

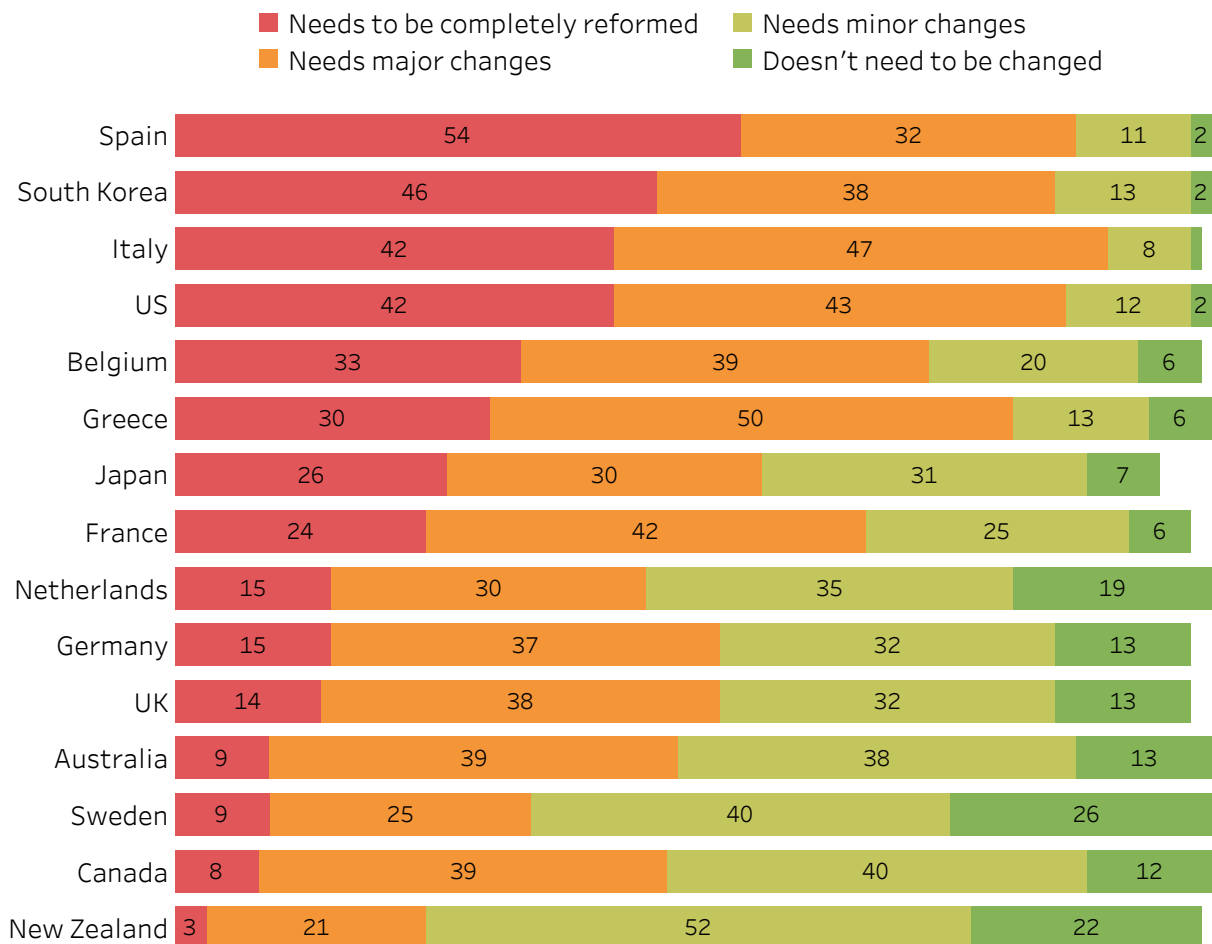
## WEEKLY POLITICAL COMPASS

EU foreign ministers will consider new sanctions on **Russia**. Monetary policy will be watched in **Europe**. G7 foreign ministers have discussed **China**. **Turkey's** president will focus on the situation in the markets. Voters will go to the polls for the **Chilean** presidential runoff election. Meanwhile, **India's** president is travelling to **Bangladesh**, **Bulgaria's** political stalemate is set to end, **Brazil's** parliament will vote on the spending cap, and **South Africa's** president has tested positive for Covid-19.

### CHART OF THE WEEK

## Large majorities in advanced economies demand major reforms in their political systems

"% who say the political system in their country..." (%)



Source: Pew Research Center. 2021 Global Attitudes Survey.

Citizens in democratic societies have grown increasingly **dissatisfied with the existing political systems**. This dissatisfaction has translated into demands for major reforms in some countries. In the US, South Korea, Italy and Spain about 90% of the population believe that the political system in their country needs to go through major changes. The demand for reforms appears less intense in other countries, including Germany, France, and the UK, but even in these countries around half of the population would like to see major changes in their political system. US President Joe Biden's recent summit for democracy should be seen in this context. However, the worsening of perceptions about the US as a model across most democratic countries is likely to create frictions among democracies. Geopolitical and diplomatic interests may also carry more weight than normative ideas about democracy.

### WHAT TO WATCH

#### EU/Russia

**Today, 13 December, EU foreign ministers are expected to discuss potential sanctions on Russia in case of military escalation in Ukraine.** The discussions should be expected to continue during the EU's Eastern Partnership summit on 15 December, and the European Council summit scheduled for 16-17 December. The meetings could reveal the nature of

sanctions under consideration, the extent of unity within the 27-member bloc as well as different thresholds under which sanctions would be triggered.

#### BoE/ECB

**Europe's main central banks will be watched this week.** In the US, the FED may indicate that it will bring forward the end of its stimulus package next year, but its European counterparts are likely to tread much more carefully on 16 December. At the BoE, the rate hike that did not materialize in November may get delayed even further, into the next year. The Bank's communication around the issue continues to raise questions. At the ECB, pandemic bond-buying will expire in March, but President Christine Lagarde is likely to outline terms for replacement programs that will signal continuity. Political pressure for rate hikes remains a key signpost to watch going into next year.

#### G7/China/ASEAN

**G7 foreign ministers discussed concerns about Hong Kong, Xinjiang, Taiwan, the South China Sea, and China's "coercive" economic policies at their meeting in Liverpool on 11-12 December, according to UK Foreign Secretary Liz Truss.** G7 representatives also discussed China with members of the Association for Southeast Asian Nations (ASEAN), marking the first time ASEAN countries participated in a G7 meeting.

#### Turkey

**President Tayyip Erdogan will meet today (3pm local time) with the governor of the central bank, the country's finance minister and the heads of state-run banks to discuss the situation in the markets.** Even though the Lira plummeted to a new record low against the dollar earlier today, the likely outcome of the meeting is a reconfirmation of the economic transformation narrative. Ankara could also announce this week a 35-40% increase of the minimum wage for 2022, a move aimed at placating growing social anger due to the falling living standards.

#### Chile

**The run-off vote for the presidency takes place on 19 December.** Almost all surveys before the ban on publishing polls went into effect put the left-winger Gabriel Boric ahead of the ultra-conservative Jose Antonio Kast, albeit with a high number of people undecided. A final TV debate scheduled for tonight, 13 December, could also change voter perceptions. Notwithstanding the fact that a constituent assembly is currently working on a new constitution, neither candidate will be in a position to push radical policies given that no party or coalition will have a clear congressional majority. Both candidates have anyway shifted to the center since the 21 November first-round vote. The winner will take office in March 2022.

### **ON THE HORIZON**

#### **ASIA PACIFIC**

##### India/Bangladesh

**The President of India, Ram Nath Kovind, will visit to Bangladesh 15-17 December to attend the 50th anniversary celebrations of the birth of Bangladesh and the centenary of the father of the nation, Sheikh Mujibur Rahman's birth.** The visit comes amid unprecedented attacks on Hindus, a minority, in Bangladesh, causing tension among Hindu organizations in India affiliated to the ruling Bharatiya Janata Party (BJP). India-Bangladesh relations have been on an even keel since 2009 when Sheikh Hasina took over as prime minister on her second term. She has been PM ever since. She was in asylum in India for several years after her father was assassinated.

##### Japan

**The Bank of Japan's Monetary Policy Committee (MPC) will hold its final meeting of the year on 16-17 December, with a statement to come on Friday.** Although economic headwinds have strengthened since the MPC's October meeting due to continued pressure on supply chains and the Omicron variant, no change in policy seems likely.

#### Malaysia

**The state of Sarawak, the fourth largest by population and the largest by land area, will hold its state elections on 18 December, Saturday.** However, local issues such as electrification, internet access and autonomy are the prime voter considerations, not the national agenda or the party maneuverings, which makes Sarawak a weak benchmark for national political trends.

#### Philippines

**The election commission could this week issue its decision on several disqualification cases against leading presidential aspirant Ferdinand Marcos Jr.** But we believe that the commission is unlikely to rule against him, given his strong position in the polls. But if Marcos were to be disqualified, this would make Manila mayor Francis Domagosa and Vice-President Leonor Robredo the main contenders for the presidency in 2022.

### **EUROPE**

#### Bulgaria

**Today, 13 December, parliament is set to approve a new four-party coalition government led by Prime Minister Kiril Petkov (We Continue the Change, PP) thereby ending a six-month long political stalemate.** While the governing coalition will have a stable majority holding 134 out of 240 mandates in parliament, potential disagreements among the diverse coalition partners will be the main risk to government stability and overall reform progress.

#### Greece

**Athens remains unwilling to consider an extension of the EC's enhanced surveillance framework beyond June 2022 that could strengthen its case for inclusion of Greek government securities in the ECB's long-standing Asset Purchase Program.** The ECB has bought around EUR 35bn of Greek bonds over the past two years under the PEPP as it granted a waiver of the eligibility requirements for securities issued by the Greek government. It remains unclear whether the extension of Greece's waiver will be discussed by the ECB on 16 December.

### **LATIN AMERICA**

#### Brazil

**Tomorrow, 14 December, the House should vote on parts modified in the Senate of the constitutional amendment that increases the spending cap and delays payments on court-mandated judicial debts (PEC 23).** Last week, the part referring to the spending cap was promulgated by Congress, which frees BRL 40bn (USD 7bn) of fiscal space for 2022, but now the House will look at the part referring to the judicial debts. Senate leaders are generally skeptical that the House will maintain the balance found in the higher chamber whereby delays on debt payments would only be feasible if tied to the new cash transfer program Auxílio Brasil and other social programs. The Senate proposal, if approved in the House, would therefore prevent the payment of the controversial non-accountable "rapporteur amendments" to members of Congress since the BRL 40bn already agreed would need to cover Auxilio Brasil.

### **MIDDLE EAST AND AFRICA**

#### South Africa

**On 12 December, President Cyril Ramaphosa tested positive for Covid-19.** His duties have been delegated to Deputy President David Mabuza for now. Amid surging Covid-19 cases, the national coronavirus command council (NCCC) will meet to consider tightening South Africa's current lockdown "level 1" restrictions. Daily new cases reached 37,875 on Sunday, an all-time pandemic high. Nevertheless, the government is increasingly reluctant to deal another lockdown blow to the economy, which already contracted in Q3. The Omicron-driven surge will also make it harder to reverse costly international travel bans. The vaccine rollout is the greatest priority, with vaccine mandates under serious consideration.

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