Ecuador

The Ecuadorian economy is expected to grow by 4.8% in 2012, after robust growth in 2011 (8%). GDP continued to be driven by domestic demand, owing to buoyant investment in fixed capital and still strong private consumption. Inflation to December will be around 5.0%, some 0.5 percentage points less than in 2011. For 2013, economic growth is expected to ease down to 3.5%, with inflation falling to 4.0%.

With regard to macroeconomic policy in 2012, on the fiscal front the authorities broadened the range of exceptions to the tax on outward remittances of foreign exchange and proposed legislation on social spending distribution. A number of reforms were made to the financial sector, including a law to regulate automobile and housing loans; a rise in the reserve rate and the imposition of an obligation for financial institutions to maintain greater liquidity in the domestic market; the redirection of inflows from abroad through the central bank; and the replacement of private lending agencies with a public institution. The law on social spending distribution will also have an impact on financial institutions through tax increases, the lifting of banking secrecy, and a salary cap for financial executives. In the area of labour, the working hours were regulated for female domestic workers and postnatal protection was expanded. In the external sector, new restrictions were imposed on the import of vehicles and parts for assembly, on cellular phones and on parts of electronic products for assembly.

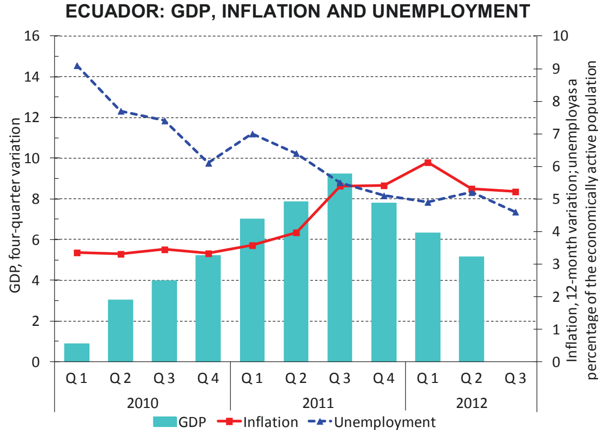
The strong growth in fixed capital investment was due in large part to the continued uptrend in public investment, especially in infrastructure construction and maintenance. As a result, capital and investment spending by the non-financial public sector (NFPS) in January-July 2012 was up by 24.9% in nominal terms on the prior-year period, while current expenditures rose by 4.5%.

Fiscal revenues rose by 14.1% between January and July 2012. This was due mainly to the growth of tax revenues (28%) —thanks to the tax reforms enacted late in 2011— and, to a lesser extent, to oil revenues (2.9%), which were up year-on-year in the first quarter and despite their decline in the second. Within tax revenues, receipts from VAT surged (26.3%) as did those from the tax on outward foreign-exchange remittances (150.7%).

For the year overall, public income and expenditure are expected to continue growing, thanks to the upturn in the price for Ecuador's oil mix, which should average US$ 99 per barrel for the year, compared with the US$ 75 used in the budget projections. In total, expenditures are expected to reach approximately 51% of GDP in 2012; this would imply a fiscal deficit of around 2.5%, which would be funded from sources both domestic and external (China, multilateral organizations). In September, the consolidated public debt stood at about 24% of GDP.

The central bank made no change to the maximum lending rate between January and October 2012. Reference lending rates of financial institutions also held steady during this period, with the exception of

ECUADOR: GDP, INFLATION AND UNEMPLOYMENT



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

mortgage loans, on which the rate edged up by 0.5 percentage points.

In July 2012, broad money (M1) and total liquidity (M2) showed annual growth rates of 10% and 15.8%, respectively, below the rates for 2011. Credit extended by the private financial system grew by 13.1% year-on-year between January and September 2012, 5.4 percentage points below the 2011 rate.

After strong growth in 2011, GDP growth slowed in 2012. Performance exceeded expectations in the first semester, but output is expected to have slackened in the second semester, taking the rate for the year overall to 4.8%. The fastest-growing sector in the first half of the year was hotels and restaurants (22.4%), but construction (20.5%), with its larger share in output, continues to be the largest contributor to GDP growth. The oil sector was relatively flat and refining contracted, owing to technical problems during the first half of the year at the Esmeraldas refinery.

Cumulative oil production between January and September 2012 was 1.3% up on the prior-year period and, consistently with the pattern of the past few years, production rose at public enterprises and fell in private oil companies. The share of public companies thus reached 72% of total production.

On the expenditure side, growth continued to be driven by domestic demand. In the first semester, fixed capital formation grew by 14.7% owing in large part to public investment in infrastructure —especially roads, airports and ports— and to private housing construction, for which the government is still offering incentives. Private consumption also contributed, although with a first-semester growth rate lower than in 2011 (5.5% versus 6.5%). Private consumption will likely continue to slacken in the second semester in view of the restrictions imposed on imports and consumer credit at mid-year.

In October 2012, the inflation rate stood at 4.9%, with spikes in alcoholic beverages, tobacco and pharmaceuticals (31.4%) and food and non-alcoholic beverages (6.0%). While the first reflected the year-on-year impact of rises in excise taxes in November 2011, the rise in food prices was in large part due to adverse weather conditions, with flooding between January and April, and drought between April and September. Rising international wheat prices in the second semester also spurred inflation, given that Ecuador is a net wheat importer. The year-on-year inflation rate is expected to be around 5% in December.

ECUADOR: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
	Annual growth rates		
Gross domestic product	3.3	8.0	4.8
Per capita gross domestic product	1.8	6.5	3.4
Consumer prices	3.3	5.4	4.9 [b]
Money (M1)	16.1	15.5	13.3 [c]
Real effective exchange rate [d]	-1.7	2.2	-2.9 [e]
Terms of trade			
	Annual average percentages		
Open urban unemployment rate [f]	7.6	6.0	4.8
Central government overall balance / GDP	-2.2	-1.8	-3.4
Nominal deposit rate	4.6	4.6	4.5 [g]
Nominal lending rate [h]	9.0	8.3	8.2 [g]
	Millions of dollars		
Exports of goods and services	19 609	24 670	26 705
Imports of goods and services	22 652	26 409	28 299
Current account balance	-1 625	-238	-427
Capital and financial balance [i]	413	510	1 905
Overall balance	-1 212	272	1 479

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Year-on-year average variation, January to July.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] January-October average.
[h] Effective benchmark lending rate for the corporate commercial segment.
[i] Includes errors and omissions.

Despite the economic slowdown, labour market indicators continued to improve and the unemployment rate for the year overall is expected to be more than one percentage point less than the 6% posted in 2011. This reflects an even larger increase in the employment rate, since the participation rate also rose, from 55.2% to around 56%. Meanwhile, the minimum wage has continued to trend upward and recorded a nominal increase of 10.6%, or 5.2% in real terms, similarly to 2011.

In the first quarter, the balance-of-payments current account posted a surplus of US$ 530.8 million, reflecting the impact on the goods balance of the high prices being fetched by Ecuador's oil mix. The goods balance deteriorated in the second quarter, as oil prices fell and import volumes rose. Although it continued to show a slight surplus, this was outweighed by the structural deficit on the income and services balance, leading to a current account deficit of US$ 107.5 million. For the year overall, the current account is expected to yield a deficit of under 1% of GDP, as oil prices stabilize at higher levels and imports continue to rise, albeit more slowly. Remittances have fallen back again after a partial recovery in 2011, owing to the continuing decline in flows from Spain, which more than offset the slight increase in those from the United States.

On the financial account, first-semester foreign direct investment remained at the low levels seen in the prior-year period, and continued to go mostly to mining and quarrying. In October 2012, international reserves represented around 5.5% of GDP, 1.5 percentage points less than in October 2011.