



LATIN AMERICA ECONOMICS UPDATE

A primer on Argentina's primary election

- **The latest polls ahead of next month's primaries in Argentina suggest that the country could buck the regional trend by electing a more market-friendly government. In this *Update* we assess the economic policies proposed by key candidates. Ultimately, though, solving the country's deep-seated problems will be a steep challenge, regardless of who next resides in the *Casa Rosada*. And we think the next presidential term will be characterised by a sharp fall in the peso and a sovereign debt restructuring.**
- **How does Argentina's electoral process work?** On 13th August, Argentines will head to the polls for "open, simultaneous and obligatory primaries", also known as PASO. They are held to determine each coalition's presidential nominee and to winnow the field of candidates (candidates with less than 1.5% of the votes are excluded from the actual presidential election). **Argentina's PASO elections are closely watched because they are essentially a dry run for the first round of the presidential election on 22nd October.**
- **What's at stake?** In short – a lot. Argentina finds itself in a dire economic situation. Close to 40% of the population is living in poverty, inflation is running at 116% y/y and the economy is set for a [steep recession](#) this year. Balance of payments strains are acute – the exchange rate is [severely misaligned](#) and the central bank is running out of ammunition to defend the currency (net FX reserves are in deeply negative territory) and make upcoming repayments to the IMF and international bondholders. **Whoever wins this year's election will face the mammoth task of fixing Argentina's entrenched macroeconomic problems.**
- **Who are the runners and riders?** There are several candidates from different parties and coalitions. The key ones are: Sergio Massa of the ruling Peronist *Unión por la Patria* (UP) coalition, Horacio Rodríguez Larreta and Patricia Bullrich who are competing to lead the ticket for the centre-right *Juntos por el Cambio* (JxC) coalition (of former president Macri); and Javier Milei of the (far)-right *La Libertad Avanza* (LLA) coalition. Opinion polls don't show any clear front runner at this stage. Table 1 provides a summary of the candidates' key policy proposals and promises.
- UP's Sergio Massa, who is currently serving as Economy Minister, has so far been vague on his plans (which is why we haven't filled out Table 1 for him), but given that he's generally seen as one of the more moderate Peronists, he would probably be more market-friendly than the current administration led by President Alberto Fernández. **By the same token, however, we doubt that he'll implement the reforms that are necessary to put Argentina's economy on a more stable footing.**
- It's most likely that he'll continue with many of the current (albeit potentially watered-down) policies, such as price controls to tame inflation and capital controls to avoid a sharp exchange rate correction. Presumably, he will also try to renegotiate the IMF deal in order to ask for more time when it comes to making repayments to the Fund (something he has already been attempting in his current role).
- Turning to the opposition, the JxC coalition outlined their key views on the economy in a recently-published [manifesto](#). They aim to drastically reduce inflation, cut public spending, guarantee the central bank's independence and put an end to Argentina's convoluted exchange rate system by unifying the different exchange rates.
- **Even so, there are some key differences between two-time Mayor of Buenos Aires Horacio Rodríguez Larreta and Patricia Bullrich, who was Security Minister during Mauricio Macri's government from 2015-2019.** While Larreta is seen as a relative moderate, Bullrich is more right-leaning – she is in favour of "demolishing the economic regime of the last 20 years".
- **Their differences are most obvious when it comes to the exchange rate.** While Larreta is in favour of gradually lifting FX controls and letting the peso weaken slowly to a level between the official and parallel rate, Bullrich wants to remove currency controls "immediately" and establish a "bi-monetary" system in which the Argentine peso and the US dollar coexist.
- **And then there's LLA's far right anti-establishment candidate Javier Milei who is the wildcard in the race.** He's by far the most extreme of all candidates, describing himself as an "anarcho-capitalist". He plans to abolish the central bank, immediately release exchange rate restrictions and dollarize the economy. His "[chainsaw plan](#)" would drastically cut public spending, slash taxes, deregulate the economy and privatise public enterprises.



- That said, there are question marks about Milei’s ability to follow through with his plans. His coalition, which consists of several smaller parties, would need to secure a large number of seats in the legislative elections (which will also take place in October) in order to get his plans through congress.
- **Taking a step back, whoever wins the election, it’s likely that the next government will be more market friendly than the current Fernández administration.** That’s positive for financial markets, and investors would be most encouraged if the Peronists fare poorly.
- **But it’s hard to overstate the extent of the economic mess that the next president will inherit** (something we’ll look into in more detail in forthcoming research). And history shows that even more market-friendly administrations (such as the Macri administration) have struggled to address Argentina’s economic problems. **What seems to be clear, though, is that achieving sustainable growth without a large devaluation and a sovereign debt restructuring is unlikely.**

Table 1: Key Economic Proposals of Main Candidates

	Horacio Larreta <i>Juntos por el Cambio</i>	Patricia Bullrich <i>Juntos por el Cambio</i>	Javier Milei <i>La Libertad Avanza</i>	Sergio Massa <i>Unión por la Patria</i>
Fiscal Policy	<ul style="list-style-type: none"> • Cut public spending by 4% of GDP (mainly by slashing utility subsidies) 	<ul style="list-style-type: none"> • Reduce public spending by no less than 3% of GDP 	<ul style="list-style-type: none"> • “Chainsaw plan” which seeks to drastically reduce public spending, reaching a primary surplus of 1% of GDP by end-24 • Swing budget balance back into a surplus in his first year in office 	
Monetary Policy	<ul style="list-style-type: none"> • Guarantee independence of the central bank 	<ul style="list-style-type: none"> • Guarantee independence of the central bank • Limit monetary issuance • Reduce the quasi-fiscal deficit 	<ul style="list-style-type: none"> • Abolish the central bank 	
Exchange Rate Policy	<ul style="list-style-type: none"> • Gradually lift FX controls • Let the official exchange rate weaken gradually to a level between the current and parallel rates 	<ul style="list-style-type: none"> • “Immediate” devaluation (“the sooner the better”) • Dismantle FX controls, potentially accompanied by a request for fresh IMF funding • “Bi-monetary” system in which the Argentine peso and the US dollar coexist 	<ul style="list-style-type: none"> • Immediately release exchange rate restrictions • Dollarize the economy 	
Trade Policy	<ul style="list-style-type: none"> • Eliminate export taxes • Sign and implement the Mercosur-EU and Mercosur-EFTA Trade Agreement 	<ul style="list-style-type: none"> • Eliminate export taxes for agricultural products 	<ul style="list-style-type: none"> • Eliminate export taxes 	



Other Policies

- Privatisation of public companies
 - Slash the number of government ministries from 18 to eight
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