

Colombia

Regional elections ‘nationalized’: A plebiscite on Petro’s administration

Regional elections are scheduled for Sunday. Colombia’s regional elections are generally politically relevant, and likely even more so this year. Interestingly, local elections usually have the highest turnout of any elections. In 2019, turnout was 60.5%, compared to 48% in the 2022 congressional elections and 58.2% in the 2022 presidential runoff. In total, 32 governors, 418 deputies (departmental assemblies), 1,102 mayors, 12,072 councilors, and 6,513 *ediles* (local administrative boards) will be elected this year.

Below we discuss the political relevance of these elections from the national government and policy standpoint, what surveys show, and the potential impact of the regional elections results on our macroeconomic base case.

The political backdrop: President Petro’s approval rating plummeted

Twelve months ago, the political landscape looked very different. President Petro enjoyed majorities in Congress, and his approval rate was close to 60%. But since then, President Petro has lost the majorities in Congress and his approval rate has plunged.

The president has been hit by several corruption scandals, including alleged wrongdoing by family members related to campaign financing, which has triggered a formal accusation sitting in the Accusations Committee of the Deputies Chamber. These developments have eroded the approval rates for both the president and his administration. The latest polls show Petro’s rejection close to 60%, and approval just at 32% (the latest Invamer survey, Figure 1). Of note, President Petro’s net approval has converged to the last 10-year average of his predecessors (Figure 2).

Given the quick drop in presidential approval and the narrative in place to defend the social reforms (by and for the people), the regional elections are poised to prove more “nationalized” than prior ones. In fact, in some sectors regional elections are viewed as a sort of referendum on the national government. It’s worth keeping in mind that Petro’s Pacto Histórico became the largest group in Congress last year, with a strong showing in a number of cities, particularly Bogotá. If the “Pacto” performs as polls suggest, as discussed below, the debate is likely to gravitate toward whether the government will turn to a more radical stance, or a moderate one aiming for a “national agreement.”

Economic and Policy Research

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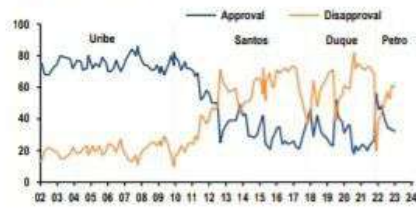
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Figure 1: Presidential approval

% of respondents



Source: Invaer

Figure 2: Net presidential approval

%, net approval (approval - disapproval)



Source: Invaer

Economic backdrop: Inflation decelerated but to still high levels; low unemployment a life vest for the government

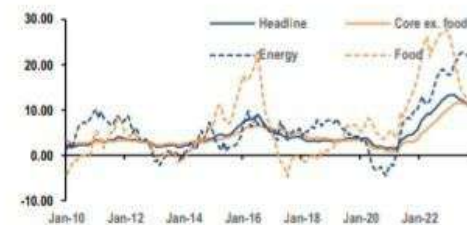
The median voter has been appalled by high inflation, which in Colombia has proved both higher and more persistent than peers'. Food inflation has declined recently, though headline CPI has proved more resilient. The slower headline correction has been in part explained by the adjustment higher of gasoline prices, heavily subsidized through the end of 2022. Energy CPI has thus trended higher YTD (Figure 3). Finally, services have only started to decelerate in the prior two months. Related to this, consumer confidence has printed in negative territory, though in the last three months has sat close to the last 10-year average (Figure 4).

On the flipside, despite the contraction of domestic demand year-to-date, in absolute terms employment has trended higher and the unemployed lower. Thus, the unemployment rate has declined, proving more resilient than expected to the domestic demand deceleration. The urban unemployment rate currently sits a tad below 10%, well below the NAIRU estimated level (Figure 6).

Security matters. In addition to the economy, the latest opinion surveys show that public order and insecurity rank high among the population's main concerns, emerging as the main issue in many cities. According to official statistics, robberies, residential burglaries, kidnappings, and extortions have increased this year. In addition, according to the Center for Conflict Analysis Resources (Cerac), there have been 30 homicides of members of political organizations or candidacies in Colombia this year. Other sources point to an increase in violent actions by armed groups. Security is thus going to have a say on Sunday, which could also impact Petro's agenda.

Figure 3: CPI

%oya



Source: DANE

Figure 4: Consumer confidence

Index,

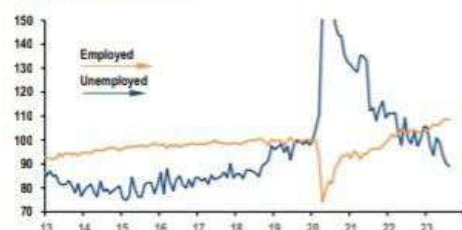


Source: Fedesarrollo

25 October 2023

Figure 5: Labor market

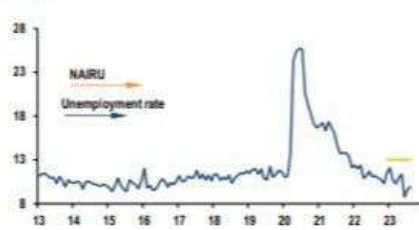
Level, Dec2020=100, SA



Source: DANE

Figure 6: Unemployment rate

% , urban



Source: DANE

Polls suggest opposition is poised to perform well in the main cities

In Bogotá, the main city of the country (8mn people, about a quarter of the national GDP), for the first time a runoff will be held if no candidate wins over 40% with a 10% margin over second place. Galán, a centrist candidate promising continuity or stability on some major projects such as the Bogotá metro, sees election in the first round as possible. The polls in the city show that the former senator and former council member not only has growing support but also has increased his advantage over his competitors. Losing in Bogotá would represent a harsh rebuke of Petro: Gustavo Bolívar, candidate from the Pact, is one of his strongest supporters. The impact would be even greater if there is no clear winner in the first round.

In Medellín, Federico (Fico) Gutierrez has a large advantage. The resignation of Daniel Quintero to support Upegui has not shown any meaningful impact on the polls. A Fico victory would not only mean the arrival to power in the country's second city of one of Petro's most noted adversaries, but also the defeat of the candidate who appeared to be a potential successor of Petro in 2026.

A similar situation is occurring in Barranquilla, where polls show Alejandro Char capturing a huge majority with close to 90% of the vote intention. Char has proved very critical of President Petro, and also comes backed by Cambio Radical, a party that has staunchly opposed Petro.

In the race for the mayorship of Bucaramanga, Beltrán continues to lead in the main polls of the last few weeks. Behind Beltrán in the polls remains Serpa, who in recent weeks has shown slight increases in voting intention. In Cali, in the final stretch and after several endorsements of his campaign, businessman Eder, candidate for the Revivamos movement, positions himself as the favorite, against Roberto Ortiz.

Regional elections, social reforms and political risk premium ahead

First and foremost, our base case assumes no radicalization of the administration. The current checks and balances make, in our view, any radicalization attempt too costly, politically speaking. In addition, President Petro's approval rate appears too low to entertain such an endeavour. On the other side, the idea of a political "national agreement" also appears with relatively low probability, against the backdrop of a fragmented Congress and party system.

Regarding the social reforms (health, pensions, labor), if the results proved roughly in line with what polls suggest we believe the government will insist on pursuing the strategy in place for the past few months, aiming to gain support for the social reforms in Congress without necessarily negotiating with the parties' leadership. In this way, the government has been able to advance the health reform, currently sitting in the Senate. The pension and labor

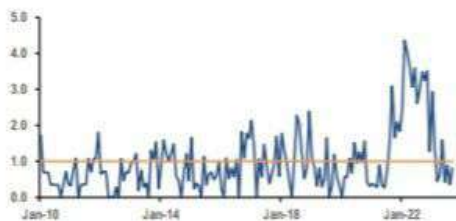
reforms are also pending discussion in Congress. On the pension reform side, the Executive has maintained the 3 minimum wage threshold in the bill. That appears to be the most relevant point in contest. Meanwhile, in our view the labor reform appears less likely to receive support. We see higher odds of the health reform being passed (60% probability), followed by pensions (50%). We find approval of labor reform unlikely (30%).

Beyond the reforms, our base case assumes limited execution ability as a persistent feature of the administration. That said, we continue to side with the idea that fiscal policy has proved sub-optimally expansive in the last two years, and thus fiscal risk will remain in place—particularly given large financial needs for 2024 (for about 7.6% of GDP).

In all, domestic uncertainty, which we view as a political risk premium, has notably diminished in the prior months. As observed in Figures 7 and 8, the uncertainty index has come off the 4Q22 highs very quickly, in sync with Petro's approval rates. Moreover, the uncertainty index has diminished to levels not observed since pre-social unrest, currently sitting below the long-term average. Ahead, the combination of very low growth and relatively high inflation, higher unemployment, and a potential strong El Niño amid limited fiscal room could trigger a jump in uncertainty amid political fragmentation. Our base case is thus more aligned to the uncertainty index (political risk premium) converging to above-long term average levels in the months to come.

Figure 7: Colombia Uncertainty Index

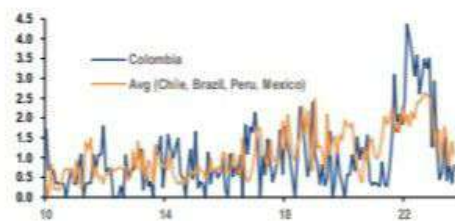
Index, average 2010-2023=1



Source: worlduncertaintyindex.com

Figure 8: Colombia Uncertainty Index vs peers

Index, average 2010-2023=1



Source: worlduncertaintyindex.com

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