



Barometer of the Business Climate in Spain

From the Foreign
Investor's Perspective

Results 2023



International
Center for
Competitiveness

Multinacional^{es}
con España





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Presentation



1. Presentation

1. Presentation

This is the 16th edition of the “Spanish Business Climate Barometer Survey of foreign investors”, which has now become a flagship publication in Spain.

The 2023 edition contains an assessment of the foreign investment business climate in Spain during the 2023 financial year, as seen by more than 700 foreign-owned companies. Following generally established criteria, a business is considered to be foreign-owned when its foreign capital accounts for more than 10% of its total capital.

Forecasts for 2024 are also included. This provides an overview in the medium term 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 economic situation, analysing the impact of the war in Ukraine on various aspects of business. This edition maintains this chapter, as well as a section on sustainability that analyses the sustainability strategies of foreign-owned companies in Spain, the main sustainability objectives and the degree to which conditions in Spain do or do not favour the achievement of these objectives.

Investing companies confirmed a favourable performance in 2022, and closing figures for 2023 are positive, although they continue to be affected by the uncertainty of the international economic and political situation, as reflected by a reduction in the number of companies that will see their turnovers increase.

Estimates for investment, turnover, employment and export trends for these companies are more positive in 2024.

The Barometer has been jointly compiled by ICEX-Invest in Spain, *Multinacionales con España* brand and the International Center for Competitiveness (ICC) at the IESE Business School.

The role of the Executive Management at Invest in Spain-ICEX is to promote and attract 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 companies and as a point of contact for state, 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 the improvement of the business climate in Spain through ongoing talks with other ministerial departments and business associations, as well as Spanish and foreign-owned companies located in Spain.

Multinacionales con España is a private and independent association of global companies based in Spain and operating in all industries. The association aims to promote awareness of the social, economic and environmental contribution of foreign multinationals in the country, and to promote the Spain brand as an investment destination through a positive, proactive and purposeful participation in the Spanish public agenda, and one which promotes a stable environment for their investments.

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 strict learning and research in 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 under 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 remains unchanged from 2022

The results of this edition of the Spanish Business Climate Barometer – with an average rating of 2.9 out of 5 – are the same as those obtained in 2022 (2.89).

The areas most highly rated by foreign companies are Infrastructure, Market Size and Human Capital

As in previous years, the most important area for managers in this year's edition was Human Capital, followed by Market Size, Labour Market and Infrastructure.

The areas most highly rated by the managers surveyed were those related to Infrastructure, followed by Market Size and Human Capital, as in the 2022 edition. It is positive that, as usual, the most highly rated areas are for the most part the most important areas for directors.

Among the lowest-rated aspects in this edition are the areas of Taxation and Financing, as well as the Regulatory Environment and Costs. The areas with the greatest imbalances between the ratings they receive and the importance they have for foreign-owned companies are the Labour Market, Taxation, Costs and the Regulatory Environment.

Human Capital aspects are considered essential and positively valued as a whole, but foreign companies in Spain believe that attention should continue to be paid to language skills, the ability to learn or the acceptance of responsibilities and objectives. There is significant room for improvement on cost issues, notably electricity, and on reducing the bureaucratic burden. They also believe that action should be taken to adapt labour legislation to the needs of companies. On the other hand, the infrastructure area more than meets the expectations of these companies.

The forecasts for investment, turnover, employment generation and export volume for the years 2023 and 2024 are positive and similar to those in the last edition

Investment prospects in 2023 for foreign companies in Spain are positive, although they are slightly down in 2022. Thus, 86% of the companies surveyed increased or maintained their investments in 2023, compared to 89% in 2022. For 2024, 88% of companies plan to increase or maintain their investments.

The employment outlook is also positive, and similar to the previous year. In 2023, 87% of companies increased or maintained their workforce, whereas only 13% reduced it, compared to 2022 when 11% of companies said they had reduced their workforce. For 2024, 90% of the participating companies plan to increase or maintain their workforce.

The outlook for turnover in Spain still reflects some elements of uncertainty. Thus, in 2023, 76% of companies increased or maintained their turnover in Spain, compared to 84% in 2022. The percentage of participating companies expecting to increase or maintain their turnover for 2024 has returned to more positive levels, at 86%.

Finally, with regard to export volume, the high export profile has been maintained, with 69% of the foreign companies surveyed exporting to third markets from Spain. The outlook is positive, with 12% of companies expecting their exports to decrease by 2023. Only 7% of foreign companies plan to reduce their exports in 2024.

Context



3. Context

3. Context

No one disputes that a country's regulations, institutional framework and economic and social environment, i.e. its business climate, have a direct impact on the activity and results of companies established in its territory. This real and tangible impact that a country's business climate has on the business activity that takes place in it is the basis for the existence of this Spanish Business Climate Barometer survey of foreign investors.

This Barometer aims to give a voice to foreign investors, who are key agents in any economy, with respect to their experiences with the Spanish business climate. It has an eminently practical mission, basically aiming to be a guide for the Government in its regulatory functions, enabling it to consolidate those aspects of the business climate that are perceived as positive and also to identify those factors that are less well rated in order to act on them. But this document is not only intended to be useful for the Government, but also for foreign companies and investors themselves in the complex and multidisciplinary decision-making process involved in making a direct investment.

This 2023 edition of the Business Climate Barometer has been prepared, as it is every year, on the basis of the answers provided by over 700 managers and representatives from foreign companies established in Spain to a questionnaire designed so that its results offer a faithful and structured image of the importance and ratings that the respondents give to the different aspects that comprise the business climate in which their activity is carried out in Spain.

This Barometer is now in its 16th edition this year. The long trajectory of this document and its methodological stability mean that it may not only be interpreted from a synchronic perspective, i.e. from a static point of view, anchoring its analysis to the precise moment at which it was produced, but also by facilitating comparisons and diachronic variations in the indicators analysed.

The Spanish Business Climate Barometer survey focuses mainly on the analysis of regulatory, institutional and structural factors, i.e. components that can be analysed in a stable manner, with a certain continuity. However, during the 16 editions of this Barometer, it has been possible to verify that, in addition to these regulatory, institutional and structural factors, which are the main purpose of this Barometer, there are other factors that are more conjunctural and/or exogenous with respect to the Spanish business climate, which we could call contextual factors, and which are applicable during the time in which the responses to the questionnaires are given, something which also has a decisive influence on the conclusions and results obtained in this document.

In recent years, these contextual factors have played a much more prominent role than would normally be the case. Brexit, the Covid-19 pandemic, and Russia's military aggression against Ukraine, among other factors, decisively affected the results of this Barometer in previous editions. Some of the pernicious effects of these crises have persisted this year, especially those stemming from the inflationary shock that started in 2021 at a global level, initially stemming from the disruptions in global supply chains that followed the Covid-19 pandemic and the rebound in demand following the removal of the associated restrictions, and worsening in 2022 as a result of, among other factors, the effects of Russia's invasion of Ukraine on commodity markets. As a result, the euro area has experienced the most intense inflationary episode in its history over the past two years, which has been countered by an exceptional and unprecedented monetary tightening. The Governing Council of the European Central Bank raised interest rates ten times in just one year, between July 2022 and September 2023.

This policy has made remarkable progress and Europe is now in a phase of disinflation. And although inflation has thus fallen significantly in recent months, the European Union is still far from restoring price stability, as core inflation is proving relatively more difficult to reduce than headline inflation. It is therefore too early to find comfort. The IMF forecasts that growth in advanced economies will decelerate from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. Moreover, recent geopolitical developments, particularly in the Middle East, with the further escalation of the Israeli-Palestinian conflict since October 2023, continue to pose a further risk to economic growth in the euro area and to a possible increase in inflation.

The Spanish economy is no stranger to the risks and challenges posed by the global economy. However, according to the IMF, Spain will still have the best growth prospects of the large developed economies in 2023. According to this source, Spain will grow by 2.5% in 2023, four times more

3. Context

than that forecast for the eurozone. In 2024, the Spanish economy is also expected to continue to grow, albeit more moderately, but still above average for the euro area and large OECD economies.

Domestic demand will be the main driver for growth and external demand will support growth less than in previous years. In fact, Spanish exports of goods during the period from January to October 2023 remained stable compared to the same period in 2022 (0.0% year-on-year) at around 320 billion euros.

This is the economic context revealed by the responses from the representatives of foreign companies established in Spain, which must be taken into account when interpreting the results of this Barometer.

But the context has crept in, not only in the responses to the questionnaires, but also influencing, for yet another year, the very methodology of this document. As was the case last year, the 2023 edition of the Barometer includes two questions on the consequences of the war in Ukraine, firstly on company performance and secondly by asking respondents about those aspects of company management that are most affected by the consequences of the war. In addition, another question is also included about the importance for the foreign companies surveyed of access to the Funds derived from the Recovery, Transformation and Resilience Plan within the framework of the European Recovery and Resilience Mechanism, of which Spain is one of the main beneficiaries.

The Recovery, Transformation and Resilience Plan is inspired by the Agenda for Change, the 2030 Agenda and the United Nations Sustainable Development Goals. These goals not only represent an opportunity for countries and their societies to embark on a new path to improve the lives of their citizens, but they are also an opportunity for companies to innovate their products and services and enter new market segments, such as new technologies, the circular economy, inclusive business, renewable energy and the green economy. Analysis of the sustainability goals for foreign companies in Spain, which was a new feature of the 2021 Barometer, has therefore been maintained in the 2023 report. The commitment to sustainable development, whose pillars are economic growth, social progress and environmental balance, is a path of no return and is already a priority, not only for the public sector, but also for an increasing number of private companies, both Spanish and foreign.

Spain is showing very promising results in terms of foreign investment in these more advanced and productive industries. In fact, in 2022, according to the Financial Times Group's fDi Markets database, Spain was the third largest global recipient of greenfield projects in the renewable energy industry. It was also the third largest recipient of projects in the aerospace industry and the fourth largest recipient in the Information and Communications Technology and internet infrastructure industry. In addition, it was the country with the fourth highest number of projects involving R&D activities, ranking fourth in the list of countries receiving automotive projects. Furthermore, it was the fourth largest recipient of greenfield projects relating to clean hydrogen, the fifth largest recipient of projects relating to artificial intelligence and the sixth largest destination for foreign start-up projects.

Spain's attractiveness for this type of project is one of the factors that explain the extraordinary performance of foreign investment in greenfield projects established in Spain in recent years.

Spain was awarded 860 greenfield projects from foreign investors in 2022, making it the sixth country in the world to receive the most greenfield projects globally, after the US, the United Kingdom, India, the United Arab Emirates and Germany, and ahead of major powers like China, France, Japan, Canada and Italy. These projects have meant a CAPEX investment of more than USD 44 billion, the highest greenfield investment received by Spain in history, comfortably surpassing the figure received in 2018, which was the highest until now.

According to the data available to us in 2023 (January to November), Spain is the fifth country in the world to receive the most greenfield FDI projects in 2023 (711 projects and USD 31.435 billion), behind only the United States, the United Arab Emirates, the United Kingdom and India.

General results



4. General results

4. GENERAL RESULTS

4.1. General rating

Figure 1 shows the level of importance and the scores given by foreign companies to each of the ten areas covered by the 2023 Business Climate Barometer.

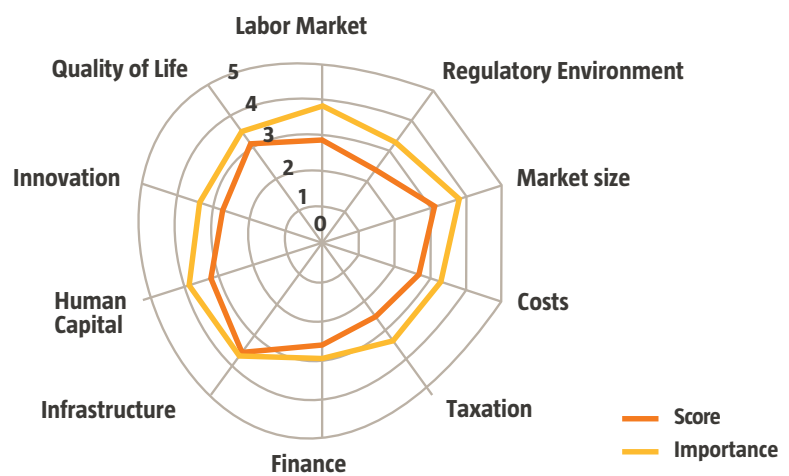
Foreign-owned companies continue to assign the greatest importance to the area of Human Capital, followed by Market Size, the Labour Market and Infrastructure, as in the previous year. The least important in the opinion of managers is once again Financing.

The managers consulted gave the highest scores to Infrastructure, followed by Market Size and Human Capital.

Featuring among the lowest rated aspects in this edition were the areas of Financing and Taxation, followed by the Regulatory Environment and Costs.

The areas with the greatest imbalances between the rating they receive and the importance they have for foreign-owned companies are the Labour Market, Taxation, Regulatory Environment and Costs. The Infrastructures area, on the other hand, obtained a rating equal to its importance, perfectly fulfilling the expectations of the companies.

Figure 1
Importance and scores
by area in 2023



4. General results

4.2. Main strengths and weaknesses

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

As in previous editions, aspects related to Infrastructure stand out. The managers surveyed did therefore rate the availability of telecommunications structures and services, the quality of airports, roads, ports and the high-speed train very positively. They also highlighted some aspects of Human Capital, such as learning capacity, and security.

Conversely, Figure 3 shows the weaknesses noted by the managers consulted.

The cost of electricity remains the main weakness, with the cost of other energy, such as gas, diesel or petrol, also standing out. Other weaknesses again refer to aspects of the Regulatory Environment, such as bureaucracy, or the speed and efficiency of the commercial courts. Finally, it is important to point out fiscal aspects related to work, such as Social Security contributions for employees, or corporation tax. Commercial bank financing is also valued more lowly this year.

Figure 2

Main strengths

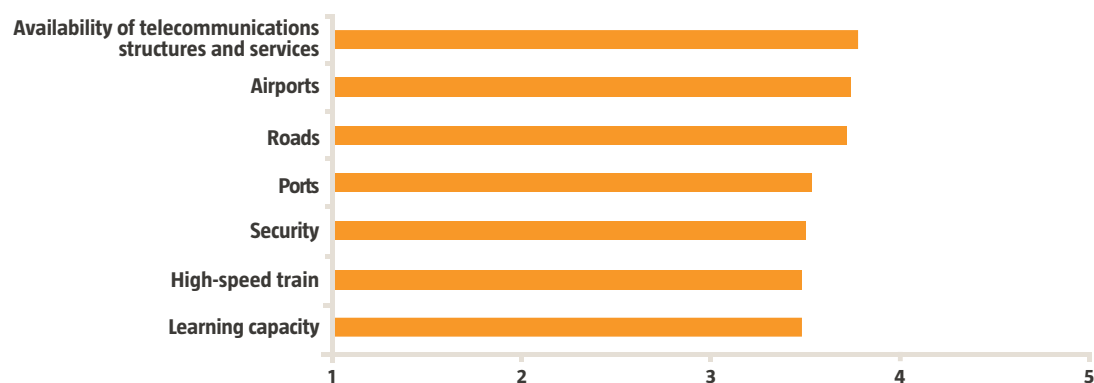
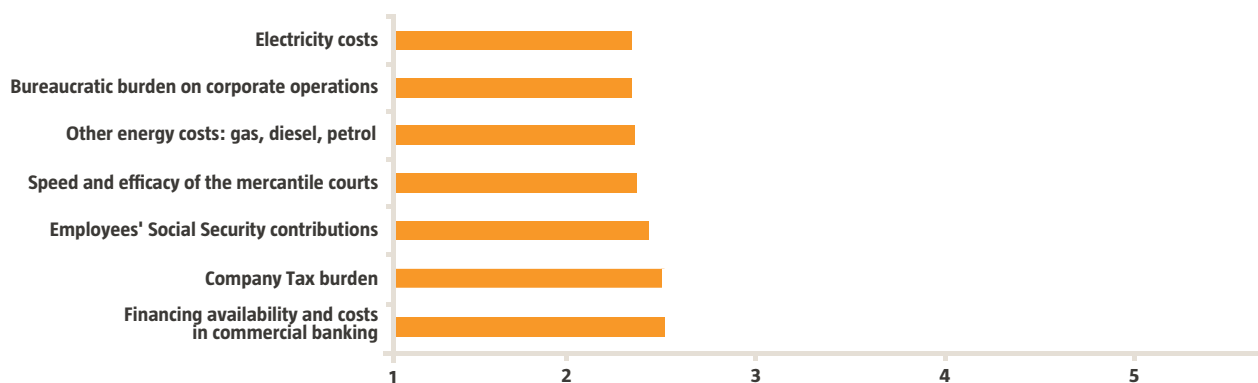


Figure 3

Main weaknesses



4. General results

4.3. 2022-2023 Comparison

The rating for 2023 is unchanged from that obtained in 2022, at 2.9 out of 5.

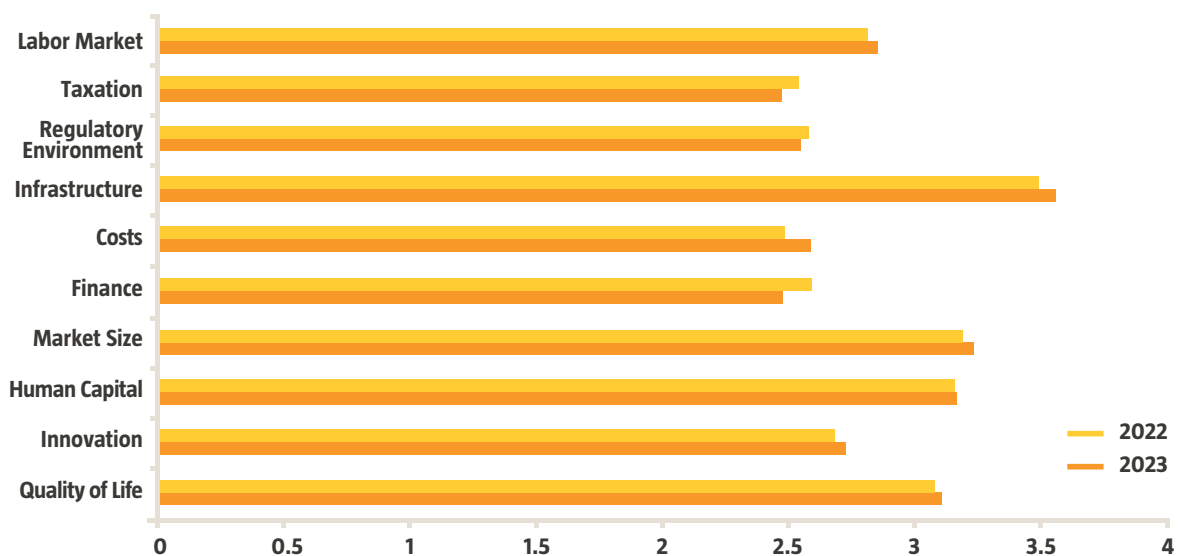
Figure 4 shows a comparison of the ratings obtained by area in 2022 and 2023. As can be seen, most areas show an improvement compared to last year, except for Taxation, Regulatory Environment and Financing.

In the case of Financing, almost all variables experienced a decline, obviously driven by the rise in interest rates. In the case of Taxation, very slight decreases were also observed in all the aspects analysed. As regards the Regulatory Environment, the main negative point is in the stability of the regulatory framework.

Progress is most pronounced in the area of Costs, with notable improvements in the rating for cost of electricity and other energy. The areas of Labour Market, Infrastructure, Market Size, Innovation and Quality of Life are better rated than in 2022, although the increase is slight.

Figure 4

Comparison of scores 2022-2023



4. General results

4.4. Main areas for action

The priority areas for action have been selected based on the size of the gap between the importance attributed to them by the managers consulted and their weighted score. In this edition, four of the resulting action areas are the same as in the last edition (language proficiency, electricity costs, acceptance of responsibilities and objectives and matching labour legislation to the needs of the company). Learning capacity and the bureaucratic burden on the operation of the company have been added in this edition.

1. Language skills

Language skills have been one of the main problems in the opinion of the managers surveyed for many years. In this edition, it is the fourth-most important aspect of the entire survey, and its rating is slightly lower than in 2022. Human Capital aspects are the most important for the directors consulted and fundamental for the medium and long-term competitiveness of the country.

2. Acceptance of responsibilities and objectives

Once again, another aspect of Human Capital requires priority attention, as the acceptance of responsibilities and objectives is the third-most important aspect for the managers surveyed. The rating is positive, and remains the same as in 2022, but there is a significant gap between the importance and the rating given.

3. Learning capacity

Learning capacity is the most important aspect of the whole survey for foreign-owned companies in Spain. The rating is very positive, significantly higher than for the acceptance of responsibilities and objectives, and is unchanged from 2022, but due to its importance for investors, it should be given priority attention.

4. Electricity costs

The cost of electricity once again has the worst rating in the entire survey, although it has the highest rating improvement in the survey this year. Nevertheless, it reflects the concern of the managers surveyed on this issue. As in previous editions, it is important to highlight the impact of this aspect on the competitiveness of companies, especially in the industrial sector.

5. Burden of bureaucracy on company operations

The bureaucratic burden of running a company is the second-worst rated aspect of the entire survey, only behind the cost of electricity, and it has already been identified as one of the weaknesses across the board in the study. This is an issue that has been highlighted by investors in the various editions, and this time it should be included as a priority area for action.

6. Adaptation of labour law to the needs of the company

The adaptation of labour legislation to the needs of companies is the fifth-most important aspect of the whole survey. The rating is positive and there has been progress since last year, but its high importance means that it should continue to be considered a priority area of attention.

Prospects of foreign companies in Spain



5. Prospects of foreign companies in Spain

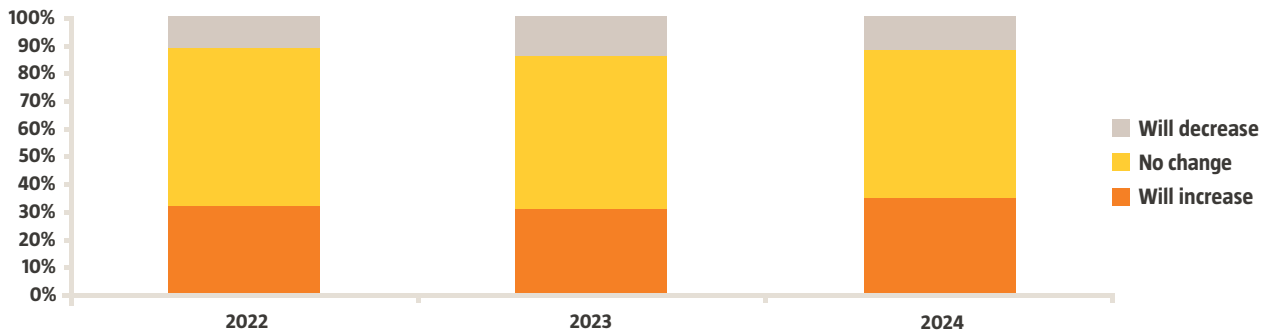
5. PROSPECTS OF FOREIGN COMPANIES IN SPAIN

5.1. Investment prospects

The investment prospects for 2023 as seen by foreign companies in Spain are positive, although they are slightly down in 2022. Thus, 86% of the companies surveyed increased or maintained their investments in 2023, compared to 89% in 2022. For 2024, 88% of companies plan to increase or maintain their investments, and the percentage of companies planning to increase their investments has risen to 37%.

Figure 5

Investment forecast 2022-2024

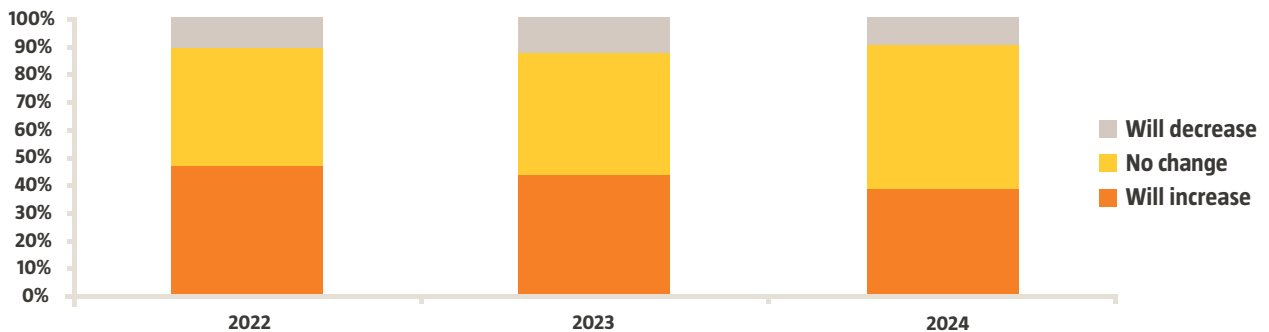


5.2. Employment prospects

The employment outlook is also positive, and similar to the previous year. In 2023, 87% of companies increased or maintained their workforce, whereas only 13% reduced it, compared to 2022 when 11% of companies said they had reduced their workforce. For 2024, 90% of the participating companies plan to increase or maintain their workforce, although the percentage of companies planning to increase their workforce has dropped from 43% in 2023 to 38% in 2024.

Figure 6

Workforce forecast 2022-2024



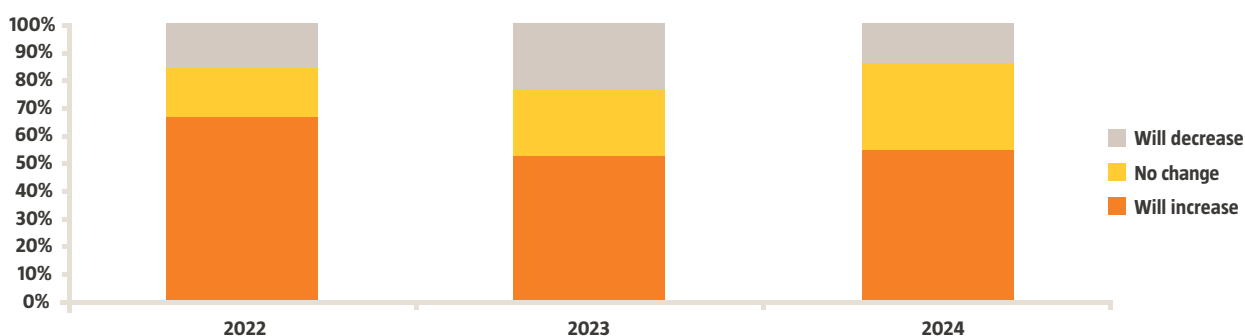
5. Prospects of foreign companies in Spain

5.3. Turnover prospects

As was the case last year, the outlook for turnover in Spain continues to reflect some elements of uncertainty, although a clear recovery is expected by 2024. Thus, in 2023, 76% of companies increased or maintained their turnover in Spain, compared to 84% in 2022. The percentage of participating companies expecting to increase or maintain their turnover for 2024 has returned to more positive levels, at 86%.

Figure 7

Turnover forecast 2022-2024

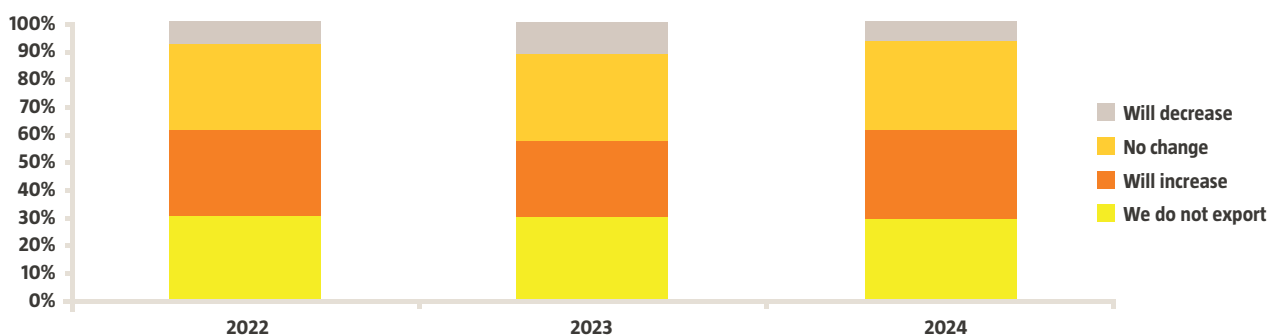


5.4. Export prospects

Finally, with regard to export volume, the high export profile is maintained, with 69% of the foreign companies surveyed exporting to third markets from Spain. The outlook is positive, with 12% of companies expecting their exports to decrease in 2023, although the figures are somewhat worse than in 2022. Forecasts for 2024 have improved and only 7% of foreign companies plan to reduce their exports.

Figure 8

Export forecast 2022-2024



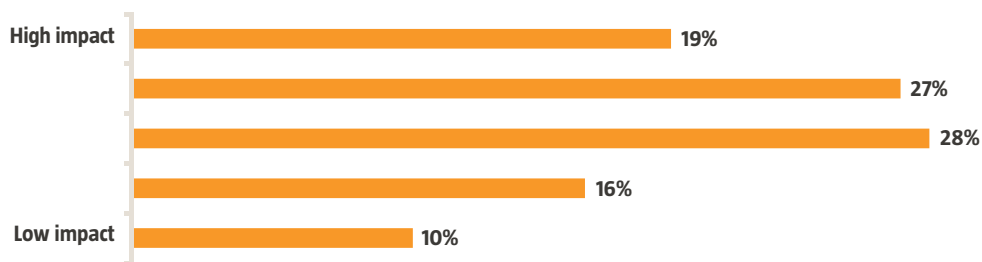
5. Prospects of foreign companies in Spain

5.5. Impact of the war in Ukraine on the company's revenue

Once again in this edition, companies were asked about the effects that the Russian invasion of Ukraine is having on their bottom line. 46% of companies consider the impact to have been high or very high (compared to 50% last year). Only 10% of companies consider that the conflict has had a low impact on their activity.

Figure 9

Impact of the war in Ukraine on the company's revenue

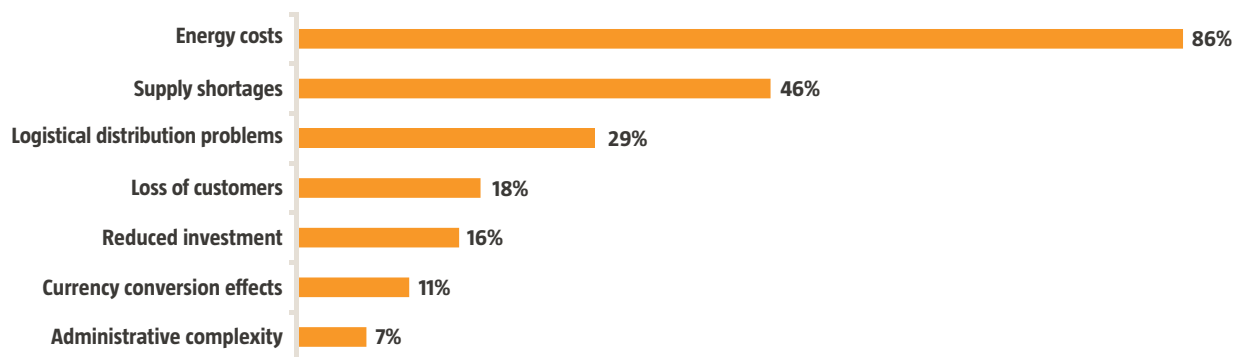


5.6. Aspects most affected by the consequences of the war in Ukraine

Regarding the aspects of company management on which the impact of the crisis has been greatest, the effect on energy costs, mentioned by 86% of companies, continues to stand out, as it did last year. 46% of companies also consider that the crisis has had a major impact on supply shortages (compared to 56% last year), and has caused problems in logistics distribution, according to 29% of the managers surveyed (compared to 46% last year), with both of these aspects having improved.

Figure 10

Aspects most affected by the war in Ukraine



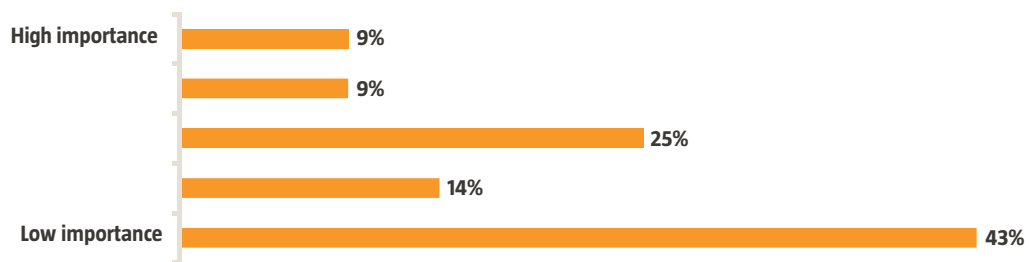
5. Prospects of foreign companies in Spain

5.7. Importance for companies in accessing Recovery Funds

Companies have also been surveyed on the importance of access to Recovery Funds for their recuperation. As in previous editions, access to funds is of low or very low importance for a significant percentage of companies, 57%, and of high or very high importance for only 18% of them.

Figure 11

Importance of access to Recovery Funds



Results by area



6. Results by area

6. RESULTS BY AREA

6.1. Labour Market

The Labour Market is the area with the greatest gap or margin for improvement of all the areas analysed, in the opinion of the managers of foreign-owned companies.

Recruitment incentives and subsidies are once again the main problem. Although there is a slight improvement compared to 2022, the gap in terms of importance is significant.

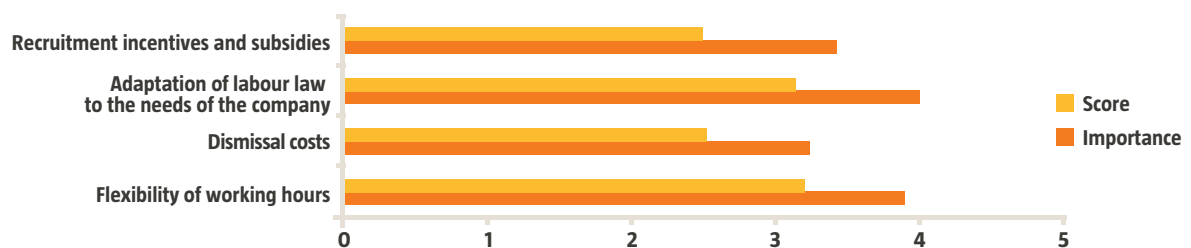
The adaptation of labour legislation to the needs of the company is the most important for companies in the Labour Market area. As Figure 12 shows, there is also room for improvement, and it has been included as one of the priority areas for action this year.

Dismissal costs are the least important aspect of this section, although the assessment is not positive either.

Finally, the flexibility of working hours had experienced a very positive evolution in the two previous editions, and on this occasion, it maintains the rating with respect to 2022. Although it is of high importance, the room for improvement is smaller than for the other aspects relating to the Labour Market

Figure 12

Labour Market



6. Results by area

6.2. Taxation

Generally speaking, Taxation is the second-worst rated section in the entire report for 2023, second only to Costs.

Social security contributions for employees remain the main difficulty in the opinion of foreign-owned companies. This is the fifth-worst rated aspect of the entire study, and it is also lower than in 2022.

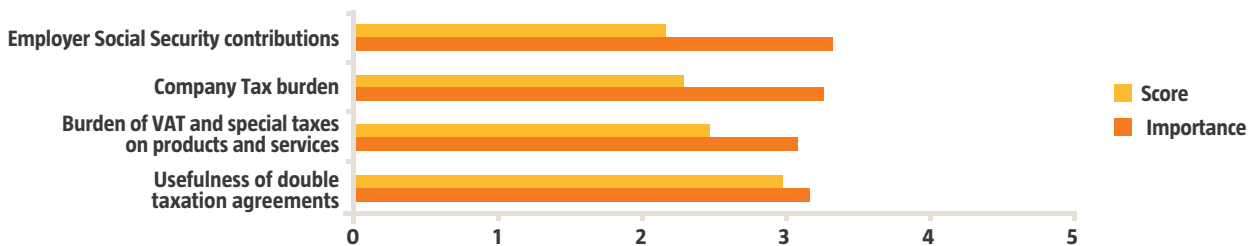
Like last year, the burden of corporate income tax continues to show ample room for improvement, and its rating has decreased in this edition, as well as its importance.

The burden of VAT and excise duties on products and services presents fewer problems in the opinion of managers, and has slightly decreased in importance for the companies surveyed.

Finally, double taxation agreements do not seem to pose problems for foreign-owned companies in Spain, although they have also suffered a slight decline in their rating.

Figure 13

Taxation



6. Results by area

6.3. Regulatory Environment

The Regulatory Environment is one of the areas that foreign-owned companies rate lowest overall.

The bureaucratic burden on company operations is the most problematic aspect. It has already been identified as one of the weaknesses across the board in the study and has been included as a general area for action. In this edition, it obtained the second-worst rating in the entire survey.

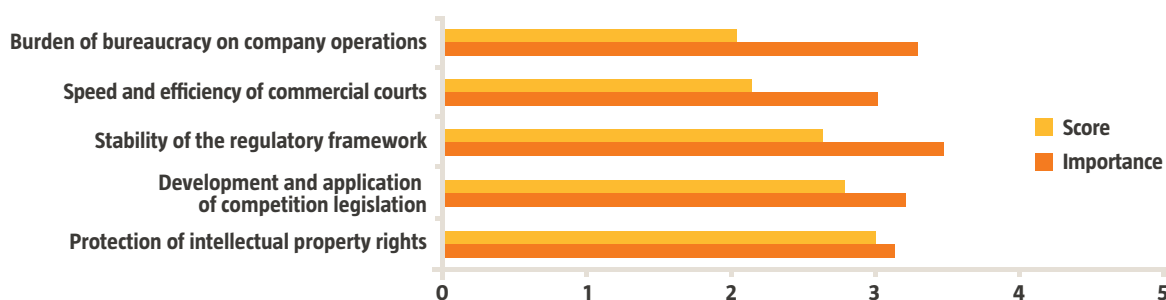
The speed and efficiency of the commercial courts also shows a significant imbalance, and is another of the weaknesses across the board, due to its low rating (it is the fourth-worst rated aspect in the survey).

The stability of the regulatory framework is the most important issue for the managers surveyed in this area and, as has been pointed out on other occasions, is an essential factor in terms of attracting and retaining foreign investment. This aspect has been rated lower, and there is clear room for improvement.

Finally, the development and enforcement of competition law and the protection of intellectual property rights have seen their ratings maintained, and do not seem to pose any problems for foreign investors in Spain.

Figure 14

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 companies in our country and also one of the most important in general terms. It should also be noted that all the aspects analysed have improved in comparison to 2022.

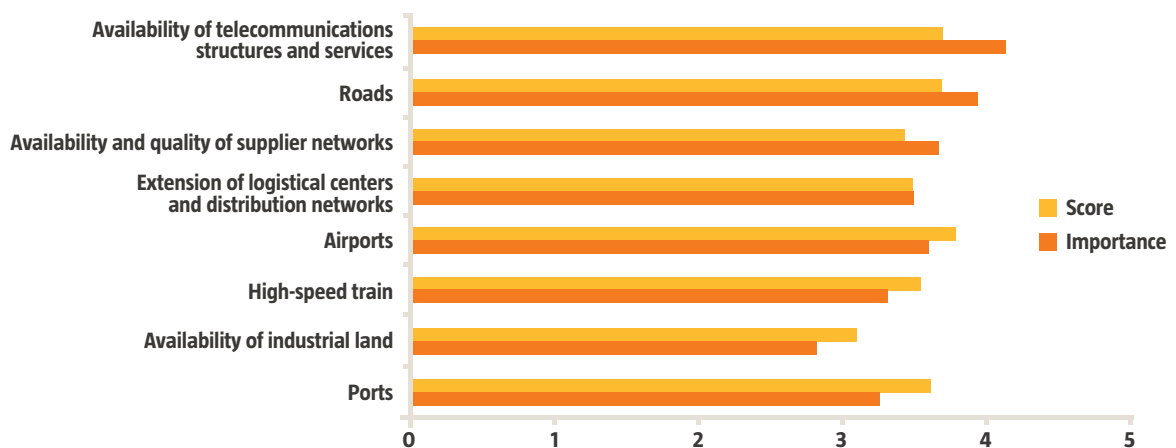
Several of the aspects covered here have been identified as strengths across the board in the report, such as the availability of telecommunications services and structures, airports, roads, ports and high-speed rail.

The availability of telecommunications services is the second most important aspect of the entire survey in the opinion of foreign-owned companies, and the second most highly rated, with a clear improvement over last year. There is some room for improvement in this area, as well as in roads, the second most important, and in the availability and quality of supplier networks.

The rest of the variables included in this section are rated very positively and perfectly meet the expectations of the managers surveyed.

Figure 15

Infrastructure



6. Results by area

6.5. Costs

The Cost area shows a clear improvement in 2023, although some imbalances remain.

The cost of electricity is also the main concern in this edition of the survey, although its rating shows the greatest increase of all the variables included in the survey, gaining almost 0.4%. Nevertheless, it is included among the weaknesses and areas for action in general.

The costs of other energy sources are the third-worst rated aspect of the entire survey, but this area has improved by more than 0.3% in this edition. However, the room for improvement is clear and still reflects the difficult situation created inter alia by the war in Ukraine (see section 5.5.).

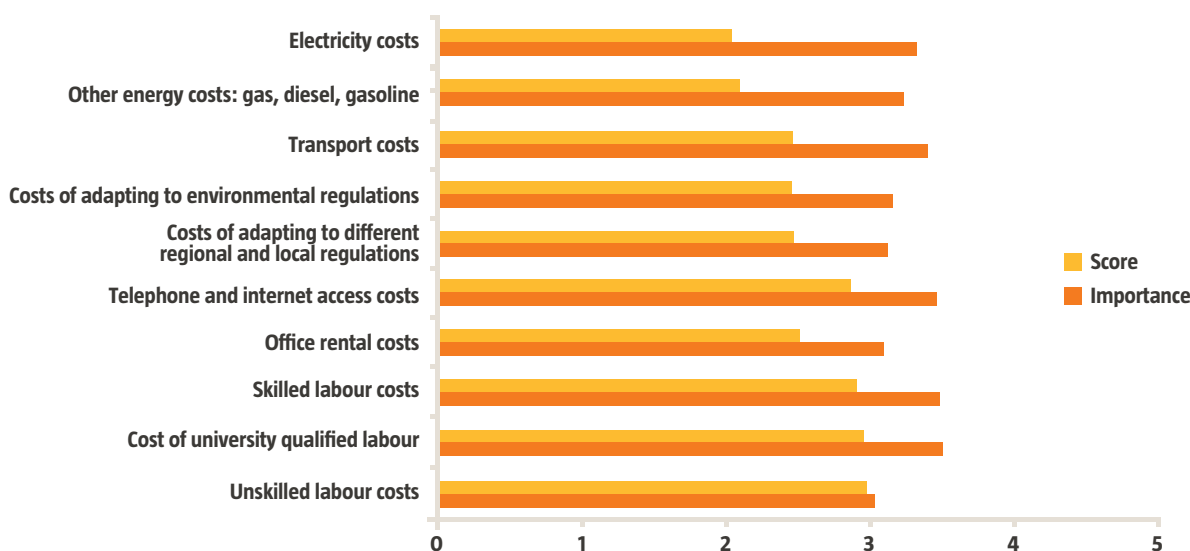
Transport costs are down by almost 0.2% but still present a significant area for improvement, as well as the costs of adapting to environmental regulations and to the different regional and local regulations. Telephone and Internet access costs do not meet investors' expectations either, although they are also improving significantly.

The costs of both skilled and unskilled labour in Spain are rated positively and are one of the reasons that continue to be cited by the companies surveyed for setting up in the country. The rating has decreased very slightly compared to the previous edition.

As usual, skilled labour is more significant for foreign companies in Spain than unskilled labour, which is indicative of the type of investments made by foreign companies with high added value.

Figure 16

Costs



6. Results by area

6.6. Financing

Financing is the least important area for the companies surveyed, as in previous editions.

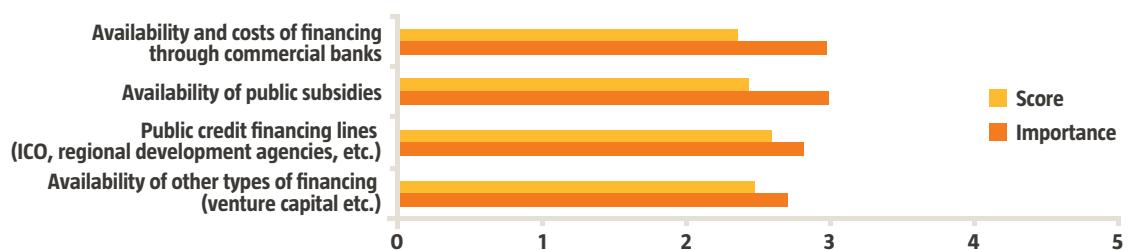
The main room for improvement this time is in the availability and cost of commercial bank funding, which is down from 2022, reflecting the rise in interest rates.

The availability of public subsidies also shows some room for improvement and is the most important aspect in the area of funding.

Public credit lines, such as the ICO, and the availability of other types of financing, such as venture capital, are of minor importance for foreign-owned companies and do not seem to pose a problem, although the ratings for both have clearly decreased this year.

Figure 17

Financing



6. Results by area

6.7. Human Capital

As was the case in previous editions, Human Capital is the most important area for the managers surveyed and is among the most highly rated, although there are still clear imbalances.

Language skills, learning capacity and the acceptance of responsibilities and objectives remain priority areas for action. Language skills is the fourth-most important aspect of the entire survey in the opinion of the managers surveyed, and is not rated highly.

Learning capacity is again the most important aspect of the whole survey for the managers surveyed, and although it is rated positively, it needs to be further emphasised. The same goes for the acceptance of responsibilities and objectives.

The quality of the education system, both university and vocational training, is positive, although there is some room for improvement.

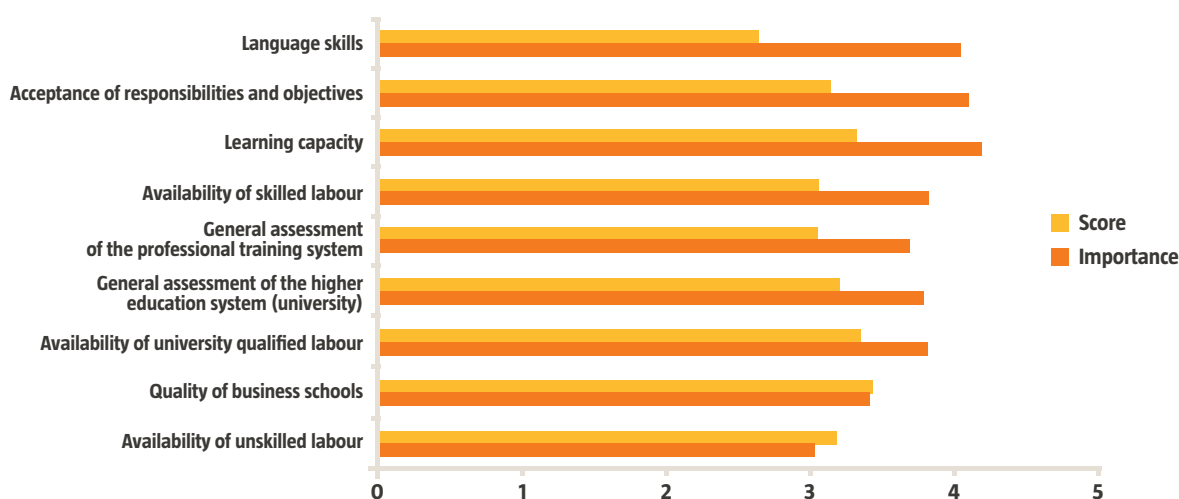
As in previous editions, the managers surveyed attribute very different importance to the availability of skilled and unskilled labour, with the former being much more significant to them, which is very positive. However, while investors' expectations for unskilled labour are being met, there is room for improvement in the availability of skilled labour, especially in terms of vocational skills.

The quality of business schools meets the expectations of the managers surveyed, and has also improved in 2023.

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

Figure 18

Human capital



6. Results by area

6.8. Innovation

The area of Innovation has a medium rating, and remains unchanged from the previous year, although the importance attributed to it by investors has decreased.

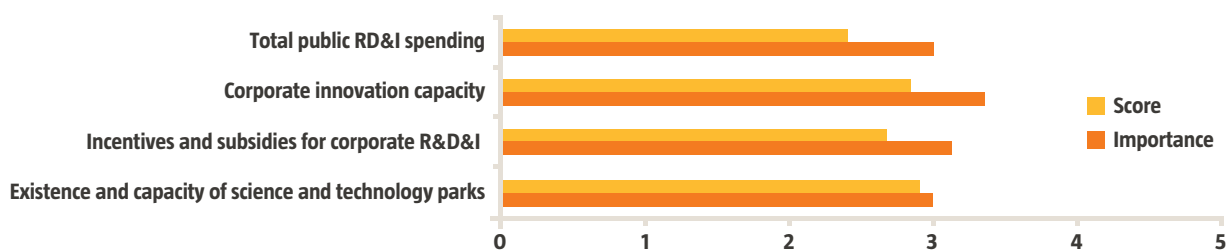
Like last year, the main imbalance is found in the total volume of public spending on RD&I, despite the fact that this is evolving positively with respect to 2022 in the opinion of the managers surveyed.

The innovativeness of companies is the most important aspect in the area of innovation for the foreign-owned companies surveyed, and there is some room for improvement. This is also the case for incentives and aid for companies to carry out RD&I and innovation.

The existence of science and technology parks is the most-highly-rated aspect by company managers in terms of innovation, in line with the needs of foreign companies.

Figure 19

Innovation



6. Results by area

6.9. Market Size

Market Size is the second-most important area for foreign-owned companies in Spain, after Human Capital, with the second-highest rating, and one of the main reasons why the foreign companies surveyed set up in Spain.

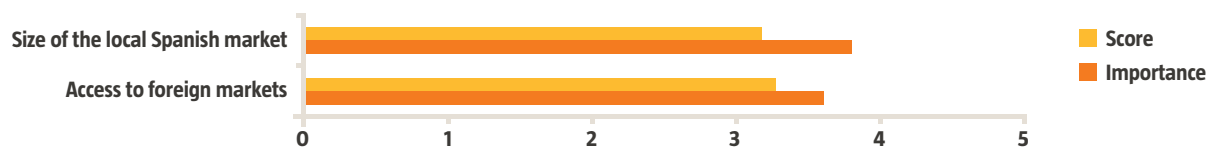
Positive ratings were once again obtained for both access to foreign markets and the size of the local market.

The size of the local Spanish market is more important for foreign-owned companies and has more room for improvement, although this aspect is rated higher than in 2022. Access to foreign markets is rated very positively and does not pose any problems for the participating companies.

These two aspects are very important and are repeatedly pointed out as the main attractions for investing in Spain, so it is necessary to pay special attention to them on an ongoing basis.

Figure 20

Market Size



6. Results by area

6.10. Quality of Life

As in previous editions, the Quality of Life area is rated very positively and is also one of the most important areas for investors.

The cost of living shows the most significant room for improvement, although its rating has increased compared to the previous year.

Safety is the most important aspect of quality of life for the managers surveyed, and the rating is very positive, increasing in this edition. This is one of the strengths noted across the board in the report.

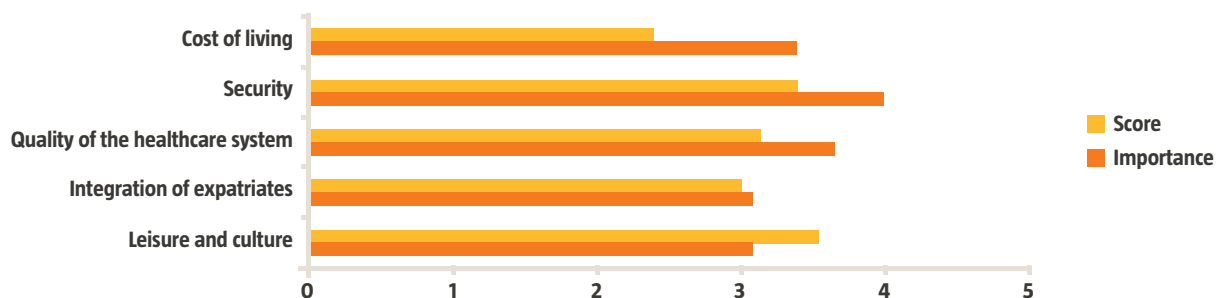
The quality of the health system has declined slightly and still has some room for improvement.

Leisure and culture is one of the most highly rated aspects, fifth in the entire survey, and more than meets the expectations of the managers surveyed.

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

Figure 21

Quality of Life



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

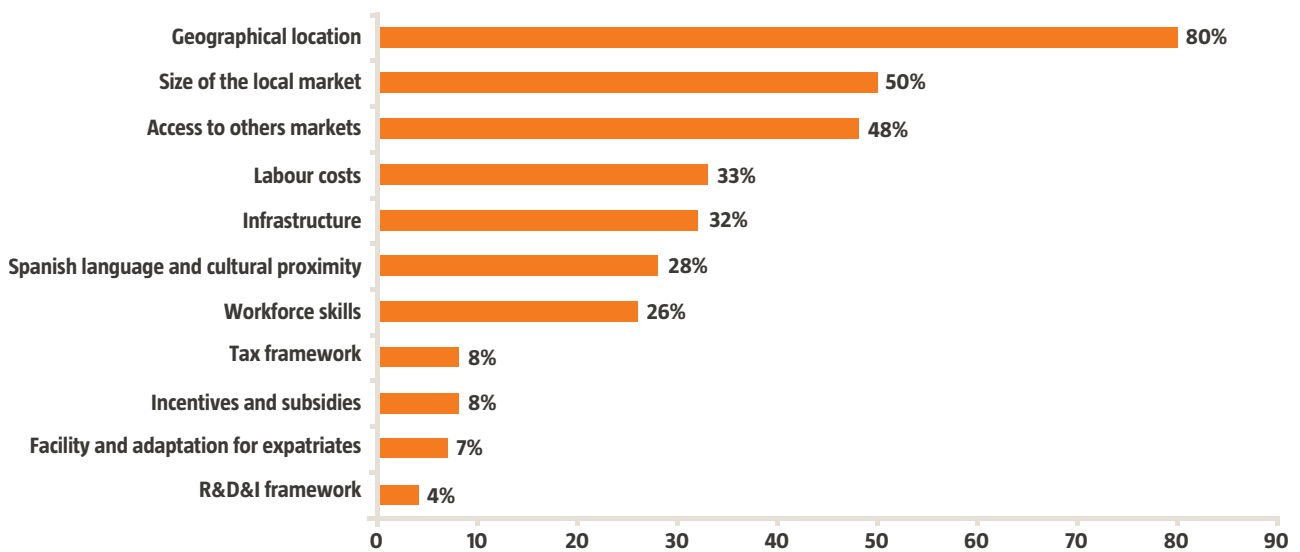


7. Reasons for setting up in Spain and measures needed to increase investment

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. Other important factors have been labour costs and infrastructure. Investors also consider the Spanish language and cultural proximity, as well as the skilled labour force, to be important advantages.

Figure 22

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



Sustainability goals



8. Sustainability goals

8. SUSTAINABILITY GOALS

In the sustainability section, various aspects have been analysed. The managers consulted were asked whether they have a sustainability strategy, what Sustainability Goals 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 Goals, as well as the degree to which different factors in Spain 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 graph 23 shows, 58% of companies do not have a Sustainability Strategy, compared to 42% who do have one, same result than last year (58% of companies did not have a Sustainability Strategy).

Figure 23

Companies with a Sustainability Strategy



8. Sustainability goals

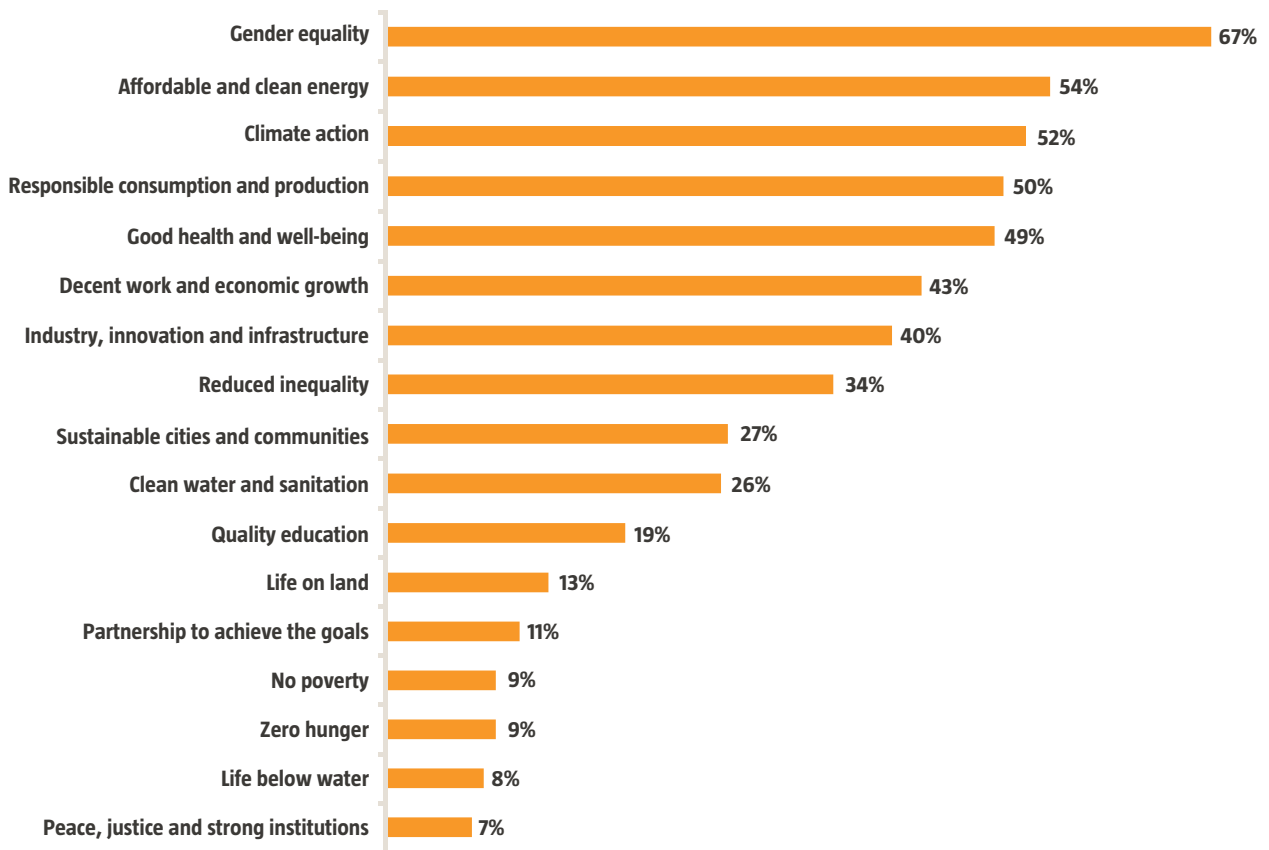
8.2. Priority Sustainability Goals

As in the last edition, foreign companies operating in Spain clearly highlighted Gender Equality among the 17 Sustainability objectives established, with the same percentage as last year (67%). Affordable and clean energy was the second-most important objective, with 54% of companies. These were followed by Climate Action (52%) or Responsible Consumption and Production (50%). Health and Well-Being and Decent Work and Economic Growth were also prominent objectives.

Other goals, such as Zero Hunger, an End to Poverty, Peace, Justice and Strong Institutions or Life Below Water, continue to be chosen by a very small percentage of foreign companies in Spain.

Figure 24

Main Sustainability Goals



8. Sustainability goals

8.3. Measurement and monitoring mechanisms

Among the foreign companies that have Sustainability Strategies, 79% say they use measurement and monitoring mechanisms that allow them to monitor compliance with the set objectives, slightly above the results of the previous year (76%), which continues to show that greater importance is being given to Sustainability Strategies in companies. However, 21% of companies do not use any monitoring and control mechanism.

Figure 25

Companies with measurement and monitoring mechanisms

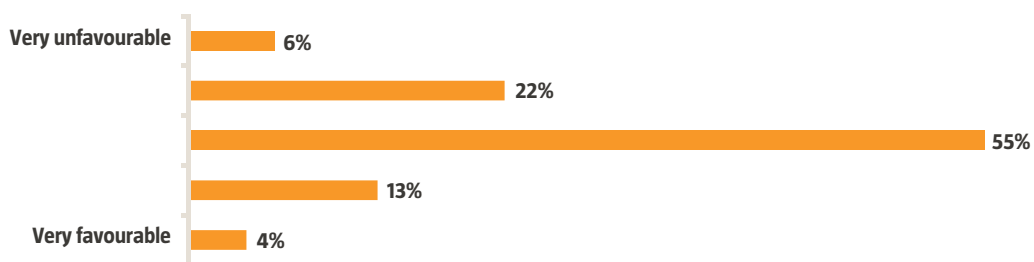


8.4. Conditions in Spain for the development of Sustainability Strategies

Among foreign companies in Spain with a Sustainability Strategy, 27% 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, with the results being very similar to those obtained in 2022. 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

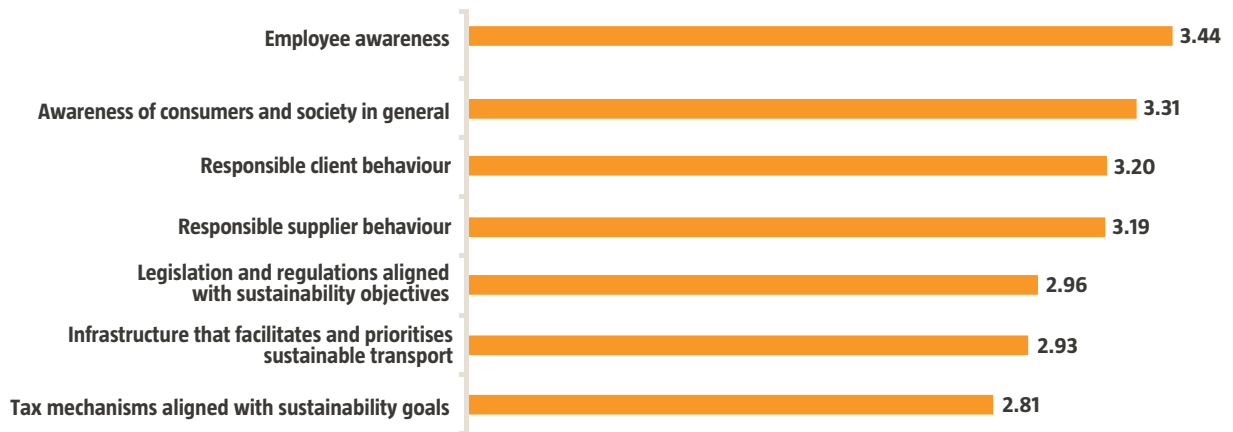


Among the factors that most favour the development of Sustainability Strategies in companies in Spain, managers highlighted the awareness of workers in first place, followed by the awareness of consumers and society. They also pointed to the responsible behaviour of customers and suppliers, as was the case last year.

As shown in Figure 27, managers give a lower rating to the contribution of legislation and regulations, sustainable transport infrastructure, and taxation mechanisms aligned with sustainability goals, which are the factors that contribute least in Spain to the development of these strategies in the opinion of foreign companies.

Figure 27

Factors favouring the development of the Sustainability Strategy in Spain



Analysis by country

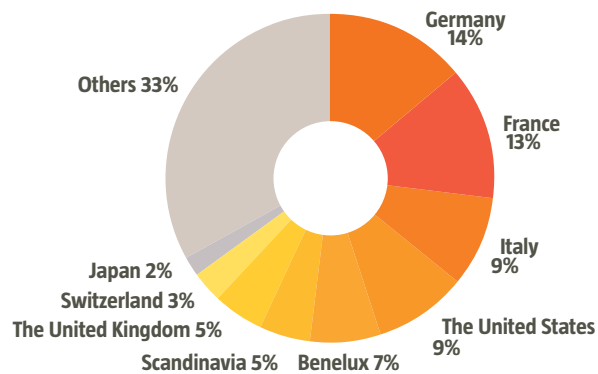


9. Analysis by country

9. ANALYSIS BY COUNTRY

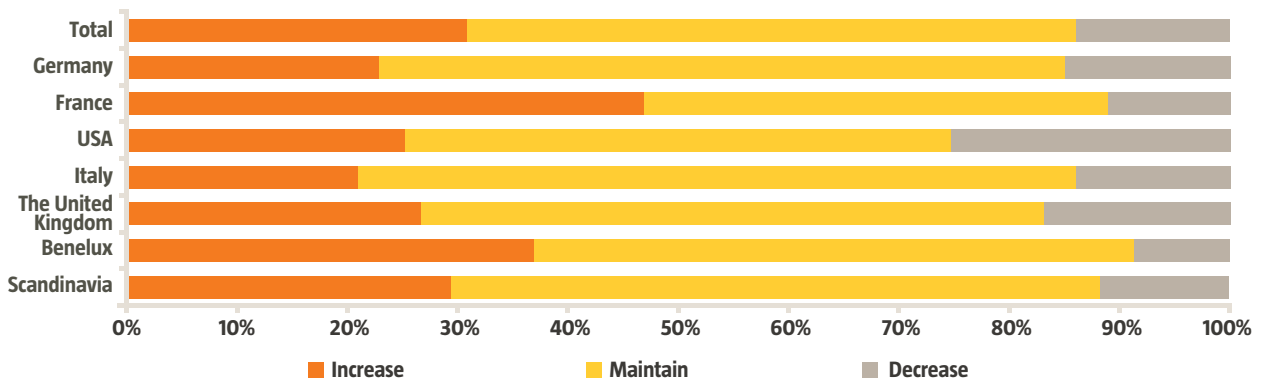
As with previous editions, this edition sets out to analyse whether there are significant differences in the responses of the managers consulted to particular questions according to their country of origin. The responses are very similar regardless of the provenance of the companies, some of the more interesting variations being highlighted below.

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



9.1. Investment prospects

Overall, 86% of the companies surveyed planned to increase or maintain their investments in Spain in 2023, a slightly higher percentage than last year. The main participating countries mostly show very similar developments, albeit with some differences. Companies based in France have more favourable plans, and those from the United States have somewhat more unfavourable investment forecasts.



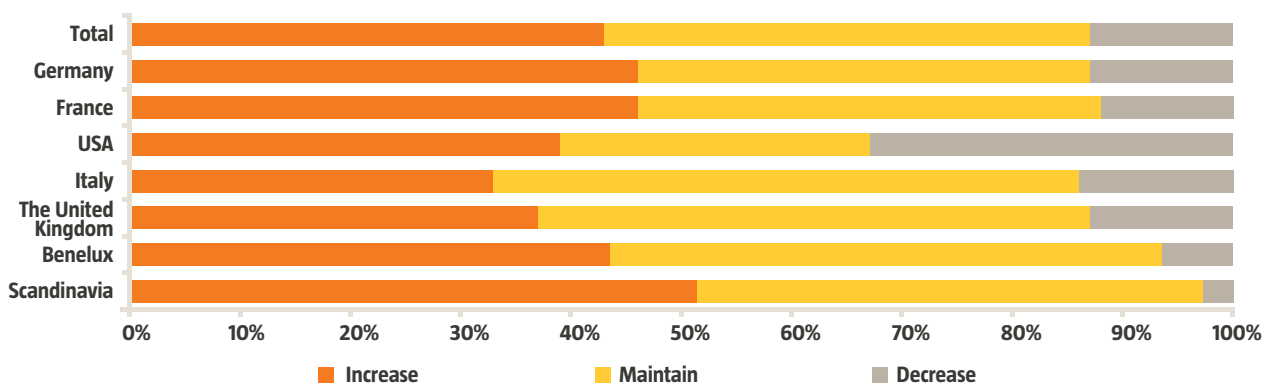
9. Analysis by country

9.2. Workforce prospects

With regard to the number of employees planned in Spain for 2023, 87% of companies intend to increase or maintain their workforce. Expectations are similar for companies regardless of their country of origin, although the outlook is less positive for companies from the United States and somewhat more positive for companies from Scandinavia and Benelux.

Figure 30

Workforce prospects by country

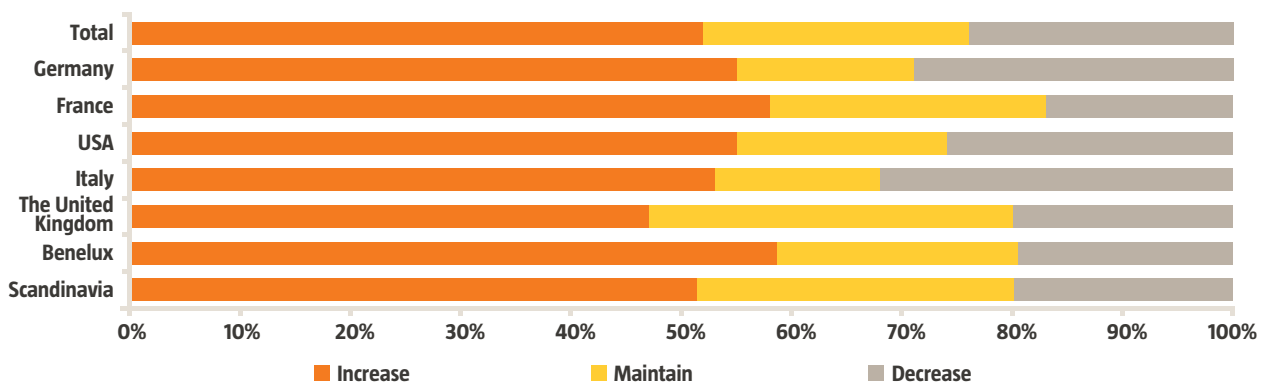


9.3. Turnover prospects

In terms of turnover in 2023, 52% of companies plan to increase their turnover in 2023, while 24% expect to decrease their turnover. The results are fairly homogeneous across countries, but companies from Italy have a somewhat less positive outlook, while those from France expect above-average results.

Figure 31

Turnover prospects by country



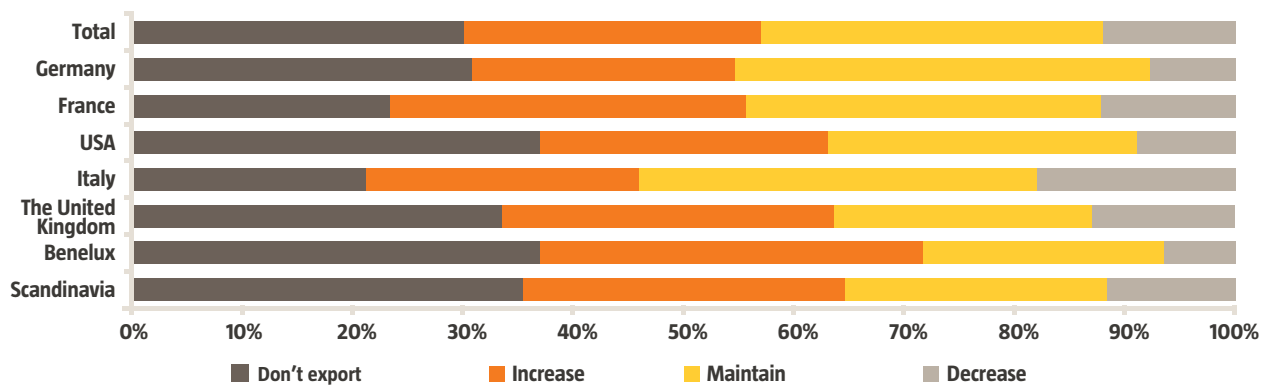
9. Analysis by country

9.4. Export prospects

The final category in the section on prospects refers to exports. Some 70% of foreign companies export to third countries from Spain. In this case, companies from France and Italy have the highest export profile, and companies from Benelux, the United States or Scandinavia have a lower export profile. Some 27% of companies expect to increase their exports in 2023 and 31% will maintain their export trend with regard to previous years. Companies from Benelux and France have the best export prospects.

Figure 32

Export prospects by country



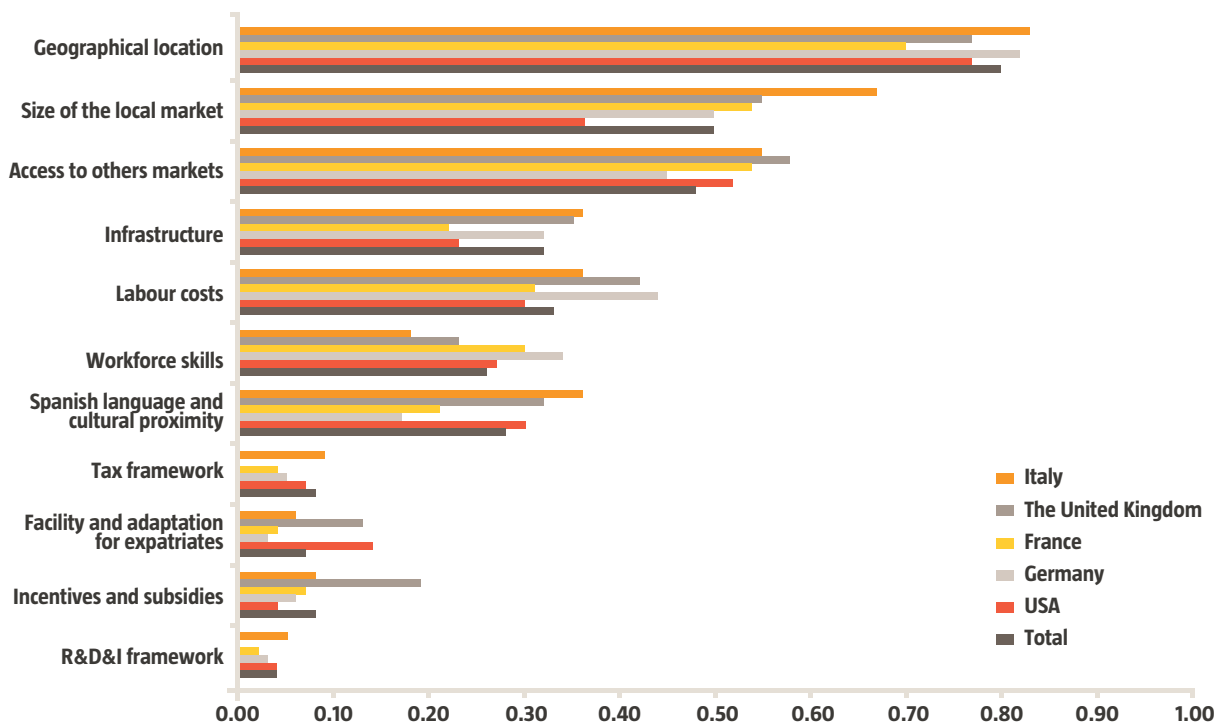
9. Analysis by country

9.5. Reasons for locating in Spain

Although geographic location, market size and access to other countries are the main reasons for setting up business in Spain cited by all the countries represented, there are some significant differences. Companies from Germany, for example, place more importance than average on labour skills and labour costs. Companies from Italy value market size, cultural proximity and the Spanish language more highly than the average. UK companies put more weight on access to other markets, labour costs and incentives and subsidies.

Figure 33

Reasons for locating in Spain by country



Methodology



Methodology

The Barometer was jointly compiled by ICEX, Multinacionales con España and the International Center for Competitiveness (ICC) at the IESE Business School.

The previous edition included a specific chapter on the economic situation, analysing the impact of the war in Ukraine on various aspects of business. This edition maintains this chapter, as well as a section on sustainability that analyses the sustainability strategies of foreign-owned companies in Spain, the main sustainability objectives and the degree to which conditions in Spain favour the achievement of these objectives.

As in other years, the methodology employed in the survey required qualified managers at foreign companies operating in Spain to fill in a questionnaire. Following the criteria established by the IMF and employed by different international bodies like the World Bank and the Organisation for Economic Co-operation and Development, a company is considered to be a foreign company when more than 10% of its total capital comes from abroad.

This year, more than 700 responses were received.

To achieve continuity in this study, since 2007 the following areas included in the questionnaire are 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 rating 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.

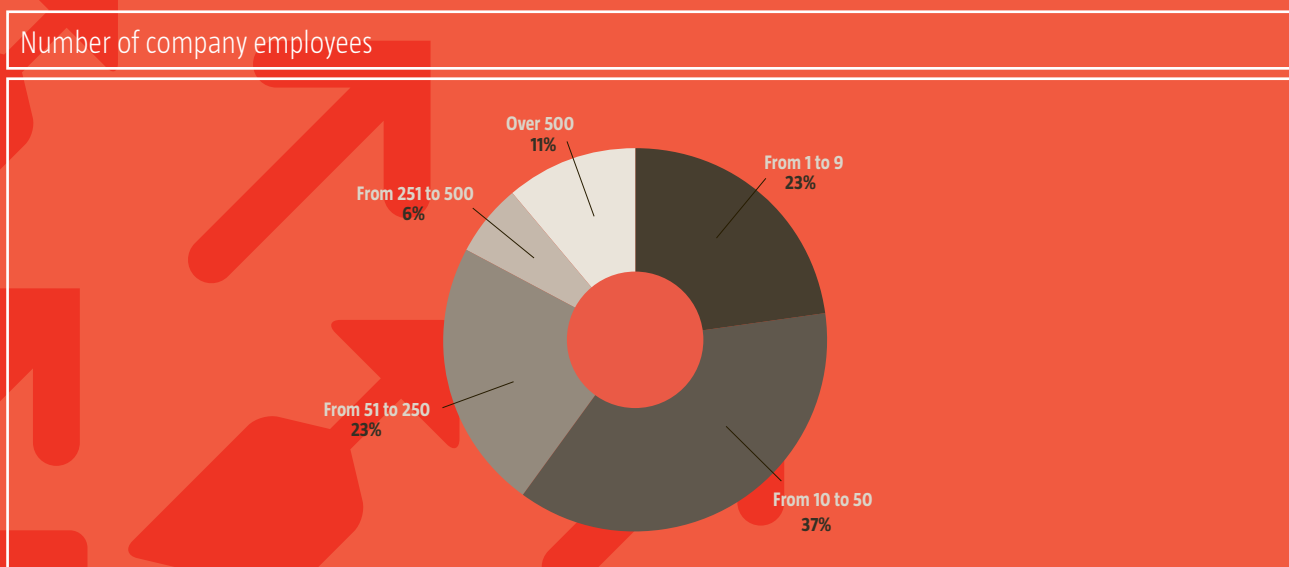
For each question, the managers of foreign companies are asked to give a score from 1 to 5 for the importance that this heading has for their company, and a second score using the same scale for the rating¹ they have given to Spain. The questions that show the greatest gap or difference between the importance and the weighted rating given by the managers consulted are flagged as requiring priority action, as this difference highlights that not all the interests of foreign companies in Spain are being satisfied.

1. The weighted rating corresponds to 80% of the score obtained in the 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 foreign companies

Appendix 1: profile of surveyed companies

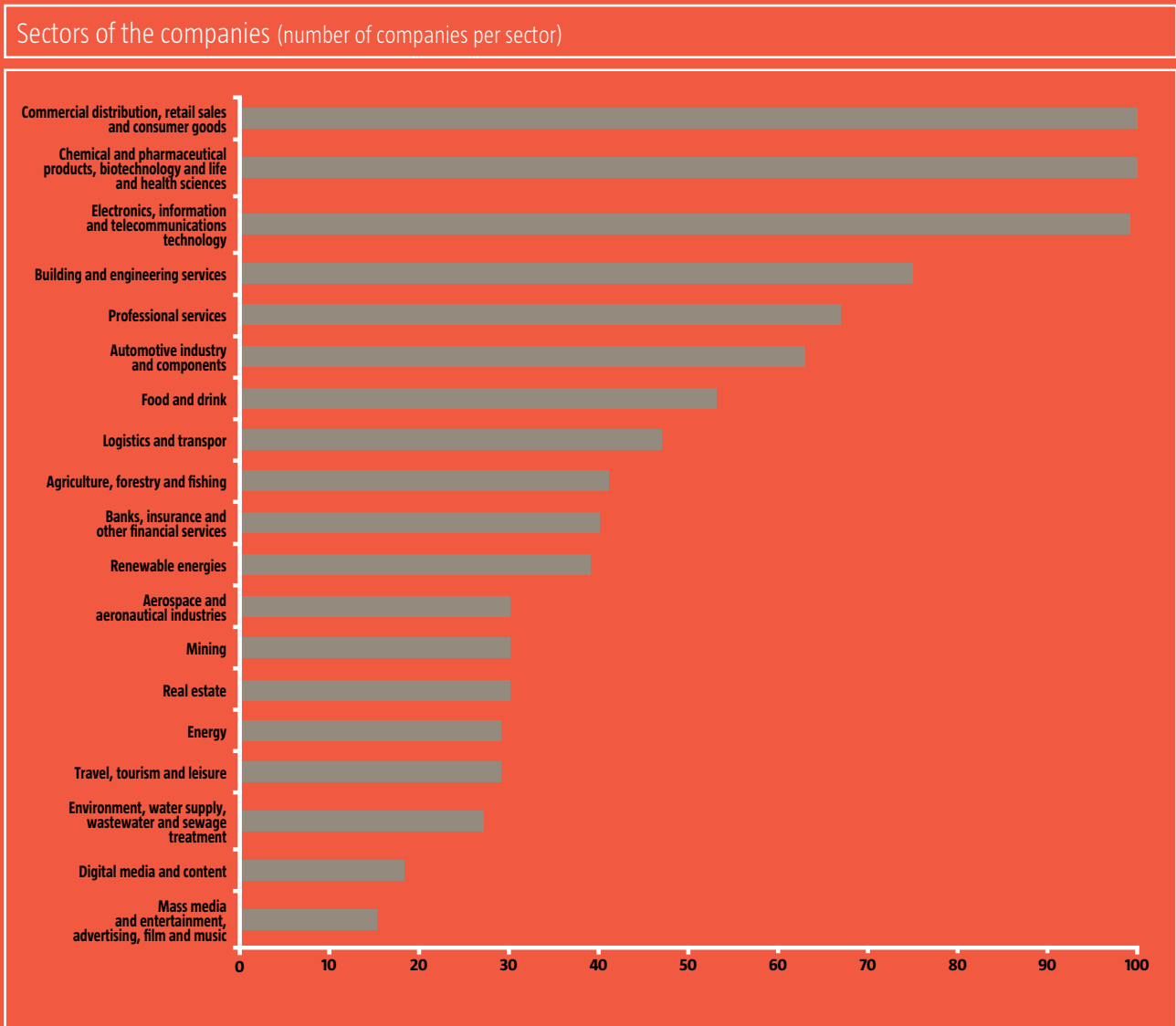
The profile of the companies taking part in the study was fairly uniform, with representatives from companies of all sizes, although it is particularly worth noting the participation of companies with up to 250 employees, as can be seen in Figure 34.

Figure 34



The industries represented in the sample are very diverse, as shown in Figure 35. The most-represented industry is commercial distribution, followed by electronics, information and telecommunications technology and chemical, pharmaceutical and biotechnology products.

Figure 35



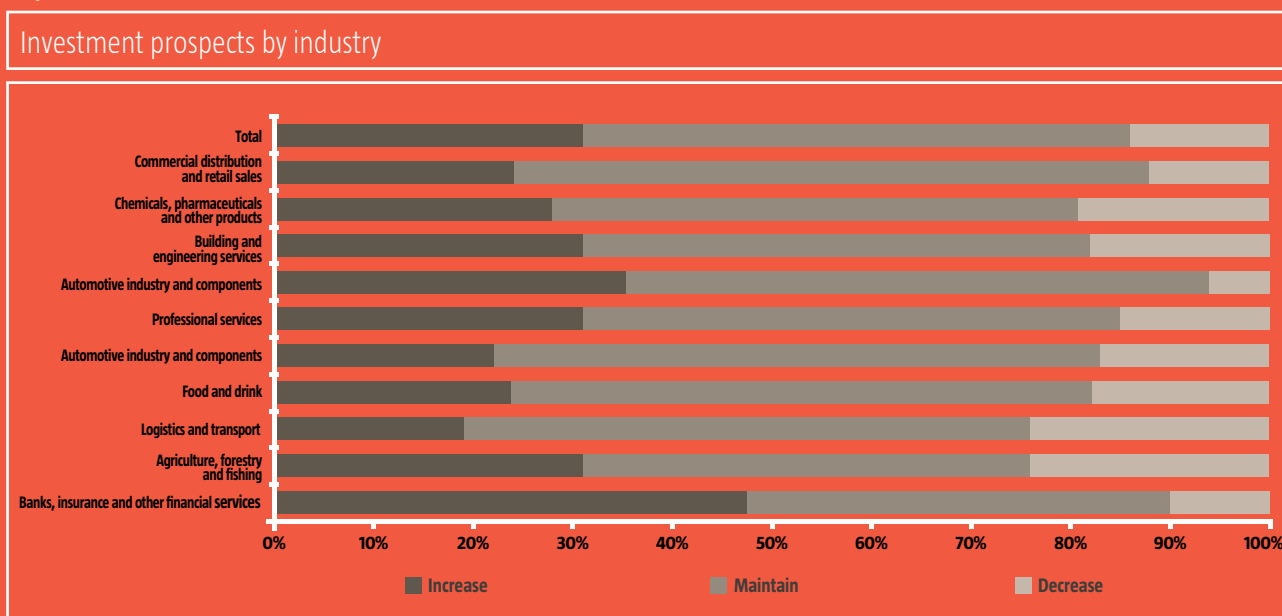
Appendix 2: sectoral analysis

As in previous editions, a comparative study of investors' perspectives has been carried out for the ten most represented industries in the survey, in order to analyse whether there are significant differences between different industries. For this purpose, the forecasts for the end of 2023 were compared by industry in terms of investment, workforce, turnover and exports.

1. Investment prospects by industry

Overall, 86% of the companies surveyed plan to increase or maintain their investments in Spain in 2023, a slightly higher percentage than last year. The main industries represented show some noteworthy differences. The performance of the Agriculture, Logistics and Automotive industries were below average. However, companies in the Banking or Construction and engineering services industries have maintained better than average forecasts for investment in 2023.

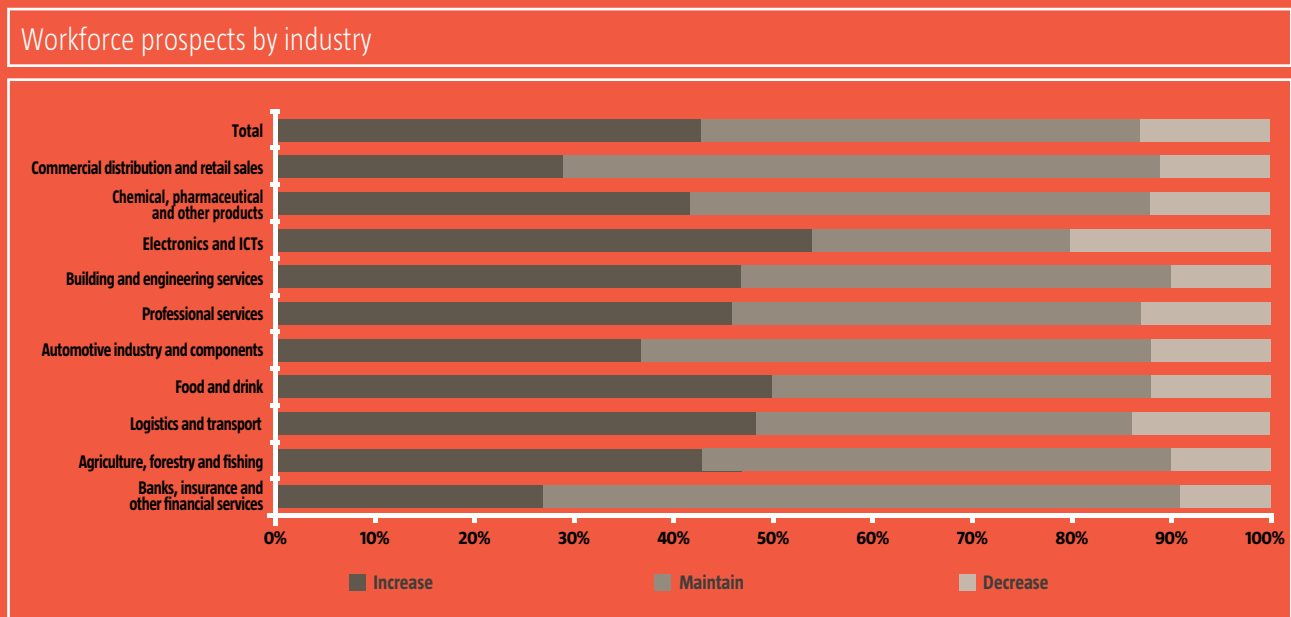
Figure 36



2. Workforce prospects by industry

Overall, 87% of the companies surveyed plan to increase or maintain their workforce in Spain in 2023. The forecasts for increases in workforce are slightly lower for companies in the Commercial Distribution and Retail Sales, and Banking and Insurance sectors. However, companies in the Food and Beverages industries show more favourable results. In the Electronics industry, too, the prospects for staff increases are higher.

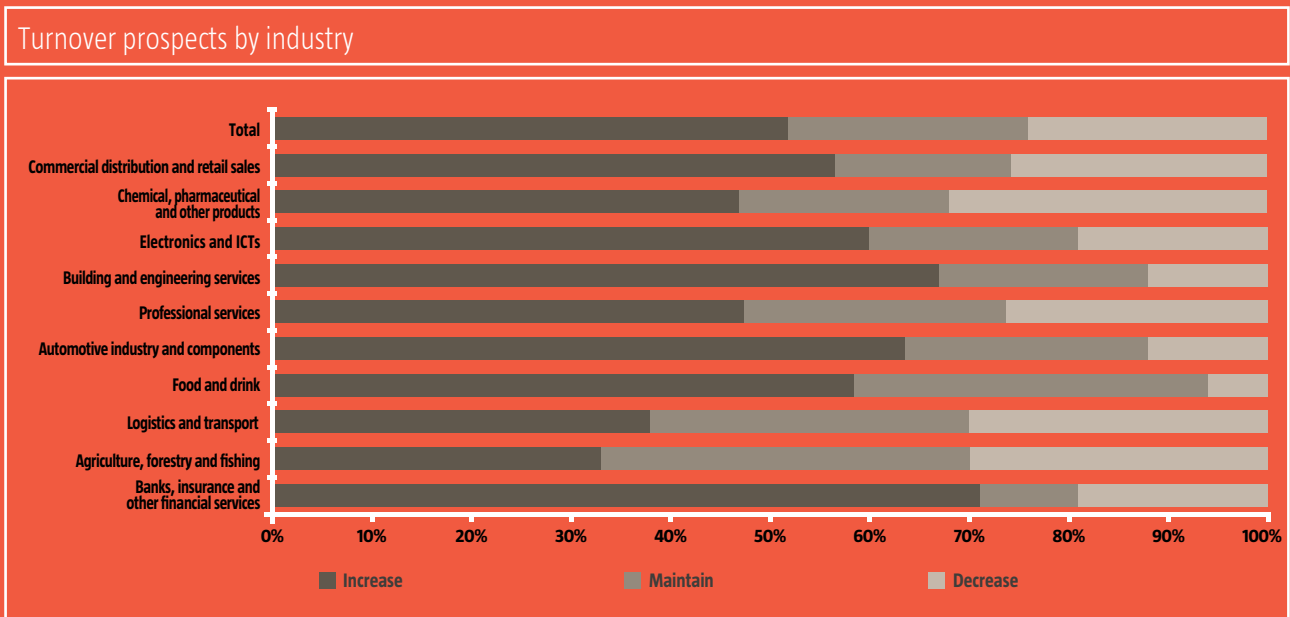
Figure 37



3. Turnover prospects by sector

Overall, 76% of participating firms expect to end 2023 by either increasing or maintaining their turnover. This percentage decreases in the Agriculture, Forestry and Fishing, Logistics and Transport, and Chemicals and Pharmaceuticals industries. However, in other industries, such as Banking, Construction or Food and Beverages, forecasts are somewhat more positive, as shown in Figure 38.

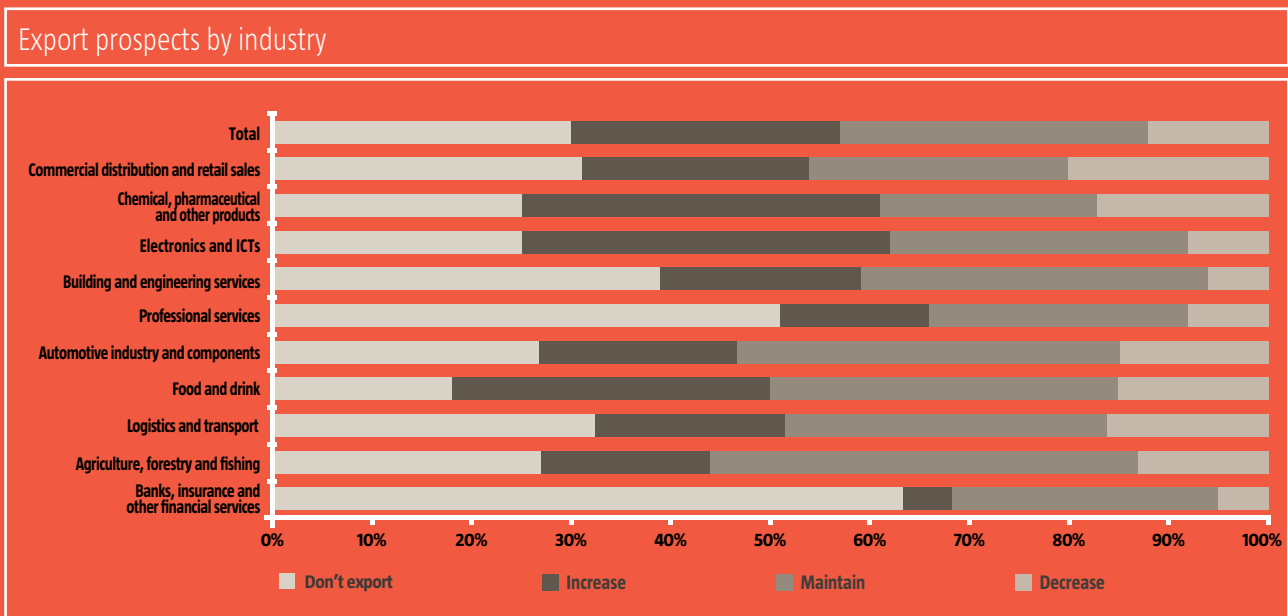
Figure 38



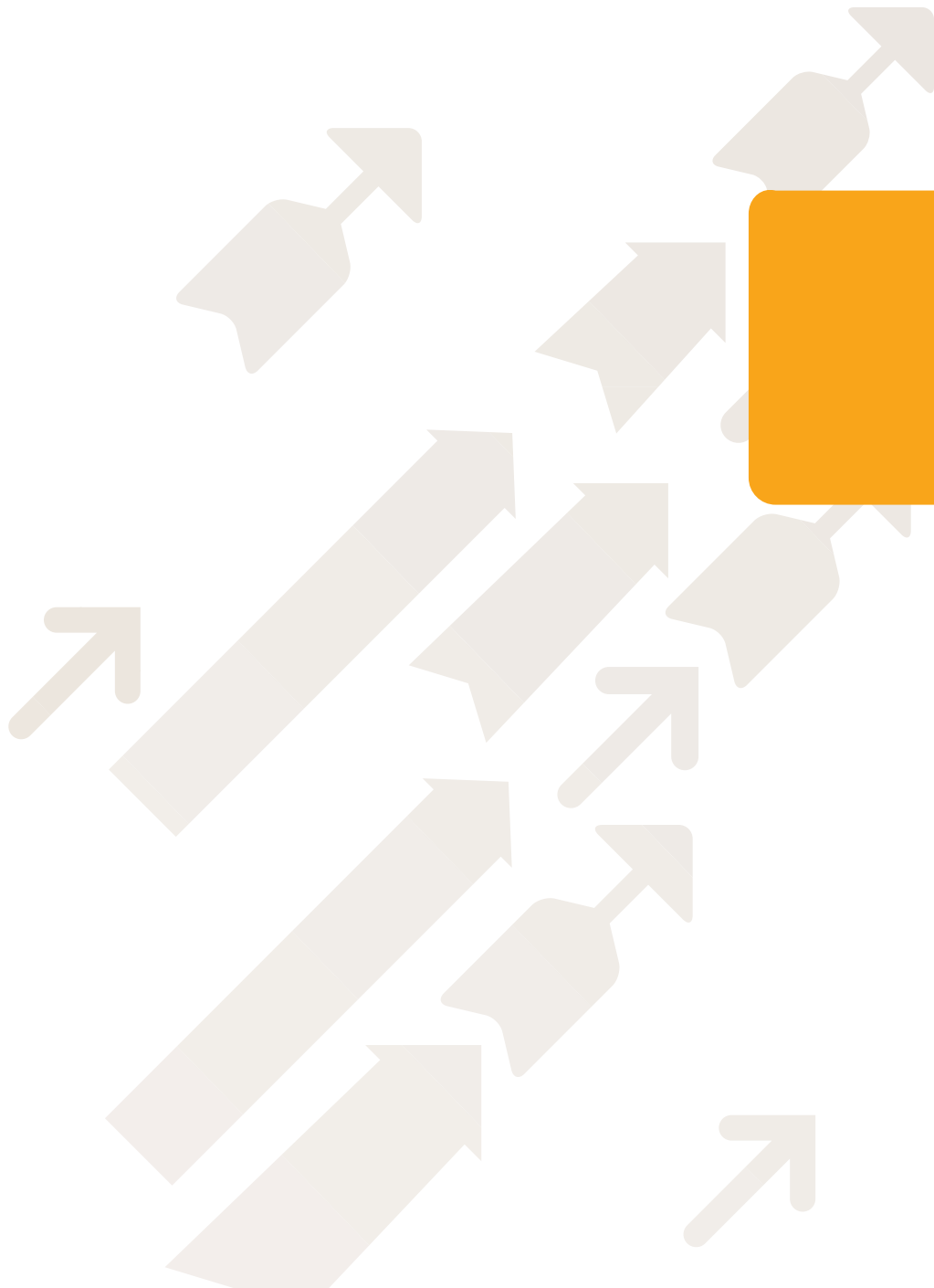
4. Export prospects by industry

Overall, 70% of the companies surveyed exported to other countries from Spain. As Figure 39 shows, companies in the Chemicals and Pharmaceuticals industries have a higher export profile than the average, as well as those in Electronics or Food and Beverages. However, companies in the Professional Services and Banking and Insurance industries have a significantly lower export profile than the average. In terms of export forecasts in 2023, the Commercial Distribution and Logistics industry shows slightly more negative results, compared to the better export prospects of the Electronics and Information and Communications Technology industry.

Figure 39



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