

Political Risk Update: February 10, 2021

- Argentina: YPF debt deal forestalls default for now
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Argentina: YPF debt deal forestalls default for now

Event

On February 7, state-controlled oil company YPF reached an eleventh-hour agreement with private creditors to roll over more than USD400 million in interest payment due next month, allowing it to prevent a default.

Outlook

The deal appears to give YPF some breathing space, but concerns will persist over political interference in the company, whose longer-term viability is tied to development of the costly Vaca Muerta unconventional hydrocarbons project.

Analysis

The agreement allows the company to avoid defaulting on some USD6 billion of debt. The company risked default due to central bank restrictions intended to protect Argentina's foreign reserves, as these would have prevented a dollar-denominated payment next month. The restructuring will allow YPF to delay payments of some USD2 billion until 2023 and to exchange three other instruments. Debt negotiations have been complicated by the recent departure of YPF President Guillermo Nielsen and his replacement by Pablo Gonzalez, the former vice-governor of Santa Cruz province who is close to the family of Vice-President Cristina Fernandez de Kirchner. The company's falling share price has left its current market capitalisation at around USD1.6 billion.

Mexico: Supreme Court strikes down latest government changes to energy market

Event

The Supreme Court on February 3 declared unconstitutional some electricity market measures that the government introduced last year to strengthen the position of the state-run Federal Electricity Commission (CFE).

Outlook

The Supreme Court has struck down some CFE restrictions on the use of renewable energy to generate electricity that would have protected the use of fuel oil supplied by Pemex, the country's struggling state-owned energy giant. However, the government will continue its efforts to bolster the state energy sector, and Pemex in particular, potentially pursuing constitutional changes to do so. Further legal challenges are likely, raising concerns for investors and trade partners such as the United States.

Analysis

The government had claimed that the continued use of fuel oil is needed to ensure reliable energy supplies but the Court decided that the moves violate rules on free competition and sustainability. President Andres Manuel Lopez Obrador (AMLO) has long been a vocal proponent of energy resource nationalism. While broadly supportive of pro-market policies in other sectors, he has attempted to roll back some of the energy sector liberalisation undertaken by his predecessor, claiming it has benefited private companies to the detriment of state firms.

Chile: Violent protests could spread quickly as lockdowns ease

Event

A number of public buildings in the southern resort town of Panguipulli were set on fire on February 5 during the violent protests that followed the killing of a street entertainer by police.

Outlook

The widespread protests that flared in late 2019, and which led to some 8,000 reports of human rights abuses by the security forces, had diminished in recent months largely because of COVID-19-related restrictions on assembly. However, events in Panguipulli have revived anger over alleged police misconduct and renewed calls for police reform and retraining. Protests could spread in coming months as lockdowns ease, especially if continuing grievances are not effectively addressed.

Analysis

Police authorities say an officer has been detained in connection with the shooting and that video evidence is being gathered, although they warned that the subsequent events would hamper investigations. Panguipulli's mayor has blamed the police for failing to follow procedure and barricading themselves inside the police station rather than attempting to protect other public infrastructure. Protests over the killing have spread widely, with pot-banging demonstrations and clashes between police and protesters reported in Santiago.

Ecuador: Presidential election first round sets up close run-off in April

Event

Preliminary results from the February 7 presidential election give Andres Arauz, a supporter of former president Rafael Correa, a lead of some 12 percentage points over his nearest rivals but he looks unlikely to avoid a second round run-off in April.

Outlook

Arauz appears likely to fall short of the 50% (or 40% with a ten-point lead) required to avoid a run-off, and this will be a closely fought contest. Voter dynamics will depend on who ultimately secures the run-off place against Arauz. If their favoured candidate does not make it, supporters of the two candidates currently behind Arauz have no obvious second-round preference.

Analysis

Indigenous candidate Yaku Perez and right-winger Guillermo Lasso are currently tied for second place, with around 20% each; Xavier Hervas Mora of the Democratic Left is a strong fourth, with all other candidates trailing. Mixed quick-count results have seen both Perez and Lasso claim run-off spots. Lasso reportedly led a celebratory rally in Guayaquil, while Perez told supporters: "What we win at the polls will not be taken from us". The COVID-19 pandemic has hit Ecuador hard, compounding a protracted economic crunch driven by low oil prices. Widespread discontent at the government's performance has been reflected at the ballot box, with Ximena Pena Pacheco of President Lenin Moreno's ruling PAIS Alliance appearing to have done particularly badly.

Cuba: Havana widens economic reforms but benefits will take time to appear

Event

The government announced on February 7 that it would open most sectors of the economy to private business, reserving only a small number for the state.

Outlook

Combined with recent monetary reform, this move could drive a medium-to-long-term transformation of Cuba's economy. It may also further encourage US President Joe Biden to push for the reversal of Trump-era sanctions. Yet economic hardship looks set in the coming months as soaring COVID-19 infection rates further delay a recovery.

Analysis

The economic reform measures, which were first unveiled last year, have now been approved by the Council of Ministers. Labour Minister Marta Elena Feito said private work would be permitted in more than 2,000 activities, up from 127 previously. Only 124 activities will now be limited, although it is not yet clear which those will be. The move marks a major reform of the

economy and comes amid Cuba's worst economic crisis since the collapse of the Soviet Union. Venezuela's crisis, a tightening of US sanctions under former President Donald Trump and the COVID-19 pandemic have all damaged the economy, which is estimated to have shrunk by 11% during 2020. Some 600,000 Cubans have found work in the private sector since previous reforms made this possible, but most of these jobs have been in tourism and hospitality, a sector that has been particularly hard-hit by the pandemic.

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