

Ecuador

The Ecuadorian economy is expected to have grown by 8% in 2011. Economic activity accelerated in the first half of the year but slowed slightly in the second half. Growth continued to be driven by domestic demand, which was fuelled mainly by strong public spending. Although government spending will remain high in 2012, it will not be enough to maintain the current pace of economic growth. GDP is thus expected to expand by 5% in 2012. Inflation to December will stand at around 5.5% in 2011 and 4% in 2012.

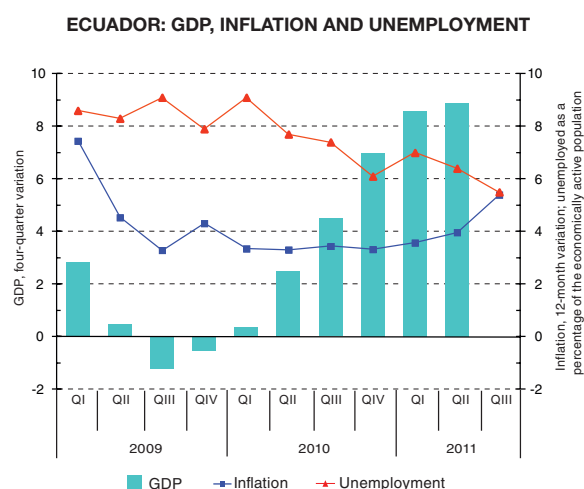
GDP grew at a faster pace in the first half of the year on the strength of expanding investment and consumption. Investment was boosted by major ongoing public investment plans and public investment in housing. Consumption expanded in response to real wage increases, direct government household subsidies and sharp growth in credit.

The government intervenes heavily in strategic economic sectors, which is a significant factor behind low private investment. In mining and oil exploration and development, however, private investment flows are expected now that the contracts have been renegotiated and it has been established that the government will pay a flat fee for the extraction of a set number of barrels. Cumulative oil production between January and September 2011 was up by 3.8% compared with the same period the previous year, totalling 136 million barrels. State oil output accounted for 72% of total national production and increased by 23.25% compared with the same period of 2010. Production by private companies fell by 25.85%. Both the increase in government oil production and the decline in private production are the result of the government taking over the fields formerly operated by Perenco and Petrobras.

Fiscal revenue is largely determined by resources generated by the energy sector. Energy revenue accounted for a quarter of total government revenue in 2009 but will account for a third in 2011. Given that the energy sector is the main driver of the economy, the expected slight decline in oil prices, combined with sluggish growth in production, indicates that government spending will stay the same and GDP growth will slow in 2012.

Tax receipts between January and October grew by 9.1% compared with 2010 on the strength of a jump in

revenue from value added tax (up by 18.9%), income tax (27.4%) and special consumption tax (15.7%). By contrast, fiscal revenue from the tax on extraordinary income plummeted by 93.4% compared with 2010. Given that this tax is levied on additional income from the sale of non-renewable natural resources, revenue from this tax fell after the oil contracts were renegotiated and private oil production declined. Overall, tax receipts for the period January to October rose by US\$ 597 million compared with the same period of 2010. During the same period, central government spending expanded by 18.8% compared with 2010 and posted a cumulative execution of 70.9% in 2011.



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

The 2012 non-financial public sector budget was set based on an oil price of US\$ 80 per barrel in line with economic forecasts. This, plus expected public spending, will push the fiscal deficit up from around 3% of GDP in 2011 to 6% of GDP in 2012. The 2011 fiscal deficit was below the original projection of 6% of GDP because the actual price of oil in 2011 was higher than the US\$ 73 per barrel assumed when preparing the budget.

A new law enacted in November 2011 seeks to raise tax collections by an amount equal to 0.6% of GDP, increasing the tax on currency outflows from 2% to 5%, taxing automobiles and plastic bottles, and raising the rates on cigarettes and alcoholic beverages.

Government spending has expanded significantly as a result of major public investment plans and social policies, pushing public spending in 2011 up to around 40% of economic activity, compared with just over 20% in the first five years of the decade. As a result, the public sector is now the main driver of the Ecuadorian economy.

The Andean Trade Promotion and Drug Eradication Act (ATPDEA) guaranteeing preferential trade between Ecuador and the United States was renewed in October 2011, eight months after it expired. But it was renewed only until mid-2013, when the free trade agreement between Colombia and the United States is to take effect.

Credit supply indicators confirm that expanding domestic demand is matched by higher private consumption, since growth in the supply of consumer credit outstripped growth in lending to the housing and microcredit sectors. Financial institutions are easing their restrictions on borrowing and offering lower interest rates and longer loan terms. In the production segment, loan applications were submitted mainly for industrial and commercial activities, with the proceeds going mainly to working capital, investment and asset acquisition.

Following the sharp expansion in activity in the first quarter, the pace of growth accelerated so much in the second quarter that the performance in the first half of the year matched the forecast for the entire year. The sectors posting the most growth in the first six months were oil refining (42%), electricity and water (32%) and construction (21%). Soaring output was accompanied by low unemployment, which fell to the rates posted before the 2008 crisis. The average rate for the year was

ECUADOR: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	0.4	3.6	8.0
Per capita gross domestic product	-0.7	2.5	6.8
Consumer prices	4.3	3.3	5.5 ^b
Money (M1)	8.2	19.4	22.1 ^c
Real effective exchange rate ^d	-5.0	-0.9	3.2 ^e
Terms of trade	-11.5	10.1	8.0
Annual average percentages			
Urban unemployment rate ^f	8.5	7.6	6.1 ^g
Central government overall balance / GDP	-5.1	-2.0	-1.5
Nominal deposit rate ^h	5.4	4.6	4.6 ⁱ
Nominal lending rate ^j	9.2	9.0	8.4 ⁱ
Millions of dollars			
Exports of goods and services	15 749	19 610	23 393
Imports of goods and services	16 887	22 651	27 021
Current account balance	-90	-1 785	-2 354
Capital and financial balance ^k	-2 557	573	4 281
Overall balance	-2 647	-1 212	1 927

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 2011.

^c Twelve-month variation to September 2011.

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

^e January to October average, year-on-year variation.

^f Includes hidden unemployment.

^g Estimate based on data from January to September.

^h Weighted average of the system effective deposit rates.

ⁱ January-November average.

^j Effective benchmark lending rate for the corporate commercial segment.

^k Includes errors and omissions.

around 6%, compared with 7.6% in 2010. The quality of employment also improved, as underemployment in September dipped to 46%, four percentage points below the rate in September 2010.

Inflation has been climbing since February, when the year-on-year variation was 3.4%, rising to 5.5% by October. This was due to 8.2% food inflation, compared with non-food inflation of 4.4%. Year-on-year inflation to December is expected to stand at around 5.5%.

At the end of the first half of the year the trade balance was in deficit by around US\$ 50 million, equivalent to 0.1% of GDP. The oil trade balance surplus was US\$ 3.698 billion, and the non-oil trade balance deficit was US\$ 3.748 billion. The current account deficit will stand at around 3% of GDP. Despite high unemployment in Spain, remittances continued to grow, although they have not returned to pre-crisis levels.