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European Commission after Jonathan Hill's Resignation

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After the Brexit referendum, Lord Jonathan Hill resigned as EU commissioner of financial stability, financial services and capital markets union. The British government has proposed to replace him with Sir Julian King. Jean-Claude Juncker offered him, however, EU security issues. The financial services portfolio was granted to Valdis Dombrovskis, vice-president of the European Commission, who supervises the functioning of the euro area. Non-eurozone influence over the European Commission in the context of financial markets is in the Polish interest.

After the UK referendum on Brexit, Lord Jonathan Hill resigned from his post as commissioner supervising the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). The decision was taken quickly, supposedly under pressure from MEPs representing almost all political factions (Elmar Brok of the European People's Party, Gianni Pittella, head of the Party of Socialists and Democrats, and Guy Verhofstadt, head of the liberal party ALDE).

The financial regulation issues were separated from the internal market portfolio when Jean-Claude Juncker became president of the European Commission. The United Kingdom's representative received a new portfolio that included the capital markets union in exchange for the country's acceptance of Juncker's candidacy to head the European Commission. The financial issues dossier is not only prestigious but also strategically important to the proper functioning of the internal market. Its importance increased after the introduction of the banking union and, consequently, the growing interest in prudential EU regulations of the banking sector. For Poland, it is important to maintain the influence of non-eurozone countries on this area of the European Commission's activity.

Moving Commission Portfolios. The then-UK prime minister, David Cameron, proposed that after Hill the position should be given to Britain's ambassador in Paris, Sir Julian King, known for his pro-EU and pro-integration attitude. Because of resistance from other EU decision-makers (including MEPs and representatives from France and other countries), Juncker did not offer King Hill's portfolio. The new British commissioner received another, supposedly less significant portfolio not related to the financial markets—security issues in the EU.

European Commission Vice-President Valdis Dombrovskis, who has so far been supervising the eurozone, took over Hill's dossier. It is a permanent change since he has received a positive assessment from the EP's economic committee. Dombrovskis expressed doubt as to whether he is able to effectively supervise both portfolios. It is possible that in the future he will decide to cede some part of his role to another commissioner. There is speculation that part of Hill's dossier could be transferred to Commissioner Pierre Moscovici, who is supervising EC economic and financial affairs, taxation and customs.

The Consequences of the Changes. Juncker's decision to hand Hill's portfolio to Dombrovskis seems to work for the European Commission. As prime minister of Latvia, Dombrovskis carried out reforms that ended the threat of insolvency of the state and the country's banking sector. He is well qualified to responsibly manage such an important portfolio. It is believed that he is determined to bring Member States into compliance with the provisions of the Stability and Growth Pact. In the case of EU sanctions on Spain and Portugal in the context of the excessive deficit procedure, he has supported punishment more strongly than his counterpart—Moscovici—who was involved in the process. At the same time, he has declared he will continue Hill's projects, which could help the EU and Britain reach a compromise before negotiations begin on the role of London in the EU as a European financial centre. This is another argument for delegating regulation of the financial sector to Dombrovskis. Finally, there is synergy between his two portfolios, which may appear nowadays valuable. The EU still faces a lack of stability in the banking sector, which has exposure mainly in the euro area, and a commissioner dealing simultaneously with eurozone issues and financial issues may be able to address the problem properly.

For Poland, Dombrovskis in this post may appear beneficial. During his premiership of the Latvian government, there was a sharp outflow of foreign capital from the country. The Latvian banking system, as in Poland, is based mainly on foreign capital. As commissioner, he might therefore consider more specificity for host countries when designing regulation of the financial markets. For this reason, the acquisition of the entire portfolio by Dombrovskis is better for Poland than the speculated division of it between him and Moscovici. Dombrovskis may also suitably continue the so-called capital markets union (assuming an increase in the free movement of capital), a concept initiated by Hill. If completed, a hypothetical sudden outflow of capital from some EU countries, for example, if the global economy rapidly deteriorates, would be difficult. Commissioner Dombrovskis stressed that the continuation of this project needs a strengthened emphasis on supervision of capital flows. This strategy may work for Poland because it would help maintain the stability of the Polish financial market if there is growing uncertainty in the world or in Europe.

The transfer of the financial portfolio to the Commissioner also watching over the euro may, however, have adverse implications for Poland. The first efforts to strengthen the eurozone took place shortly after the British exit vote. Post-referendum meetings with the so-called EU core countries testifies to the growing importance of the eurozone in the process of European integration at the expense of countries outside the zone. Leaving regulation of the financial markets to the commissioner managing the affairs of the common currency also shows that the eurozone post-Brexit will have a greater impact on the internal market (in this case, in financial terms).

After Hill's resignation, deepening of integration of the eurozone in financial matters may accelerate. Moreover, its influence on the EU's financial sector will increase. Changes may affect such projects as the banking union, which is open to EU Member States outside the euro area. In the European Commission's new political setting, it may become more exclusive. Furthermore, solutions adopted for regulation of the banking and financial sectors can now be tailored to the needs of the eurozone without including the specificity of non-eurozone states. For example, it will be critical how the commissioner plans to regulate the system of deposit insurance for participants in the banking union. Because Poland's banking sector is considered to be in good shape, the Polish government would be unlikely to support speculation among EU institutions about a guarantee mechanism based on risk-sharing.

Conclusions. It is in Poland's interest that non-eurozone countries continue to have as much influence on shaping EU economic policy as euro area countries. The Polish government should strive to keep as a top priority the principle that the internal market is the basis for the development of Community economic issues.

A good solution is to promote personnel changes at DG FISMA. Representatives of non-eurozone countries should be granted key positions. The optimum would be to employ candidates from outside the eurozone to serve in the commissioner's cabinet or as directors of divisions and departments responsible for financial issues. Currently, DG FISMA has four such divisions, which—apart from the British deputy directors—have no representatives of countries outside the eurozone. At the department level, there are about 30 positions at the rank of director or vice-director, but only three of them are occupied by citizens from countries outside the euro area (again, not counting the British). In Dombrovskis' cabinet, three of 10 positions, including one Briton, are staffed with non-eurozone personnel.

If a division of Dombrovskis financial portfolio occurs, the Polish government should propose a transfer of part of the dossier to commissioners responsible for issues related to the internal market, growth or investment. If for political reasons this is not possible, it should strive for staffing key positions within DGs pertaining to the re-arranged financial portfolio with officials from non-eurozone countries.