

# Political Risk Update: March 24, 2021

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## Turkey: Erdogan gambles on a pre-election spending spree

### Event

On March 20, President Recep Tayyip Erdogan sacked Central Bank governor Naci Agbal and replaced him with a banking professor who echoes Erdogan's opposition to high interest rates

### Outlook

The change at the central bank is an indication that Erdogan is preparing for early elections. So is his withdrawal from the Council of Europe's Istanbul Convention against domestic violence, which will please the country's smaller Islamist parties. Earlier moves against Kurdish politicians will buttress his support among nationalists, but failure by a newly compliant central bank to control inflation could work against him.

### Analysis

Naci Agbal's dismissal came after he responded to last month's inflation figure of 15.6% by raising the bank's main policy rate from 17% to 19%. On March 21, the new governor, Sahap Kavcioglu, briefly reiterated the importance of taming inflation but left policy on hold until the next scheduled rate-setting meeting in April. Remarks from Treasury Minister Lufti Elvan on March 22 that Turkey's "liberal exchange regime" would continue are unlikely to satisfy foreign investors. Turkey also announced on March 20 that it was leaving the Council of Europe's Istanbul Convention against domestic violence. Turkish opposition parties, women's groups and Western politicians including President Biden have condemned the move, which was welcomed by traditionalists who blame violence against women on Western models undermining the family.

## Republic of Congo: President Sassou Nguesso will consolidate post-election power

## Event

The main opposition presidential candidate Guy-Brice Parfait Kolelas died on March 21, the day of the election, reportedly from COVID-19-related complications while en route to France for emergency medical treatment.

## Outlook

President Denis Sassou Nguesso, 77, is almost certain to secure re-election, most likely with a first-round victory, and so extend his 36 years in power. The death of Guy-Brice Parfait Kolelas could further undermine a weak, fractured opposition, sowing confusion and removing a focal point for post-poll protests. Despite the authorities' apparent clampdown, regional condemnation will likely be minimal.

## Analysis

Guy-Brice Parfait Kolelas, 60, was diagnosed with COVID-19 on March 19 and a video of him on a hospital bed was later released in which he urged his supporters to "stand up" and "go vote for change". Turnout in the election was reportedly low, and it was preceded by an apparent shutdown of the internet and SMS messaging by the authorities. Victory will bring President Sassou Nguesso a fourth consecutive term in office after an election that has been questioned by opposition parties, civil society groups and the Catholic Church.

## Armenia: Embattled leader boosted by election deal

### Event

On March 18, following negotiations with the two parliamentary opposition parties, Prime Minister Nikol Pashinyan announced an early legislative election for June 20.

### Outlook

Pashinyan remains in a strong position despite appearing beleaguered, and he has secured the terms he wanted for an early election. The opposition will point to his military failures but is itself implicated in years of poor governance.

### Analysis

Opposition parties have been calling for Pashinyan's resignation since the disastrous military defeat suffered by Armenian forces in Nagorno-Karabakh in October-November, and more recently when he sacked the chief of the army's general staff. That issue remains unresolved: Pashinyan's office says the dismissal is effective but the commander's lawyer says he is still in post. The Prosperous Armenia and Bright Armenia parties which came second and third in the 2018 election, winning 26 and 18 seats against the 88 taken by Pashinyan's My Step bloc in the 132-member parliament, appear to have abandoned their demand that Pashinyan resign before snap elections. A February opinion poll by the International Republican Institute showed that 33% of respondents would vote for My Step (or its constituent party Civil Contract), 3% for Prosperous Armenia and just 1% for the formerly ruling Republican Party.

## India: Tensions with Pakistan may ease, but only slightly

### Event

Qamar Javed Bajwa, chief of Pakistan's politically powerful army, said on March 18 that his country and India should "bury the past and move forward".

### Outlook

Bajwa's messaging suggests a genuine wish to reduce bilateral tensions, but any rapprochement will be limited. The recent ceasefire agreement gives scope for India and Pakistan to cooperate more than they have done in recent years, and the two sides may now seek to step up cross-border trade. Delhi could also reach out to Islamabad through its COVID-19 vaccine diplomacy. However, Delhi will say that meaningful dialogue on Kashmir can only take place if Pakistan's military gives up support for cross-border militancy.

### Analysis

The comments came in a speech at the inaugural Islamabad Security Dialogue, which began a day earlier. Bajwa suggested that better ties between the neighbours depend on resolution of the Kashmir dispute, and that the onus is on Delhi to create a "conducive environment" for talks. Late last month, the Indian and Pakistani militaries issued a joint statement recommitting to a 2003 ceasefire at the Line of Control, the de facto border in Kashmir which separates the area into Indian and Pakistani administered parts.

## Saudi Arabia: Riyadh's choices will keep pressure on Aramco finances

### Event

State oil firm Aramco's full-year results for 2020, published on March 21, show a 44% decline in profits as a result of falling demand during the pandemic and the production cuts agreed by OPEC.

### Outlook

Aramco's debt issuance will rise further, but the overall government burden will remain manageable. Continued large oil output cuts in the first half of 2021 will maintain the pressure on Aramco finances, forcing down planned capital expenditure (and therefore longer-term profits). The need for stable markets will further increase the importance of China ties.

### Analysis

Aramco's net debt more than doubled last year, hiking debt-to-equity from 26% to 55%, after it bought state petrochemicals firm SABIC from the kingdom's sovereign wealth fund. However, Aramco retained the commitment it made at the time of its December 2019 initial public offering to pay a total dividend of 75 billion dollars. Most of this goes to the government, which retains

the vast majority of shares. Also on March 21, Aramco chief Amin Nasser promised that Chinese energy security would be the company's top priority for the next half-century.

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