

International Commentary — August 11, 2023

Argentina Primary Election Scenario Analysis

Summary

Argentina will host primary elections (PASO) this weekend, with the outcome offering a potential sea change for the country's economic prospects. In Argentina, voting in the PASO election is mandatory. Compulsory voting allows financial markets to get clear insight and visibility into the direction of policy ahead of official presidential and legislative elections in October. If ever an economy need a sea change, it is Argentina. For decades, Argentina has struggled with the fallout from multiple sovereign debt defaults, currency crises, stagflation and overall economic malaise. Silver linings may be available as pro-business and market friendly political coalitions are likely to perform well in this year's election. As of the latest opinion polls, arguably the *most* business friendly coalition is likely to receive the most votes in the primary election. Juntos por el Cambio (JxC)—the coalition campaigning on a return to fiscal discipline, strengthening relations with the IMF, and lifting capital controls—is polling well, and in our view, likely to outperform in PASO voting. Should this scenario materialize, Argentina could be headed in a policy direction that includes fiscal restraint, limited central bank deficit financing, and an IMF-supported lifting of capital controls.

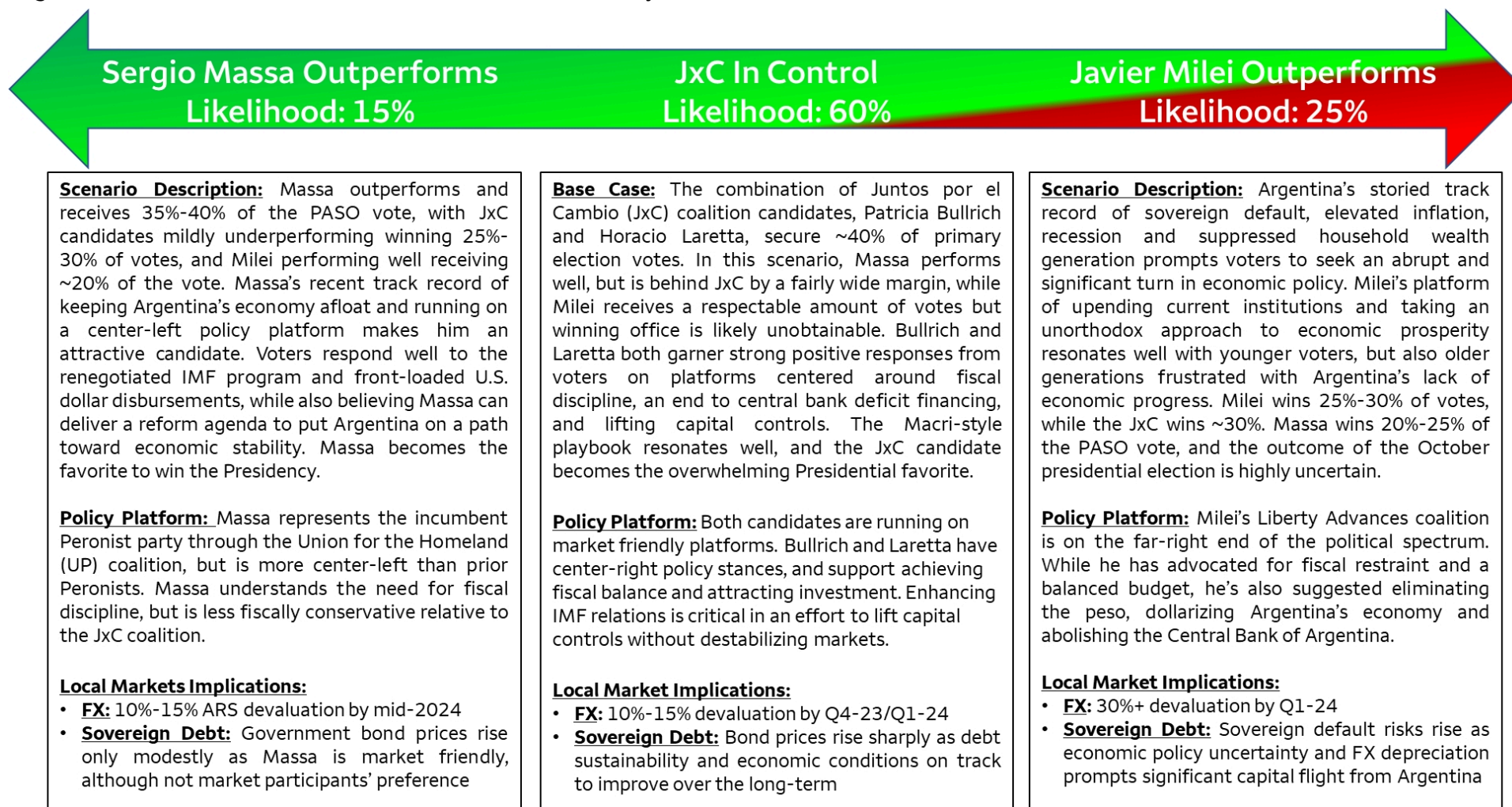
However, historically, Argentine opinion polls have not been all that effective at predicting political outcomes. So while we believe the Juntos por el Cambio coalition will do well in the PASO voting based on the coalition's political stance and polling data, we take polls somewhat with a grain of salt. Running against JxC is the Peronist coalition, Union for the Homeland (UP). The UP coalition frontman is current economy minister Sergio Massa. While Massa comes from a Peronist party and coalition defined by political ideologies that concern market participants, Massa represents a more centrist version of Peronism that markets should digest more comfortably. While not our base case outcome, should Massa perform well this weekend, Argentina's long-term economic prospects could gradually improve. Of course, as is common in Latin America, a more unorthodox candidate has gathered momentum over the election cycle. Javier Milei, representing the Liberty Advances coalition, is campaigning on a more radical policy platform. Milei's coalition finds itself on the far-right end of the political spectrum and has suggested policies that could roil local financial markets and lead to a perceptible rise in the probability of sovereign default.

On the following page, we lay out our base case scenario for the PASO election as well as alternative scenarios. In addition to a scenario description and general policy platform of each coalition, we outline the potential financial market reaction in each scenario. While certain outcomes are more positive for Argentina than others, we continue to believe that no matter who takes office the Argentine peso is set for a large devaluation before the end of this year. Argentina's central bank has depleted its FX reserves, and while short-term buffers in the form of FX swap lines exist, these are only stopgap measures that are unlikely to prevent a significant depreciation of the currency for much longer. In our view, a JxC as well as a Massa victory likely to lead to a peso devaluation in late 2023, but latest by mid-2024. In the event Javier Milei outperforms this weekend and possibly wins the presidency, the peso devaluation could be much sharper and the risk of another sovereign default would be elevated.

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