

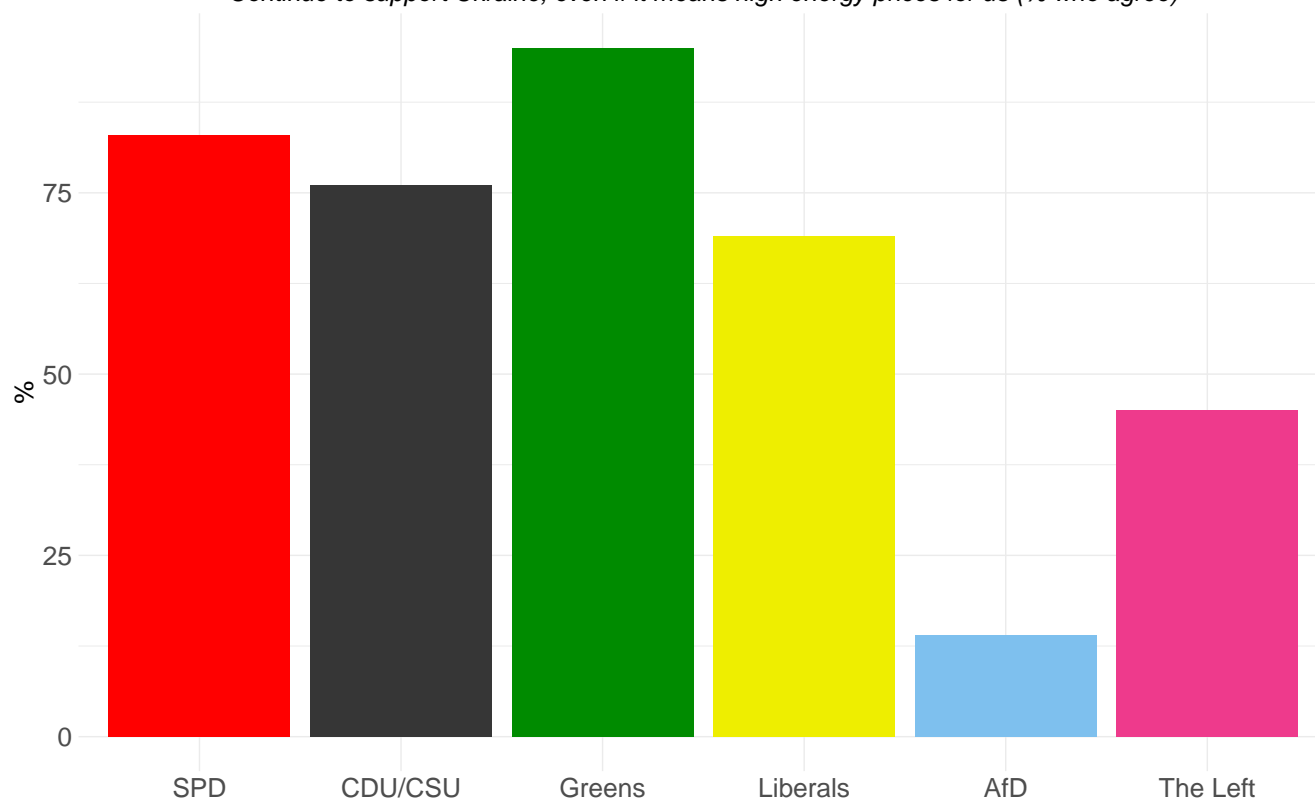
WEEKLY POLITICAL COMPASS

EU foreign ministers are discussing new sanctions against Russia. Chinese regulators are calling on banks to support housing developers. Italy's prime minister might confirm his resignation. Sri Lanka's parliament will elect a new president. The IMF's next disbursement to Kenya is scheduled to take place today. Meanwhile, Thailand's parliament will start censure debates, the search for a new leader of the UK Conservative Party continues, Brazil's president had a major victory in Congress, and the borrowing plans of Ghana's president have hit a parliamentary roadblock.

CHART OF THE WEEK

Support for sanctions against Russia is still high among mainstream voters in Germany

Continue to support Ukraine, even if it means high energy prices for us (% who agree)



Source: ZDF Politbarometer (15 July 2022)

Question: 'Due to support for Ukraine and the sanctions against Russia, energy prices in our country have risen sharply. What do you think we should do?'

A majority of German voters still support **sanctions against Russia**. This is particularly true for voters of the Social Democrats, Christian Democrats, the Greens, and the Liberals, despite the consequences of Russian gas curbs for energy prices. Ahead of concerns that gas deliveries might be interrupted for longer, and going into a difficult autumn, however, the signpost to watch is the durability of these sentiments. A central question will be which policy tools would be at the

disposal of governments across Western Europe in a scenario where public sentiment towards solidarity with Ukraine were to change.

WHAT TO WATCH

Russia/EU

EU foreign ministers will continue discussions on a new package of sanctions on Russia during the Foreign Affairs Council on 18 July. The proposed set of sanctions is expected to target gold imports from Russia, reinforce existing restrictions on dual-use goods and technology exports as well as provide clarifications regarding food and grain supplies from Russia. EU leaders will be also closely watching whether Gazprom renews its gas exports via the Nord Stream pipeline after the current ten-day maintenance period is scheduled to end on 21 July.

China

The banking regulator on Sunday urged commercial banks to "shoulder social responsibility" by providing loans to cash-starved housing developers, enabling them to complete construction of stalled projects. Policymakers are seeking to prevent a [potential crisis over unfinished apartment units](#), which have sparked nationwide mortgage-payment boycotts by disgruntled buyers.

Italy

Prime Minister Mario Draghi will address the Senate on 20 July, potentially holding a vote on his government or confirming his resignation. President Sergio Mattarella, who last week rebuffed Draghi's resignation, told him to lay out the political situation before lawmakers. If Draghi decides to confirm his resignation, Italy is highly likely to go to early elections in early October. Given the current political turmoil, it is hard to see how a new majority can be created to support an executive lead by a new prime minister.

Sri Lanka

The 225-member parliament will elect a new president on 20 July. MPs have a choice between voting for Ranil Wickremesinghe who has been named as the candidate for the Sri Lanka People's Party (SLPP), having around 145 MPs, and Sajith Premadasa, the opposition candidate. Despite differences among the SLPP MPs, and the political baggage Wickremesinghe carries as a 'tainted' candidate, he could still get the job.

Kenya

The IMF's next disbursement – worth USD244mn – is now scheduled to take place on 18 July. The IMF delay in approving Kenya's most recent review and authorizing the next disbursement was initially portrayed as an administrative issue. However, there are suggestions that the IMF had continued concerns over the administration of the fuel subsidy and that Kenya had sought waivers for some governance performance targets, including the full implementation of the disclosure of beneficial ownership in companies. This is reminiscent of 2017, before the previous election, when the IMF quietly revoked Kenya's access to its emergency overdraft facility due to missed performance targets. While the amount is relatively modest with USD244m, the signaling effect is more important, especially since Kenya already faces rising financing costs.

ON THE HORIZON

ASIA PACIFIC

India

Teneo

Results of the election for a new president will be out on 20 July. The candidate of the ruling Bharatiya Janata Party-led National Democratic Alliance, Droupadi Murmu is expected to win by a large margin, installing the first tribal woman in the post.

Japan

The Bank of Japan's monetary policy committee will meet this week and announce its policy decision on 21 July.

Recent political events make a shift away from the monetary easing pillar of Abenomics even less likely than before, so most focus will be on whether the central bank alters its economic outlook given recent energy supply issues and other headwinds. June's Consumer Price Index data will also be released this week on 22 July.

Thailand

Parliament will start censure debates on 19 July, with a vote by the end of the week. Prime Minister Prayuth Chan-ocha is expected to survive, but with a possibly diminished majority. However, the tone of the debates and the vote of the smaller parties could signal how much longer he has in office, and the probability of early elections.

EUROPE

Russia

On 19 July, President Vladimir Putin is expected to visit Tehran, where he will meet his Iranian and Turkish counterparts, Ebrahim Raisi and Recep Tayyip Erdogan. The trilateral meeting is expected to focus on the situation in Syria and regional cooperation. Putin is also set to hold bilateral meetings with both presidents. Among other topics, Putin and Erdogan are expected to continue discussions on unblocking grain exports from Ukraine. Also, given Washington's concerns about Iran's potential supply of unmanned aerial vehicles to Russia, any military cooperation agreements between Moscow and Teheran will be closely watched.

UK

The leadership contest within the ruling Conservative Party continues. By the end of this week, the list of contenders will have been whittled down to two candidates. The main issue to watch is whether the party's right wing manages to enter the final ballot with their own candidate, Foreign Secretary Liz Truss. According to opinion polls, both Truss and the more centrist Trade Minister Penny Mordaunt appear well positioned to beat the current frontrunner among MPs, Chancellor Rishi Sunak, in the ballot to be held among party members during the summer.

LATIN AMERICA

Brazil

President Jair Bolsonaro had a major victory in Congress last week that could help his reelection efforts. Constitutional amendment PEC 01/2022 that allows for increases in social spending in an electoral year was approved in the House with the same text as it was approved in the Senate. It recognizes a state of emergency paving the way for the non-compliance with the electoral law that prohibits the concession of new social benefits in an electoral year and maintains more than BRL 40bn (USD 7.5bn) outside the official spending cap. Congress now enters into recess until 1 August. From 20 July to 7 August, party conventions will take place and define electoral tickets for the October 2022 elections. In the next seven days, both main presidential contenders will confirm their running mates at their party conventions: former São Paulo Governor Geraldo Alckmin (Brazilian Socialist Party, PSB) for former president Luiz Inacio Lula da Silva (Workers' Party, PT) and former Defense Minister and Chief-of-Staff, Army General Walter Braga Netto, for President Jair Bolsonaro.

MIDDLE EAST AND AFRICA

Ghana

, President Nana Akufo-Addo's government has hit a parliamentary roadblock in its mooted plans to borrow up USD 1bn by the end of July. Last week, members of parliament (MPs) from the main opposition National Democratic Congress (NDC) party confirmed that they would decline the borrowing request brought to parliament by Finance Minister Ken Ofori-Atta for a USD 250mn loan from commercial banks and another USD 750mn from the African Export-Import (AFRIEXIM) Bank. The NDC MPs stated that they deemed the terms of the loans unfavorable and that they would not support further 'reckless decision-making by the government' especially in light of the country's ongoing economic crisis. The administration is in the process of negotiating a bailout deal with the International Monetary Fund (IMF), which concluded its first visit with respect to these talks on 13 July.

South Africa

This week, President Cyril Ramaphosa is expected to announce government measures meant to tackle the energy crisis crippling the economy. The president is under pressure to demonstrate action in the face of recent record power outages, though expectations will be low. Business has called for interventions such as removing red tape surrounding self-generation projects, setting emergency feed-in tariffs to enable power utility Eskom to purchase additional power, and tackling sabotage and copper theft. Instead, reports that the government plans to establish a 'second Eskom' will be considered a hairbrained scheme dreamt up by a government that has bungled many measures to address the crisis.

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