

Political Risk Update: April 21, 2021

- Russia: US sanctions on debt could be a prelude to tougher measures
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Russia: US sanctions on debt could be a prelude to tougher measures

Event

On April 15, President Biden announced new restrictions on Russian debt transactions, together with diplomatic expulsions and targeted sanctions, in retaliation for Moscow's election interference and cyber attacks.

Outlook

Most foreign investors saw this move coming and divested in time, while Russian state banks will buy into new issuances, making the Russian government's Federal Loan Bonds (OFZs) relatively safe from damage. However, Washington has reserved the right to take further action, which may include possible restrictions on secondary market trading in both foreign-currency denominated and rouble debt; this will increase investor uncertainty.

Analysis

The Biden administration is setting out a clear framework for engagement by combining the promise of a summit meeting, which Moscow very much wants, with calibrated action against OFZs. US financial institutions are now banned from trading OFZs issued by Russia's government and bonds issued by its central bank and sovereign wealth fund after June 14. US purchases of new foreign-currency-denominated Russian sovereign debt, mainly Eurobonds, have been prohibited since August 2019, but US entities can still trade in Eurobonds and OFZs on the secondary market. Biden said he gave President Vladimir Putin advance warning of the sanctions in their April 13 phone call, adding that "we could have gone further" according to the White House account.

Brazil: Lula is likely to run for president again, sharpening political polarisation

Event

As expected, on April 15 a majority of Supreme Court judges confirmed last month's annulment of the corruption convictions against former President Luiz Inacio Lula da Silva on the grounds that the lower court in which he was convicted did not have jurisdiction.

Outlook

This removes the last legal hurdle to a Lula presidential bid next year. If he runs, he has the potential to gain the support of much of the spectrum of fragmented left-of-centre groups and also intensify pressure on viable candidates from the centre-right. Meanwhile, the outlook for future anti-corruption measures looks increasingly dismal.

Analysis

The Court had already determined that there was judicial bias in corruption cases against Lula, and so had thrown out evidence in those cases. Last week's ruling removes any legal obstacles to a presidential bid by Lula next year. Current opinion polls suggest that he would defeat incumbent Jair Bolsonaro, who faces mounting criticism over his handling of the COVID-19 pandemic. One leading NGO last week described the COVID-19 situation in Brazil as a "humanitarian catastrophe", with the health system near collapse. However, the Court ruling is also likely to cast doubt on other corruption convictions arising from the Operation Car Wash probe, potentially to the benefit of other political and business leaders.

Philippines: End to government ban on new mining deals reflects economic strain

Event

On April 15, the government in Manila published an order by President Rodrigo Duterte that lifts its nine-year ban on new mining deals.

Outlook

The Duterte administration is looking to the mining sector to support post-pandemic economic recovery. The authorities will aim to ensure strict implementation of mine-related regulation (and clamp down harder on illegal mining) in a bid to mitigate environmental risks, but this will not be enough to assuage concerns among anti-mining activists.

Analysis

Coming in the week that the government reported a fall of 9.6% in GDP last year, Duterte's order noted that the 2017 Tax Reform for Acceleration and Inclusion Act increased the excise on minerals, mineral products and quarry resources to 4% from 2%, and that the Philippines

had tapped less than 5% of its mineral reserves. He suggested the mining sector could support projects linked to his administration's 'Build, Build, Build' infrastructure programme and help boost employment in rural areas. In an indication of the government's current priorities, the order instructs the environment and natural resources ministry to see that new mining agreements maximise the government's share of revenue from production. In the past, Duterte has expressed a wish to close all mines in the country, citing their environmental impact, and the ban on open-pit mining remains in place.

Colombia: Fiscal reform is needed but the latest government effort may fall short

Event

The government last week proposed a tax reform bill to Congress, hoping to alleviate the fiscal challenges posed by the COVID-19 pandemic and help Colombia maintain its credit rating.

Outlook

The latest proposals have already drawn criticism from opposition lawmakers, suggesting the government will struggle to get them through Congress. The final result could achieve less than the government needs it to, yet do enough to damage its popularity ahead of next year's elections.

Analysis

Colombia has imposed some of the world's longest pandemic lockdown measures, with the result that the economy contracted by 6.8% in 2020, and the fiscal deficit widened to an estimated 7.8% of GDP. The IMF forecasts growth of 5.1% this year, while the Finance Ministry believes the deficit could widen to 8.6% of GDP. The latest fiscal reform package aims to increase tax collection by 6.4 billion dollars through higher taxes on businesses and individuals and a broadening of VAT, from which many goods and services are currently exempt. The legislation would introduce a tax on single-use plastics while expanding the existing carbon tax. Colombia has a small tax base, due in part to high tax thresholds and high rates of avoidance and evasion. This reform would be the third to take place under President Ivan Duque; past efforts have been contentious and results have been underwhelming.

Cuba: President Miguel Diaz-Canel will try to maintain political continuity

Event

On April 19, Communist Party (PCC) delegates elected President Miguel Diaz-Canel to succeed Raul Castro as party first secretary.

Outlook

Diaz-Canel appears determined to maintain Cuba's one-party communist system even though the country's severe economic difficulties necessitate change. But attempting to control the introduction of any effective reform is likely to prove challenging.

Analysis

The appointment of Diaz-Canel was expected and revives the practice, briefly broken when Raul Castro left the presidency in 2018, of having one individual holding the roles of both national president and party leader. The appointment officially ends 62 years of rule by Raul Castro and his late brother, Fidel, while the formation of the new politburo generally draws the era of the revolutionary generation to a close. Other high-profile officials of the 'historic generation' to stand down include PCC Second Secretary Jose Ramon Machado Ventura and Ramiro Valdes. Defence Minister Alvaro Lopez Miera is the only remaining member of the politburo to have fought in 1959. The average age of the new politburo is now 62, down from 70, and its membership has been reduced to 14 from 17. Diaz-Canel, an ally of the Castros, has stressed his intention to pursue political continuity.

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