



LATIN AMERICA ECONOMICS UPDATE

Argentina: más Massa?

- **The strong showing for Peronist candidate and current Economy Minister Sergio Massa in Sunday's presidential election in Argentina means that the run-up to the second round vote in November is likely to see further pre-election fiscal giveaways. But these will come at the expense of a further build-up of macroeconomic vulnerabilities and means that the eventual economic adjustment will be even more painful and, potentially, more disorderly.**
- The election will go to a second round run-off on 19th November between Sergio Massa and far-right libertarian candidate Javier Milei. While this outcome had been widely expected, Massa – who's presiding over one of the worst economic crises in Argentina's recent history – did much better than polls had suggested. He came out on top with 36.7% of the votes (an increase of almost 8%-pts compared to the [PASO vote](#) in August), beating Milei who secured 30.0% of the votes. The opposition coalition *Juntos por el Cambio*'s Patricia Bullrich was eliminated after receiving just 23.8% of the votes.
- There's a lot of uncertainty about how things will play out from here, but at this point we would highlight five key points. **First, to win, Massa and Milei need to win over Bullrich voters.** Both candidates have already given a nod in this direction, with Milei calling on them to join him in putting an "end to kirchnerism" while Massa vowed to form a unity government if he becomes president. While there's a lot of uncertainty, our sense is that Bullrich voters are more likely to support Milei than Massa.
- **Second, with the momentum behind Massa, he can use his ministerial role to build his support.** He had already announced large fiscal giveaways ("plan platita") ahead of Sunday's vote – which clearly paid off – and a further loosening of fiscal policy is likely in the coming weeks. Similarly, more special exchange rates, a further tightening of capital controls and FX interventions are likely to avoid another devaluation.
- **But while these measures might help to shore up Massa's support in the near-term, they will come at the expense of a further build-up of macroeconomic imbalances and mean that the necessary economic adjustment following November's vote will be even larger and more painful.**
- **Third, whoever wins the presidency will be constrained by congress.** With none of the parties securing a majority in either house of congress (legislative elections also took place on Sunday), the next president will need to forge alliances to get legislation across the line. This will act as a constraint on some of the most radical policy measures, such as Milei's plan to [dollarise the economy](#).
- This brings us to the fourth point – the reaction in financial markets. While there might be some relief among investors about the reduced likelihood of a radical shift in Argentina, the strong showing for Massa and the prospects of more unsustainable policymaking ahead of the run-off vote means that Argentine sovereign dollar bonds are likely to sell off when markets open.
- That said, we doubt that the market reaction will be as big as the one that followed the PASO vote in August, when the currency fell by 20% against the dollar.
- **The final point to make is that whoever next resides in Casa Rosada will face the tall order of pulling Argentina's economy back from the brink – something even a more market-friendly administration will find challenging.** And with inflation set to rise to close to 200% over the coming months, the economy headed for steep recession and balance of payments strains acute, the next president has no room for error.



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