Q&A

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# We must find ways to restore the economic and financial competitiveness of Europe

### What are the primary objectives for revitalizing the European financial services sector and improving its competitiveness vis-à-vis US and Asian financial institutions?

In the last 4 years, our continent's economic perspectives have been highly influenced by turbulences deriving from the international environment. First the COVID 19 pandemic, then the Russian-Ukrainian war have generally elevated risks and uncertainties, the subsequent energy crisis has created an environment, in which European companies will have to pay energy prices 4-5 times higher than American corporations on a permanent basis.

The aforementioned crises have amplified the long-standing competitiveness struggles of Europe, which is easily traceable among most indicators. Let me mention three of them. First, Europe's share in the global GDP has shrunk more than 6 percentage points in the last 20 years. Second, while in 2018 there were 22 European companies on the list of the 100 biggest global corporations, in 2023 there were only 17. Third, according to the Global Financial Centres Index, last year no more than 6 European cities could be found amongst the 20 most important financial centers, but only 3 of them were located in the European Union.

Although Europe is the cradle of modern banking, unfortunately the drop back of competitiveness in the European financial sector is likewise noticeable. The data clearly indicates, that the development of the European and American banking system is going on two largely diverging tracks since the 2008 financial crisis. From an absolute perspective, the market capitalization of European banks almost got halved – dropped from 2700 billion dollars to 1400 billion – between 2007 and 2021, meanwhile their American competitors' grew by more than 60 per cent during the same period. The differences are also evident on a relative basis. While the Stoxx 600 Banks composite index of American banks has caught up to the pre-crisis levels by 2018, its European equivalent has barely moved upwards from the rock bottom levels of 2009 ever since. The European banking system lends significantly less to the public sector than overseas banks, and they allocate funds more costly and less efficiently.

Hungary was amongst the first ones that attempted to raise awareness on the competitiveness issues of Europe. From the 1st of July Hungary began its six-month rotation presidency of the Council of the European Union. As one of the cornerstones of our Presidency, we will present a New European Competitiveness Deal, which places a great emphasis on holistically facilitating the conditions for sustainable growth, supporting small and medium-sized enterprises, and furthermore promoting green and digital transitions.

I believe it is clear, that no competitive economies exist without a competitive financial system, therefore we must dissolve the bottleneck characteristic of the European financial system, which currently faces substantial limits in innovation. We must continue to be the pioneers of the sustainability and digital transformation of the global financial sphere, as these areas will be crucial preconditions of generating future competitiveness. Regulatory efforts must facilitate the development of efficient financial products from the banks' side and the preparation of clients, both corporations and retail clients, for the rapidly changing environment.

### What are the priorities to move the single financial market forward?

The single financial market is one of the most valuable assets of the EU, as it ensures resilience in times of crises and it is also a great tool to address strategic dependencies. Moving it forward involves setting several key priorities to provide a clear response to the challenges of our time. Our continent is lagging behind its global competitors, therefore the Hungarian Presidency will place a strong emphasis on improving the competitiveness of the EU, integrating this objective into all policies, applying a holistic approach, taking into account the different characteristics of Member States and respecting national competences. We have identified five priorities to move forward the single financial market: 1. Determine the future of Capital Markets Union. 2. Improve the resilience of the financial sector. 3. Address the challenges and opportunities of digitalization. 4. Promote sustainable finance. 5. Increase consumer protection. However the successful implementation of these priorities must consider the regulation gap that often hinders consistent application across the Member States. Therefore, bridging this gap is essential to ensure a harmonized approach that can effectively support innovation and address the changing demands, while respecting national practices. To keep up with our global competitors, we need to integrate these considerations into adaptive regulatory frameworks that requires the openness and cooperation of Member States and the European Institutions as well. The implementation of the Strategic Agenda 2024-2029 should lay a sustainable foundation for future growth and stability, addressing immediate challenges to reinforce the EU's position in the global economic area. The Hungarian Presidency will promote dialogue about EU-level solutions to move the single financial market forward by creating a flexible, yet cohesive strategy that respects national competences.

## Can the Banking Union and Capital Markets Union deliver a well-functioning single financial market in the EU? What are the synergies between these two initiatives and what are the conditions and game-changers for their success?

It is important to highlight that the financial system in Europe is predominantly bank-based. While the banking industry has made significant progress, the capital markets of the EU still require further development. To achieve a well-functioning single market, it is essential to advance both these areas simultaneously. The Banking Union and the Capital Markets Union represent two distinct approaches, yet both are crucial.

The simultaneous approach I outlined arises from the synergies between the Banking Union and the Capital Markets Union. Improvements in one area have a positive knock-on effect on the other. Market confidence is a crucial factor in this regard. The confidence gained by one area has a positive impact on the other. It is therefore important not to neglect any of these areas.

With regard to the conditions and 'game changers', I would like to make a few general observations. It is crucial that the conditions and "game changers" are based on accurate and reliable information. It is of greater consequence to focus on quality rather than quantity. We need to conduct a comprehensive analysis of the current situation and to take into consideration the outcomes of the ongoing initiatives in order to assess them.

I would like to draw attention to two key aspects: the reduction of administrative and regulatory burden, and the enhancement of financial literacy. The mentioned burdens can present a significant obstacle, as they can increase costs and prolong processes. Financial literacy is crucial for Hungary, it is part of the national curriculum and I believe plays a pivotal role in boosting confidence. In the current era, the prevalence of fraudulent activities in the financial markets is on the rise which can undermine confidence. It is imperative that we dedicate ourselves to combating these illicit practices. I want to highlight that Hungary is taking significant steps to combat financial sector fraud, and I encourage everyone to do so.

## What are the main strategic autonomy challenges in the retail payments market? What are the implications of electronic and instant payments in this regard?

We promote European retail payment solutions that are safe and efficient for society, and it aims to meet the rising challenges to European sovereignty in the payments market. The main goals are to reduce our dependence on non-European payment service providers, to develop pan-European solutions for payments at the point of interaction, with these solutions governed at the European level, and to further strengthen the Single Euro Payment Area, primarily through the full deployment of instant payments.

Digitalisation, changing consumer habits and legislation are impacting retail payments. Electronic retail payments are increasingly being transformed from bank-based payment services, to commercialised payment solutions. The rise in the use of digital payments has also been spurred by the COVID pandemic, with the continuing shift to cashless payments.

While the European payments market's openness to global competition is crucial for fostering efficiency and innovation, an overdependence on a small number of non-European payment solutions and technologies is undesirable.

The dossiers and regulations under negotiations aim to achieve economic efficiency and strategic autonomy in Europe for retail payments, to make retail payments more resilient and to cater for varying use cases and user preferences.

The new regulation for fast money transfer expands the sphere of payment solutions. It comes with many positive effects but it implies fraud risks as well.

Financial literacy plays a crucial role in comprehending the mechanics of digital transactions with their associated risks and avoiding scams related to instant payments respectively.