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MACRO NEWS

23 / 08 / 18

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WHO MAY SUCCEED DRAGHI AT THE ECB?

Berenberg Macro Flash

The Bundesbank's **Jens Weidmann** seems unlikely to succeed Mario Draghi at the helm of the European Central Bank in November 2019. According to a "Handelsblatt" report, German Chancellor Angela Merkel has made it her priority to nominate a German candidate for the position of European Commission President next year rather than pushing Weidmann for the ECB top job. While the report is unconfirmed, the contents would not surprise us very much.

Weidmann is a great, well-qualified and often quite pragmatic candidate. However, as the decision on the next ECB president has to be taken by a de facto consensus of Eurozone leaders, his chances to actually get the job always looked slim. He had acquired an overly hawkish reputation in his first years as Bundesbank boss and had once voiced reservations against a key plank of ECB policy, the ECB's OMT programme, at the German Constitutional Court. As a result, it would have been a tough sell for Merkel to get Southern European countries such as Italy to endorse him. What might, for example, Italy's Matteo Salvini have asked for in return?

The race for the ECB presidency seems wide open. The leading contender could be **Olli Rehn**, the new head of the Finnish central bank. As an EU commissioner during the euro crisis, he managed to be on good terms with debtor and creditor countries alike during tough negotiations. He thus seems to be acceptable to all sides. Also, if French President Emmanuel Macron wants a top job for somebody from France, Banque de France boss **Francois Villeroy de Galhau** could be a good candidate. While he would be the second Frenchman in that position in Frankfurt after Jean-Claude Trichet (2003-2011), he is well respected on both sides of the Rhine. Estonia's **Ardo Hansson** might also be a suitable candidate.

HOW MUCH DOES IT MATTER?

The ECB presidency is a highly influential position. Nonetheless, I would not change my forecasts for the ECB's monetary policy if I knew for certain who the next president will be. The leader matters most in situations of acute crisis when hard decisions have to be taken fast, as Draghi did when he defused the euro crisis in July 2012. But in more normal times such as today, ECB monetary policy is decided after long deliberations among 25 self-confident members of the Governing Council. If one of them, say Weidmann, Villeroy de Galhau or Rehn, moves from one chair (national central bank president) to another chair (ECB president) in the room, the impact on the outcome of these discussion should be modest. We look for the ECB to start raising rates in two small steps late next year, in September and December, taking the main refi rate to 0.25% and the deposit rate to 0% by the end of 2019.

Three key positions need to be filled in the post-Brexit European Union next year, namely the presidencies of the ECB, the **European Commission** and the **European Council**. The positions are currently held by an Italian (Draghi), a Luxembourger (Juncker) and a Pole (Donald Tusk, who chairs the summits of EU national leaders). As Germany has not had the top job at the European Commission since Walter Hallstein (1958-1967), chances that Merkel can secure that position for a German look good. Potential candidates according to Handelsblatt are Germany's economics minister Peter Altmaier, who is very close to Merkel, defense minister Ursula von der Leyen and Manfred Weber, who leads the centre-right faction in the European parliament. Occasionally, Merkel herself is mentioned as a potential candidate as she seems unlikely to remain German chancellor beyond her current term. While I cannot rule it out, I would still be surprised if she were to switch positions next year, leaving her office in Berlin two years ahead of the end of her term.



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The European Parliament wants to have a strong say in the nomination of the European Commission president. That may help Weber. Final decisions on the three top jobs – while they may well be prepared in advance - may thus be taken as a package deal right after the European parliamentary elections next May. Merkel's apparent priority, securing the top job in Brussels rather than in Frankfurt for a German, seems understandable. It may enhance Berlin's influence on key European reform decisions after Brexit.

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