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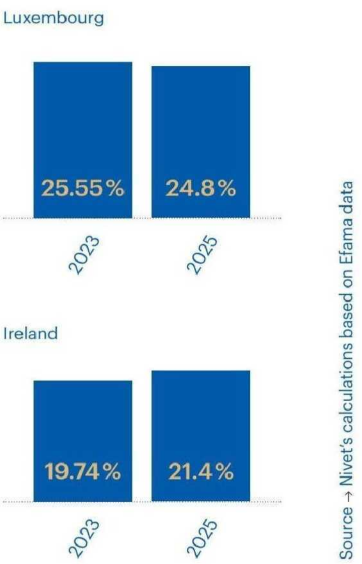
Financial centre

Keeping Luxembourg competitive

Fondation Idea senior economist **Jean-Baptiste Nivet** shares his thoughts on what it will take to keep the Luxembourg financial centre competitive.

Journalist **NATALIE A. GERHARDSTEIN**

SHARE OF INVESTMENT FUNDS TOTAL NET ASSETS PER COUNTRY



In its 37th edition of "The Global Financial Centres Index" (GFCI), published by London-based think tank Z/Yen and the China Development Institute in March, Luxembourg ranked 16th overall, up three places from the previous edition. London continues to lead in the region (second overall, after New York City), with Frankfurt, Dublin and Paris taking 11th, 14th and 17th, respectively.

As Fondation Idea senior economist Jean-Baptiste Nivet notes, it's important to bear in mind that when comparing financial centres, Luxembourg should be seen within the broader European context. So compare Ireland to Luxembourg, for instance: as Paperjam previously reported, data published by the European Fund and Asset Management Association (Efama) in January 2025 revealed that Irish alternative investment funds attracted €3.66bn of inflows in November 2024 compared to €4bn for Luxembourg. Meanwhile, Irish Ucits saw 12 times more inflows than Luxembourg's for that same period.

Nivet is convinced that to remain competitive with these other locations, the country needs to be swift to innovate. "I think we can say that Luxembourg's move to sustainable finance was a good one and was a success," he cites as an example. The Luxembourg Green Exchange (LGX) is the first platform of its kind and aims to contribute to the UN's Sustainable Development Goals and the Paris Agreement. Around €1.2trn has been issued through its securities.

From AI to taxation

But replicating similar success in areas like new technology, including artificial intelligence (AI), will be critical, Nivet argues--as will be attracting new talent and accelerating affordable housing solutions.

Earlier this year, the foundation published its Idea Economic Consensus "Lost in Transition." Some of the key findings of this year's exercise, based on questionnaire responses received from 115 panel members, were that "the golden age of Luxembourg growth is behind us, at least for the next five years," more should be done to achieve climate targets, AI will transform--but not revolutionise--the economy (and the financial sector), and pensions will have to be reformed. Luxembourg had already made strong moves years ago in its strategic economic diversification in areas like space and health, Nivet says. He praises how Luxembourg realised that "one of the main assets of Luxembourg's economy would be everything connected with big data, AI," etc., citing Luxprovide's supercomputer Meluxina. More recently, it was announced that EuroHPC had selected seven proposals to set up and operate the first AI factories across Europe, with Luxembourg's Meluxina AI project topping the list. This May, Luxembourg also unveiled its strategic initiative "Accelerating digital sovereignty 2030," centred around three main priorities: AI, data and quantum technologies.

Nivet anticipates such moves will be a boost not just for companies to develop their own research and projects, but also to make the country more appealing to companies. But talent attraction is another challenge: "There are some other cities in Europe where maybe the financial centre is less developed, but the startup ecosystem is more developed," he says, noting that the GFCI Index places Paris above Luxembourg in fintech, even if the latter has risen three ranks this year to reach 24th overall. Nivet also hopes more can be done to develop talent within: "It's something that can develop more: the connection between the country, the young and the finance sector."

The government has also made strides with innovative tax measures, which took effect in January. In addition to inpatriates benefitting from a 50% tax exemption on the first €400,000 of their gross annual remuneration, applicable for up to eight years after their arrival, young professionals (under 30) can benefit from a bonus that is 75% tax exempt. Luxembourg has also improved its profit-sharing scheme, reduced the corporate income tax by one percentage point and abolished the subscription tax for active exchange-traded funds (ETFs).

When asked by Paperjam earlier this year about whether he'd received feedback from firms on the tax measures, CEO of Luxembourg for Finance Tom Théobald said, "it's been extremely well taken up in all the discussions that we've had with both ourselves, and with the [finance minister], when we're travelling abroad, with the [corporate] headquarters that we're meeting... There are a number of firms that had several jurisdictions on the radar... and actually chose Luxembourg. [The tax package] has certainly contributed to the decision."

"I think we can say that Luxembourg's move to sustainable finance **was a good one.**"

JEAN-BAPTISTE NIVET
Senior economist
Fondation Idea

MORE ABOUT THE FONDATION IDEA

Launched as an initiative by the Luxembourg Chamber of Commerce in 2014, Idea's mission centres on responding to socio-economic challenges via quality public debate and constructive proposals. A laboratory of ideas, its approach as part of its ambition to think about a sustainable future in Luxembourg includes three action pillars: identifying major challenges, producing new ideas and knowledge, and feeding and participating in public debate.

The Idea website hosts eight publication formats and a blog which is open to external guest contributors, as well as its contributions in the media. The themes it covers includes areas such as sustainable development and technology, the Luxembourg economy, Europe and international issues, public finance and fiscality, and society.