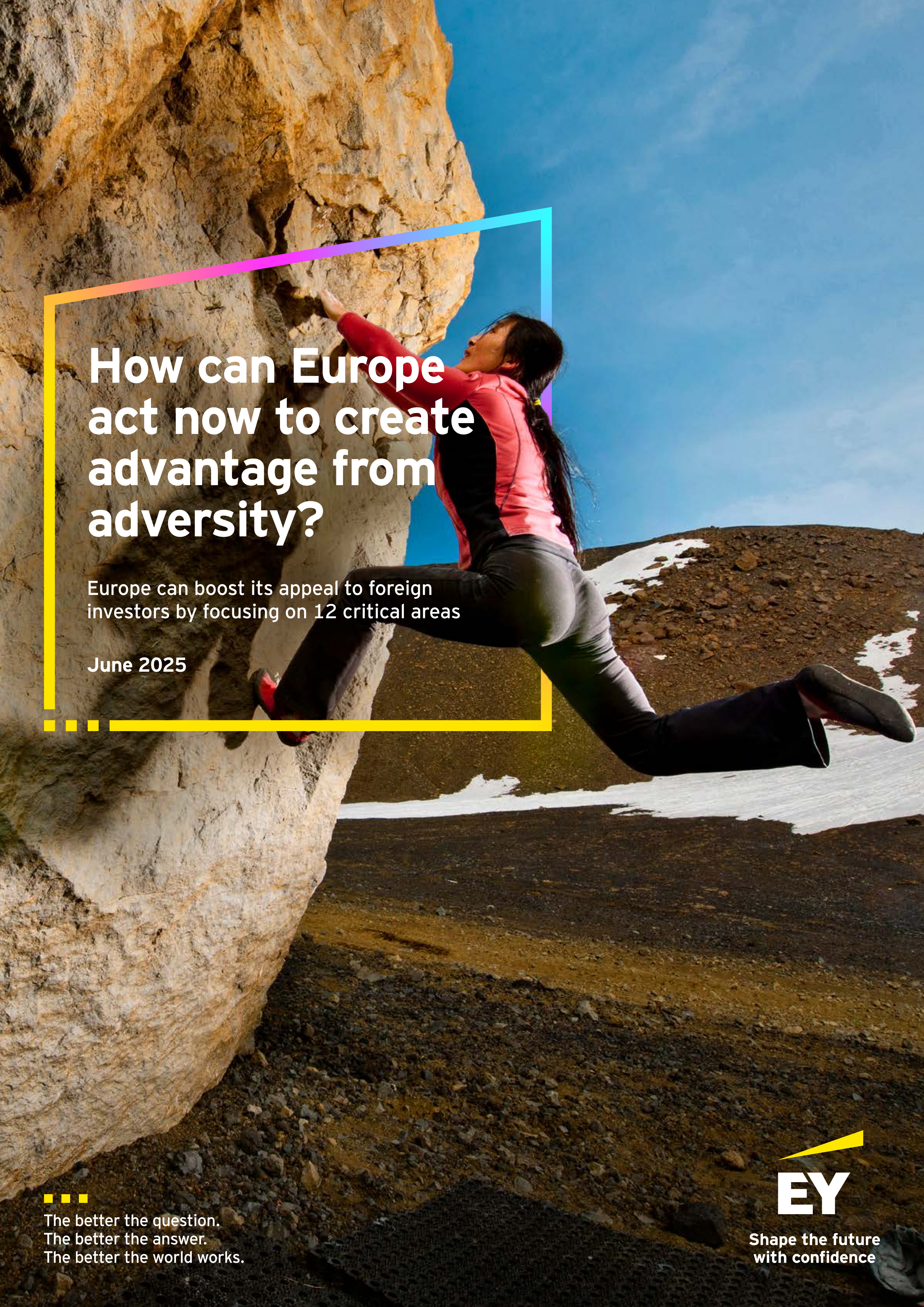

How can Europe act now to create advantage from adversity?

Europe can boost its appeal to foreign investors by focusing on 12 critical areas

June 2025

The better the question.
The better the answer.
The better the world works.

Shape the future with confidence

Contents

Foreword

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What a time to be releasing our latest research on Europe's attractiveness for foreign investment.

In the past three years, this topic of Europe's competitiveness and its attractiveness to global businesses has grown from relative obscurity to one of the most pressing concerns for policymakers and economists.

This is primarily due to three seismic shocks: the war in Ukraine, the resulting spiraling energy prices and, most recently, the imposition of tariffs on US imports.

Add in the longer-term trends of declining manufacturing competitiveness with China and widening productivity disparity with the US, and it's not difficult to understand why Europe is under immense pressure.

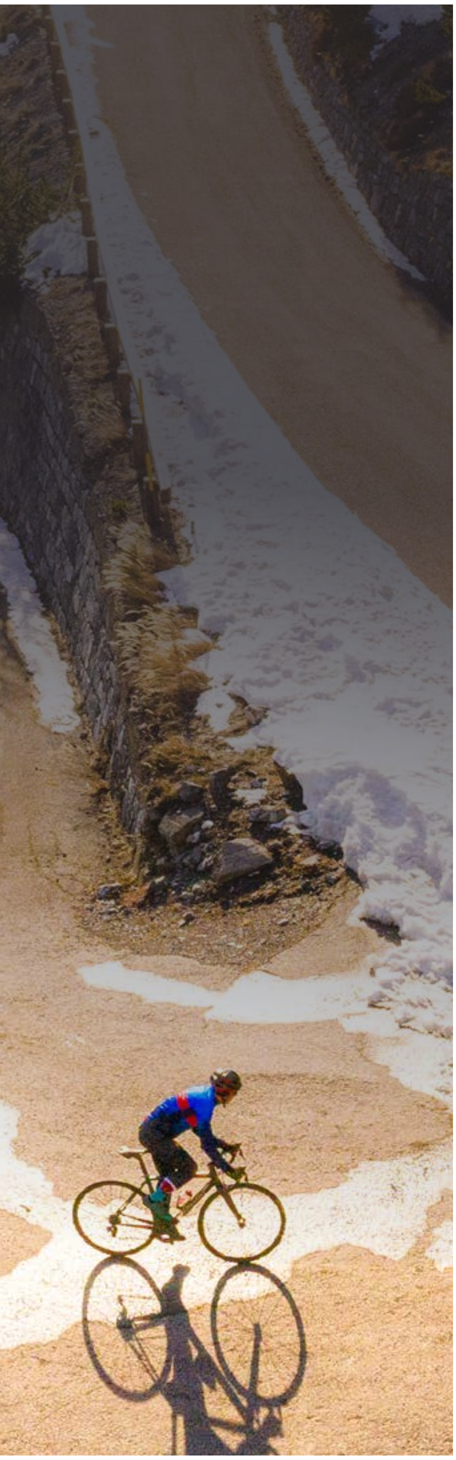
The new major threat to Europe's attractiveness for foreign investment is, of course, the policies of the new US administration. Import tariffs grabbed the headlines, but the administration's new stance on European security also creates profound risks.

The main findings of the research are sobering. The 5% annual investment decline in Europe in 2024 to the lowest level in the last nine years underscores the scale of the challenge.

Cause for optimism

Yet there are many reasons for optimism, whether in the strong flows of investment into many countries in Southern and Eastern Europe, or the long list of investments in high-growth areas such as artificial intelligence (AI) and energy, collectively creating thousands of jobs.

In addition, many of the forces currently undermining Europe's attractiveness could eventually boost it, if the continent adopts the necessary policies and attitude. For example, the relative stability in Europe could prove to be an advantage in the context of rising geopolitical uncertainty. And the repeated threats of US tariffs on imports from the EU, coupled with the withdrawal of security support, could be exactly the galvanizing force Europe needs to collaboratively find workable solutions to the continent's challenges.



Our contribution to the debate: the voice of business

In September 2024, the publication of Mario Draghi's seminal report, *The future of European competitiveness*,[1] also raised the salience of Europe's attractiveness. Adding this to Enrico Letta's report, *Much more than a market*,[2] released in April 2024, gives European policymakers many thoroughly researched and meticulously thought-out strategies to pursue, for the first time in decades.

Our report introduces a critical element to the debate: data. Turning adversity to advantage will require collaboration: policymakers cannot do this alone – they need to work with business leaders. Our annual survey of 500 executives provides insights from both large and small businesses on how Europe can improve its attractiveness. The insights we have gained by tracking and researching over 5,000 foreign investment projects in Europe annually for the past 20 years also shed light on Europe's strengths and weaknesses. Based on all of these inputs, we have crafted 12 recommendations for how Europe can improve its attractiveness.

A common thread across these recommendations is simplification. Whether it's regulation, tax compliance or accessing incentives, businesses have grown frustrated with the complexity of operating in Europe. The need for strategic investments is another common theme, be that in energy infrastructure, skills, or high-growth sectors such as AI and pharmaceuticals that will drive Europe's future growth.

In many of these areas, Europe is already taking decisive action. For example, the EU's Omnibus package, which aims to cut regulatory reporting requirements by 25% for all businesses and 35% for small and medium-sized enterprises (SMEs), is a huge step forward. But here and in other areas, Europe may need to go further.

Europe also needs to better tell the story about how it is improving its attractiveness on the world stage. It should speak with confidence about how it is taking decisive action to shape its future.

There is no shortage of ideas to improve Europe's attractiveness. Now, businesses, academics and policymakers must collaborate to bring them to life.

[1] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[2] Much more than a market, European Council website, dated April 2024 https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf

External
Viewpoint

Roberta Metsola
President of the European Parliament

Europe must turn investor concerns into confidence

This year's *Europe Attractiveness Survey* is a wake-up call: Foreign investment in Europe is at a nine-year low. Growth is slow. Business confidence is cautious. And global competition is intensifying.

Yet, despite the headwinds, the same survey also shows that investors still believe in Europe. They value our stability, our rule of law, and the scale of our Single Market. That trust matters. But Europe must match this belief with bold action.

The new European Parliament started its mandate with a clear purpose: to build **a smarter, stronger, safer Europe**. That means finally completing the Capital Markets Union. It means deepening the Single Market where it matters most: energy, defense, and digital. And it means creating the conditions for companies to grow, innovate and compete globally.

We cannot be blind to the barriers that remain. The power cut that plunged parts of the Iberian Peninsula into darkness earlier this year was a sharp reminder of how much work remains. We need a truly connected energy grid. We need to scale up the digital economy. And if we want to lead in AI, clean tech or advanced manufacturing, we must also lead in equipping people with the skills to power that progress. Finally, we need rules that support innovation. More regulation does not always mean better regulation. Simplification must be central to how Europe legislates, invests and grows.

We are also addressing the broader context weighing on investment. That means reducing trade tensions, strengthening global partnerships, and seeking peace in times of war and aggression. Because stability and security remain the foundation for sustainable growth. The new EU-UK agreement on trade and cooperation is a sign of what can be achieved through partnership and pragmatism. Now, we must show the same ambition with partners like Canada and the United States.

Across the continent, reforms are already delivering results. But we need to go further – and faster.

The foundations are there. So is the ambition. What matters now is implementation: on capital, on infrastructure, on skills and on competitiveness.

Europe is not standing still. We are modernizing, opening new opportunities and responding to what investors are telling us. The future may be uncertain. But Europe is ready to lead.

Executive summary

Weak economic growth, geopolitical turbulence and ongoing high energy prices caused foreign direct investment (FDI) in Europe to fall to a nine-year low:

5,383 **projects** were announced in Europe in 2024.

Down **5%** from 2023

Jobs created by **FDI fell** **16%**

France, the UK and Germany secured the most projects, though investment fell in all three countries:

	France	The UK	Germany
Projects	1,025	853	608
vs. 2023	-14%	-13%	-17%

Investment from the US, historically the largest investor in Europe, declined significantly:

US businesses announced **942** projects in Europe

Down **11%** from 2023

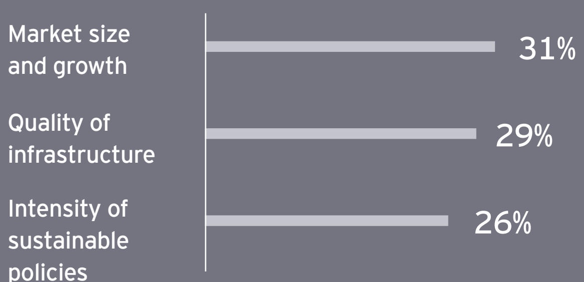
Jobs created by FDI from the US declined **18%** annually and halved since 2021

Appetite to invest in Europe declined:

59% of surveyed businesses plan to establish or expand operations in Europe in the next 12 months, compared with 72% in 2024.

37% of surveyed businesses postponed, canceled or scaled back their 2024 European investment plans.

But Europe also has key strengths on which it can rebuild its attractiveness. Surveyed businesses rank the top three as:



Businesses believe Europe will restore its attractiveness:

61%

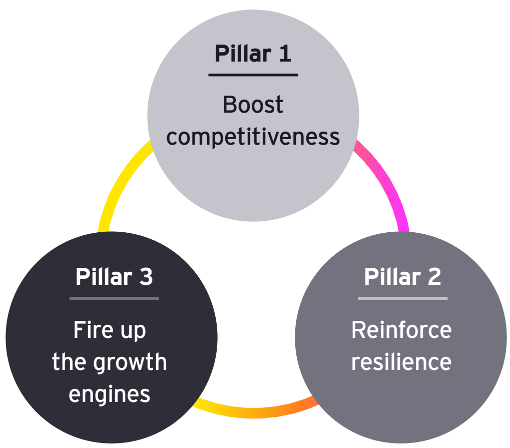
expect Europe's attractiveness to improve during the next three years.

The top three risks to Europe's future attractiveness are:

35%	34%	30%
Geopolitical tension or conflicts	Macroeconomic conditions	Tariffs and other barriers to trade

How can Europe regain its appeal?

Europe can restore its attractiveness by focusing on **12 key areas**, grouped into three overarching pillars.



What lies behind Europe's FDI attractiveness in 2025

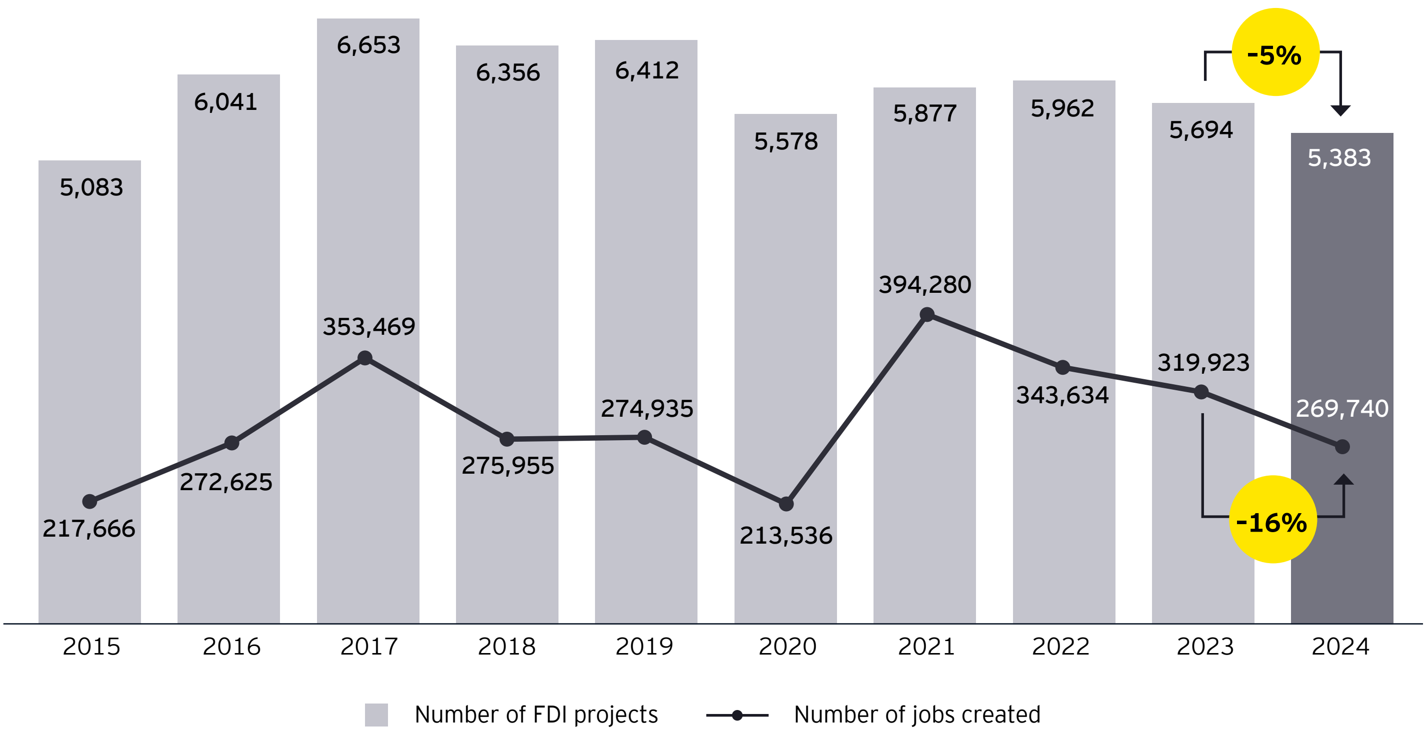
1

Economic woes take a toll on FDI into Europe

In 2024, FDI in Europe fell for a second consecutive year, to its lowest level in the past nine years. A total of 5,383 projects were announced in Europe in 2024, down 5% from 2023. This figure now sits 16% below pre-COVID-19 pandemic levels in 2019, and 19% below the record high in 2017. The number of jobs created by FDI declined 16%.

Figure 1

Number of FDI projects and jobs created in Europe (2015–24)



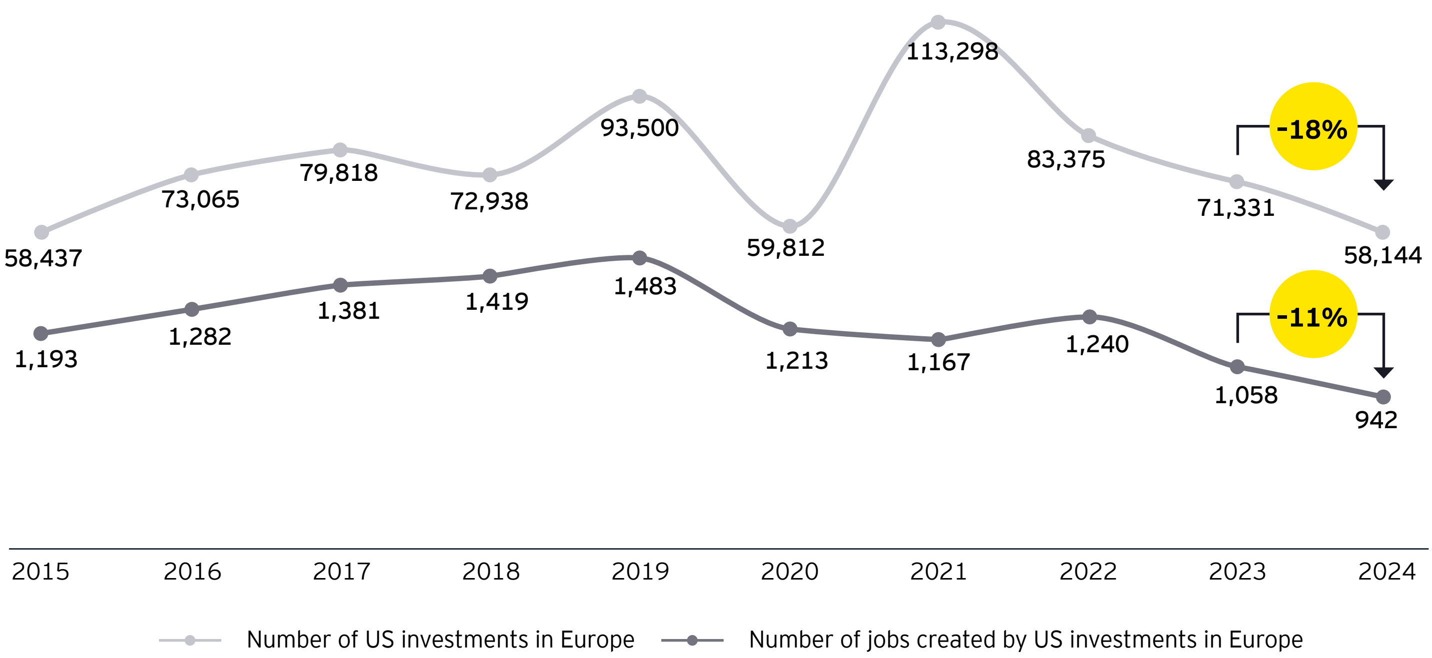
Source: EY European Investment Monitor (EIM) 2025.

Persistent, sluggish economic growth, sustained high energy prices and geopolitical tensions were the principal drivers of the fall. Longer-term structural issues, such as erosion of manufacturing competitiveness with, for example, the US and China, also affected investment.

Improving economic conditions, the Inflation Reduction Act and lower energy prices in the US, with which Europe competes for investment, were also important factors. The number of projects announced by US investors in Europe declined 11% compared with 2023 and 24% from 2022. Strikingly, the number of jobs created by US investment in Europe has almost halved in the past three years. US investment in Europe is at its lowest level in the past decade, accounting for only 18% of European FDI projects, down from 24% in 2015.

Figure 2

Number of FDI projects announced and jobs created in Europe by US companies (2015–24)



Source: EY EIM 2025.

Overall, while European FDI declined in 2024, it rose 20% in North America and remained stable in Asia, according to the United Nations Conference on Trade and Development (UNCTAD) Global Investment Trends Monitor (January 2025), which tracks greenfield projects globally.

Despite the general downward trend, there are early signs that Europe can attract investment in the sectors that will dominate FDI in years to come, including renewable energy, semiconductors, pharmaceuticals, AI and electric vehicles (EVs).

Microsoft, for example, announced plans to locate a significant part of its AI R&D efforts in Ireland, which will create 550 research and engineering roles over the next four years.[3] In addition, AstraZeneca announced it will significantly expand its scientific innovation presence in Spain. It plans to recruit 1,000 employees when it opens a new clinical innovation facility in Barcelona.[4] The breadth of investment activity in Europe, spanning multiple sectors and types of operation, highlights the continued relevance of the continent to businesses across multiple sectors.

[3] Taoiseach, Simon Harris welcomes Microsoft's decision to deliver 550 new Irish based engineering and R&D jobs, Microsoft website, dated 01 November2024 https://news.microsoft.com/europe/2024/11/01/an-taoiseach-simon-harris-welcomes-microsofts-decision-to-deliver-550-new-irish-based-engineering-and-rd-jobs/

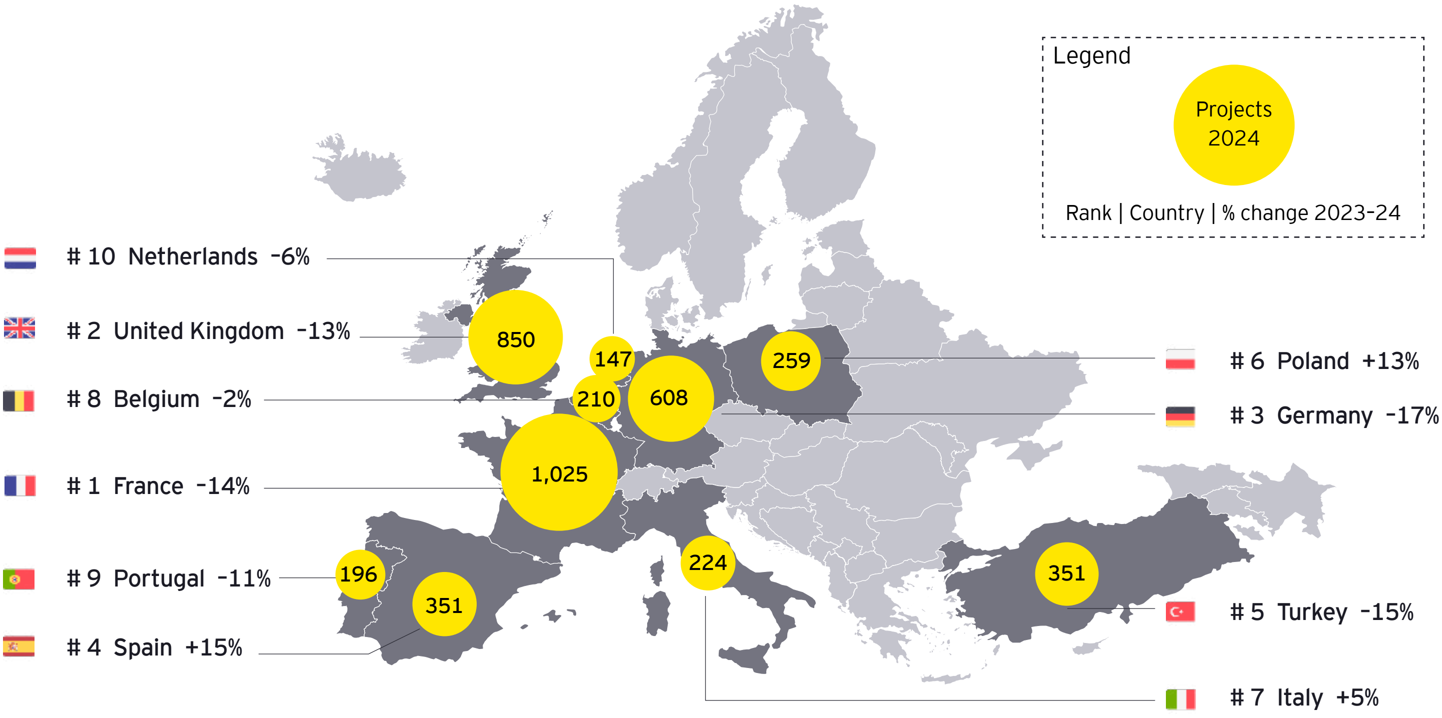
[4] AstraZeneca strengthens global hub in Barcelona, Invest in Spain website, dated 13 February 2024 https://www.investinspain.org/content/icex-invest/en/noticias-main/2024/astrazeneca.html

Investment in Europe's largest countries falls

In 2024, there were double-digit percentage decreases in the number of projects announced in France (–14%), the UK (–13%) and Germany (–17%), historically the largest countries for foreign investment. Weak economic growth and geopolitical uncertainty hit investment across the board.

Figure 3

Top 10 European countries for foreign investment in 2024, by number of projects



Source: EY EIM 2025.

Country-specific factors were also at play. France, for example, suffered a protracted period of political uncertainty following legislative elections. High labor costs, impending exceptional corporation taxes for large businesses, and uncertainty about the continuation of tax credits all acted as deterrents to potential investors.

The UK continues to struggle to raise low productivity levels and endures some of the highest energy prices in Europe. Meanwhile, Germany suffers as a destination for FDI due to the loss of cheap Russian energy, declining exports to China and a weakened manufacturing sector.

By contrast, investment increased across many countries in Central, Eastern and Southern Europe. A combination of strong economic performance, relatively low energy and labor costs, and an abundant supply of land made Spain the stand-out performer, with the number of announced projects surging 15%. Spain also benefited from €163b of funding from the NextGenerationEU (NGEU) scheme, the second-largest amount secured in the EU.[5]

[5] Spain's National Recovery and Resilience Plan: Latest state of play, European Parliament website, dated 25 October 2024 https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)698878

External
Viewpoint

Belén Gualda
President of Sociedad Estatal de Participaciones Industriales (Spanish State Society of Industrial Participations – SEPI)

The role of stability and collaboration in promoting investment

A stable investment environment is crucial for fostering economic growth and development. In Spain, various entities contribute to creating this environment, which encourages both domestic and foreign investment across strategic sectors such as energy, telecommunications, defense and space.

The presence of public entities such as SEPI helps to instill confidence among investors. Their involvement signals a commitment to long-term growth and stability, which is essential for attracting investment. By supporting companies in their strategic planning and investment activities, these entities help align business goals with broader economic objectives. Part of the SEPI Group are companies such as Navantia, a leader in shipbuilding; Indra, an international benchmark in technology and defense; Telefónica, a leading telecommunications company; Airbus, a European aerospace consortium in which SEPI is a shareholder; and Hispasat, a telecommunications satellite operator.

Collaboration between public and private sectors is another key factor in promoting effective investment strategies. Partnerships that leverage resources and expertise can lead to innovative projects and initiatives, enhancing the potential for successful outcomes.

Additionally, a focus on innovation and technological advancement plays a vital role in creating a dynamic investment landscape. By backing research and development initiatives, stakeholders contribute to an environment that can adapt to evolving market needs and opportunities.

In summary, fostering a positive investment climate involves stability, collaboration and support for innovation. These elements are essential for creating an environment where investment can thrive, ultimately benefiting the economy and society as a whole.

Manufacturing investment tumbled in 2024

Ongoing high energy prices and uncertainty about future demand led to a 9% year-on-year drop in manufacturing FDI in 2024, with the lowest level of new projects since 2020. The number of newly created manufacturing jobs fell by 25%. Greenfield manufacturing projects declined by 20%, which is particularly concerning, as new facilities typically generate twice as many jobs as do expansions of already operational sites.

The number of office-based FDI projects also declined. For example, the number of business support services projects fell 9%. The increase in remote working means correspondingly lower demand for new office space.

Looking at individual sectors, software and IT services, historically the European sector that receives the highest levels of FDI, fell 17%, with declining outsourcing budgets stifling investment.

Trade turbulence jeopardizes recovery

2

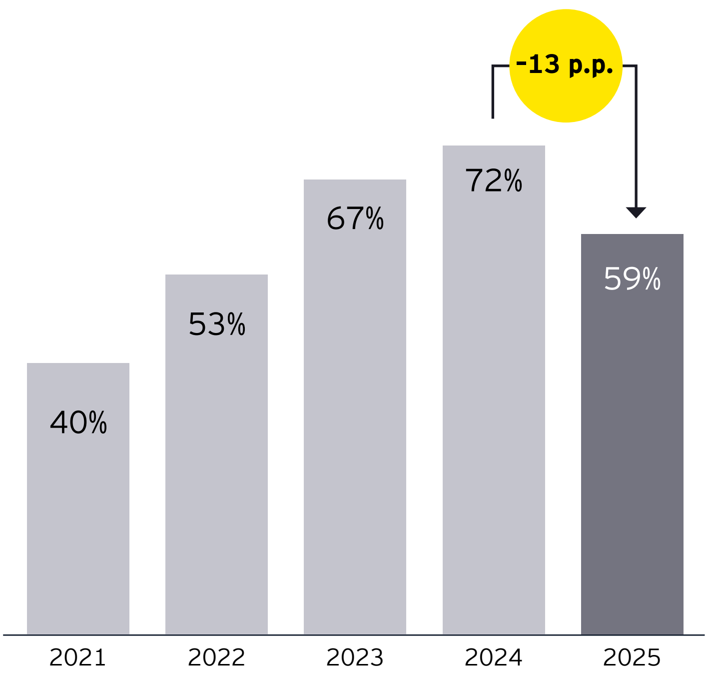
Rising uncertainty disrupts investment plans

An immediate recovery in FDI seems unlikely. Some 37% of the 500 investors surveyed between 31 January and 3 March 2025 postponed, canceled or scaled back their European investment plans in 2024. In parallel, the proportion signaling intent to invest in Europe in the next 12 months fell to 59% from 72% in 2024. A separate EY global survey of 1,200 CEOs conducted in March and April 2025 found that 54% had delayed a planned strategic investment and 22% had stopped one.[6]

Figure 4

Intent to invest in Europe declines

(percentages indicate those planning to establish or expand operations in Europe in the next 12 months)



Source: EY Europe Attractiveness Survey 2025 (total respondents: 500 surveyed between 31 January and 3 March 2025).

The prospect of tariffs on imports into the US and record levels of economic uncertainty[7] added to investors' worries about Europe's long-term competitiveness. A string of comments by US officials in early 2025 indicating the current administration's increasing reluctance to engage with European security matters is also likely to have spooked investors.

The level of fear around the potential impact of the Trump administration's new policies on Europe's prospects cannot be overstated. Some 42% of businesses surveyed believe it will decrease Europe's attractiveness, with just 27% optimistic that it could have a positive effect.

We conducted the survey during a period when the Trump administration had signaled the imposition of tariffs on imports from certain countries, but prior to the official announcement of reciprocal tariffs in early April. These tariffs were higher and more widely imposed than expected. As a result, EY teams revised down their Eurozone GDP growth projections to 1.1% for 2025 and 1.3% for 2026, 0.2 and 0.5 percentage points decrease in each year, respectively, compared with its January forecast.[8]

Even considering the recently announced 90-day postponement of the imposition of tariffs, it is likely that short-term appetite to invest in Europe today would be even lower.

Rising uncertainty has also damaged investors' longer-term view of Europe as an investment destination, with the proportion that believe Europe's attractiveness will increase during the next three years falling 14 percentage points, to 61%. More are confident that the attractiveness of China (67%) and the US (74%) will improve. In addition, surveyed investors for the first time flagged the US as more alluring than Western Europe.

[6] How do CEOs chart a path to growth when the map keeps changing?, EY website, dated 05 May 2025 https://www.ey.com/en_gl/ceo/ceo-outlook-global-report
[7] Economic Policy Uncertainty Index for Europe, Federal reserve bank of St. Louis website, accessed on 28 April 2025 https://fred.stlouisfed.org/series/EUEPUINDXM
[8] European Economic Outlook, EY Poland website, dated 27 May 2025 https://www.ey.com/en_pl/insights/economic-analysis-team/ey-european-economic-outlook-may-2025

> “
> Political and geopolitical uncertainty is affecting investment in Europe. The rise of populist movements poses a particular challenge, often leading to more nationalist policies, protectionism, and pressure on governing institutions — all of which heighten unpredictability for international investors.

Famke Krumbmüller
EY-Parthenon EMEIA Leader, Geostrategic Business Group

Despite current pessimism, the research finds that 61% of surveyed businesses expect Europe’s attractiveness to improve during the next three years. There are many reasons for optimism. First, the growing reluctance of the US to support Europe militarily, while raising serious security questions, may also boost FDI in the long term as Europe strengthens its domestic defense manufacturing capabilities.

The performance of several Southern and Central European countries is also encouraging. For example, the economies of Spain and Poland are forecast to grow 2.9% and 3.5%, respectively, in 2025, far outstripping the EU average.[9] Poland has consolidated its position as an industrial and logistics hub, capitalizing on its central location, cost competitiveness and sizable pool of skilled talent. Across Europe, some economic indicators are also moving in the right direction, with wage growth outstripping inflation and interest rates trending down.

More generally, despite Europe’s structural problems, surveyed businesses point to the size of the market and quality of infrastructure as Europe’s greatest relative strengths, which could be the basis for the development of a highly competitive economy and a recovery in investment.

[9] European Economic Outlook, EY Poland website, dated 27 May 2025 https://www.ey.com/en_pl/insights/economic-analysis-team/ey-european-economic-outlook-may-2025

External
Viewpoint

Malte Lohan
CEO, American Chamber of Commerce to the EU (AmCham EU)

To keep US businesses investing, address the EU's regulatory burden

Declining investment

EY data showing an 11% decline in the number of US investment projects in Europe doesn't come as a surprise: a full 84% of AmCham EU members recently cited the regulatory burden as a primary barrier to investment in the EU. It is, without fail, the first point that comes up in every interaction we have with senior business leaders.

Benefiting at home and abroad

Nevertheless, US businesses remain deeply committed to Europe and its success. American companies are fully integrated into its markets, employing over 4.6 million people and investing more than €3.5 trillion in the region. In fact, more US foreign direct investment (FDI) goes to Europe than the entire rest of the world combined.

A thriving Single Market remains one of the EU's most important advantages for companies from around the globe and the primary driver of foreign investment into Europe. By ensuring all businesses play by the same rules, the Single Market stays open to those who help it grow, wherever they come from.

Turning intent into action

Trade tensions between Europe and the US may spill over into transatlantic FDI flows, and it is vital that both transatlantic partners work to prevent the far-reaching damage that this would lead to on both sides. But closer to home, the priority must be to build a European economy that is firing on all cylinders. For Europe to keep attracting US investment, it must make rapid, tangible progress toward reducing red tape in a more integrated market. We are encouraged by EU leaders' clear signals that this is now a priority.

This ambition must be urgently translated into concrete action. At the same time, the EU must continue to take advantage of the immense value US companies bring, treating American businesses across sectors as partners in Europe's future.

There is much still to be done but, together, we can build a stronger, more resilient Europe, generating new growth opportunities and maintaining the profound shared benefits of the transatlantic alliance.

Rebooting Europe's attractiveness

3

The majority of surveyed businesses (61%) expect Europe's attractiveness to improve during the next three years. But this should not give rise to complacency. To successfully restore its attractiveness, European policymakers and businesses need to prioritize 12 essential areas to enhance competitiveness, build resilience, and fortify key foundational factors such as talent, access to finance and business confidence.

These recommendations are based on the survey data, in which we directly ask businesses how Europe's attractiveness should improve, the knowledge of EY experts and the growing body of literature on Europe's international competitiveness.

Pillar 1 | **Boost competitiveness**

1 Accelerate energy price reduction

Businesses rank reducing energy prices and increasing energy independence as the top initiative that Europe should pursue to maintain its competitive position in the global economy.

Exorbitant energy costs continue to put investors off Europe. Businesses rank the cost of energy as the fifth-most important factor in selecting a country for investment. But when asked about Europe's relative strengths, the cost of energy ranks just 10th of 13 factors. And for good reason. Electricity prices in Europe remain 2.5 times higher than in the US, with natural gas prices nearly five times higher.[10]

By reducing energy costs, Europe can create a more favorable environment for industrial growth and global investment. The continent is already taking action. As part of the EU Clean Industrial Deal, the European Commission has launched the Action Plan for Affordable Energy. The Action Plan is designed to avoid cost increases of up to €103 billion by 2040 through a series of initiatives, including integrating the energy market, expanding electricity grids, reducing permitting times for certain energy infrastructure, and collective purchasing of liquefied natural gas (LNG).[11]

But tackling a challenge on this scale may require more. For example, the Centres for European Policy Network (CEP) called for greater economic incentives for renewable energy,[12] which would also improve energy independence. Others suggest that reducing energy taxes could bring down prices in the short term.[13]

Other market experts have suggested reducing costs for certain industrial sectors that are highly exposed to international competition, encouraging energy consumers to shift consumption to periods of low demand, coordinating cross-border investments in energy generation and distribution infrastructure, and more deeply integrating Europe's energy grids.[14]

Increasing renewables generation in Europe will promote energy security in the long run, but other actions may be needed in the short term. This includes diversifying sources of LNG, replenishing reserve stocks of LNG and reducing overall energy demand through investments in energy efficiency and demand response.

Businesses prioritize energy prices and independence, but policymakers should also focus on ensuring the predictability and reliability of energy supply, especially following widespread blackouts in Spain and Portugal in April 2025.

Europe's drive to lower energy prices and promote energy independence could boost FDI in the renewable energy sector. Whether it's wind turbines or grid-scale energy storage systems, the renewable energy supply chain is one of Europe's competitive strengths. For example, 72% of wind turbines installed globally (excluding China) in 2023 were manufactured in Europe.[15]

[10] How enduring high energy prices could affect jobs, European Central Bank website, dated 05 May 2025 https://www.ecb.europa.eu/press/blog/date/2025/html/ecb.blog20250505~86c88d726c.en.html

[11] Action Plan for Affordable Energy, Unlocking the true value of our Energy Union to secure affordable, efficient and clean energy for all Europeans, Communication from The Commission to the European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions, dated 26 February 2025 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025DC0079&qid=1741780110418

[12] The EU Action Plan for Affordable Energy, Centres for European Policy Network website, dated 27 February 2025 https://www.cep.eu/eu-topics/details/the-eu-action-plan-for-affordable-energy.html

[13] Pressure grows on 8 EU countries to slash 'paradoxical' power taxes, Euractiv website, dated 25 February 2025 https://www.euractiv.com/section/eet/news/pressure-grows-on-8-eu-countries-to-slash-paradoxical-power-taxes/

[14] Decarbonising for competitiveness: four ways to reduce European energy prices, Bruegel website, dated 05 December 2024 https://www.bruegel.org/policy-brief/decarbonising-competitiveness-four-ways-reduce-european-energy-prices

[15] Winds of change: Europe strives to shield domestic wind turbine industry as Chinese rivals breeze in, Rabobank website, dated 04 December 2024 https://www.rabobank.com/knowledge/d011459200-winds-of-change-europe-strives-to-shield-domestic-wind-turbine-industry-as-chinese-rivals-breeze-in

Pillar 1 | **Boost competitiveness**

2 Sustain Europe's green leadership

Surveyed businesses rank the intensity of sustainability policies as one of Europe's top three competitive advantages. What's more, 66% say Europe's approach to sustainability in the past three years has increased its attractiveness as an investment destination (only 14% think the opposite).

Europe is a sustainability leader with some of the most ambitious targets globally for reducing greenhouse gas (GHG) emissions, protecting biodiversity and implementing sustainable agriculture. It has the highest offshore wind-generation capacity globally and generates more than 40% of its electricity from renewable sources.[16] The EU also offers significant grants through a wide range of programs that support more sustainable business models.

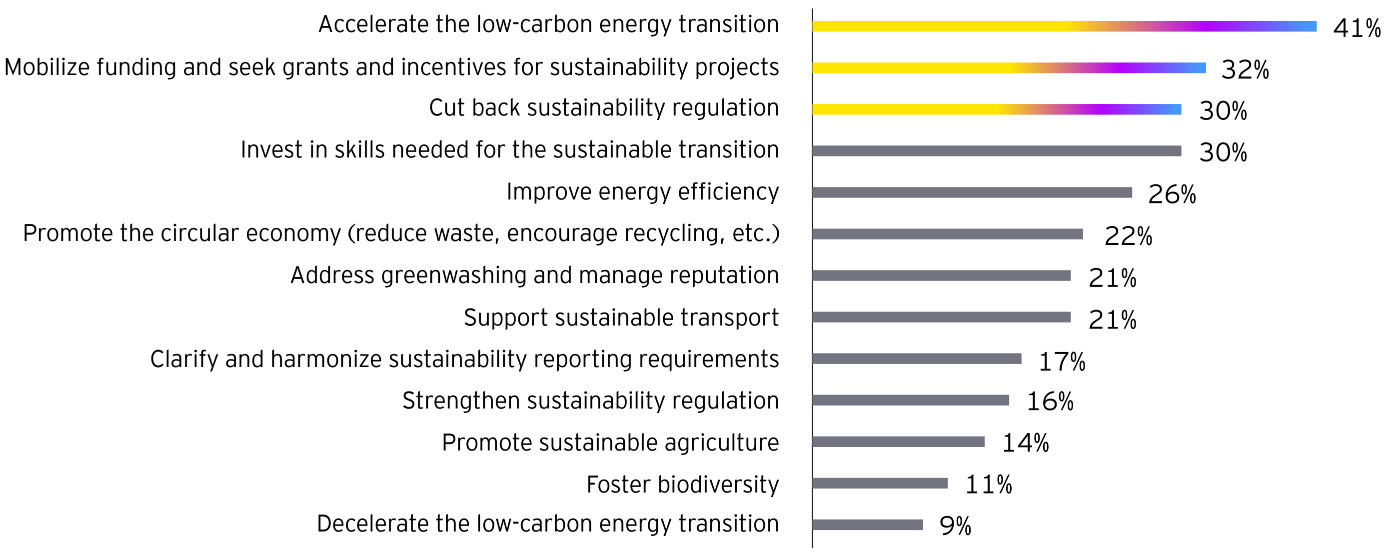
Europe's committment to sustainability stands in stark contrast to the retrenchment in many other regions. For example, the new US administration has pulled out of the Paris Agreement on climate change and plans to cut clean energy tax credits.

When asked what European policymakers should prioritize in relation to sustainability to improve Europe's attractiveness, surveyed businesses rank accelerating the low-carbon energy transition first. Expanding renewable energy generation sources is key to achieving this, alongside investing in electricity distribution infrastructure across Europe and transition technologies such as carbon capture and storage, and methane-to-energy systems. In the long run, accelerating the low-carbon energy transition would not only reduce GHG emissions but also help bring down energy prices and support energy independence.

Figure 5

Accelerating the low-carbon transition would boost Europe's attractiveness

(Q. What should Europe prioritize in relation to sustainability to improve its attractiveness for foreign investment?)



Source: EY Europe Attractiveness Survey 2025 (total respondents: 500 surveyed between 31 January and 3 March 2025).

[16] Electricity from renewable sources reaches 47% in 2024, Eurostat website, dated 19 March 2025 https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20250319-1

Surveyed businesses rank providing grants and other incentives as the second-most important sustainability initiative that would improve Europe's attractiveness, but uptake is uninspiring. Policymakers could make these grants simpler to access, especially for SMEs, and provide tailored support to individual sectors.

Businesses rank cutting back sustainability regulation as the equal third most important initiative. Europe has already announced plans to rationalize overlapping and disproportionate regulations relating to the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D), the Carbon Border Adjustment Mechanism (CBAM) and the EU taxonomy for sustainable activities.

But businesses should be cautious of pushing this initiative too far. Sustainability regulation has helped European businesses to build stakeholder trust, which has improved Europe's profile as an investment destination. A balance needs to be found that reduces the costs associated with regulatory compliance while maintaining Europe's position as a sustainability leader. The Trump administration may have reduced the importance of sustainability in the US, but it remains a critical pillar of Europe's long-term attractiveness.

“

EY research shows that when businesses integrate sustainability into their business strategy, they are 40% more confident in their business outlook for the next 12 months. Regulation remains an important driver and has played a role in helping expedite sustainability. However, looking forward, a business must value sustainability as a strategic imperative. Sustainability cannot remain a siloed initiative; it must be recognized as a critical pathway and as organizations navigate their unique sustainability journeys, they must focus on creating long-term value while remaining competitive and resilient.

Gerard Gallagher, EY EMEIA Sustainability Leader

Pillar 1 | **Boost competitiveness**

3 Catalyze research and innovation

When it comes to innovation and R&D, Europe lags behind other advanced economies. Public and private sector investment in R&D as a proportion of GDP totaled 2.22% in 2023, trailing China (2.56%), Japan (3.41%) and the US (3.59%).[17]

Besides spending less on R&D, Europe also continues to lag in applied research and in the translation to marketable products. The continent filed fewer patents than other regions in key fields such as information and communication technologies (ICT), pharmaceuticals, biotechnology and electronics. And, while Europe is home to many of the world's leading universities, only a small number are world-leading in terms of research.[18]

Europe is particularly behind when it comes to innovation in digital technologies. Compared with other regions, it lags in private investment in digital startups, patent filings and market share of global added value of digital products.[19]

When asked how Europe should accelerate innovation and R&D, survey respondents rank improving access to funding for early-stage businesses first, followed by upskilling the workforce and strengthening collaboration through clusters, joint projects and knowledge-sharing programs.

Globally, the proportion of early-stage funding going to Europe is woefully low. Just 5% of global venture capital funding was invested in the EU, compared with 52% in the US and 40% in China.[20] Yet, as outlined by former Italian Prime Minister Mario Draghi,[21] encouraging more private sector investment into European startups will treat the symptom, not the underlying cause, of low investment. Despite Europe's larger population, there are significant obstacles to scaling a business that are not present in the US. Removing single market friction would help address this.

The European Commission has made supporting small businesses a priority. In 2025 it launched a Startup and Scaleup Strategy[22] that will assist growing businesses in accessing capital, markets, services, infrastructure and talent.[23] This initiative will be tied with the Savings and Investments Union (SIU), and will include measures to improve listing rules, lighten prospectus requirements and improve market infrastructure. It will also be linked to talent mobility initiatives that help startups gain access to skilled workers from across the EU and, more controversially, from outside the EU.

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[17] R&D expenditure, Eurostat website, data extracted in December 2024, accessed on 01 June 2025, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=R%26D_expenditure#:~:text=In%202023%2C%20EU%20research%20and,compared%20with%202.08%25%20in%202013.

[18] Europe must prioritize research and innovation to be competitive, World economic Forum website, dated 17 January 2025 https://www.weforum.org/stories/2025/01/europe-prioritize-research-innovation-competitive/

[19] The EU's critical tech gap, Rethinking Economic Security to put Europe back on the map, DIGITALEUROPE website, dated 19 June 2024 https://cdn.digitaleurope.org/uploads/2024/06/DIGITALEUROPE-EU-CRITICAL-TECH-GAP-REPORT_WEB_UPDATED.pdf

[20] EU Startup and Scaleup Strategy, European Commission website, dated 28 May 2025, accessed 01 June 2025 https://research-and-innovation.ec.europa.eu/strategy/strategy-research-and-innovation/jobs-and-economy/towards-eu-startup-and-scaleup-strategy_en

[21] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[22] Commission launches ambitious Strategy to make Europe a startup and scaleup powerhouse, European Commission website, dated 28 May 2025 https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1350

[23] EU Startup and Scaleup Strategy, European Commission website, dated 28 May 2025, accessed 01 June 2025 https://research-and-innovation.ec.europa.eu/strategy/strategy-research-and-innovation/jobs-and-economy/towards-eu-startup-and-scaleup-strategy_en

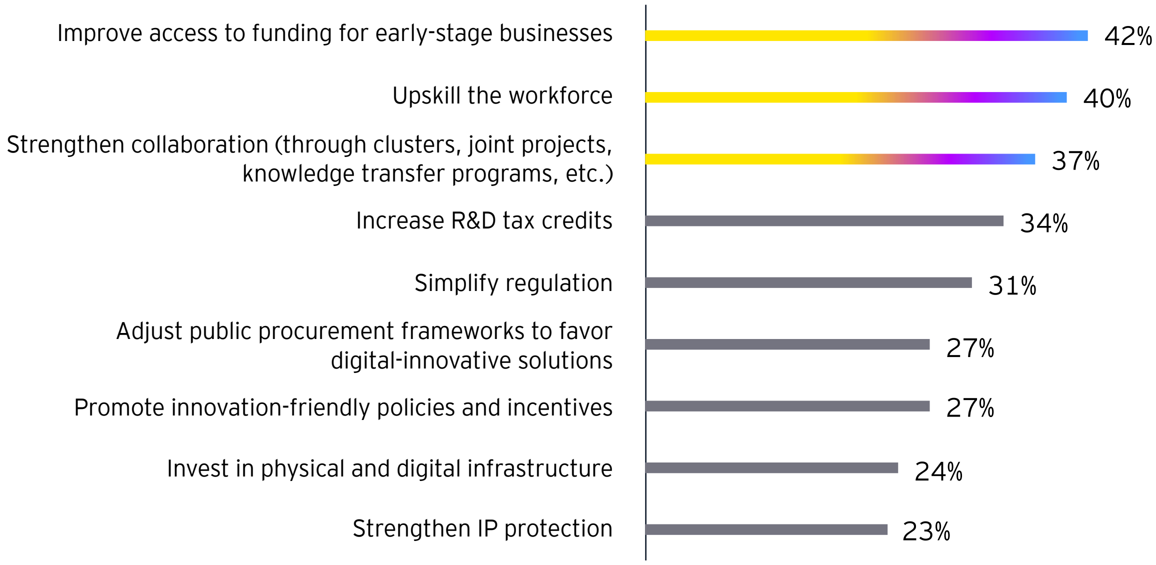
The EU has commenced a number of initiatives designed to spur innovation. The European Competitiveness Fund will support the green and digital transitions, new technologies, SMEs and innovation. There are also sector-focused programs. The European Biotech Act, for example, will reduce Europe's dependence on non-EU countries for certain biotech products and help EU biotech companies bring products to market.

There is also support for digital industries. The Data Union, for example, will facilitate the sharing of data on 450 million citizens, helping to fuel the development of AI models and other new technologies.

Figure 6

Improve early-stage funding to accelerate innovation

(Q. How should Europe accelerate innovation and R&D?)



Source: EY Europe Attractiveness Survey 2025 (total respondents: 500 surveyed between 31 January and 3 March 2025).

AI could unlock Europe's competitive edge

AI is the digital technology with the greatest potential to drive Europe's competitiveness and enhance its appeal to foreign investors.

However, the Global AI Index scores European countries significantly below the US and China on AI development.[24] SMEs are particularly slow to adopt AI and may need targeted support. As of 2023, just 7% of SMEs in the EU had adopted AI, compared with 30% of large businesses.[25]

When asked how Europe should improve its attractiveness as a location for AI investment, innovation and deployment, businesses ranked improving technology infrastructure first, followed by enhancing tech skills.

Encouragingly, in early 2025, the EU launched InvestAI, a plan to unlock €200 billion for investment in AI, including €20 billion for four AI gigafactories. These gigafactories facilitate collaborative development of highly complex AI models. The EU subsequently launched the AI Continent Action Plan, a series of actions and policies designed to boost the EU's AI innovation capabilities.[26]

The economic value of AI comes from both developing foundational models and applying them. Europe needs a comprehensive strategy to achieve both, ensuring AI becomes a key driver of its competitiveness and a magnet for foreign investment.

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Although Europe lags behind when it comes to the development of foundational AI models, it can compete in other areas. It has already carved out a leadership role in responsible AI and regulation, and there's potential for Europe to lead in AI for autonomous robotics, health care and sustainability. But it will require greater funding, more investment in data centers and connectivity, and widespread training and re-skilling.

Natalia R. Martin, EY Global Artificial Intelligence Clients and Markets Leader

[24] The global AI Index, tortoise Media website, dated 19 September 2024, accessed 01 June 2025 https://www.tortoisemedia.com/data/global-ai

[25] Digitalisation in Europe – 2024 edition, Eurostat website, dated 08 October 2024, accessed 01 June 2025 https://ec.europa.eu/eurostat/web/interactive-publications/digitalisation-2024

[26] Commission sets course for Europe's AI leadership with an ambitious AI Continent Action Plan, European Commission website, dated 09 April 2025 https://digital-strategy.ec.europa.eu/en/news/commission-sets-course-europes-ai-leadership-ambitious-ai-continent-action-plan

Pillar 1 | **Boost competitiveness**

4 Simplify regulation

Between 2019 and 2024, the EU implemented 13,000 legislative acts, compared with 3,500 in the US.[27] This has led to significant regulatory overlap and inconsistency between and within individual countries, regions and cities, hindering agility, innovation and investment. The cost of employing staff in Europe to deal with regulatory compliance amounts to 1.8% of revenue, rising to 2.5% for SMEs.[28] And 60% of EU exporters say they must comply with standards and consumer protections that vary between EU countries.[29]

Despite the long-term increase in regulation, surveyed businesses rank overregulation and complexity across Europe as only the 11th-greatest risk to Europe's attractiveness. What's more, 56% say Europe's approach to regulation in the past three years has increased Europe's attractiveness. And just 11% flagged reforming regulation to reduce the burden on businesses as a priority area.

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There is now some real momentum behind the simplification agenda in Europe, which is being picked up on by businesses around the world. But the survey data shows clear appetite among businesses for further regulatory harmonization across Europe. Insolvency and certain tax rules should be the top priorities for harmonization.

Ambrose Murray, EY Head of Brussels Public Policy Office

[27] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[28] European Investment Bank Investment Report 2024/2025, European Investment Bank website, dated 05 March 2025 https://www.eib.org/attachments/lucalli/20240354_investment_report_2024_en.pdf

[29] European Investment Bank Investment Survey 2024 – European Union overview, European Investment Bank website, dated 23 October 2024 https://www.eib.org/attachments/lucalli/20240238_econ_eibis_2024_eu_en.pdf

This is likely because businesses acknowledge initiatives recently launched to streamline regulation. For example, the Competitiveness Compass, the EU's five-year plan to enhance EU competitiveness,[30] aims to cut reporting burdens by 25% for all companies and 35% for SMEs. The rising importance of topics such as geopolitics and trade tariffs has also relegated the relative significance of regulation as a factor harming Europe's attractiveness.

But there is always scope to go further and provide greater stability and continuity. When asked how Europe should change its approach to regulation, harmonizing regulation across Europe ranked first, followed by introducing regulatory flexibility for emerging sectors such as AI and FinTech. The European Commission has ruled out fundamental reform of the EU AI Act, but it has mooted plans to simplify its implementation.[31]

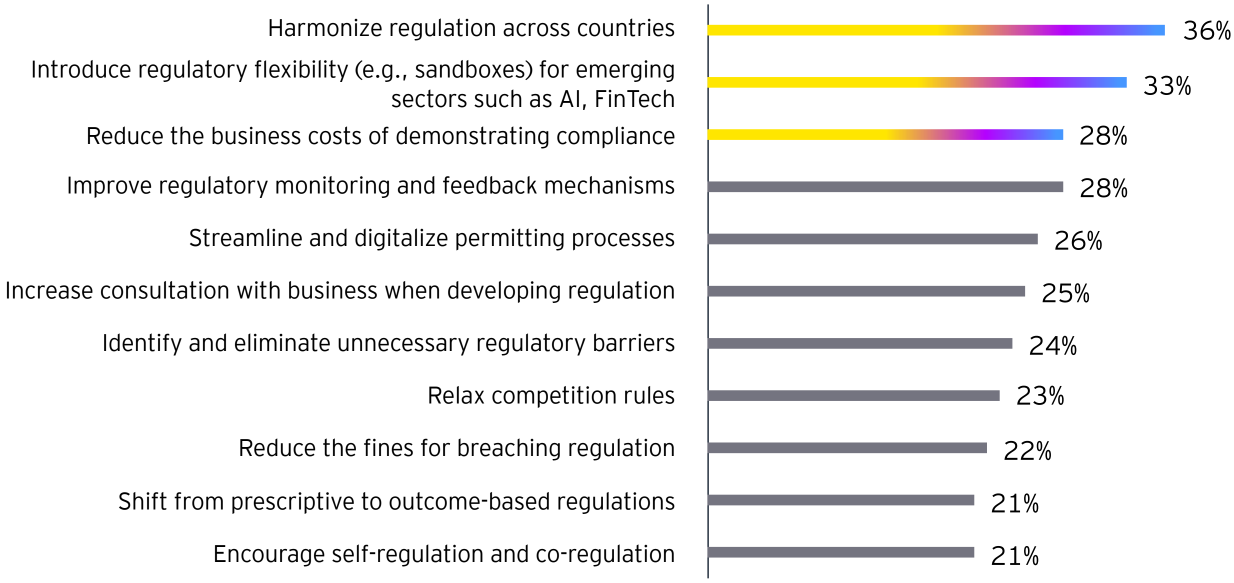
To enhance Europe's competitiveness, policymakers must streamline regulations, reduce bureaucratic hurdles, and ensure that new policies are implemented in a manner that supports business growth and innovation. This approach will not only improve the investment climate but also position Europe as a more attractive destination for global investors.

As part of these efforts, policymakers should further explore the so called "28th Regime", a proposal in which businesses in the 27 EU Member States could opt into a separate harmonized regulatory regime covering corporate, insolvency, labor and tax law.

Figure 7

Regulatory harmonization is the top priority

(Q. How should Europe change its approach to regulation?)



Source: EY Europe Attractiveness Survey 2025 (total respondents: 500 surveyed between 31 January and 3 March 2025).

[30] Competitiveness Compass, European Commission website, dated 29 January 2025, accessed 09 June 2025 https://commission.europa.eu/topics/eu-competitiveness/competitiveness-compass_en

[31] EU Commission opens door for 'targeted changes' to AI Act, Politico website, dated 13 May 2025, accessed 01 June 2025 https://www.politico.eu/article/gpai-code-of-practice-to-come-in-weeks-ai-office-says/

Pillar 1 | **Boost competitiveness**

5 Reduce tax complexity and unpredictability

Europe's tax environment increasingly influences its attractiveness for FDI. Our survey indicates that 45% of respondents believe Europe's tax approach over the past three years has diminished its appeal as an investment destination, while only 35% feel it has enhanced it.

This sentiment is largely driven by concerns over rising public-sector debt and increased demands for public investment, which many businesses fear will lead to higher taxes — a trend already observed in countries such as France and the UK. By contrast, competitors such as the US are considering reductions in business taxes or extensions of existing cuts.

Beyond the issue of tax rates, unpredictability in tax policy, as was recently showcased in France and the UK, is a major deterrent for investors. When respondents were asked how Europe could enhance its tax competitiveness, the top recommendation was to increase predictability and certainty, followed by reducing corporate tax rates.

The AmCham EU has specifically advocated for the reduction of overlapping anti-avoidance regimes to decrease costs for companies and free up resources for tax authorities, thereby making the EU a more competitive economy.

The complexity of Europe's tax systems further exacerbates the issue. Disparities between national tax regimes increase compliance costs and administrative burdens for businesses operating across borders. Extending initiatives such as the VAT One Stop Shop scheme for VAT compliance to other business taxes could be a constructive step toward simplification. Moreover, the risk of double taxation is a growing concern. An EY global survey of 1,000 transfer pricing professionals[32] found that 84% face a moderate or significant risk of double taxation due to global tax reforms. EU tax legislators must therefore balance policy ambitions with the associated administrative costs to maintain Europe's attractiveness for foreign investment.

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Simplification is key to the new European Commission's tax agenda. Arriving at simplicity is actually a very complex process that will not be easy to achieve. But at least there is acknowledgement that the cost of tax compliance is too high. The EU and individual countries will need to balance the need for simplification with their aspirations to fund investments in public services and defense, and to encourage behavior that accelerates the sustainability transition.

Jean-Pierre Lieb, EY EMEIA Tax Policy and Controversy Leader

[32] How do you drive transfer pricing certainty in uncertain times, EY website, dated 09 January 2024, https://www.ey.com/en_gl/insights/tax/international-tax-and-transfer-pricing-survey

Pillar 2 | **Reinforce resilience**

6 Shape a new approach to trade

Surveyed businesses rank tariffs and other trade barriers as the third-most important risk to Europe's attractiveness. And when asked where Europe should concentrate its efforts, they ranked reducing trade barriers fourth. However, this data was collected before the US announced retaliatory import tariffs. Trade concerns would likely be higher on the agenda if the survey was conducted afterward.

It is impossible to predict the final US tariff rates at this stage given how rapidly the situation is evolving. At the time of finalizing this report in late May 2025, President Trump had threatened tariffs on EU imports of 50%. The impact on FDI in Europe is also uncertain but many businesses will likely pause investment decisions in the short term, in the US and elsewhere, until the outlook is clearer.

Should US tariffs on imports from Europe settle at 10%, some manufacturing would likely move permanently to the US. Nevertheless, global businesses would likely want to retain a footprint in Europe, allowing them to benefit from regionalized supply chains.

A high level of US tariffs on imports from China could also impact FDI in Europe, even if they settle at the current rate of 30%. On the one hand, it could encourage FDI from Chinese businesses looking to make up for lost US sales. Chinese EV manufacturers have already increased investment in Europe in response to previously announced US tariffs, for example. And, for the first time, China is the top source of FDI in Germany. On the other hand, increased competition from China in Europe could deter certain businesses from locating manufacturing in Europe.

Europe should respond to this uncertainty in two ways. First, it should seek to reduce barriers to trade within the EU Single Market, which results in GDP being around 10% less than it otherwise could be.[33] This includes simplifying and harmonizing regulation across EU Member States, digitizing trade and customs processes, and unifying VAT regimes. Businesses rank Europe's market size as its greatest competitive advantage, so seamless access to the whole Single Market is a significant draw.

[33] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

Second, the EU should seek to boost trade with countries outside the single market by simplifying trade compliance requirements where possible, particularly for small businesses. The example of the simplification of the CBAM demonstrates that sensible adjustments can reduce the burden on businesses while still allowing the EU to achieve its sustainability objectives. The EU could, for example, accelerate reforms to the Union Customs Code.

The EU should also advance negotiations to build trade relationships with willing countries around the world. Countries that have been particularly negatively impacted by new US import tariffs might now be more receptive to partnering with the EU. The recent deal between the EU and the UK to improve trade in certain goods is a good example, but a more comprehensive agreement may be needed, both with the UK and other willing partners. Nontraditional trade agreements, such as digital trade partnerships and critical mineral agreements, should also be explored.[34]

More fundamentally, in an era where major countries impose barriers to trade with increasing frequency, a consistent approach from Europe would give much-needed stability and confidence, and utilize its 450 million consumers as an attractiveness advantage.

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The volatile situation with tariffs has a paralyzing effect on investment. Businesses are looking at their supply very closely and ascertaining how much sourcing and manufacturing flexibility they have. A long-term 10% US import tariff is probably high enough for some businesses to move manufacturing to the US, but they will likely maintain regionalized supply chains rather than moving everything to one location.

Jeroen Scholten, EY Global Trade Leader, Indirect Tax

[34] Shaping Europe's future with confidence: EY Vision for 2024–2029, EU manifesto, EY website, dated 19 September 2024 https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/noindex/documents/ey-shaping-europes-future-with-confidence-ey-vision-for-2024-2029.pdf

Pillar 2 | **Reinforce resilience**

7 Champion and fortify strategic sectors

There is a growing recognition that government intervention and collaboration with business are needed to protect critical industries and reduce dependency on unreliable countries for imports of certain goods and components. For example, the supply of critical raw materials used in strategically important industries such as clean energy and automotive comes from a very small number of providers, exposing European businesses to price volatility and shortages. Europe needs its own version of China's Belt and Road Initiative or the US Inflation Reduction Act to shore up supply of important inputs.[35]

Europe also needs to ensure that it promotes industries that spur innovation, create future employment and exports, and help the continent to meet its defense, digital and sustainability objectives. These sectors include automotive, pharmaceuticals, clean energy, chemicals, telecoms, semiconductors and AI. Indeed, when asked where Europe should concentrate its efforts in order to maintain its competitive position in the global economy, supporting strategic industries ranked third of 16 answer options.

As AI becomes an increasingly important driver of economic growth, Europe will need to protect businesses' ability to deploy the technology into their operations. It will need to implement digital sovereignty initiatives that ensure access to semiconductors and the materials needed in their manufacture, network infrastructure, and data used to train complex AI models.[36]

Acknowledging the need to promote and support key industries, the EC is currently reviewing its public procurement framework and will introduce a new legislative proposal in 2026. It will likely include a 'buy European' clause for strategic sectors and simplify procurement procedures for SMEs.

But more action is necessary. Whether it's targeted import tariffs, tax incentives, direct government funding or investment screening, European policymakers will need to implement a wide range of sovereign industrial policies to protect and promote these critical industries and their supply chains. Of course, a careful balance needs to be struck between protecting key industries and maintaining openness to trade and investment.

Industrial policies must be implemented collaboratively with the private sector. Encouragingly, EY research findings indicate that the private sector would willingly engage: 82% of businesses are already or plan to be involved in initiatives focused on enhancing national resilience and autonomy through industrial sovereignty. In addition, the majority (56%) would accept reduced profit margins for products manufactured domestically for the domestic market.[37]

[35] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[36] The 2025 Geostrategic Outlook, Top 10 geopolitical developments for 2025, EY website, dated 12 December 2024 https://www.ey.com/en_gl/insights/geostrategy/2025-geostrategic-outlook

[37] How government leaders are rebuilding a sovereign industrial policy, EY website, dated 02 April 2025 https://www.ey.com/en_gl/insights/strategy/how-government-leaders-are-rebuilding-a-sovereign-industrial-policy

Pillar 2 | **Reinforce resilience**

8 Help SMEs manage risk and seize opportunities

SMEs are the bedrock of Europe's economy, accounting for 99% of European businesses and employing more than 85 million Europeans.[38]

Although the headline foreign investment projects in Europe involve large, multinational organizations, these investors rely on a rich ecosystem of SMEs as suppliers, partners and customers in the countries in which they invest. The vibrancy and success of a region's SMEs are therefore key contributors to its attractiveness, and why businesses rank supporting SMEs as the second most important priority area for Europe to maintain its competitive position in the global economy, behind reducing energy prices and increasing energy independence.

SMEs will benefit from all the recommendations to boost attractiveness outlined in this report. However, they also face specific challenges that require targeted support. First is dealing with the uniquely high volume of regulation in Europe compared with other regions in the world. Indeed 63% of SMEs flag business regulation as their greatest challenge.[39] To ease this burden, Europe must continue its simplification agenda, specifically focusing on those that create large compliance costs for SMEs.

The EU also needs to think about how it can support SMEs to seize new digital opportunities. As described earlier, SMEs have been much slower to adopt AI than their larger peers. Initiatives such as digital innovation hubs, vouchers for access to consultants and AI tools, and libraries of approaches to calculating the return on investment could help, along with softer regulatory demands for SMEs.

Policymakers should help SMEs by reducing the complexity and requirements in public procurement processes, which can disqualify organizations of a certain size from participating. They could also assist SMEs in winning business in the private sector by directly supporting them with export programs and by subsidising their participation in trade fairs and exhibitions.

Access to finance is a challenge faced by many European businesses, but it's particularly acute for SMEs as they scale up. Policymakers can enhance access to funding through initiatives such as government-based loans and grants. Establishing a European SME fund could help provide targeted support. SMEs could also be financially supported through the tax system. Reduced corporate tax rates, R&D tax credits, and other incentives and exemptions for SMEs would encourage investment.

[38] Entrepreneurship and small and medium-sized enterprises (SMEs), European Commission website, accessed 01 June 2025 https://single-market-economy.ec.europa.eu/smes_en

[39] European Investment Bank Investment Survey 2024 – European Union overview, European Investment Bank website, dated 23 October 2024 https://www.eib.org/attachments/lucalli/20240238_econ_eibis_2024_eu_en.pdf

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Before the EU's regulatory simplification agenda, an SME had to comply with the same rules as a multinational, which is not proportional. The European Commission has acknowledged that it needs to be more balanced and that too much regulation was impacting our competitiveness. This simplification needs to be combined with the digitalization of regulatory compliance to really ease the burden for SMEs.

Stefan Olivier, Europe West EY Private Leader

External
Viewpoint

Ieva Jāgere
Director General, Investment and Development Agency of Latvia (LIAA)

Nurturing innovation: the vital contribution of SMEs to Latvia's future

SMEs are the backbone of Latvia's economy, driving innovation and fostering a culture of entrepreneurship. These dynamic businesses play a crucial role in creating jobs, enhancing competitiveness and contributing to economic growth. In recent years, Latvia has prioritized support for SMEs, recognizing their potential to lead in sectors such as information and communication technology (ICT), biomedicine and renewable energy. By nurturing an environment that encourages creativity and experimentation, Latvia is positioning itself as a hub for innovative solutions.

Innovation is at the heart of Latvia's strategy to empower SMEs. The government, along with the LIAA, has implemented various initiatives aimed at providing resources and support tailored to the unique needs of small businesses. This includes access to funding, mentoring programs and collaboration opportunities with research institutions. By fostering partnerships between SMEs and academia, Latvia is not only enhancing the skills of its workforce but also driving research and development that can lead to groundbreaking advancements.

Moreover, the emphasis on digital transformation and sustainability has opened new avenues for SMEs to innovate. As businesses adapt to changing market demands, they are increasingly leveraging technology to improve efficiency and develop sustainable practices. This shift not only enhances their competitiveness but also aligns with global trends toward greener economies. Latvia's commitment to supporting SMEs in this transition is evident in its focus on smart energy solutions and the bioeconomy, which are essential for building a resilient and future-ready economy.

As Latvia continues to invest in its SMEs and foster a culture of innovation, the potential for growth and development remains significant. By prioritizing the needs of small businesses and encouraging a collaborative ecosystem, the country is paving the way for a vibrant economy that thrives on creativity and adaptability. In this dynamic landscape, SMEs are not just participants; they are key drivers of change, shaping the future of Latvia's economy.

Pillar 2 | **Reinforce resilience**

9 Increase security confidence by fortifying defense

The ongoing war in Ukraine and the US's increasingly ambivalent stance on European security have put pressure on Europe's domestic defense manufacturing. When it comes to security, dependency on an unpredictable ally equals vulnerability.

Surveyed businesses rank geopolitical tension and conflict as the top risk to Europe's attractiveness. And while only 11% flagged investing in security as a priority for European leaders, this proportion would probably have been higher if the survey had taken place later on in 2025, after the US had signaled its new, hands-off stance.

Europe has taken some steps to reassure investors on security. Between 2019 and 2024, EU Member States' total defense expenditure rose by more than 30%.[40] But, as of May 2025, only 10 EU Member States had met the NATO requirement of spending at least 2% of GDP on defense. Currently, the EU spends only around one-third of what the US spends on defense — a well-publicized source of irritation to President Trump.[41] In 2024, the European Commission estimated that Europe needs to invest €500 billion in defense during the next decade.

Encouragingly, European countries are acting. Germany has exempted defense spending of more than 1% of GDP from its "debt brake" rule (a regulation introduced during the 2009 financial crisis that allowed the government to spend only as much as it takes in taxes, etc.), allowing billions more to be channeled into security. The EU has also commenced the ReArm Europe Plan/Readiness 2030, designed to mobilize funding for defense spending. The European Defense Industrial Strategy aims to develop joint procurement, support defense R&D and drive collaboration with allied nations for intelligence sharing and equipment interoperability.

Businesses are also ramping up manufacturing. For example, French aerospace and defense giant Thales announced the opening of a new assembly line in Belgium to support a five-fold increase in the production of laser-guided rockets.[42] Meanwhile, German defense group Rheinmetall announced it will open a new artillery manufacturing facility in Lithuania.[43]

[40] EU defence in numbers, European Council website, dated 28 February 2025, accessed 01 June 2025 https://www.consilium.europa.eu/en/policies/defence-numbers/#0

[41] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[42] Thales ramps up rocket production at its Herstal site in Belgium to support European defence, Thales website, dated 01 July 2024, accessed 01 June 2025 https://www.thalesgroup.com/en/worldwide/defence-and-security/press_release/thales-ramps-rocket-production-its-herstal-site

[43] Agreements signed: Rheinmetall and Lithuania begin construction of modern artillery ammunition production plant, Rheinmetall website, dated 29 November 2024, accessed 01 June 2025 https://www.rheinmetall.com/en/media/news-watch/news/2024/11/2024-11-29-rheinmetall-signs-agreement-for-ammunition-production-plant

Increased defense spending will create new jobs and spur economic activity. EY teams estimate that an increase in defense spending to 3% of GDP would create or secure around 660,000 jobs.[44] Boosting defense spending will also create foreign investment opportunities, from semiconductors to advanced machine tooling. In 2024, just 32% of defense FDI projects originated outside Europe. But Europe will also have to encourage overseas businesses that form irreplaceable links in defense supply chains to manufacture on European soil.

However, more action is required

The European Commission must co-ordinate spending and manufacturing plans by individual Member States to ensure there is no duplication of effort or shortfall in critical areas (for example, a scenario in which every country boosts manufacturing of ammunition but none increases manufacturing of drones).

Europe must also ensure that the supply chain for defense products made in Europe is secure. FDI screening mechanisms in this sector may need to be strengthened to prevent takeovers of producers of critical defense components. Of course, increased defense manufacturing within Europe needs to be accompanied by procurement processes that prioritize goods purchased within Europe's borders.

Europe also needs to invest in defense innovation. Defense procurement bodies should engage with private sector manufacturers to make businesses aware of likely future requirements and allow them to start formulating solutions.

Europe must also consider defense spending more broadly, including cybersecurity, food security, energy security and protecting national critical infrastructure.

> "Europe needs to focus on innovation for the battlefield of tomorrow. Europe will want to manufacture as much as possible within its borders, but the reality is that we will have to continue purchasing some capabilities from reliable partners outside of Europe.

Monica Pesce
EY Space, Digital and Defense Leader for EU institutions

[44] Economic effects of European defense investments, EY Germany website, dated 21 February 2025 (in German) https://www.ey.com/de_de/newsroom/2025/02/ey-studie-verteidigungsinvestitionen

Pillar 3 | **Fire up the growth engines**

10 Unlock finance for Europe's transformation

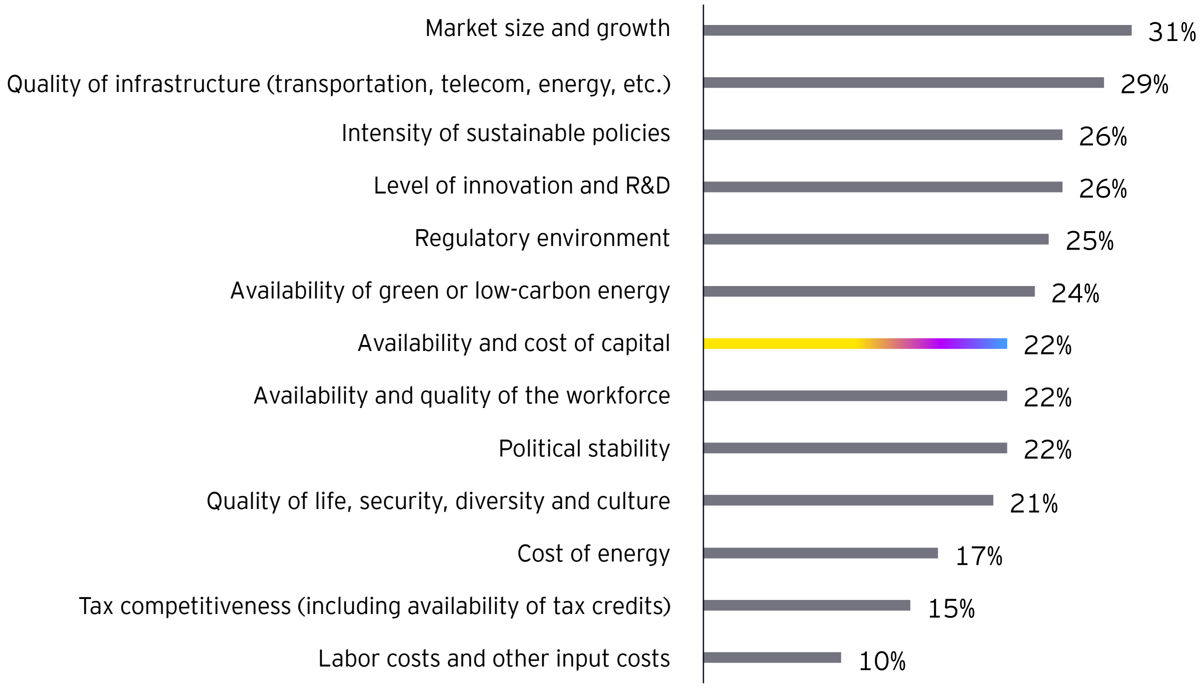
When asked which factors are most important when choosing a country to invest in, businesses ranked the availability and cost of capital first. But when asked about Europe's relative strengths, the availability and cost of capital ranked only seventh. That's unsurprising. Europe's banking sector is highly mature, but its capital markets in aggregate are significantly smaller than in the US. In the past 10 years, EU venture capital funding has been less than one-third that of the US, measured as a share of GDP.[45] This is due to lower liquidity and risk appetite in Europe.

As a result, European businesses often struggle to secure the funding needed to scale up and grow once they reach a certain stage. In response, many secure financing from outside the EU. Europe's undersized capital markets also mean its citizens have fewer opportunities to increase household wealth for future needs, not least to address the pension gap.

Figure 8

Availability and cost of capital is not one of Europe's strengths

(Q. In which of the following areas does Europe have the greatest advantage relative to other geographies?)



Source: EY Europe Attractiveness Survey 2025 (total respondents: 500 surveyed between 31 January and 3 March 2025).

[45] Europe Can Better Support Venture Capital to Boost Growth and Productivity, IMF blog, International Monetary Fund (IMF), dated 15 July 2024, accessed 01 June 2025 https://www.imf.org/en/Blogs/Articles/2024/07/15/europe-can-better-support-venture-capital-to-boost-growth-and-productivity

A shortage of financing fundamentally limits the EU's attractiveness because it undermines the ability to create the fertile conditions needed for foreign investment, be that greater security, next generation digital infrastructure or a highly skilled workforce. Mario Draghi estimates that an additional €750 billion to €800 billion is needed to fund the investments required to restore Europe's competitiveness. Meeting this requirement requires new EU and Member State policies that increase appetite for risk capital, including from pension funds. Helping citizens to invest for the future based on their risk appetite and liquidity needs will also contribute to bridging this investment gap.

The problem is not a lack of savings, but rather that these savings are not incentivized to be directed into the most productive investments. Investment as a share of GDP in the EU is lower than international competitors, in part due to fragmented capital markets within Europe. The EU's plan for a Savings and Investments Union (SIU) will help address this, while also delivering better wealth growth for citizens and increasing access to finance for growth companies. Other policies, such as the framework for Financial Data Access (FiDA), which establishes a framework for responsible access to individual and business data, can support the SIU's objectives. Additional measures that would help include a harmonized rulebook and supervisory approach, drawing inspiration from the simplification agenda, a unified system for post-trade settlement and clearing, and a more joined-up approach to tax.[46]

At the same time, banks will continue to play a vital role in financing the EU economy, and their competitiveness on the international stage be necessary to deliver on the EU's investment needs. The anticipated report on the banking system in the Single Market, including the evaluation of its competitiveness, will be an opportunity to assess how to reduce barriers to integration and administrative burdens. This can position the sector to increase its support to the real economy while preserving financial stability.

Complementing these financial policies with a simpler business environment in a Single Market with fewer barriers would help attract greater volumes of foreign investment in the coming years more effectively than forcing the allocation of capital through policy choices.

[46] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

External
Viewpoint

Wim Mijs
CEO, European Banking Federation

A strong Europe needs a competitive banking sector

European leaders have rightly made competitiveness and strategic autonomy top priorities. But this requires a huge volume of investment, which means approaching banking as a strategic sector.

The EU can promote this crucial industry in many ways. It is still burdened by the regulations put in place following the global financial crisis. Much of this was positive, such as the banking union, particularly the single supervisor. But this needs to be expanded, and all three pillars completed, including the European deposit insurance scheme.

In addition, despite central supervision, there are still capital and liquidity barriers because national governments don't want capital to leave their borders if another crisis arises. That's understandable, but it prevents the creation of the large, unified market that is needed to finance the EU's ambitions.

But regulation went too far. In striving for stability, it made banks too risk averse to the extent that they can't finance investments in the future economy. European banks have also become smaller than their US competitors. In 2008, the market cap of the largest European banks was almost on par with the largest US banks. Today, the market cap of a major US bank is almost the same as that of the largest 10 European banks combined.

This was in part the intention of regulation, but it needs to be revisited. That's why the regulatory simplification agenda is so important.

There is some low-hanging fruit that could unlock significant investment. For example, national add-ons to capital requirements that were originally designed to provide financial stability are now not doing this but instead taking billions out of the economy. They are determined by an automatic mechanism that has no political accountability and should be discarded.

The Savings and Investments Union would unlock more finance for Europe's ambitions but there are some important barriers that need to be overcome. Clearing and settlement infrastructure and bankruptcy law are still national. There is no reason for different bankruptcy laws so they could be harmonized.

Tax is, of course, outside of the EU's jurisdiction, but it could still bring individual Member States together and create some enthusiasm for what is possible. I'm a firm believer in the Savings and Investments Union, but we need more than regulation to make progress.

Pillar 3 | **Fire up the growth engines**

11 Foster and attract top talent

A staggering 77% of EU businesses cite the lack of availability of skilled staff as an obstacle to investment.[47] Weak skills could also undermine Europe's ability to innovate and decarbonize. When asked how Europe should accelerate innovation and R&D, upskilling the workforce ranked second, behind improving access to funding for early-stage businesses. And when asked how Europe should boost its digital competitiveness, improving data and technology skills among the workforce ranked second.

Europe lacks key skills due to declining educational attainment and low levels of adult training. Long-term demographic trends such as its aging population, caused by declining birth rates and longer life expectancy, will likely exacerbate the problem. The number of babies born in the EU declined 5.4% in 2023, the largest annual decline since 1961.

Additionally, previous EU initiatives to close the skills gap have not been fruitful, in part because of a lack of collaboration with businesses.[48] This poor track record has led to businesses being skeptical about the EU's ability to improve skills. As a result, just 9% of surveyed businesses believe Europe should concentrate its efforts on developing education and skills to maintain its competitive position in the global economy.

Mario Draghi's report on European competitiveness outlines a four-point plan to change its approach to skills:

1. Make better use of data to diagnose skills gaps.
2. Collaborate with employers to revise curricula.
3. Develop a common skills certification program.
4. Improve accountability and evaluation of EU skills initiatives.

In response to these recommendations, the EU launched its Union of Skills, which focuses on education, re-skilling, encouraging the free movement of labor and attracting talent from outside the EU.[49]

[47] European Investment Bank Investment Survey 2024 – European Union overview, European Investment Bank website, dated 23 October 2024 https://www.eib.org/attachments/lucalli/20240238_econ_eibis_2024_eu_en.pdf

[48] The future of European competitiveness, European Commission website, dated September 2024 https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf

[49] Union of skills, Investing in people for a competitive European Union, European Commission website, dated 05 March 2025, accessed 01 June 2025 https://commission.europa.eu/topics/eu-competitiveness/union-skills_en

The pace at which employees across many sectors must master new technologies is increasing, so citizens also need to learn how to acquire new capabilities rapidly. Additionally, a pan-European skills badging framework could assist employees in demonstrating their capabilities as they move between sectors and countries during their careers. This system would also help employers identify talent with specific skills.[50]

Furthermore, Europe should seek to attract more talent from overseas through targeted immigration programs. In a global context of rising immigration controls and reduced public sector funding for R&D, Europe could be well placed to attract the world's leading researchers.

Skills aside, the survey data reveals that certain labor market laws detract from Europe's attractiveness. When asked what Europe should prioritize in relation to the workforce and the labor market, relaxing laws on working conditions ranked first, and hiring and recruitment third. Policymakers must find the right balance between providing greater flexibility for businesses while sufficiently protecting employees. Greater dialogue between employers, employees and trade unions will be needed to accomplish this.

Figure 9

Businesses want Europe to increase the supply of key skills and reform labor laws

(Q. Which of the following should Europe prioritize in relation to its workforce and labor market?)

Source: EY Europe Attractiveness Survey 2025 (total respondents: 500 surveyed between 31 January and 3 March 2025).

[50] Shaping Europe's future with confidence: EY Vision for 2024–2029, EU manifesto, EY website, dated 19 September 2024 https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/noindex/documents/ey-shaping-europes-future-with-confidence-ey-vision-for-2024-2029.pdf

Pillar 3 | **Fire up the growth engines**

12 Choose Europe

Europe has received a lot of bad publicity lately. But while acknowledging the issues that need fixing, as we have done in this report, the continent should also confidently talk about its benefits globally. That job falls not only to politicians but also to business leaders, academics and wider society.

And there's much to be positive about. It is home to 450 million consumers and a highly talented workforce, and it has a long-term approach to growth and competitiveness that prioritizes decarbonization and digitalization. It is a reliable, consistent and predictable partner that honors its commitments and respects democracy and the rule of law.

Europe should also widely publicize its efforts to address long-standing barriers to investment. Its regulatory simplification agenda, which will cut the compliance burden by 25% for large businesses and 35% for SMEs, could be a game changer.

Perhaps now is the time to create an investment promotion agency for all of Europe. Such an organization could speak for Europe with one voice and communicate the benefits of investing in the continent to businesses globally. It could sell Europe on the world stage.

Conclusion

FDI in Europe has reached a nine-year low and investor sentiment is trending downward. To reverse the decline, EY teams have created 12 areas for action. A common theme is simplification. Whether it's regulatory reporting, tax compliance or the bureaucracy associated with accessing incentives, European businesses have become bogged down in administration.

The rest of our recommendations relate to energy prices, sustainability, finance, skills, trade and promoting key industries. In many of these areas, the EU is taking corrective action, but more is required. Europe has immense strengths, but collaborative action between business and policymakers is needed to unlock them and stimulate investment.

Methodology

The EY Europe Attractiveness Survey draws on two main sources:

1 The EY European Investment Monitor (EIM)

Our evaluation of FDI in Europe is based on the EY EIM. This proprietary database helps us to track projects announced in 2024 across 45 countries. The database tracks the FDI projects that have resulted in the creation or the expansion of facilities and jobs.

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

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

2 The perception survey

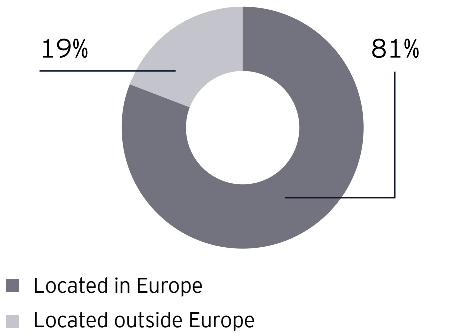
This study examined Europe's perceived attractiveness via an anonymous online survey of international decision-makers. We define attractiveness of a location as a combination of image, investor confidence, and the perception of a category's or area's ability to provide the most competitive benefits for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

Field research was conducted by FT Longitude between 31 January and 3 March 2025, based on a representative panel of 500 senior corporate executives (C-suite or C-1 roles). Only individuals who are involved in or in charge of their organization's decisions about establishing or expanding operations were included in the survey. The survey panel's demographics were based on the most recently available FDI data (2023).

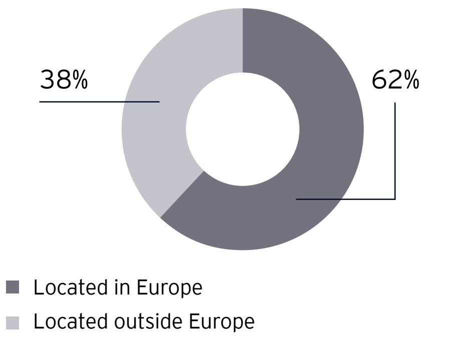
The survey aimed to cover a representative sample of investors into Europe by geography, industry grouping and company size. Approximately 60% of respondents work for companies headquartered in Europe, and 40% for companies headquartered elsewhere. Respondent companies operate across six broad sector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

Field research was conducted for the EY organization by FT Longitude between 31 January and 3 March 2025, based on a representative panel of 500 respondents. The survey aimed to cover a representative sample of investors into Europe, by geography, industry grouping and size of company.

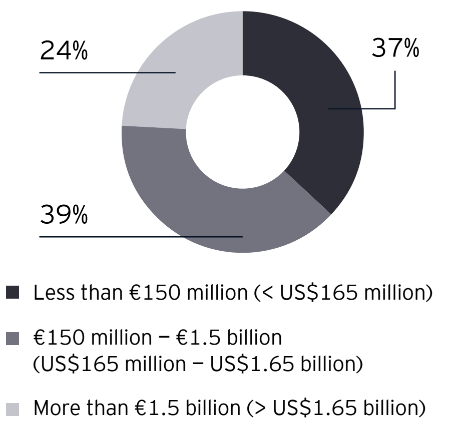
Respondent location



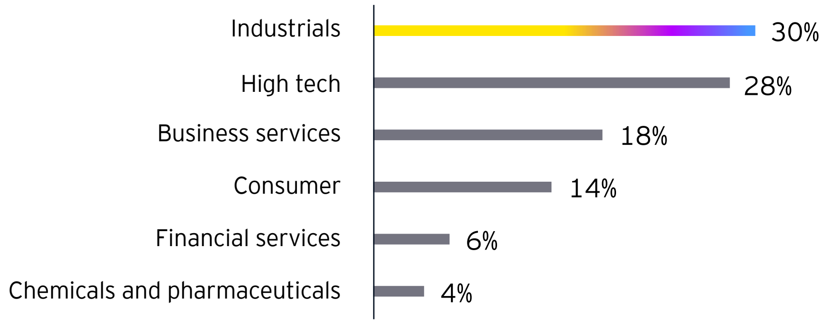
Company HQ location



Company size (turnover)



Primary sector of activity sector



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