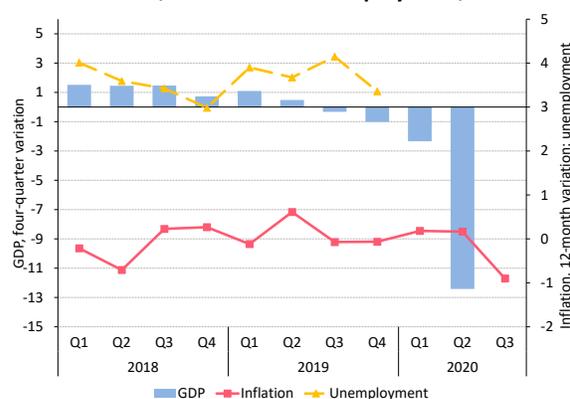


Ecuador

The Economic Commission for Latin America and the Caribbean (ECLAC) is forecasting a sharp 9% contraction in Ecuador's GDP in 2020, following the previous year's meagre 0.1% growth. The impact of the ongoing crisis caused by the pandemic has added new layers of complexity to an economic situation that had been unfolding since the third quarter of 2019. In the first three months of 2020, real GDP contracted at an annual rate of 2.3%, reflecting the initial effects of the health crisis; and this intensified in the second quarter when GDP shrank by 12.4%. The shock of the coronavirus disease (COVID-19) to the real economy has triggered a dramatic fall in all components of aggregate demand. Domestically, in the second half of 2020, gross fixed capital formation retreated by 12.5% year-on-year, owing to a reduction in investment in machinery, equipment and electrical appliances (-34%) and in the construction sectors (-12.7%). In the same period, household and government consumption also fell at rates of 12% and 10.5%, respectively, relative to the same quarter of 2019. Externally, imports decreased by more than exports (-21% and -16% year-on-year respectively). On the supply side, the oil sector was the most heavily impacted, with a 29% reduction in gross value added (GVA) relative to the year-earlier quarter. In the non-oil sector, the activities affected were mainly services, which posted a steep fall in GVA—transportation (-30%), accommodation and food services (-18%), education and social and health services (-12%)—as well as construction activity (-13%). With the progressive reopening of the economy from July onwards, favourable signs are starting to appear, in particular as the country's main income sources rebound, albeit still weakly. In October of 2020, deteriorating labour market indicators, in a deflationary context, display major aftershocks that presage a slow recovery process in the Ecuadorian economy.

Between the first and second quarters of 2020, the overall balance of the non-financial public sector (NFPS) turned from a surplus of US\$ 516 million to a deficit of US\$ 2.151 billion. The public-sector deficit grew to 2.23% of GDP in the second quarter. This was the result of the collapse of income from oil sales (-73%) and the reduction in tax revenue (-33%), with value-added tax (VAT) suffering the steepest fall (-40%), which resulted in a total revenue loss of US\$ 2.852 billion. Total expenditure fell at a rate of 18% between the first and second quarters of 2020, owing to the combined effect of reductions in gross fixed capital formation (-44%) in the capital expenditure category, and in the purchase of goods and services (-32%) and wages and salaries (-4%), among current expenditures. This has generated a primary deficit of US\$ 1.432 billion (1.48% of GDP). By the end of the year, the fiscal deficit should be around 9.12% of GDP at US\$ 8.8 billion, widening by 6.3 percentage points compared to the deficit posted in 2019. For 2021, total expenditure is likely to continue trending down, given the planned adjustment of nearly US\$ 3 billion, as agreed to in the International Monetary Fund

Ecuador: GDP, Inflation and Unemployment, 2018-2020



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

(IMF) programme; and total income is expected to grow on the back of the stimulus provided by the resumption of activities and the approval of a new tax reform planned for the second half of the year.

Ecuador's complex fiscal situation has been reflected in a 5.4% rise in aggregate public debt, which climbed to US\$ 59.923 billion (62% of GDP) between October 2019 and October 2020. While external debt is the larger component (71% of the total debt in October 2020), domestic debt grew at a rate of 9.2% year-on-year and external debt grew by 3.8%. A 41% increase in multilateral loans, which are the country's main source of external financing, is a key driver of the external debt. Almost 74% of the total domestic debt consists of bonds issued in the local market and held by public sector entities, including social security. These grew by 5.6% year-on-year. The total public debt is expected to continue growing until the end of this year, owing to the planned disbursement by IMF of US\$ 2 billion, as well as the arrival of new multilateral loans totalling approximately US\$ 413 million in December 2020. In addition, the government is expected to persevere with its strategy of issuing bonds in the local market to ease the liquidity constraint and cover its previous domestic debt. As a result, the total public debt at the end of 2020 is likely to rise to 70% of GDP.

As Ecuador is a dollarized economy, strengthening international reserves poses another challenge. Between February and March 2020, the level of international reserves fell drastically at a rate of 39%; but it has since recovered at a monthly average rate of 15%, to reach US\$ 5.067 billion as of November 2020. This resulted from a combination of increased disbursements by multilateral agencies, the recent increase in oil revenues and the slowdown in imports. The rise in the price of gold added some US\$ 1.905 billion to the value of Ecuador's gold holdings in December 2020, representing 35% of its total international reserves.

On the international-trade front, merchandise trade posted a surplus of US\$ 2.367 billion between January and September 2020, essentially driven by a larger contraction in imports than exports, as mentioned above. In the same period, oil exports (crude oil and oil products) plunged by 44% year-on-year while non-oil exports rose by 9%. Between January and September 2020, shrimp exports generated income of US\$ 2.79 billion, equivalent to 83% of the income derived from crude oil exports. In the case of imports, the largest declines were in purchases of capital goods (-26%) and consumer goods (-21%). There are signs of recovery in the third quarter of 2020, with exports growing by 23% and imports up by 15% over the previous quarter.

The current context marked by the pandemic, together with the economy's slow recovery, generated a sharp fall in the general level of prices. In October 2020, the consumer price index (CPI) reported a year-on-year variation of -1.6%, the steepest fall recorded since dollarization in 1999. This deflationary trend has been ongoing since July 2020, despite the gradual revival of economic activities.

Ecuador: main economic indicators, 2018-2020

	2018	2019	2020 ^a
	Annual growth rate		
Gross domestic product	1.3	0.1	-9.0
Per capita gross domestic product	-0.5	-1.6	-10.4
Consumer prices	0.3	-0.1	-0.9 ^b
Money (M1)	5.6	3.4	7.6 ^c
Real effective exchange rate ^d	2.0	-2.1	-1.4 ^b
Terms of trade	9.0	-2.8	-12.3
	Annual average percentage		
Open unemployment rate ^e	3.5	3.8	6.8 ^f
Central government			
Overall balance / GDP	-3.6	-5.0	...
Nominal deposit rate ^g	5.1	5.9	6.3 ^h
Nominal lending rate ⁱ	7.7	8.6	8.9 ^h
	Millions of dollars		
Exports of goods and services	25 381	26 124	10 541 ^j
Imports of goods and services	26 289	25 887	9 765 ^j
Current account balance	-1 328	-53	426 ^j
Capital and financial balance ^k	1 499	769	-742 ^j
Overall balance	171	715	-316 ^j

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/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.

f/ No figures were released for the first quarter.

g/ Benchmark deposit rate.

h/ Figures as of October.

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

Eight of the 12 items in the reference basket of goods and services had a negative effect on inflation, the largest declines in percentage points being in transportation (-0.59), food and non-alcoholic beverages (-0.31 points) and education (-0.23 points). In contrast, health had the largest positive effect on inflation (+0.06 points), followed by communications (+0.02 points). This would suggest that consumer spending is recovering only slowly and largely reflects the deterioration in the labour market situation since the fourth quarter of 2019.

Nationwide, the main labour market indicators deteriorated in the year to September 2020. This trend is marked by a significant increase in unemployment, compounded by underemployment and informality as typical job characteristics. In September 2020, there were 115,749 more people unemployed than a year earlier, an increase of 28%; and 191,079 slipped into underemployment, a year-on-year increase of 11.6%. The unemployment and underemployment rates climbed to 6.64% and 23.4% of the economically active population (EAP) respectively; and less than a third of the EAP (32.08%) was fully employed. Informal jobs thus account for 48.6% of total employment, compared to 45.9% in the formal sector, representing a year-on-year increase of two percentage points.

For 2021, ECLAC projects GDP growth of 1%, subject to a crucial recovery in domestic demand, —particularly stimulus measures targeting both private and public investment and the revival of household consumption. Support for the production sectors is essential to sustain the resumption of activities and job creation. This will depend on the impact of the various programmes implemented by the Government to confront and control the pandemic, and also on the capacity to sustain the resumption of economic activity and to cushion the social impact. There are still many uncertainties regarding external conditions, in particular the implications of a second wave of COVID-19 and a further drop in oil prices. Recovery in the Ecuadorian economy will be a slow and more complex process, owing to the liquidity constraint and financing needs that still persist, despite multilateral disbursements and fiscal easing resulting from the debt renegotiation process.