Overview of the work of the
Economics, Energy and Innovations Committee of the Baltic Assembly in 2012

Under the Lithuanian presidency in the Baltic Assembly the BA Economics, Energy and Innovations Committee focused on the issue of integrated and stable financial markets of the Baltic and Nordic countries.

The financial crisis revealed the need for changes in financial stability arrangements, supervisory and regulatory frameworks, as well as to ensure enhanced coordination among national supervisors, central banks and governments in a cross-border crisis situation, and the integrated approach to crisis prevention, management and resolution in order to promote financial stability.

Activating the issue about integrated and stable financial markets that can be achieved only through close cooperation among the countries in the region, the Committee after detailed discussions with experts from the parliamentary, executive and international level has come up with concrete issues that need meticulous and urgent attention. These recommendations have been excerpted from the seminar "Towards Integrated and Stable Financial Markets of the Baltic and Nordic countries" and cover such issues as legal obstacles for information sharing, supervision, intervention and identification of risks, supervisory authorities, sanctions, national and foreign banks, taxes, funds, burden sharing, information exchange and public awareness. Concrete problem cases and proposals:

- **Legal obstacles in sharing information** should be identified. It includes also contacting offshore islands about accounts.
- **Cross-border supervisory cooperation** has to be facilitated by enhancing the respective legislation, especially in cases when there are first indications of potential problems.
- Despite signing cooperation agreement for guaranteeing financial stability in the region with Nordic and Baltic Countries and Memorandum of Understanding on cross-border financial stability, there are following **problems to be solved**:
  - diversity or divergence of supervision standards in banking supervision.
  - capacity of national supervision system to exercise control over the banks in foreign ownership operating in the state.
- **Supervision should be improved**:
  - by granting intervention and identification of risks by the supervisors as early as possible;
  - exchanging correct, clear and comprehensive information and coordinating different activities of regulators is not a pure supervisory exercise; it is a task of the ministries of finance, the central banks, and state security agencies;
  - assessment methods of banks' shareholders and management need to be improved and strengthened, and the assessment results have to be used in determining the risk profile of a bank;
  - a well grounded, specific contingency plans for crisis situations of the most important market participants have to be prepared and adjusted on an ongoing basis.

- the traditional, well-tested tool kit should be supplemented with new tools that allow to better assess the quality of the bank's strategy and compliance of the bank's everyday business with this strategy;
- active banks have to be supervised in future by a central supervisory authority in e.g. Brussels, Frankfurt, London etc. National banks have to be supervised by national supervisory institutions;
- a further step could be integration of the supervisory structures on the regional level: banks can be active throughout a number of countries with the same rules and under a single supervision;
- available sanctions have to be used, and not wait until the problems really arise.

- Small countries have to have their own **national banks**: for conducting an industrial policy, or more broadly a general economic policy it is important that companies can work with banks that know the local economy and support the developments. Investing in innovation and development requires that the lender have a thorough knowledge of the local business environment.
- Less concentration of banks from one country is preferable.
- We should stick to **the composition of the banking sector** we have in place.
- Existence of **foreign banks** promotes stability, but it diminishes competition and the costs are increasing.
- **retail banking and investment banking should be separated**. Retail or traditional banking will have deposits, the state will guarantee them, but one must not be able to use the state guarantee in a risky international investment business. Banks should stick to their profile, and not mix universal banks with investment banks. Mixing insurance companies with banking has also turned out to be risky.
- As regards **taxation of banks**, it is important not to lose the focus on development of the banking and financial sector. Banks are paying at least three taxes: the financial stability duty, levies to insurance funds, and for supervision. But there is a room for taxation of bank managers.
- Banks like any other companies have to be **allowed to go bankrupt**.
- **establishing a fund for special purposes**, where the banks are obliged to make contributions. In a situation of crises the collected resources could be used purposefully for resolving the financial crisis and thus the use of taxpayers' money would be avoided.
- Countries have to agree upon the **principles of burden sharing**. The European Commission has launched a proposal to establish a foundation the banks should be paying to, this money could be used later on to finance such measures.
- It is important to **improve information exchange** between the countries timely and to **provide the right information to the public**.

On the basis of these many ideas, the Committee approached the ministries of the Baltic States with concrete questions. Overview with questions and answers is provided in ***Attachment 1*: *Answers to the questions submitted by the Economics, Energy and Innovations Committee of the Baltic Assembly; 2012.***

Firstly, question about **national banks**. Given the developments in the banking sector, namely the collapse of the Lithuanian *Snoras Bank* and subsequent problems with *Latvijas Krājbanka*, or false alarm and the arising panic in the society about the insolvency of another bank in Latvia, each bigger or smaller instability in the financial or banking sector endanger the stability of the whole system, and the crisis or severe financial problems in one country of the region bring threats to another country in the region. Currently, commercial banks dominate the markets of the Baltic States, and there is a tendency to resist establishing national banks.

Secondly, parallel to the Baltic ministries, the question regarding **national banks was addressed also to the parliaments of Norway, Iceland, Germany and Austria** since national banks are functioning successfully in these countries. The Committee asked to explain what is the justification for having national banks and whether there is any "pressure" from commercial banks or EU institutions to avoid having national banks. The Committee received answers only from the Norwegian and Austrian parliaments, providing inconcrete and general answers. The Committee will continue exploring this issue.

Thirdly, **legislative problems in the banking sector** that impede efficient and coordinate decision-making and exchange of information among the countries involved were sought.

Fourthly, question about joining resources in **developing new projects**. Answers stated that cooperation is active in the areas of energy, transport, research and development, and infrastructure. Rail Baltic 2 project is one of the flagship projects in the framework of the EU Strategy for the Baltic Sea Region. In the field of research and development the project for creation of Baltic Innovative Research and Technology Infrastructure (BIRTI) has been initiated.

Fifthly, given the considerable potential in the region, the Committee rose question about any **joint projects of renewable energy sources, inter alia,** the **Interreg project "The Gulf of Riga as a Resource for Wind Energy (GORWIND)**".

Lastly, as regards the issue of **Visaginas nuclear power plant** answer from Estonia emphasized that before launching any joint undertakings in the Baltics there has to be conviction that projects are based on economic rationale and distribution of potential benefits take place according to the desired contributions from each partner. This cooperation has a potential to deliver significant economic benefits and provide a higher degree of energy security in the future.

In 2013 the BA Economics, Energy and Innovations Committee in cooperation with the B Education, Science and Culture Committee will focus on:
- the Baltic research and innovation cooperation: BIRTI Project;
- development of joint regional tourism conception;
- cooperation in the field of transport and infrastructure projects;
- cooperation in the field of energy projects.