Box 5

SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL

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Latin America is one of the main destinations for Spanish outward FDI, as discussed in an article published alongside the 2024 H2 Report on the Latin American Economy.[1] This box extends that analysis using micro data on direct investment from the balance of payments, available through the Banco de España data laboratory, BELab.[2] The database covers the period 2013-24, that is, the new and more selective expansion phase following the entry of large Spanish firms into the region in the mid-1990s and the subsequent slowdown triggered by the global financial crisis from 2008 onwards.[3]

The micro data available make it possible to break down the number of firms making direct investments by country and economic activity, together with their average stock of investment and the currency used. On this basis, the analysis targets key aspects of Spanish multinationals' choices, including the factors driving changes in the FDI stock (extensive margin, i.e. an increase in the number of investing firms, versus the intensive margin, i.e. larger investments by firms that are already making such investments), the concentration of FDI by investment stock per firm, and the degree of geographical diversification.

This analysis of Spanish firms' investment activity will be complemented in the future with additional sources of information on firm characteristics, such as the Banco de España Central Balance Sheet Data Office.

Latin America is the region with the second-largest presence of Spanish firms, after the euro area

The number of Spanish firms with outward FDI rose by 40% between 2013 and 2024, reaching 4,629 (Chart 1).[4, 5] Over the period as a whole, the number of Spanish firms investing in Latin America grew more strongly than the global total. This consolidated Latin America's position as the second most important destination region after the euro area, with 1,709 firms investing there in 2024 (37% of the total). Since 2015, however, the pace of expansion in Latin America has slowed, in contrast to more pronounced growth in other regions, such as the United States and the United Kingdom. This pattern is consistent with the decline in Latin America's relative weight in global FDI, partly reflecting the cyclical fluctuations in the region and in commodity prices.[6] In addition, factor endowment and Latin American economies' trend of productive specialisation shape their ability to attract direct investment, which at a global level is characterised by a growing share of advanced services and new technologies.[7] Within the region, the number of investing firms has risen in the main economies (with the exception of Argentina), most notably in Mexico, which ranks first by a considerable margin (Chart 2).

The increase in the number of firms explains the rise in FDI stock in Latin America

The growth in the number of Spanish firms investing in Latin America has gone hand in hand with a more stable presence than in other regions such as the United States and the United Kingdom, where turnover is somewhat higher, as can be seen in the entry and exit rates in investment activity (Chart 3).

Between 2013 and 2024, the increase in the Spanish FDI stock in Latin America was driven mainly by the extensive margin (47%)[8] as average investment per firm declined (Chart 4). This contrasts with other regions, such as the EU, where the consolidation of existing positions (i.e. the intensive margin) has predominated. As new investing firms in Latin America become more established, their investment volumes in the region can be expected to gradually rise over the medium term.

1 Isabel Álvarez, Juan Carlos Berganza and César Martín Machuca. (2025). "Foreign direct investment between Latin America and Spain". *Economic Bulletin - Banco de España,* 2025/1, 05.

2 BELab provides controlled access to FDI data, specifically assets and liabilities (stocks, transactions and other volume changes) relating to quoted shares, unquoted shares and other equity, loans, and other debt instruments dating back to 2013.

3 Enrique Alberola and Esther López. (2013). "La evolución de la inversión directa española en América Latina". *Boletín Económico - Banco de España,* June 2013, pp. 61-69.

4 A single firm may invest directly in more than one country. As a result, investing firms may be counted in more than one geographical area, meaning that regional shares do not necessarily sum to 100%.

5 These firms represent a very small fraction of the total (around 0.1%, rising to 0.8% if firms with fewer than three employees are excluded, according to the National Statistics Institute's Central Business Register data).

6 See Álvarez, Berganza and Martín Machuca (2025).

7 UNCTAD. (2025). *World Investment Report 2025*.

8 Measured relative to GDP, the change in the Spanish FDI stock in Latin America in 2013-24 shows two distinct phases: a moderate increase up to the pandemic, followed by a return to levels broadly similar to those observed at the beginning of the period. In 2024, Spanish investment amounted to around 3% of the region's GDP (close to 13% when measured against Spanish GDP).

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Average FDI stock per firm[9] is smaller in Latin America than in economically larger regions

Average FDI stock per firm is positively correlated with the size of the destination economy and its role as an international financial or economic hub. Accordingly, average stocks in the United States and the United Kingdom are substantially higher than in Latin American countries, while euro area members sit between the two. This pattern can also be seen within Latin America: the largest average investment volumes by far are found in the region's largest economies, notably Brazil and, to a lesser extent, Mexico (Chart 5). Both Brazil and Mexico also benefit from strategic positioning owing to their participation in free trade areas, such as Mercosur and the free trade agreement between the United States, Mexico and Canada (USMCA), respectively.

Firm-level geographical diversification of FDI is generally limited, both among companies operating in Latin America and worldwide (Chart 6). Most firms in Latin America invest in only one country (around 70% of firms, accounting for more than 76% of the equity investment stock), with just 30% maintaining a presence in two or more markets. This pattern holds across most economic activities, although geographical diversification is somewhat higher in the

Chart 1
Number of Spanish firms with direct investment abroad

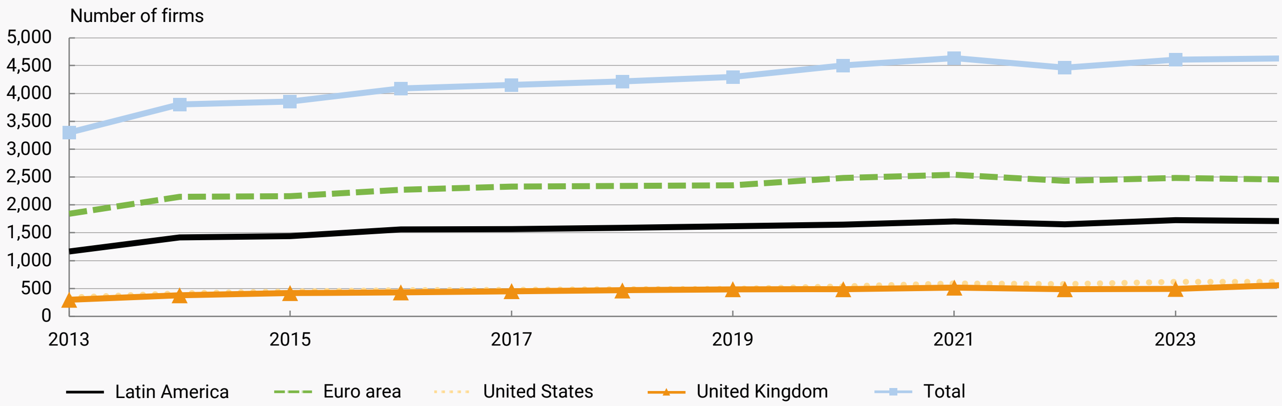
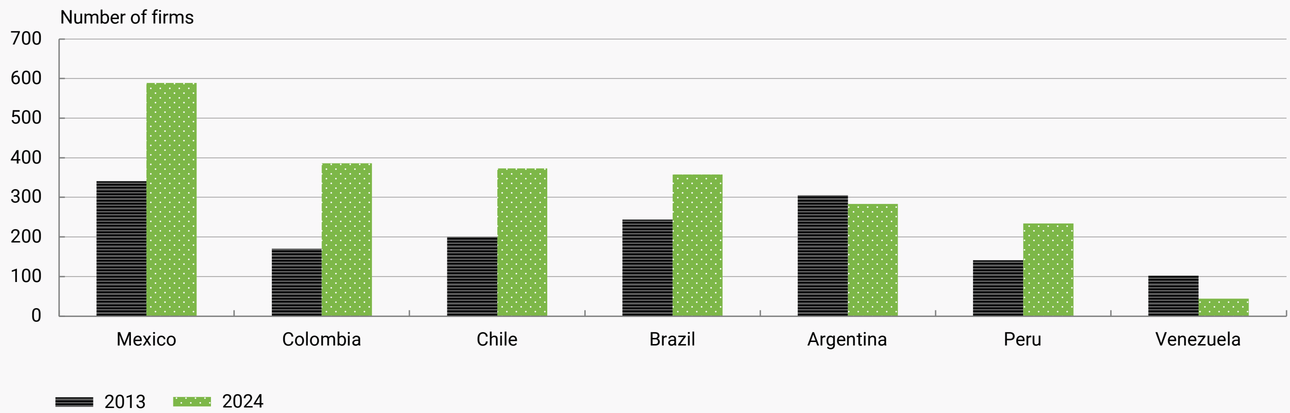


Chart 2
Number of Spanish firms with direct investment in Latin America, by country



SOURCE: Banco de España.

9 Calculated for equity investments by Spanish parent companies abroad.

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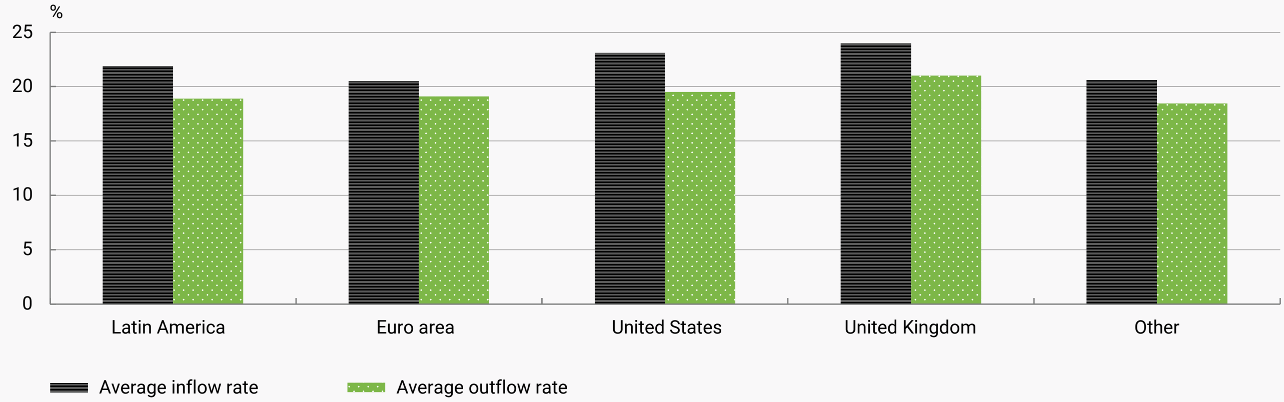
SPANISH FIRMS' INVESTMENT IN LATIN AMERICA: WHAT THE MICRO DATA REVEAL (cont'd)

Chart 3
FDI. Firm inflow and outflow rates (a)



SOURCE: Banco de España.

a The inflow rate is calculated as the average percentage of new firms that begin to make direct investments in the region. The outflow rate is calculated as the average percentage of firms that cease to have any direct investments in the region from one year to another. Both are calculated for 2013-24.

Chart 4
Average stock of direct equity investment per firm

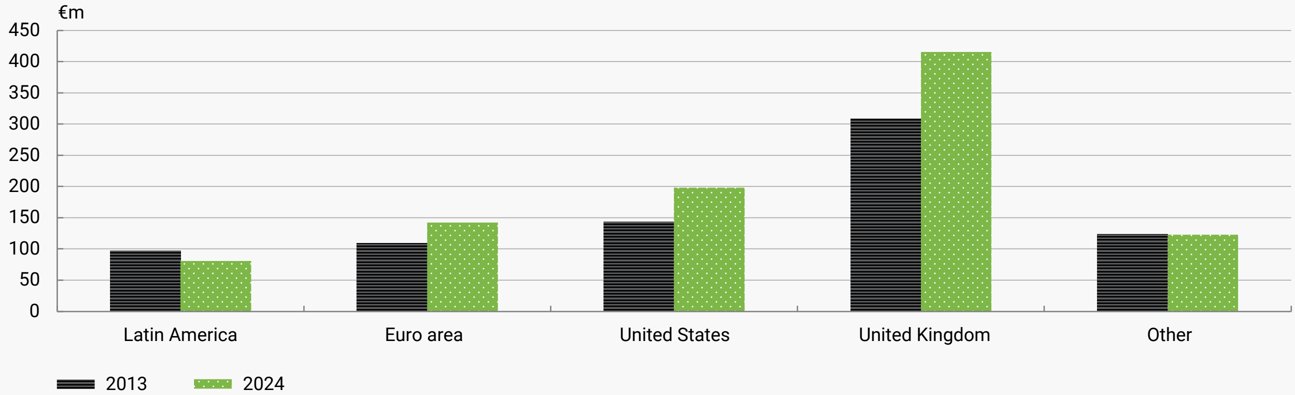
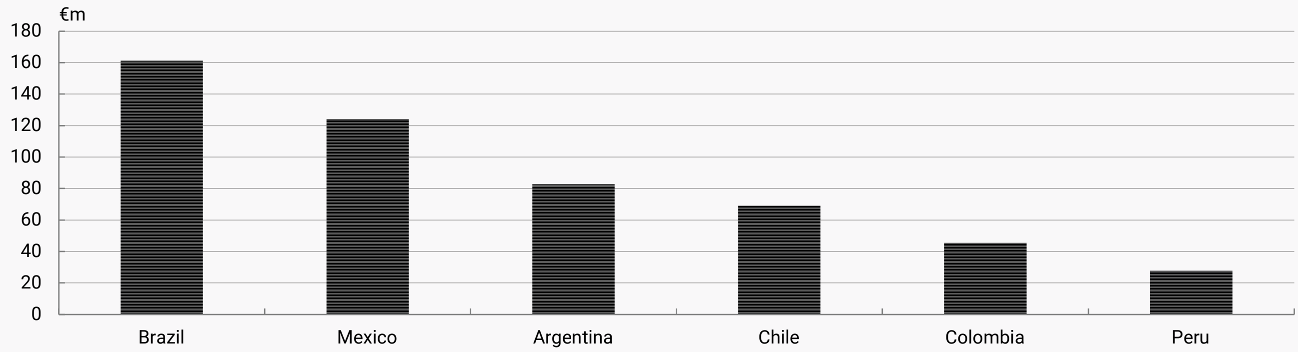


Chart 5
Average stock of direct equity investment in Latin America per firm. 2024



SOURCE: Banco de España.

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information and communications sector: 15% of such firms operate in two countries and almost 34% in three or more.

The sectoral composition of Spanish firms in Latin America is more evenly distributed than at the global level (Chart 7). Globally, investment is characterised by particularly high average amounts in information and communications and in financial activities. This is not the case in Latin America, despite past acquisitions of strategic financial institutions and the involvement of Spanish multinationals in public utility privatisation processes, including in the telecommunications sector, which took place several decades ago.

The FDI stock is concentrated in a small number of firms

FDI tends to be concentrated in a relatively small share of firms (generally the largest ones), which is a characteristic of economies' transactions with the rest of the world, as can be observed in Spanish exports.[10] Although FDI concentration is somewhat lower in Latin America than in other regions, it remains significant. Firms with average investment stocks exceeding €1 billion account for more than 70% of the total FDI stock worldwide, compared with around 50% in Latin America (Chart 8). These firms represent only a small fraction of direct investors (between 3% and 5% of those worldwide and in Latin America,

Chart 6
Number of investment countries per firm

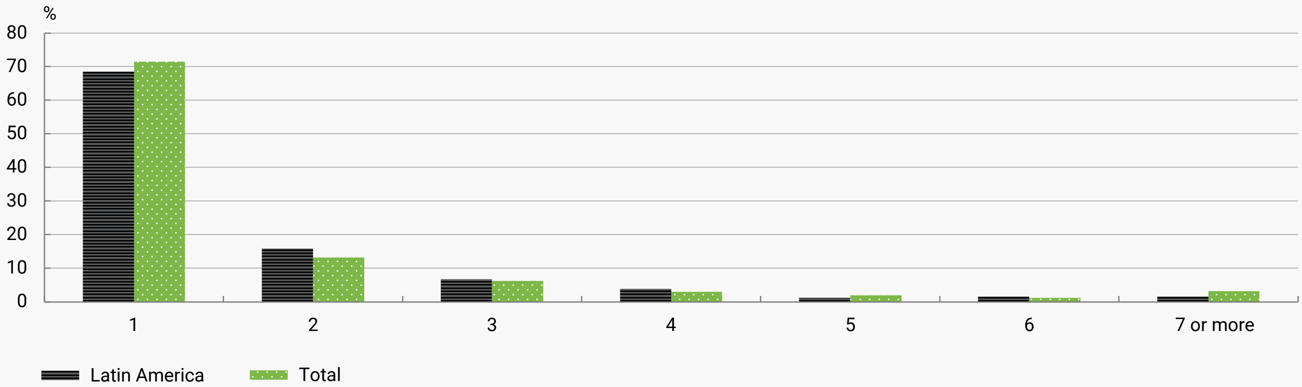
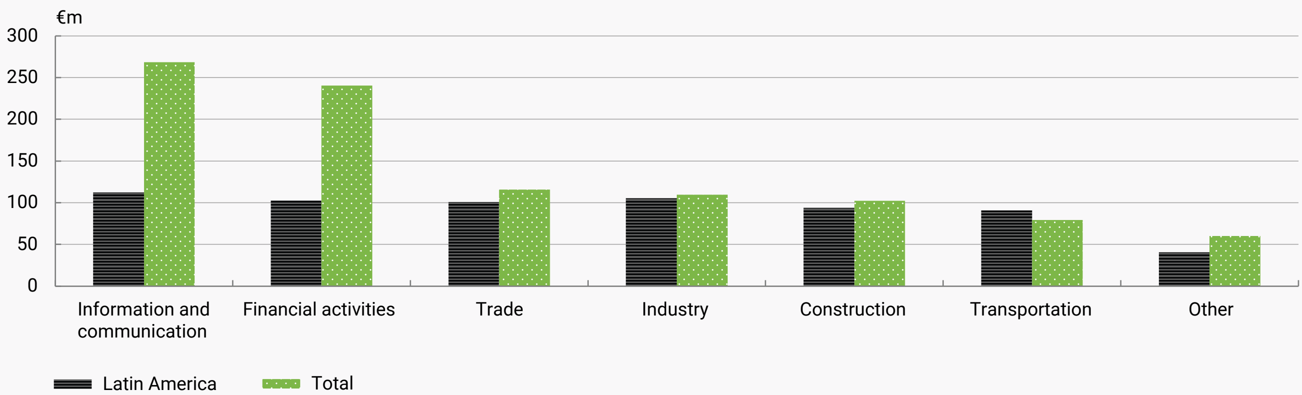


Chart 7
Average stock of direct equity investment per firm, by activity



SOURCE: Banco de España.

10 César Martín Machuca and Antonio Rodríguez Caloca. (2011). "Las empresas españolas exportadoras de bienes y servicios no turísticos: análisis comparativo e impacto de la crisis". *Cuadernos Económicos de ICE*, No 82.

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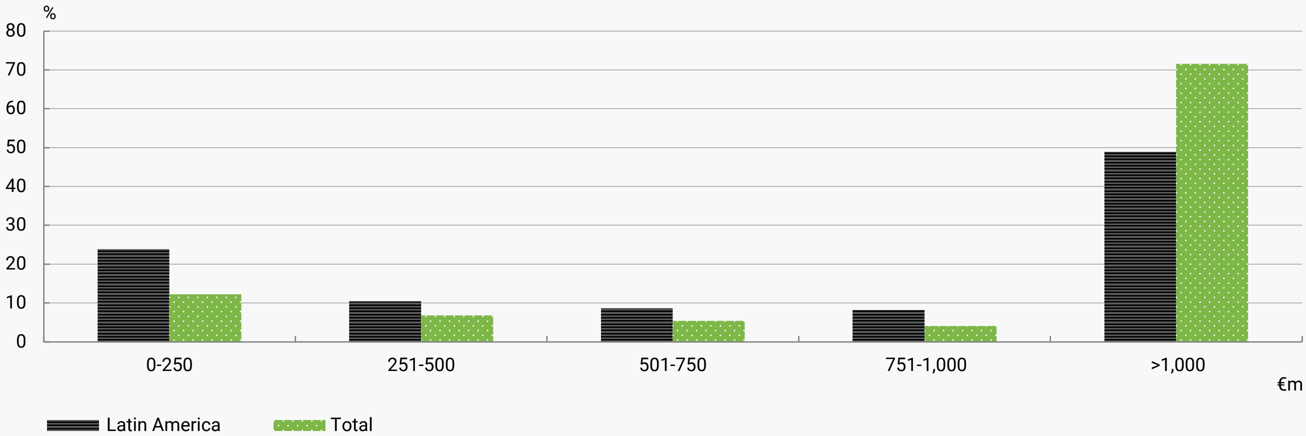
respectively) (Chart 9). Indeed, the majority are firms with an average FDI stock of less than €250 million (accounting for around 90% of the global total and 80% in Latin America).

To summarise, BELab data show that between 2013 and 2024 the number of Spanish firms making direct investments abroad grew more in Latin America than in other regions. This expansion largely explains the increase in the region's FDI stock, around half of which is concentrated in a small subset of firms, specifically those with investments exceeding €1 billion. Firm-level geographical diversification is limited as most companies invest in only one country within the region. Diversification is somewhat higher among firms with larger investment stocks, though most still focus on a single destination country.

The EU-Mercosur agreement could support Spanish FDI in Latin America

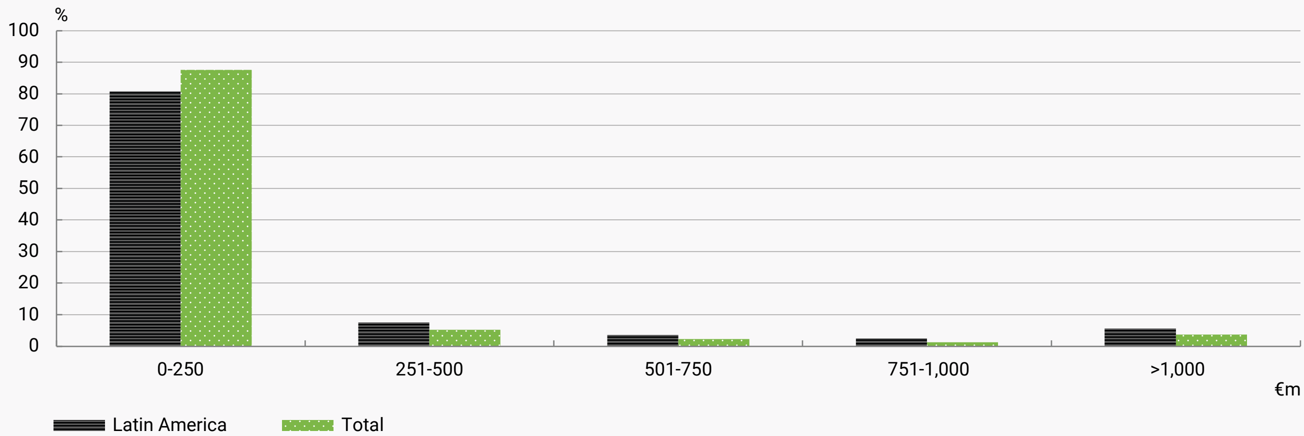
The recently reached free trade agreement between the EU and Mercosur is likely to support Spanish firms' FDI in Latin America by providing a more transparent and

Chart 8
Percentage of total FDI stock by firms' average investment



SOURCE: Banco de España.

Chart 9
Percentage of firms by average investment amount



SOURCE: Banco de España

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predictable legal framework, thereby encouraging bilateral investment flows. The agreement is particularly relevant in the current context of heightened geopolitical and trade uncertainty, geoeconomic fragmentation and upside inflation risks. These latter factors, exacerbated by the conflict in the Middle East, could have adverse effects on economic activity, tighten financing conditions and weigh on the rollout of new investment projects.