ANALYTICA INVESTMENTS

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Fighting for Comptrol

Comptrol or accounting offices and their denizens have a rather stodgy image of bookishness. Yet in Ecuador, where bizarre events in recent years have included a central bank president being gored by a young bull and the president has regularly sung and danced with a well-known clown, the comptroller general's office saw an unprecedented, almost violent power struggle in recent days. Sadly, the background of the event is more sinister than a struggle for a corner office by ambitious accountants.

On June 2, the day his suite in Quito's Swissotel and his house in Guayaquil were searched, comptroller general Carlos Pólit appointed Sabett Chamoun as his deputy, replacing Pablo Celi. Prosecutor general Carlos Baca had ordered the searches as part of the investigation into bribes by Brazilian construction firm Odebrecht (Pólit denies any wrongdoing). Pólit had already left the country under a two-month medical leave May 26, but, after the searches, immediately went to Ecuador's consulate in Miami to order Celi's removal. Having occurred during Pólit's leave of absence, the action appeared illegal, but Pólit has said he fired Celi a day before departing; a document confirming this has not been made public.

Nonetheless, the comptroller general's office's "coordinator for human talent," Ligia Cobo, dutifully notified Celi of the termination of his duties. Celi tore the document apart, as can be seen in a video of the altercation that made its rounds on social networks. He continued working, attending a meeting convened

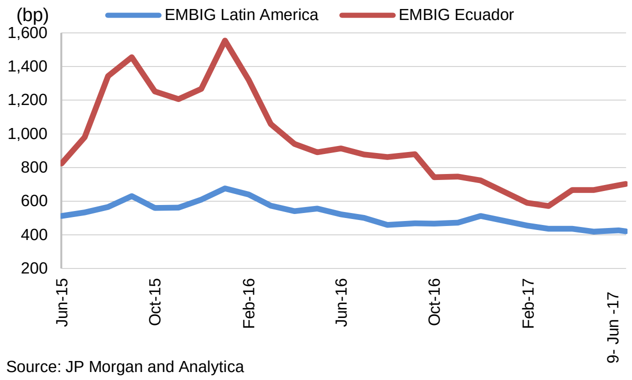
KEY INDICATORS

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	16-Jun	May	Apr	Mar	Feb	Jan
Global 2020	105.09	150.58	107.50	106.65	110.18	109.52
Global 2022	107.15	107.41	108.63	106.66	111.82	112.25
Global 2024	93.88	95.05	95.58	94.57	100.41	99.07
Global 2026	100.78	101.11	102.29	103.92	108.65	105.96

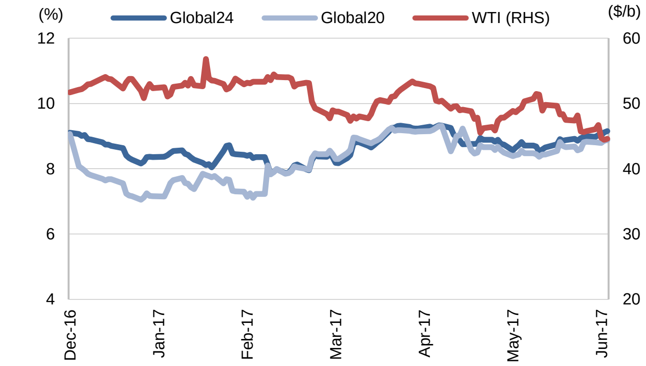
Source: Bloomberg and Analytica

EMBIG Spread



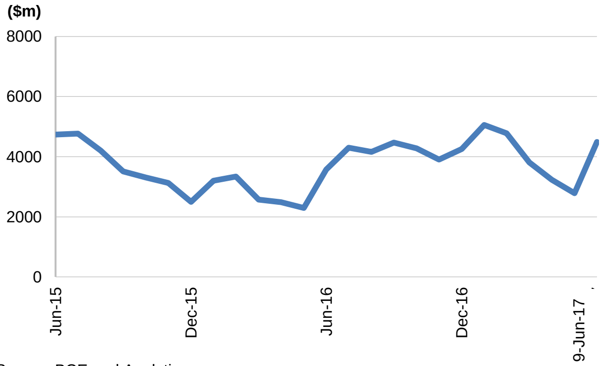
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

by president Lenin Moreno to present an anti-corruption strategy. Yet late the next day, Chamoun arrived at the building, escorted by police, to take control, and held a press conference proclaiming herself the new acting comptroller. Her victory was short-lived.

Celi's participation in the meeting with Moreno gained him the new government's support, and justice minister Rosana Alvarado said that things were clear and that Celi continued on as the deputy - and thus the acting - comptroller general. Celi also held a long meeting with José Serrano, the president of congress, before crossing the street to the accounting office building, with a police detachment of his own. He took control, firing 20 staffers, including Cobo and other officials who had tried to let him go. Of course, the situation is highly irregular. The paper trail is unclear, yet thanks to the political urgency of keeping control of the documents in high-profile corruption cases, legality has been of secondary concern.

Something must have happened to trigger the break between Pólit and Celi after they spent around a decade working closely. After Carlos Pareja, a fugitive former oil minister also now in Miami, accused them of having received briefcases full of cash as their payoffs for hiding the Odebrecht corruption, they held together (helped by the obliging inactivity of Galo Chiriboga, prosecutor general at the time). With the Odebrecht case risking to involve the top of the administration of Rafael Correa, Moreno's predecessor, control of the auditing books appears key. Sworn in by congress for another five-year term in March, Pólit was close to Correa, although the congress's willingness to impeach him weakens that interpretation. Still, by default, Moreno and Celi now appear politically linked, and holding the keys to the potential dynamite stored in the files at the comptroller general's office.

No Step Forward

Carlos de la Torre, the new finance minister, held a presentation awaited with some degree of excitement after president Moreno had announced a swift and full review of official macroeconomic data. The takeaway from the event, held in an auditorium before reporters with de la Torre swaddling on stage or bestride a white sofa as if hosting a talk show was poor as he provided few details about how Moreno's macroeconomic and spending policies might differ from those of his predecessor, beyond announcements already made. It almost felt like a watering down after some of the refreshing remarks Moreno has given.

De la Torre had the opportunity to clear the air about two issues in particular: public debt and the state of the economy. He however failed to break with claims made since 2014. Regarding the macroeconomic cycle, de la Torre repeated that Ecuador had suffered three combined shocks that have undermined growth: the strengthening of the US dollar, which undermines competitiveness; the fall of the price of oil, which led to lost export and government revenue; and last year's massive earthquake, which inflicted severe damage on the coastal provinces of Manabí and Esmeraldas, in particular.

All of this is true, but mistakes by then-president Correa did much to exacerbate the problems. Very briefly stated, Ecuador didn't hedge for a fall in the price of oil, massive spending weakened the government's ability to enact anticyclical policies, and the aggressively negative position regarding the private sector and insistence on government interference drove away private and foreign direct investment that could have provided much-needed hard currency inflows. Additionally, de la Torre used current government statistics like the highly-questioned unemployment data to support his vague policy outline and also argued against calling the oil-backed loans from China debt, since repayment is in crude oil (but these oil pre-sales carry debt). Regarding taxes, he said that any cut, for instance of the currency export tax, was up to the public-private tax board (that Moreno has pledged to create) to decide. De la Torre refused to use the word recession, repeating the mantra that Ecuador is in a "recovery."

Whether this will be sustainable remains doubtful. The latest issue of $2b in bonds will provide funding through the summer months. De la Torre didn't comment on how the debt restructuring Moreno has promised could come about, insinuating that the government will not approach the International Monetary Fund to help fund such a refinancing move, as economists close to the opposition have recommended. Moreno has pledged an austerity decree, but done nothing to make it more concrete. In mining, continuity of more investment-friendly policies forced by the onset of economic reality appears assured. Similarly, this appears to be the case in the oil ministry as well, where a rollback of Correa's failed oil policies regarding contracts is also beginning, thanks to Carlos Pérez, the personal friend of Moreno and former Ecuador manager of Halliburton who has left retirement to become oil minister.

But government finances have remained left out of the positive signs. De la Torre said that the private sector would be the motor of growth, but this is a comment that his predecessors among economic officials had also begun to make. A negative statement was de la Torre's insistence that it's fundamental to keep dollars "from leaving the country, for which a constant dialogue with the related fronts is required." This implies a plan to lean on companies to continue avoiding imports. An inkling of this came through a new non-tariff move to offset the price cuts in cars made possible by the free trade agreement with the European Union by jerking higher the minimum down payment on a new car, a decision made by the monetary junta under the old government but that went into effect in June. On June 15, Moreno signed a decree putting certain officials in charge of implementing and designing public policy across several areas of government. In practice, he reinstated some of the seven coordinating ministries of his predecessor that he had done away with on the day of his inauguration. Regarding the so-called "Sectorial Council" for the economy, he appointed Patricio Rivera, a key finance official under Correa, to lead it. Orthodox economists had hoped that Rivera was to depart as scheduled within weeks to head the regulator of the superintendent of companies in the so-called Popular and Solidarity Economy and no longer play an important role in government. No dice.