Global Financial System Report

Stabilizing Global Financial Markets

Sustainable Governance Indicators 2017

SGI Sustainable Governance Indicators

BertelsmannStiftung

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 the passage of stronger regulations and more coordinated market supervision. In terms of attitudes and action, Finland has presented itself as an agenda-setter, providing support to 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 the Europe 2020 National Program, which contains measures and national targets for achieving the goals of the Europe 2020 strategy. The program included proposals to create an effective national macroprudential supervision system. With some 200 employees, the Financial Supervisory Authority is tasked with overseeing Finland's financial and insurance sector. Operating administratively in connection with the Bank of Finland, the Authority's main objective is to facilitate the balanced operation of credit institutions and insurance and pension companies in stable financial markets. The Financial Markets Department of the Ministry of Finance creates the rules for financial markets and the framework in which markets may operate; the department is also responsible for ensuring that the Ministry of Finance's international activities remain effective.

Citation:
"Finanssimarkkinoiden makrotaloudellisten vaikutusten sääntely ja valvonta", Työryhmän muistio 32/2012, Ministry of Finance, Publications 2012;
Ministry of Finance, "Financial Markets", http://vm.fi/en/financial-markets;
Financial Supervisory Authority; http://www.finanssivalvonta.fi/en/Pages/default.aspx

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.

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.

Germany has been an early advocate of a European banking union, integrating several elements into national law (e.g., rules for bank restructuring in a crisis) before EU standards emerged. Internationally, Germany argued vigorously in favor of coordinated, international steps to reform the global financial system and to eliminate tax and regulatory havens. 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). The government remains concerned that pooling Europe's deposit insurance systems too early could result in the collectivization of bad bank debts.

Although skeptical at first, the German government ultimately revised its position regarding the implementation of an EU level financial transaction tax (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. The FTT was endangered by the withdrawal of Lithuania, Slovenia and Greece in late summer 2015. The critical number of participating countries can still be met if the Greek government recommits. While there has been limited progress, Germany and France remain the strongest proponents of an EU FTT. Now that its strongest opponent, the United Kingdom, is going to leave the EU, an FTT is more likely (Sachverständigenrat 2016: 156). However, in June 2016, while preparing for the G-20 summit in China, Finance Minister Wolfgang Schäuble (CDU) renewed demands for a global financial transaction tax. This may indicate an end to the EU FTT plans (Welt 2016).

Citation:
Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2016): Zeit für Reformen, Jahresgutachten 16/17, Sachverständigenrat: Wiesbaden. Online:
http://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2016-2017.html

Die Welt (2016): https://www.welt.de/wirtschaft/article157289464/Das-schleichende-Ende-eines-linken-Steuer-Traums.html

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 financial management fees. Another potential source of friction between the Ministry of Finance and the major commercial banks is related to political signals to force lenders to mortgage their loans and not just pay interest. The Ministry, in concert with the National Bank, is concerned about the level of household debt, suggesting that there is a growing bubble in the metropolitan real-estate markets. Reducing debt and/or phasing out the right to deduct interest payments would help reduce the likelihood of such a bubble. Although the banks do not have a commercial interest in debt reduction, they too have recently stated concerns with the high household debt levels.

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 and combat financial fraud and tax evasion (from which Belgium is a clear loser, in spite of repeated initiatives to recover revenues lost through tax evasion through banks based in countries such as Luxembourg). Belgium also actively took part in the creation of the so-called banking union in the euro area, and has sought to improve banking supervision within its borders.

Denmark

Score 8

In the wake of the global financial crisis, various banking “packages” were implemented. In the first stage, the aim was to support the liquidity and functioning of the system, and in the later stage, to ensure a smooth adjustment in the financial sector. The overall policy was guided by a principle that the state must regulate the sector, but the sector itself must cover the costs. A number of small and medium sized banks have been merged (and a few closed) as a result, but with no fiscal implications (i.e., the main principle was bail-in mechanisms).

Regulation of the financial sector is being changed in accordance with EU-rules and regulations. Financial institutions of systemic importance are subject to specific requirements. The financial supervisory authority plays an important role and has been increasingly proactive. A systemic risk council has also been appointed to monitor and survey developments in the financial sector.

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. In April 2015, while in opposition, Lars Løkke Rasmussen (the current prime minister) said that it would be in Denmark’s interest to join the Banking Union, but that he saw no urgency. There hasn’t been much debate in Denmark since 2015 about joining the Banking Union.

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).

"Løkke om bankunion: Vi skal skynde os langsomt." http://www.dr.dk/nyheder/politik/loekke-om-bankunion-vi-skal-skynde-os-langsomt

"Pyha, Bankunionen er sparket til hjørne," http://www.business.dk/finans/pyha-bankunionen-er-sparket-til-hjoerne (Accessed 23 October 2016).

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.

Estonia has also been actively involved in euro zone bailouts, but the government plays only a limited role in addressing international financial-market failures, due both to the fact that most banks are foreign-owned, and to its own neoliberal policy outlook.

France

Score 8

French governments of either political complexion are generally in favor of regulation and control of the global financial system. 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. The government is also committed to improving fiscal cooperation on information exchange, the fight against tax havens, and tax evasion. In 2016, the French parliament adopted a better system of controls and sanctions against corruption at the international level (“Loi Sapin 2”).

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 Israeli central bank assessments are cautiously optimistic, with the latter pointing to important regulatory tools that are currently being developed for future implementation.

During 2016, following the OECD’s recommendation, the government approved the creation of a new capital authority. As a result, the Department of Capital within the Finance Ministry was shuttered. The new capital authority is independent, although the finance minister oversees it. Among the new authority’s responsibilities, it is charged with ensuring the stability of the regulated financial institutions and ensuring they fulfil their obligations to their customers.

Citation:
“Financial stability report”, Bank of Israel 2014 (Hebrew).
“Israel - Economic forecast summary”, November 2014.
http://www.oecd.org/economy/israel-economic-forecast-summary.htm.

Sasson, Asa. “The government approved the creation of the new finance authority”, The Marker 13.03,16.
http://www.themarker.com/markets/1.2881163

Lithuania

Score 8

Lithuanian authorities contribute to improving financial-market regulation and supervision. Lithuania joined the euro zone and the single European banking supervisory system in 2015. 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 European Council, the European Commission, the European Systemic Risk Board’s (ESRB) Advisory Technical Committee, the European supervisory authorities, etc.). Lithuanian authorities are involved in the activities of more than 150 committees, working groups and task forces set up by the European Council, the European Commission, the ESRB’s Advisory Technical Committee and other European supervisory authorities.

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. In recent years, the Bank of Lithuania has tightened regulation of short-term lending practices to target so called fast-credit companies and attract foreign financial institutions.

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, and leads by demonstrating good practices. The set of so-called Santiago principles have established procedures for increasing transparency related to sovereign wealth funds, which has undoubtedly constrained government action in similar areas. Norway is supportive of international efforts to combat corruption, tax evasion and the like. Although the financial sector is heavily exposed to the petroleum and shipping sectors, both of which have had to navigate difficult economic times, the financial sector remains robust and stable, which is in part a result of the regulatory reforms introduced by the government.

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.

After the financial crisis of 2007 and 2008, the government introduced measures to deal with the problem of banks being "too big to fail." Though it remains unclear whether these new rules and institutions will be sufficient in the event of a major crisis, the Swiss approach numbers among the most sound and prudent systems of regulation worldwide.

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 G-20, 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, as well as 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 in transforming 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. However, 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 have been developing 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, i.e., by pushing for tougher international standards on derivatives in 2016. However, lobbying by the powerful financial services industry has weakened U.S. standards. In 2015-2016, the Republican-dominated Congress pushed legislation to more tightly control enforcement efforts by the Securities and Exchange Commission (SEC). Political deadlock maintained the legislative status quo through 2016.

Australia

Score 7

After the financial crisis of 1989 to 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. In 2014, the Abbott government commissioned 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 final report was released in December 2014, making 44 recommendations relating to the Australian financial system. The coalition government was slow to react to the report, but began implementing the recommendations following Malcolm Turnbull's ascension to the prime minister's office. Measures have included an increase in banks' capital-adequacy requirements. According to government estimates, the four big banks need an additional 40 billion AUD in fresh capital. Any potential rise in interest rates poses significant risk to private borrowers: 80% of real-estate lending has used variable rates, and real-estate credit constitutes between 40% and 60% of the four large banks' credit portfolios.

Australia has also accumulated a high level of net foreign debt, currently totaling 1.06 billion AUD. While this high level of debt is a risk to Australia's financial stability, Australian governments have not addressed this issue, arguing that it reflects the decisions of the private sector (including households). In 2016, household debt was 125% of GDP, the second-highest in the OECD after the Netherlands.

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:
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.

Financial System Inquiry Final Report, December 2014: http://fsi.gov.au/publications/final-report/

The Economist, Like a shag on a rock, 16.5.2015, S. 63.

https://data.oecd.org/hha/household-debt.htm#indicator-chart

Austria

Score 7

As a 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. Therefore, 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. This led to the decision to essentially abolish banking secrecy, for which Austria was long known.

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 introduce such a tax, but actual implementation remains uncertain.

Italy

Score 7

The government and other public financial institutions such as the Bank of Italy have been generally 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 collective working style within the framework of EU and G8 institutions rather than embarking on uncoordinated, but highly visible initiatives. However, the government has occasionally failed to fully understand the implications for the economy and banking sector of introducing new regulations.

Malta

Score 7

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 Central Bank of Malta, the Malta Financial Services Authority (MFSA) and the Ministry of Finance collaborate closely with similar bodies abroad. Since 2014, the MFSA operates under the supervision of the European central bank. Maltese banking regulations are highly influenced by supranational regulatory regimes, and the 2014 bank recovery and resolution directive was made into law in 2015. In the same year the central bank introduced the concept of a central credit register, and under the recent CBM directive 2016, are required to report any exposure exceeding 5000 euros.

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. Although the FIAU forms part of the Ministry for Finance, the unit functions autonomously and has a separate judicial personality. Throughout its years of operation, the FIAU has signed 14 MoUs with other FIAUs, most recently in 2015 with Panama. Moreover, the Economic Crimes Unit and the National Counterfeit Unit within the Maltese Police Force are responsible for the investigation of criminal activities related to forgery, embezzlement and counterfeit currency.

The Malta Competition and Consumer Affairs Authority is also active in strengthening consumer rights and protections.

Citation:
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http://www.fiumalta.org/about
http://www.pulizija.gov.mt/en-us/economiccrimesunit.aspx
http://mccaa.org.mt/
Malta Banking Regulations 2016 globallegalinsights.com
Financial Intelligence Analysis Unit Annual Report 2015

Netherlands

Score 7

The Intervention Bill, which came into effect in June 2012, includes new powers for the Netherlands' central bank and minister of finance. The bill grants the former the power to oversee the transferal of a bank or life-insurance company experiencing serious financial difficulty to a third party and grants the latter the authority to intervene in the affairs of financial institutions in order to maintain systemic stability. As a result, the capital ratio of the four largest Dutch banks has gradually moved toward compliance with the new European capitalization requirements. Following a parliamentary inquiry into the country's handling of the banking crisis, the Center for Economic Policy Analysis now annually produces a risk report on financial markets. 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 has no longer been formally represented within 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 authority 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 toward international affairs, as exemplified by a no-vote in the 2016 Ukraine referendum, the Dutch should be regarded more as reluctant followers than as proactive initiators or agenda setters. In addition, the government has been hesitating to deal with gross inequalities in the fiscal treatment of foreign and domestic capital. This may indicate a return to a financial policy agenda driven more by national interests than by broader concern with global financial safety.

Citation:
CPB Risicorapportage Financiële Markten 2016. Uitgevoerd op verzoek van de Tweede Kamer. CPB Notitie 30 mei 2016

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.

"Fiscus gaf Starbucks teveel voordeel", in NRC-Handelsblad, 21 October 2015

"Nederland is hier grootmacht in", NRC-Handelsblad, 28 October 2015

Slovakia

Score 7

During the Slovak EU presidency in the second half of 2016, the Fico government actively sought to improve the regulation and supervision of international financial markets. Slovakia has been supporting the international regulation of financial markets, including the creation of a banking union and implementing all European Union directives regarding supervision of financial markets as well as the establishment of the European Fund for Strategic Investments. Slovakia supports also the transparency of tax systems in order to enhance investment activities and the monitoring of cross-border financial flows both within Europe and globally. However, like many other activities, these efforts are limited by the size of Slovakia's economy.

Spain

Score 7

Though aware of its limitations as only a medium-sized power and indebted economy, Spain behaves as an important partner in international forums and tries to contribute actively to improving the regulation and supervision of financial markets. This participation has been given weight by its role as one of the countries hit particularly hard by the global economic crisis and the financial instability lasting from 2008 to 2013. It participates in the G-20 meetings as a "permanent guest," and sits on the Financial Stability Board. It is also part of the IMF system (with 1.94% 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 such as the International Bank for Reconstruction and Development (IBRD) and the International Development Agency (IDA), which offer loans to developing countries). It has also been engaged within the OECD in the fight against tax havens, with a particular focus on its neighboring territories of Andorra and Gibraltar. In 2015, Spain also announced its participation in the Asian Infrastructure Investment Bank project promoted by the Chinese government. At the European regional level, Spain is a member of the European Union and is the fourth most important state within the euro zone. It has pushed hard in recent years for a banking union and for the European Central Bank to take a more active role in strengthening the single European currency. It has also sought to strengthen regulation of rating agencies. Within the private sector, the Madrid stock exchange plays an influential role, while Banco Bilbao Vizcaya Argentaria (BBVA) and Santander are very important international banks.

Citation:
IMF Members' Quotas and Voting Power, and IMF Board of Governors
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Spanish contribution to the debate on the Economic and Monetary Union Governance, June 2015. www.realinstitutoelcano.org/wps/wcm/connect/2e5c958048999ee1be41befc4b6f1e4a/contribucion-espana-debate-gobernanza-union-economica-monetaria.pdf?MOD=AJPERES&CACHEID=2e5c958048999ee1be41befc4b6f1e4a

Turkey

Score 7

Turkey has actively contributed to the G-20's work. On 1 December 2014, Turkey assumed the G-20 presidency and its priorities included ensuring global economic and financial stability; reforming the global economic system by reflecting the increasing weight of emerging economies; achieving inclusive and robust economic growth; and addressing problems related to trade, logistics, small and medium sized enterprises (SMEs), employment, strengthening gender equality in employment, security, climate change and migration. Turkey hosted the Leaders' Summit in Antalya on 15-16 November 2015. During Turkey's G-20 presidency, the G-20 agreed to reduce youth unemployment by a target of 15% by 2025, adopted a set of policy recommendations to reduce inequality and established Women-20 (W20) as a stand-alone engagement group to promote gender-inclusive economic growth. As G-20 president, Turkey focused on taking steps towards creating inclusive economic growth globally. To this end, G-20 leaders adopted a framework in Antalya to strengthen the dialogue between G-20 and low-income developing countries. The Turkish G-20 presidency brought issues related to global peace and security to the agenda as they relate closely to achieving sustainable and inclusive economic growth.

United Kingdom

Score 7

The City of London is home to one of the world's main financial hubs. Consequently, governments in the United Kingdom have traditionally tried to protect the interests of the City of London against more intrusive regulation whether national, European or global. Governments have often argued 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, contributed to a reduction in public support for the financial sector and increased public pressure for tighter financial regulation.

At the international level, successive governments have taken a prominent role in attempts to improve the international regulatory framework through international bodies, such as the Financial Stability Board (chaired by the governor of the Bank of England) and the Bank for International Settlements, as well as through the prominent role of the Bank Governor in the European Systemic Risk Board. 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.

The outcome of the Brexit referendum has created some uncertainty about UK positions on financial regulation.

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. During the world economic and financial crisis, the government applied an austerity policy and engaged in a responsible budgeting policy mandating a 1% structural surplus, largely shielding itself from crisis effects. 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 the European Central Bank (ECB).

Ireland received only marginal relief on the debt burden it incurred to avert a European-wide banking crisis in 2008. However, in September 2014, euro zone finance ministers agreed to allow Ireland to refinance its debt based on its dramatically improved credit rating. This enabled 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%.

From evidence presented at the public hearings of the Oireachtas Banking Inquiry in 2015 and published in the Committee of Inquiry into the Banking Crisis's Banking Inquiry Report 2016, it is clear that the ECB pressured Irish authorities not to "bail in" the bondholders of Irish banks that had failed. 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 contended in the report 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. Jean Claude Trichet, the then president of the ECB, refused to give direct evidence to the Inquiry on the grounds that the ECB is accountable to the European Parliament and not to national parliaments. He did, however, take questions from members of the Inquiry and defended his 2008 actions at a public lecture he delivered in Dublin in April 2015.

Citation:
Committee of Inquiry into the Banking Crisis (Banking Inquiry Report), January 2016.
Donal Donovan and Antoin E. Murphy The Fall of the Celtic Tiger Ireland and the Euro Debt Crisis (Oxford University Press, 2013; paperback 2014)
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

Japan

Score 6

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.

As host of the 2016 G-7 meeting, Japan had an opportunity to set the agenda. However, the global financial architecture has not been a high-priority issue for Japan. Rather, the prime minister used the meeting to push his domestic political agenda by drawing an alarmist picture of the global economy, in attempts to legitimize the decision taken a few days later to postpone the increase of the consumption tax.

On the regional and plurilateral level, Japan’s influence was somewhat eclipsed by China, as China is heavily involved in creating a number of new international financial institutions such as the (BRICS) New Development Bank and the BRICS Reserve Contingency Arrangement. Unlike dozens of other nations, Japan also chose not to join the new Asian Infrastructure Investment Bank (AIIB) initiated by China, and will thus be unable to play a role in the bank’s governance, which will also make it more difficult to wield influence on the emerging new system for infrastructure investment in Eurasia.

Citation:
Ayako Mie, AIIB holdout Japan risks missing out on the infrastructure contracts it seeks, The Japan Times, 22 September 2016, http://www.japantimes.co.jp/news/2016/09/22/national/politics-diplomacy/aiib-holdout-japan-risks-missing-infrastructure-contracts-seeks/

Latvia

Score 6

The volume of bank deposits made by non-residents continues to represent a systemic risk. In the last quarter of 2015, non-resident deposits comprised 53.5% of all deposits, while 9.2% of all deposits originated in either Russia or another CIS country. Following a 2012 regulatory determination that a particular bank specializing in non-resident clients was undercapitalized, a risk-mitigation strategy was 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. As of November 2014, banking supervision responsibilities have been shared between the Latvian regulatory agency and the ECB Single Supervisory Mechanism. In 2014, the three biggest banks in Latvia –including two local subsidiaries of Swedish banks (Swedbank and SEB) and one that largely holds non-resident deposits (ABLV) – passed the ECB’s stress test of bank capitalization across Europe. One of the biggest banks in Latvia with a significant non-resident deposit portfolio- the government missed its budget balance target approved in the budget law, Akciju sabiedriba ”Rietumu Banka,” is currently subject to an initial comprehensive assessment by the European Central Bank, including an asset quality review and a stress test.

Citation:
IMF (2014), Article IV Consultation Report, Available at: https://www.imf.org/external/pubs/ft/scr/2015/cr15110.pdf, Last Assessed: 22.11.2015

LSM (2014), ECB says Latvia’s big three banks meet ‘stress test’ standard. http://www.lsm.lv/en/article/economics/economy/ecb-says-latvias-big-three-banks-meet-stress-test-standard.a103889/ Last accessed: 13.12.2015

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.
Luxembourg performed relatively well in the global financial crisis. After saving Dexia and Fortis, two domestically important banks, tax revenues have begun to rise again in recent years. But as a small country, Luxembourg's economy remains strongly influenced by the general economic climate and international trends.
Luxembourg is a major financial center, with the banking and financial services industry, directly and indirectly contributing an estimated 30% or more to GDP. 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 that period.

In the Index of Economic Freedom 2016, Luxembourg dropped three places and is ranked 19 out of 178 countries. In the World Bank's Doing Business 2016 report, Luxembourg ranked 61 out of 190 countries, behind Greece (60) and far behind Belgium (43), France (27) and Germany (15). Reflected in these rankings is the perception that Luxembourg has difficulties in encouraging start-ups and creating new professions. After dropping two places in 2015, Luxembourg climbed two places in the 2016 Global Financial Centers Index and ranked 12 out 87 global financial centers, Europe's third most important financial center after London and Zurich.

Citation:
"2014 Report: Helping Firms Grow." European Commission, ec.europa.eu/growth/industry/competitiveness/reports/eu-competitiveness-report_en. Accessed 21 Feb. 2017.

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—. "Kristallkugel." Land.lu, 2 Dec. 2011, www.land.lu/2011/12/02/kristallkugel/. Accessed 21 Feb. 2017.

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Mexico

Score 6

Given its experience with severe financial crises, Mexican governments over the last two decades have been keen to improve the regulation of the domestic financial sector. As a consequence, domestic financial regulation improved substantially, though it remains far from optimal. Mexican governments have also embraced an international effort to halt financial flows related to 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 currently 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, constraining domestic economic growth.

The government has also more actively participated in international trade negotiations in an attempt to diversify the Mexican economy and reduce its dependence on the United States. While the government has had some success in this respect, the Mexican economy remains heavily dependent on its northern neighbor, an issue that is seen as increasingly problematic because of the rhetoric of the incoming Trump administration.

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. The Inland Revenue department's audit activities focus on cases in which multinationals appear to be avoiding taxes. In May 2016, it was announced that New Zealand had joined an OECD initiative to allow all participating tax jurisdictions to exchange information on the economic activity of multinational corporations among participating countries. However, New Zealand is too small a player in the international arena to contribute proactively 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.

Citation:
NZ joins country-by-country reporting. Tax Policy – Inland Revenue. 18 May 2016 (http://taxpolicy.ird.govt.nz/news/2016-05-18-nz-joins-country-country-reporting) (accessed September 17, 2016).

Poland

Score 6

Poland has not been an agenda-setter with regard to the regulation of international financial markets and this is not expected to change with the current government. Poland’s previous PO-PSL government supported the idea of a financial-transaction tax, but opposed that of an EU banking union. Poland’s financial sector has remained stable despite rapid expansion, as various stress tests have demonstrated. A new act on macroprudential supervision over the financial system went into effect in November 2015 that widens the mandate of the Financial Stability Committee.

Romania

Score 6

Romania has participated in the EU and other international fora, but has not been very active on the international scene. Ongoing regulatory reform has improved the functioning of domestic financial markets.

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. While the Sobotka government made a turn from the eurosceptic policy of previous governments toward a more mainstream view of EU economic policy, neither the Ministry of Finance nor the Czech National Bank have come out in favor of an accession to the EU Banking Union. Both fear that such an accession would restrict national competencies and lead foreign-owned banks to take deposits from their Czech branches to cover losses elsewhere. The Sobotka government has also avoided formulating an explicit deadline for entering the European Monetary Union.

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, framework. However, the government has taken significant steps to address the extreme instability in the domestic financial system.

First, the government in office during 2009-2013 significantly strengthened the Financial Supervisory Authority (FME) and established a Special Prosecutor's Office. The Special Prosecutor's Office was charged with investigating legal violations related to the financial crash, including breach of trust, insider trading, market manipulation and false reporting. By late 2016, the Special Prosecutor had referred about 80 cases to court involving about 200 individuals. By late 2016, following significant delays, the Supreme Court had sentenced 34 individuals to a combined total of 87 years in prison for offense relating to the economic collapse. The Supreme Court has yet to hear a number of related cases. The Special Prosecutor's Office was merged with the District Prosecutor´s Office at the end of 2015 under the directorship of the former Special Prosecutor.

The government has sought to strengthen financial supervision by encouraging the FME to impose tougher standards. For example, prior to the crash, banks commonly provided loans without collateral, but this practice has since stopped. It was common practice to extend loans to well-connected customers to purchase equities, with the equities themselves as sole collateral. Presumably, this is no longer being done. However, other practices have not ceased. For example, banks continue to be accused of acting in a discriminatory and nontransparent manner with some customers allowed to write off large debts, while others are not, without appropriate justification for discriminating among customers. A number of Iceland's most prominent business figures avoided bankruptcy following the crash because banks annulled their losses. Under new management, since the proactive director of the FME was replaced in 2012, the FME lacks strong and clear leadership. The FME has once again adopted a passive, non-intrusive strategic approach. According to a February 2016 poll, conducted by opinion research firm Capacent, the banks are the least trusted institution in Iceland. Only 12% of respondents expressed confidence in the banks, compared with 17% confidence in the parliament, and 22% confidence in the FME.

The present government has yet to propose 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 ownership as well as between foreign and domestic ownership. Foreign competition in the banking sector remains absent, offering huge monopoly rents to bank owners, a unique feature of Icelandic banking which helps explain why bank ownership is so coveted among Iceland´s clan-based business elite.

Citation:
Capacent (2016). https://datamarket.com/is/data/set/1wb6/traust-til-stofnana-skv-thjodarpulsi-capacent#!ds=1wb6!1xyh=1.9.5.g.b.2.6.3.c&display=line.

South Korea

Score 5

South Korea is a member of the G-20, and was also one of the biggest winners in the 2010 IMF and World Bank voting-process reform. However, South Korea has to date played only a very minor role in shaping the global financial architecture. Instead it has largely used self-help policies such as 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 currency-swap agreements with the United States, Japan and China, for example. While South Korea follows international banking-regulation standards such as the Basel capital-adequacy requirements, it has played little part in advancing them internationally. The Park Geun-hye administration demonstrated little interest in playing a global role; instead, it refocused on traditional Korean priorities relating to North Korea and the four major regional powers of China, Japan, Russia and the United States. For example, the administration suspended the process of privatizing the Korea Development Bank (KDB), and instead decided that the institution should revert to its original policy-finance-centered mission.

Bulgaria

Score 4

As a member of the European Union and the European System of Central Banks, Bulgaria participates in the discussions on the regulation of international financial markets. However, the country has not been among the proactive promoters of changes, even though the 2014 banking crisis in Bulgaria has somewhat increased interest in the issue. While the failure of the fourth-largest Bulgarian bank in the summer of 2014 was contained relatively swiftly and did not spill over to other banks, it exposed serious weaknesses in Bulgaria’s bank supervision mechanisms.

Croatia

Score 4

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. Risks to financial stability have been reduced following the return to economic growth. In addition, the number of non-performing loans has been falling, reaching 15% of all loans, the lowest level since 2013. Access to loans for SMEs has improved following the introduction of measures related to crowd-sourcing and venture capital funds.

The accession of Croatia to the EU has brought greater integration of the financial system. The EU’s single passport system for financial institutions allows banks regulated by their home country authority to set up branches in Croatia. Previously, foreign banks were only allowed to establish subsidiaries under the regulatory supervision of the Croatian National Bank. With the passing of domestic regulatory authority from the Croatian National Bank to that of the foreign banks’ home country, an important protection for the Croatian financial system is removed. This raises the vulnerability of the Croatian financial system and increases the risk of cross-border contagion in the event of a new financial crisis. As yet, the establishment of foreign bank branches in Croatia has been limited, but this factor is a potential risk to future financial stability.

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 system. 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 private and state-owned companies have been linked to money laundering activities. The Anti-Money-Laundering Office is understaffed and the rate of convictions for money-laundering offenses remains relatively low.

Citation:
Croatian National Bank (2017): Financial Stability No. 18. Zagreb (https://www.hnb.hr/documents/20182/1972383/e-fs-18-2017.pdf/c738405d-b8b7-4e6f-9819-2e0f72e39715)

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. A regulatory framework assigns bodies with specific tasks, such as the Securities and Exchange Commission and the Unit for Combating Money Laundering (MOKAS). 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 and 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.

The IMF has insisted (2015) that Cyprus implement further reforms to strengthen banking- and financial-sector oversight under provisions of the 2013 MoU.

Specifically, rules should seek to limit individual, institutional and systemic risks; enhance transparency; and improve international cooperation.

A recent amendment to laws on money laundering and terrorist activities aimed at aligning them with EU directives, by further strengthening the preventive regime, enhancing the powers of financial-sector supervisory authorities to ensure legal compliance and seizing property acquired by unlawful activities. 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. Measures implemented since 2014 aim at protecting depositors and minimizing systemic risks.

Citation:
1. Unit against money laundering, Cyprus
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2. Comprehensive information on anti-money laundering in Cyprus, http://www.anti-moneylaundering.org/europe/cyprus.aspx

Hungary

Score 4

The Hungarian contribution to stabilizing global financial markets is not very considerable. Being neither a member of the Euro group nor a big lender, Hungary's role on the international financial markets is limited. In the period under review, non-performing loans in Hungarian banks' portfolios were cut back. At the same time, the risks on the books of the National Bank of Hungary (NBH) have increased. Big financial scandals as the collapse of Quaestor and Budacash Funds have shown that the NBH has been unable to perform its financial supervisory function. The reputation of the NBH has also suffered from the involvement of its governor György Matolcsy in various scandals.

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 recent, it has intensified following the recent bank bailout. The risk associated to the country's high level of public debt has led the government to overwhelmingly focus on achieving fiscal sustainability and financial stability. In addition, the Costa government has sought to play a bigger role in contributing to EU debates on regulation.

Slovenia

Score 4

Compared to most other East-Central European countries, the degree of foreign ownership within the Slovenian financial sector has remained low. Like its predecessors, the Cerar government has not contributed actively to improving the regulation and supervision of international financial markets. Instead, it has 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

Greece, a rather small European economy which is still in the midst of a crisis of its own, is not in a position to take initiatives to monitor the global economic environment. In its capacity as an EU member state, Greece has participated in EU-driven efforts to regulate the global economic environment. Greece has also argued in European forums in favor of a more regulated system of financial markets.

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