Ecuador

Ecuador's GDP is estimated to have grown by 6.5% in 2008, with a slowdown projected for 2009 that will drag that rate down to 2%. The rate of inflation moved strongly upwards during the year, as international food prices reacted to the supply shock, and in October 2008 the yearly rate stood at 9.9%. Continuing with the process of change brokered by President Correa, the Constitutional Assembly drafted a new Constitution, which was approved by referendum on 28 September 2008.

Although fiscal policy was expansionary, thanks to buoyant petroleum revenues in the first three quarters, the non-financial public sector (NFPS) posted a surplus in 2008. In the first nine months of the year, the NFPS primary surplus was 6% of GDP and the overall position showed a surplus of 4.9% of GDP. Those results represent a significant improvement on the performance rendered in the same period of 2007, basically thanks to the strong upturn in oil prices during the period and to the government's efforts to secure a higher percentage of petroleum revenues. The ratio of public debt to GDP has continued to fall, as a result of this positive fiscal performance combined with GDP growth in 2008. As of the third quarter, Ecuador's total public debt amounted to US$ 12.98 billion, or the equivalent of 24.5% of GDP, while external public debt was US$ 10.012 billion, or 18.9% of GDP.

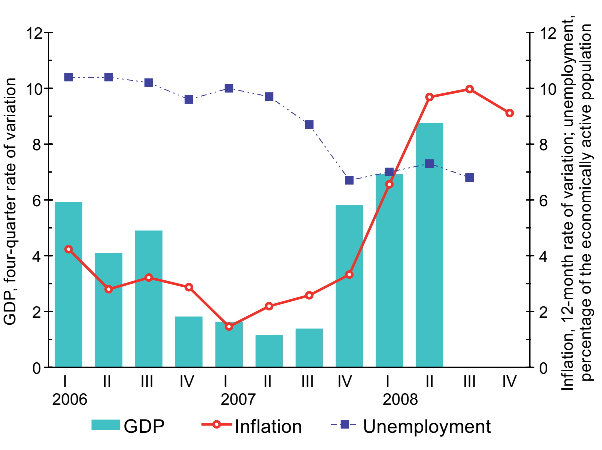
NFPS petroleum income was up by 222% in the first nine months of 2008, which accounted for the 69.2% rise in NFPS revenue in that period. Non-petroleum revenues also rose, especially receipts from income tax (up 33.5%) and VAT (13.4%), which benefited from more buoyant economic activity and higher export prices during those months. Income from the surpluses of state-owned companies rose by 63.6% during the high-price period.

NFPS spending rose by 69.5% in the first nine months of 2008, as compared with the year-earlier period. Particularly notable was the increase in capital spending (accrual basis), especially gross fixed capital formation, which was up by 116.2%. Current expenditures also increased (55.6%), however, during that period.

The most significant changes to the legal framework of fiscal policy in 2008 had to do with the tax reform applied following the Constituent Assembly's adoption in December of the law on tax equity which, among other things, abolished revenue pre-allocations; the approval, in April 2008 of legislation abolishing petroleum funds (law on the recovery of the use of State petroleum resources), which were absorbed into the central government budget; and the approval at the end of July 2008 of the legislation to reform and interpret the tax equity law. In November 2008 the government also announced a package of economic and financial measures aimed at reducing the impact of the international financial crisis in Ecuador.

In November 2008 Ecuador's yearly inflation rate stood at 9.1%. This reflected the impact of the external shock on food prices in the first half of the year. The real effective exchange rate depreciated by an average of 2.2% in the first 10 months of 2008, owing to the

ECUADOR: GDP, INFLATION AND UNEMPLOYMENT



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

weakness of the United States dollar against the currencies of Ecuador's main trading partners, including Colombia, in the first semester, which started to be reversed as of September 2008.

Generally speaking, interest rates were lower in October 2008 than a year earlier. For example, the effective benchmark lending rate for corporate loans dropped from 10.7% in October 2007 to 9.2% a year later, while the rate for loans to SMEs came down from 14.1% to 11.6%.

The financial sector continued to grow in 2008. In the first 10 months of the year, the assets of open private banks continued to increase, with an expansion of 19.1% to October. The composition of the private banks' loan portfolio tended towards liquid assets held abroad between October 2007 and April 2008, when these represented 26% of the sector's total assets. Since then, turbulence in the international markets has led the banks to reduce their foreign deposits, although holdings in United States Treasury bonds have been maintained. Conversely, from April 2008 growth in the portfolio of loans to companies and other residents began to outpace that of total assets. This trend was fuelled by high domestic liquidity and falling interest rates, as well as the withholding tax on interest payments abroad introduced under the tax reform, in those cases where the retention is not treated as a credit in the country of origin. Holdings of State bonds were minimal during the period, representing 0.6% of total assets in September 2008.

In 2008 GDP growth was driven mainly by household consumption and gross fixed capital formation, stimulated, in the latter case, by a significant increase in public works undertaken by the government during the period. Central government consumption also rose.

Services and construction were the economy's two most dynamic sectors in 2008. Both benefited from the higher public spending in the period, although private demand also spurred the construction sector. Commerce and manufacturing also registered a buoyant performance on the back of surging domestic demand during the year.

Oil extraction by the State-owned Petroleum Corporation of Ecuador (PETROECUADOR) was up by 3.2% in the first 10 months of 2008 over the year-earlier period. The total volume of oil extracted dropped by 0.1%, however, compared to the same period in 2007, owing to a decrease of 4.2% in oil extraction by private firms. Since 2007 the Ecuadorian government has followed a policy of increasing the percentage of oil income received by the State, which also applies to partnership contracts (where private companies receive a percentage of total oil extracted) with private firms and the renegotiation of concessions; a recent example is the modification of the partnership contract with REPSOL-YPF.

ECUADOR: MAIN ECONOMIC INDICATORS

	2006	2007	2008 [a]
		Annual growth rates	
Gross domestic product	3,9	2,5	6,5
Per capita gross domestic product	2,4	1,0	5,0
Consumer prices	2,9	3,3	9,1 [b]
Real minimun wage	3,3	3,9	8,2
Money (M1)	19,1	18,6	37,2 [c]
Real effective exchange rate [d]	1,2	5,1	2,2 [e]
Terms of trade	7,3	2,8	15,6
		Annual average percentages	
Unemployment rate [f]	8,1	7,4	6,9 [g]
Central government overall balance / GDP	-0,2	-0,1	-0,1
Nominal deposit rate	4,4	5,3	...
Nominal lending rate	8,9	10,1	...
		Millions of dollars	
Exports of goods and services	14 213	16 070	20 723
Imports of goods and services	13 749	15 619	20 363
Current account	1 618	1 650	1 568
Capital and financial account	-1 748	-263	1 132
Overall balance	-131	1 387	2 700

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 2008.
[c] Twelve-month variation to September 2008.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Estimate based on data from January to September.

The nationwide unemployment rate was 7.1% in September 2008, remaining stable with respect to the previous year. At the same time, the employment rate rose slightly, from 40.2% in September 2007 to 41.1% in September 2008.

The balance-of-payments current account posted a surplus in 2008. This reflected a substantial upswing in petroleum exports as a result of the higher prices for crude in 2008.

In the first nine months of 2008, the value of exports increased by 51.8%, of which 85% was attributable to the upturn in petroleum exports. The volume of crude oil exports rose 4.8%, while the average export price surged by 85.8%. Non-petroleum exports were up by 17.5% in the period, particularly those of bananas and plantains, followed at a distance by exports of tinned fish.

The value of imports jumped by 43% in the first nine months of 2008, driven largely by raw materials, whose imports were up by 45.9%. Rising investment in Ecuador in 2008 fuelled imports of capital goods, which climbed by 41.5% in those nine months, while imports of consumer goods rose 42% thanks to higher private and public consumption.

Remittances from emigrants slowed in 2008. In the first semester these rose by a meagre 1.6% over the year-earlier period and fell as a percentage of GDP, from

3.2% to 2.8%. This was due to problems in the United States economy and to the loss of momentum in Spain in 2008, since almost 90% of remittances into Ecuador are sent from those two countries.

Foreign direct investment (FDI) remained sluggish throughout the period, rising from 0.6% of GDP in the first semester of 2007 to 1% of GDP a year later. Unlike the pattern seen up to 2007, in 2008 FDI rose faster in business services and commerce than in the traditional sector of mining and quarrying (oil). In fact, despite the high oil prices in the second half of 2007 and the first three quarters of 2008, FDI in mining and quarrying remained at 0.5% of GDP in the first semester of 2008, similarly to the figure for the first half of 2007.