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March 11, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Ecuador - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Ecuador, which 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.

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INTERNATIONAL MONETARY FUND

ECUADOR

Staff Report for the 1986 Article IV Consultation

Prepared by the Western Hemisphere Department

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

Approved by Eduardo Wiesner and Manuel Guitián

March 10, 1987

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I. Introduction

The 1986 staff discussions for the Article IV consultation with Ecuador were initiated in Quito in the period November 5-20, 1986 and were continued at headquarters during the periods December 11-19, 1986 and January 5-13, 1987. ^{1/} The consultation discussions were conducted in the context of the mid-term review under the current stand-by arrangement. However, the discussions on the review have not yet been completed because of delays in the negotiation of a financing package for 1987 between the Government of Ecuador and foreign commercial banks. Given the characteristics of the package being negotiated with the banks, which includes various different elements of debt relief, the authorities felt that it would be essential to secure an agreement in principle with the banks before completing the discussions relating to the review.

The Ecuadoran representatives in the discussions included the Ministers of Finance and Public Credit; Commerce and Industry; Natural Resources and Mining; Agriculture; Labor; the President of the Monetary Board and the General Manager of the Central Bank, as well as other senior officials of the public sector. The staff representatives in the mission to Quito were Mr. Bonangelino (Head), Mr. Clifton, Ms. Suss, Mr. Terrier (all WHD), Mr. de Schaetzen (ETR), and Ms. Puri (Secretary-WHD). Messrs. Perez and Leme (both WHD) participated in the discussions held at headquarters.

As this paper was about to be issued, news was received that an earthquake struck Ecuador causing substantial loss of human life. Also, damage was done to 25 miles of a major oil pipeline, thus interrupting exports of oil. The authorities are currently assessing the damages, and the staff intends to keep in contact with them with a view to ascertaining the effects on the economic situation. The staff will be informing Executive Directors about these developments.

Ecuador has made one purchase so far, equivalent to SDR 15.1 million, under the one-year stand-by arrangement approved on August 15, 1986. Concurrently, Ecuador made a purchase of SDR 39.7 million under the compensatory financing facility. The second and third purchases under the stand-by arrangement that were to become available after November 14, 1986 and February 13, 1987, respectively, could not be made because of the nonobservance of some of the performance criteria. In addition, after December 15, 1986 no purchase can be made under the arrangement until the mid-term review is completed by the Executive Board.

^{1/} The last Article IV consultation with Ecuador was concluded by the Executive Board on September 20, 1985 (EBM/85/147).

II. Background and Performance Under the Stand-By Arrangement

In the early 1980s, as the rate of growth of earnings from oil (Ecuador's main export commodity) slowed down, the authorities followed stimulating demand policies. While these policies helped to maintain positive economic growth, they gave rise to inflationary pressures and to a marked weakening in the balance of payments, including a buildup of external payments arrears (Table 1). The deterioration in the country's economic situation led the authorities to implement adjustment policies starting in late 1982; these included a tightening of fiscal and monetary policies, the implementation of a more flexible exchange rate policy, and the unification of the official and intervention exchange markets of the Central Bank in late 1985. ^{1/} The authorities also obtained financing and debt relief from Ecuador's foreign creditors, which assisted the country in meeting its debt service payments. The efforts undertaken during this period were supported by two one-year stand-by arrangements from the Fund, which became effective in July 1983 and in March 1985, respectively.

The adjustment policies implemented by the authorities resulted in a significant strengthening of the public finances and the balance of payments, and in the gradual elimination of external payment arrears during 1983-85. Real GDP recovered in 1984-85 after having declined sharply in 1983, mostly because of the impact of severe floods on agricultural production. Inflation peaked in 1983 partly reflecting the effects on food prices of the shortages of agricultural products. That year the average increase in the consumer price index reached almost 50 percent, but inflation subsequently abated in 1984 and 1985 with average increases in the consumer prices of about 30 percent each year. ^{2/}

Ecuador's economic situation was adversely affected in 1986 by the sharp decline in the export price of oil, which reduced export earnings by the equivalent of about 9 percent of GDP. The authorities adopted an economic program aimed at adjusting the economy to the changed situation, with a view to achieving balance of payments viability over the medium term. Specifically, the program sought to limit the deficit of the public sector to the equivalent of 3.2 percent of GDP and the overall deficit of the balance of payments to no more than US\$50 million in 1986, compared with a public sector surplus of 1.9 percent of GDP and a

^{1/} Most of the private sector transactions that were still in the official market at the end of 1984 were transferred to the more depreciated intervention market of the Central Bank in several steps during 1985. Formal unification of the exchange market took place on November 12, 1985 when all current transactions were brought into the intervention market of the Central Bank. At the same time, a free exchange market continued to exist for capital transactions.

^{2/} See EBS/85/202 and EBS/86/148 for a more detailed description of developments and policies during this period.

Table 1. Ecuador: Selected Economic Indicators

	1980	1981	1982	1983	1984	1985	1986		1987
							Proj. 1/	Est.	Proj.
(Percentage change)									
Real GDP	4.9	3.9	1.2	-2.8	4.0	3.8	1.0	1.7	2.0
Nominal GDP	25.4	18.9	19.2	34.8	43.8	34.7	13.5	22.8	30.3
GDP deflator	19.5	14.3	17.8	38.7	38.3	29.8	12.4	20.8	27.8
CPI (end of period)	13.7	17.3	24.4	52.5	25.0	24.4	22.2	27.3	22.0
CPI (period average)	12.8	14.7	16.3	48.4	31.2	28.0	23.0	23.0	24.2
(In percent of GDP)									
<u>Overall nonfinancial public sector balance</u>	<u>-4.7</u>	<u>-5.6</u>	<u>-6.7</u>	<u>—</u>	<u>-0.4</u>	<u>1.9</u>	<u>-3.2</u>	<u>-4.2</u>	<u>-2.4</u>
Foreign financing	5.4	6.0	4.5	0.6	1.3	1.4	4.1	5.0	4.0
Domestic financing	-0.7	-0.4	2.2	-0.6	-0.9	-3.3	-0.9	-0.8	-1.6
<u>Gross domestic investment</u>	<u>26.1</u>	<u>23.2</u>	<u>25.2</u>	<u>17.6</u>	<u>18.3</u>	<u>17.9</u>	<u>19.0</u>	<u>18.7</u>	<u>18.2</u>
<u>Gross national savings</u>	<u>19.1</u>	<u>13.2</u>	<u>13.7</u>	<u>16.4</u>	<u>15.9</u>	<u>19.0</u>	<u>12.1</u>	<u>11.9</u>	<u>13.1</u>
<u>Current account of the balance of payments</u>	<u>-7.0</u>	<u>-10.0</u>	<u>-11.5</u>	<u>-1.2</u>	<u>-2.4</u>	<u>1.1</u>	<u>-6.9</u>	<u>-6.8</u>	<u>-5.1</u>
(In millions of U.S. dollars)									
<u>Overall balance of payments</u> 2/	<u>226</u>	<u>-294</u>	<u>-671</u>	<u>52</u>	<u>60</u>	<u>85</u>	<u>-50</u>	<u>-227</u>	<u>—</u> 3/
(In billions of sucres)									
Nominal GDP	293.3	348.7	415.7	560.3	805.7	1,085.4	1,191.5	1,333.0	1,737.4

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

1/ Projection prepared at the time of the negotiation of the stand-by arrangement (EBS/86/148 of July 14, 1986).

2/ Includes changes in external payments arrears.

3/ Assumes the existence of a debt relief package to cover the balance of payments gap.

balance of payments surplus of US\$85 million in 1985. In support of Ecuador's economic program for 1986, the Fund approved the current one-year stand-by arrangement on August 15, 1986.

A key element of the authorities' adjustment effort in 1986 was the continued implementation of a flexible exchange rate policy. Following the January 29, 1986 devaluation of the sucre in the intervention market of the Central Bank from S/. 95.00 to S/. 108.50 per U.S. dollar (buying rate), the sucre in the free exchange market continued to depreciate and by the end of July 1986 was about S/. 170.00 per U.S. dollar compared with about S/. 130.00 per U.S. dollar at the beginning of the year. On August 12, 1986 the Central Bank abolished the surrender requirements on private sector current transactions, and since then such transactions are conducted through the free market. ^{1/} On the same date, the authorities also eliminated the prior import deposit scheme that had been introduced earlier in the year and the related import financing or barter requirements; elimination of the deposit requirement by the end of 1986 was a performance criterion of the stand-by arrangement. Later in August, the authorities decided to begin adjusting the intervention rate regularly so as to maintain a narrow spread with the rate in the free market.

In regard to other policy variables, the public sector deficit is estimated to have reached 4.2 percent of GDP in 1986, compared with a target of 3.2 percent of GDP in the program. However, net central bank credit to the public sector contracted more than had been planned (Table 2), because of a higher amount of net foreign financing than originally envisaged for the public sector. Disbursements under the 1986 oil credit facility from commercial banks totaled US\$207 million instead of the US\$150 million that had been assumed in the program, and disbursements from multilateral organizations and suppliers' credits also were higher than projected. Notwithstanding the overperformance in respect of credit to the public sector, the net domestic assets of the Central Bank exceeded the limits applicable in both the third and fourth quarters of 1986.

^{1/} As a transitional arrangement, the Central Bank continued to sell foreign exchange at the going intervention market rate to the private sector for the following transactions: (a) for the payment of imports for which import permits had been granted before August 12, 1986; (b) for the servicing of external credits when the foreign exchange obtained from those credits was sold to the Central Bank before August 12, 1986 (the amount of private external debt that qualifies for this treatment is small because most of the private external debt was assumed by the public sector in 1983-85); (c) for repatriation of capital and dividends on foreign investment when the foreign exchange utilized to make the investment was sold to the Central Bank before August 12, 1986; and (d) for medical care and studies abroad under the terms of contracts agreed with the Central Bank before August 12, 1986.

Table 2. Ecuador: Performance Under Stand-By Arrangement

	1985	1986		
	Dec. 31	June 30 <u>1/</u>	Sept. 30	Dec. 31
<u>(In billions of sucres)</u>				
<u>Net domestic assets of the</u>				
<u>Central Bank</u>				
Ceiling <u>2/</u>		35.0	36.0	36.2
Actual	24.0	30.1	57.0	63.2
Margin/excess (-)		4.9	-21.0	-27.0
<u>Net central bank credit</u>				
<u>to the public sector</u>				
Ceiling <u>2/</u>		-83.4	-83.9	-84.5
Actual	-80.9	-77.7	-78.1	-91.1
Margin/excess (-)		-5.7	-5.8	6.6
<u>(In millions of U.S. dollars)</u>				
<u>Net official international</u>				
<u>reserves</u>				
Target		113	130	146
Actual	196	142	-32	-31
Excess/shortfall (-)		29	-162	-177
<u>Public sector external</u>				
<u>debt 0-12 years</u>				
Limit		6,975	6,975	6,975
Actual	6,578	6,555	6,599	...
Margin/excess (-)		420	376	...
<u>Public sector external</u>				
<u>debt 0-1 year</u>				
Limit		278	278	278
Actual	278	274	274	...
Margin/excess (-)		4	4	...

Source: Central Bank of Ecuador.

^{1/} Ceilings and targets were only indicative since the program was approved on August 15, 1986.

^{2/} Continuous ceilings.

The balance of payments registered an overall deficit of US\$227 million in 1986, compared with the objective of limiting the deficit to a maximum of US\$50 million; as is shown in Table 2, the end-September and end-December targets on net international reserves of the Central Bank were not observed. According to preliminary figures, the current account deficit was slightly smaller than projected, as an over-performance in both petroleum and nonpetroleum exports offset an excess of imports over the projected level and a weaker than expected services account. However, there was a shortfall of more than US\$200 million in total net capital inflows as the increase of US\$150 million in the utilization of trade credit lines by the private sector that had been assumed in the program failed to materialize, and other private capital flows also were weaker than projected. A small amount of trade-related external payment arrears was built up during 1986. These arrears were eliminated in December 1986 but re-emerged in January of this year. In addition, Ecuador failed to pay in January 1987 about US\$36 million of interest payments owed to banks.

In the discussions, the authorities observed that in accordance with the official accounts of the Central Bank, the decline in net official international reserves amounted to US\$52 million in 1986 and not to US\$227 million as measured under the stand-by arrangement. The Central Bank classified a loan for US\$175 million obtained in 1986 from the Andean Reserve Fund (ARF) as a medium- and long-term foreign liability because it carries a maturity of five years. Under the terms of the stand-by arrangement all loans from the ARF, regardless of their maturity, were to be classified as reserve liabilities. ^{1/} In the context of the mid-term review, the authorities were contemplating a request to change the definition of net official international reserves in the stand-by arrangement so that any loan with a maturity of more than one year from the ARF would be classified as a medium-term foreign liability.

Real GDP grew by close to 2 percent in 1986 compared with a program projection of 1 percent. Inflation accelerated in the latter part of the year, and the increase in consumer prices from December 1985 to December 1986 was larger than projected; however, the average price increase was in line with the projection (23 percent).

III. Report on the Discussions

At the conclusion of the 1985 Article IV consultation on September 20, 1985, Executive Directors welcomed the steps taken by the Ecuadoran authorities to improve the financial position of the public sector, and to increase the flexibility of both interest rate and exchange rate policies. The authorities were urged to continue strengthening the tax system and to restrain the growth in current

^{1/} See EBS/86/148, page 47.

expenditures, particularly by adopting a firm stance on wages. In the view of the Executive Directors, monetary policy could be expected to play a key supporting role in the adjustment efforts, with increased interest rate flexibility encouraging domestic savings and helping to protect the balance of payments. Executive Directors noted the importance of maintaining an active exchange rate policy in light of the heavy debt service burden and the need of diversifying exports.

The latest discussions with the authorities reviewed developments under the 1986 program and focused on the economic policies required in 1987 to resume the adjustment path envisaged when the stand-by arrangement was approved. The authorities acknowledged that there had been deviations from the program in 1986, but they emphasized that the deterioration in the public sector accounts resulting from the sharp decline in oil revenues had been contained by the measures adopted. They also noted that the deficit on the current account of the balance of payments was held to the level envisaged in the program, and that the failure to observe the target on net official international reserves stemmed from a shortfall in the capital account.

The authorities indicated that they were committed to continued the adjustment process and observed that if the higher international price of petroleum of early 1987 were to prevail during the rest of the year, their task would be facilitated. They noted, however, that even with the partial recovery of petroleum exports, the debt service burden continued to be high. For this reason, Ecuador was negotiating with foreign commercial banks to obtain debt service relief for 1987 and was considering approaching official creditors under the aegis of the Paris Club to request the rescheduling of the maturities falling due in 1987.

1. Fiscal policy

a. Developments in 1986

As was indicated above, the overall deficit of the public sector is estimated to have amounted to 4.2 percent of GDP in 1986, compared with a program target of 3.2 percent of GDP (Table 3); in sucre terms, the deficit was close to 50 percent higher than projected. The weaker than envisaged public sector performance last year resulted entirely from a more rapid growth of outlays as public sector revenue was somewhat higher than had been projected reflecting an average petroleum export price that was slightly above that envisaged in the program. Current expenditure, excluding interest payments, rose by an estimated 32 percent in 1986 compared with an increase of about 17 percent projected originally, while capital outlays increased by nearly 50 percent instead of 13 percent envisaged in the program. In relation to GDP, noninterest current outlays rose from 15.3 percent in 1985 to 16.5 percent in 1986 and capital expenditure rose from 7.1 percent to 8.6 percent over the same period.

Table 3. Ecuador: Summary of Public Sector Operations

	1983	1984	1985	1986		1987
				Prog. 1/	Est.	Proj.
(In billions of sucres)						
Total revenue	125.4	193.5	309.1	285.6	328.9	428.8
Petroleum revenue	48.5	82.2	154.1	98.5	127.6	185.6
Nonpetroleum revenue	67.3	92.9	140.0	184.4	186.7	234.4
Operating surplus of public enterprises	9.6	18.4	15.0	2.7	14.6	8.8
Total expenditure	125.2	196.4	288.0	323.6	385.1	470.5
Current expenditure	84.6	141.5	211.4	239.2	270.6	351.7 2/
Capital expenditure	40.6	54.9	76.6	84.4	114.5	118.8
Overall surplus or deficit (-)	0.2	-2.9	21.1	-38.0	-56.2	-41.7
External financing	3.4	9.8	15.5	49.1	66.4	69.8
Drawings	8.5	18.7	23.0	69.1	90.3	109.7 3/
Amortizations	5.1	8.9	7.5	20.0	23.9	39.9
Domestic financing	-3.6	-6.9	-36.6	-11.1	-10.2	-28.1
Central Bank (net)	-2.4	-12.3	-35.7	-3.6	-10.2	-19.9
Rest of banking system	-1.2	-0.6	0.3	-7.5	-5.0	-8.2
Other	--	6.0	-1.2	--	5.0	--
(In percent of GDP)						
Total revenue	22.4	24.0	28.5	24.0	24.7	24.7
Petroleum revenue	8.7	10.2	14.2	8.3	9.6	10.7
Nonpetroleum revenue	12.0	11.5	12.9	15.5	14.0	13.5
Operating surplus of public enterprises	1.7	2.3	1.4	0.2	1.1	0.5
Total expenditure	22.3	24.4	26.6	27.2	28.9	27.1
Current expenditure	15.1	17.6	19.5	20.1	20.3	20.2
Capital expenditure	7.2	6.8	7.1	7.1	8.6	6.9
Overall surplus or deficit (-)	--	-0.4	1.9	-3.2	-4.2	-2.4
External financing	0.6	1.3	1.4	4.1	5.0	4.0
Drawings	1.5	2.3	2.1	5.8	6.8	6.3
Amortizations	0.9	1.0	0.7	1.7	1.8	2.3
Domestic financing	-0.6	-0.9	-3.3	-0.9	-0.8	-1.6
Central Bank (net)	-0.4	-1.5	-3.2	-0.3	-0.8	-1.1
Other banks	-0.2	-0.1	--	-0.6	-0.4	-0.5
Other	--	0.7	-0.1	--	0.4	--

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

1/ The program figures for nonpetroleum revenue and current expenditure have been revised downward to correct for a double counting of S/. 12.8 billion in central government transfers to the Ecuadoran Social Security Institute. Data for previous years also have been revised on this account.

2/ Foreign interest payments on an accrual basis in 1987.

3/ Includes the impact on the nonfinancial public sector of a debt relief package expected to close the balance of payments gap.

The authorities explained that the overrun on current expenditure had been due mostly to higher wages and salaries than originally envisaged. In addition to the salary increase of some 18 percent that had been granted on average at the beginning of 1986 and which had been allowed for in the program, another increase of 17 percent (on average) became effective in October. Also, there was extensive resort to regrading of personnel in the Central Government and some new hiring, particularly of teachers, which increased further the total wage bill. The authorities said that the increase in wages granted in October was prompted by the changes in exchange rate policy and the interest rate measures of early August. They also observed that the wage increase, which was approved by the President through an Executive Decree, was substantially smaller than the one Congress was about to grant. While certain revenue measures were adopted in an attempt to finance the cost of the October wage increase, they were sufficient to cover only about one third of it.

The level of capital expenditure in 1986 was higher than had been envisaged because the investment programs of the state petroleum company (CEPE) and of the electricity corporation (INECEL) were implemented at a pace faster than had been expected; these programs included the expansion of the Esmeraldas refinery, the construction of a small refinery at Amazonas, and the installation of transmission lines to the newly constructed hydroelectric dam at Paute. The buildup of inventories of rice and corn by the state marketing board (ENAC) contributed further to the faster expansion of capital expenditure. The authorities noted that the need to accumulate inventories was the combined result of good crops and difficulties in exporting the surpluses largely because of the export subsidies granted by another country. In addition, net lending by the rest of the general government (particularly the Social Security Institute) exceeded the levels that had been programmed.

b. Outlook for 1987

The authorities were planning to reduce the public sector deficit in 1987 in order to facilitate the attainment of a viable balance of payments position. They expressed the intention to reduce the public sector deficit by 1.8 percentage points of GDP in 1987 to 2.4 percent of GDP, mainly through the implementation of a policy of expenditure restraint.

Total public sector revenue is projected to remain unchanged relative to GDP in 1987, after having declined by almost 4 percentage points of GDP last year. Petroleum revenue is estimated to increase because of both higher oil export prices and adjustments in domestic prices of refined products (these prices have not been raised since December 1984). The projection assumes that Ecuador's oil export price will rise from an average of US\$12.70 a barrel in 1986 to US\$15.00 a barrel in 1987. The authorities are projecting a decline in the rate of growth of nonpetroleum revenue in 1987, following the strong increase achieved in

1986 as a result of the measures adopted early in the year. ^{1/} In relation to GDP, nonpetroleum revenue is estimated to decline from 14 percent in 1986 to 13.5 percent in 1987, but would still be considerably higher than in 1983-85. ^{2/} The authorities are not contemplating any tax changes for 1987 but expect to be able to make further progress in improving the administration of income and sales taxes, and in the valuation and control procedures of the customs office.

The operating surplus of the nonfinancial public enterprises is projected at 0.5 percent of GDP for 1987, compared with a surplus of 1.1 percent of GDP in 1986; however, the surplus in 1986 was artificially inflated by the failure of CEPE to make a planned transfer to the Central Government in an amount equivalent to 1 percent of GDP from the domestic sale of petroleum derivatives. The authorities indicated that in 1987 they intended to continue to increase electricity rates to consumers by about 3 percent a month and water rates for the city of Guayaquil by 1.5 percent a month. Also, the price support policy of ENAC as well as its participation in the marketing of agricultural products is being reviewed in the context of a sectoral loan from the IBRD; the intention is to examine the scope for measures that would strengthen ENAC's financial performance.

In light of the revenue objective just described, achievement of a reduction in the public sector deficit in relation to GDP in 1987 will depend upon expenditure restraint. The authorities' aim is to reduce current outlays, excluding interest payments, by close to 0.6 percentage point of GDP through general expenditure restraint and a policy of reduction of employment by not filling vacancies. However, total interest payments by the public sector are projected to rise by about 0.5 percent of GDP because of the increase in the debt and the effect of exchange rate changes on payments abroad. Therefore, current outlays are projected to remain virtually unchanged at a little more than 20 percent of GDP.

The Government has decided to postpone the implementation of certain investment projects which had been scheduled to begin in 1987. In particular, CEPE will postpone the construction of new office buildings and roads, the installation of furnaces in CEPE's gas plants, and the construction of the Libertad-Manta oil pipeline; also, exploratory drilling will be scaled down. In addition, INECCEL will postpone to 1988 the acquisition of power station equipment and transmission lines. The authorities indicated that the planned investment cuts will not affect projects with external financing and noted that capital expenditure in 1986 (8.6 percent of GDP) had been unusually high, and that the investment outlays projected for 1987 (equivalent to 6.9 percent of GDP) were

^{1/} In January 1986 the sales tax was moved from 6 percent to 10 percent and cigarette taxes were also increased.

^{2/} Nonpetroleum revenues are estimated to grow basically in line with nonpetroleum GDP.

more in line with other recent years. Also, to help ensure the achievement of the needed expenditure restraint, the authorities planned to strengthen the monitoring of expenditures by decentralized agencies and the main public sector enterprises.

2. Monetary policy

In 1986 total banking system credit expanded by 20 percent in comparison with a projected increase of less than 13 percent under the program. Credit to the private sector (excluding stabilization credits) ^{1/} rose by an estimated 18 percent, which was significantly less than the rate of inflation but was more than the 14 percent envisaged in the program (Tables 4 and 5). The larger than projected credit expansion in 1986 was made possible in part by a stronger mobilization of financial savings through the banking system than had been projected.

The rate of credit expansion decelerated in the second half of the year, as lending interest rates increased by an estimated 4 percentage points from June to December 1986, following the freeing of interest rates in August 1986. ^{2/} Also, the rate of legal reserve requirement on demand deposits was raised in several steps, from 22 percent in early November 1985 to 27 percent in August 1986. In that month, reserve requirements were introduced on certificates of deposit, and those on time and savings deposits were reduced from 10 percent to 5 percent. At the same time, the authorities raised the central bank rediscount rate for ordinary operations from 18 percent to 21 percent and terminated a pre-export financing facility to the private sector at subsidized interest rates.

The growth of banking system liabilities to the private sector remained strong through the first half of 1986, to a large extent because of the response to the introduction in 1985 of certificates of deposit at market determined interest rates. These certificates appear to have brought about the incorporation into the financial system of significant amounts of funds previously held outside the system. As this process came to completion, the rate of growth of liabilities to the private sector declined from 38 percent in the 12-month period ended June 1986 to an estimated 24 percent in the 12-month period ended December 1986.

^{1/} Stabilization credits were granted by the Central Bank to the private sector through the domestic commercial banks at the time of the assumption of the private sector external debt. These credit operations do not have any monetary effect.

^{2/} The average interest rate on certificates of deposit increased from 24.1 percent in December 1985 to 27.8 percent in June 1986 and 29.9 percent in December 1986. During the same period, the commercial bank lending rates moved from a 22-26 percent range in December 1985 to a 26-30 percent range in June 1986, and to a 30-35 percent range in December 1986.

Table 4. Ecuador: Central Bank Operations

	S/. 95 per US\$1		S/. 115 per US\$1		S/. 165 per US\$1	
	Dec. 31		Dec. 31		Dec. 31	
	1984	1985	1985	1986	1986	1987
(In billions of sucres)						
Net international reserves	10.6	18.6	22.5	-3.6 ^{1/}	-5.1 ^{1/}	-5.1 ^{1/}
Net domestic assets	27.3	27.9	24.0	63.2	64.7	76.5
Nonfinancial public sector (net)	-39.9	-75.6	-80.9	-91.1	-106.7	-126.6
Central Government (net)	-1.4	-21.8	-20.2	-27.2	-23.6	...
Other	-38.5	-53.8	-60.7	-63.9	-83.1	...
Financial institutions (net)	110.1	112.6	111.8	118.3	116.0	115.2
Banking system (net) ^{2/}	73.2	70.2	69.7	71.6	69.8	66.3
Stabilization credit	46.7	47.9	47.9	48.5	48.5	48.5
Other credit (net)	26.5	22.3	21.8	23.1	21.4	17.8
Nonbank financial intermediaries	36.9	42.4	42.1	46.7	46.2	48.9
Stabilization credit	23.0	24.6	24.6	23.9	23.9	23.9
Other credit (net)	14.0	17.8	17.5	22.8	22.3	25.0
Private sector (net)	15.8	12.2	12.0	3.5	2.8	-2.2
Medium- and long-term foreign liabilities	-207.7	-216.8	-262.6	-262.9	-377.1	-401.4 ^{3/}
Other, including valuation adjustment (net)	149.0	195.6	243.7	295.3	429.7	491.5
Currency issue	37.8	46.5	46.5	59.6	59.6	71.4
(In millions of U.S. dollars)						
Memorandum items						
Net international reserves	111	196	196	-31 ^{1/}	-31 ^{1/}	-31 ^{1/}
Reserves	171	196	196	-31	-31	-31
Arrears	-60	--	--	--	--	--

Sources: Central Bank of Ecuador.

^{1/} Data for net international reserves differ from the official data of the Central Bank of Ecuador. A US\$175 million loan from the Andean Reserve Fund (ARF) disbursed in 1986 is treated as a reserve liability, in conformity with the definition of the stand-by arrangement.

^{2/} Commercial banks and Development Bank of Ecuador.

^{3/} Includes the impact of a debt relief package expected to close the balance of payments gap.

Table 5. Ecuador: Banking System Operations

	S/. 115 per US\$1						S/. 165 per US\$1					
	Dec. 1985			Dec. 1986 (Prel.)			Dec. 1986 (Prel.)			Dec. 1987 (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	22.5	--	22.5	-3.6 1/	--	-3.6	-5.1 1/	--	-5.1	-5.1	--	-5.1
Other foreign assets	--	4.1	4.1	--	2.1	2.1	--	3.0	3.0	--	3.0	3.0
Net domestic credit	190.2	321.6	511.8	225.2	388.4	613.6	345.9	400.4	746.2	385.9	481.5	867.4
Public sector (net)	-80.9	-3.6	-84.5	-91.1	-8.6	-99.7	-106.7	-8.6	-115.3	-126.6	-16.8	-143.4
Private sector	23.3	274.5	297.8	16.8	327.0	343.8	16.8	327.0	343.8	15.0	402.3	417.3
Stabilization credits	--	47.9	47.9	--	47.9	47.9	--	47.9	47.9	--	47.9	47.9
Other	23.3	226.7	249.9	16.8	279.1	295.9	16.8	279.1	295.9	15.0	354.4	369.4
Net unclassified	247.8	50.7	298.6	299.5	70.0	369.5	435.7	82.0	517.7	497.5	96.0	593.5
Interbank transactions	64.8	-58.6	6.2	65.8	-48.3	17.5	64.0	-48.3	15.8	60.5	-45.5	15.0
Credit	101.0	38.0	138.9	116.1	54.0	170.1	116.1	54.0	170.1	126.5	68.0	194.5
Deposits 2/	-36.1	-96.6	-132.7	-50.3	-102.3	-152.6	-52.1	-102.3	-154.4	-66.0	-113.5	-179.5
Intersystem transactions	42.1	-1.2	40.9	46.7	-1.5	45.2	46.2	-1.5	44.7	48.9	-1.5	47.4
Allocation of SDRs	4.2	--	4.2	4.2	--	4.2	6.0	--	6.0	6.0	--	6.0
Medium- and long-term foreign liabilities	262.6	5.3	267.9	262.9	18.3	281.2	377.1	26.3	403.4	401.4	26.4	427.8
Liabilities to private sector	52.9	260.6	313.5	67.1	322.4	389.5	67.9	327.4	395.2	82.8	411.2	493.9
Currency in circulation	41.6	--	41.6	53.8	--	53.8	53.8	--	53.8	65.6	--	65.6
Demand deposits	1.2	96.9	98.1	2.6	111.0	113.6	2.6	111.0	113.6	3.1	139.5	142.6
Time and savings deposits	--	47.3	47.3	--	65.3	65.3	--	65.3	65.3	--	82.0	82.0
Certificates of deposits	--	34.6	34.6	--	54.7	54.7	--	54.7	54.7	--	68.7	68.7
Other sucre liabilities	9.0	58.7	67.7	9.1	56.0	65.1	9.1	56.0	65.1	11.1	70.3	81.4
Liabilities in foreign currency	1.1	6.8	7.9	1.7	11.4	13.1	2.4	16.4	18.8	3.0	20.5	23.5
Capital and reserves	--	16.3	16.3	--	24.0	24.0	--	24.0	24.0	--	30.1	30.1
(In millions of U.S. dollars)												
Net international reserves and net foreign assets	196.0	34.7	230.7	-31.0	18.3	-12.7	-31.0	18.3	-12.7	-31.0	18.3	-12.7

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

1/ Data for net international reserves differ from the official data of the Central Bank of Ecuador. A US\$175 million loan from the Andean Reserve Fund (ARF) to the Central Bank, disbursed in 1986 is treated as a reserve liability, in conformity with the definition of the stand-by arrangement.

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

The authorities noted that they had proceeded to free interest rates on time and savings deposits and on all credits funded with these resources, and to reduce the minimum denomination of certificates of deposit well ahead of schedule. ^{1/} The authorities also indicated that they intended to continue to pursue a policy of interest rate flexibility in 1987, with a view to fostering further the growth of financial savings and improving the allocation of lending resources.

On the basis of the authorities' plan to reduce the fiscal deficit to 2.4 percent of GDP in 1987, and on the assumption that the amount of net external financing that is being requested materializes, the public sector should be able to build up deposits in the banking system by about S/. 20 billion. The authorities estimated that such a contraction of credit to the public sector would make possible an increase in bank credit to the private sector of slightly more than 20 percent, and at the same time be consistent with the maintenance of net official international reserves at the level prevailing at the end of 1986.

3. External policies

Although the overall balance of payments in 1986 turned out to be weaker than had been projected, the authorities were encouraged by the performance of exports, which had helped to contain the current account deficit to 6.8 percent of GDP, or slightly below the level that had been planned (Table 6). Petroleum exports were about US\$70 million higher than projected, reflecting mainly export prices that were almost US\$1 a barrel higher than expected. Nonpetroleum exports rose by about 25 percent last year (in U.S. dollar terms), compared with a projected growth of 21 percent, mostly on the strength of banana and shrimp exports. As a result, the trade surplus declined somewhat less than projected, even though imports were somewhat higher.

In the discussion of the program targets for 1987, the authorities were of the view that they should aim at reducing the current account deficit of the balance of payments to about 5 percent of GDP. It was estimated that net drawings against public external credits already agreed would not be sufficient to finance the current account deficit and to offset a small net outflow projected for the private capital account. The projections pointed to a financing gap of US\$325 million, which the authorities hope to cover through debt relief arrangements to be negotiated with foreign commercial banks and official creditors.

The balance of payments projection for 1987 is based on an export growth of about 10 percent in U.S. dollar terms. The projection of petroleum exports assumes an average export price of US\$15 a barrel, as mentioned earlier, and an export volume of 66 million barrels, compared

^{1/} These actions were adopted in August 1986 whereas they had been scheduled for December 1986 (reduction of minimum denomination of certificates of deposit) and for March 1987 (freeing of interest rates).

Table 6. Ecuador: Summary Balance of Payments

	1982	1983	1984	1985	1986		Proj. 1987
					Proj.	Est.	
(In millions of U.S. dollars)							
Current account	-1,179	-114	-248	126	-720	-693	-536
Trade account	162	952	1,055	1,294	455	504	680
Exports, f.o.b.	2,343	2,360	2,622	2,905	2,080	2,181	2,400
Petroleum	1,524	1,745	1,835	1,927	900	971	1,075
Other	819	615	786	978	1,180	1,210	1,325
Imports, f.o.b.	-2,181	-1,408	-1,567	-1,611	-1,625	-1,677	-1,720
Services account	-1,361	-1,090	-1,323	-1,248	-1,200	-1,242	-1,261
Services, credit	407	340	350	422	428	431	441
Services, debit	-1,768	-1,430	-1,673	-1,670	-1,628	-1,673	-1,702
Interest 1/	-767	-711	-836	-762	-755	-703	-710
Fund charges	--	-3	-13	-25	-33	-33	-32
Other	-1,001	-716	-824	-883	-840	-937	-960
Transfers	20	24	20	80	25	45	45
Capital account	508	166	308	-41	670	466	211
Public sector	660	608	231	227	457	573	229
Drawings 2/	883	698	403	407	723	850	616
Interest rescheduled	--	43	15	--	--	--	--
Amortization 3/	-700	-121	-187	-181	-266	-277	-387
Other 4/	477	-12	--	--	--	--	--
Private sector	-152	-442	77	-268	213	-107	-18
Direct investment	40	50	50	60	70	70	70
Drawings 2/	806	12	--	3	3	3	3
Interest rescheduled	--	5	3	--	--	--	--
Amortization 3/	-630	-117	-25	-52	-40	-34	-16
Other 5/	-368	-392	49	-279	180 6/	-146	-75
Overall balance	-671	52	60	85	-50	-227	-325
Net official international reserves (increase -)	460	58	-20	-25	50	227 7/	--
Arrears (decrease -)	211	-110	-40 8/	-60	--	--	--
Financing gap	--	--	--	--	--	--	325
Memorandum items							
Total debt relief	555	2,091	1,207	1,139	958	958	1,039
Public debt	19	1,083	584	1,028	958	958	1,039
Principal	19	1,039	568	1,028	958	958	1,039
Banks	19	972	502	906	883	883	978
Paris Club	--	37	66	122	75	75	61
Other	--	30	--	--	--	--	--
Interest	--	44	16	--	--	--	--
Paris Club	--	15	16	--	--	--	--
Other	--	29	--	--	--	--	--
Private debt	536	1,008	623	111	--	--	--
Principal	536	1,003	620	111	--	--	--
Paris Club	--	27	33	38	--	--	--
Regulation 101/83 9/	--	854	587	73	--	--	--
Other 10/	536	122	--	--	--	--	--
Interest: Paris Club	--	5	3	--	--	--	--
(In percent of GDP) 11/							
Current account	-11.5	-1.2	-2.4	1.1	-6.9	-6.8	-5.1

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

1/ Includes rescheduled interest payments.

2/ On a cash basis.

3/ Net of debt relief.

4/ Includes petroleum-related credit in 1982-83.

5/ Includes errors and omissions.

6/ Assumed an increase of US\$150 million in the use of existing trade credit lines.

7/ The loss of net international reserves differs from the official data of the Central Bank of Ecuador. A US\$175 million loan from the Andean Reserve Fund (ARF) disbursed in 1986 is treated as a reserve liability in conformity with the definition of the stand-by arrangement.

8/ Excludes arrears on debt servicing to official creditors which were accumulated during June-December 1984 and rescheduled under the aegis of the Paris Club in 1985.

9/ Private debt assumed by the Central Bank of Ecuador.

10/ Privately arranged refinancing.

11/ GDP in sucres through 1985 was converted to U.S. dollars using exchange rate implied by the 1971 purchasing power parity, and using the average rate in the intervention market of the Central Bank for 1986 and 1987.

with about 71 million barrels in 1986. The decline in the volume of crude petroleum exports reflects in large part an increase in the domestic demand associated with the expansion of the Esmeraldas refinery, which will make possible a reduction of imports of refined oil products. A strong growth in shrimp and cocoa exports is expected, but this will be offset in part by a decline in coffee exports resulting from the weakening of international prices. Given the demand management and exchange rate policy that the authorities intend to implement, the U.S. dollar value of imports is estimated to increase by less than 3 percent in 1987.

Net capital receipts of the public sector are projected at US\$229 million in 1987, before taking into consideration any new debt relief or new credits that Ecuador might obtain from foreign commercial banks or official creditors. Projected gross disbursements of external loans to the public sector include almost US\$400 million from multilateral organizations, principally the IBRD and the Inter-American Development Bank, and US\$84 million from bilateral creditors.

In 1985 Ecuador reached an agreement with its foreign commercial bank creditors on a multiyear refinancing arrangement (MYRA) of public sector debt covering all new and previously refinanced principal maturities falling due in the period 1985-89 (amounting to about US\$4.2 billion). In addition, Ecuador reached an agreement with its Paris Club official creditors to reschedule maturities falling due in the period 1985-87. The agreement under the aegis of the Paris Club called for interest to be paid according to the original schedule and for creditors to refinance 100 percent of principal falling due in the period June 1984-December 1985, 85 percent of principal falling due in 1986, and 70 percent of principal falling due in 1987.

In the current negotiations with foreign commercial banks, the authorities are seeking a rescheduling of the amortization payments due in 1987 on Ecuador's debt to commercial banks not covered by the MYRA; a reduction of the interest rate spread; a conversion of the interest rate base for rescheduled loans from the U.S. prime rate to LIBOR; a retiming of interest payments; and the elimination of a clause included in the MYRA that has limited Ecuador's use of the oil facility obtained from commercial banks last year. The objective of the authorities is to obtain a package from commercial banks that would add to US\$300 million, and they are contemplating seeking additional debt relief from official creditors to cover the remaining US\$25 million of the financing gap.

Regarding the arrears on interest payments to banks referred to above, the authorities indicated that the failure to make the payments was caused by cash flow problems of the Central Bank and that they intended to reach agreement with the banks on the settlement of these charges together with the overall debt relief package for 1987.

The authorities noted that a major step had been taken in 1986 to ensure exchange rate flexibility, with the elimination of the surrender requirement for private sector foreign exchange transactions. They further stated that in practice the foreign exchange market continued to be unified because a narrow spread (less than 2 percent) was being maintained between the rates in the intervention market and in the free market.

The staff agreed with the authorities that the elimination of the private sector surrender requirement was an important step in fostering exchange rate flexibility, and noted that from end-December 1985 to end-December 1986 the sucre depreciated by 24 percent in real effective terms. However, the staff indicated that the transitional arrangement that provided for the sale of foreign exchange by the Central Bank to the private sector at the intervention market rate (described in footnote 1, page 4 of this paper), had meant that the exchange market had been shielded in late 1986/early 1987 from the full force of market pressures. This might help explain the appreciation of the sucre in the free market from about S/. 170.00 per U.S. dollar in early August 1986 to about S/. 145.00 per U.S. dollar during October 1986-February 1987.

The staff stressed the importance of ending the transitional arrangement and of allowing market forces to determine the exchange rate. The staff expressed the view that even if the Central Bank legally had to continue to provide foreign exchange for certain private sector transactions, the authorities could have purchased an equivalent amount from the free market, which would have countered pressures that had had to be absorbed by the country's international reserves. The authorities explained that foreign exchange sales for imports authorized before August 12, 1986 would virtually come to an end by April/May 1987, given the financing terms which had been contracted for most imports. 1/

Ecuador's import regulations divide imports into permitted and prohibited imports. Permitted imports are, in turn, classified in those that require prior import authorization and those which can be made without prior authorization. In several steps during 1983-85 the authorities eliminated all the import prohibitions and restrictions introduced in late 1982. Prior import authorization requirements were reintroduced in early 1986 on 158 items but were removed in August except on 27 items. Quantitative restrictions on automobile imports also were lifted at that time. The authorities are currently in the process of reassessing their policy on import restrictions regarding

1/ On August 27, 1986, a resolution of the Central Bank approved a noninterest-bearing line of credit to provide two-year financing to importers whose permits had been approved before August 12, 1986, to cover the difference between the exchange rate in the intervention market that prevailed at the moment when the permit was approved and the one at payment time. This line of credit is intermediated through the commercial banks.

agricultural products. The reformulation of agricultural import policies is being undertaken in the context of an agricultural sectoral loan with the World Bank.

In December 1986, the Monetary Board approved a debt-equity swap mechanism allowing investors to purchase titles of foreign debt at a discount and to exchange them at the Central Bank for an amount in sucres equivalent to the face value in order to invest in domestic enterprises. This mechanism is intended to have no monetary impact since the enterprises benefiting from the new investment would have to use these funds to repay the stabilization credits which had been extended by the Central Bank at the time of the assumption of the private sector debt.

After the elimination of the import deposit scheme, which constituted a multiple currency practice, and the related minimum financing requirement, which was an exchange restriction, Ecuador's exchange restrictions currently relate to external payments arrears and bilateral payments agreements with two Fund members. Balances under the payments agreements are cleared once a year in a convertible currency. These exchange restrictions are subject to Fund approval under Article VIII.

IV. Relations with the World Bank

Net disbursements by the World Bank to Ecuador, which amounted to only US\$12.2 million in 1985, increased to US\$125.1 million in 1986 (Statistical Appendix Table 12). Gross disbursements amounted to US\$161 million in 1986, with US\$100 million of this total coming under two bank supported policy adjustment loans to the agricultural and industrial sectors. A total of US\$50 million was disbursed under a US\$100 million agricultural sector loan supporting policy actions in the trade, interest rate, and pricing areas, and US\$50 million was disbursed under a US\$115 million industrial sector loan in support of changes in trade policies. There also were disbursements of US\$17 million for urban development directed principally to the Ecuadoran Housing Bank.

World Bank disbursements to Ecuador in 1987 will depend in large part upon the pace of the authorities' implementation of structural reforms in various fields. Several loans are presently being negotiated in support of policy actions in the housing, petroleum, and financial sectors and for trade policy reforms.

The World Bank program for the medium term would support policies aimed principally at generating export-led growth in production and employment. The World Bank envisages sectoral and project loans in the energy, agricultural, industrial, and social sectors. In particular, the World Bank would support trade liberalization, an efficient energy pricing policy, financial sector reforms, and improvements in public sector management. To the extent possible, the World Bank expects to emphasize loans that can be disbursed quickly. In 1986 the World Bank

reviewed with the Ecuadoran authorities the public sector investment program, and it is assisting the authorities in their efforts to adjust downward their planned investment in 1987.

V. Medium-Term Outlook

The latest review of the medium-term projections of the balance of payments for Ecuador would seem to point to a somewhat better outlook than that presented in August 1986 (when the stand-by arrangement was approved), mainly because of the expectations of firmer oil prices and lower interest rates. Nevertheless, continued adjustment policies supported by appropriate structural reforms remain necessary to ensure a viable balance of payments position in 1988-92. Even with the implementation of relatively satisfactory policies, a sizable financing gap would remain and this gap is expected to increase significantly by 1990, when the present multiyear rescheduling arrangement with foreign commercial banks expires (Table 7).

The price of oil is assumed to increase by US\$0.80 a barrel a year on average over the period 1988-92 to reach US\$19 a barrel by 1992, and the volume of crude oil exports is projected to rise by 2 percent a year to about 73 million barrels in 1992. The value of oil exports would thus grow by 7 percent a year on average to reach almost US\$1,500 million by 1992, equivalent to about three fourths of the level reached in 1985.

The commitment of the authorities to continue to maintain an adequate level of competitiveness will be indispensable if non-oil export revenues are to grow by about 8 percent a year on average as has been projected. Especially important in this regard will be the effort of the authorities to promote the production of shrimp, which is expected to contribute a significant portion of the increase in non-oil exports during the period. Imports have been projected to grow in line with GDP in U.S. dollar terms (by about 7 percent a year on average).

International interest rates are assumed to be about 1.2 percentage points below the levels estimated in the medium-term scenario presented in EBS/86/148. The projection of interest payments is now based on a three-month LIBOR of 6.3 percent and a U.S. prime rate of 7.5 percent. Under these assumptions and taking into account the estimate for net loan disbursements discussed below, interest payments on medium- and long-term debt would average some US\$670 million a year in 1988-92; in relation to exports of goods and services, interest payments would decline from 26 percent in 1987 to less than 16 percent by 1992. Non-interest service payments are projected to increase by nearly 7 percent a year on average and would be equivalent to 9 percent of GDP by 1992, while service income would be around 4 percent of GDP during the period. Under these assumptions, the current account deficit would decline from 5 percent of GDP in 1987 to about 3 percent of GDP in 1988 and then would continue to decline gradually to about 1.6 percent of GDP by

Table 7. Ecuador: Medium-Term Balance of Payments Projections

(In millions of U.S. dollars)

	1987	1988	1989	1990	1991	1992
<u>Current account</u>	<u>-536</u>	<u>-323</u>	<u>-266</u>	<u>-242</u>	<u>-240</u>	<u>-239</u>
Trade account	680	844	908	967	1,021	1,050
Exports, f.o.b.	2,400	2,677	2,871	3,070	3,274	3,463
Petroleum	1,075	1,260	1,320	1,383	1,432	1,497
Other	1,325	1,418	1,551	1,687	1,842	1,967
Imports	-1,720	-1,833	-1,963	-2,103	-2,253	-2,413
Service account	-1,261	-1,217	-1,229	-1,269	-1,327	-1,354
Service credits	441	491	526	563	579	620
Service debits	-1,702	-1,708	-1,755	-1,832	-1,906	-1,974
Interest payments <u>1/</u>	-742	-701	-673	-670	-658	-637
Other service debits	-960	-1,007	-1,082	-1,162	-1,248	-1,337
Transfers	45	50	55	60	65	65
<u>Capital account</u>	<u>211</u>	<u>124</u>	<u>248</u>	<u>-108</u>	<u>-80</u>	<u>29</u>
Direct investments	70	80	90	100	110	110
Medium- and long-term debt	216	64	158	-208	-190	-81
Drawings	619	786	799	854	895	923
Amortization <u>2/</u>	-403	-722	-641	-1,062	-1,085	-1,004
Other	-75	-20	--	--	--	--
<u>Overall balance</u>	<u>-325</u>	<u>-199</u>	<u>-18</u>	<u>-350</u>	<u>-321</u>	<u>-209</u>
Net international reserves						
(increase -)	--	-9	-44	-67	-19	-20
Arrears (decrease -)	--	--	--	--	--	--
Financing gap	325	208	62	416	339	230
<u>Memorandum items</u>						
Current account in percent of GDP	-5.1	-2.9	-2.2	-1.9	-1.7	-1.6
Interest payments in percent of exports of goods and nonfactor services	26.1	22.1	19.8	18.4	17.1	15.6
Crude oil prices	15.0	17.0	17.5	18.0	18.5	19.0

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

1/ Includes IMF charges and interest payments on financing gap.

2/ Net of amounts rescheduled in the period 1987-89.

1992. Achievement of these targets will require a continued reduction of the public sector deficit and the pursuit of a prudent monetary policy.

Capital disbursements over the period 1988-92 are expected to come mainly from multilateral organizations. Under the assumption that the Government continues to carry out structural reforms, disbursements from the World Bank are projected to rise to US\$195 million in 1988 and then to continue increasing to US\$250 million by 1992, while disbursements from the IDB will remain at around US\$240 million on average throughout the period. Total amortization payments are expected to increase from about US\$400 million in 1987 to US\$723 million in 1988, when the US\$220 million oil facility contracted in 1986 with commercial banks matures, and to increase further to over US\$1 billion in 1990, the first year not covered by the MYRA with the banks.

On the basis of the above assumptions, the overall balance of payments deficit would amount to nearly US\$200 million in 1988, would decline in 1989, but would then widen again to an average of close to US\$300 million in 1990-92. Allowing for a modest build up of net international reserves sufficient to keep the level of gross reserves at about five months of imports, the financing gap would average about US\$250 million a year in the period 1988-92. Given that scheduled amortization to banks will be increasing in coming years, borrowing from banks to cover the financing gap would still be compatible with a reduction in bank exposure of more than 4.5 percent a year on average in 1988-92.

Under the revised scenario, Ecuador's external debt, including the borrowing needed to close the projected financing gap, would decline from about 85 percent of GDP in 1987 to 65 percent by 1992 (Table 8). The debt service ratio would peak at 51 percent of exports of goods and services in 1990 before declining to 40 percent by 1992. Without the MYRA rescheduling arrangements concluded in 1985 with foreign banks and the Paris Club, the debt service ratio would average about 70 percent in the period 1987-89.

The medium-term scenario discussed above points to an external position under which Ecuador could service its debt (including debt to the Fund) provided that adequate policies are followed and additional foreign financing is available to cover the projected financing gaps. Nevertheless, there are considerable uncertainties underlying these projections, which would underscore the need for a continued commitment to the pursuit of appropriate stabilization policies. In particular, Ecuador's external position will remain very sensitive to developments in international oil prices and interest rates. If petroleum prices were to be US\$1 above the levels envisaged in the projections throughout the period 1988-92, the financing gap would be reduced by more than one third. Alternatively, if petroleum prices were to remain at the level

Table 8. Ecuador: Medium-Term External Debt Projections ^{1/}

(In millions of U.S. dollars)

	1984	1985	Projected						
	1986	1987	1988	1989	1990	1991	1992		
<u>Debt outstanding 2/</u>	<u>7,180</u>	<u>7,753</u>	<u>8,432</u>	<u>8,942</u>	<u>9,096</u>	<u>9,237</u>	<u>9,375</u>	<u>9,521</u>	<u>9,685</u>
Of which:									
IMF	231	313	412	361	243	164	62	6	—
Financing gap	--	--	--	325	532	594	1,011	1,350	1,580
<u>Debt service</u>	<u>2,177</u>	<u>2,120</u>	<u>2,057</u>	<u>2,184</u>	<u>2,315</u>	<u>2,141</u>	<u>1,865</u>	<u>1,843</u>	<u>1,647</u>
Principal paid	211	233	317	507	868	754	1,195	1,185	1,010
Of which:									
Banks	86	54	53	112	436	315	634	594	540
IMF	6	103	102	69	90	56	6
Financing gap	--	--	--	--	--	--	32	53	21
Principal renegotiated	1,098	1,101	1,004	936	746	713	--	--	--
Of which: banks	1,031	967	911	866	746	713	--	--	--
Interest paid	850	787	736	742	701	673	670	658	637
Of which:									
Banks	724	602	522	466	437	397	373	326	270
IMF	13	25	33	32	27	20	14	5	--
Financing gap	--	--	--	13	32	42	60	89	110
Interest renegotiated	18	--	--	--	--	--	--	--	--
Of which: banks	--	--	--	--	--	--	--	--	--
<u>Memorandum items</u>									
<u>Debt to GDP ratio 3/</u>									
Including IMF	70.6	66.7	82.2	84.9	80.6	76.4	72.4	68.7	65.2
Excluding IMF	68.3	64.0	78.2	81.5	78.5	75.1	72.0	68.6	65.2
Debt service to exports of goods and nonfactor services ratio									
Before relief	73.3	63.7	78.7	76.9	73.1	63.0	51.3	47.8	40.3
After relief 4/	35.7	30.6	40.3	43.9	49.5	42.0	51.3	47.8	40.3
Interest payments to exports of goods and nonfactor services ratio									
Before interest relief	29.2	23.6	28.2	26.1	22.1	19.8	18.4	17.1	15.6
After interest relief	28.6	23.6	28.2	26.1	22.1	19.8	18.4	17.1	15.6

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

^{1/} Consistent with the medium-term balance of payments projections and including borrowing to cover the cumulative financing gap.

^{2/} Registered public and private debt of all maturities, including short-term debt converted into medium-term debt.

^{3/} GDP in sucres through 1985 was converted into U.S. dollars at the exchange rates implied by the 1971 purchasing power parity, and using the average exchange rate in the intervention market of the Central Bank for 1986 and 1987. Thereafter, GDP in U.S. dollars is projected to grow in nominal terms at an annual rate of 7.0 percent through 1992.

^{4/} The element of debt relief incorporated in this projection corresponds to that granted by the Paris Club creditors and commercial banks in 1985; it does not incorporate new relief that could be obtained in 1987.

projected for 1987, the financing gap would more than double over the 1988-92 period. If interest rates were higher by 1 percentage point, the financing gap would widen by approximately US\$80 million a year.

VI. Staff Appraisal

During 1983-85 Ecuador was successful in reducing the domestic and external imbalances that developed in the early 1980s. The public sector deficit was eliminated, monetary policy tightened, and a flexible exchange rate policy progressively implemented. After a contraction in 1983, output grew by an average of almost 4 percent a year in 1984 and 1985 and inflationary pressures abated. However, the sharp decline in the export price of oil that occurred in early 1986 reduced significantly government revenues and threatened to reverse the economic gains that had been achieved.

Confronted with this adverse external development, the authorities responded in January 1986 by devaluing the sucre, increasing the sales tax rate, and increasing the legal reserve requirement on demand deposits. The authorities framed an economic program that aimed at limiting the public sector deficit to 3.2 percent of GDP and the overall balance of payments deficit to no more than US\$50 million in 1986. In addition to increases in taxes, the program envisaged close control of current expenditure and postponement of new public sector investments, continued monetary restraint, and the implementation of a flexible exchange rate policy. In August 1986, prior to the approval of the current stand-by arrangement, the flexibility of exchange rate policy was carried further by eliminating the surrender requirement on private sector foreign exchange transactions. At the same time, important steps were taken to liberalize Ecuador's financial system by freeing interest rates on time and savings deposits and reducing the minimum denomination of certificates of deposit issued at market rates.

These efforts notwithstanding, economic performance in 1986 fell short of the objectives of the program. Although the current account deficit of the balance of payments was slightly smaller than projected, as petroleum prices were somewhat higher than envisaged in the program, the overall balance of payments deficit was larger than projected. The public sector deficit exceeded the target and bank credit expanded at a faster pace than programmed. The year-on-year increase in the consumer price index was held to the rate envisaged in the program, but the rate of price increase picked up toward the end of the year. At the same time, economic growth was somewhat stronger than had been projected.

The underperformance in the fiscal area in 1986 resulted from overruns in both noninterest current expenditure and capital expenditure. Noninterest current expenditure was boosted by an unplanned wage increase in October 1986 and personnel regrading, while the behavior of public capital expenditure appears to have been associated with an acceleration of existing projects.

The staff supports the authorities' intention of reducing the deficit of the public sector to about 2.4 percent of GDP in 1987. The staff would emphasize that the achievement of this objective will hinge to an important extent on the authorities' ability to restrain expenditure growth, with the burden of this adjustment falling in large measure on capital outlays. Although in the short term such an approach may be unavoidable, particularly given the relatively high level of investment in 1986, the staff would stress the desirability of an intensification of the effort to curb current outlays.

The authorities expect oil revenue to recover somewhat in 1987, not only because of the recent increase in export prices but also because of the planned adjustment in domestic prices of refined products. Domestic prices have been lagging significantly behind international prices, and the staff would urge the authorities not to delay this adjustment, which is important in improving the performance of the public finances. There would be a need to continue to adjust the domestic prices of petroleum derivatives in order to bring them in line with international prices. Efforts to improve tax administration and to increase the operating surpluses of nonfinancial public sector enterprises need to be strengthened. In this connection, it is important that prices and rates charged by public enterprises be maintained at levels consistent with generation of adequate operating surpluses in order to make a significant contribution to their investment programs.

In the area of monetary policy, the staff draws attention to the positive response of domestic financial savings to the liberalization of interest rates. The staff welcomes the liberalization introduced and supports the authorities in their intention to continue with a policy of interest rate flexibility. It is the view of the staff that the implementation of the fiscal program outlined by the authorities would be consistent with an increase in credit to the private sector in line with the expected rate of inflation without endangering the objective of overall balance of payments equilibrium. It is important, however, that the authorities stand ready to take actions to tighten credit if it appears that their price and balance of payments objectives for 1987 are threatened.

The staff welcomes the changes in exchange rate management introduced in 1986 and especially the transfer of private sector foreign exchange transactions from the central bank intervention market to the free market. It notes, however, that until all such transactions are conducted in the free market, the role that exchange rate policy can play in the adjustment process will not reach its full potential. It would thus be highly desirable that the authorities terminate the transitional arrangements for the settlement of private sector transactions as soon as possible, and continue to maintain a narrow spread between the intervention and free market exchange rates. In any event, the adequacy of exchange rate management needs to be judged in terms of the balance of payments developments, with particular emphasis on the achievement of the objective for net international reserves.

The economic program for 1987 that the authorities have been discussing with the staff is based on the assumption that a new financing package will be concluded with Ecuador's foreign bank creditors. While those discussions are in progress, it is important that the adjustment measures contemplated in the economic program be implemented as had been planned.

The staff welcomes the elimination in 1986 of import financing or barter requirements. However, Ecuador still maintains bilateral payments agreements with two Fund members, and an exchange restriction in the form of external payments arrears has re-emerged in connection with import payments and with the service of public sector external debt. The staff would urge the authorities to deal with the problem of arrears as soon as possible to avoid damaging Ecuador's creditworthiness. In the meantime, pending the conclusion of the review of the stand-by arrangement, the staff does not recommend approval for the arrears and other exchange restrictions.

Finally, it is recommended that the next Article IV consultation with Ecuador be held on the standard 12-month cycle.

Fund Relations with Ecuador
(As of January 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 545.13 million or 361.73 per-
cent of quota
- | (c) Fund credit:
of which: | <u>Amount (In
millions of SDRs)</u> | <u>Percent of
Quota</u> |
|-------------------------------|---|-----------------------------|
| Fund credit | 394.40 | 261.71 |
| Credit tranches | (133.23) | (88.40) |
| Compensatory financing | (125.10) | (83.01) |
| Enlarged access | (136.07) | (90.30) |

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
August 14, 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 |

IV. SDR Department

- (a) Net cumulative allocation SDR 32.93 million
- (b) Holdings: SDR 37.71 million or 114.52 percent of net cumulative allocation.

B. Nonfinancial Relations

- V. 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 S/. 108.50 per U.S. dollar and the selling rate to S/. 110.00 per U.S. dollar, and retained the official rate of S/. 95.00 only for its own internal accounting purposes.

On August 11, 1986 all private transactions were transferred to the free market, where the rate is determined by market forces, and on August 20, 1986 the decision was taken to move the intervention rate of the Central Bank closer to the rate prevailing in the free market. Since that date, the rate in the intervention market has been adjusted regularly so as to maintain a narrow spread with the rate on the free market; as of December 31, 1986 the rate prevailing in the intervention market (buying rate) was of S/. 146.50 per U.S. dollar and the rate in the free market of S/. 144.25 per U.S. dollar.

- VI. Last Article IV Consultation: The 1985 Article IV consultation and a review with the Fund under the previous stand-by arrangement were concluded by the Executive Board on September 20, 1985 (EBM/85/146, EBS/85/202, and SM/85/255). The following decisions were adopted:

1. The Fund takes this decision relating to Ecuador's exchange measures subject to Article VIII, Sections 2 and 3, in light of the 1985 Article IV consultation with Ecuador conducted under the Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ecuador maintains restrictions on the making of payments and transfers for current international transactions in the form of a minimum financing or barter requirement for imports, an exchange restriction giving rise to external payments arrears, and a bilateral payments agreement with a Fund member. Ecuador also maintains a multiple currency practice arising from the continued existence of the official and intervention markets. The Fund welcomes the recent elimination of the multiple currency practice arising from the advance import deposit scheme and the termination of a bilateral payments agreement with a Fund member. The Fund encourages Ecuador to eliminate the remaining multiple currency practice and exchange restrictions as soon as possible. In the circumstances of Ecuador, the Fund approves the exchange restrictions giving rise to external payments arrears and in the form of a minimum financing or barter requirement for imports and the multiple currency practice through the end of the stand-by arrangement.

VII. Request for Stand-By Arrangement: The request for a stand-by from the Fund was approved by the Executive Board on August 15, 1986 (EBS/86/148). The following decision was adopted:

1. The Government of Ecuador has requested a stand-by arrangement for a period of one year from August 15, 1986 in an amount equivalent to SDR 75.4 million; the Fund approves the stand-by arrangement attached to EBS/86/148; the Fund waives the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement.

2. Ecuador maintains exchange restrictions and multiple currency practices as described in EBS/86/148. The Fund encourages Ecuador to remove these restrictions and practices. In the meantime, the Fund approves the minimum financing requirement for imports and the prior import deposit requirement until completion of the mid-term review contemplated under paragraph 4 (e) of the stand-by arrangement for Ecuador or December 31, 1986, whichever is earlier.

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

	Overdue Financial Obligations	Principal and Interest Due			
		1987	1988	1989	1990
<u>Total</u>	<u>—</u>	<u>99.1</u>	<u>121.4</u>	<u>82.5</u>	<u>88.5</u>
Principal repurchases	--	83.0	102.3	69.2	80.1
Charges and interest	--	16.1	19.1	13.3	8.4

IX. 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.

X. Technical Assistance: During April 1-18, 1985, Mr. Muirragui (BUR) provided technical assistance in the area of money and banking with the purpose of improving compilation and presentation of Central Bank data.

The Institute organized a public finance seminar in Quito in July 1986. A staff member of the Bureau of Statistics is expected to travel to Ecuador in 1987 to review the accounting system of commercial banks and financial intermediaries.

Ecuador: Selected Economic and Financial Indicators

	1983	1984	1985	Est. 1986	Proj. 1987
(Annual percent changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	-2.8	4.0	3.8	1.7	2.0
GDP deflator	38.7	38.3	29.8	20.8	27.8
Consumer prices (end of period)	52.5	25.0	24.4	27.3	22.0
Consumer prices (average)	48.4	31.2	28.0	23.0	24.2
External sector (on the basis of U.S. dollars)					
Exports, f.o.b.	0.7	11.1	10.8	-24.9	10.0
Petroleum exports	14.5	5.2	5.0	-49.6	10.7
Imports, f.o.b.	-35.4	11.3	2.8	4.1	2.6
Export volume	9.7	12.3	13.3	0.4	3.8
Import volume	-45.8	0.8	2.8	-0.8	-2.3
Terms of trade (deterioration -)	-22.8	-9.9	-2.1	-29.4	1.0
Nominal effective exchange rate (depreciation -)	-26.6	-29.2	-7.2	-25.9	...
Real effective exchange rate (depreciation -)	-4.8	-18.4	5.1	-18.8	...
Central government					
Revenue	37.5	62.1	84.5	5.7	42.6
Total expenditure	20.9	36.4	57.2	29.7	29.8
Money and credit					
Net domestic assets of the					
Banking system ^{1/}	23.9	37.6	32.6	32.5	30.7
Public sector ^{1/}	-9.5	-6.4	-19.1	-4.9	-7.1
Private sector ^{1/}	52.1	36.7	31.1	14.7	18.6
Money and quasi-money (M2)	26.4	39.7	44.7	28.2	25.7
Velocity (GDP relative to M2)	4.5	4.6	4.2	4.0	4.2
Interest rate (savings deposits)	16.0	18.0	20.0	23.5	...
(In percent of GDP)					
Overall public sector balance	--	-0.4	1.9	-4.2	-2.4
Central government savings	-0.4	1.6	5.0	1.9	3.0
Central government balance	-3.0	-0.7	2.0	-1.5	--
Gross domestic investment	17.6	18.3	17.9	18.7	18.2
Gross national savings	16.4	15.9	19.0	11.9	13.1
Current account deficit (-)	-1.2	-2.4	1.1	-6.8	-5.1
External debt (end of year) ^{2/}	74.1	70.6	66.7	82.2	84.9
Of which: public sector	66.9	68.8	65.9	81.4	84.1
(In percent of exports of goods and services)					
Debt service					
Before rescheduling	111.0	73.3	63.7	78.7	76.9
After rescheduling	33.7	35.7	30.6	40.3	43.9
Interest payments					
Before rescheduling	26.6	29.2	23.6	28.2	26.1
After rescheduling	24.9	28.6	23.6	28.2	26.1
(In millions of U.S. dollars, unless otherwise specified)					
Change in net international reserves (increase -)	-52	-60	-85	227	--
Net official international reserves (increase -)	58	-20	-25	227	--
Arrears (decrease -)	-110	-40	-60	--	--
Gross official reserves (months of imports of the following year)	6.0	5.6	6.4	5.7	5.3

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

^{2/} Registered public and private debt of all maturities, including use of Fund resources.

Ecuador--Statistical Issues

1. Outstanding Statistical Issues

a. Prices and foreign trade

The weights of the wholesale price index (base 1974) are outdated.

Foreign trade data on a customs basis are uncurrent and are presently updated with central bank payments' data for current periods. The methodology for the valuation of the principal export commodities needs to be reviewed. The authorities do not currently compile trade indices.

b. Government finance

The 1986 Government Finance Statistics Yearbook (GFSY) includes data on revenue, expenditure and lending minus repayments for the budgetary central government through 1984 [1985 data for the budgetary central government were received after the deadline for publication in the GFSY]. There is a need to expand the coverage of the data in the statistical and derivation tables by including data for all extrabudgetary units (autonomous entities) and the Ecuadorian Social Security Institute. It is also important to include data on financing and debt for the consolidated central government in the GFSY. Data for provincial and local government extend only through 1980. Finally, a reduction of time lags would help to improve the presentation for Ecuador in the GFSY.

c. Monetary accounts

The Central Bank is presently introducing a new accounting system. A work group and a chronogram to complete this task has been established. It is understood that the new Manual of Accounts has been finalized and that the revision of the new account forms is the next step to be completed before the new system is submitted to the Superintendency of Banks for approval, as required by law.

Data on deposit money banks for the months of January 1985 through June 1986 have been received but have not been published because of changes in the accounting system. The authorities have requested technical assistance in order to revise the methodology to compile data for deposit money banks according to IFS. To this effect, a two-week visit was originally scheduled to take place in November 1986 but was delayed and is now scheduled for later in 1987.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Ecuador in the March 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Ecuador, which during the past year have been provided on a regular basis; however, the currentness of the monetary data needs to be improved.

Status of IFS Data

		<u>Latest Data in March 1987 IFS</u>
Real Sector	- National Accounts	1985
	- Prices: WPI	Q2 1986
	CPI	December 1986
	- Production (crude petroleum)	November 1986
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1984
	- Financing	1984
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	June 1986 <u>1/</u>
	- Deposit Money Banks	December 1984
	- Other Financial Institutions	December 1984
Interest Rates	- Discount Rate	December 1984
	- Bank Lending/Deposit Rate	March 1985
	- Bond Yields	n.a.
External Sector	- Merchandise Trade: Value	November 1986
	Prices	
	(principal commodity exports)	November 1986 <u>2/</u>
	- Balance of Payments	1985
	- International Reserves	January 1987
	- Exchange Rates	July 1986

1/ Incomplete data are published through October 1986.

2/ Crude petroleum only through December 1985.

Table 9. Ecuador: Sectoral Origin of GDP

(In millions of sucres at 1975 prices)

	1981	1982	1983	1984	1985	Est. 1986	Proj. 1987
<u>GDP at market prices</u>	<u>153,443</u>	<u>155,265</u>	<u>150,885</u>	<u>156,890</u>	<u>162,779</u>	<u>165,486</u>	<u>168,764</u>
Agriculture and livestock	22,647	23,101	19,891	21,645	22,687	24,275	25,367
Petroleum and mining	15,992	15,527	19,893	22,170	24,312	23,947	24,187
Manufacturing	29,159	29,584	29,183	28,646	28,120	28,682	29,399
Construction	7,239	7,285	6,728	6,463	6,521	6,195	5,699
Commerce	25,032	25,562	22,537	23,662	24,458	24,458	24,947
Transport and communications	10,517	10,687	10,511	10,756	10,903	11,405	11,690
Electricity, gas, and water	1,117	1,241	1,426	1,840	1,925	2,098	2,287
Real estate	6,722	6,965	7,161	7,376	7,582	7,582	7,582
Public administration	14,000	14,224	14,493	14,782	15,078	15,078	15,078
Other	21,018	21,089	19,062	19,550	21,193	21,766	22,528

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

Table 10. Ecuador: Central Government Operations 1/

	1983	1984	1985	1986		1987.
				Prog.	Est.	Proj.
(In billions of sucres)						
<u>Total revenue</u>	<u>67.1</u>	<u>108.9</u>	<u>200.8</u>	<u>199.8</u>	<u>212.2</u>	<u>302.6</u>
<u>Petroleum revenue</u>	<u>30.3</u>	<u>49.3</u>	<u>115.3</u>	<u>72.7</u>	<u>90.3</u>	<u>145.5</u>
<u>Nonpetroleum revenue</u>	<u>36.8</u>	<u>59.6</u>	<u>85.5</u>	<u>127.1</u>	<u>121.9</u>	<u>157.1</u>
<u>Tax revenue</u>	<u>35.0</u>	<u>54.1</u>	<u>79.5</u>	<u>114.0</u>	<u>110.4</u>	<u>148.7</u>
Taxes on income and profits	7.5	10.3	13.8	20.7	20.2	25.0
Property taxes	0.4	0.1	0.2	0.2	0.2	0.4
Taxes on goods and services	13.7	21.0	29.8	51.8	51.3	63.2
General sales tax	7.4	11.4	17.9	36.2	37.2	44.9
Selective excise taxes	6.3	9.6	11.9	15.6	14.1	18.3
Taxes on international trade	13.0	20.8	32.6	40.0	37.3	46.4
Import duties	12.1	19.1	29.7	40.0	35.8	46.0
Export duties	0.1	0.1	--	--	--	--
Exchange profits tax	0.8	1.6	2.9	--	1.5	0.4
Other taxes	1.0	1.9	4.2	3.1	6.5	17.2
CATs and IERAC (-)	-0.7	-0.1	-1.1	-1.6	-5.1	-3.5
Nontax revenue	1.4	2.8	4.1	4.8	6.8	5.3
Transfers	0.5	2.7	1.9	8.4	4.7	3.1
<u>Total expenditure</u>	<u>83.7</u>	<u>114.2</u>	<u>179.5</u>	<u>211.4</u>	<u>232.8</u>	<u>302.1</u>
<u>Current expenditure</u>	<u>69.3</u>	<u>96.0</u>	<u>146.0</u>	<u>175.3</u>	<u>187.2</u>	<u>251.1</u>
Wages and salaries <u>2/</u>	16.5	19.6	53.7	29.8	86.2	117.3
Purchases of goods and services	2.8	3.6	4.4	3.6	4.5	5.7
Interest payments	14.4	18.8	35.9	39.8	41.0	62.5
Current transfers	28.9	40.7	44.3	80.0	38.9	46.9
Other current expenditures	6.7	13.3	7.7	22.1	16.6	18.7
<u>Capital expenditure</u>	<u>14.4</u>	<u>18.2</u>	<u>33.5</u>	<u>36.1</u>	<u>45.6</u>	<u>51.0</u>
Fixed capital formation	7.2	11.9	21.7	12.3	17.0	16.6
Capital transfers	7.2	6.3	9.7	14.5	21.8	32.7
Other capital expenditures	--	--	2.1	9.3	6.8	1.7
<u>Overall surplus or deficit (-)</u>	<u>-16.6</u>	<u>-5.3</u>	<u>21.3</u>	<u>-11.6</u>	<u>-20.6</u>	<u>0.5</u>

Table 10. Ecuador: Central Government Operations (Concluded) 1/

(In percent of GDP)

	1983	1984	1985	1986 Prog.	1986 Est.	1987. Proj.
<u>Total revenue</u>	<u>12.0</u>	<u>13.5</u>	<u>18.5</u>	<u>16.8</u>	<u>15.9</u>	<u>17.4</u>
<u>Petroleum revenue</u>	<u>5.4</u>	<u>6.1</u>	<u>10.6</u>	<u>6.1</u>	<u>6.8</u>	<u>8.4</u>
<u>Nonpetroleum revenue</u>	<u>6.6</u>	<u>7.4</u>	<u>7.9</u>	<u>10.7</u>	<u>9.1</u>	<u>9.0</u>
Tax revenue	6.2	6.7	7.3	9.6	8.3	8.5
Taxes on income and profits	1.3	1.3	1.3	1.7	1.5	1.4
Property taxes	0.1	--	--	--	--	--
Taxes on goods and services	2.4	2.6	2.7	4.3	3.8	3.6
General sales tax	1.3	1.4	1.6	3.0	2.8	2.6
Selective excise taxes	1.1	1.2	1.1	1.3	1.1	1.1
Taxes on international trade	2.3	2.6	3.0	3.4	2.8	2.7
Import duties	2.2	2.4	2.7	3.4	2.7	2.6
Export duties	--	--	--	--	--	--
Exchange profits tax	0.1	0.2	0.3	--	0.1	0.1
Other taxes	0.2	0.2	0.4	0.3	0.5	1.0
CATs and IERAC (-)	-0.1	--	-0.1	-0.1	-0.4	-0.2
Nontax revenue	0.2	0.3	0.4	0.4	0.5	0.3
Transfers	0.1	0.3	0.2	0.7	0.4	0.2
<u>Total expenditure</u>	<u>14.9</u>	<u>14.2</u>	<u>16.5</u>	<u>17.7</u>	<u>17.5</u>	<u>17.4</u>
<u>Current expenditure</u>	<u>12.4</u>	<u>11.9</u>	<u>13.5</u>	<u>14.7</u>	<u>14.0</u>	<u>14.5</u>
Wages and salaries <u>2/</u>	2.9	2.4	4.9	2.5	6.5	6.8
Purchases of goods and services	0.5	0.4	0.4	0.3	0.3	0.3
Interest payments	2.6	2.3	3.3	3.3	3.1	3.6
Current transfers	5.2	5.1	4.1	6.7	2.9	2.7
Other current expenditures	1.2	1.7	0.7	1.9	1.2	1.1
<u>Capital expenditure</u>	<u>2.6</u>	<u>2.3</u>	<u>3.1</u>	<u>3.0</u>	<u>3.4</u>	<u>2.9</u>
Fixed capital formation	1.3	1.5	2.0	1.0	1.3	1.0
Capital transfers	1.3	0.8	0.9	1.2	1.6	1.9
Other capital expenditures	--	--	0.2	0.8	0.5	0.1
<u>Overall surplus or deficit (-)</u>	<u>-3.0</u>	<u>-0.7</u>	<u>2.0</u>	<u>-1.0</u>	<u>-1.5</u>	<u>--</u>

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

1/ Includes the Central Government Budget and FONAPAR.

2/ The figures for 1985 onward and for the 1986 program are not comparable to previous years because of a reclassification problem. Through 1984 and for the 1986 program, part of wage and salary expenditures are included in current transfers and other current expenditures.

Table 11. Ecuador: Exports by Principal Products

(Value in millions of U.S. dollars; volume in thousands of metric tons;
unit value in U.S. dollars per kilogram; unless otherwise indicated)

	1982	1983	1984	1985	1986		1987
					Prog.	Est.	Proj.
<u>Total</u>	<u>2,343</u>	<u>2,360</u>	<u>2,622</u>	<u>2905</u>	<u>2,080</u>	<u>2,181</u>	<u>2,400</u>
Petroleum crude	1,388	1,639	1,679	1,825	857	906	990
Volume <u>1/</u>	42.7	59.3	61.3	70.6	72.0	71.4	66.0
Unit value <u>2/</u>	32.5	27.6	27.4	25.9	11.9	12.7	15.0
Petroleum derivatives	136	106	156	102	43	65	85
Volume <u>1/</u>	5.3	4.1	6.2	4.8	4.9	6.7	7.5
Unit value <u>2/</u>	25.7	25.9	25.2	21.0	8.7	9.7	11.3
Bananas	213	153	136	220	216	269	294
Volume	1,261	910	924	1,278	1,250	1,427	1,470
Unit value	0.169	0.168	0.147	0.172	0.173	0.188	0.200
Coffee	138	149	175	190	310	291	260
Volume	73.9	75.0	72.0	78.3	84.0	98.0	100.0
Unit value	1.87	1.98	2.43	2.44	3.70	2.97	2.60
Cocoa, unprocessed	63	8	96	138	137	70	97
Volume	43.0	6.0	47.0	70.4	73.3	37.7	51.0
Unit value	1.47	1.40	2.05	1.96	1.87	1.86	1.90
Cocoa, processed	56	26	50	79	69	78	81
Volume	48.0	27.0	28.0	34.0	33.8	35.9	42.0
Unit value	1.16	0.98	1.77	2.31	2.05	2.17	1.94
Shrimp	122	175	160	154	196	285	360
Volume	17.0	22.0	21.3	19.7	23.0	24.0	26.9
Unit value	7.41	8.11	7.50	7.81	8.50	11.9	13.4
Other fish products	89	31	71	106	147	107	110
Other	138	73	99	91	105	110	123

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

1/ In millions of barrels.

2/ U.S. dollar per barrel.

Table 12. Ecuador: Financial Relations with the World Bank

(In millions of U.S. dollars)

A. <u>New commitments and disbursements</u>					
	<u>New commitments</u>		<u>Disbursements</u>		
	1985	1986	1985	1986	
<u>Total</u>	<u>106.0</u>	<u>232.5</u>	<u>40.3</u>	<u>160.5</u>	
Agriculture	100.0	48.0	8.7	65.0	
Industry	--	145.0	14.2	69.7	
Industrial finance	--	115.0	--	65.0	
Small-scale enterprise	--	30.0	12.0	1.8	
Medium-scale enterprise	--	--	2.2	2.9	
Public sector	6.0	--	--	--	
Energy	--	8.5	--	--	
Transportation	--	--	5.2	8.0	
Urban development	--	--	11.4	17.1	
Education	--	--	0.2	0.7	
Water supply	--	31.0	--	--	
Other	--	--	0.6	--	
B. <u>World Bank disbursements (net)</u>					
	1982	1983	1984	1985	1986
<u>Net disbursements</u>	<u>25.8</u>	<u>26.2</u>	<u>49.4</u>	<u>12.2</u>	<u>125.1</u>
<u>Disbursements</u>	<u>44.4</u>	<u>46.0</u>	<u>66.6</u>	<u>40.3</u>	<u>160.5</u>
<u>Repayments</u>	<u>18.6</u>	<u>19.8</u>	<u>17.2</u>	<u>28.1</u>	<u>35.4</u>

Source: World Bank.

