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FROM DRAGHI TO LAGARDE: CONTINUITY AND CHANGE AT THE ECB

Berenberg Macro Flash

FAREWELL TO DRAGHI SETS STAGE FOR LAGARDE

On Monday, I had the honour to be present at the official farewell event for Mario Draghi at the European Central Bank. As befits such an occasion, the speakers jointly praised the achievements of the retiring ECB president such as his contribution to overcoming the euro crisis, maintaining price stability and creating more than 11 million jobs in the eurozone since 2013. As a result, the euro is now more popular than ever before. But quite tellingly, Germany's Angela Merkel, France's Emmanuel Macron and Italy's Sergio Mattarella all lauded Draghi in subtly different ways. The event thus served not only as a reminder of the boots that Christine Lagarde will have to fill but also of the diversity of expectations that confront her as she takes office.

In a warm and personal speech, **Merkel** emphasised inter alia how strongly Draghi had embodied and safeguarded the ECB's independence. Upon explaining that independence works in both directions, insulating central banks and governments from each other, she tactfully reminded the audience that she had not always fully agreed with all ECB decisions. After Merkel had praised Draghi in particular for advocating pro-growth structural reforms, **Macron** and **Mattarella** thanked Draghi also for his push for more active fiscal policies. Both applauded his attempts to overcome political dogmas. In traditional Italian fashion, Mattarella also noted that shared sovereignty in the institutions of Europe gives member countries more sovereignty than they would enjoy on their own.

THE LAGARDE APPROACH – FOUR ESSENTIALS

1) **Crisis management**

The way in which Lagarde herself praised Draghi offers some clues about her approach. Like Macron and Mattarella, she noted his readiness to respond to new situations in new ways: “policy reactions valid two decades ago may no longer be valid today.” In particular, she highlighted how Draghi had understood the “destabilising dynamics, the self-fulfilling negative prophecies and the vicious circle” that were disrupting the Eurozone during the euro crisis. As former head of the International Monetary Fund, Lagarde has an almost unrivalled expertise in dealing with crises. In the unlikely case of a severe future crisis, she would not hesitate long before coming up with a forceful response. In this sense, expect her to be as pro-active and decisive as Draghi was.

2) **Pursuit of monetary policy in more settled times**

Unlike Draghi, Lagarde is not an economist by background. But she does not have to be. At the ECB with its 25-member Governing Council, the leader counts most if and when decisions have to be taken fast in an acute crisis. In more settled times such as today when decisions can be prepared and discussed for longer based on in-depth economic analysis, the whole council can gradually shape and form a near-consensus. In steering the debate, Lagarde can draw on her chief economist Philip Lane, incoming board member Isabel Schnabel as well as the expertise of other council members and ECB staffers. In this respect, her approach may resemble that of the early years of the ECB, when achieving a near-consensus was highly valued. She will probably not want



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to repeat Draghi's last act, which had deepened divisions within the ECB to a hitherto unmatched extent.

3) **Healing the rift**

In two respects, Draghi's highly controversial push for a big easing package in September including a restart of ECB net asset purchases is a blessing in disguise for Lagarde. Judged against this standard, she will find it easy to come across as much more conciliatory. Also, because the ECB did so much in September, weaker economic data will not force Lagarde to propose any further potentially controversial easing measures for the time being. Instead, she can focus on healing the rifts. If the downturn in global and European trade and manufacturing output bottoms out in early 2020, as we expect, the ECB may well stay put for one year before it has to take any major monetary policy decision either way. We do not look for the ECB's pending review of its strategy to result in major changes. But the review can give Lagarde an opportunity to calm the waves. Expect Lagarde to make a more determined and patient attempt than Draghi to explain the ECB's case to Berlin and the German-speaking parts of the Eurozone public.

4) **Pushing for change in Europe**

In her most pointed comments on Draghi's achievements, Lagarde applauded the calm way in which he sometimes confronted European leaders with unwelcome facts, silencing the room in the process. Expect her to do the same. In private and in public, she will not hold back when making the case for pro-growth reforms, a larger Eurozone fiscal capacity and faster progress on banking and capital markets union. Whether she will have a noticeable impact on actual policies is a different matter, though. Experience suggests that progress in Europe comes at a snail's pace unless a disruptive crisis forces rapid change. Partly because of decisions Draghi has taken during his eight years and because of some structural progress in many Eurozone member countries, it remains unlikely that the Eurozone could be heading for such a crisis again in the near future.

For an assessment of the Draghi years, see also [Dragh-era in four charts](#).

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