# Changing of the Guard at the European Central Bank



The European Central Bank (ECB) is set to undergo a change in leadership at the beginning of the new year. Christine Lagarde will step down as President of the ECB in February 2027. The ECB's primary task is to maintain price stability. For years, EU citizens have experienced the damaging effects of inflation whenever they spend their money. A loss of purchasing power is a loss of prosperity.

During Ms Lagarde's term in office, the euro has lost almost 25% of its purchasing power, according to official figures. Had the ECB achieved its own inflation target of 2% per year, the loss would have been just under 15%. This significant failure to meet its target is likely to lead to a critical assessment of the ECB President's performance. Moreover, economic growth in the eurozone has been extremely weak during her tenure. There is also a fundamental debate to be had about whether price stability should mean targeting annual inflation of 0% rather than 2%. After all, the very term "price stability" seems to suggest as much. In any case, the renowned American investor Warren Buffett held this view throughout his life.

The excessively high inflation of recent years raises fundamental questions. One must ask, for example, whether the ECB should be led by a politician, as Christine Lagarde was. It is worth recalling that Lagarde, a lawyer by training, was appointed to the position as part of a political arrangement that, in return, secured Ursula von der Leyen the presidency of the European Commission. There is much to suggest that competence and performance are better criteria for appointing people to senior positions in business and politics than political horse-trading. After all, what is at stake is prosperity, something that the vast majority of people surely wish to enjoy. As is well known, neglecting this objective has caused Europe to fall increasingly behind the United States and China in recent years.

Furthermore, it is worth critically examining whether the European central banking system is oversized and too expensive. It should be borne in mind that every country using the euro has its own national central bank organisation. Like the ECB itself, national central banks are large public institutions. It is striking that the United States maintains a central banking system with substantially less institutional capacity, yet its economy is certainly no weaker than that of the EU.

The ECB's policy direction and the people appointed to lead it are therefore of great importance to the prosperity of the population. It might be worthwhile to appoint an experienced figure from the European banking industry to head the ECB for a change. What is possible in America should also be possible in the EU. There are surely suitable candidates

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within the highly successful banking sectors of Spain and Italy. This could also help curb the politicisation of the ECB, which is, after all, supposed to be independent of political influence. Inflation is a matter of central importance to EU citizens. Even Generation Z school students are now demonstrating against excessively high inflation. The departure of Christine Lagarde should be seized as an opportunity to create a lean, politically independent and effective European Central Bank. This would also be extremely welcome news for investors, as stable prices prevent inflation-driven increases in the effective tax burden on capital gains and dividend distributions.

Your fund manager an co-investor



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