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Strategy Flash – Ecuador

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Ecuador Strategy Flash

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Today, Mr. Lasso actioned the “Muerte Cruzada”, dissolving the Assembly. When time had almost run out, and the Assembly was days away from voting for Mr. Lasso’s impeachment, the president decided to call for the Muerte Cruzada. This move immediately dissolves the Assembly and allows Mr. Lasso to govern by decree. However, it also means the CNE will call for elections in seven days, and these must take place no later than 90 days from now. The move came shortly after the first debate in the impeachment process in the Assembly, as yesterday the president went into Congress, and counted with three hours to defend himself of the proposed accusations. In said speech, Mr. Lasso decided to go on the offensive and accused the opposition. He stated that the proceedings related to the impeachment did not comply with the required due process and the charges filed against him had been already overruled by the report of the Control Commission. By the end of his speech, the president presented a more tempered position, calling the Assembly to respect the law, and making a final attempt to reach out to the handful of doubtful assembly members who could change the final vote in his favor.

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Mr. Lasso’s strategy to wait until the last minute to call for the Muerte cruzada signals the impeachment vote would not have gone in his favor. We argued that Mr. Lasso’s hesitancy in calling the Muerte cruzada stemmed from his lack of competitiveness as a candidate. Therefore, calling for elections would have probably resulted in an electoral defeat. So, we believed the president would call for a Muerte Cruzada only when he was absolutely sure the opposition mustered the 92 votes needed to oust him. This came on the back that, if Mr. Lasso managed to scrape by and survive the impeachment attempt, he would surely be able to finish his tenure. Calling for the Muerte Cruzada would result in the much uglier alternative of having to compete for the presidential seat once more. This alternative became even less desirable as the president’s popularity ratings were thoroughly pummeled, and the referendum defeat indicated that correism had the upper hand in the electoral space. After yesterday’s session, and with time running out, Mr. Lasso finally decided to call the impeachment quits, actioning the Muerte cruzada, as the opposition was at, if not over, the 92 vote threshold, as signaled by last weekend’s reshuffle of the Assembly’s authorities (for more information, [click here](#)).

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Calling for the Muerte Cruzada is also consistent with the latest barrage of economic measures the administration went through, as the administration will now try to boost its popularity. Both the liability management operation carried on a few weeks ago and the tax cuts announced recently seemed somewhat out of place, as their tone did not match the state of the administration, that was fighting for survival. However, with Mr. Lasso having called the Muerte cruzada, their purpose seems more clear. Even if the buyback was opportune, allowing Ecuador to profit from the low parities in the ECUA curve, the tax cuts did not seem to yield any benefit to the administration in its current situation. However, in a different light, the last measure does suggest Mr. Lasso is not ready to give up yet and is entering campaign mode. The administration has now three months to put itself back in competitive shape, and we believe this was the first of several measures the administration will pass via decree to increase its popularity. However, the timeframe to achieve such a feat is short, and it might be difficult to tackle other of Ecuador’s pressing problems, such as the security issues riddling the big cities. Even without the Assembly, the administration might not be able to have a very heavy-handed approach to this issue, especially with the early threat of Mr. Iza now coming to play. When the impeachment process began the leader of the CONIAE, Mr. Iza, had stated that they would not accept the Muerte cruzada and that strong manifestations would follow if the administration enacted that threat. We

believe the threat was not empty, and the indigenous movements will likely manifest against the measure, testing the administration's mettle.

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Taking a look at the possible result of a snap election, recent polls indicated that correism is the main favorite to win, albeit the stage is still wide open. Last month, a poll from Clima Social showcased the possible scenarios surrounding a snap election following the Muerte cruzada (for an in-depth view, please [click here](#)). Said poll firstly suggested there is a strong component of the population who is still undecided, or that it would rather render its vote blank. The sum of these voters amounted to nearly half (48.3%) of the polled. It also suggested correism is the favorite to win the first round of the presidential election, as its polling power (with Mr. Arauz as a candidate) stood near the 16.5% mark, albeit sympathy with correism stands at a much higher mark. For instance, if the candidate was Mr. Correa himself, his voting intention would stand closer to the 40% mark. This poses two main problems for correism. The first is that its most popular candidate is sidelined, as Mr. Correa lives in exile and is not allowed to return to Ecuador, forcing it to pitch a much less competitive candidate, substantially lowering their chance of winning. The second issue it faces is that it has enough votes to emerge as the favorite, but it does not seem to muster enough support to take a second round home. Mr. Correa's voting intention is a good proxy of correism's polling power in a second round. While very competitive for a first round, said ceiling could cause a second round like the one in 2021, as even being the party with the most support currently, Correism does not seem to have the votes to secure a second-round win, especially against a candidate that can galvanize both the support of the indigenous movements and anti-correist voters. Mr. Lasso, on the other hand, is not nearly polling at competitive levels (1.8% voting intention), and the candidates with the most traction outside of correism are both Mr. Yaku Perez (7.4%) and Mr. Iza (8.4%) for the indigenous movements, and Mr. Hervas (6%) for the non-correist opposition. This pitches the indigenous movements as favorites to enter a second round with correism if they join forces and present a unified candidate, which could be a tricky proposition for Pachakutik, as the internal strife in the party could take its toll when its time to choose the presidential formulae. Still, there is room for other candidates to grow, including, to a limited extent, Mr. Lasso, who even with an exhausted political capital, could shore up some support if he plays his cards right in the next three months.

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All in all, the administration is playing its last card to remain in office, now having to traction votes in order to be competitive in the upcoming elections. As discussed above, we believe the Muerte cruzada announcement will be followed by several measures intended to shore up the administration's credibility and voting intention. Looking at the reaction from the different political actors, we believe this is the outcome that correism desired since the start, as it provides them with the chance to compete for the presidential seat after emerging victorious in the sectional elections. On the other hand, these are bad news for Pachakutik and the PSC, as the first is weakened by internal strife, while the second will not have enough time to close ranks after February's loss. In addition, the COINAE is likely to manifest itself, with a dual purpose. First, to protest against the Muerte cruzada, as to avoid a loss of face, and secondly, to impede the administration from getting traction in the political space, even at the cost of some of their popularity. Even if the news is negative for the space, as they give the opportunity for correism to return to power, it is also true that this election only completes Mr. Lasso's mandate. That means that between now and the first sinking of the global bonds, Ecuador will have to go through two presidential elections. One now, and the next in 2025. This increases the uncertainty surrounding Ecuador's middle-term prospects but also means that the next administration's policies could be short-lived, either on the upside or downside.

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