

Ecuador

Gutierrez out, but no clarity over what comes next

- **Congress names Vice President Alfredo Palacio as new interim president, but his standing appears shaky**
- **Several key questions remain open after yesterday's developments**
- **External debt should remain under pressure until the situation stabilizes**
- **We remain marketweight as the debt payment capacity has not been called into question**

The rapid demise of yet another Ecuadorean president underscores the political risk premium that is built into the credit. The latest institutional crisis came to a climax yesterday when Congress (by a 60 out of 62 count) voted to oust President Gutierrez, claiming he had not faithfully carried out his presidential responsibilities and had therefore “abandoned his post.” Congress immediately swore in Vice President Alfredo Palacio—a political independent with no significant party backing—as new interim president. Immediately after, Gutierrez said he would seek political asylum in Panama, though news reports at the time of this writing indicated that he may have been detained and he and ex-President Bucaram were prohibited from leaving the country, facing potential charges.

At this point several questions remain open:

- In the immediate term, can Palacio establish himself in power? If so, will he be able to complete Gutierrez's term ending in January 2007 (elections would take place on October 2006) or given his low credibility and the high level of fragmentation in Congress might he call for early elections?
- Has control of the social situation been attained following the unrest in Quito and other cities? What role will the military play going forward in Ecuador's institutions? How much support will armed forces provide to the politically fragile new interim president?
- As of the time of this writing, protesters appeared to be calling for the dissolution of congress. Will Congress become the latest victim of this crisis? Is Ecuador facing a total collapse of its political institutions?

- How will the political struggle over control of the Supreme Court be resolved? Leading up to the current crisis, Congress had not been able to agree upon a mechanism to elect new justices. The potential reconstitution of the new court will be key to watch given that the political battle to control the judiciary was at the heart of the current unrest. Moreover, it appears that the now-dissolved Court's decisions to drop corruption charges against ex-President Bucaram and others might be reversed (as noted, Bucaram, Gutierrez and ex-President Noboa were prohibited from leaving the country and are facing potential arrest warrants).
- Should Palacio establish himself in power, will he maintain the current cabinet intact, in light of the previous political differences he has had with Gutierrez? This question is especially important regarding the continuity of the economic policies put in place by Finance Minister Yepez (whose own standing remains unclear at this point).

For the time-being, external debt should continue to face pressure on the back of the political events, and we think a further sell-off is possible until the situation stabilizes and the key questions noted above have more clarity. As opposed to previous political crises, the good news this time is that high oil prices are keeping the economy on a stable course. This should provide an attractive entry point into Ecuadorean debt once the dust settles, since debt repayment capacity has not been called into question.

We believe that Ecuador could meet its financing requirements of this year even without raising any cash in the market. Indeed, it could repeat last year's strategy and tap the FEIREP (which this year should accumulate over US\$700 million) and the social security fund. Additionally, unlike last year Ecuador should be able to rely on around US\$400 million from multilaterals in 2005. **Nonetheless, until there is greater certainty as to the direction of political events, we remain on the sidelines with our marketweight recommendation.**