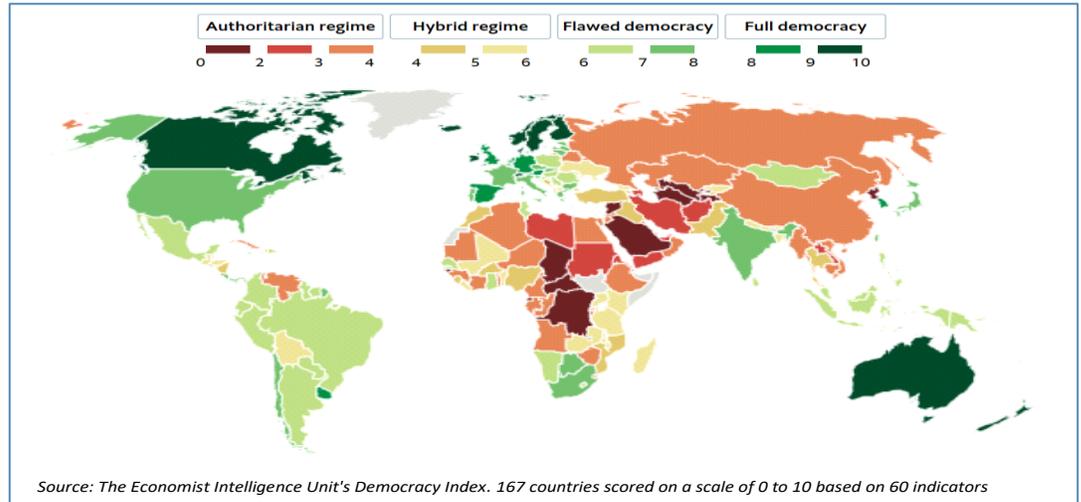




R&R Weekly Column  
By Brunello Rosa



## The Rise of Authoritarian Leaders: A Downside Risk to the Global Economy

On Saturday, the Chinese parliament re-elected Xi Jinping as President of China, while a week before the constitution was amended to allow Xi to remain in power indefinitely. Xi's choice of Wang Qishang (a key ally of Xi who was in charge of the anti-corruption campaign) as vice-president also signals the intention of the president to continue consolidating and concentrating the power in his hands. China exhibits a number of [socio-economic fragilities](#), but the system as a whole has the economic and financial resources to withstand a systemic crisis. With the latest consolidation of power, the president has ensured that China could even face an additional systemic crisis and be able to preserve the integrity of the political system.

On Sunday, Vladimir Putin was re-elected Russian President for his fourth mandate, which will last six more years, until 2024. At the end of this term (assuming he does not change the constitution to remove the clause that prevents a third consecutive mandate), he would have been in power (as President or Prime Minister) for 25 years. After Putin's accession to power, Russia has rapidly moved from a presidential democracy, albeit imperfect, to an increasingly autocratic regime. The annexation of Crimea in 2014 shows how cynically Russia could move on the international stage.

In April 2017, a referendum in Turkey has transformed the Republic into a Presidential system, in which President Erdogan is the *deus ex machina*. Also Erdogan has been in power, initially as Prime Minister and then as President, since 2003. Since Erdogan's accession to power, also Turkey has moved from being an imperfect secular democracy to an increasingly Islamic-inspired autocracy, as testified by the repression that followed the failed coup in July 2016.

Russia and Turkey are two examples of the increasing tendency of political systems to evolve from relatively democratic organisations into autocratic regimes, and other could be made (e.g. the Philippines under Rodrigo Duterte). China shows how power can be further consolidated and concentrated even in already authoritarian regimes. [Statistics show](#) (see map above) how this phenomenon is increasingly happening throughout the world.

The recent crisis of the [Russian spy killed in the UK](#), which has led to the summoning of a UN security council meeting, show how dangerous can be the rise of authoritarian regimes: they represent a problem not just from a (geo)political perspective, but also from an economic perspective, if this leads, for example, to the imposition of economic sanctions. In fact, sanctions tend to have negative repercussions not just on the target country, but also on all those countries linked to the targeted one via trade and financial flows.

Therefore, the rise of authoritarian regimes in a period of increasing protectionism (which is also a typical move adopted by autocratic leaders) represents not just a danger for the already fragile and shifting world geopolitical order, but also a downside risk – over the medium term – to the sustainability of the ongoing synchronised global expansion, and related equity valuations. Market participants tend to underestimate the importance of such political shifts, as they occur slowly and their effects tend to be felt overtime, or because they are perceived only as tail risks, even when they carry a potentially large downside. Nonetheless, historical experience show that the cumulative impact of such political shifts tend to be large, when they materialise.

### Our Recent Publications

 [India Travel Notes: Rising Macro Headwinds In Spite of Recent Pick-Up in Growth](#), by N. Roubini, 13 March 2018



 [Impact of Tariffs and Trade Wars on the US Dollar](#) by Nouriel Roubini and Brunello Rosa, 15 March 2018

The Week Ahead

**US - The Fed will increase its policy rate by 25 bps.** As the CPI came in line with consensus (*a*: 2.2%; *c*: 2.2%; *p*: 2.1%), the likelihood of a 25-bps hike at the March 20-21 FOMC meeting rose to 94% (*pw*: 89%), while the likelihood of “at least three” and “at least four” hikes in 2018 are now at 74% and 34% respectively (CME).

**Europe - The EC will review the state of Brexit negotiations.** The EU27 will aim for a Canada-style trade deal with the UK. In the UK, inflation is expected to soften moderately (*c*: 2.9%; *p*: 3.0%) and the BoE will leave its policy rate unchanged at 0.5%.

**Russia - President Putin was re-elected.** Official polls estimated the president's support at around 70%, while the main opposition candidate was barred from participating.

**Saudi Arabia - Last Thursday the country raised interest rates** ahead of the expected Fed tightening: SAMA raised repo and reverse repo rates by 25 bps each, to 2.25% and 1.75% respectively.

The Quarter Ahead

**US - The risk of a US-triggered trade war will remain high.** The new US steel and aluminium tariffs took effect on Friday. The nomination as Trump's chief economic adviser of Larry Kudlow—a free trade advocate—moderated concerns about trade wars. However, last week Kudlow pointed out: “China has not played by the rules for a long time and has earned a tough response”.

**Europe - Germany and France will try to strengthen the EU.** Merkel has been formally elected Chancellor; her coalition with the SPD—in charge of the finance and foreign affairs ministries—and her cooperation with French President Macron could bring about more European integration reforms.

**Russia - US sanctions and European threats will not have an economic impact.** US sanctions for interfering in the 2016 presidential election, and European actions related to the poisoning of a former spy are unlikely to affect neither the economy nor market sentiment. Gazprom issued a EUR 750mn Eurobond which met strong demand. Russia announced the issuance of a 11-year Eurobond yielding around 4.75%.

**Iran - The risk of new sanctions will increase.** Britain, France and Germany have proposed fresh EU sanctions on Iran, over its ballistic missiles and its role in Syria's war, in a bid to persuade Washington to preserve the 2015 agreement. Alternatively, the US will consider imposing sanctions unilaterally.

**Saudi Arabia – The country has announced plans to develop nuclear weapons if Iran manufactures one.** The crown prince is pressing the US to allow Saudi Arabia to enrich uranium in return for choosing American nuclear technology. Saudi fears that a breakup of the nuclear deal would encourage Iran to complete the bomb.

**EM Bonds - Appetite will remain strong.** Last week, a total of USD 19.2bn were raised (*pw*: 13.0). In the GCC, Bank Muscat (Baa2/N.R./BBB-) issued a USD 500mn bond with a yield of 4.875%, due in 2023.

**Oil prices - Likely to decline.** Last week, due to geopolitical concerns, oil prices increased by 1.1% to USD/bbl. 66.2, but are likely to decline in Q2, driven by non-Opec production (+ 280k bpd), mostly due to an increase in US shale output.

Last Week's Review

**US - President Trump replaced Secretary of State Rex Tillerson with former CIA director Mike Pompeo** (an opponent of the Iran nuclear deal), raising concerns about the possibility of a tougher US stance on Iran. The financial markets remained stable w-o-w: the S&P500 declined by 0.5%; the yields of 10-y UST decreased by 4 bps, to 2.85%. The USD rose marginally against a basket of currencies (DXY rose by 0.1%) and against the EUR (EUR/USD declined by 0.2% to 1.229).

**Turkey - Concerns are growing about the external deficit.** In January, the C/A deficit rose to 6.0% of GDP (*p*: 5.5%). The TRY depreciated by 2.9% w-o-w to USD/TRY 3.923.

**EZ - industrial production growth came below expectations in January** (*a*: 2.7% y-o-y; *c*: 4.7%; *p*: 5.3%).

**China - The parliament removed the two-terms limit for the presidency,** paving the way for President Xi Jinping to rule indefinitely.

Pablo Gallego Cuervo and Renata Bossini contributed to this Viewsletter.

The picture in the front page comes from [this website](#)



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## Abbreviations, Acronyms and Definitions

a	Actual	JPY	Japanese yen
bn	Billion	k	thousand
BCB	Central Bank of Brazil	KRG	Kurdistan Regional Government
BoC	Bank of Canada	LN	Northern League
BoE	Bank of England	MSS	Five Star Movement
BoJ	Bank of Japan	m-o-m	Month-on-month
bpd	Barrels per day	mb/d	Million barrels per day
bps	Basis points	MENA	Middle East and North Africa
c	Consensus	mn	Million
C/A	Current account	MPM	Monetary Policy Meeting
CB	Central bank	MSS	Five Star Movement
CBK	Central Bank of Kuwait	OECD	The Organization for Economic Cooperation and Development
CBO	US Congressional Budget Office	Opec	Organization of Petroleum Exporting Countries
CBR	Central Bank of the Russian Federation	p	Previous
CBT	Central Bank of the Republic of Turkey	pw	Previous week
CDU	Christian Democratic Union of Germany	PCE	Personal Consumption Expenditures
CNY	Chinese Yuan	PM	Prime minister
CPI	Consumer Price Index	PMI	Purchasing managers' index
CPC	Communist Party of China	pps	Percentage points
CSU	Christian Social Union in Bavaria	QCB	Qatar Central Bank
DFMGI	Dubai Financial Market General Index	QE	Quantitative easing
DJIA	Dow Jones Industrial Average Index	q-o-q	Quarter-on-quarter
d-o-d	Day-on-day	RBA	Reserve Bank of Australia
DXY	US Dollar Index	SAAR	Seasonally Adjusted Annual Rate
EC	European Council	SAMA	Saudi Arabian Monetary Authority
ECB	European Central Bank	SHCOMP	Shanghai Stock Exchange Composite Index
EIA	US Energy Information Agency	SPD	Social Democratic Party of Germany
EM	Emerging Markets	tb/d	Thousand barrels per day
EP	European Parliament	tn	Trillion
EU	European Union	TRY	Turkish Lira
EU27	EU members (except the UK)	UAE	United Arab Emirates
EUR	Euro	UK	United Kingdom
EZ	Eurozone	US	United States
Fed	US Federal Reserve	USD	United States Dollar
FOMC	US Federal Open Market Committee	USD/bbl.	USD per barrel
FRB	US Federal Reserve Board	UST	US Treasury bills/bonds
FX	Foreign exchange	VAT	Value added tax
FY	Fiscal Year	VIX	Chicago Board Options Exchange Volatility Index
GCC	Gulf Cooperation Council	w-o-w	Week-on-week
GBP	British pound	y-o-y	Year-on-year
GDP	Gross domestic product	y-t-d	Year-to-date
GOP	Grand Old Party (US Republican Party)	YPG	People's Protection Units (Kurdish militia in Syria)
IMF	International Monetary Fund	ZAR	South African Rand
IPO	Initial public offering	10-y	10 year

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