ANALYTICA INVESTMENTS

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ECUADOR WEEKLY REPORT®

For the week of Jan 16 – Jan 20, 2017

Under the Makeup

For years, Ecuador's government has dispensed with press conferences for the presentation of unemployment data. This week, intent on presenting a narrative that things are improving, it released the data with three top officials present, an unprecedented number: labor minister Leonardo Berrezueta, economy minister Diego Martínez, and statistics director David Vera. The data suggests that unemployment peaked at 5.7% last March, a figure that would be considered full employment in many countries, and a sign of economic recovery. Sadly, this is far from true.

According to the data, based on the usual quarterly survey, unemployment affected 5.2% of economically active Ecuadorians, compared with 4.8% a year earlier, an 8.3% increase nonetheless considered "statistically insignificant" by the officials (it was also 5.2% in September). The figure however is based on a fall in economically active people to 7.87m, compared with 8.06m in September, the erstwhile peak, while up from 7.5m as of the end of 2015. Ecuadoreans with a steady "adequate" job earning at least the minimum wage and working at least 40 hours per week numbered 3.24m, up from 3.15m at the end of the third quarter but down from 3.49m a year earlier.

Just 41.2% of Ecuadorians held a steady job at the end of last year, and tens of thousands of jobs have disappeared. Quito, with a large share of bureaucracy, has the highest unemployment rate at 9.1%. Changes in the calculation of employment

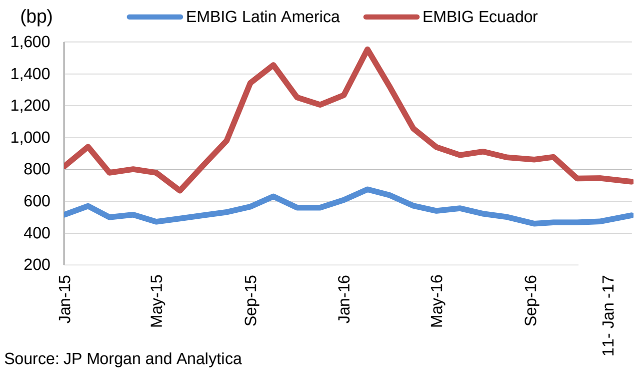
KEY INDICATORS

Ecuador's Global Bond Prices

Bond	Last Price (end of the month)						
	20/01/2017	Dec	Nov	Oct	Sep	Aug	Jul
Global 2020	107.86	107.89	105.54	106.13	102.51	102.30	100.49
Global 2022	110.18	108.81	104.94	106.11	102.47	102.89	100.03
Global 2024	96.78	95.92	92.15	94.55	90.25	88.05	87.49
Global 2026	103.24	102.50	N/A	N/A	N/A	N/A	N/A

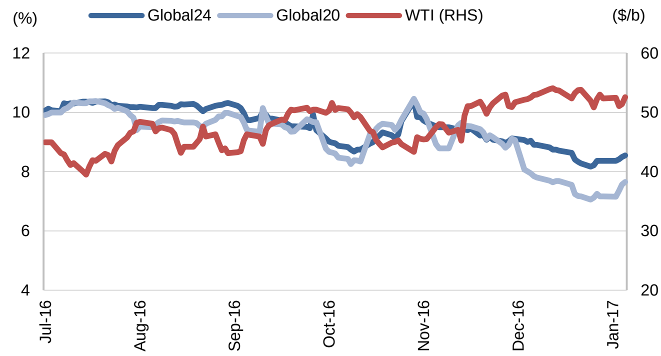
Source: Bloomberg and Analytica

EMBIG Spread



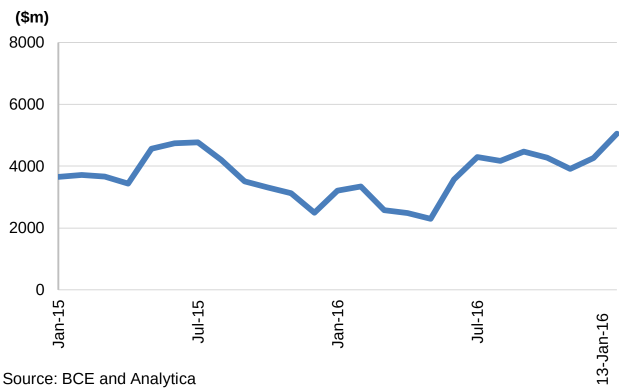
Source: JP Morgan and Analytica

Bond Yields vs. WTI in 2017



Source: Bloomberg and Analytica

International Reserves



Source: BCE and Analytica

statistics have severely weakened the ability to compare the data historically, but even according to the government's own count, unemployment at present is 0.2 points above the level in December 2007 at the end of the first year of the present government, while the working population rose by more than a quarter - hardly a "victorious decade," as the government propaganda machine purports.

What is the Frequency?

Within a few days - perhaps even before the February 19 general elections - Ecuador could experience a sea change in its media landscape. Regulators tightly controlled by the government of president Rafael Correa will redistribute close to 1500 radio and television broadcast licenses, close to two thirds of the free-to-air landscape. Yet while this sea change, dubbed "frequencies for everyone," could silence some of the most influential media outlets of the country, the procedure so severely lacks transparency that even its final date and the number of frequencies remain unknown.

This week, Arcotel, the regulator that carried out an initial review of the bids for reassigned frequencies, said that it will, in due course, send the up to five top-rated "communications projects" of the hopeful bidders to communications regulator Cordicom for final review. Arcotel has already "technically" disqualified some of the best-known private media of the country from continuing, including Ondas Azuayas from Cuenca, one of Ecuador's oldest radio broadcasters, with a history going back to 1948, and Teleamazonas, a leading national television network (they may appeal).

Even though bids closed late July, the regulators changed the rules in August and refused to drop the procedure despite complaints about a risk of arbitrariness and the lack of access by journalism advocacy groups. The new rules set up an "automatic mechanism of weighting and qualification" of the "communications projects" the bidders were required to submit. They scrapped the previous promise to take into account previous experience and investment, which were to add 20 points to the ranking the bids were to obtain. The government has set up a series of supposedly technical point-based procedures in the past to appoint public officials like the prosecutor general, in practice however subject to a large degree of discretional influence by administration officials. While established but small media like Radio Visión and Radio Democracia, both hosting influential albeit somewhat stodgy morning news talk shows, lost 20 points they had previously been assured thanks to their legacy, "community bidders" as part of "affirmative action" will automatically obtain 15 points and stand to gain others for demonstrating support for vague government policies like "good living." Thanks to the change in rules after the submission of bids, Visión and Democracia look as likely to lose their licenses as do Teleamazonas and Ondas Azuayas, notwithstanding a street demonstration that was small but studded with opinion leaders that accompanied morning radio hosts Diego Oquendo (Visión) and Gonzalo Rosero (Democracia) to Cordicom on Wednesday. They delivered a letter but officials declined to receive them until further review.

In its decade in power, the government of president Rafael Correa has amassed a media conglomerate that has captured a majority of the broadcast spectrum, according to a review by a FLACSO researcher. This will remain untouched by the present redistribution of frequencies. But according to media advocacy group Fundamedios, Ángel González, a media-shy media mogul who recently bought Quito newspaper El Comercio and controversially obtained television frequencies for a new network is poised to take over another 60 television channels and 43 radio stations through 18 companies.

The outcome appears clear, thanks to what political scientist Felipe Burbano in an opinion column in El Universo called “a vulgar Marxism that reduces the public space to a gross expression of power by the owners of capital.” Nothing of what Correa promised - democratization of opinion, quality journalism, and serious antitrust regulation - has emerged among media from his decade in power. In the days around the most important election in a decade, Ecuadorians risk losing access to crucial independent voices. Yet while the similar government takeover of television in Venezuela was international news, in the case of Ecuador, the silence is deafening.

Last Issuance

On January 10, Ecuador sold a tranche of $1bn in bonds due 2026, at an interest rate of 9.125%. While shy of the 10.75% Ecuador had to agree to pay in September last year, this will take bond payments up to close to $700m in 2017. Since returning to financial markets in 2014, the Correa administration has accumulated bond-denominated foreign debt of $6.25bn, well above the $3.2bn on which Correa defaulted for political reasons in December 2008. According to finance minister Patricio Rivera, this is it for debt issuance under Correa: In a press conference this week, Rivera said that the government won’t issue further bonds before leaving office May 24.

As in the case of the unemployment data, the finance ministry pursued the recovery narrative, insisting the oversubscribed sale was proof of international market confidence in the administration’s economic policy. For all intents and purposes, the government is saying the economy is swiftly emerging from a recession it denied for a very long time even existed. Further evidence however exists that it is merely, once again, kicking the can down the road. The finance ministry continues to obtain loans from the central bank, which lost its independence early in Correa’s government. Now, these loans approach $5bn. Additionally, it continues to press for interest-carrying “pre-sales” of oil and other fuels, most recently $900m in December.

Payments for the bonds amount to less than 1% of GDP, which has led some international analysts to say that it remains low and manageable. On his part, Rivera said that the surge in debt last year to an officially acknowledged 12% of GDP was due to the depth of the (previously unacknowledged) economic crisis and that, in a “normal” year, Ecuador requires debt of around 6%-7% of GDP - a worryingly high figure that, fortunately, a conservative victory in February may yet correct. Separately, economy minister Diego Martínez estimated a foreign financial requirement of another $7bn beyond the bond sale, well above Rivera’s claim to normalcy, while having to pay some $6bn in debt amortization, pre-sales, and interest altogether, he said in an interview broadcast by *Ecuavisa* on Wednesday.

Aside from the official figures, the government continues to seek other ways to plug holes. Ahead of his press conference, Rivera announced that the government had settled arrears with providers and a deal to pay the near $760m it owes local and regional governments: Half in cash this week and the remainder in central bank notes and by linking disbursal of funds to projects in agreement with the state development bank. This latter twist appears legally highly questionable: to a very large extent, municipal and provincial governments depend on central government transfers for funding, and these are established in the annual budget. Correa is thus legally bound to transfer these funds, which to a large extent the government now appears to be trying to turn into a form of non-reimbursable loans. Guayaquil mayor Jaime Nebot has already announced he won’t accept the offer.

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