

## Political Risk Update: June 28, 2022

- Russia: Moscow's defence of default will account for little abroad
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### Russia: Moscow's defence of default will account for little abroad

#### Event

On June 27, the Moody's rating agency classed Russia's failure to meet a debt payment deadline as a default.

#### Outlook

The default announcement had been expected ever since Moscow said it would use rubles to make payments contractually denominated in dollars or euros. Moscow's opinion that this does not count as default does not matter if bondholders and credit agencies disagree. It has created a domestic payment mechanism for servicing Eurobonds but again, this is of little relevance if the end result is that foreign creditors do not receive their money.

#### Analysis

The Moody's statement came a day after the 30-day grace period for paying some USD100mn in interest on Russian Eurobonds expired and foreign bondholders did not receive their funds. Russia's finance ministry repeated previous claims that this is not a default because it has offered payment in rubles, and told bondholders to look for their money themselves by contacting Western financial clearing houses that had refused to handle transactions.

### Venezuela: Oil will dominate Venezuela-US diplomatic contacts

#### Event

President Nicolas Maduro confirmed on June 27 that a US delegation visiting Caracas was meeting National Assembly President Jorge Rodriguez, the Venezuelan government's representative in talks with the opposition.

#### Outlook

Looming US midterm elections will make it difficult for Washington either to lift oil sanctions or distance itself from Guaido, even though his position both domestically and internationally is increasingly weak. However, recent exemptions will facilitate limited Venezuelan oil exports to Europe, bolstering Maduro.

## Analysis

The US delegation includes Roger Carstens, presidential envoy on hostage affairs, and Ambassador James Story, of the Venezuelan Affairs Unit at the US Embassy in Bogota. Story also met with opposition leader Juan Guaido, still recognised by Washington as interim president though other countries have withdrawn recognition. The low-profile mission, which follows a two-day visit in March by the first high-level US delegation to visit Caracas for some years, is probably meant to encourage the restarting of talks between the government and opposition. The question of US sanctions on Venezuela's oil sector will also be key, with Caracas pushing for a lifting of sanctions that European countries seeking alternatives to Russian oil supplies are also keen to see; French President Emmanuel Macron this week urged the lifting of US sanctions on both Iran and Venezuela.

## Spain: Morocco-Algeria rivalry will put pressure on Madrid

### Event

Spanish NGO Walking Borders said on June 26 that 37 people had been killed during an attempt to cross from Morocco into the Spanish enclave of Melilla on June 25.

### Outlook

Spain will find itself caught between Algeria and Morocco, both of which will keep increasing pressure on Madrid in order to influence Spanish policies on Western Sahara. The rising external pressure is likely to prompt criticism of the government of Pedro Sanchez domestically, but could also embroil the EU, which may be called upon to support Spain in any disputes that may arise, especially with Algeria.

## Analysis

Some 2,000 migrants tried to slip through the border after cutting the fence with shears. The mass attempt followed days of Moroccan raids in areas where migrants were sleeping rough. Reports suggested that Moroccan security forces used tear gas to repel the would-be migrants, some of whom died in a stampede. The incident underscores the febrile nature of migration pressures amid heightened diplomatic tension. Algeria recently halted Spanish tourism and imports, and suspended a friendship treaty with Spain, over Madrid's decision to back Morocco's position on the status of the contested Western Sahara territory. That came about after Morocco in 2021 allowed some 8,000 migrants to enter Ceuta.

## Ecuador: Protest tensions will continue despite talks

### Event

On June 25, President Guillermo Lasso lifted a state of emergency imposed in six provinces in response to social unrest, amid talks with protest leaders and an opposition attempt to see him removed from office.

### Outlook

The attempt to remove Lasso looks likely to fail, but it has piled further pressure on his government. Lasso's attempts to placate protesters have helped restore some calm but will probably encourage the country's union federation to hold firm in its demands.

### Analysis

Lasso's move was followed yesterday by an announcement that the petrol price would be cut by ten cents a gallon. That falls short of a 45-cent cut demanded by the Confederation of Indigenous Nationalities of Ecuador (CONAIE), but appears to have helped ease tensions somewhat. CONAIE launched a national strike on June 13 in protest at Lasso's economic policies and rising prices of basic goods such as fuel, fertiliser and food. A hardline response from security forces led to clashes in places; at least six people are thought to have been killed. A congressional debate on Lasso's removal from office, instigated by the leftist Union for Hope bloc, began on June 25. To be successful, the proposal would require the backing of at least 92 lawmakers.

## Indonesia: Electoral jockeying is intensifying

### Event

The NasDem Party, which is part of the ruling coalition, held talks with the opposition Democratic Party (PD) on June 23.

### Outlook

A NasDem alliance with the PD and the Prosperous Justice Party (PKS) would add further complexity to Indonesia's political landscape. Even though the presidential election is nearly two years away, preparations for it will be a growing priority for all parties.

### Analysis

The talks involved discussion of the three potential candidates for the 2024 presidential election whom NasDem has endorsed: Central Java Governor Ganjar Pranowo, who like incumbent President Joko 'Jokowi' Widodo belongs to the Indonesian Democratic Party of Struggle (PDI-P); Jakarta Governor Anies Baswedan, an independent politician; and armed forces commander Andika Perkasa. NasDem had a similar meeting with the opposition Prosperous Justice Party (PKS) a day earlier. Last month, three other government parties -- Golkar, the National Mandate Party and the United Development Party -- announced a new tie-up, likely aimed at supporting a presidential bid by Golkar chief Airlangga Hartarto, the coordinating

minister for economic affairs. The governing coalition's National Awakening Party claims to have agreed a pact with another PDI-P partner, Gerindra, whose leader Prabowo Subianto, the defence minister, will likely run again for the presidency after defeats to Jokowi in the 2014 and 2019 polls.

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