Can Ecuador Rein in Spending and Assure Investors?

Ecuador’s government raised $2 billion from its most recent bond offering on May 31, indicating that investors were optimistic about the ability of newly inaugurated President Lenín Moreno to curb spending. Some analysts have pointed to market-friendly appointments at the central bank as an encouraging sign for investors. In the past, Ecuador had indicated to investors that the country would need to raise $12.5 billion this year. So far in 2017, it has raised $3 billion through bond offerings, in addition to the $2.75 billion that it raised last year. Can Moreno rein in the high spending that characterized former President Rafael Correa’s administration? Will the country be able to maintain and boost investor confidence? Will Ecuador meet its goal of raising $12.5 billion this year?

Abelardo Pachano, president of Finanview in Ecuador, former CEO of Prodebanco and former Ecuadorian central bank president: “Ecuador has an unsustainable fiscal deficit, disproportionate and growing, that desperately requires the application of fiscal austerity measures. The country’s financing needs surpass the government’s capacity to attract both internal and external investment in order to cover it. What’s more, the financial conditions for credit lines, including the bonds issued recently, are inconsistent with the country’s ability to pay them back. There’s no other way to get started with fiscal austerity, since the size of the government is too big in the face of the development and future growth outlook. In the long-term view, in order to sustain dollarization, reducing the size of the government from 44%...”

Continued on page 2
Brazilian Electoral Court Clears Temer

Brazil's top electoral court on Friday acquitted President Michel Temer of charges that he had received illegal campaign funding in a trial that could have led to his ouster, The Wall Street Journal reported. The judges acquitted Temer on a 4-3 vote, and also cleared former President Dilma Rousseff of charges that the two used proceeds connected to the massive "Operation Car Wash" corruption scandal, linked to construction conglomerate Odebrecht and state-run oil company Petrobras, to fund their 2014 bid for the vice presidency and presidency, respectively. Temer became president last year after Rousseff was ousted on charges of breaking budget laws by attempting to obscure the country's mounting debt in order to make the country's economic situation appear more stable ahead of the election. Leading up to Friday's vote, the Superior Electoral Court, or TSE, took into account the country's stability. "Combating corruption is something I also want ... but you can't just go substituting the president of the Republic all the time," said Gilmar Mendes, the head of the TSE. The decision to clear Temer led some opposition politicians to accuse the TSE of political bias, because more than one judge in the top electoral court refused to permit new evidence from plea-bargain testimony from the Odebrecht corruption scandal in the trial. The majority of judges who did not permit the new evidence said they could only consider the evidence that was available when the case was first filed against Temer some two years ago.

Puerto Rico Votes Overwhelmingly for Statehood

Voters in Puerto Rico on Sunday voted overwhelmingly for statehood in a nonbinding referendum, though it would fall to the U.S. Congress to actually make the territory the country's 51st state, the Financial Times reported. More than 97 percent of voters backed statehood, Puerto Rico's election commission said, with 76 percent of precincts reporting. "Today, we the people of Puerto Rico are sending a strong and clear message to the U.S. Congress ... and to the world ... claiming nonnegotiable. Without a doubt, fiscal spending is the main problem Ecuador faces. All other problems and inequalities are derived from that. Recovering the economy's competitiveness, assuring the financial system's solvency and liquidity, getting the balance of payments in order and having a positive flow of capital are the main goals that will help Ecuador recover investor confidence. And that is subject to a new fiscal policy that is pro-private investment that won't be threatened by excessive spending. Recovering the independence of the central bank and prohibiting it from financing the fiscal deficit is the other requisite for normalizing the national economy."

Marc Becker, professor of history at Truman State University: "Correa's leftist opponents consistently complained about his failure to break from an export-dependent economy that historically has underdeveloped Latin America, and Moreno never gave any indication that he would not follow similar policies. In fact, Moreno—as with Correa before him—has an inner circle of advisors who come out of a long trajectory on the left, but key cabinet posts have gone to the same technocrats who in previous governments imposed neoliberal policies that hurt the economic interests of an impoverished underclass. It is these contradictory tendencies that so alienated Correa from indigenous and environmental activists and indigenous and environmental activists and

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Trump Expected to Announce Policy Changes on Cuba

U.S. President Donald Trump is expected to announce his new policy on Cuba on Friday during a visit to Miami, the Associated Press reported Saturday. He is expected to reverse some of the policies former U.S. President Barack Obama enacted to open trade and tourism relations between the two countries after more than 50 years of icy relations. The Trump administration has been discussing enacting such changes as prohibiting business relations with the Cuban military, while maintaining diplomatic relations, which were restored under Obama.

Germany’s Merkel Criticizes Wall-Building in Visit to Mexico

German Chancellor Angela Merkel during her visit to Mexico on Saturday rebuked the building of walls, saying physical walls will not fix immigration issues, The Hill reported. “Obviously the main reason for people leaving must be addressed on site first, which means putting up walls and cutting oneself off will not solve the problem,” she said in a jab at U.S. President Donald Trump, who has proposed building a massive multi-billion-dollar wall along the U.S.-Mexico border. Merkel visited Mexico and met with President Enrique Peña Nieto after a visit to Argentina.

Bancolombia Reduces Rates on Mortgage Loans

Bancolombia has reduced its interest rates on mortgages by as much as 150 basis points, with rates now starting at 9.6 percent on an annual basis, Finance Colombia reported. Bancolombia added that the lower rates apply to the financing of both new and previously occupied homes. The bank so far this year has approved $480 million in mortgages.
our equal rights as American citizens,” Puerto Rico Gov. Ricardo Rosselló said in a statement following the vote, CNN reported. Voters were asked to choose between statehood, independence from the United States and keeping the island’s existing status as a U.S. territory, the Financial Times reported. Despite the over-whelming vote, the Republican-controlled U.S Congress is unlikely to approve it, as the island favors Democrats. The Republican Party’s campaign platform last year did endorse the island’s statehood, but it was premised on a federally approved ballot. Voter turnout was low, with just 23 percent of eligible voters casting ballots, the Associated Press reported. The vote marked the fifth time that Puerto Ricans were asked to vote on the island’s status, and Sunday’s balloting had the lowest participation level of any election in the U.S. territory since 1967, said Carlos Vargas Ramos, an associate at the Center for Puerto Rican Studies at Hunter College in New York. Voter turnout was lower this year than in the most recent referendum on the island’s status in 2012, said Vargas. “Supporters of statehood did not seem enthusiastic about this plebiscite as they were five years ago,” he said. Three political parties in Puerto Rico, including that of former Governor Alejandro García Padilla, called on supporters to boycott the referendum. “Whoever claims that statehood triumphed is being intellectually dishonest,” García Padilla, whose party favors the current status, said after the vote, the AP reported. “The boycott defeated statehood.” Many opponents of keeping the status quo have said the island’s political status has contributed to its economic crisis. The territory’s residents are exempt from paying U.S. federal income tax, but it still must pay Social Security, Medicare and local taxes, and it receives less federal funding than U.S. states.

“We have been a colony for 500 years, and we have had U.S. citizenship for 100 years, but it’s been a second-class one,” said Rosselló.

**ECONOMIC NEWS**

Mexico’s Industrial Production Level Falls in April

Mexico’s National Statistics Institute announced Friday that the country’s industrial production fell more than expected in April, The Wall Street Journal reported. The country saw gains in manufacturing, though they were outweighed by declines in oil, mining and construction. The Easter holiday falling this year in April also gave the month fewer working days than it had last year. Industrial output declined a seasonally adjusted 0.3 percent as compared to March and fell 4.4 percent as compared to April 2016, according to the statistics institute. Economists in a Wall Street Journal survey had expected production to decline a median 2.2 percent year-on-year. Manufacturing led the sectors that increased output in April, with an increase of 0.6 percent as compared to March and 5.1 percent as compared to April of last year. Mexico’s oil production was steady in April as compared to March, but was below levels from a year ago.

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others to his left, and Moreno will face the same problem. Moreno’s conservative opponents are cynical and opportunistic in their criticisms, because it is not so much the policies that they oppose, as the fact that they have been beaten at their own game of pursuing clientelistic forms of governance in order to maintain their own power. Furthermore, conservatives are not opposed to government spending but to where the money is spent. Moreno, like Correa before him, will prioritize social spending on education, health care, housing, food and infrastructure. These expenditures most benefit marginalized populations, which are the majority of the country, and explain why Alianza PAIS continues to win elections. Moreno, however, should go beyond addressing the symptoms of poverty and inequality, and instead tackle their root causes, which have everything to do with continued dependency on international markets."

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Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorian minister of finance, member of Congress and central bank president: “Ecuador’s latest bond issue did not originate with Moreno, but bears the mark of Correa’s high-cost negotiations. The issuances were at six and 10 years, respectively, with the latter offering a 9.62 percent coupon, in line with January’s issuance. The market buys Ecuador’s paper not because of bullish expectations about the economy’s future, but rather because the returns appear to be worth the risk. Ecuador, after all, offers 337 basis points more than Bolivia for comparable issues, and possibly 400 points above what ‘normal’ costs would be. Ecuadorian taxpayers will have to dole out some $400 million in ‘excess’ costs over the term of the paper, and this reflects the market’s perception of Ecuador’s maladroitness.

The market buys Ecuador’s paper not because of bullish expectations about the economy’s future, but rather because the returns appear to be worth the risk.”

— Francisco X. Swett

The answers to questions that informed executives are asking … every week.

Energy Advisor

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005
www.thedialogue.org
ISSN 2163-7962
Subscription inquiries are welcomed at freetrial@thedialogue.org

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