

## Ecuador

In the first half of 2007, GDP increased by 1.3% over the figure for the first half of 2006 and, according to projections, it will grow by 2.7% in 2007 (considerably less than the 3.9% recorded in 2006). Inflation was lower than in 2006. The incumbent administration obtained a significant majority in the elections held on 30 September 2007 concerning the establishment of a constituent assembly, and it is expected that this political support will translate into the implementation of various economic reforms in support of President Correa's economic agenda.

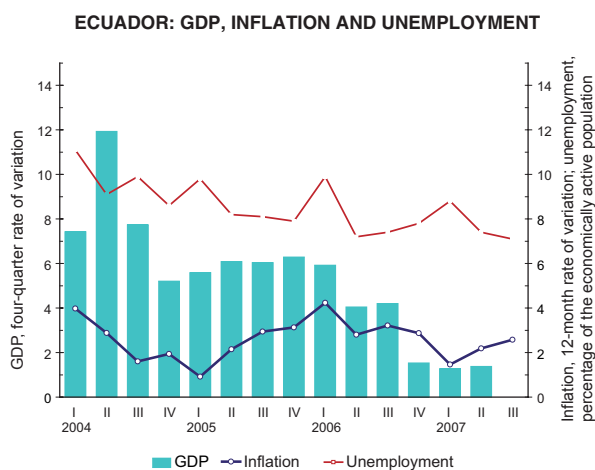
In the first nine months of 2007, the central government recorded a primary surplus of 2.1% of GDP, while the overall surplus was 0.7% of GDP. As growth in expenditure outstripped the expansion of revenues, both indicators showed a decline with respect to the figures for the same period of 2006. In the non-financial public sector, revenues were up by 22.4% and expenditure by 20.1%. During the first nine months of the year, the increase in non-oil revenues (11.9%), which was mainly attributable to social security contributions, was significantly higher than the increase in oil revenues (6%). The surplus posted by non-financial public corporations was also higher. Capital expenditure, in particular gross fixed capital formation by the central government, rose significantly (73%) in the first nine months of 2007.

At the beginning of October 2007, the government signed an executive order under which the State's share of the differential between the current market price of oil drilled by private companies that have signed participation contracts and the benchmark price set when those contracts were signed was raised to 99%. Previously, the State's share of such proceeds had been 50%.

The 12-month inflation rate to October 2007 was 2.4% (the figure for the first 10 months of the year was 2.2%). The real effective exchange rate showed an average depreciation of 5.4% between January

and September 2007 due mainly to the weakness of the United States dollar against the currencies of such trading partners as Colombia and to the low level of inflation.

In July 2007, Congress adopted the Regulation of the Maximum Effective Cost of Credit Act. This law caps the interest rate that can be charged by any given financial segment at the system-wide average plus two standard deviations. Charges that



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

do not relate to the provision of a service, as well as charges for services not accepted by clients, have been prohibited; in addition, it was ruled that creditors cannot charge commissions on credit operations or apply any commission or charge on prepayments that affect their debtors in cases where the agreed interest rate is adjustable.

In the first nine months of 2007, growth in the assets of open private banks slowed to 7.4%, down from 14.6% during the same period of 2006. Loans expanded more than bank assets (8.1%), especially loans to non-corporate residents, which were up by 14.2% during the period and accounted for 25.9% of total assets in September 2007. Bank demand for public securities was still negligible and, as a result, these securities accounted for just 0.8% of total assets in that month.

The slowdown in 2007 was due to a sharp decline in the mining and quarrying industry (down 5.3% in the first half-year) that was attributable to the marked decrease in oil extraction during the year and the weak performance of the construction sector (down 4.2%). The sectors contributing to growth in 2007 were commerce, manufacturing and other services, whose expansion was underpinned by the upswing in domestic consumption. Higher expenditure in the first six months of the year was fuelled primarily by the increase in household consumption and, secondly, by the variation in stocks; this marked a departure from the situation in 2006, when exports played a substantial part in boosting GDP. It should also be noted that in the first half of 2007, gross fixed capital formation and exports were both sluggish, with the former growing by a scant 0.1% and the latter declining by 1%.

The production of the State corporation PETROECUADOR fell sharply in the period June 2006 to April 2007, reaching a floor of 251,000 barrels a day, then picking up slightly in the following months, thanks in particular to the recovery of Block 15 (which includes the joint Eden-Yuturi and Limoncocha fields), administered independently of the rest of the PETROECUADOR subsidiary Petroproduction.<sup>1</sup> Oil production was hurt by strikes, claims and resistance by the inhabitants of areas in the vicinity of oil-producing regions, as well as by operational problems experienced by PETROECUADOR itself. Private oil production has been flat since 2006.

#### ECUADOR: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	6,0	3,9	2,7
Per capita gross domestic product	4,5	2,4	1,2
Consumer prices	3,1	2,9	2,7 <sup>b</sup>
Real minimum wage	3,0	3,3	4,0
Money (M1)	24,4	21,0	13,9 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	4,1	1,1	5,4 <sup>e</sup>
Terms of trade	11,9	7,3	3,8
<b>Annual average percentages</b>			
Unemployment rate <sup>f</sup>	8,5	8,1	7,6g
Central government overall balance / GDP	-0,5	-0,2	-0,5
Nominal deposit rate	3,8	4,4	5,1 <sup>h</sup>
Nominal lending rate	8,7	8,9	9,7 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	11 480	14 204	14 976
Imports of goods and services	11 851	13 764	14 912
Current account	322	1 540	1 468
Capital and financial account	344	-1 670	-68
Overall balance	666	-131	1 400

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Cuenca, Guayaquil and Quito. Includes hidden unemployment.

<sup>g</sup> Estimate based on data from January to September.

<sup>h</sup> Average from January to July, annualized.

While there have been methodological changes that hamper the analysis of labour market behaviour in Ecuador, it may be noted that the unemployment rate has dropped, with a consequent rise in the employment level. Most new jobs have, however, been concentrated in the informal sector. The real minimum wage rose by an annual average of approximately 4%.

In 2006, the balance of payments showed a current account surplus of US\$ 1.5393 billion. As from the second quarter of 2006, however, this surplus diminished, falling from US\$ 1.04 billion in the first half of 2006 to US\$ 101.7 million in same period of 2007. This was due to the deterioration in the merchandise trade balance, following a rise in imports and a weak performance by exports.

In the first nine months of 2007, the total value of exports grew by just 1.4%, which implies

<sup>1</sup> In May 2006, the Government of Ecuador terminated its agreement with the private oil company Occidental Petroleum. This resulted in an increase in the production of PETROECUADOR, since the latter took over the assets previously administered by Occidental Petroleum.

a deceleration with respect to 2006. This was due to an 8.5% decline in the volume of crude exported, which was not offset by the slight increase in prices (1.9%). Meanwhile, non-oil exports expanded by 9.3% during the period, thanks essentially to shipments of cocoa, canned fish and vegetable oils, which were up by 58.9%, 43.8% and 104.8%, respectively.

In the first nine months of 2007, the value of imports increased by 7.3% compared with the figure recorded for the same period of 2006. Although GDP statistics for the third quarter of the year were not available at the time of writing, this import performance reflects a slowdown in growth during the year, especially when compared with the 20.6% surge in imports recorded

between January and September 2006. In 2007, commodities (up by 17.1%) accounted for the bulk of the expansion in imports in a context characterized by high international commodity prices, while capital goods imports grew by 5.3% and consumer goods imports by 2.7%.

In the first half of 2007, foreign direct investment was considerably higher than it had been in the first half of 2006, since there were inflows of US\$ 285.4 million, compared with the negative figure of US\$ 101 million of net FDI recorded in the first six months of 2006. Nevertheless, the level of FDI received by Ecuador remains low compared with the rest of the region (0.9% of GDP estimated for 2007).

## Paraguay

In 2007, the growth rate of the Paraguayan economy was in the 5.5% range, driven by the extraordinary output in the crop-farming sector. Livestock farming, in contrast with the three preceding years, was affected by a decline in external demand and by drought in the second part of the year—and contracted, resulting in a fall in meat exports. On the other hand, external sales of soybean and cereals strengthened significantly and, together with services, contributed to the surplus on the current account. The guaraní continued to appreciate and, at the same time, inflation remained high.

The central government ended the year with fiscal accounts in equilibrium and a primary balance estimated at 0.9% of GDP. Growth in revenues is also forecast to be significant, exceeding the figure recorded in 2006. Once again, the entry into force of personal income tax was postponed, this time until 1 January 2009. Preparations for presidential elections (April 2008) were intensified and fiscal spending also increased substantially. In March, treasury bond issues amounted to 90 billion guaraníes and US\$ 7.1 million (a total equivalent to US\$ 24.85 million) and, in the same month, due bonds, amounting to close to US\$ 60 million at the close of 2006, were paid up. External financial public debt recorded in the Debt Management and Financial Analysis System (DMFAS) Programme diminished by 4.5% between December 2006 and October 2007; total external public debt was up by 1.2% in the first quarter of 2007, while private external debt grew by 7.2%.<sup>1</sup>

The Development Finance Agency (AFD) issued State-guaranteed bonds to the tune of US\$ 6 million in October; in November, the Inter-American Development Bank (IDB) approved a loan for US\$ 10 million to

support the export sector, leaving AFD in charge of loan allocations.

The appointment of a new board of directors of the central bank in March resulted in a few changes in monetary policy. Monetary regulation instruments were first sold at auction and then, as of mid-April, reinvested at benchmark rates. The respective rates fell considerably, from an average of 11% in February to 8% in March and 5.1% in October. The authorities continued to issue increasing volumes of monetary regulation instruments in their effort to attenuate the monetary effects of the central bank's intervention in the foreign-exchange market.

Monetary aggregates grew significantly throughout the year in both nominal and real terms, influenced by the substantial expansion in local-currency deposits. The latter outstripped growth in foreign currency deposits, while the expansion in savings deposits was much greater than that of sight deposits. These trends reflect moves to take advantage of the appreciation of the guaraní against the United States dollar and the higher rates of return on local-currency, in particular, term deposits. Foreign-currency loans (measured in

<sup>1</sup> The total external public debt includes debt recorded by DMFAS, the debt of the Central Bank of Paraguay with the Latin American Integration Association (LAIA), the external debt of the National Electricity Administration and external public commercial loans.

guaraníes) showed a marginally higher increase than loans in local currency. Although this still denotes risk aversion, the increase in lending is indicative of greater confidence in the financial system and in the economy in general; moreover, it is consistent with the decline in lending rates.

As regards the inflation target (5%), the consumer price index recorded a final variation close to the upper limit (7.5%) of the corresponding band. Prices were influenced by supply shortages (in the case of fruits and vegetables) and increases in international prices (bakery goods). In November 2007, the consumer price index rose by 7.4% compared with the previous year; meanwhile, core inflation (not including fruits and vegetables) stood at 7.3% and core X1 (not including fruits and vegetables or regulated services and fuels), at 8.3%. The rise in oil prices started to have an impact on fuel and transport prices in October, when the price of diesel was raised by 7.6% and transport by 5%, while the minimum wage was increased by 10% (close to US\$ 270).<sup>2</sup>

The exchange rate reflected a strong appreciation of the currency. Following a decisive intervention by the central bank in March and April, the foreign-exchange market started to show signs of greater stability but the appreciation intensified towards the end of the year. The guaraní appreciated against the dollar and the Argentine peso, but, up to October, these appreciations were lower than those of the previous year, while, in relation to the real, from the middle of the year it registered a nominal and real depreciation as a result of the substantial appreciation of the Brazilian currency against the dollar. The real effective exchange rate showed an 8% appreciation on average up to October, a result which has not affected the current account in any significant way.

In 2006, the Paraguay economy received a strong boost from the crop-growing sector, which achieved growth of close to 20%. Soybean production expanded by almost 72%, while cotton output contracted for the third year in a row, this time by 42%, although its yield was up by 30%. The output of other major crops, such as sugar cane (up 28%) and maize (up 14%), also contributed to the sector's robust performance. Livestock farming was affected by weak external demand and drought in the third quarter, which led to a decline of approximately 7%. Meat production, which accounts for 20% of the manufacturing industry, was affected, thus contributing to the downturn in the sector's performance.

#### PARAGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.9	4.3	5.5
Per capita gross domestic product	0.9	2.3	3.6
Consumer prices	9.9	12.5	7.4 <sup>b</sup>
Average real wage	1.1	0.6	-0.4 <sup>c</sup>
Money (M1)	22.3	16.5	33.0 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	9.5	-10.5	-10.4 <sup>f</sup>
Terms of trade	-6.6	-1.9	3.9
<b>Annual average percentages</b>			
Urban unemployment rate	7.6	8.9	...
Central administration overall balance / GDP	0.8	0.5	0.0
Nominal deposit rate	6.1	9.9	6.3 <sup>g</sup>
Nominal lending rate	15.3	16.8	15.3 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	4 045	5 645	7 418
Imports of goods and services	4 158	6 167	7 384
Current account	41	-110	422
Capital and financial account	119	493	120
Overall balance	160	383	541

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Estimate based on data for June.

<sup>d</sup> Twelve-month variation to October 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Average from January to September, annualized.

<sup>h</sup> Average from January to August, annualized.

In the services sector, the strongest components were communications, which continued to attract significant inflows of foreign direct investment (FDI), and the financial sector. Net FDI inflows were buoyant for the second consecutive year in 2007, when they are estimated to have increased by close to 9% and to have reached the highest level for eight years.

Paraguay's current account reflects the increase in exports of goods and services. Goods exports are estimated to have expanded considerably more than imports, thanks in part to the good crop harvest. Up to October, exports of soybean grew by 143% over the previous year's figure. External sales of oils, cereals and flours also increased quite substantially. Thus, the year-on-year decline in meat exports, which stood at 21% in October, was more than offset by the exports of crops, resulting in an overall 67% rise in exports to October. Imports of capital goods, in particular machinery and equipment, continued

<sup>2</sup> Diesel and transport prices are controlled by the government.