



Ramiro Crespo
 Chairman of the Editorial Board
 WEEKLYREPORT@ANALYTICAINVESTMENTS.COM

ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Mar 27 – Mar 31, 2017

Out of Macedonia

What do cities like Amherst, Austin, Buenos Aires, Cambridge, Rotterdam, Kansas City, Manchester, Raleigh, Munich, New Delhi, or Washington, D.C., have to do with the fake news hub of Veles, Macedonia? They're home to university professors who have signed off on an open letter veiledly attacking conservative candidate Guillermo Lasso (CREO), titled "50+ Economists Warn Against Neoliberalism's Return in Ecuador" that deserves to be called out as "post-truth," "alternative facts," or "fake news," like reports published by climate-change deniers or the Macedonian youths who have become notorious for fabricating hard-right propaganda widely consumed and distributed by sympathizers as actual news.

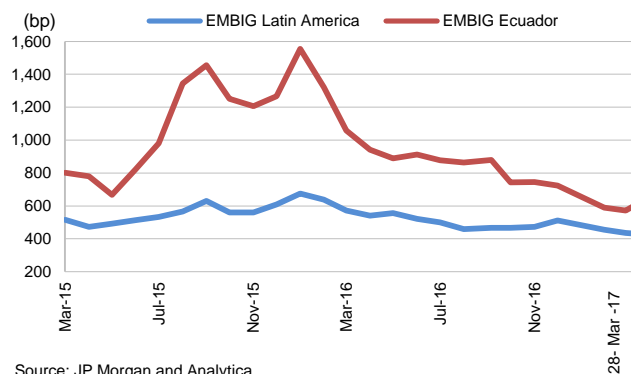
Normally, we would simply ignore it; other analysts in Ecuador have gone to the trouble of reviewing similar publications on their blogs or in editorials. On this occasion, lest we be accused of benign neglect, we will briefly discuss this text given the context of the crucial election next Sunday, because, sadly, it and similar documents appear to have gained some international traction. To summarize, the around 800-word text says the following: After 1980, Ecuador implemented "neoliberal" macroeconomic policies linked to agreements with the International Monetary Fund that "at least in part" led to widespread poverty. The signatories then find that, not thanks to the commodities boom, but thanks to "innovative policies" including "bringing the central bank into the government's economic team, a tax on capital exiting

Ecuador's Global Bond Prices

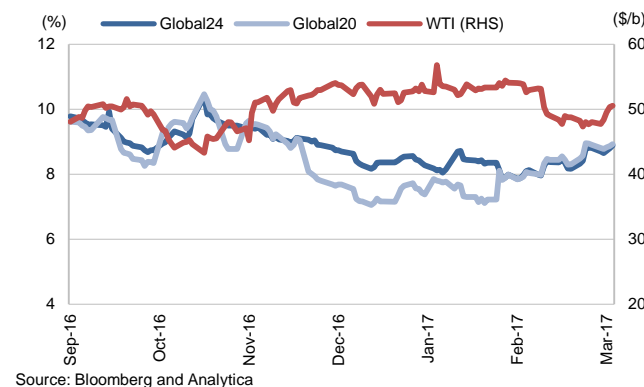
Bond	24-Mar	Feb	Last Price (end of the month)				Oct	Sep
			Jan	Dec	Nov	Oct		
Global 2020	106.90	110.18	109.52	107.89	105.54	106.13	102.51	
Global 2022	107.22	111.82	112.25	108.81	104.94	106.11	102.47	
Global 2024	95.09	100.41	99.07	95.92	92.15	94.55	90.25	
Global 2026	103.48	108.65	105.96	102.50	N/A	N/A	N/A	

Source: Bloomberg and Analytica

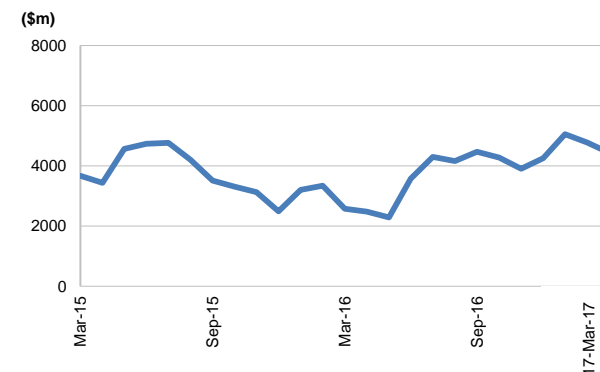
EMBIG Spread



Bond Yields vs. WTI in 2017



International Reserves



the country, a large increase in public investment, re-regulation of the financial sector, and countercyclical fiscal policy,” Ecuador experienced a golden age exemplified by sharply higher public spending on education and health, with inequality dropping, they say. A return to neoliberalism – the signatories fail to mention conservative candidate Guillermo Lasso, but appear to acknowledge the erosion of popular support for correísmo – threatens a rollback.

The authors (probably one or two of the signatories, William Black and/or Mark Weisbrot, given their track records of misinforming the public about the Ecuadorian economy while disregarding the regime’s corruption and human rights violations) say they are setting the record straight on the “confusion and misinformation about Ecuador’s achievements” and deny that they are interfering in Ecuador’s political decision. Instead, de-facto they are participating in the scare tactics used by the Correa propaganda machine to tell voters that they face a Brazil- or Argentina-type macroeconomic adjustment, i.e. a hard landing characterized by soaring inflation, spiraling utilities and other costs, and high unemployment. The letter is a hagiography rather than a reasonable review of policies. There is nothing innovative regarding the heterodoxy that Correa implemented. If there’s one thing that can characterize correísta economic policy, much like that of chavismo, it’s an emphasis on public spending with near complete disregard for quality. This has left Ecuador in a predicament that will be more easily solved by Lasso, though there will be hardship given the critical situation Correa’s successor will inherit.

In two separate publications, Weisbrot, head of a think-tank in Washington sympathetic to the Bolivarian cause, has accused international media of ignoring Lasso’s overseas holdings in Panama. On the one hand, Weisbrot breathlessly chafes at the media’s preference to look at the big picture as he is completely unwilling to recognize the massive human rights violations committed by the regimes he

applauds over almost 20 years. On the other hand, Lasso has for years acknowledged some of the holdings and denied others, which Weisbrot also refuses to consider. And, as a third point, the structuring of Lasso’s assets in part stems from divestment policies Correa has imposed on banks and that Weisbrot applauds, and also at least partially reduces a risk of conflict of interest, albeit perhaps imperfectly, by putting them in the hands of trusts that the self-proclaimed progressives find inherently suspicious.

Correa has meanwhile spent at least three Marshall plans – more than \$330b – in his decade in power. We cannot emphasize this enough as it is an incredible amount of money for a country that currently has around 16 million residents, and something previous governments could only dream of. About a third of this stems from the oil boom alone. Even at the height of the boom, Correa engaged in pro-cyclical deficit spending, which the signatories ignore, just as they do the recent economic crisis that has forced Correa to adopt a much more conservative stance given the near-force majeure none other than the plunge in oil prices imposed on his fiscal policies. The unacknowledged crisis has already unraveled much of the social achievements, forced the government to spend more on debt service than on health and education, lead to an uptick in poverty and left two thirds of Ecuadoreans without a steady job, thanks in no small extent to a surge of the minimum wage decreed by the state with no regard for productivity increases. All of this is confirmed by official data, and much of this was provoked by Correa’s refusal to hedge for a fall in the price of oil (he claims that there was no warning that the price of a resource that accounts for the biggest chunk of exports could tumble).

Beyond the lack of logic of claiming that a decades-old repertoire of measures like capital controls, stripping a central bank of independence, and “re-regulation” of banks could somehow be “innovative,” for depositors, many have been dangerous. The 2014 resuscitation of a “monetary

junta” to concentrate regulatory power over the financial industry in the hands of the political leadership is a direct throwback to the heady days of monetary manipulation that contributed strongly to the financial crisis of 1999-2000, whose heritage contributed to the emergence of *correísmo* as a political movement a few years later. Perhaps it’s no coincidence that more individuals that contributed to that crisis are to be found among past and present members of the Correa administration than among Lasso’s team. Similarly, forcing banks to repatriate overseas assets provided liquidity for the pro-cyclical spending policy, but it has increased risk by obliging companies and individuals to concentrate assets in a junk-rated investment environment.

Furthermore, the letter lacks minimum scientific rigor by periodizing blocks of economic data to support data according to convenience, disregarding key events like economic cycles, natural disasters, and periods of dictatorship. It ignores elephants in the room like the 1987 earthquake, the 1990s’ devastating El Niños and collapse of oil prices worse than that experienced under Correa, all to put the blame on Ecuador’s IMF standby agreements and supposed neoliberal policies, another fallacy of the letter. Along with Venezuela, and unlike Bolivia, Ecuador was one of the least neoliberal countries of the lot. Almost all electrical utilities remained in the hands of national or local governments, as has water, with the exception of Guayaquil. The Correa administration first built or refurbished airports that had not been partially privatized; all of these white elephants have largely been shuttered with the onset of economic reality. “Neoliberalism” in Ecuador amounted to little more than some budget cutbacks and the sale of minority shares in cement companies. Correa himself has so far unsuccessfully, except for the ports, put more up for sale than any of the allegedly neoliberal governments, which also disregards the center-left Roldós and Borja administrations. The letter also ignores

macroeconomic underperformance under Correa compared with the rest of the region, South America’s general progress amid the commodities boom regardless of national administration, and the slowdown in poverty reduction under Correa compared with his immediate predecessors since the financial crisis.

“I worry for young people’s morality in Veles,” the *BBC* quotes Macedonian investigative journalist Ubavka Janevska as saying regarding the pervasive influence of easy money made from fake news by here hometown’s juveniles. It’s one thing when kids in a poor pocket of one of Europe’s poorest areas find a niche to escape their own economic woes, inherited in part from decades of communist rule. It’s much worse when university professors do the same from the comfort of their college campuses. It’s thus deeply troubling that professors at universities in the Americas, Europe, and beyond, who are supposed to set an example for students and the public in general, are too prejudiced and lazy to refuse to sign this intellectual travesty. A cursory review of the people who signed shows no experts on Ecuador and 47 economists rather than “50-plus”; what to think of Galbraith, who disregards the mushrooming of financial cooperatives under Correa while blasting micro-credit schemes elsewhere in a recent paper? Of Gabriele Köhler, a Munich development professor whose web site shows not a shred of evidence of any study of any bit of Latin America, or of Irene van Staveren, who as a Rotterdam-based researcher on feminism and gender should call out this government due to its misogyny and homophobia? Did they read the document properly before exposing their names? Did they really sign?

In scientific language, “despite the expansion of some rights, populists’ use of discriminatory legalism to regulate the public sphere and civil society led to the displacement of democracy toward authoritarianism,” Carlos de La Torre, a veteran of studies on populism, wrote recently in an academic paper published by the

Middle Atlantic Review of Latin American Studies. For individuals in Ecuador, this has meant massive corruption, public shaming, politically motivated incarcerations and even murder under *correísmo*. Karla Kalapaqui, a left-wing activist, has put the figure of victims of this government repression at around 850. People who with their signature willfully disregard this reality should be held to account by the scientific community and beyond, particularly given the risk of trouble in the coming days, and once they hold up Correa as a shining example of the good times, which they will do when, like in Venezuela, the inevitable reckoning arrives under his successor.

A Most Violent Campaign

When the final polls came out 10 days before the election, Lenin Moreno, candidate of president Correa's Alianza País (sic) political movement, held a small lead over Guillermo Lasso (CREO), the conservative challenger around whom almost all the opposition has rallied. While Moreno had gained about 12 points above the 39.4% the National Electoral Council (CNE) attributed to him, Lasso was showing the greatest momentum as he had risen more than 20 points from the 28.1% of the first round. Some political scientists predicted a situation reminiscent of last year's extremely tight vote in Peru, where conservative Pedro Pablo Kuczynski beat populist Keiko Fujimori with 50.1% to 49.9%. As in Peru, events of the final days ahead of the vote could be decisive. And what a week it's been.

On Tuesday, Lasso and family members attended the Ecuador-Colombia World Cup qualifying match at Quito's Atahualpa stadium. The events that unfolded there by a great margin overshadowed the home team's abysmal showing. Any time the crowd would chant anti-Correa slogans or "Lasso presidente," a deafening cacophony of vuvuzela blasts would drown them out, as would the stadium's p.a. system by blaring blasts of music in the middle of the game. After the match, a crowd pelted Lasso and his family

and companions with vuvuzelas, bottles, and other objects. Police were on hand, but failed to protect them with shield. It does appear that Lasso's security should have done more to assess the situation properly. But while some people accused him of provocation, at the Ecuador Weekly Report, our position is that any individual in a free and safe country should be able to attend a match and if a leading politician can walk the streets with minimal security, all the better.

Social networks quickly went to work and identified individuals in the altercation as AP local officials and people who were previously photographed with Correa and/or appeared in propaganda films, there identified as small-scale farmers. It immediately appeared odd that they could afford tickets for the expensive seating area from which Lasso watched the game. An official at Ecuaticket, which handles ticket sales, in an interview with a sports radio station said that Ecuador's football association was aware that government-controlled entities had bought a "considerable" amount of tickets for the game, underscoring the evidence that the administration had sought to manipulate the atmosphere during the match, and that this was planned well in advance. Perhaps it did not plan the ambush, and government officials extended denials and lukewarm regrets over what happened. Some *correístas* said suspicious Afro-Ecuadorians in the stands close to Lasso were relatives of soccer stars, who could pay for the tickets; players including Enner Valencia (Everton) denied this. Lasso said he would sue and, after evidence of the government backing of the incident had emerged, said that it had hired "foreign mercenaries" to attack him. FIFA should investigate this incident regarding stadium safety. According to Andrés Páez, Lasso's running mate, the incident helped their ticket climb 0.5 points among voters as it transformed Lasso from a "banker" into a "victim."

This is by no means the lone example of a very dirty campaign led largely from the government side.

Moreno never had the integrity to show up to a presidential debate, treating the very word as an insult. His populist promises to some extent even top the limited decorum of those of Correa. In one government television interview, he said that he had handed houses to low-income voters in Esmeraldas “at zero cost to the state.” Of course, even the most basic handout of goods is illegal, yet the CNE has ignored use of state property by the Moreno campaign. Luis Espinosa, a professor of economics at Universidad San Francisco, calculates that Moreno’s campaign promises could cost around \$9b a year, or around 10% of GDP, exploding the budget by another third – hence completely impossible to fund, despite his claim to the contrary. The Communications Superintendency, the government censorship bureau, meanwhile fined media that didn’t report the story on Lasso’s alleged overseas holdings (see above), while also disregarding media rules in government media (it’s illegal to publish “personal attacks” and give one candidate more space than another in an electoral campaign). To some extent, the smear tactics may have worked. But on Thursday, the final day of the official campaign, Venezuela’s government, through its controlled judiciary, closed the opposition-controlled congress. Lasso condemned the coup, while Moreno ignored it. This may well have provided another electoral nudge in favor of the formers’ campaign.

The editorial board of Analytica Investment's Ecuador Weekly Report publishes information obtained from expert sources, public information and media reports, and documents. Anonymity of interviewed sources is protected.