

# ECB Research

## The road to becoming VP

Yesterday, the deadline expired for nominating candidates to succeed Vítor Constâncio as Vice President (VP) of the ECB. The position is the first of a total of four seats on the ECB's board that are up for change until the end of next year (see diagram at the end of this piece). The choice is between long-time favourite, Spain's Luis de Guindos, and Ireland's Philip Lane.

We review the election process, candidates and their stances on monetary policy.

### The process

The figure below shows the current outline for electing the new VP. The process could be delayed although we do not expect this at the current juncture.

Steps 1 and 2. The head of the Eurogroup (European finance ministers) initiated this process on 22 January, calling for euro area members to nominate at most one candidate from each country, with yesterday (7 February) as the deadline.

Step 3. The Eurogroup will convene on 19 February to assess the final two candidates (de Guindos and Lane) and recommend one to the European Council. The following day, the Ecofin council will, on a qualified majority, vote on the recommendation (14 of 19 euro area countries need to be in favour, with at least 65% of the population in the euro area).

Step 4. The recommended candidate receives an assessment from the ECB and will be faced with a hearing in the European parliament. This is the point at which the most resistance to a decision will be apparent. In particular, we expect the gender-balance discussion to emerge. Recall that in 2012, with board member Yves Mersch being elected, the process was prolonged for months due to the gender-balance discussion (only one of the board's six positions is held by a woman). The parliament cannot veto a candidate but could delay the process. If the process carries on beyond 1 June, the ECB board will consist only of five members until the new is appointed.

Steps 5 and 6. The decision is expected to be taken on 22 March by the European Council with the new Vice President anticipated to commence on 1 June 2018.

The position is for eight years and is non-renewable.



Source: European council, Danske Bank

### Today's key points

- Two candidates for ECB VP
- Decision expected on 22 March
- Hawkish twist to Governing Council

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# The candidates

## Luis de Guindos

**Luis de Guindos** (58 years old) has long been the favourite to succeed the incumbent Vítor Constâncio (we already know that Slovakian Peter Kažimír will vote for him). De Guindos has served as Economy and competitiveness Minister since 2011. Prior to that, he was in the private sector; most notably he was advisor to the European part of Lehman Brothers.

His current role in the Spanish administration, without experience from central banking, will work against his candidacy. Only Jörg Asmussen came directly to the ECB board from public administration but otherwise it is an unprecedented move. President Draghi is said to prefer central bank independence over those with political backgrounds. Spain has not had a seat on the board since Lorenzo Bini-Smaghi stepped back in 2011.

We note that in terms of Europe, de Guindos' European and monetary policy favours deeper EU integration, which includes establishing a European Monetary Fund/Treasury. He is also said to argue that debt mutualisation would be achievable in the final stage of deeper EU integration.

He has made few comments on monetary policy but we highlight the following:

1. He has been supportive of the easy monetary policy stance.
2. He believes that the ECB has acted within its limits in terms of QE.
3. He does not see any asset bubbles being created by QE at present.

Notably, we find it interesting that in 2015, he said regarding FX that a weaker euro is 'welcome, but this is not the reason why the Spanish economy is competitive. It is a helping hand'.

Overall, we view him to be **neutral/dovish given the limited information available**.

## Philip Lane

**Ireland's Philip Lane** (48 years old) is the Irish Central Bank Governor with a long and distinguished academic career as an economics professor. He is viewed as one of the best economists within the Governing Council. Lane has been Governor for only two years, which could work against his candidacy. What goes in favour of Lane's candidacy is the fact that Ireland has never had anyone on the ECB board.

Lane's position on monetary policy:

Contrary to de Guindos, Lane often speaks on monetary policy in his capacity as Central Bank Governor. We perceive him to be **neutral in our 'dove-hawk' metre**.

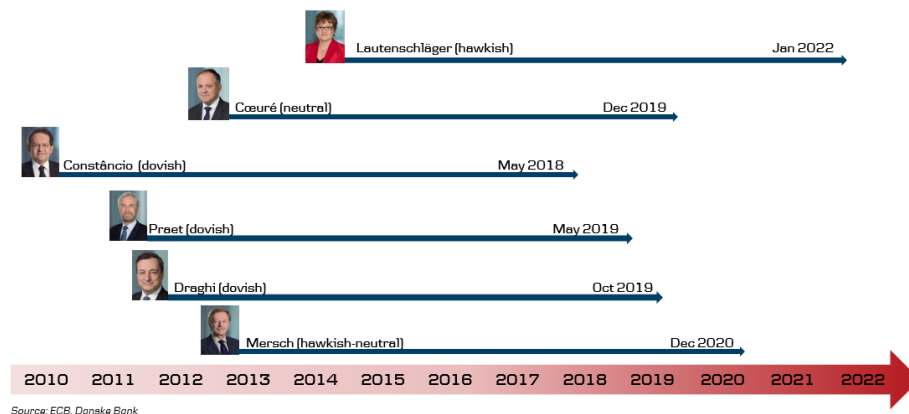
- His views are generally balanced and reflect a stance that takes both sides of the case into account; hence, it will be less 'edgy' compared to other governing council members.
- Lane believes the Philips curve is alive and that there may be a time when there is a 'strong, non-linear response, where wage and inflation dynamics increase very suddenly'.
- Also, we highlight Lane's remark that 'wages continue to be a key driver of inflation and these depend on the labour market situation'.
- No clear view of a sudden stop/tapering.

- Argues for the end of QE and that rate hikes are not mechanically linked. He is not specific on what ‘well past’ means.
- Furthermore, we highlight that he is in favour of European Safe Bonds (ESBies).

## Conclusion

Vitor Constâncio, who has been a long-time ally of Mario Draghi, will be succeeded by a slightly more hawkish candidate, either neutral/dovish (de Guindos) or neutral (Lane). At the current juncture, it is hard to argue for a significant market impact as a result of either candidate, but the unavoidable more hawkish component of the ECB given the very dovish composition should be monitored. It is widely expected that the new Vice President is likely to be more hawkish relative to Constâncio.

Whoever replaces Constâncio, there is a broader ‘Game of Thrones’ theme in process with an additional three seats due to become vacant by the end of 2019 (diagram below).



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