

# Political Risk Update: October 4, 2022

- Haiti: Gang activity rules out election and exacerbates cholera threat
- Iran: Weakening rial will push up prices amid protests
- Burkina Faso: New coup may lead to Russia opening
- Latvia: Election will change parties in government rather than policies
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## Haiti: Gang activity rules out election and exacerbates cholera threat

### Event

Protesters demonstrated in Port-au-Prince on October 3, demanding the resignation of acting Prime Minister Ariel Henry amid fuel shortages and soaring living costs.

### Outlook

Pressure for Henry's resignation will rise, but holding elections in the current social and political climate would be both difficult and dangerous. Gang activity will hinder efforts to suppress cholera, which could spread rapidly.

### Analysis

Henry came to power on an interim basis last year on the understanding that he would hold elections for a permanent administration. He has yet to do so, however, hindered by gang violence and other factors. That issue has become a major source of instability, with gangs regularly shutting down transport links and seizing control of infrastructure. Henry's announcement of a fuel price increase last month prompted a gang blockade of Haiti's main fuel port, which has exacerbated shortages and forced service providers such as hospitals and water distributors to stop operating. The increased pressure on health and sanitation services has heightened concerns about disease. Health ministry officials on October 2 said that two cases of cholera had recently been confirmed, one of them fatal; numerous suspected cases are under investigation. Whilst the cases are Haiti's first in three years, the concerns stem from an outbreak in 2010 which resulted in an estimated 10,000 deaths.

## Iran: Weakening rial will push up prices amid protests

### Event

The rial fell to its weakest level ever on the parallel exchange market on October 4, trading at a mid-rate of IRR33,290:USD1 as protests continued across the country following the death of a woman last month after being arrested by the morality police for failing to wear the hijab 'correctly'.

## Outlook

The rial will continue to trend downwards unless a new nuclear deal is forthcoming, regardless of the outcome of the hijab protests. The fall in the rial's value would under normal circumstances increase the cost of imported goods and services but the impact of sanctions on imports will lessen its effect to some degree.

## Analysis

The rial has fallen from IRR28,700 on August 20 due to the failure to agree a new nuclear deal and the political uncertainty created by the recent protests. While the impact will be less strong because imports are restricted by US sanctions, inflation was still running above 50% in August and the weakening currency will raise it further. The government's crackdown on the protests has resulted in dozens of deaths and hundreds of arrests.

## Burkina Faso: New coup may lead to Russia opening

### Event

Paul-Henri Sandaogo Damiba formally resigned as president on October 3 following a military coup on September 30.

### Outlook

The new leadership may look to establish ties with Russia as a security partner, giving another potential opening for the Wagner Group mercenary organisation. Damiba's agreement to resign may help lower tensions within the security establishment but a countercoup remains possible.

### Analysis

Damiba resigned as leader of the country's ruling junta after two days of skirmishing following the military coup on September 30. Captain Ibrahim Traore has become the new junta leader, promising to begin public consultations that could lead to another leader being appointed, potentially a civilian. Damiba stepped down in exchange for security guarantees for himself and his men and a promise to continue the transition to civilian rule. The coup plotters' messaging has not been consistent, but several themes have emerged to justify their action: Damiba's failure to decisively weaken the jihadist insurgency; battlefield disasters; Damiba's flirtations with former President Blaise Compaore; Damiba's alleged turn towards France; and a desire to explore a possible partnership with Russia. The new junta has already made, and then retracted, accusations that France has been helping Damiba to organise a countercoup. Subsequent anti-French demonstrations erupted in both Ouagadougou and Bobo-Dioulasso, the country's second city, with protesters damaging the French embassy.

## Latvia: Election will change parties in government rather than policies

### Event

Prime Minister Krisjanis Karins's New Unity (JV) came first in elections to the Saeima (parliament) held on October 2 with just under 19% of the vote and 26 seats in the 100-member parliament.

### Outlook

Trailing somewhat were the Union of Greens and Farmers (ZZS) with 16 seats; United List (AS) with 15 seats; National Alliance (NA) with 13 seats; and For Stability! (S!) with 11 seats. Two of the previous four-party governing coalition failed to be re-elected, and as JV and NA have only 39 seats between them, the new government will look different. However, its nucleus is still likely to be JV and NA, with Karins returning as premier, although other parties may try to obstruct him after his unusually long four-year stint in office. Deciding how to distribute portfolios may be more important than agreeing on policy.

### Analysis

Latvia First (LPV) and the Progressives each polled 6.2% but the latter's stronger showing in Riga gave it ten seats to LPV's nine. Three parties enter parliament for the first time (AS, S! and LPV); notable absences this time include two parties in the outgoing coalition, Development For! and the Conservatives, as well as the Harmony party, which attracts Russophone votes – its share of the vote plummeted from 19.8% in 2018 to just below the 5% requirement for holding parliamentary seats.

## Mexico: Further rate rises look likely

### Event

The Bank of Mexico (Banxico), the country's central bank, raised its benchmark interest rate by 75 basis points (bp) on September 29, taking it to a record 9.25%. It fell from 47% last month to 45%, according to a Datafolha survey released last week.

### Outlook

Further rate hikes look likely as concerns about the possible depreciation of the peso will discourage any dramatic divergence from the decisions of the Fed.

### Analysis

The move – made with the unanimous backing of Banxico's Governing Board – is the third 75-bp hike in a row, and takes the total rate increase since June 2021 to 525 bp. Banxico has broadly, though not exactly, followed the lead of the US Federal Reserve (Fed), which announced its third consecutive 75-bp rate hike last week. Inflation in Mexico hit 8.76% in the first half of September, up from 8.62% in the first half of August – the highest level since December 2000, and more than double Banxico's target rate of 3%, plus or minus 1 percentage point. It is nevertheless lower than that seen in many other economies, and could have been far higher were it not for the government's introduction of fuel price subsidies following Russia's

invasion of Ukraine, which sent global oil prices soaring. Such subsidies have been funded largely by increased oil export income.

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