Political Risk Update: September 29, 2021

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Turkey: Bullish monetary policy increases debt risks

Event

On September 23, the central bank reduced its benchmark interest rate from 19% to 18%.

Outlook

The move surprised commentators, who largely expected the bank to leave rates unchanged given that consumer price inflation surged to 19.3% last month. Cutting rates amid rising inflation carries a high risk that, rather than stimulating economic activity, the further loss of central bank credibility will deter more international investors. That will keep the lira under pressure and raise the possibility that Turkey could struggle to meet its substantial debt repayment obligation.

Analysis

Explaining its decision to cut rates for the first time since May 2020, the monetary policy committee of the central bank cited the fall in core CPI, excluding food and fuel, from 17.2% in July to 16.8% in August. Sahap Kavcioglu became central bank governor in March, the fourth in the post since 2019; like all his predecessors, he has faced pressure from President Recep Tayyip Erdogan to cut rates to stimulate economic activity. The lira, having lost 4% to the dollar since the start of August, fell further on news of the interest rate cut as investor concerns over politicisation increase.

Nigeria: Eurobond issue raises concerns about debt

Event

On September 21, Nigeria raised four billion dollars of Eurobonds in an effort to boost faltering forex reserves and a weakening naira.

Outlook

Despite rising debt, market enthusiasm for this issue suggests a substantial international appetite for Nigerian bonds. This may encourage further borrowing in coming months as the

government aims to raise upwards of 1.6 billion US dollars in financing. Increasing commodity prices will also shore up the country's short-term debt sustainability and ease pressure on the naira, but forex fluctuations and the oil sector's uncertain future raise longer-term concerns.

Analysis

Initially aiming for 3 billion dollars, the bond issue received offers totalling nearly 12 billion. Yields range from 6.2% for seven-year bonds to 8.25% for 30-year bonds. The successful issue provides a desperately needed forex injection as the central bank had been forced to ration the currency earlier this year. This is also the first debt issuance since 2018, even though a drop in oil prices due to COVID-19 has meant devoting more than 70% of revenues to interest repayments despite an overall debt-to-GDP ratio (pre-Eurobond) of just 34%. The issuance has raised considerable criticism in the Nigerian press as worries grow about profligate spending by President Muhammadu Buhari's administration ahead of the 2023 elections.

Mexico: Vocal criticism of Washington is likely to strain relations with the United States

Event

While addressing the UN General Assembly on September 23, Mexican foreign minister Marcelo Ebrard called for the immediate lifting of the US economic "blockade" of Cuba as a response to the global economic and health crises.

Outlook

Calls to end the US embargo on Cuba are far from controversial at the UN. However, apparent Mexican hostility towards US actions and regional dominance nevertheless risks further straining bilateral relations, the strength of which is important in addressing many of Mexico’s political and economic challenges.

Analysis

Ebrard’s remarks echo sentiments expressed recently by President Andres Manuel Lopez Obrador (AMLO) and follow a visit by Cuban President Miguel Diaz-Canel to Mexico earlier this month, where he was a prominent guest at Independence Day celebrations. The government's vocal stance on Cuba illustrates a divergence from Mexico's traditionally passive foreign policy approach under AMLO, who has also been critical of the US-headquartered Organization of American States. Last week he called upon Latin American nations to aspire to creating a regional bloc. Speaking at the Community of Latin American and Caribbean States Summit in Mexico City, AMLO envisioned "something similar” to the economic community that was the beginning of the current European Union.

Mali: Government may use Wagner mercenaries for leverage with Europe on poll delay

Event

Malian Prime Minister Choguel Maiga said in an interview on September 26 that general elections might be pushed back by "two weeks, two months, a few months" in order to ensure they can be held properly.

Outlook

Mali's assurances that the delay will aid it in holding credible elections will ring hollow in the aftermath of two coups within a year. Malian authorities will likely use the potential of a deal with the Russian private military company (PMC) Wagner as a bargaining chip in negotiations with European donors over the length of the transition.

Analysis

The military leadership that took control of Mali in a coup in August 2020 had agreed to hold elections within 18 months, meaning in effect by end of February 2022. In the interview, Maiga denied knowing Wagner, even though Russian Foreign Minister Sergey Lavrov has confirmed that the Malian authorities have asked a Russian PMC to step in as France draws down its troop numbers in the country. European countries, and especially France, have been pressuring Mali not to conclude an agreement with Wagner to supply mercenaries, particularly one that would give them a combat rather than an auxiliary role.

Libya: Haftar positions himself to run for president

Event

Eastern military commander Khalifa Haftar on September 22 stepped down from his post as general commander of the eastern Libyan National Army (LNA) for the next three months and appointed LNA Chief of Staff Abdul Razek al-Nazuri as his replacement.

Outlook

Haftar’s move came a day after reports emerged that the House of Representatives Speaker Aguileh Saleh had likewise temporarily stepped down from his position. Saleh and Haftar appear to be preparing to contest the December presidential elections, even though the debate on Libya's political system has not yet been settled.

Analysis

Two weeks ago, Saleh used his parliamentary position to pass a controversial law related to the presidential elections due to be held on December 24. The law stipulates that anyone wishing to run for the presidency must suspend their profession for three months prior to the election. The law was condemned by various constituencies in Libya as invalid, as it passed through parliament without a vote, although the UN's Libya mission has accepted it. One consequence

is that, if an election does take place before the end of the year, the winner will begin with a legitimacy deficit.

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