

FOR
AGENDA

EBS/83/91

CONFIDENTIAL

May 11, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Ecuador - Staff Report for the 1982 Article IV Consultation
and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Ecuador and a request from Ecuador for a stand-by arrangement equivalent to SDR 157.5 million. Draft decisions appear on page 23.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have factual or technical questions relating to this paper prior to the Board discussion, they should contact Mr. Caiola, ext. 73319.

Att: (1)

INTERNATIONAL MONETARY FUND

ECUADOR

Staff Report for the 1982 Article IV Consultation
and Request for Stand-by Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations,
Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E. Wiesner and Manuel Guitian

May 10, 1983

I. Introduction

The 1982 Article IV consultation discussions were conducted in Quito in June/July 1982 and the reports were issued in September/October 1982 (SM/82/192, 9/21/82 and SM/82/198, 10/4/82). The consultation was postponed at the request of the authorities and discussions were continued in October/November in Quito and in November/December in Washington. Since then, a mission visited Quito to discuss a stand-by arrangement and completed the consultations. The representative of Ecuador in the last round of consultations included the Minister of Finance, the President of the Monetary Board, and the General Manager of the Central Bank of Ecuador.^{1/}

In the attached letter dated March 24, 1983, the Minister of Finance and the General Manager of the Central Bank of Ecuador have requested a one-year stand-by arrangement in an amount equivalent to SDR 157.5 million, which is 150 per cent of Ecuador's quota of SDR 105 million. The arrangement would include SDR 79.94 million from the Fund's ordinary resources and SDR 77.56 million (73.9 per cent of quota) from borrowed resources. As of March 31, 1983 the Fund's holdings of sucres stood at 100.03 per cent of Ecuador's quota. The full use of the proposed arrangement would raise the Fund's holdings of sucres to 250.03 per cent of quota. A waiver of the limitations under Article V, Section 3(b)(iii), of the Articles of Agreement is required.

The program in support of which the Ecuadoran authorities are requesting the stand-by arrangement is described in the attached letter and is analyzed below. Under the proposed arrangement, purchases shall

^{1/} A staff mission consisting of Messrs. Caiola (Head-WHD), Caetano, Hoelscher (both WHD), Kalter (ETR), Lizondo (WHD), and Miss Valencia (Secretary-FAD), visited Quito during the period February 3-12, 1983 for discussions which provided the basis for this paper.

not exceed the equivalent of SDR 39.375 million until July 31, 1983; SDR 78.75 million until October 31, 1983; and SDR 118.125 million until January 31, 1984 (Table 1).

Table 1. Ecuador: Schedule of Proposed Purchases and Repurchases, 1983-84

(In millions of SDRs)

	May 1983- July 1983	Aug. 1983- Oct. 1983	Nov. 1983- Jan. 1984	Feb. 1984- May 1984
<u>Purchases</u>				
Stand-by arrangement	39.38	39.37	39.38	39.37
Ordinary resources	(26.25)	(17.89)	(17.90)	(17.90)
Borrowed resources	(13.13)	(21.48)	(21.48)	(21.47)
<u>Repurchases</u>				
Stand-by arrangement	--	--	--	--
<u>Net purchases</u>	<u>39.38</u>	<u>39.37</u>	<u>39.38</u>	<u>39.37</u>
<u>Total Fund holding of Ecuadoran sucres (cumulative)</u>				
In millions of SDRs	144.41	183.78	223.16	262.53
As per cent of quota	137.53	175.03	212.53	250.03

Source: IMF, Treasurer's Department.

II. Background 1/

Economic activity in Ecuador has slowed considerably in recent years. The growth of real GDP decelerated from 6-1/2 per cent in 1978 to 2 per cent in 1982. The estimate for the latter year reflects a marked reduction in the rate of growth of manufacturing, as well as a contraction in construction and stagnation in petroleum output. Domestic inflation, as measured by the end-of-period consumer price index, rose from 10 per cent in 1979 to nearly 25 per cent in 1982. The increase in prices in 1982 reflected the impact of a depreciation of the sucre and the adoption of several corrective measures which are described in detail below. After several years of surpluses, the balance

1/ Appendix IV updates and supplements the information provided in the Staff Report on the 1982 Article IV Consultation discussions with Ecuador (SM/82/192, 9/21/82) and in the report on Recent Economic Developments (SM/82/198, 10/4/82).

of payments registered overall deficits of about US\$300 million in 1981 and US\$460 million in 1982, owing to a deterioration in the current account and, in 1982, an outflow of private capital.

A major factor behind these unfavorable developments was a relaxation of demand management policies, although it was compounded by adverse external factors. Unfavorable price developments for Ecuador's main export commodities and a rise in world interest rates contributed to the widening of the current account deficit of the balance of payments from 5-1/2 per cent of GDP in 1980 to 9 per cent in 1982.^{1/} The overall public sector deficit rose from 5 per cent of GDP in 1980 to 7-1/2 per cent of GDP in 1982. Domestic bank financing of the public sector was equivalent to 2.2 per cent of GDP in 1982, compared with negative financing in previous years (Table 2).

Bank liabilities to private sector grew by 33-1/2 per cent (8.2 per cent of GDP) in 1982, partly reflecting an accumulation of external arrears. However, this large rise in bank liabilities was not sufficient to finance the increase in net domestic credit, and the system's international reserves registered a sizable decline. About one fifth of the credit expansion went to the public sector to finance the large deficit referred to above, but credit to the private sector also increased sharply.

The authorities took certain measures during the past year to deal with the deteriorating economic situation. Last May the sucre in the official market was depreciated from S/. 25 to S/. 33 per U.S. dollar. In October, domestic prices of gasoline were doubled and the subsidy for wheat was eliminated. Various tax measures were submitted to Congress, and some of them were approved before the end of the year. Interest rates on bank deposits were raised in January. Although remaining still negative in real terms, the increase in interest rates had a positive impact on the growth of quasimonetary deposits. In October, Ecuador requested a rescheduling of public debt amortizations due to foreign commercial banks during the period November 1, 1982-December 31, 1983. In November, importation of a large list of commodities was either suspended until December 31, 1983 or prohibited; some of these prohibitions were subsequently lifted.

III. The 1983 Program

1. Main objectives

The objective of the 1983 financial program, in support of which Ecuador is requesting a stand-by arrangement, is to limit the loss of the net international reserves of the Central Bank of Ecuador to no more than US\$100 million.

^{1/} Comparison of ratios of balance of payments elements to GDP are distorted by the fact that the rate of depreciation of the sucre differs from the rate of growth of nominal GDP.

Table 2. Ecuador: Flow of Funds

(As per cent of GDP)

	1980	1981	Prel. 1982	Proj. 1983
<u>A. Aggregate</u>				
Domestic savings	22.2	17.3	15.6	12.1
Domestic investment	-27.9	-25.5	-24.7	-16.0
Excess (-) of domestic investment over domestic savings	-5.7	-8.2	-9.1	-3.9
Financing				
Capital movements <u>1/</u>	7.7	6.0	5.4	3.0
Net international reserves	-2.0	2.2	3.7	0.9
<u>B. Private Sector</u>				
Savings	18.9	16.5	17.4	12.0
Investment	-19.7	-18.9	-19.0	-11.7
<u>Private surplus or deficit (-)</u>	<u>-0.8</u>	<u>-2.4</u>	<u>-1.6</u>	<u>0.3</u>
Net domestic lending (-) or borrowing				
Supply of funds to banks	-6.5	-3.5	-8.2	-5.5
Credit from banks <u>2/</u>	5.3	7.6	9.8	5.0
Lending to public sector	-0.2	-1.4	1.4	-0.5
Foreign financing	2.2	-0.3	-1.4	0.7
<u>C. Public Sector</u>				
Savings	3.3	0.8	-1.8	0.1
Investment	-8.2	-6.6	-5.7	-4.3
<u>Public surplus or deficit (-)</u>	<u>-4.9</u>	<u>-5.8</u>	<u>-7.5</u>	<u>-4.2</u>
Net domestic lending (-) or borrowing				
Net credit from banks	-0.9	-1.8	2.2	1.3
Borrowing from private sector	0.2	1.4	-1.4	0.5
Foreign financing	5.6	6.2	6.7	2.4
<u>D. Banking System</u>				
Credit to private sector <u>2/</u>	5.3	7.6	9.8	5.0
Net credit to public sector	-0.9	-1.8	2.2	1.3
Net domestic assets	4.4	5.8	12.0	6.3
Funds obtained from private sector	6.5	3.5	8.2	5.5
External capital movements, n.i.e.	-0.1	0.1	0.1	-0.1
Net international reserves (increase -)	-2.0	2.2	3.7	0.9

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

1/ Excludes renegotiation of debts.

2/ Includes unclassified assets.

During 1983, real GDP is expected to stagnate as prospects for both investment and exports are limited. The outlook for inflation is also not favorable as the rate of price increase is expected to reach about 30 per cent. The current account deficit of the balance of payments is to narrow from 9 per cent of GDP in 1982 to about 4 per cent in 1983. The key quantitative elements of the program are a reduction of the overall public sector deficit from 7-1/2 per cent of GDP in 1982 to about 4 per cent in 1983, and a reduction in the growth of the banking system net domestic assets from 12 per cent of GDP in 1982 to about 6-1/2 per cent in 1983 (see Table 2).

2. Performance criteria

The financial program described in the attached letter contains four principal quantitative performance criteria that relate to (1) the expansion in the overall credit of the Central Bank; (2) the increase in Central Bank net credit to the public sector, which is also included in total Central Bank credit; (3) the planned decline in the net foreign reserve position of the Central Bank; and (4) limits on the public sector's external debt with a maturity of up to, and including, 12 years, with a subceiling for the external debt with a maturity of up to, and including, 1 year (Table 3). The attached letter also sets forth the policies in the exchange and payments field, and it describes the policy intentions of the authorities in several other areas. Some of these intentions have a direct bearing on the attainment of the principal quantitative targets while others are part of the overall program of the authorities of striving to attain more efficient use of the country's resources and faster economic growth. Other performance criteria, included in the letter, are a provision for a consultation with the Fund before October 18, 1983 on the progress made in the implementation of the program; commitments to eliminate all existing external payments arrears by November 30, 1983;^{1/} as well as the usual clauses relating to multiple currency practices, restrictions on payments and transfers for current international transactions, bilateral payments agreements with Fund members, and import restrictions for balance of payments reasons.

3. Financial policies

a. Fiscal policies

The authorities plan to reduce the deficit of the public sector as a whole from S/. 29.3 billion (7.5 per cent of GDP) in 1982 to S/. 21.5 billion (4.2 per cent of GDP) in 1983. The fiscal outcome is dependent upon the adoption of revenue measures and of a tight control on expenditure.

^{1/} Outstanding external arrears were estimated to amount to US\$75 million at the end of 1982, but no firm data are available on them.

Table 3. Ecuador: Quantitative Performance Criteria

	1983		
	Up to June 30	July 1- September 30	October - December 31
(In billions of sucres)			
Ceilings on net domestic assets of the Central Bank <u>1/</u>	17.5	20.0	21.0
Ceilings on net Central Bank credit to the nonfinancial public sector <u>2/</u>	-16.5	-13.5	-10.5
(In millions of U.S. dollars)			
End-of-period targets on net international reserves of the Central Bank <u>3/</u>	104	84	110
Limits on the outstanding external debt of the public sector with original maturity of: <u>4/</u>			
Up to and including 1 year	950	950	950
Up to and including 12 years	4,400	4,400	4,400
Arrears on current international payments must be liquidated by November 30, 1983.			

Sources: Paragraph 11 of the letter of intent dated March 24, 1983 and Tables 1, 2, 3, and 4 annexed to the letter of intent.

1/ Defined as the difference between (1) currency issue and (2) net international reserves of the Central Bank. 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/. 45 per U.S. dollar.

2/ For the purpose of these ceilings, the net Central Bank credit to 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/. 45 per U.S. dollar.

3/ Defined as the difference between the foreign assets of the Central Bank of Ecuador and its external liabilities. For the purpose of the ceilings in this table, the net international reserves exclude the deposits of international nonmonetary organizations in the Central Bank of Ecuador, the allocations of SDRs, and all foreign loans with a final maturity of more than 12 years, but will include as a liability all net foreign borrowing by the public sector in excess of the limits indicated in this table. 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.

4/ Excludes debt of the Central Bank of Ecuador, with the exception that the limits include external debt arising from oil advances. These ceilings will be lowered for any reduction in public external debt via shifts in maturity structure occasioned by the renegotiation of public external debts. Ceilings will not be affected by the refinancing of private sector debt outstanding.

Revenues of the Central Government and of the main public entities are projected to increase by more than S/. 39 billion, or by 37 per cent, in 1983 (Table 4). In relation to GDP, revenues (excluding intra-transfers) are projected to grow from 27 per cent of GDP in 1982 to more than 28 per cent in 1983. The increase in revenues is expected to come about mostly as a result of measures which have been already adopted. A 50 per cent increase (from 1982 to 1983) in domestic prices of petroleum derivatives is projected to yield about S/. 7 billion in additional revenues (Table 5). Gasoline prices were doubled in October 1982, and prices of other main petroleum derivatives were raised in March 1983 and will continue to be adjusted on a quarterly basis during the next twelve months according to a preannounced schedule (Table 6). Several internal taxes have been increased (taxes on cigarettes, beer, and luxury goods) or will be raised shortly (widening of the coverage of the income tax surcharge to be levied on both individual and enterprises; new highway tolls; and higher monthly adjustments for electricity tariffs from a range of 1 to 1.5 per cent to 3 per cent). The expected yield from these taxes is estimated to amount to about S/. 3.5 billion. The Congress is now considering a 50 per cent reduction of tax rebates granted under the fiscal incentive law for new investments in Ecuador, a measure that is expected to yield S/. 2.5 billion of additional revenues. In March 1983, import surcharges, varying from 5 per cent to 15 per cent (about 9 per cent on average) of the c.i.f. value of imports, were approved by Congress; while the existing export tax certificates were eliminated, except for exports of Manila hemp. The additional revenues from these two measures are estimated to amount to S/. 4 billion. During 1983 the public sector is expected to show a net surplus of over US\$230 million on its foreign exchange operations. Because of the expected depreciation of the official exchange rate (as explained below), this surplus is expected to generate more than S/. 3 billion of additional net government revenues (S/. 19 billion on a gross basis). Tax administration has been strengthened by a revision of the system of revenue earmarking; hence, most of the additional revenues would accrue to the Central Government, thus ensuring a better control on the operations of decentralized agencies.

On March 14, 1983, Congress approved a law regulating public expenditures by setting limits on the operations of the Central Government and of the autonomous entities. Regarding the former, budgetary appropriations cannot be revised by more than 5 per cent (heretofore the limit was 10 per cent) during the year, except in the case of exceptional circumstances, such as emergency expenditures because of natural disasters or higher debt servicing. During 1983 and 1984, the increase in current outlays of the rest of the public sector will be limited to no more than 5 per cent of the previous year's budget, except for contractual salary adjustments. Investment expenditures may be increased only if the required financing is available. The law also limits the increase in public sector employment, regulates wage structures, and subjects all future foreign borrowing by the public sector to the prior approval of the Ministry of Finance.

Table 4. Ecuador: Public Sector Operations

	1982	Proj. 1983 1/	1982	Proj. 1983 1/
	(In billions of sucres)		(As per cent of GDP)	
Revenues	106.0	145.2	27.1	28.3
Expenditures	135.3	166.7	34.6	32.5
<u>Deficit</u>	<u>-29.3</u>	<u>-21.5</u>	<u>-7.5</u>	<u>-4.2</u>
External financing				
Use of loans	29.0	18.7	7.4	3.6
Amortizations	-20.9	-6.4	-5.3	-1.2
Oil credits and other	18.2	--	4.6	--
Internal financing				
Central Bank	7.9	6.0	2.0	1.2
Other banks	0.6	0.5	0.2	0.1
Other	-5.5	2.7	-1.4	0.5

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

1/ Excluding emergency expenditures financed by foreign loans.

Total expenditure (excluding intratransfers and amortization) of the Central Government and of the main public entities are projected to increase by S/. 31.4 billion, or by about 23-1/2 per cent, in 1983. In relation to GDP, expenditures are projected to decline from 34-1/2 per cent of GDP in 1982 to 32-1/2 per cent in 1983 (see Table 1). In addition to the estimated impact of the exchange rate adjustment, the increase in outlays includes a substantial rise in interest payments abroad, as well as emergency expenditures in connection with heavy damages caused by floods in the coastal area late last year and during the first two months of 1983 (see Table 2). The projection includes S/. 2.5 billion for a possible general salary increase, although no wage adjustment has been granted so far.

Amortization payments on Ecuador's external debt are estimated to decline from about S/. 21 billion in 1982 (about 5-1/2 per cent of GDP) to only S/. 6.4 billion (1.2 per cent of GDP) in 1983, because of the refinancing of amortizations due to foreign banks and suppliers.^{1/} Accordingly, the financing needs of the public sector as a whole for 1983 are projected at S/. 28 billion (about 5-1/2 per cent of GDP). Two thirds of these financing requirements are expected to come from foreign borrowing, in the form of drawings of project loans, credits granted in

^{1/} Details on the terms of this renegotiation are provided later on in this report.

Table 5. Ecuador: Public Sector Operations, 1983 1/

(In billions of sucres)

<u>Projected 1983 revenues</u>	<u>145.2</u>
Actual 1982 revenues	106.0
Import taxes and oil export receipts	-3.1
Vegetative growth of domestic revenues	6.4
Increase in domestic prices of petroleum derivatives	6.9
Other domestic measures	5.9
Import surcharges	2.6
Reduction of export tax certificates	1.3
Effects of currency adjustment	19.2
 <u>Projected 1983 expenditures</u>	 <u>166.7</u>
(Of which: interest payments	(29.0)
Actual 1982 expenditures <u>2/</u>	135.3
(Of which: interest payments)	(17.3)
Increase in interest payments	4.3
Vegetative increase of other expenditures	12.0
Emergency expenditures	2.4
Impact of currency adjustment (including interest)	16.0
Expenditure cuts <u>3/</u>	-3.3
 <u>Projected 1983 deficit</u>	 <u>21.5</u>

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

1/ Covering the Central Government, and the main public sector agencies and enterprises.

2/ Excluding amortizations.

3/ Net of salary adjustments for compensation of the adjustment measures.

connection with the emergency mentioned above, and additional commercial financing for up to US\$100 million. Central Bank net lending to the public sector will be limited to S/. 6 billion, compared with about S/. 8 billion in 1982. Central Bank net credit to the public sector is subject to limits, which apply at all times and which take account of seasonal variations in revenues and expenditures.

Table 6. Ecuador: Domestic Prices of Petroleum Derivatives

(Prices in sucres per U.S. gallon)

	Average Prices		End-of-Year Prices			
	1982	1983	1981	1982	1983	1984 1/
Gasoline						
92 pctane	25.00	40.00	20.00	40.00	40.00	...
80 octane	18.75	30.00	15.00	30.00	30.00	...
63 octane	12.50	20.00	10.00	20.00	20.00	...
Kerosene	6.00	7.88	6.00	6.00	10.00	14.00
Diesel	11.00	14.00	11.00	11.00	17.00	21.00
Turbo fuel	22.00	24.26	22.00	22.00	25.00	25.00
Bunker C	7.00	8.88	7.00	7.00	11.00	13.00

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

1/ April 1, 1984.

b. Monetary policies

The monetary program described in the attached letter of intent projects a 23-1/2 per cent increase in banking system liabilities to the private sector (excluding deposits lodged in connection with the accumulation of external arrears), and envisages a US\$100 million decline in the net international reserves of the Central Bank. 1/ Domestic credit is projected to rise by about 25 per cent, measured in relation to the stock of banks' liabilities to the private sector at the beginning of the year. Apart from the growth in credit to the public sector referred to above, about three fifths of the projected growth in credit would be directed to the private sector, involving a rate of increase that would be lower than that of nominal GDP. The remaining expansion

1/ All foreign exchange accounts have been valued at the average exchange rate of S/. 45 per U.S. dollar for 1983.

in credit reflects variations in unclassified assets, including the exchange differential to be paid by the Central Bank (with three-year stabilization bonds) for private sector payments abroad which had been entitled to official foreign exchange but had been made through the free market because the Central Bank's foreign assets were exhausted (Table 7).

The control mechanism of the monetary program centers on the net domestic assets of the Central Bank (defined as its currency issue less its net foreign assets). The Central Bank's net domestic assets are projected to increase from S/. 12 billion at the end of 1982 to S/. 21 billion at the end of 1983. To monitor the credit program, quarterly ceilings have been set on the net domestic assets of the Central Bank and on the net credit to the nonfinancial public sector. To accommodate the domestic financing requirements of the public sector and to achieve the balance of payments target, Central Bank credit to the rest of the financial system will be held at a minimum (see Table 7).

The Ecuadoran authorities consider that interest rate policy is a key element in their monetary programing, particularly in attracting domestic savings to the financial system and keeping such savings in the country. Accordingly, they are planning to review periodically both the structure and levels of interest rates with a view to moving the rates to positive real levels and to ensure that they reflect developments in world capital markets. In January 1982 the Monetary Board approved an upward movement in deposit and loan rates. In March 1983 the Monetary Board simplified the interest rate structure and increased interest rates (Table 8). The preferential interest rate on export prefinancing was eliminated, and the amount of these credits was reduced from 100 per cent of the export value to 75 per cent (60 per cent if the operation does not carry a bank guarantee).

4. Prices and incomes policies

During the program period the Ecuadoran authorities intend to continue implementing a restrained wage policy. Although detailed statistics are not available, it is estimated that payments for wages and salaries of the Central Government and the main public entities increased by 8 per cent in 1982. In October 1982, public sector wages were increased in the wake of the adjustments in prices of gasoline and wheat, with the wage increase to be made effective on January 1, 1983. The budgets of the Central Government and the main state entities show an 11 per cent increase in the wage bill for 1983. In March 1983, the Government announced that public sector wages would be reviewed in the context of the recently adopted adjustment measures, but so far no wage increases have been granted.

During 1982 and 1983 the Government revised certain domestic prices with the aim of eliminating subsidies. As already indicated, domestic prices of petroleum derivatives were raised, subsidies on wheat were

Table 7. Ecuador: Banking System Operations ^{1/}

(In billions of sucres)

	December 31, 1982			Changes			Dec. 31, 1983 (Proj.)		
	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total
Net international reserves	9.4	--	9.4	-4.5	--	-4.5	4.9	--	4.9
Other foreign assets	--	4.0	4.0	--	--	--	--	4.0	4.0
Domestic credit	6.5	110.3	116.8	13.0	19.4	32.4	19.5	129.7	149.2
Public sector (net)	-16.8	-2.3	-19.1	6.0	0.5	6.5	-10.8	-1.8	-12.6
Private sector	15.9	91.6	107.5	-1.8	20.9	19.1	14.1	112.5	126.6
Unclassified assets (net) ^{2/}	7.4	21.0	28.4	8.8	-2.0	6.8	16.2	19.0	35.2
Interbank transactions	14.3	-13.0	1.3	-4.2	4.2	--	10.1	-8.8	1.3
Credits	28.3	-27.6	0.7	5.3	-5.3	--	33.6	-32.9	0.7
Deposits	-13.5	14.1	0.6	-4.8	4.8	--	-18.3	18.9	0.6
Other	-0.5	0.5	--	-4.7 ^{3/}	4.7 ^{3/}	--	-5.2	5.2	--
Intersystem transactions	5.4	--	5.4	--	--	--	5.4	--	5.4
Credits	7.2	--	7.2	0.6	--	0.6	7.8	--	7.8
Deposits	-1.8	--	-1.8	-0.6	--	-0.6	-2.4	--	-2.4
Allocations of SDRs	1.6	--	1.6	--	--	--	1.6	--	1.6
Medium- and long-term foreign loans	--	2.2	2.2	--	-0.3	-0.3	--	1.9	1.9
Liabilities to private sector	31.5	99.1	130.6	6.8	23.9	30.7	38.3	123.0	161.3
Currency in circulation	19.8	--	19.8	4.0	--	4.0	23.8	--	23.8
Sight deposits	0.6	39.3	39.9	0.2	9.1	9.3	0.8	48.4	49.2
Time and savings deposits	--	11.8	11.8	--	5.4	5.4	--	15.3	15.3
Advance import deposits	6.0	--	6.0	1.5	--	1.5	7.5	--	7.5
Other liabilities in sucres	4.8	27.7	32.5	1.0	4.7	5.7	5.8	34.3	40.1
Liabilities in foreign currency	0.3	10.4	10.7	0.1	2.6	2.7	0.4	13.0	13.4
Capital and reserves	--	9.9	9.9	--	2.1	2.1	--	12.0	12.0
Arrears ^{4/}	2.5	...	2.5	-2.5	...	-2.5	--	--	--

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

^{1/} Foreign exchange accounts are valued at S/. 45 per U.S. dollar.

^{2/} Including valuation adjustments.

^{3/} Including stabilization bonds for settlement of exchange differential arising for payments in the free market of operations entitled to the official market rate.

^{4/} Estimated.

Table 8. Ecuador: Interest Rate Structure

(In per cent)

		March 19, 1983	
		Before	After
1.	<u>Central Bank rediscounts, direct credits and advances</u>		
	Public sector, Rural Development Fund (FODERUMA), advances to the National Agricultural Products Marketing and Storing Company (ENAC) and the National Company for Basic Products (ENPROVIT)	6 and 8	8
	Rediscount Financial Funds, Export Promotion Fund (FOPEX) and National Development Bank (BNF)	4, 6, and 8	9
	General rediscounts, special advances, bankers' acceptances, export pre-financing and rediscount of selected external loans	8 and 12	13
	General advances and advances to cover temporary reserve deficiencies	14 and 15	16
2.	<u>Commercial banks and financial institutions</u>		
	On loans		
	General operations, including overdrafts, and with selected external resources	13-15	16
	Through the Financial Funds mechanism, National Development Bank (BNF), Export Promotion Fund (FOPEX) and with selected external resources	8, 10, and 12	13
	On deposits and other liabilities		
	Savings deposits, time deposits, and certificates of deposit	12-14	13-15
	Mortgage bonds	16-17	17-20
	Development bonds	12	13
3.	<u>Other</u>		
	Bonds and other liabilities issued by the public sector and the nonfinancial private sector	16-17	17-20

Source: Central Bank of Ecuador.

eliminated, and in March 1983 the price of milk was increased substantially. Electricity tariffs are being adjusted by 1 to 1.5 per cent per month, and in the future they will be increased by 3 per cent per month. It is the intention of the authorities to continue reviewing tariffs and prices charged, or set, by the public sector to move toward a more efficient use of Ecuador's resources.

5. External policies

A key element in the proposed program is a modification of the exchange system. On March 19, 1983, the exchange rate in the official market was changed from S/. 33 per U.S. dollar to S/. 42 per U.S. dollar (buying) and since March 23, 1983, the currency is being depreciated by S/. 0.04 per working day until further notice. The staff understands that the rate of minidevaluations will be accelerated in order to reduce substantially the differential between the official and the free exchange rate during the program period. A 2 per cent spread between the buying and the selling rate also was introduced on March 19.

The crawling peg system for the official exchange rate will be accompanied by the gradual transfer of transactions from the official to the free market, where the exchange rate will continue to be determined by market forces. Since March 19, 1983 the official market has been handling exports of petroleum and derivatives, bananas, coffee beans, cocoa beans, and sugar, and 70 per cent of all other exports; imports that are given priority; all other public sector current operations; servicing (payment of interest and capital) of public and registered private external debt; some student payments abroad and expenses related to radio, press, and television services; and proceeds from registered private sector credits with a maturity of more than one year. All other transactions are being handled in the free market. It is estimated that, on an annual basis, about 20 per cent of exports and imports will be handled through the free market. The coverage of the exchange markets in 1983 takes into account the fact that import permits issued before March 19, 1983 entitled importers to official foreign exchange (albeit without an exchange rate guarantee). These commitments (some of which are in arrears) will have to be liquidated during the remainder of the year.

Together with the depreciation of the sucre in the official market and the shift of some exports into the free market, the authorities have eliminated the export tax certificates, except in the case of Manila hemp. Also, the advance import deposit scheme was revised. All imports of essential goods (List IA) are now exempt from deposit requirements (previously, they were subject to a 20 per cent requirement if payment were to be made within 270 days); deposits on imports of semi-essential goods (List IB) were reduced from a range of 20 per cent to 40 per cent to a uniform 20 per cent; and deposits on imports of less essential and luxury goods (List II) were reduced from a range of 60 per cent to 80 per cent to a uniform 50 per cent.

Table 9 presents balance of payments projections for 1983. The current account deficit is projected to decline from US\$1,050 million in 1982 to US\$339 million in 1983; it should be noted that the level of the current account deficit in 1983 will depend on the amount of trade credits that the private sector will be able to raise to finance imports in the free market. Exports are projected to remain basically unchanged between 1982 and 1983. Exports of petroleum and derivatives are projected to decline by 3-1/2 per cent in 1983, as a 16-1/2 per cent increase in volume that reflects a coming into production of new oil fields is expected to be more than offset by a 17 per cent decline in prices. The U.S. dollar value of other exports is projected to increase by 6-1/2 per cent mainly on the strength of increase in exports of coffee, fish, and fish products. On the medium term, exports which have been partly transferred to the free market will benefit from the improved price incentive. Moreover, the implementation of minidevaluations of the official exchange rate and transfers to the more depreciated free market should decrease underinvoicing of exports in general (Table 10).

The U.S. dollar value of imports is projected to decline by 25 per cent to US\$1.6 billion in 1983 (although as mentioned above imports would depend on private trade credits available to Ecuador). At present, a 120-day trade credit is required for all imports. Interest payments are estimated to amount to US\$845 million, in spite of a projected decline in average interest rates. Other service payments are projected to decline by 26 per cent to about US\$500 billion, reflecting the restraint on fiscal outlays, as well as the impact of the transfer of private services from the official to the free exchange market.

The net inflow of capital (excluding the refinancing of amortization payments) is projected to decline from US\$590 million in 1982 to US\$239 million in 1983. The gross use of public loans (excluding oil advances) is projected to decline from about US\$960 million in 1982 to less than US\$500 million in 1983, reflecting the reduced access to commercial bank borrowing. Most of the disbursements of new credits would represent loans from international lending agencies, governments, and suppliers credits. New loans from foreign commercial banks are estimated to amount to US\$100 million. Public amortizations are expected to decline from about US\$680 million in 1982 to about US\$140 million in 1983.

In January 1983, Ecuador reached an agreement with foreign commercial banks on the rescheduling of public debts due to such banks during the period from November 1982 through December 1983. Amortizations falling due during this period, which amount to US\$1.1 billion (of which US\$0.7 billion are for short-term debts), are to be postponed until the end of 1983 when they would be consolidated at the following terms: 10 per cent of the consolidated amount will be repayable in four equal quarterly installments (beginning on December 31, 1983) and the remaining 90 per cent will be repaid in 21 equal quarterly installments beginning on December 31, 1984. The interest rate on the postponed amount

Table 9. Ecuador: Balance of Payments, 1982-83

(In millions of U.S. dollars)

	1982				1983 (Proj.)			
	Total	Official Market	Free Market	Self-Financed Transactions	Total	Official Market	Free Market	Self-Financed Transactions
<u>Goods, services, and transfers</u>	<u>-1,050</u>	<u>-539</u>	<u>-195</u>	<u>-316</u>	<u>-339</u>	<u>223</u>	<u>-217</u>	<u>-345</u>
Exports, f.o.b.	2,334	2,108	--	226	2,336	1,968	133	235
Imports, f.o.b.	-2,181	-1,639	--	-542	-1,625	-781	-264	-580
Freight payments	-164	-164	--	--	-146	-122	-24	--
Interest payments	-835	-679	-156	--	-845	-761	-84	--
Other services, credit	408	104	304	--	419	72	347	--
Other services, debit	-632	-269	-363	--	-498	-158	-340	--
Transfers	20	--	20	--	20	5	15	--
<u>Capital movements 1/</u>	<u>590</u>	<u>152</u>	<u>122</u>	<u>316</u>	<u>239</u>	<u>-323</u>	<u>217</u>	<u>345</u>
Public sector								
Drawings on loans	959	698	15	246	479	114	--	345
Amortizations	-676	-645	-31	--	-137	-125	-12	--
Oil credits	591	591	--	--	--	--	--	--
Private capital								
Direct investment	30	-3	33	--	60	--	60	--
Net use of loans	160	62	98	--	-140	--	-140	--
Import credits	-462	-532	--	70	-99	-257	158	--
Arrears	75	75	--	--	-75	-75	--	--
Other	-87	-94	7	--	151	--	151	--
<u>Intratransfers</u>	<u>--</u>	<u>-73</u>	<u>73</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Transfers	--	-248	248	--	--	--	--	--
Arrears	--	175	-175	--	--	--	--	--
<u>Net international reserves (increase -)</u>	<u>460</u>	<u>460</u>	<u>--</u>	<u>--</u>	<u>100</u>	<u>100</u>	<u>--</u>	<u>--</u>
<u>Memorandum items</u>								
Renegotiation of public sector debt	158	158	--	--	1,332 2/	1,332 2/	--	--
Private sector loans								
Gross drawings	1,293	227	516	550	1,117	367	750	...
Gross amortizations	-1,133	-165	-418	-550	-1,257	-367	-890	...

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

1/ Excluding debt refinancing.

2/ Including oil advances.

and on the consolidated loan has been set at 2-1/4 per cent over three-month LIBOR, or at 2-1/2 per cent over prime rate, whichever is higher, plus a 1/4 of 1 per cent renewal fee. Repayment of the oil advances that were received in 1982 and were due in 1983 also has been postponed into 1984, and Ecuador is planning to seek to reschedule a part of its public debt with foreign suppliers.

Table 10. Ecuador: Composition of Merchandise Exports

(In millions of U.S. dollars)

	1982	Proj. 1983
Total exports, f.o.b.	2,334	2,336
Crude petroleum	1,388	1,337
Barrels (millions)	(42.7)	(49.5)
Unit price (U.S. dollars)	(32.5)	(27.0)
Petroleum derivatives	136	135
Other exports	810	864
Bananas	(214)	(214)
Cocoa	(119)	(110)
Coffee	(157)	(180)
Fish	(210)	(235)
Other	(110)	(125)

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

Private capital outflows are projected to decline from US\$284 million in 1982 to about US\$100 million in 1983, reflecting a refinancing of private debts and the transfer of most private capital movements to the free market. The balance of payments projections incorporate the elimination of all external arrears, payment of commitments arising from past imports, as well as a likely decline in net trade credits because of the projected drop in imports.

Ecuador is negotiating a refinancing of some of its private debt to foreign commercial banks. According to the proposed scheme, foreign banks would either renegotiate directly with their private debtors or would lend to the Central Bank an amount equivalent to 120 per cent of their claims on Ecuador's private sector. In the latter case, the Central Bank would lend to the private sector, through the domestic banking system, the foreign exchange required to repay the private debt obligations. These loans, which would carry a guarantee of local banks, would be repaid to the Central Bank in sucres at the exchange rate prevailing at the time of the repayment, and thus the Central Bank would not incur losses in the operation unless the private sector (or the guaranteeing bank) were to default.

The net international reserves of the Central Bank are projected to decline by US\$100 million in 1983, compared with a decline of US\$460 million in 1982. After taking into account the expected use of Fund resources and of commercial bank lending over and above the limits set in the attached letter of intent, the gross foreign assets of the Central Bank are projected to increase by some US\$130 million, which would represent a much needed improvement in view of the low level of working balances of the Central Bank. The attached letter of intent sets quarterly targets for the net international reserves of the Central Bank to help guide balance of payments management in general and exchange rate policy in particular.

In past years, the rapid growth of the public external debt, and the shortening of the maturity structure has contributed to the weakening of Ecuador's balance of payments. The attached letter of intent sets limits on the outstanding public debt with an original maturity of up to 12 years, with a subceiling for the external debt with an original maturity of up to one year. These limits will be reduced in the event that maturities of existing loans are extended because of refinancing agreements. Any borrowing over and above the stipulated limits will be considered as a short-term foreign liability of the Central Bank and would need to be matched by an equivalent rise in the foreign assets of the Central Bank.

Table 11 presents projections of the servicing of Ecuador's public external debt, excluding oil advances. The 1983 ratio of the debt service (principal and interest) is estimated at 28 per cent of that year's exports of goods and services, compared with 62 per cent in the absence of the above-mentioned debt renegotiation, and 46 per cent in 1982.

In the medium term the current account of the balance of payments is expected to require further strengthening because of the large amortization payments coming due, limited access to new foreign capital, and the shortage of gross international reserves. The value of exports is expected to rise because of some increases in the volume of petroleum exports and the positive reaction of other exports to exchange rate adjustment. Imports will need to be restrained, on the basis of demand and exchange rate policies, alleviated only by the possible increased availability of private sector credits as stabilization takes hold. It is expected that in 1984 the external current account deficit will narrow to the equivalent of 1 per cent of GDP with some refinancing of amortization payments required to limit the pressures on the country's international reserves.

6. Consultation review

During the period of the requested stand-by arrangement, the authorities of Ecuador will periodically consult with the Fund about progress made in the implementation of the stabilization program. In this context a review with the Fund is scheduled to be made before October 18, 1983. Although the purpose of the staff visit will be to

Table 11. Ecuador: Public Sector Debt Service Projections

(In millions of U.S. dollars)

	1980	1981	Prel. 1982	1983	1984	Projected		1986	1987
Public sector debt out- standing (end of period) <u>1/</u>	3,530	4,415	4,699 <u>2/</u>	5,041	5,241	5,541	5,841	6,141	
Public sector debt service	731	1,057	1,410	1,696	1,347	1,401	1,465	1,454	
Principal paid	417	598	676	137	757 <u>3/</u>	857 <u>3/</u>	908 <u>3/</u>	967 <u>3/</u>	
Principal renegotiated	--	--	158	930	--	--	--	--	
Interest	314	459	576	629	590	544	557	587	
<u>Memorandum items</u>									
Ratio of public sector debt to GDP	31.1	32.9	36.0	44.2	42.2	40.9	39.6	38.1	
Debt service ratio after renegotiation of debt <u>4/</u>	24.6	35.2	45.8	28.0	45.2	43.2	41.4	37.7	

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

1/ Assumes a net public sector capital inflow of between US\$200 million and US\$300 million per year after 1983.2/ Excludes debt arising from oil advances.3/ Includes amortization of renegotiated debts.4/ As per cent of exports of goods and services.

review progress made in general on the implementation of the program, this mission will examine specifically the modification of the exchange system, the path of the crawling peg system to ensure that it is consistent with the overall program and that it would lead to a substantial reduction of the spread between the official and the free market rates by the end of the program period; the status of the negotiation for the external debt refinancing, and progress made in the elimination of external arrears and in the fiscal area. The mission also will review 22 prospects for 1984 and will reach understandings with the authorities on the targets for the first half of 1984.

7. Exchange arrangements and restrictions
subject to Fund approval

Ecuador's existing exchange arrangements and restrictions subject to the approval of the Fund under Article VIII of the Fund's Articles of Agreement are: (a) multiple currency practices; (b) external payments arrears; and (c) bilateral payments arrangements with Hungary and Romania.

III. Staff Appraisal

Ecuador's economic and financial performance has weakened substantially in recent years. The growth of real GDP has slackened, domestic inflation has accelerated, and the balance of payments situation has deteriorated sharply. Behind this weakening of economic performance were a combination of expansionary demand policies, an overvalued exchange rate, as well as unfavorable external factors. During 1982 the Government of Ecuador sought to prevent further deterioration of the balance of payments by adopting various measures, including a depreciation of the sucre and increases in domestic prices of gasoline. Notwithstanding these measures, the balance of payments position continued to weaken.

In recent months the Ecuadoran authorities have undertaken a program aimed at strengthening the balance of payments through the adoption of a combination of exchange rate action, interest rate adjustments, and tighter demand management. In support of their adjustment plan they have requested a stand-by arrangement for a period of one year. It is to be noted that the Ecuadoran authorities have already started implementing the program through the adoption of specific corrective measures or by setting the legal basis for certain other actions.

In the external field, Ecuador has adopted a more flexible exchange system. The exchange rate in the official market was depreciated from S/. 33 per U.S. dollar to S/. 42 per U.S. dollar on March 19, 1983 and continues to be depreciated on a daily basis so as to reduce substantially the spread between the official and the free exchange rate by the end of the program period. The scope of the official market has been reduced by transferring transactions from the official to the free

market. A larger and faster shift of transactions has not been feasible because of commitments contracted by the Central Bank in the official market. However, the Monetary Board now has the legal authority to set the exchange rate in the official market and to modify the coverage of the exchange markets.

It is crucial to the success of the program that under the new exchange system the authorities avoid the emergence of an overvalued sucre as has occurred in the past. Therefore, following an initial stage in which the general public becomes familiar with the workings of the crawling peg system, the system will need to be managed in such a way as to ensure compliance with the net international reserve targets and other criteria of the program. In this context, the rate of minidevaluations of the sucre in the official market will need to be accelerated. It is also critically important that once the Central Bank has discharged its commitments for exchange, transactions be transferred periodically into the free market as an incentive to exporters and a means toward the unification of the exchange markets at an early time. To ensure that the new exchange system works effectively, the Ecuadoran authorities will need over time to dismantle existing restrictions, including external arrears, and import prohibitions.

Another main element of the adjustment program will be the achievement of a substantial reduction of the fiscal deficit. The program seeks to lower that deficit from 7.5 per cent of GDP in 1982 to 4.2 per cent of GDP in 1983 through a combination of revenue measures and restraint over expenditures. Most of the required tax measures are already in place, and the Executive has the legal mechanisms and authority to control the growth of public outlays. Given the importance of the fiscal aspect of the program, a careful monitoring of its performance will be required so that corrective measures are adopted in time in the event that deviations should threaten to emerge during the year.

In the past in Ecuador, a major source of demand pressure has been the expansion of Central Bank credit to commercial banks and the private sector. This year the Central Bank will have to finance a part of the fiscal deficit, so that other credit operations will need to be curtailed drastically to ensure that the Central Bank's credit expansion is consistent with the balance of payments target and the eventual dampening of inflationary pressures. In this context, the Ecuadoran authorities will need to complement their demand management policies with a flexible interest rate policy; clearly, the best approach would be to leave the determination of interest rates to market forces. The authorities have already drastically simplified the interest rate structure, and they are planning to review periodically the interest rates to move them toward positive real levels and to ensure that rates reflect developments in world capital markets.

The authorities have so far maintained a firm stance in regard to wage adjustments, and it is their intention to continue with such a policy. At the same time, subsidies are being eliminated and domestic prices of petroleum derivatives are being revised periodically.

Regarding the proposed renegotiation of Ecuador's external private debt, the staff notes that such a renegotiation is necessary in the light of a realistic appraisal of Ecuador's balance of payments prospects, even on the assumption that the adjustment program described above is implemented as planned. Under the proposed scheme of private debt renegotiation, in the event of a default by the private sector, Ecuador would need to make compensatory adjustments in financial policies to comply with the targets of the program.

In the view of the staff, the set of policies which are being implemented by the Ecuadoran authorities are appropriate to redress the country's balance of payments situation. The task is nevertheless a difficult one. Given the magnitude of the proposed adjustment, the staff would stress the need for a close monitoring of the various aspects of the program, to ensure that problems are identified before the program is put in jeopardy. In this context, the midterm review that has been stipulated will provide an occasion to review the progress made in the implementation of the program. In this regard, successful implementation of policies will enable Ecuador to dispose of the prevailing restrictions and multiple currency practices and to reach an early unification of its exchange rate. The authorities intend to proceed in this manner and, therefore, the staff recommends temporary Board approval for these restrictions. Accordingly, the following draft decisions are proposed for adoption by the Executive Board.

I. Article IV Consultation

1. The Fund takes this decision relating to Ecuador's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article VIII consultation with Ecuador, in the light of the 1982 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 external arrears and bilateral payments arrangements and multiple currency practices, as described in EBS/83/91. The Fund encourages Ecuador to continue the simplification of its multiple currency practices with a view to the early unification of its exchange rate, and approves the restrictions and multiple currency practices, as the latter may be adopted by transfers of transactions from the official to the free market, until the end of the stand-by arrangement, or the next Article VIII consultation, whichever is earlier.

II. Stand-By Arrangement

1. The Government of Ecuador has requested a stand-by arrangement for a period of one year from 1983 in an amount equivalent to SDR 157.5 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/91.

3. The Fund waives the limitation in Article V, Section 3(b)(iii), of the Articles of Agreement.

Fund Relations with Ecuador

Status: Article VIII.

Quota: SDR 105 million.

Fund holdings of sucres:	<u>As of March 31, 1983</u>	<u>Millions of SDRs</u>	<u>Per Cent of Quota</u>
Total		105.03	100.03

Operational budget: --

Designation plan: --

SDR Department:	<u>As of March 31, 1983</u>	<u>Millions of SDRs</u>	<u>Per Cent of Net Cumulative Allocation</u>
Cumulative allocation		32.93	100.00
Of which: holdings		(--)	(--)

Gold distribution: Ecuador has received a total of 28,241.989 troy ounces of fine gold in four distributions.

Direct distribution of profits from gold sales: Ecuador has received a total of US\$5.24 million in the two periods.

Exchange rate: Official rate (April 5, 1983): S/. 42.28 per U.S. dollar buying rate and S/. 43.13 per U.S. dollar selling rate. The sucre in the official market is being depreciated by S/. 0.04 per U.S. dollar per working day. Ecuador also has a free exchange market in which quotations fluctuate daily. On April 5, 1983, the buying and selling rates in this market were S/. 80.00 and S/. 81.50 per U.S. dollar, respectively.

Last consultation and recent contacts: The 1981 Article IV consultation discussions were completed by the Executive Board on September 11, 1981 (EBM/81/182 and SM/81/150). The 1982 Article IV consultations were held in Quito during June 28-July 16, 1982 and were continued in Quito during October 20-November 5, 1982 and in Washington during November 30-December 2, 1982. They were completed during February 10-25, 1983. An expert from the Fiscal Affairs Department is assigned to Quito to assist in implementing a public sector accounting system.

Ecuador: Summary of Financial Program, 1983

	1981 Actual	1982 Prel.	1983 Program
<u>Assumptions</u>			
Real GDP growth (per cent)	4.3	2.0	--
Nominal GDP growth (per cent)	18.1	16.7	31.0
Exports of crude petroleum and derivatives:			
Volume (million barrels)	51.3	48.0	54.8
Price (US\$ per barrel)	33.7	31.8	26.9
<u>Targets</u>			
Balance of payments			
Current account deficit including grants:			
In millions of U.S. dollars	1,002	1,050	339
As per cent of GDP	8.2	9.1	3.9
Overall deficit			
In millions of U.S. dollars	294	460	100
As per cent of GDP	2.2	3.7	0.9
Public sector finances			
Overall deficit			
In billions of sucres	19.5	29.3	21.5
As per cent of GDP	5.8	7.5	4.2
Domestic bank financing			
In billions of sucres	-5.9	8.5	6.5
As per cent of GDP	-1.8	2.2	1.3

Principal elements

External

Initial depreciation of the sucre in the official market from S/. 33 per U.S. dollar to S/. 42 per U.S. dollar (buying), effective March 19, 1983, followed by minidevaluations in order to reduce substantially the differential between the official and the free exchange rate during the program period.

Gradual transfer of transactions from the official to the free market. Limit on the outstanding external debt of the public sector with original maturity of up to and including twelve years with subceiling on debt with original maturity of up to and including one year (performance criterion). Elimination of arrears on current international payments by November 30, 1983 (performance criterion).

Fiscal

Reduction of the public sector deficit to 4.2 per cent of GDP and domestic bank financing to 1.3 per cent of GDP in 1983.

Average 50 per cent increase in domestic prices of petroleum derivatives. Increases in several internal taxes. Import surcharges, varying between 5 per cent and 15 per cent of the c.i.f. value of imports. Reduction in export tax certificates. Revenue from depreciation of the official exchange rate due to net surplus in public sector foreign exchange operations (see Table 5).

Control of public expenditure by setting limits on the operations of the Central Government and of the autonomous entities.

Monetary

Increase in net domestic assets of the Central Bank by S/. 8.9 billion during 1983, with appropriate quarterly ceilings (performance criterion). Limit on increase in net claims of the Central Bank on the nonfinancial public sector (S/. 6 billion during 1983) with appropriate quarterly ceilings (performance criterion).

Simplification of the interest rate structure and upward movement in deposits and loan rates.

Ecuador: Selected Economic and Financial Indicators, 1980-83

	1980	1981	Prel. 1982	Proj. 1983
(Annual per cent changes, unless otherwise specified)				
National income and prices				
GDP at constant prices	4.8	4.3	2.0	--
GDP deflator	15.0	13.2	14.4	31.0
Consumer prices (average)	12.8	14.7	16.4	35.0
External sector (on the basis of U.S. dollars)				
Exports, f.o.b.	18.3	--	-8.3	--
Petroleum exports	34.6	9.0	-11.6	-3.4
Imports, f.o.b.	6.9	5.4	-7.7	-25.5
Export volume	-11.7	3.5	2.9	15.0
Import volume	-6.4	3.0	-8.0	-26.9
Terms of trade (deterioration -)	17.3	-5.6	-11.2	-14.6
Nominal effective exchange rate (depreciation -)(year average)	1.5	6.3	-12.5	-48.7
Real effective exchange rate (depreciation -)(year average)	1.0	9.8	-5.0	-16.7
Central government budget				
Revenue	41.6	4.1	19.2	...
Total expenditure	33.8	31.6	11.7	...
Money and credit				
Domestic credit ^{1/2/}	14.0	18.2	48.3	24.8
Public sector ^{2/}	(-3.8)	(-7.0)	(8.8)	(5.0)
Private sector	(19.5)	(22.7)	(22.7)	(14.6)
Money and quasi-money (M2)	26.5	11.2	20.2	23.5
Velocity (GDP relative to M2)	5.3	5.6	5.5	5.8
Interest rate (maximum on 1-6 months savings deposits)	6.0	8.0	12.0	15.0
(In per cent of GDP)				
Overall public sector deficit	-4.9	-5.8	-7.5	-4.2
Central government savings	1.5	-0.6	0.3	...
Central government budget deficit (-)	-1.1	-4.8	-3.8	...
Domestic financing	(0.8)	(2.5)	(1.2)	(...)
Foreign financing	(0.3)	(2.3)	(2.6)	(...)
Gross domestic investment	27.9	25.5	24.7	16.0
Gross domestic savings	22.2	17.3	15.6	12.1
Current account deficit	-5.7	-8.2	-9.1	-3.9
External debt ^{3/}				
Inclusive of use of Fund credit (end of year)	31.1	32.9	36.0	41.8
Debt service ^{4/}	16.5	21.6	19.8	9.8
Interest payments ^{4/} (in per cent of exports of goods and nonfactor services)	17.8	23.0	29.2	31.6
(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	174	-249	-417	-91
Gross official reserves (months of imports of the following year) ^{5/}	6.0	4.3	3.4	4.1
External payments arrears	--	--	68.0	--

^{1/} In relation to liabilities to the private sector at the beginning of the period.

^{2/} Includes adjustment for gold revaluation in 1982.

^{3/} Public debt, including short term.

^{4/} Public and private debt, including short term.

^{5/} Gold valued at US\$300/troy oz.

Ecuador: Recent Economic Developments

This appendix updates and supplements the information provided in the staff report on the 1982 Article IV consultation discussion with Ecuador (SM/82/192, 9/21/82) and the report on Recent Economic Developments (SM/82/198, 10/4/82).

1. Economic activity

Economic activity in Ecuador continued to decelerate last year, as real GDP grew by 2 per cent in 1982 compared with about 4-1/2 per cent in 1981 and about 5 per cent in 1980 (Table 12). The estimate for 1982 reflected a marked reduction in the rate of growth of manufacturing, as well as a contraction in construction and stagnation in petroleum output. The slowdown in industrial activity was widespread throughout the sector, but it was particularly pronounced in the case of cereals, sugar, and soft drinks industries. The sluggish performance of manufacturing was attributable to several factors, among which domestic demand conditions, rising costs of production, and financial difficulties of enterprises were the most important. According to official estimates, some two thirds of the installed capacity was utilized during 1982, compared with about 70 per cent in 1981.

Table 12. Ecuador: Selected Economic Indicators

(Annual percentage changes)

	1978	1979	1980	1981	Prel. 1982
Real GDP	6.6	5.1	4.8	4.3	2.0
Real GDP, excluding petroleum	4.9	4.4	6.5	3.7	2.3
Manufacturing	8.2	8.4	6.4	5.9	3.7
Agriculture, including fishery	-3.9	3.6	5.2	4.0	4.8
Construction	5.0	-1.1	1.7	1.1	-4.4
Petroleum	16.2	6.2	-14.5	6.4	--
Consumer price index					
End of period	10.8	10.0	13.5	17.3	24.4
Yearly average	13.1	10.1	12.8	14.7	16.4

Source: Central Bank of Ecuador.

Agricultural activity (excluding fisheries) grew by 1 per cent in 1982, compared with about 3-1/2 per cent in 1981. In 1982 agriculture was affected adversely by climatic conditions and depressed international prices for Ecuador leading agricultural export products. Fisheries were instead the most dynamic activity of Ecuador's economy in 1982, and it grew by 25 per cent. Over 90 per cent of output of this subsector is exported. The slump in construction reflected entirely a reduction in public investment, whereas private construction is reported to have remained at the same level of 1981.

Real gross domestic expenditures dropped by about 1 per cent in 1982, because the sharp decline in fixed capital formation (8 per cent) was only partly offset by the rise in consumption (1-1/2 per cent). In the external sector, real exports of goods and services rose by 3 per cent in 1982, in spite of a drop in exports of petroleum, whereas imports of goods and nonfactor services are reported to have declined by 9-1/2 per cent.

2. Prices

Domestic inflation, as measured by the consumer price index, accelerated to 24-1/2 per cent during 1982, compared with 17-1/2 per cent increase during 1981 (see Table 12). The increase in prices on a year-on-year basis was not as pronounced (16-1/2 per cent in 1982 and about 15 per cent in 1981) as a significant portion of the rise in prices in 1982 occurred during the last quarter of the year.

The rise in prices during 1982 included the impact of the depreciation of the sucre in May, as well as the increase in gasoline prices and elimination of the subsidy for wheat in October. These factors are estimated to have added some 7-1/2 percentage points to the price level during 1982.

3. Resource gap

In 1982 the resource gap (defined as the difference between domestic savings and investment) grew to more than 9 per cent of GDP from 8 per cent of the previous year. This deterioration reflected a sharp drop in domestic savings (from 17-1/2 per cent of GDP in 1981 to about 15-1/2 per cent in 1982), while investment declined by the equivalent of 1 per cent of GDP.^{1/} The resource gap was financed by a drawdown of the Central Bank's net international reserves and by a large use of short-term foreign credits by the public sector (Table 13).

As in 1981, more than two thirds of the resource gap originated in the public sector, as the current account of that sector shifted from a small surplus in 1981 to a deficit equivalent to about 2 per cent of GDP in 1982.

^{1/} National accounts statistics should be used with cautions.

Table 13. Ecuador: Flow of Funds

(As per cent of GDP)

	1981				1982 (Prel.)			
	Total	Public Sector	Private Sector	Banks	Total	Public Sector	Private Sector	Banks
Domestic savings	17.3	0.8	16.5	...	15.6	-1.8	17.4	...
Domestic investment	-25.5	-6.6	-18.9	...	-24.7	-5.7	-19.0	...
Resource gap	-8.2	-5.8	-2.4	--	-9.1	-7.5	-1.6	--
Internal financing	--	-0.4	2.7	-2.3	--	0.9	2.8	-3.7
Claims on banks	(--)	(--)	(-3.5)	(3.5)	(--)	(--)	(-8.2)	(8.2)
Bank credit	(--)	(-1.8)	(7.6)	(-5.8)2/	(--)	(2.2)1/	(9.8)	(12.0)2/
Other	(--)	(1.4)	(-1.4)	(--)	(--)	(-1.4)	(1.4)	(--)
External financing	8.2	6.2	-0.3	2.3	9.1	6.7	-1.4	3.8 1/

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

1/ Excludes adjustment for gold revaluation.

2/ Includes changes in unclassified assets.

4. Public sector operations

The overall public sector deficit rose from S/. 19.5 billion (5.8 per cent of GDP) in 1981 to an estimated S/. 29.3 billion (7.5 per cent of GDP) in 1982 (Table 14). As in previous years, about two thirds of the deficit was accounted for by budgetary operations. Although data are incomplete and preliminary, the performance of the public sector was affected significantly by the sluggishness of revenues--they declined in relation to GDP from 1981 to 1982--and the sharp rise in interest payments abroad. The deficit of the public sector was financed by the use of short-term foreign lines of credit, advances against exports of crude oil, and--for the first time in several years--net domestic bank credit. In 1982, public sector external amortizations were alleviated by the postponement of some US\$160 million of repayments due to foreign commercial banks during the last two months of the year.

During 1982 the authorities adopted several measures aimed at curbing the fiscal deficit. In October gasoline prices were doubled and the subsidy on wheat was eliminated. Several tax measures (increases in taxes on cigarettes, beer, and automobiles, a new luxury tax and reduction of fiscal incentives for new industries) were submitted for congressional approval in October. With the exception of the latter, these taxes were enacted either before the end of the year or during the first quarter of 1983. In October, public sector wages were increased in the wake of the adjustment in the prices of gasoline and wheat, but the wage adjustment was made effective on January 1, 1983.

The adoption of these measures was, however, too late in the year to affect the budget outcome for 1982. The central government budget deficit widened from S/. 17 billion in 1981 to S/. 18 billion in 1982. Central government revenues grew by 11 per cent in 1982, mostly as a result of taxes levied on petroleum. Other revenues remained virtually unchanged in nominal terms, as modest increases in receipts from indirect taxes (albeit, considerably below the growth in domestic prices) and nontax receipts were offset by declines in the collections of import duties and export taxes.

Interest payments abroad rose from S/. 5 billion in 1981 to almost S/. 13 billion in 1982, because of the heavy short-term foreign borrowing that took place in 1982, the sharp rise in interest rates in the world market, and the depreciation of the sucre. The result was that the share of interest payments in total budgetary expenditures rose from 9 per cent in 1981 to 21 per cent in 1982. Wages and salaries increased by 5 per cent in 1982, reflecting the cautious wage policy pursued by the Government. For the same reason, transfer to the rest of the public sector declined in nominal terms during 1982. Current transfers, which include transfers for payments of salaries, rose by only 3-1/2 per cent, while capital transfers dropped sharply as investment projects were either canceled or postponed. Central government direct investment outlays (which, however, exclude investment financed by foreign project loans) remained approximately at the level of 1981.

Table 14. Ecuador: Public Sector Operations

(In billions of sucres)

	1980				1981				1982 (Prel.)			
	Total	Budgetary Opera- tions	Other Identi- fied	Other	Total	Budgetary Opera- tions	Other Identi- fied	Other	Total	Budgetary Opera- tions	Other Identi- fied	Other
Revenues	...	37.6	36.3	...	...	39.3	47.0	...	...	43.6	54.8	...
Intrasectorial transfers	23.0	0.4	--	22.6	28.5	--	--	28.5	29.2	--	--	29.2
Petroleum revenues	38.1	14.1	15.6	8.4	41.9	15.1	18.9	7.9	53.9	19.4	27.0	7.5
Other revenues	...	23.1	20.7	...	...	24.2	28.1	...	...	24.2	27.8	...
Expenditures	...	41.7	36.3	...	...	56.1	44.5	...	...	61.5	54.8	...
Intrasectorial transfers	23.0	17.3	5.3	0.4	28.5	22.9	5.6	--	29.2	21.5	7.7	--
Interest pay- ments abroad	7.9	3.9	1.6	2.4	11.5	5.0	2.0	4.5	17.3	13.0	3.0	1.3
Other expendi- tures	...	20.5	29.4	...	...	28.2	36.9	...	...	27.0	44.8	...
Surplus or deficit (-)	-14.0	-4.1	--	-9.9	-19.5	-16.8	2.5	-5.2	-29.3	-17.9	--	-11.4
External financing												
Drawings of loans	27.6	3.1	4.0	20.5	38.0	9.6	2.6	25.8	29.0	15.3	3.6	10.1
Amortizations	-10.4	-1.5	-1.1	-7.8	-14.9	-1.9	-1.1	-11.9	-20.9	-5.3	-2.1	-13.5
Changes in oil credits	-0.4	--	-0.4	--	-3.7	--	-3.7	--	17.7	--	--	17.7
Other	-1.0	--	-0.4	-0.6	1.4	--	1.5	-0.1	0.5	--	0.5	--
Internal financing												
Central Bank	-1.9	0.7	-0.2	-2.4	-4.8	2.6	-0.1	-7.3	7.9	1.5	3.9	2.5
Rest of banking system	-0.6	--	-0.1	-0.5	-1.1	--	0.1	-1.2	0.6	--	--	0.6
Public sector	--	2.3	-3.4	1.1	--	3.1	-3.4	0.3	--	3.7	-5.4	1.7
Other	0.7	-0.5	1.6	-0.4	4.6	3.4	1.6	-0.4	-5.5	2.7	-0.5	-7.7

Sources: Ministry of Finance; reports from individual agencies and enterprises; Central Bank of Ecuador; and Fund staff estimates.

The operations of agencies and enterprises were in approximate equilibrium in 1982 compared with a surplus of S/. 2.5 billion in 1981. The deterioration was attributable almost entirely to a rapid increase in expenditures of the State Petroleum Corporation (CEPE), including investment outlays for exploration and perforation of new oil wells. The Development Bank of Ecuador (BEDE) began operating in August 1979, but its lending operations went into full swing only during 1982; nevertheless, BEDE reported a large surplus last year.

5. Money and credit

In the monetary and credit area, bank liabilities to the private sector grew by 33-1/2 per cent (8.2 per cent of GDP) in 1982, but this large increase was not sufficient to finance the rise in net domestic assets (48-1/2 per cent, as measured against the stock of banks' liabilities to the private sector at the beginning of the year) (Table 15). About 20 per cent of the credit expansion went to the public sector, 47 per cent to the private sector, and the residual 35 per cent reflected an increase in unclassified assets.^{1/}

Table 15. Ecuador: Banking System Operations

(Percentage changes)^{1/}

	1979	1980	1981	Prel. 1982
Net international reserves	1.3	8.4	-8.6	-14.8 ^{2/}
Other foreign assets	0.2	0.9	--	--
<u>Domestic assets</u>	<u>17.6</u>	<u>18.5</u>	<u>22.5</u>	<u>48.3</u>
Public sector (net)	-5.2	-3.8	-7.0	8.8
Private sector (net)	17.8	19.5	22.7	22.7
Other assets ^{3/}	5.0	2.8	6.8	16.8
Liabilities to private sector	19.1	27.8	13.9	33.5
Of which: estimated external arrears	(--)	(--)	(--)	(2.6)

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

^{1/} In relation to the stock of liabilities to the private sector at the beginning of the year.

^{2/} Excluding revaluation of gold holdings (S/. 3.5 billion).

^{3/} Including allocation of SDRs and medium- and long-term foreign loans.

^{1/} The coverage of unclassified assets is being investigated, but it is likely to include unreported bank credit to the private sector.

The structure of private financial assets showed some changes during 1982, as the relative shares of currency in circulation and sight deposits declined slightly, while claims denominated in foreign currency rose from 4 per cent of total financial assets at the end of 1981 to an estimated 6 per cent at the end of 1982.

In addition to the revision of interest rates referred to in SM/82/192 (p. 6), in October 1982 the coverage of advance import deposits was widened, while the legal reserve requirement on sight deposits was lowered from 23 per cent to 22 per cent.

In September the Central Bank's gold holdings were revalued from US\$42 per ounce to US\$300 per ounce. The counterpart of the revaluation (S/.3.5 billion) was partly used to pay government debt to the Central Bank and partly was deposited to the account of the Central Government for future financing of export-oriented agriculture and industrial projects.

6. Balance of payments

The current account deficit of the balance of payments widened only slightly (to US\$1.05 billion) from 1981 to 1982, as both the trade and the service accounts remained almost unchanged (Table 16). The value of exports declined by more than 8 per cent in 1982, almost entirely because of a 12-1/2 per cent drop in the value of crude oil exports that stemmed from a combination of lower volumes (7 per cent) and prices (6 per cent). Exports of petroleum derivatives declined by 13 per cent, mostly because of lower prices. Exports of other products were unchanged from the level recorded in 1981. Imports decreased by about 7-1/2 per cent in 1982 as a consequence of the slowdown in economic activity and import restrictions. Interest payments continued the upward trend of recent years. Capital inflows came down considerably, reflecting a reversal of private capital movements. The public sector made a smaller use of foreign loans and made larger amortization payments. In addition there was a reversal in export trade credits; while in 1981 Ecuador exported crude oil on credit, during 1982 these exports were made on a cash basis and moreover Ecuador borrowed some US\$330 million against future oil exports. Private capital movements were dominated by short-term capital outflows and by a rapid reduction of outstanding import credits, as there was a shortening in the maturity structure of new credits.

The overall balance of payments gap in 1982 has been estimated at about US\$535 million, compared with one of some US\$300 million in 1981. The imbalance in 1982 was financed by an accumulation of external arrears ^{1/} and a drawdown in the net international reserves of the Central Bank; at the end of 1982 such reserves were equivalent to six weeks of imports of goods and services of that year.

^{1/} External arrears were estimated to amount to US\$75 million at the end of 1982, but there are no firm data.

Table 16. Ecuador: Balance of Payments

(In millions of U.S. dollars)

	1979	1980	1981	Prel. 1982
<u>Goods, services, and transfers</u>	<u>-624</u>	<u>-642</u>	<u>-1,002</u>	<u>-1,050</u>
Merchandise balance	54	302	183	153
Exports, f.o.b.	(2,151)	(2,544)	(2,544)	(2,334)
Imports, f.o.b.	(-2,097)	(-2,242)	(-2,361)	(-2,181)
Services (net)	-708	-974	-1,210	-1,223
Interest payments	(-322)	(-511)	(-670)	(-778)
Other services (net)	(-386)	(-463)	(-540)	(-445)
Transfers (net)	30	30	25	20
<u>Capital movements, n.i.e.</u>	<u>645</u>	<u>858</u>	<u>699</u>	<u>515</u>
Public sector	347	632	608	874 ^{1/}
Use of loans	(1,269)	(1,103)	(1,522)	(959)
Amortizations	(-906)	(-417)	(-598)	(-676)
Trade credits and other	(-16)	(-54)	(-316)	(591)
Banking system	-4	-8	16	--
Private sector ^{2/}	302	234	75	-359
<u>Allocation of SDRs</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>--</u>
<u>Subtotal</u>	<u>30</u>	<u>226</u>	<u>-294</u>	<u>-535</u>
External arrears	--	--	--	75
Change in net international reserves (increase -)	-30	-226	294	460 ^{3/}

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

^{1/} Excludes postponement of debt (US\$158 million).

^{2/} Includes net errors and omissions.

^{3/} Excludes gold revaluation.

At the end of 1982 Ecuador's outstanding public external debt (including oil advances) amounted to about US\$5 billion compared with US\$4.4 billion at the end of 1981. About one fifth of the outstanding debt at the end of 1982 had a maturity of up to 1 year, and more than three fifths had a maturity of between 1 and 12 years; at the end of 1981 the relative shares were 5-1/2 per cent and 76 per cent, respectively. Over two thirds of the outstanding debt at the end of 1982 was due to foreign commercial banks and 15 per cent to international organizations. These shares were basically the same at the end of 1981 (Table 17).

Table 17. Ecuador: External Debt

(In millions of U.S. dollars)

	End of Year			
	1979	1980	1981	Prel. 1982
<u>Public sector debt</u> 1/	<u>2,848</u>	<u>3,530</u>	<u>4,416</u>	<u>5,031</u>
By maturity				
Up to 1 year	150	119	250	934 2/
More than 1 and up				
to 12 years)	2,698)	3,411	3,378	3,134 3/
Other)			788	963
By lender				
Commercial banks	1,819	2,356	2,848	3,346 2/
International organizations	402	476	580	754
Governments	190	209	366	378
Other	437	489	622	553
<u>Registered private debt</u>	<u>706</u>	<u>1,137</u>	<u>1,455</u>	<u>1,615</u>
<u>Total registered debt</u>	<u>3,554</u>	<u>4,667</u>	<u>5,871</u>	<u>6,646</u>

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

1/ Excludes short-term liabilities of the Central Bank

2/ Includes advances against oil exports.

3/ Includes debts which were unpaid at the end of 1982 because of refinancing agreement with foreign banks.

Early in January 1983 Ecuador reached a tentative agreement with a group of foreign commercial banks for a rescheduling of maturities falling due during the period from November 1, 1982 through December 31, 1983. These amortizations, which amount to US\$1.1 billion (of which

US\$0.7 billion for short-term debts)^{1/}, were to be postponed until December 31, 1983 when they would be consolidated. Ten per cent of the consolidated amount will be repayable in four equal quarterly installments beginning on December 31, 1983, and the remaining 90 per cent will be repaid in 21 equal quarterly installments beginning on December 31, 1984. The interest rate on the postponed and consolidated debt has been set at 2-1/4 per cent over three-month LIBOR, or at 2-1/2 per cent over prime rate, whichever is higher, plus a 1/4 of 1 per cent renewal fee. An agreement with the Fund on a stand-by arrangement and compliance with its performance criteria are among the conditions for reaching final agreement on these debt arrangements at the end of 1983.

The registered private external debt was estimated to amount to US\$1.6 billion at the end of 1982, compared with about US\$1.4 billion a year before, but the data on private debt involve estimates that are subject to substantial margins of error.

7. Exchange system

The free market exchange rate depreciated steadily during the first half of 1982, particularly after the May devaluation of the sucre, reaching S/. 65 per U.S. dollar (selling rate) during the month of July. After appreciating in August, the free market exchange rate resumed the depreciating trend, reaching about S/. 84 per U.S. dollar by the middle of March 1983 (Table 18).

In 1982 the nominal effective exchange rate of the Ecuador sucre depreciated by 13 per cent, reflecting the May depreciation of the sucre relative to the U.S. dollar, partly offset by the strength of the U.S. dollar in the international capital markets. In real terms, the effective depreciation of the sucre in 1982 was only 5 per cent, as the inflation rate in Ecuador was much higher than that of its trading partners. At the end of 1982 the real effective value of the sucre was significantly higher than in 1971 or the average rate in the previous decade. The depreciation in the external value of the sucre in March 1983 from S/. 33 per U.S. dollar to S/. 42 per U.S. dollar moved the real effective rate of the sucre toward that of 1971 (Chart 1).

Table 19 classifies balance of payments transactions on the basis of the market through which they are being handled. In the official market the current account deficit widened from about US\$200 million in 1981 to about US\$540 million in 1982, reflecting a sharp drop in exports and a rapid rise on interest payments. Net capital inflow in that market declined in 1982, notwithstanding a large increase in net receipts from public external debt operations. Private capital movements showed an outflow of about US\$500 million in 1982, compared with a small inflow in 1981. The large payments in 1982 were mostly because of the

^{1/} Including US\$158 million which was due during the last two months of 1982.

repayment of import credits. In addition, the Central Bank transferred some US\$250 million into the free market for payments to local carriers and oil companies, and for intervention in the parallel market. As the Central Bank's foreign assets were rapidly being depleted in 1982, about US\$250 million of official market commitments for import payments were unpaid at the end of 1982, including US\$175 million for which local importers and bankers had purchased foreign exchange in the free market to make payments abroad.

Table 18. Ecuador: Quotations in the Free Market 1/
(In sucres per U.S. dollar)

	Buying Rate	Selling Rate
<u>1982</u>		
January	34.02	34.83
February	34.97	35.73
March	39.45	40.36
April	42.55	43.22
May	45.04	45.67
June	53.52	54.02
July	61.39	62.08
August	55.06	55.77
September	57.40	58.11
October	59.27	60.09
November	58.51	59.22
December	62.55	63.24
<u>1983</u>		
January	65.73	66.88
February	70.79	72.04
March <u>2/</u>	73.81	75.62

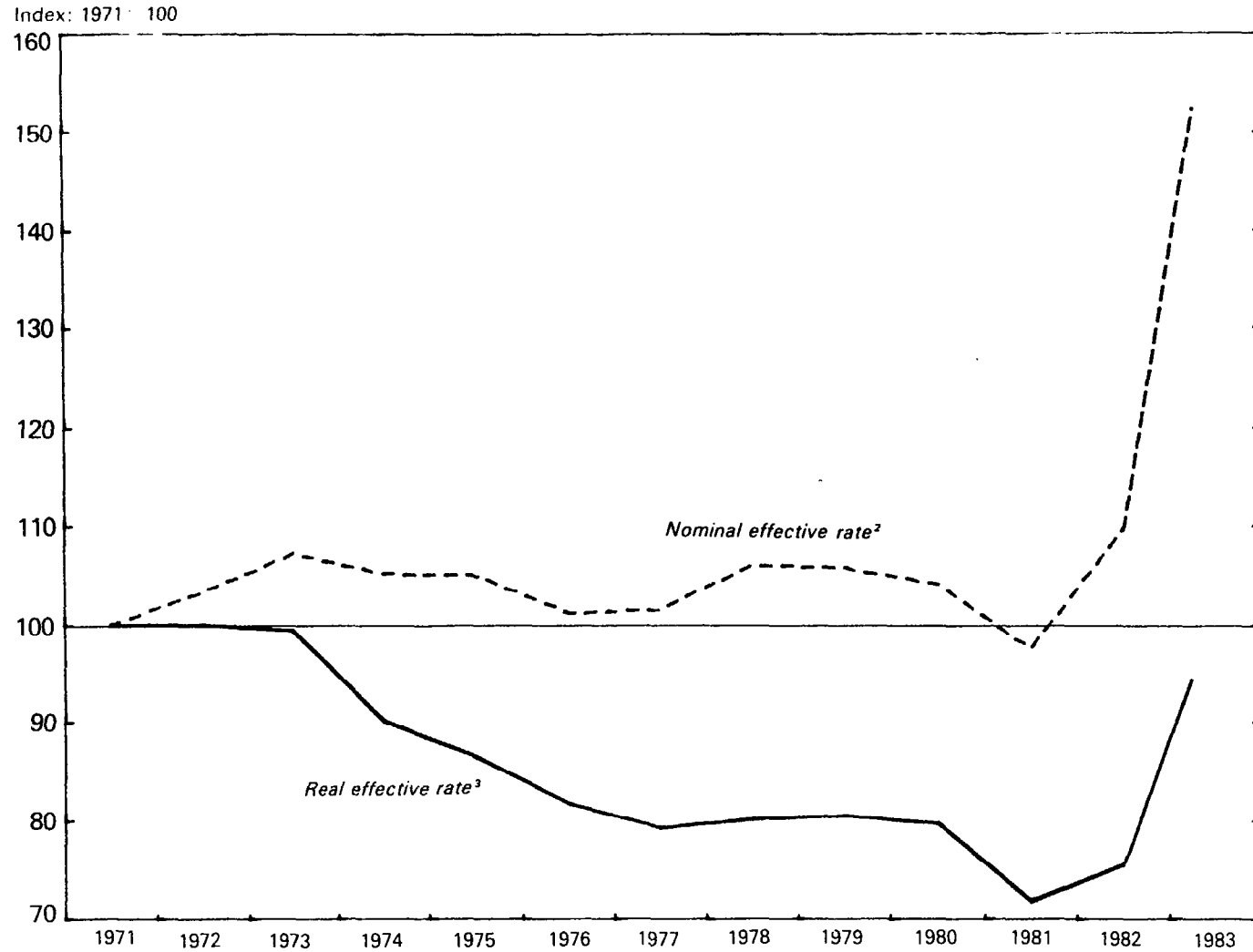
Source: Central Bank of Ecuador.

1/ Period averages for the cities of Quito and Guayaquil.

2/ Covers the period March 1-18, 1983.

On October 11, 1982 the Monetary Board adopted several measures. The coverage, rates, and terms of advance import deposits were increased. Imports of capital goods by both the private and public sectors were made subject to a provision that at least 80 per cent of their f.o.b. value be financed by suppliers credits with maturities of 360 days or more (180 days for imports of spare parts and tools). In November, imports of some 600 products (equivalent to about 20 per cent of total imports) were either suspended until December 31, 1983 or prohibited; some of these prohibitions were subsequently lifted.

CHAR 1
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NOMINAL AND REAL EFFECTIVE EXCHANGE RATES¹



Sources: IMF, *International Financial Statistics*, and Fund staff estimates.

¹Annual averages for 1971-82, end of first quarter for 1983. Weighted by 1975-77 trade shares.

²In Ecuadoran sucres per unit of partners' currencies.

³Ratio of nominal rate to relative prices

Table 19. Ecuador: Balance of Payments by Markets, 1981-82

(In millions of U.S. dollars)

	1981				1982 (Prel.)			
	Total	Official Market	Free Market	Self-financed Transactions	Total	Official Market	Free Market	Self-financed Transactions
<u>Goods, services, and transfers</u>	<u>-1,002</u>	<u>-202</u>	<u>-490</u>	<u>-310</u>	<u>-1,050</u>	<u>-539</u>	<u>-195</u>	<u>-316</u>
Exports, f.o.b.	2,544	2,544	--	--	2,334	2,108	--	226
Imports, f.o.b.	-2,362	-2,052	--	-310	-2,181	-1,639	--	-542
Interest payments	-670	-471	-199	--	-778	-622	-156	--
Other services (net)	-539	-238	-301	--	-445	-386	-59	--
Transfers	25	15	10	--	20	--	20	--
<u>Capital movements</u>	<u>708</u>	<u>298</u>	<u>100</u>	<u>310</u>	<u>590</u>	<u>152</u>	<u>122</u>	<u>316</u>
Public sector	608	245	53	310	874	644	-16	246
Drawings on loans	(1,522)	(1,150)	(62)	(310)	(1,117)	(698)	(15)	(404)
Amortizations	(-598)	(-589)	(-9)	(--)	(-834)	(-645)	(-31)	(-158)
Other	(-316)	(-316)	(--)	(--)	(591)	(591)	(--)	(--)
Private sector	101	44	57	(--)	-284	-492	138	70
Drawings on loans	(1,087)	(111)	(976)	(--)	(1,293)	(211)	(469)	(613)
Amortizations	(-788)	(-111)	(-677)	(--)	(-1,133)	(-149)	(-371)	(-613)
Other ^{1/}	(-198)	(44)	(-242)	(--)	(-444)	(-554)	(40)	(70)
Banking system (net)	-1	9	-10	--	...	...	...	...
<u>Intramarket operations</u>	<u>--</u>	<u>-390</u>	<u>390</u>	<u>--</u>	<u>--</u>	<u>-73</u>	<u>73</u>	<u>--</u>
Central Bank intervention	--	-167	167	--	--	) -248	) 248	--
Other	--	-223	223	--	--))	--
Arrears	--	--	--	--	--	175	-175	--
<u>Net international reserves</u>								
(increase -)	294	294	--	--	460	460	--	--

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

^{1/} Includes net errors and omissions.

Table 20. Ecuador: National Accounts

(In millions of sucres)

	1978	1979	1980	1981	Prel. 1982
(At current prices)					
<u>Consumption</u>	149,085	183,179	208,525	257,639	301,492
Private sector	122,635	153,095	168,472	207,194	242,577
Public sector	26,450	30,084	40,053	50,445	58,915
<u>Gross domestic investment</u>	54,432	60,193	79,353	85,631	96,903
<u>Fixed capital formation</u>	50,085	55,790	69,716	79,977	89,927
Private sector	(33,236)	(36,810)	(46,235)	(51,994)	(...)
Public sector	(16,849)	(18,980)	(23,481)	(27,983)	(...)
Increase in stocks	4,347	4,403	9,637	5,654	6,976
<u>Gross domestic expenditure</u>	203,517	243,372	287,878	343,270	398,395
<u>External sector</u>	-12,172	-7,472	-3,680	-7,607	-6,717
Exports of goods and nonfactor services	42,588	60,268	71,663	72,838	85,128
Minus: imports of goods and nonfactor services	-54,760	-67,740	-75,343	-80,445	-91,845
<u>Gross domestic product at market prices</u>	191,345	235,900	284,198	335,663	391,678
Minus: net factor payments abroad	-6,383	-8,893	-13,118	-18,058	-28,722
<u>Gross national product at market prices</u>	184,962	227,007	271,080	317,605	362,956
Plus: subsidies	1,073	1,472	2,473	2,755	...
Minus: indirect taxes	-17,554	-19,889	-24,346	-31,132	...
<u>Gross national product at factor cost</u>	168,481	208,590	249,207	289,228	...
Minus: depreciation	-10,774	-12,610	-14,221	-18,075	...
<u>National income</u>	157,707	185,980	234,986	271,153	...
(At 1975 prices)					
<u>Gross domestic product at market prices</u>	133,632	140,420	147,202	153,521	156,560

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

Table 21. Ecuador: Budgetary Operations

(In millions of sucres)

	1978	1979	1980	1981	Prel. 1982
<u>Revenue</u>	<u>19,056</u>	<u>23,077</u>	<u>37,631</u>	<u>39,297</u>	<u>43,604</u>
Petroleum revenue	2,166	4,359	14,063	15,131	19,412
Nonpetroleum tax revenue	16,199	17,865	21,778	22,718	22,192
Income tax revenue	(2,803)	(3,227)	(3,950)	(5,809)	(5,723)
Import duties	(6,686)	(6,927)	(8,933)	(9,174)	(8,465)
Export duties	(1,714)	(1,644)	(763)	(382)	(18)
Petroleum excise tax	(833)	(591)	(1,943)	(777)	(683)
Domestic transactions	(4,155)	(5,270)	(6,081)	(7,445)	(8,016)
Other taxes	(611)	(856)	(988)	(343)	(1,145)
Payments in bonds and CATs	(-603)	(-650)	(-881)	(-1,212)	(-1,858)
Nontax revenue	690	853	1,423	1,448	2,000
Transfers from rest of public sector	1	--	367	--	--
<u>Expenditure</u>	<u>21,389</u>	<u>24,647</u>	<u>41,698</u>	<u>56,136</u>	<u>61,523</u>
Current expenditure	18,019	21,801	34,872	43,135	50,461
Wages and salaries	(5,857)	(5,418)	(10,639)	(12,621)	(13,225)
Purchases of goods and services	(607)	(624)	(1,112)	(1,650)	(1,918)
Interest and commissions	(2,645)	(1,953)	(3,913)	(4,979)	(12,970)
Transfers to rest of public sector	(5,616)	(7,772)	(14,311)	(16,371)	(16,944)
Other expenditure	(3,294)	(6,034)	(4,897)	(7,514)	(5,404)
Capital expenditure	3,370	2,846	6,826	13,001	11,062
Purchases of goods and services	(83)	(126)	(561)	(1,411)	(1,400)
Investment	(1,812)	(978)	(3,225)	(5,041)	(5,090)
Transfers to rest of public sector	(1,475)	(1,742)	(3,040)	(6,549)	(4,572)
<u>Surplus or deficit (-)</u>	<u>-2,333</u>	<u>-1,570</u>	<u>-4,067</u>	<u>-16,839</u>	<u>-17,919</u>

Sources: Ministry of Finance; and Fund staff estimates.

Table 22. Ecuador: Detailed Accounts of the Banking System

(In billions of sucres)

	US\$1= S/. 25					US\$1=S/.33
	1977	1978	1979	1980	1981	Pre1. 1982
I. Central Bank						
Net international reserves	14.3	15.1	15.8	21.4	14.1	6.9
Foreign assets	16.8	17.2	19.6	27.1	17.0	15.0
Gold 1/	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(4.1)
Foreign exchange	(12.3)	(13.2)	(14.2)	(20.6)	(10.6)	(5.5)
IMF reserve position 2/	(--)	(0.3)	(0.3)	(0.7)	(0.7)	(--)
SDRs 2/	(0.3)	(0.4)	(0.6)	(0.6)	(0.8)	(--)
Payments agreements	(1.8)	(1.5)	(2.2)	(2.7)	(1.9)	(3.3)
Other assets	(2.0)	(1.4)	(1.9)	(2.1)	(2.6)	(2.1)
Short-term liabilities	-2.5	-2.1	-3.8	-5.7	-2.9	-8.1
Liabilities to IMF	(--)	(--)	(--)	(--)	(--)	(--)
Payments agreements	(-0.6)	(-1.0)	(-1.5)	(-2.1)	(-2.0)	(-2.7)
Other liabilities	(-1.9)	(-1.1)	(-2.3)	(-3.6)	(-0.9)	(-5.4)
Net domestic assets	9.5	11.8	16.7	18.0	26.2	44.6
Net claims on public sector	-3.9	-5.5	-8.3	-10.2	-15.0	-13.5
Net Central Government 1/3/	(-0.6)	(-1.6)	(0.1)	(-0.7)	(-3.0)	(-0.7)
Assets	/3.2/	/2.9/	/3.1/	/3.0/	/2.9/	(3.0)
Consolidated debt	3.1	2.8	3.0	2.9	2.8	2.9
Coin issue bonds	0.1	0.1	0.1	0.1	0.1	0.1
Liabilities	/-3.8/	/-4.5/	/-3.0/	/-3.7/	/-5.9/	(-3.7)
Demand deposits	-1.3	-2.2	-1.5	-2.9	-2.4	-2.3
Other sucre obligations	-2.2	-2.3	-1.5	-0.5	-3.3	-1.2
Foreign currency obligations	-0.3	--	--	-0.3	-0.2	-0.2
FONADE/BEDE	(-1.1)	(-2.1)	(-2.8)	(-2.0)	(-2.3)	(-7.2)
Rest of public sector (net)	(-2.2)	(-1.8)	(-5.6)	(-7.5)	(-9.7)	(-5.6)
Assets	/1.2/	/0.8/	/0.8/	/0.7/	/0.8/	/0.9/
Loans	1.2	0.8	0.8	0.7	0.8	0.9
Bonds	--	--	--	--	--	--
Liabilities	/-3.4/	/-2.6/	/-6.4/	/-8.2/	/-10.5/	/-6.5/
Demand deposits	-2.6	-1.4	-3.5	-3.4	-4.7	-3.0
Other sucre obligations	-0.5	-0.4	-0.4	-1.8	-1.5	-1.9
Foreign currency deposits of public sector	-0.3	-0.8	-2.5	-3.0	-4.3	-1.6
Credit to commercial banks	3.9	5.0	6.7	9.0	14.2	21.7
Credit to National Development Bank	3.4	3.1	4.0	4.8	6.2	6.7
Credit to other financial intermediaries	0.7	1.1	1.3	2.9	5.2	7.2
Credit to private sector	4.0	5.7	8.4	11.2	17.0	15.9
Net unclassified assets	1.5	2.4	4.6	0.4	-1.4	6.6
Counterpart SDR allocation	0.3	0.4	0.6	0.8	0.9	1.2
Liabilities to international development organizations	0.3	0.4	0.4	0.5	0.6	0.9
To IBRD	--	--	--	0.1	0.1	0.1
To IDB	0.2	0.3	0.4	0.4	0.5	0.8
To IDA	--	--	--	--	--	--
Liabilities to commercial banks	7.7	9.2	10.1	11.2	10.9	12.6
Currency holdings	0.5	0.6	0.7	0.9	0.9	1.2
Reserve deposits	6.3	7.5	8.1	9.2	8.3	9.7
Other sucre liabilities	0.1	0.2	0.6	0.3	0.5	0.6
Liabilities in foreign currency	0.5	0.5	0.5	0.4	0.6	0.6
Development bonds	--	0.2	--	0.1	0.2	0.1
Central Bank shares	0.1	0.2	0.2	0.3	0.4	0.4
Liabilities to National Development Bank	0.7	0.9	1.2	1.5	2.3	1.2
Currency holdings	0.2	0.3	0.2	0.4	0.5	0.5
Reserve deposits	0.4	0.5	0.8	1.1	1.8	0.7
Other sucre liabilities	0.2	--	0.1	--	--	--
Liabilities to other financial intermediaries	0.5	0.9	2.2	1.8	1.1	1.7
Demand deposits	0.5	0.9	2.2	1.8	1.1	1.7
Liabilities to private sector	14.2	15.1	17.9	23.5	24.5	33.9
Monetary liabilities	9.4	10.5	12.5	15.3	17.2	20.4
Currency in circulation	(8.9)	(10.0)	(12.1)	(14.9)	(16.9)	(19.8)
Demand deposits	(0.5)	(0.5)	(0.4)	(0.4)	(0.5)	(0.6)
Other liabilities	4.8	4.6	5.5	8.2	7.3	13.5
Quasi-money	(--)	(--)	(--)	(--)	(--)	(--)
Import deposits	(2.4)	(2.1)	(2.6)	(3.1)	(4.7)	(6.0)
Stabilization bonds	(1.3)	(1.3)	(1.4)	(1.4)	(0.9)	(1.1)
Bankers acceptances	(0.3)	(0.1)	(--)	(0.3)	(--)	(0.8)
Other sucre liabilities	(0.9)	(1.1)	(1.4)	(3.3)	(1.6)	(5.4)
Liabilities in foreign currency	(--)	(--)	(--)	(0.1)	(0.1)	(0.2)

Table 22. Ecuador: Detailed Accounts of the Banking System (Continued)

(In billions of sucres)

	US\$1= S/. 25					US\$1=S/.33
	1977	1978	1979	1980	1981	Pre1. 1982
II. Private Commercial Banks 4/						
Net international reserves	1.1	1.1	1.3	1.9	1.9	2.9
Foreign assets	1.9	2.0	2.4	2.9	3.4	4.2
Short-term liabilities	-0.8	-0.9	-1.1	-1.0	-1.5	-1.3
Monetary reserves and currency holdings	8.6	9.7	10.4	13.0	12.7	13.4
Cash	0.5	0.6	0.7	0.9	0.9	1.1
Reserve deposits in sucres	7.4	8.2	8.9	11.2	10.5	11.2
Reserve deposits in foreign currency	0.5	0.5	0.5	0.5	0.8	0.6
Development bonds	0.1	0.2	0.1	0.1	0.1	0.1
Central Bank shares	0.1	0.2	0.2	0.3	0.4	0.4
Net domestic assets	27.5	32.9	41.0	52.6	67.2	96.9
Net claims on public sector	0.7	0.6	0.7	0.7	0.8	1.1
Net Central Government 3/	(0.1)	(--)	(--)	(--)	(--)	(--)
Assets	/0.1/	/--/	/--/	/--/	/--/	/--/
Liabilities	/--/	/--/	/--/	/--/	/--/	/--/
Rest of public sector	(0.5)	(0.6)	(0.6)	(0.7)	(0.8)	(1.1)
Assets	/0.5/	/0.6/	/0.6/	/0.7/	/0.8/	/1.1/
Liabilities	/--/	/--/	/--/	/--/	/--/	/--/
Credit to private sector	22.2	27.0	33.8	42.7	54.1	75.7
Loans	(19.4)	(23.9)	(30.2)	(38.1)	(45.8)	(61.8)
Overdue loans	(2.7)	(2.9)	(3.3)	(4.2)	(7.3)	(12.6)
Miscellaneous securities	(0.2)	(0.2)	(0.2)	(0.5)	(1.0)	(1.3)
Net unclassified assets	4.6	5.3	6.6	9.1	12.3	20.1
Liabilities to monetary authorities	4.1	5.4	6.8	9.0	13.6	20.6
Liabilities to private sector	33.1	38.3	46.0	58.4	68.1	92.6
Monetary liabilities	16.1	18.4	21.6	28.3	31.4	38.0
Demand deposits	(16.1)	(18.4)	(21.6)	(28.3)	(31.4)	(38.0)
Other liabilities	14.4	16.1	19.2	23.7	28.7	44.7
Quasi-money	(5.3)	(5.7)	(6.6)	(7.8)	(8.6)	(10.8)
Mortgage bonds	(4.6)	(5.3)	(6.3)	(8.8)	(11.4)	(13.8)
Other sucre liabilities	(3.2)	(4.0)	(4.7)	(5.1)	(5.4)	(12.5)
Liabilities in foreign currency	(1.3)	(1.0)	(1.6)	(2.0)	(3.3)	(7.6)
Private capital and reserves	2.6	3.8	5.2	6.4	8.0	9.9
III. National Development Bank						
Net international reserves	--	--	--	--	--	--
Monetary reserves and currency holdings	0.8	1.0	1.0	1.4	2.1	1.0
Cash	0.2	0.3	0.2	0.4	0.5	0.5
Reserve deposits in sucres	0.5	0.7	0.8	1.0	1.6	0.5
Deposits with local banks	--	--	--	--	--	--
Net domestic assets	6.1	5.3	6.2	7.6	8.8	11.3
Net claims on public sector	-2.1	-1.7	-1.8	-2.5	-3.7	-3.4
Net Central Government 3/	(--)	(--)	(--)	(--)	(--)	(--)
Assets	/--/	/--/	/--/	/--/	/--/	/--/
Liabilities	/--/	/--/	/--/	/--/	/--/	/--/
Rest of public sector	(-2.1)	(-1.7)	(-1.8)	(-2.5)	(-3.7)	(-3.4)
Assets	/--/	/--/	/--/	/--/	/--/	/--/
Liabilities	/-2.1/	/-1.7/	/-1.8/	/-2.5/	/-3.7/	/-3.4/
Credit to private sector	10.2	10.9	11.3	12.5	14.5	16.0
Loans	(7.3)	(7.8)	(8.9)	(10.3)	(12.0)	(13.0)
Overdue loans	(1.6)	(1.9)	(1.8)	(1.8)	(2.1)	(2.5)
Miscellaneous securities	(1.3)	(1.3)	(0.6)	(0.4)	(0.4)	(0.5)
Net unclassified assets	0.5	0.9	1.5	2.3	2.9	3.6
Official capital, reserves, and surplus	-2.6	-4.8	-4.8	-4.7	-5.0	-4.9
Medium- and long-term liabilities	1.0	0.6	0.6	0.8	1.0	1.6
Liabilities to monetary authorities	3.3	3.0	4.0	4.9	5.7	6.2
Liabilities to commercial banks	0.5	0.5	0.3	0.6	0.7	0.8
Liabilities to private sector	2.0	2.1	2.3	2.7	3.5	3.7
Monetary liabilities	0.9	1.0	0.9	1.2	1.2	1.3
Demand deposits	(0.9)	(1.0)	(0.9)	(1.2)	(1.2)	(1.3)
Other liabilities	1.1	1.1	1.3	1.5	2.3	2.4
Quasi-money	(0.6)	(0.6)	(0.7)	(0.8)	(0.9)	(1.0)
Development bonds	(--)	(--)	(--)	(--)	(0.5)	(1.0)
Other sucre liabilities	(0.5)	(0.5)	(0.7)	(0.7)	(0.9)	(0.4)

Table 22. Ecuador: Detailed Accounts of the Banking System (Concluded)

(In billions of sucres)

	US\$1 = S/. 25					US\$1 = S/. 33
	1977	1978	1979	1980	1981	Prel. 1982
IV. Consolidated Banking System (I+II+III)4/						
Net international reserves	15.3	16.2	17.0	23.3	16.0	9.8
Foreign assets	18.6	19.2	22.0	30.0	20.3	19.3
Short-term liabilities	-3.3	-3.0	-5.0	-6.7	-4.3	-9.5
Net domestic assets	36.1	41.7	53.0	65.3	83.9	125.8
Net claims on public sector	-5.3	-6.6	-9.5	-12.0	-17.9	-15.8
Net Central Government 3/	(-0.4)	(-1.6)	(0.1)	(-0.7)	(-3.0)	(-0.7)
Assets	/3.3/	/2.9/	/3.2/	/3.0/	/2.9/	/3.0/
Liabilities	/-3.8/	/-4.5/	/-3.1/	/-3.7/	/-5.9/	/-3.7/
FONADE/BEDE	(-1.1)	(-2.1)	(-2.8)	(-2.0)	/-2.3/	/-7.2/
Rest of public sector	(-3.7)	(-2.9)	(-6.8)	(-9.3)	(-12.6)	/-7.9/
Assets	/1.7/	/1.4/	/1.4/	/1.5/	/1.6/	/2.0/
Liabilities	/-5.4/	/-4.3/	/-8.2/	/-10.8/	/-14.2/	/-9.9/
Official capital, reserves, and surplus	-2.6	-4.8	-4.8	-4.7	-5.0	-4.9
Credit to other financial intermediaries	0.7	1.1	1.3	2.9	5.2	7.2
Credit to private sector	36.4	43.6	53.5	66.4	85.6	107.6
Net unclassified assets	6.6	8.6	12.7	11.8	13.8	30.3
Net interbank float	0.4	-0.1	-0.2	0.9	2.2	1.4
Counterpart SDR allocation	0.3	0.4	0.6	0.8	0.9	1.2
Liabilities to international development organizations	0.3	0.4	0.4	0.5	0.6	0.9
Medium- and long-term foreign liabilities	1.0	0.6	0.6	0.8	1.0	1.6
Liabilities to other financial intermediaries	0.5	1.0	2.2	1.8	1.1	1.7
Liabilities to private sector	49.3	55.6	66.2	84.7	96.3	130.2
Money	26.4	29.9	35.0	44.8	50.0	59.7
Currency in circulation	(8.9)	(10.0)	(12.1)	(14.9)	(16.9)	(19.8)
Demand deposits	(17.4)	(19.9)	(22.9)	(29.9)	(33.1)	(39.9)
Other liabilities	20.4	21.8	26.0	33.4	38.3	60.6
Quasi-money	(5.9)	(6.3)	(7.3)	(8.7)	(9.5)	(11.8)
Import deposits	(2.4)	(2.1)	(2.6)	(3.1)	(4.7)	(6.0)
Stabilization bonds	(1.3)	(1.3)	(1.4)	(1.4)	(0.9)	(1.1)
Bankers acceptances	(0.3)	(0.1)	(--)	(0.3)	(--)	(0.8)
Mortgage and development bonds	(4.6)	(5.3)	(6.3)	(8.8)	(11.9)	(14.8)
Other sucre liabilities	(4.6)	(5.7)	(6.8)	(9.1)	(7.9)	(18.3)
Liabilities in foreign currency	(1.3)	(1.0)	(1.6)	(2.1)	(3.4)	(7.8)
Private capital and surplus	2.6	3.8	5.2	6.4	8.0	9.9

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

- 1/ Includes adjustment (S/. 3.5 billion) due to changes in gold valuation in 1982.
 2/ IMF valuation.
 3/ Coverage of Central Government does not correspond to that defined in Section II.
 4/ Includes Cooperatives Bank after June 30, 1978.

Table 23. Ecuador: Exports by Principal Products

	1978	1979	1980	1981	Prel. 1982
(Value in millions of U.S. dollars; volume in thousands of metric tons; unit value in U.S. dollars per metric ton, or as indicated)					
Total exports	1,529.2	2,150.2	2,544.2	2,544.2	2,334.0
Crude petroleum					
Value	558.0	1,031.9	1,391.7	1,559.9	1,388.0
Volume (in millions of barrels)	44.8	44.8	39.6	45.5	42.7
Unit value (US\$ per barrel)	12.5	23.0	35.2	34.3	32.5
Petroleum derivatives					
Value	91.2	145.4	192.7	166.5	136.0
Volume (in millions of barrels)	7.9	7.4	7.9	5.8	6.0
Unit value (US\$ per barrel)	11.5	19.7	24.4	28.7	22.7
Bananas					
Value	172.7	203.4	237.1	207.9	214.0
Volume	1,363.0	1,386.0	1,347.0	1,229.5	1,280.7
Unit value	126.7	146.8	176.0	169.1	167.1
Coffee					
Value	281.2	263.8	132.2	105.9	157.0
Volume	103.1	82.0	54.0	56.0	65.9
Unit value	2,727.5	3,217.1	2,448.1	1,891.1	2,382.4
Cacao, unprocessed					
Value	50.4	40.3	31.3	43.8	63.1
Volume	16.3	14.5	13.7	27.0	46.4
Unit value	3,092.0	2,779.3	2,284.7	1,622.2	1,360.1
Cacao, processed					
Value	207.4	233.6	180.1	105.8	55.4
Volume	57.2	60.6	61.5	48.0	30.0
Unit value	3,625.8	3,854.8	2,928.5	2,204.2	1,846.7
Other					
Total value	168.3	231.8	377.1	354.4	320.5
Sugar and molasses	(7.7)	(16.0)	(48.0)	(17.1)	(--)
Fish and seafood	(89.5)	(106.0)	(130.1)	(182.2)	(210.0)
Electrical products	(7.0)	(14.7)	(17.9)	(15.8)	(15.8)
Other	(64.1)	(95.1)	(181.1)	(139.3)	(94.7)

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

Table 24. Ecuador: Export and Import Indices

(1978 = 100)

	1978	1979	1980	1981	Prel. 1982
<u>Export Indices</u>					
<u>Total</u>					
Value	100.0	140.7	166.5	166.5	152.8
Volume	100.0	92.9	82.0	84.9	87.4
Unit price	100.0	151.5	203.0	196.1	174.8
<u>Import Indices</u>					
<u>Total</u>					
Value	100.0	123.0	131.5	138.5	127.9
Volume	100.0	107.8	100.9	103.9	95.6
Unit price	100.0	114.1	130.3	133.3	133.8
<u>Terms of Trade</u>					
<u>Total</u>	100.0	132.8	155.8	147.1	130.6

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

Table 25. Ecuador: Net International Reserves of the Banking System

(In millions of U.S. dollars)

	1977	1978	1979	1980	1981	Prel. 1982
<u>Total net international reserves</u>	<u>613.2</u>	<u>646.9</u>	<u>682.8</u>	<u>931.6</u>	<u>640.4</u>	<u>296.5</u>
<u>Central Bank (net)</u>	<u>570.8</u>	<u>602.4</u>	<u>630.9</u>	<u>856.5</u>	<u>562.9</u>	<u>210.0</u>
<u>Assets</u>	<u>670.5</u>	<u>686.6</u>	<u>784.1</u>	<u>1,084.0</u>	<u>677.8</u>	<u>457.0</u>
Gold <u>1/</u>	(16.9)	(17.2)	(17.5)	(17.5)	(17.5)	(124.3)
Foreign exchange	(490.7)	(529.5)	(567.5)	(821.5)	(423.8)	(167.3)
IMF reserve tranche <u>2/</u>	(--)	(10.4)	(12.3)	(27.9)	(28.0)	(--)
SDRs <u>2/</u>	(10.0)	(13.8)	(25.1)	(24.2)	(32.6)	(--)
Payments agreements	(71.2)	(61.1)	(88.0)	(108.4)	(76.2)	(100.5)
Other assets	(81.7)	(54.6)	(73.7)	(84.5)	(99.8)	(64.9)
<u>Liabilities</u>	<u>99.7</u>	<u>84.2</u>	<u>153.2</u>	<u>227.5</u>	<u>115.0</u>	<u>247.0</u>
To IMF	(--)	(--)	(--)	(--)	(--)	(0.3)
Payments agreements	(24.9)	(40.1)	(59.0)	(82.8)	(80.0)	(83.0)
Other liabilities	(74.8)	(44.1)	(94.2)	(144.7)	(35.0)	(163.7)
<u>Commercial banks (net)</u>	<u>42.4</u>	<u>44.5</u>	<u>51.9</u>	<u>75.1</u>	<u>77.5</u>	<u>86.5</u>

Source: Central Bank of Ecuador.

1/ Includes adjustment (US\$106.8 million) due to change in gold valuation in 1982.2/ IMF valuation.

Ecuador--Stand-by Arrangement

Attached hereto is a letter dated March 24, 1983, from the General Manager of the Central Bank of Ecuador and the Minister of Finance of Ecuador requesting a stand-by arrangement and setting forth the objectives and policies that the Government of Ecuador intends to pursue for the period of this stand-by arrangement. To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period of one year from 1983, Ecuador will have the right to make purchases from the Fund in an amount equivalent to SDR 157.5 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2.(a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 39,375,000 until July 31, 1983, the equivalent of SDR 78,750,000 until October 31, 1983, and the equivalent of SDR 118,125,000 until January 31, 1984.

(b) None of the limits in (a) above shall apply to a purchase under the stand-by arrangement that would not increase the Fund's holdings of Ecuador currency in the credit tranches beyond 25 per cent of quota, or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of two to one until purchases under this arrangement reach the equivalent of SDR 39,375,000 and then each purchase shall be made from ordinary and borrowed resources in the ratio of 1 to 1.2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Ecuador will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Ecuador currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) during any period in which

(i) the limit on the net domestic indebtedness of the nonfinancial public sector set forth in Table 1 annexed to the attached letter is not observed, or

(ii) the limit on the net domestic assets of the Central Bank of Ecuador set forth in Table 2 annexed to the attached letter is not observed, or

(iii) the data at the end of the preceding period indicate that the target for the net international reserve position of the Central Bank of Ecuador set forth in Table 3 annexed to the attached letter has not been observed, or

(b) the limits on the outstanding external debt of the public sector or guaranteed by the public sector with original maturities of up to and including 12 years and up to and including one year set forth in Table 4 annexed to the attached letter are exceeded without including the proceeds from such borrowing in gross international reserves; or

(c) after November 30, 1983 until the elimination of all external arrears referred to in paragraph 11 of the attached letter has been completed; or

(d) during any period after October 18, 1983 if the review contemplated in paragraph 15 of the attached letter has not been completed or, if further understandings have been reached pursuant to the review, while such understandings are not being observed; or

(e) during the entire period of the stand-by arrangement, if Ecuador:

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices other than as described in paragraph 10 of the attached letter, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Ecuador is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Ecuador and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Ecuador's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Ecuador. When notice of a decision of formal ineligibility or of a

decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Ecuador and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchase under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Ecuador, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Ecuador will consult the Fund on the timing of purchases involving borrowed resources.

8. Ecuador shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9.(a) Ecuador shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Ecuador's balance of payments and reserve position improves.

(b) Any reduction in Ecuador's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Ecuador shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Ecuador or of representatives of Ecuador to the Fund. Ecuador shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Ecuador in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 15 of the attached letter, Ecuador will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing

Director requests consultations because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Ecuador has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Ecuador's balance of payments policies.

Quito, Ecuador
March 24, 1983

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

Dear Mr. de Larosière:

1. Over the past five years, Ecuador's rate of economic growth has been progressively decelerating, while inflationary pressures rose. Further, Ecuador's economy remained basically open, and the current account of the balance of payments deteriorated sharply. The widening public sector deficit and the sluggish growth of exports contributed strongly to this deterioration. Yet, the level of international reserves was kept more or less constant in spite of these adverse conditions due to Ecuador's easy access to international capital markets. However, in recent years, the sharp rise in interest rates in the world market and the world economic recession added further burdens to Ecuador's balance of payments. As a result, in 1981 the net international reserves of the Central Bank of Ecuador declined by almost US\$300 million, the first overall balance of payments deficit in five years.

2. The Government of Ecuador sought to prevent further deterioration of the balance of payments by adopting several measures. The sucre in the official market was depreciated from S/. 25 per U.S. dollar to S/. 33 per U.S. dollar (by 32 per cent in sucre terms) in May 1982, domestic prices of gasoline were doubled during the year, subsidies on wheat were eliminated, and a number of tax measures were submitted to Congress, and some were approved. Interest rates were raised and credit creation by the Central Bank was sharply curtailed. In October, Ecuador requested a refinancing of public debt amortizations due to foreign commercial banks during the period November 1982-December 1983, and in November, importation of a large list of commodities was prohibited. Notwithstanding these measures, the spread between the official and the free market rate averaged about 70 per cent during 1982, compared with about 20 per cent during 1981. Moreover, due to the worsening of the international financial situation, Ecuador's access to foreign borrowing became extremely difficult and was at less favorable terms. The decline in the net international reserves (excluding a revaluation of Central Bank gold holdings) reached US\$460 million in 1982, while external payments arrears emerged toward the end of the year.

3. The Government of Ecuador has recognized the need to frame further adjustment policies within the context of a medium-term objective of maintaining international competitiveness and promoting economic growth. The program for 1983 is aimed at setting the basis for sustained economic growth over the next few years, in the context of improved international conditions. Thus, during 1983 the Government is

in the process of reforming the exchange system, overhauling public finances and the utilization of monetary instruments, and establishing adequate rules and controls on public sector external indebtedness. To achieve the above-mentioned objective, the Government has formulated a program, which is described in the following paragraphs, and it wishes to count on the International Monetary Fund's support. Accordingly, it hereby requests a one-year stand-by arrangement in an amount equivalent to SDR 157.5 million from ordinary and borrowed resources. The Government believes that its request for enlarged access to the Fund's resources is justified in the light of Ecuador's difficult circumstances, and particularly the large balance of payments need relative to quota.

4. A key element of the adjustment program will be a substantial reduction of the public sector deficit. On March 14, 1983 the Congress approved a law regulating public expenditure, which will have a far-reaching impact on public finances, inasmuch as this law has imposed severe limitations on the operations of the Central Government and of the autonomous entities. Regarding the former, budgetary appropriations cannot be revised by more than 5 per cent during the year, except in the case of exceptional circumstances. During 1983 and 1984, the increase in current outlays of the rest of the public sector will be limited to no more than 5 per cent of the previous year's budget, except for contractual salary adjustments. Investment expenditures could be increased only if the required financing is available. The law also modifies the system of revenue earmarking, limits the increase in public sector employment, regulates public wage structures, and subjects all future foreign borrowing by the public sector to prior approval of the Minister of Finance.

5. The Government plans to lower the overall public sector deficit from 7.5 per cent of GDP in 1982 to about 4 per cent of GDP in 1983, through a combination of revenue measures and tight control on expenditure. A number of revenue-generating measures have already been approved, including increases in domestic gasoline prices and placement of new taxes on beer, cigarettes, and other selected consumption items. Furthermore, an average surcharge of 9 per cent has been applied to imports. The system of earmarking of petroleum revenues is being simplified. In addition, prices charged for public goods and services will be increased in line with policies followed by the Government in order to meet domestic production costs. Other tax measures are being considered and will be implemented if necessary. Tax evasion will be reduced through the computerization of income tax rolls, the tightening of controls on sales tax collection, and the strengthening of other tax legislation. Moreover, the number of individuals and enterprises subject to taxation will be widened. Public sector expenditures have been limited on the basis of the Law on Public Expenditure. Additional savings will be sought by further limiting the expenditures of public institutions to only a marginal increase over 1982 levels. This restriction will be made in spite of some wage increases granted during the year and the emergency aid required to repair damage to infrastructure and the productive apparatus in the coastal region following heavy flooding in

late 1982 and early 1983. To monitor the public sector deficit, the Government presently is improving the expenditure control machinery. The implementation of these policies will make it possible to limit the overall public sector deficit to the level indicated above. To assure that the financing of the public sector deficit would not unduly limit credit to the private sector, the net indebtedness of the nonfinancial public sector to the Central Bank of Ecuador will be limited to the amounts specified in the annexed Table 1.

6. Monetary and credit policies will continue to be conducted so as to advance the economic and social development contemplated in the programs of the Government, without producing excessive demand on foreign exchange resources or pressures on the domestic price level. Considering the experience of past years, it would appear that an expansion of the banks' liabilities to the private sector by approximately 23.5 per cent might meet these requirements. The effectiveness of the policies in this field will be judged by reference to the maximum levels for the net domestic assets of the Central Bank of Ecuador set forth in annexed Table 2, for the periods defined in this table.

7. In 1982 the Monetary Board sharply increased domestic interest rates on deposits and loans of commercial banks and savings and loan associations. The Government recognizes that such adjustment is necessary due to the openness of Ecuador's economy, if the medium-term objective of increasing domestic savings is to be realized. Accordingly, the Monetary Board will continue to adjust interest rates in order to move toward positive real interest rates in the domestic financial markets and to reflect developments in world capital markets. On March 18, 1983 the Monetary Board restructured the interest rate system, increasing deposit and loan rates. In order to bring interest rates closer to a level attractive enough to help generate additional internal savings, the Monetary Board decided to increase the maximum short-term loan rate to 16 per cent and to unify the rates for several operations.

8. An important element in improving the cost-price relationship and Ecuador's international competitiveness is the area of wage determination. The authorities will continue to implement a controlled wage adjustment policy, and across-the-board wage increases will be considered only if they would not create economic imbalances. Wage adjustments will be consistent with the monetary and fiscal policies described in this letter. The Government believes that labor and management are likely to understand that excessive wage increases will not lead to real wage gains.

9. The Government will continue to implement a rational pricing policy enabling the economy to take full advantage of the natural resources and productive capacity of the country. In this respect, prices and tariffs for nontraded goods and services marketed by the public sector will be adjusted toward their domestic costs. Also, producer prices

of internationally traded goods will be reviewed to eliminate price subsidies if any and ensure the efficient use of Ecuador's natural resources. This is of particular importance now that international prices are changing rapidly. Already the average domestic price of gasoline has been doubled to S/. 30 per gallon in 1982.

10. Adjustment of the effective exchange rate and reform of the exchange system are key elements in the program. The aims of a flexible exchange system should be to stimulate the competitiveness of exports, to reduce imports of nonessential goods, to discourage capital flight, and to rebuild in the medium term international reserves. For legal reasons, the dual exchange market system will be retained for the time being, but the monetary authorities have been authorized to transfer transactions from the official to the free market. Modifications have been introduced in the exchange system. The exchange rate of the sucre in the official market has depreciated from S/. 33 per U.S. dollars to S/. 42 per U.S. dollar as of March 19, 1983. A crawling peg system is being implemented during the program period which, together with other measures, would result in a substantial reduction of the spread between the free and official exchange market rates by the end of the program period. To regulate the flow of imports, commercial credit requirements have been introduced. Targets for changes in the net international reserves of the Central Bank of Ecuador are set out in the annexed Table 3.

11. In line with the establishment of a more flexible exchange system, the Government will disband by the end of the program period the prohibition placed on imports toward the end of 1982. Similarly, arrears on current international payments will be liquidated by November 30, 1983. The Government of Ecuador does not intend to introduce any new multiple currency practice other than as described in paragraph 10 above, impose restrictions on payments or transfers for current international transactions, conclude 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 reasons.

12. During the last ten years, Ecuador made an extensive use of foreign loans to finance its economic activity. Besides international agencies, private foreign banks lent considerable amounts in a rather liberal fashion. However, the terms of this lending became less favorable in recent years, thus resulting in a heavy accumulation of amortizations during the period 1983-85. At the end of 1982, the outstanding external public debt (excluding advances) amounted to US\$4.6 billion, and the outstanding registered private debt to about US\$1.6 billion. In the light of the continuing balance of payments deterioration, in January 1983 the Government of Ecuador reached an agreement with a group of foreign commercial banks for a refinancing of public debt amortizations falling due during the period November 1, 1982 to December 31, 1983. Also some suppliers' credits to the public sector are being renegotiated. To lessen further the pressure on the balance of payments,

negotiations are proceeding with foreign commercial banks for a refinancing of outstanding foreign private debts. The refinancing scheme would entail that creditor foreign banks would extend lines of credit to the Central Bank of Ecuador in order to cancel the outstanding foreign private debt. No exchange losses will be assumed by the public sector or the Central Bank of Ecuador, while the private sector would still benefit from the refinancing of its debts. We believe that the refinancing of these external debts is necessary, otherwise, the total payment of debt amortization through the official market would have been equivalent to 85 per cent of Ecuador's exports in 1983; a ratio that would have been unsustainable.

13. The servicing of the external public debt will entail a considerable burden on Ecuador's balance of payments for the next few years. The Government, therefore, plans to bring about an improvement in Ecuador's external public debt structure. This objective will be sought by limiting the net use of public external debt with a final maturity of up to 12 years as set forth in the annexed Table 4.

14. Once the basis for sustained economic growth has been achieved due to the successful implementation of the program described in this letter, the thrust of the policy actions of the Government of Ecuador will be aimed at the resumption of strong economic growth within the context of a balance of payments equilibrium over the medium term. We are aware that balance of payments constraints will still exist in 1984 due to the large debt service burden of the public sector and to the limited prospects for rapid increases in our exports in the context of the weak world demand for our major export product.

15. During the period of the requested stand-by arrangement, the authorities of Ecuador will periodically consult with the Fund, in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the program described in this letter and any policy adaptations judged to be appropriate for the achievement of its objectives. In this context, progress made in the implementation of the program, taking into account balance of payments developments, including the envisaged debt refinancing, the modification of the exchange system, and those policy statements indicated in paragraph 11 above, will be reviewed with the Fund before October 18, 1983. Since this letter establishes the economic goals for calendar year 1983, upon the occasion of this review of the requested stand-by arrangement, policy targets and ceilings will be defined for the remaining period of the stand-by arrangement.

Sincerely yours,

Abelardo Pachano B.
General Manager
Central Bank of Ecuador

Pedro Pinto R.
Minister of Finance

Attachments

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

(In billions of sucres)

Time Period	Limits
Up to June 30, 1983	-16.5
July 1, 1983-September 30, 1983	-13.5
October 1, 1983-December 31, 1983	-10.5

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/. 45 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 June 30, 1983	17.5
July 1, 1983-September 30, 1983	20.0
October 1, 1983-December 31, 1983	21.0

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/. 45 per U.S. dollar.

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

(In millions of U.S. dollars)

<i>Dates</i>	<i>Targets</i>
June 30, 1983	104
September 30, 1983	84
December 31, 1983	110

1/ Defined as the difference between the foreign assets of the Central Bank of Ecuador and its external liabilities. 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 12 years, 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/

(In millions of U.S. dollars)

Maturity Ranges	Up to December 31, 1983
Up to and including one year	950
Up to and including 12 years	4,400

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

2/ Ceilings will not be affected by the refinancing of private sector debt outstanding.

3/ Excludes debt of the Central Bank of Ecuador, with exception that the ceiling includes external debt arising from oil advances.

Ecuador: Proposed Domestic Measures to Reduce the Projected
Financing Requirements of the Public Sector, 1983

(In billions of sucres)

A. Revenue measures 1/

1. Increase in diesel price	0.90
2. Increase in kerosene price	0.20
3. Increase in turbo fuel price	0.10
4. Increase in bunker fuel price	0.40
5. Leyes de Fomento 2/	2.50
6. Electricity rate increase of 3 per cent (compared with 1 to 1.5 per cent) by INECEL, April-November 1983	0.30
7. Widening of coverage of tax surcharge	0.50
8. Establishment of highway tolls and reduction of export tax certificates (CATs)	<u>1.30</u>
<u>Subtotal</u>	6.20

B. Expenditure measures

1. Restriction of expenditures of the budget to levels approved by Congress	2.70
2. Limitation of FONAPAR's expenditure to a 5 per cent increase over 1982 levels	0.10
3. Limitation of BEDE's expenditure (excluding emergency aid) to a 5 per cent increase over 1982 levels	1.10
4. Limitation of CEPE's expenditure to a 5 per cent increase over 1982 levels	2.60
5. Limitation of INECEL's expenditure to a 5 per cent increase over 1982 levels	<u>0.80</u>
<u>Subtotal</u>	7.30
<u>Total</u>	<u>13.50</u>

1/ Over 10 months. If implemented after March 1, 1983, the percentage increase will be raised in order to provide the projected revenues for the public sector.

2/ If the Leyes de Fomento are not passed by Congress, the Government will increase domestic gasoline prices sufficiently to generate S/. 2.5 billion in public sector revenue (estimated at a 21 per cent increase over 10 months).

