

## EU and ECB: who could get the top jobs in 2019?

- Brexit, Trump, Italy and a likely advance of populist protest parties at the European parliamentary elections on 23-26 May: the EU is facing major challenges in 2019.
- In addition, the top jobs at the European level are up for grabs. This report looks at key candidates to become President of the European Central Bank (ECB) and President of the European Commission and discusses some related issues. Of course, the early favourites are not always the ones who land the jobs in the end.
- Leaders matter. Still, on a continent whose unique multinational institutions usually evolve only slowly and where major decisions need to be taken by a near-consensus of all major players, most leadership questions make less of a difference than, say, a US presidential election or a switch from mostly collective decision-making to a one-man show in China.
- Final decisions on the top jobs may only be taken shortly after the EU parliamentary elections of 23-26 May 2019 in the run-up to the EU summit on 20-21 June 2019.

### ECB: Macron's choice

- The European Union has to appoint new presidents for the European Central Bank (ECB), the European Commission, the European Council and the European Parliament in 2019. Candidates for these positions would be well advised to speak to French President Emmanuel Macron first. Germany's Angela Merkel reportedly dropped a hint about her preferences last autumn already. She would like to use her influence to install her preferred candidate at the helm of the EU Commission rather than to push through a controversial German candidate for the ECB.
- However, Macron will likely have the more decisive say. Because Germany and many other EU member countries habitually praise Macron's pro-European élan but have up to now offered him very little substance on serious EU/Eurozone reform, they may want to grant him a visible success on the less important matters of personnel. Macron can probably decide whether he wants to claim the presidency of the ECB or the EU Commission for a candidate of his choosing.
- If Macron wants to nominate the next ECB president, the top candidate would be current Banque de France governor **François Villeroy de Galhau** (59). A fluent German speaker with deep roots in the French-German border region, and a reputation as a competent central banker, he would probably be acceptable to Germany and the hawkish "Hanseatic League" group of mostly northern and Baltic EU members. France has already provided one ECB president before, Jean-Claude Trichet from 2003 to 2011. This makes it a bit difficult for France to fill the post again. But that could probably be overcome.
- A second French candidate would be current ECB board member **Benoît Cœuré** (49), whose term on the ECB board expires at the end of 2019. But as the European Treaties explicitly state that ECB executive board members are appointed for a non-renewable eight-year term, appointing him anew as head of the board after an earlier stint as board member could nurture accusations that the EU is disregarding its own rules. It is therefore an unlikely outcome, in our view. Instead, Cœuré could succeed Villeroy de Galhau if the latter switches from Paris to Frankfurt.
- A further potential French candidate for the ECB could be **Sylvie Goulard** (54). However, as she started her current position as second deputy governor of the Banque de France only in January 2018, she has only one year of direct central bank experience. While that does not rule her out, this may argue against her. She may be a candidate to eventually lead the Banque de France or take another position on the ECB's executive board instead.
- If Macron chooses a non-French candidate, he or she would likely hail from a country that is not further to the south of Germany than France. As Spain's **Luis de Guindos** (58) just started as ECB vice president in June 2018, the desire for balance would suggest that the EU is more likely to look to the north-east.

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The top non-French candidate for the ECB role would be **Olli Rehn** (56). Before joining the Bank of Finland, which he has led as governor since July 2018, he served as the EU commissioner responsible for EU enlargement (2004-2010) and for economic and monetary affairs (2010-2014). That he managed to stay on reasonable terms with all major players throughout the euro crisis testifies to his political acumen. He would probably be acceptable to most EU leaders.

*Rehn would probably be acceptable to most EU leaders*

Other potential candidates for the ECB presidency include: **Erkki Liikanen** (68), Rehn's well-respected predecessor at the helm of the Bank of Finland; **Klaas Knot** (51) from the Dutch Central Bank; or **Ardo Hansson** (60) from the Estonian central bank. The term of the new ECB president starts in November 2019.

*A long list of other candidates*

Mario Draghi's departure at the end of October 2019 is not the only key vacancy at the ECB this year. Ireland's central bank governor **Philip Lane** (49) is the clear favourite to succeed Peter Praet as ECB chief economist and board member. Praet's term expires at the end of May 2019. In turn, Lane's deputy Sharon Donnery may take over as governor of the Central Bank of Ireland and thus join the ECB's Governing Council this way. If Macron does not claim the ECB presidency for a French candidate, the current French ECB board member Cœuré would be replaced by somebody else from France, possibly by Sylvie Goulard. Cœuré's term ends in late December.

*Lane likely to succeed Praet as ECB chief economist*

If the ECB presidency goes to somebody from France, the succession of Cœuré would be wide open. The successful candidate is likely to hail from one of the smaller euro member countries to the north or east of Frankfurt that have not been represented on the board recently.

*Looking to the north and east of Frankfurt*

## European Commission: after Juncker

The five-year term of Commission President Jean-Claude Juncker expires at the end of October, the same time as Draghi leaves the ECB. If Macron wants to send somebody from France to the top job in Brussels, leading candidates would include 1) the current EU Brexit negotiator **Michel Barnier** (68) and 2) **Sylvie Goulard** – current Deputy Governor at Banque de France.

*A new job for Barnier?*

If Macron decides to use his influence to fill the top ECB job, the choice of Commission head would probably go to Germany. **Manfred Weber** (46) – leader of the European People's Party (EPP) – would be the frontrunner for the head of the Commission, especially if the conservative EPP does better than the other parties at the elections to the EU parliament. Weber is the EPP's nominee for leading the EU Commission ("Spitzenkandidat"). Other candidates include EU Commissioners **Margrethe Vestager** (50) and **Frans Timmermans** (57). Vestager is widely seen as doing an excellent job as EU Commissioner for Competition (since 2014). However, she lacks a solid base at home in Denmark as her liberal party is not part of the current Danish government. Timmermans, who is Juncker's deputy in Brussels, is leading the EU's Social Democrats into the parliamentary elections. However, his centre-left party is not included in the current Dutch government.

*Weber could be in pole position – if Macron agrees*

## Could the elections to the European Parliament paralyse the EU?

Electing Juncker's successor and confirming the make-up of the new European Commission will be one of the most important tasks of the new European parliament which is scheduled to convene for the first time on 2 July 2019. Once the European Council of leaders of EU member states has nominated a candidate with a qualified majority (15 out of 27 countries representing at least 65% of the EU27 population), a majority of members of the EU parliament needs to confirm the choice. The new Commission president and the Council of national leaders prepare a list of EU Commissioners which, after hearings, parliament would need to approve with a simple majority.

*Electing Juncker's successor is a key task for the new parliament*

Ahead of the EU parliamentary elections, concerns are rife that anti-establishment parties could win a majority in parliament and create havoc, for instance by blocking key personnel decisions. While protest parties look set to gain seats, they will probably fall far short of a majority in the EU parliament. European elections are widely seen as less important than national elections. Voters often use them as an opportunity to let off steam by casting an easy ballot for fringe groups. Although this will probably play a role in 2019 as well, the very fact that there is a discussion on whether anti-EU parties could do exceptionally well may lead to a stronger turnout and more disciplined voting of mainstream voters this time.

*Anti-establishment parties will do much better – but they will not take over*

Opinion polls project significant losses for the mainstream Conservatives (from 218 to some 180 seats) and the Social Democrats (from 187 to some 130) seats and small losses for the Greens (from 52 to 42-50 seats). The Liberals can expect to do better, potentially rising from 68 seats to between 75 and 90 seats. Together with some smaller groups, these mainstream parties would thus have at least 460 out of 705 seats in the new EU parliament, giving them a solid majority of at least 65% versus a divided bunch of more or less radical other groups hailing from the right and the left. Also, some of the less mainstream groups often sound more radical at home than they act in Brussels and Strasbourg. This also holds for the 11 European MPs from the Fidesz party of Hungary's Prime Minister Viktor Orban, who are part of the EPP.

*Losses for the mainstream*

Whatever Italy's Deputy Prime Minister Matteo Salvini claims, the key effect of the European elections will not be to get a radical parliament that could change the EU rulebook. Instead, the likely gains for the fringes will force the mainstream parties to work more closely together. After some huffing and puffing, they will almost certainly manage to do so, agreeing on an European Commission President and confirming an EU Commission.

*Mainstream parties will need to work together more closely*

## What about Merkel? The German angle

German Chancellor Merkel confirmed in her New Year's address that she does not want to hold any political office after the end of her current fourth term as chancellor, which runs until autumn 2021. Opinion polls show some stabilisation of support for her CDU/CSU party at around 30% and a clear majority in favour of keeping Merkel until 2021. Still, we think there is a significant risk that she may lose office in late 2019 already. Both the SPD and the CDU want to review their current coalition mid-term – that is in late 2019. If the CDU – or more likely – the SPD suffer heavy losses at the three east German state elections this year (Brandenburg and Saxony on 1 September; Thuringia on 27 October), the CDU/CSU-SPD coalition in Berlin could fall apart. While new elections would be an option then, we would consider it more likely that CDU party leader Annegret Kramp-Karrenbauer (AKK) would replace Merkel as chancellor at the helm of a CDU/CSU-Green-FDP coalition. All in all, we put the probability that Merkel will no longer be chancellor at the end of this year at 30%.

*Merkel likely to serve out her term in Germany*

With her statement that she is not seeking a further political office, Merkel has apparently ruled herself out as a potential successor to Juncker as President of the European Commission. If her hold on the chancellorship were to look tenuous, she may perhaps consider whether she would want to succeed Donald Tusk as President of the European Council, whose major task is to organise and prepare the summit meetings of the leaders of EU member states. That office is seen as a little less "political" than that of EU Commission President. Still, even that does not look very likely for the time being.

*That Merkel succeeds Tusk seems unlikely but not fully impossible*

Re-arranging the top jobs in Europe may have one noteworthy consequence for German domestic politics. If Manfred Weber does not become the next President of the European Commission, he may go to Berlin instead, succeeding Horst Seehofer as German minister of the interior. Seehofer steps down as leader of the Bavarian centre-right CSU on 19 January and may well be asked by his party to relinquish his position as minister in Merkel's government later this year.

*Farewell to Seehofer later this year?*

## How much does it matter?

The speculation about who will get what job and how well anti-EU parties could do in May will make for a lot of headlines this year. On a continent whose unique multinational institutions usually evolve only slowly and where major decisions need to be taken by a near-consensus of all major players, the question of who leads what makes less of a difference than, say, a US presidential election or a switch from mostly collective decision-making to a one-man show in China. In the EU, most key decisions are taken by the European Council of national leaders and not the European Commission or the European Parliament. For example, new fiscal rules would have to be ratified by member states, including Germany and the Hanseatic League.

*More headlines than substance*

Except in an acute crisis when decisions need to be taken fast, as was the case in 2012, the ECB in Frankfurt works by slowly forming a near-consensus in a Governing Council of 25 members. Whether one member, be it Villeroy de Galhau or Rehn, moves from his current chair into the chairperson's seat will have only a limited impact on the discussion. We would not change our ECB forecasts on account of that.

*ECB usually works by forming a near-consensus*

German politics will remain stable even in the possible, but not yet likely, case that Merkel was to lose office and that the current coalition would be replaced by a new tie-up between the conservatives and the Greens (and possibly the liberals). On most key issues, the German mainstream parties are fairly close to each other. Instead, the key political questions in Europe remain: 1) Will Italy's radical government avoid a debt crisis? In our view, it probably will. 2) Can Macron carry on and manage to implement a few more reforms despite the yellow vest protests? He probably will. 3) Will the UK avoid a hard Brexit? Probably yes. We will discuss these issues separately in further reports.

*The key political issues that matter: Italy, France, Brexit*

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