

EBS/84/92

CONFIDENTIAL

April 25, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Ecuador - Staff Report for the 1983 Article IV Consultation  
and Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Ecuador and a review under the stand-by arrangement. Draft decisions appear on pages 21-23.

It is proposed to bring this subject to the agenda for discussion on Friday, May 25, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Hoelscher (ext. (5)7155).

Att: (1)

INTERNATIONAL MONETARY FUND

ECUADOR

Staff Report for the 1983 Article IV Consultation  
and Review Under the Stand-By Arrangement

Prepared by the Staff Representatives for the  
1983 Consultation with Ecuador

Approved by Eduardo Wiesner and Manuel Guitian

April 23, 1984

I. Introduction

The 1983 Article IV consultation discussions with Ecuador and the negotiation of the program for the period of the stand-by arrangement falling in 1984 were initiated in Quito in the period November 28-December 14, 1983, continued in Washington in late January 1984 and again in late February, and concluded in Quito in the period February 29-March 13, 1984. The representatives of Ecuador in the discussions included the Ministers of Finance, Labor, Natural Resources, Industry, and Agriculture, the President of the Monetary Board, the General Manager of the Central Bank of Ecuador, and other senior officials from the Ministry of Finance and the Central Bank. The staff representatives in the missions to Quito were Messrs. Bonangelino (Head), Caetano, and Hoelscher (all WHD), Lee (ETR), and as secretaries in the first and second missions, respectively, Ms. De Loayza (INST) and Mrs. Koo (WHD).

The policies that Ecuador will pursue during the remainder of the stand-by arrangement are described in the Memorandum on the Economic Policies attached to the letter of intent of April 19, 1984 of the Ecuadorian authorities (attached). This review is being conducted pursuant to paragraph 4(d) of the stand-by arrangement (EBS/83/91, Supplement 3), and paragraph 1 of the decision set forth in EBS/83/230 (10/26/83).

Three purchases equivalent to SDR 39.4 million each have been made so far under the one-year stand-by arrangement which became effective on July 25, 1983 (Table 1). The fourth and final purchase of SDR 39.4 million, which can be made anytime after January 31, 1984, is subject to the completion of the review and the establishment of quantitative performance criteria for the remaining period of the arrangement. In addition, to be able to make the final purchase Ecuador will need to be in compliance of the ceilings and tests established for such program and must have eliminated the remaining external payments arrears as discussed below.

Table 1. Ecuador: Fund Position During Period of Arrangement

	Outstanding at Beginning of Arrangement (May 31, 1983)	1983		1984
		June- Oct.	Nov.- Dec.	Jan.- July
(In millions of SDRs)				
Transactions under tranche policies (net)				
Purchases	--	78.75	39.38	39.38
Ordinary resources	(--)	(14.14)	(17.90)	(17.90)
Enlarged access resources	(--)	(34.61)	(21.48)	(21.48)
Repurchases	--	--	--	--
Ordinary resources	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(--)	(--)	(--)
Transactions under special facilities <u>1/</u>	--	85.40	--	--
Purchases	(--)	(85.40)	(--)	(--)
Repurchases	(--)	(--)	(--)	(--)
Total Fund credit outstanding (end of period)	--	164.15	203.53	242.91
Under tranche policies	(--)	(78.75)	(118.13)	(157.51)
Special facilities <u>1/</u>	(--)	(85.40)	(85.40)	(85.40)
(As percent of quota)				
Total Fund credit outstanding (end of period)	--	156.3	193.8	161.2
Under tranche policies	(--)	(75.0)	(112.5)	(104.5)
Special facilities <u>1/</u>	(--)	(81.3)	(81.3)	(56.7)

Source: International Monetary Fund.

1/ Compensatory financing facility.

## II. Background and Performance Under the Stand-By Program

Following several years of rapid economic growth and a strong balance of payments performance, economic conditions in Ecuador weakened after 1980. Real GDP growth decelerated from 5 percent in 1980 to 1.4 percent in 1982, and inflation accelerated from 13.5 percent in 1980 to nearly 25 percent in 1982. The balance of payments also deteriorated sharply over the same period as a deficit of almost US\$300 million was registered in 1981, the first in four years, and was followed by a deficit of US\$460 million in 1982. In addition, in 1982 there was an accumulation of external payments arrears of US\$211 million.

The weakening of the country's economic situation reflected both adverse external developments and the expansionary demand management policies followed by the Government in an attempt to counter the slowdown in economic activity. The overall public sector deficit rose to 7 percent of GDP in 1982 from 4.9 percent of GDP in 1980. The increase in public sector external borrowing and higher interest rates abroad raised Ecuador's external debt service payments considerably, and the trade account of the balance of payments weakened because of the worsening of the terms of trade.

In response to the rapid deterioration in Ecuador's financial position, the authorities adopted a series of measures in May 1982 that included the devaluation of the sucre from S/. 25 per U.S. dollar to S/. 33 per U.S. dollar in May and the doubling of gasoline prices (see EBS/83/230). These efforts at adjustment were considerably strengthened in early 1983 when the authorities adopted a wide-ranging stabilization program which included a series of measures to increase public sector revenues and to control the growth of expenditure. The revenue measures included (1) an increase in the sales tax, (2) the elimination of tax exemption certificates for all exports except hemp, (3) the introduction of import surcharges, (4) a reduction in import duty exemptions, (5) increases in the prices of petroleum products, and (6) increases in electricity, telephone, and water rates. With the aim of strengthening the external sector, in March 1983 the authorities further devalued the sucre in the official market to S/. 42 per U.S. dollar and adopted a crawling peg exchange rate system. The rate of depreciation was set initially at S/. 0.04 per U.S. dollar per working day. Interest rates were adjusted on two occasions during 1983 (in March and October) with the aim of promoting the growth of domestic financial savings.

The Fund supported Ecuador's program with the one-year stand-by arrangement that became effective on July 25, 1983, following the finding by the Fund that satisfactory arrangements had been reached with foreign commercial banks, including the negotiation of debt rescheduling and a new medium-term loan to Ecuador's public sector. An important objective of the program was to limit the loss of net official international reserves of the Central Bank to no more than US\$100 million in 1983. This was to be achieved mainly through a reduction of the overall deficit of the public sector and a more appropriate exchange rate policy.

The program envisioned an acceleration in the rate of depreciation of the sucre in the official market and an enlargement of the scope of the free market in order to reduce the spread between the exchange rates in the official and free markets. The authorities also undertook to eliminate external payments arrears by November 30, 1983 and import restrictions by the end of the program period.

In 1983 the balance of payments situation improved as the deficit on current account was drastically reduced, but real GDP fell and the rate of inflation increased. Last year's loss of net official international reserves was smaller than that permitted under the program. However, external payments arrears were not completely eliminated as had been intended. While no significant progress was made in reducing import restrictions, prior import deposit requirements which had been established several years ago were eliminated on January 1, 1984.

Real GDP is estimated to have declined by a little more than 3 percent last year, compared with the original estimate of no growth. The weak performance of the economy can be attributed to a large extent to reduced agricultural production as a result of heavy rains in the latter part of 1982 and in the first semester of 1983. This disruption in the agricultural sector caused a strong acceleration of inflation. In addition, the rate of price increase was raised by the adjustments in the exchange rate and by increases in administered prices. The end of period rate of inflation--as measured by the consumer price index--rose from 24 percent in 1982 to 53 percent in 1983, with the rate of increase of food prices jumping from 26 percent in 1982 to 86 percent last year.

Ecuador met all the quantitative performance criteria under the stand-by arrangement as of the end of 1983 except that pertaining to the elimination of external payment arrears. In particular, the ceiling on net central bank credit to the public sector was observed with a wide margin, reflecting a fiscal performance that was substantially better than had been projected (Table 2). This margin was offset to a considerable extent by a larger than projected increase in central bank credit to banks and to the private sector as well as a faster increase of unclassified assets, mainly reflecting exchange losses.

### III. Report on Discussions and Program for 1984

The discussions with the Ecuadoran authorities centered on a review of the progress achieved during 1983 in the implementation of the stand-by program and on the policies that would form the basis for the establishment of the targets and limits for the period of the stand-by arrangement falling in 1984.

The authorities emphasized the progress made during 1983 in the implementation of the stabilization program, despite the adverse effects of the severe floods on production and prices. They were particularly encouraged by the substantial reduction of the public sector deficit, and the improvement in the balance of payments situation.

Table 2. Ecuador: Performance under Stand-by Arrangement

	1982	1983			
	Dec.	Mar.	June 1/	Sept.	Dec.
(In billions of sucres)					
<u>Net domestic assets of the Central Bank</u>					
Ceiling	...	...	17.5	20.0	21.0
Actual	12.1	14.6	15.0	18.5	20.0
Margin under ceiling (excess -)	...	...	2.5	1.5	1.0
<u>Net credit to public sector</u>					
Ceiling	...	...	-16.5	-13.5	-6.0 <sup>2/</sup>
Actual	-16.9	-9.7	-15.7	-20.4	-18.5
Margin under ceiling (excess -)	...	...	-0.8	6.9	12.5
(In millions of U.S. dollars)					
<u>Net official international reserves</u>					
Target	...	...	104	84	110
Actual	210	145	163	108	152
Margin above target (deficiency -)	...	...	59	24	42
<u>Public sector external debt</u>					
Up to twelve years:					
Ceiling <sup>2/</sup>	...	...	4,620	4,620	4,620
Actual	4,020	4,012	4,028	4,094	4,583
Margin under ceiling (excess -)	...	...	592	526	37
Up to one year:					
Ceiling <sup>2/</sup>	...	...	1,025	1,025	1,025
Actual	1,007	1,015	1,010	1,025	1,020
Margin under ceiling (excess -)	...	...	15	--	5
<u>External payments arrears</u>					
Limit	...	...	...	...	--
Actual	211	566	641	564	102
Margin under limit (excess -)	...	...	...	...	-102

Source: Central Bank of Ecuador.

1/ Ceilings and targets are only indicative since the program became effective on July 25, 1983.

2/ Modified ceiling (EBS/83/230).

3/ The performance criteria on external arrears was their elimination by November 30, 1983.

The authorities indicated that they were determined to continue the adjustment process in 1984 with a view to further strengthening the balance of payments. The authorities believed that a significant deceleration of inflation could be achieved in 1984, together with a small increase in real GDP. They noted that the consumer price index had remained virtually unchanged in the last two months of 1983 because of a reduction of 4 percent in food prices over the same period. On the basis of these developments, the authorities felt that the end-of-period inflation rate could be brought down from 53 percent in 1983 to around 25 percent in 1984.

In order to achieve the fiscal and balance of payments objectives of the program, the following performance criteria are to be established for the remaining period of the stand-by arrangement: (a) ceilings on the net domestic assets of the Central Bank; (b) ceiling on the central bank net credit to the public sector; (c) quarterly targets on net official international reserves; (d) a limit on the outstanding public and publicly guaranteed external debt with original maturities of up to and including 12 years, with a sublimit on such debt with original maturities of up to and including one year. In addition, the customary performance criterion on the introduction of exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII and import restrictions for balance of payments purposes remains applicable during the remaining period of the arrangement. Similarly, external payments arrears remain covered by the existing performance criterion which indicates that no purchase can be made after November 30, 1983 if payments arrears are outstanding.

#### 1. Fiscal policy

The overall public sector deficit is estimated to have declined from close to 7 percent of GDP in 1982 to 0.3 percent of GDP in 1983, which was well below the deficit of 4.2 percent of GDP envisaged in the program (Table 3). This strong performance was the result of a faster revenue growth and a slower rate of increase of expenditures than originally envisaged. In relation to GDP, revenues increased from 25 percent in 1982 to almost 28 percent in 1983, while expenditures dropped from 32 percent in 1982 to 28 percent in 1983. The small public sector deficit was financed in its entirety from abroad as domestic financing was negative by S/. 2.8 billion, reflecting the accumulation of deposits at the banking system by public enterprises and some of the decentralized agencies.

The increase in total revenues as a proportion of GDP in 1983 reflected mainly a large increase in petroleum and other nontax revenue. Relative to GDP, overall nonpetroleum tax revenue declined slightly in spite of the measures adopted and described earlier, because of the drop in economic activity and sharp fall in import levels. Last year's reduction in outlays in relation to GDP reflected the pursuit of a tight overall expenditure policy throughout the public sector. The reduction was largest in the Central Government, with cutbacks in all

Table 3. Ecuador: Summary of Public Sector Operations

	1983				1983			
	1982	Stand-By Arrangement	Prel.	Proj. 1984	1982	Stand-By Arrangement	Prel.	Proj. 1984
	(In billions of sucres)				(In percent of GDP)			
<u>Revenues</u>	<u>102.5</u>	<u>145.2</u>	<u>159.8</u>	<u>218.0</u>	<u>25.1</u>	<u>28.3</u>	<u>27.8</u>	<u>29.1</u>
<u>Expenditures</u>	<u>130.3</u>	<u>166.7</u>	<u>161.3</u>	<u>217.7</u>	<u>31.9</u>	<u>32.5</u>	<u>28.1</u>	<u>29.0</u>
<u>Deficit</u>	<u>-27.8</u>	<u>-21.5</u>	<u>-1.5</u>	<u>0.3</u>	<u>-6.8</u>	<u>-4.2</u>	<u>-0.3</u>	<u>0.1</u>
<u>External financing</u>	<u>18.7</u>	<u>12.3</u>	<u>4.3</u>	<u>-0.3</u>	<u>4.6</u>	<u>2.4</u>	<u>0.8</u>	<u>-0.1</u>
Drawings	24.2	18.7	8.2	10.4	5.9	3.6	1.4	1.4
Amortizations	-19.8	-6.4	-3.9	-10.7	-4.8	-1.2	-0.6	-1.5
Oil credits	14.3	--	--		3.5	--	--	--
<u>Internal financing</u>	<u>9.1</u>	<u>9.2</u>	<u>-2.8</u>	<u>--</u>	<u>2.2</u>	<u>1.8</u>	<u>-0.5</u>	<u>--</u>
Central Bank	7.9	6.0	-1.6	--	1.9	1.2	-0.3	--
Other banks	0.6	0.5	-1.2	--	0.1	0.1	-0.2	--
Other	0.6	2.7	--	--	0.2	0.5	--	--

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

spending categories. Wage and salary increases were kept below the rise in the consumer price index and curbs were placed on the payment of overtime to public sector employees, on the creation of new jobs, and on the purchases of goods and services. In spite of the serious dislocation which occurred because of the flooding in the coastal regions of Ecuador, transfers to the rest of the public sector were restricted as transfers arising from the emergency were offset by reductions in other categories. Capital expenditures of the Central Government were reduced in absolute amounts as only priority projects that already were in progress were funded.

Current expenditure in the rest of the public sector was restricted and major investment projects by the public enterprises were postponed. The Electricity Institute (INECEL) stopped construction of electricity transmission lines and postponed the initiation of the final phase of the hydroelectric generating plant at Paute. In addition, the State Petroleum Company (CEPE) increased investment only marginally in 1983, postponing a major exploration and petroleum drilling project in both the northwestern region and in an offshore area.

The authorities indicated that they were determined to continue to implement a prudent fiscal policy in 1984 with the objective of achieving overall equilibrium in the accounts of the public sector. Total revenues are projected to grow somewhat faster than GDP in 1984, reflecting the full impact of the measures introduced last year and the effect of the depreciation of the sucre in the official exchange market during 1984 on revenue from petroleum exports and other taxes on foreign trade. Public sector outlays are projected to grow slightly faster than GDP in 1984, reflecting a pickup of capital expenditure by the Central Government and the public enterprises. Current outlays in 1984 are cost of a salary increase equivalent to almost 18 percent, which was approved by Congress before the end of last year and became effective in January 1984.

The operations of the Central Government will be strengthened in 1984 because of a change in the distribution of petroleum revenues. Beginning late last year petroleum receipts derived from an exchange rate in excess of S/. 44 per U.S. dollar were fully earmarked for the budget. Consequently, petroleum revenues accruing to the Central Government are projected to rise by 3 percentage points of GDP in 1984, to almost 10 percent. Central government nonpetroleum revenues also are expected to rise faster than GDP reflecting the full impact of the tax measures adopted in 1983. Overall outlays of the Central Government are projected to increase from 15 percent of GDP in 1983 to 16 percent of GDP in 1984, reflecting a rise in capital outlays in relation to GDP. Investment by the Central Government will be concentrated on the rebuilding of roads and other infrastructure following the damages caused by the floods in 1983. The operations of the Central Government are projected to result in a small overall surplus in 1984, compared with a deficit of 2 percent of GDP in 1983.

The accounts of the rest of the public sector are projected to move from a surplus of around 1.7 percent of GDP in 1983 to a small overall deficit in 1984, reflecting the effect of the change in the distribution of petroleum revenues referred to above and higher capital expenditure. The initiation of the third phase of the Paute hydro-electric complex by the Electricity Institute and an increase in oil exploration by the State Petroleum Company are the main investment activities planned by the public sector enterprises.

## 2. Monetary policy

Compliance with the ceiling on the net domestic assets of the Central Bank was facilitated in 1983 by the strong performance of the public sector. However, the net domestic assets also were held down by the failure to eliminate completely the external payments arrears (Table 4).

Central bank net credit to the rest of the financial system and to the private sector was considerably higher than had been estimated and unclassified assets also rose more than had been projected. To some extent, the higher net credit to banks reflected special credit facilities to finance the servicing in sucres of the private sector external debt assumed by the Central Bank; such credit operations were in effect the counterpart of the external debt assumed by the Central Bank.<sup>1/</sup> However, other net credit to banks also expanded faster than had been envisaged earlier. The large increase in net unclassified assets reflected mainly the revaluation of net foreign liabilities and U.S. dollar deposits held by the National Development Bank (BEDE) at the Central Bank, as well as exchange losses incurred by the Central Bank arising from the change in the exchange rate between the time sucres were deposited at the Central Bank and the time the foreign exchange was delivered to the private sector.<sup>2/</sup>

Credit to the private sector by the banking system rose by about 44 percent in 1983, excluding the amount which corresponded to the financing of private sector external debt service payments in sucres to the Central Bank (Table 5). The growth in private credit was considerably larger than had been originally estimated in the program, but it represented a slight reduction in real terms. In turn, the banking system's liabilities to the private sector rose by over 30 percent in 1983, compared with an estimate of 23 percent in the program.

The monetary program for 1984 is aimed at achieving an increase in net official international reserves of US\$25 million. Net official international reserves are projected to decline by US\$8 million in

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<sup>1/</sup> For a detailed explanation of the 1983 rescheduling agreement with foreign commercial banks see EBS/83/230.

<sup>2/</sup> For a detailed explanation of the revaluation of BEDE's deposits see EBS/83/230 and the 1984 report on recent economic developments.

Table 4. Ecuador: Central Bank Operations

(In billions of sucres)

	S/. 45 per U.S. dollar		1983 Dec.	S/. 63 per U.S. dollar			
	1982 Dec.	1983 Dec.		1984 1/			
				March	June	Sept.	Dec.
<u>Net international reserves</u>	<u>9.4</u>	<u>6.8</u>	<u>9.5</u>	<u>7.0</u>	<u>9.0</u>	<u>10.0</u>	<u>11.1</u>
<u>Net domestic assets</u>	<u>12.1</u>	<u>20.0</u>	<u>17.3</u>	<u>18.5</u>	<u>19.7</u>	<u>20.3</u>	<u>22.9</u>
Net credit to public sector	-16.9	-18.5	-20.7	-17.0	-20.0	-23.0	-20.7
Net credit to financial institutions	21.9	61.0	59.9	85.0	103.5	113.9	116.4
Net credit to private sector	5.4	6.2	6.1	6.6	7.5	7.8	8.3
Medium- and long-term foreign liabilities	--	-41.5	-58.1	-81.9	-109.3	-121.0	-126.1
Arrears	-3.6	-4.5	-6.3	-9.5	--	--	--
Other	5.3	17.3	36.4	35.3	38.0	42.6	45.0
<u>Currency issue</u>	<u>21.5</u>	<u>26.8</u>	<u>26.8</u>	<u>25.5</u>	<u>28.7</u>	<u>30.3</u>	<u>34.0</u>
<u>Memorandum item</u>							
Currency in circulation	20.0	24.9	24.9	23.4	26.6	28.0	31.5

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

1/ Projected.

Table 5. Ecuador: Banking System Operations

(In billions of sucres)

	S/. 45 per U.S. dollar						S/. 63 per U.S. dollar					
	December 31, 1982			December 31, 1983			December 31, 1983			December 31, 1984 (Proj.)		
	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total
Net international reserves	9.4	--	9.4	6.8	--	6.8	9.5	--	9.5	11.1	--	11.1
Other foreign assets	--	-3.3	-3.3	--	-4.0	-4.0	--	-5.5	-5.5	--	-6.5	-6.5
Domestic credit	6.4	108.6	115.0	19.3	175.2	194.5	36.8	177.9	214.7	48.3	251.2	299.5
Public sector (net)	-16.9	-2.3	-19.2	-18.5	-3.5	-22.0	-20.7	-3.5	-24.2	-20.7	-3.5	-24.2
Private sector	15.9	91.9	107.8	18.4	150.8	169.2	18.4	153.7	172.1	21.0	223.0	244.0
Unclassified assets (net) <sup>2/</sup>	7.4	19.0	26.4	19.4	27.9	47.3	39.1	27.7	66.8	48.0	31.7	79.7
Interbank transactions	14.5	-11.9	2.6	43.0	-48.3	-5.3	42.6	-47.9	-5.3	85.4	-85.4	--
Credit	28.3	-27.0	1.3	57.4	-67.4	-10.0	57.4	-67.4	-10.0	104.2	-104.2	--
Deposits	-13.4	14.7	1.3	-13.9	18.6	4.7	-14.3	19.0	4.7	-18.0	18.0	--
Other	-0.4	0.4	--	-0.5	0.5	--	-0.5	0.5	--	-0.8	0.8	--
Intersystem transactions	5.4	-0.3	5.1	15.6	-0.4	15.2	14.9	-0.4	14.5	27.7	-0.5	27.2
Credits	7.2	--	7.2	18.8	--	18.8	18.8	--	18.8	32.7	--	32.7
Deposits	-1.8	-0.3	-2.1	-3.2	-0.4	-3.6	-3.9	-0.4	-4.3	-5.0	-0.5	-5.5
Allocations of SDRs	1.6	--	1.6	1.6	--	1.6	2.2	--	2.2	2.2	--	2.2
Medium- and long-term foreign loans	--	2.1	2.1	41.5	2.0	43.5	58.1	2.8	60.9	126.1	3.0	129.1
Liabilities to private sector	30.5	85.0	115.5	37.1	120.5	157.6	37.2	121.3	158.5	44.2	155.8	200.0
Currency in circulation	20.0	--	20.0	24.9	--	24.9	24.9	--	24.9	31.5	--	31.5
Sight deposits	0.6	39.5	40.1	0.7	52.8	53.5	0.7	52.8	53.5	0.9	69.1	70.0
Time and savings deposits	--	11.9	11.9	--	16.7	16.7	--	16.7	16.7	--	22.0	22.0
Advance import deposits	6.0	--	6.0	3.7	--	3.7	3.7	--	3.7	--	--	--
Other liabilities in sucres	3.7	21.9	25.6	7.5	36.7	44.2	7.5	36.7	44.2	11.3	46.7	58.0
Liabilities in foreign currency	0.2	1.7	1.9	0.3	1.9	2.2	0.4	2.7	3.1	0.5	3.0	3.5
Capital and reserves	--	10.0	10.0	--	12.4	12.4	--	12.4	12.4	--	15.0	15.0
Arrears	3.6	6.0	9.6	4.5	--	4.5	6.3	--	6.3	--	--	--

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

1/ Includes credit to finance amortization in sucres of private sector foreign debt assumed by the Central Bank ("stabilization credits") in an amount of S/. 13.8 billion and S/. 51.6 billion in 1983 and 1984, respectively.

2/ Including valuation adjustments.

3/ Includes assumption of private sector foreign debt rescheduled with commercial banks.

the first semester of the year, because of the planned elimination of remaining external payments arrears and a relatively smaller capital inflow estimated for the first semester; in the Ecuadoran program external arrears are not included in the reserve liabilities. The program contemplates no increase in central bank net credit to the public sector during 1984, and is consistent with an increase in banking system credit to the private sector of about 22 percent (excluding the special credit lines to finance the private sector's external debt service payments in sucres to the Central Bank).

The program assumes that private sector claims on the banking system will increase by about 30 percent in 1984, on the basis of current trends and the expected increase in nominal GDP. Because of the need to provide incentives to the growth of domestic financial savings and their retention in the country, before the Executive Board meeting on Ecuador the authorities will have raised credit and deposit rates by 2 percentage points to a level of 21 percent and 18 percent, respectively. A larger increase in interest rates was not considered feasible at this time because of the effects it would have on the financial position of savings and loan associations, given their large volume of credit outstanding at fixed rates of interest. The Government has submitted to Congress a proposal to allow the savings and loan associations to charge adjustable interest rates on loans in the future. Once the proposed legal changes are approved, the authorities intend to adjust interest rates further with a view to establishing rates that are positive in real terms.

### 3. External policies

The Ecuadoran authorities were generally satisfied with developments in the balance of payments during 1983. The deficit in the current account of the balance of payments declined by US\$235 million more than had been envisaged in the program, from 10.5 percent of GDP in 1982 to about 1.6 percent of GDP in 1983. This was mainly the result of a larger than projected reduction in the value of imports (imports declined by 35 percent from their 1982 level in terms of U.S. dollars), as the value of exports was only slightly higher than had been projected (Table 6). The better than expected results in the current account were partly offset by smaller net capital inflows, reflecting continuing capital flight and a reduction in short-term trade credits. The loss of net official international reserves amounted to US\$58 million last year, compared with a loss of US\$100 million projected under the program.

External payments arrears (all on import payments), which totaled US\$211 million at the end of 1982 and reached a peak of US\$641 million in June 1983, were not eliminated as had been planned, and as of December 31, 1983 they amounted to US\$102 million. Nonetheless, Ecuador did pay off a larger amount of arrears than had been originally anticipated; external arrears as of the end of 1982 had been estimated at

Table 6. Ecuador: Balance of Payments

(In millions of U.S. dollars)

	1981	1982	1983		Proj.
			SBA	Prel.	1984
<u>Current account</u>	<u>-1,003</u>	<u>-1,195</u>	<u>-339</u>	<u>-104</u>	<u>-115</u>
Exports, f.o.b.	2,544	2,343	2,336	2,365	2,524
Imports, f.o.b.	-2,362	-2,181	-1,625	-1,408	-1,580
Freight payments	-220	-164	-146	-120	-123
Interest payments <u>1/</u>	-670	-767	-845	-716	-724
Other services, credit	456	391	419	323	370
Other services, debit	-776	-837	-498	-572	-602
Transfers	25	20	20	24	20
<u>Capital account</u>	<u>699</u>	<u>524</u>	<u>314</u>	<u>155</u>	<u>242</u>
Public sector	608	660	342	543	325
Drawings on loans <u>2/</u>	(1,522)	(883)	(479)	(671)	(570)
Interest rescheduling	(--)	(--)	(--)	(33)	(30)
Amortization <u>2/</u>	(-598)	(-700)	(-137)	(-98)	(-313)
Other <u>3/</u>	(-316)	(477)	(--)	(-63)	(38)
Private sector	91	-136	-28	-388	-83
Direct investment	(60)	(40)	(60)	(50)	(51)
Drawings on loans <u>2/</u>	(1,246)	(806)	(--)	(12)	(--)
Amortization <u>2/</u>	(-915)	(-630)	(-140)	(-117)	(-44)
Other <u>4/</u>	(-300)	(-352)	(52)	(-333)	(-90)
<u>Arrears</u>	<u>--</u>	<u>211</u>	<u>-75</u>	<u>-109</u>	<u>-102</u>
<u>SDR allocation</u>	<u>9</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Changes in net official international reserves</u>					
(increase -)	<u>295</u>	<u>460</u>	<u>100</u>	<u>58</u>	<u>-25</u>
<u>Memorandum items</u>					
Renegotiation of public debt	--	156	1,332	924	449
Amortization: Banks	(--)	(156)	(...)	(838)	(353)
Paris Club	(--)	(--)	(...)	(53)	(66)
Interest: Paris Club	(--)	(--)	(...)	(33)	(30)
Renegotiation of private debt	--	536	1,257	1,167 <u>5/</u>	241
Regulation 101 <u>6/</u>	(--)	(--)	(...)	(1,045)	(221)
Other	(--)	(536)	(1,257)	(122)	(20)

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

1/ On accrual basis.

2/ Carried on cash basis.

3/ Includes all the petroleum-related trade credits.

4/ Includes errors and omissions.

5/ Including a rollover of the rescheduling of 1982.

6/ Debt assumed by the Central Bank.

US\$75 million when the stand-by arrangement was negotiated, but that amount was revised upward to US\$211 million at the time of the review mission of September 1983.<sup>1/</sup>

The authorities indicated to the staff that it had not been possible to eliminate payments arrears completely in 1983 because total capital inflows were lower than originally projected and because of the need to be prepared to cover debt service payments of US\$250 million in early 1984. In fact, arrears have increased in the first months of 1984, and as of the end of March they amounted to US\$174 million.

The authorities intend to eliminate all remaining external payments arrears as soon as a financial package with a group of foreign banks is completed, as is discussed below. They are aware that under the existing performance criteria of the stand-by arrangement no purchase can be made after November 30, 1983, so long as external payments arrears are outstanding.

The program called for the pursuit of a flexible exchange rate policy, including the transfer of transactions from the official to the free market. As was described above, a crawling peg system was adopted in March 1983, and in June 1983 the rate of depreciation of the sucre in the official market was increased from the initial S/. 0.04 per U.S. dollar per working day to S/. 0.05 per U.S. dollar each calendar day. In June 1983 the authorities transferred to the free market 30 percent of foreign exchange proceeds from nontraditional exports and an equivalent value of imports, and in September 1983 they transferred 10 percent of non-oil traditional exports and an equivalent amount of imports.

As a result of the policies just described, the sucre in the official market depreciated from an average of S/. 36 per U.S. dollar in March 1983 to S/. 53 per U.S. dollar in December 1983, and to S/. 58 per U.S. dollar by March 1984. Meanwhile, the sucre in the free market depreciated from an average of S/. 83 per U.S. dollar (buying) in March 1983 to S/. 96 per U.S. dollar in July before moving to S/. 87 per U.S. dollar in September 1983. Since then, the value of the sucre in the free market has fluctuated in the range of S/. 85-89 per U.S. dollar. The spread between the official and free market exchange rates has declined from a peak of over 50 percent in June-July 1983 (measured as a percent of the free market rate) to about 35 percent in March 1984.

The authorities are determined to continue with the flexible exchange rate policy adopted last year. The rate of depreciation of the sucre in the official market is being maintained at S/. 0.05 per U.S. dollar each calendar day. Such a policy, together with the anticipated deceleration of domestic inflation, is expected to result in a further gain of competitiveness during 1984. In addition, in a major move

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<sup>1/</sup> For a detailed explanation of the basis for the revision of the figure on arrears see EBS/82/230, page 3, footnote 1.

toward the unification of the exchange markets, on February 29, 1984 the Government made further transfers of transactions to the free market to reach 50 percent of nonpetroleum exports and an amount equivalent to US\$600 million of imports (on a yearly basis). It also transferred to the free market all service receipts and payments except those for interest on foreign debt, profit remittances of registered foreign investment, and a few other minor service transactions. It is estimated that as a result of these measures the proportion of private sector transactions in the free market is now over 55 percent of the total.

The authorities have reaffirmed their commitment to dismantle all import restrictions by the end of the program period. In a major step toward the achievement of this objective, effective February 29, 1984, the prohibition has been lifted for a list of imports representing in value about 75 percent of the total which had been prohibited since late 1982. Ecuador still maintains the following exchange measures involving restrictions and multiple currency practices subject to the approval of the Fund under Article VIII: (a) the multiple currency practice arising from the dual exchange market referred to above; (b) an exchange restriction evidenced by external payments arrears; (c) bi-lateral payment agreements with Hungary and Romania; and (d) minimum financing or alternatively barter trade requirements for all imports.

In the area of external debt management, the Ecuadoran authorities have held negotiations with foreign commercial banks to reschedule amortization payments on public and private external debt falling due in 1984 and to obtain a new medium-term loan for the Central Bank. The amortization payments to be rescheduled amount to approximately US\$350 million on public debt and about US\$240 million on private debt. The new loan of US\$350 million being requested by the authorities for the public sector is smaller than the one obtained from the foreign commercial banks in 1983 (US\$431 million), and on a net basis it represents only US\$150 million since Ecuador is scheduled to pay the banks this year 10 percent of the public and private debt rescheduled last year, or approximately US\$200 million.

The steering committee of the foreign commercial banks has agreed in principle to reschedule the original maturities falling due this year and to extend to the end of 1984 the three pending payments of approximately US\$50 million each, which are part of the payment on the total amount rescheduled in 1983, and which become due in April, July, and October (a first payment of US\$46 million was made in January 1984). In addition, the steering committee has agreed to extend to the end of 1984, through successive 90-day periods, the maturity of trade related payments currently in arrears with banks or that are to come due. This extension of maturities will cover an amount of up to US\$150 million through the end of July, and up to US\$200 million at any time on or after July 1, 1984.<sup>1/</sup> A new medium-term loan for US\$350 million will be considered by

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<sup>1/</sup> Trade arrears are owed to banks because of the use of letters of credit as a means of payment for certain imports.

the banks in the second half of the year, once a new program with the Fund has been negotiated to succeed the present one which expires on July 24, 1984. The proceeds of the new loan will be used to cancel the three payments on the 1983 rescheduling, which would have been extended as just described, and to refinance the amount of trade payments extended. The agreement reached in principle between Ecuador and the banks is consistent with the program for the remainder of the stand-by arrangement and with the balance of payments projections for the year 1984 as a whole.

The Ecuadoran authorities also intend to seek the rescheduling of debts owed to official creditors which fall due after May 31, 1984; the rescheduling arrangement agreed last year under the aegis of the Paris Club covered principal and interest payments falling due during the one-year period through the end of May 1984.

As a result of the rescheduling of public and private external debt completed last year and the latest agreements, the debt service burden was reduced significantly in 1983 and 1984. The debt service ratio (including registered private debt) is estimated at about 33 percent and 36 percent of exports of goods and services in 1983 and 1984, respectively, whereas in absence of the debt rescheduling it would have reached 111 percent in 1983 and 60 percent in 1984 (Table 7). The mission discussed with the authorities the medium-term outlook for Ecuador's external debt situation on the basis of some tentative debt and balance of payments projections prepared by the staff. These projections point to the need for a strong export effort on the part of Ecuador in the next few years. On the assumption of an export growth averaging 7 percent a year in U.S. dollars, the debt service ratio (including private sector debt) will average about 66 percent of exports of goods and services during the next six years, and the ratio of interest payments to exports of goods and services will average 26 percent. The medium-term balance of payments projections show that Ecuador will probably need to reschedule most of the amortization payments falling due in the next several years (Statistical Appendix Table 8).<sup>1/</sup>

### III. Staff Appraisal

Economic and financial performance in Ecuador weakened significantly in recent years. The growth of the economy slowed, inflation accelerated, and the balance of payments turned into deficit. These developments were the result of adverse external factors, inadequate demand management policies, and an inappropriate exchange rate policy. The Ecuadoran Government responded to these developments by the adoption of a wide-ranging stabilization program in mid-1983 which was supported by a one-year stand-by arrangement.

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<sup>1/</sup> For the main assumptions underlying the medium-term projections see Attachment IV.

Table 7. Ecuador: External Debt Projections

	1982	1983	1984	1985	1986	1987	1988	1989	1990
(In millions of U.S. dollars)									
Debt outstanding 1/	6,187	6,903	7,187	7,514	7,734	7,853	7,979	8,041	7,990
Of which: IMF	--	214	255	255	227	132	51	21	1
Debt service	2,788	2,989	1,741	2,033	1,967	2,277	2,748	2,895	2,641
Principal paid	1,330	215	357	1,127	1,069	1,339	1,744	1,906	1,710
Of which: banks	(...)	(--)	(253)2/	(967)	(927)	(1,135)	(1,477)	(1,704)	(1,519)
IMF	(--)	(--)	(--)	(--)	(28)	(95)	(81)	(30)	(20)
Principal renegotiated	692	2,058	660	--	--	--	--	--	--
Of which: banks	(692)	(2,005)	(594)	(--)	(--)	(--)	(--)	(--)	(--)
Interest paid	766	683	694	906	898	938	1,003	990	931
Of which: banks	(...)	(567)	(595)	(748)	(761)	(774)	(820)	(799)	(735)
IMF	(--)	(2)	(19)	(19)	(20)	(16)	(9)	(4)	(2)
Interest renegotiated	--	33	30	--	--	--	--	--	--
Of which: banks	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
(In percent)									
Memorandum items									
Debt/GDP 3/	62	71	71	70	68	66	63	60	56
Debt service/exports									
of goods and services									
Before 1983/84 relief	102	111	60	...	...	...	...	...	...
After 1983/84 relief	77	33	36	65	60	65	74	73	63
Interest payments/ex-									
ports of goods and									
services									
Before 1983/84 relief	28	27	25	...	...	...	...	...	...
After 1983/84 relief	28	25	24	29	27	27	27	25	22

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

1/ Public and registered private debt of all maturities.

2/ Includes the down payment on the public and private sector external debt rescheduled in 1983 (US\$99.4 million and US\$104.5 million, respectively), amortization of the debt by the state-owned Petroleum Shipping Company (FLOPEC) rescheduled in 1983 (US\$5.1 million), and amortization by the private sector on the nonrescheduled debt.

3/ GDP in sucres through 1984 was converted into U.S. dollars using the exchange rates implied by the 1971 purchasing power parity. Thereafter, GDP in U.S. dollars is assumed to grow at 6 percent per annum in nominal terms.

In 1983 the fiscal and balance of payments situation registered a strong improvement. However, real GDP declined and the rate of price increase went up. The latter was mainly caused by the effect on food prices of shortages which resulted from severe floods, and by the adjustment in the exchange rate and in administered prices. Ecuador complied with all the quantitative performance criteria under the stand-by arrangement as of the end of 1983, but did not eliminate external payments arrears. In this context, however, it should be noted that last year Ecuador paid off a larger amount of arrears than had been originally contemplated in the program. The spread between the official and free market exchange rates was narrowed somewhat since the start of the program, but no significant progress was made last year in reducing import restrictions.

The authorities have indicated their intention to continue with the adjustment effort in 1984 with a view to achieving a further strengthening of the balance of payments. The authorities also expect to achieve a significant deceleration in the rate of price increase in 1984 and a small expansion in economic activity. The Government policies are aimed at achieving a gain of net official foreign reserves of US\$25 million in 1984 and overall equilibrium in the accounts of the public sector. Consistent with those objectives, targets and limits have been set for the remaining period of the stand-by arrangement.

Strong efforts have been made to reduce payments arrears from their peak of US\$641 million reached in June 1983, but they have not yet been completely eliminated. The authorities are committed to eliminate arrears as soon as the financial package that has been agreed in principle with the foreign banks is made final. They are aware that no purchase from the Fund can be made until after all arrears are eliminated. The staff would urge the authorities to make every effort to eliminate the remaining external payments arrears as soon as possible.

The authorities intend to continue with the present rate of depreciation of the sucre in the official market of S/. 0.05 per calendar day. They consider such a pace of depreciation to be appropriate inasmuch as it resulted in some gain of competitiveness in 1983 and should result in a larger one in 1984 given the expected deceleration of inflation. Furthermore, in a significant move toward the unification of the exchange markets, on February 29, 1984 the authorities made further transfers of transactions to the free market to reach 50 percent of non-oil exports, an amount of imports equivalent to US\$600 million (on a yearly basis), and all service receipts and payments except those for interest on foreign debt, profit remittances of registered foreign investment, and a few other minor service transactions. The staff welcomes the exchange measures recently adopted and would encourage the authorities to continue making transfers of transactions to the free market until total unification of the exchange market is achieved.

On February 29, 1984 the Ecuadoran authorities lifted the prohibition on a list of imports representing in value about 75 percent of the total which had been prohibited since late 1982. In addition, the authorities have reaffirmed their commitment to dismantle completely the remaining import restrictions by the end of the program period. The staff welcomes these actions and the commitment of the authorities to eliminate the remaining import restrictions by the end of the program period.

In the fiscal area, the staff notes the authorities' intention to consolidate the marked strengthening in the public sector operations achieved in 1983. In this regard, the staff wishes to stress the importance of keeping the growth of expenditure under control to achieve the program's objective of overall equilibrium in the public sector.

The authorities adjusted domestic interest rates in March and October 1983, and are about to adjust them again. While interest rates have been raised considerably in real terms in recent months, they continue to be negative. The authorities plan to introduce further adjustments with a view toward establishing positive real interest rates as soon as proposed legal changes are approved that would permit savings and loan associations to charge adjustable rates on their credits. The staff emphasizes the need to adjust interest rates further to make them positive in real terms and thereby stimulate the growth of domestic savings.

Regarding incomes policy, the attainment of the authorities' objective of securing a deceleration in inflation will depend importantly on the continued implementation of a prudent wage policy. Given the salary increase granted public sector employees at the beginning of the year, and the expected deceleration of inflation, further adjustment of public sector salaries in the remainder of the year should be avoided.

The staff welcomes the rescheduling agreements reached in 1983 with foreign commercial banks and with official creditors under the aegis of the Paris Club. The Ecuadoran authorities have negotiated in principle with foreign commercial banks a rescheduling of the amortization of public and private debt due in 1984 and a financial package covering the needs of 1984. The staff would emphasize that Ecuador's debt management problems will be solved on a lasting basis only through restraint in the public sector's use of foreign commercial borrowing and the achievement of a strong and sustained growth of exports. To the extent that the rescheduling of 1984 maturities may involve the assumption of private sector debt by the Central Bank, as was the case in 1983, the Government should charge the private sector commissions that are high enough to cover the risk of exchange losses from these operations.

The staff welcomes the recent elimination of the multiple currency practice that arose from the advance deposit requirement on imports and the reduction in import restrictions, and encourages Ecuador to take

further steps to eliminate the remaining restrictions and multiple currency practices as soon as possible. In view of their temporary character, the staff proposes approval of the exchange restrictions, with the exception of the bilateral payments agreements with Hungary and Romania, and of the remaining multiple currency practice through the end of the stand-by arrangement. Accordingly, the following draft decisions are proposed for adoption by the Executive Board. Finally, it is recommended that the next Article IV consultation with Ecuador be held on the standard 12-month cycle.

### I. 1983 Consultation

1. The Fund takes this decision relating to Ecuador's exchange measures subject to Article VIII, Sections 2 and 3, in the light of the 1983 Article IV consultation with Ecuador conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ecuador maintains restrictions on the making of payments and transfers for current international transactions in the form of bilateral payments agreements, minimum financing or barter requirements for imports, and as evidenced by external payments arrears, as well as a multiple currency practice, as described in EBS/84/92. The Fund encourages Ecuador to continue the simplification of its exchange system by an early unification of the exchange rate and removal of the restrictions on payments and transfers for current international transactions. In the meantime, the Fund approves the multiple currency practice, including reclassifications of transactions from the official to the free market, as they may occur, and the exchange restrictions in the form of minimum financing or barter requirements for imports and as evidenced by external payments arrears, through the end of the stand-by arrangement.

### II. Stand-By Arrangement

1. Ecuador has consulted with the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Ecuador (EBS/83/91, Supplement 3, July 27, 1983) and paragraph 15 of the letter of March 24, 1983 attached to the stand-by arrangement for Ecuador, as supplemented and

modified by the letter of October 25, 1983, in order to reach understandings with the Fund regarding the policies and measures that Ecuador will pursue during the remaining period of the stand-by arrangement.

2. The letter of April 19, 1984 from the Minister of Finance of Ecuador and the General Manager of the Central Bank, together with the attached Memorandum on the Economic Policies of Ecuador, shall be attached to the stand-by arrangement for Ecuador, and the letter of March 24, 1983 shall be read as supplemented by the letter of April 19, 1984, together with the attached Memorandum on the Economic Policies.

3. Accordingly, and pursuant to paragraph 4(d) of the stand-by arrangement Ecuador will not make purchases under the stand-by arrangement during any period in which:

(a) the limit on the net domestic indebtedness of the nonfinancial public sector referred to in paragraph 7 of the Memorandum of Economic Policies attached to the letter of April 19, 1984, and set forth in Table 1 thereof, is not observed, or

(b) the limit on the net domestic assets of the Central Bank of Ecuador referred to in paragraph 7 of the Memorandum of Economic Policies attached to the letter of April 19, 1984, and set forth in Table 2 thereof, is not observed, or

(c) the data at the end of the preceding period indicate that the target for the net international reserve position of the Central Bank referred to in paragraph 7 of the Memorandum of Economic Policies attached to the letter of April 19, 1984, and set forth in Table 3 thereof, has not been observed, or

(d) the data at the end of the preceding period indicate that the limit on the outstanding external debt of the public sector or guaranteed by the public sector referred to in paragraph 13 of the Memorandum of Economic Policies attached to the letter of April 19, 1984, and set forth in Table 4 thereof, has not been observed.

Fund Relations with Ecuador

(As of February 28, 1984, unless otherwise indicated)

I. Membership Status

- (a) Date of membership: December 27, 1945.
- (b) Status: Article VIII.

A. Financial Relations

II. General Department

- (a) Quota: SDR 150.7 million.
- (b) Total Fund holdings  
of sucres: SDR 342.83 million or 227.5 percent  
of quota.
- (c) Fund credit:  
Of which:

	<u>Amount</u>	<u>Percent of Quota</u>
Fund credit	203.53	135.05
Credit tranches	(62.05)	(41.17)
Compensatory financing	(85.40)	(56.67)
Enlarged access	(56.08)	(37.21)

III. Current Stand-by Arrangement and Special Facilities

- (a) Current stand-by arrangement:
  - (i) Duration: From July 25, 1983 to July 24, 1984.
  - (ii) Amount: SDR 157.5 million.
  - (iii) Utilization: SDR 118.13 million.
  - (iv) Undrawn balance: SDR 39.37 million.
- (b) Compensatory financing facility:
  - (i) Date of approval: October 26, 1983
  - (ii) Amount: SDR 85.4 million

IV. SDR Department

- (a) Net cumulative allocation: SDR 32.93 million
- (b) Holdings: SDR 0.35 million or 1.06 percent of net cumulative allocations.

B. Nonfinancial Relations

- V. Exchange Rate: Official rate (February 29, 1984): S/. 57.10 per U.S. dollar buying rate and S/. 58.24 per U.S. dollar selling rate. The sucre in the official market is being depreciated by S/. 0.05 per U.S. dollar per day. Ecuador also has a free exchange market in which quotations fluctuate daily. On February 29, 1984, the buying and selling rates in this market were S/. 87.26 and S/. 89.00 per U.S. dollar, respectively.
- VI. Last Article IV Consultation: The 1982 Article IV consultation was completed and Ecuador's request for a stand-by arrangement was granted by the Executive Board on June 1, 1983 (EBS/83/91 and SM/82/198). A review of that arrangement (EBS/83/230) was completed by the Board on November 23, 1983.
- VII. Technical Assistance: An expert from the Fiscal Affairs Department is assigned to Quito to assist in implementing a public sector accounting system and an expert from the Central Banking Department is assigned to Quito to advise the Central Bank of Ecuador on the implementation of Ecuador's financial program.
- VIII. Statistical Data: The currentness and coverage of Ecuador's statistical data in the IFS is considered reasonably adequate at this time.

## Ecuador: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982	SBA 1983	Prel. 1983	Proj. 1984
(Annual percent changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	4.9	4.5	1.4	—	-3.3	0.5
GDP deflator	19.5	13.1	16.2	31.0	45.1	30.0
Consumer prices (average)	12.8	14.7	16.3	35.0	48.4	32.0
Consumer prices (end of period)	13.7	17.3	24.4	31.0	52.5	25.0
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	18.3	—	-7.9	—	0.9	6.7
Petroleum exports	34.8	8.8	-11.7	-3.4	14.8	4.0
Imports, f.o.b.	6.9	5.3	-7.6	-25.5	-35.4	12.3
Export volume	-2.7	2.3	-1.2	15.0	11.3	7.1
Import volume	-6.3	2.9	-12.0	-26.9	-36.8	8.0
Terms of trade (deterioration -)	6.5	-4.5	-11.3	-14.6	-11.2	-4.0
Nominal effective exchange rate (depreciation -)	1.2	7.2	-10.0	-32.8	-31.3	-32.8
Real effective exchange rate (depreciation -)	0.8	12.4	-4.1	-14.3	-5.3	-15.3
Central government budget						
Revenue	41.6	4.1	22.3	...	35.9	70.1 <sup>1/</sup>
Total expenditure	33.8	31.4	27.3	...	9.0	36.4
Money and credit						
Domestic credit <sup>2/3/</sup>	18.9	22.2	51.2	24.8	63.5	51.5
Public sector <sup>3/</sup>	(-3.8)	(-7.0)	(8.0)	(5.0)	(-2.4)	(—)
Private sector	(19.6)	(22.9)	(21.5)	(14.6)	(49.1)	(43.6)
Money and quasi-money (M2)	26.5	11.2	21.0	23.5	32.0	30.0
Velocity (GDP relative to M2)	5.5	5.8	5.7	5.8	6.1	6.1
Interest rate (1-6 months savings deposits)	6.0	8.0	12.0	15.0	16.0	18.0
(In percent of GDP)						
Overall public sector deficit	-4.6	-5.6	-6.8	-4.2	-0.3	0.1
Central government savings	1.5	-0.6	-0.7	...	1.1	4.6
Central government deficit (-)	-1.1	-4.7	-4.2	...	-2.0	1.2
Domestic financing	(0.8)	(2.5)	(1.7)	(...)	(2.2)	(-0.2)
Foreign financing	(0.3)	(2.2)	(2.5)	(...)	(-0.2)	(-1.0)
Gross domestic investment	26.1	24.6	24.6	16.0	16.4	...
Gross national savings	20.4	16.4	14.1	12.1	14.8	...
Current account deficit	-5.7	-8.2	-10.5	-3.9	-1.6	-2.5
External debt <sup>4/</sup>						
Inclusive of use of Fund credit (end of year)	30.1	31.8	33.4	45.4	48.1	58.6
Debt service <sup>4/</sup>	6.3	7.6	9.2	6.7	4.9 <sup>5/</sup>	8.2
Debt service (in percent of exports of goods and services)	24.5	35.2	46.2	28.0	23.4 <sup>5/</sup>	33.3
Interest payments <sup>4/</sup> (in percent of exports of goods and services)	10.5	15.3	20.6	21.1	19.8	22.6
(In millions of SDRs, unless otherwise specified)						
Overall balance of payments	174	-249	-417	-91	-55	24
Gross official reserves (months of imports of the following year) <sup>6/</sup>	5.5	3.7	3.6	4.1	6.7	6.1
External payments arrears	—	—	191.0	—	102.0	—

<sup>1/</sup> Reflects a change in the distribution of petroleum revenue in favor of the budget.

<sup>2/</sup> In relation to liabilities to the private sector at the beginning of the period.

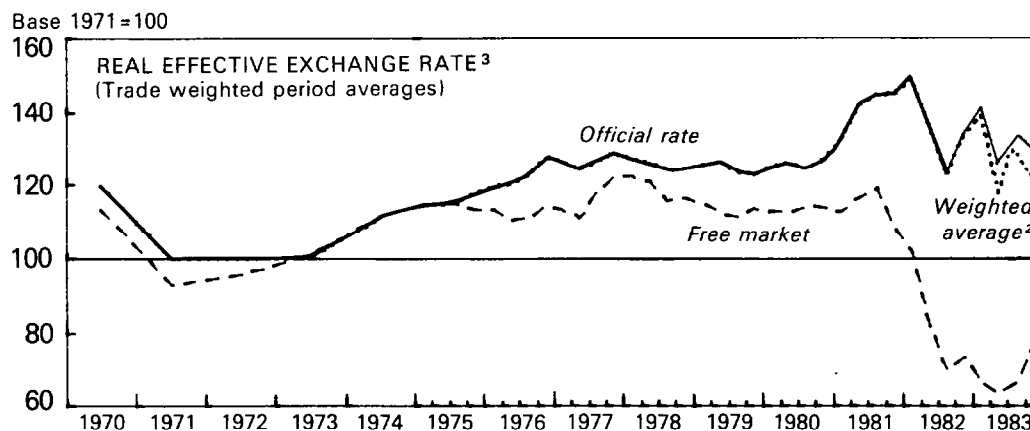
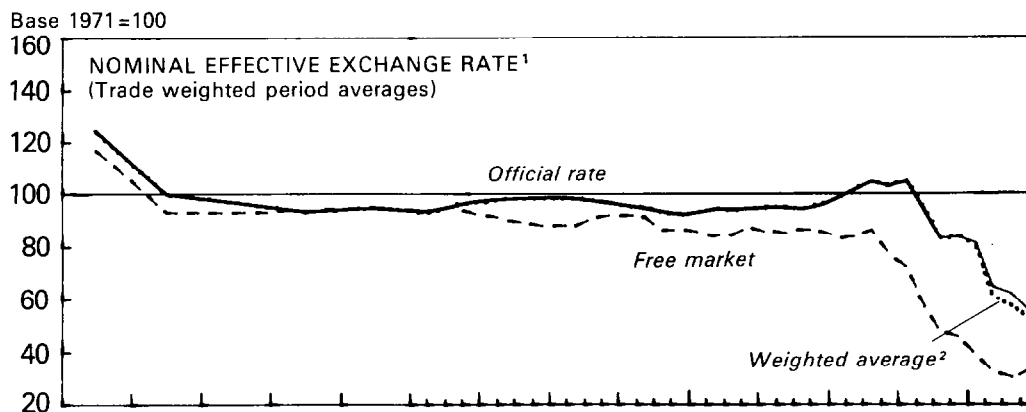
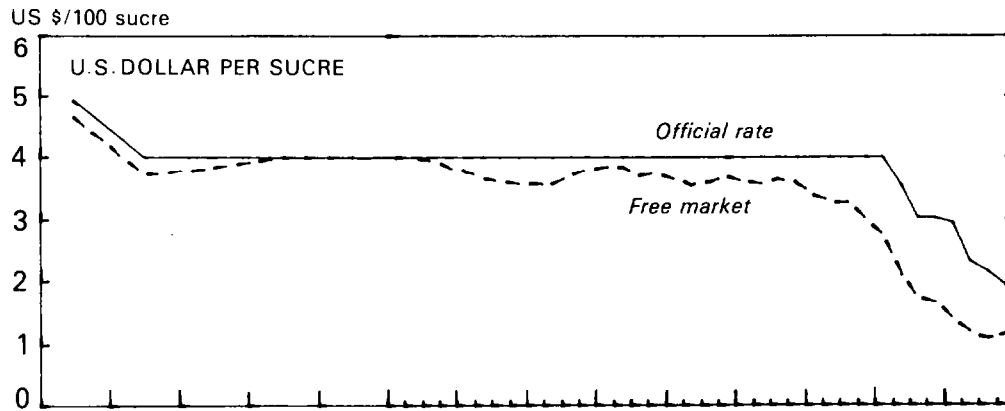
<sup>3/</sup> Includes adjustment for gold revaluation in 1982.

<sup>4/</sup> Public debt, including short-term, and the private sector debt assumed by the Central Bank after rescheduling. GDP was converted into U.S. dollars using the official exchange rate.

<sup>5/</sup> After 1983 rescheduling.

<sup>6/</sup> Gold valued at US\$300 per troy ounce.

# ECUADOR CHANGES IN THE VALUE OF THE ECUADORAN SUCRE



Source: *International Financial Statistics*; Central Bank of Ecuador; and Fund staff estimates.

<sup>1</sup> Weighted average of indices of foreign currency unit per sucre. An appreciation of the sucre is shown by an upward movement.

<sup>2</sup> An average of the official and free market rates, weighted by the distribution of current transactions between the two markets.

<sup>3</sup> The nominal effective exchange rates adjusted by the ratio of foreign to domestic consumer price index.



Ecuador: Assumptions for the Medium-Term Scenario, 1985-90

1. GDP: increase of 6 percent per annum in current U.S. dollars;  
2 percent real growth and 4 percent inflation rate.
2. Oil exports: increase of 4 percent per annum in current U.S.  
dollars.
3. Non-oil exports: increase of 10 percent per annum in current U.S.  
dollars.
4. Imports: 17 percent of GDP in current U.S. dollars, which was the  
historical average until late 1960s.
5. Noninterest nonfreight service payments 6.5 percent of GDP in  
current dollars.
6. Commercial interest rate: 12 percent per annum including the  
spread.
7. Noncommercial interest rate: 7 percent per annum.
8. Net official international reserves: stabilized at the level of  
three months of imports starting 1988.
9. Terms of new financing to cover the projected gap: two-and-a-half  
years grace period and six-year maturity.

Ecuador: Impact of Principal Revenue Measures in 1983

(In billions of sucres)

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<u>Total</u>	<u>15.8</u>
Increase in sales tax	0.7
Increase in beer tax	0.6
Increase in cigarette tax	0.5
Luxury sales tax	0.2
Increase in gasoline prices <u>1/</u>	7.1
Increase in prices of other petroleum derivatives	1.7
Import surcharge	3.8
Elimination of tax certificates	1.2

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

1/ Implemented in 1982.

Quito, Ecuador  
April 19, 1984

Mr. Jacques de Larosiere  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, D.C. 20431

Dear Mr. de Larosiere:

In our letter of October 25, 1983 we indicated our intention of reaching an understanding with the Fund on the policies to be followed during that portion of the current stand-by arrangement falling in 1984. Accordingly, we wish to annex to our letters of March 24, 1983 and October 25, 1983 this letter and the attached memorandum which outlines the policies that Ecuador will pursue during the remainder of the arrangement. Included in the memorandum are limits on the net domestic indebtedness of the nonfinancial public sector, limits on the net domestic assets of the Central Bank of Ecuador, targets on net international reserves of the Central Bank of Ecuador, and limits on the outstanding external public and publicly guaranteed debt with original maturities of up to and including 12 years with sublimits on such debt with original maturities of up to and including 1 year.

In addition, the Government of Ecuador stresses its intention to eliminate arrears on current international payments as soon as possible, and reaffirms its other intentions expressed in paragraphs 11 and 15 of the letter of March 24, 1983.

Sincerely yours,

---

Abelardo Pachano B.  
General Manager  
Central Bank of Ecuador

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Pedro Pinto R.  
Minister of Finance

Attachment

Memorandum on the Economic Policies of Ecuador

1. In 1982 the Government of Ecuador adopted a wide-ranging stabilization program that was supported by the Fund with the stand-by arrangement which became effective on July 25, 1983. The program was aimed at arresting the serious economic and financial deterioration which had been taking place since 1980 through a large fiscal adjustment and the pursuit of more realistic exchange and interest rate policies. A series of important measures were implemented to increase public sector revenues and to control the growth of public sector expenditures. To strengthen the external sector, in May 1982 the Government devalued the sucre in the official market from S/. 25 per U.S. dollar to S/. 33 per U.S. dollar. A further devaluation of the sucre to S/. 42 per U.S. dollar was implemented in March 1983, and a crawling peg exchange rate system was adopted at that time. The rate of depreciation was initially set at S/. 0.04 per U.S. dollar per working day and was subsequently increased to S/. 0.05 per U.S. dollar per day (seven days a week). In addition, 30 percent of nontraditional exports, 10 percent of traditional nonpetroleum exports, and an equivalent amount of imports were transferred during the year from the official market to the free market. With the aim of promoting the growth of domestic financial savings, interest rates were adjusted on two occasions during 1983.

2. As a result of the policies followed by the Government of Ecuador, the overall deficit of the public sector was reduced from almost 7 percent of GDP in 1982 to less than 0.5 percent of GDP in 1983. The current account deficit of the balance of payments has been reduced from 10.5 percent of GDP in 1982 to 1.6 percent of GDP in 1983, and the loss of net official international reserves was held in 1983 to US\$58 million, compared with a loss of US\$460 million in 1982. In addition, the Central Bank eliminated a considerable amount of external payments arrears which accumulated in 1982 and during the first semester of 1983.

3. The Government of Ecuador intends to follow policies during the remaining period of the arrangement that will consolidate the gains made thus far while, at the same time, laying the basis for a gradual reactivation of economic growth. The main objectives of those policies will be a further strengthening of the balance of payments position and a reduction of inflationary pressures. A continuation of prudent fiscal and monetary policies and the pursuit of a realistic exchange rate policy are expected to make the achievement of those objectives possible.

4. The Government intends to achieve equilibrium in the overall accounts of the public sector in 1984 through the continued pursuit of a cautious expenditure policy and a strengthening of revenue growth. The implementation of the central government budget is expected to result in overall equilibrium in 1984, compared with a deficit of 2.6 percent of GDP in 1983. Budgetary revenues are expected to increase considerably in 1984 reflecting recent changes made in the allocation of petroleum revenue in favor of the budget and the full impact of the revenue

measure introduced in 1983. The Government intends to continue its policy of expenditure moderation in 1984, including the continued pursuit of a prudent salary policy. As a result, current outlays are projected to grow in line with GDP. Capital expenditures are projected to increase in real terms by about 10 percent in 1984, following a sharp decline in 1983.

5. The operations of the rest of the public sector are also expected to result in near equilibrium in 1984. The rate of growth of revenues is projected to slowdown because of the changes in the distribution of petroleum revenues mentioned above, and in spite of the impact of the adjustments of public enterprises' tariffs and prices introduced in 1983. Electricity rates were raised by 10 percent (20 percent for commercial and industrial users) in May 1983 and are being raised by 2 percent per month since then. The domestic prices of petroleum derivatives (other than gasoline) were increased by an average of about 15 percent in March 1983 and by a range of 30-40 percent in the period April-December 1983 (gasoline prices were doubled in October 1982). Additional price increases of petroleum derivatives, which will represent between 18 percent and 40 percent in 1984, have been approved and are being implemented on a quarterly basis. The estimate of expenditure for the rest of the public sector assumes a moderate increase in current expenditure. Capital expenditure by the public enterprises are estimated to increase by 50 percent and will concentrate on the initiation of construction of the third phase of the Paute hydroelectric complex by the Electricity Institute (INECEL) and on oil explorations by the State Petroleum Company (CEPE).

6. The further strengthening of the financial position of the public sector should permit it to avoid resorting to net credit from the domestic banking system in 1984 and, thus, allow for an adequate supply of bank credit to the private sector with few risks of pressures on domestic prices and the exchange rate. The interest rate policy of the Government will continue to be aimed at providing adequate incentives to the growth of financial savings and establishing interest rates that are positive in real terms. Thus, in a further step toward this aim, credit and deposit rates are soon to be raised by 2 percentage points to a level of 21 percent and 18 percent, respectively.

7. Consistent with the policies described above, the monetary program specifies ceilings for the remaining period of the stand-by arrangement on the central bank net credit to the public sector, as detailed in the attached Table 1, and on the net domestic assets of the Central Bank, as presented in the attached Table 2. The expansion programmed in the net domestic assets of the Central Bank is consistent with an increase in net official international reserves of US\$25 million in 1984. However, net official international reserves are projected to decline by US\$8 million in the first semester of the year, because of the planned elimination of remaining external payments arrears and a relatively smaller capital inflow estimated for the first semester. Quarterly targets for net official international reserves, incorporating seasonal factors, have been established as shown in the attached Table 3.

8. In 1983 the end-of-period inflation rate--as measured by the consumer price index--reached 52 percent, compared with 24 percent in 1982. To a large extent, the rise in the rate of price increase reflected the sharp jump in food prices caused by shortages following severe floods. The end-of-period inflation rate is projected to fall to around 25 percent in 1984. Price developments in 1983 have given rise to strong pressures for wage increases from both the public and the private sectors. The Government has responded by implementing a controlled salary policy and will ensure that any adjustments in salaries in 1984 will be consistent with the fiscal and monetary objectives described earlier.

9. The efforts made during 1983 to strengthen competitiveness through the pursuit of a more realistic exchange rate policy will be continued in 1984. The rate of depreciation of the sucre in the official market is being maintained at S/. 0.05 per U.S. dollar a day (seven days a week). Such a policy, together with the anticipated deceleration in domestic inflation, is expected to result in a further gain in competitiveness during 1984. In addition, in a significant move toward the strengthening of competitiveness, on February 29, 1984 the Government made further transfers of transactions to the free market to reach 50 percent of nonpetroleum exports, an amount equivalent to US\$600 million of imports (on a yearly basis), and all service receipts and payments except those for interest on foreign debt, profit remittances of registered foreign investment, and a few other minor service transactions. It is estimated that the proportion of private sector current payments in the free market after the above measures will exceed 55 percent of the total.

10. The Government reaffirms its commitment to eliminate by the end of the program period the prohibition placed on certain imports late in 1982. To this end, effective February 29, 1984, the prohibition has been lifted for a list of imports representing in value about 75 percent of the total which had been prohibited until now. The Government of Ecuador does not intend to introduce any new or modify any existing multiple currency practice other than those described in paragraph 9 of this memorandum, impose new or intensify existing restrictions on payments or transfers for current international transactions, conclude new bilateral payments agreements which are inconsistent with Article VIII of the Articles of Agreement, or impose or intensify restrictions on imports for balance of payments purposes.

11. During 1983 Ecuador concluded the renegotiation of public and private sector debt owned to foreign commercial banks which fell due in the period November 1982-December 1983. In addition, debt relief was obtained under the aegis of the Paris Club on principal and interest payments owed to official bilateral creditors, falling due in the 12-month period ending May 31, 1984. The Government of Ecuador and a group of foreign banks have reached an agreement in principle on the rescheduling of public and private sector debt falling due in 1984 and on a financial package equivalent to US\$350 million. The Government also intends to seek the rescheduling of debts owed to official bilateral creditors which fall due after May 31, 1984. Should the 1984

debt reschedulings result in the assumption of private sector debt by the Central Bank--as was the case in 1983--the Government will charge the private sector commissions that are high enough to cover the exchange losses from these operations.

12. The Central Bank of Ecuador has paid off US\$539 million of external trade payments arrears during 1983, from a total accumulation of US\$641 million (US\$211 million accumulated in 1982 and US\$430 million in the first semester of 1983). The Central Bank was unable to eliminate arrears completely before the end of 1983 as it had been expected because total capital inflows were lower than originally projected. The authorities are committed to eliminate all external payments arrears (US\$146 million as of March 2, 1984) as soon as the financial package with the foreign commercial banks is finalized some time in the second quarter of the year, and after that not to accumulate any new external payments arrears during the remaining period of the program. The authorities are aware that under the existing performance criteria of the stand-by arrangement no purchase can be made after November 30, 1983, while there are external payments arrears outstanding and, therefore, do not intend to request the final drawing under the arrangement until after they have eliminated all arrears.

13. The servicing of the external public debt will represent a considerable burden for Ecuador for the next few years. The Government, therefore, plans to continue to seek an improvement in Ecuador's external public debt structure. This objective will be sought by setting limits on the outstanding public external debt with an original maturity of up to 12 years and of up to 1 year for the period through July 1984 as shown in the annexed Table 4.

14. The Government believes that the policies described in this memorandum are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultation.

Table 1. Ecuador: Limits on the Net Domestic Indebtedness  
of the Nonfinancial Public Sector 1/

(In billions of sucres)

Time Period	Limits
Up to March 31, 1984	-17.0
April 1, 1984-July 24, 1984	-20.0

1/ For purposes of this limit, the net domestic indebtedness of the nonfinancial public sector is defined as the net claims of the Central Bank on the nonfinancial public sector. All accounts denominated in foreign exchange will be converted at the accounting rate of S/. 63 per U.S. dollar.

Table 2. Ecuador: Limits on the Net Domestic Assets of  
the Central Bank of Ecuador 1/

(In billions of sucres)

Time period	Limits
Up to March 31, 1984	18.5
April 1, 1984-July 24, 1984	20.0

1/ Defined as the difference between (1) currency issue (Especies Monetarias en Circulacion) and (2) net international reserves of the Central Bank. The definition of the net international reserves of the Central Bank is indicated in Table 3. For the purpose of these ceilings, the net international reserves of the Central Bank of Ecuador will be converted into sucres at the accounting rate of S/. 63 per U.S. dollar.

Table 3. Ecuador: Targets on Net International Reserves  
of the Central Bank 1/

(In millions of U.S. dollars)

Dates	Targets
March 31, 1984	110
June 30, 1984	143

1/ Defined as the difference between the foreign assets of the Central Bank of Ecuador and its external liabilities of up to one year, including obligations to the Fund and obligations to the Andean Reserve Fund and under the Santo Domingo agreement. For the purpose of this ceiling, the net international reserves exclude the deposits of international nonmonetary organizations in the Central Bank of Ecuador, the allocations of SDRs, all foreign loans with a final maturity of more than one year, but will include all net foreign borrowing by the public sector in excess of the limits indicated in Table 4. The gold holdings of the Central Bank will be valued at US\$300 per ounce; and the holdings of SDRs will be converted at the rate of US\$1.09 per SDR.

Table 4. Ecuador: Limits on the Outstanding External Debt of the Public Sector or Guaranteed by the Public Sector with Original Maturity of Up to and Including 12 Years 1/2/3/4/

(In millions of U.S. dollars)

Maturity Range	Up to July 24, 1984
Up to and including 1 year	350
Up to and including 12 years	4,725

1/ These limits will be lowered for any reduction in external debt via shifts in maturity structure occasioned by the renegotiation of external debts.

2/ The private sector foreign debt rescheduled and assumed by the Central Bank will not be included in these limits.

3/ Excludes external debt of up to one year of the Central Bank of Ecuador, with exception that the limit includes external debt arising from oil advances.

4/ These limits exclude the amount of trade-related payments obligations to foreign commercial banks, which have been extended.

Table 8. Ecuador: Balance of Payments Projections

(In millions of U.S. dollars)

	1984 <u>1/</u>	1985	1986	1987	1988	1989	1990
<u>Current account</u>	-115	-307	-248	-235	-253	-189	-75
Exports, f.o.b.	2,524	2,674	2,835	3,008	3,194	3,393	3,608
Petroleum	(1,705)	(1,773)	(1,844)	(1,918)	(1,995)	(2,074)	(2,157)
Other	(819)	(901)	(991)	(1,090)	(1,199)	(1,319)	(1,451)
Imports, c.i.f.	-1,703	-1,812	-1,921	-2,036	-2,159	-2,288	-2,425
Interest payments	-724	-906	-898	-938	-1,003	-990	-931
Other services, credit	370	410	450	490	520	550	580
Other services, debit	-602	-693	-735	-779	-825	-875	-927
Transfers	20	20	20	20	20	20	20
<u>Capital account</u>	-768	-807	-691	-874	-1,274	-1,466	-1,260
Direct investment	51	80	100	110	120	130	140
Drawings on loans <u>2/</u>	250	240	250	260	270	280	290
Amortization <u>3/</u>	-1,017	-1,127	-1,041	-1,244	-1,664	-1,876	-1,690
Other	-52	--	--	--	--	--	--
<u>Arrears</u>	-102	--	--	--	--	--	--
<u>Change in net official international reserves</u> (increase -)	-25	-100	-100	-90	-73	-32	-34
<u>Financing gap</u>	-1,010	-1,214	-1,039	-1,173	-1,573	-1,656	-1,331
<u>Memorandum items</u>							
Financing	1,010	1,214	1,039	1,199	1,600	1,688	1,370
For amortization	1,017	1,127	1,041	1,241	1,654	1,860	1,666
Banks <u>4/</u>	(847)	(967)	(927)	(1,132)	(1,468)	(1,688)	(1,495)
Other	(170)	(160)	(114)	(109)	(187)	(172)	(171)
Net additional borrowings	-7	87	-2	-45	-64	-188	-320

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

1/ On accrual basis for comparison of 1985-89 projection.

2/ Starting 1985, these reflect disbursements from international organizations and bilateral loans.

3/ Includes amortization on past financing gaps, assuming they are financed by commercial loans.

4/ Includes amortization by the private sector on the unrescheduled debt.

Table 9. Ecuador: Reconciliation of Balance of Payments  
Projections for 1984 1/

(In millions of U.S. dollars)

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<u>Financing gap</u>	1010
Rescheduling	594
Public sector	(353)
Private sector	(221)
Trade credits	(20)
New loan	350
Paris Club rescheduling	66
<u>Amortization to banks</u>	847
Rescheduling	594
Public sector	(353)
Private sector	(221)
Trade credits	(20)
10 percent down payment on rescheduling	204
Public sector	(100)
Private sector	(104)
Private sector amortization	44
FLOPEC	5
<u>Other amortization</u>	170
Paris Club rescheduling	66
Multilateral organizations and others	104

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Source: Fund staff estimates.

1/ Reconciliation of Table 6 and Statistical Appendix Table 8.

Table 10. Ecuador: Quarterly Balance of Payments Projections

(In millions of U.S. dollars)

	1984											
	First Quarter			Second Quarter			Second Semester			Total		
	Total	Offi- cial	Free	Total	Offi- cial	Free	Total	Offi- cial	Free	Total	Offi- cial	Free
<b>Current account</b>	-63	43	-107	31	122	-92	-84	188	-272	-115	355	-470
Exports, f.o.b.	611	532	79	676	588	87	1,237	1,087	150	2,524	2,208	316
Imports, f.o.b.	-405	-278	-127	-400	-277	-123	-777	-536	-240	-1,580	-1,091	-490
Freight payments	-32	--	-32	-32	--	-32	-59	--	-59	-123	--	-123
Interest payments 1/	-206	-203	-3	-181	-181	--	-337	-335	-2	-724	-719	-5
Other services (credit)	70	3	67	96	4	92	204	9	195	370	16	354
Other services (debit)	-107	-12	-95	-135	-14	-121	-361	-39	-322	-602	-64	-538
Transfers	6	1	5	7	2	5	7	2	5	20	5	15
<b>Capital account</b>	-25	-36	12	151	178	-26	117	146	-29	242	286	-44
Public sector	26	26	--	171	171	--	129	129	--	325	325	--
Drawings on loans 2/3/	(56)	(56)	(--)	(256)	(256)	(--)	(289)	(289)	(--)	(600)	(600)	(--)
Amortization 2/	(-68)	(-68)	(--)	(-85)	(-85)	(--)	(-160)	(-160)	(--)	(-313)	(-313)	(--)
Other 4/	(38)	(38)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(38)	(38)	(--)
Private sector	-51	-62	12	-19	7	-26	-12	17	-29	-83	-39	-44
Direct investment	(15)	(--)	(15)	(12)	(--)	(12)	(24)	(--)	(24)	(51)	(--)	(51)
Drawings on loans 2/3/	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Amortization 2/	(-16)	(--)	(-16)	(-12)	(--)	(-12)	(-16)	(--)	(-16)	(-44)	(--)	(-44)
Other 5/	(-49)	(-62)	(13)	(19)	(7)	(-26)	(-20)	(17)	(-37)	(-90)	(-39)	(-51)
<b>Arrears</b>	48	48	--	-150	-150	--	--	--	--	-102	-102	--
<b>SDR allocation</b>	--	--	--	--	--	--	--	--	--	--	--	--
<b>Change in net official international reserves (increase -)</b>	40	-55	95	-32	-150	118	-33	-334	301	-25	-539	514
<b>Memorandum items</b>												
Renegotiation of public debt	132			92			225			449		
Amortization: banks	(116)			(59)			(178)			(353)		
Paris Club	(11)			(23)			(32)			(66)		
Interest: Paris Club	(6)			(10)			(14)			(30)		
Renegotiation of private debt	143			98			--			241		
Regulation 101	(123)			(98)			(--)			(221)		
Other	(20)			(--)			(--)			(20)		

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

1/ On accrual basis; includes the Paris Club rescheduling of interest payments.

2/ Carried on cash basis; does not include amortization rescheduling.

3/ Includes the interest rescheduling.

4/ Includes all the petroleum-related trade credits.

5/ Includes errors and omissions.