

## Looking for cash

### General Information



<b>GDP</b>	USD100.543bn (World ranking 63, World Bank 2014)
<b>Population</b>	15.98mn (World ranking 65, World Bank 2014)
<b>Form of state</b>	Republic
<b>Head of government</b>	Rafael Correa Delgado
<b>Next elections</b>	2017, presidential and legislative



### Strengths

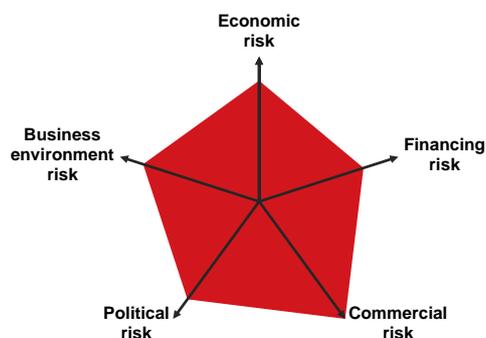
- Moderate debt ratios
- Full dollarization of the economy that limits transfer & currency risk and anchors inflation
- Significant oil reserves
- Unexploited mining resources
- Tourism potential
- Financial support from China
- Improved road network thanks to large infrastructure investment over the past years
- GDP per capita and social indicators improved significantly over the past years

### Weaknesses

- Dependence on oil production and high vulnerability to global oil prices
- Unsustainable pace of public spending
- Low level of FX reserves
- Monetary policy significantly limited by full dollarization
- Limited access to international capital markets, due to successive debt defaults and restructurings
- Strong state interventionism, increasing price and import controls

### Country Rating

**C4**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United States	45%	1	27%	United States
Chile	8%	2	11%	China
Peru	8%	3	9%	Colombia
Colombia	4%	4	7%	Panama
Venezuela	4%	5	4%	Peru

By product (% of total)

Exports		Rank		Imports
Crude oil	50%	1	20%	Refined petroleum
Fish, crustaceans	11%	2	9%	Road vehicles
Vegetables and fruits	11%	3	5%	Industrial machinery&parts
Animal/ vegetable manuf.	3%	4	5%	Iron and steel
Coffee, tea, cocoa, spices	3%	5	5%	Specialised machinery

Source: ITC, Chelem



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## Economic Overview

### The oil curse

Ecuador faces significant downside risks due to constrained export and fiscal revenues due to lower crude oil prices. Oil accounts for around 30% of government revenues and over 50% of exports. Alongside, the appreciation of the USD has negatively affected export competitiveness, especially with neighbours (Colombia, Peru). Euler Hermes expects a recession of -1.1% in 2016, after meagre growth in 2015 (+0.6%).

### Financing the fiscal and external deficit are the main challenges

Increased fiscal revenues from high oil prices allowed a very supportive fiscal policy since President Correa came into power (2008). However, the country failed to build a countercyclical fund in past years, so current lower oil prices have revealed the unsustainability of the public spending pace. Yet, the access of Ecuador to international capital markets remains constrained since the voluntary default in 2008. The government has announced austerity measures for 2016, with a -20% cut in the budget.

The economy is fully dollarized, which anchors inflation expectations and largely reduces transfer and currency risk. However, it limits monetary policy and the Central Bank cannot act as a lender of last resort. Liquidity in the economy depends on external surpluses, foreign investment inflows or increasing debt. Thus, albeit broadly sound (comfortable capital ratios and good profitability), the banking system is particularly vulnerable to liquidity shocks. In this sense, the Fed's tapering will impact negatively the national banking system, credit growth and liquidity available in the economy.

Against the sharp fall in exports, the government has been restricting imports by setting up quotas on foreign goods, raising duties and imposing tariffs. Also, a tax on capital outflows has been implemented. Despite these measures, the current account deficit is expected to remain around -3% of GDP. With limited inflows of both FDI and portfolio investments and less financial support from China, financing the external deficit will be challenging. However, foreign debt remains low (18.5% of GDP) since the 2008 voluntary default, but is expected to increase to 35% of GDP by 2017, mainly due to higher public external debt (mostly with China).

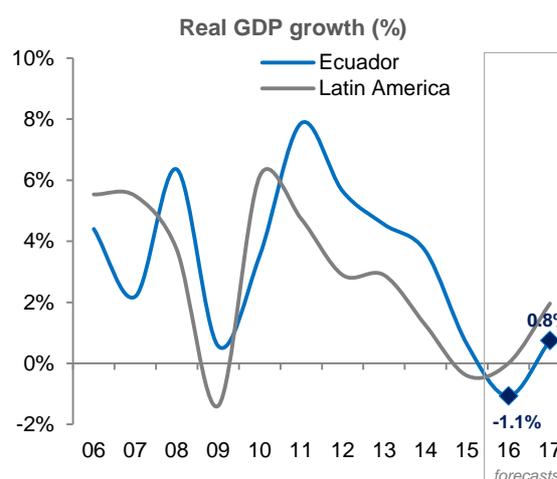
Whereas President Correa still enjoys a high level of popularity, he has lost ground against the opposition over the past months while social tensions, strikes and demonstrations are multiplying.

### Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	3.7	0.6	-1.1	0.8
Inflation (% , yearly average)	3.6	4.1	4.1	3.9
Fiscal balance* (% of GDP)	-5.4	-6.0	-5.2	-4.1
Public debt* (% of GDP)	31.3	36.4	39.9	42.5
Current account (% of GDP)	-1.9	-3.0	-3.1	-2.8
External debt (% of GDP)	20.8	23.1	29.2	34.8

\*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes



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