

Paris, October 19, 2017

## **Argentine Legislative Elections: Pro-business Sentiment at Stake?**

**The trajectory of Argentina’s economic rebound will be subject to the outcome of the upcoming midterm elections on October 22. Investors appear to be more cautious on the country’s political prospects since former president Cristina Kirchner announced that she would be running for the Senate in the province of Buenos Aires.**

### **New Economic Growth Favorable for the “Cambiamos Coalition”**

The economy started to recover after Mauricio Macri took office in mid-December 2015. The exchange rate was liberalized, price controls removed, import barriers lifted, discredited national economic statistics revamped, subsidies were reduced, and the holdout saga was finally resolved in April 2016. After contracting by 2.2% in 2016, business activity has shown improvement in 2017 (+2.7% year-on-year in the second quarter<sup>1</sup>). The preliminary figures for the third quarter also indicate that the economy is gaining momentum. These factors are increasing the chances of a favorable outcome for the incumbent government during the midterm elections.

This positive trend did come with short-term side effects such as rising inflation and social protests. Persistent bottlenecks in infrastructure also need to be addressed in order to improve Argentina’s industrial and trade competitiveness<sup>2</sup>. The country’s infrastructure is ranked 81st out of 137 countries in the *World Economic Forum* survey for 2017-18.

The improvement in the economic environment has brought a rise in support for the ruling coalition known as “Cambiamos.” According to a survey by *Polarquia*, Macri’s approval rating rose by 2 percentage points in September 2017, to 54%. This shows a continuation in the recovery of his approval rating, following a low of 45% in July.

### **Buenos Aires Elections Will Foretell the Future**

The upcoming elections will be of great significance to the former president, Cristina Kirchner, who is running for the Senate in the province of Buenos Aires. If she succeeds in gaining a positive outcome, she may try to return to *Casa Rosada*, thus putting the continued success of the pro-business strategy at stake. This further reinforces the importance of the midterm elections.

The focus of attention has been directed on the Senatorial elections in Buenos Aires. The province represents the country’s largest electoral circuit, accounting for 40% of the national vote. With three benches in the Senate being contested, the Buenos Aires election has been considered as a

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<sup>1</sup> According to National Statistical Institute, INDEC in its Spanish acronym.

<sup>2</sup> Coface’s Panorama “Time to Address the Infrastructure Gap in Latin America,” September 2017.

test run for the upcoming presidential election. In the primaries for Buenos Aires, Cambiemos candidate Esteban Bullrich achieved second place, just 0.2 percentage points behind Cristina. The “Cambiemos Coalition” is set to increase its representation in Congress in the upcoming elections, but a majority is unlikely. The results of the mandatory primary elections for Congress showed a better-than-expected performance for the governing coalition. A strong victory for the ruling party would allow policymakers to become more active in their reforms.

If, against all the odds, Cristina does win with a consistent margin, she is likely to run for the next presidential elections. Strong support for the former president would be detrimental to business and investor confidence and dissuade investors from making long-term investments in the country.

## Social Risk Is on the Rise

Argentina’s economic and political cycles tend to mirror each other. Measuring political risk is therefore key to assessing the country’s economic outlook and corporate credit risks. Coface’s political risk model<sup>3</sup> measures various types of political risks in relation to their impacts on business activity. Two major groups are taken into account for each country: security risks (which include risks of conflict and/or terrorism) and the risks arising from political and social fragility.

Argentina’s political risk is currently assessed as “low”. It is worth noting however, that its analysis is positively influenced by the security evaluation factor, insofar as there is no recent history of terrorism in the country. Nevertheless, Argentina is more vulnerable from a social standpoint<sup>3</sup>.

## NORTH AMERICA MEDIA CONTACT:

Sue Hinton - (212) 389-6484, sue.hinton@coface.com

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<sup>3</sup> For more details see Coface’s Panorama “The Rise and Rise of Political Risk”, March 2017.