

Flash Note

Europe – ECB reshuffling

Frankfurt, we have a gender problem

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The Eurogroup has designated Spanish finance minister Luis de Guindos as the candidate for the position of Vice President of the European Central Bank to succeed Vítor Constâncio in June 2018, for a non-renewable eight-year term.

The ECB has a gender imbalance, with only one woman sitting on the Executive Board (17%) and only two on the whole Governing Council (8%). Change is overdue, especially if Jens Weidmann is to become ECB president in 2019. The broader political context of European elections and nominations may well result in last-minute compromises and potential surprises. A Weidmann-led ECB is our baseline, but it is not a done deal either.

A change in ECB leadership does not necessarily imply a change in monetary policy. We think gradualism will prevail over the foreseeable future in order to secure the ECB's achievements under Draghi's presidency. But, markets will likely remain extremely sensitive to change at the top as the ECB moves toward policy normalisation.

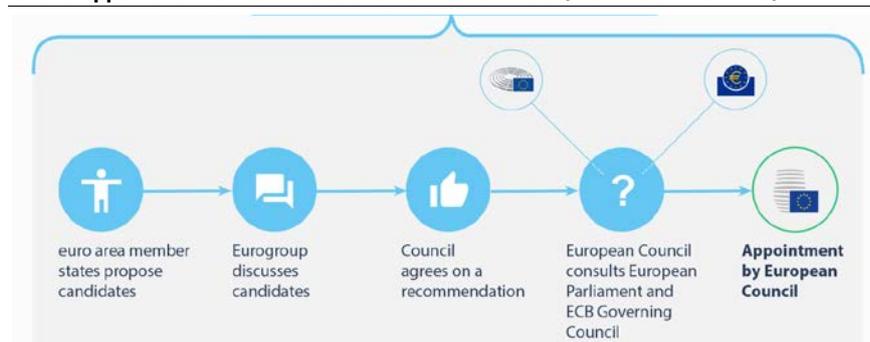
High-stakes negotiations for nominations to European institutions are in full swing, a process that will involve filling top positions at bodies such as the European Central Bank and European Commission over the coming 18 months.

With regard to the central bank, the decision by the Eurogroup to nominate Spanish finance minister **Luis de Guindos to succeed Vítor Constâncio as ECB Vice-President from June 2018** came as no surprise. It may face some opposition from the European parliament due to Guindos's profile, gender, and lack of central bank experience, but it is likely to be confirmed during the 22-23 March EU Council summit.

This nomination has increased expectations that Bundesbank President Jens Weidmann will become the next ECB President after Mario Draghi's term ends in October 2019. This remains our baseline scenario, if only because we fail to see alternative candidates who would be politically acceptable to both Germany and France. That said, there are still a few hurdles to pass and some surprises could yet emerge down the road.

In particular, Weidmann's nomination would require Sabine Lautenschläger, the only woman on the Executive Board, to resign. The ECB's poor track record in terms of gender equality suggests that **more women could make it to the Executive Board, with four of the six seats to be replaced by the end of 2019**, forcing politically difficult choices on some member states. If no political agreement can be reached, then another candidate could be chosen as ECB president, either from France or, more likely, from a smaller country.

Chart: Appointment of ECB Executive Board members (Art. 283 of the TFEU)



Source: European parliament

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No women, nuh cry

All ECB Executive Board (EB) nominations are decided based on a highly political process governed by the Treaty (Article 283 TFEU). The same process will apply to the President's succession, when Mario Draghi's term ends in October 2019, based on the following steps:

1. Each member state can propose its own candidate. The **Eurogroup** of euro area finance ministers is the entity discussing and coordinating the nominations, taking on board opinions and recommendations from other European bodies. The Eurogroup makes its choice, usually by consensus, to be formally validated by the Ecofin Council of EU finance ministers.
2. The European Council of Heads of State and Government calls for opinions from the **European Parliament** (based on private and public hearings by the Economic and Monetary Affairs Committee, followed by a committee vote scheduled on 27 February as well as a plenary vote in March) and the **European Central Bank** itself (an opinion issued by the Governing Council). **Neither of those is legally binding.**
3. Ultimately, the **European Council** appoints the new EB member by a **qualified majority** vote, if necessary. Applied to the euro area member states only, qualified majority requires 72% of euro area members in favour (i.e., at least 14 out of the 19) representing at least 65% of the population of the euro area.

Ahead of yesterday's [Eurogroup decision](#), Guindos' formal nomination hinged on Italy's decision to reach qualified majority. Italy's backing was no longer necessary after Ireland withdrew Philip Lane's candidacy (Irish Central Bank governor) in order to reach a consensus. The bottom line is that **political capital derived from nationality and gender are very important criteria** on top of qualification and experience in central banking.

We expect Guindos to be officially appointed in time for him to replace Constâncio when his term ends on 31 May, most likely during the 22-23 March EU summit. However, the controversy around his candidacy relating to his government background, independence, qualification, lack of central banking experience and gender, will leave its mark on the political process. The European Parliament [expressed](#) some "reservations" for Guindos' appointment while "regretting" the lack of female candidates.

There is a precedent with the nomination of Luxembourg's Yves Mersch at the ECB EB in replacement of José Manuel González-Páramo in 2012. Similar concerns from the European parliament resulted in **a delay of Mersch's nomination**, leaving the Board understaffed with only five members for about six months.

One consequence we see for the broader ECB reshuffling is that **pressure will be mounting for more women to make it to the EB**. Four out of the six seats will have to be filled in by end-2019, with only one woman at the moment (Sabine Lautenschläger, in charge of bank supervision) and only one more within the Governing Council (Cyprus' Chrystalla Georghadji).

Is the way clear for Jens Weidmann? Not quite.

If the ECB presidency goes to Germany, then Jens Weidmann is a great choice, in our humble opinion. He is a highly respected economist and a pragmatist. Despite his opposition to ECB's unconventional measures in the past few years, he has made sure that the cohesion of the Governing Council was preserved. A Weidmann-led ECB might well become slightly more hawkish, but **continuity and gradualism would likely prevail** under the influence of the Council and the staff. However, we see a number of complications that could potentially derail a Weidmann presidency.

- **Gender rebalancing issues** could become the biggest problem. If Weidmann is nominated for ECB presidency, the other German on the EB, Sabine Lautenschläger, would need to resign, like Lorenzo Bini Smaghi did in 2011 (reluctantly bowing to French pressure¹ when Mario Draghi was appointed). Either Lautenschläger would have to be replaced by another (non-German, non-Spanish) woman, or the EB would become a men-only club. Alternatively, female candidates may be considered for the other two EB seats to be filled by end-2019 (Chief economist and Head of market operations), although Ireland may push for the former to go to governor Philip Lane. The newly appointed Banque de France deputy governor, Sylvie Goulard, could be in the running for the position of Head of banking supervision. Several other potential female candidates for EB seats include Christine Lagarde, H el ene Rey (France), Lucrezia Reichlin, Beatrice Weder di Mauro (Italy), and Sharon Donnery (Ireland). Finally, the German government would likely have to nominate a SPD-compatible Bundesbank President for a Weidmann candidacy to be agreed by the grand coalition.
- If the ECB President has to be a German woman, Claudia Buch, Vice President of the Bundesbank, has been mentioned as a possible candidate.
- The **European Parliament elections** in spring 2019 will complicate the process since the Parliament's opinion will be required. This comes on top of difficult negotiations over pan-EU election lists and the controversial lead candidate process (*'Spitzenkandidat'*) used to appoint the president of the European Commission.
- The broader **game of musical chairs** across European institutions could result in a last-minute compromise over the ECB presidency. France is sometimes said to be opposed to a Weidmann candidacy because Germany already holds the presidency of the European Stability Mechanism (Klaus Regling), the Single Resolution Board (Elke K onig) and the European Investment Bank (Werner Hoyer). But a French candidate, even a woman, may not be politically acceptable since Jean-Claude Trichet was ECB president between 2003 and 2011. An alternative scenario may involve **a central bank governor from a smaller country**, e.g. Erkki Liikanen (Finland), Klaas Knot (the Netherlands), or Ardo Hansson (Estonia), although they would likely face opposition from the larger member states.

¹ Prompting this memorable remark by Italian PM Silvio Berlusconi to French President Nicolas Sarkozy: *"What should I do, should I kill him?"*

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