Luxembourg, (becoming) the smart way into Europe

EY Luxembourg today releases the fifth edition of its Luxembourg Attractiveness Survey, at a time when global investment patterns are undergoing a major shift. More than two decades after EY began tracking Foreign Direct Investment (FDI) across Europe, the 2026 findings confirm that investment cycles are more complex, shaped not only by geopolitical uncertainty and cost pressures, but by increasingly selective decision-making among international investors.

At the same time, this survey has become a reference point in Luxembourg, built on a consistent methodology that compares investment intent with actual investment decisions over time. This dual perspective highlights a critical insight: the gap between what investors plan to do and what they ultimately do often reveals more about competitiveness than any single data point.

For Luxembourg, this year marks an important inflection point. The country has long been synonymous with trust, political stability and regulatory credibility, supported by a highly international workforce and deep integration into European markets. These strengths remain firmly in place but maintaining this position cannot be taken for granted in a global environment where competing jurisdictions are actively reinforcing their value propositions.

“Luxembourg’s strength has always been its ability to adapt and evolve,” says Alban Aubrée, EY Luxembourg Country Managing Partner. “What the 2026 findings show clearly is that the country is entering a new phase, where competitiveness will depend on trust and stability, as well as how effectively those strengths are translated into execution, scale and higher-value activities.”

Europe’s FDI slowdown deepens and the gap widens across countries

Europe recorded 5,026 FDI projects in 2025, down 7% year-on-year and 24% compared to 2017, confirming that the downturn is structural rather than cyclical. The decline is particularly visible in Europe’s largest economies, with France (-17%), the United Kingdom (-14%) and Germany (-10%) all recording significant contractions in investment flows.

These declines reflect a broader shift in investor behavior. Capital is not leaving Europe entirely, but is becoming more selective, concentrating in strategic sectors such as AI, digital infrastructure, defense and low-carbon energy, while traditional manufacturing, logistics and R&D activities continue to weaken. At the same time, investor appetite is cooling, with only 54% of executives planning to invest in Europe in 2026, compared with 59% in 2025 and 72% in 2024.

Luxembourg diverges positively: fewer projects in Europe but steady gains at home

“Luxembourg stands out as a market that is not expanding in volume, but strengthening in resilience and relevance,” says Aubrée. The number of FDI projects increased from 33 to 35 between 2024 and 2025, and more importantly, from 25 projects in 2021 to 35 projects in 2025, representing a 40% increase over five years.

This growth trajectory contrasts with the broader European decline and reflects a different investment profile. Luxembourg has limited exposure to the most affected sectors and instead attracts service-oriented, highly specialized and technology-enabled activities. This positions the country in line with the current phase of global investment, where fewer projects are being realized, but each carries higher strategic value.

The composition of this growth is equally telling. Financial services have strengthened structurally over the period, rising from five projects in 2021 to 18 in 2025 and now accounting for 51% of all FDI projects in Luxembourg. At the same time, software and IT activity has expanded, representing 20% of projects in 2025, with Luxembourg capturing a meaningful number of AI-related investments relative to its size.

Finance remains the core pillar, but the model is evolving

The research highlights that Luxembourg's competitiveness continues to rest on a strong and resilient financial services engine, particularly as Europe's broader investment environment becomes more fragmented. While investment volumes decline across many sectors and geographies, financial services remain one of the areas where capital continues to concentrate.

Aubrée states, "Luxembourg's performance reflects this trend, but also points to a deeper evolution. The traditional model which is anchored in operational, back- and middle-office activities is being reshaped by AI, automation and data-driven business models. As these technologies erode the advantage of operational functions, they simultaneously create an opportunity for Luxembourg to attract higher-value activities, including portfolio oversight, product structuring and strategic decision-making roles."

Investor confidence holds but becomes more realistic

Investor sentiment toward Luxembourg remains solid, though clearly more measured than in previous years. In 2026, 54% of respondents plan to establish or expand operations in Luxembourg, compared with 57% in 2025 and 72% in 2024, reflecting a broader European cooling rather than a deterioration of Luxembourg's fundamentals. Importantly, long-term confidence remains intact. Over half (56%) of investors still expect Luxembourg's attractiveness to improve over the next three years, while 71% report that they have not postponed, scaled back or cancelled their investment plans. Says Brice Lecoustey, Attractiveness Survey Leader, "This reinforces Luxembourg's role as a safe anchoring point in a volatile global environment. A location where investors continue to deploy capital even as they become more selective elsewhere."

Advantages remain clear

The outlook confirms a strong consistency in how investors perceive Luxembourg's strengths. The country continues to be associated with tax and political stability, and a high-quality regulatory environment, reinforcing its positioning as a trusted and predictable hub for international investment, especially within financial services.

At the same time, the disadvantages are equally well understood. Investors consistently cite small market size, high labor and input costs, and energy costs as the main constraints. These are largely structural factors that are sticky to change, but are becoming more visible as investors place greater emphasis on cost predictability, resilience and scalability in their location decisions.

Talent is no longer the primary concern; housing takes its place

One of the most notable shifts in the 2026 findings is the change in how investors perceive talent. After several years of being seen as a key risk, talent has become less of a concern, particularly in financial services. This potentially reflects easing hiring pressures, improved access to cross-border talent and greater predictability in relocation frameworks.

However, the constraint has not altogether disappeared. Rather, it has shifted. The availability and affordability of housing has emerged as the most critical issue, identified by 61% of respondents as a top infrastructure priority. Luxembourg's ability to attract talent is less constrained by skills availability and increasingly by the capacity to anchor that talent sustainably in the country.

A second engine emerges: building the non-financial innovation economy

Beyond financial services, the survey points to the growing importance of a second engine: Luxembourg's non-financial innovation economy, spanning sectors such as AI, cybersecurity, space and defense. This evolution is taking place in a broader European context where geopolitical developments and increased defense spending are reshaping investment flows. Luxembourg has begun to position itself within this shift, leveraging its strengths in data infrastructure, space capabilities, cybersecurity and cross-border collaboration.

"Luxembourg has long had all the ingredients to build a strong non-financial sector. This is not a new message for us, but one that is becoming increasingly relevant in today's environment," says Lecoustey. "What is encouraging is that the current momentum in defense and dual-use technologies provides a tangible opportunity to accelerate this ambition. Luxembourg does not need to build from scratch. It already has capabilities, ecosystems and cross-border connectivity in place. The priority now is to amplify and better communicate this value proposition, positioning the country as a high-value innovation hub that anchors research, coordination and testing capabilities within broader European ecosystems."

From stability to execution: a clear strategic shift

Across all levers crucial to enhancing Luxembourg's attractiveness (innovation, talent, regulation, tax and sustainability) the 2026 survey points to a clear conclusion. Luxembourg's fundamentals are not up for debate. What is changing is how those fundamentals are evaluated. Investors are no

longer judging locations primarily on the strength of their frameworks, incentives or positioning. Increasingly, they are assessing execution: how quickly projects can be approved, how predictably regulation is applied, how easily talent can be mobilized and how effectively innovation can be scaled.

“In this more selective investment environment, Luxembourg’s competitiveness depends on anchoring the right projects. The ability to translate trust into execution, stability into substance, and connectivity into leadership will define the country’s next phase of growth,” says Aubrée.