

## WEEKLY POLITICAL COMPASS

Welcome to this edition of the Weekly Political Compass from Teneo's political risk advisory team.

This week, we are taking a closer look at tax reform in **Brazil**. Meanwhile, the Bank of **Japan's** monetary policy committee will meet, **Serbia's** ruling party put in a solid performance in the parliamentary elections, a series of rallies and marches is ahead in **Argentina**, and **South Africa's** ex-president announced he would not vote for the ruling party. Our graph of the week zooms in on **partisan divides over climate policy**.

Should you have questions or wish to discuss any of these stories in greater detail, please do not hesitate to reach out to us!

### GLOBAL SNAPSHOT

In **Brazil**, approval of tax reform and revenue-generating measures crowns the government's effort to woo support from centrists in Congress in 2023. Our Brazil expert [Mario Marconini](#) analyzes the situation.

#### What has been decided?

Last week, constitutional amendment PEC45 on a full-fledged reform that simplifies the tax regime and ends cumulative taxation across different products and levels of government was approved and will be promulgated this week. The effort culminates a 30-year period of to-and-fros in Congress and results in the most wide-ranging framework ever considered.

#### What are the implications?

Brazil will now have two value-added taxes - one at the federal, another at the sub-federal level - subject to transition periods, a few sectoral exceptions, and an expansion of the "sin tax" from products considered health-compromising to products considered environmentally harmful. A national basic food basket list will be tax-free. The reform is a major victory for the government who also celebrated on the same day the approval of limits on certain company tax benefits - a measure that will ease the fiscal effort in 2024.

### WHAT TO WATCH

#### ASIA PACIFIC

##### Hong Kong

Media tycoon [Jimmy Lai](#) will face trial on national security charges starting Monday, in a high profile showcase of the [National Security Law](#) that mainland China's legislature imposed in 2020. UK Foreign Minister David Cameron on Sunday called for the release of Lai and criticized the law as a breach of the Sino-UK Joint Declaration.

##### Japan

**The Bank of Japan's monetary policy committee will meet on 18-19 December, amid another bout of speculation about when it will normalize its ultra-accommodative monetary regime.** A major policy shift this week remains unlikely given the latest economic data, but Japan's first rate rise since the mid-2000s is looking [increasingly likely by Spring 2024](#).

## EUROPE

### France

**A bilateral committee composed of representatives from the National Assembly (AN) and the Senate will try to hash out a compromise on the government's migration law on 18 December.** If a deal on the draft bill is reached, it will be submitted to a plenary vote in both chambers on 19 December. If parties cannot agree on a text or the proposal is voted down, the government will likely withdraw it. While the government's difficulties in getting the immigration law passed have generated noise around a potential dissolution of the AN and early elections, President Emmanuel Macron has allegedly discarded such a scenario.

### Portugal

**Former Minister of Infrastructure and Housing Pedro Nuno Santos was elected Secretary General of the ruling Socialist Party (PS) in a leadership vote on 17 December.** Nuno Santos, who hails from the left wing of the socialists, defeated Interior Minister Jose Luis Carneiro. The election of Nuno Santos is good news for the center-right Social Democratic Party (PSD) of Luis Montenegro, given Carneiro was a much more popular candidate. Still, opinion polls show the PS and the PSD neck and neck ahead of the 10 March general election. The vote will likely produce a fragmented parliament, which will complicate government formation.

### Serbia

**A solid performance by the governing Serbian Progressive Party (SNS) in the 17 December parliamentary elections signifies continued political dominance of President Aleksandar Vucic and his party, which now holds a strengthened and extended mandate until 2027.** This suggests policy continuity in most areas, including a balanced fiscal approach, multi-dimensional foreign policy, and openness to foreign investment. A strong mandate also provides some political space for unpopular compromises on issues like Kosovo or lithium mining, although no quick decisions are expected in these areas. Allegations of electoral irregularities in the Belgrade municipal elections highlight concerns about the state of democratic institutions and might trigger protests.

## LATIN AMERICA

### Argentina

**Social activist movements (*piqueteros*) are planning a series of rallies and marches on 19-20 December** – officially to mark the 2001 economic crisis but in reality as a show of force to the new government. Unions and *piqueteros* are worried about President Javier Milei's plans to cut government spending, reduce the public payroll, slash subsidies, halt public works, and change the formula used to calculate pensions in a context of higher inflation. There is also concern over labor reforms that could be unveiled this week as part of a second phase of Milei's economic reset, some of which will be included in an extensive presidential decree, and the rest in legislation to go before congress. *Piquetero* leaders fear a reform of government assistance programs that threaten their clientelist powers. Ahead of the protests, the government last week unveiled a package of measures to contain and curb disruptive protests that could in the short-term aggravate tensions on the streets.

## MIDDLE EAST AND AFRICA

### DRC

**General elections will take place on 20 December 2023.** Concerns about the conduct of the vote – which will combine presidential, legislative, provincial and local elections – have intensified amid registration challenges, logistical constraints and

conflict (particularly in Ituri and North Kivu provinces). President Félix Tshisekedi is expected to win a second term, but the outcome, which might only be announced by 31 December, could be contested.

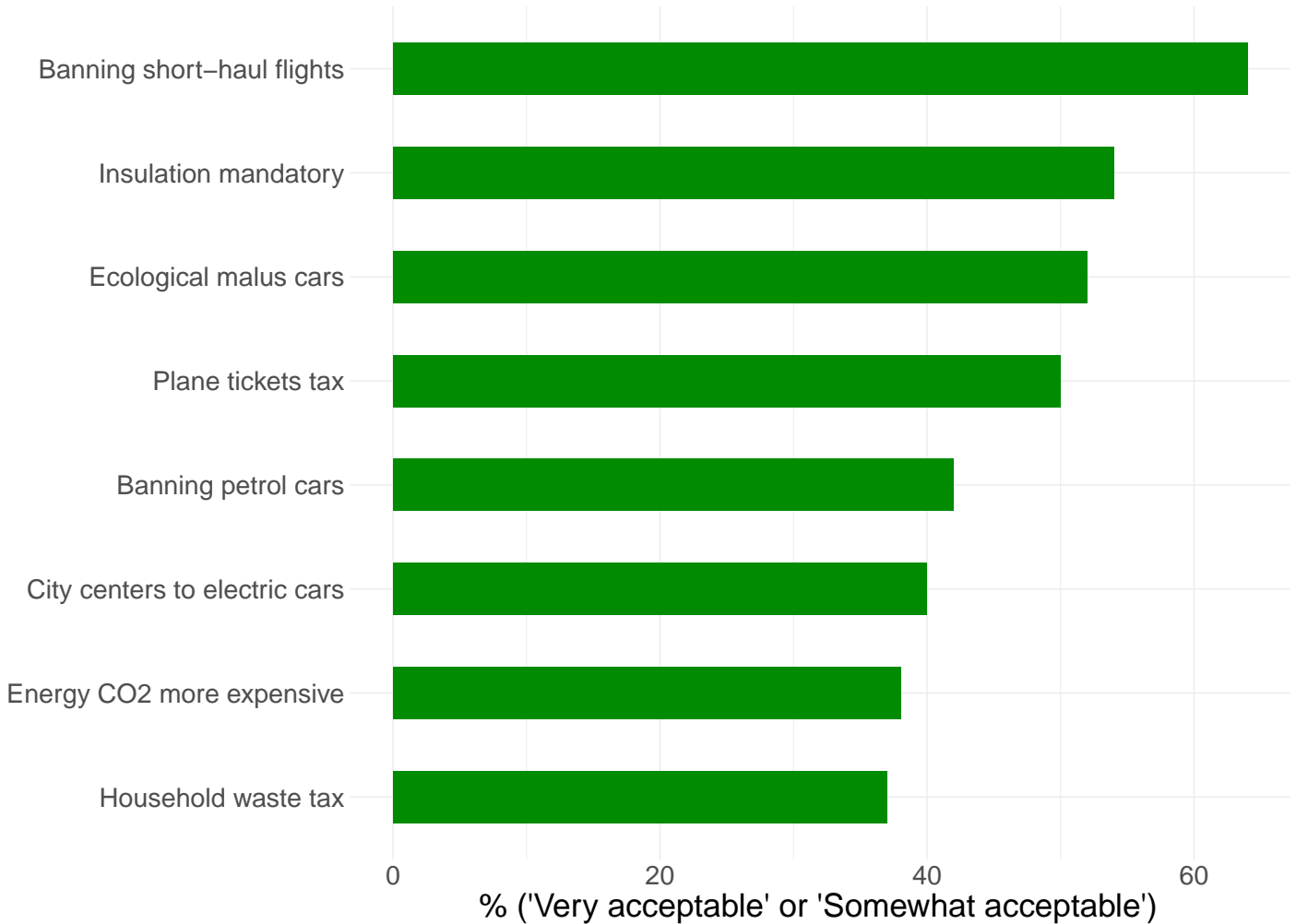
### South Africa

Over the weekend, ex-president Jacob Zuma announced he would not vote for the ANC in the 2024 elections. He said he would instead vote for the newly formed Umkhonto we Sizwe (MK) party. The ANC is already in for an electoral pounding, particularly in Zuma's home province of KwaZulu-Natal (KZN). In KZN, polls show the ANC vote declining dramatically (it is polling around 22%), while one of the main beneficiaries is expected to be the Inkatha Freedom Party (IFP, which is polling around 17%, ahead of the Democratic Alliance and the Economic Freedom Fighters). While the corruption-accused Zuma retains some popular support in KZN, it is not clear how big of a splash a latecomer party with unknown funding can make. At best, parties like Zuma's will chip away at the ANC vote in certain provinces. This will compound the likelihood of the ANC margins dropping below 50% in the national vote and could affect provincial coalition outcomes, but overall it will mainly add to opposition fragmentation.

### GRAPH OF THE WEEK

## Pro-climate measures remain highly divisive in Europe

*Acceptability of different climate policies*



Source: Ipsos/EDF

Partisan divides over **climate policy** have accelerated over the past year across many democracies. While the energy transition is increasingly accepted as necessary, differences about the speed of change and the ambition of climate-fighting policies are solidifying along partisan lines. Costly policies, involving higher taxes or bans of petrol-fueled cars, tend to lack broad public support. Center-right and radical right parties have recently exploited these concerns electorally. Against this backdrop, some

European countries appear to be converging with the US regarding political polarization over climate policies. Despite its usually relatively low turnout, the 2024 European Parliament elections will be a crucial test for the future of climate policy in the EU.

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