

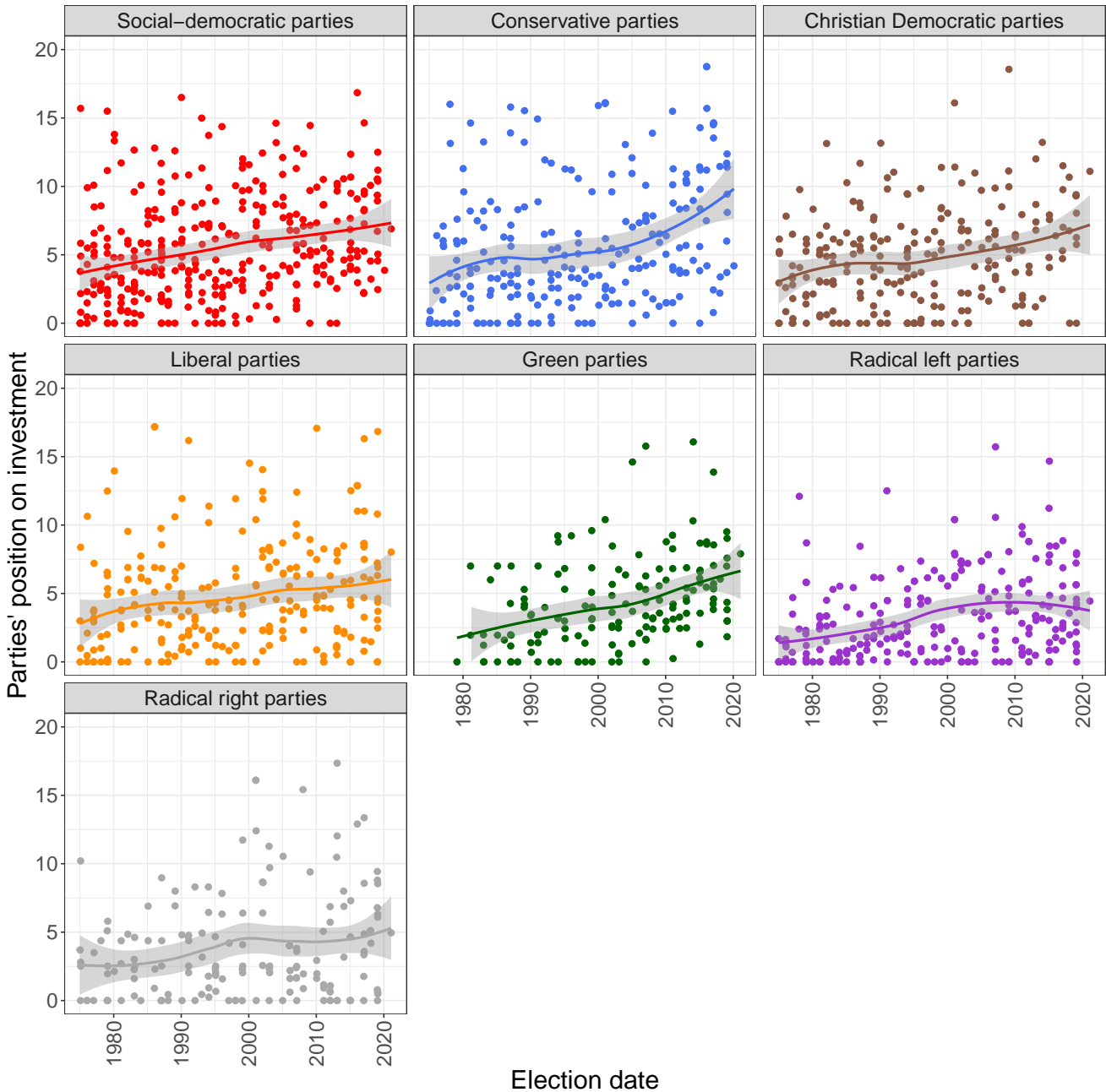
## WEEKLY POLITICAL COMPASS

**Chinese** cities are moving to ease Covid restrictions. The **EU** ban on seaborne **Russian** crude comes into force. The political fate of **South Africa's** president will take center stage. Meanwhile, regional state election results are expected in **India**, a no-confidence vote will be debated in **Slovakia**, a potential constitutional amendment dominates discussions in **Brazil**, and **Ghana's** finance minister will most likely announce the government's proposals on external debt restructuring.

### CHART OF THE WEEK

# Parties' policy position on investment policies across party families in western Europe

Higher values represent a more pro-investment position



Source: Comparative Manifesto Project. Parties' positions are calculated using the proportion of references to investment policies (i.e., public spending on infrastructure, technology, and research) in parties' manifestos

Historical analysis of party manifestos in Western Europe shows that political parties across ideologies have become more supportive of **investment policies**, including public spending on infrastructure, technology, research, and greening the economy. However, despite political rhetoric, increasing green public investment while consolidating deficits will be challenging, especially across EU countries. A “green golden rule” that excludes net green investment from the fiscal indicators used to measure compliance with EU fiscal rules has been discussed recently but it is unclear whether it will be accepted by all member states. In previous recessions, future-oriented spending – including investment in clean technologies, education, or R&D – has been significantly reduced. This might not be the case again if unemployment remains relatively low; however, current levels of spending will still be insufficient to fulfil the unprecedented needs of the energy transition.

## WHAT TO WATCH

### China

**Chinese cities are still moving to ease Covid-19 restrictions, but the pace is gradual, and the trend is one step forward, two steps back.** A transitional period during which harsh restrictions co-exist with strong steps towards re-opening may last for the next two or three months.

### EU/Russia

**Today, 5 December, the EU ban on the import of seaborne Russian crude oil comes into force along with the price cap of USD 60 per barrel – to be enforced along with G7 and Australia – on crude oil and petroleum oils which originate in or are exported from Russia.** The EU embargo is expected to affect up to 1.2mn barrels per day of Russian seaborne crude shipments to Europe, while a ban on maritime services on Russian oil above the price cap could further limit production and exports, according to the International Energy Agency. The increased risk premium in procuring Russian oil – combined with Moscow’s attempts to sustain crude production and find new markets – might drive steeper price discounts for Russian crude. In response, Moscow intends to ban oil sales to any country participating in the price cap.

### South Africa

**President Cyril Ramaphosa’s fate will take center stage this week.** While the threat of an immediate resignation has receded, the political fallout from the Phala Phala report will drag on. Ramaphosa’s lawyers are preparing a legal challenge of the damning independent review that concluded that the president may have a case to answer. Depending on the timing, this could have an impact on parliament’s planned 6 December deliberations on whether the president should face an impeachment inquiry. If necessary, Ramaphosa’s side is planning to ensure that the ANC parliamentary caucus will reject the report, which would halt the impeachment process for now. However, the scandal’s political fallout will create heightened uncertainty ahead of the ANC national conference and, amid ongoing official investigations, would drag on precisely ahead of the next elections.

## ON THE HORIZON

### ASIA PACIFIC

#### India

**Results for elections to the Gujarat and Himachal Pradesh state assemblies will be out on 8 December.** The Bharatiya Janata Party (BJP) is currently in power in both. While the election in Gujarat will likely go in favor of the BJP, in Himachal Pradesh it could be touch-and-go.

#### Japan

**The government is on the verge of officially announcing that it will acquire so-called “counterstrike missile” capacities by 2027.** This move would represent a major hardening of modern Japan’s defense posture. It comes after the ruling LDP’s pacifistic junior coalition partner Komeito backed the idea, with the government also looking to treble the number of missile defense units on its southwestern island chain by 2031. More broadly, Japan is set to roughly double total defense expenditure to 2% of GDP by 2027, though the Kishida administration is leaning towards additional public borrowing rather than economic growth-dampening tax hikes to fund the uplift in the near-term.

### EUROPE

#### Slovakia

**On 8 December, parliament is scheduled to start debating a motion of no-confidence in Eduard Heger's (Ordinary People and Independent Personalities, OLaNO) coalition government, although the vote is more likely to take place next week.** The motion was initiated by the opposition center-right Freedom and Solidarity (SaS) party and supported by the center-left Voice-Social Democracy (Hlas), based on accusations of incompetence. At this point, the future of Heger's government hangs in the balance and the vote is expected to be very close. If Heger loses the vote, President Zuzana Caputova (independent) intends to facilitate negotiations among parliamentary parties to form a new majority government. If this fails, she intends to appoint a technocratic cabinet. Early parliamentary elections are unlikely but cannot be ruled out.

EU/Hungary

**On 6 December, the European Economic and Financial Affairs Council (Ecofin) is provisionally scheduled to discuss two European Commission (EC) proposals related to Hungary's access to EU funds.** Unless the discussion is postponed to the next EU leaders' summit on 15 December, Ecofin is expected to withhold around EUR 7.5bn of cohesion funds from the bloc's 2021-2027 budget and approve Hungary's EUR 5.8bn National Recovery and Resilience Plan (NRRP). However, the EC's proposals might still be amended during the negotiations, which could entail considerations of Budapest's position on other issues such as support for Ukraine or the introduction of the global corporate tax rate of 15%.

## LATIN AMERICA

Brazil

**The week will be dominated by deliberations on a constitutional amendment that would clear the way for approval of the 2023 Budget Law.** Senate Chairman Rodrigo Pacheco scheduled the vote by the plenary of the Congress on the constitutional amendment that would allow for expenditures outside the official spending cap for Wednesday, 7 December, on the expectation that the House will have already analyzed it on the previous day. The original proposal sent to Congress by the transition government foresees BRL 198bn (USD 38bn) outside the cap to cover a cash transfer to the poor, the new Bolsa Familia, along with other social programs. There is no consensus on this, and the discussion is moving towards allowing instead a permanent increase in the spending cap itself to some BRL 70-80bn (USD 13-15bn) to allow for the social package and any additional value as a time-limited waiver of one or two years. House Speaker Arthur Lira said he intends to approve the draft that clears the Senate to obviate the need to return it to the House. If the draft constitutional amendment is not approved this week, Congress may not have sufficient time to vote on the 2023 Budget Law this year, which would extend uncertainty beyond the inauguration of the new government on 1st January.

Peru

**Congress is set to hold an impeachment vote against President Pedro Castillo on 7 December.** To impeach Castillo, 87 votes (two-thirds of Congress) will be needed. Four members of the Peru Libre (PL) party, which brought Castillo to power but that has since sub-divided and distanced itself from the president, voted to admit the motion. Even so, Castillo's opponents are still likely to struggle to reach the necessary votes as legislators remain wary of risking their own positions by taking action that could end up triggering earlier-than-scheduled elections. Even if Castillo survives the vote, another political clash would be imminent as Congress will need to endorse the new Prime Minister Betssy Chavez before the end of the month. The latest round of tensions openly defies the Organization of American States (OAS), which last week called for a "political truce" to ensure a minimum level of governability.

## MIDDLE EAST AND AFRICA

Ghana

**Finance Minister Ken Ofori-Atta will most likely announce the government's proposals on external debt restructuring this week.** This follows his 4 December press conference, where he confirmed that domestic debt will be restructured. Notably, domestic debt holders existing domestic bonds as of 1 December will be exchanged for a set of four new bonds maturing in 2017, 2029, 2032 and 2037, with the annual coupon on these set at 0% in 2023, 5% in 2024 and 10% in 2025 until maturity. While the finance minister has promised that more details on the domestic debt exchange

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program will be announced today, 5 December, the other details that Ofori-Atta disclosed is that holders of treasury bills and individual bond holders will not be affected by the debt restructuring plans, and that there will be no haircuts on the principal of bonds.

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