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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Apr 16 – Apr 20, 2018

Bridge Over Troubled Water

Reporter Javier Ortega, photographer Paúl Rivas, and their driver, Efraín Segarra, together formed a team on assignment for daily *El Comercio*, reporting on the spiral of violence in northwest Esmeraldas, including the port city of San Lorenzo and the border hamlet of Mataje. Kidnapped by an alleged dissident Colombian rebel group on March 26, they were confirmed dead by the Ecuadorian government on April 8. Details of the killings remain sketchy and the humanitarian effort to recover their bodies has stalled. With two more people confirmed held by the criminal organization, the security crisis on the border has triggered some heavy soul searching.

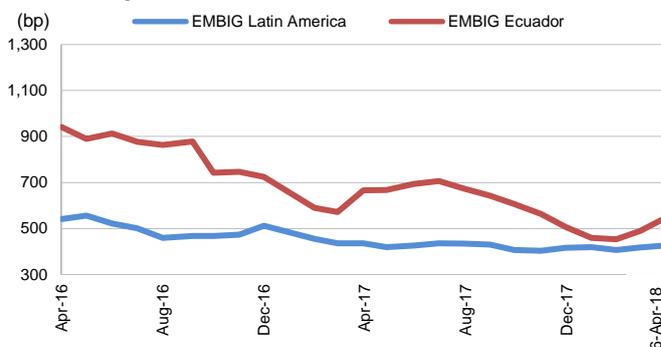
In contrast with its neighbors, after the turmoil of the Liberal Revolution, in the 20th century, apart from isolated incidents, Ecuador suffered neither major guerrilla movements nor massive government repression. This heritage of peace is one of the country's underreported assets. Whether the spiral of violence now hitting Esmeraldas marks the end of the peace is a question many Ecuadorians are now asking. Amid the confusion, failure to secure the release of the hostages has led to vocal calls for the resignation of the interior minister, César Navas; the defense minister, Patricio Zambrano; and the foreign minister, María Fernanda Espinosa. The outcome of the hostage crisis was disappointing because, technically, Ecuadorian security services have had experience with these kinds of situations. That problems were coming was also foreseeable, although unrelated to journalism: Ecuadorian news

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)						
	2018				2017		
	20-Apr	Mar	Feb	Jan	Dec	Nov	Oct
Global 2020	105.43	108.42	108.75	109.98	110.94	109.64	109.10
Global 2022	108.29	111.06	113.07	116.32	117.48	115.86	113.13
Global 2023	100.59	104.68	106.64	110.12	110.67	108.46	104.90
Global 2024	96.79	100.70	102.06	106.04	106.60	104.42	100.89
Global 2026	101.42	107.37	110.44	114.40	115.03	112.45	108.04
Global Jun 2027	101.13	107.08	110.35	113.76	114.73	111.66	107.57
Global Oct 2027	96.90	102.19	105.58	109.17	109.90	106.82	102.40
Global 2028	91.05	96.76	99.23	102.04	-	-	-

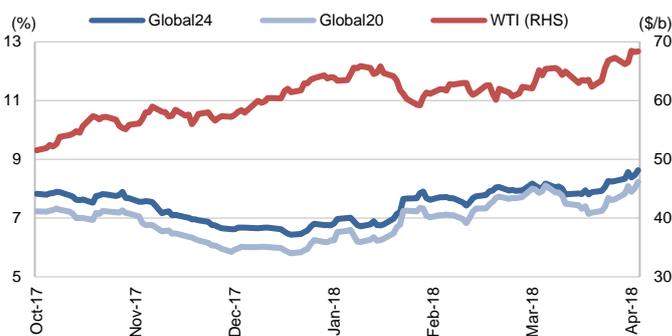
Source: Bloomberg and Analytica

EMBIG Spread



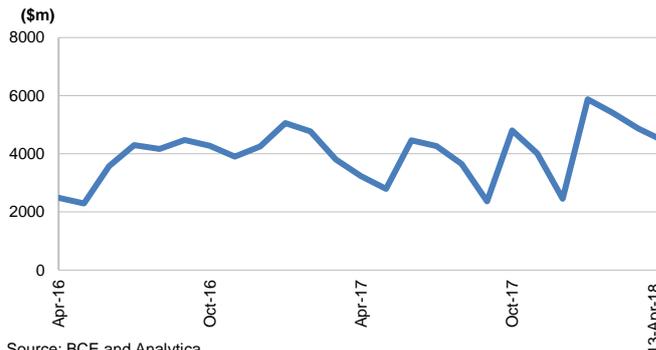
Source: JP Morgan and Analytica

Bond Yields vs. WTI



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

teams have for decades reported on the violence in the area, including inside Colombia, without suffering a kidnapping, let alone a death.

Moreno's predecessor, Rafael Correa, had warned that a sizable contingent of Colombia's Revolutionary Armed Forces (FARC) would reject the peace process. Always however preoccupied with the short term, Correa repeatedly replaced the leadership of the military in his long dispute over the armed forces' social security fund, forcing numerous experienced officers into retirement. Before leaving office he did however build a large new bridge over the Mataje river at the town of the same name leading only to a muddy slope on the Colombian side. While Colombian authorities did approve of the bridge perhaps as a future connection to a road that supposedly will be built there this year, its only practical use is smuggling, which is all the more infuriating considering Correa's protectionism and the ongoing high-duty import policy that has led even to the seizure of illegal onion transports. In statements following the confirmation of the killing of the reporting team, Moreno has strongly indicated complicity beyond simple negligence. Even though he was Correa's running mate in 2006, he now says he has ordered an investigation into FARC campaign funding that year, for which there is already strong evidence in the public domain but which had long been buried by correísta electoral and judicial officials. Moreno also acknowledged that a member of his security detail was recently arrested for drug trafficking.

The spiral of violence seems to have emerged from a real change of policy towards a crackdown on international drugs trafficking. It remains to be seen whether "Guacho," the leader of the FARC dissident group operating between San Lorenzo and Tumaco in Colombia, is fighting a desperate battle for retreat or instead has a chance to reassert the levels of relative operational security drug traffickers enjoyed before Moreno's inaugural. The president gave his ministers 10 days to capture "Guacho," as well as giving him a

chance to hand himself in during that time. A cabinet change after the deadline runs out would indeed be a positive sign of a break with a past. With his criticism of Correa coming while he remains surrounded by former correísta officials, the message has rung hollow for many observers, and to dissatisfaction among the few new ministers who had nothing to do with the previous government. Moreno's willingness to receive security support from countries including the US and UK is welcome, as is his message that the border area needs economic help and social services. Still, it remains worrisome that Ecuador may be becoming much more involved in Colombian civil strife, with politicians in the north too distracted by the electoral campaign to take their border issues seriously.

Moral Myopia

Former Brazilian president Luiz Inácio "Lula" da Silva's erstwhile forced stay at the Curitiba jail he himself inaugurated has sparked criticism not just among his still important domestic support base, but among commentators in foreign media. From Brazil emanated a more attractive vision of social democratic modernization than from the maverick, Cuba-inspired gorilla populism of Venezuela that preceded it. Then it however became the country whose role in uncovering the massive corruption that accompanied the commodities-driven boom profoundly impacted legal and political developments in much of the region, including Ecuador. As global financial analysts descend on Washington for the International Monetary Fund/World Bank spring meeting, overseas observers should ponder the deeper implications of the cases of Lula, Dilma Rouseff, Rafael Correa, Cristina Fernández, or even Pedro Pablo Kuczynski, among leaders tainted by corruption allegations. Sadly, many commentators are prone to giving political sensitivities greater weight than rule of law, holding Latin American politicians to

a lower standard than they would accept in their home countries.

To a significant extent, the foreign criticism of the jailing of Lula has mirrored that of the domestic sympathizers, tempered by a less visceral defense of his leadership. Lula needn't have headed to jail given that the Brazilian constitution allows for a person to seek a stay of incarceration until the final instance, argues *Der Spiegel*. Justice is blind on the political right, considering that most Brazilian senators are also under suspicion of corruption, *Le Monde* insinuates. Lula had approval ratings around 80% after serving two terms and, at least until the doors of the Curitiba prison closed behind him, he was the frontrunner for this year's election. Above all, according to numerous articles, Lula was the charismatic man who remade Brazil, creating an environment in which both the downtrodden of one of the most unequal countries in the world's most unequal region and the private sector could benefit, allowing the country to make swift economic and social progress as millions entered the middle class. This has made him a hero to many, including people who blast other leaders of "21st Century Socialism." Giving him the benefit of the doubt as an administrator, whether he could have done this without the ephemeral commodities boom that fueled state oil company Petrobras or the boom in soybean exports is questionable. His successor, Rousseff, soon saw herself having to deal with Brazil's worst recession ever. Also giving her the benefit of the doubt as a manager, her failure to see the billions of dollars in corruption at Petrobras before she became president should have forced her to step down as president well before her impeachment, questionable as parts of that procedure may have been. Their criticism of the recent Netflix dramatization of the scandals that provoked their downfall called *The Mechanism* meanwhile reeks of intolerance, as well as of ignorance (unlike Facebook, one can't "delete" Netflix, as they have called on people to do in protest

for the drama series' alleged distribution of "fake news").

It is of course reasonable to assume that judiciaries in Latin America are indeed subject to greater political influence than in Western Europe and North America. The question is what to take away from the situation. In Latin America, the cry of "politization" belongs to the standard repertoire of defense whenever a politician must face trial. This has led Lula and others to present themselves as victims. But Lula is no hero. Outside the limelight, Lula remained a steadfast ally of the Cuban dictatorship. Like Correa after him, he rode to victory on a platform of fighting corruption. Not only did he end up betraying this pledge; he appears to have played a role in propagating it. In the case of Ecuador, there are complaints about his lobbying for infrastructure firm Odebrecht, now a byword for corruption, even before the dispute over the San Francisco hydroelectric plant that led first to a diplomatic dispute with Brazil in 2008 because of Correa threatened not to repay a state bank's loan that financed construction of the troubled facility. Later, with Odebrecht's return in triumph, it formed the nucleus of the case that led to the conviction for graft of president Moreno's running mate and Correa's second vice president, Jorge Glas.

As *Der Spiegel* interprets it, from a purely legal standpoint, the habeas corpus argument could have held until the next instance, and the judges who ruled in favor of jailing Lula were under political and even military pressure. Yes, but they did have a choice to vote in favor or against allowing him to remain free, and the vote was close. It's indeed unfortunate that the presidential campaign has become overshadowed by the ruling. It's also questionable that, after two terms in office, Lula declined to retire, and, for his Partido dos Trabalhadores, that it failed to produce another capable leader to succeed him. A return to power, much like in Ecuador, would instead imply a threat to the independence of Brazil's judiciary and a

president more concerned with his legal defense than with governance for the poor. Regarding criticism that many other Brazilian politicians are corrupt and even sitting in congress, the jailing of a former president – if found guilty in a fair trial – is an important signal of the judiciary's ability to carry out its tasks independently. Also, Rousseff's main rival, conservative Aécio Neves, is also under investigation. To jail only smaller officials on reduced charges, a method employed in Ecuador before the fall of Glas, delivers a message of impunity regarding corruption, one of the region's worst scourges. But to heal the political system is not the courts' job. It can help, but business and society need to react. Italy's Mani Pulite investigations in the 1990s brought down the whole postwar political system, only for populist Silvio Berlusconi to inherit the spoils. At the same time, the alternative – protection of self-declared socialist politicians from the courts because of their alleged kindness towards the underprivileged – would condemn countries to remain prone to corrupt, dysfunctional judiciaries, contributing to continued high poverty rates and other abuses.

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