

Foreign direct investment in Europe: turning confidence into growth

EY European Attractiveness Survey
25 years of insight

June 2026



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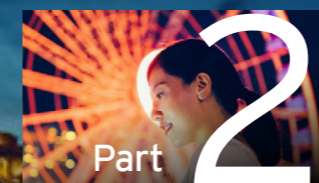
Shape the future
with confidence

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Editorial

Resilience and reinvention: Europe's attractiveness is at a turning point



Bridget Walsh
EY EMEA Area
Managing Partner

The findings of this year's EY European Attractiveness Survey are positive: Despite significant global headwinds, Europe remains firmly on investors' radar. Its market scale, industrial depth, infrastructure, talent base and commitment to rules-based governance continue to differentiate the continent in an increasingly unpredictable world.

At the same time, the nature of investment is changing. Traditional industries remain under pressure from higher costs and intensifying competition, while capital is increasingly flowing toward strategic sectors such as artificial intelligence (AI), defense, low-carbon energy and digital infrastructure. Europe's challenge is therefore no longer simply to preserve its historical strengths but to reposition itself within the next global industrial and technological cycle.

This year's survey identifies five major forces shaping Europe's future attractiveness: geopolitics, sustainability and energy, strategic autonomy in critical industries, innovation and AI, and the financing of investment and transformation. The report explores these forces and their implications in depth, rather than offering a broader review of Europe's long-term competitiveness challenges.

Throughout, businesses send a consistent message: Europe must move faster, simplify execution, deepen integration, and create the conditions that allow investment and innovation to scale.

Importantly, long-term confidence in Europe remains strong. Investors continue to believe in Europe's ability to adapt, reform and compete. But this confidence is increasingly conditional on Europe's capacity to turn ambition into implementation.

Ultimately, Europe's attractiveness is evolving, not disappearing. Rising uncertainty and fragmentation mean Europe's ability to combine stability, sustainability, innovation and strategic clarity may become one of its greatest competitive advantages in the decade ahead.



Marc Lhermitte
Partner, EY Consulting,
Global Lead – FDI &
Attractiveness

Foreword



Roberta Metsola
President of
the European Parliament

Why investors still believe in Europe

Every investment decision is a judgment about the future. What this year's survey tells us is that, even in difficult conditions, investors have not stopped believing in Europe. The headline figures on foreign direct investment (FDI) are a wake-up call. But the deeper finding is that a clear majority of investors expect Europe's attractiveness to grow, driven by confidence in the sectors where we have chosen to build long-term strength: AI, defense and low-carbon energy. In a period of unprecedented turbulence, that is a real vote of confidence, and one Europe has a responsibility to live up to.

Instability in the Gulf, surging costs of energy and other commodities, and fractures across global supply chains are pressing hard on European producers and investors alike. These pressures demand real answers, and they have shown how exposed Europe can be when its energy supply chains are fragile and its strategic dependencies run deep.

And yet investors are still here. AI investment projects have almost doubled in a single year, creating thousands of new jobs. Defense investment has more than doubled. Low-carbon energy continues to draw capital at scale. The investment map is being redrawn in the sectors that will define what Europe looks like in a generation.

In the European Parliament, we have been working to meet this moment. We are pushing to deepen the single market in energy, digital and defense, to cut red tape in ways that make a real difference to companies trying to grow, and to unlock private capital through the savings and investments

union (SIU). We have cut our dependence on Russian gas and diversified our energy supply. The EU-US trade deal, recently agreed in Parliament, gives businesses on both sides of the Atlantic what they have been asking for: stability, predictability and a framework they can plan around. These are priorities we are delivering on, vote by vote.

This European Attractiveness Survey confirms that Europe's investment fundamentals are solid. Investors value our scale, our infrastructure, our rule of law, the reliability of our institutions and the depth of our talent. In an uncertain world, those things carry real weight. They are why Europe keeps attracting thousands of cross-border investment projects every year, even in a difficult one.

The question now is whether Europe will match those strengths with the urgency investors are looking for. Energy costs must fall, and fall fast. Rules must help companies grow. Decisions that take years must take months. Markets must be easier to enter and to scale in. Europe has everything it needs to lead. All we need now is the will to move at the speed the moment demands.

Investors have spoken. The rest is up to us.



External viewpoint

How business and government can strengthen Europe's investment appeal

Europe's resilience continues to be tested by war on its borders, energy challenges and growing geopolitical fragmentation. This is also affecting FDI in Europe. Despite the difficult global backdrop in 2025, Europe remained resilient, with the 7% downturn in FDI better understood as pressure in a challenging environment than as a sign of structural decline.

Investors continue to value Europe for its large and sophisticated market, high-quality infrastructure, strength in innovation and R&D, growing low-carbon energy capability and, more than ever, its stable, rules-based environment.

Nevertheless, given that investment is essential for long-term competitiveness, the EU must intensify efforts to attract and retain capital. Right now, we are not attracting the level of investment needed to meet our economic, environmental and societal potential. Therefore, delivering impactful policies to put the European economy back on track is more urgent than ever.



Markus J. Beyrer
Director General,
BusinessEurope

Since the new legislative cycle, companies have started to see an improvement in the competitiveness agenda. However, they do not yet see actual improvements in the EU's attractiveness as an investment location. A fundamental paradigm change is needed, but policy announcements have not yet translated into improvements that businesses can feel on the ground.

Businesses consistently identify three main barriers for investments in the EU: regulatory complexity, high energy prices and a lack of skilled labor.

The EU needs to remove persisting regulatory barriers to cross-border trade, investment and labor mobility; continue burden reduction measures; introduce measures to bring down energy costs; and continue the trade diversification agenda.

Businesses remain cautious in the near term, but there is still belief in Europe's ability to strengthen its attractiveness and take the decisions needed to unlock further investment.

Now is the moment to convert these expectations into the concrete action needed to strengthen Europe's competitiveness and attractiveness as an investment destination.

Key data and trends

In 2025, over 5,000 investment decisions were made across 47 European countries, despite global uncertainties that had a significant impact on Europe. This reflects resilient underlying fundamentals.

5,026

FDI projects across 47 European countries in 2025

-7%

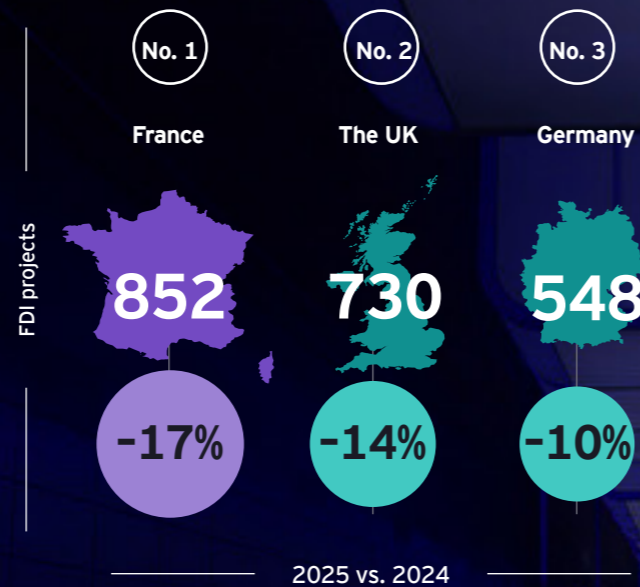
FDI projects in Europe

2025 vs. 2024

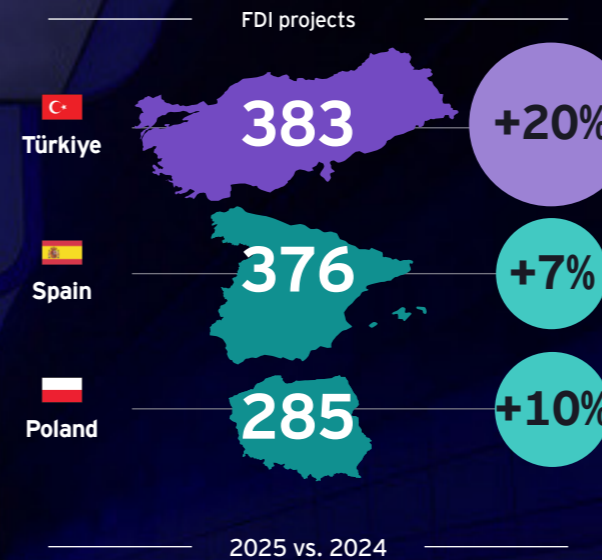
200k

Jobs created by FDI projects in Europe in 2025

Europe's top three FDI destinations experienced the greatest impact.



Investment surged in major Southern, Central and Eastern European countries. Key drivers include competitive labor costs, land availability and funding unlocking infrastructure investment.



Between 2019 and 2025, investment in Europe from the US and Germany, traditionally two of the largest sources, declined. In particular, US businesses have grown cautious about the continent.

-36%

FDI from the US

-28%

FDI from Germany

2025 vs. 2019

FDI grew in AI, defense, and low-carbon energy sectors but decreased in traditional industries.

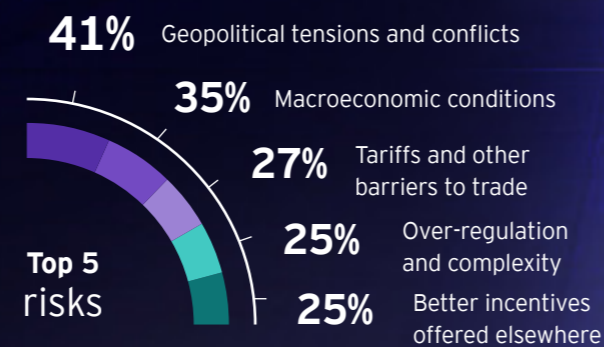
+96%

FDI 2025 vs. 2024 in artificial intelligence

-11%

FDI 2025 vs. 2024 in automotive industry

The increasingly unpredictable geopolitical environment has elevated the importance of other risks to Europe's future attractiveness. After declining significantly as a perceived risk to Europe's attractiveness last year, over-regulation and complexity across Europe are now considered to be the fourth most important issue.



Europe's core strengths, namely a large market, high-quality infrastructure and strong sustainability policy framework, support its long-term attractiveness for investment.

60%

Businesses expect Europe's attractiveness to increase over the next three years

Surveyed executives and EY leaders identified five major forces that will shape Europe's attractiveness and competitiveness:

- 1 Geopolitical tension: meeting uncertainty with stability
- 2 Sustainability and energy: Europe's challenge and opportunity
- 3 Critical industries: strengthening Europe's strategic autonomy
- 4 Innovation and AI: positioning Europe in the digital era
- 5 Financing the transformation of Europe's attractiveness

Foreign investors remain engaged in Europe

Businesses executed 5,026 cross-border investment projects in Europe in 2025, creating an additional 200,000 jobs and highlighting the continent's fundamental resilience.

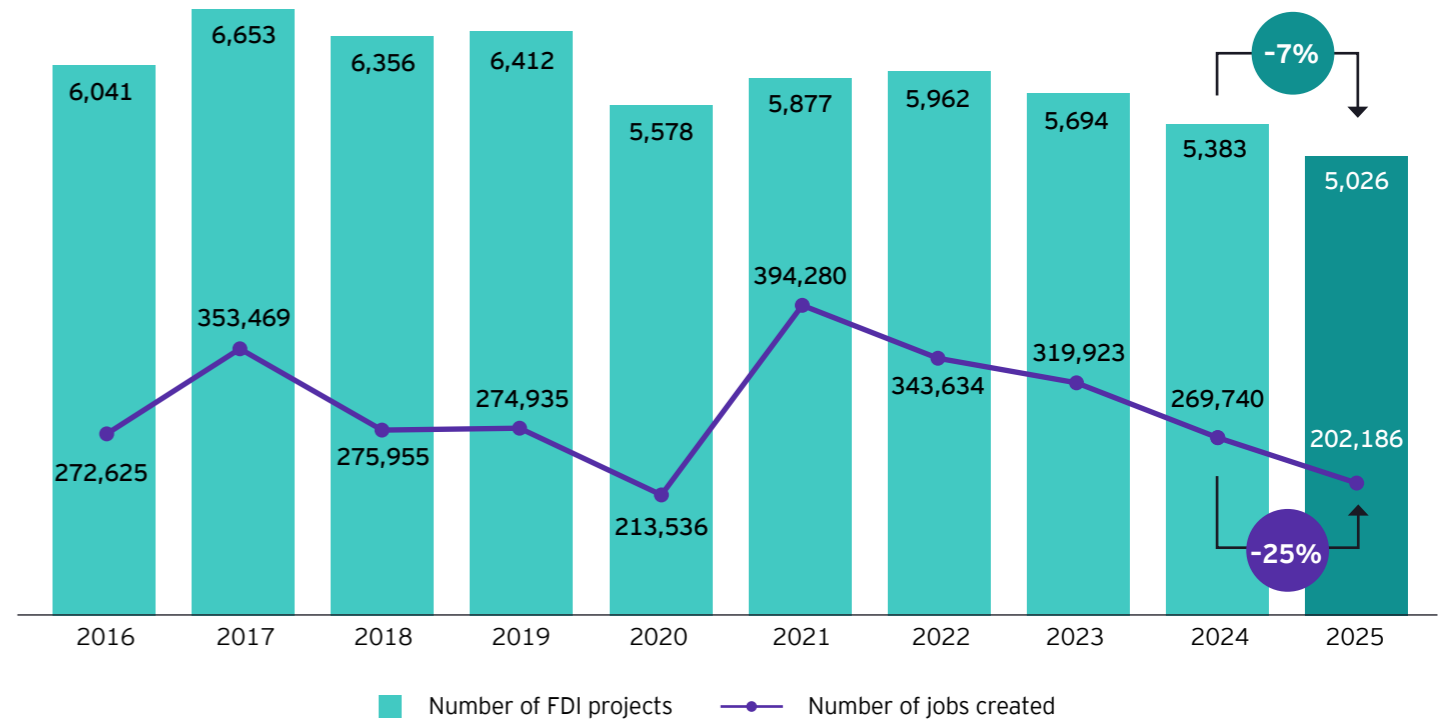
The numbers represent an overall decline from the previous year, but they do so in the context of a cautious investment environment worldwide. They also point to the specific challenges that Europe faces: weaker economic growth, greater exposure to energy price volatility,

trade tensions with the US, and the ongoing impact of the war in Ukraine and the conflict in the Middle East.

Against this backdrop, the 7% decline in FDI projects in 2025 is relatively moderate. Although the number of jobs created by FDI projects fell by a more pronounced 25%, in line with a cautious approach to capital-intensive and complex investment, the data reveals a surge of interest in specific sectors and clear confidence in the continent's long-term attractiveness.

Figure 1

Number of FDI projects and associated job creation in Europe (2016-25)



Source: EY European Investment Monitor (EIM) 2026.

Part 1 Europe's attractiveness today: resilience amid global uncertainty

FDI patterns are evolving across markets and sectors

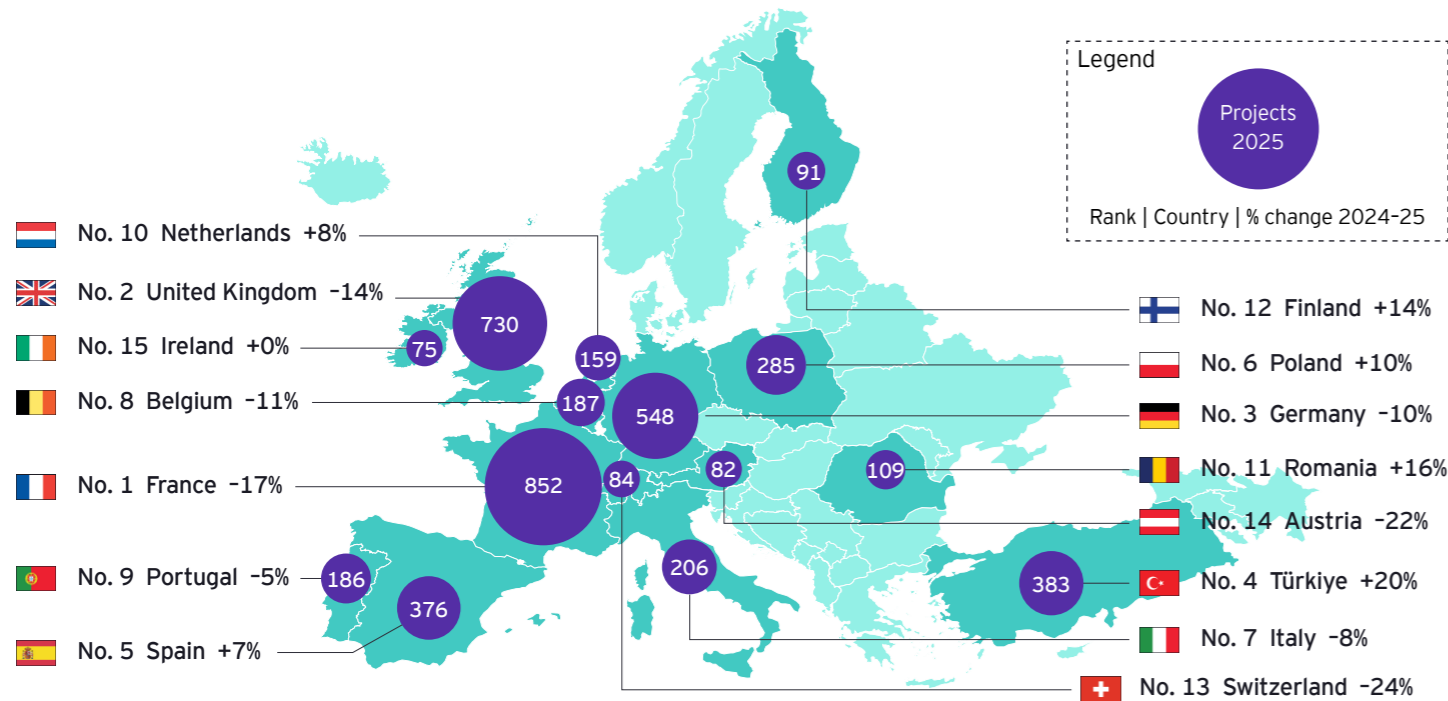
In 2025, investment rose in several Southern, Central and Eastern European countries, including Türkiye (+20%), Poland (+10%) and Spain (+7%). FDI is increasingly flowing into these regions due to competitive labor costs, ready availability of land for industrial projects and EU funding that unlocks infrastructure investment.

By contrast, investment declined in France (-17%), the UK (-14%) and Germany (-10%), traditionally Europe's biggest FDI destinations.

In France, ongoing political and fiscal uncertainty has dented investor confidence, while trade frictions and higher business costs weigh on investor sentiment toward the UK. Investment in Germany has been particularly impacted by the slowdown in manufacturing, caused by weaker demand from China and energy cost pressures. Declining manufacturing FDI in Germany has had a knock-on effect on investment across the supply chain.

Figure 2

Top 15 European countries for foreign investment in 2025, by number of projects



Source: EY EIM 2026.

The picture also varies on a national level, with many cities and regions experiencing investment spikes in 2025. In Greater London, the number of FDI projects jumped by 5% thanks to the city's existing strengths in technology and financial services. And the number of jobs created by FDI in France's Auvergne-Rhône-Alpes region more than doubled because of a sharp increase in logistics projects.

With respect to sectors, the 2025 data shows a decline in major traditional industries such as automotive and pharmaceuticals, but a jump in AI, defense and low-carbon energy. Rising investment in AI-related projects, which grew by 96% in 2025, reflects growing recognition of Europe's innovative strengths among businesses with experience operating in the region. FDI grew by 84% in the defense sector, following a widespread boost to defense spending, and by 25% in the low-carbon energy sector, highlighting sustainability as both a pressure point and a long-term opportunity for Europe.

Geopolitical trends dampen investment from the US and Germany

Between 2019 and 2025, investment in Europe from the US and Germany, traditionally two of the largest sources, declined by 36% and 28%, respectively. US businesses have grown cautious about Europe due to the imposition of US import tariffs and initiatives that encourage domestic investment, such as subsidies and tax breaks.

US investors are also increasingly drawn to Asia due to its rapid economic growth, expanding middle class, growing manufacturing base, and the need to diversify manufacturing and supply chain activities outside of China.

Investment by German businesses declined as revenues and margins fell in response to rising production, and operating costs, weaker demand from China, and stronger

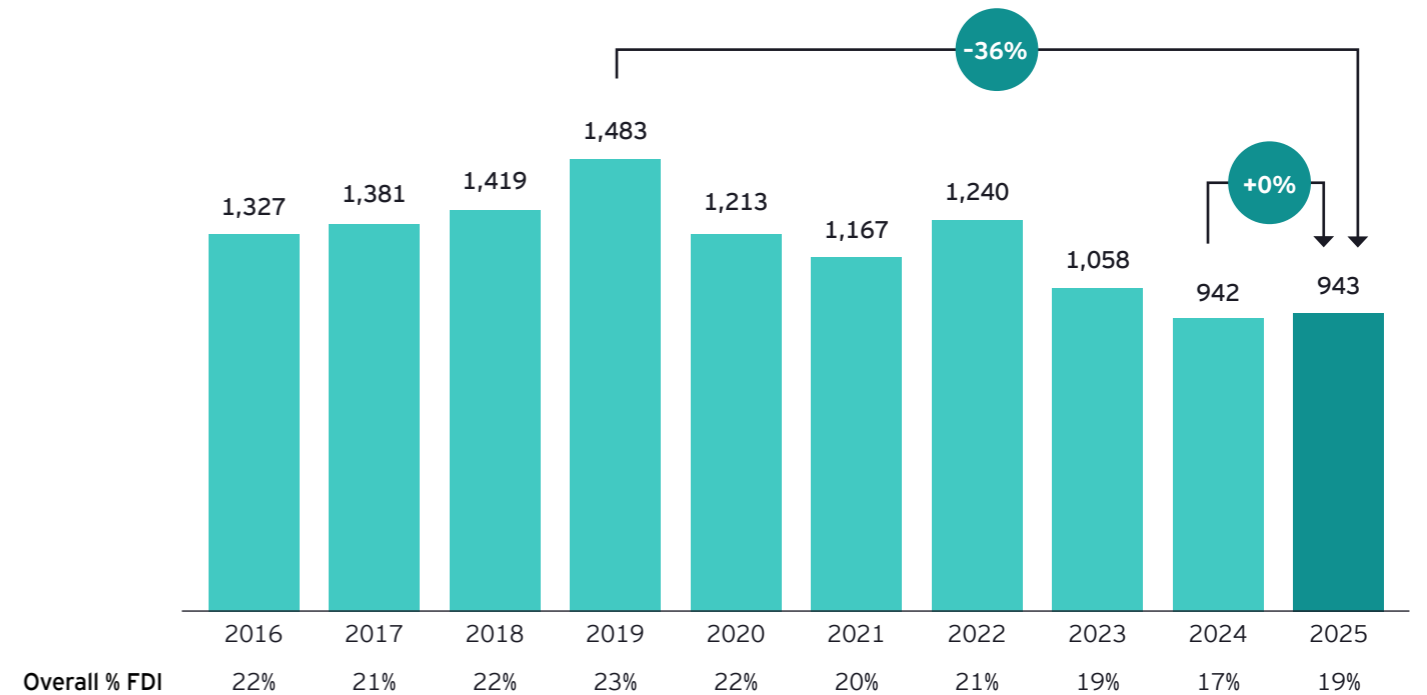
international competition. In addition, policies to renew industrial activity in Germany have focused on domestic investment.

Despite the influence of geopolitical trends on investor attitudes toward Europe, the survey data finds no evidence that businesses will reassess their plans following the outbreak of the conflict in the Middle East.

Some 40% of the survey was conducted before the conflict began in late February 2026. There was little difference in sentiment toward Europe between those who responded before and those who replied later. However, it is likely that surveyed businesses did not anticipate the duration or economic consequences of the conflict in its initial weeks.

Figure 3

Change in the number of investment projects in Europe carried out by US companies (2016-25)



Source: EY EIM 2026.

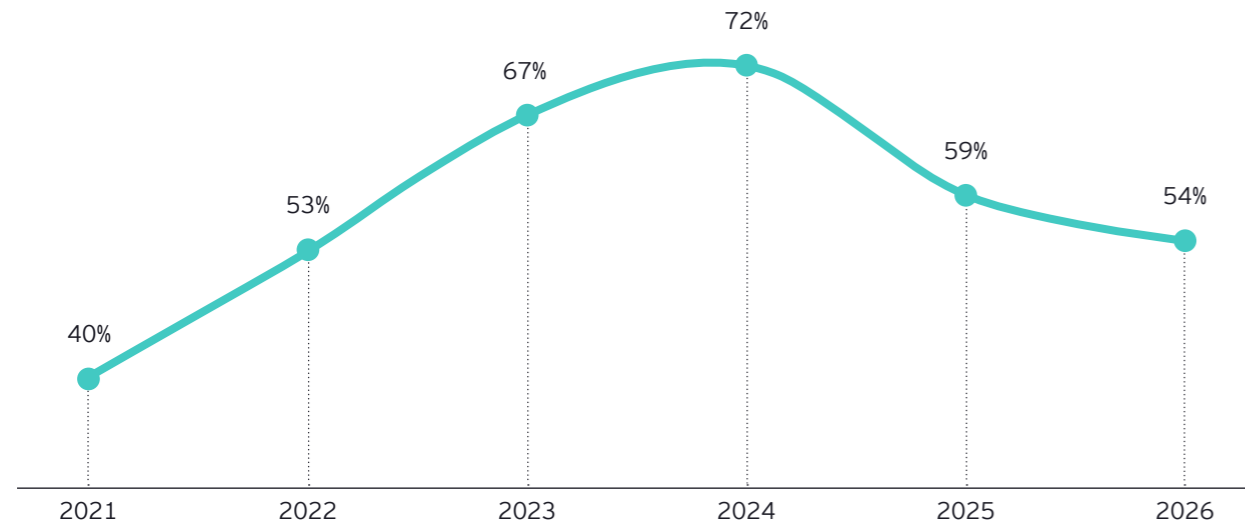
Europe's underlying strengths make it attractive in the long term

The survey of 500 international executives found that 54% plan to establish or expand operations in Europe over the next year. This is down from the 59% that expressed

investment intent in 2025 and 72% in 2024, but above the proportions in 2022 (53%) and 2021 (40%).

Figure 4

Does your company have plans to establish or expand operations in Europe over the next year? "Yes" answers only.



Source: EY European Attractiveness Survey 2026 (total respondents: 500 surveyed between 11 February and 30 March 2026).

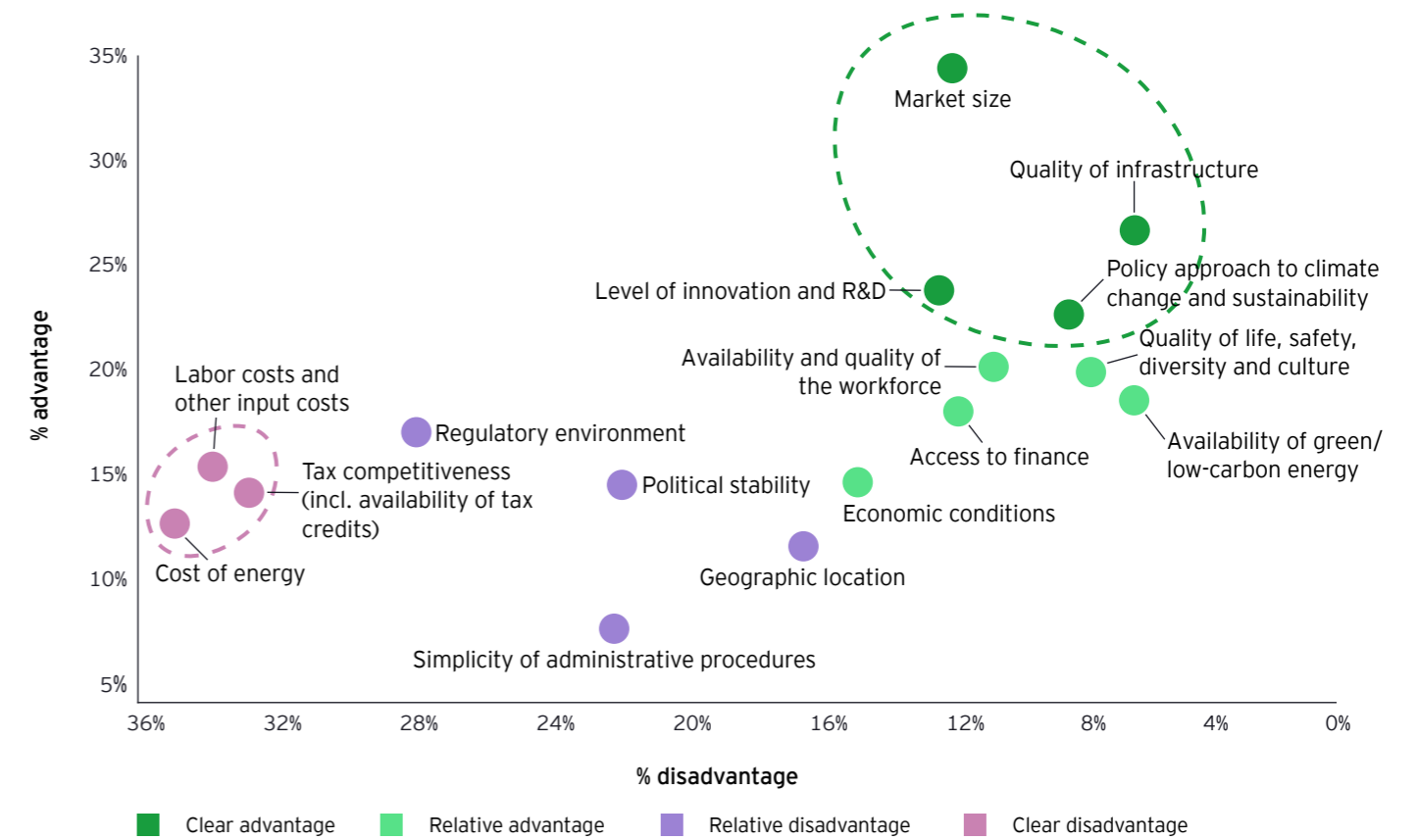
Although the trend of businesses being highly selective and prioritizing smaller projects could deepen, 60% of surveyed businesses expect Europe's attractiveness to improve over the next three years. This is due to the continent's formidable strengths: a vast consumer market, high-quality infrastructure, and a proactive approach to climate policy and sustainability.

Businesses are also optimistic following a series of announcements from policymakers in the first half of 2026 aimed at strengthening Europe's competitive position. In particular, the EU INC initiative¹ seeks to streamline and accelerate incorporation procedures, create more investment-friendly conditions by removing in-person administrative requirements, and facilitate access to public markets.

¹ EU-INC website <https://www.eu-inc.org/>

Figure 5

In which of the following areas does Europe have the greatest advantage and disadvantage as an investment destination compared with other locations?



Source: EY European Attractiveness Survey 2026 (total respondents: 500 surveyed between 11 February and 30 March 2026).

More broadly, business leaders appear confident that European policymakers will continue to be decisive. Some 10% of the recommendations² set out in former Italian Prime Minister Mario Draghi's September 2024 report on European competitiveness³ have been implemented and

50% are in progress. Encouragingly, 52% of surveyed executives are confident Europe will do what is needed to address its competitiveness and productivity gap. Only 21% lack that confidence.

² Draghi Observatory & Implementation Index, <https://draghiobservatory.eu/>

³ The Draghi report: A competitiveness strategy for Europe (Part A), 9 September 2024, https://commission.europa.eu/document/97e481fd-2dc3-412d-be4c-f152a8232961_en

Part 2

Repositioning Europe for the next wave of global investment around five forces

Intensifying global competition for investment combined with geopolitical fragmentation and technological disruption means Europe can no longer rely on its historical strengths. Surveyed executives and EY leaders identified five major forces that will shape Europe's attractiveness and competitiveness:



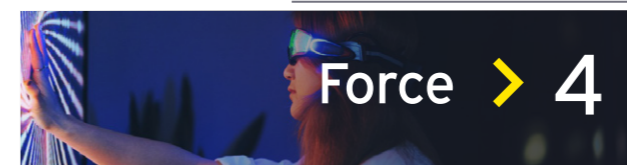
Rising geopolitical tension



Pressure to balance sustainability and energy demands



The need for strategic autonomy in critical industries



Rapid technological innovation



Difficulties unlocking finance and mobilizing investment

These forces cut across sectors, influence long-term investment decisions and increasingly determine where businesses choose to innovate, industrialize and scale. Specifically, they are challenging investors to evaluate

countries and regions through a matrix of resilience, energy security, innovation capacity, strategic autonomy and access to capital.

Force > 1

Geopolitical tension: meeting uncertainty with stability

Geopolitics is now at the center of global investment strategies

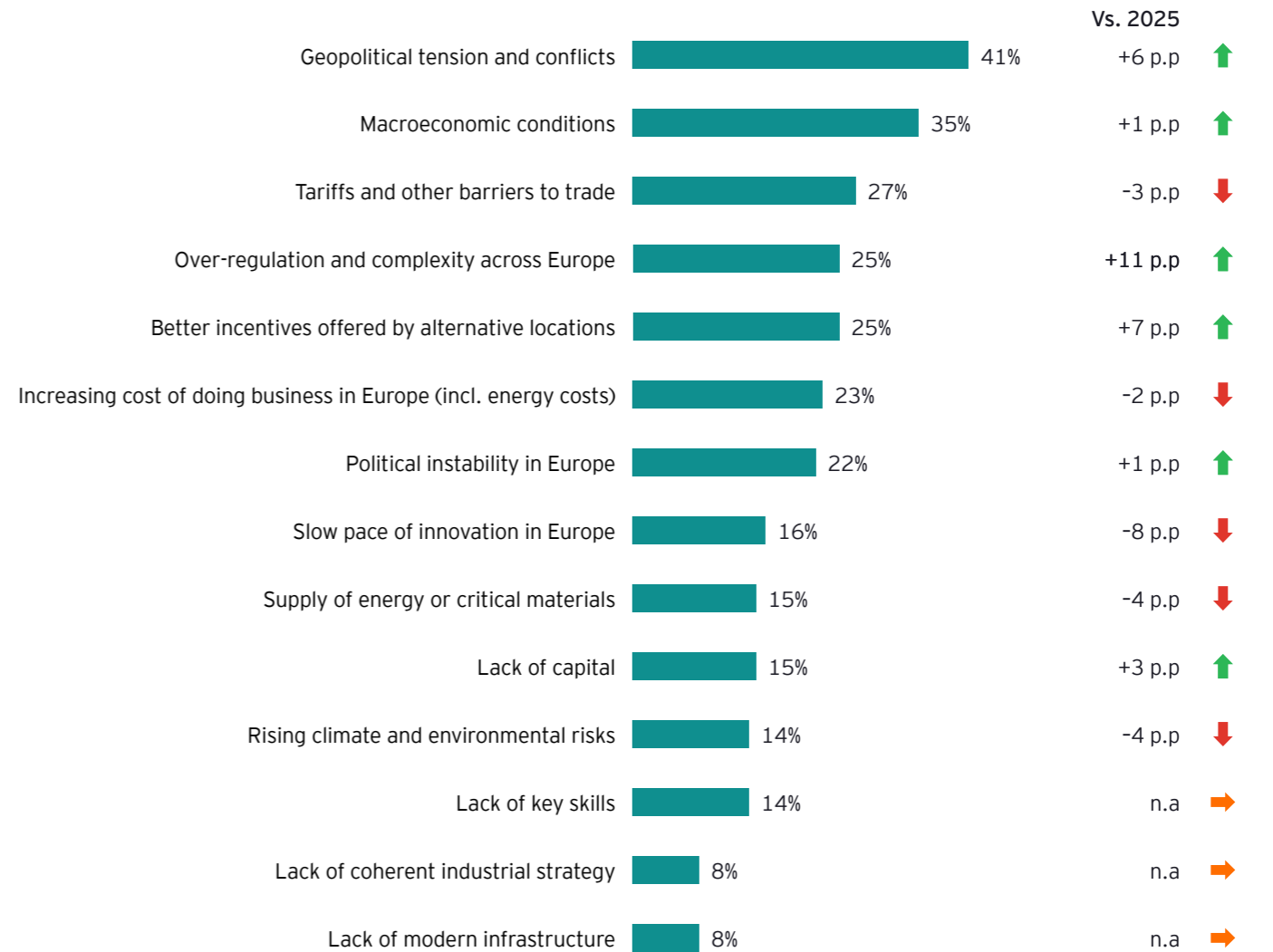
Over the past decade, a succession of shocks, from the COVID-19 pandemic to the war in Ukraine, has profoundly reshaped the environment in which companies make location and investment decisions. Meanwhile, Europe is experiencing political fragmentation, fiscal tension and the rise of populism⁴ in several countries, creating uncertainty around governance and policy.

This explains why 41% of executives now identify geopolitical tensions and conflicts as the leading risk to Europe's attractiveness over the next three years, up from 35% in 2025 and 27% in 2024. Trade tensions and tariffs also rank among investors' most significant concerns.

⁴ 2025 Geostrategic Outlook, How geopolitics is driving transformation, dated December 2024
<https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/noindex/documents/ey-2025-geostrategic-outlook.pdf>

Figure 6

What are the main risks affecting Europe's attractiveness over the next three years?



Source: EY European Attractiveness Survey 2026 (total respondents: 500 surveyed between 11 February and 30 March 2026).

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The rise of populist parties in Europe is already influencing policy, either directly as they form coalitions, or indirectly through putting policy pressure on mainstream governing parties. For example, the political implication of rising living costs has resulted in sustainability policies being watered down, and there is pressure on policymakers to do more. This creates uncertainty for green investors.



Oliver Jones

EY Global Leader, Client Insights and Research;
EY-Parthenon Geostrategy Leader

Executives no longer view geopolitical instability as a temporary disruption or external risk factor, but as a structural force reshaping global value chains, industrial policies and capital allocation strategies. This sentiment is strongly echoed in the EY-Parthenon CEO Outlook research,⁵ which finds that CEOs now integrate geopolitical scenarios directly into critical business decision-making.

The conflict in the Middle East continues this trend, renewing oil and gas price volatility, raising logistics and shipping costs, and adding pressure on supply chains already weakened by recent crises. The EY organization estimates that a sustained increase in energy prices could reduce eurozone GDP growth by up to 1.3% by 2027,⁶ with Central and Eastern European economies particularly exposed because of their strong industrial base and energy dependencies.

Businesses should factor geopolitical risk into location decisions

Businesses must reassess their exposure to geopolitical risk and play a more active role in managing geopolitical exposure and strengthening resilience. Important mitigation measures include comprehensive scenario planning and stress-testing, diversifying suppliers, regionalizing production, reducing dependencies on strategic materials, and prioritizing countries perceived as politically stable and operationally predictable.

Businesses are already becoming more selective, favoring projects that strengthen resilience, shorten supply chains, or secure access to critical technologies and energy sources. They are also continuing to execute nearshoring and “friendshoring” strategies, particularly those in the defense, semiconductor, pharmaceuticals, logistics and energy sectors.

⁵ Global CEO Outlook Survey May 2026, Can disciplined ambition unlock growth in a volatile global economy?, dated 04 May 2026
https://www.ey.com/en_gl/ceo/ceo-outlook-global-report

⁶ EY European Economic Outlook 2026, European Economic Outlook: Growth Gradually Accelerates Despite Tariff Headwinds, dated 03 March 2026
https://www.ey.com/en_pl/insights/economic-analysis-team/ey-european-economic-outlook-march-2026

Europe must greet uncertainty with stability

Amid heightened unpredictability, Europe’s commitment to the rule of law, institutional continuity and rules-based governance remains a powerful differentiator. Preserving this advantage requires greater unity between countries and faster execution in Brussels. Fragmented national responses to crises, diverging regulatory approaches and slow decision-making undermine Europe’s attractiveness at the precise moment when companies are seeking clarity and consistency.

This places a particular responsibility on policymakers. Governments will need to provide greater predictability and consistency in relation to industrial, trade, energy and regulatory frameworks, while ensuring that Europe remains open to international investment and innovation.

The geopolitical challenge facing Europe is twofold: strengthening resilience without drifting into fragmentation or protectionism. With surveyed businesses ranking geopolitical tension and conflict as the top risk to Europe’s future attractiveness, the continent’s investment appeal in the coming decade will depend on its capacity to remain united, open and predictable.

“

Recent geopolitical tensions have exacerbated existing risks relating to commodity prices, supply chains and security concerns. Most businesses now consider high energy prices in Europe to be a long-term structural weakness rather than an aberration that will correct in the short term.



Famke Krumbüller

EY-Parthenon EMEIA Geostrategic
Business Group Leader

Force > 2

Sustainability and energy: Europe's challenge and opportunity

Sustainability has become a key feature of Europe's attractiveness

Europe's sustainability ambitions are both a strength and a weakness when it comes to attracting investors. Businesses view the continent's proactive policy approach to climate change and sustainability as its fourth-greatest advantage as an investment destination, while the availability of low-carbon energy ranks seventh. Indeed, nearly one-third of EU energy already comes from low-carbon sources, making Europe comparatively attractive for companies with ambitious climate commitments and net-zero strategies. But businesses also see complex and fragmented sustainability regulations as a competitiveness risk.

The sustainability agenda also creates tensions. Europe is attempting to simultaneously decarbonize its economy, preserve industrial competitiveness and secure its energy supply: the "energy trilemma." The war in Ukraine exposed the fragility of Europe's energy model and triggered a historic price shock. At the height of the crisis in 2023, industrial gas prices in Europe were more than five times higher than in the US⁷, while electricity prices were nearly three times higher⁸. Even as prices have eased, European industry still faces structurally higher energy costs than many global competitors.

⁷ Global gas price paths diverge as LNG reshapes market balances, World Bank, dated 09 December 2025 <https://blogs.worldbank.org/en/opendata/global-gas-price-paths-diverge-as-lng-reshapes-market-balances?>

⁸ Electricity 2026, International Energy Agency (IEA), Paris <https://www.iea.org/reports/electricity-2026>

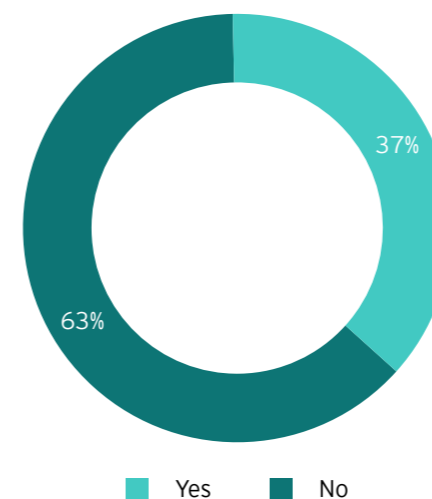
Addressing the energy trilemma

Geopolitical shocks reinforce the probability that price volatility will persist in the medium term. Europe has reduced its exposure to imported fossil fuels but remains vulnerable to gas, shipping and commodity pricing swings. This helps explain why surveyed businesses identify energy costs as Europe's main disadvantage as an investment location. According to the survey, 37% of executives in industrial sectors say they have canceled, delayed or scaled back an investment project in Europe over the past 12 months because of energy prices or uncertainty around future costs. Energy-intensive sectors such as chemicals, metals, materials and heavy manufacturing have been particularly affected.

Recent energy price hikes have been caused by geopolitical events outside of policymakers' control. They have responded by loosening state aid rules, thereby allowing tax reductions and subsidies. Despite this, more than 60% of industrial executives believe policymakers underestimate the risks that high energy prices pose to European industry, while half say policymakers do not fully understand business concerns. Progress on several key recommendations from the Draghi report remains limited, reinforcing perceptions of insufficient urgency.

Figure 7

Have you canceled, delayed or scaled back an industrial project in Europe in the past 12 months due to high energy prices or uncertainty about future energy prices?



Source: EY European Attractiveness Survey 2026 (total respondents: 203 surveyed between 11 February and 30 March 2026).



Europe has an opportunity to transform sustainability into a source of competitiveness and industrial renewal. The continent has significant structural advantages that should enable it to do so: strong public support for the energy transition, leading industrial capabilities in low-carbon technologies, sophisticated financial markets and growing investor demand for sustainable assets.

But execution remains too slow, and administrative issues are blocking progress. For example, just over half (53%) of surveyed energy businesses say they canceled, delayed or scaled back an energy infrastructure project in Europe in the past 12 months because of permit issues.

A much faster and more coordinated response is required. Priorities include:

- Accelerating permitting procedures for energy and industrial projects
- Strengthening electricity grids
- Scaling renewable and nuclear investment
- Expanding long-term Power Purchase Agreements (PPAs) and creating more integrated European energy markets
- Simplifying regulation, including through more coherent European frameworks instead of fragmented national subsidy systems

FDI into Europe's energy sector is critical. Investments that build local manufacturing and supply chains reduce the overall cost of energy. This helps to explain why surveyed businesses rank energy and utilities as the fourth most important sector that policymakers should prioritize to drive future economic growth across Europe. But energy FDI in Europe fell 36% in 2025, far outpacing the 7% drop in European FDI overall. Just over 4,000 jobs were created by FDI, which is the lowest since 2021. More positively, FDI in the low-carbon energy sector rose 25% in 2025.

With climate constraints, industrial transformation and energy security concerns rising, Europe's ability to combine decarbonization, competitiveness and energy resilience could become one of its strongest investment advantages.



“
Europe does not need to choose between sustainability, affordability and sovereignty. It needs to deliver all three and build an energy system investors can back. Investors are not stepping back from Europe's energy transition. They're asking a sharper question: Can Europe build what it has promised?”

Steve Wilkinson
EY Global and EMEA Industrials and Energy Leader

External viewpoint

Europe's energy transition depends on aligning regulation, investment and infrastructure



Oliver Franz
VP European
Regulation, E.ON SE

Bottlenecks are putting Europe's energy ambitions at risk

Europe's energy ambitions are achievable, but delivery at the required pace is challenging. The main constraint is execution under realistic investment and system conditions, with electricity grids becoming the central bottleneck in certain jurisdictions increasingly.

Critically, regulatory frameworks do not consistently provide sufficiently attractive and predictable returns across all Member States, given rising capital costs (compared to the last regulatory periods) and growing investment volumes. This creates a structural mismatch between system needs and investment incentives, and regulators must bear some responsibility for making the transition happen.

Permitting remains a second major bottleneck. Complex and fragmented approval procedures delay both grid and renewable projects, often becoming the determining factor for project timelines. In parallel, insufficient coordination, between grids and renewables, across sectors, and between Member States, leads to inefficiencies and unnecessarily high system costs. Initiatives like overriding public interest clauses for grid expansions and relaxing permitting needs when system operators are expanding in existing corridors should be pursued.

Financing itself is not (yet) a primary constraint as major distribution system operators (DSO) and other companies driving the transition have access to capital markets. Private capital is generally available, but it is highly sensitive to regulatory certainty and risk-adjusted returns. Strengthening Europe's SIU is critical, as it can help channel private capital more efficiently into long-term infrastructure projects.

Regulatory uncertainty could undermine the investment case for the energy transition

Europe's regulatory framework provides an important foundation for energy investment, but it does not yet consistently ensure investability at the scale required for the transition.

While regulated assets such as electricity grids offer stable revenue streams, allowed returns vary significantly across

Member States and are often subject to political pressure to maintain affordability. As a result, returns are not uniformly attractive.

In addition, regulatory fragmentation across the EU increases complexity and risk for investors. Differences in remuneration models, cost recovery mechanisms, and regulatory processes undermine the efficiency of a single European energy market and increase the cost of capital.

The most impactful policy change would be to establish a fully investable framework for grid and system investments by giving more guidance at the EU level and pursuing regulatory reform at Member State level. This would include competitive and risk-reflective returns, forward-looking investment approaches, and reliable cost recovery mechanisms. Strengthening the SIU would further support this objective.

Barriers to electrification are barriers to industrial competitiveness

Electrification is central to restoring and strengthening Europe's industrial competitiveness. It represents the most efficient and scalable pathway to decarbonization and offers the potential to reduce overall energy system costs.

However, electrification does not automatically lead to lower costs for industry. In the short term, energy-intensive sectors face high electricity prices, significant up-front investment requirements and uncertainty about future regulatory conditions. Without targeted policy adjustments, these factors risk undermining competitiveness.

To unlock the full benefits of electrification, several enabling conditions must be met. These include reducing taxes and levies on electricity, accelerating renewable deployment to lower wholesale prices, and ensuring efficient and fair allocation of network costs. Transparency on the future workings of major policy pillars such as EU Emissions Trading System (EU ETS) I and II is paramount.

In the long term, a well-designed electrified system requires a system-level approach that combines infrastructure investment, market design, and targeted policy support.

Force > 3

Critical industries: strengthening Europe's strategic autonomy

Supporting critical industries is key to long-term competitiveness

Successive geopolitical crises have exposed the economic and industrial costs of Europe's strategic dependencies. As a result, public intervention in close coordination with business is essential to protect the continent's strategic industries and reduce dependence on international partners that are unreliable or overly dominant.

Major powers around the world are doing this by decisively returning to industrial policy. The US has mobilized hundreds of billions of dollars through the Inflation Reduction Act and the CHIPS Act to attract industrial and technological investment back onto American soil. China, meanwhile, continues to significantly support a

number of strategic sectors ranging from batteries and semiconductors to AI and CleanTech. Indeed, 76% of global CleanTech factory investment in 2024 was allocated to manufacturing in mainland China.

Europe has an opportunity to identify and support the sectors that will drive growth, exports, innovation and employment in the coming decades. These will likely be semiconductors, AI, CleanTech, biotechnology, cloud computing, quantum technologies and defense. Surveyed businesses agree: They rank the need to support strategic industries among Europe's top three priorities.

External viewpoint



Emma Charles
Senior Vice President,
Europe Region,
Bristol Myers Squibb

From scientific excellence to true competitiveness: Europe's life sciences opportunity

A foundation worth building on

Europe remains one of the world's most important regions for life sciences investment. Its deep scientific base, world-class universities, highly skilled workforce and large, sophisticated single market continue to underpin the long-term case for the region.

The innovative pharmaceutical industry alone invests around €55 billion a year in European R&D, supports 2.3 million jobs and contributes more to the EU trade balance than any other sector. This makes it one of Europe's most valuable economic and health assets, and one that must be treated as a strategic priority.⁹

At Bristol Myers Squibb, we are proud of our European footprint: from R&D and manufacturing hubs in Spain and Ireland, to recent investments in the Netherlands, Switzerland and Poland. Europe is home to the vast majority of our global clinical research activity. As of 2025, we have over 6,000 sites across the region running Bristol Myers Squibb-sponsored studies, with more than 35,000 patients enrolled. These investments reflect a long-term commitment to Europe's scientific and industrial base, and a level of confidence we want to see matched by the right conditions to sustain it.

A position that is slipping, and a gap that is widening

Europe produces excellent fundamental science. The challenge is translating that science into investment, clinical trials and medicines that reach patients.

On this measure, the direction of travel is concerning. Europe's share of global clinical trials has halved over the past decade, from 22% to 12%. New medicines are launched in EU countries at less than half the rate seen in the US.

Healthcare FDI projects declined 15% year on year in 2025, with manufacturing declining even more sharply. Meanwhile, global competitors such as the US and China are moving faster and further to attract pharmaceutical investment. Europe is not standing still, but it risks being left behind.

At a crossroads: policy momentum must become decisive action

There are certainly reasons for confidence. The EC's Strategy for European Life Sciences, the Critical Medicines Act and the European Biotech Act, alongside the ambitions of the Draghi and Letta reports, all signal that Europe understands the stakes. Yet signals are not enough. Implementation has consistently lagged ambition, and structural gaps remain unaddressed. These include slow regulatory and clinical trial pathways, divergent national assessment and reimbursement frameworks, undermined intellectual property protection, and policies that treat innovative medicines as a cost rather than an investment.

At Bristol Myers Squibb, we are committed to working with policymakers, health systems and the scientific community to reform outdated policy frameworks and ensure they recognize the full value of pharmaceutical innovation. We want to see Europe play a leading role in advancing therapies that will define the coming decades, from immuno-oncology and cell therapy to protein degradation and AI-enabled drug development. Europe's underlying proposition remains strong. With decisive action, that position can be strengthened further, for patients, innovators and investors alike. The science is accelerating, the patients are waiting and the opportunity is Europe's to seize.

⁹ Assessing Europe's Competitiveness as a Location for the Life Sciences Industry, European Federation of Pharmaceutical Industries and Associations, dated March 2026 <https://www.efpia.eu/media/5mynamw/assessing-europe-s-competitiveness-as-a-location-for-the-life-sciences-industry.pdf>

How can Europe make strategic autonomy a reality?

A broad set of initiatives is at Europe's disposal to support critical industries, including targeted tariffs, tax incentives, public investment support and foreign investment screening mechanisms. Europe could also pursue regulatory simplification and stronger integration of innovation ecosystems across the continent.

However, the continent must be careful that its efforts do not slide into economic nationalism and protectionism. Europe should remain open to international investment

but redefine the terms of its openness with greater firmness against unfair competitive practices and emphasis on establishing meaningful local roots.

Decisions about strategic autonomy should not necessarily be made in relation to the nationality of businesses, but with respect to the extent of their long-term commitment to Europe. Foreign investments that contribute sustainably to the European economy remain essential.

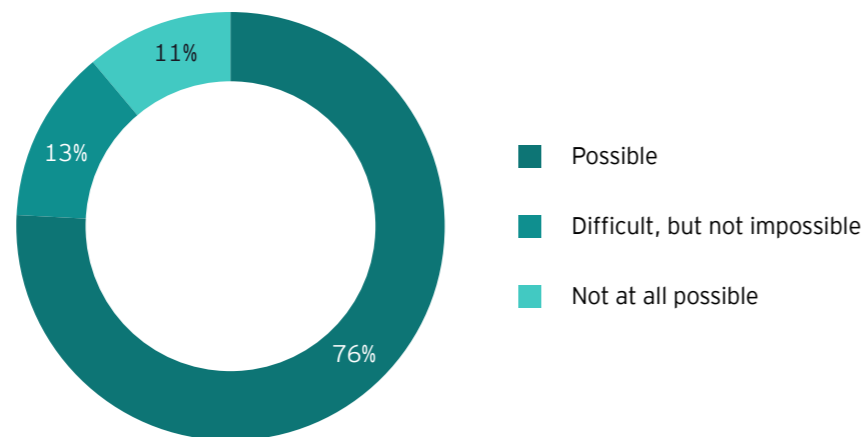
Businesses in critical sectors must demonstrate long-term commitment to Europe

International businesses operating in critical sectors must recognize that growing demands for strategic autonomy will require them to establish a long-term presence. This means localizing production capacity and research centers, training local talent and maintaining intellectual property within the continent. This will become a prerequisite for access to public subsidies, strategic markets and regulatory support and, in some cases, even secure approval for investment projects.

The survey reveals that the shift to strategic autonomy is not beyond reach: 87% of industrial company leaders already operating in Europe believe it is possible, albeit sometimes difficult, to reduce dependencies on suppliers located outside Europe. This transformation will also require greater transparency and closer dialogue with local, national and European authorities. The ability to align durably with the strategic priorities of governments will increase businesses' license to operate in Europe.

Figure 8

To what extent is it possible for your business to reduce dependencies on suppliers outside of Europe, either by increasing manufacturing in the region or by reducing reliance on non-European suppliers?



Source: EY European Attractiveness Survey 2026 (total respondents: 75 surveyed between 11 February and 30 March 2026).

Europe's defense challenge is to turn urgency into industrial readiness

The increasing frequency of geopolitical crises requires policymakers to react on a number of fronts: security, energy autonomy, supply chain resilience and technological sovereignty. Much work is already underway. The European Commission (EC), for example, now identifies defense as a priority sector for FDI, particularly in advanced manufacturing, dual-use technologies and critical supply chains.

More importantly, Europe's ambitions are now being matched with financial firepower. In March 2025, the EU unveiled an €800 billion plan aimed at strengthening the bloc's defense capabilities. In addition, Member States are now allowed to deviate from EU budgetary rules in order to increase defense spending without triggering excessive deficit procedures. The EC has also launched the SAFE instrument, providing up to €150 billion in loans to accelerate investment through joint procurement and the coordinated expansion of Europe's industrial defense base.

Those announcements are already contributing to an increase in defense FDI in Europe, with the number of projects rising 84% from 2024 to 2025, creating almost 7,000 jobs. More than half of the 107 announced projects involve manufacturing. Rheinmetall, for instance, has launched a €1 billion joint venture in Bulgaria to produce artillery shells, creating close to 1,000 jobs. This momentum looks set to continue: 59% of defense executives surveyed plan to establish or expand operations in Europe over the next 12 months.

Despite this progress, Europe's defense manufacturing supply chain still needs to be significantly expanded. Aerospace and defense respondents say air defenses, cyber and electronic warfare, and space and satellites should be areas of focus.

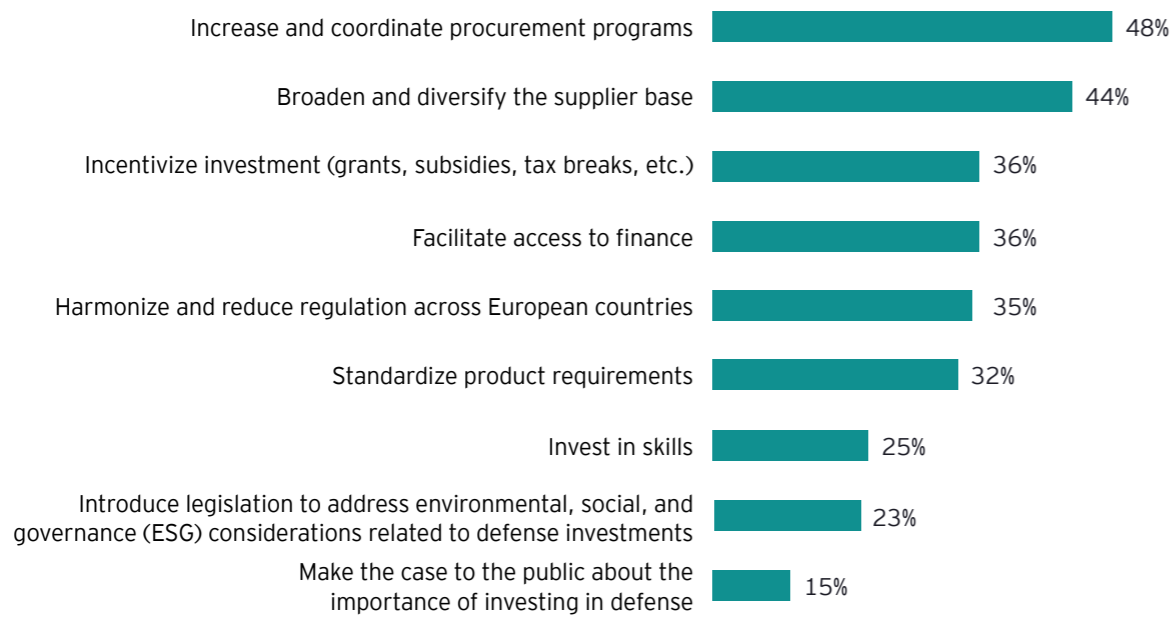


Executives also stress that policymakers must address some specific barriers in the defense sector. Asked how the continent could enhance its industrial and technological defense capability to meet growing demands, aerospace and defense businesses rank increasing and coordinating procurement programs first, followed by broadening and

diversifying the supplier base, facilitating access to finance, and incentivizing investments through grants, subsidies and tax breaks. Procurement coordination between European countries remains limited, despite a 35% collaborative procurement benchmark set by the European Defence Agency in 2007.

Figure 9

How could Europe grow its industrial and technological defense capacity to meet growing needs?



Source: EY European Attractiveness Survey 2026 (total respondents: 75 surveyed between 11 February and 30 March 2026).

Procurement coordination is just the starting point. Europe needs to create the conditions that will unlock investment in defense manufacturing capacity. That means predictable

multi-year demand, rapid contracting, stronger and deeper supply chains, and better access to finance for scale-ups.

External viewpoint



Chris Haave
Vice President,
International Operations,
Global Government
Relations, RTX

How Europe can strengthen its aerospace and defense competitiveness

Europe remains one of the most attractive and strategically important aerospace and defense markets in the world. The sector benefits from world-class engineering talent, leading airlines, a highly sophisticated industrial base and strong long-term demand fundamentals. RTX has been investing in Europe for more than 100 years and continues to deepen our presence across the continent through more than 65 locations and over 21,000 employees.

Europe can strengthen its global competitiveness further by focusing on connectivity, air traffic modernization, infrastructure efficiency and innovation. On the defense side, the priority is ensuring that European allies and partner nations have the capabilities, interoperability and industrial resilience needed to meet evolving security requirements.

Reducing complexity would enhance aerospace's competitiveness

Further enhancing Europe's business environment requires a sharp focus on speed, efficiency and scalability. In aerospace, investment decisions are made over decades, so predictability and a stable regulatory environment matter enormously.

There are several areas where policymakers can make a real difference. Continued efforts to reduce administrative complexity and streamline regulatory processes would help accelerate innovation and industrial investment. Advancing modernization initiatives such as the Single European Sky and broader air traffic management reform could also unlock major efficiency, sustainability and connectivity benefits for the entire aviation ecosystem.

More broadly, policies that help airlines grow, improve connectivity and safety, modernize fleets and operate more efficiently will also naturally strengthen the broader aerospace industrial base.

Demonstrating quality and safety requires concerted effort

Aerospace and defense manufacturing is fundamentally different from many other industrial sectors. The requirements around quality, certification, traceability and security of information are extremely demanding. Suppliers need to meet

advanced quality and process standards, including highly specialized aerospace certifications, while also complying with additional security and regulatory requirements.

For many smaller and mid-sized industrial companies, entering or expanding within the aerospace and defense sector requires substantial up-front investment in manufacturing processes, workforce training, digital systems and compliance infrastructure. These barriers can limit how quickly suppliers can scale and how rapidly the industrial base can respond to growing demand.

This is precisely where industrial partnerships become essential and where policymakers can play a constructive role. Incentives that help suppliers invest in advanced manufacturing capabilities, certification readiness and workforce development can strengthen the industrial base and improve resilience across the entire ecosystem.

Scaling industrial capacity requires openness and collaboration

European sovereignty and transatlantic cooperation are not mutually exclusive. In fact, the success of the European aerospace and defense sector over decades has been built on strong transatlantic industrial partnerships, integrated supply chains, shared innovation and regulatory cooperation.

At the same time, strengthening industrial capacity, resilience and security of supply remains an important policy objective across many countries. The opportunity is to ensure that policies are implemented in a way that expands industrial capability and investment rather than unintentionally narrowing the ecosystem.

In aerospace and defense, scale and speed matter. The fastest way to increase production capacity, innovation and industrial resilience is usually through partnership, leveraging existing transatlantic industrial networks, supplier ecosystems, engineering capabilities and manufacturing footprints. This is particularly important today as the industry works to scale production and modernize supply chains.

Force > 4

Innovation and AI: positioning Europe in the digital era



As businesses increasingly integrate technology such as AI, agentic systems and robotics into their operations, the factors that inform location decisions are changing. This is altering the locations that are best positioned to attract high-value FDI.

Europe is shedding its low-innovation perception

The ability of businesses to innovate at scale is a critical factor shaping Europe's long-term investment attractiveness. However, FDI in European innovation activities has declined in recent years. Investment in R&D centers fell 30% in 2025, reaching its lowest level in four years, with associated jobs down 60%.

Encouragingly, businesses' perception of Europe's capacity for innovation is improving: R&D is now considered the continent's third-largest investment advantage, while concerns over the "slow pace of innovation" have fallen from the fifth- to the eighth-biggest perceived risk. This

is because Europe has deep technical talent, world-class universities and a mature research tradition spanning life sciences, materials science and climate technology.

Surveyed businesses have also likely noted certain positive regulatory developments in relation to AI. The EU's Digital Omnibus on AI Regulation Proposal,¹⁰ made in late 2025, aims to modify aspects of the EU AI Act to make it easier for businesses to adopt and scale AI. It would delay some compliance deadlines for high-risk AI applications, and simplify reporting and governance rules.

¹⁰ EU's Digital Omnibus on AI Regulation Proposal, dated 19 November 2025 <https://digital-strategy.ec.europa.eu/en/library/digital-omnibus-ai-regulation-proposal>

The challenge lies in achieving commercial scale. US firms invest around 12% of sales in R&D, three times the European average. That gap in research investment has historically translated into a gap in commercialization and the emergence of agentic AI and collaborative robotics

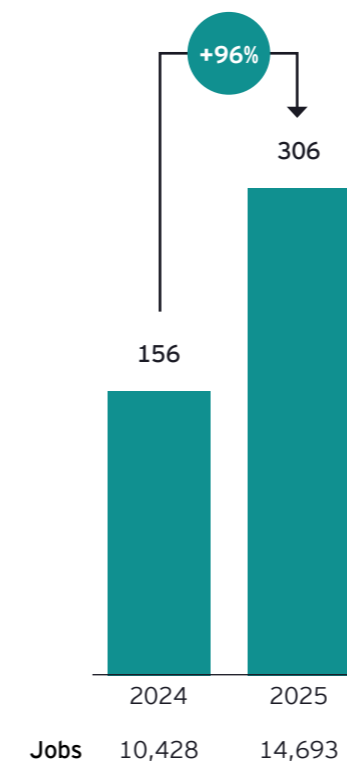
makes the need to close it more urgent than ever. For capital-intensive industries, the speed at which these technologies are integrated into operations is becoming as consequential a location factor as energy costs or labor availability.

FDI in Europe's AI sector surges

FDI into European AI-related projects surged by 96% in 2025, creating more than 14,000 jobs. Investment in this sector grew faster than in any other, spanning major AI companies, AI research and development hubs established by non-AI firms, and new data centers. AI investment rose in France, the UK and Germany, even as total FDI declined.

Figure 10

Evolution of AI FDI projects in Europe between 2024 and 2025



Source: EY EIM 2026.

Yet more work is needed to build Europe's reputation as a hotbed of innovation: 43% of businesses view Europe as less attractive than the US and China for AI investment, innovation and deployment. That figure rises to 55% among companies without a European presence, and to 63% among financial services firms making capital allocation decisions about where AI ventures should be located and funded. The gap is driven by two distinct forces: real structural barriers within Europe, and perception.

Businesses identify a number of challenges associated with investing in Europe's AI sector: regulatory complexity, energy costs that remain significantly above those in the US and China, and slow permitting for digital infrastructure. Addressing them is a precondition for Europe's innovation offer to be fully credible to international investors.



Securing the skills Europe needs to innovate

Competencies and skills are rapidly emerging as a major innovation barrier in Europe. The quality and availability of Europe's workforce continue to rank among the continent's strongest competitive advantages. Yet this strength is increasingly under pressure. This year, 24% of executives surveyed said developing skills and improving access to talent should rank among Europe's top priorities, compared with just 9% last year.

The shift reflects growing concern that labor shortages could increasingly constrain Europe's industrial and technological ambitions.

Companies are already competing intensely for engineers, digital specialists, technicians and AI-related expertise.

Four out of five businesses now struggle to recruit workers with the right skills.¹¹

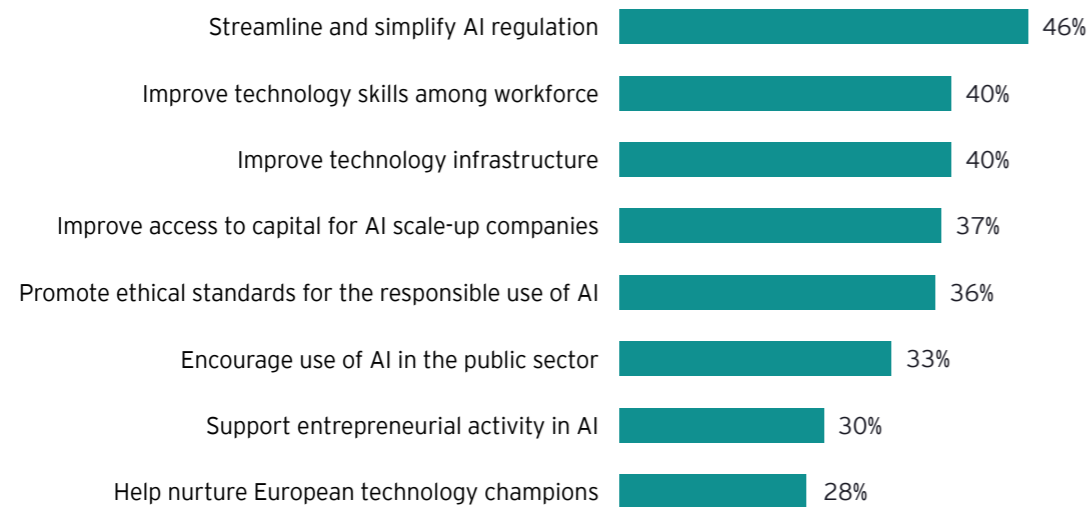
Converting Europe's research strengths into sustained investment attractiveness

Policymakers are moving in the right direction, but the pace needs to accelerate if Europe is to close the gap with the US and China with respect to AI and innovation competitiveness. Indeed, businesses rank streamlining AI regulation first and improving technology skills second when asked how Europe could improve its attractiveness as a location for AI investment, innovation and deployment.

The EU AI Act could become a global standard for trustworthy AI. Expanding regulatory sandboxes alongside harmonization would give businesses the space to experiment without bearing full compliance costs up-front. Skills investment must accompany regulatory reform: The pace of re-skilling needs to match the pace of AI adoption, or the highest-value activities will locate where the talent is already available.

Figure 11

How should Europe improve its attractiveness as a location for AI investment, innovation and deployment?



Source: EY European Attractiveness Survey 2026 (total respondents: 500 surveyed between 11 February and 30 March 2026).

¹¹ The skills we need for the jobs we want, EURES (EUropean Employment Services), accessed 02 June 2026) https://eures.europa.eu/skills-we-need-jobs-we-want-2025-04-28_en

Digital infrastructure also requires attention. China already has 1.5 times more data center capacity than Europe; the US has three times more. By 2030, the gap will widen. Fast-tracking permits for data centers and grid infrastructure would help close it.

Beyond infrastructure, the InvestAI initiative, targeting €200 billion in investment, including €20 billion for AI gigafactories, sets the right level of ambition. But the impact of this public-private initiative will depend

on Europe's ability to mobilize private capital at scale, especially to support high-growth scale-ups. Accelerating the SIU is therefore essential (see in the next section).

Europe's advantage in innovation is distinctive: a combination of scientific depth, regulatory credibility and governance maturity that the world's most demanding enterprises increasingly value. The task now is to build on this strong foundation more quickly.

“Europe's greatest AI advantage isn't scale, it's trust. Deep technical talent, world-class universities and mature data-governance frameworks give businesses a foundation that's genuinely difficult to replicate elsewhere. The most common misconception is that AI may be too restricted in Europe. In reality, the vast majority of enterprise AI use cases are permitted with the right risk management in place. Regulation isn't necessarily the blocker, but outdated operating models could be.”

Raj Sharma
EY Global Managing Partner – Growth and Innovation

External viewpoint



Alain Papiasse
Chairman of Corporate
and Institutional Banking
at BNP Paribas

Fragmentation and innovation: Europe's investment challenge

The question of Europe's financing is inseparable from its ability to attract investment, innovate and, ultimately, exist as an integrated economic power. Europe's main weakness remains fragmentation: Despite the Single Market, the continent still largely operates as a patchwork of national markets, each with its own regulations, procedures, political cycles and financial systems.

This fragmentation directly undermines Europe's ability to finance its growth. Europe is capable of producing highly innovative technology companies, but too few succeed in scaling up within the continent. Many ultimately seek financing or expand in the US, where capital markets are deeper, more liquid and more integrated.

Europe suffers from a dual imbalance: an excessive dependence on bank financing, especially relative to the more market-based US model, and an insufficient mobilization of long-term savings, despite substantial assets held in life insurance and pension products. This is compounded by highly fragmented financial markets and a regulatory environment that has become increasingly restrictive since the 2008 financial crisis.

The solution lies in adapting rules that were designed in the context of a financial crisis, at a time when European banks and insurers have significantly strengthened their fundamentals. In a context of severe budgetary constraints, Europe will not be able to finance its energy, digital, industrial or defense transitions without much greater reliance on capital markets.

Beyond competitiveness, the issue is also one of sovereignty. A Europe that cannot finance its own growth and debt exposes itself to growing strategic dependencies. The urgency is now as much political as financial: to finally create the conditions for a genuine European capital market capable of supporting investment, innovation and the continent's strategic autonomy.

Force > 5

Financing the transformation of Europe's attractiveness

Mobilizing capital is a defining challenge for Europe's attractiveness

Mario Draghi has estimated that Europe needs between €750 billion and €800 billion in additional investment every year to restore its competitiveness, equivalent to 4%-5% of EU GDP. Yet government budgets are already stretched, and the financing gap cannot be closed by public spending alone.

Private capital must play a central role in Europe's investment transformation, but the conditions to mobilize it at the required level do not yet exist. Every year,

approximately €300 billion in European savings is invested primarily in the US¹² rather than in European growth. Europeans hold approximately €14 trillion in savings deposits,¹³ but fragmented capital markets, inconsistent insolvency frameworks and prudential rules that systematically favor low-risk liquid assets prevent those savings from reaching the productive, long-term investments Europe needs. The capital is present; the architecture to mobilize it is not.

¹² Invest in Europe First!, Institut Jacques Delors, dated 19 March 2025, <https://institutdelors.eu/en/publications/invest-in-europe-first/>

¹³ A roadmap to growing European Capital Markets, Blackrock, dated September 2025 <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-roadmap-to-growing-european-capital-markets-september-2025.pdf>

Corporate equity capital in the euro area represents about 80% of GDP, compared with over 200% in the US.¹⁴ Equity-financed companies are significantly more prepared to innovate and take risks than debt-financed ones. Innovation is funded by equity, not by bank debt or

bonds. A Europe where capital markets are too shallow to support ambitious long-term investment is therefore not only underfinanced, but also structurally less dynamic than its competitive position requires.



¹⁴ “The wave of American deregulation is dangerous”, Banque de France, 24 February 2025, accessed on 15 June 2026 (in French). <https://www.banque-france.fr/fr/interventions-gouverneur/alternatives-economiques-la-vague-de-deregulation-americaine-est-dangereuse#:~:text=Aujourd%27hui%2C%20il%20y%20a,propres%20des%20entreprises%20en%20Europe.>

Financial services can improve Europe’s investment appeal

Addressing that structural funding gap requires both the architecture to mobilize European savings and the financial institutions capable of deploying them productively.

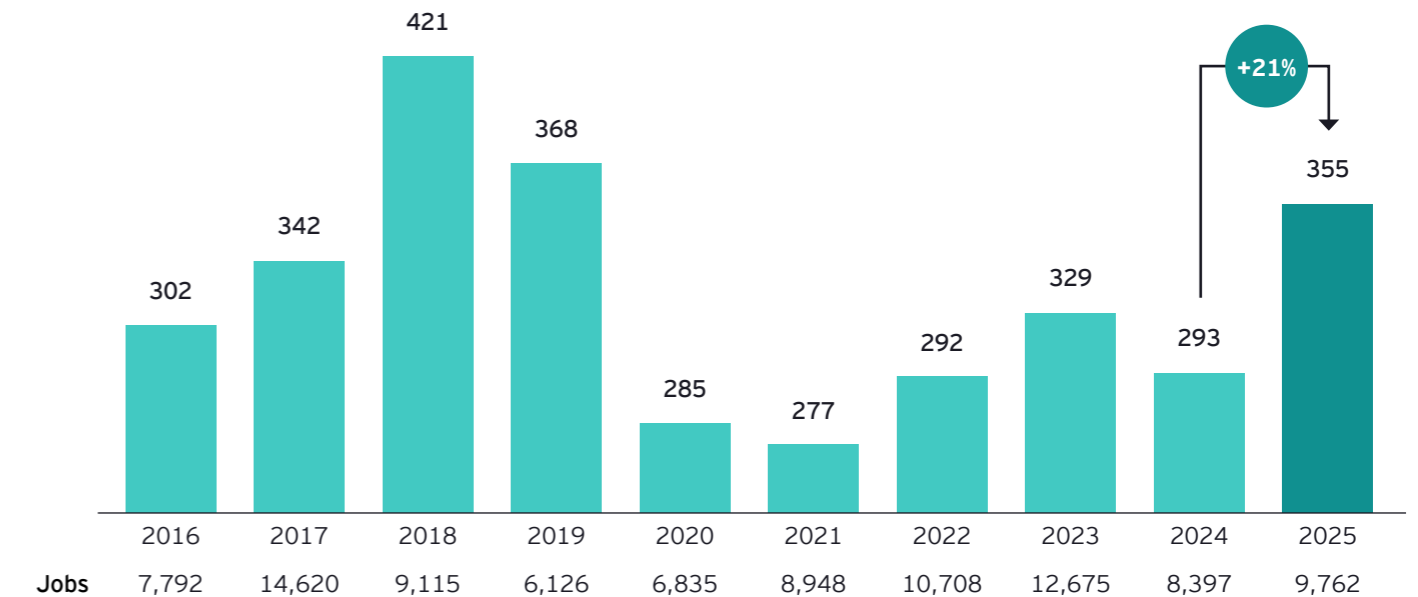
FDI is helping to build a financial services sector capable of doing exactly this. It was one of the strongest-performing sectors in European FDI in 2025: Foreign financial services firms executed 355 investment projects, up 21% on 2024, creating 9,762 jobs, a 16% increase on the previous year. This contrasts sharply with the broader European trend, where overall FDI declined 7%. The growth was

broad-based: FinTech and asset management each accounted for 27% of financial services FDI projects, reflecting the ongoing digital transformation of financial services and rising demand for more sophisticated investment solutions.

The UK remained the leading destination, with London ranked the most attractive financial center by surveyed executives, ahead of Paris, underpinned by the depth of its financial ecosystem, its business-friendly legal framework and its internationally mobile talent base.

Figure 12

Number of FDI projects in financial services in Europe between 2016 and 2025



Source: EY EIM 2026.

The US contributed significantly to this momentum. FDI in Europe from US financial services firms reached a 10-year high in 2025. The 101 FDI projects created 4,300 jobs and represented a 40% annual increase. This is in stark contrast to the broader decline in US FDI into Europe and reflects a strategic push among US financial services firms to secure access to European markets and to expand operations in asset management, ESG and alternative investments.

FDI into Europe's financial services sector has traditionally been concentrated in its five largest economies. But smaller countries are beginning to attract significant investment in niche areas. Financial services businesses rank Ireland first among European locations that represent the greatest competitive challenge to the five largest markets in attracting investment, followed by Switzerland.

“
Beyond Europe's largest economies, Ireland and Switzerland continue to stand out as competitive challengers for financial services investment. Both offer clear propositions: skilled talent, international connectivity, sophisticated ecosystems and regulatory environments that global firms understand well. These markets are not trying to replicate the largest hubs. Instead, they are building competitive strengths in asset servicing, insurance, FinTech, private banking, shared services and technology-enabled operations. Across Europe, the most successful investment locations will be those that combine specialist talent, policy stability and a clear value proposition aligned to strategic growth areas.

Stefano Battista
EY Europe West Financial Services Leader

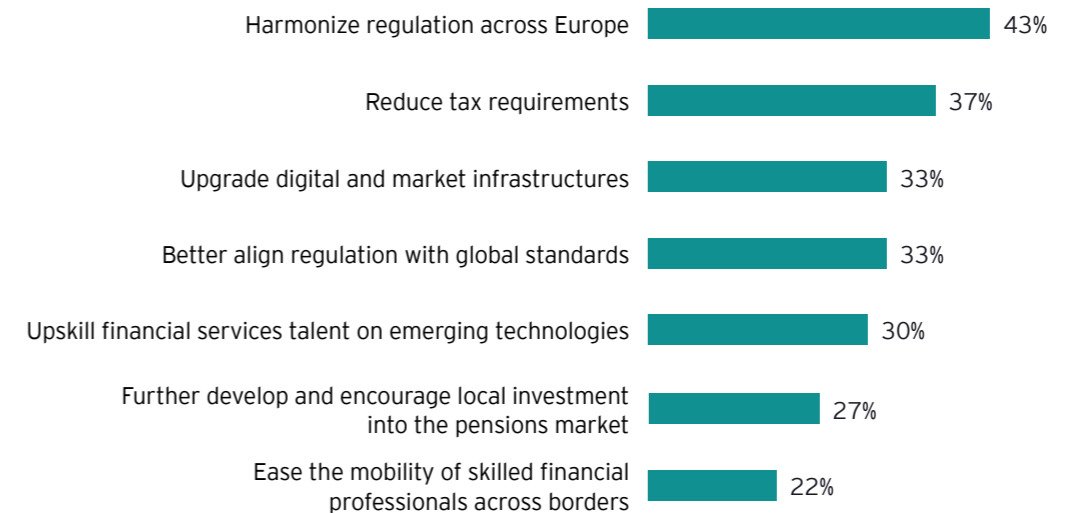
How policymakers can unlock capital at the scale that Europe requires

Asked which policies Europe should prioritize to make it more attractive to financial services companies establishing or expanding their operations, businesses rank harmonizing regulation across Europe first, followed by reducing tax requirements. Digital infrastructure and skills, particularly in emerging technologies, rank third and fifth. Aligning regulation with global standards appears fourth.

These priorities reflect a structural problem: Europe's capital markets remain nationally fragmented, preventing savings from flowing freely to where they are needed most.

Figure 13

What policies should Europe prioritize to make it a more attractive global destination for financial services companies to establish or expand their operations?



Source: EY European Attractiveness Survey 2026 (total respondents: 230 surveyed between 11 February and 30 March 2026).

The SIU,¹⁴ designed to channel Europe's abundant private savings toward its significant investment needs, addresses this directly, but progress has been slow: Insolvency frameworks remain fragmented, supervision inconsistent and cross-border investment processes unnecessarily complex.

Unlocking institutional capital also requires urgent attention. European institutional investors are constrained by prudential rules that favor low-risk liquid assets over the long-term productive investments Europe needs. Closing that gap will require policymakers, institutional investors and businesses to collaborate in designing investment structures that match long-term risk-return expectations.

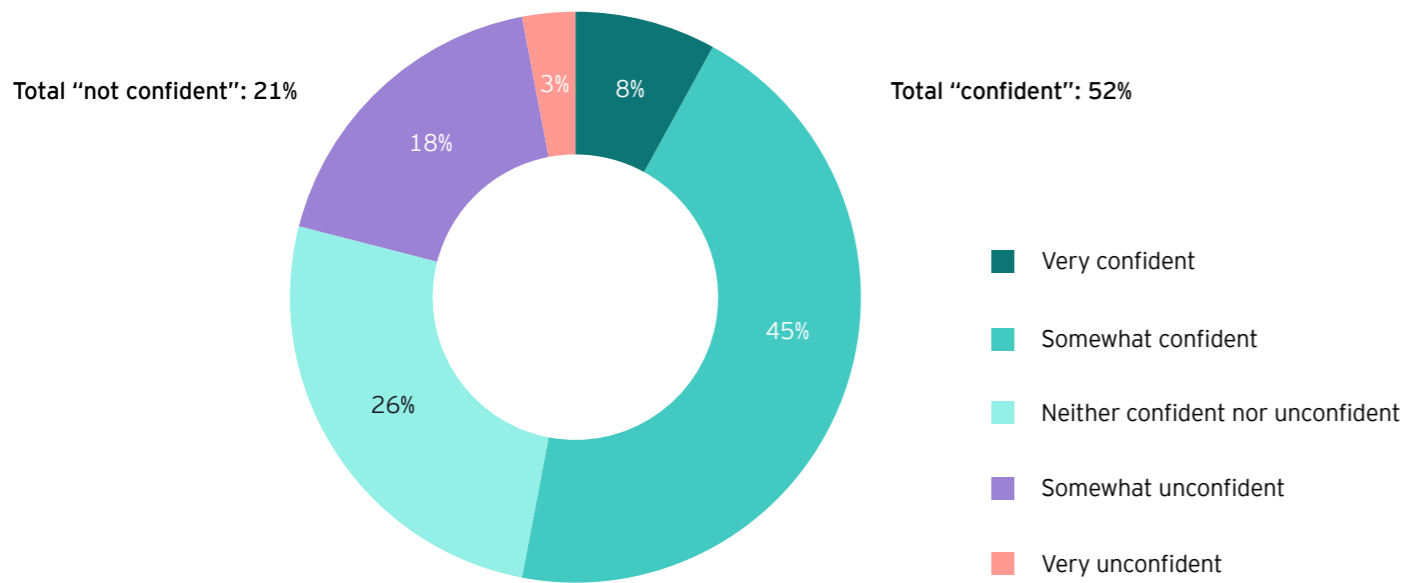
¹⁴ Savings and investments union, accessed on 15 June 2026. https://finance.ec.europa.eu/regulation-and-supervision/savings-and-investments-union_en

Policymakers will also need to give high-growth businesses access to equity capital markets that match their funding requirements as they scale. A Europe that cannot finance its most promising ventures domestically will continue to lose them to markets that can.

Encouragingly, 52% of all businesses surveyed are confident that Europe will make the strategic decisions that will unlock the additional investment it needs to address its competitiveness and productivity shortcomings. Just 21% lack that confidence.

Figure 14

How confident are you that Europe will make the strategic decisions required to unlock the additional investment it needs to address its competitiveness and productivity shortcomings?



Source: EY European Attractiveness Survey 2026 (total respondents: 500 surveyed between 11 February and 30 March 2026).

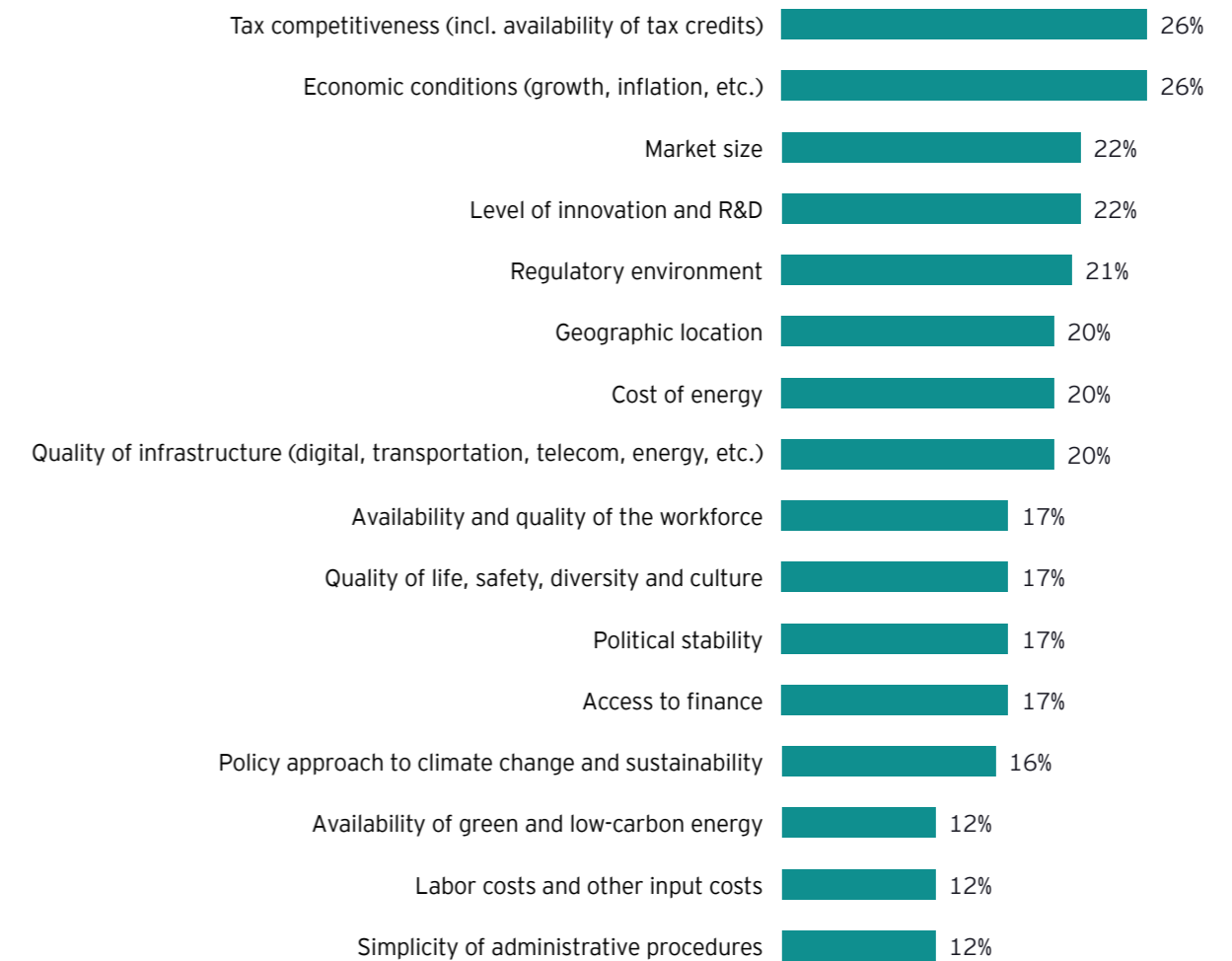
Reducing tax uncertainty to secure investment

Tax is another important issue to overcome when considering financing the transformation of Europe's attractiveness. More precisely, tax uncertainty and fiscal fragmentation are still viewed as major issues for investors. This matters all the more because tax competitiveness has become the single most important

criterion for companies deciding where to invest. The EU has unilaterally adopted OECD Pillar 2, while the US has stepped back from both Pillar 1 and Pillar 2. This means that EU companies will have a minimum corporate tax rate globally. US businesses will not.

Figure 15

Which factors are the most important when choosing a country to invest in?



Source: EY European Attractiveness Survey 2026 (total respondents: 500 surveyed between 11 February and 30 March 2026).

Many business leaders are calling for greater fiscal coordination across Europe. Yet taxation remains largely a national competence, limiting Brussels' room for maneuver. In practice, the complexity and heterogeneity

of national tax systems only worsen the situation. Diverging regimes generate significant compliance costs, create uncertainty and complicate the development of cross-border businesses.



Private equity is supporting Europe's resilience and renewal

Globally, private equity (PE) assets under management have grown significantly from USD 1.6 trillion in 2010¹⁶ to USD 6.8 trillion today.¹⁷ More than 14,000 European-headquartered businesses are currently backed by PE investment,¹⁸ underscoring the asset class's depth and its importance as a critical source of growth capital, especially for mid-sized companies which make up more than half of all portfolio companies.¹⁹

Critically, PE investment represents more than just capital. It combines financing with operational expertise

to help businesses scale, enhance competitiveness and strengthen financial resilience. In doing so, it contributes to a pipeline of more mature companies and a more robust corporate environment.

With PE forecast to grow to a USD 8.8 trillion market by 2030²⁰ and investors having USD 1.7 trillion in uninvested capital to put to work,²¹ its structural importance in fostering a more dynamic, productive and resilient economy that can sustain cross-border investment and catalyze FDI in Europe will only increase further.

¹⁶ Q1 2026 Global Private Market Fundraising Report, published on 23 May 2026, <https://pitchbook.com/news/reports/q1-2026-global-private-market-fundraising-report>. Data accurate as of 30/9/2025.

¹⁷ 2030 Private Market Horizon, published on 2 May 2026, <https://pitchbook.com/news/reports/2030-private-market-horizons>

¹⁸ Pitchbook (Data accurate as of 31/3/2026).

¹⁹ Pitchbook (Data accurate as of 30/9/2025).

²⁰ 2030 Private Market Horizon, published on 2 May 2026, <https://pitchbook.com/news/reports/2030-private-market-horizons>

²¹ Q1 2026 Global Private Market Fundraising Report, published on 23 May 2026, <https://pitchbook.com/news/reports/q1-2026-global-private-market-fundraising-report>. Data accurate as of 30/9/2025.

Europe is well positioned to benefit from the growth of PE due to the scale and quality of its corporate base, the depth of its capital markets and favorable market conditions such as attractive asset valuations.

Since 2020, PE funds have invested USD 1.6 trillion in European-headquartered businesses,²² with more than 50% of deals including non-European investors.²³ Crucially, appetite for further investment remains robust. Almost nine-in-ten surveyed European and international PE funds say they expect Europe's attractiveness to

increase over the next three years, with sectors such as healthcare services, software and non-financial business services emerging as key targets.

Investors will continue to adapt their investment plans in response to a shifting risk landscape, with a particular emphasis on key structural and geopolitical headwinds, including trade barriers, rising operating costs and heightened geopolitical uncertainty, that could weigh most heavily on the predictability and competitiveness of Europe's investment environment.



²² EY Insights, Dealogic (data refers to USD 100m+ transactions. Add-ons are excluded.)

²³ 2025 Annual European PE Breakdown, published on 17 January 2026, <https://pitchbook.brightspotcdn.com/e7/c9/ecefe21e48bdaf065d17afcaf925/2025-annual-european-pe-breakdown.pdf>

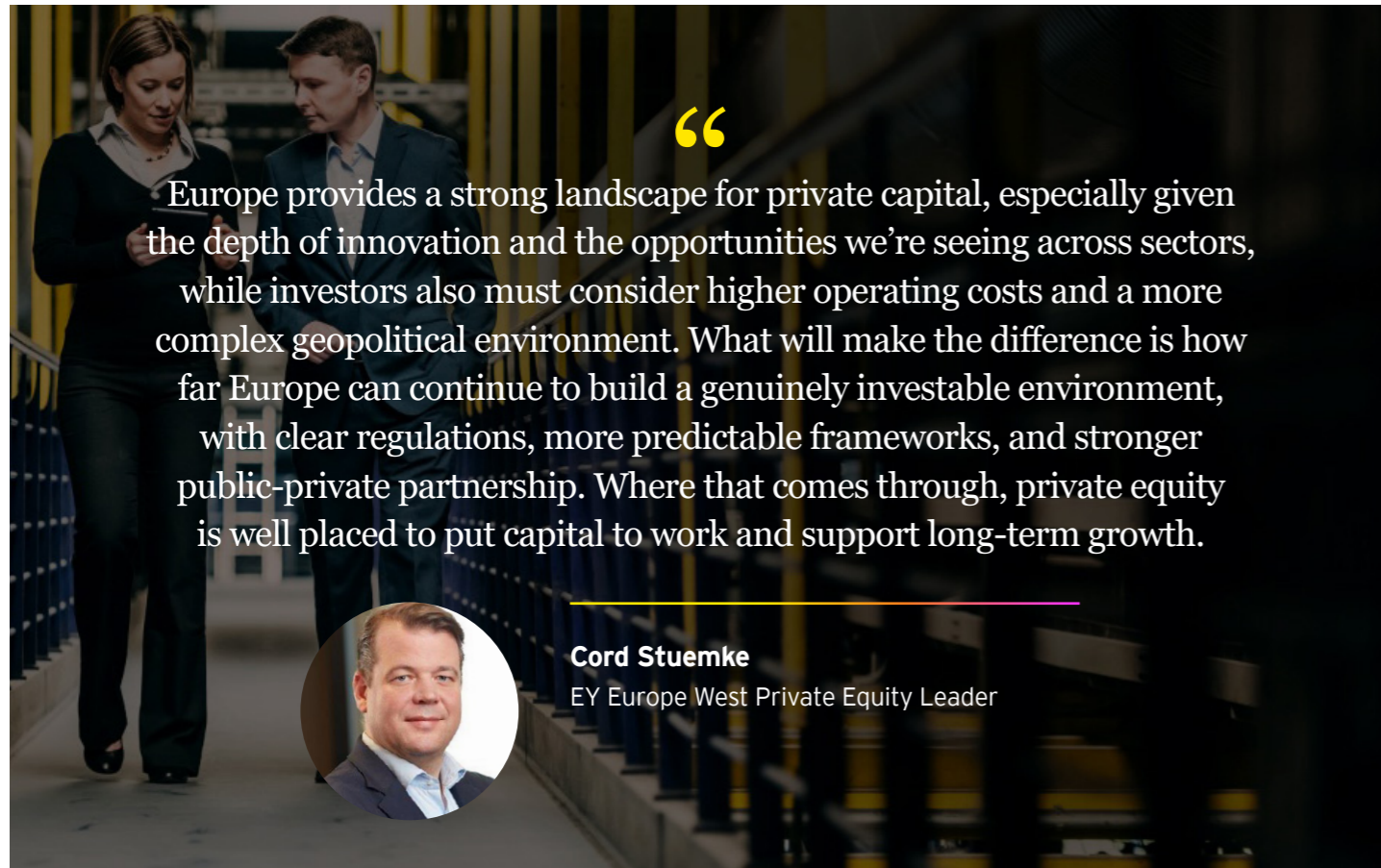
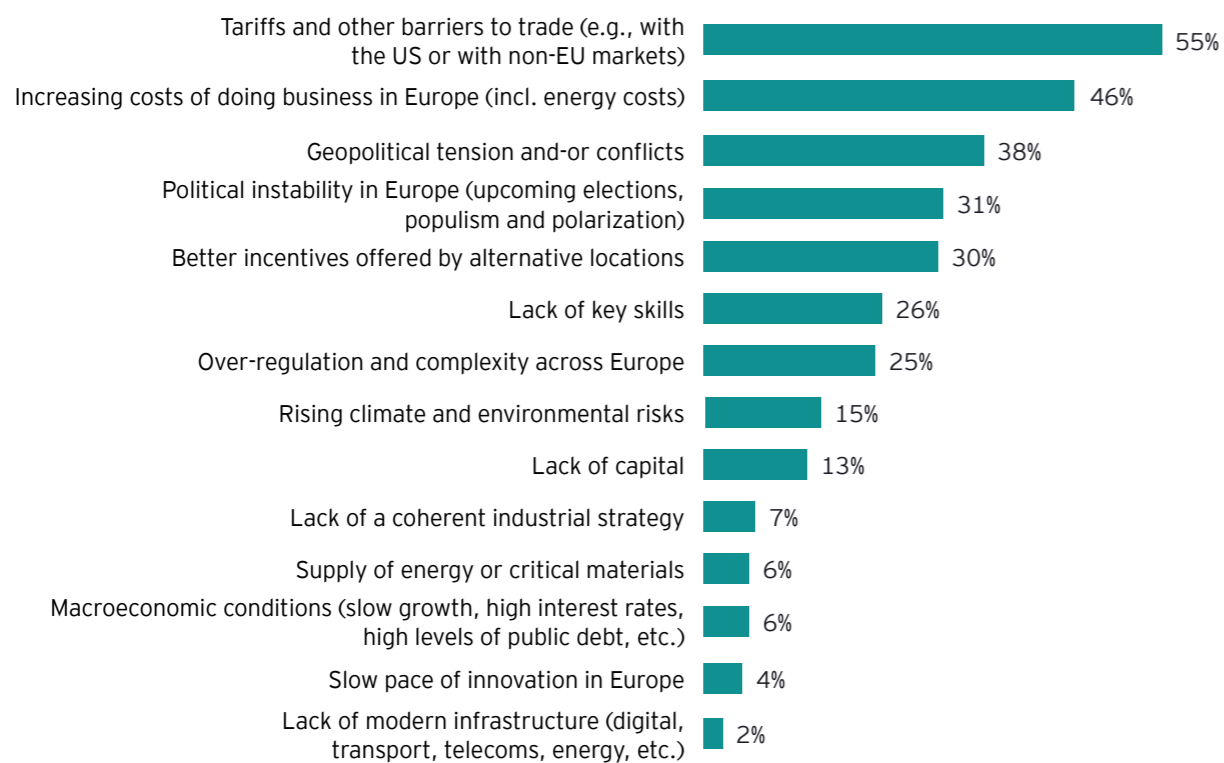


Figure 16

What are the three main risks affecting Europe's attractiveness over the next three years for PE investors?



Source: EY European Attractiveness Survey 2026 (Private equity sector cut; total respondents: 200 surveyed between 23 February and 17 March 2026).

As a growing number of markets strengthen their own investment propositions and expand the global opportunity set available to investors, competition for private capital is intensifying and capital allocation is expected to become more globally diversified. While total investment in Europe is anticipated to increase in absolute terms, surveyed funds expect to allocate 38% of their uncommitted capital to Europe over the next three years, compared with 45% over the previous five years. This reflects the expansion of global opportunities rather than any deterioration in Europe's underlying investment fundamentals.

To sustain Europe's long-term competitiveness and strengthen its position as a leading destination for global PE investment, funds are likely to respond positively to targeted policy measures, including those that create bankable project pipelines, stable and predictable regulatory regimes, clearer revenue and offtake frameworks, and enhanced public-private risk sharing.



External viewpoint



Flor Kassai
Managing Partner
and Head of Buyout,
Inflexion Private Equity

How private equity is supporting Europe's mid-market scale

Home to roughly 75,000 businesses, the European mid-market is the engine of employment and innovation across the region.

However, despite its immense depth and the quality of its constituents, companies are often undercapitalized and lacking sufficient investment to scale further.

At the same time, Europe is, of course, not a single homogeneous market, but a mosaic of countries, each with its own language, legal system and regulatory frameworks for businesses to navigate.

Collectively, these structural complexities can make it harder for founder-led and family-owned businesses to expand beyond domestic markets compared with peers elsewhere, particularly in the US.

PE funds therefore play a particularly important role in backing local champions on their internationalization journey.

For the last 25 years, Inflexion has consistently invested in high-quality businesses across the European mid-market, partnering with founders and management teams to provide both capital and operational expertise to strengthen fundamentals and unlock cross-border growth.

Undeniably, transaction economics have changed materially compared with the previous decade. Higher interest rates, elevated energy costs, geopolitical uncertainty, and rapid technological change have increased pressure on management teams and made returns harder to generate.

However, for all of this uncertainty, what we're seeing in the market is that this increased level of uncertainty has made founders in particular and family-owned businesses more attuned to bringing in a partner, recognizing that moments of disruption can also be the right time to step back and ask how best to navigate the next phase of growth.

Against this backdrop, value creation has become more critical than ever. Capital alone is no longer sufficient; investors must bring differentiated operational capabilities. Based on our experience transforming more than 60 companies across multiple business cycles, this means combining deep sector specialization with a repeatable, execution-focused playbook that can be deployed consistently across businesses and increasingly across geographies.

Our sector coverage has strengthened into deep sub-sector expertise, building conviction in a small number of verticals where we can add tangible value. This specialization is complemented by our expanding European footprint, particularly in Northern Europe. In practice, much of what drives success in one market translates effectively to others, thereby allowing our operating partners and management teams to replicate proven strategies and create cross-border growth opportunities.

Ultimately, bringing all of this together is talent. Private equity's ability to support Europe's mid-market scale depends on putting the right leadership in place to execute these strategies effectively. It is a people business, and leadership quality remains the single most important driver of outcomes.

Conclusion

Europe today is at a critical turning point. Geopolitical turmoil, the energy transition, the need for strategic autonomy in critical industries, the rise of AI and the need to mobilize capital at scale are all exerting a significant influence on the continent's attractiveness to investors.

But businesses have good reasons to believe in Europe's long-term potential. The continent has qualities that, together, remain unsurpassed: a vast consumer market, high-quality infrastructure and a proactive approach to climate policy. This helps explain why most investors have confidence in the region in the longer term: 60% of surveyed businesses expect Europe's attractiveness to improve in the next three years.

The task now is to harness Europe's potential. Success will depend on Europe's ability to cut red tape and become more agile, to secure the skills it needs, to reduce taxation uncertainty, and to supercharge the network of small businesses that form the backbone of its economy but which are struggling to keep pace with accelerating industrial and digital change.

Europe is evolving fast. By building on its strengths, it can emerge from disruption more resilient, more competitive and more attractive to investors.

Methodology

For nearly 30 years, the EY organization has been analyzing foreign investment flows and location strategies to support clients in their strategic decisions and contribute to the development of policies that encourage international investment. Each year, the EY organization surveys thousands of foreign business leaders across all sectors and company sizes, while tracking investment projects throughout Europe. The EY European Attractiveness Survey draws on three main sources:

1 The EY European Investment Monitor (EIM)

The evaluation of FDI in Europe is based on the EY EIM. This proprietary database helps us to track projects announced in 2025 across 47 countries. The database tracks the FDI projects that have resulted in the creation or the expansion of facilities and jobs.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. The EY EIM database shows the reality of investment in manufacturing and services by foreign companies across the continent.

The following categories of investment projects are excluded from the EY EIM: M&A and joint ventures (unless these result in new facilities or new jobs being created); license agreements; retail and leisure facilities; hotels and real estate; utilities; extraction activities; portfolio investments (pensions, insurance and financial funds); factory and other production replacement investments; and nonprofit organizations.

2 The perception survey

This study examined Europe's perceived attractiveness via an anonymous online survey of international decision-makers. We define attractiveness of a location as a combination of image, investor confidence, and the perception of a category or area's ability to provide the most competitive benefits for FDI.

Field research was conducted by FT Longitude between 11 February and 30 March 2026, based on a representative panel of 500 senior corporate executives (C-suite or C-1 roles). Only individuals who are involved in, or in charge of, their organization's decisions about establishing or expanding operations were included in the survey. The survey panel's demographics were based on the most recently available FDI data (2024).

The survey aimed to cover a representative sample of investors into Europe by geography, industry grouping and company size. Approximately 60% of respondents work for companies headquartered in Europe, and 40% for companies headquartered elsewhere. Respondent companies operate across six broad sector categories and are distributed across a full spectrum of company size (by turnover). For demographic details of the survey panel, see the next page.

Additional top-up surveys were conducted for the energy, defense, financial services and private equity sectors.

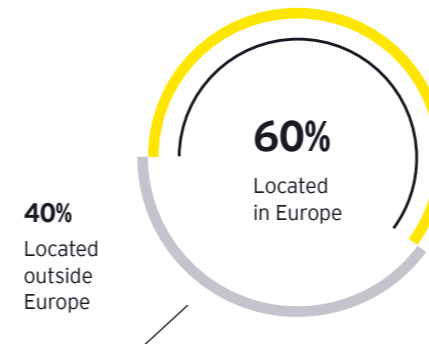
3 Insights and contributions from dozens of attractiveness specialists and stakeholders

Drawing on a broad range of experience, the global EY organization combines strategic, operational, geopolitical, tax, financial and regulatory analysis to decode the dynamics of international investment. The EY teams leverage deep sector knowledge, a strong understanding of public policy and a global presence to provide an integrated perspective on territorial attractiveness. They also benefit from an ongoing dialogue with thousands of clients across industries, business models and geographies worldwide.

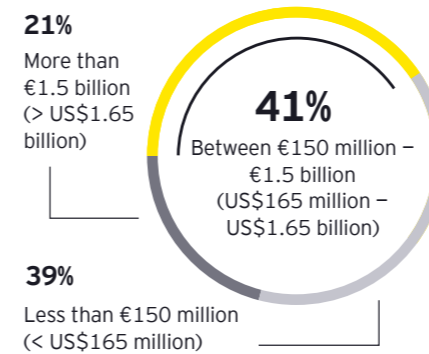
Respondent location



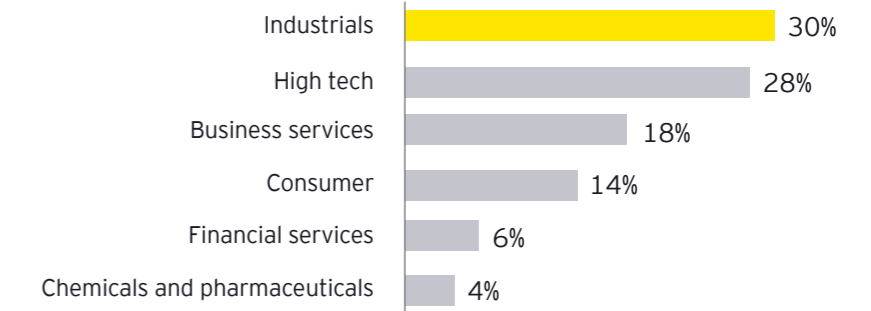
Company HQ location



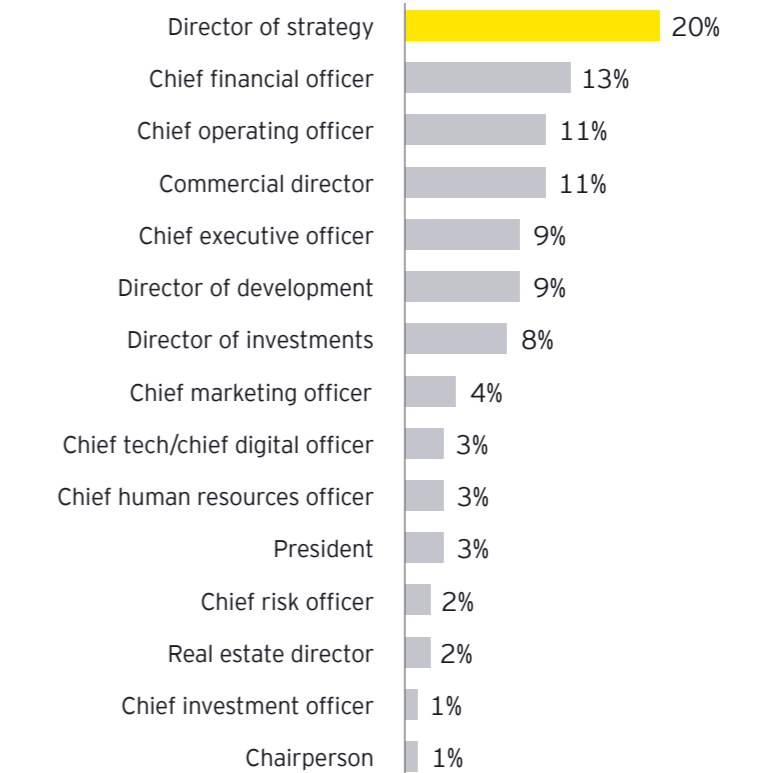
Company size (turnover)



Primary sector of activity sector



Job title



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