

Colombia Update

20 June 2022

The Challenges of the New Administration

What happened

On 19th June, Gustavo Petro was elected president with 50.4% votes in the run-off against 47.3% got by Rodolfo Hernández. Mr. Petro, former guerilla and mayor of Bogotá, build his campaign exploiting the popular dissatisfaction with the current government and defending an anticorruption policy. But, he moderated his speech in order to attract centrist and undecided voters. The first leftist president of the Colombian history got his votes mainly from young people, academics and urban areas. Gustavo Petro will take office on 07th August.

Meet the new president

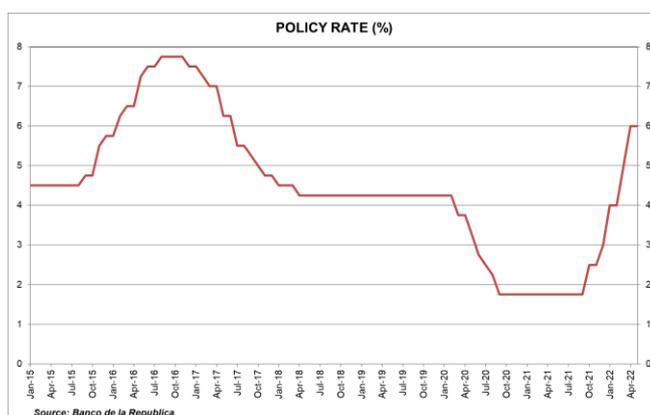
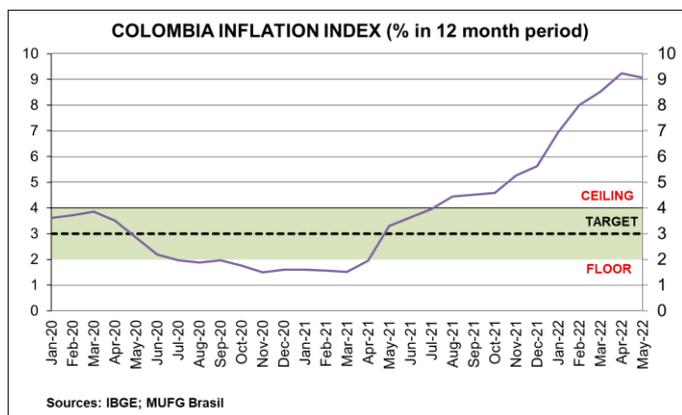
Senator Gustavo Petro was elected by the Colombia Humana (“Human Colombia”) party under a leftist platform. He defends to revoke the tax reform approved by current president Iván Duque and approve a new one that would increase tax collection by 5.5% of GDP, passing bills like tax on the 4,000 wealthiest Colombians. The elected president intends to reduce the dependence on the mining sector by stimulating local agriculture and industry as well as clean energy. In one of these initiatives, he intends to halt new oil projects and cease open pit mining projects. It is part of his strategy a higher participation of the public sector in the economy. Mr. Petro proposes the unification of pension system, but respecting the current ones, and he also desires to adopt policies targeting minorities as well as environmental initiatives. At the beginning of his administration, he promised to call a national emergency to address hunger.

What to expect from Mr. Petro administration

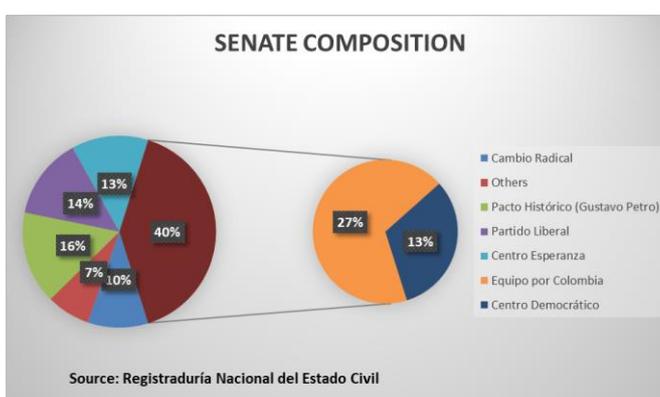
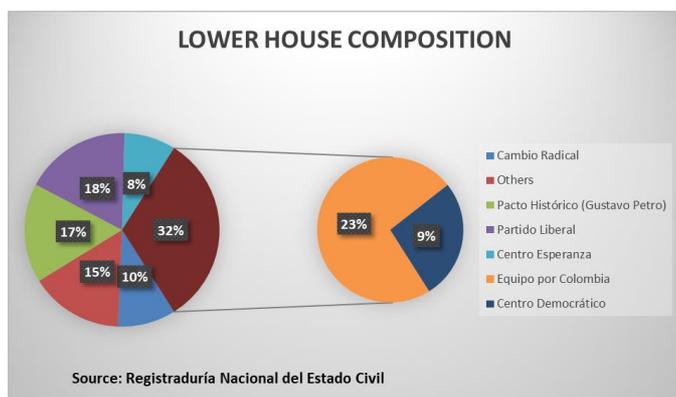
Mr. Petro takes office in a very sensitive period not only for Colombia, but also for Latin America. The population is blaming the government for not addressing appropriately the pandemic, and more recently the government popularity has been hit by the scenario of increasing inflation and BanRep reacting by hiking the policy rate. The scenario is challenging for the new president that it will not change overnight. That means that Mr. Petro may lose part of his popular support already in the beginning of his term.

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Another challenge for the new president will be his relationship with the Congress. The tight margin of victory indicates that it will not be easy to pass his agenda at the Congress. In March 2022, Colombians elected a new Congress, which result shows that Petro’s coalition called Pacto Histórico got only 17% of the seats of the Lower House and 16% of the Senate. Even considering parties aligned ideologically with the elected president, Mr. Petro doesn’t get simple majority in any of the houses of the Congress.



We can analyse Mr. Petro perspective in several fronts:

- **Economy:** the government might adopt more protectionist measures in a way to prioritize the local production, as well as more intervention in the economy aiming at increasing the whole of the public sector;
- **Oil Sector:** the elected president has a discretionary power to make changes on the sector simply because it nominates the minister of Mines and Energy, the president of Ecopetrol oil company and the board of agencies in charge of regulating the sector and another one to issue

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environmental permits. However, Mr. Petro might move carefully once the oil sector represents around 3% of GDP, about 30% of export revenues and 13% of tax collection. The president might look to the neighbour Bolívia, where the nationalization of the sector resulted in stagnation of natural gas sector;

- **Congress:** the relationship is expected to be tense once the government will need to negotiate all initiatives of its interest and it is likely to find strong resistance from traditional politicians. Furthermore, lawmakers are likely to work as a barrier for more radical proposals from the new administration. For example, it will not be easy to pass the unification of pension funds;
- **USA:** although Colombia is a historical ally of the USA in the region, the relationship might suffer some changes. The main one is related to the fight against narcotraffic. The current policy is a strong repression to drug production and dealers, but Mr. Petro proposal is to improve the quality of life of the population in the drug areas in order to reach a peaceful solution to the problem. This would be one of the biggest challenges for him;
- **Guerilla and others:** he intends to continue the peace talks with all groups and respect the agreement reached with the Farcs.

Our Take

The challenges for his administration are enormous and he might face difficulties to move on with some of his proposals made during the campaign. We are not expecting a radical shift of the economic policy to the left as the Congress might limit more radical initiatives. Of course, the cabinet might tell us more about his government, but we consider that Petro administration might be more similar to Mr. Boric in Chile, than to Mr. Arce in Bolívia. It means that social policies will be enhanced but not to a degree that would endanger the macroeconomic fundamentals. It is important to point out that the room for more government expenditures is not that big once the government is running a fiscal deficit of around 6.5% of GDP. If the elected president implements a more aggressive loose fiscal policy then Colombia might be downgraded by rating agencies. Just to remind, only Moody's rates Colombia as investment grade (Baa2) as the other agencies have already downgraded the country to junk (S&P and Fitch rates at BB+).

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