PUBLIC POLICY, RISK & STRATEGY

Political Climate Report

Argentina

February 15, 2023 - March 16, 2023

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Key Takeaways

01 ***The grieta–a term used to describe Argentina's often stark political divide–is a major issue for voters.***

02 ***Candidates are positioning themselves relative to the schism, adopting either increasingly combative or cooperative positions regarding inter- and intra-coalition positions.***

03 ***Actors from across the political spectrum are seizing on the security situation in Rosario to strengthen their credentials as decisive policymakers.***

04 ***Argentina's challenging macroeconomic environment is complicating Economy Minister Sergio Massa's presidential ambitions.***

05 ***The official calendar for Argentina's upcoming general elections was published, confirming that the primaries will take place on August 13 and the presidential election on October 22.***

The Facts

- Buenos Aires Mayor Horacio Rodríguez Larreta officially launched his presidential campaign, billing himself as a unity candidate capable of "transforming" Argentina.
- Candidates from *Juntos por el Cambio*'s member parties, particularly the *Propuesta Republicana* (PRO) and the *Unión Cívica Radical* (UCR) are set to compete in a number of provincial and local elections. The competition between Larreta and his chief electoral competitor, Patricia Bullrich, is playing out in many of those contests.
- Jujuy Governor Gerardo Morales launched his campaign to capture the *Juntos por el Cambio* presidential nomination.


Photo: Patricia Bullrich | Infobae


Photo: Horacio Rodríguez Larreta

Mind the Gap

Candidates in both major blocs are positioning themselves relative to the *grieta*, both within and between their coalitions. In both his candidacy announcement and his session opening speech before the Buenos Aires City Legislature, Mayor Horacio Rodríguez Larreta blasted politicians who he said have spent decades turning Argentines against one another to advance their political ambitions and cited Argentina's ostensibly widening political chasm as the primary source of the country's problems. **Larreta is angling to be *Juntos por el Cambio's* anti-divide champion,** a strategy that is evident in his rhetoric surrounding both the government and other members of his coalition. While still criticizing policies pushed by the current administration to maintain the support of JxC's more right-leaning voters, the BA mayor has been careful to avoid publicly attacking individual members of *Frente de Todos*, and he has stressed that his government would seek cross-aisle cooperation. The tactic evinces his efforts to attract centrist voters within JxC as well as moderate Peronists who are skeptical of Kirchnerism.

Juxtaposing the capital city's mayor is *Propuesta Republicana* (PRO) President **Patricia Bullrich**. The former security minister is the opposition coalition's political firebrand, and she i**s actively leaning into the *grieta***, both between the two major coalitions and within her own, to secure the support of JxC's more hardline base and attract those who might otherwise support avowed libertarian Javier Milei. Bullrich has scoffed at the idea of collaborating with members of *Frente de Todos* and regularly employs confrontational language when discussing the government.

Within JxC, Bullrich maintains tense relations with Larreta, who she has called a "tepid" candidate. **Voters are divided on the issue of the *grieta*.** Both candidates–as well as the anti-division governor of Jujuy, Gerardo Morales, who recently declared his candidacy and could be a potential VP pick for Larreta–are betting that their approach to the divide will win them the nomination. **The *grieta* vs. anti-*grieta* battle** (led by Larreta and Bullrich, respectively) **is playing out in local and provincial JxC competitions across the country.** In the crucial Buenos Aires Province gubernatorial race, the Larreta-backed candidate, Diego Santilli, is facing off against Néstor Grindetti, supported by Bullrich, for the JxC nomination.

Major candidates have different approaches to intra-coalition relations, but **all are working to present a unified JxC front capable of beating the incumbent government.** Those efforts were visible at the annual *Vendimia* wine festival in Mendoza Province, where leaders from across *Juntos por el Cambio* snapped pictures with their allies to demonstrate the strength of their camps.

Still, **pushes for unity have seen varying degrees of success at the provincial and local levels.** In Trelew, a key city in the Patagonian province of Chubut, the local *Juntos por el Cambio* chapter resolved internal disputes surrounding candidate nominations, ultimately deciding to hold a primary vote to elect the coalition's nominee for mayor. The resolution was key in resolving a similar dispute at the provincial level. In the Mendoza gubernatorial race, however, the coalition has struggled to maintain unity. National Senator and former Mendoza governor Alfredo Cornejo, a Bullrich ally representing the *Unión Cívica Radical*, has declared his intention to compete in the coalition's primary. The Larreta-backed candidate, Omar de Marchi, is threatening to run for the PRO's nomination outside of the local JxC chapter's primary process. The move would fracture the coalition in Mendoza, putting the Buenos Aires mayor, one of de Marchi's key supporters, in a difficult position. On one hand, Larreta is keen to both maintain an ally in an electorally important province and undercut the chance of Cornejo's winning, which would be a major victory for Bullrich. However, Larreta values maintaining a united JxC front, and backing a potential spoiler could impact his credentials as a coalitional unity candidate and an effective leader at the national level.



Official electoral calendar

The Facts

- The governing *Frente de Todos* (FdT) coalition held its first national convention of the year to discuss a number of issues related to FdT's electoral strategy, legal sanctions facing Vice President Cristina Fernández de Kirchner (CFK), and coalitional unity.
- Supporters of the vice president, led by her son, National Deputy Máximo Kirchner, have ramped up their calls for her to run. Kirchner in March presided over "Fight and Return, Cristina 2023", an event advocating his mother's candidacy.
- Four senators left *Frente de Todos*' bloc in the Senate to form their own caucus, *Unidad Federal*, complicating FdT's ability to secure the chamber's 37-seat quorum..
- Argentina's ambassador to Brazil, Daniel Scioli, is toying with the idea of competing in *Frente de Todos'* primary election.
- President Alberto Fernández opened the new legislative session on March 1, delivering what is functionally the annual state-of-the-union speech.


Photo: Alberto Fernández | Twitter


Photo: Frente de Todos | Infobae

Prescribing "Proscription"

Following months of pressure from within *Frente de Todos* to discuss alternative presidential candidates, **President Alberto Fernández agreed to hold the coalition's first national convention of the year.** The meeting gathered leaders from across Peronism to discuss the coalition's electoral strategy, and Fernández worked to position himself as both a mediator open to facilitating dialogue and a possible candidate. He has yet to officially announce his candidacy, however, and a number of FdT leaders have urged him to clarify his electoral intentions lest he weaken the coalition's ability to unify behind a nominee.

Should Fernández seek a second term, other FdT candidates would have to compete against their coalition's leader. Not only would that scenario undermine the president's credibility and negotiating power for the remainder of his term, but it would also negatively impact FdT's perception among voters as an organized, disciplined political bloc capable of effective leadership. **The president has been reluctant to clarify his electoral aims as doing so**–particularly announcing his intention to not seek a second term–**could render him a lame duck for the remainder of his tenure**. Still, factors outside of the election are working against the president. His recent hospitalization due to back pain could impede, at least in the short term, his political activity, which was set to include visits to Chaco and Entre Ríos Provinces, both critical sources of support for *Frente de Todos*. A diplomatic spat with Ecuador, wherein both Argentina and Ecuador have recalled their ambassadors, threatens cohesion in Argentine foreign policy, Fernández's last bastion of policymaking control.

Amid internal tensions, **the Peronist gathering served as a space to demonstrate unity, and the coalition seized on Cristina Fernández de Kirchner's sentencing last year** (see November Political Climate Report, p.5) **as an issue around which to rally**. The Kirchnerist wing of FdT, spearheaded by Interior Minister Eduardo "Wado" de Pedro, is working to portray the former president as having been "proscribed" from politics, a message around which the coalition has largely unified. **The narrative aims to increase the political capital of the vice president and her allies, potentially positioning her as a potential candidate for the October elections.** Despite some tensions in the Kirchnerist camp, particularly between the VP's son Máximo and Buenos Aires Province Governor Axel Kiciloff, the FdT's base has been increasingly vocal in calling for her to run, billing her as the only candidate capable of uniting Peronism.

Kirchner and her supporters largely lean heavily into the *grieta*, pursuing a relatively combative political style vis-à-vis the opposition, **and any campaign run by the vice president would likely play heavily towards Peronism's more hardline base**. Contrastingly, Argentine Ambassador to Brazil and 2015 presidential candidate **Daniel Scioli**, who is flirting with a presidential run, maintains a more pragmatic, less polarizing political approach. The same can be said for **Economy Minister Massa**, who is weighing his chances at the polls. The latter two potential candidates **would be more likely to entertain the prospect of bipartisan cooperation**, if for no other reason than that either would need to rely on the support of moderate, anti-*grieta* voters.

President Fernández has embraced the proscription narrative, referencing it frequently during his state of the union speech. He also used the legislative address to blast the sitting members of the Supreme Court, whom FdT's congressional bloc is working to impeach (see December Political Climate Report, p. 4). **Fernández's vocal support for the vice president represents an effort by the president to lean into the *grieta* and bolster his hardline credentials with FdT's base,** which largely supports Fernández de Kirchner.

Following the president's speech, ordinary legislative sessions opened with a setback for the governing coalition as four FdT senators withdrew from the bloc to form their own grouping, *Unidad Federal,* reducing *Frente de Todos'* seat holdings. **The breakaway complicates whatever legislative ambitions FdT had in the run up to the October elections.** Orchestrated by senators from provinces outside of the greater Buenos Aires area, the defection ostensibly serves to protect the interests of the interior and bridge what they claim to be damaging political and geographic divides. Despite the break, officials from across Peronism showed face at the annual *Vendimia* wine festival in Mendoza Province, practicing performative unity as the coalition tries to manifest internal cohesion to voters. Additionally, the 10th anniversary of Pope Francis' pontificate, and the congratulations that followed, marked another opportunity for political actors to display political harmony.

The Facts

- A surge in violence in Rosario, Argentina's third most populous city, has captured public attention. The city has struggled to combat organized criminal organizations, which use the agricultural export hub's port to ship contraband.
- Actors from across the political spectrum have seized on the issue to strengthen their tough-on-crime credentials.
- President Fernández recently deployed 1,400 federal security forces to Rosario to help stabilize the city and promote "urbanization" projects aimed at decreasing crime in the long term.



Rebuilding Rosario

Recent events in Rosario have given players from both major camps the opportunity to present themselves as decisive in combating organized crime, a major concern for many Argentines. From *Juntos por el Cambio* camp, **Larreta has used the issue to distance himself from perceptions that he is detached from issues outside of the capital city.** Introducing a six-point plan to crack down on organized crime, the mayor looked to score a win with the JxC's crime-sensitive base. **Patricia Bullrich**, however, **is working to outflank the Buenos Aires mayor with an even more radical plan**, which includes sending military forces to Rosario to stabilize the city. The former security minister's *mano dura* (hard-handed) approach, which intentionally contrasts with Larreta's relatively measured proposal, reflects her efforts to secure the support of the opposition coalition's hardline base. Public support for tough anti-crime measures in Rosario play to Bullrich's strategy and drag Larreta into more hawkish territory where he likely feels less comfortable.

The government is balancing accusations that it is soft on crime with the policy preferences of its base towards non-punitive measures. President Fernández's decision to deploy federal forces to Rosario sought to demonstrate a resolute response to the security situation there. Opposition figures, however, have criticized the fact that forces are tasked with promoting "urbanization" efforts to reduce crime in the long-term, arguing that they should focus on combating acute criminal activity in the immediate term. Even within the governing coalition, the events in Rosario have given certain presidential hopefuls, such as Daniel Scioli, the opportunity to appeal to voters' security concerns and depict themselves as hard-handed on crime relative to the president.

The Facts

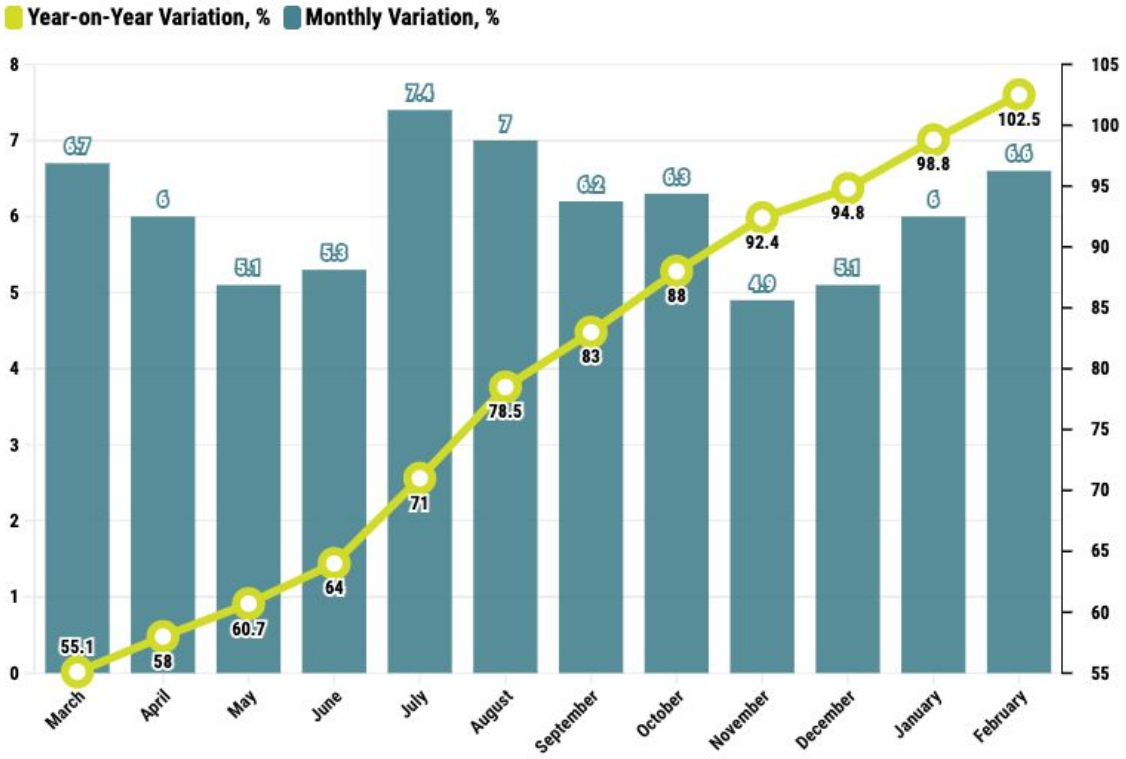
- Inflation hit 6.6% in February, testing Economy Minister Sergio Massa's ability to portray himself as an effective economic steward ahead of October's election.
- Argentina swapped ARS 4.1 trillion (USD 21.7 billion) in peso denominated bonds, pushing the debts' maturities to 2024 and 2025, after this year's election.
- An acute drought, the worst in decades, continues to hammer Argentina's agricultural industry, prompting government relief efforts and talks with the IMF to revisit the country's foreign exchange reserve targets.



Dollar Drought

As he weighs a potential presidential run, Sergio Massa continues to work to bolster his credentials as an effective economic steward. The degree to which he is perceived as such will decide his success at the polls. Adding to the growing list of challenges for the presidential hopeful Massa was February's rise in consumer prices, which increased 6.6% month-on-month and brought annual inflation to 102.5%. The figure represents an uptick from January's 6% rise in consumer prices and marks the third consecutive month of accelerating inflation.

Roadblocks to Massa's nomination are growing, and **electoral considerations very likely informed the economy minister's recent decision to swap more than ARS 4 trillion in peso securities.** Hoping to counter the idea that Argentina is "always weeks away from a default", Massa's Economy Ministry offered bondholders a debt swap, rolling over 58% of the securities on which Argentina was to make payments in March. Public institutions were forced to roll over their holdings, which accounted for more than half of the looming maturities, while most private creditors held out. The government will need to scrape together the ARP 3 trillion (USD 17 billion) to pay them by the end of the first quarter. The new inflation-linked securities will mature in 2024 and 2025, well beyond this October's election. The move potentially spared Argentina a default, which would have had disastrous consequences for Massa's electoral prospects. While for the economy minister there were few other options, the opposition denounced the move as irresponsible, saying that it kicks the repayment can down the road and sticks whatever administration takes office next year with the bill. Still, ratings agencies S&P and Fitch, which have in the past downgraded Argentina's credit rating following similar swap maneuvers, ultimately maintained their credit scores for Argentina's local debt.



Argentina's annual and monthly inflation

Source: National Institute of Statistics and Census of Argentina, INDEC, https://www.indec.gob.ar/uploads/informesdeprensa/ipc_01_23891D383E4F.pdf

At the same time, **the government is working to prop up key elements of the agriculture sector, i**ncluding Argentina's renowned wine industry, **that have been impacted by a combination of export taxes and adverse weather phenomena.** The Economy Ministry this month announced its intention to launch a preferential exchange rate, termed the "Malbec dollar" by the media, aimed at boosting wine exports and helping the central bank recover reserves. Though the exact rate has yet to be announced, it will likely reflect the prices offered by Argentina's parallel exchange markets, which are trading at more than one and a half times the official rate (currently ARS 200 per 1 USD).

Other critical harvests have been devastated by the ongoing drought, the worst in decades. Due to scorching temperatures and prolonged dry spells, CREA, a local consortium of agricultural companies, estimates that the country's 2022-2023 soy, wheat, and corn harvests will have fallen by 38%, 37%, and 30%, respectively, relative to the year prior. **Agro exports, one of Argentina's main sources of foreign currency, are expected to drop by upwards of USD 20 billion this year, nearly a fifth of the value of Argentina's total exports in 2022.** A portent of a looming export crash, Argentina's sales of goods and services abroad fell by nearly 9% month-on-month in January, and its trade balance dropped from a USD 1.1 billion surplus to a USD 484 million deficit, the largest trade shortfall in nearly five years. **The drought will likely complicate Argentina's ability to comply with the terms of its Extended Facilities Fund with the IMF.**

The multilateral lender in March approved the fourth review of Argentina's compliance with the USD 44-billion funding package. Pending certification from the IMF Board, Argentina is set to receive a desperately needed USD 5.3 billion tranche of funding towards the end of this quarter. In its approval, the IMF highlighted the need to continue managing government expenditures, particularly as they relate to energy subsidies and social assistance. The lender also recognized the negative impact of the drought on Argentina's finances and agreed to modify, at least temporarily, the reserve goals set out in their USD 44-billion debt deal.

The two parties could decide to set export-linked targets for the first half of this year, when the effects of the drought will be felt most severely. In a win for the government, the Development Bank of Latin America granted Argentina more than half a billion dollars to expand a series of gas pipelines. The initiative looks to improve Argentina's ability to transport gas from the Vaca Muerta shale formation in Patagonia to the country's northern region, potentially increasing gas exports to neighboring Brazil and Chile. The fruits of the project, however, are most likely to be reaped in the medium term and will not increase exports in the coming months.

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