

Political Risk Update: June 7, 2022

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Argentina: New windfall tax will not resolve imbalances

Event

On June 6, President Alberto Fernandez presented the government's draft windfall tax bill, which would impose an additional 15% tax on companies whose profits exceed last year's profit margin by at least 10% and reach ARS1bn (USD8.3mn) or more.

Outlook

President Fernandez lacks a majority in Congress and so the bill is likely to face considerable obstacles. Any revenues generated will be insufficient to alleviate a worsening social situation or avert the risk of mounting protests.

Analysis

The tax is directed primarily at companies benefiting from the impact of the conflict in Ukraine, predominantly hydrocarbons and food producers. It is intended to generate additional revenue to be spent on social assistance to low-income sectors worst affected by soaring inflation. However, the government is also under pressure to boost international reserves, which fall far short of the June target of USD6.4bn agreed with the IMF; net reserves in May were around USD3.8bn. Plans to boost reserves will also be affected by mounting difficulties with construction of the Nestor Kirchner pipeline to transport natural gas from the Vaca Muerta shale fields, both for export and to substitute current gas imports.

Ukraine: Russian grain and ship seizures raise legal risks

Event

The head of the self-declared Donetsk People's Republic (DNR), Denis Pushilin, announced on May 31 that his administration would confiscate vessels sitting in the port of Mariupol.

Outlook

Pushilin says Mariupol port is now open to commercial shipping but expropriations, even if restricted to Ukrainian vessels, will deter ship owners from entering a lawless maritime space.

The UN has urged Moscow to release grain blockaded in Ukrainian ports; Russia will seek reciprocal concessions.

Analysis

Denis Pushilin said that confiscated vessels would be renamed as part of a new DNR maritime fleet. It was unclear whether he was referring to Ukrainian ships or also to six foreign-flagged vessels moored in Mariupol. Russia's defence ministry has accused their owners of failing to remove them. Meanwhile, Russia has denied appropriating and exporting Ukrainian resources and also obstructing exports of Ukrainian grain now sitting in ports; it says the volumes concerned are much smaller than the 20-25 million tonnes quoted by Western leaders. Despite such denials of theft, the Russian-imposed authorities in Kherson say they are "exporting" the region's grain reserves to Russia.

EU: Sanctions on Belarus exports raise default risk

Event

EU measures on Belarus announced on June 3 include direct sanctions against fertiliser giant Belaruskali, the BPC fertiliser trading firm, the Naftan oil refinery and two tobacco companies.

Outlook

Falling export revenues will reduce solvency and raise the risk of a sovereign debt default by Belarus, although not this year. There is little the government can do except seek new markets, which will take time. Russia may ultimately bail Belarus out but currently seems reluctant to do so.

Analysis

Following Russia's example, President Alexander Lukashenko signed a decree in March permitting repayment of foreign-currency-denominated sovereign debt in Belarusian rubles instead. In early April, the government and central bank announced more specifically that debt payments to the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development and the Nordic Investment Bank could be made in local currency. Unlike Russia, Belarus is not subject to a US asset freeze that would obstruct payment in dollars, but it may be reluctant to tap its reserves, especially as an export slump will reduce incoming revenues. International reserves (foreign currency and gold) stood at USD7.8bn on May 1, down from USD8.3bn in March but slightly up on the figure for April, according to the central bank.

Mexico: State elections reinforce Morena's dominance

Event

President Andres Manuel Lopez Obrador (AMLO)'s National Regeneration Movement (Morena) and its allies won four more governorships in elections held in six states on June 5, according to initial results.

Outlook

These results cement Morena's political dominance and demonstrate AMLO's enduring popularity. However, given that his presidency is constitutionally limited to a single term, attention will increasingly turn to the question of who is best-placed to succeed him.

Analysis

Oaxaca, Quintana Roo, Tamaulipas and Hidalgo all backed Morena, the latter bringing to an end 93 years of rule by the Institutional Revolutionary Party (PRI). The National Action Party (PAN), in its 'Va por Mexico' alliance with the PRI and the Party of the Democratic Revolution (PRD), appears to have held its governorships of Aguascalientes and Durango. The results, if confirmed, will leave Morena with the governorships of 20 states, nearly two-thirds of Mexico's 32. The PAN will have the second-largest number, six, while the once-dominant PRI will be reduced to just two. Morena's governorship successes follow a presidential recall referendum in April, in which AMLO secured the backing of nearly 92% of voters, albeit on low turnout. His single presidential term ends in 2024.

Kazakhstan: President Tokayev wins referendum that weakens Nazarbayev family

Event

President Kassym-Jomart Tokayev said on June 6 that the previous day's constitutional referendum was only the beginning of a process of change, though he offered little detail on what this might involve.

Outlook

After tackling riots in January and subsequently moving against the circle around former President Nursultan Nazarbayev, Tokayev has used the referendum to show he is responsive to public concerns. However, this willingness to engage does not equate to a commitment to more democratic, pluralist structures.

Analysis

The referendum posed a simple 'yes or no' question covering all 56 constitutional amendments, with 77% voting 'yes'. For many, the complexity was reduced to removing Nazarbayev's status as 'Leader of the Nation' and weakening the legal immunity his family members enjoyed by association. After the result, Tokayev talked of creating a fairer society in which a privileged elite cannot monopolise the nation's wealth. Other amendments remove the president's power

to appoint regional governors, make it easier to register political parties, and change the parliamentary electoral system from proportional representation to a mix of proportional and first-past-the-post seats.

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