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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Jul 16 – Jul 20, 2018

Pedal to the Metal

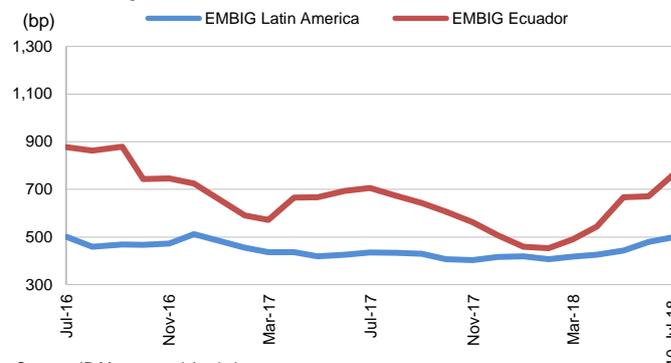
The temporary Citizens’ Participation and Social Control Council (TCPCCS) this week continued to remove key officials associated with the regime of Rafael Correa (2007 – 2017). It fired the five-member National Electoral Council (CNE), as well as Christian Cruz, the banking superintendent. If the TCPCCS’s impact on the judiciary is an indication of what can be expected looking ahead, the changes at the electoral body promise to boost confidence in the legitimacy of officials elected in next year’s municipal elections. Of course, as an institution playing a leading role in appointing top officials, the Participation Council is an anomaly that, in the longer run, would best be eliminated.

The TCPCCS, led by 87-year old jurist Julio César Trujillo, ousted the CNE leadership arguing that it had been appointed amid a conflict of interests. Indeed, it was the previous CPCCS, created by the 2008 constitution, which had named the CNE, and vice-versa. Furthermore, the TCPCCS said that it had found evidence of irregularities in several contracts and of abuse of power. Additionally, it cited the lack of confidence among Ecuadorians in the independence of the electoral body. Among the long list of controversies in which the CNE was involved, it dissolved two left-wing opposition parties and worked to stop two referendums that grassroots and opposition organizations had promoted. Trujillo participated in the first effort, which tried to put new oilfield development in the Yasuní National Park to a vote; centrist César Montúfar and conservative

Bond	Last Price (end of the month) 2018						
	20-Jul	29-Jun	May	Apr	Mar	Feb	Jan
Global 2020	105.26	102.24	104.12	103.10	108.42	108.75	109.98
Global 2022	106.74	102.55	105.36	105.54	111.06	113.07	116.32
Global 2023	99.04	93.71	97.75	97.89	104.68	106.64	110.12
Global 2024	94.56	89.25	94.06	94.11	100.70	102.06	106.04
Global 2026	99.20	93.58	99.08	98.50	107.37	110.44	114.40
Global Jun 2027	98.75	93.33	98.70	98.11	107.08	110.35	113.76
Global Oct 2027	94.88	89.16	94.49	94.36	102.19	105.58	109.17
Global 2028	89.60	84.02	88.66	88.53	96.76	99.23	102.04

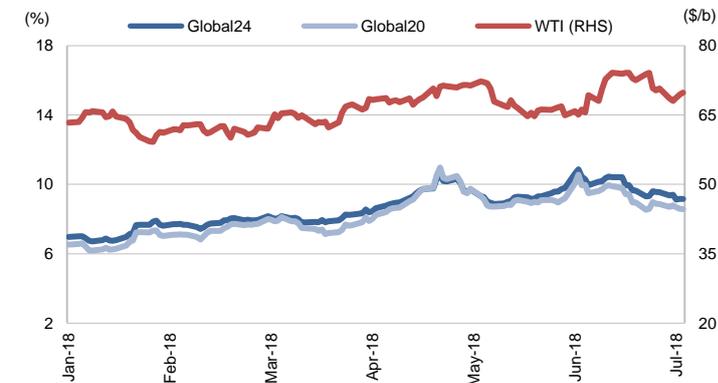
Source: Bloomberg and Analytica

EMBIG Spread



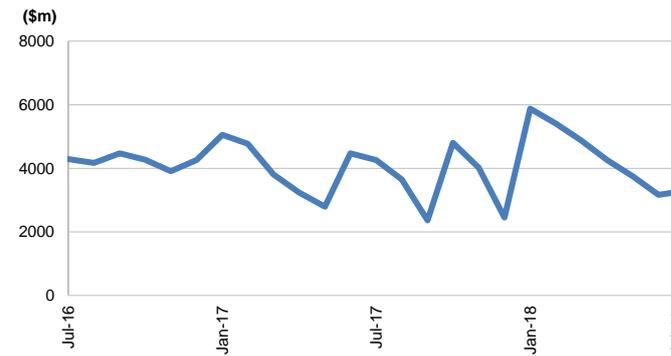
Source: JP Morgan and Analytica

Bond Yields vs. WTI 2018



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Guillermo Lasso meanwhile led the effort for a vote on constitutional reforms that included the removal of term limits. The CNE and Constitutional Court (CC) blocked both.

While oil development in the Yasuní is going ahead and of major importance to fiscal recovery, Trujillo has first-hand knowledge of what happened with the referendum attempt, including a back-door removal of the boxes filled with 800,000 signatures volunteers had collected. CNE officials may have expected not to be fired after organizing the February 4 referendum that set the ground for the review of all authorities in office put into place by the old CPCCS even without the consent of the Constitutional Court. The CNE had agreed with president Moreno, who called the vote, that the CC missed its deadline to comment on the referendum's content. Nubia Villacís, the CNE's fired president, said that given the context, if the CNE was illegitimate, so is the TCPCCS. In response, the Council said that "it is not exercising jurisdictional power nor is it competent to declare nullity of administrative acts." Additionally, Ana Marcela Paredes, the CNE's vice president and the dissident voice of the otherwise fully pro-Correa council, disagreed with Villacís and said that the TCPCCS had respected due process. While she, too, defended her track record, she said she would step down rather than appeal, as the others will.

Some observers fret about the TCPCCS's extensive interpretation of its powers, including its claim to review the CC. The Council is considering installing a permanent six-year CNE leadership, rather than just one to organize next year's elections, which will include choosing the members of the next CPCCS as well, under imperfect new rules that exclude candidates from being members of political parties, a violation of the freedom to run for office. Before Correa, the CNE was led by representatives of rival political parties, to some extent guaranteeing its independence through diversity. Correa claimed this implied "politization" and promised to create a fully

independent board. In fact, the opposite happened, with the CNE becoming a body stacked with his cronies. It's still not clear what will replace the electoral board, which explains the doubts among the TCPCCS's members as to how exactly to continue. The legitimacy of elected officials hinges on the solution it will find. With the judiciary at least, the TCPCCS appears to have been successful so far. Lawyers have applauded the appointment of Juan Vizueta, defender of political prisoner Galo Lara, a former legislator, as director of the Judicial Council, making him responsible for the day-to-day running of that body, hoping to restore trust in judicial independence.

Aside from the review of the electoral board, the TCPCCS has rejected some candidates Moreno has put forward to replace fired regulators. It has also investigated corruption cases, resulting in an accusation against Mariano Zambrano, the prefect of Manabí for Moreno's ruling Alianza País (sic) party, as well as against his son, also called Mariano. AP removed the younger Zambrano as the party's general secretary, but father and son deny the charges. Meanwhile, María Arboleda, the TCPCCS official who filed the indictment against them, said she had received death threats, prompting pro-democracy NGO Fundación Ciudadanía y Desarrollo to remind authorities of their obligation to provide anti-corruption fighters with protection.

Downward Mobility

The latest poverty data released by the National Statistics and Census Institute (INEC) provides evidence of the woes the economic slowdown is causing on households. The data unsurprisingly shows that growth during the past decade under Rafael Correa failed to translate into a virtuous cycle and also failed to solve the imbalances in prosperity that exist between rural and urban areas. In the case of Quito, it appears to have exacerbated problems as

nowhere else has poverty, based on income levels, increased as strongly as in the capital.

According to the latest INEC bulletin on poverty by income, the percentage of people in poverty rose 1.4 percentage points to 24.5% from 23.1% a year earlier. People in extreme poverty were 9.0%, up 0.6 points from 8.4%. The threshold for poverty was \$84.72 per month, with \$47.74 that for extreme poverty, based on a methodology introduced in June 2007 (thanks to deflation, it was the first time the poverty line in dollar terms dropped from the previous measurement; still, income of \$85 a month hardly qualifies someone as middle class). At the national level, the change "is not statistically significant," INEC said. The difference between rural and urban areas thus remains glaring, with the former 43% (up from 41% a year earlier) and the latter 15.9% (up from 14.6% a year earlier). At the national level, poverty data has varied little in the past five years. In the previous half-decade, it had dropped significantly from 36.7% at the national level, from 61.3% in rural areas and from 24.3% in cities.

At the local level, changes are significant, with Quito faring particularly badly. Poverty surged to 12.8% from 7.8%. Analysts cited by *El Comercio* attributed the decline to a fall in government spending on capital, prompting a decline in construction projects that provide a lot of jobs for unskilled labor, even while the local administration, with hiccups, is working on an underground metropolitan railway. In Guayaquil, too, poverty rose, albeit at a slower rate, climbing to 14.1% from 10.5%. In contrast, in Cuenca (much smaller at less than half a million residents compared with more than 2.5m for Ecuador's two biggest cities, but also more remote), poverty plunged to 2.8% from 7.8%. These differences imply that ahead of the local elections next year, policy differences among cities deserve more analysis.

Bringing Back Brains

Ecuador this week joined most of the region in condemning the violent repression of dissenters perpetrated by the regime of Daniel Ortega in Nicaragua and calling for peaceful dialogue and new elections. Aside from the diplomatic importance of putting pressure on Ortega's criminal regime, Ecuador's participation in the joint statement marks an end to its isolation from cooperation with the leading nations of the region.

It also comes as the new foreign minister, career diplomat José Valencia, has decided to relaunch the diplomatic academy and reenlist experienced longtime diplomats. The strengthening of Ecuador's diplomatic service comes as it faces a public relations challenge from former president Correa, who, with allies, insists his mounting legal woes are nothing more than an evil political witch hunt. An incident near his home in Louvain-la-Neuve, Belgium (which he bought with funds he won in a suit against Banco Pichincha in 2010 that Belgian officials should know is probably an example of his influence on the judiciary), where he now lives with his Belgian wife, has led to yet another court case: Correa filed a suit against Ramiro Cueva, a journalist from Loja whose *Ecotel* television station he had taken off the air. Correa accuses Cueva of threatening him with a gun in the street; according to Cueva, all he had was a mobile phone, adding that he was beaten by Correa as the former president's bodyguards held him down. That case will be heard starting August 8. For Ecuador's foreign ministry, the case of two Ecuadoreans in court in Belgium will be an opportunity to prove its professionalism and to ensure there is no favoritism. At the same time, Valencia has told Ecuadorean embassies to explain to foreign governments that the Moreno administration respects an independent judiciary while refusing to cover up corruption.

President Moreno himself will be able to put that position forward during a trip to the U.K. and Spain next week.

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