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ECUADOR WEEKLY REPORT®

ECONOMIC INDICATORS

For the week of May 9 – May 13, 2016

That Ugly Word

Contrary to public opinion Ecuador never really made it into the big leagues of so-called “neo-liberalism:” The state continued to hold major assets, even adding to them amidst the severe collateral damage of the 1998-2000 financial and economic crisis. Now, with the economy threatening to fall into similar hard times, President Rafael Correa has offered to sell some assets but avoiding to use the term “privatization” hated by his remaining left-of-center supporters.

What Correa has so far presented resembles more of a yard sale than an outright privatization plan. Conceptually, his arguments are confusing: On the one hand, he insists that the administration, whose treasury account registered a paltry \$99m at the end of April, has ample liquidity. On the other, he spoke of the “challenge of converting that wealth (of public investment) into liquidity.” This might please his constituents, but it puts a damper on the economic confidence a strategic plan to roll back the state might have given investors (Correa publicly scoffs at the need to do this). The state will potentially retreat from a single industry, aviation, by selling airline Tame. Otherwise, it will keep the reins firmly in hand. Nothing more than hints exist regarding valuations.

Ecuadorian Global Bonds (May 12, 2016)

	BID	ASK
Global 2024	87.63	86.63
Global 2030	49.00	43.00

Source: Bolsa de Valores de Quito

BCE International Reserves  
In million US\$

Sep, 2015	3,511.56	-26.41%
Nov, 2015	3,126.32	-10.97%
Jan, 2016	3,207.36	2.59%
Mar, 2016	2,573.07	-19.78%
May 6, 2016	2,342.95	-8.94%

Source: Banco Central del Ecuador

Inflation

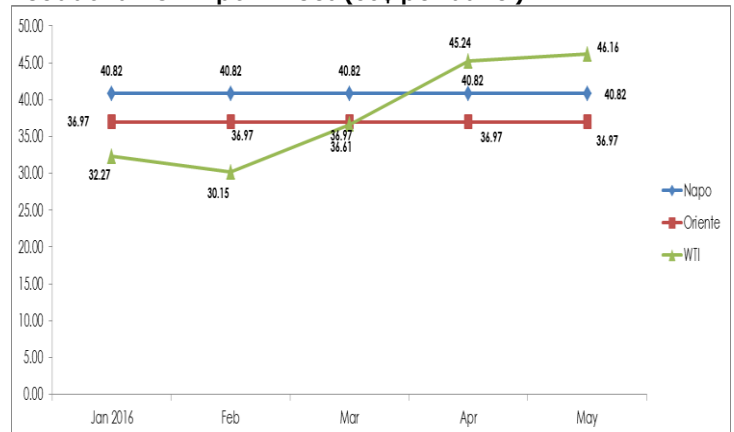
Apr 2016	0.31%
Year to Date	0.89%
Year on Year	1.78%

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 30, 2016	14,854.80	0.67%

Source: Banco Central del Ecuador

Ecuadorian Oil Export Prices (US\$ per barrel)



Source: Bolsa de Valores de Quito

The government's retreat from aviation is a positive signal, given the airline's troubled status – laden with losses, including bills particularly from the government and fees owed by Venezuela. This however won't necessarily make it attractive for a potential buyer. Besides the losses and political involvement of regulators, including an Amazon subsidiary, Ecuador's market already has subsidiaries of the leading regional airlines, LATAM and Avianca; it will be interesting to see which other player might want to compete.

The other assets include Banco del Pacífico, two television broadcasters – Gama and TC – and hydroelectric plant Sopladora, currently under construction east of Cuenca. Correa also aims to sell 49% of telecom CNT and of oil shipper Flopec; the 2008 constitution deems these “strategic” industries where the state must continue to hold a majority. All of these face the challenge of a poor macroeconomic environment (see our monthly report for May for more information). All also have their own caveats: Banco del Pacífico, the number two commercial bank, faces a tough operating environment, with net profits in the industry down around 40% so far this year, as well as strict regulations. Correa had the television broadcasters confiscated in 2009 and any buyer can expect a legal challenge from the former owners, as even the president complains.

The government has spent around \$900m on Sopladora, according to Correa. Rather than provide cash, the buyer will likely assume debt, reducing the net cash the administration can expect to collect. The electrical industry, too, is overwhelmingly in state hands, with a risk of political transmission prices. At the same time, the private sector still runs several smaller

## Quito and Guayaquil Stock Exchanges

Equities Most Traded			
Issuing Company	Cash Value (From May 2 to May 6, 2016) (In Thousands US\$)	Closing Price (In US\$)	Last Date of Trade
HOLCIM ECUADOR S.A.	558.91	63.99	12/05/2016
CORPORACIÓNFAVORITA C.A.	195.03	1.85	12/05/2016
SOCIEDAD AGRICOLA E IND. SAN CARLOS	114.12	1.14	12/05/2016
CERVECERIA NACIONAL CN S.A.	62.00	63.00	06/05/2016
BANCO SOLIDARIO	44.37	0.94	26/04/2016
LA ENSENADA FOERESTAL ( COVEFOREST) S.A.	34.40	2.60	12/05/2016
FIDEICOMISO HOTEL CIUDAD DEL RIO	10.04	2.640	11/05/2016
RIO GRANDE FORESTAL S.A.	8.00	2.60	06/05/2016
CONCLINA	2.98	1.20	12/05/2016
INVERSANCARLOS	4.08	1.11	11/05/2016

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%

hydroelectric plants profitably; challenges to a sale should not be insurmountable. It will take time for potential buyers to review all of these assets. So far, the government's track record has been insufficient: None of the touted privatizations or concessions of roads has gone ahead. Petroecuador, immersed in scandal, has been unable even to sell its gas stations,

purportedly on the block since last year. The social security institute did, after years of trying, sell Hotel Quito in an upscale area for around \$30m to China Road and Bridge Corp.; while the low price has scandalized some, parts of the hotel are protected as architectural heritage and debts that likely weighed on the sale price. Even if the assets could collect over \$1bn easily in total, it will probably be too late to solve this year's fiscal woes.

### **Orange Juice and Booze**

Unemployment has climbed in Ecuador. As of March, in its quarterly survey, INEC, the national statistics and census institute, reported an unemployment rate of 5.7%, compared with 3.8% a year earlier, and the highest rate of the past three years. Close to 450,000 people had no job, up from 283,000 a year earlier, indicating the scale of the deterioration. While jobs in the formal economy are disappearing, informal vendors are multiplying – triggering a minor but revealing scandal in Quito.

In recent weeks, the informal sale of orange juice has proliferated on the capital's sidewalks. First viewed with sympathy given the state of the economy, alarm bells rang once local newspapers reported that a third of the juice wasn't safe to drink because of dangerous bacteria. No matter that the sample made by the municipal health office was tiny (just 35) and to be expanded, worries spread given the apparent high probability of getting ill from consuming sidewalk juice.

The debate turned to ridicule after Juan Zapata, head of security for the capital, said that an unnamed Peruvian national apparently led what El Comercio called “a mafia” of orange

juice sellers. Zapata argued that an internal investigation had led to this conclusion, given that, according to the paper, a truck delivered the product and that there would be “recruiters” for sellers participating in the deal. Zapata added that “people must understand that regulated products must be bought and control entities must be supported.” The article took his comments at face value and didn't quote any of the juice sellers.

A counter-outcry ensued over the possible unfairness towards poor people trying to make a living amid hardship. Ecuador in general has a huge number of informal workers selling all kinds of goods; INEC registered 1.35m under-employed people in the same period, including sellers of all kinds of food including, famously, a kind of sweet tripe (tripa mishqui) not subject to the rigor to which orange juice sellers have been the object of. There are hundreds of dubious restaurants and tiny hotels, while formal establishments chafe under the non-stop changes of regulations that make it expensive and next to impossible to obtain permits (aside from bribes as an option). The singling out of the new group of juice sellers looks completely arbitrary on this background.

Mayor Mauricio Rodas said that he supported entrepreneurship and that 430 juice sellers – the full universe, according to a municipal census – would receive hygiene training. On social networks, the issue sparked heated debates; one solution frequently recommended was to simply add vodka. Speaking of alcohol, in yet another policy reversal, interior minister José Serrano and tourism minister Fernando Alvarado announced that the ban on Sunday sales of alcoholic beverages (“liquor”, in the government's lexicon) would be dropped and that opening hours for

bars and clubs that had been shortened to a maximum of 2 a.m. would be extended to 4 a.m. They argued that this would help the economy recover and that public safety is now good enough to permit this (when the measure was introduced six years ago, the government said that violent crime was strongly linked to Sunday drinking). Jokes quickly ensued about Ecuadoreans being expected to binge drink the economy back into health, thanks also to still higher taxes on alcohol passed recently. And then Alvarado said it was all “a misunderstanding;” opening hours will remain restrictive, disappointing club owners who have only a few hours to make a profit to be able to stay open.

The matter may appear trivial, but it reveals strong undercurrents in thinking regarding economic development. At the moment, tolerance for entrepreneurship appears to be holding sway over the ambition to prohibit activities. But debates quickly flare out. More generally, the discrepancies between an over-regulated and a completely informal economy need to be discussed. Not just authorities appear happy to treat citizens as children (after all, nobody is being forced to buy freshly squeezed orange juice, meat kebabs, or corn on the cob on street corners). Also, as Daniela Salazar, a law professor at Universidad San Francisco de Quito points out, the case of alcohol exemplifies the submission of the judiciary to the executive branch: the Constitutional Court dismissed complaints against the Sunday prohibition, arguing that “excess dispensation of alcoholic beverages furthers disorder, social decomposition and violence.” It will now remain silent.

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