FOR AGENDA

EBS/87/263

CONFIDENTIAL

December 9, 1987

To: Members of the Executive Board

From: The Acting Secretary

Subject: Ecuador - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on Ecuador's request for a stand-by arrangement equivalent to SDR 75.4 million. Draft decisions appear on page 26.

This subject, together with the paper on Ecuador's request for the use of Fund resources under the compensatory financing facility (EBS/87/264, 12/9/87), will be brought to the agenda for discussion on a date to be announced.

Mr. Bonangelino (ext. 7148) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ECUADOR

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 S. T. Beza and Eduard Brau

December 9, 1987

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I. Introduction

Negotiations on a program for 1988 that would qualify Ecuador for Fund support under a stand-by arrangement were initiated in Quito in the period October 6-30, 1987 and concluded at headquarters during the period November 5-10, 1987. The Ecuadoran representatives in the discussions included the Minister of Finance and Public Credit, the General Manager of the Central Bank, the President of the Monetary Board, and senior officials of the Ministry of Finance and the Central Bank. The staff representatives in the negotiations were Messrs. Bonangelino (Head-WHD), Leme, Terrier (both WHD), and Leipold (ETR), and Mrs. Bustillo (Secretary-WHD).

In the attached letter of intent dated December 3, 1987, the Minister of Finance and Public Credit and the General Manager of the Central Bank of Ecuador request a stand-by arrangement for the period through the end of February 1989 in an amount equivalent to SDR 75.4 million (about 43 percent of quota on an annual basis) including SDR 10 million from the Fund's ordinary resources and SDR 65.4 million from borrowed resources. Concurrently with the stand-by arrangement, Ecuador is requesting a purchase of SDR 42.7 million under the compensatory financing facility. As of October 31, 1987 the Fund's holdings of sucres stood at SDR 513.7 million or the equivalent of 340.9 percent of quota. Including the CF purchase, and after taking into account Ecuador's scheduled repurchases, full use of the proposed arrangement would reduce somewhat the Fund's holdings of sucres to SDR 495.8 million, or the equivalent of 329 percent of quota, at the end of the first quarter of 1989. A waiver of the limitation under Article V, Section 3(b)(iii) of the Articles of Agreement is required.

Under the proposed arrangement, purchases shall not exceed the equivalent of SDR 15.1 million until May 13, 1988, the equivalent of SDR 30.1 million until August 15, 1988, the equivalent of SDR 45.2 million until November 14, 1988, and the equivalent of SDR 60.3 million until February 14, 1989 (Table 1).

Ecuador made only one purchase of SDR 15.1 million under the previous stand-by arrangement approved on August 15, 1986 in an amount equivalent to SDR 75.4 million (50 percent of quota) (EBM/86/136) because performance criteria were not met at the end of September and December 1986 and because the mandatory mid-term review was not completed. The situation created by the earthquakes that struck Ecuador in early March 1987 made the program for 1987, which had been negotiated in the context of the mid-term review of the stand-by arrangement, no longer viable and the authorities decided to cancel the arrangement on June 10, 1987.

On June 29, 1987 the Executive Board approved an emergency assistance purchase in the amount of SDR 37.7 million (25 percent of quota) and concluded the Article IV consultation (EBM/87/94).

Table 1. Ecuador: Projected Transactions with the Fund During Period of Arrangement

	Outstanding Oct. 31, 1987	1987 Nov.-Dec.	1988 Jan.-Mar.	1988 Apr.-June	1988 July-Sept.	1988 Oct.-Dec.	1989 Jan.-Mar.
	(In millions of SDRs)						
Purchases under tranche policies	269.9	--	15.1	15.1	15.1	15.1	15.0
Ordinary resources	145.2	--	5.0	5.0	--	--	--
Enlarged access resources	124.7	--	10.1	10.1	15.1	15.1	15.0
Repurchases under tranche policies	--	-7.2	-17.0	-14.2	-19.6	-8.7	-15.8
Ordinary resources	--	-4.5	-10.2	-11.5	-11.5	-6.0	-7.7
Enlarged access resources	--	-2.7	-6.8	-2.7	-8.1	-2.7	-8.1
Transactions under special facilities 1/	93.1	-10.7	32.0	-10.7	-10.7	-10.7	--
Purchases	93.1	--	42.7	--	--	--	--
Repurchases	--	-10.7	-10.7	-10.7	-10.7	-10.7	--
Total Fund credit outstanding (end of period)	363.0	345.2	375.3	365.4	350.2	345.9	345.1
Under tranche policies	269.9	262.8	260.8	261.7	257.1	263.5	262.7
Special facilities 1/	93.1	82.4	114.4	103.8	93.1	82.4	82.4
	(In percent of quota)						
Total Fund credit outstanding (end of period)	240.9	229.0	249.0	242.5	232.4	229.5	229.0
Under tranche policies	179.1	174.4	173.1	173.7	170.6	174.8	174.3
Special facilities	61.8	54.7	75.9	68.8	61.8	54.7	54.7

Source: International Monetary Fund.

1/ Compensatory financing facility.

II. Background

Following a severe deterioration of economic conditions in the early 1980s, adjustment efforts were undertaken in 1983-85 with a view to reducing inflationary pressures and strengthening the balance of payments. These efforts were supported by two one-year stand-by arrangements from the Fund, which became effective in July 1983 and in March 1985, respectively. The policies implemented by the authorities under these programs resulted in a significant strengthening of the public finances and the balance of payments, and in the gradual elimination of all external payments arrears. Real GDP, which had declined sharply in 1983, grew at an average rate of more than 4 percent a year in 1984-85, and the average increase in the consumer price index declined from almost 50 percent in 1983 to about 30 percent in 1984 and 1985 (Table 2).

Ecuador's economic situation was adversely affected in 1986 by the sharp decline in the export price of oil, which reduced considerably export earnings and government revenues. Under an economic program supported by a one-year stand-by arrangement from the Fund, approved on August 15, 1986, the authorities sought to contain the deterioration in the public sector finances while pursuing flexible exchange rate and interest rate policies. The authorities transferred all private sector transactions to the free exchange market on August 11, 1986, 1/ and later in that month started adjusting the central bank intervention rate (applied to public sector transactions) with a view to maintaining a narrow spread between the two rates. As a result, the sucre depreciated in real effective terms by close to 20 percent on average in 1986.

In the event, the fiscal and external imbalances in 1986 were larger than had been envisaged in the program. Because of expenditure overruns, the overall nonfinancial public sector deficit reached 5.1 percent of GDP, compared with a targeted deficit of 3.2 percent of GDP. Current expenditure was 1 percentage point of GDP higher than envisaged under the program because of higher interest and wage outlays, while capital expenditure was 1.6 percentage points higher than projected, at 8.7 percent of GDP. The overall balance of payments registered a deficit of US$227 million in 1986, whereas the program had targeted a deficit of no more than US$50 million. Real GDP growth was, at 2.9 percent, faster than projected, while the average increase of the consumer price index was in line with the program projection of 23 percent.

1/ As a transitional arrangement, the Central Bank was committed to provide foreign exchange at the intervention rate to the private sector for the payment of imports for which permits had been granted before August 11, 1986.

Table 2. Ecuador: Selected Economic Indicators

	1982	1983	1984	1985	Prel. 1986	Projected 1987	Projected 1988
	(Percentage change)						
GDP							
Real GDP	1.2	-2.8	4.2	4.5	2.9	-3.1	8.4
Real GDP excluding oil and mining	1.7	-6.3	3.3	3.6	2.3	2.6	2.6
Nominal GDP	19.2	34.8	45.0	36.8	22.9	31.8	37.1
GDP deflator	17.8	38.7	39.2	30.9	19.5	35.9	26.5
CPI							
End of period	24.4	52.5	25.0	24.4	27.3	28.5	20.5
Period average	16.3	48.4	31.2	28.0	23.0	29.0	23.5
	(In percent of GDP)						
Overall nonfinancial public sector balance	-6.7	--	-0.6	1.9	-5.1	-10.5	-1.3
Foreign financing	4.5	0.6	1.4	1.4	5.6	4.8	-0.5
Domestic financing	2.2	-0.6	-0.8	-3.3	-0.4	2.0	-2.7
External arrears	--	--	--	--	--	3.6	-4.2
Additional financing and debt relief	--	--	--	--	--	--	8.7
Gross domestic investment	25.2	17.6	18.3	17.1	18.7	19.7	19.5
Gross national savings	13.5	16.2	15.7	18.1	12.9	6.5	14.5
Current account of the balance of payments	-11.7	-1.4	-2.6	1.0	-5.8	-13.2	-5.0
	(In millions of U.S. dollars)						
Overall balance of payments	-671	52	60	85	-227	-663	698 1/
	(In billions of sucres)						
Nominal GDP	415.7	560.3	812.6	1,111.7	1,366.3	1,800.3	2,468.7

Sources: National Department of Statistics (DANE); Ministry of Finance, National Planning Department; Central Bank of Ecuador; and Fund staff estimates.

1/ Assumes that the envisaged debt relief has been obtained.

In 1987 economic conditions were adversely affected by the early March earthquakes which damaged infrastructure including roads, telephone and telecommunication facilities, and destroyed 40 kilometers of the main oil pipeline, thus preventing production and export of oil for a five-month period. To a significant extent as a result of the impact of the earthquakes on revenues and expenditures, the public sector deficit is estimated to widen to the equivalent of 10.5 percent of GDP in 1987. Compared with 1986, public sector revenue is projected to decline by the equivalent of 3 percentage points of GDP while total expenditure is projected to increase by close to 2.5 percentage points of GDP. Capital outlays are estimated to amount to the equivalent of 9.6 percent of GDP and, excluding emergency expenditures linked to the earthquakes, are estimated to remain at the same level (over 8.5 percent of GDP) reached in 1986. About one third of the 1987 deficit is being financed through the accumulation of external debt servicing arrears to commercial banks and official creditors and close to another third through central bank credit.

The current account deficit of the balance of payments is estimated to widen from 5.8 percent of GDP in 1986 to 13.2 percent of GDP in 1987 (US$1.2 billion), and the overall deficit is estimated to amount to around US$660 million (7 percent of GDP). In addition to the accumulation of arrears on debt service obligations to commercial banks and official creditors, the authorities have been financing the overall balance of payments deficit through arrears to suppliers and on foreign exchange obligations to domestic importers (trade arrears). The Central Bank has acted to retire the trade arrears through the issuance of bonds denominated in foreign currency (predominantly U.S. dollars). 1/ Debt servicing arrears to commercial banks, official creditors, and suppliers are projected to amount to US$608 million at the end of 1987.

The pressures on the balance of payments created by the decline in export earnings and the deterioration of public sector finances were reflected in a depreciation of the sucre by 24 percent in nominal effective terms and by 19 percent in real effective terms between end-December 1986 and end-September 1987 (Chart 1). The intervention rate of the Central Bank was adjusted on several occasions during the year but in recent months the spread between the intervention and the free rate widened to about 20 percent, as the value of the sucre vis-a-vis the U.S. dollar depreciated by over 20 percent during the last few

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1/ The trade arrears arose from the Central Bank's obligation to provide foreign exchange under the transitional arrangements referred to in footnote 1, page 3. Total trade arrears accumulated by the Central Bank amount to US$181 million, US$80 million of which are to be eliminated before end-1987 through the issuance of bonds denominated in foreign currency. The remaining trade arrears are to be eliminated progressively through May 15, 1988. The bonds have a maturity of 12-24 months and carry an interest rate equal to LIBOR (or the equivalent foreign rate).

months in the free market. As of November 30, the spread between the two rates amounted to 16.7 percent, as the exchange rate was S/. 211.5 per U.S. dollar in the intervention market and S/. 246.7 per U.S. dollar in the free market. 1/

III. The 1988 Program

The economic program for 1988 is designed to improve the overall balance of payments, to eliminate external payments arrears, and to reduce inflation as a means of helping to foster the conditions for growth. Ecuador's economic situation is projected to improve substantially in 1988 with the resumption of oil production at full capacity. The projections are based on an oil production of 310,000 barrels a day, which would allow crude oil exports of 70 million barrels in 1988 compared with about 42 million barrels in 1987. On the basis of an average oil export price of US$17.25 a barrel, the current account deficit of the balance of payments would be reduced significantly in 1988, and net international reserves would increase somewhat over and above the elimination of all external arrears. This improvement in the external accounts would be in line with a large programmed reduction in the overall public sector deficit.

Real GDP is projected to increase by nearly 8.5 percent in 1988, reflecting the recovery of oil production and a moderate expansion in non-oil output (about 2.6 percent). This performance compares with an estimated decline of about 3 percent in real GDP in 1987 and an increase of 2.6 percent in non-oil real GDP. Inflation as measured by the average increase in the consumer price index is projected to decline from an estimated 29 percent in 1987 to 23.5 percent in 1988.

1. Performance criteria

The financial program described in the attached letter of intent contains the following quantitative performance criteria: (a) ceilings on the net domestic assets of the Central Bank; (b) ceilings on central bank net credit to the public sector; (c) targets for net official international reserves; and (d) a limit on the net disbursement of public and publicly guaranteed external debt with maturities of up to and including 12 years, with a sublimit on the net disbursement of debt with maturities of up to and including one year. The credit ceilings and the limits on the net disbursement of external debt are to be met at

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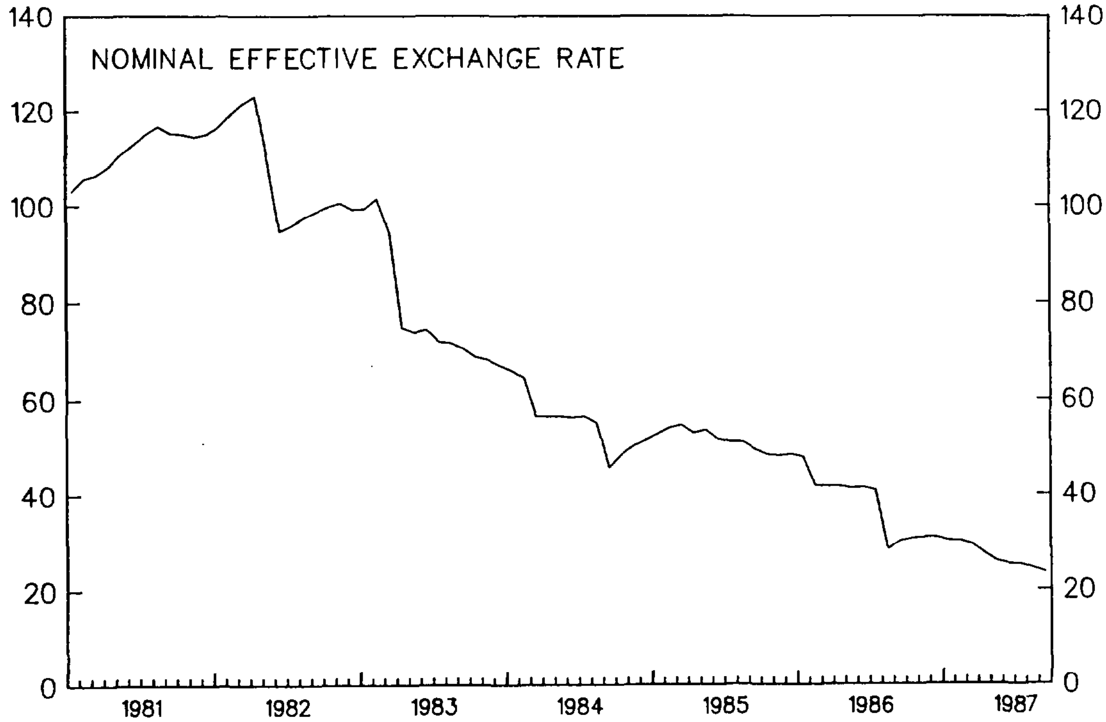
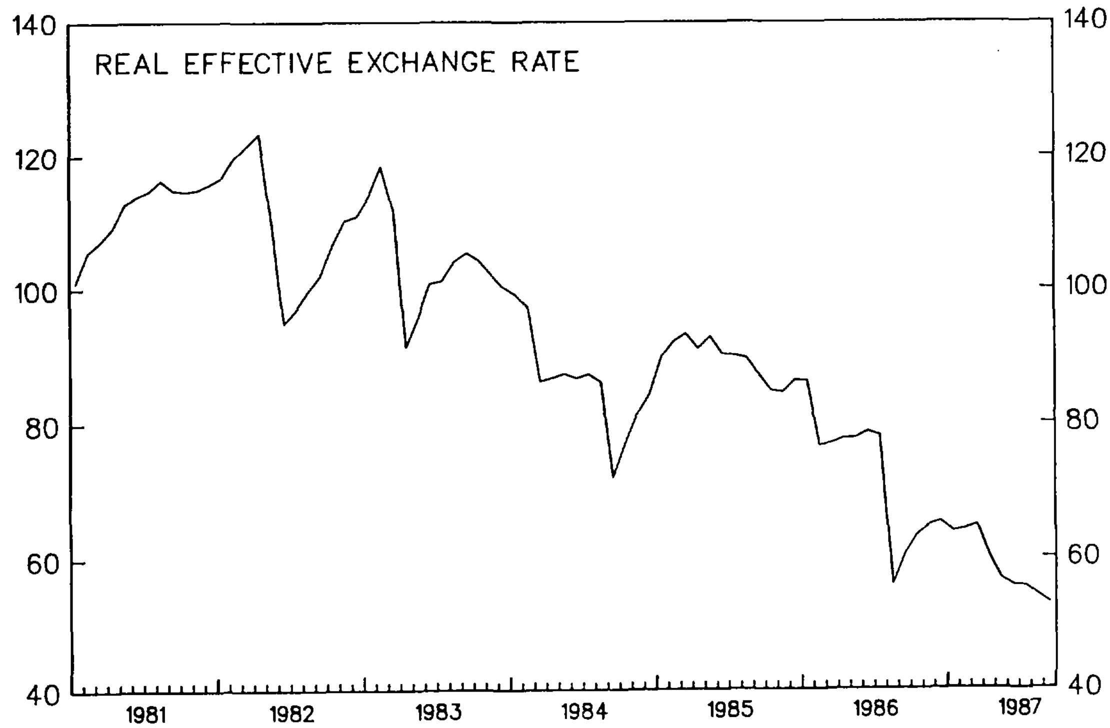
1/ The standard index developed in connection with the information notice system indicates that from the time of the most recent Executive Board discussion of exchange rate developments and policy in Ecuador (the last Article IV consultation in June 1987) through October 1987, the sucre depreciated in real effective terms by 16.5 percent. Since recent developments in the exchange rate and exchange rate policy are discussed in this paper, no separate information notice will be issued.

CHART 1
ECUADOR
EFFECTIVE EXCHANGE RATE INDICES
(1980=100)





Source: Information Notice System.
1 Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices: increases mean appreciation.

all times, while performance on the net international reserves is to be tested at the end of each quarter.

In addition, the program establishes the following performance criteria: (a) no new external arrears are to be permitted to develop during the period of the program; (b) the outstanding arrears at the end of 1987 will be eliminated before requesting the first purchase subject to performance criteria under the arrangement; 1/ (c) the spread between the intervention and the free market exchange rates is to be reduced to 5 percent or less before requesting the first purchase subject to performance criteria, and eliminated before the completion of the mid-term review of the program scheduled for no later than July 31, 1988; and (d) before requesting the first purchase subject to performance criteria, the authorities will eliminate the prior import deposit requirement adopted in October 1987. Also, before consideration by the Executive Board of Ecuador's request for the stand-by arrangement, the authorities intend to reduce the spread between the intervention and the free market exchange rates to 10 percent or less.

The customary performance criteria on overdue financial obligations to the Fund and on exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII, and import restrictions for balance of payments purposes are applicable during the program period. The review with the Fund before July 31, 1988 to assess the progress made in implementing the program also is a performance criterion.

2. Fiscal policy

The fiscal program aims at reducing the public sector deficit from 10.5 percent of GDP in 1987 to 1.3 percent of GDP in 1988, largely on the basis of the normalization of petroleum exports and expenditure restraint (Table 3). The overall deficit is expected to be more than financed by net disbursements of external loans, including a new loan from foreign commercial banks, and the rescheduling of service payments to official creditors and commercial banks, thus allowing for the elimination of all external arrears and a buildup of deposits at the Central Bank.

Total public sector revenue is projected to increase by the equivalent of about 8 percentage points of GDP to 29.6 percent of GDP in

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1/ For the purpose of the program, the outstanding arrears will be considered to have been eliminated upon signature of the agreement with commercial banks, upon finalization of the Agreed Minute with Paris Club creditors, and upon the issuance of foreign currency-denominated bonds to retire all trade arrears. In addition, arrears on suppliers' credits will be considered to have been eliminated upon the conclusion of a rescheduling agreement.

Table 3. Ecuador: Summary of Public Sector Operations

	1984	1985	Prel. 1986	Projected 1987	Projected 1988
	(In billions of sucres)				
Total revenue	192.6	309.2	337.4	390.9	730.5
Petroleum revenue	82.2	154.1	115.9	110.8	332.3
Nonpetroleum revenue	92.0	140.0	190.6	255.3	359.5
Operating surplus of public enterprises	18.4	15.0	30.9	24.8	38.7
Total expenditure	197.4	288.0	407.5	579.2	761.7
Current expenditure	142.5	211.4	287.9	407.4	555.9
Capital expenditure	54.9	76.6	119.7	171.8	205.8
Of which: fixed capital formation	42.7	56.2	91.3	141.9	176.1
Overall surplus or deficit (-)	-4.8	21.1	-70.1	-188.3	-31.2
External interest arrears	--	--	--	43.9	-70.4 1/
Overall balance (cash basis)	-4.8	21.1	-70.1	-144.4	-101.6
Financing	4.8	-21.2	70.1	144.4	-112.9
External financing (net) 2/	11.7	15.4	76.0	86.5	-11.9
Disbursements	19.6	23.1	106.0	153.9	206.2
Amortizations	7.9	7.7	30.0	67.4	218.1
External amortization arrears	--	--	--	21.4	-34.4 1/
Domestic financing (net)	-6.9	-36.6	-5.9	36.5	-66.6
Central Bank	-12.3	-35.7	-10.6	52.0	-55.8
Rest of banking system	-0.6	0.3	-1.0	-11.4	-6.0
Other	6.0	-1.2	5.7	-4.1	-4.8
Financing gap	--	--	--	--	214.5
Renewal of oil facility	--	--	--	--	60.8
Commercial bank credit	--	--	--	--	41.5
Rescheduling	--	--	--	--	112.2
Of the 1987 arrears	--	--	--	--	53.0
Of the 1988 payments	--	--	--	--	59.2
	(In percent of GDP)				
Total revenue	23.7	27.8	24.7	21.7	29.6
Petroleum revenue	10.1	13.9	8.5	6.2	13.5
Nonpetroleum revenue	11.3	12.6	14.0	14.2	14.6
Operating surplus of public enterprises	2.3	1.3	2.2	1.3	1.5
Total expenditure	24.3	25.9	29.8	32.2	30.9
Current expenditure	17.5	19.0	21.1	22.6	22.5
Capital expenditure	6.8	6.9	8.7	9.6	8.4
Overall surplus or deficit (-)	-0.6	1.9	-5.1	-10.5	-1.3
External interest arrears	--	--	--	2.5	-2.9 1/
Overall balance (cash basis)	-0.6	1.9	-5.1	-8.0	-4.2
Financing	0.6	-1.9	5.1	8.0	-4.5
External financing (net) 2/	1.4	1.4	5.6	4.8	-0.4
Disbursements	2.4	2.1	7.8	8.5	8.4
Amortizations	1.0	0.7	2.2	3.7	8.8
External amortization arrears	--	--	--	1.2	-1.4 1/
Domestic financing (net)	-0.8	-3.3	-0.5	2.0	-2.7
Central Bank	-1.5	-3.2	-0.8	2.9	-2.3
Rest of banking system	-0.1	--	-0.1	-0.7	-0.2
Other	0.8	-0.1	0.4	-0.2	-0.2
Financing gap	--	--	--	--	8.7
Renewal of oil facility	--	--	--	--	2.5
Commercial bank credit	--	--	--	--	1.7
Rescheduling	--	--	--	--	4.5
Memorandum items					
Current expenditure excluding interest payments	14.7	15.0	16.3	16.7	15.3
Interest payments	2.8	4.0	4.8	5.9	7.2

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

1/ Represents the settlement of external arrears accumulated in 1987 valued at the 1988 exchange rate.

2/ Includes the oil loans extended by Venezuela and Nigeria in 1987, which are amortized in 1987 and 1988.

1988. Most of this improvement comes from the resumption of petroleum exports. Nonpetroleum revenues have strengthened somewhat since 1985 thanks to a broadening of the tax base (involving mainly import duties and excise taxes) and improvement in tax administration (for income and general sales tax) and they are expected to show further gain in 1988.

The authorities aim at reducing total public sector expenditure by the equivalent of 1.3 percentage points of GDP to 30.9 percent of GDP in 1988. Current expenditures are projected to remain basically unchanged in relation to GDP but non-interest current expenditures are estimated to decline by about 1.4 percentage points of GDP. Following an increase in the minimum wage for public sector employees of 20.8 percent in October 1987, no provision is made for a new adjustment in 1988. Should an adjustment be made next year, the authorities would adopt compensating revenue and/or expenditure measures. Capital expenditures are projected to decline by the equivalent of 1.2 percentage points of GDP in 1988, of which 1 percentage point reflects the completion in 1987 of exceptional expenditures on the reconstruction of the oil pipeline and other infrastructure destroyed by the earthquakes.

Central government operations are projected to shift from a deficit of 4.7 percent of GDP in 1987 to a surplus of 3.9 percent of GDP in 1988 (Statistical Appendix Table 11). About three fourths of this improvement is attributable to the increase in oil revenues, while increases in nonpetroleum revenues and reductions in capital outlays account for the remainder of the improvement. Petroleum revenues of the Central Government are estimated to increase by the equivalent of 6.4 percentage points of GDP, which corresponds to almost 90 percent of the rise in total public sector oil revenue. The distribution of petroleum revenues will change in favor of the Central Government in 1988 because of the impact of the estimated depreciation of the sucre in the intervention market (almost the entire oil revenue in sucres that results from an exchange rate higher than S/. 66.50 per U.S. dollar goes to the Central Government), and because of a transitory change in the method of distributing royalty revenues. Nonpetroleum revenues are projected to increase by the equivalent of 1.1 percent of GDP, mainly because of a strong performance of taxes on international trade and the phasing out of export rebates. Revenue from taxes on international trade and from the import component of the sales tax will increase mainly as a result of the depreciation of the sucre in the intervention market.

Total central government outlays are projected to fall by the equivalent of 1.1 percent of GDP in 1988. Noninterest current expenditures are projected to decline by 1.3 percentage points of GDP; this reduction hinges on the authorities' intention to refrain from new hirings and from granting salary increases during 1988. Capital outlays, which almost doubled in 1987, are projected to decline by 1 percentage point of GDP reflecting a reduction in investment and in capital transfers to the rest of the public sector. A large share of these transfers is allocated to both municipal and provincial governments to finance construction projects.

The overall position of the rest of the general government is projected to improve in 1988 with a decline in its deficit from 3.2 percent of GDP in 1987 to 2.4 percent of GDP in 1988 (Statistical Appendix Table 12). Higher petroleum revenues will offset an expected reduction in nonpetroleum revenue so that most of the adjustment will fall on the expenditure side. A cutback in the amount of net lending by the Social Security Institute (IESS) will be an important element behind the reduction in expenditure by the rest of the general government.

With respect to the public enterprises, their operating surplus is expected to improve marginally in 1988, to 1.5 percent of GDP, reflecting the normalization of petroleum exports by the Ecuadoran Oil Corporation (CEPE) and a recovery in the revenues of the state electricity company (INECEL) (Statistical Appendix Table 13). The electricity company is expected to continue its policy of increasing electricity rates by 3 percent a month while strengthening the collection of overdue electricity bills. While capital outlays by the public enterprises as a group are to be kept roughly constant relative to GDP in 1988, investments by CEPE and INECEL are projected to increase significantly if emergency related outlays during 1987 are excluded. Investment by INECEL will concentrate on the completion of the third phase of the Paute hydroelectric dam, the drainage of the Amaluza canal in Paute, and the conclusion of the Ecuadoran interconnected electricity transmission system. CEPE's investment will be mainly on exploration and development of oil fields and the construction of another oil pipeline to transport refined products for domestic consumption.

3. Monetary policy

The monetary program for 1988 aims at achieving an increase in net official international reserves of US$739 million, some US$30 million over and above the elimination of external arrears. The program contemplates a buildup of public sector deposits with the Central Bank of nearly S/. 56 billion (2.3 percent of GDP) and would allow for an expansion of about 25 percent in banking system credit to the private sector (Tables 4 and 5). The program assumes that banking system liabilities to the private sector would rise by about 31 percent, somewhat less than the projected increase in nominal GDP. In order to control credit expansion, the authorities increased reserve requirements in several steps in 1987, including an adjustment in the reserve requirement on demand deposits from 27 percent at the beginning of the year to 37 percent in November 1987. The authorities intend to adjust reserve requirements and to conduct open market operations as needed to ensure that the objectives of the program are achieved.

With a view to fostering the growth of financial savings in the domestic banking system, the authorities have adopted in recent years measures designed to bring about more flexibility to interest rates. On August 11, 1986 the minimum denomination of certificates of deposit

Table 4. Ecuador: Central Bank Operations

	S/ 172.4 per US$1					S/ 276.5 per US$1				
	1986	1987 1/				1987	1988			
	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	(In billions of sucres)									
Net international reserves	-3.6	-20.5	-42.9	-51.4	-125.0 2/	-200.5 2/	-40.5	-46.0	-16.4	4.0
Net domestic assets	63.2	75.0	101.4	118.1	199.7	275.2	107.8	119.0	98.9	89.7
Nonfinancial public sector (net)	-109.5	-105.6	-92.6	-74.8	-57.5	-78.0	-78.0	-81.0	-116.7	-133.8
Central Government (net)	-23.5	-24.5	-20.7	-13.0	...	...	...	...	...	...
Other	-86.0	-81.1	-71.9	-61.8	...	...	...	...	...	...
Financial institutions (net)	115.7	114.8	115.2	99.4	89.7	82.4	91.3	83.6	78.8	71.3
Banking system (net) 3/	69.6	70.8	71.6	57.1	45.1	40.1	47.3	38.7	33.8	27.5
Stabilization credit	48.5	48.0	48.7	48.1	45.2	45.2	42.0	38.8	35.6	32.5
Other credit (net)	21.1	22.9	22.9	9.0	-0.1	-5.1	5.3	-0.1	-1.8	-5.0
Nonbank financial intermediaries	46.1	44.0	43.6	42.4	44.6	42.3	44.0	44.9	45.0	43.8
Stabilization credit	23.9	24.4	23.8	24.2	23.0	23.0	22.0	20.9	19.9	18.8
Other credit (net)	22.2	19.6	19.7	18.2	21.6	19.3	22.0	24.0	25.1	25.0
Private sector (net)	8.6	7.1	8.0	6.5	-14.7	-15.7	-16.7	-13.5	-15.9	-26.5
Medium- and long-term foreign liabilities	-416.1	-415.8	-411.3	-395.2	-407.3	-653.2	-698.3	-688.1	-678.0	-667.8
U.S. dollar bonds	--	--	--	--	-13.8	-22.1	-35.9	-34.1	-27.8	-18.2
Other, including valuation adjustment (net)	464.4	474.4	482.2	482.2	603.2	961.8	845.4	852.1	858.5	864.8
Currency issue	59.6	54.4	58.5	66.8	74.7	74.7	67.3	73.0	82.5	93.7
	(In millions of U.S. dollars)									
Memorandum items										
Net international reserves	-20.9	-118.9	-248.8	-298.1	-725.0 2/	-725.0 2/	-146.3	-166.4	-59.4	14.3
Reserves excluding arrears (net)	-20.9	-36.9	-103.8	-117.1	-15.7	-15.7	-95.3	-166.4	-59.4	14.3
Arrears	--	-82.0	-145.0	-181.0	-709.3	-709.3	-51.0	--	--	--

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

1/ Actual data through September 1987.
2/ Includes, as of December 31, 1987 and thereafter, all financial arrears due to commercial banks and Paris Club creditors; also, it reflects the reclassification of a short-term liability of US$90 million as a medium- and long-term liability following a rescheduling arrangement with Brazil.
3/ Commercial banks and National Development Bank.

Table 5. Ecuador: Banking System Operations

	S/. 172.4 per US$1						S/. 276.5 per US$1					
	Dec. 1986			Dec. 1987 (Proj.)			Dec. 1987 (Prel.)			Dec. 1988 (Proj.)		
	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total	Central Bank	Other Banks	Total
	(In billions of sucres)											
Net international reserves	-3.6	--	-3.6	-125.0	--	-125.0	-200.5	--	-200.5	4.0	--	4.0
Reserves excluding arrears	-3.6	--	-3.6	-2.7 1/	--	-2.7	-4.4 1/	--	-4.4	4.0	--	4.0
Trade arrears	--	--	--	-17.4	--	-17.4	-27.9	--	-27.9	--	--	--
Financial arrears	--	--	--	-104.9	--	-104.9	-168.2	--	-168.2	--	--	--
Other foreign assets	--	6.5	6.5	--	6.2	6.2	--	9.9	9.9	--	10.6	10.6
Net domestic credit	386.6	386.0	772.6	579.5	464.9	1,044.5	922.9	483.2	1,406.1	765.1	628.8	1,393.8
Public sector (net)	-109.5	-9.0	-118.4	-57.5	-20.4	-77.8	-78.0	-32.7	-110.7	-133.8	-38.6	-172.4
Private sector	22.8	317.4	340.2	25.0	387.5	412.5	25.0	387.5	412.5	20.0	495.6	515.6
Stabilization credits	--	47.8	47.8	--	45.2	45.2	--	45.2	45.2	--	32.5	32.5
Other	22.8	269.6	292.4	25.0	342.3	367.3	25.0	342.3	367.3	20.0	463.1	483.1
Financial arrears counterpart	--	--	--	104.9	--	104.9	168.2	--	168.2	45.0	--	45.0
Net unclassified	473.2	77.6	550.8	507.1	97.8	604.9	807.7	128.3	936.1	833.8	171.8	1,005.6
Interbank transactions	63.3	-48.5	14.8	40.4	-25.6	14.8	35.4	-24.2	11.2	21.3	-10.1	11.2
Credit	116.1	52.5	168.6	114.3	73.9	188.2	114.3	78.9	193.2	115.5	94.2	209.7
Deposits 2/	-52.8	-101.0	-153.8	-73.9	-99.5	-173.4	-78.9	-103.1	-182.0	-94.2	-104.3	-198.5
Intersystem transactions	46.1	-1.9	44.2	44.6	-1.9	42.7	42.3	-1.9	40.4	43.8	-2.0	41.8
Allocation of SDRs	8.8	--	8.8	8.8	--	8.8	14.1	--	14.1	14.1	--	14.1
Medium- and long-term foreign liabilities	416.1	18.1	434.2	407.3	26.2	433.5	653.2	42.1	695.3	667.8	57.8	725.6
U.S. dollar bonds	--	--	--	13.8	--	13.8	22.1	--	22.1	18.2	--	18.2
Liabilities to private sector	67.5	323.9	391.4	109.7	417.4	527.1	110.7	424.9	535.7	134.0	569.5	703.4
Currency in circulation	53.3	--	53.3	70.0	--	70.0	70.0	--	70.0	87.5	--	87.5
Demand deposits	2.6	110.0	112.6	2.5	134.7	137.2	2.5	134.7	137.2	2.5	180.9	183.4
Time and savings deposits	--	64.9	64.9	--	91.2	91.2	--	91.2	91.2	--	138.1	138.1
Certificates of deposits	--	61.2	61.2	--	88.5	88.5	--	88.5	88.5	--	122.2	122.2
Mortgage bonds	--	33.7	33.7	--	35.5	35.5	--	35.5	35.5	--	35.7	35.7
Other sucre liabilities	9.1	19.7	28.8	35.5	24.7	60.2	35.5	24.7	60.2	39.6	30.2	69.8
Liabilities in foreign currency	2.5	11.2	13.7	1.7	12.5	14.2	2.7	20.0	22.8	4.4	24.4	28.7
Capital and reserves	--	23.3	23.3	--	30.3	30.3	--	30.3	30.3	--	38.0	38.0
	(In millions of U.S. dollars)											
Net international reserves and net foreign assets	-20.9	37.7	16.8	-725.0	36.0	-689.0	-725.0	36.0	-689.0	14.3	38.3	52.6

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

1/ Reflects the reclassification of a short-term liability to Brazil of US$90 million as a medium- and long-term foreign liability following a rescheduling arrangement.

2/ In central bank accounts, includes currency held by financial institutions.

The 1983 and 1985 new money loans (US$431 million and US$200 million, respectively) are rescheduled over 10 years, including a 3-year grace period from January 1987, at 1 percent over LIBOR. The term sheet makes provisions for exit bonds at a fixed rate of 5 1/2 percent and a 20-year maturity (including a 7-year grace period) for banks with an exposure of up to US$5 million. Finally, the term sheet also stipulates that a new oil facility of similar magnitude and term to the existing oil facility needs to be in place in 1988.

The authorities also intend to seek a comprehensive rescheduling under the aegis of the Paris Club of interest and principal obligations due and not paid in 1987 (when the current MYRA expires) and falling due in 1988. The authorities are aware that in case the amount of debt relief sought for 1988 were to be less than envisaged in the program they would need to adjust their policies, or seek alternative sources of foreign financing to ensure observance of the program's objectives.

The continued pursuit of a flexible exchange rate policy is a crucial element of the program. The virtual phasing out in the second half of 1987 of the transitional arrangement under which the Central Bank continued to provide foreign exchange at the intervention rate for imports authorized before the introduction of the new system has further enhanced the market determination of the exchange rate. The authorities consider the broad maintenance of the real effective exchange rate at the level prevailing at the time of the negotiation of the program as consistent with the overall balance of payments objectives of the program. They intend to continue to allow the private sector to conduct all its exchange transactions in the free market, with the Central Bank intervening in this market only to ensure compliance with the net international reserve target of the program and to maintain an adequate level of external competitiveness.

The spread between the central bank intervention rate and the free market rate remained small in the period between August 1986 and February 1987, but it widened appreciably in the aftermath of the earthquakes, marking the return of a multiple currency practice. The authorities were of the view that the spread could not be eliminated rapidly in the unstable circumstances which characterized the free market after the earthquakes. Nevertheless, the authorities stepped up the frequency and size of adjustments of the central bank intervention rate in order to avoid an undue widening of the spread vis-a-vis the free rate. As noted earlier, the letter of intent contains a timetable for the unification of the exchange rates, which is a performance criterion.

The authorities have reaffirmed their commitment to continue implementing a policy aimed at reducing restrictions on international trade. Since 1985 several measures have been taken to liberalize Ecuador's trade system; in particular, a large number of import items has been freed from the requirement of prior import authorizations, as such authorizations are presently required for only 338 sensitive products--compared with 713 products at the end of 1984--and import tariff rates have been substantially reduced. In the context of an export development loan under negotiation with the IBRD, the Government intends to reduce existing quantitative restrictions and import duty exonerations (both before Board consideration), and review customs tariffs with a view to rationalizing and reducing the level of effective protection afforded to domestic producers. Ecuador is not a contracting party of the General Agreement on Trade and Tariffs (GATT) but, in the context of this loan, is considering acceding to it.

On October 21, 1987 the authorities reintroduced a prior import deposit scheme (last eliminated in August 1986) requiring private sector importers to make a non-interest bearing 90-day deposit at the Central Bank for a sucre amount equivalent to 50 percent or 80 percent of the c.i.f. value of imports depending on the type of imports. Imports of certain priority goods such as pharmaceuticals are exempt from the requirement. The noninterest bearing feature of the requirement involves an effective exchange rate spread of about 7 percent in the case of imports subject to the higher requirement, and constitutes a multiple currency practice. As noted, the authorities have undertaken to eliminate the prior import deposit requirement before the first purchase under the stand-by arrangement subject to performance criteria.

The authorities have stated also their intention not to impose or intensify restrictions on payments and transfers for current international transactions, or to introduce or intensify multiple currency practices, or to conclude new bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement, or to impose any new or intensify existing import restrictions for balance of payments purposes. 1/ In addition, the import licensing system, which is applied to all imports for statistical purposes, will not be used for restrictive purposes.

IV. World Bank Operations in Ecuador

Net disbursements by the World Bank in Ecuador increased from US$12.2 million in 1985 to US$125.1 million in 1986 and US$100 million in the first ten months of 1987 (Statistical Appendix Table 15). Gross disbursements in January-October 1987 amounted to US$131.6 million, with US$50.3 million of this total coming under a US$80 million emergency loan approved in May 1987 for repairs of the damage caused by the earthquakes to the oil pipeline and other related reconstruction work. Also, a total of US$24.5 million was disbursed under a US$100 million agricultural sector loan supporting policy actions in the trade, interest rate,

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1/ Ecuador currently maintains two bilateral payments agreements with Fund members, under which outstanding balances are periodically settled in convertible currency. These restrictions are subject to Fund approval under Article VIII.

issued at market-determined interest rates was reduced from S/. 1 million to S/. 500,000 and financial intermediaries were authorized to offer interest rates on all time and savings deposits and to charge rates on all credit funded with these resources that would reflect the supply and demand conditions in the market. At the same time, the central bank rediscount rate for ordinary operations was raised from 18 percent to 21 percent and a pre-export financing facility to the private sector at subsidized interest rates was terminated. The authorities intend to continue to pursue a policy of interest rate flexibility in 1988 to promote further the growth of financial savings and improve the allocation of credit resources.

4. External policies

The balance of payments projection for 1988 points to a decline in the current account deficit to 5 percent of GDP, from an estimate of slightly over 13 percent of GDP in 1987 (Table 6). Most of the improvement is projected to stem from the return to normalcy in the oil sector, but a contribution to the adjustment of the current account is also expected to come from the continued strengthening of nontraditional exports, stimulated by the sizable depreciation of the sucre in real effective terms in 1986-87. The value of total imports (in U.S. dollar terms) is expected to show an absolute decline.

As indicated above, the projection for 1988 is based on an oil export price of US$17.25 a barrel. Crude oil export volumes are assumed to return to pre-earthquake levels (around 200,000 barrels a day), while net exports of oil derivatives are projected to rise from 3.2 million barrels in 1986 to 8 million barrels in 1988, reflecting the expansion of Ecuador's refining capacity undertaken in the course of 1987 (Statistical Appendix Table 14). Non-oil exports are expected to grow by nearly 12 percent with a continued strong expansion in exports of shrimp.

The value of imports is projected to decline by 10 percent in 1988, reflecting the cessation of emergency imports of oil and of other products required for the repair of earthquake-related damages. Nonemergency, non-oil imports are projected to rise by some 4.5 percent in 1988, which would represent a small decline in volume terms. The projected level of imports is considered to be consistent with the expected 2.6 percent rate of growth of non-oil real GDP, given the buildup of inventories observed in 1987 when the volume of non-oil, non-emergency imports rose by about 6 percent, and an expected decline in public sector imports in 1988.

After registering a deficit equivalent to 0.7 percent of GDP in 1987, the trade balance is projected to move back to a surplus of 9.5 percent of GDP in 1988, thereby approaching the average level of some 10 1/2 percent of GDP recorded in 1983-85, prior to the sharp drop of oil prices in 1986. The deficit on the services account is expected

Table 6. Ecuador: Summary Balance of Payments

(In millions of U.S. dollars)

	1984	1985	Prel. 1986	Proj. 1987	Proj. 1988
Current account	-263	114	-548	-1,249	-440
Trade account	1,055	1,294	555	-66	840
Exports, f.o.b.	2,622	2,905	2,186	1,984	2,690
Petroleum	1,835	1,926	983	779	1,344
Other	787	979	1,203	1,205	1,346
Imports, f.o.b.	-1,567	-1,611	-1,631	-2,050	-1,850
Services account	-1,338	-1,260	-1,148	-1,258	-1,330
Services credit	350	422	468	443	477
Services debit	-1,688	-1,682	-1,616	-1,701	-1,807
Interest payments 1/	-851	-774	-706	-741	-832
IMF charges	-13	-25	-33	-33	-35
Other services	-825	-883	-877	-927	-940
Transfers	20	80	45	75	50
Capital account	323	-29	321	586	-19
Public sector	246	466	630	544	-103
Disbursements	425	650 2/	967	1,104	875
Interest rescheduled	10	--	--	--	--
Amortization 3/	-189	-184	-336	-560	-978
Private sector	28	27	33	62	61
Direct investment	50	62	70	75	80
Disbursements	--	3	9	6	--
Amortization 3/	-22	-38	-46	-19	-19
Other 4/	49	-521	-343	-20	23
Overall balance	60	85	-227	-663	-459
Net official international reserves (increase -)	-20	-25	227	-5 5/	-30
Arrears (decrease -) 6/	-40	-60	--	668	-668
Financing gap	--	--	--	--	1,157
Memorandum items					
Total debt relief 7/	1,398	1,189	1,001	930	742
Public debt	794	1,092	960	918	742
Principal	784	1,092	960	918	742
Banks	732	1,017	877	850	742
Paris Club	52	74	73	60	--
Other	--	1	10	9	--
Interest	10	--	--	--	--
Private debt	604	97	41	12	--
Principal	604	97	41	12	--
Paris Club	17	14	12	12	--
Reg. 101/83 8/	587	83	29	--	--
(In percent of GDP) 9/					
Current account	-2.6	1.0	-5.8	-13.2	-5.0
Trade account	10.3	10.9	5.9	-0.7	9.5
Exports, f.o.b.	25.6	24.4	23.3	21.1	30.4
Imports, f.o.b.	-15.3	-13.5	-17.4	-21.8	-20.9
(Annual percentage changes)					
Exports	11.7	10.8	-24.7	-9.2	35.6
Oil	5.9	5.0	-49.0	-20.7	72.5
Non-oil	28.0	24.3	23.0	0.2	11.7
Imports	10.3	2.8	1.2	25.7	-9.8

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

1/ On accrual basis.
2/ Excludes US$179 million of a US$200 million loan from commercial banks that was used to eliminate debt service arrears to banks which were extended in anticipation of the loan.
3/ Net of already concluded debt relief; i.e., excluding new relief to be obtained in 1987-88.
4/ Includes errors and omissions.
5/ Reflects reclassification of a short-term reserve liability of US$90 million as a medium- and long-term liability following a rescheduling arrangement with Brazil.
6/ Excludes arrears on debt servicing to official creditors accumulated during June-December 1984, which where rescheduled under the aegis of the Paris Club in April 1985; in 1987-88, the amount of arrears differs from the figure in the monetary accounts (US$709.3 million) because, apart from all external financial arrears (US$608.3 million), it includes those trade arrears to domestic importers paid in foreign currencies (US$60 million out of total trade arrears of US$101 million at end-1987).
7/ Includes only already concluded debt relief, i.e., excludes any new relief to be obtained in 1987-88.
8/ Private debt assumed by the Central Bank of Ecuador.
9/ GDP converted to U.S. dollars using exchange rate implied by the 1971 purchasing power parity up to 1985, and the weighted average of the free and intervention market rates thereafter.

to widen from 13.4 percent to about 15 percent of GDP, reflecting increasing interest payments.

Net capital flows (before taking into consideration any new debt relief or new credits that Ecuador might obtain from foreign commercial banks or debt relief from official creditors) are projected to be marginally negative in 1988, reflecting partly the repayment to Venezuela and Nigeria of the oil loans contracted in 1987. 1/ Excluding the oil loans, net capital inflows are projected to exceed US$200 million. Particularly large gross disbursements are expected from multilateral organizations, notably from the World Bank and the Inter-American Development Bank.

The above projections, together with the targeted gain in net official international reserves (excluding the settlement of external arrears) of US$30 million, would entail a financing gap of nearly US$490 million in 1988. As noted, the authorities are committed to eliminating all the external payments arrears in early 1988, which would raise the financing gap to US$1,157 million. This gap is expected to be financed with a US$350 million loan and a new oil facility for US$220 million from commercial banks, the rescheduling of outstanding debt with foreign commercial banks and official creditors, and the rescheduling of certain other suppliers' credits (Table 7).

At the end of November 1987 the authorities concluded an agreement with the banks' steering committee on a term sheet, which was circulated to the universe of creditor banks, providing for the new loan for US$350 million, and for the rescheduling of public sector debt in an amount of US$4.7 billion (covering all new and previously refinanced principal maturities falling due in the period 1987-96). The new loan, part of which (up to US$150 million) is to be disbursed under parallel cofinancing with the IBRD, carries an 8-year maturity (including a 2-year grace period), at 1 percent over the 6-month LIBOR. An early participation fee, of 1/2 of 1 percent on commitments made by December 21, 1987 and of 1/8 of 1 percent on commitments made within the subsequent 15-day period, is provided for in the agreement. The previously refinanced amounts (US$4.1 billion) are rescheduled over 19 years, including a 7-year grace period, at 15/16 percent over LIBOR.

1/ Following the March 1987 earthquakes, Ecuador reached two oil agreements with Venezuela and Nigeria. Venezuela made available to Ecuador a total of 9.6 million barrels of crude (5.4 million barrels to supply the domestic market and 4.2 million barrels to comply with long-term export contracts) and 2.8 million barrels of refined products (for the domestic market). Similarly, Nigeria advanced 1.4 million barrels of crude to help Ecuador comply with long-term export contracts. The total value of these loans amounted to slightly above US$250 million (at 1987 prices). The loans began to be repaid (in crude oil) in the last quarter of 1987 and repayments extend through September 1988. These transactions are shown as exports in the trade account with offsetting capital outflows in the capital account.

Table 7. Ecuador: Balance of Payments Financing

(In millions of U.S. dollars)

	1987	1988
Overall balance	-663.3	-458.5
Net official international reserves (increase -)	-5.0	-30.0
Arrears (decrease -) 1/	668.3	-668.3
Trade arrears	60.0	-60.0
Paris Club - capital	50.1	-50.1
Paris Club - interest	61.8	-61.8
Commercial banks - capital	66.2	-66.2
Commercial banks - interest	350.0	-350.0
Suppliers' credit - capital	72.9	-72.9
Suppliers' credit - interest	7.3	-7.3
Gap	--	1,156.8
Possible sources of financing		1,156.8
Commercial banks - new credit		350.0
Commercial banks - new oil facility		220.0
Paris Club rescheduling, 1987 2/		111.9
Paris Club rescheduling, 1988 2/		154.8
Commercial banks' rescheduling, 1987 3/		66.2
Commercial banks' rescheduling, 1988 3/		173.7
Suppliers' credit rescheduling		80.2

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

1/ The amount of arrears differs from the figure in the monetary accounts (US$709.3 million) because, in addition to external financial arrears of US$608.3 million, it includes only those trade arrears to domestic importers paid in foreign currencies (US$60 million out of total trade arrears of US$101 million outstanding at end-1987).

2/ Assumes 100 percent refinancing as sought by the authorities.

3/ Assumes refinancing in accordance with the provisions of the term sheet agreed with the banks' steering committee.

and pricing areas, and of US$17.5 million under a US$115 million industrial sector loan in support of changes in trade policies.

World Bank disbursements to Ecuador in 1988 will depend in large part upon the pace of the authorities' implementation of structural reforms in various fields. Two major loans which would support policy actions in the financial and trade sectors, possibly totaling about US$150 million, are presently at an advanced stage of negotiation.

For the medium term the World Bank envisages sectoral and project loans in the energy, agricultural, industrial, and social sectors. In particular, the World Bank would support reforms focusing on opening up and diversifying the economy and increasing the efficiency of resource allocation through improved pricing policies and subsidy reduction.

V. Medium-Term Outlook

The balance of payments outlook for Ecuador through 1993 (Table 8) suggests that, although the economic program for 1988 will go a considerable way in reducing the deficit in the current account, the adjustment process will have to be continued in future years in order to achieve and maintain a viable balance of payments position and to ensure a satisfactory rate of growth over the longer term. Essential elements of this process will be the maintenance of adequate external competitiveness, the pursuit of prudent financial policies, and the implementation of structural reforms to improve resource allocation and to create the conditions for productive investment. Even with the pursuit of these policies a financing gap is likely to emerge beginning in 1990, when amortization payments on both the refinancing of the 1983 and 1985 new money packages and on the new US$350 million loan obtained from commercial banks begin to fall due. The debt service ratio, including the financing of the gap, would remain in the range of 44-53 percent of exports of goods and services (after debt relief) throughout the projection period.

Oil export revenues are projected to increase by about 2 percent a year, resulting from some decline in export volumes (oil production is assumed to remain at a level of 310,000 barrels a day throughout the period) and from an annual increase in the price of crude of US$0.50 a barrel, to US$19.50 a barrel by 1993 (Statistical Appendix Table 14). The authorities' commitment to the maintenance of an adequate level of competitiveness and to the implementation of structural measures is crucial to the projected growth of non-oil exports of around 8 percent a year. Such a policy stance is also essential for the projected moderation in the growth of imports, whose ratio to GDP is set to gradually decline from the peak of around 22 percent recorded in 1987 to slightly over 18 percent by 1993.

Table 8. Ecuador: Medium-Term Balance of Payments Projections

	1987	1988	1989	1990	1991	1992	1993
	(In millions of U.S. dollars)						
Current account	-1,249	-440	-360	-349	-328	-279	-207
Trade account	-66	840	871	913	952	995	1,039
Exports, f.o.b.	1,984	2,690	2,813	2,961	3,111	3,271	3,433
Petroleum	779	1,344	1,357	1,385	1,412	1,439	1,464
Other	1,205	1,346	1,456	1,576	1,698	1,832	1,970
Imports, f.o.b.	-2,050	-1,850	-1,943	-2,047	-2,158	-2,276	-2,394
Services account	-1,258	-1,330	-1,285	-1,322	-1,345	-1,339	-1,311
Service credits	443	477	516	558	602	649	698
Service debits	-1,701	-1,807	-1,801	-1,881	-1,947	-1,988	-2,009
Interest payments 1/	-774	-867	-814	-841	-850	-831	-792
Other services	-927	-940	-987	-1,040	-1,097	-1,157	-1,217
Transfers	75	50	55	60	65	65	65
Capital account	586	-19	460	160	2	-2	-13
Direct investment	75	80	90	100	110	110	110
Medium- and long-term debt	531	-122	360	40	-138	-152	-173
Drawings	1,110	875	989	924	800	743	747
Amortization	-579	-997	-629	-884	-938	-896	-920
Other	-20	23	10	20	30	40	50
Overall balance	-663	-459	100	-189	-326	-281	-220
Net international reserves (increase -)	-5	-30	-100	-39	-26	-48	-72
Arrears (decrease -)	668	-668	--	--	--	--	--
Financing gap	--	1,157	--	228	352	329	292
Memorandum items							
Gross international reserves	661 2/	691	791	831	857	905	976
(Months of imports)	3.9	4.5	4.9	4.9	4.8	4.8	4.9
Net international reserves	-16 2/	14	114	154	180	228	299
	(In percent of GDP)						
Current account	-13.2	-5.0	-3.8	-3.4	-2.9	-2.3	-1.6
Trade account	-0.7	9.5	9.1	8.8	8.5	8.2	7.9
Exports, f.o.b.	21.1	30.4	29.4	28.6	27.8	27.0	26.2
Imports, f.o.b.	-21.8	-20.9	-20.3	-19.8	-19.3	-18.8	-18.3
	(Annual percentage changes)						
Exports	-9.2	35.6	4.6	5.2	5.1	5.1	5.0
Oil	-20.7	72.5	0.9	2.1	2.0	1.9	1.7
Non-oil	0.2	11.7	8.2	8.2	7.8	7.8	7.5
Imports	25.7	-9.8	5.0	5.4	5.4	5.4	5.2

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

1/ On accrual basis.
2/ Excluding arrears.

The projection for interest payments is based on a six-month LIBOR of 8.25 percent. On this basis, and taking into account the estimate of future net loan disbursements (described below), interest payments would average some US$825 million a year in 1989-93, declining gradually over the period from 25 percent to 19 percent of exports of goods and services. Service credits and noninterest service payments are projected to grow in line with non-oil exports and imports, respectively. Under these assumptions, the current account deficit would gradually decline from around 3.8 percent of GDP in 1989 to 1.6 percent of GDP by 1993.

The capital account projections assume that all of the rescheduling arrangements required to close the financing gap in 1988 are in place and that the oil facility with commercial banks in an amount of US$220 million is rolled over annually throughout the projection period. Loan disbursements over the period are expected to continue to come predominantly from multilateral institutions, albeit for amounts gradually declining from the very high level projected for 1988 that is considered unlikely to be sustained over a longer period. Annual gross disbursements from the World Bank are estimated at US$200 million in 1989-90 and US$150 million thereafter, while those from the IDB are projected to decline gradually from US$200 million to US$100 million. Amortization payments are scheduled to rise from around US$630 million in 1989 to an average of around US$910 million in the 1990-93 period reflecting the aforementioned maturing of part of the amounts rescheduled under the 1987 agreement with commercial banks.

On the basis of the above assumptions, the overall balance of payments deficit would peak at some US$325 million in 1991, and decline to US$220 million by 1993. Allowing for a modest buildup of gross international reserves, sufficient to maintain their level at about five months of imports throughout the projection period, the financing gap would average US$300 million a year in the period 1990-93. Given the rise in amortization to banks over the period, borrowing from banks to cover the financing gap would entail an increase in exposure of only about 1.2 percent a year in 1990-93. The increase in banks' exposure would be reduced to a negligible amount if the authorities' estimates of the likely cancellation of debt through debt-equity swap arrangements materialize.

Under the scenario just described, Ecuador's external debt, including the borrowing needed to close the projected financing gap, would decline from a peak of 117 percent of GDP in 1988 to 82 percent of GDP by 1993 (Table 9). The debt service ratio would rise to some 53 percent of exports of goods and services in 1990-91, but fall back to 44 percent by 1993. In the absence of the debt relief obtained from commercial banks and official creditors, the debt service ratio would have averaged about 64 percent in the period 1989-93.

The above scenario shows a difficult but viable external position in which Ecuador can service its external debt, including to the Fund,

Table 9. Ecuador: Medium-Term External Debt Projections 1/

	1984	1985	Prel. 1986	Projected 1987	1988	1989	1990	1991	1992	1993
	(In millions of U.S. dollars)									
Debt outstanding 2/	7,463	8,077	9,087	9,754	10,300	10,458	10,525	10,560	10,602	10,701
Of which: IMF	238	360	486	511	439	370	262	133	23	--
Andean Reserve Fund	--	--	175	160	102	44	--	--	--	--
Financing gap	--	--	--	--	--	--	229	581	910	1,202
Debt service	2,398	2,178	2,108	2,386	2,736	2,524	2,274	2,353	2,324	2,335
Principal paid	212	222	388	504	855	732	1,034	1,120	1,035	1,035
Of which: banks	95	63	65	129	279	297	493	480	456	449
IMF	--	--	6	114	130	88	107	130	110	23
Andean Reserve Fund	--	--	--	15	58	58	44	--	--	--
financing gap	--	--	--	--	--	--	--	--	--	23
Principal renegotiated 3/	1,313	1,158	982	1,107	1,014	978	400	383	458	508
Interest paid	864	799	739	705	810	814	840	850	831	792
Of which: banks	733	616	523	478	556	525	526	508	486	445
IMF	13	25	33	33	35	32	25	17	8	3
Andean Reserve Fund	--	--	3	17	17	10	3	--	--	--
financing gap	--	--	--	--	--	--	9	33	35	35
Interest renegotiated 3/	10	--	--	69	57	--	--	--	--	--
	(In percent)									
Memorandum items										
Debt to GDP 4/										
Including IMF	72.7	67.9	96.7	103.5	116.5	109.4	101.8	94.4	87.7	81.8
Excluding IMF	70.4	64.8	91.6	98.1	111.6	105.5	99.3	93.2	87.5	81.8
Debt service to exports of goods and services										
Before relief	80.7	65.5	79.4	98.3	86.4	75.8	64.6	63.4	59.3	56.5
After relief 3/	36.4	30.7	42.4	49.8	52.6	46.4	53.3	53.1	47.6	44.2
Interest payments to exports of goods and services										
Before interest relief	29.4	24.0	27.8	31.9	27.4	24.5	23.9	22.9	21.2	19.2
After interest relief 3/	29.0	24.0	27.8	29.0	25.6	24.5	23.9	22.9	21.2	19.2

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

1/ Consistent with the medium-term balance of payments projection but including new relief to be obtained in 1987-88 and borrowing to cover the cumulative financing gap.
2/ Registered public and private debt of all maturities, including short-term debt.
3/ The element of debt relief incorporated in this projection includes new relief to be obtained in 1987-88 as detailed in Table 7.
4/ GDP in sucres through 1985 was converted into U.S. dollars using the exchange rate implied by the 1971 purchasing power parity, and by a weighted average of the free and intervention market rates in 1985-88. Thereafter, GDP in U.S. dollars is projected to grow in nominal terms at an annual rate of 8.2 percent through 1993.

provided that the adjustment process, supported by adequate structural reforms, is continued in future years. The above medium-term balance of payments and external debt projections are extremely sensitive to changes in the underlying assumptions concerning the external environment, particularly with regard to developments in international oil prices and interest rates. If crude oil prices were to be US$1 a barrel lower (or higher) than envisaged in the projections throughout the period 1989-93, the cumulative financing gap would be increased (reduced) by over a third (i.e., by around US$450 million). If international interest rates were higher (lower) by 1 percentage point throughout the projection period, the financing gap would widen (be reduced) by approximately US$300 million over the projection period.

VI. Staff Appraisal

The sharp decline in oil prices in early 1986 reduced Ecuador's export income and public sector revenue considerably. The authorities developed an economic program aimed at containing the deterioration in the public finances and in the current account of the balance of payments. Although progress was made in enhancing exchange rate and interest rate flexibility, the adjustment effort fell short of the objectives of the program, and both the public sector and the balance of payments registered higher deficits than projected. In 1987 the economic situation weakened further following the March earthquakes and there was a serious deterioration of the public finances and the balance of payments, including a large accumulation of external payments arrears.

The authorities' program for 1988 centers on a strengthening of the public finances and the continuation of flexible interest and exchange rate policies that should result in a marked improvement in the balance of payments and a significant reduction of inflation. The public sector deficit is projected to decline from 10.5 percent of GDP in 1987 to 1.3 percent of GDP in 1988 as a result of the normalization of oil revenue and action taken to limit the growth of public expenditure.

Pursuit of this expenditure policy will be facilitated by the virtual completion in 1987 of capital expenditure linked to the damage caused by the earthquakes. In addition, efforts will need to be made to curb the growth of current outlays, including the implementation of a policy of wage restraint. The latter is important not only for fiscal reasons but also in helping achieve the reduction sought in inflation. Furthermore, there will be a need to ensure that investment outlays in 1988, particularly those of the state oil corporation and the state electricity corporation, are kept within the amounts projected. Achievement of the projected increase in nonpetroleum revenues will require the continued implementation of tax administration efforts and the efficient management of public enterprises.

In the area of monetary management, the program provides for continuing interest rate flexibility, a policy which has had positive effects on the growth of domestic financial savings. The implementation of the fiscal program outlined by the authorities should permit a moderate increase in credit to the private sector while being consistent with a reduction in the rate of inflation. It is important that the authorities stand ready to take actions to tighten credit if it appears that their price and balance of payments objectives for 1988 are not being achieved.

Maintenance of a flexible exchange rate policy is crucial for the success of the program. The changes in exchange rate management introduced in August 1986, especially the transfer of private sector foreign exchange transactions from the central bank intervention market to the free market, have enhanced the market determination of the exchange rate and improved Ecuador's external competitiveness. The authorities have reaffirmed their intention to continue the flexible exchange rate policy followed since 1986, and intend to unify the intervention and free exchange rates before completion of the mid-term review of the program. The virtual termination in the second half of 1987 of the transitional arrangement under which the Central Bank continued to provide foreign exchange at the intervention rate for certain imports should increase the role of market forces in the determination of the exchange rate during the program period.

The elimination of the arrears accumulated in 1987 will contribute to the restoration of Ecuador's creditworthiness in international capital markets. In this regard, it is important that trade arrears be progressively retired by the Central Bank through the issuance of bonds denominated in foreign currency as planned. The completion of the negotiations with commercial banks for a new US$350 million loan and for the rescheduling of amortization payments, including those in arrears, will also play a crucial role in this process, as will the rescheduling of debt service payments to official creditors which the authorities intend to negotiate under the aegis of the Paris Club.

Although the restructuring of Ecuador's commercial and official external debt will be contributing to the reduction of the country's debt service burden, a lasting solution to Ecuador's debt management problems will require the continued implementation of adjustment policies in future years. Further improvements in the fiscal position, together with the pursuit of credit and exchange rate policies directed to price and external objectives, will be necessary to ensure a viable balance of payments situation and thus to provide the basis for sustained economic growth over the medium term.

Ecuador still maintains bilateral payments agreements with two Fund members with restrictive features inconsistent with Article VIII, exchange restrictions evidenced by external payments arrears, and multiple currency practices in the form of a prior import deposit requirement and a spread between the exchange rates in the intervention and free markets. The authorities intend to eliminate the prior import deposit requirement and all external arrears as soon as possible, and in any event before requesting the first purchase under the arrangement subject to performance criteria. As noted above, the authorities also intend to unify the exchange rate before completion of the mid-term review. On this basis, the staff recommends approval of the restriction evidenced by external arrears, the restrictions based on arrears remaining pending agreement with each creditor, and the multiple currency practices until the completion of the mid-term review of the program or July 31, 1988, whichever is earlier.

In view of the policies already adopted and those which are being implemented, the staff believes that the program for which the Ecuadoran authorities have requested Fund assistance in the form of a stand-by arrangement in an amount equivalent to SDR 75.4 million justifies the requested support of the Fund. Annual access of about 43 percent of quota proposed under the arrangement has been determined on the basis of a number of factors including the policy actions expected under the proposed program and the authorities' intention to take additional measures as may be required to ensure attainment of a viable balance of payments position in a relatively short period of time.

Ecuador has resumed interest payments to commercial banks as of mid-November 1987; it has successfully concluded its negotiations with the steering committee of creditor banks; and it has received indications of a positive disposition of Paris Club creditors to a rescheduling arrangement. Thus, there is a strong expectation that the financing assumed in the program will be assured. On this basis, the staff believes that approval of the requested stand-by arrangement is justified, even if commitments from banks were not to have yet reached a critical mass at the time of the Board discussion. Such approval would facilitate the early renegotiation of debt with other creditors and alleviate the liquidity problems Ecuador has faced as a consequence of the extraordinary difficulties experienced in 1987.

VII. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. Stand-By Arrangement

1. The Government of Ecuador has requested a stand-by arrangement for a period from December --, 1987 through the end of February 1989 in an amount equivalent to SDR 75.4 million.

2. The Fund approves the stand-by arrangement attached to EBS/87/263.

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

B. Exchange Restrictions and Multiple Currency Practices

The exchange measures maintained by Ecuador are subject to approval under Article VIII, Section 2(a) and 3, as described in EBS/87/263. The Fund encourages Ecuador to remove these restrictions and multiple currency practices as soon as possible. In the meantime, the Fund approves the restriction evidenced by the existence of external payments arrears, the restrictions remaining pending agreement with each creditor, and the multiple currency practices arising from the prior import deposit requirement and from the differential between the intervention and free exchange rates, until the earlier of the completion of the mid-term review contemplated under paragraph 4(c) of the stand-by arrangement, or July 31, 1988.

Fund Relations with Ecuador
(As of October 31, 1987, unless otherwise indicated)

I. Membership Status

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

A. Financial Relations

II. General Department

(a) Quota: SDR 150.7 million

(b) Total Fund holdings of sucres: SDR 513.74 million or 340.90 percent of quota

(c) Fund credit:

	Amount (In millions of SDRs)	Percent of Quota
Total Fund credit:	363.02	240.89
Credit tranches	(145.21)	(96.36)
Compensatory financing	(93.08)	(61.76)
Enlarged access	(124.73)	(82.77)

III. Arrangements and Special Facilities

(a) Stand-by arrangements during the last ten years:

(i) 1983-84
Duration: From July 25, 1983 to July 24, 1984
Amount: SDR 157.5 million
Utilization: SDR 157.5 million

(ii) 1985-86
Duration: From March 11, 1985 to March 10, 1986
Amount: SDR 105.5 million
Utilization: SDR 105.5 million

(iii) 1986-87
Duration: From August 15, 1986 to June 10, 1987
Amount: SDR 75.4 million
Utilization: SDR 15.1 million

(b) Special facilities: Compensatory financing facility:

(i) Date of approval: November 23, 1983
Amount: SDR 85.4 million

(ii) Date of approval: August 15, 1986
Amount: SDR 39.7 million

(c) Emergency assistance:

(i) Date of approval: June 29, 1987
Amount: SDR 37.7 million

IV. SDR Department

(a) Net cumulative allocation SDR 32.93 million

(b) Holdings: SDR 0.63 million or 1.92 percent of net cumulative allocation.

V. Financial obligations due to the Fund (in millions of SDRs)

	Overdue Financial Obligations	Repurchases and Charges Due			
		1987 1/	*1988*	*1989*	*1990*
Total	--	20.0	125.1	86.6	97.3
Repurchases	--	15.6	102.3	69.2	84.8
Charges (provisional)	--	4.4	22.8	17.4	12.5

1/ Repurchases and charges due in the period November 1-December 31, 1987.

B. Nonfinancial Relations

VI. Exchange Rate: In recent years, Ecuador has had two exchange markets operated by the Central Bank. An official market, where the buying rate was set at S/. 66.50 per U.S. dollar from September 4, 1984 to November 12, 1985, and an intervention market where the buying rate was fixed at S/. 95.00 per U.S. dollar during the same period. On November 12, 1985, the buying rate on the official market was moved to the level of the Central Bank's intervention rate of S/. 95.00 per U.S. dollar. On January 29, 1986, the Central Bank changed the buying exchange rate applicable to the intervention market to per U.S. dollar, and retained the official rate of S/. 95.00 only for its own internal accounting purposes.

On August 11, 1986 private transactions were transferred to the free market, where the rate is determined by market forces, and on August 19, 1986 the decision was taken to move the intervention rate of the Central Bank closer to the rate prevailing in the free market. The spread between the two rates, which had remained below 2 percent in the period October 1986 - February 1987, moved to a range of 10 to 20 percent in April-November 1987.

VII. Last Article IV Consultation: The 1986 Article IV consultation was concluded by the Executive Board on June 29, 1987 (SM/87/68, SM/87/75, and EBS/87/126). Consultations with Ecuador are on the 12-month cycle.

VIII. Statistical Data: The currentness and coverage of Ecuador's statistical data in the IFS is considered reasonably adequate at this time, although the currentness of the government finance and monetary data could be improved.

IX. Technical Assistance: In May 1987 Mr. Muirragui (BUR) provided technical assistance in the area of money and banking with the purpose of improving compilation and presentation of Central Bank and commercial banks data.

In June 1987, Mr. Gala-Palacios (BUR) organized a three-week seminar on public finance in Quito.

Ecuador: Schedule of Purchases During Period of Stand-By Arrangement--January 1988-February 1989

Amount	Scheduled Availability Date	Conditions Necessary for Purchase 1/
SDR 15.07 million	After Board meeting	Board approval of program.
SDR 15.07 million	On or after May 13, 1988	Compliance with quantitative performance criteria as of March 31, 1988; reduction to less than 5 percent of spread between intervention and free market rates; elimination of the prior import deposit introduced in October 1988; and elimination of all external arrears.
SDR 15.07 million	On or after August 15, 1988	Compliance with quantitative performance criteria as of June 30, 1988; elimination of spread between intervention and free market rates; and completion of mid-term review.
SDR 15.07 million	On or after November 14, 1988	Compliance with quantitative performance criteria as of September 30, 1988.
SDR 15.07 million	On or after February 14, 1989	Compliance with quantitative performance criteria as of December 31, 1988.

1/ Other than generally applicable conditions under the arrangement and nonquantitative performance criteria (including the performance clause on the exchange and trade system).

Ecuador: Selected Economic and Financial Indicators

	1983	1984	1985	Prel. 1986	Proj. 1987	Proj. 1988
	(Annual percent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	-2.8	4.2	4.5	2.9	-3.1	8.4
GDP deflator	38.7	39.2	30.9	19.5	35.9	26.5
Consumer prices (end of period)	52.5	25.0	24.4	27.3	28.5	20.5
Consumer prices (average)	48.4	31.2	28.0	23.0	29.0	23.5
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	0.9	11.7	10.8	-24.7	-9.2	35.6
Petroleum exports	14.9	5.9	5.0	-49.0	-20.7	72.5
Imports, f.o.b.	-35.0	10.3	2.8	1.2	25.7	-9.8
Export volume	9.7	12.3	14.7	9.3	-22.0	38.0
Import volume	-45.4	-0.3	5.8	-4.3	22.0	-7.0
Terms of trade (deterioration -)	-22.8	-9.9	-0.5	-34.9	13.0	--
Nominal effective exchange rate (depreciation -)	-26.6	-29.2	-7.3	-27.2	-32.1 1/	...
Real effective exchange rate (depreciation -)	-4.8	-17.5	3.9	-19.5	-20.9 1/	...
Central government						
Revenue	37.5	62.3	84.4	-0.7	32.6	107.5
Total expenditure 2/	20.9	36.4	57.2	27.7	52.0	29.5
Money and credit						
Net domestic credit of the banking system 3/	23.9	37.6	32.6	37.6	69.5	-2.3
Public sector 3/	-9.5	-6.4	-19.1	-3.7	10.4	-11.5
Private sector 3/	52.1	36.7	31.1	13.7	18.5	19.3
Money and quasi-money (M2)	26.4	39.7	44.7	28.2	32.5	37.3
Velocity (GDP relative to M2)	4.5	4.6	4.2	4.7	4.7	4.6
Interest rate (savings deposits)	16.0	18.0	20.0	23.5	27.0	...
	(In percent of GDP)					
Overall public sector balance 4/	--	-0.6	1.9	-5.1	-10.5	-1.3
Central government savings	-0.4	1.6	5.0	0.8	-0.3	7.3
Central government balance 4/	-3.0	-0.7	1.9	-2.2	-4.7	3.9
Gross domestic investment	17.6	18.3	17.1	18.7	19.7	19.5
Gross national savings	16.2	15.7	18.1	12.9	6.5	14.5
Current account deficit (-)	-1.4	-2.6	1.0	-5.8	-13.2	-5.0
External debt (end of year) 5/	77.6	72.7	67.9	96.7	103.5	116.5
Of which: public sector	70.2	70.5	66.6	95.8	102.8	115.9
	(In percent of exports of goods and services)					
Debt service						
Before rescheduling	110.3	80.7	65.5	79.4	98.3	86.4
After rescheduling 6/	32.5	36.4	30.7	42.4	49.8	52.6
Interest payments						
Before interest relief	26.4	29.4	24.0	27.8	31.9	27.4
After interest relief 6/	25.0	29.0	24.0	27.8	29.0	25.6
	(In millions of U.S. dollars, unless otherwise specified)					
Change in net international reserves (increase -)	-52	-60	-85	227	704	-739
Net official international reserves (increase -)	58	-20	-25	227	-5	-30
Arrears (decrease -)	-110	-40	-60	--	709	-709
Gross official reserves (months of imports)	6.7	5.8	6.6	6.0	3.9	4.5

1/ First three quarters over corresponding period of 1986.
2/ Includes interest payments on accrual basis.
3/ In relation to liabilities to the private sector at the beginning of the period.
4/ For 1987 and 1988 the overall balance is based on interest payments reported on a commitment basis. For the cash balances refer to Tables 3 and 11.
5/ Registered public and private debt of all maturities, including use of Fund resources.
6/ Including debt relief to be obtained in 1987-88 as detailed in Table 7.

Ecuador: Summary of Financial Program

Main objectives and assumptions

1. A current account deficit of the balance of payments equivalent to 5 percent of GDP. Elimination of all external arrears and increase in net international reserves of US$30 million over and above the elimination of arrears.

2. Reduction of the public sector deficit from the equivalent of 10.5 percent of GDP in 1987 to 1.3 percent of GDP in 1988.

3. A buildup of public sector deposits in the Central Bank during 1988 of S/. 55.8 billion.

4. Reduction of the rate of increase in consumer prices from an estimated 28.5 percent during 1987 to 20.5 percent during 1988 on an end-of-period basis, and from 29 percent in 1987 to 23.5 percent in 1988 on average.

5. An increase of 8.4 percent in real GDP and 37.1 percent in nominal GDP in 1988.

6. An oil production of 310,000 barrels a day and an average oil export price of US$17.25 a barrel.

Principal Elements and Policies

External sector

1. Maintenance of a flexible exchange rate policy that will ensure an appropriate degree of competitiveness and observance of the overall balance of payments targets of the program.

2. Reduction of the spread between the intervention and free market exchange rates to less than 5 percent before requesting the first purchase subject to performance criteria and elimination of the spread before completion of the mid-term review.

3. Elimination of the prior import deposit before requesting the first purchase subject to performance criteria.

4. A limit on net disbursements of public and publicly guaranteed external debt with maturities of 12 years or less, and a sublimit on net disbursements of debt with original maturities of up to and including 1 year.

5. Disbursement of a US$350 million loan from commercial banks and of US$220 million under a new oil facility.

6. Rescheduling of amortization payments due to foreign commercial banks in 1987-88; of certain non-bank, non-Paris Club suppliers' credits; and of debt service obligations to official creditors due and not paid in 1987 and falling due in 1988.

Fiscal

7. Increase of overall revenues of the public sector to 29.6 percent of GDP in 1988. This increase is to be obtained through higher petroleum revenues, a small increase in nontax revenue, and an improvement in the operating surpluses of public enterprises. The state electricity company will continue to increase electricity rates by 3 percent a month.

8. Maintenance of tight control on expenditures. Current expenditures are projected to decrease slightly in proportion of GDP while capital expenditures are to decrease by 1.2 percentage points of GDP in 1988, reflecting partly the completion in 1987 of earthquake-related expenditure.

Monetary

9. Pursuit of a flexible interest rate policy. Adjustment of reserve requirements and open market operations as needed to ensure achievement of the objectives of the program.

10. Limits on the net domestic assets of the Central Bank of Ecuador of S/. 107.8 billion from January 1, 1988 through March 31, 1988, of S/. 119.0 billion from April 1, 1988 through June 30, 1988, of S/. 98.9 billion from July 1, 1988 through September 30, 1988 and of S/. 89.7 billion from October 1, 1988 through December 31, 1988.

11. Limits on central bank net credit to the public sector of S/. -78.0 billion from January 1, 1988 through March 31, 1988, of S/. -81.0 billion from April 1, 1988 through June 30, 1988, of S/. -116.7 billion from July 1, 1988 through September 30, 1988, and of S/. -133.8 from October 1, 1988 through December 31, 1988.

Ecuador--Stand-By Arrangement

Attached hereto is a letter dated December 3, 1987 from the Minister of Finance and Public Credit of Ecuador and the General Manager of the Central Bank of Ecuador requesting a stand-by arrangement and setting forth:

(a) the objectives and polices that the authorities of Ecuador intend to pursue for the period of this stand-by arrangement; and

(b) understandings of Ecuador with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Ecuador will pursue for the remaining 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 from December --, 1987 to March 1, 1989, Ecuador will have the right to make purchases from the Fund in an amount equivalent to SDR 75.35 million, subject to paragraphs 2, 3, 4, 5, and 6 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 15.07 million until May 13, 1988, the equivalent of SDR 30.14 million until August 15, 1988, the equivalent of SDR 45.21 million until November 14, 1988, and the equivalent of SDR 60.28 until February 14, 1989.

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

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of one to two until purchases under this arrangement reach a total of SDR 29,907,534 and thereafter each purchase shall be made from borrowed resources, 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 Ecuadoran currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which:

(i) the ceiling on net domestic assets of the Central Bank of Ecuador set forth in paragraph 7 and Table 1 annexed to the attached letter is not observed; or

(ii) the ceiling on net credit from the Central Bank to the nonfinancial public sector set forth in paragraph 7 and 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 reserves of the Central Bank of Ecuador set forth in paragraph 7 and Table 3 annexed to the attached letter has not been observed; or

(iv) Ecuador fails to observe the intention in paragraph 10 of the attached letter not to incur or permit the accumulation of any new external payments arrears; or

(b) if Ecuador fails to observe the limits on the net disbursement of external debt of or guaranteed by the public sector set forth in paragraph 12 and Table 4 of the attached letter; or

(c) during any period after May 12, 1988:

(i) until the spread between the intervention and free market exchange rates is reduced to 5 percent or less as provided in paragraph 9 of the attached letter; and

(ii) until all trade and financial arrears have been eliminated as provided in paragraph 10 of the attached letter; and

(iii) until the prior import deposit requirement has been eliminated as provided in paragraph 11 of the attached letter; or

(d) during any period after July 31, 1988:

(i) until the review contemplated in paragraph 13 of the attached letter has been completed; and

(ii) until the multiple currency practice arising from the existence of two exchange markets has been eliminated as provided in paragraph 9 of the attached letter; or

(e) if Ecuador:

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

(ii) introduces or modifies multiple currency practices except to transfer categories of payments and transfers to the free market rate in accordance with paragraph 9 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 will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund, or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. 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 the decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, 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.

7. Purchases 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.

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Ecuador will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

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

10. (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 repurchases as Ecuador's balance of payments and reserve position improves.

(b) Any reductions 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.

11. 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.

12. In accordance with paragraph 13 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 consultation because of 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
December 3, 1987

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington D. C. 20431

Dear Mr. Camdessus:

1. After making considerable progress toward improving its financial and economic situation in 1984-85, Ecuador faced a dramatic change of circumstances because of the sharp decline in the export price of petroleum in 1986 and the effect of several earthquakes in March 1987, which interrupted production and exports of petroleum for a period of about five months. Ecuador developed an economic program in 1986 which aimed at containing the deterioration of the public sector finances and the current account of the balance of payments. The program was supported by a one-year stand-by arrangement from the Fund that was approved on August 15, 1986. In view of the situation created by the March 1987 earthquakes, the program for 1987, which was being developed in the context of the review of the stand-by arrangement, was no longer viable and the authorities canceled the arrangement on June 10, 1987.

2. Largely because of the effects of the earthquakes on revenues and expenditures, it is estimated that the public sector overall deficit will reach 10.5 percent of GDP in 1987, compared with a deficit of 5.1 percent of GDP in 1986. Similarly, the current account deficit of the balance of payments is projected to widen from 5.8 percent of GDP in 1986 to 13.2 percent of GDP in 1987. The large loss of export revenue forced the authorities to accumulate a substantial amount of external arrears. The loss of net official international reserves, including arrears, is projected at about US$700 million in 1987.

3. Despite the serious difficulties brought about by the earthquakes, the authorities were able to maintain the flexible exchange and interest rate policies that were adopted in 1986. To raise fiscal revenue, the domestic prices of most petroleum products were increased by an average of about 70 percent in March 1987. Also, in an effort to control the growth of bank credit the Central Bank increased the legal reserve requirements on demand and savings deposits and on certificates of deposit in May, September and October of this year.

4. The Government of Ecuador is conscious of the need to implement policies designed to strengthen savings and dampen inflation and has designed an economic program for 1988 which will go a long way toward reducing the deficit in the current account of the balance of

payments to a level that can be sustained in the medium term. The program will rely on a tightening of fiscal and monetary policies and on the continued implementation of a flexible exchange rate policy with a view to maintaining an adequate level of competitiveness and thus improving the conditions for growth. The Government of Ecuador would like to count on the support of the International Monetary Fund for its economic program and, accordingly, it hereby requests a stand-by arrangement for the period through the end of February 1989 in an amount equivalent to SDR 75.4 million.

5. The fiscal program aims at reducing the overall public sector deficit from 10.5 percent of GDP in 1987 to 1.3 percent of GDP in 1988. Total public sector revenue is projected to increase by the equivalent of 7.9 percentage points of GDP to 29.6 percent of GDP in 1988, reflecting mainly the normalization of petroleum exports. The program contemplated by this letter is based on an average petroleum export price of US$17.25 per barrel and an export volume of 70 million barrels of crude; on this basis, petroleum revenue will increase by 7.3 percentage points of GDP in 1988. Nonpetroleum revenues have strengthened since 1986 and are projected to grow slightly faster than GDP in 1988. To ensure this result, the authorities intend to keep up their tax administration efforts, especially in respect of income and sales taxes. The Government also intends to continue its electricity rate policy and the state electricity company will strengthen its efforts to collect overdue electricity bills. Other public sector tariffs will be adjusted during the year at least to maintain their level in real terms.

6. The Government intends to reduce the level of total public sector outlays from 32.2 percent of GDP in 1987 to an estimated 30.9 percent of GDP in 1988. Total current expenditures are projected to remain unchanged relative to GDP and to decline by 1.4 percentage points of GDP if interest payments are excluded. The projected level of current expenditure does not include a provision for a salary increase. If there were to be any such adjustment, revenue and/or expenditure measures that would cover its cost would be implemented. The authorities also intend to refrain from new hiring of public sector employees. Public sector capital outlays are projected to decline from 9.5 percent of GDP in 1987 to 8.3 percent of GDP in 1988. Most of this reduction reflects the virtual completion in 1987 of outlays related to the repair of the damages caused by the earthquakes, but there will also be some reduction relative to GDP in other investment expenditures by the Central Government. As part of fiscal policy, the Economic Cabinet has given specific directives to the main agencies and enterprises to limit the expansion of outlays to levels consistent with the projections. In order to control better the implementation of the capital expenditure program of the state petroleum company and the state electricity company, the authorities will monitor closely the execution of their budgets on a monthly basis and will forward this information to the Fund staff on a timely basis. Likewise, they will also send to the Fund staff monthly data on the execution of the central government budget.

7. The implementation of the fiscal policies described above, together with the projected foreign financing, should permit the public sector to increase significantly its net creditor position vis-a-vis the banking system in 1988. The contraction of credit to the public sector would allow for an adequate increase of bank credit to the private sector without giving rise to pressures on domestic prices and the exchange rate. The margin for credit expansion to the private sector in 1988 has been estimated at about 25.0 percent. The monetary program specifies quarterly ceilings on the net domestic assets of the Central Bank and on its net credit to the public sector, as detailed in the attached Tables 1 and 2, respectively. The expansion programmed in the net domestic assets of the Central Bank, together with the rescheduling of debt, is consistent with an improvement in the net official international reserves of US$739 million in 1988 (including the elimination of all external payments arrears). Quarterly targets for net official international reserves incorporating seasonal factors have been established as shown in Table 3, attached.

8. During 1986 significant progress was made in enhancing interest rate flexibility. Beginning August 11, 1986 financial intermediaries were permitted to offer interest rates that reflect market conditions on all time and savings deposits and to charge market-determined rates on loans funded with these resources. In addition, on the same date, the minimum denomination of certificates of deposit, which have proven to be a valuable instrument in the promotion of financial savings, was reduced from S/. 1 million to S/. 500,000, and their minimum maturity was made uniform at 30 days. The Central Bank intends to continue the policy of interest rates flexibility to provide incentives for the growth of financial savings and to promote a more efficient allocation of credit. In recent months, the Central Bank has increased the rates charged on subsidized credits to priority sectors. The authorities plan to adjust further these rates and to reduce the scope of subsidized credit operations. To ensure compliance with the program, the authorities are prepared to adjust the legal reserve requirement and rediscount rate of the Central Bank, and to make a more active use of open market operations.

9. The Government of Ecuador considers the continued pursuit of a flexible exchange rate policy to be a crucial element of its economic program. The transfer of private sector foreign exchange transactions to the free market in August 1986 constituted an important step in ensuring a flexible exchange rate policy. The authorities intend to continue to permit the private sector to conduct all its exchange transactions in the free market and the Central Bank will only intervene in this market to ensure compliance with the net international reserve target of the program and to maintain an adequate level of external competitiveness. During 1987 the authorities have adjusted the exchange rate in the intervention market of the Central Bank (used only for public sector transactions) on several occasions with the objective of reducing the spread between this rate and the free market rate. The Central Bank will continue to adjust its intervention rate to reduce the

spread to 10 percent or less before Executive Board consideration of the request for the stand-by arrangement, to further reduce the spread to 5 percent or less before requesting the first purchase subject to performance criteria, and to eliminate the multiple currency practice arising from the existence of such a spread before the completion of the mid-term review of the program.

10. As already mentioned, during 1987 Ecuador built up a large amount of external payments arrears. These included trade arrears and arrears on debt service obligations (interest and principal) to commercial banks and official creditors. The authorities have already made considerable progress in negotiating a refinancing package with foreign commercial banks that will include the rescheduling of approximately US$4.7 billion (covering amortization payments falling due in the period 1987-1996) and a new loan for US$350 million. In addition, the authorities intend to negotiate the renewal of the oil facility obtained from commercial banks in 1986. The authorities also intend to negotiate a rescheduling agreement with official creditors under the aegis of the Paris Club, which would cover the arrears accumulated in 1987 and payments due in 1988. Trade arrears are being canceled through the issuance by the Central Bank of bonds denominated in U.S. dollars. The authorities estimate that US$80 million of the total of US$181 million in trade arrears will be canceled by December 31, 1987 and that the remainder will be canceled before requesting the first purchase under the stand-by arrangement subject to performance criteria. Financial arrears will be eliminated early next year as soon as the refinancing arrangements with banks and the Paris Club are concluded, and in any event before requesting the first purchase under the stand-by arrangement subject to performance criteria. Furthermore, the Government will not incur or permit the accumulation of new arrears during the period of the stand-by arrangement. In case the amount of debt relief sought for 1988 should turn out to be smaller than envisaged in the program, the authorities would adjust their policies as needed or seek alternative sources of foreign financing to ensure achievement of the program's objectives.

11. As part of its economic strategy, Ecuador intends to keep its economy open and avoid resorting to exchange and trade restrictions. In particular, the Government will refrain from restricting imports through the system of prior import authorizations. At present, such authorizations are only required for a limited number of sensitive products. In addition, the import licensing system, which is applied to all imports for statistical purposes will not be used for restrictive purposes. In October of this year Ecuador reintroduced prior import deposit requirements on a temporary basis; such requirements will be eliminated before the first purchase under the stand-by arrangement subject to performance criteria. In the context of an export sector loan under negotiation with the IBRD, the Government intends to eliminate existing quantitative trade restrictions, reduce import duty exonerations and review customs tariffs with a view to rationalizing and reducing effective protection. Ecuador presently maintains two bilateral payments agreements

with Fund members, under which outstanding balances are settled periodically in convertible currency. The Government does not intend to impose or intensify restrictions on payments and transfers for current international transactions, or to introduce or modify multiple currency practices, or to conclude new bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement, or to impose new or intensify existing import restrictions for balance of payments reasons.

12. The balance of payments outlook indicates that Ecuador will need to continue the adjustment process in future years. Thus, the Government will pursue policies which will maximize Ecuador's recourse to credits from multilateral institutions while limiting the use of credit at commercial terms. Nonetheless, the servicing of public external debt will continue to exert a considerable burden on Ecuador's balance of payments. Therefore, with the objective of keeping Ecuador's external debt manageable, a limit has been established under the program on the net disbursement of public external debt with a maturity of up to and including 12 years, with a sublimit on the net disbursement of debt with maturities of up to and including 1 year, as set forth in attached Table 4.

13. The authorities believe that the policies set forth in this letter are adequate to achieve the objectives of the Government's program but will take any further measures that may become appropriate for this purpose. The authorities will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the Fund's policies on such consultations. In this context, progress made in the implementation of the program, including the envisaged debt refinancing and those policy statements indicated in paragraphs 9 and 11 above, will be reviewed with the Fund before July 31, 1988.

Sincerely yours,

Fernando Sevilla Herrero General Manager Central Bank of Ecuador	Rodrigo Espinosa Bermeo Minister of Finance and Public Credit

Attachments

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

(In billions of sucres)

Time Period	Limits
January 1 - March 31, 1988	107.8
April 1 - June 30, 1988	119.0
July 1 - September 30, 1988	98.9
October 1 - December 31, 1988	89.7

1/ Defined as the difference between (1) currency issue (Emision Monetaria) 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 will be converted into sucres at the accounting rate of S/. 276.50 per U.S. dollar. These limits will be adjusted on the basis of the actual figure for net domestic assets of the Central Bank as of December 31, 1987, if such actual figure is different from S/. 275.2 billion (amount estimated for December 31, 1987 and used as the basis to set the limits of the program), in order to maintain the same quarterly flows in 1988. These limits will be adjusted downward by any excess of external debt relief over the amount envisaged in the program.

Table 2. Ecuador: Limits on the Central Bank Net Credit to the Nonfinancial Public Sector 1/

(In billions of sucres)

Time period	Limits
January 1 - March 31, 1988	-78.0
April 1 - June 30, 1988	-81.0
July 1 - September 30, 1988	-116.7
October 1 - December 31, 1988	-133.8

1/ For purposes of these limits, central bank net 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 accouting rate of S/. 276.50 per U.S. dollar. These limits will be adjusted on the basis of the actual figure for central bank net credit to the nonfinancial public sector as of December 31, 1987, if such actual figure is different from S/. -78.0 billion (amount estimated for December 31, 1987 and used as the basis to set the limits of the program), in order to maintain the same quarterly flows in 1988. These limits will be adjusted downward (to a higher negative number) by any excess of external debt relief over the amount envisaged in the program.

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

(In millions of U.S. dollars)

Date	Targets
March 31, 1988	-146.3
June 30, 1988	-166.4
September 30, 1988	-59.4
December 31, 1988	14.3

1/ Defined as the difference between the foreign assets of the Central Bank and its external liabilities of up to one year, as well as all obligations to the Fund and obligations to the Andean Reserve Fund and under the Santo Domingo Agreement, regardless of their maturity. For the purpose of this definition, external arrears are considered as external liabilities, while the deposits of international nonmonetary organizations in the Central Bank of Ecuador and the allocations of SDRs are not considered external liabilities. The gold holdings of the Central Bank will be valued at US$400.00 per ounce; the accounts denominated in SDRs will be converted at the rate of US$1.26791 per SDR. These targets will be adjusted on the basis of the actual figure for net international reserves of the Central Bank as of December 31, 1987, if such actual figure is different from US$-725.0 million (amount estimated for December 31, 1987 and used as a basis to set the targets of the program), in order to maintain the same quarterly flows in 1988. These limits will be adjusted upward (a smaller negative number or a higher positive number) by any excess of external debt relief over the amount envisaged in the program.

Table 4. Ecuador: Limits on the Net Disbursement of External Debt to the Public Sector or Guaranteed by the Public Sector with Original Maturity of Up to and Including 12 years 1/

(In millions of U.S. dollars)

Maturity Ranges	
Up to December 31, 1988	
Debt up to and including 1 year	19.0
Debt up to and including 12 years	580.0

1/ Excludes external debt of up to one year of the Central Bank of Ecuador and the use by the private sector of the trade credit lines granted by commercial banks in 1983 with central bank guarantee. These limits also exclude the increase in public sector debt that might occur as a result of a rescheduling of interest payments to Paris Club creditors and the reduction in debt which might occur in 1988 from debt-equity swaps.

Table 10. Ecuador: Sectoral Origin of Real GDP

	1984	1985	Est. 1986	Projected 1987	Projected 1988
	(In millions of sucres at 1975 prices)				
GDP at market prices	157,226	164,258	168,995	163,815	177,524
Agricultural and livestock	22,007	24,043	25,924	27,274	28,612
Petroleum and mining	21,879	24,027	25,475	16,559	26,428
Manufacturing	28,643	28,741	28,615	28,934	29,576
Agroindustry	11,335	11,381	11,425	11,629	11,867
Textile	6,659	6,639	6,282	6,345	6,567
Other	10,649	10,721	10,908	10,960	11,142
Construction	6,583	6,710	6,378	6,582	6,516
Electricity, gas, and water	1,836	1,786	2,051	2,234	2,423
Services	56,941	59,099	60,508	61,718	63,261
Public administration	14,775	14,904	15,053	15,339	15,523
Households	714	723	735	746	753
Other	3,848	4,225	4,256	4,429	4,432
	(Percentage change)				
GDP at market prices	4.2	4.5	2.9	-3.1	8.4
Agricultural and livestock	10.6	9.3	7.8	5.2	4.9
Petroleum and mining	10.0	9.8	6.0	-35.0	59.6
Manufacturing	-1.9	0.3	-0.4	1.1	2.2
Agroindustry	-1.6	0.4	0.4	1.8	2.0
Textile	-1.4	-0.3	-5.4	1.0	3.5
Other	-2.4	0.7	1.7	0.5	1.7
Construction	-2.2	1.9	-4.9	3.2	-1.0
Electricity, water, and gas	28.8	-2.7	14.8	8.9	8.5
Services	3.6	3.8	2.4	2.0	2.5
Public administration	1.9	0.9	1.0	1.9	1.2
Households	1.3	1.3	1.7	1.5	0.9
Other	6.7	9.8	0.7	4.1	0.1

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

Table 11. Ecuador: Central Government Operations 1/

	1984	1985	1986	Projected 1987	1988
(In billions of sucres)					
Total revenue	108.9	200.8	199.3	264.3	548.3
Petroleum revenue	49.3	115.3	74.5	91.1	283.6
Nonpetroleum revenue	59.6	85.5	124.8	173.2	264.7
Tax revenue	54.1	79.5	115.6	159.2	244.9
Taxes on income and profits	10.3	13.8	22.5	31.7	45.4
Property taxes	0.1	0.2	0.3	0.3	0.5
Taxes on goods and services	21.0	29.8	51.9	71.8	102.4
General sales tax	11.4	17.9	37.8	51.9	76.7
Selective excise taxes	9.6	11.9	14.1	19.9	25.8
Taxes on international trade	20.8	32.6	43.2	56.3	90.6
Import duties	19.1	29.7	39.7	52.5	85.5
Export duties	0.1	--	--	--	--
Exchange profits tax	1.6	2.9	3.5	3.8	5.1
Other taxes	2.0	4.2	3.1	5.3	6.1
CATs and IERAC (-)	-0.1	-1.1	-5.4	-6.2	-0.2
Nontax revenue	2.8	4.1	5.9	5.7	9.2
Transfers	2.7	1.9	3.3	8.3	10.6
Total expenditure	114.2	179.5	229.2	348.4	451.1
Current expenditure	96.0	146.0	189.1	269.7	367.1
Wages and salaries 2/	19.6	53.7	98.9	134.0	162.0
Purchases of goods and services	3.6	4.4	5.2	5.8	7.6
Interest payments 3/	18.8	35.9	37.4	61.6	114.5
Current transfers	40.7	44.3	35.0	55.6	70.0
Other current expenditures	13.3	7.7	12.6	12.7	13.0
Capital expenditure	18.2	33.5	40.1	78.7	84.0
Fixed capital formation	11.9	21.7	16.2	41.3	42.0
Capital transfers	6.3	9.7	17.9	35.0	38.0
Other capital expenditures	--	2.1	6.0	2.4	4.0
Overall surplus or deficit (-)	-5.3	21.3	-29.9	-84.1	97.2

Table 11. Ecuador: Central Government Operations (Concluded) 1/

	1984	1985	1986	Projected 1987	Projected 1988
	(In percent of GDP)				
Total revenue	13.5	18.1	14.6	14.7	22.2
Petroleum revenue	6.1	10.4	5.5	5.1	11.5
Nonpetroleum revenue	7.4	7.7	9.1	9.6	10.7
Tax revenue	6.7	7.2	8.5	8.8	9.9
Taxes on income and profits	1.3	1.2	1.6	1.8	1.8
Property taxes	--	--	--	--	--
Taxes on goods and services	2.6	2.7	3.8	4.0	4.1
General sales tax	1.4	1.6	2.8	2.9	3.1
Selective excise taxes	1.2	1.1	1.0	1.1	1.0
Taxes on international trade	2.6	2.9	3.2	3.1	3.7
Import duties	2.4	2.7	2.9	2.9	3.5
Export duties	--	--	--	--	--
Exchange profits tax	0.2	0.3	0.3	0.2	0.2
Other taxes	0.2	0.4	0.2	0.3	0.2
CATs and IERAC (-)	--	-0.1	-0.4	-0.3	--
Nontax revenue	0.3	0.4	0.4	0.3	0.4
Transfers	0.3	0.2	0.2	0.5	0.4
Total expenditure	14.2	16.1	16.8	19.4	18.3
Current expenditure	11.9	13.1	13.8	15.0	14.9
Wages and salaries 2/	2.4	4.8	7.2	7.4	6.6
Purchases of goods and services	0.4	0.4	0.4	0.3	0.3
Interest payments 3/	2.3	3.2	2.7	3.4	4.6
Current transfers	5.1	4.0	2.6	3.1	2.8
Other current expenditures	1.7	0.7	0.9	0.7	0.5
Capital expenditure	2.3	3.0	2.9	4.4	3.4
Fixed capital formation	1.5	2.0	1.2	2.3	1.7
Capital transfers	0.8	0.9	1.3	1.9	1.5
Other capital expenditures	--	0.2	0.4	0.1	0.2
Overall surplus or deficit (-)	-0.7	1.9	-2.2	-4.7	3.9

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

1/ Includes the Central Government Budget and the National Participation Fund (FONAPAR).

2/ The figures for 1985 onward are not comparable to previous years: through 1984 part of wage and salary expenditures are included in current transfers and other current expenditures.

3/ External interest payments for 1987 are presented on a commitment basis. Total interest payment arrears amount to S/. 26.1 billion in 1987. On a cash basis, the Central Government overall deficit is thus projected at S/. 58.0 billion (3.2 percent of GDP). Interest payments in 1988 only include external interest payments falling due during the year. Accordingly, the overall surplus on a cash basis is projected at S/. 55.3 billion (2.2 percent of GDP) in 1988, after elimination of the 1987 interest arrears.

Table 12. Ecuador: Operations of the Rest of the General Government 1/

(In percent of GDP)

	1984	1985	1986	Projected 1987	1988
Total revenue	8.5	8.8	8.8	8.0	8.0
Petroleum revenue	3.1	2.7	2.6	0.7	1.4
Nonpetroleum revenue	5.4	6.1	6.2	7.3	6.6
Social security contributions	2.6	2.7	2.7	2.6	2.4
Current revenue	1.7	2.3	2.4	2.4	1.9
Transfers	1.1	1.1	1.1	2.3	2.3
From budget	1.1	1.1	--	1.9	1.7
From other public sector	--	--	1.1	0.4	0.6
Total expenditure	9.1	9.1	10.8	11.3	10.4
Current expenditure	6.2	6.2	7.0	7.8	7.4
Wages and salaries	1.4	1.3	1.4	1.5	1.4
Purchases of goods and services	2.9	2.7	2.8	3.4	3.5
Interest payments 2/	--	0.1	1.3	1.4	1.1
Current transfers	1.8	2.1	1.5	1.5	1.4
To Social Security	--	0.1	0.1	0.1	0.1
To other public sector	0.3	0.2	0.1	0.2	0.2
To private sector	1.5	1.8	1.3	1.3	1.1
Other current expenditure	--	--	--	--	0.1
Capital expenditure	3.0	2.9	3.8	3.5	3.0
Fixed capital formation	1.3	1.0	1.7	1.8	1.8
Net lending	1.5	1.8	2.1	1.7	1.2
Other capital expenditure	0.2	0.1	--	--	--
Overall surplus or deficit (-)	-0.6	-0.3	-2.0	-3.2	-2.4

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

1/ Includes IESS, BEDE, FONAPRE, municipal and provincial governments, universities, and the National Defense Board.

2/ For 1987 and 1988 external interest payments are presented on a commitment basis.

Table 13. Ecuador: Consolidated Operations of the Nonfinancial Public Enterprises 1/

(In percent of GDP)

	1984	1985	1986	Projected 1987	Projected 1988
Operating revenue	8.4	6.9	8.8	7.8	8.9
Operating expenditure	6.1	5.6	6.5	6.5	7.3
Wages and salaries	1.0	0.9	0.9	0.9	0.8
Social security contributions	0.1	0.1	0.1	0.1	0.1
Other goods and services	5.0	4.6	5.5	5.5	6.4
Operating surplus or deficit (-)	2.3	1.3	2.3	1.3	1.5
Nonoperating revenue	1.3	1.7	1.0	0.8	0.7
Share in oil revenue	1.0	0.8	0.4	0.3	0.6
Government transfers	0.3	0.9	0.6	0.5	0.1
Nonoperating expenditure	0.6	0.8	0.8	1.2	1.5
Interest payments 2/	0.5	0.7	0.7	1.1	1.4
Transfers to public sector	0.1	0.1	0.1	--	0.1
Capital expenditure	2.4	1.9	3.4	3.6	3.5
Overall surplus or deficit (-)	0.6	0.3	-0.9	-2.6	-2.8

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

1/ Includes CEPE, INECEL, ECUATORIANA, ENAC, ENPROVIT, FLOPEC, IETEL, National Railroads, TAME and TRANSNAVE.

2/ For 1987 and 1988 external interest payments are presented on a commitment basis.

Table 14. Ecuador: Exports by Principal Products

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
				Projected						
(Value in millions of dollars, volume in thousands of metric tons, unit value in dollars per ton, unless otherwise indicated)										
Petroleum crude	1,679	1,825	913	705	1,208	1,211	1,231	1,251	1,269	1,285
Volume 1/	61.3	70.6	71.3	42.2	70.0	69.2	68.4	67.6	66.8	65.9
Unit value 2/	27.4	25.8	12.8	16.7	17.25	17.5	18.0	18.5	19.0	19.5
Petroleum derivatives	156	102	70	74	137	146	154	162	170	179
Volume 1/	6.2	4.8	6.7	5.1	9.3	9.4	9.6	9.8	10.0	10.2
Unit value 2/	25.2	21.2	10.5	14.6	14.7	15.5	16.0	16.5	17.0	17.5
Banana	136	220	263	275	292	305	317	330	344	357
Volume	924	1,278	1,400	1,450	1,486	1,516	1,546	1,577	1,609	1,641
Unit value	0.147	0.172	0.188	0.190	0.196	0.201	0.205	0.209	0.214	0.218
Coffee, unprocessed	175	190	299	159	182	192	203	215	228	242
Volume	71.5	78.3	102.7	85.0	90.0	92.7	95.5	98.3	101.3	104.3
Unit value	2.44	2.44	2.91	1.87	2.02	2.07	2.12	2.19	2.25	2.32
Cocoa, unprocessed	96	138	71	93	95	98	101	106	111	117
Volume	46.9	70.4	38.3	50.0	51.0	52.8	54.6	56.5	58.5	60.6
Unit value	2.05	1.97	1.86	1.85	1.85	1.85	1.85	1.88	1.90	1.93
Cocoa, processed	50	79	77	53	54	56	58	61	64	67
Volume	28.5	34.1	35.4	22.0	22.4	23.2	24.0	24.9	25.8	26.7
Unit value	1.76	2.31	2.18	2.41	2.41	2.41	2.41	2.44	2.47	2.51
Shrimp	160	157	288	392	455	506	563	614	671	726
Volume	21.3	20.0	31.1	49.0	55.0	59.4	64.1	68.0	72.1	75.7
Unit value	7.5	7.8	9.3	8.0	8.3	8.5	8.8	9.0	9.3	9.6
Other fish products	71	109	100	80	86	94	104	114	125	138
Other	99	85	105	153	184	206	230	258	289	323
Total	2,622	2,905	2,186	1,984	2,690	2,813	2,961	3,111	3,271	3,433
Petroleum	1,835	1,926	983	779	1,344	1,357	1,385	1,412	1,439	1,464
Nonpetroleum	787	979	1,203	1,205	1,346	1,456	1,576	1,698	1,832	1,970
Nonpetroleum, non-coffee	612	788	905	1,046	1,164	1,264	1,373	1,483	1,603	1,728
(Annual percentage change)										
Total	11.7	10.8	-24.7	-9.2	35.6	4.6	5.2	5.1	5.1	5.0
Petroleum	5.9	5.0	-49.0	-20.7	72.5	0.9	2.1	2.0	1.9	1.7
Nonpetroleum	28.0	24.3	23.0	0.2	11.7	8.2	8.2	7.8	7.8	7.5
Nonpetroleum, non-coffee	31.3	28.8	14.9	15.7	11.3	8.6	8.6	8.0	8.1	7.7

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

1/ In millions of barrels.
2/ U.S. dollars per barrel.

Table 15. Ecuador: Financial Relations with the World Bank

(In millions of U.S. dollars)

A. New commitments and disbursements

	New commitments			Disbursements		
	1985	1986	Jan.-Oct. 1987 1/	1985	1986	Jan.-Oct. 1987 1/
Total	106.0	232.5	80.0	40.3	160.5	131.6
Agriculture	100.0	48.0	--	8.7	65.0	28.0
Industry	--	145.0	--	14.2	69.7	20.2
Industrial finance	--	115.0	--	--	65.0	--
Small-scale enterprise	--	30.0	--	12.0	1.8	17.5
Medium-scale enterprise	--	--	--	2.2	2.9	2.7
Public sector	6.0	--	--	--	--	1.9
Energy	--	8.5	80.0	--	--	50.3
Transportation	--	--	--	5.2	8.0	10.8
Urban development	--	--	--	11.4	17.1	6.1
Education	--	--	--	0.2	0.7	3.1
Water supply	--	31.0	--	--	--	--
Other	--	--	--	0.6	--	11.2

B. World Bank disbursements (net)

	1983	1984	1985	1986	Jan.-Oct. 1987 1/
Net disbursements	26.2	49.4	12.2	125.1	100.3
Disbursements	46.0	66.6	40.3	160.5	131.6
Repayments	19.8	17.2	28.1	35.4	31.3

Source: World Bank.

1/ Data through October 31, 1987.