

# AKE Political Risk Outlook Q3 2018 - Ones to Watch



Iran

5.39

AKE has raised the political risk rating for Iran in Q3 amid significant shocks to the country's economy. All facets of the already structurally-weak Iranian economy have been affected by the US re-imposition of sanctions, sending implied inflation to recurring all-time heights. Secondary sanctions fears caused many multinationals to leave of the country or cancel deals. Oil sanctions are still scheduled for 4 November, further exacerbating the economic crisis. Iran's economic difficulties are likely to increase in Q4. President Rouhani has fired various economic ministers, but more is needed, possibly precipitating his own departure from the presidency.

Estonia

2.1

AKE has raised the political risk rating for Estonia by downgrading the strength of its institutions and raising the financial sector risk. These changes resulted from revelations of a major money laundering scandal that has, so far, revealed that more than US\$230bln was laundered through the Estonian branch of Danske Bank. Estonia nonetheless remains politically stable, though populist parties were already set to advance in the upcoming March 2019 elections and the scandal could provide a further boost. There is a relatively independent judiciary, although this may be challenged as further investigations of other local bank branches are launched.

Argentina

3.65

AKE has raised the political risk rating for Argentina in Q3 amid a significant increase in the country's economic risks, with both sovereign finance and growth being particularly affected. Following a currency and financial crisis that led the country to resort to the IMF to ease market concerns about the government's ability to meet 2019's financing needs, President Mauricio Macri faces the challenge to balance the budget while being able to secure re-election in October 2019. The economy is expected to contract in 2018 and 2019, with heightened fiscal consolidation likely to come at a political cost.

Malaysia

3.42

AKE has raised the political risk rating for Malaysia following the shock victory on 9 May 2018 of Mahathir Mohamad and his Pakatan Harapan (PH) coalition on the back of populist promises. Mahathir pledged to review costly infrastructure projects to rein in public debt. Up to US\$25bln in infrastructure projects backed by Chinese loans have already been cancelled, and about US\$120bln worth of Chinese projects are either under review, are being renegotiated or have had their viability threatened. Malaysia has also delayed the construction of a high speed rail link with Singapore. Mahathir's administration remains open to foreign investment, so long as the projects benefit Malaysia and Malaysians.

6.81

Democratic Republic of Congo

AKE has raised the political risk rating for the DRC in Q3 following the passage of a new mining charter, which had been widely opposed by mining companies, and recent government statements indicating growing hostility toward investors. In addition to raising royalties on a number of 'strategic' resources, the new code removes a 10-year grace period previously granted to miners to shield them from abrupt from policy changes. The government has also recently sought to block ownership transfers between private investors in mining projects in which government-owned entities hold minority stakes. These changes indicate an increased risk of contract frustration.

## AKE SECURITY RISK RATING SCALE

0.0 - 2.5

2.6 - 3.5

3.6 - 4.2

4.3 - 5.2

5.3 - 6.9

7.0 - 10.0