Ecuador

The slowdown in economic activity in Ecuador continued in 2014, with GDP expanding by 4% (as against 4.5% in 2013 and 5.2% in 2012) as a result of more muted growth in investment and private consumption as well as a slackening in public consumption. This trend was offset by higher export volumes on the back of increases in oil production and, to a greater extent, rising output of bananas, cocoa and shrimp. For 2015, for general State budgetary purposes the economic authorities forecast inflation of 3.9% and an average oil price of US$ 79.7 per barrel. ECLAC estimates that GDP will expand by some 3.8% in 2015.

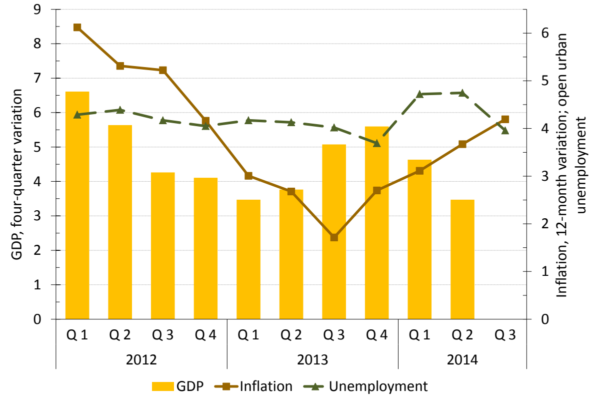
In 2014 monetary policy has been less expansionary than in previous years. According to available data, central government expenditure between January and July was up by 4% compared with the same period of 2013, which itself had soared by 17.1% in respect of the same period of 2012. This more modest growth in spending reflects the smaller rise in current expenditure (3.1%) and a flatlining in capital expenditure on fixed investment (-0.2%). Current revenue, meanwhile, rose by 0.4% in the same period, reflecting the continuing slump in oil revenues and a slowdown in non-oil income. The overall central government deficit thus widened from US$ 846.6 million in the period from January to July 2013 to US$ 1.315 billion in the same period of 2014. In the first half of the year current revenue in the non-financial public sector was up by 7.9% on the same period of 2013, chiefly as a result of the greater operating surpluses run by non-financial public enterprises (53.3%). Total spending rose by 5.6%, boosted by the rise in expenditure on gross fixed capital formation, given that current expenditure grew by only 1.1%.

Public debt continued its upward trend as financing requirements increased. It stood at 27.7% of GDP in September 2014 (up from 24.2% in December 2013), owing to growth in both domestic debt (which rose from 10.5% of GDP in December 2013 to 11.2% of GDP in September 2014) and external debt (which grew from 13.7% of GDP to 16.5% of GDP in the same timeframe). Most of the rise in domestic public debt in 2014 was in the form of long-term bond issues, while external public debt expanded as a result of growth in debt to Chinese institutions (especially in late 2013 and early 2014) and a US$ 2 billion sovereign bond offering in the international market in June 2014. Readily available international reserves peaked at US$ 6.689 billion in September 2014 and stood at US$ 5.7 billion in November. China remains Ecuador's largest foreign public creditor, holding around 30% of its external public debt.

In April 2014 the central bank changed benchmark interest rates, which had remained constant throughout 2012 and 2013. The deposit rate was increased from 4.53% to 5.11% and the lending rate was lowered from 8.7% to 7.64%. The maximum conventional reference rate remained the same. Both the lending and deposit rates have since been changed.

In November the lending rate stood at 5.07%, while the deposit rate was 8.13%. Individual credit segments also saw changes. Under bank credit, between January and September 2014 total lending by the private financial system bounced back, surging by 10.1% on figures from the same period of 2013; growth in public sector lending tailed off, expanding 3.3% on the year-earlier period.

Ecuador: GDP, Inflation and unemployment, 2012-2014



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

In other policy areas, negotiations with the European Union continued apace in 2014, culminating in an accord (which must be ratified by the relevant national parliaments before it can fully enter into force) to replace the current agreement under the preferential tariffs system which expires on 31 December 2014. In September the Basic Monetary and Financial Code was adopted, which lays down provisions for, among other things, the use of electronic money.

Between January and September 2014, exports expanded by 7.5% in respect of the same period of 2013, driven by booming exports of shrimp (57.5%) and cocoa and processed cocoa products (43.5%), despite stagnant oil exports (-0.1%), mainly as a result of a precipitous drop in exports of petroleum derivatives (59.7%), while exports of crude oil rose by 2.9%. Goods imports contracted by 0.4% on the same period of 2013. Except for imports of fuels and fuel derivatives (which were up 6.3%), other imports were down across the board: consumer goods imports fell by 0.7%, raw materials by 0.2% and capital goods by 5.8%. There was therefore a balance of trade surplus of US$ 502.3 million, compared with a deficit of US$ 987.9 million for the same period of 2013.

Ecuador main economic indicators, 2012-2014

	2012	2013	2014 [a]
	Annual growth rate		
Gross domestic product	5.2	4.6	4.0
Per capita gross domestic product	3.5	3.0	2.4
Consumer prices	4.2	2.7	4.0 [b]
Money (M1)	14.0	14.8	13.6 [c]
Real effective exchange rate [d]	-4.1	-1.1	-1.8 [b]
Terms of trade	1.5	1.3	-0.1
	Annual average percentage		
Urban unemployment rate [e]	4.9	4.7	5.0
Central government			
Overall balance / GDP	-2.0	-5.8	-4.9
Nominal deposit rate	4.5	4.5	4.8 [f]
Nominal lending rate [g]	8.2	8.2	8.1 [f]
	Millions of dollars		
Exports of goods and services	26,376	27,715	29,320
Imports of goods and services	27,717	29,861	30,055
Current account balance	-163	-1,192	146
Capital and financial balance [h]	-418	3,038	1,574
Overall balance	-582	1,846	1,719

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 September.
d/ A negative rate indicates an appreciation of the currency in real terms.
e/ Includes hidden unemployment.
f/ Figures as of November.
g/ Effective benchmark lending rate for the corporate commercial segment.
h/ Includes errors and omissions.

External debt stood at 22.8% of GDP in September 2014, versus 19.9% in December 2013. This deterioration is primarily attributable to rising external public debt, given that external private debt was practically unchanged on December 2013 levels (6.3% of GDP as opposed to 6.2% of GDP in December 2013).

GDP grew by 4% in the first half of 2014, as a result of a sharp slowdown in both public consumption, which crept up by 0.2% in respect of the first half of 2013 (after growth of 8.1% on the year-earlier period in the first half of 2013) and investment, which increased by 2.9% (as opposed to growth of 14.4% in the first half of 2013 on the same period of 2012). Exports of goods and services, meanwhile, expanded by 7.4% in real terms in the same period. Imports of goods and services were up 1.5% (compared with 8.5% in the first half of 2013) as domestic demand cooled.

Overall figures by sector of economic activity compared with the first half of 2013 reveal improved performance in agriculture and aquaculture, oil, tourism and business services, and downturns in government services, the postal service and communications. Construction remains one of the most dynamic sectors. National crude oil production was up 7% between January and August compared with the same period of 2013, boosted by growth (11.5%) in production by State-owned enterprises while production by private companies fell again (by 5.6%).

The cumulative 12-month rate of inflation to September 2014 was 4.2%, up from the year-on-year rate of 1.7% in the same period of 2013, on the back of an uptick in food prices (5.7%). The urban unemployment average rate between January and September 2014 stood at 5.3%, an increase on the figure of 4.7% recorded in the same period of 2013. In January 2014, the standard minimum monthly wage was raised from US$ 318 to US$ 340. As a monthly average, it increased by 3.2% in real terms on the same period of 2013, down from average growth of 6.1% in 2013.