

## THEMATIC

## LatAm's political pendulum takes a hard swing to the left in 2021



**Patryk DROZDZIK,**  
Senior EM Macro Strategist

**2021 Covid surging in 1H and inflation swelling in 2H have contributed to the political pendulum swinging hard left in LatAm. More structurally, the commodity super cycle unwind mid last decade and the political discontent likely set the entire shift in motion. Against the general trend, some elections cycles moved in the other direction as well.**

2021 was an intense and dramatic year for the LatAm region with Covid surging in 1H, inflation swelling in 2H and the political pendulum swinging hard left for chunks of the year. While the former two likely contributed to the latter's leftward shift cyclically, the longer in duration structural decline caused by the commodity super cycle unwind mid last decade likely set the entire shift in motion. The strong public discontent with the status quo resulted in Peru's anti-establishment vote in favour of its first ever (hard) left president while Chile's demand for change loaded the constitutional assembly with the left leaning independents and the highest office in the country going to a Leftist too. In Brazil and Colombia, which are yet to hold elections in this cycle of elections, left aligned presidential candidates (Lula and Petro) are clearly leading in the polls.

But while the general political trend throughout the region has been surprising to the left, there have been some course inflections and corrections in the other direction as well. In Mexico's mid-term elections held in June, AMLO's ruling coalition lost the qualified majority (and power to amend the constitution) while Castillo's first cabinet saw a reshuffle in a more moderate direction after a very erratic couple of months. In Brazil, Lula is flirting with an idea of adding a centrist name to his presidential ticket which could suggest a more pragmatic policy direction if elected. But the biggest turn to the right took place in Argentina where the opposition won decisively the October mid-term elections and the ruling coalition lost the Senate majority for the first time since 1983. We discuss LatAm's 2021 political events in more detail and take a sneak preview of the ones awaiting us in the new year below.

### **Peru: Takes a hard left turn first and a step in a more moderate direction a few months later. Will the trend continue?**

In June 2021, Pedro Castillo, a rural leftist teacher defeated right wing Keiko Fujimori in an extremely polarised and tight presidential elections. Contested results made the transition anything but smooth while government appointments were far from market friendly in most cases. That in turn led to a turbulent couple of months and a cabinet reshuffle eventually. But while President Humala's u-turn four months into his term in 2011 set a far more market friendly course for country, Castillo's cabinet reshuffle four months after winning the *ballottage* was far from a complete course correction. It did however mark a turn in the 'right' and more moderate direction.

Most importantly, President Castillo replaced the controversial Premier Bellido who used nationalisation threats freely with a moderate-left leaning lawmaker Vazquez formerly a House Speaker under President Sagasti in

2020/21. All in all, the cabinet is now relatively better aligned with the Finance Minister's Francke position after a pivot away from the most radical ideas represented by the Peru Libre party leader Mr. Cerron – the latter came out strongly against the move and in no longer supporting the government.

But as evidenced by some recent events – e.g. an announcement by the government four mines would be shut down as their extensions would not be granted over environmental concerns – low visibility on policy actions by the current administration is likely to continue. We suspect we might see yet another impeachment in Peru – there have been 5 presidents over the past 4 years – before policy takes another and clearer moderating move. In the meantime, we take comfort from seeing Mr. Velarde reappointed as BCRP governor that ensures monetary policy continuity.

### **Chile: Big-state on the way with the Constitutional Assembly and presidency in the hands of the left leaning independents and a leftist**

In yet another anti-establishment vote in LatAm, the ruling and right aligned coalition, traditionally a recipient of around 40-45% votes, won only about 20% of the seats in the Constitutional Convention election held in May of 2021 called after nearly 80% of voters sided in favour of redrafting the Constitution several months earlier – the constitutional process

in turn was initiated after the country was rocked by mass protests against high levels of inequality and corruption. The fifth acquired was well below expectations and 1/3 required to block any radical proposals that might make it into the new Constitution. Instead, it is the left wing delegates and independents in control the constitutional agenda that will

---

*Peru took a hard left turn first and a step in a more moderate direction a few months later*

---

## THEMATIC

---

*Social discontent on display in the Colombian streets and in Petro's lead*

---

---

*While the Latam region was voting or polling left, elections in Mexico took a slightly different turn*

---

likely push for a much larger State and broader social rights.

The left will also control the highest seat in the country with Gabriel Boric, former protest leader, winning the December ballotage by 11pp over the conservative and hard right candidate Kast. The wide margin of victory on a fairly high participation rate points to a strong mandate to pursue an ambitious overhaul of the country's economic and social model including its healthcare, pension, housing, education, pension system etc. That in turn would require a big structural boost to revenues.

It is worth noting two mitigating factors before outright extrapolating the size and the interventionist nature of the state in line with the presidential election outcome. One is

**Colombia: Social discontent on display in the streets and in Petro's lead**

As in many places across the region, social discontent with the *status quo* rose high and in case of Colombia spilled over into the streets in 2Q'21. Hell broke loose when the administration proposed a way too ambitious, prudent and poorly timed tax reform with protests and strikes paralysing parts of the country for a good few weeks. The fiscal reform was eventually withdrawn but social demands only grew and the fiscal story also deteriorated when fiscal consolidation was delayed until 2023. As a consequence of all, Colombia's credit rating was downgraded to junk with painful consequences on asset prices.

But the worse might be behind it now with the economy rebounding strongly and about pre-Covid levels now, the labour market dynamics

**Mexico: First one to defy the regional trends**

While the Latam region was voting or polling left, elections in Mexico took a slightly different turn, at least at the federal level. In June midterm elections, the Morena coalition lost the super majority it won three years earlier and AMLO's Morena Party lost the simple majority. The ruling coalition will thus control the budget (and fund projects close to the president's heart e.g. refinery, train line etc) and the legislative agenda in 2H of AMLO's term but it won't have the votes to amend the constitution and implement AMLO's state centric vision of the energy sector or another unorthodox and often less friendly market idea.

The latter constrain is already on display. AMLO's proposal to overhaul the electricity sector would allocate majority of the market to the state-owned power utility. In the process, and due to a smaller participation of a typically more efficient private sector, electricity would likely get more expensive, its provision less reliable and its generation dirtier. That's a clearly suboptimal outcome domestically but also potentially in violation of the new NAFTA trade agreement.

composition of the Parliament. In the October congressional elections the right surprised on the upside ending up with half of the Senate seats and maintaining the veto power over Constitutional/key matters while the Lower House is split between right and left. The other is Boric's moderating stance taken during the runoff campaign. The president elect acknowledged the change would be gradual and the permanent expenses would need to be covered by permanent revenues in order to stabilise the debt dynamics in the medium term. Needless to say, the country is heading in the direction of the state taking on a bigger role and social safety net broadening in scope while the only question remains to what extent.

surprising on the upside and inflation showing the least malign inflationary trends in the region. Most importantly however, a far more pragmatic fiscal reform received a broad political support and while not resolving the issues structurally, it tackled the cyclical objectives to an acceptable degree.

When it comes to next year's presidential elections, Petro (communist, former M-19 rebel member, current senator) leads in the polls by a double digit margin. We do however take some conform from knowing the economy will have another six months before elections take place and an extreme position by Petro will in theory unite the electorate to vote against his radical ideas in the second round of the elections as already seen a few years ago.

But while losing quite a few seats at the federal level, Morena coalition did well in state elections and in fact strengthened its local presence (except for in Mexico City). The ruling coalition won 12 governorships which together with 5 already in Morena's hands gives it an important majority (there are 32 states in Mexico).

All in all, we see the election outcome in Mexico as a glass half empty outcome for the Morena coalition. It will constrain AMLO going forward in pushing its, often less market friendly, agenda. It won't however stop him from making inroads in other areas of policy or exerting influence over country's institutions. AMLO's recent Banxico appointment decision is a clear case in point. A late governor replacement with a far less experienced and trained name is a risky proposition especially at a time when the Fed is losing its patience with 'transitory' nature of inflation and the domestic hi-inflation cycle might need far more action and preference over growth considerations. Fortunately, the Central Bank might be seeing things similarly having raised interest rates by a bigger 50bps at its latest policy meeting in December.

## THEMATIC

---

*The November parliamentary elections brought a multiple defeat for the ruling Argentina's Coalition*

---

**Brazil: Polling Left but is Lula skewing center left?**

The presidential elections in Brazil scheduled for late 2022 give the authorities more time to get the economy on a firmer footing and inflation down from politically sensitive double digits. That in order to avoid a potentially leftward shift under Lula's stewardship who is polling strongly and is visibly ahead of Bolsonaro in both first and second round simulation. But while a favourable timing of the elections avoided an apparent turn to the left seen in the rest of the region, the current administration has taken a number of questionable actions of populist nature in the recent past.

The less prudent and orthodox policy mix had been driven by both economic and political considerations. Global pandemic of hi-flation has hit Brazil particularly hard hammering disposable income visibly and Bolsonaro's popularity in the process. The administration's

response to alleviate the intensifying social demands was to increase handouts of the flagship welfare program fitting the bill under the Spending Cap, the ultimate fiscal anchor, via a creating accounting trick only.

Elections wise, while we don't see a third party candidate, such as former minister Moro currently polling in low single digits, reaching the ballotage stage, we are encouraged by recent signals former president Lula is considering adding a centrist name (Ackmin, four time governor of Sao Paolo, former presidential candidate) to his presidential ticket. That would suggest a more pragmatic policy mix by the Lula administration than his party's political orientation and a less noisy presidency by the 'unity ticket' than the current one despite a highly polarised environment. A glass half full outcome, we think.

**Argentina: A clear rejection of the status quo and Left's policy mix**

We will see over the coming weeks and months whether actions follow election results, but the political set up has seen a dramatic make over in Argentina in late 2021. The November parliamentary elections brought a multiple defeat for the ruling coalition. The FdT lost the national vote by around 10pp, the city of Buenos Aires (BA) by a whooping 20pp and even the province of BA, Kircherist stronghold. In addition, while the ambitious goal of the ruling coalition was to win the Lower House majority, the FdT in fact lost a couple of seats in it. More crucially however, the Peronists lost the senate majority for the first time since 1983. The election results were in line with the primaries held a couple of months earlier despite a costly fiscal response and heavy handed macro interventions that included transfers to household, price and capital/FX controls and even export bans. But rising poverty rate and >50%Y inflation seem to have been too big of a factor for the majority of the voters who voted decisively in demand for change.

The defeated administration is looking at an equally weak economic expansion beyond the cyclical, post pandemic rebound and structurally unbalanced economy, with little buffers at its disposal. There are also the pending IMF repayments – the March instalment will be already heavy – and quite

frankly very little resources to meet these obligations (over \$40 billion in total) over time. The existing status quo will be difficult to sustain economically, and by extension costly politically, until the next election scheduled for late 2023.

The difficult starting point and worrisome outlook are a clear incentives for the administration to strike a deal with the IMF, necessary though not sufficient condition, and start getting the economic house in some sort of order. It is also in government's advantage to get an agreement done sooner rather than later as long the conditionality is light. In line with that thesis, post-election speeches by President Fernandez and Finance minister Guzman seemed to be preparing the political ground for a roll out of a multi-year adjustment program aligned with a broad understanding reached with the IMF. Importantly, the vice president Kirchner while distancing herself from a potential agreement, spoke of legal, political and historical responsibility of the entire Congress to consider its approval. This bodes well for a deal with the IMF which might be struck fairly quickly in order to avoid any substantial repayments. The economic adjustment will require however far more time, sacrifice, and perseverance, we suspect.

*Finalised on 22 December 2021*

## Amundi Research Center



Find out more about  
**Amundi publications**  
[research-center.amundi.com](https://research-center.amundi.com)

Emerging Private Equity  
Money Markets Find Monetary  
Foreign Top-down Policies  
Exchange Corporate Equities Bottom-up  
Sovereign Bonds Forecasts  
ESG High Yield Real Estate  
Quant Investment Asset  
Strategies Allocation

### DISCLAIMER

This document is solely for informational purposes.

This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction.

Any information contained in this document may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices.

Furthermore, nothing in this document is intended to provide tax, legal, or investment advice.

Unless otherwise stated, all information contained in this document is from Amundi Asset Management SAS and is as of 23 December 2021. Diversification does not guarantee a profit or protect against a loss. This document is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management SAS and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks.

Furthermore, in no event shall any person involved in the production of this document have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

Date of first use: 3 January 2021.

Document issued by Amundi Asset Management, "société par actions simplifiée" - SAS with a capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GP04000036 - Head office: 90 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - [www.amundi.com](http://www.amundi.com)

Photo credit: ©MDelporte - iStock/Getty Images Plus - Yellow Dog Productions - Anton Petrus

### Chief editor

**BLANQUÉ Pascal**, *Group Chief Investment Officer*

### Editor

**DEFEND Monica**, *Global Head of Research*

### Global Research contributors

**AINOUZ Valentine**, *Deputy Head of Developed Markets Strategy Research, CFA*  
**BELLAÏCHE Mickael**, *Fixed Income and Credit Research Strategist*  
**BERARDI Alessia**, *Head of Emerging Macro and Strategy Research*  
**BERTONCINI Sergio**, *Senior Fixed Income Research Strategist*  
**BLANCHET Pierre**, *Head of Investment Intelligence*  
**BOROWSKI Didier**, *Head of Global Views*  
**CESARINI Federico**, *Head of DM FX, Cross Asset Research Strategist*  
**DROZDZIK Patryk**, *Senior EM Macro Strategist*

### Deputy-Editors

**BLANCHET Pierre**, *Head of Investment Intelligence*  
**BOROWSKI Didier**, *Head of Global Views*

**GEORGES Delphine**, *Senior Fixed Income Research Strategist*  
**HUANG Claire**, *Senior EM Macro Strategist*  
**PERRIER Tristan**, *Global Views*  
**PORTELLI Lorenzo**, *Head of Cross Asset Research*  
**USARDI Annalisa**, *Cross Asset Research Senior Macro Strategist*  
**VANIN Gregorio**, *Cross Asset Research Analyst*  
**VARTANESYAN Sosi**, *Senior Sovereign Analyst*

### With the Amundi Insights Unit contribution

**BERTINO Claudia**, *Head of Amundi Investment Insights Unit*  
**CARULLA Poi**, *Amundi Investment Insights Unit*  
**FIOROT Laura**, *Deputy Head of Amundi Investment Insights Unit*

**DHINGRA Ujjwal**, *Amundi Investment Insights Unit*  
**PANELLI Francesca**, *Amundi Investment Insights Unit*

### Conception & production

**BERGER Pia**, *Research*  
**PONCET Benoit**, *Research*