



Ecuador Government Bonds Analysis

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Introduction

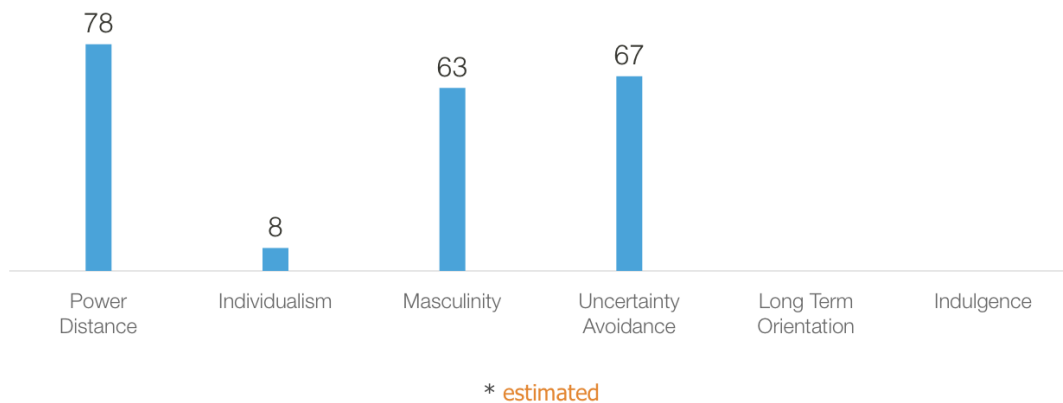
Ecuador (officially the Republic of Ecuador) is a country of northwestern South America. Economically, Ecuador became known for exporting Panama hats (straw hats so named because they were shipped to Panama in the mid-18th century and bought by traveling gold seekers and because they were worn by Panama Canal work crews in the early 19th century) and agricultural products, notably cocoa (the source of cocoa beans), bananas, and flowers. It is a major exporter of petroleum and an increasingly important tourist destination.



The Central Bank of Ecuador and the National Bank of Promotion, both state-controlled, have branches in all the provincial capitals. The Central Bank is the government depository and controls the monetary system, while the National Bank of Promotion handles agricultural and industrial credit. There are many private commercial banks in Ecuador and a handful of foreign-bank branches. The bank supervisory board is a technical organization that monitors all banking activities. The national currency is the U.S. dollar, adopted by Ecuador in 200.

Society

Let's address the country with regard to following parameters of Hofstede's dimensions:



Power distance: at 78 Ecuador sits in the higher rankings of PDI – i.e . a society that believes that inequalities amongst people are simply a fact of life.

Individualism: at a score of 8 Ecuador is amongst the lowest Individualist scores, it lies amongst the most collectivistic cultures in the world.

Masculinity: at 63 Ecuador is a Masculine society – highly success oriented and driven. This contradicts the stereotype that Latin Americans avoid hard work.

Uncertainty avoidance: at 67 Ecuador has a high score on Uncertainty Avoidance which means that as a nation they make use of several mechanisms seeking to avoid ambiguity. Emotions are openly expressed; legislation is extensive and detailed; social conservatism prevails.

(There are currently no scores for the Long term orientation and Indulgence.)

Export

Exports include crude oil and derivatives, shrimp, bananas, coffee, cut flowers, cocoa, and Panama hats. Ecuador's principal export destinations are the United States, Peru, China, Chile, and Panama. Imports include machines and primary industrial materials, motor vehicles, consumer goods, and food and chemical products. Imports come mainly from the United States, China, Columbia, Panama, and Brazil.

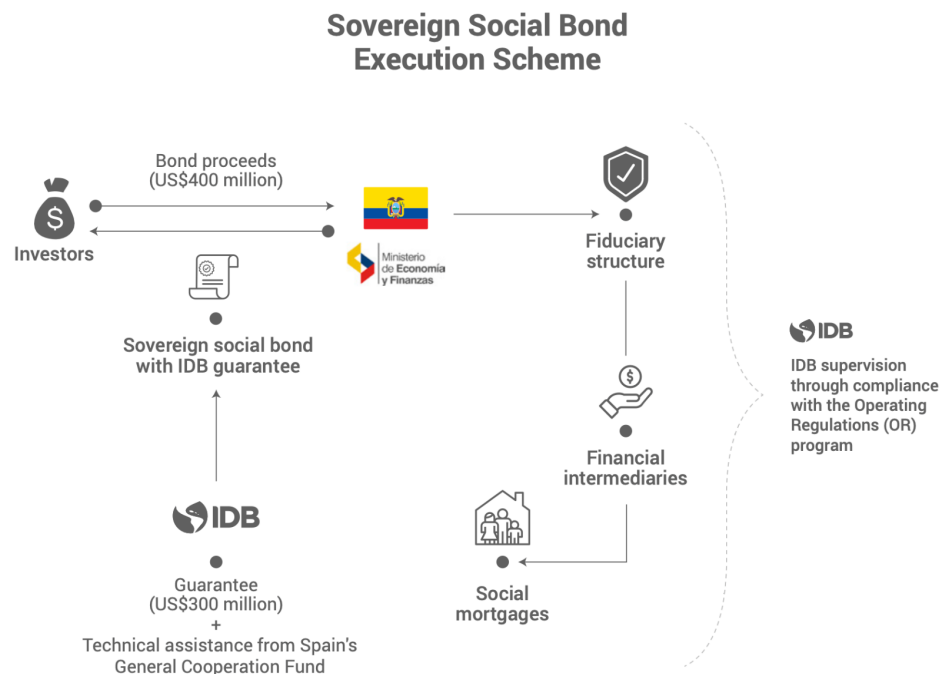


Risks and Opportunities


Ecuador issued the world's first Sovereign Social Bond, backed by a guarantee from the Inter-American Development Bank (IDB). The issuance of US\$400 million will generate access to decent and affordable housing for more than 24,000 medium- and low-income families, and will mobilize close to \$1.35 billion in investments in the country's housing sector.

- **Beneficiaries**
Under this mechanism, approximately US\$1.35 billion will be offered to benefit 24,000 middle- and low-income households.
- **Housing deficit**
The housing deficit affects almost half of households in Ecuador: 67 percent in rural areas and 38 percent in urban areas. The deficit is estimated to increase at a rate of 40,000 households per year. The limited saving capacity of a large part of the population and the lack of mortgage loans at affordable rates are the main causes of the deficit.

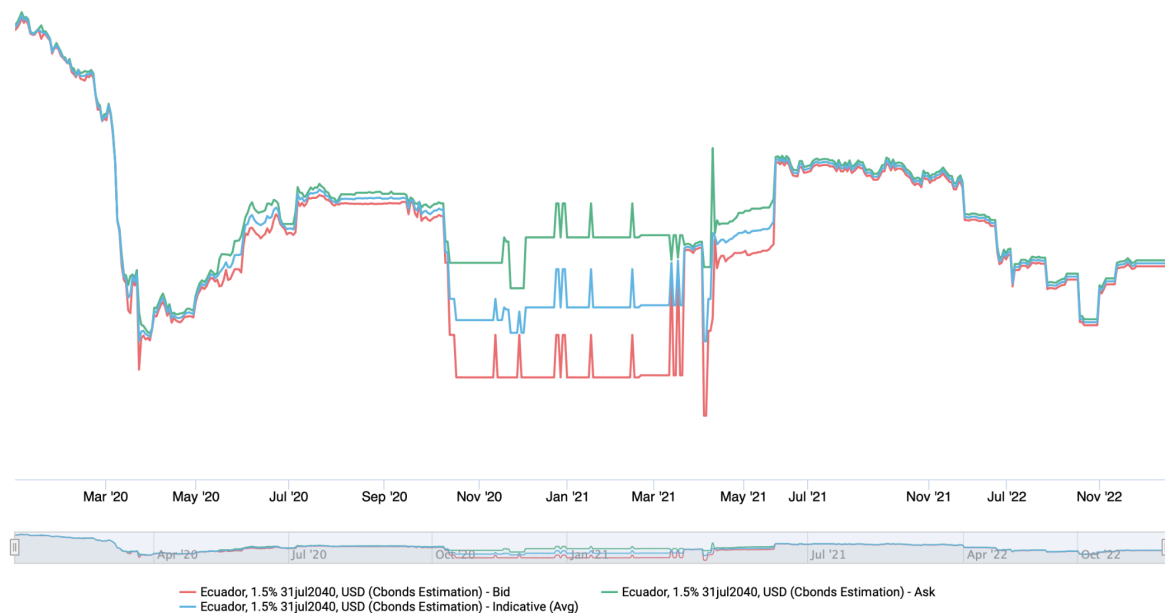
- **Proceeds**
The proceeds from the issuance of the sovereign social bond will allow for mortgage loans to be offered at a preferential interest rate of 4.99 percent, through the Ecuadorian financial system and a securitization scheme.
- **First IDB bond guarantee**
scheme. Proceeds For the first time, the Inter-American Development Bank (IDB) has granted a partial credit guarantee for a bond issuance. This guarantee—by a supranational entity with AAA credit rating—allows Ecuador to attract international investors and reduce the cost of financing. Spain's General Cooperation Fund provides additional technical resources to support the issuance.
- **World's first sovereign social bond**
The Republic of Ecuador has issued the world's first sovereign social bond. The proceeds from the bonds will support “Casa para Todos”, a public program.



IDB Guarantee Terms	
Guarantor	<u>Inter-American Development Bank (IDB)</u> Fitch AAA / S&P AAA / Moody's Aaa
Cover	US\$300 million
Covered risk	Non-honoring of a sovereign financial obligation for the payment of scheduled interest and principal payments due under the notes on each scheduled date
Governing law	New York State

Sovereign social bond bummary term sheet	
Issuer	The Republic of Ecuador
Guarantor	<u>IDB</u>
Issued amount	US\$400 million
Currency	US\$
Tenor	15 years
Use of proceeds	Eligible social mortgages complying with the “ Casa para Todos ” program requirements 
Independent reviewer of the social bond framework	<u>Vigeo Eiris</u> – issuance in compliance with the <u>ICMA Social Bond Principles</u>
Social impact reporting	Annual
Listing	Luxembourg

And as one can observe for the past two years the performance of the bond represented in the following chart:



Future development

Ecuador's credit score is B-, which implies a highly speculative market, which is also stated by [Bloomberg](#) and [BNN Bloomberg](#).

Ecuador's 'B-' rating balances relatively high per-capita income, a strengthened external liquidity position, and a favorable debt service profile following a 2020 restructuring with weak economic growth (pre- and post-pandemic), a poor debt repayment record, and heightened political risks stemming from recent instability.

It also expects the central government deficit to fall to USD2.1 billion in 2022 (1.8% of GDP) from USD4.1 billion in 2021 due to higher oil prices and the yield from a recent tax reform. Fitch's projection incorporates the loss in oil revenues due to production disruptions during recent protests and the new fiscal measures to end them, but are somewhat better than the government and EFF projections given their conservative revenue assumptions.

Conclusion

Ecuador is a country of enormous economic potential. Development has focused on agricultural, marine, and mineral resources, with industry playing a more limited role. The subsequent production of primary goods has been subject to cycles of boom and bust, however, and Ecuador has sought to diversify its resource exports and to seek new markets. The country has improved standards of living, but it is still characterized by marked inequalities of wealth and well-being.