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ECUADOR

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP	19.7	13.3	13.5
Real GDP Growth (pct)	0.4	-8.0	1.9
GDP by Sector:			
Agriculture, Fishing	-1.4	2.7	-0.7
Petroleum, Mining	-3.3	-1.4	8.6
Manufacturing	0.4	-9.2	1.5
Commerce, Hotels	0.9	-11.3	2.3
Finance, Business Services	1.9	3.5	1.1
Government, Other Services	1.2	-11.9	-8.3
Per Capita GDP (US$)	1,619	1,164	915
Labor Force (estimate - 000s)	3,441	3,880	3,900
Urban Unemployment (pct)	11.5	16.9	13.2
Money and Prices (annual percentage growth):			
Money Supply (M2) /2	43.0	N/A	N/A
Consumer Price Inflation/2	45.0	60.0	77.0
Exchange Rate (Sucres/US$ annual average)			
Central Bank	5,442	11,165	N/A
Market	5,445	11,182	N/A
Balance of Payments and Trade:			
Total Exports FOB 3/	4.2	2.8	4.7
Exports to U.S. 3/	1.7	1.1	1.5
Total Imports CIF 3/	5.2	1.7	2.4
Imports from U.S. 3/	1.7	0.6	0.8
Trade Balance 3/	-1.0	1.1	2.3
Balance with U.S. 3/	0.0	0.5	0.7
External Public Debt	13.3	13.6	15.7
Debt Service Payments/GDP (pct)	22.4	21.0	33.4
Current Account Deficit/GDP (pct)	-11.0	2.6	17
Fiscal Balance/GDP (pct)	-5.9	-6.0	-3.9
Gold and Foreign Exchange Reserves	1.7	1.3	N/A

Aid from U.S. (FY-US$ millions)	12.5	16.4	16.8
Aid from Other Sources (US$ millions)	N/A	N/A	N/A

1/ 2000 GDP figures are Central Bank of Ecuador estimates as of October 2000.
2/ Ecuador adopted the U.S. dollar as its official currency in January 2000. 2000 inflation figure year-to-date through September 2000.
3/ All 2000 figures based on IMF estimates.

Source: Central Bank of Ecuador and IMF data.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production and exports of bananas, shrimp and other primary agricultural products. Industry is largely oriented to servicing the domestic market but is becoming more export-oriented. Deteriorating economic performance in 1997-1998 culminated in a severe economic and financial crisis in 1999. The crisis was precipitated by a number of external shocks, including the El Nino weather phenomenon in 1997, a sharp drop in global oil prices in 1997-1998, and international emerging market instability in 1997-1998. These factors highlighted the Government of Ecuador's unsustainable economic policy mix of large fiscal deficits and expansionary money policy and resulted in an 8 percent contraction of GDP, annual year-on-year inflation of 60 percent and a 65 percent devaluation of the national currency in 1999.

On January 9, 2000 the Administration of President Jamil Mahuad announced its intention to adopt the U.S. dollar as the official currency of Ecuador to address the ongoing economic crisis. Subsequent protest led to the removal of Mahuad from office and the elevation of Vice President Gustavo Noboa to the Presidency.

The Noboa government confirmed its commitment to dollarize as the centerpiece of its economic recovery strategy. The government also entered into negotiations with the International Monetary Fund (IMF), culminating in the negotiation of a 12-month Stand-by Arrangement with the Fund. Additional policy initiatives include efforts to reduce the government's fiscal deficit, implement structural reforms to strengthen the banking system and regain access to private capital markets.

The government has introduced measures that have resulted in a sharp shift in its fiscal balance from a deficit of 1.2 percent of GDP in 1998 to a primary surplus of 4 percent in 1999. However, the overall deficit remained at six percent of GDP in 1999, due mainly to the rising cost of debt service following the devaluation of the sucre and bond issues to fund financial sector recapitalization. Fiscal performance in 2000 to date has been better than expected, due largely to increasing oil prices and improved revenue collections.

2. Exchange Rate Policy

Up until February of 1999, the Central Bank maintained a crawling peg exchange rate system. At that time, continued pressure on the currency led the Central Bank to abandon its crawling peg and float the sucre. Continued expansionary monetary policy resulted in year-on-year devaluation of 65 percent.

In March 1999 the Ecuadorian Congress codified dollarization with the approval of the "Law of Economic Transformation." Among other things, the law declared the U.S. dollar as the legal tender of Ecuador and directed the central bank to cease issuing *sucres* except for coins in denominations not exceeding one dollar. The law mandates that all currency in circulation, bankers' deposits at the central bank, and sucre-denominated central bank stabilization bonds be fully backed by freely disposable international reserves.

The legislation envisaged a six-month window for holders of sucres to exchange their liabilities into dollars at the rate of 1 dollar to 25,000 sucres. Despite a few bumps along the way, the transition to dollarization proceeded relatively smoothly and on September 10, 2000, the sucre ceased to be legal tender in Ecuador. Inflation has begun to slow but still remains high as the residual effects of dollarization work their way through the system. Year-to-date inflation was 77.7 percent for the first nine months of 2000.

3. Structural Policies

The current government's economic program contains an ambitious structural reform component. Ecuador has committed to undertake reforms to liberalize its labor market, increase investment (including by private firms) in the oil sector, and to increase private sector participation in the electricity and telecommunication sectors. Other structural reform measures focus on the need to reduce fuel subsidies and better target poverty assistance to the most needy. Future reform efforts will address the need to revise the tax structure to increase revenue, diversify the tax base away from oil revenue and increase the efficiency of the tax service. However, progress on structural reforms has proceeded very slowly.

4. Debt Management Policies

In August 1999 the Government of Ecuador announced that it could no longer afford to service its debt and that it would not meet a payment on its Discount Brady Bonds, making Ecuador the first country to default on Brady Bonds. In October 1999 Ecuador also failed to meet a coupon payment on its Eurobonds. By end-1999 external payment arrears were $925 million, of which 75 percent was owed to Paris Club creditors. The total stock of debt at end-1999 stood at $16.1 billion (120 percent of GDP).

Ecuador negotiated a reorganization of its Brady Bonds and euro obligations in August 2000. The agreement involved the swap of $3.49 billion in euro and Brady Bond obligations for $3.95 billion in new debt, issued in two tranches maturing in 2012 and 2030.

In September 2000 Ecuador finalized a debt restructuring agreement with the Paris Club on debts due through April 30, 2001. The deal allowed Ecuador to consolidate $880 million in arrears, with a view toward further rescheduling on debts coming due after April 30, 2001. The deal was concluded on so-called "Houston terms", with debts being subject to repayment over periods ranging from 18 to 20 years, with grace periods ranging from 3 to 10 years, depending on the type of debt.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990s, resulting in a reduction in tariffs, elimination of many nontariff surcharges, and enactment of an in-bond processing industry (maquila) law. Ecuador joined the Andean Pact in 1995 and the World Trade Organization (WTO) in 1996.

Upon accession to the WTO, Ecuador set most of its tariff rates at 30 percent or less. The current average applied tariff rate is around 13 percent ad valorem. Ecuador subscribes to the Andean Community's common external tariff (CET), which has a four-tiered structure: 5 percent for most raw materials and capital goods; 10-15 percent for most intermediate goods, and 20 percent for most consumer goods. Through Tariff Rate Quotas (TRQs), Ecuador agreed to provide market access at non-restrictive tariff rates, while providing a measure of protection for politically sensitive commodities.

As an emergency fiscal measure, the Government of Ecuador imposed a temporary import surcharge of two to five percent in March 1998. The surcharge was raised to 2 to 10 percent in February 1999, in response to the government's worsening budget situation. The tax is applied in a non-discriminatory manner to all imports.

Customs procedures can be difficult but are not generally used to discriminate against U.S. products. The government has yet to implement its commitment not to use sanitary and phytosanitary restrictions to block the entry of certain imports. Import bans on used clothing, used cars and used tires have yet to be eliminated, despite Ecuador's promise in its WTO accession protocol to do so by July 1996. Recently proposed legislation would lift the ban on the import of used cars, but has yet to be passed into law.

Ecuador continues to impose certain formal and informal trade restrictions. All importers must obtain a prior license from the Central Bank, obtainable through private banks. Licenses are usually made available. Imports of psychotropic medicines and certain precursor chemicals used in narcotics processing require prior authorization from the National Drug Council (CONSEP). Although a discriminatory 1976 law regarding the termination of exclusive distributorship arrangements was repealed in 1997, the U.S. government remains concerned that the law will continue to be applied in pending court cases or against U.S. companies that have existing contracts that were in force prior to the repeal.

Foreigners may invest in most sectors, other than public services, without prior government approval. There are no controls or limits on transfers of profits or capital. A one percent financial transactions tax was imposed in February 1999 as an emergency fiscal measure. In November 1999, the tax was reduced to 0.8 percent and made deductible against income tax for individuals. Legislation passed in August 2000 will eliminate the tax effective January 1, 2001.

Government procurement practices are not sufficiently transparent but do not usually discriminate against U.S. or other foreign suppliers. Bidding for government contracts can be cumbersome and time-consuming. Bids for public contracts are often delayed or cancelled. Many bidders object to the requirement for a bank-issued guarantee to ensure execution of the contract.

6. Export Subsidies Policies

Ecuador does not have any explicit export subsidy programs.

7. Protection of U.S. Intellectual Property

Ecuador is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Bern Convention, Rome Convention and the Phonograms Convention. In 1999, the U.S. Trade Representative upgraded Ecuador from the "Special 301" Priority Watch List to the Watch List in recognition of significant improvements in Ecuador's protection of intellectual property rights.

Ecuador's protection of intellectual property is based primarily on the 1998 Intellectual Property Law, which protects patents, trademarks, copyrights and plant varieties. The law generally meets the standards specified in the WTO TRIPs Agreement. Although a 1996 Andean Pact court decision overturned Ecuadorian regulations that provided transitional or "pipeline" protection for previously unpatentable products, the government approved 12 "pipeline" patents in 1998. In 1999 the Andean Community imposed sanctions on Ecuador on the grounds that Ecuador had violated the Community's patent regime.

Ecuador and the United States signed a bilateral Intellectual Property Rights Agreement (IPRA) that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit designs, and trade secrets. Although the Ecuadorian Congress has not ratified the IPRA, it enacted legislation in 1998 that generally harmonizes local law with the Agreement's provisions (with the notable exception of "pipeline" protection).

Enforcement of intellectual property rights has improved in Ecuador, but copyright infringement still occurs, and there is widespread local trade in pirated audio and video recordings, as well as computer software. Local registration of unauthorized copies of well-known trademarks has been a problem in the past, but monitoring and control of such registrations have improved. Some local pharmaceutical companies produce or import patented drugs without licenses. Ecuadorian flower growers persuaded a local judge to suspend the patent and trademark rights of U.S. and other foreign flower breeders, which could lead to U.S. action to ban imports of flowers grown in Ecuador.

In September 2000 the Andean Community trade ministers approved Decision 486, which will enter into force on December 1, 2000 and will replace Decision 344 as the Andean Community's Common Industrial Property Regime. Decision 486 is a notable improvement over Decision 344 in bringing the region's IPR regime into conformance with WTO standards.

However, Decision 486 appears to have shortcomings with respect to protection of data confidentiality and protection for second use patents.

8. Worker Rights

a. *The Right of Association*: Under the Ecuadorian Constitution and Labor Code, most workers in the parastatal sector and private companies enjoy the right to form trade unions. Public sector workers in non-revenue earning entities, as well as security workers and military officials, are not allowed to form trade unions. Less than 12 percent of the labor force, mostly skilled workers in parastatal and medium-to-large-sized industries, is unionized. Except for some public servants and workers in some parastatals, workers by law have the right to strike. Sit-down strikes are allowed, but there are restrictions on solidarity strikes. Ecuador does not have a high level of labor unrest. Most strike activity involves public sector employees.

b. *The Right to Organize and Bargain Collectively*: Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The labor code prohibits discrimination against unions and requires that employers provide space for union activities. The Labor Code provides for the resolution of conflicts through a tripartite arbitration and conciliation board process. Employers are not permitted to dismiss permanent workers without the express permission of the Ministry of Labor. The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector.

c. *Prohibition of Forced or Compulsory Labor*: Compulsory labor is prohibited by both the constitution and the Labor Code and is not practiced.

d. *Minimum Age for Employment of Children*: Persons less than 14 years old are prohibited by law from working, except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their parents or guardian to work. In practice, many rural children begin working as farm laborers at about 10 years of age, while poor urban children under age 14 often work for their families in the informal sector.

e. *Acceptable Conditions of Work*: The Labor Code provides for a 40-hour work week, two weeks of annual vacation, a minimum wage and other variable, employer-provided benefits such as uniforms and training activities. The minimum wage is set by the Ministry of Labor every six months and can be adjusted by Congress. Mandated bonuses bring total monthly compensation to about $110 (or fifty cents per hour for contract workers). The Ministry of Labor also sets specific minimum wages by job and industry so that vast majority of organized workers in state industries and large private sector enterprises earn substantially more than the general minimum wage. The Labor Code also provides for general protection of workers' health and safety on the job and occupational health and safety is not a major problem in the formal sector. However, there are no enforced safety rules in the agricultural and informal mining sectors. Recent economic reform legislation eased restrictions on the hiring of temporary and contract workers in order to improve the flexibility of the Ecuadorian labor market. However, such workers do not receive the same benefits as full-time employees.

f. *Worker Rights in Sectors with U.S. Investment*: Economic sectors with U.S. investment include petroleum, telecommunications, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large multinational companies that abide by the Ecuadorian Labor Code. U.S. workers are subject to the same rules and regulations on labor and employment practices governing basic worker rights as Ecuadorian companies.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		639
Total Manufacturing		285
Food & Kindred Products	76	
Chemicals & Allied Products	94	
Primary & Fabricated Metals	-1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	(2)	
Transportation Equipment	37	
Other Manufacturing	78	
Wholesale Trade		66
Banking		(1)
Finance/Insurance/Real Estate		123
Services		4
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,202

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.