

Out of the slump

General Information



GDP	USD100.177bn (World ranking 61, World Bank 2015)
Population	16.14mn (World ranking 68, World Bank 2015)
Form of state	Presidential Republic
Head of government	Lenín Moreno
Next elections	2021, presidential and legislative



Strengths

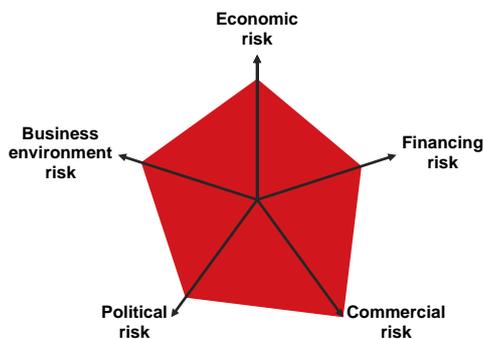
- Significant oil reserves and unexploited mining resources
- Dollarization of the economy, limits transfer and currency risk and anchors inflation
- Recently Improved road network
- Financial support from China
- GDP per capita and social indicators have improved significantly over the past years

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% 1	26% United States
China	6% 2	18% China
Chile	5% 3	8% Colombia
Peru	5% 4	4% Brazil
Russia	5% 5	4% Peru

By product (% of total)

Exports	Rank	Imports
Crude Oil	36% 1	19% Refined Petroleum Products
Edible Agricultural Prod	22% 2	5% Plastic Articles
Meat	12% 3	4% Pharmaceuticals
Preserved Meat/Fish	5% 4	4% Engines
Non-Edible Agricultural Prod.	4% 5	4% Electrical Apparatus

Sources: Chelem 2015



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Economic Overview

The oil-dependency burden

Ecuador faces downside risks due to constrained export and fiscal revenues, as a consequence of rebounded-but-still-low crude oil prices. Oil accounts for around 30% of government revenues. After sinking by -1.5% in 2016 - the first recession in almost 2 decades - real GDP growth will return to positive territory in the forecast horizon, as uncertainties driven by the political cycle ease. EH expects the Ecuadorian economy to grow by a modest +0.6% in 2017 and +1.4% in 2018, far below the 2010-2014 average of +5.2%.

Financing the fiscal and external deficit remain the main challenges

Increased fiscal revenues from high oil prices allowed a very supportive fiscal policy since 2008. However, the country failed to build a countercyclical fund and current lower oil prices (compared to pre-2015 levels) have revealed the unsustainability of the public spending pace. Access to international capital markets is limited since the voluntary default in 2008.

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. The Fed's tapering will, therefore, impact negatively the national banking system, credit growth and liquidity available in the economy.

Exports and imports have finally picked up, ending the continuous free fall witnessed throughout 2015. The government played a preeminent role in this turnaround, as it 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 remains challenging, despite a favorable trade outlook.

Weak business environment

Ecuador ranked 114 worldwide in the World Bank's 2017 Ease of Doing Business survey. Important shortcomings remain with regard to starting a business, resolving insolvencies and paying taxes. Lenin Moreno, from the incumbent party, won the Presidential elections of last March. He vowed to pursue the economic policy of his predecessor, Rafael Correa.

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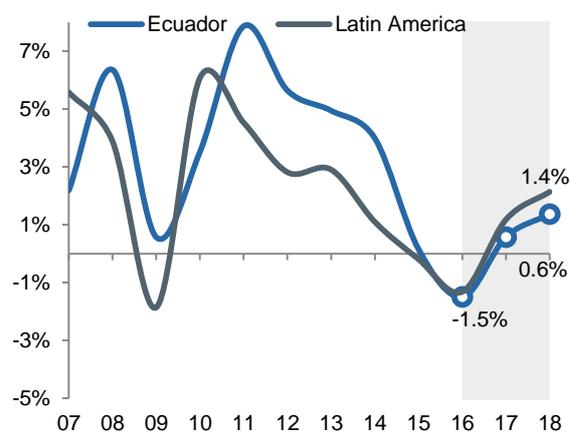
Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	0.2	-1.5	0.6	1.4
Inflation (% , yearly average)	4.0	3.9	1.5	1.9
Fiscal balance* (% of GDP)	-5.2	-6.6	-2.1	-0.8
Public debt* (% of GDP)	22.6	29.2	31.5	32.3
Current account (% of GDP)	-2.2	1.1	0.9	-0.1
External debt (% of GDP)	27.2	26.5	25.8	26.0

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

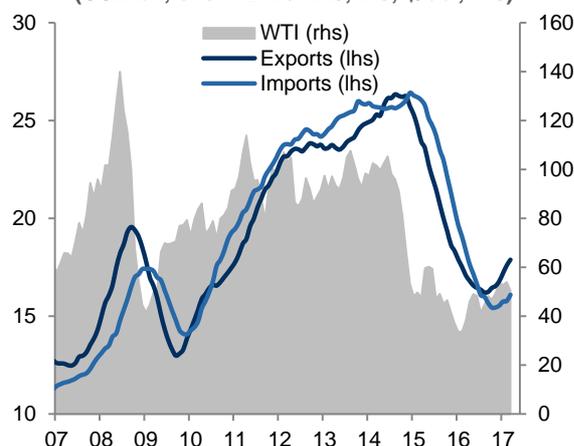
Sources: National sources, IMF, IHS, Euler Hermes

Real GDP growth (%)



Sources: IHS, Euler Hermes

Exports and imports of goods, WTI Oil (USD bn, over 12 months, IHS; \$/bbl, rhs)



Sources: IHS, Euler Hermes