CONTACT INFORMATION

info@cefeidas.com
www.cefeidas.com

+54 (11) 5238 0991 (ARG)
+1 (646) 233 3204 (USA)

Torre Bellini
Esmeralda 950
Ciudad Autónoma de Buenos Aires
(C1007ABL)
República Argentina

POLITICAL & REGULATORY RISKS

Juan Cruz Díaz
jcdiaz@cefeidas.com

Megan Cook
mcook@cefeidas.com

Marina Martínez de Hoz
mmdehoz@cefeidas.com

Emilia Cerra
ecerra@cefeidas.com

Rayan Akill
rakill@cefeidas.com

Cefeidas Group
International Advisory Firm

Political Climate Report - ARGENTINA

December 4, 2019

IN THIS ISSUE

Page 2
Congress restarts, has busy last session

Page 3
Outlook for the incoming Congress

Page 6
Outlook: Debt renegotiation and decision on currency controls

What's is happening with the IMF deal?

Page 7
Outlook: Building a social pact with business and unions?

Outlook: Abortion debate back on the agenda

Page 8
Fernández signals shift in Argentina's foreign affairs approach

With less than a week until Alberto Fernández takes office, there is still uncertainty surrounding the composition of his administration, although cabinet nominations will be confirmed on Friday, December 6. Negotiations have been intense, and the allocation of key roles across the coalition's factions has been strategically aimed at keeping all members fully invested at the start of the term. In Congress, activity has picked up following the end of the electoral period as the Chamber of Deputies passed a battery bills in its last ordinary session. The incoming government has consolidated its bloc and will have enough seats to reach quorum in the Senate but will have to negotiate with other deputies to reach quorum in the Chamber of Deputies. Meanwhile, the Juntos por el Cambio *coalition is showing signs of strain as it prepares to take up the role of opposition. Upon assuming, Fernández's immediate policy priorities will include deciding on currency controls and negotiations with the IMF and private bondholders as well as economic relief measures, which will likely include an agreement between business sectors and unions.*

Negotiations ramp up as parties vie for roles in incoming administration

The weeks following the presidential election have provided little clarity about the composition of and policies of the incoming Alberto Fernández administration. With just over a week to go until he assumes the presidency, Fernández has yet to announce the names of most cabinet ministers, and nominations to other political posts have yet to be officially confirmed. Fernández stated on December 3 that the cabinet had been decided but said that members will not be announced until the evening of December 6, after the markets close and just four days before he takes office. However, that same day, he also personally made the first official public confirmation of a minister—Ginés González García will be Health Minister, a post he previously held under the Eduardo Duhalde and Néstor Kirchner administrations.

The lag in announcing ministers is an effort to protect them, particularly the most highly scrutinized posts, from political wear and tear before they officially take office. It is also an indication that the negotiations for political appointees proved highly difficult as is typical of a coalition government. In late November, Fernández cancelled a trip to Europe to focus on negotiations for cabinet posts and other key roles.

Negotiations in the *Frente de Todos* about how to distribute key posts between the coalition's various members have been frenetic, and rumors about potential ministers circulate quickly only to be "debunked" shortly thereafter. Fernández met several times with former president and incoming Vice President Cristina Fernández de Kirchner to discuss cabinet choices. Fierce negotiations have also taken place at the offices of key leaders of the main factions of the alliance: provincial and traditional Peronism, Kirchnerism (linked to former President Cristina Fernández de Kirchner) and Sergio Massa's *Frente Renovador* (it is worth noting that *Frente de Todos* that includes more than 16 parties across the country).

Several close Fernández advisors who had seemed all-but-guaranteed to hold key posts in the incoming administration now seem to be out as a result of the negotiations, and Fernández's first cabinet seems likely to show a strong imprint of Kirchnerism. **This will certainly give them strong influence in government decision-making, but this is not necessarily an indication that CFK herself will be the de facto decision-maker. The inclusion of a large number of Kirchnerists in key roles is a strategic decision that recognizes the importance of CFK's base in Fernández's electoral victory and the need to keep them fully invested at the start of his administration given the difficult decisions that will need to be made in the short-term.** In the longer term, if Fernández is able to successfully build his own base of political power, he could begin to renovate the cabinet; there are several recent precedents in Argentina of presidents coming to power on the back of another political figure, and then constructing their own coalition.

The leadership roles negotiated in Congress provide some indication of how the negotiations are shaped: Kirchernists hold many posts but have ceded key posts to allies of Sergio Massa and provincial Peronists with the aim of keeping the alliance united (see below for more analysis). Additionally, current National Deputy Marco Lavagna (*Frente Renovador*) has claimed that he will head national statistics agency INDEC, a decision that has been well-received across the political spectrum and bodes well for the independence and technical capacity of the organism. Lavagna, an economist and former head of consulting firm EcoLatina, was involved in creating alternate inflation measures during period when INDEC's stats were disaccredited. **The decision about economy minister and other key posts related to economic policy making are especially thorny given Argentina's current situation.**

Meanwhile, following the initial high-profile meeting between Macri and Fernández (see October PCR for background), the presidential transition has been proceeding relatively smoothly, avoiding the acrimony that characterized the 2015 handoff of power in which a dispute over the location of the ceremony led to a 12-hour temporary presidency. The two have agreed to hold the presidential handoff ceremony in the national Congress.

Congress restarts after slow electoral period, advances several bills in busy last session

Following a period in which congressional activity was largely halted due to the elections as well as the weakened position of the current ruling bloc (which governed with a minority during the entirety of its term but saw its political capital decline over the last year and a half), on November 20, the Chamber of Deputies held its last ordinary session with the current composition and passed a flurry of bills. **The government and opposition agreed to discuss a series of bills, many of which were set to expire at the end of the month if there was no movement on them, including two long-debated and contentious measures: the *Ley de Alquileres* (Tenancy Law) and *Ley de***

Gondolas **(Law of Supermarket Shelves).**

The Chamber of Deputies approved the *Ley de Alquileres* (191 in favor, 24 abstentions and no votes against), which is aimed at regulating rental properties. The approved text extends the minimum contract period to three years, limits rent adjustments to one annual increase based on an index that averages the increase of inflation and salaries, and requires that landlords accept different forms of guarantees, among other changes. Changes to the rental system have been a topic of public debate since 2016, when a separate bill received approval in the Senate but failed to advance in the lower house. This bill received approval in committee in October 2018 (see here for background) but seemed to have not been a priority in recent months. **However, many of the changes are aimed at protecting renters from abusive practices, while in the context of economic crisis and challenges with inflation-linked loans, increased pressure for action.** The measure has faced pushback from landlords and real estate agencies, which have said it will negatively impact the supply of apartments but has been supported by renters who argue the bill offers them stronger protections. **The bill passes to the Senate, where it will be discussed once the new Senate begins holding sessions.**

The Chamber of Deputies also approved the *Ley de Gondolas*, which had been delayed for several years and is aimed at promoting competition of brands in supermarkets, with broad support (180 in favor, 18 abstentions and 1 vote against). **The government and opposition blocs had approved different versions of the text in committee: although there was general agreement of the goal of the law, debate focused on whether there should be limits on brands.** The agreed-upon-text states that one brand of a good can only take up 30 percent of shelf, and that there must be at least five providers of any good. It also establishes quotas for products produced by Argentine SMEs and indigenous groups, among others. Within the governing coalition, *Coalición Cívica* leader Elisa Carrió had long pushed for this measure. **On the other side, opposition leader and future president of the Chamber of Deputies Sergio Massa had said that the measure would be high on his agenda after assuming the post as the measure fits into the agenda of the next government that is aimed at helping smaller national producers and preventing abusive pricing practices.** The bill now requires Senate approval before it would take effect. Supermarket chains have criticized the bill, arguing that implementing it will be difficult.

In the last session, the Chamber of Deputies also gave final approval to several other measures, including a law to establish a unified system of sizes for clothing and shoes with standardized measurements to be based on a national study of body measurements (a demand of consumer defense and anti-discrimination groups) and a law that seeks to establish strategies and policies aimed at mitigating and adapting to the impacts of climate change.

On the other hand, the *Ley de Ficha Limpia* (Clean Record Law), which would prevent individuals convicted of corruption in a second instance court from running for public office, failed to advance. The Kirchnerists and left didn't give quorum to debate the measure in a special session, arguing that they would only debate the measure if it included crimes beyond corruption, such as money laundering, tax evasion and the use of offshore accounts.

Outlook for the incoming Congress

These above-mentioned bills were the last to be passed by the current composition of the legislature, and pending bills will be debated once the new legislature is sworn in on December 10. As ordinary sessions do not begin until March 1, Fernández will have to extend the ordinary sessions through the

holidays or call extraordinary sessions. **Extraordinary sessions will surely be called in mid-December to advance the 2020 budget**. Other measures, such as the *Ley de Gondolas*, *Ley de Alquileres* and measures aimed at providing relief to some sectors affected by the struggling economy are also likely to be discussed during extraordinary sessions. **As recent days have made clear, these bills will be discussed in a Congress where Fernández has a strong position, particularly in the Senate, but will nevertheless face opposition and require careful negotiation in the lower house (see Table 1).**

Senate

On November 27, new senators were sworn into office—the 24 chosen in this year's elections as well as two replacements for CFK and Santa Fe Governor-Elect Omar Perotti. **The Peronists managed to achieve a unified bloc, which will be called *Frente de Todos* and will include the Kirchnerists (*Frente para la Victoria*), Peronist party (*Partido Justicialista*) and several smaller provincial parties.** This will give the coalition 41 members, allowing it to reach quorum (37) in the 72-seat upper house on its own. *Juntos por el Cambio* will have an interbloc of 29 members (16 from UCR, 10 from PRO and 3 from provincial allies). In addition, there are two independent Senators who are more likely potential allies of *Frente de Todos*. **This means that the future governing bloc will not need opposition support to advance most legislation, except for measures requiring two-thirds support, such as approval of Supreme Court Justices.**

The coalition authorities chosen in the upper house illustrate several points: 1) Kirchnerists will have strong influence in the upper house (as Vice President, CFK will preside over the Senate and guide sessions, though congressional regulations bar the body's president from making speeches); and **2) concessions were made to provincial parties and traditional Peronists in the interest of securing a unified bloc that can reach quorum. The unity of the bloc was reached through the selection of authorities close to CFK but with links to provincial Peronism that were able to generate consensus among the Senators that respond to provincial party structures.** Claudia Ledesma Abdala, former governor of Santiago del Estero and wife of current governor Gerardo Zamora, was chosen as provisional president of the Senate. Although there had been speculation that CFK wanted close ally Anabel Fernández Sagasti to head the bloc, her candidacy was not supported by gubernatorial Peronism. Instead, the Peronist bloc will be headed by Senator José Mayans of Formosa, who is close to Formosa Governor Gildo Insfrán and can serve as a bridge between provincial Peronism and Kirchnerism. The vice president of the chamber is from provincial Peronism while administrative and parliamentary secretary roles went to Kirchnerists. **This should assure the**

Table 1. Projected blocs in incoming Congress

Bloc	Chamber of Representatives	Senate
Frente de Todos	121	41
Peronism	45	18
Kirchnerism	46	19
Provinciales	12	4
Frente Renovador	11	-
Others	7	-
Juntos por el Cambio	116	29
UCR	45	16
PRO	52	10
CC	15	-
Others	4	3
Interbloque Federal	10	-
Unidad Federal para el Desarrollo	8	-
Otros	2	2
Quorum	**129**	**37**

unity of the bloc, at least in the short- to medium-term.

Chamber of Deputies

New representatives were sworn in during a ceremony on December 4, when the Chamber of Deputies also formalized Sergio Massa as president of the chamber (this was the agreement made with Massa to assure his *Frente Renovador* space would join the *Frente de Todos* alliance, see June PCR for background). **Neither *Frente de Todos* nor *Juntos por el Cambio* will have enough support to reach quorum on their own, and the panorama in the lower house is more complicated for both alliances.**

***Frente de Todos* replicated its success in reaching a unified bloc in the Senate in the Chamber** through the incorporation of the *Frente Renovador*, governors who maintained their own bloc during Macri's term, other manifestations of Peronism, and several provincial parties. While Massa will preside over the Chamber, and several other authorities will come from his faction, CFK's son and National Deputy from Santa Cruz, Máximo Kirchner, will head the *Frente de Todos* bloc. The latest negotiations suggest the bloc will ultimately include 121 legislators, just short of the 129 needed for quorum.

On the other side of the aisle, *Juntos por el Cambio* is also in the process of defining its authorities and seeking to shore up its coalition, a process that is complicated by the fact that, like *Frente de Todos*, it is a diverse coalition in which several parties coexist. The process of constructing the bloc has proven difficult as has the process of selecting authorities. **Unhappy with the predominance of authorities from Buenos Aires city and province, three members of the PRO party that were elected in other provinces broke from the bloc on December 3**. Additionally, although an agreement was ultimately reached, the election of authorities within the UCR was highly disputed between the sector of the UCR, closer to the PRO (represented by bloc head Mario Negri) and the sector more critical of the national government (represented by Mendoza Governor and national deputy-elect Alfredo Cornejo).

The noteworthy development of recent days has been the conformation of two smaller interblocs in the Chamber of Deputies: the 10-member *Interbloque Federal* and the 8-member *Unidad Federal para el Desarrollo*. The former of the two includes representatives with links to Peronism, such as Córdoba legislators that respond to Peronist Córdoba Governor Juan Schiaretti and members of *Consenso Federal*. The latter, which includes the three PRO defectors as well as deputies from smaller provincial parties, has links with *Juntos por el Cambio* but also shares some space with *Frente de Todos*. **Given that neither main bloc will have quorum and will need to seek support from other deputies, these blocs will hold an important arbitrator role in the incoming Congress.**

Analysis

The unification of the Peronist blocs in both chambers of the national Congress puts Alberto Fernández in a solid position to advance potential laws, although he will face stronger opposition in the lower house, where the blocs are more equal.

Both main coalitions are made up of numerous parties with competing interests and maintaining unified positions will require delicate balancing for both. **Although governing may start to expose some of its tensions more clearly, recent days have shown that the *Frente de Todos* has strengthened its alliance. However, the concessions made in the construction of the congressional blocs suggest Fernández will govern with solid support in both chambers in the Congress, and despite lacking quorum in the lower house, is**

well-positioned to negotiate support from the smaller blocs.

On the other hand, the divisions in *Juntos por el Cambio* are becoming ever more apparent. For example, the UCR broke with the more center-right elements recently by denouncing the events in Bolivia as a coup and criticizing Macri's revocation of a new abortion protocol (see below for more details). **Internal pressures in the coalition will come from these sectors as well as some parts of the PRO with a better relationship Peronism. Recent defections and internal tensions between parties somewhat undermine its position, although it will still present strong opposition in the lower house in the near term.** In the longer term, there are serious questions about if the bloc will remain united or suffer more defections.

Outlook: Issues on the Agenda

A series of tough decisions await Fernández upon taking office, including whether to amend the current currency control measures, which are set to expire on December 31, as well as outlining his approach to addressing Argentina's unsustainable debt load. Below follows a more detailed look at that and several issues that are expected to be high on the public agenda.

Debt renegotiation and decision on currency controls

The lack of clarity around the nominations for the relevant ministerial and secretariat positions is generating concern for bondholders, which have already begun to organize to coordinate an approach to negotiations, but with no clear interlocutor on the other side. **The incoming administration will have to coordinate negotiations not only with private debt holders, but also with the International Monetary Fund** (see sidebar). Fernández has made some statements that indicate that he will seek to carry out the two negotiations simultaneously to ensure compatibility. However, quick movement will have to be made on this front to protect the country's financial stability.

What's is happening with the IMF deal?

On November 19, President-elect Alberto Fernández held a phone call with International Monetary Fund (IMF) Managing Director Kristalina Georgieva to discuss the renegotiation of Argentina's debt with the organization. Fernández stated that his team is developing a "sustainable economic plan" that will allow Argentina to meet its debt obligations but warned that it is not feasible to carry out further austerity measures in the current economic context. Georgieva described the call as productive and reiterated the IMF's willingness to collaborate with the Fernández administration and to work together towards achieving sustainable growth.

In related news, the IMF announced in late November that former Assistant Director of the IMF's Research Department Luis Cubeddu will be replacing Roberto Cardarelli as the head of the IMF's mission in Argentina. The IMF stated that it is taking advantage of the political transition and the slowdown in negotiations with Argentina to carry out the rotation of its high-level staff. Calderelli will remain in Buenos Aires during the transition period to ensure continuity until the new government takes office. Cubeddu already worked in Argentina as part of an IMF delegation between 2002 and 2004. He is therefore expected to have a good relationship with Fernández, who assumed as Nestor Kirchner's chief of cabinet in 2003.

A recent report released by the Treasury Ministry revealed that Argentina has received USD 44.3 billion of the USD 57 billion stand-by agreement, of which 83 percent went to pay the country's external debt and another 14 percent was used to pay peso-denominated debt. Just over USD 1.9 billion of the money sent by the IMF is available for use as international reserves.

On November 27, Fernández stated that he is open to renegotiating the terms of the IMF loan but that he will not accept the USD 11 billion that has not yet been disbursed, including the USD 5.4 billion disbursement that was suspended in September pending clearer definitions about policy direction and the country's level of commitment to the deal. The outlook for a renegotiated agreement is unknown. However, the IMF is expected to continue showing flexibility in adapting the agreement to changing circumstances. The organization is aware of the economic limitations that the next government will face given the current economic context and will want to ensure that Argentina meets its obligations under the fund's largest-ever deal.

Fernández's statement that his government will not seek the disbursement of the USD 11 billion credit remaining in the country's stand-by agreement with the IMF, which could have been used to meet debt obligations, is a potential sign this his administration will take a tough stance with bondholders. Nevertheless, the president-elect has said he does not want to cut debt payments, but that the country can't afford to pay bondholders unless the economy is growing.

Building a social pact with business and unions?

At the annual conference organized by industrial business chamber *Unión Industrial Argentina* (UIA) in late November, **Fernández made efforts to show a united front with both Argentine industrial leaders and the "gordos" (the leaders of traditional and powerful unions in health, commerce, and industrial sectors).** Fernández's speech at the event focused on the need to generate discussions with all actors to reach consensus about a path forward for Argentina, a further indication that he will seek to advance some sort of agreement between business sectors and unions, potentially through the establishment of a *Consejo Económico y Social* (Social and Economic Council), which would serve as an institutional mechanism to promote multi-sectoral debate on social and economic policies. Indeed, many industrialists have spoken in support of Fernández. **Likewise, unions are showing signs that they are giving him space to begin his term without additional pressure from the labor movement.** Umbrella labor organization the *Confederación General del Trabajo* (General Confederation of Labor, CGT) has said it will not make a central push for an end of the year bonus (though it has said these can be negotiated sector by sector), an unusual development given the poor economic situation and workers' loss of purchasing power. **This decision has been highly criticized by social movements, some of which are part of Fernández's coalition.**

Abortion debate back on the agenda

In recent weeks, the legalization of abortion, which was high on the political agenda for much of last year (see here for background), has again taken prominence on the public agenda. **Fernández has made several suggestions that advancing abortion rights may be high on his agenda when he takes office**, including firmly stating his support for legal abortion during a speech at the *Universidad Nacional Autonoma de México* (UNAM) and attending the presentation of a book about a woman in Tucumán Province who was imprisoned for 29 months after having a miscarriage. The clearest indication came in an interview with local newspaper *Pagina/12* when he said he would try and push for a law to de-criminalize abortion "as soon as possible" after taking office**. His position in favor of abortion is also evidenced by the recent announcement of González García as Health Minister, who is publicly pro-choice and implemented a series of measures to improve access to legal abortions during his previous tenure in the role.**

Fernández has framed abortion as "a public health problem that we must resolve" and as an issue of socioeconomic inequality, which punishes poorer women who are forced to resort to abortions in unsafe conditions. **He has not clarified whether he would seek to de-criminalize abortion (which would require changes to the Criminal Code) or seek to guarantee access to legal abortion, as the bill which narrowly failed in Congress last year** (see here for background) sought to do. The bill to guarantee legal access to abortion debated in 2018 passed in the Chamber of Deputies but failed in the Senate. **It is not clear that there would be enough votes in the new Senate to pass, as the issue is a controversial one that divides Argentina's main political blocs internally. In any case, there are**

strong indications that the incoming administration will seek to advance progressive social and human rights measures such as legalizing abortion to help appease its progressive base, especially if it makes difficult economic decisions.

The divisiveness of the issue was made clear by the outcry that followed the publication of an updated protocol for accessing legal terminations of pregnancies that resulted in the resignation of Health Secretary Adolfo Rubinstein. On November 21, the Health Secretariat published a protocol that established updated guidelines for how hospitals should receive women and determine access to legal abortions in the Official Gazette. Although Argentina's Criminal Code establishes the right to abortions in certain cases, a lack of clear procedures has impeded many women from accessing these abortions. The measure was aimed at reducing the bureaucratic barriers and judicialization that have prevented access to abortions, including in several high-profile cases of underage rape victims (see here for background).

The protocol generated immediate pushback from some parts of *Juntos por el Cambio*, particularly the sectors closest to Macri, who personally criticized Rubinstein's "unilateral" and "bad" decision in an Instagram live video. The president, Cabinet Chief Marcos Peña and Social Development and Health Minister Carolina Stanley signed a decree revoking the measure, which prompted a resignation letter from Rubinstein. He justified his decision by saying it was a medical protocol that did not require consultation with other state organisms. **High-profile members of the UCR party, in which Rubinstein has his roots, backed the now ex-minister, showing the divisions in *Juntos por el Cambio*. In the last stretch of the electoral campaign, Macri took more conservative stances, and the strategy he seems to be developing going forward is moving more to the right. This may generate further strains within the already-fragile coalition.**

Fernández signals shift in Argentina's approach to foreign affairs

Although Fernández has yet to confirm details on his policy priorities or cabinet ministers, he quickly assumed the role of president in foreign affairs with a trip to Mexico and taking a strong stance with regards to the ousting of President Evo Morales in Bolivia.

On November 4, Fernández travelled to México to meet with President Andrés Manuel López Obrador (AMLO). Bilateral trade and economic relations were the top priorities of the meeting, and Fernández also sought AMLO's advice on how to maintain a constructive relationship with U.S. President Donald Trump, whose support will be crucial in IMF negotiations. **Fernández's decision to travel to México marks a break from the tradition that the president-elect travels first to Brazil, a historical ally and Argentina's largest trade partner.** However, this is due to significant differences with Brazilian President Jair Bolsonaro, who also broke from tradition in not making Argentina his first post-election trip.

During the trip, Fernández also met with Mauricio Claver-Carone, Trump's main advisor on Western Hemisphere affairs. Claver-Carone offered the Trump administration's support, especially regarding the IMF, which was also reportedly discussed in the call that President Trump and Fernández held on November 1. The country's support for Argentina was reiterated by U.S. ambassador to Argentina Edward Prado on November 26, when he and Fernández met. **Nevertheless, this was not enough to prevent Argentina from suffering the consequences of Trump's efforts to shore up domestic support,** and on December 2, he announced that he plans to reimpose tariffs on steel and aluminum

from Argentina and Brazil, due to the devaluation of the countries' currencies which he said "is not good for farmers". **While accounting for a small part of Argentina's exports to the U.S., the move is inopportune and adds a difficult complication to a delicate relationship.**

Fernández was joined on the trip by likely next Foreign Affairs Minister, Felipe Solá, a historic figure in the Peronist party who previously served as governor of Buenos Aires from 2002 to 2005 and national secretary of agriculture in the nineties. On December 2, **Solá gave a speech in which he spoke as if he were already the minister, saying the Fernández government will "de-ideologize" diplomatic relations and take a pragmatic approach to foreign affairs, without compromising their identity.** Concretely, he explained that Argentina will remain in the Grupo Lima (which includes more right-leaning governments) although it has also become active in the Grupo Puebla, a group of leftist leaders.

Nevertheless, Fernández's approach, particularly to regional affairs, will differ from Macri. Fernández has condemned the decision by the Macri government to not denounce the assumption of the new president in Bolivia as being the result of a coup. Moreover, he contacted Morales to offer help, oversaw his departure to México and received Morales's children in Argentina.

Disclaimer:
This message is confidential and intended solely for the individual or entity to which it is addressed. The information provided is exclusively for general background research and does not furnish advice on any particular commercial investment, trade matter or issue. The content of this material may not be replicated, reproduced, kept in a retrieval system or transmitted in any form or by any means, electronic or otherwise, without the express consent and approval of Cefeidas Group. © 2019 Cefeidas Group