Q&A

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Competitiveness always grows out of cooperation

What are the main priorities of the Hungarian Presidency in the economic and financial areas?

The Hungarian Presidency will devote particular attention to reinforcing the EU's global competitiveness, and thus, the well-being of European citizens. These uncertain and turbulent times increase geopolitical tensions and bring in longstanding structural economic challenges. All these call for timely, coordinated and tangible policy responses. In economics and finance we plan to focus on areas where EU action has real added value in promoting macroeconomic stability and increasing the resilience of our economies.

In the light of these ambitions we are now putting the new economic governance framework (EGR) into practice. The Hungarian Presidency is committed to facilitate smooth implementation of the new set of fiscal rules in this transitional year. In line with these new rules, we will also launch the next cycle of the European Semester. Hungary remains committed to facilitate the implementation of the Recovery and Resilience Facility. In this field we intend to ensure timely approval of the modified national programmes.

Building on the achievements of previous presidencies, we will continue the negotiations on all seven ongoing legislative dossiers. In line with the guidelines of the European Council, we advance discussions on the Capital Markets Union. The expected Draghi report might be a valuable contribution in that context. The Hungarian Presidency also aims to start trilogues with the EP on the Retail Investment Strategy (RIS), on the Crisis Management and Deposit Insurance (CMDI), and on the Benchmark and Reporting Requirements Regulations frameworks. Concerning the latter, we see a good chance to reach a political agreement soon.

We will also continue working on the Financial Data Access (FIDA) and Payment Services Packages. Concerning the digital euro package we need a more cautious approach. We will work with the Member States on reflecting better on the text and the goals.

As regards taxation, we will take forward measures aimed at consolidating member state budget revenues. This basically means effective actions against tax avoidance and aggressive tax planning structures. Finally, competitiveness of European businesses can also be increased through digitalisation, the efficient use of information, and simplification.

What are the main reasons why Europe's economic performance has fallen behind that of its global competitors, particularly the United States, over the last fifteen years? What priorities should Europe focus on to enhance its competitiveness?

There are several factors that have contributed to growing the competitiveness and productivity gap between the European Union and its global competitors.

A certain part of the difference is coming from our different economic structure. The US has a very strong ICT sector with digital giants. Europe's global presence is much weaker in the digital industries and in other emerging sectors linked to the technological transformation and green transition. On the other hand, in traditional manufacturing sectors of Europe, including the car industry, productivity growth has recently decelerated.

The innovation gap between the EU and the US is also widening. Europe is heavily lagging behind in such emerging sectors as AI, big data, cloud computing, cybersecurity, robotics or microelectronics.

Apart from that the problem of ageing is present in most developed regions of the world, but the EU is in the worst position. In 2022 the median age was 44 years in the EU, while in the US it was 39. The shrinking workforce affects our economic potential, hindering competitiveness and productivity. In relation to this, there are also challenges in human capital formation. This involves Europe's scientific excellence as well as its general educational performance.

Compared to our major competitors, the EU is more vulnerable to supply chain disruptions, notably linked to raw materials, batteries and semi-conductors. And due to our geographical proximity, the EU is more affected by current regional crises such as the Russian – Ukrainian war or the conflict in the Middle East. We are more severely affected by higher energy prices, especially compared to our competitors.

In order to increase the innovation and growth potential of Europe, these underlying problems need to be effectively addressed.

At this stage, NGEU, Europe's response to the IRA and Member State public spending have not significantly boosted productive investment. What are the reasons for this and what additional or alternative measures may need considering to improve Europe's competitiveness?

Public spending and direct subsidies are insufficient to address some of the root causes of Europe's competitiveness problems. In order to achieve a breakthrough, the various financial interventions need to be coupled with accurate framework conditions.

First of all, the heavy burdens on European businesses must be reduced. This involves the topics of complex regulation, high taxes, and extensive bureaucracy. The establishment of a competition and a business-friendly environment is key to economic success - as we practice this in Hungary. The EU's financial programmes are equally affected by excessive administration. Concerning the Recovery and Resilience Facility, this issue was acknowledged by both the Commission and the Council of the European Union. The Belgian Presidency has already made significant efforts to reduce the administrative burden by 25% through streamlining and coordinating reporting standards within different pieces of legislation. We also stand ready to constructively cooperate on such initiatives.

Long-term economic stability also requires the restoration of fiscal discipline in highly indebted countries. However, this alone may not be sufficient to boost growth. Structural reforms, investment in human capital and innovation are also critical for sustainable growth.

In Europe, in order to improve our competitiveness, it is our common interest to avoid a subsidy race or a trade war. Rather than decoupling, it is essential to keep a strong trade and investment relationship with dynamically developing economies such as China. This also affects our energy policy. Inexpensive and secure energy supply presupposes stronger integration of the European energy markets. We need to expand our energy networks including renewables and nuclear power, and need more funding for research in these fields.

Finally, the EU needs to adopt a genuine industrial policy. Hungary has set itself the goal of reindustrialisation and is investing heavily in this area in order to increase competitiveness and reach a sustainable growth path. We focus on industrial development linked to decarbonisation and electro mobility. In order to reduce Europe's dependency on imports, the establishment of EU owned battery factories and chip producing facilities must be encouraged.

10 years after the creation of the Single Supervisory Mechanism and 9 years after the launch of the first CMU action plan, European banking and capital markets remain fragmented. Should more be done to integrate and develop financial markets in Europe and what should be the way forward?

The Banking Union and the Capital Markets Union are really important initiatives for the single market. I believe that the EU has made progress with these initiatives. After the Single Supervisory Mechanism, the Single Resolution Board has been established, the first CMU Action Plan has been followed by the second Action Plan, and convergence in the single market has continued to develop. The banking and financial sector in the EU is one of the most integrated and harmonised policy areas compared to other issues in the EU. The level of integration is also very high in a global perspective. In fact, the EU is in many respects a standard setter for financial regulation worldwide. But there is room for improvement, we need to reduce fragmentation.

It is important to take into account the differences between the banking and capital market sector. We need to focus on local specificities, because the local markets are oriented by them. In general context, the level of development of the market, the market structure, the financial literacy are key, but these aspects manifest differently in the banking sector and in the capital market sector.

There are initiatives that are always surrounded by political debate and it is almost impossible to make progress. We need to avoid to put so much effort in such initiatives, instead we need to focus on policy areas that are in the common interest of Member States and the consensus is easy to reach.