

# Up for grabs

## As the EU debates the Recovery Fund, the Eurogroup elects its new leader

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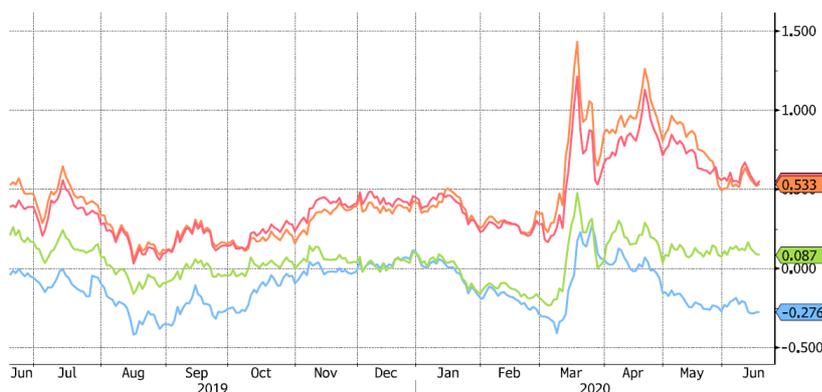
Portuguese newspapers have been speculating about the future of the country's Finance minister for months. On March 23, the "Cristiano Ronaldo of the ECOFIN" (a nickname his German colleague Wolfgang Schäuble gave him) had guaranteed to be fully focused on the fight against the coronavirus crisis and on his role as President of the Eurogroup. Then, **on June 9**, press rumors have turned into reality and **Mario Centeno has announced his decision** to leave Portugal's government and **to renounce a second mandate at the helm of the Eurogroup**.

Although widely expected, **Centeno's announcement comes at a highly convoluted time for the Old Continent, a time when the European Union is grappling with a divisive negotiation on the European Recovery Fund** and is dealing with the approval of its next seven-year budget. It is within this context that euro area member states will have to engage, once again, in that delicate act of diplomatic balancing that has always characterized high-level appointments in the bloc.

### Side step

The reason behind Centeno's choice is to be found in the same institution where the (by now) former minister has worked as economist shortly after his PhD at Harvard: the Banco de Portugal. Indeed, **the second term of Carlos Costa, the current governor of Portugal's central bank, will come to an end in July and Centeno is considered by many watchers as an ideal candidate to replace him**.

### 10Y bond yields: Portugal, Spain, Ireland, EFSF



Source: Bloomberg

### Timeline

#### June 9

Mario Centeno says he will not seek a 2nd mandate as Eurogroup President

#### June 25

Deadline for Finance ministers to put forward their candidacy

#### July 9

Eurozone ministers elect the new Eurogroup President

#### July 13

New Eurogroup President term begins

Source: European Council, Council of the EU

### Former Eurogroup presidents



#### Jean-Claude Juncker

\* Luxembourg  
\* EPP

From: January 1, 2005  
To: January 21, 2013



#### Jeroen Dijsselbloem

\* Netherlands  
\* PES

From: January 21, 2013  
To: January 12, 2018



#### Mário Centeno

\* Portugal  
\* Independent  
(Portugal's Government: Partido Socialista)

From: January 13, 2018  
To: July 12, 2020

### Likely candidates



#### Nadia Calviño

\* Minister for Economic Affairs, Spain  
\* Independent  
(Spain's Government coalition: PSOE + Unidas Podemos)



#### Pierre Gramegna

\* Minister for Finance, Luxembourg  
\* Renew Europe



#### Paschal Donohoe

\* Minister for Finance, Ireland  
\* EPP

Source: European Council, Council of the EU, Wikipedia

Note: EPP = European People's Party; PES = Party of European Socialists.

According to some observers, however, **Centeno's decision could be a consequence of growing tensions with Prime Minister António Costa**, at first in relation to an €850m state loan made to Novo Banco (a good bank established in 2014 after Banco Espírito Santo's resolution) and later due to the appointment of António Costa Silva, a former executive of oil company Partex, as head of the country's post-pandemic recovery plan.

In any case, Centeno's onboarding at the BdP is not seen as a desirable outcome by everyone in Portugal's politics. After 4 and a half years at the Ministry of Finance, center-right **opposition lawmakers believe that the economist is at this point too politicized to lead**, with the needed autonomy, an independent institution like **the central bank**.

### Horse trading

According to Politico, **potential candidates for Mario Centeno's succession** have been getting ready for the race at least since February. As of now, the names of three likely contenders stand out: Spain's **Nadia Calviño**, Luxembourg's **Pierre Gramegna** and Ireland's **Paschal Donohoe**.

As per European tradition, **the appointment has to be the result of a complex balancing process that takes into account both political factors** (the European "family" the candidate belongs to) **and geographical factors** (North/South, East/West, small countries/large countries). The winner needs to prevail in a secret ballot with a simple majority vote, i.e. obtain at least 10 out of 19 preferences of the bloc's Finance ministers. Indeed, **each country has only one vote**, regardless of its economic or demographic size.

**Spain's minister for Economic Affairs is seen by many observers as the front runner**, having gained the support of Germany, France and Italy, among others (in addition to the backing of Madrid's government). Calviño is an independent, member of a left-wing executive of a Mediterranean country, just like the outgoing Centeno. **If elected, she would be the first woman to hold the position.**

Already indicated in 2019 among the contenders for the direction of the International Monetary Fund (a role that was eventually entrusted to Bulgaria's Kristalina Georgieva), Calviño is described by the Financial Times as the voice of fiscal and economic orthodoxy within Pedro Sánchez's government (also due to her track record at the European Commission), a much liked feature in the eyes of fiscally frugal Northern European countries. At the same time, however, **Spain's government is among those that have lobbied the most for the Recovery Fund to provide grants instead of loans** to ailing states, going as far as proposing that it should raise its funds through the sale of perpetual bonds.

But the hurdles on the path that could bring Spain's candidate to the July 9 election are far from being over.

In addition to her role as minister for Economic Affairs, Calviño is also Deputy Prime Minister of Spain's government: should she obtain the leadership of the Eurogroup, a redistribution of roles within Madrid's government could be triggered as a consequence. Moreover, **the Iberian country already holds two key roles in EU institutions**: Josep Borrell, from Catalonia, is the High representative of the Union for foreign affairs and security policy while Madrid-born Luis de Guindos is Vice-President of the European Central Bank. **Not to mention some rumors suggesting Spain is also seeking the top job at the World Trade Organization (WTO)** with Foreign minister Arancha González Laya.

Should these factors dampen Spain's ambitions, **some commentators see Gramegna, a liberal, as the second strongest contender**. The Luxembourger, who was defeated by Centeno in December 2017, could obtain his revenge in July 2020. On the other hand, **the chances of Ireland's Donohoe seem apparently lower**, being him a member of the centre-right European People's Party.

### Eurogroup's presidency

\* The Eurogroup meets each month on the eve of the ECOFIN (Economic and Finance Council) to ensure that the 19 euro-area member countries are aligned ahead of the meeting of Finance ministers from all the 27 member states of the EU.

\* The President of the Eurogroup has no decision-making powers but sets the agenda and works to broker a compromise between the Finance ministers of the eurozone. Her/his mandate has a duration of 2 and a half years.

\* The Board of Governors of the European Stability Mechanism (ESM) decides by qualified majority whether to be chaired by the President of the Eurogroup (as it has always been the case so far) or to elect its chair from among its own members.

## Declining influence?

Shortly after the announcement of his resignation, Mario Centeno has received several congratulations and messages of esteem for his work over the last two and a half years as leader of eurozone's Finance ministers. However, as reported by France's AFP news agency, his presidency has disappointed the expectations of a number of colleagues.

**Centeno's lack of charisma and authority** -- critics say -- **may have worsened the decline of the Eurogroup**, an institution that year after year has become less and less relevant compared to the European Council (a body made up of the heads of state or government of all EU countries) and unable to make any real progress on dossiers ranging from the banking and capital markets union to the overhaul of the eurozone's bailout fund.

**For those sharing this view, the Eurogroup is at a crossroads: either it regains a more central role**, thanks to a new and reinvigorated leadership, **or it will simply fade away.**



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