Ecuador

1. General trends

In 2009, as a result of the international financial crisis, the fall in oil prices, a drop in remittances and slacker domestic demand, the Ecuadorian economy grew by 0.4%, well below the rate of 7.2% seen in 2008 but above the regional average. Conditions improved in late 2009 and there were clear signs of an upturn. Consequently, a stronger economic performance is expected for 2010, with growth projected at 2.5%.

The balance-of-payments current account closed 2009 with a negative balance for the first time since 2004, and the non-financial public sector (NFPS) also posted an overall deficit. As there had been no twin deficits during the 2000s up to that point, this is evidence of the negative effect of the international crisis on the Ecuadorian economy. Employment indicators also weakened over the year as a result.

Various legal changes have been introduced since the new Constitution of Ecuador came into force in October 2008, some of which give the State a more prominent role in economic affairs. In addition to legislation abolishing the independence of the central bank, laws targeting specific sectors, such as mining and hydrocarbons, have been passed or are being drafted.

2. Economic policy

(a) Fiscal policy

Total NFPS income decreased from 39.9% of GDP in 2008 to 35.1% in 2009 as the result of a 41.7% nominal decline in oil export revenues. Non-oil revenue increased by 3.8% in 2009 on the back of increased receipts from income tax and the tax on outward foreign-currency transfers. Receipts from the special consumption tax (ICE) shrank significantly because of the decline in imports. Total NFPS expenditure remained constant in relative terms (40.7% of GDP). In nominal terms, current spending decreased by 3.5% and capital spending by 5.9%. Non-oil revenues covered only 85.5% of current spending, which was less than the target set in the country's fiscal regulations. The overall NFPS deficit widened significantly from 0.9% of GDP in 2008 to 5.5% in 2009. A third of this deficit was financed from external resources (including an advance sale of oil to PetroChina, loans from international bodies and allocations of Special Drawing Rights) and the remainder from domestic resources (NFPS deposits at the Central Bank of Ecuador, transfers of central bank profits and floating debt).

In October 2009, a stimulus plan to counter the effects of the international financial crisis was unveiled, with US$ 2.555 billion (4.9% of GDP) to be used to finance housing, municipal works, microlending and infrastructure investment. The financing is being sourced from central bank profits and the repatriation of some international discretionary reserves, and is being channelled into the economy mainly through the public-sector banking system.

Having decided to go into debt services default on its 2012 and 2030 global bonds, representing between them a debt of US$ 3.24 billion, the Ecuadorian government held a modified Dutch auction in May 2009 in which bondholders submitted bids to trade in their bonds for cash. The government set a floor price of 29.5% plus 50 basis points over nominal value. As a result of this measure, a price of 35% was set and in June 81.3% of the 2012 global bonds and 92.8% of the 2030 global bonds were withdrawn from the market. In December, an additional 4% of the 2012 bonds and 1.3% of the 2030 bonds were bought back. The holders of these bonds had not participated in the first auction because of domestic regulations in their countries. Although the operation led to a reduction of over 30% in the external public debt of Ecuador, which decreased from 18.6% of GDP in 2008 to 14.2% in 2009, it represented an outlay of US$ 1.10 billion and reduced the country's external financing options. It should be noted that this measure did not extend to the 2015 global bonds, which still represent a commitment of US$ 650 million.

As a result of the reduced income from oil exports and the outlay associated with the bond buyback, international discretionary reserves dropped from US$ 4.473 billion in December 2008 to US$ 2.675 billion in June 2009. Subsequently, a US$ 480 million loan from the Latin American Reserve Fund, a rise in oil prices, the receipt of US$ 1 billion from an advance sale of oil to PetroChina and other factors led to a recovery in international discretionary reserves, which rose to US$ 5.237 billion in November. Nevertheless, the repatriation of reserves as part of the stimulus plan resulted in a significant drop in that amount in December 2009 and the account closed the year with a balance of US$ 3.792 billion.

Although the rise in oil prices, the expected upturn in domestic demand and continued success in tackling tax evasion augur well for public-sector revenue, the ambitious investment budget for 2010 and its impact on economic performance will depend to a large extent on the availability of financing.

(b) Monetary policy

There were no major changes to the ceiling for lending rates in 2009. For example, the rates for corporate and housing loans were limited to 9.3% and 11.3%, respectively. However, the ceiling for consumer credit interest rates was raised from 16.3% to 18.9% in June 2009 to discourage imports. This rate reverted to its previous level in February 2010. The average deposit rate decreased from 5.6% in June 2009 to 4.4% in June 2010.

In 2009, total deposits in private-sector banks rose by an average of 5.3% compared to 2008, with a particularly significant increase from November 2009. This trend continued into 2010. In May, total deposits were up by 17.1% compared with the same month in 2009. This was partly because the liquidity injected into the economy through the stimulus programme and channelled mainly through the public-sector banking system was deposited in private-sector banks pending implementation of the financing and investment measures announced. This increase in private-sector bank assets was not reflected in higher lending, however. In the first half of 2009, lending by private-sector banks to the private sector contracted before stagnating for the rest of the year. This trend began to reverse from March 2010, and in May lending was 10.3% higher than in the same month of 2009. The 2009 performance may be attributed mainly to slack demand for credit in the domestic economy, the interest-rate caps applied and the preference of banks for liquidity. Despite domestic liquidity requirements and the tax on assets held abroad, however, private-sector banks did not reduce the proportion of their assets held in other countries, which rose from 24.2% of the total in January 2009 to 25.4% in April 2010.

In late December 2009, the 33 banks that had shut down as a result of the international financial crisis of 1998 went into liquidation. The process was completed for 28 of them in accordance with the timetable laid down, and by the end of the first quarter of 2010 only one bank remained to be liquidated.

(c) Other policies

As a dollarized economy, Ecuador is unable to use exchange-rate policy to address trade imbalances. Therefore, in response to the drop in the value of exports from the end of 2008 and the consequent trade deficit, the authorities introduced tariff measures approved by the World Trade Organization (WTO) on 627 subheadings as balance-of-payments safeguards. The measures were applied from January 2009 for an initial period of one year to imports from all countries, including those with which Ecuador has trade agreements. The process of phasing out these measures began in January 2010 and will be completed in July. It is proposed that these measures subsequently be replaced by permanent tariffs within WTO-approved frameworks.

The real effective appreciation of 2008, when the United States dollar strengthened against the currencies in which the bulk of Ecuadorian trade is conducted, was partly reversed from the second quarter of 2009. Overall, Ecuador recorded a real effective depreciation of 4.1% between December 2008 and December 2009. As a consequence of real bilateral appreciation against the Colombian peso in 2008, and with the authorization of the Andean Community, specific tariffs were levied on imports from Colombia under an exchange-rate safeguard arrangement. This measure applied until February 2010.

3. The main variables

(a) Economic activity

The Ecuadorian economy expanded by only 0.4% in real terms in 2009, in sharp contrast to its strong growth in 2008 (7.2%). Goods and services exports and gross fixed capital formation contracted by 5.9% and 4.3%, respectively. Inventories also fell substantially (30.8%). Private consumption, which had been very buoyant in 2008, decreased by 0.7% in constant terms. The positive growth rate can be attributed to the large contraction in imports and increased public-sector consumption. In terms of individual sectors, construction expanded by 5.4% (well down on the 13.8% of 2008), public administration by 5.4% and the production of petroleum derivatives by 3.1%. On the other hand, there was a significant contraction in the mining and quarrying (3.3%), commerce (2.3%) and manufacturing (1.5%) sectors. It should be noted that these rates were calculated using the new national accounts methodology, which has greatly changed the accounting treatment of oil extraction and refining.

In late 2009, low rates of investment in electricity generation and a significant drop in the flow of the Paute River, on which the country's main hydroelectric plant is located, led to a severe problem of energy rationing. Imports of emergency generators, additional imports of electricity from neighbouring countries and the completion of small electricity generation projects combined to alleviate the situation, even though these measures probably had a negative impact on the performance of certain sectors, such as manufacturing and trade.

The mining and quarrying sector contracted in 2009, mainly owing to a 4% decline in crude oil output. Although PETROECUADOR, the State-owned oil company, increased output by 5.3%, this was not enough to offset the 14.4% decrease among private-sector companies. Faced with uncertainty about the coming hydrocarbons legislation and concession contracts, private-sector companies have reduced their investments, which has led to a decline in output. As it is possible that this trend will continue in the short term, a further drop in oil output is projected for 2010. Indeed, production contracted by 4.8% in the first five months of 2010 compared with the same period in 2009.

GDP growth of 2.5% is projected for 2010, driven by an upswing in external demand and higher oil prices. In addition, more favourable conditions for domestic demand are predicted as a result of more buoyant private consumption and the impact of the government's stimulus programme. Nevertheless, that growth is dependent above all on the programme's success in increasing employment and investment, on oil prices remaining high and on the global economy sustaining the rate of improvement seen since late 2009, as this would sustain demand for Ecuadorian products and boost remittances. Adequate financing for public investment projects is another precondition for growth.

Data for the first quarter of 2010 show the economy growing by a meagre 0.6% with respect to the first quarter of 2009. Private consumption and investment are showing slight upturns, however. By sector, manufacturing, commerce, financial intermediation and fishing are the fastest growing, while mining and petroleum refining are continuing to contract.

(b) Prices, wages and employment

The year-on-year inflation rate dropped from 8.8% in 2008 to 4.3% in 2009. Inflation declined for almost all components of the consumer price index. The greatest reduction was for food and beverages. Although a change in this downward trend was observed at the end of 2009, in early 2010 inflation once again slowed, probably because of the gradual phasing out of the tariffs imposed by Ecuador as balance-of-payments safeguards. This factor and the expected rise in international prices will

Table1
ECUADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	4.8	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4
Per capita gross domestic product	3.4	2.2	2.1	7.6	4.6	3.6	1.0	6.1	-0.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.4	5.4	5.6	1.9	7.8	5.1	4.1	5.4	1.5
Mining	3.3	-4.6	9.3	37.5	1.7	3.6	-8.3	-0.0	-3.3
Manufacturing	-2.7	-0.4	0.7	5.1	6.8	6.0	3.8	8.1	-1.0
Electricity, gas and water	0.6	8.2	1.2	-8.7	1.3	0.5	15.5	20.2	-12.2
Construction	19.7	20.0	-0.7	4.0	7.3	3.8	0.1	13.8	5.4
Wholesale and retail commerce, restaurants and hotels	6.4	2.4	3.1	4.2	5.8	5.2	3.2	-1.8	-2.3
Transport, storage and communications	1.9	1.2	4.3	4.8	8.9	7.2	5.7	5.4	3.7
Financial institutions, insurance, real estate and business services	3.6	7.9	2.7	6.2	9.0	7.3	5.3	-7.1	3.2
Community, social and personal services	0.4	-0.4	2.3	2.7	2.5	3.6	5.3	14.0	5.3
Gross domestic product, by type of expenditure									
Consumption	5.8	6.3	4.6	4.5	6.8	5.2	3.9	7.4	-0.1
General government	-0.6	4.3	1.4	3.6	3.5	3.7	6.1	11.5	4.0
Private	6.8	6.5	5.1	4.6	7.2	5.4	3.7	6.9	-0.7
Gross capital formation	42.5	20.3	-16.7	16.8	10.9	4.7	5.7	15.7	-8.6
Exports (goods and services)	-0.8	-0.8	10.1	15.1	8.6	8.8	2.3	3.3	-5.9
Imports (goods and services)	26.8	18.3	-4.8	11.4	14.1	9.1	7.9	9.9	-11.6
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	24.8	26.8	21.0	23.3	23.6	23.8	24.3	27.9	23.3
National saving	21.8	21.7	19.5	21.6	24.4	27.4	27.8	29.7	22.7
External saving	3.1	5.1	1.5	1.7	-0.8	-3.6	-3.5	-1.8	0.6
					Millions of dollars				
Balance of payments									
Current account balance	-654	-1 271	-422	-542	288	1 510	1 575	1 002	-311
Goods balance	-356	-902	80	284	758	1 768	1 823	1 371	75
Exports, f.o.b.	4 821	5 258	6 446	7 968	10 468	13 176	14 870	19 147	14 344
Imports, f.o.b.	5 178	6 160	6 366	7 684	9 709	11 408	13 047	17 776	14 269
Services trade balance	-572	-716	-744	-954	-1 130	-1 305	-1 371	-1 641	-1 390
Income balance	-1 364	-1 305	-1 528	-1 902	-1 942	-1 950	-2 047	-1 590	-1 439
Net current transfers	1 639	1 652	1 769	2 030	2 601	2 997	3 170	2 862	2 443
Capital and financial balance [d]	341	1 144	558	823	378	-1 641	-188	-68	-2 337
Net foreign direct investment	539	783	872	837	493	271	194	996	312
Other capital movements	-198	360	-313	-14	-115	-1 912	-382	-1 065	-2 648
Overall balance	-313	-127	136	281	666	-131	1 387	934	-2 647
Variation in reserve assets [e]	105	66	-152	-277	-710	124	-1 497	-952	681
Other financing	208	62	17	-4	43	7	111	18	1 966
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	70.8	61.9	60.3	61.7	64.7	65.4	68.1	68.4	65.0
Terms of trade for goods (index: 2000=100)	84.6	86.8	89.8	91.5	102.4	109.9	113.0	124.0	109.7
Net resource transfer (millions of dollars)	-816	-100	-953	-1 084	-1 520	-3 584	-2 124	-1 640	-1 809
Total gross external debt (millions of dollars)	14 376	16 236	16 756	17 211	17 237	17 099	17 445	16 838	13 359
					Average annual rates				
Employment									
Labour force participation rate [g]	63.1	58.3	58.2	59.1	59.5	59.1	61.3	60.1	58.9
Unemployment rate [h]	10.4	8.6	9.8	9.7	8.5	8.1	7.4	6.9	8.5
Visible underemployment rate [i]	12.6	10.2	9.8	8.1	7.3	6.3	11.3	10.6	11.8
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	22.4	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3
Variation in producer prices (December-December)	-5.6	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	33.0
Variation in minimum urban wage	11.5	0.9	6.1	2.4	3.0	3.3	3.9	8.5	3.6
Nominal deposit rate [j]	6.6	5.1	5.3	4.0	3.8	4.4	5.3	5.5	5.4
Nominal lending rate [j]	15.5	14.1	12.6	10.2	8.7	8.9	10.1	9.8	9.2
					Percentages of GDP				
Non-financial public-sector									
Total revenue	23.3	25.7	24.3	25.0	24.8	27.0	29.6	39.9	35.1
Tax revenue	16.4	19.3	18.1	17.8	18.6	20.0	21.0	22.1	23.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Total expenditure	23.3	24.9	22.7	23.0	24.0	23.7	27.4	40.8	40.7
Current expenditure	16.6	18.5	17.6	18.0	19.1	19.1	19.9	27.8	28.0
Interest	4.7	3.4	2.9	2.4	2.2	2.1	1.9	1.3	0.7
Capital expenditure	6.6	6.4	5.1	4.9	5.0	4.7	7.5	12.9	12.7
Primary balance	4.7	4.2	4.5	4.5	2.9	5.4	4.0	0.5	-4.8
Overall balance	0.0	0.8	1.6	2.1	0.7	3.3	2.1	-0.9	-5.5
Public-sector debt	62.7	54.7	49.5	43.7	38.9	32.0	30.2	25.0	19.5
Domestic [k]	13.2	11.2	10.6	10.7	10.0	7.9	7.1	6.7	5.5
External	49.5	43.5	38.9	33.0	28.9	24.2	23.1	18.3	14.0
Money and credit [l]									
Domestic credit	26.5	20.6	17.4	16.6	16.9	17.1	18.1	17.4	20.8
To the public sector	-0.1	-0.3	-2.6	-4.5	-6.1	-6.7	-7.0	-9.0	-7.1
To the private sector	26.6	20.9	19.9	21.1	23.0	23.9	25.0	26.4	27.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, three cities.
[h] Percentage of the economically active population, urban total. Up to 2003, the figures relate to Cuenca, Guayaquil and Quito. Includes hidden unemployment.
[i] Percentage of the working population, urban total. Up to 2006, the figures relate to Cuenca, Guayaquil and Quito.
[j] Reference rate in dollars, monthly average.
[k] Refers to the domestic debt of the central government.
[l] The monetary figures are end-of-year stocks.

have a moderate impact on the average rate of inflation in 2010, forecast at 4.5%.

The unemployment rate has increased significantly since mid-2008 and reached 9.1% in the third quarter of 2009. While it fell slightly at the end of the year, it rose back to 9.1% during the first quarter of 2010. This took place in a context of persistent underemployment and a low level of labour-force participation, which decreased from 60.2% in the first quarter of 2009 to 59.1% in the same period of 2010. The real average minimum wage in 2009 increased by 3.6% compared with 2008. A 10.1% increase in the nominal minimum wage was agreed for 2010, representing a greater real gain than in the previous year.

(c) The external sector

After posting a surplus for four consecutive years, the balance-of-payments current account closed 2009 with a deficit of US$ 311 million (0.6% of GDP). The annual deficit was due entirely to the negative balance in the first quarter of the year. During the rest of the year, the change in the oil price trend, the decline in imports as a result of low domestic demand and the introduction of the safeguard measures generated moderately positive results. The downward trend in investment income continued, resulting in a smaller negative balance on the income account than in 2008. In addition, the effects of the international financial crisis on labour markets in Spain and the United States meant that remittances from Ecuadorian emigrants fell by 11.6% in 2009 compared with 2008. In relative terms, remittances were down from 5.2% of GDP in 2008 to 4.8% in 2009. They began to recover in the second quarter of 2009, however, and the year-on-year growth rate turned positive at the end of the year.

Foreign direct investment (FDI) in Ecuador totalled a mere US$ 311.7 million (0.6% of GDP). FDI flows went mainly to manufacturing industry and transport and communications services. There was a decline in the mining and quarrying sector. Portfolio investments posted a negative balance of US$ 3.142 billion, owing mainly to the reduction in liabilities during the second quarter as a result of the withdrawal of the 2012 and 2030 global bonds. There was consequently a balance-of-payments deficit of US$ 2.647 billion, which was financed using US$ 1.966 billion of “exceptional funds” (the difference between the nominal value of the withdrawn bonds and the final amount paid for them). Reserve assets were down by US$ 681 million.

Ecuadorian exports fell 25.5% by value in 2009, in contrast to the 29.3% increase the previous year. The performance of exports varied greatly by product type. The value of oil exports fell by 40.5%, mainly because prices

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.6	9.5	8.9	4.0	2.8	0.5	-1.2	-0.5	0.6	...
Goods exports, f.o.b. (millions of dollars)	4 623	5 497	5 178	3 213	2 664	3 296	3 785	4 054	4 111	2 876 [c]
Goods imports, c.i.f. (millions of dollars)	3 747	4 508	5 374	5 058	3 669	3 388	3 745	4 292	4 213	3 149 [c]
Freely available International reserves (millions of dollars)	4 144	6 103	6 477	4 473	3 244	2 675	4 625	3 792	4 007	4 104
Real effective exchange rate (index: 2000=100) [d]	70.1	70.2	68.9	64.3	62.8	64.1	66.1	67.1	63.1	62.8 [c]
Unemployment rate	6.9	6.4	7.1	7.3	8.6	8.3	9.1	7.9	9.1	...
Consumer prices (12-month percentage variation)	6.6	9.7	10.0	8.8	7.4	4.5	3.3	4.3	3.3	3.2 [c]
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.9	5.8	5.3	5.1	5.2	5.5	5.6	5.4	5.1	4.7 [c]
Lending rate [e]	10.6	10.0	9.4	9.2	9.2	9.2	9.2	9.2	9.1	9.1 [c]
Interbank interest rate [f]	1.7	1.1	1.0	0.6	0.9	0.7	0.2	0.3	0.2	0.2 [c]
Sovereign bond spread (basis points) [g]	662	596	1.001	4.731	3.568	1.322	940	769	817	1.013
Stock price index (national index to end of period, 31 December 2000=100)	353	347	341	349	342	302	275	292	297	299
Domestic credit (variation from same quarter of preceding year)	2.1	-5.4	-2.9	14.8	16.1	40.2	18.1	14.5	17.0	22.1 [h]
Non-performing loans as a percentage of total credit	9.3	8.5	8.0	7.7	8.8	9.0	9.0	8.2	8.6	8.3 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Reference rate in dollars, monthly average.
[f] Interbank market, weighted average.
[g] Measured by JP Morgan's EMBI+ index to end of period.
[h] Data to April.

dropped by 35.4%, although the volume exported was also down by 7.6%. The value of non-oil exports remained almost unchanged. Exports of traditional products grew by 18.4%. The export performance of bananas (21.7%), cacao and cacao products (52.8%) and tuna and other fish (24.3%) was particularly strong. Non-traditional exports fell by 13.5%, in particular metal manufactures (27.4%), marine products (22%) and flowers (6.8%). A much more favourable trend was recorded in the first five months of 2010, with a 45.8% rise in the value of total exports over the same period in 2009. This result was due mainly to a 85.5% increase in petroleum products (wholly attributable to price fluctuations, as the volume exported decreased by 5.1%) and a 16.9% increase in traditional exports. This trend will probably continue as goods export prices recover and global demand rallies.

Imports decreased by 19.2% in 2009. A contraction was recorded in all sectors. Imports of petroleum products dropped by 27.5% because of price fluctuations, even though the volume imported rose by 13.6%. Imports of consumer goods fell by 20.3%. There was a similar drop in imports of durable and non-durable goods. Lastly, imports of raw materials and capital goods contracted by 19.8% and 12.8%, respectively. These trends are expected to reverse, given the abolition of the measures taken to reduce the trade deficit and the expected recovery in domestic demand. Already in the first five months of 2010, imports were up by 24.0% over the same period in 2009. This increase was due mainly to the strong performance of petroleum products (65.3%), attributable to their price, and of raw materials (22.4%) and consumer goods (23.6%). Imports of capital goods rose by 5.8%.