

Ramiro Crespo
Chairman of the Editorial Board

ECUADOR WEEKLY REPORT®

For the week of February 8 – February 12, 2016

Buyers' Remorse

President Rafael Correa recently ordered the finance ministry to debit \$41m from the armed forces' social security and pension institute (ISSFA) over the purchase of 66 lots on 380 hectares in Guayaquil destined to become a major park, Samanes. Correa proceeded without a court order or even a full comptroller general's report, which government officials say will be available in the near term. Correa argued that the lawyers contest the legality of the move, starting from Correa's order for the debit, rather than a judge's. This time, not just retired military officers are angry. The joint chiefs of staffs protested publicly, leading to their removal by Correa (they were scheduled to be replaced near the end of the month anyway).

The ISSFA properties formed a bit less than half the more than 800 hectares the Correa administration, in its bid to woo the hearts and minds of Guayaquileños, has worked on transforming into a major park in the north of Ecuador's biggest city. According to government newspaper *El Telégrafo*, some 220,000 people now visit Samanes every month, even with a bit less than a quarter of the total project finished. Oddly for a park, it features a complete sports stadium and a number of one to two-story buildings along a central pedestrian

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Feb 11, 2016)

	BID	ASK
Global 2024	66.00	67.00
Global 2030	67.00	73.00

Source: Bolsa de Valores de Quito

BCE International Reserves In million US\$

Jun, 2015	4,739.19	38.00%
Agu, 2015	4,201.41	-11.00%
Oct, 2015	3,308.36	-21.00%
Dic, 2015	2,495.96	-25.00%
Feb 5, 2016	2,783.83	12.00%

Source: Banco Central del Ecuador

Inflation

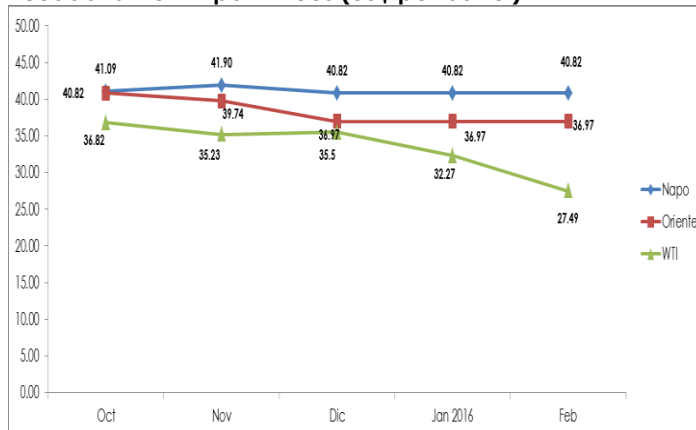
Jan 2015	0.31%
Year to Date	0.31%
Year on Year	3.09%

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

Sep, 2015	14,498.80	-1.28%
Oct, 2015	14,582.60	0.65%
Nov, 2015	14,313.10	-1.85%
Dic, 2015	14,554.40	1.69%
Jan 22, 2016	14,718.70	1.13%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

avenue. It also has an outdoor stage, bike paths, exercise machines, and a rock-climbing installation, among other amenities. According to *El Telégrafo*, the government has spent a total \$103.2m on the park – but private daily *El Universo*, following a review of documents from the public procurement office, calculated spending at \$229m, largely for construction (both reported their figures on February 11). The president's latest tally for the whole project stands at \$334m, even though 75% remains to be completed.

He had also valued the ISSFA land at \$100m back in 2010, when the deal with the environment ministry, led at the time by Marcela Aguiñaga (now a legislator) was signed, implying a steep discount awarded by the military for the \$48m deal. Now, he has completely reversed his position, arguing that the municipality of Guayaquil, led by conservative opposition mayor Jaime Nebot, had valued the land at just \$7m. Strapped for cash after the fall in the price of oil slashed fiscal revenue streams, Correa ordered ISSFA return the money paid in excess, i.e. the \$41m, even though the government owes it at least \$260m in contributions to military pensions. Lawyers also argue that the statute of limitation on any return already ran out last year. Aside from the fiscal and legal matters, the issue has put severe strain on relations with the military, with the president calling himself their “commander in chief,” akin to the situation in the United States, though the 2008 constitution doesn't give him this title.

The chiefs of staff are appointed by the president according to seniority. Because of this, several generals, particularly among the army,

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Feb 1 to Feb 5, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	261.05	2.05	11/02/2016
HOLCIM ECUADOR S.A.	162.35	66.99	5/02/2016
RIO GRANDE FORESTAL S.A.	29.55	2.60	11/02/2016
FIDEICOMISO OMNI HOSPITAL	7.00	7.000	2/02/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	2.45	3.240	1/02/2016
EL SENDERO FORESTAL (PATHFOREST) S.A.	2.00	20.00	2/02/2016
MUTUALISTA PICHINCHA	1.00	99.99	4/02/2016

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%

had to step down to accommodate the new top brass, led by admiral Oswaldo Zambrano. This hasn't ended the crisis however as influential retired officers have protested in Quito, accompanied by what sources say are wives of active-duty officers, who are also demanding the defense minister, Fernando Cordero, step down. On social networks, demands have been much more virulent, demanding early elections (although the next are just a year away) or even a military coup. Serious media have revised the

issue, with some commentators writing that the administration picked the fight to shore up flagging public support, fanning the coup rumors to make it look like a victim, and to distract from the continued recession.

Labor Lessons

President Correa has acknowledged weakness in the labor market, although he still refuses to admit the recession into which the country technically entered in the second quarter of 2015. Private sector estimates of layoffs of more than 20% of workers in the construction, retail, and oil industries over the past year have been accompanied by news of major layoffs at individual companies, including appliance manufacturer Indurama and carmaker Maresa. INEC, the government-run statistics agency, reported a spike in unemployment to 4.8% from 3.8% a year earlier in December. On February 6th, Correa announced plans to introduce more flexible labor rules in a market his own administration had sharply tightened early in its history (he first took office in January 2007).

While he plans to submit the plans to the congress by the end of the month, he outlined several changes that do depart from current rigidity. For full-time employees, companies would be permitted to reduce working hours and, importantly, reduce pay to the level of hours worked. Companies could also reduce the amount of fulltime working days. At the same time, companies would not be permitted to book net profits if not accounted for the full 40-hour workweek. Under decades-old tax law, companies must distribute 15% of net profits to full-time employees. Another significant idea would be to create contracts valid per individual

project for construction. This would permit companies to hire workers for a single building. Similarly, workers could receive more flexible contracts in agriculture, for seed or harvest months. Non-renewal would no longer imply complete, multi-month salary compensation, currently a key barrier to hiring. At the same time, Correa said that the government would reform the three-month trial period to ensure that companies don't fire workers after those three months.

For first-time or young employees, the government aims to scrap the obligation to pay interns the full-time minimum wage, currently \$366 per month, but these would have to continue to be registered with the state run social security institute (IESS). For workers aged 18 to 24, the government would subsidize employers' social security contributions (11.2%), to reduce hiring costs for those earning the minimum wage; the state wouldn't however fund social security beyond the percentage for minimum wage earners. Correa insisted that these changes would not reduce "workers' rights." He also said that Ecuador would introduce unemployment insurance, but without more information, financing of the scheme remains completely unclear and has worried entrepreneurs about potentially higher labor costs. IESS and multiple-salary severance pay rules are supposed to already cover unemployment risks. Major chambers of commerce and industry are skeptical regarding the reforms given the government's previous unwillingness to discuss employment policies, the lack of details currently available, and the mixed bag of reforms. Already, it's not a given that the government will have the money to pay for the

first-time workers' subsidy. The government also appears to be refraining from returning to the per-hour labor contracts permitted before Correa took office.

Predictably, unions are incensed by the prospect of lower wages for fewer hours, and saying that the government aims to unload the weight of the crisis on the back of the workers. Correa has a majority large enough to easily rubber-stamp legislation, with 97 of 137 seats in congress. Yet he has struggled to pass bills, on average just 50% of those planned for a calendar year. At the same time, according to opposition sources, unions are mistakenly convinced that large anti-government demonstrations in 2015 were in support of their hard-left policies, rather than a reflection of generalized discontent with the Correa administration. The softening of street opposition could ease the passage of the labor package, but, from what the administration has announced so far, it may be too little too late.

The editorial board of Analytica Investment's Ecuador Weekly Report publishes information obtained from expert sources, public information and media reports, and documents. Anonymity of interviewed sources is protected.