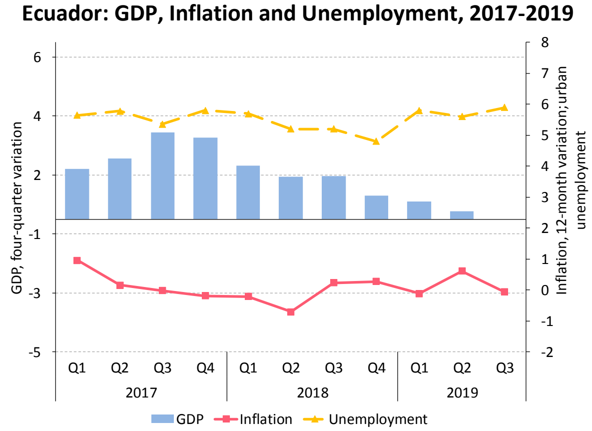
Ecuador

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Ecuadorian economy to contract in 2019, with an estimated growth rate of -0.2%, compared with 1.4% in 2018. In the first two quarters of 2019, real GDP grew by 0.60% and 0.27%, respectively, compared with the same quarters in2018. This economic stagnation derives from international conditions —trade tensions, weak global demand and a still-subdued outlook for oil prices— and from a sharp slowdown in domestic demand. In particular, gross fixed capital formation contracted by 2.1% in real terms in the first half of the year compared with the prior-year period, and household consumption grew by just 0.58% in the second quarter of 2019, compared with the year-earlier period. There has also been a loss of momentum in the value of goods exports —especially from the oil sector— and in the production of key sectors such as construction. This is reflected in the unemployment rate, which grew by 22.5% in the third quarter of 2019 compared with the prior-year period. This slowdown is expected to worsen by the end of 2019, owing to the paralysis of economic activity following days of social unrest in October.[1]

In terms of fiscal policy, the main challenge was closing out the year with a total deficit of 0.0% of GDP.[2] From January to August 2019, the total government budget deficit increased by 82% in nominal terms compared with the prior-year period —representing 1.2% of GDP[3]— while the primary deficit was reduced by 20%. Efforts to tighten fiscal accounts focused mainly on narrowing capital spending —particularly public investment—, though current spending accounted for 85.5% of total spending, on average, in the first half of 2019. In the same period, fiscal revenues declined by 2.0%. Some sources of revenue were eliminated or limited as a result of the Organic Law for productive development and attraction of investments, generation of employment, stability and fiscal balance passed in 2018, and this process should continue with an expected decrease of about 6.0% in fiscal revenues, as outlined in the pro forma general government budget for 2020.

Alternative sources of funding are therefore needed, through borrowing and/or monetization of public assets. External public debt rose from 35.5% of GDP in January 2019 to 37.5% in September 2019, when US$ 2 billion in high-interest (8.68% on average) sovereign bonds were placed on the international market. The monetization of public assets worth US$ 1 billion has been considered for 2019, but has not materialized, and is expected to involve the Sopladora hydropower plant, the national telecommunications company and Banco del Pacífico in 2020.

Ecuador: GDP, Inflation and Unemployment, 2017-2019



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

[1] The Central Bank of Ecuador was expected to publish its new forecasts for 2019 at the end of November. It had lowered its initial estimate of 1.4% to 0.2% in June 2019.
[2] This figure is one of the targets agreed upon with the International Monetary Fund (IMF) to achieve a surplus representing 3.8% of GDP in 2020.
[3] This was calculated on the basis of the provisional 2019 GDP estimate published by the Central Bank of Ecuador.

Ecuador: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	2.4	1.4	-0.2
Per capita gross domestic product	0.9	-0.1	-1.3
Consumer prices	-0.2	0.3	0.5 [b]
Money (M1)	13.1	5.6	3.2 [c]
Real effective exchange rate [d]	3.1	2.0	-2.8 [e]
Terms of trade [f]	10.2	11.5	-5.8
	Annual average percentage		
Unemployment rate [g]	4.4	4.1	4.7
Central government			
Overall balance / GDP	-5.9	-3.6	-4.7
Nominal deposit rate [h]	4.9	5.1	5.8 [b]
Nominal lending rate [i]	7.9	7.7	8.5 [b]
	Millions of dollars		
Exports of goods and services	21 809	24 662	25 190
Imports of goods and services	22 601	25 636	25 766
Current account balance	-492	-1 488	-838
Capital and financial balance [j]	-1 367	1 396	2 496
Overall balance	-1 859	-92	1 658

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 July.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Figures as of September.
f/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Includes hidden unemployment.
h/ Benchmark deposit rate.
i/ Effective benchmark lending rate for the corporate commercial segment.
j/ Includes errors and omissions.

The consolidation of international reserves[4] is another target whose achievement raises difficulties. In November 2019, international reserves amounted to US$ 4.065 billion, up 71% on the prior-year period. These reserves cover 38% of total liabilities and 97% of financial system deposits. However, there is a tendency to use a portion of the loans from multilateral bodies and funds from bond issues to increase the level of international reserves rather than to revive economic activity.

Economic measures and supply stimulus reforms focus on Ecuador's real exchange rate as a means of encouraging competition and improving the current account balance. The real exchange rate index fell from January to October 2019, reflecting exchange-rate appreciation under the combined effect of trends in the United States dollar and inflation, accompanied by a balance-of-payments current account deficit over eight consecutive quarters, including the first two quarters of 2019.

From January to September 2019, the trade balance recorded a surplus of US$ 365.4 billion, reflecting an increase of US$ 373.7 billion compared with the prior-year period, resulting from the oil trade surplus, which narrowed by 4.8%, and the 15% decline in the non-oil trade deficit. Nonetheless, exports and imports grew at a slower pace: 3.0% and 0.7%, respectively, compared with 15.8% and 18.0%, respectively, in 2018. In particular, the value of shrimp exports jumped by 19.0%, while that of crude oil exports dropped by 4.0% between January and September 2019.[5]

In the first half of 2019, the main sectors to experience positive year-on-year trends in real terms were aquaculture and shrimp fishing (14.5%), electricity and water supply (7.2%) and oil and mining (2.2%), which contributed 0.17%, 0.21% and 0.20%, respectively, to GDP. Meanwhile, the construction and oil refining sectors contracted, by 3.7% and 39.4%, respectively.

Lastly, inflation remained very low, at an average of 0.32% between January and October 2019. Labour quality also deteriorated, as reflected in the 2.8% reduction in adequate employment between September 2018 and September 2019. A plan for labour reform, which aims to deregulate the labour market and promote job creation, is expected to be presented in December.

ECLAC forecasts a slight improvement in the Ecuadorian economy in 2020, with a projected growth rate of 0.1%. This will depend on the tax reform currently under discussion, which includes new taxes (representing an additional US$ 731 million) and a decree relating to fuel subsidy targeting. This could lead to the renegotiation of the goals agreed within the framework of the Extended Fund Facility

4 Some reforms to enhance the institutional framework of the Central Bank of Ecuador, including to strengthen its operational autonomy, are still pending.
5 The price of West Texas Intermediate (WTI) was US$ 57, on average, compared with US$ 67 in the year-earlier period.

arrangement with the International Monetary Fund (IMF). Exploration of the Ishpingo oil field and the withdrawal of Ecuador from the Organization of Petroleum Exporting Countries (OPEC) announced for 2020 are expected to increase fiscal revenues and encourage fiscal sustainability. Public investment is forecast to increase (by 13.8% compared with 2019), in line with the annual investment plan, but will depend on execution capacity, and foreign direct investment is expected to be stimulated by new calls for tender in the oil, energy and mining (gold, silver and copper) sectors.