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ECUADOR WEEKLY REPORT®

KEY INDICATORS

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Tough to Swallow

María Elsa Viteri can bet on a distinction: Markets' short memories won't apply to her. Unfortunately, this is linked to her role as finance minister in Ecuador's foolish, damaging, politically motivated default on \$3.2b in 2008 that contributed significantly to the troublesome economic situation in which the country is after squandering the biggest oil boom in history. At least in initial statements, she has appeared relatively careful, although unsurprisingly failing to be apologetic regarding the historic error of the default.

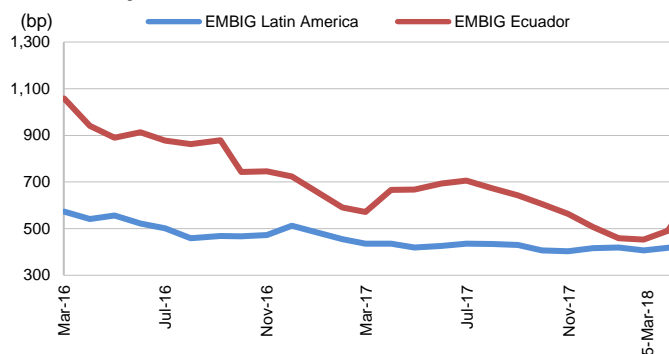
Viteri's arrival had been rumored for months, especially after she appeared on the presidential balcony in November together with one of president Lenín Moreno's main political allies, Gustavo Larrea. Like Larrea, she held a cabinet position early in the administration of Moreno's estranged predecessor, Rafael Correa. Unlike Larrea however, Viteri remained on very friendly terms with Correa after resigning in 2010 (she held other government positions for another year), and continued to attack a small bondholder holdout as a "speculator" on social networks, as well as critics of the Correa regime. The abrupt departure of her similarly heterodox predecessor, Carlos de la Torre, less than a week before Moreno had pledged to unveil another economic reform plan and before the end of a debt audit by the comptroller general, speaks more of internal government trouble than of a well-timed cabinet change.

Bond investors obviously remember that Viteri stepped up to run the default and buyback ordered by

Bond	Last Price (end of the month)						
	2018	2017					
	9-Mar	28-Feb	Jan	Dec	Nov	Oct	Sep
Global 2020	107.24	108.75	109.98	110.94	109.64	109.10	108.03
Global 2022	110.35	113.07	116.32	117.48	115.86	113.13	111.77
Global 2023	103.99	106.64	110.12	110.67	108.46	104.90	103.39
Global 2024	99.49	102.06	106.04	106.60	104.42	100.89	99.14
Global 2026	106.80	110.44	114.40	115.03	112.45	108.04	105.60
Global Jun 2027	106.55	110.35	113.76	114.73	111.66	107.57	105.04
Global Oct 2027	101.65	105.58	109.17	109.90	106.82	102.40	-
Global 2028	95.37	99.23	102.04	-	-	-	-

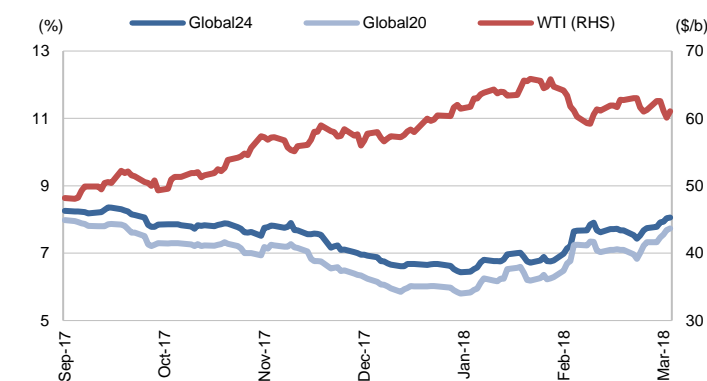
Source: Bloomberg and Analytica

EMBIG Spread



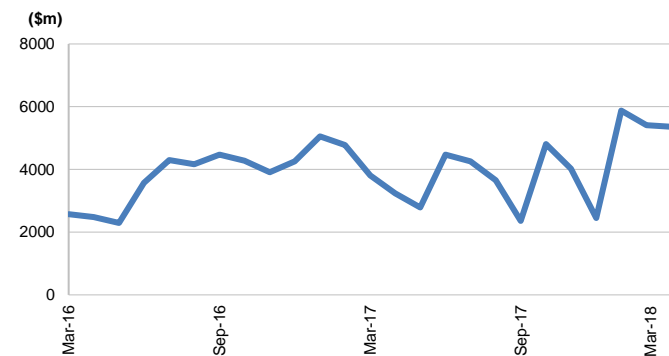
Source: JP Morgan and Analytica

Bond Yields vs. WTI



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Correa. Bonds had already been underperforming, and went down slightly in the wake of naming her. For all his failures, De la Torre at least insisted in having Ecuador stay current on debt, targeting a gradual improvement of debt terms and refusing to consider debt renegotiation. Unfortunately, he was unable to rein in public spending, missing a target to reduce the fiscal deficit to 4.7% of GDP; it again reached close to 6% of GDP last year. Meanwhile, despite a government austerity decree, media report that the number of civil servants swelled by another 50,000 last year, and it's already rather clear that the deficit will again fail to drop significantly in 2018. It might even grow.

On her part, Viteri's statements in an inaugural press conference in Guayaquil were perhaps better than expected. While defending the 2008 default and saying that Ecuador faces a similar economic "problem" now, she said the "situation" is different, requiring different policy solutions. While she only sketched out measures, she emphasized that these would initially focus on "in-house" budget cuts, attracting foreign direct investment, and reform of state-owned enterprises without burdening private citizens. Reassuringly, she even said that at some time in the future Ecuador should do away with its wasteful fuel subsidies. Foreign debt might be "re-profiled," but in keeping with market mechanisms however. At the same time, she called the 2009 debt buyback at a major discount just one such method, without saying that this is currently in the cards. She also acknowledged that Ecuador needs an economic plan urgently, while announcing that it would be unveiled late this month, agreeing with a request by an entrepreneurial committee to not rush it amid the change at the helm of the ministry.

It remains to be seen whether Moreno's more political than economic decision to pick her to run the ministry can be successful. The economic plan will be crucial to restore market trust disappointed by the inability to control spending and refusal to carry out

reasonable reforms. Viteri, despite her somewhat positive remarks, faces an uphill challenge thanks to her own highly negative track record of contributing to the financial and economic crisis caused by *correísmo*, which also include the introduction of the onerous minimum, pre-paid corporate income tax and the pernicious currency export tax that weakens foreign direct investments. Hopefully, the past few years she spent working at her restaurant in Playas taught her just how bad Ecuador's highly rigid labor laws are, in particular for service industries. Her next opportunity, with the next macroeconomic plan, may be the last for Moreno to fix the economy.

Courting Freedom

A handful of recent court decisions have ended the trials and tribulations of several leading victims of the Correa regime. Some of them, notably investigative journalist Fernando Villavicencio and former legislator Clever Jiménez, suffered a multi-year ordeal as president Correa attempted to silence their investigations into corruption. Other victims include pollster Angel Polibio Córdova, attacked by Rosana Alvarado (at the time a legislator and now the justice minister) but acquitted by a judge late February. Alvarado had charged him of falsifying results of an exit poll in the April 2, 2017 runoff vote as part of an alleged conspiracy to make Guillermo Lasso, not Lenín Moreno, president (the poll showed Lasso in the lead). This week, the prosecutor general's office dropped a case against Alfonso Pérez, who runs news portal Ecuadorenvivo, for a speech atop a flatbed truck amid protests in Quito against that same electoral result. Newspaper *La Hora* also won its case against the repressive Superintendencia de Comunicación, the media regulation agency, which had tried to force seven newspapers to print a libelous article against Lasso that first ran in an Argentine leftwing daily. Supportively, in its first personnel review since taking office, the temporary Citizens' Participation and Social

Control Council, fired the media regulator, Carlos Ochoa, a correísta former journalist who made himself notorious by fining private media companies thousands of dollars for each alleged infraction, on at least one occasion simply for failing to cover an event in Loja.

But the man behind that complaint, Loja mayor Bolívar Castillo, continues to harass local journalists there like Freddy Aponte, whom he has attempted to drive into bankruptcy. The (still) pro-government legislative majority this week blocked an opposition motion to amnesty victims of judicial abuse during the witch-hunt after the September 30, 2010 police mutiny, even though the coup theory is finally falling apart. And, instead of firing the dubious Alvarado, Moreno on Monday blasted the judge who ruled in favor of Córdova as an example of a lack of ethics in the judiciary. Belatedly, Moreno has removed his support for the president of the legislature, José Serrano, involved in a shocking public dispute with the prosecutor general, likely leading to Serrano's fall after the publication of this edition. But for all his success in removing the specter of Correa from the political scene, both regarding politics and economics, Moreno now looks well behind the curve, to put it lightly.

Riobamba to Caracas

For all its leftwing rhetoric, Ecuador's foreign ministry has been able to do some repair work to damaged international relations. Thomas Shannon, U.S. Undersecretary of State for Political Affairs, February 25 to 27 became the top U.S. official to visit Ecuador since Secretary of State Hillary Clinton in 2010. The wanton expulsion of ambassador Heather Hodges a few months later linked to the Wikileaks publication of U.S. diplomatic cable later led to the lowest point in U.S. – Ecuadorian relations ever. Now, Shannon's visit marked a clear recovery of ties, with both sides upbeat about the improvement in ties, called a "new moment in the bilateral relationship." In

marked contrast with the outdated definition of sovereignty still brandished by foreign minister María Fernanda Espinosa on regional issues, both sides agreed to stronger cooperation in boosting democratic governance and transparency, fighting organized crime and increasing commercial and cultural and educational exchange. Ecuador still has a lot of work to do and it looks unlikely that it will be able to meet all U.S. demands for a free-trade agreement, including a scrapping of the currency export tax, but the improvement of ties is notable nonetheless. Relations have warmed with Germany too, with that country last month inaugurating new offices of its development agency GIZ after technical cooperation looked like it could disappear under president Correa, and renewing support for Ecuadorian government environmental protection programs.

Of course, relations with the U.K. won't recover until Julian Assange finally leaves Ecuador's London embassy. The Moreno administration's haphazard support of his asylum continues to undermine ties to London and is one of several maverick policies that continue to undermine Ecuador's international credibility. Espinosa continues to seek to preside over the next United Nations' General Assembly. Her candidacy looks destined to fail as Honduras had begun to seek that role, this year falling to Latin America in turn, much earlier. In fact, this led to yet another gaffe: To get controversial Patricio Pazmiño, president of Ecuador's non-independent Constitutional Court, a seat on the Inter-American Human Rights Court, Ecuador in 2015 already pledged to support the Honduran candidacy. The release of the document as proof of a written agreement led to further embarrassment. Argentina and Brazil won't budge after already deciding to vote for the Central American country, but Ecuador seems bent on trying to woo small Caribbean nations in an expensive gamble.

The spiniest problem continues to be Ecuador's

loyalty to its repressive Venezuelan ally. Espinosa, as well as vice president María Alejandra Vicuña, steadfastly call international demands for free elections and respect for human rights foreign intervention into a sovereign country. This is all the more disappointing given the helping hands offered by the U.S. and Germany, but also considering Ecuador's own diplomatic heritage in recent decades. President Jaime Roldós, who inaugurated the last period of democracy, was a driving force in promoting human rights internationally. In 1980, Ecuador and democratic Andean countries including, at the time, Venezuela, signed the Letter of Conduct to pursue a policy supporting human rights both domestically and internationally as a mandate, over the protest of South American dictatorships like Argentina and Chile. They signed it in Riobamba, the central Ecuadorian city where the first constitutional assembly was held, on the 150th anniversary of independence from Gran Colombia, underscoring the importance the letter had for Ecuador. Even Venezuelan president Hugo Chávez supported it as late as 2001. Ecuador's foreign policy desperately needs more Riobamba and less Caracas.

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