

ENERGY

How Colombia's First Leftist Presidency Was Derailed

Analysis by Matthew Bristow | Bloomberg

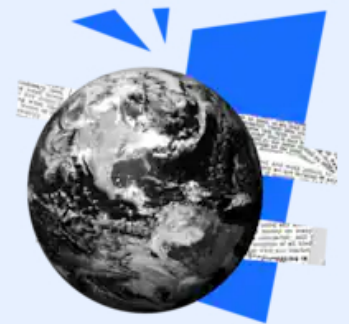
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The first leftist presidency in Colombia's history was almost paralyzed in June as senior officials became embroiled in scandals and onetime allies in congress broke away from the ruling coalition. After members of President Gustavo Petro's inner circle were accused of illegal wiretapping and campaign finance violations, the nation's assets rallied, as investors calculated that the stalling of the government's radical agenda reduced the risk of holding Colombia's bonds and currency.

1. How did the scandal erupt?

In late May, a former nanny who worked for Petro's chief of staff told *Semana* magazine that she'd been interrogated and subjected to a polygraph test by members of the president's security team in a government building across the street from the presidential palace. That happened after the chief of staff, Laura Sarabia, accused the woman of stealing thousands of dollars in cash from her home. The scandal, which pitted a powerful official against a low-paid nanny, was embarrassing to a government that claims to represent the poorest Colombians against the rich and powerful.

2. What was the reaction?

The attorney general's office opened an investigation into the conduct of the president's aide, and soon revealed that the phone line of the nanny, Marellys Meza, and another domestic employee of Sarabia had been improperly tapped by the police. Then a police colonel from the presidential security team, who was a subject of the investigation, was found dead in his car, in what Petro said was a suicide. Meza, the nanny, had previously worked for Armando Benedetti, who had managed Petro's election campaign and was then made Colombia's ambassador to Venezuela. Sarabia and others accused Benedetti of having been the source of the news stories that embarrassed her, according to local media. Benedetti has denied this, saying that Meza had sought out journalists on her own.

3. What's to know about the former ambassador?

After Sarabia and Benedetti stepped down under public pressure, *Semana* magazine published a recording of a foul-mouthed tirade by Benedetti. In it, the former ambassador expressed anger at how the president had deserted him, and threatened to reveal dirt about Petro's campaign. He implied that the campaign had breached legal spending limits and threatened to reveal the source of some of the money, leading to speculation that it may have come from criminal activity. Benedetti later backpedaled on his claims, saying in a Twitter post that "anger and liquor" had contributed to his outbursts.

4. Will Petro survive the scandal?

Ousting a president is difficult in Colombia, and no sitting head of state has ever been impeached. So most analysts think Petro will survive. But he can't easily put the scandal behind him, since it has led to investigations by several agencies. These include a probe by the attorney general's office into the unauthorized wiretapping. More serious for the government is an investigation by the electoral authority and a Lower House ethics committee into whether Petro's campaign broke the law. This could potentially lead to criminal charges or an impeachment vote. Petro has said his enemies are attempting a "soft coup" to cripple his administration. With so many unanswered questions, the scandal could drag on for a long time with the government bogged down in investigations.

5. What reforms is Petro trying to pass?

The government sent ambitious bills to congress that would transform Colombia's welfare state by reducing the role of the private sector in providing health care and pensions. Another bill would boost workers' rights. Even before the scandal, powerful groups in congress, including the Liberal Party, the U Party and the Conservative Party, had already left the coalition after the government refused to moderate its proposals. At the same time, the government is seeking "total peace" with several guerrilla groups and drug-trafficking organizations. In June, the government started formal talks in Havana with the National Liberation Army, a revolutionary faction that's been fighting the Colombian state since 1964 and finances itself through extortion of both legal businesses and cocaine producers, as well as through kidnapping.

6. Why did markets react so positively to the scandal?

Many investors had feared that the welfare bills would blow out the fiscal deficit and were relieved that Petro's proposals would be defeated or watered down. So Colombia's currency gained as Petro's coalition began to fracture, then extended its rally after the scandals broke. Petro has a history of spooking markets, including by criticizing the country's central bank, opposing oil drilling and shaking up the management of **Ecopetrol**, the state-run energy company. The peso strengthened 16% in

the year through June 14, the most among major emerging markets, while the nation's bonds also gained.

7. Is Petro's government finished?

No. Its ability to pass legislation may be severely curtailed at the moment, but that doesn't mean it couldn't rebuild its majority in congress. Colombia's political parties are currently focused on regional elections coming in October but could be amenable to deals with the government after that, according to Sergio Guzman, the director of Colombia Risk Analysis, a Bogota-based consultancy. Petro still has three years remaining in office, and the presidency wields great power in Colombia, even without congress on its side. Petro has the ability to name high court magistrates, central bank co-directors and the military high command. He could also rule for a time by decree, though the constitutional court would probably overturn his decrees, which are intended for unforeseen and sudden emergencies, such as the Covid-19 pandemic.

--With assistance from Oscar Medina and Andrea Jaramillo.

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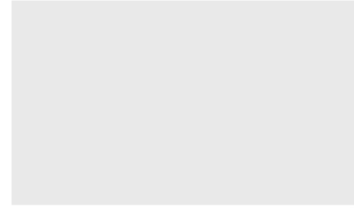
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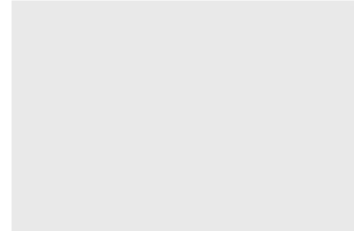
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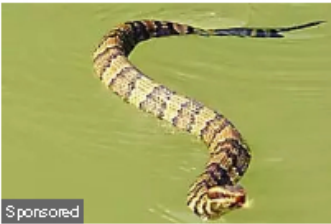
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