

Benoît Cœuré: Completion of the ECB-coordinated technical cooperation programme of the Eurosystem with the Central Bank of Montenegro

Introductory remarks by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, at the press conference on the closing of the EU-funded technical cooperation programme with the Central Bank of Montenegro, Podgorica, Montenegro, 23 March 2015.

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Dear Governor Dakić,

Dear Mr Lys,

Your Excellencies,

Ladies and gentlemen,

It is a pleasure for me to be here in Podgorica today to mark the completion of the ECB-coordinated technical cooperation programme of the Eurosystem with the Central Bank of Montenegro.

Let me first of all thank Governor Dakić and the Central Bank of Montenegro for your strong support and the active involvement of your staff. We have seen seven months of intensive work and excellent cooperation designed to strengthen the institutional capacity of the central bank, an institution which is key to the overall macroeconomic and financial stability of Montenegro as it moves towards joining the European Union (EU). The programme has also helped to strengthen the contacts and relations between our institutions.

I would also like to express my gratitude to our 10 partner national central banks (NCBs), namely those of Austria, Estonia, France, Germany, Greece, Italy, the Netherlands, Portugal, Slovakia and Slovenia, who provided the expert knowledge that made this programme a success. The large number of partner NCBs in this programme is a clear indication that our institutions have not turned inward-looking, despite the major challenges faced over the past few years in the wake of the global financial crisis and then the euro area sovereign debt crisis. I would like to take this opportunity to thank the experts from all the central banks for their willingness to share their knowledge and for their dedication and commitment in taking on this additional assignment in the area of technical cooperation.

Let me also express my gratitude to Mr André Lys and the Delegation of the European Union to Montenegro for funding this activity through the Instrument for Pre-Accession Assistance. It is a fine example of how European institutions can work together for the benefit of EU candidate countries.

I will now briefly turn to the results of the programme and how it is embedded in our institutional relations.

The main deliverable of the programme is a report that lays down recommendations for changes to the central bank law and regulations as well as processes and practices in order to prepare the Central Bank of Montenegro for membership of the European System of Central Banks, once Montenegro joins the EU. I am confident that this report will help to develop the central bank's strategy, to strengthen its role as an institution and to smooth the path towards EU accession. Let me say that our experts could not have produced such a comprehensive report without the excellent cooperation of the Central Bank of Montenegro and the commitment of Governor Dakić and his team to this project.

The needs assessment report and the recommendations, however, are not the only tangible outcomes. Throughout the whole programme, staff members of the central bank have met many colleagues from Eurosystem national central banks as well as from the ECB and have established an excellent network of contacts. They can thus draw on the expertise of many

national central banks that are actively participating in a number of other initiatives in the region.

Our institutional relations with the Central Bank of Montenegro, and with other central banks in the Western Balkans more generally, go beyond technical cooperation. In November last year, I was pleased to welcome Governor Dakić and Vice Governors Fabris and Milošević to Frankfurt for the second high-level policy dialogue between our respective institutions. The ECB conducts such dialogues with all the central banks of those countries which are negotiating to join the EU. The ECB also launched a Regional Workshop Series last year that provides opportunities for policy discussions and technical cooperation. Both of these are based on the regular monitoring and analysis of economic and financial developments in countries which are prospective EU members.

The ECB and the entire Eurosystem engage in these activities with central banks of EU candidate and potential candidate countries on account of the strong economic and financial links between the euro area and the Western Balkans, the prospect of EU integration, and the associated need for sustainable convergence.

Economic and financial links between the euro area and the Western Balkans, including Montenegro, are very close. For example, banks with headquarters in the euro area account for around half of the assets of the Montenegrin banking sector, while around one third of Montenegro's total trade is with the euro area. We therefore have a mutual interest in each other's well-being.

Capital inflows from the EU together with this region's growing integration into pan-European production chains will help the economies here to catch up and will gradually contribute to higher living standards – provided, of course, that sound domestic policies are in place to make this happen. Similarly, economic growth in the euro area and the rest of the EU will have a positive impact on the region here. In this regard, the recovery of the economic situation in the euro area is good news for Montenegro and the Western Balkans generally.

Links will grow as a result of the banking union which is being established in the EU. The new institutional set-up involves new responsibilities for the ECB, which became the banking supervisor of the entire euro area last November. The establishment of this Single Supervisory Mechanism consolidates our relationship with the Western Balkans in view of the ownership structure of the banking sector. The ECB will at the same time become the home supervisor of a large part of the banking sector in Montenegro and other countries in the region.

The main reason, however, for our focus on the countries in the Western Balkans and their central banks is the prospect of EU membership.

For one, the EU central banking community considers it important to support its sister institutions in this region as they seek to apply best practices for the benefit of their country and their people. This is also in the interests of all EU central banks as one day the Central Bank of Montenegro will join the European System of Central Banks and, at that time, will need to meet all relevant standards and be able to function properly within the system.

Moreover, strong, stable and independent institutions are a prerequisite for sound macroeconomic policies and financial stability, which in turn are a condition for sustainable convergence. This is in the interests of Montenegro but, again, also in the interests of the euro area and the rest of the EU. Joining the European Union and eventually the euro area is not an end in itself. They are a means to an end, namely to enhance the welfare of the Member States and their citizens.

In this regard, one of the key lessons of the recent crisis in the euro area is that in order to benefit from membership, countries need to achieve sustainable convergence. Convergence must not only be reached in the run-up to joining. To sustain it requires constant policy efforts in the areas of fiscal, financial and, in particular, structural policies.

Pursuing growth-promoting structural reforms while maintaining financial stability and fiscal sustainability need to be key policy priorities for economic policy-makers in this context. This applies both prior to and after EU accession. The best contribution central banks can make is to ensure price stability and to remain focused on their mandate, while having a sound institutional framework that ensures their independence.

There is one point that I would like to mention which makes the Central Bank of Montenegro a special case: it does not issue a national currency. The Deutsche Mark and subsequently the euro were unilaterally introduced by the Montenegrin authorities as a parallel currency and then as the sole legal tender in a very specific historical and economic context, which we acknowledge. However, Montenegro's unilateral use of the euro is fully distinct from any special relationship with the euro area, let alone euro area membership. According to the EU Treaties, the adoption of the euro is the end point of a structured convergence process within a multilateral framework. Our support provided in this programme therefore does not prejudge the ECB's or the EU's position with respect to the implications of the EU Treaties' framework on Montenegro's monetary regime. This will have to be duly assessed during the country's ongoing negotiations to join the EU.

Let me conclude by noting that our institutions share a common future in Europe. The results of this programme will form the basis for stronger links between the central banks of the EU and the Central Bank of Montenegro. Let me emphasise that the ECB and the Eurosystem remain committed to Montenegro and the region. Completing this needs assessment programme will not bring our cooperation to an end – on the contrary, it provides us with a solid foundation for further common work. We will devise new joint activities which take account both of your priorities and of the resources available in the Eurosystem.

I wish you every success with all the work ahead on the road towards membership of the European Union.

Thank you for your attention.