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Fintech Investor
Network and
Ecosystem

D4.1 POLICY RECOMMENDATIONS FOR INVESTOR ATTRACTIVENESS

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EXECUTIVE SUMMARY

Within the framework of the European project FINE (Fintech Investor Network and Ecosystem), this report provides a strategic framework for fostering fintech development in underdeveloped and moderate European regions. The report outlines how these ecosystems can attract foreign investment and increase local capital through targeted policy reform, ecosystem development, and co-investment models. Through a combination of legal and fiscal analysis, case studies, and implementation recommendations, the report emphasizes the importance of innovation-friendly regulation, competitive taxation, and inclusive financial infrastructure.

The first section details how corporate tax rates, capital gains relief, and VAT treatment of digital services affect fintech attractiveness. It highlights that low corporate tax regimes, such as those in Hungary (9%), and fintech-specific tax incentives are key to drawing investor interest. Legal structures, including licensing harmonisation, PSD2 frameworks, and regulatory sandboxes, are examined as tools for enabling cross-border operations and controlled innovation.

Subsequent sections analyse current fintech investment trends across Europe, identifying advanced ecosystems like France, the Netherlands, and Ireland as benchmarks, while spotlighting innovation growth in cities such as Bucharest, Sofia, and Valletta. Best practices are drawn from regional case studies, with lessons learned around ecosystem clustering, branding, inclusivity, and early-stage support programs.

The report then introduces actionable policy recommendations focused on building local fintech ecosystems and encouraging co-investment strategies between governments and private investors. Public investment vehicles such as the European Innovation Council Fund and EIF-supported regional funds are used to illustrate successful blended finance models. The final implementation roadmap provides a practical guide for national and regional authorities, outlining short- and long-term measures, stakeholder engagement strategies, and key metrics for measuring success.

Ultimately, this report aims to equip policymakers, regulators, and ecosystem stakeholders with the tools and insights necessary to transform emerging fintech markets into globally competitive innovation hubs.

TABLE OF CONTENTS

1	INTRODUCTION	8
2	THE ROLE OF TAXATION AND LEGAL REGIMES IN FINTECH INVESTMENT	9
2.1	Legal Structures Encouraging Fintech Investment	9
	FIGURE 1: CORPORATE TAX COMPARISON PER COUNTRY	11
2.2	Tax Policies Influencing Fintech Investment	11
3	CURRENT EU LANDSCAPE OF FINTECH INVESTMENT	12
3.1	Trends in European Fintech Investment	13
	FIGURE 2: EUROPEAN FINTECH INVESTMENT TRENDS	14
3.2	Key Regions Leading in Fintech Innovations	14
	TABLE 1: FINTECH ECOSYSTEM AND INNOVATION PER COUNTRY	16
3.3	Common Characteristics of Successful Fintech Ecosystems	16
4	CHALLENGES FACED BY LESS DEVELOPED REGIONS IN FINTECH	17
	TABLE 2: FINTECH CHALLENGES PER COUNTRY COMBINATION	19
5	STRATEGIES TO ATTRACT FOREIGN INVESTMENT IN FINTECH	19
	TABLE 3: FINTECH CHALLENGES AND SOLUTIONS	21
6	CASE STUDIES OF EMERGING FINTECH HUBS	21
7	POLICY RECOMMENDATIONS	23
7.1	Developing a Strong Local Fintech Ecosystem	24
	FIGURE 3: DEVELOP A STRONG, LOCAL FINTECH ECOSYSTEM WEB CHART	25
7.2	Increasing Local Investment Through Coinvestment Methods	25
7.3	Implementation Roadmap for Less Developed Regions	26
7.4	Recent update on Hungary's investment rating	28
8	CONCLUSIONS	29
9	REFERENCES	30

LIST OF FIGURES

FIGURE 1: CORPORATE TAX COMPARISON PER COUNTRY	11
FIGURE 2: EUROPEAN FINTECH INVESTMENT TRENDS	14
FIGURE 3: DEVELOP A STRONG, LOCAL FINTECH ECOSYSTEM WEB CHART	25

LIST OF TABLES

TABLE 1: FINTECH ECOSYSTEM AND INNOVATION PER COUNTRY	16
TABLE 2: FINTECH CHALLENGES PER COUNTRY COMBINATION	19
TABLE 3: FINTECH CHALLENGES AND SOLUTIONS	21

ABBREVIATIONS

ADB	Asian Development Bank
AI	Artificial Intelligence
AMLD5	5th Anti-Money Laundering Directive
AMLD6	6th Anti-Money Laundering Directive
ASF	Romanian Financial Supervisory Authority
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
ECB	European Central Bank
EIC	European Innovation Council
EIF	European Investment Fund
ESG	Environmental, Social, and Governance
EU	European Union
FDIC	Federal Deposit Insurance Corporation
FSC	Financial Supervision Commission
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
KYC	Know Your Customer
MFH	Mumbai Fintech Hub
MFSA	Malta Financial Services Authority
MiCA	Markets in Crypto-Assets Regulation
PPP	Public-Private Partnership
PSD2	Payment Services Directive 2
SIU	Savings and Investments Union
SME	Small and Medium-sized Enterprise
VC	Venture Capital

1 INTRODUCTION

Fintech, or financial technology, is an emerging industry that refers to the use of innovative digital solutions to enhance, automate, or disrupt traditional financial services. Bringing financial services to the digital sphere often serves to open doors of financial literacy to formerly underserved populations. A fintech cluster is a geographic or virtual ecosystem where fintech firms, investors, regulators, startups, and financial and academic institutions collaborate to drive innovation. These clusters foster economic growth, knowledge sharing, and regulatory adaptation, often forming in major financial hubs. Fintech plays a crucial role in economic development by increasing financial inclusion and improving efficiency. Ways that fintech can contribute to financial inclusion are by expanding access to banking and financial services, specifically in developing economies, through digital payments and mobile banking, allowing individuals without traditional bank accounts to participate in the economy, and helping small businesses and entrepreneurs access capital. Fintech improves efficiency and facilitates cost-reduction by automating financial processes, which reduce transaction costs and increase speed, minimizing human errors and optimizing risk management through the use of AI, and enhancing security and transparency through blockchain technology. To help small businesses and entrepreneurs access capital, fintech enables crowdfunding and alternative financing, reducing reliance on traditional banking systems. Furthermore, decentralized finance (DeFi) platforms offer borderless financial services, attracting global investments, which help promote financial security by diversifying funding sources for small and medium sized businesses.

The European fintech system operates under a mix of EU directives and regulations along with country-specific laws. The focus is on consumer protection, financial stability, innovation, and fair taxation. Fintech firms must comply with national licensing requirements and taxation laws, which vary widely across member states. While the EU Digital Finance Strategy seeks to harmonise regulations, introducing frameworks like MiCA, PSD2, and GDPR, companies still face challenges in navigating differing tax rates, VAT policies, and compliance requirements across borders.

The objective of this report is to explain how less developed fintech regions and clusters can implement measures to attract investment from other countries and increase local investment through coinvestment methods. Emerging fintech ecosystems are defined by the European Commission as Romania, Hungary, and Bulgaria; moderate ecosystems encompass Spain, Malta, Greece, and Cyprus. These classifications are made based on their research and innovation capabilities, economic development, and institutional capacity, which allow the EU to

allocate funding, support, and collaboration mechanisms to address disparities and ensure equitable participation across member states and associated countries.

2 THE ROLE OF TAXATION AND LEGAL REGIMES IN FINTECH INVESTMENT

Fintech firms in Europe must comply with national regulations and obtain licenses from domestic financial regulators, ensuring adherence to both local laws and international standards. Beyond regulatory compliance, taxation and legal structures significantly shape the investment landscape. Variations in corporate tax rates, such as Hungary's low rate compared to France's higher levels, and targeted incentives like R&D tax credits influence where firms choose to establish operations [1]. Capital gains tax policies, which range from exemptions in Belgium to high marginal rates in Denmark, also affect investor decisions [2]. Additionally, differences in VAT treatment for digital financial services can create operational and compliance challenges across jurisdictions [3]. On the legal front, instruments like regulatory sandboxes allow fintechs to pilot innovations under regulatory supervision, as seen in the UK's FCA framework. While simplified licensing procedures and initiatives toward EU-wide harmonisation aim to reduce market entry barriers and foster cross-border scalability [4;5].

2.1 TAX REGIMES INFLUENCING FINTECH INVESTMENT

Tax regimes across Europe significantly influence fintech investment, with variations in corporate tax rates, capital gains taxes, VAT policies, and the presence of tax havens shaping the broader landscape. Corporate tax rates in Europe vary widely, affecting the attractiveness of different jurisdictions for fintech firms. For instance, Hungary offers a notably low corporate tax rate of 9%, while France imposes a higher rate of 25.83% [68]. Some countries implement favorable tax regimes to attract fintech companies; for example, Ireland maintains a corporate tax rate of 12.5% and provides additional incentives such as a 30% credit on qualifying research and development expenditures, effectively reducing the tax burden to 42.5% [6].

Capital gains tax policies also play a crucial role in shaping investor decisions. Denmark, for instance, levies a top marginal capital gains tax rate of 42%, whereas countries like Belgium, Cyprus, and Switzerland do not tax capital gains on the sale of long-held shares [2]. These disparities can significantly influence investor behavior and the allocation of capital, especially within a capital-sensitive sector like fintech.

Meanwhile, Value-Added Tax (VAT) policies applicable to digital financial services also differ across Europe, impacting operational costs for fintech firms. While traditional financial services such as banking and insurance are generally VAT-exempt across the EU, fintech services, particularly digital payments, may or may not be subject to VAT depending on how they are classified. Hungary, for example, imposes a VAT rate of 27%, whereas Luxembourg applies a much lower rate of 17% [1]. Additionally, several countries have introduced a digital services tax of around 3% on revenues generated from digital platforms, further adding to the fiscal considerations fintech firms must assess [7].

The presence of tax havens within Europe also influences fintech investment flows. Certain jurisdictions, such as Cyprus, offer a 12.5% corporate tax rate and exemptions on various types of foreign income, making them attractive to international firms [8]. Ireland, too, has become known for its tax efficiency, drawing major multinational firms thanks to its low corporate tax rate and favorable treatment of foreign earnings [9]. Collectively, these tax elements create a fragmented but strategically significant environment for fintech firms seeking to optimize tax exposure while expanding across Europe.

It is also important to note that tax regimes are not the sole factor influencing fintech investment in Europe. For example, Bulgaria holds a comparable tax rate to Hungary, 10% compared to 9%, respectively. However, with Hungary's position as an EU member state, and its targeted investments towards STEM education, research institutions, and tech infrastructure, it has positioned itself with a solid support ecosystem for startups. On the other hand, Bulgaria lacks infrastructure necessary to build this ecosystem, resulting in a brain drain, which will be further explored later in the text.

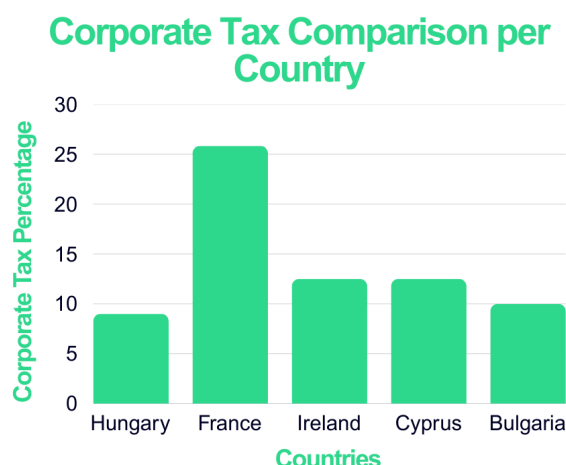


FIGURE 1: CORPORATE TAX COMPARISON PER COUNTRY

2.2 LEGAL STRUCTURES ENCOURAGING FINTECH INVESTMENT

To facilitate cross-border fintech operations and foster the growth of digital financial services, the European Commission launched its Digital Finance Strategy in 2020. This strategy aims to ensure that EU financial regulation supports innovation while safeguarding market integrity and consumer rights [38]. One of its core components is the Markets in Crypto-Assets Regulation (MiCA), adopted in 2023, which establishes the EU's first harmonised legal framework for crypto-assets, including rules for stablecoins, service providers, and asset issuers, in order to enhance legal certainty and protect investors [11]. Another key element is the Payment Services Directive 2 (PSD2), which facilitates open banking by requiring banks to grant regulated third-party providers access to payment account data with customer consent, thereby boosting competition and innovation in the payment sector [1]. The strategy also integrates enhanced Anti-Money Laundering Directives (AMLD5 and AMLD6), which tighten Know-Your-Customer (KYC) obligations, broaden the definition of money laundering offenses, and establish stronger cross-border supervision [12]. Furthermore, the General Data Protection Regulation (GDPR) underpins the use of personal financial data by ensuring strict privacy and security rules, which fintech firms must adhere to when handling user data [13]. Lastly, the Digital Operational Resilience Act (DORA) introduces a uniform regulatory framework to manage ICT and cybersecurity risks across EU financial services, with direct implications for fintech firms, and is set to apply from January 2025 [14].

To support innovation within this harmonised but complex regulatory environment, many EU countries have launched regulatory sandboxes, which are supervised spaces where fintech

startups can test products with temporary regulatory relief and guidance. As of 2023, there were 41 innovation hubs and 14 regulatory sandboxes operating across 30 European Economic Area (EEA) countries [15]. These mechanisms help foster experimentation and reduce time-to-market while maintaining safeguards for consumer protection and financial stability. Additionally, the European Commission has included support for cross-sector regulatory sandboxes in its proposal for the Artificial Intelligence Act, aiming to allow real-world testing of AI systems under regulatory oversight, including within financial services [16].

In addition to sandboxes, licensing frameworks are critical to streamlining market access for fintech startups. The European Central Bank (ECB) has published a guide outlining the process for assessing fintech credit institution license applications, with the goal of ensuring regulatory consistency and transparency across EU jurisdictions [17]. The European Banking Authority (EBA) has also issued guidelines under PSD2 that clarify the authorization process for electronic money and payment institutions and enable passporting of licenses across the EU, allowing firms to operate in multiple member states with a single approval [18]. These frameworks are designed to lower entry barriers and encourage the scaling of fintech business models throughout the single market.

3 CURRENT EU LANDSCAPE OF FINTECH INVESTMENT

The European fintech sector has experienced significant growth, driven by a combination of technological innovation, supportive regulatory frameworks, and evolving consumer preferences. In 2024, Europe witnessed a notable resurgence in fintech investments. Despite a slow H1, the sector rebounded in H2, leading to a total of 10% annual growth, reaching \$8.7 billion, up from \$7.9 billion in 2023. This growth underscores the continent's strengthening position in the global fintech landscape [19].

Several regions have emerged as leaders in fintech innovation, notably the United Kingdom, France, and Germany, which collectively accounted for a substantial portion of Europe's fintech deals in 2024. These countries have fostered environments conducive to fintech growth through a combination of supportive policies, access to capital, and robust digital infrastructures [20].

Successful fintech ecosystems across Europe share common characteristics, including high levels of digitalization, agile regulatory environments, and strong collaboration between startups, established financial institutions, and regulators. These ecosystems are further bolstered by access to a skilled workforce and a culture that embraces innovation [21].

3.1 TRENDS IN EUROPEAN FINTECH INVESTMENT

In 2024, Europe's fintech sector experienced a notable resurgence, this growth reflects renewed confidence in the continent's tech industry, particularly in sectors such as digital payments, lending platforms, and blockchain services [19]. Despite this overall uptick, the distribution of investments varied across regions. The United Kingdom maintained its leadership position, securing 576 fintech investment deals, more than three times the number recorded in Germany, which had 176 deals [22]. However, the total capital invested in European fintechs during the first half of 2024 fell by 25% year-on-year, from £3.2 billion in H1 2023 to £2.4 billion in H1 2024 [23].

The investment landscape also saw a shift in funding stages. Early-stage rounds accounted for 72% of all fintech deals in Europe in 2024, down from 78% in 2023, marking the lowest proportion since 2020. This trend indicates a more cautious investment environment, with a preference for lower-risk opportunities involving companies with established market traction [24]. Additionally, the European fintech sector witnessed a decline in the emergence of new unicorns. The number of companies achieving valuations exceeding \$1 billion decreased, and many existing unicorns faced challenges in maintaining their valuations amid a significant decrease in funding rounds. PitchBook estimated that Europe's aggregate unicorn value could be overvalued by nearly €100 billion, indicating potential overestimations in previous valuations [25].

Despite these challenges, certain fintech segments demonstrated resilience and adaptability. For instance, the 'buy now, pay later' (BNPL) sector continued to attract significant investments, with companies like Affirm securing a \$4 billion financing deal to extend more than \$20 billion in loans over the next three years [26]. Similarly, European fintech firms such as Revolut and Bunq achieved substantial valuations and expanded their services, reflecting the sector's ongoing potential for innovation and growth.

Overall, the European fintech investment landscape in 2024 was characterized by a cautious yet optimistic approach, with investors focusing on sustainable growth and profitability. While challenges such as valuation adjustments and reduced funding rounds persisted, the sector's adaptability and the emergence of new financial technologies continued to drive interest and investment.

European Fintech Investment Trends

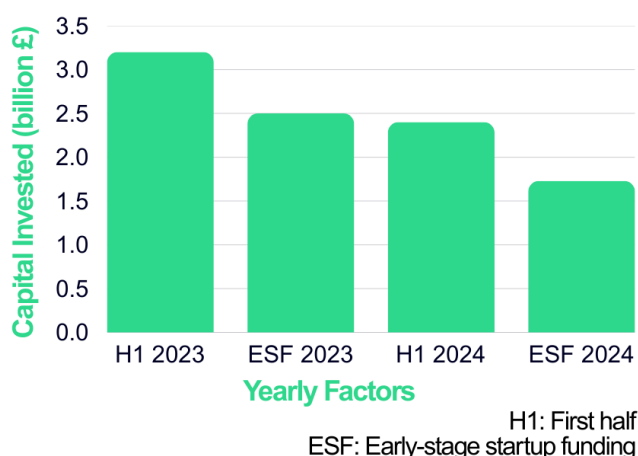


FIGURE 2: EUROPEAN FINTECH INVESTMENT TRENDS

3.2 KEY REGIONS LEADING IN FINTECH INNOVATIONS

In 2024, several regions within Europe emerged as key leaders in fintech innovation, distinguished by their supportive regulatory frameworks, technological infrastructure, and capacity to attract sustained investment. France, the Netherlands, and Ireland stand out as advanced fintech ecosystems within the EU. France has demonstrated leadership in open banking and regulatory technology, supported by state-led investment in digital finance and Paris's role as a magnet for fintech talent. The country's regulatory clarity and engagement have allowed startups to scale more rapidly within both domestic and cross-border markets [27]. Similarly, the Netherlands continues to lead in data-driven financial solutions and digital payments, fostered by a collaborative culture between traditional financial institutions, fintech startups, and regulators. Ireland has also seen sustained growth in the fintech space, especially in areas like payments, compliance technology, and financial software, aided by a favorable tax environment and access to highly skilled tech and finance professionals [28].

While not part of the EU, the United Kingdom remains a critical point of reference as a global fintech benchmark. Home to one of the largest and most mature fintech ecosystems globally, the UK has consistently attracted high investment volumes and maintained a dense concentration of fintech companies - thanks in part to its adaptive regulatory approach, including early adoption of

open banking and its widely regarded Financial Conduct Authority sandbox model [29]. Singapore, although geographically distant, is another global comparator often cited for its innovation-forward regulatory environment and government-backed fintech development strategies. Its emergence as a digital finance hub in Asia offers EU regions a model for regulatory agility and ecosystem coordination [30].

Moderate fintech ecosystems such as Spain, Malta, Cyprus, and Greece are also worth noting, though their contributions are more limited in scale. Spain, in particular, has made consistent progress in fostering digital payment services and supporting API standardization under PSD2, helping it emerge as a southern European leader in fintech development [27]. Greece and Cyprus remain in earlier stages of ecosystem maturity but are advancing steadily through domestic initiatives aimed at improving financial inclusion and digitizing financial services [31]. Malta continues to use its strategic location and favorable regulatory posture to position itself as a niche player in blockchain-based financial services, although regulatory capacity constraints limit its scalability.

Taken together, these regions illustrate how advanced ecosystems in Western and Northern Europe are setting the pace for fintech innovation in the EU, while select moderate ecosystems are beginning to build the foundational elements needed to compete regionally. Comparisons to global leaders like the UK and Singapore further contextualize the policies and ecosystem characteristics that define fintech success.

Country	Fintech Ecosystem	Fintech Innovation
France	Advanced	Open banking & regulatory technology engagement
Netherlands	Advanced	Data-driven financial solutions & digital payments
Ireland	Advanced	Payments, compliance technology & financial software
Spain	Moderate	Digital payment services & API standardization under PSD2
Malta	Moderate	Favorable regulatory posture & blockchain-based financial services
Greece & Cyprus	Moderate	Improving financial inclusion & digitizing financial services
UK	Advanced	Open banking & Financial Conduct Authority sandbox model
Singapore	Advanced	Model for regulatory agility & ecosystem coordination

TABLE 1: FINTECH ECOSYSTEM AND INNOVATION PER COUNTRY

3.3 COMMON CHARACTERISTICS OF SUCCESSFUL FINTECH ECOSYSTEMS

Successful fintech ecosystems across Europe tend to share a core set of characteristics that enable sustained innovation, market growth, and global competitiveness. Among the most critical is a proactive and adaptive regulatory environment. Jurisdictions like France, the Netherlands, and Ireland benefit from clear licensing pathways, strong alignment with EU directives such as PSD2 and MiCA, and active engagement between regulators and market participants. This allows startups to navigate compliance requirements more easily while fostering trust among consumers and investors [27].

Another key factor is the availability of skilled talent. Ecosystems anchored in cities like Paris, Dublin, and Amsterdam offer access to deep pools of technical and financial expertise, often supported by strong university systems and international labor mobility. These ecosystems are further strengthened by access to early-stage and growth capital, often through a mix of private venture capital and public co-investment schemes designed to promote innovation [28].

Infrastructure and digital readiness also play an essential role. High levels of internet penetration, national digital identity schemes, and established payments infrastructure enable faster deployment of new financial technologies. Lastly, successful ecosystems demonstrate a strong culture of collaboration between startups, incumbent financial institutions, and public sector stakeholders, which helps accelerate product development and regulatory alignment.

While each region has its own context, these shared traits have consistently emerged in the most advanced European fintech ecosystems and serve as a benchmark for developing markets aiming to scale.

4 CHALLENGES FACED BY LESS DEVELOPED REGIONS IN FINTECH

Tax and Legal Barriers

Emerging and moderate European fintech ecosystems often struggle with fragmented or underdeveloped regulatory frameworks. In countries like Romania and Bulgaria, fintech firms face inconsistencies between national legislation and broader EU directives, which can deter cross-border operations and complicate licensing [33]. While EU regulations such as PSD2 and MiCA apply to all member states, the pace and quality of national-level implementation vary significantly, creating uncertainty for startups. Additionally, several of these countries lack tailored tax incentives for fintech innovation, unlike more advanced ecosystems such as Ireland or the Netherlands, where R&D tax credits and fintech-specific frameworks are widely used [1].

Infrastructure and Talent Gaps

Emerging European countries, such as Romania and Bulgaria, have experienced significant emigration of skilled professionals, leading to a shortage of talent in sectors crucial for fintech development. Romania's population has declined from 23.2 million in 1990 to 19 million today, largely due to young professionals seeking better opportunities abroad [32]. Similarly, Bulgaria has faced a substantial outflow of qualified individuals, raising concerns about a "brain drain" that hampers economic development [33]. This exodus of talent results in a limited pool of professionals available to drive innovation and support the growth of fintech startups.

Compounding the challenge, many of those who leave are highly educated in fields such as IT, finance, and engineering, the very skills most essential to building robust fintech ecosystems. The lack of career development opportunities, competitive salaries, and support for entrepreneurship in emerging markets has been cited as a key driver of emigration, with countries like Romania and Bulgaria now working to implement retention strategies such as reintegration programs and remote-work incentives to slow the outflow [37].

Limited Access to Capital

Access to venture capital and institutional funding remains a significant obstacle in developing fintech regions. In Malta, Cyprus, and parts of the Balkans, fintech startups frequently rely on limited domestic funding or EU-level grants, which are often competitive and bureaucratic to obtain [34]. Without strong local investor ecosystems or established financial intermediaries, fintech founders in these countries struggle to scale or internationalize. The absence of early-stage financing mechanisms is particularly acute in countries like Hungary and Bulgaria, where angel investment networks are still nascent [35].

Lack of Fintech Clusters and Support Networks

Another challenge is the limited presence of formal fintech clusters or networks in these regions. In contrast to advanced ecosystems like France or the Netherlands, where industry associations, accelerators, and public-private partnerships actively support fintech development, countries such as Romania or Cyprus often lack centralized hubs for collaboration and policy dialogue [36]. This isolation makes it more difficult for startups to build trust with regulators, share resources, or access mentorship—factors that are critical to scaling in a competitive digital economy.

Together, these challenges reveal the structural barriers that continue to inhibit fintech development in less advanced EU markets. While EU-wide regulations and funding mechanisms provide a foundation, significant national-level reforms and investments are required to close the innovation gap and create truly inclusive financial ecosystems.

Country Combination	Fintech Challenges
Romania & Bulgaria	National legislation & EU directive inconsistency; fintech talent shortage due to emigration
Malta, Cyprus, & parts of the Balkans	Limited domestic funding or EU-level grants
Hungary & Bulgaria	Absence of early-stage financing mechanisms
Romania & Cyprus	Lack of centralized hubs for collaboration & policy dialogue

TABLE 2: FINTECH CHALLENGES PER COUNTRY COMBINATION

5 STRATEGIES TO ATTRACT FOREIGN INVESTMENT IN FINTECH

Creating Fintech-Friendly Regulations

Establishing clear, innovation-friendly regulatory frameworks is one of the most effective ways to attract foreign investment in fintech. Regulatory clarity reduces market entry barriers for startups and builds trust among investors. The European Commission's Digital Finance Strategy outlines the need for member states to adopt future-oriented policies that balance innovation and financial stability [38]. Countries that have implemented tools such as regulatory sandboxes, like the UK, have proven particularly attractive to foreign investors by allowing new products to be tested in controlled environments before full market launch [39].

Offering Tax Incentives and Financial Benefits

Targeted tax incentives and financial benefits significantly influence where foreign investors choose to deploy capital. For instance, the United Kingdom's Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) offer tax reliefs to investors in high-growth companies, including fintechs, making early-stage investment more attractive [39]. Spain's Startup Law similarly provides reduced corporate tax rates and incentives to support innovation and attract both domestic and foreign tech talent [40]. These fiscal tools create more competitive investment climates and reduce risk for early investors.

Building Partnerships with International Investors and Fintech Firms

International partnerships are key to scaling fintech ecosystems and attracting global capital. Collaborative programs that connect local startups with venture capital firms and established fintech players help bridge knowledge and funding gaps. For example, initiatives like Founders Factory in the UK have demonstrated the value of combining startup incubation with strategic investment partnerships, enhancing startups' access to capital and markets [41]. Public-private partnerships and investor matchmaking platforms also play a growing role in strengthening cross-border fintech collaboration.

Strengthening Cybersecurity and Digital Infrastructure

Investors place increasing importance on cybersecurity and the resilience of digital infrastructure when evaluating fintech markets. The EU's NIS2 Directive represents a major step in harmonising cybersecurity standards across member states, with specific requirements for financial institutions to mitigate digital risks [42]. In parallel, strategic investments in high-speed internet, digital identity systems, and cloud infrastructure are essential to support the operational needs of fintech firms. The World Economic Forum notes that fintech development depends not only on funding, but also on the quality and interoperability of a country's digital infrastructure [43].

By pursuing these four strategic areas: regulation, taxation, partnerships, and infrastructure, less developed fintech ecosystems can build the conditions necessary to attract sustainable foreign investment and integrate more fully into the global digital economy.

Fintech Challenges	Fintech Solutions
Inconsistent national legislation	Clear, innovation-friendly regulatory framework establishment
Lack of fintech innovation fiscal tools	Targeted tax incentives to reduce risk for early investors
Limited presence of formal fintech network collaboration	Public-private partnerships & investor matchmaking platforms
Absence of thought surrounding around fintech market security	Investors placing importance on cybersecurity & digital infrastructure resilience

TABLE 3: FINTECH CHALLENGES AND SOLUTIONS

6 CASE STUDIES OF EMERGING FINTECH HUBS

Emerging fintech hubs across Central and Southern Europe are steadily gaining recognition for their growing innovation capacity, particularly in countries like Romania, Hungary, Bulgaria, and Malta. These ecosystems are leveraging local talent, regulatory modernization, and digital infrastructure improvements to position themselves as viable alternatives to traditional fintech centers in Western Europe.

Romania has seen rapid progress in digital financial services, aided by its strong IT talent base and increasing consumer adoption of digital payments. The Romanian Financial Supervisory Authority (ASF) launched the FinTech Innovation Hub in 2019 to facilitate dialogue between regulators and fintech startups, aiming to remove entry barriers and promote innovation [44]. Bucharest, the capital, has become a regional center for financial technology, with notable growth in payment platforms, digital lending, and blockchain-based services.

Hungary's fintech ecosystem has evolved significantly in recent years, particularly in Budapest, which now serves as the country's main fintech hub. According to Dealroom, Hungary is home to more than 1,500 startups and scaleups, supported by over 140 investors. The total enterprise value of these companies grew from €584 million in 2018 to €2.4 billion in 2022, reflecting increased investor confidence and sector maturity [45]. The Hungarian National Bank's

Innovation Hub provides regulatory guidance and supports market entrants through ongoing consultation and oversight [46].

In Bulgaria, fintech growth has accelerated thanks to regulatory engagement and targeted support. The Financial Supervision Commission (FSC) established its own Innovation Hub in 2019, aimed at helping fintech firms navigate legal requirements while fostering technological experimentation. While Bulgaria has not yet implemented a full regulatory sandbox, the FSC has promoted innovation through strategic priorities focused on artificial intelligence and digital transformation [47]. Sofia hosts most of the country's fintech firms, with specializations in digital payments, personal finance apps, and B2B services.

Malta, though geographically small, has become increasingly visible on the European fintech map. The Malta Financial Services Authority (MFSA) has introduced specific regulatory frameworks for Virtual Financial Assets (VFA), with the aim of ensuring investor protection while supporting digital finance innovation. The island's growing tech sector is supported by government efforts to attract international startups, a favorable tax regime, and an English-speaking workforce [48]. Malta's fintech activity is particularly focused on blockchain applications and digital payments, with continued emphasis on aligning with EU regulatory standards.

Together, these case studies illustrate how emerging fintech hubs are advancing through strategic regulatory initiatives, leveraging talent, and promoting innovation ecosystems to attract investment and modernize their financial sectors.

Lessons Learned and Best Practices from Emerging Fintech Hubs

Across the emerging and moderate fintech ecosystems of Europe, several shared best practices have proven effective in driving growth, attracting investment, and building resilient innovation networks. These lessons, drawn from case studies in Romania, Hungary, Bulgaria, and Malta, offer concrete strategies for replication across other underdeveloped regions.

One of the most critical factors is the development of strong local ecosystems. In Romania, the rise of fintech hubs in Bucharest and Cluj-Napoca has been driven by deep integration between startups, IT talent, corporate actors, and universities. This model, built on collaboration and ecosystem clustering, mirrors successes in other regional centers like Warsaw and Prague [49]. These ecosystems create environments where fintech firms benefit from co-location with research institutions, financial expertise, and investor communities.

Another recurring lesson is the importance of investor aftercare and sustained engagement. Romania's Fintech Forums, for example, serve as long-term platforms that maintain investor relationships while addressing real-time regulatory and innovation needs. These forums are inclusive by design, incorporating panels focused on barriers faced by women and minority fintech founders, an approach that both improves investor confidence and supports inclusive growth [50].

Tailored tax and financial incentives have also shown high impact. Hungary's low 9% corporate tax, combined with R&D-specific fintech support and accelerators like *Start it @K&H*, has attracted startups such as Barion and TransferGo [51]. Bulgaria's OPIC grant program further demonstrates how direct state-backed funding for early-stage fintech firms can boost domestic innovation capacity while appealing to international investors [52].

Branding and strategic outreach are equally critical. Hungary's Budapest Fintech Summit and Bulgaria's Sofia branding campaigns have effectively positioned these cities on the European fintech map [54]. These efforts showcase fintech strengths, such as AI in Hungary or blockchain in Bulgaria, and create international visibility that helps attract cross-border partnerships and capital [53].

Finally, inclusivity and human capital development are increasingly seen as pillars of ecosystem success. Initiatives like Women in Fintech Romania, youth coding bootcamps, and Bulgaria's support programs for minority founders foster more diverse innovation pipelines [55]. These not only help meet investor ESG expectations but also expand the local talent base and market reach.

Together, these practices offer a clear and evidence-based roadmap for other regions looking to transition into competitive fintech ecosystems. Key takeaways include clustering fintech stakeholders, offering tailored financial support, branding local strengths, ensuring long-term investor relationships, and embedding inclusivity throughout policy design.

7 POLICY RECOMMENDATIONS

To build sustainable and competitive fintech ecosystems, regions must focus on both structural ecosystem development and targeted investment strategies. On one hand, fostering a robust local environment requires investment in talent, supportive infrastructure, collaborative frameworks, and inclusive digital solutions [56; 58]. On the other, co-investment mechanisms, where public institutions and private investors jointly fund fintech ventures, have proven effective

in increasing capital availability while aligning innovation goals with broader economic policy [34; 62]. Together, these approaches form the foundation for long-term growth in Europe's emerging and moderate fintech hubs.

7.1 DEVELOPING A STRONG LOCAL FINTECH ECOSYSTEM

Developing a strong local fintech ecosystem requires strategic investments in education, infrastructure, collaboration, and inclusion. These foundations not only promote innovation but also attract private capital and support long-term sector resilience.

A skilled and adaptable workforce is critical to fintech growth. Talent development policies should focus on aligning educational curricula with real industry needs, particularly in high-demand areas such as data analytics, cybersecurity, and blockchain. Institutions that introduce fintech-focused programs and certifications help bridge the gap between academic training and the skills demanded by startups and financial institutions [56]. Partnerships between fintech companies and universities, including internship programs and research collaborations, have proven effective in developing a job-ready workforce while fostering innovation.

Establishing fintech incubators and accelerators is another key policy lever. These platforms offer mentorship, access to capital, regulatory support, and business development services - resources that are often scarce in early-stage ecosystems. Public funding and policy incentives can reduce the cost burden of setting up such hubs, while public-private partnerships help ensure their sustainability and integration into broader innovation frameworks [56].

Collaboration between fintech startups and traditional financial institutions should also be actively promoted. Regulatory sandboxes, where startups can test products in controlled environments, reduce the compliance barriers to innovation and build trust between actors. Many successful ecosystems have created dedicated platforms that facilitate these partnerships, encouraging joint ventures, API integration, and shared product development [57]. Streamlining legal and regulatory processes can also lower the friction involved in forming these collaborations.

Finally, promoting financial inclusion through digital solutions should remain a core objective. Countries that invest in digital public infrastructure—such as e-identification systems and open banking frameworks, enable fintechs to extend services to underserved populations more efficiently. Mobile banking platforms, supported by consumer protection laws and literacy initiatives, play a vital role in expanding access to financial services in rural and low-income

communities [58]. Ensuring inclusive access to innovation aligns with ESG standards and expands the market reach of fintech products.

By advancing these four pillars: education, incubation, collaboration, and inclusion, governments can create the conditions for a dynamic and resilient local fintech ecosystem.

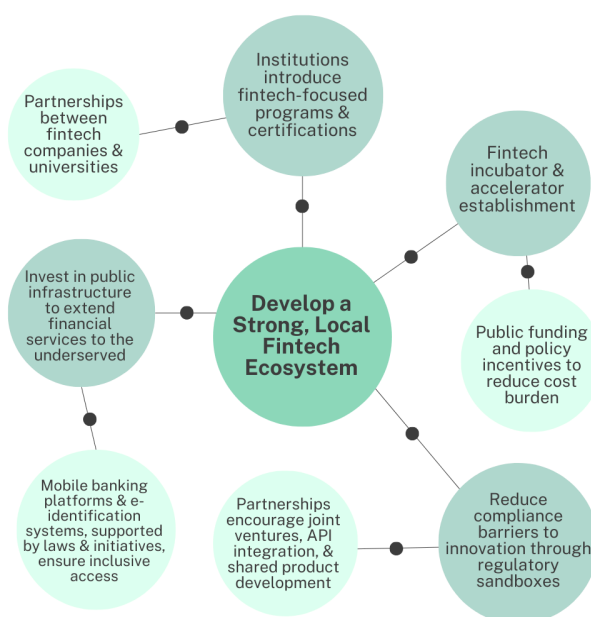


FIGURE 3: DEVELOP A STRONG, LOCAL FINTECH ECOSYSTEM WEB CHART

7.2 INCREASING INVESTMENT THROUGH COINVESTMENT METHODS

Increasing local investment through co-investment methods is a strategic approach to bolster fintech development and economic resilience. By leveraging both public and private sector capital, co-investment models reduce risk, increase available financing, and support innovation at scale.

Governments play a vital role in launching and sustaining co-investment ecosystems. One major policy step has been the European Commission's introduction of the Savings and Investments Union (SIU) strategy, which aims to channel citizen savings into productive investments to fund growth-oriented companies across the EU [59]. Public authorities are also integrating fintech tools into service delivery and procurement processes to promote adoption and signal confidence to the private sector [60].

The private sector—especially venture capital firms—remains central to successful fintech scaling. Across Europe, VC investment in fintech has been strong, with major funding rounds in 2024 including Monzo Bank’s \$605 million and WorldRemit’s \$267 million, signaling continued investor confidence in the sector [61]. These injections of private capital are often amplified when paired with public co-investment initiatives that align with national or EU innovation strategies.

Establishing fintech-focused investment funds provides a dedicated vehicle for this kind of blended financing. The European Investment Fund (EIF) has been a leader in this space, channeling over €43 million into tech companies across Germany, the Netherlands, and the Nordic countries [62]. These vehicles typically operate with government support but are structured to attract institutional and private co-investors, ensuring both strategic alignment and financial scalability.

Several EU-level initiatives illustrate the potential of successful co-investment. The European Innovation Council (EIC) Fund offers equity support to startups through co-investment with vetted private sector partners. It prioritizes high-potential companies in sectors like fintech, healthtech, and green technologies, enabling them to scale through a curated network of aligned investors [63]. Meanwhile, the European Investment Bank (EIB) has launched the European Tech Champions Initiative, which aims to close the late-stage funding gap for EU tech firms by enhancing access to venture debt, equity, and listing support [64].

Through a combination of public leadership and private engagement, co-investment models offer a powerful strategy to unlock capital, build trust in local fintech ecosystems, and support long-term growth.

7.3 IMPLEMENTATION ROADMAP FOR LESS DEVELOPED REGIONS

Developing a robust fintech ecosystem in less developed regions necessitates a structured implementation roadmap that engages policymakers and stakeholders, outlines short-term and long-term strategies, and incorporates metrics for measuring success.

Effective collaboration among governments, financial institutions, entrepreneurs, and technology providers is essential for building trust and momentum within the ecosystem. Policymakers should focus on designing regulatory frameworks that support innovation while safeguarding consumer interests and financial stability. These frameworks must include clear licensing procedures, transparent compliance expectations, and active stakeholder engagement mechanisms. Investing in digital infrastructure—such as broadband access and secure payment

systems—is equally vital, as is building digital literacy across all segments of the population to ensure equitable access to fintech services [65]. Private sector stakeholders, particularly banks and tech firms, should be encouraged to collaborate with public actors through policy dialogue, pilot programs, and co-financing models that strengthen regulatory agility and market readiness.

Short-term implementation strategies include the deployment of regulatory sandboxes, which allow fintech firms to test new services under controlled regulatory conditions. These environments provide valuable learning for both innovators and supervisors, helping to refine oversight tools before full-scale market adoption [66]. Policymakers should also prioritize capacity-building programs for financial supervisors and fintech operators alike, ensuring that regulatory bodies remain up-to-date with evolving technological standards. Market diagnostics—such as mapping financial access gaps, digital usage trends, and barriers to SME finance—can help identify entry points for fintech solutions tailored to the needs of the region.

Over the long term, governments should commit to national fintech strategies that offer a clear vision, including targets for innovation, inclusion, and competitiveness. These strategies should integrate cross-border collaboration and participation in global fintech networks, which allow for knowledge exchange and regulatory harmonisation. International engagement also helps smaller markets align their frameworks with global standards, making them more attractive to investors and service providers [67]. Ensuring these strategies are implemented in tandem with infrastructure development—especially in under-connected or rural areas—is key to long-term success.

To monitor progress, regions must adopt reliable performance indicators. These include financial inclusion rates (i.e., changes in the share of the population with access to basic financial services), investment levels in the fintech sector, and the number of newly launched fintech products and services. Additional metrics should track user adoption rates and satisfaction, particularly among underserved demographics, and compliance levels with established financial regulations. Taken together, these indicators provide a holistic view of ecosystem health and guide iterative policymaking.

By following a roadmap grounded in collaboration, phased reform, and measurable outcomes, less developed regions can build resilient fintech ecosystems that serve as engines of inclusive economic growth.

7.4 RECENT UPDATE ON HUNGARY'S INVESTMENT RATING

On April 11, 2025 the Standard & Poor (S&P) credit rating agency downgraded Hungarian sovereign rating to BBB-, as detailed in their official report¹. This pivotal change directly affects the investment outlook in Central and Eastern Europe **with a negative outlook**, as it marks a shift in Hungary's investment profile and draws attention to the context of emerging market policy planning.

The downgrade has pushed Hungary to the bottom of the investment rankings, on the verge of being classified as non-investment-grade status. The current outlook suggests that such classification is likely to happen if corrective fiscal measures are not properly put in place. According to Bloomberg's analysis², the new rating is driven by concerns surrounding Hungarian government decisions regarding expansionary fiscal policies and the country's growing public debt.

This development is not merely a technical rating adjustment; it has real-world consequences for investor confidence and capital flows. It may lead to **higher interest rates**, **reduced institutional interest**, as international investment funds may not invest in low investment-grade assets, and **increased yields** on national bonds, which would raise the cost of financing. Additionally, Hungary's lower credit rating raises a **negative perception** on neighboring emerging European markets, influencing the sentiment towards their risk-profile.

Given that this report aims to offer strategic guidance on investments in emerging markets, it is important to note that the recommendations presented here do not fully reflect this change, and readers should take this development into account.

The downgrade should be considered as a relevant factor in shaping policy recommendations, as well as risk-weighted allocations and regional classification within our assessment. In fact, Hungary may now require **reclassification from a stable emerging market to a heightened-risk environment**, requiring a reassessment of its portfolio exposure to CEE, the feasibility of co-investments (or even FDI in Hungary), and the hedging strategies for EU-based investments.

Lastly, one key point to highlight is the volatility of emerging market ratings and the relevance of including **geopolitical and fiscal developments into policy frameworks**. While Hungary's long-term fundamentals may still hold potential, the current outlook necessitates caution.

¹ Link to S&P Global Rating report, [here](#).

² Link to Bloomberg report [here](#).

8 CONCLUSIONS

This deliverable has highlighted the critical components required to support fintech growth in less developed European regions. Across emerging and moderate ecosystems, the findings emphasize the importance of creating an enabling environment through cohesive legal frameworks, competitive tax regimes, and ecosystem-building strategies that promote both foreign and domestic investment.

Key takeaways include the role of government in establishing fintech-friendly regulation, such as regulatory sandboxes and licensing clarity, which reduce entry barriers for startups while maintaining oversight [66]. At the same time, favorable tax regimes, including corporate tax incentives and capital gains relief, have proven to be effective tools in attracting early-stage and growth capital, as seen in jurisdictions like Hungary, Malta, and Ireland [1].

Local ecosystem development must also be prioritized. Investing in fintech education, incubator networks, and digital infrastructure is essential for building long-term capacity. Case studies from Romania, Bulgaria, and Greece demonstrate how public-private collaboration, national branding efforts, and inclusive talent pipelines have supported local fintech advancement.

On the financing side, co-investment models are essential to bridging the funding gap. Public capital from entities like the European Investment Fund and the EIC Fund has proven instrumental in de-risking investment and attracting private sector participation [63; 62]. These initiatives not only provide financing but also validate ecosystems in the eyes of international investors.

Moving forward, it is critical that regions adopt an iterative and data-informed approach. Metrics such as capital inflows, financial inclusion rates, innovation output, and user adoption will provide critical feedback to refine policy and track ecosystem maturity over time [58; 65]. With the right mix of strategic planning, stakeholder engagement, and performance monitoring, less developed fintech regions can position themselves as future leaders in digital financial innovation.

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