Why optimism remains in Europe as Foreign Direct Investment declines

EY Europe Attractiveness Survey 2024

Part 1: 2 May 2024

EY
Building a better working world

Introducing 23rd EY Europe Attractiveness Survey

Episode 1: 2 May 2024

Here are some of the questions asked – and hopefully answered – in Part 1 of this year's European Attractiveness Report:

- Has the post-pandemic resurgence of foreign direct investment (FDI) investments in Europe continued?
- In which countries and regions have investments grown, been maintained or reduced?
- Which sectors and activities have attracted the most investments, and which have struggled?
- Do companies expect Europe's attractiveness to grow or contract in the future?
- What kind of European operations do investors plan to establish or expand in the future?
- What types of risks might have the largest impact on investment decisions?

Episode 2: 19 June 2024

On 19 June, we will publish the second part. We will unpack investors' thinking about future investments in Europe. We will also set out the policies we believe are needed to drive the inward investment that will be critical for Europe's digital and green transformations.

FDI is critically important to Europe's economy. A significant share of its gross domestic product directly depends on it: around 29% in the UK. For France, FDI impacts approximately 35% of industrial exports.

That makes FDI a crucial component of vibrant and sustainable growth across Europe. And it is why, for more than two decades, EY teams have surveyed thousands of investors for the EY Europe Attractiveness Survey, mapping the reality and the drivers of their investment decisions.

EY European 2024 Attractiveness Report has so many angles to unpack that it will again be split into two parts.

Executive summary

Trend

Europe's FDI recovery stalls in 2023

- After two successive years of growth, the post-COVID-19 recovery of FDI in Europe seems to have stalled: 5,694 FDI projects were announced in Europe in 2023, down 4% from 2022.
- The number of jobs created by FDI projects in 2023 fell sharply, down 7% compared with 2022.

Activities

Foreign investors cut back on services but preserve their manufacturing presence

- As organizations increasingly turn to remote working practices and growing use of collaborative technology, while tightening cost control efforts amid squeezed margins, office space is no longer at a premium. Confirming this trend, the number of regional headquarters in Europe fell by 51% in 2023.
- The number of FDI projects in the software and IT services and business and professional services sectors – traditionally Europe's largest sectors for investment – fell by 19% and 27% respectively.
- While not showing such an impressive resurgence, investment in manufacturing has proven resilient, showing a decline of only 1%, as organizations anticipated a rebound of consumer demand, as well as reorganizing supply chains and relocating bases of production.

Destinations

Mixed fortunes across Europe

Investment in France fell by 5%. That said, the number of jobs created by FDI increased by 4%, underlining the ongoing benefits of business-friendly reforms and a comparatively healthy economy relative to other European countries.

The UK bucked Europe's negative trend with a 6% increase in FDI projects in 2023. After a 2022 marked by political uncertainty, high inflation and rising energy prices, investors perceived something of a return to stability to UK markets last year, with foreign software and IT providers particularly loyal to London.

FDI in Germany decreased by 12% in 2023, continuing a steady decline in projects since the onset of COVID-19. Industrial investors have been deterred by the recessionary environment, high energy prices and concerns about the security of energy supply. In parallel, low unemployment, complex bureaucracy and high labor costs limit Germany's ability to attract more foreign businesses.

In the context of reorganization of supply chains and reshoring of production activities, several countries in Southern and Eastern Europe, such as Turkey, Poland or Spain, **recorded remarkable performances.**

By contrast, **slowing investment in digital and business services sectors impacted investment in countries for which these areas are traditional strengths.** These include the Netherlands, Belgium and Ireland.

Executive summary

Intentions

FDI could rebound more strongly than expected

- **Despite recent economic slowdowns, there's a notable increase in investment intentions.**

  72% of surveyed executives plan to expand or establish operations in Europe within the next year, up from 67% previously.

- **These positive outlooks are partly fueled by pent-up demand following a period of low investment and economic challenges** such as the war in Ukraine, inflation and financing difficulties. While these obstacles persist, they've slightly eased, prompting organizations to consider reinvestment.
- **However, executives approach investment cautiously**, with cost reduction being the primary driver. This likely stems from the post-pandemic surge in logistics expenses.
- **Likewise, the survey data indicates that the expansion of existing facilities may initially take precedence over the creation of new ones.** This is cause for concern because greenfield projects are imperative for Europe's economic rejuvenation and global competitiveness in critical industries.
- Analysis of the investment data suggests that **strong appetite in the past two years for relocating supply chains may not translate rapidly**. Just 35% of surveyed organizations plan to increase their manufacturing footprint in the next three years.

Challenges

Risks remain on the horizon

- **Investors are positive about Europe's long-term prospects because the economic situation is expected gradually to improve.** High inflation and high interest rates have fallen to fourth and sixth positions among the greatest risks to Europe's attractiveness in the next three years.
- Here are the **top three risks** to a rapid recovery of FDI in Europe:

1. **Regulatory burden.** Europe has pioneered new regulatory initiatives, be they carbon disclosure, data protection or the safe use of artificial intelligence (AI). Investors are worried that the expanding regulatory framework may stifle European business growth and agility.
2. **Energy prices and supply issues.** Respondents' answers reflect their concerns about the energy crisis of the past two years.
3. **Political instability.** This can be explained by the uncertainty in the run-up to the European elections and rising social tensions and political radicalism at local level.

Methodology

EY Europe Attractiveness Survey draws on two main sources

1. The European Investment Monitor

Our evaluation of FDI in Europe is based on the EY European Investment Monitor (EIM). This EY proprietary database helps us to track projects announced in 2023 across 44 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.

By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available. An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company’s equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

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

We explore Europe’s perceived attractiveness via an online survey of international decision-makers. Field research was conducted by Longitude in February and March 2024, based on a representative panel of 500 respondents, which are determined on the most recently available FDI data (2022). The survey thus aims to get a representative sample of investors into Europe, by geography, industry grouping and size of company. We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country’s or area’s ability to provide the most competitive benefits for FDI.

FDI trends – 2023

FDI in Europe loses momentum in 2023

Executive survey – 2024

FDI could surge, but risks remain

Appendix

FDI trends – 2023

FDI in Europe loses momentum in 2023

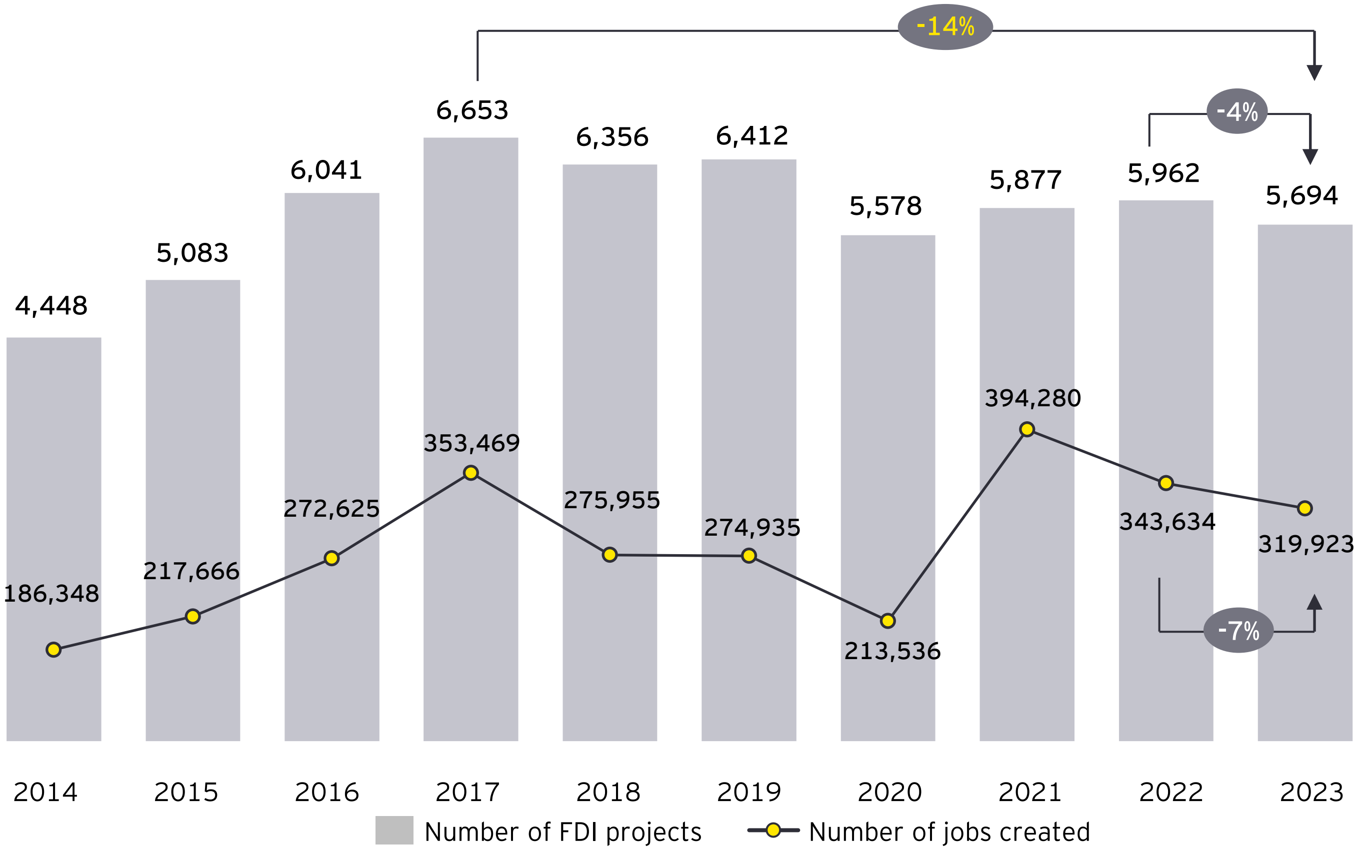
Our evaluation of attractiveness in Europe is based on the EY EIM, which tracks FDI projects announced in 2023 across 45 countries.

The database tracks greenfield or expansion projects that have resulted in the creation or expansion of facilities and jobs.

Europe's FDI momentum stalls in 2023

EY Data

Number of FDI projects announced in Europe between 2014 and 2023



Source: EY European Investment Monitor 2023

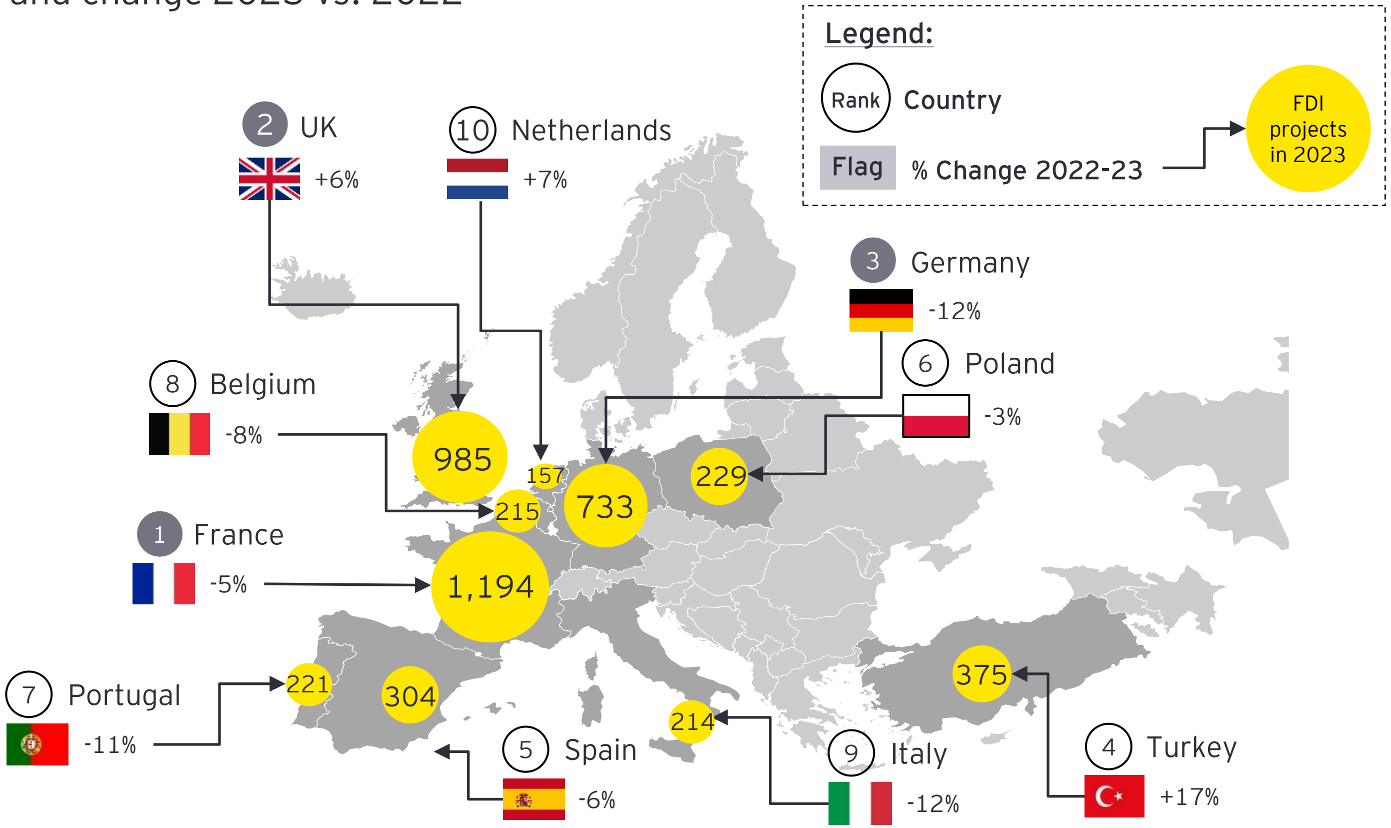
EY viewpoint

- After two successive years of growth, the post-pandemic **recovery in foreign investment came to an end in 2023**, with the number of FDI projects decreasing by 4% compared with 2022.
- International companies slowed their investments on the continent due to **disappointing economic growth, high inflation, rising geopolitical tension globally, and persistently high energy prices.** A sea change in working dynamics likely also impacted investment in Europe.
- This downturn comes at the worst possible time for European business. According to the IMF, economic growth in the euro area fell from 3.4% in 2022 to just 0.4% in 2023. This is significantly lower than in the US (2.5%) and Asia (5.6%).
- **The number of jobs created by FDI projects** in 2023 (319,923) **fell more sharply**, down 7% compared with 2022.

FDI in Europe continues to be dominated by the largest economies

EY Data

Top 10 countries by FDI projects in 2023 – ranking, number of projects and change 2023 vs. 2022



Source: EY European Investment Monitor 2023

EY viewpoint

- **Europe's three largest economies continue to dominate.** France, the UK and Germany attracted more than half (51%) of all FDI projects on the continent.
- Although **France** was down 5% compared with 2022, it remains the top destination for FDI in Europe. It has benefited from a catching-up effect, which is the result of successive waves of reforms and a more pro-business climate. It has also benefited from challenges faced by its main competitors.
- The **UK's** solid performance followed a 6% drop in 2022. Its 6% gain in 2023 is partly attributed to the resilience of Greater London, particularly in finance (108 projects). The UK remains the top destination for companies looking to establish their headquarters in Europe. Although it stood out among the top competitors in 2023, the number of projects in the UK still remained significantly below pre-Brexit levels.
- FDI in **Germany** decreased by 12% in 2023, continuing a steady decline. Industrial investors have been deterred by a carbon-intensive energy mix, low unemployment and high labor costs, limiting Germany's ability to attract more foreign businesses.

The FDI picture by projects varies considerably across Europe

EY Data

Top 15 countries by FDI projects in 2023 – ranking, number of projects and jobs, change 2023 vs. 2022

#	Country	Number of projects in 2023	Number of projects in 2022	Change 2022-2023	Number of jobs in 2023
1	France	1,194	1,259	-5%	39,773
2	UK	985	929	+6%	52,211
3	Germany	733	832	-12%	14,261
4	Turkey	375	324	+17%	21,032
5	Spain	304	321	-6%	42,450
6	Poland	229	248	-3%	22,378
7	Portugal	221	243	-11%	18,259
8	Belgium	215	237	-8%	4,918
9	Italy	214	234	-12%	14,004
10	Netherlands	157	147	+7%	n.a.
11	Ireland	100	184	-46%	6,070
12	Switzerland	89	104	+53%	1,781
13	Austria	80	101	-21%	2,345
14	Hungary	77	74	+54%	11,349
15	Serbia	76	69	+3%	11,116
	All others	645	721	-11%	57,742
	Total	**5,694**	**5,962**	**-4%**	**319,923**

Source : EY EIM

EY viewpoint

- Beyond securing the most FDI projects in 2023, an EY survey of 500 executives shows that France is also expected to be the most attractive country for FDI in 2024. France is followed in the survey by Germany and the UK (see slide 16).
- In the context of reorganization of supply chains and reshoring of production activities, several countries in Southern and Eastern Europe recorded remarkable performances. While manufacturing projects decreased across the continent, they increased in Spain (+7%), Turkey (+12%), Poland (+17%) and Italy (+18%), with an even stronger upswing evident in Serbia (+30%), the Czech Republic (+70%) and Hungary (+70%).
- The war between Russia and Ukraine continues to impact investment in markets bordering either country, including Romania (-13%), Finland (-32%) and the Baltic countries such as Latvia (-31%) and Lithuania (-40%).
- Slowing investment in digital and business services sectors impacted investment in Western European countries where these areas are traditional strengths. These include the Netherlands (which saw one of the lowest numbers of FDI projects in a decade in 2023), Belgium (-8%) and Ireland (-46%).

Reported jobs from FDI declined significantly in 2023

EY Data

Top 15 countries by FDI projects in 2023 – ranking, number of projects and jobs, change 2023 vs. 2022

#	Country	Number of jobs in 2023	Number of jobs in 2022	Change 2022-2023
1	UK	52,211	46,779	+12%
2	Spain	42,450	39,104	+9%
3	France	39,773	38,102	+4%
4	Poland	22,378	18,483	+21%
5	Turkey	21,032	13,677	+54%
6	Portugal	18,259	21,944	-17%
7	Germany	14,261	33,548	-57%
8	Italy	14,004	20,313	-31%
9	Hungary	11,349	7,061	+61%
10	Serbia	11,116	16,018	-31%
11	Greece	6,425	4,719	+36%
12	Czech Republic	6,259	1,750	+258%
13	Ireland	6,070	23,371	-74%
14	Sweden	6,024	4,107	+47%
15	Romania	5,935	6,460	-8%
	All others	42,377	48,198	-12%
	Total	**319,923**	**343,634**	-7%

Source : EY EIM

EY viewpoint

- The number of known European jobs produced by FDI projects in 2023 was notably lower (-7%) in 2023 than in 2022, but the impact was not as negative for the leading countries. The top 15 countries ranked by reported 2023 jobs created were down -6% from 2022, much less than the -12% results for all other countries.
- Results for the top five countries were quite positive, particularly in the cases of **Turkey** and **Poland**.
- **Germany's** sluggish performance in attracting FDI projects in 2023 (-12% from 2022) was even worse in terms of reported jobs. Germany created less than half of the number of jobs from FDI in 2023 than in 2022 (-57%).

Note: Jobs data should be treated as directionally correct, but not complete. Not all FDI projects report the number of jobs created. For 2023, 69.7% of all projects in the EIM database indicate the number of jobs created, compared to 70.4% in 2022. These percentages vary by individual country.

Greater London regained pole position as Europe's top FDI region

EY Data

Top 10 regions by FDI projects in 2023 – ranking, number of projects and jobs, change 2023 vs. 2022

#	Region	Number of projects in 2023	Number of projects in 2022	Change 2022/23	Number of jobs in 2023
1	Greater London	359	299	+20%	13,627
2	Île-de-France	300	326	-8%	8,339
3	North Rhine-Westphalia	197	277	-29%	3,773
4	Auvergne-Rhône-Alpes	167	154	+8%	4,163
5	Flemish Region	145	160	-9%	4,293
6	Scotland	142	126	+13%	6,650
7	West Midlands	127	74	+72%	6,784
8	Bavaria	126	150	-16%	792
9	Grand Est	119	95	+25%	5,576
10	Catalonia	118	83	+42%	7,506
	All others	3,894	4,218	-8%	258,420
	Total	**5,694**	**5,962**	**-4%**	**319,923**

Source : EY EIM

EY viewpoint

- **UK, French and German regions dominate the rankings in Europe**, representing eight of the 10 areas drawing the largest number of investments.
- **Greater London regained pole position** as Europe's top investment region, with a 20% increase in FDI projects. It has finished in first place in four of the last five years, its resilience bolstered by the financial services, tech sectors and its desirability as a headquarters location.
- **Île-de-France** (inclusive of Paris), which finished first last year, follows London closely despite an 8% drop. Its favorable position is likely due to its competitiveness in R&D activities – and since Brexit, Paris has managed to attract the favor of numerous major banks, especially US ones (224 establishments and expansions between 2017 and 2023), with some relocating a portion of their UK operations.
- **German regions** such as North Rhine-Westphalia – a top-three region by project numbers – and Bavaria aren't generating as many jobs as other regions.

Europe's services sectors see investment drop while industrials are resilient

EY Data

Top 15 sectors by FDI projects in 2023 – ranking, number of projects and jobs, change 2023 vs. 2022

#	Sector	Number of projects in 2023	Number of projects in 2022	Change 2022-2023	Number of jobs in 2023
1	Software and IT services	954	1,182	-19%	42,214
2	Business services and professional services	556	765	-27%	24,028
3	Transportation and logistics	457	417	+10%	26,414
4	Transportation manufacturers and suppliers	445	470	-5%	51,472
5	Machinery and equipment	424	368	+15%	23,090
6	Finance	329	292	+13%	12,675
7	Electronics	316	276	+14%	30,332
8	Utility supply	302	277	+9%	16,597
9	Agri-food	266	291	-8%	12,654
10	Chemicals, plastics and rubber	255	249	+2%	13,379
11	Pharmaceuticals	226	234	-3%	13,064
12	Metals and minerals	160	139	+15%	6,165
13	Construction	157	142	+11%	3,799
14	Furniture, wood, ceramics and glass	137	133	+3%	4,234
15	Medical devices	123	122	+1%	6,196
	All others	587	605	-3%	33,610
	Total	**5,694**	**5962**	**-4%**	**319,923**

Source : EY EIM

EY viewpoint

- Europe's traditional investment areas – the software and **IT services, and the business and professional services sectors** – attracted fewer projects due to cost reductions and the outsourcing crisis.
- Despite significant downturns, these leading sectors remain at the top of the list in terms of the number of FDI projects.
- Meanwhile, sectors such as **machinery and equipment, finance, agri-food and utility supply** all saw double-digit growth in the number of projects in 2023.
- Although it did not make the top 15 list for FDI projects, the **tourism and culture** sector saw robust growth in 2023 (+130% gain) as consumers spent vigorously on leisure and travel in the aftermath of COVID-19 restrictions.

FDI cut back on services but preserve their manufacturing presence

EY Data

Top 7 activities by FDI projects in 2023 – ranking, number of projects and jobs, change 2023 vs. 2022

#	Activity	Number of projects in 2023	Number of projects in 2022	Change 2022/23	Number of jobs in 2023
1	Manufacturing	1,743	1,756	-1%	150,817
2	Business support services	1,586	1,415	12%	52,328
3	Sales and marketing	856	805	6%	14,241
4	Logistics	532	570	-7%	49,737
5	R&D	484	573	-16%	24,377
6	Headquarters	223	455	-51%	6,620
7	Shared services center	83	155	-46%	6,365
	Total	5,694	5,962	-4%	319,923

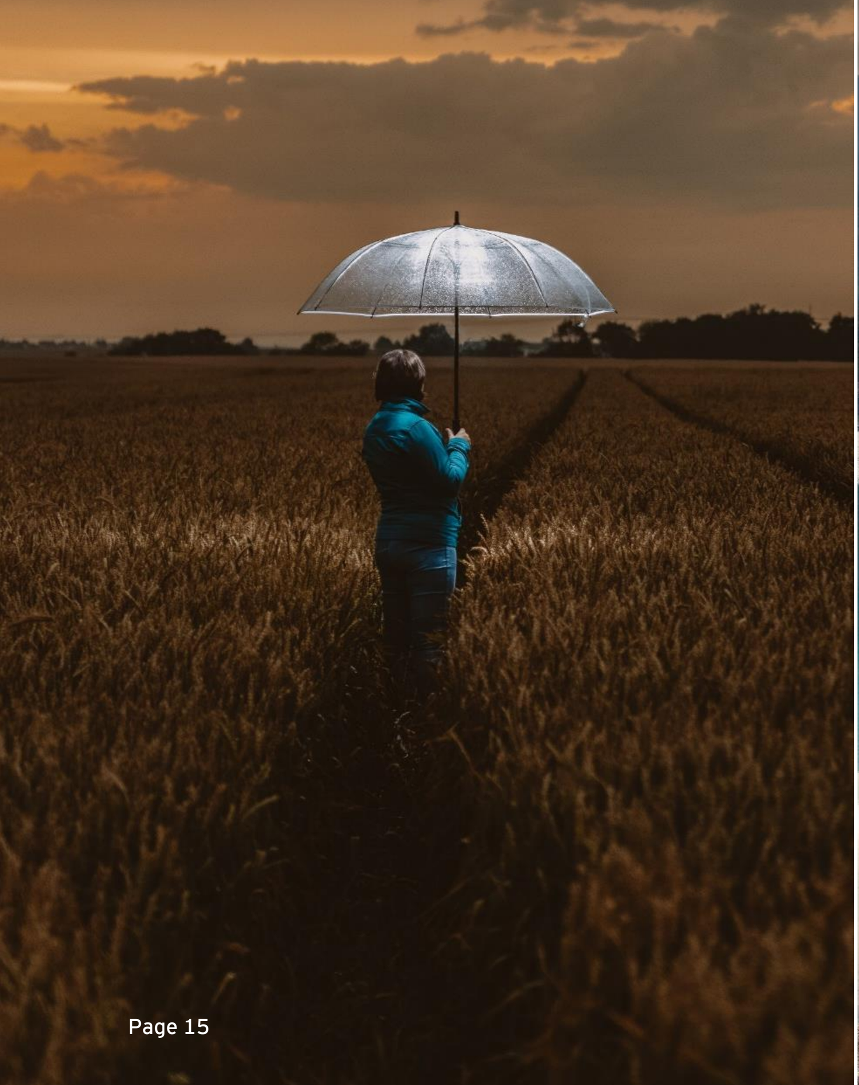
Source : EY EIM

EY viewpoint

- Investment in **manufacturing** showed resilience, with a mere 1% decline as organizations anticipated a rebound in consumer demand and reorganized supply chains and production bases. Manufacturing FDI projects accounted for almost half (47%) of the jobs added in 2023.
- **Manufacturing and business support services** retain their lead amid the overall declining trend in FDI projects across activities. Business support services registered the strongest gain (+12%) among the different types of activities tracked in the database.
- Investments in regional **headquarters** in Europe fell precipitously (-51%) in 2023. As organizations increasingly turn to remote working practices and growing use of collaborative technology, while tightening cost control efforts amid squeezed margins, office space is no longer at a premium.

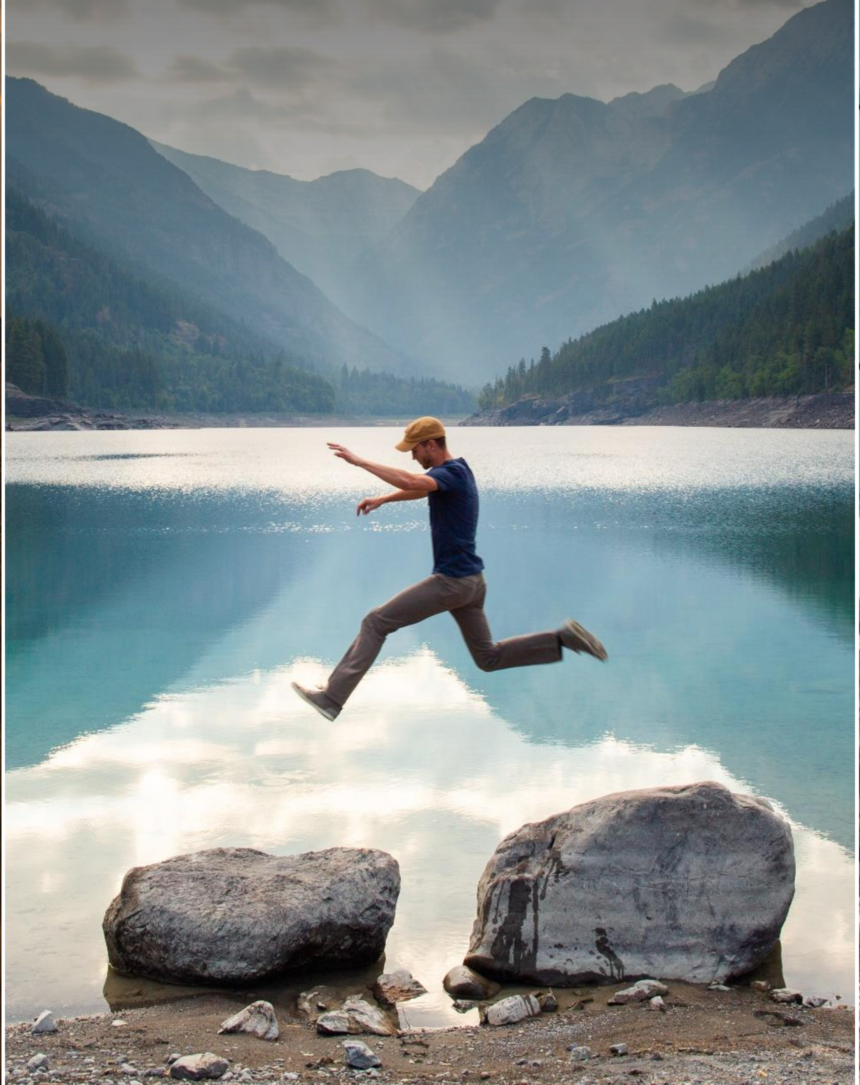
FDI trends – 2023

FDI in Europe loses momentum in 2023



Executive Survey – 2024

FDI could surge, but risks remain



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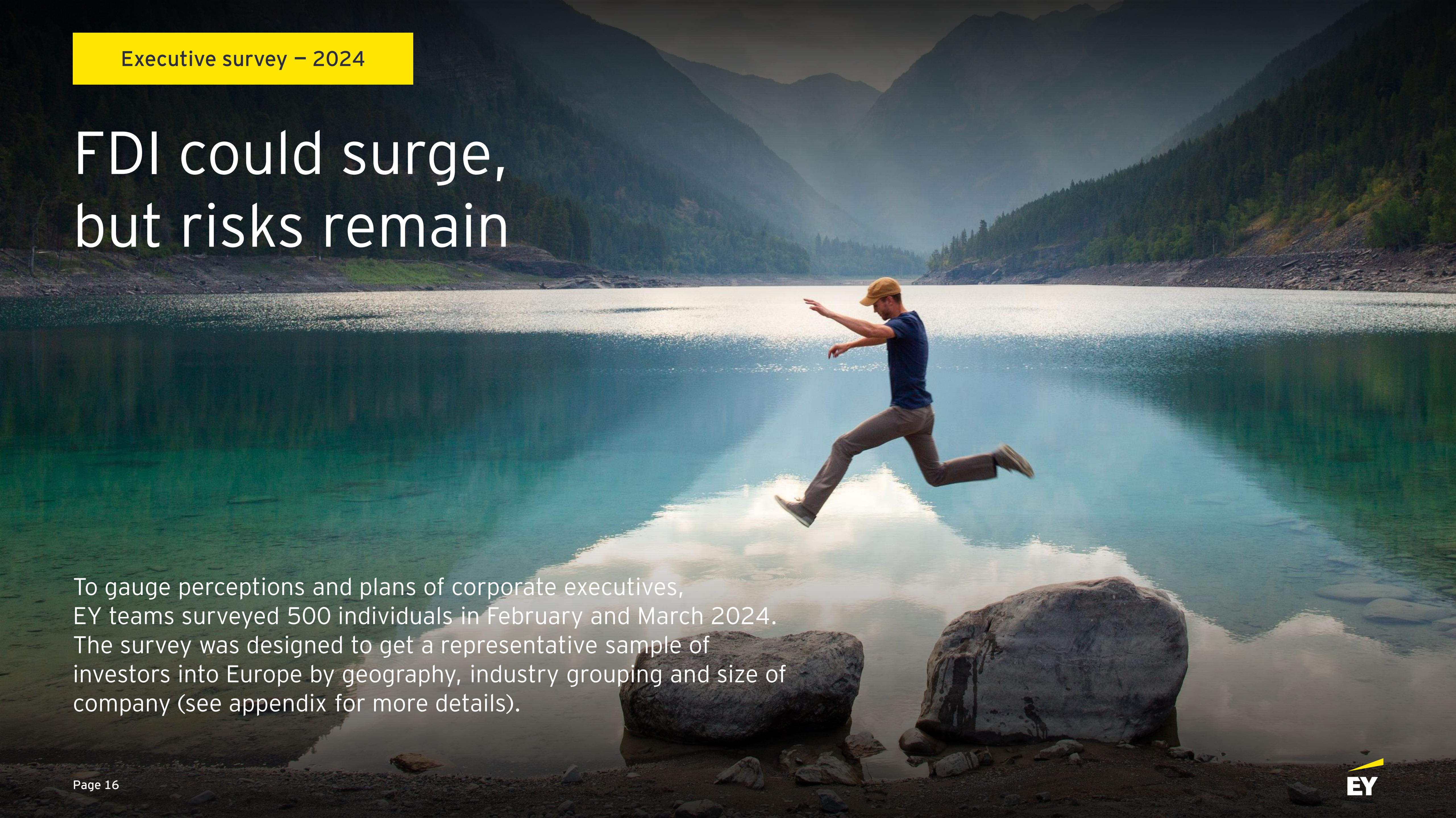


Executive survey – 2024

FDI could surge, but risks remain

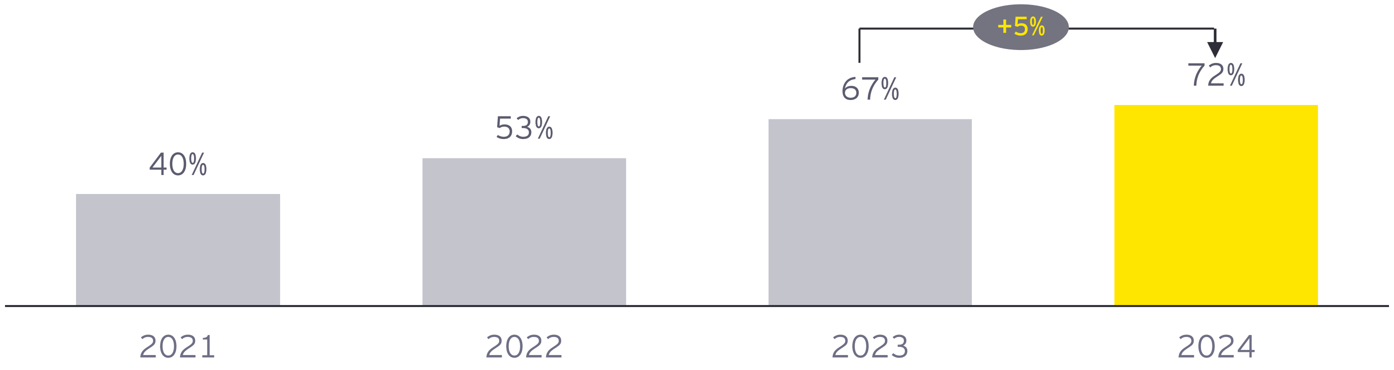
To gauge perceptions and plans of corporate executives, EY teams surveyed 500 individuals in February and March 2024. The survey was designed to get a representative sample of investors into Europe by geography, industry grouping and size of company (see appendix for more details).

EY

Despite the slowdown in 2023 FDI, there are signs that investment could bounce back

EY Data

Does your company have plans to establish or expand operations in Europe over the next year?



Data segments:

+	–
Large companies: 88%	**SMEs:** 72%
HQ in Europe: 75%	**HQ outside Europe:** 67%
Operations in Europe: 77%	**Operations outside Europe:** 67%
Financial services: 93%	**Business services:** 71%
Chemical and pharma: 90%	**Industrials:** 66%

EY viewpoint

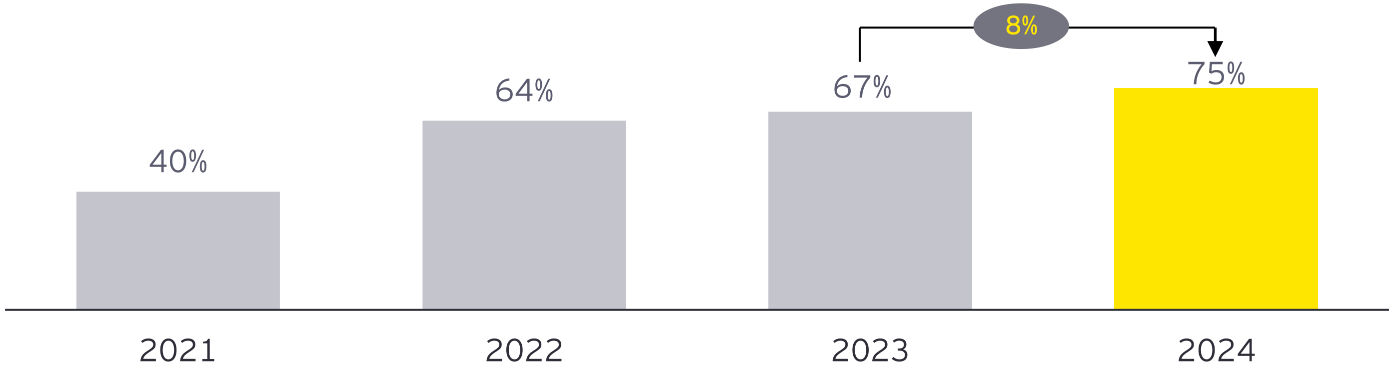
- A large proportion (72%) of surveyed executives say their organization plans to expand or establish operations in Europe over the next 12 months, up from 67% last year.
- These expectations of recovery are partly owing to pent-up demand for projects after a long period of low investment and difficult economic conditions.
- Whether it's the war in Ukraine, soaring inflation or difficult financing conditions, the past three years have been marked by shock after shock, decelerating capital spend. These challenges have not gone away, but they have eased to the extent that organizations now feel ready to invest again.

Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

Executives expect Europe to improve its attractiveness to investments over the mid term

EY Data

How do you expect Europe's attractiveness to evolve over the next three years?
"It will [slightly/significantly] increase" answers only.



Data segments:

+	–
Large companies: 83%	**SMEs:** 72%
HQ in Europe: 78%	**HQ outside Europe:** 70%
Operations in Europe: 78%	**Operations outside Europe:** 52%
Financial services: 80%	**High tech:** 74%
Chemical and pharma: 80%	**Industrials:** 71%
Consumer: 80%	

EY viewpoint

- Executives' confidence in the future attractiveness of Europe has almost doubled since the last year of the COVID-19 pandemic. After the large jump in 2022, expectations of Europe's future attractiveness have continued to rise steadily.
- Executives in the financial services, chemical and pharmaceuticals, and consumer goods sectors have the greatest degree of optimism regarding the future attractiveness of Europe (all registering scores of 80%). Respondents from industrial companies are the least likely to believe that Europe will continue to grow in attractiveness (71%).
- Companies already operating in Europe are considerably more likely to expect the continent to become more attractive in the midterm (78%) than those who do not have current operations there (52%).

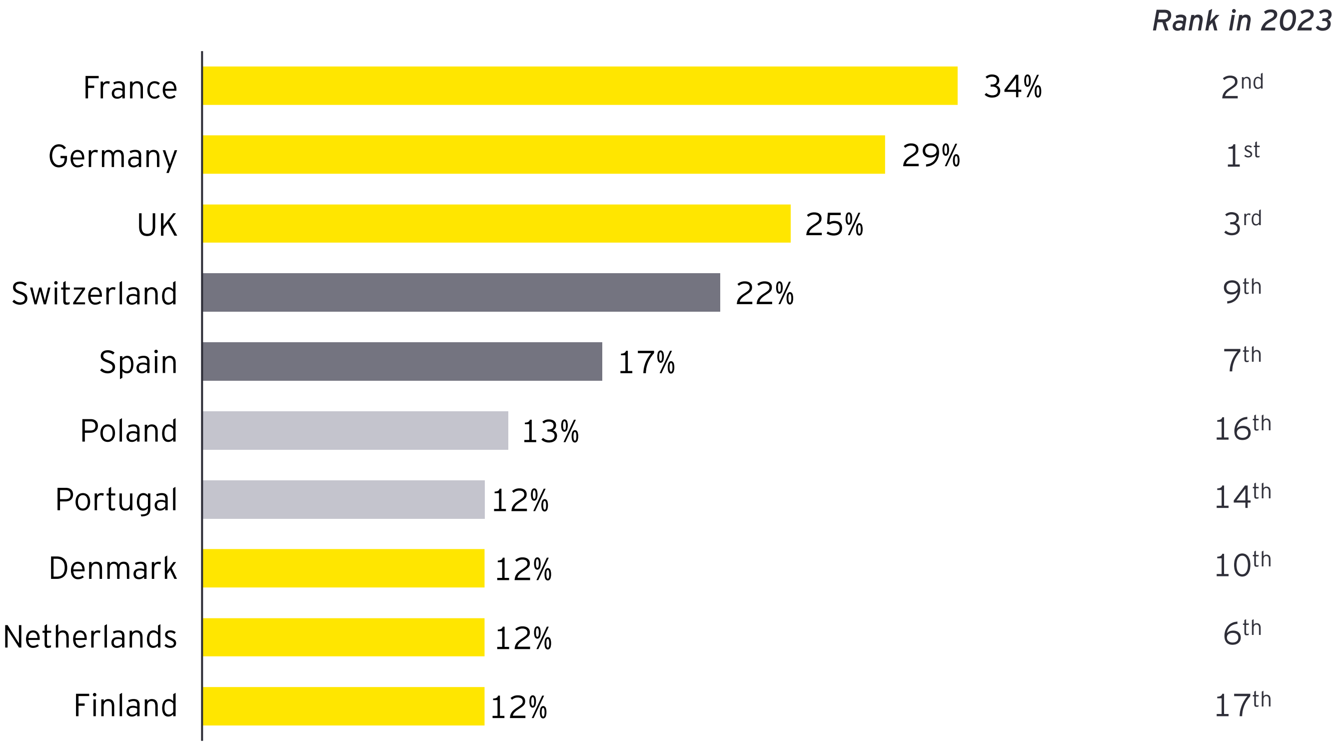
Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

For 2024, executives believe that France will be the most attractive country, followed by Germany and the UK

EY Data

Which European countries will be most attractive for foreign investment in 2024?

Up to three answers only. Ten most cited answers.



EY viewpoint

- 34% of surveyed businesses say **France** is one of their top three places to establish operations, which is slightly more than the 29% who favor **Germany**. Sentiment toward France and Germany is strong among all sizes of businesses but is most pronounced among small- and medium-sized enterprises (SMEs).
- The **UK** has held onto third place, while Switzerland has jumped up to fourth, buoyed in part by companies in the chemical and pharmaceutical industry (35% of companies in this sector cite Switzerland among the top three most attractive countries in Europe).
- Also of note is the rise of **Poland** and **Portugal**, neither of which were in the top 10 last year. The strength of these countries may be partly a result of the reconfiguration of global supply chains and a trend toward cost-competitive locations for manufacturing and back-office operations.

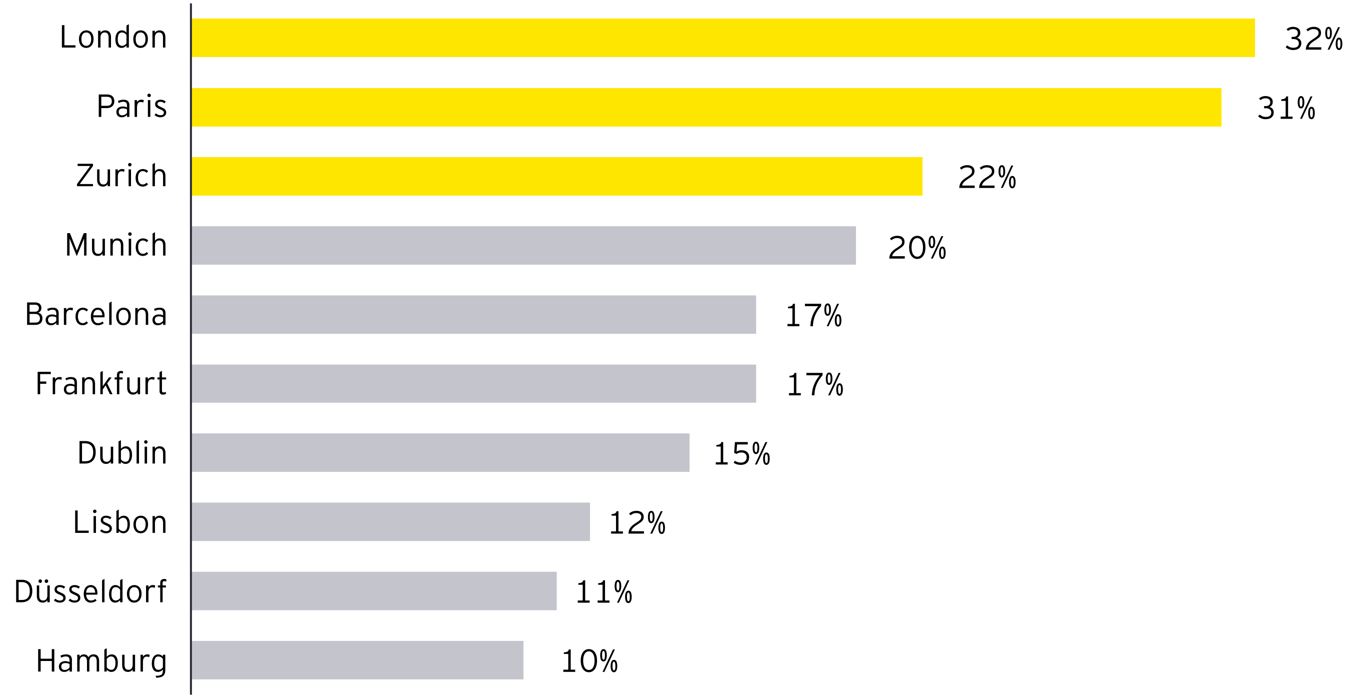
Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

Looking at Europe's major metropolises, London retains the top spot, but Paris is close behind

EY Data

Which European cities do you believe will be most attractive for foreign investment over the next three years?

Up to three answers only. 10 most cited answers



EY viewpoint

- The gap between **London** and **Paris** continues to narrow. 32% of executives rank London as a top-three city for investment this year (vs. 34% in 2022), which is slightly more than the 31% that do so for Paris (vs. 28% in 2022). There is a clear separation of these two cities from the rest of the pack in this year's study.
- **Zurich** takes the third spot on the podium (22%), buoyed in part by responses from businesses in the pharmaceutical industry.
- Germany's federal structure and relatively strong FDI appeal gives it four cities among the 10 most favored by international investors: **Munich**, **Frankfurt Düsseldorf** and **Hamburg**. No other country is represented by more than one city in the top 10.

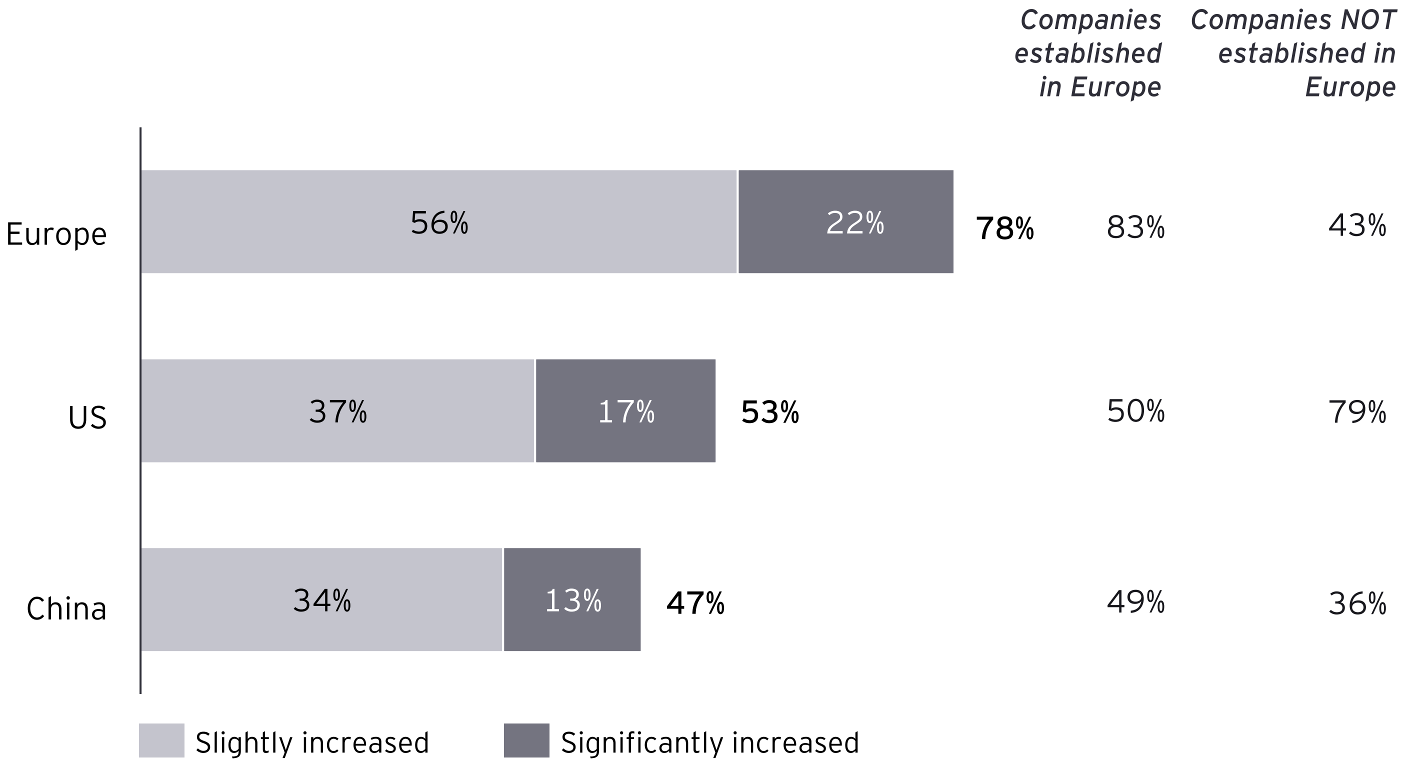
Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

European stimulus packages have had some success, but they have competition from the US Inflation Reduction Act (IRA)

EY Data

How, if at all, has the combined impact of the economic stimulus packages in Europe, the US and China changed your investment plans in these locations?

"[Slightly/Significantly] increased" answers only.



Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

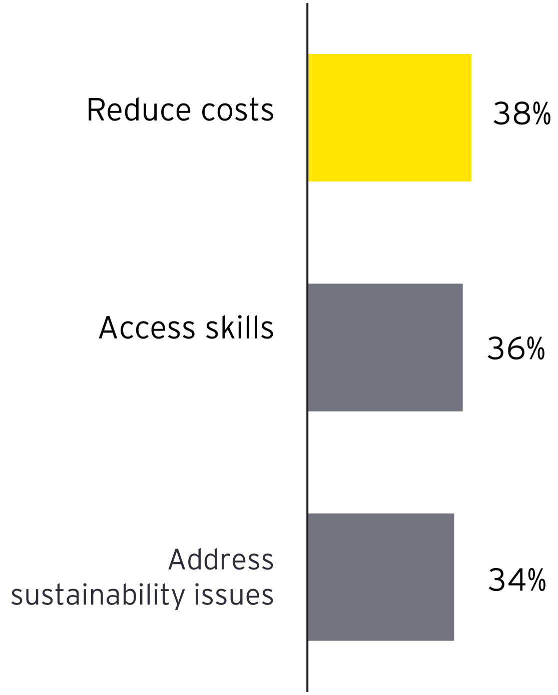
EY viewpoint

- **Europe's economic stimulus packages have had some success:** 78% of business leaders surveyed affirmed their role in bolstering their investment plans across the continent.
- **This headline figure conceals important differences, however.** European stimulus packages appear to primarily attract businesses that already have operations on the continent: 83% of them claim to have increased their investment plans as a result (compared with just 43% for companies not established in Europe).
- **The success of the Inflation Reduction Act in the US may have diverted some potential investment in Europe back to the US:** The number of projects announced by US companies in Europe fell by 15% in 2023.

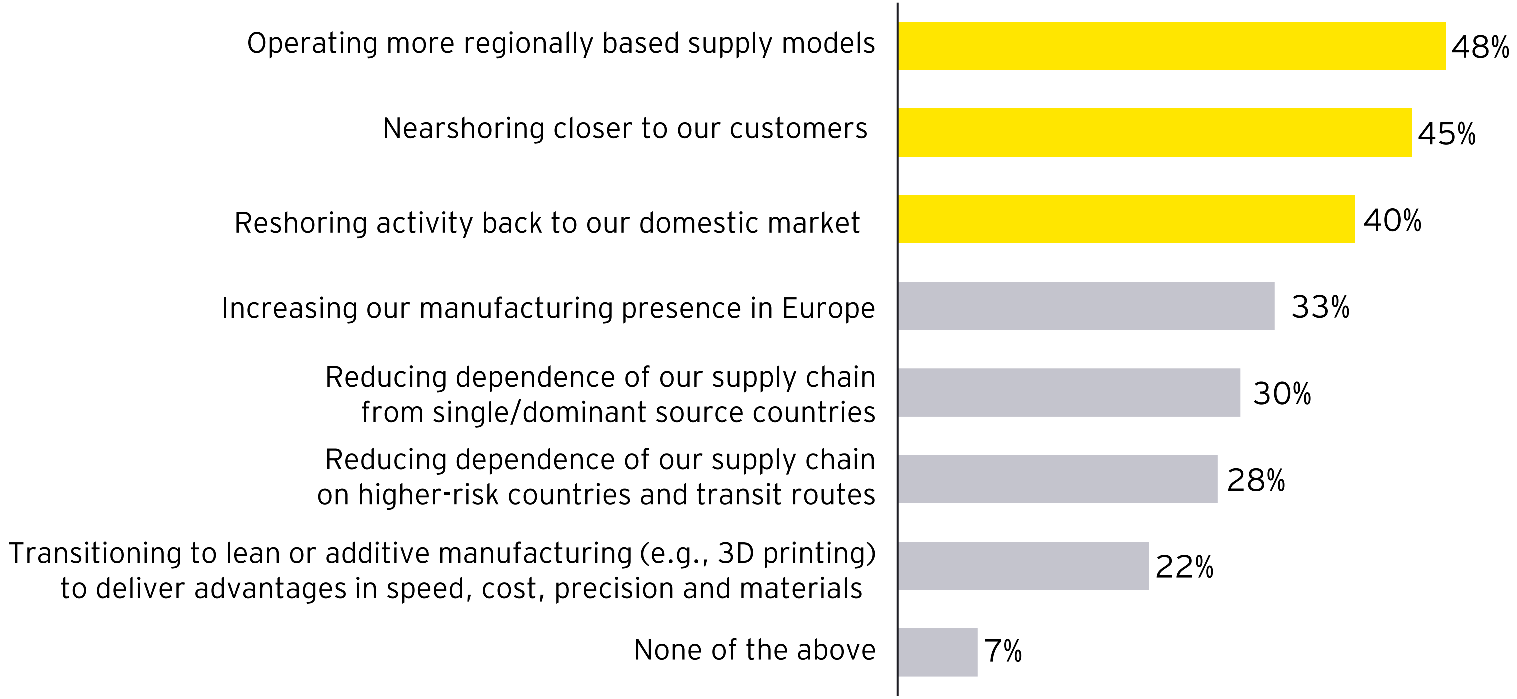
Nevertheless, executives intend to proceed with caution, and nearshoring is an option

The primary driver for investment is reducing costs. This likely stems from the post-pandemic surge in logistics expenses. Tellingly, 48% plan to make greater use of regional supply chains and 45% plan to focus on projects that bring them closer to their customers.

Main reasons for establishing new or expanding existing operations



How are companies transforming their global supply chain

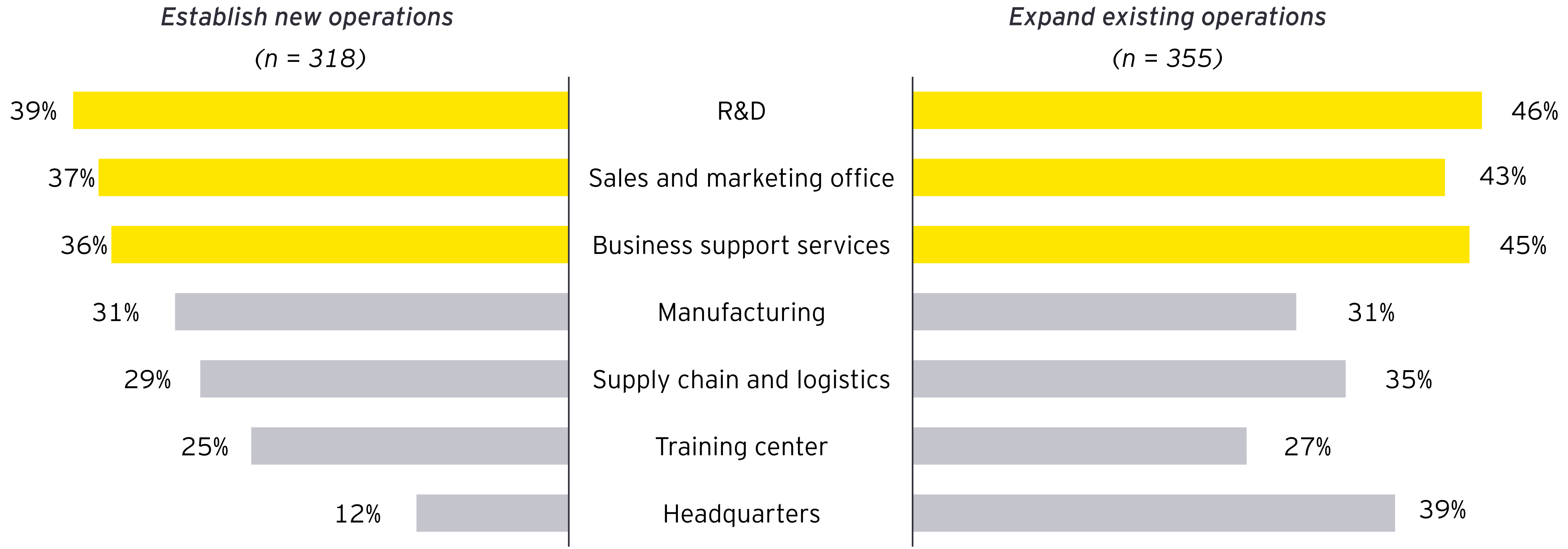


Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

Where investment activity occurs, it is more likely to involve expanding existing operations rather than establishing new

Executives intend to proceed with caution. The likelihood of expanding rather than establishing new operations is greater across all categories of activities. R&D, sales and marketing, and business support services (call centers, shared services centers, data centers) are the most common options for companies looking to expand or establish new operations in 2024.

What operations are you planning to establish or expand?

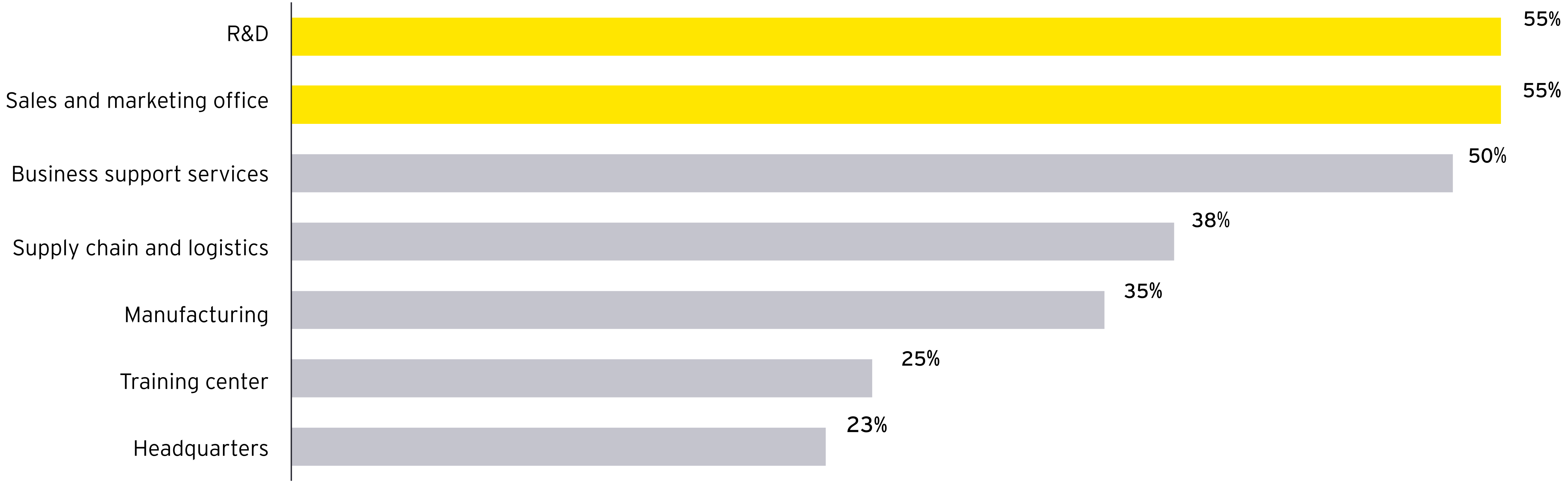


Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

Where there is new investment in Europe, it will likely focus on innovation and client-facing services rather than manufacturing facilities

55% of organizations intend to increase their R&D and sales and marketing footprint in the next three years, while just 35% plan to increase that of manufacturing.

In the next three years, how do you expect to change your footprint in Europe in each of the following types of operations?
"Increase" answers only.



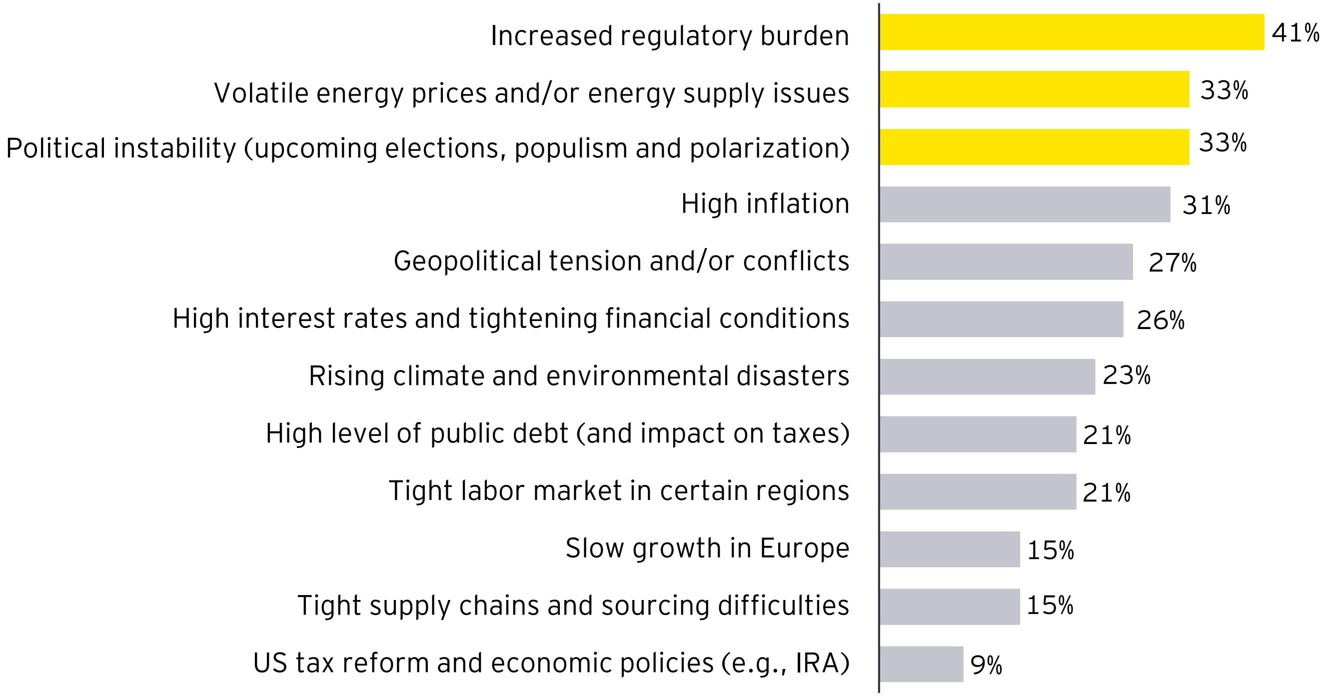
Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

Risks to Europe's attractiveness remain on the horizon, although they are less driven by the macroeconomic situation

EY Data

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

Rank up to three.



EY viewpoint

- **Macroeconomic worries wane:** High inflation and high interest rates, both factors that were significant last year, have fallen to fourth and sixth place respectively.
- **The regulatory burden is top of mind for investors.** Beyond the introduction and proposal of significant new regulations in the past year (e.g., Carbon Border Adjustment Mechanism, FDI screening, safe use of AI), companies are growing wary of the volume and variance of regulations across and within borders.
- **Energy prices and security continue to be a concern**, particularly impacting markets such as Germany.
- **Political instability**, which scored first in last year's study, remains top of mind, particularly in the run-up to EU and many local elections in 2024, in addition to growing social tensions and political radicalism at the local level.

Source : EY Attractiveness Survey Europe June 2024 (total respondents: 500 surveyed between February and March 2024).

Securing the recovery

There is no room for complacency. Europe competes with the US and Asia for FDI, so policymakers must take bold and decisive action to boost its attractiveness. In EY survey, foreign investors clearly state that they could increase their investment levels, the creation of skilled jobs, the development of value-added technologies and the decarbonization of their supply chains if there were a profound change in public policies at European and local level.

Episode 2 of the EY European Attractiveness Survey will explore some key questions asked by international investors:

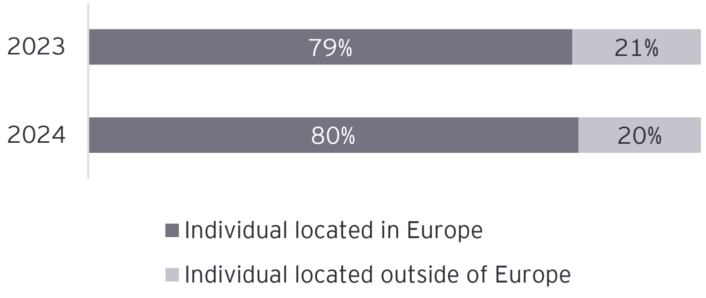
- What is the right regulatory balance and agility between safety and innovation, protecting individuals and corporations without stifling creativity or slowing progress?
- What can be done to diminish the most immediate barriers to investment, such as high operating and financing costs, limited access to critical skills, and the complexity of financing the green and digital transitions?
- How can confidence in the energy supply be restored, while managing costs and the transition to a low-carbon economy?
- In the context of fragmented capital markets, how can access to capital be facilitated, especially for SMEs?
- How can European governments design industrial policies for 2030 and remain competitive on the world stage, especially compared with the US and China?

Appendix

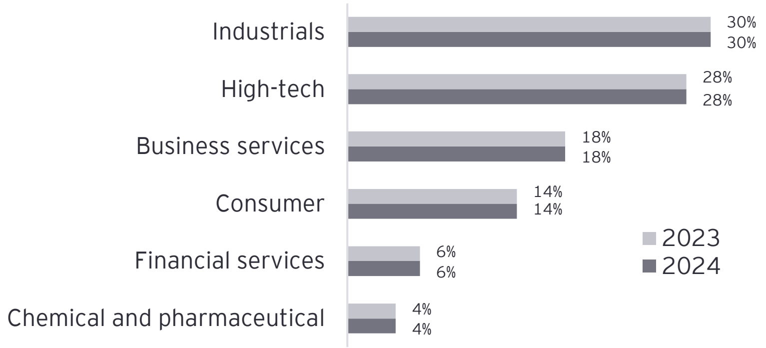
The 2024 European Attractiveness Survey panel (500 respondents)

Field research was conducted for the EY organization by Longitude in February and March 2024, based on a representative panel of 500 respondents.
The survey aimed to get a representative sample of investors into Europe, by geography, industry grouping and size of company.

Respondent location

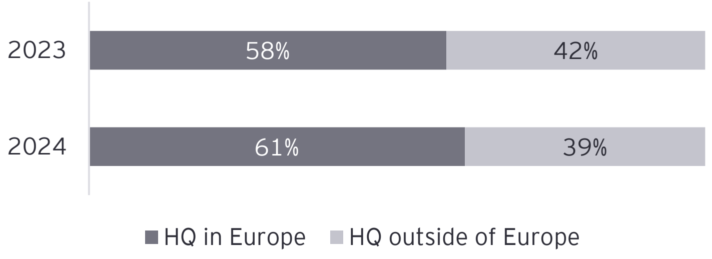


Respondent sector

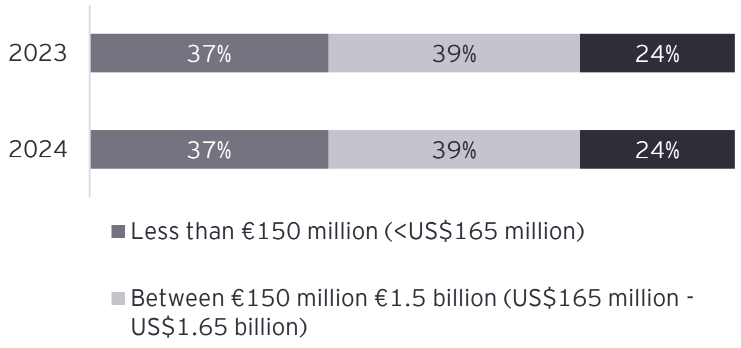


Job title breakdown

HQ location



Business size



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