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## Latam Daily: Colombia Goes to the Polls; Peru's Fiscal Outlook Brightens

- **Colombia:** Election results largely expected, though centre-right shows surprising strength
- **Peru:** The fiscal deficit picture continues to improve

### COLOMBIA: ELECTION RESULTS LARGELY EXPECTED, THOUGH CENTRE-RIGHT SHOWS SURPRISING STRENGTH

On Sunday, March 13, Colombians voted for Congress and presidential candidates of the various coalitions. **Our take is that the results are neutral-positive for markets.**

**With around 95% of the votes counted, we highlight the following results:**

#### Primaries-Consultas

- **Around 12 million people participated in the Consultas presidential primary vote.**
- **The leftist coalition, Pacto Histórico, led the voting with 46% of the 12 million votes cast (chart 1).** Gustavo Petro received 4.39 million votes (80.5%) (chart 2), slightly below the 4.86 million votes he obtained in the first round of 2018 presidential elections (chart 3). This result points to a ceiling for Petro, and makes him vulnerable ahead of a potential runoff. It is also unclear if he can retain all the Pacto Histórico votes, since some coalition members distanced themselves from him after the results were announced.
- **The centre-right coalition unexpectedly received the second most votes (34.4%).** Federico Gutierrez led the vote for presidential candidate with 54.2% of ballots cast. Other coalition members immediately supported Gutierrez, suggesting a stronger alliance going into the presidential election. This coalition has the potential to make alliances for runoff votes, and in fact enjoys strong support from the majority of dominant parties in the Congress.
- **In contrast, the centre-left coalition received weaker-than-expected support, obtaining 19.1% of the 12 million votes.** Sergio Fajardo garnered 33.4% of the votes for presidential candidate, well below the 4.6 million he obtained in 2018 (chart 3). Moreover, total votes of the coalition were less than half of what Fajardo gained in previous elections, showing lagging support ahead of the first round.

Chart 1

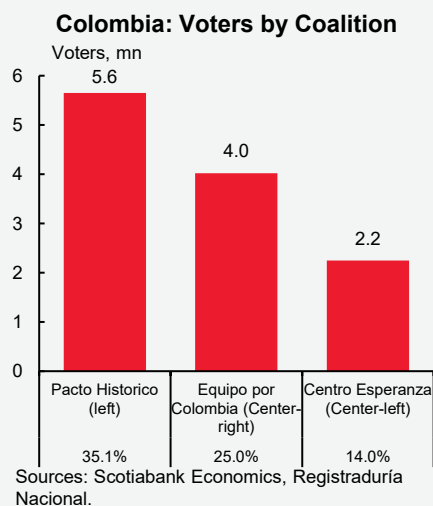


Chart 2

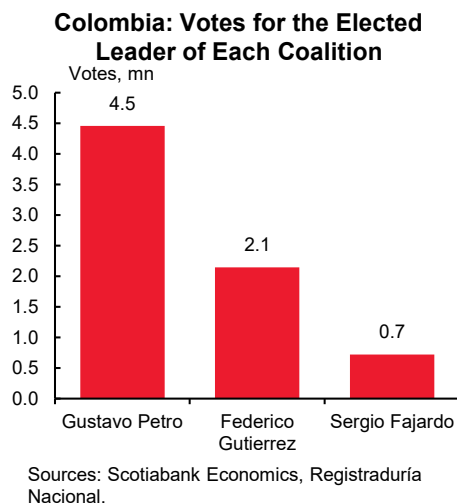
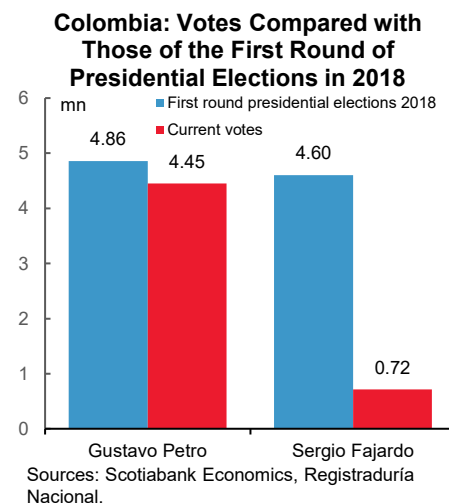


Chart 3

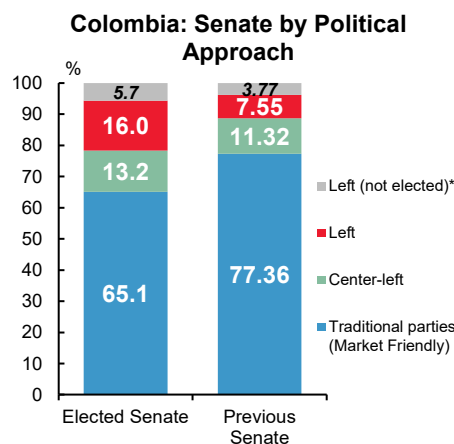


- **Up to 9:40 pm Sunday night, around 4.7 million of the 16.4 million registered voters didn't vote, which is larger Petro's votes (4.4 million).** This leaves the door open to potential alliances for the presidential first round. However, there is nothing defined yet, and leftist candidates combined surpassed the ceiling of the 2018 election.

**Congressional Results**

- **In the Senate, traditional parties secured 69 out of 106 seats (65%) (chart 4),** while leftist alliances Pacto Historico increased its participation from 5.6% to 16% (17 out of 106 seats). Contrary to the result in the primary vote, the centre-left parties gained ground and now represent 13.2% (14 out of 106 seats).
- **The Government's party, Centro Democratico lost seats in the senate (14 down from 19).** Cambio Radical's representation also declined, dropping from 16 seats to 11 seats, strongly suggesting that a potential Vargas Lleras candidacy would not have strong support.
- **In the case of the House, Pacto Historico won 13.3 % of seats, increasing its representation from previous elections by less than 2%.** However, as in the case of the Senate, traditional parties still dominated.

Chart 4



\*Corresponds to the seats assigned due to the Peace Process.  
Sources: Scotiabank Economics, Resgistraduría Nacional.

**All in all, the congressional results point to a splintered composition, in which alliances are key.** The main losers were the government's party, while Pacto Historico gained. The results show that the future president will need to form alliances to pass. At the same time, it is worth noting that in Colombia we have three main powers: 1) Presidency; 2) Congress, and 3) Courts. The split Congress means that more radical proposals will continue to face strong headwinds and Colombia will retain a robust pro-market policy framework.

**What expect ahead of the May 29 vote:**

**Going forward, it will be important to monitor the emergence of alliances among dominant parties in the congress and presidential candidates.** The centre-right and right political parties could join to support Federico Gutierrez, who is expected to be a strong candidate, while the centre-left appear weaker ahead presidential elections. That said, independent presidential candidates are worth watching, such as Rodolfo Hernandez, who still have more than 10% of voter intentions in recent surveys.

Such surveys will become more relevant, especially in runoff scenarios. According to previous surveys, the undecided population surpasses the difference between Petro and the other candidates in a runoff situation. **We think previous results are neutral-positive results for markets.**

—Sergio Olarte & Jackeline Piraján

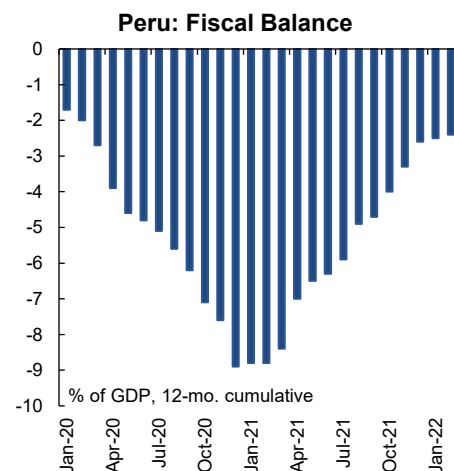
**PERU: THE FISCAL DEFICIT PICTURE CONTINUES TO IMPROVE**

**The BCRP reported a 12-month rolling fiscal deficit of 2.4% of GDP in February (chart 5).** This is the lowest level since February 2020, the month before Peru's COVID-19 lockdown. Thus, as with GDP, Peru's fiscal deficit is once again at pre-COVID-19 levels.

**The fiscal deficit has been declining for 14 consecutive months, ever since it reached a high of 8.9% of GDP in December 2020.** The trend has extended longer than we were expecting, with the factors behind the improving fiscal picture proving more significant and durable than anticipated. Given this, there's a good chance that the fiscal deficit for full year 2022 will be closer to 2.0% than to our current forecast of 3.0% of GDP.

**Fiscal accounts are performing better than expected both on the revenue and on the expenditure side.** Tax revenue was up 14.5% y/y in the January–February period. Income tax revenue for the period led the way, rising 19%. Domestic sales tax also contributed, up 11%. The increase in income tax comes mainly from mining and is in line with the rise in metal prices. This robust revenue flow should persist going forward as metal prices continue high and are outpacing expectations. The increase in domestic sales tax revenue is softening a bit but remains strong. Going forward, inflation should provide some support even as consumption begins to stall in real terms.

Chart 5



Sources: Scotiabank Economics, Minem.

March 14, 2022

**The expenditure side of the fiscal accounts also contributed to the lower deficit.** Government expenditure declined 0.7% y/y over the January–February period, with spending especially low in February (-6.0% y/y). The 10.8% y/y decline in public investment in January–February was particularly pronounced, whereas current spending rose 1.8% y/y in the period.

**The decline in the national government expenditure (as opposed to the regional and municipal governments) was startling.** While spending by regional governments and municipal governments rose in January–February, spending by the Castillo Administration fell by 2.3% y/y, with the decline accelerating in February, down 10.7% y/y. While Finance Minister Oscar Graham has stated that the decline in government investment is temporary and in line with the budget, this argument does not explain the equally noticeable 1.6% y/y drop in central government current spending in the first two months of the year (-9.4% y/y in February alone). It is hard to avoid thinking that the frequent changes in Cabinet members and the government's overall management challenges is affecting the public sector's spending program. And it is equally difficult to avoid the conclusion that these difficulties will continue to hamper government spending going forward.

—Guillermo Arbe

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