ECUADOR

1. General trends

Within a complex international and national context, including insecurity, governance challenges and power outages, Ecuador's real GDP growth slowed to 2.4% in 2023, down from 6.2% in 2022. For 2024, the Economic Commission for Latin America and the Caribbean (ECLAC) expects the Ecuadorian economy to maintain this trend, with a projected growth rate of 1.8%.

In 2023, the external sector showed resilience given the strong current account performance, sustained by the positive balance of the secondary income account, together with a goods and services trade balance that shifted into a surplus. A key development in the real sector was the slowdown in private consumption, the main driver of the country's economic growth, while investment remained subdued. On the aggregate supply side, a muted recovery was reported, particularly for certain key sectors such as services and oil production. The inflation rate continued to trend downward, though it remained high for a dollarized economy. In addition, while labour market indicators have improved, such advances have been tempered by a strong informal sector, persistent gender gaps and an urban-rural divide. In the monetary and financial sector, sustained tight international financial conditions and the steady appreciation of the dollar resulted in high interest rates. This especially affected productive credit and microcredit, which provide vital support to women's entrepreneurship and the development of small and medium-sized enterprises, and tended to discourage investment. Against this background, fiscal policy continued to reflect structural dependence on oil revenues, whose reduction led to a substantial adjustment in public investment and limited tax collection, which was particularly affected by the country's weaker economic growth.

2. Economic policy

(a) Fiscal policy

During the 2023 fiscal year, the position of the non-financial public sector deteriorated sharply given the overall deficit (3.6% of GDP1 compared to 0% in 2022) and the primary deficit (1.3% of GDP compared to a surplus of 1.6% in 2022).

This recent downturn was closely linked to trends in recurrent income and expenditure, whose balance reflected a widening of the deficit from 7.7% of GDP in 2022 to 9.1% of GDP in 2023. Recurrent (non-oil) income decreased, owing especially to lower indirect tax revenues. Revenue generated by value added tax (VAT) —the country's main source of tax revenue— fell by US$ 171 million to account for 5.3% of GDP in 2023. Revenue from the tax on foreign exchange outflows (ISD) also contracted, maintaining the downward trend (from 1.5% of GDP in 2019 to 0.9% GDP in 2023).[2] Meanwhile, recurrent expenditure increased in the period, boosted by wages and salaries (10.2% of GDP), social security benefits, in particular those related to the Ecuadorian Social Security Institute (6.1% of GDP), and debt interest payments (2.3% of GDP).

[1] In addition, interest paid on public debt totalled US$ 2.705 billion in 2023, owing notably to a 62% year-on-year increase in interest on external debt.
[2] A gradual reduction of the ISD rate was planned in 2021, with a view to reaching 2% in 2024; this was adjusted by executive decree in January 2023 to a rate of 3.5% until December 2024.

By contrast, the difference between non-recurrent income and expenditure represented a surplus of 5.5% of GDP in 2023, albeit smaller than that of 7.7% of GDP recorded in 2022. While oil revenues declined in the period, they remained well above non-recurrent expenditure, that, linked to public investment, which closed out 2023 at just 1.7% of GDP, down from 2.7% in 2019.

In 2024, the current administration implemented a series of fiscal measures focused on boosting indirect tax revenue, including raising the VAT rate from 12% to 15%. Other temporary tax provisions are also foreseen within the framework of the Economic Efficiency and Employment Generation Organic Act.3 The ISD rate was raised from 3.5% to 5% by a National Assembly initiative, which should be reversed in light of the recent agreement with the International Monetary Fund (IMF). In terms of public spending, a possible government proposal to eliminate fuel subsidies is being considered, which was expected to take effect from the second half of 2024.

Meanwhile, public debt represented 51.5% of GDP at end-2023, 3.1 percentage points less than in December 2022. This debt is concentrated in external sources, particularly in multilateral loans, which grew by 3% year-on-year (13% in 2022). Sovereign bonds decreased by 9.5% and retained a high share of total external debt (34%), though this share has weakened given the lack of international debt issuance during the year. This was partly because of the country's high risk premium —which stood at 2,055 points at end-2023— and high international interest rates, driven by continued restrictive monetary policies in advanced economies. Thus, when analysing the country's financing needs in 2023, the amortization of public debt accounts for a striking 61% of the total.

In the first quarter of 2024, Ecuador's public debt balance stood at US$ 60.712 billion, or US$ 1.084 billion less than in December 2023. In addition, the recent signature of an Extended Fund Facility arrangement was recently signed with IMF, entering into force in May 2024, for an amount of about US$ 3.953 billion, following the conclusion of the previous agreement in December 2022 for US$ 6.5 billion.4 While this relieves pressure on public accounts and strengthens the country's international reserves, it is worth noting that the payment of obligations to IMF (principal and interest) alone will amount to US$ 616 million in 2024 and US$ 1.564 billion in 2025.

(b) Monetary policy and exchange-rate policy

Since the adoption of the dollar as legal tender in 2000, the Central Bank of Ecuador no longer has a monetary policy as such. This section thus focuses on trends in the main monetary and financial variables. Regarding the monetary sector, the country's total liquidity (M2) grew by 6.7% year-on-year to 67% of GDP at end-2023. This expansion derived largely from the rise in quasi-money (10.5%), including time deposits, as demand deposits further declined (2.5%) following a contraction in 2022 (5.3%). Legal reserve requirements fell by 24.1% in 2023, in line with the downward trend observed the previous year (10.7%).

The country's international reserves stood at US$ 4.454 billion (3.7% of GDP), representing a decumulation of over 50% compared to the level reported in 2022 (7.3% of GDP). This change was driven primarily by lower foreign exchange inflows given the decrease in debt repayments received and in oil export revenues. Moreover, all sources of foreign exchange outflows increased, with the exception of fuel, imports and the movements of various trusts of the Corporation for the Deposit Guarantee Fund, Liquidity Fund and Private Insurance Fund.

[3] See *Registro Oficial*, suppl. No. 461, 20 December 2023.

[4] On the basis of the conversion of special drawing rights into dollars using the exchange rate of 14 June 2024.

With respect to the financial system, the supply of credit totalled US$ 61.020 million (51.3% of GDP) in 2023, increasing at a year-on-year rate of 13%, compared to 17% in 2022. In addition, lending to the productive sector and microcredit slowed significantly to 4.9% and 6.8%, respectively, down from 13.4% and 23% in 2022. The main target segment, consumer credit, grew at a rate of 13.5% (20.1% in 2022). This was in line with the increase in consumer goods imports, both in volume (7.2%) and in value (8.5%). As a result, the benchmark lending rate rose from an average of 7.7% in 2022 to 9.2% in 2023.

Deposits stood at US$ 64.830 billion (54.6% of GDP) and rose by 6.3% year-on-year over the period. As noted above, time deposits expanded the most (11.3%), while demand deposits remained almost constant (0.35% in 2023). This has led to a reallocation of domestic savings, as the share of demand deposits rapidly declined, accounting for 45.6% in 2023 (52% in 2021). Such redistribution has been facilitated by the high average deposit rate of 7.2% in 2023 (1.3 percentage points higher than in 2022), with the aim of boosting the availability of domestic financing in response to higher external financing costs.

During the first four months of 2024, trends in monetary aggregates were similar to those of the previous year, with total liquidity (M2), in particular, increasing by 6% year-on-year. The country's stock of international reserves (US$ 5.994 billion) grew relative to the year-earlier period, owing mainly to the positive balance arising from private sector money transfers. In the financial sphere, lending expanded by 6.7% year-on-year —sustained by consumer credit growth of 11%— which was stronger than the increase in deposits (5.3%), driven by time deposits (10%). Similarly, benchmark rates continued to rise, averaging 7.9% for the deposit rate and 10.5% for the lending rate.

(c) Other policies

In addition to the above-mentioned policies, the country's trade integration strategy resulted in the implementation of several bilateral agreements and progress in trade negotiations in 2024. Notably, a free trade agreement was signed in May 2024 between Ecuador and China. The signature of a trade partnership agreement between Ecuador and Costa Rica was confirmed in March 2023 and ratified in May 2024. In October 2023, a strategic cooperation agreement was signed with the Republic of Korea and is expected to enter into force in 2025. In addition, negotiations to secure a trade agreement with the United Arab Emirates were announced, while a second round of negotiations with Canada began in June.

The strategy of diversifying destination markets does not reflect the decreased economic complexity of the country's export basket,5 which remains focused on commodities and raw materials. The country thus remains vulnerable to the high volatility of international commodity prices, such as the price of oil, which further increases uncertainty regarding the external sector, public finances and international reserves.

3. The main variables

(a) The external sector

In 2023, the current account surplus strengthened (1.9% of GDP), recording an increase of US$ 158 million relative to 2022. This result stemmed mainly from an uptick in the secondary income surplus from 3.5% of GDP in 2022 to 4% of GDP in 2023, together with an improvement in the goods and services account, which shifted from a deficit of 0.1% of GDP in 2022 into a surplus of 0.2% of GDP in 2023. By contrast, the primary income deficit widened in the period, to 2.2% of GDP in 2023.

[5] See [online] https://oec.world/es/profile/country/ecu.

The goods account was positive (1.9% of GDP) in 2023, though 13% weaker than in 2022, as a result of the lower trade surplus for oil (down by 45%), while the non-oil deficit contracted sharply (by 88%). Values fell for both exports (4.7%) and imports (4%), resulting in a weakening of the terms of trade, whose index (94.9) fell by almost 6% compared to the previous period. In terms of volume, the country's imports increased (4%), while exports decreased (5%). The reduction in the services deficit (24%), while remaining high at 1.7% of GDP in 2023, was bolstered by the sharp fall in maritime freight costs (30%).

There was a notable deterioration in the primary income deficit (43% in 2023), driven mainly by income related to investment flows and, in particular, interest payments on external debt (47%), excluding interest on bonds. The improved performance of secondary income, or current transfers, was closely linked to the expansion of remittances received by Ecuador, which grew by 15% in 2023 relative to 2022. These inflows have become a stable source of external financing for the country.

Reflecting developments in the current account, the financial account deficit narrowed (0.97% of GDP) in 2023. The period was marked by net capital outflows, particularly those stemming from the "other investment" account, with a balance of -3.1% of GDP, linked primarily to the loans sub-account. Examining the external debt movements within this sub-account, one notable trend during the period is the cancellation of external obligations by the private sector (around US$ 1.262 billion). Lower direct investment inflows were also recorded, representing only 0.3% of GDP in 2023. Lastly, reserve assets contracted by US$ 4.285 billion in 2023, compared to US$ 568 million in 2022.

The goods trade account balance recorded a notable surplus of US$ 2.301 billion in the first five months of 2024, compared to US$ 336 million reported in the year-earlier period. Exports grew both in volume and value at respective rates of 11% and 10% year-on-year, while imports continued to decline in volume and value, by 5% and 7%, respectively. Externally, this reflects favourable conditions, including lower global inflation and commodity prices and improved external demand, consistent with an expected recovery in international trade in 2024. Domestically, these trends tend to indicate weakening domestic demand amid a slowdown in the country's economic activity.

(b) Economic activity

As of the third quarter of 2023, the central bank reported quarterly national account statistics using a new chain-linking methodology, with a base year of 2018.

In 2023, the country's real GDP expanded by 2.4% year-on-year, compared to 6.2% in 2022.[6] Considering the components of aggregate demand, the shift in GDP growth is explained by the slower pace of expansion in private consumption (down by 6 percentage points) —as the main determinant of the country's growth—, followed by exports of goods and services (down by 5 percentage points) and gross fixed capital formation (down by 8 percentage points). By contrast, public consumption grew by 1.9 percentage points in 2023 relative to 2022, resulting from higher spending on remuneration in the wake of the Intercultural Education Organic Act, which aims to level out wages in the education sector.

The slowdown in private consumption in 2023 was related to several factors, including the following: higher spending on food, which tends to reduce other types of household expenditure; more difficult conditions for accessing credit; increased preference for less liquid assets, spurred by high deposit rates for

[6] This figure is based on a preliminary version of the quarterly national accounts published by the central bank.

time deposits; and diminished trust in the country's economic environment, reflected in the performance of the consumer confidence index (average of 35.5 points in 2023 compared to 36.1 points in 2022).

With reference to aggregate supply, 14 of the 16 productive sectors identified recorded a lower gross value added in 2023 than in 2022. Contractions were also registered in imports of goods and services (0.9% year-on-year), particularly imports of fuels and lubricants, as well as raw materials, owing mainly to the price effect.

In 2023, the country faced a serious energy crisis caused by extreme weather conditions that affected the generation capacity of hydroelectric power plants in particular. This led to the use of more polluting energy sources and increased fuel (diesel) imports.

The slowdown in production was reflected especially in the muted performance of services, which account for a large share of the country's productive activity and the volume of lending granted at the national level. In addition, the gross value added in the oil sector decreased by 2.4% year-on-year. Domestic crude oil supply fell by 1.2% between 2002 and 2023, owing largely to reduced production by private companies (down by 16%). This was more pronounced in March 2023, when various events, including situations of force majeur, led to a suspension of activities. The challenges faced by the oil sector resulted in domestic oil supply decreasing by 20.341 billion barrels relative to 2019.

As a result, the volume of exports has declined, and the country's export price per barrel dropped by around 21% in 2023, though it maintains a high margin (US$ 68.2 in 2023 compared to US$ 55.6 in 2019). In addition, a higher domestic crude oil price differential with respect to the West Texas Intermediate was recorded, at US$ 9.4 per exported barrel, compared to US$ 8.3 per exported barrel in 2022. The production of derivatives by Petroecuador decreased by 2.5% in 2023 relative to 2022, which further strains efforts to meet domestic fuel demand.

In January–April 2024, total production of crude oil and its derivatives grew by 5.5% year-on-year, indicating a recovery relative to the same period in 2022, when the increase was 3.7%. Improved oil sector performance in 2024 will largely depend on the adverse effects of climate change, insecurity and the planned shutdown of the 43-ITT oil block in late August 2024. Regarding the latter, a moratorium is still possible given the country's current challenges.

Unlike previous years, the national accounts statistics for the first quarter of 2024 and updated series for the short-term economic activity index remain unavailable at the time of writing. According to ECLAC, growth in the Ecuadorian economy is expected to slow in 2024 for the third consecutive year, at a projected rate of 1.8%. Forecasts indicate that the external sector will continue to have a positive impact on the country's economic activity. However, in a highly uncertain environment —considering the volatility of international commodity prices, foreseen at least until the second half of 2024, continued restrictive monetary policies in advanced countries and a potential escalation of geopolitical tensions—, additional pressures on global supply chains are anticipated. Domestically, a lower contribution from private consumption is expected, given less favourable monetary and financial conditions, coupled with greater fiscal austerity, which will affect domestic demand and economic growth.

(c) Prices, wages and employment

The national inflation rate stood at 1.3% in December 2023, compared to 3.7% in the same month of 2022, and averaged 2.2% for the year. In terms of impact, food continues to exert upward pressure on prices, accounting for more than 80% of the change in the consumer price index. At the same time, food inflation remains high, averaging 6% for the year. Non-food inflation stood at 0.48% in December 2023. The strong impact of food prices is linked mainly to the adverse effects of climate change and tends to be more pronounced given the low imported component (6%). The producer price index registered a year-on-year variation of 0.91% at the end of 2023 (6.14% in the same month in 2022). Therefore, the change in the producer price index related to agriculture, forestry and fishing products remains high at 3.35% in December 2023.

In May 2024, inflation climbed to 2.5%. Likewise, compared to December 2023, prices rose for all components of the reference consumption basket, except for furniture, household items and regular household maintenance supplies. Cumulative inflation was 1.67%, remaining below the surge in food prices (4.9% as of May 2024). In addition, the variation in the consumer price index —at 1.92% when including only products subject to VAT— showed a slight upturn starting in April 2024, when VAT was raised to 15%. Meanwhile, the variation in the consumer price index for VAT-exempt products was over 3.09%.

Average labour income stood at US$ 392.3 in 2023 (December 2022 prices), about US$ 86 above the 2022 figure. The gender wage gap was particularly pronounced, and women’s labour income amounted to merely US$ 297.4, up only US$ 27 from 2022.

At the national level, the main labour market indicators showed a slight improvement in 2023, although disparities in working conditions persist according to gender, age group and between urban and rural areas. The unemployment rate stood at 3.8%, down 0.5 percentage points from 2022. In addition, adequate employment regained 1.9 percentage points, to account for 36.3% of the economically active population. However, if only formal employment is considered, this rate drops to 28.4% of the economically active population. Informal employment grew from 50.6% of total employment in 2022 to 52.5% in 2023. Rural areas registered a high rate of informal employment (74.4% of the employed population).

Job losses are concentrated in key productive sectors such as agriculture, livestock, hunting, forestry, fishing, commerce and manufacturing (including oil refining). The latter sector has been the hardest hit, with its workforce shrinking by almost 5%. Jobs have also fallen by 12% in the oil and mining sector. By contrast, sectors such as accommodation and food services, education, social and health services and construction contributed to formal job creation in the country.