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ECUADOR WEEKLY REPORT®

KEY INDICATORS

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Final Struggle

As the *Ecuador Weekly Report* had predicted, for the first time since November 2006, the first round of the presidential election failed to produce an immediate victor. Lenin Moreno, the candidate of the incumbent Alianza Pais (sic) political vehicle, will face a runoff against conservative challenger Guillermo Lasso (CREO) on April 2 after falling short of the 40% threshold he needed to win in the first round. The National Electoral Council (CNE) awarded Moreno 39.35% of the vote and Lasso 28.1%, although suspicions of fraud and irregularities cloud the perception of the entire process, beyond the CNE’s blatant disregard for the use of the state by the Moreno campaign. Though more than 60% failed to vote for Moreno, conditions for the second round may be close. President Rafael Correa told foreign reporters the dispute for his succession would be “the Battle of Stalingrad.”

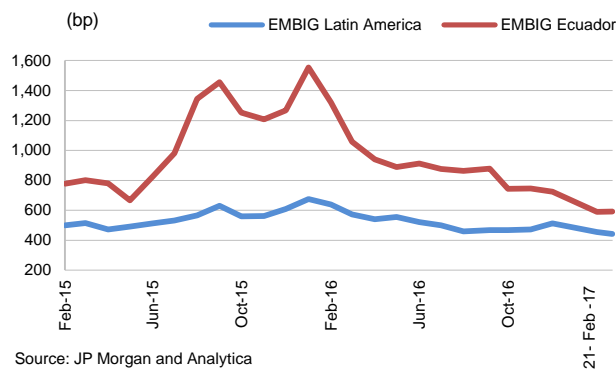
The day of the election, minor incidents made their way into social networks, most dramatically the jeering and booing directed at vice president Jorge Glas, Moreno’s running mate, when he went to his voting precinct in Quito. In the evening, things got more complicated quickly: Exit polls by Cedatos and Market indicated the result that ended up being correct, i.e. a runoff, but Opinión Pública Ecuador (OPE), led by pollster Santiago Pérez, said that Moreno had won in the first round with 42%. This prompted an AP party at the organization’s headquarters in Quito, during which Moreno gave a short statement on stage and then spent most of the

Ecuador's Global Bond Prices

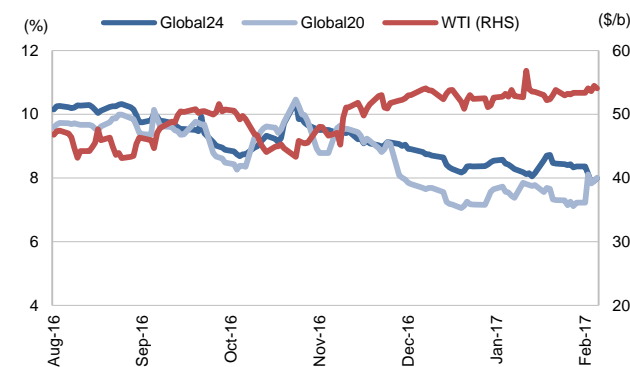
Bond	Last Price (end of the month)							
	24/02/2017	Jan	Dec	Nov	Oct	Sep	Aug	
Global 2020	109.93	109.52	107.89	105.54	106.13	102.51	102.30	
Global 2022	111.26	112.25	108.81	104.94	106.11	102.47	102.89	
Global 2024	99.82	99.07	95.92	92.15	94.55	90.25	88.05	
Global 2026	107.66	105.96	102.50	N/A	N/A	N/A	N/A	

Source: Bloomberg and Analytica

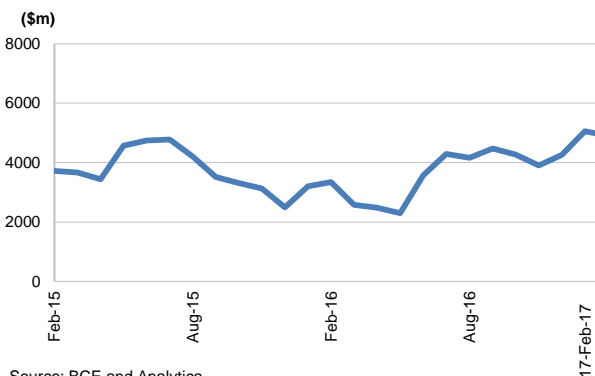
EMBIG Spread



Bond Yields vs. WTI in 2017



International Reserves



night singing. Supporters of opposition parties however immediately suspected fraud and headed to the CNE headquarters in Quito and CNE offices elsewhere.

Lasso's team estimated the result at 38% for Moreno and 30% for himself. The CNE dispensed with a quick-count it had itself contracted from the Quito Polytechnical School for \$93,000. Instead, Juan Pablo Pozo, the CNE president, simply read out the available data in an evening broadcast, which also cast a doubt on Pérez's estimate. Already back in 2011, Pérez had been wildly wrong regarding support for the referendum at the time: Pérez said close to two thirds had voted for the package that eventually allowed Correa to take control of the judiciary; but he eventually won only barely and with numerous allegations of fraud. Some time later, after protesting that CNE officials had attempted to impede it from doing its job, non-governmental organization Participación Ciudadana published its quick-count that also supported the earlier surveys other than OPE. Breaking a legal ban on revealing surveys before the close of polls, defense minister Ricardo Patiño tweeted results of three polls claiming more than 40% for Moreno, and other officials including Correa have made similar statements, but none of these other polls have been made public.

While the CNE vote count slowed to a crawl, the protests mounted. Thousands spontaneously hit the streets during daylight hours. Dozens even stayed through the cold rainy nights in Quito and sweltering nights in Guayaquil. In the port, pro-Correa demonstrators pelted the vigil with bottles, eggs, and other objects, while the protestors caught several individuals carrying in ballots in backpacks, breaking the chain of custody (only police and armed forces are allowed to transport ballots; Correa later told foreign journalists people stopping these formally illegal transports were "violent"). Lasso allies including vice president Andrés Páez kept the pressure on during the vigil in front of the CNE. Former vice

president León Roldós described the delay in releasing the presidential election results unprecedented, particularly after dozens of millions of dollars went into upgrading the CNE's IT infrastructure once again. As Moreno's percentage of the votes inched higher and Lasso's lower, protests grew. Finally, after tacitly acknowledging that it was statistically impossible for the results to change, Pozo confirmed this in a television statement. The crowds erupted into euphoria as the runoff was confirmed.

A fair number of participants in the protests were people unlikely to have voted for Lasso in the first round, which included six more candidates: conservative rival Cynthia Viteri, retired general and former Quito mayor Paco Moncayo, populists Dalo Bucaram and Iván Espinel (the latter a nephew of Glas and publicists Vinicio and Fernando Alvarado, key Correa officials), former foreign minister Patricio Zuquilanda, and former prosecutor general Washington Pesántez. As we have mentioned before, had a single conservative candidate challenged Moreno, the tense situation of the past days would have been avoided. Lasso does look strengthened now, and Viteri and her political mentor, Guayaquil mayor Jaime Nebot, called on their supporters to vote for him in the runoff. The left supporting Moncayo is waffling, but part of it will also support Lasso. With the rest up for grabs, then end result is likely to remain closer than the immediate 60% who voted for a candidate other than Moreno might suggest. Polls for the runoff have yet to be released.

On the part of correísmo, the campaign has already begun extraordinarily dirty. Correísta officials and candidates have called for the withdrawal of funds from Banco Guayaquil, the leading commercial bank in which Lasso is the majority shareholder. One legislator, Rosa Orellana, a backbencher from El Oro, tweeted a photo from an anti-Lasso demonstration in Quito and claimed the people were unsuccessfully trying to withdraw cash from the bank. Regulators as of the close of this edition were silent on the matter.

Anti-Lasso protestors also pelted a Lasso campaign office with solid objects. While this is sadly unsurprising, what is particularly disgraceful is that, thanks to some foolish tweets by individuals calling people from Manabí ungrateful for voting mostly for Moreno, AP has unleashed a campaign to “return” earthquake relief donations to CREO in Quito, when in fact private citizens from the whole country went to extraordinary lengths to support victims of the quake in April and May last year; many still live in tents, now in the rainy season, as the government has failed to complete promised housing programs. Moreno has thrown himself into the fray by dropping his normal good-humored, good-cop routine that inflated his popularity when he was in office. Adopting Correa’s aggressive, libelous language, he has lashed out against Lasso for his alleged role in the 1998-2000 financial crisis (disproven by the Correa administration’s own review of the crisis in the president’s first term).

Lasso, meanwhile, has refrained from responding in kind. Páez drew some criticism on social networks for hanging a small stuffed sheep from a stick, however this was atop a truck as he was running out of ideas after several days of protests. Lasso has reached out to seek the support of further candidacies and may meet Moncayo next week. Indigenous umbrella organization CONAIE at the last moment shied away from calling on their supporters to vote against correísmo outright, but the strongly indigenous provinces of Chimborazo in the Andes and the two southeast Amazon provinces voted strongly in favor of Lasso. In the highly populated province of Manabí, however, activists are complaining about the Lasso campaign’s lethargic campaign there - so weak that he might lose crucial percentage points there, they warn.

Master of Puppets

If he wins, Moreno will have a small majority in the congress. The preliminary data points to 71 seats out

of 137 retained by correísmo, a loss of almost 40 from the present legislature. Together with the numerous other institutions controlled by correista officials - the judiciary and the Central Bank of Ecuador (BCE), to name just two - he would appear to be comfortable in this position. But even before the second round of the elections, Correa has already downplayed Moreno’s power, setting the stage for a resumption of internal problems Ecuador has experienced many times in the past. For Lasso, meanwhile, the situation may look somewhat worse initially than it may be in practical terms if he were to take office.

It looks likely that the present distribution of seats in congress will hold, despite allegations of ballot-stuffing and other irregularities to the detriment of some political organizations. The 2012 gerrymandering of voting districts in 2013 gave AP 73% of the seats with less than 53% of the votes, and a slight absolute majority in this elections even though AP received less than 40%. Correa shrugged this off in his press conference with foreign media this week as something technically unavoidable due to the use of the D’Hondt method to assign seats. It’s unclear whether those parties alleging fraud will mount a serious challenge, and in any case appeals have never succeeded against the wishes of the government in recent years (the CNE struck down two opposition bids to hold referendums, first on oil development in the Yasuní National Park, the second against the scrapping of term limits). The congress will be less fragmented than during other recent terms. Small parties that held on were the returning Democratic Left and indigenous party Pachakutik; the party of billionaire Alvaro Noboa, AEA, failed to obtain seats, as did the Avanza party led by former Correa cabinet minister Ramiro González. CREO and Viteri’s PSC had a solid showing, meanwhile.

Speaking to foreign journalists, Correa said that he wanted to retire from politics but that, if necessary, he could return in triumph in a year by having snap elections called. It’s not entirely clear how that would

function. In fact, the least speculative way this could occur would be if he simultaneously dethroned Moreno. Ecuador's 2008 constitution includes a mechanism that has come to be known as the *muerte cruzada* (crossed death) to lead out of a conflict between the legislature and the executive that happened several times since redemocratization in 1979. Once during a term, the president can dissolve congress, or vice-versa (Articles 129-131 and 148). But since the congress needs a two-thirds majority to do so, this scenario could only go into effect should the president seek it, given that the opposition holds almost half of the seats. Correa could hardly have given Moreno a stronger vote of no confidence, even though the candidate has said that, if elected, it will of course be he who will govern. Additionally, as corruption allegations against vice president Glas will likely continue to emerge, a situation may well emerge under which the opposition may seek to impeach him. It can start the impeachment of the vice president with just a third of the votes (a quarter, for some other officials), which it should easily muster even considering the fractious traditions of Ecuadorian politics. Moreno may well decide that he would rather hold on to the presidency rather than go down with Glas.

If elected president, Lasso meanwhile would start with a minority, and Correa already insinuated that AP would make life difficult for him if he were to dare to roll back *correísmo*, as Lasso has pledged. Here, again, the facts don't necessarily favor Correa. First, with Correa absent from the seat of power, his ability to exert control over AP legislators will weaken. A switch of several to the opposition is feasible, as has already happened in recent years. Second, the "hyperpresidentialism" enshrined in the constitution strengthens the executive branch in several ways. The extensive veto power of the president would allow him to rewrite legislation, and AP would lack the majority to overrule him. Third, the pro-Lasso parliamentary block could seek to impeach a series of

officials held over from the present administration, including the prosecutor general and comptroller general. Of course, AP could try to impeach him, but it remains to be seen whether it is popular enough going ahead to try this since it needs two thirds of the congress to remove him and, otherwise, a snap election would put AP's congressional seats on the line. *El Universo* columnist Gabriela Calderón has also mentioned a series of unilateral measures a business-friendly president could initiate without requiring congressional consent. This includes deregulation of domestic red tape and a reduction of trade barriers and a stabilization of monetary and debt policy via the powers of the banking and financial regulator. The institutional framework Correa tailored for himself may well come back to haunt him.

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