Stable Global Financial System

Sustainable Governance Indicators 2024

SGI Sustainable Governance Indicators

BertelsmannStiftung

Indicator

Global Financial Policies

Question

How committed and credible is the government in its activities to guide the effective regulation and supervision of the international financial architecture?

30 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 is clearly committed to ensuring the stability of the global financial system.

8-6 = The government is largely committed to ensuring the stability of the global financial system.

5-3 = The government is somewhat committed to ensuring the stability of the global financial system.

2-1 = The government is not at all committed to ensuring the stability of the global financial system.

Denmark

Score 9

Denmark is tightly integrated into global financial markets. Monetary policy aims to support the Danish exchange rate peg, which enjoys high credibility and broad political backing. Regulation of the financial sector is continuously updated in accordance with EU rules so as to increase resilience and reduce the risk of public bailouts of financial institutions. Systemically important financial institutions must meet specific requirements.

In the aftermath of the financial crises in 2007 – 2008, the Danish government established the System Risk Assessment Council in 2012. The council monitors risks to the Danish financial system stemming from national and global policies and developments. It also assesses the effects of international regulations and their impact on the Danish financial system.

The council can issue an observation indicating it has detected a development that could become a systemic risk. It can also issue a warning if it finds clear signs of systemic risk. The recipient of such a warning must respond by explaining what actions will be taken. Finally, the council can issue a firm recommendation that action must be taken. If the recipient of a recommendation does not follow the advice, an explanation must be provided as to why not.

The council has 10 members, including the permanent secretaries of all economic ministries, the director of the national bank, three independent members and an independent secretariat.

The question of Denmark's participation in the European banking union remains open. If it does participate, the larger (systemic) financial institutions will fall under the European Central Bank's supervision.

The previous government believed Denmark should join the banking union, but the leader of the Social Democrats, Mette Frederiksen, proposed a referendum on the issue. This promise has been reaffirmed by the new government led by Frederiksen. While Denmark is not today part of the banking union, the Danish currency is pegged to the euro.

The credibility of national financial institutions has deteriorated due to an aggressive interpretation of tax rules and the whitewashing of money by major Danish banks such as Nordea and Danske Bank.

Citation:
Det systemiske risikoråd 2023. https://risikoraad.dk/om-raadet

France

Score 9

France implements most international agreements designed to prevent high-risk financial activities, and also seeks to participate in defining these agreements. A minimal tax on financial transactions is in place, although it was slightly reduced during President Macron's first term. More generally, France participates in all euro zone institutions, and has tried to develop regulations enhancing stability during crises, whether these are more like the COVID-19 pandemic or the financial crisis of 2009.

In the context of the IMF, the French government has also acted in favor of restructuring sovereign debt in developing countries in order promote sustainable development. For example, France organized a summit discussing a new international financial pact in June 2023.

The Authority for Financial Markets (AMF) and the Bank of France have worked jointly to promote transparency among financial intermediaries. While this could have been regarded as a sign of collusion with banks to protect domestic markets, this also reflects France's overall integration within the EU institutions in this regard. For instance, specific actions were taken to regulate Bitcoin in 2022 and 2023 (Desbois 2023), aligning its fiscal status with other financial instruments.

President Macron renewed the fight against tax havens in 2023. This was done in order to curb tax evasion. While the government was tempted to establish specific exemptions in the hope of attracting international sports organizations to France in 2023, this attempt was short-lived. On the contrary, tax havens within the EU and outside the EU have been regularly denounced, with limited effective impact so far beyond the case of Switzerland.

Citation:
Desbois, D. 2023. “Crypto-actifs: déboires financiers, turpitudes juridiques et réglementations lacunaires.” Terminal. Technologie de l’information, culture & société 136.

Norway

Score 9

As a small country, Norway is not a major actor in international financial regulation. However, it is a notable player in financial markets because of its rapidly growing and large sovereign wealth fund – the Government Pension Fund Global (GPFG). In the field of institutional investors, it has contributed to setting standards for good financial and corporate governance. The GPFG itself has been a voice in international financial discussions and leads by demonstrating good practices. The Santiago principles have established procedures for increasing transparency related to sovereign wealth funds, which has undoubtedly constrained government action in similar areas. Norway is not formally a member of the International Forum of Sovereign Wealth Funds but fully supports its principles.

Norway is supportive of international efforts to combat corruption, tax evasion, and tax havens. The country has recently promoted initiatives such as the 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 and 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 sector remains robust and stable. This stability is partly due to the regulatory reforms introduced by the government.

Additionally, the fund has 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 achieving the Paris Agreement targets.

Citation:
Ministry of Finance. 2023a. “Government Pension Fund and the Santiago Principles.” https://www.regjeringen.no/en/topics/the-economy/the-government-pension-fund/government-pension-fund-and-the-santiago-principles/id2961256

Ministry of Finance. 2023b. “Norway will implement new rules for taxation of large multinational enterprises.” https://www.regjeringen.no/en/aktuelt/norway-will-implement-new-rules-for-taxation-of-large-multinational-enterprises/id3015877/

Norges Bank Investment Management. n.d. “Responsible Investment.” https://www.nbim.no/en/responsible-investment/

Sweden

Score 9

The Swedish government has been a forerunner in enforcing regulations aimed at preventing criminal financial behavior in international financial management. Sweden also supports and implements rules laid out by the European Union as well as other international bodies in the field of international finance.

The appetite for a Tobin tax is nonexistent following the failure of its enforcement in the late 1980s. Domestically, there has been some friction between the Ministry of Finance and large commercial banks over the past few years. A new “risk tax” came into effect in 2022, requiring banks to pay a tax if their debts associated with Swedish operations exceeded SEK 150 billion in the previous year. In 2022, the tax rate was 0.05% and is set to increase to 0.06% in 2023 (Sveriges Riksdag, 2021).

Citation:
Sveriges Riksdag. 2021. Riskskatt för kreditinstitut. Betänkande 2021/22:skU11 https://www.riksdagen.se/sv/dokument-och-lagar/dokument/betankande/riskskatt-for-kreditinstitut_H901SkU11/html

Australia

Score 8

As a globally oriented country with a high degree of international economic and financial market integration, Australia has a strong interest in promoting a stable, efficient, and transparent international financial system. The government displays a strong commitment to preventing criminal financial activities, including tax evasion, through information-sharing arrangements with numerous countries (The Treasury 2023). Australia has also developed and implemented agreements to combat high-risk international financial activities posing systemic risks.

The country loses substantial potential tax revenues from abusive tax practices (see “Policies Targeting Adequate Tax Revenue” and “Policies Aimed at Minimizing Compliance Costs”). Recently, the government has introduced measures to tighten obligations around taxation transparency in corporate affairs (PWC 2023) and supports a proposal to levy a “global minimum tax” of 15% on large Australian or foreign-owned companies with subsidiaries in low- or no-tax countries (Sadiq and Krever 2023).

Citation:
The Treasury. 2023. “Income Tax Treaties.” https://treasury.gov.au/tax-treaties/income-tax-treaties

Tax Justice Network. 2023. “Country Profiles: Australia.” https://taxjustice.net/country-profiles/australia/ https://taxjustice.net/country-profiles/australia

PWC. 2023. “Proposed New Tax Transparency Measures for Public Companies.” https://www.pwc.com.au/tax-alerts/proposed-new-tax-transparency-measures-for-public-companies.html

Sadiq, K. and R. Krever. 2023. “Why Taxing the World’s Biggest Companies at 15% Won’t Fix the Gaping Hole in

Global Tax Rules.” The Conversation. https://theconversation.com/why-taxing-the-worlds-biggest-companies-at-15-wont-fix-the-gaping-hole-in-global-tax-rules-206400

Canada

Score 8

Canada is very concerned about the stability of global financial markets, and successive Canadian governments have demonstrated a commitment to effective regulation of the international financial architecture, including membership in the World Bank and the International Monetary Fund.

Canada has recently pushed for better coordination of global fiscal stimulus and financial oversight reforms through the G20 and Financial Stability Board since the 2008 GFC and advanced these initiatives during the COVID-19 pandemic (Lindquist 2022).

Canada has also joined international tax reform initiatives aimed at curbing corporate tax avoidance and improving the exchange of banking information to prevent money laundering and fraud. However, insufficient enforcement on domestic money laundering and tax evasion continues to enable global financial crimes.

Recently, however, the federal government has permitted the buildup of high household debt levels with overly loose domestic mortgage rules, a current concern of regulators.

In some cases, while Canada advocates for global financial reforms, it struggles to fully implement best practices domestically across market stability, illicit money flows, and climate-related standards (Gnutzmann et al. 2010).

Citation:
Lindquist, Evert A. 2022. “Canada’s Response to the Global Financial Crisis: Pivoting to the Economic Action Plan.” In Policy Success in Canada: Cases, Lessons, Challenges, eds. Evert Lindquist, Michael Howlett, Grace Skogstad, Geneviève Tellier, and Paul t’ Hart. Oxford: Oxford University Press. https://doi.org/10.1093/oso/9780192897046.003.0023

Gnutzmann, Hinnerk, Killian J. McCarthy, and Brigitte Unger. 2010. “Dancing with the Devil: Country Size and the Incentive to Tolerate Money Laundering.” International Review of Law and Economics 30 (3): 244–52.

Czechia

Score 8

Czechia is not a significant player in international financial affairs. At best, it follows the initiatives of others. Its main banks are foreign-owned, and their independent international involvement is limited.
The country is a member of the European Union Agency for Criminal Justice Cooperation (Eurojust) and, since 2008, has joined international investigation teams. While the country is not a tax haven, many of its businesses choose to be formally registered in low-tax jurisdictions, often obscuring actual ownership.

Domestic financial stability is overseen by the Czech National Bank, which conducts macro stress tests across all segments of the domestic financial sector to confirm its resilience. The share of nonperforming loans to total gross loans has been decreasing steadily: it was 1.7% in 2021, 1.46% in 2022, and continued to decline in 2023. Similarly, nonperforming loans provided by units included in the general government have also shown a decreasing trend, amounting to 0.49% in 2020 and 0.43% in 2021.

Citation:
Česká národní banka – Zpráva o finanční stabilitě – jaro 2023/ Czech National Bank - financial stability report – spring 2023.

Estonia

Score 8

Estonia actively participates in developing and maintaining financial stability and transparency in global financial markets. Estonia is a member of the Council of Europe’s MONEYVAL monitoring body, and the head of the Estonian Financial Intelligence Unit (FIU), Madis Mäerker, was elected vice chair of MONEYVAL in 2023. Several domestic bodies have been established to combat money laundering, such as the Governmental Committee for the Coordination of Money Laundering Prevention, the 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 played a prominent role in combating money laundering in the Estonian financial sector. Due to money laundering cases involving the Estonian branches of Danske Bank and Swedbank – the largest bank in the country – the Estonian government introduced several measures to prevent similar cases in the future. One key proposal is to make 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 detecting a criminal offense. In the Danske Bank money laundering case, Estonian authorities closely cooperated with the United States to settle a long-running investigation involving billions of dollars in illicit payments (ERR 2023). In December 2022, Danske Bank pleaded guilty in a U.S. court. The trial of six ex-Danske Bank Estonian branch employees started in Harju County Court in November 2023.

Currently, the key topic is the regulation of cryptocurrency companies registered in Estonia. Estonia was one of the first countries to establish minimum regulations for registering a crypto company. A significant number foreign-owned cryptocurrency companies subsequently registered in Estonia. The current government policy aims to reverse the initially lax regulatory requirements to avoid potential damage to the national financial system and reputation. As a result, the number of licensed cryptocurrency companies has decreased from thousands to approximately 70 licensed companies in 2023. Estonia has set a clear priority of adopting the EU Markets in Crypto-Assets Regulation (MiCA) directive in 2024.

Citation:
ERR. 2023. “Estonia May Get $50 Million from US for Cooperation in Danske Bank Case.” https://news.err.ee/1609131395/estonia-may-get-50-million-from-us-for-cooperation-in-danske-bank-case

Finland

Score 8

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 both attitudes and actions, Finland has positioned itself as an agenda-setter, offering support to countries seeking to advance self-regulation and combat excessive market risk-taking. Finland has also pursued measures to secure its own finances.

In the financial architecture as in other areas of government, Finland has effectively and credibly implemented relevant international agreements to prevent and combat high-risk financial activities that pose systemic risks.

According to a December 2017 report by the International Monetary Fund, Finland’s banking system is well-capitalized. The report also noted that relocating the Nordea Group’s headquarters from Stockholm to Helsinki will more than triple the size of bank assets under supervision. 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 outlines 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.

The Financial Supervisory Authority, with approximately 200 employees, oversees Finland’s financial and insurance sector (Financial Supervisory Authority n.d.). The Financial Markets Department of the Ministry of Finance sets the rules for financial markets and the framework within which they operate. This department is also responsible for ensuring that the Ministry of Finance’s international activities remain effective.

According to the corporate watchdog group Finnwatch, Finland performed poorly in the 2022 Financial Secrecy Index. Among 141 countries, Finland secured the 88th position in the index, compiled biannually by the Tax Justice Network, an advocacy group from the United Kingdom composed of researchers and activists addressing concerns related to tax avoidance and tax havens, focusing specifically on tax transparency issues. Countries facing greater transparency challenges are placed higher in the rankings.

Finnwatch highlighted Finland’s particularly weak standing in terms of corporate ownership transparency. In Finland, data regarding ownership beneficiaries’ registries are not accessible to the public; only the largest corporate owners are included in the registry. Finnwatch also pointed out that requests for corporate financial statements from the registry incur fees, and court decisions on tax-related matters are not fully disclosed to the public and are not available free of charge (YLE News 2022).

In the international arena, the government of Finland has advocated for coordinated international efforts to reform the global financial system and eliminate tax and regulatory havens. However, Finland is not considered one of the world’s top aid initiators or agenda-setters. Finland is a committed partner rather than a leader.

Citation:
Financial Supervisory Authority. n.d. “About FIN-FSA.” https://www.finanssivalvonta.fi/en/about-the-fin-fsa/

YLE News. 2022. “Finland Performs Poorly in Financial Transparency Comparison, Watchdog Says.” https://yle.fi/a/3-12449051

Germany

Score 8

Germany is ranked seventh on the 2022 Financial Secrecy Index by the Tax Justice Network, scoring 57 out of 100 points, where 100 points indicate full secrecy, and zero points signify full transparency. According to the index, Germany still has some way to go to achieve full transparency. Additionally, with a score of 58 out of 100, Germany ranks 24th on the 2021 Corporate Tax Haven Index, which assesses jurisdictions based on their complicity in helping multinational corporations underpay corporate income tax. Overall, Germany loses approximately $26 billion in taxes per year due to global tax abuse, amounting to 2.7% of tax revenue. This is slightly below the global average of 2.8% and the regional average of 3.1% (Tax Justice Network, 2023).

According to the Tax Justice Network (2022: secrecy indicator 20), Germany demonstrates above-average participation in international transparency commitments and engagement in international judicial cooperation on money laundering and other criminal matters. The country has ratified relevant international agreements, such as the Multilateral Tax Convention and the UN Convention Against Corruption (Tax Justice Network, 2022). Additionally, Germany is a member of the Financial Action Task Force (FATF), whose recommendations are recognized as global standards for anti-money laundering and counter-terrorist financing.

According to the FATF's follow-up report on Germany in 2023, 17 recommendations are ranked as compliant for the country, while 20 are ranked as largely compliant, and 3 as only partially compliant. This shows an improvement, as two recommendations were upgraded to the largely compliant ranking (FATF, 2023). Overall, based on the 2022 FATF report, Germany has made significant reforms since 2017. However, it remains at high risk of terrorist financing, and the FATF suggests that it could be more proactive by freezing terrorist assets as a preventive measure.

Nevertheless, the report acknowledges that Germany performs well in investigating, prosecuting, and disrupting financing activities related to terrorism. It also highlights the positive introduction of the Transparency Register, a federal government initiative to prevent money laundering and terrorist financing (FATF, 2022).

In October 2023, the Federal Ministry of Finance (BMF) proposed a new strategy to combat financial crime based on the draft law "Combating Financial Crimes Act" (Finanzkriminalitätsbekämpfungsgesetz). A key change will be the establishment of the Federal Financial Crime Agency (FFCA) in 2024, which will begin operations in 2025. The agency will consolidate core competencies to facilitate and enhance cooperation. One focus area of the FFCA will be investigating cases of international money laundering. Additionally, the quality of the data in the Transparency Register is to be improved (BMF, 2023).

To enhance information transparency in international financial markets, Germany is part of the Financial Stability Board (FSB), an international body that makes recommendations on the global financial system to promote financial stability. One of the FSB's goals is to encourage coordination and information exchange among authorities, including national financial authorities and international standard-setting bodies (FSB, 2020). Additionally, as of July 2020, credit institutions, tax consultants, lawyers and auditors are required to report tax structuring models. The group for international information exchange in the special task force against tax structuring models – created in 2022 – is responsible for using these reports for quick reactions to avoid tax losses (BMF, 2022).

Lastly, the BMF campaigns for what it refers to as fair corporate taxation on an international level (BMF, 2024). In this regard, Germany supports and has argued for the two-pillar solution to address tax challenges arising from the digitalization of the economy, which was agreed upon by the members of the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in 2021. The two-pillar solution proposes a reform to the global financial system. The objective of pillar one is to ensure a fair international distribution of taxes, while the aim of the second pillar is to introduce a global minimum corporate tax of 15% (OECD, 2021).

Citation:
BMF. 2022. "Fragen und Antworten zur Sondereinheit gegen Steuerhinterziehung und Steuerumgehung." https://www.bundesfinanzministerium.de/Content/DE/FAQ/sondereinheit-gegen-steuerhinterziehung-und-

steuerumgehung.html
BMF. 2023. “Stepping up the Fight Against Financial Crime.” https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Priority-Issues/Financial-Crime/fight-against-financial-crime.html
BMF. 2024. “Auf dem Weg zu einer fairen internationalen Besteuerung.” https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Internationales_Steuerrecht/BEPS/schaedlichen-steuerwettbewerb-bekaempfen.html
FATF. 2022. “Germany’s Measures to Combat Money Laundering and Terrorist Financing.” https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mer-germany-2022.html
FATF. 2023. “Germany’s progress in strengthening measures to tackle money laundering and terrorist financing.” https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Mutualevaluations/germany-fur-2023.html
FSB. 2020. “About the FSB.” https://www.fsb.org/about/
Tax Justice Network. 2022. “Country Detail, Germany.” https://fsi.taxjustice.net/country-detail/#country=DE&period=22
Tax Justice Network. 2023. “Germany, Country Profile.” https://taxjustice.net/country-profiles/germany/
OECD. 2021. “Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy.” https://www.oecd.org/tax/beps/brochure-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf

Latvia

Score 8

According to World Bank data, Latvia’s nonperforming loans to total gross loans ratio stands at 1.76%. This relatively low percentage indicates a healthy banking sector with a manageable level of credit risk. The balance of deposits attracted from foreign customers continues to decline. In March 2023, their share of total deposits shrank to 12.2%.

Data on cross-border payments and foreign trade for customers of Latvian credit institutions, along with reports of increased suspicious transactions and sanctions violations, indicate a rising risk of these institutions being implicated in sanctions breaches or money laundering. In 2022, Latvian credit institutions halted payments to and from Russian and Belarusian credit institutions. This action and the enforcement of sanctions led to a marked reduction in customer payment volumes in these countries. There was also a corresponding decrease in imports from Russia and Belarus. However, there was a significant surge in the volume of cross-border payments from customers of Latvian credit institutions to those in certain CIS countries – namely Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, and Moldova – and others like Georgia, the United Arab Emirates, Serbia, and Turkey. Trade volumes with Armenia, Kazakhstan, and Kyrgyzstan also substantially increased.

Starting January 1, 2023, the Financial and Capital Markets Commission was integrated into the Bank of Latvia. The functions of the Bank of Latvia now include supervision, resolution, and other tasks of financial and capital market participants that were previously the responsibility of the Financial and Capital Markets Commission. This integration also encompasses the responsibility for setting macro-prudential instruments.

Latvia intends to apply to host the headquarters of the European Authority for Combating Money Laundering and the Financing of Terrorism (AMLA), competing against other EU member states such as France, Italy, and Germany. The move aims to strengthen Latvia’s position as a hub for a sustainable economy and secure investments, leveraging its expertise in combating financial crimes.

The measures targeting borrowers in Latvia have remained unchanged. With the rise in interest rates and inflation, these measures – particularly the Debt Service-to-Income ratio – have significantly mitigated risks and are increasingly restrictive regarding available credit volume. There are plans to evaluate the need for adjustments in the regulations of these borrower-focused measures. For example, clarifying the requirements’ scope could avoid overlapping with similar requirements in foreign countries when Latvian credit institutions issue loans abroad. Additionally, there is an intention to increase flexibility in issuing credit to acquire real estate for rent (buy-to-let) or other income-generating real estate activities. Another consideration is incorporating motivating aspects to encourage a structural shift toward a more energy-efficient housing stock.

Citation:
World Bank. 2022. “Bank Nonperforming Loans to Total Gross Loans (%) – Latvia.” https://data.worldbank.org/indicator/FB.AST.NPER.ZS?view=map&locations=LV
Latvijas Banka. 2023. Finanšu stabilitātes pārskats. https://datnes.latvijasbanka.lv/fsp/FSP_2023_LV.pdf
Latvijas Banka. 2023. “Finanšu stabilitātes pārskats.” https://datnes.latvijasbanka.lv/fsp/FSP_2023_LV.pdf
Helmane, I. 2023. “Latvija pretendēs uz AMLA aģentūras mītnes vietu.” https://lvportals.lv/norises/356510-latvija-pretendes-uz-amla-agenturas-mitnes-vietu-2023

Lithuania

Score 8

The government is largely committed to ensuring the stability of the global financial system. Lithuanian authorities contribute to improving financial market regulation and supervision. The Lithuanian Ministry of Finance and the Bank of Lithuania (the country’s central bank) are involved in the activities of EU institutions and arrangements dealing with international financial markets, participating in the European Council, the European Commission, the European Systemic Risk Board’s (ESRB) Advisory Technical Committee and the European supervisory authorities.

Lithuanian authorities are involved in the activities of more than 150 committees, working groups and task forces set up by the European Council, the European Commission, the ESRB’s Advisory Technical Committee and other European supervisory authorities. Lithuanian authorities support inclusive euro zone decision-making, which includes EU members that are not in 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, providing technical assistance to central banks located in the EU’s eastern neighbors. Lithuania’s Financial Crime Investigation Service collaborates with EU institutions, international organizations and other governments on the issue of money laundering. The country supports many initiatives regarding 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 fast-credit companies and attract foreign financial institutions. Concurrently, the Bank of Lithuania has sought to attract fintech companies to Lithuania in the wake of the United Kingdom’s withdrawal from the EU. However, Lithuanian authorities have recently shifted their focus to emphasize risk control over expansion.

An important goal has been 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 regulatory frameworks for the fintech sector. Recently, the Bank of Lithuania initiated debates on establishing Lithuania as a center of excellence for anti-money laundering activities.

Slovenia

Score 8

Bank of Slovenia data shows that non-performing loans (as a percentage of the gross book value of loans and advances) stood at 0.97% in Slovenia in November 2023. This marks a significant and continuous decline since June 2015. CEIC data indicates that the ratio of non-performing loans in Slovenia was 0.7% in October 2023 – the same as in the previous month – and thus at a record low. The all-time high of 18.1% was recorded in November 2013.

Slovenia’s foreign exchange reserves were measured at USD 909.7 million in November 2023. The country’s domestic credit reached $37.7 billion in July 2023, and household debt in Slovenia reached $18.5 billion in June 2023, equivalent to 28.1% of the country’s nominal GDP.
In 2007, Slovenia joined the eurozone, demonstrating its commitment to adhering to broader fiscal policy rules and agreements. The country has effectively implemented the eurozone’s agreements and regulations.

The Development Strategy of Slovenia 2030, adopted in 2017, clearly articulates the nation’s awareness of its dependence on its ability to respond and adapt to global trends and challenges. It underscores the increasing importance of cooperation and connections at global, European, and national levels, as well as cross-border cooperation.

Slovenia is a member of several significant institutions, such as the IMF, and actively participates in various interrelated mechanisms to coordinate common EU positions on IMF issues. These activities occur within the framework of multiple (sub)committees and working groups at the EU and ECB levels. By contributing its share of the regular (quota) and extraordinary or temporary resources (BBA), Slovenia helps ensure the stability of the global financial system that the IMF aims to achieve. Slovenia has been involved in the FTP mechanism since 1998.

Citation:
Bank of Slovenia. 2024. “Information on Non-Performing Exposures.” https://www.bsi.si/en/financial-stability/banking-system-supervision/supervisory-disclosure/information-on-non-performing-exposures

CEIC. 2023. “Slovenia Non-Performing Loans Ratio.” https://www.ceicdata.com/en/indicator/slovenia/non-performing-loans-ratio

Kobe, Vanja. 2023. Sodelovanje Slovenije z Mednarodnim denarnim skladom. Ljubljana: Banka Slovenije. https://bankaslovenije.blob.core.windows.net/publication-files/sodelovanje-slovenije-z-mds_september-2023.pdf

United Kingdom

Score 8

The Ccity of London is one of the world’s main financial hubs and a significant sector of the UK economy. Consequently, the government has a strong interest in global financial stability to safeguard financial and business services. As a result, UK governments have traditionally tried to protect the interests of the City of London against more intrusive regulations, whether national, European, or global. Prior to Brexit, the United Kingdom had substantial influence on EU financial reforms, both through government action and initiatives from the City of London. The expectation is that UK financial regulation will remain closely aligned with European Union and international standards.

At the international level, successive UK governments have played a prominent role in improving the international regulatory framework through bodies such as the Financial Stability Board (chaired by Mark Carney, then governor of the Bank of England from 2011-2018), the Bank for International Settlements, and the IMF, where the UK has a higher voting weight than warranted by the size of its economy.

One issue over which the United Kingdom is susceptible to accusations of double standards is the inflow of capital from questionable sources. While money laundering standards are applied with some rigor, there is a perception that the City of London is too lax on the super-rich and too slow to clamp down on “dirty money.” This has led to the pejorative term “London Laundromat,” used in a 2022 Financial Times video. Sanctions against Russian oligarchs and efforts to clamp down on political donations from dubious sources are steps to address these issues, although many tax havens are still associated with the city.

Citation:
https://www.ft.com/video/d3bafb94-9dbd-4c1e-8016-8cd8331960f1

United States

Score 8

The United States plays a vital role in regulating and supervising the international financial architecture. As the major funder of international financial institutions such as the International Monetary Fund (IMF) and the World Bank, the United States has significant influence. The United States also plays an active role in international forums such as the G7, G20, the Financial Stability Board (FSB), and the Basel Committee on Bank Supervision. Through the Basel Committee, the United States participated in developing Basel III, an international regulatory framework that aims to strengthen bank capital requirements and enhance the resilience of the global banking system.

Domestic legislation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2009, following the 2007 – 2008 financial crisis, aims to regulate the financial sector, with the United States being the central global player. Dodd-Frank created the Financial Stability Oversight Council (FSOC), which monitors and addresses systemic risks in global finance. It brings together key regulatory agencies to identify and respond to emerging threats to financial stability.

Domestic agencies play a vital role in fostering the stabilization, regulation, and supervision of the international financial architecture. The Federal Reserve, the world's most important central bank, conducts stress tests on major banks to assess their ability to withstand adverse economic conditions.

Dodd-Frank also established the Consumer Financial Protection Bureau, which has worked to mitigate some of the most problematic aspects of the casino banking sector, aiming to prevent abusive financial practices.

President Joe Biden has taken active steps on the world stage to coordinate responses to unregulated finance and create a more humane financial architecture. He has supported a global minimum corporate tax rate and attempted to crack down on international tax havens. However, Biden's home state, Delaware, has historically acted as a tax refuge within the United States, so his senatorial career was not particularly proactive in this regard.

Belgium

Score 7

During the global financial and economic Crisis of 2008, Belgian banks suffered extensively. The Belgian government was more proactive than many of its European counterparts in restructuring banks. However, Belgium's size limits its ability to restore financial stability independently. Some of the largest Belgian banks are structurally linked to other European banks or have become subsidiaries of larger banks headquartered in neighboring countries, such as ING and BNP Paribas. This situation has led the government to promote international efforts to restore financial stability and combat financial fraud and tax evasion. Despite repeated initiatives to recover revenues lost through tax evasion involving banks in countries like Luxembourg, Belgium remains at a disadvantage.

Belgium actively participated in the creation of the so-called banking union in the euro zone and has sought to improve banking supervision domestically. Various scandals, such as the Panama and Paradise papers, have given new impetus to the government's efforts to improve banking transparency. Belgian investigative journalists played a crucial role in these projects, working alongside peers from other countries.

In October 2018, Belgium's judiciary was granted comprehensive access to citizens' financial records to enhance the fight against financial criminal activities. Previously, investigators could only access citizens' financial information through banks and credit institutions.

However, some limitations persist. The Tax Justice Network, while highlighting Belgium's tax haven behavior, also ranks Belgium 26th in terms of financial secrecy, just below Saudi Arabia and above Ireland.

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-ilesvierges#123186
https://www.lecho.be/economie-politique/belgique/federal/la-justice-aura-desormais-acces-a-toutes-lespistes-financieres/10064659.html
https://fsi.taxjustice.net/

New Zealand

Score 7

Like many other countries, New Zealand contributes to international discussions and initiatives aimed at guiding effective regulation and supervision of the international financial architecture – in particular, through multilateral forums such as the G20, IMF, World Bank and OECD. The country generally adheres to international regulatory standards and best practices, supporting efforts to enhance transparency, stability and accountability within the global financial system.

New Zealand has committed to international agreements to prevent and combat high-risk financial activities. Since 2016, New Zealand has been part of the OECD initiative that allows all participating tax jurisdictions to exchange information on the economic activities of multinational corporations. In 2017, New Zealand also joined the OECD Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit-Shifting.

Successive governments have enacted various reforms to strengthen the international financial architecture. Most notably, New Zealand passed the Anti-Money Laundering and Counter Financing of Terrorism Act (AML/CFT) in 2013. Initially, this law applied only to banks and financial institutions. However, in 2018, the legislation was extended to include accountants, real estate agents, lawyers and conveyancers, aiming to prevent illegal funds from being laundered through property purchases.

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 attention include supervision of the private sector, financial institutions, lawyers and accountants 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. The report showed that between 2018 and 2021, the Authority issued 27 private warnings and 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, 29 April. https://www.stuff.co.nz/national/crime/124984177/tackling-of-money-laundering-adequate-but-more-canbe-done-watchdog-finds

RNZ. 2021. "FMA taking harder line on anti-money laundering rule breaches." 30 September. https://www.rnz.co.nz/news/business/452624/fma-taking-harder-line-on-anti-money-laundering-rulebreaches

Portugal

Score 7

Portugal, as a peripheral country, faces limitations in contributing to the effective regulation and supervision of the international financial architecture. Portuguese policymakers primarily focus on the global financial system's impact on Portugal rather than its broader implications.

Despite its peripheral status, the country's high public debt risk has driven successive governments to prioritize fiscal sustainability and financial stability, particularly during the 2011 – 2014 bailout period. Nobel laureate Paul Krugman recently described Portugal as an "economic miracle," noting its capacity to withstand the risk of high interest rates on debt due to robust economic growth (Jornal de Negócios, 2023).

Portugal actively supports policies that promote transparency in international financial markets. In the 2022 Financial Secrecy Index, which measures the extent to which countries aid individuals in hiding finances from legal oversight, Portugal ranked 57th out of 141 countries (Tax Justice Network, 2023). This ranking indicates that Portugal contributes only 0.59% to global financial secrecy, demonstrating its commitment to financial transparency.

Notably, Portugal played a key role during its Presidency of the Council of the European Union in advocating for the public disclosure of Country by Country

Reporting, a directive that was subsequently approved in the European Parliament. This directive mandates that multinational companies in the EU with consolidated revenues exceeding €750 million disclose information about profits and income tax in each member state and in third countries listed by the EU as non-cooperative jurisdictions for tax purposes. The directive's objective is to combat tax havens by holding multinational companies accountable for their contributions to transparency and corporate social responsibility in taxation.

More recently, Portugal agreed to a new directive that establishes a minimum corporate tax rate of 15% worldwide for multinationals, applicable to groups with annual consolidated revenues of €750 million or more. Portugal is set to transpose these rules within the current year, further reinforcing its position in favor of greater corporate tax fairness and transparency on the international stage.

Citation:
Jornal de Negócios. 2023. "Paul Krugman: 'Portugal é uma espécie de milagre económico.'"
https://www.jornaldenegocios.pt/o-poder-de-fazer-acontecer/entrevistas/detalhe/paul-krugman-portugal-e-uma-especie-de-milagre-economico

Tax Justice Network. 2023. "Financial Secrecy Index 2022."
https://fsi.taxjustice.net/

Slovakia

Score 7

The most recent Mutual Evaluation Report (MER, Council of Europe, 2022) states that Slovakia has been working hard to combat money laundering. According to this report, Slovakia was found to be "Compliant" with five and "Nearly Compliant" with 22 of the FATF's 40 recommendations. Slovakia received a "Substantially Effective" rating for one of the Effectiveness and Technical Compliance evaluations. The report also states that Slovakia has progressed in addressing the defined deficiencies. However, the fifth round MER identified several shortcomings, such as no timelines for the National Risk Assessment (NRA) updates and no legal obligation to provide information about the results of the NRA.

Slovakia has intelligence and regulatory institutions dedicated to the prevention of money laundering. The Financial Intelligence Unit of the police forces (https://www.minv.sk/?financna-policia), established under Law 297/2008 on the protection against the legalization of illicit incomes, is responsible for overseeing compliance with the law. Other authorities, such as the National Bank of Slovakia and the Financial Directorate of the Slovak Republic, have specific functions within the scope of special regulations.

Law 297/2008 lists institutions that must comply with money laundering regulations and are obliged to report any suspicious transactions to the required authority. Examples of these obliged institutions include banks, stock exchanges, securities warehouses, management companies, tax and economic consultants, selected insurance companies, accountants, post offices, auditors, lawyers, and notaries. This system is relatively effective in preventing money laundering nationally, as the Council of Europe report confirms.

In spring 2023, disinformation circulated in Slovakia stating that the EU wanted to ban cash. As a result, the Sme Rodina party pushed for a constitutional amendment granting people the right to pay for goods and services in cash. The amendment was criticized by the European Central Bank (ECB) because it was not consulted, and the Court of Justice of the European Union has already ruled that cash payments cannot be refused.

Citation:
Council of Europe. 2022. Anti-money Laundering and Counter-Terrorist Financing Measures: Slovak Republic. Strasbourg: Council of Europe

Spain

Score 7

Within the EU framework, the Spanish government has implemented several international agreements in recent years to prevent and combat high-risk financial activities that pose systemic risks. However, crypto-asset activities in Spain are not currently regulated. The Banco de España monitors developments in this market as part of its financial stability responsibilities.

During the review period, the Banco de España called for European regulation to provide legal certainty in crypto-asset operations and supervision. During Spain's presidency of the Council of the European Union, the Ministry of Economy and Digital Transformation announced the European Union's Markets in Crypto-Assets (MiCA) Act. The Spanish government expressed its intention to fast-track the adoption of MiCA, with the crypto regulatory framework set to be enacted in Spain by December 2025. The EU's deadline for implementing MiCA across all 27 member states is July 2026.

Spain is a permanent invited guest to G-20 meetings and sits on the Financial Stability Board (FSB). Members of the FSB commit to maintaining financial stability, ensuring the openness and transparency of the financial sector, implementing international financial standards, and undergoing periodic peer reviews.

At the EU level, Spain has vigorously advocated for a banking union and for the European Central Bank to take a more active role in strengthening the single European currency. During the Spanish presidency of the Council of the European Union, the government succeeded in reforming fiscal rules, enabling member states to maintain sound public accounts while adequately financing public services.

Spain has been actively involved within the OECD in the fight against tax havens. As a member of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, Spain signed the statement on the Two-Pillar Solution to Address the Tax

Challenges Arising from the Digitalization of the Economy in July 2023. In February 2023, the Spanish Ministry of Finance approved a new list of non-cooperative territories. In November 2023, the Spanish government formally submitted Madrid's candidacy to host the new European anti-money laundering authority. Spain has a system for combating money laundering and the financing of international terrorism.

According to the Tax Justice Network, Spain was ranked 22nd in the corporate tax haven index in 2021 and 29th in contributing to financial secrecy worldwide.

Citation:
Tax Justice Network. 2022. "Country Profiles: Spain." https://taxjustice.net/country-profiles/spain/

Switzerland

Score 7

Switzerland is one of the world's most significant financial markets. The major Swiss bank UBS is a global financial player. The post-2007 global crisis and the economic problems of UBS in Switzerland – which forced the Swiss government to intervene massively to avoid the bankruptcy of this major bank in 2008 – triggered banking reforms, introducing measures to deal with the problem of banks being "too big to fail." Action was taken swiftly by the competent authorities, but lacked democratic transparency (Hirschi et al. 2022). Though it remained unclear whether these new rules and institutions would be sufficient in the event of a major crisis, the Swiss approach numbers among the most sound and prudent systems of regulation worldwide. However, this reform could not prevent a further major banking crisis in 2023, when Credit Suisse experienced a serious crisis of trust. Once again, the government actively and successfully intervened in the crisis, and motivated and even pressured the remaining large bank, UBS, to integrate the quickly eroding Credit Suisse into UBS. The government supported this in part by providing guarantees to UBS in case of substantial problems in the takeover. Fortunately, these resources were not needed in the end (FDF 2023b).

The federal government, bankers and international organizations such as the OECD (OECD 2019) assert 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. In this regard, the government has credibly implemented international agreements to prevent and combat high-risk financial activities that pose systemic risks.

Switzerland has proved very active in regulating new financial technologies, particularly in the case of 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).

In 2014, the Swiss government supported the OECD declaration on the automatic exchange of information in tax matters (OECD 2014), making the automatic exchange of information effective by 2017. This considerably modified Swiss banking secrecy – which had been rightly criticized for many years as a major element of international tax havens. In this case, rather than actively pursuing a strategy of transparency and avoidance of policies allowing it to become a tax haven, Switzerland simply reacted and bowed to massive international pressure (Gava 2023). Likewise, the OECD minimum tax for large international enterprises – abolishing tax havens in certain cantons – was reluctantly accepted by political elites and by the people in a popular vote in 2023. The major motivation for this retrenchment of regulatory havens has not been the desire for fairness and transparency. Rather, the main reason why even staunch supporters of Swiss sovereignty in tax matters agreed with the reform was the following: “If Switzerland were to refrain from introducing the minimum tax rate, the Swiss arms of corporate groups from these jurisdictions would be taxed more heavily by their parent country, which would lead to base erosion in favor of other countries” (FDF 2023a). Finally, in the 2023 AML Index of the Basel Institute on Governance assessing risks of money laundering and terrorist financing, Switzerland ranks only at the 16th place out of 34 European countries.

Citation:
Basel Institute on Governance. 2023. “Basel AML Index 2023: 12th Public Edition – Ranking Money Laundering and Terrorist Financing Risks Around the World.” Available at: index.baselgovernance.org

Federal Department of Finance, Eidg. Finanzdepartement. 2023. “Implementation of the OECD Minimum Tax Rate in Switzerland.” https://www.efd.admin.ch/efd/en/home/taxes/international-taxation/implementation-oecd-minimum-tax-rate.html#-41243966

Federal Department of Finance, Eidg. Finanzdepartement. 2023. “UBS takeover of Credit Suisse.” https://www.efd.admin.ch/efd/en/home/financial-affairs/ubs-takeover-credit-suisse%20.html

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

Gava, Roy. 2023. “Banking and the Swiss Financial Centre.” In The Oxford Handbook of Swiss Politics, eds. Patrick Emmenegger, Flavia Fossati, Silja Häusermann, Yannis Papadopoulos, Pascal Sciarini, and Adrian Vatter. Oxford: Oxford University Press, 563–584. https://doi.org/10.1093/oxfordhb/9780192871787.013.29

Hirschi, Caspar, Johanna Hornung, Dylan Jaton, Céline Mavrot, Fritz Sager, and Caroline Schlaufer. 2022. Wissenschaftliche Politikberatung in Krisenzeiten in der Schweiz: Eine Analyse der Finanzkrise, des Fukushima-Unfalls und der Covid-19-Pandemie. Study commissioned by the Swiss Science Council. Universities of Bern, Lausanne, St. Gallen.

OECD. 2014. “Declaration on Automatic Exchange of Information in Tax Matters.” Adopted on May 6. https://www.oecd.org/mcm/MCM-2014-Declaration-Tax.pdf
OECD. 2019. Economic Surveys. Switzerland, November 2019. Paris: OECD.

Austria

Score 6

Austrian governments have been moderately committed to regulating and supervising the international financial architecture effectively. Specifically, Austria has shown mixed performance regarding the promotion and implementation of an EU-wide tax on financial transactions, originally established in 2013. The ÖVP-led governments since 2017 have largely obstructed any significant progress in implementing this new tax.

At the same time, the government has been careful to avoid the impression that it is complacent about the challenges of an increasingly complex global financial system. For example, the country has applied to host the European Union’s new Anti-Money Laundering Authority (AMLA).

Regarding the Tax Justice Network financial secrecy score, which measures the contribution of each jurisdiction to financial secrecy on a scale from 0 (best) to 100 (worst), Austria received an average score of 54.6 among a group of other Western countries. Similarly, in terms of how a jurisdiction participates in international transparency commitments and engages in international judicial cooperation on money laundering and other criminal matters, Austria ranked in the middle compared to other Western countries, according to the same source.

This bears witness to the fact that Austria still cannot completely let go of its former “freerider” status as a rather secretive international tax haven, undercutting the stability of the global financial system, and has to make way for a serious – and most importantly fair – participant in the European Union and the international system.

Ireland

Score 6

Ireland has played a central role in international challenges related to high-risk financial activities and tax havens. The financial crisis and economic recession that began in 2008 were particularly severe in Ireland due to high-risk banking practices and limited regulatory control. However, oversight has significantly increased in the years that followed. In contrast, Ireland’s status as an international tax haven remains problematic. The EU Tax Observatory’s “Global Tax Evasion Report” suggests that Ireland is the second-largest profit-shifting destination globally, with over $140 billion shifted there in recent years (EU Tax Observatory 2023).

Corporate tax revenues for Ireland have surged since 2015, despite the low corporate tax rate of 12.5%, and a 6.25% rate for royalties introduced with the patent box regime in 2015. In 2022, Ireland collected the equivalent of €4,500 in corporate income tax revenue per inhabitant, nearly five times as much as France or Germany, which have much higher corporate tax rates. The Observatory notes that some of this growth may reflect the relocation of real activities, standard tax competition for capital, but they do not provide confidence that more than a small fraction is related to this. Instead, they attribute the increase mainly to the relocation of intangible assets following BEPS, the Tax Cuts and Jobs Act, and the introduction of the 6.25% tax rate (EU Tax Observatory 2023).

Ireland’s 12.5% corporate tax rate was one of the lowest in the OECD. The Irish government has since cooperated with the OECD BEPS changes, raising the base rate to 15%. However, some commentators believe that the government may not be fully implementing relevant international agreements to prevent and combat high-risk financial activities and that Ireland still has tax haven characteristics (Murphy 2023). To address this, the government has taken steps to enhance information transparency in international financial markets, particularly regarding non-bank financial intermediaries, and to strengthen consumer protection, largely under EU directives. Ireland now appears committed to ensuring the stability of the global financial system, playing a leading role in EU financial institutions, with senior Fine Gael Minister Paschal Donoghue chairing the 18-nation Eurogroup and Mairead McGuinness, a former MEP and vice president of the European Parliament, serving as the European Commissioner for Financial Stability, Financial Services, and the Capital Markets Union since October 2020.

However, the EU Tax Observatory also suggests that the global minimum tax is wholly insufficient because it preserves – and even strengthens – international tax competition. The global minimum tax allows firms to keep effective tax rates below 15% as long as they have sufficient real activity in low-tax countries. This exemption – a carve-out for economic substance – provides incentives for multinational companies to move production to very low-tax countries (EU Tax Observatory 2023).

Citation:
Murphy, R. 2023. “Does tax abuse by multinationals and the wealthy cost the world $5 trillion?” Tax Policy Associates Ltd.
EU Tax Observatory. 2023. “Global Tax Evasion Report 2024.” https://www.taxobservatory.eu/publication/global-tax-evasion-report-2024/

Israel

Score 6

The financial system in Israel is regulated by two main bodies: the Banking Supervision Division within the Bank of Israel, which supervises Israeli banks, and the Capital and Insurance Supervision Authority at the Ministry of Finance, which supervises insurance companies and institutional investors. A third body, the Israel Securities Authority, supervises the stock exchange. Coordination between these bodies is limited, and a committee formed to define the exact division of labor and cooperation between the financial regulators has not yet completed its work (State Comptroller 2024).

The financial regulators have adopted the Basel III regulations and the Banking Supervision division within the Bank of Israel conducts regular stress tests. Conversely, the state comptroller (2024) recently found that the resources of the Capital and Insurance Supervision Authority, which is part of the Ministry of Finance, are relatively low compared to similar agencies in other countries and that its risk assessment apparatus has not been functioning well in recent years.

The main goal of the financial regulators in recent years has been to expand competition within a system that was previously very uncompetitive and conservative. (This was one of the reasons cited by the Bank of Israel for the relatively mild effects of the 2008 financial crisis in Israel). In practice, the increased competition has so far mainly benefited big businesses, given reduced credit costs, rather than households and SMEs (Flaiszhaker 2022). One of the steps taken in this direction has been the formation of a credit rating database for individuals. However, it is still unclear whether this step has increased competition for households and lowered their credit costs.

Israel has not been proactive in eliminating tax havens. Moreover, in 2010, it passed a law that provides a 10-year tax exemption for Jewish immigrants and returning Israeli residents, which effectively made Israel a tax haven. On the other hand, Israel participates in the OECD's international treaty to prevent corruption and combat money laundering through the Authority of Prohibition of Money Laundering, and has been a member of the Financial Action Task Force (FATF) since 2018. The FATF has recognized Israel as a leading country in tackling money laundering.

Citation:
Flaiszhaker, D. 2022. "Financial and Monetary Regulation in Israel Law and Market Inequalities." Tel Aviv University Law Review 45 (2): [i]-664.

State Comptroller. 2024. "The Supervision of the Capital Market Authority on the Institutional Bodies that Manage Long-Term Savings" (Hebrew). https://www.mevaker.gov.il/sites/DigitalLibrary/Documents/2024/The-cost-of-living/2024-The-cost-of-living-104-Hon.pdf

Japan

Score 6

Due to having an export-oriented economy and the strong position of the Tokyo Stock Exchange, it is in Japan's interest to support a stable global financial system. Japan remains a major shareholder in the Asian Development Bank and traditionally gets to nominate its president. However, the Japanese government has rarely been an agenda-setter in the field of international financial markets regulations. It usually supports U.S.-centered institutions, such as the International Monetary Fund, to counterbalance China's initiatives, such as the Asian Infrastructure Investment Bank (AIIB). As an alternative to the AIIB, Japan has promoted the Partnership for Quality Infrastructure since 2015.

Japan has participated in various initiatives related to maintaining a stable global financial system promoted by the G20 and G7. During the G20 summit in Osaka in 2019, Japan proposed the establishment of Task Force 2 to examine the causes of global financial instability, share Japan's experience in introducing crypto asset regulations, create recommendations for strengthening global financial safety nets and discuss the development of Fintech. Nevertheless, so far, there has been no progress in realizing these plans.

During the meeting of G7 finance ministers and central bank governors in Niigata in May 2023, Japan agreed to implement effective regulatory and supervisory frameworks for crypto asset activities and markets, as well as supported increasing the role and resources of the Financial Action Task Force charged with combating money laundering. In addition, G7 countries expressed their commitment to the disclosure of information on sustainability including climate. Nevertheless, Japan has remained relatively passive in promoting these initiatives. Japan supports the OECD policy of a 15% corporate minimum tax rate.

A potential problem for the stability of the global financial system arises from the fact that the Bank of Japan maintains a low-interest policy, whereas all other major central banks have raised interest rates to battle inflation. According to analysts, the gap between bond yields in Japan and the rest of the world may harm Japanese investors who own foreign bonds and the global issuers of bonds who have relied to a large extent on demand from Japanese buyers.

Citation:
"How Japan Poses a Threat to the Global Financial System." The Economist, November 23, 2023. https://www.economist.com/finance-and-economics/2023/11/02/how-japan-poses-a-threat-to-the-global-financial-system.

Ministry of Finance. 2023. "G7 Finance Ministers and Central Bank Governors Meeting Communiqué." https://www.mof.go.jp/english/policy/international_policy/convention/g7/g7_20230513_1.pdf

"Task Force 2: International Financial Architecture for Stability and Development/Crypto-assets and Fintech." 2019. https://t20japan.org/task-forces/international-financial-architecture-stability-development-crypto-assets-fintech/

Netherlands

Score 6

Previously a staunch advocate of a multilateral approach to international relations, even in the face of difficult economic and strategic challenges, Dutch foreign policy remains formally committed to ensuring that international financial institutions maintain sufficient capitalization to uphold global financial and economic stability. Financial and foreign policies also prioritize establishing a resilient trade and investment system geared toward sustaining a level playing field, economic resilience, open markets, and transitions to a digitized and sustainable economy.

However, the country's commitment to a multilateral global system upheld by multilateral treaties is no longer unconditional. The Royal Speech from the Throne

2023 stateed: “In international trade policy, the cabinet is also working to build economic resilience and reduce unwanted strategic dependencies.” This significantly qualifies the Netherlands’ continued formal commitments to global and multilateral financial systems. Increasingly, the Netherlands is looking to NATO and the EU to achieve its global objectives. However, following Prime Minister Rutte’s departure, a more eurosceptic voice from the Netherlands is gaining traction in Brussels. Among the four parties that secured seats in the November 2023 elections, only GroenLinks-PvdA remains pro-European. Wilders has called for a referendum on a Nexit, NSC leader Omtzigt wants a national referendum on EU accession by new countries, and the BBB wants to renegotiate the Netherlands’ opt-out position on migration and environmental policies.

Compounding this ambivalence is the response to EU calls to address the Netherlands’ reputation as an international tax haven and improve tax information transparency. The EU’s Tax Observatory has found that the Netherlands plays a crucial role as the world’s largest transit country for capital seeking tax avoidance. The wealthiest Dutch citizens are able to reduce their tax burdens on income and wealth significantly compared to billionaires in France or the United States (Global Tax Freedom Report 2024, figure 4, p. 12), resulting in an annual revenue loss of €22 billion for other countries due to these tax policies.

Despite some positive reception from the European Parliament regarding Dutch tax reforms, both domestic (as discussed under “Sustainable Taxation”) and international transparency issues persist. For instance, foreign companies negotiate undisclosed tax agreements with the Tax Service. Efforts to address tax evasion have only gained urgency due to data leaks (Panama Papers, Paradise Papers, Pandora Papers, Uber Files) and robust investigative journalism.

Citation:
Brands, Aïda. 2022. “Europees Parlement onverwacht positief over Nederlandse belastinghervormingen.” NOS Nieuws, October 13.

EUTax Observatory. 2024. “Global Tax Freedom Report.”

Kysia Hekster. 27 November. “Winst Wilders is wake-upcall voor EU en slecht nieuws voor ambities Rutte.” NOS Nieuws.

Brussels Peil, van Slooten, 19 November 2023. En dan de inhoud. Het gaat er niet over.

NRC. 2023. “Opinie Roel Janssen. De fiscus ondermijnt zelf het Nederlands belastingstelsel.” October 27.

Initiatiefnota van de leden Nijboer en Van der Lee over de aanpak van Nederland als belastingparadijs. 2022–2023. TK, Vergaderjaar, 16.273.

Ministerie van Buitenlandse Zaken. 2023. Beleidskader Mondiaal Multilateralisme.
Positionering van het Koninkrijk in een veranderende multilaterale wereldorde

DNB Bulletin. 2023. “Nederland gevoelig voor verbrokkeling van internationale handelssysteem.” December 8.

Greece

Score 5

Greece, a Eurozone member state, is bound by Eurozone regulations and decisions of the Eurogroup. Representatives of the Greek government participate in appropriate EU forums where regulation and supervision of financial markets are discussed. Given the relatively small size of the Greek economy and its past problems – the economic crisis of the 2010s – it is not possible for Greece to actively guide the effective regulation and supervision of the international financial architecture.

Over time, Greece has made progress. It has overcome the economic crisis, and financial supervisory authorities have become more effective while non-performing loans have vastly declined between 2008 and 2023 (CEIC data 2023).

Greece ranks low in the IMF's financial soundness indicators. It scores average in financial secrecy but below-average in international transparency commitments and international judicial cooperation on money laundering and other criminal matters. Compared to other Eurozone members, the country still struggles with non-performing loans of government units. Generally, however, Greece supports a more regulated international system for financial markets.

Citation:
On IMF's financial soundness indicators: Financial soundness indicators (FSIs), regulatory Tier 1 Capital to Risk-Weighted Assets URL: https://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA).

On non-performing loans of banks: CEIC data 2023, "Greece Non-performing Loans," https://www.ceicdata.com/en/indicator/greece/nonperforming-loans

On non-performing loans of government: Non-performing loans of government [GOV_CL_NPL] URL: https://ec.europa.eu/eurostat/databrowser/view/gov_cl_npl/default/table?lang=en

Italy

Score 5

The Italian government and public financial institutions, such as the Bank of Italy, generally support international and European policies aimed at improving financial market regulation and supervision. The Italian government and the Bank of Italy typically favor a collective approach within the framework of EU and G7 institutions.

The Draghi government reinforced this position, leveraging the prime minister's international prestige to play a more active role in this arena, exemplified by the adoption of the global minimum tax at the G-20 meeting in Rome under the Italian presidency. All in all, the high international profile of the Italian prime minister and his background have been a catalyst for international negotiations.

The Meloni government has attempted to follow this path but faced serious problems within its coalition regarding the approval of the European Stability Mechanism

(ESM) reform. The Northern League and Brothers of Italy have always opposed the ESM reform, and in December 2023, the Italian parliament voted against it, making Italy the only eurozone country to do so. Internal tensions between the more internationally open and nationalist factions have heightened, particularly with the upcoming European elections.

This decision may have undermined the Italian government's credibility. During negotiations on the new Stability and Growth Pact approved in December 2023, the Meloni government managed to dilute corrective measures until 2027. However, from 2027, Italy must respect the new deficit-to-GDP threshold of 1.5%.

Poland

Score 5

Poland is not among the leading countries in global financial cooperation, and is not a G-20 member, despite aspirations fueled by its rising GDP, which reached 21st place worldwide in 2022. Nevertheless, the country is considered an attractive site for foreign direct investment (FDI), which reached a record high of $24.8 billion in 2021. According to the Polish Economic Institute (PIE), Poland ranked 14th globally and third in the EU with regard to FDI in 2021. Greenfield FDI has been resilient and increasing since 2015, with South Korea as the top investor in 2021.

Investors primarily come from Germany, France, the Netherlands and the U.S., with funds flowing largely into the manufacturing, wholesale/retail, finance and real estate sectors. Despite the country's appeal, Polish law restricts foreign ownership in strategic sectors and limits real estate acquisition. New laws grant the president of the Office for Competition and Consumer Protection the authority to review FDI for security reasons. In 2022, controls on new foreign direct investment were extended until mid-2025.

Poland boasts a favorable business climate, ranking 29th out of 82 countries. Its banking industry is advanced, with Moody's rating Poland's creditworthiness at "A2," the highest rating achievable. However, a significant challenge lies in the economy's high dependency on foreign loans, which are used to fund social programs and military expenditures.

Additional challenges stem from the prestige and accountability of the National Bank of Poland (NBP). Under President Adam Glapiński, the NBP has faced controversies over having allegedly exceeded its official powers, as well as politicization, wastefulness and issues of collaboration among its organs. These factors could impact Poland's international rankings and credibility (Lloyds Bank 2023).

Citation:
Lloyds Bank. 2023. "Foreign Direct Investment (FDI) in Poland." https://www.lloydsbanktrade.com/en/market-potential/poland/investment
Jurkowska-Zeidler, Anna. 2023. "Public Interest in the Banking System."
REGULATION. "Studia Iuridica" 98.

DOI: https://doi.org/10.31338/2544-3135.si.2023-98.7

Hungary

Score 3

As a member of the European Union, Hungary has participated in the EU's efforts to improve the regulation and supervision of financial markets. However, the country has not adopted the euro and has remained outside the European Banking Union. Oligarchs profit from deregulated financial markets and less stringent control mechanisms, making robust government engagement in this area highly unlikely. As a country with a low corporate income tax rate, Hungary has opposed G-7 and OECD attempts to introduce a global minimum corporate income tax. Hungary is relatively passive in shaping the international financial-market regulatory framework, except when using its veto position in the EU Council to obstruct financial schemes such as financial aid for Ukraine. This shortsighted blackmailing strategy may negatively affect Hungary's access to European funds in the long run, and is thus counterproductive. Moreover, the Central Bank of Hungary has taken a restrictive stance toward new fintech companies such as Revolut and Wise, applying the 0.3% transaction fee to them and repeatedly pushing these companies to establish a Hungarian affiliate (e.g., MNB 2022).

Citation:
MNB. 2022. "No progress for the time being in Revolut's becoming a subsidiary bank." https://www.mnb.hu/en/pressroom/press-releases/press-releases-2022/no-progress-for-the-time-being-in-revolut-s-becoming-a-subsidiary-bank

Address | Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Germany
Phone +49 5241 81-0

Dr. Christof Schiller
Phone +49 30 275788-138
christof.schiller@bertelsmann-stiftung.de

Dr. Thorsten Hellmann
Phone +49 5241 81-81236
thorsten.hellmann@bertelsmann-stiftung.de

www.bertelsmann-stiftung.de
www.sgi-network.org

SGI Sustainable Governance Indicators

| BertelsmannStiftung