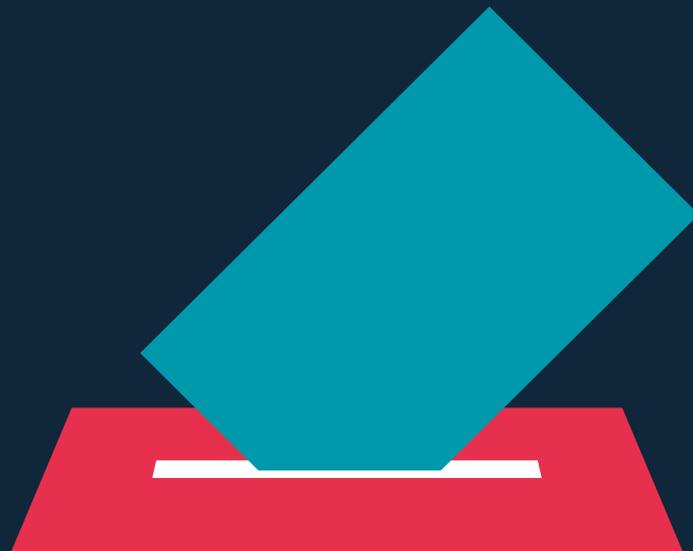


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REPORT

ARGENTINA CHANGES POLITICAL DIRECTION

Buenos Aires, 31 October 2019



Four years after Mauricio Macri took office, Argentina has elected Alberto Fernandez as its next president. Fernandez is backed by Cristina Kirchner, who returned to the political area after ending her presidential term in 2015.

Frente de Todos received 48.10 percent of the vote, beating the Juntos por el Cambio (Together for Change) candidate, who obtained only 40.37 percent. However, the difference was expected to be larger, since—as per the Simultaneous and Mandatory Open Primaries (held in August)—Macri’s share of the vote trailed Fernandez’ by nearly 16 percentage points, representing a change from almost four million votes cast against Macri to just under two million this Sunday.

“Frente de Todos received 48.10 percent of the vote, beating Juntos por el Cambio”

Despite Macri’s better-than-expected share of the vote, he did not earn enough to win. Overall, he gained 2.3 million new votes and grew 8 percentage points when compared to the primaries, going from 32 to 40 percent. Furthermore, his coalition was reelected in the City of Buenos Aires, gained a turnout advantage in Cordoba and managed unexpected wins in four provinces: Entre Rios, Mendoza, San Luis and Santa Fe. Despite the country’s economic situation, two of five Argentines supported Macri’s government. These results will allow Macri to lead the opposition party, if he wishes to do so.

The province of Buenos Aires was a major electoral battleground, containing 38 percent of the electorate. Of the 2 million votes that won Fernandez the presidency, 1.33 million (66 percent) came from this district, where governor Maria Eugenia Vidal lost to Axel Kicillof by a wide margin. The Buenos Aires metropolitan area was the key electoral district; between the First (52 to 35 percent) and the Third (60 to 28 percent) constituencies, Fernandez snatched 1.6 million votes away from Macri.

MAIN POLITICAL ACTORS



Alberto Fernandez
President-Elect

Fernandez has his roots in policies from past Peronist governments and is considered a Justicialist Party mediator. He served as cabinet chief between 2003 and 2008, during Nestor Kirchner’s and Cristina Fernandez de Kirchner’s administrations. He resigned when Cristina Kirchner radicalized her position regarding the agricultural sector and media, mainly multimedia conglomerate Clarin Group. From then on, he served as a campaign manager for various politicians who, like him, broke from Kirchnerism.

After Unidad Ciudadana (Citizen’s Unity), a coalition created by Cristina Kirchner to break from the Justicialist Party, was defeated in the 2017 midterm elections, the former president approached Alberto Fernandez and opened discussions with the Peronists around creating a single coalition party. Thus, in **May 2019, Cristina Kirchner announced Alberto Fernandez’s pre-candidacy for president.**



Cristina Fernandez Kirchner
Vicepresidet-Elect

A two-time president of Argentina, Cristina Kirchner served from 2007 to 2015. During her administration, she followed the policies introduced during her husband Nestor Kirchner’s administration. She has extensive experience with the theory and practice of wielding legislative power and has served as a deputy and senator on multiple occasions. Today, she is a national senator for the province of Buenos Aires.

She is estimated to have a **voting base of around 30 percent** of the electorate, but that does not erase the negative image she has when it comes to the Argentine citizenry’s political perceptions. Faced with this, she decided not to run for president, instead suggesting Alberto Fernandez for the role and instead seeking the vice presidency. This approach helped attract Peronist leaders, such as Sergio Massa, to the coalition. It should be noted that the former president was charged with 12 corruption charges, nine of which were assigned to the Federal Judge Claudio Bonadio and seven of which moved to the oral trial stage. Most of these charges were under framework of the “Cuadernos” case, an alleged bribery and kickbacks scheme involving public contracts.



KEYS TO UNDERSTANDING THE NEW COALITION GOVERNMENT

- The upcoming government is a coalition of political figures, each with their own political leverage and influence.
 - **Alberto Fernandez** offers his experience of having been cabinet chief for Nestor Kirchner and his historic opposition to many of Cristina Kirchner's measures. He has also established **relationships with governors and trade unions.**
 - **Cristina Kirchner**, on the other hand, has **the support of political activists and social movements**, and she is known both for her two terms as president and for support from political group "La Campora."
 - Finally, **Sergio Massa, who headed the list of deputies for the province of Buenos Aires and is rumored to be the next president of the Chamber of Deputies**, shares his political leverage with Alberto Fernandez. He has long opposed Cristina Kirchner's measures, making him into a "containment barrier" for Kirchnerism. In addition, he is supported by a handful of Buenos Aires provincial mayors and some trade unions.
- Each of these leaders will look to expand their control in this public administration, seeking to appoint people they can trust to lead key governmental agencies, providing them with influence over government decisions and economic resources. Fernandez's ability to satisfy his political allies without favoring one coalition over another and without dulling his role as president will be crucial.

PRIORITIES FOR THE NEXT GOVERNMENT

Inflation

From September 2018 to September 2019, Argen-

tina saw an inflation rate of 53.5 percent. In July 2019, real wages fell by 17 percent when compared to when Macri took the presidency, resulting in a retraction in household consumption and drops in sales at supermarkets and shopping centers.

Due to the devaluation after the primaries (the peso depreciated around 30 percent), Macri announced a series of economic measures designed to help Argentines through the recession. The following measure will end Dec. 31, 2019:

- **Freezing of diesel and gasoline prices** (ending Nov. 14, 2019)
- **Elimination of Value Added Tax (VAT) from certain basic food products**, including milk, sunflower oil, dried pasta, rice, polenta, bread and yogurt.
- **Increases in public service tariffs** (electricity, gas and transport) **were postponed.**

Fernandez must outline solutions for when this series of economic measures ends, as well as try to avoid further increases in inflation due to their endings—while avoiding the dreaded hyperinflation. These measures should end, since the price delay affects not only oil and energy companies, but also the total tax revenue, which has been somewhat reduced. One of the causes of inflation, which winning candidate discussed throughout his campaign, is market concentration. Fernandez, mainly discussing food products such as dairy and bakery goods, pointed out that a large part of inflation is due to prices being handled by a few companies, so he proposes greater State regulation to avoid unilateral retail price policy.

Unemployment and Poverty

Other problems that come in a pair are poverty and unemployment. According to official data from September 2019 (which measured H1 2019), poverty rose to 35.4 percent, representing 15.9 million Argentines. On the other hand, homelessness (defined as people who do not have enough income to access food) rose to 7.7 % up from 4.9 percent during the same period last year. It should be noted that, according to 2015 data from the Pontifical Catholic University of Argentina (as there were no official statistics during Kirchnerism), the poverty rate was 29 % when Mauricio Macri became president.

Due to the devaluation that took place in August,

added to the fact that the inter-annual inflation exceeded 50 percent, the numbers of Argentines unable to meet their basic food needs and who live below the poverty line are expected to increase.

In Q2 2019, official statistics indicated that **unemployment rose to 10.6 %**, rising one percentage point over twelve months. Likewise, the number of Argentines seeking additional sources of income has increased, as many work to improve or alleviate their conditions following reductions in wages.

Fernandez has proposed a **social contract between businesspeople, workers and the State**. During his time as a political figure and candidate, he already held meetings with trade union leaders and trade unionists to foster dialogue between these groups.

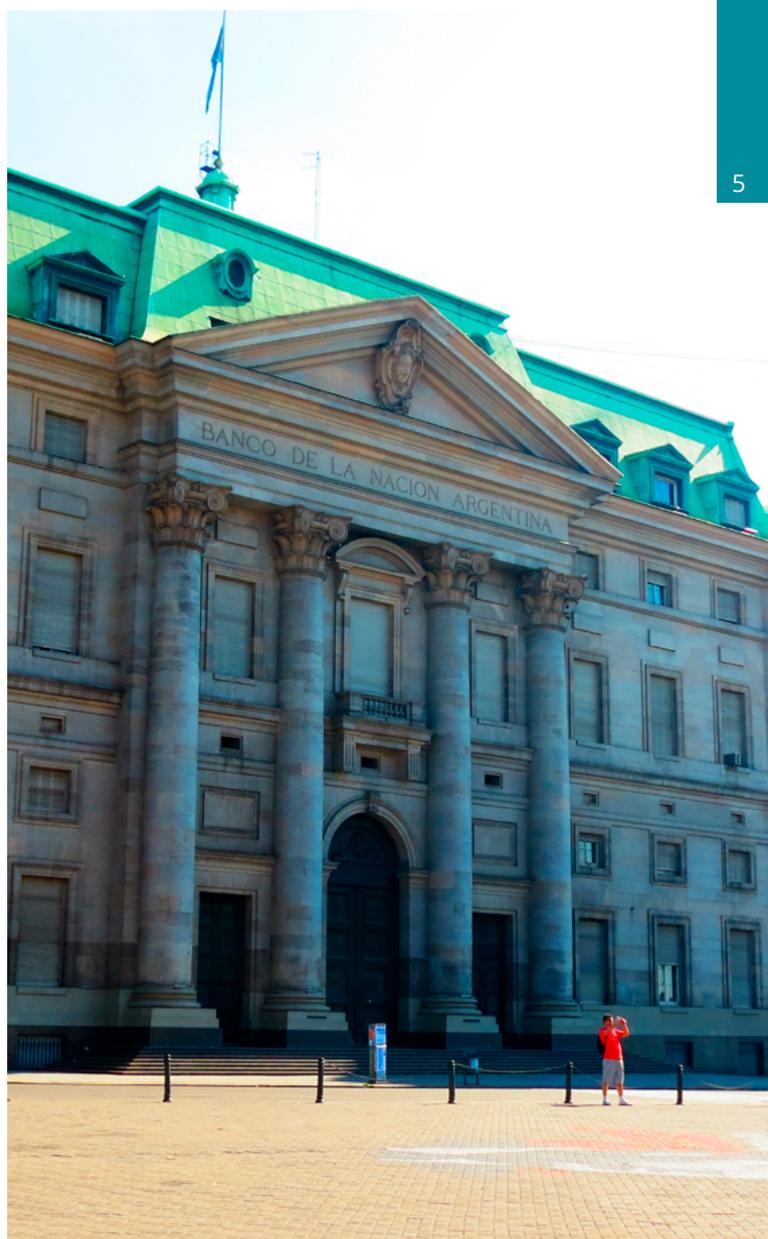
Debt

During Macri administration, it was decided to reduce monetary financing of the deficit, which furthered indebtedness. Although specialists emphasize that the debt is still sustainable, they say Argentina must grow in order to meet its obligations.

Since Macri took office until Q2 2019, national debt increased by 28 percent, going from 53 to 81 percent of country Gross Domestic Product (GDP). But, when taking the depreciation of the Argentine peso in August into account, there was an increase in the amount of debt taken on, so the overall debt rate will fall at around 90 percent of GDP.

In addition, in May 2018, Macri announced he had begun conversations with the International Monetary Fund (IMF). Later, Christine Lagarde, then-chairwoman of the IMF, approved a loan expansion for \$56 billion. The delivery of \$5.4 billion is still on standby, since it was met with difficulties after the results of the primaries. After this major injection, quarterly deliveries of \$1 billion will continue until, it is estimated, 2021.

On multiple occasions, Fernandez has refuted any possibility of defaulting on this debt, pledging



¹ https://www.indec.gob.ar/uploads/informesdeprensa/eph_pobreza_01_19422F5FC20A.pdf
² https://www.indec.gob.ar/uploads/informesdeprensa/eph_pobreza_01_19422F5FC20A.pdf
³ <https://www.argentina.gob.ar/hacienda/finanzas/presentaciongraficadeudapublica>

to comply with the obligations Macri's government entered accepted. However, he has not ruled out rescheduling payment due dates for IMF commitments (including interests). Regarding this, the next president has an easy task, because current Finance Minister Hernan Lacunza has paved the way by postponing the expiration date of short-term securities (Letes, Lecap, Lecer and Lelik).

“Fernandez has emphasized that his government will consist of a president and 24 governors”

Consumption

In September 2019, consumption suffered a 9.4 percent decrease when compared to the same month last year. The total rate for these nine months added up to a 7.6 percent fall. When factoring in the consumption levels and population increase, this is estimated to be close to the worst in history, which took place in 2003. Today, Argentines are at around 7 percent above that rate in terms of per-capita consumption.

Given the decreased purchasing power, currency devaluation, accelerated inflation, unemployment and the steep decline in consumption, Fernandez proposes deepening the social contract between trade unionists and employers. Among the series of measures he has announced, **the comprehensive “Argentina without Hunger” program** and **Consumer Goods Act** stand out. These measures are designed to regulate the percentage of physical space well-established brands may use, thus easing small and medium regional companies' entry into the commercialization chain. From the Frente de Todos perspective, consumption is the cornerstone that powers the internal economy. As such, they believe the country will grow if lost wages are restored and lines of credit are given to SMEs.

PUBLIC ADMINISTRATION

Regarding government structure, Macri's government consisted of 22 ministries during its first two years. This was progressively reduced, and in December, it will have only 11 ministries. **Fernandez is expected to bring ministries together, do away with the flagship secretariats of Macri's government (for example, Modernization) and create new ministries as-needed.** Among the changes, the **Health and Labor ministries are expected to be reinstated** and the **Ministry of Equality for Women's Rights** introduced. This will result in ministers having more power. On the other hand, although the gender quota in hierarchical positions will not be met, it will certainly help support it.

Moreover, throughout the campaign, Fernandez has emphasized that **his government will consist of a president and 24 governors**, the idea being that **federalism is key** to its government proposal. Therefore, it is expected that provincial political figures will become part of the ministerial assembly

FOREIGN POLICY

Regarding foreign policy, Macri tended to focus on the United States and European Union. This international context proved unfavorable, however, since Donald Trump led the United States engaged in trade protectionism, which started a trade war with China, and the United Kingdom voted to leave the European Union.

Given this new context, Fernandez plans to take the following measures:

- **Approach new/old trading partners for Argentina.** Fernandez's team believes that Argentina should once again pursue **regional integration**, emphasizing the need to restart **UNASUR (Union of South American Nations)** and improve the institutionalization of existing organizations so they do not depend on presidential leadership.
- Regarding Argentina's positioning in **regional problems** (Venezuela, for example), it is very likely Fernandez will follow in the footsteps

⁴ https://www.indec.gob.ar/uploads/informesdeprensa/ipc_10_19FB1348322D.pdf5

⁵ <https://www.cronista.com/economiapolitica/Por-la-inflacion-el-consumo-masivo-cayo-94-en-septiembre-20191014-0042.html>

of Frente Amplio in Uruguay and AMLO in Mexico—that is, being less confrontational and participating less in new dialogue and cooperation forums, such as the Lima Group and the Forum for Progress and Development of South America (Prosur).

- Thus, the **bilateral relationship with Brazil** will have a different dynamic than it did during Macri's administration. Jair Bolsonaro, who was very supportive of Macri during his reelection campaign, did not congratulate Fernandez for winning the election, instead saying Argentines made a bad decision. In addition, the Frente de Todos candidate visited Lula da Silva in prison. However, despite these differences, **Brazil remains Argentina's main trading partner**, so—with a national economy in crisis—it is possible pragmatism will prevail regarding the somewhat strained bilateral relationship.
- **European Union Agreement and Mercosur.** Fernández has questioned the Agreement's continuity, saying there are European countries that have rejected it. Moreover, he is particularly focused on **Argentina preserving its national interests**. On the other hand, he has also said, on more than one occasion, that the Agreement's terms are unknown, so it is uncertain which productive sectors it will affect.
- **Malvinas.** Frente de Todos believes Macri's administration has not made any progress in the sovereignty dispute over the South Atlantic archipelago. The **Foradori-Duncan Agreement**, signed in 2016, has been strongly criticized, as it allowed establishing further air links between the Falkland Islands and third-party countries, as well as removing obstacles that limit economic growth and the archipelago's development (including boosting fishing and oil exploitation). Fernandez's proposal involves **once again taking a confrontational position**, similar to those taken during Nestor's and Cristina Kirchner's administrations.

WHAT FACTORS WILL INFLUENCE ALBERTO FERNANDEZ GOVERNMENT?

Due to the economic crisis, debt maturities, rising poverty and unemployment and the occupation of public spaces by social movements, the new president must have support that will allow him to govern during the first 100 days of his administration. Among the main factors, the following stand out:

- **The group of governors.** Argentina is divided into 24 districts (23 provinces and the Autonomous City of Buenos Aires). Of the total number of governors, **three belong to provincial coalitions** (Rio Negro, Neuquen and Misiones), **four to coalitions that make up Juntos por el Cambio** (Autonomous City of Buenos Aires, Corrientes, Mendoza and Jujuy) **and the rest are either part of the Justicialist Party or are Peronist allies.**
- **The National Congress.** This legislative power consists of two chambers: The Chamber of Deputies and the Senate. Fernandez will have the required majority in the Senate (39 of 72 senators) and will be close to a quorum in the Chamber of Deputies (124 of 257 deputies), although he will need to negotiate with other parties. Juntos por el Cambio, which will now be the main opposition party, increased its representation in both Chambers. It will have more benches in Congress than it did in 2015—when Macri was elected, it had less than 90 deputies and just 15 senators—but it will have little room to face the Peronist majority in the Senate. Cristina Kirchner, in her role as vice president, will oversee the Senate: She will conduct debates, but will have no parliamentary or voting functions.



- **Trade Unions.** In Argentina, there is a wide array of trade union movements, many of which have historical differences and rivalries. **Fernandez promoted the reconciliation between the General Confederation of Labor (CGT) and Argentina Workers' Central Union (CTA)**, which had distanced themselves in the 90's. He also proposed the reunification of the CGT, which he did with the goal of building social consensus. Likewise, the possibility of **Labor Reform** remains, so consensus with the working sector will be essential.

“The new president must have support that will allow him to govern during the first 100 days of his administration”

- **Social movements.** Social movements comprise a broad group characterized by using public space to highlight their demands. Their participants are primarily **social plan beneficiaries and workers in the gig economy** who want their labor and social conditions dictated by law. Among them, the **Evita Movement, Confederation of Workers in the Popular Economy and Combative Class Current** stand out. One of their main characteristics is their alliance with Catholic organizations (aligned with Pope Francis), forged due to the work they do in food kitchens in the most vulnerable neighborhoods. **These movements can be an extremely destabilizing factor due to the large number of people they gather for protests.** Therefore, Fernandez is already working on comprehensive Social Development and Food policies.

CONCLUSIONS

1. First and foremost, although Fernandez has been proposed as the head of the presidential ticket by the well-known ex-president, Alberto Fernandez is not Cristina Kirchner. He is more aligned with traditional Peronism (that of the provincial governors), and he is expected to turn this for structured collaboration (and it is not made up of radicalized Kirchnerists). In addition, he has sought to differentiate himself by criticizing some of Cristina Kirchner's policies during her last presidency, including the intervention in the official statistics body, restrictions on the purchase of foreign currency, price controls and the confrontation with the media.
2. Fernandez was not given a blank check, but he was granted an initial vote of confidence. He won the primary by 16 percentage points, and the polls, though incorrect, predicted he would exceed 50 percent of the votes and come out 20 percentage points ahead of Macri. If had happened, he would have the majority in the Chamber of Deputies and Senate. Far from these figures, however, **he barely added 250,000 new votes and could not rise above 48 percent, so he will have to negotiate his parliamentary agenda in both Chambers.**
3. Fernandez is expected to **lead a less interventionist government than Cristina Kirchner did.** Its purpose will be to reactivate the internal economy through consumption, but it will implement state measures for **market regulation**, including prohibitions around the cartelization of supermarkets, controls on business concentration and increased taxes on productive activities (mainly withholdings for mineral exports, agricultural products and meats). Moreover, he is expected to implement import controls, mainly for industrialized products that could be produced in the country (for example, textiles and food products), although capital goods imports are not expected to be stopped.

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