

## Weekly Note: The ECB after Draghi

19-January-2018

The financial markets are changing. As new technology continues to discredit former practices in terms of efficiency, the next move for regulators and financial institutions is to learn how this technology (such as blockchain) can be used to improve the financial system. In Europe, the ECB has made some headway by beginning a search for experts to hire in such technologies. Indeed, President Draghi has made several public comments regarding fintech, particularly in relation to the undeniable advantages associated with blockchain technologies. He warned, however, that the ECB does not currently have the power to regulate or prohibit cryptocurrencies which will become a greater issue as they begin to mature.

Recently, news has turned to the replacement of President Draghi in 2019 as market interest has increased with the forthcoming replacement of the Vice President next June. Underlying this interest is the issue of whether his replacement implies a significant policy shift. There are many areas in flux, with respect to policy, that will demand the attention of the new President, particularly in relation to the issue of digital currencies.

TABLE 1 THIS WEEK IN MARKETS

Name	YTD %	MTD %	WTD %
DOW JONES	5.25%	5.25%	2.56%
S&P 500	4.65%	4.65%	1.81%
RUSSELL 2000	2.68%	2.68%	1.09%
NASDAQ COMPOSITE	5.69%	5.69%	1.99%
Euro Stoxx 50	3.34%	3.34%	0.71%
FTSE 100	0.17%	0.17%	-0.80%
DAX 30	2.82%	2.82%	0.59%
NIKKEI 225	4.58%	4.58%	0.65%
HANG SENG	7.36%	7.36%	2.25%
S&P/ASX 200	-0.98%	-0.98%	-1.06%
EUR-USD X-RATE	2.17%	2.17%	0.52%
EUR-GBP X-RATE	0.72%	0.72%	0.78%
Gold Spot \$/Oz	2.27%	2.27%	-0.39%
Crude Oil	4.50%	4.50%	-1.03%

The first immediate replacement will be the position of the Vice President, currently held by Vítor Constâncio. His term ends on 31<sup>st</sup> May, this year. His departure will be followed by that of Peter Praet, whose term ends on 31<sup>st</sup> May 2019. In total, the terms of four of the six ECB Executive Board (EB) members will expire within the next 24 months (Mario Draghi at the end of October 2019 and

Benoît Cœuré at the end of December 2019). This represents a fundamental change that could affect the Eurozone in an unprecedented manner.

After EU countries have nominated their official candidate, discussions will take place among the heads of state through the European Council, in parallel with the hearings of the short-listed candidates at the European Parliament. The Governing Council of the ECB will also be consulted by the European Council on the candidate it will recommend.

Ultimately, the final decision belongs to the heads of state, acting by a qualified majority. That said, the timing is fairly flexible. The decision must be taken at the last meeting of the European Council before the term of the EB member expires. This procedure will start soon for the replacement of Vice-President Constâncio. In the case of the replacement of President Draghi, this means that the official appointment of his successor should take place in October 2019 at the latest. A credible list of potential candidates will probably be known before the summer of 2019.

The ECB Presidency is part of a broader set of appointments, including those in other EU institutions (and possibly for international positions such as the International Monetary Fund). As a result, a series of considerations will affect the appointment of the next ECB President. By nature, the appointment of the ECB President is complex and difficult to anticipate.

Although the President of the German Bundesbank, Jens Weidmann, is certainly a plausible candidate for the ECB Presidency, his appointment may not be a done deal. Indeed, several considerations could complicate the appointment process.

Germany has already obtained the reappointment of its candidates at both the Presidency of the European Investment Bank (EIB) and the European Stability Mechanism (ESM).

The replacement of European Commission President Jean-Claude Juncker in June 2019 will also have an impact (as he has indicated he will not seek a second term). On the one hand, Jens Weidmann could come up against the leader of the German Social Democratic (SPD) party, Martin Schulz, since the latter may be interested in the Presidency of the European Commission. On the other hand, France will certainly be interested in this position too.

Experience suggests that Germany could be satisfied with a powerful number two position at the ECB (in charge of key directorates), leaving the most visible role (President) to a candidate close to Germany's views on monetary policy, as illustrated at the start of the ECB in 1998.

Although the predominance of one particular nationality in the Presidency of EU institutions is possible from time to time, experience also shows that this usually comes with political compromises and concessions between EU partners. The view of other EU countries, and of France in the first instance, will matter as we do not see Berlin risking political tensions with EU partners by fighting for the ECB Presidency (while Germany may also have other hidden priorities in future EMU governance). In this regard, France may be prepared to accept a majority of German candidates in senior EU positions, but this would likely be linked to significant progress on further Euro area integration, which is a priority for President Macron.

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