

WEEKLY POLITICAL COMPASS

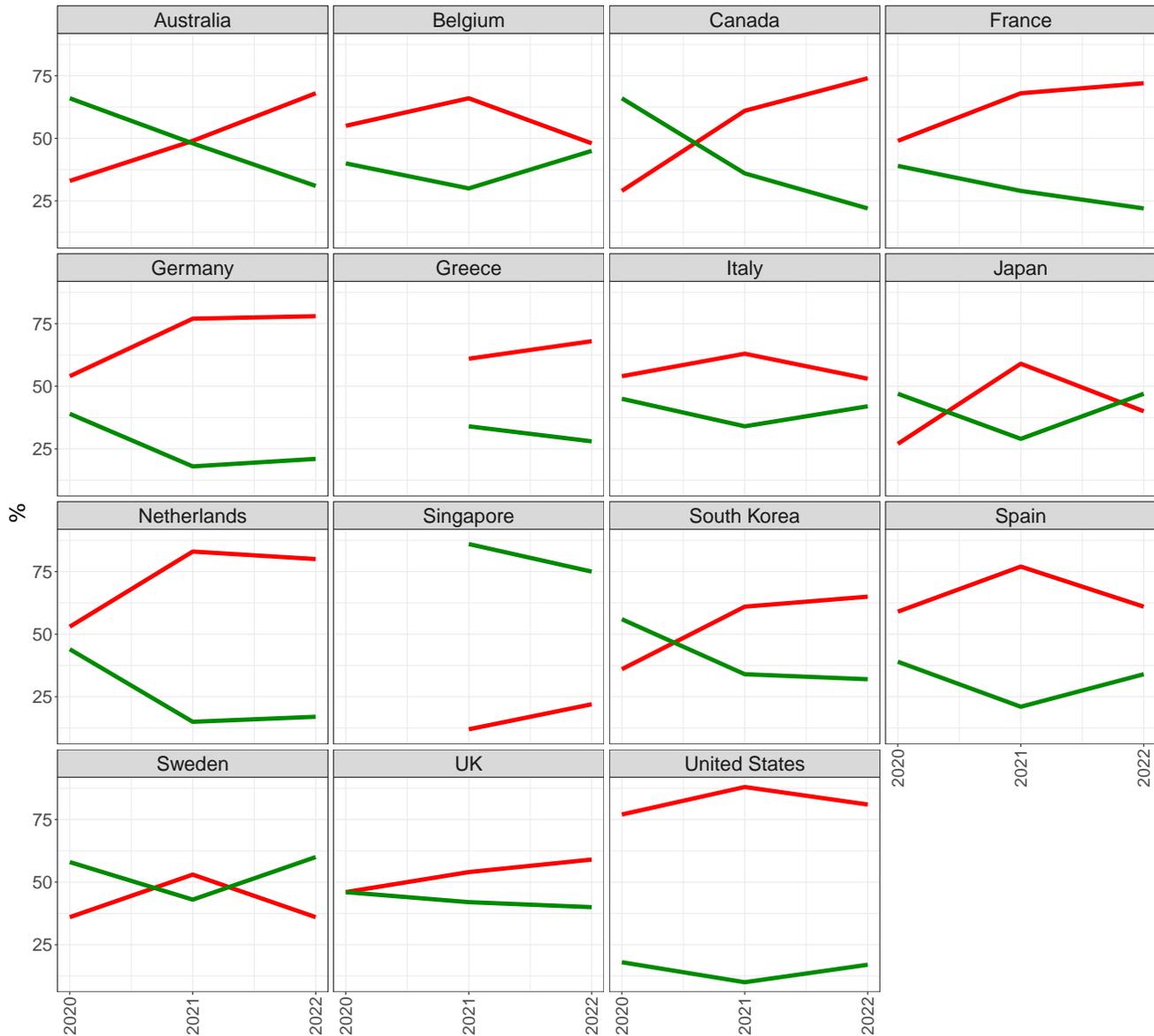
Ukraine has launched a counteroffensive in the south of the country. The **EU** is moving towards electricity market intervention. Meanwhile, **Sri Lanka's** president will present an amended budget, the **Czech government** is set to survive a no-confidence vote, and voters in **Chile** are widely expected to back the new draft constitution.

CHART OF THE WEEK

People in most countries perceive more divisions today than before the pandemic

% who say their country is now more divided/united than before the Covid-19 pandemic

— More divided — More united



Source: Pew Research Center. Spring 2022 Global Attitudes Survey

Citizens across rich democracies continue to perceive their **countries more socially divided** today than before the Covid-19 pandemic. This perception has intensified over the past two years in several countries (Australia, Canada, the UK, France, South Korea) while in others (Spain, Italy, Sweden, Japan) it has remained comparably stable. These divisions are likely to manifest politically in the coming months in several ways across major countries. The energy crisis will hit voters' pockets, while the Italian general election in September and the US midterm elections will likely highlight social divisions and political polarization. Likewise, the new UK prime minister taking over next week will be forced to tackle a historic cost of living crisis and growing levels of social discontent.

WHAT TO WATCH

Russia/Ukraine

Ukraine has launched a long-awaited counteroffensive to take back occupied territories in the southern region of Kherson. As [previously noted](#), a successful counteroffensive would be extremely important for Ukraine from an economic and political standpoint. So far, the Russian response has been muted, but President Vladimir Putin's statements during his visit to Russia's westernmost Kaliningrad region, expected on 1 September, should be watched. Putin's visit likely intends to demonstrate the Kremlin's support for the current governor of Kaliningrad Anton Alikhanov (United Russia) ahead of the 11 September gubernatorial elections in Russia. However, Putin might use the opportunity to issue new warnings to the West over supporting Ukraine. Tensions over Russia's [transit of goods via Lithuania](#) to the Kaliningrad region might re-emerge.

EU

Gazprom will halt gas deliveries via the Nord Stream pipeline between 31 August and 2 September. There are concerns that shipments could remain interrupted for longer; deliveries to France will also be reduced. Given elevated electricity prices, the European Commission will issue proposals for emergency market intervention, most likely focused on windfall taxation in the short term, leaving the trickier issue of market redesign for later. This follows a change of heart in Berlin where Economy Minister Robert Habeck is under political pressure for mishandling the introduction of the new gas surcharge. Spanish PM Pedro Sanchez – among the staunchest advocates of EU-wide price caps – is visiting a German cabinet offsite, setting the scene for Chancellor Olaf Scholz's government to agree the contours of yet another economic support package.

ON THE HORIZON

ASIA PACIFIC

Sri Lanka

President Ranil Wickremesinghe will present an amended budget today, 30 August, as a team of the International Monetary Fund (IMF) ends its Colombo visit tomorrow. The amended budget is expected to contain measures to reassure Sri Lanka's creditors that debt sustainability will be restored before a bailout program begins. Sri Lanka's total foreign debt exceeds USD51bn. The country must repay USD28bn by 2027.

EUROPE

Czech Republic

Petr Fiala's coalition government is set to survive a motion of no confidence scheduled for 1 September. The motion was initiated by 74 deputies from two opposition parties – the populist Action of Dissatisfied Citizens (ANO) and far-right Freedom and Direct Democracy (SPD) – over two issues: corruption allegations against the head of domestic security service Petr Mlejenk; and the government's alleged failure to address mounting economic challenges. While the opposition lacks votes in parliament to remove Fiala from office, it is taking advantage of the ongoing corruption crisis to erode the popularity of the governing parties ahead of the election of one-third of senate (upper chamber of parliament) members on 23-24 September and the presidential elections in early 2023.

Slovakia

This week, the second-largest party of the governing coalition Freedom and Solidarity (SaS) is set to leave the cabinet. The move will leave Eduard Heger's [government in a minority](#), thereby negatively affecting its ability to advance reforms. The probability of early elections remains low in the near term, as Heger is committed to continuing with the minority cabinet and there are limited constitutional options to dissolve parliament. Going forward, attempts by the opposition parties to initiate a referendum on holding early elections or amend the constitution allowing to shorten the government's term in office are important to watch.

LATIN AMERICA

Chile

The public referendum to ratify or reject the new draft constitution will take place on 4 September. Although polls are not allowed to be published in the fortnight before the vote, all prior surveys showed a majority in favor of rejecting the new draft, which is widely seen as sectarian and divisive. Events last week may well have cemented the “reject” vote’s advantage. On 24 August, authorities arrested Hector Llaitul, leader of the Coordinadora Arauco Malleco (CAM), a Mapuche extremist group. The arrest not only triggered a series of violent arson attacks in the Araucania and Biobio regions but also led to the resignation of Social Development Minister Jeanette Vega after it emerged that one of her aides had been in direct contact with Llaitul. Jobs data due out this week could also affect the public mood and help incline the balance towards a “reject” victory.

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