

## Ecuador

### 1. General trends

In 2010 the economy of Ecuador was back on course, recording moderate GDP growth of 3.6% compared with 0.4% in 2009. Thanks to higher oil prices, the projection for 2011 has been revised upward to 6.4%. A slight upsurge in inflation is forecast for 2011, in view of international price rises. It is estimated that twelve-month inflation will close the year at between 3.5% and 4%, up on the rate of 3.3% recorded in 2010. The price increases seen in the first quarter indicate that the downward trend has come to an end, since the seasonal upswing was higher than expected for services and food. This is also borne out by higher international commodity prices, the devaluation of the dollar and the possibility that economic growth may exceed expectations. The buoyant economic performance brought about an improvement in the employment situation, and the unemployment rate fell by almost one percentage point.

Domestic demand rose by 9%, while external demand grew by just 2.3%. Surging domestic demand fuelled imports, which grew by 16.3%. This deepened the current account deficit from 0.6% of GDP in 2009 to 3.5% of GDP in 2010. Given the strong projected growth in domestic demand, a current account deficit of approximately 4% is forecast for 2011.

Greater efficiency in tax collection and the high price of oil generated more revenue than expected, resulting

in a below-forecast actual fiscal deficit of 3% of GDP. However, in 2011 the government will be unable to reproduce the revenue growth of 2010, and the fiscal deficit in relation to GDP is expected to double, given the anticipated expansion in government spending. Although real lending rates have dropped nine basis points, they have remained relatively high at 8.2%. In keeping with the strong economic recovery, bank lending to the private sector expanded, following the contraction observed in 2009.

### 2. Economic policy

#### (a) Fiscal policy

Central government revenue was up 21% with respect to 2009, following an expansion—in equal measure—in both tax and non-tax revenue. A better economic performance, efforts to clamp down on tax

evasion and substantial increases in all taxes (except for income tax) pushed up tax receipts by 17%. Petroleum revenues soared, thanks to higher international oil prices. As a result, central government revenue as a percentage of GDP climbed from 22.3% in 2009 to 25.2% in 2010.

Aside from increases in the price of oil, however, the prospects for boosting tax revenue further are limited. The gains from tackling tax evasion will diminish over time and oil production is not expected to increase significantly. In view of the level and pattern of spending, a procyclical fiscal policy will therefore continue to be implemented. This is despite maintaining the fiscal rule whereby regular expenditure is financed only with regular revenues.

The fiscal deficit is expected to widen considerably (to 6% of GDP) in 2011, given that tax revenue will increase by only 3% and spending is projected to go up by 16%.

The projected central government deficit was 5.6% of GDP, but, thanks to higher receipts and, to a lesser extent, smaller outlays, the actual deficit was 3%. Lower spending was largely due to difficulties in securing financing for investment projects, leading to lower current and capital expenditure. The non-financial public sector deficit shrank by almost a third with respect to 2009.

The year 2010 opened with financing problems, as reflected in the low levels of the Single Treasury Account in the central bank. However, this was overcome thanks in part to a series of loans amounting to US\$ 1.755 billion from the Andean Development Corporation and China Development Bank. As a result, external public debt increased from US\$ 7.393 billion at the end of 2009 (14.2% of GDP) to US\$ 8.509 billion in 2010 (15.2% of GDP). In addition, the Ecuadorian Social Security Institute (IESS) 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\$ 4.665 billion in 2010 (8.2% of GDP).

### (b) Monetary policy

Maximum interest rates on loans have remained stable since October 2008, following the introduction of a policy to regulate them. The only exceptions are consumer rates

and the retail and simple-accumulation microcredit rates. Having been raised to 18.92% in June 2009, the ceiling for consumer credit rates reverted to its previous level of 16.3% in February 2010. The retail microcredit rate decreased from 33.09% to 30.50% in May 2010 and the simple-accumulation microcredit rate fell from 33.30% to 27.50% in May 2010.

Real lending rates, despite falling by nine basis points, have remained relatively high at 8.2%. Following the contraction seen in 2009, bank lending to the private sector picked up in 2010. This was partly due to the economic recovery, but mainly because of a requirement stipulating that at least 45% of a bank's assets must be held or invested in the country. Banks have therefore repatriated capital which has in turn been used to provide credit.

Credit supply indicators confirm that rising domestic demand will be accompanied by higher private consumption. The specific lending standards show an increase in credit supply for the housing and microcredit sectors but less so in the consumer segment, which in the first quarter of 2011 expanded significantly—by over 25%—compared with the previous quarter and more than in any quarter in 2010. In addition, financial institutions are easing their restrictions on borrowing and are offering lower rates of interest and better loan horizons. They are also reporting an increase in new loan applications. In the production segment, the highest numbers of loan applications submitted were for industrial and commercial activities. These funds will mainly be used as working capital and for investment and asset acquisition.

Companies experienced fewer difficulties in repaying their loans in 2010, reflected in a fall in non-performing private sector loans as a percentage of total credit, which had peaked at 5% in February 2010 but by early 2011 had dropped to 4%. Most non-performing private sector loans had been accumulated by households and the biggest decrease (almost 30%) was seen in this group, while companies reduced their debt by 15%.

## 3. The main variables

### (a) Economic activity

The real rate of economic growth in 2010 was 3.6%, driven by a surge in domestic demand. Consumption made the biggest contribution to economic growth, above all private consumption, which rose by 6.9%. However, gross capital formation recorded the most dramatic increase, with a variation of 14.6%. By asset type, investments in machinery have been growing rapidly since the second half

of 2010, while investment in construction became more dynamic from the fourth quarter of the year. Although external demand has rebounded, goods and services exports grew only slightly (2.3%) with respect to 2009, and levels remained lower than in 2007 in volume terms. This was more than adequately offset by an expansion of 16.3% in goods and services imports over the same period.

Output was up in almost every production sector, testifying to the economic recovery. The only exceptions

were agriculture and oil refining, which together account for 9.8% of GDP. Agriculture contracted by 0.7% owing to poor weather conditions, while refining was down 9.7% as maintenance work at the Esmeraldas refinery reduced its capacity for much of the year.

The value added of agriculture dipped for the first time this decade. The sector had recorded average growth of 4% over the past nine years, but contracted by 0.7% in 2010. Production of coffee (-21%), rice (-3%) and bananas (-2.5%) fell owing to the severe drought in the second half of the year and the heavy rains that followed, which adversely affected banana crops.

Manufacturing GDP not including oil refining (14% of total production) expanded by 6.7% as a result of rising demand for goods. The construction sector also grew by 6.7%, just over one percentage point more than the previous year.

Thanks to the upturn in private consumption, wholesale and retail trade grew by 6.3%. Value added for electricity and water services on the other hand grew by only 1.4%, having contracted by 12.2% in 2009. As a consequence of the electricity rationing implemented in the last quarter of 2009 and early 2010, less electricity was generated in 2010 than in 2008, which accounts for the limited growth in the electricity and water sector.

Oil production in 2010 remained below 2003 levels. Nonetheless, it compares favourably with the previous year. Following three years of steadily declining oil production, the downward trend was reversed and production increased very slightly in 2010. Production by State-owned companies rose by 7% but shrank by 9.6% for private companies, owing, among other factors, to delays in the signing of new contracts. Given the importance of oil to the mining industry, that sector grew by 0.2%. The government is renegotiating its contracts with the big oil firms operating in the country, which has prompted the departure of the Brazilian company Petrobras and some smaller companies, such as Canada Grande (Republic of Korea) and EDC (United States). CNPC (China) has cut back on its activities in the country. Foreign companies that may continue to operate in Ecuador include Repsol-YPF (Spain), Agip (Italy), Sinopec and CNPC (China) and ENAP (Chile). Under the new contracts, the government will own the oil produced and will pay companies a fixed fee per barrel extracted.

Surprisingly, growth in transport and storage slackened. Higher growth rates in user sectors over the same period were not enough to offset the contraction in the agricultural sector. The rest of services —direct and indirect financial intermediation, public and general services and other services— grew on average by 4.4%, around two percentage points more than in 2009.

Economic indicators in early 2011 reflect the buoyancy seen since the second half of 2010. Economic growth of 6.4% is forecast for 2011, fuelled by strong growth in

domestic demand, which will in turn be driven by higher oil prices and a relative increase in remittances.

## **(b) Prices, wages and employment**

Year-on-year inflation dropped by one percentage point from 4.3% in December 2009 to 3.3% in December 2010. Inflation declined for almost all components of the consumer price index, except for food and beverages, health and communications. The biggest decrease was recorded for the miscellaneous goods and services component. However, rising international prices will have a moderate impact on the average rate of inflation for 2011, which estimates indicate will sit between 3.5% and 4%.

Economic growth brought rapid improvements in the employment situation. After reaching 9.1% in the first quarter of 2010, the unemployment rate began to fall sharply as the economy expanded, and in the fourth quarter it stood at just over 6%, the lowest figure on record since 2007. However, this occurred not only because more people were employed but also because of a decrease in labour force participation, which fell from 58.8% in 2009 to 56.9% in 2010. As a result, the average unemployment rate fell by almost one percentage point, from 8.5% in 2009 to 7.6% in 2010. With the improved outlook for growth for 2011, an unemployment rate of around 7% is forecast.

The real average minimum wage in 2010 rose by 6.7%, almost double the 2009 figure. A 10% increase in the nominal minimum wage was agreed for 2011, representing a slightly smaller real gain than the previous year.

## **(c) The external sector**

Export growth was outstripped by the variation in imports (37.6%), leading to a trade deficit after seven years of surplus. The balance-of-payments current account deficit continued to widen during 2010, eventually hitting US\$ 1.917 billion (3.5% of GDP), which was higher than the figure recorded in 2009 (US\$ 306.4 million, or 0.6% of GDP).

Despite the increased volume and value of exports, the merchandise trade balance posted its first deficit since 2003, amounting to US\$ 1.58 billion (2.8% of GDP). The income balance continued to reflect the 2008 downturn in investment and loans to residents, with net payments of economic rents down to 2% of GDP. Remittances continued to decline (-2.4%), although at only a fifth of the rate recorded during 2009 (-12.5%), and amounted to US\$ 2.654 billion (4.8% of GDP). This may be attributed to high unemployment among the Hispanic population and within the construction industry in the United States, coupled with rising levels of unemployment in Spain (the two main destinations for Ecuadorian migrants).

Table 1  
ECUADOR: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4	3.6
<b>Per capita gross domestic product</b>	2.2	2.1	7.6	4.6	3.6	1.0	6.1	-0.7	2.5
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	5.4	5.6	1.9	7.8	5.1	4.1	5.4	1.5	-0.2
Mining	-4.6	9.3	37.5	1.7	3.6	-8.3	-0.0	-3.3	0.2
Manufacturing	-0.4	0.7	5.1	6.8	6.0	3.8	8.1	-1.0	3.4
Electricity, gas and water	8.2	1.2	-8.7	1.3	0.5	15.5	20.2	-12.2	1.4
Construction	20.0	-0.7	4.0	7.3	3.8	0.1	13.8	5.4	6.7
Wholesale and retail commerce, restaurants and hotels	2.4	3.1	4.2	5.8	5.2	3.2	-1.8	-2.3	6.3
Transport, storage and communications	1.2	4.3	4.8	8.9	7.2	5.7	-27.6	3.7	2.5
Financial institutions, insurance, real estate and business services	7.9	2.7	6.2	9.0	7.3	5.3	7.2	0.4	3.6
Community, social and personal services	-0.4	2.3	2.7	2.5	3.6	5.3	7.2	0.4	3.6
<b>Gross domestic product, by type of expenditure</b>									
Consumption	6.3	4.6	4.5	6.8	5.2	3.9	7.4	-0.1	6.9
General government	4.3	1.4	3.6	3.5	3.7	6.1	11.5	4.0	1.4
Private	6.5	5.1	4.6	7.2	5.4	3.7	6.9	-0.7	7.7
Gross capital formation	20.3	-16.7	16.8	10.9	4.7	5.7	15.7	-8.6	14.6
Exports (goods and services)	-0.8	10.1	15.1	8.6	8.8	2.3	3.3	-5.9	2.3
Imports (goods and services)	18.3	-4.8	11.4	14.1	9.1	7.9	9.9	-11.6	16.3
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross capital formation	26.8	21.0	23.3	23.6	23.8	24.3	27.9	23.3	23.8
National saving	21.9	19.6	21.8	24.9	28.0	28.0	30.4	23.0	20.4
External saving	4.9	1.4	1.5	-1.3	-4.2	-3.7	-2.5	0.3	3.4
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-1 218	-387	-479	474	1 739	1 690	1 357	-180	-1 917
Goods balance	-902	80	284	758	1 768	1 823	1 549	144	-1 580
Exports, f.o.b.	5 258	6 446	7 968	10 468	13 176	14 870	19 461	14 412	18 061
Imports, f.o.b.	6 160	6 366	7 684	9 709	11 408	13 047	17 912	14 268	19 641
Services trade balance	-716	-744	-954	-1 130	-1 305	-1 371	-1 675	-1 371	-1 593
Income balance	-1 252	-1 492	-1 840	-1 815	-1 828	-1 945	-1 462	-1 384	-1 054
Net current transfers	1 652	1 769	2 030	2 661	3 104	3 184	2 946	2 432	2 310
Capital and financial balance <sup>d</sup>	1 091	523	760	192	-1 870	-304	-423	-2 467	705
Net foreign direct investment	783	872	837	493	271	194	1 006	319	164
Other capital movements	308	-349	-77	-302	-2 141	-498	-1 429	-2 786	541
Overall balance	-127	136	281	666	-131	1 387	934	-2 647	-1 212
Variation in reserve assets <sup>e</sup>	66	-152	-277	-710	124	-1 497	-952	681	1 170
Other financing	62	17	-4	43	7	111	18	1 966	42
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>f</sup>	61.9	60.3	61.7	64.7	65.4	68.1	68.3	65.0	64.4
Terms of trade for goods (index: 2005=100)	84.8	87.7	89.3	100.0	107.3	110.3	121.1	107.2	118.0
Net resource transfer (millions of dollars)	-100	-953	-1 084	-1 580	-3 691	-2 138	-1 867	-1 885	-307
Total gross external debt (millions of dollars)	16 236	16 756	17 211	17 237	17 099	17 445	16 887	13 480	13 838
<b>Employment</b>									
Labour force participation rate <sup>g</sup>	58.3	58.2	59.1	59.5	59.1	61.3	60.1	58.9	56.9
Unemployment rate <sup>h</sup>	9.2	11.6	9.7	8.5	8.1	7.4	6.9	8.5	7.6
Visible underemployment rate <sup>i</sup>	10.2	9.8	8.1	7.3	6.3	11.3	10.6	11.8	11.5
<b>Prices</b>									
Variation in consumer prices (December-December)	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3	3.3
Variation in producer prices (December-December)	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	33.0	16.7
Variation in minimum urban wage	0.9	6.1	2.4	3.0	3.3	3.9	8.5	3.6	6.3
Nominal deposit rate <sup>j</sup>	5.1	5.3	4.0	3.8	4.4	5.3	5.5	5.4	4.6
Nominal lending rate <sup>k</sup>	14.1	12.6	10.2	8.7	8.9	10.1	9.8	9.2	9.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
	<b>Percentages of GDP</b>								
<b>Non-financial public-sector</b>									
Total revenue	25.7	24.3	25.0	24.8	27.0	29.6	39.9	35.3	41.6
Tax revenue	19.3	18.1	17.8	18.6	20.0	21.0	22.1	23.8	25.1
Total expenditure	24.9	22.7	23.0	24.0	23.7	27.4	40.8	39.6	43.3
Current expenditure	18.5	17.6	18.0	19.1	19.1	19.9	27.8	26.8	30.3
Interest	3.4	2.9	2.4	2.2	2.1	1.9	1.3	0.7	0.7
Capital expenditure	6.4	5.1	4.9	5.0	4.7	7.5	12.9	12.8	12.9
Primary balance	4.2	4.5	4.5	2.9	5.4	4.0	0.5	-3.6	-0.9
Overall balance	0.8	1.6	2.1	0.7	3.3	2.1	-0.9	-4.3	-1.7
<b>Public-sector debt</b>	54.7	49.5	43.7	38.9	32.0	30.2	25.0	19.6	23.5
Domestic <sup>l</sup>	11.2	10.6	10.7	10.0	7.9	7.1	6.7	5.5	8.4
External	43.5	38.9	33.0	28.9	24.2	23.1	18.3	14.1	15.2
<b>Money and credit<sup>m</sup></b>									
Domestic credit	20.6	17.4	16.6	16.9	17.1	18.1	17.4	20.8	27.5
To the public sector	-0.3	-2.6	-4.5	-6.1	-6.7	-7.0	-9.0	-7.1	-3.5
To the private sector	20.9	19.9	21.1	23.0	23.9	25.0	26.4	27.9	31.0

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on figures in dollars at constant 2000 prices.

<sup>c</sup> Based on figures in dollars at current prices.

<sup>d</sup> Includes errors and omissions.

<sup>e</sup> A minus sign (-) denotes an increase in reserves.

<sup>f</sup> Annual average, weighted by the value of goods exports and imports.

<sup>g</sup> Economically active population as a percentage of the working-age population, three cities.

<sup>h</sup> Percentage of the economically active population, urban total. Up to 2003, the figures relate to Cuenca, Guayaquil and Quito. Includes hidden unemployment.

<sup>i</sup> Percentage of the working population, urban total. Up to 2006, the figures relate to Cuenca, Guayaquil and Quito.

<sup>j</sup> Weighted average of the system effective deposit rates.

<sup>k</sup> Effective benchmark lending rate for the corporate commercial segment. Until 2003, reference lending rate in dollars.

<sup>l</sup> Refers to the domestic debt of the central government.

<sup>m</sup> The monetary figures are end-of-year stocks.

By destination, exports to Latin America were up 21%, while exports to countries outside the region climbed by 29%. Exports to the United States were responsible for 60% of this growth, as they expanded by 31% in 2010. By product type, oil and oil products recorded the biggest increase at 38.5%, largely due to higher prices. Non-traditional exports, which represent a fourth of total exports, grew by 19%. Traditional non-petroleum exports, which account for a fifth of total exports, were up just 6.9%. This was due to the minimal increase of 1.8% in the export value of bananas and plantains, which was offset by a rise in the export value of shrimp and by the high price of coffee, thanks to which the value of coffee exports grew by 15%.

Import growth is attributable to the higher value of imports of consumer goods, raw materials, fuels and capital goods in equal measure. The delay in renewing the agreement on preferential treatment of Ecuadorian

exports by the United States will mean lower profits for exporters, since even if it is renewed retroactively, the duty that has been paid will be recovered by the importers.

The current account deficit created a need for financing, which was achieved—in equal parts—through a fourfold increase over 2009 in other investments and through use of reserves. Net foreign direct investment inflows amounted to US\$ 164.1 million, a 49% drop with respect to 2009. The main recipient sectors were mining and quarrying, which received US\$ 159 million, and manufacturing, which received US\$ 123 million. In some sectors, such as transport and telecommunications, there were substantial divestments. The main investor countries were Canada, China and Panama. In 2011 a number of initiatives are being considered to promote foreign direct investment in Ecuador, and the government is expected to unveil a package of incentives and tax breaks to foster investment in the tourism industry.

Table 2  
ECUADOR: MAIN QUARTERLY INDICATORS

	2009				2010 <sup>a</sup>				2011 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II <sup>b</sup>
Gross domestic product (variation from same quarter of preceding year) <sup>c</sup>	2.8	0.5	-1.2	-0.5	0.4	2.5	4.5	7.0	...	...
Goods exports, f.o.b. (millions of dollars)	2 668	3 299	3 809	4 086	4 135	4 407	4 119	4 829	5 153	1 794 <sup>d</sup>
Goods imports, c.i.f. (millions of dollars)	3 651	3 471	3 726	4 242	4 317	5 054	5 493	5 726	5 333	1 960 <sup>d</sup>
Freely available International reserves (millions of dollars)	3 244	2 675	4 625	3 792	4 007	4 104	4 353	2 622	3 947	3 884
Real effective exchange rate (index: 2000=100) <sup>e</sup>	62.7	64.0	66.1	67.0	64.0	63.4	64.5	65.5	65.6	66.8
Unemployment rate	8.6	8.3	9.1	7.9	9.1	7.7	7.4	6.1	7.0	...
Consumer prices (12-month percentage variation)	7.4	4.5	3.3	4.3	3.3	3.3	3.4	3.3	3.6	4.2
Producer prices (12-month percentage variation)	-27.1	-27.1	-13.5	33.0	27.0	5.0	6.5	16.7	18.6	30.2
Nominal interest rates (annualized percentages)										
Deposit rate <sup>f</sup>	5.2	5.5	5.6	5.4	5.1	4.6	4.3	4.3	4.6	4.6
Lending rate <sup>g</sup>	9.2	9.2	9.2	9.2	9.1	9.1	9.0	8.9	8.5	8.3
Interbank interest rate <sup>h</sup>	0.9	0.7	0.2	0.3	0.2	0.5	0.3	0.4	0.8	0.8
Sovereign bond spread (basis points) <sup>i</sup>	3 568	1 322	940	769	189	1 013	1 226	913	780	799
Stock price index (national index to end of period, 31 December 2000=100)	342	302	275	292	297	304	333	342	351	345
Domestic credit (variation from same quarter of preceding year)	16.1	40.2	18.1	14.5	17.0	23.5	51.6	42.0	38.0	37.8 <sup>d</sup>
Non-performing loans as a percentage of total credit	8.8	9.1	9.0	8.1	8.5	7.7	7.5	6.8	...	...

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Data to May.

<sup>c</sup> Based on figures in dollars at constant 2000 prices.

<sup>d</sup> Data to April.

<sup>e</sup> Quarterly average, weighted by the value of goods exports and imports.

<sup>g</sup> Effective benchmark lending rate for the corporate commercial segment.

<sup>h</sup> Interbank market, weighted average.

<sup>i</sup> Measured by JP Morgan's EMBI+ index to end of period.