

## 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 parliamentary cooperation against **Argentina's** government. Meanwhile, the Bank of **Japan's** monetary policy committee will meet, moderate parties performed better than expected in **Belgium**, a key vote on green mobility is ahead in **Brazil**, and strike action might resume in **Nigeria**. Our graph of the week zooms in on the **European Parliament election results**.

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

**Argentina's** government has set a date of 12 June for a senate plenary vote on its reworked "bases law" and parallel tax reforms. Our Latin America expert [Nicholas Watson](#) analyzes the situation.

#### Does the government have the required votes?

It is not clear that there is a majority in favor of all reforms included in the "bases law", which makes it likely that – if the bill passes – it would probably have to return to the lower house for harmonization. President Javier Milei's reaction to a separate lower house vote last week in which centrist "swing" parties joined forces with the *Union por la Patria* (UP) *Kirchnerista* bloc to advance a new pension adjustment formula against the government's wishes could complicate the "bases law" vote.

#### Will parliament continue to cooperate against the government?

Threatening to use his veto powers should the senate endorse the same pension formula, which would cost 0.4% of GDP, Milei described those who voted for the pension uprating as "fiscal degenerates" intent on derailing his economic plans. If the UP and others in the lower house continue to work together, they could also overturn a raft of deregulating reforms that took effect via December's mega-decree; that scenario, though not yet imminent, would represent a major reverse for Milei.

### WHAT TO WATCH

#### ASIA PACIFIC

##### China/Japan

**The Japanese government lodged a diplomatic protest on 6 June.** Four China Coast Guard vessels armed with cannons had patrolled disputed waters in the East China Sea near the islands that Tokyo administers and calls Senkaku and Beijing calls Diaoyu. The China Coast Guard said the patrol was a "routine action" to safeguard sovereignty and to counter recent "negative moves" by Japan.

##### Japan

**The Bank of Japan's two-day monetary policy committee (MPC) meeting ending 14 June looks unlikely produce another interest rate rise.** However, it could see the central bank reduce its monthly purchases of government bonds to help ease pressure on the weak yen. With the effects of the spring wage hikes and June's one-time income tax cut not yet evident in the latest economic data, market expectations are for Governor Kazuo Ueda to push back the decision on a second rate hike of the year until July or later. The political calendar could also be a factor for Japan's monetary policy outlook. Any decision by Prime Minister Fumio Kishida to call a snap general election in the summer or fall might further delay a decision if the BOJ wants to avoid accusation of impacting electoral outcomes.

## EUROPE

### Belgium

**Held in conjunction with the European vote, the outcome of the national and regional elections was more constructive than what polls had suggested.** In the Dutch-speaking north, the regionalist New Flemish Alliance (N-VA) managed to retain a lead over the far-right, pro-independence Vlaams Belang. The N-VA can continue to head the regional government if it forms a grand coalition with the Christian Democrats (CD&V) and the rebranded Social Democrats (Vooruit). In the French-speaking south, the Liberals (MR) clearly beat the incumbent Socialists (PS) and could now govern the region with the center-right Les Engagés. These moderate regional outcomes also bode well for the national level where broad, centrist, multi-party coalitions are possible, with or without the N-VA. Coalition formation will take time, and fiscal policy will cause headaches, but more immediate pressures regarding the future of the Belgian state have for now been contained.

### Bulgaria

**According to preliminary results, the center-right Citizens for European Development of Bulgaria (GERB) won most mandates in the snap parliamentary election on 9 June.** GERB will have a first attempt at forming a government. However, a more fragmented parliament and a slightly weaker performance by GERB – as compared to the previous 2023 vote – make coalition talks extremely challenging, especially as any majority government would require the cooperation of at least three parliamentary groups. If GERB's first attempt is unsuccessful, the probability of another parliamentary vote or a technocratic cabinet would rise substantially. Record low turnout (just 32.5%) and a relatively good result for the so-called "non-systemic" parties reflects growing voter disappointment in political elites and democratic institutions.

### Turkey

**Turkish Foreign Minister Hakan Fidan will attend the China-led BRICS+ meeting in Russia this week as Turkey explores new cooperation opportunities.** Last August, Brics announced plans to double its membership, extending invitations to, among others, Saudi Arabia, Egypt, Iran and the United Arab Emirates. Turkish President Tayyip Erdogan has previously expressed interest in joining Brics, but formal discussions had not taken place until now.

### Ukraine

**On 11-12 June, Berlin will host the annual Ukraine Recovery Conference, bringing together various stakeholders to discuss challenges and opportunities presented by the reconstruction of the country.** The resignation of Ukraine's head of the State Agency for Restoration and Infrastructure Development one day before this high-profile event emphasizes concerns about Ukraine's domestic capacity to oversee restoration. On 13-15 June, leaders from G7 countries will be in Italy to discuss a US proposal to provide Ukraine with a USD 50bn loan backed by future interest income from immobilized Russian assets. Finally, Kyiv is expecting representatives from around 90 countries to attend the Summit on Peace in Ukraine scheduled for 15-16 June in Switzerland. The event aims to garner widespread international support for Kyiv's vision of the conflict resolution with Russia, especially among the so-called Global South countries, and use some of the outlined points in future talks with Moscow.

## LATIN AMERICA

### Brazil

**The House should vote on an iconic bill on Green Mobility and Innovation this week that will also introduce a 20% tax on e-commerce imports below USD 50.** The bill is important not only because it pitted industrial and retail sectors against

consumers and thus potential voters in a municipal election year, but also because it almost broke the feeble balance between the government and Congress. It is expected that the bill, which was spearheaded by House Speaker Arthur Lira before it went to the Senate and returned to the House with modifications, will serve to secure a name of his choice to head the House next year when his mandate ends. He agreed to lead the fight to increase taxation on popular imported items in exchange for support from President Lula to any candidate he chooses. Former president Jair Bolsonaro, who has no current mandate and is ineligible until 2030, already ensured he would move his party, the Liberals (PL), to do so.

## MIDDLE EAST AND AFRICA

### Nigeria

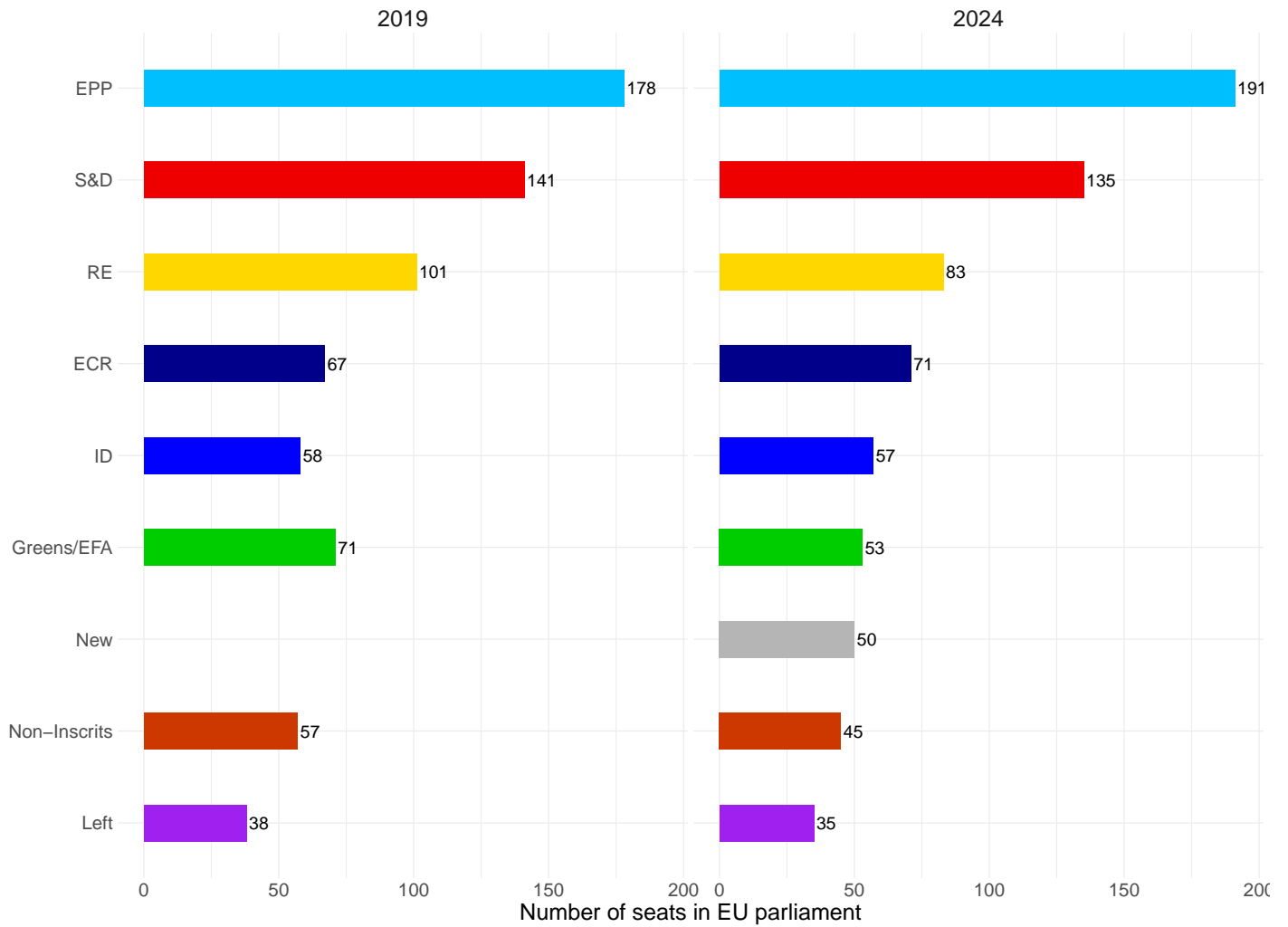
**There remains a risk that the two major labor unions – the Nigeria Labour Congress (NLC) and Trade Union Congress (TUC) – could resume their strike action this week.** This follows a 7 June statement from the Nigeria Governors' Forum (NGF) – a grouping of all the governors of the 36 states – saying that the NGN 60,000 minimum wage proposal by the federal government is not sustainable. The unions had already rejected the federal government's proposal and embarked on a strike action, which was only called off after authorities agreed to upwardly review the NGN 60,000 proposal. With governors now signaling their unwillingness to accept any potential deal, another deadlock in talks is likely.

### South Africa

**Parliament's first session, which will elect the speakers and president, may take place on Friday, 14 June.** The first sitting must take place within 14 days of the announcement of the election results, which occurred on 2 June. The clock is ticking to finalize coalition negotiations following the ANC's decision to call for a government of national unity (GNU). While the GNU's exact format and members are still unclear, negotiations now appear to be most advanced with the liberal Democratic Alliance (DA), Inkatha Freedom Party (IFP) and Patriotic Alliance (PA). This would facilitate the re-election of President Cyril Ramaphosa. The radical Economic Freedom Fighters (EFF) could currently end up on the outside, but its leaders (with backers inside the ANC) have an incentive to try to cut a last-minute deal. Ex-president Jacob Zuma's uMkhonto weSizwe (MK) party seems likely to boycott (or try to legally interdict) parliament's first sitting, neither of which seems likely to prevent the proceedings. Nonetheless, the party represents a risk to stability in KwaZulu-Natal province (where it won 45% of the vote).

## GRAPH OF THE WEEK

## Europe turns right in EU elections



In the **European Parliament elections**, right-wing forces gained support, but the centrist majority is likely to hold. The radical right's surge is mainly driven by results in two key countries, France and Germany, where centrist incumbent parties suffered significant losses. Most of the far right's gains are in the "non-Inscrits" and "New" categories, making parliamentary group formation even more relevant. Left-leaning and Green parties performed poorly in France and Germany but did much better in the Nordic countries, where they are currently in the opposition. More broadly, a deepening of polarization around green issues and a hardening of migration approaches should be expected.

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