

Ecuador Infrastructure Report Q3 2012

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Abstracts

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BMI View: Having witnessed a stellar 2011 we anticipate a marked slowdown in construction sector growth in 2012 as high base effects, a weak investment climate and limited project financing options cap growth levels over the coming years. While the 4.8% growth forecast by BMI for the sector in 2012 represents a relatively decent expansion, we expect growth to moderate in subsequent years, with annual growth averaging a modest 2.5% between 2013 and 2016.

Major developments include:

The much-awaited tender launch for the Manta port concession in May 2012 has, as we anticipated, drawn considerable interest from international port operators. The 13 port operators to have expressed their interest in the 25-year concession will have until August 8 to submit their bids, with the contract scheduled to be signed late November according to BN Americas. BMI notes that while the port is well-positioned to take advantage of increasing traffic on Asia-South America shipping routes, there are nonetheless a number of risks facing the potential winner which must be factored in.

In October 2011, the Export-Import Bank of China (China Exim Bank) signed a loan contract to offer EUR416.6mn (US\$571mn) for the development of the Sopladora hydroelectric power plant (HPP). The 15-year loan carries a 6.35% interest rate and a grace period of four years. The plant, which will be designed to generate 487MW of power, is one of several large hydroelectric projects planned by Ecuador's government. The news highlights our continued concerns over the Ecuadorean government's ability to sustain investment in the sector over the medium- to longterm. While cash-for-oil deals with China will provide

some relief in the short-term, the softening in oil prices is a timely reminder of the longer-term fundraising issues facing the sector.

Residential construction in Ecuador has surged since the start of 2011 having increased its contribution to total construction by 6.7% through the first nine months of the year. This was underpinned by an increase in public housing provision and a credit-fuelled increase in private sector developments. The government's creation of a bank designed to facilitate greater lending to low income families in October 2010 will have served to unlock significant pent-up demand for new homes.

While a number of factors have boosted prospects for Ecuador's construction industry over the mediumterm, weaknesses within the country's business environment will continue to present risks and cap growth. Chief among these will be financing. Ecuador's growth trajectory still remains heavily dependent on oil prices, which is concerning, especially as the global growth outlook is weakening. Although elevated oil prices have kept revenues at a healthy level, prices have been softening since mid-2011 and our Commodities team expects this trend to continue through 2012.

Meanwhile, political risk will continue to provide cause for concern for investors in the country, with anti-democratic nuances and populist policies at odds with attracting international investment in infrastructure. Ecuador's President Rafael Correa continues to tighten his grip over Ecuador's political institutions creating an uncertain and inhospitable climate for private investors.

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