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The behind the scenes struggle to choose the ECB's next leader

By Angelo Katsoras

Europe's faltering economy and fractious politics, which limit the capacity of members to agree on important European-wide reforms, have only reinforced the importance of who will replace Mario Draghi as President of the European Central Bank when his term ends in October 2019.

Selection process

As with most matters in the Eurozone, choosing a new ECB president is complicated. The decision is ultimately made by the heads of government and involves a lot of behind-the-scenes horse trading. The quid pro quo will no doubt entail various governments throwing their support behind candidates from different member states to lead the ECB in exchange for support for their nationals to lead other key agencies.

The selection process has historically been also influenced by the idea of maintaining a fair geographic rotation among EU member states. Given that The Netherlands, France and Italy have all had ECB presidents, some argue that they should not get the job again until other countries have had the opportunity. On this basis, one could argue it is now Germany's turn. However, there are two major obstacles to this happening.

First, current Bundesbank chief Jens Weidmann's past disapproval of many ECB monetary policy measures during the euro crisis, in particular quantitative easing (QE), has raised strong opposition to his candidacy from certain countries.

Second, German Chancellor Angela Merkel has reportedly decided to spend her political capital on securing the European Commission presidency for a German candidate rather than backing Weidmann as Draghi's successor at the helm of the ECB. In fact, she recently agreed to extend his term as head of the Bundesbank by another eight years. The most likely German candidate for Commission president is Manfred Weber, whose centre-right European People's Party is expected to emerge strongest from the European elections held between May 23 and 26. This, too, is a position that has never been held by a German national.

The current frontrunners to lead ECB if the above scenario plays out

- **Erkki Liikanen** is widely considered to be the frontrunner for the nomination. He stepped down as Governor of the Bank of Finland last July after 14 years in the position. He is a close ally of Draghi and supported QE. Fiscally conservative countries, like Germany and The Netherlands, would likely look favourably upon a candidate from Finland due to its strong credit rating and cautious fiscal policies.
- **Benoît Coeuré**, a French national who currently serves as a member of the executive board of the ECB, is also in the running. He was one of the architects behind QE. However, there are two factors working against him. First, France has already had an ECB president (Jean-Claude Trichet: 2003-2011). Second, recent diplomatic tensions with France could cause Italy to throw its support behind a candidate from another country.
- **François Villeroy de Galhau**, the current Governor of the Bank of France, faces the same obstacles as his French compatriot Coeuré. Since taking over the central bank in 2015, Villeroy de Galhau has been a firm supporter of Draghi's policies.
- **Olli Rehn** is the current Governor of the Bank of Finland and was the European Commissioner for Economic and Monetary Affairs during the region's debt crisis. He was also a supporter of Draghi's easy money policies. However, because he was a staunch proponent of fiscal austerity during the crisis, his candidacy will no doubt meet with fierce opposition from the southern European states.

The long shots

- **Jens Weidmann**: The one scenario that could put the President of the Bundesbank back in contention would be Germany's failure to get one of its nationals appointed to lead the European Commission.
- **Klaas Knot**, the governor of the Dutch central bank, is also a longshot contender. He recently became vice-chair of the Basel-based Financial Stability Board. Similar to Weidmann, he has argued against the bank's quantitative easing program and is considered a monetary hawk, which has raised opposition to his candidacy. Also counting against Knot is the fact The Netherlands has already held the ECB presidency (Wim Duisenberg 1998-2003).

EU parliamentary elections in May

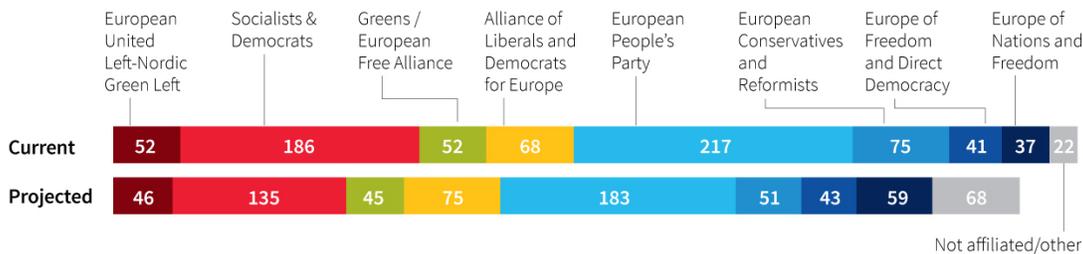
Before the EU member states focus on who will be the new head of the ECB, the new European parliament will likely first decide on a series of political appointments, including who gets to lead the Commission and Parliament. This will then determine who their choice will be to replace Draghi. The governments of the most influential member states have always been part of the two political parties that have dominated the European parliament.

EU laws state the president of the European Commission is appointed by national governments "taking into consideration" the results of the election. The commission president also has to be approved by the European parliament.¹

However, the two largest political parties in the European Parliament—the European People’s Party and Socialists and Democrats Group—risk not obtaining a majority of the seats between them this time around. Polls give them a combined 45% of seats, down from 53%.² **While pro-EU parties are expected to continue to command a majority in the parliament once Liberal and Greens seats are counted, a new level of uncertainty will almost certainly be injected into the nomination process.** The Greens and the Liberals have agendas that do not necessarily coincide with that of the European People’s Party or the Socialists and Democrats group. Parties on the far right and left of the political spectrum could capture up to one-third of the seats.

EU Parliament elections

European citizens will vote on May 23-26 to elect members of the EU Parliament. Here are current seats at the European Parliament and projected election results as of February 6, 2019:



Note: The 2019 European Parliament will have 705 seats only due to the UK exiting the EU. Methodology: Analysis carried out by Kantar Public based on national and European voting intention polls with survey size ranging from 500 to 2,089 interviews and margins of error ranging from 1.9 to 5 percentage points.

Source: European Parliament

L. Desrayaud, 18/02/2019



Source: "Center-right to top EU poll; far-right surges: survey," Reuters, February 18, 2019

Up for Grabs			
Key European positions are opening up this years			
What	Who	Nationality	Term Runs Until
European Parliament President	Antonio Tajani	Italy	July 2019
ECB President	Mario Draghi	Italy	October 2019
European Commission President	Jean-Claude Juncker	Luxembourg	October 2019
European Council President	Donald Tusk	Poland	November 2019
ECB Executive Board member	Benoit Coeure	France	December 2019

Source: Bloomberg, February 2019

¹ "The Elections for the EU Parliament Promise Further Fragmentation, Stratfor, February 22, 2019

² "EU parliament's centrist coalition set to lose majority, poll finds," The Guardian, February 19, 2019



Conclusion

The four leading candidates all more or less support staying on course with Draghi's policies. This makes the quick implementation of easy-money policies extremely likely in the event of another economic downturn.

The low-probability, high-risk scenario

The only potential wildcard would be Germany's failure to secure the presidency of the EU Commission for one of its nationals. This in turn could cause Merkel to throw her support behind Jens Weidmann, the Bundesbank President. While this alone would not make Weidmann a shoo-in, it would significantly bolster his chances, particularly if Merkel was to persuade other fiscally conservative countries to back his candidacy. Germany and other like-minded countries could also throw their support behind another candidate with more hawkish views such as Klaas Knot, the governor of the Dutch central bank.

With Weidmann or Knot at its helm, the ECB would probably be much less quick on the easy-money trigger in the event of a downturn.

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