

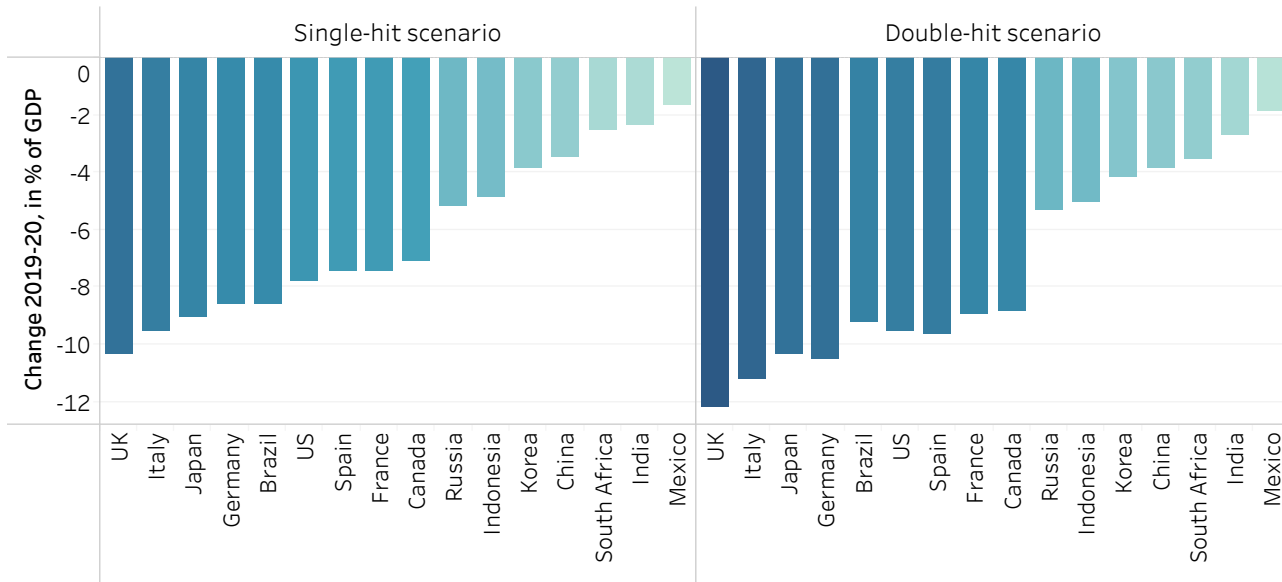
WEEKLY POLITICAL COMPASS

New confirmed cases of Covid-19 have brought back some lockdown restrictions to **China's** capital. The **UK** will not ask for an extension of the transition period. **Brazil's** senate is expected to vote on job suspension and salary reductions. Meanwhile, **South Korea's** president marked the second anniversary of his visit to the North, **Hungary's** parliament might vote in favor of lifting the controversial state of emergency, tensions continue escalating in **Venezuela**, the attack on a military outpost in **Cote d'Ivoire** will continue to dominate headlines.

[CHART OF THE WEEK](#)

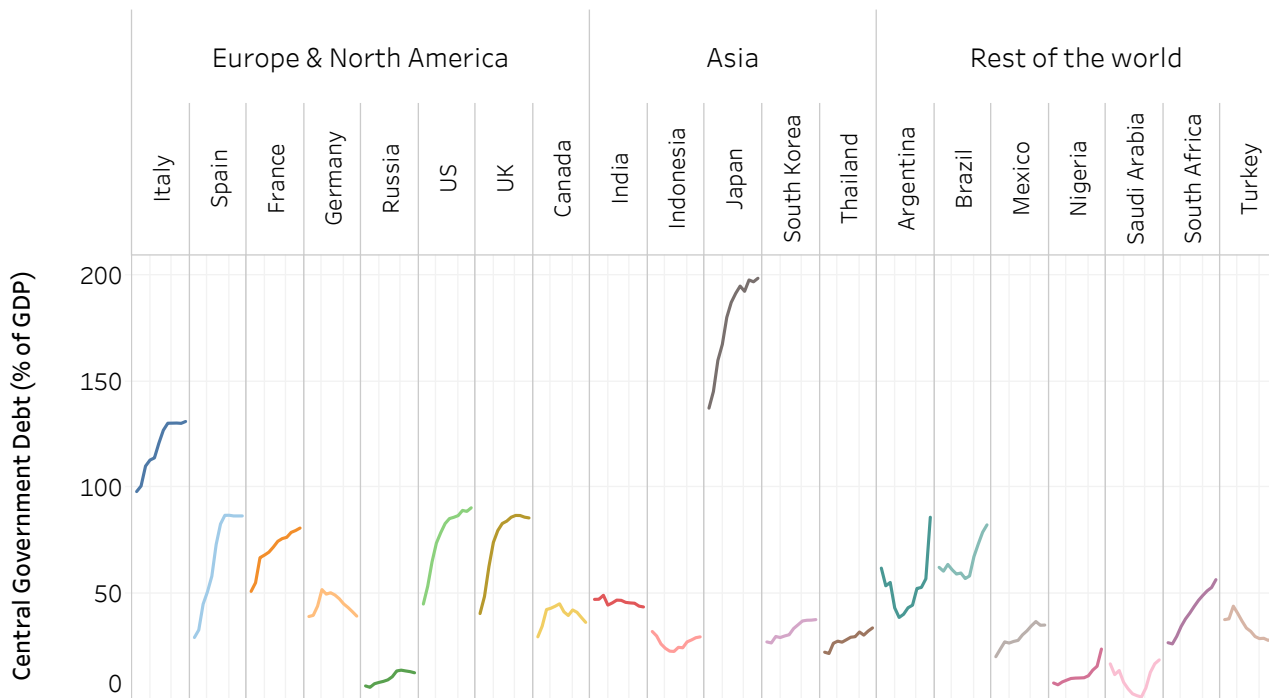
General government budget deficit

Change 2019-20, in percentage of GDP



Source: OECD (2020)

Central government debt, % of GDP, 2006-2018



Source: IMF

According to a recent OECD report, **budget deficits** are expected to increase the most in advanced economies such as the UK, Italy, Japan and Germany. In emerging markets, where fiscal space is more limited, budget deficits are expected to increase less. However, debt levels in relation to GDP have been rising since the 2008 financial crisis in Mexico, South Africa, Argentina and Brazil, and real borrowing costs might rise more than in developed markets following the Covid-19

crisis. In some countries such as Mexico and Ecuador governments have already double downed on austerity. But if inequality increases in already highly unequal countries, the risk of social unrest and protests might also go up.

WHAT TO WATCH

China

City authorities in Beijing confirmed 79 new symptomatic cases of Covid-19 since 12 June, following 50 consecutive days without a new case in the capital. A wholesale seafood, fruit, and vegetable market was shut down, with nearby residential compounds placed in lockdown. Residents who visited the market have been told to self-quarantine, and some cities have warned residents against travel to Beijing in order to minimize further risks to the capital. An article in state media suggested the outbreak originated from imported salmon, though this link has not been proven.

UK/EU

PM Boris Johnson will hold the long anticipated high-level meeting with the heads of EU institutions today. While confirmation is expected that the UK will not ask for an extension of the transition period beyond 31 December, this does not mean that a cliff-edge scenario is now inevitable. The real problem is that the difference between the still possible zero tariffs/quotas FTA and no-deal is so limited that as of 1 January 2021, border controls will create substantial trade frictions in either scenario.

Brazil

The Senate should vote this week on an executive order on job suspension and salary reductions. There may be progress also this week in relation to the extension of assistance to unemployed and self-employed workers. The government's intention to link this to a broader debate regarding all social programs will not prevail as Congress tends to favor the extension of existing benefits: BRL 600 (USD 120) for three additional months. Lastly, the week should also see the end of the Federal Police (PF) investigations on the dissemination of fake news by the so-called "hate cabinet" within the presidency. The Supreme Court (STF), who ordered such investigations, should now authorize the use of their findings as evidence in the continuing trial at the Superior Electoral Court (TSE) against the Bolsonaro-Mourao ticket for the use of fake news during the 2018 presidential campaign. The trial is unlikely to annul the 2018 elections but could worsen the ongoing crisis between the government and the Judiciary.

ON THE HORIZON

ASIA

Japan

Defense Minister Taro Kono announced on 15 June that plans to deploy the Aegis Ashore missile defense system will be suspended. This comes after sustained opposition from communities and local politicians in the prefectures of Akita and Yamaguchi, which were going to host the system. The defense minister cited mounting costs and delays as key factors leading to the suspension, and will force the government to renew its search for possible host communities and reopen negotiations with the US, from whom Japan will acquire the system. This episode shows that despite an evolving threat environment, Japan's defense policymaking remains hindered by domestic political constraints.

South Korea

On 15 June, President Moon Jae-in marked the second anniversary of his visit to Pyongyang. He urged North Korea to not abandon the process of confidence-building and economic cooperation the governments of the two Koreas launched in 2018. Moon is scrambling to revive the peace process after North Korea used the dissemination of leaflets by South Korean civil society groups across the de-militarized zone to cut off communications and threaten military action if the leafletting continues. North Korea's threats, coming after warnings that it would strengthen its arsenal to ward off US

threats, is another sign that tensions on the Korean Peninsula could rise during the months leading up to the US presidential election in November.

EUROPE

Hungary

Parliament is scheduled to vote on 16 June on the lifting of the controversial state of emergency. The state of emergency has allowed the Fidesz-led government to rule by decree without effective parliamentary oversight since late March. While such a vote is not required from a procedural standpoint, it is expected to serve as a symbolic move paving the way for the government's subsequent decree on ending the emergency.

Serbia

The ruling Serbian Progressive Party (SNS) is expected to win the 21 June parliamentary election by a large margin, as the main opposition parties are boycotting the poll. This suggests a greater concentration of power in the hands of the SNS. The contested vote may renew public unrest in the near term, while the democratic backsliding may weaken the country's institutional capacity and business environment in the longer run.

LATIN AMERICA

Venezuela

Opposition leader Juan Guaido faces a new challenge in his protracted battle with President Nicolas Maduro.

This follows the Supreme Court (TSJ)'s move to unilaterally appoint a new National Electoral Council (CNE) board on 12 June. Guaido has said he will not recognize this "false CNE", though in reality, Guaido's room for maneuver is limited. The new regime-loyal board is likely to move ahead with organizing new legislative elections whose outcome is a foregone conclusion. Although Maduro has seemingly gained the upper hand on the electoral front, he has suffered a parallel setback following the arrest, also on 12 June, of one of his top financiers, Alex Saab, who was arrested in Cape Verde. A legal tussle over Saab's extradition to the US will now ensue, with Maduro anxious to avoid the loss of someone who is privy to the regime's corrupt dealings.

MIDDLE EAST AND AFRICA

Cote d'Ivoire

The aftermath of last week's attack on a military outpost will continue to dominate headlines at the start of the week. The 11 June attack near the town of Kafolo at the border to Burkina Faso, during which 12 soldiers and gendarmes died, is the gravest security incident on Ivorian soil since 2016. While it remains unclear which group perpetrated the attack, it occurred merely two weeks after the Ivorian government revealed that Ivorian and Burkinabe security forces were carrying out a joint operation against jihadi terrorist groups in Burkina Faso. With the October presidential election looming, the stakes are particularly high for President Alassane Ouattara's government. Against this background, the government might risk deeper involvement in the battle against jihadi terrorist groups that continue to proliferate across the Sahel zone.

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