

Contributors

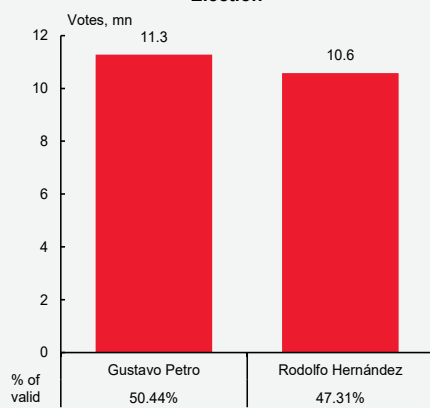
Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Maria Mejía, Economist
+57.1.745.6300 (Colombia)
Maria1.Mejia@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Chart 1

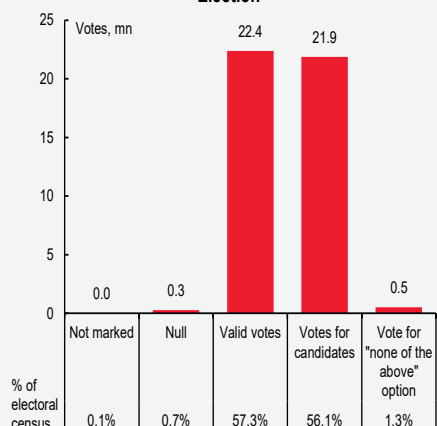
Colombia: Results of the Runoff Presidential Election



Sources: Scotiabank Economics, Registraduría Nacional del Estado Civil.

Chart 2

Colombia: General Statistics of the Runoff Presidential Election



Sources: Scotiabank Economics, Registraduría Nacional del Estado Civil.

Colombia—Petro Elected President and Calls for a National Agreement

- Leftist candidate Petro wins; calls for national consensus.

Leftist candidate Gustavo Petro was elected President in the June 19th runoff election with 11.3 million votes (50.44%), while the independent candidate, Rodolfo Hernández, received 10.58 million votes (47.31%) (chart 1). Turnout was 58.09% (22.66 million) (chart 2), above the 54.91% level in the first round and the strongest turnout observed since the 1998 elections (62.59%) when the conservative Andrés Pastrana was elected.

In a short comment, Rodolfo Hernández accepted the result and appealed to Petro to fight corruption. Hernández will have a seat in the Senate, while his vice-president candidate, Marlen Castillo, will have a spot in the House. President Duque likewise congratulated Gustavo Petro and guaranteed an orderly transition. Former President, Alvaro Uribe, called for all to respect democracy and work for Colombia.

In his first speech as President-Elect, Petro called for a national agreement and dialogue to build consensus to build a peaceful society with social and environmental justice. The president-elect said he will enforce the Constitution to guarantee human rights and work towards an environmentally sustainable economy. For now, he has not revealed specific policies, which should become clearer in the coming weeks. The speech wasn't strongly political, as Petro called for consensus to increase social wellbeing.

Key insights:

- Market effect.** In the medium term, global monetary policy will prevail as the main driver for local assets. However, the election results will likely increase short-term volatility. In the case of the FX, we would expect a reverse of the positive movement after the first round of voting, with a spike between 100–150 pesos is possible. Monitoring incoming announcements, especially the composition of the cabinet will be key. In the more positive case, we don't expect the FX to trade below USDCOP 3,750 as Colombia's credit rating remains sub-investment grade and the Fed tightening continues.
- Main challenges:** The president-elect will lead a country with big challenges on the economic and social fronts. Poverty and inequality increased after the pandemic, while on the fiscal side the new president must ensure social programs are compatible with a sustainable fiscal path.
- The support of the new Congress is needed to overcome polarization:** Despite the president-elect winning by a higher-than-expected margin (3 ppts), Gustavo Petro still faces a strong opposition, making it critical that he forge a consensus with the Congress. On July 20, the new Congress takes office, and an important milestone will be the declaration of opposition, neutral and pro-government parties, in which Rodolfo Hernández will play a key role.
- Cabinet composition and especially the next finance minister will be key** as they will have the challenge to deal with a very divided Congress. **Gustavo Petro's party, Pacto Histórico, has less than 20% of the total Congress, and he requires more than 50% of Congress to pass his key reforms.** During the campaign, Petro said that he will aim for ambitious fiscal reform. Potential candidates to the Ministry of Finance (MoF) include José Antonio Ocampo, Alejandro Gaviria, Cecilia López, Jorge Iván Bula and Ricardo Bonilla, all of them would be viewed favourably by markets. Other key posts to watch are the Defense Minister, Minister of Mining and the Chancellor.

June 20, 2022

- **Colombia has a strong institutional background.** The three main powers: Presidency, Congress, and the Courts traditionally shielded Colombia from sudden changes in macroeconomic and political rules. We think that this framework will prevail and that looking for consensus will be key.
- **Strong changes need more massive support.** It is worth noting that the population is not demanding a change in the Constitution, which puts Colombia in a different scenario compared with other regional partners, such as Chile. Either way, in the case of an elected government aiming for a constitutional change it must count on with the support of 55 out of 108 votes in the Senate, 95 out of 188 votes in the House, approval of the constitutional assembly, and 75% of votes of the Electoral Census (29.3 million votes).

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.