

MNI POLITICAL RISK ANALYSIS- Governments At Risk Report Oct 2021

by Tom Lake

In this monthly Governments At Risk Report, MNI's Political Risk team use our proprietary Governments at Risk Index (GRI) to identify those governments in developed and emerging markets most at risk of collapse or ouster. The GRI – based on subjective assessments by our analysts – provides a reliable, timely, and quantifiable assessment of the risk of a government leaving office, which can often presage changes in policy that influence FI and FX markets.

Each country included in the GRI is assigned a score out of 40, with the highest scores indicating high risk of a change of government.

October sees several countries record a notable decline in their GRI risk scores, indicating a more stable political environment. In **Canada** and **Germany**, elections have taken place and although no new governments are in place, the political uncertainty engendered by the election has passed. Meanwhile in **Japan** the governing LDP has elected its new leader, and given the overwhelming likelihood of the general election returning an LDP majority, the Election and Removal from Office risk scores have been lowered.

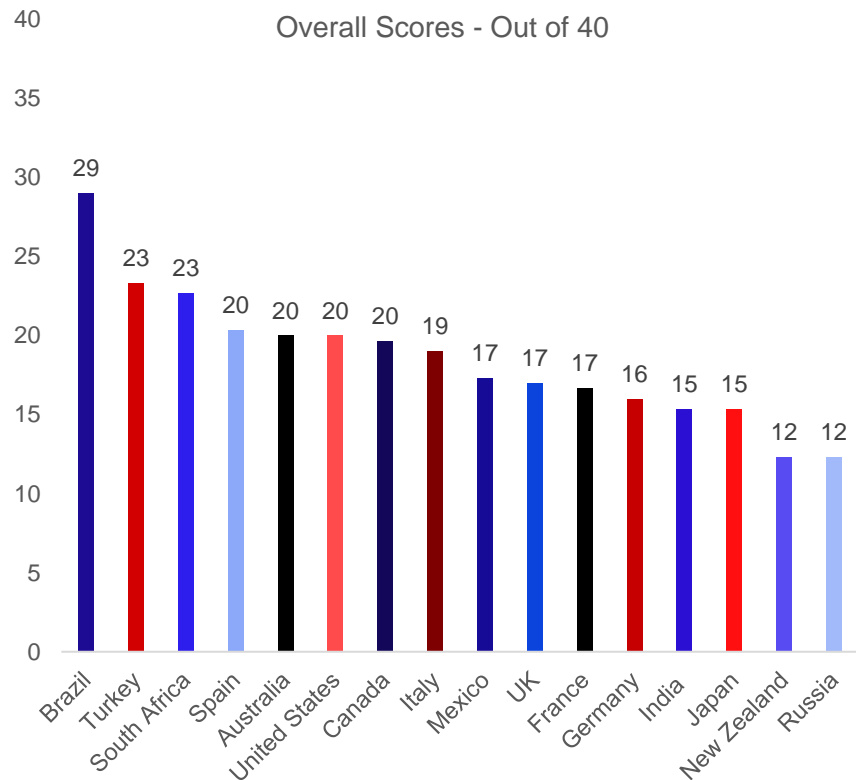


Table 1. Five Biggest Changes Since Last Month

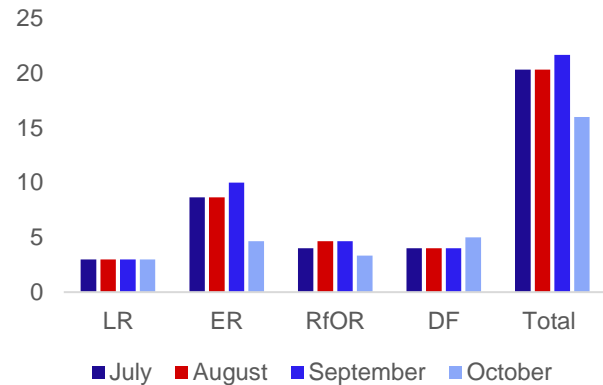
	Legislative Risks (Out of 10)	Election Risks (Out of 10)	Removal from Office Risk (Out of 10)	Democracy Factor (Out of 10)	Total Score (Out of 40)	Overall Change Since Last Month
South Africa	5	5	5	7	23	+2
Italy	4	7	3	5	19	-3
Japan	3	7	2	3	15	-3
Canada	6	5	3	5	20	-3
Germany	3	5	3	5	16	-6

Three Countries in Focus – October 2021

Germany – Overall GRI Falls As Election Risk Score Down In Wake Of September Vote

- Although Germany remains without new governing coalition, the passing of the federal election sees the country's election Election Risk score decline, bringing down the overall GRI to 16 out of 40.
- Should the eventual coalition prove combative or even unsustainable it could see the Legislative/Removal from Office Risks rise.
- Democracy Factor score rises on the back of likely end of long CDU tenure at head of government.

Chart 1. Germany GRI Scores

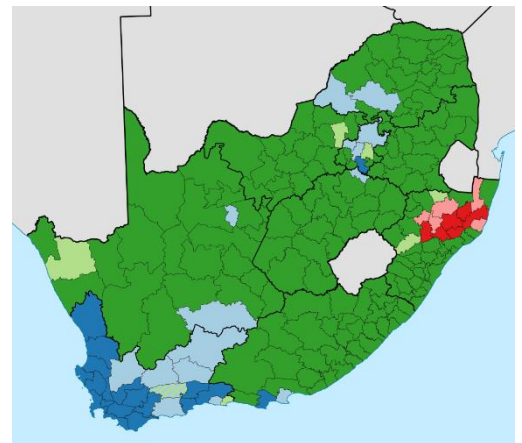


Source: MNI

South Africa – Municipal Elections Could See Uptick In Political Violence

- South Africa's overall GRI score up 2 points to 23 this month on the back of the upcoming municipal elections taking place 1 November.
- ANC looking to win outright majorities in cities of Johannesburg, Tshwane, and Port Elizabeth following shock losses in 2016.
- South Africa has already seen notable political and social unrest in 2021 following the Zuma trial. Municipal votes can prove a flashpoint in South Africa so Election Risk Score rises this month.

Chart 2. 2016 Municipal Elections By District

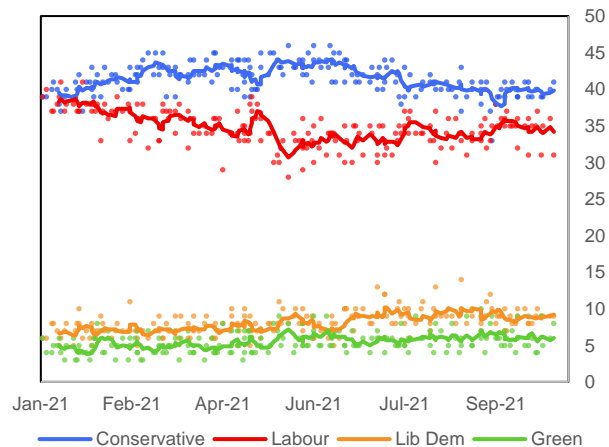


Source: elections.org.za. N.b. Green-ANC, Blue-DA, Red-IFP

UK – Shortages Raising Pressure On Government Ahead of Difficult Winter

- The UK's GRI score ticked up in October as the Removal from Office risk indicator was raised on the back of petrol, food, and gas shortages that could prove an indicator of a difficult winter ahead.
- PM Johnson's government enjoys relatively strong polling support at present, but this could deteriorate significantly in the coming months. A cost of living crisis engendered by rising taxes, food and fuel inflation, and spiking natural gas prices could see public and party patience with the PM begin to wear thin.

Chart 3. UK Opinion Polling, %

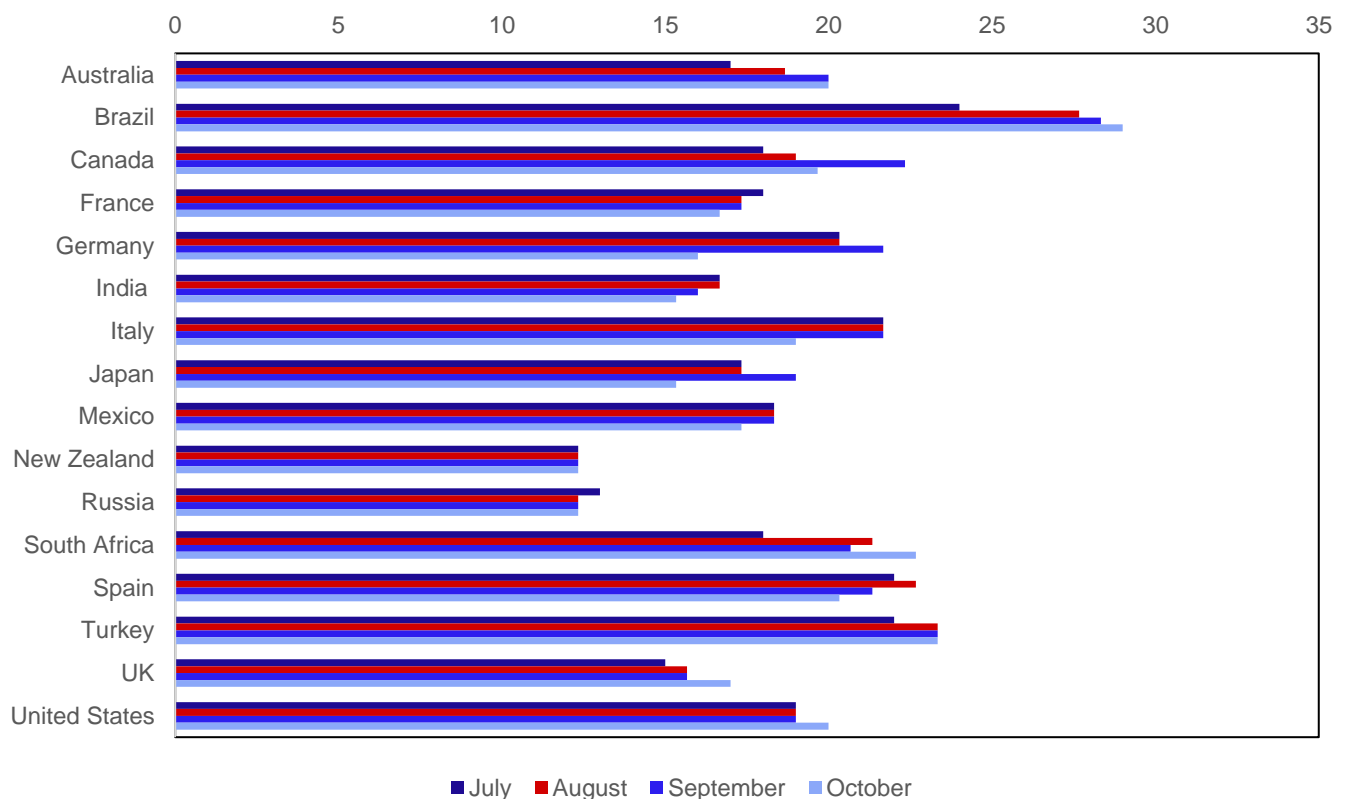


Source: YouGov, Survation, Ipsos MORI, ComRes, Opinion

Upcoming Risks To GRI Scores

- While recording a decline in its GRI score in October, **Italy's** political environment remains one of the most fractious in the G10, and therefore vulnerable to a sharp reversal in its score. MNI's Policy team highlighted this in an October article (*MNI INTERVIEW: Italy Risks Missing Reform Deadlines For EU Cash, 10 October*). In the article, League economics spokesman Alberto Bagnai stated that there was the possibility that draft laws to reform Italy's courts and bureaucracy could be rejected due to his party's 'deep disappointment' with the legislation.
- Australia's** GRI score is at risk of shifting higher in the months ahead, with the 2022 legislative election now under a year away. Polls show PM Scott Morrison's centre-right Liberal/National coalition government haemorrhaging support. Given that the election is not imminent, sustained poor polling could prompt the Liberals to seek a new leader before the elections, a move that would raise the Removal from Office Risk score.

Chart 4. Change in Overall GRI Scores



Source: MNI

- The **United States** hit its highest overall GRI scores this month since the index's creation. President Biden has acknowledged the possible supply-chain crises engendered by the pandemic that the US is set to face in the run-up to Christmas. This, combined with the 2022 mid-terms looming into view and the continued difficulty the Democratic party faces in passing major legislation through Congress could see the score climb higher in the months ahead.

Table 2. Full Government Risk Index Scores

	Legislative Risks (Out of 10)	Election Risks (Out of 10)	Removal from Office (Out of 10)	Democracy Factor (Out of 10)	Total Score (Out of 40)	Overall Change Since Last Month
Australia	5	7	3	5	20	=
Brazil	8	8	8	5	29	+1
Canada	6	5	3	5	20	-3
France	3	5	3	5	17	-1
Germany	3	5	3	5	16	-6
India	3	4	3	5	15	-1
Italy	4	7	3	5	19	-3
Japan	3	7	2	3	15	-3
Mexico	3	3	6	5	17	-1
New Zealand	2	3	2	5	12	=
Russia	2	3	5	3	12	=
South Africa	5	5	5	7	23	+2
Spain	6	6	3	5	20	-1
Turkey	6	5	6	6	23	=
UK	5	3	5	4	17	+1
United States	7	5	3	5	20	+1

GRI Methodology

The MNI Government Risk Index (GRI) is a measure of the stability of a nation's government based on the subjective assessment of our analysts using our proprietary scoring system to assign each country a number in four different sections of risk that can affect government stability. These four sections are:

- **Legislative Risk:** The risk posed to government stability either through the size of its majority in the legislature, or a lack of party/coalition unity that could see it defeated on key legislation or lose a confidence vote.
- **Electoral Risk:** The risk posed to a government by the electorate. Risk factors include the proximity of a major election, whether the incumbent government, president, or party is likely to win re-election, and the risk of a snap election taking place.
- **Removal from Office Risk:** The risk posed to a government by the threat of forceable removal from office. This could come in the form of the physical removal of a government in a military coup d'état, a government resigning or being forced from

office due to mass public protest, or the head of a government being removed in an internal struggle by their own party.

- **Democracy Factor:** The Democracy Factor assess the risk of a change in government based on how democratic a nation's government is. Naturally, a democratic government is more at risk of being removed from office than an autocratic one due to its holding of regular elections, utilisation of checks on the executive via the legislature, and personal freedoms such as freedom of speech and freedom to protest. However, autocratic or one-party governments, while apparently stable, can collapse rapidly in the event of internal power struggles. As such, the Democracy Factor assigns higher risk scores to countries with functioning multi-party democracies due to the greater prospect of those governments changing. However, it also assigns high risk scores to autocratic/one-party states that show signs of internal power struggles within the governing elite.

Each of the four sections of the GRI is scored out of 10, with one being the lowest score (indicating very little risk to a government) and 10 being the highest (indicating an extremely unstable government that has a strong chance of being ousted. These four sections' scores out of 10 are then combined to give an overall total for the country out of 40.

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