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ECUADOR WEEKLY REPORT®

ECONOMIC INDICATORS

For the week of April 11 – April 15, 2016

Worry Like it's 1999

This week, the International Monetary Fund updated economic growth estimates for Ecuador that show a marked deterioration from its previous outlook four months ago. For this year, the Fund estimates that the economy will shrink by 4.5%, followed by another 4.3% contraction in 2017. In 2021, growth would be just 1%, still below population growth – in essence, we could be facing major per-capita income decline for another four years. This would leave Ecuador the second-weakest economy in the region, below even Brazil, and performing only better than Venezuela, among Latin American “countries in economic distress.” In an initial response, economy minister Patricio Rivera disputed the estimate, attributing it to “delayed data,” adding that “the IMF is always wrong.” The government says that the economy will grow 1% this year.

The IMF released its data as part of its quarterly *World Economic Outlook* publication, in which it predicts moderate growth for the global economy this year totaling 3.2%. Risks “remain tilted to the downside,” the Washington, D.C.-based multilateral said, mentioning the slowdown of emerging-market economies, fall in commodities prices, and the rise in US Federal Reserve interest rates as factors. Last year,

Ecuadorian Global Bonds (Apr 14, 2016)

	BID	ASK
Global 2024	81.75	82.75
Global 2030	42.00	48.00

Source: Bolsa de Valores de Quito

BCE International Reserves In million US\$

Ago, 2015	4,201.10	-11.35%
Oct, 2015	3,308.36	-21.26%
Dec, 2015	2,495.96	-24.56%
Feb, 2016	3,341.64	33.88%
Apr 8, 2016	2,459.50	-26.40%

Source: Banco Central del Ecuador

Inflation

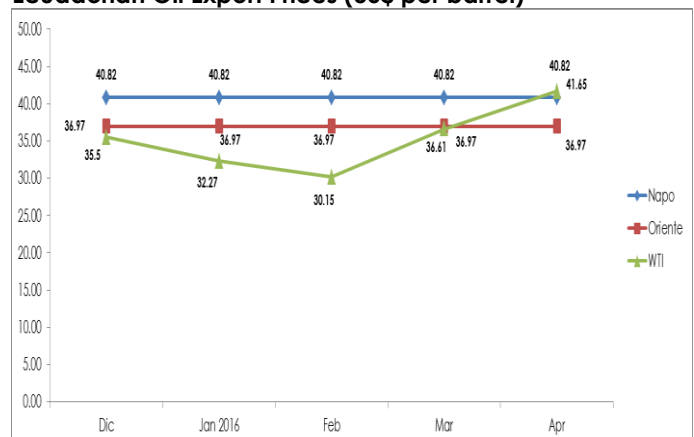
Mar	2016	0.14%
Year to Date		0.58%
Year on Year		2.32%

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 31, 2016	14,756.50	0.86%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

“growth in emerging market and developing economies—while still accounting for over 70 percent of global growth—declined for the fifth consecutive year, while a modest recovery continued in advanced economies.” Among countries in a similar situation to Ecuador, the Fund recommends “reducing public expenditures while raising their efficiency, strengthening fiscal institutions; ... increasing noncommodity (sic) revenues would facilitate the adjustment to lower fiscal revenues.” Furthermore, “deepening local capital markets, improving fiscal revenue mobilization, and diversifying exports away from commodities are also ongoing challenges in many of these economies.”

On its part, the Central Bank of Ecuador (BCE) recently reported a minimal growth of 0.3% in real terms for 2015. Nominally, GDP edged 0.1% lower, ACLARAR according to the BCE data. And, adjusted for the change in base year, if the IMF is correct, the economic contraction will rival that of the 1998-2000 crisis. Already, the 2015 data showed the slowest growth since the crisis of the year 2000, when Ecuador adopted the dollar to help pave the way to recovery.

The administration of president Rafael Correa, in office since 2007, has disregarded a number of private-sector policy recommendations, above all the restoration of confidence in local investment, severely undermined by the lack of judicial independence; access to foreign markets, and constant changing of tax rules, including a 5% tax on foreign currency exports (ISD) that will now be extended to individuals departing Quito or Guayaquil internationally, if they have more than \$1098 in cash in their wallets.

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Apr 4 to April 8, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	496.21	1.99	14/04/2016
HOLCIM ECUADOR S.A.	34.06	63.98	14/04/2016
RIO GRANDE FORESTAL S.A.	6.00	2.60	14/03/2016
INVERSANCARLOS	5.65	1.13	6/04/2016
BANCO PICHINCHA	4.80	0.48	06/04/2016
ALICOSTA BK HOLDING S.A.	1.20	12.25	5/04/2016
CONTINENTAL TIRE ANDINA S.A.	0.06	1.00	4/04/2016

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%

For the administration, the measures it has taken – including the ISD and massive punitive tariffs of up to 45% – have secured domestic liquidity amid the plunge in oil prices, which erased income equivalent to 7% of GDP and around 20% of government funding. The government is clearly struggling to maintain spending levels. The latest tax plan aims to raise \$300m by slashing funding to municipal governments and increasing taxes on alcoholic

beverages, cigarettes, and sugar-laden products. According to Rivera, this is targeted at a budget shortfall of around 3% of GDP – or close to \$3bn. He rejected calls to reduce public spending, saying that this will only deepen the problems (the government refuses to even acknowledge the recession). The issue now appears to be that Ecuador's economic cheering policymakers refuse to see that the light in front of them stems from an oncoming train.

Lights On

Half of 1,500-megawatt hydroelectric plant Coca-Codo Sinclair (CCS) – thanks to four of the planned eight turbines - went online this week as the government seeks to demonstrate that its massive buildup of new riverine power plants is nearing completion. President Correa has had to acknowledge that fiscal difficulties have forced the government to push the latest deadlines for a total seven plants back to the end of this year, rather than the end of the first half. Instead of cutting a ribbon, vice president Jorge Glas, still considered a possible successor to president Correa, started the CCS turbines by pressing a button. Next week, the new Sopladora plant is to add another 487MW to the system. According to the government, the new power plants will lead to a complete change of Ecuador's electrical system. Relatively cheap and clean energy will help the country save hundreds of millions of dollars annually on diesel fuel used to run thermoelectric plants, and installed capacity will be enough to even transform Ecuador into an exporter of electricity. Indeed, a deal has already been signed to export power to Colombia. To have the plants online this year could be a significant factor for Correa's ability

to have a like-minded successor elected in the vote scheduled for February 2017.

While the plants have experienced numerous delays, government officials say they have managed to build supply “delayed” for 30 years. Detailed studies have indeed been available for many years. Independent engineers however have raised serious questions regarding many of the new plants, in particular, why installed capacity frequently tops that of earlier studies made in the 1970s and 1980s. CCS, for example, is getting twice as much capacity as planned a generation ago, even though it doesn't rain twice as much in the rainforest-covered mountains in which it is being built. GLOBALWARMING Colombia recently signed a \$100m deal to import electricity from Ecuador, which would be a historic turnaround. Ecuador's northern neighbor is in the midst of a power crisis brought on by drought. Sources in Ecuador's power industry however question whether this will work, given last-minute work on high-power transmission lines and the real risk of overcapacity, meaning that there will be less electricity available than promised. ? Additionally, the cost of the plants has proven significantly higher than for plants built by private companies. Unsurprisingly, this has led to allegations of corruption, which the government has flatly rejected.

Tied to the “Panama Papers” leaks of offshore accounts, the prosecutor general's office this week raided Tributum, a tax consultancy in Quito, after Guayaquil newspaper *El Universo* and Dutch newspaper *Trouw* reported that China International Water & Electric (CWE) had simulated \$32.9m in contracts for a faked geological consultancy. “Tributum worked

closely with the Dutch tax consultancy and trust company Infintax in setting up a structure to channel a sum of \$ 32 million out of the country," *Trouw* reported. "Where this money finally ended up, is a mystery." According to *El Universo*, CWE's Ecuadorian contracts total \$621.36m, including \$265m for the Toachi-Pilatón power plant. It will likely take another administration before this can be investigated properly.

Bad Report Card

The US State Department this week released its human rights report for 2015. Media picked up introductory comments, which cited Ecuador, along with Bolivia and Nicaragua, among countries with state bureaucracies that seek to control and punish independent media and non-governmental organizations, threatening basic freedoms. Regarding Ecuador, "The main human rights abuses were lack of independence in the judicial sector; restrictions on freedom of speech, press, assembly, and association; and corruption," according to the country report.

In response to the media articles, the foreign ministry issued a rebuttal, calling the comments "unilateral and unfounded." The ministry, now led by French-born Guillaume Long, noted its "serious concern" regarding a "biased report that unjustifiably seeks to undermine the international image" of Ecuador, which "with conviction impules the respect and promotion of human rights accorded universally, in accordance with its firm compromise with the principles of multilateralism." The ministry also noted the US's long-running failure to sign a number of multilateral human rights agreements. On his part, US ambassador Todd Chapman said that "we have an open dialogue with Ecuador

on this issue." He added that "there are many human rights achievements in Ecuador."

The individual country report on Ecuador goes well beyond the basic summary of the introductory remarks. It runs over 45 pages, covering numerous issues including labor, discrimination, indigenous peoples and the Afro-Ecuadorian minority, disabilities, human trafficking, and corruption, beyond the media above. Given the very limited options these issues have of being reported by international news media, the report provides a useful summary. It even mentions an angry "Heil Hitler" tweet by president Correa a year ago as a lone example of anti-Semitism. Ironically, while the foreign ministry disputes the State Department's right to publish a "unilateral" report, it too goes on to dispute the US human rights record including the Guantánamo Prison – as it, indeed, has every right to do as a sovereign state.

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