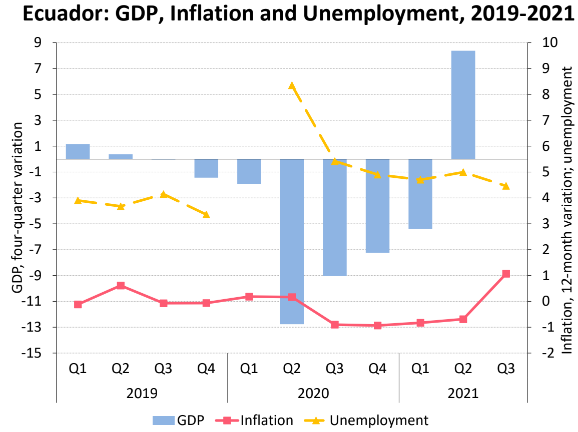
Ecuador

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts growth of 3.1% for the Ecuadorian economy in 2021, following a severe contraction of 7.8% in 2020. While the year-on-year growth rate in the first quarter of 2021 remained in negative territory (-5.4%), it recovered by 8.4% in the second quarter of the year, largely on account of a rebound effect after the significant drop (12.8%) observed in the same quarter of 2020. This encouraging result was not enough, however, to bring real-term GDP back to its pre-pandemic level.[1]

An examination of the quarterly variation in the main indicators reveals that the recovery of the Ecuadorian economy is both slow and weak. In the second quarter of 2021, real GDP grew by 2.1% compared to the previous quarter. This was essentially on the back of greater dynamism in external demand, with a rebound in exports of goods and services (1.94%). This was in contrast to the slight increase in domestic demand (0.42%), in which both general government and household consumption played a decisive role, with respective quarterly variations of 4.37% and 1.2%;[2] in fact, final household consumption was the component with the greatest impact on the variation in GDP, both in quarterly and year-on-year terms. By contrast, gross fixed capital formation decreased at a quarterly rate of 0.98%, after three consecutive quarters of growth; if the decline continues, it will be a cause for concern if economic activity in the medium term is to be sustained.[3] On the supply side, 14 of the 18 registered industries experienced a quarterly increase in their gross value added, with a median variation of 1.5%, led by aquaculture and shrimping (15.8%) and by education, health and social services (7.2%). Certain key productive sectors remain depressed, however, including the agricultural sector and construction, which have posted drops in their gross value added since the second quarter of 2020.[4] In addition, the gross value added of the oil sector fell by 0.1%, with efforts to boost domestic hydrocarbon production still facing difficulties.[5]

Ecuador: GDP, Inflation and Unemployment, 2019-2021



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

As regards public finances, between January and July 2021, the non-financial public sector (NFPS) achieved both overall and primary surpluses (US$ 443 million and US$

1 A difference of US$ 2.280 billion was recorded between the first-semester totals for 2019 and 2021.

2 Household consumption was largely driven by remittance inflows: in the second quarter of 2021, remittances totalled a record US$ 1.088 billion in nominal terms (1.9% of GDP).

3 Gross fixed capital formation rose at a year-on-year rate of 9.8% in the second quarter of 2021. In the second quarter of 2020, after imports, it was the variable most impacted by the health crisis, when a drop of 17.8% was registered.

4 For the agricultural sector, the exception was the first quarter of 2021, which recorded a positive quarterly change.

5 In the first half of 2021, daily crude oil production was 501,000 barrels, compared to 538,000 barrels in the corresponding period of 2019.

1.287 billion, respectively), compared to the deficits both posted in the same period in 2020.[6] Although total spending recorded a year-on-year increase of 2.6%, government revenue recovered at a faster pace (19.1%, in nominal terms). Within public resources, growth in oil revenues (61%)[7] far outstripped that of tax revenues (10.2%), where increased VAT receipts (15.4%) were offset by the drop in income tax (-3%). At the same time, customs duties and other levies, including the foreign-exchange outflow tax (ISD), accounted for 11.4% of total permanent revenues, reflecting the reopening of the economy.[8] The increased public spending was essentially on account of the expansion of non-permanent spending (38.1%) against the continued contraction of permanent spending (-3.7%), including expenditure on salaries and wages (-5.8%). Within non-permanent spending, public investment experienced a drastic drop of 42.2% between January and July 2020 and the corresponding period in 2021. The overall NFPS deficit is expected to settle at around 4.6% of GDP by the end of this year, 2.5 percentage points lower than in 2020.[9] The reduction of the public deficit remains a priority objective in 2022 in order to meet IMF commitments and to secure access to additional sources of external financing and, in particular, multilateral loans. As indicated in the four-year budget programming plan for 2022–2025, the austerity measures applied to public spending are based on the assumption that domestic and foreign private investment can take the place of public investment in sustaining medium-term growth.[10]

Ecuador: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	0.0	-7.8	3.1
Per capita gross domestic product	-1.7	-9.2	1.7
Consumer prices	-0.1	-0.9	1.1 [b]
Money (M1)	3.4	7.9	5.7 [c]
Real effective exchange rate [d]	-2.1	-0.4	5.9 [b]
Terms of trade	-3.5	-13.2	10.5
	Annual average percentage		
Open unemployment rate [e]	3.8	6.2	4.7 [b]
Central government			
Overall balance / GDP	-5.0	-7.6	...
Nominal deposit rate [f]	5.9	6.3	5.6 [b]
Nominal lending rate [g]	8.6	8.9	8.3 [b]
	Millions of dollars		
Exports of goods and services	26 120	22 261	27 603
Imports of goods and services	25 892	19 865	25 748
Current account balance	-61	2 565	2 570
Capital and financial balance [h]	777	1 582	...
Overall balance	715	4 146	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Figures as of August.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Open unemployment rate includes an adjustment for workforce figures due to exclusion of hidden unemployment.
f/ Benchmark deposit rate.
g/ Effective benchmark lending rate for the corporate commercial segment.
h/ Includes errors and omissions.

Against that backdrop, at the end of July 2021, the NFPS public debt amounted to US$ 62.373 billion (60% of GDP), with external debt accounting for 71% and domestic debt for 29%. This represents a year-on-year increase of 6.5%. Multilateral loans are the country's main source of indebtedness, with a year-on-year variation of 38%, together with the domestic placement of bonds with public holders, which rose to a share of 8%. Amortization payments on domestic debt accounted for 54% of total repayments between January and July 2021, compared to a share of 21% over that period in 2020. Public debt should reach 63% of GDP by the end of 2021, partly on account of expected disbursements from international organizations.[11] For 2022, the handling of public debt is expected to be maintained,

6 In the first seven months of 2020, the overall deficit stood at US$ 2.488 billion, with a primary deficit of US$ 592 million.

7 They accounted for 23% of total public revenues between January and July 2020 and for 31% in the same period of 2021.

8 On 28 October 2021, a tax reform proposal —the Organic Law for Economic Development and Fiscal Sustainability— was sent to the National Assembly. Its aims include bolstering tax collection while reducing tariffs and the foreign exchange outflow tax.

9 This note uses the estimate of 2021 nominal GDP (US$ 103.878 billion) reported as a macroeconomic assumption in the pro forma 2022 General State Budget.

10 The goal is to achieve an overall deficit of 0.4% of GDP by 2025.

11 In October 2021, a disbursement of US$ 800 million was finalized by IMF and a further US$ 700 million

involving additional access to external private financing through commercial loans negotiated with international financial institutions, increased bond issues on the domestic market and the possibility of progress in the refinancing of bilateral debt with China.

International reserve management was of paramount importance at this time, with the goal of maintaining high levels of reserves: in September 2021, the balance stood at US$ 6.295 billion (6.1% of GDP), for a year-on-year increase of 82.8%. On the asset side, there was a notable increase in investments, term deposits and securities, the share of which among total reserves rose from 15% to 60%.

The country's foreign trade performed positively between January and September 2021. The goods trade balance was in surplus (US$ 1.946 billion), reflecting the upticks in both imports (39.7%) and exports (30%) compared to the corresponding period in 2020. However, the surplus observed in the oil balance (US$ 3.320 billion) stands in sharp contrast to the deficit in the non-oil balance (US$ 1.375 billion). Oil exports benefited mainly from the international price of WTI crude: its impact on Ecuadorian crude prices boosted the value of overseas sales by 74.2%, from US$ 3.750 billion to US$ 6.532 billion.[12] It had a similar impact on oil imports, which rose in value by 69% to US$ 3.212 billion.[13] Among non-oil exports, significant shares in value terms were reported by the traditional products of shrimp (29.5%) and bananas and plantains (20.7%); also notable were shipments of mining products (8.6%), which accounted for the largest increase (109%) during the period under review. In terms of economic use or destination, demand grow strongly in the industrial sector, with increases in imports of raw materials (54%) and capital goods (18%); non-durable consumer goods also performed well, increasing by 11.8%. The trade balance is expected to conclude 2021 with a surplus of around 2.1% of GDP, largely on account of the performance of the oil trade balance.[14] The current administration plans to consolidate trading relations with its strategic partners in order to expand the country's export basket, obtaining preferential tariff arrangements and attracting more foreign direct investment.[15,16]

In October 2021, inflation stood at 1.47% in year-on-year terms and at 0.21% compared to the previous month. In July 2021, year-on-year variation in the consumer price index (CPI) turned positive after 12 consecutive months of negative change. Price increases were recorded in 9 of the 12 consumption categories that make up the CPI reference basket, including transport (7.3%), education (2.8%) and health (1.2%). The increase in transport prices was in line with the significant rise in fuel prices caused by the implementation of the price band system that was put into effect in July 2020 and suspended on 23 October 2021.[17] Fluctuations in CPI should remain moderate in 2022, on account of

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is expected by the end of 2021, subject to the approval of the fourth review scheduled for 15 December 2021, from the Extended Fund Facility. This is in addition to a US$ 308 million loan approved in November 2021 by the Latin American Reserve Fund. In addition, the issuance of the Special Drawing Rights (SDRs) received in August 2021 has not yet been reported, in case they should be included in the country's external debt.

12 Between January and September 2021, the volume of oil exports increased by only 0.9%. Meanwhile, prices for the Oriente crude oil basket and Napo crude averaged US$ 60 a barrel, compared to US$ 34.80 a year earlier.

13 The average import price rose from US$ 51.90 a barrel between January and September 2020 to US$ 74 in the corresponding period of 2021, based on the import prices of oil derivatives reported by the Central Bank.

14 Also worthy of note are the current problems in global supply chains, the impact of which is likely to persist into the early months of 2022.

15 One priority on the trade agenda is the bilateral agreement with Mexico, which should be finalized by the end of 2021, to facilitate the entry of Ecuador as a full member of the Pacific Alliance.

16 In the first half of 2021, FDI totalled US$ 364 million, for a year-on-year drop of 20%.

17 As of October 2021, of the 23 products included in the transportation category, the largest year-on-year increases were recorded in diesel prices (47.6%) and in the prices of eco-friendly, low-octane and high-octane gasolines (42%, 41.6% and 33.3%, respectively).

the gradual reactivation of the economy and the favourable impact of the vaccination programme, while the dynamics of household consumption will remain fragile.

Finally, although unemployment returned to its pre-pandemic level (4.86% of the economically active population) in September 2021, the evolution of the other labour indicators suggests that formal employment is facing a difficult recovery.[18] Specifically, the slight increase seen in total employment (1.2%) was on account of the increase in informal jobs (6.8%) against the decline in formal jobs (4.8%) between September 2020 and September 2021. Thus, as of September 2021, 44% of the employed population was working in the formal sector and only 28% enjoyed adequate working conditions.[19] The evolution of workers' incomes largely reflects the difficulties in the labour market's recovery. Median labour income stood at US$ 210 per month across the country in the third quarter of 2021, falling to just US$ 139 in rural areas, significantly below the unified minimum wage of US$ 400.[20]

ECLAC projects that Ecuador will post a growth rate of 2.6% in 2022, because of the fragile reactivation of the components of domestic demand due to timid consumption dynamics and the still marginal role played by investment, while public investment will continue to contract. External conditions are another cause for uncertainty, given the high dependence on the country's main export products, which are primarily raw materials with little value added. Finally, the country still faces the challenge of creating quality jobs and reducing the share of the working population engaged in the informal sector, which is characterized by unstable working conditions, low wages and no social protection or labour rights. This would bring immediate benefits in terms of tax receipts and the solvency of the social security system, while also mitigating the adverse impact of poverty, child malnutrition and inequality.

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18 Pre-pandemic level refers to the month of September 2019.

19 The informal sector accounted for 49% of the employed population and the "other" sector —which, according to the INEC classification, includes domestic and unclassified employment— for 7%.

20 A gender pay gap is also still evident: in September 2021, female employed workers received only 85.2% of the monthly wages received by male employed workers (US$ 328).