

PUBLIC AFFAIRS

Ecuador: Navigating the COVID-19 Crisis and Outlook

The government has applied measures to stop the spread of the virus and limit its economic impact.

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On several fronts, Ecuador is now experiencing a new phase in the crisis related to the spread of COVID-19. In this *Technical Note*, we address the new economic policy decisions made by the Government, along with the consequences of social distancing, and provide a few short- and medium-term outlooks for business.

THE GOVERNMENT SEEKS TO LIMIT ECONOMIC IMPACTS.

As the crisis continues due to the spread of COVID-19, the Ecuadorian government announced new economic measures to “alleviate the financial concerns of our citizens.” These include the following:

- 90-day deferral of social security payments due in April, May, and June for voluntary affiliates that are not full-time employees.
- 6-month deferral of income tax payment (same months as above) for the tourism and export industries, as well as small companies.
- Payment postponement clients of public banks. Additionally, uncollected interest will be distributed over a 12-month period, and uncollected capital, until the end of the loan term.

- Refinancing and restructuring of late mortgage payments owed to the social security bank.

The Monetary and Financial Regulation and Policy Board approved reforms to allow banks, cooperatives, and mutual funds to apply financial alleviation measures for their clients. It is worth pointing out that this provision also means that financial installments or deferred financial obligations will not be reported as late in credit rating agency databases.

Additionally, the Telecommunications Regulation and Control Agency (ARCOTEL) ordered that operators cannot suspend mobile telephone and data plans or broadband internet for lack of payment during the crisis. Customers and companies may enter in payment agreements to resolve these matters.

Meanwhile, private banks have also announced that they are providing options

for their customers, including credit card debts.

This afternoon, President Moreno ordered that the national curfew will now start at 2pm (previously 7pm) and last until 5am, with serious sanctions for non-compliance.

SOCIAL DISTANCING AS AN ECONOMIC AND PSYCHOLOGICAL PROBLEM.

People are shut in, with growing anxiety about what is happening “outside.” They are concerned to see increasing numbers of virus infections and deaths. The very fact that they are shut in creates a sensation of uncertainty about the future.

Added to this difficult reality felt by many households is the job-related uncertainty of thousands who fear headcount reductions or businesses that may end up closing. The end of the month is quickly approaching, and many people are unsure of how they will pay their bills, including their children's school.

This scenario will only worsen as there is no clarity on when people will be able to leave their homes and carry out their normal activities. It is encouraging to see that in Wuhan (epicenter of the virus), people have now started to leave isolation. However, this is happening only after two months of being shut in.

In terms of unemployment, a significant reduction in economic activities will force some companies to close down their operations, and others to lay off part of their staff. It would not be farfetched to imagine the authorities issuing a prohibition on firings. Preliminary calculations show that about 70% of the economy has been paralyzed to the social distancing measures, with more than USD 386 million in weekly losses in trade.

INTERNATIONAL COMMITMENTS AND RELATIONS WITH THE IMF.

Given the difficult economic situation, it is not surprising that there is a growing call to default on the nation's external debt. Even the National Assembly has published a statement along these lines.

While this position is understandable, we believe that the government has made a tough decision to do the right thing to limit the economic impacts to the system by looking ahead to the medium term. This means that they are trying to limit the fallout that a default would have, which could impact dollarization itself.

As a result, the government has decided to pay the USD 325 million in capital from 2020 bonds, and take advantage of the stipulated 30-day grace period for interest payments to free about USD 200 million. These decisions are aimed at keeping international financing options open and sustaining the IMF agreement. On this issue, there is talk of a new agreement outline based on the current one. This measure also makes it possible to gain access to \$2 billion in financing over the coming weeks.

The payments made go hand-in-hand with dialogue with commercial, bilateral, and multi-lateral lenders to reduce medium-term fiscal pressure. It is our opinion that a restructuring of this kind will be inevitable. The IMF has reported that it will be providing a positive response to the quick financing solution that was requested by Ecuador.

OUTLOOK

Structural elements of the Ecuadorian economy have not changed. As we have pointed out in previous *Technical Notes*, dependence on oil resources and external debt are the structural factors that constitute the mainstay of Ecuador's reality

over the past 40 years. This fact continues to be the case, and has been further revealed through the crisis.

Deterioration in the quality and quantity of jobs is highly probable. Business owners are calculating the losses that will result from this crisis, and analyzing their options. One strategy is reducing payroll. This would further damage already high unemployment and underemployment figures.

The limited liquidity of many companies comes to the forefront. Cash flow is tight for some companies, and many are seeking out some sort of financial relief. The most serious problem lies in punctual payment of salaries and amounts owed to suppliers, as these payments could be delayed.

The troubled health system has a new, more experienced leader at the helm. It is worth mentioning that the new Health Minister is a public health expert. His first decision was to move the Ministry's central operations to Guayaquil, which has a large majority of confirmed cases. This good news, however, is overshadowed by the reality of the nation's health system, which could easily collapse with increased infections. This reality is evidenced by the fact that options are being analyzed to use emblematic buildings and warehouses to provide care to coronavirus patients in the near future.

Hope in China. The fiscal problem is significant and very real, and while steps have been taken to address it, these will most certainly still be insufficient. The government is in talks with its Chinese counterparts to obtain a line of credit that would have the goal of bringing in fresh resources that would be available for free use and not tied to specific infrastructure projects.

For companies, this is time to be empathetic and tailor messages to make a connection with stakeholders. The actions and decisions taken by companies at these difficult times will be important to ensure positive reputation management. While cuts to staff could have a negative effect, correct use of communication accompanied by parallel actions by management can lessen the adverse impact.

Monitoring and follow-up on context are key. Perhaps one of the most important lessons of this crisis for companies is that following up on what is happening and managing public affairs are key to being able to take advantage of opportunities or limit risks.

Digitalization becomes mandatory. What has been called the Fourth Industrial Revolution or the 4.0 Revolution has come upon us by force, stronger than ever, requiring the entire world to operate almost exclusively through online platforms, challenging us to discover that the communication revolution is more present than ever before.

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