LATIN AMERICA ECONOMICS UPDATE

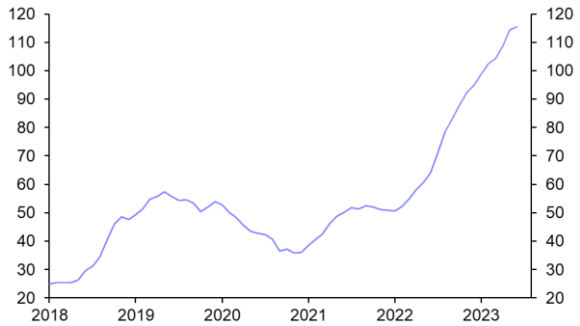
Argentina's PASO brings shock therapy a step closer

- **The surprisingly strong showing for far-right self-proclaimed "anarcho-capitalist" Javier Milei in Argentina's primary elections (known as the PASO) suggests that there is popular appetite for a shock-therapy style approach to deal with the economy's problems. This might, ultimately, be a good thing for financial markets. But the left-wing ruling Peronists still have a fighting chance, which may lead to a further build-up of economic vulnerabilities in the run-up to the presidential vote in October.**
- Argentina's PASO election on Sunday, which is seen as a dress rehearsal for the actual presidential election, delivered a surprising result. With most of the votes counted, far-right candidate Javier Milei came out on top, winning 30.2% of the votes. The ruling Peronists' candidate and current Economy Minister Sergio Massa came second with 21.4% of the votes, followed by *Juntos por el Cambio*'s Patricia Bullrich (17%) who defeated internal opponent Horacio Larreta (11.3%).
- **This means that October's presidential election will be a three-way race between Javier Milei, Patricia Bullrich and Sergio Massa.** We've looked into each candidate's key economic proposals (see here). In short, Javier Milei favours full-on shock therapy for Argentina's economy, including dollarization, privatisations and large cuts to public spending.
- Bullrich, while more moderate than Milei, sits in the same camp when it comes to economic policy. Massa has been vague on his proposals, but it's likely that he'd continue with his current policies, including price freezes to tame inflation, currency controls and preferential exchange rates to avoid a devaluation of the overvalued exchange rate. (See Chart 1.)
- **The fact that the outcome was so close – all three coalitions got around 30% of votes – means that political uncertainty will remain heightened between now and 22nd October** (and potentially November if the election goes to a run-off – to win October's election a candidate has to either win 45% of the votes or 40% and have a 10%-pts lead over the runner-up).
- Our sense is that the prospects of a more market friendly government – combined, Milei and Bullrich received almost 50% of the votes – may be welcomed by investors. After all, their economic policy platforms address many of the areas needed to fix Argentina's economy.
- But with the ruling Peronists still in with a chance of winning the presidency – despite inflation running at over 100% (see Chart 2) and the economy in dire straits – Sergio Massa will probably do everything in his power to build his support. The government may take further steps to avoid a devaluation ahead of October's election. Tighter currency controls and more FX interventions are likely in the interim period.
- **Taking a step back, though, whoever wins the presidential election will inherit significant economic challenges and it will be a tall order to put Argentina's economy on a more sustainable footing**. We'll be writing more on this over the coming weeks.

Chart 1: Real Effective Exchange Rate (Jan. 2010 = 100)

Sources: Refinitiv, Capital Economics

Chart 2: Consumer Prices (%)



Sources: Refinitiv, Capital Economics

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