EDITORIAL

THE ECB'S NEW TEAM FACES A TESTING START — WITH THE SKILLS TO MATCH

European leaders are set to agree on a package deal at their 26–27 November meeting for the three ECB Board seats falling vacant in the first five months of 2027. Individually, they differ markedly from their predecessors. Collectively, they bring a remarkably similar mix of skills. Policy preferences may be another matter. In any case, they will need to hit the ground running. Top priorities: communications, crisis management, soft landing, balance sheet, policy-making upgrades, and role of the euro.

MORE CONTINUITY THAN MEETS THE EYES, WITH A BONUS

Based on the nominations filed by last Friday's deadline, EU leaders are expected to appoint Spain's Pablo Hernández de Cos to replace Christine Lagarde as President in February; France's Laurence Boone to take over market operations from Isabel Schnabel in January; and Germany's Markus Brunnermeier to succeed Philip Lane as chief economist in May.

The incoming Board members share their predecessors' international standing and commitment to Europe and the euro. Beyond that, the individual differences are striking. Yet together they offer the same blend of monetary policy expertise, academic financial economics and political nous. Monetary experience comes not from the chief economist this time, but from Hernandez de Cos, a former Bank of Spain governor who now heads the Bank for International Settlements, the "bank of central banks". Brunnermeier brings his expertise as a Princeton professor; Boone her experience as a presidential "sherpa", OECD chief economist and minister for Europe. Her stints at Axa and several international investment banks also bring an insider's knowledge of capital markets that the Board has lacked since Mario Draghi. All three were involved, if not in frontline roles, in managing the Eurozone crises of the past decade. The essential skills are there.

WILL THE ECB LEAN MORE DOVISH?

A more dovish ECB is not a foregone conclusion. Judging by his record, I expect the new President to seek the same "owl" label as his predecessor: neither dove nor hawk. Boone is likely to be as dovish as Lane. Brunnermeier, however, is hardly a hawk — a marked contrast with the outgoing German Board member, Schnabel. The Governing Council's hawks will need another champion. They will surely find at least one: perhaps Vice-President Boris Vujcic, who succeeded Luis de Guindos last June, or a new national central bank governor. Nature abhors a vacuum, in ornithology as elsewhere.

NO SMOOTH SAILING AHEAD FOR THE NEW CREW

Thorny challenges await:

First, inflation is running at twice the ECB's target, and has probably not peaked, even if oil prices go no higher. Growth has proved surprisingly resilient to rate rises, so the ever-feared trade-off between fighting inflation and sustaining growth has yet to materialise. It will sharpen if inflation proves stickier than expected.

Second, markets have been unsettled for weeks by fears of an AI bubble, and of an ever-ascending path for French public debt, which the coming spring elections could worsen. The risk premium on French debt has hovered around twice its level at the start of the year, threatening contagion to other high debt Eurozone sovereigns, notably Italy, Belgium, and Spain. Market moves have remained orderly, and financial conditions have tightened only moderately thus far. But that may not last.

Third, cyber disruptions, whether driven by AI agents or other sources, have become alarmingly more frequent in recent weeks. They could rattle the financial system, in the Eurozone or globally, at any time.

THE NEW LEADERSHIP'S PRIORITIES

The first few days

Find a sound communications footing. Many a central bank leader celebrated as a tough act to follow upon leaving office caused unintended market volatility early in their tenure. Little prepares for the power of every word to move markets, or for an off-the-cuff remark to undo the effects of a carefully drafted statement. Sometimes, the lessons can be learnt without serious consequences. Now is not such a time.

The first few weeks

- Build a new modus operandi. Each of Hernández de Cos's predecessors brought a different leadership style and skill set, and faced different personal dynamics on the Board and Governing Council. Each eventually made it work. That cannot be taken for granted. Efficient, effective, and well-understood decision-making — for which the current ECB deserves high marks — takes work. With two-thirds of the Board changing in less than a year, establishing an effective way of working will be paramount. Fortunately, Hernandez de Cos wins high praise from those involved in the many central banking committees he has chaired over the years.

- Take ownership of crisis management playbooks — before a crisis hits. Several, no doubt, exist already. The new President and Board members will want to be comfortable with them and may add their own touches. No crisis follows a script, but thinking through the options, trade-offs, and contingencies ahead of time can save precious time and avert mistakes.

The first few months

- Deliver a soft landing. Both the ECB's central forecast and economists' consensus envisage Eurozone inflation returning close to target by late 2027 or early 2028, with growth holding at 1–1.5%. The risks outlined above mean that this outcome is far from assured. The ECB will need to stay nimble.

- Finalise the balance sheet strategy. How large should the ECB's balance sheet be in steady state, and which instruments should manage systemic liquidity? The 2025 Strategy Review left these questions open: there was broad agreement that unwinding crisis-era asset purchases could stay on autopilot for a while. That phase is nearing its end. Better to have a plan before problems arise, not least given the fraught market environment that has settled in.

- Consider the combined effect of monetary, balance sheet and macro-prudential policies. A coherent, comprehensive approach would be a major step forward and improve the odds of a soft landing. The new Board is uniquely qualified to take it: for the first time, it will have deep expertise and experience across all these dimensions, starting with the President and Vice-President.

Longer term

- Understand AI's economic effects on aggregate demand, labour markets and productivity, and the implications for monetary policy. Excellent work on this is already under way, but the effects will evolve rapidly. Unless policymakers anticipate them, or at least understand them in real time, monetary policy risks missing the mark. The ECB must also clarify which effects monetary policy can address, and which belong with fiscal authorities, such as a rise in structural unemployment, were it to occur.

- Use AI to improve monetary policy analysis and decision-making. Brunnermeier has been at the forefront of academic economists' work in this area, and should be able to play a decisive role in upgrading the ECB's work in this regard.

- Continue to promote the euro's international role and its place as a pillar of EU sovereignty. That means continuing to: advocate for progress in the architecture of the European Monetary Union; modernise euro-based cross-border payments and remain at the frontier of support for a vibrant euro-based blockchain finance ecosystem through the ECB's Pontes and Appia projects.

I am confident that the new leadership is as qualified as any to deliver. Nonetheless, their task is a daunting one. All EU citizens and corporates should wish them every success. I certainly do.

Isabelle Mateos y Lago
isabelle.mateosylago@bnpparibas.com