

Ecuador

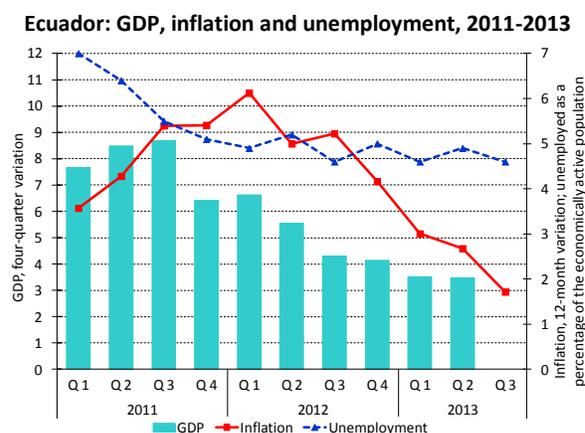
The Ecuadorian economy continued to see a downtrend as growth slowed to 3.8% in 2013, from 5.0% in 2012 and 7.4% in 2011. The cooling economy reflected slower growth in public and private consumption and a smaller rise in public spending compared with 2012. Nevertheless, consumption and public investment were the biggest contributors to economic growth in 2013, while external demand remained sluggish. In this context, there were increases in the fiscal deficit and the balance-of-payments current account deficit, and inflation fell. The outlook for 2014 is one of economic growth driven by robust domestic demand, with the authorities anticipating growth of 4.5% to 5%, inflation at 3.2%, a general government deficit of 5% of GDP, and an increase in the public debt to 31.2% of GDP.

Ecuador maintained its expansionary fiscal stance in 2013, albeit the increase in spending was slightly smaller than in previous years. Between January and July, total central government spending was 14.2% higher than in the year-earlier period. Current expenditure rose by 16.5% in nominal terms, thanks to increases in the procurement of goods and services (up 26.3%), interest payments (44.9%) and the wage bill (8.5%). Capital expenditure rose by 11.2% over the same period, with fixed investment surging by 21.4%. Government income fell by 1.9% amid declining oil revenues (down 34.7%), offset by 16.1% growth in non-oil revenues, notably tax revenues (up 13.6%) and non-tax revenues (up 37.8%). As a result, the central government balance returned a deficit for the review period, in contrast with the surplus recorded in the same period in 2012.

The total public debt of the non-financial public sector therefore maintained its upward trend, reaching 23.6% of GDP in September 2013 (compared with 22.2% of GDP in December 2012). Domestic debt accounted for 9.7% of this total (9.3% in December 2012) and external debt 13.9% (12.9% in December 2012). External public debt rose largely on the back of increased debt to Chinese institutions, which totalled about US\$ 4.50 billion in September 2013. Readily available national reserves built up over the course of the year to US\$ 4.206 billion in October 2013 (compared with US\$ 2.483 billion in December 2012).

In terms of monetary policy, in 2013 the central bank kept its benchmark interest rates (lending, deposit and maximum interest rates), and its maximum lending rates for all credit segments, at constant levels. Lending by the private financial system expanded by 6.7% in the 12 months to September 2013, compared with 10.6% growth in the 12 months to December 2012 and 18.5% in the 12 months to December 2011. Mortgage lending by the Bank of the Ecuadorian Social Security Institute (BIESS) climbed by 10.9% in the 12 months to October 2013, while unsecured loans (issued against promissory notes, rather than secured against property) were up by 11.7% over the same period.

In April 2013, the government stated its intention of resuming negotiations for a trade and investment protection agreement with the European Union. The government also announced, in June 2013, that it renounced the preferential treatment for Ecuadorian exports to the United States of America under the Andean Trade Promotion and Drug



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

Eradication Act (ATPDEA). At the region level, an economic complementarity agreement with Guatemala entered into force in February 2013. It provides mutual tariff-free access to over 600 products from each country. It has also been announced that following completion of an agreement with the European Union, access to the Southern Common Market (MERCOSUR) will be negotiated.

In August 2013, the president ordered the liquidation of the trust funds associated with the Yasuní-ITT initiative, and announced that oil exploration would be carried out in 1% of the Yasuní reserve by the State-owned enterprise Petroamazonas.

Goods exports gained 2.6% in value terms between January and September 2013, owing to a 6.5% rise in primary product exports, boosted by sales of shrimp, amply offsetting the downturn in industrial product exports (down 11.1%). Imports surged by 7.6% over the same period, with reported upturns in the categories of consumer goods (0.1%), raw materials (9.8%), capital goods (4.9%) and fuel and lubricants (14.7%). In consequence, the trade balance posted a deficit of US\$ 821 million in the first three quarters of the year, compared with a surplus of US\$ 114 million in the same period in 2012. As in previous years, the services and income accounts returned deficits. The current account surplus narrowed in the first half of 2013 as a result of the trade deficit and lower remittances from emigrant workers, which fell from US\$ 1.232 billion in the first half of 2012 to US\$ 1.169 billion in the same period in 2013.

In September 2013, external debt widened to 19.9% of GDP, compared with 18.9% in December 2012, following an increase in public external debt from 12.8% to 13.9% of GDP.

In the first half of 2013, economic activity rose by 3.5%, buoyed by the construction sector (up 7.1%) and transport and communications (9.9%), although activity declined in manufacturing (by 1.4%) and the electricity, gas and water sector (down 2.8%). Domestic demand rose by 4.1% over the same period, thanks to increases in public and private consumption (5.0% and 4.3% respectively) and gross fixed capital formation (5.3%). In real terms, exports were up by 0.7% and imports by 3.2%, meaning that net exports made a negative contribution to growth.

Inflation maintained a steady downtrend during 2013, since food prices rose more slowly than in 2012. In October 2013, cumulative 12-month inflation stood at 2.0% (with food inflation at 0.5%), compared with 4.2% in December 2012 (food inflation of 5.5%). In February 2013, the executive branch ordered price controls on a group of 46 agricultural products such as fruits, vegetables, meat and eggs, designed to combat speculative activity and limit price rises on staple foods.

The urban unemployment rate dropped to 4.7% on average for the period January to September (as against 4.9% for the year-earlier period), largely owing to a fall in the participation rate. In 2013 the minimum wage was raised by 8.9%, from US\$ 292 to US\$ 318.

Ecuador: main economic indicators, 2011-2013

	2011	2012	2013 ^a
Annual growth rate			
Gross domestic product	7.8	5.1	3.8
Per capita gross domestic product	6.0	3.4	2.1
Consumer prices	5.4	4.2	2.0 ^b
Money (M1)	15.5	14.0	15.4 ^c
Real effective exchange rate ^d	2.1	-2.3	-1.5 ^b
Terms of trade			
Annual average percentage			
Open urban unemployment rate ^e	6.0	4.9	4.6
Central government			
Overall balance / GDP	-1.6	-2.0	-5.1
Nominal deposit rate	4.6	4.5	4.5 ^b
Nominal lending rate ^f	8.3	8.2	8.2 ^b
Millions of dollars			
Exports of goods and services	24 670	26 464	27 498
Imports of goods and services	26 393	27 801	30 362
Current account balance	-225	-157	-1 770
Capital and financial balance ^g	497	-424	3 339
Overall balance	272	-582	1 569

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

^a Estimates.

^b Figures as of October.

^c Figures as of July.

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

^e Includes hidden unemployment.

^f Effective benchmark lending rate for the corporate commercial segment.

^g Includes errors and omissions.