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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of May 7 – May 11, 2018

Deck Chairs or Change

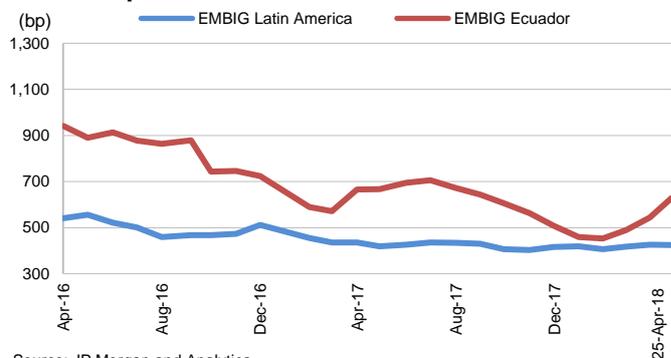
While President Lenín Moreno participated in the Costa Rican inaugural ceremony, his private secretary and government spokesman Juan Sebastián Roldán surprisingly announced that the entire cabinet would resign. Roldán said that this would give Moreno the chance to review its performance ahead of the state of the nation speech he is due to hold on May 24, the first anniversary of his own inauguration. Politically, the distance from his predecessor’s administration is significant, particularly regarding basic human rights. But the cabinet change shows that Moreno needs to deal with some serious trouble and stagnation. His decisions will show whether he can carry out necessary changes or can only be bothered to rearrange the deck chairs of his personal Titanic.

Frequent cabinet changes have been a sad hallmark of Ecuadorian administrations since time immemorial, reflecting policy instability. Even during the presidency of Moreno’s predecessor, Rafael Correa, who spent a record consecutive decade and six months in office, few ministers held their positions for a significant length of time. Many were however “recycled” in new positions, some even staying on under Moreno despite the estrangement between the two, or repeating, like María Elsa Viteri, who returned as finance minister in March almost a decade after resigning from the same job under Correa. Usually, the mass resignation happened at the end of a calendar year.

Bond	Last Price (end of the month)						
	2018				2017		
	11-May	Apr	Mar	Feb	Jan	Dec	Nov
Global 2020	100.54	103.10	108.42	108.75	109.98	110.94	109.64
Global 2022	101.37	105.54	111.06	113.07	116.32	117.48	115.86
Global 2023	94.26	97.89	104.68	106.64	110.12	110.67	108.46
Global 2024	90.08	94.11	100.70	102.06	106.04	106.60	104.42
Global 2026	95.06	98.50	107.37	110.44	114.40	115.03	112.45
Global Jun 2027	94.95	98.11	107.08	110.35	113.76	114.73	111.66
Global Oct 2027	91.04	94.36	102.19	105.58	109.17	109.90	106.82
Global 2028	86.01	88.53	96.76	99.23	102.04	-	-

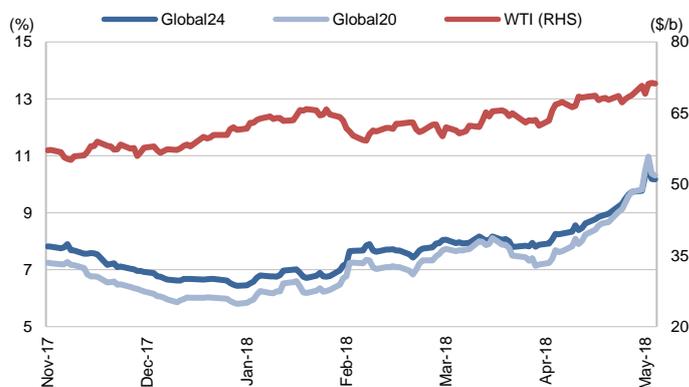
Source: Bloomberg and Analytica

EMBIG Spread



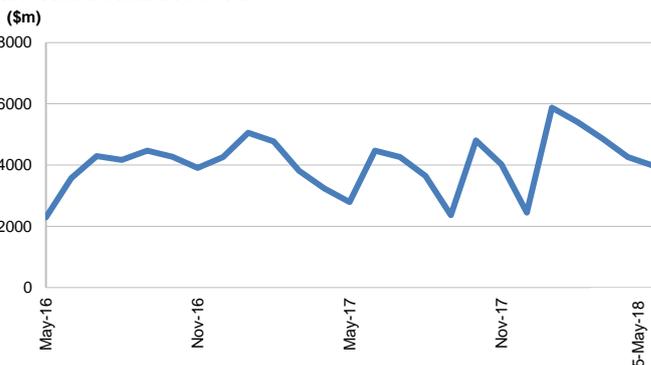
Source: JP Morgan and Analytica

Bond Yields vs. WTI



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Directly and indirectly, Moreno has of course achieved some unexpected, notable changes after taking office following a turbulent, contested election. His running mate is in jail for corruption. Thanks to able maneuvering by the president, he handily won a referendum that restored some important freedoms. The judiciary looks on its way to regaining its independence thanks to the referendum result. But the reconciliation Moreno has called stopped well short of a national unity government; he continues to repeat that he is recovering the good in early Correísmo, which coincided with his time as Correa's vice president, but already showed a patent disregard for due process, democracy, and other basic rights. One doesn't need a poll to understand that the likes of Correístas like Rosana Alvarado, María Fernanda Espinosa, Miguel Carvajal or Viteri in the cabinet are anathema to large numbers of the public and, despite a personal relationship with Moreno in the case of most of them, a serious drag on his popularity, as well as on the quality of policymaking. Often, they appear to be undermining Moreno unless he insists on a matter, and, even then, sometimes they ignore him.

By refusing to formally govern with the opposition, Moreno also fails to recognize the broad national constituency that he occasionally has mentioned, notably during his inaugural speech. This has allowed him to be able to enjoy tacit support from the conservative populist Social Christian Party while continuing to play to his supposed leftwing base. Parliamentary majorities are currently in a flux; Morenistas first refused to support a motion to back the temporary Citizens' Participation Council and Social Control Panel (TCPPCS), which continues to remove leading Correístas from positions of authority. After Moreno publicly supported the Council, they voted in favor. This ambiguity has led Moreno to lose favor in the polls, with the future of the economy a worry both for citizens and among international investors. Moreno's approval ratings have plunged below 50% after as of last August he was even more

popular than Correa ever was. Apart from the well-regarded oil minister, Carlos Pérez, and foreign trade minister Pablo Campana, his policy ambiguity also bars him from attracting competent new officials. Leading private-sector financial experts have balked at joining the finance ministry under Viteri, who, as *Bloomberg* noted, saw a shamanic ritual as more important than a meeting with bond investors. Who would want to risk a professional reputation under these circumstances?

The Waiting Game

As of the close of this edition, the finance ministry still hadn't presented the "emergency" or fast-track economic package touted for weeks as the way out of the uncertainty and doldrums that have led Ecuador to lead the pack in a race to the bottom among emerging-market borrowers. So far, government officials have held just two of three promised press conferences on the economic reforms outlined by president Moreno in April. While Ecuador is not alone among countries facing financial difficulties – Argentina has grabbed most of the headlines – it's clearly a problematic case, with local mistakes playing a major role. Ecuadorian bonds' failure to rally despite a major rebound of oil prices underscores the depth of the problems.

Emerging-market economies have seen their share of troubles this year. Markets had seen Ecuador as a sympathetic case at least until February, when Moreno won a solid mandate thanks to his two-thirds win in the referendum. The mishandling of the victory led him to lose credibility with the markets too. Moreno's refusal to raise taxes to offset spending increases and lack of progress towards reigning in the bloated state has hurt him particularly among centrist and conservative voters. To name María Elsa Viteri finance minister seemed instead to confirm fears of refusal to take the market seriously. Viteri does enjoy significant credibility

among the hard left thanks to the default/discounted buyback of 2008/2009. She could leverage this background to push through reform given the inescapable fiscal problems, some analysts hoped. She might yet do that given that things are not yet written into law, but has given few signs of a real willingness to do this.

Instead, she has wasted crucial time by engaging in a closed-door campaign of battling the comptroller general's special examination of Ecuador's recently issued public debt. Before a congressional committee this week, she still refused to acknowledge that debt is indeed above the legal limit of 40% of gross domestic product. While the International Monetary Fund has denied that Ecuador's way of accounting "consolidated public debt" has anything to do with Fund guidelines, the government via Juan Sebastián Roldán still spoke of confusion regarding the matter. It's politically and, to some extent, economically complicated, but conceptually simple: Viteri must present legislators with a debt consolidation plan credible enough to win over a majority to continue to issue bonds. This would also help pacify foreign bond investors dismayed with Ecuadorian bond performance, the worst among emerging markets so far this year, with yields now in double digits. Where she had the opportunity to be proactive, she galled the market by cancelling a potentially crucial meeting with investors in Washington, D.C. Ecuador will have to pay dearly in dollars and cents if she (or her possible successor) fails to make major progress both domestically and internationally very soon.

Propaganda Paradiso

While president Moreno deals with the residual power of Correísmo in Ecuador's public administration and the TCPPCS fights to restore the independence of the judiciary, the cultural analysis of what happened in the past decade is also underway. Correa's self-declared revolution had no comparable

cultural achievement to boast of at the level, for example, of Venezuela's short-lived classical music boom. A lot of the literary scene has revolved around books discussing his politics, environmental policies, and economics, while the government for years funded the international distribution and translation of president Correa's pamphlet-like book called "*From Banana Republic to No-Republic*" that summarizes his illiberal ideology. Still, Ecuadorian cinema experienced something of a surge, led by director Sebastián Cordero, who enjoyed domestic but also international success like his science fiction drama *Europa Report*, which won over numerous foreign critics.

This week, documentary filmmaker Carlos Andrés Vera released *Propagandía*, a film that tracks the development of the media persona of the former president, who now spends a lot of time on social networks from an attic in Belgium (he moved there last July, explaining that he promised this to his Belgian wife and kids before leaving the presidency). Correa said that his administration had ripped away the "state of opinion" that private media and banks had colluded to create to prevent the country from blossoming. Critics countered with the term "state of propaganda" to describe the public media superstructure established to trounce critics. While private media never lost their audiences, the systematic focus of Vera's film helps to summarize what happened; comptrollers meanwhile are unraveling the corruption in the public media apparatus that accompanied its creation and propagation. Vera juxtaposes the statements of Correa and other officials with some of the main targets of the propaganda apparatus, including figures to the left and right of the political scene up to the very end of his presidency. The presidential campaign thus plays a prominent role in the film, with strong sympathy for opposition candidate Guillermo Lasso, for whom Vera worked during the campaign.

For the victims, like Lasso and pollster Angel Polibio Córdova, who suffered under a cruel and outrageous campaign led by justice minister Rosana Alvarado), the experience is cathartic. The basics are well known to close followers of recent history, but some powerful material lets the audience feel the viciousness of Correa's attacks on real or imagined opponents up close on the big screen (we despise spoilers so we will leave it at that). Problems faced by Vera in getting the film to be screened by major commercial cinema chains led to controversy. The chains' owners, whose representatives saw the film before the premiere, refused to pick it up, despite other local productions regularly making it into the theatres in recent years. Pressure by Vera and others on social networks forced a change of heart. Hopefully, the controversy will draw more viewers into the cinemas. Like Manolo Sarmiento's 2013 *Death of Jaime Roldós*, the film deserves international distribution.

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