

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** election result. Meanwhile, **Japan's** budget looks set to progress, but **South Africa** is struggling to get its budget back on track. Elsewhere, **China's** live-fire drills cause friction with **Australia**, **South Korea's** economy faces headwinds, and **Ukraine** marks the third anniversary of **Russia's** invasion.

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

GLOBAL SNAPSHOT

Following Germany's transformative federal election, we ask our Deputy Director of Research [Carsten Nickel](#) to look ahead.

Who will form the next government?

Friedrich Merz's Christian Union (CDU/CSU) will be able to form a coalition with only one partner, the badly defeated Social Democrats (SPD). How quickly this happens will depend not just on the coalition talks, but also internal SPD politics. Merz is calling for a government by Easter.

What is the outlook for debt brake reform and greater investment?

For the required two-thirds majority, Merz and the SPD would also require support not only from the Greens but also the Left Party. The latter seems unlikely to vote for greater military spending, unless major investment in social and infrastructure systems can be ensured.

What are the alternatives?

If no constitutional change is possible in the next parliament, one alternative would be a vote on constitutional reform in the "old" Bundestag within the next 30 days. Another option of ensuring longer-term public investment would be agreeing respective bond issuances on the European level, something the CDU/CSU has previously rejected.

WHAT TO WATCH

ASIA-PACIFIC

China/Australia

China's defense ministry rejected "unreasonable accusations" by Australian Defence Minister Richard Marles over Chinese live-fire naval drills in international waters between Australia and New Zealand on Friday. Marles criticized Beijing for allegedly failing to provide adequate advance notice of the drills, which were apparently a response to freedom of navigation operations by Australia in the South China Sea and Taiwan Strait last year.

Japan

The LDP-Komeito minority government looks set to progress the FY2025 draft budget through the Diet this week while minimizing fiscal overage, after securing the support of the Ishin-no-kai party. The price of Ishin's support will be the inclusion of that party's flagship policy of making high-school tuition fees free for all, as well as discussions about reducing social insurance premiums in 2026. The deal will mean that the government will not have to concede to the Democratic Party for the People's more costly demand of raising the income tax threshold from JPY1.03mn to 1.83mn, which could have meant up to USD 53bn in foregone tax take.

South Korea

The Bank of Korea may cut its 2025 growth forecast from 1.9% to around 1.6% when it meets on 25 February, amid growing headwinds for the Korean economy. The ongoing presidential impeachment crisis appears to be impacting private expenditure as consumers react to uncertainty, while export demand may also weaken if the US follows through with mooted new tariffs on autos and semiconductors. Acting President Choi Sang-mok has promised [efforts to mitigate](#) the emerging risks, including a USD 250bn package of trade finance support for SMEs.

EUROPE

Russia/Ukraine

Many foreign leaders are visiting Ukraine on 24 February, marking the third anniversary of Russia's full-scale invasion. Ahead of the anniversary, the EU approved its 16th sanctions package against Russia, including the removal of 13 Russian banks from SWIFT, targeting new vessels from the "shadow oil fleet," a phased ban on aluminum imports, and export restrictions on chemicals, manufacturing products, and video game consoles. The package also imposes sanctions on entities and individuals involved in sanctions evasion. Regarding ceasefire talks, another bilateral meeting between the US and Russian representatives might take place this week, though the date and agenda remains unconfirmed.

AFRICA

South Africa

Headline risk looks set to rise this week. On 24 February, a special cabinet meeting will discuss the postponed budget and controversial plans for a 2% VAT hike. The last-minute postponement has triggered concerns over the durability and effectiveness of the government of national unity. The coalition will likely outlast the latest dispute, but probably at the cost of the Treasury's planned VAT increase. Meanwhile, a sudden return of severe 'stage 6' load-shedding will create fresh economic concerns, even if power outages are expected to be suspended before the weekend. Finally, G20 meetings will continue with a gathering of finance ministers and central bank governors. Like last week's foreign ministers' meeting, the event will be boycotted by US representatives as South Africa has faced opprobrium and aid suspensions from the Trump administration.

Nigeria

The National Assembly will hold public consultations on 24-25 February on the government's proposed tax reform plans. The latest hearings are part of President Bola Tinubu administration's effort to placate widespread anger following the government's earlier attempts to roll out a comprehensive tax reform plan that would, amongst other things, see an increase in value added tax (VAT), as well as change the VAT revenue sharing formula between federal, state, and local governments. The government will hope that the latest round of consultations it has held—including the latest agreement

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reached with state governors—will allow for the new tax bills to be approved by parliament by the start of Q2 2025 at the latest.

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