Ecuador

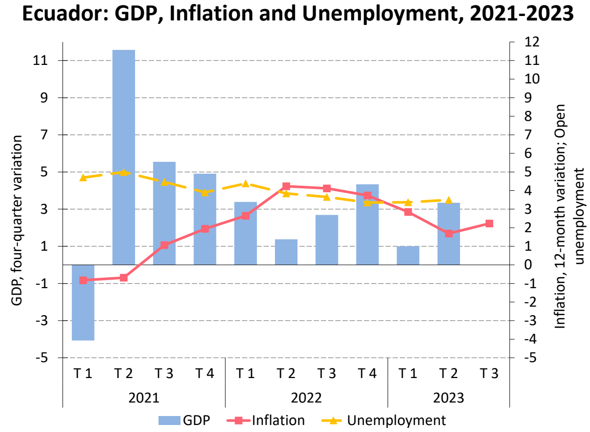
The Economic Commission for Latin America and the Caribbean (ECLAC) projects a continued slowdown in Ecuador's real GDP growth in 2023, at 1.9%, after a downturn of 2.9% in 2022. The pace of economic expansion continues to be shaped by the highly uncertain international scenario (including commodity price volatility, high global inflation and tighter financial conditions), accentuated by the possibility of escalating geopolitical tensions. On the domestic front, the country's economic performance is essentially reliant on private consumption in a setting of lower inflationary pressures, gradual recovery of labour indicators, greater credit issuance and sustained expansion of inward remittances. This contrasts with very limited public and private investment, which dulls the prospects for sustained growth in the medium term. Added to these factors are the potential macroeconomic implications of the El Niño phenomenon over the coming months.

Between January and August 2023, the overall balance of the non-financial public sector was affected by tighter financial conditions and high international interest rates, and posted a deficit of US$ 685 million,[1] compared to the surplus of US$ 1.976 billion recorded in the year-earlier period. The deficit was partly attributable to the increase in external interest payments (68.9% year-on-year), as the primary balance remained positive (US$ 1.174 billion).

In the same period, total non-financial public sector revenues (US$ 29.181 billion) were down by 1.8% year on year owing to a decline in resources from the oil sector (-17.1%) and, to a lesser extent, from tax collection (-3.2%). Oil revenues showed the effects of lower export prices and limited national production of crude oil. Tax revenues were constrained by lower contributions from some indirect collection items, from both domestic sources —including the reduction in the rate of the tax on foreign exchange outflows (ISD)— and external sources, including lower income from value added tax (VAT) and the special consumption tax (ICE) on imports. Income tax, meanwhile, continued to post strong growth (7.1%).

Public spending, by contrast, increased by 7.7% year on year and amounted to US$ 29.867 billion, as a result of the rise in both recurrent expenditures (7.1%) and non-recurrent expenditures (11%). Within recurrent spending —which made up 84.3% of all expenditures between January and August 2023— goods and services procurement was down slightly (0.6%), owing partly to a fall in the price of imported fuels, while wages and salaries showed an increase (6.2%), due in part to the application of a new wage scale in the education sector (Intercultural Education Act), in addition to the heavier interest payments mentioned earlier. In the category of non-recurrent

Ecuador: GDP, Inflation and Unemployment, 2021-2023



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

[1] Figures are expressed in current dollars unless otherwise indicated.

spending, public investment rose year on year by 6.2%, which was not enough to make up for its continuous decline in relation to GDP since 2019.

In line with the non-financial public sector fiscal position, the consolidated public debt balance stood at US$ 59.187 billion at the end of August 2023.[2] This balance thus went from representing 55.4% of GDP in December 2022 to 49.5% in August 2023, thus amply meeting the target of 53.2% that had been set for the year.[3] Multilateral loans continue to be the main source of external resources given their more favourable financing conditions, despite the current tightening of the monetary policy by the United States Federal Reserve, the strengthening of the dollar and high interest rates worldwide, which tend to increase the financial pressure faced by the country.

Ecuador: main economic indicators, 2019-2021

	2021	2022	2023 [a]
	Annual growth rate		
Gross domestic product	4.2	2.9	1.9
Consumer prices	-0.9	1.9	2.2 [b]
Money (M1)	6.0	3.6	0.6 [c]
Real effective exchange rate [d]	3.9	2.3	-2.1 [b]
Terms of trade	13.6	6.4	-1.1
	Annual average percentage		
Open unemployment rate [e]	4.6	3.8	3.5 [e]
Central government			
Overall balance / GDP	-1.8	1.5	...
Nominal deposit rate [g]	5.6	5.9	7.0 [b]
Nominal lending rate [h]	8.1	7.7	9.3 [b]
	Millions of dollars		
Exports of goods and services	29 037	35 920	16 854 [h]
Imports of goods and services	28 128	36 051	16 570 [h]
Current account balance	3 097	2 114	1 294 [h]
Capital and financial balance [i]	-2 150	-1 546	-2 890 [h]
Overall balance	948	568	-1 596 [h]

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 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 July.
f/ Benchmark deposit rate.
g/ Effective benchmark lending rate for the corporate commercial segment.
h/ Data for 2023 correspond to the sum of the first and second quarters.
i/ Includes errors and omissions.

On the monetary front, in September 2023 the level of total liquidity (M2) stood at US$ 77.724 billion (65% of GDP), which represented an increase of 3.1% compared to December 2022, driven by a strong growth in quasi-money. The money supply (M1), meanwhile, decreased by 2% in the same period, as the contraction of demand deposits exceeded the expansion of cash in circulation. In the first nine months of the year, international reserves declined by US$ 2.146 billion, with reserve movements closely tracking those on the public external debt account. In addition to a decrease in disbursements received during the year, high interest rates in the financial market pushed up debt service payments (amortizations, interest and commissions), which translated into a net outflow of foreign exchange. Furthermore, the lower income from oil exports reduced net inflows of foreign exchange from the hydrocarbon account, despite the lower cost of imported fuels. The legal reserve level reached in September 2023 (US$ 5.602 billion) represented a considerable contraction of 22.5% relative to the amount recorded at the end of 2022.

Under these circumstances, credit extended by financial entities[4] stood at around US$ 60.288 billion (50.4% of GDP) and continued to expand, at a rate of 11.5%, underpinned by growth in all portfolio items, except loans for education. Specifically, consumer lending, which makes up 43.7% of the total, and lending to productive concerns, which accounts for 31.3%, increased by 15.2% and 3.9%, respectively, between December 2022 and September 2023. Financial sector deposits also increased, although at a slower rate, driven by a rise in time deposits (14.5%); demand deposits declined, as noted earlier, by 2.3%. These developments shifted the composition of the liabilities of financial institutions, as demand deposits lost portfolio share vis-à-vis time deposits.

[2] Consolidated public debt is defined as public debt and other NFPS liabilities, in addition to social security.
[3] Based on the nominal GDP forecast for 2023 published by the Central Bank of Ecuador (BCE).
[4] Refers to the private, popular and solidarity financial sectors.

In the first half of 2023, real GDP[5] posted cumulative growth of 2.2%, just 0.2 percentage points less than in the prior-year period. Analysis of the components of aggregate demand in real terms shows that private and public consumption continued to expand (3% and 3.7%, respectively), while, unlike in 2022, investment and exports of goods and services contracted (0.7% and 0.13%, respectively). The rise in private consumption made a notable contribution to the year-on-year variation in GDP (1.97 percentage points). Imports of goods and services, continued to show an upward trend (2.5%) at constant prices, although at a slower pace than in the previous period.

On the supply side, in the first half of 2023 growth in Ecuador's economy was driven by the performance of five branches of activity that contributed over 60% to the GDP increase: teaching and social and health services, which contributed 0.45 percentage points, mail and communications (0.29 percentage points), public administration and defence (0.23 percentage points), electricity and water supply (0.17 percentage points), and commerce (0.17 points). The fastest-growing industries included aquaculture and shrimp fishing (which grew by 8.8%), and oil refining (up 7.1%). Only 5 of the 18 industries classified in the national accounts showed declines in the interannual figures, and these included key sectors, such as construction, oil and mining, and manufacturing, which decreased respectively by 2.7%, 1.8% and 0. 7%.

The trade balance strengthened in the period January–September 2023 and remained in surplus even with a slight increase in the real exchange rate over the period. In particular, the non-oil trade balance returned a stronger performance with a surplus (US$ 72.9 million) after the deficit of prior years (US$ 1.116 billion on average in the January–September period of 2021 and 2022). The oil balance also posted a surplus (US$ 1.705 billion), thanks to the oil price, which remained at a high margin despite its declining trend in international markets.

Specifically, oil exports weakened year on year by both volume and value (1.5% and 26%, respectively), owing to the combined effect of lower domestic production and the international oil price. The domestic oil sector's production contracted by 1.3% year on year, reflecting the difficulties that arose during the year. Meanwhile, the international per-barrel price of West Texas Intermediate (WTI) averaged US$ 77.40 between January and September 2023, compared with US$ 98.40 in the same period of 2022, with an upturn since July. This affected the value of fuel imports, which came down by 10%, although they continued to rise (10.5%) in volume.

Among Ecuador's main non-oil exports, the value of shrimp exports declined by 2%, despite a strong expansion in export volume (14.2%), owing to greater competition from some Asian economies. On the other hand, exports of bananas or plantains and mining products grew both by volume (4.1% and 8.3%, respectively) and by value (17.4% and 25.8%, respectively). These three products represented 72% of the value of the country's non-oil exports in the first nine months of the year. The value of non-oil imports shrank 2.3%, mainly reflecting a decline of 13.1% in the value of raw material imports. By contrast, the value of consumer goods imports continued climbing (9.1%), in line with the pattern of household consumption.

In keeping with the decline in commodity prices and lower inflationary pressures worldwide, between January and September 2023 Ecuador's consumer price index (CPI) variation was 2.4% on average, compared to 3.4% in the year-earlier period. Food and non-alcoholic beverages continue to exert significant pressure on the general price level owing to their weight in the consumer basket (22.4%) and recent inflationary trends. The inflation rate for these items was 5.8% on average from January to September 2023 (compared to 4.5% in the prior-year period) and in August 2023 it rose to 8.2%, the highest figure since 2016 according to monthly data from the National Statistics and Census Institute

[5] Expressed in constant 2007 dollars.

(INEC). Distinguishing between tradable and non-tradable goods, in 2022, non-tradables showed lower inflation than tradables, with a difference of 1.43 percentage points on average. As of February 2023, this trend was reversed and non-tradable goods posted higher annual inflation than tradable goods for six straight months. Recently, tradables inflation once again passed the rate for non-tradables: in September 2023 it closed at 2.57%, while that of non-tradable goods was 1.8%.

In this context of lower inflation, the national unemployment rate remained stable for four consecutive quarters and was around 3.8% in the third quarter of 2023, although the rate for women continued to increase (4.7%). In that quarter, the overall participation rate was 65.6%, a statistically significant reduction of 1.8 percentage points compared to the year-earlier quarter, according to INEC. The employment rate remained at 96.2% of the economically active population, representing 8.25 million people. The proportion of the employed population in adequate employment rose to 36.2% in the third quarter and averaged 35.8% in the first nine months of the year. Accordingly, this proportion was 2.3 percentage points higher than in the same period of the previous year, although only 1.1 points in the case of formal jobs only. These figures speak to one of the hallmarks of the post-pandemic job recovery: the formal sector's limited capacity to stimulate quality job creation. The formal sector represented 43.2% of total jobs in 2023, compared to 45.7% in 2019.

Together with the improvement in labour indicators at the national level, the average real monthly wage[6] of the employed population stood at US$ 261.30 at the end of the third quarter of 2023, for a year-on-year rise of 9.8%, mainly reflecting the performance of the services sector, which became the main source of adequate employment (52%) and offers the highest wages on average nationwide (US$ 323.50). Although employment shows signs of recovering, the fact that inflation and especially food prices remain high, coupled with the scarcity of quality formal jobs, amounts to a complex situation for the majority of Ecuadorian workers. Informality continues to be very widespread; labour earnings remain low and significant wage gaps persist between urban and rural areas and between sexes and age groups, in a setting of weak investment and low growth.

For 2024 ECLAC projects 2.0% growth for the Ecuadorian economy, a slight upturn that will depend largely on developments in the external sector and the real sector. The external sector should benefit from more favourable terms of trade, stronger exports amid expectations of slower global inflation, lower dollar appreciation, greater external demand and smaller oil price fluctuations. The real sector, meanwhile, will continue to benefit if current trends continue in private consumption, credit growth, labour market recovery and the population's purchasing power, and if productive sectors are able to go on responding to domestic market demand. However, latent risks persistent, associated with the greater impact of natural disasters, political uncertainty, insecurity and social unrest.

[6] The median value of labour income at December 2007 prices.