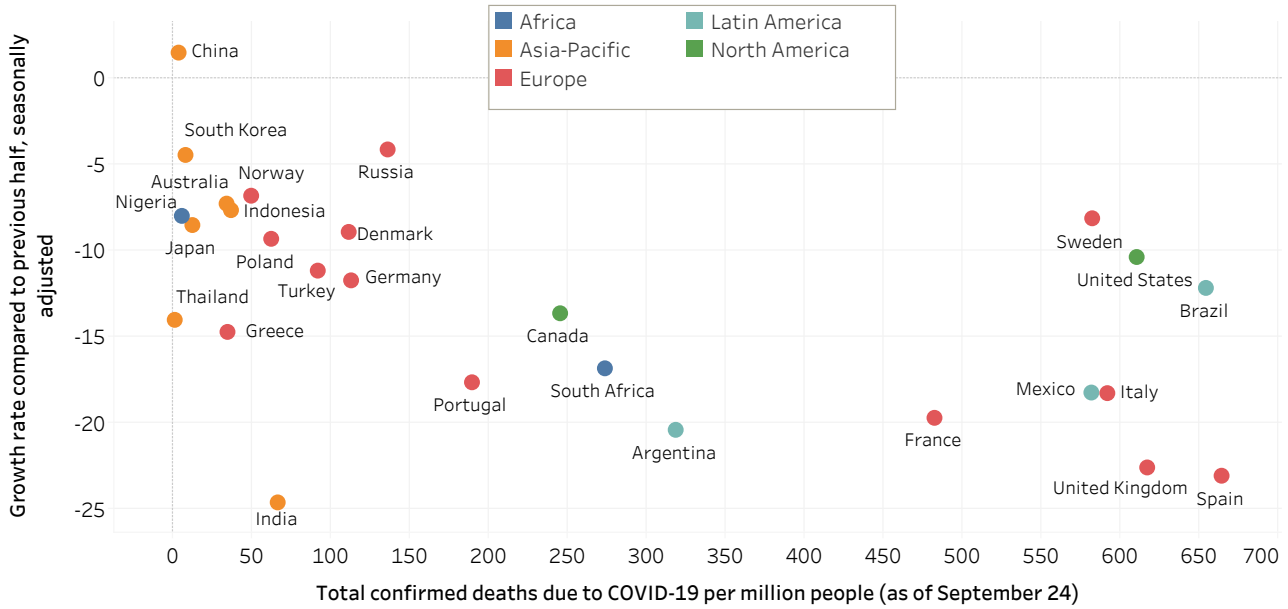


WEEKLY POLITICAL COMPASS

China's biggest chipmaker will be affected by new US export control rules. Optimism is returning to the post-Brexit **EU-UK** talks. In **Argentina**, the economic situation will remain highly unsettled ahead of an imminent IMF staff visit. **Spain's** top court has upheld a temporary ban from public office for Catalonia's regional president. In the disputed region of Nagorno-Karabakh clashes have escalated between **Armenia** and **Azerbaijan**. Meanwhile, in **Malaysia** opposition leader Anwar Ibrahim might get his audience with the king, **Belgium** might get a new government, **Brazil's** government could create a new tax on transactions, and in **South Africa** unemployment is expected to continue increasing.

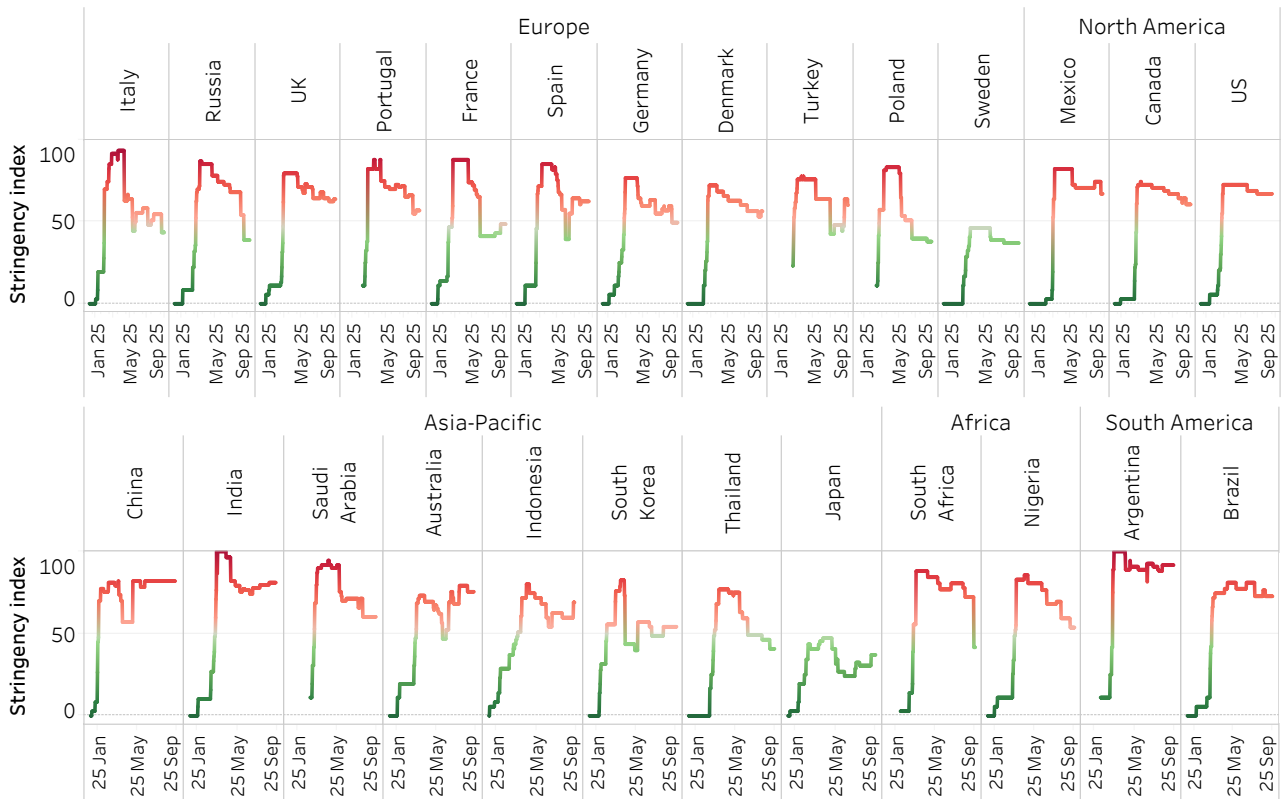
CHART OF THE WEEK

Economic decline in the first half of 2020 and rate of Covid-19 deaths



Source: Our World in Data, OECD

Stringency of responses over time across the world



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

The most recent data suggests that the **pandemic-induced economic fallout** tends to be most dramatic in countries with the highest Covid-19 death rate, such as the UK, Spain, France, and Italy. On the other hand, in most Nordic and Southeast

Asian countries that were more successful in containing the pandemic, the recession in the first half of the year has been milder. Therefore, the alleged trade-off between saving lives and protecting the economy is far from proven. This has implications for the way governments might be approaching new spikes of infections. Other factors also explain the varied economic impact of the pandemic across countries. This includes a country's structure of the economy – its reliance on interpersonal services and other low-value added activities – and the length of lockdowns. The latter is often a consequence of having acted too late, as well as of the inability of public administrations to control the pandemic.

WHAT TO WATCH

US/China

The US Commerce Department imposed new export controls restricting sales of some US technology to Semiconductor Manufacturing Industry Corp (SMIC), China's biggest chipmaker. The agency deployed regulations [issued in May](#) that broaden the definition of "military end use" products to declare that certain products sold to SMIC may be used for military purposes.

UK/EU

After days of intense speculation about no-deal, public sentiment regarding a trade agreement now seems to be improving again. The joint committee governing the transition period is holding a meeting today to discuss the fallout from the UK's controversial internal market bill. As of tomorrow, post-Brexit negotiators will resume their talks in Brussels. In the UK, meanwhile, Tory rebels will try to increase parliament's say over any potential government plans for breaching the withdrawal agreement. Given the improved outlook in the trade talks, an immediate signpost to watch is whether both sides manage to avoid legal confrontation over the UK's internal market bill.

Argentina

The government will this week try to induce agricultural exporters to liquidate the remainder of the 2019 soybean harvest in a bid to boost depleted Central Bank (BCRA) reserves. This follows the recent tightening of capital controls, which BCRA governor Miguel Pesce pushed through against Finance Minister Martin Guzman's wishes. President Alberto Fernandez appears to have contained tensions within his economic team for now since a shake-up at this juncture – as the International Monetary Fund (IMF) prepares an imminent staff visit (possibly a virtual one given the Covid-19 situation) – would be highly disruptive. Poverty figures due out on 30 September will confirm just how serious the economic situation is, with 40% of the population now likely to fall under the poverty line.

Spain

The Supreme Court has confirmed today the ruling banning Catalan regional Prime Minister Quim Torra from holding public office for 18 months. The decision is likely to lead to demonstrations by secessionist organizations in the coming hours. However, its short-term political effects are likely to be limited. The two parties that form the ruling coalition in Catalonia (ERC and JxCat) will probably appoint a substitute prime minister whose mandate will be to focus on managing the pandemic until early regional elections are organized (most likely early next year).

Armenia/Azerbaijan

The deadliest clashes since 2016 in the disputed Nagorno-Karabakh region continue for a second consecutive day. There is a risk that the conflict escalates – potentially threatening the regional oil and gas infrastructure – especially if Turkey engages on the side of Azerbaijan and Russia starts actively backing its traditional ally Armenia. The 2016 clashes lasted only four days, therefore, an important signpost to watch is whether the conflicting parties return to the negotiating table anytime soon.

ON THE HORIZON

ASIA

Malaysia

Still waiting for the king. A palace statement today said that the king had been hospitalized last week due to food poisoning and a separate injury. The statement did not mention opposition leader Anwar Ibrahim's request for a meeting with the king to disclose his claimed new majority in parliament, but it said that he would return to the palace soon – which is expected to be this week. Although Anwar claims to have a strong majority that would allow him to unseat Prime Minister Muhyiddin Yassin, so far, no MP has yet announced their defection.

EUROPE

Belgium

A confidence vote on a new government might be held on 1 October. Some 16 months after the general elections, a new majority to govern the linguistically divided country could be in place. The new coalition would be formed of seven parties: one French-speaking and one Flemish-speaking group each from the center-left, the liberal and the green camps, plus the Flemish Christian Democrats. Importantly, such an arrangement would have a majority not only nation-wide but also in each of the two main linguistic communities alone. Still, the Flemish Nationalists (N-VA) will continue to pressure the government from the outside for state reform and even greater devolution of powers.

Italy

The government will unveil this week the mandatory update to the Economic and Financial Document (DEF). This forms the framework for the 2021 budget. The envisaged budget deficit will be close to 13% of GDP for this year and around 7% for 2021.

Romania

The ruling National Liberty Party (PNL) and an alliance of two liberal parties – Save Romania Union and Freedom and Solidarity Party (USR-PLUS) – performed well in the 27 September local elections. This reaffirms their strength ahead of the 6 December general election. According to preliminary results, these center-right parties will gain control of the capital Bucharest while also more than doubling the number of county councils under their leadership. The opposition Social Democratic Party's underperformance could trigger new attempts to destabilize the current minority cabinet led by Ludovic Orban (PNL), potentially via a new no-confidence vote.

LATIN AMERICA

Brazil

This week will be crucial for the negotiations between the government and Congress. The goal is to find sources to pay for the renewal of a payroll tax cut for 17 economic sectors and the creation of a new cash transfer program for the most vulnerable citizens. In the case of the payroll tax cut, Congress has committed to vote by 30 September on a presidential veto that would end it for good. The government, in a last-ditch attempt to prevent the overturn of the veto, will propose the inclusion of the cut in a broader tax reform that would create a controversial financial tax to pay for it. The move is fraught with risk since the contours of the reform are far from agreed and will become even more complicated with the proposal for the creation of a new tax.

MIDDLE EAST AND AFRICA

South Africa

The economy will be in focus. The Quarterly Labour Force Survey due on Tuesday is expected to underscore the heavy toll that South Africa's lockdown has taken on unemployment, which already reached 30.1% in Q1. Cabinet is due to approve an economic recovery plan in the coming weeks, but expectations will be low given the government's poor reform track record and mounting fiscal crisis. The steadily deteriorating financial positions of state-owned enterprises – from Eskom to Denel – compound the Treasury's fiscal problems ahead of October's medium-term budget, while promises of another ZAR 10.5bn to restart South African Airways (SAA) worsen concerns over the government's reform reluctance.

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