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## Europe: Breakthrough with many surprises

The outgoing president of the European Council, Donald Tusk, just announced a breakthrough in the seemingly endless negotiations between European leaders on how to fill the European top jobs. Europe never fails to surprise



Christine Lagarde,  
Charles Michel, Ursula  
von der Leyen

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The heat was more than only on. Too many deadlocks, too many national interests and the first session of the European Parliament coming up, with a vote on the next president of European Parliament. Now, there finally is a breakthrough. European government leaders just agreed on the following nominations:

- Christine Lagarde (France) as president of the European Central Bank
- Ursula von der Leyen (Germany) as next president of the European Commission
- Charles Michel (Belgium) as president of the European Council
- Josep Borrell (Spain) as high representative for foreign policy

The European Parliament has to agree to the nomination of Von der Leyen but does not have a veto on the nomination for the ECB. The other two nominations are exclusively decided by

governments.

## Biggest surprise: Lagarde at the ECB

For financial markets, the nomination of Christine Lagarde as the successor to Mario Draghi is of most importance. It is also a surprise. Lagarde, who currently heads the IMF has always ruled out any ambitions for European top jobs and only today popped up as a frontrunner for the ECB job. Lagarde will be the first woman ever at the top of the ECB and also the first ECB president without active central bank experience.

The initial criticism is obvious: no central bank experience, not the top-notch economics education, another former (some might argue even current) politician at the head of the ECB. However, let's not forget the old saying "the King is dead, long live the King". Jean-Claude Trichet was different from his predecessor Wim Duisenberg as Mario Draghi is different from Jean-Claude Trichet. Therefore, here is a first brief assessment of what Lagarde's nomination as next ECB president could mean for the ECB and monetary policy in the eurozone.

- Hawk or dove? Actually, impossible to tell as Lagarde so far has not caught any attention with outspoken views on monetary policy.
- Mario Draghi has always given the impression that he could be called in the middle of the night and still would know all components of the last PMI readings by heart. The smartest kid in class with a close ear and eye to financial markets. Christine Lagarde would probably be more of a moderator than an intellectual mastermind on monetary policy. In times when some ECB members have criticised too much inner circle decision-making, it would be a change.
- Yes, the ECB has a strong and highly qualified staff, but the question is whether the monetary policy brain drain with the departures of Peter Praet, Vitor Constancio and Mario Draghi will be equally replaced or whether Philip Lane might soon be the last pragmatic monetary economist standing in the ECB's Executive Board. Related to this, the question is whether Lagarde at the helm of the ECB could lead to a subtle shift in the balance of power, away from the Executive Board and towards national central bank governors.

With Christine Lagarde, the ECB will get another excellent communicator. What kind of monetary policies Lagarde really stands for, no one can currently tell. In our view, a continuation of a pragmatic monetary policy stance as well as a confirmation of "whatever-it-takes" looks likely. Whether or not the ECB under Lagarde will also be willing to go as boldly as Draghi to where no European central bank has gone before will depend on the new balance of power between Executive Board and national governors.

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