

Ecuador

In 2018, Ecuador's economic growth slowed from 1.3% in the first half of the year to a projected 1% for the year overall (down from 2.4% growth in 2017). This largely reflects the fiscal consolidation under way, which resulted in a decline in public capital expenditure and a 2.3% drop in total non-financial public sector expenditure.¹ Without the fiscal stimulus of 2017, the economy contracted as a result of a slight (3.1%) downturn in oil output, adverse international conditions, greater financial volatility, increases in interest rates by the United States Federal Reserve, a country risk rating that increased by almost 200 points since March 2018 and an exchange rate that failed to depreciate. Gross fixed capital formation posted a slight increase (3.2%) in the first six months of the year (down from the 3.3% increase posted in 2017), as did exports (which grew by 0.8%, compared to growth of 1.1% in 2017). These increases were not reflected in either the labour market or inflation: unemployment stayed low, even decreasing slightly, and consumer prices began to emerge from a period of deflation.

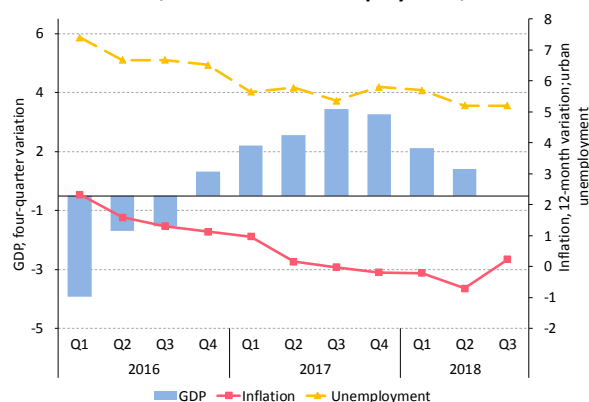
The rise in oil prices, the sluggish economy and the tax remission measures (aimed at waiving fines and interest so as to encourage payment of past-due taxes) all impinged on the performance of tax revenue: oil revenue increased by 24.5% and income tax revenue by 10.2%, but VAT revenue fell 0.7%. Total expenditure declined by 2.3%, owing to a 20.3% drop in capital expenditure that offset the 6.4% rise in current expenditure induced by increased interest payments and purchases of derivatives. As a result, the non-financial public sector primary surplus stood at 0.4% of GDP (compared to a 1.3% deficit in 2017). The overall deficit was equivalent to 1.6% of GDP (compared to 3.3% in 2017).

As of October, the official measure of the public debt was (once again) the aggregate debt, which includes both liabilities within the State and those owed to third parties. After expanding rapidly in recent years, aggregate debt posted a slight increase in 2018. The external public debt increased by US\$ 372 million to US\$ 35.193 billion (32.2% of GDP), while the domestic public debt declined from US\$ 14.782 billion to US\$ 13.876 billion. Combined, they amount to a total public debt of US\$ 49.069, equivalent to 44.8% of GDP (compared to 44.6% of GDP at the end of 2017). A new loan of US\$ 2.5 billion from the China Development Bank, announced for mid-December, would increase the total public debt to 47.2% of GDP.

Lower tax expenditure meant fewer liquidity injections. That gave rise to two phenomena: the annual growth rate of the M2 monetary aggregate continued to decline (from 8.8% in 2016, to 5.3% in 2017 and 3.6% in 2018) and banking system liquidity contracted by 3.04%.

That was reflected in the growth rates for the various different private credit segments that had been rising from mid-2016 to the beginning of 2018, when the expansion of housing and

Ecuador: GDP, Inflation and Unemployment, 2016-2018



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

¹ Unless otherwise indicated, the changes mentioned in this note compare the period from January to October 2018 with the same period in 2017.

productive sector loans began holding steady at around 12.0% and 13.5%, respectively. For their part, the growth rates of consumer loans and microcredit stabilized in May, at 22% and 21%, respectively.

The real interest rate on loans, which had been falling since end-2015 (from 9.22% that year to 8.38% in 2016 and 7.79% in 2017), began rising again as of May 2018 and stood at 8.47% in November.

The real effective exchange rate began to appreciate as of April, reverting the depreciation trend registered since January 2016. The rate in October 2018 was 0.05% below that of October 2017.

The upward trend in the WTI crude oil price through the third quarter of 2018 (from US\$ 50 to US\$ 70 per barrel between January and September) triggered a year-on-year improvement of the cumulative oil trade surplus until September (which amounted to US\$ 3.602 billion, compared to US\$ 2.662 billion in 2017), while the non-oil trade deficit deteriorated to -US\$ 3.610 billion from -US\$ 2.406 billion in 2017. The exports posting the highest increases in value terms in 2018 were oil, oil derivatives, and shrimp (34.1%, 59.1% and 8.5%, respectively), while the most buoyant imports were oil derivatives and consumer goods (which grew by 36.0% and 18.4%, respectively), surpassing capital goods and raw materials (which increased by 15.6% and 11.3%, respectively). The net result for the trade balance for goods is a deficit of US\$ 8.3 million.

The balance of payments current account for January to June posted a US\$ 53 million deficit (compared to a US\$ 317 million surplus in 2017). This deterioration stemmed from declines in the trade, income and transfer surpluses, which fell by US\$ 462 million, US\$ 172 million and US\$ 173 million, respectively. Only the services surplus improved, posting an increase of US\$ 437 million.

International reserves were also impacted by the decline in external financing disbursements. Though October 2018, they totalled US\$ 2.730 billion (compared to US\$ 4.806 billion in the same prior-year period). The average level of reserves over the past six months is 24% below that of the previous six months.

The components of aggregate expenditure, with the exception of imports, posted modest increases in real terms, below those registered in 2017: gross fixed capital formation posted a 3.2% increase; household final consumption grew by 2.9%; and exports increased by 0.8% (compared to increases of 3.3%, 2.9%, and 1.1%, respectively). Exports, in particular, were affected by the recent appreciation of the real exchange rate and by the decline in oil output. Imports posted a year-on-year increase of 9.2%.

Ecuador: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	-1.2	2.4	1.0
Per capita gross domestic product	-2.7	0.9	-0.4
Consumer prices	1.1	-0.2	0.3 ^b
Money (M1)	10.4	13.1	6.2 ^c
Real effective exchange rate ^d	-1.5	4.7	2.4 ^c
Terms of trade	2.4	-0.5	9.6
	Annual average percentage		
Urban unemployment rate ^e	6.8	5.6	5.3
Central government			
Overall balance / GDP	-5.6	-6.0	-4.6
Nominal deposit rate ^g	5.7	4.9	5.1 ^b
Nominal lending rate ^h	8.7	7.9	7.5 ^b
	Millions of dollars		
Exports of goods and services	19 565	21 918	25 383
Imports of goods and services	19 052	22 601	25 553
Current account balance	1 322	-372	-543
Capital and financial balance ⁱ	-115	-1 486	925
Overall balance	1 207	-1 859	382

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. Refers to the global real effective exchange rate.

e/ Includes hidden unemployment.

f/ Figures as of August.

g/ Benchmark deposit rate.

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

i/ Includes errors and omissions.

The most buoyant sectors in the first half of the year were shrimp aquaculture (year-on-year growth of 10.2% in real terms), water and electricity supply (7.2%) and room and board services (6.5%). The sectors that contracted most were fishing (-4.3%), oil and mining (-3.5%) and oil refining (-21.9%).

The consumer price index reached a tipping point in May, reversing the three-year trend of falling prices. As a result, the consumer price index in September posted a year-on-year change of 0.29%, ending 11 months of deflation. Cumulative inflation from January to October was 0.42%.

The unified basic wage rose by 2.3% in real terms. In September, the wage index posted a year-on-year increase of 5.87%.

Although basically stable, the urban open unemployment rate in 2018 was slightly lower than in the previous year: the average for the first three quarters of the year fell from 5.0% in 2017 to 4.8% in 2018. In the same vein, the average appropriate employment rate for the first three quarters increased, year on year, from 48.3% to 48.8%.

A slight (0.9%) downturn in economic growth is forecast for 2019, essentially as a result of renewed pressure against fiscal stimulus as the effects of tax remission wear off, lower and more volatile oil prices, a resumption of transfers of funds to the Ecuadorian Social Security Institute (IESS) (equivalent to 1.1% of GDP) and the transfers envisaged in the Organic Law for Comprehensive Planning of the Special Territorial District of the Amazon (0.2% of GDP).² Two factors could at least partially mitigate this outcome. The first is an increase in Petroecuador output of up to 10% of the barrels per day it currently produces, as a result of production from the Ishpingo, Tambococha and Tiputini (ITT) oilfields, in 2019, albeit at uncertain dates. The second is a US\$ 1 billion private sector investment in hydrocarbons, resulting from a tender within those oil fields for a contract to be awarded in March, and five large mining projects involving an investment of US\$ 6.808 billion. How much of that sum will be invested in 2019 is, however, difficult to predict. Finally, the (partial) incentives approved in the Organic Law for productive development and attraction of investments, generation of employment, stability and fiscal balance could contribute to a reactivation of a number of economic sectors.

² Adopted in March 2018.