



Economic Outlook

The Ecuadorian economy recovers at the end of the year, thanks mainly to the rebound in private consumption and the recovery of exports. However, it's necessary to wait for the result of the measures announced by the Government to promote the economic reactivation. On the other hand, cuts in public spending, together with the drop in foreign investment, reduce gross capital formation. Also, the reduced price of oil and the failed attempts to diversify the economy make necessary to continue depending on the external debt. Finally, the fall in inflation and the unemployment rate, with alarming underemployment figures are remarkable.

- **The fiscal deficit continues to be at high levels**, despite the growth of tax and tariff revenues. This is because the expenditures on salaries and investments cannot yet be covered by budget revenues, despite the austerity measures implemented on September. On the other hand, spending on public works have been reduced. However, all these measures to reduce spending are insufficient and the external debt continues to rise.

Forecast Scenario

- **The new Government of Ecuador faces the challenge of reducing the high fiscal deficit.** For this, it will be necessary to continue reducing public spending, in a convulsive political environment. The recent collapse in oil prices has highlighted the enormous dependence, which makes necessary to promote diversification. The current government will continue with the policy of encouraging private investment, through tax incentives, the privatization process and collaboration with the private sector. Also, the impulse of the non-oil sectors is of vital importance as well as to undertake measures aimed at favoring exports, labor and judicial reforms, and commercial opening.
- **Modest economic growth is expected**, as a consequence of the political uncertainty that comes with the referendum proposed by president L. Moreno. On the other hand, fiscal adjustments and the privatization process will contribute to reduce the levels of gross fixed capital formation. In addition, cuts in public spending, due to oil prices, continue to be necessary. Also, there is an expected reduction in chinese demand. On the supply side, efforts to diversify and private investment are insufficient. A reduction in inflation and a progressive deterioration of the current account balance are expected.

Also in the news...

- The economy will continue to grow thanks to the growth of exports and private consumption
- Inflation and the unemployment rate are reduced.
- Foreign investment is reduced, which is why we rely more on external debt.
- The state oil company of Ecuador will sign an agreement this month with the French oil company Schlumberger to settle the debt of 300 million dollars.
- The government presents a tax reform, together with a law of economic reactivation.

- After the last presidential elections, the country risk indicator of the World Bank shows a marked decrease.
- Ecuador's public prosecutor's office will file charges against the Brazilian construction company Odebrecht for the crime of tax fraud.
- Quito will host an Australia-Ecuador business summit.
- On Tuesday, November 21, the Economic Commission of the Assembly met to analyze the bill to boost economic recovery.

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Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend ⁽¹⁾
GDP (% growth)	17.II	1.9	-0.1	Positive
Economic Activity Index (% growth)	Sep.17	3.2	-0.6	Positive
Consumer Prices – IPCA (% growth)	Oct.17	-0.1	1.3	Negative
Consumer Confidence Index (% growth)	Sep.17	14.6	-8.5	Positive
Exported Barrels of Oil (% growth)	Sep. 17	1.3	-6.6	Positive
Reserves (Thou. Mill. \$)*	May.17	12.4	2.8	Positive
Direct Foreign Exchange (Mill.\$)	17.II	175	185	Negative
Unemployment Rate (%)	Sep.17	5.4	6.7	Negative
External Public Debt (Thou. Mill.\$)	Sep.17	27.9	24.9	Positive

Annual change rates.*Gold excluded.** Current and last trimester's data.

(1) According to changes observed over the past 12 months ⁽¹⁾

Financial Data	Latest Data	Growth in	
		3 months	1 year
Stock Exchange (Ecuindex)	20 Nov. 17	1,222	1.6% -14.1%
Basic Exchange Rate BCE	20 Nov. 17	0.2	0.2(*) 0.2(*)
EMBI	20 Nov. 17	543	640 (*) 747 (*)
Exchange Rate \$/€ (**)	20 Nov. 17	1.2	0.3% 10.1%

(*) 3 months and 1 year ago respectively.

(**) The currency is dollarized

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% of growth)	-1.5	0.7	0.7
Inflation (average %)	1.7	0.6	1.3
Current Account Balance (% of GDP)	1.4	-0.8	-2.2
Deposits Interest Rate (average %)	8.7	8.0	7.9
Unemployment Rate (average %)	5.2	5.0	4.9
Exchange Rate \$/€	1.2	1.2	1.2

Ecuador: general information

Official Name: Republic of Ecuador

Area: 276,840 Km²

Population: 16.5 million (2016)

Government: Presidential democracy.

President: Lenin Moreno. Alianza País Party.

Next Elections: 2019 municipal elections.

Economy Minister: José Espinel.

Central Bank President: Verónica Artola.

Currency: American Dollar

Exchange Rate System: dollarized

Nominal GDP: 99.1 Thou. Mill. (2016 US\$).

GDP/h: 11,037 (2016 US\$ ppp).

Life Expectancy: 76.1 (2015).

Average Years of Schooling: 8.3 (2015)

Risk Evaluation: MEDIUM-HIGH

Exchange Rate Instability: MEDIUM

With the new tax reform presented by the executive it is intended to protect the dollarization system, encouraging the use of different electronic means of payment. Currently, this proposal is being negotiated with the business community.

Sovereign Risk: MEDIUM

The country risk level has been reduced during the last year, and mainly after the takeover of the current executive in May 2017. However, it is necessary to strengthen investor confidence and reduce dependence on external debt.

Public Sector Finance: MEDIUM-HIGH

The new Government of Ecuador is undertaking cuts in public spending, which will help reduce the public deficit. However, the public debt will continue to grow as a consequence of the growing loans from international organizations.

Socio-political Situation: HIGH

The fissures in the presidential party following the referendum proposed by the current president, along with recent cases of corruption, hinder political stability and reduce their levels of popularity.

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