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Political Climate Report - ARGENTINA

March 28, 2018

As the Macri administration enters its third legislative year, it can focus on pushing ahead with its reform agenda - which has been somewhat watered down following social backlash at the end of last year - without the need to focus on election campaigning. However, a sustained dip in popularity following the contentious pension reform last year, persistent inflation and allegations against Macri administration officials holding assets offshore have complicated the government's efforts. In this context, the government has seized on recent social activism to refocus the public debate. In spite of these challenges, the government remains in a strong position - bolstered by several signs of economic improvement and relatively high approval ratings - to legislate on key measures.

A new congressional year, familiar challenges

President Mauricio Macri's address to Congress on March 1 to mark the start of the legislative year was notable for its tempered approach. Macri defended his administration's "gradualist" approach to economic reform, assuring that "the worst [part] is behind us". This line of discourse reflects a need to play to the middle and appease two groups at the same time - critics who would prefer to see more drastic cuts to government spending and taxation receive an explanation for the government's pace and an assurance of continued progress, while those who see the current pace as too fast are assured that further adjustments will be undertaken with caution. **The government's message is that further patience is necessary but will be rewarded with years of sustained economic growth.**

Of the government's legislative priorities for 2018 (outlined in table below), Macri chose to highlight only one of the less controversial aspects of the government's proposed labor reform - a labor amnesty which, if passed, would aim to place 200,000 informal workers into formal employment within one year. This is reflective of the piecemeal and cautious approach the government has been forced to adopt to legislating on labor rights (see [here](#) for context): these measures will be the easiest to maneuver through Congress as they are supported by sufficient numbers of opposition legislators and pro-dialogue elements of the CGT. Macri also urged the Senate to approve a capital markets reform passed by the Chamber of Deputies last year.

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Beyond assurances that the government’s economic policies are gradually working and few allusions to the government’s reform agenda, Macri’s speech was unusual in the sense that it contained multiple references to social issues including gender equality in the workplace, sexual health education and - more controversially - congressional debate on the legalization of abortion. **These have not been government priorities until now, and the shift in focus partly reflects a need to deflect attention from a public perception that the government’s economic promises have not yet come to fruition and a need to ensure the opposition remains divided** (see below for further analysis).

Stress test: inflation remains key challenge

As we analyzed in our last PCR, the controversy surrounding the government’s pension reform was the first in a series of controversies that triggered a dip in approval ratings that has spilled over into the first quarter of 2017. **The government’s approval ratings have stabilized, but not recovered, which is perhaps unsurprising given economic indicators from the first two months of the year remain mixed and that the majority of analysts agree that the government will not meet its targets for this year.** Continued high inflation - which has been more difficult to wrestle down than the government anticipated - is particularly problematic, as the population feels the pinch as prices rise faster than wages. The monthly core inflation indicator is particularly worrisome - it reached 2.1 percent in February (compared to 1.5 percent in January, 1.7 percent in December 2017 and 1.3 percent in November and October). This is the highest since April 2017, when it reached 2.3 percent. This can in part be attributed to reductions in gas, transportation and electricity subsidies earlier this year, but is concerning as a more sustained drop is necessary to avoid a backlash. This is

Macri shakes up executive branch

Earlier this month, the Macri administration announced widespread changes to the structure of the executive branch, reducing the number of ministries, secretariats and undersecretariats. 974 posts have been eliminated in changes that the government expects will save them ARS 1.5 billion (USD 74 million) annually. The most extreme reorganizations were seen in the Modernization, Social Development, Interior, Production and Labor Ministries, which saw the elimination of multiple secretariats. While the changes have been presented as part of an overall effort to increase efficiencies and reduce public spending, it should be highlighted that many of the political appointees are thought to have been absorbed by other organisms, implying that in real terms the cuts are somewhat less extreme than the government has sought to convey. This in turn is a play to the government’s base, which is generally partial to the idea of a reduced, more efficient state.

In other leadership changes, Financial Services Secretary Leandro Cuccioli has been named the new head of national tax agency AFIP. Current AFIP head Alberto Abad will leave his post at the end of March. Cuccioli is close to Finance Minister Luis Caputo and has a less political and more technical profile than his predecessor. Cuccioli has been criticized for holding most of his assets outside of Argentina, though Cabinet Chief Marcos Peña has been quick to come to his defense.

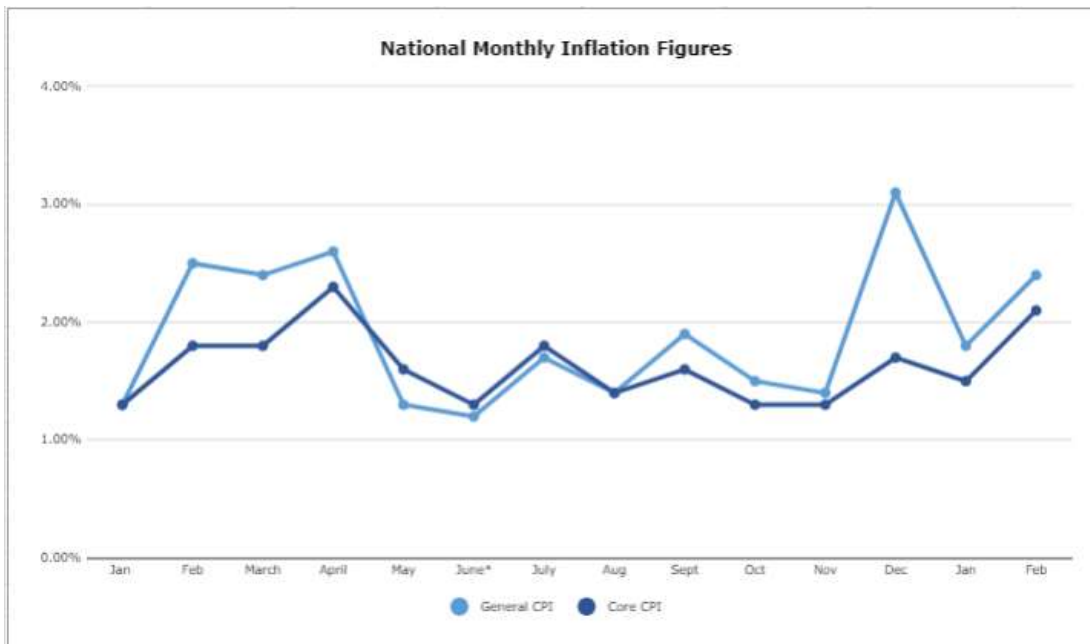
unlikely to occur in the short term as further subsidy cuts - in gas and bus fares - are slated to take effect in the coming weeks and will likely contribute to an ongoing public perception of erosion of purchasing power. The timing of this is unfortunate for the government considering they are currently leading salary negotiations with labor unions.

Moreover, the ongoing drought in Argentina - the worst in 30 years - is hitting the agricultural sector hard and dividends from sector will be well below target, which will likely cut into this year’s growth. In response, the government has announced financing measures to help farmers weather the effects of the drought. This takes on added significance given the agricultural sector has been one of the strongest political backers of Macri, who reversed several unpopular policies of his

predecessor, such as export taxes on soy. It is now generally accepted that the government will not be able to meet its 3.5 percent growth target for 2018.

Although growth will likely be lower than anticipated in 2017, **there have been several more positive indicators in recent economic figures including robust recent employment data¹ and a nearly 5 percent decrease in the poverty level in the second half of 2017.** The national statistics agency announced the latest figure today - a political victory for the government, which has promised to achieve “zero poverty” – along with a recent spate of other positive figures including in construction and industrial production. These figures provide a much-needed boost to the government’s argument that its economic policies are working **although we continue to believe that it will take time for this to translate into public perception that the economy is improving, especially as inflation remains very high.**

Several recent controversies involving high-level officials have not helped the government’s image. Finance Minister Luis Caputo has become embroiled in a scandal over his stake in offshore companies and failure to declare his involvement in them when taking office, and presidential undersecretary Valentín Díaz Gilligan resigned in mid-February after he was discovered to be holding more than USD 1.2 million in a bank account in Andorra. Opposition members have seized on these incidents to criticize the government. Although the government has argued that offshore accounts are not technically illegal, these scandals have damaged a government that has built its narrative on exposing the corruption of the previous government, especially in the light of several other recent scandals. In recent days, however, attention has again turned to allegations of corruption against individuals linked to the previous government, including high-ranking officials Carlos Zannini and Luis D’Elía and businessman Cristóbal López.



* In June 2017, INDEC began estimating nationwide inflation. The previous figures were based on the Buenos Aires Metropolitan area.

Source: INDEC.

¹ Unemployment fell to 7.2 percent in the fourth quarter of 2017, down from 7.6 in the same period in 2016. This was in spite of the active population increasing from 45.3 percent to 46.4 percent.

Social issues take center stage on political agenda

In a shift from an agenda in which economic reforms predominated, in recent weeks the government has focused energy on spearheading new legislation - and encouraging public debate - related to social issues. As discussed above, this was reflected in Macri's opening speech to Congress, which devoted significant space to these issues, including closing the pay gap, promoting paternity leave and holding a congressional debate on abortion.

In particular, the debate about whether and in what cases to decriminalize abortion has dominated the public agenda. The issue was brought to the fore following strong social movement pressure starting in mid-February, when the National Campaign for the Right to Legal, Safe and Free Abortion organized a social media campaign and thousands of individuals marched to Congress to demand decriminalization of abortion. Since 2005, the organization has presented six bills to allow voluntary termination of pregnancies, but pressure from the church and a lack of political will has stalled debate and prevented the bills from advancing. This time however, although President Macri has personally come out against decriminalization of abortion, he has called on the country to have a "mature and responsible debate" on the issue. On March 6, the campaign again presented a bill to Congress to decriminalize and legalize abortion in the first 14 weeks of pregnancy and guarantee provision of the procedure in public and private health facilities. The bill received record support of 71 deputies from across the political spectrum who signed as co-sponsors of the measure.

The government's decision to allow debate on the measure for the first time in decades responds not only to pressure from organized movements, but also to a broader shift in public opinion toward more widespread support for decriminalization of

Argentina passes key G20 test

On March 21, Argentina successfully concluded the first major test of its G20 presidency - a high-profile two-day meeting between G20 countries' finance ministers and central bank presidents. The meeting produced a communiqué that reaffirmed support for the international trade and financial system and espoused joint commitment to fighting money laundering and promoting fiscal transparency. The event, held in Buenos Aires, was also successful from an organizational perspective as it passed without any major protests or security incidents.

The language of the communiqué backed away from the full embrace of free-trade and anti-protectionism of past statements, instead calling for further dialogue, due to rising tensions over trade policy. US President Donald Trump's recent announcement that the country will impose tariffs on imported steel and aluminum (expected to go into effect this week) cast a long shadow over the meeting, as numerous countries in attendance have pushed back against these tariffs and sought exemptions. The US government is analyzing exempting several countries from the tariffs, including Argentina, from whom the tariffs are just the latest protectionist measure straining bilateral relations after the US in late February announced additional duties on Argentine biodiesel. The Trump administration has since announced that Argentina is one of several countries that will receive a temporary exemption until a final decision is made, expected to occur in late April.

abortion. Recent public opinion data suggests that approximately 5 or 6 of every 10 Argentines support decriminalization (although with wide regional differences between Greater Buenos Aires and elsewhere in the country). This marks a significant shift in the last decade, a particularly notable trend in a country where most residents identify as Catholic. There is even more widespread support (around 70 percent in most polls) for congressional debate on the matter. **In this sense, permitting debate on the measure allows the government to respond positively to public opinion, draw a stark contrast between itself and the previous administration, which repeatedly blocked the measure, and appeal to progressive voters.** At the same time, by pushing the abortion discussion to the forefront of the public discourse the government can exploit

divisions in the still-fractured opposition, which is starkly divided on the issue. That being said, it should be noted that the *Cambiamos* coalition is also not united on the issue. The decision to give “freedom of conscience” to governing legislators on this matter instead of taking a party position likely seeks to reduce potential fallout from the debate in the governing coalition and distract attention from its stalled economic reform agenda.

The measure has increasingly gained congressional support - although 71 legislators initially supported it, that figure has increased to around 100 by most estimates (of 257 total legislators). On March 20, a plenary meeting of four committees met to establish the procedure for debate. Debate will be extensive: beginning in April, discussion will occur for full days twice weekly over the next, before the measure is voted on in committee (estimated for early June) and potentially sent to the full Chamber for consideration. However, the measure is expected to face fierce opposition (opponents of decriminalization have responded with social media campaigns and a well-attended march on March 25), and at this point, the bill’s future is uncertain. Although opinion in the Chamber is roughly split, with a significant portion of legislators still undecided, it is difficult to anticipate how legislators will ultimately cast their votes given the complicated mix of factors at play in their decisions. **Moreover, even if the measure receives approval in the lower house, it will face an even more difficult challenge in the more socially conservative upper house.**

The debate on abortion is part of a larger government focus on social issues more generally. On international women’s day (March 8), as thousands marched to the Casa de Rosada, Macri publicly committed to advancing “gender equality and equal opportunities for women and men” by introducing a bill to the Chamber of Deputies to reduce asymmetries in the workplace. The following week, Macri sent a bill to Congress that proposes several

changes to the parental leave system, including 15 days of both paternity and maternity leave, as well as measures intended to address discrimination based on gender or civil status. The progressive bill is expected to pass easily, giving the government a quick win in a context in which there has been rising support for women’s rights in Argentina (evidenced in the *Ni Una Menos* marches and quick passage of a national gender parity bill late last year). **It is also a boost for the government at a time when weak economic figures and opposition to some of its key reforms threaten to dominate the narrative.**

An interesting factor in the debate on abortion is the role of the Catholic Church. Given that Argentina is a primarily Catholic country, the church and religion have historically played an important role in shaping the debate. However, even as Pope Francis sent an open letter to Argentines in which he calls them to come out “in defense of life” - widely viewed as an expression of support for the anti-decriminalization camp - there has been increasing scrutiny of the relationship between the state and Church and questions over the role it should have in informing policy. Cabinet Chief Marcos Peña’s disclosure during his first report to Congress this year that the government plans to spend ARS 130 million (USD 6.45 million) this year on bishops’ salaries, just part of the payments it makes to the Church, have prompted additional questions over the appropriateness of government support to a religious institution.

Union movement remains divided

Since the march headed by the oppositional truckers’ union head Hugo Moyano (see [here](#) for background) in late February, tensions between the government and unions have abated somewhat, even in the midst of collective bargaining season.

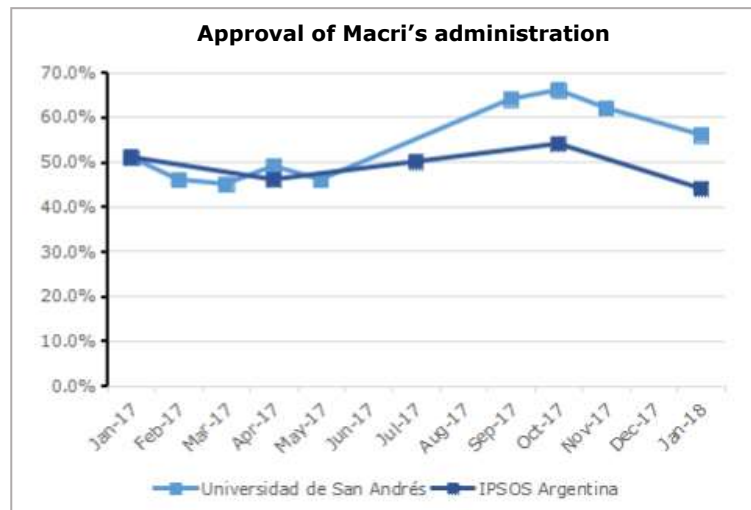
For its part, the government has continued its strategy of staying close

to friendly unions, while seeking to sideline more combative actors. In late February, Labor Minister Jorge Triaca took a committee of 12 union leaders to Europe (Spain, the Netherlands and Germany) to study the union model in those countries and consider how technological change has impacted the labor market. These models were undoubtedly used as part of discussions about the labor reform as the government seeks to shore up union support for the measures (see above). However, it is worth noting that none of the “first line” CGT leaders went (most likely an attempt to not seem too close to the government).

Within the labor movement, scarce adhesion from other major unions to the truckers’ union-led strike has left Moyano more isolated than ever. The powerful CGT umbrella union has distanced itself from the more combative Moyano and is preoccupied with resolving its internal divisions, which have become increasingly unsustainable and undermined its bargaining power vis á vis the government. The triumvirate leadership of the CGT and associated unions met in mid-March to discuss the future of the organization and its leadership structure. The CGT plans to call a meeting of the Directive Committee in April with the support of all factions of the umbrella union

(with the exception of Moyano) to call a Comité Central Confederal meeting in the coming months at which a new leadership structure will be determined. **The long process of renewing the CGT leadership is just beginning, however, and it is unclear how the fundamental differences between different branches of the labor confederation will be resolved.**

All of this is taking place against the backdrop of “paritaria” (collective bargaining) season, which this year has been significantly less conflictive than last year - when a CGT protest and general strike loomed large (see [here](#) for background) - likely due to the above-mentioned internal divisions. In the majority of negotiations that have concluded, the government has managed to keep agreements from exceeding its preferred limit of 15 percent (with revisions to occur late in the year) - a remarkable feat given last year’s inflation rate of 24.6 percent. However, most of these agreements were made with more pro-dialogue unions, and half of the provinces have yet to reach an agreement with the teacher’ unions (including Buenos Aires Province or City), which are seeking higher increases and are traditionally the benchmark used for other negotiations.



ANNEX I: Government's legislative priorities, 2018

Legislation	Principal components	Status	Difficulty
Labor Reform	To be considered as separate bills that encapsulate the following measures:		
	<ul style="list-style-type: none"> Labor "blanqueo" or amnesty. Create incentives for businesses to formalize workers. Establish training practices program to replace current internship law. 	Government intends to pass these measures in the first half of 2018. Currently in/soon to be sent to Committee (Chamber of Deputies).	Medium
	<ul style="list-style-type: none"> Changes to severance payment system to reduce burden on employer. Reductions in employer contributions to social security. 	Government likely to debate in June (purportedly to allow the abortion debate to be resolved first, this will also benefit the government as public attention will be focused on the World Cup).	Most Difficult
	Other components (not yet defined as piecemeal legislation). <ul style="list-style-type: none"> Reduce judicialization of labor cases Create new category of "autonomous worker". Clarify obligations that companies have to temporary/contracted workers. 	N/A	Difficult
Law to Decriminalize Abortion	Proposes decriminalizing and legalizing abortion in the first 14 weeks of pregnancy.	Discussions began in relevant Chamber of Deputies committees on March 20 , bill projected to reach floor in June.	Most Difficult
Reduction of Bureaucracy Laws	A series of three bills to replace a controversial "megadecree" (Decree 27/2018) issued by Macri in January.	Half-approved. 140 votes in Favor 86 against in Chamber of Deputies (March 21).	Average
Competition Defense Reform	Creates a clemency program and establishes an independent competition authority that can issue fines for anti-competitive practices.	Half-approved. Passed Chamber of Deputies on November 22. Now in Senate.	Average
Penal Code Reforms	Proposed modifications include changes to parole and asset forfeiture systems, widening of house arrest sentences, introduction of limits to judicial discretion in sentencing, definition of new crimes and increases to sentences for corruption in public office, sexual harassment, possession of child pornography.	Chamber of Deputies began debating some changes on March 21. On March 21, the Chamber gave final approval to a bill that makes changes in the Penal Code related to the possession of child pornography with a vote of 211 in favor and 2 abstentions.	Average
Capital Markets Reform (now Law of Productive Financing)	Ease regulations on foreign investment in Argentine market and <u>restrict</u> government intervention in companies. New financing scheme for SMEs.	Mostly-approved. Approved by Senate on March 21 with 54 votes in favor and 10 against. Sent back to Chamber of Deputies, to decide if it accepts the modifications made by the Senate.	Easiest

Gender Equality Reform	<ul style="list-style-type: none"> • Extension of paternity leave (from current 2 days to 15). • Extension of parental leave to 10 days for adoption. • Introduction of 5 days leave for women undergoing IVF treatment. • Introduction of 10 days' leave for victims of gender-based violence. • Reform that states gender or civil status cannot be used as a factor in determining compensation. 	Certain elements originally presented as part of labor reform package. Due to shift in public debate, repackaged as improvements to gender equality legislation (although still being presented as modifications to Labor Contract Law). Presented March 12 to Chamber of Deputies.	Easiest
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ANNEX II: Legislation passed since 2017 midterm elections

Legislation	Principal components	Status	Difficulty
Tax Reform	Gradual reduction of corporate tax burden. Taxes income on financial returns. Widens tax base. Accelerated refund of VAT for long-term investment. Measures to reduce tax evasion. Taxes on beer. Changes to withholdings/social security contributions.	Approved. Passed on December 27 by Senate with 52 votes in favor, 15 against and two abstentions.	N/A
Fiscal Responsibility Law/Fiscal Pact	Require primary spending to be constant in real terms. Tied to fiscal pact, which commits provinces to adhering to fiscal responsibility law, reducing taxes including stamp tax, and dropping some litigation against the national government, among other aspects.	Approved. Passed on December 22 with 145 votes in favor, 53 against and 20 abstentions in the Chamber of Deputies. Most provinces have now passed local laws required to implement this.	N/A
Social Security Reform	Changes the system for calculating pension increases: to occur every quarter and be linked to inflation (currently linked to salary increases and government income). Bonus linked to GDP growth.	Approved on December 19 with 127 votes in favor, 117 against and 2 abstentions in Chamber of Deputies.	N/A
2018 Budget	Spending cuts projected across education, health and social security, as well as to economic subsidies. Aims to reduce fiscal deficit to 3.2 percent of GDP.	Approved. Passed on 27 December with 54 votes in favor, 14 against in the Senate.	N/A
Gender Parity Law	Lists must alternate male and female candidates. The law will be in effect for the 2019 national elections.	Approved on November 23 with 165 in favor, 4 against and 2 abstentions in Chamber of Deputies.	N/A

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