

Falling into recession

General Information



| | |
|---------------------------|--|
| GDP | USD100.872bn (World ranking 58, World Bank 2015) |
| Population | 16.14mn (World ranking 68, World Bank 2015) |
| Form of state | Presidential Republic |
| Head of government | Rafael Correa |
| Next elections | 2017, presidential and legislative |



Strengths

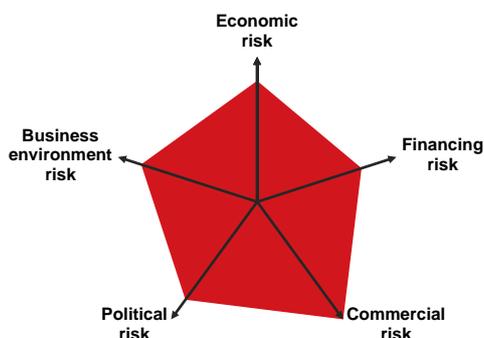
- Significant oil reserves and unexploited mining resources
- Dollarization of the economy, limits transfer and currency risk and anchors inflation
- Recently Improved road network
- Financial support from China
- GDP per capita and social indicators have improved significantly over the past years

Weaknesses

- Dependence on oil production and high vulnerability to global oil prices
- Monetary policy limited by dollarization
- Low level of FX reserves
- Limited access to international capital markets due to successive debt defaults and restructurings
- Unsustainable pace of public spending
- 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 | 35% | 26% |
| China | 6% | 18% |
| Chile | 5% | 8% |
| Peru | 5% | 4% |
| Russia | 5% | 4% |

By product (% of total)

| Exports | Rank | Imports |
|--------------------------|------|---------|
| Crude oil | 36% | 19% |
| Other agricultural prod. | 22% | 5% |
| Meat and fish | 12% | 4% |
| Preserved meat and fish | 5% | 4% |
| Non-edible agri. prod. | 4% | 4% |

Sources: Chelem, Euler Hermes

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). The appreciation of the USD has negatively affected export competitiveness, especially with neighbors (Colombia and Peru). Euler Hermes expects a recession of -2.3% in 2016, after meager growth of +0.3% in 2015.

Financing the fiscal and external deficit are the main challenges

Increased fiscal revenues from high oil prices allowed a very supportive fiscal policy since Rafael Correa came into power in 2008. However, the country failed to build a countercyclical fund and current lower oil prices have revealed the unsustainability of the public spending pace. Access to international capital markets is limited since the voluntary default in 2008.

During 2016, the government passed austerity measures that were announced to equal a -20% cut in the budget. Rafael Correa has lost ground against the opposition over the past months while social tensions, strikes, and demonstrations are multiplying.

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. 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 but is expected to increase to 22% of GDP by 2017, mainly due to higher public external debt (mostly with China).

Weak business environment

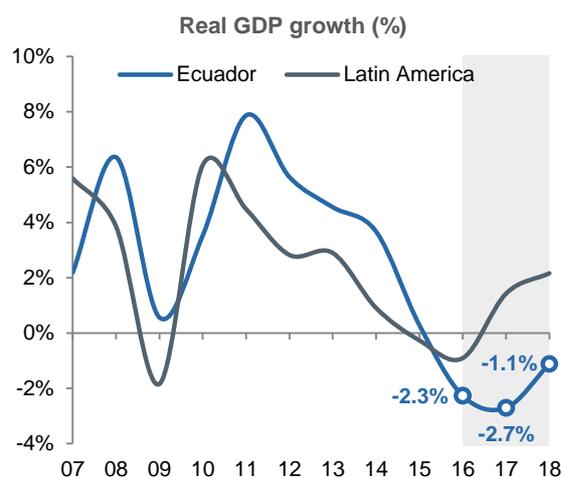
Ecuador ranked 114 worldwide in the World Bank's 2016 Ease of Doing Business survey. Important shortcomings remain with regard to starting a business, resolving insolvencies and paying taxes.

Key economic forecasts

| | 2015 | 2016 | 2017 | 2018 |
|--------------------------------|------|------|------|------|
| GDP growth (% change) | 0.3 | -2.3 | -2.7 | -1.1 |
| Inflation (% , yearly average) | 4.0 | 2.4 | 1.1 | 0.6 |
| Fiscal balance* (% of GDP) | -5.2 | -5.2 | 0.3 | 0.4 |
| Public debt* (% of GDP) | 33.8 | 39.6 | 39.7 | 39.7 |
| Current account (% of GDP) | -2.2 | -1.5 | -0.9 | -0.9 |
| External debt (% of GDP) | 17.3 | 20.0 | 22.1 | 25.2 |

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

Sources: National sources, IMF, IHS, Euler Hermes



Sources: IHS, Euler Hermes



Sources: IHS, Euler Hermes

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