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ECUADOR WEEKLY REPORT®

For the week of March 14– March 18, 2016

Military Disaster

The crash of an army plane near Puyo in Ecuador's part of the Amazon basin took the lives of 22 members of the armed forces. There were no survivors. The incident may have been the worst peacetime disaster to ever hit the military, surpassing even the 2002 explosion of a munitions depot in Riobamba that killed 10 soldiers and left 40 homes destroyed. The plane fell amid variable weather in the jungle zone, not far from the Andean piedmont, for as yet unknown reasons. The accident also strikes a hard, strategic blow for the military as several of the victims were special forces paratroop instructors, upon which defense of the remote regions relies strongly.

The crash occurred during a training exercise. Two pilots and a mechanic lost their lives. Nine were officers. The plane was an Alava, manufactured in 1991 in Israel. Ecuador uses this model as it's particularly suited to short airstrips like the ones that dot the Amazon territory by the dozens. President Rafael Correa decreed two days of mourning in reaction to the disaster. Aside from speculation about the reasons for the crash among social networks, the accident occurred in the middle of a deep crisis between the civilian administration and military leadership, with the president rattling the sabre.

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Mar 18, 2016)

	BID	ASK
Global 2024	81.25	82.25
Global 2030	60.00	66.00

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 11, 2016	3,129.58	-2.43%

Source: Banco Central del Ecuador

Inflation

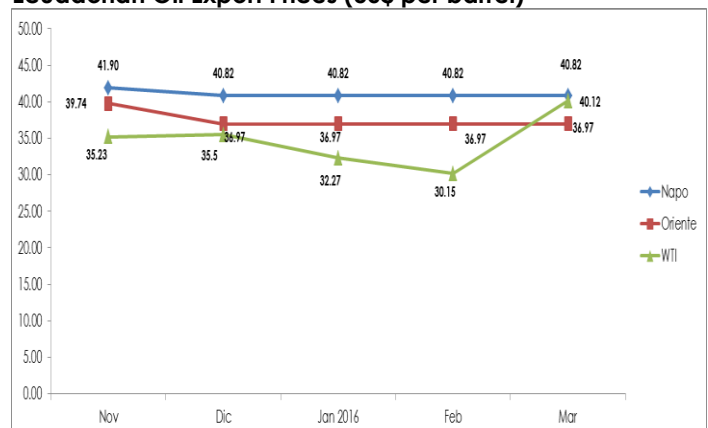
Feb	2016	0.14%
Year to Date		0.45%
Year on Year		2.60%

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 29, 2016	14,635.10	-1.57%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

With fiscal coffers decimated by the disappearance of oil revenue, the president has had harsh, divisive words for the top brass. He has complained about high pensions for generals, although it was the Correa administration that raised pay; after the September 30, 2010 police mutiny, salaries surged for both police and armed forces, ultimately leading to pension increases. For all of Correa's public display of disgust with alleged officers' privileges, money is at the heart of the dispute. Retired officers said that the tragedy near Puyo exemplifies the unity between officers and troops; they noted all the coffins were the same.

Like several Latin American countries, Ecuador over the past decade has invested significant resources in upgrading military hardware. In its particular case, some were largely uncontroversial, like the purchase of sub-sonic Supertucanos from Brazil; others flopped, like the Chinese radars that never worked, leaving Ecuador relatively open to clandestine flights by small aircraft carrying narcotics; others fared even worse, in particular the always controversial Dhruv helicopters from India, which are grounded after four of seven craft crashed (the murder of the former air force commander opposed to the purchase continues to appear linked to the deal, even though the administration insists on calling it a common felony).

Meanwhile, the government's lateness in transferring the state subsidy to ISSFA, the armed forces' social security and pension institute, has led to serious problems there. Lack of liquidity has forced ISSFA to stop loans for mortgages and surgeries. The amount the government owes the institute currently stands at \$329m, accumulating

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Mar 7 to Mar 11, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	1,012.90	2.18	18/03/2016
HOLCIM ECUADOR S.A.	36.95	66.70	16/03/2016
SOCIEDAD AGRICOLA E IND. SAN CARLOS	30.30	1.12	17/03/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	26.00	2.600	16/03/2016
CERVECERIA NACIONAL CN S.A.	11.70	66.50	11/03/2016
BANCO PICHINCHA	8.44	0.45	16/03/2016
LA CAMPIÑA FORESTAL (STRONGFOREST) S.A.	8.25	27.50	15/03/2016
FIDEICOMISO GM HOTEL	5.40	2.250	14/03/2016
CRIDESA	4.25	5.10	16/03/2016

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%

since last June, according to the retired officers' representative on its board. After several top officers left in the controversy over the price of ISSFA properties sold to the government in 2010, dozens of mid-level officers have left the service. According to analysts, they feared Correa would carry out his threat of slashing their pensions. "If I

have to govern with lieutenants, I'll do it," the president said on March 5, however not implying he was seeking to establish a military government. This week's tragedy is an opportunity for Correa to learn to find a more conciliatory tone. Sadly, his track record shows he is unlikely to do so.

Saving SOLCA

The public dispute between the government and Sociedad de Lucha Contra el Cáncer(SOLCA), a non-profit network of cancer clinics headquartered in Guayaquil with five clinics in major cities, over debts owed the organization came to an erstwhile end this week. SOLCA directors and health minister Margarita Guevara agreed that the government owes it \$50m. The agreed amount is well below the \$130m SOLCA had said the government was late in paying, putting cancer treatments at risk as soon as the end of this month. According to Guevara, "the numbers are dynamic," hinging on treatments and payment schedules for patients from the public health system. She said that \$20m would be paid immediately, with another \$30m under revision.

On its part, SOLCA said that the government had indeed paid an initial installment on time even before it issued its public statement. The organization's public warning led to a barrage of criticism of the government's spending priorities, particularly since SOLCA's funding stems from the payment of a 0.5% tax on financial systems' loans. Hence, SOLCA's money is independent from other government revenue streams. By making its dire situation public, the organization caught the government off guard, leading to irate replies. President Correa angrily threatened

to nationalize the clinic. While providing for continued treatment of cancer victims, the accord between the two parties included provisions for continued coordination. The government thus expects to remove the matter from scrutiny by the general public.

Through the Back Door

The campaign by the two young women leading Rafael Contigo Por Siempre (With You Forever Rafael), Pamela Aguirre and Stephania Baldeón, to allow president Correa back onto the ballot next year has so far been farcical for its blatant flouting of the constitution's prohibition of changing electoral law less than a year before an election. The pair held a rally in a park in Cuenca, attracting only a handful of people despite having a stage at their disposal; they couldn't explain who had paid for it. Aguirre, in particular, has suffered ridicule on social networks for claiming that "the constitution isn't a law." But thanks to the Constitutional Court's (CC) similar nonchalance in handling the law – it has permitted them to seek a referendum to overturn the provision barring Correa from standing for reelection for a third time – the president might well have a way back into the electoral fray.

Simón Pachano, a political scientist at FLACSO university, in his weekly column in daily *El Universo* noted that, thanks to the CC's acquiescence, Correa might become a candidate even without the referendum taking place. The CC in the past denied petitions by organizations unaffiliated with the government to hold referendums on oil drilling in the Yasuní National Park in Amazonia, as well as on the constitutional reforms last year that scrapped term limits. In the

end, amid the clear erosion of popular support for his government, Correa had legislators add a "transitional" passage that would eliminate him from benefitting from the changing of the rules. Thanks to the latest plan, whenever it might appear politically convenient, the CC could "simply determine that the transitional (text) is not constitutional because it wasn't included in the first (congressional) debate," Pachano wrote. That would immediately allow Correa to stand again thanks to "the happy marriage between the judiciary with politics" in Ecuador, he added. Correa has had to realize that his former vice president, Lenín Moreno, will not be easy to control politically. To remain in the driver's seat, he may well feel that he is irreplaceable. If he does run in the end, those who long – even for years – believed that this was always his true intent will be proven right. That would make last year's promise to keep him off the ballot despite the elimination of term limits nothing more than cynical politicking.

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