SGI Sustainable Governance Indicators

2015 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 1 July 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 Superintendent of Financial Institutions (OSFI) has also been very active internationally.

Finland

Score 9

Following the collapse of financial markets in Europe and the increased vulnerability of financial markets globally, 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 seeking to advance self-regulation and combat excessive market risk-taking. Finland has also pursued measures to secure its own finances. In 2013, the Finnish government approved two national programs, to be delivered to the European Commission. The first, the Stability Program, described the medium-term economic development of the Finnish economy in terms of fiscal policy. The second, the Europe 2020 National Program, described 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 macro-prudential supervision system. To this end, a working group 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 financial 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 in the future avoiding costly public bailouts of private banks.

Domestically, the regulatory framework for banks and financial markets is being comprehensively overhauled. The Restructuring Law (Restrukturierungsgesetz) has introduced rules that allow for insolvent banks to be closed. Germany was among the first EU countries to introduce a legal obligation for banks to produce "testaments" that define contingency plans in case of the bank's collapse. This law has become a model for similar EU regulations, where the most striking changes have occurred. The so-called banking union comprises a number of measures in banking regulation that are apt to shift the primary responsibility from the national to the European level. With that aim, the banking union is made up of two regulatory novelties: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Enacted by two EU regulations in 2013, the former promulgates that credit institutions whose balances exceed €30 billion (or 20% of a country's GDP) are under the direct supervision of the European Central Bank (ECB). The latter regulates bank recovery schemes. It provides access to a Single Resolution Fund in exchange for rule-guided behavior during a bank's reorganization. Germany's individual role in these European efforts is hard to assess. Most of German savings and cooperative banks are excluded from supranational supervision and remain under national supervision. This seems to indicate that Germany was not particularly interested in more far-reaching solutions. The ECB's asset quality review conducted before the ECB took over supervisory responsibility painted a favorable picture of the large German banks' inherent stability. According to the review, only one German bank (Münchener Hypothekenbank) had insufficient capital; this capital gap was quickly closed in 2014.

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. The country is also exposed to risks through the ECB's TARGET payment system.

Internationally, Germany argued vigorously in favor of coordinated, international steps to reform the global financial system. In addition, Germany is one of the driving forces that helped to develop the G-20 summit into a first-class forum for international cooperation. Despite these efforts, however, Germany has also clearly defended the interests of its domestic banking system, particularly with respect to the special deposit insurance programs of state-owned savings banks (Sparkassen).

Although skeptical at first, the German government ultimately revised its position regarding the implementation of an EU level financial transaction tax (EU FTT). The European Commission proposed to introduce an FTT within the European Union by 2014. Later on, implementation was postponed until 2016. The proposal received mixed reviews among experts and policymakers. However, 11 EU member states, including Germany, are determined to introduce the FTT driven by the (contested) argument that it may reduce risky derivatives transactions, raise significant revenue and promote justice.

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. Another potential source of friction between the Ministry of Finance and the major commercial banks is related to political signals to force lenders to reduce debt and not just paying interest rent. The Ministry, in concert with the National Bank, is concerned that there is a growing bubble in the metropolitan real estate markets. Reducing debt would help reduce the likelihood of such a bubble economy. The banks, however, do not have a commercial interst in in debt reduction.

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 represented in the Swedish parliament.

Belgium

Score 8

Most banks suffered extensively from the crisis, and the Belgian government was more proactive in the restructuring of banks than many of its fellow European governments. Yet Belgium is clearly too small a country to restore financial stability alone. Indeed, some of the largest Belgian banks are structurally linked to other European banks, or have in fact become subsidiaries of larger banks with headquarters based in neighboring countries (e.g., ING, BNP Paribas). This led the government to promote international efforts to restore financial stability, combat financial fraud and tax evasion (from which Belgium is one of the main losers). Belgium also actively took part in the creation of the so-called "banking union" in the euro area. It also volunteered efforts at improving banking supervision within its borders.

Denmark

Score 8

While not in the euro zone, 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 euro zone finance ministers. Thus Denmark's non-participation in the euro zone does limit the country's possibilities of influence.

Denmark takes part in the Euro+ Pact among 23 member states, which include all euro zone 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 euro zone (after the negative one in 2000), but the financial crisis in the euro zone has reduced popular support for euro participation.

Denmark has implemented a number of new measures to regulate the financial sector, both EU-initiatives and additional measures. Danish banks are relatively large in proportion to GDP and closely integrated with the rest of Europe, thus the issue of financial regulation is important. The financial crisis revealed a number of problems which have since been intensively debated. It is unclear whether Danish financial institutions are currently significantly more robust than before the financial crisis. An open question is whether Denmark should participate in the Banking Union. The governor of the Danish Central Bank, Lars Rohde, has on various occasions spoken out in favor of Danish participation the banking union. Member of the Executive Board of the ECB, Jörg Asmussen, has advised Denmark to join.

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).

Kraka Finanskrisekommission, 2014, Den danske finanskrise - kan det ske igen?; København.

Rangvid, J. m.fl. 2013, Den finansielle krise i Danmark - årsager, konsekvenser og læring, report from government appointed commission.
"Nationalbankdirektør Lars Rohdes tale ved realkreditrådets årsmøde 2. October 2014,"

http://www.nationalbanken.dk/da/presse/Documents/2014/10/LRO%20tale%20RKR%20021014.pdf (accessed 17 October 2014).

Jörg Asmussen, "Banking Union -essential for the ins, desirable for the outs!"

http://www.ecb.europa.eu/press/key/date/2013/html/sp131105.en.html (accessed 17 October 2014).

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 unit of the Estonian Police and Border Guard Board. The FIU analyses and verifies information in case where money laundering or terrorist financing are suspected, 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.

France

Score 8

The Hollande government, like its predecessor, has been 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 its financial regulation was assessed against a number of suitability criteria. Related reports note that Israel signed the convention on combating bribery and successfully passed the three-stages review required by the convention. It also took steps to impose criminal penalties and apply the law to transactions made by Israeli companies abroad. In accordance with OECD standards, Israel also established an authority tasked with increasing the accessibility of financial information. The authority works with corporate experts and publishes materials in Hebrew, Arabic and English. It also operates a public inquiries office for public complaints.

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 insuring market stability and fair competition. In the aftermath of the global financial crisis, different government organizations worked to limit the risk in the banking and insurance industry. Actions include tightening the rules on mortgages, adopting Basel III regulation and raising minimum capital ratios. Several committees were formed to investigate structural reforms and submitted their recommendations. Both OECD and central bank assessments are cautiously optimistic, with the latter pointing to important regulatory tools that are currently being developed for future implementation.

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, Fischer, Stanley and Flug, Karnit (eds.): Israel and the global crisis 2007-2009, Bank of Israel, September 2011.

"Financial stability report", Bank of Israel 2014 (Hebrew).

"International Monetary Fund - Israel: Financial system stability assessment", IMF Country Report No. 12/69, April 2012

"Israel in the OECD: 2010," The Ministry of Treasury 2010 (Hebrew).

"OECD economic surveys: Israel 2013", OECD.

"OECD: Israel. Review of the financial system", OECD website, September 2011.

Israel - Economic forecast summary, November 2014.
http://www.oecd.org/economy/israel-economic-forecast-summary.htm.

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. Lithuania will join the euro area and the single European banking supervisory system in 2015.

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 most significant financial markets. 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.

Given the disproportionate size of the banking sector and its two largest members, the questions of banks being "too big to fail" is particularly controversial and remains unresolved.

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. The United States encounters significant resistance in international forums regarding its efforts to establish effective financial regulation.

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, with some modifications. U.S. regulators generally prefer stronger rules than international standards require. However, lobbying by the powerful financial-services industry has weakened the U.S. standards.

Citation:
NORRIS, FLOYD. "Financial Crisis, Over and Already Forgotten." The New York Times. (May 23, 2014 Friday)
You break it, you own it; global banking. (2013, Nov 23). The Economist, 409, 20.
No respite; global banks. (September 27, 2014). The Economist, 412, 69-70.

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. The Abbott Government has nonetheless not been complacent on this front, in March 2014 commissioning a broad-ranging inquiry into the Australian financial system, focusing on how the financial system can most effectively help the Australian economy be productive, grow and meet the financial needs of Australians. The interim report, which did not contain any recommendations, was published in July 2014 and the final report was scheduled to be delivered to the government short after the end of the review period.

Australia, however, has accumulated a high level of gross foreign debt, which stands at 163 percent of GDP, up from 147% in 2010. This high level of debt is a risk to Australia's financial stability, but Australian governments have not addressed this issue, arguing that it reflects the decisions of the private sector (including households). In 2013, household debt was as high as 110% of GDP, the second highest in the OECD.

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.

Citation:
OECD, Economic Survey Australia 2014, p. 23.

Buttiglione, Luigi; Lane, Philip R.; Reichlin, Lucrezia and Vincent Reinhart (2014): Deleveraging? What Deleveraging? Center for Economic Policy Research, Geneva Reports on the World Economy, Nr. 16 (September 2014), p. 15.

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. Thus, Austria has effectively been forced to give up banking secrecy from 2018 onwards.

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 2008/09. For instance, apart from domestic stimulus measures, it provided a large loan to the IMF and also played an active role at the regional level, as for instance with its involvement in the Chiang Mai Initiative Multilateralization. Japan has engaged in multilateral discussions on improving the global financial architecture, but has not been particularly proactive or effective in this regard. The strong devaluation of the yen starting in 2013, in the wake of aggressive monetary expansion, showed little consideration for competing economies.

The country has reacted to earlier criticism on the issue of international money laundering. Tighter rules have been in place since 2013. For example, electronic transfers of more than JPY 100,000 (around €730 as of October 2014) 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 €73,000 in October 2014 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. In the interest of financial stability, an orderly resolution mechanism for failing financial institutions was specified by an April 2014 amendment to the Deposit Insurance Act.

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. Further insolvency reform was not mentioned in the “third arrow” revitalization strategy, neither in its 2013 form nor in its 2014 revised form.

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

Cabinet (Japan), Japan Revitalization Strategy. Revised in 2014, 24.06.2014

Netherlands

Score 7

In June 2012, the Intervention Bill came into effect. This bill expands the competencies of the Dutch Central Bank and the minister of finance to intervene in the policies regarding problematic financial companies. As a result, the capital ratio of the four largest Dutch banks has gradually moved toward compliance with the new European capitalization requirements. Internationally, though, 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 the 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:
CPB Risicorapportage Financiële Marketen 2014. Uitgevoer op verzoek van de Tweede Kamer. CPB Notitie 4 juni 2014

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.

Poland

Score 7

The Tusk government was not an agenda-setter with regard to the regulation of international financial markets. It supported the idea of a financial-transaction tax, but long opposed the idea of an EU banking union. Poland's financial sector has remained stable despite rapid expansion, as various stress tests have demonstrated. The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF) has stepped up its oversight of the small but vulnerable credit-union segment, initiating rehabilitation of a number of institutions. The adoption of legislation on the creation of a Systemic Risk Board, a new supervisory institution consisting of the heads of the National Bank of Poland, the KNF, the Ministry of Finance and the Bank Guarantee Fund, has been delayed. Various regulatory changes to curb foreign-currency credit growth have led to a halt in foreign-currency mortgage lending.

Slovakia

Score 7

Slovakia supports the international regulation of financial markets, including the creation of a banking union. Within the European Union and the euro zone, it often sides with Germany, but does not act as an agenda-setter. Slovakia has implemented all European Union directives designed to improve bank supervision. As part of the Single Supervisory Mechanism, which took force in early November 2014, five Slovak banks, two of which are part of larger groups, have been put under direct supervision by the ECB.

Spain

Score 7

Spain, though aware of its limitations as an economic middle weight, 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” and in the Financial Stability Board. It is also part of the IMF system (with 1.63% of the votes) and the World Bank (1.74%). As a member country in all five agencies of the World Bank Group, Spain holds shares in each (including international financial institutions which offer loans to developing countries such as the IBRD or IDA). It has also been engaged within the OECD in the fight against tax havens and particularly active regarding 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 euro zone, pushing hard from 2013 to 2014 toward a banking union and a more active role for the European Central Bank in strengthening the single European currency. It has also advocated for the improved 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 are very important international banks. In November 2013, Spain cleanly exited a bailout program that was agreed to in 2012 by the European Union to capitalize Bankia and other smaller former savings banks in response to the country’s deepening financial crisis. The now completely restructured banking system has guaranteed its survival (although loans will have to be paid back over the next 15 years).

Citation:
www.imf.org/external/np/sec/memdir/members.aspx#S

web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/WBEUROPEEXTN/SPAINEXTN/0,,contentMDK:20811636~menuPK:2205720~pagePK:141137~piPK:141127~theSitePK:292395,00.html

Turkey

Score 7

Turkey actively contributes to the work of G-20. On 1 December 2015, Turkey assumed the G-20 presidency. The government's priorities include ensuring global economic and financial stability, reforming the global economic system by reflecting the increasing weight of emerging economies; and addressing problems related to trade, logistics, SMEs, employment, security, climate change and migration. Apart from many meetings on the ministerial level throughout the year, Turkey plans to hold the G-20 leaders' summit in Antalya on 15 – 16 November 2015.

Citation:
Çanakçı, İ. (2013) 'G-20 & Turkey's Presidency in 2015', power point presentation prepared for the conference on 'Turkey in the Troika of G-20, Preparing to Assume the Chair in 2015', Center for Eurasian Studies, Ankara (November 14, 2013)
'Turkish G20 Presidency Priorities for 2015', 1 December 2014, https://g20.org.tr/wp-content/uploads/2014/12/2015-TURKEY-G-20-PRESIDENCY-FINAL. pdf (accessed 7 December 2014)

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 subsequently emerged that capital-adequacy rules needed to be more robust. The evident economic and societal costs of the crisis have fuelled debate in Britain over financial-sector regulation 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, as well as other instances of market abuse, has both contributed to the loss of public appreciation for the financial sector and the feeling that new regulation is called for.

At the international level, the British government has taken a prominent role in attempts to improve the international regulatory framework through bodies such as the Financial Stability Board (chaired by the governor of the Bank of England) and the Bank for International Settlements. The United Kingdom has had substantial influence on EU financial reforms, both through government action and in the form of initiatives from the City of London.

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.

Ireland

Score 6

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 European Central Bank (ECB).

Ireland has received only marginal relief on the debt burden incurred by the Irish state to avert a European-wide banking crisis in 2008. During 2014, more evidence emerged that pressure was brought to bear by the EU Commission and the ECB on the Irish authorities to avoid “bailing in” bondholders of the failed Irish banks. The motivation for this was to avert impairment of the balance sheets of German and French banks, which were significant investors in these Irish banks.

It is possible that the ECB exceeded its authority in pressuring one country to bear the cost of shielding banks in other euro zone countries from the consequences of their imprudent investment decisions.

In September 2014, euro zone finance ministers agreed to allow Ireland to refinance its debt based on its dramatically improved credit rating, enabling it to use funds raised on the international bond market at interest rates near 2% to retire IMF debt carrying interest rates of close to 5%.

In May 2014, the Oireachtas (the Irish parliament) established a committee of inquiry into the events leading up to and following on the banking crisis of 2008. This committee was slated to begin its work before the end of 2014. It is hoped that the results will shed light on the interaction between Ireland and the European Central Bank regarding the regulation and supervision of the financial system.

Citation:
A posthumous biography of or tribute to the man who was Minister for Finance in 2008 sheds light on the interaction between Ireland the European institutions during the banking crisis:
Brian Lenihan in Calm and Crisis edited by Brian Murphy, Mary O'Rourke and Noel Whelan, Irish Academic Press 2014

Luxembourg

Score 6

Since the opening and creation of the single European market in the 1970s, Luxembourg has been the most important actor in the European debt-capital market, playing a major role in stimulating the international financial architecture. In the 2014 Global Financial Centres Index rankings, Luxembourg lost three places, achieving fourth place among the financial centers in Europe. In the new EU Competitiveness Scoreboard 2014, Luxembourg was ranked 6th overall among the EU-28 (previous year: 13th place). The country's economic freedom score was unchanged from the previous year, at place 16. In the World Bank Doing Business 2015 report, Luxembourg was ranked only at position 59, behind Belgium (42), France (31) and Germany (14). Reflected in these rankings is the perception that Luxembourg is not an innovation leader, and has difficulties in encouraging start-ups and creating jobs.

Luxembourg is a major financial center, with the banking and financial-services industry contributing an estimated 30% of GDP or more. Consequently, the country was exposed to the effects of the economic crisis within the European Union. Luxembourg's treatment of offshore accounts and capital deposited by non-resident customers came under international 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 standards on this issue, established by a G-20 meeting in March 2009, Luxembourg has as required created a large number of bilateral information-exchange mechanisms for tax purposes. In early 2013, however, Luxembourg refused to endorse a financial-transactions tax that was agreed upon by a majority of EU member states. Under the pressure of the U.S. Foreign Account Tax Compliance Act (FATCA) and the new EU rules, Luxembourg promised in October 2014to implement full and permanent tax transparency, after conducting negotiations began in 2012. 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.

Citation:
Storck, E. (1995), Globalisierung und EWU: Der Euromarkt als Finanz-Drehschreibe der Welt
http://www.longfinance.net/images/GFCI16_22September2014.pdf
http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Profiles/Country/LUX.pdf
http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf

http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxnewsflash/Documents/luxembourg-oct17-2014.pdf
http://www.kpmg.com/global/en/issuesandinsights/articlespublications/taxnewsflash/pages/2014-2/luxembourg-european-fatca-in-2016.aspx
http://www.oecd.org/eco/surveys/LUX_Overview_Eng%202012.pdf
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

Mexico

Score 6

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. Yet as the prevalence of destabilizing domestic drug-related conflicts shows, the government is far from achieving its internal goals related to drug production and money laundering.

Despite government efforts, dealing with major financial inflows from illegal drug-related 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. There may indeed be a danger of going too far the other way, since the lending policies of the country's largest financial institutions have sometimes been criticized as being too conservative.

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.

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.

Romania

Score 6

Romania has not been very active on the international scene, but has improved the regulation and supervision of domestic financial markets. The country has made some progress in strengthening deposit-guarantee funds, which should help reduce the magnitude of the fallout in future financial crises. There has also been progress in terms of complying with international-reporting standards. Progress with respect to increasing the effectiveness of and legal framework for the Financial Supervisory Authority (ASF) has been slow, but a World Bank project initiated in July 2014 may provide some impetus for faster reforms. The ASF was created in late 2012 in an effort to improve supervision and regulation of the securities, insurance and private-pension sectors.

Croatia

Score 5

Croatia has a relatively stable banking system, with more than 90% of banks under foreign ownership. In recent years, the banking sector has increased its exposure to the government by providing finance to support the budget deficit, while lending to households and corporations has stagnated. The increased exposure to the government sector makes the banks more vulnerable to risks arising from this sector, especially since the profits derived from lending to the government are likely to fall as interest rates decline. 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. Nor have they cracked down on money laundering. Croatia is part of the "Balkan route," a major trade corridor where trade-based money laundering takes place, and where certain private and state-owned companies have been linked to money laundering activities. The Anti-Money-Laundering Office is understaffed, and there is a relatively low rate of convictions for money-laundering offences.

Council of Europe (2014) Anti-Money Laundering and Combating the Financing of Terrorism: Croatia, 4th Assessment Report
Croatian National Bank (2014) Financial Stability Report no. 14, July

Czech Republic

Score 5

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 euro zone 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) was 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. The Sobotka government made a turn from the eurosceptic policy of previous governments toward a more mainstream view of EU economic policy.

Iceland

Score 5

In part because of its small size, Iceland has never made a substantial contribution to the improvement of the international financial, or other comparable international institutional, frameworks.

Domestically, however, the government has taken significant steps to address the extreme instability in its own financial system.

First, the previous government significantly strengthened the Financial Supervisory Authority and established a Special Prosecutor's Office, which is charged with investigating insider trading and market manipulation. In 2013 and 2014, the Special Prosecutor was expected to take about 70 additional cases to court. These cases involve about 200 individuals suspected of insider trading, market manipulation, false reporting and breaches of fiduciary trust. However, there have been significant delays in bringing these cases to court and the new government has substantially reduced the Special Prosecutor's Office's budget allocation.

The government has sought to strengthen financial supervision by encouraging the Financial Supervisory Authority to impose tougher standards. For example, prior to the economic crash, banks commonly provided loans without collateral, but this practice has since stopped. On the other hand, other practices have not stopped. For example, banks continue to be accused of acting in a discriminatory and nontransparent manner whereby some customers are allowed to write off large debts, while others are not, without the banks providing an appropriate justification for the distinction between customers. A number of Iceland's largest pre-crash business figures avoided going into bankruptcy, because their loses were annulled by Iceland's banks. Under new management since the proactive director of the Financial Supervisory Authority was replaced in 2012, the Financial Supervisory Authority lacks strong and clear leadership and has once again adopted a passive, non-intrusive strategic approach.

The present government has yet to lay out a plan for the reorganization of the banking system. This means that the future ownership structure of the banks remains uncertain, particularly the division between private and public, and between foreign and domestic ownership.

Latvia

Score 5

The volume of bank deposits made by non-residents continues to present a systemic risk, despite a reduction in the growth rate of such deposits from 17.1% in 2012 to 11.1% in 2013. In 2013, non-resident deposits comprised close to half of all deposits. In 2012, the financial regulator ruled that a bank specializing in non-resident clients was under-capitalized. Consequently, a risk-mitigation strategy is being developed to inject new, domestic private capital into the system. The November 2011 insolvency of Latvijas Krajbanka represented a regulatory failure to adequately verify the availability of liquid assets as security for non-residents. Since mid-2011, the regulator has required extra capital to be held by banks issuing a large proportion of loans to non-residents. The government has also taken steps to strengthen supervision of banking activities involving non-resident clients, for example, through the implementation of periodic liquidity stress tests.

The government is participating in EU discussions aimed at reforming European and international financial regulation. However, the government is not an agenda-setter in these discussions.

Citation:
IMF (2014), Article IV Consultation Report, Available at: http://www.imf.org/external/pubs/ft/scr/2014/cr14115.pdf, Last Assessed: 02.11.2014

South Korea

Score 5

South 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 South 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, South Korea has held bilateral negotiations on, for example, currency swap agreements with the United States, Japan and China. While South Korea follows international standards on banking regulation, like the Basel capital adequacy requirements, it is playing a little role internationally in advancing them. However, South Korea is expected to play a more active role in building the regional financial architecture for future negotiations for a Korea-China-Japan free trade area.

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

Bulgaria

Score 4

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 and the European System of Central Banks it does participate in all discussions on this matter both at the finance-minister and central-bank level. However, as one of the smaller and more insignificant financial-market centers, its role mostly consists in stating what it would like to preserve or what it disagrees with, rather than in shaping the agenda. The failure of the fourth-largest Bulgarian bank in the summer of 2014 demonstrated two important aspects of the Bulgarian financial system. On the one hand, banking supervision has suffered from serious weaknesses, as it allowed the bank to grow at an extraordinary rate for several years without monitoring the quality of its assets. On the other hand, the rest of the banking system proved extremely resilient and capable of meeting a serious liquidity test, indicating that systemic capitalization and liquidity are sufficiently high to withstand a serious stressor. The relatively swift containment of the spillover from the large bank's closure, as well as the recovery in the total amount of deposits shortly thereafter, also indicates that the public generally continues to trust the banking system as a whole.

Cyprus

Score 4

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.

Extensive provisions in the April 2013 MoU are relevant to the banking and financial sector, obligating the government to strengthen oversight laws and mechanisms, limit individual institutional and system risk, enhance transparency, and improve cooperation with international bodies and other countries.

A law on money laundering and terrorist activities (Law 188(I)/2007) was amended in 2013 to strengthen the preventive regime further, and vest the financial-sector supervisory authorities with sufficient powers to ensure compliance with the laws. In compliance with international standards and recommendations, amendments included a risk-based-approach to client identification, as well as due-diligence procedures.

Gaps in effective supervision of designated non-financial businesses and professions (DNFBPs) that existed prior to April 2013, particularly with regard to trust and company-service providers and the real-estate sector have been reviewed for remedy.

Bank-oversight mechanisms have also been enhanced so as to avoid problems common in the past, when institutions simply failed to follow rules governing large exposures, minimum capital and liquidity, taking on unsustainable levels of non-performing loans. Newly implemented measures aim at protecting depositors and minimizing systemic risks.

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, 2013,
http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Cyprus%20special%20assessment/CY_eurogroup_rep2013.pdf

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

Hungary

Score 4

Despite its frequent attacks on the financial sector, the Orbán government has not shown much interest in enacting better regulations in this area. The merger of the National Bank of Hungary (NBH) with the State Authority for the Supervision of Financial Institutions (PSZÁF) was motivated primarily by the goal of increasing the power and maneuvering room of the new NBH president, György Matolcsy, as the chief representative of Orbán's economic policy. 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. Hungary did not join the efforts to introduce a European financial-transactions tax.

Portugal

Score 4

Portugal is a peripheral country and has not sought to contribute actively to the effective regulation and supervision of the international financial architecture. While this pattern is not of recent vintage, it has if anything strengthened in the period here under analysis, as Portugal's bailout and the country's dependence on the perceived risk level assigned to its debt by international financial markets meant the government was primarily preoccupied with achieving fiscal sustainability and financial-sector stability at the domestic level.

Slovenia

Score 4

Compared to most other East-Central European countries, the degree of foreign ownership within the Slovenian financial sector is low. Like its predecessors, the Bratušek government did not contribute actively to improving the regulation and supervision of international financial markets. Instead, it focused on addressing financial problems within the Slovenian banking sector by implementing the bad-bank scheme devised by the Janša government. Established in March 2013, the Bank Assets Management Company (BAMC) has taken over non-performing loans in exchange for bonds backed by state guarantees.

Greece

Score 3

IMF data indicate that in 2013, Greece performed very poorly with regard to the share of non-performing loans to banks’ capital and to total loans. Hopefully in 2015, revived economic activity may help reduce the high percentage share of non-serviced loans in the total of loans.

Yet Greece, as an EU member state, has participated in EU-driven efforts to regulate the global economic environment. The ongoing eurozone crisis of previous years has driven the introduction of new safety valves and financial stability mechanisms. Obviously, Greece, a relatively small economy by all measures, has not taken a leading position in monitoring the global financial system.

Citation:
Information on non-performing loans drawn on SGI data available on this platform

This country report is part of the Sustainable Governance Indicators 2015 project.

Contact:

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh

Dr. Daniel Schraad-Tischler
daniel.schraad-tischler@bertelsmann-stiftung.de

Dr. Christian Kroll
christian.kroll@bertelsmann-stiftung.de