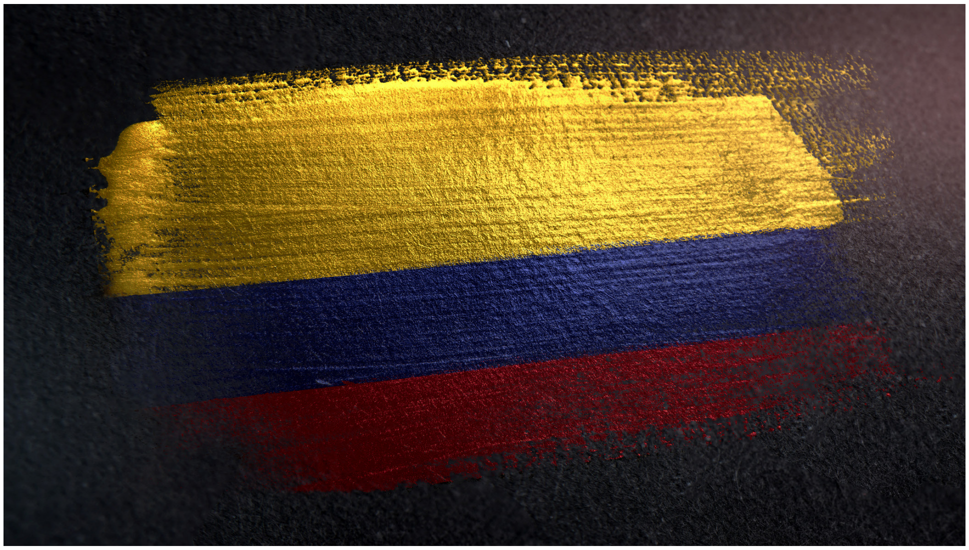
Colombia's Petro: Shift to the Left Or Repeat in Moderation?

Valerie Ho | August 2022



As Colombia's first left-wing president, Gustavo Petro marks a historic break from his country's electoral tradition of centrist-to-conservative leadership. Due to take office Aug. 7, Petro has promised sweeping changes to the country's economic model. These include tackling entrenched inequality and poverty, improved access to healthcare and education, and a heavy environmental agenda entailing the end of new oil and gas exploration contracts.

In a country where oil and gas make up 10%-20% of tax revenues, replacing lost energy income will be no easy task. To pay for his large promised social programs, Petro has outlined an ambitious tax reform that will target the highest-income earners. As part of the energy transition, he envisions growing the country's agro-industrial complex – to be achieved through heavy-handed state protectionism, include a shake-up of free trade agreements and stiffer import tariffs. Investors in Colombia are wary of the fiscal and economic malaise that could ensue if Petro fully implements his campaign agenda.

His right-wing predecessor, Iván Duque, will leave the Casa de Nariño with an approval rating likely below 30%. President Duque's tenure has been marred with widespread protests, first erupting in late 2019 with thousands of protestors hitting the streets, and only abating once the COVID-19 pandemic hit the country in March of 2020. Lockdowns ensued, inequality widened, and protests exploded again in 2021, ignited by a proposed tax reform but more broadly, reflecting the frustration of a stagnated middle class and their distrust of the political elite.

The protests foreshadowed Petro's assent to the presidency as Colombians took their frustration from the streets to the voting box. However, while Petro swept into office on the failures of his predecessors, his ability to build that electoral success into policy success, implementing real change, remains to be seen.

Using recent history as a guide, Petro is likely to face the same political and fiscal constraints presaged by other newly elected left-wing presidents across Latin America.

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In 2021, Peru elected Pedro Castillo, a little-known union leader and elementary school teacher with no political experience. To date, Castillo has fallen far short of his early campaign promises of greater state regulation, nationalization and rewriting of the Peruvian constitution. Rather, in his short 11 months in office, Castillo and his administration have been plagued by corruption allegations, multiple cabinet reshuffles and two impeachment attempts. The opposition-led congress vows to continue to erect a roadblock for any substantial reform measures. As a measure of Castillo's isolation, his own Peru Libre party has asked him to leave their ranks, fearing affiliation with him as too much of a political liability ahead of this fall's municipal elections. Despite the ongoing ensuing political crisis, his economic team has outlined a fiscal consolidation plan and are rebuilding fiscal savings that were drawn down during the COVID-19 pandemic.

2021 also welcomed Chile's youngest president in history. Thirty-six-year-old Gabriel Boric had campaigned on an ambitious spending agenda; deep overhauls of education, healthcare pensions; and greater social inclusion. However, the Boric government is constrained by a fragmented congress with little political consensus. Given these constraints, Boric has made public statements acknowledging the need to deliver responsible structural changes with fiscal responsibility. In a sign of moderation, earlier this year, he nominated the highly respected former governor of the Central Bank of Chile Mario Marcel as finance minister.

Moreover, Chile is in the midst of an effort to rewrite the country's Pinochet-era constitution. If voters approve the constitutional convention's draft constitution in a Sept. 4 referendum, it will fall to the Boric administration and the legislature to implement it.

In October, Brazil is up next with presidential elections. All polls are pointing to the likely return to power of former President Luiz Inácio Lula da Silva. His campaign platform outlines a progressive agenda that promises to revoke a constitutional spending cap to allow the next government to spend more on infrastructure and social welfare. However, while investment spending is deeply needed in Brazil, the fiscal anchor of the spending cap has kept lawmakers from further eroding Brazil's finances. A well-seasoned politician such as Lula is likely to test the fiscal boundaries but unlikely to push his luck to the pointing of precipitating an institutional crisis.

Latin America has ushered in leaders who have campaigned to the far left, promising social change and challenging the neo-liberal policies of their predecessors. But political, economic and social realities have required the reformers to moderate and govern from the center.

In Colombia, if Petro is to bring about a new economic model amid high inflation, slowing global growth, and his party's lack of a congressional majority, he must walk a fine line. Recognizing this, he has courted centrist parties to join his government coalition. Their support will be conditional on a scaling back of his ambitious agenda. In addition, Petro announced José Ocampo, a well-known, respected economist, as his pick for finance minister.

In the near term, moderation is good news for investors who prefer more orthodox economic measures and fiscal responsibility. But how forgiving is Petro's time horizon? New social spending and tax changes must run through the partisan dance of compromise and deal-making – and might prove too slow to stem mounting social pressures on the next government. Colombians who propelled Petro into the presidency are demanding change today.

Valerie Ho is a portfolio manager of the DoubleLine Capital Global Bond Strategy.

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Valerie Ho, CFA
Portfolio Manager
International Fixed Income

Valerie Ho, who joined DoubleLine in 2009 as an Emerging Markets Sovereign Analyst, is a Portfolio Manager for the DoubleLine Global Bond strategy covering Latin America and Emerging Asia excluding China. Prior to DoubleLine, Ms. Ho was an Assistant Vice President at TCW, where her responsibilities included analyzing Multi-Asset Fixed Income and CDO investments. Before TCW, she worked as a Paraplanner for Ameriprise Financial. Ms. Ho holds a BS in Mathematics/Economics and a Specialization in Computer Programming from the University of California at Los Angeles. She is a CFA® charterholder.

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