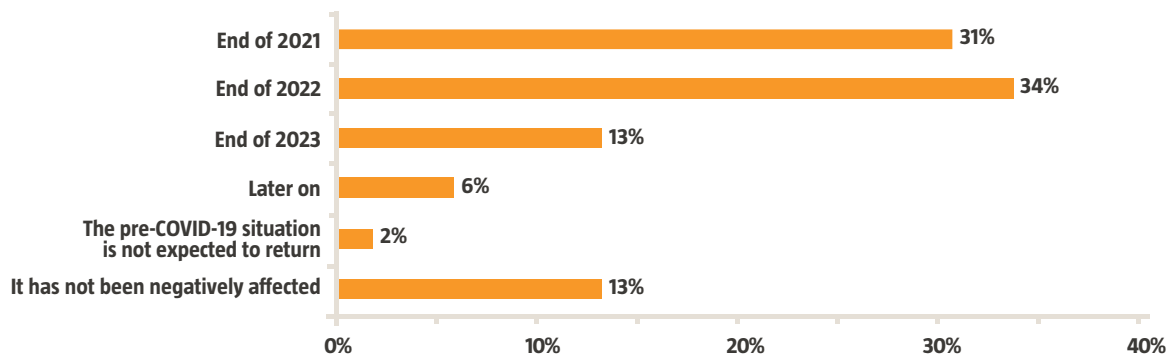


4.5. Date of expected return to a balanced situation

Finally, investors were asked about the date they expected their companies to return to a balance situation, that is, pre COVID-19. As can be seen in figure 8, 31% expected to return to a balanced situation by the end of 2021, and 34% by the end of 2022. Only 13% gave 2023 and a small percentage of companies, 6%, felt that recovery would not be until a later date. 13% of investors declared that their companies had not been negatively affected by the crisis.

Figure 8

Date of expected return to a balanced situation in their company



The answers provided by foreign investors in this section certainly bring to light the negative impact that the COVID-19 crisis has had on the business climate in Spain and on the perspectives for these companies' investment, invoicing, workforce and exports in Spain. We therefore need to understand the analysis included in the rest of the report in the light of these exceptional circumstances.

General results



5. General results

5. GENERAL RESULTS

5.1. General assessment

Figure 9 shows the assessment and importance given by foreign investors to each of the 10 areas contemplated in the 2020 Barometer of the Business Climate.

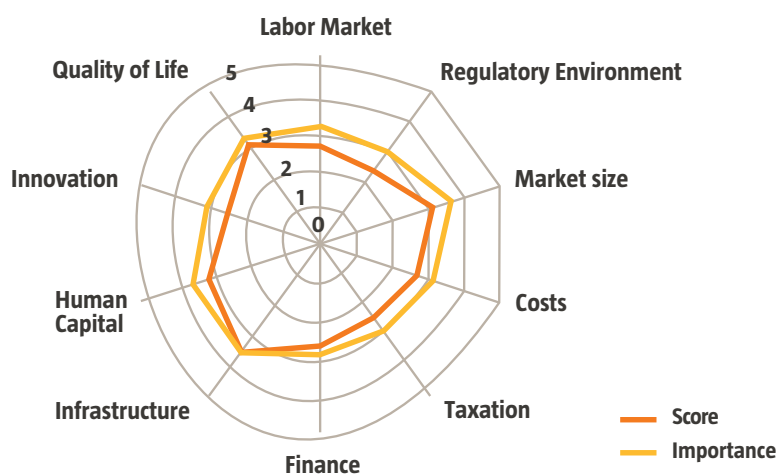
The most important area for investors in the present edition, as in previous years, was Human Capital, together with Market Size, followed by Infrastructures and Quality of Life. The area they consider least important is once again Finance.

The most positively rated areas by investors were those relating to Infrastructures, followed by Human Capital and Quality of Life.

The worst-rated aspects were the areas relating to the Regulatory Environment, Taxation, and Innovation.

The areas with the greatest imbalance between the score they receive and their importance for foreign investors are the Labor Market, the Regulatory Environment and Innovation, followed by Taxation. The scores for the Quality of Life and Infrastructures areas are the same or very similar in importance and generally meet investors' expectations.

Figure 9
Importance and rating
by area for 2020



5. General results

5.2. Main strengths and weaknesses

Figure 10 shows Spain's main strengths according to foreign investors.

As in previous editions, other aspects relating to infrastructures are highlighted as being particularly important. Investors award a very high rating to the quality of the airports, roads, telecommunications structures and services, and the high-speed train. They also highlight certain aspects of Human Capital, such as the availability of skilled labor, in this case university graduates, and their capacity for learning. Finally, as in previous years, certain aspects such as safety relating to Quality of Life are considered among Spain's strengths.

In contrast, the weaknesses signaled by investors are shown in Figure 11.

This year special mention was given to certain aspects of the Regulatory Environment, such as the speed and efficiency of Commercial Courts and the burden of bureaucracy. As in previous years, the cost of electricity is quite clearly ranked as one of the main weaknesses. Taxation and the availability of public subsidies were also given a low score, together with Social Security contributions and Corporation Tax.

Figure 10

Main strengths

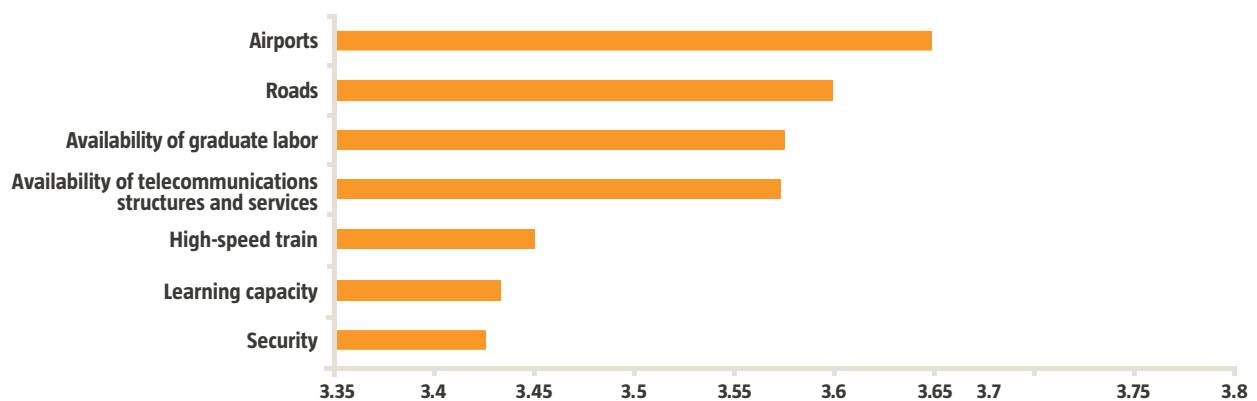
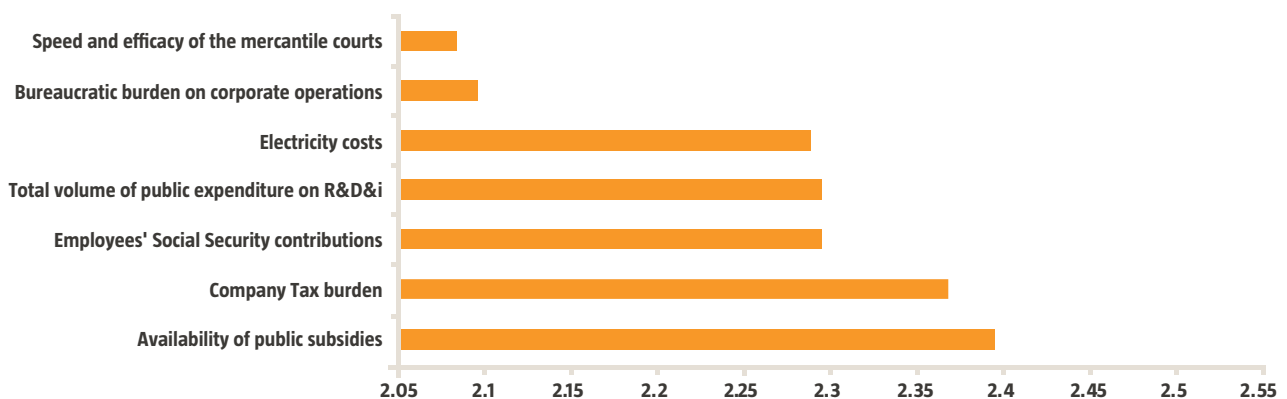


Figure 11

Main weaknesses



5. General results

5.3. Comparison 2019-2020

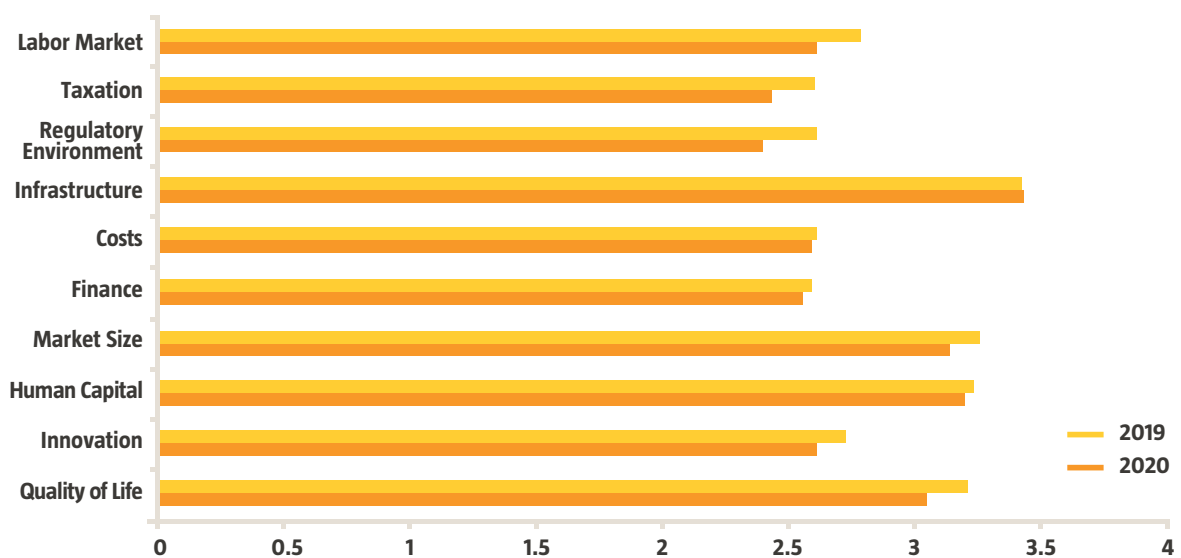
In general terms the assessment for 2020 is barely two decimal points down, with significant variations in some areas.

As can be seen in figure 12, the Infrastructure and Costs areas remained unchanged compared to the previous year. The remaining sections received lower scores of different magnitudes. The most notable decrease was about the Regulatory Environment, with a lower score in all the aspects analyzed. This was followed by Taxation, Market Size and the Labor Market, the latter being the most affected by the COVID-19 crisis in the opinion of investors.

The decrease was somewhat more moderate in the Quality of Life and Innovation areas, and only very slight in Human Capital and Finance.

Figure 12

Comparison of ratings 2019-2020



5. General results

5.4. Main spheres of action

The priority areas of action selected were the ones that revealed the greatest difference between their importance for investors and their weighted rating. It is worth noting that four of the spheres of action this year were the same as in the last two editions (language skills, electricity costs, bureaucratic burden and acceptance of responsibilities and targets). In this edition we should add increasing concern regarding the suitability of labor legislation for company requirements.

1. Language skills

As in previous years, language skills appear as one of the main drawbacks in the opinion of investors. Language skills is considered by investors as the most important aspect in the whole survey, and it already received a lower rating last year and its score falls significantly short of the importance given to it by investors, so it continues to be a priority area of action.

2. Accepting responsibilities and targets

Generally speaking, the aspects of Human Capital are the most important for investors. In this case, acceptance of responsibilities and targets is the third most important aspect in the entire survey for the participating companies. It was given a positive rating, as it did in the previous year, but it is given so much importance that it should be included in the priority areas of action.

3. Adaptation of labor legislation to the needs of the company

Certain aspects of the Labor Market suffered a very negative impact from the COVID-19 crisis in the opinion of foreign investors. The adaptation of labor legislation to companies' needs is the aspect for which scoring fell the most in the whole survey. Such is the importance attributed to it by investors that it has become a priority area of action this year.

4. Learning capacity

Learning capacity is an extremely important aspect for investors, the fourth most important in this year's edition. The rating given to Spain with regard to its human capital's learning capacity is positive, and was the same as for the previous year, but once again certain aspects continue to require priority observation.

5. Bureaucratic burden on corporate operations

Bureaucracy is the worst rated aspect in the survey, and has further declined in this edition. This is an important aspect for companies so it must be included among the main spheres of action. Investors also point to the reduction of the bureaucratic burden at all levels as the main measure that would contribute to increasing their investment in Spain.

6. Electricity costs

Electricity costs are the third most poorly rated aspect in the survey by foreign investors, although with a slight improvement over the previous year. The relative importance of this issue to investors implies that as last year, it should be considered as a priority area for improvement. The importance of the cost of electricity with regard to competitiveness in the industrial sector should be taken into account.

Outlook for foreign companies in Spain



6. Outlook for foreign companies in Spain

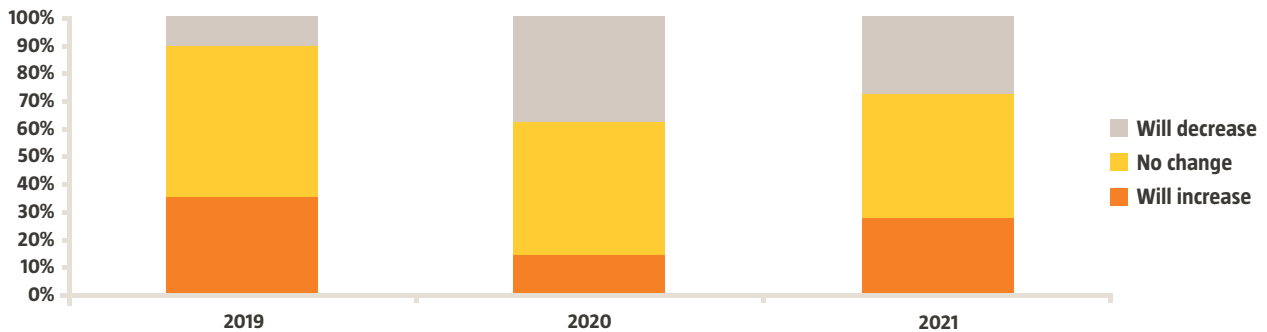
6. OUTLOOK FOR FOREIGN COMPANIES IN SPAIN

6.1. Outlook for investment

The outlook for investment by foreign companies in Spain in 2020 clearly reflects the impact of the COVID-19 crisis. Compared to the 91% of companies that increased or maintained their investments in Spain in 2019, 61% expect to do so in 2020, while in 2021 the percentage is expected to increase to 73%.

Figure 13

Outlook for investment 2019-2021

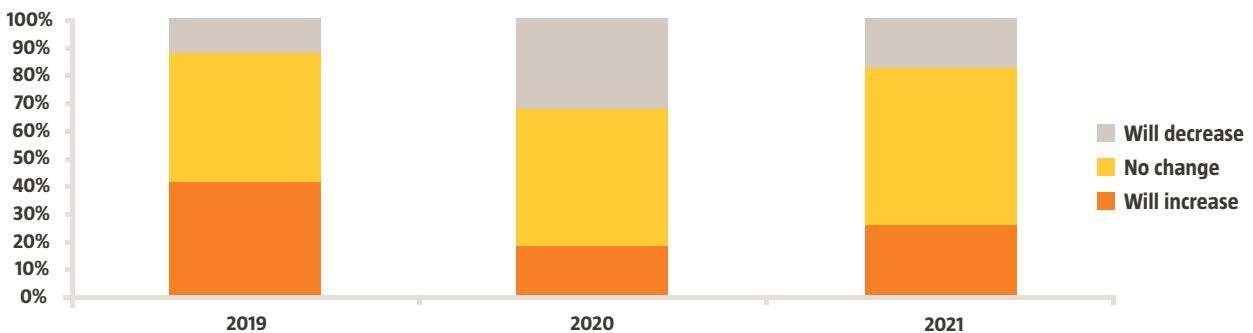


6.2. Outlook for employment

The outlook for employment is also affected by the crisis, albeit more moderately. In 2019 87% of the companies surveyed increased or maintained their workforces in Spain. In 2020 this percentage decreased to 70%, but as can be seen in figure 14, a significant recovery is expected in 2021 when 83% of the companies expect to increase or maintain their workforces in Spain.

Figure 14

Outlook for staffing 2019-2021



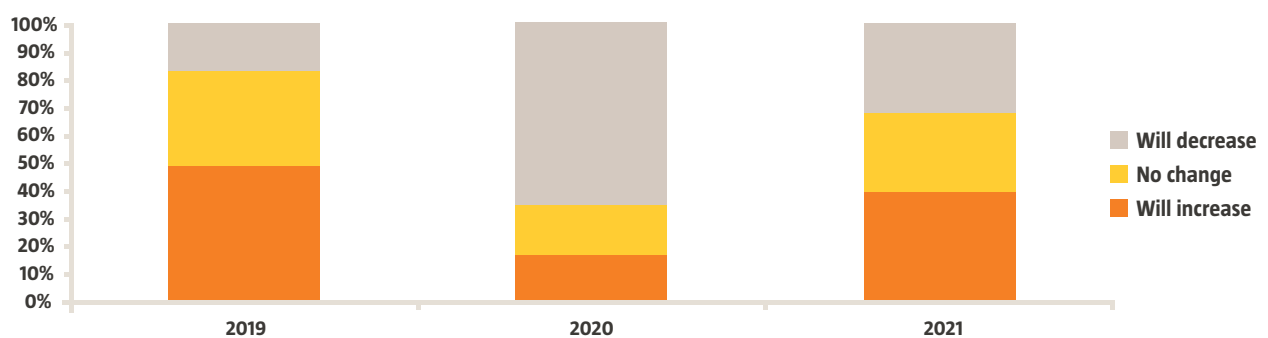
6. Outlook for foreign companies in Spain

6.3. Outlook for invoicing

The outlook for invoicing in Spain was the area which suffered the most in 2020 as a result of the COVID-19 crisis. 64% of the companies estimated that their invoicing would decrease in 2020, although they foresaw a partial recovery in 2021 when 31% of the companies expect to see a decrease in invoicing.

Figure 15

Outlook for invoicing 2019-2021

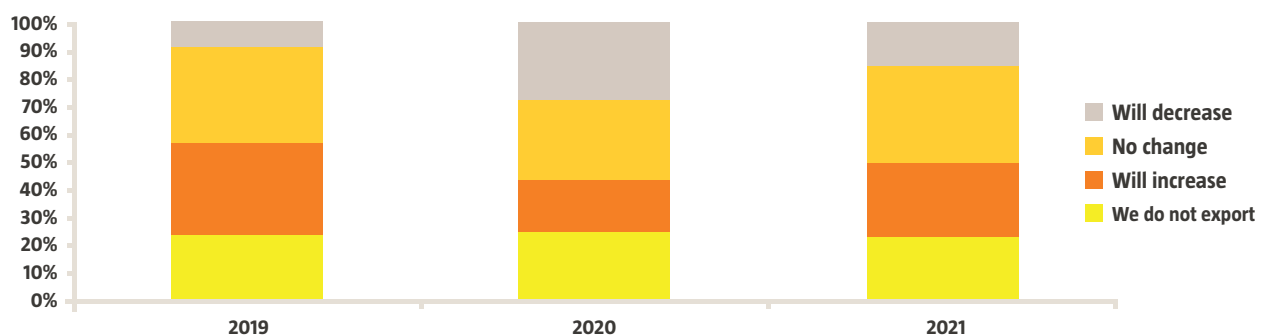


6.4. Outlook for exports

Finally, with regard to export volume, 75% of the foreign companies surveyed export to third markets from Europe. In 2020 29% of companies envisaged a reduction in their exports, compared to 8% in 2019. However, for 2021 the outlook has significantly improved and the percentage of companies that expect to see a reduction in their exports has decreased to 15%.

Figure 16

Outlook for exports 2019-2021



Results by area



7. Results by area

7. RESULTS BY AREA

7.1. Labor Market

The rating for the Labor Market area is lower than it was last year, and this is where there is the greatest room for improvement in the opinion of foreign investors. It is also the area that has had the most negative impact by far from the COVID-19 crisis, according to the companies participating in the report.

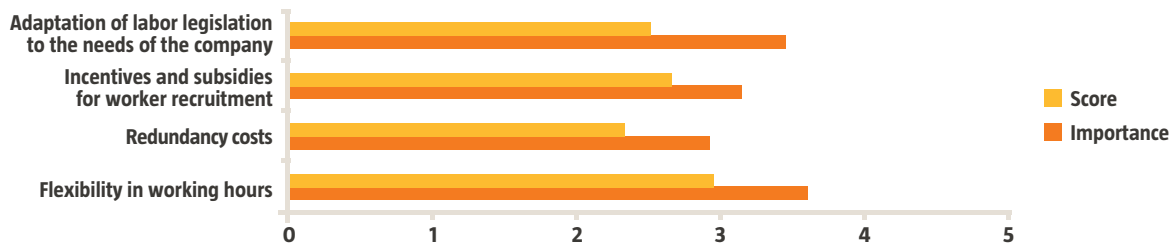
In this year's edition, the main problem is related to the adaptation of labor legislation to company needs, which has already been pointed out as one of the main areas for action at a general level in this survey. This aspect has seen the largest fall in rating in the whole survey, and so there is a very broad margin for action.

There are also imbalances with regard to the costs of layoffs and incentives and subsidies for labor contracting and the rating for these two aspects has fallen compared to 2019, and they are both now two of the 10 variables in the whole survey with the lowest ratings.

Finally, flexibility in working hours, that was a priority sphere of action last year, is no longer considered to be so. It is the only aspect of the Labor Market that has improved, and it is also the most important in this area as far as foreign investors are concerned.

Figure 17

Labor market



7. Results by area

7.2. Taxation

Taxation obtained one of the lowest scores in general terms, only behind Regulatory Environment, and received a lower score than in the previous year for all aspects considered.

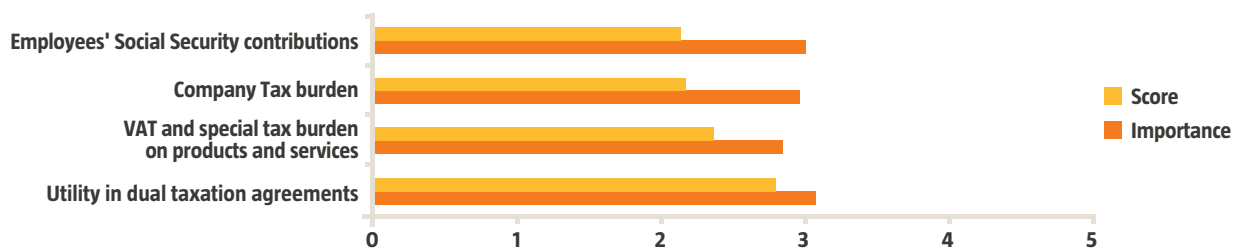
As in previous years, the main difficulties are still workers' Social Security contributions, that obtained the lowest score for the area, and the fifth lowest for the whole survey.

There is still a significant room for action on the burden of VAT and above all on Corporation Tax, the sixth lowest score in the survey and it has also suffered a setback compared to 2019.

Double taxation agreements do not appear to be seen as a problem by foreign investors in Spain in spite of their lower rating.

Figure 18

Taxation



7. Results by area

7.3. Regulatory Environment

The Regulatory Environment is the most poorly rated area this year, and the one whose rating has fallen the most compared to last year. There is significant room for improvement in this year's report, with imbalances in several aspects.

The bureaucratic burden on corporate operations continues to be the most critical aspect, with the worst score of the entire survey and down since last year. It has already been pointed out as one of the main and recurring priority areas for action. Investors also point to the reduction of the bureaucratic burden as the main measure that would contribute to increasing their investment in Spain.

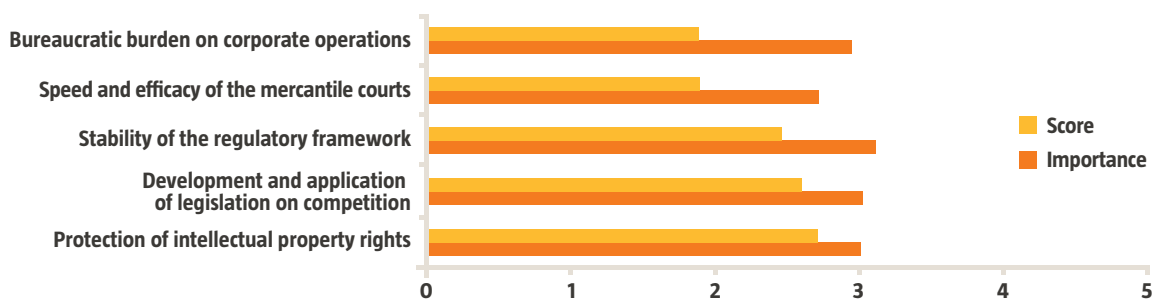
There is also substantial room for improvement with regard to the speed and effectiveness of the commercial courts, that has the second-worst rating in the survey and significantly worse than in 2019.

The stability of the regulatory framework is the most important issue for investors in this area, and a key aspect for attracting and retaining foreign investment. This year it has seen the largest fall in rating in the whole survey, and so there is very significant room for improvement.

Protection of intellectual property rights does not appear to pose any problems, although its rating has fallen slightly in the opinion of the investors.

Figure 19

Regulatory environment



7. Results by area

7.4. Infrastructures

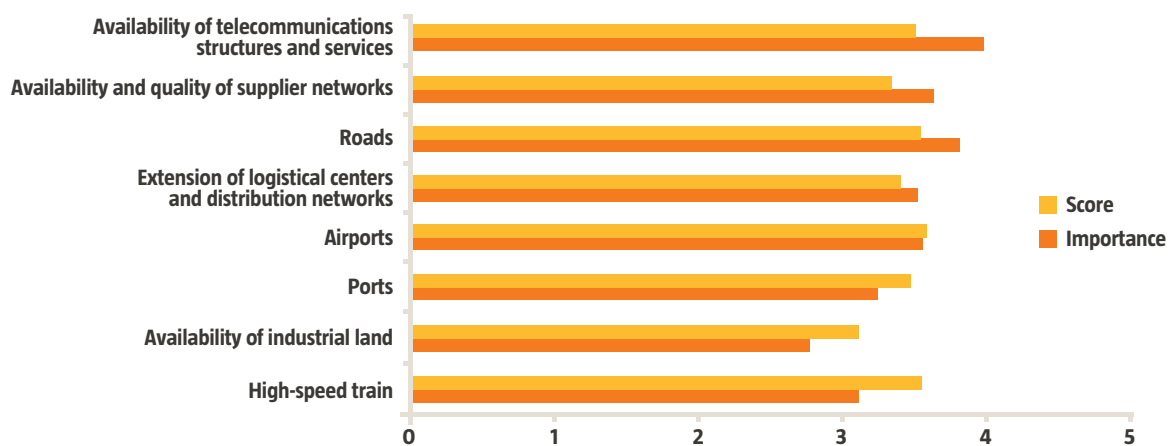
As in previous editions, Infrastructure obtained the highest rating in the whole Barometer, fully meeting the expectations of foreign investors in Spain and it is also one of the most important in general terms.

Several of the aspects considered here, such as airports, roads, availability of telecommunications services and structures and the high-speed train, have already been indicated as some of the strengths at the general level of the study, just as they were last year. With the availability of telecommunications services there is some room for improvement, and this is the aspect investors consider most important in terms of infrastructures and the second-most important in the whole survey. There is also room for improvement in the availability and quality of supplier networks and roads, a most important aspect for foreign investors.

As for the remaining variables included in this block, the ratings are generally very positive and perfectly meet the investors' expectations.

Figure 20

Infrastructures



7. Results by area

7.5. Costs

The Costs area obtained the same rating as for last year, although there were certain significant imbalances in a number of variables included in this block.

The main concern is still the cost of electricity, which was indicated as one of the main priority areas for action and obtained the third-lowest rating in the survey, although it received a slightly better score this year.

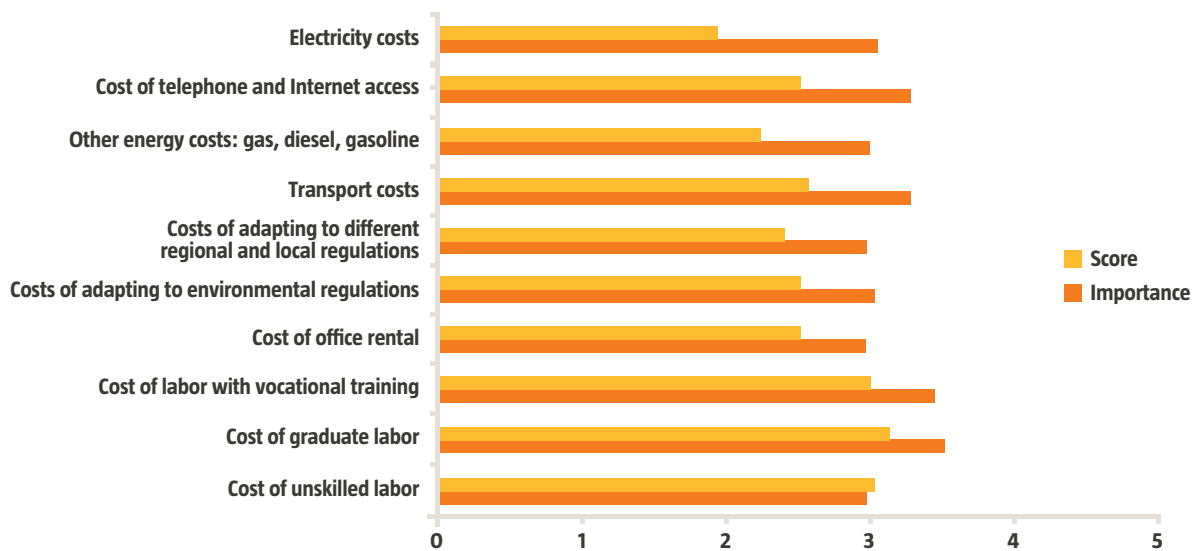
There is also significant room for improvement in telephone costs and Internet access, as well as other energy costs, with the latter obtaining one of the lowest ratings at a general level in the survey, even though there was a slight improvement this year.

The companies included in the survey continue to value the costs of both skilled and unskilled labor as one of the reasons for setting up in Spain. They are given a high rating and meet the expectations of the investors.

As usual, foreign investors in Spain place more importance on skilled labor, especially university graduates, than on unskilled labor, which is a clear indication of the type of high added value investments made by foreign companies. There is room for improvement in the cost of qualified labor, more apparently for those with professional qualifications.

Figure 21

Costs



7. Results by area

7.6. Finance

Finance is once again the least important area for the companies surveyed, but maintains its rating compared to last year and does not present any significant difficulties.

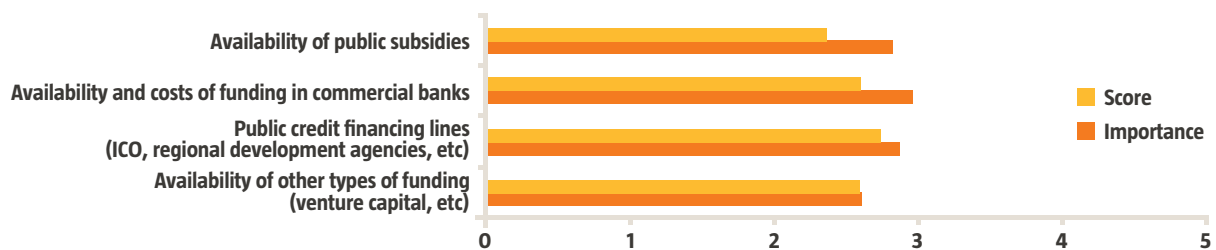
The main area for improvement continues to be the availability of public subsidies. There is slight room for improvement in the availability and cost of financing through commercial banking, although the rating for this has fallen compared to 2019.

Public credit lines of finance, such as the Official Credit Institute (ICO in Spanish) is one of the aspects that has obtained improved rating in the survey, as well as being one of those whose importance has increased compared to last year and investor expectations seem to be being met.

The availability of other types of funding such as venture capital, although they also score poorly, do not appear to be seen as a problem by foreign investors.

Figure 22

Finance



7. Results by area

7.7. Human Capital

The Human Capital area is once again the most important for investors, and one of the most highly rated although there are still clear imbalances.

As in previous editions, three aspects of Human Capital (language skills, accepting responsibilities and targets and learning capacity) fall into the category of the four most important aspects in the whole survey in the opinion of investors. With regard to language skills, there is a clear imbalance between its importance and the low score obtained, and it has repeatedly been confirmed as the main area for action at a general level in the survey.

There is also need for improvement in accepting responsibilities and targets and in learning capacity, that constitute two further priority areas for action.

Both the quality of the vocational training system and the overall assessment of the higher education system are important aspects for investors and there is room for improvement in both areas, especially regarding the higher education system that was also given a lower rating compared to 2019.

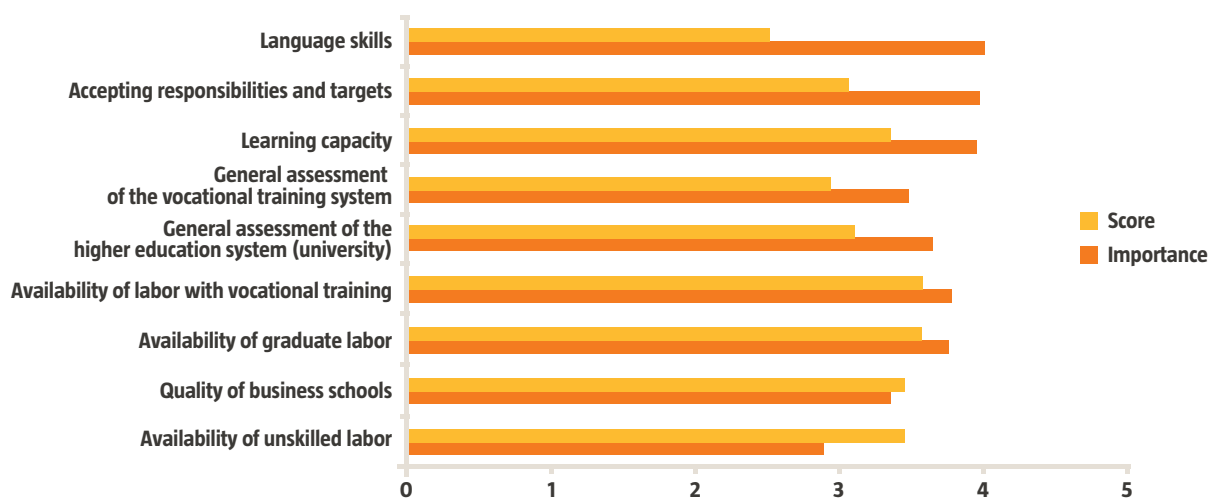
As in previous years, investors give very different importance to the availability of skilled and unskilled labor. Skilled labor is much more important to them, so efforts should be made to meet their expectations in this regard. The main gap is in the availability of skilled labor with professional qualifications.

The quality of the business schools and the availability of unskilled labor are two areas in which the investors' expectations are largely fulfilled, although the rating for business schools has gone down slightly.

It is essential to emphasize these aspects of Human Capital, since they are not only the most important for investors, they play a key role in Spain's competitiveness in the medium and long term.

Figure 23

Human Capital



7. Results by area

7.8. Innovation

The Innovation area is one of the most poorly rated in general terms and in spite of not being one of the most important areas for investors, it is the area whose importance has increased the most in this edition.

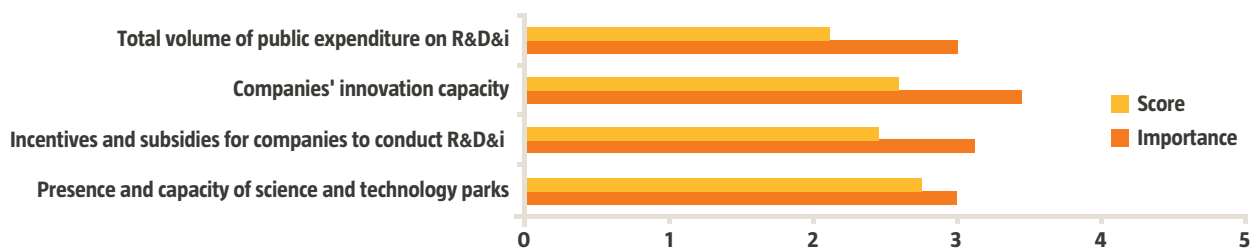
All the aspects considered here have increased in importance for the investor this year, and the two whose importance has increased the most are the total volume of public expenditure on R+D+i and incentives and subsidies to enable companies to conduct R+D+i. There is room for improvement, especially in the volume of public expenditure, that obtained the fourth-lowest rating in the survey.

Investors also believe that there is plenty to do in companies' capacity for innovation.

The presence of science and technology parks is the highest rated aspect for investors with regard to innovation and meets the requirements of foreign companies.

Figure 24

Innovation



7. Results by area

7.9. Market Size

This is the second most important area for foreign investors, together with Human Capital. It has a positive rating and is one of the main reasons that foreign companies surveyed chose to become established in Spain.

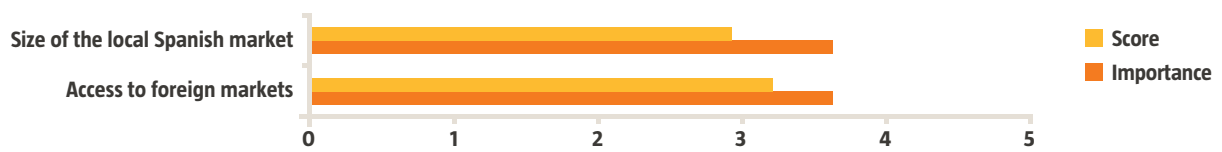
Both the access to foreign markets and the size of the local market were highly rated this year, although both obtained a lower rating compared to 2019, above all with regard to the local Spanish market.

There is still some room for improvement in both, particularly in the growth of the local Spanish market.

These two aspects are very important for investors and are repeatedly singled out as the main attractions for investing in Spain, so we need to pay particular attention to them.

Figure 25

Market Size



7. Results by area

7.10. Quality of Life

As in all previous editions of the Barometer, the rating of the Quality-of-Life area is very positive, and in general terms meets investors' expectations, even though it was the second most affected by the COVID-19 crisis according to the companies participating, and in 2020 there was a downturn in the rating for this block.

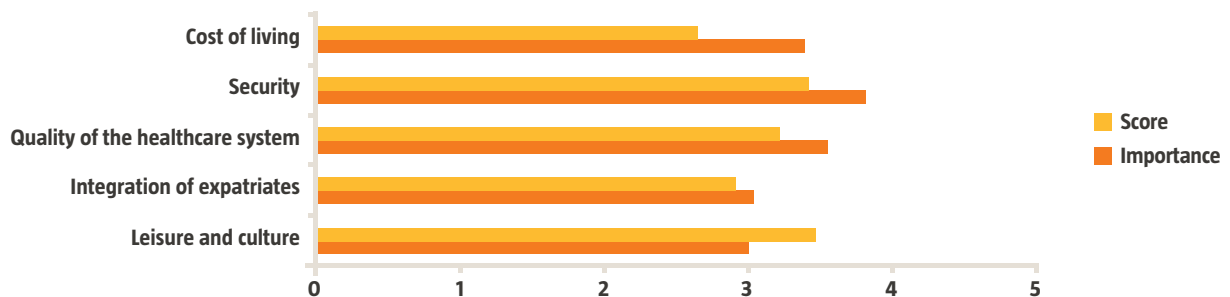
The cost of living is still the main area for improvement, as in previous editions. Room for improvement has also been observed with regard to safety and security, which is also the most important aspect for investors with regard to quality of life and its rating fell compared to 2019. In any case safety and security are highly rated by investors and is one of the strong points at a general level in the report.

The health system was also highly rated, but significantly less in this edition. The same occurs with leisure and culture, the highest rated by investors with regard to quality of life in Spain, but here there was also a downturn that can be seen as a logical consequence of the exceptional circumstances experienced in 2020.


The integration of expatriates does not appear to pose any problems in the opinion of foreign investors in Spain.

Figure 26

Quality of Life



Motives for setting up in Spain and measures required to increase investment

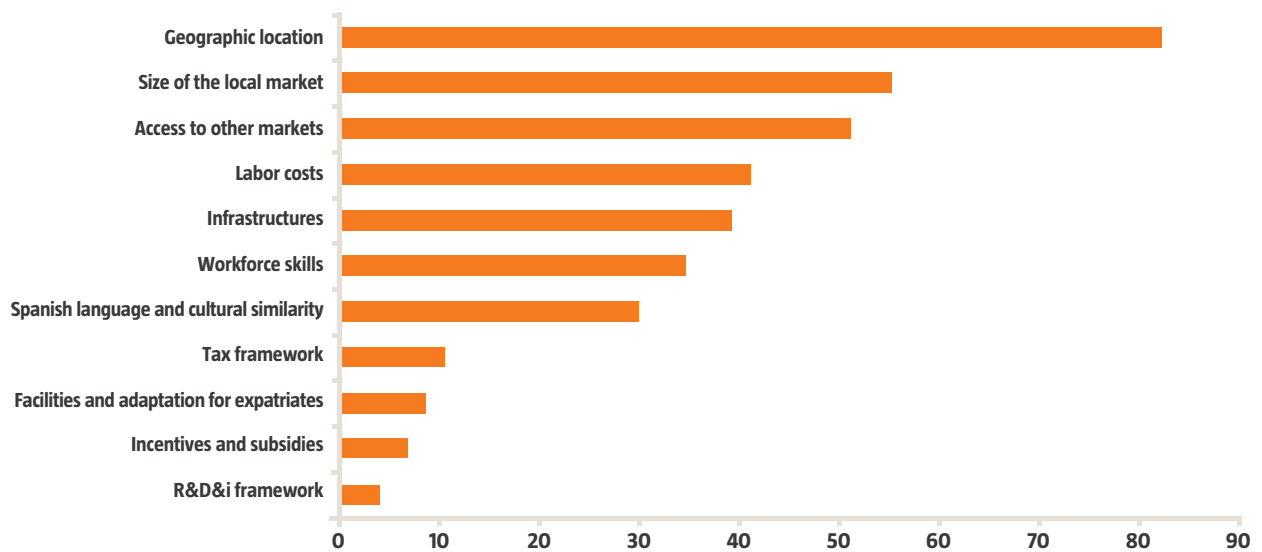


8. Motives for setting up in Spain and measures required to increase investment

When asked their motives for choosing to set up in Spain, the great majority of companies cited its geographic location and the size of and access to the markets. In addition to infrastructures, other important factors mentioned included labor, both with regard to its cost and the skills available.

Figure 27

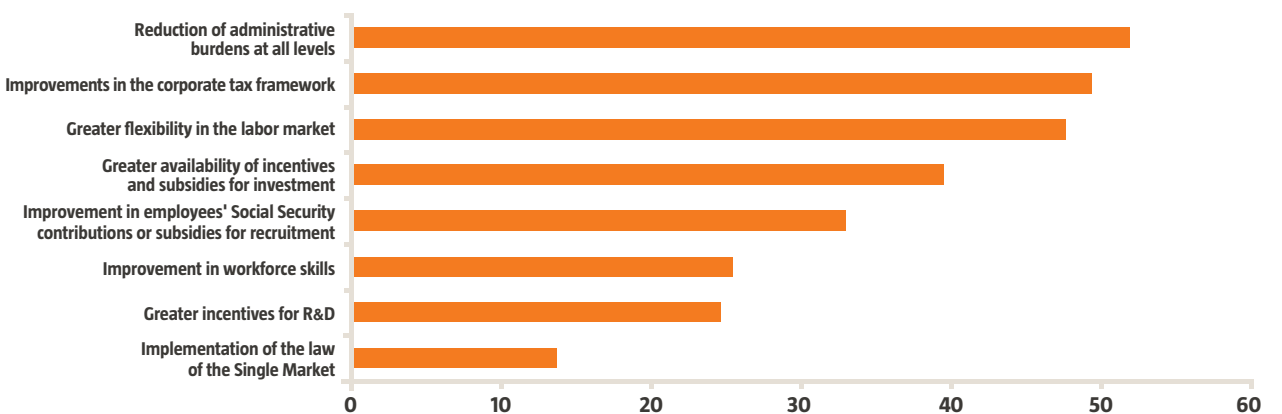
Motives for setting up in Spain (percentage of companies indicating each motive)



When asked to cite the main measures contributing to increasing their companies' investment in Spain, a majority of those surveyed highlighted the reduction in the administrative burden, an improved tax framework, greater flexibility in the labor market and broader availability of incentives and subsidies for investment.

Figure 28

Main measures for increasing investment (percentage of companies indicating each measure)



Analysis by country

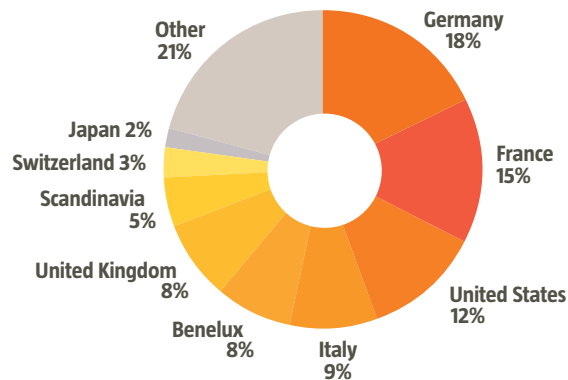


9. Analysis by country

9. ANALYSIS BY COUNTRY

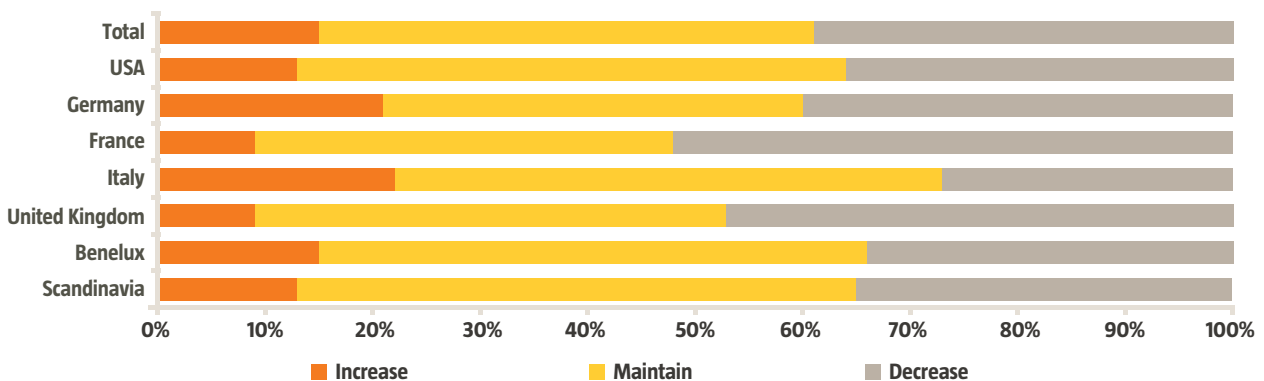
As in the previous year, this edition analyzed whether there were any significant differences in the investors' responses to certain questions depending on their country of origin. Although in general terms the responses were very similar regardless of the company's country of origin, there were some subtle differences that are highlighted below.

Most of the companies surveyed are from Germany, France, United States, and Italy, followed by Benelux, the United Kingdom, Scandinavia and Switzerland.



9.1. Outlook for investment

For the study as a whole, 61% of the companies surveyed foresaw increasing or maintaining their investments in Spain in 2020, a significantly lower percentage than for the previous year due to the impact of the COVID-19 crisis. The main participating countries are moving along similar lines, although there are some notable differences. Companies from Italy and Benelux plan to make slightly higher investments than the average increase for the companies surveyed. Meanwhile, companies from France and the United Kingdom presented somewhat less favorable data, with fewer companies intending to increase investments.



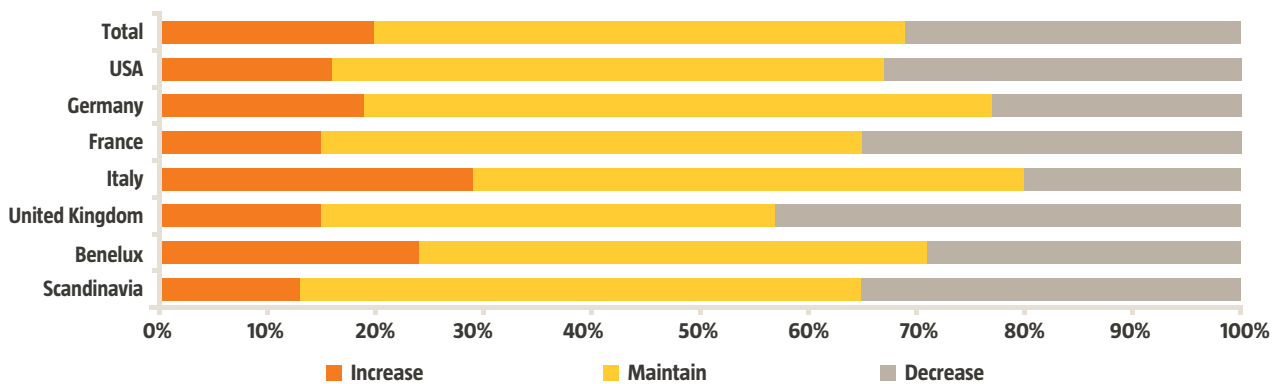
9. Analysis by country

9.2. Outlook for staffing

Regarding the expected number of employees in Spain in 2020, 70% of companies expect to increase or maintain their workforce. Once again, the outlook for companies with Italian capital is significantly higher than average, as is the case with German companies. The outlook for companies with capital originating in the United Kingdom and Scandinavia with regard to the workforce is slightly below average.

Figure 31

Outlook for staffing by country

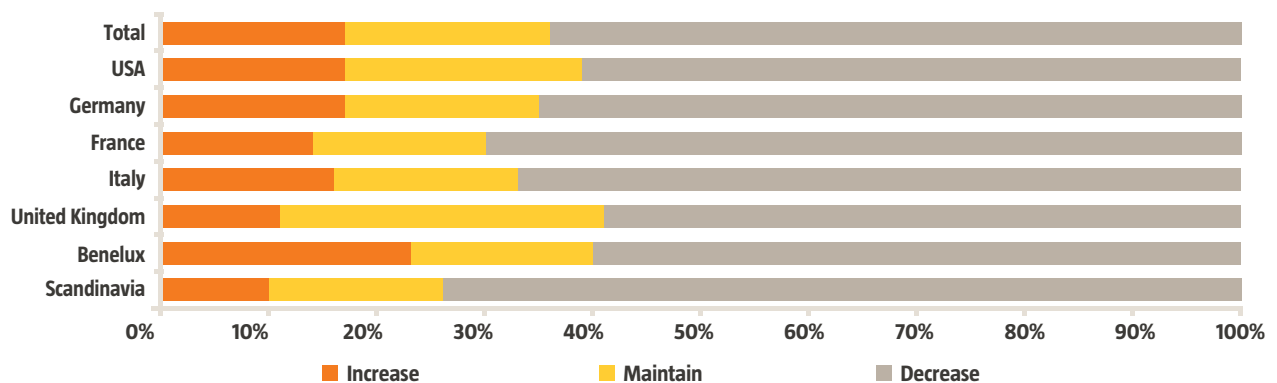


9.3. Outlook for invoicing

Invoicing was the most affected area by the crisis in 2020 and only 36% of the companies expect to increase or maintain their invoicing. The results in this regard are fairly homogeneous for all countries, with slight negative differences for France and Scandinavia and some more positive differences for companies with capital originating in the United States, United Kingdom and Benelux.

Figure 32

Outlook for invoicing by country



9. Analysis by country

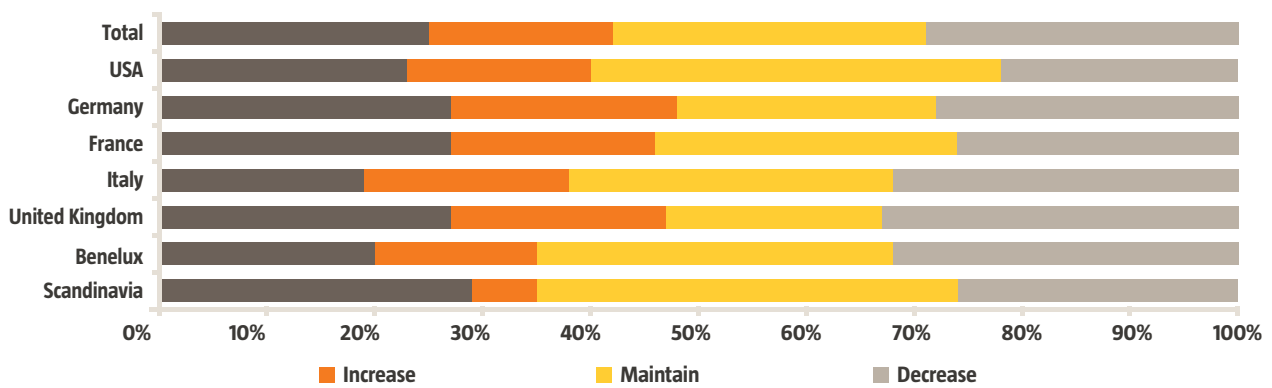
9.4. Outlook for exports

The final category in the outlook section is exports. 75% of the foreign companies surveyed export to third markets from Spain. In this case, companies from Benelux and United States have the highest export profile.

17% of companies plan to increase their exports in 2020, while 29% will continue the same export trend as in previous years. Companies with United States' capital are those with the best outlook with regard to exports.

Figure 33

Outlook for exports by country



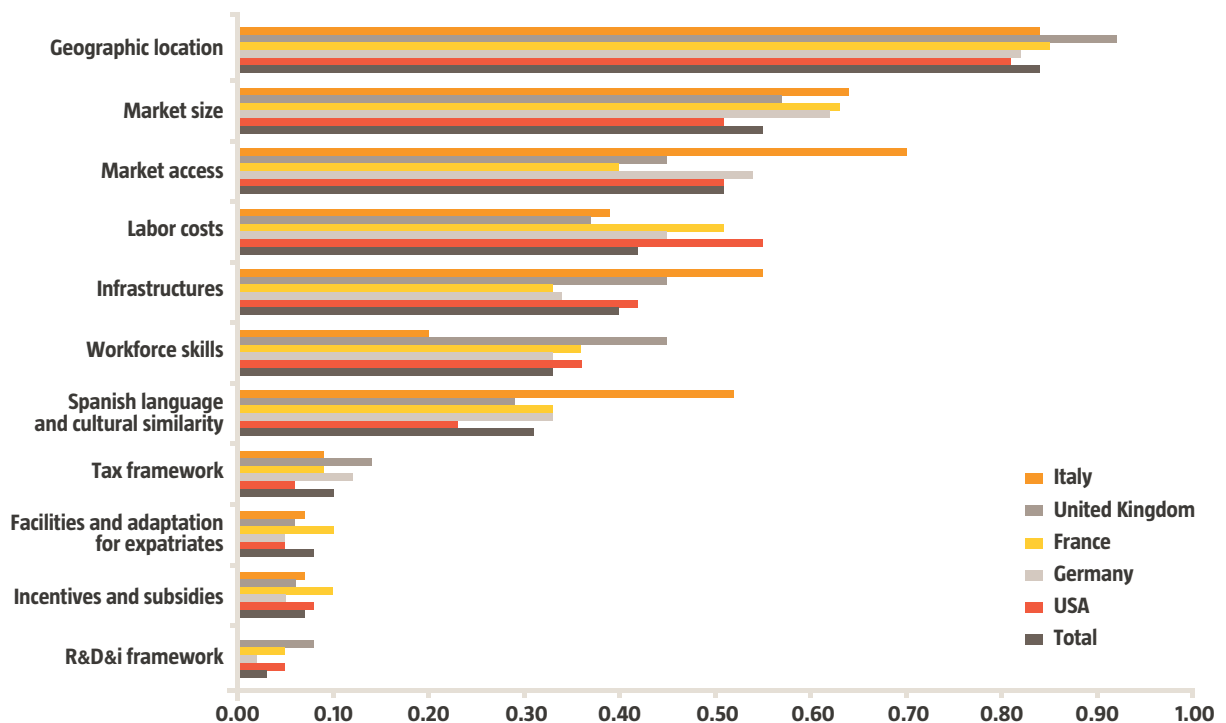
9. Analysis by country

9.5. Motives for setting up in Spain

Although all the groups represented cited geographical location, market size and access to other countries as the main reasons for setting up in Spain, there were some significant differences. Companies from the United Kingdom, for example, gave above average importance to geographical location and workforce skills. Companies from Italy gave a higher than average score to access to other markets, infrastructures, cultural similarities and the Spanish language. Companies from France and the United States gave greater priority to labor costs.

Figure 34

Motives for setting up in Spain by country



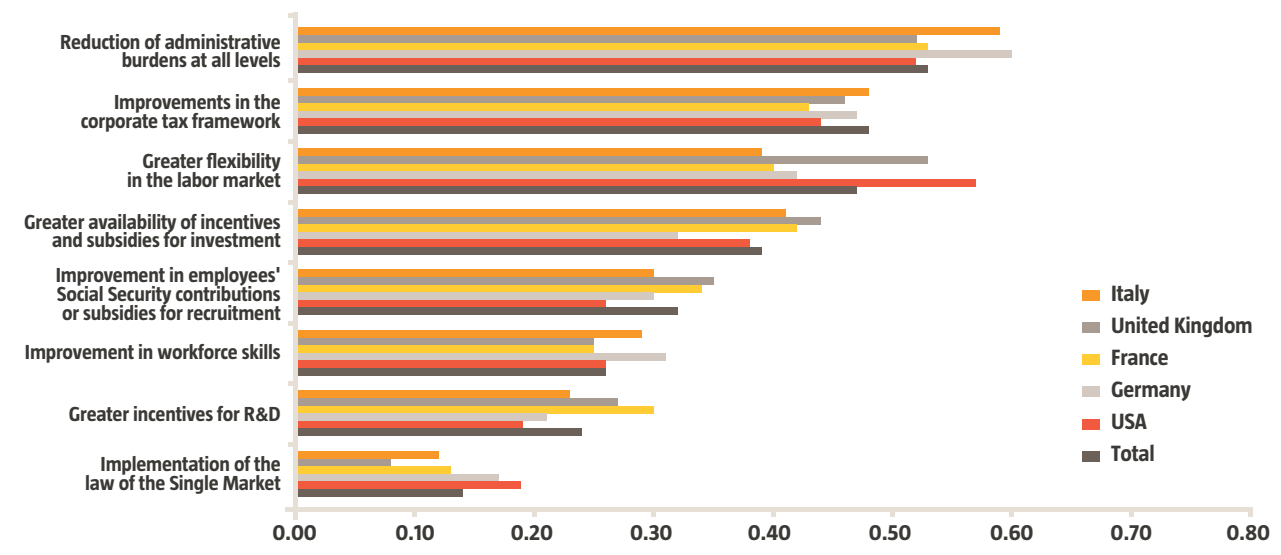
9. Analysis by country

9.6. Measures that would contribute most to increasing their company's investment in Spain

Although practically all the country groups concur in pointing to a reduction in the administrative burden, improvements in the tax framework, and greater flexibility in the labor market as the three priority measures required, there are some interesting differences. For example, for companies from Germany most importance is given to the reduction of administrative burden and the improvement in worker qualifications. Companies from the United States and United Kingdom clearly highlight greater flexibility in the labor market, and companies from France give greater importance to the availability of incentives and subsidies.

Figure 35

Measures that would most contribute to increasing investment in Spain by country



Methodology



Methodology

The Barometer was compiled jointly by ICEX, *Multinacionales por marca España*, and the International Center for Competitiveness (ICC) at the IESE.

This edition has maintained the same structure and content as for previous years, although a new section has been introduced which analyzes the impact of COVID-19 on the business climate and the main entrepreneurial dimensions. To compensate for the length of the survey, some questions from previous editions were removed, following the criteria of lesser importance given by investors, and in any case maintaining comparability between editions.

As in previous editions, the methodology followed was the completion of a questionnaire by qualified managers of the foreign companies currently operating in Spain. This year, over 830 responses were obtained.

To ensure the continuity of this study, since 2007 the following areas in the questionnaire have been classified into four major groups: General Panorama in Spain, Costs, Infrastructures and Resources and Quality of Life. Spain's average score is calculated from the average of the scores obtained in each of these four groups.

1) GENERAL PANORAMA IN SPAIN

Labor Market

Regulatory Environment

Market Size

2) COSTS

Costs

Taxation

Finance

3) INFRASTRUCTURES AND RESOURCES

Infrastructures

Human Capital

Innovation

4) QUALITY OF LIFE

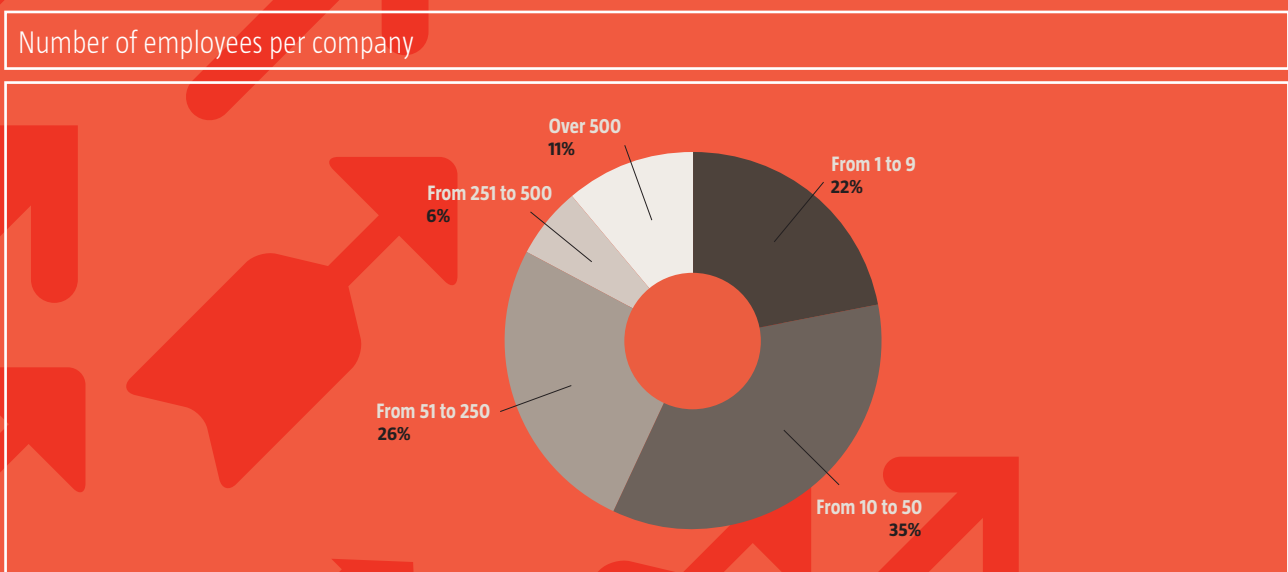
The questionnaires explored both the companies' score for Spain in each aspect and the importance they gave to each factor, so the results can be weighted according to companies' real interests.

In each question the respondents are asked to assign a score of 1 to 5 for the importance this aspect has for their company, and a second score using the same scale for how they would rate Spain's performance in this regard. Any questions that reveal a significant gap between the importance and the weighted rating given by the respondents have been highlighted as priority spheres of action, as they are understood to fall short of foreign investors' expectations in Spain.

Appendix 1: Profile of the companies surveyed

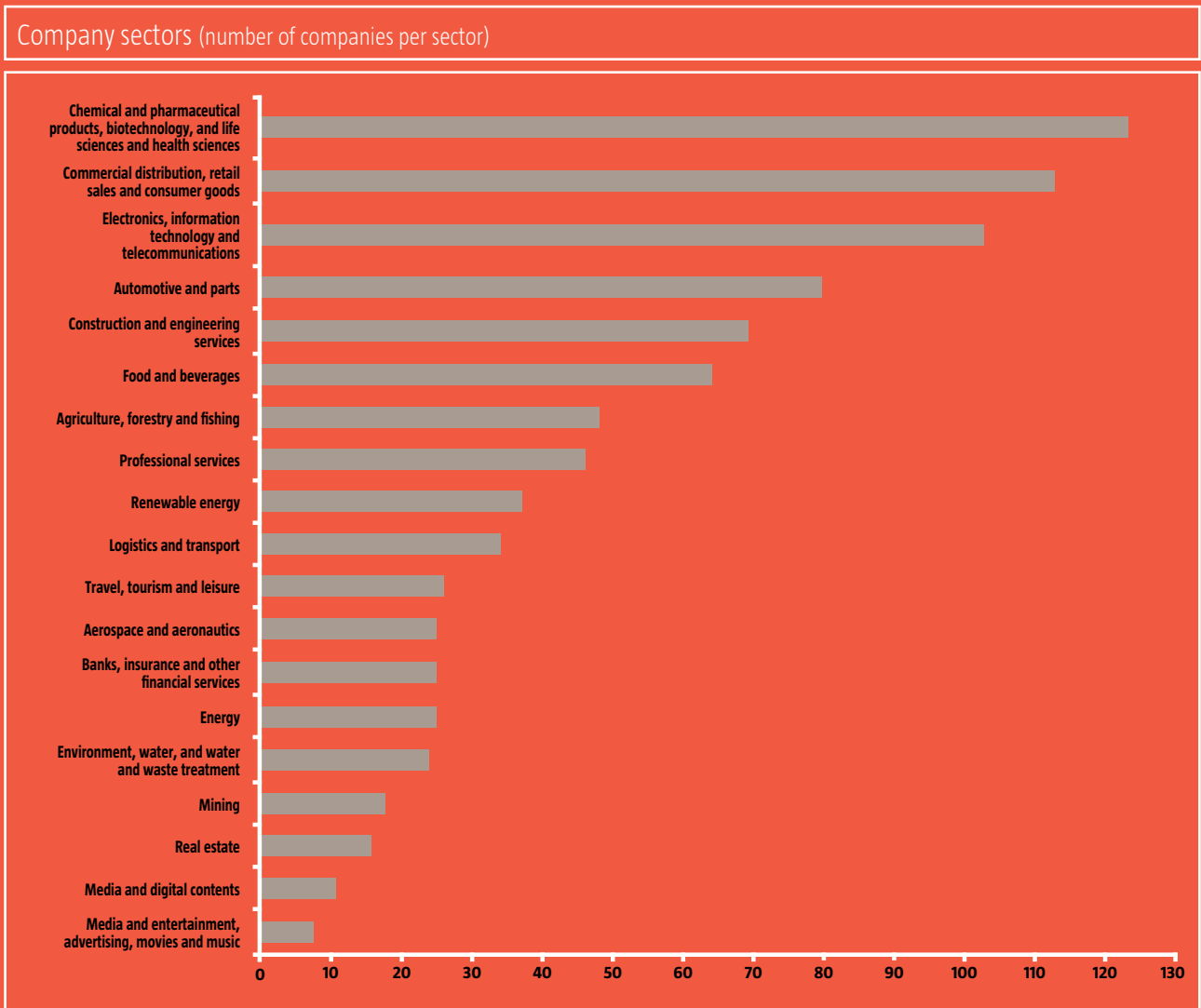
The companies taking part in the study have a fairly heterogeneous profile, and companies of all sizes are represented; however, there is a significant component of companies with up to 250 employees, as can be seen in figure 36.

Figure 36



The sectors represented in the sample are very diverse as can be seen in figure 37. The sector with the greatest representation is commercial, pharmaceutical and biotechnological products, followed by commercial distribution, retail sales, consumer goods, electronics, IT and telecommunications.

Figure 37



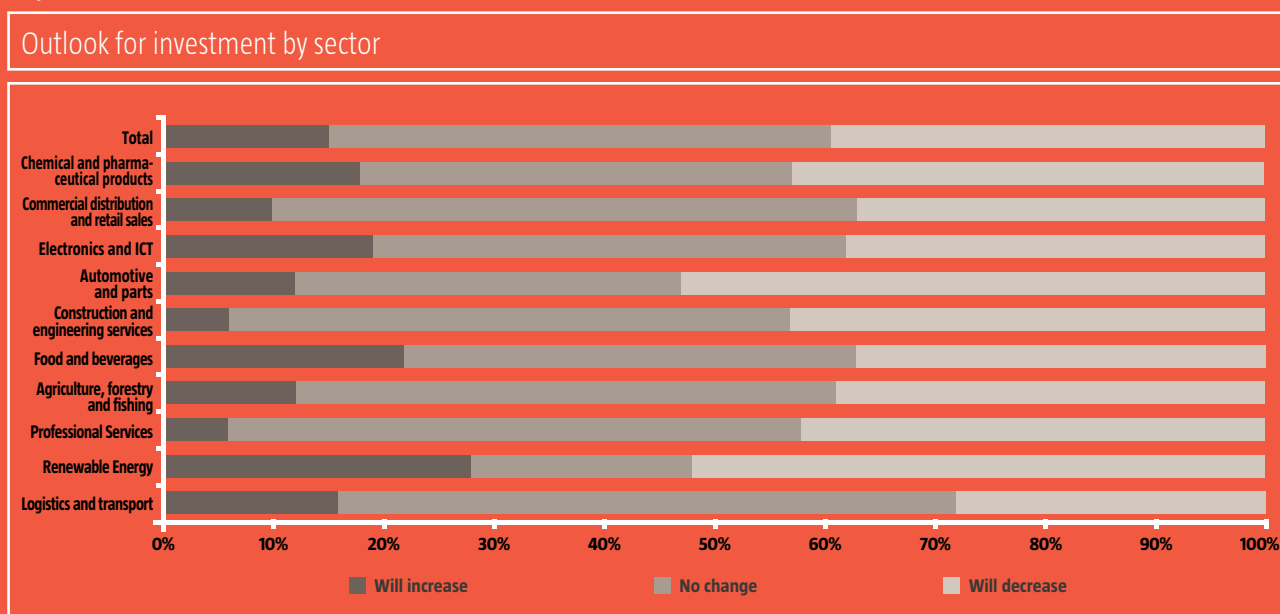
Appendix 2: Analysis by sector

In this edition a comparative study was made of investors' outlooks for the ten most representative sectors in the survey for the purpose of analyzing whether there were any significant differences depending on the activity sector. This involved comparing the outlook for the closure of 2020 with regard to investment, workforce, invoicing and exports.

1. Outlook for investment by sector

For the study as a whole, 61% of the companies surveyed foresaw increasing or maintaining their investments in Spain in 2020, as pointed out above, a significantly lower percentage than for the previous year due to the impact of the COVID-19 crisis. The main sectors represented are mostly moving along similar lines, although there are some notable differences. Below average results were presented for the following sectors: automotive and parts, renewable energy, professional services and construction. However, the outlook for companies in the logistics, food and electronics sectors was better than average with regard to investment in 2020.

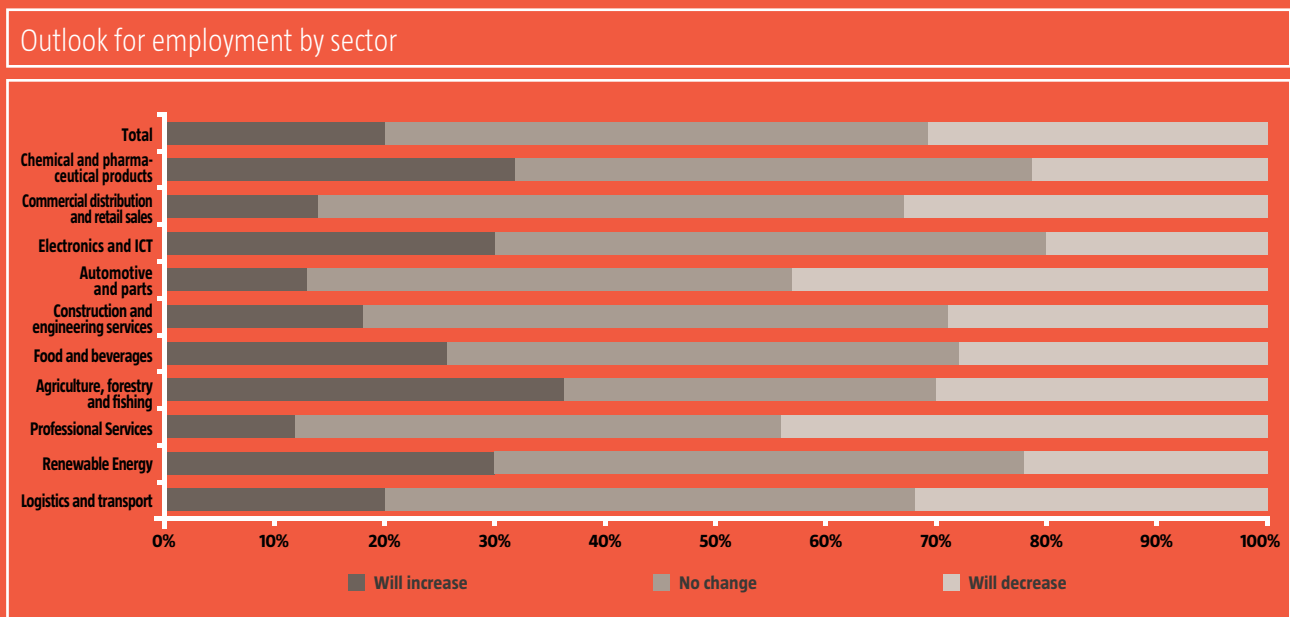
Figure 38



2. Outlook for employment by sector

For the study as a whole, 70% of the companies surveyed foresaw increasing or maintaining their workforces in Spain in 2020. This percentage fell to 56% and 57% respectively in the professional services and the automotive and component sectors. However, companies in the electronics and ICT sectors presented very favorable results, as did those in the chemical and pharmaceutical products sector.

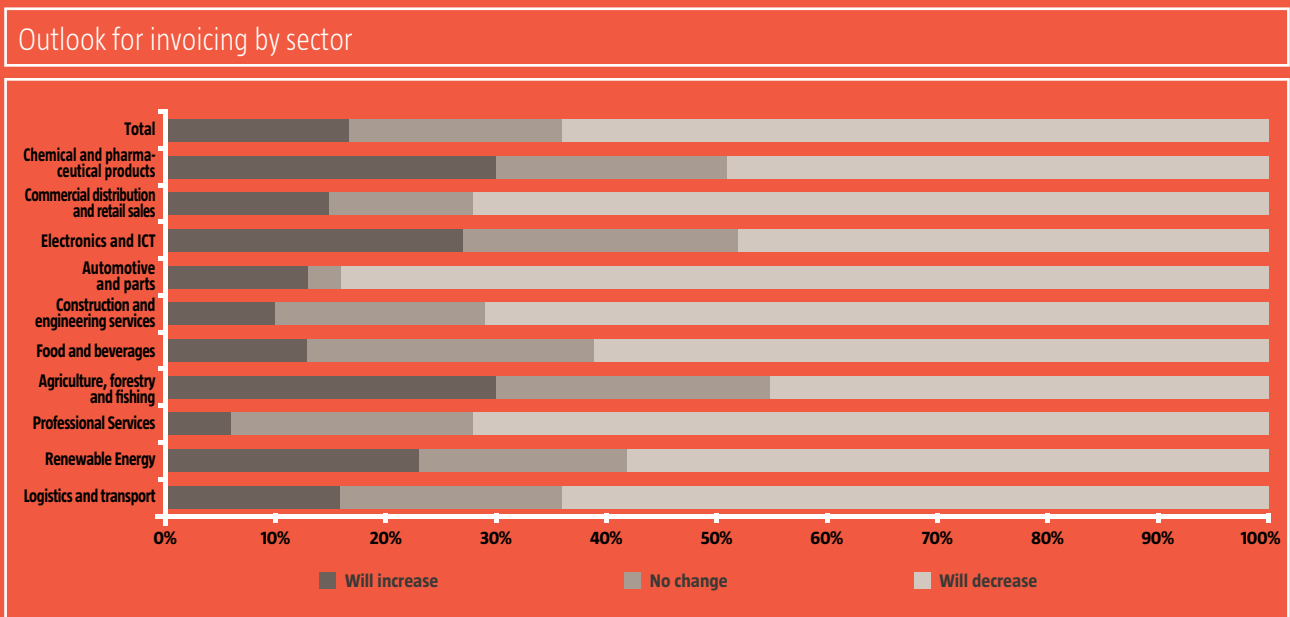
Figure 39



3. Outlook for invoicing by sector

Invoicing was the area most affected and at a global level 64% of the companies participating in the survey expected to close 2020 with a decrease in invoicing. This percentage increased significantly in the sectors most affected, such as automotive and parts, followed by commercial distribution, construction, and professional services. The outlook for invoicing was better than average in companies in the agriculture, forestry and fishing, electronics and ICT, and chemical and pharmaceutical products sectors.

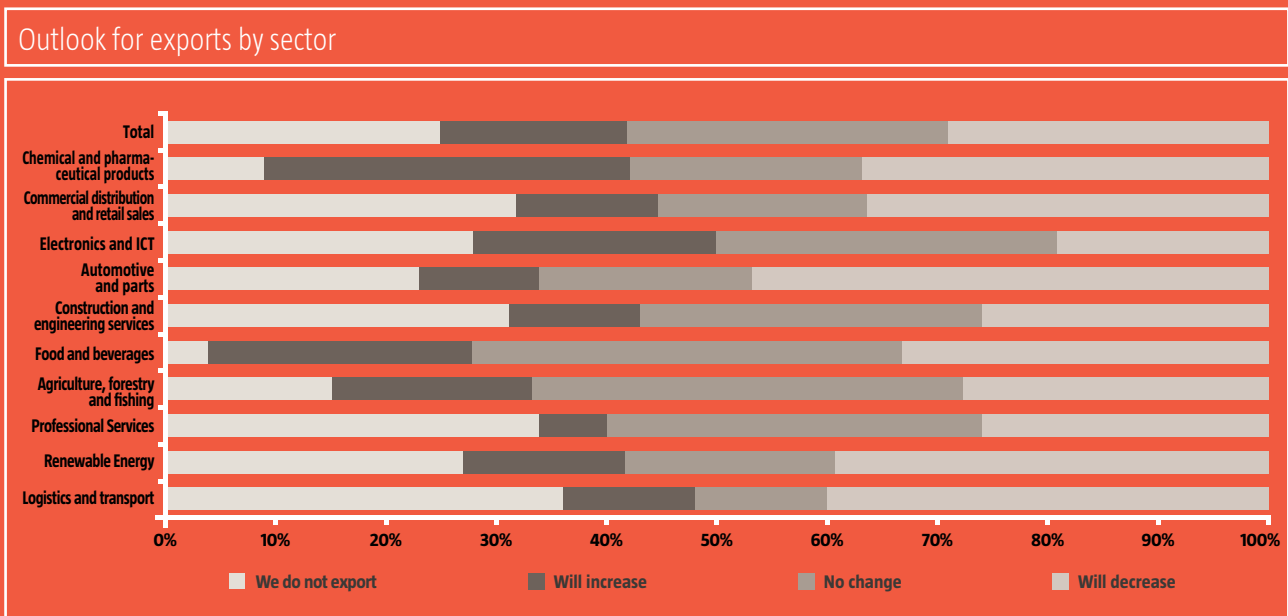
Figure 40



4. Outlook for exports by sector

In the study as a whole, 75% of the companies surveyed export to other countries from Spain. As can be seen in figure 41, companies in the food and beverage sectors have an above-average export profile, with 96% of the companies exporting, followed by chemical and pharmaceutical products (91%) and Agriculture (85%). With regard to the outlook for exports in 2020, the most negative figures were given by the automotive, logistics and commercial distribution sectors, as opposed to the better outlook for exports in sectors such as agriculture, electronics, food and beverages.

Figure 41



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