

## Ecuador

International oil prices fell for the second year in a row in 2016: the price of Ecuadorian crude averaged roughly US\$ 35 per barrel (compared with US\$ 42.2 per barrel in 2015). Tax revenues declined as a result, and instead of reducing government spending by the same amount, the government decided to increase external borrowing in order to fund this deficit. Although the earthquake in April 2016 resulted in deaths and infrastructure damage, the impact on GDP was only marginal owing to the affected zone's small contribution to aggregate output. Full-year GDP is expected to contract by 2.0% as a result of weakness in domestic demand associated with both investment and household consumption. The recession was reflected in a decline of adequate urban employment and in lower inflation, which is forecast at 1.1% for December. A sharp contraction in imports brought the trade balance back into surplus in 2016. In 2017, the Economic Commission for Latin America and the Caribbean (ECLAC) expects GDP growth to be just positive at 0.3%, with inflation of 1.5%.

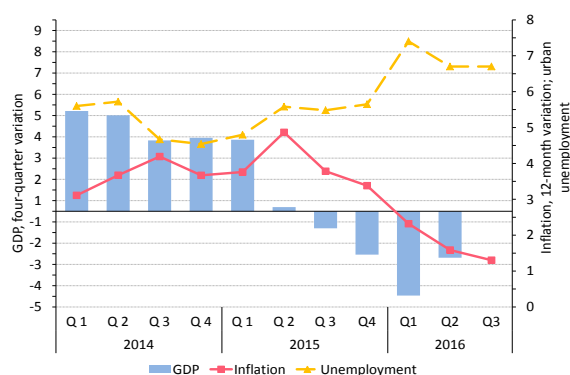
Non-financial public-sector spending fell 7.4% between January and September 2016 compared with the year-earlier period. The cuts affected mainly gross fixed capital formation, which dropped 10.1%. Current spending declined by 6.4%, owing to a 16.1% decrease in outlays on goods and services and a 24.5% contraction in other spending, including that on imports of petroleum products. By contrast, wage and salary payments and interest payments increased (by 2.2% and 10.5%, respectively).

Also between January and September 2016, non-financial public-sector revenue dropped 17.8%. As a result, the overall deficit stood at US\$ 3.330 billion by September 2016 compared with US\$ 618 million a year earlier. Oil revenues plunged 31.8% over the period and, despite the two tax reforms of April and May 2016, the tax take contracted by 14.2%. The May reform was specifically geared towards generating the resources needed for reconstruction following the earthquake in April, and US\$ 968.9 million was raised between June and October. The government expects an overall non-financial public-sector deficit equivalent to 5.5% of GDP for the full year (versus 5.9% in 2015).

The fiscal deficit was financed almost entirely from external sources, and external public-sector debt had climbed to 25.5% of GDP by September 2016, 5.2 percentage points more than in September 2015. Among other funding, the government raised US\$ 2.320 billion in bilateral loans, US\$ 2.0 billion from sovereign bond issues and US\$ 700 million in multilateral loans to repair damage caused by the earthquake. Meanwhile, domestic debt rose by 0.8 percentage points to 12.9% of GDP, pushing total debt up to 38.4% of GDP in September 2016. That said, since October 2016 the concept of “consolidated debt” has been used as the measure for the purposes of the 40% ceiling set by the Organic Code of Planning and Public Finances. This “consolidated debt” excludes the State's liabilities towards public entities (particularly the Ecuadorian Social Security Institute and the National Finance Corporation) and stands at just 26.7% of GDP.

Effective lending interest rate caps remained unchanged in all segments during 2016. Following the contraction in liquidity in 2015, stronger dollar

**Ecuador: GDP, Inflation and Unemployment, 2014-2016**



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

inflows and greater confidence in the financial system allowed deposit and loan volumes to recover in 2016. Demand deposits were 11.2% higher in September 2016 than in September 2015, while the volume of lending to the private sector was 1.3% lower (although monthly data showed a rising trend from May 2016 onward). Meanwhile, international reserves stood at US\$ 4.1341 billion (equivalent to 4.3% of GDP) in mid-November, up 23.3% on the year-earlier period.

The real effective exchange rate depreciated slightly between October 2015 and October 2016, and this, together with the weakness of domestic demand, helped relieve pressure on the trade balance. The general balance-of-payments safeguard began to be withdrawn gradually and is expected to be eliminated completely by June 2017. The trade deal with the European Union (EU) will enter into force in January 2017, allowing a wide range of Ecuadorian goods to enter the EU market duty-free.

The trade balance posted a surplus of US\$ 967.4 million between January and September 2016 (compared with a deficit of US\$ 1.7129 billion during the same period in 2015), owing chiefly to a large contraction in the value of imports (-29.9%). A volume decline averaging 15.6% affected all sectors, but particularly consumer and capital goods (down 20.5% and 30.2%, respectively). At the same time, imports became cheaper, and this was especially true of commodities and of fuels and lubricants.

The decline in the value of exports slowed to 14.6% between January and September 2016, following a contraction of 28.7% in the year-earlier period. Both the volume and the price of oil exports fell, by contrast with the previous year, when oil export volumes grew. Meanwhile, the volume of non-oil exports rose, owing mainly to an increase in shrimp and mining product exports (7.5% and 55.0%, respectively).

GDP contracted 3.1% during the first six months of the year compared with the year-earlier period. The weakest components of aggregate demand were gross fixed capital formation (-12.8%), owing to cuts in public investment, and household consumption (-5.1%), because of the weak performance of the labour market. Growth in net exports during the first half of 2016, the result of a 14.2% contraction in imports and a 1.5% expansion of exports, curbed the decline in GDP over the period.

Aquaculture and fisheries were the strongest drivers of the economy, growing by 29.0% and 15.5%, respectively. There was also positive growth in oil refining (up 113.29%), due to completion of the refurbishment of the Esmeraldas refinery, and in the electricity and water sector (5.0%), thanks to the start of operations at the Coca Codo Sinclair and Sopladora hydroelectric plants. By contrast, the construction, commerce and manufacturing sectors contracted sharply (-10.2%, -4.3% and -1.8%, respectively).

#### Ecuador: main economic indicators, 2014-2016

	2014	2015	2016 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	4.0	0.2	-2.0
Per capita gross domestic product	2.4	-1.3	-3.4
Consumer prices	3.7	3.4	1.3 <sup>b</sup>
Money (M1)	14.4	10.6	8.2 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-3.2	-8.6	-2.3 <sup>b</sup>
Terms of trade	-5.7	-25.1	-9.4
	<b>Annual average percentage</b>		
Urban unemployment rate <sup>e</sup>	5.1	5.4	6.7
Central government			
Overall balance /GDP	-6.3	-3.8	...
Nominal deposit rate <sup>g</sup>	4.9	5.3	5.8 <sup>f</sup>
Nominal lending rate <sup>h</sup>	8.1	8.3	8.8 <sup>f</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	28,943	21,440	18,834
Imports of goods and services	30,177	23,895	18,531
Current account balance	-526	-2,122	123
Capital and financial balance <sup>i</sup>	101	633	1,739
Overall balance	-424	-1,489	1,862

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of August.

d A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ Includes hidden unemployment.

f/ Figures as of October.

g/ Benchmark deposit rate.

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

i/ Includes errors and omissions.

The country's crude oil production recovered from March 2016, owing to the upturn in prices and the beginning of operations at the Tiputini field in the Yasuní ITT block. Production grew 0.9% between January and September 2016 from the year-earlier period, and this rising trend is expected to continue in the medium term.

The cumulative 12-month inflation rate as of October 2016 was 1.3%, 2.2 percentage points lower than in October 2015, reflecting the general weakness of demand. The national adequate urban employment rate fell to 47.5% in September 2016 from 54.4% in September 2015; in other words, less than half the economically active population had a job that could be considered adequate in terms of hours worked and pay. Meanwhile, unemployment rose 1.2 percentage points to 6.7% and the economically active proportion of the population grew by 1 percentage point to 66.3%. The standard minimum wage increased by a nominal 3.4% in 2016, implying real growth of 1.7% thanks to low inflation.

In 2017, the average price of Ecuadorian crude is forecast to recover to more than US\$ 40 per barrel and the country's output is expected to increase. Together with stronger production and exports of hydroelectric energy and higher levels of foreign investment, this could result in GDP growth just turning positive.