SGI Sustainable Governance Indicators

2014 Global Financial System Report

Stabilizing Global Financial Markets

Bertelsmann Stiftung

Indicator

Stabilizing Global Financial Markets

Question

To what extent does the government actively contribute to the effective regulation and supervision of the international financial architecture?

41 OECD and EU countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels.

10-9 = The government (pro-)actively promotes the regulation and supervision of financial markets. It demonstrates initiative and responsibility in such endeavors and often acts as an international agenda-setter.

8-6 = The government contributes to improving the regulation and supervision of financial markets. In some cases, it demonstrates initiative and responsibility in such endeavors.

5-3 = The government rarely contributes to improving the regulation and supervision of financial markets. It seldom demonstrates initiative or responsibility in such endeavors.

2-1 = The government does not contribute to improving the regulation and supervision of financial markets.

Canada

Score 9

The Canadian government, through various departments and agencies, contributes actively to the effective regulation and supervision of the international financial architecture. The Bank of Canada has been particularly prominent in the international arena. Former Bank of Canada Governor Mark Carney, who assumed the position of Governor of the Bank of England on July 1, 2013, chairs the G-20 Financial Stability Board. Other senior Bank of Canada officials have played important roles in other international financial forums. The Office of the Superintendant of Financial Institutions (OSFI) has also been very active internationally.

Finland

Score 9

Following the financial market collapse in Europe and the increased general vulnerability of global financial markets, political leaders in Finland have urged for stronger regulations and more coordinated market supervision. Finland, in terms of its attitude and action, has presented itself as an agenda-setter with its support of countries which seek to advance self-regulation and combat excessive market risk-taking. Finland during the period also has pursued measures to secure its own finances. In 2013, the Finnish government approved two national programs, to be delivered to the European Commission. Of these, the Stability Program describes the medium-term economic development of the Finnish economy in terms of fiscal policy, whereas the Europe 2020 National Program describes measures by which national targets set on the basis of the Europe 2020 strategy will be achieved. The Government Program includes proposals for measures to create an effective national macroprudential supervision system; to this end, a working group set up in 2012 has proposed that provisions on fixed and counter-cyclical additional capital buffers be added to the Credit Institution Act, in accordance with the minimum requirements of the directive. For the Financial Supervising Authority, the group proposes a conditional right to limit the amount of housing, real estate and securities-backed credits.

Citation:
"Finanssimarkkinoiden makrotaloudellisten vaikutusten sääntely ja valvonta", Työryhmän muistio 32/2012, Ministry of Finance, Publications 2012.

Germany

Score 9

In the aftermath of the crisis, policy initiatives in the field of financial-market governance underwent a strategic realignment from private self-regulation toward public regulation, with the aim of avoiding costly public bailouts of private banks in the future.

Domestically, the regulatory framework for banks and financial markets is being comprehensively overhauled. The Restructuring Law (Restrukturierungsgesetz) has introduced rules allowing insolvent banks to be closed. This law has become a model for a similar EU regulation, which was under negotiation at the time of writing. Germany was among the first EU countries to introduce a legal obligation for banks to produce "testaments" that define plans in case of the bank's collapse.

Internationally, Germany pushed strongly for coordinated, international steps to reform the global financial system. It helped the G-20 summit develop into a first-class forum for international cooperation. Despite this engagement, Germany has also clearly defended the interests of its domestic banking system, particularly with respect to the savings banks' (Sparkassen) special-deposit insurance program.

Although skeptical at first, the German government ultimately revised its position regarding the implementation of an European-Union-level financial-transaction tax (EU FTT). The European Commission proposed to introduce an FTT within the European Union by 2014. The proposal won mixed reviews among experts and policymakers. However, for 11 EU member states including Germany, the FTT's political benefits of reducing risky derivatives transactions, raising revenues and promoting justice outweigh the probable economic costs, such as a slightly negative effect on growth.

As a euro-area country, Germany has assumed a leading role in the fight against the sovereign debt crisis in Europe. Its maximum financial guarantee for the European Stability Mechanism amounts to €190 billion, while the country is also exposed to additional risks through the European Central Bank's TARGET payment system, among other channels. Moreover, tax havens have become a prime concern for German policymakers. In February 2013, Germany, along with Britain and France, set itself in the vanguard of countering global tax evasion at the G-20 summit in Moscow.

Sweden

Score 9

The Swedish government has stood behind essentially all efforts to enforce regulation aiming at preventing criminal financial behavior in international financial management. Sweden also supports and implements rules laid out by the European Union and other international institutions related to international finance. It has rejected proposals, however, to introduce a Tobin-style tax on international financial transactions.

On the domestic scene, some friction between the Ministry of Finance and the big commercial banks has been noticeable over the past couple of years. The discord has related to the banks' insistence on giving their staff huge bonuses and charging high interest rates.

Taken together, Sweden is a forerunner for the sustainable regulation of international as well as domestic financial markets. This status is a consequence of the financial crisis in Sweden in the early 1990s, which initiated rapid policy learning in all major parties in the Swedish parliament.

Belgium

Score 8

Belgium supports internationally concerted efforts to strengthen and make financial activities more transparent, yet does not want to be at the forefront of this endeavor, as being tougher or acting faster than other countries would create handicaps for the Belgian banking sector that Belgium simply cannot afford. That said, the government is supportive of group efforts, such as a European banking union, that would enforce high but identical standards across the region.

Denmark

Score 8

While not in the eurozone, the Danish krone is pegged to the euro through the exchange rate mechanism (ERM II) and Denmark is expected to meet the requirements of the Growth and Stability Pact. Denmark's central bank (Nationalbanken) takes part in the European System of Central Banks (ESCB), but not the more central decision-making bodies of the ECB. Denmark's involvement at the European level is mostly through meetings of Economics and Finance Ministers (Ecofin), but Denmark does not take part in the separate meetings of the eurozone finance ministers. Thus Denmark's non-participation in the eurozone does limit the country's possibilities of influence.

Denmark takes part in the Euro+ Pact among 23 member states, which include all eurozone countries. The pact is based on the Europe 2020 Strategy and commits participants to close coordination of the economic policy regarding competitiveness and economic convergence.

Denmark has also signed the so-called Fiscal Compact, a treaty on strengthened fiscal cooperation, adopted by all EU countries except the United Kingdom the Czech Republic. The Fiscal Compact contains the same fiscal rule regarding structural budget balance as the Stability and Growth Pact plus an automatic correction mechanism that enters into force in case of deviation from the rule.

The Danish government is committed to eventually having a new referendum about joining the eurozone (after the negative one in 2000), but the financial crisis in the eurozone has reduced popular support for euro participation.

Policymakers were discussing issues related to regulation of the financial sector (systemic financial institution, bank union etc.) at the end of the review period.

Citation:
Danmarks Nationalbank, "Economic-policy cooperation in the EU," http://www.nationalbanken.dk/DNUK/Euro.nsf/side/Economic-policy_cooperation_in_the_EU!OpenDocument (accessed 2 May 2013).

Estonia

Score 8

Estonia actively participates in developing and securing financial stability and transparency in global financial markets. Two measures are particularly notable. First, the government has taken action in the prevention of money laundering. Estonia has signed major international agreements and is a member of the Moneyval. It has also established several domestic bodies to combat money laundering such as the Governmental Committee for the Coordination of Money Laundering Prevention, the Financial Intelligence Unit and others. The Estonian Financial Intelligence Unit (FIU) is an independent structural unit of the Estonian Police and Border Guard Board. The FIU analyses and verifies information about suspicions of money laundering or terrorist financing, taking measures where necessary and forwarding materials to the competent authorities upon detection of a criminal offence. The Anti-Money Laundering and Terrorist Financing Prevention Act has been in force since 2008. It obliges persons and enterprises who carry out or act as intermediaries in financial transactions to inform the Financial Intelligence Unit if cash transactions of large value are made.

The second major area in which Estonia works to stabilize finances on an international level is by supporting the stability of the eurozone. Estonia signed the EMS treaty in 2012 and has contributed to solving financial crises in Greece (2012) and in Cyprus (2013).

Citation:
Money laundering prevention in Estonia http://www.fin.ee/organizations-of- money-laundering-prevention-in-esto nia

France

Score 8

Both the Sarkozy and the Hollande governments were active internationally and at the EU level in supporting better international banking regulations. Both administrations have been strongly supportive of all initiatives contributing to the re-capitalization of banks, to the better control of speculative funds and to the fight against fiscal evasion and tax havens. They also have been active, together with 10 other EU member governments, in proposing to impose a levy on financial transactions (the so-called Tobin tax). Both have also pushed for the creation of a banking supervision mechanism at the EU level.

Israel

Score 8

During Israel's process of OECD accession in 2007, the country was assessed against a number of suitability criteria. An Israel Democracy Institute (IDI) study group explored the amount and scope of changes Israel would have to undergo as a result. Its report, which in part explored international financial regulatory activities, emphasized Israel's commitment in several important aspects:

• Bribery. Israel signed the convention on combating bribery, and successfully passed out of the three-stages review required by the convention. The report noted the imposition of criminal penalties for this crime, as stated in the criminal code, as well as efforts to apply the law to transactions made by Israeli companies abroad.

• Transparency promotion. In accordance with the OECD standards, Israel has established an entity tasked with increasing the accessibility of financial information. This entity works with corporate experts and has published materials in Hebrew, Arabic and English. It also has a public inquiries office for public complaints.

In addition, Israel has several regulatory institutions tasked with supervising financial markets. The most prominent include the Israel Securities Authority (ISA) and the Israel Antitrust Authority (IAA). These institutions are responsible for ensuring market stability and fair competition, although the ultimate goal in both cases is to ensure consumer protection.

But while these regulatory institutions have policymaking power, they lack the ability to impose penalties of sufficient strength. Moreover, the country's supervisory model has been criticized for being excessively fragmented.

Citation:
Ben-Bassat, Avi (Ed.),"Regulation of the Capital Market," IDI website 2007 (Hebrew)
Brodet, David,"Changes in the structure of markets and financial mediators and in the regulatory system," IDI website November 2004 (Hebrew)
Eckstein, Zvi, Stanley Fischer, Karnit Flug (eds.): Israel and the Global Crisis 2007-2009, Bank of Israel, September 2011
"Israel in the OECD: 2010," The ministry of finance 2010 (Hebrew).
OECD: Israel. Review of the Financial System, September 2011.
International Monetary Fund: Israel: Financial System Stability Assessment, IMF Country Report No. 12/69, April 2012

Lithuania

Score 8

Lithuanian authorities contribute to improving financial-market regulation and supervision. The Lithuanian Ministry of Finance and the Bank of Lithuania (the country's central bank) are involved in the activities of EU institutions and arrangements dealing with international financial markets (including the EU Council, the European Commission, the European Systemic Risk Board's (ESRB) Advisory Technical Committee, the European supervisory authorities, etc.).

In addition, the Bank of Lithuania cooperates with various international financial institutions and foreign central banks, in part by providing technical assistance to central banks located in the European Union's eastern neighbors. Lithuania's Financial Crime Investigation Service cooperates with

EU institutions, international organizations and other governments on the issue of money laundering. The country has lent its support to many initiatives concerning the effective regulation and supervision of financial markets. However, it is not yet become directly involved in such new initiatives as the single European banking supervisory system or the proposed financial transactions tax. This is in large part because Lithuania remains as yet outside the eurozone, and its banking sector is dominated by Nordic banks that are not eurozone-based credit institutions. Moreover, there remains some uncertainty as to the details of the proposed financial transactions tax and its possible impact on Lithuania's financial sector.

Norway

Score 8

Being a small country, Norway is not a major actor in international financial regulation. However, it is a notable player in financial markets as a result of its sovereign wealth fund. In this area, it has set standards of good international financial governance. The fund itself has been a conservative voice in international financial discussions, for example in respect to accepting participation by finance institutions in EU bail-outs of weak governments. This has no doubt constrained the government in similar issues. Norway is supportive of international efforts to combat corruption, tax evasion and the like.

Switzerland

Score 8

Switzerland is one of the world's major financial markets, and Swiss banks such as UBS and Credit Suisse are global financial players. The post-2007 global crisis and the economic problems of UBS in Switzerland – which forced the Swiss government to intervene massively in order to avoid bankruptcy of this major bank in 2008 – triggered banking reforms within Switzerland. The federal government, bankers and international organizations such as the OECD claim that Swiss private and public actors have been active on the global level in reforming the international banking system, in particular in interaction with the regulatory bodies in the United Kingdom, the United States and the European Union.

United States

Score 8

The United States has generally promoted prudent financial services regulation at the international level. This includes participation in international reform efforts at the G20, in the Financial Stability Board (FSB), and in the

Basel Committee on Banking Supervision (BCSC). U.S. negotiators played a major role in developing the Basel III capital rules, adopted in June 2011, and the liquidity rules, adopted in January 2013. The global nature of the recent financial crisis necessitated a multilateral approach and the promotion of a robust financial policy architecture. The Obama administration took the initiative to make the G-20 into a new enlarged "steering group" for global financial policy. This reconfiguration could not have become reality without strong U.S. engagement. With respect to the national regulatory framework, U.S. regulatory bodies are in the process of developing the rules required by the Dodd-Frank Act. In general, the United States is expected to integrate the international standards from the FSB and the BCSC into the Dodd-Frank rules, although it modifies some of them. U.S. regulators generally prefer stronger rules that international standards require. However, lobbying by the powerful financial services industry will likely weaken the U.S. standards.

Australia

Score 7

After the financial crisis of 1989 – 1990, Australia successfully improved its national financial regulations. Prudential supervision of Australian banks and other financial institutions is now of high quality. Indeed, reflecting its strong regulations, no Australian bank experienced substantial financial difficulties throughout the financial crises that began in 2008. As a globally oriented country with a high degree of international economic integration, including financial market integration, Australia has a strong interest in promoting a stable, efficient and transparent international financial system. Australia displays a strong commitment to preventing criminal financial activities, including tax evasion, and to that end the government has information sharing arrangements with a number of other countries. However, Australia is a relatively small player in international finance and has a limited ability to shape the regulatory process within multilateral institutions.

Austria

Score 7

As member of the European Union, Austria's economy is closely linked to the other members of the EU single market. Austria has nevertheless sought to defend special national interests against the implementation of general standards such as banking transparency. The mainstream of public opinion in Austria regards bank secrecy (Bankgeheimnis) an important privacy asset. To its critics, this secrecy is a cover for the storing of untaxed money, and breeds corruption.

Austria has come under pressure from the United States and fellow European Union members to open its financial system according to standards widely acknowledged and respected by most other financial actors worldwide. Many expect that Austria will be forced to give in to this pressure in the relatively near term. The government has signaled a willingness to negotiate new regulations within the framework of the European Union.

Austria has been particularly engaged in the promotion and implementation of an EU-wide tax on financial transactions. In January 2013, 11 European countries agreed to implement such a tax.

Italy

Score 7

The government and other public financial institutions such as the Bank of Italy have been in general supportive of international and European policies oriented to improve the regulation and supervision of financial markets. Typically for Italy, the government and the Bank of Italy have preferred a more collective style of work within the framework of European institutions and G8.

Japan

Score 7

Japan played a largely positive role in responding to the global financial crisis of 2008 – 2009. For instance, apart from domestic stimulus measures, it provided a large loan to the IMF and supported South Korea by means of a bilateral swap arrangement. It has also played an active role at the regional level, as for instance with its involvement in the Chiang Mai Initiative Multilateralization, although this particular initiative did not play a substantial role in recent crisis management. Japan has engaged in multilateral discussions on improving the global financial architecture, but has not been particularly proactive or effective in this regard. The early-2013 push toward aggressive monetary expansion and yen devaluation under the new LDP-led government and the new leadership of the Bank of Japan can be interpreted as showing little consideration for competing economies, and raises the danger of a currency war.

The country has reacted to earlier criticism on the issue of international money laundering. Tighter rules have been in place since April 2013, based on a law passed in 2011. For example, electronic transfers of more than JPY 100,000 (around €800 as of April 2013) now receive closer inspection than was previously the case.

Domestically, Japan has various mechanisms in place designed to protect vulnerable groups from the full effects of a financial crisis. The principal mechanism is the Deposit Insurance Corporation of Japan. Since 2005, the deposit-insurance program has covered up to JPY 10 million (about €80,000 in April 2013 prices) plus accrued interest per depositor per financial institution. Moreover, the corporation has instruments applicable to bank-failure resolution, the purchase of non-performing loans and assets, and capital injection.

New insolvency legislation has made exit from overburdening debt easier. However, the government and established players within the financial system, as well as owners, often prefer to keep ailing companies afloat, meaning that it is difficult to remove terminally ailing companies from the corporate system. Another reform of insolvency rules was being debated by the LDP-led government as of the time of writing, but it is unclear whether further improvements can be effected.

Citation:
Solis, Mireiya, Globalism Ascendant, Regionalism Stagnant: Japan's Response to the Global Financial Crisis, in: The Hague Journal of Diplomacy 6 (1-2), 2011, pp. 37-61

Mexico

Score 7

Affected by the global financial downturn of 2008, Mexico's financial sector confronted worsening access to capital markets and distressed financial intermediaries in the housing sector. Domestic demand experienced a severe decline in 2009, when the country's gross domestic product (GDP) contracted by 6%. As a consequence, the World Bank delivered a comprehensive set of services that mitigated the impact of the global financial crisis in Mexico. Measures to boost productivity, support counter-cyclical policies and strengthen financial market resilience supported the strong economic recovery underway since 2010–2011. The World Bank worked with the Mexican government to develop and implement a customized and innovative package of services to support growth and increase the resilience of the Mexican financial sector to external shocks.

But there have been other measures to stabilize financial markets as well: although Mexico tends to regard itself as a "have not" rather than a "have" in its international discourse, it has participated fully in international efforts to halt illegal drug production and trafficking. As part of its anti-drug smuggling policies, for example, money-laundering has become more difficult. Despite government efforts, dealing with major financial inflows from illegal drug activities remains a major challenge in Mexico. On the positive side, the performance of Mexican banks (e.g., regarding the percentage of non-performing loans or banks' risk-weighted assets) is well above OECD average according to IMF statistics.

Another measure of the government has been to participate actively in issues of international trade. Mexico seeks to diversify its economy as much as it can away from the United States. This policy of seeking balance has had some success.

Netherlands

Score 7

The Netherlands is slowly but surely losing its position among the important bodies that together shape the global financial architecture, like the G-20, the International Monetary Fund (IMF), the World Bank and the European Union. Since November 2010, the Netherlands is no longer formally represented in the G-20. The United States allows the Netherlands to participate in G-20 on the condition of continued Dutch involvement in Afghanistan. Other G-20 members are looking for better geographical representation and for emerging economies to replace the "usual suspects" like the Netherlands. In the IMF, the Netherlands shares its position with Belgium, but in this institution as well as in the World Bank the Dutch will be sidelined in favor of countries representing more important emerging economies. In the European Union, the Netherlands is skeptical about stronger financial governance competencies for the European Union in the sphere of financial support (emergency fund) and bank oversight. On the other hand, as a small but internationally significant export economy, the Dutch have a substantial interest in a sound international financial architecture. However, given the new wave of political skepticism in international affairs, the Dutch are more reluctant followers than proactive initiators or agenda setters.

Citation:
Nederlands Instituut voor Internationale Betrekkingen Clingendael, Conferentie "Veranderingen in het multilaterale bestel voor international economisch en financieel beleid. Uitdagingen voor Nederland en Belgie", 22 oktober 2012, Den Haag.

Slovakia

Score 7

Slovakia's banking system has been relatively sound, in part because of the central bank's intensive monitoring of risk management practices. Within the European Union, Slovakia supports the international regulation of financial markets, including the creation of a banking union. While Slovak governments do not act as agenda-setters, they often side with Germany at EU level.

Spain

Score 7

Spain, though aware of its limitations as an economic middle power, behaves as an important partner in international fora and tries to contribute actively to improve the regulation and supervision of financial markets, as one of the countries which has been particularly hard-hit by the global economic crisis and financial instability since 2008. It participates in the G-20 meetings as a "permanent guest." It is also part of the IMF system (with 1.63% of the votes), the World Bank (1.70%) and the Financial Stability Board. It has also been engaged within the OECD in the fight against tax havens (including its neighboring territories of Andorra and Gibraltar).

At the European regional level (but with a global impact) Spain is a member of the European Union and the fourth most important state of the eurozone, pushing hard from 2011 to 2013 toward a banking union and a more active role for the European Central Bank in strengthening the single European currency. It has also asked for better regulation of rating agencies. In the private financial dimension, the Madrid stock exchange plays a relevant role while Banco Bilbao Vizcaya Argentaria (BBVA) and Santander (currently considered the best bank in the world by some expert surveys) are important international banks. As a negative aspect, the country has needed a bailout approved by the European Union in June 2012 for Bankia and other smaller former savings banks.

Citation:
http://www.imf.org/external/np/sec/memdir/members.aspx#S
http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf

Turkey

Score 7

The global financial crisis, which led to Turkey's membership in the G-20, provided the country an opportunity to actively participate in the process of shaping the new rules and institutions of the post-crisis global economy. In recent years the Turkish government has made several proposals to reform and strengthen the international financial architecture, in particular in the framework of G-20 meetings.

In 2008, the government recommended that the G-20 countries adopt a mechanism similar to that introduced by Turkey's central bank to react appropriately to the global financial crisis. At that time, the central bank advocated the adoption of a system that allowed Turkish banks to lend foreign currency to other Turkish banks in need, instead of releasing it into foreign exchange markets. This step was intended to decrease the markets' foreign exchange deficit. Furthermore, reform of the Bretton Woods institutions, in particular of the International Monetary Fund, has been a top priority for Turkey.

In this context, Turkey has been interested in quota reform and in the doubling of IMF's total quota to increase the institution's capacity. In 2012, the government advocated in the G-20 platform a reform of the scope and the powers of rating agencies. Furthermore, the government criticized the proposal for a financial transaction tax, arguing that rather that the indebted eurozone would benefit from the new tax instead of helping developing countries. In addition, Turkey supported the idea of deepening and formalizing cooperation between the G-20 and other international organizations, such as the United Nations and the World Trade Organization.

Citation:
Simsek offers Turkey's CB as model to G-20 to stave off crisis, Today's Zaman, 6.4.2009.
Abdullah Bozkurt: Turkey's position at the G-20 (2), Sunday's Zaman, 2.1.2012.

United Kingdom

Score 7

The City of London is home to one of the world's main financial hubs and host to some of its biggest financial markets. The United Kingdom was therefore particularly affected by the downturn in financial market activity after 2008. The relatively light regulation of the City prior to 2007 can also be seen as a contributing factor to the volatility in financial markets and a consensus emerged that rules on capital adequacy needed to be more robust. The evident economic and societal costs of the crisis have fuelled the debate in Britain about regulation of the financial sector and whether the country should try to become less reliant on financial markets. But governments in the United Kingdom have traditionally tried to protect the interests of the City against more intrusive regulation, be it national, European or worldwide, often arguing that the special characteristics of London as a financial center are not given sufficient attention by Brussels in particular. The Libor scandal of 2012 over the fixing of market interest rates has both contributed to the loss of public appreciation for the financial sector and the feeling that new regulation is called for.

The Financial Services Act 2012 overhauled a UK system of financial regulation dating back to the late 1990s. The Financial Services Authority (FSA) established in 1997 was split into the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Financial Policy Committee, which is part of the Bank of England, oversees both. A report by a parliamentary banking commission and other initiatives show that the reshaping of the financial sector is still a work in progress.

At international level, the British government has been part of attempts to improve the international regulatory framework. In spite of the early pronouncements, however, very little substantial change has been forthcoming in terms of supranationalization of financial regulation. The British government has not been associated with specific initiatives towards more international or supranational regulatory authority in this field and has thus acted in line with tradition and the interests of the City of London. It has, however, been active in various international fora in pressing for improved regulation of finance.

Chile

Score 6

Given its small size, Chile has quite limited power within international arrangements and, although it participates in regional institutions and regimes, the country has distanced itself from the recent tendencies of its Latin American neighbors to strengthen their respective independence from international-level political hegemony and financial sources. The government applied an austerity policy and responsible budgeting, so the financial crisis has not had any severe impacts yet (policy of the 1% structural surplus proceeds). Nevertheless, in the national as well as international context, the official political discourse privileges the virtue of a totally deregulated and free market, combating any forms of state regulation.

Croatia

Score 6

Croatia has a relatively stable banking system with more than 90% of banks in foreign ownership. The Croatian National Bank shares responsibility for overall financial system stability with the Ministry of Finance and the Croatian Financial Services Supervisory Agency (HANFA). However, the tools that HANFA has at its disposal do not seem to be particularly efficient. Due to rising foreign debt that has reached almost 100% of GDP, international rating agencies relegated Croatia to the “junk” category in 2013. The main risks to financial stability stem from the deteriorating economic situation, deleveraging by parent banks, and the rising number of non-performing loans. While Croatia is rather vulnerable to developments on the global financial markets, its governments have not played a major role in global attempts at reforming the international financial architecture, but have focused on reducing vulnerability through domestic reforms.

Iceland

Score 6

In part because of its small size, Iceland has never tried to make a contribution to the improvement of the international financial architecture or other comparable international institutional frameworks. On the home front, however, the government has taken significant steps to address the issues raised by the extreme instability of its financial system, which culminated in the crash of 2008.

First, the post-crash government of 2009 – 2013 significantly strengthened the Financial Supervisory Authority (FSA) and established a Special Prosecutor’s Office, resulting in a few prison sentences for insider trading and market manipulation. The Special Prosecutor was expected to take about 70 additional cases to court in 2013 and 2014, thanks to the assistance of the FSA. These cases involve about 200 individuals suspected of insider trading, market manipulation, false reporting, and breaches of fiduciary trust. Understandably, this is a hotly contested issue in Iceland. While some consider the judicial aspects of the post-crash cleanup essential in order to avoid a recurrence, others, in particular those having political or business connections with the entities deemed responsible for the crash, feel the country should turn the page. Proposals seeking to incorporate the FSA back into the Central Bank signal a weakening of political resolve, as the FSA’s supervision was weaker when it was part of the Central Bank.

Second, the government has sought to strengthen financial supervision by having the FSA impose tougher standards in some areas. For example, loans without collateral – essentially, one-way bets against the banks – were common before the crash, but are no longer. On the other hand, some bank customers still complain of discriminatory and nontransparent practices whereby some borrowers are allowed to write off large debts while others are not. Some of the country’s biggest pre-crash business figures are today back in operation, having been forgiven huge chunks of debt by the banks.

Third, consumer protection has become more effective, in that illegal housing loans indexed to foreign currencies are no longer offered and are (slowly) being removed from banks’ balance sheets. The legality of housing loans and some other consumer loans indexed to domestic prices has also been challenged in the courts, but as of the time of writing, the Supreme Court and foreign courts have not ruled on this issue.

The government has not yet laid out a plan for the future reorganization of the banking system. This means that the future ownership structure of the banks, particularly its division between private and public or between foreign and domestic ownership remains uncertain.

Luxembourg

Score 6

Luxembourg is a major financial center; the contribution of the banking and financial services industry to GDP is estimated above 30%. Yet Luxembourg too felt the effects of the economic crisis within the European Union. In dealing with offshore accounts and just how capital deposited by non-resident customers should be treated, Luxembourg has come under scrutiny during the period. Yet issues with banking secrecy will essentially come to a close in 2015 when all EU member states are expected to move to a system of automatic information exchange. Since its commitment to the international standard established by a G-20 meeting in March 2009, Luxembourg has concluded, as required, a large number of bilateral information exchange mechanisms for tax purposes. Under the pressure of the U.S. Foreign Account Tax Compliance Act (FATCA) and the new EU rules, Luxembourg announced publicly in April 2013 that it would agree to the automated system early, by the end of 2014. The government and the banking industry say they are confident that the change will not have a large negative impact on the activities of the country's financial sector, as some regulations have been long anticipated, and many have already been enacted since 2009 as part of OECD standards. In early 2013, however, Luxembourg refused to endorse a financial transaction tax that was agreed upon by a majority of EU member states.

Citation:
OECD (2012): Economic Surveys Luxembourg, Paris: www.oecd.org/eco/surveys/luxembourg2012.htm
OECD (2012): Science and Innovation Country Notes, Brüssel: http://www.oecd.org/sti/inno/46665252.pdf

Malta

Score 6

Malta is a small economy and as such is not a principal actor in the regulation of financial markets. However, it possesses consolidated links with regional and international organizations which help it, through shared intelligence, to combat high-risk or criminal financial activities, ensuring fair cost- and risk-sharing among market actors when market failure occurs or is likely to occur, and to enhance information transparency in international markets and financial movements. The government established the Financial Intelligence Analysis Unit (FIAU), under the Prevention of Money Laundering Act, to help combat high risk or criminal financial activities. The FIAU is responsible for the collection, collation, processing, analysis and dissemination of information with a view to combating money laundering and the funding of terrorism. The unit is also responsible for monitoring compliance with the relevant legislative provisions as well as issuing guidelines to curb money laundering. The Malta Competition and Consumer Affairs Authority is also active in strengthening consumer rights and protections. The authority is composed of the Office for Competition, the Office for Consumer Affairs, the Standards and Metrology Institute and the Technical Regulations Division.

Citation:
www.ecb.int/ecb/tasks/international /financialarchitecture/html/index.e n.html
www.mfsa.com.mt/pages/viewc ontent.aspx?id=136
www.centralbank malta.org/site/about4.html
www.cen tralbankmalta.org/site/internationa l.htm

New Zealand

Score 6

As a globally oriented country with a high degree of international economic integration, including financial market integration, New Zealand has a strong interest in promoting a stable, efficient and transparent international financial system. There is a commitment to preventing criminal financial activities, including tax evasion. However, New Zealand is too small a player in the international arena to proactively contribute to the regulation and supervision of financial markets. It concentrates on regional arenas, such as the Asia-Pacific Economic Cooperation (APEC). Even here, the country has only limited ability to shape the regulatory process within multilateral institutions.

Poland

Score 6

Poland's financial sector has expanded rapidly yet has remained relatively stable. While the supervision of the financial sector has improved, the bankruptcy of Amber Gold, a lending and investment company, in August 2012 has pointed to remaining weaknesses. The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF) lacks sufficient powers, independence and resources. As for international initiatives, the Tusk government has not been an agenda setter. While the government supported the idea of a financial transaction tax, it was critical of the larger idea of an EU banking union.

Citation:
IMF, 2013: Republic of Poland: Financial System Stability Assessment. IMF Country Report No. 13/221, Washington, D.C.

Romania

Score 6

Like many other European countries, Romania was heavily affected by the global financial crisis and it was particularly vulnerable to the outflow of capital from the local subsidiaries of foreign banks. In late 2008 the Romanian Central Bank defeated a speculative attack against the Romanian currency by imposing de facto constraints on high volume bank transactions in local currencies. In 2010 Romanian consumer protection authorities tried to shift some of the burden of pre-crisis lending onto foreign banks by using a European Directive on consumer credit to force banks to adjust their hidden lending costs and interest rates, but the ensuing legislation was toned down after pressure from the IMF.

In April 2013, in compliance with the IMF's requests, Romania established a single entity, the Financial Supervision Authority (ASF), to oversee the country's financial markets. The ASF will replace the National Securities and Exchange Commission and the Insurance Supervisory Commission in the administration of the private pensions, insurance market, and stock exchange. However, as highlighted by a number of recent corruption scandals, corruption in the banking sector is pernicious and involves a network of banking elites and state officials. Such corruption undermines government banking regulation efforts and makes the country's banking system more vulnerable to external shocks.

Bulgaria

Score value_6

Bulgaria enjoys a stable, well-capitalized and highly liquid domestic banking system. The only problematic item on the balance sheet of Bulgarian banks – the relatively high ratio of non-performing loans to total loans – has not yet created a visible strain on the crediting process and the economy due to the very high capitalization and liquidity of the banks. At the same time, Bulgaria is not among the proactive promoters of changes in the international regulatory framework for the financial system. As a member of the European Union it does participate in all discussions on this matter both at the level of finance ministers and of central banks, but, as one of the relatively smaller and more insignificant financial market centers, as well as a country with an underdeveloped financial sector, its role is mostly in stating what it would like to preserve or what it disagrees with, rather than in shaping the agenda.

Latvia

Score 5

Latvia has experienced a rapid rise of non-resident deposits in its banking system, which present a potential systemic risk. Indeed, in 2012, non-resident deposits exceeded private resident deposits. In 2012, the financial regulator ruled that a bank specializing in non-resident clients was undercapitalized; a risk-mitigation strategy is being sought with a fresh capital injection from a private investor. The November 2011 insolvency of Latvijas Krajbanka represented the regulator's failure to verify the availability of liquid foreign assets. Since mid-2011, the regulator has required extra capital to be held by banks issuing large share of non-resident loans. The government has taken further steps to strengthen supervision of banking activities involving non-resident clients, for example through the implementation of periodic liquidity stress tests.

The government is a participant in European-level discussions on changes to the European and international financial architecture, but cannot be considered an agenda-setter.

Citation:
IMF (2012), Article IV Consultation and Second Post-Program Monitoring Discussions Report, Available at: http://www.imf.org/external/pubs/ft/scr/2013/cr1328.pdf, Last Assessed: 20.05.2013

Portugal

Score 5

In terms of the Memorandum of Understanding with the EC–ECB–IMF Troika, Portugal is in the process of restructuring its financial markets.

South Korea

Score 5

Korea is a member of the G-20 and also one of the biggest gainers in the ongoing voting-share reform of the IMF and World Bank. However, so far Korea plays only a very minor role in shaping the global financial architecture. Instead it is largely using self-help policies like the accumulation of currency reserves, currency management and capital controls to protect itself from global financial volatility. In addition Korea has been seeking bilateral support from the United States and Japan, for example in the form of currency swap agreements. While Korea follows international standards on bank regulation like the Basel capital adequacy requirements, it is playing little role internationally in advancing them.

Citation:
"Dozens of Korean names in leaked data on tax havens: ICIJ", The Korea Times, 24 April 2013

Czech Republic

Score 4

The Czech Republic is not a major player in international financial affairs – its main banks are foreign owned and their independent international involvement is very limited. Nor did it participate in reforming the international financial system, preferring to see itself as a follower of initiatives developed elsewhere. It appears rather as a bystander – for example, keeping out of the eurozone and hence avoiding debates on how that currency could be stabilized. It has also avoided involvement in discussions on the proposed European Banking Union. The Civic Democratic Party (Občanská demokratická strana, ODS) is firmly committed to avoiding participation in any such initiatives which might require a contribution to European fund, insisting that the Czech financial system is stable, will not require any outside help, and that the country should not be involved in helping others.

Hungary

Score 4

Despite its frequent attacks on the financial sector, the Orbán government has not shown much interest in enacting better regulations for the financial sector. Its plan to merge the National Bank of Hungary with the State Authority for the Supervision of Financial Institutions (PSZÁF) was motivated primarily by the goal of getting rid of the governor of the National Bank of Hungary, who had strongly defended the central bank's independence. Because of its confrontational stance with the European Union, Hungary has not played a role in EU debates over reforms of the international financial architecture. However, the Hungarian government has supported the idea of a European tax on financial transactions.

Ireland

Score 4

Ireland's situation as a member of the euro zone and of the European banking system needs to be taken into account. This has involved substantial surrender of national sovereignty and autonomy in financial policy to European institutions, principally the ECB.

By spring 2013, Ireland had received only marginal relief on the debt burden incurred by the Irish state to avert a European-wide banking crisis in 2009. No adjustment has been made in light of the recent "bail in" of bondholders and depositors in Cyprus. The burden of the legacy of the Irish banking crisis remains a burning issue and will have a major bearing on the prospects for renewed growth in the Irish economy.

Ireland negotiated a bail-out program with the ECB–European Union–IMF and adhered to its terms and conditions. This has made it something of a “poster boy” for the austerity programs being implemented in many European countries, supporting the belief that recovery is possible in cooperation with international financial institutions.

Slovenia

Score 4

Compared to most other East-Central European countries, the degree of foreign ownership in the Slovenian financial sector is low, and the decision of the Belgian KBC bank to sell its share in largest Slovenian bank NLB to the state for a symbolic amount will even further lower this share. The Slovenian banking sector has suffered from a heavy burden of bad loans for some time. Whereas the Pahor government did little to address the problem, the Janša government prepared a Bad Bank Law, the implementation of which was temporarily stopped by the fall of the government in spring 2013. However, neither the Pahor nor the Janša governments contributed actively to improving the regulation and supervision of international financial markets.

Cyprus

Score 3

Cyprus has developed as an important financial center since the 1980s, and effectively monitoring the market and enforcing international standards has been a major challenge. The country has introduced a regulatory framework and created bodies assigned with specific tasks, such as the Securities and Exchange Commission, the Unit for Combating Money Laundering (MOKAS), and others. The money-laundering risks have not changed since 2005 and are considered to be low; risks and vulnerabilities mainly emanate from international business activities, in particular banking or real-estate transactions. Legal constraints regarding dealers in foreign currency, restrictions on foreign ownership of property and the limited role of cash in transactions minimize laundering risks.

A law on money laundering and terrorist activities (Law 188(I)/2007) has strengthened the preventive regime, and financial-sector supervisory authorities are vested with sufficient powers to supervise compliance with the laws and carry out inspections. However, Cypriot banks are not subject to “know your customer” regulatory measures and corporate audits, and do not verify the sources of funds. the system permits the concealment of beneficial company owners.

Effective supervision of designated nonfinancial businesses and professions (DNFBPs) is insufficient across the board, particularly regarding trust and company service providers, real estate, dealers in precious metals and stones, and lawyers.

Supervision of banks has been problematic in another respect, as institutions failed to follow rules related to large exposure and minimum capital and liquidity requirements, while taking on unsustainable levels of non-performing loans. The state's inability to protect depositors, minimize systematic risk and foster economic growth led to disastrous effects on the economy.

In 2013, financial advisory firm Deloitte found that Cypriot banks were not consistently in a position to understand the purpose of accounts provided, define their customers' business or economic profiles, or evaluate the expected pattern and level of transactions. In only 9% of cases had banks gathered independent information about their customers.

Citation:
1. Unit against money laundering, Cyprus
http://www.law.gov.cy/law/m okas/mokas.nsf/dttindex_en/dttindex _en?OpenDocument

2. Council of Europe Report on anti-Money laundering, 2011,
http://www.coe.int/t/dghl/monitor ing/moneyval/Evaluations/round4/CYP 4_Sum_MONEYVAL%282011%2902_en.pdf

3. http://www.spiegel.de/international /business/deloitte-audit-prevention -of-money-laundering-in-cyprus-is-inadequate-a-900593.html

Greece

Score 2

IMF data indicate that in 2011 Greece performed very poorly with regard to the share of non-performing loans to banks' capital and to total loans. All this has made Greek economic policy more introverted. The crisis has not allowed the Greek government to participate in international efforts to regulate the global economic environment, other than in the context of Greece's role as a member state of the eurozone and the European Union. In its capacity as a member state of the European Union, Greece has participated in all relevant EU summits and Economic and Financial Affairs Council (ECOFIN) meetings in 2011 – 2013. Still, as the crisis absorbed the government's attention, Greece has substantively contributed to combating criminal financial activities in the world economy and to ensuring fair cost- and risk-sharing among financial market actors. It has also helped enhance information transparency and protect consumers in international financial transactions.

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