

Ministerio de Economía y Finanzas

Ecuador Macroeconomic Outlook

February 10, 2022



Juntos
lo logramos





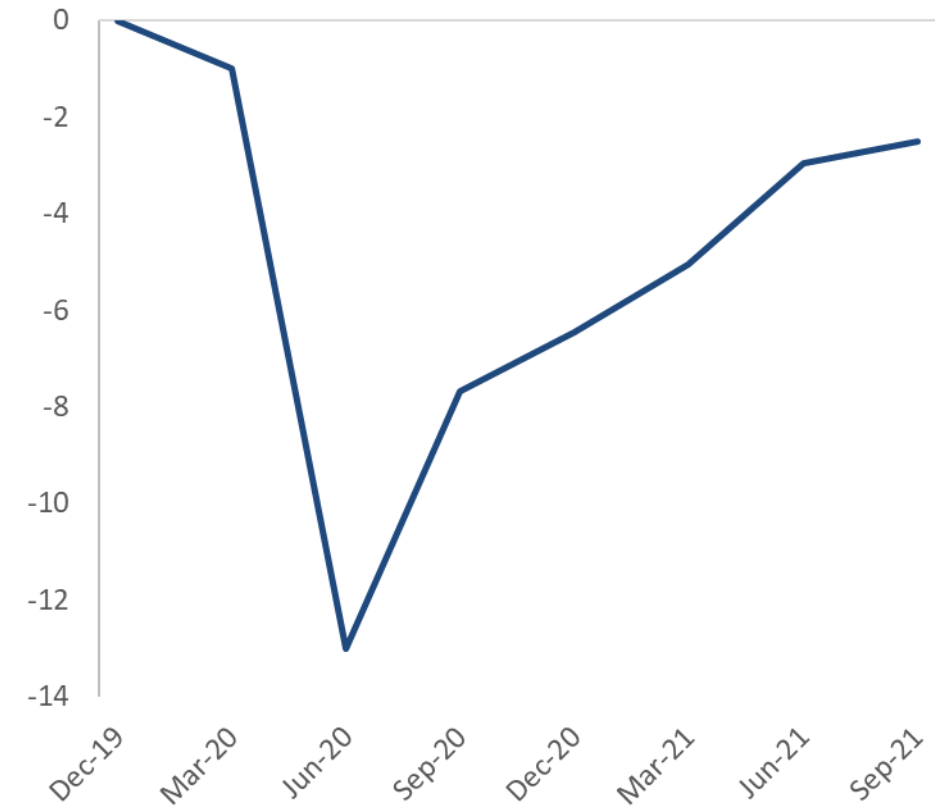
The economic rebound during 2021 was stronger than we initially foresaw. Real GDP growth could be around 4%, and production levels are slowly approaching pre-pandemic levels.



■ Real GDP growth (seasonally adjusted, % qoq).



■ Real GDP level versus the fourth quarter of 2019 (seasonally adjusted, %).



Source: BCE

Total sales in 2021 were higher than in 2019 thanks to strong performance in sectors such as commerce, manufacturing, agriculture, and mining. We expect other sectors, such as construction, to continue recovering in 2022 and beyond.



■ Total sales (% yoy)



■ Total sales by sector (%)

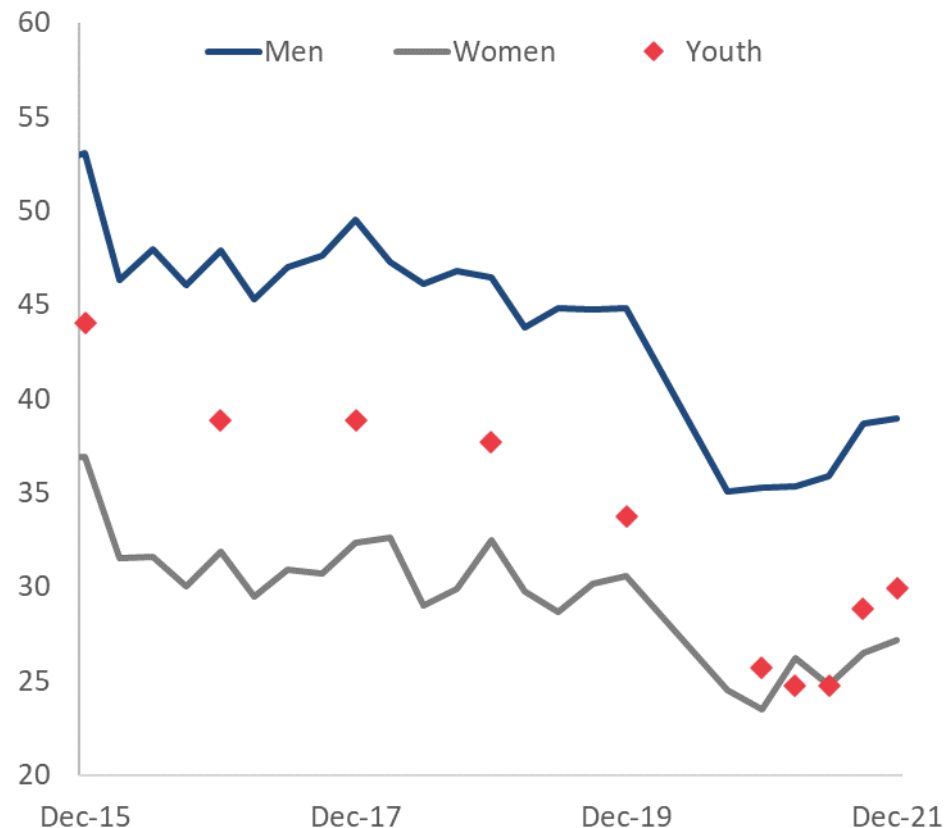
Sector	2021/2020	2021/2019
Commerce	17.9%	3.4%
Manufacturing	21.7%	7.3%
Mining	51.4%	11.3%
Agriculture	20.1%	15.4%
Transport	23.4%	-5.7%
Healthcare	24.5%	20.8%
Information and comm's	3.5%	-15.2%
Construction	21.1%	-17.8%
Other	14.5%	-8.2%
Total	20.8%	2.5%

Source: SRI, MEF. Last updated Feb 9, 2022. Data subject to revisions

The economy recovered 461 thousand adequate jobs in 2021, after losing 688 thousand adequate jobs in 2020. 350 thousand of these were generated between May and December, and 78 thousand people were affiliated to the social security.

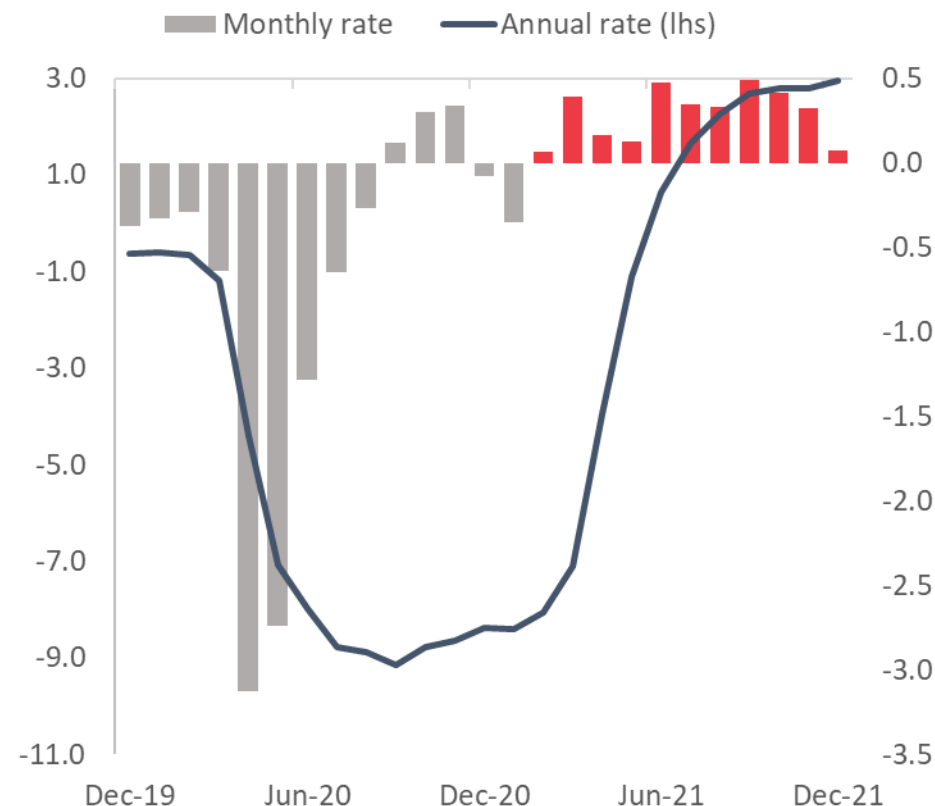


■ Adequate employment (%)



Source: INEC

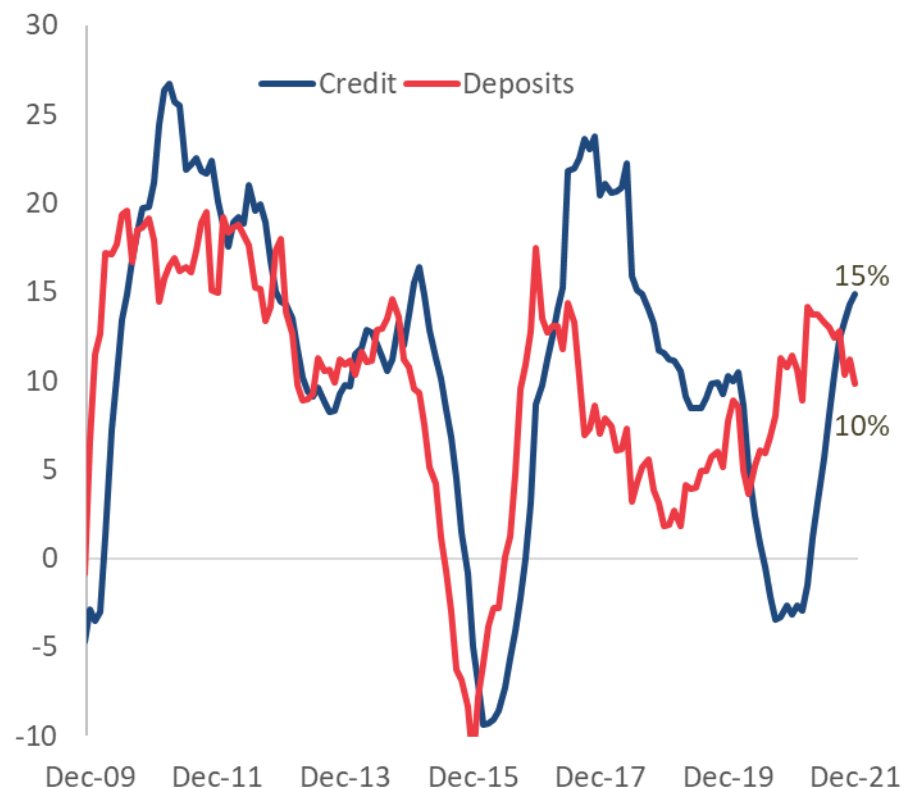
■ Registered formal employment (%)



Credit growth strengthened in 2021 and was accompanied by robust deposits growth, keeping a healthy funding relationship. Interest rates have declined for every type of loan, reflecting ample liquidity in the system and benefiting private sector balance sheets.



■ Credit and deposit growth of the banking system (% yoy)



■ Effective interest rates by segment (%)

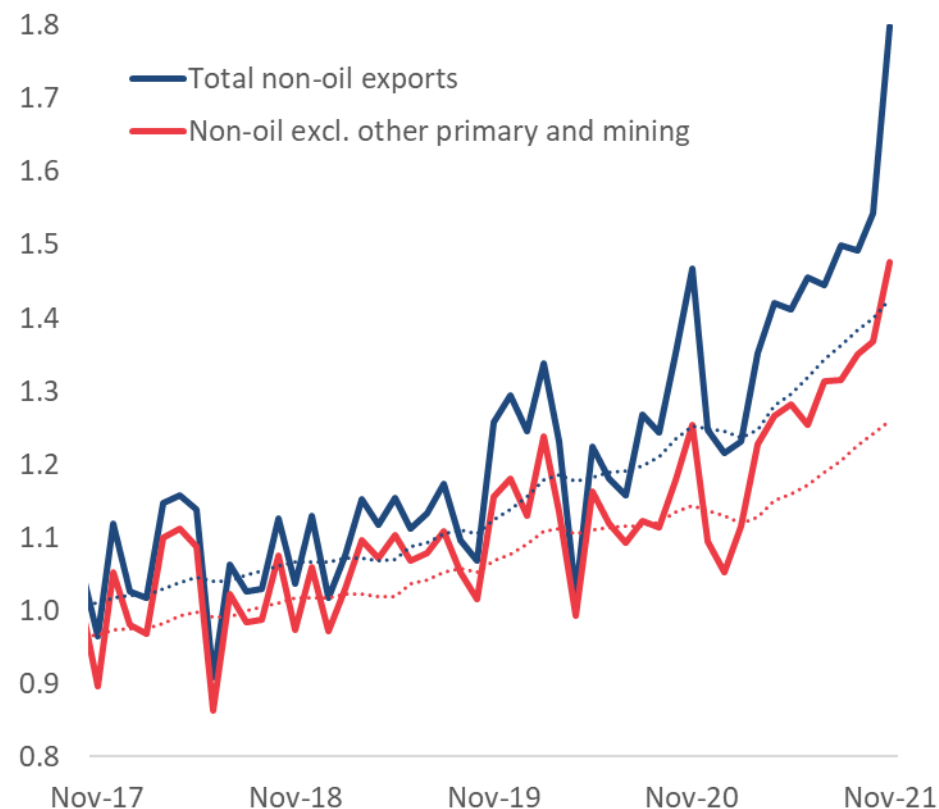
	May. 2021	Jan. 2022	Diff.
Corporate (over US\$5mn)	9.3	7.4	-1.9
Corporate (US\$1mn - US\$5mn)	10.2	9.3	-0.9
SMEs	11.8	10.2	-1.6
Consumption	17.3	16.2	-1.1
Education	9.5	8.6	-0.9
Social Education	7.5	5.5	-2.0
Real estate	11.3	9.8	-1.5
Public interest housing	5.0	5.0	0.0
Social housing	5.0	5.0	0.0
Microcredit (US\$20K - US\$100K)	23.5	20.2	-3.3
Microcredit (US\$5K - US\$20K)	25.5	20.5	-5.0
Microcredit (under US\$5K)	28.5	19.9	-8.6

Source: BCE, DATALAB Asobanca.

On the external front, non-oil exports continued to strengthen thanks to the development of the mining sector and to the recovery of the global economy, which also led to an important growth in remittances.

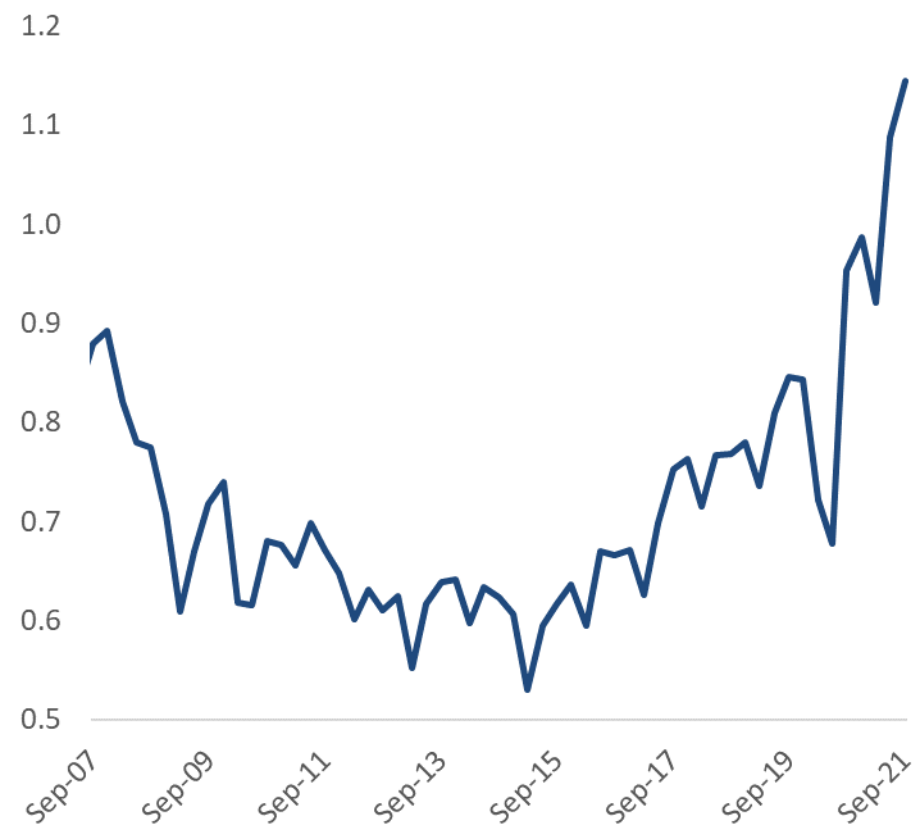


■ Non-oil exports (US\$bn, dotted lines are 12m average)



Source: BCE.

■ Remittances into Ecuador (\$bn, quarterly data)





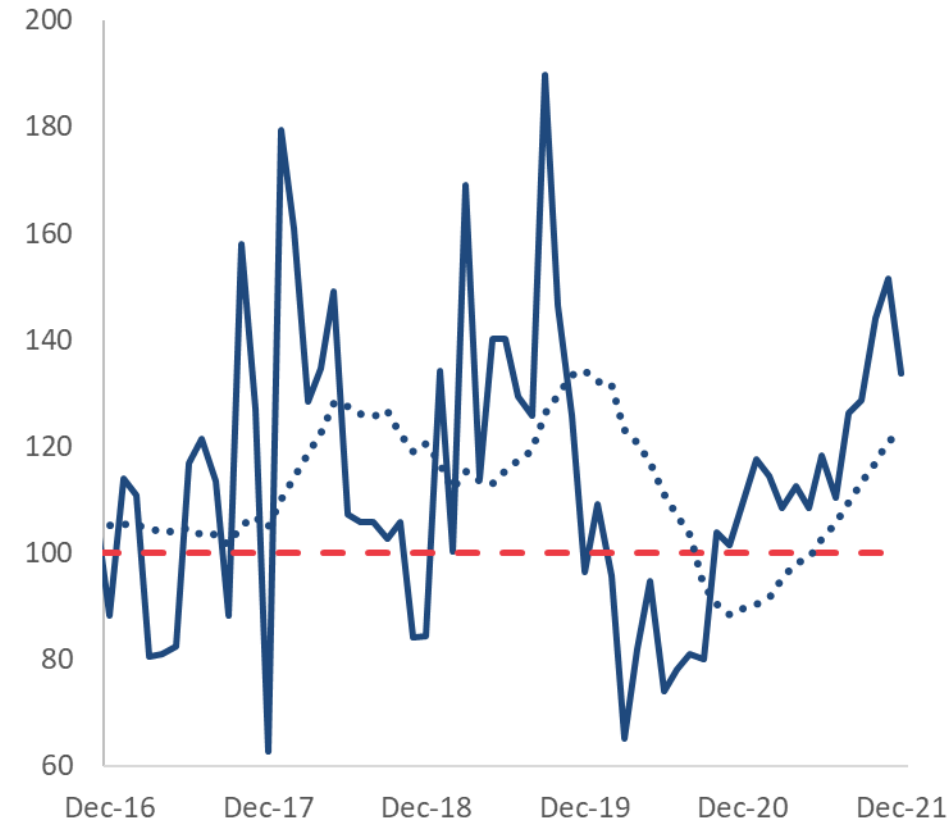
International reserves remain at historical highs, and the backing of private sector deposits by international reserves at the Central Bank consistently strengthened throughout 2021.



■ International reserves (US\$ bn)



■ IR coverage of private sector deposits at the CB (%), blue dotted line is 12m avg.)

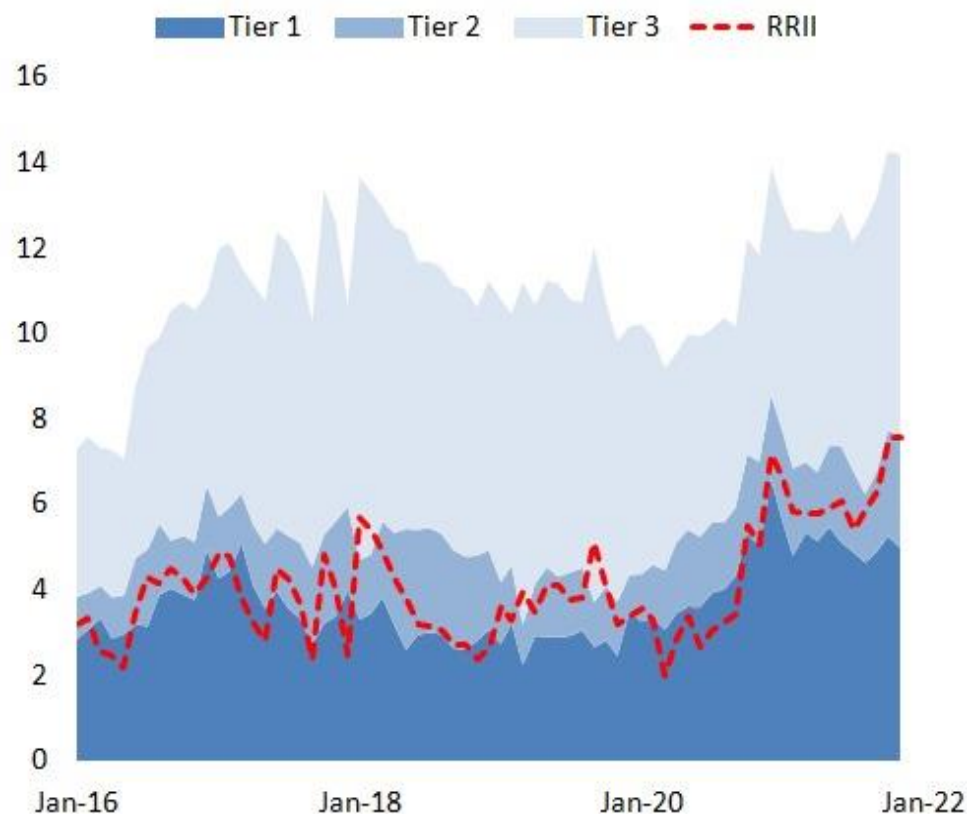


Source: BCE.

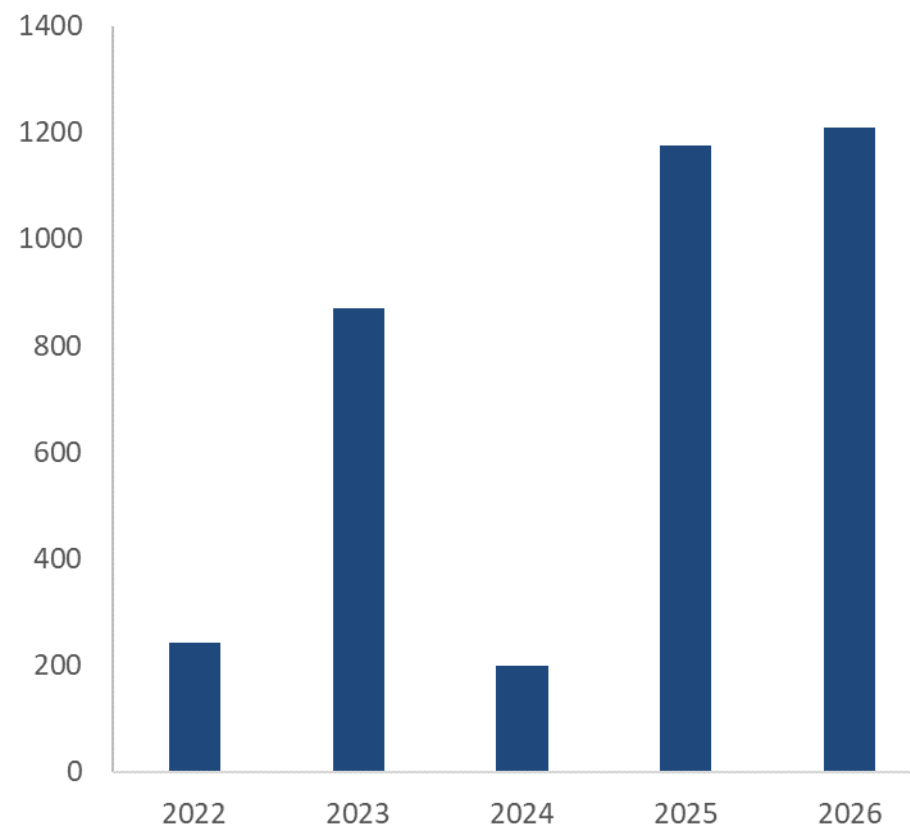
The repayment of central government and public banks' obligations to the Central Bank should contribute to further strengthen the Central Bank's balance sheet, as the relationship of international reserves relative public sector liabilities improve.



■ International reserve coverage of CB liabilities* (US\$ bn)



■ Repayment schedule of public debt held by CB (US\$ mn)



Source: BCE

Tier 1: Deposits of Other Depository Institutions, central bank titles, coin, and other private sector deposits

Tier 2: Deposits of Other Financial Institutions

Tier 3: Deposits of the Non-Financial Public Sector

On fiscal, the budget deficit reached US\$ 3.7bn (3.5 % of GDP), outperforming our 4.0% of GDP target thanks to stronger growth and tax collections, public spending efforts, and higher oil prices.



■ Budget balance of the central government (including financing of oil derivatives, CFDD)

	US\$ mn			% of GDP		
	2020	2021	Diff.	2020	2021	Diff.
Total revenues	18,578	23,665	5,087	18.8%	22.5%	3.7%
Oil revenues	3,808	7,400	3,592	3.9%	7.0%	3.2%
Budget	556	2,684	2,129	0.6%	2.5%	2.0%
CFDD (financing of oil derivatives)	3,252	4,716	1,464	3.3%	4.5%	1.2%
Non-oil revenues	14,770	16,265	1,495	14.9%	15.4%	0.5%
Taxes	12,366	13,633	1,267	12.5%	12.9%	0.4%
Transfers	493	538	45	0.5%	0.5%	0.0%
Other	1,911	2,095	183	1.9%	2.0%	0.1%
Total expenditures	25,683	27,401	1,718	26.0%	26.0%	0.0%
Permanent expenditures	20,576	20,135	-441	20.8%	19.1%	-1.7%
Salaries	8,592	8,217	-375	8.7%	7.8%	-0.9%
Goods and Services	4,851	6,164	1,314	4.9%	5.8%	0.9%
Budget	1,688	1,665	-24	1.7%	1.6%	-0.1%
CFDD (financing of oil derivatives)	3,163	4,500	1,337	3.2%	4.3%	1.1%
Interests	3,297	1,938	-1,359	3.3%	1.8%	-1.5%
Transfers and others	3,836	3,815	-21	3.9%	3.6%	-0.3%
Non-permanent expenditures	5,107	7,266	2,159	5.2%	6.9%	1.7%
Global balance	-7,105	-3,736	3,370	-7.2%	-3.5%	3.6%
Primary balance	-3,808	-1,798	2,011	-3.9%	-1.7%	2.1%

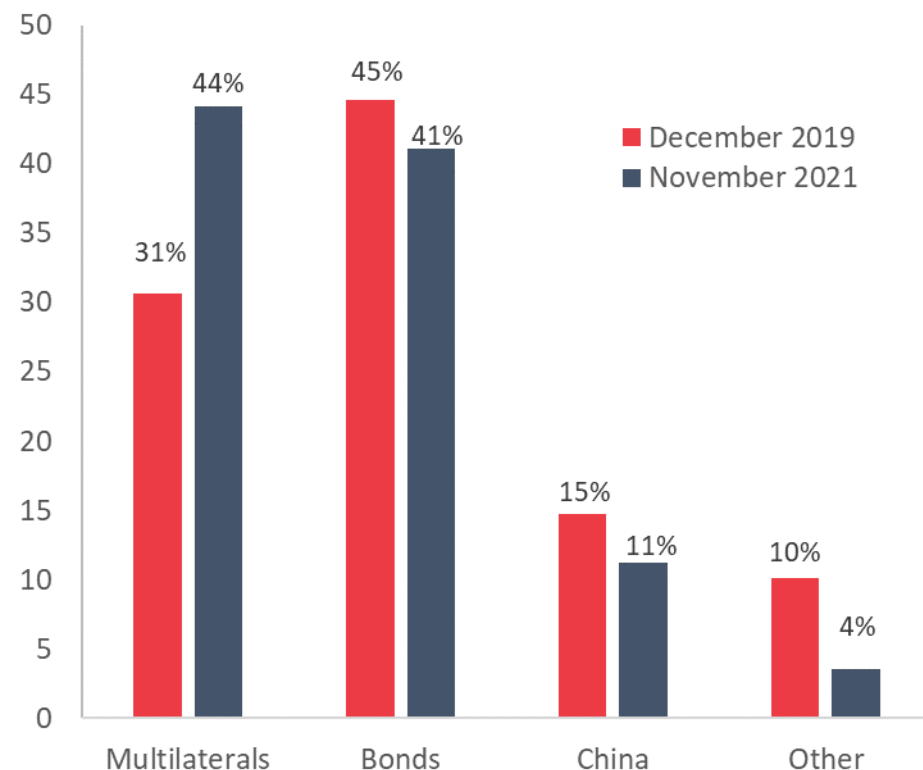
- Key factors that contributed to reduce the deficit in 2021:
 - ✓ Stronger tax collections.
 - ✓ Higher oil prices.
 - ✓ Lower interest expenses.
 - ✓ Lower wage bill.
 - ✓ Controlled spending in goods and services.
 - ✓ Non-permanent expenditures increased in response to pandemic-related needs and law-mandated transfers linked to higher revenues.
- Fiscal space generated during 2021 was used to recognize or pay down inherited obligations in order to strengthen the financial position of other non-financial public sector entities:
 - ✓ We recognized US\$ 421mn in obligations to the social security.
 - ✓ We paid US\$ 150mn to healthcare providers and US\$ 359mn to regional governments and state banks.

Source: MEF.

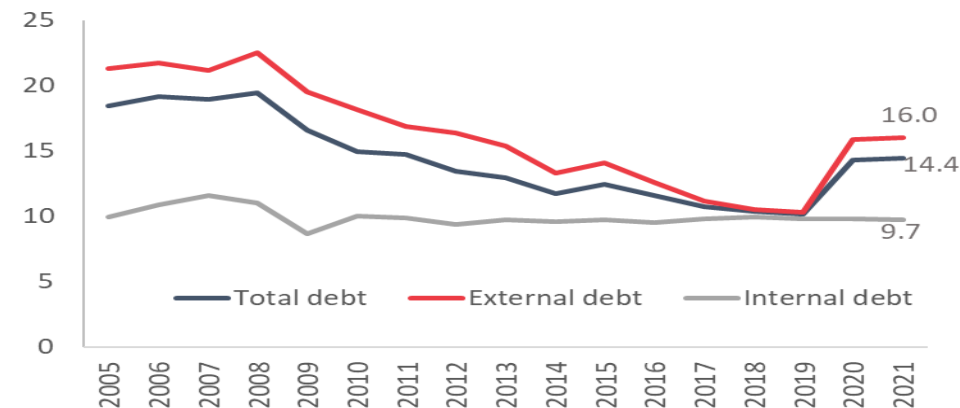
Our financing strategy during 2021 prioritized multilateral financing, which helped strengthen our post-restructuring debt profile further thanks to long-term financing at low interest rates. This strategy will continue in 2022.



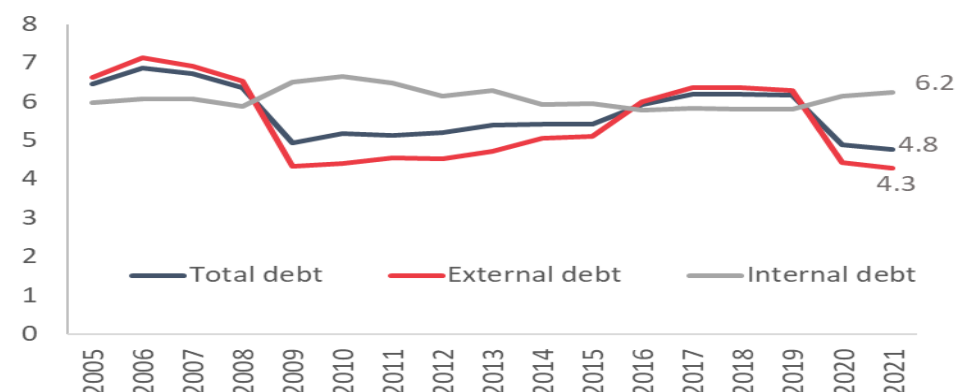
■ Structure of public external debt* (% of total)



■ Average contractual maturity of public debt* (años)



■ Average contractual interest rate of public debt* (%)



Source: MEF.

*Through November 2021.

The fiscal deficit should approach 2% of GDP in 2022. Our core financing strategy remains to maximize multilateral lending and deepen domestic markets in order to continue strengthening the sustainability of public finances.



■ 2022 Financing Plan of the National Treasury (US\$ mn)

Sources		Uses	
Initial availability	823	Deficit	2,302
Domestic debt	2,501	Domestic amortizations	2,154
Bonds	2,501	Bonds	2,154
External Ddbt	5,522	External amortizations	2,458
Multilaterals	3,792	Multilaterals	1,000
Bilaterals	380	Bilaterals	1,232
Private	1,350	Private	227
Other	2,410	Other	4,256
Accounts payable	1,610	Accounts payable	2,363
Liquidity management	800	Accounts payable (other inst)	1,000
		Liquidity management	700
		Other	193
		Final availability	86
Total Sources	11,256	Total Uses	11,256

- Key drivers to narrow the 2022 fiscal deficit:
 - Revenues obtained from the 2021 fiscal reform
 - Ongoing efforts to control fiscal spending.
- Financing strategy for 2022:
 - Maximize multilateral lending.
 - Deepen and develop the internal debt market.
 - Strengthen bilateral lending.
 - Private sector financing may include bond issuance if domestic conditions demand it, and if market conditions allow it.

Financing sources do not incorporate our continued efforts to increase multilateral lending and internal debt placements, nor the impact of a potential reprofiling of Chinese debt amortizations.
- Our financing strategy also includes recognizing, as much as possible, legacy obligations with public sector entities.

Source: MEF.

The government has a strong commitment to structural reforms. There is an ambitious reform pipeline underway aimed at improving long term macroeconomic fundamentals.



Administrative initiatives



- **Expenditure efforts**

- ✓ Attain efficiencies in public procurement, via standardized and more transparent purchases (e.g, through the use of electronic catalogs)
- ✓ Wage bill control through efficiency gains in the public sector
- ✓ Reshape of the public sector, identifying squandering, duplicity of processes, etc.



- **Enhanced transparency**

- ✓ Reclassification of permanent and non-permanent expenditures
- ✓ Publication of new debt statements
- ✓ Address legacy financial obligations



- **Enhancing efficiency in public enterprises**

- ✓ Conduct public banks' AQRs and mergers
- ✓ Audit Petroecuador's financial statements and complete the financial merger with Petroamazonas

The government has a strong commitment to structural reforms. There is an ambitious reform pipeline underway aimed at improving long term macroeconomic fundamentals.



Administrative initiatives



- **Development of the domestic debt market**

- ✓ Modernize the way domestic debt placements work
- ✓ Create a local yield curve with longer maturities
- ✓ Increase the depth and liquidity of the domestic debt market



- **Anticorruption efforts**

- ✓ Create a final beneficiaries public registry
- ✓ Interconnect databases among comptroller entities

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Prospective legislative initiatives



- **Investments' bill**

- ✓ Free-trade zones to incentivize new investments and employment growth
- ✓ Public-private partnerships to enhance the provision of public goods and services, while preserving fiscal consolidation objectives
- ✓ Capital markets' reform to modernize legislation to international standards



- **Labor market bill**

- ✓ Create formal employment opportunities for 7 of 10 Ecuadorians who are currently in the informal sector or unemployed



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