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EBS/86/148

CONFIDENTIAL

July 14, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Ecuador - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Ecuador for a stand-by arrangement equivalent to SDR 75.4 million. Draft decisions appear on page 25.

This subject, together with Ecuador's request for a purchase under the compensatory financing facility (EBS/86/149, 7/14/86), has been scheduled for discussion on Monday, August 4, 1986.

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 Eduardo Wiesner and Manuel Guitián

July 14, 1986

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I. Introduction

Negotiations on a program that would qualify Ecuador for Fund support under a one-year stand-by arrangement were initiated in Quito in the period March 10-24, 1986 and continued during the period May 1-16 at headquarters, where they were concluded on June 19-20, 1986. 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 other senior officials of the Ministry of Finance and the Central Bank. The staff representatives in the mission to Quito were Messrs. Bonangelino (Head-WHD), Antonaya (FAD), de Schaetzen (ETR), Gantt, and Gronlie, and Ms. Eyzaguirre (Secretary) (all WHD). Mr. Terrier (WHD) participated in the discussions held at headquarters.

In the attached letter and accompanying memorandum on the economic policies dated July 14, 1986, the Minister of Finance and Public Credit and the General Manager of the Central Bank of Ecuador have requested a one-year stand-by arrangement in an amount equivalent to SDR 75.4 million (50 percent of quota), including SDR 16.2 million from the Fund's ordinary resources and SDR 59.2 million from borrowed resources. As of June 30, 1986 the Fund's holdings of sucres stood at SDR 499.1 million or the equivalent of 331.2 percent of quota. Concurrently with the stand-by arrangement, Ecuador is requesting a purchase of SDR 39.7 million under the compensatory financing facility. Including the CF purchase, and after taking into account scheduled repurchases, full use of the proposed arrangement would raise the Fund's holdings of sucres to SDR 542 million, or the equivalent of 359.7 percent of quota, at the end of the third quarter of 1987. A waiver of the limitation under Article V, Section 3(b)(iii) of the Articles of Agreement is required.

The program in support of which Ecuador is requesting the stand-by arrangement is described in the memorandum on the economic policies of Ecuador annexed to the attached letter of intent from the authorities. Under the proposed arrangement, purchases shall not exceed the equivalent of SDR 15.1 million until November 14, 1986, the equivalent of SDR 30.2 million until February 13, 1987, the equivalent of SDR 45.3 million until May 15, 1987, and the equivalent of SDR 60.4 million until August 14, 1987 (Table 1).

Ecuador's last stand-by arrangement, for an amount equivalent to SDR 105.5 million (70 percent of quota) expired on March 10, 1986. Ecuador made all purchases to which it was entitled under that arrangement. The last Article IV consultation with Ecuador was concluded on September 20, 1985 (EBM/85/147).

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

	Outstanding June 30, 1986	1986 July-Sept.	1986 Oct.-Dec.	1987 Jan.-Mar.	1987 Apr.-June	1987 July-Sept.
	(In millions of SDRs)					
Purchases under tranche policies	263.0	15.1	15.1	15.1	15.1	15.0
Ordinary resources	134.5	7.5	7.6	1.1	--	--
Enlarged access resources	128.5	7.6	7.5	14.0	15.1	15.0
Repurchases	--	--	-5.5	-12.1	-10.4	-12.1
Ordinary resources	--	--	-5.5	-7.8	-7.7	-7.8
Enlarged access resources	--	--	--	-4.3	-2.7	-4.3
Transactions under special facilities 1/	85.4	39.7	--	-10.7	-10.7	-10.7
Purchases	85.4	39.7	--	--	--	--
Repurchases	--	--	--	-10.7	-10.7	-10.7
Total Fund credit outstanding (end of period)	348.4	403.2	412.8	405.1	399.1	391.3
Under tranche policies	263.0	278.1	287.7	290.7	295.4	298.3
Special facilities 1/	85.4	125.1	125.1	114.4	103.7	93.0
	(In percent of quota)					
Total Fund credit outstanding (end of period)	231.2	267.5	273.9	268.8	264.8	259.7
Under tranche policies	174.5	184.5	190.9	192.9	196.0	197.9
Special facilities 1/	56.7	83.0	83.0	75.9	68.8	61.7

Source: International Monetary Fund.

1/ Compensatory financing facility.

II. Background and Performance Under the Previous Stand-By Arrangement

Economic conditions in Ecuador deteriorated significantly in the early 1980s reflecting adverse external developments, expansionary demand management policies, and an overvalued currency. Real GDP growth slowed markedly while inflationary pressures increased and the balance of payments weakened considerably (Table 2 and Statistical Appendix Table 10). Following a first set of adjustment measures in 1982, additional action was undertaken in early 1983 in the context of a stabilization program supported by a one-year stand-by arrangement from the Fund which became effective in July 1983. In 1983 output declined and inflation surged mainly in reflection of food shortages caused by the impact of severe floods on agricultural production. In 1984 economic growth resumed and inflation was reduced sharply as the food supply situation returned to normal. Over the period of the arrangement, the program was implemented as planned, the public sector deficit was virtually eliminated, and the balance of payments registered a small overall surplus.

Following expiration of the stand-by arrangement in mid-1984, central bank credit expanded rapidly, leading to renewed price pressures and to an accelerated depreciation of the sucre in the parallel market. Upon taking office in August 1984, the present Administration moved quickly to forestall any significant financial deterioration by taking a number of measures, including a de facto devaluation of the sucre in the official market, an upward adjustment in interest rates, an increase in reserve requirements on commercial banks' demand deposits, and large increases in the domestic prices of petroleum products.

Ecuador's economic program for 1985, which was supported by a one-year stand-by arrangement from the Fund approved on March 11, 1985, aimed at consolidating the gains achieved in 1983-84 and at creating conditions for sustained economic growth through a further reduction of inflation and a strengthening of the country's external position. In particular, the program called for balance of payments equilibrium in 1985 (after taking account of debt relief operations). The program's objectives were to be pursued mainly through a flexible exchange rate policy in the context of a unified exchange market, a liberalization of the trade system, a significant strengthening of the public sector finances, and prudent monetary management.

Ecuador observed all quantitative performance criteria under the stand-by arrangement with sizable margins (Table 3). Moreover, the performance as regards output and prices was somewhat better than projected. The rate of growth of real GDP exceeded 3 percent in 1985, while the end-of-year increase in the consumer price index was reduced marginally to 24.4 percent.

Table 2. Ecuador: Selected Economic Indicators

	1980	1981	1982	1983	1984	1985 Rev. Proj. 1/	1985 Est.	1986 Proj.
				(Percentage change)				
Real GDP	4.9	3.9	1.2	-3.1	4.1	2.5	3.2	1.0
Nominal GDP	25.4	18.9	19.2	33.7	41.2	28.6	33.7	13.5
GDP deflator	19.5	14.3	17.8	37.9	35.7	25.5	29.6	12.4
CPI (end of period)	13.7	17.3	24.4	52.5	25.1	22.4	24.4	22.2
CPI (period average)	12.8	14.7	16.3	48.4	31.2	27.4	28.0	23.0
				(In percent of GDP)				
Overall nonfinancial public sector balance	-4.7	-5.6	-6.7	--	-0.3	2.2	1.9	-3.2
Foreign financing	5.4	6.0	4.5	0.6	1.2	1.0	1.5	4.1
Domestic financing	-0.7	-0.4	2.2	-0.6	-0.9	-3.2	-3.4	-0.9
Gross domestic investment	26.1	23.2	25.2	17.5	19.6	23.0	19.4	19.0
Public	6.4	7.3	6.5	4.8	4.4	...	4.7	4.6
Private 2/	19.7	15.9	18.7	12.7	15.2	...	14.7	14.4
Gross national savings	19.1	13.2	13.6	16.1	17.1	20.3	18.5	12.1
Public sector	2.4	3.4	3.0	7.3	6.7	...	9.1	3.9
Private sector	16.7	9.8	10.6	8.8	10.4	...	9.4	8.2
Current account of the balance of payments	-7.0	-10.0	-11.6	-1.4	-2.5	-2.7	-0.9	-6.9
				(In millions of U.S. dollars)				
Overall balance of payments	226	-294	-671	51	60	--	85	-50

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

1/ Revised projection prepared at the time of the review of the stand-by arrangement (EBS/85/202 of August 23, 1985).
2/ Includes variation in inventories.

Table 3. Ecuador: Performance Under Stand-By Arrangement

	1984	1985				1986
	Dec.	Mar. 31	June 30	Sept. 30	Dec. 31	Feb. 28
		(In billions of sucres)				
Net domestic assets						
Ceiling 1/		29.1	30.6	32.8	35.6	35.6
Actual	27.3	24.5	25.4	26.3	27.9	25.7
Margin/excess (-)		4.6	5.2	6.5	7.7	9.9
Net credit to the public sector						
Ceiling 1/		-62.4	-72.7	-81.7	-90.9	-90.9
Actual 2/	-59.1	-69.1	-79.7	-94.3	-93.5	-97.2
Margin/excess (-)		6.7	7.0	12.6	2.6	6.3
		(In millions of U.S. dollars)				
Net international reserves						
Target		71	91	101	111	
Actual	111	96	117	158	196	175 3/
Excess/shortfall (-)		25	26	57	85	
External debt, 0-12 years						
Limit		5,750	5,750	5,750	5,750	5,775
Actual	5,649	5,643	5,636	5,649	5,660	5,678
Margin/excess (-)		107	114	101	90	97
External debt, 0-1 years						
Limit		350	350	350	350	350
Actual	293	293	288	307	278	276
Margin/excess (-)		57	62	43	72	74

Source: Central Bank of Ecuador.

1/ Ceilings applicable to quarters ending in months indicated.
2/ Net credit to the public sector includes the outstanding amounts owed under an oil facility from foreign commercial banks which was reclassified in 1986 as a long-term foreign liability of the Central Bank.
3/ No target applicable after December 31, 1985.

The overall operations of the nonfinancial public sector shifted from a small deficit in 1984 to a surplus of 1.9 percent of GDP in 1985, close to the surplus of 2.2 percent of GDP projected at the time of the review of the stand-by arrangement. Public sector revenues rose from 25.9 percent of GDP in 1984 to 29 percent in 1985, mainly because of a sizable increase in petroleum receipts resulting from the unification of the exchange rate and the depreciation of the sucre and because of the adjustment of the domestic prices of petroleum products by an average of about 65 percent at the end of 1984. Total public sector outlays increased from 26.2 percent of GDP in 1984 to 27.1 percent of GDP in 1985 instead of being reduced to 25 percent of GDP as envisaged in the program. Even though the overall surplus was somewhat smaller than projected, the increase in public sector deposits at the Central Bank was higher than programmed as the net utilization of long-term project-related external financing was larger than had been projected.

The improvement in the fiscal situation in 1985 contributed to a significant slowing of the growth of net domestic credit of the Central Bank. Also, bank credit to the private sector expanded by 24.9 percent, somewhat more slowly than projected. The banking system's liabilities to the private sector grew by close to 37 percent in 1985, with most of the increase taking place in newly created certificates of deposit placed at market-determined interest rates. The strong growth in private sector financial savings appears to have reflected the absorption by the banking system of part of the nonbank financial market, a reflow of capital held abroad, and a general strengthening of the demand for financial assets induced by the increase in interest rates.

The overall balance of payments registered a surplus of US$85 million in 1985 (after taking into account debt relief operations), compared with the program target of equilibrium. The deficit on the current account of the balance of payments narrowed from 2.5 percent of GDP in 1984 to less than 1 percent of GDP in 1985, well below the deficit of 2.7 percent of GDP projected at the time of the review of the stand-by arrangement. An overperformance of both oil and non-oil exports more than offset an excess of imports over the projected level and a slightly weaker-than-expected services account. Oil shipments reached nearly 71 million barrels, compared with a projection of 65 million barrels, and the average export price of crude oil was about US$26 per barrel in 1985 as against US$25 in the revised projection. Exports of bananas and cocoa exceeded the revised projections by significant margins. A shortfall in net capital inflows of a little more than US$100 million reflected mainly an increase in the net foreign asset position of commercial banks, which had not been anticipated in the program, and somewhat lower-than-expected private direct investment.

In the area of trade policy, the authorities have taken a number of steps to liberalize imports during the past two years. In September 1984 certain import duties were lowered and the minimum financing requirement for imports was reduced, and in early 1985 the remaining import prohibitions imposed in 1982 were lifted and the advance import deposit requirement was abolished. In addition, a bilateral payments agreement with a Fund member was terminated in the first half of 1985. In January 1986 the tariff schedule was revised with a view to lowering protection and reducing the dispersion of import duty rates, and certain import prohibitions imposed before 1982 were lifted. The authorities, however, imposed at the same time prior import authorizations on a number of items previously free of such a requirement. In early 1986 Ecuador liberalized the policy on profit remittances, broadened the legal rights of investors in cases of investment disputes, and allowed foreign investors to purchase shares in local companies and to have access to long-term domestic credit.

In 1985 Ecuador reached agreement with its external commercial bank creditors on a multiyear refinancing arrangement 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). Banks also agreed to provide a new loan of US$200 million and to maintain trade credit lines at a level of about US$700 million. The new loan was disbursed in September 1985 and was used for the most part to pay off trade-related debts to the banks which had fallen due in 1984 but had been extended. In addition, Ecuador reached agreement with its Paris Club official creditors to reschedule maturities falling due in the period 1985-87, as well as the unpaid principal which fell due from June 1, 1984 (the termination date of the previous Paris Club agreement) to the end of 1984. The Agreed Minute called for interest to be paid according to the original schedules and for creditors to refinance 100 percent of principal 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. By the end of June 1986, all the bilateral agreements related to the Paris Club agreement had been concluded.

The authorities' objective was to achieve a real effective depreciation of the sucre to the level which prevailed in the early 1970s, before the onset of oil production and exports, through unification of the official exchange market and adoption of a flexible exchange rate regime. Although most of the private sector transactions still at the official market rate at the end of 1984 were transferred to the more depreciated intervention market in several steps during 1985, formal unification, which had been scheduled to take place before the first purchase subject to performance criteria in May 1985, was achieved only on November 12, 1985. 1/ At that time, the official rate was moved from S/. 66.50 per U.S. dollar (buying rate) to the level of the Central Bank's intervention rate of S/. 95.00 per U.S. dollar. On January 30, 1986 the Central Bank changed the exchange rate applicable to all authorized foreign exchange transactions (intervention rate) to

1/ Since that date, all current transactions may be carried out in the intervention market of the Central Bank.

S/. 108.50 per U.S. dollar, and retained the official rate of S/. 95.00 only for its own internal accounting purposes. 1/

III. The 1986 Program

The economic prospects of Ecuador have worsened substantially in recent months with the sharp decline in the price of oil, Ecuador's main export commodity. The decline in oil export prices from about US$26 a barrel in 1985 to an estimated US$11.9 a barrel on average in 1986 has a major impact on projected export earnings and public sector revenues; in 1985 oil exports accounted for two thirds of total merchandise exports and generated about half of public sector revenues. In these circumstances, the authorities have developed an economic program which aims at adjusting the economy to the reduced income from oil, with a view to maintaining balance of payments viability over the medium term; Ecuador is requesting the stand-by arrangement in support of this program. The program seeks to limit the deterioration of the public finances and to contain the overall deficit of the balance of payments to no more than US$50 million in 1986. Given the need to diversify Ecuador's sources of foreign exchange in the face of sharply lower oil export prices, the Government intends to complement its demand management policies with a flexible exchange rate policy aimed at ensuring the economy's external competitiveness.

1. Performance criteria

The financial program described in the attached letter and memorandum on the economic policies contains the following quantitative performance criteria: (a) ceilings on net domestic assets of the Central Bank; (b) ceilings on the central bank net credit to the nonfinancial public sector; (c) targets for net official international reserves; and (d) limits on the outstanding public and publicly guaranteed external debt with original maturities of up to and including 12 years, with sublimits on such debt with original maturities of up to and including one year.

The credit ceilings and the limits on external debt are to be met at all times, while performance on the net international reserves is to be tested at the end of each quarter. In addition, no external arrears are to be permitted to develop during the period of the program.

The customary performance criteria on overdue financial obligations to the Fund and on exchange restrictions, multiple currency practices, bilateral payment agreements inconsistent with Article VIII, and import restrictions for balance of payments purposes are applicable during the

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1/ While a presidential decree is required to change the official rate, the exchange rate applicable in the intervention market can be adjusted administratively by the Monetary Board.

program period. A review with the Fund before December 15, 1986 to assess the progress made in implementing the program and to establish performance criteria for the period of the arrangement falling in 1987 also is a performance criterion.

2. Fiscal policy

In the absence of corrective measures, it was estimated that the operations of the public sector would have moved from a surplus of nearly 2 percent of GDP in 1985 to a deficit of about 8 percent of GDP in 1986. The Ecuadoran authorities did not consider viable a deficit of that size and, therefore, decided to implement a fiscal program aimed at containing the public sector deficit in 1986 to the equivalent of about 3.2 percent of GDP through a combination of revenue measures and of expenditure restraint (Table 4). The deficit is to be financed by recourse to foreign borrowing, which will allow for a small buildup of deposits by the public sector in the banking system.

Total revenue of the public sector is projected to decline from the equivalent of 29 percent of GDP in 1985 to 25 percent in 1986; if no corrective measures to offset part of the decline in revenue from oil had been adopted, public sector revenue would have declined to 22 percent of GDP. Total expenditure is projected to grow by the equivalent of about 1 percentage point of GDP to 28.2 percent of GDP, whereas in the absence of corrective measures it would have risen to some 30 percent of GDP. However, the rate of increase of expenditure is projected to be lower than domestic inflation as measured by the year-on-year increase in the consumer price index. 1/ In particular, current expenditure will increase by about 20 percent in 1986, compared with a projected increase in the consumer price index of about 23 percent.

Central government operations are programmed to shift from a surplus equivalent to 0.5 percent of GDP in 1985 to a deficit of about 1 percent of GDP in 1986. Central government revenue is projected to decline from 17.9 percent of GDP in 1985 to 16.8 percent in 1986 (Statistical Appendix Table 11). Petroleum revenue would fall from 10.3 percent of GDP in 1985 to around 6 percent of GDP in 1986 while nonpetroleum revenue would rise from 7.6 percent of GDP to 10.7 percent of GDP. A raise in the sales tax rate in January 1986 from 6 percent to 10 percent is expected to yield the equivalent of 1.2 percent of GDP, and increases in cigarette taxes are expected to generate an additional 0.1 percent of GDP. Taxes on international trade were boosted by the

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1/ Given the large decline in international oil prices, the rate of increase of the GDP deflator is projected to be considerably lower than the rate of increase of the consumer price index. In this situation, a measurement of public sector expenditure deflated by the consumer price index may provide a better indication of the fiscal effort than the change in the ratio of expenditure to GDP.

Table 4. Ecuador: Summary of Public Sector Operations

	1983	1984	1985 Rev. Proj. 1/	1985 Est.	1986 Proj.
(In billions of sucres)					
Total revenue	133.9	203.0	274.6	303.9	298.4
Petroleum revenue	48.4	82.2	131.1	158.5	98.5
Nonpetroleum revenue	75.9	102.4	130.4	138.4	197.2
Operating surplus of public enterprises	9.6	18.4	13.1	7.0	2.7
Total expenditure	133.8	205.9	252.6	284.0	336.4
Current expenditure	93.2	151.0	182.2	209.2	252.0
Capital expenditure	40.6	54.9	70.4	74.8	84.4
Overall surplus or deficit (-)	0.2	-2.9	22.0	19.9	-38.0
External financing	3.4	9.8	9.8	15.5	49.1
Drawings	8.5	18.7	19.8	23.0	69.1
Amortizations	5.1	8.9	10.0	7.5	20.0
Domestic financing	-3.6	-6.9	-31.8	-35.4	-11.1
Central Bank (net)	-2.4	-12.3	-31.8	-35.7	-3.6
Rest of banking system	-1.2	-6.0	--	0.3	-7.5
Other	--	6.0	--	--	--
(In percent of GDP)					
Total revenue	24.1	25.9	27.2	29.0	25.0
Petroleum revenue	8.7	10.5	13.0	15.1	8.3
Nonpetroleum revenue	13.7	13.0	12.9	13.2	16.6
Operating surplus of public enterprises	1.7	2.3	1.3	0.7	0.2
Total expenditure	24.1	26.2	25.0	27.1	28.2
Current expenditure	16.8	19.2	18.0	19.9	21.1
Capital expenditure	7.2	7.0	7.0	7.1	7.1
Overall surplus or deficit (-)	--	-0.3	2.2	1.9	-3.2
External financing	0.6	1.2	1.0	1.5	4.1
Drawings	1.5	2.4	2.0	2.2	5.8
Amortizations	0.9	1.1	1.0	0.7	1.7
Domestic financing	-0.6	-0.9	-3.1	-3.4	-0.9
Central Bank (net)	-0.4	-1.6	-3.1	-3.4	-0.3
Other banks	-0.2	-0.1	--	--	-0.6
Other	--	0.8	--	--	--

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

1/ Revised projection prepared at the time of the review of the 1985 stand-by arrangement (EBS/85/202).

introduction, effective March 21, 1986, of an import deposit scheme (discussed below) associated with the temporary application of an exchange commission, and by the lifting of the prohibition on the importation of automobiles which would yield additional customs revenue. The Government also has decided to reduce significantly from the amount originally budgeted for 1986 export subsidies in the form of tax credit certificates. Finally, the Government intends to continue to improve the valuation and control procedures at customs and the collection of income and sales taxes.

Total central government outlays are projected to rise from 17.4 percent of GDP in 1985 to 17.7 percent of GDP in 1986. Wages were raised on average by 18 percent at the beginning of the year, less than the projected rise in the consumer price index for 1986, and the wage bill in 1986 is projected to increase only marginally in relation to GDP. Interest payments would rise substantially in 1986, principally on account of the depreciation of the currency, while the ratio of capital expenditure to GDP would decline slightly.

Total revenue of the rest of general government is projected to decrease by 1.4 percentage points of GDP in 1986, as the sharp decline in petroleum revenue would be offset in part by an increase in other receipts, particularly social security contributions. As expenditure is expected to increase somewhat, the overall surplus of the rest of the general government would decline from 1.9 percent of GDP in 1985 to 0.3 percent of GDP in 1986.

The operating position of the public enterprises would weaken from a surplus equivalent to 0.7 percent of GDP in 1985 to approximate balance in 1986, as an increase in operating revenue would be more than offset by higher operating expenditure. Investment by the public enterprises is projected to increase from 2.2 percent of GDP in 1985 to 2.7 percent of GDP in 1986. The overall deficit of public enterprises would rise to 2.6 percent of GDP in 1986 from 0.5 percent of GDP in 1985.

The authorities consider the investment projects presently being executed by the public enterprises as the key to insure Ecuador's medium-term growth prospects. The Ecuadoran Public Oil Corporation (CEPE) is to implement several projects in 1986, including the expansion of the refinery at Esmeraldas started in 1985 and the construction of a small refinery at Amazonas. The electricity corporation (INECEL) is expected to complete construction of transmission lines from the newly constructed hydroelectric dam at Paute and to build new electricity generating plants at Agoyan.

The authorities have indicated that they are committed to maintain a realistic pricing policy for the public enterprises to help finance the investment program. Accordingly, electricity rates are to continue to be adjusted upward by 3 percent a month in 1986, as they have been since October 1985, and water rates in the City of Guayaquil are being raised by 1.5 percent a month. Moreover, fares of domestic airlines were raised by about 30 percent in March and telephone installation charges were recently increased by 50 percent.

3. Monetary policy

The monetary program for 1986 aims at limiting the loss of net official international reserves to US$50 million and at reducing inflation further. In accordance with the fiscal policy described above, the program contemplates a small buildup of deposits by the public sector in the Central Bank and allows for an increase in banking system credit to the private sector of about 12 percent (Tables 5 and 6). The program assumes banking system liabilities to the private sector to increase by 12 percent, somewhat below the projected increase in nominal GDP. In order to contain monetary expansion, the authorities increased the reserve requirement on demand deposits from 20 percent to 22 percent on November 7, 1985 and further adjustments brought the rate to 26 percent in early May 1986.

With a view to fostering the growth of financial savings in the domestic banking system, the authorities have adopted measures designed to bring about a much needed degree of flexibility to interest rates. Since 1985 commercial banks have been allowed to issue certificates of deposit at market-determined interest rates and since January 1986 they also have been permitted to extend certain kinds of medium- and long-term loans at variable interest rates. To increase interest rate flexibility further, the Government intends to lower the minimum denomination of the special certificates of deposit at market-determined interest rates from S/. 1 million to S/. 750,000 before consideration of Ecuador's program by the Executive Board, and to S/. 500,000 before the end of 1986. This adjustment is being introduced gradually in order to avoid a major weakening of the financial position of traditional savings institutions. In addition, by March 31, 1987 the authorities intend to authorize financial intermediaries to offer interest rates on all time and savings deposits and to charge rates on all credits funded with these resources which reflect the supply and demand conditions in the market. The reduction in the minimum denomination of certificates of deposit as well as the freeing of interest rates on time and savings deposits and on all credits funded with these resources are performance criteria under the stand-by arrangement.

4. External policies

The continued pursuit of a flexible exchange rate policy is a key element of the program. Following the January 1986 adjustment of the value of the sucre in relation to the U.S. dollar, the real effective exchange value of the sucre was somewhat lower than in 1971, before oil exports became a major source of income for Ecuador. The authorities intend to continue making adjustments in the value of the sucre in terms of the U.S. dollar at a minimum to avoid a real effective appreciation of the sucre with respect to the position that prevailed immediately

Table 5. Ecuador: Central Bank Operations

(In billions of sucres)

	S/. 95 per US$		S/. 115 per US$				
	1984	1985	1985	1986	Proj. 1986		
	Dec. 31	Dec. 31	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Net international reserves	10.6	18.6	22.5	18.9	13.0	15.0	16.8
Net domestic assets	27.3	27.9	24.0	26.1	35.0	36.0	36.3
Nonfinancial public sector (net)	-39.9	-75.6	-80.9	-90.4	-83.4	-83.9	-84.5
Central Government (net)	-1.4	-21.8	-20.2	-22.6	...	...	...
Other	-38.5	-53.8	-60.7	-67.8	...	...	...
Financial institutions (net)	110.1	112.6	111.8	116.4	116.5	120.0	122.0
Banking system (net) 1/	73.2	70.2	69.7	74.3	73.5	76.0	77.0
Stabilization credit	46.7	47.9	47.9	48.1	48.5	48.7	49.0
Other credit (net)	26.5	22.3	21.8	26.2	25.0	24.3	28.0
Other 2/	36.9	42.4	42.1	42.0	43.0	44.0	45.0
Stabilization credit	23.0	24.6	24.6	24.6	24.6	24.6	24.6
Other credit (net)	14.0	17.8	17.5	17.4	18.4	19.4	20.4
Private sector (net)	15.8	12.2	12.0	9.7	--	-2.0	-5.4
Medium- and long-term foreign liabilities 3/	-207.7	-216.8	-262.5	-262.1	-264.3	-266.1	-267.9
Other,including valuation adjustment (net)	149.0	195.6	243.6	252.6	266.2	268.0	272.0
Currency issue	37.8	46.5	46.5	45.0	48.0	51.0	53.0
Memorandum items							
Net international reserves	111.0	196.0	196.0	164.3	113.0	130.0	146.0
Reserves	171.0	196.0	196.0	164.3	113.0	130.0	146.0
Arrears	-60.0	--	--	--	--	--	--

Sources: Central Bank of Ecuador.

1/ Commercial banks and Development Bank of Ecuador.
2/ Other public and private financial institutions.
3/ Medium- and long-term foreign liabilities data incorporates reclassification of an
[illegible] facility disbursed in 1981-83 and previously included in public sector deposits.

Table 6. Ecuador: Banking System Operations

	S/. 95 per US$						S/. 115 per US$					
	Dec. 1984 Actual			Dec. 1985 Actual			Dec. 1985 Actual			Dec. 1986 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	10.6	--	10.6	18.6	--	18.6	22.5	--	22.5	16.8	--	16.8
Other foreign assets	--	-7.4	-7.4	--	3.3	3.3	--	4.0	4.0	--	-13.3 1/	-13.3
Net domestic credit	135.3	245.0	380.3	146.6	302.3	449.0	190.1	303.2	493.3	217.3	338.6	555.9
Public sector (net)	-39.9	-4.1	-43.9	-75.6	-3.8	-79.4	-80.9	-3.8	-84.6	-84.5	-11.3 2/	-95.8
Private sector	23.1	206.1	229.2	23.3	263.4	286.6	23.3	263.4	286.6	25.6	294.8	320.4
Net unclassified	152.1	43.0	195.0	199.0	42.7	241.7	247.7	43.6	291.3	276.2	55.1	331.3
Interbank transactions	70.0	-53.9	16.0	65.4	-49.5	15.9	64.9	-49.0	15.9	71.6	-55.7	15.9
Credit	92.7	35.4	128.1	101.0	42.1	143.1	101.1	42.6	143.5	109.3	42.8	152.1
Deposits 3/	-22.7	-89.3	-112.0	-35.5	-91.6	-127.1	-36.0	-91.6	-127.6	-37.7	-98.5	-136.2
Intersystem transactions	36.9	-0.7	36.3	42.4	-1.2	41.2	42.1	-1.2	40.9	45.0	-1.2	43.8
Allocation of SDRs	3.1	--	3.1	3.4	--	3.4	4.2	--	4.2	4.2	--	4.2
Medium- and long-term foreign liabilities 4/	207.7	2.9	210.6	216.8	4.4	221.2	262.5	5.3	267.8	267.9	5.7	273.7
Liabilities to private sector	41.9	180.1	222.1	52.8	250.5	303.3	53.0	251.7	304.7	78.5	262.7	341.3
Currency in circulation	34.6	--	34.6	41.8	--	41.8	41.8	--	41.8	47.6	--	47.6
Demand deposits	0.7	76.2	76.9	1.2	95.2	96.3	1.2	95.2	96.3	1.2	99.0	100.2
Time and savings deposits	--	28.5	28.5	--	45.6	45.6	--	45.6	45.6	--	46.3	46.3
Certificates of deposits	--	--	--	--	33.8	33.8	--	33.8	33.8	--	34.1	34.1
Advance import deposits	--	--	--	--	--	--	--	--	--	18.8	--	18.8
Other sucre liabilities	5.8	53.8	59.6	9.0	54.9	63.9	9.0	54.9	63.9	9.7	59.2	69.0
Liabilities in foreign currency	0.8	6.2	7.0	0.9	5.6	6.6	1.1	6.8	7.9	1.2	7.4	8.6
Capital and reserves	--	15.5	15.5	--	15.5	15.5	--	15.5	15.5	--	16.7	16.7
	(In millions of U.S. dollars)											
Net international reserves and net foreign assets	111.0	-77.9	33.1	196.0	34.7	230.7	196.0	34.7	230.7	146.0	-115.7	30.4

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

1/ Reduction in foreign assets reflects an increase in commercial banks short-term liabilities of US$150 million (trade credit lines).

2/ Reflects an incrase in BNF liabilities to the Central Government representing disbursement of a US$65 million agricultural loan by the Inter-American Development Bank.

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

4/ Medium- and long- term foreign liabilities data incorporates reclassification of an oil facility disbursed in 1981-83 and previously included in public sector deposits.

following the January 1986 exchange rate adjustment. However, the exchange rate is to be adjusted as needed to ensure observance of the overall balance of payments objectives of the program. Avoidance of a real appreciation of the sucre with respect to the position at the end of January 1986 is a performance criterion under the stand-by arrangement. For this purpose, the staff has reached understandings with the authorities about the means of determining the real effective exchange rate for both the current period and in 1971.

The balance of payments projections for 1986 point to an increase in the current account deficit to 6.9 percent of GDP from a deficit estimated at 0.9 percent of GDP in 1985 (Table 7). The U.S. dollar value of total exports is projected to decline by about 28 percent, reflecting a reduction of over 50 percent in the value of petroleum exports which would be only partly offset by an increase in the value of other exports. The estimate of petroleum exports is based on an average price of US$11.9 a barrel and a 2 percent increase in export volume (Statistical Appendix Table 12). At the same time, the U.S. dollar value of imports is projected to decline by close to 6 percent in 1986. The trade surplus would be reduced from 10.2 percent of GDP in 1985 to about 4.5 percent of GDP in 1986, while the deficit on service account would remain at around 11.5 percent of GDP.

Net capital inflows are expected to increase in 1986 mainly reflecting an increase in the use of trade credit lines by the Ecuadoran banking sector and larger external borrowing by the public sector. Projected disbursements on external loans to the public sector include US$340 million from multilateral organizations, principally the World Bank and the Inter-American Development Bank, and US$150 million under an oil credit facility which is being negotiated with foreign commercial banks. In May 1986 the U.S. Treasury made available a bridge financing facility of US$150 million to Ecuador as temporary financing until disbursements under the oil facility from commercial banks and purchases under the proposed stand-by arrangement from the Fund are effected.

As noted, in 1985 Ecuador reached an agreement with its external commercial bank creditors on a multiyear refinancing of the public sector debt. This agreement calls for five successive rescheduling operations, covering the amortization payments due in each of the five years of the arrangement, which would take place automatically provided certain conditions are met. Specifically, the 1986 rescheduling agreement envisages that a Fund-supported program be in place for 1986 and that procedures be established for enhanced Article IV consultations during the period 1987-96.

The authorities have reaffirmed their commitment to continue to ease restrictions on international trade. As noted earlier, in January 1986 several measures were taken to liberalize trade. On March 21, 1986 the authorities implemented a scheme requiring importers to deposit in the Central Bank the sucre equivalent of the 80 percent of the value of

Table 7. Ecuador: Summary Balance of Payments

	1982	1983	1984	1985 Proj.	1985 Rev. Proj. 1/	1985 Prel.	1986 Proj.
	(In millions of U.S. dollars)						
Current account	-1,195	-126	-248	-210	-300	-99	-720
Trade account	146	940	1,055	963	930	1,147	455
Exports, f.o.b.	2,327	2,348	2,622	2,713	2,580	2,870	2,080
Petroleum	1,508	1,733	1,835	1,904	1,764	1,926	900
Other	819	615	786	809	816	944	1,180
Imports	-2,181	-1,408	-1,567	-1,750	-1,650	-1,723	-1,625
Services account	-1,361	-1,090	-1,323	-1,193	-1,251	-1,271	-1,200
Services, credit	407	340	350	410	410	390	428
Services, debit	-1,768	-1,430	-1,673	-1,603	-1,661	-1,661	-1,627
Interest 2/	-767	-711	-836	-808	-776	-762	-755
Fund charges	--	-3	-13	-25	-25	-25	-33
Other	-1,001	-716	-824	-770	-860	-875	-840
Transfers	20	24	20	20	20	25	25
Capital account	524	178	308	74	300	184	670
Public sector 3/	660	608	231	42	261	227	457
Drawings 4/	883	698	403	297	415 5/	407 5/	723
Interest rescheduled	--	43	15	--	--	--	--
Amortization 6/	-700	-121	-187	-255	-154	-181	-266
Other 7/	477	-12	--	--	--	--	--
Private sector	-136	-430	77	32	39	-42	213
Direct investment	40	50	50	75	75	60	70
Drawings 4/	806	12	--	--	--	3	3
Interest rescheduled	--	5	3	--	--	--	--
Amortization 6/	-630	-117	-42	-83	-52	-52	-40
Other 8/	-352	-380	66	40	16	-53 9/	180 10/
Overall balance	-671	52	60	-136 11/	--	85	-50
Net official international reserves (increase -)	460	58	-20	41	60	-25	50
Arrears (decrease -)	211	-110	-40 12/	-41	-60	-60	--
Financing gap	--	--	--	-136 11/	--	--	--
Memorandum items							
Total debt relief	555	2,091	1,207	1,044	1,139	1,139	958
Public debt	19	1,083	584	1,044	1,028	1,028	958
Principal	19	1,039	568	1,044	1,028	1,028	958
Banks	19	972	502	1,044	906	906	883
Paris Club	--	37	66	--	122	122	74
Other	--	30	--	--	--	--	--
Interest	--	44	16	--	--	--	--
Paris Club	--	15	16	--	--	--	--
Other	--	29	--	--	--	--	--
Private debt	536	1,008	623	--	111	111	--
Principal	536	1,003	620	--	111	111	--
Paris Club	--	27	33	--	38	38	--
Regulation 101/83 13/	--	854	587	--	73	73	--
Other 14/	536	122	--	--	--	--	--
Interest: Paris Club	--	5	3	--	--	--	--
	(In percent of GDP) 15/						
Current account	-11.6	-1.4	-2.5	-1.9	-2.7	-0.9	-6.9

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

1/ Revised projection prepared at the time of the review of the 1985 stand-by arrangement (EBS/85/202).
2/ Includes interest payments rescheduled.
3/ Assumes that an oil credit facility of US$150 million will be negotiated with commercial banks and disbursed in 1986.
4/ On a cash basis.
5/ Excludes US$179 million of a US$200 million loan from commercial banks used for elimination of arrears to banks which had been extended in anticipation of the loan.
6/ *Net of debt relief.*
7/ Includes petroleum-related credit in 1982-83.
8/ Includes errors and omissions.
9/ Includes a US$112.6 million increase in commercial banks' net foreign assets.
10/ *Assumes an increase of US$150 million in the use of trade credit lines.*
11/ Financing gap corresponding to debt service payments to official creditors, refinanced under the aegis *of the Paris Club in 1985.*
12/ Excludes arrears on debt servicing to official creditors which accumulated during June-December 1984, and were rescheduled under the aegis of the Paris Club in 1985.
13/ Private debt assumed by the Central Bank of Ecuador.
14/ Privately arranged refinancing, partly conducted under Regulation 1202/82.
15/ GDP converted to U.S. dollars using exchange rate implied by the 1971 purchasing power parity.

imports that is subject to a 120/180-day minimum import financing requirement. This deposit must be made at the time of applying for the purchase of foreign exchange to make the 20 percent cash payment. The Central Bank charges commission fees of 25 percent and 30 percent, respectively, on import transactions subject to minimum financing requirements of 120 days and 180 days. This prior import deposit scheme, intended to provide forward cover for the importers while ensuring that the Central Bank does not incur exchange losses, also has a fiscal objective. The authorities have stated that they will eliminate the import deposit scheme by the end of 1986; such action is a performance criterion under the stand-by arrangement.

In addition to the above-mentioned import deposit measure which constitutes a multiple currency practice and the related minimum financing requirement which is an exchange restriction, Ecuador maintains exchange restrictions in the form of bilateral payments agreements with two Fund members; balances under these agreements are cleared once a year in convertible currency. These exchange restrictions and multiple currency practices are subject to Fund approval under Article VIII.

IV. World Bank Operations in Ecuador

Net lending by the World Bank to Ecuador amounted to US$12.2 million in 1985, down from US$49.4 million in 1984, as disbursements declined from US$66.6 million in 1984 to US$40.3 million in 1985 while repayments increased from US$17.2 million to US$28.1 million (Statistical Appendix Table 13). About 30 percent of total gross disbursements in 1985 were for small-scale enterprises, some 28 percent for urban development, 22 percent for agriculture, and the remaining 20 percent for other projects. In the first five months of 1986, the Bank disbursed US$34.3 million, US$22.4 million of which was for the agricultural sector.

In 1985 the World Bank made two new loan commitments to Ecuador for US$106 million, namely, a US$100 million credit to the agricultural sector and a US$6 million loan to improve public sector management. During the first half of 1986, three loan commitments were made for US$153.5 million: a US$115 million industrial finance credit, a US$30 million small-scale enterprise credit, and a US$8.5 million loan to the electrical sector. In addition, a US$48 million agricultural credit loan is expected to be submitted for consideration by the Board in September.

The World Bank lending program for the medium term would be in support of policies aimed at reducing economic distortions, improving the efficiency of investment, and diversifying the sources of foreign exchange. In particular, the Bank would support a process of trade liberalization, the implementation of an efficient energy pricing policy, a more flexible interest rate regime, and improvements in public sector management. These policies are to be supported by a multiyear lending program which would focus on agriculture, industry, infrastructure, and energy. To the extent possible, the Bank expects to emphasize loans that can be disbursed quickly. The Bank is presently reviewing with the Ecuadoran authorities the public sector investment program and assisting them in their efforts to undertake the necessary reductions in their planned investments to feasible and efficient levels.

V. Medium-Term Outlook

The staff has substantially revised the medium-term outlook presented in EBS/85/202 to take into account recent changes in the international environment faced by Ecuador, particularly the decline in oil prices. The downward revision in oil prices would result in a US$4.6 billion export shortfall over the period 1987-91. By adopting appropriate adjustment policies and structural reforms aimed at improving the economy's growth performance, Ecuador should be able to maintain a viable balance of payments position throughout the 1980s. However, a sizable financing gap would remain and this gap would increase significantly in 1990, when the present multiyear rescheduling arrangement (MYRA) with foreign commercial banks expires (Table 8). The size of the financing gap, which would have to be entirely covered by recourse to commercial borrowing, points to the need for the continued implementation of adjustment policies.

Oil revenues are projected to recover gradually from their sharp decline in 1986, reaching about three fourths of their 1985 levels by 1991. In line with earlier projections, the volume of crude petroleum exports is assumed to increase at an annual rate of 2 percent to some 80 million barrels in 1991. This rate of growth appears feasible in view of the present effort to increase domestic production and to expand the capacity of the Trans-Ecuadoran pipeline, and considering Ecuador's low share in total world output. The price of oil is projected to increase by about US$1 a barrel a year on average, to US$17.5 a barrel by 1991.

The authorities' commitment to ensuring an adequate competitive position through a flexible exchange rate policy and the continued implementation of structural reforms should result in a steady growth in non-oil exports; accordingly, these exports are projected to grow at an average annual rate of 8 percent a year in the period 1987-91. Important in this regard are the authorities' efforts to promote the production of shrimp and other fish products, which are expected to benefit from strong world demand.

The projection for interest payments is based on a three-month LIBOR of 7.5 percent and a U.S. prime rate of 8.5 percent. On this assumption and allowing for the upward revision in borrowing requirements relative to the previous projection, interest payments would average somewhat more than US$800 million a year in the next five years; in relation to exports of goods and nonfactor services, interest

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

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991
Current account	-720	-590	-507	-491	-443	-358
Trade account	455	607	743	798	859	980
Exports, f.o.b.	2,080	2,307	2,533	2,715	2,912	3,180
Petroleum	900	1,084	1,230	1,295	1,363	1,476
Other	1,180	1,223	1,303	1,420	1,549	1,704
Imports	-1,625	-1,700	-1,789	-1,917	-2,053	-2,199
Service account	-1,200	-1,227	-1,285	-1,329	-1,347	-1,383
Service credits	428	445	471	504	547	586
Service debits	-1,653	-1,672	-1,756	-1,834	-1,894	-1,969
Interest payments 1/	-788	-809	-831	-842	-832	-831
Other service debits	-865	-864	-925	-990	-1,062	-1,137
Transfers	25	30	35	40	45	45
Capital account	670	422	355	254	-57	-17
Direct investments	70	90	105	115	125	125
Medium- and long-term debt	420	297	210	94	-232	-192
Drawings	726	687	758	782	838	862
Amortization 2/	-306	-390	-548	-688	-1,070	-1,054
Other	180	35	40	45	50	50
Overall balance	-50	-168	-152	-237	-501	-376
Net international reserves (increase -)	-50	--	-56	-18	-11	-12
Arrears (decrease -)	--	--	--	--	--	--
Financing gap	--	168	209	255	512	388
Memorandum items						
Current account in percent of GDP	-6.9	-5.4	-4.3	-3.9	-3.3	-2.5
Interest payments in percent of exports of goods and nonfactor services	31.4	29.4	27.7	26.2	24.1	22.1
Net international reserves (in months of imports)	0.6	0.9	1.0	1.0	1.0	1.0

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

1/ Includes IMF charges.
2/ Net of amounts rescheduled.

payments would decline from 31 percent in 1986 to 22 percent by 1991. Noninterest service payments are projected to remain around 8 percent of GDP throughout the period, while service income would be around 4 percent of GDP. On this basis, the current account deficit would decline gradually from US$720 million in 1986 to US$590 million in 1987 and to less than US$360 million in 1991. In relation to GDP, the current account deficit would decline steadily from 6.9 percent in 1986 to 2.5 percent in 1991.

The medium-term projections assume that gross annual disbursements from the World Bank would increase from US$156 million in 1986 to about US$204 million in 1987-91, while disbursements on IDB loans would increase from US$150 million to about US$216 million in the same period. A significant part of these disbursements would be under sectoral loans aimed at strengthening Ecuador's outward-looking growth strategy. Net capital inflows are expected to decrease from US$670 million in 1986 to just over US$250 million in 1989, as amortization payments to foreign commercial banks increase, and to become negative starting in 1990, the first year not covered by the MYRA with banks.

Under these assumptions, the overall balance of payments deficit would rise from an annual average of US$185 million in 1987-89 to about US$500 million in 1990, before declining to below US$380 million in 1991. Allowing for a modest increase in net international reserves, sufficient to keep their level to the equivalent of one month of imports, the financing gap would average a little more than US$300 million a year in the period 1987-91. The authorities believe that such financing gap could be covered by additional borrowing on commercial terms. Given the rising debt amortization payments scheduled with banks, borrowing from banks to entirely finance the gap would imply an increase in the banks' exposure of less than 2 percent in 1987 and less than 1/2 of 1 percent in 1988, and a reduction in banks' exposure of 2.8 percent a year in 1989-91.

Ecuador's external debt, including the borrowing needed to close the financing gap just discussed, would decline from about 82 percent of GDP in 1986 to 68 percent in 1991 (Table 9). The debt service ratio, including servicing of the debt to the IMF, is projected to remain at about 49 percent of exports of goods and nonfactor services in 1987-89 and to increase to 57 percent in 1990 before falling back to about 52 percent in 1991. In the absence of the multiyear debt rescheduling arrangements concluded in 1985 with the banks and the Paris Club, the debt service ratio would have averaged 76 percent in the period 1987-89.

The above scenario shows a tight but viable external position in which Ecuador can service its external debt, including the servicing of the debt to the Fund, provided that adequate policies are followed. Many of the underlying assumptions, however, remain beyond the authorities' control and large divergences from this scenario could occur, particularly with regard to developments in the world oil market. If petroleum prices were to remain at the level estimated for 1986, the

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

(In millions of U.S. dollars)

	1983	1984	1985	Projected 1986	1987	1988	1989	1990	1991
Debt outstanding 2/	6,899	7,181	7,754	8,461	8,895	9,197	9,466	9,660	9,870
Of which:									
IMF	209	231	313	412	361	243	164	62	--
financing gap	--	--	--	--	168	376	631	1,143	1,532
Debt service	2,997	2,177	2,120	2,095	2,225	2,227	2,310	1,993	1,943
Principal paid	238	211	233	312	493	650	757	1,161	1,111
Of which:									
banks	126	87	54	64	90	195	295	620	573
IMF	...	...	...	6	103	102	69	90	56
financing gap	--	--	--	--	--	--	--	17	76
Principal renegotiated	2,042	1,098	1,101	996	924	746	711	--	--
Of which: banks	1,826	1,031	967	911	866	746	711	--	--
Interest paid	673	850	787	787	809	831	842	832	832
Of which:									
banks	582	724	602	542	582	569	546	493	427
IMF	3	13	25	33	34	30	23	16	9
financing gap	--	--	--	--	6	21	38	68	103
Interest renegotiated	44	18	--	--	--	--	--	--	--
Of which: banks	2	--	--	--	--	--	--	--	--
Memorandum items									
Debt/GDP 3/									
Including IMF	74.1	72.5	69.0	81.7	80.9	78.1	75.1	71.5	68.2
Excluding IMF	71.9	70.1	66.2	77.7	77.7	76.1	73.8	71.1	68.2
Debt service/exports of goods and nonfactor services									
Before relief	111.5	73.3	65.0	83.6	80.8	74.1	71.8	57.6	51.6
After relief	33.9	35.7	31.3	43.8	47.3	49.3	49.7	57.6	51.6
Interest payments/exports of goods and nonfactor services									
Before interest relief	26.7	29.2	24.1	31.4	29.4	27.7	26.2	24.1	22.1
After interest relief	25.0	28.6	24.1	31.4	29.4	27.7	26.2	24.1	22.1

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

1/ Consistent with the medium-term projections and including cumulative gap.
2/ Registered public and private debt of all maturities, including short-term debt converted into medium-term debt.
3/ GDP in sucres through 1986 was converted into U.S. dollars at the exchange rates implied by the 1971 purchasing power parity. Thereafter, GDP in U.S. dollars is assumed to grow by 6.1 percent in 1987 and at 7.1 percent per annum in nominal terms during the following years through 1991.

financing gap could increase by the equivalent of about 2 percent of GDP in 1987-88, by 3 percent in 1989, and by 4 percent in 1990-91. Alternatively, if oil prices were US$1 a barrel higher in each year than assumed in the base scenario, the need for additional financing from banks would be reduced by about one third.

VI. Staff Appraisal

Under the 1985 stand-by arrangement from the Fund, Ecuador observed all quantitative performance criteria and, in November 1985, the authorities unified the official and intervention exchange markets, an action originally scheduled for May 1985. The overall public sector position shifted from a small deficit in 1984 to a surplus of nearly 2 percent of GDP in 1985, and there was a substantial improvement in the public sector's net position with the domestic banking system. These developments contributed to a significant slowdown in the rate of credit expansion by the Central Bank, and net official international reserves increased by US$85 million during 1985. At the same time, real GDP growth was higher than projected and inflation abated somewhat.

Confronted with a sharp decline in international oil prices, in January 1986 the authorities took prompt action to adjust to the new international environment, including a devaluation of the sucre in the intervention market from S/. 95.00 per U.S. dollar to S/. 108.50 per U.S. dollar (buying rate), an increase in the sales tax rate from 6 percent to 10 percent, and an increase in the legal reserve requirement on demand deposits. In addition, the authorities modified the tariff schedule to lower protection and reduce tariff dispersion, and lifted some import prohibitions. At the same time, they permitted certain kinds of medium- and long-term loans to be made at adjustable interest rates.

Containment of the public sector deficit to no more than 3.2 percent of GDP is a key element of the authorities' economic program for 1986. To this end, the authorities have postponed certain new public sector investments and are committed to exercise tight control over current expenditure. The staff would stress the importance of avoiding expenditure overruns and, to the extent possible, to keep public expenditure below the level projected in the program. Expenditure restraint will be essential to achieve the overall objectives of the program.

Given the uncertainty about petroleum prices in the future, it is essential to increase the scope of nonpetroleum revenue and to strengthen tax administration. The management of the public sector finances in Ecuador continues to be hampered by a complex system of revenue earmarking, particularly with regard to the use of petroleum revenue. Some progress has been made in reducing the incidence of earmarking in that the additional petroleum revenue resulting from the depreciation of the sucre during the past year and a half has been allocated to the Central Government, but further steps to reduce revenue earmarking are needed.

Implementation of the authorities' fiscal program would allow for a small buildup of deposits by the public sector at the domestic banking system in 1986. On that basis, the authorities have prepared a monetary and credit program that would allow for a moderate increase in credit to the private sector while further reducing inflation and limiting the loss of net official international reserves this year to US$50 million. It is important that the authorities monitor closely economic and financial developments and stand ready to take corrective action, including increases in reserve requirements, to ensure achievement of their price and international reserve objectives.

Following the introduction in January 1986 of a system of adjustable interest rates on certain loans, in the remainder of the year the authorities intend to reduce substantially the minimum denomination of the special certificates of deposit at market determined interest rates. These steps serve to increase interest rate flexibility, which is particularly needed in view of the country's weakened balance of payments situation. The authorities also are committed to authorize, by March 31, 1987, all financial intermediaries to offer interest rates on all time and savings deposits and to charge rates on all loans funded with these deposits which reflect the supply and demand conditions in the market. The staff notes this commitment by the authorities, and would suggest that they accelerate liberalization of interest rates.

Attainment of the authorities' objective to reduce inflation will depend crucially on the implementation of a prudent wage policy. In this regard, the staff would urge the authorities to take into account the difficult economic circumstances the country now faces in their decisions on minimum wages for 1987 and wages and salaries in the public sector.

The 1986 financial program for Ecuador envisages an increased utilization of external trade credit lines by the private sector and the use of an oil credit facility from a consortium of foreign commercial banks. The recent multiyear reschedulings with commercial banks and official creditors have helped to make Ecuador's debt service burden more manageable. However, the country's debt management problem will be solved on a lasting basis only through strong export growth and restraint in the public sector's use of foreign commercial borrowing. Achievement of these objectives will depend importantly not only on the pursuit of restrained demand policies but also on an appropriate exchange rate.

In this respect, the staff notes the authorities' commitment to continue to pursue a flexible exchange rate policy with the aim of maintaining as a minimum the real effective exchange rate reached at the end of January 1986. Such a policy is needed to ensure observance of the overall balance of payments objectives of the program without resorting to restrictions. Given Ecuador's heavy external debt service burden and the recent adverse developments in the oil market, exchange rate policy should be kept under close review.

In early 1986 the authorities took steps to liberalize the trade system by reducing tariff protection. On March 21, 1986, however, they implemented a prior import deposit scheme designed both to provide forward cover to importers and to generate fiscal revenue. This is a temporary measure that the authorities are committed to eliminate by the end of 1986. On this basis, the staff proposes approval of this measure and the related minimum import financing requirements until the completion of the mid-term review of the program or December 31, 1986, whichever is earlier.

In view of the measures 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 continued Fund support. Annual access of 50 percent of quota proposed under the arrangement has been determined on the basis of a number of factors, including Ecuador's record in the implementation of previous stand-by arrangements from the Fund, the substantive policy actions expected under the proposed program (including a more flexible exchange rate policy), and the authorities' intention to take additional actions as may be required to ensure attainment of a viable balance of payments position in a relatively short period of time.

VII. Proposed Decisions

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

i. Stand-By Arrangement

1. The Government of Ecuador has requested a stand-by arrangement for a period of one year from August -- 1986 in an amount equivalent to SDR 75.4 million.

2. The Fund approves the stand-by arrangement attached to EBS/86/148.

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

ii. Exchange Restrictions and Multiple Currency Practices

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.

Fund Relations with Ecuador
(As of June 30, 1986, 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 499.1 million or 331.2 percent of quota

(c) Fund credit: of which:

	Amount (in millions of SDRs)	Percent of Quota
Fund credit	348.4	231.2
Credit tranches	(134.5)	(89.2)
Compensatory financing	(85.4)	(56.7)
Enlarged access	(128.5)	(85.3)

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) 1984-85
Duration: From March 11, 1985 to March 10, 1986
Amount: SDR 105.5 million
Utilization: SDR 105.5 million

(b) Special facilities: Compensatory financing facility:

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

IV. SDR Department

(a) Net cumulative allocation SDR 32.93 million
(b) Holdings: SDR 24.74 million or 75.1 percent of net cumulative allocation.

B. Nonfinancial Relations

V. Exchange Rate: In recent years, Ecuador 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 30, 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.

In addition, there is a legal parallel market in which quotations fluctuate daily. On June 30, 1986, the buying rate on this market was S/. 166.00 per U.S. dollar.

VI. Last Article IV Consultation: The 1985 Article IV consultation and a review with the Fund under the stand-by arrangement were concluded by the Executive Board on September 20, 1985 (EBS/85/202 and SM/85/255). The following decision was 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. 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 data could be improved.

VIII. Technical Assistance: On April 1-18, 1985, Mr. Muirragui (BUR) went on a two week technical assistance mission in the area of money and banking with the purpose of improving compilation and presentation of Central Bank data.

The Fiscal Affairs Department has organized a public finance seminar in Quito in the period July 7-15, 1986.

Ecuador: Selected Economic and Financial Indicators

	1983	1984	1985 Proj.	1985 Rev. Proj. 1/	1985 Prel.	1986 Proj.
(Annual percent changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	-3.1	4.1	2.5	2.5	3.2	1.0
GDP deflator	37.9	35.7	22.0	25.5	29.6	12.4
Consumer prices (end of period)	52.5	25.1	20.0	22.4	24.4	22.2
Consumer prices (average)	48.4	31.2	24.0	27.4	28.0	23.0
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	0.9	11.7	8.9	-1.6	9.5	-27.5
Petroleum exports	14.9	5.9	6.1	-3.9	4.9	-53.3
Imports, f.o.b.	-35.4	11.3	10.8	5.3	10.0	-5.7
Export volume	11.2	0.5	9.9	5.2	9.8	3.0
Import volume	-41.0	10.5	3.8	1.4	10.8	-7.0
Terms of trade (deterioration -)	-17.2	9.6	-7.4	-9.8	-2.8	-29.0
Nominal effective exchange rate (depreciation -) 2/	-34.0	-30.2	...	...	-8.3	...
Real effective exchange rate (depreciation -) 2/	-8.4	-18.4	...	...	3.0	...
Central government						
Revenue	37.3	62.1	64.2	65.6	72.4	6.5
Total expenditure	21.1	36.4	32.3	34.2	60.0	15.7
Money and credit 3/						
Domestic credit	58.2	40.1	30.0	34.2	30.9	20.5 6/
Public sector	-8.9	-3.7	-15.3	-14.3	-16.0	-3.7
Private sector	52.1	36.2	27.6	27.4	25.8	11.0
Money and quasi-money (M2)	32.0	40.3	26.0	35.1	34.9	9.7
Velocity (GDP relative to M2)	5.8	5.6	5.9	5.0	4.8	5.2
Interest rate (savings deposits)	16.0	18.0	20.0	20.0	20.0	...
(In percent of GDP)						
Overall public sector balance	--	-0.3	3.4	2.2	1.9	-3.2
Central government savings	-0.4	1.7	5.8	5.1	3.6	2.1
Central government balance	-3.0	-0.7	2.9	2.7	0.5	-1.0
Foreign financing	-0.4	1.7	-0.6	0.4	...	...
Domestic financing	3.4	-1.0	-2.3	-3.1	...	...
Gross domestic investment	17.5	19.6	16.5	23.0	19.4	19.0
Gross national savings	16.1	17.1	14.5	20.3	18.5	12.1
Current account deficit (-) 4/	-1.4	-2.5	-1.9	-2.7	-0.9	-6.9
External debt 4/5/	74.1	72.5	73.5	73.5	69.0	81.7
Of which: public sector	71.9	70.1	73.5	68.0	66.2	77.7
(In percent of exports of goods and services)						
Debt service						
Before rescheduling	111.5	73.3	70.1	74.0	65.0	83.6
After rescheduling	33.9	35.7	36.7	36.0	31.3	43.8
Interest payments						
Before rescheduling	26.7	29.2	25.9	26.8	24.1	31.4
After rescheduling	25.0	28.6	25.9	26.8	24.1	31.4
(In millions of U.S. dollars, unless otherwise specified)						
Change in net international reserves (increase -)	-52	-60	-136	--	-85	50
Net official international reserves (increase -)	58	-20	41	60	-25	50
Arrears (decrease -)	-110	-40 6/	-41	-60	-60	--
Financing gap	--	--	-136 7/	--	--	--
Gross official reserves (months of imports of the following year) 8/	6.0	5.6	...	...	6.1	6.0

1/ Revised projection prepared at the time of the review of the 1985 stand-by arrangement (EBS/85/202).
2/ Until November 12, 1985, the effective exchange rate is calculated as an average of the official and parallel market rates, weighted by the distribution of current transactions between the two markets. Since November 12, 1985 it is calculated using the intervention rate.
3/ In relation to liabilities to the private sector at the beginning of the period.
4/ Through 1985, GDP in sucres was converted into U.S. dollars using the exchange rate implied by the 1971 purchasing power parity.
5/ Registered public and private debt of all maturities, including use of Fund resources.
6/ Includes an estimated US$91 million of unpaid debt service to official bilateral creditors, rescheduled under the aegis of the Paris Club in 1985.
7/ Amount projected to have been rescheduled under the aegis of the Paris Club in 1985.
8/ Gold valued at US$300 per troy ounce.

Ecuador: Summary of Financial Program

Main objectives and assumptions

1. A current account deficit of the balance of payments equivalent to less than 7 percent of GDP and an overall balance of payments deficit of no more than US$50 million in 1986.

2. Containment of the public sector deficit to the equivalent of 3.2 percent of GDP in 1986.

3. A buildup of public sector deposits in the Central Bank during 1986 of S/. 3.6 billion.

4. Reduction of the rate of increase in consumer prices from 24.4 percent during 1985 to 22.2 percent during 1986 on an end-of-period basis, and from 28 percent in 1985 to 23 percent in 1986 on average.

5. An increase of 1 percent in real GDP and of 13.5 percent in nominal GDP in 1986.

Principal Elements and Policies

External sector

1. Maintenance of the real exchange rate as a minimum at the same level as that reached at the end of January 1986 and at a level that will ensure, at the same time, observance of the overall balance of payments targets of the program.

2. Limits on outstanding public and publicly guaranteed external debt with maturity of 12 years or less, and sublimits on such debt with original maturities of up to and including one year.

3. Multiyear rescheduling of amortizations due to foreign commercial banks over the period 1986-89.

4. Rescheduling of debt service owed to official creditors falling due over the period from June 1, 1984 to December 31, 1987.

Fiscal

5. Maintenance of overall revenues of the public sector at 25 percent of GDP in 1986. The decrease in oil revenue is to be partly compensated by the increase in the sales tax and in cigarette taxes, additional customs revenue resulting from the lifting of the prohibition on automobile imports and the introduction of an exchange commission linked to an import deposit scheme. This exchange commission is a temporary measure to be eliminated by December 31, 1986.

6. Maintenance of tight control on overall expenditure. Current expenditures are projected to grow somewhat more rapidly than GDP, while capital expenditures are to be kept at 7.1 percent of GDP in 1986.

Monetary

7. Limits on the net domestic assets of the Central Bank of Ecuador of S/. 35 billion through June 30, 1986, of S/. 36 billion from July 1, 1986 through September 30, 1986, and of S/. 36.2 billion from October 1, 1986 through December 31, 1986.

8. Limits on central bank net credit to the public sector of S/. 83.4 billion through June 30, 1986, of S/. 83.9 billion from July 1, 1986 through September 30, 1986, and of S/. 84.5 billion from October 1, 1986 through December 31, 1986.

9. Reduction in the minimum denomination of the special certificates of deposit from S/. 1 million to S/. 750,000 before consideration of Ecuador's program by the Executive Board, and further to S/. 500,000 on or before December 31, 1986. A freeing by March 31, 1987 of interest rates on all time and savings deposits offered by financial intermediaries and on rates charged on all loans funded with these resources.

Ecuador--Stand-By Arrangement

Attached hereto is a letter with annexed memorandum, dated July 14, 1986 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 policies 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 of one year from August --, 1986 Ecuador will have the right to make purchases from the Fund in an amount equivalent to SDR 75.4 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 15.1 million until November 14, 1986, the equivalent of SDR 30.2 million until February 13, 1987, the equivalent of SDR 45.3 million until May 15, 1987, and the equivalent of SDR 60.4 million until August 14, 1987.

(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-one until purchases under this arrangement reach a total of SDR 32,434,092 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 6 and Table 1 of the memorandum 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 6 and Table 2 of the memorandum 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 6 and Table 3 of the memorandum annexed to the attached letter has not been observed; or

(iv) Ecuador fails to observe the intentions in paragraph 9 of the memorandum annexed to the attached letter not to incur any new external payments arrears during the period of the stand-by arrangement; or

(v) the intentions relating to the real effective exchange rate in the last sentence of paragraph 8 of the memorandum annexed to the attached letter are not being observed; or

(b) during any period after December 31, 1986 in which:

(i) the intention in paragraph 9 of the memorandum annexed to the attached letter of intent to eliminate the requirement of advance payment in sucres for the purchase of foreign exchange for import payments has not been observed; or

(ii) the intention in paragraph 7 of the memorandum annexed to the attached letter regarding the reduction of the minimum denomination requirement of the certificates of deposit to S/. 500,000 has not been observed, or

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

(d) after March 31, 1987 if the intention in paragraph 7 of the memorandum annexed to the attached letter of intent to permit financial intermediaries to offer, subject to the exception specified in that paragraph, interest rates on all time and savings deposits and charge rates on all loans funded with these resources which reflect supply and demand condition in the market; or

(e) during any period after December 15, 1986 until the review contemplated in paragraph 13 of the memorandum annexed to the attached letter has not been completed and pursuant to such review, suitable performance criteria for the remaining period of this stand-by arrangement have not been established or having been established, are not being observed; or

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

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

(ii) introduces or modifies multiple currency practices other than as described in paragraph 9 of the memorandum annexed to 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 she outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Ecuador's balance of payments and reserve position improves.

(b) Any 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 the repurchases 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 memorandum on economic policies attached to the letter of intent, Ecuador will consult the Fund on the adoption of any measures that may be appropriate at the initia-

tive 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
July 14, 1986

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosiere:

Economic conditions in Ecuador worsened in the early 1980s. Real GDP growth decelerated markedly while inflationary pressures increased. At the same time, the balance of payments position deteriorated sharply, and the country incurred external payments arrears. The weakening of the country's economic and financial situation reflected in part the impact of external developments and unfavorable weather conditions, but the situation was aggravated by an overvalued exchange rate and expansionary demand management policies.

Upon taking office in August 1984, the present Administration moved quickly to adopt an economic stabilization program for 1985 designed to strengthen the adjustment effort and secure restructuring of Ecuador's public external debt. The program, which was supported by a one-year stand-by arrangement from the Fund that became effective on March 11, 1985, contemplated a tight monetary policy and a further strengthening of the public sector policies. The program also envisaged the unification of the official exchange market and the adoption of a flexible exchange rate policy to support the achievement of balance of payments equilibrium in 1985, facilitate economic growth, and permit a gradual liberalization of the trade system.

As a result of the implementation of these policies, Ecuador has made considerable progress toward improving its financial and economic situation. The public sector's financial position has been turned around from a small overall deficit in 1984 to a surplus of about 2 percent of GDP in 1985, and the balance of payments recorded a surplus of US$85 million in 1985, including the elimination of all external payments arrears. Furthermore, the average rate of domestic inflation decelerated from 31 percent in 1984 to 28 percent in 1985.

The outlook for Ecuador's economy has now changed dramatically with the recent sharp decline in the price of its principal export commodity, petroleum. In this situation, the Government of Ecuador has framed a comprehensive adjustment program in the context of a strategy for maintaining balance of payments viability over the medium term, which is described in the attached memorandum on economic policy. The program was initiated in January 1986, when the fall in petroleum prices became evident, by adjusting the Central Bank exchange rate in the intervention market from S/. 96.50 per U.S. dollar to S/. 110 per U.S. dollar, by increasing the legal reserve requirement applicable to the commercial banks, and by increasing the sales tax. The adjustment program has been designed within the Government's overall strategy to reduce economic regulations and increase the reliance of the economy on market forces.

In the face of the sharp deterioration in Ecuador's terms of trade, the Government intends to keep Ecuador's economy open, and demand management policies, as well as exchange rate policies, will be aimed at maintaining an adequate degree of international competitiveness in order to promote the diversification of the economy's sources of foreign exchange and thus improve the conditions for economic 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 one-year stand-by arrangement in an amount equivalent to SDR 75.4 million. In light of the prevailing uncertainty with regard to the outlook for the price of petroleum, we would like to propose that the targets and ceilings for the period of the program falling in 1987 be established at the time of the mid-term review of the arrangement to be conducted later this year.

Sincerely yours,

Carlos Julio Emanuel
General Manager
Central Bank of Ecuador

Alberto Dahik
Minister of Finance
and Public Credit

Attachment

Memorandum on the Economic Policies of Ecuador

1. The decline in petroleum export prices from about US$26 per barrel in 1985 to a projected average of US$11.90 per barrel in 1986 will seriously affect Ecuador's export earnings and also its public sector revenues--in 1985 oil exports accounted for two thirds of total exports and produced about 50 percent of public sector revenues. In these circumstances, the objectives of the economic program of Ecuador are first to contain the deterioration in the country's overall financial situation through the tightening of monetary and fiscal policy and second to provide the necessary incentives to export diversification through the continued implementation of a flexible exchange rate policy.

2. The Government has estimated that in the absence of measures the operations of public sector would move from a surplus of almost 2 percent of GDP in 1985 to a deficit of about 8 percent of GDP in 1986. The Government does not consider a deficit of such a magnitude viable and, therefore, its fiscal program aims at containing the deficit of the public sector to the equivalent of slightly over 3 percent of GDP in 1986, through a combination of revenue measures and a curtailment of expenditure growth. As a result of these measures, which are outlined in more detail below, the decline in overall public sector revenue will be limited to nearly 4 percentage points of GDP, compared with a reduction of close to 7 percentage points of GDP in the absence of measures. Total expenditure is projected to increase by slightly over 1 percentage point of GDP, compared with an increase of over 3 percentage points of GDP without measures. Despite the increase relative to GDP--which reflects the sharp drop in the deflator because of the fall in oil prices--total outlays are projected to grow at a slower pace than domestic inflation.

3. Based on the existing arrangements for the payment of taxes and royalties, total revenue from the petroleum sector is expected to decline by nearly 7 percentage points of GDP to slightly over 8 percent of GDP in 1986. To offset in part this loss of revenue, in January of this year the Government increased the sales tax rate from 6 percent to 10 percent; in late March it introduced on a temporary basis an import deposit scheme which, through the application of an exchange commission, will generate fiscal revenue in addition to providing forward exchange coverage to importers; and it lifted the prohibition to import automobiles which will yield additional customs revenue. Furthermore, the Government has decided to reduce significantly from the amount originally budgeted for 1986 the subsidies granted to exporters through the issuance of tax credit certificates and has increased cigarette taxes. These measures taken together are estimated to yield the equivalent of close to 3 percent of GDP in 1986. In view of the weakening of the petroleum revenue base, the Government intends to reinforce its efforts to improve the collection of traditional taxes in 1986. Particular emphasis will continue to be given to improving the collection of income and sales taxes, and to continue to strengthen the valuation and control procedures at the Customs.

4. In addition to the revenue measures just described, which affect the Central Government, the Government has recently increased the fare structure of domestic airlines by about 30 percent and will continue its policy, effective since October 1985, of increasing electricity rates by 3 percent per month (before October 1985 electricity rates were adjusted by 2 percent a month). Also, a 1.5 percent monthly adjustment in water rates for the city of Guayaquil has been introduced and telephone installation charges have been recently raised by 50 percent.

5. The Government has adopted measures to cut back the amount of central government expenditures budgeted for 1986 by 5 percent, and through tighter control procedures it intends to further reduce the growth of actual outlays under the budget. In addition, directives have been given by the President to limit the expansion of outlays of the rest of the public sector. These measures are expected to limit the growth of total public sector outlays to about 18 percent, compared with a projected inflation rate of 23 percent and an increase of outlays of over 35 percent in 1985. Total current expenditure is projected to expand at the rate of 20.5 percent in 1986, notwithstanding an increase in interest payments of almost 35 percent, which mainly reflects the depreciation of the sucre. Excluding interest payments, current expenditure will decline in real terms by almost 5 percent. Given the adjustment required and the relative lack of flexibility in cutting back current outlays in the short term, it has become necessary also to reduce significantly the rate of growth of capital outlays, from an estimated 36 percent in 1985 to about 13 percent in 1986. To achieve this, the public investment program for 1986 concentrates on those projects which are in an advanced stage of execution, mainly in the energy sector, while postponing new projects which had been scheduled to begin this year. Also, net lending by the Social Security Institute will be reduced in 1986 by over 20 percent.

6. The implementation of the fiscal policies described above, together with the projected foreign financing, should permit the public sector to increase its net creditor position vis-a-vis the banking system by S/. 11 billion in 1986, or the equivalent of nearly 1 percent of GDP. Within a monetary program which contemplates a drawdown of US$50 million in net official international reserves in 1986, such a contraction of credit to the public sector allows for an increase in banking system credit to the private sector of about 12 percent. The monetary program for 1986 specifies ceilings on the net domestic assets of the Central Bank and on its net credit to the nonfinancial public sector, and quarterly targets for net official international reserves as detailed in the attached Tables 1, 2, and 3, respectively. In early 1986, when it became evident that Ecuador's external position would deteriorate markedly as a result of falling petroleum prices, the monetary authorities increased the legal reserve requirement applicable to demand deposits in the banking system by 4 percentage points to 28 percent. Following the adoption of the deposit scheme mentioned in paragraph 3, the authorities reduced such reserve requirement to 26 percent in early May. However, they are prepared to increase the reserve requirement again if it should

become necessary to ensure compliance with the program, and will in such a case consider introducing a reserve requirement on the certificates of deposit which are issued at market-determined interest rates.

7. The Government believes that there is a particular need to stimulate the growth of financial savings in the present circumstances, and to this end measures already have been adopted to enhance interest rate flexibility. Since 1985 commercial banks have been permitted to issue certificates of deposit at market-determined interest rates and since early 1986 they also have been permitted to extend certain medium- and long-term loans at variable interest rates. To increase interest rate flexibility, the Government will lower the minimum denomination of the special certificates of deposit from S/. 1 million to S/. 750,000 before consideration of Ecuador's program by the Executive Board, and further to S/. 500,000 on or before December 31, 1986. The banks will continue to extend loans funded with the proceeds from the placement of such certificates at freely determined interest rates. The authorities intend to go further in enhancing the flexibility of domestic interest rates by permitting on or before March 31, 1987 financial intermediaries to offer interest rates on all time and savings deposits and charge rates on all loans (funded with these resources) which reflect the supply and demand conditions in the market, except on loans to the private sector intermediated by the Central Bank at special rates of interest.

8. Since September 4, 1984, shortly after taking office, the present Government has brought about a substantial depreciation of the sucre, first by gradually moving transactions from the official market to the more depreciated intervention market and, after the official exchange market was unified at the intervention rate of the Central Bank on November 12, 1985, by devaluing the sucre by about 12 percent vis-a-vis the U.S. dollar on January 29, 1986. As a result of these actions, by February 1986 the real effective exchange rate had been depreciated somewhat beyond the level which prevailed in the early 1970s, before the onset of oil production and exports on a major scale. The Government of Ecuador considers the continued pursuit of a flexible exchange rate policy to be a crucial element of its economic program, particularly given the need to diversify Ecuador's sources of foreign exchange in the face of sharply lower oil export prices. The Government of Ecuador intends to maintain the real effective exchange rate as a minimum at the same level as that of the end of January 1986 and at a level that will ensure, at the same time, observance of the overall balance of payments targets of the program.

9. When the present Administration took office in August 1984, it was confronted with a low level of net official international reserves, and with external payments arrears. The arrears subsequently were eliminated, and the Government will not incur new arrears during the period of the requested stand-by arrangement. On September 4, 1984 the authorities removed most of the import prohibitions imposed in late 1982 and not removed in February 1983. All remaining prohibitions introduced in

1982 were eliminated during the 1985 except on most categories of automobiles. As mentioned earlier, the ban on automobile imports was lifted early in 1986, and certain of the import prohibitions imposed before 1982 which represent a relatively small amount of total imports, also were removed. In addition to lifting import prohibitions, the Government has taken a number of other measures in the area of the trade system during recent months: in 1985 the minimum financing period for imports was reduced from 180 days to 120 days for most categories of imports and the advance import deposit requirement was eliminated, and in January 1986 import duties were lowered and the import tariff dispersion was considerably reduced. However, as mentioned earlier, from March 21, 1986 the authorities have required that importers, at the time of applying for foreign exchange to make the 20 percent cash payment on imports, deposit in the Central Bank the sucre equivalent of the remaining 80 percent of import payments which are presently subject to the minimum import financing requirement of 120 days. The Central Bank charges a 25-30 percent commission to guarantee the exchange rate used for the conversion of these deposits, which according to the Government's estimates is sufficient to cover any exchange losses that the Central Bank may incur and to provide additional fiscal revenue. This deposit requirement was intended as a temporary measure to help compensate for the sharp fall in fiscal revenue, and in order to provide forward cover to importers. The Government intends to lift such requirement at the end of 1986. The Central Bank may decide to provide forward cover in 1987 but only as an optional service to importers and on a basis not designed to produce fiscal revenue.

10. The Government has eliminated the barter requirement which applied to certain transactions, and in early 1986 it reduced the number of items subject to prior import authorization. The Government will continue to refrain from restricting imports through the system of prior import authorizations; the import licensing system is being used for statistical purposes only. Having terminated a bilateral payments agreement with a Fund member in 1985, Ecuador presently maintains only two such agreements, under which outstanding balances are settled periodically in convertible currency. The Government does not intend to impose restrictions on payments or transfers for current international transactions or multiple currency practices, nor will new bilateral payments agreements be concluded which are inconsistent with Article VIII of the Articles of Agreement, and the authorities will not impose new or intensify existing restrictions on imports for balance of payments reasons.

11. During the previous ten years, Ecuador has made extensive use of foreign loans to finance its economic activity. The terms of such lending became less favorable during the first several years of the 1980s. At the end of 1982, the total outstanding external debt exceeded US$6 billion (60 percent of GDP), and in 1983 scheduled debt service payments amounted to about 100 percent of exports of goods and services. To alleviate the debt servicing problems, in recent years Ecuador has refinanced both public and private sector external debt with

commercial banks and under the aegis of the Paris Club. In 1985 Ecuador reached agreement with its external commercial bank creditors as well as with official bilateral creditors on multiyear refinancing arrangements for public debt. The agreement with the commercial banks covers the period 1985-89, and the agreement with official creditors covers the period 1985-87. These rescheduling arrangements have reduced Ecuador's debt servicing burden considerably. However, mainly as a result of the projected decline in export receipts, Ecuador's debt service ratio is estimated to increase to about 44 percent in 1986 compared with 31 percent in 1985. Despite the adjustment efforts to be made in 1986, the external borrowing requirement of the public sector this year is larger than had been anticipated earlier. While a considerable part of the increase will be covered by additional borrowing from official multilateral and bilateral sources, the program also contemplates new borrowing from foreign commercial banks of US$300 million in 1986 (US$150 million in a new oil-related credit facility and US$150 million through an increase in the utilization of trade credit lines). In total, Ecuador's outstanding medium- and long-term external public and registered private debt is projected to increase by 8 percent in 1986 to about US$8.4 billion (corresponding to some 80 percent of GDP).

12. On the assumption that the average export price of oil will be US$11.90 per barrel in 1986 and will then increase gradually to US$17.50 per barrel by 1991, Ecuador's balance of payments position will weaken considerably over the medium term compared to projections made earlier. The Government of Ecuador has framed its economic program for 1986 in the context of the revised medium-term outlook for oil prices. Thus, while considerable adjustment efforts will be made this year, the Government plans to continue the adjustment to the new external situation in 1987. Under this strategy, the authorities envisage that a modest amount of net borrowing from the commercial banks may be required also in 1987. At the same time, however, the Government will continue to pursue policies which will maximize Ecuador's recourse to credits from multilateral institutions. With the objective of keeping Ecuador's external debt manageable, limits have been established under the program on the outstanding public external debt with a maturity of up to and including 12 years, with a sublimit on debt with maturities of up to and including 1 year, as set forth in attached Table 4.

13. The authorities of Ecuador believe that the policies set forth in this memorandum are adequate to achieve the objectives of the program but will take any further measures that may become appropriate for this purpose. During the period of the requested stand-by arrangement, the authorities of Ecuador will periodically consult with the Fund in accordance with the Fund's policies on such consultations, about the progress being made in the implementation of the program described in this memorandum and about any policy changes considered to be appropriate for the achievement of its objectives. In this context, progress made in the implementation of the program, including the appropriateness of exchange rate policies, will be reviewed with the Fund before December 15, 1986. As part of this review, performance criteria for the period of

the stand-by arrangement falling in 1987 will be established as appropriate.

Attachments

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

(In billions of sucres)

Time Period	Limits
Up to June 30, 1986	35.0
July 1 - September 30, 1986	36.0
October 1 - December 31, 1986	36.2

1/ Defined as the difference between (1) currency issue (Especies Monetarias en Circulacion) and (2) net international reserves of the Central Bank. The definition of the net international reserves of the Central Bank is indicated in Table 3. For the purpose of these ceilings, the net international reserves of the Central Bank will be converted into sucres at the accounting rate of S/. 115 per U.S. dollar.

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

(In billions of sucres)

Time period	Limits
Up to June 30, 1986	-83.4
July 1 - September 30, 1986	-83.9
October 1 - December 31, 1986	-84.5

1/ For purposes of these limits, the 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 accounting rate of S/. 115 per U.S. dollar.

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

(In millions of U.S. dollars)

Date	Targets
June 30, 1986	113.0
September 30, 1986	130.0
December 31, 1986	146.0

1/ Defined as the difference between the foreign assets of the Central Bank and its external liabilities of up to one year, including obligations to the Fund and obligations to the Andean Reserve Fund and under the Santo Domingo Agreement. For the purpose of these targets, the external liabilities of up to one year exclude the deposits of international nonmonetary organizations in the Central Bank of Ecuador and the allocations of SDRs, but include external arrears. The gold holdings of the Central Bank will be valued at US$300 per ounce; and the accounts denominated in SDRs will be converted at the rate of US$1.09 per SDR.

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

(In millions of U.S. dollars)

Maturity Ranges	
Up to December 31, 1986	
Debt up to and including one year	278.3
Debt up to and including 12 years	6,975.0

1/ Excludes external debt of up to one year of the Central Bank of Ecuador.
2/ These limits will exclude the increase in public sector debt that might occur as a result of a rescheduling agreement with Paris Club creditors covering debt service falling due after June 1, 1984.

Table 10. Ecuador: Sectoral Origin of GDP

(In millions of sucres at 1975 prices)

	1980	1981	1982	1983	1984	Est. 1985	Proj. 1986
GDP at market prices	147,622	153,443	155,265	150,529	156,630	161,618	163,231
Agriculture and livestock	21,198	22,647	23,101	19,721	21,048	21,577	22,656
Petroleum and mining	15,070	15,992	15,527	19,711	22,063	23,431	24,275
Manufacturing	26,807	29,159	29,584	29,541	28,909	29,666	29,962
Construction	6,906	7,239	7,285	6,638	6,469	6,682	6,147
Commerce	24,789	25,032	25,562	22,468	23,743	24,337	24,337
Transport and communications	10,038	10,517	10,687	10,539	10,852	11,199	11,400
Electricity, gas, and water	1,115	1,117	1,241	1,443	1,729	1,893	1,890
Real estate	6,530	6,722	6,965	7,150	7,359	7,570	7,600
Public administration	13,709	14,000	14,224	14,423	14,610	14,946	14,200
Other	21,460	21,018	21,089	18,895	19,848	20,317	20,764

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

Table 11. Ecuador: Central Government Operations 1/

	1983	1984	1985 Rev. Proj. 2/	1985 Prel.	1986 Proj.
	(In billions of sucres)				
Total revenue	67.1	108.9	180.2	187.7	199.8
Petroleum revenue	30.3	49.3	102.0	107.6	72.7
Nonpetroleum revenue	36.8	59.6	78.2	80.1	127.1
Tax revenue	35.0	54.1	72.1	73.8	114.0
Taxes on income and profits	7.5	10.3	13.9	15.4	20.6
Property taxes	0.4	0.1	0.3	0.2	0.2
Taxes on goods and services	13.7	21.0	27.4	29.5	51.7
General sales tax	7.4	11.4	14.0	18.1	36.2
Selective excise taxes	6.3	9.6	13.4	11.4	15.5
Taxes on international trade	13.0	20.8	28.4	26.8	40.0
Import duties	12.1	19.1	26.3	24.3	40.0
Export duties	0.1	0.1	0.2	--	--
Exchange profits tax	0.8	1.6	1.9	2.4	--
Other taxes	1.0	1.9	2.3	2.8	3.1
CATs and IERAC (-)	-0.7	-0.1	-0.1	-1.0	-1.6
Nontax revenue	1.4	2.8	3.6	3.8	4.8
Transfers	0.5	2.7	2.5	2.5	8.4
Total expenditure	83.7	114.2	153.2	182.7	211.4
Current expenditure	69.3	96.0	128.2	147.8	175.3
Wages and salaries	16.5	19.6	24.3	25.3	29.8
Purchases of goods and services	2.8	3.6	4.4	4.4	3.6
Interest payments	14.4	18.8	33.9	30.7	39.8
Current transfers	28.9	40.7	48.3	63.6	75.0
Other current expenditures	6.7	13.3	17.3	23.8	27.1
Capital expenditure	14.4	18.2	25.0	34.9	36.1
Fixed capital formation	7.2	11.9	16.1	23.5	12.3
Capital transfers	7.2	6.3	8.9	8.8	14.5
Other capital expenditures	--	--	--	2.6	9.3
Overall surplus or deficit (-)	-16.6	-5.3	27.0	5.0	-11.6

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

	1983	1984	1985 Rev. Proj. 2/	1985 Prel.	1986 Proj.
	(In percent of GDP)				
Total revenue	12.1	13.9	17.8	17.9	16.8
Petroleum revenue	5.5	6.3	10.1	10.3	6.1
Nonpetroleum revenue	6.6	7.6	7.7	7.6	10.7
Tax revenue	6.3	6.9	7.1	7.0	9.6
Taxes on income and profits	1.3	1.3	1.4	1.5	1.7
Property taxes	0.1	--	--	--	--
Taxes on goods and services	2.5	2.7	2.7	2.8	4.3
General sales tax	1.3	1.5	1.4	1.7	3.0
Selective excise taxes	1.1	1.2	1.3	1.1	1.3
Taxes on international trade	2.3	2.6	2.8	2.5	3.4
Import duties	2.2	2.4	2.6	2.3	3.4
Export duties	--	--	--	--	--
Exchange profits tax	0.2	0.2	0.2	0.2	--
Other taxes	0.2	0.2	0.2	0.3	0.3
CATs and IERAC (-)	-0.1	--	--	-0.1	-0.1
Nontax revenue	0.2	0.4	0.4	0.4	0.4
Transfers	0.1	0.3	0.2	0.2	0.7
Total expenditure	15.1	14.5	15.2	17.4	17.7
Current expenditure	12.5	12.2	12.7	14.1	14.7
Wages and salaries	3.0	2.5	2.4	2.4	2.5
Purchases of goods and services	0.5	0.5	0.4	0.4	0.3
Interest payments	2.6	2.4	3.4	2.9	3.3
Current transfers	5.2	5.2	4.8	6.1	6.3
Other current expenditures	1.2	1.7	1.7	2.3	2.3
Capital expenditure	2.6	2.3	2.5	3.3	3.0
Fixed capital formation	1.3	1.5	1.6	2.2	1.0
Capital transfers	1.3	0.8	0.9	0.8	1.2
Other capital expenditures	--	--	--	0.2	0.8
Overall surplus or deficit (-)	-3.0	-0.7	2.7	0.5	-1.0

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

1/ Includes the Central Government Budget and FONAPAR.
2/ Revised projection prepared at the time of the review of the 1985 stand-by arrangement (EBS/85/202).

Table 12. 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)

	1981	1982	1983	1984	1985 Proj.	1985 Rev. Proj. 1/	1985 Prel.	1986 Proj.
Total	2,544	2,327	2,348	2,622	2,713	2,580	2,870	2,080
Petroleum crude	1,560	1,388	1,639	1,679	1,766	1,625	1,825	857
Volume 2/	45.4	42.7	59.3	61.3	65.4	65.0	70.5	72.0
Unit value 3/	34.4	32.5	27.6	27.4	27.0	25.0	25.9	11.9
Petroleum derivatives	166	120	94	156	138	139	101	43
Volume 2/	5.8	5.3	4.1	6.2	6.0	5.6	4.8	4.9
Unit value 3/	28.7	22.7	22.9	25.1	23.0	24.8	21.0	8.7
Bananas	216	213	153	136	158	150	190	216
Volume	1,277	1,261	910	924	1,041	1,000	1,074	1,250
Unit value	0.169	0.169	0.168	0.147	0.152	0.150	0.2	0.173
Coffee	106	138	149	175	169	169	184	310
Volume	56.0	73.9	75.0	72.0	70.0	72.0	76.1	84.0
Unit value	1.89	1.87	1.98	2.47	2.41	2.35	2.42	3.70
Cocoa, unprocessed	44	63	8	96	61	94	140	137
Volume	27.0	43.0	6.0	47.0	33.2	47.0	71.2	73.3
Unit value	1.62	1.47	1.40	2.05	1.84	2.00	1.97	1.90
Cocoa, processed	106	56	26	50	58	44	76	69
Volume	48.0	48.0	27.0	28.0	30.8	28.0	32.8	33.8
Unit value	2.20	1.16	0.98	1.77	1.87	1.56	2.31	2.00
Fish products	182	211	207	231	244	255	260	343
Other	164	138	72	99	119	104	94	105

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

1/ Revised projection prepared at the time of the review of the 1985 stand-by arrangement (EBS/85/202).
2/ In millions of barrels.
3/ U.S. dollar per barrel.

Table 13. Ecuador: Financial Relations with the World Bank

(In millions of U.S. dollars)

A. New commitments and disbursements

	New commitments		Disbursements	
	1985	Jan.-June 1986	1985	Jan.-May 1986
Total	106.0	153.5	40.3	34.3
Agriculture	100.0	--	8.7	22.4
Public sector	6.0	--	--	--
Industry	--	115.0	--	--
Energy	--	8.5	--	--
Small-scale enterprise	--	30.0	12.0	1.3
Transportation	--	--	5.2	3.0
Urban development	--	--	11.4	6.2
Financial sector	--	--	2.2	1.2
Education	--	--	0.2	0.2
Other	--	--	0.6	--

B. World Bank disbursements (net)

	1981	1982	1983	1984	1985
Net disbursements	46.4	25.8	26.2	49.4	12.2
Disbursements	54.1	44.4	46.0	66.6	40.3
Repayments	7.7	18.6	19.8	17.2	28.1

Source: World Bank.