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Ecuador: Selected Issues and Statistical Annex

This Selected Issues and Statistical Annex report on Ecuador was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Ecuador or the Executive Board of the IMF.

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ECUADOR

Selected Issues and Statistical Annex

Prepared by Erik Offerdal, Mariano Cortés, Mayra Zermeño, Alvin Hilaire (all WHD),
Gabriela Inchauste (FAD), Fernando Delgado,
Antonio Pancorbo (both MAE), and Werner Keller (PDR)

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Ecuador: Basic Data

I. Social and Demographic Indicators

Area (sq. km)	276,840	Nutrition (1996)	
Land use (percent of land area)	5.69	Calorie or protein intake (per capita a day)	2,592
Population (1999)		Health (1996)	
Total (million)	12.2	Population per physician	588
Annual rate of growth, 1990-98		Population per hospital bed	602
(percent a year)	2.2	Population per nurse	2,174
Density (per sq. km.)	44.0		
GDP per capita (US$)	1,130	Access to electricity (1995)	
		Percent of dwellings	
Population characteristics (1998)		Urban	99.3
Life expectancy at birth (years)	70.4	Rural	74.0
Crude birth rate (per thousand)	24.4		
Crude death rate (per thousand)	5.7	Access to safe water (1995)	
Infant mortality (per thousand live births)	32.24	Percent of population	
Under 5 mortality rate (per thousand)	37	Urban	81.0
		Rural	10.0
Income distribution (1995)			
Percent of income received:		Education (1997)	
By highest 10 percent of households	42.8	Adult literacy rate	90.6
By lowest 20 percent of households	2.5	Gross enrollment rates, in percent (1996)	
Gini coefficient	0.5	Primary education	127
		Secondary education	50
Distribution of labor force, in percent		Tertiary education	26
Agriculture	31.6		
Industry and mining	12.7	GDP (1999) (S/., billion)	161,350
Services	19.1	(US$, million)	13,769

II. Economic Indicators, 1995–Q1 2000

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
	(In percent of nominal GDP)					
Origin of GDP						
Agriculture, and petroleum and mining	22.4	22.5	20.9	17.7	23.6	...
Manufacturing and construction	25.7	26.3	26.0	26.8	25.8	...
Services	51.9	51.2	53.1	55.5	50.6	...
	(Annual percentage changes, unless otherwise indicated)					
National accounts and prices						
Real GDP	2.3	2.0	3.4	0.4	-7.3	-1.3
Real GDP per capita	0.2	-0.1	1.3	-1.7	-9.2	-3.3
GDP deflator	23.2	29.4	25.9	35.4	62.0	82.7
Consumer price index (period average)	22.7	24.4	30.6	36.1	52.2	83.2
Consumer price index (end of period)	22.8	25.5	30.7	43.4	60.7	80.9
Unemployment rate (in percent)	6.9	10.4	9.3	11.8	15.1	16.1
	(Ratios to GDP)					
Gross domestic investment	18.7	17.3	20.2	24.7	12.9	14.2
Of which: Public investment	3.3	3.2	3.3	3.8	3.3	...
Gross national savings	13.9	18.9	15.8	13.5	19.3	31.6
External savings	4.8	-1.6	4.3	11.1	-6.4	-17.4
Private consumption	67.7	63.9	67.2	70.4	65.5	64.0
Public consumption	12.6	11.8	11.6	11.7	10.4	11.2
Public finances						
Central government						
Total revenues	17.4	16.9	17.4	16.2	19.7	26.4
Total expenditures	20.1	19.5	18.8	21.1	24.3	26.6
Of which: Interest	3.4	4.0	4.7	4.7	9.3	13.6
Savings	1.3	2.0	2.5	0.4	0.4	3.9
Primary balance	0.7	1.4	3.3	-0.1	4.7	13.4
Overall balance	-2.7	-2.6	-1.4	-4.8	-4.6	-0.2
Consolidated public sector						
Primary balance	1.9	1.1	2.7	-1.3	4.1	14.0
Overall balance	-2.5	-3.0	-2.4	-5.9	-7.2	0.6

Ecuador: Basic Data

	1995	1996	1997	1998	Prel. 1999 Q1	Prel. 2000
(12-month percentage changes, unless otherwise indicated)						
Money and credit 1/						
Financial system liabilities to private sector	46.4	48.1	33.2	38.9	18.1	-5.5
Of which						
Money	12.7	35.4	29.7	34.8	88.6	-0.1
Quasi money	49.3	45.6	27.7	31.9	4.4	-8.4
Net domestic assets of the financial system	72.9	38.1	47.7	62.4	23.6	-10.5
Of which						
Credit to the public sector (net) 2/	-17.1	26.9	-18.8	-147.8	-93.9	-8.1
Credit to the private sector	43.5	28.0	34.9	47.1	-29.7	-9.8
Liabilities to private sector, in percent of GDP	39.7	42.6	45.8	47.2	48.3	27.8
Representative interest rate (in percent) 3/	47.8	33.7	31.8	49.2	47.1	9.4
(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments						
Current account	-735	-140	-713	-2,170	955	414
Merchandise trade balance	354	953	598	-995	1,665	590
Exports	4,411	4,900	5,264	4,203	4,451	1,230
Imports	-4,057	-3,947	-4,666	-5,198	-2,786	-640
Services and transfers (net)	-1,089	-1,093	-1,310	-1,175	-710	-175
Of which : Interest	-826	-900	-968	-1,063	-1,134	-322
Capital and financial account	579	416	974	1,775	-1,377	-507
Foreign direct investment	470	491	696	831	636	200
Portfolio investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other capital (net) 4/	109	-75	278	944	-2,013	-707
Errors and omissions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in net international reserves	156	-276	-261	395	422	93
Exports (in percent of GDP)	24.6	25.6	26.6	21.3	33.3	51.7
Imports (in percent of GDP)	22.6	20.6	23.6	26.3	20.8	26.9
Current account (in percent of GDP)	-4.1	-0.7	-3.6	-11.0	7.1	17.4
Merchandise exports (in US$, annual percentage change)	14.8	11.1	7.4	-20.2	5.9	22.9
Merchandise imports (in US$, annual percentage change)	23.6	-2.7	18.2	11.4	-46.4	-26.9
Terms of trade (annual percentage change)	-4.0	9.2	3.8	-13.3	6.9	...
Real effective exchange rate (12-month percentage change)	-7.0	1.4	12.6	-8.4	-36.3	-19.5
International reserve position and external debt (as of end of period)						
Gross official reserves 5/	1,805	2,035	2,270	1,796	1,402	778
(in months of imports)	4.4	5.1	4.7	3.4	4.6	2.3
Net official reserves 5/	1,556	1,832	2,093	1,698	1,276	778
Net reserves of the banking system 5/	1,330	1,803	1,642	1,077	1,019	787
Outstanding external debt, in percent of GDP	77.7	76.2	76.9	82.2	118.8	135.4
Public	69.0	65.9	64.2	66.2	100.3	111.4
Private	8.7	10.2	12.8	16.0	18.4	23.9
Total debt service ratio (in percent of exports of goods and services)	28.8	28.8	30.5	35.7	33.8	35.9
Of which : Interest	15.7	15.7	15.9	21.2	21.5	22.1

IMF data (as of June 30, 2000)	
Membership status:	Article VIII
Intervention currency and rate	U.S. dollar at S/. 25,000 per U.S. dollar
Quota	SDR 302.3
Fund holdings of sucres	SDR 370.15
(as percent of quota)	122.4 percent
Outstanding purchases and loans	SDR 85.0
SDR department	
Net cumulative allocation	SDR 32.93
Holdings	SDR 0.46

Sources: Ecuadoran authorities; and Fund staff estimates.

1/ The rates of change reported for Q1 2000 correspond to the rates of growth in relation to the stocks outstanding at end-1999, with the sucre accounts converted into U.S. dollars at S/.25,000 per US$1.

2/ The figure reported for Q1 2000 corresponds to a new classification of accounts recently introduced and is not comparable to those of previous years.

3/ Corresponds to the 84-91 days average deposit rate.

4/ Includes reschedulings and net change in payments arrears.

5/ Starting in Q1 2000, for the central bank component of reserves, the free disposable international reserves are used.

I. OVERVIEW[1]

1.   The Ecuadoran economy has recorded a poor performance over the past decade. Trend growth has been negative since before 1990, productivity growth has been negligible, per capita GDP has been stagnant since 1975 and poverty and income inequality have been on the rise over the past few years. Many factors have contributed to this unfortunate outcome. Structural rigidities have distorted resource allocation and left the economy highly vulnerable to shocks. Such shocks have been frequent and severe, including fluctuations in world oil prices, as well as natural disasters (a serious earthquake in 1987, and the *El Niño* weather phenomenon, most recently in 1997). Macroeconomic policy management to counter these shocks has been weak, overly dependent on oil revenues, and sometimes hampered by conflicting objectives. The fractious domestic politics and the frequent changes of government have derailed many well-intentioned reform efforts.

2.   The eight chapters in this paper provide some background and analysis on recent economic developments in Ecuador. Much of the focus is on the crisis of the past few years, where a weak banking sector was one of the major contributing factors (Chapter III), and which ultimately led Ecuador to abandon its own currency and introduce the U.S. dollar as legal tender (Chapter IV). However, to illustrate the weak growth performance of the country in this decade (Chapter II), it is necessary to examine the structural weaknesses in the labor market (Chapter V), the tax system (Chapter VI), and the trade system (Chapter IX). These weaknesses resulted in the increase in poverty and inequality (Chapters VII and VIII). This overview provides a brief summary of recent economic developments.

A. The Macroeconomic Crisis in 1998–2000

3.   During 1996–97 the Ecuadoran GDP grew by an annual average of 2.7 percent, just sufficient to allow a small increase in per capital GDP. However, in 1998 growth stagnated, and in 1999 real GDP declined by an estimated 7.5 percent of GDP as Ecuador underwent probably the worst macroeconomic crisis it has experienced in recent decades. At the same time, inflation increased by 25–30 percent annually in 1996–97 to 61 percent in 1999 (end-of-period). During 1998 and 1999, the real effective exchange rate depreciated by a total of almost 50 percent. Three factors contributed importantly to the crisis: a vulnerable economy, policy weaknesses, and external shocks.

4.   The **vulnerability** of the Ecuadoran economy can be illustrated by a few indicators:

- External debt was very high—77 percent of GDP and 250 percent of exports by end-97—much higher than most other Latin American countries. Most of this (64 percent of GDP) was public debt, and in addition the public sector had substantial domestic debt (8–9 percent of GDP) mostly denominated in U.S. dollars. Ecuador already had

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[1] Prepared by Erik Offerdal.

significant debt servicing problems prior to the crisis; external arrears was close to US$550 million by end-98, almost all to Paris Club creditors.

- The banking sector had a long history of weak balance sheets, periodic bailouts, and ineffective supervision; by end-97 nonperforming loans ratio stood at 7 percent of total banking sector assets.

5.   Three **external shocks** hit Ecuador during 1997–98. The first was the *El Niño* weather phenomenon in 1997, where the total economic damage, including crop losses and the destruction of 2,500 km of roads and 19 bridges, was about US$2.6 billion (or 13 percent of 1998 GDP).[2] The immediate impact was a substantial loss of agricultural exports, especially bananas (nonpetroleum export volume declined by almost 4 percent in 1998). On the heels of this came the decline in world oil prices which caused the public sector to lose about 3.5 percent of GDP in oil-related revenues in 1998 compared to the year before;[3] overall exports (oil and non-oil) declined by 20 percent in U.S. dollar terms. Finally, the Russian crisis in the fall of 1998 contributed to substantial turbulence in international financial markets and a marked decline in the external credit lines for the Ecuadoran banking system.

6.   The **policy weaknesses** included a failure to deal decisively with the emerging solvency and liquidity problems in the banking system, an accommodative fiscal stance—the nonfinancial public sector deficit averaged 1.8 percent of GDP in the 1993–97 period and an expansionary monetary policy (geared to help contain the public sector's interest bill and support the fragile banking system). Substantial earmarking of tax revenues (about 65 percent of the total), and an over-dependence of fiscal revenue on oil exports introduced rigidities into fiscal policy and contributed to the widening of fiscal deficits.

7.   With credibility in economic policy-making shattered, with hyperinflation looming after the sharp depreciation of the *sucre* toward the end of 1999, and with the prospects of regaining access to international financial markets all but lost after the sovereign default on the Brady bonds in the fall of 1999, the government therefore announced its intention to dollarize the economy on January 10, 2000.

B.   Longstanding Structural Weaknesses

8.   The crisis has clearly been the key factor in the recent deterioration in growth and living standards. However, the initial vulnerability was the result of longstanding and serious

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[2] Estimated by the Economic Commission for Latin America and the Caribbean

[3] About 2 percent of GDP were direct export revenues from oil, and 1.5 percent was a deterioration in the operating surplus in state enterprises, primarily the oil company Petroecuador.

rigidities that have distorted the allocation of resources and hampered a more vigorous growth. These rigidities are evident in several areas.

9.   The **banking sector** has, for a number of years, been dominated by connected lending practices, high foreign currency exposure, and—in some cases—openly fraudulent practices. In addition to the resulting weakening of balance sheets, this has also distorted the allocation of credit between sectors and economic activities.

10.   The **labor market** has been dominated by high hiring and firing costs, detailed minimum wage legislation, and a highly complex system for wage setting, all of which has contributed to low mobility and flexibility.

11.   The **tax system** has been dominated by the dual weaknesses of tax legislation and regulations that contain distortive provisions, such as high and dispersed import tariff rates, a financial transaction tax that encourages financial disintermediation, and high payroll taxes. Equally serious, until recently, is the weak tax administration, which adds to lack of transparency and uneven enforcement across sectors and economic activities.

12.   The **trade system** retains, in addition to moderately high tariff rates, a number of nontariff barriers. In general, Ecuador has been slower in liberalizing its trade system than many of its neighbors.

13.   Ecuador has maintained a system of **regulated prices** on a number of commodities produced by public utilities. Most prominent among these have been telecommunications, electricity, cooking gas, and fuels. Despite recent price increases, electricity and cooking gas remain highly subsidized, resulting in a drain on scarce fiscal resources.

14.   Development of the oil sector has been hampered by restrictions on foreign investment in parts of the sector, most notably a state monopoly in transshipment of petroleum products through the oil pipeline, and by fiscal constraints that have limited public investment as well as maintenance expenditures.

C. Poverty and Inequality

15.   Already before the economic crisis, Ecuador was a country with a high degree of poverty; it has been estimated that in 1995 about 33 percent of the population lived in poverty and 10–12 percent lived in extreme poverty. By 1999, these percentages had increased dramatically, to 40 and 15 respectively, with the incidence of extreme poverty reaching 30 percent in the rural areas. Much of this increase in poverty was the direct result of higher unemployment and compression of real wages and pensions. In addition, the increase in poverty in the coastal areas was a direct result of *El Niño* related damage to housing and infrastructure.

16.   Despite the fairly large number of social protection programs and the substantial resources devoted to them (4.7 percent of GDP in 1999), they have not been able to prevent a

sharp increase in poverty during the crisis, mainly because of inadequate targeting, substantial regressivity, overlapping functions, and poor oversight and control.

17.   Corresponding to the high incidence of poverty, there is substantial income inequality in Ecuador: the poorest 10 percent of the population account for only 1.3 percent of total household expenditures whereas the richest 10 percent account for 41 percent. This makes the distribution of income and expenditures in Ecuador among the more unequal in the region, in particular in comparison with its neighbors: Peru, Colombia, and Venezuela.

II. Sources of Economic Growth, 1970–99[4]

18.   This chapter provides an overview of Ecuador's economic growth over the past three decades. The objective is to highlight some of the key features of long-term growth, and thus to set the stage for the subsequent chapters. The discussion is divided into three sections: the first looks at Ecuador's growth in a regional perspective, the second uses a production function approach to calculate the contribution to growth from capital, labor, and total factor productivity, and the last looks more closely at growth in the 1990s.

A. Growth Performance in a Regional Perspective

19.   A simple comparison of economic growth per capita in Ecuador with seven other countries in the region is provided in Figure II.1 and Table II.1.[5] The difference between Ecuador and the other countries in growth performance is striking:

- Ecuador had strong growth from 1970 until 1981; during this period GDP per capita increased by 70 percent, more than any other country in the sample. Since then, however, GDP per capita has effectively been stagnant—first declining in the early to mid-1980s, and then growing slowly in the 1990s until the present crisis—resulting in a level in 1997–98 that was the same as in 1981.

- In contrast, Argentina, Bolivia, Chile, and Peru went through the 1970s and early 1980s without any gains in GDP per capita. Since then, however, these four countries have recorded sharp recoveries; a doubling of GDP per capita in Chile between 1985 and 1999, and overall increases of 25–35 percent since around 1990 in the others. Colombia had steady improvement in GDP per capita; about 70 percent from 1970 to 1999. Venezuela recorded a decline of about 15 percent during the same period.

20.   In 1998, Ecuador had a GDP per capita, measured in PPP terms of US$3,003; only marginally higher than Bolivia, and about one fourth of that in Argentina.

21.   However, the differences between Ecuador and the other countries in the sample are far less pronounced in terms of conventional factors of growth, e.g., accumulation of physical and human capital. The average rates of investment and domestic savings relative to GDP in Ecuador have been at a broadly similar level to those of the other countries for the whole period. Moreover, the improvements in a few selected human development indicators have been similar to the other countries (see Table II.1).

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[4] Prepared by Marcio Ronci, Marcelo Sanchez, and Erik Offerdal.

[5] The other countries in the sample are: Argentina, Bolivia, Brazil, Chile, Colombia, Peru, and Venezuela.

22.   The reasons behind the turnaround in the mid-1980s for Argentina, Bolivia, Chile, and Peru have been researched extensively and documented elsewhere: a change from unsustainable policies and severe macroeconomic instability, culminating with the debt crisis in the early 1980s, to the subsequent introduction of more stable macroeconomic policies combined with structural reforms. Ecuador's different experience can, to some extent, be ascribed to exogenous shocks. The strong growth in the 1970s was driven in large part by discoveries of new petroleum fields in the eastern region of the country and the sharp increase in the international price of oil in 1972–73. Similarly, the decline in oil prices in the early 1980s and the devastating earthquake in 1987 clearly dampened growth. However, there is also ample evidence, discussed in later chapters, that Ecuador's failure to pursue sound financial policies in combination with the lack structural reforms has been another important factor behind the disappointing performance, especially in the 1990s.

B. Sources of Growth in Ecuador

23.   This section provides estimates of the contributions from capital, labor, and total factor productivity to potential output growth for Ecuador during 1975–93.[6] First, production functions for two separate sectors ("oil" and "non-oil") are estimated econometrically, using an error correction model.[7] These production functions provide the basis for a growth accounting framework that allows us to calculate total factor productivity (TFP) and the contribution to growth from capital, labor, and TFP (see Annex).

24.   The **estimation results for the two production functions**—oil and non-oil sectors— are presented in Tables II.2a and II.2b.[8] In both sectors the dependent variable is the log of the ratio of sectoral GDP to sectoral labor input. Three general results apply to both sectors:

• The hypothesis of constant returns to scale could not be rejected

• Human capital measures were not statistically significant as inputs, and are, therefore, not reported;

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[6] The analysis could not be carried beyond 1993 because of lack of reliable data on capital stocks after this date.

[7] The oil sector is defined to include all of division 2 in the ISIC classification; it thus corresponds to the mining sector. In Ecuador, division 2's dominant components are crude oil and gas; it also includes refining of petroleum and other mining.

[8] The test for cointegration is based on the OLS coefficient of the lagged dependent variable in an autoregressive distributed lagged model (eventually) augmented with leads of the regressors. For an application of this modeling strategy, see Belke and Golke (1996).

- A time trend intended to capture the possibility of disembodied technical progress was not significant. Therefore, technical progress seems to have been embodied in the physical capital.

25.   **For the oil sector,** the regressors are a constant, and four other variables which interacts with a step dummy that equals one for 1974 onwards and zero otherwise: the constant, the change in the log of capital to labor, the log of the ratio of GDP to labor lagged, and the log of the ratio of capital to labor lagged. The step dummy for 1974 was statistically significant, indicating that the existence of a structural break after the exogenous shocks of years 1972 and 1973, and thus that a change in the key parameters of the sector could not be rejected. Similarly, the three impulse dummies for the years 1972, 1973, and 1987 were statistically significant, accounting for shocks to the sector.

26.   **For the non-oil sector,** the regressors are a constant, the change in the ratio of capital to labor, the log of the ratio of GDP to labor lagged, the log of the ratio of capital to labor lagged, and the lead of the change in the log of the ratio of capital to labor. A step dummy variable from 1972 onwards was included, and was significant, providing some evidence of a positive spillover effect from the oil sector to the non-oil sector.

27.   The calculation of the **contributions to growth** is summarized in Table 3. The Ecuadoran economy grew at an average annual rate of 3.6 percent in real terms in 1975–93 (3.4 percent in the non-oil sector, and 4.8 percent in the oil sector). Four points are noteworthy from Table II.3:

- Since the mid-1970s, i.e., since immediately after the big oil windfall, there has been a steady decline in Ecuador's potential GDP growth rate; from 6.4 percent annually in 1975–80 to 1.8 percent in the early 1990s.

- The capital contribution to growth was quite large, i.e., 6–7 percent in both sectors, during the period 1975–80, but has since declined sharply.

- The contribution of labor to growth has been fairly steady in both sectors throughout the observation period.

- The TFP contribution has, for the whole economy, been negative throughout the observation period.[9] For the non-oil sector, the TFP contribution was positive only during 1965–75, i.e., in the period before the oil windfall. For the oil sector, the TFP

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[9] Series of TFP growth in both of the sectors were estimated by subtracting a weighted sum of factor inputs from GDP growth, using as weights the factor share estimated in the regressions in Tables II.2a and II.2b. The TFP series were then smoothed using a Hodrick-Prescott filter.

contribution was positive only during the early nineties, when the sector grew rapidly despite no new investments.

28.   This simple growth accounting framework obviously cannot establish what "caused" economic growth. What it does establish, however, is that TFP has been significantly less of a factor behind growth in Ecuador than in other countries in the region; typically periods of high growth are associated with periods of high TFP contribution to growth (Table II.4). Total factor productivity is a broad measure of the flexibility of an economy and thus its ability to allocate a growing stock of productive resources to its most efficient uses. This suggests that there are important structural rigidities in the Ecuador economy that inhibit a more vigorous growth response.

C.   Growth in the 1990s

29.   Data limitations do not permit the above detailed analysis to be carried beyond 1993. However, a closer examination of national accounts data for the period 1990–99 reveals some interesting observations:

- Trend growth, illustrated in Figure 2 by applying a Hodrick-Prescott (HP) filter to real GDP growth, was negative throughout the decade. This conclusion is fairly robust to the choice of end-point (i.e., by eliminating a possible bias from the strong negative growth in 1999), to using annual or quarterly GDP figures, and to using moving averages rather than a HP filter to calculate underlying trend. This replicates the finding above, and suggests that potential, or trend, growth has been on a declining path since around 1975, and ending the decade at about 1.6 percent annually. With an annual population growth averaging 2.5 percent, a rather significant reversal of trend growth would be necessary to improve average living standards.

- An important reason for the decline in growth in this decade has been the declining contribution to growth from the petroleum sector (Table II.5). In 1998–99 this decline is obviously related to the sharp drop in oil prices in 1998 following the Asian crisis. However, the declining growth contribution started earlier in the decade, and is explained mainly by the fiscal constraint: maintenance expenditures on existing oil installations have been negligible for several years, resulting in declining production volumes.

- The contribution to non-oil growth in the 1990s has come predominantly from non-tradeables sectors, i.e., construction, and services (except financial services), while tradeable sectors, especially manufacturing and to some extent agriculture, have contributed a sharply declining share (Table II.5). A similar picture emerges when looking at the contribution to growth by expenditure components: the contribution from domestic demand increased sharply in 1997–99. To some extent, this illustrates the impact of the El Niño weather phenomenon that devastated much of coastal agriculture in 1997. However, the growing contribution from the service sectors also

suggests a bias in underlying economic incentives that have attracted more resources toward the non-tradeable sector, and thus to a more "inward-looking" economy.

- **Annex: A Production Function Approach**

A Cobb-Douglas specification of the production function (in logs) can be written as:

(1) $$\text{Log } Y_t = a + b\,t + \alpha \text{ Log } K_t + \beta \text{ Log } L_t + (1 - \alpha - \beta) \text{ Log } H_t$$

If neither the trend nor the human capital term is significant the production function reduces to the intensive form:

(2) $$\text{Log } y_t = a + \alpha \text{ Log } k_t$$

where $y=Y/L$ and $k=K/L$.

The production function equation was estimated using cointegration techniques that are particularly appropriate for uncovering the long-run relationships between inputs and outputs.[10] Once α is estimated, a total factor productivity series (in logs) can be calculated as:

(3) $$\text{Log } A_t = \text{Log } Y_t - \alpha \text{ Log } K_t - (1 - \alpha) \text{Log } L_t$$

Neither the capital stock nor the labor measure (which corresponds to the economically active population concept) is adjusted by the degree of utilization or unemployment. This does not affect the estimates of the capital share, and thus of the long-run contribution of capital and labor. However, it may affect the estimates over shorter horizons. One way to address this problem is to use "smoothed," or trend, estimates of TFP, using the Hodrick-Prescott filter. By replacing this smoothed TFP, together with the estimate of the capital share in equation (2), an estimate of potential output is calculated.

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[10] Since it is possible to find the presence of structural breaks during the sample period, we have tested for stability of the estimating equations as well as tried several step and impulse dummies.

Figure II. 1. Ecuador: Per Capita GDP Growth of Selected Latin American Countries
(Index numbers, 1970=100)
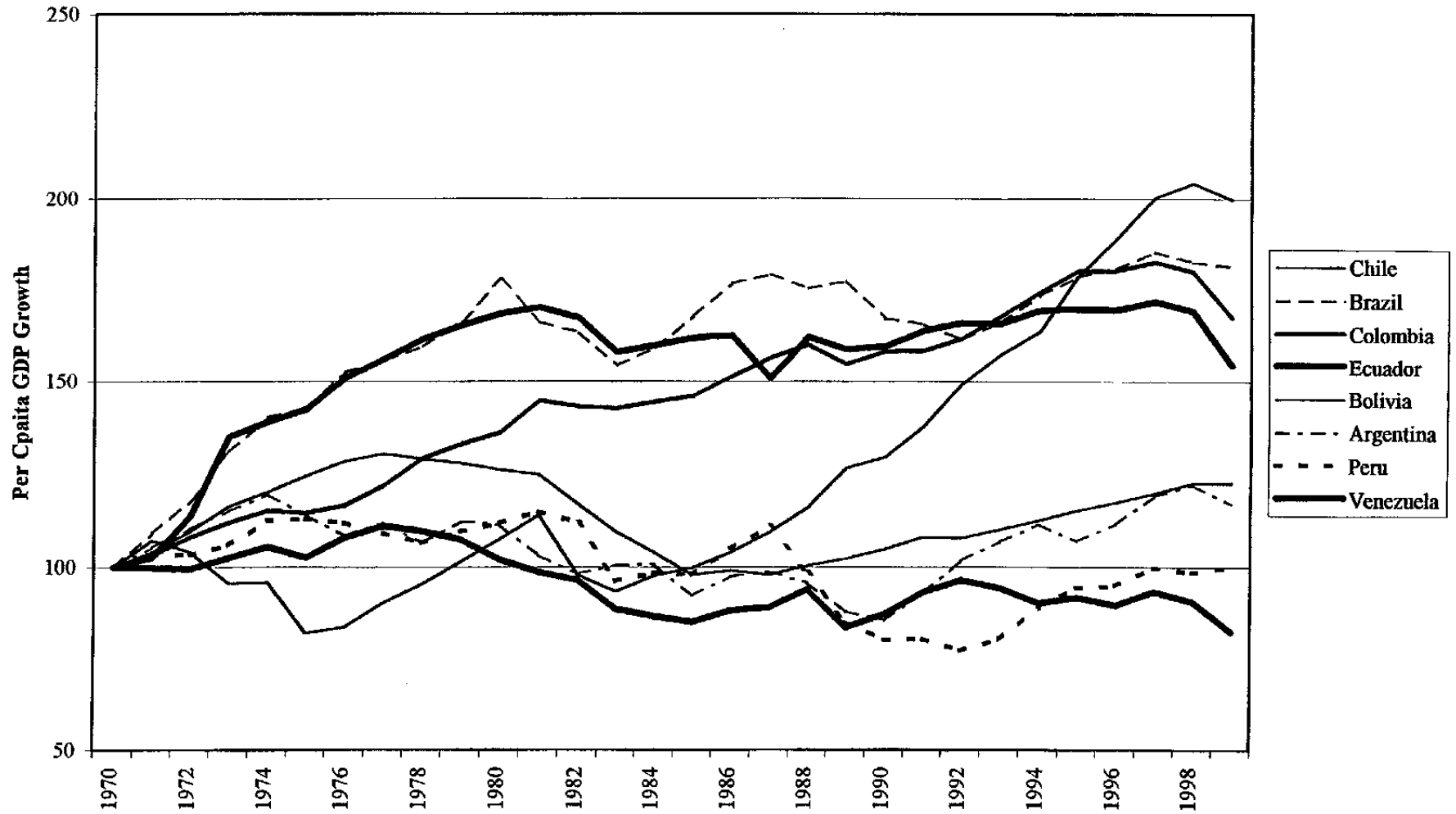
Source: World Economic Outlook

Figure II. 2. Ecuador: Actual and Trend GDP Growth

12-month annual GDP growth

Hodrick-Prescott filtered

12-month quarterly GDP growth

Hodrick-Prescott filtered
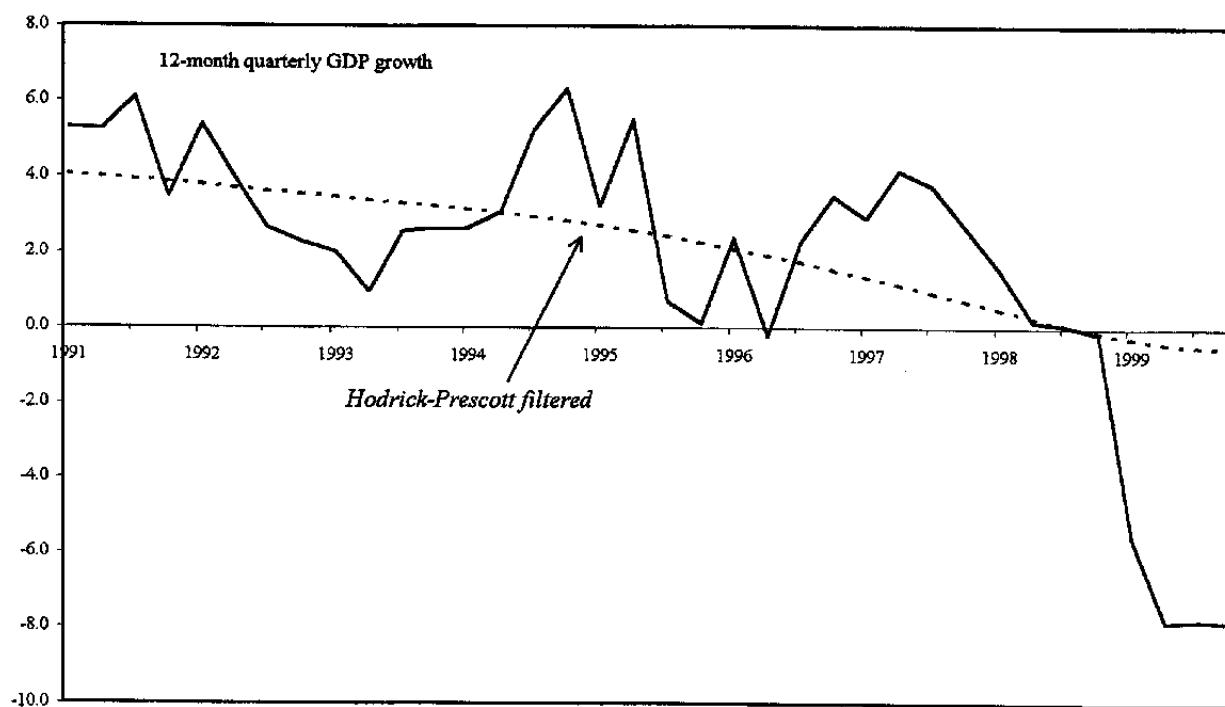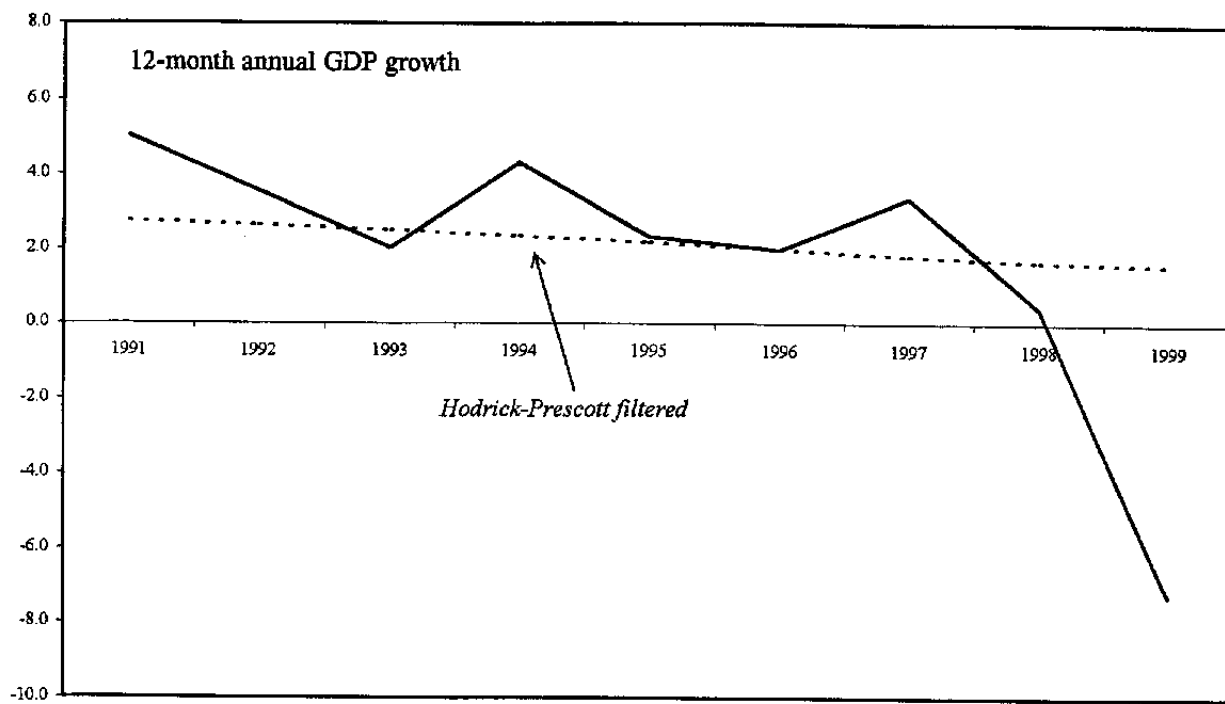
Sources: Ecuadoran authorities; and Fund staff estimates.

Table II. 1. Ecuador: Comparison of Growth Indicators
for Eight Latin American Countries, 1970-99

	Chile	Brazil	Colombia	Ecuador	Bolivia	Argentina	Peru	Venezuela
(Per capita GDP, U.S. dollars, PPP terms)								
1975	1,443	2,241	1,993	1,075	n.a.	4,154	1,926	2,891
1985	3,023	4,444	3,938	2,105	n.a.	6,535	2,838	3,879
1998	8,787	6,625	6,006	3,003	2,269	12,013	4,282	5,808
(Average annual per capita real GDP growth)								
1970-80	0.7	5.9	3.1	5.4	2.3	1.1	1.1	0.2
1980-90	1.9	-0.6	1.5	-0.5	-1.8	-2.6	-3.3	-1.6
1990-99	5.0	0.9	0.6	-0.4	1.8	3.5	2.5	-0.6
(Average annual gross fixed investment as percent of GDP)								
1970-79	17.7	21.7	18.3	21.1	n.a.	25.8	19.3	27.4
1980-89	17.1	20.8	20.0	20.0	13.9	n.a.	22.7	20.6
1990-98	23.6	19.6	19.2	19.4	16.2	19.0	19.6	17.4
(Average annual gross domestic savings as percent of GDP)								
1970-79	16.8	20.8	19.8	20.9	23.9	27.2	17.6	37.8
1980-89	19.0	23.2	21.1	21.8	14.0	22.4	24.9	25.6
1990-98	25.8	20.5	19.1	22.2	10.1	17.2	18.2	24.1
Adult illiteracy rates (percent)								
1970	11.8	31.8	22.0	25.7	42.2	7.0	28.4	23.5
1998	4.6	15.5	8.8	9.4	15.6	3.3	10.8	8.0
Public sector spending on education (in percent of GDP)								
1965	3.5	2.6	2.2	3.0	2.2	4.1	4.3	3.3
1994	3.0	1.7	3.4	3.4	4.9	3.8	3.9	5.2
Life expectancy (years)								
1967	60.6	57.9	60.0	56.8	45.0	66.0	51.5	63.7
1998	75.4	67.1	70.3	70.4	61.9	73.3	68.6	73.0
Number of physicians per 1000 individuals								
1965	0.5	0.4	0.4	0.3	0.3	1.7	0.6	0.8
1995	1.1	1.3	1.0	1.3	0.3	2.7	1.0	1.9

Source: World Economic Outlook

Table II. 2a. Ecuador: Production for the Oil Sector, 1965-93

Dependent variable: Delta Log y(t)		
Variable:	*Coefficient:*	*t-statistic:*
C	-0.015	-0.554
C74on	0.184	2.670
Delta Log k(t) 74on	-0.712	-7.757
Log y(t-1) 74on	0.580	6.182
Log k(t-1) 74on	1.240	5.420
Dummy 72	2.491	32.890
Dummy 73	0.982	12.962
Dummy 87	-0.604	-8.228

R squared: 0.987; Adjusted R squared: 0.983
Akaike info criterion: -0.5081; Schwarz criterion: -4.700
Durbin-Watson: 2.100
Method: OLS
Number of observations: 28

Source: Fund staff estimates.

Table II. 2b. Ecuador: Production for the Non-Oil Sector, 1965-93

Dependent variable: Delta Log y(t)		
Variable:	*Coefficient:*	*t-statistic:*
C	-1.108	-5.910
Delta Log k(t)	1.894	4.428
Delta Log k(t+1)	0.762	2.129
Log y(t-1)	-0.642	-5.358
Log k(t-1)	0.469	4.311
Dummy72on	0.035	0.016

R squared: 0.851; Adjusted R squared: 0.816
Akaike info criterion: -7.964; Schwarz criterion: -7.676
Durbin-Watson: 1.574
Method: OLS
Number of observations: 27

Source: Fund staff estimates.

Table II. 3. Ecuador: Sources of Growth, 1965-93

	Growth Rates				Contribution From			
	GDP						TFP	
	Actual	Potential	Capital	Labor	Capital	Labor	Actual	Trend
Aggregate Economy, 1975-93								
1975-93	**3.6**	**3.6**	**4.9**	**3.4**	**3.6**	**0.9**	**-0.9**	**-1.0**
1975-80	6.7	6.4	8.6	2.4	6.3	0.6	-0.2	-0.5
1980-85	2.1	3.0	5.0	3.7	3.9	1.0	-2.9	-1.9
1985-90	2.3	2.4	3.1	4.6	2.1	1.3	-1.1	-1.0
1990-93	3.4	1.8	1.9	2.7	1.2	0.8	1.5	-0.2
Oil Sector, 1975-93								
1975-93	**4.8**	**4.0**	**4.5**	**8.5**	**4.2**	**0.7**	**-0.1**	**-0.9**
1975-80	6.1	4.7	7.6	2.3	6.9	0.2	-1.0	-2.3
1980-85	7.3	5.1	7.3	9.1	6.7	0.8	-0.1	-2.2
1985-90	0.3	2.8	1.8	13.8	1.6	1.1	-2.4	0.1
1990-93	6.2	2.8	-0.3	9.3	-0.3	0.8	5.7	2.3
Non-Oil Sector, 1965-93								
1965-93	**4.5**	**4.5**	**5.1**	**3.1**	**3.6**	**0.9**	**-0.1**	**-0.1**
1965-70	4.9	5.9	5.1	2.5	3.6	0.7	0.6	1.6
1970-75	7.9	6.6	5.8	2.5	4.1	0.7	2.9	1.7
1975-80	6.8	6.7	8.7	2.4	6.2	0.7	0.0	-0.1
1980-85	1.1	2.6	4.9	3.7	3.5	1.1	-3.3	-1.9
1985-90	2.7	2.3	3.2	4.6	2.2	1.3	-0.8	-1.3
1990-93	2.8	1.6	2.0	2.6	1.4	0.8	0.6	-0.6

Sources: Central Bank of Ecuador; National Statistics Institute; and Fund staff estimates

Table II. 4. Ecuador: Sources of Growth--International Comparison

	Growth Rates			Contribution from		
	GDP	Capital	Labor	Capital	Labor	TFP
Ecuador						
1975-93	3.6	4.9	3.4	3.6	0.9	-1.0
1975-80	6.4	8.6	2.4	6.3	0.6	-0.5
1980-85	3.0	5.0	3.7	3.9	1.0	-1.9
1985-90	2.4	3.1	4.6	2.1	1.3	-1.0
1990-93	1.8	1.9	2.7	1.2	0.8	-0.2
Venezuela (Elias, 1992)						
1960-70	5.4	3.5	3.4	1.9	1.2	2.3
1970-80	3.9	7.1	3.6	4.1	1.5	-1.7
1980-85	-1.3	1.3	2.5	0.8	1.1	-3.2
Peru (Elias, 1992)						
1960-70	5.3	4.4	2.7	2.9	0.9	1.5
1970-80	3.7	4.7	3.1	3.1	1.1	-0.5
1980-85	-0.4	1.7	3.1	1.1	1.1	-2.6
Colombia (Elias, 1992)						
1960-70	5.2	3.6	3.1	2.2	1.2	1.8
1970-80	5.8	4.9	4.6	2.9	1.8	1.1
1980-85	2.3	4.6	3.0	2.8	1.3	-1.8
Brazil (Elias, 1992)						
1940-80	6.4	6.5	2.6	3.3	1.3	1.9
1960-70	5.9	5.3	2.7	1.6	2.2	2.1
1970-80	8.2	12.3	3.1	5.3	1.8	1.1
1980-85	1.7	3.2	2.4	1.3	1.3	-1.0
Brazil (Abreu and Verner, 1997)						
1930-93	6.1	7.4	2.7	5.1	0.8	0.2

Sources: Elias (1992); Abreu and Verner (1997); and Fund staff calculations.

Table II. 5. Ecuador: Contributions to Growth, 1991-99

	1991-93	1994-96	1997-99	1991-99
Overall real GDP growth	3.5	2.9	-1.2	1.8
Growth contribution from:				
Petroleum sector	36.7	15.1	-29.1	7.6
Nonpetroleum sector	63.3	84.9	129.1	92.4
Non-oil real GDP growth	2.9	2.7	-1.4	1.4
(Contribution to non-oil growth by sector)				
Agriculture	0.1	26.8	0.3	9.1
Manufacturing	30.2	21.5	14.3	22.0
Electricity	2.4	0.1	1.1	1.2
Construction	-6.0	1.8	7.6	1.2
Trade	24.1	20.0	17.3	20.5
Transport	12.6	9.3	8.7	10.2
Financial services	55.3	11.9	-3.3	21.3
Other services	42.9	22.1	25.5	30.2
Public administration	-68.6	-16.1	5.5	-26.4
Others	7.0	2.6	23.0	10.9
(Contribution to overall growth by demand component)				
Domestic demand	55.8	55.8	77.3	63.0
Consumption	39.4	49.3	22.4	37.0
Investment	16.4	6.5	54.9	26.0
Net export	44.2	44.2	22.7	37.0

Source: Fund staff calculations.

III. THE CRISIS IN THE BANKING SECTOR[11]

30.   By early January 2000, Ecuador's banking sector had deteriorated to the point where sixteen financial institutions, accounting for about 65 percent of the financial system's on-shore assets,[12] had been intervened or closed[13] by regulatory authorities during the previous 18 months; the level of non-performing loans had reached 45 percent of outstanding loans; and the fiscal cost of the crisis was estimated at US$2.6 billion or 20 percent of GDP. This chapter provides an analysis of how the banking crisis evolved, and of the key elements of the restructuring strategy that is now being implemented.

31.   In the period before 1998, the capital basis of some of the biggest banks had been eroded due to inadequate banking practices, increasing the banking system's vulnerability to external shocks. These practices were possible because of long-standing legal, regulatory and supervisory weaknesses, compounded by strong conflict of interest. When a series of external shocks (*El Niño*, world oil prices, emerging markets, financial crisis) hit the Ecuadoran economy in 1997/98, the banking system was therefore rapidly consumed by a combined solvency and liquidity crisis. In its turn, the banking crisis undermined monetary and exchange rate policy in a vicious circle that culminated with the announcement of dollarization in early January 2000. A comprehensive restructuring strategy has been developed to return the banking system to a viable financial position. This strategy comprised measures to restore confidence in the banking system through short-term liquidity management, banking crisis management, and medium-term strengthening of the regulatory framework and institutions. Although implementation of the strategy has been uneven, in part because of political pressures, several major improvements have been implemented that are critical for the success of the bank restructuring process. Deviations from the strategy agreed upon, especially in the early stages, substantially increased the fiscal cost of the crisis, adversely impacted the exchange rate, and further deteriorated the solvency situation of the banking system.[14]

A. The Origins of the Crisis

32.   The origins of the current banking crisis could be found in widespread operational and management weaknesses that were allowed to persist because of long-standing and inter-related institutional weaknesses in bank supervision and regulation, and a bias towards

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[11] Prepared by Fernando Delgado, Antonio Pancorbo and WHD staff.

[12] Out of the 24 banks remaining under private control, four banks are foreign owned.

[13] Out of which, 12 institutions have been closed.

[14] Those aspects of the banking strategy most directly linked to dollarization are discussed in the next chapter.

bailing out troubled banks rather than enforcement of prudential standards. Lax credit policies, large credit concentration, abuse of connected lending, and even some openly fraudulent mismanagement cases, substantially deteriorated the solvency situation of the largest banks in the country.

33. Despite a long-standing effort supported by the Interamerican Development Bank to strengthen the Superintendency of Banks (SoB), bank supervision was hampered by frequent turnover of key staff in the SoB, including the position of Superintendent. Staff was poorly trained, badly equipped, and lacked motivation in the absence of a clear mission. Moreover, necessary disciplinary measures against banks were often not taken due in part to the lack of legal protection for supervisory staff and to conflict of interest cases. Lack of effective prudential supervision was especially acute in the case of offshore subsidiaries of banks, which provided an easy way to circumvent regulations and controls and, ultimately, contributed a substantial share of the losses of failed banks.

34. The prudential legal and regulatory framework was not suited to the nature of the banking system's operations, nor to the supervisory capabilities of the SoB. The current financial institutions law, introduced in 1994 to promote financial sector liberalization, provided the main part of this framework. The law modernized several aspects of capital requirements, including limits to related lending and credit concentration, and external audit requirements. However, it relied too heavily on financial institutions' self-regulation, and failed to support the development of oversight and enforcement capabilities in the SoB. Against this background, regulatory forbearance frequently replaced any meaningful corrective actions.

35. Moreover, Ecuador has a history of bailing out borrowers and depositors. In 1981, congress passed a law whereby all debts—of banks and of other debtors—denominated in US dollars were assumed by the central bank (CBE) in exchange for debts denominated in *sucre* at a below-market exchange rate. By 1987, a large proportion of the restructured debts of the 1981 sucretization scheme was non-performing. To alleviate the consequent solvency and liquidity problem, banks were allowed to repay liquidity assistance credits from the CBE with public debt at face value, at a time when the debt was quoted at a 60 percent discount in the secondary market. These practices extended into late 1995 and early 1996 when, as a result of a widespread non-bank financial institution crisis following a rapid credit expansion, two mid-sized banks were affected through subordinated debt holdings and other risky investments. Instead of dealing aggressively with the insolvent banks, the CBE extended liquidity credits and, ultimately the banks were taken over by a private bank[15] and by the CBE itself.[16]

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[15] Filanbanco acquired Banco de los Andes in 1994.

[16] Banco Continental.

36.   The combination of ineffective supervision, inadequate legislation, and regulatory forbearance created an environment of serious moral hazard in which bankers were implicitly discouraged from improving operational and managerial practices because the expectation of a bailout at taxpayers' expense sharply reduced their cost of failure. As a result there was a considerable increase in high-risk credit and investment operations. This occurred partly through connected lending operations, and partly through lending in foreign currencies to economic activities that had no natural hedge. [17] Demand for credit in US dollars grew sharply because lending rates in US dollars did not reflect adequately the risk of the operations, as relatively cheap funding was obtained from external lines of credit and off-shore deposits and exchange rate risk incurred by borrowers was disregarded (Figure III.1).

B. The Outbreak of a Systemic Liquidity Crisis

37.   The Ecuadoran banking system was highly vulnerable when severe external shocks hit Ecuador in 1997–98 (i.e., the *El Niño* weather phenomenon and the decline in world oil prices). Three factors combined to trigger a liquidity crisis. First, the economic downturn prompted by these shocks weakened banks' balance sheets through an increase in non-performing loans (Table III.1). Second, the Russian crisis in the fall of 1998 and the subsequent reassessment of emerging market risk by international financial markets induced a severe drainage of liquidity through a reduction in external credit lines (Figure III.2). Third, as the problems in the banking sector gradually became public knowledge during the fall of 1998, confidence declined and a substantial deposit flight took place (Table III.2).

38.   Liquidity problems first affected the weakest banks, exposing their insolvency problems. Banco de Préstamos, where asset overvaluation problems were substantial, was closed in August 1998. Liquidity of the two largest banks, Filanbanco and Banco del Progreso, rapidly deteriorated, resulting in the take-over of Filanbanco by the Government Deposit Insurance Agency (AGD) in December 1998 (after substantial liquidity resources had been received from the CBE). [18] The run on the *sucre* during the first months of 1999, resulted in the abandonment of the exchange rate intervention bands and a large depreciation of the *sucre*-dollar exchange rate. This lead to a further deterioration in the asset quality of banks which, combined with deposits flight increased their solvency and liquidity problems.

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[17] 67 percent of total on-shore credit portfolio of the banking sector was dollar denominated by end-March 1999. It has been estimated that less than 25 percent of the borrowers have dollar-denominated income and, therefore, banks were overexposed to the exchange rate risk of their customers in over 50 percent of their portfolio.

[18] Intervention of Filanbanco was delayed until passage of the law creating the AGD and extending a blanket deposit guarantee, thus effectively increasing the State share in the cost of the banking crisis.

39.   The liquidity crisis was exacerbated by a series of policy measures that eventually backfired. The first of these was the failure to deal decisively with Banco del Progreso, the second largest bank in the country, when problems started to emerge. The second was the introduction of the financial transactions tax[19] in December 1998, which prompted a sudden preference for cash by individuals and corporations that further exacerbated liquidity tensions in the banking system. A blanket deposit guarantee, that included offshore deposits and external trade lines, was passed in December 1998 to calm the situation.[20] The AGD was established to administer the guarantee and manage the disposal of assets in closed banks. However, given the solvency problems of several large banks as well as the weak fiscal situation, there was little credibility in the deposit guarantee. The result was a chain of closures of 6 small banks and the liquidity crisis of Banco del Progreso during the first months of 1999.

40.   By early March 1999 the liquidity situation of Banco Progreso had reached a critical stage. The bank had received all liquidity assistance available from the CBE under its law but was still unable to meet its payments. The insolvency situation of the bank was well know, but the owner of the bank was also extremely influential politically and was able to prevent the timely intervention of the bank.[21] Since the government did not have the resources to take over Banco Progreso and keep it open,[22] and it was feared that its closure could trigger a widespread deposit run (exacerbated by the coincidental currency run), the authorities decided, on March 11, 1999, to freeze all demand and savings deposits for six months and all time deposits for one year. Also, a one-week bank holiday was declared to allow time to find a solution to keep open Banco del Progreso.

C. The Restructuring Strategy

41.   Immediately after the generalization of the banking crisis prompted by the bank holiday and the deposit freeze, a bank restructuring strategy was designed with the help of staff from the Fund and other multilateral financial institutions. The strategy aimed at

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[19] A one percent tax was charged on any bank transaction, including both credits and debits, and in any kind of account.

[20] Fund staff advised against passing the deposit insurance law extending a blanket guarantee to off-shore subsidiaries and without first closing the insolvent institutions.

[21] The bank closed its doors unilaterally immediately after the banking holiday ended, but the existing owner and management were left in control until a new Superintendent of Banks took office four months after the bank suspended operations.

[22] To maintain Filanbanco's operation after take over by the AGD required over US$800 million, most of it in liquidity assistance through rediscount of government bonds at the CBE.

restoring the banking system to solvency and profitability at least fiscal cost in order to provide support for economic recovery and a basis for sound macroeconomic management. Measures to restore confidence in the banking system were divided in three broad categories.

42.   **Short-term liquidity management** measures that included: (i) making the deposit guarantee credible while minimizing its monetary impact by transferring guaranteed deposits and credit lines to open banks; (ii) minimizing the liquidity impact on the banking system and on the exchange rate by gradually unfreezing deposits when conditions so allow; (iii) use CBE monetary management instruments to aggressively mop up the liquidity injected to support guaranteed deposit payments and intervened banks' recapitalization through rediscount of government bonds; (iv) strict enforcement of limits to liquidity assistance from the CBE and collateral rules; and (v) immediate intervention of banks defaulting on their payments/clearing obligations or cases of serious fraud and gross mismanagement.

43.   **Banking crisis management** measures aimed at establishing the framework for systemic restructuring through: (i) creating an institutional framework assigning overall responsibility for the systemic bank restructuring to one full-time official at ministerial level, complemented by external review boards in each stage of the restructuring process;(ii) undertaking a comprehensive audit of all banks by international audit firms and based on common and uniform criteria to determine solvency levels; (iii) applying burden-sharing criteria for losses minimizing fiscal costs and avoiding bailouts of existing owners; (iv) developing a transparent and accountable framework for dealing with assets of nonviable banks, creating a legal and institutional capacity to adequately manage and resolve a large number of problem assets through reforming the legal and institutional framework, and developing an asset resolution strategy aimed at minimizing fiscal costs; and (v) reviewing the incentives framework to promote private recapitalization of banks, including an adequate period to adapt to new prudential regulations according to international best practices.

44.   Measures to **strengthen the regulatory and incentive framework in the medium-term**, including: (i) an in-depth restructuring of the SoB to improve its efficiency in legal and regulatory enforcement, eliminate political influence, and solve regional and conflict of interest problems; (ii) bringing prudential regulations in line with international standards, ensuring compliance with Basle Core Principles (especially capital adequacy) at the end of the restructuring process; (iii) limiting the role of specialized public financial institutions; and (iv) implementing an effective strategy for corporate and household debt restructuring based on negotiations between private parties, relying on market mechanisms, and avoiding the use of fiscal resources.

D. The Implementation of Bank Restructuring Measures and its Impact on the Unfolding of the Crisis

45.   Implementation of the bank restructuring strategy has been uneven. Strong conflict of interest situations have delayed or prevented taking some of the most urgent measures, such as prompt intervention of insolvent and/or grossly mismanaged banks. Lack of political support and social unrest prevented timely passage of key legislation and forced the

authorities to unfreeze deposits at a faster pace than allowed by the system's liquidity situation and the strength of the currency. This uneven implementation contributed importantly to the decline in confidence and to the increase in the fiscal cost of the crisis.

46.   However, taking into account the difficult economic, political and social situation, the authorities did achieve some major improvements that are critical for the future success of the bank restructuring process. Along with other minor measures, substantial progress has been achieved in three key areas of the strategy: the international audits process, the legal and regulatory reform, and the corporate debt-restructuring scheme.

47.   **International audits** of all private banks and two government-owned banks, limited basically to asset valuation, were conducted between May and July 1999, in broad agreement with the principles and criteria established in the bank restructuring strategy. Based on the results of the audits and adjustments to this made by a team of international advisors (Evaluation Unit), banks were classified into three categories: capital compliant ("A"), which would remain under private control; capital deficient ("B"), which would be intervened and subject to a recapitalization program aimed at maximizing recapitalization from private funds; and negative net worth ("C"), which would be immediately taken over by the AGD and resolved. On July 30, 1999 the results of the audit process were announced and action was taken to put C banks under AGD control and to put B banks under a capital-strengthening program. However, due in part to failure to secure passage of crucial legal reforms in congress[23] and to limitations of the Ecuadoran prudential regulations, not all criteria and principles established in the restructuring strategy were applied. As a result, the capital deficiency of the banking system according to international best practices was up to 50 percent larger than the figure reported by the Evaluation Unit. Application of the former criteria would also have resulted in a worse classification of some banks and the need to immediately resolve at least two more big banks that were initially spared from the AGD take over.[24] Despite these shortcomings, the bold and timely announcement of the audit's results and the support measures taken helped achieve a substantial, albeit temporary, rebound in public confidence in the banking system.

48.   **The legal and regulatory reform** has taken place against the background of a divided congress, conflict of interest situations, and a strong negative public opinion against banks. Reforms have therefore generally been approved later than needed (most of them only

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[23] Congress passed banking legislation the day before the announcement of the international audits results was due, but in a manner that changed substantially the original intent of the law that had been submitted, forcing the authorities to veto the law and improvise resolution techniques within the pre-existing legal framework that placed the burden of recapitalization on the State, and provided a temporary bail-out of bank owners at a higher fiscal cost.

[24] Banco del Pacífico and Banco la Previsora. The insolvency of both banks eventually surfaced and both institutions were taken over in October 1999.

in the context of the Economic Transformation Law (*Trole I*) in March 2000) and some important issues remain outstanding. However, substantial progress has taken place in a number of areas: (i) establishing a framework which provides incentives for the private recapitalization of banks;[25] (ii) increasing legal protection to officers involved in the bank restructuring process; (iii) increasing the AGD's asset management authority and capabilities, which have been weak; (iv) bringing prudential regulations in the areas of loan classification and provisioning; and fit and proper requirements for bank owners and management up to international best practices; and (v) establishing a fund, aimed at provided exceptional liquidity assistance to banks.

49.   **The corporate debt-restructuring scheme** approved in June 2000 includes two elements. One is a framework for systemic and compulsory restructuring of small debtors,[26] aimed at easing the acute social problems created by the economic and currency crisis by extending loan maturities and introducing gradually increasing payment schedules. The other is a largely voluntary procedure for large borrower workouts, with strong incentives for both banks and corporations to reach restructuring agreements.[27] The schemes avoid any direct fiscal subsidy to borrowers or any generalized bailout for large borrowers. These measures were a precondition for effective bank restructuring, given the rapid deterioration in banks' asset quality (see Table III.1) and the widespread expectations of a borrowers' bailout based on previous experiences. If implemented successfully, the restructuring scheme will help restore the viability of a large number of corporate and individual borrowers, and improve banks' cash inflow and solvency over the medium term; while minimizing the direct fiscal cost, reducing the risk of further bank failures, and establishing the basis for the recovery of the real sector.

50.   In some other important areas, however, implementation deviated substantially from the agreed bank restructuring strategy or lagged behind the anticipated timetable. These areas include some of the short-term liquidity management measures, and inconsistencies between the objective to restore confidence in the banking system and macro policies. These

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[25] These measures are still incomplete, as existing interest rate caps and banking fee restrictions are strong disincentives for private investment in the banking sector, and draft legislation to allow existing shareholders and management to retain ownership and control of their banks when they are complying with a recapitalization program remains to be approved within the Law for Promoting Citizens' Investment and Participation ("Trole II") that was submitted to congress in July 2000.

[26] Up to US$ 50,000, including some 800,000 debtors (over 92 percent of total loans in the system) representing around 12 percent of the total bank credit portfolio.

[27] An important piece of this framework is still missing. Private banks should be allowed exceptional access to enhanced foreclosure procedures (*coactiva*) for those borrowers failing to regularize their situation before the restructuring deadline.

deviations and delays from the agreed implementation schedule contributed to the deterioration of solvency, liquidity and profitability of the banking system during 1999 and early 2000, substantially increased the fiscal cost of the crisis, and contributed importantly to the collapse of the sucre in late 1999.

51.   **Problems with short-term liquidity management measures** include actions (or lack thereof) relating to the coverage and payment of the deposit guarantee, the timetable and procedures to unfreeze deposits, forcing banks to accept certificates of frozen deposits (CDRs) at face value, and the use of liquidity management mechanisms.

52.   Political decisions affecting the coverage and payment procedures of the deposit guarantee increased the fiscal cost and liquidity pressures. These procedures defined a burden sharing structure whereby most of the cost of the crisis was assumed by the Government.[28] Specific measures included (i) bailing out Banco de Préstamos depositors that were not covered by the deposit guarantee law in March 1999;[29] (ii) bailing out Solbanco's shareholders in July 1999;[30] (iii) guaranteed liabilities of closed banks were not transferred to open banks due to legal problems that have not been resolved yet;[31] and (iv) failure to

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[28] The first and more important of these decisions was the approval of the blanket deposit guarantee in December 1998, including all solvent and insolvent banks.

[29] Congress decided to extend the blanket deposit guarantee to Banco de Préstamos' depositors, even though the bank had been closed before passage of the blanket guarantee law and its depositors had already received up to US$2,000 per customer, which was the limited deposit guarantee existing a the time of the banks' closure. The fiscal cost of this decision was estimated at about US$200 million.

[30] Solbanco's main depositor was a public employees' pension fund. The bank showed acute solvency problems early in 1998 and the pension fund decided to capitalize part of its deposits to reestablish compliance with the minimum capital adequacy ratio. However, the problems of Solbanco ran deeper than expected and the international audit process showed that the bank had a negative capital position. According to the bank restructuring strategy, owners of insolvent banks would loose their stakes and the banks would be taken over by the AGD for resolution. However, the authorities decided to reverse the 1998's deposit capitalization in order to prevent the new shareholders (former depositors) from losing their capital stakes and their deposits (as related parties deposits were not covered by the deposit guarantee). The fiscal cost of this measure was estimated at about US$75 million.

[31] Despite efforts of the two State-owned banks which were in charge of guaranteed deposits cash payments to retain these funds, the results were relatively modest (averaging 60 percent of the funds in Filanbanco an 15 percent in Banco Continental). As a result, a larger proportion of guaranteed deposits left the banking system in the last few months of the year.

promptly take over insolvent banks, which, in some cases, were left for months under the control of their former owners and management.

53.   Forced by political and social pressures, the authorities accelerated the timetable to unfreeze deposits in several occasions from May to November, 1999 and, following a ruling by the Attorney General, implemented unfreezing procedures in March 2000 that substantially increased the liquidity vulnerability of the system.[32] Fortunately, partly due to the initial success of the dollarization and the announcement of the Fund supported program and financial support from other IFIs, deposits in the on-shore banking system did not decline but slightly increased since March 2000 (Table III.4).[33]

54.   The authorities passed a decree in November 1999 forcing banks to accept payment of credits with certificates of frozen deposits (CDRs) in any bank (including closed banks) at face value, up to the amount of the credit lines granted to each bank by the National Financial Corporation (CFN – a second-tier public development bank).[34] This measure had a negative effect on liquidity and portfolio structure of banks and has caused the technical bankruptcy of the CFN.

55.   Due in part to the weak liquidity situation of most banks, but also to inadequate interest rate policies, the CBE was unable to mop up the large liquidity injections (Table III.3) generated by the rediscount of government bonds used to pay guaranteed deposits, recapitalize and provide liquidity to banks taken over by the AGD, and by the accelerated unfreezing schedule.

56.   **Inconsistencies between the objective to restore confidence in the banking system and macro policies**. The timing and nature of the debt strategy followed by the authorities, and the monetary and exchange rate policy mix that followed immediately after the external debt default contributed to weaken confidence in the banking system and introduced incentives contrary to the strengthening of banks.

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[32]Instead of swapping frozen time deposit balances above US$4,000 for 3 to 7 year government bonds, banks were instructed to issue their own bonds but, de facto, were given ample leeway to pay the full balances in cash. Also, mutual funds' investments, for an amount of about US$500 million, were fully unfrozen in cash on March 13, 2000. Fortunately, an aggressive policy by most banks, helped by the high cost of changing banks introduced by the financial transactions tax, succeeded in maintaining most deposits within the banks.

[33] However, several Constitutional Court rulings since November 1999, establishing the immediate unfreezing of any remained frozen deposit balances, are bound to create problems for the more liquidity-squeezed banks, although the risk of a systemic liquidity crisis has substantially decreased since March 2000.

[34] The banks could then use these CDRs to cancel the CFN lines.

57.   By September 1999, Ecuador's default on its Brady bonds prompted a reversal of the rebound in confidence into the banking system and the currency that had followed the announcement of the international audits results and the adoption of a flexible exchange rate system.[35] The renewed liquidity pressures, due to deposit and capital flight and the continuous reduction in external credit lines (Figure III.3), exposed the deep insolvency and liquidity problems of the three large banks intervened after the international audits, forcing the AGD to take them over. Also, domestic government bonds became illiquid after the restructuring, depriving banks of their most liquid domestic instrument.

58.   Monetary policy was slow to react after the default and subsequent exchange rate pressures. Interest rates remained unchanged despite the accelerating depreciation of the sucre. The result was **a loss of monetary control**. The rapid expansion of base money to pay out deposits, provide liquidity to and recapitalize banks taken over by the AGD, combined with the initial lack of response in interest rates policy, made it impossible for the CBE to mop up much of the large liquidity injections (Table III.3 and Figure III.2 on base money expansion, ER collapse and CBE intervention interest rates). This contributed to the collapse of the exchange rate, and further eroded confidence in the banking system as non-performing loans grew larger. The banks' liquidity situation worsened as deposit flight continued under the impulse of the exchange rate crisis at a time when their external credit lines continued to contract. When the CBE finally reversed its position on interest rates, it was essentially too late, since the levels necessary to ensure exchange rate stability were unsustainable for the banking sector, further contributing to increase the level of non-performing assets.[36]

59.   This year, the introduction of effective interest rate ceilings on loans to well below market rates, reinforced by restrictions on bank fees, have compressed the margins that can be charged to higher risk borrowers and will hamper debt restructuring and a return to normal credit activity. In March, 2000 the congress approved the introduction of an interest rate ceiling on loans calculated as Libor plus the country risk premium plus four percentage points margin, with the specific ceiling to be established by the CBE. Responding to political pressures, the CBE established an initial interest rate ceiling of 24 percent that was further reduced to 20 percent in May, 2000. The Banking Board decided to introduce a further cap by requiring provisions on loans bearing interest rates above 18 percent (23 percent for consumer loans), that acted as a further major disincentive for banks to set interest rates above those levels. In June 2000, to reinforce the ceilings, the Banking Board approved a resolution severely limiting the fees that banks could charge.[37] The authorities have

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[35] A partial restructuring of domestic public debt in October 1999 added to these pressures. Maturities on debt falling due through end-2000 were extended and interest rate reduced.

[36] Due to existing provisions regulating the computation of arrears' interest rate, linking them to the original interest rate of the loan, penalty rates resulted lower than current interest rates, thus prompting non-payment by borrowers.

[37] Mainly, no fee could be charged in a loan or in substitution of an interest rate.

introduced a new more flexible formula for calculating the interest rate ceiling in the Trole II and the Banking Board has approved a reduction in the provisioning scale for loans bearing interest rates above 18 percent. The new rules reduce, but do not eliminate the interest rate controls, and would still be an impediment to financial intermediation unless phased out soon.[38]

E. The Fiscal cost of the Crisis

60.   The estimated fiscal cost of the banking crisis to date is about US$2.6 billion (20 percent of 1999 GDP),[39] excluding proceedings from any asset recovery by the AGD and costs derived from the need to recapitalize AGD owned banks and from the differential between the interest rates of government bonds held by the CBE and market rates. The cost includes bonds issued by the government on behalf of the AGD for about US$1.4 billion. These were used to recapitalize troubled banks, provide liquidity assistance to banks operating under control of the AGD, pay out deposit guarantees of failed banks, and cover the run-down of external credit lines. It also includes US$850 million to cover part of the remaining guaranteed deposits of closed banks, and also about US$155 million to pay another part of these guarantees in cash, of which only about US$63 million had been paid (in monthly installments of US$12.5 million) through June 2000.[40] In addition, the government has taken over about US$226 million of nonperforming trade credit lines of AGD banks.

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[38] The provisioning scale for loans bearing interest rates above 18 percent is due to expire at end-March, 2001.

[39] By comparison, the latest estimates of the fiscal costs of other banking crisis are 56 percent of GDP in Indonesia, 21 percent in Korea, 19 percent in Mexico, 17 percent in Finland, 14 percent in Malaysia, 6 percent in Sweden, 3 percent in Norway, 1 percent in Denmark, and negligible in Russia (very few direct fiscal cost were associated with the banking crisis).

[40] Also, about US$100 million guaranteed deposits were paid in cash (obtained through bond rediscount at the CBE) during 1999.

Estimated Cost of the Banking Crisis

(as of June 2000)

	(In millions of U.S. dollars)	(In percent of GDP)
Total	**2,641**	**20.0**
AGD bonds	1,410	10.7
Trade credit lines of AGD banks	226	1.7
Guaranteed deposits of closed banks	850	6.4
Cash provided to cover guaranteed deposits	155	1.2
Memorandum item:		
Estimated total annual "carrying" cost	195	1.5

Source: Fund staff estimates.

61.   While some of these costs were probably unavoidable, given the scale of the macroeconomic crisis facing Ecuador, poor policy choices added substantially to the fiscal cost in the instances mentioned above.

F. Further Crisis Resolution Measures

62.   Although the currency stability and halt to the decline in real economic activity achieved since dollarization has had a net positive effect on the banking system, the financial condition of most banks is still very fragile. In order to restore bank solvency, liquidity and profitability, a number of actions remain to be implemented. The key pending issues are: eliminating restrictions on interest rate and banking fees; completing the incentives framework for—and implementing—the schemes for corporate debt restructuring and the private recapitalization of banks; and ensuring that the liquidity recycling facility is fully operational (see next chapter). Other measures needed to ensure the success of the bank restructuring strategy and to minimize the fiscal cost of the crisis are: (i) developing and implementing an effective asset management plan for the disposal of assets acquired by the AGD in the resolution process; (ii) improving the management of banks under AGD control; (iii) developing a reprivatization strategy for banks under AGD control; and (iv) further strengthening banking regulation and supervision.

Figure III.1. EMBI and Ecuadoran Bank U.S. Dollar Lending Spreads 1/
(In percentage points)

EMBI spread

US$ lending rate spread
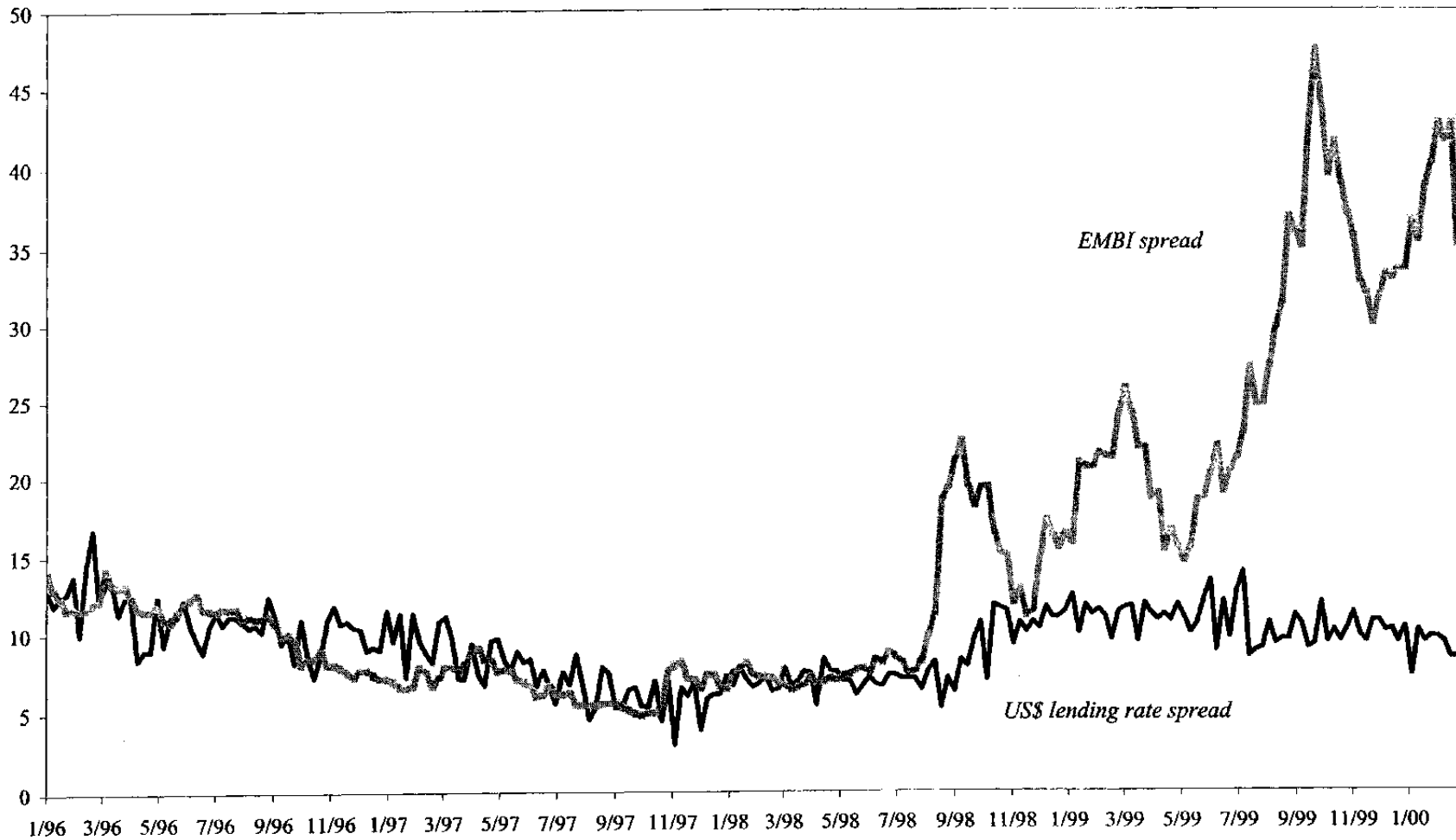
Sources: Ecuadoran authorities and J.P.Morgan.

1/ EMBI spread is the difference between yield on Ecuadoran Brady bonds stripped of collateral and U.S. Treasury bonds of the same maturity. U.S. dollar lending rate spread is the difference between the US$ lending rate in Ecuador and 12-month US$ LIBOR.

Figure III. 2. External Credit Lines of the Ecuadoran Banking System
(In millions of U.S. dollars)
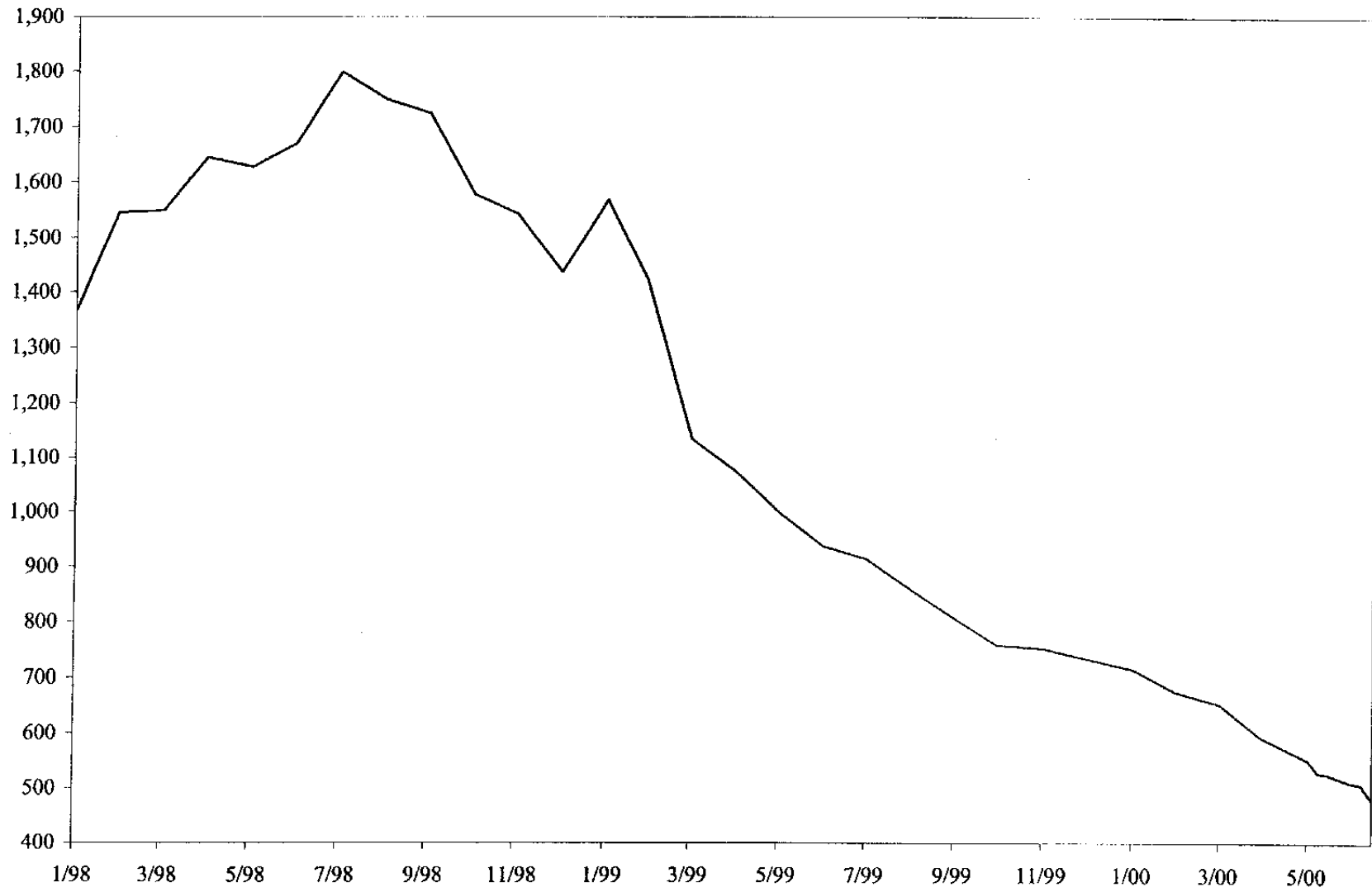
Source: Ecuadoran authorities.

Figure III.3. Ecuador: Depreciation, Money Creation and Interest Rates
(In percent change per month and percent per month)

- 37 -
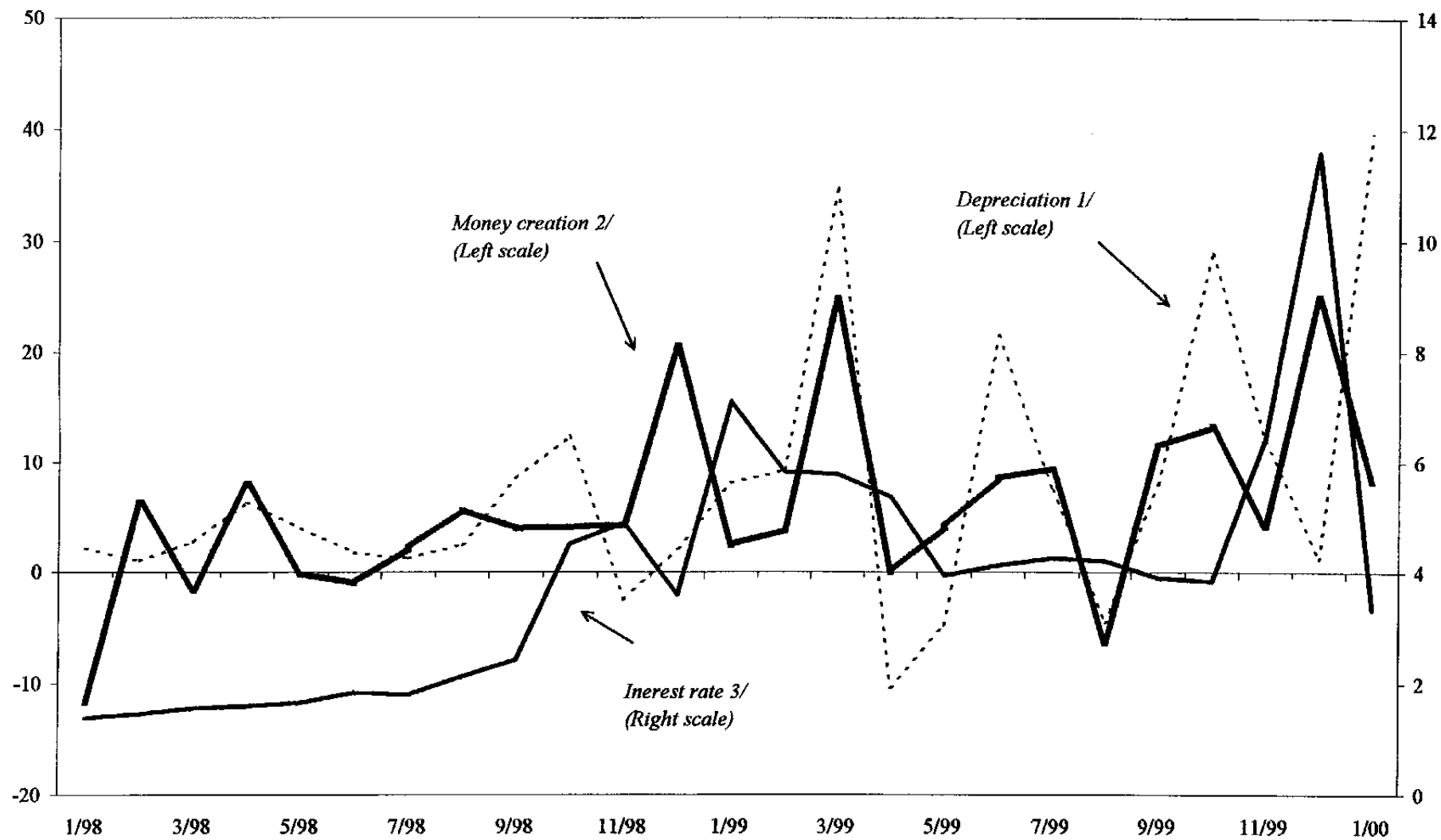
Source: Central Bank of Ecuador.

1/ Monthly percentage change in sucre/dollar exchange rate (period average).

2/ Monthly percentage change in currency issued (end of period).

3/ Average monthly effective rate on overnight Central Bank *bonos de estabilizacion monetarios* (period average).

Table III.1. Ecuador: Nonperforming Loans

	Dec. 1998	1999				Mar. 2000 1/
		Mar.	Jun.	Sep.	Dec.	
	(In percentage of credit portfolio)					
Nonperforming loans	6.5	16.7	26.3	29.9	33.3	n.a.
Domestic banks	14.2	18.3	31.7	40.5	44.7	51.4
Offshore banks	3.5	11.9	9.5	11.7	13.5	n.a.
Private banks	4.6	12.8	14.6	18.9	18.9	22.4
Banks controlled by AGD	7.8	22.2	31.1	32.6	37.8	57.1
Closed banks	6.5	14.5	40.1	36.0	40.2	80.0
In *sucres*	14.4	16.0	30.3	37.7	41.4	43.5
In U.S. dollars	5.4	17.1	25.0	28.1	32.0	53.1

Sources: Superintendency of Banks of Ecuador; Fund staff estimates.
1/ On-shore data only.

Table III. 2. Ecuador: Banking System Deposits

	1998				1999				Mar. 2000 1/
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
				(In millions of U.S. dollars)					
Domestic banks	3,368	3,635	3,875	4,281	3,662	3,701	3,626	2,847	2,769
Offshore banks	2,874	1,611	1,575	2,436	3,207	2,827	2,364	1,956	1,529
Private banks	2,694	2,613	2,214	3,322	2,429	2,439	2,528	2,232	2,142
Banks controlled by AGD	3,547	2,633	3,236	3,395	2,590	2,347	1,943	1,481	1,479
Closed banks				0	1,850	1,741	1,519	1,090	677
In *sucres*	2,267	2,481	2,694	2,930	2,063	2,075	1,936	1,298	1,042
In U.S. dollars	3,975	2,765	2,756	3,787	4,806	4,452	4,054	3,505	3,257
Free deposits	6,242	5,246	5,450	6,717	4,402	3,659	3,672	2,865	3,230
Frozen deposits	0	0	0	0	2,467	2,869	2,318	1,938	1,069
Memorandum item:									
Exchange rate S/. Per US$	4,884	5,272	6,211	6,765	9,971	11,124	13,637	19,858	25,000

Source: Superintendency of Banks of Ecuador; and Fund staff estimates.

1/ Does not include data on the off-shore subsidiaries of closed banks.

Table III. 3. Ecuador: Monetary Expansion and Central Bank Bond Placements, 1999 1/

| | Dec. 1998 | 1999 | | | | | | | | | | |
		Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
						(In billions of sucres)							
Monetary stabilization bonds (BEMs)	2,085	1,883	1,212	1,051	1,297	1,920	2,494	2,536	3,843	5,083	6,267	6,983	6,511
M1	8,130	7,373	7,697	7,629	8,415	8,942	9,483	10,306	10,080	11,473	12,570	13,333	15,331
Currency in circulation	3,467	3,511	3,618	4,555	4,732	4,868	5,350	6,078	5,527	6,210	7,287	7,421	9,039
Monetary deposits	4,663	3,862	4,079	3,075	3,683	4,075	4,133	4,228	4,553	5,263	5,284	5,912	6,292

Source: Central Bank of Ecuador.

1/ Outstanding stocks at end of period.

Table III. 4. Ecuador: Recent Evolution of Banking System Deposits

	2000				
	March	April	May	June	July
(In millions of U.S. dollars, end of period)					
Total deposits	4,743	n.a	n.a	4,826	4,877
Total deposits on-shore	2,769	2,915	3,150	3,212	3,268
Free deposits	2,257	2,640	2,931	3,047	3,107
Frozen deposits	512	275	219	165	160
Total deposits off-shore	1,974	n.a	n.a	1,614	1,609
Free deposits	1,257	n.a	n.a	1,241	1,207
Frozen deposits	716	n.a	n.a	374	402

Source: Central Bank of Ecuador.

IV. DOLLARIZATION[41]

63.   Former President Mahuad announced his intention to adopt the U.S. dollar as legal tender in Ecuador on January 9, 2000, and the new administration of President Noboa, who took office on January 21, decided to continue this policy. Thus, the legal framework to implement dollarization was introduced in the Economic Transformation Law (*Trole I*) and approved by congress on March 13, 2000. From this date, the Central Bank of Ecuador has converted *sucre* for U.S. dollars at the fixed exchange rate of S./ 25,000 per US$1, the rate in effect since the January announcement of dollarization.

64.   The background for this policy decision is discussed in Chapter III, "The Crisis in the Banking Sector." The present chapter reviews some key arguments in support of and against dollarization, describes how dollarization is being implemented in practice, and provides a preliminary assessment of the impact so far.

A. Some Pros and Cons of Dollarization

65.   Until Ecuador announced—in the midst of a political and economic crisis—its intention to adopt the U.S. dollar as legal tender, most of the discussion and analysis of the pros and cons of full dollarization had focused on the potential effects on a country that had already achieved a significant degree of macroeconomic stability (such as Argentina under its currency board system). The main conclusions of this analysis, and its implications for Ecuador, can be summarized as follows:[42]

On the benefit side:

- Full dollarization would, if credible, eliminate the risk of future currency crises and thus it might also reduce the risk of default. This would lower spreads on international borrowing, which would help lower fiscal costs and could promote investment and growth. Full dollarization could also lower transaction costs and promote greater economic integration with the United States and the global economy. These benefits would be larger for countries (like Ecuador) with a history of high inflation and frequent currency crises. But higher borrowing spreads or disruptions to capital flows that were associated with other country risks, such as financial sector problems or a debt crisis, would not be removed by dollarization.

On the cost side:

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[41] Prepared by Mayra Zermeño and Mariano Cortes.

[42] See "Should Each Country Have Its Own Currency? The Pros and Cons of Full Dollarization" (SM/99/268, 11/02/99) for a more extended discussion.

- The loss of seigniorage earnings from issuing domestic currency. During the 1990–98 period, annual average revenue from seigniorage was estimated at about 1.5 percent of GDP, largely reflecting a relatively high average annual inflation of about 38 percent over the period.[43] However, the loss of seignorage compared with a system that maintained a domestic currency but focussed on achieving low inflation would be much less.

- The loss of the option to pursue an autonomous monetary (and exchange rate) policy.[44] The importance of such a loss for a country like Ecuador is difficult to quantify. On the one hand, it is vulnerable to frequent and sizeable external shocks (which are likely to be asymmetric to those of the United States), has significant rigidities in labor and goods markets, and lacks strong fiscal institutions and a tradition of strong fiscal policy (which can help reduce the need for sizeable adjustments of the exchange rate). All of these factors suggest that some monetary/exchange rate autonomy would be useful. On the other hand, the high degree of dollarization of monetary assets and liabilities in the domestic banking system had already made devaluation a costly—and less effective—policy tool.[45]

- The loss of the ability to act as a lender-of-last resort for the financial system. This was potentially the greatest cost for a country like Ecuador, which has weak and poorly regulated banks and was already in the midst of a major banking crisis. But the experience of Ecuador has also shown that the ability of a central bank to find its way out of a financial crisis by printing money is limited in a de-facto highly dollarized banking system, since the injection of massive liquidity into the banking system to prevent a complete default on depositors led to greater pressures on foreign reserves and the exchange rate.

66. It is not possible to give a simple answer to where the balance of these costs and benefits lies, since many of the most important considerations are not quantifiable. However, Ecuador's case also raises a separate question: Can the adoption of dollarization itself be used as a means to halt a banking and currency crisis? Ecuador in January 2000 did not look

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[43] The inclusion of the data for 1999 raises the estimate for seignorage to 1.9 percent of GDP, reflecting the impact of the deposit freeze in the demand for monetary base in that year.

[44] For a country that has already adopted a currency board, and therefore already given up monetary autonomy in most circumstances, the additional cost of full dollarization consists of the loss of an "exit option" from the currency board, even if only under extreme circumstances.

[45] The share of U.S. dollar-denominated deposits in M2 rose from about 5 percent in 1990 to 35 percent at end-1998, while that of loans rose from virtually nil to 60 percent over this period.

like a promising case for such an experiment, since the root of the crisis was the lack of sustainability of the fiscal positions and the lack of confidence in the soundness of most banks (including in the government's deposit guarantee). Dollarization per se would do nothing to address directly either of these problems and, at the time of the dollarization announcement, there was little concrete evidence that congress would be prepared to act decisively on the necessary measures to address them. In these circumstances, some observers feared that dollarization would not halt the deposits flight out of the banking system and that, because the central bank would be unable to provide lender-of-last resort support of any significance, renewed bank runs and widespread arrears would be likely, with further adverse effects on the real economy. However, as the description given below of subsequent events shows, the dollarization announcement does appear to have given the government some breathing room—in terms of a halt to immediate liquidity pressures in the banking system—which the government used to introduce some important structural changes as part of the Economic Transformation Law (*Trole I*) that implemented dollarization. Moreover, the evolution of the banking system's liquidity in the five months since dollarization was officially initiated, was also significantly better than expected. As a practical matter, however, it is not possible to distinguish the contributions to this outcome of dollarization per se, the accompanying structural measures, and the announcement of a package of financial support from the multilateral financial institutions.

B. The Legal and Institutional Framework for Dollarization

67.   The three key features of the Economic Transformation Law that introduced dollarization were:

- A prohibition on currency issue in *sucres* (except as fully backed coins);

- The obligation on the central bank to exchange *sucres* for U.S. dollars at a fixed exchange rate and retire from circulation all *sucre* notes purchased;

- An obligation of all firms to convert their accounting to dollars.

68.   Bookkeeping by natural persons and corporations must be kept in U.S. dollars, an action immediately implemented by financial institutions. All contracts entered into by public institutions and tax assessments will be done in U.S. dollars; they can be settled in either dollars or *sucres* except for those taxes levied on foreign trade transactions that will be settled in U.S. dollars only. Banks will, for the time being, continue to settle accounts on the books of the central bank, thus reserve requirements deposits will continue to be held at the central bank.

69.   The law also included a "conversion mechanism" (known as *desagio*) to translate previous *sucre*-denominated loans and deposits into dollars at lower interest rates, as well as a conversion process for previously issued dollar debt to lower rates for a short period (after which they would be rolled over at market rates). This was implemented through a one-time reduction in the interest rate on existing *sucre*- and dollar-denominated financial contracts.

The deposit and lending rates for the periods of contracts remaining after January 11, 2000 (i.e., after dollarization was announced) were reduced to 9.35 and 16.82 percent a year, respectively. At the same time, the maximum lending rate was set at 24 percent.[46]

70.   The Trole I law also introduced some important transitional arrangements, mainly to cushion the elimination of the lender-of-last-resort facility. In early 2000, the banking system was in a severe liquidity crisis, resulting from a combination of deposit flight, high incidence of nonperforming loans, withdrawal on banks' external credit lines, and the absence of an integrated functioning interbank market. In order to maintain a facility to provide liquidity to troubled banks, the law therefore established:

- a liquidity recycling mechanism within the banking system, mainly in the form of sales of U.S. dollar-denominated bonds by the central bank combined with repurchase operations; and

- a liquidity stabilization fund to supplement the resources of the central bank available for providing liquidity assistance.

71.   It is envisioned that the operation of the recycling mechanism would be phased out once a viable interbank market has reemerged, and the function of the liquidity fund would be replaced by external credit lines contracted for prudential purposes once Ecuador regains access to international capital markets.

72.   To facilitate the operation of these two facilities and to highlight the transparency of the new monetary arrangement, the law mandated four operating accounts at the central bank (Table IV.1). There is to be full backing with freely disposable international reserves of *sucre* currency in circulation (account one), as well as of bankers' deposits at the central bank, and *sucre*-denominated central bank stabilization bonds (account two). As noted, the central bank would be allowed to operate a banking system liquidity recycling facility, partly funded by remaining disposable international reserves, and the placement of U.S. dollar-denominated central bank instruments in the local market (account three). The final account would cover all remaining assets and liabilities of the central bank.

73.   The liquidity fund would be sourced by: (i) an initial US$40 million disbursement from the Andean Development Corporation; (ii) a 1 percentage point of the reserve requirement on bank deposits (about US$30 million); (iii) the reallocation of public entities' financial assets held abroad to the central bank; (iv) external borrowing; and (v) budgetary

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[46] The Economic Transformation Law also introduced an interest ceiling, to be set by the central bank according to the formula: LIBOR + 4percent + country risk premium. Initially, the central bank decided on a lending rate ceiling of 24 percent; the government has proposed replacing the formula in the *Proyecto de Ley Trole II* legislation submitted to congress in July.

transfers and government bonds. Access to the liquidity fund will be only in exchange for appropriate collateral.

74.   All institutional arrangements are in place to make the liquidity stabilization fund operational. Initial resources for the fund are item (i) and (ii) in the previous paragraph. The institutional framework for the liquidity recycling facility is now also in place; a ruling on access to the facility for banks with a capital adequacy ratio below the regulatory minimum has been incorporated in the *Proyecto de Ley Trole II* (submitted to the congress as emergency legislation in mid-July 2000).

C. Impact of Dollarization and Challenges Ahead

75.   Dollarization has proceeded very fast; of a stock of *sucre* denominated currency issued equivalent to US$460 million as of March 13, 2000, only US$115 million remained in circulation as of mid-July 2000 (see Table IV.2). Banks reported that even in remote areas, most of the transactions were being conducted in U.S. dollars by June. It is projected that by end-December 2000, currency in circulation denominated in *sucre* will be only about US$80 million, approximately the amount that the authorities estimate that the public will want to keep in the form of coins.

76.   It is too early to embark on any comprehensive assessment of the impact of dollarization in Ecuador, mainly because many of the supporting reforms have yet to be formulated and implemented. However, it does appear that dollarization, in conjunction with the strong signal of political support for dollarization evidenced by the enactment of *Trole I*, and the announcement of substantial international financial support, including from the Fund shortly thereafter, has achieved the immediate objectives of reestablishing some confidence in the banking system, as well as averting hyperinflation.

77.   The announcement of dollarization on January 9, including the exchange rate of S./ 25,000 per US$1 at which the dollarization would be adopted, introduced a de facto *interregnum* fixed exchange rate arrangement between the floating rate arrangement, in place prior to the announcement, and the actual implementation of dollarization in mid-March. This fixed-rate arrangement was introduced in the absence of any fundamental immediate change in monetary or fiscal policies.[47] Yet, there was no discernible pressure on the

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[47] Late in 1999, the CBE unilaterally announced that it would no longer rediscount AGD bonds, operations that had resulted in significant injections of liquidity earlier in the year. The announcement was not perceived to be a fundamental regime change as the pressure on the *sucre* did not subside.

exchange rate and virtually no intervention in the foreign exchange market by the central bank during the two months this interim arrangement was in effect.[48]

78.   Could dollarization have been implemented successfully at a more appreciated rate than S/. 25,000 per dollar? A more appreciated rate, if credible, would have reduced the short-term inflationary surge that was essentially a consequence of the massive liquidity expansion and exchange rate collapse that occurred prior to dollarization. But, it is not possible to say now whether dollarization, at a more appreciated rate, would have had sufficient credibility to halt the crisis; at the time the authorities had several good reasons for believing that the use of a more appreciated rate might have weakened credibility and hence been less successful in halting the bank run:

- The *sucre* had already reached the level of S/. 25,000 prior to the dollarization announcement. Adoption of a more appreciated rate (for example, S/. 20,000) might have invited a speculative attack—and a continued deposit outflow—before the new monetary arrangements were in place.

- At S/. 20,000 per U.S. dollar, the available foreign exchange holdings would not have been sufficient to cover all *sucre* currency and other *sucre* liabilities of the central bank. While, in principle, the central bank could have borrowed to cover the difference, this would have been difficult in practice and the lack of full foreign exchange coverage could have undermined confidence.

79.   Dollarization has also increased confidence in the banking system and has helped financial re-intermediation during the first half of 2000. As discussed in Chapter III, the banking crisis and related events had caused a flight out of deposits. For example, the ratio of currency in circulation to the sucre-denominated components of M2, which had averaged about 12 percent in the period July 1998–November 1998, jumped to 15 percent in December 1998, and steadily rose in 1999 to 26 percent by the end of the year. After the announcement of the intention to officially dollarize the economy, this ratio started to fall, and by end-March, it stood at 24 percent.[49] Deposits in the domestic banking system, which fell by about 40 percent between July 1998 and end-1999, in part reflecting the real depreciation of the sucre, have recovered strongly and by June 2000, stood at US$3.6 billion, some US$400 million above end-1999 level. Since the process of unfreezing time deposits started in late March 2000, most of these deposits have remained within the banking system. After the

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[48] The only exception being some moderate intervention in the days following the attempted coup-de-ètat in late January.

[49] As noted, banks dollarized their bookkeeping starting in April, and it is no longer possible to estimate this ratio. At present, there are no estimates of U.S. dollars in circulation that can be used to estimate a more comprehensive ratio of currency to deposits.

implementation of dollarization, there has been no apparent liquidity need on the part of the banks.[50]

80.   While the inflation rate has continued to increase—consumer prices rose by 65 percent in the first half of 2000—this largely reflects the pass-through of the steep depreciation of the exchange rate in the second half of 1999/early 2000. Moreover, evidence from other countries that have adopted "hard" pegs after bouts of sharp currency depreciation suggests that inflation takes some time to decline. During the last decade, several countries have adopted currency board arrangements (CBA) as their monetary system—including Argentina (1991), Bulgaria (1997), Estonia (1992), and Lithuania (1994). The experience of these countries in terms of the real exchange rate path and of inflation and interest rate convergence to that prevailing in the country whose currency was adopted as an anchor can provide some indication of how these key variables might evolve in Ecuador following dollarization.

- These four countries introduced CBAs in the context of very high but declining inflation rates and, in the cases of Argentina and Bulgaria, following bouts of hyperinflation in the preceding two years. Convergence to the inflation rate of the countries whose currencies were used as anchor had not materialized after two years of the introduction of the currency board except for Bulgaria, although in each case inflation had fallen sharply (Figure IV.1).

- At the time of the introduction of the CBAs, prices for goods and services were mostly unregulated in these countries—administered prices had been largely liberalized in Estonia and Lithuania following independence, and there were frequent adjustments of the few remaining controlled prices in Argentina and Bulgaria. By contrast, Ecuador is still in the process of adjusting prices for goods and services set by the state (these prices have a direct impact on about 10 percent of the consumer price index, and mainly relate to energy and telecommunications) that were sharply reduced in U.S. dollar terms following the collapse of the *sucre* late last year and in early 2000. This suggests that inflation in Ecuador may not converge to U.S. rates for several years.

- In each of the four countries, the exchange rate started to appreciate in real effective terms a few months before the introduction of the CBA, a tendency that persisted afterward. By contrast in Ecuador, the exchange rate had a dramatic fall in real terms in the two previous years and up to the eve of the announcement of dollarization.

- In the countries which adopted CBAs, deposit and interbank interest rate spreads over the corresponding rates of the countries whose currencies were used as anchors

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[50] However, an important contributing factor to the improved liquidity situation in banks is the contraction in new credit.

narrowed very sharply in a short period of time, a development that already has started in Ecuador. By contrast, *lending rates converged less rapidly, and appear to have been influenced mainly* by conditions in the local banking system and domestic risk factors. This suggests that Ecuador should be cautious and not attempt to encourage a premature compression of lending rates.

81.   Despite the initial quite favorable developments, dollarization will pose significant future policy challenges for Ecuador and it is still too early to declare it a success. Since the country will continue to be vulnerable to external shocks, both structural reforms and more effective policy responses will be necessary to absorb these shocks. In particular, increased flexibility in the labor markets will be critical. In recent years, wages in Ecuador have been in the lower end when compared to other Latin American countries. However, the labor market is still characterized by considerable rigidities arising from hiring and firing, compensation, and other policies (see Chapter V on labor markets). Moreover, some of the most difficult decisions to put in place the strong institutions needed to support dollarization still lie ahead. It is especially important that the initial successes not lead to any perception that dollarization can be a substitute for, rather than a complement to, tough policy decisions to keep fiscal deficits low and to create a more robust financial sector.

Figure IV.1. Ecuador and Selected Countries: Inflation and Real Exchange Rate Developments
Before and After Introduction of Currency Board Arrangements 1/

Annual Consumer Price Inflation 2/
(In percent per year)

Real Effective Exchange Rate
(Indices, 1990=100)
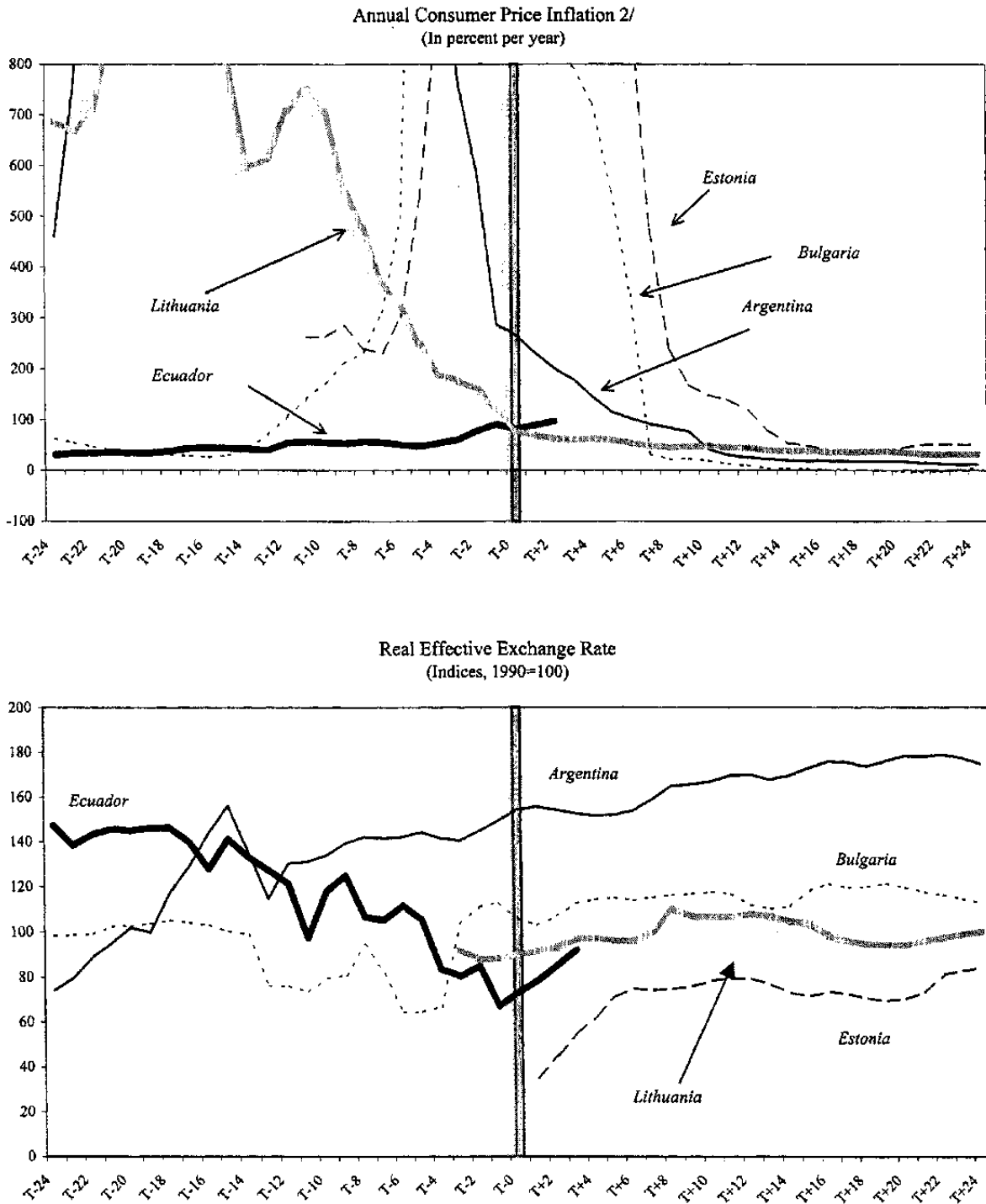
Sources: Information Notice System and *International Financial Statistics.*

1/ On the horizontal axis, T-0 is the month the currency board arrangement was introduced, T-*n* the months
preceding the currency board and T+*n* the months following the currency board.
2/ Inflation peaked at c. 20,000% in Argentina on T-13, at c. 2,000% in Bulgaria on T-4, at 1,200% in Estonia on
T+2, and 1,400% in Lithuania on T-18.

Table IV. 1. Ecuador: Central Bank of Ecuador Balance Sheet
After Dollarization, March 13, 2000

(In millions of U.S. Dollars)

		Account one	
Disposable international reserves	425	Currency in circulation	425
		Account two	
Disposable international reserves	299	Bankers' deposits	287
		Central bank sucre stabilization bonds	12
		Account three	
Remaining disposable international reserves	141	Obligations to official international Financial institutions (including IMF)	284
Government bonds	642	Central bank U.S. dollar-denominated instruments	0
Repurchase agreements	38	Public sector deposits	512
		Other deposits	26
		Account four	
Other assets	1,627	Other liabilities	1,627

Source: Central Bank of Ecuador.

Table IV. 2. Ecuador: Central Bank of Ecuador Balance Sheet
After Dollarization, July 21, 2000

(In millions of U.S. Dollars)

Account one			
Disposable international reserves	115	Currency in circulation	115
Account two			
Disposable international reserves	215	Bankers' deposits	212
		Central bank sucre stabilization bonds	3
Account three			
Remaining disposable international reserves	523	Obligations to official international Financial institutions (including IMF)	378
Government bonds	665	Central bank U.S. dollar-denominated instruments	0
Repurchase agreements	1	Public sector deposits	796
		Other deposits	15
Account four			
Other assets	1,649	Other liabilities	1,649

Source: Central Bank of Ecuador.

V. LABOR MARKETS AND WAGE DETERMINATION[51]

82.   A very complicated system of wage setting has evolved in Ecuador, featuring semi-annual agreements by over one hundred tripartite commissions for virtually all formal sector employees, and eight separate but intricately connected components of a worker's salary, some of which are paid at different times of the year. Available evidence on the distortive effects of Ecuador's wage structure is, however, mixed. Empirical studies do not present a compelling case that the structure has led to severe labor misallocation, although the need for flexibility is likely to be much greater under a dollarized exchange rate regime. This paper provides an overview of labor market issues in Ecuador, including the scope of labor market regulation in comparison with the rest of the region, the process of wage determination and the wage components, the effects on labor allocation and wage differentials, and some reforms introduced recently.

A. Scope of Labor Market Legislation

83.   The basic philosophy of labor legislation in many parts of Latin America and the Caribbean has been to provide employment stability rather than job creation and protection of the unemployed. Ecuador's legal framework shares much of this philosophy. According to a study by the Inter-American Development Bank (1996) at least 15 countries in the region impose moderate or severe restrictions on terminating labor contracts while only 8 offer a limited type of unemployment insurance. Almost all the countries have established a minimum wage and compensation for dismissal without just cause. Legislation generally favors hiring for an indefinite period of time, and imposes many restrictions on contracts, which attempt to introduce more flexibility in the hiring period.

84.   Box V.1 provides a comparison of the flexibility of the legal system across the region. Since several other countries have made major reforms in the 1990s, Ecuador now has a relatively inflexible legal system governing labor market arrangements, especially with respect to firing costs. Ecuador has relatively high severance payments requirements, with legislation that sets payments for dismissal that grow with the length of employment; this can be as high as 25 months' pay when workers have 10 years or more of service. Such excessive rigidity does not contribute to labor stability and might entail high efficiency costs.[52] Ecuador like a few other countries in the region, requires that severance payments be periodically deposited in accounts in the name of the workers. These funds build up a fraction of annual wages which, augmented with normal market yields, is available in a lump-sum to the worker if dismissed.

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[51] Prepared by Alvin Hilaire.

[52] Although in principle severance payments schemes would not necessarily have distortionary effects if they merely represented an income smoothing mechanism, in practice they are often viewed by employers as equivalent to a tax on dismissals, and so discourage job creation. (See Cox Edwards (1997).)

Box V.1. Flexibility of the Labor Legal System in Latin America and Caribbean Countries

Types of contracts 1/	Cost for dismissal after one year 2/	Cost for dismissal after ten years 3/	Social security contributions 4/
		I. More Flexible (F)	
The Bahamas	The Bahamas	The Bahamas	The Bahamas
Barbados	Barbados	Barbados	Barbados
Belize	Belize	Belize	Belize
Guyana	Dominican Republic	Haiti	El Salvador
Jamaica	Guatemala	Jamaica	Dominican Republic
Suriname	Guyana	Suriname	Guatemala
Trinidad and Tobago	Haiti	Uruguay	Guyana
	Jamaica		Haiti
	Suriname		Honduras
	Uruguay		Jamaica
			Nicaragua
			Panama
			Trinidad and Tobago
		II. Intermediate (I)	
Argentina	Chile	Argentina	Bolivia
Brazil	Costa Rica	Chile	Chile
Chile	El Salvador	Costa Rica	Costa Rica
Colombia	Honduras	Dominican Republic	**Ecuador**
Ecuador	Panama	El Salvador	Mexico
Nicaragua	Paraguay	Guatemala	Peru
Peru	Peru	Guyana	Paraguay
	Trinidad and Tobago	Mexico	Venezuela
		Panama	
		Paraguay	
		Trinidad and Tobago	
		III. More Rigid (R)	
Bolivia	Argentina	Bolivia	Argentina
Dominican Republic	Bolivia	Brazil	Brazil
El Salvador	Brazil	Colombia	Colombia
Guatemala	Colombia	**Ecuador**	Uruguay
Honduras	**Ecuador**	Honduras	
Mexico	Mexico	Nicaragua	
Uruguay	Nicaragua	Peru	
Venezuela	Venezuela	Venezuela	

Source: Inter-American Development Bank (1996). Reforms introduced in some of the countries since the study was undertaken would have changed their classification. The main purpose here is to show that the relative classification shows that Ecuador has one of the more rigid labor regimes in the region

1/ F: without restrictions; I: contracts with limited duration and renewability; R: only for temporary workers.
2/ F: up to a monthly salary; I: between one and two salaries; R: more than two salaries.
3/ F: up to six monthly salaries; I: between six and 12 monthly salaries; R: more than 12 salaries.
4/ F: up to 15 percent of salary: I between 15 and 30 percent; R: more than 30 percent.

85.   This sum is also available to the worker if he or she voluntarily quits or is fired for cause. There are also supplementary compensations in the event that the company cannot prove just cause. In Ecuador, compensations for dismissal are based on a multiple of the most recent salaries and hence do not reflect a connection between contributions and payments. To a large extent, the extensive job security regulations render hiring decisions practically irreversible, turning labor into a quasi-fixed factor and hindering the speed of labor market adjustment.

86.   Traditionally, Latin American and Caribbean countries have had pay-as-you-go, defined benefit social security systems, although this situation is now changing in many countries. Since payroll contributions are not linked to workers' benefits, the contributions generally have come to be perceived as a tax and the benefits as entitlements. An additional feature in Ecuador is that the basis of the contribution is the "base salary" as opposed to the mandated benefits, which has created incentives to reduce the share of "base salary" in total compensation in order to avoid social security contributions.

B. Wage Determination[53]

87.   Ecuador's complicated system of wage determination features government involvement in the setting of private sector wages through the establishment of a national minimum wage, mandatory wage adjustments to compensate for increases in the cost of living, and a vast array of other mandated benefits. Each of these benefits is determined according to a specific rule and paid at a different point in time. Some of them are proportional to the base wage of the worker, while others are set as a lump sum; some are paid monthly, while others are due at specific points in time.

88.   Basically, the government establishes a national minimum wage that serves as a reference point for the setting of wages throughout the economy. A total of 119 sectoral salary commissions then set minimum wages at the sectoral level, as well as for each occupation within each sector. These are tripartite commissions made up of representatives of the government, employers and workers. Their decisions are made with some reference to changes in the minimum wage. In addition, the government, by executive order, periodically grants nationwide wage increases. In certain sectors, minimum daily wages or minimum tariffs are established.[54]

89.   In addition to the base wage, a typical salary includes a number of mandated benefits (*bonificaciones*). These mandated benefits include four salary components (thirteenth, fourteenth, fifteenth, and sixteenth salaries), a cost-of-living compensation, a complementary

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[53] This section draws heavily on MacIsaac and Rama (1997).

[54] In January 1998, there were minimum daily wages established for 8 sectors; minimum tariffs were established in 12 sectors specifying payment per unit of output.

bonus and a transportation bonus (see Box V.2 for descriptions). The thirteenth salary was established in 1962 and the sixteenth salary was introduced 30 years later. Each benefit has its specific characteristics, including the time it is paid during the year.

Box V.2: Ecuador: Components of Wages and Salaries

Component (year of introduction)	Description
1. Basic minimum salary	Applies to workers in general, public servants, workers in small industry, agricultural, craft workers and domestic workers.
2. Cost of living (1974) compensation	Applies to workers in general, public servants (covered by the labor code), workers in small industry, agricultural, craft workers and domestic workers. This component is paid monthly.
3. Complementary bonus (1975)	Applies to workers in general, public servants (covered by the labor code), workers in small industry, agricultural, craft workers and domestic workers. This component may be paid in ten equal installments (every month except September and December, when the thirteenth and fourteenth salaries are paid) or monthly. Craft workers and apprentices do not enjoy this benefit.
4. Thirteenth salary (1962)	Applies to workers in general, public servants, workers in small industry, agricultural, craft workers and domestic workers. This component is determined as the sum of all salaries received by the worker between December and November, exclusive of additional compensations, and divided by twelve. It is paid in December (as a Christmas bonus).
5. Fourteenth salary (1968)	Applies to workers in general, public servants, workers in small industry, agricultural, craft workers, and domestic workers. This component is equivalent to two monthly minimum wages paid in September (intended to cover back-to-school expenses).
6. Fifteenth salary (1979)	This payment is applicable to workers in general and is paid in equal parts five times per year—during the seven first days of the months of February, April, June, August, and October. Workers not employed for a full year will receive a proportional amount.
7. Sixteenth salary (1992)	Applies to workers in general, public servants, workers in small industry, agricultural, craft workers, and domestic workers. This component is paid monthly and is equivalent to at least one-sixth of the basic minimum salary. Workers who receive a monthly salary greater than eight times the basic minimum salary would receive the equivalent of one month of basic minimum salary. In the case of workers with mixed remuneration, that is, who receive a base salary plus commissions, for the calculation of the sixteenth salary, both concepts will be taken into account.
8. Transport compensation (1978)	Applies to workers in general, public servants, workers in small industry, agricultural, craft workers and domestic workers. The transport compensation will be paid to those workers who receive a salary, wage or daily basic payment of up to two basic general minimum salaries.

90.   In addition to the mandated benefits, both the employee and the employer have to contribute to social security. Social security contributions amount to 20.5 percent of the base wage in most cases. Mandated benefits, such as the four salary components, were not subject to social security contributions until recently.[55] Fiscal considerations have featured prominently in the decisions to expand the range of mandated benefits as opposed to simply increasing base wages. First, the minimum wage was tightly linked to a number of public sector wages so that the ripple effect of a rise in the minimum wage magnified the cost to the government. According to World Bank estimates, a 1 percent increase in the minimum wage would increase the government's wage bill by 2.4 percent. Second, creating new salary components not related to social security contributions, limits the government's liability to the social security institute.

91.   Enforcement of minimum wages is weak since the punishment for noncompliance with labor legislation is relatively low.[56] Although enforcement is somewhat more effective regarding payroll taxation, firms with less than 10 employees are not targeted for inspection. The official estimate is that about 22 percent of the contributions are evaded by the private sector.

92.   Trade unions are particularly strong in the public sector and less prevalent in the private sector. Only 350,000 workers, or about 10 percent of the labor force, are unionized, and there has been a decline in union strength over time. However, union closed shops are allowed; that is, union membership may be a requirement for employment in these firms.

C. Effects on Labor Market Flexibility

93.   A key concern is the impact of such complex labor market regulation on economic efficiency. On the face of it, Ecuadoran labor costs would appear to be high because of the existence of so many mandated benefits. However, a study by MacIsaac and Rama (1997) provides evidence that the effect of these benefits is actually mitigated by a reduction of base earnings. The reduction is larger in the private than in the public sector and is negligible for unionized workers. Furthermore, they note that in spite of mandated benefits, inter-industry wage differentials are comparable to those of Bolivia, a country characterized by "flexible" labor markets but otherwise similar to Ecuador.[57]

94.   MacIsaac and Rama find that Ecuadoran labor market regulations do raise labor costs, but to a lesser extent than suggested by the mandated benefits. On average, take home pay is

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[55] See next section.

[56] The penalty is limited to five times the monthly minimum wage, regardless of the severity of the fault or the number of workers affected.

[57] None of the mandated benefits in force in Ecuador, except the thirteenth salary, exist in Bolivia.

about 18 percent higher for private sector jobs complying with labor regulations than for otherwise identical jobs. Moreover, the effect of mandated benefits on labor costs is smaller than suggested by this 18 percent increase in take-home pay because mandated benefits, unlike base earnings, are not subject to social security contributions and payroll taxes. Thus, total labor costs, including social security contributions and payroll taxes, increase by some 8 percent for an employer complying with labor regulations. The effect of mandated benefits on take home pay is drastically attenuated by a decrease of the base earnings on top of which mandated benefits are paid. This decrease, of about 39 percent is in turn facilitated by the low level and weak enforcement of minimum wages.

95.   The results of MacIsaac and Rama suggest that, while cumbersome, Ecuadoran labor market regulations cannot be held responsible for a great deal of labor market segmentation. Compliance with these regulations is associated with significantly higher take home pay only in the public sector where trade unions are active. Apart from the weakness of enforcement capabilities, they argue that even if regulations were enforced, private contracts could still undo part of the potential distortions: to the extent that mandated benefits are fungible with base earnings, the latter can be adjusted downwards so that take-home pay (including the benefits) remain equivalent to the relevant alternative wage.

96.   Nonetheless, results from an IDB (1996) study suggest that high adjustment costs (which include the severance payments costs) have contributed to the slow response of employment in Latin America to economic expansions. In particular the study pointed to an output-unemployment elasticity that was virtually zero in the case of Ecuador. To the extent that labor market regulations in Ecuador render hiring of workers as in the nature of acquisition of quasi-fixed factors, this limits the amount of new labor hired during expansions, particularly expansions perceived to be temporary.

D. Recent Reforms

97.   Although employers and workers have discovered ways of circumventing the complex system, the administrative cost of implementing the scheme represents a deadweight loss to society without much apparent benefit. The authorities have therefore started a process of rationalization. The first step was the introduction in the Economic Transformation Law of:

•   Separation of the minimum wages in the public and private sectors;

•   The fifteenth and sixteenth salary were added to the base wage and the complementary and cost of living bonuses will be gradually added to the base wage also;

•   Allowing hourly employment (minimum of six hours work per day).

Shifting the fifteenth and sixteenth salary components to the base salary should provide increasing revenues to the social security system, since it increases the base for contributions.

98.   Additional measures are included in legislation that was submitted to congress in mid-July, 2000:

*   Further unification of salary components with base salaries in the public sector;

*   Unification of the thirteenth and fourteenth salary components with the base salary for the private sector;

*   Strengthened enforcement of minimum wages.

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VI. FISCAL POLICY AND TAX REFORM[58]

99.   The key tasks of tax policy are to contribute to macroeconomic stabilization and demand management, while at the same time promote and efficient resource allocation and an equitable distribution of resources. The current tax system in Ecuador falls short of these objectives in several important respects. First, the role of fiscal policy in macroeconomic management is severely encumbered both by the dependence of government revenues on the petroleum sector (and hence, world oil prices), and by a high degree of earmarking of revenues. Second, the tax system has low yield; it has a number of design flaws that has distortive effects; and complex rules, frequent changes, an uneven and unpredictable enforcement result in a serious lack of transparency. This chapter provides an overview of these shortcomings and examines how the Ecuadoran tax system compares to those of other countries in Latin America and gives a summary of recommended reforms.

A. Fiscal Policy and Macroeconomic Management

100.   Two factors hamper the effective use of fiscal policy in macroeconomic stabilization efforts. One is the dependence of central government revenues on the petroleum sector. In 1998, 4.5 percent of GDP or almost 28 percent of total revenues came from this sector, about the same as the other major oil producers such as Mexico and Venezuela (Table VI.1). At the same time, taxes from nonpetroleum sources yielded only 11.8 percent of GDP in revenues; among the lowest in the region. However, the volatility in world oil prices exerts a significant influence on the revenue contribution from the petroleum sector. Its share of total revenues was about 45 percent in 1995 and, as oil prices have recovered from their 1998 low, a similar share is projected for 2000.

101.   The combination of not having a functioning oil stabilization "fund,"[59] and not having regular access to external financial markets has imparted a distinct pro-cyclical bias in fiscal policy during the period 1991–2000. In those circumstances, the government has been left with very limited possibilities for smoothing out the impact of an external shock (e.g., a change in world oil prices or a change in external interest rates) on the fiscal accounts. As

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[58] Prepared by Erik Offerdal.

[59] Such a fund may have two objectives: to provide some short-term smoothing of petroleum revenues to the budget in a situation of volatile oil prices, and to provide some long-term consumption smoothing of petroleum revenues. To meet the first objective, the annual petroleum revenues absorbed by the budget would be calculated on the basis of a fairly constant benchmark oil price; any deviation of actual government revenues from this amount—depending on whether the actual oil price is above or below the benchmark—would be either channeled to or disbursed from the stabilization fund (to the budget). Under the World Bank's SAL, approved in June 2000, the government is committed to establish an oil stabilization fund.

illustrated in Figure VI.1a for the period 1991-2000, a decline in capacity utilization (a slowdown of actual growth relative to trend growth) has been systematically associated with fiscal policy becoming more contractionary (a decline in the fiscal impulse) and vice versa.[60] This bias appears somewhat less pronounced if the calculation above is done for the period 1991–99, as illustrated in Figure VI.1b; the fiscal impulse then turns counter-cyclical in two years: 1995 and 1998.[61] Rather than indicating a deliberate policy stance, however, this counter-cyclical impulse is probably indicative of a temporary relaxation of the external financing constraint—these two years essentially follows the completion of the commercial debt restructuring with Brady bonds (1994) and the floating of Eurobonds (late 1997). During the remainder of this period, Ecuador has had very limited or no access to external financing, and the absence of a petroleum fund has essentially "forced" a procyclical fiscal policy.

102.   A second problem factor is the degree of earmarking of government revenues. For 2000, it is estimated that about 64 percent of central government revenues are earmarked for specific purposes. These earmarked funds are partly for expenditure items within the central government budget (i.e., the pension fund, health, and education) and partly for transfers to subnational institutions (local governments, regional development funds, universities, etc.). Combined with a very high interest bill (almost 10 percent of GDP in 1999–2000), this earmarking sharply reduces the flexibility in expenditure policy and makes key government programs subject to the annual fluctuations in petroleum revenues.[62] Moreover, since local governments receive a substantial portion of their current revenues from this arrangement, they also have little incentive to introduce their own tax instruments.

B. Key Weaknesses of the Tax System

103.   The low yield from nonpetroleum taxes relative to other Latin American countries is illustrated in Table VI.1. Ecuador is at the low end of the scale for all major types of taxes, with the exception of trade taxes; total nonpetroleum tax revenues amounted to less than 12 percent of GDP in 1998. To a significant extent, this is the result of low tax rates and a narrowly defined tax base.

104.   For indirect taxes—VAT and excises—a key issue is relatively low tax rates. The VAT rate was 10 percent when the tax was introduced, and increased to 12 percent in 1999. In a Latin American perspective, the rates range from 23 percent (Uruguay) to 5 percent

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[60] The methodology behind the calculations in the two charts is explained in Section D.

[61] The calculation of trend output used here, out put, growth smoothed by a Hodrick-Prescott filter is quite sensitive to the choice of end-points in the data series; this could impact on both the capacity utilization and the fiscal impulse.

[62] E.g., a substantial portion of petroleum revenues is earmarked for educational expenditures.

(Panama), but Ecuador's immediate neighbors (Peru, Venezuela, and Colombia as well as Chile) have rates in the 15 to 18 percent range. At the same time, the base for the VAT is comparable to that of other countries (Table VI.2), and the efficiency of collection, relative to the base, is not out of line with that of other countries in the region. The yield from excises is also low because there is no tax levied on domestic fuels.

105.   Personal income taxes yield low revenues both because rates are low and exemptions are high (Table VI.3). Both the maximum and minimum rates are among the lowest in Latin America, while the personal exemption threshold is among the highest. Allowing taxes paid under the VAT and the financial transaction tax as creditable against the personal income tax liability further erodes the revenue yield. For payroll taxes, on the other hand, tax rates are relatively high in a regional comparison (Table VI.4), yet significant components of salary income are not included in the tax base.

106.   The tax system also has important distortive effects. Import tariffs are levied at a relatively high average rate and with high dispersion of rates across different commodities.[63] This obviously contributes to a bias toward allocating resources to protected, but potentially inefficient, domestic industries.[64] The financial transactions tax, currently levied at a 0.8 percent rate, encourages financial disintermediation and thus inefficient credit allocation, as well as increases the cost of debt finance for investments. Finally, the high tax rates on payroll increases the cost of labor and encourages informal employment contracts.

107.   The tax administration, although recently revamped, suffers from weaknesses that seriously inhibit effective enforcement and collection policies and allows tax evasion to remain pervasive:

- a reputation of being corrupt and ineffective inherited from earlier administrations;[65]

- insufficient autonomy from the government in staffing and acquisition policies;

- serious understaffing; the tax administration in Ecuador has one official per 35,800 citizens, whereas the average for Peru and Colombia is one official per 11,660 citizens, and the average for larger Latin American countries (Argentina, Chile, and Mexico) is one official per 3,900 citizens;

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[63] See Section IX for further discussion of the trade system.

[64] Another probable source of distortions is the treatment for tax purposes of depreciation allowances in an inflationary environment, which would create a bias in investments between categories of capital with different lifetimes.

[65] The current tax administration was established in 1998, and the customs administration in 1999. Significant efforts have been made within the new tax administration to prosecute corrupt officials and establish itself as a legitimate enforcement agency.

- an organization structure that is inadequately geared toward key functional areas, in particular, tax auditing, inspection and control of large taxpayers, and insufficient crosschecking of compliance with the different types of taxes.

C. Reform Proposals

108.   To ameliorate these weaknesses, recent recommendations for tax reform have emphasized measures both of a general and specific tax policy nature. At the general level, the proposals have focused on:

- Sharply curtailing or reducing tax, earmarking from current levels;

- Significant organizational strengthening of the tax administration, with regard to staffing, training, equipment, coordination with other government agencies;

- Introduction of a genuine petroleum stabilization fund.

109.   At the more specific tax policy level, the main proposals have been:

- Expanding the base for VAT to include all goods and services, with the exception of basic foods, banking services, and residential rents, and increase the rate;

- Introduce excises on gasoline and related products;

- Sharply reduce the rate of the financial transactions tax;[66]

- Introduction of a simple, one-rate import tariff with no exemptions and elimination of the import tariff surcharge;

- Expanding the base of the personal income tax to cover all types of personal remuneration, lower the personal exemption threshold significantly, and increase the top marginal rate to the same level as the enterprise income tax;

- Expand the base of the enterprise income tax to include all types of revenues and unify the tax rate at the level of the top marginal rate of the personal income tax;

- Expand the base of the payroll tax to cover all categories of salaries paid and sharply lower the tax rate.

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[66] The government is currently planning to eliminate this tax by end-2000 in the context of a broader tax reform. However, the reporting requirements currently imposed on banks, which have become a useful tool in enforcement of other taxes, are to be retained.

D.   Cyclical Fluctuations and the Fiscal Impulse

110.   The fiscal impulse calculations discussed above are based on the methodology used to assess fiscal policy in the Fund's World Economic Outlook. On the assumption that nominal government revenue is unit elastic with respect to *actual* nominal output, while nominal government expenditure is unit elastic with respect to *trend* nominal output, the *cyclically-adjusted budget balance* (CABB) can be estimated as:

$$CABB_t = t_0 Y_t - g_0 Y^*_t$$

Where t_0 and g_0 are the shares of total revenue and government expenditures, respectively, in nominal output in the base year 0, Y_t is actual nominal output and Y^*_t is trend output in current prices in year t. The observed budget balance in the base year is thus taken as the benchmark balance against which the balance in other years is judged to be expansionary or contractionary.

The *fiscal stance (FIS)* is defined as the difference between the CABB and the actual budget balance (ABB):

$$FIS_t = CABB_t - ABB_t$$

in year t. This measure provides a direct indication of the thrust of fiscal policy relative to the base year. When FIS is zero, the actual budget balance equals CABB, and fiscal policy can be interpreted as neutral relative to the base year. When FIS is positive, and CABB exceeds the actual balance, fiscal policy is interpreted as expansionary, and when FIS is negative, fiscal policy is viewed as contractionary.

A change in the fiscal stance relative to GDP from one year to the next provides an indication of the *fiscal impulse*, that is, whether fiscal policy is becoming more of less contractionary or expansionary.

The concept of trend growth used here is identical to that in Chapter II; i.e., by applying a Hodrick-Prescott filter to real GDP growth to smooth this series. Capacity utilization is then defined as the difference between actual and trend growth; i.e., if capacity utilization is positive, actual growth exceeds the trend. The base year for the calculation is 1993, the year when the difference between actual and trend growth was the lowest.

Figure VI.1a. Ecuador: Cyclical Fluctuations and Fiscal Impulse 1/
1991-2000

Fiscal impulse

Fiscal stance

Capacity utilization
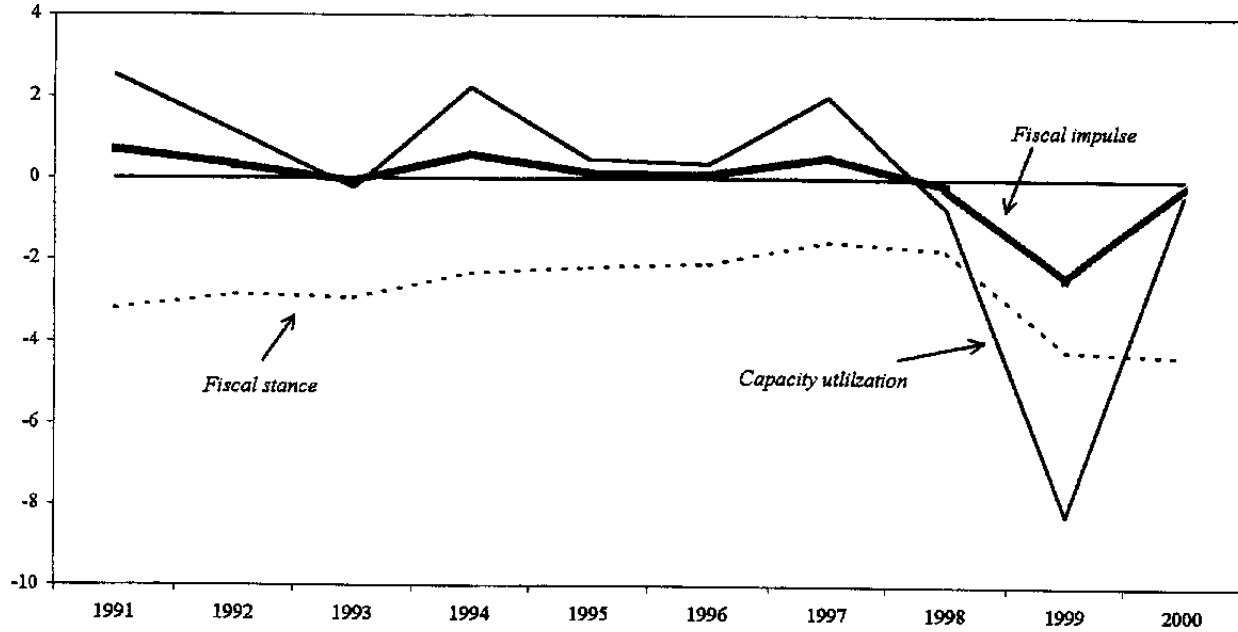
Figure VI.1b. Ecuador: Cyclical Fluctuations and Fiscal Impulse 1/
1991-99

Fiscal impulse

Fiscal stance

Capacity utilization
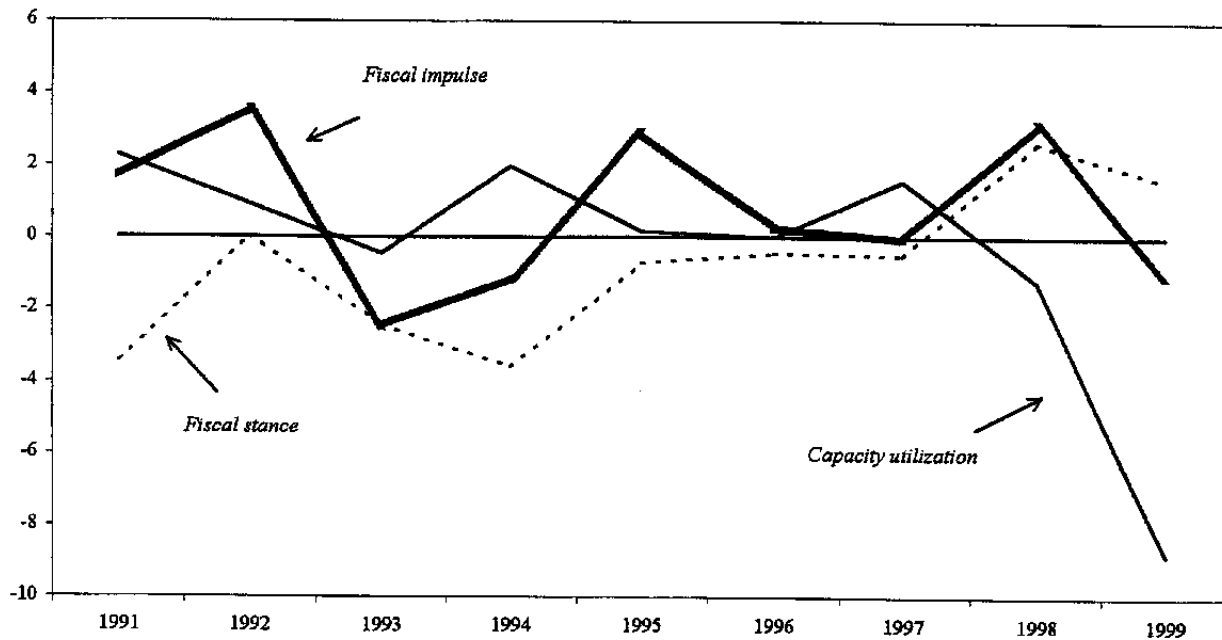
Source: Ecuadoran authorities and Fund staff estimates.

1/ For description of terms and calculation methods, please refer to section D.

VII. POVERTY AND SOCIAL SAFETY NETS[67]

111. Already before the current economic crisis, Ecuador was a country with a high degree of poverty. According to the results of the Living Standard Measurement Surveys carried out by the government in the middle of this decade, approximately one-third of the population could be considered poor, and around 10–12 percent of the population lived in extreme poverty (Table VII.1).[68] Poverty is concentrated especially in rural areas, where approximately two-thirds of all poor people live. Regions with the largest presence of indigenous people, in particular the rural areas of the Amazon, also seem to be among the poorest; in such regions access to basic services is limited and social indicators are consistently below the national average. However, the largest absolute number of poor people can be found in the mountainous and coastal zones.

A. Impact of the Economic Crisis

112. The economic crisis has resulted in a dramatic deterioration of poverty indicators in 1998–99. The share of the population living in poverty has increased—from around ⅓ percent in 1995 to around 40 percent in 1999, with almost two-thirds of the rural population in coastal and mountainous regions living in poverty. The share of the population living in extreme poverty increased to around 15 percent including almost one-third of the rural population, up from around 20 percent prior to the onset of the crisis. The increase in extreme poverty appears to have been the strongest in the eastern or Amazon region.

113. In the countryside, virtually all of the increase in poverty coincides with an increase in extreme poverty. By contrast, in the cities, the increase in poverty has not been accompanied by a similar increase in extreme poverty (Table VII.1), but rather to the impoverishment of those groups that were already vulnerable to poverty in 1998. One important reason behind this is the large number of households vulnerable to poverty, such that even a relatively small decline in incomes and consumption would shift them below the poverty threshold (Figure VII.1).

114. The deterioration in poverty indicators has come about through several different channels; the most important of which probably has been the impact of the crisis on the real economy. The economic crisis resulted in a sharp decline in output, incomes, and employment, in addition to inflationary pressures generated in part by devaluations. Government calculations suggest that, between mid-1998 and mid-1999, primary incomes increased by 10 percent and minimum wages by 39 percent—both well below the inflation rate of about 55 percent for the same period. During the same period, the overall employment

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[67] Prepared by Erik Offerdal, on the basis of FAD technical assistance.

[68] Poverty defined as households with an income below the value of a defined consumption basket. Extreme poverty defined as income below half the value of this consumption basket.

rate in the largest cities fell from 91.5 percent to 84.4 percent, and there was a significant shift of employment out of the formal sector and into the informal sector. In addition, there seems to have been an increase in participation rates and in employment of seniors, partly in response to the deterioration in the real value of pensions. Although the information base does not allow for verifying this, it is also quite likely that child labor has increased during the crisis.

115.   The resurgence of poverty in the coastal zone, on the other hand, is in large part the direct result of the effect of *El Niño* on the cultivation of rice and maize. In addition, *El Niño* destroyed a substantial part of the infrastructure in this zone, left several thousand families homeless, and increased the incidence of diseases such as malaria, dengue fever, and cholera. This combination of factors also resulted in a major nutritional deficiency and a rise in infant mortality, despite government efforts to mitigate these effects.

B.   Current Instruments of Social Protection

116.   The current system of social protection is based on cash transfers, infrastructure programs, price subsidies, and other social protection measures.

117.   **Cash transfers through the *bono solidario*.** This "bond" was introduced in September 1998 to mitigate the impact on poor people of the elimination of the subsidies on gas, fuels, and electric power. It consists of a money transfer targeted to poor mothers with children under 18 years of age and seniors over 65 years of age. The amount of the transfer was initially set at S/. 100,000 a month for mothers and S/. 50,000 a month for seniors. In April 1999, these amounts were increased to S/. 150,000 and S/. 75,000 a month, respectively, and coverage was extended to include the disabled, with the same benefits as for seniors. These nominal amounts are to be adjusted only on a discretionary basis, at unspecified intervals. To gain access to the transfer, the beneficiary household must have a monthly income of less than S/. 1 million and its members cannot be employed in the formal sector, be affiliated with the social security system, or have a vehicle or bank loans.

118.   **Infrastructure programs, mainly through the emergency social investment fund (FISE) and the solidarity fund.** The emergency social investment fund was created in 1993 for the purpose of implementing infrastructure programs that would benefit the most vulnerable segments of the population during emergencies, including through generating employment via labor-intensive projects. FISE channels resources from the IDB, World Bank, and the CAF to these projects, which require a local counterpart of 10 percent. The solidarity fund was created in August 1998. This fund is capitalized with the resources from the privatization of public enterprises and from public works concessions. The constitution establishes that the yield from the fund's assets must be used solely for social expenditure. In the course of 1999, 25 percent of the fund's income must be allocated for reconstruction on infrastructure affected by *El Niño*; 15 percent is earmarked for the free maternity program, and the rest is to be used as the local counterpart for social projects financed by multilateral lending.

119.   **Price subsidies on cooking gas and electricity**. Traditionally, the government has granted subsidies to consumers of these and some other commodities (mainly fuels and other utilities). As the principal, and, in some cases, the only producer or importer of these goods and services, the government has granted these subsidies by fixing consumer prices below the opportunity cost—sometimes even below the cost of production—of producing these goods and services. In September 1998, the government decreed an increase of more than 400 percent in the price of cooking gas, thereby eliminating the existing subsidy. However, the new price was fixed in sucres and the subsidy quickly reappeared as the price of petroleum increased and the exchange rate depreciated. On May 25, 2000, the government introduced price increases of 65–92 percent for diesel and gasoline and of 90–333 percent for other derivatives. This sharply lowered the subsidy on fuels: from an average of 35 cents per gallon to an average of 8 cents per gallon or 13 percent. But it left unchanged the subsidy on cooking gas, which currently retail for US$1 per 15 kg cylinder, compared to an import cost of US$3.14 and an average retail price in neighboring countries (Bolivia, Colombia, and Peru) of US$4.19. The government has also implemented several increases in electricity prices; in September 1998, in January 1999, and, most recently, in May 2000, when prices were raised by an average of 70 percent in one step combined with 4 percent monthly adjustments thereafter.[69] This latest increase would allow electricity companies to cover their own operating costs, but prices would still be significantly below long-term marginal cost.

120.   **Other programs**. A great number of other programs have been established over the years to address various aspects of social welfare, including nutrition, health, education, and child care. In the nutrition area, the main program is the school meal program of the ministry of education, which supplies breakfast for children attending public schools in poor areas. This program has recently been supplemented with a school lunch program. As regards health, the mother/infant care program of the ministry of health seeks to reach pregnant mothers and children up to two years of age. The program offers free medical consultations as well as food supplements. In addition, current legislation stipulates that childbirth must be free for all Ecuadoran women. The ministry also carries out periodic vaccination and epidemic control campaigns throughout the country, which are fundamental for the prevention of epidemics. The ministry of social welfare and NGOs also have programs for the integrated care of children under six years of age, currently covering some 100,000 children.

C. Assessment of the Current System

121.   Despite the fairly large number of social protection programs and the substantial resources devoted to them (4.7 percent of GDP budgeted for 1999 including 1.2 percent of

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[69] Also, the direct subsidy to small consumers (below 150 kwh/month) was replaced with a system of cross-subsidies between large and small consumers.

GDP for the *bono solidario*), they have not been able to prevent a sharp increase in poverty during the crisis, mainly because of inadequate targeting, substantial regressivity, overlapping functions, and poor oversight and control.

122.   The targeting of the *bono solidario* is inadequate. Although this program has been quite successful in providing relief to a large segment of the poor population, it is also highly likely that more than a quarter of the current recipients should not be eligible for the cash transfer. Eligibility is determined on the basis of self-selection and self-reporting of income, providing an important incentive for underreporting. Of all beneficiaries, 47 percent report that both the beneficiary and the spouse have a permanent job, and an additional 40 percent report that at least one of the spouses has a permanent job. Also, comparing the incomes reported by beneficiaries of the bond with incomes reported in the 1998 Living Standards Measurement Survey, it appears that the incomes declared by beneficiaries of the *bono* are 33 percent less than those of the target group.

123.   The system of price subsidies is regressive. According to the 1995 Living Standards Measurement Survey, the richest 20 percent of the population consumed approximately 35 percent of electricity. By contrast, the poorest 20 percent of the population consumed only 10 percent of electricity (see next chapter). Consumption of cooking gas was far more equally distributed; however, the very poorest segments of the population, living in remote rural areas, typically use firewood rather than gas. An additional source of regressivity arises from the distribution of the *bono solidario*, where payments are made through the banking system. Since this system, and the branch network, is far better developed in cities and urban areas than in rural areas, the distribution tends to favor the urban population, in a situation where the incidence of poverty is greater in rural areas. The coverage of these bonds is, therefore, well below target in rural areas (Table VII.2).

124.   Other shortcomings, such as overlapping functions and poor oversight and control, have been a problem with the infrastructure programs and other social programs. The solidarity fund, in particular, has come under criticism for lack of transparency in how resources are allocated and the discretional powers enjoyed by its executives.

Figure VII. 1. Ecuador: Distribution of Monthly Per Capita Consumption in 1998 and 1999
(By Population Decile)

1999

1998

Poverty line (253,000 1998 sucres/month)

500   1000   1500   2000   2500   3000

Thousands of 1998 Sucres
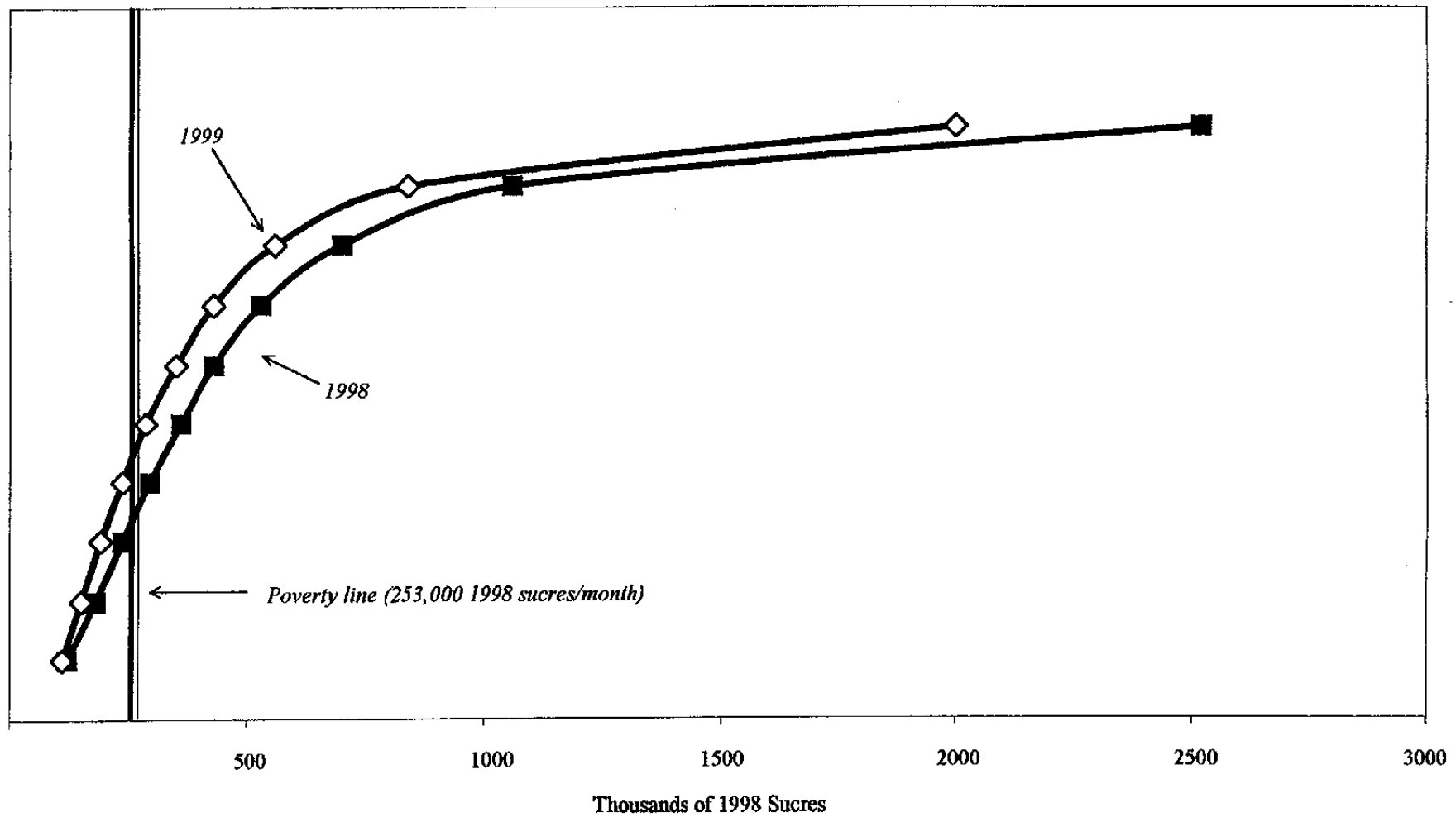
Sources: BCE, INEC and Fund staff estimates.

Table VII. 1. Ecuador: Rates of Poverty and Indigence

		Indigence				Poverty			
		Income Method 1/		Consumption Method 2/		Income Method 1/		Consumption Method 2/	
		1995	1998	1998	1999	1995	1998	1998	1999
Nation	**Total**	**12.3**	**14.3**	**9.2**	**14.7**	**31.8**	**37.9**	**31.3**	**42.2**
	Rural	23.1	25.5	17.5	28.2	52.5	57.3	54.5	67.2
	City	4.8	6.2	3.2	5	17.5	23.8	14.5	24.1
Coast	**Total**	**9.5**	**12.6**	**6.7**	**11.4**	**29.2**	**37.4**	**27.6**	**39.7**
	Rural	17.2	22.5	11.1	21.8	47.7	56.9	49.7	65.6
	City	5.3	7.5	4.5	6.2	19.1	27.6	16.3	26.5
Mountains	**Total**	**15.4**	**16**	**12.2**	**18.8**	**34.5**	**38**	**35.7**	**45.1**
	Rural	29.7	28.1	23.4	34.6	58.9	58.6	60	70.2
	City	4	3.9	1	3	15.1	17.5	11.4	20
East	**Total**	**17.1**	**21.5**	**11.9**	**18.2**	**38.4**	**43.5**	**37.8**	**48.2**
	Rural	19.1	25.7	14.3	22	42.6	49.7	44.1	54.5
	City	8.9	4.6	2.2	2.7	20.5	18.5	12.3	22.7

Sources: Central Bank of Ecuador; unpublished INEC information; and Fund staff estimates.

1/ Percentage of population in households with estimated monthly per capita income lower than half the amount required to purchase a subsistence basket of goods as defined by the IDB (1995). In 1998 the cutoff was S/. 92,487.
2/ Percentage of population in households in which total consumption is less than half the cost of the INEC "basic basket."
3/ Defined as double the income of the indigence threshold.
4/ Defined as double the consumption (in cash terms) of the indigence threshold.

Table VII. 2. Ecuador: Urban Rural Breakdown of Beneficiaries of the *Bono Solidario* and
of Poor Segment of the Population, 1999

(In percent of total population)

	Urban	Rural
Poor segment of the population	33	67
Beneficiaries of the *bono solidario*	58	42

Source: INEC; and Fund staff estimates.

VIII. DISTRIBUTIONAL ISSUES IN ECUADOR[70]

125.   This chapter examines the distribution of resources in Ecuador using a consumption-based measure of inequality. In a period of instability, such as the one experienced by Ecuador in the 1990s, it is important to distinguish transitory income fluctuations from permanent changes. If one accepts the hypothesis that consumption is based on permanent income, then consumption is likely to be a better proxy for welfare and lifetime income. In addition, it is very difficult to measure the incomes of the self employed, the informal sector and the rural sector, since the distinction between earnings and the returns to capital is blurred and income estimates are particularly noisy. Moreover, in household surveys, income may be underreported, but it is less likely that households would underreport the expenditure of over 170 individual items when specifically questioned.

126.   Based on data for 1995, Ecuador presents a highly skewed distribution of resources. Given the economic crisis over the past few years, it is likely that the degree of inequality and poverty have further increased.

A.   Expenditure Patterns in Ecuador

127.   The data used to examine the distribution of resources in Ecuador is the *Living Conditions Surveys of Ecuadoran Households* (LCS) covering 5,809 households and more than 26,900 individuals between September and November of 1995. The survey provides a representative sample of households, where a household is defined as a group of individuals who make common expenditure decisions and live in the same domicile. A household can, therefore, represent a nuclear family, an extended family or several families living together.

128.   The data include detailed information on household income and expenditure as well as individual and household characteristics. Household ownership is recorded, as well as a detailed inventory of the stock of consumer durables such as refrigerators, TVs, cars, and other major appliances at the time of the interview. Food expenditures are recorded over a two week period while other items such as clothing, household goods, and education are recorded over the previous month, quarter, and year.

129.   Adjustments are required to develop estimates of consumption for each household. Investment expenditures on owner-occupied housing are replaced with each household's estimate of the rental equivalent of the home. Purchases of other consumer durables are replaced by the sum of the estimated service flows from each household's stock of durables. Following Slesnick (1993), the services from the durable (S_t), are measured as the opportunity cost if holding it, plus the level of depreciation:

(1) $S_t = r_t P_t + (P_t - P_{t+1})$

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[70] Prepared by Gabriela Inchauste.

where r_t is the rate of return on the asset and P_t is the value at time t. As a conservative estimate, r_t is taken to be zero over this period of high inflation,[71] and the depreciation rate is taken to be constant at ten percent for each good.

130.   Table VIII.1 presents the average expenditure patterns across expenditure deciles. As would be expected, households in the lowest deciles spend a greater portion of the total on basic needs such as food and housing, while the richer deciles spend a smaller portion of the total on food, and are able to spend more on durables and transportation. These data also confirm that using household consumption, rather than income, for inequality measurements may potentially reveal important distinctions.[72] In Table VIII.2, each column (row) shows the conditional probability of being in a particular income (expenditure) decile, given the expenditure (income) decile. If income and expenditure were perfectly correlated, the diagonal terms would equal one, and all of the off diagonal elements would be zero. However, as seen in Table VIII.2, the probability that a household is classified into the poorest decile by both expenditure and income criterion is only 37 percent.

B.   Consumption Based Inequality Estimates for Ecuador

131.   Table VIII.3 presents the fraction of total expenditure adjusted for service flows attributable to each decile in 1995. The poorest 10 percent of the population accounts for only 1.3 percent of total expenditures, while the richest 10 percent of the population accounts for 41 percent. The household income distribution (excluding housing and durable services) is also shown, and, as expected, the income distribution shows greater inequality. These results are quite similar to those of INEC (1995), which provides the distribution of income by quintiles, and concludes that the wealthiest 20 percent of the population receive 63 percent of total income, while the poorest 20 percent receive only 2 percent of total income.

132.   Table VIII.4 presents various measures of inequality including the most commonly known, the Gini coefficient.[73] Again, note that the income based Gini is slightly higher than

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[71] Annual inflation in 1995 was 23 percent, during the months of September to November, inflation grew at an average of 1.8 percent a month. Unfortunately, it is impossible to identify which households were interviewed in each month, so that both expenditure and consumption values are in nominal terms. However, 1995 has continued to be taken as the base year for the CPI index, reflecting the relative low inflation period when compared to previous and subsequent years.

[72] Income is comprised of wages and salaries, business income, rental and property income, transfers, in-kind payments, gifts, and consumption of goods produced at home.

[73] A society with total inequality would yield a Gini equal to one, while total equality would yield a Gini equal to zero. The coefficient of variation is the standard deviation of the income

the Gini based on expenditures, thus overestimating inequality. However, our result here, of a Gini coefficient between 0.53 and 0.56, is somewhat higher than those reported in other studies. Jácome et al. (1998) report a Gini coefficient of 0.47 between 1988 and 1995 based on income reported in employment surveys, and the World Bank used the 1994 survey and found a Gini coefficient of 0.43 with a consumption-based measure of inequality.[74]

133.   For comparison purposes, Table VIII.5 presents Gini coefficients for a variety of Latin American and Caribbean (LAC) countries. Note that Ecuador is relatively unequal when compared to countries in the region, and in particular when compared to its close neighbors: Peru, Colombia, and Venezuela.[75] Table VIII.6 presents the breakup by deciles of the share in total incomes for the LAC region compared to that of Ecuador.[76] Note that the differences here are large, in particular in the lower deciles, where Ecuador's poor seem to be worse off when compared to the rest of Latin America.

(expenditure) distribution divided by the mean. Thus, if all incomes increase by the same proportion, inequality remains unaltered. The Gini coefficient is the ratio of the area between the Lorenz Curve and the diagonal to the area of the triangle beneath the diagonal, thus it involves the differences between all pairs of incomes. For further explanation of the different inequality measures see Jenkins (1991). A society with total inequality would yield a Gini equal to one, while total equality would yield a Gini equal to zero. The coefficient of variation is the standard deviation of the income (expenditure) distribution divided by the mean. Thus, if all incomes increase by the same proportion, inequality remains unaltered. The Gini coefficient is the ratio of the area between the Lorenz Curve and the diagonal to the area of the triangle beneath the diagonal, thus it involves the differences between all pairs of incomes. For further explanation of the different inequality measures see Jenkins (1991).

[74] The service flow of durables was not incorporated in the measurement of consumption in the World Bank study, which partly account for the difference in results.

[75] The income-based Gini is reported here for comparison purposes.

[76] Again, for comparison purposes only, deciles are grouped according to income since the estimates for other countries are based on income deciles.

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Table VIII. 1. Ecuador: Average Expenditures as a Percentage of Total

	Total Average	By Expenditure Decile									
		1	2	3	4	5	6	7	8	9	10
Total average expenditures	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Food, beverage, and tabacco	18.3	46.1	43.3	41.3	39.3	37.0	29.1	24.0	21.6	15.2	7.3
Transportation	15.1	5.8	6.9	8.6	9.9	10.6	11.3	10.6	12.6	12.1	20.9
Housing	23.6	29.5	29.1	27.9	28.4	28.9	28.6	26.6	27.6	25.1	18.4
Durables	27.3	1.8	2.2	2.2	2.2	2.2	9.6	20.3	19.9	31.3	41.7
Education	4.7	4.0	4.8	4.8	5.0	6.3	6.0	5.2	4.8	4.9	4.1
Clothing	7.0	5.7	5.6	6.0	5.8	6.0	6.1	5.5	5.2	4.7	2.7
Other expenditures	4.0	3.0	3.4	4.5	4.9	4.4	4.7	4.7	4.5	4.0	3.5

Source: Fund staff estimates based on INEC 1995 Survey.

Table VIII. 2. Ecuador. Cross Correlation of Income and Expenditure Deciles:
Probability of Being in the Same Decile

(In percent)

Expenditure Deciles	Income Deciles									
	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
Decile 1	36.5	26.2	16.6	10.5	4.1	3.2	1.2	1.0	0.5	0.5
Decile 2	20.8	21.9	18.6	13.6	11.0	6.5	5.7	2.7	1.6	1.4
Decile 3	11.1	13.3	15.0	16.5	16.4	12.6	8.8	3.7	2.1	1.6
Decile 4	6.5	10.1	13.4	11.2	15.1	14.9	11.5	6.6	3.7	2.0
Decile 5	4.7	5.8	8.1	12.7	12.5	14.2	15.0	16.0	8.5	3.4
Decile 6	4.5	5.5	7.9	9.3	10.0	13.7	14.7	16.7	11.1	6.0
Decile 7	6.3	6.6	7.0	10.1	9.4	9.3	10.0	15.1	15.2	9.4
Decile 8	2.9	4.3	4.3	5.7	8.0	10.2	13.0	16.0	23.5	14.1
Decile 9	3.1	3.8	5.2	5.7	6.0	10.5	11.2	12.4	16.7	24.4
Decile 10	3.6	2.5	3.8	4.8	7.5	4.9	9.0	9.7	17.1	37.1

Source: Fund staff estimates based on INEC 1995 Survey.

Table VIII. 3. Ecuador: Share of Total Expenditure and Income, 1995 1/

(In percent)

	Expenditure Share of Total Spending	Income Share of Total Income
Total	**100.0**	**100.0**
Decile 1	1.3	0.5
Decile 2	2.3	1.6
Decile 3	3.1	2.7
Decile 4	4.0	3.8
Decile 5	5.1	5.1
Decile 6	6.7	6.6
Decile 7	8.6	8.5
Decile 8	11.3	11.4
Decile 9	16.5	16.7
Decile 10	41.2	43.2

Source: Fund staff estimates based on INEC 1995 Survey.

1/ The income measure does not include service flows of durables or owner occupied housing.

Table VIII.4. Ecuador: Measures of Inequality, 1995

	Income 1/	Total Expenditures
Relative mean deviation	0.41	0.39
Coefficient of variation	2.00	1.38
Standard deviation of logs	1.27	0.97
Gini coefficient	**0.56**	**0.53**

Source: Fund staff estimates based on INEC 1995 Survey.

1/ The income measure does not include service flows of durables or owner occupied housing.

Table VIII. 5. Ecuador: Income Inequality Across
Latin America 1/

	1990's Gini
LAC average	57.7
Brazil	61.4
Guatemala	59.9
Panama	57.4
Honduras	56.9
Chile	56.5
Ecuador 2/	**56.3**
Mexico	54.2
Dominican Republic	51.6
Colombia	48.2
Venezuela	47.1
Costa Rica	46.5
Bahamas	45.0
Peru	44.9
Jamaica	37.9

Sources: Ecuador's Gini coefficient: Fund staff estimates. Other country estimates:
Lodoño and Székely, (1997) "Persistent Poverty and Excess Inequality: Latin
America, 1970-95." IADB Working Paper No. 357.

1/ Income inequality measured by the Gini coefficient.
2/ The income measure does not include service flows of durables or owner occupied housing.

Table VIII. 6. Ecuador: Income Distribution by Decile in Latin
American Countries and Ecuador in the 1990s

	(In percent)	
	Ecuador Income Share of Total Income 1/	LAC Countries Income Share of Total Income
Total	**100.0**	**100.0**
Decile 1	0.5	0.8
Decile 2	1.6	1.7
Decile 3	2.7	2.6
Decile 4	3.8	3.5
Decile 5	5.1	4.8
Decile 6	6.6	6.2
Decile 7	8.5	8.0
Decile 8	11.4	11.1
Decile 9	16.7	15.9
Decile 10	43.2	45.4

Sources: Fund staff estimates based on INEC 1995. Other country estimates: Lodoño
and Székely, (1997) "Persistent Poverty and Excess Inequality: Latin America, 1970-1995."
IADB Working Paper No. 357.

1/ The income measure does not include service flows of durables or owner occupied housing.

IX. EXTERNAL TRADE ISSUES[77]

134. Ecuador has taken some important steps over the past few years toward liberalizing its trade regime, in particular with its accession to WTO in 1996. Still, the trade regime remains fairly restrictive, with significant elements of protection of domestic industries, and lacking in transparency. Ecuador has also met with limited success in diversifying its export base away from primary products. Although nontraditional exports have developed at high rates over the years 1990–97, most of the nontraditional goods were still primary products, or processed primary products.[78] This has resulted in a combined dependence on strongly fluctuating world market prices and unstable weather conditions for production.

A. International Commitments on Trade

135. Ecuador joined the World Trade Organization (WTO) on January 21, 1996 and has accepted all the relevant obligations. As a result of multilateral and bilateral negotiations prior to accession, Ecuador had already consolidated its global **tariff system** for a total of around 7,000 product items according to the Harmonized System. The tariff rate binding with WTO is at a general ceiling which is about 10 percentage points higher than the Common External Tariff (CET) applied by the countries of the Andean Community.[79] The CET was determined by the Andean Community as part of the renewed Cartagena Agreement and is part of Ecuadoran law. The national tariff of Ecuador, as effectively applied, is somewhat lower than the CET, whereas the ceiling for tariff rates agreed under the WTO thus lies higher than the CET. This has provided Ecuador with a substantial margin of maneuver to impose tariff measures, such as higher tariffs or tariff surcharges, when deemed necessary.

136. Ecuador has also ratified the *General Agreement on Trade in Services,* largely putting into law the status quo of liberalization of market access for **services**. The only point which initially was subject to some discussion was a request by Ecuador for a moratorium on foreign banks to freely engage in banking activities in the Ecuadoran market and, in particular, to establish new banks. This request was in line with a general ban on the establishment of new banks for prudential reasons. However, foreign banks were allowed at all times to buy shares of existing banks. In November 1998, the *Junta Bancaria* decided to lift the moratorium, thus completely liberalizing access to the financial market, effective March 1, 1999.

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[77] Prepared by Werner Keller.

[78] Ecuador is the world's largest banana and shrimp exporter: banana exports have grown by 20 percent on average between 1993 and 1998. Shrimp exports, after robust growth between 1993 and 1998, have suffered a severe decline due to disease.

[79] Cars and chemical products have higher consolidated tariff rates, the former being bound at 40 percent above the CET.

137.   With the accession to the WTO, Ecuador accepted the level of agreed protection of **intellectual property rights** under the *Trade Regulations on Intellectual Property* (TRIP). Ecuadoran law was already in conformity with the common regime of the Andean Community and to some extent provided greater protection than was required under the TRIPs. However, a number of adjustments had to be undertaken to make it conform to WTO requirements. These adjustments were incorporated in the Intellectual Property Rights Law, approved by the Ecuadoran congress in 1998, which improved the basis for protection of intellectual property rights. The United States Trade Representative recognized the improvement by removing Ecuador from the "priority watch list" in 1999.

138.   Ecuador has, in parallel with the Andean Community, also made a number of adjustments to its **anti-dumping** rules.

B. Trade Regime and Restrictions

139.   The National Tariff of Ecuador currently employs a two-tier system:

- A set of 5 tariff bands for most commodities (Box IX.1);

- The **Andean price band system** for 130 sensitive agricultural items.

The import tariffs for these agricultural commodities are variable and subject to the price band system as the reference.[80] The ad valorem CET rates are adjusted according to the relations between market commodity reference prices and the established floor and ceiling prices of the products. WTO tariff ceilings have been established at between 35 and 95 percent above the level of the CET. A schedule to reduce and eventually eliminate the quantitative and tariff restrictions on these products over a four to seven year period was devised, according to the degree of sensitivity of individual products.[81] The first year in which a reduction should have been implemented under the scheme was 1998. However, no action was taken on reducing the tariff rates for the first 29 products scheduled for that year.

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[80] This mechanism and its trade-distorting effects are described in "Ecuador: Recent Economic Developments" (SM/94/106), Appendix II. A reference scheme for imported consumer goods, imposing minimum valuations similar to the price bands for agricultural imports, was imposed in 1991, but completely eliminated with Ecuador's WTO accession.

[81] The "price bands" of 29 products were to be reduced to the standard protection level (common external tariff plus 10 percentage points), and an additional 44, 29, and 28 products were to follow in the years 1999 to 2001, respectively.

Box. IX.1: Main Tariff Bands	
	Average Tariff (in percent)
Raw material	5–10
Intermediate	15
Capital goods	15
Consumer goods	20
Cars	35

140. Ecuador has also made extensive use of the **import surcharge**, particularly since the onset of the recent crisis, for fiscal reasons. In March 1998, Ecuador introduced an ad valorem import surcharge under the transitional safeguard clause *("tarifa salvaguardia")*. This measure was justified under the July 1997 state of economic emergency, and was limited to December 31, 1998. However, in February 1999, this surcharge was replaced with a new, higher surcharge, and with no explicit time limit.[82] The import surcharge is applied in a non-uniform manner and subject to constant change. Many products have had the import surcharge eliminated during the first half of 2000.

141. Ecuador maintains a number of trade restrictions; principally **import bans** on used automobiles, clothes, shoes, and tires.[83] In the process of WTO accession, it was determined that these restrictions are not covered by GATT Articles XX and XXI (i.e., general exceptions for health and sanitary, and security reasons). Consequently, they would have to be eliminated in accordance with the abolition of all quantitative trade restrictions (GATT Article XI). In recognition of the difficulties this would present to the country, a transition period until July 31, 1996 was granted to adjust the trade regime to full GATT-compatibility. However, there has been little progress so far in addressing the issue by either abolishing the import bans or replacing them with a set of regulations to address the potential health and security hazards of imports of used goods.

142. **Other controls on imports** presently in effect include:

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[82] The seven surcharge rates, corresponding to the seven ad valorem bands, range from 2 to 10 percent. Although the surcharge is not specifically time bound, it was understood, from the outset, to be temporary.

[83] Imports of certain pesticides, epoxies and esters, reptile hides and ivory are prohibited for sanitary and ecological reasons.

- Sanitary registration is required on imported foods, cosmetics, pharmaceuticals, and on some other consumption goods, in formal conformity with GATT Articles XX and XXI. However, some complaints persist that sanitary standards are being applied mainly for protectionist reasons.

- Prior authorizations are required for imports of 1,300 goods. There have been complaints that requirements of two or more approvals from different ministries for certain goods constitute a nontariff barrier.

C. Ecuador's Rating on the Fund's Trade Restrictiveness Index [84]

143.   Ecuador is rated 6 on the Fund's 10-point trade restrictiveness index. This index is a composite rating based on a simple average of tariff rates and an assessment on the extent of non-tariff barriers to trade (NTBs). The latter includes a judgement on the effectiveness of customs administration, in addition to an assessment of a wide variety of restrictions on imports and exports, such as quotas, licensing, and bank monopolies. In the case of Ecuador, the average tariff rate, calculated on the basis of over 6,500 tariff positions, originally amounted to 11.6 percent, or "relatively open."[85] However, as a result of imposition of the 1998 import tariff surcharge (which still persist today), the average import tariff level has increased to between 15 to 20 percent, which implies a shift to the "moderate" import tariff range.

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[84] See: Trade Liberalization in Fund-Supported Program (EBS/97/163).

[85] This corresponds to the effectively applied National Tariff of Ecuador.

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SM/94/106 and EBS/97/163

Table 1a. Ecuador: Consumer Prices, 1995-97

(12-month percentage changes)

	Total	Food	Housing	Clothing	Other
1995					
March	22.7	20.7	25	19.4	26.4
June	22.5	21.7	24.9	18.5	23.6
September	22.8	20.5	25.1	19.7	26.9
December	22.8	19.7	25.6	19.3	28.3
Average 1/	22.7	20.7	25.2	19.2	26.3
1996					
March	24.8	23.9	24.3	18.5	27.8
June	22.7	20.4	25.2	19.3	27
September	25	25.2	24.6	19.4	26.4
December	25.5	28	23.8	21.4	24.7
Average 1/	24.4	23.8	24.7	19.7	26.6
1997					
March	29.9	31.6	28.1	23.5	33
June	31.1	33.4	30.1	25.2	31.2
September	30.6	35.1	28.6	25.1	27.4
December	30.7	35.1	27.6	25.1	27.6
Average 1/	30.6	33.7	28.7	24.5	30.2

Source: Central Bank of Ecuador.

1/ Simple average.

Table 1b. Ecuador: Consumer Prices, 1998-2000

(12-month percentage changes)

	Total	Food, Drinks, and Tobacco	Clothing and Footwear	Rent, Water, Electricity, Gas, and other Utilities	Furniture, Household Equipment and Maintenance	Health	Transport	Entertainment and Culture	Education	Hotels and Restaurants	Others
1998											
March	30.6	37.0	20.5	51.3	23.4	27.7	22.3	16.4	33.1	25.9	19.2
June	35.9	44.5	20.5	50.9	27.5	26.2	36.7	27.0	24.4	34.4	20.4
September	37.8	38.2	19.9	53.5	28.7	35.4	56.3	34.8	27.2	43.5	22.1
December	43.4	35.4	30.1	85.4	38.7	42.1	61.9	46.6	27.9	42.5	30.6
Average 1/	36.1	39.6	22.6	54.2	28.5	32.6	41.5	30.0	27.7	35.6	23.1
1999											
March	54.3	44.3	44.1	65.6	59.0	48.4	84.0	96.2	28.2	52.6	50.6
June	53.1	34.4	59.9	60.1	68.5	69.5	83.9	84.0	36.6	47.5	82.5
September	50.4	36.5	62.9	56.2	73.0	61.9	64.6	84.2	38.3	33.9	84.5
December	60.7	57.2	79.5	33.8	90.3	78.3	71.7	122.9	43.5	38.0	94.0
Average 1/	52.2	39.0	57.8	58.3	69.2	61.4	71.9	88.2	36.7	41.6	72.4
2000											
March	80.9	97.5	120.1	25.2	120.1	106.6	57.7	111.0	44.2	54.2	138.1
June	103.7	142.0	123.9	27.0	119.0	117.4	93.0	124.9	55.9	81.9	124.5

Source: Central Bank of Ecuador

1/ Simple average.

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Table 2. Ecuador: Indicators of Employment 1/

	1998	1999	Q1 2000	1998	1999	Q1 2000
	(Thousands of workers)			(Percentage share)		
Total urban employment	1,474.1	1,489.8	1,463.4	100.0	100.0	100.0
Agriculture and mining	24.7	32.2	28.3	1.7	2.2	1.9
Manufacturing	258.3	257.5	266.9	17.5	17.3	18.2
Construction	108.7	96.7	89.3	7.4	6.5	6.1
Commerce	514.7	495.6	485.0	34.9	33.3	33.1
Basic services 2/	93.0	103.0	114.0	6.3	6.9	7.8
Financial services	30.5	28.0	21.5	2.1	1.9	1.5
Other services 3/	444.1	476.8	458.4	30.1	32.0	31.3
Memorandum items:					(Percent)	
Urban unemployment rate				11.8	15.1	16.1
Urban underemployment rate 4/				51.8	46.0	48.8
Urban labor force 5/	1,670.9	1,754.4	1,743.5			

Sources: National Institute of Statistics and Census; and Central Bank of Ecuador.

1/ Covers Quito, Guayaguil, and Cuenca.
2/ Includes electricity, gas, water, and transport.
3/ Includes personal, social, and community services.
4/ Persons in the labor force working less than 40 hours per week or earning less than the minimum wage and complementary earnings.
5/ Able-bodied persons aged 12 or more.

Table 3. Ecuador: Nominal and Real Minimum
Monthly Wage Indices, 1990-Q1 2000 1/

(Average 1990 = 100)

	Nominal index 2/	Real index 3/	Monthly wages in U.S. dollars 4/
1990	100	100	60
1991	129	87	58
1992	202	88	63
1993	336	101	86
1994	497	117	111
1995	723	139	138
1996	986	152	152
1997	1,242	147	152
1998	1,569	136	141
1999	2,116	121	89
Q1 2000	2,499	93	49

Sources: Central Bank of Ecuador; National Statistical Bureau (INEC); and Fund Staff estimates.

1/ Minimum wage and mandatory complementary payments earned by a private sector worker.
2/ Monthly average.
3/ Deflated by monthly average CPI index.
4/ Estimated as the ratio of nominal average monthly wage to annual average exchange rate.

Table 4. Ecuador: National Accounts at Current Prices

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
(Annual percentage change)						
Domestic expenditure	**28.6**	**24.0**	**38.7**	**46.5**	**25.0**	**74.7**
Consumption	29.8	24.4	35.6	41.5	38.9	78.9
Private	24.4	24.6	37.0	42.3	39.7	98.7
Public	68.9	23.4	28.0	36.9	33.5	75.8
Gross domestic investment	24.0	22.1	52.0	66.0	-21.3	55.4
Of which						
Fixed capital formation	24.6	26.5	39.4	49.8	6.1	92.4
Private	24.9	25.6	41.3	48.0	0.7	...
Public	23.2	30.7	30.9	58.5	30.7	...
Balance of goods and nonfactor services	**-55.4**	**780.8**	**-81.7**	**-1017.2**	**-351.6**	**147.2**
Exports of goods and nonfactor services	40.2	35.6	28.1	14.6	120.1	206.2
Imports of goods and nonfactor services	52.3	8.0	61.2	49.9	21.3	225.5
GDP at market prices	**26.1**	**32.0**	**30.2**	**35.9**	**50.2**	**80.3**
(In percent of GDP)						
Domestic expenditure	**98.9**	**92.9**	**99.0**	**106.7**	**88.8**	**89.4**
Consumption	80.3	75.6	78.8	82.0	75.8	75.2
Private	67.7	63.9	67.2	70.4	65.5	64.0
Public	12.6	11.8	11.6	11.7	10.4	11.2
Gross domestic investment	18.7	17.3	20.2	24.7	12.9	14.2
Of which						
Fixed capital formation	18.6	17.8	19.0	21.0	14.8	17.7
Private						
Public						
Balance of goods and nonfactor services	**1.1**	**7.1**	**1.0**	**-6.7**	**11.2**	**10.6**
Exports of goods and nonfactor services	29.7	30.5	30.0	25.3	37.1	53.4
Imports of goods and nonfactor services	28.6	23.4	29.0	32.0	25.8	42.8
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Ecuador.

Table 5. Ecuador: National Accounts at Current Prices

(In billions of *sucres*)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Domestic expenditure	**45,518**	**56,435**	**78,255**	**114,622**	**143,233**	**53,162**
Consumption	36,923	45,937	62,300	88,134	122,379	44,731
Private	31,134	38,791	53,152	75,610	105,659	38,082
Public	5,789	7,146	9,147	12,524	16,720	6,649
Gross domestic investment	8,595	10,498	15,955	26,488	20,853	8,431
Fixed capital formation	8,537	10,798	15,053	22,550	23,922	10,551
Private	7,034	8,833	12,480	18,473	18,594	...
Public	1,503	1,965	2,573	4,077	5,328	...
Changes in stocks	59	-300	902	3,938	-3,068	-2,120
Balance of goods and nonfactor services	**487**	**4,292**	**785**	**-7,201**	**18,118**	**6,333**
Exports of goods and nonfactor services	13,658	18,514	23,711	27,170	59,802	31,776
Imports of goods and nonfactor services	13,171	14,223	22,926	34,371	41,685	25,443
GDP at market prices	**46,005**	**60,727**	**79,040**	**107,421**	**161,350**	**59,496**

Source: Central Bank of Ecuador.

Table 6. Ecuador: Savings and Investment

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
(In billions of *sucres*, at current market prices)						
Gross investment	**8,595**	**10,498**	**15,955**	**26,488**	**20,853**	**8,431**
Fixed capital formation	8,537	10,798	15,053	22,550	23,922	10,551
Public sector	1,503	1,965	2,572	4,077	5,328	...
Private sector	7,034	8,833	12,480	18,473	18,594	...
Change in stocks	59	-300	902	3,938	-3,068	-2,120
Gross savings	**6,381**	**11,480**	**12,526**	**14,548**	**31,180**	**18,781**
Public sector	1,894	2,711	2,962	-313	1,776	2,875
Private sector	4,487	8,769	9,564	14,861	29,404	15,906
Foreign savings	**2,214**	**-982**	**3,429**	**11,941**	**-10,326**	**-10,350**
(In percent of GDP, at current market prices)						
Gross investment	**18.7**	**17.3**	**20.2**	**24.7**	**12.9**	**14.2**
Fixed capital formation	18.6	17.8	19.0	21.0	14.8	17.7
Public sector	3.3	3.2	3.3	3.8	3.3	...
Private sector	15.3	14.5	15.8	17.2	11.5	...
Change in stocks	0.1	-0.5	1.1	3.7	-1.9	-3.6
Gross savings	**13.9**	**18.9**	**15.8**	**13.5**	**19.3**	**31.6**
Public sector	4.1	4.5	3.7	-0.3	1.1	4.8
Private sector	9.8	14.4	12.1	13.8	18.2	26.7
Foreign savings	**4.8**	**-1.6**	**4.3**	**11.1**	**-6.4**	**-17.4**

Sources: Central Bank of Ecuador; and Fund staff estimates.

Table 7. Ecuador: Sectoral Origin of Gross Domestic Product

	1995	1996	1997	1998	Prel. 1999	Q1	Prel. 2000
(Annual percentage change, at constant 1975 prices)							
Total GDP	**2.3**	**2.0**	**3.4**	**0.4**	**-7.3**		**-1.3**
Agriculture	3.2	3.5	4.1	-1.4	-1.3		-10.3
Petroleum and other mining	3.8	-1.9	3.5	-3.3	0.3		3.3
Petroleum	3.9	-2.1	3.5	-3.6	0.6		...
Other mining	2.1	2.4	3.5	1.9	-3.5		...
Manufacturing	2.2	3.3	3.5	0.4	-7.2		0.6
Electricity, gas, and water	-3.7	2.8	2.4	2.1	4.7		3.4
Construction	-1.4	2.5	2.8	6.0	-8.0		-18.5
Commerce	2.3	4.5	3.3	0.9	-12.5		-2.5
Transport and communications	3.0	3.0	3.7	1.4	-9.2		3.1
Financial services	5.9	8.8	0.0	-4.1	-13.9		7.4
Government services	0.2	-0.9	0.2	0.3	-17.1		8.3
Other services 1/	1.0	0.8	3.3	4.4	-3.5		-0.3
Import taxes and duties (net)	3.4	-1.9	8.5	3.6	-28.3		-0.4
Memorandum item:							
GDP excluding petroleum	2.1	2.6	3.4	1.0	-8.4		-2.1
(In percent of GDP, current prices)							
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**		**...**
Agriculture	11.9	11.9	12.1	12.0	12.2		...
Petroleum and other mining	10.5	10.6	8.8	5.6	11.4		...
Petroleum	9.9	10.1	8.3	5.1	10.9		...
Other mining	0.6	0.5	0.6	0.6	0.6		...
Manufacturing	21.1	21.7	21.4	21.9	21.3		...
Electricity, gas and water	0.3	0.3	0.3	0.3	0.3		...
Construction	4.6	4.6	4.6	4.9	4.5		...
Commerce	20.0	19.4	19.8	20.2	18.4		...
Transport and communications	9.2	9.1	9.3	9.6	9.4		...
Financial services	5.5	5.4	5.5	5.6	5.5		...
Government and other services 1/	11.8	12.2	12.5	12.7	10.8		...
Import taxes and duties (net)	5.1	4.8	5.8	7.2	6.3		...
Memorandum item:							
GDP excluding petroleum	90.1	89.9	91.7	94.9	89.1		...

Source: Central Bank of Ecuador

1/ Includes real estate services, business, community, social and personal services.

Table 8. Ecuador: Sectoral Origin of Gross Domestic Product
at Constant 1975 Prices

(In millions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Total GDP	**215,074**	**219,335**	**226,749**	**227,678**	**211,130**	**52,883**
Agriculture	37,034	38,334	39,887	39,342	38,828	9,130
Petroleum and other mining	31,348	30,756	31,824	30,788	30,893	8,089
Petroleum	29,727	29,096	30,106	29,037	29,203	...
Other mining	1,621	1,660	1,718	1,751	1,690	...
Manufacturing	32,794	33,885	35,082	35,239	32,698	8,209
Electricity, gas and water	2,956	3,038	3,110	3,176	3,325	861
Construction	5,225	5,356	5,505	5,837	5,371	1,165
Commerce	28,291	29,551	30,520	30,784	26,922	6,807
Transport and communications	13,148	13,540	14,039	14,236	12,926	3,273
Financial services	7,750	8,429	8,432	8,083	6,961	1,904
Government services	15,579	15,435	15,459	15,508	12,863	3,514
Other services 1/	30,834	31,091	32,124	33,532	32,348	9,747
Import taxes and duties (net)	10,115	9,920	10,767	11,153	7,995	2,094
Memorandum item:						
GDP excluding petroleum	185,347	190,239	196,643	198,641	181,927	...

Source: Central Bank of Ecuador

1/ Includes real estate services, business, community, social and personal services.

Table 9. Ecuador: Sectoral Origin of Gross Domestic Product
at Current Prices

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999
Total GDP	**46,005**	**60,727**	**79,040**	**107,421**	**161,350**
Agriculture	5,482	7,225	9,557	12,942	19,607
Petroleum and other mining	4,826	6,443	6,969	6,065	18,452
Petroleum	4,572	6,111	6,532	5,455	17,551
Other mining	254	332	437	610	900
Manufacturing	9,701	13,149	16,878	23,501	34,291
Electricity, gas and water	128	164	215	303	441
Construction	2,112	2,807	3,667	5,290	7,296
Commerce	9,207	11,791	15,655	21,691	29,632
Transport and communications	4,225	5,524	7,360	10,260	15,109
Financial services	2,532	3,288	4,330	6,042	8,954
Government services	2,836	4,147	5,538	7,580	9,345
Other services 1/	2,600	3,291	4,324	6,033	8,042
Import taxes and duties (net)	2,356	2,899	4,546	7,716	10,181
Memorandum item:					
GDP excluding petroleum	41,433	54,616	72,508	101,966	143,799

Source: Central Bank of Ecuador.

1/ Includes real estate services, business, community, social, and personal services.

Table 10. Ecuador: Value Added in Agriculture and Related Sectors

	1995	1996	1997	1998	Prel. 1999
(In millions of 1975 sucres)					
Total	37,033	38,334	39,887	39,342	**38,828**
Agricultural crops	17,545	18,265	19,042	18,272	18,683
Banana, coffee, and cocoa (for export)	5,379	5,618	6,156	5,578	5,762
Other (for domestic consumption)	12,166	12,647	12,886	12,694	12,921
Livestock	11,108	11,361	11,645	11,841	11,643
Forestry	2,258	2,332	2,447	2,451	2,401
Fishing	6,122	6,376	6,753	6,778	6,101
(Annual percentage change; in 1975 prices)					
Total	3.2	3.5	4.1	-1.4	-1.3
Agricultural crops	4.0	4.1	4.3	-4.0	2.2
Banana, coffee, and cocoa (for export)	5.7	4.4	9.6	-9.4	3.3
Other (for domestic consumption)	3.3	4.0	1.9	-1.5	1.8
Livestock	2.4	2.3	2.5	1.7	-1.7
Forestry	2.1	3.3	4.9	0.2	-2.0
Fishing					
(Percentage structure; in current prices)					
Total	100.0	100.0	100.0	100.0	100.0
Agricultural crops	47.4	47.6	47.7	46.4	48.1
Banana, coffee, and cocoa (for export)	14.5	14.7	15.4	14.2	14.8
Other (for domestic consumption)	32.9	33.0	32.3	32.3	33.3
Livestock	30.0	29.6	29.2	30.1	30.0
Forestry	6.1	6.1	6.1	6.2	6.2
Fishing	16.5	16.6	16.9	17.2	15.7

Source: Central Bank of Ecuador.

Table 11. Ecuador: Production of Selected Agricultural Crops

	1995	1996	1997	1998	Prel. 1999
(In thousands of metric tons)					
Products for domestic consumption					
Rice	1,290.5	1,269.7	1,071.5	1,043.0	1,289.7
Potatoes	473.2	453.9	601.8	534.1	562.7
Wheat	19.8	27.6	19.9	19.8	19.0
Barley	31.7	45.8	34.9	35.8	33.6
Maize	67.7	56.4	71.9	71.4	84.4
Products for industrial use					
Hard maize	489.7	513.0	557.2	273.0	407.5
Soybeans	91.0	77.7	9.4	10.2	76.8
African palm	999.6	1,043.1	1,357.6	1,503.0	952.1
Sugarcane	3,960.0	4,122.0	2,522.5	5,300.6	5,562.5
Cotton	17.2	17.7	14.5	2.9	5.6
Export crops					
Banana	5,403.3	5,726.6	7,494.1	4,563.4	6,382.0
Coffee	148.2	190.7	87.4	48.2	132.9
Cocoa	85.5	93.8	83.4	35.0	94.7
(Percentage changes)					
Products for domestic consumption					
Rice	-9.1	4.8	8.6	-51.0	49.3
Potatoes	-11.0	-14.6	-87.9	8.6	650.6
Wheat	-0.5	4.3	30.2	10.7	-36.7
Barley	-2.5	4.1	-38.8	110.1	4.9
Maize	-45.5	2.8	-18.2	-80.0	93.4
Products for industrial use					
Hard maize	-1.6	6.0	30.9	-39.1	39.9
Soybeans	-53.1	28.7	-54.2	-44.8	175.9
African palm	-7.6	9.7	-11.1	-58.0	170.5
Sugarcane	8.9	4.1	-38.8	110.1	4.9
Cotton	12.4	2.8	-18.2	-80.0	93.4
Export crops					
Banana	6.2	6.0	30.9	-39.1	39.9
Coffee	-20.7	28.7	-54.2	-44.8	175.9
Cocoa	5.3	9.7	-11.1	-58.0	170.5

Source: Central Bank of Ecuador.

Table 12. Ecuador: Average Annual Producer Prices

	1995	1996	1997	1998	1999	Prel. Q1 2000
(Sucres per kilogram: period averages)						
Rice	495	608	902	1,145	1,431	2,845
Wheat	499	636	786	1,007	2,519	3,528
Maize	486	604	648	1,105	1,837	2,532
Barley	479	561	789	1,049	2,265	2,774
Soybeans	720	938	1,200	1,533	2,808	...
Cotton	1,520	1,856	2,050	3,163	4,993	12,763
(Index numbers in nominal terms: 1992 = 100)						
Rice	190	233	346	439	548	1090
Wheat	177	225	278	356	892	1249
Maize	174	216	232	395	656	905
Barley	184	216	303	403	870	1066
Soybeans	149	194	248	317	581	...
Cotton	216	264	291	449	709	1813
(Index numbers in real terms: 1/ 1992 = 100)						
Rice	84	83	94	87	72	93
Wheat	78	80	75	71	117	107
Maize	77	76	63	79	86	77
Barley	81	76	82	80	114	91
Soybeans	66	69	67	63	76	...
Cotton	95	93	79	90	93	155
	80.0					
Memorandum items:						
Weighted real prices: 1992 = 100 2/	80.9	80.2	82.1	84.8	76.9	...
Annual rate of change (in percent)	-6.8	-0.8	2.4	3.3	-9.4	...

Sources: Central Bank of Ecuador and Fund staff estimates.

1/ Producer price index deflated by the consumer price index.
2/ Weighthed by output volume.

Table 13. Ecuador: Value Added in the Manufacturing Sector 1/

	1995	1996	1997	1998	Prel. 1999
(In millions of 1975 sucres)					
Total	**32,794**	**33,885**	**35,082**	**35,239**	**32,698**
Food, beverages, and tobacco	10,708	11,040	11,237	11,547	11,412
Textiles, clothing, and leather	6,741	6,934	7,287	7,100	6,536
Lumber and wood products	1,697	1,748	1,804	1,780	1,759
Paper, printing, and publishing	2,888	2,972	3,093	3,064	3,035
Chemical products and plastic	2,361	2,443	2,516	2,578	2,216
Nonmetallic mineral and basic metallic products	4,241	4,442	4,633	4,604	4,415
Metallic products, machinery, and other manufacturing	4,158	4,306	4,512	4,566	3,325
(Annual percentage change, in 1975 prices)					
Total	**2.2**	**3.3**	**3.5**	**0.4**	**-7.2**
Food, beverages, and tobacco	2.1	3.1	1.8	2.8	-1.2
Textiles, clothing, and leather	1.5	2.9	5.1	-2.6	-7.9
Lumber and wood products	1.9	3.0	3.2	-1.3	-1.2
Paper, printing, and publishing	2.0	2.9	4.1	-0.9	-0.9
Chemical products and plastic	2.9	3.5	3.0	2.5	-14.0
Nonmetallic mineral and basic metallic products	3.1	4.7	4.3	-0.6	-4.1
Metallic products, machinery, and other manufacturing	2.6	3.6	4.8	1.2	-27.2
(Percentage structure, in current prices)					
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Food, beverages, and tobacco	32.7	32.6	32.0	32.8	34.9
Textiles, clothing, and leather	20.6	20.5	20.8	20.1	20.0
Lumber and wood products	5.2	5.2	5.1	5.1	5.4
Paper, printing, and publishing	8.8	8.8	8.8	8.7	9.3
Chemical products and plastic	7.2	7.2	7.2	7.3	6.8
Nonmetallic mineral and basic metallic products	12.9	13.1	13.2	13.1	13.5
Metallic products, machinery, and other manufacturing	12.7	12.7	12.9	13.0	10.2

Source: Central Bank of Ecuador.

1/ Excludes petroleum refining.

Table 14. Ecuador: Oil Production and Trade

	1995	1996	1997	1998	1999 Q1	Prel. 2000
	(In millions of barrels)					
Crude						
Production	141.2	140.5	141.7	137.1	136.3	35.4
Imports	0	0	0	0	0	0
Crude used by domestic refineries	45.1	55.4	47.5	51.9	47.9	14.5
Change in inventories	2	0.7	2.8	-0.6	3.7	-1
Exports	94.1	84.4	91.4	85.8	84.7	21.9
Refined petroleum products						
Production	47	52.7	46.1	50.8	47.5	14.7
Imports	8.9	6.6	15.9	15.3	12.9	2.7
Domestic consumption	43	46.7	49.2	49	43.9	11.6
Change in inventories	2.4	-1.4	3.1	3.9	2.9	1.7
Exports	10.5	14	9.7	13.2	13.6	4.1
	(In percent)					
Memorandum items:						
Shares of petroleum in:						
Nominal GDP 1/	10.5	10.6	8.8	5.6	11.4	16.8
Total exports 2/	35.4	36.2	29.6	22	33.2	48.8
Revenues of nonfinancial public sector 3/	28.9	33.8	26.9	22.7	29.8	38.9

Sources: Central Bank of Ecuador; Ministry of Energy; and Fund staff estimates.

1/ Includes refining activities.
2/ Includes exports of crude and derivatives.
3/ Total petroleum revenue (including domestic derivative sales) to central government, PETROECUADOR, other public agencies of general government, and other public enterprises.

Table 15. Ecuador: Summary of Public Sector Operations 1/

(In percent of GDP)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Total revenue	**25.6**	**24.2**	**23.6**	**20.3**	**25.7**	**33.1**
Petroleum	**7.4**	**8.2**	**6.4**	**4.6**	**7.8**	**12.7**
Exports	4.0	4.9	3.2	1.3	5.5	12.7
Domestic sales	3.4	3.3	3.2	3.3	2.2	0.0
Nonpetroleum	**15.1**	**13.5**	**15.6**	**15.6**	**17.0**	**19.7**
Tax revenue	8.0	7.2	9.3	10.0	11.3	14.2
Of which						
VAT	3.4	3.3	3.9	4.2	4.2	7.0
Income, profits and FTT taxes 2/	1.9	1.8	2.0	1.8	3.5	3.6
International trade taxes	1.8	1.4	2.3	3.1	2.6	3.1
Specific consumption taxes					0.5	0.5
Other taxes	0.3	0.2	0.4	2.2	0.5	0.1
Social security contributions	2.8	2.4	2.3	2.2	1.7	1.5
Other non-tax revenues	4.4	4.0	4.0	3.3	3.9	4.0
Operating surplus of public enterprises	**3.1**	**2.5**	**1.6**	**0.1**	**1.0**	**0.7**
Of which						
PETROECUADOR	1.2	1.3	0.1	0.1	0.4	-0.1
EMETEL	1.0	0.9	0.8	0.0	...	...
INECEL	0.2	-0.1	0.3	-0.4	...	...
Total expenditure	**28.1**	**27.4**	**26.2**	**26.4**	**31.7**	**33.3**
Current expenditure	**21.5**	**19.8**	**19.9**	**20.6**	**24.6**	**28.3**
Wages	7.9	7.8	7.8	8.5	7.3	5.4
Interest accruals	4.4	4.5	5.1	5.0	10.1	14.2
Severance payments	0.2	0.2	0.0	0.4	0.2	0.1
Purchases of goods and services	1.7	2.8	3.0	2.9	2.9	3.3
Other 3/	7.5	4.7	3.9	4.2	4.1	5.3
Capital expenditure	**6.6**	**7.6**	**6.3**	**5.9**	**7.1**	**5.0**
Fixed capital formation	5.5	6.6	6.3	5.8	7.0	5.0
Central government	2.1	2.6	2.4	3.0	3.3	1.5
Rest of general government	1.3	1.2	1.4	1.8	1.9	2.9
Public enterprises	2.2	2.8	2.5	1.0	1.8	0.6
Other	1.1	1.0	0.0	0.1	0.1	0.1
Overall surplus or deficit (-)	**-2.5**	**-3.1**	**-2.6**	**-6.2**	**-6.0**	**-0.2**
Quasi-fiscal operations of the central bank	**0.0**	**0.2**	**0.1**	**0.3**	**-1.2**	**0.7**
Combined surplus or deficit (-)	**-2.5**	**-3.0**	**-2.4**	**-5.9**	**-7.2**	**0.6**
Financing of the nonfinancial public sector	**2.5**	**3.4**	**2.4**	**6.2**	**6.0**	**0.6**
Net external financing, excluding arrears	0.4	1.5	1.2	0.6	1.8	-1.5
External arrears	0.1	1.2	0.9	0.9	2.4	6.1
Net domestic financing, excluding arrears	1.2	0.3	0.1	2.6	1.9	-5.2
Domestic arrears (floating debt)	0.8	0.4	0.2	2.1	-0.1	1.2
Memorandum items:						
Public sector savings	4.1	4.6	3.9	-0.3	1.1	4.9
Primary surplus	1.9	1.1	2.7	-1.3	4.1	14.0

Sources: Ecuadoran authorities and Fund staff estimates.

1/ Consolidated nonfinancial public sector, including the central government, the social security institute, major public enterprises, local governments, and universities; and the quasi-fiscal operations of the central bank.
2/ The financial transaction tax was introduced in 1999.
3/ In 1995, includes a statistical discrepancy between "above" and "below the line" of 1.4 percent of GDP.

Table 16. Ecuador: Domestic Prices of Petroleum Derivatives

(Retail prices per U.S. gallon)

	End of Period					
	1995	1996	1997	1998	1999	Q1 2000
(In sucres)						
Gasoline						
92 octane	3,313	4,191	4,939	8,268	18,576	18,576
80 octane	2,966	3,576	4,440	6,049	18,185	18,185
63 octane 1/	...	...	...	...	...	...
Kerosene 1/	...	...	...	...	...	...
Diesel	2,831	2,497	2,834	5,213	8,030	8,030
Turbo fuel	1,868	2,717	3,101	4,664	9,228	9,228
Bunker C	...	1297	...	...	...	...
(Real index, end-1992 = 100) 2/						
Gasoline						
92 octane	68.4	68.9	62.1	72.5	101.4	75.0
80 octane	100.7	96.7	91.8	87.2	163.2	120.6
63 octane	...	...	...	...	...	...
Kerosene	...	...	...	...	...	...
Diesel	96.1	67.5	58.6	75.2	72.1	53.3
Turbo fuel	57.9	67.0	58.5	61.4	75.6	55.8
Bunker C	...	74.7	...	...	...	...
(In U.S. cents)						
Gasoline						
92 octane	137.1	124.4	112.4	121.7	92.6	74.3
80 octane	122.7	106.1	101.1	89.0	90.7	72.7
63 octane 1/	...	...	...	...	...	...
Kerosene 1/	...	...	...	...	...	...
Diesel	117.1	74.1	64.5	76.7	40.0	32.1
Turbo fuel	77.3	80.6	70.6	68.6	46.0	36.9
Bunker C	...	38.5	...	...	...	...

Sources: Central Bank of Ecuador; and Ministry of Energy.

1/ Production discontinued.
2/ Deflated by CPI index.

Table 17. Ecuador: Central Government Operations

(In percent of GDP)

	1995	1996	1997	1998	Prel. 1999 QI	Prel. 2000
I. Central Government Operations 1/						
Total revenue	17.4	16.9	17.4	16.2	19.7	26.4
Petroleum	6.7	7.7	6.1	4.5	7.4	11.7
Nonpetroleum	10.7	9.1	11.3	11.8	12.3	14.7
Total expenditure	20.1	19.5	18.8	21.1	24.3	26.6
Current	16.1	14.9	14.9	15.8	19.2	22.5
Capital	4.0	4.6	3.9	5.3	5.0	4.1
Overall surplus or deficit (-)	**-2.7**	**-2.6**	**-1.4**	**-4.8**	**-4.6**	**-0.2**
II. Central Administration						
Total revenue	17.2	16.8	17.1	16.1	19.5	26.3
Petroleum	6.6	7.7	6.1	4.5	7.4	11.7
Nonpetroleum 2/	10.5	9.1	11.1	11.7	12.2	14.6
Total expenditure	19.9	19.4	18.6	21.1	24.2	26.5
Current	15.9	14.8	14.6	15.8	19.1	22.4
Capital	4.0	4.6	3.9	5.3	5.0	4.1
Overall surplus or deficit (-)	**-2.7**	**-2.7**	**-1.5**	**-4.9**	**-4.6**	**-0.1**
III. Local Government Development Fund (FODESEC)						
Total revenue	1.3	0.5	0.8	1.0	0.2	0.1
Petroleum	0.0	0.0	0.0	0.0	0.1	0.0
Nonpetroleum	1.3	0.5	0.8	1.0	0.2	0.1
Expenditure	1.3	0.5	0.7	0.9	0.2	0.2
Overall surplus or deficit (-)	**0.0**	**0.0**	**0.1**	**0.1**	**0.0**	**-0.1**

Sources: Tables 23, 24, and 25.

1/ Central government operations include the consolidated operation of central administration and FODESEC.

Table 18. Ecuador: Central Administration

(Percent of GDP)

	1995	1996	1997	1998	Prel. 1999 Q1	Prel. 2000
Total revenue	**17.2**	**16.8**	**17.1**	**16.1**	**19.5**	**16.7**
Petroleum revenue	6.6	7.7	6.1	4.5	7.4	7.1
Nonpetroleum revenue	10.5	9.1	11.1	11.7	12.2	9.6
Tax revenue	7.8	7.3	9.3	10.0	10.7	8.7
Income, profits, and FTT taxes 1/	1.8	1.8	1.8	1.7	3.1	2.0
Taxes on property	0.1	0.1	0.2	0.1	0.5	0.0
Taxes on goods and services	4.1	3.9	4.8	4.8	4.5	4.6
General sales tax	3.4	3.3	3.9	4.2	4.0	4.3
Selective excise taxes	0.5	0.5	0.7	0.6	0.5	0.3
Taxes on international trade	1.8	1.4	2.3	3.1	2.6	2.0
Import duties	1.6	1.3	2.1	3.0	2.4	1.8
Export duties	0.1	0.1	0.1	0.1	0.1	0.1
Exchange profit taxes	0.1	0.1	0.1	0.1	0.1	0.1
Other taxes	0.2	0.1	0.1	0.3	0.0	0.0
Nontax revenue 2/	1.9	1.3	1.3	0.9	1.0	0.9
Transfers	0.9	0.6	0.6	0.8	0.5	0.0
Total expenditure	**19.9**	**19.4**	**18.6**	**21.1**	**24.2**	**19.6**
Current expenditure	15.9	14.8	14.6	15.8	19.1	16.6
Wages and salaries	6.9	6.9	6.9	7.6	6.6	3.1
Purchases of goods and services	0.5	1.1	1.1	1.0	0.9	0.6
Interest payments	3.4	4.0	4.7	4.7	9.6	11.5
Current transfers	1.0	1.4	1.9	2.2	0.5	0.2
Other current expenditure 3/	4.1	1.4	0.0	0.3	1.5	1.3
Capital expenditure	4.0	4.6	3.9	5.3	5.0	3.0
Fixed capital formation	2.1	2.6	2.4	3.0	3.3	1.0
Capital transfers	0.9	1.2	1.5	2.2	1.7	2.0
Other	1.0	0.8	0.0	0.0	0.0	0.0

Sources: Ministry of finance; Central Bank of Ecuador; and Fund staff estimates.

1/ The financiala transactions tax (FTT) was introduced in 1999.

2/ In 1995 including one-time taxes equivalent to 0.5 percent of GDP levied after the border conflict with Peru.

3/ In 1995, including extraordinary military outlays equivalent to 1.7 percent of GDP associated with the border conflict with Peru.

Table 19. Ecuador: Operations of the Rest of the General Government

(In percent of GDP)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
I. Consolidated Rest of General Government 1/						
Total revenue	7.2	7.4	7.3	7.7	7.4	5.8
Petroleum	0.7	0.5	0.3	0.1	0.4	0.7
Nonpetroleum	6.5	6.9	7.0	7.6	7.0	5.1
Total expenditure	6.7	6.8	7.2	7.6	7.2	5.4
Current	5.3	5.5	5.7	5.8	5.3	3.3
Capital	1.4	1.3	1.4	1.8	2.0	2.1
Overall surplus or deficit (-)	0.5	0.6	0.2	0.2	0.1	0.5
II. Social Security Institute						
Total revenue	3.1	3.0	2.8	2.6	2.0	1.1
Total expenditure	3.0	3.0	3.1	2.8	2.4	1.3
Current	3.0	3.0	3.1	2.8	2.3	1.4
Capital	0.0	0.0	0.0	0.0	0.1	-0.1
Overall surplus or deficit (-)	0.1	0.0	-0.3	-0.2	-0.3	-0.2
III. State Bank 2/						
Total revenue	0.6	0.9	0.5	0.4	0.7	0.4
Nonpetroleum	0.6	0.9	0.5	0.4	0.7	0.4
Total expenditure	0.3	0.3	0.2	0.2	0.2	0.0
Current	0.1	0.1	0.1	0.1	0.2	0.0
Capital	0.1	0.2	0.1	0.1	0.1	0.0
Overall surplus or deficit (-)	0.3	0.6	0.3	0.2	0.5	0.3

Sources: Tables 21, 25, and 26.

1/ Includes IESS, State Bank, FONAPRE, municipal and provincial governments, universities, the National Defense Board, residual accounts, and the operations of four port authorities.

2/ Formerly the Development Bank of Ecuador (BEDE).

Table 20. Ecuador: Operations of the Nonfinancial Public Enterprises

(In percent of GDP)

	1995	1996	1997	1998	Prel. 1999 Q1	Prel. 2000
I. Consolidated Nonfinancial Public Enterprises 1/						
Operating revenue	9.1	8.9	8.2	4.9	4.7	3.1
Operating expenditure	6.1	6.4	6.6	4.8	4.1	2.9
Operating surplus or deficit (-)	**3.1**	**2.5**	**1.6**	**0.1**	**0.7**	**0.2**
Nonoperating revenue	0.8	0.7	1.2	0.9	0.6	0.1
Nonoperating expenditure	1.8	1.2	1.6	1.0	0.6	0.4
Capital expenditure	2.2	2.8	2.5	1.0	1.1	0.3
Overall surplus or deficit (-)	**-0.1**	**-0.9**	**-1.3**	**-1.1**	**-0.4**	**-0.4**
II. PETROECUADOR						
Operating revenue	4.1	4.4	3.2	2.1	2.3	1.6
Operating expenditure	2.8	3.1	3.2	2.0	1.8	1.9
Operating surplus or deficit (-)	**1.2**	**1.3**	**0.1**	**0.1**	**0.4**	**-0.3**
Nonoperating revenue	0.1	0.1	0.2	0.3	0.3	0.1
Nonoperating expenditure	0.5	0.7	0.4	0.4	0.7	0.2
Capital expenditure	0.8	1.0	0.6	0.3	0.2	0.0
Overall surplus or deficit (-)	**0.1**	**-0.3**	**-0.8**	**-0.2**	**-0.1**	**-0.5**
III. INECEL						
Operating revenue	0.8	0.8	1.4	0.9	0.1	...
Operating expenditure	0.6	0.9	1.1	1.4	0.1	...
Operating surplus or deficit (-)	**0.2**	**-0.1**	**0.3**	**-0.4**	**0.0**	**...**
Nonoperating revenue	0.3	0.3	0.6	0.3	0.0	...
Nonoperating expenditure	0.3	0.0	0.7	0.4	0.0	...
Capital expenditure	0.4	0.7	0.6	0.2	0.1	...
Overall surplus or deficit (-)	**-0.3**	**-0.5**	**-0.5**	**-0.8**	**-0.1**	**...**

Sources: Tables 21, 27, and 26.

1/ Besides PETROECUADOR and INECEL, includes ECUATORIANA, ENAC, ENPROVIT, FLOPEC, EMETEL, ENFE, TAME, and TRANSNAVE, and the operations of 11 minor public enterprises (local public utilities).

Table 21. Ecuador: Consolidated Nonfinancial Public Sector Operations

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
I. Consolidated Nonfinancial Public Sector Operations						
Total revenue	**11,766**	**14,723**	**18,653**	**21,785**	**40,351**	**12,458**
Petroleum revenue	3,392	5,002	5,058	4,932	12,176	4,652
Nonpetroleum revenue	6,963	8,214	12,361	16,754	26,635	7,711
Operating surplus of public enterprises	1,411	1,507	1,234	98	1,539	95
Total expenditure 1/	**12,916**	**16,614**	**20,669**	**28,402**	**49,730**	**14,210**
Current expenditure	9,352	12,012	15,691	22,098	38,576	12,175
Capital expenditure	3,044	4,602	4,978	6,304	11,155	2,035
Of which						
Fixed capital	2,546	4,019	4,961	6,238	10,949	1,998
Current account balance	1,894	2,711	2,962	-313	1,776	10,423
Overall balance (deficit -)	**-630**	**-1,891**	**-2,016**	**-6,617**	**-9,379**	**-1,753**
Statistical discrepancy	524	-199	116	315	15	1,406
Financing	**1,154**	**2,089**	**1,901**	**6,303**	**9,364**	**346**
External financing (net)	228	1,677	1,652	1,637	6,541	2,724
Disbursements	1,426	2,733	4,743	3,964	7,697	1,635
Amortization	-1,531	-2,287	-4,290	-3,871	-5,833	-3,553
Interest capitalization	270	264	346	482	865	1,010
Other 2/	0	0	120	-411	0	0
External arrears	63	967	732	1,473	3,812	3,631
Interest (net)	63	346	308	385	2,515	3,041
Principal (net)	-1	621	424	1,088	1,297	590
Domestic financing (net)	926	412	249	4,665	2,823	-2,378
Central Bank	333	-473	19	842	-1,715	-1,598
Rest of banking system 3/	219	667	82	1,599	-1,918	-1,518
Floating debt (increase +)	374	218	148	2,224	6,456	738
II. Central Government Operations 4/						
Total revenue	**7,986**	**10,234**	**13,734**	**17,433**	**30,845**	**13,227**
Petroleum revenue	3,062	4,701	4,803	4,796	11,536	5,942
Nonpetroleum revenue	4,924	5,533	8,931	12,638	19,309	7,284
Total expenditure	**9,245**	**11,837**	**14,841**	**22,616**	**38,087**	**18,783**
Current expenditure	7,400	9,031	11,739	16,968	30,179	14,356
Capital expenditure	1,845	2,805	3,103	5,648	7,907	4,428
Overall surplus or deficit (-)	**-1,259**	**-1,603**	**-1,108**	**-5,183**	**-7,242**	**-5,557**
III. Central Administration						
Total revenue	**7,898**	**10,197**	**13,525**	**17,345**	**30,639**	**13,175**
Petroleum revenue	3,051	4,687	4,786	4,796	11,535	5,942
Nonpetroleum revenue	4,848	5,511	8,739	12,550	19,103	7,233
Total expenditure	**9,156**	**11,808**	**14,674**	**22,653**	**37,880**	**18,699**
Current expenditure	7,311	9,003	11,572	17,005	29,973	14,272
Capital expenditure	1,845	2,805	3,103	5,648	7,907	4,428
Overall surplus or deficit (-)	**-1,257**	**-1,611**	**-1,149**	**-5,308**	**-7,242**	**-5,524**

Table 21. Ecuador: Consolidated Nonfinancial Public Sector Operations

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
IV. Local Government Development Fund (FODESEC)						
Total revenue	598	296	612	1,064	352	74
Petroleum revenue	12	14	17	0	1	0
Nonpetroleum revenue	586	282	595	1,064	351	73
Total expenditure	599	288	570	938	352	104
Overall surplus or deficit (-)	-1	8	42	126	0	-31
V. Rest of General Government 5/						
Total revenue	3,325	4,496	5,799	8,322	11,547	3,831
Petroleum revenue	325	298	253	135	640	56
Nonpetroleum revenue	3,000	4,199	5,547	8,186	10,907	3,775
Total expenditure	3,079	4,145	5,669	8,154	11,365	4,783
Current expenditure	2,442	3,337	4,534	6,179	8,237	2,985
Capital expenditure	637	808	1,136	1,975	3,128	1,798
Overall surplus or deficit (-)	246	352	130	168	183	-952
VI. Nonfinancial Public Enterprises 6/						
Operating balance	1,411	1,507	1,234	98	1,539	895
Operating revenue	4,197	5,375	6,486	5,262	7,190	2,539
Operating expenditure	2,786	3,868	5,252	5,163	5,651	1,645
Nonoperating revenue	370	422	952	920	534	725
Nonoperating expenditure	818	748	1,288	1,092	1,257	356
Capital expenditure	992	1,727	1,937	1,076	2,853	1,150
Overall balance	-30	-546	-1,039	-1,149	-2,036	113
Memorandum items:						
Quasi-fiscal result of the central bank	22	93	85	328	-1,946	-75
Combined public sector deficit (including quasi-fiscal losses of the central bank)	-1,132	-1,997	-1,815	-5,974	-11,310	-6,533

Sources: Ministry of finance; Central Bank of Ecuador; and Fund staff estimates.

1/ Interest payments on an accrual basis.

2/ In 1997, it includes US$30.1 million of capital gain as a result from the repurchase of Brady bonds.
In 1998, it includes the cancellation of a rolling financing facility (US$82 million).

3/ In 1999, it includes the accrued and unpaid interest on government bonds issued to the deposit insurance agency (AGD).

4/ Includes the budget and FODESEC.

5/ Includes the Social Security Institute, the state bank, municipal and provincial councils, FONAPRE, universities, the military and residual accounts, and port authorities.

6/ Includes PETROECUADOR, INECEL, ECUATORIANA, ENAC, ENPROVIT, FLOPEC, EMETEL, ENFE, TAME, TRANSNAVE, and 11 minor public enterprises.

7/ Balances include statistical discrepancy (difference between the deficit measured from "above" and "below the line"), if applicable.

Table 22. Ecuador: Central Government Operations 1/

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999 Q1	Prel. 2000
Total revenue	**7,986**	**10,234**	**13,734**	**17,433**	**30,845**	**15,722**
Petroleum revenue	**3,062**	**4,701**	**4,803**	**4,796**	**11,536**	**6,963**
Nonpetroleum revenue	**4,924**	**5,533**	**8,931**	**12,638**	**19,309**	**8,760**
Tax revenue	3,659	4,358	7,371	10,793	16,965	8,077
Taxes on income, profits, and FTT	878	1,086	1,596	1,912	5,098	2,007
Taxes on property	47	49	170	78	728	28
Taxes on goods and services	1,793	2,318	3,694	5,162	7,006	4,210
General sales tax	1,584	2,010	3,104	4,491	6,220	3,940
Selective excise taxes	209	308	590	671	786	270
Taxes on international trade	841	840	1,804	3,365	4,116	1,830
Import duties	762	776	1,672	3,200	3,783	1,655
Export duties	25	32	47	71	141	98
Exchange profits taxes	54	33	84	94	193	78
Other taxes	101	65	107	276	17	3
Nontax revenue	867	783	1,061	960	1,531	683
Transfers	398	393	500	886	813	0
Total expenditure	**9,245**	**11,837**	**14,841**	**22,616**	**38,087**	**15,841**
Current expenditure	**7,400**	**9,031**	**11,739**	**16,968**	**30,179**	**13,401**
Wages and salaries	3,195	4,185	5,453	8,157	10,426	2,973
Purchases of goods and services	208	643	832	1,064	1,420	620
Interest payments	1,586	2,454	3,742	5,086	15,070	8,072
Current transfers	546	875	1,676	2,311	937	301
Other current expenditure	1,865	876	37	350	2,326	1,436
Capital expenditure	**1,845**	**2,805**	**3,103**	**5,648**	**7,907**	**2,440**
Fixed capital formation	973	1,583	1,905	3,253	5,173	920
Capital transfers	430	738	1,197	2,395	2,734	1,520
Other	442	485	0	0	0	0
Overall surplus or deficit (-)	**-1,259**	**-1,603**	**-1,108**	**-5,183**	**-7,242**	**-119**

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

1/ The central government includes the central administration and FODESEC.
2/ The financial transactions tax (FTT) was introduced in 1999.

Table 23. Ecuador: Summary of Central Administration (Budget) Operations

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Total revenue	7,898	10,197	13,525	17,345	30,639	15,671
Petroleum revenue	3,051	4,687	4,786	4,796	11,535	6,963
Nonpetroleum revenue	4,848	5,511	8,739	12,550	19,103	8,708
Tax revenue	3,583	4,445	7,322	10,704	16,759	8,026
Income, profits, and FTT taxes 1/	809	1,071	1,412	1,831	4,900	1,956
Taxes on property	47	49	170	78	728	28
Taxes on goods and services	1,894	2,383	3,801	5,162	7,006	4,210
General sales tax	1,584	2,010	3,104	4,491	6,220	3,940
Selective excise taxes	209	308	590	671	786	270
Taxes on international trade	833	832	1,796	3,358	4,109	1,830
Import duties	754	768	1,664	3,193	3,776	1,655
Export duties	25	32	47	71	141	98
Exchange profits taxes	54	33	84	94	193	78
Other taxes	0	111	144	276	17	3
Nontax revenue 2/	867	673	917	960	1,531	683
Transfers	398	393	500	886	813	0
Total expenditure	9,156	11,808	14,674	22,653	37,880	15,757
Current expenditure	7,311	9,003	11,572	17,005	29,973	13,317
Wages and salaries	3,195	4,185	5,453	8,157	10,426	2,973
Purchases of goods and services	208	643	832	1,064	1,420	620
Interest payments	1,586	2,454	3,742	5,086	15,070	8,072
Current transfers	457	846	1,509	2,348	731	218
Other current expenditure 2/	1,865	876	37	350	2,326	1,436
Capital expenditure	1,845	2,805	3,103	5,648	7,907	2,440
Fixed capital formation	973	1,583	1,905	3,253	5,173	920
Capital transfers	430	738	1,197	2,395	2,734	1,520
Other	442	485	0	0	0	0
Overall surplus or deficit (-)	-1,257	-1,611	-1,149	-5,308	-7,242	-86

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

1/ The financial transaction tax (FTT) was introduced in 1999.
2/ In 1995 including S/. 245 billion in one-time taxes levied after the border conflict with Peru.
3/ In 1995 including S/. 782 billion in extraordinary military outlays associated with the border conflict with Peru.

Table 24. Ecuador: Operations of the Local Government Development Fund (FODESEC)

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999 Q1	Prel. 2000
Total revenue	**598**	**296**	**612**	**1,064**	**352**	**74**
Taxes on income	0	0	0	0	0	51
On petroleum income	12	14	17	0	1	...
On nonpetroleum income	69	15	184	81	198	...
Taxes on international trade	8	8	8	7	7	2
Import duties	8	8	8	7	7	...
Basic imports	7	8	8	7	0	...
Luxury imports	0	0	0	0	0	...
Fixed sum from general tariff	0	0	0	0	1	...
Transfers	510	259	403	976	146	20
Total expenditure	**599**	**288**	**570**	**938**	**352**	**104**
Transfers to:						
Provincial councils	150	0	0	0	0	0
Municipalities	379	281	459	938	352	104
Other public entities	70	7	111	0	0	0
Overall surplus or deficit (-)	**-1**	**8**	**42**	**126**	**0**	**-31**

Sources: Ministry of finance; Central Bank of Ecuador; and Fund staff estimates.

Table 25. Ecuador: Operations of the State Bank 1/

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Total revenue	**285**	**554**	**406**	**395**	**1,093**	**300**
Petroleum revenue	2	2	1	0	0	0
Nonpetroleum revenue	284	552	405	395	1,093	300
Total expenditure	**125**	**169**	**133**	**180**	**334**	**93**
Wages and salaries	12	15	16	27	24	6
Other expenditure	112	155	116	154	310	87
Net lending	0	0	0	0	0	0
Overall surplus or deficit (-)	**161**	**385**	**274**	**215**	**758**	**207**

Sources: State Bank; Central Bank of Ecuador.

1/ Formerly the Development Bank of Ecuador (BEDE).

Table 26. Ecuador: Operations of the Social Security System (IESS)

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Total revenue	**1,412**	**1,804**	**2,187**	**2,822**	**3,174**	670
Social security contributions	1,347	1,507	1,934	2,614	2,856	635
Other current revenue	66	140	70	32	129	34
Total expenditure	**1,381**	**1,823**	**2,452**	**3,008**	**3,687**	762
Current expenditure	**1,363**	**1,808**	**2,421**	**2,961**	**3,536**	804
Wages and salaries	302	374	503	693	778	105
Purchases of goods and services	202	240	403	411	467	136
Interest payments	29	51	58	74	104	5
Current transfers	830	1,144	1,457	1,783	2,188	558
To IESS						12
To public sector	0	0	0	0	1	0
To private sector	799	1,108	1,398	1,722	2,117	545
Capital expenditure	**19**	**15**	**31**	**47**	**151**	-42
Fixed capital formation	22	16	64	43	23	8
Net lending	-3	-1	-33	4	128	-50
Overall surplus or deficit (-)	**31**	**-19**	**-265**	**-186**	**-513**	**-92**

Sources: Social Security Institute; Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

Table 27. Ecuador: Operations of PETROECUADOR

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. QI 2000
Operating revenues	**1,875**	**2,678**	**2,545**	**2,263**	**3,543**	**951**
Operating expenditures	**1,301**	**1,870**	**2,490**	**2,123**	**2,860**	**1,155**
Wages and salaries	302	374	503	693	778	72
Social security contributions	13	27	28	38	57	25
Other goods and services	1,120	1,612	2,168	1,671	2,270	1,059
Operating surplus or deficit (-)	**574**	**808**	**55**	**140**	**683**	**-203**
Nonoperating revenues	**41**	**45**	**132**	**351**	**483**	**57**
Government transfers	0	0	21	0	0	0
Other	41	45	112	351	483	57
Non-operating expenditures	**208**	**442**	**338**	**454**	**1,039**	**117**
Interest payments	65	54	76	101	208	47
Transfers to public sector	89	290	142	204	431	0
Other	53	98	120	150	400	70
Capital expenditure	**381**	**615**	**464**	**301**	**316**	**19**
Overall surplus or deficit (-)	**27**	**-204**	**-615**	**-264**	**-188**	**-282**

Sources: PETROECUADOR; Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

Table 28. Ecuador: Operations of the Electricity Company (INECEL)

(In billions of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Operating revenues	375	457	1,069	998	...	...
					...	...
Operating expenditures	283	517	860	1,474	...	...
Wages and salaries	48	59	78	106	...	...
Social security contributions	7	8	11	15	...	...
Other goods and services	228	450	771	1,353	...	...
Operating surplus or deficit (-)	91	-60	209	-476	...	...
Nonoperating revenues	134	155	445	360	...	...
Share in oil revenues	5	3	3	1	...	...
Government transfers	115	144	443	359	...	...
Other	15	8	0	0	...	...
Nonoperating expenditures	154	23	587	480	...	...
Interest payments	154	23	587	480	...	...
Other (including transfers to public sector)	65	23	586	480	...	...
Capital expenditure	202	399	448	251	...	...
Overall surplus or deficit (-)	-130	-326	-380	-848	...	...

Sources: INECEL; Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

Table 29. Ecuador: Operations of the Telecommunications Company (EMETEL)

(In billion of sucres)

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Operating revenues	636	778	1,092	...	...	...
Operating expenditures	186	253	428	...	...	...
Wages and salaries	76	109	240	...	...	...
Social security contributions	20	8	22	...	...	...
Other goods and services	90	136	167	...	...	...
Operating surplus or deficit (-)	450	525	663	...	...	...
Nonoperating revenues	116	133	216	...	...	...
Government transfers	0	0	0	...	...	...
Other	116	133	216	...	...	...
Nonoperating expenditures	364	193	250	...	...	...
Interest payments	34	34	3	...	...	...
Other	330	159	247	...	...	...
Capital expenditure	205	407	561	...	...	...
Overall surplus or deficit (-)	-4	59	68	...	...	...

Sources: EMETEL; Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

Table 30. Ecuador: Summary Accounts of the Financial System

(Annual changes in percent of liabilities at beginning of period)

	1995	1996	1997	1998	1999
I. Central Bank 1/					
Net international reserves	-31.2	49.4	45.1	-74.1	-117.2
Net domestic assets	58.0	-5.0	-19.9	118.3	269.3
Net credit to nonfinancial public sector	24.8	-27.9	0.8	29.0	-40.9
Net credit to private sector	3.9	-0.9	4.2	2.2	-2.9
Net credit to rest of financial system	26.0	9.8	-57.3	131.4	-152.3
Banking system	9.9	15.5	-52.6	128.8	-116.7
Other financial institutions	16.1	-5.7	-4.7	2.6	-35.6
Other assets (net)	3.3	14.0	32.4	-44.3	465.4
Currency issue	26.8	44.3	25.2	44.2	152.1
II. Consolidated Banking System 2/					
Net foreign assets	-3.7	8.5	-2.5	-8.4	-1.1
Net domestic assets	52.4	33.6	35.5	33.8	19.2
Net credit to nonfinancial public sector	4.6	-1.8	2.3	10.1	-11.8
Credit to private sector	33.6	15.6	23.7	5.9	-20.3
Net credit to other financial institutions	-0.4	-0.1	-0.3	0.7	-3.3
Medium- and long-term foreign liabilities	87.6	0.4	0.7	-4.5	-1.1
Other assets (net)	-73.1	19.6	9.2	21.7	55.7
Liabilities to the private sector	48.7	42.2	32.9	25.4	18.1
III. Consolidated Financial System 3/					
Net foreign assets	-3.5	7.2	-1.8	-8.1	-1.0
Net domestic assets	49.9	31.8	35.0	47.1	19.0
Net credit to nonfinancial public sector	3.7	-1.5	2.0	10.5	-5.6
Credit to private sector	36.7	12.6	25.2	32.8	-25.6
Medium- and long-term foreign liabilities	77.1	-1.0	-0.7	-12.6	1.7
Other assets (net)	-67.6	21.7	8.5	16.3	48.6
Liabilities to the private sector	46.4	39.0	33.2	38.9	18.1
Accounting exchange rate (S/. per US$)	2,550	2,890	4,000	5,450	11,632

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Changes with respect to currency issued 12 months earlier.
2/ Changes with respect to banking system liabilities to the private sector 12 months earlier.
3/ Consolidated banking system and other financial intermediaries.

Table 31. Ecuador: Private Sector Claims on Financial System

	December 3/				
	1995	1996	1997	1998	1999

(In billions of sucres)

Total financial system	**18,268**	**25,865**	**36,716**	**50,705**	**78,373**
Money	3,432	4,648	6,030	8,130	15,331
Quasi-money	9,904	13,608	18,927	26,308	39,716
Of which					
Deposits in foreign currency	2,083	3,164	6,487	10,347	19,253
Other	4,932	7,609	11,759	16,266	23,326
Banking system	**16,355**	**23,705**	**33,614**	**45,746**	**70,181**
Money and quasi-money	12,292	17,320	23,754	32,941	52,744
Money	3,432	4,648	6,030	8,130	15,331
Currency in circulation	1,364	1,859	2,357	3,467	9,039
Demand deposits	2,068	2,789	3,673	4,663	6,292
Quasi-money	8,860	12,672	17,724	24,811	37,413
Time and savings deposits in sucres	5,992	9,003	10,756	12,810	16,320
Time and savings deposits in foreign currency	1,241	2,241	4,834	6,986	12,751
Other sucre deposits	932	668	849	2,227	3,096
Other deposits in foreign currency	694	760	1,285	2,788	5,246
Bonds, other liabilities	1,495	2,676	3,621	4,006	8,598
Private capital and reserves	2,568	3,709	6,239	8,799	8,839
Other financial intermediaries	**1,913**	**2,159**	**3,102**	**4,958**	**8,192**
Quasi-money	1,044	936	1,203	1,497	2,302
Other	869	1,223	1,899	3,461	5,889

(In percent of GDP)

Total financial system	**39.7**	**42.6**	**45.8**	**47.2**	**48.3**
Money and quasi-money	29.0	30.1	31.1	32.1	33.9
Money	7.5	7.7	7.5	7.6	9.5
Quasi-money	21.5	22.4	23.6	24.5	24.5
Other	10.7	12.5	14.7	15.1	14.4
Banking system	**35.6**	**39.0**	**41.9**	**42.6**	**43.3**
Money and quasi-money	26.7	28.5	29.6	30.7	32.5
Money	7.5	7.7	7.5	7.6	9.5
Quasi-money	19.3	20.9	22.1	23.1	23.1
Other	8.8	10.5	12.3	11.9	10.8
Nonbank financial intermediaries	**4.2**	**3.6**	**3.9**	**4.6**	**5.1**
Quasi-money	2.3	1.5	1.5	1.4	1.4
Other	1.9	2.0	2.4	3.2	3.6

Sources: Central Bank of Ecuador; and Fund staff estimates.

Table 32. Ecuador: Selected Interest Rates

(In percent per annum)

	December 3/				
	1995	1996	1997	1998	1999

I. Central Bank

Open market paper
Stabilization bonds 2/	36.3	24.7	29.1	54.0	91.2

Lending rates

Lending to the public sector	39.9	27.2	42.9	66.6	...
Lending to banks					
Financial emergency	39.9	27.2			
Stabilization programs 2/ 3/	47.2	32.1			
Reserve requirements shortages 4/			35.0	66.6	152.4
Liquidity support 4/			40.0	66.6	152.4

II. Commercial Banks and Nonbank Financial Institutions

Lending rates

Loans
Corporate loans	60.6	45.4	39.1	61.6	69.9
Personal loans	59.6	46.7	42.3	61.2	67.6

Deposit rates
Savings deposits	22.1	18.4	15.7	16.5	16.5
Time deposits					
30-89 days	47.4	32.1	28.9	48.2	50.4
Certificates of deposit					
30-83 days	47.4	32.1	28.9	48.2	50.4
84-91 days	47.8	33.7	31.8	49.2	47.1
92-175 days	51.3	34.8	32.4	49.9	45.9
176-360 days	46.1	34.8	33.5	48.3	45.9
361 days or more	49.2	31.6	34.6	48.2	39.9

Source: Central Bank of Ecuador.

1/ Average nominal return on 84-91 days bonds auctioned by the central bank.
2/ Loans up to 90 days, renewable once (Art. 25, central bank charter).
3/ Equal to 1.3 times the interst paid on stabilization bonds.
4/ Loans up to 60 days (Art. 24, central bank charter).

Table 33. Ecuador: Operations of the Consolidated Financial System 1/

(In billions of sucres)

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999
Net foreign assets 2/	3,929	3,492	3,958	5,294	7,328	6,821	8,948	5,986	12,775	12,135
Net domestic assets	8,548	14,776	14,658	20,581	20,243	29,895	27,544	44,719	53,598	66,238
Net credit to public sector	-2,723	-2,256	-2,343	-2,619	-2,972	-2,415	-2,591	1,239	3,964	242
Credit to private sector	10,520	15,095	15,530	17,882	19,885	26,827	25,398	37,371	57,111	40,129
Medium- and long-term foreign liabilities	-10,897	-1,281	-1,431	-1,624	-2,248	-2,447	-766	-5,353	-11,425	-10,329
Net unclassified assets	11,648	3,218	2,902	6,941	5,578	7,930	5,503	11,462	3,948	36,196
Liabilities to private sector	12,478	18,268	18,616	25,875	27,571	36,716	36,492	50,705	66,373	78,373
Money	3,046	3,432	3,432	4,648	4,648	6,030	6,030	8,130	8,130	15,331
Quasi-money	6,636	9,904	10,182	13,608	14,821	18,927	19,943	26,308	38,045	39,716
Other	2,796	4,932	5,002	7,619	8,102	11,759	10,519	16,266	20,198	23,327

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Includes, in addition to banking system, the Housing Bank, National Financial Corporation, credit unions, and and finance companies.
2/ Includes net official reserves of the central bank and foreign assets of the commercial banks.

Table 34. Ecuador: Detailed Accounts of the Banking System

(In billions of sucres)

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999
I. Consolidated Banking System										
Net foreign assets	**3,800**	**3,392**	**3,790**	**5,212**	**7,207**	**6,567**	**8,948**	**5,871**	**12,531**	**11,853**
Net domestic assets	**7,197**	**12,963**	**12,886**	**18,494**	**18,079**	**27,047**	**27,544**	**39,875**	**46,906**	**58,328**
Net claims on nonfinancial public sector	-2,753	-2,244	-2,348	-2,657	-3,011	-2,437	-2,591	1,084	3,737	-3,275
Central government (net)	-1,056	-998	-1,044	-1,340	-1,566	-884	-896	2,621	5,721	-350
Rest of public sector (net)	-1,696	-1,245	-1,305	-1,317	-1,446	-1,552	-1,695	-1,537	-1,984	-2,925
Net credit to other financial intermediaries	-594	-634	-146	-167	-173	-253	-250	-8	-146	-2,114
Credit to private sector	8,476	12,172	12,016	14,624	16,100	22,095	25,398	27,542	44,162	32,083
Medium- and long-term foreign liabilities	-10,181	-544	-616	-551	-727	-562	-766	-2,406	-5,136	-5,785
Official capital, reserves, and surplus	-891	-1,093	-1,093	-2,236	-2,236	-2,217	-2,217	-5,121	-5,121	-462
Net interbank float	-101	-124	-114	641	678	442	471	2,658	2,675	-2,867
Net unclassified assets	13,241	5,430	5,187	8,838	7,448	9,979	7,499	16,127	6,735	40,748
Liabilities to the private sector	**10,997**	**16,355**	**16,676**	**23,705**	**25,285**	**33,614**	**36,492**	**45,746**	**59,437**	**70,181**
Broad Money (M2)	8,965	12,292	12,550	17,320	18,470	23,754	25,973	32,941	44,028	52,744
Money (M1)	3,046	3,432	3,432	4,648	4,648	6,030	6,030	8,130	8,130	15,331
Currency in circulation	1,112	1,364	1,364	1,859	1,859	2,357	2,357	3,467	3,467	9,039
Demand deposits	1,934	2,068	2,068	2,789	2,789	3,673	3,673	4,663	4,663	6,292
Quasi-money (domestic currency)	4,907	6,925	6,925	9,671	9,671	11,605	11,605	15,037	15,037	19,416
Time and savings deposits	4,580	5,992	5,992	9,003	9,003	10,756	10,756	12,810	12,911	16,320
Other	327	932	932	668	668	849	849	2,227	2,126	3,096
Quasi-money (foreign currency)	1,013	1,935	2,193	3,001	4,151	6,119	8,338	9,774	20,861	17,997
Time and savings deposits	517	1,241	1,406	2,241	3,100	4,834	6,587	6,986	14,910	12,751
Other	495	694	787	760	1,051	1,285	1,751	2,788	5,951	5,246
Other sucre liabilities	427	1,021	1,021	1,443	1,442	1,803	1,803	1,710	1,710	2,322
Other liabilities in foreign currency	234	473	537	1,233	1,664	1,818	2,477	2,296	4,900	6,275
Private capital and reserves	1,371	2,568	2,568	3,709	3,709	6,239	6,239	8,799	8,799	8,839

Table 34. Ecuador: Detailed Accounts of the Banking System

(In billions of sucres)

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999

II. Central Bank

Net international reserves	**4,365**	**3,969**	**4,499**	**5,293**	**7,326**	**8,373**	**11,409**	**9,256**	**19,755**	**14,840**
Foreign assets	5,878	5,368	6,083	6,720	9,301	10,174	13,862	11,336	24,196	20,865
Reserve liabilities	1,513	1,398	1,585	1,427	1,975	1,801	2,453	2,081	4,441	6,024
Net domestic assets	**-3,096**	**-2,361**	**-2,890**	**-2,971**	**-5,004**	**-5,467**	**-8,502**	**-5,064**	**-15,563**	**-4,272**
Net claims on nonfinancial public sector	-2,647	-2,332	-2,461	-2,909	-3,359	-3,341	-3,965	-3,122	-5,030	-6,745
Central government	-1,177	-1,262	-1,331	-1,784	-2,105	-2,029	-2,511	-1,818	-3,277	-4,112
Assets	56	42	42	25	25	11	11	3	3	1
Liabilities	1,232	1,304	1,373	1,809	2,130	2,040	2,521	1,821	3,281	4,114
In sucres	835	788	788	973	973	712	712	535	535	1,166
In foreign currency	398	516	585	836	1,157	1,328	1,809	1,287	2,746	2,948
Rest of public sector (net)	-1,471	-1,070	-1,129	-1,125	-1,254	-1,311	-1,454	-1,305	-1,752	-2,633
Assets	3	2	2	1	1	2	2	0	0	0
Liabilities	1,474	1,072	1,132	1,126	1,255	1,313	1,456	1,305	1,752	2,633
In sucres	1,039	796	796	790	790	919	919	910	910	1,413
In foreign currency	435	276	335	336	465	394	537	395	842	1,221
Net credit to financial system	-1,085	-755	-781	-624	-719	-2,049	-2,273	1,546	1,278	-5,106
Commercial banks	-792	-649	-672	-403	-489	-1,636	-1,845	1,806	1,587	-3,080
Credit	9	387	387	971	971	198	198	5,190	5,190	4,619
Liabilities	801	1,036	1,059	1,374	1,460	1,835	2,043	3,384	3,603	7,699
In sucres	469	618	618	552	552	748	748	1,230	1,230	2,396
In foreign currency	117	177	200	225	311	575	783	193	412	361
Stabilization bonds	215	241	241	597	597	511	511	1,961	1,961	4,942
National Development Bank	-10	-28	-28	-48	-48	-121	-121	-27	-27	-254
Credit	22	0	0	0	0	0	0	0	0	0
Liabilities	32	28	28	48	48	121	121	27	27	254
In sucres	32	28	28	42	42	86	86	27	27	141
In foreign currency	0	0	0	1	1	0	0	0	0	0
Stabilization bonds	0	0	0	5	5	35	35	0	0	113
Oher financial intermediaries	-283	-79	-81	-173	-182	-291	-307	-232	-282	-1,773
Credit	5	156	156	1	1	0	0	17	17	40
Liabilities	288	234	237	175	183	291	307	249	299	1,813
In sucres	164	117	117	94	94	101	101	81	81	259
In foreign currency	26	16	18	22	31	44	60	44	94	98
Stabilization bonds	98	101	101	59	59	147	147	124	124	1,456

Table 34. Ecuador: Detailed Accounts of the Banking System

(In billions of sucres)

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999
Net credit to private sector	-156	-107	-119	-133	-179	-82	-108	-43	-85	-206
Credit to private sector	4	3	3	2	2	0	0	0	0	0
Liabilities	160	110	122	135	181	82	108	43	85	206
Demand deposits	8	4	4	2	2	2	2	2	2	4
Stabilization bonds	89	52	57	29	37	2	2	0	1	1
In sucres	19	13	13	9	9	0	0	0	0	0
In foreign currency	69	39	44	20	28	2	2	0	1	1
Other liabilities	64	54	60	104	142	78	103	41	82	202
In sucres	10	6	6	6	6	7	7	4	4	4
In foreign currency	53	48	54	98	136	71	97	37	78	197
Medium- and long-term foreign liabilities	-10,060	-456	-517	-458	-634	-499	-679	-2,361	-5,038	-5,760
Capital and reserves	-650	-798	-798	-1,730	-1,730	-1,746	-1,746	-4,753	-4,753	-20
Net unclassified assets	11,502	2,088	1,785	2,883	1,616	2,249	269	3,669	-1,934	13,566
Currency issue	**1,269**	**1,609**	**1,609**	**2,322**	**2,322**	**2,906**	**2,906**	**4,192**	**4,192**	**10,568**

III. Commercial Banks

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999
Net foreign assets	**-565**	**-578**	**-708**	**-81**	**-119**	**-1,806**	**-2,461**	**-3,384**	**-7,224**	**-2,987**
Assets	774	1,362	1,490	2,308	3,186	3,398	4,630	4,732	10,099	6,919
Liabilities	1,339	1,939	2,198	2,389	3,305	5,205	7,091	8,116	17,322	9,906
Net domestic assets	**10,118**	**15,069**	**15,509**	**21,319**	**22,892**	**32,465**	**35,971**	**45,138**	**62,626**	**63,273**
Net claims on nonfinancial public sector	120	264	288	459	555	1,268	1,738	4,435	8,995	3,776
Central government	120	264	288	459	555	1,268	1,738	4,435	8,995	3,776
Net credit in sucres	98	103	103	210	210	-27	-27	415	415	-314
Credit in foreign currency	23	161	185	249	344	1,295	1,765	4,020	8,580	4,090
Net monetary authority assets	866	763	797	1,488	1,611	2,508	2,745	1,415	1,651	1,626
Monetary reserve and currency holdings	884	1,162	1,196	1,964	2,087	2,526	2,764	4,186	4,422	7,772
Cash	146	233	233	439	439	522	522	699	699	1,497
Reserve deposits in sucres	466	556	556	580	580	734	734	1,246	1,246	2,407
Reserve deposits in foreign currency	120	195	221	239	331	581	791	208	443	347
Stabilization bonds in sucres	147	117	117	624	624	615	615	2,034	2,034	3,521
Stabilization bonds in foreign currency	5	61	69	81	112	75	102	0	1	0
Liabilities to monetary authorities	18	399	399	475	475	19	19	2,771	2,771	6,146
Net claims on other financial public sector	-258	-491	0	73	75	99	119	266	179	-309
Assets	1	0	0	73	75	99	119	266	179	277

Table 34. Ecuador: Detailed Accounts of the Banking System

(In billions of sucres)

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999
Liabilities	259	491	0	0	0	0	0	0	0	586
In sucres	52	62	0	0	0	0	0	0	0	38
In foreign currency	207	429	0	0	0	0	0	0	0	548
Credit to private sector	7,768	11,454	11,297	13,877	15,353	21,409	24,712	26,889	43,509	31,369
Current loans	7,183	10,643	10,458	12,748	14,119	19,888	22,936	26,137	41,965	28,822
Overdue loans	285	578	593	1,280	1,368	1,506	1,646	2,631	3,933	19,119
Loan-loss provisions (-)	-209	-370	-372	-775	-798	-1,081	-1,119	-2,409	-2,953	-18,445
Other	509	603	618	624	664	1,097	1,249	530	564	1,873
Net unclassified assets	1,622	3,079	3,128	5,422	5,299	7,181	6,657	12,133	8,293	26,810
Liabilities to the private sector	**9,553**	**14,492**	**14,801**	**21,238**	**22,773**	**30,659**	**33,510**	**41,754**	**55,403**	**60,285**
Monetary liabilities	1,885	2,015	2,015	2,742	2,742	3,629	3,629	4,618	4,618	6,235
Quasi-money (domestic currency)	4,799	6,695	6,695	9,340	9,340	11,149	11,149	14,624	14,624	18,844
Time and savings deposits	4,474	5,766	5,766	8,674	8,674	10,301	10,301	12,519	12,519	15,768
Other deposits	325	929	929	666	666	848	848	2,105	2,105	3,075
Quasi-money (foreign currency)	1,013	1,935	2,193	3,001	4,151	6,119	8,338	9,774	20,861	17,997
Time and savings deposits	517	1,241	1,406	2,241	3,100	4,834	6,587	6,986	14,910	12,751
Other deposits	495	694	787	760	1,051	1,285	1,751	2,788	5,951	5,246
Other liabilities	485	1,278	1,330	2,445	2,830	3,523	4,155	3,939	6,501	8,370
In sucres	373	891	891	1,330	1,330	1,777	1,777	1,680	1,680	2,293
In foreign currency	112	387	438	1,115	1,500	1,745	2,378	2,259	4,821	6,077
Private capital and reserves	1,371	2,568	2,568	3,709	3,709	6,239	6,239	8,799	8,799	8,839

Table 34. Ecuador: Detailed Accounts of the Banking System

(In billions of sucres)

	S/. 2,550 per U.S. dollar		S/. 2,890 per U.S. dollar		S/. 4,000 per U.S. dollar		S/. 5,450 per U.S. dollar		S/. 11,632 per U.S. dollar	
	1994	1995	1995	1996	1996	1997	1997	1998	1998	1999
IV. National Development Bank										
Net foreign assets	0	0	0	0	0	0	0	0	0	0
Net domestic assets	172	389	389	473	473	517	517	483	483	650
Net claims on nonfinancial public sector	-226	-175	-175	-207	-207	-364	-364	-228	-228	-306
Net central government	0	0	0	-15	-15	-123	-123	4	4	-14
Rest of public sector	-226	-175	-175	-191	-191	-241	-241	-232	-232	-291
Assets	0	0	0	0	0	0	0	0	0	0
Liabilities	226	175	175	191	191	241	241	232	232	291
Net claims on monetary authority	-9	34	34	66	66	241	241	189	189	369
Assets	31	46	46	73	73	246	246	193	193	372
Cash	11	12	12	23	23	27	27	27	27	32
Reserve deposits in sucres	20	34	34	34	34	168	168	135	135	260
Liabilities	40	12	12	8	8	5	5	4	4	3
Liabilities to commercial banks (-)	-34	-32	-32	-61	-61	-63	-63	-55	-55	-65
Liabilities to other financial institutions	-53	-65	-65	-66	-66	-61	-61	-42	-42	-32
Credit to private sector	708	719	719	748	748	686	686	653	653	713
Loans	614	592	592	631	631	554	554	584	584	591
Overdue loans	94	127	127	116	116	132	132	69	69	122
Medium- and long-term foreign liabilities	-122	-87	-99	-93	-93	-64	-87	-46	-98	-25
Official capital, reserves, and surplus	-241	-295	-295	-506	-506	-471	-471	-369	-369	-442
Net unclassified assets	148	292	303	593	593	612	635	380	432	437
Liabilities to the private sector	172	389	389	473	473	517	517	483	483	650
Monetary liabilities	41	49	49	44	44	41	41	44	44	53
Quasi-money	107	230	230	331	331	456	456	413	413	572
Time and savings deposits	106	226	226	330	330	455	455	291	392	552
Other deposits	2	3	3	2	2	1	1	122	21	21
Other sucre liabilities	23	111	111	98	98	19	19	26	26	25

Sources: Central Bank of Ecuador; and Fund staff estimates.

Table 35. Ecuador: Legal Reserve Position of the Commercial Banks 1/

(In percent of liabilities subject to requirements, quarterly averages)

	Required Reserves	Actual Reserves	Net Excess or Deficiency (-)
1995			
I	10.0	9.7	-0.3
II	10.0	11.0	1.0
III	10.0	10.7	0.7
IV	10.0	10.5	0.5
1996			
I	10.0	9.9	-0.1
II	10.0	10.1	0.1
III	10.0	9.8	-0.2
IV	10.0	10.7	0.7
1997			
I	10.0	10.2	0.2
II	12.0	12.5	0.5
III	12.0	12.6	0.6
IV	12.0	12.7	0.7
1998			
I	11.7	11.9	0.2
II	11.4	11.5	0.1
III	11.7	11.7	0.0
IV	12.0	12.5	0.5
1999			
I	16.0	13.2	-2.8
II	16.0	15.4	-0.6
III	16.0	15.1	-0.9
IV	18.8	18.7	-0.1

Source: Central Bank of Ecuador.

1/ Comprises deposits with the central bank and cash in vault.

Table 36. Ecuador: Commercial Banks' Outstanding Credit
to the Private Sector and Nonperforming Loans 1/

	December 3/				
	1995	1996	1997	1998	1999
(In billions of sucres)					
Credit to private sector 2/	11,454	13,864	21,236	29,887	46,402
Nonperforming loans 3/	578	1,280	1,547	2,908	28,256
Capital and reserves	2,568	3,714	6,239	8,799	8,840
Reserves against nonperforming loans	370	786	1,092	2,525	24,066
Memorandum items:					
Nonperforming loans as percent of credit	5.0	9.2	7.3	9.7	60.9
Nonperforming loans as percent of capital and reserves	22.5	34.4	24.8	33.0	319.7
Reserves against nonperforming loans as percent of nonperforming loans	64.1	61.4	70.6	86.8	85.2

Sources: Central Bank of Ecuador, Superintendency of Banks; and Fund staff estimates.

1/ Foreign currency components are valuated at end-period exchange rate.
2/ Excludes acceptances, equity holdings, and investment trusts.
3/ Nonperforming loans are defined broadly (including loans that no longer accrue interest)

Table 37. Ecuador: Summary Balance of Payments

	1995	1996	1997	1998	Prel. 1999 Q1	Prel. 2000
	(In millions of U.S. dollars)					
Current account	-735	-140	-713	-2,170	955	414
Trade account	354	953	598	-995	1,665	590
Exports, fob	4,411	4,900	5,264	4,203	4,451	1,230
Petroleum	1,560	1,776	1,557	923	1,480	600
Other	2,851	3,124	3,706	3,280	2,972	630
of which : Primary products	2,161	2,289	2,841	2,410	2,163	427
Import, fob	-4,057	-3,947	-4,666	-5,198	-2,786	-640
Services account	-1,320	-1,383	-1,702	-1,950	-1,811	-476
Services credit	936	931	929	890	861	227
Services debit	-2,256	-2,314	-2,631	-2,840	-2,672	-703
Interest payments	-826	-900	-968	-1,063	-1,134	-322
Other	-1,430	-1,414	-1,663	-1,777	-1,538	-381
Transfers (net)	231	290	391	776	1,101	301
Capital account	522	84	818	1,401	-1,800	-782
Direct investment	470	491	696	831	636	200
Official disbursements	1,064	1,013	1,113	1,091	788	111
Official amortizations	-660	-731	-887	-660	-578	-200
Other	-352	-689	-104	139	-2,647	-892
Overall balance	-212	-55	105	-768	-845	-368
Financing	212	55	-105	768	845	-368
NIR (increase -)	156	-276	-261	395	422	93
Arrears (decrease -)	-6,981	231	68	174	331	230
Rescheduling	7,038	100	87	199	92	45
Financing gap	0	0	0	0	0	
Net ext. fin.					633	
	(In percent of GDP)					
Current account	-4.1	-0.7	-3.6	-11.0	7.1	17.4
Trade account	2.0	5.0	3.0	-5.0	12.4	24.8
Exports, fob	24.6	25.6	26.6	21.3	33.3	51.7
Petroleum	8.7	9.3	7.9	4.7	11.1	25.2
Other	15.9	16.3	18.8	16.6	22.2	26.5
Import, fob	-22.6	-20.6	-23.6	-26.3	-20.8	-26.9
Services account	-7.4	-7.2	-8.6	-9.9	-13.5	-20.0
Services credit	5.2	4.9	4.7	4.5	6.4	9.5
Services debit	-12.6	-12.1	-13.3	-14.4	-20.0	-29.5
Interest payments	-4.6	-4.7	-4.9	-5.4	-8.5	-13.5
Other	-8.0	-7.4	-8.4	-9.0	-11.5	-16.0
Transfers (net)	1.3	1.5	2.0	3.9	8.2	12.6
Capital account	2.9	0.4	4.1	7.1	-13.4	-32.8
Direct investment	2.6	2.6	3.5	4.2	4.8	8.4
Official disbursements	5.9	5.3	5.6	5.5	5.9	4.7
Official amortizations	-3.7	-3.8	-4.5	-3.3	-4.3	-8.4
Other	-2.0	-3.6	-0.5	0.7	-19.8	-37.5
Overall balance	-1.2	-0.3	0.5	-3.9	-6.3	-15.5
Financing gap			0.0	0.0	0.0	
Memorandum items:	(In units indicated)					
Net reserves (end of period)						
In millions of U.S. dollars 1/	1,556	1,832	2,093	1,698	1,276	778
In months of imports of g&nfs	4.1	4.9	4.6	3.3	4.2	3.6
Liquid net reserves (end of period)						
In millions of U.S. dollars	1,289	1,550	1,803	1,348	472	778
In months of imports of g&nfs	3.1	3.9	3.7	2.6	1.5	3.6

Source: Central Bank of Ecuador; and fund staff estimates.

1/ From Q1 2000 NIR reflects free Disposable Net international reserves

Table 38. Ecuador: Composition of Exports

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
(In million of U.S. dollars)						
Total exports, f.o.b.	**4,381**	**4,873**	**5,264**	**4,203**	**4,451**	**1,230**
Oil	**1,530**	**1,749**	**1,557**	**923**	**1,480**	**600**
Crude oil	1,395	1,521	1,412	789	1,312	525
Derivatives	134	228	146	134	167	75
Unprocessed non-oil products	**2,161**	**2,288**	**2,841**	**2,410**	**2,077**	**412**
Banana	857	973	1,327	1,070	954	242
Coffee	185	129	92	72	57	4
Cocoa	82	91	60	19	64	8
Shrimp	23	26	30	22	28	60
Tuna and other fish species	95	89	105	88	72	21
Cut flowers	84	105	131	162	180	49
Other	834	875	1,096	977	721	28
Processed non-oil products	**690**	**835**	**866**	**870**	**895**	**217**
Coffee	59	30	30	33	21	6
Cocoa	51	73	72	28	42	7
Fish products	134	206	208	268	275	64
Metals	118	109	142	130	90	25
Textiles	46	52	61	52	52	14
Other	282	366	353	358	415	101
(Volumes in units indicated)						
Crude oil (in thousands of barrels)	94,078	84,377	91,378	85,796	84,653	21,924
Derivatives (in thousands of barrels)	12,525	16,075	9,751	13,237	13,650	4,069
Bananas (in thousands of mt)	3,815	3,931	4,564	3,988	4,056	1,103
Coffee, unprocessed (in thousands of mt)	78	70	42	40	40	3
Cocoa, unprocessed (in thousands of mt)	64	71	43	12	64	10
Shrimp (in thousands of mt)	87	87	111	117	94	8
(Unit values in U.S. dollars per unit indicated)						
Crude oil (per barrel)	14.8	18.0	15.5	9.2	15.5	23.9
Derivatives (per barrel)	13.2	15.9	14.9	10.1	12.3	18.5
Bananas (per mt)	224.5	247.5	290.8	268.3	235.3	219.2
Coffee, unprocessed (per mt)	22,388.6	1,837.1	2,169.1	1,782.9	1,409.1	1,188.2
Cocoa, unprocessed (per mt)	1,287.9	1,280.4	1,399.7	1,537.2	1,005.2	790.4
Shrimp (per mt)	7,778.5	7,284.9	7,981.3	7,456.3	6,456.6	7,297.5
(In percent of GDP)						
Total exports, f.o.b.	**24.3**	**25.4**	**26.6**	**21.3**	**32.3**	**51.7**
Oil	8.5	9.1	7.9	4.7	10.7	25.2
Unprocessed non-oil products	12.0	11.9	14.4	12.2	15.1	17.3
Processed non-oil products	3.8	4.4	4.4	4.4	6.5	9.1

Sources: Central Bank of Ecuador; and Fund staff estimates.

Table 39. Ecuador: Composition of Imports

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
(In millions of U.S. dollars)						
Total imports, f.o.b.	**3,737.2**	**3,570.9**	**4,520.1**	**5,109.9**	**2,736.9**	**632.9**
Consumer goods	**738.2**	**778.9**	**948.0**	**1,079.7**	**572.3**	**103.4**
Nondurables	398.4	459.4	562.9	660.2	412.0	76.4
Durables	339.8	319.4	385.1	419.5	160.4	27.0
Raw materials	**1,523.3**	**1,585.8**	**1,796.4**	**1,990.6**	**1,191.4**	**293.9**
Agricultural	172.8	219.4	246.5	246.7	179.9	45.5
Industrial	1,244.9	1,221.5	1,392.6	1,572.5	935.4	232.9
Construction	105.6	144.9	157.3	171.4	76.1	15.5
Capital goods	**1,275.1**	**1,083.0**	**1,396.4**	**1,766.0**	**772.2**	**147.3**
Agricultural	40.5	34.1	43.4	50.5	17.6	2.1
Industrial	701.4	697.7	917.6	1,108.5	521.4	97.1
Transportation equipment	533.3	351.2	435.3	607.0	233.2	48.2
Lubricants, fuel, and other	**200.6**	**123.3**	**379.3**	**273.6**	**201.0**	**88.3**
Military imports	**320.0**	**109.0**	**146.0**	**88.0**	**49.0**	**9.0**
(In percent of GDP)						
Total imports, f.o.b.	**20.8**	**18.6**	**22.9**	**25.9**	**19.9**	**26.6**
Consumer goods	**4.1**	**4.1**	**4.8**	**5.5**	**4.2**	**4.3**
Nondurables	2.2	2.4	2.8	3.3	3.0	3.2
Durables	1.9	1.7	1.9	2.1	1.2	1.1
Raw materials	**8.5**	**8.3**	**9.1**	**10.1**	**8.7**	**12.3**
Agricultural	1.0	1.1	1.2	1.3	1.3	1.9
Industrial	6.9	6.4	7.0	8.0	6.8	9.8
Construction	0.6	0.8	0.8	0.9	0.6	0.7
Capital goods	**7.1**	**5.7**	**7.1**	**9.0**	**5.6**	**6.2**
Agricultural	0.2	0.2	0.2	0.3	0.1	0.1
Industrial	3.9	3.6	4.6	5.6	3.8	4.1
Transportation equipment	3.0	1.8	2.2	3.1	1.7	2.0
Lubricants, fuel, and other	**1.1**	**0.6**	**1.9**	**1.4**	**1.5**	**3.7**
Military imports	**1.8**	**0.6**	**0.7**	**0.4**	**0.4**	**0.4**

Sources: Central Bank of Ecuador; and Fund staff estimates.

Table 40. Ecuador: Direction of Trade

(In percent of total value)

	Exports						Imports					
	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Western Hemisphere	65.4	64.6	65.1	66.0	66.0	64.8	66.2	67.6	67.6	67.2	71.0	73.4
United States	40.1	37.9	38.6	39.0	38.4	33.2	31.1	30.7	30.5	30.2	30.6	28.8
Andean Group	8.2	8.7	12.1	13.0	10.8	11.5	17.4	17.0	18.7	17.8	20.6	21.4
Colombia	5.7	6.2	6.8	6.7	5.1	5.1	9.9	11.0	10.6	11.0	12.6	11.7
Venezuela	0.8	1.5	1.0	1.4	1.5	1.5	6.4	4.7	6.7	4.8	6.1	7.9
Peru and Bolivia	1.7	1.1	4.4	4.9	4.2	4.9	1.0	1.2	1.4	2.1	1.9	1.8
Mexico	1.1	1.2	0.8	1.1	1.2	1.2	3.6	4.7	3.3	2.8	3.2	3.1
Argentina	2.0	1.7	1.5	1.8	1.7	1.8	1.8	2.1	2.0	2.4	2.4	1.5
Brazil	1.2	0.9	0.5	0.8	0.4	0.4	4.5	4.0	3.0	3.5	3.1	4.0
Chile	4.5	4.5	4.5	3.3	4.4	7.4	2.7	3.7	3.4	3.7	4.1	6.9
Others	7.3	7.3	5.2	5.1	6.5	9.4	5.0	37.5	37.8	37.9	41.5	7.6
Europe	22.6	22.4	23.3	24.6	21.0	16.7	18.9	20.6	19.0	17.3	17.3	15.3
European Union (EU)	19.1	19.2	19.3	20.8	18.4	12.8	15.6	18.2	16.7	15.0	14.6	12.3
France	1.8	1.7	1.7	2.2	1.7	0.4	1.4	0.9	1.8	0.9	1.3	1.2
Germany	3.8	3.6	3.9	3.1	2.8	2.7	4.7	4.2	4.2	4.2	4.3	3.7
Italy	3.9	4.0	5.2	6.1	4.7	3.8	2.5	2.8	2.8	3.2	1.9	1.5
Spain	3.4	2.7	2.5	3.3	2.8	1.1	2.3	5.0	3.6	2.0	2.6	1.5
United Kingdom	2.2	2.6	1.8	1.4	1.3	0.8	1.3	1.3	1.2	1.2	1.0	1.0
Other EU countries	4.0	4.7	4.2	4.5	5.2	4.0	3.5	3.5	2.5	2.5	2.7	3.5
Non-EU countries	3.4	3.1	4.0	3.9	2.6	3.9	3.3	2.4	2.3	2.3	2.7	3.0
Asia	11.4	12.3	10.9	8.2	11.1	14.8	14.0	10.4	11.4	14.1	10.7	8.8
Japan	2.7	2.8	2.8	3.0	2.5	1.9	8.2	5.3	5.9	8.6	4.8	4.4
Korea	6.6	6.4	3.3	2.3	4.8	10.4	2.4	1.6	1.4	1.7	1.2	1.2
Others	2.2	3.1	4.8	3.0	3.7	2.6	3.4	3.5	4.2	3.8	4.7	3.2
Africa, Oceania, and others	0.7	0.7	0.6	1.2	2.0	3.7	0.9	1.4	2.0	1.3	1.1	2.5

Source: Central Bank of Ecuador.

Table 41. Ecuador: Export and Import Indices 1/

(1990 = 100)

	1995	1996	1997	1998	Prel. 1999	Q1	Prel. 2000
I. Exports Indices							
Total							
Value	162	180	193	154	163		...
Volume	165	173	189	177	178		...
Unit value	98	104	102	85	90		...
Oil							
Value	110	125	110	65	104		...
Volume	147	138	146	140	139		...
Unit value	75	90	75	47	74		...
Non-oil							
Value	218	239	284	251	228		...
Volume	180	199	221	206	207		...
Unit value	121	120	129	119	107		...
II. Imports Indices							
Total							
Value	237	230	272	303	162		...
Volume	222	222	277	321	174		...
Unit value	107	104	98	94	93		...
III. Terms of Trade							
Overall	92	100	104	90	97		...
Non-oil	114	116	131	126	115		...

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ In U.S. dollar terms.

Table 42. Ecuador: Services Account of the Balance of Payments

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
	(In millions of U.S. dollars)					
Services (net)	**-1320**	**-1399**	**-1703**	**-1950**	**-1812**	**-477**
Factor services (net)	-1263	-1379	-1418	-1615	-1723	-465
Interest	-744	-843	-870	-985	-1086	-310
Other	-519	-536	-548	-630	-637	-155
Nonfactor services (net)	-57	-20	-285	-335	-89	-12
Shipments and transportation	-136	-77	-277	-344	-106	-26
Tourism	20	62	63	50	72	21
Government services	9	3	15	14	9	3
Other	50	-8	-86	-55	-64	-10
Total service credits	**936**	**931**	**928**	**890**	**861**	**227**
Factor services credits	90	83	106	86	49	12
Interest receipts	82	73	98	78	49	12
Other	8	10	8	8	0	
Nonfactor services credits	846	848	822	804	812	215
Shipments and transportation	333	343	297	278	287	74
Tourism	255	281	290	291	343	91
Government services	41	43	47	47	49	13
Other	217	181	188	188	133	37
Total service debits	**2256**	**2330**	**2631**	**2840**	**2673**	**704**
Factor services debits	1353	1462	1524	1701	1772	477
Interest payments	826	916	968	1063	1135	322
Other	527	546	556	638	637	155
Nonfactor services debits	903	868	1107	1139	901	227
Shipments and transportation	469	420	574	622	393	100
Tourism	235	219	227	241	271	70
Government services	32	40	32	33	40	10
Other	167	189	274	243	197	47
	(In percent of GDP)					
Services (net)	**-7.3**	**-7.3**	**-8.6**	**-9.9**	**-13.2**	**-20.0**
Factor services (net)	-7.0	-7.2	-7.2	-8.2	-12.5	-19.5
Nonfactor services (net)	-0.3	-0.1	-1.4	-1.7	-0.6	-0.5
Total service credits	**5.2**	**4.9**	**4.7**	**4.5**	**6.3**	**9.5**
Factor services credits	0.5	0.4	0.5	0.4	0.4	0.5
Nonfactor services credits	4.7	4.4	4.2	4.1	5.9	9.0
Total service debits	**12.5**	**12.2**	**13.3**	**14.4**	**19.4**	**29.6**
Factor services debits	7.5	7.6	7.7	8.6	12.9	20.0
Nonfactor services debits	5.0	4.5	5.6	5.8	6.5	9.5

Source: Central Bank of Ecuador.

Table 43. Ecuador: Capital Account of the Balance of Payments

	1995	1996	1997	1998	1999	Q1 2000
(In millions of U.S. dollars)						
Capital account	**265**	**-189**	**781**	**1413**	**-1759**	**-344**
Foreign direct investment	**470**	**491**	**695**	**831**	**636**	**200**
Public sector (net)	**404**	**283**	**88**	**314**	**194**	**-126**
Disbursements	1064	1013	1263	1092	788	66
Amortization	660	730	1175	778	594	192
Public sector (net) 1/	**736**	**403**	**563**	**641**	**-621**	**-84**
Disbursements	2469	3363	4204	6118	3424	495
Amortization	1733	2960	3641	5477	4045	579
Other 2/	**-1345**	**-1366**	**-565**	**-373**	**-1968**	**-334**
(In percent of GDP)						
Capital account	**1.5**	**-1.0**	**4.0**	**7.2**	**-12.8**	**-14.5**
Foreign direct investment	**2.6**	**2.6**	**3.5**	**4.2**	**4.6**	**8.4**
Public sector (net)	**2.2**	**1.5**	**0.4**	**1.6**	**1.4**	**-5.3**
Disbursements	5.9	5.3	6.4	5.5	5.7	2.8
Amortization	3.7	3.8	5.9	3.9	4.3	8.1
Public sector (net) 1/	**4.1**	**2.1**	**2.8**	**3.3**	**-4.5**	**-3.5**
Disbursements	13.7	17.6	21.3	31.0	24.9	20.8
Amortization	9.6	15.5	18.4	27.8	29.4	24.3
Other 2/	**-7.5**	**-7.1**	**-2.9**	**-1.9**	**-14.3**	**-14.0**

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Includes short-term revolving trade credits.
2/ Includes errors and omissions; and in 1996 staff adjustment for the counterpart of underreported imports.

Table 44. Ecuador: External Debt 1/

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
(In millions of U.S. dollars)						
Total debt	**13,934**	**14,589**	**15,198**	**16,221**	**16,353**	**17,750**
Private sector	1,555	1,958	2,520	3,159	2,539	3,139
Public sector	12,379	12,631	12,678	13,061	13,814	14,611
Nonfinancial public sector	11,597	11,669	11,881	12,346	12,580	12,707
Financial public sector	782	962	797	715	1,234	1,904
Total public debt	**12,379**	**12,631**	**12,678**	**13,061**	**13,814**	**14,611**
Multilaterals	3,563	3,564	3,479	3,905	4,025	4,571
Bilaterals	2,329	2,345	2,353	2,282	2,617	1,864
Commercial banks	356	603	447	423	474	384
Suppliers	132	106	65	68	167	159
(Shares in percent of total)						
Total public debt	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Private sector	11.2	13.4	16.6	19.5	15.5	17.7
Public sector	88.8	86.6	83.4	80.5	84.5	82.3
Nonfinancial public sector	83.2	80.0	78.2	76.1	76.9	71.6
Financial public sector	5.6	6.6	5.2	4.4	7.5	10.7
Total debt	**88.8**	**86.6**	**83.4**	**80.5**	**84.5**	**82.3**
Multilaterals	25.6	24.4	22.9	24.1	24.6	25.8
Bilaterals	16.7	16.1	15.5	14.1	16.0	10.5
Commercial banks	2.6	4.1	2.9	2.6	2.9	2.2
Suppliers	0.9	0.7	0.4	0.4	1.0	0.9
(In percent of GDP)						
Total debt	**77.7**	**76.2**	**76.9**	**82.2**	**118.8**	**135.4**
Private sector	8.7	10.2	12.8	16.0	18.4	23.9
Public sector	69.0	65.9	64.2	66.2	100.3	111.4
Nonfinancial public sector	64.2	60.9	60.1	62.5	91.4	96.3
Financial public sector	4.8	5.0	4.0	3.6	9.0	14.4
Total public debt	**69.0**	**65.9**	**64.2**	**66.2**	**100.3**	**111.4**
Multilaterals	19.9	18.6	17.6	19.8	29.2	34.9
Bilaterals	13.0	12.2	11.9	11.6	19.0	14.2
Commercial banks	2.0	3.1	2.3	2.1	3.4	2.9
Suppliers	0.7	0.6	0.3	0.3	1.2	1.2

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Including unpaid late interest and outstanding obligations to the Fund.

Table 45. Ecuador: External Debt Service

	1995	1996	1997	1998	Prel. 1999	Prel. Q1 2000
(In millions of U.S. dollars)						
Total debt service due						
Principal 1/	688	754	890	727	645	200
Interest 2/	826	900	968	1,063	1,134	322
Total debt service due						
Private sector 1/	181	196	226	282	321	...
Public sector 2/	1,332	1,458	1,632	1,507	1,459	430
(In percent of GDP)						
Total debt service due						
Principal 1/	3.8	3.9	4.5	3.7	4.7	8.4
Interest 2/	4.6	4.7	4.9	5.4	8.2	13.5
Total debt service due						
Private sector 1/	1.0	1.0	1.1	1.4	2.3	...
Public sector 2/	7.4	7.6	8.3	7.6	10.6	18.1
(In percent of exports of goods and nonfactor services)						
Total debt service due						
Principal 1/	13.1	13.1	14.6	14.5	12.3	13.8
Interest 2/	15.7	15.7	15.9	21.2	21.5	22.1
Total debt service due						
Private sector 1/	3.4	3.4	3.7	5.6	6.1	...
Public sector 2/	25.3	25.4	26.8	30.1	27.7	29.5

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Excludes private sector principal payments, most of which are short-term revolving credits.
2/ Includes late interest.

Table 46. Ecuador: External Debt by Creditors

(In millions of U.S. dollars)

	Drawings	Cash Amorti- zation	Principal Resched- uling	Interest Resched- uling	Change in Interest Arrears 1/	Valuation Adjust- ments 2/	Debt Outstanding End of Year 3/
1995							
Total	1,064	660	875	106	13	126	12,351
Multilaterals 4/	836	268	34	0	7	81	3,550
Bilaterals and suppliers'	181	305	0	0	3	21	2,448
Commercial banks	48	87	841	106	3	24	6,354
1996							
Total	1,013	544	0	84	29	-343	12,531
Multilaterals 4/	569	357	0	0	12	-191	3,555
Bilaterals and suppliers'	174	145	0	0	17	-91	2,373
Commercial banks	270	42	0	84	0	-61	6,604
1997							
Total	1,113	301	0	88	64	-273	12,495
Multilaterals 4/	395	301	0	0	9	-161	3,479
Bilaterals and suppliers'	140	0	0	0	48	-102	2,236
Commercial banks	578	0	0	88	7	-11	6,781
1998							
Total	1,091	600	109	90	7	127	13,062
Multilaterals 4/	860	381	109	0	0	57	3,905
Bilaterals and suppliers'	195	136	0	0	7	72	2,350
Commercial banks	36	83	0	90	0	-2	6,806
1999							
Total	788	509	0	76	9	-14	13,372
Multilaterals 4/	468	347	0	0	0	-13	4,014
Bilaterals and suppliers'	310	99	0	0	9	2	2,549
Commercial banks	11	63	0	76	0	-3	6,809
2000							
Q1							
Total	111	122	0	45	20	-61	13,267
Multilaterals 4/	41	99	0	4	11	-27	3,921
Bilaterals and suppliers'	28	16	0	0	7	-33	2,507
Commercial banks	42	6	0	41	1	-1	6,839

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Includes late interest.
2/ Adjustments due to exchange rate fluctuations.
3/ Valued at end of year exchange rates.
4/ Including the Fund.

Table 47. Ecuador: External Payments Arrears

(Outstanding at the end of the period)

	1998	1999	May 2000
(In millions of U.S. dollars)			
Total 1/2/	**543**	**860**	**1,076**
Multilateral	0	19	21
Bilateral	542	694	742
Commercial banks 3/	1	146	311
Suppliers	0	2	2
Principal	**365**	**480**	**511**
Multilateral	0	7	12
Bilateral	364	441	463
Commercial banks 3/	1	30	34
Suppliers	0	2	2
Interest 1/	**179**	**380**	**565**
Multilateral	0	12	8
Bilateral	178	253	279
Commercial banks 3/	0	115	278
Suppliers	0	0	0
(In percent of GDP)			
Total arrears 1/2/	**2.8**	**6.2**	**8.1**

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Includes late interest on arrears.
2/ Excludes arrears of US $154million from AGD banks.
3/ Including Brady and Eurobonds.

Table 48. Ecuador: Trade-Weighted Effective Exchange Rates 1/

	Nominal Effective Exchange Rate		Real Effective Exchange Rate	
	Index 1990=100	Percentage Change 2/	Index 1990=100	Percentage Change 2/
1995				
Q1	64.5	-9.2	132.1	-1.2
QII	60.9	-16.9	129.8	-3.7
QIII	60.4	-12.9	134.6	2.1
QIV	54.5	-20.9	127.4	-7.0
1996				
Q1	53.2	-17.5	129.5	-2.0
QII	51.9	-14.8	130.4	0.5
QIII	49.2	-18.5	132.6	-1.5
QIV	45.5	-16.5	129.2	1.4
1997				
Q1	44.4	-16.5	135.6	4.7
QII	42.6	-17.8	136.1	4.4
QIII	42.2	-14.3	144.7	9.2
QIV	40.0	-12.0	145.5	12.6
1998				
Q1	35.6	-19.9	138.3	2.0
QII	34.2	-19.8	144.9	6.5
QIII	30.0	-28.8	140.0	-3.3
QIV	26.0	-35.0	133.3	-8.4
1999				
Q1	16.5	-53.5	97.4	-29.6
QII	16.8	-51.0	106.7	-26.4
QIII	15.4	-48.9	105.5	-24.6
QIV	10.6	-59.4	84.9	-36.3
2000				
QI	7.6	-54.2	78.4	-19.5

Source: IMF, Information Notice System.

1/ Foreign currency units per sucre; a downdard movement indicates a depreciation.
2/ Change from the same period in the previous year.

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.1 **Taxes on net corporate income and profits** (*Impuesto sobre la renta*)	Applies in principle to the net profits of all private domestic and foreign enterprises. Public enterprises engaged in commercial, industrial, agricultural, mining, tourism, transportation and other services activities pay profit taxes also. Enterprises have to pay an advance equal to 50 percent of the previous year's income tax less withholdings (35 percent in 2000). If effective income taxes are lower than the advance plus withholdings, the difference can be used to pay profit taxes in the following years.	In general, all expenditures for reaching, maintaining, and increasing taxable income generated in Ecuador. Losses for up to five previous years, provided they do not exceed 25 percent of current profits. Taxes paid on income abroad are deductible from the Ecuadoran income tax but may not exceed the amount payable in Ecuador. The mandatory transfer of 15 percent profits to employees.	25 percent for all domestic and foreign companies, including income remitted abroad. At a minimum 25 percent for enterprises in exploration and exploitation of hydrocarbons, unless specifically subject to a higher rate, unless specifically subject to a higher rate. 25 percent on profits and dividends, and 33 percent on other payments paid or credited abroad. The depreciation method is linear. The rates are: 5 percent for buildings; 10 percent for machinery and equipment; and 20 percent for vehicles and computer equipment.
1.2. **Personal income tax** (*Impuesto sobre la renta*)	Levied on income of Ecuadoran residents and on all Ecuadoran-source income of nonresidents. Taxes on wage income are withheld on a monthly basis at source taking into account the tax rate corresponding to the income bracket of the employee and the 0.8 percent financial transaction tax. Independent professionals are required to keep income and expenditure accounts to form the basis for the determination of taxes. Corporations are required to withheld 5 percent	After tax corporate dividends and profits distributions and payments. Interest on up to 30-days saving deposits. Severance payments and other payments linked to voluntary termination of labor contracts, and old age pension and unemployment benefits. Indemnities of any kind.	For 2000, marginal rates ranged from 0 on taxable income of less than US$3,200, to 25 percent on taxable income in excess of US$11,200. Foreign nonresidents pay 25 percent on occasional incomes. 15 percent on lottery gains higher than US$80.

Tax	Nature of Tax	Exemptions and Deductions	Rates
	of their payments to professionals.	Income from occasional sales of real estate and corporate shares.	10 percent on inheritances, and donations, in excess of a tax-free minimum of US$3,200.
2. **Social security contributions** (*Contribuciones al Instituto Ecuatoriano de Seguridad Social-IESS*)	Levied on employers and employees as a percentage of the wage bill. Designed to finance health programs, disability and life insurance, and future pensions. Contributions under the unemployment benefit scheme are accumulated and reimbursed in full in case of unemployment. Revenues are also used for personal loans to the insured at below-market interest rates. Independent workers may choose to join.	The thirteenth and fourteenth monthly salary payment in a year, and the cost-of-living, complementary and transportation bonuses. The first two bonuses are being gradually added to the wage bill on which the contributions are levied.	The core rates are: **Employee** 9.35 percent of wages **Employer** 11.15 percent of wages, plus one monthly wage per year. **Independent workers** 18.8 percent of gross income.
3. **Property taxes**			
3.1. **Recurrent real estate taxes: Urban property tax** (*Impuesto a los predios urbanos*)	Municipal tax on 60 percent of the land register value of the property. Land register values should in principle reflect market values. However, in many municipalities, land register values are outdated, and in some, no land register exists. The minimum period for updating land register values is five years, and there are no indexation mechanisms.	**Exemptions** Properties worth less than 25 times the monthly minimum wage. Five-year exemption for hotels and family-owned buildings. Two-year exemption for buildings for industrial use. Properties of the public sector and private nonprofit organizations. **Deductions** General: 40 percent of land register value.	Progressive rate, from 0.3 percent to 1.6 percent (set by each municipality). Properties with no or rundown construction are subject to a tax surcharge.

Tax	Nature of Tax	Exemptions and Deductions	Rates
		Between 20-40 percent of the loans for acquisition, construction, and improvement of property. 25 percent for owners of only one property not exceeding 50 monthly minimum wage in value.	
3.2. **Recurrent real estate taxes: Rural property tax** (*Impuesto a los predios rurales*)	Municipal tax on the land register value, which also includes farming equipment, animals, forests, water resources and cocoa, coffee and sugar cane plantations. Land register values typically lag the market values, and coverage is partial.	**Exemptions** Lands occupied by indigenous communities. Property of the public sector and private nonprofit organizations. Cultivated land and forests in sparsely settled regions. The value of animals and equipment used in the generation of revenue subject to the income tax. **Deductions** Loans maturing in more than three years for acquisition and improvement of property. Losses from plagues and catastrophes that are greater than 20 percent of the land register value.	Progressive rates from 0.6 to 1.6 percent.
3.3 **Taxes on financial and capital transactions: Tax**	Tax on credit operations in domestic currency by private banking and financial institutions. The	Credits from savings and loan cooperatives. Credits from the state	1 percent

Tax	Nature of Tax	Exemptions and Deductions	Rates
a on credit operations in foreign currency (*Impuesto las transacciones de crédito en moneda extranjera*)	tax is paid in full when the credit is granted.	bank for social or development projects.	
4. Taxes on goods and services			
4.1 Value-added tax (VAT) (*Impuesto al valor agregado-IVA*)	Applied to sales of goods and services. The tax base is the sales price, including other taxes, fees, etc. The tax base for imports is their c.i.f. value plus duties, port and customs charges and all other taxes specified in the import declaration. With the exception of exports, the VAT paid on inputs is credited only against sales which are themselves subject to VAT. For exports, all VAT paid on inputs is reimbursed. The VAT paid by public sector entities is reimbursed in full within 30 days.	A zero tax rate is applied to the sale and import of the following goods: Agricultural products in their natural state; some machinery and tools for agricultural production; animal food. Basic food stuff including milk, bread, sugar, salt, butter, flour, and edible oil. Medicines and drugs and the goods required for their production. Books and magazines, and paper for newspapers. Exports. A zero tax rate is applied to the provision of some services including: Transportation of passengers and merchandise, health, education, printing of books, and financial and stock market. Electricity, water, sewage, and waste disposal.	12 percent

Tax	Nature of Tax	Exemptions and Deductions	Rates
		House rent.	
		Exports, including tourism.	
		Those provided by independent professionals on transactions up to US$400, and by artisans.	
4.2. **Specific taxes: Excise tax** (*Impuesto a los consumos especiales-ICE*)	The ICE is a specific tax on the purchase of vehicles, a number of imported luxury goods, cigarettes, beer, carbonated drinks, and alcohol and alcoholic beverages. The tax base for domestically produced goods is the producer price plus distribution and commercialization costs. For imported products except cigarettes, the tax base is the c.i.f. value, including all customs tariffs and charges, plus a presumptive commercialization markup of 25 percent, and for cigarettes, the markup is 110 percent. The tax base excludes the VAT. The tax is payable by the producer or importer.	Alcohol used in the manufacturing of medicines and alcoholic beverages.	Passenger and cargo vehicles up to 3.5 tons: 5.2 percent Aircraft, helicopters, vehicles for water sports and recreation: 10.3 percent Light tobacco: 77.3 percent Dark tobacco: 18.5 percent Beer: 30.9 percent Carbonated drinks: 10.3 percent Alcohol and alcoholic Beverages except beer: 26.8 percent
4.3 **Financial Transaction Tax** (*Impuestos a las Transacciones Financieras*)	Applies to the amounts deposited in or credited to bank accounts, including time deposits, held by individuals and corporations in the Ecuadoran banking system. It also covers the cashing of checks and the transfers and payments abroad.	Transfers from the central government to other public sector entities. Payments to the Ministry of Finance, local governments, and state universities. Benefits paid by the Social Security Institute through the financial system. The cash payments of the Solidarity Bond.	0.8 percent

Ecuador: Summary of the Tax System

(As of August 15, 2000)

Tax	Nature of Tax	Exemptions and Deductions	Rates
		The FTT paid by individuals is creditable against their personal income for obligations; if the former is larger than the latter, there is no drawback. That paid by corporations can be deducted from their taxable profits under the profit tax.	This rate is applicable to deposits of less than 30 days and more than a year; for other deposits, the rate is applied on a pro-rata basis.
5. Tax on international trade and transactions **5.1. Import duties (*Aranceles aduaneros*)**	Import tariffs are levied on the c.i.f. value of most products imported into Ecuador. Imports from Andean Pact countries which participate in the free trade area (Colombia, Venezuela, Bolivia) pay no tariffs.	Inputs for agriculture, public sector imports, imports for private nonprofit organizations and accredited diplomats.	Unprocessed goods: 5 percent Semiprocessed goods: 10 percent 15 percent End goods: 20 percent Motorized vehicles: 37 percent A temporary surcharge of 1 to 10 percentage points is levied on most imports, except those from the Andean Pact Countries until December 31, 2000.
5.2 Other taxes on international trade and transactions	Tax levied on all persons leaving Ecuador by air.	None.	US$25 a person.