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1. General trends

In 2017, GDP grew by 3.0%, rebounding from a contraction of 1.6% in 2016. Household consumption, imports and government final consumption all increased significantly, while gross fixed capital formation shrank. Contributing to the upturn were the expansion of domestic credit, steady liquidity — as a result of sustained, albeit relatively expensive, access to international bond markets— and increased government expenditure on final goods. The 0.5% drop in gross fixed capital formation in 2017 stemmed mainly from contraction in the construction sector. The national unemployment rate fell from 5.2% at the end of 2016 to 4.6% in December 2017.

Despite the uptick in domestic expenditure, inflation continued the downward trend of recent years and ended 2017 with a year-on-year change of -0.2%. In government finance, increased tax revenue in 2017, thanks to higher indirect tax collection, higher oil prices and the 3% growth of GDP, resulted in a reduction of the overall non-financial public sector deficit from 7.4% in 2016 to 5.4% in 2017. Despite the lower deficit, the public debt increased again: at the end of 2017, aggregate public sector debt was equivalent to 45.1% of GDP, up from the 38.5% of GDP recorded at the end of 2016.

To boost the fiscal position, in April 2018 the government announced a 2018–2021 plan aimed at gradually lowering the deficit (from 5.6% of GDP in 2018 to 2.5% in 2021).

In the external sector, Ecuador closed the year with a small goods balance surplus thanks to increases in the value of its oil exports, which partly offset a marked (21%) increase in total imports. Increased interest payments abroad were one of the main reasons why Ecuador had a current account deficit equivalent to 0.2% of GDP in 2017, despite the 9.2% increase in workers' remittances that year.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects GDP to slip back to 1.5% in 2018, sustained mainly by household consumption, which remains an important factor driving growth, albeit less vigorously than in 2017 owing to the incipient downturn in private credit. Another positive, although somewhat weak, contribution to growth is expected to come, for the first time in three years, from gross fixed capital formation thanks to a widely anticipated recovery of the construction sector. Much will depend on how large a part is played by government spending, inasmuch the deficit reduction goal is to be achieved through either income or expenditure. The high oil prices thus far this year appear to indicate that there will be more fiscal space than expected. That, plus a possible advantageous restructuring of the country's current international liabilities, could push the current economic growth projection higher.

2. Economic policy

(a) Fiscal policy

Total non-financial public sector spending increased by a modest 1.5% in 2017. However, given that current expenditure rose by 8% over the same period, what kept overall expenditure under control was the 11.6% drop in capital expenditure (compared to a 1.5% contraction in 2016).

Several factors contributed to the increase in non-financial public sector revenue, including: the upsurge in private consumption, which was the single most important factor accounting for the increase in indirect tax revenue, especially from value added tax (10.7%); the increase in the oil export price from US$ 44.93 per barrel to US$ 57.14 per barrel between January and December 2017, which increased direct revenue from oil exports by US$ 467 million (up 8.6%); the improved profitability of non-financial public sector enterprises, which more than doubled their contributions to the public treasury (from US$ 618 million in 2016 to US$ 1.585 billion in 2017); and the rebound in the economy, reflected in a 3.4% increase in income tax revenue.

In 2017, the government turned to both external and domestic sources to finance the deficit. Despite repayments in the amount of US$ 2.877 billion, aggregate public debt once again increased: from 38.5% to 45.1% of GDP. The external sources include three issuances of international bonds for a total of US$ 4.5 billion (at rates of 10.1% and 9.9%) and the issuance of bonds by Petroamazonas EP in the amount of US$ 970 million. Overall, foreign debt rose to 30.8% of GDP (from 25.9% in 2016). In 2017, domestic debt also rose: to 14.3% of GDP (from 12.6% in 2016).

The outlook for 2018, at least as of the second quarter, is that government spending, especially current expenditure, will slow compared to 2017. In broad terms, the Executive has announced an, on average, US$ 1 billion reduction per year in its current expenditure between now and the end of its term. If this happens, and if the scheduled negotiations with China on a restructuring of the country’s liabilities are successful, the 2018 target of a 5.6% overall deficit might be met by a comfortable margin.

Preliminary figures for first quarter 2018 show that tax revenue increased by 8% and that total expenditure fell by 14% year-on-year. In June, the benchmark price of Ecuadorian crude fluctuated around US$ 65 per barrel. The outstanding balance of aggregate public debt increased by US$ 2.312 billion between December 2017 and April 2018, when it was equivalent to 47.0% of GDP.

(b) Monetary and exchange-rate policy

In 2017, the money supply (measured as M1) and total system liquidity (measured as M2) increased by 8.4% and 10%, respectively. The growth of deposits slowed from 19.5% in 2016 to 9.3% in 2017. These high liquidity ratios largely reflect injections of funds relating to public expenditure financed by external sources. More importantly from a monetary equilibrium standpoint, private credit expanded at a much faster rate than deposits: by 16.5% in 2017, continuing a growth trend that began in October 2016. Even though the financial system has responded with significant increases in private credit, so far there has been no noticeable deterioration in repayment terms. In fact, non-performing loan rates in the financial system in first-quarter 2018 were down on the prior-year period for all segments and the decline in delinquent loan rates has been virtually uniform over the months and across types of institution.

Another key measure of system liquidity from a macroprudential standpoint is the ratio between available funds and short-term deposits. It stayed high in the comparison between end-2017 and end-2016 (29.41% and 29.56% for private banks: the largest segment of the system by volume; and 12.86% and 12.98% for mutual societies), credit unions being the sole exception.

The real lending interest rate generally continued its gradual decline in 2017, a trend it has followed since the end of 2015, while the real borrowing rate fell slightly in the first quarter and then remained essentially constant for the rest of the year, so that the real interest rate spread narrowed. Thus, between December 2016 and December 2017, the real lending rate fell from 8.38% to 7.83% and the real borrowing rate fell from 5.12% to 4.95%.

The real effective exchange rate fell by 5.9% between December 2016 and December 2017, compared to a 3% decline in the year up to December 2016.

In the first five months of 2018, the real interest rate on loans maintained its downward trend and reached 6.67% (a cumulative drop of 116 basis points), while the real interest rate on deposits rose slightly (a cumulative increase of 5 basis points through May). There was a moderate increase in the money supply, with M1 and M2 recording year-on-year increases in the first quarter of 6.1% and 8.7%, respectively. The real effective exchange rate continued to fall, with year-on-year changes of around 6.6% in the first four months of 2018.

3. The main variables

(a) The external sector

The gradual unwinding of temporary balance-of-payments safeguards and the increases in private and public consumption led to a marked recovery in imports in 2017, following the drop in 2016. Thus, total expenditure on imports grew by 21%, compared to a 12.6% increase in the value of total exports, reducing the goods balance surplus from US$ 1.567 billion in 2016 to just US$ 322 million in 2017. On the other hand, remittances increased by US$ 238 million (9.2%), thanks to more buoyant economic conditions in workers' countries of residence, especially the United States and Spain. This factor partly explains the positive balance in current transfers (US$ 2.705 billion in 2017), which was slightly below the previous year's US$ 2.708 billion but far higher than the balances of the previous five years. Nevertheless, the positive balances for goods and current transfers were not high enough to offset the US$ 3.328 billion deficit on the income and services account, which chiefly reflected a marked surge in investment income payments abroad (US$ 504 million, an increase of 25.3%). Those were the main factors explaining the shift for Ecuador from a balance of payments current account surplus of US$ 1.442 billion (equivalent to 1.5% of GDP) in 2016 to a deficit of US$ 255.3 million (0.25% of GDP) in 2017.

Foreign direct investment totalled US$ 606.4 million in 2017, 19.7% less than in 2016 (US$ 755.4 million). Most of the investment was in manufacturing (US$ 143.1 million), followed by agriculture, forestry, hunting and fishing (US$ 124.4 million).

There were wide monthly fluctuations in international reserves depending on disbursements and uses of government resources obtained on international markets. End-of-year statistics show reserves falling from US$ 4.019 billion to US$ 2.451 billion, a 39% drop, in 2017. However, on an annual average basis, international reserve levels were US$ 3.793 billion in 2017 (compared to US$ 3.548 billion in 2016).

In the first four months of 2018, international reserves increased by US$ 1.806 billion to US$ 4.260 million in April.

In goods trade, first quarter 2018 trends remain in line with those recorded since the second quarter of 2017: the trade balance posted a surplus of US$ 261 million, compared to US$ 511 million in 2017; spending on imports increased, on a year-on-year basis, by 17%; and total exports increased by 10%. The breakdown of imports likewise continues to reflect weak aggregate investment and more vigorous consumption: consumer goods imports increased most (34%), followed by capital goods (24%), raw materials (10%) and fuels and lubricants (4%). The non-oil trade balance remained negative, with a cumulative January-March deficit of US$ 857 million. The European Union, Viet Nam and the United States were the markets with the largest non-oil trade surplus; those with the largest deficits were China, Brazil and Colombia. The main export product was bananas (up by 0.2%), followed by shrimp (19%), flowers (33%) and canned fish (2%). Between them, those four products account for 68% of all non-oil exports.

(b) Economic activity

In Ecuador, in 2017, GDP grew by 3.0%, rebounding from a contraction of 1.6% in 2016. As a result, per capita GDP increased for the first time since 2014. Thanks to the expansion of credit (in all segments, but especially consumer credit) and increased employment, household consumption grew by 4.9% in real terms and made the largest contribution (2.96 percentage points) to the growth of GDP over the year. The second largest contribution (0.56 percentage points) came from government final consumption, which grew by 3.8% in 2017; export volumes, which increased by only 0.6%, contributed 0.18 percentage points to the growth of GDP. Finally, gross fixed capital formation declined at a slower pace than in 2016, falling in real terms (despite an upturn in the last quarter) by 0.5% in 2017 as a whole (contributing -0.13 percentage points to GDP).

The sector that contributed most to the 3% GDP growth was education and social and health services (0.57%), followed by commerce (0.53%) and agriculture (0.4%).

Oil output fell by 3.4% in 2017 (government output -3.8% and private sector output -1.8%), as a result of the agreement signed by Ecuador in November 2016 with the Organization of the Petroleum Exporting Countries (OPEC). That trend continued in the first quarter of 2018, when oil output fell by 4.3% compared to the same quarter in 2017. This time, the difference between government and private sector output was more marked: production at Petroamazonas EP contracted by 7.4%, while private sector output increased by 7.8%.

(c) Prices, wages and employment

Cumulative inflation during 2017 was -0.2%, the first negative rate, but the third consecutive decline since 2014 (although the deflationary period appears to have been bunched into the period between June and November 2017). The sectors recording the sharpest declines in prices were clothing and footwear (-4.17%), furniture and household goods (-1.4%), alcoholic beverages and tobacco (-1.39%) and food and non-alcoholic beverages (-0.23%). Given its weighting in the consumption basket, this last item contributed most to the fall in the consumer price index (CPI).

Low, but positive, inflation of around 1% is expected for 2018. The data currently available for this year show cumulative inflation of 0.27% between January and April. Year-on-year, the CPI for May 2018 is -1.01% below that of the prior-year month. The item contributing most to that outcome is food and non-alcoholic beverages (-0.57%), followed by clothing and footwear (-0.19%). Fewer than half the items recorded price hikes, the main one being education (0.05%), one of the economic sectors that grew most in 2017. This year’s figures point to a continuation of the sectoral price trends recorded in 2017.

Labour market trends were positive in 2017, in terms of both the quantity and quality of employment. The gross unemployment rate rose from 63.8% at the end of 2016 to 64.6% at the end of 2017, and the national unemployment rate fell in the same period from 5.2% to 4.6% (with urban unemployment falling from 6.5% to 5.8%). All this occurred without underemployment increasing. It remained practically unchanged (19.9% compared to 19.8%), as did the adequate employment rate (which edged up from 41.2% to 42.3%).

Available data from the survey conducted in March 2018 point to a more mixed scenario for the beginning of the year: using the same measurement criteria as for 2017, the share of adequate employment increases, but the national unemployment rate remains unchanged (urban unemployment increases by 10 basis points) and the gross employment rate falls from 65.9% to 65.1%.

The wage index published by the National Institute of Statistics and Census (INEC) —which measures changes in hourly wages of personnel employed in a given number of enterprises in manufacturing, commerce and services— increased by 8.46% in 2017 (compared to an increase of 2.91% in 2016), in line with the economic upswing. In the same period, the unified basic wage increased by US$ 9, from US$ 366 in 2016 to US$ 375 in 2017.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	0.6	3.5	7.9	5.6	4.9	3.8	0.1	-1.6	3.0
Per capita gross domestic product	-1.1	1.8	6.2	4.0	3.3	2.2	-1.4	-3.0	1.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.7	0.7	7.9	0.8	6.7	7.6	2.9	0.7	4.0
Mining and quarrying	-0.3	0.1	2.8	2.6	2.9	6.6	-2.1	1.9	-2.7
Manufacturing	-0.8	2.4	6.4	4.1	2.2	0.2	-0.8	-1.0	2.1
Electricity, gas and water	-10.0	34.5	27.1	17.9	11.5	6.5	9.0	6.5	12.9
Construction	2.8	3.4	17.6	12.2	7.4	4.7	-0.8	-5.2	-5.9
Wholesale and retail commerce, restaurants and hotels	-2.2	3.5	5.8	4.6	6.5	3.3	-1.1	-3.7	5.5
Transport, storage and communications	7.0	5.4	7.7	7.0	8.9	3.5	2.6	-2.9	5.1
Financial institutions, insurance, real estate and business services	-29.8	2.7	6.5	5.0	1.6	5.1	0.5	-3.5	4.8
Community, social and personal services	36.4	5.6	7.1	6.6	4.9	4.1	2.5	-0.1	4.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	0.9	7.2	5.7	4.2	5.0	3.5	0.3	-3.3	4.7
Government consumption	11.6	4.4	8.7	11.1	10.3	6.7	2.1	-1.7	3.8
Private consumption	-1.0	7.7	5.1	2.9	3.9	2.7	-0.1	-3.6	4.9
Gross capital formation	-7.3	10.5	11.5	4.2	9.5	3.4	-9.2	-11.5	-11.7
Exports (goods and services)	-4.8	-0.2	5.7	5.5	2.6	6.2	-0.6	2.0	0.6
Imports (goods and services)	-9.9	14.8	3.6	0.8	7.0	4.8	-8.2	-10.3	9.5
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	25.6	28.0	28.1	27.8	28.5	28.3	26.9	25.2	25.4
National saving	26.1	25.8	27.6	27.6	27.5	27.8	24.7	26.6	25.1
External saving	-0.5	2.3	0.5	0.2	1.0	0.5	2.1	-1.5	0.2
Balance of payments	**Millions of dollars**								
Current account balance	313	-1 583	-400	-152	-921	-522	-2 111	1 442	-255
Goods balance	144	-1 504	-303	50	-529	-63	-1 650	1 567	322
Exports, f.o.b.	14 412	18 137	23 082	24 569	25 587	26 596	19 049	17 425	19 621
Imports, f.o.b.	14 268	19 641	23 385	24 519	26 115	26 660	20 699	15 858	19 298
Services trade balance	-1 282	-1 522	-1 563	-1 394	-1 420	-1 171	-805	-1 054	-996
Income balance	-1 271	-1 037	-1 257	-1 288	-1 372	-1 552	-1 734	-1 851	-2 332
Net current transfers	2 722	2 481	2 722	2 480	2 399	2 264	2 078	2 780	2 751
Capital and financial balance d/	-3 091	370	672	-430	2 767	98	622	-236	-1 603
Net foreign direct investment	309	166	644	567	727	772	1 322	755	606
Other capital movements	-3 400	204	28	-997	2 040	-675	-700	-991	-2 210
Overall balance	-2 778	-1 212	272	-582	1 846	-424	-1 489	1 207	-1 859
Variation in reserve assets e/	681	1 170	-336	475	-1 878	411	1 453	-1 763	1 808
Other financing	2 097	42	64	107	32	13	36	556	51
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.7	99.6	102.1	98.1	96.5	93.3	85.1	83.8	87.8
Terms of trade for goods (index: 2010=100)	87.0	100.0	112.4	112.1	113.2	106.7	80.0	75.7	82.9
Net resource transfer (millions of dollars)	-2 264	-625	-522	-1 611	1 427	-1 441	-1 076	-1 530	-3 885
Total gross external debt (millions of dollars)	13 514	13 914	15 210	15 913	18 617	23 975	27 680	34 181	39 529
Employment	**Average annual rates**								
Labour force participation rate g/	66.3	63.7	62.5	61.7	62.1	63.2	66.2	68.2	68.8
Unemployment rate h/	8.5	7.6	6.0	4.9	4.7	5.1	5.4	6.8	5.6
Open unemployment rate i/	6.9	6.1	5.0	4.2	4.0	4.3	4.7	5.9	5.0
Visible underemployment rate g/	12.5	11.7	9.1	7.9	9.9	10.6	11.7	15.7	17.0

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	4.3	3.3	5.4	4.2	2.7	3.7	3.4	1.1	-0.2
Variation in producer prices									
(December-December)	1.4	6.9	3.1	2.0	3.1	3.1	-0.7	1.7	1.3
Variation in minimum real wage	3.6	6.4	5.2	5.2	6.1	3.2	0.2	1.6	2.0
Nominal deposit rate j/	5.4	4.6	4.6	4.5	4.5	4.9	5.3	5.7	4.9
Nominal lending rate k/	9.2	9.0	8.3	8.2	8.2	8.1	8.3	8.7	7.9
Central government	**Percentajes of GDP**								
Total revenue	18.5	21.7	21.7	22.2	21.4	20.0	20.5	18.8	17.6
Tax revenue	11.6	12.6	12.3	13.9	14.4	14.2	15.7	14.2	13.7
Total expenditure	22.7	23.3	23.3	24.2	27.2	26.3	24.3	24.4	23.6
Current expenditure	14.3	14.1	13.1	13.6	15.0	14.7	14.6	14.7	15.2
Interest	0.8	0.8	0.8	0.9	1.2	1.4	1.8	2.0	2.4
Capital expenditure	8.5	9.2	10.1	10.5	12.2	11.6	9.7	9.7	8.4
Primary balance	-3.5	-0.9	-0.7	-1.0	-4.5	-4.9	-2.1	-3.7	-3.6
Overall balance	-4.2	-1.6	-1.6	-2.0	-5.7	-6.3	-3.8	-5.6	-6.0
Central government public debt	10.7	11.5	12.1	11.9	13.6	16.3	19.4	24.6	28.3
Domestic	0.3	0.4	0.5	0.7	1.1	1.1	1.1	1.1	0.9
External	10.4	11.1	11.6	11.2	12.5	15.2	18.3	23.5	27.5
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	17.3	22.1	23.6	25.8	27.6	29.8	29.9	34.8	36.8
To the public sector	-5.9	-2.8	-3.1	-1.7	-0.5	1.1	1.5	4.5	3.0
To the private sector	23.2	24.8	26.7	27.6	28.2	28.7	28.4	30.3	33.8
Monetary base	11.1	10.7	10.6	11.4	13.4	14.5	16.7	21.6	21.6
M2	29.0	31.2	32.5	34.4	35.9	38.3	38.4	45.1	47.5

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 2007 prices.
c/ Estimates based on figures denominated in dollars at current prices.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total
h/ Urban Total. Includes hidden unemployment.
i/ Includes an adjustment for workforce figures due to exclusion of hidden unemployment.
j/ Weighted average of the system effective deposit rates. Up to July 2007, reference deposit rate in dollars.
k/ Effective benchmark lending rate for the corporate commercial segment. Up to July 2007, reference lending rate in dollars.

Table 2

ECUADOR: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	-4.0	-1.7	-1.5	1.0	2.7	3.0	3.3	3.0	1.9	...
Gross international reserves (millions of dollars)	3 041	2 739	4 312	4 147	4 491	3 498	3 425	3 759	5 327	3 726
Real effective exchange rate (index: 2005=100) c/	82.0	84.2	84.7	84.4	85.1	86.4	88.9	90.7	89.7	88.1
Consumer prices (12-month percentage variation)	2.3	1.6	1.3	1.1	1.0	0.2	0.0	-0.2	-0.2	-0.7
Wholesale prices (12-month percentage variation)	0.8	-1.5	-1.0	1.7	-2.7	-1.0	-1.2	1.3	2.6	2.4
Nominal interest rates (average annualized percentages)										
Deposit rate d/	5.8	5.8	5.9	5.5	5.0	4.8	4.9	4.9	5.0	5.0
Lending rate e/	9.0	8.9	8.6	8.4	8.1	7.7	8.0	7.8	7.5	7.2
Interbank rate	...	...	...	0.8	1.9	1.5	1.1	0.9	0.9	1.0
Sovereign bond spread, Embi + (basis points to end of period) f/	1058	913	845	647	666	706	606	459	544	761
Stock price index (national index to end of period, 31 December 2005 = 100)	158	154	149	150	159	171	179	185	188	196
Domestic credit (variation from same quarter of preceding year)	-1.0	2.8	7.0	13.6	16.0	15.2	11.2	6.4	2.7	6.1 g/
Non-performing loans as a percentage of total credit	6.2	6.2	5.8	5.5	5.2	4.9	4.6	4.2	4.0	3.9

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 2007 prices.
c/ Quarterly average, weighted by the value of goods exports and imports.
d/ Weighted average of the system effective deposit rates.
e/ Effective benchmark lending rate for the corporate commercial segment.
f/ Measured by J.P.Morgan.
g/ Figures as of May.