



Barometer of the Business Climate in Spain

From the Foreign
Investor's Perspective

Results 2021



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Presentation



1. Presentation

1. PRESENTATION

This is the 14th edition of the “Spanish Business Climate Barometer for foreign investors”, which has now become a flagship publication in Spain.

The 2021 edition contains an assessment of the business climate in Spain in 2021, as seen by more than 730 foreign companies. Its forecasts for the next two years are also included. This provides a medium-term overview of the strengths that need to be maintained and the main areas of action where further efforts must be focused.

The previous edition included a specific chapter on the impact of the COVID-19 crisis. Only some of the questions from this section have been retained in this edition so as to assess companies’ expected evolution towards normality.

However, a specific chapter on sustainability has been included in this edition, which analyses the sustainability strategies of foreign companies in Spain, the main sustainability objectives, and the degree to which conditions in our country favour the achievement of these objectives.

Investor companies confirmed an unfavourable performance in 2020, but a clear improvement in 2021 and a very favourable outlook for 2022 in all aspects analysed (investment, workforce, turnover and exports).

The Barometer has been jointly compiled by ICEX-Invest in Spain, Foreign Multinationals for the Spain brand and the IESE Business School’s *International Centre for Competitiveness* (ICC).

The Executive Management of ICEX- Invest in Spain has the role of promoting and attracting foreign investment. Its mission is to promote, attract and maintain foreign investment in Spain, as well as reinvestment from established foreign companies, serving as a reference point for foreign investors and a point of contact for national, regional and local institutions engaged in promoting and attracting investment. ICEX also performs activities to position Spain as a global platform for international investment and business. Another area of action for ICEX is improving the business climate in Spain through ongoing talks with other ministerial departments, business associations and companies located in Spain, both Spanish and foreign owned.

Foreign Multinationals for the Spain brand is an association comprising multinational companies from various sectors operating in Spain who wish to demonstrate their commitment to Spanish society and the Spain brand. Among its roles, the association fosters collaboration with the Spanish public authorities to promote the Spain brand and champion the common interests of the country. It also serves as a conduit for informing the heads of these government institutions about the aspects that are most highly valued by multinationals when making their decisions, in order to ensure Spain’s place as a reliable destination to conduct their operations.

The IESE (Institute of Advanced Business Studies) is an institution dedicated to teaching advanced business studies. The ICC is one of its research centres, its mission being to promote extensive learning and research into the field of competitiveness and its implications in different areas. Headed by Professor Pascual Berrone and established in collaboration with the *Institute for Strategy and Competitiveness*, led by Professor Michael Porter at Harvard University, the ICC places particular emphasis on the European Union and its role in creating a favourable business climate.

Executive Summary



2. Executive Summary

2. EXECUTIVE SUMMARY

Spain's rating has improved compared to 2020.

Spain's rating has improved compared to 2020.

The results of this edition of the Spanish Business Climate Barometer— with an average rating of 3 out of 5 – are two tenths higher than in the previous edition. These results match those of 2019, before the pandemic, and show the recovery path of companies after the COVID-19 crisis.

The most highly rated areas are Infrastructure, Quality of Life, Market Size and Human Capital.

As in previous years, the most important area for investors this year was Human Capital, followed by Market Size. Other important areas are the Labour Market and Infrastructure.

Investors gave the highest scores to Infrastructure, Quality of Life, Human Capital and Quality of Life – obvious strong points in Spain – followed by Market Size and Human Capital. It is positive that the highest rated areas are once again the most important areas for investors this year.

Among the lowest rated aspects this year were those related to the Regulatory Environment. The other two areas with the lowest ratings in this edition are Taxation and Innovation.

Foreign companies in Spain consider that action should be taken in some areas of the Labour Market (particularly in relation to the adaptation of labour legislation to the needs of companies, although the efforts made during the crisis are valued positively), Costs (such as electricity costs, which is one of the main concerns in this edition) and the Regulatory Environment (such as the reduction of the bureaucratic burden). Human Capital aspects are also considered essential and positively rated as a whole, although there is room for improvement in several areas, such as language skills, or the acceptance of responsibilities and objectives. On the other hand, the Infrastructure and Quality of Life areas were both rated in line with the degree of importance assigned, with investors' expectations generally being met.

Forecasts for investment, turnover, creation of employment and total exports for 2021 and 2022 are very positive and have all improved compared to 2020.

Prospects for investment in 2021 by foreign companies in Spain reflect a clear recovery compared to 2020, reaching levels similar to the year prior to the pandemic. Thus, 90% of the companies surveyed increased or maintained their investments in 2021, compared to 69% in 2020. For 2022, 93% of companies plan to increase or maintain their investments.

Employment prospects are also improving substantially. In 2021, 88% of companies increased or maintained their workforce, whereas only 12% reduced them, compared to 2020 when 25% of companies said they had reduced their workforce. For 2022, the outlook is even better, with 94% of companies expecting to increase or retain employees.

Turnover prospects in our country improved the most in 2021. Compared to 54% of companies that decreased their turnover in 2020, only 14% decreased their turnover in 2021. For 2022, 71% of companies expect to increase turnover, 23% expect to maintain turnover and only 6% expect it to fall.

Finally, with regard to total exports, foreign companies in Spain have a clear exporting profile, and 75% of them export from Spain to third markets. In 2020, 26% of companies decreased their exports, but this dropped to 9% in 2021 and by 2022 only 4% of companies expect exports to fall.

Context



3. Context

3. CONTEXT

The Spanish Business Climate Barometer for foreign investors is produced each year from answers to a questionnaire provided by managers and representatives of foreign-owned companies in Spain and covers all the major aspects that make up our business climate. These responses are framed within a certain economic, social and political-institutional context that inevitably influences them and does therefore have a certain impact on this document.

In this 14th edition of the Barometer, the political, economic and social context witnessed and perceived during the final quarter of 2021, when respondents answered the questionnaires, continued to be heavily influenced— as with the 2020 edition – by the consequences of the COVID-19 pandemic.

However, although the crisis caused by the virus resulted in a very deep contraction of economic activity in 2020, the reality has been different in 2021. Driven by Spain's high vaccination rate, the Spanish economy has already started on the road to recovery, with GDP growth of 5% over 2020. This growth has been accompanied by a positive evolution in employment, which has returned to pre-COVID levels in all metrics. The economic recovery and the creation of jobs have also boosted tax revenues to record highs. Foreign demand made a positive contribution of 0.40% to GDP growth, driven by the good performance shown by exports of goods and services, which increased by more than 13% with respect to 2020.

However, it has not all been good news in 2021. The emergence of new COVID-19 variants prolonged the negative economic consequences of the pandemic throughout the year, slowing global economic growth and contributing to the aggravation of other risk factors that also pose a threat to economic recovery. The disruptions caused by bottlenecks in supply chains, volatile energy prices and persistent inflationary pressures have also generated certain uncertainties that have negatively affected business activity and growth in the global economy, in Spain in particular.

This context of recovery and the economic growth that the Spanish economy underwent in 2021, still slightly hampered by certain global uncertainties, is revealed by the answers that the representatives of foreign companies in Spain provided to the questions in this Barometer.

But the context has not only crept into the responses to the questionnaires, it has also influenced the very methodology of this report. The undisputed prominence of the health crisis in the current situation has made it advisable, in this edition too, to include two questions that aim to determine and assess the impact of COVID-19 on the Spanish business climate and on the reality and expectations of foreign-owned companies established in Spain.

Another methodological change in this new edition of the Barometer is the inclusion of five questions in the questionnaire regarding the sustainability objectives of foreign companies established in Spain.

The commitment to sustainable development, as defined in the UN's 2030 Agenda, whose pillars are economic growth, social progress and environmental balance, is not only a priority for the public sector, but also for an increasing number of private companies. More and more multinationals are progressively integrating sustainable development objectives into their business strategies and exploring the business opportunities that these objectives open up for companies.

But this is not the only argument for including a new chapter on sustainability in this edition of the Barometer. The launch of the Recovery, Transformation and Resilience Plan by the Spanish Government, which aims to promote a structural transformation process in the Spanish economy in the medium term, and leading to a more sustainable and resilient development in the long term insofar as economic-financial, social, regional and environmental areas are concerned, also justifies the decision of this Barometer to include this new section to update and enrich its content.

The Recovery, Transformation and Resilience Plan, which foresees more than 140 billion euros of public investment being mobilised before 2026, identifies strategic projects for economic recovery and transformation that bring together the work of the different authorities and the private sector. Foreign-owned companies established in Spain can be involved in the business opportunities arising from this Plan on the same terms as Spanish-owned companies. A question has been included this year to assess the influence of the Plan for foreign-owned companies.

3. Context

Foreign-owned companies established in Spain receive the same legal treatment as Spanish companies, regardless of their origin or size. In fact, according to the OECD's FDI Regulatory Restrictiveness Index, Spain is the ninth developed country most open to foreign investment from a regulatory point of view.

This has been one of the factors that explain why, since 2010, Spain has experienced a prodigious decade in terms of receiving foreign direct investment. The seven years when Spain has received the most FDI in its history were all in the last decade.

Even in 2020, and despite the pandemic and the unfavourable international situation, foreign direct investment received by Spain grew compared to 2019, driven by some large mergers and acquisitions. However, 2021 was a year in which numerous foreign investments in greenfield projects were concluded in Spain.

In addition to the reactivation of projects that were stalled in the most acute phase of the pandemic, new initiatives and projects are also being implemented in market segments that have been significantly strengthened as a result of the health crisis. In the more than 20 months since the onset of COVID-19, there have been significant changes in the consumption patterns of some goods, for which demand has strengthened notably. For example, the health sector is creating numerous new projects. The increased prominence of digitalisation in the workplace, in education and even at home has encouraged greater consumption of electronic devices and new software. At the same time, reduced mobility and lower spending on certain services as a result of pandemic containment measures led to higher consumption of durable goods for household equipment.

According to FDI Markets, 772 greenfield foreign investment projects were implemented in Spain in 2021. According to these figures, Spain was the third country in the world (the first in the EU) in receiving the most greenfield projects.

This is good news. Greenfield projects have a strong productive impact on the economy and employment, bringing new wealth and jobs to the country, directly and immediately.

Furthermore, according to the same source, Spain was the third largest recipient of greenfield projects in 2021 for innovative activities with a high technological content, after the United States and the United Kingdom. We are referring to Research and Development activities, IT and internet infrastructure and the establishment of head offices.

This move by foreign investment towards projects with a high innovation content is also reflected by the fact that in 2021 Spain was the fourth largest recipient in the world of start up-related greenfield projects .

All these figures are just a few testimonies of the importance of foreign investment in Spain. Insofar as it involves taking the pulse of foreign investors with regard to their perceptions and impressions of the Spanish business climate, this Barometer has an eminently practical purpose, ultimately aiming to become a useful tool for Public Administration in its regulatory function, as well as being useful for guiding companies and investors in all decisions involved in direct investment in Spain.

General results



4. General results

4. GENERAL RESULTS

4.1. General rating

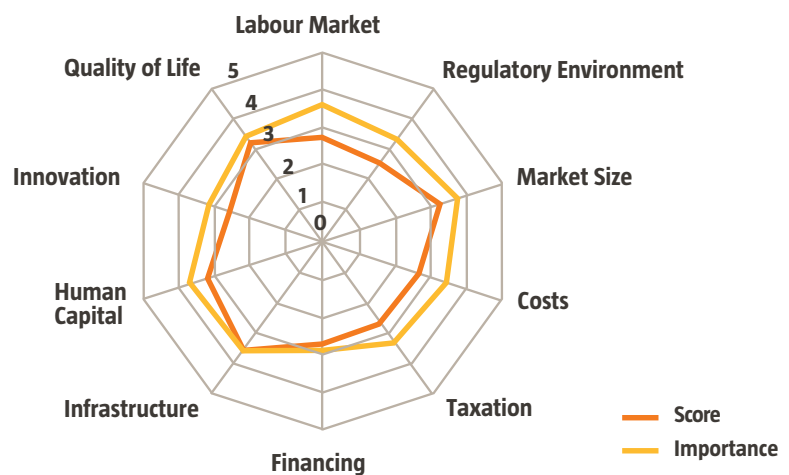
Figure 1 shows the level of importance and scores given by foreign investors to each of the ten areas covered by the 2021 Business Climate Barometer.

As in previous years, the most important area for investors in this year's edition was Human Capital, followed by Market Size and the Labour Market. The least important in the opinion of investors was once again Financing.

Investors gave the highest scores to Infrastructure, followed by Quality of Life, Market Size and Human Capital.

As in the previous edition, the areas of Regulatory Environment, Taxation and Innovation were among the lowest rated aspects.

The areas with the greatest imbalances between the ratings they receive and the importance they have for foreign investors are Labour Market, Regulatory Environment, Costs and Taxation. On the other hand, the areas of Quality of Life and Infrastructure were both rated in line with the degree of importance attached to them, with investors' expectations being met in general terms.



4. General results

4.2. Main strengths and weaknesses

Spain's main strengths in the opinion of foreign investors are shown in Figure 2.

As in previous editions, aspects related to Infrastructure are to the fore. Investors rate the quality of roads, telecommunications structures and services and airports very highly. Human Capital aspects also stand out, such as the availability of skilled labour, with a university degree in this case, and Quality of Life areas such as security or leisure and culture, which are Spain's recurrent strengths. The quality of the health system, which has been put to the test by the recent pandemic, is also highly appreciated.

Conversely, Figure 3 shows the weaknesses noted by investors.

This year, the cost of electricity has featured prominently as a major weakness. Other energy costs, such as gas, diesel or petrol, are also negatively viewed. Other weaknesses relate to aspects of the regulatory environment, such as the speed and efficiency of commercial courts and bureaucracy. Finally, tax areas related to work obtain low ratings, such as employer Social Security contributions or incentives and aid for hiring.

Figure 2

Main strengths

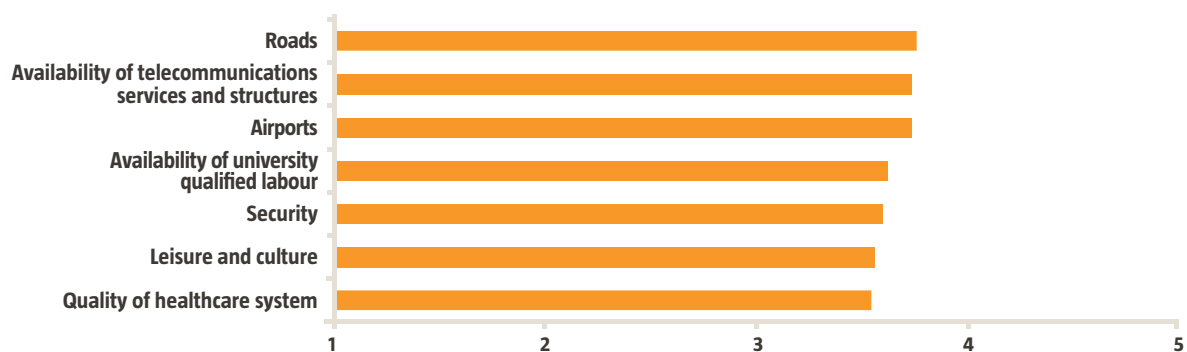
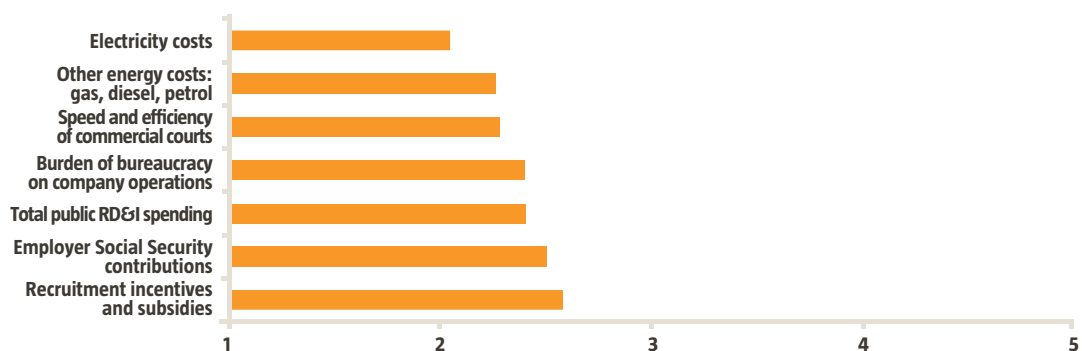


Figure 3

Main weaknesses



4. General results

4.3. Comparison 2020-2021

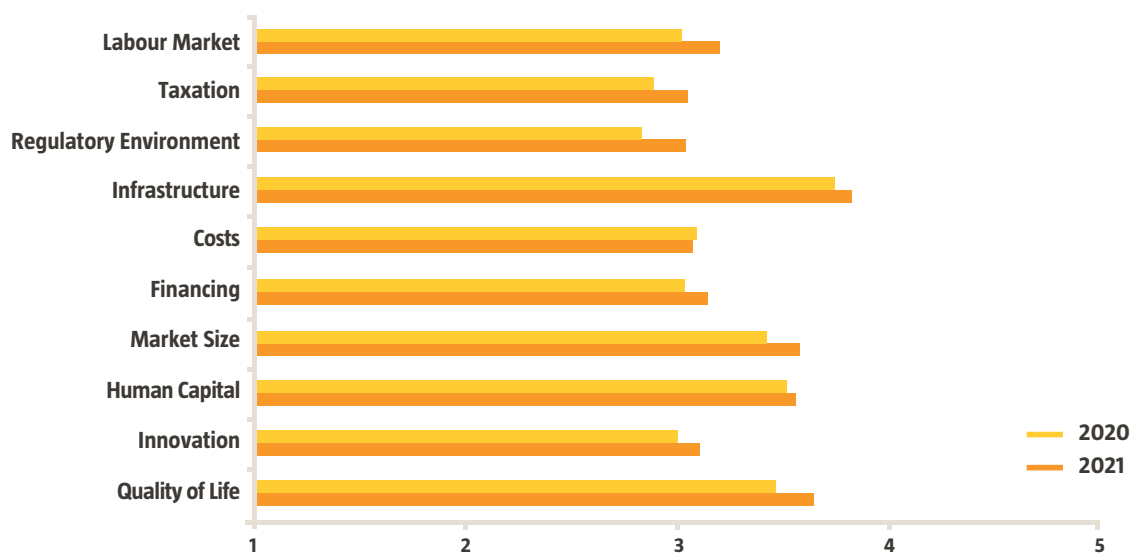
The 2021 assessment improves on the previous year, which is evident in all areas except Costs, as shown in Figure 4.

The main improvements can be seen in the Labour Market – mainly due to a significant increase in the rating for adapting labour legislation to companies' needs – and Regulatory Environment. Improvements are also somewhat more significant in Taxation and Quality of Life, mainly driven by the health system rating in the latter case.

The other areas analysed obtained slightly higher scores than in 2020, except for Costs, which remained the same as in the previous edition. No area covered in this edition suffered a decrease in its overall rating, except, almost negligibly, Costs.

Figure 4

Comparison of scores 2020-2021



4. General results

4.4. Main areas for action

The priority areas of action have been selected based on the size of the gap between the importance attributed to them by investors and their weighted score¹. It should be noted that five of the resulting action areas this year are the same as in the last edition (language proficiency, electricity costs, acceptance of responsibilities and targets, bureaucratic burden and adapting labour legislation to companies' needs). Another aspect related to labour taxation has been added in this edition: employer Social Security contributions.

1. Language skills

Language skills remains one of the main problems in the opinion of investors. Although its rating has improved slightly compared to 2020, its importance has also increased. In fact, language skills is the third most important aspect of the entire survey in the opinion of foreign investors. Human Capital aspects are the most important for investors and fundamental for the medium-and long-term competitiveness of the country.

2. Electricity costs

The recent trend in electricity prices has been felt in the survey, with investors giving it the worst rating of all the aspects considered. It also suffered the biggest drop in the rating of the entire study, falling almost 0.4% compared to last year. The importance of electricity prices for the competitiveness of the industrial sector needs to be re-emphasised.

3. Acceptance of responsibilities and objectives

As noted above, Human Capital aspects are the most important for investors, and in this case acceptance of responsibilities and objectives is the fourth most important aspect of the entire survey for participating companies. Although it is positively assessed and has improved compared to 2020, there is still a significant gap between the importance and the rating given.

4. Burden of bureaucracy on company operations

Bureaucracy is the fourth worst rated aspect of the survey. In the opinion of the companies surveyed, it has improved substantially compared to the previous year, but so has the importance they attach to it, which means that it should continue to be emphasised. As has been the case in the past, investors point to the reduction of administrative burdens at all levels as one of the main measures that would contribute to increasing their investments in Spain.

5. Adaptation of labour law to company needs

The adaptation of labour law to company needs is the aspect that has improved the most in this edition, by more than half a point, probably reflecting the actions taken during the pandemic to help maintain jobs, such as the Furlough Scheme (ERTE). However, the importance that investors attach to this aspect has also increased in the same proportion, so it remains a priority area of attention.

6. Employer Social Security contributions

This is an aspect that is among the weaknesses of the study as a whole due to its low rating, although it has improved on the previous year. Investors attach increasing importance to this issue and do not consider that their expectations are being met.

¹ See Section 10. Methodology.

Prospects of foreign companies in Spain



5. Prospects of foreign companies in Spain

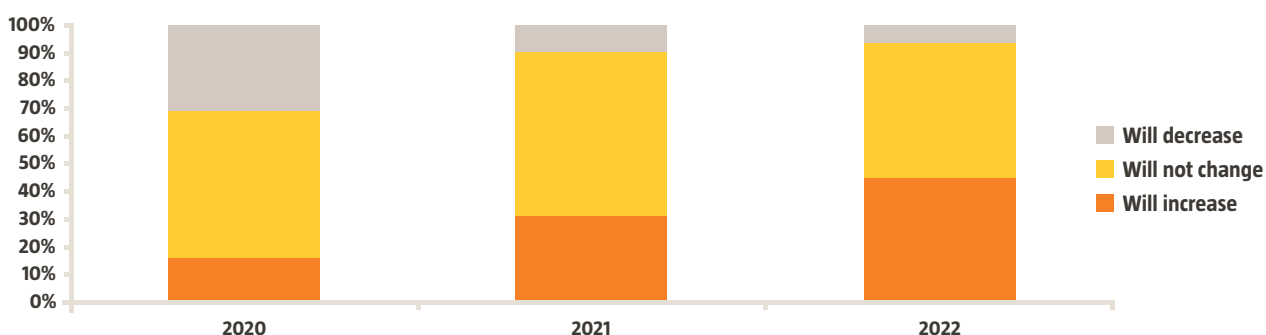
5. PROSPECTS OF FOREIGN COMPANIES IN SPAIN

5.1. Investment prospects

Investment prospects for foreign companies in Spain in 2021 show a clear recovery compared to 2020. Thus, 90% of the companies surveyed increased or held their investments in 2021, compared to 69% in 2020. For 2022, 93% of companies plan to increase or hold their investments.

Figure 5

Investment forecast 2020-2022

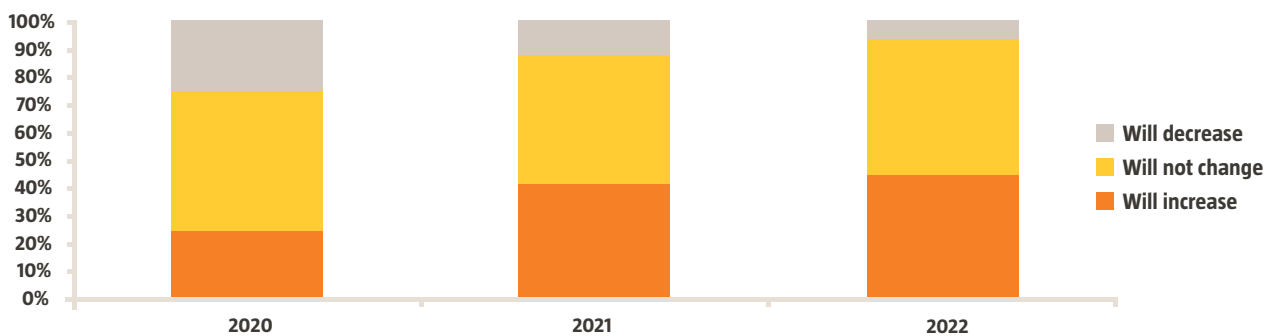


5.2. Employment prospects

Employment prospects are also improving substantially. In 2021, 88% of companies increased or maintained their workforce, whereas only 12% reduced theirs, compared to 2020 when 31% of companies said they had reduced their workforce. For 2022, the outlook is even better, with 94% of companies expecting to increase or retain employees.

Figure 6

Workforce forecast 2020-2022



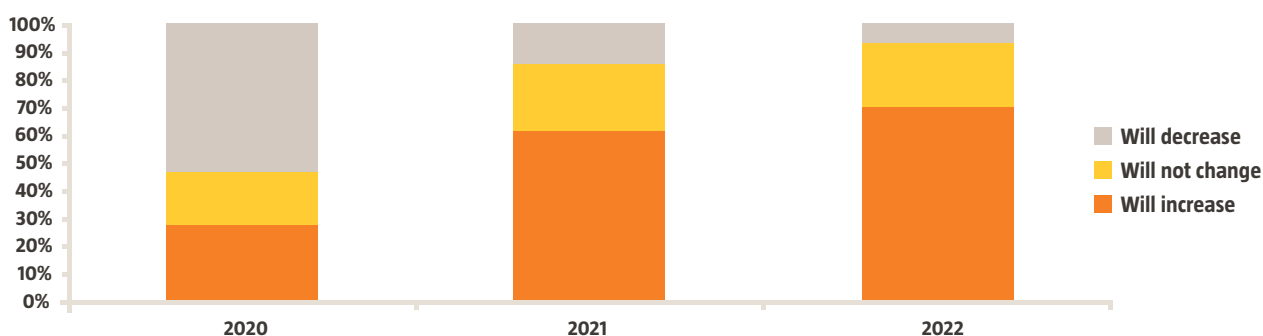
5. Prospects of foreign companies in Spain

5.3. Turnover prospects

Turnover prospects in our country are the most improved in 2021. Compared to 54% of companies that decreased their turnover in 2020, only 14% decreased their turnover in 2021. For 2022, 71% of companies expect to increase turnover, 23% expect to maintain turnover and only 6% expect it to fall.

Figure 7

Turnover forecast 2020-2022

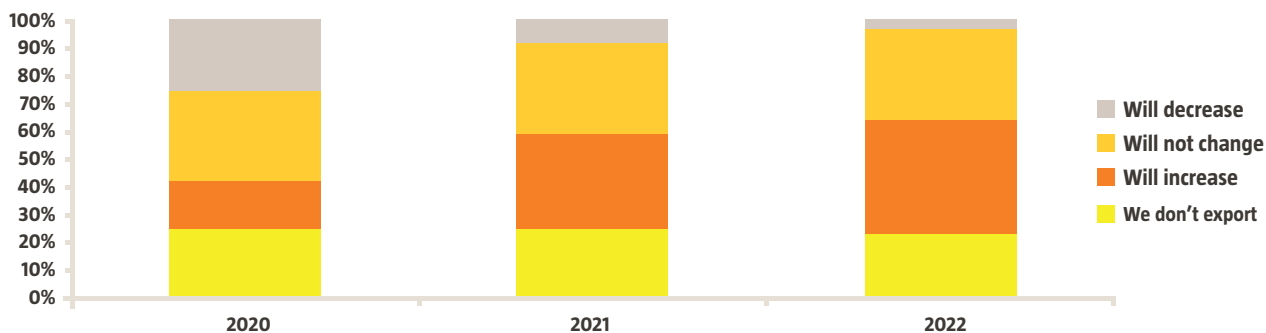


5.4. Export prospects

Finally, in regard to total exports, 75% of the foreign companies in the survey export from Spain to third markets. In 2020, 26% of companies decreased their exports, but this dropped to 9% in 2021 and by 2022 only 4% of companies expect their exports to fall.

Figure 8

Export forecast 2020-2022



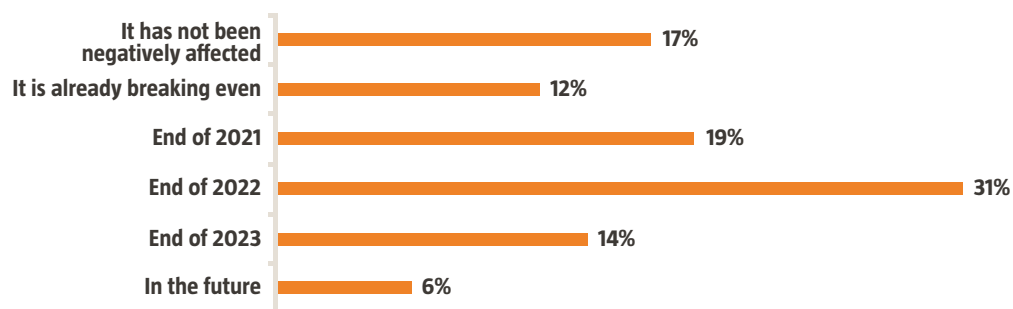
5. Prospects of foreign companies in Spain

5.5. Prospects for a return to the pre-COVID-19 situation

Companies were asked when they expect to return to a pre-COVID-19 situation. As Figure 9 shows, 12% were already in a break-even situation, 19% expected to be back to pre-pandemic levels by the end of 2021, 31% expected to return by the end of 2022 and 14% expected this to happen by the end of 2023. There are also 17% of companies that claim not to have been negatively affected by the crisis.

Figure 9

Prospects for a return to the Pre-COVID situation

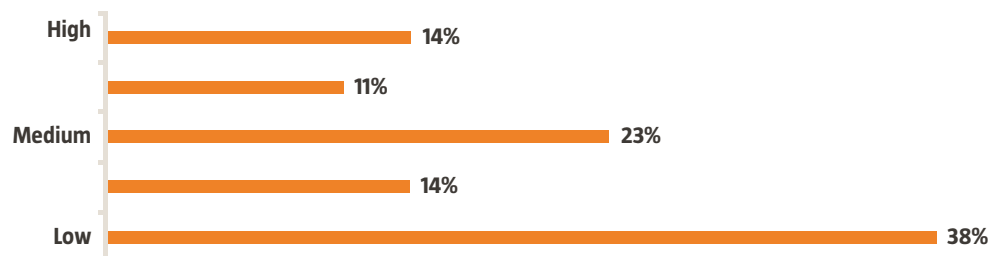


5.6. Importance for companies in accessing Recovery Funds

In this edition, companies were also consulted on the importance of accessing Recovery Funds for their recovery. Figure 10 shows that access to funds is of low or very low importance for 52% of foreign companies, and high or very high for 25% of them.

Figure 10

Importance of access to Recovery Funds



Results by area



6. Results by area

6. RESULTS BY AREA

6.1. Labour Market

The Labour Market area has improved in terms of its rating compared to last year, although there is still much room for improvement in the opinion of foreign investors.

The main problem in this edition was to be found in incentives and subsidies for recruitment, which, although rated slightly higher than in 2020, are considered increasingly important, and so investors' expectations are not being met.

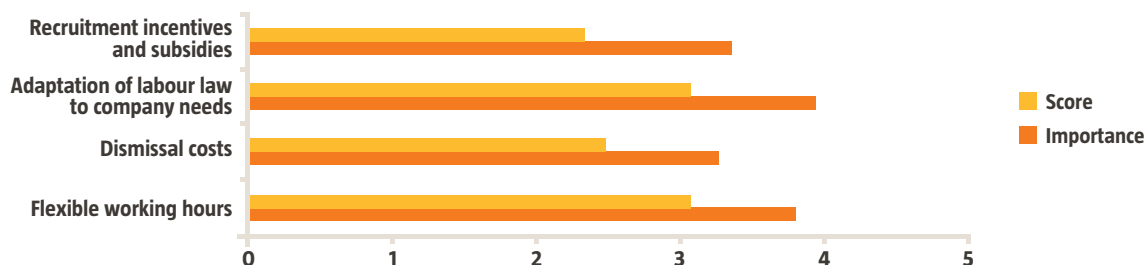
The adaptation of labour law to companies' needs has already been generally identified as one of the main areas for action in the survey. This aspect shows the largest rating increase in the entire survey (more than half a point) compared to last year, reflecting the use of ERTes, as mentioned before. Nevertheless, the adaptation of labour law to companies' needs is the sixth most important aspect of the whole survey, so there is a major gap that needs to be filled.

There are also significant imbalances in terms of firing costs, although this rating has improved compared to 2020.

Finally, working time flexibility shows less room for improvement and has evolved positively compared to 2020. This increased rating is likely to be a consequence of increased working from home, resulting from the lockdown measures carried out during the pandemic.

Figure 11

Labour Market



6. Results by area

6.2. Taxation

The tax burden and other related aspects score is one of the lowest overall, only behind Regulatory Environment, although it has improved compared to 2020. It is also worth mentioning that it has increased significantly in importance this year.

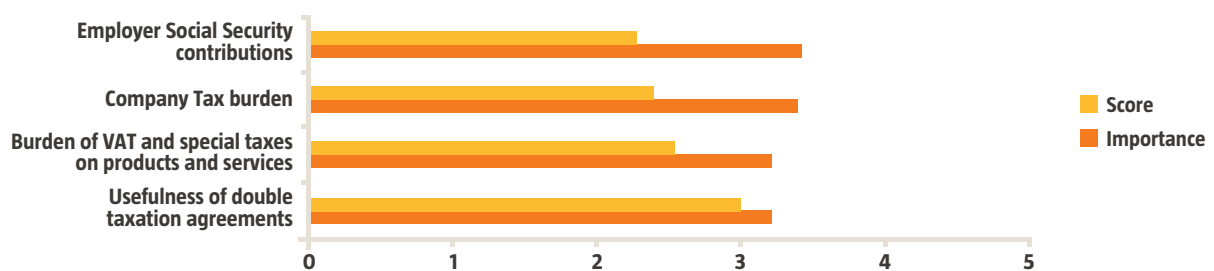
The main difficulties remain in employer Social Security contributions, as in previous years. This aspect has already been singled out as one of the priority areas for action this year, as it obtained the worst rating in the Taxation section, and the sixth worst in the entire survey.

Corporation tax burden also shows ample room for improvement, with ratings somewhat higher than last year, but with significantly greater importance for investors.

The VAT burden still has some room for improvement too, although less than the previous two areas. As far as double taxation treaties are concerned, they do not seem to pose problems for foreign investors in Spain and their rating has improved.

Figure 12

Taxation



6. Results by area

6.3. Regulatory Environment

The Regulatory Environment is, like last year, the worst rated area in this edition, despite having improved compared to 2020.

The bureaucratic burden on company operations remains the most critical aspect and has been a general area for improvement for several years. It has the fourth worst rating in the entire survey, although with a positive increase compared to 2020. Cutting red tape is another of the main measures that investors say would contribute most to increasing their investments in Spain.

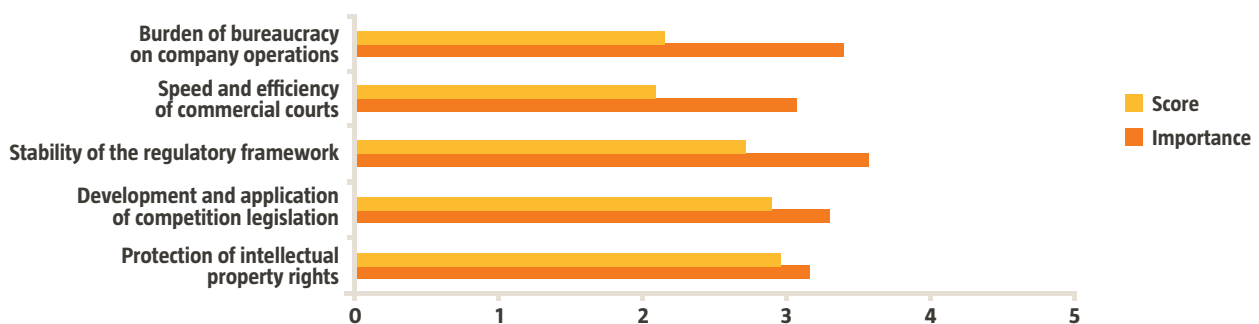
There is also a significant imbalance in terms of the speed and efficiency of the commercial courts, the third worst rated aspect of the entire survey, although it has improved compared to 2020.

The stability of the regulatory framework is the most important issue for investors in this area and a key issue in attracting and retaining foreign investment. It has experienced a significant increase in its rating in this edition, although it still has ample room for improvement.

The protection of intellectual property rights and the development and enforcement of competition law do not seem to pose problems and have increased their ratings.

Figure 13

Regulatory environment



6. Results by area

6.4. Infrastructure

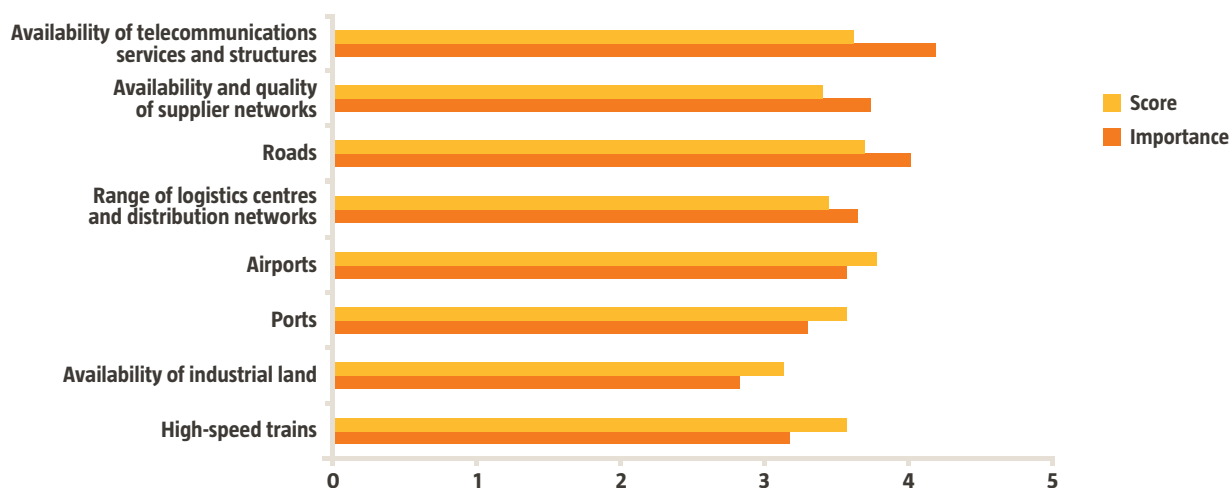
As in previous editions, Infrastructure is the area with the highest rating in the Barometer, perfectly meeting the expectations of foreign investors in our country and also being one of the most important in general terms.

Several aspects covered here, such as airports, roads, availability of telecommunications services and structures, and high-speed trains, have already been identified as some of the overall strengths of the study, as in previous editions. The availability of telecommunications services is the most important aspect of the whole survey in the opinion of foreign investors and is rated very positively, although there is still some room for improvement. There is also some room for improvement in the availability and quality of supplier networks and roads, another very significant aspect for foreign investors.

As for the other variables included in this section, ratings are generally very positive and investors' expectations are perfectly met.

Figure 14

Infrastructure



6. Results by area

6.5. Costs

The Costs area is the only one that did not increase its rating compared to last year, and there are still some significant imbalances.

The cost of electricity is once again the main concern, the worst rated aspect of the entire survey and the one showing the largest decrease, reflecting the increase in electricity costs that has occurred in recent months.

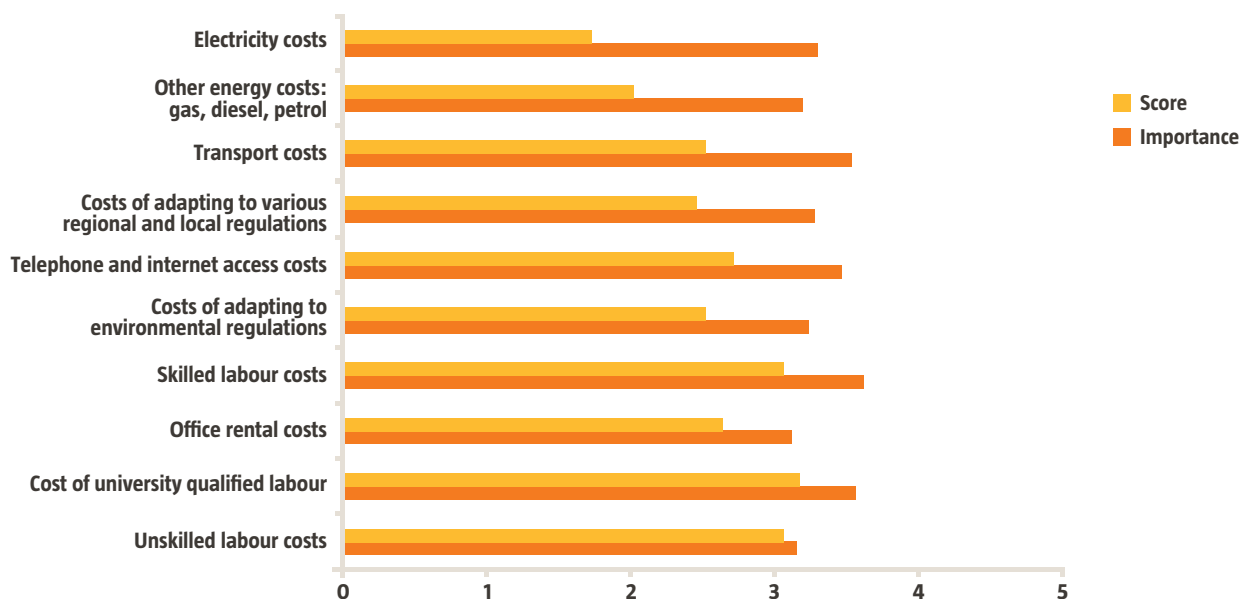
Other energy costs are the second worst rated aspect of the entire survey, and have also suffered a significant decrease compared to last year. Other areas where there is significant room for improvement are transport costs, compliance costs and telephone and internet access costs.

Labour costs in Spain, both skilled and unskilled, are one of the reasons that continue to be cited by the companies surveyed for setting up in our country; they enjoy good ratings, although they are no better than last year, but investors' expectations are being met.

As usual, skilled labour is more significant for foreign investors in Spain than unskilled labour, which is indicative of the type of investments made by foreign companies with high added value. The importance of vocational skills in the labour force has further increased and is slightly more important this year than a university-educated labour force.

Figure 15

Costs



6. Results by area

6.6. Financing

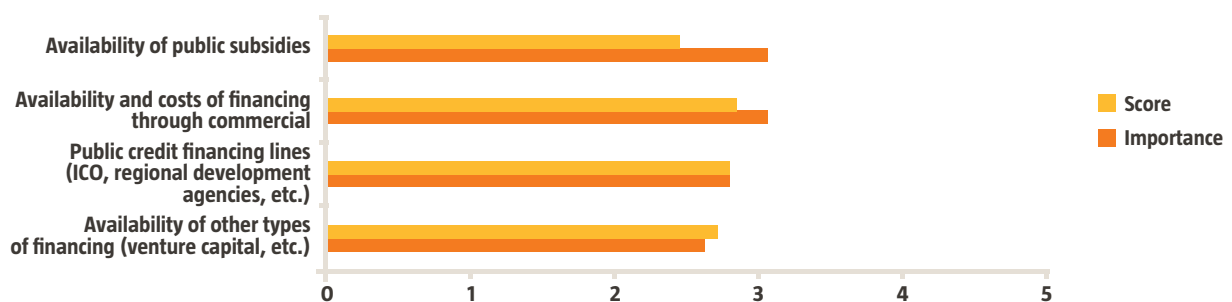
As in previous editions, Financing is the least important area for the companies surveyed, although it is slightly higher than last year and does not pose any significant difficulties.

The main room for improvement still lies in the availability of public subsidies. The availability and cost of financing through high-street banks showed little room for improvement and increased its rating.

Public credit facilities, such as ICO, and the availability of other types of financing, such as venture capital, are moderately rated but do not seem to be a problem for foreign investors.

Figure 16

Financing



6. Results by area

6.7. Human Capital

Human Capital is once again the most important area 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, acceptance of responsibilities and objectives, and ability to learn) are among the four most important aspects of the entire survey for foreign investors. Language skills have already been identified as one of the priority areas for action, along with the acceptance of responsibilities and objectives.

The ability to learn is another aspect with ample room for improvement, although it is rated somewhat higher, but it is the most important in the opinion of investors.

Both the quality of the vocational training system and the general rating of the higher education system are important for investors and there is scope for improvement in both.

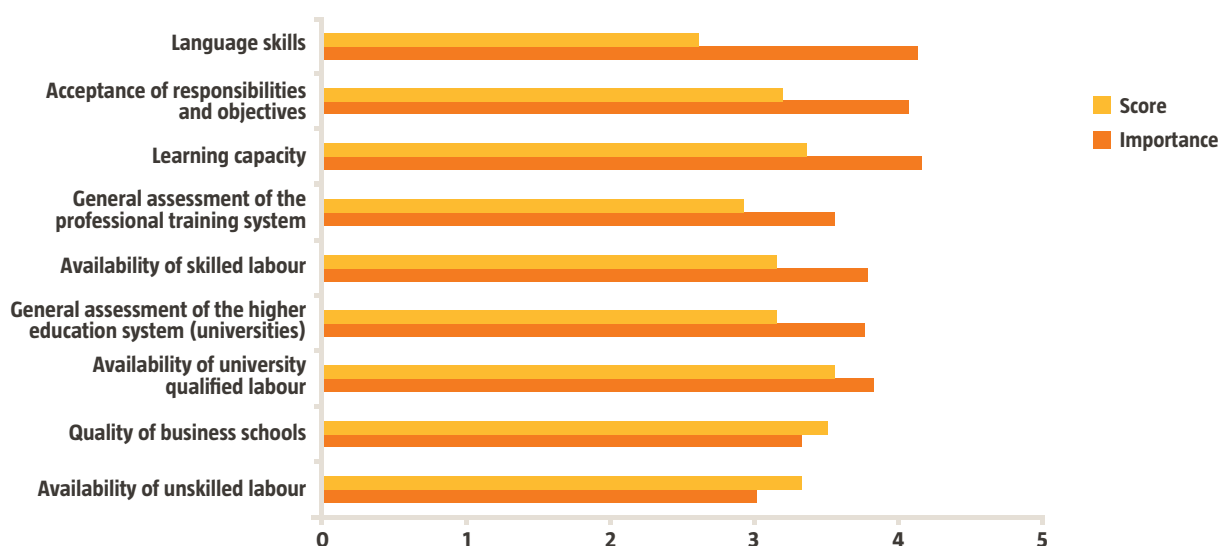
As in previous editions, investors attach very different levels of importance to the availability of skilled and unskilled labour, with the former being much more significant to them, so work needs to be done to meet their expectations in this respect.

The quality of business schools and the availability of unskilled labour are two areas where investors' expectations are met most, although the latter has fallen slightly.

It is essential to focus on the Human Capital aspects, as they are not only the most important for investors, but also essential to ensure the country's competitiveness in the medium- and long-term.

Figure 17

Human Capital



6. Results by area

6.8. Innovation

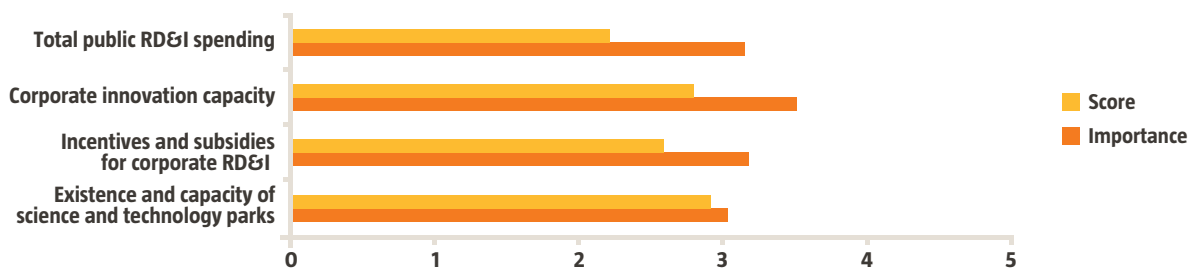
Innovation is one of the lowest rated areas overall, behind only Taxation and Regulatory Environment, although it is not one of the most important areas for investors.

The main imbalance is in the total amount of public spending on R&D, which is the fifth worst-rated aspect of the entire survey. There is also room for improvement in the innovation capacity of companies and in incentives and support for companies to undertake R&D.

The existence of science and technology parks is the most highly rated aspect by investors in terms of innovation, seeing an increase in its rating compared to 2020 and in line with the needs of foreign companies.

Figure 18

Innovation



6. Results by area

6.9. Market Size

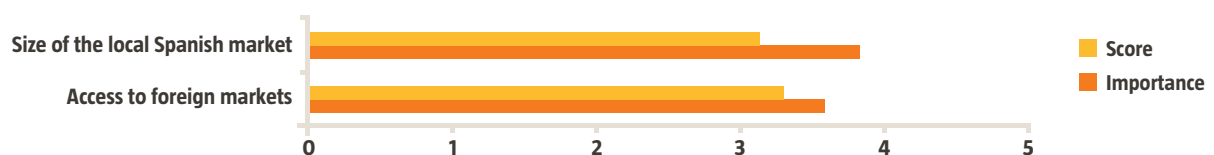
Market Size is the second most important area for foreign investors in Spain, after Human Capital, and one of the main reasons why the foreign companies surveyed set up in our country.

Both access to foreign markets and local market size score well this year, and both are improving compared to 2020, especially the size of the Spanish local market, as a logical consequence of the growing recovery after the COVID-19 crisis. Although there is some room for improvement, access to foreign markets is rated very highly in particular and the expectations of foreign investors in Spain are being met.

These two aspects are very relevant for investors and are repeatedly pointed out as the main attractions for investing in our country, which is why it is necessary to pay special attention to them.

Figure 19

Market Size



6. Results by area

6.10. Quality of Life

As in all previous editions of the Barometer, the assessment of the Quality of Life area is very positive, second only to Infrastructure, and investors' expectations are generally being met.

Leisure and culture is the second highest rated aspect of the entire survey, experiencing a significant increase in its rating compared to 2020 and one of Spain's strengths. Security is also rated very positively and is another overall strength of the study, which is important as it is the most important aspect for foreign investors in terms of Quality of Life.

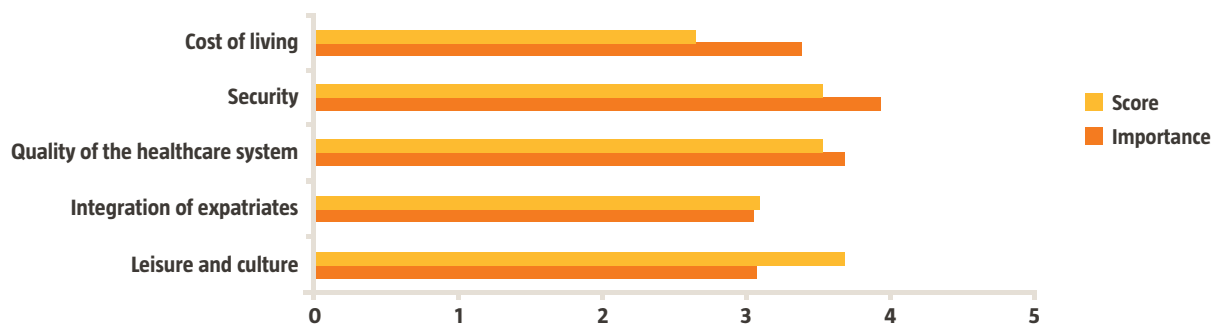
Cost of living remains the main area for improvement, as in previous editions, and did not increase its rating compared to 2020.

The quality of the health system is also rated highly, with one of the largest increases in the survey, almost 0.4%, as a logical consequence of the response to the COVID-19 pandemic.

The integration of expatriates does not seem to pose a problem in the opinion of foreign investors in Spain.

Figure 20

Quality of Life



Reasons for setting up in Spain and measures needed to increase investment

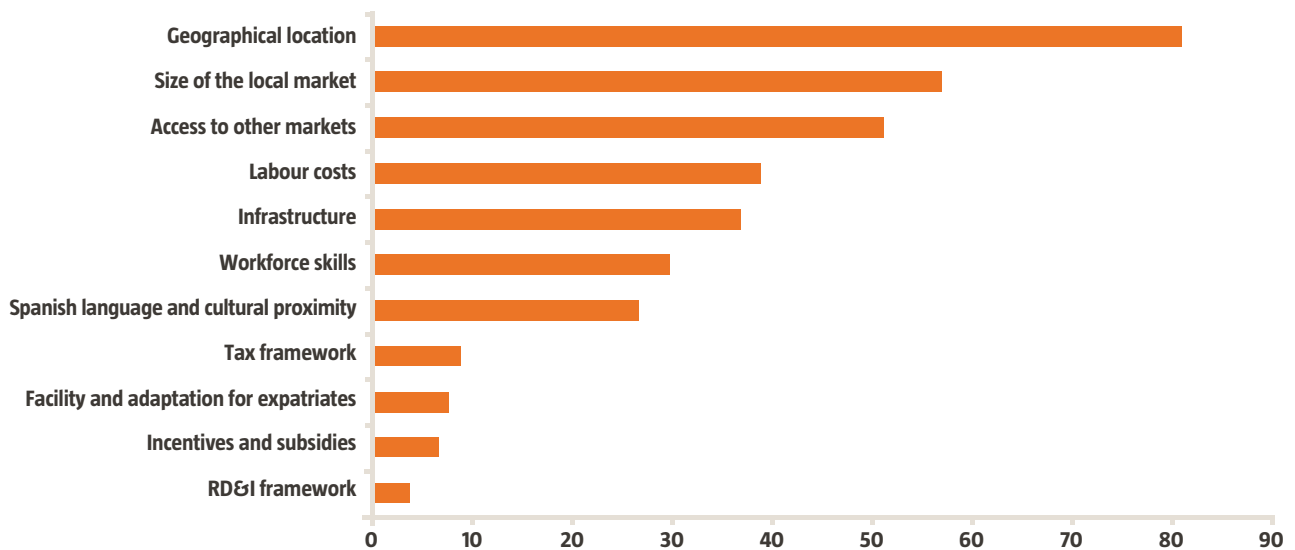


7. Reasons for setting up in Spain and measures needed to increase investment

As in previous editions, a large majority of companies indicated that the main reasons for setting up in Spain were due to geographical location, as well as the size of the local market and access to other markets. Apart from infrastructure, other important factors were labour-related aspects and concerned both the cost and skills of the workforce.

Figure 21

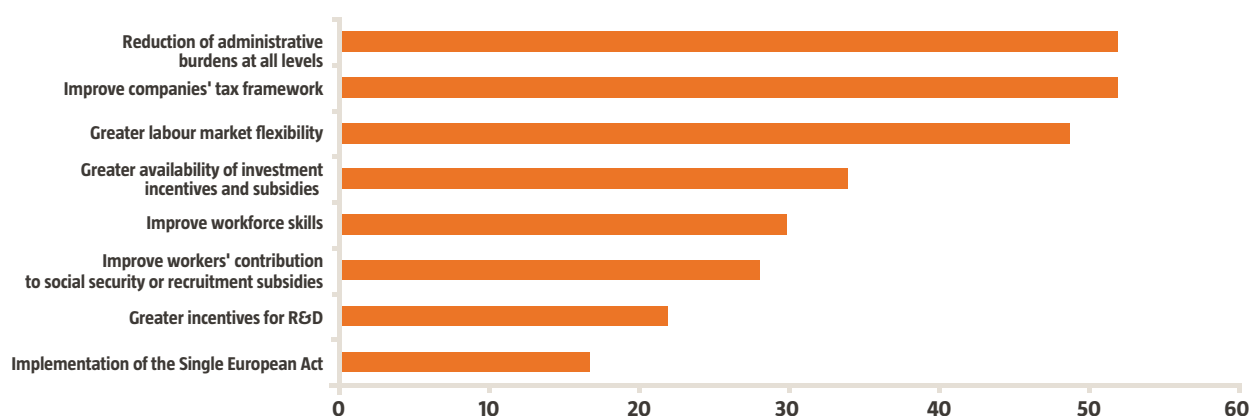
Reasons for setting up in Spain (percentage of companies indicating each reason)



In terms of the main measures to help increase their companies' investment in Spain, respondents still overwhelmingly point to the reduction of administrative burdens, improvements in the tax framework, greater labour market flexibility and greater availability of incentives and subsidies for investment. Improving the skills of the workforce also takes on greater importance in this edition.

Figure 22

Main measures to increase investment (percentage of companies that have indicated each measure)



Sustainability objectives



8. Sustainability objectives

For the first time, this edition includes an analysis of the sustainability objectives of foreign companies in Spain. Investors were asked whether they have a sustainability strategy, what sustainability objectives they pursue and whether they have mechanisms for measuring and monitoring compliance. The aim was also to analyse Spain's relative position in terms of sustainability objectives, as well as the degree to which different factors in our country favour the fulfilment of these objectives.

8.1. Companies with a Sustainability Strategy

Firstly, foreign companies in Spain were asked whether they have a Sustainability Strategy. As Figure 23 shows, 60.7% of companies do not have a Sustainability Strategy, compared to 39.3% that do.

Figure 23

Companies with a Sustainability Strategy



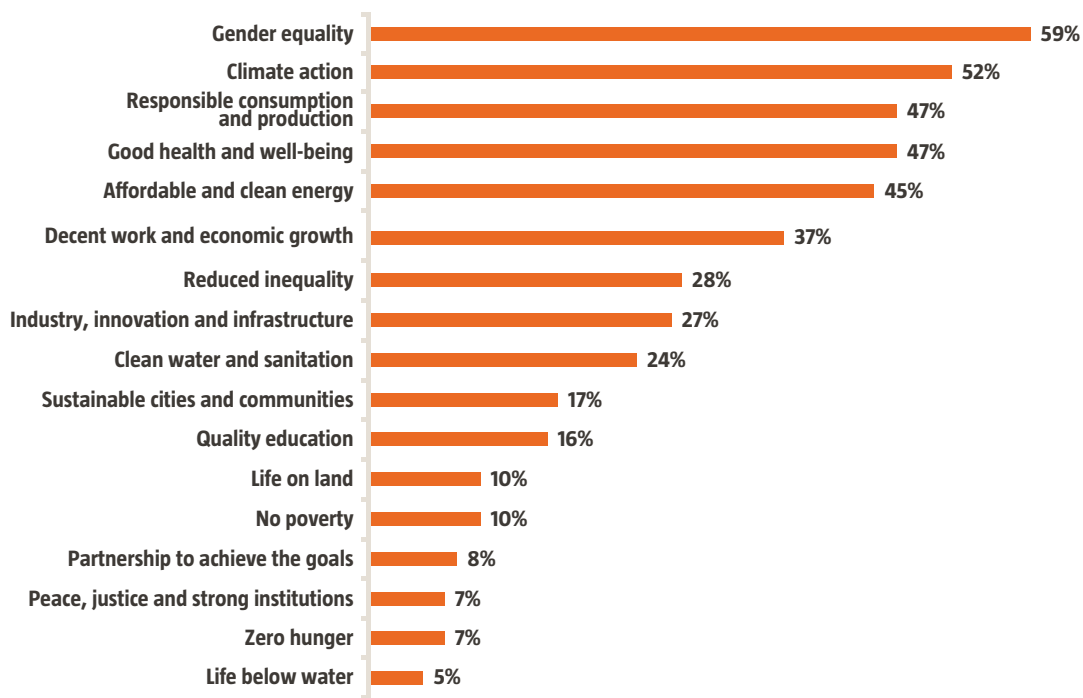
8. Sustainability objectives

8.2. Priority Sustainability Objectives

Among the 17 established Sustainability objectives, foreign companies operating in Spain clearly highlight Gender Equality (59% of the companies that have a Sustainability Strategy state that it is a priority objective). Other top Sustainability Goals include Climate Action (52% of companies), Responsible Production and Consumption and Health and Well-being (both 47%), as well as Affordable and Clean Energy (45%). Other goals, such as Peace, Justice and Strong Institutions, Zero Hunger, or Life below Water, are pursued by a very small percentage of foreign companies in Spain.

Figure 24

Main Sustainability Objectives



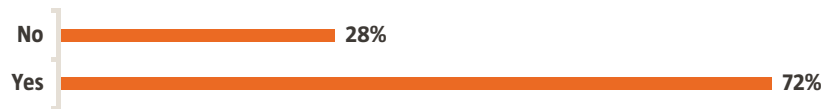
8. Sustainability objectives

8.3. Measurement and monitoring mechanisms

Among the foreign companies that have Sustainability Strategies, 72% say that they use measurement and monitoring mechanisms that allow them to control compliance with the objectives established. However, 28% of companies do not use any monitoring and control mechanisms.

Figure 25

Companies with measurement and monitoring mechanisms

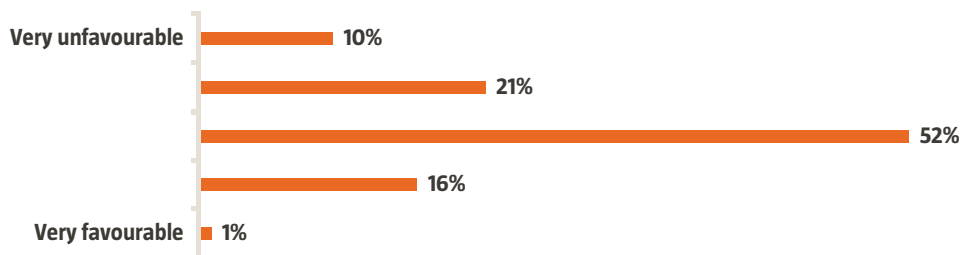


8.4. Conditions in Spain for the development of Sustainability Strategies

Among foreign companies in Spain with a Sustainability Strategy, 31% believe that companies in Spain are in an unfavourable or very unfavourable position compared to their countries of origin in terms of the Sustainability Goals. Some 17% believe that companies in Spain are in a more favourable position than those in their home country with regard to the Sustainability Goals.

Figure 26

Situation of companies in Spain with respect to the country of origin in terms of the Sustainability Goals



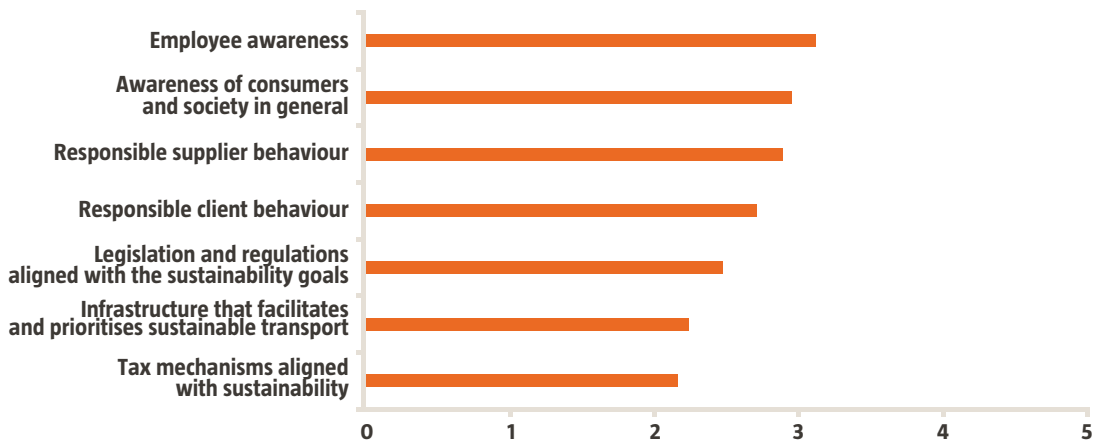
8. Sustainability objectives

Among the factors that most encourage the development of Sustainability Strategies by companies in Spain, investors highlight the awareness of consumers and society, and especially the workers themselves. The responsible behaviour of suppliers and customers are also factors that contribute to the successful development of these strategies, as shown in Figure 27.

However, investors give a lower rating to the contribution of legislation and regulations, sustainable transport infrastructure and, above all, the use of taxation mechanisms aligned with sustainability goals, which are the factors that contribute least in Spain to the development of these strategies.

Figure 27

Factors favouring the development of the Sustainability Strategy in Spain



Analysis by country

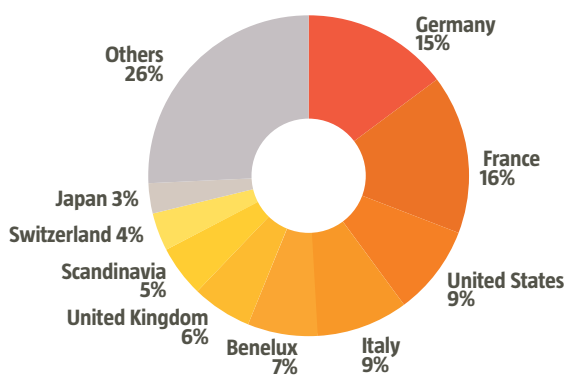


9. Analysis by country

9. ANALYSIS BY COUNTRY

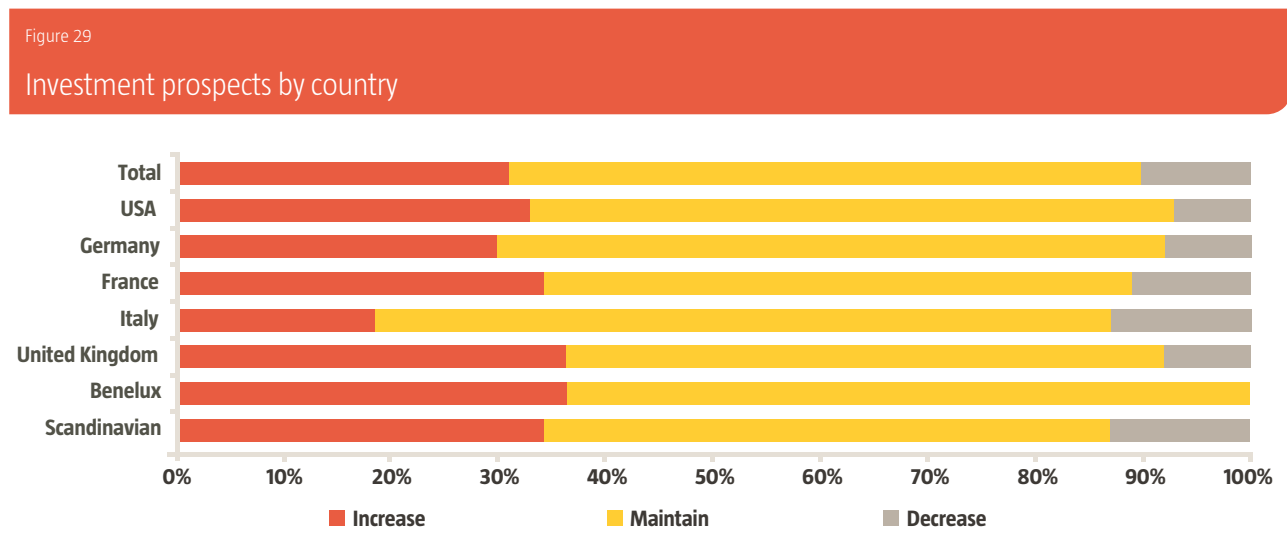
As with previous editions, this edition sets out to analyse whether there are significant differences in investors' responses to particular questions according to their country of origin. The responses are very similar regardless of the provenance of the companies, and some of the most interesting changes are highlighted below.

The countries most represented in the survey are Germany, France, the United States and Italy, followed by companies from Benelux, the United Kingdom and Scandinavia.



9.1. Investment prospects

Overall, 90% of the companies surveyed in the study planned to increase or maintain their investments in Spain in 2021, a significantly higher percentage than last year, which shows the improved situation with respect to the COVID-19 crisis. The main participating countries mostly show very similar figures, albeit with some differences. Companies based in Italy have more unfavourable plans, and those from the US, UK and Benelux have slightly more favourable data.



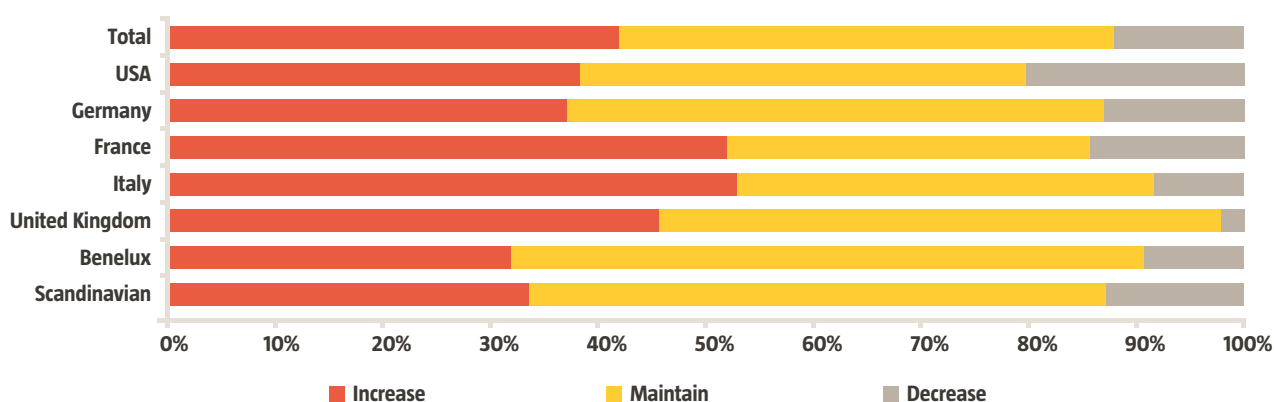
9. Analysis by country

9.2. Workforce prospects

With regard to the number of employees planned in Spain for 2021, 88% of companies intend to increase or maintain their workforce. UK-owned companies and also those from Italy have above-average prospects. US or Scandinavian-owned companies, however, have slightly lower than average forecasts in terms of workforces.

Figure 30

Workforce prospects by country

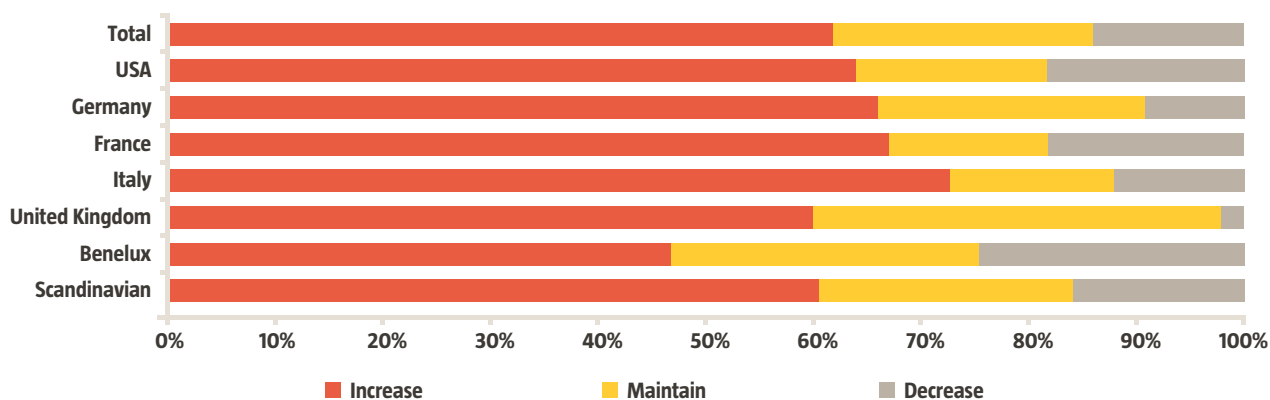


9.3. Turnover prospects

Turnover in 2021 is the most improved figure, with only 14% of companies thinking their turnover will fall. Companies from Germany, Italy and France have better than average prospects in terms of turnover. However, those from Benelux have somewhat less favourable turnover prospects.

Figure 31

Turnover prospects by country



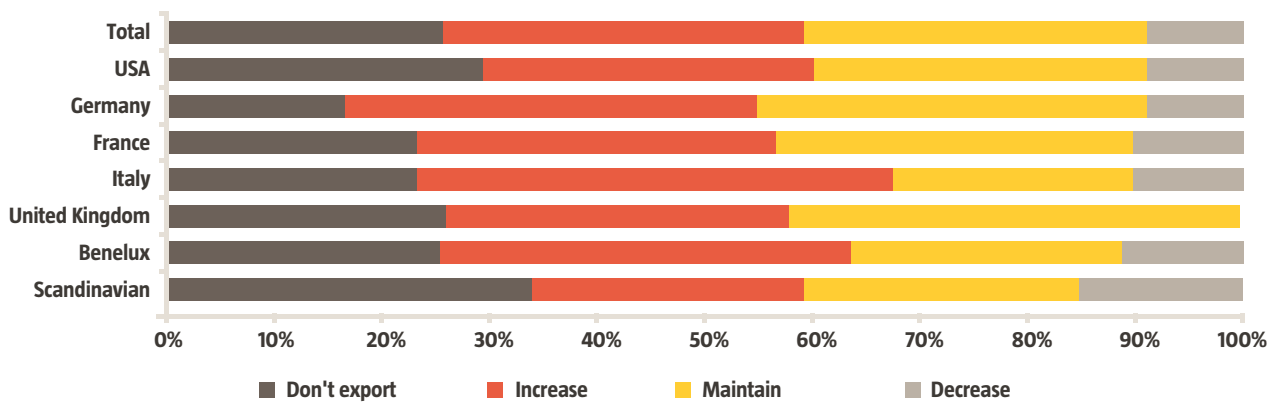
9. Analysis by country

9.4. Export prospects

The final category in the section on prospects refers to exports. Some 75% of foreign companies export to third countries from Spain. In this case, companies from Germany, France and Italy have the highest export profile, and Scandinavian-owned companies have a lower export profile. Some 25% of companies expect to increase their exports in 2021 and 32% will maintain their export trend with regard to previous years. UK-owned companies have the best export prospects.

Figure 32

Export prospects by country



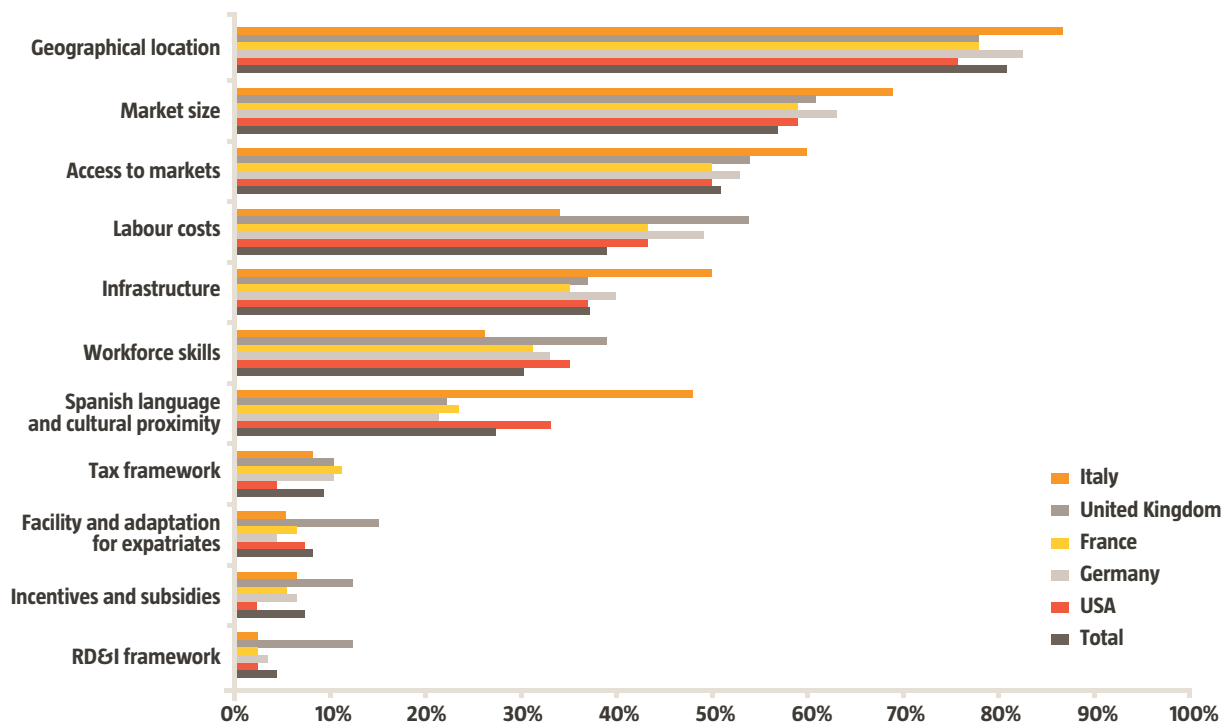
9. Analysis by country

9.5. Reasons for locating in Spain

Although geographic location, market size and access to other countries are the main reasons for locating in Spain cited by all the countries represented, there are some significant differences. Companies from the United Kingdom, for example, gave less weight than average to labour costs and the skills of the workforce. Companies from Italy value infrastructure, cultural proximity and the Spanish language more highly than the average. German-owned companies attach more importance to labour costs.

Figure 33

Reasons for locating to Spain by country



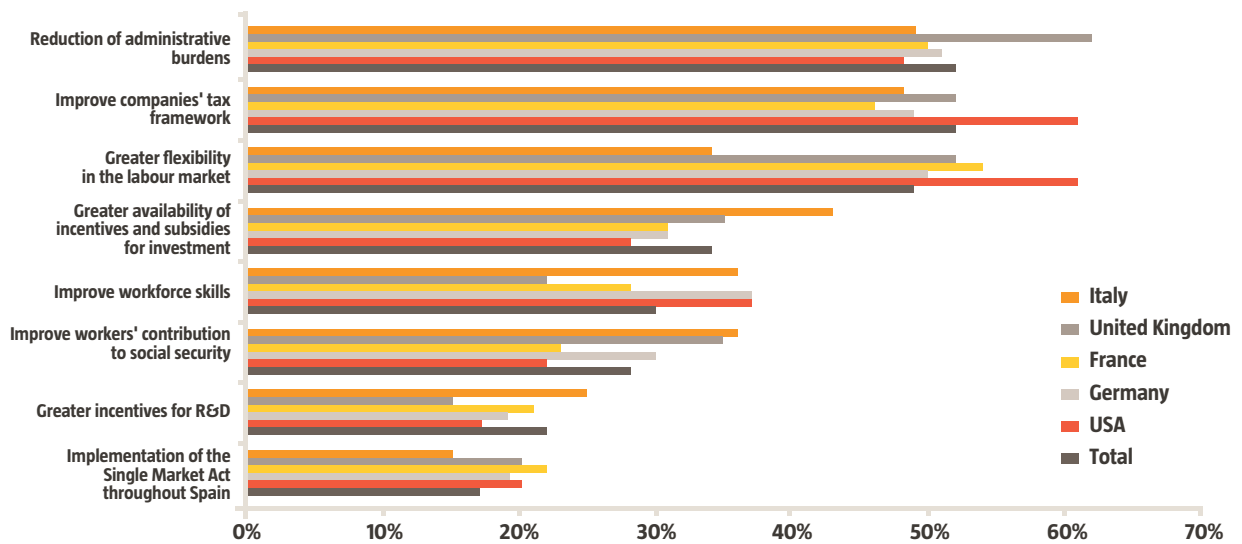
9. Analysis by country

9.6. Measures that would help to increase their company's investment in Spain

Although practically all the groups of countries coincide in signalling that the reduction of administrative burdens, the improvement in the tax framework and greater labour market flexibility as the three main measures to be taken into account, there are some interesting differences. For example, labour market flexibility is more important than average for US companies. Italian companies clearly emphasise the reduction of administrative burdens, and German-owned companies attach more importance to a skilled workforce.

Figure 34

Measures that would help to increase investment in Spain by country



Methodology



Methodology

The Barometer has been jointly compiled by ICEX, Foreign Multinationals for the Spain brand and the IESE Business School's International Center for Competitiveness (ICC).

This edition has maintained the same structure and content of previous years, although a new section analysing sustainability goals has been introduced. To compensate for the length of the survey, some questions from previous editions have been eliminated, in particular some of those aimed at assessing the impact of the COVID-19 crisis, which are considered to be of a short-term nature and less relevant than in the previous edition.

As in other years, the methodology employed in the survey required qualified managers at foreign companies operating in Spain to fill in a questionnaire. This year, more than 730 responses were received.

To achieve continuity in this study, since 2007 the following areas included in the questionnaire have been grouped into four main groups: General Panorama in Spain, Costs, Infrastructure and Resources and Quality of Life. The average rating for Spain is obtained from the average of the ratings in each of these four groups.

1) GENERAL PANORAMA IN SPAIN

Labour Market

Regulatory Environment

Market Size

2) COSTS

Costs

Taxation

Financing

3) INFRASTRUCTURE AND RESOURCES

Infrastructure

Human Capital

Innovation

4) QUALITY OF LIFE

The questionnaire seeks both the rating that companies give Spain under each heading and the importance they attach to each heading, so as to be able to weight the results to reflect the true interests of businesses.

For each question, foreign investors are asked to assign a score from 1 to 5 for the importance that this heading has for their company, and a second score using the same scale for the rating they assign to Spain. The questions that show the greatest gap or difference between the importance and the weighted rating² assigned by investors are flagged as requiring priority action, as this difference highlights a failure to meet the expectations of foreign investors in Spain.

² The weighted rating corresponds to 80% of the score obtained in Rating and 20% of the score obtained in Importance. It is weighted in order to take into account those aspects with lower ratings but which are also important for investors.

Appendix



Appendix 1: profiles of surveyed companies

The profiles of the companies taking part in the study were fairly uniform, companies of all sizes being represented, although the participation of companies with up to 250 employees is in particular worth noting, as can be seen in Figure 35.

The sectors represented in the sample are very diverse, as shown in Figure 36. The most represented sector was commercial distribution, followed by chemicals, pharmaceuticals and biotechnology, and electronics, information technology and telecommunications.

Figure 35

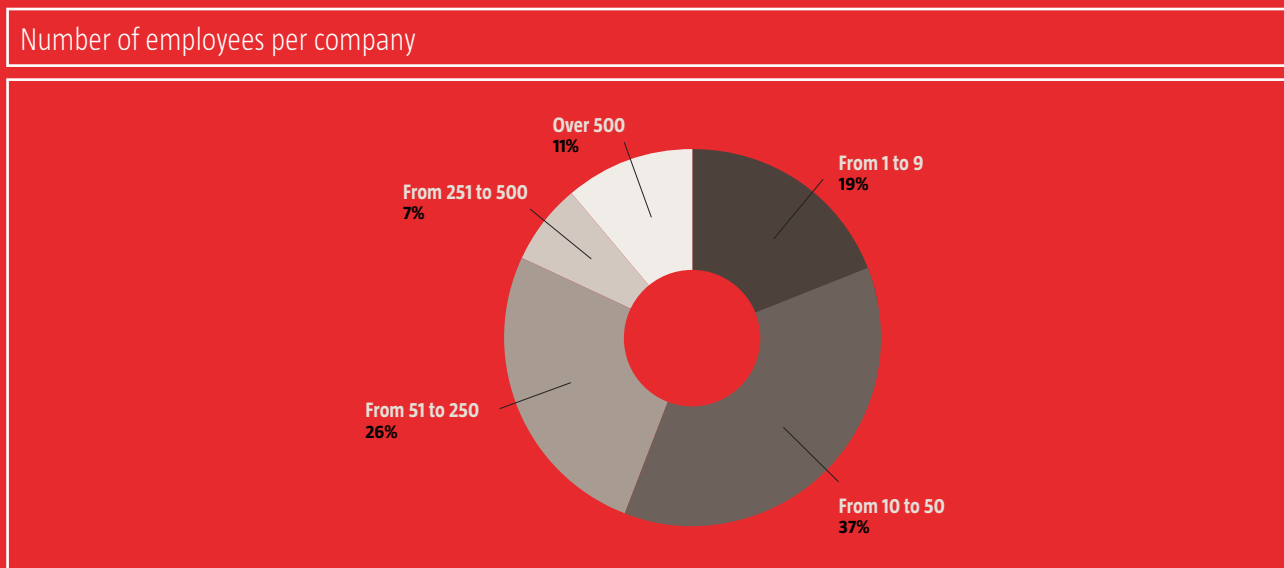
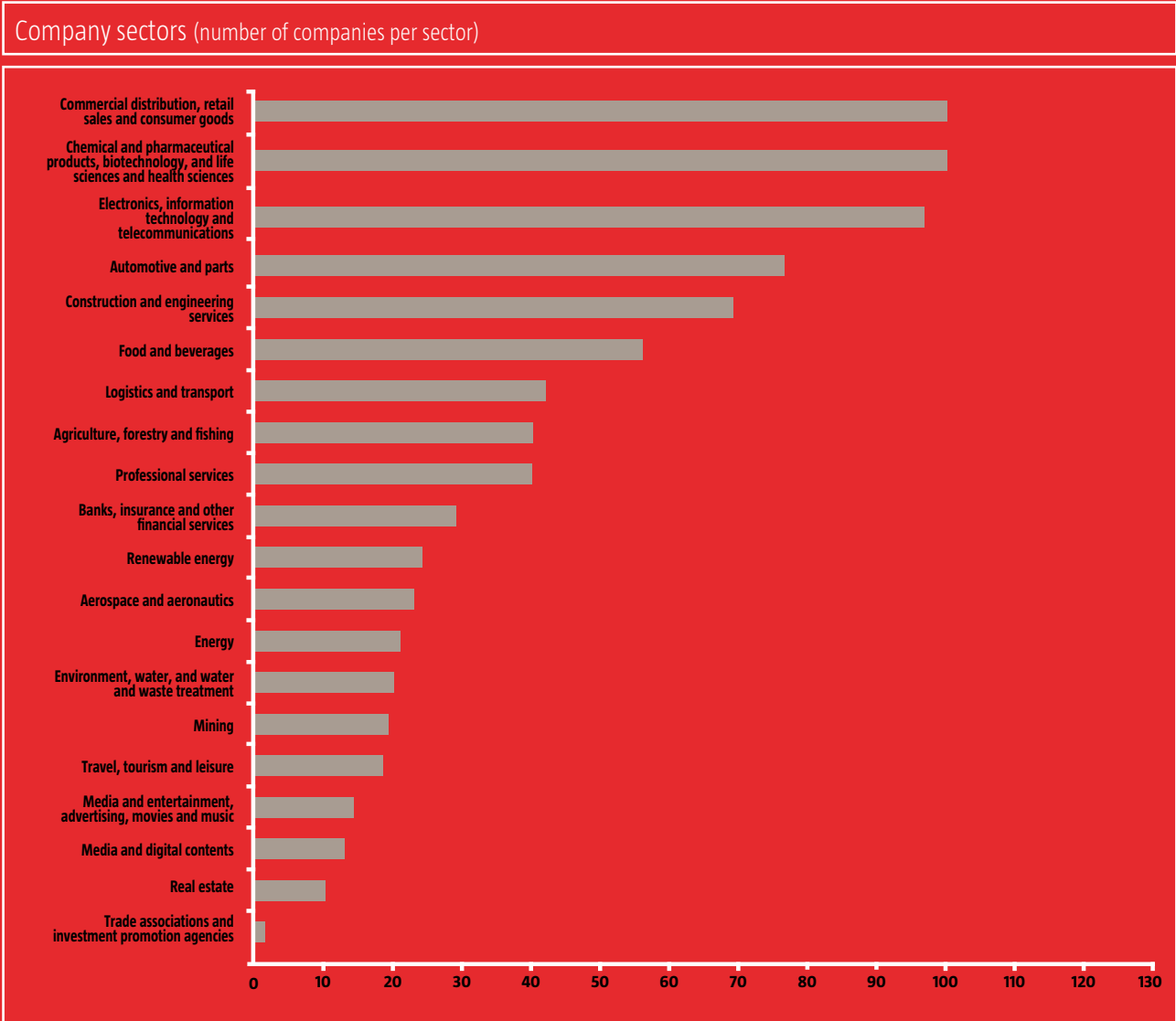


Figure 36



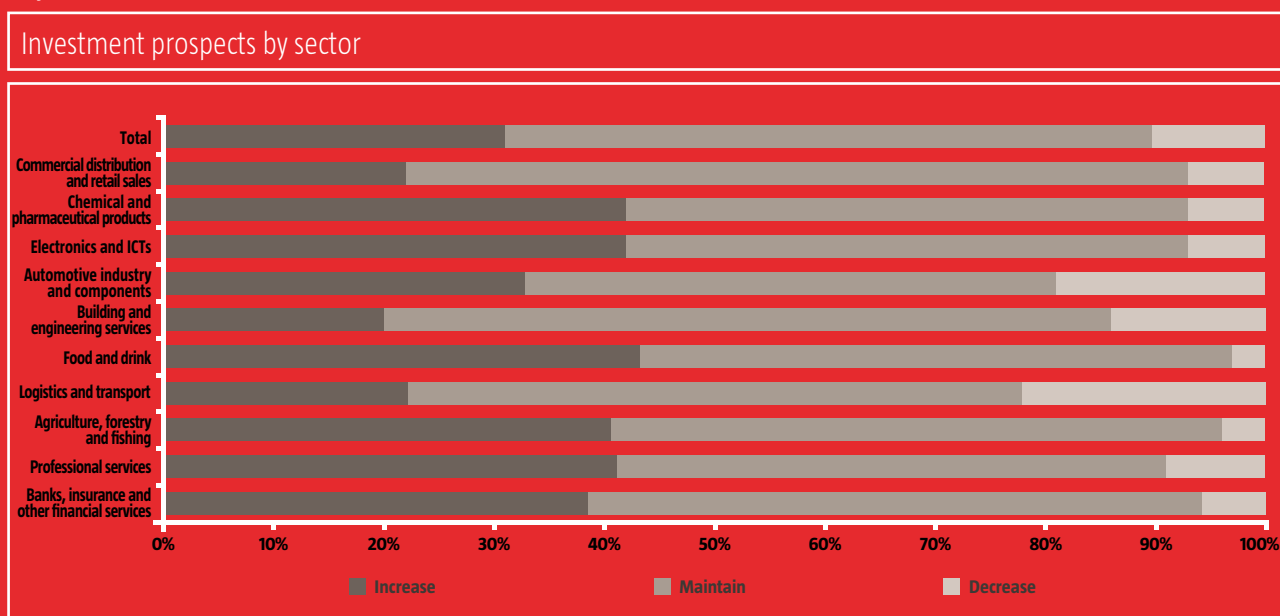
Appendix 2: sectoral analysis

As in the previous edition, a comparative study of investors' perspectives has been carried out for the ten most represented sectors in the survey, in order to analyse whether there are significant differences between sectors. To do this the forecasts for the end of 2021 were compared by sector in terms of investment, workforce, turnover and exports.

1. Investment prospects by sector

In the study as a whole 90% of the companies surveyed planned to increase or maintain their investments in Spain in 2021, a significantly higher percentage than last year as stated before, which points to the recovery of companies after the COVID-19 crisis. The main sectors represented show some noteworthy differences. The Construction, commercial distribution and logistics and transport sectors have below-average results. However, companies in the Chemicals and Food & Beverage sectors have better than average forecasts for investment in 2021.

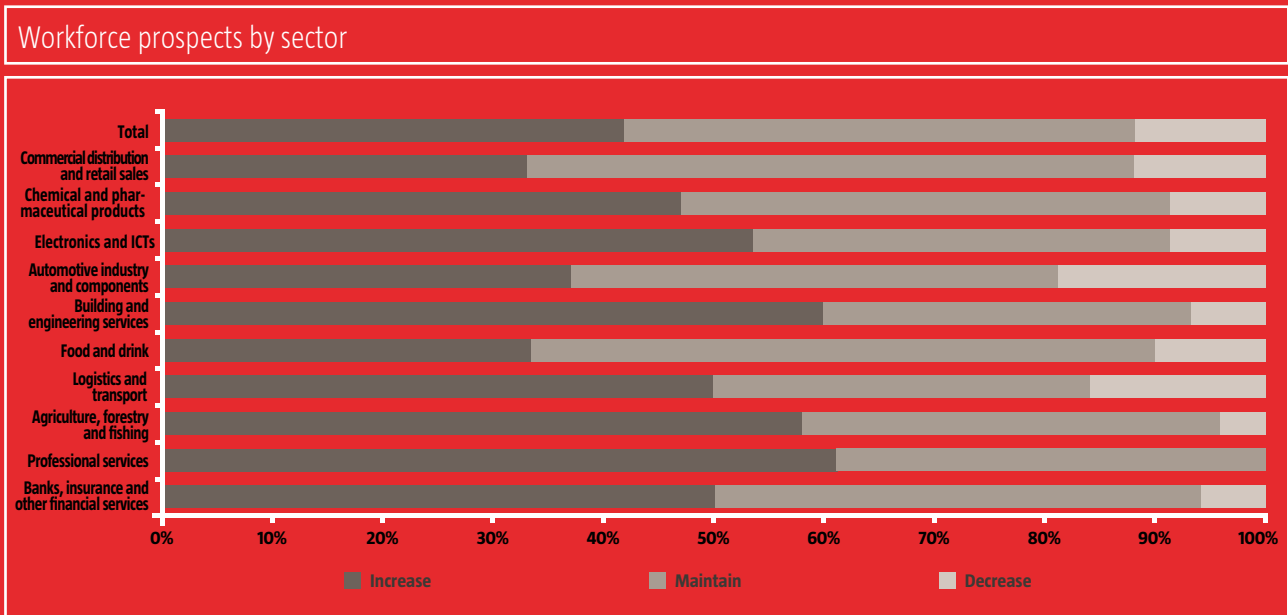
Figure 37



2. Workforce prospects by sector

In the study as a whole 88% of the companies surveyed plan to increase or maintain their workforce in Spain in 2021. The forecasts are slightly lower for companies in the Commercial distribution and retailing and Automotive and components sectors. However, companies in the Electronics and Information and Communication Technologies, Construction, Agriculture or Professional Services sectors show more favourable results.

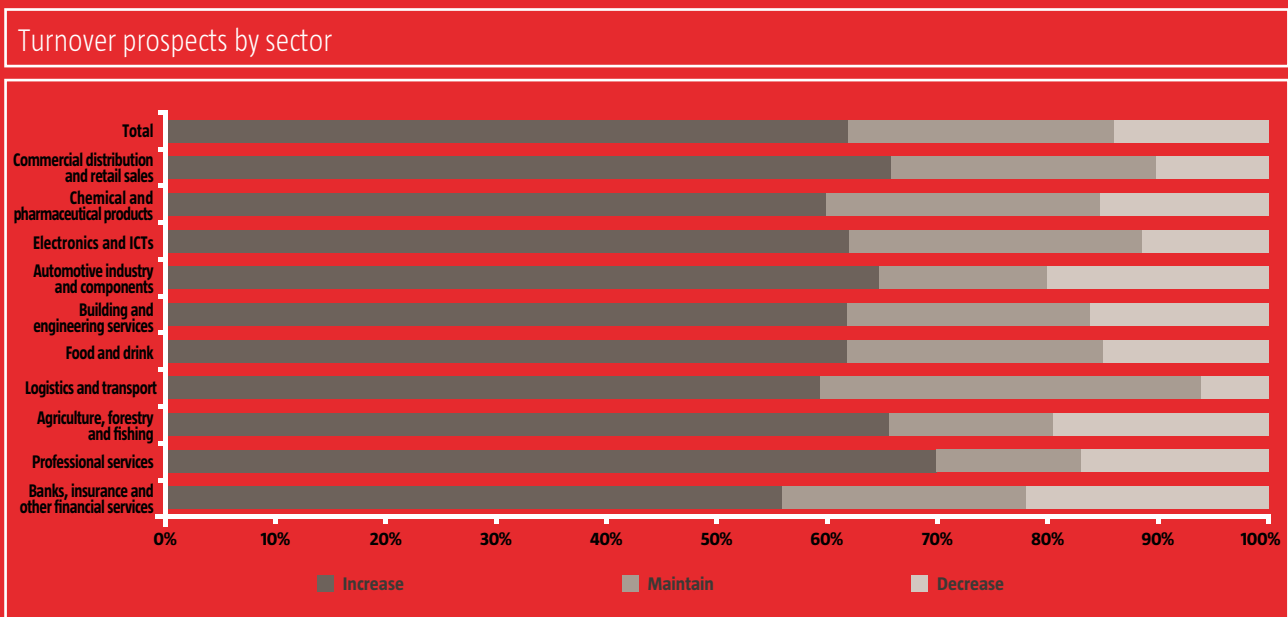
Figure 38



3. Turnover prospects by sector

Turnover is the most improved figure compared to 2020, and overall 86% of the companies involved expect to close 2021 by increasing or maintaining their turnover. This percentage decreases slightly in the Logistics and transport sector, but in other sectors such as Banking, Agriculture or Automotive and components, the forecasts are somewhat less positive, as shown in Figure 39.

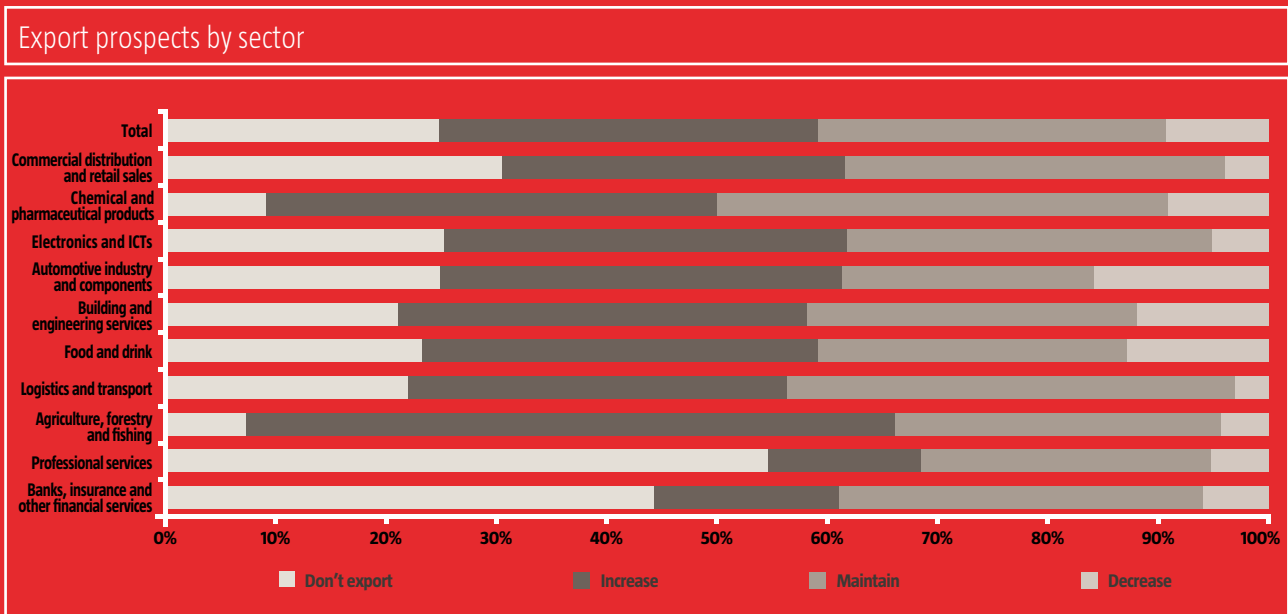
Figure 39



4. Export prospects by sector

In the study as a whole, 75% of the companies surveyed exported to other countries from Spain. As Figure 40 shows, companies in the Chemicals and Pharmaceuticals sectors have a higher export profile than average, with 91% of companies exporting, as do those in Agriculture (93%). However, companies in the Professional Services and Banking and Insurance sectors have a significantly lower export profile than average. In terms of export forecasts for 2021, the Automotive sector shows more negative results compared to the better export prospects of sectors such as Electronics, Chemicals, Logistics and Agriculture.

Figure 40



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