Ecuador

Ecuador faced significant challenges and changes in 2015, owing to the fall in oil prices and its impact on tax revenues and on the balance-of-payments current account. As a result, the State budget was cut by 6.1%, with a focus on reducing investment expenditure. The year is expected to close with GDP growth of 0.4% (compared with 3.7% in 2014), propped up by government and household consumer spending. Furthermore, the appreciation of the United States dollar against the currencies of Ecuador's main trading partners and international competitors eroded the competitiveness of non-oil exports and increased pressure on the current account. Despite the safeguards put in place, the current account deficit is expected to reach about 2.5% of GDP in 2015, compared with 0.6% in 2014. Annual inflation is expected to stand at 3.8% at the end of 2015. Unemployment rose to 5.5% in September 2015 from 4.7% in September 2014. ECLAC forecasts sluggish economic activity in 2016, with growth of 0.3% and inflation at close to 3%.

Total non-financial public sector (NFPS) spending contracted by 7.0% in nominal terms between January and September 2015, compared with the same period in 2014, marking the first contraction in nominal terms since 2009. Gross fixed capital formation bore the brunt of the cuts, declining by 20.4% in the same period, while current expenditure expanded by 1.6%. Consequently, the government expects total NFPS spending to drop from 43.9% in 2014 to 39.5% of GDP in 2015.

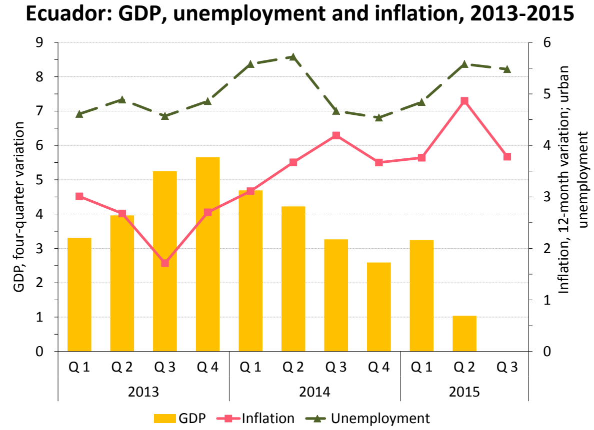
NFPS revenue fell by 8.6% year-on-year between January and September, amounting to an overall deficit of US$ 979.2 million in September, compared with US$ 565.4 million in the same month the previous year. Oil revenues saw the sharpest fall (37.5%). With regard to tax revenues, tariff revenues rose by 56.3% owing to the recent import safeguards, and income tax receipts increased by 19.7% as a result of the tax amnesty enacted in April 2015, which incentivized the payment of tax debts. According to official estimates, the non-financial public sector will post an overall deficit equivalent to about 3.9% of GDP at the end of 2015 (compared with 5.3% in 2014).

The fiscal deficit pushed up aggregate public sector debt to 32.7% of GDP at the end of October 2015, 2.8 percentage points higher than in December 2014. This rise was due to mounting external debt as Ecuador issued international bonds worth a total of US$ 1.5 billion. International reserves shrank by 42.8% year-on-year to stand at US$ 3.354 billion at the end of November 2015, equivalent to 3.2% of GDP.

The new credit categories and the respective adjustments to their interest rate caps —established in April 2015 by the Board of Monetary and Financial Regulation— came into force in August. The benchmark deposit rate stood at 4.98% in October, 4.13 percentage points lower than the benchmark lending rate.

The volume of deposits in the financial system has fallen since early 2015, owing to the reduced inflow of dollars and the greater preference

Ecuador: GDP, unemployment and inflation, 2013-2015



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

for cash among economic agents. Between January and September, demand deposits were down by 13.8%, while the total currency in circulation expanded by 17.0%. As a result, the volume of lending to the private sector also began to falter in April, shrinking by 0.8% between January and September. Meanwhile, the default rate on loans from private banks stood at 4.2% at the end of October.

In October, the National Assembly adopted the Organic Law on Incentives for Public-Private Partnerships, whose principal aim is to attract more foreign direct investment to priority projects such as road, port and air transport infrastructure, including through various tax incentives.

The real effective exchange rate continued its downtrend in 2015, falling by 6.9% in the 12 months to October. However, the general balance-of-payments safeguard helped to ease import pressures, contributing to a 17.9% drop in value terms between January and September 2015, compared with the same period in 2014. Both prices and volumes of imports fell for consumer goods, commodities and capital goods. Only the fuels and lubricants sector saw a rise in import volumes, owing to the protracted rehabilitation of the Esmeraldas oil refinery.

Ecuador: main economic indicators, 2013-2015

	2013	2014	2015 [a]
	Annual growth rate		
Gross domestic product	4.6	3.7	0.4
Per capita gross domestic product	2.9	2.1	-1.1
Consumer prices	2.7	3.7	3.5 [b]
Money (M1)	14.8	14.4	13.0 [c]
Real effective exchange rate [d]	0.3	-2.5	-7.8 [b]
Terms of trade	1.3	-0.2	-26.6
	Annual average percentage		
Urban unemployment rate [e]	4.7	5.1	5.3
Central government			
Overall balance / GDP	-5.8	-6.4	-3.0
Nominal deposit rate [f]	4.5	4.9	5.4 [g]
Nominal lending rate [h]	8.2	8.1	8.2 [b]
	Millions of dollars		
Exports of goods and services	27,715	28,938	21,558
Imports of goods and services	29,704	30,227	25,130
Current account balance	-968	-590	-3,179
Capital and financial balance [i]	2,814	165	2,491
Overall balance	1,846	-424	-687

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

The value of exports fell by 28.5% year-on-year between January and September, as the value of oil exports plummeted by 48.3% (despite a 6.7% rise in volume) and non-oil exports slipped by 5.6%. Consequently, the trade balance posted a US$ 1.681 billion deficit in this period, compared with a US$ 523.31 million surplus recorded in the same period in 2014.

Quarter-on-quarter GDP growth was negative in the first two quarters of 2015. However, compared with 2014, GDP grew by 2.1% in the first half of the year, driven by public and private consumption, which expanded by 5.1% and 3.5%, respectively. Gross fixed capital formation, meanwhile, increased by only 0.9%. Cuts to public investment started to have more of an effect on quarter-on-quarter growth, with gross fixed capital formation shrinking by 2.1% in the first quarter and by 1.4% in the second. Net exports were down by 8.8% in the first quarter and 2.8% in the second.

The most dynamic branches of economic activity in the first half of the year were aquaculture and fishing, which expanded by 14.3% and 13.1%, respectively, compared with the same period in 2014. The oil sector shrank by 1.3% and oil refining contracted by 39.7% in the same period. However, refining returned to quarter-on-quarter growth in the first quarter of 2015, owing to the gradual reopening of the Esmeraldas refinery. National crude oil output fell by 4.0% between January and September 2015 compared with the same period in 2014.

Following a mid-year upsurge driven by the import surcharges introduced in March, consumer price inflation returned to a more moderate level with a cumulative 12-month rate of 3.5% in October. The national urban unemployment rate rose to 5.5% in September, compared with 4.7% in the same month in 2014. Although this higher unemployment is largely attributable to the expansion of the economically active population, from 62.3% to 65.3%, there was also a relative increase in inadequate employment, from 37.3% to 39.4%, and a fall in adequate employment, from 57.6% to 54.4%. The standard minimum wage grew by a nominal 4.1% in 2015, remaining flat in real terms, after posting real growth of 3.2% in 2014.

Modest growth is expected for 2016, owing to the effects of low oil prices and the sharp decrease in public expenditure. The 2016 budget reflects the new reality of low oil prices and the government is scaling back public investment by 28.7% and subsidies by 46.5% (compared with the original 2015 budget), while maintaining personnel expenditure. As a result, the government expects the central government deficit to narrow to 2.4%. The country also faces the risk of natural disasters posed by the El Niño phenomenon and the eruption of the Cotopaxi volcano.