

Santiago Resico
 LATAM Strategist
 sresico@tpcgco.com
 +54 11 4898 6615

Strategy Flash – Ecuador

January 17, 2023

Ecuador Strategy Flash

Recently, the underlying conflict between the Assembly and the Council for Citizen Participation and Social Control (CPCCS) escalated, with the latter threatening to present a petition to depose several Assembly members.

Recently, the underlying conflict between the Assembly and the Council for Citizen Participation and Social Control (CPCCS) escalated, with the latter threatening to present a petition to depose several Assembly members. The conflict started back in Nov-22, as the Assembly voted to oust four of the seven members of the CPCCS, including president Mr. Hernán Ulloa, Vice President Mrs. María Fernanda Rivadeneira and vocals Mr. Francisco Bravo and Mrs. Ibeth Estupiñán, who conformed the ruling majority of the Council, and share some sympathies with Mr. Lasso’s administration. However, even as the petition to start the impeachment process for said members had been presented, the opposition jumped the gun, and decided to vote for their destitution without a key report from the Control Commission, which was delayed, and stated its position regarding the ousting of the impeached CPCCS members. In this context, the members of UNES (Correism), ID (Democratic Left), PSC (Social Christian Party) and Pachakutik’s rebel caucus voted to green-light the impeachment, with the government caucus and other Pachakutik members voting against, arguing the due process required the Assembly to wait for the report of the Control Commission.

Following up on this irregularity, the CPCCS members decided to present a protection action to the Constitutional Court, to render their dismissal without effect.

Following up on this irregularity, the CPCCS members decided to present a protection action to the Constitutional Court, to render their dismissal without effect. They argued the due process was not respected, and therefore the impeachment vote was null. In turn, constitutional judge Ángel Lindao ruled in favor of the CPCCS members, leaving their destitution without effect. However, on 3-Dec, in an act of defiance the Assembly announced that it would not recognize any act or resolution of officials dismissed for being illegitimate and/or illegal. Acting on this decision, the Assembly refused to appoint the Superintendent of Banks, by simply not showing up to the session, even after Judge Lindao had stated he should be appointed. For this reason, yesterday Mr. Ulloa activated a request for non-compliance, which could go as far as the dismissal of the 80 assembly members who did not comply with the ruling in favor of the majority councilors. This could be reason of concern for the opposition, as the 80 legislators who repealed the judicial ruling are entirely part of the core opposition blocs, composed of the Correist caucus, the PSC, ID and the rebel Pachakutik faction.

With this, the battle between the Assembly and the administration rages on, albeit shifting to what seemed a dormant scenario, giving the government some opportunities.

With this, the battle between the Assembly and the administration rages on, albeit shifting to what seemed a dormant scenario, giving the government some opportunities. After the failed impeachment attempt in July, the opposition in the Assembly used its full force to siege Mr. Lasso, trying to sap its support in other institutions, including the CAL, and now the CPCCS. The opposition’s strategy was simple but effective, impeaching the unwanted members of said organs, and ousting them by enforcing their massive majority in the Assembly. However, in this case the irregularities in the voting process gave the CPCCS members some chance to fight back via the constitutional court, leaving what seemed to be headed to be another defeat for the government in the political arena to a muddled tactical tie. It is difficult to envisage how this issue will continue to develop, but the administration could come out with the upper hand. Even as the destitution of 80 Assembly members does seem unlikely, it being an active threat could help Lasso in the political realm. In addition, one of the questions in the February referendum refers to the CPCCS. Said inquiry poses the possibility of stripping some attributes from the CPCCS, and giving them to the Assembly, mostly related to the CPCCS ability to select 77 authorities, which would now pass to the Assembly, in an attempt to democratize the election of government officials. So, it seems the opposition was caught in a tactical blunder. The administration was able to rebuke its hurried attempt to impeach the CPCCS members, and was favored by the judicial ruling, which could end being a Damocles sword over the opposition’s main weapon, its majority on the

Assembly. And all to take over an institution (the CPCCS) which is possibly now going to be stripped of some of the attributes that make it valuable, and whose faculties would transfer to the same Assembly they control. However, the story could still end as a defeat for Mr. Lasso. If the referendum question is not approved, and the Assembly comes out on top, ousting the CPCCS members, then the administration will effectively have lost another support point, tightening the opposition's siege on the government.

TPCG Analysts & Staff

Research

Juan Manuel Pazos	Chief Economist	jmpazos@tpcgco.com	+54 11 4898-6606
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading

Juan Manuel Truppia	Head of Sales & Trading	jmtruppia@tpcgco.com	+54 11 4898-6659
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693

Corporate Banking

José Ramos	Head of Corporate Banking	jramos@tpcgco.com	+54 11 4898-6645
Camila Martinez	Corporate Sales	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

Capital Markets

Fernando Lanus	Head of Capital Markets	flanus@tpcgco.com	+54 11 4898-6632
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604

Asset Management

Ileana Aiello	Portfolio Manager	iaiello@tpcgco.com	+54 11 4898-6611
Claudio Achaerandio	Portfolio Manager	catchaerandio@tpcgco.com	+54 11 4898-6618

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.