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Political Climate Report - ARGENTINA

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Recent weeks were dominated by political debate over the government's response to the second wave of COVID-19, especially a dispute between the national government and Buenos Aires City about in-person classes. Meanwhile, internal tensions within the government coalition have generated challenges for policymaking and undermined its authority but do not seem to threaten its unity ahead of the midterm elections. At the same time, a fresh conflict has occurred between the national government and the agricultural sector due to government policies aimed at curbing inflation, which remains high. On the international front, in early May, the president embarked on a tour to Europe, seeking support for efforts to restructure its debt and avoid default. Meanwhile, congressional activity has picked up, with a few key bills under discussion, including a public health emergency law, update of the biofuels framework, reform of the public prosecutor's office, corporate income tax reform, and a bill to postpone the midterms. While the latter bill has received support from the opposition, advancing the other measures will require further negotiation. Overall, this situation is testing the government's ability to administer conflict on diverse fronts as elections approach.

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Second wave of COVID-19 hits with force, leaders divided over best response

Argentina is currently amid a full-fledged second wave of COVID-19, with daily cases and deaths exceeding the peaks seen in late 2020. After hitting then-record daily cases numbers in mid-April, in early May cases seemed to have stabilized—albeit at high levels of around 22,000 cases—but have since hit new highs. New daily records of 35,543 cases and 744 deaths were recorded on May 18, with the record quickly being eclipsed on May 27 with 41,080 cases. Total cases and deaths now exceed 3.7 million and 417,000, respectively, as of June 1. During the week of May 20, cases were 26 percent higher than the previous week. **Further, the epicenter of the pandemic is expanding beyond the Buenos Aires metropolitan area, and ICU bed occupation in recent weeks has been at an all-time high.** Seventeen of the country's 24 jurisdictions have more than 70 percent of beds occupied, with occupation at concerningly high levels of more than 90 percent in several districts such as Santa Fe, Río Negro, Formosa, Neuquén and San Juan, according to the national Health Ministry.

Amid this dramatic worsening of the situation, on May 20, President Alberto Fernández announced that much of Argentina would return to a strict lockdown for



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nine days in an effort to halt the spread of COVID-19. The measures are especially aimed at restricting circulation in districts with the most contagion and apply in districts classified as “high-risk” or “emergency” based on epidemiological factors. This includes Buenos Aires City and the metropolitan area as well as much of the rest of the country. These restrictions will last three weeks and will be divided into two stages: first, nine days of strict confinement and then 12 days in which restrictions will return to this current period, according to indicators related to ICU bed occupation and caseload.

The first stage was in force from midnight on May 22 through May 30 and involved a full suspension of all in-person social, economic, educational, religious and sports activities as well as a shutdown of non-essential businesses and restricting circulation to the timeframe of 6 AM to 6 PM. The second stage is in force from May 31 to June 11 and includes a return to the previous restrictions applicable in high-risk districts, including a curfew from 8 PM to 6 AM but with most activities authorized during the daytime. In an effort to further reduce infections, activities in the most critical areas will be restricted again during the weekend of June 5 and 6.

Analysis

President Fernández announced the latest restrictions through a *cadena nacional* (nationwide broadcast that media are required to carry), only the second time in his presidency he has used this tool. Fernández reiterated that Argentina is experiencing the worst moment of the pandemic, with the highest-ever daily number of cases and deaths, as he called for Argentines to redouble prevention efforts. At the same time, the president emphasized that measures must be applied nationwide and complied with, an indirect criticism of Buenos Aires City, which had resisted some of the government’s recent measures, notably the suspension of in-person classes (see below).

The announcement came after meetings, first between the president and the leaders of Buenos Aires Province and City, and then with governors from across the country, to discuss measures to be implemented and seek their support. **There had been some political debate over how strict the measures should be. However, health ministers seemed united in calling for a stricter lockdown than had been in place, and the increasing caseload and burdened ICU figures seems to have tipped local governments in favor of supporting these restrictions.** Indeed, during this second wave, it is clear that the epicenter of the pandemic is expanding beyond the Buenos Aires metropolitan area. Several provincial governments had already announced that they would implement further restrictions to reduce circulation.

Given this situation, the latest restrictions received political support from local governments, including from opposition leaders such as Buenos Aires Mayor Horacio Rodríguez Larreta. Following the president’s message, Rodríguez Larreta gave a press conference in which stated that the measures had been agreed between the national and local governments and would be enforced in the city (including the suspension of in-person classes for a week). He noted that the contagion rate in the city is high and calls for stricter measures. **Although he marked differences with the national government (including by allowing non-essential businesses to function with take-away and by highlighting the need for more vaccinations and testing), the speech marked a return to a more moderate and cooperative form of opposition following a period of higher tensions** (see below).

COVID-19 response becomes political battlefield

The government’s response to COVID-19 has generated political difficulties for it, both internally and with the

opposition. In April, restrictions became a flashpoint with the opposition, especially Buenos Aires City Mayor Horacio Rodríguez Larreta (see [March PCR](#) for background). While Larreta agreed to collaborate and implemented a curfew throughout April and most of May, the city government continued to push for in-person classes, taking the matter to the courts. The city has founded its position on the argument that Argentina’s 1994 Constitution gives provinces, not the national government, jurisdiction over education, while the national government has argued that it is the authority with responsibility for responding to the extraordinary public health situation.

On Sunday, April 18, just a few days after the national government announced that in-person classes would be suspended, a Buenos Aires City Appeals Chamber endorsed a judicial challenge presented by the city government, suspending the part of the national government’s decree that had halted classes and ordering the city to use its autonomy to continue in-person classes. Larreta portrayed the ruling as a win and quickly organized a press conference, saying that in-person classes would be held the following morning. However, several days later, a federal court determined that the local court did not have jurisdiction in this type of case and ordered the city to halt in-person classes in compliance with the presidential decree until the Supreme Court could rule on the underlying issue. Once again, Larreta gave a press conference, announcing that the city would not heed the ruling and would continue holding classes at schools. **On May 4, the Supreme Court ruled in favor of the Buenos Aires City government, putting an end to the legal fight but not the dispute. The 4-0 ruling (with one abstention) states that Buenos Aires City, as well as the provinces, have autonomy to decide on public policies related to education, and that the national government failed to sufficiently show a need to overrule**

this autonomy for public health reasons.

However, pushing the debate to the courts has not de-politicized it, but in fact exacerbated its politicization as each side has accused the other of finding friendly courts to support its position. The national government argued that it was inappropriate for the city to seek to challenge its decree in a local court without jurisdiction in the matter. Subsequently, the national government criticized the Supreme Court’s decision as politically motivated with President Fernández suggesting that the ruling was made to offer political support for the opposition and defended the measures necessary to protect public health. In a sign of political support, the bicameral committee charged with reviewing executive decrees subsequently approved the president’s executive decree.

As analyzed previously (see [here](#) for background), internal coalition pressures and the desire to differentiate himself from the government in an electoral year influenced the tone of Larreta’s debate with the national government over in-person classes. **However, polls suggest that the fight over in-person classes had a negative impact on the support of both the president and mayor, who consolidated support among their bases but alienated moderate and swing voters.**

The government’s failure to clearly explain criteria or indicators for its decision-making process, including for suspending in-person classes, has generated space for more political discussions on the issue. In an effort to reduce some of the political pushback to its lockdown, the government has been making several changes, including trying to show that it is following epidemiological criteria. Beginning in April, the national government’s restrictions began to divide the country into categories (from low risk to emergency) based on epidemiological criteria and link this to the restrictions

implemented in those districts. Further, the president sent a bill to Congress that seeks to establish criteria for when the national and provincial governments should take measures aimed at mitigating the pandemic. **While the government's intention was to use the bill to seek to ensure the political costs of lockdown measures are distributed among various actors in an electoral year, it has been rejected by the opposition, which has said it is an effort for the president to seek superpowers. Overall, these efforts are unlikely to significantly impact the political perceptions of the measures.**

Meanwhile, the opposition continues to highlight that a faster rate of vaccination could have helped reduce contagion. It has also raised concern that the latest lockdown will be extended much beyond its original period with a negative economic impact. In this context, the president has announced that Argentina will be passing to a new phase of its vaccination plan in which there will be greater availability of doses (see sidebar) and a reinforcement of social assistance. By dividing the latest measures in two phases, the government has also tried to provide a sense that stricter measures are temporary. **However, given that Argentina depends on vaccine shipments from abroad, and the fact that it will take several weeks to see the impact of a strict lockdown in case numbers, it is not clear that it will be able to meet these objectives.** Nevertheless, despite the debates over the best approach to pandemic response, the government and the opposition have reached agreement to postpone the national elections as a result of the public health situation (see below).

Government and opposition coalitions see internal tensions ahead of midterms

As midterm elections approach, and the need to define alliances and candidates appears on the horizon,

both the governing *Frente de Todos* and opposition *Juntos por el Cambio* coalition are showing signs of strain as internal groups stake out their positions and seek to drive the

Argentina's vaccination campaign steadily advances, government anticipates ramp up

Argentina's vaccination campaign continues to advance. Argentina has now received more than 17.5 million doses, with more than 21 percent of the population vaccinated with at least one dose as of May 31 (compared to a South America regional average of 18.6 percent, according to Our World in Data). Eligibility has gradually been expanded and adults between the ages of 18 and 59 with risk factors such as obesity, diabetes, certain chronic conditions or compromised immune systems can now register to receive a COVID-19 vaccine in many districts.

New batches of Sputnik V and Sinopharm doses have arrived in recent weeks, and several million doses of the AstraZeneca vaccine have arrived (both through the COVAX initiative and the country's contract with the company). These last doses correspond to the first shipment of the 22 million doses for which Argentina signed a contract with the company, but which have been delayed due to production delays. The government is anticipating that an additional 7.5 million doses of the AstraZeneca, Sputnik and Sinopharm vaccines will arrive in June.

At the same time, Argentina has made efforts to secure more vaccines, both through expanding and negotiating new contracts as well as working to promote the local production of vaccines. In late April, the government announced the expansion of its contract with Russia to 30 million doses of the Sputnik V vaccine (the original deal was for 20 million doses, with the option to acquire 10 million more) and confirmed that it had restarted stalled negotiations with Pfizer and was in negotiations with Cuba and China's Cansino Bio. Separately, Argentina has been pushing the United States to donate additional vaccines to the country and has confirmed that Argentina will participate in the phase three trial of the Israeli BriLife vaccine. In terms of production, in late April, local pharmaceutical company Richmond announced that it had sent its first batch of locally produced Sputnik V vaccines to Russia for approval to begin production; production is now slated to begin in June. Additionally, the government also met with Chinese representatives, who said an agreement had been reached to move towards production of the Sinopharm vaccine in Argentina and has been pushing for AstraZeneca vaccines to be produced entirely domestically (Argentina currently sends the main ingredient to Mexico for production and packaging).

alliances’ agendas. For the government, these internal coalition tensions go beyond electoral politicking, generating coordination difficulties that make management of the government difficult.

The tensions in the government coalition crystallized recently amid debates about economic policies, particularly around energy tariffs and social assistance, generating rumors about possible changes in the Economy Ministry. There are serious disagreements between the more moderate wing of Alberto Fernández’s cabinet, led by Economy Minister Martín Guzmán, and the part responsive to Vice President Cristina Fernández de Kirchner. **One of the most ongoing and salient weaknesses of the government has been the inability to internally arbitrate these issues, which generates policy inconsistency and situations in which decision-making often occurs at various levels by actors with different positions across the same ministry.**

Nevertheless, despite the challenge that managing coalition dynamics provides, the government alliance does not appear in risk of breaking ahead of the midterm elections, in which maintaining unity will be key to allow it to perform well. The debate about the replacement of national Transportation Minister Mario Meoni following his untimely death in a car accident was closely watched as an indicator of the state of the coalition. However, the nomination of his successor respected that the position was held by an ally of Chamber of Deputies President Sergio Massa, who has played a key role in allowing the government to advance key bills in Congress (see below). Further, in early May, the most prominent leaders of the different groups of the governing *Frente de Todos* coalition—such as Buenos Aires Governor Axel Kicillof; Chamber of Deputies President Sergio Massa; Chief of Staff Santiago Cafiero; and Interior

Minister Enrique “Wado” de Pedro—appeared together for what the president called a “unity picture”. **The picture was intended to send a message about the unity of the coalition in the wake of the Supreme Court ruling and highly publicized internal debates between groupings about approaches within the Economy Ministry.**

Meanwhile, the opposition coalition is also wrought with internal tensions and maneuvering as factions seek to position themselves for this year’s elections. Some leaders within *Juntos por el Cambio* are pushing for the coalition to broaden its reach to include some moderates and dissident Peronists, arguing that this is necessary to perform well in the key battleground of Buenos Aires Province. Other leaders such as PRO party president Patricia Bullrich are pushing to take a harder line and more oppositional stance. These internal differences as to approach were crystallized in late May, when Bullrich began to allege during media interviews that the government had asked for a bribe during its negotiations with Pfizer. The government and the company denied the allegations, and other members of the opposition distanced themselves from Bullrich’s statements. **Beyond these broader discussions, there are also very concrete negotiations related to how candidate lists will be composed in key districts as leaders seek to position themselves with the knowledge that presidential elections are around the corner in 2023.** A key question, for example, is if former President Mauricio Macri plans to return more actively to public life and run for office.

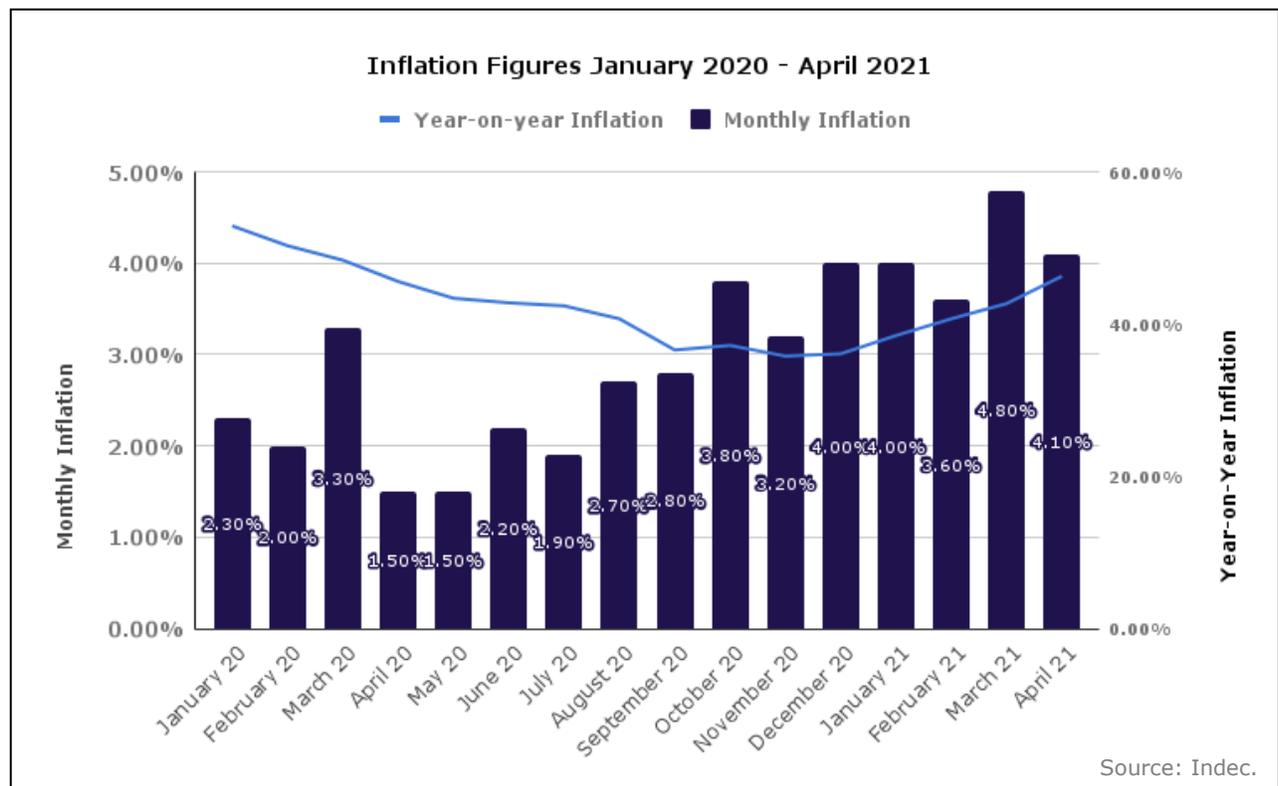
Government increases intervention as inflation fails to slow, generates fresh conflict with agro sector

Argentina’s economy is showing mixed signs in terms of growth, while stubbornly high inflation remains at the center of the government’s economic agenda.

Recent inflation figures show that inflation is not coming under control as the government had hoped. Though inflation in April was 4.1 percent, down from 4.8 percent in March, core inflation remains high, and it seems increasingly difficult that the government will hit its 2021 target of 29 percent. Consumer inflation in the first four months of the year totaled 17.6 percent. Concerningly, among the sectors with the largest price increases in April were clothing (6 percent), transportation (5.7 percent), and food and non-alcoholic beverages as well as household items (both 4.3 percent). Additionally, wholesale inflation accelerated to 4.8 percent in April, meaning that wholesale prices increased 21.9 percent during the first four months of the year. Economists surveyed in the Central Bank’s April Market Expectations Survey (REM) expect inflation will hit 47.3 percent year-on-year in December, a 1.3-point increase from the prior forecast.

Amid this context, the government has doubled down own efforts to limit price increases through price control

policies, and the implementation of the *Ley de Gondolas* (Law of Supermarket Shelves), which establishes that supermarkets must offer at least five brands of different goods and products produced by SMEs with the aim of preventing abusive pricing practices. Further, in mid-May, the government announced the suspension of meat exports for 30 days until June 19 in an effort to combat inflation and ensure Argentines can access beef at affordable prices. This followed a prior agreement reached with the meat sector to guarantee availability of certain cuts at affordable prices. In response, a group of agricultural producers and businesses announced the suspension of all sales of cattle and beef for a week starting on May 21 (since extended to June 2). **President Fernández has declared that the government will take measures in order to combat inflation, and that the ban will be lifted once the issue of domestic meat prices is resolved.** There is ongoing dialogue between the two sides, which hope that a deal can be reached before the end of the 30-day suspension. The event



brings back memories of the major 2008 conflict with the agricultural sector over proposed increases in export taxes, and other disputes with the sector under this administration (see [March 2020](#) and [June 2020](#) PCRs for background). **While these measures may have limited effect in halting inflation and open a new front of conflict, they allow the government to argue that it is being proactive in addressing an area of concern for Argentines and set it up in opposition to a sector that is viewed unfavorably by some of its supporters.**

More broadly, the economy is showing mixed signals about the state of recovery. In March 2021, the monthly economic activity estimator (EMAE), prepared by national statistics agency INDEC, showed an increase of 11.4 percent compared to March 2020, when a strict lockdown was first implemented. Thus, March was the first month to record a year-on-year increase since July 2019. However, economic activity in March was down by .2 percent compared to February, continuing a downward trend recorded in February when activity fell .9 percent compared to January. Economists surveyed in the Central Bank’s April Market Expectations Survey (REM) expect GDP to grow 6.4 percent in 2021 (0.2 percent lower than in the previous REM).

The recent return of a stricter lockdown and closure of non-essential businesses (though less widely enforced than last year) has raised concerns about the impact on struggling sectors. As a response, the government has extended the ban on layoffs through June, re-emphasized support programs for critical sectors, and announced expanded social assistance programs. At the same time, in 2020, poverty rose in Argentina for the third consecutive year, from 33.6 percent in 2018 and 39.8 percent in 2019 to 44.7 percent last year, according to a new report from the Catholic University’s Social Observatory. This is higher than the official statistic, which estimates poverty at 42

percent. **Polls consistently show that Argentines feel pessimistic about the current state of the economy and its future direction. In the coming months, we can expect the government to attempt to show proactivity in this area, particularly on inflation, as the economic situation will weigh heavily on voters in the elections.**

Government travels to Europe, seeks to postpone payment to Paris Club

From May 9 through May 14, President Alberto Fernández travelled to Europe with Economy Minister Martín Guzmán for discussions focused on delaying an upcoming debt payment to the Paris Club and debt renegotiations with the International Monetary Fund (IMF). The trip was made with a sense of urgency as Argentina had a USD 2.4 billion payment due to the Paris Club on May 31 and especially given that negotiations with the IMF—typically a precursor required for the Paris Club to restructure debt—remain ongoing.

The president met with the president and prime minister of Portugal, king and prime minister of Spain, president of France, the Pope, and the Italian president, in that order. The leaders of Italy, Spain, France and Portugal all publicly expressed some political support for Argentina’s debt renegotiations, with the Portuguese economy minister reportedly even saying the IMF needs to reevaluate its surcharges for countries whose loans exceed their quota (a structural reform that Argentina has called for). Importantly, Fernández also held his first in-person meeting with IMF Managing Director Kristalina Georgieva, after which both expressed that the meeting had been constructive, as well as with Argentine Pope Francis. Georgieva also subsequently met with the Pope, who has supported debt relief for poorer countries in the past. The trip seems to have reinforced the will of all parties to reach agreements and avoid an Argentine default. Subsequently, Fernández spoke with German Chancellor Angela Merkel, who also offered her support for Argentina’s negotiations with two institutions.

On May 31, Argentina failed to make the USD 2.4 billion payment due to the Paris Club, but is still hoping to reach an agreement to delay it until a deal with the IMF is reached. There is a 60-day grace period before the country is declared in default during which Argentina will continue negotiating with creditors. In the short term, there is a need to resolve the Paris Club payment, and in the medium term, setting reachable repayment goals would help generate a sense of stability amid the general uncertainty of the coming months.

Congress active as government advances agenda

During April and May, Congress was active, advancing several of the government’s legislative proposals. Both chambers have been discussing key bills, and the government has been able to build support through negotiation to advance some legislation related to economic and electoral issues. **The government has shown a united front within the national Congress, and indeed the national legislature seems to be one of the few areas where the government is successfully advancing parts of its agenda, and where diverse parts of the coalition are negotiating to align behind initiatives.** In early May, both chambers reached political agreement to renew their protocols to hold mixed remote and in-person sessions (the Chamber of Deputies for 30 days and the Senate for 60 days), which was essential in order to allow discussion of key bills to advance.

A top priority on the congressional agenda at the beginning of May was a corporate tax reform presented by the government. Debate on this bill followed the successful approval of a personal income tax reform proposed by Chamber of Deputies President Sergio Massa to raise the income tax floor and reduce the universe of workers required to pay the tax in tandem with an “Income Tax Transition Bill for Independent Workers” to update the tax framework for independent workers and move towards a unified regime (see [March PCR](#) for background). **The government presented a bill that it argued would decrease income tax rates on 90 percent of companies with the aim of benefitting SMEs.** In late May, along party lines, the Chamber of Deputies approved the bill, which was modified in order to secure support so that the highest rate (35 percent) will only apply to net profits above ARS 50 million (USD 530,000). **It is now awaiting debate in the Senate, where it is expected to be approved on June 2.** In

an electoral year, political fronts are thinking about how to appeal to their bases with their messaging about the bill. **The government says it will lower taxes on most companies including SMEs, whereas the main opposition parties argue that this bill amounts to a tax increase for other companies that already face a high tax burden.**

In addition to tax reform, the government has also advanced several election-related bills. After much back and forth between Interior Minister Wado de Pedro, the president of the Chamber of Deputies, Sergio Massa, and the heads of opposition blocs, **an agreement was reached to postpone primary elections due to the pandemic.** The bill now making its way through Congress sets the following national electoral calendar: September 12 for the primaries and November 14 for the general elections (from August 8 and October 24, currently). In exchange for opposition support, the government has included a clause prohibiting further modifications to the election calendar this year and is also taking steps to increase the number of polling stations. **The bill was approved by the Deputies Chamber and has committee approval in the Senate, where it is expected to be approved on June 2.** Separately, the Chamber of Deputies gave final approval to a law suspending the expiration of political parties that do not meet certain requirements due to the pandemic situation.

Finally, rounding out priority issues on the congressional agenda is the bill the government introduced as a response to political opposition to its latest COVID-19 restrictions. It sets epidemiological parameters and defines the powers of different jurisdictions to establish restrictions. Already approved by the Senate, the text needs to be discussed in the Chamber of Deputies. **The opposition does not support the bill, which it has said amounts to the government trying to seek emergency**

powers. It may be modified to try to gather some additional support, which is necessary for approval in the lower house.

Finally, a key bill awaiting discussion is the biofuels promotion framework. Due to lack of political consensus about the approach between the government and opposition, the congressional discussion has largely stalled. As a result, on the eve of the current regime's expiration on May 12, the president extended the framework for 60 days, until July 12, or until a new framework comes into effect. The government is pushing for approval of its own bill, which proposes a minimum cut of 5 percent of biodiesel in diesel (down from 10 percent now), and a minimum 12 percent bioethanol in gasoline. Business chambers criticized the decrease in blend requirements, and opposition parties are pushing to extend the current framework. **While the government was able to secure committee approval in the lower house for its version of the bill, its outlook is unclear due to lack of support from the opposition.**

Separately, the government's proposal to reform the Public Prosecutor's office has also stalled in the lower house as it has failed to find support. Many changes were introduced at the committee level, where it passed, but the main *Juntos por el Cambio* opposition bloc and smaller parties in the lower house have said they oppose the reform, halting its path forward for now. Other issues on the congressional agenda in the short term include the Fiscal Consensus, agreed with most provinces and allows local governments to increase taxes in exchange for not taking legal action against the national government in relation to shared funds, which was approved by the Senate and will be discussed soon by the Deputies' Chamber (date to be confirmed).

Mercosur remains divided over changes to key policies

Despite Argentina's ambitions to advance consensus during its term as pro-tempore president of the Mercosur trade bloc, which lasts until June, differences between member countries continue to stymie progress on possible changes to the common external tariff or the bloc's rules regarding trade deals with third parties.

On April 26, Argentina led a meeting with the foreign affairs and economy ministers of Brazil, Paraguay and Uruguay to discuss the common external tariff and the possibility of members being able to independently negotiate trade agreements. Argentina pushed to maintain unity in trade negotiations with other countries and defended its proposal for more limited change to the common external tariff than that pushed by Brazil and supported by Uruguay. Argentina will not accept a reduction in the tariff on products with a strong impact on employment (such as the textile, automotive and toy sectors). On the other hand, during the meeting, the countries signed the Mercosur Electronic Commerce Agreement, which had been agreed upon in December. The agreement contains provisions on the cross-border transfer of information, protection of personal data, non-imposition of tariffs on electronic transmissions, electronic signatures, location of computer facilities, online consumer protection, and internet access and use, among other matters.

Economy Minister Martín Guzmán has acknowledged that although there are differences among the countries that make up the regional bloc, "we also see that there are points of agreement, and the important thing is to make progress on these points in order to build a more modern Mercosur". Recently, Brazilian Foreign Trade Secretary Lucas Ferraz stated that Brazil wants to reduce Mercosur's common external tariff on all products by 20 percent between the end of 2021 and 2022. This will be Brazil's position at the upcoming meeting of Mercosur members in early June in Buenos Aires, where it will have to negotiate with Argentina, which according to Ferraz, is only willing to reduce tariffs on roughly 40 percent of the products.

Separately, the EU-Mercosur trade deal has seen no progress and remains stalled due to domestic opposition in member countries of both blocs. On May 17, Spanish Prime Minister Pedro Sánchez stated that he is convinced that the trade agreement will be approved "sooner than later". During the CEAPI Ibero-American Congress, Sánchez urged Europe to "look to Latin America as a priority" and announced that he will undertake a tour of the region starting on June 8 that will take him to Argentina and Costa Rica.

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