Global Financial System Report

Stabilizing Global Financial Markets

Sustainable Governance Indicators 2020

SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Stabilizing Global Financial System

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. The former Bank of Canada Governor and current government of the Bank of England, Mark Carney, 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. According to a report by the International Monetary Fund in December 2017, Finland’s banking system is well-capitalized. Though the report also noted that the relocation of the headquarter of the Nordea Group from Stockholm to Helsinki will more than triple the size of bank assets under supervision. Also, while low interest rates have squeezed net interest income, banks have increased income from trading and insurance. Importantly, Denmark, Finland, Norway and Sweden all have sound financial systems that have withstood the impact of the European financial crisis. 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 includes 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. 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;
imf./org/en/Publications/CR/issues/2016/12/31/Finland-Financial-System-Assessment-44437;
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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 was been an early advocate of the 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 was 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 operated by state-owned savings banks (Sparkassen). The government remains concerned that pooling Europe's deposit-insurance systems through the envisaged European Deposit Insurance Scheme (EDIS) too early could result in the collectivization of southern European banks' risky loan portfolios and excessive sovereign-debt exposure. However, during the period under review, the German government agreed to start negotiations on EDIS, which was generally welcomed as signaling a willingness to search for a compromise.

Although skeptical at first, the German government ultimately revised its position regarding the implementation of an EU-level financial-transaction tax (FTT). In 2019, Germany's Finance Minister Olaf Scholz proposed draft legislation that would introduce a FTT on stock transactions as a joint initiative of 10 EU member states.

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 large commercial banks has been noticeable over the past couple of years. This discord has related to the banks' high profit levels and their insistence on giving their staff huge bonuses while charging high financial management fees. The government announced in August 2019 that it intends to levy a special tax on the commercial banks of SEK 5 billion per annum, starting in 2022. The government argues that this tax will help fund an increase in defense spending.

Another potential source of friction between the finance ministry and major commercial banks relates to political signals, and subsequent reforms, to force lenders to mortgage their loans rather than 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 per se, they have also recently expressed concerns regarding 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

Belgian banks suffered extensively during the global financial and economic crisis, and the Belgian government was more proactive than many of its European peers in restructuring banks. Yet Belgium is clearly too small to be able 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 has 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 using banks based in countries such as Luxembourg). Belgium also took an active part in the creation of the so-called banking union in the euro zone, and has sought to improve banking supervision within its borders. Various scandals such as the Panama and Paradise papers press leaks have also given new impetus to the government's efforts to improve banking transparency. Indeed, some Belgian investigative journalists were instrumental in these projects, working alongside peers from other countries. In October 2018, Belgium's judiciary was granted comprehensive access to citizens' financial records. The purpose is to improve the fight against financial criminal activities, as investigators previously could only access citizens' financial information through the banks and credit institutions.

Citation:
http://plus.lesoir.be/118686/article/2017-10-11/panama-papers-les-socialistes-maintiennent-la-pression
http://plus.lesoir.be/123189/article/2017-11-08/paradise-papers-meme-letat-belge-senvole-aux-iles-vierges#123186
https://www.lecho.be/economie-politique/belgique/federal/la-justice-aura-desormais-acces-a-toutes-les-pistes-financieres/10064659.html

Denmark

Score 8

In recent years, regulation of the financial sector has been changed in accordance with EU rules and regulations to increase financial sector resilience, and reduce the risk exposure and likelihood of a public bail-out of financial institutions. Systemically important financial institutions are subject to specific requirements. The financial supervisory authority plays an important role and has been increasingly proactive. A systemic risk council monitors and surveys developments in the financial sector.

An open question is whether Denmark should participate in the European banking union in which case the larger (systemic) financial institutions will fall under the supervision of the European Central Bank (ECB). The previous government's view was that Denmark should join the banking union, but the leader of the Social Democrats, Mette Frederiksen, suggested that a referendum on the issue should take place. A promise that has been reaffirmed by the new government led by Prime Minister Mette Frederiksen.

The credibility of financial institutions has deteriorated as a result of an aggressive interpretation of tax rules and the whitewashing of money (e.g., the Danske Bank scandal in Estonia).

Citation:
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“Frederiksen lover folkeafstemning før dansk deltagelse i EU’s bankunion,” https://jyllands-posten.dk/politik/ECE11692741/frederiksen-lover-folkeafstemning-foer-dansk-deltagelse-i-eus-bankunion/ (Accessed 22 October 2019).

Estonia

Score 8

Estonia actively participates in developing and securing financial stability and transparency in global financial markets. Estonia is a member of the Council of Europe’s MONEYVAL monitoring body. Several domestic bodies have been established to combat money laundering, such as the Governmental Committee for the Coordination of Money Laundering Prevention, the Financial Intelligence Unit (FIU) and the Estonian Financial Supervision Authority (FSA). The FIU is an independent unit of the Estonian Police and Border Guard Board, and the FSA is an independent body that supervises all financial sector participants. In recent years, the FSA has had a prominent role in combating money laundering in the Estonian financial sector. After evidence of money-laundering involving the Estonian branch of Danske Bank emerged, the FSA ordered Danske Bank to close its Estonian branch in fall 2019. Because of the Danske case, which has also implicated Estonia’s largest bank, Swedbank, the Estonian government introduced several measures to prevent similar cases in the future. One of the government’s key policy proposals is to make bank clients fully responsible for proving the legality of their funds. In cases of suspected money laundering or terrorist financing, the FIU analyzes and verifies information, taking measures where necessary and forwarding materials to the competent authorities upon detection of a criminal offense. The Anti-Money Laundering and Terrorist Financing Prevention Act was amended in 2017 and further changes are being planned.

France

Score 8

French governments of either political complexion have generally been in favor of regulation and control of the global financial system. They have been active internationally and at the EU level in supporting better international banking regulations. They 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). They have also pushed for the creation of a banking supervision mechanism at the EU level. The Hollande and Macron governments have been or are 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 penalization to tackle corruption at the international level ("Loi Sapin 2"), and Macron has actively pushed at the EU level for higher and fairer taxation of multinational companies working in the information technology sector (the so-called GAFA tax, named after Google, Apple, Facebook and Amazon). Following the failure of this initiative, the French parliament adopted its own levy applicable to the large companies, which in turn triggered a fierce response from the Trump administration. During the Biarritz G-7 summit, France said it would abolish this tax once an agreement had been reached at the OECD level.

Israel

Score 8

Israel has several regulatory institutions tasked with supervising financial markets. The most prominent include the Israel Securities Authority (ISA) and the Israel Antitrust Authority. Recent challenges tackled by the ISA include banning binary options trading, the establishment of a committee to study the regulation of cryptocurrencies, and an investigation into a local telecommunications giant – Bezeq (known as "case 4,000"). These institutions are responsible for ensuring market stability and fair competition. In the aftermath of the global financial crisis, different government organizations worked to limit 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 have been formed to investigate structural reforms and submit policy recommendations. Both OECD and central bank assessments have been cautiously optimistic, with the latter pointing to important regulatory tools that are currently being developed for future implementation.

In 2016, following OECD recommendations, the government approved the creation of a new capital authority. The Department of Capital in the Ministry of Finance has been shuttered, and a new, independent authority put in its place, although the finance minister still oversees this body. Among its fields of responsibility, the new authority is in charge of ensuring the stability of regulated financial institutions and making sure they fulfill their obligations to their customers. According to the 2017 annual report of the authority, it supervises approximately ILS 1.5 trillion in funds and 2,000 finance services providers, and led to many changes in the financial regulatory regime, including the assignment of protected bonds to retired citizens, the return of surplus savings from the national car accident victims fund to insurance-holding car-owners, and tighter controls on money laundering and financing terrorism. In November 2019, Israel decided to establish a mechanism to oversee foreign investments, especially Chinese investments.

Israel's Consumer Protection and Fair Trade Authority participates in various international forums to enhance cooperation and information transparency between Israel and other countries or economic organizations. According to the authority, most countries share similar practices with Israel, which facilitates information sharing and cooperation. For example, Israel is a member of the OECD Committee on Consumer Policy, which publishes guidelines and recommendations on consumer policy in the OECD. Israel has adopted many of these recommendations. Israel is also one of 60 countries that participate in the International Consumer Protection and Enforcement Network (ICPEN). ICPEN is responsible for research and analysis on consumption, facilitates the exchange of information, develops guidelines, and is involved in economic law enforcement activities as part of this network.

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Lithuania

Score 8

Lithuanian authorities contribute to improving financial-market regulation and supervision. Lithuania joined the euro area 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 setup by the European Council, the European Commission, the ESRB's Advisory Technical Committee and other European supervisory authorities. Lithuanian authorities support inclusive euro zone decision-making, which includes EU members that are not members of the euro area, as well as further completion of the banking union.

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 EU'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. At the same time, the Bank of Lithuania has attempted to attract fintech companies to Lithuania in the context of the United Kingdom leaving the EU. This would increase competition in a banking sector heavily dominated by Nordic banks, where the largest three make up 86% of the total banking sector. Lithuania is regarded as having one of the world's most highly developed fintech-sector regulatory frameworks. Recently, the Bank of Lithuania initiated debates on making Lithuania a center of excellence for anti-money laundering activities. MONEYVAL assessed the bank in early 2019 as a supervisor that proactively implements anti-money-laundering measures.

Citation:
The Bank of Lithuania, February 11, 2019: https://www.lb.lt/en/news/bank-of-lithuania-acknowledged-as-a-supervisor-that-proactively-implements-anti-money-laundering-measures

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 contributed to set standards of good international financial governance and corporate governance. The fund itself has been a 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, and it has recently promoted initiatives such as disclosure of financial risks related to carbon emissions, and supported efforts to compel companies to report on the impact of their activities on the SDGs, ocean health and secure sound water management. In its financial regulatory policies, Norway is part of the European Union's internal market, and complies with EU rules and regulations. 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. The fund also supported the G-20-based initiative of carbon risk financial disclosure and joined a working group to explore how sovereign wealth funds can contribute to the achievement of Paris Agreement targets.

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. 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 regulatory bodies in the United Kingdom, United States and 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.
During the review period, Switzerland proved very active in regulating new financial technologies (distributed-ledger technologies).

Citation:
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Austria

Score 7

As a member of the European Union, Austria's economy is closely linked to the other members of the European 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 – under the former government – had 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 a financial transaction tax. However, under the former government, Austria obstructed rather than promoted progress in the implementation of this new tax. Indeed, a statement issued by the Ministry of Finance in 2019 indicated that Austria would completely withdraw from all transaction tax plans.

More generally, Austria does not play a specific role within the European Union's Economic and Monetary Union. Austria follows the general trends as defined by the global economy, and the European Central Bank and other EU institutions.

The implosion of the previous coalition and the summer 2019 electoral campaign produced the expected results. General promises concerning the tax system (e.g., the introduction of a transaction tax or – as a consequence of the debate regarding climate change – new forms of taxes on CO2 emissions) cannot be adopted before a new government can be formed. The new government will likely be an ÖVP-led government with a new coalition partner, possibly the Greens. This would allow the government majority to transform campaign pledges into legislation.

Latvia

Score 7

The volume of bank deposits made by non-residents has presented a systemic risk to the Latvian financial system. However, this risk is declining. The share of non-resident deposits to total deposits shrank from 53.4% in 2015 to 42.8% in 2016 and continued to fall in 2017 as Latvia's membership in the OECD and new international banking regulations saw Latvia's regulators and banks tighten their anti-money laundering practices. Latvia was lauded for this in an annual report from the OECD. Non-resident deposits in Latvian banks dropped further to 19.5% in September 2019. Latvia's banking system is increasingly interconnected with the Nordic and Baltic regional system, requiring increased collaboration to address Nordic parent bank vulnerabilities and their spillover effects. Overall, despite the suspension of activities of Latvia's third-largest bank following allegations of money laundering, the banking system remains stable, well capitalized and liquid – with capital levels 40% higher than the euro zone average and average liquidity coverage four times the regulatory minimum.

In addition, Latvia adopted a National Risk Assessment for money laundering and terrorist financing in 2017, articulating an understanding of the vulnerabilities and risks that the country faces. In 2018 and 2019, further steps were also taken to implement MONEYVAL recommendations.

However, the absence of a robust risk assessment (e.g., which would address confusion between unusual and suspicious transaction reports) for terrorist financing still represents a key deficiency in the effective supervision of international financial security. Furthermore, there is a lack of clarity in the legal system regarding targeted financial sanctions. With the exception of the Financial Capital Market Commission, Latvia's supervisory authorities are not active in international cooperation regarding money laundering and terrorist financing.

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3. IMF (2018), Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Latvia, Available at: https://www.imf.org/en/Publications/CR/Issues/2018/09/05/Republic-of-Latvia-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-46206, Last assessed: 11.11.2019.

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Netherlands

Score 7

The Netherlands is slowly but surely losing its position in the important bodies that together shape the global financial architecture. In EU policymaking in the past, the Dutch tended to agree with the UK position in principle, but follow the German position in practice. After all, as a small but internationally significant export economy, the Dutch have a substantial interest in a sound international financial and legal architecture. However, given the wave of political skepticism toward international affairs, as exemplified by no-votes in the EU constitution and the 2016 Ukraine referendums, the Dutch have until recently been regarded more as reluctant followers than as proactive initiators or agenda setters. However, threatened now by inegalitarian American-style capitalism and Chinese post-totalitarian state capitalism, the EU has become increasingly important to its member states' political self-defense. In 2019, Dutch policymakers too rather suddenly adopted this stance, although its translation into policy initiatives has remained slow and somewhat hesitant. Nevertheless, after a decade or so, they finally seem ready to support a stronger Europe.

Recent statements by Prime Minister Rutte (Conservative Liberal, VVD) regarding Macron's plans for revitalizing the EU project clearly signal increased rapprochement with the French. Minister of Development and Trade Sigrid Kaag (Liberal Democrat, D66) has openly called for a stronger, more unified EU. The center-right Dutch government openly supported Frans Timmermans' (Labor Party) failed bid to succeed Jean-Claude Juncker as chair of the European Commission.

And even Finance Minister Wopke Hoekstra (Christian Democrat, CDA) has publically advocates for stronger EU, although one under German leadership. Nevertheless, even now that the European Court has ruled that the Netherlands ought to reduce opportunities for international tax evasion, Hoekstra has been reluctant to deal with gross inequalities in the fiscal treatment of foreign and domestic capital. In addition, he has ignored an advisory report by the Scientific Council of Government Policy (WRR) opining that the Dutch government did not intervene strongly enough after the financial crisis of 2008, and that it should now create a public savings bank and foster more competitiveness in the sector overall.

Citation:
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Slovakia

Score 7

As a small country, Slovakia has very limited capacity to influence the regulation or supervision of the global financial markets. However, Slovakia has been a member of the euro zone since 2009 and 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.

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. Spain is a permanent invited guest to G-20 meetings, 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%). Spain has also been engaged within the OECD in the fight against tax havens, with a particular focus on Andorra and Gibraltar. 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.

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.

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.

Continued uncertainty regarding future relations between the United Kingdom and the European Union could affect the United Kingdom's stance on global financial regulation, although the expectation is that UK financial regulation will remain closely aligned with European Union and international standards.

The European Banking Agency has moved from London to Paris which could have ramifications for the United Kingdom's proximity to centers of decision-making.

Australia

Score 6

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. To that end, the government has information-sharing arrangements with a number of countries. However, Australia is a relatively small player in international finance and has a limited ability to shape the regulatory process within multilateral institutions.

Prudential supervision of Australian banks and other financial institutions is generally of high quality. Indeed, reflecting the country's 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 report made 44 recommendations, a number of which were implemented by the subsequent Turnbull government, including an increase in banks' capital adequacy requirements. According to government estimates, the four largest banks needed an additional AUD 40 billion in fresh capital. Additionally, the 2017 budget introduced a "major bank" levy on banks with over AUD 100 billion in total liabilities, thus applying to the country's five largest banks beginning on 1 July 2017. The levy rate is set at 0.015% of the balance of a bank's total liabilities (but with a number of exclusions), and raises approximately AUD 1.6 billion per annum.

While Australian banks appear to be stable, they have substantial exposure to real-estate lending. Fully 60% of the Australian financial system's loan book is focused on real estate. A sharp decline in house prices would cause severe problems for the banking system. Motivated by widespread reports of unconscionable conduct by banks and other financial institutions, the federal government convened a Royal Commission of Inquiry in 2018, tasking it with looking into misconduct in the finance industry. The inquiry reported in February 2019, although few policy changes appear to be resulting.

Australia has accumulated a high level of foreign debt, with net debt of over AUD 1 trillion and gross debt of AUD 1.9 trillion. While this high level of debt is a risk to Australia's financial stability, the country's governments have not addressed this issue, arguing that it reflects the decisions of the private sector (including households). In 2017, household debt totaled 211% of net disposable income, one of the highest such ratios in the OECD.

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

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The Economist, Like a shag on a rock. 16 May 2015. S. 63.

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

Emily Cadman: Moody's move shines light on Australia's home loan risks, Sydney Morning Herald, 20 June 2018, available at https://www.smh.com.au/business/the-economy/moodys-move-shines-light-on-australias-home-loan-risks-20170620-gwufh4.html

Michael Janda: Australia's debt binge 'coming to an end,' says Bank for International Settlements. 25 June 2018. Available at https://www.abc.net.au/news/2018-06-25/australia-named-as-household-debt-problem-country/9905390

OECD: Households accounts, available at https://data.oecd.org/hha/household-debt.htm

Chile

Score 6

Given its small size and consequent inability to wield hard power, Chile has quite limited weight within international financial structures. Although it participates in regional institutions and regimes, the country has distanced itself from its Latin American neighbors' recent efforts to strengthen their 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 structural surplus of 1% of GDP, largely shielding itself from the worst effects of the crisis. Nevertheless, in the national as well as international context, the official political discourse privileges the virtue of a totally deregulated free market, combating any forms of state regulation.

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 the government acted to save DEXIA and Fortis, two domestically important banks, tax revenues have begun to rise again in recent years. Yet 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 (non-bank financial institutions), directly and indirectly contributing an estimated 30% to GDP. Consequently, the country was exposed to the effects of the economic crisis within the European Union. Furthermore, Luxembourg's treatment of offshore accounts and capital assets by non-resident customers came under international scrutiny during that period. As a consequence, Luxembourg has developed new clusters, such as fintech (new financial technology), to complement the traditional fields of work of the financial industry.

In the 2018 Index of Economic Freedom, Luxembourg is ranked 14 out of 186 countries. In the 2018 World Bank's Doing Business report, Luxembourg ranked 63 out of 190 countries (2016: 61). Reflected in these rankings is the perception that Luxembourg has difficulties encouraging the founding of startups and creating new professions. In response, Luxembourg set up several opportunities for employees and created innovation centers to support startups.

The House of Startups (HoST), founded by the Chamber of Commerce in September 2017, opened its doors on 1 June 2018. With its central location in the capital, HoST is said to be an "innovation-fueling community" with an area of almost 6,000 square meters. The HoST's missions are based on the following pillars: attracting and developing startups, and facilitating their integration into Luxembourg's economy.

Citation:
Index of Economic Freedom 2018. https://www.heritage.org/index/pdf/2018/book/index_2018.pdf. Accessed 20 Oct. 2019

"Doing Business Report 2018." World Bank Group 2018. http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf. Accessed 20 Oct. 2019.

Sinner, Michèle: "Geplant, geplant, geplant." Land.lu, 14 October 2011. www.land.lu/page/article/847/4847/FRE/index.html. Accessed 20 Oct 2019.

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 a 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. Malta has a sound regulatory framework for the fight against terrorism financing. This ensures rapid implementation of targeted U.N. financial sanctions on terrorist financing and the financing of weapons of mass destruction.

The Central Bank of Malta operates within the European System of Central Banks. Malta is also a member of Moneyval, a European committee of experts evaluating anti-money-laundering measures. Supranational regulatory regimes have strong influence on Maltese banking regulations. For instance, the 2014 European Bank Recovery and Resolution Directive was transposed into Maltese law in 2015. In the same year, the Central Bank of Malta introduced the concept of a central credit register, which requires Maltese banks to report end-of-month balances of exposures exceeding €5,000.

The Financial Intelligence Analysis Unit (FIAU) helps to combat high-risk or criminal financial activities. The FIAU is responsible for the collection, collation, processing, analysis and dissemination of information related to combating money laundering and the funding of terrorism. The unit is also responsible for monitoring compliance with relevant legislative provisions and issuing guidelines aimed at curbing money laundering. Throughout its years of operation, the FIAU has signed memos of understanding with other national FIAUs, and spearheaded the transposition of the EU's Fourth Anti-Money Laundering Directive (AMLD) into Maltese law in 2018. However the EU Commission is still awaiting the transposition of the Fifth AMLD. Among other elements, this directive makes provisions for the establishment of a national coordinating committee that brings together all key governmental stakeholders and authorities in the area. The Maltese police forces also include an Economic Crimes Unit and National Counterfeit Unit. However, these remain relatively weak, and there have been few convictions or sanctions for money laundering. The recently established Financial Organized Crime Agency aims to address prosecution bottlenecks in this area. However, this has also raised concerns about the overall ineffectiveness of the system. The 2020 budget also introduced a €10,000 ceiling on cash transactions for the acquisition of property, cars, yachts, precious stones and art in a bid to curtail abuses.

Policies within the Maltese financial sector have recently raised concerns at the European and international level, and the sector has been accused of being slow to react to problems in a number of cases. Concerns have been raised by the European Commission and European Banking Authority (EBA), which has asked the FIAU to step up its supervision of the Maltese banking sector. A report published by Moneyval in September 2019 noted recent progress insofar as the competent authorities have improved their understanding of the threats and vulnerabilities, and have undertaken certain actions to mitigate the risks. However, the report also stressed the fact that the Maltese anti-money laundering framework is not equipped to tackle offenses, particularly those of a more complex nature. Moneyval emphasizes that the FIAU is weak and too small in terms of the size of the island's financial-services sector. Malta scores low with regard to the regulation and supervision of financial institutions, and the oversight of professionals who are not banks themselves but handle clients who launder money. Malta also scores low with regard to cooperation with international agencies that are trying to trace money launderers and freeze their assets. There have not yet been any prosecutions or convictions for financing of terrorism in Malta. Nonetheless, no new infringement notices were put forward by the European Commission against Malta in a January 2019 infringement round.

Citation:
https://www.mfsa.mt/about-us/
https://www.centralbankmalta.org/ relations-with-international-institutions
Times of Malta 26/10/2015 The impact of the European Bank Recovery & Resolution Directive
The Malta Independent 16/04/2015 Central Credit Register to become operational by October
https://www.centralbankmalta.org/ccr
https://www.coe.int/en/web/moneyval/moneyval-brief/members
http://www.fiumalta.org/about
https://www.financemalta.org/publications/articles-interviews/articles-and-int erviews-detail/prevention-of-money-laundering-and-funding-of-terrorism-regulatio ns-2 017/
http://www.fiumalta.org/library/PDF/misc/Bill_ENG.pdf
The 4th Anti-Money Laundering Directive, An Academic Analysis. A Policy paper by ELSA Malta's Social Policy Organizing Committee
The Malta Independent 23/12/2017 Malta transposes EU's Fourth Anti-Money Laundering Directive
https://pulizija.gov.mt/en/police-force/police-sections/Pages/Economic-Crimes-Unit.aspx
Malta Today 08/09/2019 Tackling Financial Crime
Budget Speech 2020 (Maltese) p. 91
European Commission Press Release 08/11/2018 Commission Requests Maltese Anti-Money Laundering Watchdog to Step Up Supervision of Banks
Malta Today 12/09/2019 Updated | Moneyval: Malta Must Step Up Investigation and Prosecution of Money Laundering
Malta Today 29/01/2019 Relief for FIAU as Malta is kept out of latest EU infringements round

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 in the midfield of the 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. Following doubts regarding the continued existence of the North American free trade area (which have subsequently been dispelled with the new announcement of a revised free trade agreement between Mexico, the United States and Canada), this situation will not change in the foreseeable future.

The new president, López Obrador, said in March 2019: "We formally declare the end of neoliberal policy, coupled with its economic policy of pillage, antipopular and surrender. Both things are abolished." While such a statement would mean a substantial reversal of Mexico's relationship with international markets, there has been no sign of a turnaround in practice.

Citation:
http://www.anterior.banxico.org.mx/sistema-financiero/indexEn.html
https://elpais.com/internacional/2019/05/31/mexico/1559259379_299890.html

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. To this end, New Zealand passed the Anti-Money Laundering and Counter Financing of Terrorism Act (AML/CFT) in 2013. Initially, the law came into force with banks and financial institutions but, in 2018, the law was extended to include accountants, real estate agents, lawyers and conveyancers, in an effort to ensure illegal funds are not washed through property purchases. Since 2016, New Zealand has been a member of the OECD initiative to allow all participating tax jurisdictions to exchange information on the economic activity of multinational corporations among participating countries. In 2017, New Zealand signed the OECD Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit-Shifting (known as the Multilateral Instrument). Regulatory market reviews by the Commerce Commission – tasked with promoting competition and consumer protection – appear to have increased in number since the shift from a National to Labour government. In late 2018, the Financial Markets Authority and the Reserve Bank released a report after a four-month review into the conduct and culture of eleven banks that operate in New Zealand. While the report did not find the widespread systemic issues that plague Australia, it highlighted that banks lacked effective procedures to manage poor conduct, and were slow to remove sales incentives that pushed staff to sell items such as personal loans and credit cards.

Citation:
Cheng, PM to banking sector: Up your game or the Govt will force your hand (https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12154903)
Gray, NZ markets face regulatory risks in 2019, New Zealand Herald (https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12188855)
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).
New Zealand signs OECD Multilateral Instrument. Beehive. 8 June 2017. (https://www.beehive.govt.nz/release/new-zealand-signs-oecd-multilateral-instrument) (accessed 1 October 2017).

Poland

Score 6

Poland has not been an agenda-setter with regard to the regulation of international financial markets and this has not changed with the PiS government. The idea of a EU banking union is opposed by PiS due to its nationally oriented stance in this respect. However, Poland’s financial sector has remained stable despite rapid expansion, as various stress tests have demonstrated. The Financial Stability Committee is in charge of macroprudential supervision since 2015.

Citation:
IMF (2019): Republic of Poland: Financial System Stability Assessment, Country Report 19/39, Washington, D.C. (https://www.imf.org/en/Publications/CR/Issues/2019/02/05/Republic-of-Poland-Financial-System-Stability-Assessment-46578).

Romania

Score 6

Romania continues to be an active participant in the EU, the IMF and other international fora. The country's ability to lead in these fora is limited by its rightful focus on internal economic development and stability.

Slovenia

Score 6

Slovenia was the first post-socialist EU member state to introduce the euro. Because of its troubled financial sector, the country became a strong supporter of a European solution when the euro crisis began. In 2013/14, it was the first EU country to apply the rules of the new European banking union. While the resulting restructuring of the domestic financial sector has prompted substantial domestic conflicts, the Šarec government stuck to the controversial sale of major banks to foreign investors. The Bank of Slovenia has played an active role in the regulation and supervision of financial markets.

Turkey

Score 6

After 2016, the government's overarching banking and finance goal has been to avoid a substantial economic slowdown. As a result, the government decided to relax prudential norms in the banking sector, reduce provisioning requirements for restructured loans in the tourism and energy sectors, and lower regulatory risk weights on consumer loans and credit cards. Credit growth has been substantial, and the annual credit growth rate was 22.9% in August 2017 and 38.3% in August 2018. These measures have been criticized by the IMF's latest Financial Sector Assessment Program report, which advised the Turkish government to strengthen banking sector supervision and governance, and enhance the regulatory framework for financial services. Following the currency crisis of 2018, the central bank policy rate was increased to 24% on 13 September 2018 and the policy rate remained at this level until July 2019. As a result of the currency crisis and measures introduced by the central bank, credit growth has slowed. In August 2019, the annual credit growth rate was -6.1%.

According to the New Economic Program 2020 – 2022, which was announced on 30 September 2019, the capital adequacy ratio of the banking sector was 18.2% in July 2019, while the sector's non-performing loan (NPL) ratio was 4.6%. Recently, the Banking Regulation and Supervision Agency told Turkish banks to write off $8 billion in bad loans. In addition, the banks need to reclassify about TRY 46 billion of their loans as non-performing by the end of 2019 and make provisions to cover the losses. The New Economic Program 2020 – 2022 emphasizes that during 2019 the government aims to provide loans of TRY 46 billion to companies in the construction and energy sector that are facing financial difficulties. As a result, the sector's NPL ratio will increase to 6.3%, while the capital adequacy ratio will decrease to 17.7%. Turkey applies a 12% minimum capital adequacy ratio, which is above the 8% threshold set by Basel III. The ratio calculated above is well above both levels. However, the combination of low interest rates and credit fueled expansionary policy further exposes the Turkish lira to currency market turbulences and external shocks.

Citation:
Ministry of the Treasury and Finance (2019) 'New Economy Program 2020-2022,' Ankara.

United States

Score 6

Prior to the Trump presidency, the United States had 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 2008 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.

With respect to the national regulatory framework, U.S. regulatory bodies had been developing rules required by the 2010 Dodd-Frank Act. U.S. regulators generally preferred stronger rules than international standards required (e.g., on the regulation of derivatives). However, lobbying by the powerful financial services industry had weakened U.S. standards. In a major change of direction, the Trump administration and Republican Congress partially repealed the Dodd-Frank Act; the repeal gutted the Volcker rule (prohibiting banks from making certain investments for their own accounts). The administration has abandoned support for the development or implementation of international standards. On the domestic side, it has largely abandoned enforcement activity of the Consumer Financial Protection Board. The result has been a resumption of some of the risky, potentially destabilizing banking practices that led to the financial crisis.

Citation:
https://www.wsj.com/articles/curtains-for-global-financial-regulation-1492037557

Bulgaria

Score 5

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. In mid-2018, the country expressed its desire to join the European banking union. Since then, it has adopted a number of policy measures designed to demonstrate the country's capacity to contribute to international financial regulation and supervision. However, reviews by EU organizations have indicated weaknesses in Bulgaria's supervisory capacities with respect to money laundering and insurance. In its pursuit of the goal of becoming a member of the Euro area and the EU banking union, the Bulgarian government might become more proactive in the sphere of international financial architecture.

Czechia

Score 5

Czechia is not a significant player in international financial affairs. Its main banks are foreign-owned, and their independent international involvement is limited. The country has participated in some attempts to improve the regulation and supervision of financial markets, but has not shown much initiative. It has declined to introduce the euro, and has not sought to join the EU banking union.

Ireland

Score 5

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.

Ireland is on all “tax haven” lists. Transfer pricing is key for Ireland’s economic success, although some people would call this unfriendly tax competition.

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

Italy

Score 5

The government and other public financial institutions (e.g., 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 G7 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 the introduction of new international regulations. It has therefore not been fully prepared for the consequences of the new rules. The first Conte government proved reluctant to work cooperatively with European and international organizations and often adopted a confrontational attitude. The second Conte government seemed ready to take a more cooperative attitude.

Japan

Score 5

Developing initiatives for the reform of the global financial architecture has not been a high-priority issue for Japan. For example, the prime minister used the agenda-setting powers provided by the 2016 G-7 meeting in Japan primarily to push his domestic political agenda. The 2019 G-20 summit in Osaka was not used by Japan to promote major new policies relating to global financial markets.

On the regional and plurilateral level, Japan’s influence has been 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, the BRICS Reserve Contingency Arrangement and the Asian Infrastructure Investment Bank (AIIB). Japan has for now elected not to join the last of these three. Still, Japan developed its own “Partnership for Quality Infrastructure” in the 2015 – 2016 period, has worked on a so-called Quad alliance with the United States, Australia and India that also covers infrastructure investment, and helped drive the passage of the G-20 Principles for Quality Infrastructure Investment in Osaka.

In sum, Japan is primarily a follower rather than a leader with regard to global and regional (financial) initiatives, despite the pressing urgency of the issues.

Citation:
LDP executive says Japan needs to soon join the AIIB, The Asahi Shimbun, 16 May 2017, http://www.asahi.com/ajw/articles/AJ201705160020.html

Werner Pascha, The new dynamics of multilateral cooperation mechanisms in East Asia – China's Belt and Road Initiative, the Asian Infrastructure Investment Bank, and Japan's Partnership for Quality Infrastructure, in: Yuan Li and Markus Taube (Eds.) How China's Silk Road Initiative is Changing the Global Economic Landscape, London and New York: Routledge 2020

Portugal

Score 5

Portugal is a peripheral country, which limits its ability to contribute to the effective regulation and supervision of the international financial architecture. Moreover, the risk associated with the country's high deficits and public debt has led successive governments since the new millennium to focus overwhelmingly on achieving fiscal sustainability and financial stability, most notably during the 2011-2014 bailout period. In the post-bailout period, Portuguese governments have sought to play a bigger role in contributing to EU debates on regulation. Their role has been enhanced by Portugal's status as a bailout "success story," and further reinforced by the election of Minister of Finance Mário Centeno as president of the Eurogroup, but is constrained by its peripheral position.

Citation:
Success story which enhances status as expert says in last sentence above is found in Liz Alderman, "Portugal Dared to Cast Aside Austerity. It's Having a Major Revival," New York Times "Business Day" July 23, 2018.

South Korea

Score 5

While the vulnerability of the Korean financial system has declined considerably since the 2008 crisis, risks still remain, particularly with regard to the country's weakly regulated non-bank financial institutions. Household debt, largely resulting from real-estate price inflation over the last two decades, is a huge problem, although the rate of non-performing loans remains low.

With regard to international engagement, South Korea is implementing international financial-regulation rules such as the Basel III framework. Although it is a member of the G-20, it does not typically take the initiative or actively promote new regulations internationally. Under the Moon administration, South Korea has focused its foreign policies on North Korea, along with the bilateral relationships with the United States and China that are most important in this area. The administration has correspondingly put less emphasis on multilateral coordination mechanisms such as the G-20.

Citation:
Lee, Jiyeun. 2018. "S.Korea's Household Debt Hits Record $1.3 Trillion in 2017." Bloomberg, February 22. Retrieved September 28, 2018 (https://www.bloomberg.com/news/articles/2018-02-22/s-korea-s-household-debt-hits-record-1-3-trillion-in-2017)

Croatia

Score 4

The accession of Croatia to the European Union has brought greater integration of the financial system. The European Union'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 has been removed. This renders the Croatian financial system more vulnerable and increases the risk of cross-border contagion in the event of a new financial crisis. However, the regulatory framework will be strengthened by the joining of the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) when Croatia enters the EU banking union in mid-2020. 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 given the fact that more than 90% of bank assets are held by foreign banks. Hence, there is no strong domestic constituency advocating for this agenda. 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. The Anti-Money-Laundering Office is understaffed and the rate of convictions for money-laundering offenses remains relatively low.

Citation:
Croatian National Bank (2019): Financial Stability, No. 20. Zagreb (https://www.hnb.hr/en/-/financijska-stabilnost-19).

Greece

Score 4

Greece, a rather small European economy, is not in a position to take initiatives to monitor the global economic environment. For example, regarding non-performing bank loans, Greece is the worst among all OECD countries. All lending by banks primarily concerns the domestic market rather than international financial markets. Non-performing loans, rising steeply after the crisis hit Greece, remain a major impediment to economic recovery. In March 2019, 45.2% of all loans were non-performing. However, in absolute terms, non-performing loans were down by around €27.2 billion from their March 2016 peak. The banks plan to reduce this burden further by 2020.

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 for financial markets.

Citation:
Data on non-performing loans is provided by an official press release of the Bank of Greece, available at https://www.bankofgreece.gr/en/news-and-media/press-office/news-list/news?announcement=ba4e1b6b-410d-4976-a5ec-8ca224c13950

Hungary

Score 4

Being neither a member of the euro group nor a big lender, Hungary's role in international financial markets is limited. The Orbán government has recently emphasized its commitment to euro area membership, although it is not clear whether this reflects genuine political will or is merely rhetoric. It is unlikely that the government wants to hand over steering capacities to the ECB. Instead, all available (financial) instruments are and will be used to serve the government's policy ambitions. As the oligarchs profit from deregulated financial markets and less strict control mechanisms, a stronger government engagement in this respect is highly unlikely.

Citation:
Mérö, K., D. Piroska (2016): Banking Union and banking nationalism: Explaining opt-out choices of Hungary, Poland and the Czech Republic, in: Policy and Society 35(3): 215-226.

Iceland

Score 4

In part because of its small size, Iceland has never sought to make a substantial contribution to the improvement of the international financial architecture. However, the government has taken significant steps to address the extreme instability of the domestic financial system, including steps that have attracted international attention and have been held out as an example for other countries.

The post-crash 2009 – 2013 government significantly strengthened the Financial Supervisory Authority (FME) and established a Special Prosecutor's Office charged with investigating legal violations related to the financial crash. By late 2018, the Supreme Court had sentenced 36 individuals (30 bankers, three executives, two auditors and a cabinet secretary in the finance ministry) to a total of 88 years in prison for crash-related offenses, with an average jail term of 2.5 years. The 88 years of total prison time have not been evenly divided among the banks, however: Kaupthing got 32 years, Glitnir got 19, Landsbanki got 11 years, Savings and Loans got 12 years, and others 14 years. The uneven distribution of sentences across the three main banks (even if they were very much alike) may create concerns about unequal justice. At the end of 2015, the Special Prosecutor's Office was merged with the District Prosecutor's Office under the directorship of the former Special Prosecutor.

Under new management following the crash, the FME sought to impose tougher standards. For example, prior to the crash, the owners of the banks were their largest borrowers. This is no longer the case. Further, banks commonly provided loans without collateral, but this practice has since been discontinued. Before, 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 privileged 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. Due to bank secrecy, such debt write-offs are impossible to ascertain. Under new management, since the proactive director of the FME appointed in 2009 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 2019 Gallup poll, banks are among the least trusted institutions in Iceland. Only 20% of respondents expressed confidence in the banks, compared with 18% confidence in the parliament and 27% confidence in the FME. The government decided in late 2018 to incorporate the FME into the central bank, marking a return to the arrangement that produced weak bank supervision in the past. This decision has now been implemented. Tellingly, in October 2018, Iceland was added to the Financial Action Task Force's grey list of countries – a list of countries that have not introduced sufficient measures to combat money laundering and the financing of terrorism.

The 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:
Jensdóttir, Jenný S. (2017), "Ákærur og dómar vegna hrunmála" (Indictments and Verdicts in Crash-related Cases), Gagnsæi (Transparency), Samtök gegn spillingu (Alliance against Corruption), http://www.gagnsaei.is/2017/12/29/domar1/. Accessed 18 December 2018.

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Cyprus

Score 3

Developing effective monitoring of the market and enforcement of international standards have been major challenges for Cyprus. Its status as a financial center since the 1980s complicated the pursuit of a clearer regulatory framework. The work conducted by specific institutions, such as the Securities and Exchange Commission and the Unit for Combating Money Laundering (MOKAS), and stricter frameworks and policies against money laundering did not erase risks and vulnerabilities. It remains difficult to assess the extent to which specific measures have decreased money laundering and corruption.

Amendments to laws on money laundering and terrorism-related activities that aimed to align with EU directives have strengthened the deterrence regime. Among measures that have enhanced the work of competent authorities is the seizing of property acquired through unlawful activities. Since January 2017, Cyprus is a signatory to the Common Reporting Standard for information exchange.

Bank-oversight mechanisms have also been enhanced to avoid past transgressions, when institutions simply failed to follow rules governing large exposures and minimum capital and liquidity. Laws passed in mid-2018 aim at facilitating the resolution of challenges related to NPLs while attempting to protect indebted households.

Following the European Commission's Report on Citizenship by Investment (January 2019) naming Cyprus as problematic, rules for the scheme changed. An October 2019 Reuters investigative report revealed serious corruption linked with the scheme, including the involvement of the church. Transparency International notes that Cyprus does not appear to take into account an applicant's source of funds or wealth when analyzing applications.

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