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Political Climate Report - ARGENTINA

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High levels of social tension and deepening polarization in society characterize the current political climate in Argentina. Amid a breakdown in union relations—which culminated in a general strike last week—and ongoing wage disputes with teachers, both the government and the opposition are seeking to profit from the situation by rousing support from their bases. Although there are signs an economic recovery is on the way, labor and social conflict will continue to pose a persistent threat. That said, the government will aim to rebuild dialogue with the CGT to prevent protests and work stoppages from continuing (and escalating).

Argentina comes to a standstill in general strike

After several weeks of increasingly antagonistic dialogue with the CGT and other unions, the Macri administration faced its first general strike on April 6. After coming under pressure from its base during a mobilization a month previously, labor unions nationwide united in staging a 24-hour walkout, protesting against economic adjustment measures. With the exception of clashes between leftist picketers and riot police along highway access points to Buenos Aires (water cannons and tear gas were used to contain protesters), the strike mostly played out incident-free.

President Macri condemned the strike, describing it as “unnecessary” and an “attempt to destabilize the government”, and other officials have emphasized that the mass mobilization comes as jobs are being created and the economy is beginning to grow. This anti-union rhetoric will appeal to *Cambiemos'* base (traditionally skeptical of labor unions), although it is uncertain if other sectors of society will be sympathetic to this strategy.

The administration has estimated that the strike cost the economy ARS 15 billion (USD 960 million). **However, the real cost for the government is political.** In the absence of a specific set of demands from the unions on the day of the strike, we believe that the CGT's participation was due to 1) a real need to appease their base, especially after failing to call a strike at the March 7 anti-government march and the reaction this provoked, and 2) to capitalize on current high levels of discontent, and enter a new round of talks in a powerful negotiating position. **Added to this is the fact that in an election year, the mainly Peronist union leaders have strong political pressures to act more aggressively, and capitalize on rising**

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polarization in politics and society.

As the strike unfolded, the government faced an additional setback: the federal judiciary ruled in favor of a request filed by teachers' union UDA to reopen wage negotiations at the national level and gave the government five days to do so (the government had previously insisted that talks take place at the provincial level, see previous PCR for detail). Almost a month into the school year, 18 out of 24 jurisdictions have yet to reach a deal with the teachers.

The ruling took the wind out of the government's sails somewhat, and coupled with the general strike, further ramps up pressure for them to appease unions' demands. The government is appealing the measure, which will buy them time, but further stoke tensions between teachers and the authorities. On April 9, metropolitan police in Buenos Aires forcibly removed teachers demonstrating in front of the national Congress, using pepper spray. This development represents a "gift" to the opposition, which is seeking to exploit the conflict for their own ends. In response to the incident, teachers unions will stage a nationwide strike on April 11.

However, since most teachers' unions are not affiliated with the CGT, **we believe that now that the umbrella union has "made noise" and adhered to its base's calls for widespread strike action, a degree of dialogue will resume between the CGT leadership and the Labor Ministry.**

At the same time, the government has said it will pursue the "divide and conquer" approach it has been taking to its involvement in union affairs since it broke off dialogue with the CGT. In the last few weeks, deals have been struck with the construction sector and textiles/shoe-producing unions to boost productivity, rather than talking to the umbrella union directly. However, the level of participation in the general strike represented a powerful show of muscle for the CGT, meaning the government essentially now has no

alternative to reincorporating the triumvirate leadership into the dialogue. Even though internal divisions within the CGT remain, the government has judged that it would prove more costly to keep them at arm's length at a time of high social tension. They gain more from making some fiscal "concessions" to the CGT now—who will be able to appease their base, at least temporarily—than adopting a hard-line approach, leaving the union leadership no choice but to support further mobilizations and mass walkouts.

While a general strike is undeniably a setback for the government, that this has taken 15 months to materialize is—as we have noted [previously](#)—remarkable. Macri is the first non-Peronist president since the return to democracy not to face a general strike in his first year in office (see graphic). Even more remarkable is that opinion polls continue to show Macri's approval ratings at between 40 and 50 percent nationwide, although they are notably 10 to 15 points lower in Buenos Aires Province. The big question is **to what extent the government is capable of containing future unrest—and channeling discontent via dialogue rather than on the streets—without placing into question its economic targets for 2017 and beyond.**

It's not all bad...

Although the conflict with the labor unions has dominated headlines over the past several weeks, there have also been developments indicating more optimistic trends. These have brought the government some relief as it focuses efforts on resolving fractious domestic issues.

As the strike was underway, Macri welcomed investors, foreign officials and business leaders in the World Economic Forum on Latin America held in Buenos Aires. The "mini-Davos" session began on April 5, and continued through April 7. The forum taking place sent a clear signal to investors that Argentina continues to

prioritize international integration and reform—with international institutions such as the IMF praising Macri’s policies (“the government has successfully avoided a disaster”, First Deputy Managing Director David Lipton said). However, the conference’s message was somewhat overshadowed by the nonstop local media coverage (as well as international news coverage) of the work stoppage. **This timing was almost certainly deliberate on the part of the unions, to cause maximum disruption.**

On April 4, Standard and Poor’s raised their foreign and local currency ratings on Argentina to B, from B- with a stable outlook. The credit ratings of Buenos Aires City and six provinces (Buenos Aires, Córdoba, Mendoza, La Rioja, Salta and Entre Ríos) were also raised to B. The ratings agency highlighted that the government’s efforts to dismantle fiscal obstacles for local and regional governments faces political opposition, although it also acknowledged that the “constructive dialogue” between the federal and provincial governments demonstrates political will to achieve fiscal stability in the long term.

Tax amnesty a historic success

Meanwhile, also on April 4, the Finance Ministry revealed that the tax amnesty or “blanqueo” on an estimated USD 400 billion in Argentine assets held undeclared had brought in USD 116.8 billion. Tax-collection agency AFIP reported that 80 percent of the funds declared were from abroad, mostly, from the US and Switzerland. The government collected ARS 148.6 billion (USD 9.65 billion) in taxes from the amnesty. The government’s original target for the amnesty was a conservative USD 20 billion; **the amount declared therefore represents a significant success.** While the government has sought to emphasize that the outcome represents a “vote of confidence” in the Macri administration’s business friendly reforms—and while to an extent this may be the case—Argentines

Green shoots? Economic indicators deliver mixed signals

National statistics agency INDEC data show that the economy grew 0.5 percent in the fourth quarter of 2016 in comparison to the previous quarter, officially marking an end to the country’s recession. Agriculture, which expanded 1.6 percent year on year, drove growth in the fourth quarter, while social and health services and restaurants and hotels grew 2.3 percent and 1.9 percent respectively. Despite these positive indicators, there are enough negative indicators to suggest a recovery is not taking hold, especially in urban areas.

Inflation continues to be high (see graph), and recent INDEC data reveals that activity is down across multiple sectors. The construction industry shrunk by 10.7 percent in 2016 and fell 6 percent in February in comparison to February 2016. The statistics are even worse according to private estimates, which suggest a fall of between 8.1 percent and 9.5 percent for February 2017 compared to the previous year. This suggests that the government’s public works program hasn’t been enough yet to stimulate this sector. Furthermore, according to FIEL the following industries also shrunk in the first two months of the year compared to 2016: automotive (3.5 percent), food and drink (3.8 percent), textiles (4.7 percent), tobacco (7.7 percent). Furthermore, consumption, traditionally a key driver of Argentina’s economy, is still low. Consumption increased 22.8 percent in supermarkets in January, which was 15 percent below inflation reported for the same month. Treasury Minister Nicolas Dujovne estimated in March that increases in consumption won’t be seen until May or June.

Given that agriculture is one of the best-performing sectors, economic growth has largely been felt in rural areas and is yet to be felt in urban areas, especially in Buenos Aires province, where 976,000 of Argentina’s 1.5 million unemployed reside. Unemployment decreased by 1 percent in the fourth quarter to 7.6 percent (INDEC). Unemployment data indicates that there is not an unemployment crisis, but that the labor market is stagnant. The drop in unemployment is due to less people looking for work, rather than the creation of new jobs.

have the added strong incentive to repatriate assets given more stringent banking regulations, and bilateral tax-sharing agreements. Whatever the motivations, the success of the “blanqueo” will help the government meet its fiscal deficit target for 2017 (4.2 percent of GDP), although it should be noted that this is a “one-time-event”, in other words that the fiscal target will be reached this year, but under special circumstances.

As part of an effort to create new financial instruments to accommodate the newly repatriated funds from the tax amnesty, the government is focusing on increasing the volume of trading on its stock exchange, which currently represents around that of neighboring Chile’s. A capital markets reform bill has been presented to Congress (see PCR from [August](#)). Although this may be delayed due to the government’s need to be selective on where it spends political capital this year, the chances are we will see a push to expand Argentina’s capital market in the meantime regardless of the bill’s progress through Congress: in other words, the government can encourage a deeper capital market in the short term without the need for a law (which will be important to prevent government intervention, but more so in the longer term).

On the home front...

A number of developments domestically have also given the government a boost during otherwise troubled times. For one, a large demonstration was held on April 1 in Buenos Aires and other cities nationwide in support of Macri’s government. The significant turnout for the march clearly demonstrated two characteristics of the current social climate: one, that a large portion of society continues to defend the government (either because they genuinely support the policies, or because any alternative is unthinkable); and two, the increasing sense of political polarization felt as campaigning approaches. President Macri’s comments that the march unfolded

“without trucks or choripán” (a grilled sausage in a bun traditionally associated with lower socioeconomic classes) clearly showed **the government has chosen to engage and energize their base, and exploit divisions**—ahead of “taking the high road”.

Separately, on April 4 federal judge Claudio Bonadio charged former president Cristina Fernández de Kirchner with money laundering and leading a criminal association related to real estate dealings. CFK has appealed the indictment. This is the fourth set of criminal charges levied against the former President. CFK’s two children, Florencia and Maximo, were also charged, as well as businessmen Lazaro Baez and Cristobal Lopez. A travel ban has been imposed on all five of the accused, and around ARS 130 million worth of CFK’s assets have been frozen. CFK maintains that she is the victim of a political witch hunt, and denies all charges. The government, meanwhile, will seek to capitalize on this latest development as CFK continues to neither confirm nor deny if she will run for Senator in Buenos Aires province (see [here](#) for background).

Regional politics: Argentina prioritizes cooperation; focus on Venezuela

Argentina is looking to encourage more regional cooperation. On April 7, foreign ministers and trade and production ministers from Mercosur and the Pacific Alliance met in Buenos Aires to discuss promoting integration between the region’s two main trade blocs. Argentina currently holds the rotating presidency of Mercosur and extended the invitation to members of the Pacific Alliance with the aim of discussing trade, migration and financial cooperation in the region.

At a time where protectionism is gaining momentum globally, integration between Mercosur and the Pacific Alliance provides an

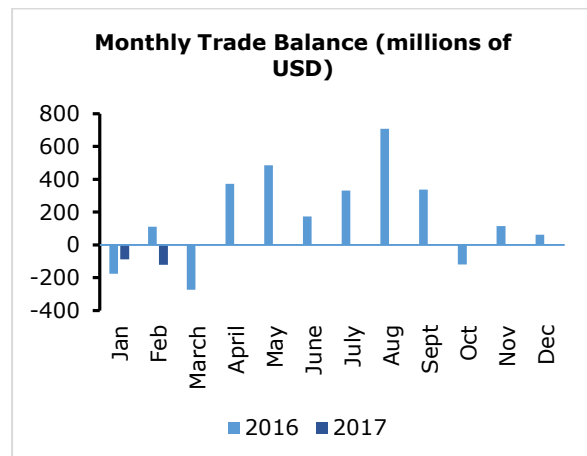
opportunity for the region to develop closer political and trade relations, both internally and with the rest of the world. The protectionist policies of US President Donald Trump pose a threat to several Latin American countries, whilst also providing new opportunities. More political unity across the region and a commitment to increasing trade was on the agenda to mitigate the impact of Trump’s policies, and to address current global issues. Mercosur and the Pacific Alliance agreed to regular meetings to push forward with their agenda of taking concrete measures to lower trade barriers and promote integration. Mercosur is also keen to push forward a trade deal with the EU. Both groups met in late March and published a joint communiqué and have agreed to further meetings which will be held in Buenos Aires at the end of May.

Argentina is continuing its efforts to expand its diplomatic ties with other regions of the world. On April 7, as well as the meeting between Mercosur and the Pacific Alliance, Mercosur also met with Singaporean foreign minister Vivian Balakrishnan to strengthen ties and promote dialogue, especially since Singapore will chair The Association of Southeast Asian Nations (ASEAN) in 2018. Argentina also communicated that it will reopen an embassy in Singapore, 15 years after its closure. Furthermore, Argentine Production minister, Francisco Cabrera, negotiated an automotive deal with Colombia to waive tariffs on a limited number of Argentine car exports.

Whilst the political crisis in Venezuela is a concern for the majority of the countries of Mercosur and the Pacific Alliance, Foreign Minister Susana Malcorra was committed to keeping the focus of the April 7 meeting on its original objective. Despite this, **Argentina is playing an active role in response to the political crisis in Venezuela.** After the Venezuelan Supreme Court annulled the opposition-led Congress, causing concern over a judicial coup to keep President Nicolas Maduro in power, an emergency Mercosur meeting was held in Buenos Aires on April 1 to discuss the issue.

Mercosur countries signed the Democratic Clause, a procedure that could lead to the permanent expulsion of Venezuela from Mercosur if they do not comply with the required standards and prove they are a democratic country. Venezuela was suspended from the bloc in December 2016 for not complying with the membership requirements. The bloc has also called for Venezuela to respect the electoral calendar and release political prisoners. President Mauricio Macri has publically supported this, stating in an interview on April 6 that Venezuela could be permanently expelled from Mercosur if “there is not a dramatic, absolute change in behavior”. Whilst Mercosur has initiated the process, there are a series of steps before this could occur and Venezuela will only be expelled from Mercosur if it fails to meet the conditions.

Separately, the government of Mauricio Macri is supporting the candidacy of current Argentine Ambassador to Chile José Octavio Bordón to be the next secretary general of the 12-nation UNASUR bloc. Were Bordón to be elected to the position, **it would provide another regional platform through which Argentina could work to push its agenda of regional integration.** However, candidates must be confirmed unanimously, and it will be difficult to achieve the support of all member countries, especially Venezuela, which will be concerned that Bordón would take a harsher stance on its ongoing political crisis than outgoing Secretary General Ernesto Samper of Colombia.



Source: INDEC

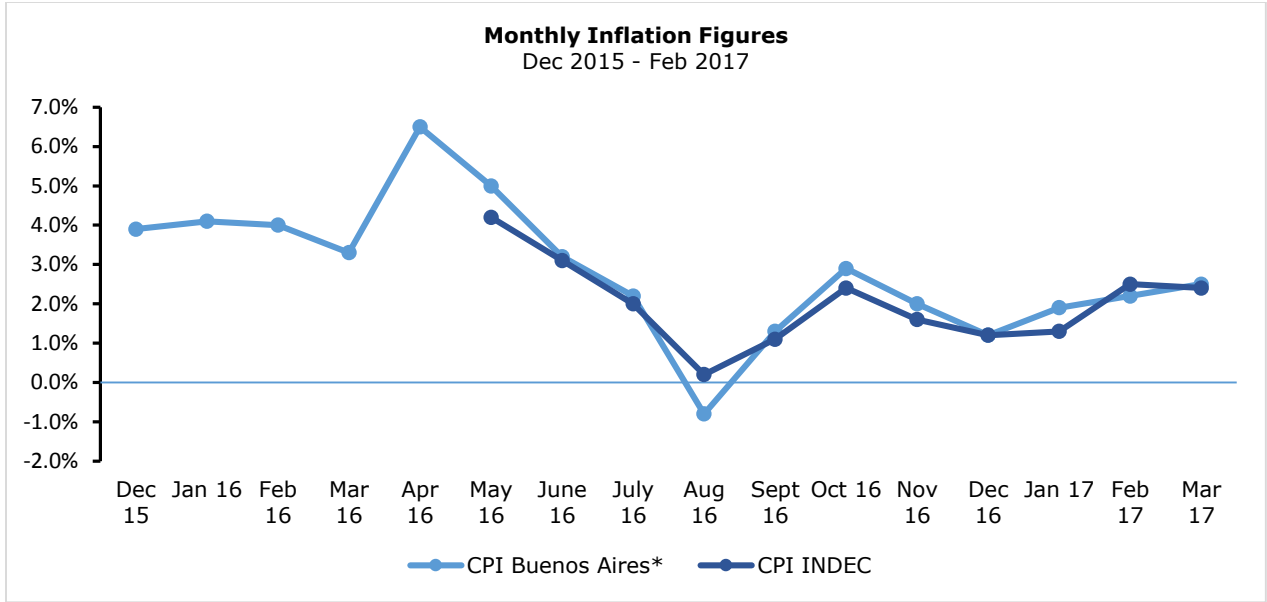
Election Watch: 2017 Midterms

Voters will go to the polls to cast their ballots in Argentina’s 24 electoral districts on October 22, according to the official call to elections made in mid-March. Primary, Obligatory, Simultaneous and Open (PASO) primary elections will be held on August 13. Campaigning for the PASOs will begin on July 14, and on September 17 for the elections themselves.

On March 3, Argentina’s Ambassador to the US Martin Lousteau submitted a letter of resignation in a clear break with the governing *Cambiemos* coalition ahead of the legislative elections. Rumors this may happen had circulated for some time, driven by Lousteau’s increasing distancing of himself from the current administration and his known political aspirations. This development is problematic in particular for Buenos Aires City Mayor Horacio Rodríguez Larreta. Lousteau—a popular non-PRO figure who has strong ties to the UCR in Buenos Aires—has, until now, posed only a latent threat the PRO’s authority in city in his post as ambassador. However, Lousteau may now run for national deputy for the City in August’s PASOs, either as part of the *Cambiemos* coalition, or as the main opposition candidate to PRO (representing the ECO bloc). This would then be a springboard to run for the mayorship of Buenos Aires in 2019, and **could threaten the PRO’s control of *Cambiemos* in the future more broadly**. Given the City is a PRO stronghold (where *Cambiemos* does not operate as a coalition), and that Lousteau is polling fairly well, a potential upset in August should not be ruled out. In addition, this will put pressure on CC leader Elisa Carrió to run in the City to give the PRO a chance of triumphing over Lousteau--although this scenario would leave *Cambiemos* without a strong candidate in the Province. Meanwhile, polarization and a struggling economy mean CFK remains a potential candidate for Senator (Buenos Aires province).

The national government is also displeased with the timing of Lousteau’s resignation, leaving the post vacant three days ahead of the general strike and just weeks before Macri’s visit to the US to meet with President Trump, scheduled for April 27. Although a replacement for Lousteau has not yet been named, there is speculation that Minister of Production Francisco Cabrera, Minister of Modernization/Technology (BA City) Andy Freire and former Finance Ministry Alfonso Prat-Gay are among the contenders.

Meanwhile, the government will seek to restore a degree of peace with the CGT in order to keep workers off the streets. In terms of broader electoral strategy, this month’s developments have indicated that the government has judged that it is more likely to guarantee a strong performance—especially in the absence of spectacular economic results—by **appealing to its base, rather than attempting to bridge the political divide or “grieta” that pervades Argentine politics**. This contrasts starkly with previous campaign rhetoric, which focused on uniting Argentines towards a common goal of prosperity. Since the strategy that opposition elements are pursuing is similarly focused on stoking divisions, we expect these “schisms” to only deepen ahead of the election.



**INDEC data was suspended between December 2015 and May 2016 while the government revised its methodology; the figure measures inflation in the Buenos Aires metro area.*

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