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ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of Aug 29 – Sep 2, 2016

Softening Reality

More than a month late, the Central Bank of Ecuador presented national accounts data this week as well as an estimate for a 1.7% fall in gross domestic product for this year. While coming in well short of the grim predictions of the International Monetary Fund and the World Bank, each of whom say GDP will fall at least 4%, the decline will be the biggest since the crisis year of 1999. Still, the BCE says there is a silver lining, and that the economy is starting to recover, repeating a message launched by president Rafael Correa, the bank's de-facto boss, several weeks ago.

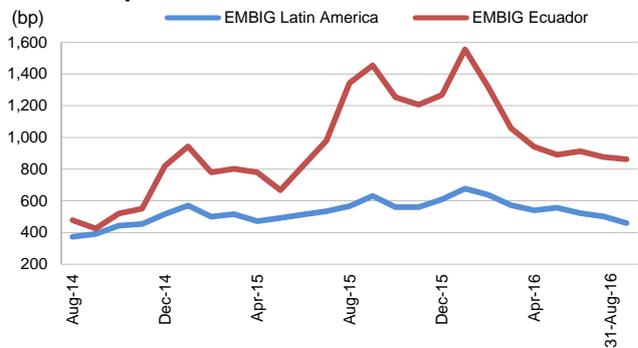
In real terms the economy grew 0.2% last year, according to the data, also the worst performance under Correa. In 2009, amid the global Great Recession, the economy had eked out a 0.9% rise that it celebrated at the time. In nominal terms, it however shrank 2.1% on the year to \$100.18b from \$102.3b, information obtainable only by delving into separate charts posted on the BCE web site. Overall, data reporting has deteriorated while the government has refused to use the word "crisis" or even "recession." In parallel with failing to comply with its own publications calendar, the government pushed the International Monetary Fund to keep the results of the Article IV annual macroeconomic and fiscal review confidential. In the case of the national accounts, it explained the delay with complications caused by the need to calculate the impact of the damages and reconstruction costs from the April 16 earthquake and aftershocks. Why this should delay

Ecuador's Global Bond Prices

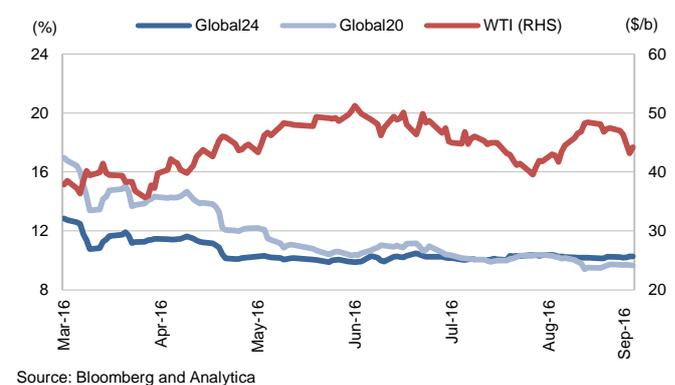
Bond	Last Price									
	02/09/2016	Aug-16	Jul-16	Jun-16	May-16	Apr-16	Mar-16	Feb-16	Jan-16	
Global 2020	102.45	102.30	100.49	99.38	100.28	95.21	90.54	79.08	74.92	
Global 2022	102.76	102.89	100.03	N/A	N/A	N/A	N/A	N/A	N/A	
Global 2024	87.77	88.05	87.49	87.64	89.44	88.04	82.88	72.81	69.63	

Source: Bloomberg and Analytica

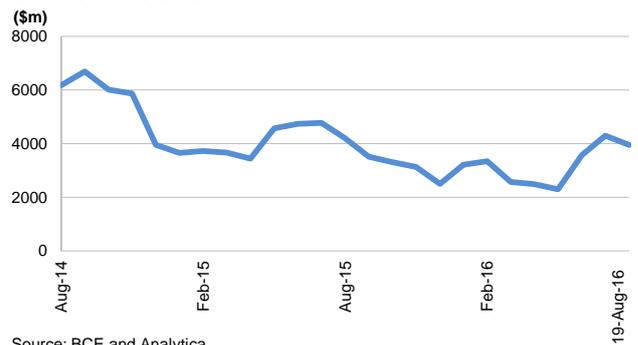
EMBIG Spread



Bond Yields vs. WTI in 2016



International Reserves



publication of last year's data is anyone's guess.

For this year, the earthquake of course is relevant. According to the BCE, it created "enormous impact and losses," however only compounding the impact of falling prices for oil, the impact of the stronger dollar (linked only to neighboring currencies by the BCE, disregarding the greenback's global resurgence), as well as the effect on government finances caused by losing arbitration suits (mainly Occidental Petroleum, for which the administration must assume responsibility too). Looking into the detailed chart, the BCE estimates that the leading category, "others" (miscellanea), will wildly outperform others by posting 14% annual growth in 2016, helping to explain the much more optimistic BCE interpretation of the data than that of the IMF and World Bank months ago. To keep the Article IV data out of the public eye of course should be linked to the impending electoral season. The only reason for the government to withhold the Article IV data can be that that they must be poor, although Martínez argued that the gap between the BCE estimate and that of the Washington multilateral lenders stems from the "fresh data" available to Ecuador's central bank. Investors should flag the lack of transparency that adds to the uncertainty of the direction of economic policy in the medium term. In his presentation to the media, BCE chief executive Diego Martínez said that rising deposits and increased bank lending point to a recovery, but these have yet to become visible across the board, and this information was missing from the BCE's online documentation.

After the last spell of weakness in 2009, the economy rebounded sharply reaching a 2011 peak of 7.9% growth thanks to the quick recovery of the price of oil and large lending programs through public banks. For the present, such a scenario is not realistic, even if a lag in producing more oil worldwide in the event of rising demand were to materialize and help prices return to high levels. The government is struggling to plug fiscal holes and avoid an even

worse contraction. Correa has failed in his pledge to make Ecuador less reliant on oil prices. If there is a silver lining in the data, it's that private-sector investment, measured as its share of gross capital formation, for the first time in three years outweighed that of the public sector. This is a meaningful step in the creation again of an economy with balanced, sustainable growth. But in the meantime, there will be pain: Capital formation was the worst-performing category according to the BCE, registering a 1.6% decline last year. With both government and private-sector funding limited, investment won't recover in the near future.

Goodbye Lenin

Things have gone badly for Lenín Moreno this summer. Starting off as a wildly popular potential presidential candidate for the ruling political movement, Alianza País (sic), he has lost ground in opinion polls. Already in July, Cedatos, Ecuador's most respected pollster, put support for him in a mock election at just 35%, nine points below the previous reading and, importantly, at a statistically relevant distance from being able to win in the first round of the elections (40% plus a 10-point difference over the runner-up) next February. While Guillermo Lasso, the conservative next in line in popularity, faces a steep incline at just 22%, the outlook for Moreno has dimmed from when he was Ecuador's darling and went off to Geneva in 2013.

In fact, his position in Geneva has subsequently rocked his as yet still unofficial candidacy. Unlike the case of Michele Bachelet, whose stint as a representative for women's equality at the United Nations gave her a comfortable position from which to stay out of the day-to-day of Chilean politics to return and win the presidential election, Moreno's officially similar role for the handicapped at the UN in Geneva has ended up weakening his candidacy, thanks to information published by investigative news site Milhojas.is over the last month. It discovered that

Moreno, who earns a token \$1 per year from the UN, actually has a huge salary paid by the ecuadorean government. Milhojas published a letter in which Moreno asked for a \$1.6m annual “budget” for his operations, and the finance ministry approved it. The Iceland-registered site also confirmed that at least \$1.07m of that amount was indeed paid out from January 2015. Foreign minister Guillaume Long previously confirmed that Ecuador’s taxpayers indeed pay for Moreno’s prestigious position in Switzerland. Additionally, his daughter Irina, who has degrees in journalism and interior decoration, earns around \$6,700 tax-free a month as a consultant at Ecuador’s Geneva mission.

In his defense, Moreno gave a video tour of his abode, attempting to prove via YouTube that his 200-square meter abode just a few meters from Lake Geneva has nothing to do with luxury. He even attempted to present himself as a victim, showing off the modified toilet he needs to use given his handicap (an outrageous mugging years ago left him in a wheelchair). He however didn’t dispute the information reported by Milhojas. The obvious political undertones of his tour of the earthquake-hit areas last May already looked suspiciously like a government-sponsored electoral tour well ahead of the legal campaign. President Correa had to defend him by claiming that Moreno had “mobilized” several million dollars of relief, an absurdity given the likely government sources for that money. At a time of economic hardship for many and with the added suffering of thousands of earthquake victims, Moreno’s opulence is galling. It also reinforces the impression of corruption that has undermined the Correa government’s popularity. With further scrutiny of Moreno likely, we may have a competitive election next February.

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