

AKE Political Risk Outlook H2 2018 - Ones to Watch

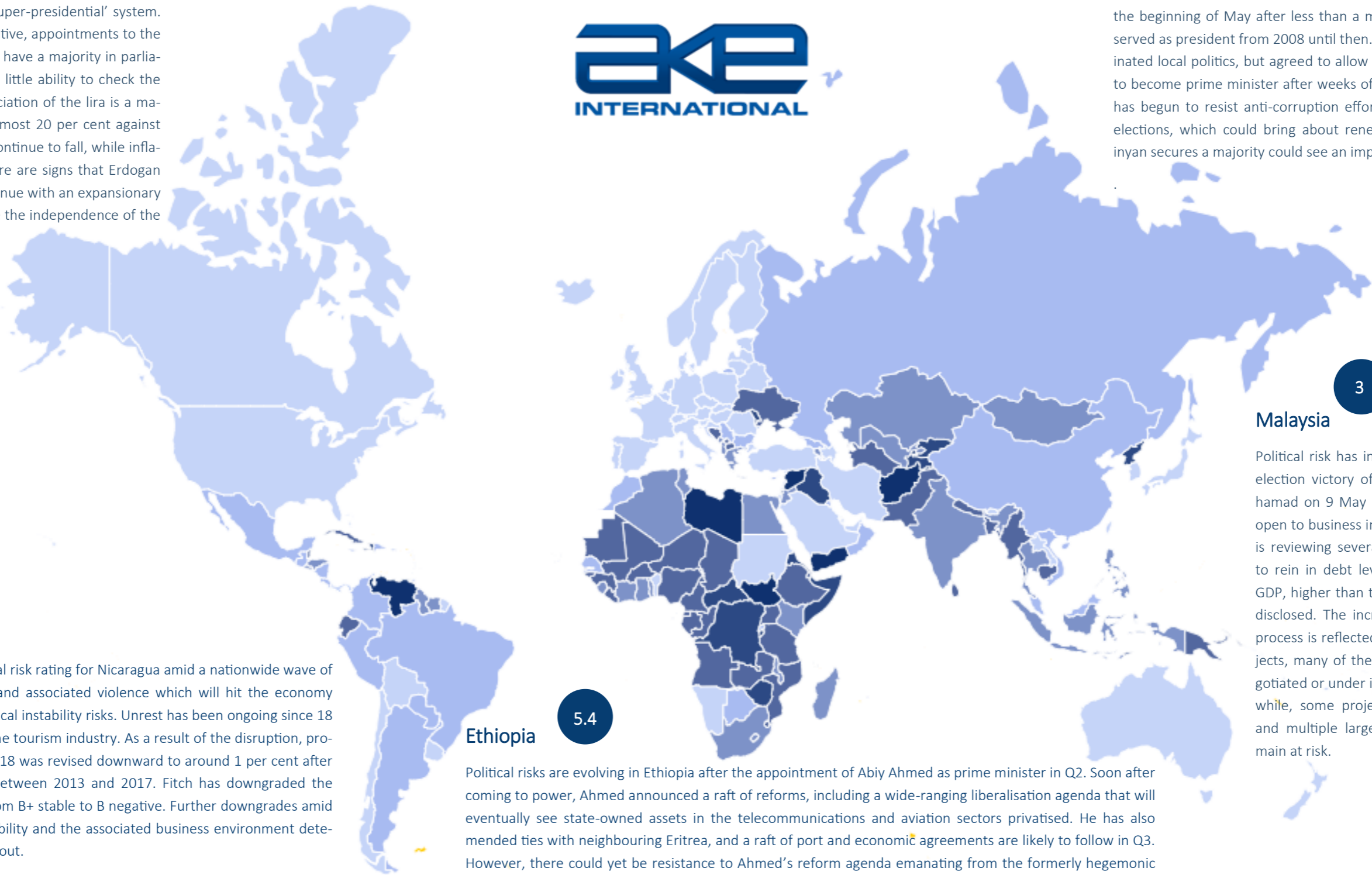


Turkey 4.3

President Erdogan decisively won re-election in Q2, marking Turkey's transition into a 'super-presidential' system. Erdogan now controls the executive, appointments to the judiciary, and the AKP and allies have a majority in parliament. While the opposition has little ability to check the president, the continued depreciation of the lira is a major concern. The lira is down almost 20 per cent against the dollar this year, and could continue to fall, while inflation is around 15 per cent. There are signs that Erdogan and his loyalist cabinet will continue with an expansionary fiscal policy and de facto reduce the independence of the central bank.

Armenia 4.1

Armenia faces an increasingly uncertain political environment following the non-violent revolution that culminated with the ouster of Serzh Sargsyan at the beginning of May after less than a month as prime minister. Sargsyan served as president from 2008 until then. Sargsyan's Republican Party dominated local politics, but agreed to allow opposition leader Nikol Pashinyan to become prime minister after weeks of protests. However, the old guard has begun to resist anti-corruption efforts. Pashinyan has promised early elections, which could bring about renewed instability, although if Pashinyan secures a majority could see an improvement in political stability.



Nicaragua 4.1

AKE has raised the political risk rating for Nicaragua amid a nationwide wave of anti-government unrest and associated violence which will hit the economy and continue to fuel political instability risks. Unrest has been ongoing since 18 April, severely affecting the tourism industry. As a result of the disruption, projected GDP growth for 2018 was revised downward to around 1 per cent after averaging 4.8 per cent between 2013 and 2017. Fitch has downgraded the sovereign credit rating from B+ stable to B negative. Further downgrades amid heightened political instability and the associated business environment deterioration cannot be ruled out.

Malaysia 3

Political risk has increased in Malaysia following the election victory of opposition leader Mahathir Mohamad on 9 May 2018. Although Mahathir remains open to business in principle, the new administration is reviewing several infrastructure projects in order to rein in debt levels amounting to 65 per cent of GDP, higher than the 50.9 per cent figure previously disclosed. The increase in the risk of frustration of process is reflected in the suspension of several projects, many of them China-led, while they are renegotiated or under investigation for corruption. Meanwhile, some projects have already been cancelled and multiple large-scale infrastructure projects remain at risk.

Ethiopia 5.4

Political risks are evolving in Ethiopia after the appointment of Abiy Ahmed as prime minister in Q2. Soon after coming to power, Ahmed announced a raft of reforms, including a wide-ranging liberalisation agenda that will eventually see state-owned assets in the telecommunications and aviation sectors privatised. He has also mended ties with neighbouring Eritrea, and a raft of port and economic agreements are likely to follow in Q3. However, there could yet be resistance to Ahmed's reform agenda emanating from the formerly hegemonic Tigrayan People's Liberation Front (TPLF), and therefore further political instability cannot be ruled out.

AKE POLITICAL RISK RATING SCALE

