

Ramiro Crespo
Chairman of the Editorial Board

ECUADOR WEEKLY REPORT®

For the week of March 21– March 24, 2016

Unusual Unity

To compare the joint statement of Ecuadorian labor and business leaders this week with the first meeting of a pope and an Orthodox patriarch since 1054 in Havana in February is only a moderate exaggeration. Local left-of-center political organizations and activists have a very hard time dealing with conservatives beyond personal courtesy. Many still question whether entrepreneurs or liberals can even be considered democrats, and treat former allies or sympathizers who have broken ranks and joined CREO, the conservative political movement of former banker Guillermo Lasso, practically as apostates. In this context, the pragmatism with which unions and chambers of business have tended bridges over the issue of social security has been all the more remarkable.

The Correa administration's use of the Ecuadorian Social Security Institute (IESS) as a convenient cash cow has long been problematic. While nominally independent, IESS has for year been the dominant buyer of government bonds, crowding out options that would have been available for the private sector under less political management. Additionally, IESS's bank (BIESS) has undermined private banking by aggressive mortgage lending (with the added benefit, while it lasted, of stimulating

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Mar 23, 2016)

	BID	ASK
Global 2024	81.00	82.00
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 18, 2016	2,896.95	-9.68%

Source: Banco Central del Ecuador

Inflation

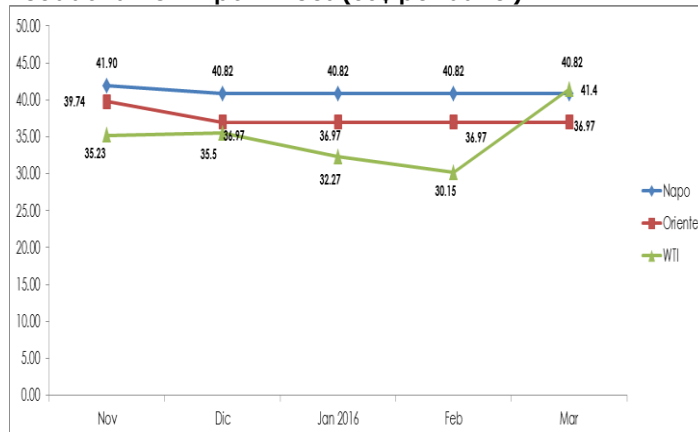
Feb	2016	0.14%
Year to Date		0.45%
Year on Year		2.60%

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

Nov, 2015	14,313.10	-1.85%
Dic, 2015	14,554.40	1.69%
Jan, 2016	14,868.90	2.16%
Feb, 2016	14,635.10	-1.57%
Mar 11, 2016	15,030.00	2.70%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

construction and thus employment). But with government-imposed expanded social security benefits and, in particular, the end of a 40% subsidy last year, serious questions about its long-term financial viability have emerged.

The labor reform now under effect has been met with hostility by unions, which called for demonstrations that attracted thousands in Quito and elsewhere last week. Business chambers, meanwhile, have criticized the final wording of the law, including a provision establishing up to nine months of unpaid maternity leave. Patricio Alarcón, president of Quito's chamber of commerce, said that would create an impediment to the hiring of women because companies in practice would face the hiring and training of temporary staffers only to have to lay them off a few months later. Both unions and chambers criticize the introduction of an unemployment insurance in a fast-track law, with little debate over the long-term structure and funding. The scheme involves, highly unusually for Latin America and particularly for a nominally socialist government, no contribution to the system from the state, instead diverting the employers' share of funding for the current unemployment fund (1% of salaries; the 2% paid into individual accounts by salaried employees will continue).

In their joint statement, the two sides demanded the government resume payment of the 40% of IESS funding eliminated last year; pay IESS what it owes it; return money diverted from the pension fund to the health fund, put at \$1.68bn last year by newspaper *El Universo*; respect the tri-partite membership (government, union, and business chambers) of the IESS board, and create a rotating presidency (the post is

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Mar 14 to Mar 18, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	424.68	2.19	23/03/2016
FIDEICOMISO OMNI HOSPITAL	56.00	6.800	23/03/2016
BANCO AMAZONAS	30.07	1.00	18/03/2016
SOCIEDAD AGRICOLA E IND. SAN CARLOS	13.61	1.12	17/03/2016
FIDEICOMISO GM HOTEL	11.25	2.250	14/03/2016
BANCO GUAYAQUIL	5.82	0.52	21/03/2016
LA CAMPIÑA FORESTAL (STRONGFOREST) S.A.	5.50	27.50	15/03/2016
SUPERDEPORTE	0.05	6.05	18/03/2016

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%

now a quasi-cabinet position); immediately report the real financial status of the social security fund and of BIESS; promote an independent financial and administrative audit "to determine the real situation of the institution and the corresponding responsibilities;" and to adopt measures to "overcome the chaotic administrative management of IESS and BIESS."

According to the government, IESS has never been better, and it is taking appropriate steps to address the crisis, including spending cuts and higher taxes on cigarettes, alcoholic and sugared beverages, with the benefit that these taxes are on health-endangering products. Both unions and employers, however largely from different points of view, criticize most of the reforms as unlikely to have a positive impact on employment. Even some on the left criticize the spendthrift ways of the government as creating unnecessary noise that undermines confidence in economic and, ultimately, political stability. In this sense, the rapprochement between workers and entrepreneurs is a rare hopeful sign of constructive work for the post-Correa era that is emerging (national elections are scheduled for 2017 and president Rafael Correa has pledged not to compete for reelection again).

Tame's Continued Turbulence

After just six months at her job and only a few weeks after promising to bring state-owned airline Tame back into the black next year, Paola Carvajal, the company's chief executive, resigned on March 16. In keeping with the lack of transparency that has characterized its financial reporting, Tame never reported the news, only issuing a statement on March 22 that her replacement, Patricio Chávez, had been named. Who ran the company the preceding week is a mystery. Perhaps Carvajal's departure should be linked to revelations by an audit carried out by the comptroller general's office that put the airline's current losses at \$80m, almost 40% more than the \$58m Tame acknowledged to have lost over the past two years after a newspaper report in *El Universo*.

Comptroller general Carlos Pólit told television broadcaster *Teleamazonas* this week that his office had detected widespread malfeasance at the company. "Most officials that have passed through there failed to comply with norms, failed to comply with procedures, failed to comply with contracts, failed to comply even with issues regarded to plane contracts," he said. Supervisory board members – thus, government officials – were all involved in negligence that might even put the airline's survival at risk, Pólit said. He cited the case of a new leased plane having been brought in only to remain idle because the corresponding permits and other paperwork hadn't been done on time.

In its initial message, the Chávez management issued a mixed message. Tame would continue to "operate routes that are hardly profitable but necessary for the country's development," while "promoting restructuring and re-dimensioning," improving its business and incorporating a "strategic partner," which Carvajal had already mentioned. Chávez, a medical engineer trained in Russia and former ambassador to that country, comes to Tame after heading a fledgling holding created last year to manage the array of state-owned companies (the "Coordinating Company of Public Companies, or EMCO). It's not clear what particular experience Chávez brings to Tame. The disparate social and economic goals of the company look set to conflict with the primal goal of financial consolidation. That said, negotiations have been held to reduce leasing costs, Chávez had told government newspaper *El Telégrafo* recently. Who will want to step in as a strategic partner at such a difficult moment is anyone's guess, with Latin American aviation largely

consolidated in a duopoly (LATAM and Avianca) that already owns Tame's main rivals. Additionally, the government has had little success so far in attracting new foreign investors, even with a new public-private partnership law passed late last year.

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