

# Political Risk Update: June 14, 2022

- Chile: Stagflation risks are increasing
- Libya: Conflict is intensifying as oil disruption grows
- International: Arctic Council faces uncertain future without Russia
- Russia: Plans for a regular series of interest rate reductions may be derailed
- Ecuador: President Lasso will struggle to quell protests

## Chile: Stagflation risks are increasing

### Event

Inflation reached 1.2% month-on-month and 11.5% year-on-year in May, according to the statistics agency on June 8, marking a 28-year high.

### Outlook

High interest rates will undermine growth, potentially prompting new social unrest. The risk of stagflation is considerable, and likely to damage the new government's popularity further.

### Analysis

Over the first five months of 2022 consumer prices rose by 6.1%, driven primarily by increases in food, fuel and transport prices. However, while global food and fuel prices have been rising as a result of the impact of the Ukraine war, the Central Bank has warned that much of the domestic impetus also relates to rising demand, in part due to the withdrawals from private pension funds allowed last year. The Central Bank raised its benchmark rate by 75 basis points to a 20-year high of 9% on June 7, warning in its accompanying Monetary Policy Report that inflation may reach an annualised 13% in the third quarter before ending the year at around 10%. It currently predicts growth of 1.5-2.25% this year and a contraction of up to 1.0% in 2023, while the World Bank has cut its GDP growth forecasts to 1.7% for 2022 and 0.8% for 2023.

## Libya: Conflict is intensifying as oil disruption grows

### Event

The Minister of Oil and Gas in the Government of National Unity, Mohammed Aoun, said on June 12 that Libya is now losing 1.1 million barrels of oil per day (bpd) due to oil field closures.

### Outlook

Although talks between the two main power structures in the country are meant to continue until June 19, the recent clashes in Tripoli and the closure of oil ports suggest that Libyan actors do not expect to see the current situation resolved through dialogue.

## Analysis

Most of the country's oil fields are now closed, except for the Hamada field and the Mellitah complex. An oil blockade by forces aligned with eastern strongman Khalifa Haftar was expanded on June 12 to include two more export terminals, Ras Lanuf and Es Sider, reducing Libya's oil output further; it had already been halved prior to the blockade expansion. Meanwhile, clashes took place in the capital, Tripoli, on June 11-12 between rival militias representing the two rival premiers: Abdelhamid Dbeiba, who is based in Tripoli, and Fathi Bashagha, who is based in the city of Sirte. On June 12, talks between representatives from the east-based House of Representatives and the west-based High Council of State resumed in Cairo. The discussions aim to establish a constitutional framework that would allow national elections to take place.

## International: Arctic Council faces uncertain future without Russia

### Event

Seven of the Arctic Council's members announced on June 8 that they would resume meetings of the bloc without the eighth member, Russia.

### Outlook

Once Sweden and Finland complete the process of joining NATO, seven of the eight Arctic Council members will also be NATO members. The situation in Ukraine means that other Arctic Council members will be reluctant to invite Russia back to its meetings, leaving the body's future uncertain in its current form.

### Analysis

The Council's statement indicates that the seven members intend to meet on their own and discuss only projects in which Moscow is not involved. Russia's ambassador in Washington, Anatoly Antonov, responded by saying that any decisions taken by the seven would be "illegitimate". The situation is complicated by the fact that Russia is half-way through its term as Arctic Council chair. Nikolay Korchunov, who holds the position, has previously warned that if Finland and Sweden join NATO, "certain adjustments" will be needed to the way in which Arctic cooperation works.

## Russia: Plans for a regular series of interest rate reductions may be derailed

### Event

On June 10, the Central Bank of Russia (CBR) cut its key interest rate from 11.0% to 9.5%, having raised it from 9.5% to 20% after the start of the conflict in Ukraine.

## Outlook

A multitude of uncertainties could challenge the CBR's plan for a series of cuts of 25 basis points during the rest of 2022.

## Analysis

Having fallen by 42.6% from February 24 to March 11, the trade-weighted ruble has appreciated by 135.9% since, creating the scope to reduce rates. Consumer price inflation was 17.0% year-on-year as of June 3, down slightly from 17.8% in April. The CBR expects inflation to average 14-17% in 2022, 5-7% in 2023 and 4% in 2024. CBR Governor Elvira Nabiullina said last month that the Bank will return to 25-basis point (bp) cuts once the interest rate is in single digits. If the bank cuts rates by 25bp each month from now, the key rate will end 2022 at 8.0% and will average 11.5% this year, almost within the CBR's current forecast range of 10.8-11.4%.

## Ecuador: President Lasso will struggle to quell protests

### Event

In a Tweet on June 13, President Guillermo Lasso vowed not to "allow the country to be paralysed" by protests taking place across Ecuador.

### Outlook

The protests will polarise opinion both among the public and in Congress and the current disruption looks set to endure, potentially stunting post-pandemic economic recovery.

### Analysis

The current demonstrations come amid major post-pandemic economic challenges, which protesters claim have been exacerbated by the government's willingness to accede to IMF requirements. Protester demands include reduced fuel prices and action to address high living costs. The demonstrations, which have seen roads blockaded in nearly half of Ecuador's 24 provinces, have so far been led largely by the Confederation of Indigenous Nationalities of Ecuador (CONAIE) but other groups have also voiced support. These include the National Educators' Union, which is calling for mobilisations on June 16, and the United Workers' Front, which is planning a march on June 22. Citing several alleged acts of vandalism, seemingly by protesters, Lasso said the "intellectual and material authors" of the incidents would be arrested and that "nobody is above the law". CONAIE leader Leonidas Iza was reportedly arrested on June 14 in a move that the Confederation has described as "illegal".

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