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Lagarde's Early Departure: Political Context, Leadership Reshuffle and Policy Implications

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Lagarde's Early Departure: Political Context, Leadership Reshuffle and Policy Implications

25 November 2026

Executive Summary

Political Context and Institutional Legacy

- Christine Lagarde will step down on 7 February 2027, nine months early, citing restrictions on her public engagement.
- Her departure has fuelled speculation about Macron's efforts to influence ECB succession ahead of France's 2027 presidential election, raising independence concerns.
- Marine Le Pen has advocated ECB intervention to reduce French borrowing costs, potentially increasing political pressure on the institution.
- Speculation about Lagarde's presidential ambitions has intensified, with a POLITICO poll placing her at 14%, against Édouard Philippe's 13.5%.
- Lagarde's legacy includes restoring inflation to target, introducing the TPI and advancing the digital euro project.

Europe's Political Musical Chairs

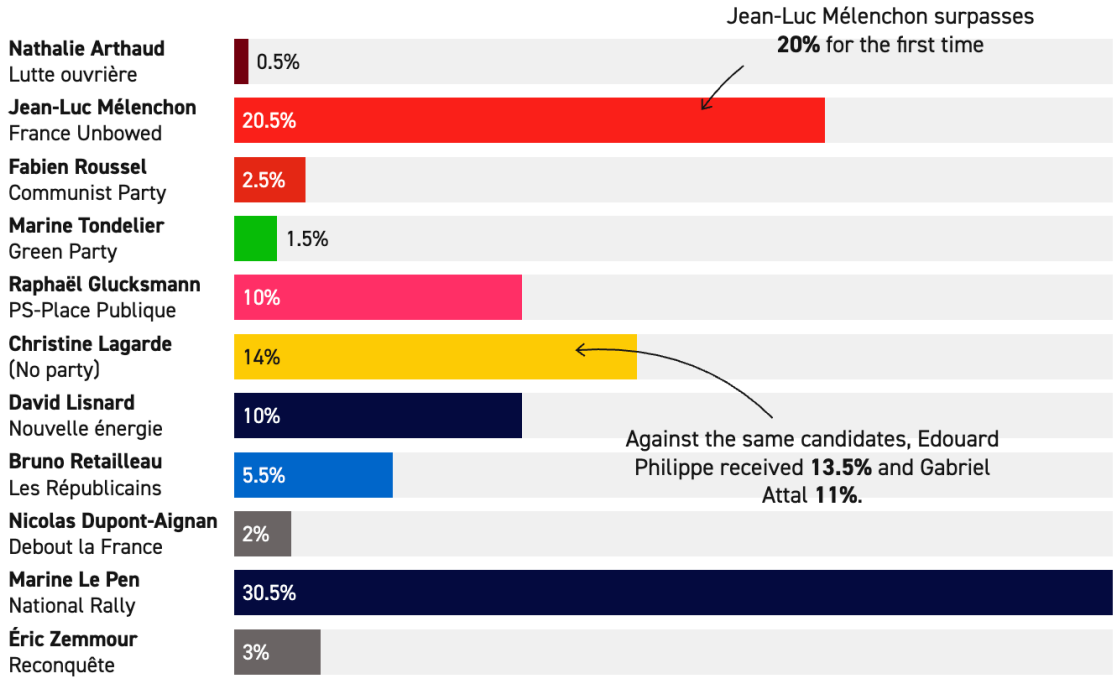
- Lagarde's departure coincides with Isabel Schnabel's January exit and Philip Lane's May departure, creating three Executive Board vacancies.
- Klaas Knot and Pablo Hernández de Cos are the leading presidential contenders, with Joachim Nagel and Nadia Calviño also mentioned.
- Macron and Merz are expected to shape negotiations over the appointments, balancing national interests and institutional influence.
- France seeks the chief economist position, potentially for Agnès Bénassy-Quéré or Laurence Boone, while Germany considers replacements for Schnabel.
- Regional representation, monetary-policy preferences and gender diversity complicate negotiations, with the three appointments likely to be agreed as a package by year-end.

Implications for Monetary Policy and Eurozone Financial Stability

- Renewed energy-driven inflation has complicated the ECB's outlook, with another December rate increase possible despite weak economic activity.
- France faces mounting fiscal pressures, with €3.6 trillion in debt, a deficit above 5% of GDP and bond spreads of 150-175 basis points over Germany.
- Existing ECB intervention tools face constraints, as TPI has fiscal eligibility requirements and OMT requires a formal adjustment programme.
- Knot and Hernández de Cos may need to consider more flexible bond-market interventions while balancing financial stability against moral-hazard risks.
- The succession will test the ECB's ability to maintain monetary-policy credibility, institutional independence and financial stability without a common eurozone fiscal framework.

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Key Picture: Voting Intentions for the First Round of the Presidential Election *(in scenario where Lagarde would be the centrist candidate)*



The survey was conducted from November 9 to 10 among a sample of 1,164 people, representative of the French population aged 18 and older, using the quota-sampling method. The survey was conducted via a self-administered online questionnaire. The margin of error ranges from 1.2 to 2.8 percentage points.

Source: Politico

Lagarde's Early Departure: Political Context and Institutional Legacy

European Central Bank (ECB) President Christine Lagarde announced that she will step down on 7 February 2027, nine months before her term expires. She attributed her decision to a desire to speak freely on broader global economic and political issues, arguing that the ECB's neutrality requirements constrained her public engagement.

The timing of Lagarde's departure has raised concerns about the ECB's institutional independence, fuelling speculation that French President Emmanuel Macron sought to accelerate the succession process ahead of France's April–May 2027 presidential election, potentially limiting the influence of a future far-right administration over the appointment. Paul De Grauwe, a professor at the London School of Economics, criticised the timing as evidence of political considerations influencing the ECB's leadership transition. Although neither Lagarde nor Macron has confirmed any political coordination behind the decision, critics argue that aligning the succession process with national electoral considerations risks undermining perceptions of the central bank's independence.

These concerns are particularly relevant given France's mounting sovereign-debt pressures. Marine Le Pen has advocated ECB intervention to ease the country's borrowing costs, raising questions about potential political pressure on the institution under a future administration. Meanwhile, Lagarde's departure has prompted speculation about her own presidential ambitions. A Cluster17 poll commissioned by POLITICO found that she would attract 14% of the vote, broadly matching former Prime Minister Édouard Philippe's 13.5% in a comparable scenario. Although Lagarde previously ruled out a presidential bid, she has avoided directly

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addressing the possibility since announcing her resignation on 29 October, while expressing her intention to advocate for pro-European values after leaving office.

Despite the political controversy, Lagarde leaves behind an institution whose credibility was strengthened by its response to successive economic crises. During her tenure, the ECB oversaw the return of inflation to its 2% target following the 2022 energy shock and introduced the Transmission Protection Instrument (TPI) to address sovereign-debt market fragmentation.

Her presidency also saw progress on the digital euro, a project that ECB officials insist will continue despite the leadership transition. EU lawmakers aim to finalise the legislative framework by the end of 2026, ahead of a pilot programme scheduled for the second half of 2027 and potential issuance in 2029.

ECB Leadership Reshuffle: Europe's Political Musical Chairs

Lagarde's departure coincides with two other upcoming vacancies on the ECB's six-member Executive Board: Isabel Schnabel's departure in January and chief economist Philip Lane's in May. Under Article 283 of the Treaty on the Functioning of the European Union, the European Council will appoint Lagarde's successor, with the broader reshuffle expected to involve negotiations over national representation and institutional influence.

Former Dutch central bank governor Klaas Knot and former Spanish central bank governor Pablo Hernández de Cos are considered the leading contenders, having been nominated by their respective governments. Knot brings extensive central banking experience and a reputation for fiscal conservatism, while Hernández de Cos strengthened the Bank of Spain's institutional standing, although his previous disagreements with the Spanish government could complicate domestic political support. Bundesbank President Joachim Nagel and European Investment Bank President Nadia Calviño have also been mentioned as potential candidates, while a late compromise candidate cannot be ruled out.

The negotiations are expected to be shaped largely by French President Emmanuel Macron and German Chancellor Friedrich Merz. France is seeking the chief economist position for the first time, with Bank of France Governor Emmanuel Moulin arguing that the country has several highly qualified female candidates. Potential contenders include Bank of France Deputy Governor Agnès Bénassy-Quéré and former OECD official Laurence Boone. Meanwhile, Germany has yet to settle on a replacement for Schnabel, with former IMF official Tobias Adrian and Bundesbank Vice President Sabine Mauderer reportedly under consideration.

The appointments will also need to balance regional representation, monetary-policy preferences and gender diversity. Knot's appointment could raise questions about fellow Dutch Executive Board member Frank Elderson's position, while Germany's choice for Schnabel's replacement could influence the presidential contest. Spain could also seek another Executive Board position if Hernández de Cos does not secure the presidency.

Eurozone finance ministers discussed the leading candidates on 9 November but deferred a recommendation pending agreement among EU leaders, who aim to finalise the appointment by year-end. Although formally separate, the three vacancies are therefore likely to be negotiated as a package.

Implications for Monetary Policy and Eurozone Financial Stability

Although analysts expect broad monetary-policy continuity under either leading candidate, the succession comes at a sensitive moment for the eurozone. Renewed inflationary pressures from the Middle East energy shock have complicated the ECB's outlook, with Lagarde warning that inflation will remain elevated over the coming quarters and signalling that another interest-rate increase in December remains likely. While second-

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round inflationary effects have so far remained contained, further tightening risks weakening economic activity as rising sovereign-bond yields already weigh on financial conditions.

France's deteriorating fiscal position presents an additional challenge. With public debt reaching €3.6 trillion, a deficit exceeding 5% of GDP and 10-year government bond yields recently surpassing 5%, concerns about sovereign-debt sustainability and market fragmentation have intensified. Spreads over German Bunds have widened to around 150-175 basis points, raising questions about the adequacy of existing ECB intervention instruments. The Transmission Protection Instrument (TPI) is subject to fiscal eligibility criteria that France may struggle to satisfy, while Outright Monetary Transactions (OMT) require a formal adjustment programme that would be politically difficult to implement in an economy of France's size.

Against this backdrop, both Klaas Knot and Pablo Hernández de Cos may face pressure to consider more flexible intervention mechanisms. Potential options include adapting TPI eligibility criteria or developing instruments to support countries pursuing fiscal reforms despite breaching EU deficit rules. Knot has expressed openness to new tools while emphasising that ECB intervention should address disorderly market conditions rather than compensate for unsustainable fiscal policies. Such measures would need to preserve incentives for fiscal adjustment while preventing destabilising market pressures. As demonstrated by Mario Draghi's 2012 intervention, a credible commitment to act could itself stabilise markets without requiring substantial bond purchases.

Despite his traditionally hawkish reputation, Knot has advocated a pragmatic approach to interest rates, suggesting that limited additional tightening may be necessary if energy prices stabilise. More broadly, the succession will test the ECB's ability to reconcile inflation control with financial stability and institutional independence, exposing the structural tensions of a monetary union without a fully developed common fiscal framework.

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