



Ramiro Crespo
 Chairman of the Editorial Board
 WEEKLYREPORT@ANALYTICAINVESTMENTS.COM

ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of Oct 30 – Nov 1, 2017

Forward to the 19th Century

Among the seven questions president Lenín Moreno wants to put to voters, only the question reinstating term limits raises greater political expectations than the dramatic changes he wants for the entity called "Citizens' Participation and Social Control Council" (CPCCS). Tasked with selecting top judicial and regulatory officials, it has become engulfed in scandal thanks to its poor track record. Carlos Pólit, confirmed by the CPCCS in March for a third term as comptroller general with a perfect score, fled the country less than three months later as the scandal surrounding bribes paid by Brazilian construction firm Odebrecht engulfed him. Also charged with fighting corruption, the Venezuela-inspired "citizen power" in its seven-year history has failed to detect what appears to have been the most corrupt administration to ever have governed Ecuador. But while changing the CPCCS – in fact, scrapping it – was a campaign issue, Moreno's reform proposals are deeply flawed.

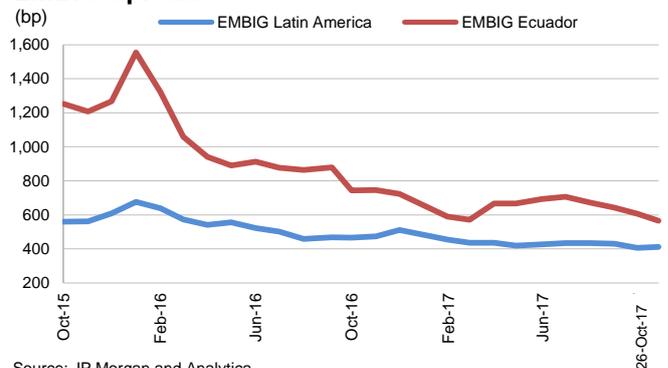
Control of the courts was a target of some politicians since the restoration of democracy in 1978, with two particularly notable scandals: León Febres Cordero in 1984 sent tanks to try to stop a top judge from taking office; 20 years later, a congressional majority replaced the supreme court with a friendly new one, triggering the downfall of president Lucio Gutiérrez (his party and that of Abdalá Bucaram, deposed 1997, voted for the change). In 2007-2008, the constitutional assembly called by Rafael Correa (2007-2017) promised to "depoliticize" the system by

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	1-Nov	Oct	Sep	Aug	Jul	Jun
Global 2020	108.93	109.10	108.03	107.39	106.12	105.83
Global 2022	113.80	113.13	111.77	110.05	108.20	106.83
Global 2023	105.73	104.90	103.39	102.34	100.12	98.55
Global 2024	101.56	100.89	99.14	98.22	95.60	93.52
Global 2026	109.13	108.04	105.60	105.25	102.56	100.71
Global Jun 2027	102.84	102.00	105.04	105.01	102.60	100.30
Global Oct 2027	108.17	107.18	-	-	-	-

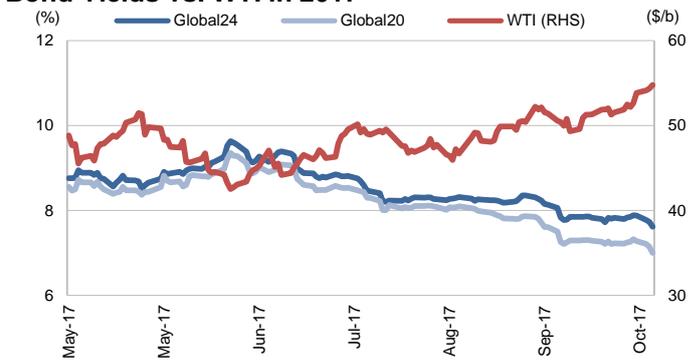
Source: Bloomberg and Analytica

EMBIG Spread



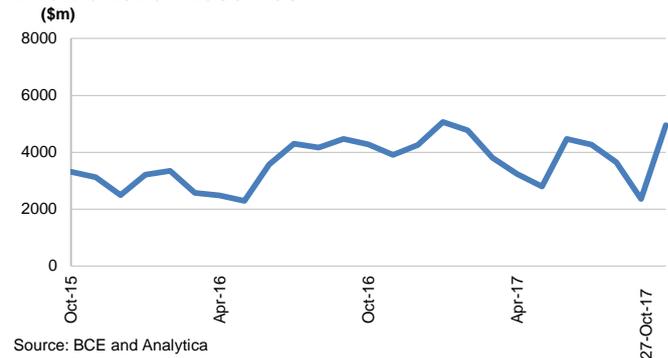
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

setting up the CPCCS as a supposedly independent panel of citizens to choose judicial, electoral and other authorities. In a key gesture to Correa's leftwing constituency, people with track records in social organizations (one of which turned out to be the Alfaro Vive Carajo (AVC) urban guerilla movement of the 1980s) were to play a leading role. Among them, its vice president Edwin Jarrín is an AVC sympathizer and brother of its leader Arturo Jarrín, as well as brother-in-law of Mireya Cárdenas, an AVC leader who held high office under Correa. The CPCCS is run by Raquel González, a former sports teacher and activist at Alianza Pais (sic), Correa's political vehicle. Correa finished erasing the division of powers and checks and balances in 2011 by taking control of the judiciary and installing a review panel that has become notable for the firing of judges thanks to "inexcusable errors." The president's authoritarian rule and the replacement of checks and balances by *correísta* corporations threw back power into a neo-absolutist system of the kind that Montesquieu would have disapproved of.

As warned by political scientists at the time, far from improving the previous situation, the CPCCS exacerbated its problems. Candidates like former prosecutor general Galo Chiriboga and the above-named Pólit, and a succession of electoral officials passed the CPCCS's school-like tests and interviews with flying colors, but posterity will record them as symbols of corruption and incompetence (the electoral officials and CPCCS boards pick each other). Moreno now promises to have the CPCCS elected, which could improve its legitimacy dramatically. Rather than create a mini-senate to confirm top officials, Moreno's multi-faceted question however retains one of its most salient problems: It bans people who have been members of a political party during the five years preceding an election from running for it (the next permanent body is to be elected in 2019, together with the next local and provincial elections). Once again, people who have

had an active role in social organizations are to be favored as candidates. Many details regarding their election are missing, but the main problem lies in the discrimination against people active in political organizations, a basic right. While unintended, this would of course favor people with enough money to fund a campaign to run for the office as independents, taking the CPCCS from the authoritarian level perhaps to one comparable with notables of the 19th century.

In the interim however, the president wants voters to fire the present directors of the CPCCS (an acceptable proposition), but also a blank check to appoint a temporary board, just as Correa did with the judiciary in 2011. Opposition leaders including Guillermo Lasso (CREO) and Jaime Nebot (PSC) have jumped to say they'd vote yes, as have trade unions, in the hope that the move will provoke a removal within months of individuals like prosecutor general Carlos Baca, accused of dragging his feet in the investigation of vice president Jorge Glas. More wisely, Jaime Vargas, the new president of umbrella indigenous organization CONAIE, has said he needs more evidence of Moreno's willingness for "de-correization" of the administration to move forward before throwing the organization's weight behind the referendum. Santiago Guarderas, a conservative opposition legislator, has said that Moreno should present a list of the people he aims to appoint to the CPCCS. Indeed, considering that Moreno chose María Alejandra Vicuña, a woman who as an AP legislator leaked an illegally obtained recording of Martha Roldós, a leading opposition activist and the head of investigative news site *Milhojas*, it's the least he should do. The opposition should demand transparency regarding the future CPCCS leadership before signing that check.

Whether things will turn out the way Moreno intended when he began to move forward on the referendum remains to be seen however. AP's official split into *correístas* and *morenistas* became evident

late October 31, when a group of AP leaders said they had removed Moreno as president of AP. Moreno refuses to accept the decision and he will likely hold on to a considerable majority of the 74-member AP bloc. The crisis within AP has however already led opposition legislators to demand a reorganization of congress. Moreno could eventually have a supermajority that could make more substantial reforms possible, if a consensus for the restoration of democracy can be reached.

To Your Health!

During the presidential campaign, Juan Carlos Solines, a conservative lawyer close to CREO, said that, as a candidate, Moreno, confined to a wheelchair after he was shot during a mugging in 1997, should prove he was healthy enough to assume the job of head of state. For that, then-president Correa blasted Solines for “discrimination.” Ecuador’s constitution, some lawyers pointed out, guaranteed the privacy of medical records, while a bill of clean physical health isn’t among the constitutional requirements to become president here. Moreno said he was perfectly fine, while Correa called Solines “a miserable being” for asking a question presidents in other countries do have to answer. A year later, Correa told *Russia Today*, a broadcaster politically close to the Moscow Kremlin, that Moreno “has a very fragile health.”

Correa’s comments referred to the trial of vice president Glas, describing it as a politically motivated persecution. Were Moreno to be replaced by the jailed vice president, “the party would be over” for his successor’s entourage, Correa said. Thus, Glas needs to be removed to end the risk of a loyal correísta returning to power. In an interview with *El Comercio*, Miguel Carvajal, Moreno’s “secretary of politics” and another holdover public official from the Correa decade, responded that the president, “amid of the physical limitations that we all know of, is in a very good condition, there is no need to worry.”

Indeed, it’s hard to believe that Moreno, who likes to quip that his lone goal in life is to be ex-president, would have appointed Vicuña acting vice president if he had serious near-term health concerns. Instead, he picked the ethically questionable woman to ensure his control of AP in Guayas, Ecuador’s most populous province, which she effectively managed. Carvajal said that one could ask whether, if Correa thought Moreno’s health to be questionable, “it was key to have Jorge Glas as vice president?” Regarding the choice of Vicuña, Carvajal said in her favor that she has progressive political convictions and hails from Guayaquil. Speaking of convictions, of Correa, whom Moreno has called “the beast” and head of a “mafia” that pillaged the country, Carvajal said that “having some differences with some leaders like former president Correa does not mean that we will not defend him; I will continue defending President Correa as many times as necessary.”

The debate over Moreno’s health also casts a light on the farcical attempts by Glas and hardline correístas like legislator Marcela Aguiñaga to defend his attempt to have vacation time applied to his current predicament as an inmate of Quito’s jail no. 4, awaiting trial for his role in the Odebrecht corruption scheme. Glas, jailed since October 3, insists that he has the right to pick his own vacation thanks to the vice presidency’s “autonomy;” Vicuña says the opposite. If he is “incapacitated,” as Moreno and Vicuña say he is thanks to his jail time, for more than three months, he will lose his office, regardless of whether the legislature ends up impeaching him.

The editorial board of Analytica Investment's Ecuador Weekly Report publishes information obtained from expert sources, public information and media reports, and documents. Anonymity of interviewed sources is protected.