

Ramiro Crespo
Chairman of the Editorial Board

ECUADOR WEEKLY REPORT®

For the week of April 18 – April 23, 2016

Shaken but Resilient

A magnitude 7.8 earthquake hit Ecuador's coast at 6.58 p.m. April 16, causing widespread damage and shockwaves felt in much of the Andes and parts of neighboring countries as well. The death toll at time of writing was officially 587, but aid workers and volunteers in hard-hit areas report hundreds more as yet unaccounted for. Some may even have been buried without identification. An aid organization reported bodies in Canoa, one particularly devastated beach town, taken to a public park for lack of an alternative of where else to place them immediately. It took formal rescuers three days to reach what was formerly a budding resort, when the drive from nearby city Bahía de Caráquez before Saturday evening took just 20 minutes.

Considering the strength of the quake, it was the strongest to hit Ecuador since 1979. By the death toll, it will be the worst since 1949, according to President Rafael Correa. That 6.8 magnitude quake killed more than 5,000. Ecuador now has around 16 million inhabitants; in 1949, it had just over 3 million. At least since it became an oil exporter in 1972, unscientifically spoken, major earthquakes have had a habit of hitting the country during economic bad times. In 1987, two quakes in short succession (magnitudes 6.1 and 6.9) killed more than 1,000

ECONOMIC INDICATORS

Ecuadorian Global Bonds (Apr 22, 2016)

	BID	ASK
Global 2024	81.50	82.50
Global 2030	43.00	49.00

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 15, 2016	2,383.66	-28.67%

Source: Banco Central del Ecuador

Inflation

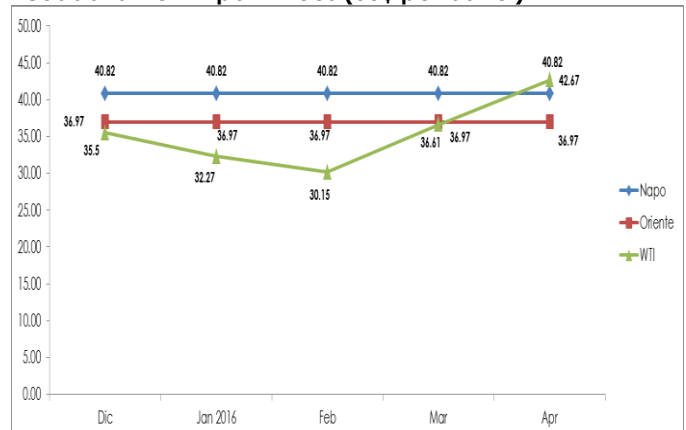
Mar	2016	0.14%
Year to Date		0.58%
Year on Year		2.32%

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

Dic, 2015	14,554.40	1.69%
Jan, 2016	14,868.90	2.16%
Feb, 2016	14,635.10	-1.57%
Mar, 2016	14,756.40	0.83%
Apr 8, 2016	15,185.70	2.91%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

in the north and northeast of Ecuador. Flooding triggered by the quake was the main source of the damage in those events. They also destroyed a 70-kilometer stretch of the Trans-Andean Pipeline, at the time the lone oil pipeline that carried the export lifeblood to Esmeraldas, the oil export port. The hardship was so strong that year that Ecuador had to default on foreign debt payments.

This time, oil infrastructure remained unaffected. While the price of oil is similarly low to that of the second half of the 1980s, a pipeline rupture or other industrial damage would have compounded the situation with the cost of cleaning up an environmental disaster. Correa on the ground said that reconstruction will cost around \$3 billion, later, before media back in Quito said that wasn't an "official" estimate. Damage is certainly extensive, and widespread. Buildings suffered from north of Esmeraldas, where as of April 20 official help had not even arrived, down to Machala, not far from the Peruvian border, where parts of the ceiling of the "ECU911" emergency monitoring center collapsed. In Guayaquil, a major overpass collapsed, crushing one person, and the main hospital of cancer specialist SOLCA suffered major damage, among many other damages. The hardest-hit area however stretches from Esmeraldas in the north to Manta in the south, and approximately 25 kilometers inland.

At its epicenter, Pedernales, a town of some 40,000 inhabitants, up to 80% of its buildings have become inhabitable. Bahía de Caráquez will have to be rebuilt, Correa said. So will much of the other villages and cities in the entire area. The shrimp industry, which, along with tourism, was the area's main employer, has also been

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (from Apr 11 to April 15, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	421.80	1.96	21/04/2016
LA ENSENADA FOERESTAL (COVEFOREST) S.A.	201.70	2.60	16/04/2016
HOLCIM ECUADOR S.A.	64.94	63.98	21/04/2016
FIDEICOMISO OMNI HOSPITAL**	21.00	7.000	11/04/2016
RETRATOREC S.A.	11.70	3.90	14/04/2016
RIO GRANDE FORESTAL S.A.	10.32	2.60	14/04/2016
BANCO PICHINCHA	5.90	0.48	18/04/2016
CONCLINA	1.30	1.20	12/04/2016

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%

devastated; this compounds Ecuador's balance of payments problems as shrimp are Ecuador's third most important export items, and exports were already suffering from fresh competition out of southeast Asia and lower demand from China and the US. In the first two months of this year, shrimp exports totaled \$336.9 million, down 6.8% from the same period last year, when they reached \$363.5 million.

Not just the death toll suffers from discrepancies. The number of homeless, according to the government, totals around 20,000, but the Red Cross has estimated the number at 100,000. The Red Cross also estimates that around 10,000 children under the age of five need help, 10,000 seniors, and 4,000 pregnant women need urgent help. Correa said that all affected areas have been reached by government help, but volunteers and indigenous activists dispute this claim, too. The president's hesitancy to stand by his spur-of-the-moment, ground-zero damage estimate indicates that it should be taken with caution; hence it may fortunately be lower.

Early on in his first term, and despite warnings to the contrary, Correa dissolved a sovereign fund aimed at saving money for emergencies. Among his arguments, he said that the money was better spent immediately, and that too much of the savings were made to ensure repayment of sovereign debt. Now, he has resorted to \$600m in contingency credit lines from the likes of the Inter-American Development Bank, the Andean Development Corporation, and the World Bank. The International Monetary Fund has offered help, but there has been no public response from the government. Additionally, Correa aims to raise money from an emergency, temporary tax package he announced the night of April 20. This includes, fundamentally, a one-year, two-percentage-point increase in value-added tax to 14%, which could collect \$1.8bn but comes as VAT collection has been plunging amid the recession. Likely to offset complaints about the regressive nature of raising VAT, for the middle and upper income groups, also Correa announced a tax

amounting to one day of pay per month, tiered according to income, starting with one day for those earning at least \$1000 per month, ending at five days (one per month) for those earning at least \$5000 a month. For the wealthy, he announced a 0.9% "one-time contribution on persons with a patrimony greater than \$1m;" he also stated that there would be unspecified privatizations and a 3% increase in taxes on net profits. In total, the measure aims to collect between \$650m and \$1bn. More details will have to wait until he submits this latest tax package, his 14th overall since taking office, to the National Assembly. The legislature meanwhile will likely rubber-stamp his plan to raise taxes on sugared and alcoholic beverages, alcohol and corporate telephone services next week.

Also in the wake of the earthquake, the government signed its fourth loan agreement with China backed in oil deliveries. Funds will go to finance the government's annual investment plan, not reconstruction. The deal was preceded by three similar agreements for \$5bn, with debt payments going ahead in the form of oil shipments from Petroecuador (most of Ecuador's oil continues to go to the US, but this is now largely done via Chinese intermediaries). The interest rate for the latest deal is 7.25% for the first \$1.5 billion tranche, with an eight-year maturity and a pledge for disbursement in the coming six weeks. The second tranche consists of \$500 million in Chinese yuan, eight-year loan at an interest rate of 6.87%, with arrival of the funds linked to the progress of specific, individual infrastructure projects.

During his speech on the latest tax package, made in an obligatory emergency broadcast – probably the first that truly deserved to be

transmitted of the thousands since he took office – he failed to mention any savings plans. Previously, he has said that budget cuts forced by the economic downturn amounted to an adjustment package achieved without affecting the poor. But the absence of any comment on a shift in spending focus to benefit the afflicted areas triggered immediate anger in social networks. On *Twitter*, numerous people demanded he close ministries of dubious use, particularly Ecuador's secretariat for "good living" and its space agency, and that he sell his presidential planes and cancel his Saturday propaganda presentations in favor of providing funding to the earthquake victims. While these might not make a huge difference financially, they reflect social discontent about government spending on apparently frivolous items while unemployment grows, and also of insensitivity (he insists on defending the planes) at a time when the response by individuals to the earthquake crisis has been phenomenal. Mistrust is so great that people are choosing whom to donate to carefully lest the money or goods arrive in government hands. Many have preferred to deliver goods to well-known international or foreign emergency assistance funds or to the dozens of local volunteer associations that sprang up across the country that, often together with municipal governments, worked at the local level to provide essential relief. Tons of help reached remote areas well before the central government, in the form of military, police, and social ministries, arrived on the scene.

Some conflict of course was to be expected. Aid first reached centers close to intact airport runways, while many out-of-the-way places

could only be reached by the few available helicopters because of destroyed roads. This created frustration and bottlenecks, with some places like Pedernales relatively quickly overstocked in goods and others still isolated. But private and municipal help has overshadowed the government's efforts at leading the help effort. A week earlier, during a conference in the Vatican, of all places, Correa had even criticized civil society as a potential threat to government. Thousands of Ecuadorians disproved this over the past few days, from the poor to the wealthy, from individuals to corporations. Humility at this time of need would have gone a long way to help bridge the gap between the administration and its large numbers of critics. Instead, hubris continues to hold sway. Almost a week after the catastrophe, Correa has even failed to decree national mourning. When Hugo Chavez was declared death, he immediately decreed three days of national mourning.

The editorial board of Analytica Investment's Ecuador Weekly Report publishes information obtained from expert sources, public information and media reports, and documents. Anonymity of interviewed sources is protected.