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EU SUMMIT: LET THE HORSE-TRADING BEGIN

Berenberg Macro Flash

Who will succeed Jean-Claude Juncker at the European Commission and Mario Draghi at the European Central Bank? EU leaders are unlikely to settle the issue over their summit dinner tonight. More likely, they will have to meet again for a special summit just ahead of 2 July, the day when the new European Parliament convenes. The decisions may well be prepared on the sidelines of the G20 meeting 28-29 June in Japan which most EU heavyweights will attend. On balance, the stalemate reduces the chance that the centre-right's **Manfred Weber** can snatch the top job in Brussels. Instead, Denmark's **Margrethe Vestager** (a liberal) has emerged as the potential compromise candidate acceptable to most. If Germany had to drop Weber in the end, it could push more forcefully for the Bundesbank's **Jens Weidmann** to claim the ECB presidency.

The horse-trading over the EU's top jobs starts with the European Commission President. While Weber, the official candidate of the centre-right European People's Party (EPP), emerged from the European election as the "Spitzenkandidat" for the biggest group in parliament, he has struggled to put together a parliamentary majority thereafter. Unsurprisingly, "Renew Europe", formerly known as the liberal ALDE group, is not backing him. French President Emmanuel Macron's LREM party is part of the group. Macron has made his objections to Weber clear from the beginning. However, Weber has also failed to secure support from the Socialists, the second biggest group after the EPP. The Socialists are still hoping for their candidate, Frans Timmermans, or a candidate less conservative than Weber, to follow current European Commission President Juncker. Crucially, Weber faces stiff opposition from many national leaders in the European Council.

The EPP, and especially the person with most gravitas within the EPP, German Chancellor Angela Merkel, have a number of options:

1. rally behind Germany's Weber and use their ability to block any deal on other EU jobs,
2. go for a different EPP candidate of their liking (enter France's **Michel Barnier**), or
3. let Danish EU commissioner Vestager become European Commission President in return for letting the centre-right nominate the ECB President (Weidmann) and possibly also the European Council President (Donald Tusk's successor) or the President of the European Parliament.

The more controversial the discussion gets, the greater the likelihood that neither Germany's Weber nor France's Barnier will make it. Instead, Merkel may reluctantly agree to Vestager. While the Danish liberal does not seem to be the first choice of most of the key players, she seems to be a very acceptable second choice for most EU leaders. Having been the de facto "Spitzenkandidat" for the Liberals, she would also face little resistance from the European Parliament.

If Weber still manages to succeed Juncker at the helm of the European Commission, France would probably nominate **Francois Villeroy de Galhau** as the next ECB president. If Weber's bid for the European Commission fails, Germany will likely claim the ECB for Weidmann. In an ap-



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parent bid to make himself acceptable to Southern Europe, Weidmann softened somewhat his opposition against the ECB's OMT programme in a German "Zeit Online" interview yesterday. If Southern Europe nonetheless objects to him too strongly, Finland's **Olli Rehn** could be a potential compromise candidate acceptable to virtually all euro member governments. If so, Germany would have to be compensated with some visible success on other issues. One complication could be that Italy – before potentially going along with Weidmann – may ask for more fiscal leniency than Brussels, Berlin and The Hague would be willing to grant.

While the ECB President matters in times of crisis, we should not overestimate his power: after all, the 25-member ECB Governing Council takes the decisions, not the President. As heads of their national central banks, Weidman, Rehn and Villeroy de Galhau are already members of the Governing Council. If one of them moves from his current seat into that of the President, his influence on the outcome of the debate among 25 fairly self-confident central bankers may not rise dramatically. In addition, outgoing President Mario Draghi has already constrained the room of manoeuvre for his successor. With his Sintra speech on Tuesday, he has forced the ECB Governing Council to have an in-depth discussion about all possible contingencies in the next three meetings which Draghi will still chair on 25 July, 12 September and 24 October. By the time his successor takes office on 1 November, the ECB will either have acted already or will have sharpened its tools and elaborated its response function in such a way that a new ECB boss could do little about that for quite a while.

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