



Barometer of the business climate in Spain

From the foreign
investor's perspective

Results 2017

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Presentation



1. Presentation

1. PRESENTATION

This edition of the “Barometer of the Business Climate in Spain from the Foreign Investor’s Perspective” is the 10th published and has already become a benchmark publication in Spain.

The 2017 edition gathers the evaluation and importance given by 785 foreign companies of the business climate in Spain during 2017. Likewise, their forecasts for the next two years are included. This enables identifying, with a mid-term vision, the strengths that must be maintained together with the main areas of action on which more efforts must focus.

The global assessment of the Barometer 2017 experiments an additional improvement compared with last year’s, thereby consolidating the upward trend that started in 2014 and continued over 2015 and 2016, reflecting the economic recovery and the emergence from the crisis.

The investing companies confirm the materialization of the positive forecasts they made last year, and the same as previously, hold positive expectations in all aspects analyzed: investment, workforce, turnover and exports. These positive forecasts continue to improve in 2017 and 2018.

According to the Investment Register of the Ministry of Economy, Industry and Competitiveness, in 2016 direct foreign investment in industry and service technology grew 2% to over 24.79 billion euros. Therefore, 2016 is the fourth consecutive year in which direct foreign investment received by Spain increases. In the first half of 2017, direct foreign investment received by Spain amounted to 14,205 billion euros, representing an increase of over 10% compared with the same period the previous year.

The Barometer has been prepared jointly by ICEX-Invest in Spain, Foreign Multinationals for the Spain Brand and the International Center for Competitiveness (ICC) of IESE.

The Executive Management team of **Invest in Spain of ICEX** is in charge of promotion and attraction of foreign investment. Its mission is to promote, attract and drive foreign investment in Spain, as well as reinvestment from established foreign companies, serving as a reference point for foreign investors and as a meeting point for state, regional and local institutions engaged in promoting and attracting investment. Likewise, ICEX implements activities to position Spain as a global platform for business and international investments. Other areas of action of ICEX are to improve the business climate in Spain through ongoing relations with other governmental departments and with companies and business associations already established in Spain, whether of Spanish or foreign capital.

Multinacionales por Marca España (Foreign Multinationals for the Spain Brand) is an association of multinational companies from a variety of industries, with operations in Spain, and which desire to demonstrate their commitment to Spanish society and the Spain brand. Among other tasks, it promotes collaboration with the Spanish Public Administrations to: drive the Spain brand, defend the country’s common interest, and transfer to the Administrations’ directors the aspects that these multinationals value in their decision-making and that position Spain as a destination with guarantees for the development of their operations.

IESE Business School (Instituto de Estudios Superiores de la Empresa) is an entity focused on university-level business studies. The ICC is one of its research centers, with the goal of promoting research and rigorous learning in the field of competitiveness and its implications across different areas. Led 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 the creation of a favorable business climate.

Executive Summary



2. Executive Summary

2. EXECUTIVE SUMMARY

The assessment of Spain improves compared with 2016

The results in this edition of the Barometer of the Business Climate in Spain reveal, as occurred last year, an improvement compared with the results obtained in previous years, with an average score of 2.92 out of 5 and an increase in companies' forecasts for the key financial figures considered.

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

The most important area for investors in this edition has been, as in previous years, Human Capital. Other areas worth mentioning, given their importance, are Market Size, Infrastructures and the Labor Market.

The areas given the best ratings by investors are those related with Infrastructures, a clear strength in Spain, and Market Size, followed by Human Capital and Quality of Life. It is positive that these are, for the most part, the most important areas for investors.

The lowest-rated areas continue to be those related with Taxation, Financing, Costs and Innovation, though these are not the most relevant issues for the foreign companies surveyed.

The investors mention the need for measures in the areas of Costs (like electricity, telephone or Internet), Taxation (like Workers' Social Security contributions or Corporate tax), or decreasing the bureaucratic burden. The aspects of Human Capital also considered basic and positively valued in many aspects, especially the cost-quality ratio and flexibility, though others show margin for improvement, like language skills. On another hand, the areas of Quality of Life and Infrastructures obtain a score quite in line with their importance, thereby fulfilling the investors' expectation in general terms.

Prospects for investment, turnover, job generation and export volume for 2017 and 2018 are clearly positive and improve in comparison with 2016

The overall assessment of foreign investors with regards to their forecasts for 2017 and 2018 is highly positive and represents an improvement compared with the last edition.

Investment prospects for the coming year by foreign companies in Spain are highly favorable. Approximately 95% of the companies surveyed foresee increasing or maintaining their investments in Spain in 2017.

Employment prospects are also quite positive and improve, with the percentage of companies which foresee increasing or maintaining their workforce in Spain growing to 94% in 2017, up from the 87% that claimed to have done this in 2016.

Prospects for turnover in our country for 2017 are also excellent, in that 91% of the companies surveyed considers increasing or maintaining its turnover, compared with 84% in 2016.

Finally, as regards exports, over 70% of the foreign companies surveyed export to third markets from Spain, while the companies' profile as exporter between 2016 and 2018 also grew. Only 3% of the companies expect to reduce their exports in 2017.

Context



3. Context

3. CONTEXT

The tenth edition of this Barometer of the Business Climate in Spain from the Foreign Investor's Perspective has been drafted on the basis of the responses given in May and June 2017 to a survey that, as each year, highlighted the aspects most relevant to the business climate in Spain and on the future prospects of these businesses in our country. Since the presentation in 2016 of the previous edition of the Barometer, the economic context within which this study is framed and which, logically, has a notable impact on its results, has continued the positive trend which was already clearly perceived in the responses given by the survey respondents last year.

From a global perspective, the world's economy, despite the presence of some sources of risk like the development of the exit process of the UK from the EU, has demonstrated since the second half of 2016 a solid growth that has become consolidated in recent months, both in terms of production as in, especially, trade. At the same time, Spain's economy seems to progress unaffected by the mentioned uncertainties of the international economy and the domestic regional tensions, and grew 3.3% in 2016, transforming Spain into the fastest-growing country among the leading developed countries, at a pace that, practically, duplicated the EU average. In addition, all of the institutions and international opinion leaders predict growth of over 3% in 2017. In fact, the consensus of analysts, institutions and economic opinion leaders points to an economic growth of between 3% and 3.5% in 2017.

Furthermore, this growth is following a more sustainable and harmonious pattern than in previous periods of economic expansion. First, Spain is growing in a context of moderate inflation, which guarantees stability of prices and salaries for the mid term. Furthermore, our economy's growth has a balanced composition, supported by the strength of domestic demand, in particular household spending on consumption, a consequence of the extension of the intense job generation process experimented by our country. Also, the dynamism of domestic demand is associated with a current-account surplus in the balance of payments. Spain registers a current-account surplus for the fourth year in a row. This is a historical record. In fact, Spain's exports continue to make an unprecedented progress. Spain's export of goods between January-July 2017 grew 9.1% compared with the same period the previous year, and reached 163,065 billion euros, a historic maximum for the series for the period's cumulative.

The positive progress of Spain's economy and the favorable results offered in this Barometer are coherent with the data on direct foreign investment received by Spain, offered by the Foreign Investment Register of the Ministry of Economy, Industry and Competitiveness. According to the figures registered by this source, foreign investment in industry, technology and services received by Spain in 2016 grew about 2% compared with the previous year, exceeding 24.79 billion euros, thereby extending the growth trend launched in 2013. Therefore, 2016 is the fourth consecutive year of growth of direct foreign investment received by Spain. Our country continues to be one of the most attractive destinations worldwide for international investment. In fact, according to data from the UNCTAD, Spain is the 13th largest global receiver of foreign investment stock.

These figures are evidence of the attention that must be given to foreign investment in Spain, within the context of which initiatives like this Barometer are framed, which serve as a referent of the investors' pulse. According to the INE, foreign companies represent 43% of total exports from Spain to the rest of the world, and are especially significant in exports in the automotive, chemical, pharmaceutical, capital goods and machinery sectors, which include greater added value and technology with the "made in Spain" label. Likewise, foreign companies established in Spain generate employment in a highly relevant manner. According to the most updated data available through the INE, these employ almost 1,400,000 workers in the sectors of Industry, Commerce and other non-financial market Services, representing almost 14% of total direct employees in these sectors in Spain, to which we must add indirect and induced jobs.

General results



4. General results

4. GENERAL RESULTS

4.1. General assessment

Figure 1 displays the assessment and importance the foreign investors have attributed to each of the 10 areas contemplated in the 2017 Barometer of the Business Climate.

The most important area for investors in this edition has been, as in previous years, Human Capital. Other areas worth mentioning, given their importance, are Market Size, Infrastructures and the Labor Market.

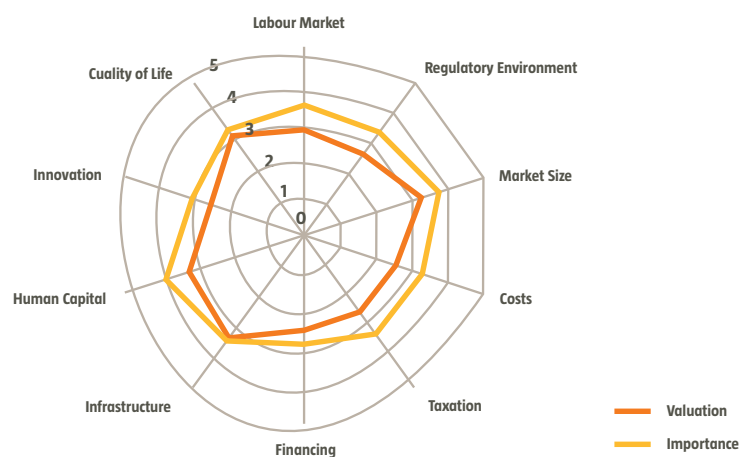
The areas given the best ratings by investors are those related with Infrastructures, and Market Size, followed by Human Capital and Quality of Life.

The lowest-rated areas continue to be those related with Taxation, Financing, Costs and Innovation, though these are not, as previously commented, the most relevant issues for investors.

The areas with the greatest imbalances between the assessment they are given and the importance they represent for foreign investors are Costs, Taxation, and Regulatory Environment, closely followed by Labor Market and Human Capital. On another hand, the areas of Quality of Life and Infrastructures obtain a score quite in line with their importance, thereby fulfilling the investors' expectation in general terms.

With regards to the previous edition, we must highlight the growing relative importance given to the area of Infrastructures, as well as the higher imbalance in the Taxation area.

Figure 1
Importance and assessment
by areas 2017



4. General results

4.2. Main strengths and weaknesses

The main strengths and weaknesses of Spain, in the opinion of foreign investors, are displayed in Figure 2 and Figure 3, respectively.

Highlighted aspects related to Infrastructures, as was the case in previous editions. Investors value quite positively the quality of airports, roads and high-speed trains. Other aspects of Quality of Life are considered strengths of our country, like security or leisure and culture. Finally, other highly valued aspects are the availability and skills of the workforce.

On another hand, the weaknesses pointed out by investors are displayed in Figure 3.

The cost of electricity is ranked, quite obviously and as occurred in previous years, as the main weakness, together with other energy-related costs. Some financial aspects are again ranked among the main weaknesses, as well as labor and taxation issues, and others like the bureaucratic burden on corporate operations.

Figure 2

Main strengths

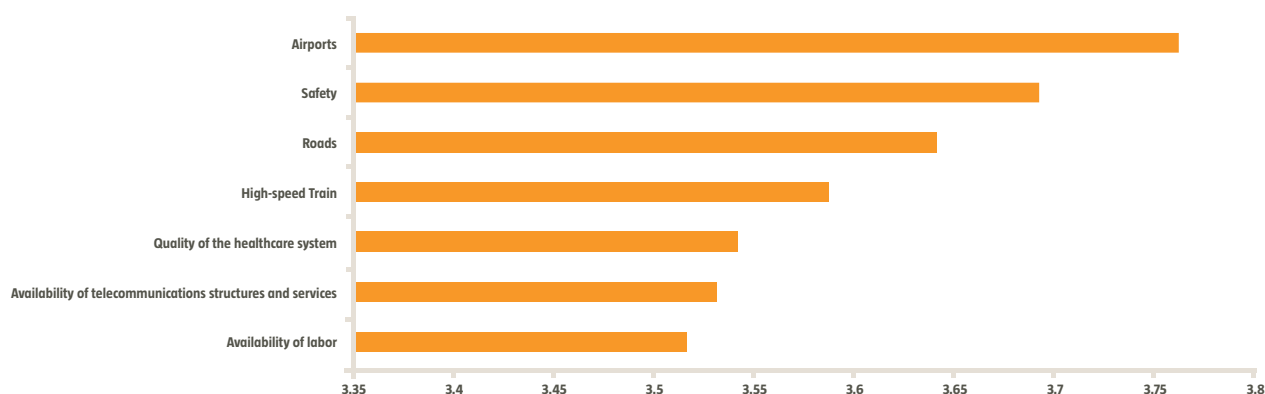
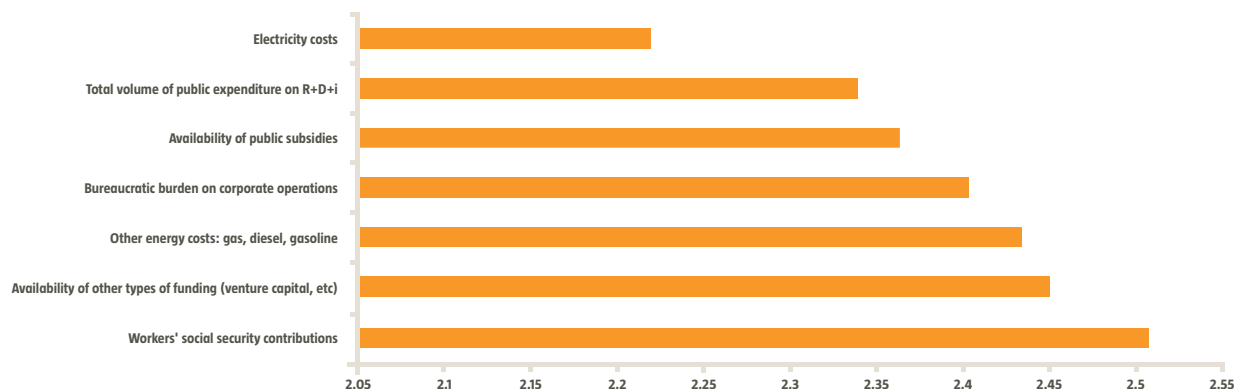


Figure 3

Main weaknesses



4. General results

4.3. 2016-2017 Comparison

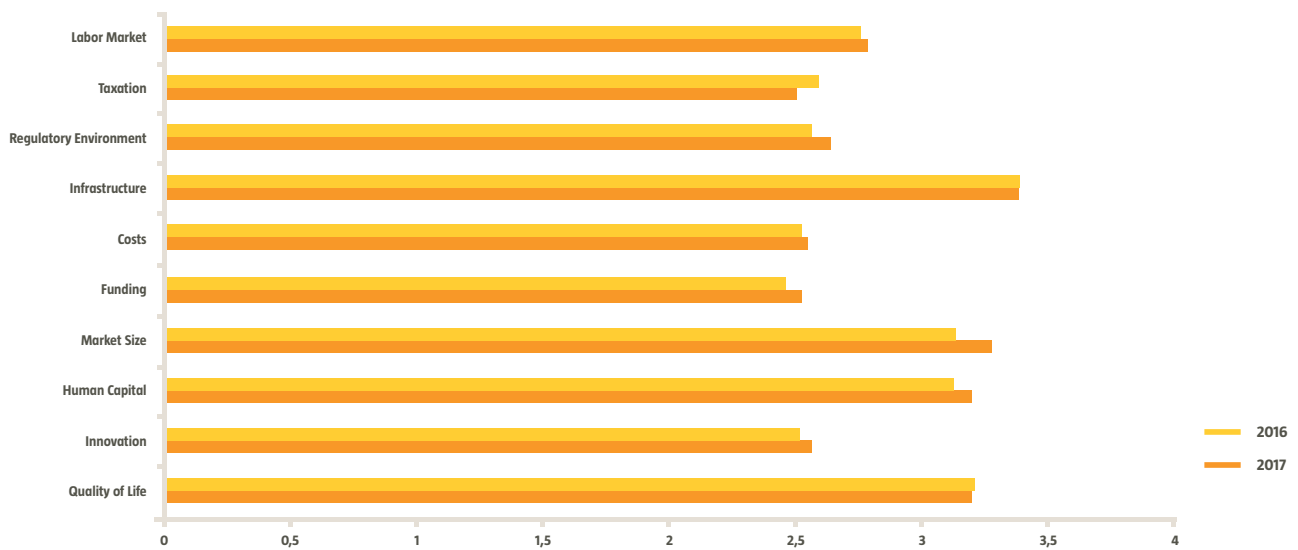
The general assessment in 2017 slightly improves compared with that of 2016, though it varies in the areas analyzed. As may be observed in Figure 4, improvements exist in the majority of the contemplated areas, with the exception of Infrastructures and Quality of Life, which remain constant, and in Taxation, which shows a slight reversal in all aspects.

The main improvement is observed in the Market Size area, mostly due to the growth in the size of Spain's local market, a logical consequence of the improvement in the economy of recent years. Improvements are also experimented in the areas of Financing and Human Capital, as well as the Regulatory Environment, in this case driven mainly by the stability of the regulatory framework.

Labor Market, Costs and Innovation also improve, though to a lesser extent than the aforementioned areas.

Figure 4

2016-2017 comparison of assessments



4. General results

4.4. Main areas of action

The priority action areas have been selected according to those which display the greatest difference between their weighted importance and assessment given by investors. It is worth highlighting that four of this year's areas of action are the same as last year (language skills, electricity costs, bureaucratic burden and telephone and Internet access costs). However, in this edition, aspects related with Human Capital, except for language skills, do not display the greatest imbalance, and instead Costs or Taxation are more noteworthy.

1. Language skills

As has been the case in previous years, language skills is presented as one of the main problems in the opinion of investors. Language skills is one of the most important aspects of the entire survey for them and, though it has improved since 2014, and quite significantly this year, the score obtained is still far below the importance given these by investors, wherefore it continues to be the main area of action.

2. Electricity costs

The cost of electricity is, once again, the aspect of the entire survey that is most poorly rated by foreign investors, and although it improves slightly compared with the previous year, the significant importance it represents for investors makes it, as occurred last year, one of the main aspects to be improved.

3. Workers' Social Security contributions

Workers' Social Security contributions is one of the worst-valued aspects of the survey, and in this edition suffers a slight descent compared with 2016, similar to purely fiscal matters. On another hand, the importance it has for investors increases significantly, wherefore the resulting gap is quite wide.

4. Bureaucratic burden on corporate operations

Bureaucracy is the second worst-valued aspect in the survey, and its importance for investors increases compared with last year, wherefore it demands inclusion within our main areas of action. This is coherent with other studies on international competitiveness, like the Global Competitiveness Report published by the World Economic Forum, which has been highlighting bureaucracy in recent editions as one of the problems inherent to doing business in Spain.

5. Corporate tax

Again, another tax-related issue among the main areas of action, given its low score, which drops compared with 2016. On another hand, for foreign investors surveyed Corporate Tax increases in importance, resulting in a disadvantageous deviation.

6. Cost of telephone and Internet access

This aspect, despite the improvement compared with the last edition, obtains a low score. On another hand, the importance of this issue for foreign investors, though not one of the highest, but considerable, and increasing in 2017, where this year it becomes another of the areas of action.

Prospects of foreign companies in Spain



5. Prospects of foreign companies in Spain

5. PROSPECTS OF FOREIGN COMPANIES IN SPAIN

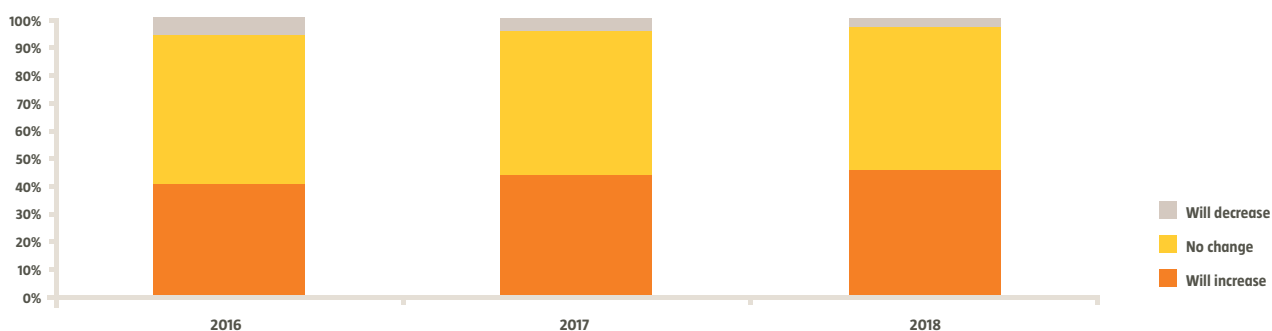
5.1. Investment prospects

Investment prospects for the coming year by foreign companies in Spain are clearly positive. Approximately 95% of the companies surveyed foresee increasing or maintaining their investments in Spain in 2017, compared with 94% the previous year.

Furthermore, these prospects improve for 2018.

Figure 5

Investment prospects 2016-2018



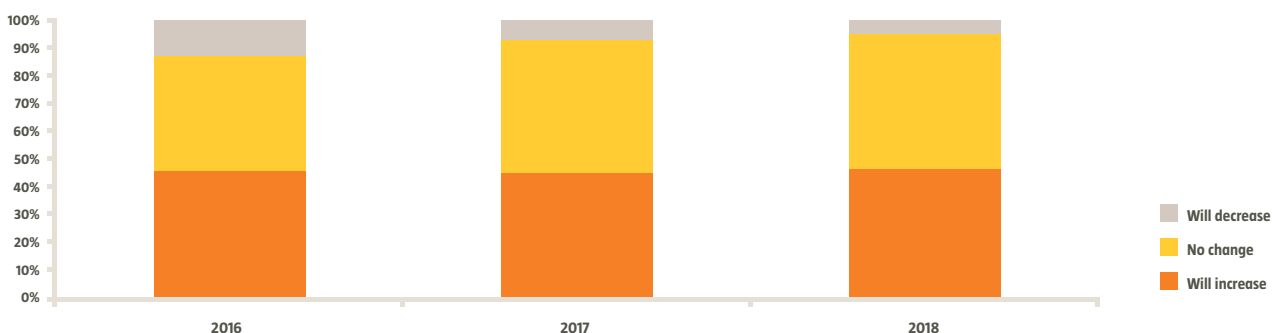
5.2. Employment prospects

Employment prospects also improve, with the percentage of companies which foresee increasing or maintaining their workforce in Spain growing to 94% in 2017, up from the 87% that claimed to have done this in 2016, through the percentage of companies that foresee increasing these slightly decreases.

In addition, as shown in Figure 6, in 2018 only 4% of the surveyed companies expected to decrease their workforce.

Figure 6

Workforce prospects 2016-2018



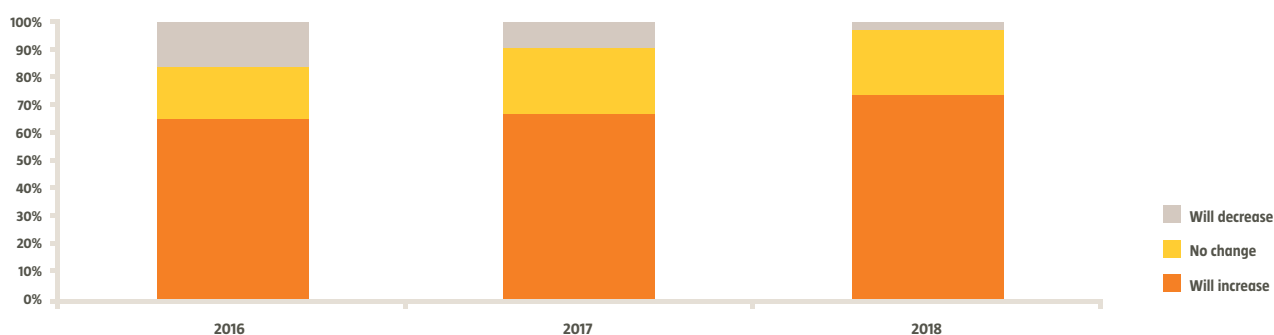
5. Prospects of foreign companies in Spain

5.3. Turnover prospects

The turnover prospects for our country in 2017 are also quite positive, with 91% of the surveyed companies thinking of increasing or maintaining their turnover, compared with 84% in 2016. In addition, there is also an improvement in the percentage of companies that expect to increase their turnover in particular in 2018, reaching 74% of the surveyed companies.

Figure 7

Turnover prospects 2016-2018

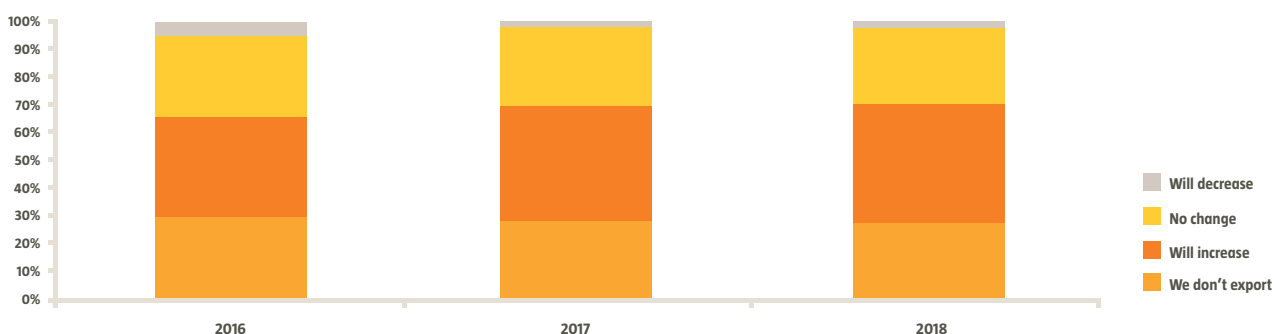


5.4. Export prospects

Finally, as regards exports, the prospects continue to be highly favorable. More than 70% of the foreign companies surveyed export to third markets from Spain, in addition increasing the profile as exporters between 2016 and 2018. About 41% of the companies foresees an increase in exports in 2017 (representing 57% of those who export) compared with 36% in 2016, and only 3% of the companies expect to reduce their exports in 2017, a figure which will drop to 2% the following year, as shown in Figure 8.

Figure 8

Export prospects 2016-2018



Results by areas



6. Results by areas

6. RESULTS BY AREAS

6.1. Labor market

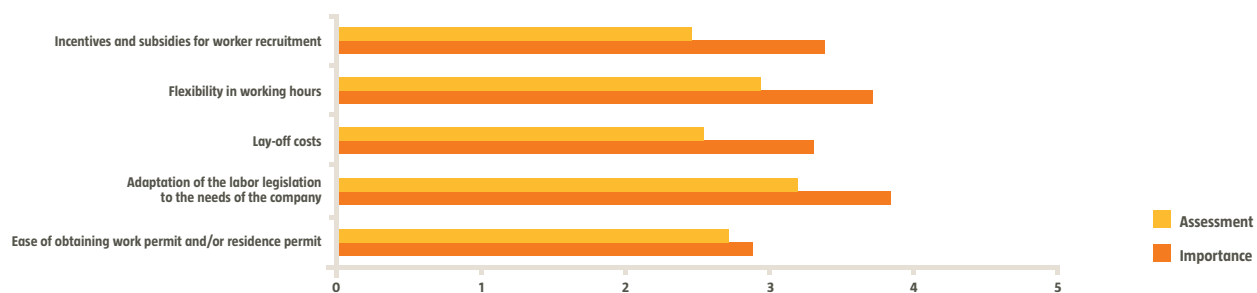
The Labor Market continues displaying margin for improvement, according to the opinion of foreign investors, though its assessment increases slightly compared with last year.

Incentives and subsidies for hiring employees shows the greatest gap and continues to be, like last year, the aspect with the lowest score in this area. Flexibility of working hours and the cost of dismissal are two aspects that also show a clear margin of progress, and both obtain a slightly lower score this year than in 2016. However, the improvement in relation to adaptation of labor legislation to the companies' needs must be mentioned, given its particular relevance, as this addresses the most important aspect for investors in the Labor Market area.

The simplicity for obtaining both work and residence permits as well as visas is an issue that apparently does not pose any problems for investors.

Figure 9

Labor market



6. Results by areas

6.2. Taxation

Taxation is the section that presents the greatest margin for improvement, together with that of Costs, and the only one that has experimented a general descent in its score in 2017, due to the worsening of all variables. This effect, associated with the fact that foreign investors grant greater importance to all aspects considered herein, makes for the negative nature of the resulting assessment.

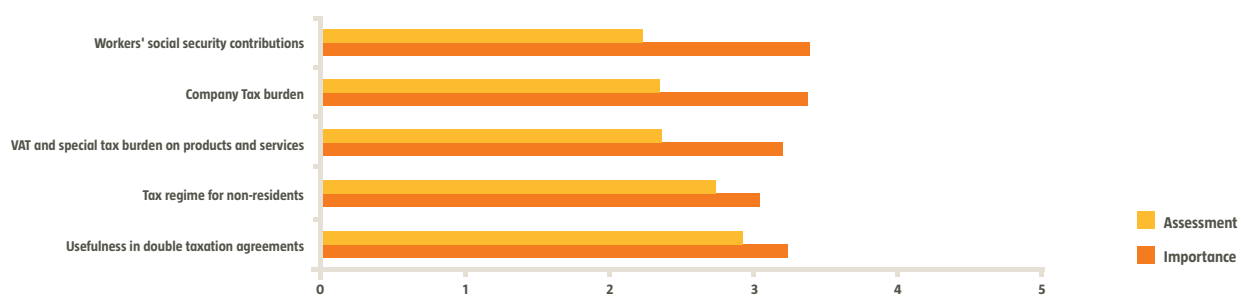
The main difficulties are found in Workers' Social Security contributions and Corporate Tax, two aspects that have already been highlighted as priority action areas in this edition.

The burden of VAT and special taxes over products and services also has a significant margin for improvement and is one of those that most grows in importance for the surveyed companies.

With regards to double taxation treaties and taxation of non-residents, despite these presenting fewer problems for foreign investors in Spain, their ratings decrease and importance increases, wherefore the gap must be monitored to keep it from widening.

Figure 10

Taxation



6. Results by areas

6.3. Regulatory environment

The Regulatory Environment also presents a relevant margin for improvement in general terms, though its rating increases compared with the previous year, together with the importance attributed to it by investors.

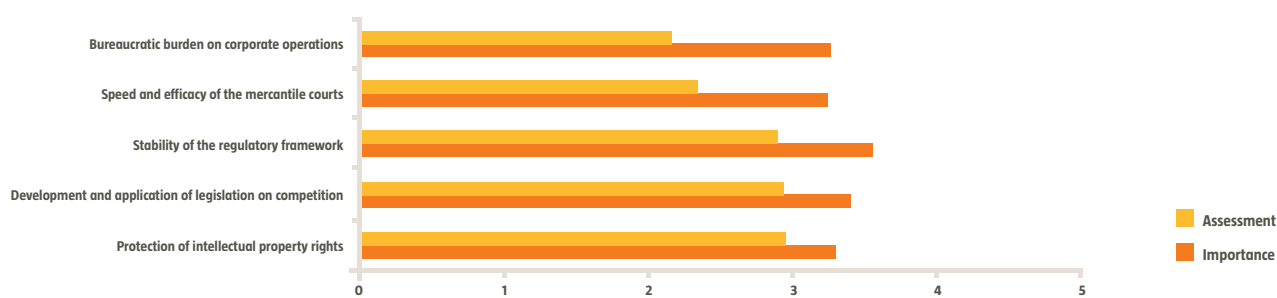
The bureaucratic burden on corporate operations continues to be the most critical aspect, obtaining the second-worst score of the entire survey, wherefore it has already been mentioned as one of the main, and recurring, priority areas of action. Furthermore, an important gap is observed with regards to speed and efficiency of the commercial courts.

The stability of the regulatory framework, despite showing margin for improvement, is one of the aspects whose score increases the most in this edition, which is especially positive, given that it is the most important aspect in this area for the respondents, and critical for attracting and retaining foreign investment.

The protection of intellectual property rights this year continues the improvement in its assessment begun in 2015 and which continued in 2016, but is one of the aspects that most grows in importance for foreign investors, wherefore it must be monitored.

Figure 11

Regulatory Environment



6. Results by areas

6.4. Infrastructures

As in previous editions, the Infrastructure category obtains the highest rating in the whole Barometer, perfectly meeting the expectations of foreign investors in Spain.

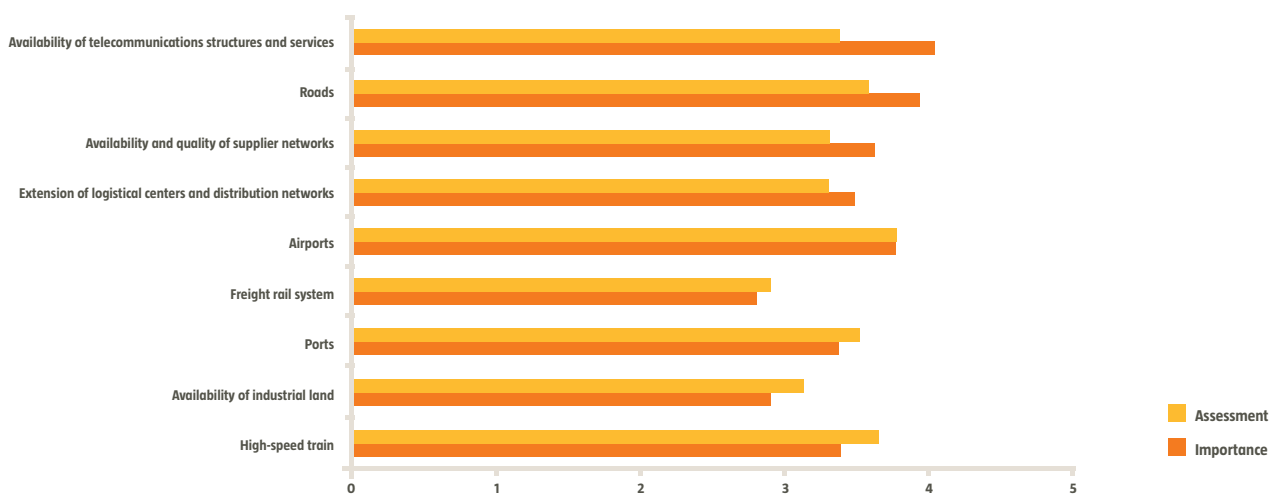
Several of the aspects considered herein, like airports, the high-speed train and roads have already been mentioned as some of the strengths in general terms in the study, and there are also other aspects, such as ports, that also receive very positive scores.

As regards freight rail or the availability of industrial land, despite the fact that the ratings are not so high, the investors' expectations are met, but these two aspects, it must be mentioned, show a sharp increase in importance for investors, and therefore must not be ignored.

Finally, the availability of telecommunications structures and services is an issue that shows a greater room for improvement and is also considered by investors to be the most important aspect in the category of infrastructures.

Figure 12

Infrastructures



6. Results by areas

6.5. Costs

The area of Costs, together with Taxation, presents the greatest margin for improvement, though, compared with last year, does not obtain a lower assessment, in general terms.

The main concern, as indicated earlier, is the cost of electricity, which is cited as the main weakness at the general level of the study. This is followed by the costs of telephone and Internet, and both are priority areas of action, even though costs of telephone and Internet improved in their assessment, compared with 2016.

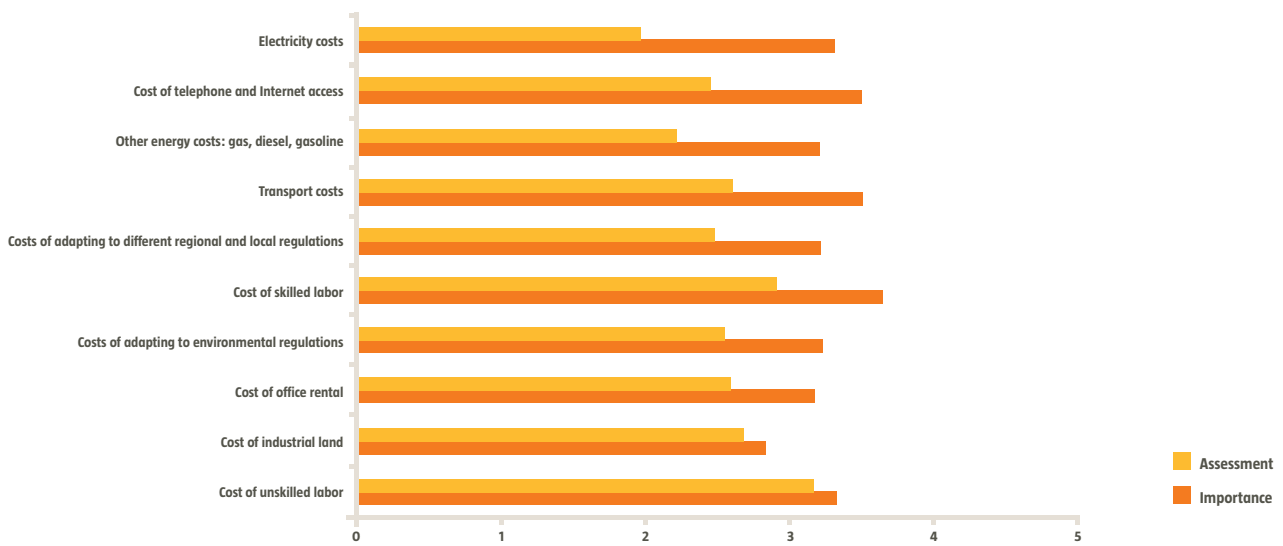
Imbalance also arises in other energy costs, the cost of transport, or those inherent to adaptation to different regulations, in addition the latter experimenting a relevant increase in importance for the foreign companies surveyed.

Investors continue to positively assess labor costs in Spain, both skilled and unskilled, and this is one of the reasons for which they establish themselves in our country. It's important to mention that skilled labor is clearly more relevant to foreign investors in Spain, and that there is margin for improvement in this regard.

Investors' expectations are satisfied as regards matters such as the cost of unskilled labor and the cost of industrial land.

Figure 13

Costs



6. Results by areas

6.6. Funding

Financing is one of the areas that obtained the worse scores, in general terms, but the change in the downward trend must be mentioned, and this year ratings improve for all of the aspects considered.

The main area for improvement continues to be the availability of public subsidies, despite the fact that this issue is the one that most increases in score in the Financing category.

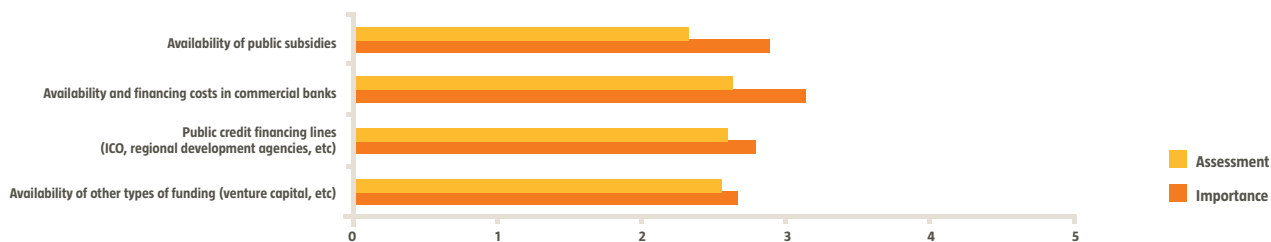
The availability and cost of financing in the commercial banks continues consolidating the improvement begun in previous years, though still falling short of fulfilling investors' expectations.

The availability of other types of funding such as venture capital do not appear to represent a problem for foreign investors, though it is one of the issues that most gains in importance in the entire survey.

In any case, it should be noted that in spite of the low scores, funding issues are not among the priorities for the foreign companies surveyed, as these continue to be considered the least important area in the report.

Figure 14

Funding



6. Results by areas

6.7. Human Capital

The Human Capital area is the most important for investors and we must mention the general improvement of its score in 2017, though with obvious imbalances.

As was the case in the previous edition, the four most important aspects of the whole survey in the opinion of investors fall into this category (accepting responsibilities and targets, learning capacity, language skills and availability of skilled labor). Although the three initial ones have experienced a positive evolution of their assessment, and both learning capacity and accepting responsibilities and targets are no longer included within the six priority areas of action, there is a clear margin for improvement and need to continue making progress on all of these.

Both the quality of the vocational training system and the overall evaluation of the higher education system obtain a significantly higher rating than last year, but we must mention that both, and the vocational training system in particular, especially dual training, are increasingly important for the companies surveyed.

Again, it is interesting to mention the difference in importance for investors of the availability of skilled and unskilled labor, the former being much more relevant for them, wherefore it is necessary to make efforts to fulfill their expectations in this regard.

The quality of the business schools and the availability of unskilled labor are two areas in which investors' expectations are satisfied.

As highlighted in the most recent editions of the Barometer, Human Capital aspects are essential for ensuring the country's competitiveness in the medium and long term, and it is therefore necessary to continue working in this area.

6. Results by areas

6.8. Innovation

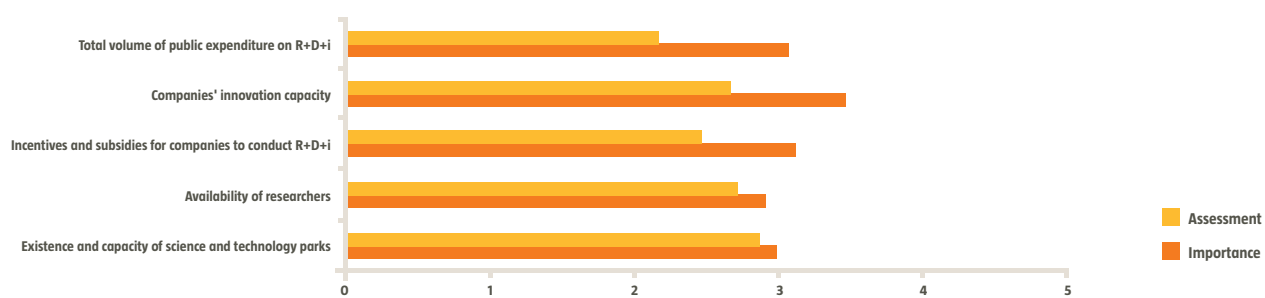
The area of Innovation experiments the greatest increase in importance for investors, and also presents an improvement, though slight, in its rating.

The total volume of public expenditure on R+D+i and companies' capacity for innovation, in addition to incentives and subsidies to allow companies to conduct R+D+i, continue to be the most relevant aspects and with the greatest margin for improvement with regards to innovation. It should be noted that total public expenditure on R+D+i has the third lowest assessment in the whole survey in the opinion of foreign investors, despite its slight improvement compared with 2016.

The presence of science and technology parks and the availability of researchers meets the companies' needs.

Figure 16

Innovation



6. Results by areas

6.9. Market Size

This is the second most important area for foreign investors –behind only Human Capital–, and one of the main reasons the foreign companies in the survey decide to set up in Spain.

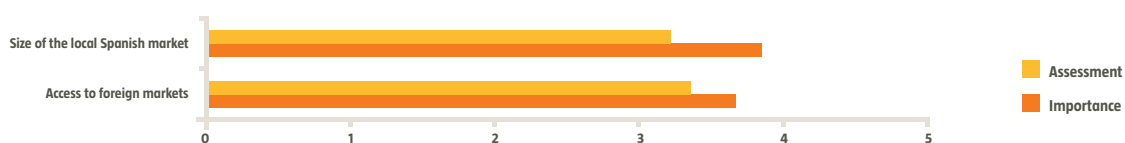
The two aspects analyzed in this section, local market size in Spain and access to foreign markets, improve their ratings, though again more significantly in regard to the size of the local Spanish market, a logical result of the economic recovery.

Despite this, there is still room for progress, as displayed in Figure 17.

Access to foreign markets is also very important for foreign investors, but slightly less so, and it is rated slightly higher than the size of the domestic market, and the gap is therefore narrower. However, access to foreign markets is one of the issues that most gains in importance for foreign investors surveyed in this edition, wherefore it must be monitored.

Figure 17

Market Size



6. Results by areas

6.10. Quality of Life

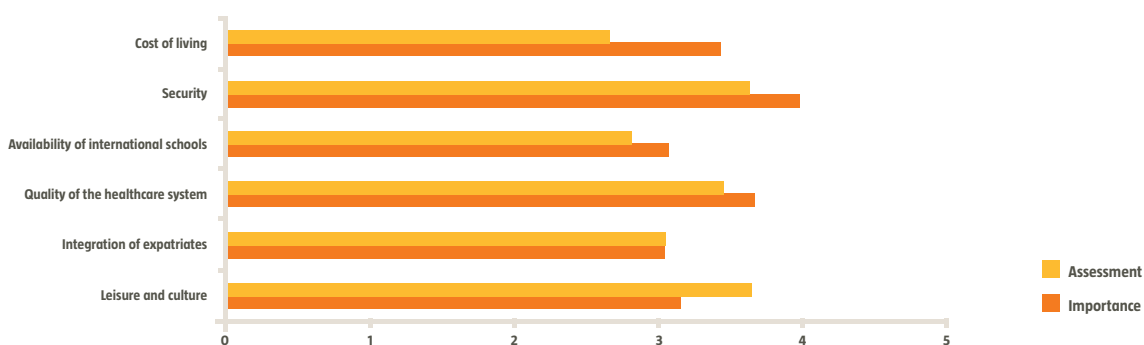
As in all previous editions of the Barometer, the evaluation of the Quality of Life area is among the highest, and we may state that foreign investors' expectations are met, though in this edition the overall rating does not increase, though its importance does.

The cost of living continues to be the main area for improvement, as Figure 18 shows. There is also some room for improvement as regards the quality of the healthcare system and the availability of international schools, mentioning that the ratings of these two aspects suffers a slight drop in this edition.

Safety continues to be one of the most highly valued aspects, in general, of the survey, as well as leisure and culture, and they again appear in this edition as some of Spain's most notable strengths in the opinion of foreign investors.

Figure 18

Quality of Life



Motives for setting up in Spain and measures required for increasing investment

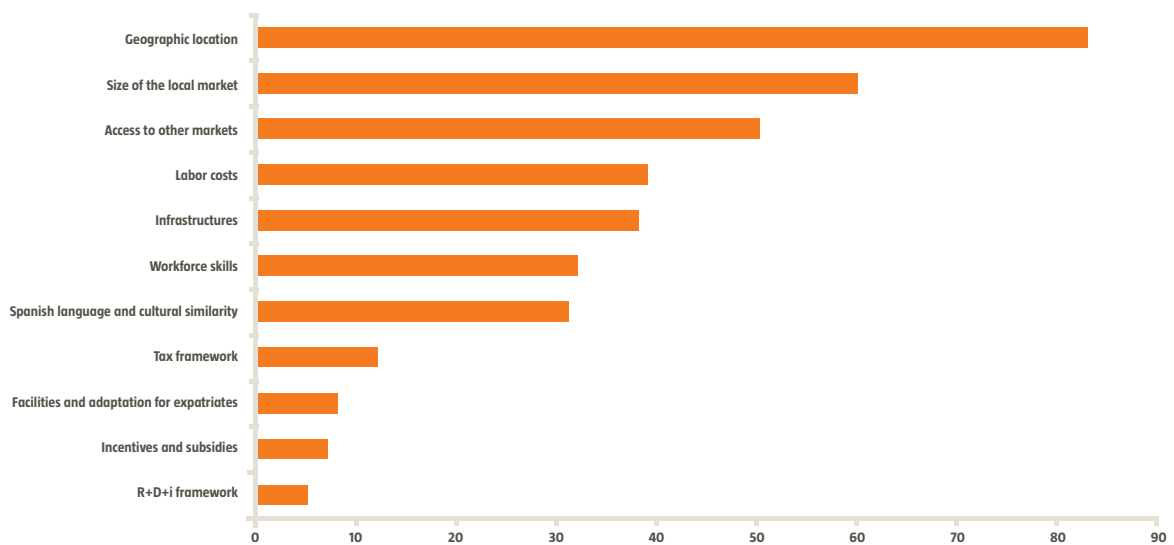


7. Motives for setting up in Spain and measures required for increasing investment

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

Figure 19

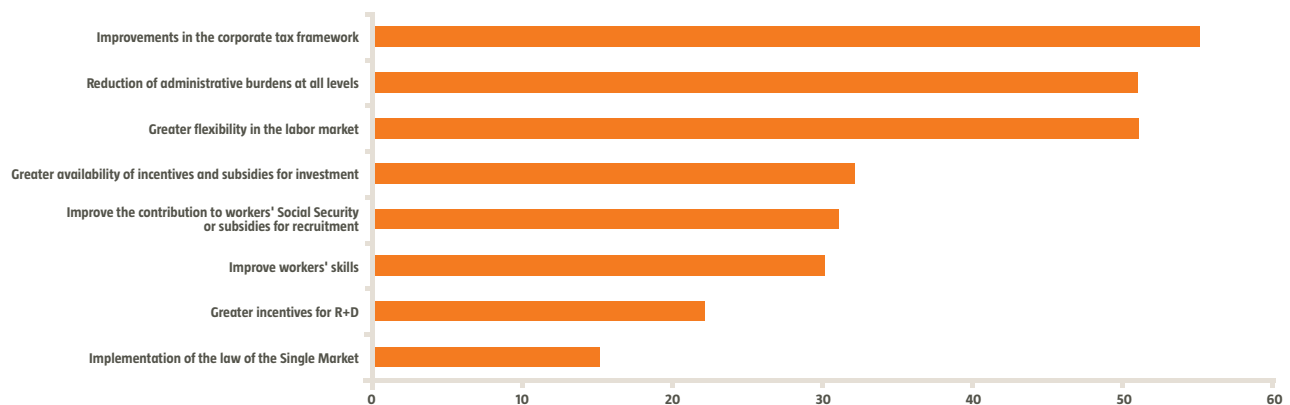
Motives for setting up in Spain (percentage of companies indicating each motive)



When asked to state the main measures underlying the increase in their companies' investment in Spain, the respondents highlighted above all the improvement in the tax framework, the easing of administrative procedures and the greater flexibility of the work market, as in the previous year.

Figure 20

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



Analysis by country

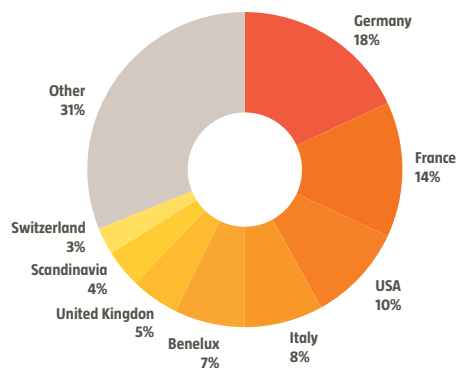


8. Analysis by country

8. ANALYSIS BY COUNTRY

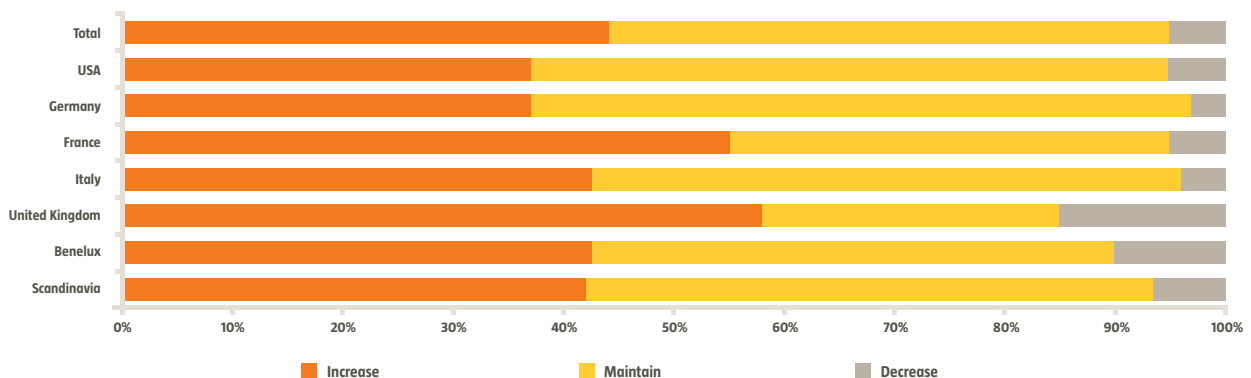
Likewise to previous edition, this edition analyzes whether there are any significant differences in the responses of the investors to certain questions depending on their country of origin. Although in general terms the responses are very similar regardless of the company's country of origin, there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

The highest number of companies in the survey are from Germany, France, United States, and Italy, followed by companies from Benelux, the United Kingdom, and Scandinavian countries. The countries with the greatest pondering also coincide with their number of companies.



8.1. Investment outlook

For the study as a whole, 95% of the companies surveyed foresee increasing or maintaining their investments in Spain in 2017. Companies with headquarters in Germany and Italy have plans slightly exceeding the average of the companies surveyed. On another hand, those companies from Benelux and especially the United Kingdom, show somewhat lower numbers, though the United Kingdom represents a somewhat paradoxical situation, with the highest number of companies that will increase their investments in Spain, but also with the highest percentage of those which will reduce their investment.



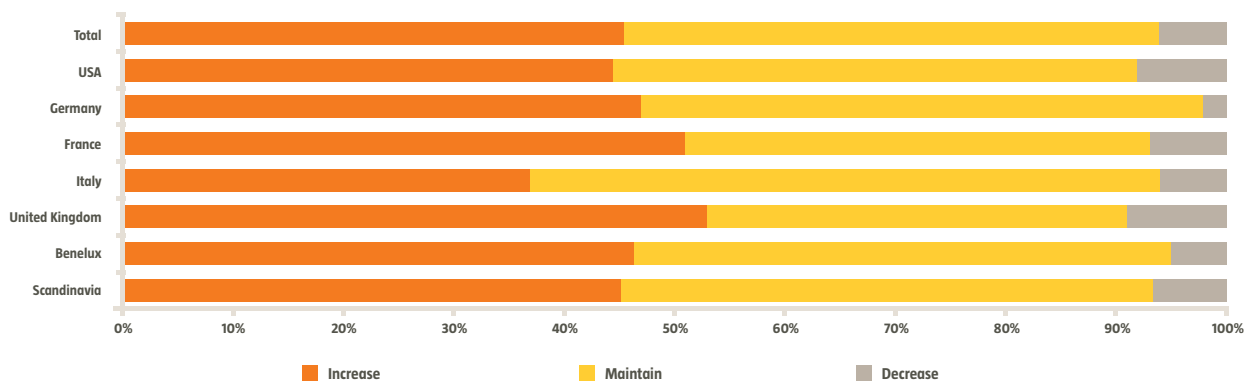
8. Analysis by country

8.2. Workforce outlook

With regard to the predicted number of employees in Spain in 2017, the percentage of companies that expect to increase or maintain their workforce has risen to 94%. The United Kingdom is the country that has the greatest percentage of companies planning to increase their workforce in 2017, followed by France, and Germany is the country with companies with the best perspectives, in general terms, as regards this issue.

Figure 23

Workforce outlook by country

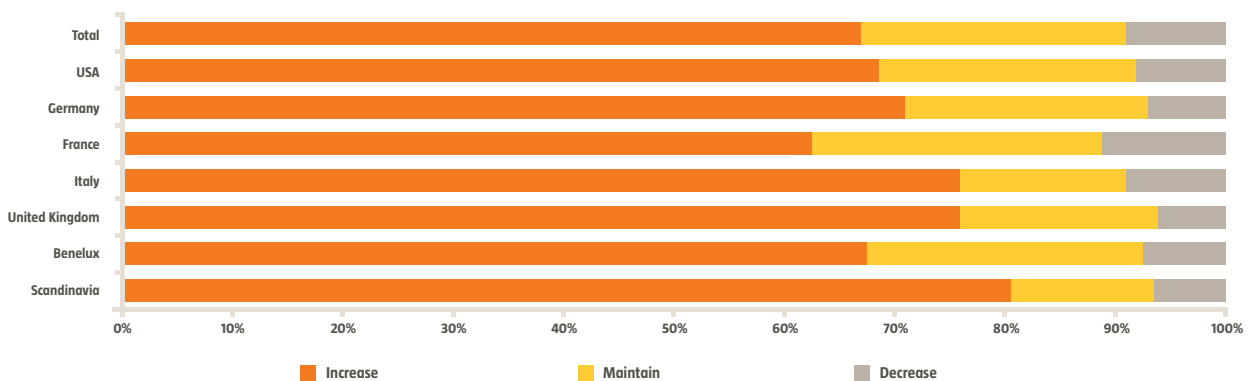


8.3. Sales outlook

As regards turnover in 2017, 67% expect to increase their turnover. Only 9% of the companies surveyed predict a reduction in sales. Companies from Italy, United Kingdom and Scandinavia have the most favorable outlook for 2017, while those from France have the least favorable outlook. The United Kingdom is the country whose companies have improved their outlook for turnover, compared with last year.

Figure 24

Sales outlook by country



8. Analysis by country

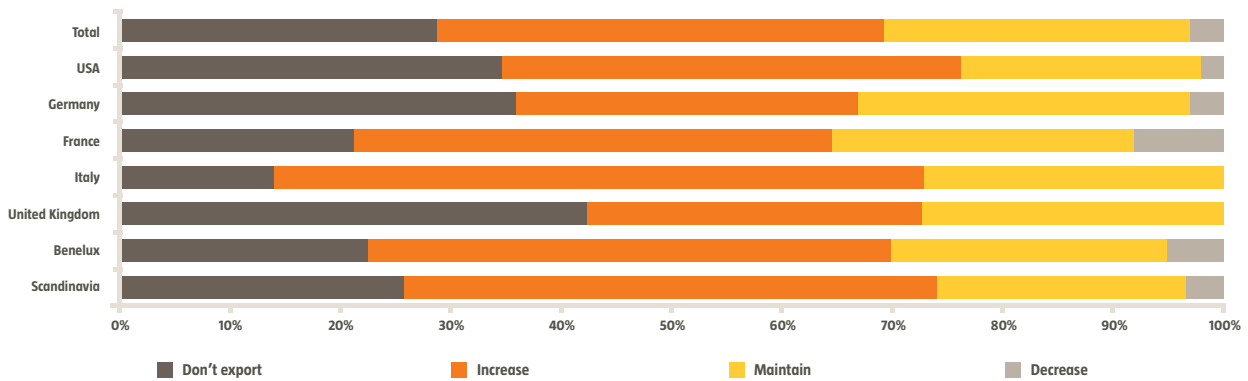
8.4. Export outlook

The final category in the outlook section is exports. Over 70% of foreign companies export to third markets from Spain, a higher percentage than last year. In this case, companies from France, Italy and Benelux have the highest export profile.

About 41% of companies predict an increase in their exports for the period, and 28% will maintain their exports at the same level as in previous years (excluding those which do not export, 57% of the companies foresee increasing their exports and 39% expects to maintain them). Only 3% of companies expect to reduce their exports in 2017. Companies from Scandinavian countries, Italy and Benelux have the highest percentage of respondents planning to increase their exports.

Figure 25

Export outlook by country



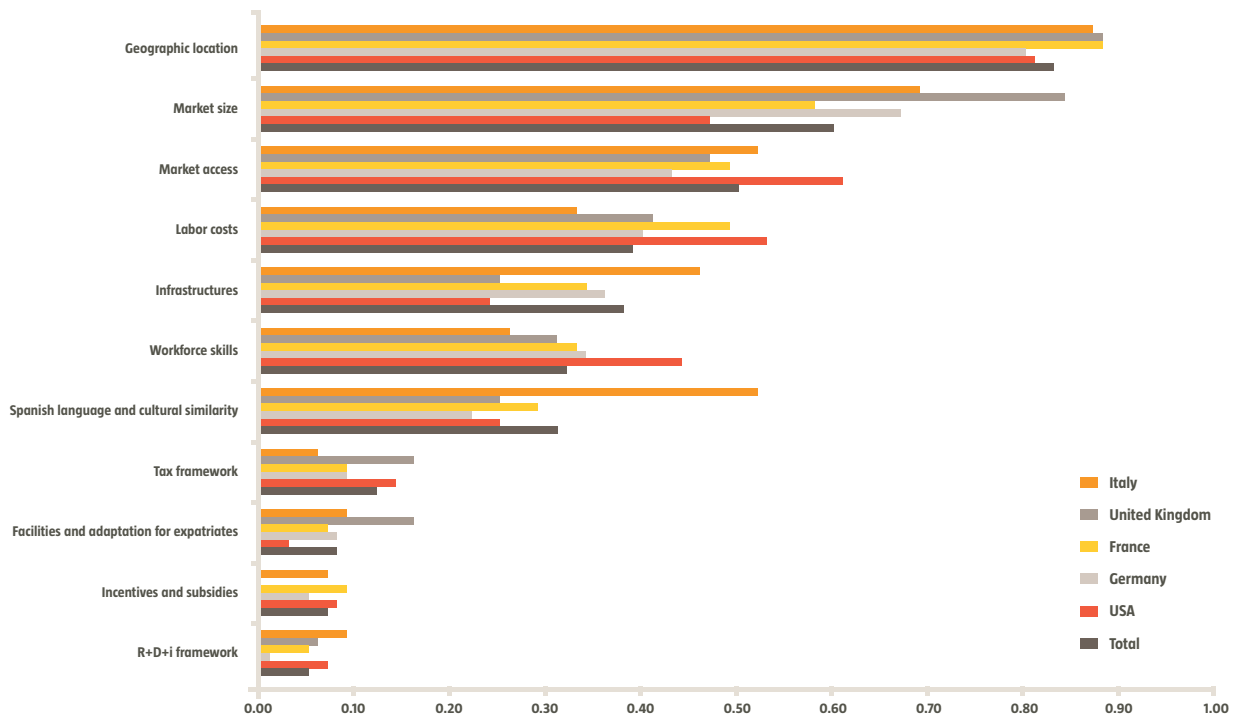
8. Analysis by country

8.5. Motives for setting up in Spain

Although all the groups represented cite geographic location, market size and access to other countries as the main reasons for setting up in Spain, there are some significant differences. Companies from the United States, for example, give greater weight than the average to access to other markets offered by Spain, as well as their rating of labor. Companies from Italy give a higher than average score to infrastructures and cultural similarities and the Spanish language as one of the main reasons for setting up in our country. Companies of French capital give more value to labor costs and geographic location, and less to the taxation framework. Finally, companies from the United Kingdom focus more on market size and ease of adaptation for expatriates, and less on infrastructures, than the average.

Figure 26

Motives for setting up in Spain by country



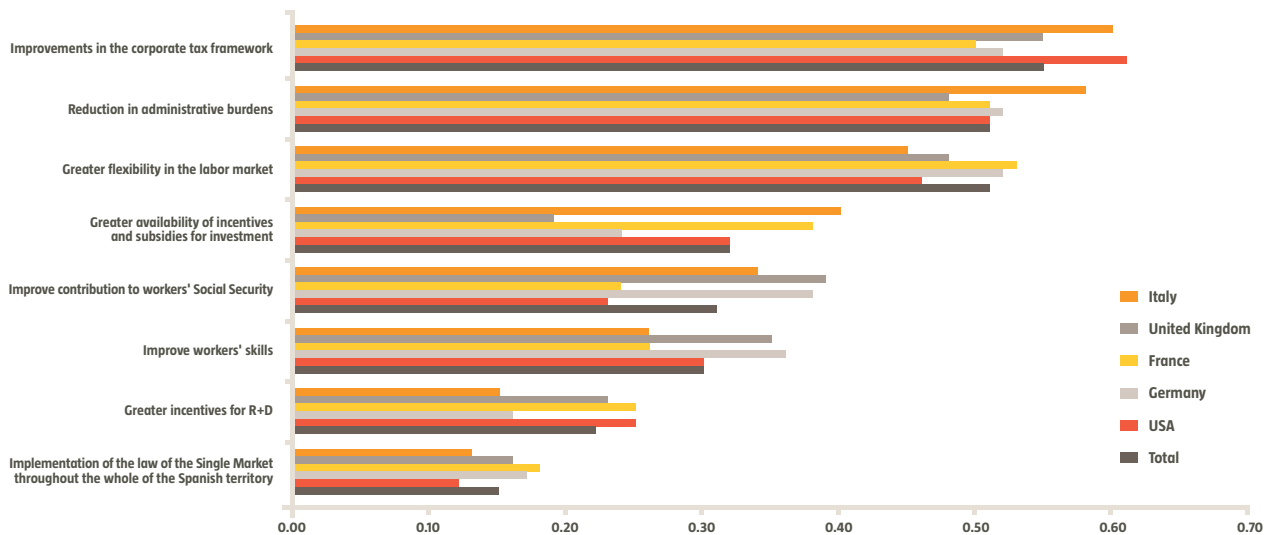
8. Analysis by country

8.6. Measures that most contribute to increasing a company's investment in Spain

Although practically all the groups of countries coincide in indicating improvements in the tax framework and the reduction of the administrative burden and greater flexibility of the labor market as the three priority measures required, there are some interesting differences. For example, for companies surveyed from the United States, improving the corporate taxation framework is more important than for the average, while the flexibility of the labor market or Social Security costs is less important than for the average. The companies of the United Kingdom and Germany, however, coincide in granting greater importance to improving the skills of the workforce and reducing Social Security contributions. Meanwhile, companies from France emphasize increasing incentives and subsidies for investment.

Figure 27

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



Methodology



Methodology

The Barometer has been compiled jointly by ICEX, Multinacionales por Marca España, and the International Center for Competitiveness (ICC) at the IESE.

This edition maintains the same structure as in previous years, and most of the questions of the past editions, although some have been eliminated or modified. However, a sensitivity analysis has been introduced in some questions depending on the country of origin of the investing company.

As in previous editions, the methodology followed is the completion of a questionnaire by foreign companies currently operating in Spain. This year, 785 responses have been obtained.

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

1) GENERAL PANORAMA IN SPAIN

Labor Market

Regulatory Environment

Market Size

2) COSTS

Costs

Taxation

Funding

3) INFRASTRUCTURES AND RESOURCES

Infrastructures

Human Capital

Innovation

4) QUALITY OF LIFE

The questionnaires explore both the companies' assessment of Spain in each aspect and the importance they give to each factor in order to weight the results according to companies' genuine interests.

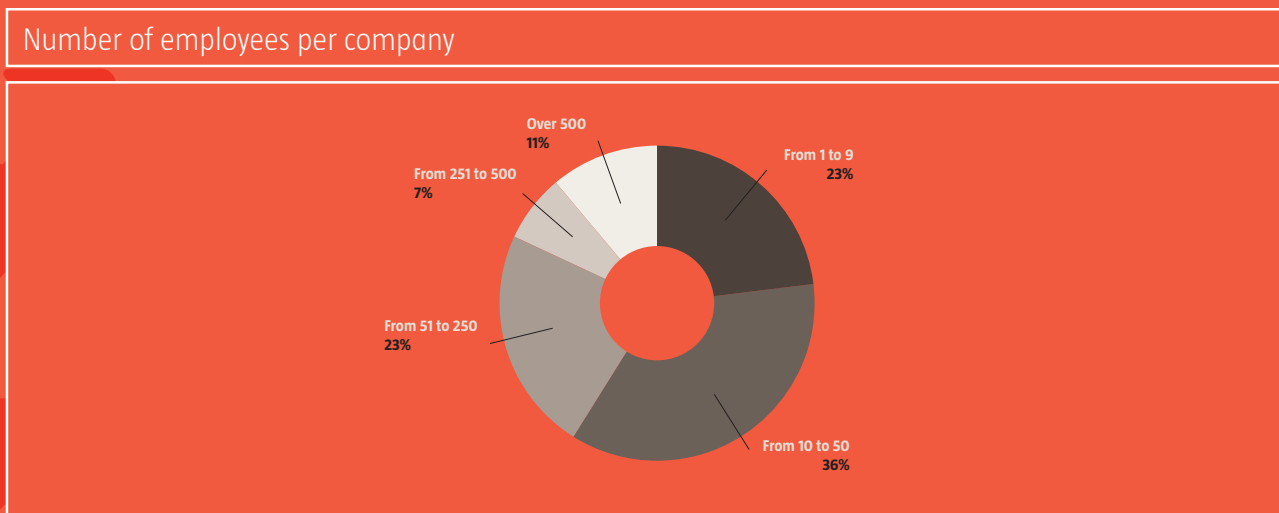
In each question, the foreign investors are asked to give a score of between 1 and 5 to the importance this aspect has for their company, and a second score using the same scale for how they would rate Spain's performance in this aspect. All the questions which reveal a significant gap between the importance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

Appendix

APPENDIX 1: PROFILE OF THE COMPANIES SURVEYED

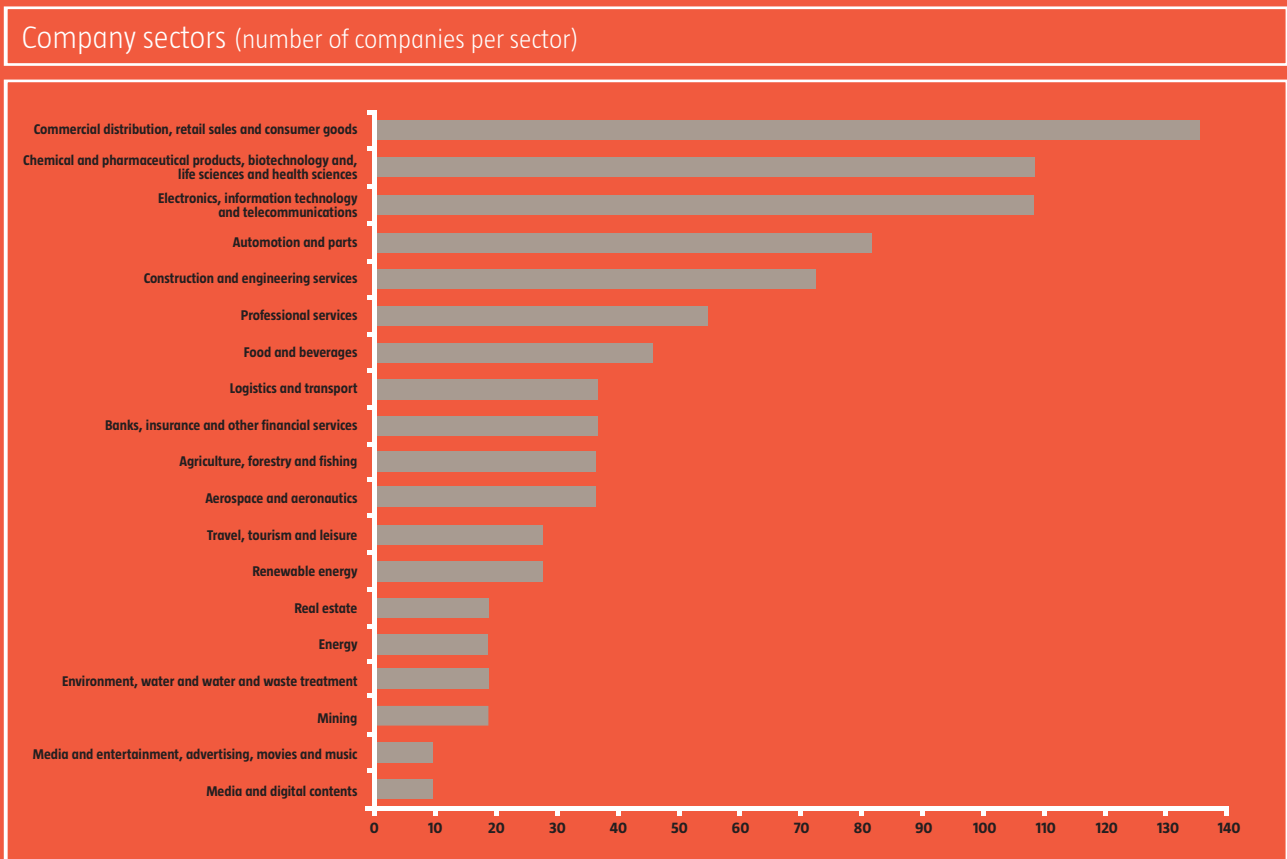
The profile of the companies taking part in the study is fairly heterogeneous and includes a representation of companies of all sizes, although there is particular participation of companies with up to 250 employees, and can be seen in Figure 28.

Figure 28



The sectors represented in the sample are very diverse as shown in Figure 29. The sector with the greatest representation is commercial distribution, followed by the chemical and electronics sectors, and the IT and telecommunications sectors.

Figure 29



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