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Investment Institute Macroeconomics

2025's elections around the world: The who's who and the so what...

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Macroeconomic Research

Key points

- Fewer countries are set to hold elections in 2025 compared to 2024 but important political challenges still lie ahead
- Germany's elections on 23 February should see a CDU/CSU coalition emerge to address the nation's challenges
- Europe has several fragile governments: Austria's government has collapsed; France is at risk, while Spain, Belgium and the Netherlands are unstable
- Canada's elections will likely be held before the mandated October date following Justin Trudeau's resignation – a Conservative win is expected
- Czech and Chilean elections look set to shift politics to the right. Ecuador's election will likely determine future IMF support
- Presidential elections in Romania, Poland and possibly South Korea could all impact the political balance in each nation
- Mid-term elections in Argentina and the Philippines will also set the direction for government policy in each country

2025: Fewer elections, more political challenges

2024 was an exceptional year for political change, with more than 60 countries, half the global population, going to the polls. This year will see fewer polls, but last year's elections will start to deliver change, raising political challenges.

Europe stands out: only Germany faces scheduled elections, with the CDU/CSU likely to lead a new coalition government while also facing significant economic challenges. However, in France political instability risks renewed elections from July. The Austrian government has already collapsed and in Spain and the Netherlands governments are fragile. Elsewhere, Canada looks set to hold elections before October and a change of government to Conservatives looks likely.

In emerging markets (EM), elections look likely to deliver a shift to the right in the Czech Republic and Chile. Though smaller, in Ecuador, elections could be key to continued access to International Monetary Fund (IMF) support. Presidential elections will take place in Romania, in May after the annulled election in December, and in Poland, where President Andrzej Duda has been obstructing the government since its election in 2023. South Korea may also face a presidential election after its brush with martial law. Midterm elections in Argentina and the Philippines will also be important checks on the progress of the current governments.

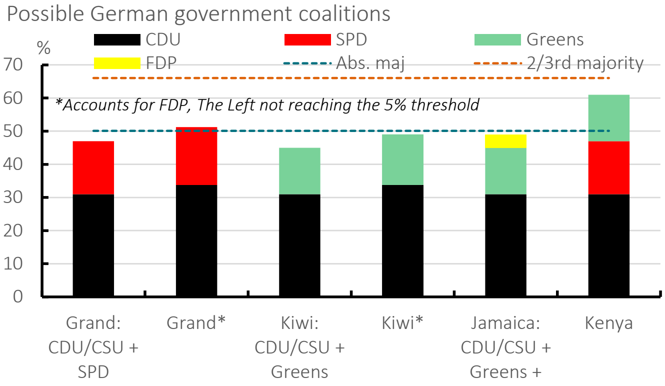
Europe – F. Cabau and H. Le Damany, Economists (Euro Area)

Germany – A much awaited restart?

Germany holds snap elections on 23 February – nine months ahead of schedule, following the collapse of Chancellor Olaf Scholz's traffic light coalition with the Greens and Free Democrat Party last November. For a year, the Christian Democrats (CDU/CSU) have had a 10-point lead in the polls, suggesting its leader Christian Merz will be the next Chancellor.

From there, there are still known unknowns, including the time it will take to form a coalition and whether the CDU will partner with the Social Democratic Party (SPD) to remake a grand coalition (as in 2005-09 and 2013-21) or go with the Greens. Past occurrences suggest it could take until the summer before the government's first decisions are made. Beyond exceeding a straight 50% majority in the lower house, parties will also consider the 66% majority to make constitutional changes, notably for changing the debt brake (Exhibit 1). This is made difficult with most other parties ruling out cooperation with the far-right Alternative for Germany (AFD), despite them currently polling second with around 20% of the vote.

Exhibit 1: A tight race to win adequate majorities



Source: Polls of polls and AXA IM Macro Research, January 2025

Having experienced zero economic growth over the past four years, with reduced estimates of potential growth from official institutions (IMF and Bundesbank), and being most exposed to potential upcoming tariff disruptions, Germany requires a strong government to quickly implement a clear set of policies. That should help lower the record level of the German policy uncertainty index (above 4 standard deviations – a level that almost matches the UK's peak at the time of Brexit vote) and some of the growth headwind that it brings to activity.

While facing a spate of decisions – including on aspects broader than the economy – German policymakers should focus on delivering longstanding public investment in areas of infrastructure, health, education, energy and defence, which is likely to also benefit the private sector. A public sector-boosted economy should help stabilise labour market unravelling. Our baseline, however, remains that things will move moderately. Given the usual lags in investment delivery, we think outright short-term support to households' disposable income (e.g. tax cuts and minimum wage increase) to boost private consumption would help steer a rebalancing of the economy towards domestic demand in a persistent way. The CDU/CSU is offering both corporate and higher income household tax cuts.

Europe – Looking for a (politically-backed) direction

While Germany is the only large European country to hold a scheduled election this year, it is remarkable to see so many European countries plagued by political uncertainty, and therefore unable to enact meaningful policies. In reality we could end up with more than one European election this year.

While the situation is fragile in several member states, the most noteworthy is France, exacerbated by the challenging state of the public finances. After the post-1958 record nomination of four different prime ministers in 2024, the current Parliamentary arithmetic in the National Assembly makes it very difficult to see a government lasting this year, above and beyond the issues concerning the 2025 budget. In turn, French voters may well have to return to the polls this year – although legally not earlier than July – implying that policy and budgetary uncertainty, already at record highs, is likely to remain.

Governments are also fragile in other countries. In Spain, the government has been stable and in place since formation in November 2023, but its minority position in the lower house (after July's elections) means its survival has relied on ad-hoc political agreements. In the Netherlands, following a surprising victory by the far-right party in November 2023, political parties eventually agreed to name a technocrat, Dick Schoof, to lead the government. In Belgium, despite the June 2024 general election, the kingdom continues to be run by Alexander de Croo in a caretaking capacity. Further, in early January, the Austrian government fell and the far-right Freedom Party of Austria (FPÖ) was tasked to form a new government.

All of this complicates European policymaking and weakens the newly-appointed Commission – which is in stark contrast with US President Donald Trump's blue wave. Appointed Commissioners may receive much less backing domestically in case of governing party changes. The Commission makes legislative proposals, but it requires ministerial or head of state approval to enact policy. Moreover, the lack of Eurozone leadership, e.g. a Germany-France duo, makes it more difficult to react quickly and decisively. With weak Eurozone growth and Trump's return threatening developments in trade policy and the Ukraine conflict, this could become an issue.

Canada – **Gabriella Dickens**, G7 Economist

General Election (October 2025 at the latest)

Exhibit 2: 2025 current candidates, 2021 results

2024 election candidates					
Leader	To be decided (LIberal)	Pierre Poilievre (Conservative)	Yves-François Blanchet (BQ)	Jagmeet Singh (New Democratic))	
2021 election results					
Parties	**Liberal**	**Cons**	**BQ**	**ND**	**Green**
Seats	160 (+5)	119 (0)	32 (0)	25 (+1)	2 (0)
Leader	Justin Trudeau	Erin O'Toole	Yves-Francois Blanchet	Jagmeet Singh	Annamie Paul
Vote %	32.6	33.7	7.6	17.8	2.3

Source: Elections Canada, Librar and AXA IM Macro Research, January 2025

Canada's general election is due to take place by October 2025, but the resignation of former Prime Minister Justin Trudeau has boosted the chance that this will occur in the first half of 2025. On 7 January, Trudeau announced his resignation and prorogued Parliament until 24 March, sparking a leadership contest within the Liberal Party (LP). An Ipsos poll for Global News shows that Chrystia Freeland – former deputy Prime Minister and finance minister – is the current front-runner, closely followed by Mark Carney (former Bank of Canada and Bank of England governor) and current finance minister Dominic LeBlanc (Exhibit 2). While the timeline is uncertain, the new leader will be selected before parliament reopens.

Given the current state of the polls – the Conservative Party Canada (CPC) is currently 23 points ahead, while the LP is just over 3 points ahead of the New Democratic Party (NDP) which had previously supported the Trudeau-led government – suggesting the new leader of the LP will face a vote of no confidence in the House of Commons from opposition parties when the next parliamentary session begins on 24 March. If successful, Parliament would dissolve, sparking the start of the election process. Canadian law states the campaign period should last between 37 and 51 days and an election must be held on a Monday, leaving the earliest date for the General Election in early May, likely on the 5th or 12th.

As polls stand, the CPC could win an outright majority, which would likely create additional headwinds for Canadian growth. Indeed, CPC leader Pierre Poilievre has stated he would curb immigration and aim to bring the federal budget back into balance, by reducing government expenditure. While the current government has already pushed through stricter immigration policies, a reduction in government spending would likely weigh on growth. The interest rate outlook could be less affected given that we expect inflation to hover around target with growth fairly subdued. We forecast the Bank of Canada to cut rates to 2.25% by end-2026.

Emerging Markets – **D. Richards** (Non-China Asia Economist) **and C. Dissaux** (Senior Sovereign EM Credit Analyst)

Emerging market (EM) elections are not as widespread in 2025 as they were last year but there are still some key political battles with vital policy implications. The presidents of **Argentina** and the **Philippines** will remain in place in 2025, but mid-term legislative elections will deliver a verdict on their popularity and policy platforms. A favourable outturn for Argentina's president, Javier Milei, would be pivotal in enabling him to proceed with his radical market-reform agenda, focused on deregulation and tax cuts, as well as tough austerity measures. In the Philippines, President Ferdinand Marcos Jr. has built a solid alliance in the House of Representatives that should deliver strong backing for the rest of his term.

Romania is expected to complete its presidential election in May. It successfully delivered a new parliament in late 2024, but its presidential election was annulled over concerns that foreign interference propelled the right-wing candidate, Călin Georgescu, to success in the first round. Given the power sharing in Romania's executive branch between the president and the cabinet – headed by the leftist Social Democratic Party (PSD) – a far-right president could destabilise the current coalition government which consists of a broad spectrum of pro-European Union (EU) parties. In **Poland**, the government's success in pushing ahead with its planned agenda will depend on the outcome of the forthcoming presidential election: the incumbent Andrzej Duda has obstructed implementation of its agenda to date.

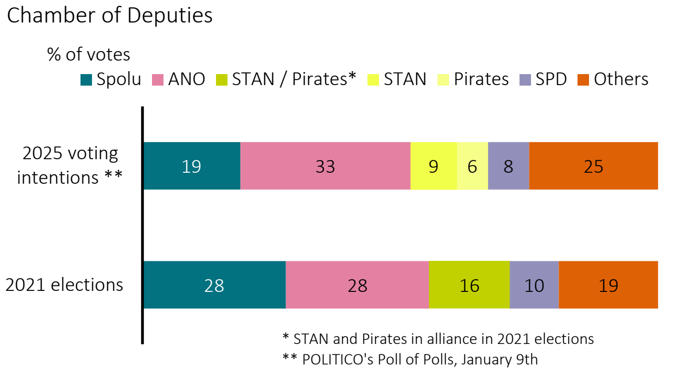
Changes in governing administrations are expected in the **Czech Republic** and **Chile**, both seeing a shift to the right (or further right in the former's case). These will likely result in changes to the policy agenda; in the Czech Republic this could slow medium-term fiscal consolidation efforts and reverse the pension reform, while in Chile this could help moderate upward pressures on spending and create a better environment for investment. Government debt is still relatively low in both countries but has been expanding rapidly in Chile over recent years. Elsewhere **Ecuador** will hold presidential and legislative elections in February (with a potential presidential run-off in April). A government that can continue to garner the financial support of the IMF is vital to avert a credit event and a major crisis over the next few years.

South Korea could also go to the polls this year to elect a new president, after Yoon Suk Yeol was impeached in December following a failed attempt to invoke martial law. The Constitutional Court began preliminary hearings on Yoon's impeachment in late December and it has 180 days to deliver a verdict. If he is removed from office, a presidential election would need to take place within 60 days. But the outcome of Korea's political crisis is far from certain, with Yoon fighting attempts to remove him from office.

Czech Republic – A return for ANO in a further shift to the right

Parliamentary elections take place in the Czech Republic in October, with all 200 Chamber of Deputies seats up for renewal. The president, an influential but largely ceremonial position, appoints the prime minister. The current prime minister, Petr Fiala, heads centre-right alliance Spolu, which narrowly defeated the right-wing ANO in 2021, removing then prime minister, Andrej Babiš. Babiš then stood in the 2023 presidential election but lost substantially in the run-off to Petr Pavel. However, recent polls indicate that Babiš's ANO could be returned to government (Exhibit 3). In mid-December, the party held an 11-point lead over Spolu, which is led by Fiala's Civic Democratic Party (ODS) and includes the Christian and Democratic Union (KDU-ČSL) and conservative Top 09.

Exhibit 3: Chamber current composition and voting intentions



Source: POLITICO, official sources and AXA IM Research, January 2025

Fiala's declining popularity reflects weak economic growth, high inflation and tough austerity measures that his government imposed to try to rein in the fiscal deficit and contain debt. These policies have succeeded in improving the fiscal position, with the deficit estimated at 2.8% of GDP in 2024, down from 3.8% in 2023, according to the Ministry of Finance. However, the government has had to break election promises not to hike taxes – corporate income tax, for example, was raised to 21% in 2024 from 19%. This has provided ANO with a platform to deliver its populist rhetoric, including its opposition to the government's pension reforms, and it is capitalising on a sustained period of depressed consumer sentiment.

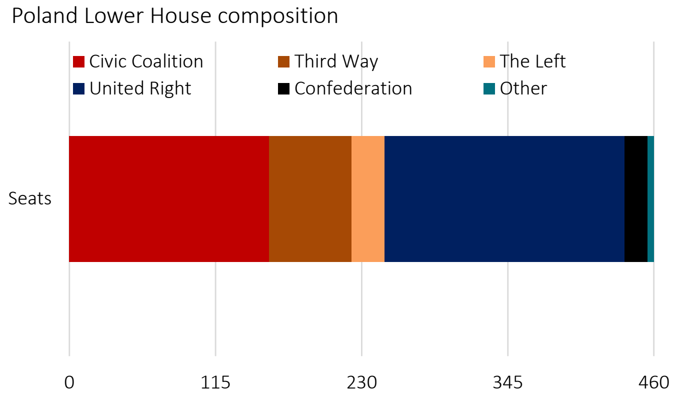
A victory for ANO – which is allied with other pro-Russia far-right parties in the European Parliament such as Hungary's Fidesz under the Patriots for Europe banner – would bode ill for EU unity in the face of security risks. An ANO prime minister could join forces with his counterparts in Hungary and Slovakia to obstruct EU foreign policy decisions.

Furthermore an ANO-led government could cancel the pension reform and slow the pace of fiscal consolidation over the medium term compared to the recently adopted medium-term fiscal structural plan, which has been approved by the European Commission (EC). That would mark a reversal of fiscal trends in the Czech economy after it delivered one of the only fiscal consolidations of 2024 in the region.

Poland – Presidential elections to give increased room to Prime Minister Tusk

It is hard to overstate the historical shift that took place in October 2023 when the far-right PiS party, which had ruled Poland for eight years, was replaced by a pro-EU government led by Donald Tusk, former President of the European Council. The upcoming presidential election (the first round is on 18 May) will be important – it could allow Prime Minister Tusk to fully implement his programme of rolling back institutional reforms that had weakened the rule of law and damaged the independence of institutions, including the judicial system, under the previous PiS government. So far incumbent President Andrzej Duda (PiS) has opposed the programme. He has the power to veto laws and a 60% majority is required to overturn such a veto – Tusk's Civic Coalition (KO)-led coalition with centre-right alliance Third Way and The Left holds 54% of seats (Exhibit 4). So far, Civic Platform (PO) candidate and Warsaw mayor Rafał Trzaskowski has been leading in the polls over PiS candidate Karol Nawrocki.

Exhibit 4: Poland Lower House composition

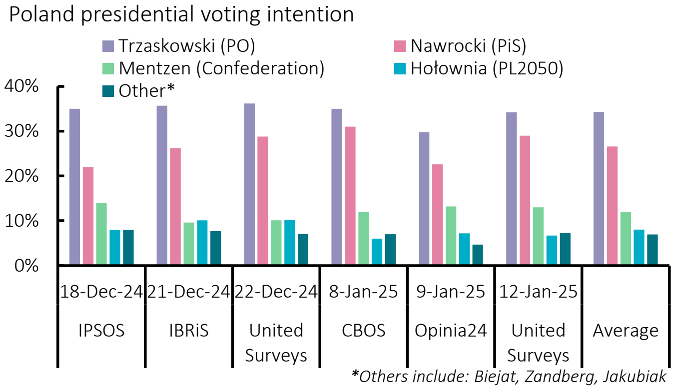


Sources: official sources and AXA IM Research, January 2025

Political developments have so far cushioned the Polish economy and markets from negative fiscal trends (the budget deficit widened to 5.7% of GDP in 2024). The latter reflect higher government spending partly due to the Ukraine war and increased military spending (2.6% of GDP). Thanks to political change in the wake of 2023's legislative elections, the EC has erred on the lenient side and resumed disbursement of Next Generation EU (NGEU) funds to the country, which received a total of 1.9% of GDP in 2024 (€17bn), the highest share of GDP in the region, helping to drive Poland's economic growth to close to 3% in 2024.

The 2025 presidential vote will also give early indications for assessing whether Poland can maintain pro-EU policies after its 2027 general elections (Exhibit 5). This matters for the credibility of the fiscal consolidation path that has been agreed with the EC, which foresees a rapid reduction of the deficit to 3% of GDP in the next four years. Spending cuts beyond 2025 and additional corrective measures have however not been specified and the political cycle could jeopardise such an ambitious plan. Expectations are that strong domestic demand-led GDP growth (IMF forecasts 3.5% in 2025) and large EU transfers (up to €13bn of NGEU funds expected in 2025, partly via grants) will still be the key buffers for government debt dynamics. Increased political room for manoeuvre for Tusk would help solidify those expectations.

Exhibit 5: Trzaskowski (PO) leading vote intentions



Sources: IPSOS, IBRiS, United Surveys, CBOS, Opinia24 and AXA IM Research, January 2025

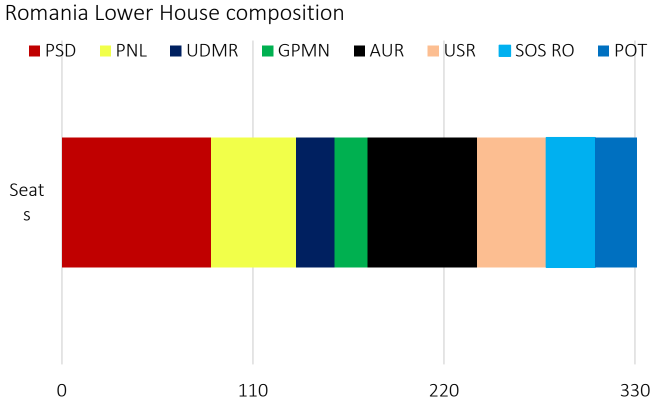
Romania – Remaining election uncertainties delay forceful fiscal adjustment

Romania is facing a political crisis that prevents a quick resolution of its fiscal and economic crisis. While it recorded the largest twin deficits in Europe in 2024, its GDP growth barely reached 1%. Any post-election correction of its macro imbalances has been further delayed after the first round of presidential elections was cancelled in December due to alleged irregularities and foreign influence, with a re-run now scheduled for May. In the meantime, decisive fiscal correction and the 2025 budget have been postponed.

The coalition government formed at the end of 2024 by pro-EU centre-right and left parties (PSD, PNL, UDMR and national minorities), which holds two-thirds of the seats in Parliament, is quite broad and could be unstable (Exhibit 6). Its life expectancy would likely be bolstered if the coalition candidate, Ion Antonescu, is elected president. Otherwise, a far-right president could try to deliver a government closer to his platform by his choice of prime minister – likely triggering a political crisis.

An Antonescu win is a reasonable scenario but is more likely in a run-off vote on 18 May when the high rejection rate of an extremist candidate will prevail. However, the election is still fraught with uncertainties, including the list of official candidates. It is unclear yet if pro-Russia nationalist Georgescu will be allowed to run again after his surprise lead (23% of votes) in the now cancelled first round. Even if he were banned, other extremist candidates would likely capture most of his votes – if the legislative elections, which gave a third of the seats in parliament to far right parties, are any guide. The unprecedented cancellation of an election in Romania has reinforced anti-establishment sentiment and will likely increase participation by far-right voters. The rise in the far-right vote in 2024 may be more of a protest vote than a rejection of the pro-NATO and pro-EU orientation of the government, which will continue to be backed by Parliament.

Exhibit 6: 2024 elections resulted in a fragmented Parliament



Sources: official sources and AXA IM Research, January 2025

But the economy requires more than just policy continuity: a sharp fiscal tightening is needed. The gradual seven-year fiscal consolidation plan that was submitted to the EC at the end of 2024 has yet to gain credibility. Major fiscal slippage in 2024 (the deficit is estimated at -8.7% of GDP in national accounting) gives an even weaker starting point to the programme. Although a corrective package worth around 1% of GDP was passed through fiscal ordinance at the very end of 2024, including a removal of pension indexation and some tax increases, those measures could be reversed in the 2025 budget. More importantly, because of the election cycle, the much-needed revenue measures have yet to be specified, including a removal of the flat tax and a rise in VAT, which makes the 2025 EC target of 7% of GDP deficit unrealistic.

In addition to delayed fiscal consolidation, the political situation could slow reform momentum, thereby postponing further the release of NGEU funds key to support investment and growth. The third tranche of NGEU was withheld in 2024 as the EC's required structural milestones were not met. Time is of the essence as NGEU funds expire by 2026. Yet the political crisis could continue to hold back key reform progress in regard to state-owned enterprise governance, digitalisation, decarbonisation, health and education, which are needed to unlock NGEU funds – and more broadly to improve the growth potential held back by emigration.

Chile – Electorate looking for change but not extremes

Exhibit 7: Chamber of Deputies composition and potential presidential candidates

Party / Alliance	Chamber seats	Potential presidential candidates
Governing Alliance	66	Carolina Tohá, Camila Vallejo
Frente Amplio	*23*	
Socialist	*13*	
Communist Party	*10*	
Chile Vamos	48	Evelyn Matthei
Republican	12	José Antonio Kast
National Libertarian Party	1	Johannes Kaiser
Total	155	

Source: Official sources and AXA IM Research, January 2025.

Chile will hold a general election by November, with voting taking place for a new president and for members of both houses of the National Congress (the Chamber of Deputies and the Senate). The left-wing president, Gabriel Boric, is ineligible for re-election as president cannot serve successive terms, and his left-wing alliance is unlikely to retain power amid a shift to the right.

Boric, the country's youngest-ever president at 38 years of age, came to power in the wake of the 2019 popular uprising that resulted in the formation of a convention to draft a new constitution. Ultimately, Boric has struggled to deliver on his election pledges to reduce inequality, expand social rights and reform the pension and healthcare systems, in part owing to the lack of a solid majority in the Chamber of Deputies (Exhibit 7). His term has also featured the rejection of two new constitutional drafts: the first in a national referendum for being too extreme to the left, the second for being too extreme to the right.

Boric's approval ratings have languished around 30% and support for his progressive reform agenda has dwindled, with sluggish economic growth mostly buoyed in recent quarters by exports. His government has also struggled to improve security and contain a surge in organised criminal activity. In last October's municipal elections, the biggest gains were recorded by the right and centre-right parties under the Chile Vamos coalition, at the expense of an alliance of left and centre-left parties including Boric's Frente Amplio. Although the left's performance was not as bad as had been expected, the outcome provides an indication of the shift to the right that is expected in this year's general elections.

The leader of Chile Vamos, Evelyn Matthei, who failed in two previous presidential election attempts, was leading in the opinion polls at the time of writing. She appears a more palatable candidate for Chile's electorate as it shifts from left-wing governance than the ultra-conservative alternatives, including the Republican leader, José Antonio Kast, who was defeated by Boric in 2021. However, a former member of Kast's party, Johannes Kaiser, set up the National Libertarian Party in 2024 and is gaining popularity. The leading potential candidate from the centre-left is the current interior minister, Carolina Tohá, whose performance in tackling crime, a key election issue, will be scrutinised.

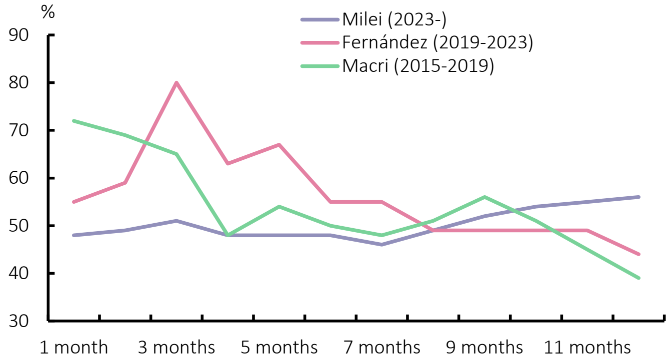
The expected political shift will result in a change in policy priorities. A solid victory for Chile Vamos could deliver a better environment for much-needed investment, especially in infrastructure through private public partnership, together with conservatism as regards fiscal policy and the pension reform. The current government has focused on (and struggled to implement) a fiscal agenda to increase social spending on the back of a hike in taxes. Having failed to get the backing for plans to increase taxes on income and wealth, Boric's administration has focused instead on tax compliance reforms. If elections were to confirm that extreme political polarisation is fading in Chile, with the traditional right coming to power, that would bode well for investment and growth and for an end to the recent trend of upward pressure on spending and rapid rise in debt.

Argentina – Decisive mid-terms for economic agenda

Argentina will hold mid-term legislative elections in October, which will provide a key test for the economic stabilisation plan implemented by President Milei. Since he came to power at the end of 2023, Milei has drastically cut government spending and the deficit, even though his newly-created party La Libertad Avanza (LLA) holds a very small share of seats in Parliament (39 out of 257 seats in the Lower House, six out of 72 in the Senate), forcing him to negotiate to pass structural reforms. Fortunately for Milei, widespread rejection of the governing elites has pushed them to compromise. Inflation has been reduced thanks to unprecedented fiscal austerity, without triggering massive social unrest, although there has been a large initial hit to activity. With real incomes supported by lower inflation, a bottoming in activity is in sight and bodes well for support for Milei's LLA in October. Meanwhile, Milei continues to embody change and hope for a better economic future, a crucial factor underpinning public support – his approval rate stood at 56% in December, the highest for a president after a first year in office since Néstor Kirchner (2003-2007) (Exhibit 8).

Exhibit 8: Milei's rating approval vs. previous presidents

Argentina presidential approval rate in their first year



Source: Fortalecemos Las Democracias, AS/COA and AXA IM Research, January 2025

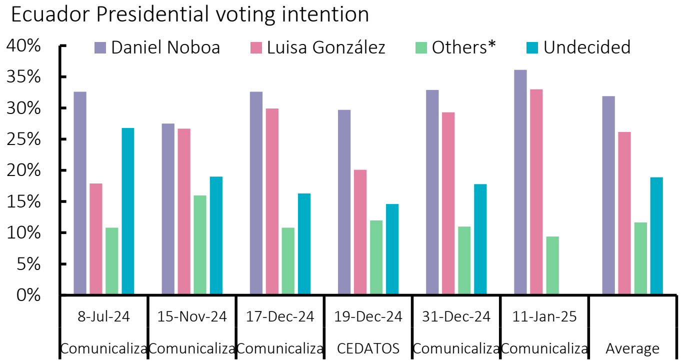
The legislative election's outcome will determine whether Argentina can sustain its recent economic improvement. To complete its economic turnaround, the country needs to lift capital controls to curb currency overvaluation, build foreign exchange reserves (net reserves are negative at -US$10bn) and secure a new IMF programme, as external public debt redemptions start to rise (to $7bn in 2025). On the fiscal side, tax rises are needed to make the spending-led deficit reduction durable and create space for social assistance.

Those next stages could come alongside financial market volatility and will require a supportive societal and political backdrop if the economy is to stay the course. While too early to be reliable, recent polls are favourable for LLA, pointing to it winning 50%-60% of votes. The alliance of LLA with former President Mauricio Macri's party Propuesta Republicana (PRO) could give a boost to the ruling administration in the Senate.

Ecuador – A binary choice for presidential election

The presidential and legislative elections on 9 February will have a significant impact on Ecuador's prospects and uncertainty remains very high. President Daniel Noboa is ahead in polls, but his margin over Maria Gonzalez (of the left-wing Revolución Ciudadana (RC) party, led by former President Rafael Correa) is small at around five percentage points (ppt), while the share of undecided voters is high at close to 20ppt (Exhibit 9). With the presidential elections a two-horse race after Jan Topić, a challenger to Noboa, was disqualified, Noboa is expected to win in a second round (on 13 April) given a high rejection rate of Correismo, the political movement named after the former president.

Exhibit 9: Presidential elections, too close to call



*Others include: Leonidas Iza, Carlos Rabascall, Jimmy Jairala, Henry Cucaló, Pedro Granja

Source: Comunicaliza, CEDATOS and AXA IM Research, January 2025

But the lingering electricity crisis, poor economic situation and crime hang over the elections. The improvement in the security situation on which Noboa was elected (after a presidential candidate was assassinated in August 2023) has not been decisive. The homicide rate, which in 2016 was comparable with the US at 5.8 per 100,000 inhabitants, jumped to 47 in 2023 and was still 40 in 2024. Insecurity remains top of mind for 62% of voters ahead of unemployment (55%) and the electricity crisis (47%). With the impact from the drought fading (Ecuador derives 80% of its electricity from hydropower) and the end of the blackouts for individuals, concerns regarding the electricity situation have somewhat receded over recent weeks.

With GDP contracting in 2024 (estimated at -0.7%), further austerity is needed under the four-year IMF programme (ending in 2028) to regain market access and face an increase in external debt repayments from 2026 onwards, both to multilateral and commercial creditors. Implementing an expenditure-led fiscal consolidation and raising higher non-oil tax revenue will require political capital. With a left-leading Congress (with RC holding a third of the seats), weak governability has been an issue. The outcome of legislative elections will be key in this regard after Noboa's alliance with centre-right parties broke down last year.

Philippines – Marcos Jr. to pass mid-terms amid feud

Exhibit 10: Current composition of the legislature

Party	House of Representatives seats	Senate seats
Lakas-CMD	92	1
Party-list Coalition	58	-
NUP	38	-
NPC	38	5
Nacionalista	36	5
PFP	13	1
Total	316	24

Source: Official sources and AXA IM Research, January 2025

The Philippines holds legislative elections in May, with all 316 House of Representatives seats, and 12 of 24 seats in the Senate contested. The mid-term elections come at a time of an intensifying feud between the president, Ferdinand Marcos Jr., the son of former dictator Ferdinand Marcos Sr., and the vice-president, Sara Duterte, the daughter of Marcos' predecessor, Rodrigo Duterte. The "UniTeam" alliance between the president and vice president had a bright start with its landslide victory in the 2022 election, but has since unravelled, with a key factor being the lower house's scrutiny of Duterte's alleged misuse of public funds, and the subsequent filing of impeachment cases against her.

The president's allies control the lower house. His own party, Partido Federal ng Pilipinas (PFP), has only 13 seats, but cemented alliances with other key parties in 2024. Marcos Jr. is backed by Lakas-CMD (92 seats), which is led by his cousin, Martin Romualdez (Exhibit 10). Reflecting the fluid nature of political party membership, Lakas-CMD only had 12 representatives following the 2022 election, but its numbers have been boosted by defections from Partido Demokratiko Pilipino-Lakas ng Bayan (PDP-Laban), which had initially held the most seats following the 2022 election. Over the past year, PFP has also signed alliances with the National Unity Party (NUP), the Nationalist People's Coalition (NPC), and Nacionalista. Despite a declining trend in the president's approval ratings as of early 2025, this large political bloc puts the president in a solid position ahead of the legislative elections, with the expectation that his administration will have strong backing in both houses during the second half of his term, ensuring a continuation of his economic agenda.

As reflected in the 2025 budget, which featured an increase in spending of 10%, to the equivalent of 22% of GDP, the Marcos administration's policy agenda is centred on spending on health and education as well as infrastructure development (Build Better More). A key challenge for successive administrations in the Philippines has been to capitalise on the country's favourable demographics (with a large youthful population) and reach its potential growth. Under the 2023-2028 Development Plan, the ambition is to increase annual growth to 6.5%-8%. However, the expansionary fiscal position will keep government debt high – currently steady at just above 60% of GDP since 2021, having soared from around 40% in 2019.

Although the escalation in the feud between the two political dynasties is not expected to impact on economic policymaking, the outcome of the senate elections will have implications for the 2028 presidential elections. If the senate elections result in a dominant faction backing the president, it would increase the likelihood of Duterte being removed from office amid impeachment proceedings, thus in effect preventing her from contesting the 2028 presidential elections.

South Korea – Impeached president facing prospect of removal from office following martial law debacle

Exhibit 11: 2022 and 2024 election results

Party / Presidential candidate	2024 NA elections (seats won)	2022 Presidential election (vote share)
DPK / Lee Jae-myung	175	47.83%
PPP / Yoon Suk Yeol	108	48.56%
Total	300	

Source: Official sources and AXA IM Research, January 2025

At the time of writing, South Korea was in a political quagmire, with President Yoon Suk Yeol impeached and facing criminal proceedings for insurrection following his bungled attempt to invoke martial law in December. Korea's Constitutional Court started preliminary hearings on his impeachment in late December and has up to 180 days to deliver a verdict. If it upholds the impeachment, Yoon would be removed from office, with a presidential election to follow within 60 days. Yoon could also be imprisoned if found guilty by the Corruption Investigation Office.

There are multiple potential outcomes to this complex political crisis, and although Yoon's legal team will seek to overturn his impeachment, it is unlikely he will survive in office to the end of his term. He narrowly won the 2022 presidential election, and his conservative People Power Party (PPP) suffered defeat in the April 2024 parliamentary elections, failing to overturn the liberal opposition's majority. Yoon's approval ratings had plummeted before the martial law debacle, and he faced having to see out the second half of his term as a 'lame duck' president. In justifying his move to invoke martial law, Yoon accused the opposition of harbouring pro-North Korean, anti-state factions. He had also cited opposition efforts to obstruct the passage of the 2025 budget as a justification for his martial law decree. The budget was eventually passed in December, but it was the first time the National Assembly had passed a scaled-down budget without consent from government ministries.

The Democratic Party of Korea (DPK) leader, Lee Jae-myung, would be a frontrunner to succeed Yoon; he lost the tight contest in 2022 (Exhibit 11). However, to run again for the presidency, he needs to be successful in his appeal against a guilty verdict for violating election law, for which he received a one-year suspended prison term in November.

The political crisis comes against a backdrop of a weakening Korean economy and the likelihood of a more challenging external environment amid increased US protectionism. The Bank of Korea will likely further ease monetary policy while trying to maintain financial stability. But the longer the crisis persists, the greater the damage to investor and consumer confidence, and the greater fiscal support that will be required to stimulate growth; a concerning situation given the recent steady rise in government debt, which reached 47% of GDP in the third quarter of 2024.

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Our Research is available online: www.axa-im.com/investment-institute

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