



ARGENTINA'S PRESIDENTIAL RACE: OUTLOOK FOR THE COUNTRY

NOVEMBER 2015

EXECUTIVE SUMMARY

On Sunday, November 22, voters in Argentina will take part in the first presidential runoff in modern Argentinean history. Voters will choose between two candidates – the mayor of the City of Buenos Aires **Daniel Scioli** of the governing *Front for Victory (FPV)* alliance, and the governor of the Province of Buenos Aires **Mauricio Macri** of the opposition *We Can Change (PRO)* alliance. With the country suffering from a persistent economic malaise, both candidates have sought to project themselves as most fit to chart a different course from incumbent President Cristina Fernández de Kirchner's economic policies.

The election looks likely to be decided by which vision of change ultimately appeals to Argentinean voters – Macri has proposed a sweeping and urgent reform agenda, while Scioli has promised to pursue a more gradual approach. Macri has the momentum according to recent polls, where he commands a six to eight point lead heading into Election Day. However, polling ahead of the first round of voting on October 25 proved to be inaccurate, leaving open the possibility that either candidate could emerge victorious.

We expect that the election will usher in a government committed to pursuing a more pragmatic economic agenda and rebuilding credibility with global investors, which frayed badly under the Kirchner governments. .

- **Outlook for a Scioli presidency:** Scioli has sought to strike a balance between maintaining the backing of Kirchner and her supporters as well as staking out his own political space on economic matters. This has largely led him to deal more in vague promises than concrete proposals. He has promised to protect social welfare spending while implementing gradual and pragmatic economic reforms to avoid any economic “shocks.” Scioli is a skilled politician, with a proven track record tackling economic challenges from his time as governor of Buenos Aires province, and—despite his campaign calculations—would likely move away from Cristina Fernández de Kirchner's policies as soon as he was installed in the Casa Rosada, Argentina's presidential palace.

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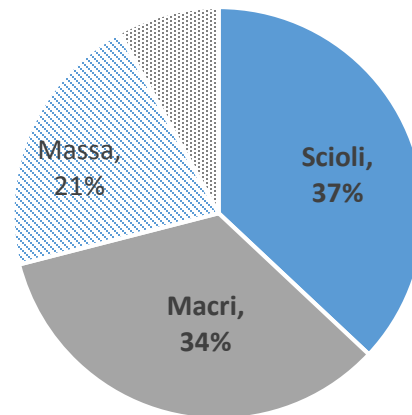
- **Outlook for a Macri presidency:** Macri has promised complete and rapid change from Kirchner's economic policies, although he has also pledged to protect some welfare programs. He has argued for immediate reform, beginning with dismantling capital controls and trade restrictions on his first day in office. Macri would likely face congressional opposition to needed structural reforms—and the political manoeuvring required to secure their passage could limit the pace of his agenda.

ELECTION OVERVIEW

First Round Results Are a Surprise

In the first round of voting on October 25, Scioli won 37 percent of the vote against Macri's 34 percent. Dissident Peronist candidate **Sergio Massa** finished in third with 21 percent. The three percentage points separating the top two candidates was a surprise given opinion polls had suggested Scioli would win by a wide margin.

In the weeks since the first round, both Macri and Scioli have scrambled to persuade the remaining one-third of the electorate up for grabs, namely the millions of Argentines who voted for the third-place candidate Massa in the first round. While Massa has declined to endorse either candidate, he has at times hinted at his support for Macri



Results of October 25 Elections

Most recent polls (as of November 16) suggest Macri has continued to build momentum since his surprisingly strong showing in the first round, putting him around eight percentage points ahead of Scioli. Despite the Macri's apparent lead, the tight result and unreliability of polling data that marked the first round of voting suggest that the result is still very much up in the air.

Political Environment is Fluid

The results of the national legislative elections held on October 25 highlighted the unpredictable and fluid nature of the current political environment. Kirchner's *Front for Victory* won two additional seats, expanding its majority in the Senate. However, it simultaneously suffered heavy losses in the Chamber of Deputies, losing its majority in the lower house. Macri's PRO, meanwhile, made significant gains in the lower chamber. As a result, whoever wins the presidency will face a divided legislature, potentially complicating efforts to implement reforms.

This election has also highlighted emerging rifts in the Peronism political movement, which has been the mainstay of Argentina's political landscape for nearly 70 years. Sergio Massa's decision to challenge fellow Peronist Scioli suggests that the political movement may be on the verge splintering in a manner that could challenge its continued dominance moving forward. Peronism has always been a nebulous movement that unites a broad spectrum of political ideologies, so it is perhaps unsurprising that the more moderate Peronist Sergio Massa would choose to split from the combative, leftist Kirchnerismo camp that

has thrown its support behind Scioli. While the Peronista candidates (Massa and Scioli) still combined to win a strong majority of the popular vote in the first round, their split opened the door to the possibility of the first non-Peronist presidency in decades.

Continuity or Change for Argentina?

Under the Kirchner administrations of the past twelve years, Argentina shifted to the left in its domestic and foreign policy, while government intervention in the economy became the norm. The result has been a stagnant economy with rampant annual inflation thought to be running above 30% (though reliable data is difficult to obtain), a growing fiscal deficit, and increasing unemployment.

Although Argentines want their new president to tackle inflation (according to a Management & Fit poll, the issue is the main concern for 62.9% of Argentinean voters) and chart a new economic course, they seem to desire continuity on Kirchner's social policies. Almost 40% of Argentines receive a government salary, pension or welfare payments, creating a strong base opposed to spending cuts. Not surprisingly, a recent opinion poll showed that Kirchner has a 42% approval rating, the highest of any departing Argentinean president in decades.

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Both Scioli and Macri recognize the need to address the current economic policies. Both have promised to seek foreign investment and restore access to the global credit markets to finance infrastructure development and spur growth. Yet the two candidates differ on the pace and depth of economic reform and would face governing challenges unique to their political allegiance, influencing the outlook for each potential administration. Scioli, a pragmatist governor and former head of the Peronist party, has promised to keep the government's popular policies while gradually implementing necessary economic reforms. As President, he would need to find ways to bridge gaps within the Peronist party, while still showing progress on new economic agenda. Macri, meanwhile, has promised sweeping changes to the economic model, but has also been careful to state that he will not radically cut popular welfare programs – an indication of his understanding that he would eventually need to drive these reforms through a divided Congress

OUTLOOK

The Challenges Ahead

Given the centrality of the economy in this election, the new president is likely to need to make steady progress on the economic front in order to maintain popular support. The first step is reaching an agreement with the remaining “holdouts”—creditors from Argentina's 2001 default, who have continuously rejected proposals to settle outstanding bonds payments at a significant discount—so that Argentina once again has access to international credit markets. Argentina currently has a relatively low debt-to-GDP ratio (around 40%) but its foreign reserves are low and the country needs additional credit to restore macroeconomic stability.

Other critical economic issues that will need immediate action include rising unemployment, high inflation, and the exchange rate gap and currency controls, which discourage investment. Aside from fiscal



measures, the government could also encourage investment by ensuring the National Institute of Statistics and Census (INDEC) resumes providing accurate, transparent metrics for Argentina's economy and inviting the International Monetary Fund to resume its annual Article IV consultations (the last such independent "audit" one was in 2006).

Outlook for a Scioli Government

Scioli is a skilled politician with a proven record of accomplishment tackling economic challenges during his time as governor of Buenos Aires province. A moderate within the Peronist movement, he would likely be more pragmatic than the Kirchners, both in terms of Argentina's domestic policies and its engagement abroad.

Scioli has already proposed number of business-friendly policies and less intervention in the private economy. For example, his economic team has suggested his government could lift export taxes on agricultural goods, currency controls, and take firm steps to tackle inflation. In mid-October, Scioli announced that his economy minister would be Silvana Batakis, the minister of economy for Buenos Aires province during Scioli's tenure as governor. Batakis turned the province's chronic fiscal deficit into a surplus through a number of fiscal adjustments, including tax reform.

To maintain the support among Kirchner's core followers, Scioli has to tread carefully. He advocates a gradualist approach to making reforms and rejects dismantling social welfare programs that are popular amongst the Kirchneristas. Scioli has avoided offering clear views on issues that could prove controversial amongst his support base. For example, he has refused to take a position on export tax system or currency controls, though he has indicated his "openness to reviewing the fiscal policies in place." Scioli has also avoided discussing his plan for resolving the holdout funds issue, though various sources suggest he will support a reasonable deal with holdouts.

In terms of his foreign policy, Scioli will likely take a different track than Kirchner, who adopted a strong anti-American rhetoric and cozied up to the Venezuelan government. Scioli has already hinted at more conciliatory engagement with the United States, including a widely disseminated photo with the U.S. Ambassador to Argentina. Scioli has also highlighted the importance of improving relations and increasing trade with its neighbors—particularly Brazil, Argentina's largest trading partner— which are critical to bolstering the Argentinean economy.

Fears that Kirchner could retain significant influence over the Scioli administration—due to the presence of a number of her key advisers on Scioli's team—may be exaggerated. Scioli is a skilled politician, well aware of how the Argentinean system works, and is certainly capable of steering the country as he sees fit. As president, Scioli would control the levers of power and the purse, including the redistribution of fiscal revenues to the various provinces. This control over the provinces in turn leads to control over legislators, who frequently defer to provincial party bosses. Moreover, Kirchner chose not to run for another elected position (e.g., governor of Buenos Aires or senator), limiting her influence and relevance in this political structure.

The most prominent risk Scioli would likely face is one inherent to his gradualist approach – should meaningful reforms take too long to materialize in the wake of the election, his honeymoon period may



quickly give way disillusionment among an Argentinean electorate hungry for improvements to the country's economy.

Outlook for a Macri Government

Whereas Scioli has promised incremental changes, Macri offers the promise of complete change from the Kirchner years and, as noted, the end of the Peronist control over Argentina's government. The outgoing mayor of Argentina's capital has pledged immediate reform, beginning with dismantling capital controls and trade restrictions on his first day in office. Unlike his opponent, over the course of the campaign, Macri has provided a number of detailed policy prescriptions—particularly on economic issues—that give considerable insight into his agenda as president.

As president, Macri would likely immediately seek to steer an economic course that rapidly allows the government to relax trade and currency controls, while being able to curb inflation. He has also indicated a desire to work toward reaching a "quick" resolution with the remaining holdout creditors from Argentina's 2001 default. He has also emphasized the need to increase Argentinean competitiveness and aggressively pursue foreign investment to rebuild the Argentinean economy. Nevertheless, Macri has stated he does not intend to create severe shocks, as had been the case in prior governments. For example, he has argued that lifting the currency controls implemented in 2011 would allow the peso to find an equilibrium between the current official exchange rate (near 9.6 pesos per USD) and the black market rate (where the peso sells for as little as 15 pesos per USD), which would not significantly change the average price Argentines pay.

Beyond his domestic economic platform, Macri would also likely move the country's foreign policy away from the leftist rhetoric that has characterized the Kirchner governments. He has already stated he would seek Venezuela's suspension from Mercosur due to that country's violations of civil liberties, namely the jailing of political opponents to President Nicolas Maduro. Macri has also promised to improve Argentina's relations with its immediate neighbors, particularly stating he would seek "the best relations with the current president of Brazil" and that "what is best for Brazil, is best for Argentina."

Macri has refused to name his economic team before November 22, but his key advisors all favor the fiscally conservative, market-friendly approach Macri has championed on the campaign trail. Macri recently stated that he wants "a minister of Economy with less power," perhaps signaling that as president he would take a strong guiding role in economic policymaking. Macri has also indicated his intent to create a standalone Ministry of Energy (the energy portfolio is currently a secretariat within the Ministry of Budget and Planning) and to separate the Interior and Transportation portfolios into separate ministries (see Appendix for additional information).

Although Macri would enter office facing a strong Peronist opposition in Congress, likely limiting the pace of reform, the considerable clout of the presidency in Argentina would work to his advantage. Through his control over the distribution of revenue to the regional governments, Macri could likely cajole and buy the support he would need. As the former mayor of Buenos Aires, Macri is familiar with this system and should be able to leverage these spoils to secure the passage of needed reform, even if political necessity may force him to move more gradually than he would prefer.



Given the effort most likely required to push economic reform through a divided legislature, Macri could find himself with little political capital for anything else at the start of his term. Although Macri promised to end endemic corruption during his campaign, a prominent party ally was recently caught up in a graft scandal—leading many Argentines to wonder if he will follow through. It is unclear just how far Macri will go in terms of improving transparency and accountability and strengthening the country's institutions.

Macri undoubtedly represents the most change for Argentina. Although he may find governing more difficult than campaigning—particularly with an opposition Congress—the momentum and optimism surrounding Kirchner's departure gives Macri an excellent opportunity to push for structural and market-friendly reforms.

CONCLUSION

Despite the differences between Scioli and Macri, it is clear that regardless the winner, Argentina is in urgent need of reforms to find the path back to economic growth and international credibility. Scioli's challenge will be establishing himself as his own person, and not only Kirchner's successor, and finding support within a fragmented Peronism to enact economic reforms. Macri's challenge will be facing a Senate with a Peronist majority, as well as pacing the implementation of what will certainly be unpopular economic measures in order not to lose popular support. Still, both candidates seem to understand this is a crucial moment for Argentina and have demonstrated a desire to put Argentina on a new path, following twelve years of Kirchner governments.

Attachment: Please see Appendix for an analysis of each candidate's expected economic team.



ECONOMIC TEAMS OF ARGENTINE PRESIDENTIAL CANDIDATES

DANIEL SCIOLI

Name	Scioli's or CFK's team?	Potential Role	Economic Views and Ideology
Silvina Batakis	<ul style="list-style-type: none"> ▪ Batakis is a trusted ally of Scioli. ▪ She was the minister of economy of Buenos Aires province during Scioli's governorship (2011-2015) 	<p>Minister of Economy (confirmed)</p> <p>Scioli announced in October that Batakis is his pick to head the Ministry of Economy.</p>	<ul style="list-style-type: none"> ▪ Emphasizes stability and competitiveness above all else. ▪ Favors gradual structural reform towards pro-business policies, but rejects dismantling social welfare policies and worker rights measures. ▪ Argues for a gradual relaxing of capital controls (to avoid a huge currency devaluation) without a fully independent float. She would issue more debt to increase the Central Bank's foreign currency reserves. ▪ In Buenos Aires, Batakis implemented a series of tax reforms and fiscal adjustments that created a budget surplus for the province, garnering praise from investors, the business community, and the opposition.
Miguel Peirano	<ul style="list-style-type: none"> ▪ Peirano—a key Scioli advisor—has longstanding ties to Kirchnerismo: he served as economic minister under former president Néstor Kirchner from July-December 2007, and remains close to CFK. 	<p>Head of new National Development Bank (confirmed)</p> <p>As the head of the proposed National Development Bank, Peirano will take the lead on a core component of Scioli's plan to "reindustrialize" Argentina.</p>	<ul style="list-style-type: none"> ▪ As economic minister (2007), Peirano encouraged industrial and agricultural exports through an undervalued exchange rate sustained by frequent Central Bank purchases of U.S. dollars. ▪ Peirano has close ties to CFK and remains broadly supportive of economic interventionism. ▪ However, Peirano opposes foreign exchange controls and contends that other economic mechanisms were extended too far and have become counterproductive.



<p>Miguel Bein</p>	<ul style="list-style-type: none"> Bein is widely recognized as Scioli's principal advisor on economic affairs. He is the foremost economist for Kirchnerismo and its <i>Front for Victory (FPV)</i> alliance. 	<p>Role uncertain</p> <p>Scioli has not yet stated a potential role for Bein in the new administration.</p> <p>Bein was considered a top candidate for Minister of Economy, until Scioli confirmed that role would go to Silvina Batakis.</p>	<ul style="list-style-type: none"> Strongly believes in Kirchner's economic policies, but concedes that some elements, including monetary policy, require adjustment. Regarding the hedge fund holdouts, Bein argues that the next administration must negotiate from a strong position and defend the national interests of Argentina. He has indicated that Argentina might pay up to 70% of the roughly \$1.7 billion owed (holdouts have demanded full amount). Recognizes the dangers of Argentina's current inflation rate, but prefers to decrease inflation four or five basis points per year rather than pursue sudden change.
<p>Mario Blejer</p>	<ul style="list-style-type: none"> Blejer is a key advisor to Scioli on monetary policy and central banking. He has ties to the Kirchners, but is more moderate policy-wise. 	<p>Ambassador to the United Kingdom</p> <p>Scioli stated that Blejer could be a good choice for Argentina's next ambassador to the United Kingdom, citing Blejer's prestige and recognition in the international financial community and the need to generate foreign investment in Argentina. Scioli said Blejer's appointment would send positive signals to major players in the global economy.</p>	<ul style="list-style-type: none"> Blejer favors a compromise with the holdout funds, but has stressed the importance of negotiating from a position of strength. Served as president of the Central Bank from January 2002 to June 2002 (height of Argentine economic crisis), and was in line to assume the position again in 2010 under the Kirchner administration until a court ruling blocked President Kirchner's removal of Martín Redrado. During his short tenure at the Central Bank (2002), Blejer prepared plans for the dollarization of the Argentine economy to strengthen monetary discipline and lower inflation rates. PhD in Economics from University of Chicago.
<p>Gustavo Marangoni</p>	<ul style="list-style-type: none"> A trusted ally of Scioli. He has been president of the Central Bank of Buenos Aires province since 2001, and worked closely with Scioli's provincial government. 	<p>Head of National Social Security Administration (ANSES)</p> <p>According to several media sources, Marangoni is likely Scioli's pick to lead Argentina's social insurance fund (ANSES).</p>	<ul style="list-style-type: none"> Among Scioli's closest economic advisors, Marangoni is strongly in favor of a rapid resolution to the holdout issue, likening it to "a pebble blocking a funnel of investment."



MAURICIO MACRI

Although Macri has named several key advisors to ministerial roles, he has asserted that he will not reveal his national economic team until after the election. Analysts have noted, however, that each of Macri's closest economic advisors have specialized in different economic issues throughout the campaign, which offers some insight into their respective roles in Macri's cabinet.

Name	Relation to Macri	Potential Role	Economic Views and Ideology
<p>Alfonso Prat Gay</p>	<ul style="list-style-type: none"> Prat Gay has been Macri's leading advisor on matters of international finance and investment, which figure crucially in Argentina's economic trajectory. 	<p>Minister of Economy or Foreign Minister</p> <p>Several prominent Argentina politicians and news outlets have suggested that Prat Gay is Macri's choice for the Ministry of Economy.</p> <p>Prat Gay himself has publicly confirmed his interest in being part of Macri's economic team. There have been some rumors he is also being considered for Minister of Foreign Affairs, to lead Argentina's negotiations with the international financial community.</p>	<ul style="list-style-type: none"> While president of the Central Bank (December 2002-September 2004), he reduced inflation from 40% to 5%. Prat Gray left the Bank when Nestor Kirchner became president, due to disagreements over Bank independence, anti-inflationary policies, and negotiations with the holdout creditors. As federal deputy from Buenos Aires (elected in 2009), he focused on improving banking security, preventing money laundering, and the deregulation of the Argentine financial system. Prat Gay has become the main opposition voice on financial and economic issues in the lower house.
<p>Carlos Melconián</p>	<ul style="list-style-type: none"> Melconián is a long trusted adviser to Macri, and a leading voice on economic issues for Argentina's center-right political party, <i>Republican Proposal</i> (PRO). 	<p>Minister of Economy</p> <p>Melconián has focused primarily on fiscal policy throughout the campaign, and is considered another top contender for Minister of Economy.</p>	<ul style="list-style-type: none"> Melconián leans center right on most economic issues, and shortly after the October 25 elections sparked criticism from Scioli and FPV for his statement that the potential "shock" from reforms was "irrelevant...the sooner [inflation] comes down, the better." Melconián has argued for ending currency controls and lowering inflation and other rapid and far-reaching economic measures. He has sharply criticized Scioli's "gradualist" policies.

<p>Federico Sturzenegger</p>	<ul style="list-style-type: none"> ▪ Sturzenegger is congressman and Macri's primary adviser on monetary policy. ▪ He was president of the Banco Ciudad—the Bank of the City of Buenos Aires—from 2008-2013 during Macri's mayoralty. 	<p>President of the Central Bank</p> <p>Given his prior central banking experience, most sources posit that Sturzenegger will be Macri's selection to head the Central Bank.</p>	<ul style="list-style-type: none"> ▪ Sturzenegger has argued for rapid resolution of the holdouts issue, contending resolution would increase foreign investment, including \$20 billion per year in upstream oil and gas investment to fully develop Argentina's largely untapped shale reserves. ▪ Sturzenegger was widely lauded for his profitable rein at the Banco Ciudad, where he implemented a meritocratic hiring system and expanded bank services to all city residents (including free savings accounts, new branches in the poorest neighborhoods, and loans to minimum wage earners).
<p>Rogelio Frigerio</p>	<ul style="list-style-type: none"> ▪ Frigerio is a trusted advisor to Macri on both political and economic issues, and current president of the Banco Ciudad. 	<p>Minister of Planning and Public Investment</p> <p>Frigerio is known for his expertise on economic issues. <i>El Clarín</i> and other sources have speculated that he could be Macri's choice for Ministry of Planning and Public Investment, although some contend he is also in the running for Minister of Economy or Minister of Interior.</p>	<ul style="list-style-type: none"> ▪ Frigerio favors abolishing export duties and investing in infrastructure to reintegrate Argentina into the global economy and stimulate industrial competitiveness. ▪ Frigerio has stated Macri intends to rebuild relations and deepen trade ties with its neighbors and also with China and the United States. ▪ He has also argued that Macri would not reduce social spending, and would move gradually enough to prevent an economic shock.

