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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Apr 30 – May 4, 2018**

**Odd Couple**

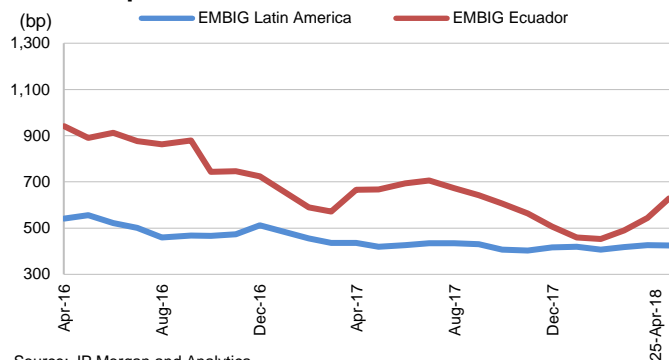
When the 10-day deadline for the capture of alias “Guacho,” the alleged mastermind of the upsurge of violence around San Lorenzo, passed on April 27, president Lenín Moreno replaced the defense and interior ministers, Patricio Zambrano and César Navas. Along with foreign minister María Espinosa, they were popularly seen as the most politically responsible for the security crisis along the northernmost section of the border with Colombia, where “Guacho” is attributed with having carried out a series of attacks including a car bombing that destroyed a major police station, a nail bomb attack that killed four marines, and the kidnapping and killing of a three-person reporting team from daily *El Comercio*; two people are still being held captive. Moreno picked Oswaldo Jarrín, a retired general, to lead the defense ministry, while picking Mauro Toscanini, an economist and college business professor, as the new interior minister.

Jarrín enjoys a solid reputation as a career soldier. He was a senior commander in the field during the limited 1995 war with Peru that ultimately led to the solution of the century-old border conflict. Subsequently, he held the position of commander of the joint chiefs of staff and in 2005 and 2006 already served as defense minister, among a number of other positions held in the security establishment that strengthen his credentials. After a decade of political improvisation under Moreno’s predecessor, Rafael Correa (2007 – 2017), Jarrín’s experience marks a return of the establishment. Some could interpret this

Bond	Last Price (end of the month)						
	2018				2017		
	4-May	Apr	Mar	Feb	Jan	Dec	Nov
Global 2020	101.84	103.10	108.42	108.75	109.98	110.94	109.64
Global 2022	103.24	105.54	111.06	113.07	116.32	117.48	115.86
Global 2023	95.84	97.89	104.68	106.64	110.12	110.67	108.46
Global 2024	91.94	94.11	100.70	102.06	106.04	106.60	104.42
Global 2026	96.26	98.50	107.37	110.44	114.40	115.03	112.45
Global Jun 2027	96.01	98.11	107.08	110.35	113.76	114.73	111.66
Global Oct 2027	92.38	94.36	102.19	105.58	109.17	109.90	106.82
Global 2028	86.66	88.53	96.76	99.23	102.04	-	-

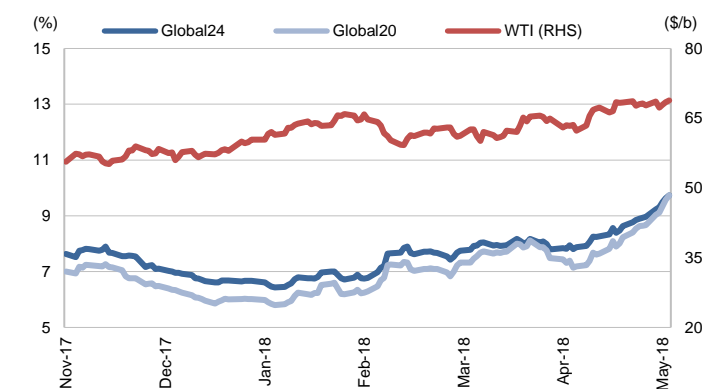
Source: Bloomberg and Analytica

**EMBIG Spread**



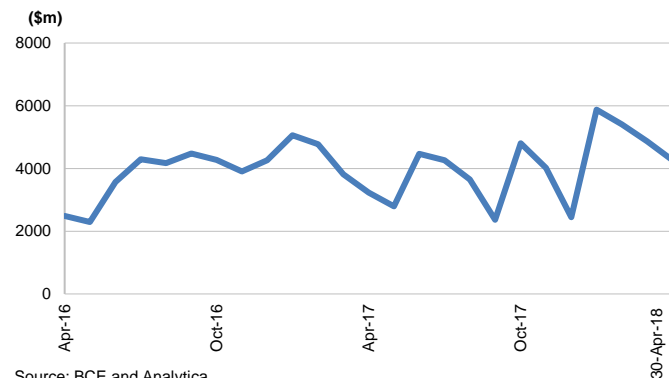
Source: JP Morgan and Analytica

**Bond Yields vs. WTI**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

return to the past negatively, in the sense of a loss of civilian control over the military. In Ecuador's case, however, the military largely lost its appetite for political adventures in the mid-1970s. Under Correa, it remained a bulwark of institutional independence, becoming a factor in keeping Ecuador from falling further into the spiral of "Bolivarianism" promoted internationally by the Venezuelan regime.

After Correa forced experienced senior officials into retirement through his successive restructuring of the high command as he fought to gain control over the military pension fund, Jarrín's return will serve to reestablish communications between former generals and current officers. This should benefit tactical capacity in the sensitive border zone. Additionally, Ecuador sadly still lacks enough academic expertise to put the ministry into fully civilian hands amid the crisis. Another issue that Jarrín inherits is the strengthening of the armed forces pledged by Moreno but for which Ecuador lacks funds. He already called for national unity in the face of the challenge to sovereignty and national territory from the groups of drug traffickers/Colombian rebels who have refused to demobilize. Jarrín will have to manage the crisis while finding a role for the armed forces that safeguards them from corruption by the very narcotics traffickers they will now face more strongly.

Toscanini meanwhile looks like a poor choice for the current situation. He has no experience in the public administration; immodestly, the 63-year old president of Guayaquil's Catholic University said that "practically all governments offered me political offices in the past 30 years and this is the first I'm accepting," he said, adding that he was surprised by the offer. Nothing at all in his curriculum indicates strong potential for his post. Indeed, he was a surprise for the general public and attracted criticism because of his personal closeness to individuals from the previous regime, including Correa himself. Photographs show him with Correa's sister Pierina, Jorge Glas, Moreno's and Correa's jailed vice

president, Carlos Pólit, the fugitive former comptroller general, and Cuba's new president, Miguel Díaz-Canel, to whose inauguration last month he apparently traveled. Toscanini's proximity to deep *correísmo* raises questions over why he was picked for the job. Government spokesman Juan Sebastián Roldán in an interview with *Teleamazonas* said that Toscanini had sufficient knowledge of security issues and governance to perform well (in the same interview, Roldán said he regretted having been part of Correa's administration). Navas, whom Toscanini replaces, did appear to take his job description seriously and engineered an about-face from the permissiveness of the Correa administration that, according to Moreno, opened the doors for drug trafficking and other criminal networks in Ecuador. Why Moreno now picked a *correísta* as his replacement is a mystery and, worryingly, might allow a return of *correísta* networks to the interior ministry. At least from the outset, it appears that Jarrín will be the senior official regarding security.

Moreno meanwhile appears steadfast in his support for Espinosa. This is costing him politically because of a clamor for her to resign not only for traveling the world amid the border crisis, but also for her stubborn and embarrassing support of regimes like that of Nicolás Maduro in Venezuela and of Daniel Ortega in Nicaragua that appears to counter Moreno's own policy of support for human rights. At the same time, the issue of the murder of air force general Jorge Gabela in 2010 could lead to further trouble within the cabinet. Espinosa is facing pressure to free an independent investigator from his oath of confidentiality now that a crucial part of the inquiry has been found to have disappeared from public records (she was Correa's defense minister during the investigation). At a moment when it appeared to be that Moreno had the chance to fix three problems in his cabinet, he repaired just one. Moreno appears to be relying on gravity rather than leadership to run his government. His approval rating has plummeted

below 50% after peaking at 77%, a record, in August. From his lair near the border “Guacho,” meanwhile, can gloat that he bagged an Ecuadorian defense and an interior minister through his attacks on the state.

### **Horror Vacui**

Within the space of a few days, Ecuador’s congress and the temporary panel tasked with the review of Correa-age legal appointments combined to make short work of one of the key bastions of the former president. First, congress impeached prosecutor general Carlos Baca who had unwisely published a phone recording between the previous president of congress and the fugitive former comptroller. Within days, the “temporary Citizens Participation and Social Control Council” (TCPCCS, according to its gradually emerging new acronym) named a temporary replacement, Paúl Pérez, a 42-year old specialist in criminal law with experience along the troubled Colombian border. This ended a game of musical chairs at the prosecutor’s office. Pérez said that he will immediately review existing dossiers amid the public outcry for accelerated handling of corruption cases.

One of the main issues with the old CPCS, replaced by the Trujillo-led team thanks to the result of the February referendum, was the massaging of supposedly objective competitions for top judicial and regulatory positions. Instead of alleged meritocracy, Ecuador got correísta cronyism. In the case of the prosecution, Baca, a longtime Correa legal aid, won the competition in 2017, edging out Pérez, a career prosecutor. By naming him as his temporary replacement, the TCPCCS is trying to right the wrong. It’s also clear that the head of the Judicial Council, Gustavo Jalkh, will be replaced soon, pretty much completing the removal of correísmo from the top of the judiciary.

The council also fired the public ombudsman, Ramiro Rivadeneira, who disputes its right to remove him, and replaced him with a human rights lawyer,

Gina Benavides. Rivadeneira will not be missed – after all, many human rights violations of the last decade went ahead without him intervening. The appointment of Benavides meanwhile countered one of his main arguments, i.e. that his removal would leave citizens defenseless. The council’s quick disposal of some authorities has however caused some legal experts bellyaches because of the short shrift it’s carrying out with procedures. Baca’s removal meanwhile went ahead as a relative non-event. Correísta and morenista legislators voted with the opposition to sack him after he in interviews threatened to expose legislators on whom he allegedly had files, only to defend himself with platitudes during the plenary session. Where the parliament is headed remains unclear: When the opposition sought a resolution backing the TCPCCS, correístas and morenistas again joined to block it from passing.

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