

### A key year for the opposition and for bondholders

- **The end of the “*interinato*”, a sad but necessary step**
- **Another concession to a strong Maduro**
- **Primaries the only hope for a transition, in the context of limited political concessions by the regime**
- **Bond prices to remain in limbo until more clear signs emerge on the electoral process**

**The end of the “*interinato*”, a sad but necessary step...** The decision by the 2015 National Assembly to put an end to the interim government figure last December constitutes, in our view, an important and crucial step towards adopting a more coherent and viable strategy to promote regime change in the country. The existence of an interim President was simply inconsistent with the plan of renovating and re-legitimising its weakened leadership through primary elections. Bear in mind that this internal electoral process has been proposed not only to select a unitary candidate for the 2024 presidential vote, but also to solve the severe coordination problems existing among opposition parties. Conversely, the interim Presidency was obviously a clear obstacle for achieving further advances in the negotiations process.

Of course, the end of the interim government figure also meant the recognition of another failed attempt at promoting a transition towards a more democratic regime in the country. Somewhat sadly, this last effort received a strong and broad support from the international community. The January 2019 motto “cessation of usurpation-transitional government-free elections” not only did not materialise, but it was far from it. The “maximum pressure” strategy and the intensification of sanctions did not bring about the much-wanted rupture of the governing civic-military coalition. On the contrary, it provided national authorities with a convenient excuse for the deterioration of economic and social conditions, a process that started well before the economic sanctions but that was accentuated by the restrictions.

**Another concession to a strong Maduro?** Probably it was. International recognition has been always an important demand made by the regime, and the request to suppress the presidential alter ego was probably included in recent negotiations. Viewed in retrospective, the end of the interim presidency was another important conquest by Maduro during a year full of victories for the regime<sup>1</sup>. The achievements of the government were attained without giving yet significant political concessions to the opposition. In fact, the regime only “accepted” to return to the negotiation process in exchange for the incentives received throughout most of 2022. A recognition of the ineffectiveness of the sanctions policy, the rise of international oil prices caused by the war in Ukraine, and the emergence of a new pink tide in the Latin American region are the main reasons behind Maduro’s newly found strength.

**Primaries, the only hope.** In this complicated context, the weakened and divided opposition urgently needs, for its political survival, to successfully hold primary elections this year. As mentioned above, the process would help to improve coordination among the different forces, mobilise opposition voters, and unify the voice of a majority of the population that demands regime change. The internal electoral process commands, nevertheless, a firm

commitment from the different opposition leaders to avoid engaging in demoralising attacks and discussions, as well as a binding promise to support whoever is elected in the process. In this regard, the negative comments made last week by the leader of Popular Will Leopoldo López -who said that the opposition coalition of parties known as Unitary Platform had been infiltrated by Maduro- constitutes a clear example of the situations that the opposition must avert. The public exhortation made by the Unitary Platform (MUD) to raise the level of the political debate and act with detachment was a rapid and necessary response to limit the negative effects of López's remarks. In a further effort to overhaul expectations, the MUD subsequently announced that an agreement had been reached to hold primary elections, ratified the support for the committee organising the primaries and showed confidence that negotiations in Mexico would lead to free elections.

In spite of these promising statements, there is no doubt that the National Commission for the Primaries faces important challenges and obstacles to set up a successful election (see Venezuela Economics Report: "[The \(dividing\) dilemmas of the primaries](#)", 19 September 2022). The independent and professional background of its members creates a slight of hope, despite the delays observed so far in the process. They must endeavour to obtain local and international support for the election, as it would increase the political cost for "soft opposition" leaders of not participating in the event. From a strategic perspective, the goal should be a repeat of the results of the 2021-2022 Barinas election, but at the national level (see Venezuela Economics Report: "[Gradualists can retain some hope](#)", 14 January 2022).

**Expect sluggish advances in the negotiations.** As we indicated in 2023 Year Ahead Outlook: "[Lingering challenges](#)" 16 December 2022, we expect negotiations to resume soon but anticipate only limited political concessions by Maduro. This would translate into a slow progress towards the opposition's main goal of achieving minimum electoral conditions for the 2024 presidential vote. In this regard, we should keep in mind that the willingness of Maduro to make concessions is dynamically determined by numerous factors, mainly related to the degree of unity of the opposition, the geopolitical context, and the capacity to attain the much-needed macroeconomic stabilisation. Most critically, a resumption of the investigation by the International Criminal Court constitutes a crucial tail risk that can regain relevance even before the 2024 electoral process. Regarding this possibility, the proposal of a general amnesty by Colombian President Gustavo Petro could gain significance in the context of transitional justice alternatives. However, in our view, the proposal would only be accepted by the current leaders of the opposition's delegation in Mexico insofar as it incorporates the possibility of an effective *transition* to a more democratic regime.

**Bond prices to remain in limbo until more clear signs emerge.** With Sovereign and PdVSA bonds trading in the 9 and 5 handle regions, respectively, piecemeal progress in discussions should hold back convergence to our estimated recovery value range (20 to 35 cents). This does not come as a surprise to us (see Venezuela Economics and Strategy: [Plenty, yet distant upside](#), 20 June 2022). While financial sanctions persist, US investors cannot gain exposure to Venezuelan paper, while price action will be swayed by the news flow. On the other hand, President Maduro has doubled down and conditioned the negotiations outlook to the disbursement of USD3.0bn to be spent in humanitarian causes, under the surveillance of the UN. A disbursement schedule attached to specific goals in the process could be a second-best alternative to stimulate negotiations, in our view.

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<sup>1</sup> A direct negotiation channel with the US administration; the permission given to Repsol and Eni to export crude to Europe as payment for debts outstanding; the withdrawal of Carlos Malpica Flores (nephew of the presidential couple) from the list of sanctioned individuals; the release of the so-called "narco-nephews" in a "humanitarian" swap; the licence to Chevron; access to a USD3.0bn (5.0% of 2023 estimated GDP) fund to be administered by United Nations; and, the end of interim government figure.

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