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Holger Schmieding, Chief Economist | Holger.schmieding@berenberg.com | +44 20 3207 7889

EU: A WORKABLE DEAL ON THE TOP JOBS

Berenberg Macro Flash

A deal at last. According to European Council President Donald Tusk, EU leaders have agreed how they would like to fill the top jobs in Europe. If - big if - the European Parliament endorses their pick for European Commission president in a secret ballot on 18 July, a French-German duo could get the two top positions in Europe. In itself, that would not be any surprise. The actual names are somewhat surprising, though. Instead of, say, Weber/Villeroy or Barnier/Weidmann for the European Commission and European Central Bank, respectively, German Defence Minister **Ursula von der Leyen** should lead the future European Commission while France's **Christine Lagarde** from the International Monetary Fund should follow Mario Draghi at the helm of the ECB. Both von der Leyen and Lagarde hail from the centre-right. As part of the package deal on top jobs, Belgian Prime Minister **Charles Michel** from the Liberals should follow Tusk at the European Council, that is the body that prepares and shapes EU summit meetings. The position of High Representative for Foreign Policy should be given to **Josep Borell**, a Spanish Socialist.

According to various media reports and policy maker tweets, the deal includes that the liberal and centre-left "Spitzenkandidaten" for Jean-Claude Juncker's job, **Margrethe Vestager** from Denmark and **Frans Timmermans** from the Netherlands, would become vice presidents of the new European Commission alongside Slovakia's **Maros Sefcovic**. As a consolation price, the centre-right "Spitzenkandidat" **Manfred Weber** might lead the European parliament for half of parliament's 5 year-term, taking turns with Bulgaria's **Sergei Stanishev**.

Unsurprisingly, some members of the European Parliament have voiced their concerns. That the two most important jobs on the European level are slated to go to women could make it more difficult for the European Parliament to reject the supposed deal, though.

On balance, the supposed deal would be workable but not ideal.

Christine Lagarde has proven her mettle as a leader as French Minister for Economics and Finance (2007-2011) and Managing Director of the International Monetary Fund (IMF) since July 2011. She is well respected, able to forge compromises and to express herself well. Although supporting Eurobonds, she worked well with Germany's Wolfgang Schäuble during the euro crisis. With her background in fiscal policy and the IMF, she might have been even better suited for the European Commission or the European Council. At the ECB, she may work at least as closely with the central bank's new chief economist, Ireland's Philip Lane, as Draghi did with his long-time chief economist Peter Praet. The end of Benoit Coeure's eight-year term at the ECB at the end of 2019 could open up the room for Italy to nominate a new ECB board member. If so, an Italian would again be on the ECB's executive board shortly after Draghi's departure. As the third largest economy in the Eurozone, Italy would probably insist on that.



While the **ECB President** matters in times of crisis, we should not overestimate her power. The 25-member ECB Governing Council takes the key decisions on monetary policy, not the president. The influence of the new leader on the outcome of the debate among 25 fairly self-confident central bankers may be less decisive than some observers seem to believe. In addition, outgoing President Mario Draghi has already constrained the room of manoeuvre for his successor. With his Sintra speech two weeks ago, 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, as we expect, or will at least 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. Given her background, Lagarde looks set to largely continue the policies of Draghi anyway, including his readiness to act decisively in a crisis.

The potential new head of the European Commission, **Ursula von der Leyen**, is an energetic and experienced conservative policy maker. Once seen as a potential rival or successor of German Chancellor Angela Merkel, her star has faded somewhat in recent years amid a number of small-scale scandals on her turf as Germany's Minister of Defence since late 2013. Still, she has done better – or less badly – than many of her predecessors in a job made difficult by an unwieldy bureaucracy, a German aversion against many military issues and a crippling legacy of chronic underfunding for Germany's armed forces. Hardened by many conflicts, she is certainly willing and able to tackle difficult issues. Like most Germans of her generation, her views are staunchly pro-European, in favour of more integration where it makes sense and as long as moral hazard risks are kept at bay. Born in Brussels, she is fluent in French and English.

Filling top political vacancies is often highly contentious. The current discussions prove that once again. It also matters. The process and the resulting choices shape public perceptions of politics and policy results. The European Commission president can influence the European policy agenda and take the lead in negotiations over trade issues with other countries (remember the Juncker-Trump truce from last July). Still, we should not overemphasise the impact. For example, key decisions on European reforms are ultimately the remit of the leaders of member states, not the European Commission.

Note that the entire discussion above is somewhat tentative. It is still possible that the European Parliament may reject von der Leyen and that the deal then unravels.



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Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7889
www.berenberg.com
holger.schmieding@berenberg.com