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ECUADOR WEEKLY REPORT®

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Too Much Unity

More and more, it appears that president Rafael Correa aims to keep his word and step down after his term ends in 2017. He has repeated his pledge on numerous occasions. The Corte Constitucional (Constitutional Court) approved the wording of the constitutional reform scrapping term limits but barring him from standing again for president. While still feasible that he might disregard this, given his track record of overlooking constitutional and other legal rules, this does set up a significant hurdle for him to participate in the next campaign. But sadly, it is looking more and more like what will follow correísmo could look a lot like what preceded it, as a controversial opposition move underscored this week.

On January 19, numerous opposition leaders met in Cuenca for what was supposed to be a dramatic, and surprising, show of unity. But rather than feeling elated, pundits and social networks were shocked. There, in the first row, between Paúl Carrasco, prefect of the Azuay province of which Cuenca is the capital, and Morona-Santiago's prefect Marcelino Chumpi, sat Ramiro González, who only split with the Correa administration last April. The longtime Izquierda Democrática (Democratic Left) politician had run the social security institute (IESS) for five years,

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Jan 22, 2016)

	BID	ASK
Global 2030	62.00	68.00
Global 2024	64.00	65.00

Source: Bolsa de Valores de Quito

BCE International Reserves In million US\$

May, 2015	4,567.46	25.00%
Jul, 2015	4,771.97	4.00%
Sep, 2015	3,511.56	-26.00%
Nov, 2015	3,126.32	-11.00%
Jan 15, 2016	2,711.84	-13.26%

Source: Banco Central del Ecuador

Inflation

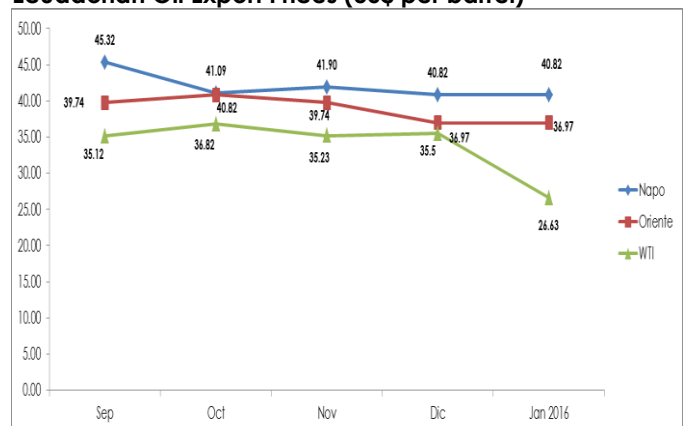
Dic 2015	0.09%
Year to Date	3.38%
Year on Year	3.25%

Banks – Short and long term Deposits In million US\$

Ago, 2015	14,686.80	-2.53%
Sep, 2015	14,488.90	-1.28%
Oct, 2015	14,582.60	0.65%
Nov, 2015	14,313.10	-1.85%
Dic 31, 2015	14,554.40	1.69%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

followed by his stint as industry minister until he quit over the issue of Correa's removal of a 40% annual central government contribution to IESS's pension fund. While leading IESS, he formed his own, self-declared social democratic political party dubbed Avanza (Advance) in 2012, which won five seats in congress in 2013 and 36 mayoralties a year later.

Critics note González's long involvement with the present administration, which included support for some of its most controversial decisions, including the media or "gag" law and the president's \$80 million lawsuit against newspaper *El Universo*, which received international condemnation. Corruption allegations dogged his management of IESS, with accusation made by opposition legislators first and picked up by the current manager of the institution, Richard Espinosa, in November (González has yet to face any charges). While personally amiable, he also supported the administration's protectionist measures, as columnist Martín Pallares noted. To have him in the front line of the opposition "is like using tar as a detergent," Pallares wrote. In Cuenca, an audience cheered Guayaquil's conservative mayor Jaime Nebot, but booed González – an immediate response that reflected the shock of having a longtime correísta put himself at the forefront of the opposition without a word of remorse for his previous politics. The same goes for practically all other dissenters from correísmo, who seem to be unloading their responsibility for all actions on the incumbent president, without acknowledging how they worked with him. This is what is irking many critics, even as Nebot insisted that "people who change their minds and see the light also have to be given their chance

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Jan 11 to Jan 15, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
SUPERDEPORTE	2,300	5.80	21/01/2016
CORPORACIÓNFAVORITA C.A.	437.34	2.14	21/01/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	18.00	3,240	19/01/2016
INVERSANCARLOS	15.70	1.13	15/01/2016
MERIZA S.A.	7.80	39.00	13/01/2016
BANCO PICHINCHA	2.85	0.60	19/01/2016
CONTINENTAL TIRE ANDINA S.A.	2.46	1.00	13/01/2016
MUTUALISTA PICHINCHA	2.00	99.99	19/01/2016

Source: Precios máximos y mínimos de acciones & Pulso Bursátil Semanal
Issued by: Bolsa de Valores de Quito.

Fixed Income					
Securities lead by Analytica					
Issuing Company	Issue Type	Total Amount Issued (In Thousand US\$)	Credit Rating	Term (in years)	Yield of Return
OTECEL S.A.	Commercial Paper	50,000	AAA	1	4.25%
ECONOFARM SANA SANA	Securitization	12,500	AAA	5	7.25%
FARCOMED FYBECA	Securitization	12,500	AAA	5	7.50%
EDESA	Commercial Paper	10,000	AAA	1	5.25%
DEXICORP-GRUPO KFC	Commercial Paper	7,500	AA+	1	6.00%
URBANO EXPRESS	Securitization	4,000	AAA-	3	7.50%
		5,000		5	8.00%

because, otherwise, we'd be practicing the sectarianism that we criticize."

To enlist González was perhaps well-meant, but went too far in its bid to emulate the Venezuelan unified opposition, which is a shame. The unity presentation without him would have been remarkable: it links up some of the most relevant political organizations from the far left, including at least parts of indigenous party Pachakutik, and Nebot's conservative Madera

de Guerrero (Warrior Material) and the Partido Social Cristiano (Social Christian Party) on the right, along with Carrasco's centre-left Podemos (We Can) and Quito mayor Mauricio Rodas's SUMA (Join). With González aboard, Nebot had to insist that, rather than a formal alliance, the unity movement, while hoping for a joint presidential candidacy, was not a formal coalition, but a union of like-minded politicians aiming to defend freedom and democracy in the next congress. Rodas, blasted for deciding not to attend, now looks like he was wise to stay in Quito and focus on inaugurating the construction of the city's subway, regardless of the controversies that project faces. Some pundits see Correa as a victor in the dispute, but this appears unlikely given that it's González's association with the president, more than anything else, that has led to the barrage of criticism. For the moment, conservative Guillermo Lasso and populist Dalo Bucaram look like more immediate beneficiaries of the fallout as they push their presidential candidacies outside the "unity" project. Nebot did add that the door remains open for Lasso to join, but the latter's insistence on his presidential candidacy has irked many among the opposition.

For investors, the current situation leads to a different kind of uncertainty. For all the stability the nine years so far of Correa's rule has implied, it has all been rather relative. Economically, massive public spending has been the regime's main characteristic, but in the wake of the collapse of the price of oil, the OPEC member's top export, the government has most recently failed to keep current with many private suppliers previously among its main beneficiaries. The onslaught of legal changes (see below) and

constant campaigning have kept investors on edge, and now made them even more skeptical as the country's bond prices have plunged to distressed levels. If the opposition has truly learned little and consensus on sensible economic policy remains elusive, investors may have to fret about Ecuador's pre-2007 ways of uncertainty from now on.

Exercise in Futility

For its final full year, the Asamblea Nacional, Ecuador's congress, has loaded its plate rather heavily from the buffet of legislative initiatives. "We've been able to put onto the agenda the topics that are of priority and to be handled in each one of the (legislative) commissions," said congress president Gabriela Rivadeneira (AP). The plan forms "an adequate road map for the approval of these laws towards the end of 2016," she told reporters last week. Along with planned further constitutional changes, the legislative package promises to bite off far more than it can chew, even with the supermajority of more than 90 AP and allied legislators out of 137 in total.

So far during the legislature's term, from May 2013 through last December, it has passed 40 laws, an average of 1.3 a month. It would have to more than double that average this year to succeed in passing all those bills. Last year, it also wanted to pass 32 bills, only managing 16. It's no stretch to say, from the start, that it will fail this year again. While facing a risk of fiscal cutbacks given macroeconomic realities and faltering tax returns, and daunting spending targets, it will debate some nominally leftwing laws, including rights of indigenous languages, land reform (already in its final stage), against tax evasion,

and support for artisanal production. The obvious overall goal of the effort is to support the flagging fortunes of AP ahead of next year's general elections by restoring leftwing credentials as social unrest could increase due to rising unemployment and other negative effects of the year-old recession. Debate over the laws could provide a convenient distraction from the dire economic situation. "These laws are directly related to a structural change of the country," said Rivadeneira, a comment that is getting somewhat stale after the AP's nine years in power.

That said, some relevant bills that could potentially boost the investment climate did make their way onto the agenda, foremost regarding money laundering, which could help Ecuador's international reputation. Regarding labor reform, Correa has hinted at liberalizing rules, which could be essential in safeguarding employment levels. But others bills pose risks. Land reform looms, threatening agricultural output as farmers worry whether the government will seize their property. Changes also loom for the law governing the comptroller general's office, which sadly risks clipping efforts to fight corruption after controversial constitutional limits on that office passed last year. Private and public health insurance face a review, worrying the private health industry. The controversial laws on windfall property taxes and inheritances that led the middle class to take to the streets are also to be debated. And a series of bills promise to draw ire from other pressure groups, including an environmental code, changes to government purchasing, and to the public administration. The congress may well be helping the president shoot himself in the foot.

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