

# Political Risk Update: September 6, 2022

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## Zambia: IMF deal will help the country's return to capital markets

### Event

On September 1, the IMF approved a USD1.3bn 38-month extended credit facility (ECF) to help ease Zambia out of its longstanding debt crisis.

### Outlook

The agreement should facilitate Zambia's eventual return to international capital markets. Private creditors will likely be forced to accept similar restructuring terms as Zambia's bilateral lenders. However, austerity measures may slow growth and increase popular resentment against Hichilema's policies.

### Analysis

The IMF move followed assurances given on July 30 by Zambia's bilateral creditors that they are willing to renegotiate Zambia's liabilities. As of the end of 2021, these stood at some USD17.3bn. China looms large among Zambia's creditors as it holds approximately one-third of the country's dollar debt. Zambia in 2020 defaulted on its debt, freezing it out of capital markets. The current talks have been facilitated by the August 2021 election of President Hakainde Hichilema, who has promised to crack down on profligate spending, root out corruption and introduce more transparency in public spending. Zambia reached a staff-level agreement with the IMF in December 2021 but needed the go-ahead from its bilateral creditors before the IMF could move forward. The ECF is predicated on some cost-cutting reforms such as ending or reducing fuel and farm subsidies.

## Chile: Plebiscite result requires reform rethink

### Event

The country's proposed draft constitution was rejected by a nearly 24-point margin in a plebiscite on September 4.

## Outlook

The congressional opposition – largely marginalised in a constituent assembly dominated by leftist parties and independents – has reiterated its commitment to delivering reform but will now be in a position to impose greater conditions on the reform process. This may generate broader consensus but will increase disillusion among segments of support for President Gabriel Boric. He will hope to recover momentum if a new process is launched rapidly and produces a more focused and less controversial reform text.

## Analysis

Voters overwhelmingly rejected the draft new constitution by 62% to 38%. Although polls had predicted rejection, the final result far exceeded earlier predictions of around a 10-point margin. Turnout was high at near 13 million (compared with some 8.3 million in last year's presidential run-off); it has been suggested that a fall in COVID-19 infections encouraged higher turnout among older voters, who have been more inclined to reject the draft text. Although support for constitutional reform remains high, many were perturbed by elements of the draft text, notably the creation of "regional indigenous autonomies". However, the 'reject' vote was high even in southern regions that have a large indigenous population. Boric acknowledged the "forceful message" of the result and has already indicated that cabinet changes are imminent, with some ministers who were close allies but politically inexperienced giving way to more seasoned politicians.

## Indonesia: Government will face pushback after fuel price hike

### Event

Indonesia raised fuel prices by around 30% on September 3 as part of efforts to rein in subsidies.

### Outlook

The Jokowi administration will have to ride out considerable popular anger at the price increase. Meanwhile, since an uptick in inflation appears inevitable, further monetary tightening by the country's central bank is likely.

### Analysis

Announcing the price rise, President Joko 'Jokowi' Widodo said the government has already increased this year's budget for energy subsidies and compensation roughly threefold to IDR502tn (USD34bn). Finance Minister Sri Mulyani Indrawati said it would have increased to IDR698tn without the price hike, and that the expenditure could still reach up to IDR653tn. The government, which is committed to reducing the budget deficit to no more than 3% of GDP by 2023, estimates a deficit of 3.9% of GDP this year. Bank Indonesia (BI) raised the benchmark interest rate by 25 basis points to 3.75% last month in response to inflationary pressures. Annual consumer price inflation was 4.6% in August, down slightly from a nearly seven-year

high of 4.9% in July. There were protests across the country when Jokowi's government hiked fuel prices in 2014 and large demonstrations are expected again this time.

## **Argentina: Attack on CFK may widen rather than ease political polarisation**

### **Event**

Demonstrations were held outside Government House on September 2 in support of Vice-President Cristina Fernandez de Kirchner (CFK) following an apparent assassination attempt the night before.

### **Outlook**

Severe political violence and attacks on political leaders have been rare since Argentina's return to democracy in 1983, but risks are rising along with political polarisation; judges involved in CFK's corruption trial also face threats. Questions over the attack will exacerbate that polarisation, increasing violence and governability risks in the context of mounting crisis.

### **Analysis**

Predictably, many opponents of CFK have cast doubt on the attack, believing it to have been staged by the vice-president and her backers in a bid to boost her support ahead of a pending corruption trial. Many supporters, in contrast, blamed opposition and media voices for spurring the attack and for instigating the corruption case, in which prosecutors have called for a twelve-year prison sentence. As yet little is known about the assailant and whether he acted alone. Meanwhile, the central bank (BCRA) is expected to raise its monetary policy rate later this week to 75.0%, from 69.5% currently, even before the August inflation data is announced; year-on-year inflation reached 71% in July.

## **Brazil: Better than expected growth unlikely to affect election outcome**

### **Event**

Those intending to vote for former President Luiz Inacio Lula da Silva in next month's presidential election fell from 47% last month to 45%, according to a Datafolha survey released last week.

### **Outlook**

Despite the improving economic news, poverty remains high. Bolsonaro's advances in polls suggests that the presidential election is more likely to go to a second round but Lula currently remains the favourite.

## Analysis

The Datafolha survey also shows President Jair Bolsonaro remains on 32% and centre-left candidate Ciro Gomes is up by two points to 9%, with Democratic Movement candidate Simone Tebet rising by three points to 5% – the only change greater than the two-point margin of error. Bolsonaro is expected to enjoy some rise in support ahead of the October 2 elections, boosted by increased welfare payments that came into effect in August and by stronger-than-expected growth, but this may not be enough to erode Lula's lead. GDP expanded by 1.2% quarter-on-quarter and 3.2% year-on-year in the second quarter, according to the country's statistics agency, boosted by services (up 1.3% quarter-on-quarter) and industry (2.2%); agriculture expanded by only 0.5%. Despite high inflation and indebtedness, consumer spending rose by 2.6% quarter-on-quarter and 5.3% year-on-year, with unemployment down to 9.1% in the three months through July. For the first half of 2022 growth reached 2.5% year-on-year, and the country's central bank now predicts full-year growth of 2.1%.

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