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By: TA | AP Insight

The Spanish 'monetary dove' to head the European Central Bank



European leaders have chosen the former head of Spain's central bank, Pablo Hernández de Cos, to succeed Christine Lagarde as president of the European Central Bank as the key EU institution confronts inflation driven by the war in Iran and worries about high government debt and borrowing costs in Europe.

Leaders from the 21 European member countries that use the euro also filled two other top posts at the ECB, which decides borrowing costs for the 359 million people in the eurozone.

European Council President António Costa said on X that the body agreed on the three appointments at a summit in Brussels.

De Cos' nomination still must pass review by the European Parliament and the ECB's governing council, but those steps are formalities.

Analysts view De Cos as a monetary dove

The appointment puts an experienced central banker with a reputation for backing lower interest rates and monetary stimulus in charge at a time when several European governments are struggling with heavy debt loads and rising borrowing costs.

De Cos, 55, served on the ECB rate-setting council from 2018 to 2024 through his post as head of the Spanish central bank.

A review of his speeches by Commerzbank analysts "suggests that de Cos is among the monetary policy doves," or policymakers who lean toward lower rates to support growth.

De Cos won out over another main contender for the post, former Netherlands central bank head Klaas Knot, who was regarded as a hawk, or someone who favors higher rates to ward off inflation.

In 2020, De Cos joined the council majority under Lagarde in backing 1.85 trillion euros ($2 trillion) in pandemic stimulus to keep rates low and support the economy during widespread closures and travel restrictions.

De Cos praised the massive pandemic stimulus in a speech that year, saying it "has been clearly successful in curbing financial market deterioration in all euro area countries" as well as lowering borrowing costs for eurozone governments and corporations.

> Especially against the backdrop of rising government debt in numerous countries many governments are likely to prefer a dovish ECB president - Marco Wagner

Commerzbank analyst Marco Wagner said that "especially against the backdrop of rising government debt in numerous countries ... many governments are likely to prefer a dovish ECB president."

France in particular is struggling with high debt and burdensome interest costs. However, with inflation at 4%, above the bank's target of 2%, the bank could still raise rates at its Dec. 17 meeting presided over by Lagarde.

In some circumstances the ECB can intervene to lower borrowing costs for governments hit by market turmoil it views as unjustified, but analysts say the central bank is unlikely to bail out French politicians who can't agree on how to reduce their deficit.

De Cos is currently general manager of the Bank for International Settlements, an international organization of central banks in Basel, Switzerland.

Lagarde is ending her 8-year term early

Lagarde, 70, said Oct. 30 that she would resign on Feb. 7, nine months before the end of her

eight-year term.

She has said she decided to resign early to be able to speak more freely about matters not related to monetary policy, but her resignation also enables EU leaders to choose a successor while pro-EU French President Emmanuel Macron is still in office and guards against the possibility that right-wing presidential candidate Marine Le Pen might win the election and influence the choice.

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They chose German economist Markus Brunnermeier, a professor at Princeton University, to replace Philip Lane, whose term ends in May.

Lane held the influential post of chief economist, proposing rate moves for the full governing council to consider and decide upon.

They also chose Laurence Boone, head of corporate and investment banking in France for Spanish bank Santander, for a seat being vacated by Germany's Isabel Schnabel, who is resigning in January.

The bank has served as the EU's rapid response team in economic crises

The ECB sets interest benchmarks for the 21 countries that use the euro, influencing borrowing rates throughout the economy: everything from overnight loans between banks to credit cards, home mortgages and government bonds.

Lower rates can spur a slumping economy, while higher ones restrain inflation when it's above the bank's target of 2% annually.



Christine Lagarde is regarded as having steered a pragmatic middle course based on building consensus among the national bank heads who sit on the rate-setting council

The bank's ability to act swiftly — in contrast to the often drawn-out negotiations among the 27 European Union national governments — has given it a leading role in combating Europe-wide crises such as the pandemic and the peak period of the eurozone's debt crisis in 2010-12.

The president leads meetings of the bank's rate-setting council at its headquarters in Frankfurt.

Lagarde is regarded as having steered a pragmatic middle course based on building consensus among the national bank heads who sit on the rate-setting council.

She resisted being pigeonholed as a hawk or a dove, saying she was an "owl," the bird associated with wisdom in Greek and Roman mythology.

She congratulated De Cos on Thursday, praising his "intellect, warmth and good humour" in a note posted online.

"If he is confirmed, I know these qualities will serve him well as ECB President," she said.