

Gertrude Tumpel-Gugerell: Protocol to bring the National Bank of Serbia into line with EU central banking standards

Introductory statement by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the press conference on the occasion of the signing of the protocol between the European Central Bank, the National Bank of Serbia and the Delegation of the European Union to the Republic of Serbia, Belgrade, 18 March 2011.

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Mr Šoškić, Governor of the National Bank of Serbia,

Mr Degert, Ambassador and Head of the Delegation of the European Union to the Republic of Serbia,

Ladies and gentlemen,

I am very happy to be back here in Belgrade. Like last time, I am here to announce the start of a close cooperation programme between the ECB, the national central banks of the EU and the National Bank of Serbia. This programme, which has in fact already been under way since 1 February 2011, is again funded by the EU.

Much has happened since I was last in Belgrade on 1 September 2008. At the end of the previous cooperation programme, we delivered a needs analysis report to the then Governor, Radovan Jelašić. Since then we have experienced a major financial crisis that has affected both the EU and the Republic of Serbia. I would like to reflect on these two points in my introductory remarks.

The needs analysis report that we completed in May 2009 made a number of recommendations for further advancement of the National Bank of Serbia in technical domains and for amendments that would be required to Serbian legislation. Such changes are necessary for Serbia to receive acknowledgement as being prepared for joining the European Union and the National Bank of Serbia to have reached a level that would be commensurate with being ready to join the European System of Central Banks.

The ECB cooperated with 17 national central banks in preparing that needs analysis report for the National Bank of Serbia. Today we are proud to announce that we have 21 national central banks on board. We have elaborated a detailed plan of what we intend to do when, and how, over the next two years, on the different components of the programme. We believe that having such a large group of partners working with the ECB will benefit both the programme and the National Bank of Serbia.

In the needs analysis report two years ago we looked at six areas of central banking of the National Bank of Serbia. As part of the current programme, as you can see from our joint press release, we will cover a diverse range of topics that spans 11 areas of the National Bank of Serbia's competencies.

In 2008 and 2009 much of the work involved in preparing the needs analysis report was in the hands of EU central bank experts. They proposed a benchmark against which the National Bank of Serbia should measure itself in assessing its readiness for joining the ESCB. They were responsible for delivering an assessment and recommendations on areas that could be further improved. The new project that has just started offers training sessions for staff of the Bank and support in the preparation of new draft legislation as well as internal the rules of procedure and policies that will bring the Bank into line with EU central banking standards and working methods. Governor Šoškić and his team are committed to preparing a large number of programme outcomes or deliverables, and for our part, we from the EU will do all we can to support our Serbian colleagues in reaching the targets they have set for themselves. Today I will formally confirm this support and commitment on behalf of the EU

central banks by signing the relevant protocol alongside Governor Šošković and Ambassador Degert.

Let me now briefly turn to the second element of change over the last three years that I highlighted a moment ago. The financial crisis that has gripped the world since October 2008 has been challenging for the EU as well as for Serbia. There are many lessons to be learned from this crisis. In view of the time available, I would like to focus on two of them. One is the importance of good public finances and the other is the role of central banks in helping to safeguard financial stability.

In the EU, the Stability and Growth Pact has always been seen as a key component in the process of ensuring sound public finances while fiscal policy remains a national competence and we have not advanced further towards a federation and/or harmonised fiscal policies. Very much to the ECB's regret, the reform of the Stability and Growth Pact in 2005 weakened the fiscal framework substantially. The greater flexibility that was created has led to a lack of enforcement of fiscal discipline at the EU level and insufficient national incentives to comply with the EU rules.

Drawing the lessons from the current crisis for the euro area in particular, the ECB has advocated a quantum leap in terms of economic governance: better coordination between countries, clear rules for economic policy conduct, quasi-automaticity in their implementation and sanctions for non-compliance. I would like to underline how important it is for a country like Serbia, as for any other advanced or emerging economy, to pursue sound fiscal policies. As an open economy facing balance of payment challenges, it is crucial that Serbia pursues stability-oriented macroeconomic policies that will bring international recognition and put the country in a position to finance domestic and external deficits temporarily, which in turn would smooth its development process.

Another lesson drawn from the crisis by the EU was that there was a need to review and reinforce the structures for micro and macro-prudential supervision. The result has been the establishment of three pan-European supervisory authorities that have been given powers to promote EU interests in securing financial stability while day-to-day supervisory powers remain at the Member State level. On the macro-prudential side, the ECB has been asked to take on challenging new obligations arising from the establishment of the European Systemic Risk Board (ESRB). The ECB provides the Chair of the ESRB and its Secretariat. While the ECB has for many years raised its voice on financial stability concerns and risks in the euro area, the new ESRB must work from an EU-wide perspective and assume the additional role of issuing warnings and recommendations. The authorities responsible for financial stability will either need to comply with those recommendations or explain why they do not wish to do so. We consider this a useful way forward in the absence of the more radical step of a transfer of competencies from the national to the European level. From the point of view of the individual country, including Serbia, I would also stress how important it is that the financial stability mandate is clearly allocated and that the central bank plays an important contributory role in this context.

We have drawn a number of other conclusions from the financial crisis in Europe – including at central bank level. We draw our inspiration from a firm intention to perform our tasks in a better way so as to avoid a repetition of what we have been through over the last couple of years. The implication of this is that, to some extent, the best practices of central banking in the EU are a moving target, since we consider it our duty to remain always at the forefront of developments that will help us to achieve our objectives in the best way possible. From this perspective, today's event should not only be seen as marking the continuation of an already strong partnership between the National Bank of Serbia and a large number of national central banks in the European Union. It should hopefully also highlight a partnership that will continue for many years, even after we have successfully concluded this current programme at the end of January 2013.

The ECB will coordinate the programme from Frankfurt am Main and has dispatched a Resident Programme Coordinator who will remain in Belgrade until it is completed. The national central banks have identified their respective experts on supervision, foreign exchange reserve management and payment systems, to give just a few examples. The National Bank of Serbia has also made very strong commitments, assigning substantive resources to the programme and its coordination. I wish all the experts and managers involved success in achieving the ambitious targets of this two-year central bank cooperation programme.

Many thanks and good luck to you all.