

ECUADOR

1. General trends

Economic growth in Ecuador was 4.5% in 2013, somewhat below the 2012 figure of 5.2%. This loss of momentum reflects lower growth in investment and a gradual slowdown in consumption, against a backdrop of expanding export volumes as the production of traditional exports such as bananas and shrimp recovered.

Lower oil prices depressed tax revenues, which, in conjunction with rising public expenditure, pushed the central government fiscal deficit up to 5.7% of GDP. Oil price trends and a poor performance by manufacturing exports led to a larger trade deficit. Combined with persistent deficits on the services and income accounts, this widened the balance-of-payments current account deficit to 1.3% of GDP. Inflation eased down to 2.7% from 4.2% in 2012, thanks to the implementation of price controls for 46 agricultural products.

Growth of 5% is forecast for 2014, on the basis of robust domestic demand, particularly investment, along with an upturn of oil refining activities, a small rise in inflation and increased public borrowing.

2. Economic policy

(a) Fiscal policy

Ecuador maintained its expansionary fiscal stance in 2013. In nominal terms, total central government spending surged by 21.8% with respect to 2012. Current expenditure climbed by 19.3% and represented 26.9% of GDP, versus 24.3% in 2012, fuelled by higher spending on goods and services (up 22.8% over the year) and higher interest payments on public debt, which rose by 41.2% year on year, taking these payments to 1.3% of GDP in 2013, up from 0.8% in 2010. Spending on wages was up 7.4% in annual terms. Capital expenditure rose by 25.1% between 2012 and 2013, owing to a surge in gross fixed investment (37.5%), while capital transfers were down 12%. As a percentage of GDP, capital spending has risen steadily over the past decade, in particular during the past three years, increasing from 10.1% of GDP in 2011 to 12% of GDP in 2013.

Current income growth slowed to 4.5% and in GDP terms edged down from 22.3% in 2012 to 21.2% in 2013. The relative deterioration in tax receipts is attributable to lower oil revenues (which shrank by 23.1% in annualized terms) owing to falling export prices and reduced production and exportation of oil products. This contrasts with the small uptick recorded in 2012 (1.9%) and the higher growth rates seen during 2010-2011, when oil revenues expanded by an annual average of 63.7%. Declining oil revenues, amid sustained growth in spending, are largely responsible for the larger fiscal deficit. Non-oil revenues were up 17%, with a rise of 11.5% in the tax component and 73.8% in the non-tax component. With respect to tax revenues, income tax receipts expanded by 16%, while the VAT take expanded in line with total revenue. The combination of these performances caused the central government deficit to widen from 1.9% of GDP in 2012 to 5.7% of GDP in 2013.

The non-financial public sector (NFPS) recorded a negative result again in 2013, as the primary deficit deepened from 0.34% of GDP in 2012 to 3.7% of GDP in 2013 and the overall deficit widened from 1.09% to 4.73% of GDP. Total NFPS income equated to 39.7% of GDP (versus 39.5% in 2012) while total expenditure was 44.4% of GDP, 3.8 percentage points above the 2012 figure. Higher spending reflected a rise of 0.8 percentage points in current expenditure (mainly on goods and services) and of 3 percentage points in capital spending (corresponding to an expansion in gross fixed capital formation by central government and non-financial State-owned enterprises).

This larger total NFPS deficit was financed primarily by borrowing, with the result that public debt continued to climb, reaching 24.4% of GDP in December 2013 (versus 21.3% a year earlier). Domestic debt and external debt were equivalent to 10.6% of GDP (8.9% in December 2012) and 13.8% of GDP (versus 12.4% in December 2012), respectively. Data from the first quarter of 2014 show that public debt has maintained its upward trend: in March it stood at 25.4% of GDP, owing chiefly to the expansion of domestic debt to 11.6% of GDP. In 2013, most of the rise in domestic public debt was in the form of long-term bond issues, while external public debt rose primarily on the back of debt to Chinese institutions. As of March 2014, external debt with China totalled US\$ 4.675 billion and represented 36.2% of total external debt.

Readily available international reserves (RILD) built up over the course of the year to US\$ 4.36 billion in December 2013 (compared with US\$ 2.483 billion in 2012). This trend, however, was reversed in early 2014 and RILD dwindled during the first quarter, to stand at US\$ 3.569 billion in March.

(b) Monetary and exchange-rate policy

The central bank held unchanged its benchmark lending rate (8.17%), deposit rate (4.53%), maximum interest rate (9.33%) and maximum lending rates for all credit segments throughout 2013. To December 2013, the volume of loans issued by private banks was up 11.5% with respect to December 2012, versus growth of 10.6% during the 12 months to December 2012 and 18.5% in the 12 months to December 2011. By segment, lending to the production sector posted the sharpest growth (24.4%), while consumer lending expanded by 3.0% and mortgage lending contracted by 15.5%. Lending by the Bank of the Ecuadorian Social Security Institute (BIESS) expanded by 27.0%, thanks to larger volumes of home loans (17.7%) and consumer loans (36.1%), in which two segments BIESS began issuing loans in October 2010. The evolution of mortgage lending by the private financial system and BIESS has been such that the latter now represents over two thirds of total mortgage portfolio issued by the country's financial system.

Bank lending continued to expand during the first four months of 2014. Lending within the private financial system rose by 9.4% compared with the year-earlier period, while BIESS loans were up 18.4% during the first quarter of the year over the first quarter of 2013.

In April 2014 the central bank raised the reference annual deposit rate to 5.11% and lowered the annual lending rate to 7.64%. The maximum interest rate remained the same. Changes were also made by segment: rates for business and SME loans and retail microloans were cut (from 8.17% to 7.64%, from 11.20% to 11.08% and from 28.82% to 28.40%, respectively), while rates for consumer and mortgage loans went up (from 15.91% to 15.96% and from 10.64% to 10.92%, respectively).

The real effective exchange rate has been gradually dropping since 2010; in 2013 it fell by the equivalent of 2.5%. This trend reversed during the first four months of 2014 and the rate rose above the December 2013 figure.

(c) Other policies

The economic complementarity agreement with Guatemala, which provides mutual tariff-free access to over 600 products from each country, entered into force in February 2013. In April 2013 the government announced that it would be reopening negotiations with the European Union on a trade and investment protection agreement. It also announced in June 2013 that it renounced the preferential treatment for Ecuadorian exports to the United States under the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

Negotiations with the European Union are continuing in 2014. Ecuador is seeking an agreement to replace the preferential tariffs under which it accesses the European market, once the current agreement within the framework of the preferential tariffs system expires on 31 December 2014.

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.

In February 2014 the External Trade Committee (COMEX) announced that import taxes for 144 metalworking products would be raised to 25%. Taxes had previously ranged from 5% to 20%, although some products had not been subject to tax.

3. The main variables

(a) The external sector

Goods exports were up 5% in 2013, on the back of growth of 9.7% in primary goods exports, while manufacturing exports were down 11.1%. Primary exports expanded thanks to higher levels of exports of oil (5.5%), plantain and banana (14.2%), shrimp (40.6%) and cocoa (23.9%). The main reason for the decline in manufacturing exports, meanwhile, was the slump in exports of oil products (down 35.6%) and metal manufactures (down 39.1%). The rise in the total value of oil exports was attributable to larger volumes, given that the average annual price of Ecuadorian crude oil fell by approximately 2.5% compared with 2012.

Goods imports, meanwhile, were up 7.2% in value terms, owing to burgeoning imports of fuel and fuel products (11.7%) and reduced growth in capital goods imports (5.4%), consumer goods (4.5%) and commodities (7.0%). As a result, the trade deficit widened from US\$ 441 million in 2012 to US\$ 1.084 billion in 2013.

The services and income balances continued to run deficits, which stood at US\$ 1.473 and US\$ 1.406 billion, respectively. The surplus in the current transfers balance shrank slightly as workers' remittances declined, although to a far lesser extent than in 2012 (down 0.7% in 2013 versus 7.7% in 2012). In consequence, the balance-of-payments current account deficit widened from 0.4% in 2012 to 1.3% in 2013, and was financed mainly through foreign borrowing. The capital and financial account

posted a surplus of US\$ 2.932 billion, largely owing to an upswing in commercial lending and general government borrowing from foreign lenders.

The United States continues to be the main market for Ecuadorian exports with a share of 44.8%, representing a return to pre-2008-crisis situation. The share of exports going to member countries of the Latin American Integration Association (ALADI) increased from 25.7% to 30.3%, while the share going to Asia rose from 4.0% to 6.7%.

During the first quarter of 2014, exports maintained the uptrend observed during the year-earlier period, with an increase of 6.1%, owing to an upturn in exports of oil products (9.1% over the first quarter of 2013) and buoyant commodity exports (which expanded by 9.3% over the same period). Nevertheless, oil exports grew by just 0.8%, meaning that the increase in primary exports was chiefly the result of the recovery of fish and shrimp exports.

Goods imports contracted by 2.1% during the first quarter of 2014 with respect to the year-earlier period. With the exception of fuel and fuel-product imports, which expanded by 9.4%, imports were down across all other categories: imports of consumer goods imports fell by 5.2%, of raw materials by 7.7%, and of capital goods by 3.7%. The trade balance thus returned a surplus of US\$ 438 million, by contrast with the deficit of US\$ 90 million recorded for the same period in 2012.

External debt stood at 19.7% of GDP in December 2013, versus 18.9% in December 2012. This deterioration is primarily attributable to the increase in external public debt from 12.8% to 13.8% of GDP, given that external private debt declined from 6.1% of GDP in December 2012 to 5.9% of GDP in December 2013.

(b) Economic activity

GDP growth in 2013 stood at 4.5%, versus 5.1% recorded in 2012, and was driven by the buoyancy of the non-oil economy. Private consumption has slowed in recent years, expanding by just 3.4% in 2013, as opposed to 4.3% in 2012. Public consumption also recorded a lower growth rate: 4.3% versus 7.6% in 2012. Nevertheless, both private and public consumption picked up during the second half of the year. Gross fixed capital formation—supported to a large extent by public investment projects—grew by 6.6% in 2013 (versus 11.3% in 2012). The upturn in consumption and a steady rate of investment growth (although at lower rates than in 2012) were reflected in larger volumes of goods and services imports. Goods and services export volumes were also up on 2012 (4.5% in 2013 compared with 2.6% in 2012).

Construction was the best-performing sector, recording growth of 8.6%, followed by transport and communications (6.6%), agriculture (6.2%) and mining (5.2%). Manufacturing was the most sluggish sector, up by just 0.8% (versus 3.6% in 2012), owing in the main to a downturn in the oil refining industry (down 25.1% over the year) following the temporary closure of the Esmeraldas refinery for maintenance.

National crude oil production was up 4.2%, boosted by increased production (8.4%) by State-owned enterprises, while the combined production of private companies continued to trend downwards, falling by 6.8%. This trend continued into the first quarter of 2014: national oil production expanded by 9.2% with regard to the first quarter of 2013, and production by State-owned enterprises was up 14%, while that of private companies declined by 4.7%.

(c) Prices, wages and employment

Cumulative inflation for 2013 was 2.7%, down from 4.2% in 2012. This reflected lower growth of 2.2% in food prices, owing to the implementation of price controls for 46 agricultural products such as fruits, vegetables, meat and eggs. Cumulative 12-month inflation to April 2014 was 3.2%. In contrast to the same period of 2013, food prices rose by more than the consumer price index, which stood at 4.5%.

The average annual urban unemployment rate dropped from the 4.9% recorded in 2012 to 4.74% in 2013, owing largely to a fall in the participation rate. The standard minimum monthly wage was raised from US\$ 292 to US\$ 318 in 2013, representing a rise of 8.9% in nominal terms and 6.1% in real terms. In January 2014 it was raised again to US\$ 340, which pushed the nominal wage up to US\$ 396.51 (from US\$ 370.82 in 2013). In the first quarter of 2014 the nominal average monthly wage was up by 3.8% in real terms over the first-quarter 2013. Unemployment also rose overall by 5.6% in the first quarter of 2014, versus 4.6% during the first quarter of 2013.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	5.3	4.4	2.2	6.4	0.6	3.5	7.8	5.1	4.5
Per capita gross domestic product	3.4	2.6	0.5	4.6	-1.1	1.8	6.0	3.4	2.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	7.1	4.3	3.4	1.7	1.7	0.7	5.4	1.2	6.2
Mining and quarrying	1.1	4.7	-6.9	1.2	0.3	-2.1	3.7	0.0	1.6
Manufacturing	6.4	4.9	4.1	9.2	-1.5	5.1	5.7	5.6	3.6
Electricity, gas and water	1.1	0.0	17.1	30.0	-10.0	34.5	28.6	4.4	4.4
Construction	8.6	4.6	1.0	8.8	2.8	3.4	21.6	14.0	8.6
Wholesale and retail commerce, restaurants and hotels	6.0	4.4	0.4	10.0	-2.2	3.5	7.1	3.9	3.8
Transport, storage and communications	8.3	7.1	4.7	9.8	7.0	5.4	8.6	6.2	6.6
Financial institutions, insurance, real estate and business services	11.5	8.7	5.8	6.7	-1.5	5.7	8.3	4.8	3.9
Community, social and personal services	2.7	2.3	4.2	3.5	6.0	4.2	4.6	5.5	3.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.3	4.3	4.4	6.2	0.9	7.2	5.8	4.8	3.5
Government consumption	3.6	3.8	5.7	11.1	11.6	4.4	4.8	7.6	4.3
Private consumption	4.4	4.4	4.2	5.4	-1.0	7.7	5.9	4.3	3.4
Gross capital formation	15.7	7.8	4.2	22.5	-7.3	10.5	12.5	4.7	6.9
Exports (goods and services)	8.6	7.1	0.0	3.0	-4.8	-0.2	4.6	2.7	4.5
Imports (goods and services)	14.4	9.8	7.1	14.4	-9.9	14.8	3.9	1.9	4.2
Percentajes of GDP									
Investment and saving c/									
Gross capital formation	21.6	22.5	22.7	26.4	25.6	28.0	29.0	28.4	28.6
National saving	22.8	26.2	26.0	29.2	26.1	25.7	28.6	28.0	27.3
External saving	-1.1	-3.7	-3.3	-2.8	-0.5	2.3	0.4	0.4	1.3
Millions of dollars									
Balance of payments									
Current account balance	474	1,739	1,690	1,756	297	-1,607	-325	-331	-1,232
Goods balance	758	1,768	1,823	1,549	144	-1,504	-160	37	-630
Exports, f.o.b.	10,468	13,176	14,870	19,461	14,412	18,137	23,082	24,569	25,700
Imports, f.o.b.	9,709	11,408	13,047	17,912	14,268	19,641	23,243	24,532	26,331
Services trade balance	-1,130	-1,305	-1,371	-1,571	-1,282	-1,522	-1,563	-1,390	-1,473
Income balance	-1,815	-1,828	-1,945	-1,432	-1,280	-1,039	-1,220	-1,305	-1,406
Net current transfers	2,661	3,104	3,184	3,211	2,715	2,458	2,619	2,327	2,277
Capital and financial balance d/	192	-1,870	-304	-822	-2,944	394	597	-251	3,078
Net foreign direct investment	493	271	194	1,058	308	163	644	585	703
Other capital movements	-302	-2,141	-498	-1,880	-3,252	231	-47	-836	2,375
Overall balance	666	-131	1,387	934	-2,647	-1,212	272	-582	1,846
Variation in reserve assets e/	-710	124	-1,497	-952	681	1,170	-336	475	-1,878
Other financing	43	7	111	18	1,966	42	64	107	32
Other external-sector indicators									
Real effective exchange rate (index: 2005=100)	100.0	101.4	107.1	109.1	102.1	100.4	102.5	100.2	98.8
Terms of trade for goods (index: 2005=100)	100.0	107.3	110.3	121.1	107.2	118.0	129.8	131.7	133.5
Net resource transfer (millions of dollars)	-1,580	-3,691	-2,138	-2,236	-2,258	-602	-560	-1,449	1,704
Total gross external debt (millions of dollars)	17,237	17,099	17,445	16,900	13,514	13,914	15,210	15,913	18,488
Average annual rates									
Employment									
Labour force participation rate g/	59.5	59.1	61.3	60.1	58.9	56.9	55.2	55.9	54.8
Unemployment rate g/	8.5	8.1	7.4	6.9	8.5	7.6	6.0	4.9	4.7
Visible underemployment rate h/	7.3	6.3	11.3	10.6	11.8	11.5	9.4	7.9	8.6

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	3.1	2.9	3.3	8.8	4.3	3.3	5.4	4.2	2.7
Variation in producer prices (December-December)	21.6	7.2	18.2	-28.3	33.0	16.7	12.5	-3.4	3.8
Variation in minimum urban wage	3.0	3.3	3.9	8.5	3.6	6.3	5.2	5.2	6.1
Nominal deposit rate i/	3.8	4.4	5.3	5.5	5.4	4.6	4.6	4.5	4.5
Nominal lending rate j/	8.7	8.9	10.1	9.8	9.2	9.0	8.3	8.2	8.2
Central government	Percentajes of GDP								
Total revenue	14.6	14.7	16.6	22.3	18.5	21.7	21.6	22.3	21.9
Tax revenue	9.0	9.1	9.3	10.6	11.6	12.6	12.2	14.0	14.7
Total expenditure	15.0	14.9	16.8	23.3	22.7	23.3	23.1	24.3	27.7
Current expenditure	11.4	11.4	11.6	13.7	14.3	14.1	13.0	13.7	15.3
Interest	2.1	2.0	1.8	1.3	0.8	0.8	0.8	0.9	1.3
Capital expenditure	3.6	3.6	5.2	9.6	8.5	9.2	10.1	10.6	12.4
Primary balance	1.6	1.8	1.7	0.3	-3.5	-0.9	-0.7	-1.0	-4.6
Overall balance	-0.4	-0.2	-0.1	-1.0	-4.2	-1.6	-1.5	-1.9	-5.9
Central government public debt	32.2	26.3	24.7	20.1	15.2	19.1	18.1	21.3	19.2
Domestic	8.9	7.0	6.4	5.9	4.5	6.7	5.6	8.9	8.0
External	23.3	19.2	18.4	14.2	10.6	11.1	11.5	11.3	11.2
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	15.0	15.3	16.1	15.3	17.3	22.1	23.5	26.0	28.1
To the public sector	-5.5	-6.0	-6.2	-7.9	-5.9	-2.8	-3.0	-1.8	-0.5
To the private sector	20.5	21.3	22.3	23.2	23.2	24.8	26.5	27.7	28.6
Monetary base	...	...	8.9	9.9	11.1	10.7	10.5	11.5	13.6
M2	...	...	21.8	27.1	29.0	31.2	32.3	34.5	36.5

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2007 prices.

c/ Estimates based on figures denominated in dollars at current prices.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

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

g/ Urban total.

h/ Urban total. Up to 2006, the figures relate to Cuenca, Guayaquil and Quito

i/ Weighted average of the system effective deposit rates. Up to July 2007, reference deposit rate in dollars.

j/ Effective benchmark lending rate for the corporate commercial segment. Up to July 2007, reference lending rate in dollars..

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	6.6	5.6	4.3	4.1	3.5	3.8	5.1	5.6	...	...
Gross international reserves (millions of dollars)	3,372	3,879	4,381	3,320	3,804	4,204	4,137	4,206	4,164	3,790 c/
Real effective exchange rate (index: 2005=100) e/	101.7	103.4	103.1	100.6	100.4	99.7	99.3	99.6	98.7	97.8 c/
Consumer prices (12-month percentage variation)	5.6	5.2	5.1	4.6	3.5	2.9	2.1	2.3	3.0	3.3 c/
Wholesale prices (12-month percentage variation)	11.4	0.8	1.4	-4.9	-1.9	-0.8	5.3	2.0	1.2	4.4 c/
Nominal interest rates (annualized percentages)										
Deposit rate f/	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5 f/
Lending rate g/	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.0
Interbank rate	0.7	0.6	0.8	0.7	0.5	0.7	0.8	0.8	0.8	0.8
Sovereign bond spread, Embi + (basis points to end of period) h/	824	892	743	826	700	665	628	530	508	384
Stock price index (national index to end of period, 31 December 2005 = 100)	129	126	127	128	130	135	136	135	138	140
Domestic credit (variation from same quarter of preceding year)	26.7	20.7	18.3	21.1	15.5	17.2	16.7	17.4	20.2	20.9 c/
Non-performing loans as a percentage of total credit	3.8	3.9	4.0	4.1	4.5	4.3	4.2	4.1	4.2	...

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2007 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Weighted average of the system effective deposit rates.

f/ Figures as of April.

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

h/ Measured by J.P.Morgan.