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ATTRACTIVENESS SURVEY 2025

EY

Shape the future with confidence

CONTENTS

FOREWORD

Now in its fourth edition, the EY Luxembourg Attractiveness Survey examines the country's performance in attracting foreign direct investment (FDI) projects. As always, the report explores the evolution of FDI project numbers alongside investor perceptions of Luxembourg's competitiveness across key business dimensions. Each year we seek to answer critical questions: "How attractive is Luxembourg for foreign investment? Is investor sentiment improving? And how does perception translate into actual FDI activity?"

It has been an interesting four years. The first year of research was a real exploration into this arena. Since Luxembourg does not have a formal process for tracking foreign direct investment in real-time, we didn't know just how many projects we were talking about. We also didn't really know how foreign investors perceived the competitiveness of the country. We expected positive opinions, namely in the context of financial services, but this aside, it was really unknown territory. It turned out that Luxembourg has a small number of FDI projects – unsurprising due to its small geographical size. We also learned that investor sentiment was fairly positive, but there were some key areas worthy of improvement, specifically related to perceptions around talent, tax, and support for startups and small and medium enterprises.

The second year was a little like the first. We now had a benchmark for the research, but one year's worth of data was just a starting point. We couldn't know for sure if year one data was an accurate reflection of year-on-year trends. For instance, year one captured foreign direct investment data from 2021, a year when investment was naturally impacted by the pandemic.

The second set of research was conducted at a time when we were leading up to the national elections. There was a lot of uncertainty, but also optimism about what a new government could bring. In fact, Luxembourg ranked as the 8th most attractive country in Europe for foreign investment that year – with 11% of investors placing it in the top three countries. Questions we imagined investors asking themselves were whether the possibility of a change in leadership would bring with it tax reforms? More incentives for business? Hope was palpable.

Year three took place on the other side of the elections. The number of FDI projects remained quite consistent with the prior year, but intentions to invest were at their highest ever with 72% of investors planning to invest over the next year, and 60% expecting Luxembourg's attractiveness to increase over the next three. The coalition agreement outlined promising changes across several key areas, and we imagined that this was a major contributing factor to positive perceptions. We felt that this was the perfect window of opportunity to capitalize on positive perceptions – to execute on the agenda and transform intentions into tangible investments.

Now in year four, we see a decline in FDI as well as a decline in perceptions of Luxembourg's competitiveness. This is unfortunate but we do need to view these results in the global context, which is marked by trade uncertainty. The opinion survey was completed just prior to the announcement of the US trade tariffs, when concerns were rising about American trade policy. This has and undoubtedly will continue to have an impact on all trade across the globe.

Nevertheless, now more than ever we believe there are critical areas where Luxembourg can play an even stronger role in improving its attractiveness. We share our recommendations in the final chapter of this report, and they echo what we have been advocating for in prior years. We acknowledge Luxembourg has had many achievements, but we believe there is more room for innovation and growth.

As a reminder, the EY Europe Attractiveness Research has been in existence for over 20 years. On the one hand, the research looks at the reality of FDI in Europe, by counting the number of announced FDI projects in the calendar year 2024, using EY's proprietary database, the EY European Investment Monitor. On the other hand, the perceptions of attractiveness of Europe are collected via a survey containing common or similar questions for key European countries. This latter fieldwork was completed in early 2025.

We hope you enjoy this year's commentary.

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EXECUTIVE

Economic and geopolitical woes take toll on European FDI in 2024

Foreign direct investment (FDI) in Europe dropped by 5% to 5,383 projects, marking the second year in a row of decline and reaching the lowest level in nine years. Projects announced by US investors fell by 11% compared to 2023 and by 24% from 2022.

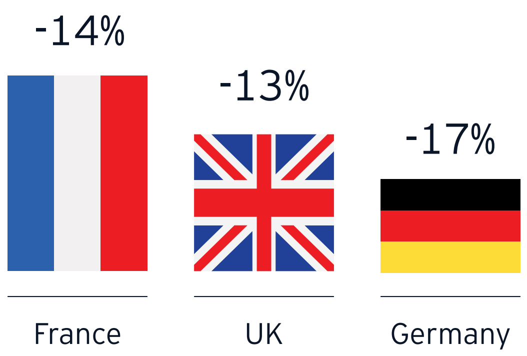
Warning signs for European manufacturing – especially as US investors pull out

Manufacturing FDI dropped 9% – the lowest since 2020. Projects announced by US investors in industrial activity declined 21%. Looking at other FDI activities, business services projects experienced a 9% reduction, while FDI in the software and IT services sector – historically the largest investment area in Europe – declined 17%.

62%

Non-European companies find Europe less attractive than the US and China

Only 62% of investors now expect Europe's attractiveness to improve over the next three years – down from 75% in 2024 – while expectations are considerably higher for the US (74%) and China (67%). Further, 37% of respondents have postponed, scaled back, or canceled investment plans in the region.



Early indications of strategic emerging sectors

In Europe, signs of growth are emerging in sectors like semiconductors, defense, and pharmaceuticals. R&D investments are evident in AI, energy, pharmaceuticals, and semiconductors, though modest. Despite these positive notes, between 2021 and 2025, R&D projects declined 19%.

Opportunities persist in well-positioned markets

For the first time since 2018, France, the UK, and Germany collectively attracted less than half of Europe's FDI, with double-digit percentage decreases in France (-14%), the UK (-13%) and Germany (-17%). However, Spain, now the fourth-largest country for FDI (+15%), and Italy (+5%) illustrate Southern Europe's competitiveness.

SUMMARY

Luxembourg FDI muted despite "biggest ever intentions to invest" last year

37 36 33

Despite last year being marked by the "biggest ever intentions to invest," there has been a slight but steady decline in project numbers, from 37 in 2022 to 36 in 2023 and 33 in 2024. Investment is skewed toward business services, which account for 55% of all projects – more than double the European average of 27%. Headquarter operations (15%) and logistics (12%) follow, while manufacturing represents only 9% of activity.

36%

Financial sector continues to slip in competitiveness – but not in Luxembourg

FDI in finance declined across Europe by 5%, yet Luxembourg experienced a 20% increase – reinforcing its status as a premier destination for financial (namely investment funds). Finance accounted for 36% of all Luxembourg FDI projects in 2024, followed by business and professional services (15%) and software and IT services (15%).

#13 LUXEMBOURG

Luxembourg perceptions of attractiveness fairly stable (although low), while plans to invest decline

Intent to invest slips slightly from 60% to 56%. Intentions to expand operations in Luxembourg have also declined sharply, from 72% to 57%. Luxembourg now ranks 13th in attractiveness, just behind Belgium and Italy. Even so, Luxembourg has among the highest proportion of investors in Europe who have not postponed, canceled, or scaled back their investment plans.

Tax continues to have mostly positive impact on business decisions

Luxembourg's tax environment continues to be seen as a net positive – 53% of investors reported a significant or slight positive impact on business decisions as a result of recent tax changes. Tax predictability and certainty is ranked as the second-highest tax priority, after simplification of tax codes and compliance procedures.

Increased supply of skills in niche areas needed for advancement

Forty-one percent (41%) of Luxembourg-based investors identify the enhancement of expertise in technology, engineering, and energy as a principal priority, which is higher than the European average of 34%. In Luxembourg, increasing workforce productivity is considered the second most important talent concern.

Strengthening strategic industries reportedly a top priority for the Grand Duchy

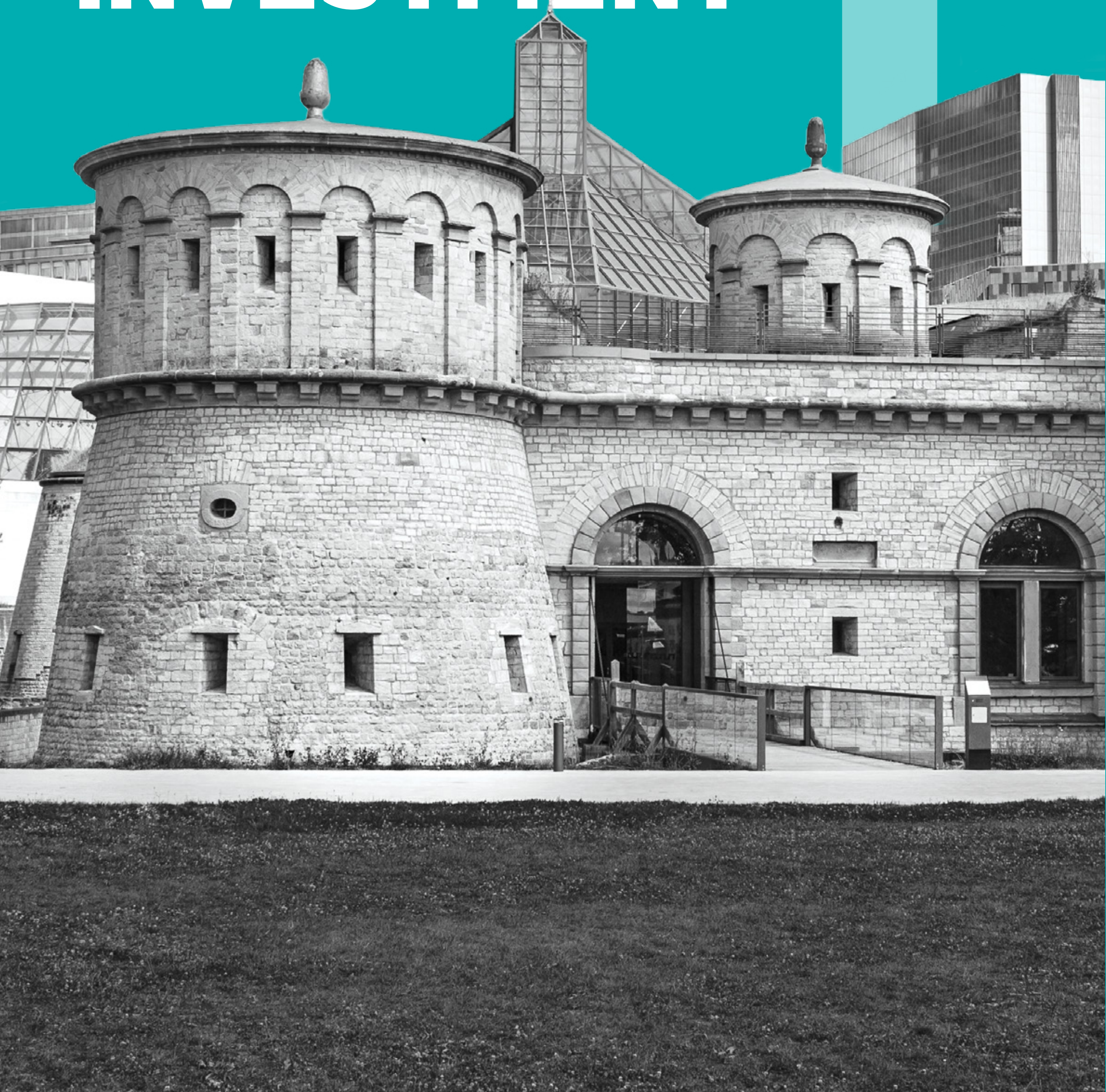
Luxembourg stands out when it comes to commitment to future-readiness, with the highest share of respondents saying the country must prioritize support for strategic industries – namely, cleantech, AI, and defense – to stay competitive (a focus area for investors since 2023). Almost half (45%) of investors – more than in any other country – say Luxembourg must introduce greater regulatory flexibility for emerging sectors like artificial intelligence and fintech to maintain its edge.

Luxembourg financial engine still running strong, but lacking skilled professionals to drive it forward

Finance is expected to remain the leading engine of growth in Luxembourg, but talent remains a critical bottleneck. Investors cite three top risks to financial hub as complexities around individual frameworks for newly relocated staff, and challenges in both attracting and retaining talent.

FOREIGN DIRECT INVESTMENT

1



ECONOMIC AND GEOPOLITICAL WOES TAKE TOLL ON EUROPEAN FDI[1] IN 2024

Foreign direct investment (FDI) in Europe fell 5%, with 5,383 projects, for a second consecutive year and is now at its lowest in the past nine years, while the number of jobs created by FDI declined 16%. Contributing to this decline is persistent low economic growth, high energy prices and geopolitical tensions. Projects announced by US investors dropped 11% compared with 2023 and 24% from 2022. In fact, US investment in Europe is at its lowest level in the past decade, making up only 18% of the total European FDI projects, dropping from 24% in 2015. Contrastingly, while European FDI declined in 2024, it rose 20% in North America and remained stable in Asia, according to the UNCTAD Global Investment Trends Monitor, which tracks greenfield projects globally.[2]

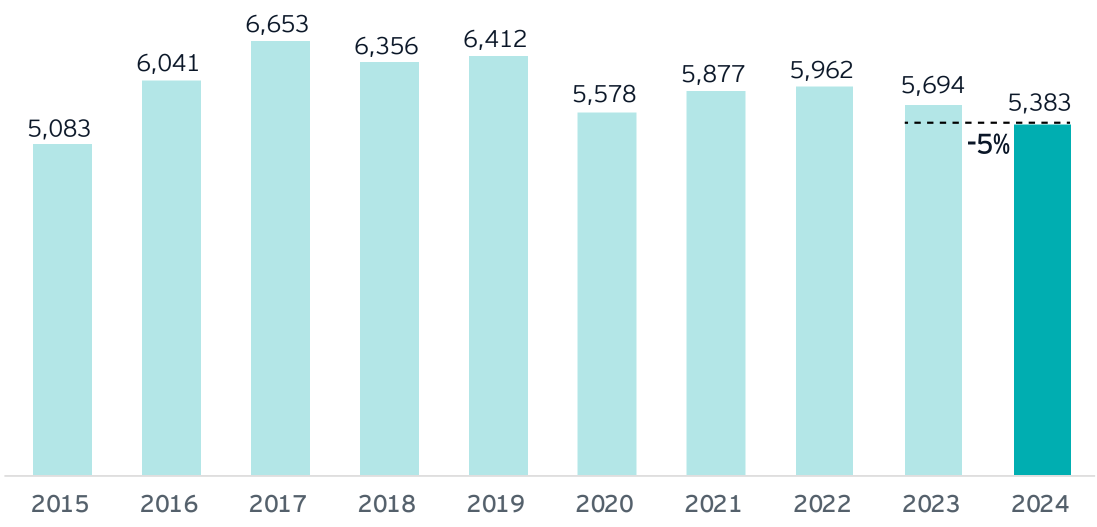
These results reflect the macroeconomic situation. In 2024, the EU economy grew by a modest 0.9%.[3] The US, however, experienced 2.8% growth in real GDP,[4] while China's GDP increased 5%.[5] This slow growth is expected to continue: IMF and European Central Bank (ECB) growth forecasts have been slashed for 2025 for the euro area (0.8% down from 1.0% in January as per the IMF, and 0.9% down from 1.1% in December 2024 as per the ECB). The US growth forecasts have also been adjusted due to trade tensions (1.8% down from 2.8% as per the IMF, and 1.1% down from 1.7% as per EY research). China, on the other hand, has maintained its 5% target for 2025 despite the ongoing trade tensions – this growth seems plausible considering Q1 2025 forecasts have already been outperformed (5.4% growth in Q1).[6, 7, 8, 9, 10]

As per the Draghi Report,[11] Europe's sluggish growth since the start of the century can be explained by an inability to fully leverage the digital revolution which has created a productivity gap with the US and China. The tech sector in particular, but not exclusively, has been impacted by this productivity gap – for example, only four of the world's top 50 tech firms are European. This slow growth has been "inconvenient" more so than problematic for Europe, in that while the growth rate has not been as strong as desired, it has not resulted in severe negative consequences. Instead, Europe has benefited from a favorable global environment in certain areas, such as being able to expand its market share more quickly than Asia and seeing a higher proportion of women entering the workforce.

But now, due to persistent trade tensions, EU companies face greater competition from abroad and poorer access to overseas markets than in the recent past. The supplier of energy, Russia, has (long) been lost, and geopolitical instability is exposing Europe's vulnerabilities. While energy prices have fallen considerably from their peaks during the energy crisis, EU companies still face electricity prices that are substantially higher than those in the US. To illustrate, the average household electricity price in the EU was approximately €28.72 per 100 kWh (approximately $0.31 per kWh) at the end of 2024[12] compared to $17.11 per kWh in the US as at March 2025.[13]

The resurgence of trade wars has significantly disrupted global trade dynamics. The US's sweeping "reciprocal" tariffs on imports from numerous countries, including a material tariff on EU goods, might have severe knock-on effects. With these events still playing out, confidence in recovery in 2025 is shaky, if not diminished, as will be discussed in Chapter 2.

Figure 1: Number of foreign direct investment projects announced in Europe between 2015 to 2024



Source: EY European Investment Monitor, 2025

Figure 2: Top countries by FDI projects in 2024

Rank	Country	2022	2023	2024	Share of FDI projects in 2024	Change 2023/24
1	France	1,259	1,194	1,025	19%	-14%
2	United Kingdom	929	985	853	16%	-13%
3	Germany	832	733	608	11%	-17%
4	Spain	324	304	351	7%	15%
5	Turkey	321	375	320	6%	-15%
6	Poland	237	229	259	5%	13%
7	Italy	243	214	224	4%	5%
8	Belgium	234	215	210	4%	-2%
9	Portugal	248	221	196	4%	-11%
10	Netherlands	147	157	147	3%	-6%
11	Switzerland	58	89	111	2%	25%
12	Austria	101	80	105	2%	31%
13	Romania	69	60	94	2%	57%
14	Denmark	43	44	82	2%	86%
15	Hungary	50	77	80	1%	4%
...						
22	Czech Republic	30	33	37	1%	12%
23	Greece	47	50	35	1%	-30%
24	Latvia	32	22	33	1%	50%
25	Luxembourg	37	36	33	1%	-8%
26	Norway	21	24	29	1%	21%
27	Lithuania	47	28	26	0%	-7%
28	Slovakia	39	28	26	0%	-7%
...						
46	Guernsey	0	3	0	0%	-100%
	Total	5,962	5,694	5,383	100%	-5%

Source: EY European Investment Monitor, 2025

OPPORTUNITIES PERSIST IN WELL-POSITIONED MARKETS

For the first time since 2018, France, the UK, and Germany collectively attracted less than half of Europe's FDI (46%). There were double-digit percentage decreases in the number of projects announced in France (-14%), the UK (-13%) and Germany (-17%). Country-specific factors are at play. France experienced a period of instability following elections, while investors were likely also deterred due to high labor costs, corporate taxes for large enterprises, and continuation of tax credits. Germany remained impacted by loss of cheap Russian energy, declining exports from China and weaknesses in manufacturing. The UK continues to suffer from low productivity, challenging public finances that affect the ability to offer incentives, and some of the highest energy prices in Europe.

However, Spain, now the fourth-largest country for FDI (+15%), and Italy (+5%) illustrate Southern Europe's competitiveness, especially in the case of logistics – driven by lower labor costs, simpler administrative procedures, and greater availability of land.

High debt-to-GDP ratios across the EU could have signaled risk to investors in 2024, deterring investment due to concerns about the ability to manage debt, future tax increases, or inflation. As of the end of 2024, the EU recorded a ratio of 81%, well above the EU Stability and Growth Pact threshold of 60%. Notably, several Member States exhibit particularly high debt levels: Greece, Italy, France, Belgium and Spain. On the other hand, countries like Estonia, Bulgaria and Luxembourg maintain much lower ratios.[14] The ECB has since cautioned that high public debt, geopolitical tensions, and elevated interest rates may threaten financial stability.[15]

WARNING SIGNS FOR EUROPEAN MANUFACTURING – ESPECIALLY AS US INVESTORS PULL OUT

Consistently high energy prices and uncertain demand led to a 9% decline in manufacturing FDI (the lowest since 2020), and a 20% decline in greenfield projects (new operations built from the ground up), which is particularly concerning since new facilities typically generate twice as many jobs compared to expansions to existing sites. This decline impacted all sectors, notably chemicals and plastics (-4%), transportation (-2%) and electronics (-4%).

Further, projects announced by US investors in industrial activity declined 21%. Other foreign firms are also opting to streamline (i.e., downsize) their operations in Europe. For example, German company Volkswagen announced 35,000 job cuts by 2030 with some production moving to Mexico.[16]

Even before the US elections in November 2024, businesses suffered anxiety about the elections – uncertainty pushed businesses of all sizes into an uncomfortable holding pattern, as per several US surveys conducted in 2024. For example, manufacturing firms reported that producers were holding off on placing new orders, or waiting until after the general election to undertake projects.[17]

Although not new, the Inflation Reduction Act (IRA) of 2022 could also partially explain some of the continued FDI decline. While foremost a clean energy plan, the IRA is also an industrial policy which aims to increase US domestic capacities of clean technologies and reduce over-reliance on China. There has been a fear that the IRA will result in a mass exodus from the EU. With the new US administration aiming to make the US energy dominant (not just independent), this agenda will be driven by the interest of the US. Despite talks to scale back the IRA, the return to an "America First" policy in trade might have consequences for European exports to the US, especially, for example, in the already stressed automotive sector.

Looking at other FDI activities, business services projects experienced a 9% reduction. Business services activities refer to a broad category of professional, technical and support services that companies invest in to provide support to their operations. The increase in remote working has led to surplus office capacity, resulting in lower demand for new office space, which – along with rising operational costs and cautious corporate spending – could explain some of this decline. Furthermore, FDI in the software and IT services sector, which has historically been the largest investment area in Europe, declined 17%, primarily due to reduced outsourcing budgets.

EARLY INDICATIONS OF STRATEGIC EMERGING SECTORS

Signs of growth are emerging in key sectors such as semiconductors and defense – driven in part by the Ukraine war – has underscored the urgent need for supply chain independence and national security. Similarly, the pharmaceutical sector shows renewed momentum, fueled by lessons learned in the (continued) wake of the COVID-19 pandemic. Investment in research and development (R&D) is also visible across industries like artificial intelligence (AI), energy, pharmaceuticals, and semiconductors – though activity remains relatively modest.

Sustainability continues to feature prominently on the investment agenda, as evidenced by ongoing commitments to renewable energy and electric vehicles (EVs). While environmental, social and governance (ESG) priorities have not diminished, it will be interesting to see how they are maintained amid a growing focus on defense, driven by escalating geopolitical tensions and increased military spending. There is evidence of a growing interest in defense with the intention to ramp up investments, with several countries – Belgium, Finland, Lithuania, Slovakia, Sweden, and the UK – announcing at least 10 new defense manufacturing projects, mostly focused on ammunition production.

Despite these bright spots, the overall trend in R&D investment across Europe is concerning. Between 2021 and 2025, the number of R&D projects declined 19%. US-origin R&D projects in Europe fell by 18% between 2021 and 2024, while Germany experienced a more dramatic 49% drop. These declines suggest that investors are either redirecting resources to their domestic markets or facing increasing obstacles in the European landscape. Given that the US and Germany have historically accounted for more than 40% of Europe's FDI in R&D, this shift raises red flags.

This decline is not rooted in a lack of ambition but rather in possible structural barriers – most notably, Europe's persistent difficulty in commercializing R&D. As a result, many innovative firms are turning to US venture capital and scaling operations in the American market, contributing to an innovation and investment gap that continues to widen, as per the Draghi Report.

Nevertheless, a handful of high-profile initiatives provide reasons for optimism. Microsoft, for instance, has announced plans to base a major portion of its AI R&D operations in Ireland, creating over 550 research and engineering jobs over the next four years. Meanwhile, AstraZeneca is expanding its scientific footprint in Spain with a commitment to hire 1,000 new employees - signaling renewed faith in Europe's potential as a hub for innovation. Luxembourg also still holds appeal for future-oriented firms. Case in point: Google announced in 2025 it will open a – albeit relatively small – site in Luxembourg, alongside a center of excellence focused on AI and cybersecurity.

FINANCIAL SECTOR CONTINUES TO SLIP IN COMPETITIVENESS

FDI in Europe's financial centers declined 5% in 2024 compared to the previous year, accompanied by a significant 29% drop in job creation. Financial hubs accounted for just 6% of all FDI projects highlighting continued muted investment activity, which could be explained by a fragmented and complex regulatory environment, and continued competition with the US (to be explored in Chapters 2 and 3).

The shift toward remote work and reduced outsourcing expenditures has contributed to a decline in office-based FDI projects, particularly within the software and IT sectors. However, this trend is counterbalanced by a steady flow of job-rich FDI projects into business support operations especially in Southern and Eastern Europe. These regions continue to attract investment thanks to their competitive labor costs and strong talent pools, reinforcing their status as prime locations for back-office functions and operational support.

Figure 3: Major foreign investment activities in Europe in 2024

Activities	2022	2023	2024	Share of FDI projects in 2024	Change 2023/24
Manufacturing	1,756	1,743	1,594	30%	-9%
Business Services	1,415	1,586	1,441	27%	-9%
Sales & Marketing	805	856	843	16%	-2%
Logistics	570	532	502	9%	-6%
Research & Development	573	484	499	9%	3%
Headquarters	455	223	251	5%	13%
Testing & Servicing	56	82	72	1%	-12%
Shared Services Centre	155	83	58	1%	-30%
Education & Training	42	47	50	1%	6%
Internet Data Centre	85	20	48	1%	140%
Contact Centre	50	38	25	0%	-34%
Total	**5,962**	**5,694**	**5,383**	**100%**	**-5%**

Source: EY European Investment Monitor, 2025

Figure 4: Major foreign investment sectors in Europe in 2023

Sectors	2022	2023	2024	Share of FDI projects in 2024	Change 2023/24
Software & IT Services	1,182	954	785	15%	-18%
Business Services & Professional Services	765	556	678	13%	22%
Machinery & Equipment	368	424	454	8%	7%
Transportation Manufacturers & Suppliers	470	445	436	8%	-2%
Transportation & Logistics	417	457	411	8%	-10%
Finance	292	329	312	6%	-5%
Electronics	276	316	304	6%	-4%
Agri-food	291	266	286	5%	8%
Chemicals, Plastics & Rubber	249	255	244	5%	-4%
Utility Supply	277	302	240	4%	-21%
Pharmaceuticals	234	226	190	4%	-16%
Construction	142	157	179	3%	14%
Other	999	1,007	864	16%	-10%
Total	**5,962**	**5694**	**5383**	**100%**	**-5%**

Source: EY European Investment Monitor, 2025

LUXEMBOURG FDI MUTED DESPITE "BIGGEST EVER INTENTIONS TO INVEST" LAST YEAR

Despite last year being marked by the "biggest ever intentions to invest," FDI in Luxembourg has remained subdued. The country saw a slight but steady decline in project numbers, from 37 in 2022 to 36 in 2023 and 33 in 2024, suggesting that strong initial investor interest has yet to translate into tangible commitments.

37 36 33

Luxembourg's FDI profile remains heavily skewed toward business services, which account for 55% of all projects – more than double the European average of 27%. Headquarter operations (15%) and logistics (12%) follow, while manufacturing represents only 9% of activity. With such limited investment in industrial projects, there are few opportunities to revitalize Luxembourg's legacy industry – a focal point of prior studies.

Beyond broader macroeconomic headwinds, Luxembourg faces unique domestic concerns that may be dampening investor confidence. Chief among them is rising anxiety over pension sustainability. An aging population and increasing dependency ratios are placing pressure on the long-term viability of the pension system. Without structural reform, the growing burden of pension obligations could strain public finances and introduce fiscal uncertainty – potentially deterring risk-averse investors seeking long-term stability.

DESPITE LAST YEAR BEING MARKED BY THE "BIGGEST EVER INTENTIONS TO INVEST," FOREIGN DIRECT INVESTMENT IN LUXEMBOURG HAS DECLINED.

LUXEMBOURG STILL DOMINATES IN FINANCE

Luxembourg continues to assert its dominance in the financial sector, which remains the cornerstone of its FDI landscape. Finance accounted for 36% of all FDI projects in 2024, followed by business and professional services (15%)[18] and software and IT services (15%). Notably, while FDI in finance declined across Europe by 5%, Luxembourg experienced the opposite with a 20% increase – reinforcing its status as a premier destination for financial investment.

A key driver of this strength is the sustained expansion of Luxembourg's fund industry. Assets under management reached €5,820.1 billion in 2024 – up 10% from the previous year and closing in on the 2021 record high of €5,859.6 billion. This places Luxembourg comfortably ahead of its nearest competitor, Ireland, which reported €4,043 billion in managed assets.[19, 20]

STRONG POTENTIAL TO ATTRACT HIGH-VALUE PROJECTS IN FRONTIER INDUSTRIES

We see several projects (approximately one-quarter) in niche fields such as software and IT, pharmaceuticals (biotechnology), medical devices, and space, indicating that Luxembourg continues to attract a modest but meaningful level of investment in specialized sectors. This is not without reason. For example, Luxembourg has positioned itself as a leader in the commercial space industry, thanks in part to its national space strategy and initiatives such as the Luxembourg Space Agency and the SpaceResources.lu program. Similarly, in the pharmaceutical and biotech space, Luxembourg has built a strong ecosystem around health technologies. The presence of certain global players which specialize in medical diagnostics, and the Luxembourg Institute of Health (LIH), which drives biomedical research, reinforces the country's abilities in this field. These examples show that while overall investment volumes in niche sectors remain limited, Luxembourg has the potential to attract high-value projects in frontier industries.

Figure 5: Major foreign direct investment activities in Luxembourg in 2024

Activity	Total FDI projects		Share of FDI projects		Relative increase/decrease
	2023	2024	2023	2024	
Business Services	16	18	44%	55%	↑
Headquarters	5	5	14%	15%	↑
Logistics	1	4	3%	12%	↑
Manufacturing	5	3	14%	9%	↓
Research & Development	2	2	6%	6%	No change
Sales & Marketing	4	1	11%	3%	↓
Education & Training	3	0	8%	0%	↓
Total	**36**	**33**	**100%**	**100%**	

Source: EY European Investment Monitor, 2025

Figure 6: Major foreign direct investment sectors in Luxembourg in 2024

Activity	Total FDI projects		Share of FDI projects		Relative increase/decrease
	2023	2024	2023	2024	
Finance	10	12	28%	36%	↑
Software & IT Services/Digital & IT Services	5	5	14%	15%	↑
Business Services & Professional Services	8	5	22%	15%	↓
Machinery & Equipment	0	2	0%	6%	↑
Transportation & Logistics	2	2	6%	6%	No change
Consumer Products	0	2	0%	6%	↑
Transportation Manufacturers & Suppliers	5	1	14%	3%	↓
Pharmaceuticals	0	1	0%	3%	↑
Medical Devices	1	1	3%	3%	No change
Telecommunications	0	1	0%	3%	↑
Construction	0	1	0%	3%	↑
Chemicals, Plastics & Rubber	1	0	3%	0%	↓
Electronics	1	0	3%	0%	↓
Utility supply	1	0	3%	0%	↓
Metals & Minerals	1	0	3%	0%	↓
Wholesale, Retail & Distribution	1	0	3%	0%	↓
Total	**36**	**33**	**100%**	**100%**	

Source: EY European Investment Monitor, 2025

INVESTOR OPINIONS

2

OUTLOOK FOR FOREIGN INVESTMENT ATTRACTIVENESS DIMINISHES, BUT REMAINS

NON-EUROPEAN COMPANIES FIND EUROPE LESS ATTRACTIVE THAN THE US AND CHINA

Europe is becoming a less attractive destination for foreign direct investment (FDI), particularly among non-European companies who increasingly favor the United States and China. Only 62% of investors now expect Europe's attractiveness to improve over the next three years - down from 75% in 2024. By comparison, expectations are considerably higher for the US (74%) and China (67%). Among non-European firms, optimism is even more skewed: 91% anticipate improved attractiveness for the US, and 77% for China, while just 61% foresee better prospects in Europe. Furthermore, 42% of investors believe that the new US administration will reduce Europe's appeal even further. It is worth noting that the opinion survey research was conducted during February and March 2025 - the period before the official announcement in April 2025 that tariffs would be imposed on goods and services of certain countries.

A number of structural challenges help explain this sentiment. Europe continues to lag in high-tech sectors, hindered by underinvestment in R&D and persistent difficulties in commercializing innovation - trends highlighted earlier in the report. This has likely pushed many startups and scale-ups to seek funding from US venture capitalists and expand within the US market. Additional headwinds include a relatively stringent regulatory environment, higher energy costs, and fragmented infrastructure development compared to the US and China - all of which put pressure on profit margins and deter investment.

SLIM CHANCES OF EUROPEAN RECOVERY IN 2025

Investor confidence in Europe's near-term recovery remains weak. Thirty-seven percent (37%) of respondents have postponed, scaled back, or canceled investment plans in the region. Intent to invest in Europe over the next 12 months has dropped from 72% to just 59%. The top three risks - geopolitical instability, sluggish economic growth, and potential tariffs on US imports - remain unresolved and continue to weigh heavily on decision-making.

Transatlantic trade tensions, in particular, are undermining stability. US tariffs have disrupted global trade flows and injected new uncertainty into markets. According to the World Trade Organization at the time of writing, if all proposed tariffs are implemented, global trade could shrink by 1.5%.[21] Investment and trade flows in early 2025 are already showing signs of disruption, making a swift FDI rebound unlikely. For Luxembourg, US tax reforms and economic policy changes rank as the second most significant risk among non-financial companies.

LUXEMBOURG PERCEPTIONS OF ATTRACTIVENESS FAIRLY STABLE (ALTHOUGH LOW), WHILE PLANS TO INVEST DECLINE

Luxembourg's perception among investors remains relatively stable but low, with intent to invest slipping slightly from 60% to 56% - placing it among the lowest-ranked countries in Europe, alongside the UK (53%). Investor confidence is particularly high for Belgium and France (both 70%). Intentions to expand operations in Luxembourg have also declined sharply, from 72% to 57%. Luxembourg now ranks 13th in attractiveness, just behind Belgium and Italy.

Despite muted expectations overall, investors continue to see Luxembourg as a viable destination for select project types. Investment is still expected in non-core functions, particularly in business services (53%) and sales and marketing (51%), reflecting a cautious but ongoing interest in leveraging Luxembourg for its specialized strengths, those being its strategic location at the heart of Europe and robust financial center, which make it an attractive base for firms looking to expand across European markets and for those aiming to support or engage with the financial sector.

ONLY 62% OF INVESTORS NOW EXPECT EUROPE'S ATTRACTIVENESS TO IMPROVE OVER THE NEXT THREE YEARS – DOWN FROM 75% IN 2024.

"INCREASING COSTS" THE MAIN REASON FOR REDIRECTING PLANS OUT OF LUXEMBOURG

There's encouraging news for Luxembourg: it has among the highest proportion of investors in Europe who have ***not*** postponed, canceled, or scaled back their investment plans – 72%, compared to 69% in France and just 54% in Belgium. However, among the 28% of investors who have redirected plans, the majority are looking westward – 44% of these projects are being shifted to the United States.

Across Europe, the reasons for investment redirection vary by country. In Luxembourg, rising business costs were the most cited concern, mentioned by 44% of respondents. In contrast, "the political climate" is top of the list of concerns for investors in France (46%) and Belgium (44%). Despite these concerns, Luxembourg continues to hold a unique edge in areas that matter to investors when deciding where to invest: political stability (ranked the top factor by 32% of respondents) and tax competitiveness (31%) – both areas in which the Grand Duchy has outperformed many of its regional peers year on year.

LUXEMBOURG FINANCIAL ENGINE STILL RUNNING STRONG, BUT LACKING SKILLED PROFESSIONALS TO DRIVE IT FORWARD

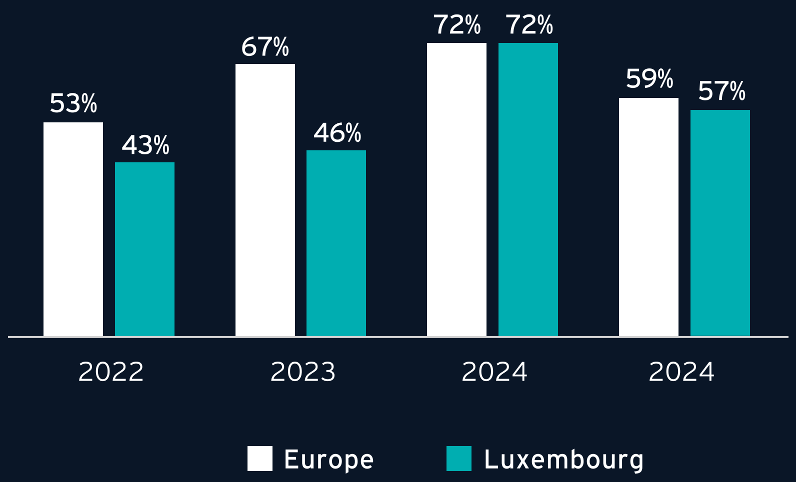
Finance is expected to remain the leading engine of growth in Luxembourg – making it the only country in Europe where the financial sector ranks first as a future growth driver (compared to third in the UK). The sector continues to benefit from access to international markets, robust financial infrastructure, and a strong ecosystem for investment funds.

Key cited areas of expansion in the financial sector include finance and treasury operations, trade and transaction processing, risk management, internal controls, and tech infrastructure support. These expansions reportedly help investors benefit from access to new markets, leverage Luxembourg's financial ecosystem and infrastructure, and optimize financial operations and risk management. Notably, only 15% of financial sector investors believe labor costs need to be reduced to improve competitiveness – suggesting other issues are more pressing.

Indeed, talent remains a critical bottleneck. Investors cite three top risks to Luxembourg's appeal as a financial hub: complexities around individual frameworks for newly relocated staff (despite streamlined work permit reforms which we will cover in Chapter 3), and challenges in both attracting and retaining talent.

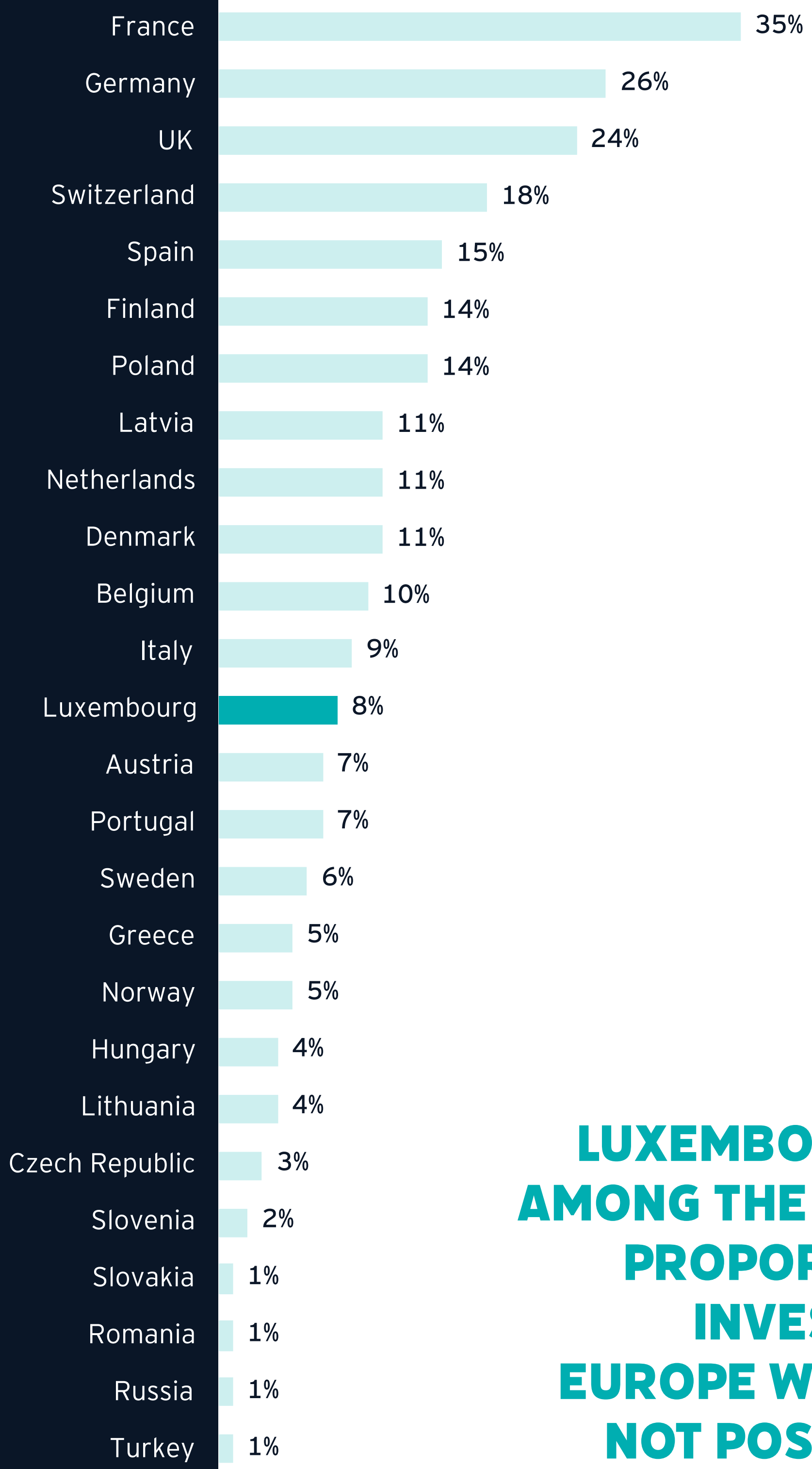
Further, 45% of investors – more than in any other country – believe that Luxembourg must introduce greater regulatory flexibility for emerging sectors like artificial intelligence and fintech to maintain its edge.

Figure 7: Intent to invest declines



Source: EY Europe & Luxembourg Attractiveness Surveys, 2025, 500 and 150 respondents respectively

Figure 8: Which European countries do you believe will be the most attractive for foreign direct investment in 2025?



Source: EY Europe Attractiveness Survey 2025, 500 respondents

LUXEMBOURG HAS AMONG THE HIGHEST PROPORTION OF INVESTORS IN EUROPE WHO HAVE NOT POSTPONED, CANCELED, OR SCALED BACK THEIR INVESTMENT PLANS.

STRENGTHENING STRATEGIC INDUSTRIES REPORTEDLY A TOP PRIORITY FOR THE GRAND DUCHY

Luxembourg stands out when it comes to commitment to future-readiness, with the highest share of respondents saying the country must prioritize support for strategic industries – namely, cleantech, AI, and defense – to stay competitive (refer to Figure 9). Notably, this has been a focus area for investors since 2023, suggesting a persistent concern. The fact that respondents consistently highlight this priority year after year signals a potential gap that needs closer examination. It could indicate that current support mechanisms are either insufficient or not clearly communicated. Investors may be unaware of the resources and incentives already in place, perhaps due to vague, fragmented, or hard-to-access information. This will be explored in greater detail in Chapter 3.

Looking at priorities across different factors (refer to Figure 10), improving access to early-stage funding is seen as the leading enabler of innovation in Luxembourg (42%). At the European level, this factor tops the list of priorities for nurturing innovation ecosystems. One reason this may be the case is that access to funding remains a critical hurdle for startups and young companies, especially in high-risk, high-reward sectors like cleantech, AI, and deep tech. These ventures often require significant capital upfront but may face difficulties attracting traditional investors due to longer development timelines or uncertain returns. It is possible that entrepreneurs and investors may perceive existing funding schemes as fragmented, limited in scale, or difficult to navigate, reinforcing the call for better access, clearer guidance, and more targeted instruments to support early innovation.

Figure 9: In your view, where should the location concentrate its efforts in order to maintain its competitive position in the global economy?

Increase funding of R&D

Support small and medium-sized enterprises

Support strategic industries (CleanTech, AI, healthcare, etc.)

Support strategic industries (CleanTech, AI, defense, and security, etc.)

Improve access to capital for businesses

Reduce and simplify taxation

Reduce energy prices and increase energy independence

Support small and medium-sized enterprises

Support strategic industries (CleanTech, AI, defense, etc.)

Support digital innovation and competitiveness

Support strategic industries (CleanTech, AI, defense, etc.)

Reduce and simplify taxation

Support the environmental transition and address climate change

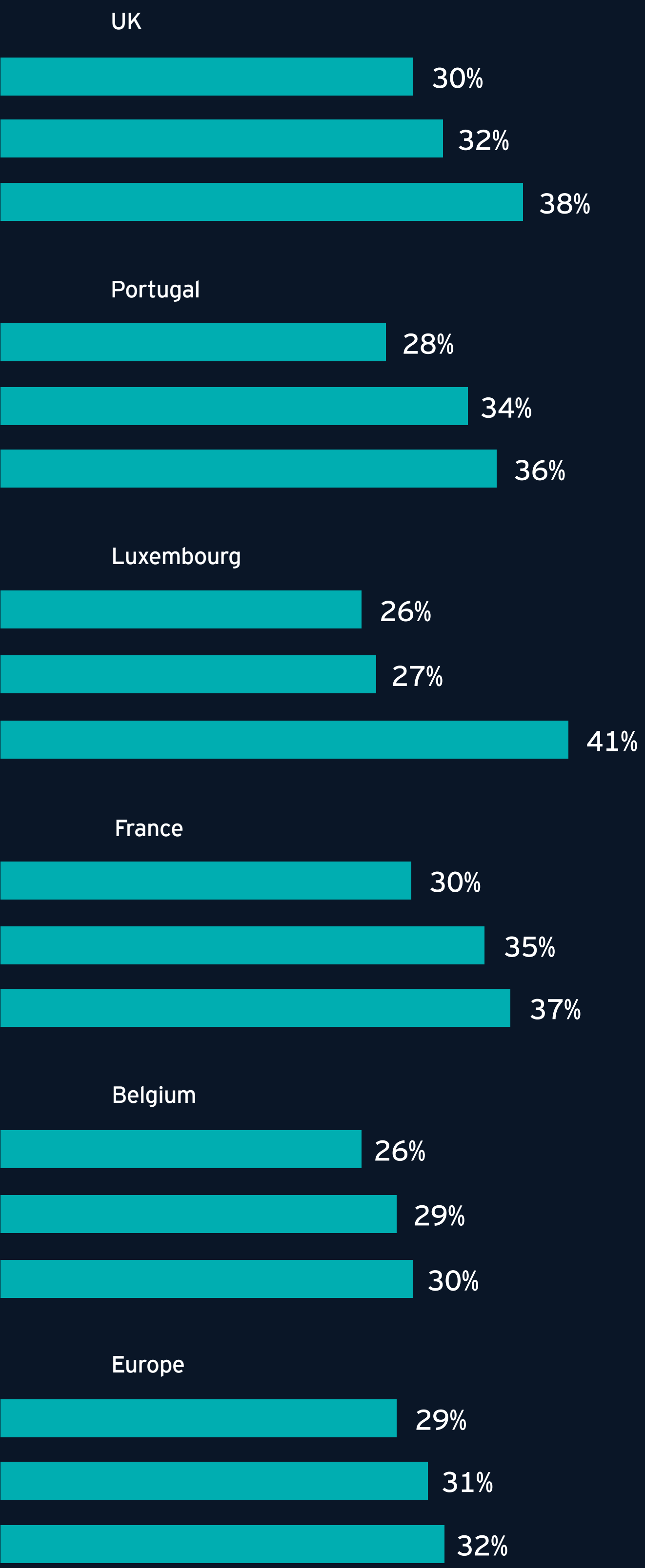
Reduce trade barriers

Support strategic industries (CleanTech, AI, defense, etc.)

Support strategic industries (CleanTech, AI, defense, etc.)

Support small and medium-sized enterprises

Reduce energy prices and increase energy independence



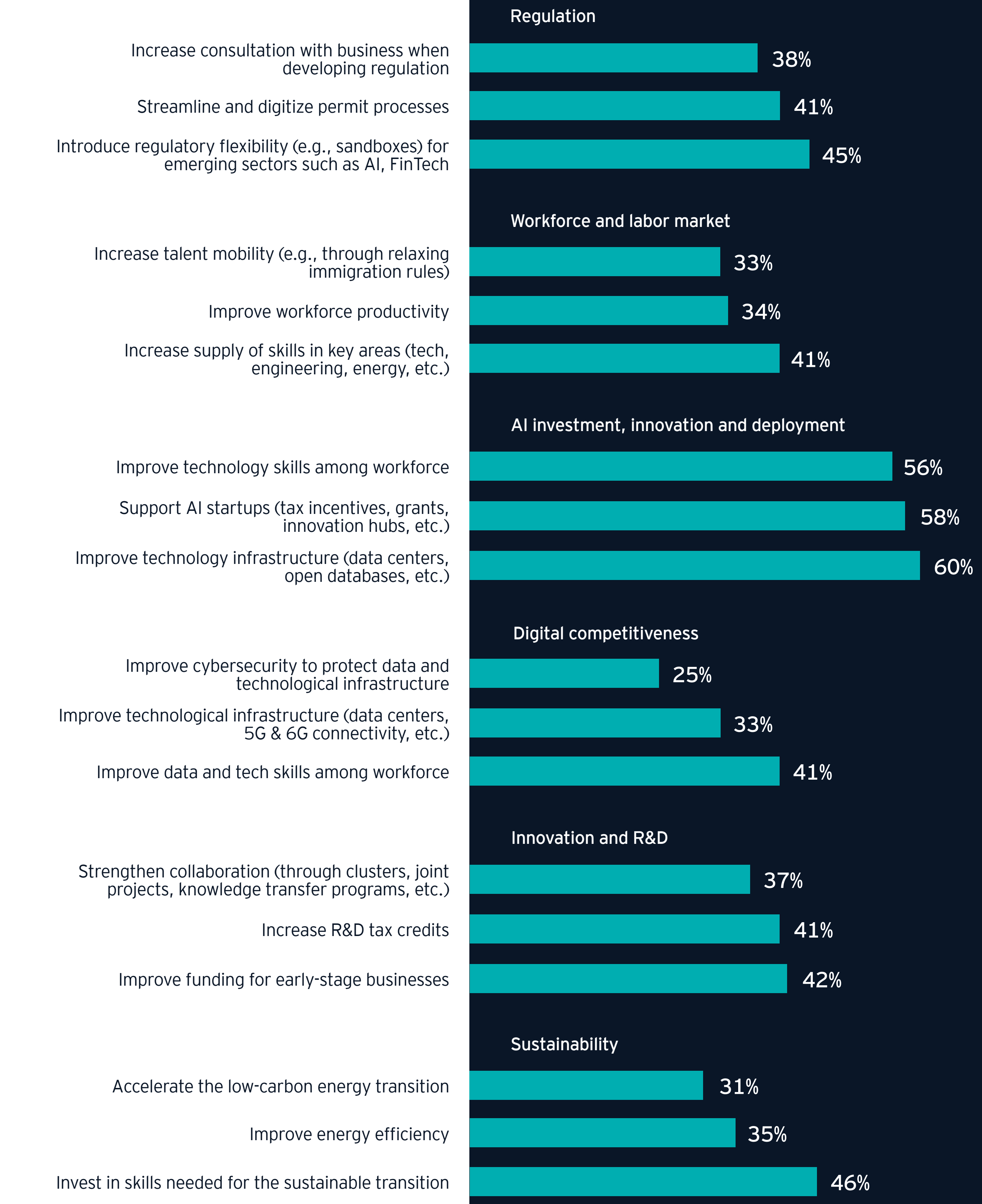
Source: EY Europe & Luxembourg Attractiveness Survey 2025

Digital competitiveness also remains a national imperative, which is unsurprising given the widening gap mentioned in Chapter 1. Luxembourg, alongside the Baltics, leads in recognizing the urgent need to enhance workforce capabilities in data and technology. Supporting this ambition is a broader push for infrastructure development: 60% of Luxembourg respondents highlighted the importance of strengthening technological foundations – such as data centers and open databases – to support the growth and deployment of AI technologies.

Regarding regulation, 45% of investors in Luxembourg increasingly view regulatory flexibility as essential for the growth of emerging sectors like AI and fintech. These fast-evolving industries often outpace existing legal frameworks, creating uncertainty that can slow innovation. While Luxembourg's strong regulatory environment is a strength, greater adaptability – through tools like sandboxes or streamlined approval processes – could help foster innovation while maintaining oversight.

Looking at priorities in sustainability, for investors, talent availability is a decisive factor. The shift to renewable energy, energy efficiency, and low-carbon technologies demands a workforce with specialized technical expertise – ranging from engineering and data analytics to green construction and environmental management. Without a robust pipeline of skilled workers, the country risks falling short of its climate goals and losing ground in attracting green investment. This is especially true in cleantech projects where innovation and execution are closely tied to human capital. There is perhaps a sentiment that Luxembourg is not doing enough to build the in-house capabilities needed to support its green ambitions and strengthen its position as a hub for sustainable innovation.

Figure 10: Top three priorities for Luxembourg – as cited by investors – in relation to:



Source: EY Luxembourg Attractiveness Survey 2025, 150 respondents

INSUFFICIENT POSITIVE FEEDBACK ABOUT NEW GOVERNMENT INITIATIVES

More than half of investors in Luxembourg express neutral or negative views toward recent government measures – indicating a lack of enthusiasm for policy developments aimed at enhancing the country's competitiveness. This sentiment may stem from two underlying issues. First, it's possible that investors lack a clear understanding of the full scope and impact of these initiatives. Alternatively, the measures may be perceived merely as compliance with broader EU standards, rather than bold, differentiating reforms capable of delivering a distinct competitive edge.

It's important to recognize that the implementation of changes often requires a significant amount of time, as new policies must be carefully developed, communicated, and integrated into existing frameworks. This process can take months or even years, and the tangible effects may not be immediately apparent. As these initiatives gradually take shape and begin to influence the market, investors may start to see their potential benefits. Patience and ongoing engagement will be key in allowing these reforms to demonstrate their true value over time.

MISUNDERSTANDINGS HIGHLIGHT GAPS IN COMMUNICATION EFFORTS

This skepticism also reflects broader communication challenges. Misperceptions about key national strengths suggest a "broken telephone" effect in how policy intentions and outcomes are conveyed. For instance, energy considerations are a top-three priority for investors in Luxembourg – far more than for their peers in other European countries. Yet when it comes to renewable energy production, Luxembourg has the lowest share of renewables in net electricity generation.[22]

Concerns also persist around public finances. Despite Luxembourg's low debt-to-GDP ratio – the third lowest in the EU at 26.3% for 2024[23] – high public debt levels remain a source of unease for investors in non-financial sectors – suggesting that outdated perceptions may still shape investment decisions.

These discrepancies highlight a potential gap between investor expectations, shaped by government communications, and the actual performance of the country in renewable energy and debt, suggesting that clearer and more accurate messaging is needed to align perceptions with reality.

TAX CONTINUES TO HAVE MOSTLY POSITIVE IMPACT ON BUSINESS DECISIONS

On a more encouraging note, Luxembourg's tax environment continues to be seen as a net positive. When asked about recent tax changes, 53% of investors reported a significant or slight positive impact on business decisions. Across Europe, investors increasingly value tax predictability and certainty, and Luxembourg is no exception – ranking this as its second-highest tax priority. However, the country also leads in the share of investors calling for simplification of tax codes and compliance procedures, underscoring the need to pair competitive tax rates with streamlined administrative processes. This is particularly concerning given that Luxembourg strives to offer clear tax guidance. If the system is perceived as overly complex or difficult to navigate, it could undermine one of Luxembourg's competitive advantages.

There is a clear decline in the appetite for aggressive tax planning among businesses, which will be discussed in Chapter 3. In today's environment – shaped by increased regulatory scrutiny, global efforts to curb tax avoidance (such as the OECD's BEPS initiatives), and growing stakeholder expectations around transparency – many companies are rethinking their tax strategies. Rather than navigating complex, high-risk structures to minimize tax liability, businesses increasingly prefer jurisdictions that offer straightforward, predictable tax regimes and competitive rates. Simplicity and legal certainty are now key differentiators; firms want to minimize compliance risks, avoid reputational damage, and focus resources on growth rather than legal or regulatory disputes. This shift marks a broader move toward long-term stability over short-term tax gains.

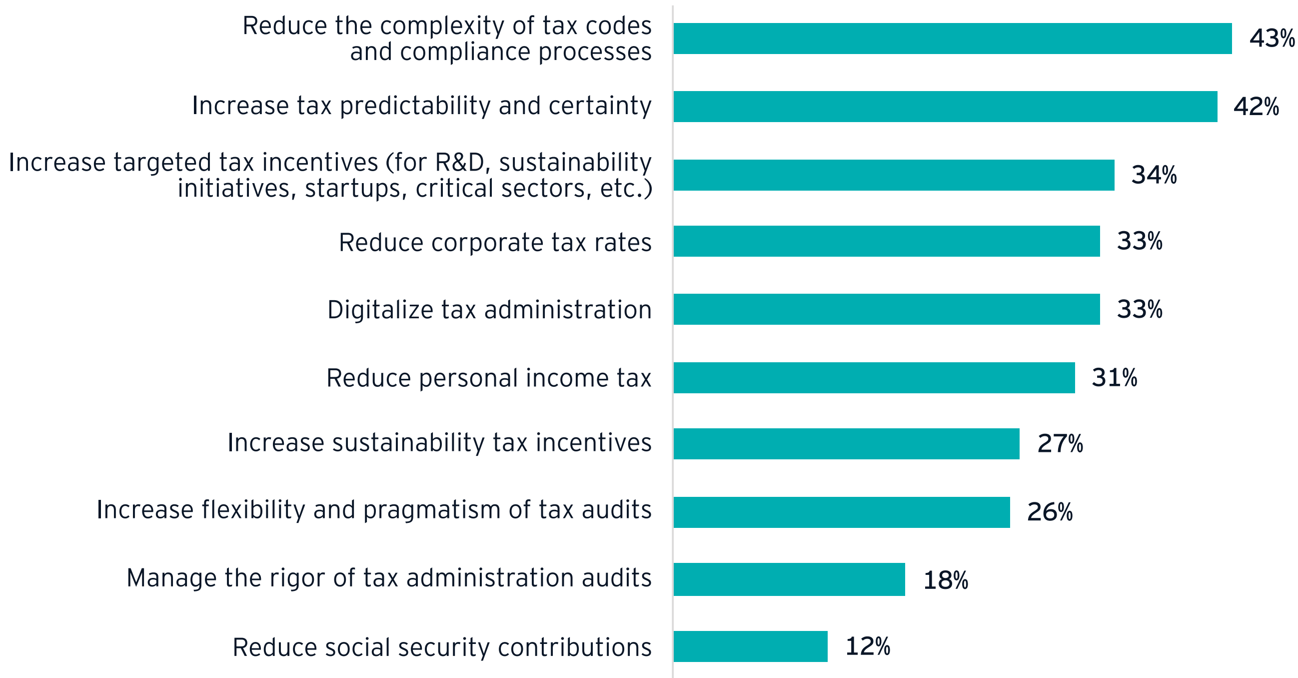
INCREASED SUPPLY OF SKILLS IN NICHE AREAS NEEDED FOR ADVANCEMENT

Looking ahead, a shortage of specialized skills poses a critical challenge to Luxembourg's growth ambitions. The need to bolster expertise in technology, engineering, and energy is cited as a top priority by 41% of Luxembourg-based investors – compared to a European average of 34%. In Luxembourg, improving workforce productivity ranks as the second most pressing talent concern, highlighting the urgency of enhancing both the quantity and efficiency of skilled labor to support innovation and economic transformation.

These opinions do not come from nowhere: Luxembourg's job market has reportedly grown at its slowest pace since the financial crisis. Looking at just the past year, the construction sector – making up 10% of all employment – saw the biggest drop in employment (-4.8%). The financial sector, accounting for 11% of total employment, recorded growth of only 1.3%. The IT industry, accounting for 4.5% of employment, also saw a decline of -0.1%, which contrasts to positive growth in 2022 and 2023 (3.5% and 3.9% respectively).[24] This could be explained by a growing mismatch between the qualifications of job seekers and the skills demanded by employers – potentially due to rapid technological advancements and evolving industry requirements.

A question is also then raised around whether Luxembourg is doing enough to build talent pipelines from the ground up. While upskilling and reskilling efforts are important, long-term competitiveness depends on early and sustained investment in education – starting at the school level.

Figure 11: How should Luxembourg improve its tax competitiveness?



Source: Luxembourg Attractiveness Survey, 150 respondents

Artyom Yukhin
President and CEO at Artec 3D

To attract investment, Luxembourg must first create strong incentives for top talent and for businesses.

For bringing in digital talents, Luxembourg could adopt a scheme similar to Portugal's – where a 20% flat income tax over 10 years has proven effective.

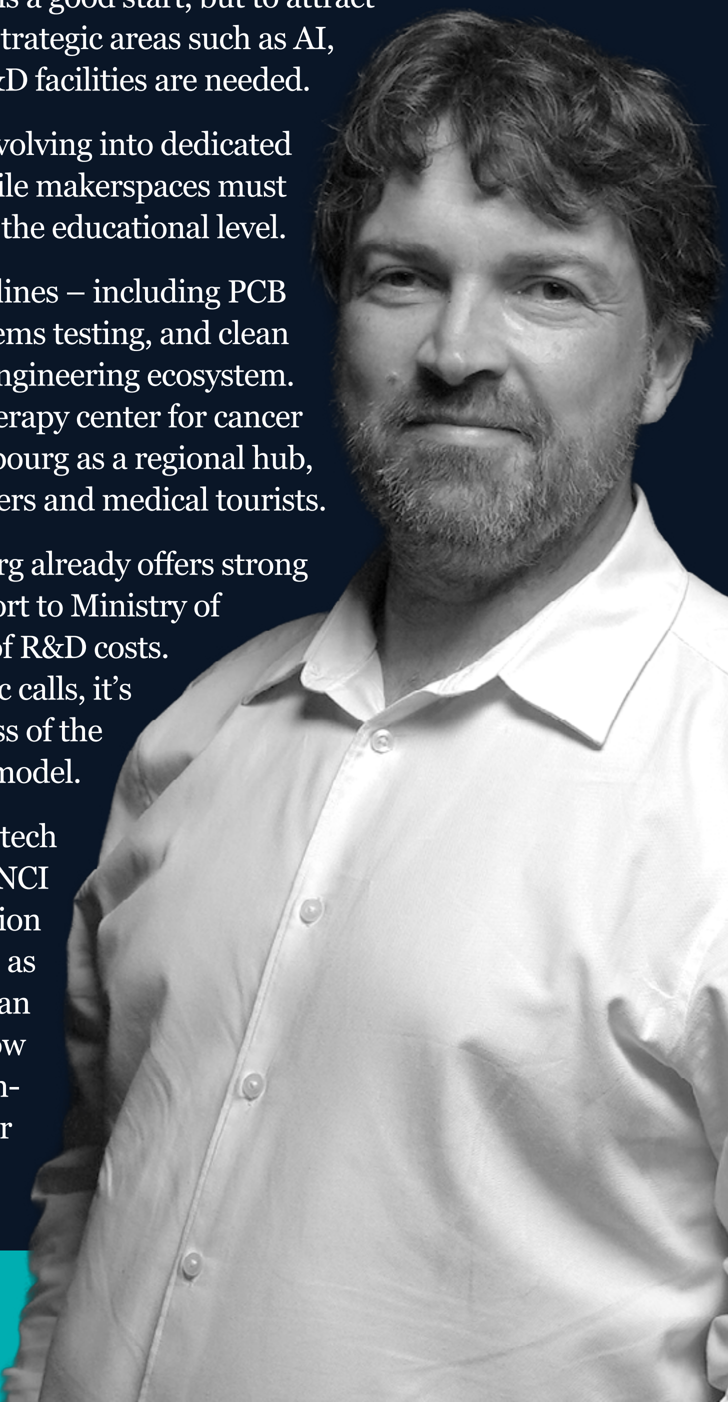
But talent also needs the right infrastructure. Infrastructure like MeluXina and Base1 makerspace is a good start, but to attract top specialists and investment in strategic areas such as AI, electronics, and medtech, deeper R&D facilities are needed.

MeluXina should continue evolving into dedicated infrastructure for AI developers, while makerspaces must grow beyond the educational level.

For electronics, shared prototyping lines – including PCB manufacturing, embedded systems testing, and clean labs – would help build a strong engineering ecosystem. Likewise, building a heavy ion therapy center for cancer research could position Luxembourg as a regional hub, attracting world-class researchers and medical tourists.

To incentivize businesses, Luxembourg already offers strong tools – from Luxinnovation's support to Ministry of Economy co-funding of up to 50% of R&D costs. As the system shifts toward thematic calls, it's crucial to preserve the effectiveness of the current model.

Finally, public support for outbound tech M&A should be strengthened. SNCI has the mandate, but implementation remains limited. This is essential, as not all technologies and talent can be brought to Luxembourg. To grow globally while keeping IP and decision-making local, firms need stronger backing for international expansion.



3 CONCLUSIONS & RECOMMENDATIONS

INVESTMENT FUND INDUSTRY

Luxembourg's pre-eminence as a global investment fund hub is undisputed. Despite economic downturns and uncertainty, the sector has grown resiliently. Yet, as global capital flows shift toward specialized strategies and differentiated offerings, Luxembourg will need to identify, name, and strengthen its niches. This will be essential to power up and develop Luxembourg-based, fund-oriented operations and business centers – areas which are regularly recognized as attractive for investment by foreign investors.

PRODUCT INNOVATION: THE AVENUE TO KEEP LUXEMBOURG #1 IN EUROPE

ENABLE NEXT-GEN FUND STRUCTURES FOR ALTERNATIVES

Context: Luxembourg remains the strongest fund center in Europe.[25] Ireland – its closest competitor – is gaining ground, however Luxembourg holds a clear edge, particularly in actively managed UCITS and a growing alternatives market spanning private equity, infrastructure, private credit, and digital assets. Global alternative assets under management (AUM) reached $19.5 trillion in 2024, with projections soaring to $29.2 trillion by 2029,[26] driven by increased retail access and platform innovation, spotlighting the huge opportunity that exists in this market.

Figure 12: Net assets in Europe in EUR billion as at December 2024

	UCITS	AIF	TOTAL
Europe	**15,241,653**	**8,181,612**	**23,423,265**
Luxembourg	4,776,451	1,043,637	5,820,088
Ireland	4,043,403	949,151	4,992,554*
Germany	549,130	2,259,159	2,808,290
France	976,950	1,525,071	2,502,021
United Kingdom	1,534,879	617,215	2,152,094

Source: EFAMA
** Of which approximately 31% of total net assets comprise ETFs (active and passive), compared to 8% in Luxembourg*

Opportunity: Luxembourg is the leader in cross-border fund distribution (48% market share), with Luxembourg-domiciled funds distributed in more than 80 countries.[27] The European leader for UCITS, Luxembourg ranks third in Europe, behind Germany and France for alternatives. Luxembourg is poised for significant growth thanks to its robust, innovative products and favorable regulatory environment. Regulated fund structures, such as the EU's revised European Long-Term Investment Fund (ELTIF 2.0) are making less liquid asset classes more accessible. Luxembourg is, in fact, the leading jurisdiction for ELTIFs, hosting 117 of 186 funds (63% market share).[28] Additionally, Luxembourg became home to the first fully tokenized UCITS fund in 2024,[29] further underscoring its attractiveness as a domicile for innovative investment funds.

Luxembourg also has a suite of legal structures, including the SICAV (*Société d'Investissement à Capital Variable*), SIF (Specialised Investment Fund), RAIF (Reserved Alternative Investment Fund), and SCSp (Special Limited Partnership), which offer fund managers versatility in structuring investments across various asset classes. The SICAR Law's 20th anniversary in 2024 reinforces Luxembourg's longstanding dedication to alternatives. Luxembourg is therefore poised for significant growth thanks to its robust, innovative products and favorable regulatory environment – so long as its agility and responsiveness to European directives is maintained and gold-plating is avoided.

Recommendation

Luxembourg should continue to position itself as the jurisdiction of choice for ELTIFs. This involves promoting Luxembourg-based ELTIFs as viable entry points for high-net-worth and retail investors seeking access to illiquid strategies, facilitating cross-distribution across EU Member States by ensuring that local ELTIFs meet both host-country marketing requirements and centralized passporting standards, and encouraging the integration of semi-liquid mechanisms to attract a broader investor base. Luxembourg should also continue to refine its legal structures to support fund managers exploring newer investment products (some of which could include tokenized assets, ESG or thematic strategies and other hybrid vehicles).

At the same time, Luxembourg should continue to refine its administrative processes to expedite product approvals via streamlined procedures. Along these lines, it is essential that Luxembourg continues to strengthen efforts to stop gold-plating. In other words, Luxembourg must continue to ensure it does not overextend itself in the application of directives, guidelines and procedures, which can be costly and burdensome for businesses. This is essential for building the ideal environment for the fund industry to innovate and scale. Finally, it is suggested that an "omnibus directive" is created for all regulation impacting alternative investment funds, similar to the "Omnibus Simplification Package" adopted by the European Commission in relation to corporate sustainability reporting. This directive would streamline and consolidate all regulation relevant to alternatives, with the intention to simplify and reduce administrative burdens and costs for businesses.

UNLOCK LIQUIDITY IN PRIVATE ASSETS VIA TOKENIZATION AND SECONDARY MARKETS

Context: Private assets have long promised enhanced returns and portfolio diversification, but they come with a critical drawback: liquidity. For institutional investors, this challenge is familiar territory. For retail investors, the issue can be a pitfall. Products like ELTIFs, though restructured as semi-liquid funds, struggle to reconcile investor demand for flexibility with the inherently illiquid nature of underlying assets. This is particularly problematic in times of market stress scenarios when redemptions spike and liquidity is hardest to generate.

Opportunity: Technology, particularly tokenization, offers a compelling solution. By converting fund units or assets into blockchain-based digital tokens, ownership stakes can be traded on secondary markets. This decouples investor liquidity from asset liquidity, meaning managers are no longer forced to hold liquid buffers or compromise their investment strategy to meet redemptions. Tokenization also facilitates real-time settlement and enhances transparency, making it an operational win as well. Yet, the widespread adoption of this model requires legal frameworks, investor confidence, and functioning secondary markets with sufficient strength. Luxembourg, with its established fund infrastructure and recent legal amendments embracing distributed ledger technology, is in a prime position to lead this transformation.

Recommendation

To succeed, Luxembourg must foster collaboration between asset managers, digital infrastructure and solution providers, and regulators. Developing a liquid and trusted secondary market for tokenized alternatives could solve the core challenge holding back broader retail participation in private markets. As investors continue to seek higher returns in an environment of compressed public market yields, the ability to offer access, liquidity, and regulatory clarity will be the differentiating factor. Tokenization is not just a technical fix, it is a leading structural leap that will reshape the entire lifecycle of asset investing.[30, 31]

POSITION LUXEMBOURG AS THE CAPITAL FOR ACTIVE ETFS IN EUROPE

Context: Exchange traded funds (ETFs) have seen phenomenal growth in 2024, reaching $14.8 AUM trillion globally.[32] EY's latest ETF research predicts that European ETFs will reach $4.5 trillion by 2030, and global assets a whopping $25 trillion. Simultaneously, active ETFs are undergoing strong growth. Active ETFs in Europe have experienced significant growth, expanding to €54.4 billion from €29.6 billion in 2023 (2.5% of total ETF assets).[33]

Opportunity: Europe's ETF market has significant growth potential. With a population nearly double that of the US, ETFs account for only 10-15% of the market in Europe, compared to 40% in the US.[34] This gap indicates opportunities, especially among retail investors. Rising demand for returns exceeding index-trackers is driving interest in active ETFs, as investors look for strategies to outperform benchmarks while enjoying the efficiency and transparency of ETFs. With its historical dominance as the capital of European actively managed UCITS, Luxembourg is well placed to become the European hub for active UCITS ETFs. While in Luxembourg the overall market for active ETFs is still fairly small (only 1% of overall ETF AUM),[35] the momentum is building as new providers and products enter the space.

Luxembourg is already aware of the opportunity and taking steps to grasp it. For one, Luxembourg's new transparency regime addresses concerns regarding frequent portfolio disclosure for active ETFs, allowing fund managers to disclose holdings monthly with a maximum one-month lag. This approach balances investor protection with the need to safeguard proprietary strategies, creating a regulatory "safe harbor" that encourages more managers to enter the market. While other jurisdictions have also since adopted the same regime, Luxembourg's first mover status is significant. Further, Luxembourg's streamlined approval processes and the ability to establish ETF share classes within existing fund structures facilitate faster market entry.

Steps have also been made to improve international tax competitiveness by eliminating the subscription tax on active ETFs, effective December 2024. This change levels the playing field between passive and active ETFs, removing a key cost barrier and enhancing Luxembourg's appeal as a jurisdiction for fund launches.

Recommendation

As active ETFs gain traction, Luxembourg is well-positioned to lead their expansion in Europe, but these benefits will need to be well publicized to ensure the European market is well aware of them.[36]

Further, Luxembourg has an expansive network of 55 double tax treaties. Now is the time for Luxembourg to revisit its treaty network – not only to reinforce the current agreements but also to negotiate new, strategic treaties that reflect modern cross-border investment realities.

Finally, active ETFs by design are redefining managing and distribution models. As they proliferate, traditional inducement-driven distribution networks may erode. This may lead to further enhanced competition with classic UCITS funds, especially as ETFs become more favored for their cost efficiency and transparency. As such, positioning Luxembourg as a center for active ETFs must be balanced with a clear strategy to preserve and modernize the broader UCITS framework for which it is known.

ACCELERATE INVESTMENT IN SCALABLE DIGITAL INFRASTRUCTURE THAT SUPPORTS THE FULL INVESTMENT FUND LIFECYCLE

Context: Asset servicers form the operational backbone of Luxembourg's investment fund ecosystem. Custodians, administrators, transfer agents, and fund platforms all play a vital role in enabling cross-border distribution, regulatory compliance, and investor servicing. They are a core driver of FDI – global financial institutions continue to establish or expand their presence in Luxembourg to support the expanding investment fund industry. To remain competitive, both asset managers and servicers must embrace digital transformation. Yet, only 33% of asset servicers in Luxembourg fully fund digital initiatives, and just 21% have digitalized most workflows. Even more concerning, the share of firms launching digital products has declined from 70% in 2024 to 48% in 2025.[37] These execution gaps could erode Luxembourg's position in the eyes of foreign asset managers evaluating domiciles for next-generation, tech-enabled fund operations.

Opportunity: To close this gap, Luxembourg offers a tax credit for digital investments. Starting in 2024, the investment tax system offers an 18% tax credit for investments (capex) and operating expenses (opex) related to digital transformation projects. This includes purchases of hardware and software, cybersecurity infrastructure, and investments in automation or digital enhancements. While this is an overwhelmingly positive development, the tax credit is not sufficiently known or used due to complexities navigating its scope. An additional constraint is the scrutiny and checks required by the government to ensure projects qualify, which complicates and lengthens the approval process.

Recommendation

As global investors increasingly demand efficiency, transparency, and digital-first experiences, Luxembourg must now invest more deeply in scalable, end-to-end digital infrastructure. Future competitiveness depends on Luxembourg's ability to operationalize innovation across the entire fund lifecycle – from onboarding and compliance to reporting, distribution, and asset servicing. To achieve this, Luxembourg should establish itself as a leading digitized hub for asset servicers. A robust digital ecosystem will attract more asset servicers, who will be drawn to the advanced infrastructure. As these asset servicers set up operations in Luxembourg, they will provide reliable and efficient services, which will, in turn, attract more fund managers seeking quality support for their investments. This creates a positive feedback loop: the presence of more asset servicers enhances service quality, encouraging fund managers to establish their operations in Luxembourg. This influx of fund managers will further entice additional asset servicers, strengthening the digital ecosystem. Ultimately, a well-developed digital environment will attract more FDI and solidify Luxembourg's position as a premier destination for investment management.

Further, tapping into the digital tax incentive framework, alongside continued public-private collaboration, will be critical to ensuring Luxembourg remains the domicile of choice for asset managers. The Luxembourg government should enhance awareness and simplify the application process for the tax credit, possibly by providing clearer guidelines and streamlining the attestation requirements, to ensure that more businesses can effectively utilize these incentives.

RECLAIM SUBSTANCE BY BUILDING AN INVESTOR RELATIONS AND FINTECH INNOVATION HUB ROOTED IN LOCAL DECISION-MAKING

Context: While Luxembourg is a vital hub for operations and support functions as it relates to the fund industry, the somewhat limited presence of decision-making authorities is highlighted. Decision-making power often resides abroad – in London, Zurich, or New York. This is often true for alternative investment firms, many of which have key functions like portfolio management, product development, and strategic leadership out of Luxembourg.

Opportunity: There is an opportunity for Luxembourg to strengthen its profile as a center for higher-value functions, and reimagine itself not only as a financial hub but as a thriving ecosystem for innovation within the fund industry. Tokenization and fintech are two areas where Luxembourg has the regulatory head start but needs to strengthen the entrepreneurial spirit. While Luxembourg talks about its digital ambition, a true fintech startup culture is only in the foundational stages. This is not due to a lack of interest, but because the conditions to nurture such a culture – deep talent pools, risk capital, founder-friendly taxation – are still emerging.

Further, Luxembourg has a strong ecosystem centered around the complex landscape that is anti-money laundering/anti-terrorist financing compliance, with a significant proportion of investor onboarding managed out of the country – including investor identify and legitimacy verifications through Know Your Customer (KYC) and customer due diligence. Since investor onboarding involves direct interaction with investors, there is an opportunity for Luxembourg to build out its investor relations capacity.

Recommendation

Luxembourg must act decisively: attract and retain international talent with competitive individual tax incentives; create targeted corporate tax breaks for high-growth fintechs; and establish grants or co-investment schemes for startups in blockchain, digital identity, and asset tokenization. Luxembourg's future relevance hinges not on being a domicile for cross-border fund distribution, but on being a center of gravity for financial innovation. Creating a credible, vibrant fintech sector anchored in real decision-making and innovation would not only attract foreign investment but also give residents a direct stake in the next generation of financial services. Moreover, given Luxembourg's expertise in alternative investments, it should strategically encourage and attract fintech companies specializing in this area to relocate to Luxembourg, thereby enhancing the ecosystem further.

Finally, considering Luxembourg's crucial role in the investor onboarding process, it is essential to enhance the value chain by developing a robust ecosystem of investor relations experts within the country. This role is pivotal, as the investor onboarding process is often one of the first significant interactions an investor has with a fund manager or platform. Particularly in high-value or complex investments, which are common in Luxembourg, a personalized and professional approach can make a substantial difference. Luxembourg is well-positioned with its skilled professionals to excel in this area.

SOLIDIFY FOOTING AS PREMIER HUB FOR ESG-INTEGRATED FUNDS

Context: Europe hosts 85% of global sustainable funds' net assets, while Luxembourg holds the majority of this market share (34% with a growth of 14.1% in 2023). Ireland takes the second position with only 16% of the market.[38]

Opportunity: Luxembourg's sustainable finance industry has earned trust and credibility, due to its early regulatory alignment with EU sustainability frameworks, the Luxembourg Green Exchange (the world's first platform dedicated exclusively to sustainable securities), and commitment to transparency through initiatives like LuxFLAG – the dedicated ESG fund labeling agency.

Recommendation

Luxembourg must solidify its leadership in sustainable finance by continuously – and proactively – aligning with EU frameworks like SFDR and SFDR 2.0. Equally critical is strengthening the underlying data and impact verification ecosystem.

SUMMARY

Luxembourg remains a global leader in investment funds, but to sustain this position - and attract the next cycle of foreign direct investment - it must move from resilience to reinvention.

Product innovation is key. By pioneering next-generation structures in alternative investments and tackling the liquidity challenge through tokenization and regulated secondary markets, Luxembourg can become the first choice jurisdiction for fund sponsors and tech-enabled asset managers alike. These advancements will enhance fund distribution, and bring real substance as firms set up operations, technology hubs, and decision-making centers locally.

Similarly, by positioning itself as the European hub for active UCITS ETFs, Luxembourg can capture the shift in global investor demand and attract new fund launches, along with the teams and infrastructure behind them.

Such innovation will be enabled by Luxembourg's continued agility with respect to regulation - provided it continues to avoid gold-plating and considers a thoughtful consolidation of the collection of alternatives regulation.

Tax treaty modernization - improving cross-border tax efficiency (including the expansion of the double tax treaty network or the improvement of withholding tax specific rules of existing treaties) makes Luxembourg-based vehicles more attractive to global investors, increasing fund flows and incentivizing multinational firms to establish a presence.

Finally, Luxembourg must deliver on its digital ambitions. By establishing itself as a digitalized hub for asset servicers, Luxembourg can create an ecosystem that attracts these firms, who then draw in fund managers seeking quality support - a positive feedback loop. Further, fintech innovation - through targeted incentives, regulatory clarity, and talent attraction - can draw in startups, scaleups, and international financial infrastructure players that contribute directly to FDI through capital, employment, and technology transfer. The cherry on top would be to develop an investor relations hub to leverage the skilled professionals already working in this arena.

By aligning financial product leadership with a credible innovation ecosystem and tax competitiveness, Luxembourg can transition from being a fund domicile to being a destination for global capital, talent, and business investment.

Martine Kerschenmeyer
Director, Limited Partner Services
at Advent International

Luxembourg's historical ability to reinvent itself has been the backbone of its attractiveness. To sustain this success, Luxembourg must enhance its competitiveness by prioritizing investments in strategic industries like digitalization, AI, and sustainable finance, and focus on supporting the private sector. By simplifying and clarifying regulations, Luxembourg can establish a level playing field, making it the destination of choice for innovation and growth.

INNOVATION ECONOMY

While Luxembourg has the ambition to position itself as a global leader in innovation, the country currently suffers from being spread too thin across too many initiatives. Without clearly defined priorities, foreign direct investment is at risk of vanishing.

FOCUS NATIONAL INNOVATION STRATEGY ON DEFINED HIGH-IMPACT SECTORS TO MAXIMIZE GLOBAL COMPETITIVENESS

Context: Luxembourg is making significant strides in key innovation sectors. To illustrate, there are over 90 artificial intelligence companies,[39] including 31 that have secured funding totaling $81.1 million.[40] Luxembourg's biotech sector is in its development phase but growing rapidly, with at least 24 research-focused companies hosted at the House of BioHealth.[41] The space industry is particularly robust, comprising over 80 companies and research labs. Overall, the nation has over 2,000 technology companies, with the majority concentrated in Luxembourg City, Esch-sur-Alzette, and Capellen.[42]

As cited in a recent interview with RTL, Mario Grotz, the new director of Luxinnovation, has pointed out that competitiveness can only be maintained "through innovation." Grotz calls for Europe, and by extension Luxembourg, to become pioneers in areas like artificial intelligence, data, and cloud computing. But he also acknowledges that Europe's fragmented efforts pale in comparison to the strategic focus and funding volumes seen in the US and China.[43] For example, as per the Draghi Report, in 2021 EU companies spent €270 billion less on research and development (R&D) than US companies. No EU firm with a market cap over €100 billion has been founded in the last fifty years, while all six US companies valued over €1 trillion were created in that period. Where they go deep, we – Europe – go wide.

Opportunity: Luxembourg has shown that when it commits fully to a strategic priority, it can lead. The space sector is a prime example: by aligning policy, investment, and regulation, the country transformed an ambitious idea into a thriving ecosystem that now attracts international players and high-value investment. This track record proves that with focused ambition, Luxembourg can punch well above its weight. A promising but less-publicized domain is defense innovation. Luxembourg companies have begun to make deliberate investments in dual-use technologies that blend civilian and defense applications, such as secure communications, satellite surveillance, AI-based threat detection, and resilient logistics systems. Given its strong base in space tech, cyber capabilities, and secure data infrastructures, Luxembourg is well-placed to play a significant role in Europe's push toward greater defense autonomy.

Recommendation

To succeed, Luxembourg needs to do more than select its focus areas – it must build around them. That includes fostering meaningful public-private partnerships, creating tax and regulatory incentives that attract international talent and startups, and developing branding and communications that amplify these niches on a global scale. Despite recent progress, Luxembourg's innovation ecosystem remains too reliant on administrative frameworks and not bold enough in entrepreneurial execution. If Luxembourg wants to compete globally – not just in headlines but in substance – it must translate its creative diversity into a targeted, scalable innovation economy. The country should deliberately center its national innovation strategy around selected areas where it has either demonstrated excellence or clear potential: space, healthtech, fintech (including tokenization and blockchain) and smart logistics and defense-related innovation.

COMPETITIVENESS CAN ONLY BE MAINTAINED THROUGH INNOVATION

Mario Grotz
CEO, Luxinnovation

Luxembourg's trusted data economy, built on strong IT infrastructure and expertise, makes it ideal for companies prioritizing digital security and EU market access. FDI should target those seeking a secure, strategic digital gateway to Europe.

CASE STUDY: SPACE

As per the Draghi Report,[44] the global space economy was valued at $630 billion in 2023 and is projected to reach $1.8 trillion by 2035 or $3 trillion if broader impact is considered, driven by the growing use of space-enabled data across multiple industries.[45] Europe stands as a leading space power with world-class capabilities – the EU Space Programme supports over 250,000 high-skilled jobs and generates up to €54 billion in value.

Luxembourg, despite its size, has emerged as one of Europe's most agile and competitive space players, with over 80 space companies and research hubs. With early investment in commercial space policy and the creation of the Luxembourg Space Agency (LSA), the country positioned itself as a pioneer in space resource law, satellite services and in-orbit technologies. The thriving space ecosystem is backed by supportive legal and financial framework, making Luxembourg a go-to destination for new space companies seeking credibility and flexibility in Europe. According to the European Space Agency, Luxembourg invests the most out of any European country in its space exploration efforts (0.13% of GDP vs. 0.06% at the European level). Globally (and relatively speaking), Luxembourg's space investment is third, after the USA and Russia.[46]

NEW SECTOR ALERT: DEFENSE

Defense presents a timely and strategic opportunity to redefine Luxembourg's industrial narrative. In today's geopolitical and technological climate, defense is not just about military hardware – it encompasses secure communications, cybersecurity, dual-use space technologies, AI-driven threat detection, and advanced logistics. These are precisely the areas where Luxembourg already has strengths or is building them. By aligning its industrial ambitions with innovation in defense, Luxembourg can position itself not as a manufacturing powerhouse in the old sense, but as a hub for high-tech, high-trust, strategically vital capabilities.

This pivot would allow Luxembourg to contribute meaningfully to European defense while generating high-value jobs, deepening its innovation ecosystem, and attracting targeted FDI from global defense and dual-use tech players. With smart public investment, partnerships and strong collaboration between government, academia, and industry, Luxembourg can build an industrial future that is not about scale, but about strategic relevance. Defense, in this context, becomes a new frontier for Luxembourg innovation.

BUILD ON EXISTING R&D SCHEMES AROUND INNOVATION

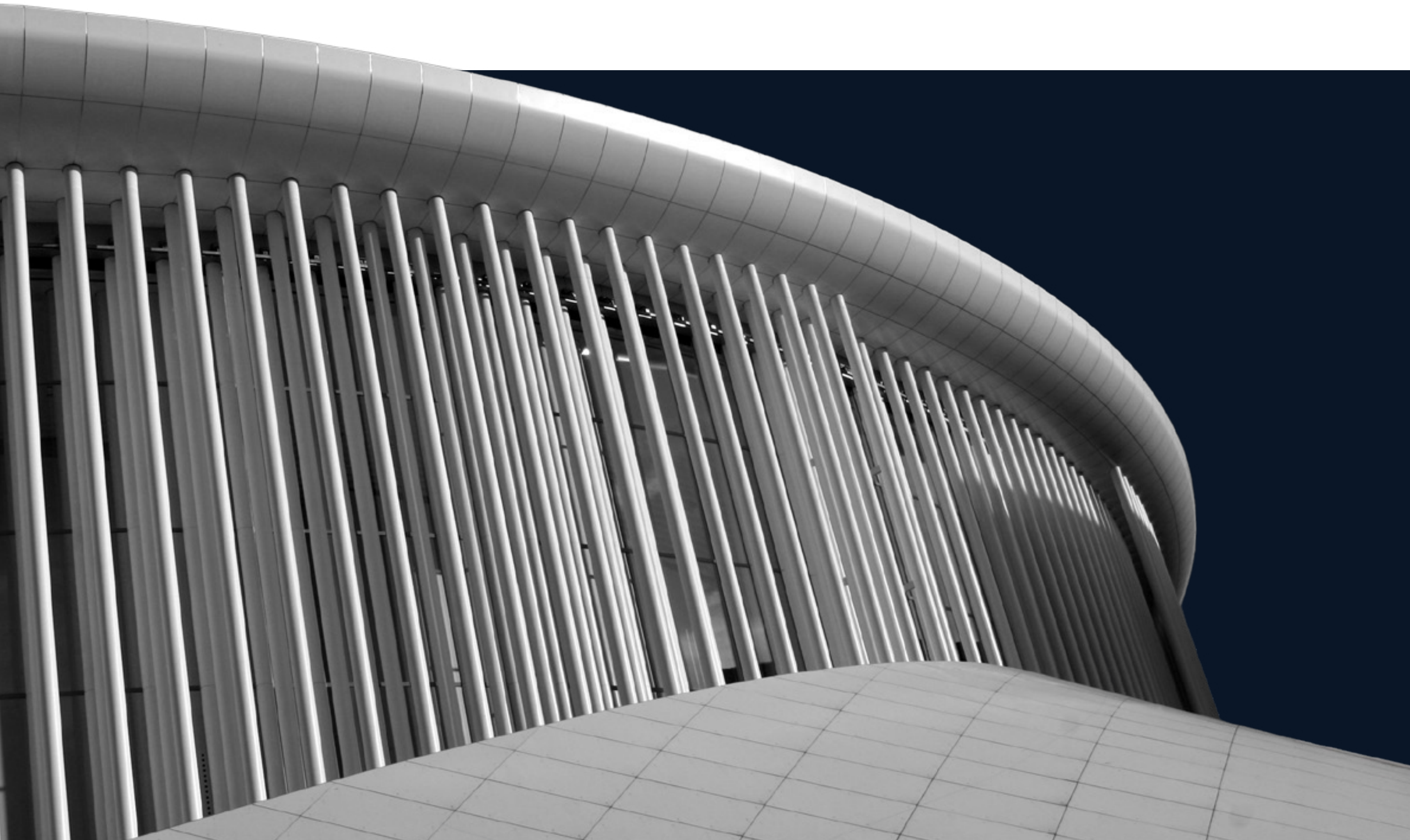
Context: While the ICT sector already contributes over €700 billion to EU GDP, Europe still lags significantly behind the US and China in high-impact investment – particularly in frontier areas like AI, cloud computing, and software development. The US alone accounts for 71% of global R&D spending by top software and internet firms, compared to just 7% for Europe.[47] In AI, the disparity is even starker: $320 billion in US investment versus only $20 billion in the Eurozone.[48] Luxembourg's ecosystem for innovation, on the other hand, is well-supported, offering generous R&D grants, co-financing schemes, innovation loans, tax incentives, and state-backed incubators like the House of Startups (HoST). Among others, examples of initiatives include the Fit 4 Start accelerator run by Luxinnovation, offering €150,000 in equity-free funding, coaching, and workspace access, or the favorable IP tax regime which provides an 80% exemption on qualifying IP income. Luxinnovation plays a key role in guiding companies through funding tools and partnerships.

Opportunity: Luxembourg has the opportunity to carve out a role not through scale, but through specialization – particularly in secure, data-intensive innovation. A prime example is MeluXina, one of the EU's most advanced supercomputers, strategically located in Luxembourg. As part of Europe's high-performance computing (HPC) network, MeluXina enables large-scale, secure data processing for high-stakes applications in healthtech, space, fintech, and advanced manufacturing. The supercomputer has positioned Luxembourg as a trusted destination for applied sciences – fields that are vital for everything from drug discovery and satellite analytics to cybersecurity and digital twins.

While this opportunity is compelling, its visibility is lacking. Several firms have noted that Luxembourg became a key choice for their business only after being convinced of its advantages by a key contact, as was the case with Artec 3D.[49] Yet, once the decision is made, growth is often inevitable as a result of the several existing support mechanisms.

Recommendation

Luxembourg's strategy should not try to replicate Silicon Valley, but to build niche leadership in domains where performance, trust, and regulatory alignment matter most. MeluXina's value lies not only in its computing power but in its integration with Luxembourg's broader digital ecosystem and governance frameworks, making it a magnet for forward-looking companies seeking both technological capability and regulatory confidence. While Luxembourg's innovation infrastructure is quietly world-class, its visibility remains too low, especially outside its borders. Institutions like the House of Startups, recently ranked among Europe's top 30 startup hubs,[50] demonstrate that the country is on the right path. But to fully capitalize on its strengths, Luxembourg must scale its narrative – broadcasting its support mechanisms, the global relevance of assets like MeluXina, and its unique positioning as a high-trust, data-driven innovation hub.



DEVELOP AND SUPPORT THE ECOSYSTEM AROUND INNOVATION AND R&D

Context: Luxembourg has built an impressive foundation for R&D and innovation, as previously discussed. The components are strong, and located across several geographical locations, such as Luxembourg City for startups, fintech and space activities, to Esch-Belval for healthtech and biotech, and space initiatives. However, the education system – while boasting many strengths – does not yet fully align with the needs of the evolving economy. A challenge is that almost half of the workforce consists of cross-border workers, complicating efforts to align education with domestic labor market needs.

Opportunity: As a small country, Luxembourg cannot afford to have similar firms or initiatives replicated across locations. What's missing is proximity: a central hub where academia, startups, corporates, researchers, and policymakers can meet, collaborate, and co-create in real time. An innovation campus would not only concentrate infrastructure and services but also send a powerful signal to international investors and entrepreneurs: Luxembourg is serious about scaling innovation. A unified location based on innovation type could host startup incubators, public R&D facilities, university research labs, venture capital firms, and policy think tanks – all within walking distance.

Luxembourg also benefits from a long history of diversity, which translates to a melting pot of human creativity. Home to over 170 different nationalities, and with almost half (47.2%) of residents being foreigners,[51] Luxembourg offers a range of differing perspectives. This cultural diversity fuels creativity and encourages out-of-the-box thinking, making Luxembourg an ideal environment for innovative solutions.

Recommendation

To fully unlock the potential of its innovation network, Luxembourg should consolidate its efforts into a unified physical space – a flagship campus (or campuses) that brings the entire ecosystem together. This effort should focus on uniting similar sectors, enhancing specialization, aligning interests, and providing the necessary support for a thriving ecosystem. Think of this as the "Venice of Innovation": a dense, interconnected district where creativity flows, disciplines cross-pollinate, and innovation is inevitable by design. Crucially, it would offer a home base for Luxembourg's flagship sectors – for example, one single campus for innovation in related activities (like a fintech campus in Kirchberg), another for R&D in the sciences (such as a collection of space, healthtech, and AI initiatives localized in Esch) and one for industry, focusing on, for example, defense and manufacturing innovation. This would foster deep collaboration between industry and research.

Equally important is the human capital to power this ecosystem. Europe, specifically Luxembourg with its multiculturalism, is a leader in creativity. This is evident through superior world-class brands and companies. Luxembourg can do more to cultivate this creative mindset amongst its labor force and must invest more deliberately in nurturing the next local generation of innovators by embedding creativity into its education system.

SUMMARY

To solidify its role as a leading innovation hub, Luxembourg must focus its efforts on a few high-potential domains where it can lead globally – such as space, healthtech, fintech, quantum computing, smart logistics, and defense. These sectors align with the country's strengths in creativity, secure data, finance, and regulation. These are not arbitrary picks; they align closely with Luxembourg's core advantages: a digitally advanced and secure infrastructure, strength in finance and regulatory agility, and a culture of cross-border collaboration. By honing its value proposition around these fields, and providing specialized government support to strengthen them, Luxembourg can offer clarity to foreign investors looking for sector-specific opportunities with global relevance and sustainable growth potential.

Equally important is the need to better communicate and simplify access to Luxembourg's robust support ecosystem. The country offers generous public R&D co-financing, innovation tax credits, and high-performance infrastructure like the MeluXina supercomputer – yet these are often underutilized or overlooked due to fragmented messaging and unclear entry points. By creating a more unified and globally recognizable narrative, the country can attract more high-quality FDI from startups, corporates, and venture capital funds alike. Global investors are not just buying into a country; they are buying into a story of growth, access, and long-term returns.

Finally, to foster true collaboration, Luxembourg should physically connect its innovation actors through a central innovation campus – a "Venice of Innovation" – bringing startups, researchers, and corporates together in one or several dedicated spaces. Coupled with education reform focusing on boosting Luxembourg's high-levels of diversity and creativity, this will ensure Luxembourg not only innovates but leads, and creates the ecosystem that will attract foreign investors.

INDUSTRY

Luxembourg's industrial legacy is rooted in steel – a sector that once formed the backbone of its economy and national identity. The rise of the post-war manufacturing boom made Luxembourg a symbol of industrial resilience in Europe. However, over the past few decades, the country has shifted toward finance and services, with industry playing a less prominent role.

While there have been periodic discussions about revitalizing Luxembourg's industrial sector, tangible outcomes have remained limited. Foreign direct investment trends show that despite Luxembourg's business-friendly environment, manufacturing FDI has not returned at scale. For Luxembourg, defense will become the upside of industry.

CASE STUDIES: DUAL-USE TECHNOLOGIES

Dual-use innovation is becoming increasingly important and examples of this already exist. To illustrate, a Finnish company that began with commercial radar satellites for disaster response now supports defense agencies with persistent Earth observation for surveillance and reconnaissance. In the UK, a firm that developed autonomous drones for humanitarian logistics is adapting them for contested military resupply missions. A French developer of autonomous urban shuttles is now exploring ground transport applications for base mobility in partnership with defense contractors. An Austrian company specializing in real-time embedded networking for aviation and automotive use is now applying its deterministic systems to secure military communications and flight control. A Swiss firm founded to clean up space debris is developing orbital servicing technologies with potential military uses. Meanwhile, a German airspace security startup now supplies NATO with counter-drone systems for base and infrastructure protection.

EXPAND INTO DUAL-USE TECHNOLOGIES

Context: The EU's defense sector is not only essential for security but also a key driver of growth across the broader economy through technology spillovers. Yet the EU continues to face serious challenges: limited industrial capacity, fragmented markets, and underinvestment. As per the Draghi Report, in 2023, US and Chinese defense budgets accounted for nearly half of global spending, with the US alone responsible for 37%. In contrast, the EU's collective defense expenditure is just one-third that of the US, and only ten Member States currently meet NATO's 2% GDP defense spending target. If the rest did, an additional €60 billion could be directed toward strengthening European defense.[52]

While Luxembourg does not currently produce weapons due to legal restrictions, this policy is under review as part of a broader effort to modernize its national defense strategy.[53] The country has begun producing surveillance drones and maintains flexibility to adapt them for military use if necessary, such as in support of Ukraine. Rather than expanding the military directly, Luxembourg is prioritizing infrastructure projects like the Bleesdall shooting range and Waldhaff military base.[54]

Opportunity: Several European companies are increasingly adapting their innovations for dual-use technologies that serve both civilian and defense applications. This shift reflects a broader trend in which cutting-edge commercial solutions – often developed by startups and SMEs – are being repurposed to meet growing security demands, at a time when the EU is working to strengthen its strategic autonomy amid rising global threats. There is a substantial opportunity for Luxembourg in this arena.

Recommendation

These shifts show how innovation rooted in civilian use can evolve into strategic defense capabilities – an approach Luxembourg is well-positioned to copy. Luxembourg should actively promote the development of dual-use technologies by encouraging companies already operating in the country to explore how their existing products and expertise can be adapted for defense applications. For example, a leading manufacturer of hard materials and cutting tools – headquartered in Luxembourg – illustrates the potential for Luxembourg-based firms to pivot toward the defense sector by leveraging their high-precision engineering capabilities for military-grade components or tooling. Luxembourg's government, together with professional associations, should assess the conversion potential of SMEs in the existing manufacturing industry, to understand to what extent dual-use possibilities can be leveraged. Just like the "Fit 4 Resilience" programme that helped companies relaunch and reinvent themselves during the pandemic,[55] Luxembourg should consider launching a "Fit 4 Defense" initiative that offers a grant to companies that wish to assess their capacity to reprocess and diversify their core industrial capacity to support the growing defense industry, just like other market players have done.

LEVERAGE GEOPOLITICAL PROXIMITY AND MULTILINGUALISM

Context: Germany has announced plans to gradually raise its defense budget toward 5% of GDP,[56] with leaders emphasizing the need to meet NATO goals and build Europe's strongest conventional army. France is also considering raising its defense spending to 3.5%.[57] This creates a growing demand for defense capabilities and supply chain depth across the region. Luxembourg is pursuing a strategic, economically conscious approach to defense investment, guided by three principles: real value for national defense, feasibility in terms of staffing, and measurable economic returns.[58] Along these lines, a fund dedicated to innovation in the defense technology has recently been announced (the DefenceTechFund).[59]

Opportunity: With close geographic, linguistic, and logistical ties to both Germany and France, Luxembourg can serve as a natural support hub within this emerging defense corridor – especially as German industrial capacity strains to meet rising demand. This proximity, combined with Luxembourg's multilingual workforce and innovation potential, positions the country as a valuable partner in Europe's evolving defense landscape.

Recommendation

As Europe ramps up defense spending, Luxembourg is uniquely positioned to play a strategic supporting role. Luxembourg should capitalize on its central European location and multilingual workforce to attract FDI from defense manufacturing firms seeking a stable, well-connected base within the EU. Its proximity to major industrial powers like France, Germany, and Belgium offers strategic logistical advantages for supply chains and cross-border collaboration, while the country's multilingual environment facilitates seamless communication with international partners. By promoting itself as a gateway for defense manufacturers looking to access European markets and operate within a secure, business-friendly environment, Luxembourg can strengthen its defense industrial base and enhance its contribution to regional security.

INVEST IN CRITICAL ENABLERS: LAND, INFRASTRUCTURE, ENERGY AND ADMINISTRATIVE REFORM

Context: Luxembourg's industrial expansion is constrained by limited land availability, with only 2,590 km² of total territory and a significant portion already allocated to agriculture, forestry, and urban development. This scarcity is complicated by complex administrative procedures, including navigating several zoning and environmental regulations, which can delay the preparation of land for industrial use. Recognizing these challenges, the government has initiated reforms to streamline processes, such as consolidating business registration steps and introducing the "silence means agreement" principle to expedite approvals.[60] These efforts aim to reduce bureaucratic hurdles and make it more feasible for manufacturing firms, including those in the defense sector, to establish and expand operations within the country.

Challenges: No defense or industrial strategy can succeed without getting the basics right. Land, infrastructure, energy, and administrative agility are not secondary considerations, they are critical enablers. Without them, efforts to grow Luxembourg's industrial and defense capabilities will stall, no matter how advanced the technology or ambitious the vision. Administrative inefficiencies affect startups too. In cutting-edge sectors like AI, biotech, and space, delays in basic operational tasks – like opening bank accounts, hiring internationally, or obtaining permits – can seriously impede scaling efforts. For Luxembourg to compete globally, these friction points must be removed. Energy, too, is a make-or-break factor. While Europe leads in clean-tech innovation, its cost base remains vulnerable. China's aggressive subsidization and scale in sectors like solar manufacturing threaten to undercut Europe's competitiveness. Without stable, affordable energy and faster, more coordinated industrial policy, Europe – and Luxembourg – risk losing its edge.

Recommendation

To truly reignite its industrial capacity and lead in strategic sectors like defense, space, and advanced manufacturing, Luxembourg must first strengthen its industrial autonomy. That means securing supply chains, expanding domestic production, and ensuring that companies have access to fit-for-purpose industrial land. Today, investors flag the lack of suitable sites as a barrier to growth. Slow approvals and complex regulatory processes further compound this, delaying projects and deterring investment. Addressing these fundamentals is not just about enabling growth – it's about securing national relevance in the industries that will shape Europe's economic and geopolitical future.

TOP INITIATIVES FOR CRITICAL ENABLERS ALREADY PLANNED IN LUXEMBOURG

To tackle the shortage of developable land for businesses, Luxembourg has launched the "Triangle Vert" pilot project. This initiative allows companies to expand within existing economic activity zones by building vertically or horizontally on their current sites. It aims to optimize land use without the need to open new zones, supporting business growth while promoting more sustainable spatial planning.[61]

On regulatory reform, the government is taking steps to reduce administrative burdens for SMEs. Economy Minister Lex Delles has announced a streamlined business registration process that will simplify paperwork and shorten processing times. The goal is to make it easier and faster to start and run a business in Luxembourg, improving the country's competitiveness and entrepreneurial appeal.[62]

In terms of energy, Luxembourg recognizes the urgent need for a robust transition. An estimated €8.5 billion in investment is required by 2030 to meet national and EU climate targets. This funding will go toward scaling up renewable energy sources, enhancing energy efficiency in buildings and industry, and reinforcing energy infrastructure. These efforts are designed not only to reduce emissions but also to strengthen long-term energy security and sustainability.[63]

SUMMARY

Luxembourg should capitalize on its central location in Europe and its multilingual workforce to position itself as an attractive hub for foreign direct investment (FDI) in the manufacturing sector, particularly for defense and dual-use industries. Its proximity to major EU markets and institutions, combined with a highly skilled, multilingual population, gives Luxembourg a unique advantage in supporting international firms looking for a stable and strategically located base.

Building on this, the government should actively encourage companies already operating in the country to explore dual-use applications of their technologies, integrating civilian and defense markets to enhance value and resilience. A recommendation is to launch a "Fit 4 Defense" programme – much like the Fit 4 Resilience initiative during the pandemic – to incentivize firms to explore their dual-use capabilities.

To fully realize this potential, Luxembourg must, in parallel, continue to elevate the importance of fixing critical enablers by expanding the availability of industrial land, accelerating the complex and slow administrative processes for site development and improving access to energy. By aligning its geopolitical strengths with targeted industrial reforms, Luxembourg can unlock new streams of FDI and reinforce its role in Europe's economic and security landscape.

LABOR

Home to over 170 different nationalities, and with almost half of residents being foreigners, Luxembourg has a rich talent pool that can be leveraged across various sectors. Talent and labor are especially vital to Luxembourg's economic model because they are key drivers of creativity, an asset mentioned in previous sections. Yet, continued economic success - and therefore, continued ability to attract foreign direct investment - depends on its ability to attract and retain talent not through one-time initiatives, but through sustained, adaptive efforts.

CONTINUE TO REFINE AND PROMOTE TAX AND RELOCATION INCENTIVES

Context: Luxembourg faces notable challenges in its labor market. The country identified 22 occupations in high demand, spanning sectors such as healthcare, construction, ICT, and education.[64] Notably, the country experiences higher shortages among ICT jobs than for the average job, with an average of 102% more vacancies per employed person in ICT roles compared to the average job - a critical issue considering proposed ambitions to grow the digital economy.[65] To address these challenges and recruit talent, Luxembourg has implemented several important initiatives. For one, the so-called "expat tax regime" offers a favorable tax regime for highly skilled foreign workers which has recently been simplified and made more attractive. Effective as of 1 January 2025, expats who meet certain criteria will enjoy a 50% tax exemption on the first €400,000 of their gross annual compensation for a period of eight years. In addition, the simplified immigration process for families offers a streamlined visa and work permit procedure, including faster processing and improved labor market access for spouses, supporting family relocation and integration.

Opportunity: Luxembourg has consistently ranked among the top performers in global talent competitiveness. In the 2024 IMD World Talent Ranking,[66] Luxembourg secured the third position out of 67 economies, following Switzerland and Singapore. The country's strengths lie in its investment in developing local talent and its strong appeal to professionals from around the world. As mentioned before, Luxembourg has a diverse population. Home to over 170 different nationalities, and with almost half (47.2%) of residents being foreigners,[67] there is a rich talent pool that can be leveraged across various sectors. The country's diversity fosters an inclusive environment that attracts foreign professionals seeking a welcoming community. Luxembourg's openness to different cultures and backgrounds not only enhances the quality of life for residents but further strengthens Luxembourg's reputation as a global hub for talent, making it an attractive choice for individuals looking to advance their careers in a dynamic and multicultural setting.

Recommendation

Luxembourg must not treat tax and relocation incentives as one-time exercises. Rather, it must continue to refine and actively promote them to remain competitive in attracting and retaining talent. With approximately half of its workforce commuting from neighboring countries such as France, Germany, and Belgium, this international labor pool is both a strength and a vulnerability - workers have the constant option to pursue employment closer to home, where tax and cost-of-living factors may be more favorable. To mitigate this risk, Luxembourg should regularly review and enhance its incentive structures - not only through tax advantages but also through targeted relocation support, housing benefits, and streamlined cross-border administrative processes - to ensure it remains the most attractive option for skilled professionals in the region.

EXPAND VOCATIONAL AND TECHNICAL EDUCATION PROGRAMS TO ALIGN WITH LABOR MARKET NEEDS AND FUTURE TRENDS

Context: Luxembourg's workforce is characterized by a high degree of internationalization, with nearly half of the total population born abroad. This diversity contributes to a dynamic labor market, particularly in sectors requiring specialized skills, like those previously alluded to (fund industry, space, biotech, healthtech, among others). Notably, foreign-born residents are overrepresented at both ends of the educational spectrum: 28.6% possess low or no qualifications, while 27.8% hold a Master's degree or higher - substantially more than the native-born population, where only 13.2% have reached this level.[68] This imbalance highlights Luxembourg's reliance on foreign talent to meet its growing demand for highly skilled labor, especially in key sectors such as financial services, where the proportion of employees with a Master's degree or more has risen sharply over the past decade.

Opportunity: While the country benefits greatly from its international workforce, Luxembourg has an opportunity - and a strategic need - to build more homegrown expertise, from primary through tertiary levels. As demand intensifies for advanced qualifications in finance, law, technology, and scientific services, the domestic education and training infrastructure must evolve accordingly. Current initiatives like the Master in Investment Funds Law or the Master in Space Technologies and Business are strong examples of Luxembourg's efforts to align education with economic priorities. However, these remain niche and limited in scale. Broader, more accessible training paths, especially at the postgraduate level, are needed to prepare residents, particularly native-born citizens, for participation in the country's most advanced industries.

Recommendation

To strengthen its long-term competitiveness and reduce overdependence on foreign talent, Luxembourg should expand and diversify its education and vocational training systems. This means investing in more specialized degree programmes, strengthening partnerships between universities and industry, and promoting lifelong learning frameworks. Additionally, programs should be designed to reach a wider segment of the population, with targeted support for upskilling and reskilling. By creating clearer, more attractive pathways into high-demand sectors such as finance, technology, and the sciences, Luxembourg can cultivate a stronger native talent pool, helping to ensure that its workforce remains resilient, responsive, and future-ready.

SUMMARY

In a country with limited natural resources, human capital is one of its most valuable assets. Highly skilled workers bring not only expertise but also diverse perspectives that fuel creative problem-solving and innovation – a need if recommendations to build the "Venice of Innovation" are taken seriously.

Luxembourg's continued economic success depends on its ability to attract and retain top talent – not through one-time initiatives, but through sustained, adaptive efforts. In a global job market, where skilled professionals have increasing flexibility in where they choose to live and work, Luxembourg must remain proactive. This means continuously refining its policies, incentives, and education systems to ensure the country remains a destination of choice for both domestic and international talent.

Crucially, the quality of the country's workforce is directly linked to its appeal as a destination for foreign investment. Investors are not only drawn by the factors mentioned above, like the thriving fund industry, the growing innovation economy or opportunities presented in industry, but also by the availability of highly skilled, future-ready talent. Ensuring a steady pipeline of qualified professionals is therefore essential to maintaining Luxembourg's competitiveness.

Where do you think Luxembourg should focus its attention to attract FDI in the years to come?

Further develop tax allowances to favour technological and sustainable investments, support mutualisation of non-competitive topics to compensate for rising labour costs, accelerate discussions with neighbouring countries to increase the number of homeworking days for cross-border colleagues and contain the cost of housing to better retain and attract talents to Luxembourg.

Béatrice Belorgey
Chairman of the Executive Committee of BGL BNP Paribas

TAX

Geopolitical instability is placing strain on the global economy, with ripple effects across all regions, including Europe. In this landscape, Europe has the opportunity to act as a "lucky loser" by capturing capital and talent displaced from other markets – but only if it responds decisively with forward-looking, dynamic tax measures.

ENSURE GOVERNMENT MEASURES TRANSLATE INTO PRACTICAL IMPACT

Context: Recent measures introduced by the Luxembourg government to enhance its attractiveness to international businesses, such as the previously mentioned tax incentive for digital investments and the expat tax regime, as well as others such as the enhancements to the "prime participative" regime, a young employee bonus, and adjustments to the personal income tax scale,[69] are steps in the right direction.

Challenge: Feedback from market participants suggests that these measures have had limited practical impact to date. Several of the announced initiatives are being utilized in a limited manner by businesses, indicating a disconnect between policy intent and market uptake.

Recommendation

The Luxembourg government must take deliberate and strategic steps to ensure that investors are fully informed about the range of tax incentives and business-friendly policies available. Clear, targeted outreach campaigns, particularly through investment promotion agencies, diplomatic channels, and professional forums, can play a pivotal role in showcasing the benefits of Luxembourg's tax environment.

REDUCE CORPORATE TAX RATES EVEN FURTHER, AND REINFORCE VALUE PROPOSITION TO COMPETE WITH "SMARTSHORING" LOCATIONS

Context: As of 1 January 2025, the corporate income tax rate in Luxembourg was dropped by one percentage point. Overall, this translates to an adjustment in the overall rate for companies based in Luxembourg City from 24.94% to 23.87%.

Challenge: The reduction in the corporate tax rate has been perceived as insufficient in the eyes of large multinational enterprises (MNEs), including listed entities. Additionally, there is a growing trend among international companies to optimize cost structures by relocating activities from high-cost jurisdictions like Luxembourg. This move toward "smartshoring" emphasizes the need for Luxembourg to offer competitive corporate tax rates, but over-and-above this, reinforce its value proposition beyond tax – focusing on skills, infrastructure, and regulatory clarity.

Recommendation

MNEs are shifting to assess locations based on a broader set of factors, including legal predictability, regulatory burden, and overall business climate, and a slight change to the corporate tax rate is not enough to shift foreign investment decisions. There remains strategic room to further reduce corporate tax rates as a means of reinforcing Luxembourg's appeal. A carefully calibrated reduction in corporate tax rates would send a strong signal of Luxembourg's long-term commitment to business growth, and also strengthen its position relative to fast-growing smartshoring destinations that offer leaner operating costs.

PRESERVE FLEXIBILITY AND SIMPLICITY OF THE TAX LEGAL FRAMEWORK

Context: Importantly, Luxembourg's legal framework remains agile, with ongoing updates that support a responsive business environment. This flexibility is a key asset that must be preserved. Key areas where Luxembourg is working on becoming more agile include its modernization of the direct tax administration, and enhanced communication on the application of tax rules under the form of circulars or subject-specific Q&A sections that are published on the website of the tax authorities.

Challenge: There is a growing misalignment between the expectations of businesses and the timing of how EU directives and local laws are transposed. Luxembourg's obligation to implement EU legislation places limits on its ability to maintain a fully autonomous and nimble policy environment – an area where non-EU competitors enjoy greater freedom and are actively leveraging it to attract new investment.

Recommendation

As businesses globally shift away from aggressive tax planning strategies, they are placing greater value on predictability, simplicity, and speed – precisely where Luxembourg must refine its approach to remain competitive within the constraints of the EU framework. In this context, one point stands out: Luxembourg's continued application of a net wealth tax. If the threshold for the highest net wealth tax rate was reduced or restructured, Luxembourg could become a more attractive jurisdiction for strategic asset management and attract more family offices.

LEVERAGE THE HEALTHY DEBT-TO-GDP RATIO TO STIMULATE ECONOMIC ACTIVITY

Context: Luxembourg has long maintained a strong tradition of fiscal responsibility, with one of the lowest debt-to-GDP ratios in the European Union – currently around 25-30%. This conservative approach to public finances has positioned Luxembourg as a stable and trustworthy economy, highly rated by credit agencies and resilient in times of uncertainty.

Opportunity: This fiscal space allows Luxembourg to offer more targeted incentives than many of its peers. At a time when global competition for high-value investment is increasing, particularly from agile, non-EU jurisdictions, Luxembourg is in a strong position to attract businesses through well-designed support measures.

Recommendation

The government should strategically deploy incentives – such as enhanced R&D tax credits, sustainability grants, or relocation support for high-skilled sectors – to reinforce its competitiveness. Leveraging low public debt to drive targeted economic activity would strengthen Luxembourg's position without compromising fiscal discipline.

LEVERAGE POSITION AS AN ATTRACTIVE JURISDICTION FOR CROSS-BORDER TRANSACTIONS

Context: Following the transposition of the EU Mobility Directive 2019/2121, which entered into force in Luxembourg on 2 March 2025, the country has further strengthened its position as an attractive jurisdiction for cross-border transactions. Until then, only cross-border mergers were allowed across the EU Member States, with some countries (such as Luxembourg) allowing other cross-border transactions such as divisions or migrations. Before the implementation of said Directive, cross-border migrations involving EU Member States used to be a rather simple exercise for Luxembourg entities even though not all EU Member States allowed them (e.g., a migration from or to Ireland was not allowed by Irish regulations).

Opportunity: While the new framework (which now applies to all EU Member States) introduces more complexity and potentially longer timelines due to enhanced anti-abuse controls and procedural requirements, it nevertheless reinforces the integrity of the internal market and allows the same treatment for all eligible EU companies, and adds migrations and divisions to the EU tool box, thus creating more opportunities for migrations or divisions to or from Luxembourg.

Recommendation

Luxembourg now formally allows inbound and outbound cross-border mergers, migrations, and divisions involving non-EU countries. This reform confirms Luxembourg's role as a strategic hub for international business restructurings and cross-border mobility. Indeed, for instance, while Dutch laws only allow migration or mergers of companies across the EU Member States, a non-EU company willing to migrate to the Netherlands or be absorbed by a Dutch entity can use Luxembourg as a go-between: the non-EU company would migrate or be absorbed by a Luxembourg entity, followed by an EU migration or an EU merger to the Netherlands.

DEFINE A STRATEGIC APPROACH FOR STRUCTURING ALTERNATIVE FUNDS

Context: Luxembourg continues to serve as the key jurisdiction in Europe for structuring alternative funds. The same holds true for the holding companies underneath those funds. Other jurisdictions try to catch-up with the success story of Luxembourg holding companies. For instance, three years ago, the UK successfully introduced the "QAHC" (which stands for Qualifying Asset Holding Companies), a regime that directly competes against the Luxembourg holding ecosystem – in particular, those involved in certain private lending markets.

Opportunity: Luxembourg remains the top jurisdiction in Europe to attract alternative funds. Luxembourg is also well-positioned to foster underlying holding companies investing on behalf of the funds.

Recommendation

Luxembourg should continue to be at the forefront of innovations and adapt its legislation to allow to address the business needs in a dynamic and flexible way. It'll be key to maintain its competitiveness and the reputation of its financing center.

SUMMARY

Tax measures play a key role in Luxembourg's attractiveness by directly impacting the cost and efficiency of doing business. Clear, competitive and consistent tax regimes help attract capital and talent. They also give foreign investors the predictability of returns and compliance obligations.

Tax competitiveness in Luxembourg hinges on a few factors. To ensure that government tax measures translate into practical impact, it is essential to enhance the implementation and communication of talent initiatives to better align with market needs.

Further reductions in corporate tax rates should be considered to meet the expectations of multinational corporations whose investors compare effective tax rates (which are driven by statutory tax rate levels) rather than by cash tax rates. Luxembourg should also leverage its healthy debt-to-GDP ratio to stimulate economic activity and provide targeted incentives.

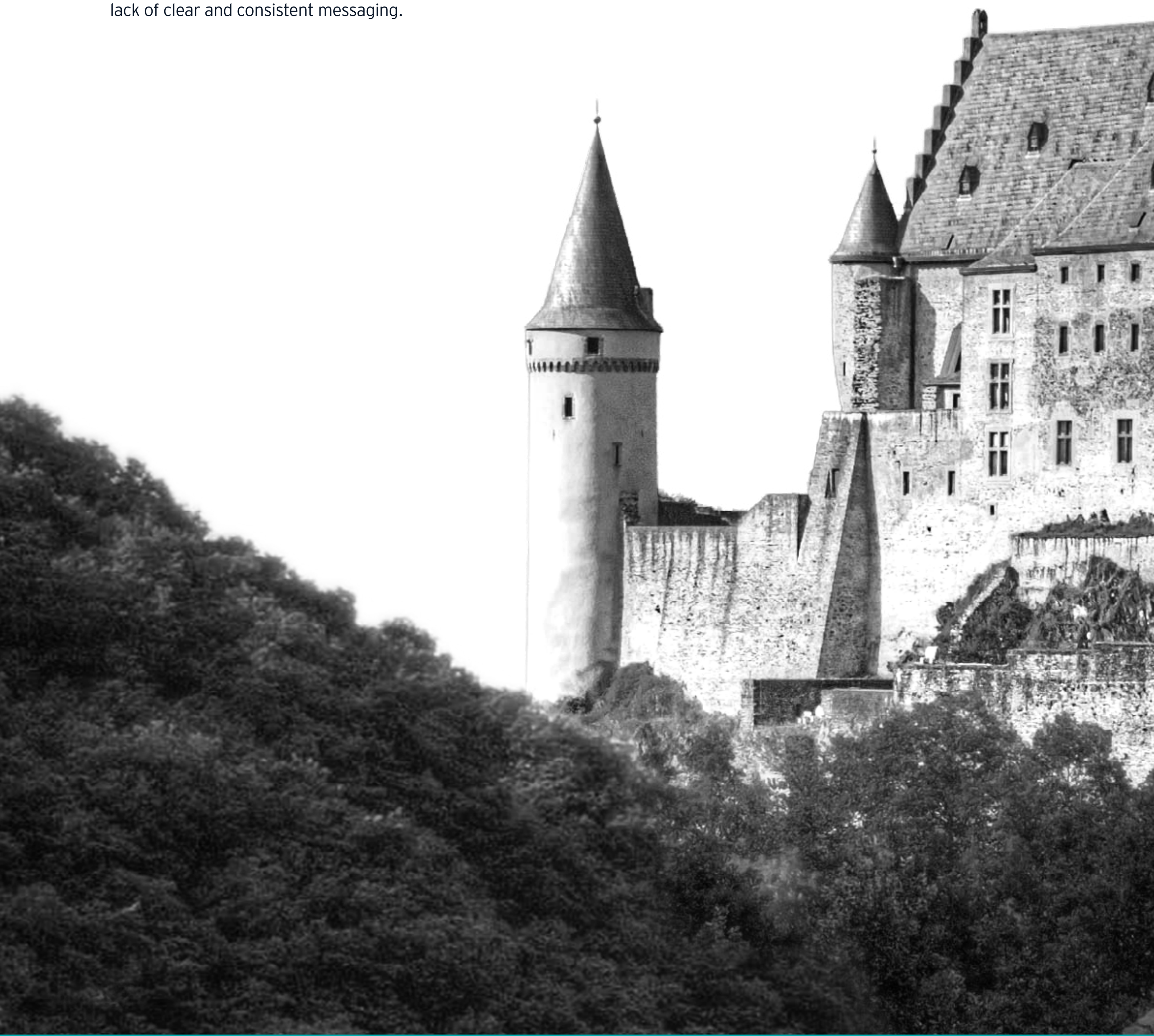
Additionally, preserving the flexibility and simplicity of the legal framework, while also addressing the timing of EU directive transpositions to better meet business expectations, is a necessity.

On the asset management front, revisiting and expanding the treaty network to reflect modern investment realities will be crucial. Further, enhancing the awareness and simplifying the application process for the tax incentive for investment in digital initiatives will help Luxembourg retain and attract more asset servicers looking to support the country's thriving investment fund hub.

BRANDING

Luxembourg must elevate its global branding by shifting from inward-facing narratives to outward-facing strategic communication that resonates beyond its borders. During this time where global media is saturated with crisis and contention, smaller nations like Luxembourg risk being overshadowed unless they deliberately amplify their relevance. The country's accomplishments – for example, those in the investment fund industry – are real, but they remain under-leveraged on the international stage due to a lack of clear and consistent messaging.

Branding efforts should not merely highlight successes but contextualize them in a global framework: how Luxembourg is responding to systemic challenges, contributing to stability, and offering value to investors, talent, and businesses alike. This requires moving beyond technical updates and local accolades to a bold, perception-driven narrative that champions transparency, adaptability, and forward-thinking leadership.



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CONCLUSION: CHOOSE LUXEMBOURG

Luxembourg remains a strong, credible hub for global investment, built on political stability, strategic location, and a skilled, multilingual workforce. But investor momentum is cooling, reflecting wider global volatility. Luxembourg must position itself with purpose and precision.

It is time to double down on sector-specific strategies. In the fund industry, Luxembourg should reinforce its leadership in alternatives, active ETFs, strengthen liquidity frameworks, and accelerate digitalization across asset servicing.

Building a powerful innovation ecosystem is equally urgent. Luxembourg must focus on specialized niches, scale applied research, fund commercialization, and expand clusters in quantum computing, defense, healthtech, fintech, and space. It should become the "Venice of Innovation" - connected, ambitious, and globally relevant.

Traditional industries also need targeted support to pivot toward defense, dual-use tech, and advanced manufacturing. Government should deliberately support reconversion efforts.

Tax policy should stay competitive but clear, with digital tax credits and R&D incentives (and more) front and center. Talent remains critical. Luxembourg must act fast on mobility fronts, while launching serious upskilling initiatives to meet future sector demands.

To tie all of these efforts together, Luxembourg should host a series of events that promote its strengths under the "Choose Luxembourg" branding. Regular, high-profile gatherings of this nature, ideally held at a major convention center, should not only convene businesses, but also government representatives, global investors, professional associations, and sector leaders. It will serve as a strategic platform to highlight Luxembourg's evolving offer, publicize new initiatives, and reinforce its role as a destination of choice for value-driven, forward-looking investment.

METHODOLOGY

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), an EY proprietary database. This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings, and intracompany loans.

To confirm the accuracy of the data collected, the research teams aim to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- M&A and joint ventures (unless these results in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels, and real estate*
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- Extraction activities (ores, minerals, and fuels)*
- Portfolio investments (pensions, insurance, and financial funds)
- Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- Nonprofit organizations (charitable foundations, trade associations and government bodies)

However, our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- How FDI projects are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business, and investment.

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 perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by FT Longitude in early 2025 via online surveys, based on a representative panel of 500 international decision-makers for the European Survey. The Luxembourg Survey is based on a panel of 150 international decision-makers.

*Investment projects by companies in these categories are included in certain instances: e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

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