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ECUADOR WEEKLY REPORT®

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Losing Hold

The word "crisis" has become a hot topic in Ecuador. President Rafael Correa has angrily decried its use, likening it to the systemic financial and economic crisis of 1998-2000. But he and other top officials, including finance minister Fausto Herrera, refuse to even acknowledge the recession (two consecutive quarters of contraction) that the Central Bank of Ecuador (BCE) has long confirmed in its data. Outside administrative circles, the term is finding much more general use however. Fear is mounting of a hard economic landing, and clouded by the lack of transparency in data including, above all, debt and central bank currency accounting. It is also increasing regarding the political situation; similar to Venezuela and Brazil, doubts about Correa's ability to hold on to office are increasing.

Crisis or not, even some of the officials' comments should be enough to raise hackles. Correa has noted a fall of oil revenue equivalent to 7% of GDP, enough to cause trouble even for the best-run economies. Herrera has acknowledged substantial delays in transferring funds to local governments, about which the conservative mayor of Guayaquil, Jaime Nebot, in February complained. The central government had paid just 7%, or \$5m, of \$71m it should have

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Mar 11, 2016)

	BID	ASK
Global 2024	75.50	76.50
Global 2030	62.00	68.00

Source: Bolsa de Valores de Quito

BCE International Reserves In million US\$

Jul, 2015	4,771.47	4.48%
Sep, 2015	3,511.56	-26.41%
Nov, 2015	3,126.32	-10.97%
Jan, 2015	3,207.36	2.59%
Mar 4, 2016	3,260.91	1.67%

Source: Banco Central del Ecuador

Inflation

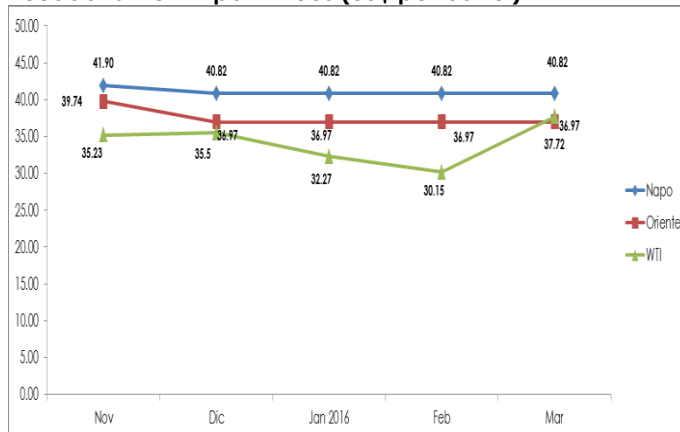
Feb	2016	0.14%
Year to Date		0.45%
Year on Year		2.60%

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

Oct, 2015	14,582.60	0.58%
Nov, 2015	14,313.10	-1.85%
Dic, 2015	14,554.40	1.69%
Jan, 2016	14,868.90	2.16%
Feb 19, 2016	14,971.70	0.69%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

handed over to Guayaquil as of February 24. Extrapolated, this would amount to a debt owed local governments of \$750m out of \$813m, Nebot added. The association of provincial governments says they're owed some \$214m. In a recent radio interview, Herrera said that the late amount for municipalities totals \$460m, which the ministry would provide them in the first quarter. "The important thing is to avoid that they shut down," he added – that certainly sounds like a crisis. While private-sector economists continue to call for the administration to seek help from the International Monetary Fund, Herrera refuses it, associating it with wrenching structural adjustment packages.

Politically, the pre-electoral situation has seen a turn of events this week as the Constitutional Court, allowed a pro-Correa organization, Rafael Contigo Por Siempre (With You Forever Rafael) to apply for a referendum that would allow him to stand, once again, for reelection next year. This provides more proof of the court's political inclinations. In 2014, it denied requests for a referendum by environmentalists demanding the government abstain from drilling for oil in the Yasuní National Park and in 2015, it acted similarly as opposition politicians tried to force a referendum on the administration's ultimately successful bid to scrap term limits, rubber-stamp by the congress dominated by his legislators, among other constitutional reforms. Although the constitution's article 117 says "it is prohibited to carry out legal reforms in electoral matters during the year before the celebration of elections," the organization's spokeswomen say that what would be changed is the constitutional amendment barring Correa from running again, rather than electoral law.

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Feb 29 to Mar 4, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	243.63	2.10	11/03/2016
HOLCIM ECUADOR S.A.	13.34	66.70	11/03/2016
CERVECERIA NACIONAL CN S.A.	6.62	66.50	11/03/2016
CERRO ALTO FORESTAL (HIGHFOREST)	3.38	13.50	3/03/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	2.40	2.600	11/03/2016
LA CUMBRE FORESTAL (PEAKFOREST) S.A.	2.03	13.50	3/03/2016
BANCO PICHINCHA	1.00	0.45	10/03/2016

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%

Correa meanwhile is, as expected, cutting as many ribbons as possible in his final 18 months in office, even inaugurating state-owned Petroecuador's gas stations. In public appearances, he spends around 23 hours and 20 minutes a week just speaking, including his Saturday television show, "as if he would dedicate himself to talking Monday through Wednesday and only start working on Thursday," wrote columnist Roberto Aguilar for the

4Pelagatos news site. Economists are clamoring for a reasonable adjustment plan and see no way to avoid seeking help from the International Monetary Fund. Instead, questions regarding the quality of governance in general and Correa's ability to retain his grip on the government through the end of his term in particular are emerging. Behind the open questioning of his regime on social networks, a former Ecuadorian political leader has been discussing the possibility of an interim government like one of the early 1960s with other senior figures of the past decades. While this appears laughable at this stage, it is indicative for the worrying political situation, where the government appears too worried about the polls to stop kicking the can of problems down the road.

Not Interesting

Sociedad de Lucha Contra el Cáncer (SOLCA), a non-profit network of cancer clinics headquartered in Guayaquil with five clinics in major cities, took out space in leading newspapers to warn the government and public that, due to a \$130m debt owed by the government, it risked shutting down at the end of this month. Social networks erupted with indignation; a group of people held a vigil outside the Quito clinic on March 8 to demand the government pay up. Administration officials responded with a mix of denial, blaming of private media, and threats to nationalize SOLCA.

Founded in 1951, SOLCA is one of the country's leading organizations fighting cancer and a crucial institution for low-income cancer victims. Unlike many public organizations, like PetroEcuador or airline Tame, its financial statements up to 2014 are easy to find and

review on its Web site. In Cuenca alone, it treats some 600 patients a day, according to media reports. Until 2008, SOLCA's funding stemmed from a 0.5% tax on bank loans. Eliminated amid president Correa's wholesale constitutional redesign, critics at the time already warned that SOLCA might have to resort to asking for the funds to be transferred from the finance ministry. This is what has happened now.

President Correa angrily rebuffed the SOLCA statement and told his propaganda office to review the media that printed and reported it for possible infringement of the 2013 communications law. He denied the amount, saying that "SOLCA was never owed \$130m, it was never at any risk of collapsing and so many other things they said," adding that he would meet SOLCA directors next week. He added that after paying the quarterly \$15m, acknowledged by SOLCA, the government owed just \$22m. Conflicting statements however abound. Finance minister Herrera said the \$22m correspond to the (many) patients sent to SOLCA by medicals from the state and social security health systems. Herrera also said that the issue in part stemmed from the decline in resources given the plunge in oil revenue. At the same time, the 0.5% tax has continued to be paid by individuals and companies, only that it now has to pass through the treasury. As a result, critics rebuff the government argument of limited cash. Some even warn that the administration may be committing two crimes, one by retaining the money, second by using it otherwise.

Should the crisis not be resolved, Correa threatened to nationalize SOLCA. This would be a classic example of fixing something not broken. Worse still, there is little proof that the public

health system could successfully uphold SOLCA's standards of quality. It also reflects an unfortunate belief among Ecuadorian bureaucrats that, rather than doing their duty, they are being generous with their own budgets – of course paid for by taxpayers – when they provide citizens with service. The contrast with US president Barack Obama's pledge to fight cancer could hardly be greater.

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