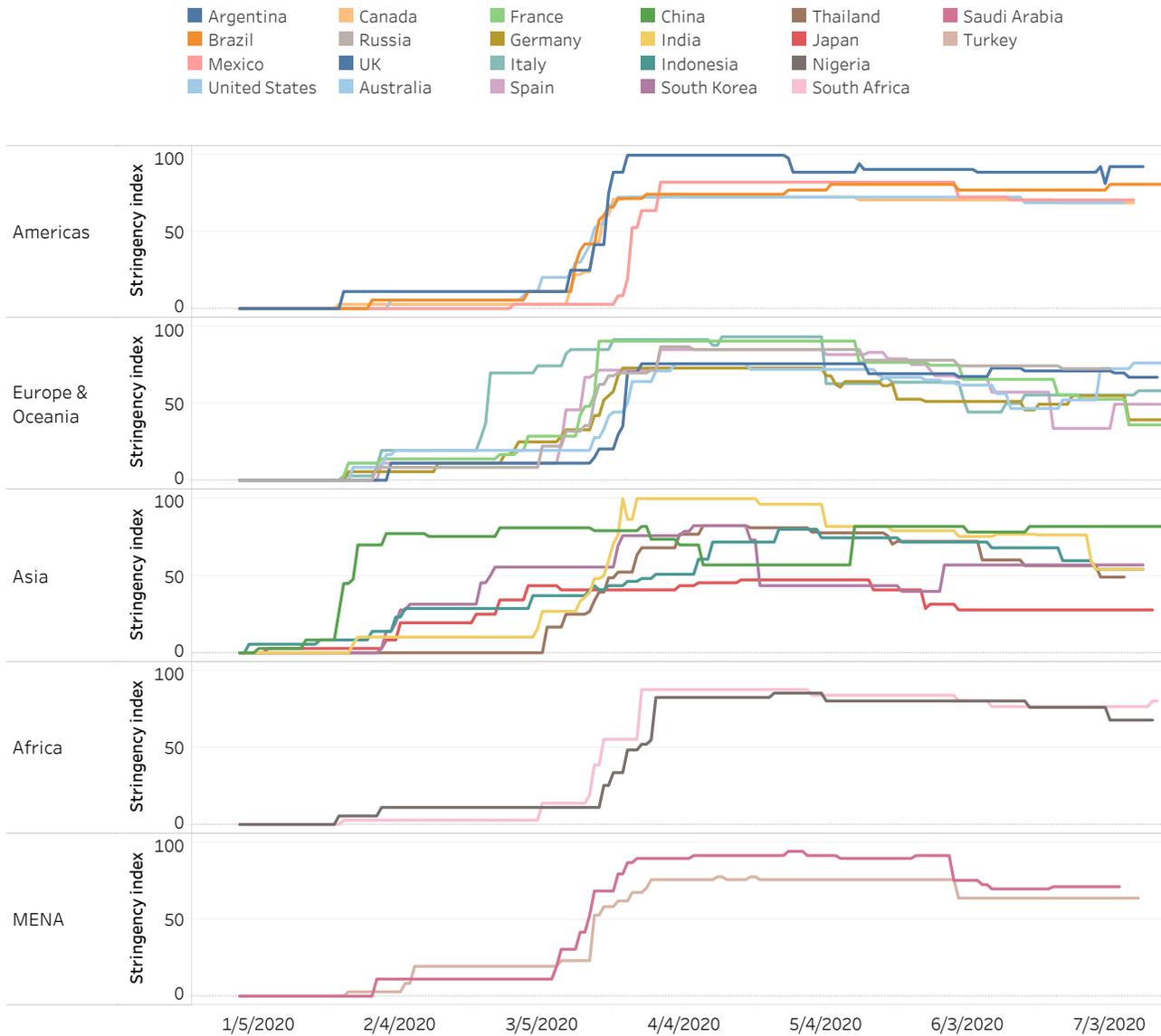


WEEKLY POLITICAL COMPASS

EU leaders will continue negotiations about the bloc's budget and recovery fund. In **China**, severe floods might cause disruptions to supply chains for personal protective equipment. In **Mexico**, several state governors are refusing to implement the central government's Covid-19 traffic light system. In **South Africa**, the government might announce new lockdown measures this week. Meanwhile, a domestic tourism campaign will launch in **Japan**, a motion of no confidence in the **Bulgarian** prime minister is unlikely to succeed, **Brazil's** economy minister will present the first phase of a tax reform, and **Mozambique's** officials have denied rumors about the possibility that the government would suspend interest payments on a bond.

CHART OF THE WEEK

Stringency of governments' Covid-19 responses still at high levels



Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Last update: 7/20/2020

Most countries continue to slowly reopen their economies. Latin America is now the region with the most stringent containment measures. The region accounts now for close to 48% of average global deaths. Meanwhile, several governments have started to reverse the easing of counter-pandemic restrictions after new spikes in Covid-19 cases. The graph above shows that in Australia, Spain and Italy the stringency of the containment measures has increased during the past month, while in other countries it has remained relatively stable. However, most governments have so far been reluctant to reactivate large-scale containment measures; instead, they rely on local/regional lockdowns and compliance with governments' recommendations to reduce mobility. This not only requires high levels of trust between regional/local authorities and the central government, which might be absent in many countries; it is also unclear if it will be enough to contain the rapid spread of new outbreaks.

WHAT TO WATCH

EU

As of 4pm Brussels time, European Council negotiations will continue about the bloc's seven-year budget and the pandemic recovery fund. Leaders have not abandoned talks over the weekend, meaning that a deal is still possible at this extended summit. There were indications of some movement at last, on the overall amount of recovery grants as well as on the level of stringency for economic reforms and the rule of law. The protracted debates highlight the politically transformative character of the intended recovery fund. Recipient countries are learning that greater solidarity will come with increased scrutiny; surplus countries are realizing that the single market cannot be taken as a given, instead requiring political and financial support.

China

Chinese exports of personal protective equipment (PPE) are facing delays due to severe floods in eastern and central China, as supply chains face disruption. Zhejiang and Jiangxi provinces, as well Wuhan, capital of Hubei province where Covid-19 began, raised their emergency response levels to red. The Three Gorges reservoir in Hubei is ten meters higher than its warning level, and Lake Tai, in Jiangsu province near Shanghai, is one meter above its safe level. Production delays in this key manufacturing region may cause a hit to industrial production figures for July and GDP growth in the third quarter.

Mexico

The government's Covid-19 traffic light system will remain a source of controversy and confusion as several state governors are refusing to recognize the health measures in place for this week. From 20 July, 18 states are at "red" (essential activities only) and 14 are at "orange" (partial restrictions). Controversially, nine states are supposed to return to "red", having been at "orange". However, at least five governors have said that their states will follow their own risk parameters and stay at the less stringent "orange" level. As of yesterday, 19 July, the total number of confirmed cases of Covid-19 reached 344,224, which is likely to be a significant underestimate, while the official death toll stands at 39,184.

South Africa

The pandemic, fiscal and monetary policy may all make headlines this week. With Covid-19 cases surging to a total of 364,328, the government might further tweak lockdown measures, which could include closing schools again. Meanwhile, parliament is due to debate Finance Minister Tito Mboweni's departmental budget cuts and the National Council of Provinces (NCOP) will consider the Division of Revenue Bill on Wednesday. The outcome of the Reserve Bank's monetary policy committee (MPC) meeting this week will also be keenly watched and may fuel a protracted debate over the need for quantitative easing.

ON THE HORIZON

ASIA

Japan

The Abe government's "Go To Travel" domestic tourism campaign – providing subsidies for travel, lodging, and eventually other expenses – will launch on 22 July. The government is proceeding despite widespread public disapproval amidst concerns that boosting tourism will spread Covid-19 from Tokyo, where single-day case numbers have been recently reached new highs, and other urban centers to far-flung corners of Japan. The government's decision to exclude travel to and from Tokyo will limit some of the risk but also dull its economic impact. Widespread concerns about the pandemic suggest the benefits will be limited even without Tokyo.

EUROPE

Bulgaria

On 21 July, parliament will start discussing a motion of no confidence in Prime Minister Boyko Borissov's cabinet over its alleged failure to tackle corruption. While the motion is unlikely to succeed, the ruling GERB could announce a major cabinet reshuffle later this week seeking to quell the persisting anti-government protests. A government resignation leading to snap parliamentary elections is plausible, albeit a less likely scenario.

Croatia

On 20 July, Prime Minister-designate Andrej Plenkovic will present the composition of his new cabinet, while the newly elected parliament will hold its inaugural session on 22 July. The new HDZ-led government, supported by eight national minority deputies and one MP from the Croatian People's Party and People's Party-Reformists each, will have to win parliamentary approval within 30 days. The most important positions in the new cabinet are expected to remain unchanged, which suggests policy continuity.

LATIN AMERICA

Brazil

This week negotiations on presidential vetoes should take off. This follows a meeting between the Secretary of the Government Luiz Eduardo Ramos and both House Speaker Rodrigo Maia and Congress and Senate Chairman Davi Alcolumbre. For Congress, the top priority will be to overturn the vetoes on the new sanitation regulatory framework and on the extension of payroll tax cuts until 2021, followed by those related to the anti-crime package and the use of masks during the Covid-19 outbreak. Meanwhile, Economy Minister Paulo Guedes should present the government's proposal for the first phase of a tax reform focused on the unification of federal taxes, thus leaving state and municipal taxes, income tax and a new financial tax for a later stage.

MIDDLE EAST AND AFRICA

Mozambique

A report that the government would suspend interest payments on its USD 900mn Eurobond appears to be false. Officials at the Ministry of Economy and Finance (MEF) have been quick to state that the government intends to make the USD 22.5mn coupon payment due in September. While Mozambique is seeking reprieve under the G20's temporary suspension of official debt, a unilateral decision to suspend interest payments on a bond that was only recently restructured would leave in tatters all the MEF's recent efforts to regain credibility with creditors. The timing would also be surprising given the government's future need to raise financing for national oil company ENH's participation in Total's Mozambique LNG venture.

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