



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

ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of May 29 – Jun 2, 2017

Power Plays

Lenin Moreno, Ecuador's first new president since January 2017, has pledged a change in style he had promised to mark a change from his maverick, irascible predecessor, Rafael Correa. Some of his initial moves appeared almost unthinkable given that on the campaign trail, Correa practically vetoed any sign of political independence. In his first few days in power, Moreno has given some signs of normalization of the relationship between the executive branch and the rest of society. The collective sigh of relief over Correa's exit from the Carondelet palace has given Moreno at least something of a political honeymoon. The change in relationship also reflects a loss of executive power as Ecuador's exhausted government struggles to pay its \$1.6b monthly bill. But major questions remain.

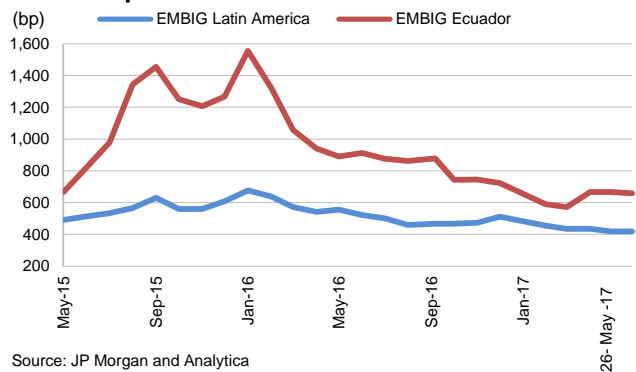
In his inaugural speech, Moreno paid only lip service to his loyalty to the government under which he served as vice president 2007 to 2013. Columnist José Hernández at online news site 4Pelatagos likened it to a speech at a funeral: "One speaks well of the deceased, but, at the same time, one bids him farewell by shoveling a fair bit of earth on him." The frequent applause from the same legislators and guests who minutes before had praised Correa and cheered the hardline correísta speech by the president of the legislature, José Serrano, leads one to wonder whether anyone was really listening. Three top Correa officials were photographed leaving the congress early on in the ceremony (at least one of them has nonetheless received a post in the new

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	2-Jun	May	Apr	Mar	Feb	Jan
Global 2020	105.55	150.58	107.50	106.65	110.18	109.52
Global 2022	108.05	107.41	108.63	106.66	111.82	112.25
Global 2024	95.24	95.05	95.58	94.57	100.41	99.07
Global 2026	101.71	101.11	102.29	103.92	108.65	105.96

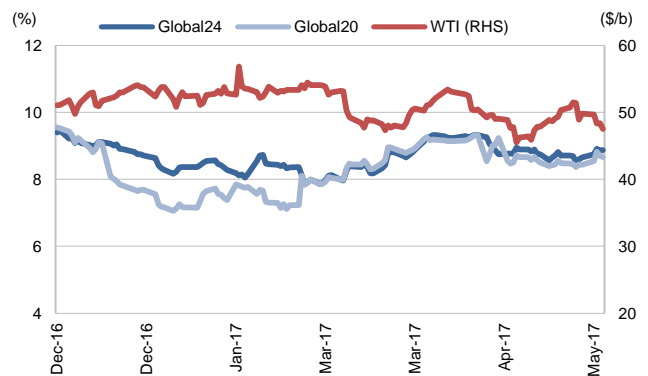
Source: Bloomberg and Analytica

EMBIG Spread



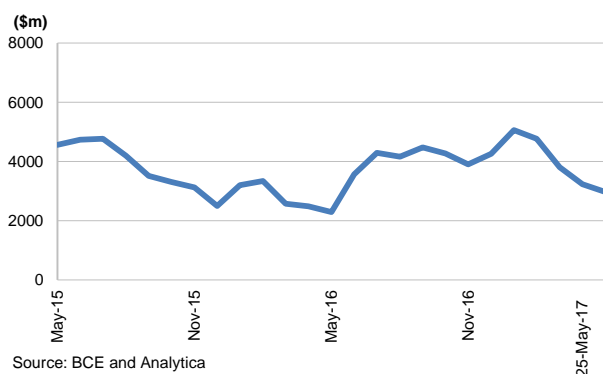
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

administration). Breaks with the populist past included his statement that he would respect freedom of the press and seek a proper relationship with the (private) media. Also unheard of in the past decade was his reaching across the political aisle to promise he respects all Ecuadorians, regardless of their affiliations – a sign of realism considering the polarization of society and that half the vote went to Guillermo Lasso (CREO), who only recently acknowledged the electoral results (the shadow of possible fraud hangs heavy, weakening Moreno's legitimacy).

Moreno also canceled the Saturday television and radio propaganda show, despite Correa's insistence that it should continue. While not a major political move but symbolically important, he quoted mid-19th century Venezuelan president Carlos Soublette as saying "The republic will not be lost because the people laugh at their ruler. The republic may be lost when the ruler laughs at his people" – indeed, a succinct description of what went wrong under Correa. The signs of tolerance mark a radical departure from a leader obsessed with his supposed "majesty of power." Moreno also moved politically towards the center (i.e., leftward) by scrapping "Plan Familia," Correa's ultramontane policy to limit women's reproductive rights, and scrapped seven "coordinating ministries," including the economy ministry, and the much-scoffed "secretariat of good living." He repeated his desire to reveal the list of individuals allegedly bribed by Brazilian construction firm Odebrecht, adding that he had already requested the information from the US and Brazilian judiciaries. Vice president Jorge Glas, suspected of corruption in media reports (he denies any wrongdoing) got demoted and will in theory largely work outside the capital, now being in charge of reconstruction of the earthquake-hit Manabí and Esmeraldas provinces. Under Correa, he ran of a vast sector of the economy, including oil, electricity, and telecommunications.

Regarding economics, Moreno has given

assurances that the government would not introduce a parallel currency, a fear that grew following the meeting between him, his economic advisor and now finance minister Carlos de la Torre and Greek former finance minister Yannis Varoufakis. The new president pledged to sign an austerity decree and urged ministers (now around 30, down from around 40) to reduce spending and adopt a less spendthrift style. He said he would speak to the military and police about slashing his close to 200-strong security detail. Additionally, he said that he would seek to revive the bilateral investment-guarantee treaties scrapped by his predecessor in the waning days of his term (see below). On the public debt, Moreno said that he had already spoken to Chinese president Xi Jinping about the need for a lengthening of maturities and adjustment of rates during Xi's visit to Ecuador last year, an aim he has for the whole of debt. In the meantime however, Ecuador placed another bond this week, issuing \$2b in \$1b tranches, the former, with a six-year maturity, fetching an 8.75% rate, the second-lowest since the return to the market in 2014; the latter, due 2027, was priced to yield 9.625%. Some local commentators rub their eyes regarding the continued demand for Ecuadorian bonds, disregarding the lack of high-yield debt in the current global bond market. Additionally, the latest OPEC meeting, while failing to surprise regarding a long extension of production cuts, at least showed that members and non-members of the cartel continue talking about reducing the oil glut. Further signals should come from the presentation of a review of the state of the economy Moreno promised to reveal next week. Along with the Odebrecht investigation, economic transparency will be a key near-term test for the new president.

Sorry End

A massive wall-like high-rise has emerged in Quito in recent months, destined to house public offices and economy-related ministries like the finance ministry,

the Central Bank of Ecuador and the Internal Revenue Service. Hence, it's officially called the Government Financial Management Platform, one of six presented in 2012 that were slated to be built scattered along the narrow valley that Quito occupies. Round-the-clock work ensured that it was finished just in time before then-president Rafael Correa left office. Quito's weather, however, also made sure that it became a metaphor for the results of his decade in power.

On paper, some of the designs were attractive. One would have included greenery that would have been a welcome extension to La Carolina, Quito's equivalent of New York City's Central Park, which has been gradually mauled by two shopping malls and commercial fairgrounds, among other cement and asphalt injuries. New presidential offices in the south of the capital were to be by far the biggest, with more than 80,000 square meters. But the plan, through which Correa sought to put an indelible stamp on the city, was more Albert Speer (the elder) than François Mitterand. Because of declining economic fortunes, by 2015, it had shrunk by a third, and now only one additional platform for social services is still under construction in southern Quito, with funding from the Inter-American Development Bank and European Investment Bank.

Existing public buildings do have issues. As Correa complained, the whole current finance ministry shudders when a bus rolls by. But the first building already shows that the plan is a failure. Architects complain that the outsized, 13-story monster consisting in what are in fact eight interconnected buildings built next to each other hammers a huge bolt into a central area, cutting off views of each side of the Quito valley. Urbanists bemoan that traffic in an already suffering area will worsen, and people have already likened it to a "Chinese Wall" or a gigantic chicken coop thanks to the metallic mesh-like structure covering it, which they associate with chicken wire.

Worst of all, an unusually heavy rain shower flooded much of the building, constructed on a lot that, in pre-Hispanic times, was marshland near a lake (the fast-food restaurants and soccer and bowling facilities that previously occupied the lot weren't prone to flooding). Videos of water cascading down walls and staircases, as well as cleaning staff mopping indoor halls, went viral, even outside Ecuador's borders. At around \$250m for 50,000 square meters, the building had a cost per square meter of around \$5000, more than double the price of even the most luxurious apartments per square meter in the capital. In the midst of the criticism, Correa put responsibility for the flooding on the municipal government, blaming it for insufficiently large drainage in the surrounding area. Indeed, water rose high enough to half cover cars in an adjacent side street, and neither *correísta* mayor Augusto Barrera nor his successor, incumbent Mauricio Rodas, voiced any concerns about the building. But Correa also claimed that strong winds led water to trickle in from the sides (there were none such during the day in question) and that some filtering through was normal in new buildings, both preposterous claims. CAMC, the Chinese builder whose former Bolivian executive (and former girlfriend of president Evo Morales) Gabriela Zapata, recently received a 10-year sentence for corruption, won't even have to foot the \$800,000 repair bills, the then-president said.

Beyond the building, other major issues were swirling at the time. These included the creation of an ominous "civil guard" that critics fear could be the nucleus of a *correísta* paramilitary unit. This is highly speculative, particularly thanks to the last-minute passage of the bill and the lack of funding; Moreno has already criticized the size of the presidential security staff. Reasons for worry do however remain thanks to evidence of attempts by Correa's Alianza Pais (sic) political movement to train potential paramilitaries, lack of information on the destiny of 10,000 AK-47 rifles imported from China amid

earthquake relief donations and Correa's own odd remark claiming the new force would protect "75,000 civil servants," implying a formidable force. Other controversial last-minute decisions were the introduction of new legislation to regulate social networks, raising fears of censorship, the pardoning of Antonio Buñay, a government banker involved in a corruption scandal in 2012 that ultimately led to the resignation and flight of central bank president Pedro Delgado (a second cousin of Correa) and the cancellation of a series of bilateral investment guarantee treaties (the plan to cancel them had lain dormant in the legislature for years).

Correa rebutted criticism by the Italian ambassador, Marco Tornetta, about the poor signal the cancellation means for foreign investment by threatening to expel him even if it was to be one of his last actions as president. In the case of the regulation of social networks, similar legislation had already been introduced. By claiming via Twitter this week that the bill is identical to an unspecified German law, Correa sought to take influence on its passage even after leaving office, although an opposition legislator says it has now been withdrawn by the legislature. In a credible article, Martín Pallares at web portal *4Pelagatos* described how Correa tried and failed to keep an office in the presidential palace for Moreno's first hundred days. He previously said he would depart to Belgium so that his family (his wife is Belgian) could spend time together after the grueling presidency. The school year at the French school where his youngest son is still enrolled ends at the end of June.

The strain of the final days in office apparently took its toll on Correa himself. The first part of the handover to Moreno was a Latin American operetta geared to celebrate his legacy, with a child thanking him on the legislative floor, a hardline pro-Correa speech by the president of the congress and former interior minister José Serrano, and folk singers and police brass bands honoring him with rather dissonant

music (the latter played the national anthem double-time, as if to get it over with). All of this moved him to tears. Afterwards, checked into the nearby Carlos Andrade Marín public hospital, where he was diagnosed with pneumonia. He spent a few days there recovering from the end to his presidency. After the damage he has inflicted on Ecuador over the past decade, destroying institutions, presiding over massive corruption and squandering its best-ever opportunity for a jump forward, hopefully, he has checked out of power forever.

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