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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of May 21 – May 24, 2018

A Year of Living Dangerously

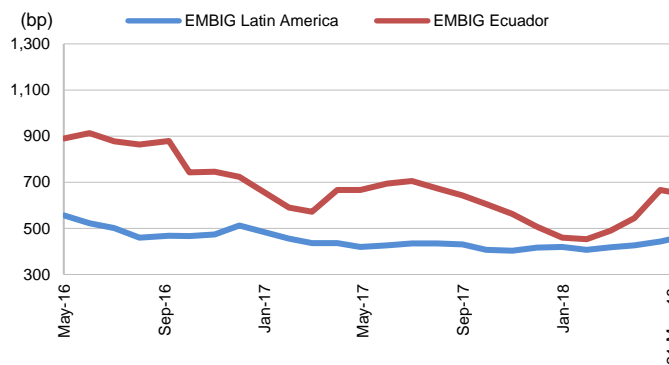
A year ago, when he left office after a record consecutive decade and a half, to leave Ecuador in the hands of Lenín Moreno looked like a safe bet for Rafael Correa. As a guarantor of continuity, his vice president, Jorge Glas, held the same position under his successor. His former interior minister, José Serrano, was president of congress, with a much diminished but still absolute majority for his Alianza Pais (sic) political movement. The courts were overseen by Gustavo Jalkh, another former interior minister of his. A Correísta Citizens' Participation Council had appointed a slew of new leading officials, not least the prosecutor general, his former legal advisor, Carlos Baca. What could go wrong?

Plenty, it turns out. Moreno immediately established another, far more tolerant political tone. Less than a week after the inauguration, the Odebrecht scandal hit hard domestically, which just as immediately put Correísmo on the defensive. Correa tried to counterattack, accusing Moreno of "disloyalty," revealing the unwillingness of the former president to truly relinquish power. Correa realistically estimated that political fortunes had shifted away from, ending his chances of being reelected once again, but he overestimated the personal sway he could still hold over his former underlings. Loyalty of some sort remained with "the project," the vague supposed revolution initiated by AP in 2007 and whose spirit Moreno has invoked on numerous occasions. From a political standpoint, Moreno and his allies struggled with those of Correa to lead AP, a

Bond	Last Price (end of the month)						
	2018				2017		
	24-May	Apr	Mar	Feb	Jan	Dec	Nov
Global 2020	105.09	103.10	108.42	108.75	109.98	110.94	109.64
Global 2022	106.47	105.54	111.06	113.07	116.32	117.48	115.86
Global 2023	99.40	97.89	104.68	106.64	110.12	110.67	108.46
Global 2024	95.54	94.11	100.70	102.06	106.04	106.60	104.42
Global 2026	100.69	98.50	107.37	110.44	114.40	115.03	112.45
Global Jun 2027	100.28	98.11	107.08	110.35	113.76	114.73	111.66
Global Oct 2027	96.51	94.36	102.19	105.58	109.17	109.90	106.82
Global 2028	90.86	88.53	96.76	99.23	102.04	-	-

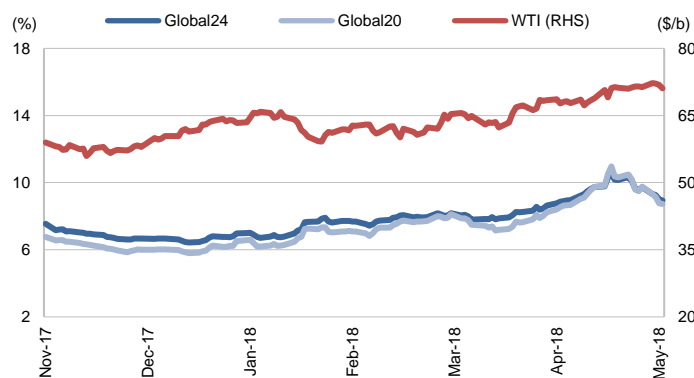
Source: Bloomberg and Analytica

EMBIG Spread



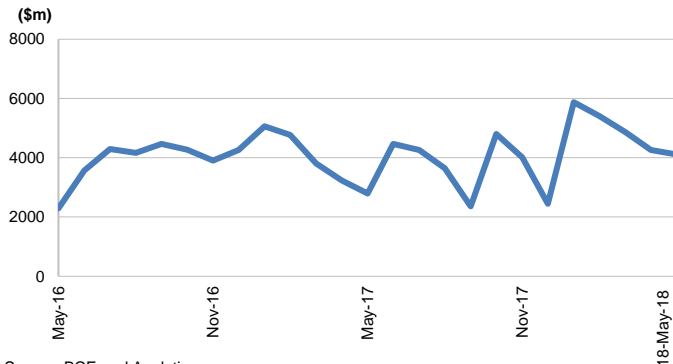
Source: JP Morgan and Analytica

Bond Yields vs. WTI



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

fight that Moreno won, while the legal investigations brought down Glas. For all the criticism regarding the stronger options Baca had to prosecute him, a six-year sentence is significant.

Moreno moved decisively against Glas and to dismantle the worst authoritarian elements of the 2008 constitution and 2015 reforms, which eliminated term limits. For all its legal and procedural imperfections, at least momentarily, the temporary Participation Council that emerged from the February referendum appears to be working well. Moreno has hesitated to appear disloyal by allowing longtime officials to remain in the cabinet even when the stench of corruption becomes overpowering. That has had the negative result of making his fight against corruption appear half-hearted. Until he swore in Richard Martínez as his first pro-market finance minister, he had also refused to consider governing with the center-right. While he is hinting at national unity to solve the fiscal crisis, before the very important change at the helm of the finance ministry, he has lost valuable time to reform the economy. This is costing him points with voters. According to the latest poll by Cedatos, his market-friendly oil minister, Carlos Pérez, has an approval rating of 68%. In contrast, hard-left foreign minister María Fernanda Espinosa stands at a pitiful 13%; she at least seems to be tacitly leaving, having asked for permission to take a leave of absence to campaign for the ceremonial post of president of the United Nations' General Assembly. Moreno also urgently needs to replace the justice minister, Rosana Alvarado. To some extent, the president has relinquished his executive power to name ministers to acting comptroller general Pablo Celi, whose investigations of corruption allegations have led him to declare several officials legally ineligible for office.

With the change in the economic team and the removal of administration control over the courts, Correísmo's last remaining bastion is in congress, which is somewhat ironic considering that, in 2006,

Correa ran for president without legislative candidates. Given Moreno's unwillingness to reach across the political aisle to create a stable legislative alliance, he has been having to rely on the tacit support not just of other leftwing parties, but also of the Social Christian Party and SUMA, the political vehicle of embattled Quito mayor Mauricio Rodas. Perhaps economic reality will now force him to move more clearly to the center, where Cedatos's poll data implies most voters now are. The collapse of Correísmo proved those analysts correct who understood that loyalty belongs to him who offers a comfortable job in the bureaucracy, not to an ideology or vague "project." Moreno has on occasion whipped his bloc into line when they appeared that they failed to agree to changes. He will probably have to do that again with impending economic legislation.

Opening the Muzzle

One of the perks of the Morenismo government is that its legislation can indeed move forward. Its draft of a new communications or media law to replace the repressive one of 2013 became the 18th, but it has been the only one to pass through the administrative bottleneck that is the "Legislative Administrative Council," setting the stage for a return to greater freedom of speech. The new bill aims to cement the de-facto progress media have experienced in the past 12 months. While president Moreno has largely refrained from the censorship of the Correa era (except for his foolish criticism of the dismissal of fraud allegations against pollster Cedatos for an unfavorable exit poll), journalism advocacy groups have warned of the need to reestablish the rule of law to protect media from future presidents. The muzzle has been opened, but it's still there.

Moreno's bill indeed moves things forward. It eliminates the "Communications Superintendence" (SuperCom), the modern-day censorship panel that, unconstitutionally, could be party, prosecutor, and judge in cases of alleged violations of the media law.

Among those violations, it removes the rule against “media lynching” (similar to character assassination) that likened reporting of a case by different media to a chase by a pack of hounds. It also ends the possibility of ordering media to report on individual information the government considered to be in the public interest (SuperCom once fined newspaper *La Hora* for not reporting a speech by Loja mayor Bolívar Castillo, one of the main proponents of the law).

The draft is not free of criticism. It still has a rather paternalistic view of a state helping to define what is or what isn't proper for audiences to read, see, or hear, and rewards numerous people working at the SuperCom with jobs in the public ombudsman's office or the parallel Council for Regulation, Development and Promotion of Information and Communication (Cordicom), an organization that has also been used to repress rather than to support freedom of the press. The shift towards the ombudsman's office however does appear to emphasize a protection of individuals from libel rather than censorship of information that could be inconvenient for an administration.

Ecuador will ask the Inter-American Court of Human Rights to decide whether freedom of speech as a “public service,” the authoritarian interpretation of a human right set into the constitution in 2015, is correct and legal. Given the uncertain composition of congress, it's unclear what will result of the law, or when it might pass. For all his power, president Correa needed six years to have his version passed, and then had to change the constitution two years later to allow it to fall in line with the definition of freedom of expression as a “public service.” Worryingly, for decades, Ecuadorian legislators have been bad at removing discretionary rules from laws, which supports the position of media companies and academics who say the best option would be to repeal the 2013 law altogether, leaving in place the libel laws that existed at the time. On this background, private media should act by creating a robust self-

regulation panel to boost best practices, creating a framework to push legislators in the right direction.

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