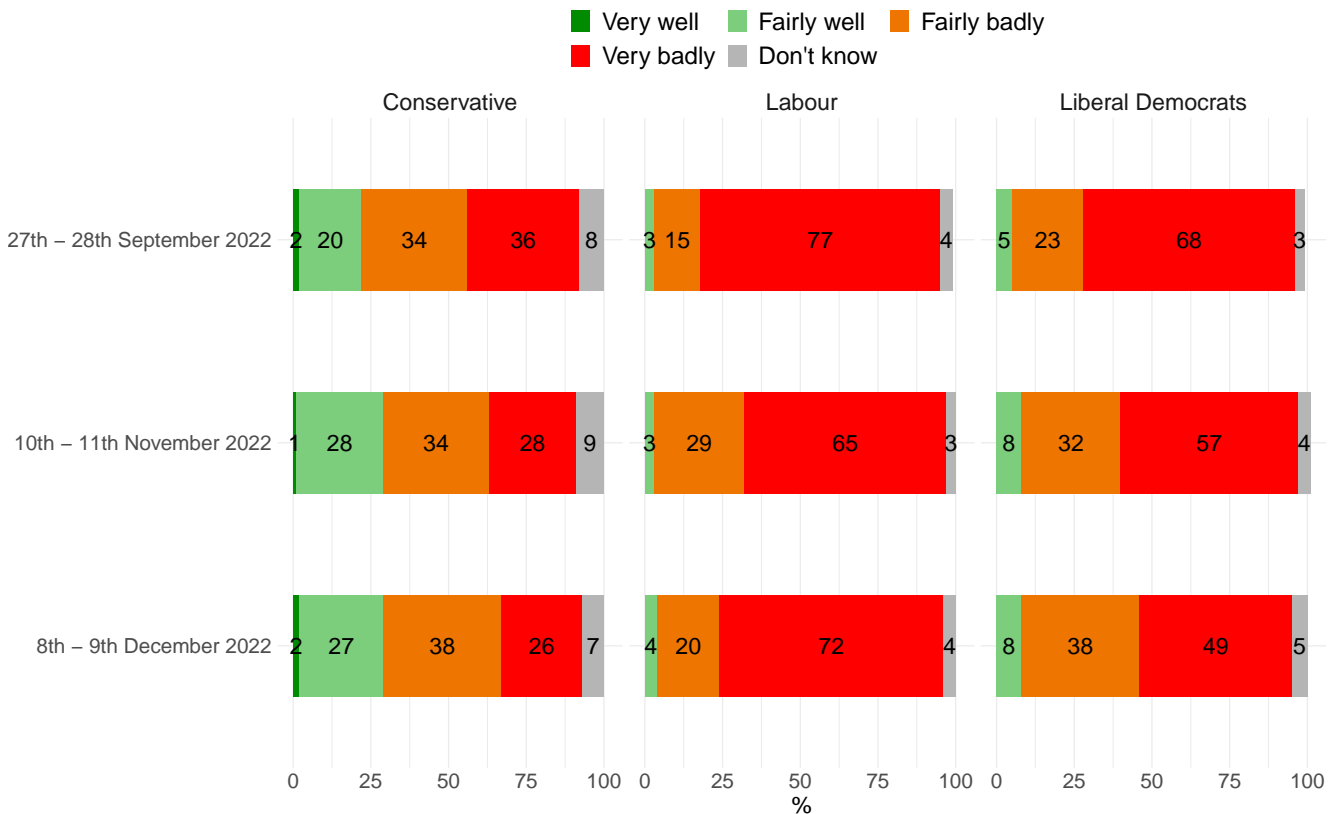


WEEKLY POLITICAL COMPASS

The presidents of **Russia** and **Belarus** are meeting. **South Africa's** president has won re-election at his party's conference. **Peru's** Congress will debate bringing forward elections to 2023. **Japan's** government is set to approve its 2023 general budget. Meanwhile, **Malaysia's** PM won a confidence vote, **EU** energy ministers are negotiating a gas price cap, debates around social expenditure continue in **Brazil**, and the expiration date for **Ghana's** domestic debt exchange program has been extended.

CHART OF THE WEEK

UK voters are critical of the handling of the cost of living crisis
 How would you say the government is doing at managing the cost of living? (%)



Source: YouGov

Voters are unsatisfied with the **UK government's handling of the cost-of-living crisis**. This is also true for a majority of Conservative voters – around 65% of them believe that the government is handling the crisis "very" or "fairly badly." These figures have remained relatively stable since the election of Rishi Sunak as prime minister and the autumn statement. Against this difficult political backdrop, the government is considering extending the support to all UK businesses with their energy bills beyond the end of March, when the current package was supposed to expire. Meanwhile, inflationary pressures will continue posing challenges to governments and central bankers in 2023, not just in the UK.

WHAT TO WATCH

Russia/Belarus

The presidents of Russia and Belarusian are meeting in Minsk today, 19 December, amid rising concerns that Moscow might be planning a new offensive in northern Ukraine. While this is not imminent, Russia has been gradually accumulating forces in Belarus, while the Belarusian army has been undergoing intensive military drills and moving heavy military equipment towards the border. The Kremlin might hope that a renewed threat to Kyiv would weaken Ukraine's defenses on other fronts and increase pressure on Volodymyr Zelensky's administration to enter negotiations on Russian terms. Another potential objective of such an offensive could be cutting off the supplies of weapons from the West and taking control of the Rivne Nuclear Power plant, which is an important source of electricity for western Ukraine. However, Ukraine's defenses along the Belarussian border have been significantly reinforced since the first wave of the invasion in spring.

South Africa

After much delay, President Cyril Ramaphosa has won re-election at the African National Congress (ANC)'s 55th national conference. The line-up of the wider "top seven" leadership also favors Ramaphosa allies, with the exceptions of Deputy President Paul Mashatile and 1st Deputy Secretary-General Nomvula Mokonyane. The election strengthens Ramaphosa politically, though the media narrative that the vote may bolster the president's reform agenda may be overly optimistic.

Peru

Congress will on 20 December debate whether to bring forward elections to 2023, having controversially rejected the idea at the end of last week. The re-appraisal comes amid continued protests in various parts of the country that originally broke out after Pedro Castillo was ousted on 7 December. Getting a fragmented Congress in which self-serving parties dominate to vote for a new timetable may still be difficult. In parallel, President Dina Boluarte will make changes to her cabinet in the early part of this week. Boluarte had originally proposed bringing forward elections to April 2024 but there is a parallel proposal to hold them in December 2023. Electoral authorities have warned that the shorter the timeline, the more the scope for shortcomings in the organization of the vote. Meanwhile, the earlier the vote, the less time there would be for meaningful political reforms designed to address systemic problems that have contributed to the current crisis.

Japan

The government is set to approve the FY2023 general budget this week, expected to reach a record JPY 114tn (USD 835bn). The most notable component is higher defense outlays, after Prime Minister Fumio Kishida announced plans to boost 'freshwater' defense spending by more than 50% by 2027. Record tax receipts are also expected, with revenues forecast to reach JPY 69tn next year.

ON THE HORIZON

ASIA PACIFIC

China

Economic policy in 2023 will focus on boosting consumption, but will refrain from massive monetary and fiscal stimulus, according to the readout from the Central Economic Work Conference. Covid-19 is now sweeping the country, leaving streets deserted, but infections may peak around April, enabling a consumption rebound by mid-year.

Malaysia

Anwar Ibrahim won a confidence vote in parliament on Monday. It was done through a voice vote, which meant the ruling coalition does not have the two-thirds supermajority, which had been the subject of early speculation, that is needed to change the constitution. On Tuesday, parliament is set to approve a mini budget mainly for civil servant salaries. The new government's real budget will be tabled around February or March next year.

EUROPE

EU

Energy ministers are on the last stretch of negotiations about a gas price cap. Latest compromise proposals suggest that the cap would be triggered at a level of EUR 180 per MWh for three days. While this would roughly be in line with the political guidance given by EU heads of state or government last week, the key issue to watch remains a mechanism putting the cap on hold in case of supply problems anywhere in the EU, a scenario that could materialize next year. This, in turn, would still be in line with German Chancellor Olaf Scholz's promise last week that any cap would be designed in a way that will not stop Europeans from buying gas at elevated prices.

LATIN AMERICA

Brazil

A constitutional amendment (PEC) vote on a waiver outside the official spending cap for social expenditures sees the last attempt this year. The negotiations between president-elect Luiz Inácio Lula da Silva and House Speaker Arthur Lira on the PEC that proposes BRL 145bn (USD 28bn) to cover the Bolsa Familia and other social programs and foresees BRL 23bn (USD 4bn) for the spending of one-off revenues for investments ran into an impasse last week for two reasons. First, the Supreme Court (STF) began to judge whether the so-called "secret budget" of allocations to politicians created during the Bolsonaro administration is constitutional, thus threatening its existence. Second, negotiations on cabinet appointments between Lira and Lula became more difficult due to demands from parliamentarians who were dissatisfied with Lira's concessions to secure his reelection. It is expected all the same that the PEC will clear the House on 20 December, thus making it possible for the 2023 Budget Law to be voted on 21 December by Congress.

MIDDLE EAST AND AFRICA

Ghana

The expiration date for the Domestic Debt Exchange Program has been extended to 30 December. This latest announcement comes after the finance ministry had late last month taken a hardline stance, telling domestic creditors that they had 10 days (starting from 1 December) to accept the proposal to swap existing domestic bonds with a set of four new bonds maturing in 2027, 2029, 2032 and 2037. The proposed annual coupon rates set for these bonds are 0% in 2023, 5% in 2024 and 10% in 2025 until maturity. The moderation of the finance ministry's position is in response to the public backlash against the proposals, with some organizations threatening to take legal action against the government. The government hopes that its latest position will result in greater acceptance of the debt exchange program – one of the key milestones required for Ghana to secure approval from the International Monetary Fund (IMF)'s Executive Board on its latest staff-level agreement of a USD 3bn bailout with the Fund.

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