

## **Yves Mersch: Launching the ECB-coordinated technical cooperation with central banks of the Western Balkans**

Introductory remarks by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the press conference on the opening of cooperation programme in Western Balkans, Tirana, 17 April 2014.

\* \* \*

Dear Governors,

Your Excellencies,

Ladies and gentlemen,

It is a pleasure for me to be in Tirana today to launch the ECB-coordinated technical cooperation programme with central banks of the Western Balkan region. Let me first thank Governor Fullani for his warm hospitality. I am pleased that Governor Fullani, Governor Hamza and Vice Governor Bajrami could all join me for this occasion today. This is the seventh ECB-coordinated programme for the benefit of central banks of EU candidate countries and potential candidates from the Western Balkans. I think this underscores the commitment of my central bank colleagues in the region to the process of European integration and to the further development of their institutions along the path towards European central banking standards. The current programme has again received funding from the European Commission, through the Instrument for Pre-Accession Assistance. I would like to express my gratitude to the European Commission, represented here by Mr Rumbold, for the continuous support of these activities.

The programme is also a re-affirmation of the strong commitment of the ECB and the entire central banking community in the EU to their counterparts in the Western Balkan region. Since 2007, the ECB, in partnership with the national central banks of the Eurosystem and the European System of Central Banks (ESCB), has conducted one regional and five bilateral technical cooperation programmes. The programme that we are launching today will be implemented with the support of experts from 11 central banks in the EU, namely those of Bulgaria, the Czech Republic, Germany, France, Italy, Malta, the Netherlands, Austria, Portugal, Slovenia and Slovakia. The number of partner national central banks in this programme is a clear indication that our institutions have not become inward-looking, despite the major challenges faced over the past few years. I would like to use this opportunity to thank the experts from all central banks for their dedication and commitment in taking on this additional assignment.

The purpose of the programme is to prepare the central banks of the region for membership of the ESCB, once their respective countries join the EU. We are starting the programme here in Tirana today. Over the next six months, the experts from our side will conduct an analysis of 13 different fields of central banking and provide Governor Fullani with an assessment that will benchmark the Bank of Albania in terms of the standards applicable in the ESCB in these areas. It will be followed by another six-month analysis of seven central banking fields, which will provide Governor Hamza with a similar overview for the Central Bank of the Republic of Kosovo. I am very pleased that the National Bank of the Republic of Macedonia, represented here by Vice Governor Bajrami, has asked the ECB – as an additional component of this programme – to assist his institution in prioritising the next steps for the implementation of the recommendations of the needs analysis programme which the Eurosystem completed for his central bank last year.

Our institutional relations with the central banks in the region go beyond this programme. The ECB monitors economic developments in the Western Balkans and regularly exchanges views on a variety of topics with its counterparts. For example, the ECB, together with the central banks of the region, organises a dedicated seminar on statistics (*The last one was*

*organised jointly with the National Bank of the Republic of Macedonia*) and a similar event is planned on TARGET II and T2S project. Moreover, a series of regional workshops on other issues of mutual interest for central banks is in the pipeline. We have also expanded the list of ESCB training activities that are open to staff from central banks in the Western Balkans. Our work draws on the expertise of many EU national central banks that are also very active in a number of other initiatives in the region.

Strong central banks are key for monetary and financial stability in Europe and around the world. With this programme, the central banking community in the EU stands ready to support our colleagues in the Western Balkans in their endeavour to introduce the highest standards, for the benefit of their countries and people.

The programme will strengthen the already well-developed relations between our institutions. These relations also reflect the importance of economic and financial links between the euro area and the Western Balkans. The region is undergoing a remarkable economic and institutional transformation, benefiting from on-going integration into pan-European production chains and the resulting trade links, as well as from sizeable capital inflows originating from Europe. This has helped the region to embark on a process of catching-up economically with the wealthier parts of the EU and to gradually improve their living standards. At the same time, these close economic and financial ties imply that the Western Balkan economies have also become highly exposed to economic developments in the region. This has been highlighted by the financial crisis in advanced European countries, and by the subsequent sovereign debt crisis in parts of the euro area.

Let me make a few remarks on the euro area, which witnessed a year of turnaround with respect to the crisis in 2013. After three quarters of positive real GDP growth, the economic recovery in the euro area is gradually taking hold, albeit still at a modest pace, but increasingly less unevenly than before. This is good news not only for us, but also for the whole European continent, including the Western Balkans.

Substantial progress at the national level has been made across the euro area in terms of fiscal consolidation, and the structural reform process is ongoing. But there is no room for complacency and euro area countries cannot afford to let past consolidation achievements unravel, thereby jeopardising the medium-term downward trajectory for their public debt ratios. Decisive additional steps are also needed to reform product and labour markets with a view to further improving competitiveness, raising potential growth, generating employment opportunities and making the economy more flexible. These same issues are also relevant for Western Balkan economies, where the unfinished structural reform agenda constitutes a drag on potential growth and where countries also face the challenge of fiscal consolidation, even though circumstances differ from one country to the other.

Just as governments and other policy-makers need to live up to their responsibilities in order to achieve their objectives, the ECB continues to focus on its primary mandate of delivering price stability. In the wake of the extraordinarily challenging circumstances of the past five years or so, this had implied taking decisive standard and non-standard measures. In particular, the need to deliver on our mandate in conditions marked by financial fragmentation and an impairment of the monetary transmission mechanism has been demanding and has required taking recourse to exceptional tools. Well-anchored medium to longer-term inflation expectations in line with our definition of price stability are an indication of a successful policy in the context of a prolonged period of low inflation. Our forward guidance is helping to deliver the appropriate monetary policy stance warranted by the outlook for price stability. With our monetary policy stance, we are also supporting the gradual recovery in economic activity. Let me stress, however, that what monetary policy can achieve in this regard is limited. Every policy-maker needs to live up to its responsibilities in order to overcome the challenges with which the euro area is still being confronted, and this is no different in the Western Balkans region or elsewhere. The best contribution central

banks can make is to remain focused on their mandate, and to fulfil that mandate in the context of a sound institutional framework that ensures their independence.

In the specific case of the euro area, something more than good policies was needed to overcome the exceptional crisis that was posing challenges to the very foundations of Economic and Monetary Union (EMU). The authorities have responded to the related challenges by significantly strengthening the institutional architecture of EMU. In the field of banking, this has led to a decision on the establishment of a banking union. It will be centred around two main pillars, a Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism (SRM). It will contribute to the stability of the euro area financial system, help to overcome financial fragmentation and, therefore, also facilitate the conduct of monetary policy. Now that political agreement has been reached, we are currently in the implementation phase. For the ECB, this means preparing for the operational start of the SSM in November 2014. To this end, we are currently undertaking a comprehensive assessment of euro area banks' balance sheets. This exercise will be instrumental in restoring confidence in the euro area's financial system and will thereby support a revival of bank lending. It will thus also have implications for the Western Balkans.

Moreover, given the prominent role of euro area banks in the banking sector of this region, the establishment of the SSM will further intensify our institutional relations. For a substantial proportion of the foreign-owned banks operating in the Western Balkans, the ECB will become the home supervisor. In addition to enhancing financial stability in the euro area, and thus the home region of parent banks with subsidiaries in the Western Balkans, the SSM has the potential to facilitate home-host country cooperation in banking supervision. Host supervisors in the region will have only one counterpart as home supervisor for a large part of their banking sector, instead of several, as is currently the case. In order to reap the benefits of this simplification, appropriate mechanisms for cooperation between the SSM and local authorities will need to be developed.

Let me conclude by saying that, as I have highlighted earlier, we not only have a number of policy challenges in common, but also share a common future. With the programme of technical cooperation that we are launching today, and for which we will be signing the first interim report adopted by its Programme Steering Committee, we will further develop the links between the central banks of the EU and those of the Western Balkans. Governor Fullani, Governor Hamza and Vice Governor Bajrami, let me stress yet again that we stand ready to support you both on your journey towards achieving the objectives of this programme and along the road towards accession to the European System of Central Banks. I wish all of us success in bringing this ambitious undertaking to fruition.

Thank you for your attention.