

Ramiro Crespo
Chairman of the Editorial Board

ECUADOR WEEKLY REPORT®

For the week of May 2 – May 6, 2016

Reality Bites

The end of the halcyon days of high oil prices has forced Ecuador's president, Rafael Correa, to retreat from some cherished policies. Aside from ending his private war with independent media, few can be more painful than having to abandon his deep-seated fury at the International Monetary Fund. "We paid (them) \$40m and we don't want to know anything about the International Monetary Fund," Correa said in April 2007. Nine years later, he has had to qualify that. "Welcome if they want to give us financing to overcome these difficult moments," Correa said during his April 30, regular Saturday radio and television broadcast (toned down since the earthquake to a presentation with cabinet members and other officials without an audience). He added that the IMF had already approved a \$400m "unconditional" loan.

As of writing, the IMF had only mentioned an offer to provide funding to help reconstruction, and confirmed that Ecuador last week requested help. Ecuador could immediately receive 37.5% of its near-\$500m quota unconditionally and up to 75% on a cumulative basis under a loan mechanism called the Rapid Financing Instrument. It could apply to other types of programs, but then it would have to accept some degree of conditionality. There is

ECONOMIC INDICATORS

Ecuadorian Global Bonds (May 5, 2016)

	BID	ASK
Global 2024	88.00	87.00
Global 2030	51.00	45.00

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 24, 2016	2,486.04	-25.60%

Source: Banco Central del Ecuador

Inflation

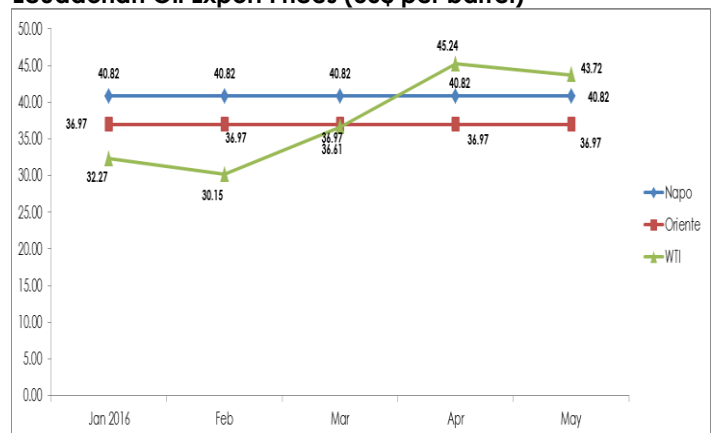
Apr	2016	0.31%
Year to Date		0.89%
Year on Year		1.78%

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 22, 2016	15,012.60	1.74%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

always some degree of flexibility as programs are not carved in stone; in August 2009, it received \$350m as its part of the emergency distribution of cash the Fund gave its members to combat the global financial crisis. Only a day after the quake, IMF director Christine Lagarde offered to help Ecuador "face the consequences of this natural catastrophe." Despite failing to fully admit it, the Correa administration has mended its ties to the Fund via a resumption of regular economic reviews, dubbed "Article IV consultations." While Correa in 2014 said that he would only let IMF staffers enter the country as tourists, two missions have visited the country since then. In the wake of the latest visit, it corrected its quarterly outlook for annual growth to a deep GDP decline of 4.5% this year and 4.3% next (EWR:..).

All told, the government has said that it expects the disbursal of around \$650m from other multilateral lenders. It also says that it will receive \$500m in the short term from China to fund the government investment budget, thanks to the latest loan backed in oil (another \$1.5bn are linked to progress on individual projects). But signs of haphazard management have begun to emerge in the earthquake-afflicted areas. Both this and its slow reaction to the recession put question marks onto the administration's capacity to guide Ecuador out of the crisis. Even Correa's Internal Revenue Service estimates that the planned increase in value-added tax will constrict demand and thus lead to falling, not rising, tax revenue. A structural adjustment plan thus might become unavoidable in the medium term.

Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From Apr 25 to April 29, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
CORPORACIÓNFAVORITA C.A.	187.66	1.92	05/05/2016
SOCIEDAD AGRICOLA E IND. SAN CARLOS	106.70	1.06	04/05/2016
CERVECERIA NACIONAL CN S.A.	62.00	62.00	25/04/2016
ALICOSTA BK HOLDING S.A.	49.92	12.00	28/04/2016
BANCO SOLIDARIO	44.37	0.94	26/04/2016
HOLCIM ECUADOR S.A.	29.37	64.00	02/05/2016
LA ENSENADA FOERESTAL (COVEFOREST) S.A.	22.80	2.60	03/05/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	7.20	2.400	28/04/2016
RIO GRANDE FORESTAL S.A.	6.28	2.60	03/05/2016
INVERSANCARLOS	4.08	1.10	05/05/2016
CONCLINA	2.98	1.20	28/04/2016

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%

Awful Alluriquín

The Atoac-Santo Domingo highway reopened this week after yet another emergency closing. Just days after the April 16 earthquake, a flash flood tore through Alluriquín, suspending traffic yet again. The two-meter wave of the Damas

River crashed through the hamlet that straddles the main road, destroying two dozen houses and killing four. Continued rain washed away a bridge over the Damas on April 30. Local residents have received no concrete information on potential relocation and financial aid; Alluriquín is a parish of the Mejía canton south of Quito. The village and road's plight shines a spotlight on the continued fragility of Ecuador's primary road system.

For all the paving and widening, the government has failed to focus on linking Guayaquil and Quito and possibly Cuenca along a reliable, all-weather high speed road. This might be possible along the central Andes and descending via the towns of Pallatanga and Cumandá, which could be interconnected with a fast road to Cuenca via a series of bridges and tunnels south of Huigra – an expensive proposition but which would significantly reduce transportation costs between cities accounting for close to 7m people, slashing travel times and boosting tourism, as well as avoiding protected areas (the main road between Cuenca and Guayaquil now runs through a national park). The government paid Spanish consultants Ineco \$1.2m for a national strategic mobility plan presented in 2013, but this largely sticks to existing roads. The network Correa touts as “South America's best” is a patchwork of sometimes slow, sometimes fast, sometimes wide, often narrow and congested roads much poorer than those of Chile. And their construction has cost taxpayers more than elsewhere.

Compared with an average per-kilometer price of \$178,000 in the European Union, based on a study of Germany, Greece, Poland, and Spain, prices in Ecuador are much higher. In

Ecuador, two of the most expensive cases, the Quevedo bypass in the coastal lowlands and the Latacunga-Salcedo bypass in the Andes cost \$6.9m and \$6.7m, respectively, despite relatively straightforward topography. The Quevedo bypass is the modest remnant of what was to be a \$458m superhighway between it and Santo Domingo, over a length of 93km, with a deadline of mid 2014. Official information portrays the situation in a very different light. For all the social rhetoric emphasized by the Correa administration, it's the road paving and widening that has emerged as the biggest trump card compared with other, less well-funded governments. President Correa boasts that his administration in nine years has spent more than \$8.4bn on roads, “six times more than the three previous governments” (which were in office a combined five years). A joint review of 48 contracts greater than \$10m by Iceland-based investigative news site *Milhojas* and *Plan V* online magazine showed that 93% had suffered cost increases of 6% to 270% above their original budgets, along with delays up to four years. The article cites incorrect calculations regarding distances, demand for materials, lack of technical studies, rainy weather and Ecuador's complicated topography as reasons for the price surges. An anti-corruption watchdog has cited similar cases in the construction of hydropower plants as an indication of widespread corruption in public contracting, and the comptroller general's office has found indications of corruption in its review of the president's construction program. Meanwhile, funding has stalled. The Alluriquín tragedy is only the latest proof that not everything the administration's

public relations team touts as a marvel actually qualifies as such.

Enter the Grey List

In its latest annual "Special 301" report, the office of the United States Trade Representative removed Ecuador from the tier of countries blacklisted on a "priority watch list" for alleged violations of intellectual property rights and patents. The USTR now places it on its "watch list" with the likes of Brazil, Canada, Egypt, Peru, Romania, Vietnam, and first-time offender Switzerland. Ecuador improved thanks to its willingness to work with the US, even though counterfeiting and piracy continue to worry US right-holders. Improvements included the reinstatement of punishment for intellectual piracy in Ecuador's criminal law. The office said that it would seek "clarification" of mandatory licensing rules set by Ecuador.

The annual report is not without international criticism. Chile, a country perennially included on the list, called the report "unilateral." The Electronic Frontier Foundation, a civil liberties organization focused on the digital world, blasted it because "its priorities lie with appeasing the special interest groups who pre-write most of the demands that end up in the report: major entertainment companies and the pharmaceutical industry." Given the breadth of the report and the huge trade and/or free trade relationship that the US has with many of the countries on the list, including China, the number one recipient of its criticism, the report has only a limited impact on commercial ties. Still, as the US continues as Ecuador's by far largest individual trading partner, to take greater respect for copyright into account is no mistake.

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.