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Strategy Flash – Ecuador

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The constitutional court finally greenlighted the impeachment attempt against Mr. Lasso, and the motion will now return to the Assembly for the final vote.

The constitutional court finally greenlighted the impeachment attempt against Mr. Lasso, and the motion will now return to the Assembly for the final vote. More bad news for the president, as another roadblock towards his impeachment was removed late last night. The Constitutional Court, with 6 votes in favor, approved the motion presented by the Assembly to impeach the president. The Court received the petition from the CAL early this week, and the draw selected Mrs. Nuques as the presenter of the case. Extraofficial sources indicate she put forward a motion to archive the impeachment attempt. Said motion was rejected by 6 votes to 3. Then, Mr. Ortiz and Mr. Lozada, members of the opposing bloc, presented a new motion, to greenlight the attempt. Said presentation enjoyed the support of 6 members of the court, just enough to be approved. Therefore, the Constitutional Court accepted the motion to impeach the president, and so now the process will continue in the Assembly. This is a hard blow for the administration, which emphatically rejected the ruling. The question with the Constitutional Court’s approval was whether it would do a thorough analysis of the accusations presented by the Assembly, or a simple form check, to ensure the petition complied with all the legal requisites. The first should have favored Mr. Lasso, while the second would give way to the impeachment. Consequently, the latter prevailed, even as the Court did warn the Assembly of the “untidy fashion” of the presented motion.

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Going forward, the process continues with the petition returning to the Control Commission, that now has 30 days to put together a report. Said 30 days are divided as follows. The president has 10 days to exercise his right to a defense, then 10 days are reserved for the presentation of evidence, and then the Control Commission has 10 days to prepare the report, which is handed to the President of the Assembly, that then has up to five days to call for the Assembly to a general session. Then, Assembly votes on whether to impeach Mr. Lasso or not. However, the Constitutional Court’s verdict seemed the only real roadblock for the impeachment to take place, and with it out of the picture, the possible result of a vote in the Assembly looks clear cut. This magnifies the blow received by the Administration last night, as it now must accept the impeachment, or call for the Muerte Cruzada.

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Now, Mr. Lasso stands between a rock and a hard place, as both the impeachment and Muerte Cruzada give him practically no chance of remaining in the presidential seat. Giving way to the impeachment will most surely result in his destitution (as when discussing the Encuentro Case report, the Assembly approved it with 104 votes (of 137)). That scenario would see Vice-President Mr. Borrero assume the presidency, and he will probably be hard-pressed to call for elections in a context where correism is eyeing the presidential baton with very keen eyes and should mobilize its base to press for elections. On the other hand, Mr. Lasso can still call for the Muerte Cruzada, to dissolve the Assembly. This would allow him to govern for another 3 months without opposition but at the cost of having to call for general elections. In a context where his approval ratings lie at historic lows, his chances to win the electoral bout seem slim at best. In addition, Mr. Iza, president of the CONAIE has already stated that they would not tolerate the president calling for the Muerte Cruzada, and would mobilize to protest. In addition, this could embolden the Assembly, to not obey the executive order for its dissolution, giving way to a difficult constitutional crisis. The administration sent mixed messages regarding which of these pills is the preferred choice of Mr. Lasso, with some sources stating that the President is ready to defend himself in the Assembly, while others point at the Muerte Cruzada as the best solution.

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Looking forward, prospects for a possible election look extremely muddled. We argued that, even in the event of a new election cycle, a correist victory is possible, but looking at the election results from February, the party has not gained much more traction since 2021. Instead, Mr. Lasso is not a competitive candidate. A drastic improvement in security during a possible three months of Assembly-free government could push his image up slightly, but cannot replenish his exhausted political capital. In addition, with the PSC performing very badly in the sectional elections, and a Pachakutik party that has split into several warring factions, it is difficult to see any of the current political forces galvanizing enough support to win the elections. This could give way to the emergence of a new political force. Still, with a very constrained timeframe, it could be challenging for any candidate to gain substantial traction. Today, correism looks like the slight favorite from a popularity standpoint, but only because it is not clear where the non-correist votes could concentrate. A first round is likely to end with a very atomized Assembly, with correism as the largest minority, while a second round pitching a correist candidate against a non-correist challenger could present results as the ones exhibited by the 2021 election.

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Looking at the space, a silver lining comes in the shape of the external debt profile, as it should shield it from a credit event for at least until 2026. The news are very negative for the space, and in addition to political instability, this compromises the administration's fiscal consolidation plan, with fiscal metrics poised to suffer in any scenario. Having said that, the payment structure of ECUA bonds is not heavily frontloaded, as the administration must only service interest payments, which will scale from nearly USD600mn to USD1bn by 2026. We believe said amount to be very manageable for an economy of Ecuador's size. The first principal payments come in 2026, with both the PDI30 and the ECUA30 starting to sink, amounting to another USD1bn in yearly debt service. We believe that up to that date, the cost of keeping the global curve running is very low, shielding the space from a credit event. However, as soon as sinkings start to pile in, the chance of said possibility materializing increases, especially with a non-market-friendly administration.

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