

2023 emerging market elections: The who's who and the so what...



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Key points

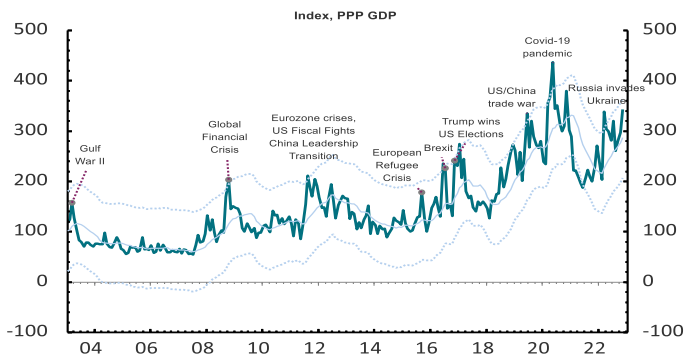
- In May, Turkey's President Erdoğan is running for his re-election. Whatever the result, painful fiscal, monetary and credit policy adjustments need to occur
- Argentina looks set for a change of leadership in its October election – can anyone end the country's economic woes?
- Can Poland's ruling coalition prevail in November's vote? The Rule-of-Law open conflict with the EU will take centre-stage in the electoral debate
- How will Nigeria's next government manage its unavoidable foreign exchange adjustment?
- Will Guatemala's new leadership let the country continue to drift towards authoritarianism?

With democratic systems now in place across many developing countries, investors have had to become increasingly vigilant around political events. In many emerging markets, election years have coincided with a boost in fiscal spending, often leading to a significant deterioration of already fragile fiscal positions. This in turn has increased dependency on foreign financing, which can be exacerbated by an acceleration of foreign capital outflows and can put further pressure on currencies and bond yields. Inevitably, a lot of crises have occurred in sync with political cycles. However, in developing countries where democratic institutions have matured, there has been some decoupling of financial and political cycles, thanks to the improved quality of the fiscal and monetary frameworks.

Since 2008, market sensitivity to politics has increased, particularly in advanced economies, as highlighted by events such as the European sovereign debt crisis, Brexit and trade wars. Moreover, the pandemic caused significant policy uncertainty across the globe and deepened inequalities and poverty. This evolution has made poll outcomes more difficult to predict and given populist candidates a stronger hand. Last year, populist

Hungarian President Viktor Orbán remained in power, defeating a coalition of opposition parties that had led in the polls. In Brazil, the populist right-wing incumbent Jair Bolsonaro lost out to the populist left-wing Luiz Inácio Lula da Silva, spurring on social unrest, testament of the profound fracture within the country and the difficult task of unifying it for President Lula.

Exhibit 1: Politics and policies in focus
World Economic Policy Uncertainty Index



Source: Refinitiv Datastream and AXA IM Research nov. 22

This year, several developing countries will go to the polls – and the results could alter the political and policy trajectories of each nation. Below we examine the potential outcomes of upcoming elections in Nigeria, Thailand, Turkey, Guatemala, Argentina, Poland and India. Ahead of these scheduled elections, we will likely witness some fiscal slippage.

The most watched elections will likely be in Turkey and Argentina. President Recep Tayyip Erdoğan should be running for re-election for a final term. Whatever the outcome, the new leader will have the difficult task of addressing Turkey’s economic imbalances, which will be painful to unwind. Argentina looks set for yet another shift in power but the question of whether this will offer a solution to the country’s economic woes will remain.

A new President will also be elected in Nigeria, as the incumbent has run his second and last mandate. They will have to reform the currency regime. Guatemala is also set to elect a new President, amid justifiable fears that this young democracy is moving towards autocracy. In Asia, elections in Thailand could increase political-related volatility as the effect of eight years of military presence at the heart of government, and changes to the electoral system may hinder the incoming government’s formation. Several state elections in India will be indicative of the momentum around President Narendra Modi’s BJP party ahead of the 2024 elections.

Aside from scheduled elections, we will remain focused on many developing countries where social unrest has been on the rise. Latin America is of particular interest given Peru’s current political crisis, as well as Chile’s second attempt at constitutional reform and Brazil’s deeply polarised political climate. Crucially, all this is taking place in the middle of a global economic slowdown, which is likely to exacerbate tensions.

Nigeria

Presidential/parliamentary (25 February 2023)

Exhibit 2: 2023 candidates and polling, 2019 results

2023 election candidate		
Candidate	Voter preference	Party
Peter Obi	23%	Labour Party (LP)
Bola Tinubu	13%	APC
Atiku Abubakar	10%	PDP
Undecided	52%	

2019 House of Representatives election results				
Parties	APC	PDP	APGA	Total
Seats	217	115	9	360

Source: ANAP Foundation, official sources and AXA IM Research, December 2022

General elections around the corner. Presidential and legislative elections are due to take place on 25 February 2023, and state elections on 11 March 2023. We expect the new President will have a mandate for change. Out of the 10.5 million new registrations, new young voters account for eight million. As President Muhammadu Buhari (80 years old) completes his second presidential term in a row (2015, 2019), Peter Obi (61) is running ahead in the polls and seems to better embody the aspirations of the young compared with Bola Tinubu (70) from the APC ruling party or Atiku Abubakar (76) from PDP, the main opposition. But a high share of voters (52%) is either undecided, or refused to reveal their preference, and the two main parties can rely on well-tested electoral strategies, leaving the outcome uncertain. While the central bank’s ‘cashless’ policy (e.g., limits on bank withdrawals) has sought to reduce the avenues for buying votes, fair elections are not guaranteed, and outbursts of violence are not ruled out.

Post-election reforms, a consensus. The three main candidates share the same economic priorities, including a phasing out of the petrol subsidy and reform of the currency regime. The heavily regressive petrol subsidy has weighed on the budget (2.7% of GDP in 2022) at the expense of public investment in infrastructure and essential spending on education and health. As oil production stayed near record lows in 2022, reflecting theft and safety issues, Nigeria’s fiscal accounts have failed to benefit from high oil prices. On the currency front, there is a consensus that the heavily-managed multiple exchange rate system should evolve towards a market-oriented regime, thereby improving foreign exchange liquidity and achieving a market-clearing price. Given the backlog of US dollar demand and the gap between the official and parallel rates, that implies a hefty currency devaluation, of 20% to 30% versus the dollar. Managing the devaluation would be easier if timed when new dollar supply comes into Nigeria, either through higher oil production and exports, or less likely, thanks to fresh dollar borrowing. The recent increase in oil production – to 1.24mn barrels per day in December 2022 from a low of 0.94 in September – could pave the way for post-election reforms.

Thailand

General elections (7 May 2023)

Exhibit 3: 2023 current candidates, 2019 results

2023 election candidates				
Parties	United Thai Nation	Pheu Thai	Palang Pracharat	Democrat
Leader	Prayut Chan-ocha	Paetongtarn Shinawatra	Prawit Wongsuwan	Jurin Laksanawisit
2019 election results				
Parties	Move Forward	Bhumjaithai	-	-
Leader	Pita Limjaroenrat	Anutin Charnvirakul	-	-
2019 election results				
Parties	Palang Pracharat	Pheu Thai	Democrat	Future forward
Leader	Prayut Chan-ocha	Sudarat Keyuraphan	Abhisit Vejjajiva	Thanathorn J.
Vote %	28.7%	20.6%	14.8%	19.2%

Source: Bangkok Post, official sources and AXA IM Research, January 2023

Rising political fog. In Thailand, 2023 is an important year for politics. The parliamentary term is due to end in March and a general election will take place in May, unless the prime minister (PM) calls for a House dissolution before that. Following eight years of a military establishment since the coup in 2014, the stakes for Prayuth Chan-ocha, the incumbent, have become high. As a way to extend power, he has joined a new party – the United Thai Nation, also known as the Ruamthai Sangchart party. However, the main opposition, Pheu Thai, also remains popular.

This time around there is heightened uncertainty regarding who will become the next prime minister. The electoral system was changed in a 2021 amendment of the constitution which restored the pre-2017 parallel voting system. This year, the 250 senators appointed by Prayuth, will still exert influence and vote for the next prime minister along with the elected 500 Members of the Parliament. However, even if a party wins the majority, it may not have enough votes to secure the PM post to form a government.

Near-term outlook. Election outcomes have in many instances been difficult to predict in Thailand. On the one hand, Prayuth remaining as PM would mean policy continuity. Or a stable and effective government could bring about new growth-supportive reforms and policy proposals to promote growth and address underlying structural issues. However, political accidents and uncertainty cannot be ruled out from Thai politics. In the case of a new coalition, Thailand may experience short-term market volatilities and challenges ahead of any policy implementation. Overall, we expect a general increase in local spending and pump-priming ahead of the elections.

Turkey

Presidential/Parliamentary (14 May/28 May)

Exhibit 4: 2023 current candidates, 2018 results

2023 election candidates						
Coalitions	People's Alliance	Table of Six	HDP	Independents Other parties		
Leader	Erdoğan	Undecided	Undecided	3 candidates		
2018 election results						
Parties	AKP	CHP	HDP	MHP	IYI	Others
Seats	286	134	56	48	37	NA
Leader	Erdoğan	İnce	Demirtas	-	Aksener	
Vote %	52.6	30.6	8.4	-	7.3	

Source: official sources, AXA IM Research. NB: AKP=Justice and Development Party, CHP=Republican People's Party, HDP=People's Democratic Party, MHP=Nationalist Movement Party, Good Party=IYI, Table of Six=Nation's Alliance (CHP +IYI+Felicity Party+Democrat Party) +DEVA+Future Party, People's Alliance=AKP +MHP

It's the final countdown. Some 64 million Turkish citizens will vote for their future president and the 600 deputies of the unicameral parliament. Recent legislative changes transformed Turkey's parliamentary democracy into a hyperpresidential system. As such, Turkish President Recep Tayyip Erdoğan will go to the polls for what could be his final electoral test. The country has changed in many ways since his electoral success in 2002: a doubling of GDP per capita cannot hide recent increases in economic imbalances, including, but not limited to, its massive external financing needs and hefty dollarisation of the economy – induced by the unorthodox policies that support Erdoğan's "new economic model". Above all, democratic checks-and-balances have been scaled down and the quality of public institutions has deteriorated.

A united opposition against the incumbent President and his ruling coalition. Powerful though he is, Erdoğan had only managed to gain 51.8% and 52.6% of votes in 2014 and 2018 elections respectively, banking primarily on his opponents' inability to offer a viable alternative. Most recently, the four-party Nation's Alliance under the CHP umbrella joined forces with two recently created parties: Ex-AKP's Ahmet Davutoğlu's Future Party and Ali Babacan's DEVA. They have committed to present a joint presidential candidate, pledged to restore the rule of law and civil liberties under a parliamentary system. As of now, polls show the opposition could have a reasonable chance of winning were they to present Kemal Kılıçdaroğlu (CHP), Ekrem İmamoğlu (Istanbul mayor) or Mansur Yavaş (Ankara mayor) as their candidate, particularly if the Kurdish-minority party (HDP) brings its support in the second-round vote. From a market perspective, the outcome of this election appears binary, but from a macroeconomic angle, it seems clear that a clean-up of the many accumulated imbalances will have to occur no matter who wins, which will inevitably include painful adjustments through tighter monetary policy, lower currency and a certain fiscal cost to pay for the past.

Guatemala

General elections (25 June 2023)

Exhibit 5: 2023 current candidates, 2019 results

2023 election candidates				
Parties	Valor-PU	UNE	Podemos	MLP
Leader	Zury Ríos	Sandra Torres	Roberto Arzú	Thelma Cabrera
Opinion poll	16%	14%	9%	5%
2019 election results				
Parties	Vamos		UNE	
Leader	Alejandro Giammattei		Sandra Torres	
Vote share	58.0%		42.0%	

Source: CID Gallup, official sources and AXA IM Research, December 2022

Election frenzy. Guatemala will hold general elections on 25 June 2023, electing a president and vice president, all 160 seats in Congress, all 20 members of the Central American Congress, and mayors and councils of all 340 municipalities in the country. Incumbent President Alejandro Giammattei is constitutionally barred from running for a second term. A presidential run-off may be held on 27 August if the 50% threshold is not reached in the first round.

Shifting political landscape. Twenty-eight parties will participate in this year's presidential elections with 10 competing for the first time. However, only four candidates have a realistic shot at the presidency. According to a recent CID Gallup poll, the conservative former Congress member Zury Ríos is leading the race with 16% of the vote. Ríos is the daughter of former dictator Efraín Ríos Montt. Sandra Torres from the leftist UNE party is polling second with 11% of the vote. Torres had been Guatemala's first lady (2008-2011) and the presidential runner-up in the last two elections. The other two important candidates are the national populist Roberto Arzú from Podemos and Thelma Cabrera from the indigenist party Movimiento para la Liberación de los Pueblos (MLP). In contrast, the ruling party's candidate, Manuel Conde, barely has 1% of the vote, which is likely the reflection of the President's low approval rating.

Challenges remain. The economy experienced a strong post-pandemic recovery after a comprehensive policy response. However, social indicators such as poverty and malnutrition remain elevated. It will be vital for the next administration to broaden the country's tax base and boost social spending. Progress on this front will require a less fragmented Congress. Guatemala's young democracy has slipped towards authoritarianism during Giammattei's tenure: The nation's lead anti-corruption prosecutor was forced to flee the country; the judicial system has been stacked with political allies; and there have been hundreds of attacks against the press. There are fears that democracy could deteriorate further if Zury Ríos wins the presidency. In fact, she had been an ally of Giammattei until recently and her defence of her father's legacy and praise for figures like El Salvador's President Nayib Bukele suggest an authoritarian vein.

Argentina

General elections (22 October 2023)

Exhibit 6: 2023 current candidates, 2019 results

2023 election candidates			
Parties	FdT	JxC	LLA
Leader	Undecided	Undecided	Javier Milei
Opinion poll	30.2%	34.5%	18.8%
2019 election results			
Parties	FdT	JxC	Consenso
Leader	Alberto Fernández	Mauricio Macri	Roberto Lavagna
Vote share	48.2%	40.3%	6.4%

Source: Aresco Instant Research, official sources and AXA IM Research, January 2023

No official candidates yet. Argentinians will head to the polls on 22 October to elect a new president and governors for most provinces. A run-off will take place on 19 November if no candidate receives at least 45% of valid votes in the first round. Voters will also have to renew half the Chamber of Deputies and one third of the Senate. With elections only 10 months away, neither of the two largest parties, Frente de Todos (FdT) and Juntos por el Cambio (JxC) have selected their presidential candidates. The situation will become clearer on 13 August when all political parties are forced to hold primaries. For now, the libertarian La Libertad Avanza (LLA) is the only large political party which has already selected its candidate, the firebrand Javier Milei.

A likely right-wing victory. Argentina's endless economic crises coupled with a divided FdT should allow the right-wing opposition party JxC to regain power once again, having lost the 2019 elections. JxC leads opinion polls with 34.5% of the vote although it is still very far from the 45% threshold needed to avoid a runoff. However, JxC will very likely defeat FdT in a hypothetical runoff as it would capture most LLA voters. Furthermore, FdT's most popular figure, Vice President Cristina Kirchner announced she would not run for office this year after being sentenced for corruption charges. Instead, either Sergio Massa (Minister of Economy) or the incumbent President Alberto Fernández will have to fill the void. Similarly, it is unclear who will be JxC's candidate. The main options are former President Mauricio Macri, former Minister of Security Patricia Bullrich and Buenos Aires' Mayor Horacio Larreta.

Déjà vu. When the right-wing Macri was elected in 2015 after many years of Peronist rule, there were high hopes he would be able to turn the country's economy around but he failed categorically and eventually lost his re-election bid in 2019. If his party ultimately wins this year's elections, JxC will inherit a much poorer and more distorted economy, which begs the question: can anyone fix Argentina's economic troubles? For now, we expect the country to muddle-through until the elections as higher unexpected inflation, expenditure control and strong commodity prices allow the government to meet the International Monetary Fund programme's deficit target.

Poland

Parliamentary elections (by 11 November 2023)

Exhibit 7: 2023 current candidates, 2019 results

2023 election candidates			
Coalitions	United Right	Civic Coalition	The Left
Opinion poll	34%	27.4%	8.4%
2019 election results			
Coalitions (Main party)	United Right (PiS)	Civic Coalition (PO)	The Left (SLD)
Leader(s)	Kaczyński	Tusk	Czarzasty-Biedroń
Sejm/460	228	126	44
Senate/100	46	41	0
Vote share	43.6%	27.4%	12.8%

Source: RMF, official sources and AXA IM Research, January 2023

EU conflict: PiS' Damocles' sword. In power since 2015

Jarosław Kaczyński's right-wing populist party Law and Justice (PiS) has been significantly consolidating its influence over the judicial, media and education systems, pushing Poland into a rule-of-law conflict with the European Union (EU). This culminated in the freezing of €35bn from the pandemic Recovery and Resilience Facility (RRF) funding as well as the budget allocated under the new 2021-2027 EU's Multi-annual Financial Framework (MFF). As public opinion becomes increasingly concerned with the lack of new EU funding and as the opposition focuses on this crisis, the governing coalition proposed new draft legislation in January, in an attempt to please the EU, unlock the funding and boost its support in the polls which has dipped to around 35% and is weakening. Whether the legislation has a meaningful impact on improving the rule of law or is sufficient to unlock the flow of EU funds into Poland remains unclear. But it certainly magnified the difficulties within the ruling coalition itself around the judicial topic, only months before Poles will go to ballot to elect the 460 members of the lower chamber (Sejm) and 100 Senators.

Yet another united opposition coalition in the making? For months now, the main parties in the democratic opposition bloc – including Donald Tusk's Civic Platform, the left coalition, the agrarian party and the centrist Christian democratic Polska 2050 party which is currently polling around 10% of vote intentions – have been debating running together or separately in the upcoming election. This has echoes of Hungary (where the united opposition eventually lost to the incumbent Orbán, at odds with the polling) and with what is currently happening in Turkey. As it stands, the government and the possible united opposition appear to have similar chances of winning the next election in the polls. Still, PiS President Andrzej Duda's mandate runs until May 2025 and the President can veto any bill an opposition-led government would propose were they to decide to run united and win the elections. A political stalemate in the case of an opposition win is a non-negligible risk – at least until the end of the Presidential mandate.

India

2023 elections (throughout the year)

Exhibit 8: 2023 State Legislative Assembly election

States	Current government	Dates	GDP (% total)
Tripura	BJP	Feb	0.2
Meghalaya	NPP	Feb	0.2
Nagaland	NDPP, BJP	Feb	0.1
Karnataka	BJP	May	7.8
Chhattisgarh	INC	Nov	1.7
Madhya Pradesh	BJP	Nov	4.5
Mizoram	MNF	Nov	0.1
Rajasthan	INC	Dec	4.8
Telangana	TRS	Dec	4.7
Jammu and Kashmir	President's rule	2023	0.8

Source: ECI, official sources and AXA IM Research, January 2023

Note: BJP (Bharatiya Janata Party); NPP (National People's Party); INC (Indian National Congress); NDPP (Nationalist Democratic Progressive Party); MNF (Mizo National Front); TRS (Telangana Rashtra Samithi)

Elections run throughout 2023. Following a number of state elections in 2022, this year is expected to include elections to the Rajya Sabha, state legislative assemblies of nine states and one union territory as well as local bodies. Out of all these, the key to watch for is the assembly elections for nine states and union territories (including Tripura, Meghalaya, Nagaland, Karnataka, Chhattisgarh, Madhya Pradesh, Mizoram, Rajasthan, Telangana, Jammu and Kashmir). Altogether they make up around 24.9% of India's total GDP. Karnataka alone accounts for 7.8% of the Indian economy. These elections are important as they will be a test of the BJP's momentum ahead of the 2024 Lok Sabha elections. Out of all the states, Karnataka is a prestige state for BJP. Not only does it contribute to a large portion of the Indian economy, Karnataka is also the only south India state where the BJP rules.

Near-term economic outlook. While we do not foresee any significant economic impact from state legislative assembly elections, there are usually giveaways ahead of elections which will affect the state fiscal accounts. However, we should not rule out the possibilities of delays in reform. Plans for big-ticket privatisation or strategic disinvestments continue to move slowly and may be pushed further down the timeline – for example the big-ticket privatisation of Bharat Petroleum, which was put on hold due to the volatility in crude oil prices after the Russia's invasion of Ukraine. Meanwhile, India's post-COVID-19 recovery continues. Overall, India is expected to be one of the least affected by the slowdown in developed markets. However, we should remain cautious in terms of inflation's trajectory. While the headline inflation rate is easing on declining global commodity prices, India's inflation risk remains biased to the upside on potential domestic food price shocks.

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