

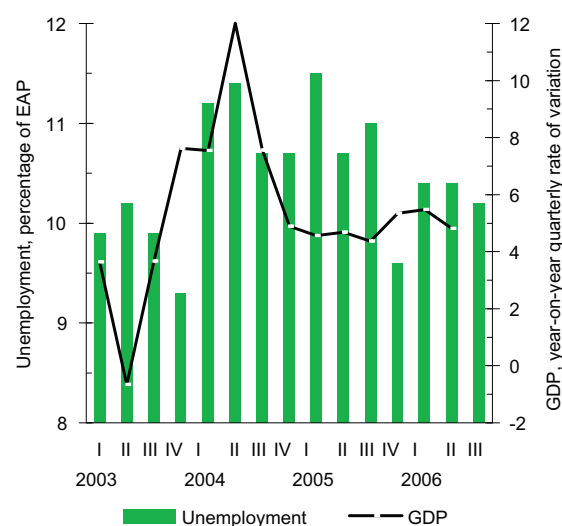
Ecuador

Ecuador's economy is expected to grow by 4.9% in 2006, which is similar to the 4.7% recorded in 2005. The economic expansion is mainly attributable to buoyancy in commerce and services, manufacturing and the oil sector. Oil revenues and rising consumption have bumped up fiscal income, which has in turn enabled the country to shrink its registered public debt.¹

In 2006, the government estimates that the overall surplus of the non-financial public sector (NFPS) will stand at 4.3% of GDP, with an even wider primary surplus of 6.5%. During the first half of 2006, total NFPS revenues rose by 26.4%, while total expenditure increased by 17.4% in nominal terms. Higher prices for the oil exported by Ecuador played an important role in the rise in income: in the first six months of the year, oil export income swelled by 76.8%, although the need to import costly derivatives and subsidize domestic sales meant that no fiscal revenues were generated from the domestic sale of petroleum products. Between 2001 and 2003, domestic sales of these products generated average revenues representing 1.8 percentage points of GDP per year, which demonstrates the high fiscal cost of the current policy to subsidize petroleum products. In terms of NFPS expenditure, the first half of 2006 saw current expenditure rise by 21.2% (particularly purchases of goods and services), while capital expenditure was up only 3.5% in relation to the year-earlier period. As for central government expenditure, an overall surplus of 0.6% of GDP is expected for 2006.

In addition to high oil prices, there were two other contributing factors to the positive fiscal performance in 2006. First, in April 2006 Congress approved a reform to the Hydrocarbons Act stipulating that, when crude prices exceed the level agreed in the contract with each private company, the State will be entitled to 50% of the revenues from those oil exports. Second, in May 2006 the Minister for Energy and Mines announced the termination of the contract between the State and Occidental Petroleum, with the latter's oilfields (Block 15 of the Amazon region and the unified fields of Edén-Yuturi and Limoncocha)

Figure 1
ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

now being managed by the temporary administration unit of PETROECUADOR. At the end of October 2006, Congress approved the Act Creating the Ecuadorian Investment Fund for the Energy and Hydrocarbon Sectors (FEISEH). This consists of trust funds financed by the export of oil extracted from Block 15 and the unified fields of Edén-Yuturi and Limoncocha. The resources will be used to: finance operating and investment costs in Block 15; offset the income lost through the Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization

¹ This does not include contingent debt such as the US\$ 1 billion claim of Occidental Petroleum against the Ecuadorian State following the termination of their contract.

(CEREPS) following termination of the contract with Occidental Petroleum; and boost hydroelectrical generation projects and State investment in hydrocarbons.

The benchmark lending rate varied little between December 2005 and October 2006, reaching 8.6% in the latter month; the deposit rate stood at 4.7%. Ecuador has a dollarized economy with no scope for implementing monetary policy.

Although the increase in the number of loans granted to companies (9.8%) was smaller than the rise in bank assets (12.8%), loans to other resident sectors (such as consumers) were up by 14%. This credit growth has pushed up private consumption during 2006. Banks increased their placements of non-resident bonds (such as United States Treasury Bonds), which stood at US\$ 1.605 billion (13.3% of total bank assets) by August 2006—a nominal increase of 54.2% on December 2005.

In the first half of 2006, GDP increased by 5.1% in relation to the year-earlier period. Growth for 2006 as a whole is expected to be 4.9%, mainly because of the increase in consumption. In the first six months of the year, private household consumption was 7.4% higher than for the same period of 2005, while gross fixed capital formation was slower than the previous year (4.2%). Such growth was spearheaded by services (including commerce) and manufacturing. In the first nine months of 2006, oil extraction was up 2.7%, as activity picked up following the strike that had significantly reduced production back in August 2005. Production was 543,000 barrels per day up to September 2006, with some private companies managing to raise their production. The major challenge for 2006 and 2007 is ensuring that PETROECUADOR maintains levels of production for Block 15 and the unified fields of Edén-Yuturi and Limoncocha, as well as for its other directly operated fields.

The employment situation improved slightly in 2006, on the strength of increased non-oil activity, particularly in the service sector. In the first 10 months of the year, total unemployment averaged 10.3%, which is lower than the 11% recorded for 2005. Open unemployment dropped by 1.4 percentage points, while hidden unemployment climbed. The employment rate edged up slightly from 50.1% in 2005 to 50.7% in 2006. The underemployment rate also rose from 47.3% in 2005 to 48.1% in 2006. Between 2005 and 2006, the minimum wage increased by an average of 3.2% in real terms, thanks to a nominal monthly rise of 10 dollars in a context of low inflation.

Cumulative inflation during the first 11 months of the year was 2.9%, while 12-month inflation up to November 2006 was 3.2%. The real effective exchange rate remained stable during the first 10 months of 2006 in relation to the year-earlier period.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	7.9	4.7	4.9
Consumer prices	1.9	3.1	3.2 ^b
Average real wage	2.4	3.0	3.2
Money (M1)	19.4	24.4	21.2 ^c
Real effective exchange rate ^d	4.3	4.3	0.0 ^c
Terms of trade	1.9	11.9	9.2
Annual average percentages			
Urban unemployment rate ^e	11.0	10.7	10.1 ^f
Central government overall balance/GDP	-1.0	-0.5	0.6
Nominal deposit rate	4.0	3.8	4.3 ^g
Nominal lending rate	10.2	8.7	8.8 ^g
Millions of dollars			
Exports of goods and services	8 982	11 439	13 709
Imports of goods and services	9 651	11 784	13 879
Current account	-564	204	503
Capital and financial account	846	470	97
Overall balance	281	674	600

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 2006.

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

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

^e Cuenca, Guayaquil and Quito. Includes hidden unemployment.

^f Estimates based on data from January to October.

^g Average from January to October, annualized.

In 2006, the current account surplus is expected to stand at almost US\$ 500 million. High oil prices have contributed to the positive performance of the trade balance. Those increases also explain the rise in foreign direct investment (especially in the oil sector), which more than doubled in the first half of the year. Emigrant remittances are also expected to continue to rise during 2006.

During the first nine months of the year, the value of Ecuador's exports grew by 26.7%. Of this growth, 81% is attributable to the rise in exports of petroleum and petroleum products. The value of crude oil exports was up 38.3%, while export volumes increased by only 5.9%. In 2006, the price of Ecuadorian crude averaged US\$ 52.7 per barrel, which was 30.5% higher than the US\$ 40.4 per barrel recorded in 2005. As for non-oil products, banana exports expanded by 12.4% and shrimp exports by 25.5%. Significant rises were also recorded in vehicle exports, especially to other countries of the Andean Community. Imports grew by 19.7% in the first nine months of 2006 compared with the year-earlier period, thanks to the considerable rise in domestic demand. Imports of fuel and lubricants were up by 61% on the previous year, owing to the high international prices of petroleum products and limited domestic refining capacity.