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**ECUADOR WEEKLY REPORT®**

**KEY INDICATORS**

**For the week of Jul 30 – Aug 3, 2018**

**Two Months to Restore Faith**

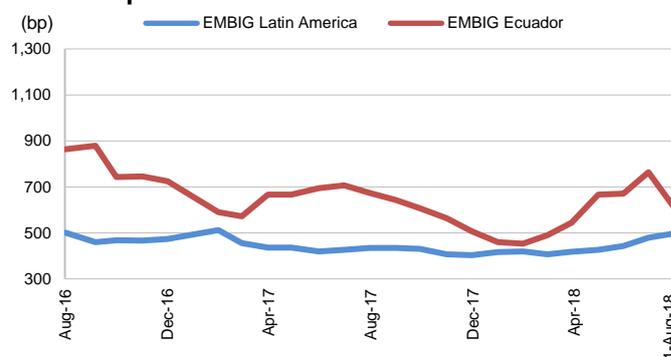
The temporary Citizens' Participation and Social Control Council (TCPCCS) last week announced the new directors for the controversial National Electoral Council it recently fired. While not removing the corrosive influence of Correísmo altogether, the new board appears to be taking steps to restore faith in voting largely lost during the years it spent controlled by Rafael Correa (2007 - 2017). The five new leaders of the CNE have little if any experience in electoral matters, but most do have public credibility. The institution they lead sorely needs it.

The new panel appears to be a compromise solution, with the new appointees enjoying the personal trust of the TCPCCS leadership. It's presided by Gustavo Vega, a consummate academic with psychiatry, anthropology, and history among his areas of expertise plus a postgraduate degree in conflict resolution and was special ambassador to the 1995 peace negotiations between Ecuador and Peru that finally laid to rest the 200-year border conflict. The new CNE also includes retired colonel Alberto Molina, who fought in the last border war with Peru alongside TCPCCS director Luis Hernández and who in recent years made a name for himself as a columnist for *El Universo*, mostly on military matters but also writing in favor of the representative democracy severely diminished by Correa. Diana Atamaint, meanwhile, is a member of Ecuador's Amazon Shuar people and a former legislator for indigenous party Pachakutik, which the TCPCCS president Julio César Trujillo and director Luis Macas

Bond	Last Price (end of the month) 2018							
	3-Aug	31-Jul	29-Jun	May	Apr	Mar	Feb	Jan
Global 2020	104.57	105.54	102.24	104.12	103.10	108.42	108.75	109.98
Global 2022	107.15	108.28	102.55	105.36	105.54	111.06	113.07	116.32
Global 2023	99.14	100.21	93.71	97.75	97.89	104.68	106.64	110.12
Global 2024	95.42	96.56	89.25	94.06	94.11	100.70	102.06	106.04
Global 2026	100.30	100.99	93.58	99.08	98.50	107.37	110.44	114.40
Global Jun 2027	99.93	100.61	93.33	98.70	98.11	107.08	110.35	113.76
Global Oct 2027	96.03	96.60	89.16	94.49	94.36	102.19	105.58	109.17
Global 2028	90.85	91.40	84.02	88.66	88.53	96.76	99.23	102.04

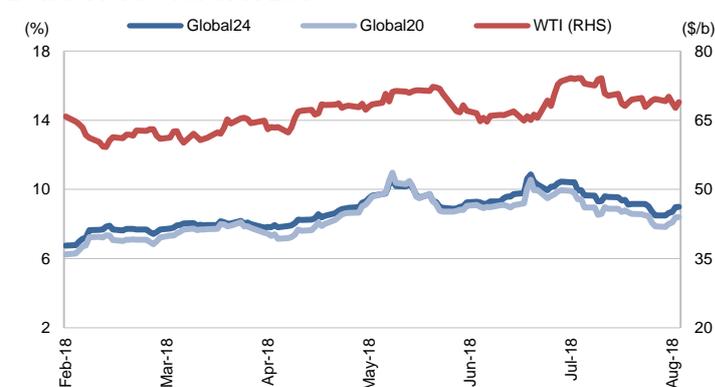
Source: Bloomberg and Analytica

**EMBIG Spread**



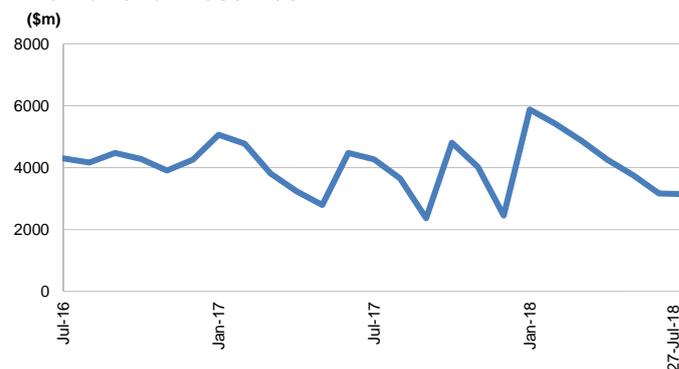
Source: JP Morgan and Analytica

**Bond Yields vs. WTI 2018**



Source: Bloomberg and Analytica

**International Reserves**



Source: BCE and Analytica

have also represented politically. The other two are Ricardo Cabrera, an information technology specialist who worked for the old electoral board early in 2007, and Camila Moreno, a lawyer who worked as an advisor in the scandalous 2012 so-called consultation of indigenous communities ahead of a failed tender of Amazon oilfields.

Regardless of their inexperience with direct electoral matters, the new officials have pledged to tackle some crucial issues that undermine voters' confidence in the authority tasked with providing free and fair elections. They will review the past CNE's decisions to shutter individual political organizations, potentially reversing them. They will "exhaustively revise" the budget for the next elections for excess spending and ask the comptroller general's office to review recent spending at the CNE. Together with the Civil Registry, they will review the electoral roll, which appears to be inflated by more than one million voters, a particularly worrying issue given the contested result of the last election, which put Lenin Moreno into the Carondelet palace. Still, worries abound about the ability of the new CNE directors to tackle the ingrained mechanisms of a decade of *Correísmo*. This is compounded by the shortsighted decision of giving them just two months for their work. In an interview with newspaper *Expreso*, Vega said that "even if we can't take on the broad spectrum of how complex the electoral system is, we can start turning around the screenplay so that this country can begin to have confidence in the elections." To the chagrin of many and despite Vega's acknowledgment that the vote lacked credibility, this will not include investigating the fraud allegations accompanying the 2017 presidential elections. Vega appears concerned not to rock the legitimacy of the current administration too strongly, saying that "things are going ahead in the country."

### **Fast-Track Marathon**

For an urgent economic plan, the one still being debated is taking a rather long time to make it to the official gazette, now in its third month. Since its first mention early this year, it has gone through the hands of three finance ministers, the current one, Richard Martínez, giving it its present focus on encouraging new investment and creating a fiscal sustainability plan. In president Moreno's lengthy line-item veto (an executive privilege to practically rewrite already passed legislation that must be rolled back as part of Ecuador's democratic restoration), most of the many changes aim at aligning the bill with other legislation. Few of the changes are substantive. Above all, the bill retains the goal of reducing the budget deficit to zero before interest payments by 2021, while allowing the finance ministry to keep issuing new debt although debt cracked the legal ceiling of 40% of GDP back in 2016. There is still some muddling through in the whole process of reform. Moreno is of course observing the proper, plodding legislative procedure required by his anti-confrontational stance. Yet the longer it takes for the law to go into effect, the longer the finance ministry must wait before it is legally entitled to raise additional debt. Additionally, much of the detail of the fiscal sustainability plan will go into a body of rules issued by the administration. This has the benefit of speed and coherence, but the drawback of being easily repealed with a change in government. In a somewhat optimistic scenario, a success of the reform program through the end of Moreno's term in 2021 will lead Ecuadorean policymakers to recognize the benefit of reasonable economic management.

Beyond the slow pace of reform, the government did manage two relevant moves in recent days that should boost its reputation in financial markets. Moreno appointed Guayaquil economist Marcos López, an outspoken critic of the lending of central

bank funds to the government under Correa and fiscal profligacy in general, as his representative on the fiscal and monetary board, the top financial regulator in the administration (it also controls the central bank). This sends out a positive signal regarding the board's future plans. Meanwhile, the finance ministry has begun what is to be a regular series of conference calls with bondholders. On its web site, it released data on what deputy minister Santiago Caviedes discussed in a series of charts. It provides a foreign debt payments calendar showing a peak of \$5.94b in interest and amortizations in 2020, but already heavy payments near \$4.1b this year and next. For the funding gap in the remainder of the year, the finance ministry says it has obtained \$3.54b in committed funding, including \$1.75b in domestic debt and another \$295m from oil "pre-sales," with the remainder stemming from multilateral lenders. A \$2.1b gap remains, with \$1.7b to be obtained from banks.

The document also provides a more aggressive deficit reduction plan than the one in the economic package, calling for a 0.2% of GDP primary surplus in 2020, a year early (Ecuador will still have a deficit of 2.6% of GDP that year). This is to be reached by reducing the deficit by 0.6% of GDP each year, with a deficit of 3.8% of GDP planned for 2018. Spending cuts this year are to total \$601m, including \$447.25m in current spending. According to people who listened to the call, it went well. Ecuadorian bonds have also outperformed the broader frontier market in recent weeks, reflecting positively on current efforts to right the ship of public finances.

### **Last-Minute Backflip**

The controversial Constitutional Court (CC) has repeatedly made headlines in the last few weeks as it appears desperate to regain some public credibility. First, it struck down an appeal by US oil company Chevron, which had said that its constitutional rights had been disregarded during the trial in Ecuador that

resulted in a \$18b environmental fine, halved by the CC in an earlier ruling. Second, last week, it ruled that several of the constitutional reforms of 2015 actually violated the 2008 constitution. Both decisions smack of desperation to ingratiate the court with the general public and the temporary Citizens' Participation Council, which has declared its intent to review the CC too.

While Chevron has successfully fought off bids to have the Ecuadorian ruling enforced in foreign courts where it actually has assets, the case against the company in Ecuador continues to enjoy some popular support. At the same time, it's doubtful that this will win over green sympathizers. Environmentalists will not forget the court's anti-democratic suppression of efforts to force a referendum on oilfield development inside the Amazon rainforest Yasuni National Park in 2014. It also refused to allow a referendum on the same constitutional changes it now rolled back. Under the 2008 constitution, changes to this basic law that reduce rights are illegal. Yet the CC in 2015 approved all of the modifications proposed by the Correa regime. The current judges took office during the weeks of congressional debate regarding the changes. Three years later, and after voters reintroduced term limits in the referendum last February 4<sup>th</sup> that the reforms had scrapped, the judges reinstated freedom of speech as a human right after Correa had it declared a public service, as if that right were a utility; the comptroller general's office recovered some lost rights to review the effectiveness of public spending; limits on topics that could be voted on in referendums were repealed; and the armed forces' role in policing has also been declared unconstitutional, among the main points of the decision. This will do little if anything to save the fate of the court, some of whose judges are also under investigation for money laundering. If justice was truly the goal of the decision, it has been belatedly served. Pundits have pointed out that judges whose decisions

are guided by where the political breeze is blowing  
have no right to preside over a courtroom.

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