

Political Risk Update: April 14, 2021

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Ecuador: New right-wing president faces tough start with left-leaning Congress

Event

Former banker Guillermo Lasso claimed victory in the presidential election run-off on April 11, with preliminary results giving him 52% of the vote; his rival, leftist 'correista' Andres Arauz, has conceded defeat.

Outlook

Arauz's early concession should curb any immediate protests, but Lasso's presidency will quickly face unrest. Right-wing politics, at a time of increased hardship, will anger many, and a left-leaning Congress will see Lasso struggle to pursue his preferred solutions to the crisis.

Analysis

Having secured a substantial lead in the first round, Arauz was considered the favourite in the run-up to polling day. His narrow loss comes amid widespread ballot-spoiling by supporters of indigenous first-round presidential candidate Yaku Perez, a critic of both Lasso and Arauz. Lasso, who takes office on May 24, will inherit a society and economy reeling from the COVID-19 pandemic. The country's official death toll is approaching 17,300 and its vaccine roll-out has been slow; less than 1.4% of Ecuadorans have received a dose so far. GDP contracted by 7.5% in 2020, according to the IMF, which predicts growth of just 2.5% this year. February's legislative elections saw Lasso's Creating Opportunities party secure just twelve seats in the 137-seat National Assembly, which will be dominated by left-leaning parties.

Kyrgyzstan: Constitutional change gives President Japarov greater power

Event

Around 80% of those who voted in the referendum held on April 11 approved a revised constitution that will increase the president's powers at the expense of the legislature and other parts of government.

Outlook

Unlike leaders in neighbouring Central Asia states, President Japarov is likely to find that formal power is not enough in Kyrgyzstan. He will find it hard to sustain his support simply by providing effective government, and as early as next year a traditionally fickle and volatile electorate may turn against him, possibly utilising a new wave of street protests.

Analysis

With the votes largely counted, turnout was 35%. This is above the 30% minimum but well below the bar normally required for fundamental change in other countries. The 120-seat parliament will shrink to 90 seats while the People's Kurultay (assembly) becomes a parallel form of direct democracy, and the presidency gains more executive powers. Presidential powers were cut back in a 2010 referendum to prevent the growth of authoritarian presidencies that led to revolutions earlier that year and in 2005. The referendum and the changes it brings are the brainchild of Sadyr Japarov, who manoeuvred himself into a prime position of political power during unrest last October and was elected president in January.

Peru: Winner presidential run-off faces daunting obstacles

Event

Following the first round on April 11, preliminary results suggest that leftist candidate Pedro Castillo (Peru Libre) and right-wing candidate Keiko Fujimori (Fuerza Popular) will compete in a presidential run-off in June.

Outlook

With most first-round votes going to right-of-centre candidates, Fujimori could pick up many of their supporters in the second round. However, she remains a controversial and divisive figure and the run-off promises to polarise the country further. A deeply fragmented Congress will complicate prospects for the eventual president-elect.

Analysis

Exit polls gave Castillo 18% of votes cast to 14.5% for Fujimori with a quarter of the vote counted, but it remained possible that conservative economist Hernando de Soto could push Fujimori into third place. Initial results also indicate that eleven parties will be represented in the incoming Congress, with Castillo's Peru Libre gaining the largest number of seats (28) in the 130-seat chamber, followed by the traditional Accion Popular party with 23 and Fuerza Popular with 16. Fujimori, who was defeated in the last two presidential run-offs, faces charges of receiving 1.2 million dollars in illegal payments from Brazilian construction company Odebrecht. Castillo, a former teacher, has promised to rewrite the constitution and expand the state's role in the economy.

Russia: Cull of governors strengthens Moscow's regional control

Event

President Vladimir Putin replaced Vyacheslav Bitarov as leader of North Ossetia, a constituent Russian republic in the North Caucasus, on April 9, making him the third regional leader to be eased out of office within a week.

Outlook

More changes are likely as Putin selects his favourite candidates for the September region elections. These will always be Kremlin loyalists and, where possible, effective managers but picked according to Moscow's local political needs.

Analysis

Bitarov's temporary replacement is Sergey Menyaylo, who has previously been governor of Sevastopol and a presidential envoy. Being part-Ossetian makes him a suitable candidate for formal election as head of this 'ethnic' republic in September's regional polls. This is the third removal of a regional leader in a week: Tuva republic head Sholban Kara-Ool and Ulyanovsk region governor Sergey Morozov have been replaced by, respectively, Vladislav Khovalyg (another ethnic Tuvan) and Alexey Russkikh. The three outgoing leaders were fairly uncontroversial Kremlin loyalists and belong to the United Russia party; unusually, Russkikh is a Communist Party member.

Brazil: Samarco bankruptcy after dam failure threatens Vale recovery

Event

Samarco Mineracao, the company jointly owned by Vale and BHP, has filed for bankruptcy protection, Vale announced on April 9.

Outlook

Samarco halted operations following the November 2015 tailings dam collapse that killed at least 19 people and caused severe environmental damage to the Doce river. It restarted operations in late 2020 but faces lawsuits from creditors holding some 4.7 billion dollars in financial debt. Rising iron ore prices and Samarco's restart were expected to encourage a return of the large international investors who have increasingly avoided Vale in recent years. Yet the pending lawsuits will present new complications as the company seeks to recover lost ground.

Analysis

According to Vale, most of Samarco's debt is now in the hands of "distressed assets" investors rather than the original creditors, and out-of-court talks to renegotiate the debt have reportedly broken down. Vale has also faced significant liabilities following the Brumadinho tailings dam collapse in January 2019. A seven billion dollar settlement agreed earlier this year was expected to boost Vale's outlook as well as its damaged reputation, while the restarting of

Samarco, which was expected to produce eight million tonnes of iron ore pellets annually, should have helped to bolster the company. Yet concern about dam-related liabilities looks likely to keep investors cautious.

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