

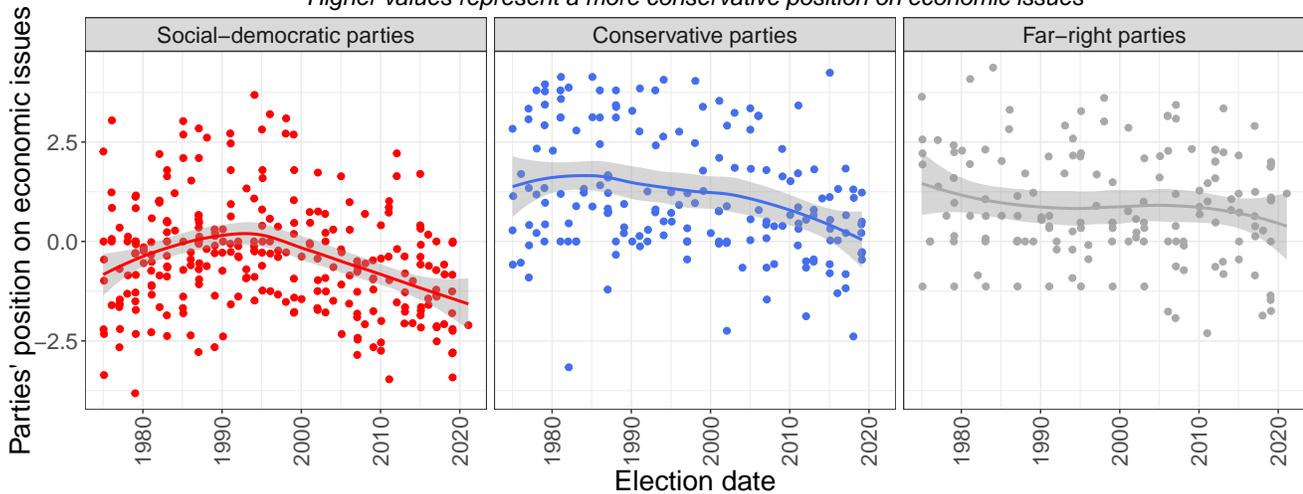
## WEEKLY POLITICAL COMPASS

Tensions are rising between **Russia** and the West in the Baltic region. **Ukraine** will be granted EU candidate status. Markets will react to **Colombia's** presidential election result. **Germany** is racing to increase gas reserves amid a Russian supply squeeze. **Ethiopia** peace talks are in the offing. Meanwhile, electoral campaigning begins in **Japan**, support for the **French** government will strongly depend on the center-right, **Brazil's** House speaker is mobilizing “Big Center” leaders to decide on an offensive against Petrobras, and vice-presidential nominees are in focus in **Nigeria**.

### CHART OF THE WEEK

## Parties' policy position on economic issues across party families in western Europe

Higher values represent a more conservative position on economic issues

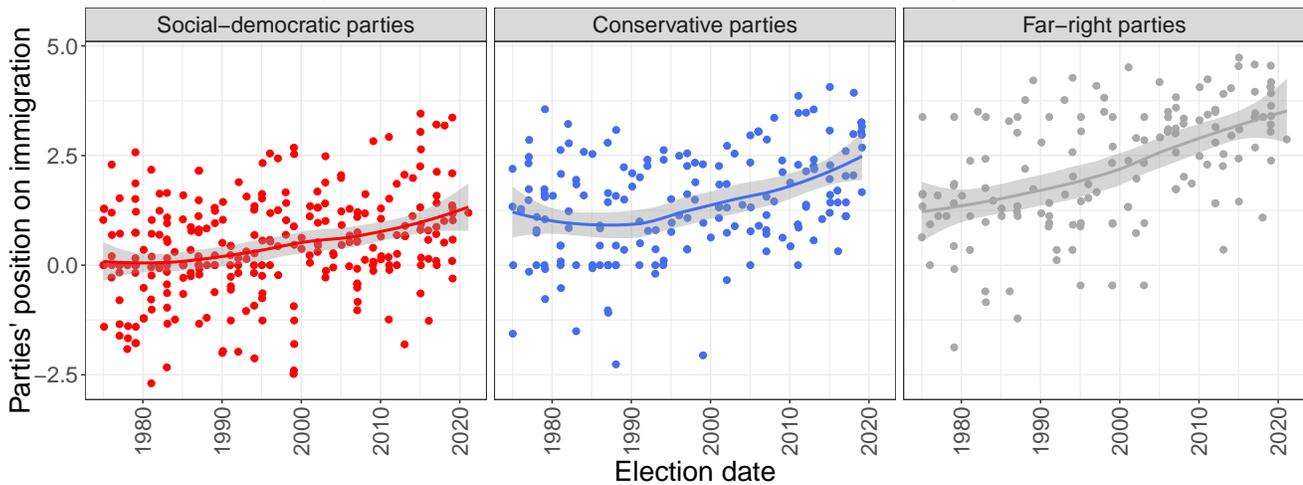


Source: Comparative Manifesto Project

Parties' positions are calculated using the proportion of references to specific economic issues (i.e., market regulation) in parties' manifestos

## Parties' policy position on immigration across party families in western Europe

Higher values represent a more conservative position on immigration issues



Source: Comparative Manifesto Project

Parties' positions are calculated using the proportion of references to immigration issues (i.e., multiculturalism) in parties' manifestos

European policymakers are facing difficult trade-offs between tackling high levels of public debt and supporting households against the backdrop of the cost-of-living crisis. But behind these immediate challenges loom deeper questions about the post-pandemic – and post-inflation – **economic and production model** in many countries. Teneo's analysis of political parties' economic policy positions over the past forty years shows that both the center-left and the center-right have turned to a more interventionist approach in the last decade. This trend is unlikely to be reversed in the medium term, particularly as the cost-of-living crisis pushes governments to ramp up spending. At the same time, sociocultural issues such as immigration have grown in importance in recent decades and are likely to remain politically relevant in many countries.

### WHAT TO WATCH

#### Russia/Lithuania

**Moscow is considering retaliatory measures against Lithuania – an EU and NATO member – which on 17 June discontinued the transit of EU-sanctioned goods (steel and various iron ore products) through its territory to Russia's Kaliningrad region.** Lithuanian authorities claim that Vilnius is simply implementing the EU sanctions. Such statements have been echoed by senior EU officials. Meanwhile, Moscow is accusing Lithuania of breaching international

obligations and threatens to “take actions to protect its national interests” unless the transit is restored in full. The situation could further escalate tensions between Russia and the West in the Baltic region.

## EU/CEE

**Following positive recommendations from the European Commission last week, the European Council on 23-24 June is set to vote on granting Ukraine and Moldova EU candidate status.** While that pathway towards accession remains long, candidate status might strengthen political incentives for domestic reforms in the longer term. The Council will also host leaders from six Western Balkan countries to discuss their EU integration prospects and challenges linked to Russia’s invasion of Ukraine.

## Colombia

**The market reaction to Gustavo Petro’s 19 June presidential victory will become evident today after local and US public holidays on 20 June.** Sentiment is likely to be negative given Petro’s plans to end oil exploration activity and phase out coal mining. Market volatility could encourage Petro to speed up the confirmation of who will be his finance minister once he takes office in August. Petro’s cabinet picks could help him build a stronger position in Congress, where he lacks majorities; the new Congress formally opens on 20 July. Petro is also likely to be working on a plan to bring the National Liberation Army (ELN) guerrilla group back to the negotiating table; the group issued a statement in the wake of Petro’s victory expressing its willingness to resume peace talks.

## Germany

**The government is preparing an auctioning mechanism to incentivize industrial gas users to limit consumption.** Via public infrastructure bank KfW and backed by federal guarantees, the scheme’s goal would be to buy back gas from industrial end users, instead directing it into storage facilities ahead of the winter – and amid Russia currently reducing supplies. Coal and lignite power plants will also remain in service for longer. An extension for the country’s three remaining nuclear power blocs is a signpost to watch, but politically, a U-turn would likely require the experience of more immediate gas shortages before the three blocs go offline at the end of the year.

## Ethiopia

**Peace talks between Addis Ababa and the Tigray People’s Liberation Front (TPLF) seem to be in the offing and will likely be hosted by Kenya.** Prime Minister Abiy Ahmed is under monumental pressure to end the Tigray conflict, where a truce has largely held since March. Diplomatically, one major source of pressure is the US, which has laid the legislative groundwork for deeper sanctions. On the economic front, Ethiopia’s debt and FX crunch requires urgent resolution and external support. Security-wise, peace talks with the TPLF face risks from Amhara hardliners, while the Oromo Liberation Army (OLA) is stepping up attacks that will tie up federal security forces in new areas.

## **ON THE HORIZON**

### **ASIA PACIFIC**

#### China

**The city of Beijing is set to phase out Covid-19 restrictions after reporting no new cases for 18 June.** This marks an apparent end to the outbreak that had produced 351 cases since 9 June, triggered several rounds of citywide testing, and shut down schools.

#### Japan

**The official campaign period for the Upper House election begins on 22 June, ahead of the vote on 10 July.** The ruling LDP-Komeito coalition are set for another solid victory, but growing voter concerns about the government’s response

to rising inflationary pressures may impact the margin. Around half of the upper chamber's 245 seats will be contested, with the winners serving a six-year term.

## India

**The selection of a common opposition candidate for the election to the President of India is expected to be complete on 21 June.** After this, the ruling National Democratic Alliance (NDA) led by the Bharatiya Janata Party (BJP) will unveil its candidate. The election is scheduled for 18 July. The ruling alliance has an edge. India's president is titular and acts on the aid and advice of the prime minister and the council of ministers.

## **EUROPE**

### Bulgaria

**The three-party coalition government of Prime Minister Kiril Petkov (We Continue the Change, PP) will face a vote of no confidence either on 23 or 24 June over alleged economic and fiscal mismanagement.** The motion is likely to pass as Petkov's government lost its majority following the departure of populist coalition partners There is Such People (ITN) earlier this month. However, last-minute shifts in allegiance are possible as negotiations are continuing and there are splits within ITN. Petkov's ousting would result in a challenging search for a new parliamentary majority, including the possibility of a revamped PP-led government with a new prime minister or a technocratic cabinet. Government instability could negatively affect the adoption of bills required to unlock funding from the EU's Recovery and Resilience Facility or to lift Sofia's veto on the start of North Macedonia's EU accession talks.

### France

**After the parliamentary elections, sufficient support for the government will strongly depend on the stance of the center-right The Republicans (LR) party.** While some prominent LR members have suggested the party's MPs should cooperate with the government, other senior LR figures are reluctant to play the kingmaker role. A leadership contest is expected in the coming months. Even if LR decides to cooperate initially, the party could become much more reticent to help President Emmanuel Macron. A key signpost to watch is whether the leadership will be able to keep the party united in parliament.

### Spain

**As , the center-right People's Party (PP) won the election in the Andalusia region on 19 June.** The party obtained 58 deputies in the 109-seat regional parliament, which means it will be able to govern without the support of the radical right party Vox. The poor performance of the Socialist Workers' Party (PSOE) of Spanish Prime Minister Pedro Sanchez is unlikely to lead to any significant short-term changes on the national level. The PSOE-Podemos coalition is expected to remain in place for the foreseeable future. However, the results bode badly for Sanchez's re-election prospects when the next legislative elections take place, most likely in 2023.

### Turkey/Saudi Arabia

**Saudi Crown Prince Mohammed bin Salman (MBS) will visit Ankara on 22 June.** Turkey and Saudi Arabia put a bitter rift, which had made the two countries bitter opponents over the past few years, behind them. Ankara's main priority is to secure Saudi financial support, including funding – most likely via a swap deal – to sustain Turkey's central bank's empty coffers. Saudi Arabia ended a ban on travel to Turkey on 20 June, re-opening a major channel for tourism ahead of MBS's arrival.

### UK

**Two by-elections on 23 June could see another round of painful defeats for PM Boris Johnson's Conservatives.**

While one of the two constituencies could go to the Liberal Democrats, the Tories are being challenged by Labour in the other district, highlighting the continuous tensions at the heart of Johnson's new voter coalition. However, a credible

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challenger is not yet in sight. Meanwhile, large-scale rail strikes could highlight Labour's own problems with formulating a coherent policy line towards inflation and the economy.

## LATIN AMERICA

### Brazil

**The House Speaker is mobilizing “Big Center” leaders to decide on an offensive against Petrobras.** This comes on the heels of the oil giant's increase last Friday, 17 June, of 5.18% in the price of gasoline and 14.26% in the price of diesel at the company's refineries. The board of the company that has a majority of directors appointed by the government supported the increase in prices. The government now wants to replace the whole board. Speaker Arthur Lira wants to investigate Petrobras and change the company's pricing policy. Possible actions include raising taxes on all oil and gas companies or starting to tax crude oil exports in order to fund direct subsidies. Congress has already approved a ceiling on state VAT (ICMS) on fuel and the Senate will now focus on a constitutional amendment (PEC) that would provide for compensation to states that would zero the ICMS on diesel and gas. The company's CEO, José Mauro Coelho, resigned on Monday, 20, after remaining in the post despite being dismissed by President Jair Bolsonaro at the beginning of the month.

## MIDDLE EAST AND AFRICA

### Nigeria

**Deliberations over the selection of vice-presidential nominees across all political parties – except for the main opposition People's Democratic Party (PDP) – are expected to continue this week.** This is despite the fact all parties have already submitted their respective nominees for this position. However, the submissions are largely seen as placeholders that were aimed at allowing the parties meet the 17 June deadline set by the Independent National Electoral Commission (INEC). The only name unlikely to change is the running mate of the PDP's presidential candidate, Atiku Abubakar, who nominated the current governor of oil-rich Delta State, Ifeanyiachukwu Arthur Okowa as his vice-presidential nominee. The presidential candidate of the ruling All Progressives Congress (APC) party, Bola Ahmed Tinubu, nominated a Muslim northern, Kabir Ibrahim Masari (a former member of the House of Representatives) as his running mate. Peter Obi – the Labour Party candidate and former governor of Anambra State (south-south), whose support amongst youths and urban middle class continues to grow – nominated his current campaign director Doyin Okupe (a Christian southerner). However, the latter two nominees are likely to be replaced in the coming weeks with substantive nominees.

### South Africa

**After several delays, Chief Justice Raymond Zondo is due to submit the final installment of his report into ‘state capture’ during ex-president Jacob Zuma's tenure on Wednesday, 22 June.** Ramaphosa can only hope that this will distract from his own ‘Farmgate’ scandal, but Ramaphosa's opponents will want to ensure the president remains under scrutiny. ‘Farmgate’ is being investigated by the police's Directorate for Priority Crime Investigation (DPCI, aka ‘Hawks’). Ramaphosa is also expected to appear before the ANC integrity commission, which is unlikely to recommend that he step aside at this stage as no formal charges against Ramaphosa exist.

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