

Political Risk Update: May 5, 2021

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Colombia: Unrest will continue despite government U-turn on fiscal reform

Event

Finance Minister Alberto Carrasquilla resigned on May 3, after days of protests against proposed fiscal reforms became violent.

Outlook

Protests will continue even though the government is dropping plans to increase VAT and expand the taxpayer base in an effort to narrow the widening fiscal deficit. The deployment of security forces against protesters will inflame the situation further. Meanwhile, the government will struggle to achieve reform on the scale it deems necessary, perpetuating fiscal challenges.

Analysis

At least 19 people have reportedly been killed in the unrest, which began with a national strike on April 28. The government, which withdrew its reform proposals on May 2, still says change is necessary to strengthen the social safety net and to address a fiscal deficit that has widened during the COVID-19 pandemic. Its initial plans met strong opposition, not just from the public but also from Congress, where President Ivan Duque's Democratic Centre lacks a majority. Duque has appointed Trade and Tourism Minister Jose Manuel Restrepo to replace Carrasquilla. Tax reform efforts often trigger protests in Colombia, and these can broaden into more general expressions of anti-government sentiment.

India: West Bengal poll result boosts Modi's opponents

Event

Mamata Banerjee will be sworn in on May 5 as West Bengal's chief minister for a third successive term.

Outlook

Victory for Banerjee's All India Trinamool Congress (TMC) will encourage the opposition nationally; a win for the BJP in a state where it has historically had little traction would have demoralised rivals of Prime Minister Narendra Modi's Bharatiya Janata Party (BJP). The BJP will talk up its gains in West Bengal in a bid to sustain its morale amid the COVID crisis.

Analysis

On May 2, results were declared for the state legislative assembly election that had been held over eight phases between March 27 and April 29. The TMC won 213 out of the 292 seats contested, compared with 211 in 2016. The BJP, which had campaigned vigorously in West Bengal, one of only three states where its alliance has never held power, won 77 seats in a significant gain from the three it held previously. The results of the other state and union territory elections held in March-April were largely as expected. The BJP and its partners retained power in Assam, albeit with a reduced majority, and won in Puducherry; the BJP-allied incumbent lost in Tamil Nadu; and the ruling leftist alliance increased its majority in Kerala, another state which has never had a BJP-aligned government.

Argentina: Electricity tariff row highlights the weak position of President Fernandez

Event

Splits within the government became more apparent after Economy Minister Martin Guzman on April 30 announced the departure of the under-secretary of energy, Federico Basualdo.

Outlook

Guzman and Vice-President Cristina Fernandez de Kirchner (CFK) have been increasingly at loggerheads, especially over whether and how to pay Argentina's debt to the IMF. This latest confrontation over the fate of Basualdo, which Guzman thus far seems to have lost, will increase investor doubts over the government's direction and Guzman's hold on his position. The evident weakness of President Alberto Fernandez vis-a-vis his vice-president, who is backing Basualdo, will confirm existing concerns over his ability to implement policy.

Analysis

Basualdo, who has links to CFK and the Kirchnerist youth movement La Campora, is in dispute with Guzman over plans to cut subsidies for electricity tariffs, which currently cost the government seven billion dollars a year, in a bid to reduce the fiscal deficit. Guzman has proposed a series of tariff increases this year while Basualdo will accept only a single 9% rise. Although President Fernandez initially confirmed Basualdo's departure, La Campora announced that he would remain and he received strong support from Buenos Aires Governor Axel Kicillof (a CFK loyalist) whose voter base would be severely affected by tariff rises. The government indicated on May 3 yesterday that Basualdo would leave 'at some stage', once tensions ease.

Egypt: Buying more Rafale fighters adds weight to Cairo's threats against Ethiopia

Event

Egypt's defence ministry said on May 4 that it had signed a contract to buy 30 Rafale fighter aircraft from France.

Outlook

Although the new jets will take some time to deliver (delivery of 24 Rafales purchased in 2015 was only completed in 2019), the new jets will augment Egypt's ability to project power abroad. While appetite for a strike against Ethiopia is likely to remain low, even if Cairo's rhetoric suggests otherwise, the new Rafales will add weight to Egypt's threats.

Analysis

The deal is estimated to cost 4.5 billion dollars and will be financed by loans from French banks and guaranteed by the French state. The purchase comes as tensions over the filling of the Grand Ethiopian Renaissance Dam (GERD) have been rising in recent weeks as Cairo takes a harder line, backed by strong domestic support. In late April, Egyptians online launched a hashtag urging the military to conduct an air strike on the GERD. Similar demands were seen on social media after the purchase announcement on May 4. Egypt has been building up its military since President Abdel Fatah el-Sisi took power in 2013 and is now the third largest arms importer in the world.

El Salvador: President Bukele's power moves cause international concern

Event

Lawmakers supporting President Nayib Bukele triggered widespread criticism when they voted on May 1 to replace Attorney General Raul Melara and all five judges from the Constitutional Chamber of the Supreme Court.

Outlook

Recent criticisms of his latest moves are unlikely to shake Bukele's popularity among Salvadorans. Relations with Washington, however, are likely to become strained and the situation could endanger negotiations with the IMF for post-pandemic financial assistance.

Analysis

President Bukele's New Ideas party and its allies secured an overwhelming congressional majority in February's legislative elections, ending months of political gridlock between the executive and legislative branches of government and leaving Bukele free to pursue his agenda largely unimpeded. The removal of the judges, accused by Bukele of hindering COVID-19 management efforts, further cements his political dominance. Opposition figures have denounced the move as a 'coup'. US Vice President Kamala Harris expressed "deep concerns about El Salvador's democracy" via Twitter, and statements from the United Nations and a

range of NGOs have also condemned the removal of the justices. Responding to "friends in the international community", Bukele replied: "We want to work with you [...] But with all due respect: We are cleaning our house [...] and that is none of your business."

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