



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

ECUADOR WEEKLY REPORT[®]

KEY INDICATORS

For the week of May 15 – May 19, 2017

In Control

Alianza Pais (sic), president Correa’s political vehicle, won 39.1% of votes in the National Assembly, the name the congress has had since 2008. Thanks to changes to the electoral system in 2012, in which AP gerrymandered electoral districts in the biggest provinces and reapplied the D’Hondt method of seat distribution, that minority number of votes still allowed it to retain a majority of 74 seats in the legislature (54% of seats). Already in its initial sessions, it has used that majority to the fullest.

As expected, AP used its majority to pick former interior minister José Serrano as president and former minister of politics Viviana Bonilla, and two-term AP legislator Carlos Bergmann of Manabí as vice presidents of congress, despite conservative parties CREO and the Social Christian Party (PSC) holding a combined 36% of seats (CREO won 34 seats, 25% of congress, with 20.1% of votes, the PSC 15 seats, or 11%, with 15.9% of votes, demonstrating how the post 2012 electoral system distorts representation).

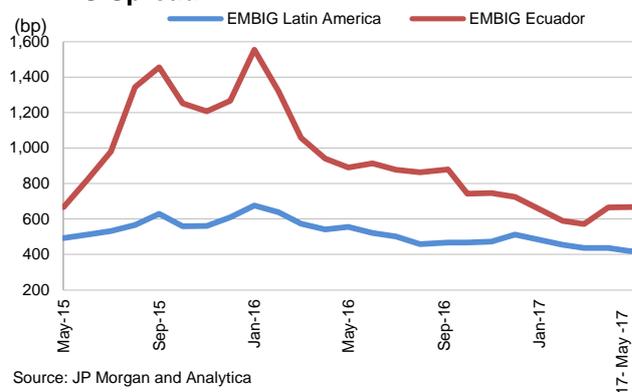
Beyond congressional leadership, AP also dominates control of the most important congressional committee, the so-called Administrative Committee (CAL), which clears or blocks incoming bills from heading to the floor. In recent years, this has led to a de-facto boycott of legislation introduced by opposition politicians. The new seven-member CAL includes Serrano, Bonilla, Bergmann and correísta legislators Soledad Buendía and Verónica Arias. The token opposition members are Patricio Donoso (CREO) and Luis Fernando Torres (PSC).

Ecuador's Global Bond Prices

Bond	19-May	Apr	Last Price (end of the month)					
			Mar	Feb	Jan	Dec	Nov	Oct
Global 2020	106.85	107.50	106.65	110.18	109.52	107.89	105.54	106.13
Global 2022	108.77	108.63	106.66	111.82	112.25	108.81	104.94	106.11
Global 2024	95.91	95.58	94.57	100.41	99.07	95.92	92.15	94.55
Global 2026	101.73	102.29	103.92	108.65	105.96	102.50	N/A	N/A

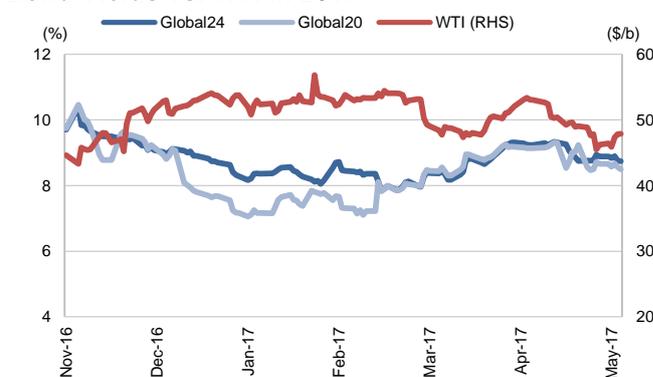
Source: Bloomberg and Analytica

EMBIG Spread



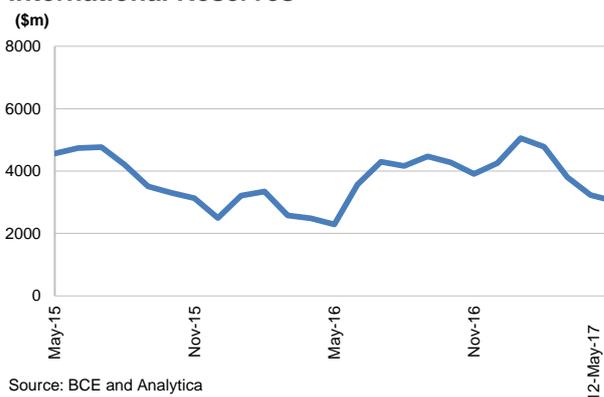
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

Altogether, the electoral rules led to a less fragmented congress. Leftwing, populist splinter parties and independents joined to form a single bloc, leaving four in total. While CREO and PSC do not form a joint bloc, PSC legislators privately say they will not ask the party's de-facto leader, Guayaquil mayor Jaime Nebot, for permission to work together with CREO, led by Guillermo Lasso, whose bid for the presidency Nebot torpedoed. Congressional committees meanwhile are all led by AP, some of them former cabinet members like Esteban Albornoz, others diehard loyalists like María José Carrión, who can expect to continue blocking all potential corruption investigations in her committee.

Besides the ability of opposition blocs being able to work together (tiny social democratic Izquierda Democrática already lost one legislator who voted in favor of AP, rather than towing the party line and abstaining), the cohesiveness of AP may be a major issue in the medium term. Several of its legislators face corruption allegations, notably Albornoz, a former electricity minister. None of them have any particular ties to the future president Moreno. How Moreno will be able to manage the likely appearance of more allegations, particularly linked to bribes from controversial Brazilian construction firm Odebrecht, remains a mystery. During his campaign, he promised to tackle corruption. If he keeps his pledge, he will have to risk the rupture of AP and need opposition support. While the opposition will have to prove pragmatic enough to support him in this case, it will certainly demand clear proof that he, too, will be willing and able to dismantle key elements of the authoritarian state Correa has built.

Almagro's Error

Exiting president Rafael Correa (Alianza País), who leaves office May 24, raised eyebrows this week after saying, during a trip to Argentina, that elections could help end the violent crisis into which Venezuela

has descended thanks to the autocratic rule and economic mismanagement imposed by his government's allies there. After meeting Argentine vice president Gabriela Michetti (he didn't meet president Mauricio Macri), he told reporters that "the situation must be resolved through dialogue and democratic ways, through elections also." The statement led to interpretations about a possible rupture between correísmo and Venezuela's chavista leadership, led by embattled president Nicolás Maduro. But while the statement, coming from someone else, would normally lead to howls of protest from Venezuela's leadership, it should be read with care. After all, the New-York-based Human Rights Foundation called Ecuador's recent electoral campaign anything but free and fair, thanks to which "the competitive-authoritarian regime of Rafael Correa has been re-elected through his former vice-president Lenin Moreno."

Just a day after returning from Argentina, the AP majority of Quito's city council struck down a motion by centrist councilwoman Daniela Chacón to declare Maduro persona non grata when he attends the inaugural of incoming president Lenin Moreno (AP). The same day, Correa decorated Juan Pablo Pozo, president of the National Electoral Council, with Ecuador's Grand Cross of the Order of Merit after he confirmed Moreno's victory in the contentious, questionable election. These were just two examples that happened practically simultaneously that accurately portray the Correa administration, even in its waning hours. But Luis Almagro, who as secretary general of the Organization of American States hasn't shied away from calling Maduro a dictator, shocked critics by calling Correa a "democrat through and through," a "great helmsman of those who are not afraid to cross storms and those who do not give up the course they have drawn." This mirrors the swift recognition of the Moreno victory by many of Ecuador's neighbors, perhaps to avoid another major crisis in a Latin American country, as The

Economist's Bello column notes this week. Still, this reinforces many Ecuadorians' view – reasonably to be estimated as the half of people who didn't vote for Moreno – that their plight, as notoriously said by Julian Assange, the Australian Wikileaks hacker still holed up in Ecuador's London embassy even after Sweden dropped its investigation into allegations of sex crimes, doesn't matter. Locally, the reputation of the OAS thus took a severe blow, leaving it close to the reputation of that of the discredited UNASUR organization.

Almagro's warm praise for Correa disappointed all the more after Ecuador received a drubbing at the United Nations' review of its human rights record early May in Geneva. There, numerous countries criticized the government for abuses against the basic human right of freedom of speech and the gagging of the press, freedom of association, the criminalization of social protest, and the treatment of indigenous peoples, as well as the lack of judicial independence. Ecuador's allies, many of them also accused of systematic human rights violations, of course applauded Correa's track record. China, which in much has distanced itself from its own Great Helmsman and a recipient of billions of dollars in Ecuadorian public works contracts, recommended the country invest more in education infrastructure (local critics dispute the value of the emphasis in infrastructure over the quality of teaching).

On its part, the administration, including current foreign minister Guillaume Long and his apparent successor, María Fernanda Espinosa, defended the record with their standard repertoire of demanding "apolitical" reviews and relativization of universal human rights. Once again, Ecuador's officials downplayed the retreat of basic rights as having been offset by rising salaries (in reality, average wages across the labor market have been falling because of the steep decline in full-time jobs). Government spokesman Patricio Barriga said the restrictions on freedom of the press aimed to eliminate sexist and

otherwise discriminatory language – while Correa has dedicated a combined total of weeks spewing forth just such diatribes in his 523 Saturday propaganda shows. In the end, Ecuador said that it rejected 19 of 183 observations made by the rest of the world, in particular regarding freedom of the press and judicial independence. Espinosa denied the existence of such violations and said the countries that raised the issues had "politicized" the human rights review, as if these could be measured in dollars and cents or meters and kilometers.

Almagro may have wanted to applaud the handover of power from Correa to Moreno as a sign of the former's true democratic vocation. Indeed, Correa didn't cling to power until he died, like his mentor Chávez did. But it's doubtful that Correa aims to truly relinquish power. He has left in place numerous mechanisms to try to keep it, like Vladimir Putin governing through Dmitry Medvedev, while stepping down also because of the new, much less favorable correlation of power in the deeply polarized society he has left behind in times of weak economic growth. At the rudder for more than a decade, Correa and his associates transformed Ecuador from the region's oldest post-1970 democracy into a personalist regime. That's not a legacy of democracy. Almagro and the other members of the OAS have reason to ponder whether Ecuador's violations of human rights merit its examination under the OAS Charter right now, rather than waiting until the situation degenerates into one like that of Venezuela.

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.