

Argentina's Uncertainties Are Likely to Persist

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Argentina's Box of Chocolates: You Never Know What You Gonna Get!

The first round of Argentina's presidential elections on October 22, 2023 ended many months of uncertainty while generating an even more uncertain future as the country heads toward a second presidential election round, or ballottage, on November 19, 2023.

Against all odds, the Peronist coalition, 'Unión por la Patria,' which had Sergio Massa (37.7%), the current Economics Minister, as presidential candidate, beat Javier Milei (30%), from 'La Libertad Avanza,' to secure a place in the ballottage scheduled for November 19, 2023 against Mr. Milei. This was a very different result than what was shown in the PASO August primary elections, where Mr. Massa came in third and Mr. Milei came in first. Ms. Patricia Bullrich, from 'Juntos por el Cambio,' came in third after placing second during the PASO's primary elections, automatically disqualifying her from running in the ballottage.

Now, Argentina's electorate is faced with two, very difficult choices. The first one is to vote for the 'Unión por la Patria,' or the Peronist coalition, which has governed the country during 16 of the last 20 years and has presided over one of the most tumultuous and difficult periods in the country's history with inflation at close to 150% per year, or choose an alternative that didn't exist several quarters ago and argues for the replacement of the country's currency with the US dollar.

Argentina's Consumer Price Index



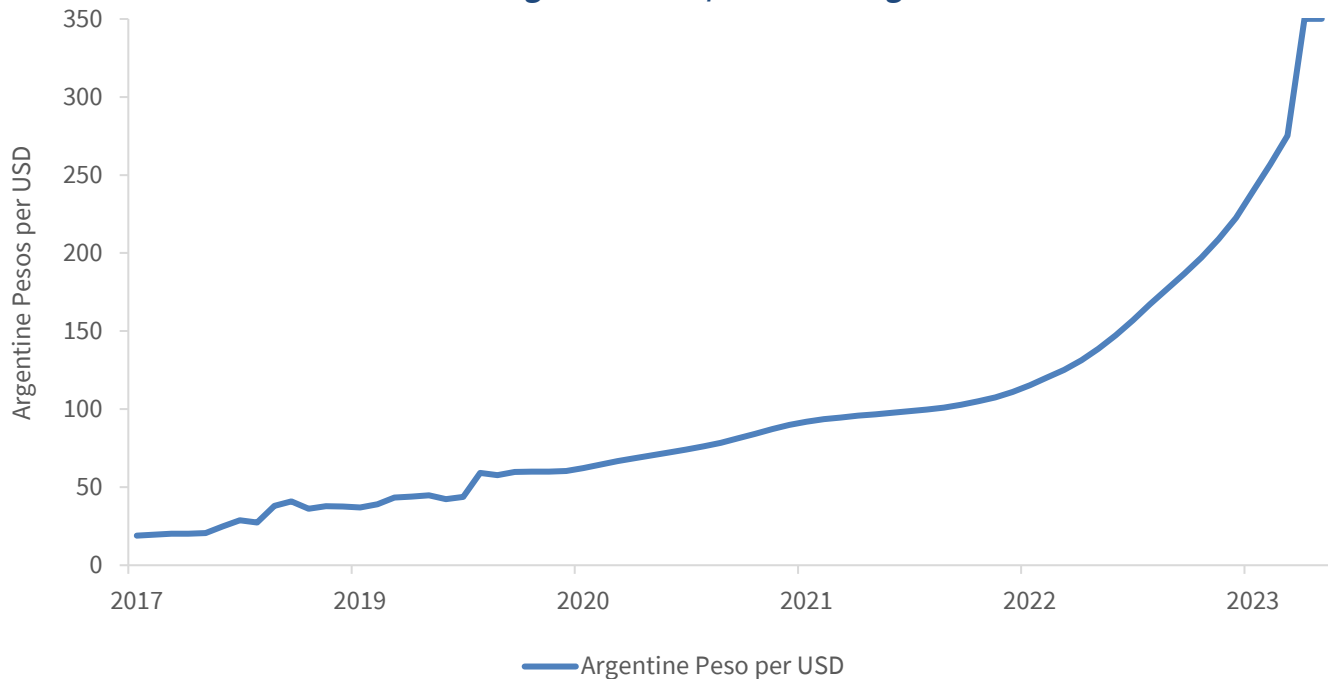
Mr. Milei Has a Point but...

Mr. Milei and his coalition have a very good point in proposing to abandon the national currency and adopt the US dollar. Mr. Massa's comeback win in the first round of the presidential elections tends to confirm Mr. Milei's argument, even though adopting the US dollar is not the panacea Mr. Milei and his followers seems to imply.

Mr. Massa is the current economic minister for Mr. Fernandez's government, also from the Peronist coalition 'Unión por la Patria.' For all intent and purposes, he has been running the country in preparation for the presidential elections. Thus, Mr. Massa has been using the money printing press and has been in charge of giving money away to increase the odds of success in the elections. Before becoming the minister of the economy in July of 2022 he was the head of the lower house of congress.

Just to give an idea, when Mr. Massa took over the Ministry of economics, the official peso/US dollar exchange rate was at about 130 pesos per dollar. Today, the official exchange rate is at about 350 pesos per dollar. However, the underground or black-market peso exchange rate versus the US dollar, which reflects the true value of the peso, or what Argentines call the “blue” exchange rate, collapsed to about 1,100 pesos per dollar, or close to three times the official exchange rate, before the first-round presidential election.

Official Argentine Peso/USD Exchange Rate



Source: FactSet, as of 10/23/2023

This depreciation of the blue peso gives an idea of the immense effort to “help” the presidential election in his favor by printing money and delivering the votes. According to a report by the IERAL, the think tank of the ‘Fundación Mediterránea,’ the Argentine government’s monetary financing of the national treasury is going to be close 6.0% of GDP, only comparable to what happened during the COVID-19 pandemic when it spent about 7.5% of GDP in an effort to prevent a collapse of the economy.¹

In a country plagued by populist politicians and policies, having the key to the central bank is an invitation for politicians to print money in order to buy elections. However, giving up control of the central bank or eliminating it is not a guarantee that politicians will not be able to do the same thing through other mechanisms, like borrowing and spending themselves into power. Case in point is Ecuador, who dollarized the economy in the year 2000 and is, today, facing sovereign debt sustainability issues and is at risk of default, even with a dollarized economy and with the inability to print money. Puerto Rico is another case closer to the US even though it is not an independent country and has never had a central bank. The government of Puerto Rico abused its borrowing abilities over time and defaulted on its debt in 2016.

Two Very Different Alternatives

Now, Argentines will have two very different alternatives: 1) choosing to continue down the current path by voting for another Peronist president for four more years and hope they do things better or, 2) voting for Mr. Milei, a self-proclaimed anarchist-libertarian who proposes to get rid of the central bank and adopt the US dollar as the official Argentine currency as a solution to the country’s problems—as if something as easy as eliminating an institution would resolve the internal governance issues of the country.

1: “Emisión y dolarización, dos caras de la misma y devaluada moneda,” by Jorge Vasconcelos, Revista Novedades Económicas, IERAL, Fundación Mediterránea, Año 45 – Edición Nro 1089, 25 de Septiembre de 2023. https://www.ieral.org/images_db/noticias_archivos/4683-Revista%20Novedades%20Economicas.pdf

If we use an ideological prism to look at both alternatives, it is clear that the left leaning Peronist alternative, i.e., Mr. Massa, has an edge over Mr. Milei, which falls into the extreme right of Argentine political spectrum. However, as it is the case in politics, everything is possible.

There are three groups which, together, represented about 33.3% of the votes during the first round of voting that are up in the air for the ballotage. The largest percentage comes from “Juntos por el Cambio,” which got 23.8% of the votes during the first round. This group is a “bag-of-cats” in some sense because it includes left leaning as well as right leaning sectors, and it is very difficult to know how they are going to vote and what is the proportion of left-leaning versus right-leaning voters within the coalition. However, we believe that some of the left leaning sectors in the “Juntos por el Cambio” coalition may have already moved to vote for the Peronist coalition candidate in order to prevent a triumph by the extreme right candidate. It may also be true that some of the right leaning sectors may have moved to vote for Juan Schiaretti, another Peronist not aligned with the Kirchneristas at this time, as he doubled his showing between the PASO primary elections and the first round presidential election.

That is, Juan Schiaretti, which is the current governor of the Province of Córdoba and a Peronist that is normally against the left leaning Kirchnerista faction of the Peronist movement, doubled his performance in the PASO primary elections and got 6.78% of the votes. This will be the first time in decades that Nestor Kirchner (deceased) or Cristina Fernández de Kirchner (not running for any political post) are not directly involved in the outcome of the presidential election. So, it will be interesting to see if Mr. Massa, who has demonstrated to be an effective political operative, could negotiate with Mr. Schiaretti for his support, now that the Kirchnerista faction will not be as strong. Having said this, Máximo Kirchner, the son of Nestor Kirchner and Crisitina Fernández de Kirchner, has been reelected to the lower house of congress, while Axel Kicillof has been reelected governor of the Province of Buenos Aires—the largest and most important province of the country. Both will remain important power brokers for the Kirchnerista faction of the Peronist movement.

The last candidate from the extreme left leaning FIT, who garnered 2.7% of the votes, could easily support Mr. Massa.

Mr. Milei Will Have A Difficult Time Governing, if He Wins

Even if Mr. Milei wins the ballotage, his ability to govern will be limited. As it stands today, Mr. Milei’s party, ‘La Libertad Avanza’ will only have about 37 members in a lower house of Representatives that has 257 members, while they will have only 8 senators in the upper chamber of the Senate that has 72 senators. Mr. Milei has said that he will propose several plebiscites to push his proposals but even if that is the case, the lower chamber of representatives has to approve any plebiscite and his party will have to negotiate with the opposition parties to approve them.

Conclusion

In the end, it will all depend on how much Mr. Massa, who still controls the monetary spigot, is willing to spend to continue to attract opposition voters ahead of the ballotage and on the decision from Argentines on whether they want to give the Peronists another chance at redemption or take the chance with a self-proclaimed anarchist-libertarian politician like Mr. Milei. Only time will tell, on November 19, 2023, when the ballotage takes place!

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