

Elections in Argentina: The Big Surprise

The presidential primaries held in Argentina on Sunday, August 13 yielded surprising results that increased uncertainty and will likely make the results of next October's presidential elections extremely unpredictable.

- Javier Milei, libertarian candidate who had been polling at third place, and his party obtained the highest number of votes (30%).
- The opposition, “Juntos por el Cambio” (Together for Change) and the ruling party, “Unión por la Patria” (Unity for the Homeland), obtained second and third place with vote shares of 28% and 27%, respectively.
- The results might generate significant uncertainty for the coming months, as well as challenges for the outgoing administration.

A SCENARIO OF GREATER UNCERTAINTY

Argentina's primary elections (locally referred to as PASO, an acronym for open, simultaneous and mandatory primaries) are held to choose the presidential candidates who will participate in the first round of presidential elections on October 22, 2023, which also includes legislative and provincial by-elections. Despite its mandatory nature, turnout was relatively low and only 69.6% of the electoral roll went to the polls, which historically increases by roughly 3 percentage points in general elections.

The results produced shock for pollsters and for overall society: Libertarian candidate Javier Milei and his party “La Libertad Avanza” (Freedom Advances) ended Sunday evening in first place and obtained 30% of the votes (graph 1). The hitherto consensus opposition coalition “Juntos por el Cambio” (Together for Change) obtained 28.3% of the votes through its two candidates, with Patricia Bullrich emerging as the party's candidate for the first round with 17% of the vote. As expected, incumbent economy minister Sergio Massa was selected as the ruling coalition's candidate, having obtained 21.4% of the bloc's 27.3% total vote share. Sunday's results mean that Javier Milei, Patricia Bullrich, Sergio Massa, Juan Schiaretti and Myriam Bregman will face each other in the first round of the presidential elections on October 22.

Given the close result, which practically split the vote among three competitive thirds, the outcome of the upcoming first round is extremely unpredictable and will depend on the decisions of the candidates, who will try to obtain votes from those who were left behind in the primaries, as well as siphon votes from each other. A winning candidate in October's first round would need 40% of the votes, provided they have a gap of 10% or greater with the second place, or 45% regardless of how others perform. October will not likely be the month any candidate declares outright victory. However, it will identify the two candidates who will face off in the definitive runoff on November 19, 2023, with Mr. Milei likely to be one of them.

The primary results have significantly increased the economic and political uncertainty for the coming months, given some of the more radical aspects of Milei's policy agenda. These include the dollarization of the economy, the elimination of the Central Bank and a more aggressive approach towards law and order.

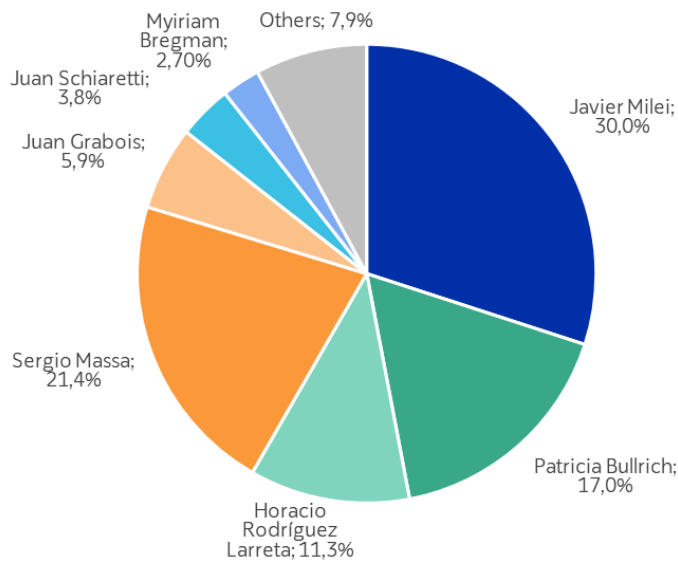
The main issues that remain at the center of the political discussion between now and October include the following:

- The continued deterioration of economic activity; Argentina's GDP is projected to contract roughly 3.0% this year.
- The government's quagmire of constraints regarding the money-printing and economic populism it needs to have in order to have a chance of reelection. The current government is waiting a disbursement from the International Monetary Fund (IMF) for USD 7.5 billion, for which it must comply with certain conditions that point towards the harmonization of the exchange rate regime, a monetary policy committed to lower inflation, a fiscal deficit goal of 1.9% of GDP for this year, among others. The IMF stated that its executive board will meet on August 23 to approve the disbursement.

- Market reaction:

- The Central Bank (BCRA) devalued the official exchange rate by 20% on Monday morning. This narrowed the lag it has with the unofficial “blue rate”, which depreciated by 10%, to 90%.
- BCRA also raised the monetary policy rate (Leliq) by 21 percentage points to 118%.
- The value of Argentine sovereign bonds (in USD) fell 8%, deeper into heavily discounted territory.
- The stock market partially reversed the opening losses throughout the trading day.

GRAPH 1. PASO RESULTS



Source: National Electoral Directorate.

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