

# Political Risk Update: September 1, 2021

- Zambia: New president moves to ease debt burden but hardship will continue
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- South Sudan: Government suppresses civil society protests again
- Colombia: Former finance minister moves to central bank to tackle inflation
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## Zambia: New president moves to ease debt burden but hardship will continue

### Event

President Hakainde Hichilema named Situmbeko Musokotwane, a widely respected economist, as his finance minister on August 26.

### Outlook

Musokotwane's nomination should help Zambia obtain both a much-needed IMF loan and a Eurobond debt restructuring as Hichilema follows through on his commitment to debt reduction. An upswing in commodity prices will also provide some help over the short-to-medium term. However, the accompanying budgetary austerity means continuing hardship for many Zambians and will limit the government's ability to invest in key sectors such as health and education.

### Analysis

Musokotwane previously served as finance minister in 2008-11 and his nomination is intended to signal a new commitment to fiscal and financial responsibility to the wide array of Zambia's lenders. Hichilema, who won an upset victory on August 12 against former President Edgar Lungu in the face of large-scale vote-rigging and voter intimidation, faces a challenging economic environment. Zambia's debt burden remains both high and opaque, possibly totalling as much as 13 billion dollars. Zambia defaulted on a Eurobond payment in November 2020 and has since frozen most payments. However, Hichilema's victory has calmed markets and strengthened the currency, while improving commodity prices have raised hopes of higher revenues.

## Argentina: 'Olivosgate' scandal will damage President Fernandez and help radical rivals

### Event

On August 26, a federal prosecutor charged President Alberto Fernandez with violating an emergency presidential decree prohibiting social gatherings and non-essential movement during the COVID-19 quarantine last year.

### Outlook

The charges relate to a birthday party held at the presidential residence for the first lady in July 2020, videos of which emerged recently. A new petition calling for the president's impeachment will not succeed given the government's congressional majority, but the president will continue to lose influence to those with more radical voices within the government for the remainder of his term.

### Analysis

President Fernandez appeared in court on August 26, asking for the charges to be dismissed on the grounds that the party and his attendance represented "an error that will not be repeated" and that no crime was committed because no COVID-19 infections occurred as a result. The scandal has badly damaged Fernandez's already declining approval ratings, just weeks before the primary elections that precede November's mid-term legislative polls. The government has been seeking to recover support through a series of measures including a one-off additional payment to pensioners, soft loans for the self-employed, tax cuts and new wage negotiations. However, none of these will offset the impact of inflation, which reached 29% in the first seven months of 2021.

## South Sudan: Government suppresses civil society protests again

### Event

Planned protests for August 30 called by the People's Coalition for Civil Action (PCCA), a civil society umbrella group, were prevented by the government's heavy deployment of the security forces.

### Outlook

The heavy-handed response by the authorities reflects not only government fears of rising popular discontent but also a belief that any protest movement can be crushed at birth, as was the case with the 2019 'Red Card' movement. Growing frustration with bad governance will nevertheless continue to drive civil society experimentation with such tactics.

## Analysis

The PCCA had urged South Sudanese to take to the streets to demand the resignations of President Salva Kiir and First Vice-President Riek Machar, who they accuse of responsibility for years of conflict, corruption, and bad governance. The government said the organisers had not sought permission for the protests, which were therefore illegal. A heavy security presence was deployed across major towns and Internet services were disrupted, although the government insists this was purely coincidental. In early August, authorities arrested multiple civil society activists who supported a PCCA call for protests. It is clear that the barriers to building a successful protest movement, which include government repression and difficulties in bridging major regional, rural-urban and inter-ethnic divides, remain high.

## Colombia: Former finance minister moves to central bank to tackle inflation

### Event

President Ivan Duque appointed former Finance Minister Alberto Carrasquilla to the board of Colombia's central bank on August 30.

### Outlook

Carrasquilla is highly experienced but his appointment will raise some concerns regarding the central bank's independence. His focus on tackling inflation makes an interest rate rise likely in the coming weeks.

### Analysis

Carrasquilla first served as finance minister in 2003-07 under former President Alvaro Uribe, later reprising the role under Duque from 2018. He resigned in May, following a nationwide backlash against proposed fiscal reforms. A revised reform proposal has since been submitted to Congress and looks likely to gain approval. Carrasquilla's appointment comes as the Colombian economy continues to reel from the COVID-19 pandemic. GDP plummeted by 6.8% year-on-year last year, while poverty levels rose. In August, the peso weakened to its lowest level since May 2020, while annual inflation hit 3.97% in July, remaining just within the central bank's target range of 3%, plus or minus 1 percentage point.

## Sri Lanka: Food emergency produces yet another short-term response

### Event

On August 30, President Gotabaya Rajapaksa announced emergency regulations on the provision of essential foods, effective from August 31.

## Outlook

The move is designed to prevent hoarding and excessive price rises for commodities such as rice and sugar. It will be welcomed initially as most people assume that the regulations will make food more available. However, patience is likely to wear thin quickly as queues for items in scarce supply lengthen rather than shrink. The government will come under growing pressure to clarify its long-term strategy for easing the economic crisis.

## Analysis

The regulations will make a limited set of foodstuffs available to the public at concessionary rates, with a senior army officer coordinating supply. Since early last year, Sri Lanka has banned imports of various goods in a bid to stem foreign exchange (forex) outflows. Importers are nonetheless struggling to source the forex supplies needed to pay for the commodities they can still procure. Sri Lanka's forex reserves fell to 2.8 billion dollars in July, not even enough to cover two months of imports. Colombo has distanced itself from the prospect of seeking an IMF loan, as it remains wary of being constrained by the Fund's conditionality. It prefers to rely on macroeconomic support from regional partners.

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