MNI POLITICAL RISK ANALYSIS-Argentina Election Preview

by Tom Lake and Jack Lewis

Argentina holds its general election on 22 October, with elections for the presidency and the Congress of the Argentine Nation taking place. The Argentinian economy remains in a state of turmoil, with inflation running at 138% y-o-y in September leading the central bank to raise the benchmark interest rate to 133%, and two in five Argentinians now living below the poverty line.

- The country's difficult economic outlook has contributed to this being one of the most open presidential election contests since the introduction of the two-round electoral system in the 1994 constitutional amendment. It has also seen the rise of a non-mainstream candidate in the form of presidential frontrunner, libertarian Javier Milei. His policy platform of major cuts to state spending and the effective dollarisation of the economy would mark a sea-change in Argentinian government policy and, if implemented, would significantly alter the landscape of the country's economy and society.
- In the aftermath of the primary elections in August, the central bank devalued the peso's official exchange rate by around 20% to 350/USD. However, one dollar is the equivalent of around 950 pesos on the black market — down almost 40% since mid-August amid the rising rhetoric surrounding the dollarisation of the economy. For reference, Argentina's Economy Policy Secretary Gabriel Rubinstein has stated that the government will maintain the official exchange rate fixed at 350 pesos per dollar until November 15, when it will start applying a crawling peg of 3% per month.

In this election preview we outline the voting system for both the presidential and legislative elections, list the presidential candidates and their respective political alliances, put together a chartpack of opinion polling and betting market data in the run-up to the vote, provide our own scenario analysis for the potential outcomes alongside assigned probabilities, and include select comments from sell-side analysts.

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Electoral System

Argentina holds its presidential election under the 'ballotage system', first introduced under the 1994 amendment to the Constitution. This is a modified two-round system, in which instead of requiring 50%+1 of the vote in the first round to win outright as is commonly the case there are two paths to first-round victory. A candidate can either secure 45%+1 of the nationwide vote or win 40%+1 and their nearest competitor be at least 10% behind. Should neither of these thresholds be reached then a second-round run-off will take place involving the two highest-placed candidates on 19 November. The 2015 presidential election is the only one since the introduction of the ballotage system to require a run-off. Should the 2023 contest be the second election requiring a run-off, only a simple majority is required to win the presidency in that vote. Argentina has compulsory voting for those aged 18-70, while suffrage is extended to those aged 16 and 17 but is not compulsory. Since the introduction of direct presidential elections in 1995 turnout has ranged between 76.2% and 82.3%

On the same day as the presidential election, Argentina also votes for members of the two chambers of the Congress of the Argentine Nation, the lower Chamber of Deputies and the upper Senate. Both chambers use staggered elections in which only a proportion of seats are up for election in each cycle. While this is not uncommon for upper chambers (the US Senate, the Japanese House of Councillors, the French Senate), it is rare for a lower house to also stagger elections with only a portion of the chamber voted in at a time.

This cycle sees 130 of the 257 seats in the Chamber of Deputies up for election. Elections to the Chamber are held via proportional representation in 24 multi-member constituencies based on the 23 provinces of Argentina and the City of Buenos Aires. The number of seats assigned to each constituency is dependent on its population, ranging from the five seats each that represent Catamarca, Chubut, Formosa, La Pampa, La Rioja, Neuquén, Rio Negro, San Luis, Santa Cruz, and Tierra del Fuego, through to Buenos Aires province with 70 seats. Seats are distributed using the d'Hondt method with a 3% threshold in place in each constituency. The last time that these seats were up for election was 2019, when the left-wing Peronist *Frente de Todos* secured 64 of the seats on offer compared to 56 for the conservative *Juntos por el Cambio* with the remaining 10 seats going to minor parties.

For the Senate, one-third of the 72 seats are up in this cycle meaning 24 Senate elections. There are the same number of constituencies in the Senate as in the Chamber of Deputies (23 provinces and the City of Buenos Aires), but rather than being distributed based on population, each constituency has three senators regardless of size. In this cycle, all three senate seats from Buenos Aires, Formosa, Jujuy, La Rioja, Misiones, San Juan, San Luis, and Santa Cruz will be up for election. In the last set of legislative mid-terms in 2021, the Peronist bloc lost its majority in the Senate for the first time in almost 40 years.

Presidential Candidates and Main Political Alliances (Ordered by PASO Result)

- **Javier Milei** – Born 1970 (Age 52) – National Deputy (City of Buenos Aires) 2021-, Economist, Radio Presenter, Academic – **Alliance: Liberty Advances (*La Libertad Avanza*) – LLA** – Right-wing, anti-Kirchnerism, conservative libertarianism, anarcho-capitalism – Party: Libertarian Party - VP Candidate: Victoria Villarruel (National Deputy 2021-) – Founded: 2021 – Seats in Chamber of Deputies 2/257 – Seats in Senate 0/72

- **Sergio Massa**– Born 1972 (Age 51) – Minister of Economy 2022-, President of the Chamber of Deputies 2019-22, National Deputy (Buenos Aires province) 2013-17, 2019-22, Mayor of Tigre 2007-08 & 2009-13, Chief of the Cabinet of Ministers 2008-09, Executive Director of the National Social Security Administration 2002-07, Provincial Deputy of Buenos Aires 1999-2002 – **Alliance: Union for the Homeland (*Unión por la Patria*) – UP** – Peronism, centre-left, centrism, Kirchnerism – Party: Renewal Front – VP Candidate: Augustin Rossi (Chief of Cabinet of Ministers 2023-, Minister of Defense 2013-15 & 2019-21) – Founded: 2023 (preceded by *Frente de Todos*) – Seats in Chamber of Deputies 118/257 – Seats in Senate 31/72

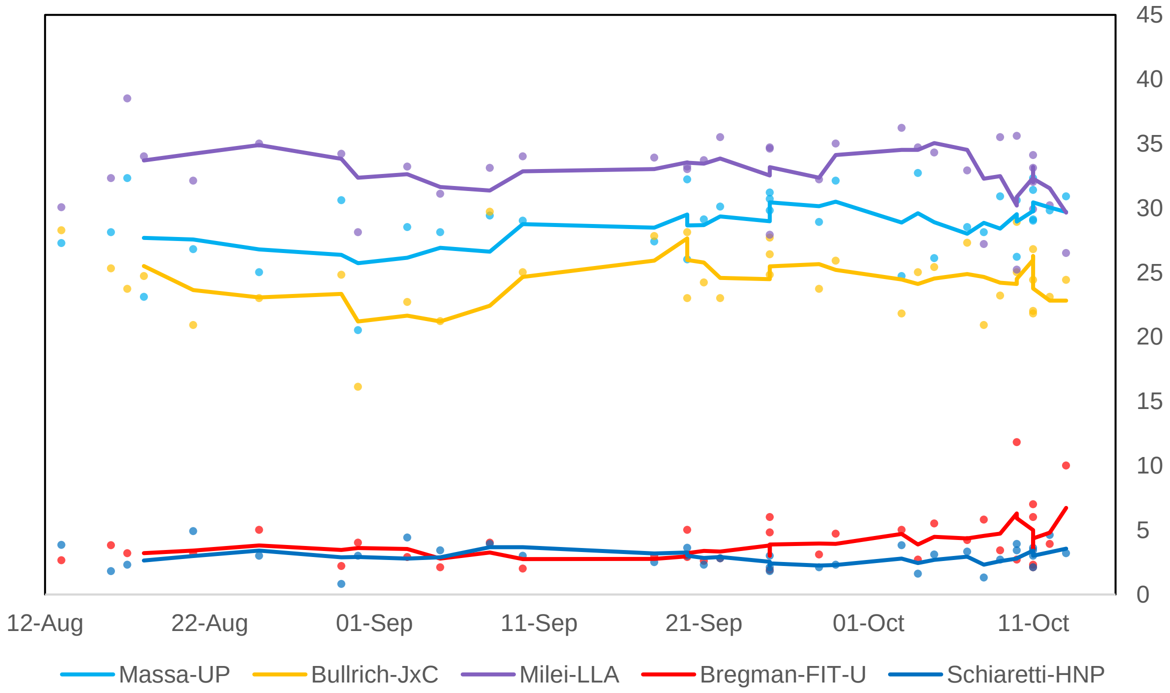
- **Patricia Bullrich** – Born 1956 (Age 67) – Minister of Security 2015-19, National Deputy (City of Buenos Aires) 1993-97 & 2007-15, Minister of Social Security 2001, Minister of Labour, Employment and Human Resources 2000-01 – **Alliance: Together for Change (*Juntos por el Cambio*) – JxC** – Conservative liberalism – Party: Republican Proposal – VP Candidate: Luis Petri (National Deputy 2013-21) – Founded: 2015 – Seats in Chamber of Deputies 116/257 – Seats in Senate 33/72

- **Juan Schiaretti** – Born 1949 (Age 74) – Governor of Córdoba 2007-11 & 2015-, Vice Governor of Córdoba 2003-07, Federal Interventor of Santiago del Estero Province 1993-95 – **Alliance: We Do for Our Country (*Hacemos por Nuestro País*) – HpNP/HNP** – Federal Peronism, anti-Kirchnerism, centrism, centre-right, Argentine nationalism – Party: Justicialist Party – VP Candidate: Florencio Randazzo (National Deputy 2021-, Minister of Interior and Transport 2007-15) – Founded: 2023 (preceded by Federal Consensus) – Seats in Chamber of Deputies 8/257 – Seats in Senate 1/72

- **Myriam Bregman** – Born 1972 (Age 51) – National Deputy (City of Buenos Aires) 2021- (Buenos Aires province) 2015-16, Legislator of City of Buenos Aires 2017-21, Lawyer, Women's rights activist – **Alliance: Workers' Left Front – Unity *(Frente de Izquierda y de los Trabajadores – Unidad*) – FIT-U** – Far-left, Trotskyism – Party: Socialist Workers' Party – VP Candidate: Nicolás del Caño (National Deputy 2013-15 & 2017-21 & 2021-) – Founded: 2011 – Seats in Chamber of Deputies 4/257 – Seats in Senate 0/72

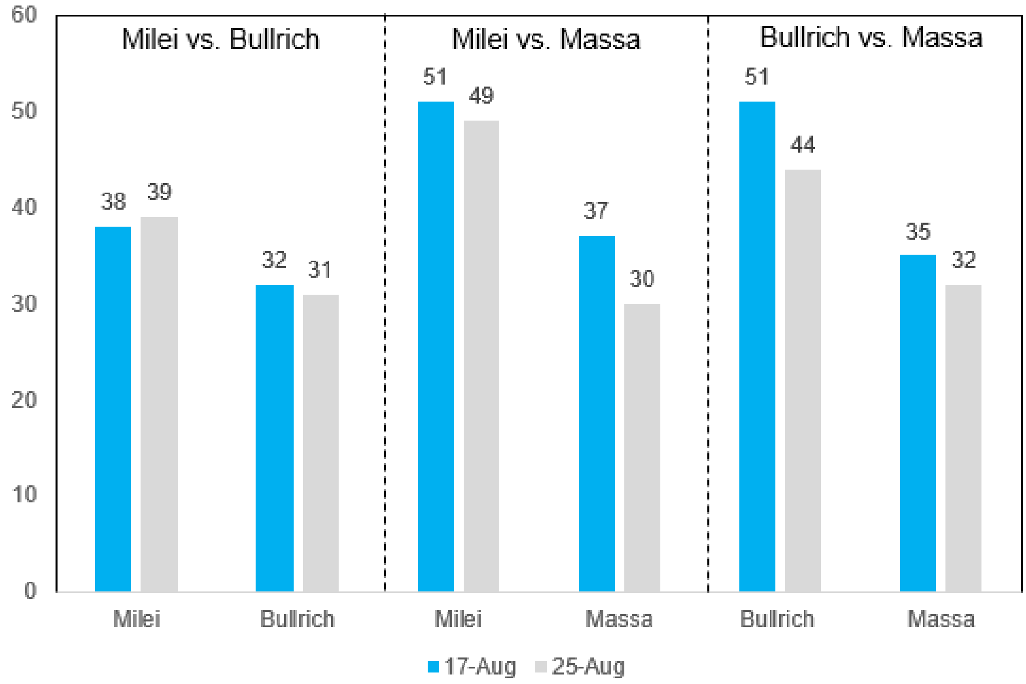
Opinion Polling Chartpack

Chart 1. Presidential Election Opinion Polling, % and 4-Poll Moving Average



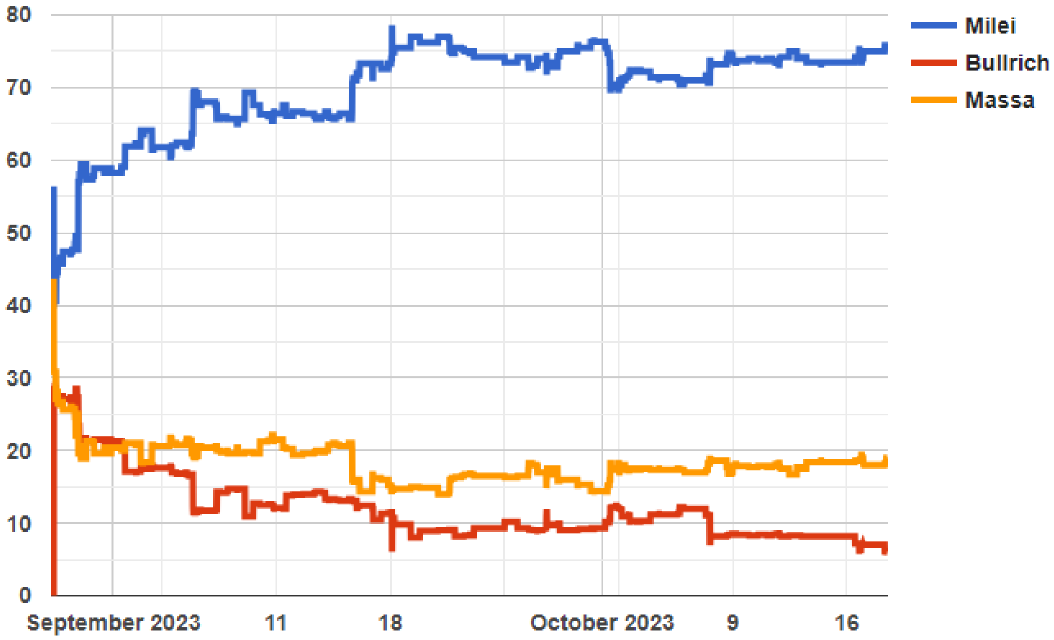
Source: Atlas Intel, Consultora Tendencias, Opinioa, CB Consultora, Circuitos Consultora, Clivajes Consultoes, DC Consultores, Proyeccion Consultores, CIGP, Giacobbe & Asociados, Fixer, Zuban Cordoba & Asociados, Reale Dalla Torre, Aresco, UdeSA, CELAG, MNI

Chart 2. Opinion Polling on Hypothetical Run-Off Contests, %



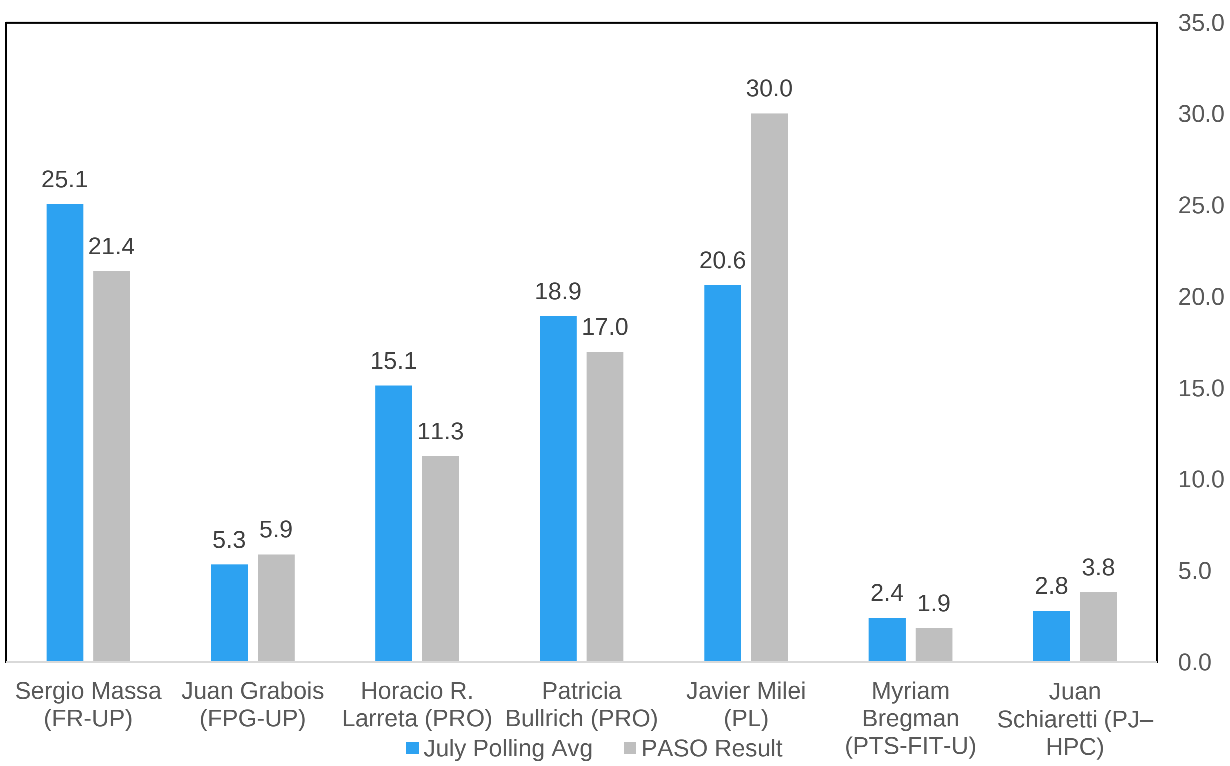
Source: OPSA, Opinia, MNI

Chart 3. Betting Market Implied Probability of Election Winner, %



Source: electionbettingodds.com, FTX.com, Betfair.com, PredictIt.org, Smarkets.com, Polymarket.com

Chart 4. Pre-Primaries Opinion Polling and PASO Primary Results, %



Source: Atlas Intel, Consultora Tendencias, Opinioa, CB Consultora, Circuitos Consultora, Clivajes Consultoes, DC Consultores, Proyeccion Consultores, CIGP, Giacobbe & Asociados, Fixer, Zuban Cordoba & Asociados, Reale Dalla Torre, Aresco, UdeSA, CELAG, MNI

MNI Presidential Election Scenario Analysis

Milei and Massa Make It Through to Run-Off – 55% Probability –

- The most likely post-election scenario is the one that would offer voters and markets the starkest difference in policy terms in a November run-off: the radical libertarian Milei against Massa, who has sought to distance himself from his UP alliance's Kirchnerist wing and instead paint himself as a moderate reformer.
- It is too early yet to say who would win such a run-off. Limited polling has been carried out on hypothetical election scenarios, but in both August polls (*see chart 2 above*) carried out after the PASO primaries Milei held sizeable leads over Massa (51% to 37% and 49% to 30%). As such, in this first-round outcome Milei would likely emerge as the frontrunner. This situation would be reversed should Massa emerge with a plurality in the 22 October vote, winning support far in excess of Milei but still short of the thresholds required to avoid a run-off.
- The deciding factor in this run-off could prove the split of the JxC vote that went to Bullrich in the first round. JxC voters largely hail from Argentina's conservative, professional middle classes and are staunchly anti-Peronist. Therefore, Milei would be seen as the likely beneficiary of their votes. But his non-mainstream economic policy stances could prove too radical for some centre-right voters. These voters could be inclined to back Massa given his apparent shift away from Kirchnerism towards the political centre ground.
- A boost for Massa in the second round could come in the form of the ~8-10% of the vote currently going to Schiaretti and Bregman in opinion polling. While Bregman voters in particular would not identify with the moderate Massa, they are more likely to support the Peronist rather than the hard right libertarian Milei. The UP candidate will need to secure a good portion of the minor party candidates' support if he is to beat Milei in any run-off.

Bullrich Surge Sets Up Right-Wing Second Round with Milei – 20% Probability

- Bullrich has trailed Massa and Milei in most pre-election polling. However, in the PASO primaries in August, the combined vote total for the JxC candidates came to 28.3% compared to 27.3% for the two candidates vying for the Peronist UP nomination. As such, a late shift towards Bullrich and away from Massa (potentially exacerbated by his position as Economy Minister amid skyrocketing inflation) cannot be discounted.
- This scenario sets up a guaranteed shift to the right in Argentinian politics, with Bullrich as the more moderate of the two pledging to remove currency controls, reduce spending, and lower bureaucratic obstacles to exporters.
- The run-off campaign would likely prove an ill-tempered one, with Bullrich's youth spent as part of what she calls a 'Peronist youth' organisation but some speculate to be the leftist guerilla *Montoneros* group frequently coming up in Milei's criticism of the JxC candidate. Indeed, the FT reports that Milei "*falsely accused Bullrich of "putting bombs in kindergarten" in the 1970s. On [4 Oct], she filed a libel lawsuit against him*."
- While Milei led Bullrich in both hypothetical scenario polls in August (by 38% to 32% and 39% to 31%), it is the JxC candidate who could hold the upper hand in a run-off.

While Bullrich's alliance is anti-Peronist, more voters who backed Massa in the first round are likely to switch their support to the former security minister than they are to cross the political spectrum entirely and vote for Milei.

Milei Exceeds Expectations, Wins in First Round – 15% Probability

- In the PASO primaries, Javier Milei exceeded expectations set by opinion polling by a wide margin. Ahead of those primaries Milei had been polling around 17-22%, only to secure 30.0% of the vote in the actual vote. Given the widespread public anger surrounding the state of the Argentinian economy, especially among young voters who are often underrepresented in opinion polling, it is not unfeasible that Milei secures 45% of the vote, or gains 40%+ support with both Massa and Bullrich receiving 10% less than Milei.
- Milei's headline policies – dollarisation of the economy, shuttering the central bank, defunding numerous government departments – have garnered significant investor focus and would undoubtedly contribute to market turbulence. However, it remains to be seen whether a Milei presidency would be able to implement such changes rapidly as the composition of the Congress is set to prove crucial.
- Given the proportional electoral system used for the elections to Congress, the prospect of candidates from Milei's LLA winning a majority is slim. Milei's prospects of having a cooperative Congress are also hindered by the fact that his LLA is a relatively new and untested outfit with little in the way of nationwide infrastructure to help it campaign. This contrasts with JxC and most notably the long-standing Peronist bloc, both of which have sizeable political offices across the country that could assist in the alliances winning congressional seats even if Milei scores a strong first-round win.
- Massa being eliminated from the contest in the first round with Bullrich and Milei going through would represent a sea change in the country's politics, with the once-dominant Peronists reduced to also-rans. Almost every elected president since Juan Peron came to power in 1946 has been either from the Peronist bloc or endorsed by Peron/aligned with their views. Coming in third behind a libertarian and a conservative could spur some notable realignment on the left of Argentinian politics.

Bullrich vs. Massa Run-Off as Milei Support Evaporates – 10% Probability

- By far the most unlikely of the second-round scenarios (discounting the negligible prospect of either Schiaretti or Bregman getting through) is one where Milei's support that backed him in the PASO primary disappears, leaving Bullrich and Massa as the two most popular candidates.
- This would likely prove the most market-friendly outcome of the first round, primarily due to neither of them supporting full dollarisation as Milei is doing. Nevertheless, the eventual victor would still inherit an economy in freefall. Bullrich has stated she would seek to allow the peso and US dollar to be used in a parallel system while advocating spending cuts and driving exports to boost growth.
- Massa in his role as economy minister has roiled opponents with pre-election handouts, including eliminating the income tax, removing the 21% sales tax on groceries for over 16mn Argentinians, and providing cash bonuses for pensioners and those out of work. He has been accused of fuelling inflation, but Massa's opinion

polling numbers have improved marginally in recent weeks, suggesting a good chance that he makes the run-off.

- Without having to fend off Milei on the libertarian right, Bullrich may also pivot towards a more mainstream centre-right conservative policy stance in a run-off against Massa. Meanwhile, Massa – who founded his own Renewal Front party to promote himself as a moderate centrist and distance himself from the left-wing populists on the Kircher wing of the UP – may also adopt a more moderate spending stance if he does not have to vie with Milei in a run-off.

Analyst Views

Barclays

- The transition to the new economic regime is critical for eurobonds. This is because a disorderly path to a new regime could unintentionally bring about their default. We say unintentionally because it is our impression that neither Milei, Bullrich nor Massa intends to default/restructure these bonds.
- Moreover, we think the three candidates are seeking to preserve the IMF program, which will involve committing to a fiscal adjustment. However, spiraling inflation and a peso collapse could increase default risks, particularly if these increase social unrest and a political crisis.
- We continue to think that the post-election economic and social conditions will be extremely difficult to manage for the incoming president. Therefore, the velocity and severity of the crisis matter. This is when dollarization could turn into a problem for bonds, as it would amplify the size of the expected devaluation and bring forward the timeline.
- Relative uncertainty about the outcome is also acting as a barrier against further instability. That will be either substantially reduced or eliminated this Sunday. Polls suggest a 35-30-25 scenario, with Milei first and Massa making it to the second round.
- We expect the discussed dynamics to accelerate if results are as expected (because the anchoring scenario of Bullrich making it to the second round would be completely priced out) and even more intensely if Milei unexpectedly wins in the first round. If, however, Bullrich makes it to the second round or if Massa outperforms expectations so much that his winning the second round becomes realistic, we believe the effect would be the opposite, as a non-dollarization scenario would become more likely.

BNY Mellon

- …the debate for dollarization has been front and center of the Milei campaign for president. […] The other leading candidate Bullrich wants to have a dual-currency system with ARS and USD both legal tender. Her advisor Laspina argues the nation will need $50bn in reserves to dollarize. While Milei has threatened to close the central bank to prevent it from funding the government debt, Bullrich wants to ensure its independence and prevent the same practice.

- Perhaps the biggest issue for dollarization now in Argentina is the current recession and inflation over 100%. The Fed's higher-for-longer policy stance won't fix that. The fiscal discipline of dollarization is also a question – it merely stops the government from issuing local debt, but they could still use trade and USD issues to fill the coffers. Or they could go to China to borrow to make their debt-service payments.
- The risk we see for the region is if the new Argentine government drives money flows across China, the US, Brazil and Chile in a significant way. The implications of dollarization seem clear to the direction – but it's hard to see them sustaining without a shift in goods and services trade. LatAm politics could be at yet another turning point, with potentially significant implications for commodity and FX markets.

Citi

- Milei has two flagship electoral promises - abolish the central bank and introduce dollarization. For the latter, our economists note Argentina has no liquid reserves and would struggle to obtain funding in the form of debt or investment. Emilio Ocampo, Milei's economic tsar, suggested that exchanging all pesos in in circulation and money in the banks at the current exchange rate would require about $60bn, according to his estimates in late August.
- The problem Milei faces is execution […] he is likely to face significant resistance in Congress. This will make it difficult to implement economic reforms and fiscal spending cuts, which may risk political instability.
- Massa's pre-election fiscal announcements add to the fundamentally challenging backdrop. Should he win the run-off, he would fare better in Congress to make fiscal adjustments. The FX policy outlook is not clear.
- A surprise outcome would be Bullrich outperformance, which would be market positive. Bullrich prefers a complementary exchange rate regime that will be step by step, and will take inflation into account. She also wants to cut government spending by 4% of GDP.

HSBC

- Polls suggest Javier Milei, a right-wing libertarian, could win the most votes but is unlikely to win in the first round. There is significant uncertainty regarding who he might face in the run-off, either the current economy minister, Sergio Massa, or the center-right candidate Patricia Bullrich.
- We expect additional pressures on the currency following the election. If the incumbent economy minister, Sergio Massa, remains in the race, he will likely seek to delay a devaluation of the official FX rate for as long as possible due to the perceived economic and political costs it would entail. But macro imbalances keep widening, pointing to an even worse macro environment in the coming months.

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