



SPECIAL REPORT

# The government's historic victory opens the way for Macri's structural reforms

Madrid, October 2017

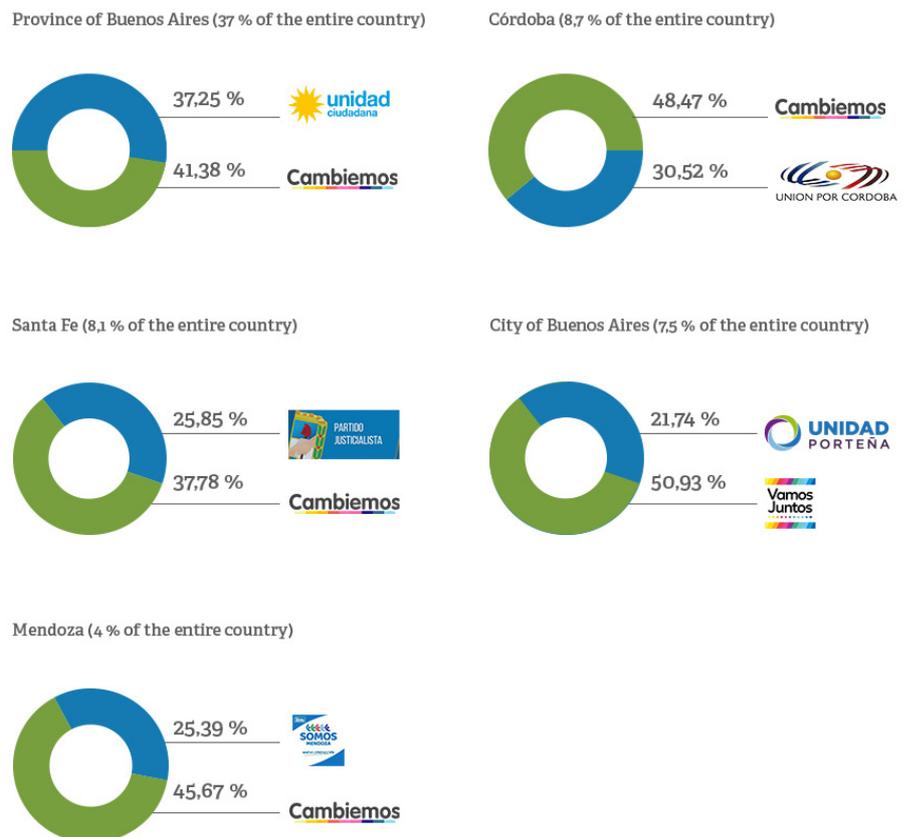
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## 1. INTRODUCTION

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The ruling party ("Cambiemos") clinched a win in Argentina's five main electoral districts, the first time this has happened since before the country returned to democracy in 1983. It strengthened its position in August's elections and gained more seats in both houses of Congress, although it will still have to negotiate with other parties to reach quorum. The flip side was Peronism, which lost its grip on Argentine politics: its main candidates lost.

Figure 1. Results in the country's major districts



Source: In house

“The Chamber had been divided into thirds during the 2015-17 biennium: the ruling party [...] iKirchner's PJ party and other parties.”

## 2. A FEW KEY POINTS

**Overwhelming national victory.** The government coalition was the most voted across the country: it won over 10 million votes (out of 24 million). It won in 13 of the 24 provinces, with resounding victories in the country's five main districts (province of Buenos Aires, city of Buenos Aires, Córdoba, Santa Fe and Mendoza). It also won in historically Peronist districts like Chaco, Entre Ríos, La Rioja, Neuquén and Salta.

**Gaining ground in the Conurbano bonaerense (metropolitan area of Buenos Aires).** In the region where Cristina Kirchner's influence is strongest, the ruling party improved the results of the PASO (Open, Simultaneous and Compulsory Primaries): it grew the advantage it had gained in the first voting district (from 0.4 % to 5.3 %) and closed the gap in the third (from losing by 13 to 8 points). Leveraged by these results, Bullrich managed to beat Cristina Kirchner by four points, after having fallen by 0.21 % in the PASO.

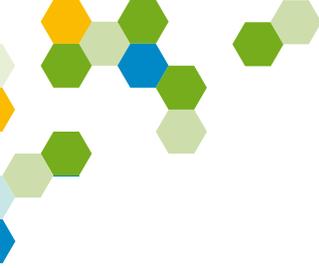
**Bad election for Peronism.** It was a bad day for the movement's main leaders: Cristina Kirchner, Massa,

Randazzo (province of Buenos Aires) and candidates from Schiaretti (Córdoba) and Urtubey (Salta) lost, and no clear leader needed to rebuild the party ahead of 2019 emerged. However, gubernatorial candidates Rodríguez Saá (San Luis) and Verna (La Pampa) reversed the result of the PASO and managed a win.

**Still no implications in the Maldonado case.** In the weeks leading up to the election, the body of Santiago Maldonado, a young activist who had participated in a protest in the south and had been missing for 70 days, was found. The opposition used the case as a key issue in the campaign and the discovery of the body days before the election raised concerns about how it would influence the outcome. However, with no significant differences between pre-election polls and the results, it is unlikely that the case had an impact.

## 3. WHAT IS NEXT FOR THE CONGRESS?

**Deputies.** The Chamber had been divided into thirds during the 2015-17 biennium: the ruling party (about 86 seats), Kirchner's PJ party



“The Peronists will lose the majority they have enjoyed for years.”

(around 80 seats) and other parties (about 90). After this election, Cambiemos will have between 107 and 109 seats and would be one step away from quorum (129 seats) if it manages to secure backing by allies. Of the 127 seats at stake, the government coalition was left with 59 seats.

**Senate.** The Peronists will lose the majority they have enjoyed for years. The block has 40 seats (37 are needed for quorum), but they only managed to secure 36 and are on the verge of a split between the senators who backed Pichetto (PJ) –just

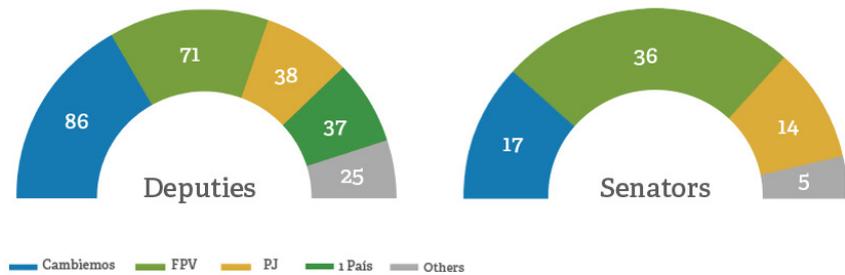
over 20– and Cristina Kirchner (FPV), who counted on around 10. The ruling party gains considerable ground, from 17 to 25 senators, and could sweep the Lower Chamber of the House if the PJ loses.

**2017 parliamentary activity.**

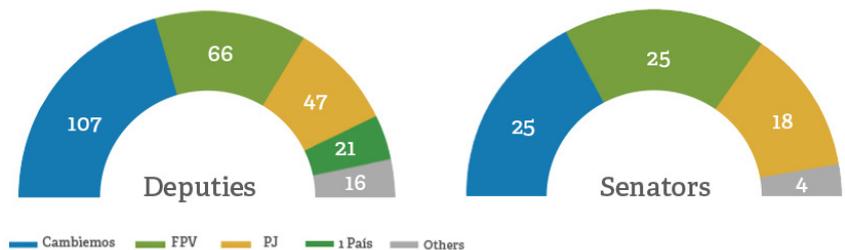
The new legislators will be sworn in to Congress on December 10, 2017. The new government will seek to advance economic initiatives like the 2018 budget, deferring the tax on checks, fiscal reform and the Fiscal Responsibility Law before the end of the year.

Figure 2. Congress, before and after December

Congress at Present



Congress after December



Source: In house

## 4. WINNERS AND LOSERS

### WINNERS (+)

“His mandate truly begins after this election, since till now he has only been able to govern doing what he “could” and not what he “wanted”.”



**Mauricio Macri.** He passed his first election test as President with flying colors. The strong support received at the national level will make it possible for him to push forward structural reforms. Some analysts agree that his mandate truly begins after this election, since till now he has only been able to govern doing what he “could” and not what he “wanted”.



**Elisa Carrió.** Despite her unfortunate statements about the Maldonado case days before the election, she managed to win more than 50 % of the votes in Capital Federal, the stronghold of the Macri party (where it has governed uninterruptedly since 2007). The result was an endorsement for the management of the current mayor, Horacio Rodríguez Larreta, who will seek re-election in 2019.



**María Eugenia Vidal.** In the absence of the charismatic leadership of Esteban Bullrich (the Cambiemos candidate in the province of Buenos Aires), she swept the electoral campaign in the country's largest district and defeated former President Cristina Kirchner. At age 44, she is Argentina's most popular politician and the sky seems to be the limit. A majority in the provincial Legislature is now a step closer.

## LOSERS (-)



**Cristina Kirchner.** After eight years in power and after winning the PASO (0.21 %), she lost to Education Minister, Esteban Bullrich, by 4 points. His running mate, Jorge Taiana, lost his senate seat. Far from stepping aside, she insists on continuing to lead a divided and aimless Peronist Party.



**Sergio Massa.** After finishing third in the 2015 presidential election (21 %), he got caught in the Bullrich-Kirchner polarization and was unable to secure PASO votes in the province of Buenos Aires: he lost 4 points (from 15.41 % to 11.33 %) and will not have a seat in the new Congress. He tried to build a national alternative as mayor of the Tigre party, but lost for the first time in his career: he finished second, seven points behind Cambiemos.



**Martín Lousteau.** He failed to be an attractive option for those looking for an alternative to Carrió and Filmus in the city of Buenos Aires. After losing his run for mayor of the city in 2015 by 3 points with running mate Rodríguez Larreta, he barely managed to rack up 12% of the city's votes. He will join the Chamber of Deputies where he will be an ally of the ruling party.

“The tax reform would be presented to the Legislative branch in the coming weeks to promote productive investment and formal employment.”

## 5. THE PROJECTS THAT MACRI HOPES ARE APPROVED

- **Criminal Corporate Liability.** The Chamber of Deputies approved the initiative that aims to penalize individuals for crimes of corruption. However, the text the Deputies drafted was approved in the Upper Chamber with modifications, putting it back in the hands of the Lower Chamber. The legislation is expected to be passed after the elections.
- **Buy Argentine.** In June of this year, the ruling party's project was defended in the Chamber of Deputies by officials of the Executive branch during a plenary session of the Commissions of Public Works, SMEs and Budget and Finance. Meanwhile, lawmakers meet with representatives from business and industrial chambers in early July in what was the last meeting on the issue to date.
- **2018 Budget.** The draft presented by the Executive branch in September would be approved by the Congress this year in extraordinary sessions. The government believes that the “Law of Laws” will easily be approved.
- **Protection of Competition.** The unified projects of Cambiemos deputies, Mario Negri and Elisa Carrió, were addressed by committee over the year. In any case, the project has a total of four committees –Consumer Defense, Commerce, Penal Legislation and Budget– making agreement even more difficult.
- **Tax reform.** The Government will seek to reduce employers' contributions and the burden of tax on checks. The tax reform would be presented to the Legislative branch in the coming weeks to promote productive investment and formal employment.
- **Capital Markets.** This measure was not addressed in 2017 but is one of the initiatives that could gain *momentum* at the end of this year.
- **Labor Reform.** Mauricio Macri's government continues to evaluate the options for the labor reform. On one hand, specific sectoral agreements like the “Vaca Muerta” model are being considered. On the other hand, legislative victories could mean that a general project could be drafted and sent to the Congress.

“The strong support received at the national level not only erased these doubts but also raised the possibility of a re-election in 2019.”

The initiative would aim to facilitate training; labor laundering; and the modification of the system of deductions and contributions. It should be noted that an Executive Law on access to the first job has been held up in Parliament since last year, when it was tabled after the lack of a consensus.

- **Pension Reform.** President Mauricio Macri has said he will push pension reform –which will take the evolution of medicine and longevity into account– before 2019.
- **Convergent Law.** The new Media Law continues to be postponed by the ruling party. The Executive Branch has not yet submitted the measure in Congress and no deadlines for its entry have yet to be set.

## 6. LOOKING AHEAD TO 2019

### **Guaranteed governance.**

Macri had been hindered by a narrow margin of victory two years ago. After forming a coalition force with no majority in either house and with no historical precedence (no non-Peronist government had served a complete term since 1928), some doubted

that the government would last for the entire four years. However, the strong support received at the national level not only erased these doubts but also raised the possibility of a re-election in 2019.

### **Cambiamos is interested in re-election.**

At the national level (Macri), as well as in the city of Buenos Aires (Rodríguez Larreta) and the province of Buenos Aires (Vidal), the ruling party has paved the way for new mandates within two years. The challenge for the party is to finish building an identity beyond the mere rejection of Kirchnerism. Between 25 % (1 out of 4 people) nationwide and 33 % (1 out of 3) in the province of Buenos Aires says that their vote for Cambiamos is motivated by a rejection of Kirchnerism.

### **The CFK enigma and the renewal of Peronism.**

Elections usually served to organize the Partido Justicialista: whoever wins elections usually plays a leading role in the party. The absence of strong candidates who won raises questions about the renewal of the party, in addition to the uncertainty about the political future of the former President who, despite losing, earned over 3 million votes in the province of Buenos Aires.

**“We are the generation that will forever change the province of Buenos Aires.”**

**Green light on Macri's proposed structural reforms.**

He will have to negotiate for the support of some legislators, since he does not have quorum. The Government will advance with substantial modifications that were postponed due to a lack of deputies and senators. This list includes a tax reform (structuring the tax scheme), labor (loosening contracting conditions, among other measures) and the pension system (raising the retirement age, for example).

**7. MAIN STATEMENTS**

**Mauricio Macri**

- “Argentina does not have to fear reforms, because they represent the possibility to grow”.
- “As long as Argentina has a fiscal deficit, it will continue to have to take on debt, because we have a central commitment, which is to reduce poverty. The first step is to lower inflation, which affects those who have less”.
- “We have already passed the most difficult stage and we are growing with transparency, equity and teamwork”

**Cristina Kirchner**

- “Only Unidad Ciudadana has grown and emerged as the strongest opposition to this government”.
- “We should be proud of what we have built because no other opposition party has resisted the advance of the ruling party and we have grown”, (with respect to the August elections).
- “Unidad Ciudadana is here to stay”.

**Maria Eugenia Vidal**

- “We are the generation that will forever change the province of Buenos Aires”.
- (This election) “It was won by neither the president nor the governor, nor the candidates; this election was won by the citizens of the province of Buenos Aires”.

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