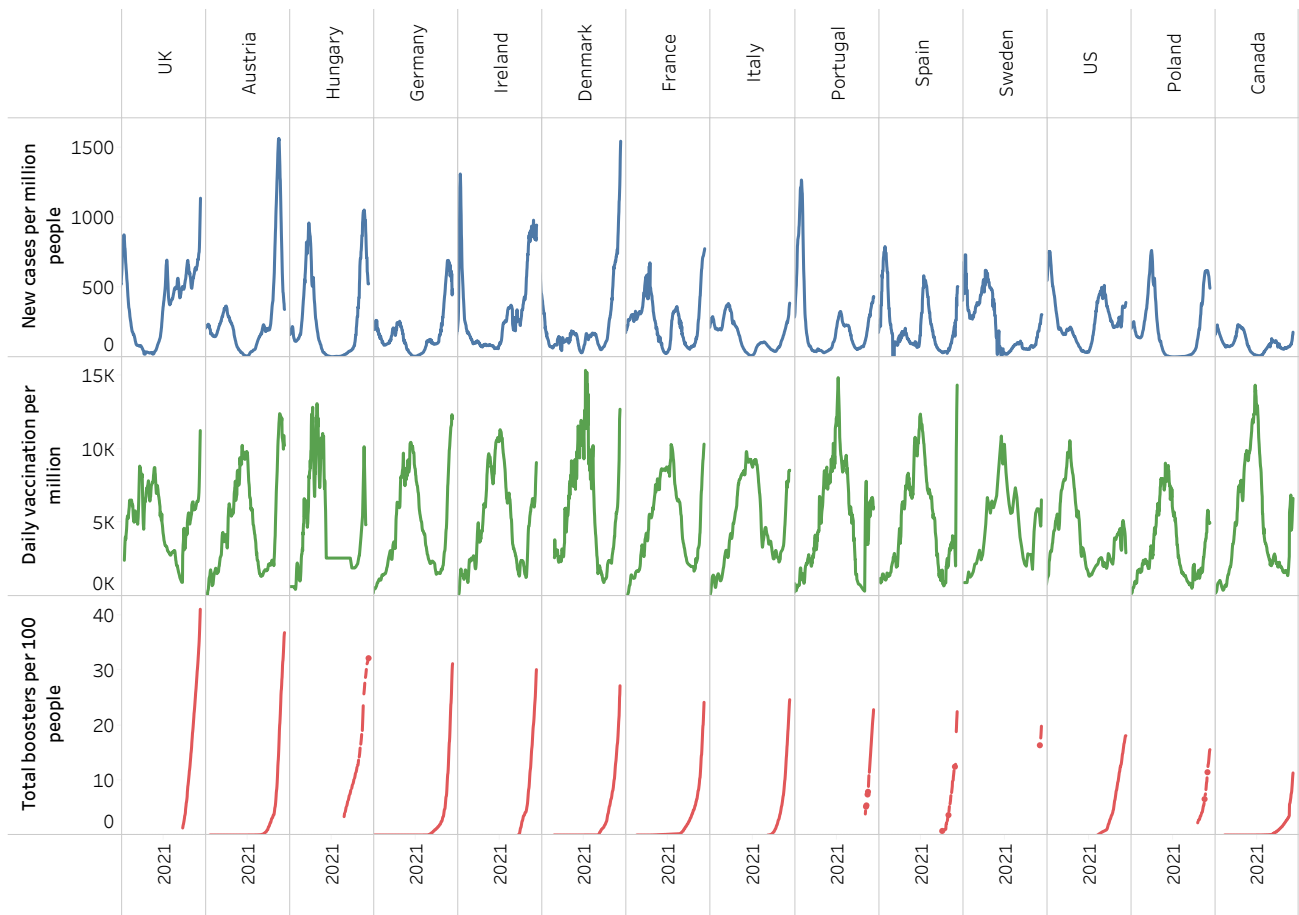


## WEEKLY POLITICAL COMPASS

New restrictions are being discussed in **Germany**. Left winger Gabriel Boric has won the presidential election in **Chile**. A cabinet resignation further increases the pressure on the **UK** prime minister. Meanwhile, new quarantine rules may be introduced in **Thailand**, **Germany's** government has chosen a new central bank president, and **Brazil's** congress should vote on the draft 2022 budget.

### CHART OF THE WEEK

European governments expected to ramp up booster doses in the coming weeks



Source: Our World in Data (last updated on 20 December 2021)

Western countries face another **difficult holiday season with Covid-19 cases rising** steadily in many places. Although hospital admissions and deaths are often much lower than a year ago thanks to successful vaccine rollouts, hospital pressure is still slowly increasing in some countries. In the UK, health staff shortages are again a problem given the high number of people self-isolating. So far, most governments are avoiding blanket lockdowns and strict travel restrictions, but northern European countries are leading the way on this front. While Austria's three-week lockdown has helped cut the

rate of new infections significantly, the Dutch government has closed all bars, non-essential shops, and hospitality venues until at least January 14. Meanwhile, Germany and France have tightened restrictions on travel from the UK and some other “high-risk” countries. In the coming weeks, similar restrictions on indoor mixing and hospitality might be introduced in other countries to limit the rate of new infections. This will be politically divisive in most countries; in the UK, for instance, the public is divided on limiting indoor gathering to six people from three households (49% would favor this measure while 43% oppose it). At the same time, governments will be pressured to extend the inoculation of booster doses as the best alternative to avoid new restrictions.

## WHAT TO WATCH

### Germany

**Chancellor Olaf Scholz and the 16 regional state leaders will gather for another coordination meeting on 21 December.** The goal is to agree on a common approach to the rapidly spreading new virus variant. Currently still decreasing infection numbers make Austrian or Dutch style lockdowns unlikely before Christmas. However, there are concerns about the effect of the new variant’s rapid spread on the public service workforce, even if symptoms might be mild in many cases. This could lead to stricter rules for indoor and outdoor events to come into effect past Christmas.

### Chile

**Gabriel Boric of the left-wing Apruebo Dignidad coalition won 55.9% of the vote in the run-off presidential vote that took place yesterday, 19 December.** The right-winger Jose Antonio Kast obtained 44.1%. Kast quickly conceded defeat last night. Investors and the business sector will be waiting for Boric’s nominations for key posts including his pick for finance minister as a gauge of his newfound commitment to moderation. Which cabinet positions end up being occupied by members of the Communist Party (PC) will also be closely watched. While his margin of victory gives him a solid mandate, Boric will lack clear majorities in Congress and will face a challenging economic backdrop, while his supporters’ expectations for nothing less than a new social compact are high.

### UK/EU

**Following the resignation of Brexit chief negotiator Lord David Frost, Foreign Secretary Liz Truss will take on his portfolio.** Even if the UK has accepted that the Court of Justice of the EU will continue to play a role in arbitration cases related to Northern Ireland, the threat of the UK pausing the relevant protocol’s application remains unchanged going into next year. The immediate impact of the resignation is that it further increases the pressure on PM Boris Johnson not to impose too stringent restrictions in the face of the new virus variant.

## ON THE HORIZON

### ASIA PACIFIC

#### Australia/UK

**On 17 December, Australia and the UK signed a free trade agreement which will come into force in 2022.** The agreement promises to remove 99% of tariffs on Australian goods exports, including agricultural products, and will ease business travel between the two countries, give UK service firms greater access to the Australian market, and allow Australian companies to bid for a variety of UK government contracts.

#### Japan

**Prime Minister Fumio Kishida’s Cabinet is likely to announce the final contours of the regular FY2022 budget on 24 December.** Before then, the Diet will close its current extraordinary session on 21 December, with the supplementary budget to fund Kishida’s recent economic stimulus package now enacted.

## Malaysia

**The Sarawak Parties' Alliance (GPS) won a landslide 75 of 82 local legislative seats in the 18 December state election in the state of Sarawak.** GPS provides 18 federal legislative seats in the 222-seat parliament to the ruling coalition and its strong local win further solidifies its status as one of the critical swing votes for the prime minister as Malaysia likely heads to early elections next year.

## Thailand

**The Ministry of Health may recommend the reinstatement of quarantine for inbound tourists, and a reversion to the sandbox scheme instead of the current “test and go” system to limit the potential for the spread of the Omicron variant.** Several countries in Southeast Asia have modeled their tourism reopening on Thailand and its reversion to a stricter system could also be an early indicator of how they may respond to the threat from Omicron, dampening an expected uptrend for the region, which is heading into its peak tourist season from the west.

## **EUROPE**

### Germany

**The new government coalition has chosen Joachim Nagel as successor to Jens Weidmann as Bundesbank president.** While this means that a Social Democrat will lead the German central bank, this may not lead to a meaningful softening of the stance on inflation. If the level of price increases remains elevated for longer, the key factors to watch are the public and political debates. The focus on inflation remains a structural feature of Germany's political economy.

## **LATIN AMERICA**

### Brazil

**Congress should vote on the draft 2022 budget law on Tuesday, 21, following approval of constitutional amendments that will together increase the spending cap and delay court-mandated judicial debt payments.**

Primary revenues are foreseen at BRL 2 trillion (USD 354 billion), the highest in the country's history. BRL 8.8bn (USD 1.6bn) will be allotted to health and BRL 3.2bn (USD 570bn) to “economy, labor and pensions”. Over BRL 30bn (USD5.4bn) will go to parliamentary amendments that allocate funds to individual politicians and congressional benches in addition to the so-called “secret budget” where the ultimate beneficiary remains unknown and unaccountable.

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**Macro Research**  
+44 20 7186 8894  
Macro@teneo.com

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