

### Summary

- Argentine president's mid-term elections victory facilitates implementation of pro-business reforms
- Larger support base in Congress will increase ruling coalition's prospects of passing upcoming labour reform and implementing tax changes
- A divided opposition will continue to politically benefit President Macri's agenda

## Risk scores

Overall

1.9 ↘

ELEVATED

Political	1.8	Elevated	↘
Economic	1.2	Moderate	↔
Legal	2.0	Elevated	↘
Tax	2.2	Elevated	↘
Operational	2.7	High	↘
Security	1.4	Moderate	↔
Individuals	2.0	Elevated	↔
Cargo and transport	2.0	Elevated	↔

Note: 0.1 = minimum risk, 10.0 = maximum risk.



Structure and calculations

Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period. Overall risk scores are calculated as equally weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security. Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

## Business environment - strengths and weaknesses

Strengths	Weaknesses
Huge natural resources in agriculture, hydrocarbons, and other minerals give Argentina significant economic potential and make it a potentially attractive destination for investment.	Effect of economic slowdown and political instability in Brazil likely to provoke headwinds for Argentina in 2018.
By regional standards, Argentina provides good infrastructure, a highly educated and well-skilled workforce, and among the lowest levels of violent crime in the region.	Macri government's economic policies and cuts to public-sector jobs likely to see frequent and disruptive industrial action and strikes through 2018.
Resolution of the long-running "holdout" debt dispute and improved market access signals a more predictable business operational environment under the Macri government.	Despite its success in the October 2017 mid-term election, Macri's coalition is short of a majority in Congress and needs to negotiate with the opposition to pass policy.
The Macri government includes a wide range of business-sector professionals.	Most provincial governments carry potentially problematical high levels of debt.

## Country risk - overall statement

*Since taking office in December 2015, Argentine President Mauricio Macri has undertaken wide-ranging reforms, seeking to improve the country's business environment, restore its macroeconomic fundamentals, and attract investment, which had been damaged by the protectionist policies of his predecessor, Cristina Fernández de Kirchner (2007-2015). He has launched structural reform in most areas, but applying "gradualism", which has allowed him to gather support from moderate opposition Peronists, although raising criticism from business sectors who would like to accelerate the speed of change, according to IHS Markit sources in Buenos Aires. In late 2017, Macri succeeded in passing an economic package, including tax, pension, and fiscal reform, seizing the momentum brought by the victory of the ruling Cambiemos ("Let's Change") coalition in the October 2017 mid-term legislative elections. Although Cambiemos increased its representation in Congress, it does not have an outright majority in either chamber and policy approval has depended on the support of moderate (non Kirchnerist) opposition Peronist support.*

## Detailed analysis

### Argentine president's mid-term elections victory facilitates implementation of pro-business reforms

Ruling coalition Cambiemos ("Let's Change") came out as the clear winner of the crucial 22 October 2017 mid-term legislative elections that chose one-third of the 72-seat Senate and half of the 257-seat Lower Chamber. In total, Cambiemos won in 13 provinces, while the opposition Peronism only won in 9 provinces, 2 of those by a single percentage point. This allowed Cambiemos to gain 21 additional seats in the Lower House, totalling 107, and to increase its representation in the Senate to 24 seats.

The election consolidates Cambiemos as a nationwide political force, while highlighting the weakening of Peronism. This increases the chances of President Mauricio Macri (or his chosen candidate) being re-elected in 2019, as long as the economic revival being experienced by Argentina remains on a sustainable path, with job creation and the

evolution of consumer price inflation the leading indicators in that respect. A larger support base in Congress has facilitated the progress of Macri's policy agenda, including a tax reform already approved and a labour reform to follow in 2018, offering an improved environment to the corporate sector. The transition between former president Cristina Fernández de Kirchner and Macri has been marked by a major removal of de facto Kirchnerist political appointees, both from senior and more junior posts, across a wide range of important institutions. Those include the Supreme Court, the national tax agency, central bank, and the majority-state-owned enterprises YPF (oil and gas) and Argentine Airlines.

The Peronist opposition is divided between those that support Fernández and the moderate Sergio Massa, who became an important power broker during the first half of Macri's term, helping the government to pass policy, albeit watered-down, such as a public-private partnership law. The government has reached agreements with the moderate Peronist bloc, which has allowed them to pass policy, and has negotiated with Peronist governors, who can influence legislators in their constituencies to support government policy, regarding changes to the revenue-sharing law with provinces (ley de co-participación).

Although Macri will continue to have strong relations with the vital Buenos Aires province, governed by party ally María Eugenia Vidal, he is likely to face difficult relations with the provinces not aligned to his government. Macri has thus far skilfully managed his relations with provincial governors but points of contention will likely remain. Many provinces are facing fiscal constraints, soft sovereign support in their access to the financial markets, and difficulties adapting to the government's gradual approach to handling Argentina's economic crisis.

### **Larger support base in Congress will increase ruling coalition's prospects of passing upcoming labour reform and implementing tax changes**

President Mauricio Macri, who came to power in December 2015, is a pro-business politician whose main aim is to attract foreign direct investment and generate economic growth while lowering inflation. Macri brought into government business-sector professionals and technocrats to help him dismantle the economic interventionism model implemented by his predecessor Cristina Fernández de Kirchner. During the first half of his term, Macri eliminated currency and import controls. He also managed to resolve Argentina's long-running debt dispute with "holdout" funds, and to improve the country's access to financial markets.

The government's efforts to liberalise the economy has been slowed down by labour unions and other social groups. Pressure has been exerted through strikes and protests, against austerity measures and the lowering of subsidies. Nonetheless, the positive performance of the ruling Cambiemos ("Let's Change") coalition in the October 2017 mid-term elections has put the government in a strong position that allowed it to secure approval of tax, pension and fiscal changes in late 2017 despite falling short of securing a majority. The tax reform reduces the tax burden over a five-year period, including reductions to corporate income tax (from 35% to 25%), gross revenue tax (3–5% charged by provinces), value-added tax (from 21 to 18%), and to social security contributions.

A proposed labour reform will be discussed in 2018, aimed at increasing the flexibility of collective contracts and cutting labour costs, including reducing social security contributions. The government has discussed the changes with different economic sectors, including businesses and unions. Although they reached an agreement with some sectors of umbrella labour union CGT in November 2017, tensions have increased in early 2018 after the government managed to pass a pension reform that changes the way pensions are calculated, which workers claim will effectively reduce payments, amid violent protests.

The government will also focus over the next year on fiscal deficit reduction, by speeding up austerity, particularly the removal of subsidies granted to consumers of gas, water, and electricity. Those areas are likely to be highly contentious and will test Macri's increased power in Congress. Other economic measures, such as reducing soya export tax, are also likely.

## **A divided opposition will continue to politically benefit President Macri's agenda**

There are deep divisions within the Peronist opposition, which remains divided between those that support former president Cristina Fernández de Kirchner from Citizen's Unity (Unidad Ciudadana: UC) party, Sergio Massa, leader of the non-Kirchnerist Peronist 1País coalition, and other moderate Peronists. Peronist forces were largely outperformed by the ruling coalition Cambiemos ("Let's Change") in the October 2017 mid-term elections, where one-third of the 72-seat Senate and half of the 257-seat lower chamber were elected. The deep divisions – illustrated by the fact that Peronism presented three separate candidate lists to the Senate in Buenos Aires province – have been highly beneficial for President Mauricio Macri, who has managed to reach agreements with moderate Peronists in order to pass his agenda, such as tax, pension, and fiscal changes.

The Peronist opposition faces an uphill task if it wants to regain power in the 2019 presidential election. The mismanagement of Kirchnerism, which after three terms in office left an economy in recession and a country in debt default, appear to still be fresh in the memory of Argentina's electorate. To this adds a string of corruption investigations against top officials of the previous government, including Fernández herself. In the view of many voters, the main goal of Fernández's run for a Senate seat was to secure her immunity from prosecution. Fernández has made it clear that her UC party remains the leading force in Peronism. This will enrage the other factions, whose leaders see Fernandez as major obstacle for the regrouping of Peronism.

This has left Cambiemos well placed to seek accommodation with the moderate sectors of Peronism bent on undermining Fernández leadership. Cambiemos will continue to seek to work together with Massa, who has acted as a broker between government and opposition, and the moderate Peronist bloc over the next year to ensure the passing of legislation, but they will have to make some concessions.