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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Apr 23 – Apr 27, 2018**

**Bad Trip**

Finance minister María Elsa Viteri had a golden opportunity last week to make things right with current and potential investors. After all, she was the first finance minister in recent memory to travel to the International Monetary Fund-World Bank Spring Meeting in Washington, DC, a sign of goodwill given Ecuador’s decade of boycott against the Bretton Woods organizations. If she had followed it up with proper clarification of recent remarks, she could have potentially saved the government millions in future interest payments. But she botched it, to say the least (Subscribers to our Ecuador Monthly Report received further information on Monday).

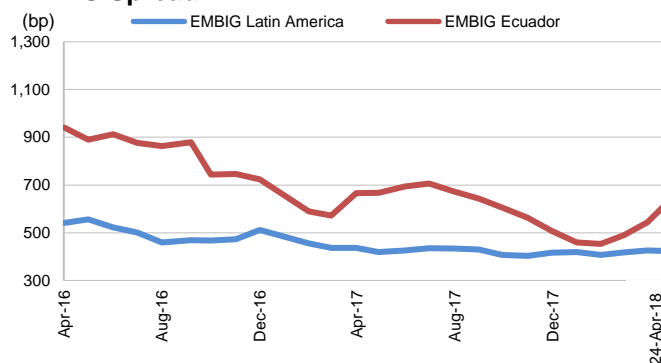
Ecuador’s bonds have been declining for months as unexpected external support factors like the Venezuelan default, which sparked demand for Ecuadorean bonds as a high-yield surrogate. Yet after easily placing \$3b in January, they’ve fallen to become one of the world’s worst performers, as Bloomberg recently reported, even disregarding the oil rally that should normally push Ecuadorian bond prices higher. After years of ignoring the local situation, with Ecuador’s weight in portfolio’s rising, fears about Ecuador’s high rates and short maturities have undermined bond performance. Speaking of maturity, in recent media statements, Viteri disregarded the more apt comments of her predecessor, Carlos de la Torre, to imply she could indeed seek some form of debt restructuring and unspecified “liability management” not necessarily tied to the reduction of country risks. Worse still, US

**Ecuador's Global Bond Prices**

Bond	Last Price (end of the month)						
	2018				2017		
	27-Apr	Mar	Feb	Jan	Dec	Nov	Oct
Global 2020	104.19	108.42	108.75	109.98	110.94	109.64	109.10
Global 2022	106.84	111.06	113.07	116.32	117.48	115.86	113.13
Global 2023	99.07	104.68	106.64	110.12	110.67	108.46	104.90
Global 2024	95.27	100.70	102.06	106.04	106.60	104.42	100.89
Global 2026	99.88	107.37	110.44	114.40	115.03	112.45	108.04
Global Jun 2027	99.62	107.08	110.35	113.76	114.73	111.66	107.57
Global Oct 2027	95.54	102.19	105.58	109.17	109.90	106.82	102.40
Global 2028	89.74	96.76	99.23	102.04	-	-	-

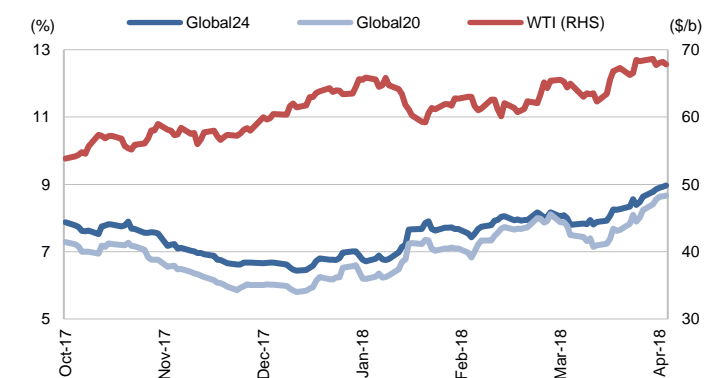
Source: Bloomberg and Analytica

**EMBIG Spread**



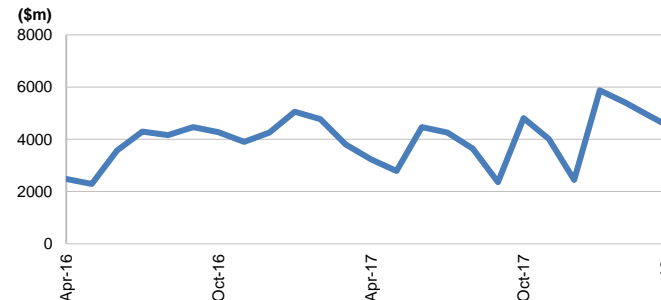
Source: JP Morgan and Analytica

**Bond Yields vs. WTI**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

yields have gone up, pressuring the whole bond market at a time when Ecuador needs to return to the market very soon.

Investors thus had keen interest in her lone presentation at an event sponsored by Barclays, a British bank. Alas, she canceled at the last moment, leaving investors frustrated. The environment isn't necessarily hostile to further Ecuadorian issuance, but the refusal to speak with relevant actors has people shaking their heads. This can easily translate into higher interest rates for upcoming bond sales (the current 10-year bond is already trading at a 9.5% yield). Viteri seems to want to blame the poor performance of Ecuador's bonds on the recent debt audit undertaken by comptroller general Pablo Celi, which orders her to correct official debt levels in line with findings that the state owes creditors much more than the legal limit of 40% of GDP. Also last week, the IMF underscored that Ecuador's definition of "consolidated debt," which claims that the ceiling has yet to be reached, fails to meet IMF accounting criteria. This is a blow to Viteri's former boss, Rafael Correa (president 2007 – 2017), who based his defense against the audit on claiming the opposite. When investors seek higher rates and greater disclosure, she will be the one to blame, not Celi. Any interpretation to the contrary is baseless.

### **Hitting Bottom**

Six members of the 12-country Union of South American Nations (UNASUR) last week announced their intent to "indefinitely suspend" their participation in the regional organization which for more than a year has been unable to choose a new leader. While Bolivia, which currently holds the pro-tempore presidency, wants to hold a summit next month in a last-ditch effort to rescue it, the mass de-facto defection seems to be close to putting the body out of its misery, leaving Bolivia and Ecuador as those with the most to lament. Unsurprisingly, these countries' foreign ministers have vocally sought to defend it.

Both have sought to downplay the crisis as one related largely to the detail of who would run it; in the meantime, it has continued to work, in the words of María Fernanda Espinosa, Ecuador's foreign minister, at "integral integration," as opposed to allegedly pure commercial integration in regions she left unnamed. It would be useful to remember that the reason UNASUR has failed to choose a new head is the opposition of the leftwing "Boliviarian" group to letting it be run by senior Argentine diplomat José Octavio Bordón, even though he was his country's ambassador to the US under Néstor Kirchner (president 2003 – 2007). Its plans to create a "Banco del Sur" development bank and other organizations including a human rights system and an arbitration court (the latter two at the behest of Ecuador's Correa) never got anywhere. Espinosa and her Bolivian peer Fernando Huanacuni have downplayed the exit of the countries, the former saying it was a minority of just five. This is just as much hot air as claiming that UNASUR has been more than a chat group of like-minded leftwing presidents.

In fact, the countries who have left – Argentina, Brazil, Chile, Colombia, Paraguay, and Peru – represent 358m of the region's 423m inhabitants. Financially, their exit is even more relevant as they accounted for \$8.92m of UNASUR's annual budget of \$11m. This leaves Venezuela, a country in default, with \$1.2m in pledged funding, now as its biggest contributor, followed by Ecuador with \$400,000. According to Guayaquil newspaper *Expreso*, monthly salaries at headquarters adjacent to the Equator monument in northern Quito approach \$200,000, with another \$100,000 in water and electricity costs at the site, or \$3.6m annually. Correa had dreamed of making it the nucleus of a South American version of the European Union's administrative center in Brussels. Ecuador spent \$42m on the building, which looks like a giant artillery installation, decorated at the entrance with a statue of Kirchner, who like Correa left behind a legacy of concentration of power and

corruption. Even uglier is the so far unused UNASUR parliament near Cochabamba on which Bolivia spent \$60m; it looks like three gigantic parallel hovels on stilts, clad in the greenish reflective glass visibly used in tens of thousands of unattractive Andean houses. Together, Bolivia and Ecuador were by far the body's biggest contributors, no doubt thinking they were seeding the creation of income from thousands of future bureaucrats who someday were to spend significant money in Quito and Cochabamba.

Chilean foreign minister Roberto Ampuero instead said even his country's relatively modest \$800,000 annual contribution was way too much. He pointedly observed that UNASUR never did more than grandstand. Indeed, the member countries, caught in an interpretation of sovereignty defined way back in 1648, never delegated sufficient national privileges to the body (unlike more functional institutions like the Andean Community of Nations, see below) for it to be able to do anything relevant. Espinosa, courting other countries in a bid to become the next president of the United Nations' General Assembly, was caught flat-footed by the foreign ministries of countries without whose support her candidacy will fail. Without money and thanks to the joint effort of the major players, UNASUR's end looks unavoidable. Meanwhile, Correa has left to live in the original Brussels.

## **CAN Can**

In response to complaints by Colombia and Peru, the Andean Community of Nations (CAN) has given Ecuador 10 days to scrap a controversial weight-based system of charging a surcharge on imports. The CAN, following a rule also observed by the World Trade Organization, found that the system violates a rule under which customs fees of this type must reflect an approximate cost for a concrete service. Instead, de facto, the surcharge constitutes a tax, violating the Cartagena Agreement of 1969 that governs easing of trade between CAN members. Ecuadorian chambers of commerce, which have sued

the government for implanting the system since it was put into effect last November, celebrated the decision. For Viteri, it compounds fiscal problems because the tax aimed at collecting around \$130m annually. Given the government's track record, it will probably think up a near-term alternative to try to raise prices of imports while Ecuador likely in vain appeals the CAN's ruling.

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