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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Nov 27 – Dic 1, 2017

Body Check

President Lenín Moreno (Alianza Pais [sic]) this week stunned his opponents by ordering the National Electoral Council (CNE) to go ahead with a planned referendum without a seal of approval from the Constitutional Court (CC). Tasked with reviewing the questions, which stand to bury the political legacy of Moreno's predecessor, Rafael Correa (also AP), it ignored a 20-day deadline. After waiting close to two months, he said that the people have the right to their say, meaning that the CC also won't get to edit the question. Shocked, Correa, in the country for a promised brief visit home from Brussels (his wife is Belgian and they moved there in July), decried the move as a "coup."

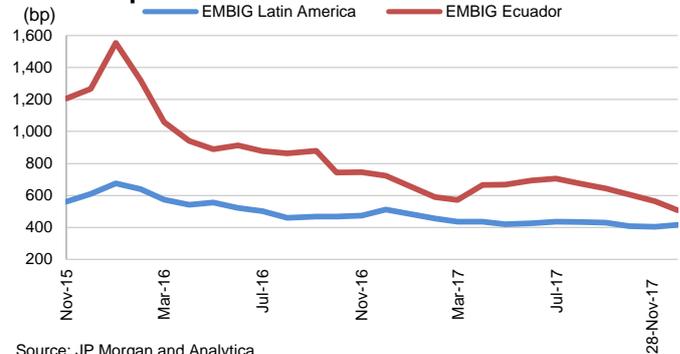
Moreno argued that article 105 of the "jurisdictional guarantees and constitutional control" law says that "It will be understood that it has issued a favorable opinion" if it failed to issue a ruling within 20 days. For two weeks before striking, he had warned the CC not to delay its decision. Legal experts supported the decision. Constitutional lawyer Rafael Oyarte even tweeted that "the president ... fulfilled his obligation to send the decree to convene (the referendum) to the CNE." Correa (president 2007-2017) and his dwindling number of supporters said that they would challenge the move before the CC, arguing that the numerous amicus curiae filed by them extended the deadline. They had aimed to draw out the procedure, hoping that Moreno's sky-high but gradually slipping popularity would undermine the vote, among negative scenarios for the current president.

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	1-Dec	30-Nov	Oct	Sep	Aug	Jul
Global 2020	109.58	109.64	109.10	108.03	107.39	106.12
Global 2022	115.81	115.86	113.13	111.77	110.05	108.20
Global 2023	108.37	108.46	104.90	103.39	102.34	100.12
Global 2024	104.33	104.42	100.89	99.14	98.22	95.60
Global 2026	112.37	112.45	108.04	105.60	105.25	102.56
Global Jun 2027	111.60	111.66	107.57	105.04	105.01	102.60
Global Oct 2027	106.71	106.82	102.40	-	-	-

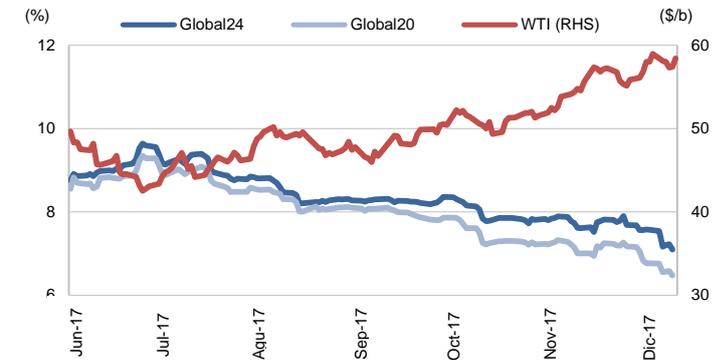
Source: Bloomberg and Analytica

EMBIG Spread



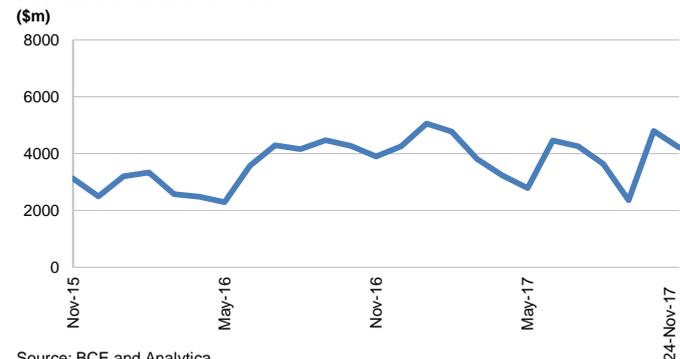
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Unfortunately, Correa himself used the same argument in 2011 to call a referendum when the CC was slow to review questions for a referendum in the coastal town of La Concordia, which despite its happy name was disputed by two provinces, Esmeraldas and Santo Domingo (residents voted to be included in the latter). Even if the CC, whose judges Correa hand-picked, now rules in his favor, the stage is not set for a repeat of the "conflict of powers" that irregularly convulsed the country since the return of democracy in 1979. It's not unthinkable that, confused as to where their loyalties should lie, the CC's judges preferred to drag their feet. Here, too, Moreno however struck a blow: citing the same article 105, he told comptroller general Pablo Celi to "impose administrative sanctions" on them for their irresponsibility. On his part, Celi on November 21 told Moreno he has to have Richard Espinosa fired as head of the social security institute for striking a \$2.51b debt owed by the government from its books while Correa was still president.

Additionally, Correa's trip has shown not just weakening support, but, even more so, plunging interest in the formerly popular leader. Crowds have been tiny. Rejection has been limited but clear; the Esmeraldas chamber of commerce canceled Correa's AP faction's bid to hold a party conference within its facility in the port town, during which he wants to formally expel Moreno from AP. Within hours after Moreno told the CNE to carry out the referendum, the CNE's controversial president, Juan Pablo Pozo, resigned. The CNE had already previously refused to certify the correístas' previous attempt to remove Moreno as the organization's president. While it appealed to the electoral court, that body, run by Lenín Patricio Baca, brother of prosecutor general Carlos Baca, postponed its decision past the close of this edition of the *Ecuador Weekly Report*, leaving the correísta AP faction without legal support.

Correa thus has very few allies to fall back upon.

The opposition has wholeheartedly endorsed the referendum, which at its core aims to reintroduce term limits and thus bar Correa from running for office again, as well as to allow Moreno to review top judicial and regulatory positions currently held by at least formerly ardent correístas. The media, as whose darling Correa surged to prominence in 2005, is at least downplaying his presence, hit by a decade during which he continually attacked and tried to censor it. *CNN en Español* talk show host Fernando del Rincón lambasted him in an interview this week. The International Monetary Fund, with which Correa froze ties for years until he was forced to seek commercial debt, issued a glowing press release after meeting Moreno's economic team this week. Having attacked even moderate critics relentlessly in public, Correa's hubris has left him alone except for his handful of cronies.

Teetering Domino

A week ago, Jorge Glas became Ecuador's first ever sitting vice president to face a criminal trial, making it the most important trial at least since 1979. As a close ally and the vice president under president Correa, the former leader appears to have timed his visit here to coincide with the proceedings. Given president Moreno's crippling blow to correísmo (see above), it now seems doubtful that he may be able to influence the trial significantly, even given the independently verified politization of the courts by Correa. While, among the nine people facing charges of criminal conspiracy in the trial, Glas and his uncle Ricardo Rivera continue to allege their innocence, the depth of the evidence is forcing the prosecutor general, Carlos Baca, to build a strong case against them even though he himself was at least until May an ardent correísta.

The case is linked to the bribery admitted by Brazilian construction firm Odebrecht, which told US, Brazilian, and Swiss officials that it paid Correa administration officials more than \$31.5m million to

obtain illicit benefits in Ecuador of more than \$115m. The charges could put Glas and the others behind bars for up to five years. Prosecutor Baca says that Rivera as Glas's intermediary got more than \$13m from the Brazilian company. The prosecution is also accusing former Comptroller General Carlos Pólit of receiving some \$10m for favorable audits, but Pólit was apparently warned of his impending arrest in May in time for him to flee to Miami. Not only were Odbrecht's plants and pipelines, among other infrastructure works, much more expensive than they should have been, they were also of very poor quality, according to reviews made public by the Moreno administration during its first six months in office.

While the case appears to be proof that the most blatant corruption may yet be punished, leading jurists still speak of impunity and worry that Glas and his associates could still get away with just a slap on the wrist, free to enjoy embezzled fortunes. According to these critics, despite evidence of more serious crimes, Baca chose to indict them on the comparatively small charge of criminal association. And it remains to be seen whether Ecuador's congress, where the divided AP bloc continues to vote together to protect its own, will ever get around to impeaching Glas.

The Other Message

Whatever the rumors may say about his potential replacement, finance minister Carlos de la Torre appears to have emerged stronger from the debacle surrounding the fast-track economic package sent to the legislature than before. Those seen as most responsible for it, above all former finance minister Patricio Rivera, have had to exit the administration. Moreno also looks stronger: oddly, AP's *correístas* chose to vote with the president rather than topple a plethora of legal changes that the opposition and, above all, the business sector challenged as toxic for the economy, and the law passed with some changes that Moreno now has a chance to rewrite via his line-

item veto. That probably will do little to improve the situation for many domestic companies, but for bondholders outside the country, De la Torre has another message, although in some respects eerily reminiscent of Venezuela (and the hit *Game of Thrones* series): Ecuador always pays its debts.

In several public forums and newspaper interviews, De la Torre has stepped away from demands that could be interpreted as even remotely implying anything but fulfillment to the letter of the bonds issued by the country since its return to the financial markets in 2014. Earlier, Moreno had spoken of renegotiation to imply improvement of terms. This is to some extent going ahead with the oil industry as the oil ministry, via Petroecuador, is trying to get agreement from Chinese oil companies and Thailand's PTT for a change in the terms of fulfillment of the onerous oil deliveries to repay billions in loans in eight contracts signed since 2010. The oil exporters' recent success in getting crude prices to rise is increasing the local state oil sector's chances of obtaining alternative funding to deal with those loans, as well as supporting Ecuadorean debt in the market. Somewhat artificially, De la Torre is insisting that the Chinese-Thai situation is solely a corporate affair. Regarding bonds, he has pledged that, through gradual improvement in finances, country risk will inch lower, allowing Ecuador to improve terms of future issuance, but under no circumstances does he want to rock the boat. This is the message he had after *Bloomberg* recently quoted analysts saying that Ecuador is the shakiest candidate after Venezuela. He repeated this correctly when he said that Ecuador has no need to approach the IMF for funds and that to do so would imply that the country is unable to remain current with creditors. This message is positive, albeit unnecessarily heavily relying on more tax-and-spend policies hurtful to growth prospects.

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