

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 **Germany's** upcoming federal election. Meanwhile, **the EU** considers its response to JD Vance's Munich speech, **Russia** and **the US** have begun high-level discussions over **Ukraine**, and **India** is set to pursue further tariff cuts after the Trump-Modi summit. Elsewhere, **Vietnam** has approved a radical government restructuring plan, **South Korea's** presidential impeachment case is progressing, and **South Africa's** finance minister will present the FY2025 budget.

Should you have questions or comments, please do not hesitate to reach out to us at Macro@teneo.com.

GLOBAL SNAPSHOT

With Germany going to the polls on 23 February, we ask our Deputy Director of Research [Carsten Nickel](#) to look ahead.

What result are the latest polls pointing to?

Chancellor Olaf Scholz's Social Democrats (SPD) have not managed to reduce the substantial gap in opinion polls with Friedrich Merz's Christian alliance (CDU/CSU). Amid several deadly attacks over recent months, questions around migration thwarted Scholz's plan to link his careful approach to Ukraine with calls for greater public investment. Whether Merz can form a coalition government with only the SPD will depend on smaller parties' ability to cross the five-percent threshold for parliamentary representation.

What comes after the election?

Following the SPD's likely defeat, its internal politics should be watched closely. The time taken to negotiate a coalition will give an early indication of how serious German leaders are about tackling the country's multiple challenges decisively. While greater national defense spending is certain, joint European debt issuance and investment will also depend on the ability to strike broader deals with France's domestically weakened president.

WHAT TO WATCH

ASIA-PACIFIC

India

Prime Minister Narendra Modi's administration is reportedly preparing to further reduce tariffs in several high-import sectors over the next few months. The moves will be in response to Donald Trump's threats of imposing reciprocal tariffs due to India's high import duties, and will come in addition to tariff cuts announce in advance of the Modi-Trump meeting last week. Once again, the tariff cuts are likely to be only moderately impactful, and India is likely to stick to relying on oil and defense imports from the U.S. Concurrently, Trump's proposal to sell F-35 fighter jets to India has faced criticism from opposition parties, citing high costs and concerns over the aircraft's performance. In contrast, Russia has offered to produce its advanced Su-57 jets in India, aligning with Modi's "Make in India" initiative and providing an alternative

to U.S. defense equipment. Meanwhile, Tesla has begun hiring in India, signaling its plans to enter the market following Modi's U.S. visit. However, Elon Musk's past vacillations regarding India would likely mean that government officials will watch and wait until Tesla makes any substantial investments before the bureaucracy springs into action to support Tesla's entry.

Vietnam

Parliament approved on 18 February the most radical government restructuring plan in decades. It would involve cutting the number of state ministries from 18 to 14 and reducing by 15% to 20% the number of state agencies. However, one key detail in terms of civil servant jobs that would be axed is still unclear, although the number often floated in media is around 100,000. According to the Communist Party leadership, the goal is to reduce expenses in government operations so that more funds can be channeled to development projects. The government has promised that the changes would not affect the business climate; however, delays and some uncertainty due to the personnel and organizational changes are possible.

China

President Xi Jinping met with leaders from several of China's largest tech companies, including Alibaba founder Jack Ma and DeepSeek founder Liang Wenfeng on 17 February. The tightly choreographed meeting did not yield new policy but was intended to signal the Communist Party's [support for the tech sector](#), which has faced waves of layoffs and regulatory crackdowns since 2021. In 2023, Premier Li Qiang [hosted a meeting](#) with tech tycoons for a similar purpose, but a meeting with Xi at the Great Hall of the People in Beijing carries higher political signaling value.

South Korea

President Yoon Suk-yeol's respective impeachment and criminal cases are proceeding in parallel this week, with speculation growing that the Constitutional Court (CC) will rule on the former in March. The CC held a ninth impeachment hearing on 18 February (local time) and scheduled the tenth hearing for the afternoon of 20 February—despite Yoon's criminal case commencing that same morning. A March ruling that upheld the impeachment motion passed by the National Assembly in December would result in a presidential election being held in April or (more likely) May.

EUROPE

EU

The statements of the US delegation at the Munich Security Conference have shocked European leaders, but a hastily convened meeting in Paris failed to produce immediate results. After the combative speech delivered by US Vice President JD Vance at the Munich Security Conference, European leaders agree that they can no longer rely on transatlantic security. However, the Paris meeting highlighted that key leaders still disagree on the right conclusions. While the UK wants to send troops to Ukraine, and France is also open to the idea, others—including Spain, Italy, Germany, and Poland—are hesitant, for varying reasons. The Europeans also disagree on joint defense spending, while trying to improve their individual standing in Washington amid a looming trade war and jockeying for the unofficial position of Europe's leader. The speed of the European response will also be dictated by the facts America creates on the ground in Ukraine and the wider European architecture.

Russia/Ukraine/US

On 18 February, the US and Russia held their first high level meeting since the start of Russia's invasion of Ukraine in February 2022. The meeting, which took place in Saudi Arabia, reportedly focused on improving bilateral ties, initiating ceasefire negotiations in Ukraine, and laying the groundwork for a possible meeting between US President Donald Trump and Russian President Vladimir Putin. Based on limited comments available at this point, both sides have reportedly outlined their starting positions in regard to resolving the conflict in Ukraine and agreed to set up high-level teams to work towards the settlement of the conflict without specifying details. According to Putin's aide Yuri Ushakov, the Trump-Putin summit is unlikely to take place next week. Separately, the US special envoy for Ukraine and Russia Keith Kellogg will visit Ukraine on 19-20 February.

Turkey

Turkey's ruling Justice and Development Party (AKP) is set to convene for its eighth regular congress on 23 February as the party seeks to revamp its leadership and strategy following its setback in the local elections. President Tayyip Erdogan, who has led the AKP since its founding in 2001, is expected to introduce key changes to the party's structure and leadership to better align with shifting voter expectations and political dynamics. Speculation about a cabinet reshuffle is likely to emerge in the aftermath.

LATIN AMERICA

Argentina

The government is trying to shake off a scandal that arose late last week when President Javier Milei endorsed a crypto token known as \$LIBRA on the social media platform X. The token's value subsequently soared before undergoing a rapid collapse in an apparent scam known as a "rug pull" in crypto circles. While there is no suggestion that Milei directly benefited from the scheme, the episode has multiple political implications. Most significantly, the scandal represents a blow to Milei's economic policy credibility, which is key to his political capital. Additionally, opposition Peronists have said that they will pursue Milei's impeachment. Although impeachment is highly unlikely to advance, a congressional investigative committee could be convened. A lengthy investigation might make it difficult for the government to move on from the episode and overshadow its economic achievements ahead of the October mid-terms. The scandal has already eclipsed last week's news that monthly inflation in January reached its lowest level in over four years. Immediate political effects could become more visible later this week when the Senate is due to vote on the suspension of the obligatory primaries and other initiatives.

AFRICA

South Africa

On 19 February, Finance Minister Enoch Godongwana will present the 2025/26 budget. Godongwana is focusing on containing debt and spending amid still-subdued growth. Rumored tax hikes to major categories like VAT (sales tax) are highly unlikely to find backing with the coalition government. However, spending pressures remain high, including from state-owned enterprises, public-sector wages, and the Social Relief of Distress (SRD) grant. The US administration's tariff measures and specific targeting of South Africa create additional uncertainty not only over aid but also fiscal metrics including the inflation outlook, borrowing costs, and trade.

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