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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Dic 11 – Dic 15, 2017**

**Splintered Glas**

The broken glass analogies have spread far and wide tracking the fall of vice president Jorge Glas (his last name uses the German spelling as his family on the father’s side originally immigrated from there) over the past six months as he plunged from lord of the oil, electricity, and telecommunications industries to the most prominent resident of Quito’s jail no. 4. Publications like *The Economist* and *Vistazo* as well as our *Ecuador Weekly Report* have likened the downfall of a key ally of Rafael Correa, president for a record near 10.5 consecutive years, to the cracking of the façade of the formerly all-powerful correísmo. We have reason to do so again: In a historic ruling, Ecuador’s top court, the National Court, this week sentenced him to the maximum 6 years in prison for “illicit association.” While Glas’s lawyer has said that he will appeal, the panel’s three judges upped the ante, telling the prosecution to investigate additional crimes. Yes, he’s already doing that, answered prosecutor general Carlos Baca, also a longtime correísta.

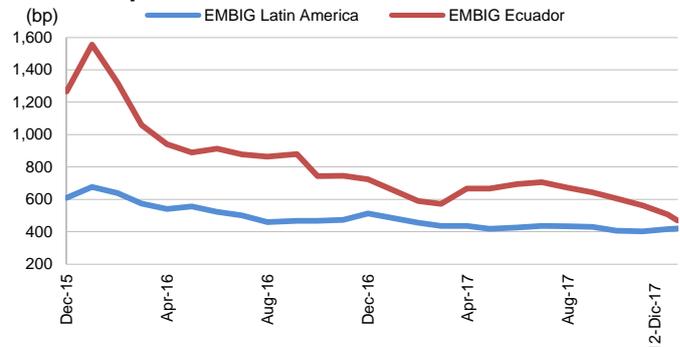
The ruling, read out by judge Edgar Flores, gave the court and Ecuador’s judiciary in general a desperately needed credibility boost, ranked number 97 out of 137 regarding independence by the World Economic Forum. Leading independent jurists had criticized Baca in the run-up to the trial for failing to charge Glas and the other eight, including his uncle, Ricardo Rivera, now also convicted to six years for his role as the collector of bribes, for the lightest available crime. It appeared that they could perhaps

**Ecuador's Global Bond Prices**

Bond	Last Price (end of the month)					
	15-Dec	30-Nov	Oct	Sep	Aug	Jul
Global 2020	110.72	109.64	109.10	108.03	107.39	106.12
Global 2022	117.83	115.86	113.13	111.77	110.05	108.20
Global 2023	110.77	108.46	104.90	103.39	102.34	100.12
Global 2024	106.54	104.42	100.89	99.14	98.22	95.60
Global 2026	115.25	112.45	108.04	105.60	105.25	102.56
Global Jun 2027	114.54	111.66	107.57	105.04	105.01	102.60
Global Oct 2027	109.57	106.82	102.40	-	-	-

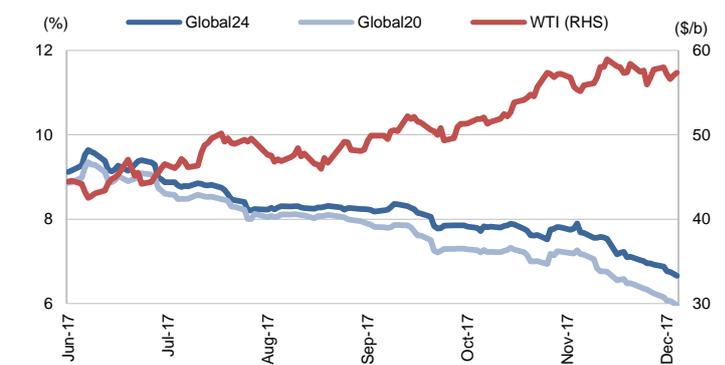
Source: Bloomberg and Analytica

**EMBIG Spread**



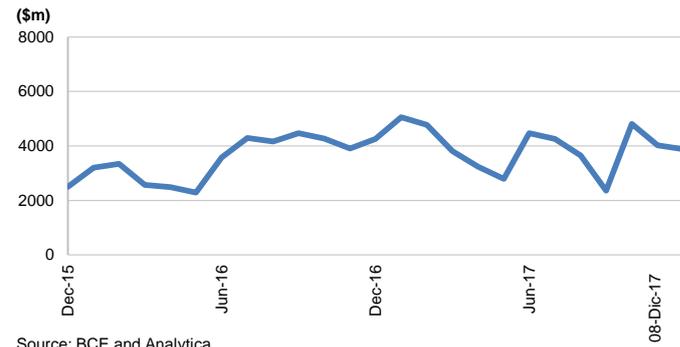
Source: JP Morgan and Analytica

**Bond Yields vs. WTI in 2017**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

get away with ill-gotten millions for little more than a slap on the wrist while a judiciary put into office under Correa hid the corruption acknowledged by Brazilian construction firm Odebrecht under a rug. Now, it's clear the investigations will go on, even if Glas were to win the appeal, as Flores mentioned embezzlement, bribery, and illicit enrichment – three crimes without a statute of limitation, meaning they can be charged until their life's end – as well as money laundering. They could face up to a total maximum of 40 years in jail. Three other individuals among the eight received the 6-year sentence, the others 14 months except for one acquittal.

Glas will also be stripped of the vice presidency in January regardless of a possible impeachment given his three-month consecutive absence as vice president, removing the threat of a Correa loyalist the proverbial heartbeat away from the presidency. Aside from Odebrecht, other cases will follow, including that of Caminosca, a technical auditor, and of Rivera and telecommunications entrepreneur Tomislav Topic for alleged money laundering. After the sentencing of Glas, Correa said "it's clear they're coming for me." Indeed, César Montúfar, a former legislator and political scientist who sued Glas as an individual and pushed the trial forward with his accusations, insists the ruling must lead to an indictment of Correa as the man ultimately responsible for Glas's activities.

### **Stranger Things**

After President Lenín Moreno announced he had partially vetoed the economic reform package that business leaders begged him to fully veto, few details were made public by the close of this edition. Finance minister Carlos de la Torre gave an interview to public television to somehow pave the way for Moreno's vague veto statement. Instead, he intensified doubts that the government has actually figured out how to properly install mobile payments.

From early on in his administration, Moreno has insisted in the use of the mobile payments scheme

naively named "electronic money" by the government of Rafael Correa, his predecessor - naively because it gave away that Correa and his self-declared 21<sup>st</sup>-century socialist aides wanted to introduce a parallel currency to the US dollar to inflate spending. Economists sounded the alarm, and the public wanted to have nothing of it. Under Moreno, the government reached a deal with the private sector for its management to pass from the Central Bank of Ecuador to commercial banks. Correísta legislators however nixed this. In some form, Moreno at the close of this edition appeared to have reverted this.

The system could work if the public becomes convinced that, rather than "electronic money" (the label has stuck), the system will simply be a mobile debit-based payments method. Without giving specifics, De la Torre again however implied the system would be shoved down an unwilling public's throat. "Electronic money now in the hands of the national financial sector is a necessity ... to strengthen dollarization for this mechanism to function" De la Torre said, implying that failing to implement it threatens the use of the dollar. He then went on to insist on the "co-responsibility" of banks in injecting liquidity into the economy, but not via loans. The private financial sector will have to "supply the necessary liquidity, bring the physical bills that are necessary in this case if the substitution targets for the use of physical money aren't met," he said. "One of the main risks dollarization has is the high usage of bills that Ecuadoreans have," he said. He later said that each dollar brought to Ecuador created a "social cost" beyond the cost of importing it from the US: "If every year an additional \$2bn is entering in the form of bills, we are talking about \$2b in social costs plus the \$12 million that these bills cost" – a completely incomprehensible statement given that it implies the country is losing money by using the dollar. Even if Ecuador had its own currency, it would have to import it given that few printers on the planet have the appropriate facilities to print money, as Venezuela's

woes providing enough bills amid its hyperinflation has sadly underscored.

Skepticism about economic policy and drug trafficking can indeed be local factors spurring demand for bills. According to November banking data, deposits in sight and savings accounts totaled \$18.3b; that leaves perhaps a bit over \$4.7b in cash, less than 5% of GDP, circulating in the economy, according to the cash and short-term "M1" data provided by economic data site CEIC through October. Compared with the government's consistently high fiscal deficit above 6% of GDP, this hardly constitutes a threat. Yet according to *El Comercio*, the government aims to have "electronic money" replace \$800m, around a fifth of cash, in the next 12 months. Otherwise, the supposed monetary authority must be "relieved of a tremendous weight" by banks, handing critics an argument to shutter a politically controlled central bank that doesn't even issue a currency. As Ecuadorians' erstwhile rejection of "electronic money" shows, statements like De la Torre's can make them run for more cash, rather than put their trust into alternatives.

### **Unsleeved**

President Moreno has seen a trickle of ministerial resignations in recent weeks, some of which haven't even been first announced by the presidency, like that of agriculture minister Vanessa Cordero, revealed by the prefect of the province of Los Ríos in October, or the removal of Patricio Rivera as economic advisor through an odd document only later to be confirmed by the presidential press office. In the past few days, two controversial officials quit, both under the appearance that evidence of financial irregularities had nothing to do with their exit: Richard Espinosa, the head of the Ecuadorean Social Security Institute, and social minister Iván Espinel. After a bombshell audio recording leaked in which he appeared to imply that Moreno hadn't actually won the elections and that the whole national reconciliation dialogue had been

only a political ruse, chief of staff Eduardo Mangas resigned, this time in an official announcement that however came a week after a statement in which the government appeared to confirm Mangas's position while clarifying that his comments failed to reflect Moreno's positions. The handling of top-level staffing is reminiscent of the frequent ministerial changes under Rafael Correa, during which ministers were with few exceptions shuffled from one chair to another. Under Moreno, these changes to some extent reflect a gradual exit of officials close to his predecessor and/or under suspicion of corruption. Thus, Moreno appears like he's not distancing himself forcefully from the sizeable correísta electoral base, letting individuals fall by their own weight. For sympathizers of democratic opposition parties, this hesitancy to act however undermines confidence in the administration, and Moreno's popularity has retreated from its record levels.

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