

Aurora Colombia Report: Theater Without Peace or Pesos, February 4, 2025

The Tearsheet

- Petro's refusal to accept deportees on U.S. military planes escalated into a tariff threat from Trump, forcing Petro into a quick--albeit largely symbolic--reversal. The clash highlights Petro's habit of using foreign policy standoffs to deflect from domestic pressures.

Feb 26	Congress Sessions Begin
Mar 31	Colombia Rates
May 30	Deadline for public officials to resign to run for Presidency
June 20	Congress Sessions End
March 2026	Primary and Congress (Senators and Representatives) Elections
May 2026	Presidential Elections
June 2026	Presidential Runoff
- The Colombian peso (COP) maintained its stability throughout the Sunday diplomatic spat.
- Ongoing violence in Catatumbo—a classic narco-turf war pitting renegade FARC battalions against ELN groups operating from Venezuela—signals both the failure of Petro's "Total Peace" policy and his fast-fraying relationship with Nicolás Maduro, the ideologically akin dictator next door. With limited options for political upside, Petro's resulting state of emergency appears more focused on pushing rejected fiscal measures than on addressing security concerns or assisting the thousands of displaced Colombians.
- In the wake of Congress's latest rejection of Petro's "Ley de Financiamiento," the government has implemented COP 12 trillion in budget cuts, hamstringing key infrastructure projects, including Bogotá's Metro construction led by a Chinese consortium. A Constitutional Court review is still pending.
- Petro's fourth cabinet reshuffle saw the departure of Foreign Minister Murillo, underscoring persistent governance challenges and his broader strategy of offering short-lived ministerial posts to key congressional players in exchange for (equally ephemeral) political support.
- As noted in our previous [Aurora report](#), the Colombian Central Bank has assumed a more cautious stance, pausing rate cuts in the face of rising uncertainties.

1. A Manufactured Crisis

- The diplomatic spat ignited and resolved within hours on a Sunday, when President Petro announced via Twitter his refusal to allow US military planes carrying deported Colombians to land.
- Petro's timing is likely to have been strategically motivated—after quietly accepting 14,199 deportations during Biden's administration in 2024, Petro seized the moment to confront Trump as domestic attention mounted on his floundering "Total Peace" policy.
- The escalation was both immediate and predictable. Trump threatened 25% tariffs on Colombian exports, with the potential to double to 50%, exposing key economic vulnerabilities:
 - The US accounts for 25% of Colombia's exports.
 - Critical timing ahead of Valentine's Day flower shipments (\$40 million projected).
 - Key exports at risk: crude oil (40%), coffee (11%), and flowers (10.5%).
 - Markets braced for pressure on the Colombian peso (COP).

- The crisis deflated as quickly as it emerged and, by Sunday evening, mediation from outgoing Foreign Minister Murillo and former President Uribe had led to a resolution, with Colombia agreeing to accept the deportation flights and avoiding potential market turbulence and central bank intervention.
- While Petro ultimately backed down when faced with real economic risks, the rapid rise and fall of the crisis captures the episode's largely theatrical nature—a spot of Sunday kabuki that 1) reinforced Petro's anti-establishment image with his core 30% base and 2) shifted attention away from domestic setbacks, particularly the troubled "Total Peace" policy, toward broader ideological and geopolitical matters.
- By Monday local markets had stabilized, with the COP holding its value despite widespread fears of a major sell-off in response to the specter of sanctions, returning Petro to his habitual and comfortable perch of policy irrelevance.
- The incident is emblematic of Petro's broader governance struggles: persistent failures to push through major legislative reforms and difficulties delivering tangible outcomes for his core base, as consistently highlighted in these Aurora reports.

2. No Peace and No Pesos

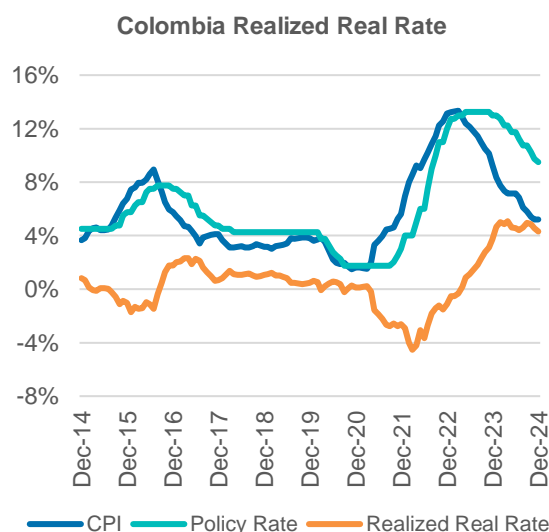
- Petro's Sunday theatrics, in orchestrating a predictably overwrought US confrontation, sought to divert attention from a major security crisis in the Catatumbo region.
- ELN guerrillas, operating from Venezuelan territory with Maduro's tacit approval, engaged in violent clashes with FARC dissidents, forcing over 5,000 Colombians to flee into Venezuela in the third week of January.
- With intelligence reports confirming the ELN's use of Venezuela as an operational base severely undermined Maduro's credibility as a peace mediator, effectively ending negotiations.
- The conflict serves as the final nail in the coffin for Petro's peace plans with the ELN. More significantly, it marks a definitive break with Maduro, who has recently [shifted decisively](#) toward nonconfrontation with Trump's administration by acquiescing to repatriation flights without conditions, promising assistance addressing criminal organizations like Tren de Aragua (TdA), and releasing American hostages, without demanding any major concessions in return.
- The breakdown of peace talks severs a key connection for Maduro, who has found a more pragmatic path through direct engagement with Washington.
- This leaves Petro increasingly isolated—reminiscent of García Márquez's *Macondo*, progressively disconnected from regional realities while maintaining an illusion of relevance.
- The declaration of a state of emergency ("conmoción interior") on January 24 to address the Catatumbo crisis revealed Petro's dual strategy for managing the crises.



- Following Congress's rejection of his "Ley de Financiamiento," a tax reform seeking COP 12 trillion (later reduced to COP 9.8 trillion), as explained in this Aurora report, Petro leveraged the security crisis to introduce emergency measures mirroring his failed fiscal agenda:
 - New emergency taxes targeting COP 1.63 trillion through previously rejected measures
 - Online gambling tax (COP 519 billion)
 - 1% tax on oil and coal exports (COP 214 billion)
 - New stamp duty (COP 330 billion)
- Simultaneously, the government announced targeted budget cuts matching the "Ley de Financiamiento" original scope:
 - A COP 12 trillion reduction split between operating expenses (COP 7.9 trillion) and investment (COP 3.7 trillion)
 - Strategic cuts affecting opposition-led regions, including Bogotá's Metro (COP 770 billion)
 - Significant reductions to pension system (Colpensiones) despite already low execution rates
- The strategy, while politically expedient, will face substantial legal hurdles. The Constitutional Court's mandatory review within 20 days will evaluate both the legitimacy of emergency powers and the connection between the fiscal measures and the security crisis. Previous court rulings limiting emergency powers suggest a challenging path ahead.
- These maneuvers coincide with Petro's fourth cabinet reshuffle, highlighting the administration's ongoing governance challenges.
- While Murillo's departure—purportedly linked to his own presidential ambitions for 2026—allows Petro to tighten control over foreign policy through Laura Sarabia's appointment, the concurrent exits of the Transportation and Technology ministers reflect a broader attempt to offer positions to key congressional parties to secure governability.
- This latest reorganization, far from signaling strength, underscores the administration's persistent and often Sisyphean struggles to advance its agenda.

3. BanRep Pushes Pause

- While markets have weathered recent volatility, underlying risks and fiscal challenges have kept BanRep cautious, signaling that any future monetary easing will depend on a careful assessment of external and domestic pressures.
- As noted in our [previous Aurora report](#), BanRep's growing caution materialized into a full pause, maintaining the benchmark rate at 9.50% in a split decision—halting a year-long easing cycle that began in December 2023.
- Five members voted to hold rates steady and two favored further cuts—one supporting a 25bp reduction and the other pushing for 50bp—a shift from December's more dovish stance and.
- Key factors behind BanRep's caution include persistent inflation at 5.2%, well above the 3% target; a surge in producer price inflation from 1.6% to 5.8% over three months; rising inflation expectations across time horizons; and a 9.5% minimum wage hike for 2025, exceeding observed inflation by 6 percentage points. Fiscal uncertainty following the rejection of Petro's "Ley de Financiamiento" and peso volatility amid U.S. policy uncertainty have also contributed to BanRep's cautious stance.
- Petro's appointment of Laura Moisés and César Giraldo to BanRep's board represents the President's latest move in his ongoing attempt to influence monetary policy. Moisés, known for her work in labor and development economics, shares many of Petro's policy priorities, while Giraldo, whose heterodox perspectives broadly align with those of former Finance Minister Ocampo, may advocate for faster rate cuts.
- Furthermore, decisions related to currency issuance still require unanimous approval, providing an added layer of stability.
- So while Petro's latest appointments give him a nominal majority of four on the seven-member BanRep board, Olga Lucía Acosta—one of his previous appointees—has consistently demonstrated independence and a preference for orthodox policies, likely limiting any significant impact on rates.
- More broadly, BanRep board members typically prioritize institutional independence over political alignment. External factors, particularly the increasing politicization of the U.S. Federal Reserve, are expected to exert a greater influence on BanRep's policy. For now, we expect the central bank's commitment to price stability to remain intact.



4. The Power Play: From Energy Crisis to Social Mobilization

- Escalating his interventionist tactics, President Petro joined Barranquilla's January 30 protests against "illegal" energy charges.
- Mobilizing alongside "Colombia Humana" militants, union leaders, and members of his political party, Petro's involvement underscores a general sense that the risk of state intervention targeting private utilities continues to grow.
- The protests unfolded amid mounting pressures: distributor debts totaling COP 4 trillion in unpaid subsidies, with the Caribbean distributor alone owed COP 2.4 trillion, at a time when El Niño droughts have badly strained hydroelectric generation—currently operating at 74.2% capacity.
- Petro's decision to personally lead street protests signals a broader governance pattern seen in his healthcare reform efforts.
- Facing significant resistance from Colombia's legislature and the powerful Constitutional Court, Petro's administration often bypasses traditional channels, relying on direct action, strategic communication, and social mobilization to maintain support from his core base through over-the-top rhetoric and promises of populist reforms to come.
- Colombian law prohibits immediate presidential reelection, and while Petro's hard ~30% base of core supporters would be too small to secure him another term, it is sufficient to keep him politically relevant and influential, particularly in shaping the future of the national left once he leaves office.
- This strategy carries significant risks. Regulatory uncertainty is deterring private investment, and projections warn of a firm energy deficit by 2026-2027. Distributors face escalating financial strain, and legal challenges to interventionist measures are increasingly likely.
- The administration's approach mirrors its [healthcare sector strategy](#): build public pressure through demonstrations before advancing state control. But this tactic risks further alienating private investors at a time when Colombia's energy security depends on substantial capital investment.

5. Petro-Politics Are Never Local

- Petro has [long sought](#) to position himself as a key player on the regional and global geopolitical stage, an ambition driven by both his personality and the relative autonomy of Colombia's executive branch in shaping foreign policy, especially as his domestic initiatives are routinely blocked by Congress and the courts.
- Nonetheless, clear signs indicate that his regional relevance—never particularly strong—has significantly eroded in recent months:
 - The cancellation of the emergency CELAC meeting—initially championed by Petro and supported by Honduras' President Castro but later abandoned—highlights the region's inability to form a united front.
 - Brazil's measured approach to deportations, condemning "degrading treatment" while still maintaining protocols, reflects varying regional capacities to balance domestic and international pressures.
 - Having positioned himself as an obvious intermediary for some future U.S.-Venezuela rapprochement, he now finds that a hostile Trump administration deals directly with

Caracas on hostages, migration, and criminal organizations like Tren de Aragua—undermining his utility in the longstanding U.S.-Colombia strategic partnership and leaving him further marginalized.

- The deportation crisis initially fueled speculation about Colombia potentially pivoting toward China as a counterbalance. However, Petro's tendency to prioritize his 30% domestic support base over international relations complicates this narrative, as seen in the recent budget cuts affecting Chinese-led projects like Bogotá's Metro.
- Colombia's swift climbdown during the tariff dispute, driven by economic realities, also reveals the limits of this strategy. Moreover, Colombia-China relations predate Petro and follow institutional rather than ideological patterns, further casting doubt on any dramatic pivot.
- As highlighted in [our January report](#), Petro will likely align with Trump's priority areas, including migration control, border security, and counter-narcotics operations. Meanwhile, Colombia's long-term diversification strategy continues independently.
- China, the country's second-largest trading partner, is expected to potentially become the largest by 2026-2027. Belt and Road Initiative membership is being structured to avoid sensitive areas that could provoke U.S. financial sanctions, while Chinese companies maintain leadership in key infrastructure projects like Bogotá's Metro.
- Much like the fictional Macondo's gradual decline into irrelevance, Petro's administration risks similar isolation due to its combination of ideological rigidity and practical ineffectiveness.
- Petro's repeated subordination of international relations to maintaining his domestic support base increasingly mirrors the self-imposed isolation of Macondo—a political leader convinced of his historical importance, yet increasingly relegated to the role of a vocal observer as regional dynamics shift decisively away from his direction.



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