

# Ecuador Pro Forma Budget 2023 Brief Overview

November, 2022

# Macroeconomic Assumptions: higher growth expectations in GDP and oil revenues

	Proforma 2022	Proforma 2023	Change
<b>Gross Domestic Product</b> (In millions of USD)	109,618.6	122,369.7	11.6%
<b>Real GDP growth</b> (%)	2.9	3.1	0.2
<b>Variation GDP price deflator</b> (%)	2.6	2.4	-0.2
<b>Average Annual Inflation</b> (%)	1.3	2.76	1.48
<b>Volume of oil production</b> (Million barrels)	179.9	187.9	4.5%
<b>Average export price of crude oil</b> (USD/barril)	59.2	64.8	9.5%

Source: Macroeconomic Forecast 2023, Central Bank of Ecuador  
Macroeconomic Programing 2022-2026  
(<https://www.finanzas.gob.ec/programacion-macroeconomica%ef%bf%bc/> )  
Undersecretary of Fiscal Policy, for Oil related information

# Revenue main drivers in 2023: higher tax collection and oil production

(In millions of U.S. dollars)

	2022			2023	Change	
	Initial a	Modified* b	Accrual	Pro Forma c	Absolute c-b	Relative c-b/b
<b>Revenue</b>	<b>19,791</b>	<b>21,449</b>	<b>16,464</b>	<b>23,662</b>	<b>2,213</b>	<b>10%</b>
<b>Current revenue</b>	<b>16,825</b>	<b>17,874</b>	<b>13,869</b>	<b>18,615</b>	<b>740</b>	<b>4%</b>
Taxes	13,418	14,374	11,139	15,692	1,318	9%
Fees and Contributions	1,690	1,708	1,422	1,828	120	7%
Sale of Goods and Services	38	47	33	106	60	128%
Rent and Fines	445	470	335	414	(55)	-12%
Current transfers and donations	1,210	1,245	864	542	(704)	-57%
Other revenue	24	31	76	33	3	8%
<b>Non-current revenue</b>	<b>2,966</b>	<b>3,574</b>	<b>2,595</b>	<b>5,047</b>	<b>1,473</b>	<b>41%</b>
Sale of non-financial assets	985	742	7	1,040	298	40%
Capital transfers and investment	1,981	2,205	2,119	3,674	1,469	67%
Wealth tax for post-pandemic economic growth**	-	628	469	334	(294)	-47%

Source: Undersecretary of Budget, eSIGEF Financial Administration System, data as at September 2022.

Notes: The CFDD account is excluded from the analysis to avoid distortions in the 2022-2023 comparison.

\* Modified column shows the initial budget plus all the modifications (increases or reductions) authorized and registered in the budget.

\*\* Wealth tax for post-pandemic economic growth is considered non-permanent income due to its temporary application, during FY 2022 and FY 2023 only.

# Revenue Notes

- Oil revenue: Based on a greater production expectation specially in the ITT block 43, in Ishpingo field, the oil revenue is estimated in USD 3.4 billion for 2023, assuming an average oil price of USD 64.8 per barrel.
- Fuel subsidies: As an oil producing and exporting country, Ecuador Budget shows fuel subsidies as reductions in its revenue, unlike the conventional budget of an importing country, which would register subsidies as increments in its expenses. Fuel subsidies in Ecuador are estimated in USD 2.7 billion for 2023.
- Tax revenue: The 2021 tax reform will just have an impact on tax collection in 2023, which mainly explains the relative growth in tax revenue shown in the previous chart.
- Trade tariffs: also expected to increase due to higher volumes of imported goods and services in 2023.
- Value Added Tax (VAT): would be positively affected by a higher level of inflation.
- Taxes with the highest growth in 2023 Budget are the VAT, reaching an amount of USD 7.2 billion, and the Income Tax, which amounts to USD 4.8 billion, having a combined share of 74.7% of total revenue.

# Higher expenses required to comply with recent regulations entered into force

(In millions of U.S. dollars)

	2022			2023	Change	
	Initial a	Modified* b	Accrual	Pro Forma c	Absolute c-b	Relative c-b/b
<b>Expenses</b>	<b>23,574</b>	<b>24,433</b>	<b>16,081</b>	<b>26,292</b>	<b>1,859</b>	<b>8%</b>
<b>Current expenses</b>	<b>17,564</b>	<b>18,107</b>	<b>12,953</b>	<b>20,075</b>	<b>1,969</b>	<b>11%</b>
Wages and Salaries	9,095	9,225	6,489	9,887	662	7%
Consumer goods and services	1,858	2,176	1,211	2,406	230	11%
Financial expenses	2,233	2,223	1,678	2,510	287	13%
Other current expenses	159	159	81	142	(17)	-11%
Current transfers	4,220	4,324	3,495	5,131	807	19%
IESS (social security)	1,579	1,726	1,636	2,355	629	36%
ISSFFA (army s, security)	538	509	334	529	20	4%
ISSPOL (police s, security)	137	169	167	225	56	33%
Social Transfers (bonos)	1,256	1,257	938	1,307	50	4%
Others	710	663	419	715	52	8%
<b>Non-current expenses</b>	<b>6,010</b>	<b>6,326</b>	<b>3,128</b>	<b>6,217</b>	<b>(109)</b>	<b>-2%</b>
Durable goods	1,018	836	14	648	(188)	-22%
Capital transfers	3,121	3,487	2,420	3,697	210	6%
Local governments	2,929	3,189	2,338	3,357	168	5%
Other transfers	192	279	279	340	61	22%
Public Investment Plan	1,871	2,003	694	1,871	(131)	-7%
<b>Primary Balance</b>	<b>(1,550)</b>	<b>(761)</b>	<b>2,061</b>	<b>(120)</b>		
<b>Overall Balance</b>	<b>(3,783)</b>	<b>(2,984)</b>	<b>383</b>	<b>(2,630)</b>		
<b>Overall Balance to GDP ratio</b>	<b>-3.5%</b>	<b>-2.6%</b>	<b>0.3%</b>	<b>-2.1%</b>		

Source: Undersecretary of Budget, eSIGEF Financial Administration System, data as at September 2022,

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# Deficit expectations

- Due to the latest reform of the Organic Law of Intercultural Education, it has been necessary to allocate a larger Budget to cover salaries and other legal benefits for public servants and workers, mainly teachers.
- Higher expenses are also budgeted to cover health professionals and rural service contracts in the Ministry of Public Health; as well as troops and officers of the Armed Forces, National Police and Transit Commission of Ecuador, among others.
- The increment of financial expenses (interest, discounts, commissions and other charges on internal or external debt) respect to previous year is mostly explained by the increase in interest payments to the Social Security, and less so by the increase in international interest rates that has affected variable-rate credit operations from multilaterals.
- Current transfers and donations amount to USD 5.1 billion, of which pensions paid to Social Security, ISSFA and ISSPOL represent USD 3.1 billion.
- The second most representative group in current transfers is social transfers with an allocation of USD 1.3 billion
- From all this, we obtain an Overall Balance expectation of negative USD 2.6 billion for 2023.



# Total financing resources amount to USD 7.6 billion in 2023

(In millions of U.S. dollars)

	2023 Pro Forma
<b>Amortizations</b>	<b>4,606</b>
Internal amortizations	2,898
External amortizations	1,708
Multilaterals	879
Governments	636
International markets	192
<b>Others</b>	<b>2,640</b>
<b>Ending balance</b>	<b>109</b>
<b>Deficit (overall balance 2023)</b>	<b>2,630</b>
<b>Initial Balance</b>	<b>356</b>
<b>Disbursements</b>	<b>7,577</b>
Internal financing	3,844
External financing	3,733
Multilaterals	2,477
Governments	619
International markets	637
<b>Others</b>	<b>2,050</b>
<b>Net Financing</b>	<b>2,382</b>

Source: Undersecretary of Budget, eSIGEF Financial Administration System

Notes: Initial and ending balances refer to registered cash balances in the Single Current Account of the National Treasury