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ECUADOR WEEKLY REPORT®

KEY INDICATORS

For the week of Jun 26 – Jun 30, 2017

Still Piling Up

This week, the new finance and labor ministers, Carlos de la Torre and Raúl Ledesma, held a joint press conference to describe “incentives” for pensioners. Bizarrely, the word actually meant nothing more than to promise an initial payment of long overdue pensions to retirees, to boot funded by foreign multilateral debt. Given the personal suffering of people waiting for their money many years after having contributed to the state-run pension system, the announcement was little more than a repeat of the new Moreno administration’s pledge to work with people rather than issuing orders from above. As welcome as this kind of position is for a rollback of authoritarianism, officials are doing little to boost economic credibility. And even conciliatory statements like these are being undermined by others in the new government.

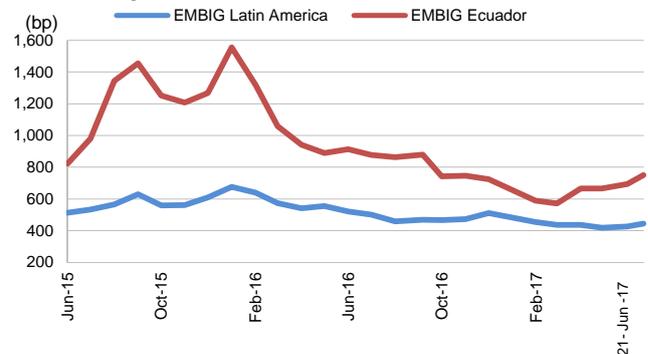
As early as 2010, four years before the end of the oil boom, president Lenin Moreno’s predecessor, Rafael Correa, had begun to fall behind on pension payments, according to Ledesma, a cabinet member of the Centro Democrático movement led by Guayas province prefect Jimmy Jairala. Correa’s record budgets simply didn’t include these payments, Ledesma added, while the government pushed the state-run Social Security Institute (IESS) to buy domestic bonds. Now, with public finances “not in their best moment,” according to De la Torre, the accumulated debt has approximately reached \$1.12b. Even the initial payment will demand a \$150m loan from an unnamed multilateral lender, with whom the

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)					
	30-Jun	May	Apr	Mar	Feb	Jan
Global 2020	104.99	150.58	107.50	106.65	110.18	109.52
Global 2022	106.50	107.41	108.63	106.66	111.82	112.25
Global 2023	98.34	-	-	-	-	-
Global 2024	93.33	95.05	95.58	94.57	100.41	99.07
Global 2026	100.34	101.11	102.29	103.92	108.65	105.96
Global 2027	99.66	-	-	-	-	-

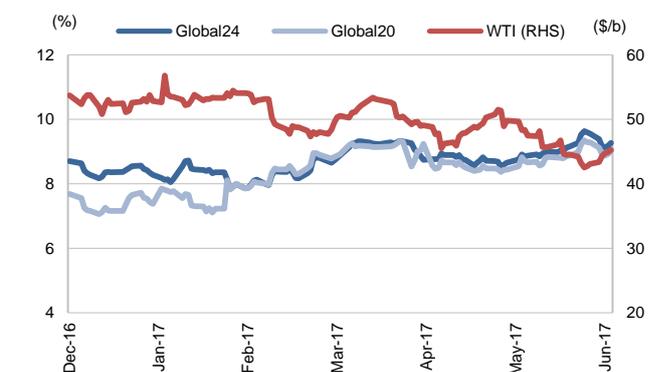
Source: Bloomberg and Analytica

EMBIG Spread



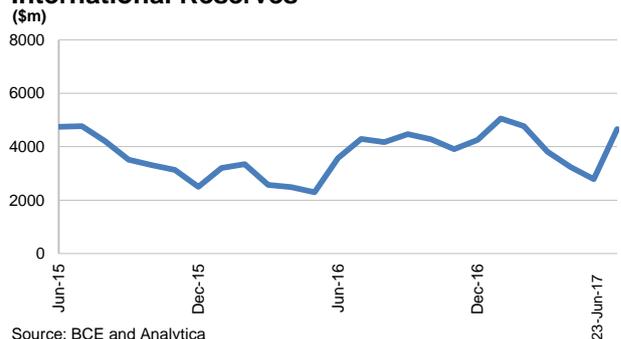
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

the finance ministry has yet to close a deal. The first payments for retirees aged 70 and older and those suffering from disabilities and/or catastrophic illnesses might begin in about a month, De la Torre added. He also said that the payment of the full amount might not be possible to complete this year.

Meanwhile, Richard Espinosa, whom Moreno kept on as the head of IESS from Correa's cabinet, blasted business councils for criticizing the previous government's use of IESS as a cash cow. Since they aren't affiliated to the system (a questionable claim), "with which moral quality can they 'defend' IESS?" he tweeted. This fallback into the lingo of Moreno's predecessor becomes all the more absurd and, indeed, unacceptable considering Espinosa's role as the system's undertaker since 2015, coinciding with the delays in paying retirees. Now that the comptroller general's office, under new management, has confirmed that the government indeed owes IESS unacknowledged additional billions – \$2.78b – Espinosa might have had the decency to resign and develop a healthy appetite for eating his own words, but instead preferred the aggressiveness that has undermined investor confidence. How the government might repay IESS funds remains a mystery.

In the meantime, the troublesome fiscal situation led ratings agency Standard & Poors to downgrade Ecuador's debt to a B- rating from B, with a stable outlook. S&P argued that financial stress and limited domestic fund-raising options "increase the country's financial and external vulnerabilities." Additionally, the debt and interest burden and "weak institutional capacity" put further burdens on the situation, especially considering the lack of monetary policy options due to the absence of a local currency (we wholeheartedly support the country's usage of the US dollar), imposing limits on policy options. At the same time, S&P argues in favor of a stable outlook given the government's stated desire to stabilize the rising debt, boost private investors' confidence, and improve

GDP growth prospects. De la Torre will have another opportunity to boost this message in the near term when he presents the budget proposal for the remainder of the year.

Going for Glas

Since narrowly failing to end Alianza Pais's (sic) decade-long rule, despite strong initial protests demanding a full recount of votes, opposition party CREO has played a somewhat subdued political role. Its candidate, Guillermo Lasso, has largely been absent from the cameras. This week, however, CREO led a large group of legislators that moved to impeach second-term vice president Jorge Glas for his responsibility in the massive corruption that characterized the Correa regime. Beyond its own bloc of 32 legislators, CREO enlisted another 27, easily topping the 30% (of 137) threshold to start the proceedings. AP has 73 legislators, down from more than 100 in 2013-2017; only AP's 2012 prescient gerrymandering of the electoral system allowed it to retain an outright majority.

The impeachment move came a week after Glas spoke before the National Assembly, officially as a sign of accountability amid the corruption scandals that have come ever nearer (on June 2, police arrested his uncle Ricardo Rivera, with whom he has had a long business relationship). The contrast with the recent spate of congressional hearings in the US couldn't have been more galling: in the reviled "empire," despite president Donald Trump's Republican majority, legislators grilled former FBI director James Comey over why the president had fired him. In Quito, the narrow AP majority rolled out a red carpet and stocked the floor with cheering supporters. The farcical procedure that protected Glas from having to answer any questions becomes all the more shocking when considering that AP for years has blocked transparency alleging it won't permit a political "circus." AP twice blocked opposition calls for Glas to be questioned. When the pressure

became too great, Glas volunteered to speak, resulting in the aforementioned four-hour circus.

Constitutionally, the impeachment faces some hurdles despite the ease with which the opposition managed to meet the numerical impeachment criteria. First, the crucial legislative administrative committee (CAL), in which AP holds six of the eight seats, needs to process the request. Then, the Constitutional Court, which has faced major corruption allegations and suffers heavily from a lack of legitimacy thanks to its political proximity to AP, needs to green-light the procedure for it to reach the floor. CREO legislators also mention a lack of clarity regarding the impeachment rules that could lead either the CAL or the court to block the impeachment. Finally, of course, AP has a majority to block the impeachment if it goes ahead and comes to a vote. AP legislators call the entire thing a witch hunt and can be expected to continue defending Glas tooth and nail.

Still, political pressure on Glas will continue to increase. The 59 legislators included a 374-page document detailing evidence of the massive corruption in the “strategic” oil, electrical, and telecommunications sectors that then-president Rafael Correa delegated Glas to lead from 2013. From the start of the Correa administration in 2007, Glas had already played a key role in these areas, and is thus at least politically responsible for bribes and other crimes that cost the state an acknowledged more than \$115m by Brazilian firm Odebrecht alone, and probably much, much more. Amid the currently shifting sands of political power in Ecuador, Glas has much to worry about. And as long as he stays on, he will be a liability for Moreno’s government.

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