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How might the ECB change as and when Lagarde leaves?

ECB President Christine Lagarde's term is up in 2027 but she could leave earlier. We discuss some of the leading candidates, and how they might change policy. We don't anticipate changing our policy rate forecasts based on the choice of successor. But these candidates could shape policy along other dimensions, with important macro implications.

Key Takeaways

- Former Bank of Spain Governor Hernández de Cos is the frontrunner to replace Lagarde, whose term as president of the ECB is due to expire in 2027.
- And Lagarde might wish to resign before the French presidential election scheduled for early 2027 to deny a role for a potential National Rally president in appointing her successor.
- Similar action has already been taken by Bank of France Governor François Villeroy de Galhau, who could also replace Lagarde.
- Horse-trading between the major European partners is likely to be a central feature of the selection process. Germany, which has never held the presidency, could push for the office.
- But both leading German candidates, Executive Board Member Schnabel and Bundesbank President Nagel have their drawbacks.
- We don't anticipate changing our forecasts on the choice of president. But different candidates could bring different attitudes to the use of non-standard crisis tools such as quantitative easing (QE), negative interest rates (NIRP), and the transmission protection instrument (TPI).

Lagexit?

Though her term doesn't expire until late 2027, European Central Bank (ECB) President Christine Lagarde could leave her post early.

In some ways, it is surprising that Lagarde has remained this long. Early in her eight-year term, she declined to confirm her intention to see it through. And credible rumours suggested she seriously considered leaving her post to replace Klaus Schwab as head of the World Economic Forum after he stepped down last year.

For now, she has committed to remaining in post while the Iran war crisis is ongoing. But political considerations are placing pressure on her to step aside. A French presidential election is scheduled for early 2027. Polls suggest this could produce a populist right National Rally (RN) president.

Not unrelatedly, Bank of France Governor François Villeroy de Galhau announced his resignation earlier this year. Though he denied that he was motivated against the prospect of a RN president choosing his successor, it is likely this did factor into his decision-making.

RN's most likely presidential candidate, Jordan Bardella, has called on the ECB to use quantitative easing (QE) to alleviate France's debt burden.

As a champion of the ECB's institutional independence, Lagarde is undoubtedly unsympathetic to Bardella's view.

As France's president will play a significant role in appointing her successor, she might wish to follow Villeroy's lead and resign before he could take office.

Hernández de Cos is the favourite

ECB succession processes are invariably characterised by deal-making between the EU's major countries. Each will wish to protect its representation across the major EU institutions and the ECB's executive board (EB).

Partly for that reason, if Lagarde does resign soon, the former governor of the Bank of Spain and current general manager of the Bank of International Settlements (BIS), Pablo Hernández de Cos will become the favourite to succeed her.

That's because Spain has never held the presidency before, and offering the position to a Spaniard could offer a workable compromise between the "big two". France is unlikely to assent to a German president while a German (Ursula von der Leyen) occupies the presidency of the Commission. Meanwhile, France would be unlikely to secure back-to-back ECB presidents.

Hernández de Cos brings technical expertise and extensive experience in central banking. Following Lagarde, whose background was unusually broad for an ECB president, his profile fits a more traditional mould.

In addition, his experience at the BIS lends him credibility as the heir of Lagarde's efforts to expand the euro's role in international finance.

More dovish than some other candidates, but relatively hawkish for a Spanish central banker, Hernández de Cos' appointment would be very unlikely to shift our near-term policy rate expectations.

Knot too hawkish, Knot too dovish, but just right

However, there remains a possibility that Northern European scepticism over Hernández de Cos' relative dovishness might preclude decision-makers from supporting his nomination.

In that event, former Dutch Bank Governor Klaas Knot could emerge as an option. Like Hernández de Cos, he has extensive experience in central banking and isn't from France or Germany.

But the Netherlands is already represented on the EB. By convention, member states have held a maximum of one seat at any one time.

This doesn't necessarily rule Knot out. But it does mean EB member Frank Elderson would have to resign (as Lorenzo Bini Smaghi did to make way for Mario Draghi). That adds complexity to negotiations that EU leaders might wish to avoid.

Moreover, unlike Spain, the Netherlands has already occupied the office of ECB president. That might raise objections in Germany, which has never produced an ECB president.

Time for a German?

Chancellor Friedrich Merz might therefore push for a German to be given the job.

There are two primary German candidates: EB member Isabel Schnabel and Bundesbank President Joachim Nagel.

As an experienced and influential policymaker, Nagel has the credentials for the job. But whether CDU leader Merz would be willing to expend political capital to get SPD member Nagel the presidency is doubtful.

And the case for Isabel Schnabel as president is complicated by legal considerations. By statute, EB terms are non-renewable, which makes moving Schnabel to a different role on the EB a legally dubious manoeuvre at best.

A case in the European Court of Justice would make for very bad optics at a time when the ECB is looking to position itself as a bastion of institutional strength against perceived executive interference in the Federal Reserve – making Schnabel an unlikely choice.

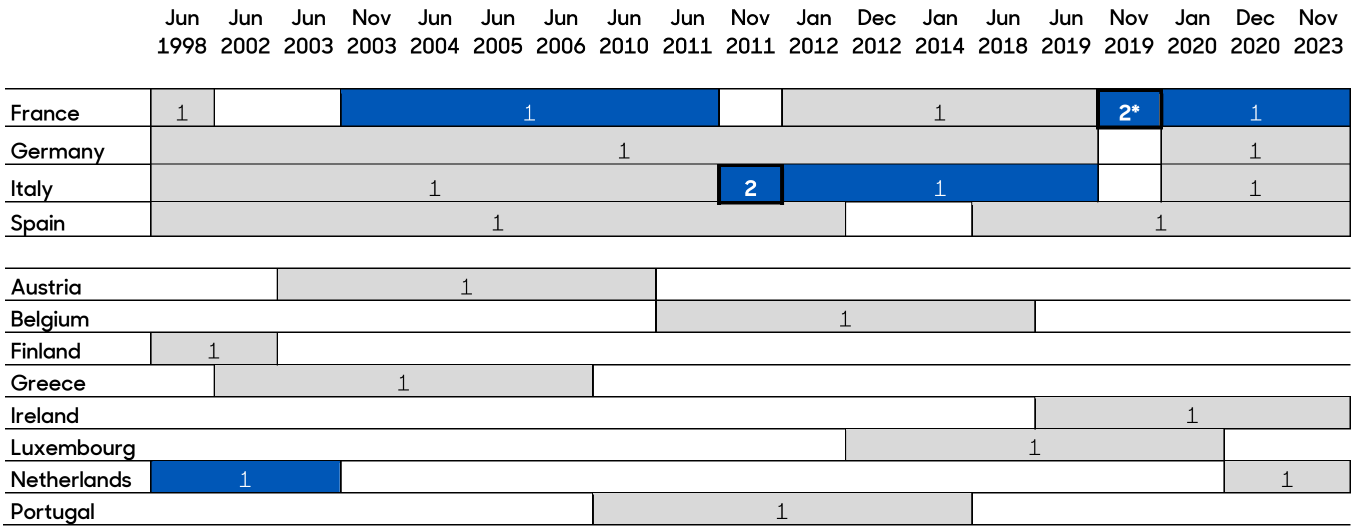
What about a wildcard?

Lagarde was a surprise pick for president, with a background outside central banking. It is perfectly possible that backroom horse-trading results in another outsider nominee.

Even among the pool of European central bankers, there are some potential dark horses. Two successive presidents of the same nationality would be an unprecedented development (see Figure 1), but Villeroy de Galhau's many years of experience at the Bank of France make him a qualified candidate. And his criticism of the fiscal profligacy of his country could render him more palatable to German policymakers.

And, though Olli Rehn is not long into his term at the Bank of Finland, his prior experience as European Commissioner for Economic and Monetary Affairs during the euro crisis lends him institutional credibility. He could therefore emerge as a technocratic compromise candidate, though this too is unlikely.

Figure 1: The "big four" almost always command a spot on the EB. On the only occasion a second EB member from the same country has been appointed, the other resigned



Source: ECB, Aberdeen, June 2026. Blue shading indicates control of the presidency. *Lagarde joined the ECB weeks before another French EB member's term expired

Rates higher or lower is the wrong lens through which to analyse the impact of a new ECB president

Almost any of these potential appointees would leave our *policy rates forecasts* unchanged. That's because the ECB president usually leads the Governing Council (the rate-decision making committee formed of the six members of the EB and the central bank governors of all 21 members of the Eurozone) by consensus.

But the choice of president could make an impact along other dimensions. We see potential for the next ECB president to differ from Lagarde in several regards:

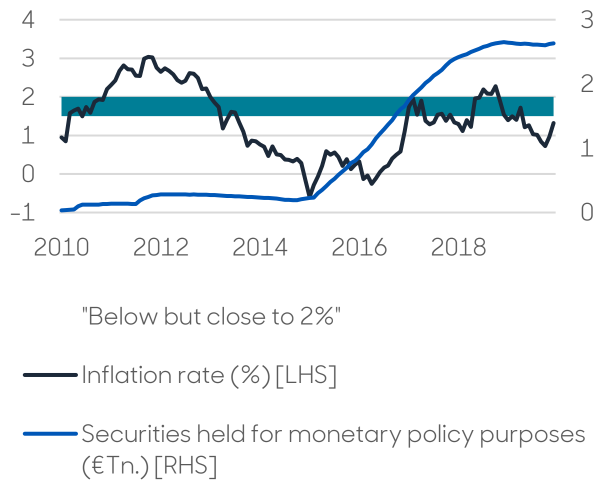
1. The degree to which they are willing to tolerate small deviations from target inflation.
2. Their willingness to use non-standard monetary policy tools including QE, negative interest rate policy (NIRP), and the transmission protection instrument (TPI)
3. Their enthusiasm for initiatives designed to promote the euro's global footprint.
4. Their willingness to intervene on issues outside of their core competencies as a central banker.

1. The reaction function becomes more sensitive

Over her presidency, Lagarde has established that small deviations from target inflation should be tolerated or looked through. This contrasts with Draghi's tendency to use the full force of the ECB's toolkit to address what was, by the end of his presidency, quite a small undershoot of the ECB's inflation target (see Figure 2).

In fact, Draghi went as far as to set off the process to change the ECB's inflation target from "below but close to 2%" to a symmetric target, enabling him to intervene more actively to push inflation higher.

Figure 2: Even with inflation near target, the Draghi-led ECB kept policy very accommodative



Source: ECB, Aberdeen, June 2026

It isn't hard to see the next president pivoting back to a more sensitive reaction function without making the ECB more dovish or hawkish overall.

Schnabel, for instance – though, unlike Draghi, considered a hawk – has sometimes been quicker than her colleagues to react to the news flow in her statements.

2. There could be more scepticism of non-standard policy

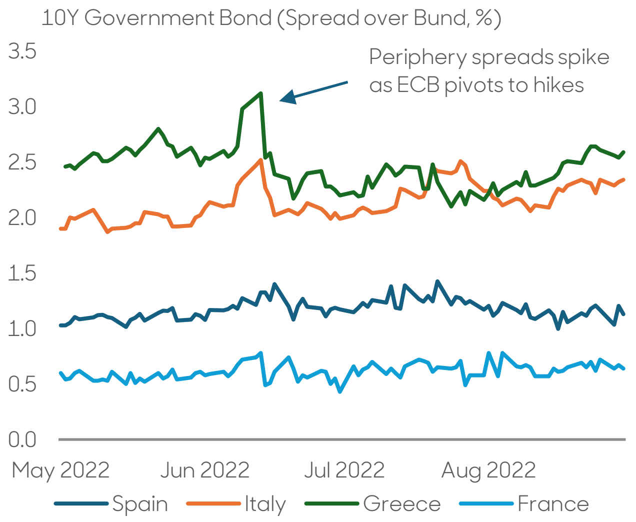
A first German ECB president looks an unlikely prospect as things stand.

But if they were appointed, Schnabel or Nagel could implement last year's operational review in such a way as to raise the bar to the use of nonstandard policy tools. Knot has also expressed some reticence over excessive use of these tools (see Figure 4).

QE is deeply controversial among many German policymakers as it has tended to materially lower the cost of borrowing for periphery countries while having a more limited macroeconomic impact in the core.

And the TPI raises political economy issues. The ECB maintains that this instrument, which allows it to intervene in sovereign debt markets, should only be used "where spreads are not justified by fundamentals".

Figure 3: This selloff inspired the TPI. Whether it is "justified by the fundamentals" is in the eye of the beholder



Source: ECB, Aberdeen, June 2026

But in practice identifying "justified" market action is extremely complex and somewhat subjective (see Figure 3).

That means a country could be incentivised to run an otherwise unsustainable fiscal policy hoping the ECB would use the TPI as a backstop. This "moral hazard" issue can only be staved off if the ECB is perceived to be credible in its threat to *not* intervene where selloffs *are* justified. A sceptical president could therefore look to raise the bar to use of the TPI.

3. The global euro agenda will probably remain

All major candidates (with the possible exception of Nagel) are on board with Lagarde's global euro agenda. That means they would also extend their support to the digital euro project.

4. The next president will fit the mould of a "monetary policy person". But the oft-forgotten second mandate remains

Lagarde's successor is likely to be more narrowly focused on monetary policy than her. But the office of ECB president will continue to offer its occupant a platform to contribute to the debate in foreign, defence, and fiscal policy.

And with the lines between defence, supply-chain security, military infrastructure, civilian infrastructure, and cybersecurity becoming more blurred, expect the next ECB president to weigh in on these issues.

In this regard, the ECB is an outlier among major central banks. For instance, Fed Chair nominee Kevin Warsh has been a noted critic of "mission creep". The Bank of England has also retreated from non-core competencies following the post-Carney era.

But the ECB's secondary mandate is to support the EU's broader economic strategy, as laid out by Article 127 of the Treaty on the Functioning of the EU. That makes interventions on non-monetary policy matters a statutory obligation of the president.

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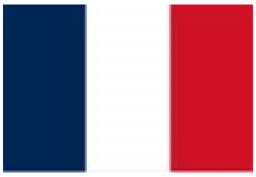
Figure 4: The major candidates compared

	Country	Hawkish or Dovish	Toleration of deviations	Non-standard tools	Global euro
Pablo Hernández de Cos		Moderate Dove	Neutral	Neutral	Few public comments
Klaas Knot		Moderate Hawk	Neutral	Moderate Sceptic	"cautious believer"
Joachim Nagel		Hawk	Neutral	Sceptic	Mixed
François Villeroy de Galhau		Moderate Dove	Neutral	Pro	Pro
Isabel Schnabel		Hawk	Conditional on slack	Very sceptical	Pro

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