Global Financial System Report

Stabilizing Global Financial Markets

Sustainable Governance Indicators 2022

SGI Sustainable Governance Indicators

Bertelsmann Stiftung

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.

Finland

Score 9

Following the collapse of financial markets in Europe in 2008 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. Following the onset of the COVID-19 pandemic, the government reduced efforts focusing on the effective regulation and supervision of the international financial market.

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;
www.Springer.com/cda/content…/978146/14955352-c1.pdf?
https://www.imf.org/en/Publications/CR/Issues/2017/12/13/Finland-Selected-Issues-45467

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 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 crucial players that helped turn 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 public 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. In its coalition agreement, the new government has announced that it is ready to accept EDIS as an element of a comprehensive reform package that includes risk-dependent contributions and takes steps to prevent an excessive sovereign risk exposure of banks (Koalitionsvertrag 2021, p. 168).

Germany has been one of the initiators of measures aimed at limiting international competition over corporate taxes and developing new globally coordinated strategies to tax digital business models as well. This process reached an important milestone with 134 countries agreeing to participate in the summer of 2021 (OECD 2021).

Citation:
Koalitionsvertrag (2021): Mehr Fortschritt wagen, Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit, Koalitionsvertrag zwischen SPD, Bündnis 90/Die Grünen und FDP.

OECD (2021): Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy – 1 July 2021, https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.htm (accessed: 4 January 2022).

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, and in fact this discussion has been all but nonexistent in the past few years.

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, starting in 2022. The government argues that this tax will help to fund measures guarding against financial market turmoil in the future. As of December 2021, the tax committee approved the new tax on commercial banks, and has proposed approval of the measure within the Riksdag. The logic behind this is that commercial banks risk causing financial harm during a potential crisis, and for this reason it is reasonable that they contribute funding to offset any consequences (Riksdagen, 2021). The pandemic crisis has, if anything, highlighted the role of the state in protecting the incomes of households and businesses. s

Another potential source of friction between the finance ministry and major commercial banks relates to policy changes forcing lenders to forcing lenders to structure loans so that borrowers would always be repaying a part of the principal, rather than just paying 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 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. The Swedish Fiscal Policy Council has judged this reform favorably (Finanspolitiska rådet, 2021). The measure was halted for a period of time as a means of softening the economic consequences of the pandemic for households, but the Swedish National Bank, the Swedish Fiscal Council and the Finansinspektionen all recommend that the moratorium on amortization of mortgages be discontinued as part of the long-term sustainability of the financial system. High household debt levels remain a cause for concern in Sweden, while the combination of sharply rising asset prices combined with high levels of indebtedness in other countries is part of the risk outlook into 2022 (Riksbanken, 2021).

More broadly, the domestic and global financial systems must balance pandemic support measures while paying attention to long-term vulnerabilities. The Swedish central bank (Riksbank) stresses the importance of introducing internationally agreed standards such as Basel II in Sweden and other countries.

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.

Citation:
Finanspolitiska rådet. (021. Svensk Finanspolitik: Finanspolitiska Rådets Rapport 2021." https://www.fpr.se/download/18.3e9ba604179f5fc737de1d0/1624285470841/Svensk%20finanspolitik%202021.pdf

Riksbanken. 2021. "Financial Stability Report." 2021:1. https://www.riksbank.se/globalassets/media/rapporter/fsr/engelska/2021/210526/financial-stability-report-2021_1.pdf

Riksdagen. 2021. "Skatteutskottet Säger Ja till Ny Riskskatt för Banker." https://www.riksdagen.se/sv/aktuellt/2021/dec/10/skatteutskottet-sager-ja-till-ny-riskskatt-for-banker/

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 area, 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

Canada

Score 8

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, with Mark Carney, the former Governor of the Bank of Canada previously serving as the Governor of the Bank of England as well as former chair of the G-20 Financial Stability Board (FSB). As well, the current Governor of the Bank of Canada, Tiff Macklem, has previously chaired the FSB's Standing Committee on Standards Implementation. The Office of the Superintendent of Financial Institutions (OSFI) has also been very active internationally.

Citation:
Eric Helleiner, The Financial Stability Board and International Standards, The Centre for International Governance Innovation, G20 Papers, No. 1, June 2010, https://
www.cigionline.org/static/documents/g20_no_1_2.pdf

Denmark

Score 8

Regulation of the financial sector is continuously 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.

It remains an open question as to 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 because of an aggressive interpretation of tax rules and the whitewashing of money by major Danish banks such as Nordea and Danske Bank.

Citation:
Kraka Finanskrisekommission, 2014, Den danske finanskrise – kan det ske igen?; København.

Folketingets EU-oplysning, Bankunion. https://www.eu.dk/da/fakta-omeu/politikker/oekonomiskpolitik/banker.

Rangvid, J. m.fl. 2013, Den finansielle krise i Danmark – årsager, konsekvenser og læring, report from government appointed commission.

"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).

"Regeringen genovervejer EU's bankunion," http://www.altinget.dk/artikel/regeringen-genovervejer-eus-bankunion (Accessed 5 November 2017).

Folketingets EU-oplysning, Bankunion. https://www.eu.dk/da/fakta-om-eu/politikker/oekonomisk-politik/banker (Accessed 11 October 2018).

"Løkke hælder til dansk ja til bankunionen – Socialdemokratiet kræver folkeafstemning," http://nyheder.tv2.dk/politik/2018-11-04-lokke-haelder-til-dansk-ja-til-bankunionen-socialdemokratiet-kraever (Accessed 8 November 2018).

"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. Because of the internationally prominent cases of money laundering in the Danske Bank and the Estonian branch of Swedbank (the largest bank in the country), the Estonian government introduced several measures to prevent similar cases in the future. One of the government's key policy proposals is to make clients fully responsible for proving the legality of their funds. In cases of suspected money laundering or terrorist financing, the FIU analyses and verifies information taking measures where necessary and forwarding materials to the competent authorities upon detection of a criminal offense.

Currently, the key topic is regulation of crypto companies registered in Estonia. Estonia was one of the first countries to set minimum levels to register a crypto company. As a result, a myriad of foreign-owned crypto companies were registered in Estonia. Current government policy is to turn around the initial very lax regulatory requirements, and avoid potential damage to the national financial system and reputation.

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). Furthermore, they have 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. This should happen now that the tax has been supported by the G-20. Macron has decided to push further for the creation and implementation of a carbon tax at the EU level, and has announced that this will be a top priority of the country's presidency during the first semester of 2022.

Israel

Score 8

Israel has several regulatory institutions tasked with supervising financial markets. The most prominent include the Supervisor of Banks at the Bank of Israel, the Capital Market, Insurance and Savings Authority at the Ministry of Finance, the Israel Securities Authority (ISA), and the Israel Antitrust Authority. 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 November 2019, Israel decided to establish a mechanism to oversee foreign investments, especially Chinese investments.

Israel's Consumer Protection and Fairtrade 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 the 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.

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.

ISA annual report 2017, ISA website, 27.06.2018, http://www.isa.gov.il/sites/ISAEng/1489/1512/Documents/ENG-FINAL.pdf

Ministry of Finance, The Authority for Capital Market, Insurance and Savings, Annual report 2017 chapter 1, 01.07.2018(Hebrew), https://mof.gov.il/hon/documents/report2017_chapter1.pdf

The Consumer Protection and Fair Trade Authority – International Activity, Israel Government, 2019 (Hebrew) https://www.gov.il/he/Departments/General/cpfta_about_international_activity

Herb, Keinon, "Under U.S. Pressure, Israel Okays Mechanism to Oversee Chinese Investments," Jerusalem Post, 30.10.2019, https://www.jpost.com/Israel-News/Under-US-pressure-Israel-okays-mechanism-to-oversee-Chinese-investments-606326

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 area decision-making, which includes EU members that are not members of the euro area, as well as the 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's withdrawal from the EU, although recently Lithuanian authorities have changed their approach by emphasizing risk control over expansion. An important goal was to foster competition in a banking sector heavily dominated by Nordic banks. 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

Netherlands

Score 8

The Netherlands is losing its position in the important bodies (IMF, ECB, BIS) that together shape the global financial architecture. In EU policymaking before Brexit, the Dutch tended to agree with the UK position in principle, but ultimately 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. It has been estimated that under a merely regional trade treaty, the Netherlands would have been 7.7% poorer; under the WTO regime, this would figure would rise to 9.3%. Without the EU's internal market, estimated GDP income loss would be around €65 billion (in 2018).

During 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 more reluctant followers than proactive initiators or agenda setters. After a decade or so, in its State of the EU 2021 report, the government finally seems ready to support a stronger, action-capable Europe for issues like climate change, digitalization, migration, internal security and even defense. It formulated three principles for its EU policy: resilient and secure nation states converging to the highest level of welfare; geopolitical use of EU-instruments; and an effective and transparent Union that fully respects democracy and the rule of law.

Public opinion is in line with this European orientation. However, the translation of values and principles into policy on the ground is still hesitant. In EU negotiations over the Stability and Growth Pact, Prime Minister Rutte ("Mr. No") and especially

Finance Minister Hoekstra insulted many southern states by demanding they first get their finances in order before becoming eligible for support. An expert commission on foreign policy frankly stated that in EU negotiations the Dutch were inconsistent, opportunist and unreliable. For example, in budget negotiations, and for national consumption, the government stresses it is a long-time net payer to the EU, while neglecting to mention that, overall, contributing €1 brings in €12 to GDP. Especially richer Dutch farmers profit considerably from EU membership. Also, even during and after the coronavirus crisis, the Dutch government has stuck to the position that public health is an issue of national sovereignty. After demanding that all EU countries needed to show solid plans as a condition for access to the European Restoration Fund, the Dutch (at the time of writing) were the only laggards due to the caretaker status of the present cabinet.

Nevertheless, looking at actual voting behavior of Dutch ministers and high officials in EU policymaking and negotiations, it appears that the Dutch aversion to the EU is reversing to a more positive and realistic political attitude.

Citation:
Algemene Rekekamer, Wat draagt Nederland bij aan en wat ontvangt Nederland van de EU?

CBS, Kazemier en Verkooijen, December 2016. Nederland en de EU: betalingen en ontvangsten

FTM, 12 September 2021, Rutte kreeg in Brussel de bijnaam 'Mr. No'. Zijn ministers zegggen steeds vaker 'ja'.

NRC, 31 January 2020 (Alonso en Van der Wiel), Nettobetaler in de EU? 'Juist Nederland verdient goed'.

Financieel Dagblad, Bouman, 13 April 2018. Zonder interne markt was Nederland misschien wel 65 mrd armer.

NRC-H, 8 July 2021, Stellinga en Alonso, 'Nederland moet eem keuze maken over zijn EU-beleid en ophouden met zwabberen'

Korteweg, R., Houtkamp, C., Sie Dhian Ho, M., Krouwel, A. & Etienne, T., Sep 2020, 9 p.. (Clingendael Buitenland Monitor) https://www.clingendael.org/publication/dutch-views-transatlantic-ties-and-european-security-cooperation

Sie Dhian Ho, M., Houtkamp, C., Zandee, D., Krouwel, A., & Etienne, T., (2020). Clingendael Buitenland Monitor: De Nederlandse wending naar Europa, (Clingendael Buitenland Monitor). https://www.clingendael.org/nl/node/12039

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 rapidly growing sovereign wealth fund. In the area of institutional investors, it has contributed to setting standards of good financial and corporate governance. The petroleum 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 tax havens, 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 industries, 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. Switzerland proved very active in regulating new financial technologies (distributed-ledger technologies).
In September 2020, parliament passed the distributed-ledger technology (DLT) blanket act, which selectively adapts 10 existing federal laws. In June 2021, the Federal Council brought the Federal Act on the Adaptation of Federal Law to Developments in Distributed Electronic Register Technology into full force. This will allow for innovative DLT trading facilities and increase legal certainty in the event of bankruptcy (Federal Council 2021).

Citation:
Federal Council 2021: Federal Council brings DLT Act fully into force and issues ordinance, https://www.sif.admin.ch/sif/en/home/documentation/press-releases/medienmitteilungen.msg-id-84035.html

OECD 2019: Economic Surveys. Switzerland, November 2019, Paris: OECD

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 increasingly 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 eventually led to the decision to essentially abolish banking secrecy, for which Austria was long known.

While Austria had once been particularly engaged in the promotion and implementation of an EU-wide tax on financial transactions (originally established in 2013), the ÖVP-led governments since 2017 have obstructed any major progress in the implementation of this new tax. The latest episode in this vein was the rejection of a Portuguese initiative in February 2021. However, the government has been careful to avoid the impression that it is complacent about the challenges of an increasingly complex global financial system and aims to keep international cooperation on those issues at bay. Thus, in June 2021, Austria applied to host the European Union's new Anti-Money Laundering Authority (AMLA).

Austria continues to be an important market for money laundering and organized crime, especially for groups originating from southern Italy and Chechnya, which often assume the form of apparently legal activities. More emphasis needs to be put on preventing these activities.

Citation:
https://www.handelsblatt.com/politik/international/abgabe-auf-aktien-und-derivate-oesterreich-stemmt-sich-gegen-portugals-plaene-fuer-eine-finanztransaktionssteuer-in-der-eu/26951180.html?ticket=ST-1399092-lCqfu4mDx5b76s3zMnVK-cas01.example.org

https://orf.at/stories/3223106/

https://www.ilfattoquotidiano.it/longform/mafie-europa/mappa/austria/
https://www.laspia.it/mafia-in-austria-sequestrati-373-milioni-di-euro-frutto-di-riciclaggio/

Italy

Score 7

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. The Draghi government has strengthened this position and has used the international prestige of the prime minister to play a more active role in this field.

All in all, the high international reputation of the Italian prime minister and his professional background have been a catalyst for international negotiations. A clear example of this is the establishment of the minimum global tax during the G-20 meeting held in Rome under the Italian presidency.

Latvia

Score 7

In 2018, MONEYVAL published a report identifying shortcomings in Latvia's anti-money laundering (AML) system and calling for actions to combat money laundering and terrorist financing. The report noted that the large financial flows passing through the country posed a significant money laundering threat.

Since then, Latvia's AML/CFT framework has been strengthened significantly. In 2019, amendments to the anti-money laundering law were introduced, requiring foreign entities with branches or representative offices in Latvia to disclose information on their owners to the Enterprise Register. In addition, capacity and coordination mechanisms among AML institutions were enhanced; for example, the legal status of the Financial Intelligence Unit was modified, granting it more independence and powers, which resulted in thousands of Latvian companies with no declared beneficial owners. In addition, the Financial and Capital Market Commission supervised the termination of bank ties with 27,000 shell companies following the ban.

As a consequence of these efforts, the volume of foreign deposits in Latvia's bank system has continued to decline, dropping by a total of 74% between 2015 and 2019, and accounting for 18.8% of all deposits at the end of 2020. The value of cross-border transactions has similarly declined – from €60.2 billion in incoming transactions and €50.1 billion in outgoing transactions in 2017 to €16.3 billion in incoming transactions and €11.2 billion in outgoing transactions in 2019.

In the light of these improvements, MONEYVAL has rerated Latvia as largely compliant with regard to its AML and financing of terrorism (FT) measures.

Overall, 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.

Citation:
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Luxembourg

Score 7

In July 2021, the Global Financial Center Index (GFCI) ranked Luxembourg eighth in its listing of top financial centers worldwide, and ranked it fourth (behind the United States, the United Kingdom and Switzerland) based on the business environment. GFCI assessed Luxembourg as the most international financial center in the world (followed by Singapore, Hong Kong, the UK and Ireland), due to the fact that 60% of its total activity is exclusively international.

Luxembourg is also the top center for private banking in the euro zone, and is the largest reinsurance center in Europe. As of 1 June 2021, it was home to 128 banks from 28 countries (with assets of €851.1 billion. compared with €815.5 billion the previous year, a rise of 4.36%), which employ some 50,000 professionals (81% non-Luxembourgers). Given the considerable number of foreign banks in the country, of which 21 are from Germany, 15 from China, 14 from France, 12 from Switzerland, and only 12 from Luxembourg and Belgium, the degree of internationalization of its financial sector (96.5%) is the highest in Europe.

Luxembourg-domiciled investment funds with funds under management amounting to € 5.05 trillion are distributed across 77 countries (with a particular focus on Europe, Asia, Latin America and the Middle East). Thus, the Grand Duchy is the second-largest investment fund center worldwide and number one in Europe. It is the same in terms of capital markets, Luxembourg being the European leader in international securities listings, with more than 37,000 listed and tradable securities at the Luxembourg Stock Exchange (LuxSE), issued in approximately 60 currencies by more than 100 countries. LuxSE is the international market leader in the listing created by Dim Sum Bonds, and the top Islamic fund center in the EU. In 2020, the labeling agency for sustainable financial projects (LuxFLAG) advanced significantly in sustainable bond issuance. The new issuance amounted to €186 billion, of which 51% were sustainable, social and green securities. Luxembourg and the European Investment Bank (EIB) have launched an innovative climate finance platform dedicated to investments in combating climate change.

The country has made considerable effort to develop its financial technology sector, especially through LoFT (a platform connecting leading international players with fintech innovation and cloud technologies). PayPal, Amazon Payments, Six Payment Services and the Emerging Payment Association have chosen Luxembourg as their hub to serve the entire EU market. In the 2022 state budget, the government allocated €8.2 million over the next 10 years to establishing a co-called Finnovation Hub, jointly with the university and the Luxembourg Institute of Science and Technology (LIST).

Representing some 24.0% of GDP in 2019, and some 11% of employment and 21% of fiscal revenues, the financial industry continues to drive Luxembourg's economy and to serve as a catalyst for qualitative growth. In 2021 and 2022, Luxembourg received a AAA credit rating by the financial rating agencies. However, the attractiveness of Luxembourg as a financial center is liable to be affected by the process of tax and financial harmonization at EU and OECD level and the new regulatory environment (related to transparency, secrecy and to the three pillars of the Banking Union).

In the wake of the controversies around global tax evasion, Luxembourg has reinforced its capacities for the oversight of financial activities. Luxembourg's Ministry of Finance has increased its staff, as has the Commission de Surveillance du Secteur Financier, which is in charge of supervising the professionals and products of the Luxembourg financial sector. Luxembourg has also taken a proactive position during the international debates on the fair taxation of multinational companies, and is committed to the exchange of information so as to prevent tax evasion and avoidance. Given the recruiting difficulties faced by the judiciary (due to the fact that public prosecutors and judges need to be of Luxembourg nationality), the public prosecutor's office and the Luxembourg Financial Intelligence Unit (Cellule de Renseignement Financier) still lack sufficient legal specialists to deal with the complex activities conducted in Luxembourg's financial sector.

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Portugal

Score 7

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.

Portuguese policymakers focus less on the global financial system per se than on its impact on Portugal.

This being said, however, 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.

This greater role was evidenced during the Portuguese presidency of the Council of the European Union in 2021. During this period, it was able to push through a deal on corporate tax transparency that requires “multinationals and their subsidiaries with annual revenues of over €750 million, and which are active in more than one country, to publish and make accessible the amount of taxes they pay in each member state." In its assessment of the Portuguese presidency, Politico considered that "Lisbon achieved what many in Brussels thought was impossible," getting a proposal that had "been gathering dust in council and parliament shelves for years" approved. However, this experience also highlights how much Portugal's impact depends on being given a greater institutional role, such as the presidency of the Council of the EU.

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.

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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 area 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. Slovakia also supported the OECD-led approach of a global minimum corporate tax, preferring a collective solution to individual measures.

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. After a deep transformation in the last financial crisis, the Spanish banking sector has gained stability and remained resilient during the pandemic. 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 area. Spain 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. In October 2021, acting within the OECD/G-20 framework, Spain supported the agreement for the reform of the international tax framework aimed at curbing tax avoidance by multinational enterprises. The 2022 budget law established a minimum 15% rate for corporation tax, which, according to the government, once again places Spain "at the forefront of international taxation."

Citation:
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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 were 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 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. One issue over which the United Kingdom is susceptible to accusations of double standards is in relation to inflows of capital from questionable sources. While money laundering standards are applied with some vigor, there is a perception that the United Kingdom, through the agency of the City of London, is too lax on the super-rich.

United States

Score 7

Traditionally, 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.

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 abandoned support for the development or implementation of international standards. On the domestic side, it largely abandoned enforcement activity of the Consumer Financial Protection Board. The result was a resumption of some of the risky, potentially destabilizing banking practices. President Biden has pledged to improve financial regulation in part through a revitalization of the Consumer Financial Protection Bureau (CFPB), a federal agency created under President Obama but seriously weakened by the Trump administration

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

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. 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 have led from the report.

Australia has accumulated a high level of foreign debt, with net debt of over AUD 1.2 trillion. However, this is almost entirely private sector debt and is not considered a threat to Australia's financial stability. That conventional assessment might be challenged in the event of a significant rise in interest rates, which is currently unlikely, but not entirely impossible.

Citation:
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

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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 between mid-2007 and early 2009, 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.

In general terms, Chile coordinates closely with international financial institutions such as the World Bank, the International Monetary Fund and the Inter-American Development Bank, and usually contributes to the generation of new knowledge through the development of national studies and evaluations.

Ireland

Score 6

Ireland's situation as a member of the euro area 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's minister for finance, Paschal Donohoe, chairs the 19 nation Eurogroup within the European Union.

Ireland received only marginal relief on the debt burden it incurred to avert a European-wide banking crisis after 2008. However, in September 2014, euro area 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 area 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 features on some so-called tax haven lists globally and has been criticized for its lax approach by leading economists, such as Thomas Piketty, Paul Krugman and Joseph Stiglitz. Criticism has mainly centered on the operation of the now defunct "double Irish" model of corporate tax and the way intellectual property assets are classified (O' Boyle and Allen, 2021). Transfer pricing by MNCs remains important for Ireland's economic success, although some would call this a regime of unfriendly tax competition. Ireland opposed the wording in the proposed OECD agreement in 2021, which set out a corporate tax rate of "at least 15%" and argued successfully for a change to a set rate of 15% (Donohoe, 2021)

Citation:
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O' Boyle, B. and Allen, K., Tax Haven Ireland, Pluto Press, November 2021.

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 UN 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. Legislation was also officially introduced in 2021 to cap cash transactions on high-value items such as property, jewelry and works of art at €10,000.

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 European Union's Fifth Anti-Money Laundering Directive (AMLD) into Maltese law in 2020. Among other elements, this directive continues to build on the existing framework, adding provisions related to virtual currencies, broader access to information and stricter control for transactions above specified thresholds.

Policies within the Maltese financial sector have raised concerns at the European and international level in recent years. 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. Nevertheless, Malta passed the MONEYVAL test in 2021 following a series of reforms that beefed up the island's anti-money laundering regime. The Maltese police force included the Economic Crimes Unit and National Counterfeit Unit. These were relatively weak, securing few convictions or sanctions for money laundering. However, the creation of a more robust financial crimes unit has led to a number of high-profile prosecutions for money laundering and other financial crimes.

However, Malta was still grey listed by the Financial Action Task Force (FATF) in 2021, despite the country being largely or fully compliant with all 40 of the FATF recommendations. The main reasons attributed to the grey listing were money laundering, defective rule of law and justice system, institutional corruption, lack of transparency, and weak institutions. This could potentially have a far-reaching impact on the island's economy, and as a result the FIAU is spearheading efforts to rectify shortcomings and remove Malta from the list. Meanwhile, FATF President Marcus Pleyer has since noted that good progress on the grey listing action plan has been made, although key points of action still need to be addressed.

Citation:
https://www.mfsa.mt/about-us/
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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
Times of Malta 12/03/2021 Malta Introduces €10,000 Cash Cap on Transactions of Valuable Items
http://www.fiumalta.org/about
https://ec.europa.eu/info/publications/anti-money-laundering-directive-5-transposition-status_en
https://pulizija.gov.mt/en/police-force/police-sections/Pages/Economic-Crimes-Unit.aspx
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
Times of Malta 06/02/2021 Plans to Set Up Financial Crime Agency are Scrapped
Times of Malta 23/06/2021 FATF Votes to Greylist Malta
Times of Malta 05/12/2021 In Depth: Malta 'On the Right Track' to Get Off FATF Grey List – FIAU deputy director
Times of Malta 21/10/2021 Malta Makes 'Good Progress' on Greylisting Action Plan – FATF president
Malta Today 02/01/2022 Looking Back at 2021: One shade of Grey
Times of Malta 08/12/2021 Malta's grey listing contributing factors and the road ahead

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.

President López Obrador said in March 2019: "We formally declare the end of neoliberal policy, coupled with its economic policy of pillage, antipopular [action] and surrender. Both things are abolished." While such a statement could be interpreted as meaning a substantial reversal in Mexico's relationship with international markets, there has as yet 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 only applied to banks and financial institutions, but in 2018, legislation was also extended to include accountants, real estate agents, lawyers and conveyancers in an effort to ensure that 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).

In April 2021, the Paris-based Financial Action Task Force (FATF) – a global money laundering and terrorist financing watchdog – released a report on New Zealand, finding that the country had achieved notable results in tackling money laundering, but highlighting the continued room for improvement. Key areas in need of further improvement include supervision of the private sector, financial institutions, lawyers and accountants, so as to enable detection and prevention of money laundering (Owen 2021). In September 2021, New Zealand's Financial Market Authority (FMA) published its AML/CFT Monitoring report, which showed that in the 2018-2021 time period, the Authority issued 27 private warnings, three public warnings and initiated its first-ever court proceedings against a firm; this compares with just one public warning and 17 private actions between 2016 and 2018 (RNZ 2021).

Citation:
Owen (2021) "Tackling of money laundering 'adequate' but more can be done, watchdog finds." Stuff. https://www.stuff.co.nz/national/crime/124984177/tackling-of-money-laundering-adequate-but-more-can-be-done-watchdog-finds

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Romania

Score 6

With the influence of the pandemic in mind, Romania has participated more than ever in the EU and global economy, with the hope of mitigating the health and economic consequences of COVID-19. Most notable was the influence of the SURE initiative and Next Generation EU funding. Romania received €3 billion from SURE, in the form of loans granted on favorable terms from the European Union to EU member states. The program was introduced to preserve employment in the context of the pandemic crisis. Romania's application for Next Generation EU funding has been met with positive assessments from the European Commission, because of Romania's recovery and resilience plan (i.e., Romania devotes 41% of funds to support a green transition and 21% to support a digital transition). Next Generation EU is set to offer Romania €14.2 billion in grants and €14.9 billion in loans under the RFF to tackle the COVID-19 crisis, to embrace green and digital transitions, to strengthen economic and social resilience, and to improve cohesion with the European Single Market. As an emerging and developing economy, Romania has remained as active and influential in IFIs, such as the IMF, as it can be, but has remained steadfast in recovering from the pandemic. As a result, the IMF endorsed Romania's plan to combat the economic consequences of the pandemic and it sees the EU-Romanian cooperative measures as beneficial to combat the effects of COVID-19. The government imposed a moratorium enabling non-financial corporations and households to postpone debt repayments by up to 9 months. While this moratorium (in force until March 2021) constrained the increase in non-performing loans, banks continue to be exposed to highly indebted firms. External debts comprise more than half of the total debt in the non-financial corporate sector. The government increasingly relies on external markets to finance public debt, implying risks for financial stability (OECD 2022)

Citation:
European Commission (2021): NextGenerationEU: European Commission endorses Romania’s €29.2 billion recovery and resilience plan. (2021). Brussels, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4876
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Slovenia

Score 6

In the wake of the pandemic, the share of non-performing loans in affected sectors, such as accommodation and tourism, have risen in Slovenia. The decline of corporate credit has challenged the business models of banks. From March 2020 to March 2021, firms and households were enabled to postpone amortization and interest payments on their loans. Public guarantee schemes for loans were introduced to avoid bankruptcies. The central bank intensified its monitoring of commercial banks and made the reclassification of non-performing loans more flexible.
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 member state 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.

Citation:
Alenka Krasovec/Damjan Lajh 2021: Slovenia: Tilting the Balance? In: Verheugen, Günter/Vodicka, Karel/Brusis, Martin (Hrsg.): Demokratie im postkommunistischen EU-Raum. Wiesbaden: Springer, p. 171.
Council of Europe 2021: Anti-money laundering and counter-terrorist financing measures: Slovenia. 3rd Enhanced Follow-up Report. https://rm.coe.int/moneyval-2021-5-fur-slovenia/1680a29c71.

IMF: Republic of Slovenia. Staff Report for the 2021 Article IV Consultation, Washington: IMF, 3 May 2021

Bulgaria

Score 5

Participation in the ERM II and the advances in related commitments was tested by Bulgarian National Bank (BNB) policies aimed at mitigating the 2020 recession, which involved freezing non-financial sector loan servicing equivalent to 9% of GDP from April 2020 to March 2021. The BNB and the government cooperated in fulfilling ECB 2019 stress-test recommendations, and in October 2021 Bulgaria joined the European Banking Union. The freezing of loan services did not affect the stability of the banking sector or increase the volume of non-performing loans, and credit activities were swiftly restored in the second half of 2021.

Plans to adopt the euro by 1 January 2024 have been delayed as a result of increasing inflation.

In 2021, Bulgaria joined the two-pillar plan to reform international taxation rules and ensure that multinational enterprises pay a fair share of tax wherever they operate. This initiative has been launched by OECD/G-20 member states in an effort to address the erosion of tax bases and profit-shifting by multinational companies.

Croatia

Score 5

Croatia's accession to the EU has facilitated greater international 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. Those trends have been amplified since Croatia joined the ERM II system and banking union in July 2020 as a formal prerequisite for euro adoption as early as 2023.

The Croatian banking sector is among the most highly capitalized in the EU. The total capital ratio is more than 25%. Of all 27 member states, only Latvia and Estonia fare better than Croatia on that count. Liquidity coverage ratio is beyond 190%, as compared to the required minimum of 100%, and is significantly above the average level for the EU-27. Over the last several years, the share of non-performing loans (NPL) has been on a steady decline. In spite of the impact of COVID-19 on the Croatian economy in 2020, this share has stayed below 6%. The coverage ratio for non-performing loans and advances (NPL) is 62%, putting Croatia in the league of the EU's top performers with regard to the ability to absorb potential losses from outstanding loans. There has been no change in the value of the Herfindahl-Hirschman index of concentration regarding total banking assets. The number of credit institutions in the country has remained stable since 2018. In 2021, the return on equity (RoE) of Croatian banks surpassed that from 2020, and is slightly above the average cross-EU level.

The aforementioned indicators also look favorable due to credit-support measures such as loan guarantees and loan moratoriums adopted in early 2020 to cushion the liquidity shock facing businesses during the COVID-19 lockdowns. Those credit-support measures amounted to approximately 6.5% of GDP.

All in all, Croatia is a responsible rule-taker in terms of EU's macro-prudential regulation. Regulatory compliance has been ensured by the hitherto highly independent Croatian National Bank (CNB). The CNB has at times been criticized for displaying a rather reactive stance in response to rare episodes of financial fraud allegedly perpetrated by certain credit institutions, for instance by Raiffeisen Bank Leasing. This particular case is still the subject of a lengthy investigation by state prosecutors.

Croatia has a dormant stock exchange that could do more to improve capital allocation. Nevertheless, the Croatian financial system remains an anchor of stability.

In 2021, Croatia joined the new framework for international tax reform, aimed at ensuring that large multinational enterprises pay tax where they operate and earn profits, based on criteria such as the location of assets, employment and turnover. The framework also envisages tax-related reforms related to introduction of a minimum corporate tax rate of 15% for companies with annual turnover greater than €750 million. Nevertheless, at the beginning of 2022, this international effort largely stalled. This will hamper the potential reduction of the tax burden for SMEs, which could otherwise be compensated for by taxes paid by MNCs.

Citation:
Croatian National Bank (2021).Standard Presentation Format. https://www.hnb.hr/en/-/spf

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 European banking union.

Japan

Score 5

Developing initiatives for the reform of the global financial architecture has not been a high-priority issue for Japan. The 2019 G-20 summit in Osaka led to the creation of Task Force 2 (TF2) which is tasked to review the T20's aspirations and achievements during the past decades and to propose ways to promote an international financial architecture for stability and development. However, since then, there has been very little discussion or follow up on TF2 activities or Japan's role in relation to the reform of the global financial architecture.

On the regional and plurilateral levels, 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 Contingent Arrangement and the Asian Infrastructure Investment Bank (AIIB). Japan has, for now, chosen not to join these institutions. Still, Japan developed its own Partnership for Quality Infrastructure in the mid-2010s, has started to work with its partners in the Quadrilateral Security Dialogue (Quad), the United States, Australia and India, on infrastructure investment in the Indo-Pacific, and pushed the passage of the G-20 Principles for Quality Infrastructure Investment in Osaka.

On balance, Japan is more of a follower than a leader with regard to global and regional (financial) initiatives.

Citation:
Task Force 2: International Financial Architecture for Stability and Development/Crypto-assets and Fintech, T20, https://t20japan.org/task-forces/international-financial-architecture-stability-development-crypto-assets-fintech/

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

Poland

Score 5

Poland has not been an agenda-setter concerning the regulation of international financial markets and this has not changed with the PiS government. Since Poland is not a G20 member and initiatives to include the so-called emerging economies, such as the G22 or G33 groups, did not prevail for long, the country is not a big player on the international level. In the EU realm, the PiS government opposes the idea of a European banking union due to its nationally oriented stance of monetary policy. However, the country's financial sector has remained stable, despite the rapid expansion, as various stress tests have demonstrated. The Financial Stability Committee is in charge of macroprudential supervision since 2015.

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 – though engagement in G-20 seems to be growing with Korea's proactive role in the global COVID-19 response.

One contribution by Korea to global financial stability is its early championing of macro-prudential measures such as currency management and capital controls to protect the country against speculative, destabilizing finance. In the aftermath of several major financial crises, Korea's once unorthodox (and criticized) position of partial economic liberalization has been vindicated. Such macro-prudential measures are now put forward as viable tools by global economic governance institutions such as the G-20 and the IMF.

Citation:
Andre, Christophe. "The Korean Economy: Resilient but Facing Challenges." ECOSCOPE Blog, August 11, 2020. https://oecdecoscope.blog/2020/08/11/the-korean-economy-resilient-but-facing-challenges/.
Kalinowski, Thomas. Why International Cooperation is Failing: How the Clash of Capitalisms Undermines the Regulation of Finance. Oxford University Press, 2019.
Yonhap News Agency. "S. Korea's Household Debt-GDP Ratio Highest Worldwide: Report," November 14, 2021. https://en.yna.co.kr/view/AEN20211115000700320.

Turkey

Score 5

Turkey's integration into the global financial system has been put at great risk by recent developments. Most notably, it turned out that the U.S. embargo on Iran was breached by Halkbank after Iranian businessperson Reza Zarrab fled to the United States. Within the framework of the investigation, Halkbank Deputy General Manager Hakan Atilla was arrested and then sent to prison in the United States. Similarly, recent allegations by organized crime network leader Sedat Peker revealed that money earned by defrauding the state in the United States has been laundered in Turkey through businessperson Sezgin Baran Korkmaz. In line with these developments, a global anti-money laundering body added Turkey to its so-called gray list of jurisdictions along with Jordan and Mali, a designation that could potentially deter investors.

Erdoğan's desire to lower interest rates has inhibited the flow of foreign capital flow Turkey. On several occasions, foreign intermediary institutions that hold short positions on the Turkish lira had to pay high-interest rates to close their positions through swaps. As a response, most of the major players have exited the market. The closing of swap channels increased Turkey's risk premium, and put Turkey's short-term debt obligations at risk.

Citation:
Bloomberg. “Turkey added to global money laundering watchdog’s ‘gray list’,” October 21, 2021. https://www.bloomberg.com/news/articles/2021-10-21/global-money-laundering-watchdog-adds-turkey-to-its-gray-list

Greece

Score 4

During the period under review, Greece, an EU member state, participated in the appropriate EU forums where issues of regulation and supervision of financial markets were discussed. In such forums, Greece normally supports ideas in favor of a more regulated international system for financial markets. However, Greece is a rather small European economy and cannot realistically take initiatives to influence the global economic environment.

Hungary

Score 4

As a member of the European Union, Hungary has taken part in the European Union’s attempts to improve the regulation and supervision of financial markets. However, the country has not introduced the euro and has stayed outside the European banking union. As oligarchs profit from deregulated financial markets and less strict control mechanisms, a stronger government engagement in this respect is highly unlikely. As a country with a very low corporate income tax, Hungary has opposed G7 and OECD attempts to introduce a global minimum corporate income tax.

Iceland

Score 4

Iceland has never sought to make a substantial contribution to the improvement of the international financial architecture. Even so, the government took significant steps to address the extreme instability of the domestic financial system after 2008, 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 per convict. 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, after having been substantially reduced in terms of staff and funding, 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, after the proactive director of the FME appointed in 2009 was replaced in 2012, the FME lacked strong and clear leadership, and was incorporated into the central bank in 2020. This was a controversial move because of the ineffectiveness of central bank financial supervision before the FME was established as an independent entity in 1998.

According to a February 2021 Gallup poll, banks are among the least trusted institutions in Iceland. Only 26% of respondents expressed confidence in the banks, compared with 34% who expressed confidence in the parliament and 46% who expressed confidence in the judicial system.

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. However, Iceland was taken off the list two years later after satisfactorily completing measures against money laundering and terrorist financing.

Foreign competition in the banking sector remains absent, offering huge monopoly rents to bank owners, a unique feature of Icelandic banking, which helps to 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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Bibler, Jared (2021), Iceland's Secret: The Untold Story of the World's Biggest Con, Harriman House, https://icelandssecret.com/. Accessed 1 February 2022.

Gallup (2022), Trust in institutions (Traust til stofnana), https://www.gallup.is/nidurstodur/thjodarpuls/traust-til-stofnana. Accessed 1 February 2022.

Iceland Review (2019), "Iceland Grey Listed for Inadequate Money Laundering Policies," https://www.icelandreview.com/news/iceland-grey-listed-for-inadequate-money-laundering-policies/.

Cyprus

Score 3

Effective monitoring of the market and compliance with international standards remain major challenges for Cyprus. Despite taking measures to enhance the regulatory framework, the government's policies to attract foreign investors have been undermined by corruption. The work conducted by the Securities and Exchange Commission, and the Unit for Combating Money Laundering (MOKAS) has been ineffective in serious cases of 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 new measures adopted 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 been enhanced to avoid transgressions, such as the failure to follow rules governing large exposures, and minimum capital and liquidity. Various laws related to the resolution of NPL-related challenges have been adopted, but with limited impact so far.

The government denied any wrongdoing following the European Commission's Report on Investor Citizenship and Residence Schemes in the European Union (2019), as well as media reports by Reuters (October 2019) and Al Jazeera's Cyprus Papers (August 2020) reveal serious corruption linked with selling passports. Even after officially stopping the scheme, authorities continued to sell passports.

Citation:

1. Investor citizenship schemes: European Commission opens infringements against Cyprus and Malta for "selling" EU citizenship, October 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1925
2. Masis De Parthog, Lack of transparency helps corruption spread, Financial Mirror, 18 October 2020, https://www.financialmirror.com/2020/10/18/lack-of-transparency-helps-corruption-spread/
3. Jean Christou, Brussels tells Cyprus to stop processing pending citizenship applications, Cyprus Mail, 9 June 2021, https://cyprus-mail.com/2021/06/09/brussels-tells-cyprus-and-malta-stop-selling-eu-citizenship-launches-further-procedures/

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