

# Political Risk Update: September 15, 2021

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## Iran: Tehran may soon re-engage on nuclear deal talks

### Event

In a last-minute visit to Iran on September 12, International Atomic Energy Agency (IAEA) Director-General Rafael Grossi reached a deal on nuclear monitoring with the new head of Iran's Atomic Energy Organisation, Mohammed Eslami.

### Outlook

The agreement averts a potential crisis at the IAEA meeting this week and suggests that, despite the hardline rhetoric and post-election delay in returning to negotiations in Vienna, Iran's new conservative government still wants to move ahead with the nuclear deal that would allow US sanctions-lifting. Although the economic benefits of this are significantly lower -- and the political costs higher -- than in 2015, the balance remains clearly positive for Tehran.

### Analysis

Tehran agreed that IAEA technical teams could shortly service their surveillance cameras at nuclear sites, but that all data would remain sealed in Iranian hands. Grossi said the agreement "resolved a communication breakdown" but emphasised it was a stopgap pending an international agreement in the stalled Vienna talks on a mutual US-Iranian return to the 2015 multilateral nuclear deal. A five-day IAEA Board of Governors meeting began on September 13; Western countries had threatened to censure Tehran after a recent downbeat IAEA report on monitoring, although Russia rejected that option.

## Russia: Central bank confident it can control inflation despite price rises

### Event

The Central Bank of Russia (CBR) on September 10 raised its key interest rate for the fourth time since March.

## Outlook

Rate hikes are so far failing to curb inflation and CBR governor Elvira Nabiullina acknowledges that monetary policy is only partially effective at doing this, and not at all effective at boosting growth if other factors such as a lack of staff or components limit output. Nevertheless, she is still expressing unwavering confidence that her monetary policy will succeed in reducing inflation to the target level regardless of probable circumstances.

## Analysis

This rate hike was by 25 basis points to 6.75%, much less than July's 100-basis-point rise from 5.5% to 6.5%. Nabiullina said the rate rise was necessitated by continuing price rises, themselves sustaining high inflationary expectations among consumers. Inflation reached 6.7% in August, well above the bank's 4% target. The CBR sees much of the upward pressure on prices stemming from external causes such as commodity prices and supply chain bottlenecks, factors that are beyond the reach of domestic monetary policy. Another rate rise is possible at the next CBR meeting in October.

## Argentina: Government reels from strong protest vote

### Event

Open party primaries (PASO) were held on September 12 ahead of the November mid-term elections.

### Outlook

The results represent a sharp rebuke to President Alberto Fernandez's Frente de Todos (FdT) coalition, whose share of the vote fell from 48.2% in the 2019 general election to 31.8%. If the mid-term result is similar, the FdT will lose its Senate majority and see its Lower House bloc reduced, complicating its legislative plans and raising tensions ahead of the 2023 presidential contest.

### Analysis

On a low turnout, the FdT's vote fell in 23 of 24 provinces, and it won in only six provinces compared with 19 two years ago. The opposition Juntos por el Cambio (JxC) received 41.5% nationally, winning ten of the eleven largest provinces including the city and province of Buenos Aires. In the FdT-governed Buenos Aires province, the coalition vote fell from 52.2% in 2019 to 33.6%. Buenos Aires province is the key bastion of Vice-President Cristina Fernandez de Kirchner (CFK) and her son Maximo. The FdT also lost in Kirchner family's home province of Santa Cruz, which is governed by Alicia Kirchner, and the loss there will make it harder for CFK to blame President Fernandez exclusively for the poor results. CFK will respond by trying to radicalise the FdT's agenda.

## Belarus: Wargames with Russia are less alarming than longer-term plans for integration

### Event

The Zapad-2021 military exercises that began on September 9 were described as "purely defensive" by the Russian defence ministry.

### Outlook

These latest wargames, which are due to last until September 16, appear to unnerve NATO less than the 2017 version, perhaps because the format is similar. Longer-term planning for economic and possibly military integration of Belarus and Russia is generating greater concern. Plans for the Union State are still not quite finalised, although Lukashenka's ability to procrastinate while securing Russian funding has reached its limits.

### Analysis

The figure of 12,800 participating Russian and Belarusian soldiers is similar to the 12,700 reported in the last Zapad exercises held in 2017. This year's wargames are noteworthy because in addition to Russia, Belarus now has a wholly antagonistic relationship with the West, and because a proposed Union State could permit the first large permanent deployments of Russian forces in Belarus. After meeting his Belarusian counterpart Alexander Lukashenka last week, President Vladimir Putin said they discussed forming a "common defence space". One measure already under way is the creation of three joint 'combat training centres' for fighter pilots and air defence forces, one located in Belarus.

## North Korea: Pyongyang's missile test will spur regional arms race

### Event

North Korean state news agency KCNA said on September 13 that the country had successfully tested a new long-range cruise missile, which may be North Korea's first cruise missile powerful enough to carry a nuclear warhead.

### Outlook

The latest tests are less provocative than they could have been, as they do not violate UN sanctions nor directly threaten the United States. However, they will encourage Japan to increase defence spending -- something all three candidates in this month's prime ministerial election support -- and fuel Pyongyang's conventional arms race with South Korea, which this month successfully tested its first submarine-launched ballistic missile.

### Analysis

KCNA said that missiles fired on September 11 and 12 flew 1,500 kilometres and hit their intended targets within North Korean territorial waters. This range would put all of South Korea and nearly all of Japan within range. South Korea hosts 26,000 US troops and Japan hosts 54,000 -- the largest overseas US deployment by far. Cruise missiles are strategically

significant because they fly at low altitudes, making them harder for missile defences to detect. North Korea last tested a cruise missile in January, hours after Joe Biden took office as US president, and tested a short-range ballistic missile in March.

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