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## ECUADOR WEEKLY REPORT®

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### Taxing Times

Amid the plunge in public income, the administration has abandoned its pretense of anti-cyclical spending, in any case always applicable only amid economic slowdowns, not boom times. President Rafael Correa and other officials continue to deny the existence of an economic crisis, but, shortly before 10 pm on March 30, he submitted an “urgent” (fast-track) law to congress to help buffer public finances. “The country in the current moments is facing a considerable reduction in fiscal cash resources due to the fall in the price of oil and the appreciation of the dollar, due to which actions that mitigate this situation are required,” he argues. With current public spending unfettered, the new law – on the heels of a reinterpretation of what constitutes “milk” by the Internal Revenue Service (SRI) – marks only a stopgap measure saddling consumers with still higher costs amid a recession.

The bill will increase the special consumption taxes on alcoholic beverages and soft drinks (including energy drinks and carbonated malt) as well as cigarettes (there’s no doubt the Correa-controlled congress will rubber-stamp the bill). Taxes on cigarettes will increase 14.5% to 15 cents per unit from 13.1 cents. Taxes on liquor will see an increase of \$7.24 per liter of pure, 100%

## ECONOMIC INDICATORS

### Ecuadorian Global Bonds (Mar 31, 2016)

	BID	ASK
Global 2024	79.75	80.75
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, 2016	3,207.36	2.59%
Mar 24, 2016	2,592.07	-19.18%

Source: Banco Central del Ecuador

### Inflation

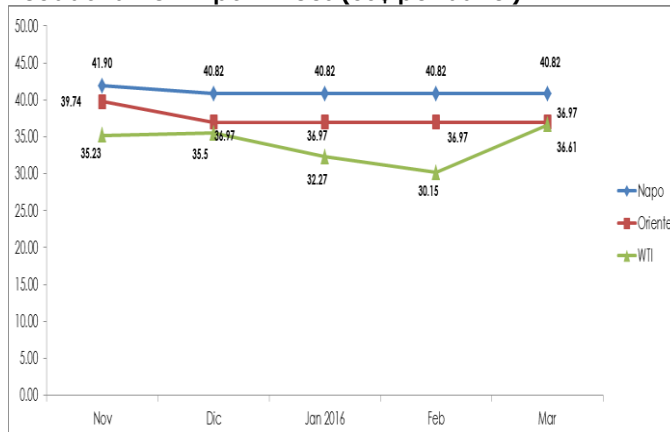
Feb	2016	0.14%
Year to Date		0.45%
Year on Year		2.60%

### 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 18, 2016	14,947.80	2.14%

Source: Banco Central del Ecuador

### Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

alcohol plus a 75% increase in the value-added tax, in the case of beer with a \$12 per-liter of alcohol tax increase. Taxes on soft drinks will rise by 25 cents per liter. "The *paquetazo* (austerity package) of other governments was to increase gas, electricity, telephone (fees)," said Correa. "In our *paquetazo*, (consumers) will pay a little more for cigarettes, a little more for alcoholic beverages, a little more for sugared drinks, which are even harmful to health," he added in announcing the package. The package does differ from others in that it affects domestic and imported alcoholic beverages equally. For years, however, imports of alcoholic beverages have declined amid rising taxes and duties. Since 2011, they've plunged up to 70%, newspaper *El Comercio* reported, citing retailers and importers. Reports of smuggling, meanwhile, have increased; *La Hora* cited a Euromonitor study saying that a third of liquor consumed in Ecuador is smuggled, reducing taxes by \$128m. The case of cigarettes will likely be similar. Whether the taxes will actually reach the purported \$300m level amid a steep overall drop in tax collections is doubtful. For February, the SRI reported a 13% decline in tax collections to \$2.13bn, from \$2.49bn the same month last year, accelerating from an 8% drop in January. Fixed-line and wireless telephone usage for firms meanwhile will be hit with a 15% tax, except when used solely for data transfers. And seniors will have to start paying income tax on their pensions, while some tax breaks for disabled people, notably of VAT on cars, will end.

Perhaps fiscally more significant will be the president's new right to "order diminishment of the budgets of entities outside the general (central) budget of the state, when extraordinary

## Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Mar 21 to Mar 24, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CONTINENTAL TIRE ANDINA S.A.	3,068.41	1.00	23/03/2016
CORPORACIÓNFAVORITA C.A.	189.81	1.97	31/03/2016
FIDEICOMISO OMNI HOSPITAL	6.80	6.800	23/03/2016
INDUSTRIAS ALES	6.16	0.90	24/03/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	5.72	2.600	31/03/2016
CERRO VERDE FORESTAL BIGFOREST	3.25	32.50	22/03/2016
RIO GRANDE FORESTAL S.A.	2.50	2.60	31/03/2016
BANCO PICHINCHA	2.02	0.45	30/03/2016
BANCO GUAYAQUIL	1.39	0.52	24/03/2016

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%

and unpredicted situations present themselves that reduce the flows of income and financing of those budgets," as the bill reads. This is completely disingenuous as independent analysts for years had warned that the oil boom couldn't last forever and that double-digit public spending increases weren't sustainable. But the administration continues to refuse to

acknowledge any responsibility for the present economic problems, which are reflected in sizeable layoffs in the private sector as well as a plunge of around 50% of vehicle sales on the year. Already, the 2016 budget slashed municipal and provincial budgets, many of the most significant controlled by opposition politicians, by 12%, to \$2.86bn from \$3.25bn last year. This doesn't include the money the finance ministry has been late in transferring to cities and provinces, such as the \$45m owed Quito, according to the capital's government.

At the same time, the government is tightening the screws on consumers' international spending by imposing the 5% currency export tax on cross-border travelers bearing more than \$1,098 dollars, while eliminating it for up to \$5000 in annual overseas purchases. The government hasn't yet abandoned its scheme of "electronic money," despite low acceptance by the public. Transactions made in electronic money will get a two percentage-point value-added-tax deduction. For payments in credit cards, the amount of VAT deductions will be half that. "This also has a collateral benefit that is to impulse aggregate demand to therefore contribute to the generation of employment and economic growth," the bill argues, but, more likely, it aims to create an incentive to get people to return deposits to bank accounts. All told, the controversy, private-sector criticism, and either restrictive or bureaucratically taxing nature of yet another change to the tax system will hardly create the confidence really required to restart private investment. Disgust with public spending on foreign trips, advertising, huge numbers of government vehicles, spending on rent and a

bloated apparatus by the government is high. Meanwhile more and more, the economy is showing signs that it's indeed in crisis, with a government unwilling or incapable of handling the situation properly.

### **Bill of Duties**

In Ecuador, the pursuit of happiness will have some clear limits, if the National Assembly, the congress, approves a new law officially submitted by Zobeida Gudiño, an Amazonian pro-Correa legislator best known for her diatribes exposed at high decibels. The mammoth, 441-article "Code of the Cycle of Life" (Código del Ciclo de Vida) aims to replace a series of significant legal bodies, including laws regarding infancy, childhood, adolescence and old age. It also introduces changes into civil law, higher education, labor law, media, and others. According to the document bearing Gudiño's signature, "the development model that states have had to confront in the latest years puts into evidence the need to change the traditional structure of the state and to make way for the transformation into a state with planning capacity and efficient management, through the institutions that make up the public sector." For citizens, the law will mean "to regulate the effective enjoyment, exercise and demandability of rights" enshrined in the 2008 constitution and international treaties, according to the bill's first article. "In essence, it contains some of the ideological principles of the totalitarian utopia of *correísmo*," writes columnist Roberto Aguilar of *4Pelagatos*.

Indeed, the bill's "common duties and responsibilities" (article 19) clearly establishes the top-down, authoritarian view of society. While

president Correa has expressed regret for “permitting” the 2008 constitution to include a “right to resistance” (a debatable concept, but readily applied by indigenous organizations in largely peaceful protests), these citizens’ duties mark a retreat to a worldview that severely questions social development at least since 1968, or more broadly, social liberalization since the end of absolutism. “People during their life cycle have the duties and responsibilities that the constitution imposes on male and female citizens, when compatible with their condition and evolutionary stage (sic).” These include, specifically, “respect for the fatherland and its symbols” and “respect for legally constituted authorities.” Everyone must practice good habits and athletic activities to “preserve their health through self-care.” They must also “learn and practice the highest values of human beings that contribute to giving it its true ethical and moral dimension as an individual and as part of society.” In the home and at work, people must “act with honesty and responsibility,” and “participate actively in the planning of public policy and programs designed in favor of their age group.” Finally, (unless the government adds more), they must “watch over the accomplishment of policies and social assistance” in their “territorial constituency.” Regarding specific age groups, children must “respect their parents and teachers” and “behave adequately in all public and private spaces” (article 26). Adolescents must “contribute to the family economy, when needs demand this” (article 30). While adults are skipped, seniors must “integrate healthy habits and physical activity into their lives” (article 33) and participate in social, recreational, athletic,

and cultural activities “that will permit them to age healthily and with dignity,” as well as passing on their wisdom to younger generations.

These rules may appear ridiculous, and authorities patently disregard them. Citizens actually taking their rights to political activity and transparency seriously risk trials, while the president personally insists on making a spectacle of himself at least almost every Saturday, including tantrums. The education ministry is bent on punishing school-age adolescents for their participation in sometimes violent protests; yet it failed to observe the rule to study diligently in the case of a student leader forced to transfer to another school: the ministry’s ruling against him was riddled with well over 200 spelling and syntax mistakes. Although not necessarily easy to prosecute, the “Life-Cycle” law could well provide legal arguments to judges and other authorities, even beyond the re-regulation of divorce laws and alimony payments, among other important social issues, attempted in the bill. The bill’s ridiculous length and the legislature’s tight agenda do pose challenges for it to be passed before the end of its term. But the worldview of officials capable of producing this kind of document evidences the hardline authoritarianism that Correa has sought to inflict on the country.

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