

Ecuador

Following a sharp slowdown in 2009, Ecuador's economy is expected to grow by 3.5% in 2010, on the strength of higher oil prices and an upturn in private consumption and domestic credit. Nevertheless, public-sector accounts and the balance-of-payments current account are running a deficit. Against a backdrop of higher public investment, 3.5% growth is projected for 2011 as well, depending on oil prices and on the availability of financing for those investment projects.

Tax receipts rose significantly in 2010 owing to a reduction in tax evasion and an increase in economic activity. Between January and September 2010, value added tax receipts shot up by 21.5% over the same period in 2009. Other tax receipts were up sharply, too, with the exception of income tax, which is still feeling the effects of the 2009 downturn. Higher international oil prices pushed up petroleum revenues; central government revenues are therefore expected to climb from 22.3% of GDP in 2009 to 25.5% in 2010.

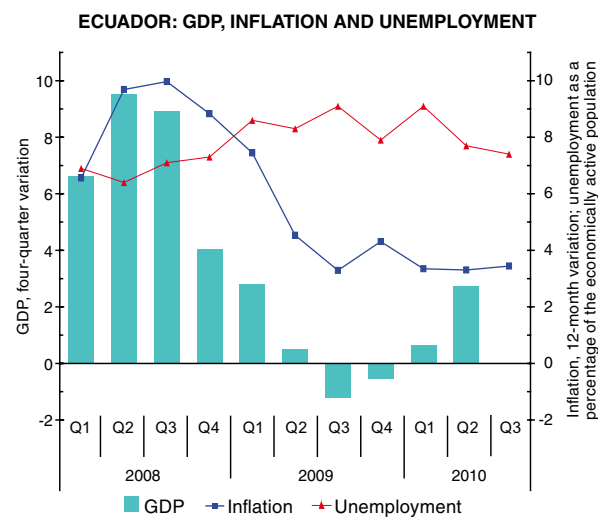
Current and capital expenditure grew at a moderate rate because of the difficulties in securing financing for investment projects, especially in the first half of the year. Therefore, although the central government had budgeted for a larger increase, estimates are that expenditure has only risen from 27.3% of GDP in 2009 to 28.3% of GDP in 2010. With higher revenues and lower-than-expected expenditures, the projected central government deficit of 2.9% of GDP is lower than the budgeted 5.6%.

The limited availability of financing was reflected in the Single Treasury Account in the central bank, which plummeted early in the year. However, the situation began to improve in April, thanks to initial disbursements on a series of loans from the Andean Development Corporation for a total of US\$ 755 million. In addition, the government received a US\$ 1 billion loan from the China Development Bank in August. These loans took external public debt from US\$ 7.393 billion at year-end 2009 (14.2% of GDP) to US\$ 8.589 billion in October 2010 (15.5% of GDP). Furthermore, the Ecuadorian Social Security Institute bought more than US\$ 1 billion in government bonds. These and other operations drove domestic public debt up from US\$ 2.842 billion at the end of 2009 (5.5% of GDP)

to US\$ 4.517 billion in October 2010 (8.1% of GDP). These disbursements kept readily available international reserves steady throughout the year to stand at US\$ 3.451 billion in November 2010.

The Organic Planning and Public Finances Code adopted in October 2010 establishes a multi-year planning system for all public-sector bodies. Among other things, the Code sets a public-debt ceiling of 40% of GDP, maintains the fiscal rule (regular expenditures are financed only with regular revenues, except in exceptional cases) and authorizes the issuance of short-term bonds as instruments for controlling liquidity.

During the first half of 2010, the real exchange rate appreciated moderately. However, the appreciation of



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

the currencies of Ecuador's main trading partners and the general weakness of the dollar led to a period of real depreciation that began in June and continued for the rest of the year.

In the second quarter, the banking sector began to step up lending to the private sector. A series of government measures (such as increasing the tax on outward foreign-currency transfers and broadening the base on which the minimum domestic liquidity ratio is calculated) led the banking system to repatriate some of its assets held abroad. Demand for credit escalated as the economy improved. In October 2010, private bank lending to the private sector was up 18.3% from October 2009. Although public banks account for less than 10% of total credit to the private sector, their share of overall financing has been growing steadily. This larger stance has been bolstered by the decision to channel the stimulus package announced in late 2009 through public banks and by the creation of the Bank of the Ecuadorian Social Security Institute.

Unlike 2009, private consumption and gross fixed capital formation will be the most robust components of aggregate demand in 2010. However, public consumption slackened because of financing problems early in the year. The manufacturing, construction, trade and financial intermediation sectors will post brisk growth this year. By contrast, the electricity and water sector will contract because low water levels in late 2009 and early 2010 cut hydroelectric output. Oil refining was also down during the year, as maintenance work at the Esmeraldas refinery reduced its production capacity.

Petroleum production continues to fall. The 2.4% rise in crude-oil production recorded by PETROECUADOR, the State-owned oil company, in the first three quarters of 2010 compared with the same period in 2009, was not enough to offset the 7.9% decline among private companies. In June 2010, the National Assembly adopted new hydrocarbons legislation establishing provision-of-services agreements. These agreements set a fixed fee for oil production depending on the investments made and production costs; these fees will be the only revenue private companies will receive. The State is guaranteed a minimum level of revenue plus any non-recurring revenue from oil price hikes. Furthermore, companies are required to invest in order to maintain or increase production. Five of the private companies that operate in the main oilfields, accounting for 86% of total private production, signed the new agreements in late November. The operations of the four companies that did not sign the new agreements will be put to bid in the first half of 2011.

During the year, prices grew at a moderate and steady rate, and average inflation of 3.6% is projected for the year. Labour indicators improved in 2010 in line with

ECUADOR: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	7.2	0.4	3.5
Per capita gross domestic product	6.1	-0.7	1.9
Consumer prices	8.8	4.3	3.4 ^b
Money (M1)	26.7	3.7	21.6 ^c
Real effective exchange rate ^d	0.4	-4.9	-2.0 ^e
Terms of trade	9.7	-11.5	11.1
Annual average percentages			
Unemployment rate ^f	6.9	8.5	8.0 ^g
Central government overall balance / GDP	-1.1	-5.1	-2.9
Nominal deposit rate	5.5	5.4	4.7 ^h
Nominal lending rate	9.8	9.2	9.1 ^h
Millions of dollars			
Exports of goods and services	20 460	15 574	19 021
Imports of goods and services	20 730	16 873	21 729
Current account	1 086	-330	-1 461
Capital and financial account ⁱ	-152	-2 448	1 861
Overall balance	934	-2 778	400

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2010.

^c Twelve-month variation to October 2010.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year variation, January to October average.

^f Includes hidden unemployment.

^g Estimate based on data from January to September.

^h Average from January to September, annualized.

ⁱ Includes errors and omissions.

the economic recovery. Unemployment fell from 9.1% in the first quarter to 7.4% in the third quarter. Although underemployment has also fallen, it still hovers at about 50% of the economically active population. Thanks to the increase in nominal wages and the low rate of inflation, real wages were up by 6.3% compared with 2009.

Ecuadorian exports are expected to surge by 22.9% in 2010 compared with 2009, owing mainly to petroleum exports (although only because prices have risen) and to some traditional exports (coffee, shrimp and cacao) and non-traditional exports (flowers, wood, mineral products, vehicles and other metals manufactures). Nevertheless, imports rose by a larger margin and were up by 31.9%. Although imports of all types of goods rose, imports of consumer durables, fuels and some intermediate goods stood out, driven by the increase in aggregate demand and the phase-out, in early 2010, of the balance-of-payments safeguards implemented the previous year. These factors together are expected to widen the merchandise trade deficit to 2.1% of GDP.

Compared with the same period in 2009, family remittances fell by 5.6% in the first three quarters, owing in particular to the worsening employment situation in Spain and Italy, two of the main destinations of Ecuadorian migrants. This will have an impact on the current account deficit, which is expected to end the year at 2.9% of GDP.