

Economic Watch

Colombia

Bogotá, November 2, 2011
Economic Analysis

Colombia

Chief Economist
Juana Téllez
juana.tellez@bbva.com
57 1 347 1600

Colombia

Senior Economist
Julio C. Suárez
julio.suarez@bbva.com
57 1 347 1600

The Government parties consolidate their position and a new left-wing leader comes on stage

Consolidation of the political scene in Colombia

Mayors, Governors, Town Councilors and members of local assemblies were elected last October 30. According to our estimates, the ruling party, the Social National Unity Party ("U Party"), is consolidating its position as the country's main political force, increasing its political leadership by 2.5% based on our political influence index. One noteworthy result was the victory of a left-wing candidate in Bogotá, who supports greater redistribution and market intervention, and who leads a new left-wing movement that is consolidating its position as a credible alternative to the single opposition party, the Alternative Democratic Pole (PDA).

Another result worth mentioning is the defeat of the main candidates backed by former president Uribe, who despite maintaining a favorable image has lost his political leadership in the eyes of voters.

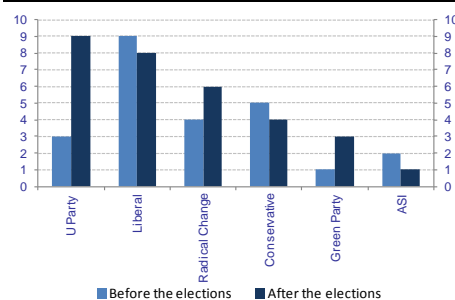
The Government coalition maintains its regional influence after the elections

President Santos currently enjoys comfortable majorities in Congress, in both the Lower House and in the Senate. The local elections confirmed the leadership of the Government coalition (or "National Unity Committee"), which consolidated its influence in the main mayoralties and governorships.

Prior to the elections, the coalition parties were ahead in 22 of the 33 mayoralties of the country's main cities, and in 23 of the 32 governorships, and have now increased their representation to 27 capitals, but falling to 18 governorships, mainly in low-population departments.

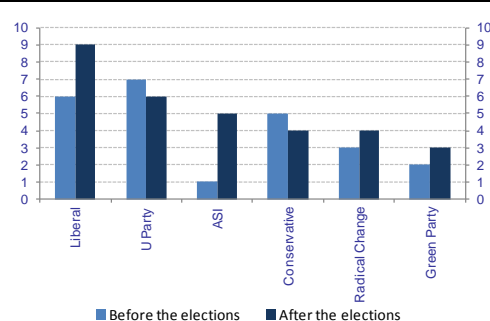
The elections marked a change in the electoral strategy, with some candidates being backed by multiple parties, when traditionally each party has supported one single candidate per contest. The U Party's case is representative, with two of its six governorships and three of the nine mayoralties in capital cities gained in coalition. Charts 1 and 2 show the net gains of the main parties. Worth mentioning are the victories of the U Party, Radical Change and the Green Party—all of them members of the National Unity Committee—which have increased their influence in mayoralties. In governorships, the Liberal Party (also a member of the National Unity Committee) and the Independent Social Alliance posted good results, the latter with considerable influence in the south and west of the country.

Chart 1
Number of mayoralties in capital cities per party before and after the local elections



Source: National Registry and BBVA Research

Chart 2
Number of governorships per party before and after the local elections



Source: National Registry and BBVA Research

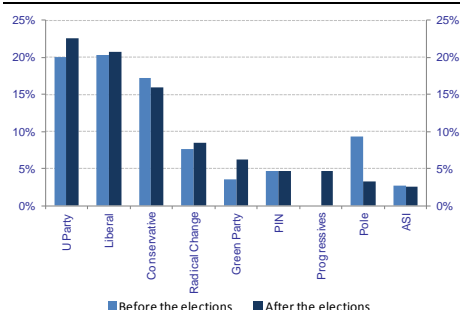
The Conservative Party was the only coalition party that lost ground in the regions, in elections where they did not enjoy the president's unconditional support as occurred with the Uribe Government. The PDA —single opposition party— lost influence in Bogotá and in the Nariño Department, where the candidates chosen were left-wing representatives who, despite being ideologically close to the PDA, do not belong to the opposition party.

Bogotá saw the election of Gustavo Petro, a former PDA senator and presidential candidate with a long political career, but with limited public management experience, who with his new movement seeks to strengthen opposition to the Santos Government with a left-wing ideology that is more moderate than that of some of the PDA's factions. The election of Mayor Petro can be explained by a thirst for change following the failure of the previous administration, from which he managed to distance himself completely, and which became involved in scandals of corruption and poor handling of public administration matters. Petro's closeness to some of the current members of the PDA may result in a rapprochement between PDA members and the new force (Progressives), in an attempt to guarantee good management in Bogotá which would help him stand for president in the future.

Opposition weakened and divided after the elections

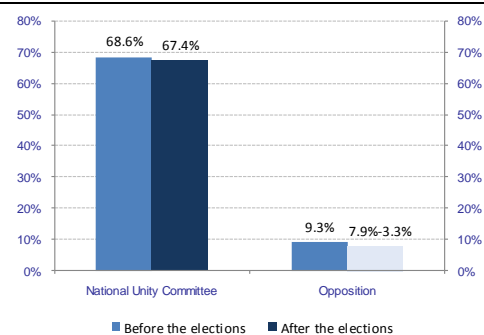
Taking into account the representation of the political parties in Congress, Governorships and Mayoralties of capital cities, it is possible to determine the change in the political leadership following the local elections. A party should lose more influence if it loses the mayoralty of a large city like Bogotá, compared to losing a governorship of a small department such as Vichada. Thus, a political influence index is calculated which estimates the degree of influence of a political party taking into account its representation in Congress, Governorships and Mayoralties of capital cities, weighting the degree of relative importance of each post according to the number of inhabitants under their influence. In the case of Congress, it is weighted by the proportion of seats held by the party. The index is standardized by taking a maximum value of one if the party has total control over all the posts being considered, and zero when it has no control.

Chart 3
Political influence index for the main parties before and after the elections: 100% maximum and 0% minimum



Source: National Registry and BBVA Research

Chart 4
Political influence index for the government coalition and the opposition before and after the elections: 100% maximum and 0% minimum



Source: National Registry and BBVA Research

The results are presented in Charts 3 and 4, which show the index value before and after the local elections. The U Party increases its political influence by 2.5%, driven mostly by its victories in coalition. The Green Party increases its political influence by 2.6%, in spite of its defeat in Bogotá, but with victories in representative mayoralties and governorships like Antioquia, consolidating its position as the fifth political force. The only party of the National Unity Committee that loses influence is the Conservative Party, which nevertheless maintains its third position in the political scene. The case of the PDA is worth mentioning: after losing the Bogotá mayoralty and the Nariño governorship, it maintains its influence only with its 13 members of Congress.

An analysis of the parties that make up the Government coalition (Chart 4) shows that their influence is reduced marginally. This can be explained by the fact that, although individually most parties of the National Unity Committee increase their influence, in the aggregate they marginally lose ground because many of their victories were achieved in coalition in areas where one of the Unity Committee parties was already ahead. This is the case of the Cundinamarca department, whose new Governor was elected with the backing of a coalition made up of four National Unity Committee parties, and which before the elections was already governed by the Liberal Party, which is also part of the Government coalition.

The loss of leadership of the opposition is obvious, but could potentially be mitigated. Although the PDA loses ground as a party, in the event of reunification with Mayor Petro's Movement, the opposition, in the aggregate, would lose ground only marginally (from 9.3% to 7.9%). Should reunification not materialize, the opposition would reduce its influence to 3.3% of the political power corresponding to the PDA's leadership in Congress. Unification between the two left-wing factions might not be completed with all of their members, in which case the opposition's influence would be between 7.9% and 3.3%, but with the potential of having a leader in Bogotá with national recognition who is already a new leader of the left.

LEGAL NOTICE

This document, and all data, opinions, estimates, forecasts or recommendations contained herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter, "BBVA"), with the purpose of providing its customers with general information as at the date of issue of the report, and are subject to change without notice. BBVA does not undertake to communicate the changes, or to update the content of this document.

Neither this document, nor its content, constitute an offer, invitation or request to buy or subscribe to shares, or other securities, or to make or cancel investments, neither can it serve as the basis of any contract, commitment or decision whatsoever.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may be inappropriate for their specific investment objectives, financial position or risk profile, as they have not been taken into account when preparing this report. Thus they should adopt their own investment decisions, taking into account these circumstances and obtaining any specific and specialized advice that may be necessary. The content of this document is based on information available to the public, obtained from sources deemed to be reliable, but the information has not been independently verified by BBVA, and therefore no guarantee (either explicit or implicit) is provided for its exactitude, integrity or correctness. BBVA does not assume any responsibility for any direct or indirect loss that may result from the use of this document or its contents. Investors should remember that the past performance of securities or instruments, or the historical results of investments, do not guarantee future performance or results.

The price of securities and instruments or the results of investments may fluctuate against the interests of investors and even result in a loss of the initial investment. Transactions in futures, options and shares or high yield securities may involve high risks, and are not suitable for all investors. In fact, certain investments may lead to a loss greater than the initial outlay, in which case additional sums must be paid to cover the loss. Therefore, before making any transactions in these securities, investors must be aware of how they operate, and the rights, liabilities and risks involved, in addition to those inherent in the underlying values of the securities. There may not be a secondary market for these instruments.

BBVA or any other organization in the BBVA Group, as well as the respective directors or employees thereof, may hold a direct or indirect position in any of the securities or instruments referred to in this document, or in any other securities or instruments related to them; they may trade these securities or instruments themselves or through a third party, provide advice or other services to the issuer of these securities or instruments, companies related to them or to their shareholders, directors or employees, and may have stakes or carry out any transactions in these securities or instruments or investments related to them, either before or after the publication of this report, to the extent permitted by applicable law.

The employees of the sales department or any other departments of BBVA or other organizations in the BBVA Group may provide customers with comments on the market, either verbally or in writing, or investment strategies, which reflect opinions contrary to those expressed in this document; at the same time, BBVA or any other organization in the BBVA Group may adopt investment decisions on their own account that are inconsistent with the recommendations contained in this document. No part of this document may be (i) copied, photocopied or duplicated in any way, form or method, (ii) redistributed or (iii) cited, without prior permission in writing from BBVA. No part of this report can be reproduced, taken away or transmitted to those countries (or persons or entities from such) where distribution may be prohibited by current law. Breach of these restrictions may constitute a violation of the legislation in the relevant jurisdiction.

This document will only be distributed in the United Kingdom to (i) people with professional experience in matters related to the investments provided for in article 19(5) of the 2000 Financial Services and Markets (Financial Promotion) Law of the 2005 Order, (in its amended version, hereinafter the "order") or (ii) major asset institutions subject to the provisions of article 49(2)(a) to (d) of the order or (iii) people to whom an invitation or proposal to make an investment can legally be made (in accordance with the meaning of article 21 of the 2000 Financial Services and Markets) (hereinafter, all these people will be known as "involved people"). This document is addressed exclusively to involved people. People who are not involved should not base or take any action in accordance with it. The investments or investment activities referred to by this document are only available to involved people and will only be made with involved people.

No part of this report may be reproduced, taken or transmitted to the United States of America or to American persons or entities. Breach of these restrictions may constitute a violation of legislation of the United States of America.

The system of remuneration of the analyst(s) who are the author(s) of this report is based on a variety of criteria, among them earnings obtained in the economic year by BBVA and, indirectly, the results of the BBVA Group, including those generated by its investment banking activity, even though they do not receive compensation based on earnings from any specific investment banking transaction.

BBVA is not a member of FINRA and is not subject to the disclosure standards established for its members.

"BBVA is subject to the BBVA Group Stock Market Code of Conduct; this includes rules of conduct established for preventing and avoiding conflicts of interest with regard to recommendations, including barriers to information. The BBVA Group Stock Market Code of Conduct is available for consultation on HYPERLINK "<http://www.bbva.com>" www.bbva.com /Corporate Governance."

BBVA is a bank subject to the supervision of the Bank of Spain and the National Securities Market Commission (CNMV), and is registered in the Administrative Register of the Bank of Spain under number 0182.