Jörg Asmussen: Introductory remarks at the press conference on the completion of the EU-funded cooperation programme with the National Bank of Serbia

Introductory remarks by Mr Jörg Asmussen, Member of the Executive Board of the European Central Bank, at the press conference on the completion of the EU-funded cooperation programme with the National Bank of Serbia, Belgrade, 12 December 2013.

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Governor Tabaković,

Ambassador Davenport,

Ambassadors,

Ladies and gentlemen, representatives of the media, dear colleagues,

Last week, Governor Tabaković was in Frankfurt for the ECB's high-level conference where we discussed with governors and senior central bankers from all over the world the role that technical cooperation and central bank cooperation more broadly can have in raising staff and institutional capacities. The consensus was that the impact can be high when cooperation is open and honest, and there is strong commitment and dedication on both sides.

A highly successful programme

Today it is my pleasure to be in Belgrade on the occasion of the closing of the ECB-coordinated technical cooperation programme with the National Bank of Serbia. The programme has received funding from the European Commission through the Instrument for Pre-Accession Assistance. The aim of our work has been to support the National Bank of Serbia in its efforts to bring its rules, procedures and processes closer to EU central banking standards and to support the bank in preparing new legislation that implements the legal framework of the European Union. This very programme has been characterised by all the positive things that we agreed last week in Frankfurt would be important for success.

The programme we are closing today has been the ECB's most complex and ambitious programme to date. It has covered 13 different central banking areas and has been implemented in partnership with 21 national central banks from the European System of Central Banks. More than 170 experts from EU central banks have been providing input and guidance to their Serbian colleagues and around 150 Serbian colleagues have been visiting their EU counterparts to get hands-on exposure to systems and procedures used by them in their respective central banks. Together, these experts have developed an impressive number of handbooks, guidelines and procedures, models for economic analysis, statistical systems and new primary or secondary legislative acts; this whole framework has helped the National Bank of Serbia take an important step forward towards implementing EU central banking standards.

Looking back, the project got underway on 1 February 2011, when we committed to working together for 24 months. As we were approaching the end, we saw that we had reached all of our targets and objectives in a very effective and efficient way. We therefore agreed to extend the contract by 11 months and to deepen the work in three areas. This work has now too been fully completed and we are ready to close the programme.

In most of the areas covered during this time, the National Bank of Serbia will continue to implement work that we started together. You can, for instance, look forward to new and updated statistics for the balance of payments and for the financial accounts, which the National Bank of Serbia plans to start publishing in the next few years. It also has new analytical tools for both macroeconomic and financial stability analysis, allowing it to speak with a stronger voice in the national and international debate. These are only a couple of examples of what this programme has achieved. Obviously the work does not end here. There are still areas within the National Bank of Serbia that need upgrading before it joins the European System of Central Banks. In addition, the EU continues to update rules, regulations and best practices, which means that the target is always moving.

Let me turn to a few points that are not directly linked to the programme, but are important as they relate to current challenges in the EU as well as in Serbia.

Common challenges in the euro area and in Serbia

While central banks have done what they can to limit the most devastating effects of the global financial crisis, there are limits to what the central bank can do. The ECB can keep interest rates low and resort to non-standard measures as warranted by exceptional circumstances, in line with our mandate of price stability. Maintaining price stability is the best contribution that a central bank can make to support economic growth and employment. ***We cannot, however, address by ourselves the underlying root causes of the problems that relate to fiscal and macroeconomic imbalances, a lack of competitiveness, low growth and high unemployment.*** Governments of EU Member States have to do their part of the work through structural reforms and fiscal consolidation to return the economy to long-term sustainable growth and to boost employment.

While the challenges are obviously not identical, these same issues are also relevant for Serbia. Structural reforms to enhance competitiveness and support growth potential, fiscal consolidation and ultimately sustainable convergence are challenges to be addressed by the political authorities in this country in their endeavour to move closer to the EU. ***The best contribution the National Bank of Serbia can make to support this is to achieve price stability, based on a sound institutional framework that ensures its independence***.

Turning back to the euro area, the crisis also revealed that the institutional framework of our Economic and Monetary Union – in which the ECB is the central bank tasked with ensuring price stability – needs to be strengthened. The Heads of State or Government have therefore embarked on reforms of euro area governance, including, for instance, the fiscal framework governing Member States' fiscal policies with a view to enhancing fiscal discipline. They have also embarked on the creation of a banking union that will centralise critical functions relating to the banking sector at the European level, thereby severing the direct link between sovereigns and their banking sectors that proved to be an Achilles heel during the crisis.

Following the necessary political decisions, the ECB has now started building a banking supervisory function that will be responsible for the direct supervision of around 130 systemically relevant banks in the euro area, as well as for the indirect supervision of banks that are not considered systemically relevant. The ECB will assume this role in November next year and will implement the new harmonised model together with the national competent authorities, whether central banks or non-central bank supervisors. We call this the single supervisory mechanism (SSM).

This also has implications for EU candidate countries and potential candidates in the Western Balkans, including Serbia, given the role of banks headquartered in the euro area in the banking sectors of the region. The establishment of the SSM implies that for many foreign-owned banks operating in Serbia, the ECB will become the "home" supervisor and they will no longer be supervised by different national supervisors depending on where they have their headquarters. In addition to enhancing the quality of the supervision of parent banks, ***the SSM has the potential to facilitate home-host country cooperation in banking supervision – thereby strengthening the relationship between the ECB and the National Bank of Serbia in this area as well***. In parallel, work is underway on a bank recovery and resolution regime, which in our view is a crucial component in severing the link between sovereigns and banks and will be a complement to the SSM.

An immediate priority in the euro area is to repair the balance sheets of commercial banks, where necessary. The ECB is conducting a comprehensive analysis of bank balance sheets before assuming the supervisory responsibility and we have made it clear on many occasions that we need to have a European recovery and resolution regime in place by the time the SSM assumes its responsibilities.

Turning to Serbia again, recent developments show that similar challenges apply to the Serbian financial sector, where the level of non-performing loans is high and the National Bank of Serbia together with the relevant national authorities are improving the recovery and resolution framework.

In other words, we have some common challenges that we need to address over the coming years. And from the ECB's side, I can assure you that we will want to remain in close contact with the National Bank of Serbia, continuing our open and honest communication – also in view of the opening of accession negotiations with Serbia.

Conclusion

Let me finish with a few acknowledgements and by expressing my thanks to all those who have played such an important role in making this project a success:

- first, to the national central banks that have provided such a large number of experts to help us implement the programmes;
- to the technical cooperation coordinators at the national central banks who have supported the steering committee in its monitoring and guidance on programme implementation;
- to the European Commission's EU Delegation that provided funding to allow us to recover some of our costs;
- to the National Bank of Serbia and Governor Tabaković, who, with their open and cooperative spirit and ownership of the programme outcomes, have been a real pleasure to work with; and
- last but not least, to the two teams within the ECB and the National Bank of Serbia, who have been coordinating this programme on an ongoing basis.

I congratulate all of you on the impressive results you have achieved.

Thank you very much for your attention.