Ecuador

According to projections, GDP in Ecuador will contract by 0.4% in 2009 —mainly as a result of lower petroleum prices— in contrast with 6.5% growth in 2008. Despite signs of economic recovery in the second half of the year, the fiscal accounts showed a deficit, the balance-of-payments current account balance deteriorated and unemployment rose in 2009. ECLAC expects moderate growth —of close to 3%— in 2010, provided oil prices remain stable and sufficient financing is provided for public-investment projects.

The overall deficit of the non-financial public sector (NFPS) is expected to be about 3.8% by the end of 2009, up from 1.5% in 2008. Although non-petroleum revenue rose in 2009 on the back of higher tax receipts, petroleum revenue has dropped significantly, mainly because of falling prices. Despite significantly lower interest payments, NFPS current expenditures remained nearly unchanged from 2008. Spurred by gross fixed capital formation by the central government and non-financial public enterprises, capital expenditures rose a nominal 9.8%, year-on-year, in the first half of 2009. These expenditures have grown more slowly in the second half of the year, however, so will end 2009 with only a small positive nominal variation with respect to 2008.

A tax reform bill that was sent to the National Assembly in August 2009 proposed to charge value-added tax (VAT) on services imports, modify the formula for calculating the special consumption tax (ICE), impose a minimum corporate income tax rate, tax dividends, raise the foreign exchange outflow tax and introduce tax benefits for the tourism sector. These changes are currently under consideration.

Following the buyback of 91% of outstanding 2012 and 2030 Global Bonds at 35% of their par value, the external public debt decreased from 18.5% of GDP in 2008 to 13.4% in 2009. The outstanding balance on domestic public debt should stand at close to 5.0% of GDP by the end of 2009 —slightly lower than the average balance in 2008.

After the food price shock in 2008, inflation trended downward until September 2009, when it stood at an annual rate of 3.3%. Since then, it has gradually increased and projections indicate that it will end 2009 at a year-on-year rate of 4.0%. Ecuador started the year with a real effective appreciation, mainly because most of the country’s trading partners experienced currency devaluation against the United States dollar. This trend was reversed in the second quarter of the year, however, with a period of real depreciation during the remainder of 2009.

After repeatedly lowering the ceiling for interest rates in 2008, the government froze these limits in 2009. Consequently, interest rates remained nearly unchanged during the year (at about 9.2% for the corporate productive sector and 11.2% for small and medium-sized enterprises). Nevertheless, the ceiling on interest rates for consumer credit was raised slightly to discourage imports. The average deposit rate is projected to be 5.4% in 2009, slightly positive in real terms. Although total assets held by open private banks remained steady in 2009, the proportion of assets held abroad decreased

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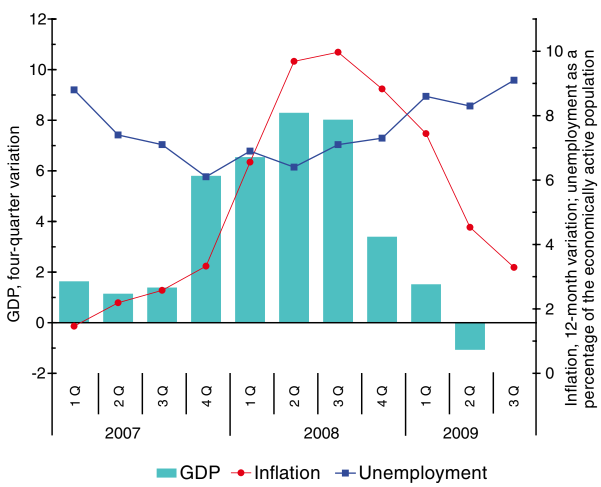

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

slightly over the year owing to pressure from the government to repatriate capital held abroad. Non-performing loans as a share of the private sector's total outstanding portfolio inched up steadily in 2009.

Freely available international reserves plummeted from US$ 6.477 billion in September 2008 to US$ 2.594 billion in May 2009, as a result of higher spending, lower petroleum revenue and the buyback of bonds. Nevertheless, a US$ 480 million loan from the Latin American Reserve Fund, the receipt of a US$ 1 billion early payment on a petroleum sale to PetroChina, a one-time allocation of US$ 400 million in Special Drawing Rights by the International Monetary Fund, higher petroleum prices and other factors helped reverse this trend, and the amount of freely available international reserves rose to US$ 4.605 billion in October.

Private consumption contracted in 2009, while private investment fell sharply. Whereas activity in manufacturing and commerce declined in 2009, continued activity in the construction sector and the public administration prevented a greater slide in aggregate demand. In the petroleum sector, the aggregate value of petroleum continued to drop as a proportion of output in the Ecuadorian economy in 2009. Crude oil production is expected to be 3.6% lower in 2009 than in 2008, as the 6.7% boost in output by the State-owned company, PETROECUADOR, was insufficient to offset a fall of the approximately 15% in private-sector production. Changes in the distribution of petroleum revenue, which have discouraged private-sector production, and uncertainty over concession contracts have limited private investment in the sector.

In October 2009, the government unveiled a stimulus plan to counter the impact of the international financial crisis, with US$ 2.555 billion to be used to finance housing, municipal works, microlending and infrastructure investment. The plan, which will continue into 2010, is being financed with the central bank's operating profits and the repatriation of international reserves held abroad.

Nationwide urban employment rose gradually from mid-2008, reaching 9.1% in September 2009, and will likely climb even higher by year end. The underemployment rate was also high, and stood at 51.7% in September 2009. The real minimum wage is projected to be 3.7% higher in 2009 than in 2008.

In the external sector, the value of goods exports fell by 31% in 2009, with respect to 2008. The 46% decline in the value of petroleum exports is the main reason for this decline, and is, in turn, explained by the drop in both volume (7%) and, especially, price (42%). The value of non-petroleum exports also declined, albeit less sharply (5%). If not for the strong performance of banana, cocoa and fish exports, the overall drop would have been even steeper. In January 2009, temporary import restrictions were introduced, as a safeguard to prevent a deterioration of the current account, given that Ecuador cannot use foreign-exchange policy to control the current-account deficit. Import restrictions, along with slumping domestic demand, led to a 20% year-on-year decrease in the value of total imports in 2009. Imports of petroleum and intermediate and consumer goods contracted sharply, while those of capital goods, generally exempt from protection measures, fell less sharply. The country's terms of trade are expected to have deteriorated by 16% by the end of 2009. Consequently, a trade deficit equivalent to 2.1% of GDP is expected —the first deficit in seven years.

Unemployment in the United States and Spain, the main destinations for Ecuadorian emigrants, caused remittances to shrink by some 12% in 2009. Although remittance levels should begin to rise and the debit on the income account will be lower, this reversal will be insufficient to offset the trade deficit; hence, the current account will also run a deficit (of 2.8%) in 2009.

FDI, which had already fallen to very low levels in 2008 (1.8% of GDP), is projected to decrease further in 2009. FDI flows into the agriculture and fishing sectors should rise, while those going to other sectors —in particular, transport and communication, mining and business services— are likely to decline.

ECUADOR: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	2.5	6.5	-0.4
Per capita gross domestic product	1.4	5.4	-1.4
Consumer prices	3.3	8.8	3.5 [b]
Real minimun wage	3.9	8.5	3.7
Money (M1)	19.4 [c]	27.6	0.6 [d]
Real effective exchange rate [e]	4.2	0.9	-7.5 [f]
Terms of trade	2.8	9.7	-16.1
	Annual average percentages		
Unemployment rate [g]	7.4	6.9	8.6 [h]
Central government overall balance/GDP	2.1	-1.5	-3.8
Nominal deposit rate	5.3	5.5	5.4 [i]
Nominal lending rate	10.1	9.8	9.2 [i]
	Millions of dollars		
Exports of goods and services	16 070	20 460	14 585
Imports of goods and services	15 619	20 730	17 395
Current account balance	1 650	1 120	-1 603
Capital and financial account balance [j]	-264	-172	1 725
Overall balance	1 387	948	122

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Eleven-month variation to December 2007.
[d] Twelve-month variation to September 2009.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] Includes hidden unemployment.
[h] Estimate based on data from January to September.
[i] Average from January to October, annualized.
[j] Includes errors and omissions.