

## **8. Cycle of deeper structural reforms will begin but will not be exempt from political risks**

After the elections, the government is intending to discuss the budget and the distribution of funds with the provinces, with the aim of limiting the growth in provincial and national primary spending. The prospect of a substantial reduction in the high fiscal pressure on the private sector hinges largely on being able to find alternative sources of stable income not only for the federal government but also for the provinces, in order to be able to do away with the more distortionary taxes. This implies discussing a matter which has been already been postponed on many occasions; the reform of the federal tax co-participation, both primary and secondary. Although the government is likely to emerge from the October elections in a stronger position, it will not be easy to gain the approval of 24 provinces, especially when it requires funds to be reassigned in favour of other jurisdictions. So progress is likely to be slow, and targets will not be too ambitious.

Great political adroitness will also be required to make the Argentinian economy more competitive, as it implies addressing the problems of labour productivity and Argentina's role in an international framework. Although the possibility of a Brazilian-style integral labour reform has been ruled out, the sector agreements with which the government aims to progress will also entail negotiations with unions and companies, where each sector will have to be willing to adopt a more flexible stance. Greater openness of the Argentinian economy through signing bilateral and multilateral trade agreements will give it the advantage of greater scale for domestic production but it will also have to consider the impact on less competitive sectors, which could lose out.

Despite these difficulties, the greater political capital of the Cambiemos administration after the primary elections, which is very likely to be increased after the final parliamentary elections of 22 October, and the potential broadening of the horizon for implementing reforms from a second term of office, means that Argentina has an opportunity to resolve long-standing problems which have historically prevented it from reaching sustained growth closer to its potential, and even to increase its relatively muted potential growth rate—around 2.8% per annum—due to the mixture of structural problems and political errors which have affected Argentina in recent years.

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