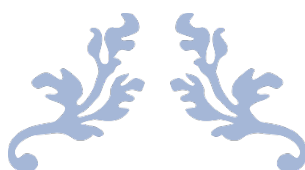


# POLITECNICO DI TORINO



## IV Facoltà di Ingegneria



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MASTER OF SCIENCE IN " MANAGEMENT ENGINEERING"

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### **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**

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## TABLE OF CONTENTS

### Acknowledgments

### Abstract

### Introduction

<b>1. Chapter: Republic of Ecuador .....</b>	<b>8</b>
1.1. Geography .....	10
1.2. Demography .....	14
1.3. Economy and Infrastructure .....	15
1.4. The Economy and Infrastructure and More Details .....	19
<b>2. Chapter: The Situation before the Implementation of the Program.....</b>	<b>32</b>
2.1. Economic Indicators.....	32
2.1.1. Inflation .....	36
2.1.2. Fiscal Deficit.....	38
2.1.3. Gross Domestic Product.....	40
2.1.4. Exports.....	41
2.1.5. International Reserves.....	43
2.2. Relevant Historical Economic Facts in the Economy .....	44
2.2.1. Table Comparative of the Unemployment Rate in the decade of the 70's, 80's and 90's. ....	45
2.2.2. Table of External Indebtedness of Ecuador in the 70's, 80's and 90's. ....	46
2.2.3. Table Comparative of Variation in the Value of a Barrel of Petroleum .....	47
2.3. Additional Conditioning Factors of the Crisis.....	48
2.3.1. Cenepa War 1995 and Granting of the Territory as part of the Peace Agreement in 1988 .....	48
2.3.2. Bank Holiday March 8, 1999.....	50
2.3.3. Dollarization of Ecuador.....	51
2.3.4. Falling Petroleum Barrel .....	52
2.4. Natural Disasters: "El Niño Phenomenon "1988 and 1999 .....	52
2.5. Chronology of Presidents of the Republic of Ecuador (7 presidents in 10 years) ..	53
<b>3. Chapter: Implementation of the Economic Program.....</b>	<b>56</b>
3.1. The Principles of the Economic Program.....	56
3.2. Structural Reforms.....	57
3.2.1. The Stabilization of Economy .....	58
3.2.1.1. The Referral Program.....	58
3.2.1.2. The Program of Accumulation of Rights.....	60
3.2.1.3. The Extended Fund Facility Program.....	62
3.2.1.4. Macroeconomic Policies.....	64
3.2.2. The Modernization of the Economy .....	66
3.2.2.1. Goods and Services Market.....	66
3.2.2.2. Money Market.....	68
3.2.2.3. Labor Market .....	69
3.2.3. The Reform of Private Property .....	69
3.2.3.1. Privatization of Public Companies.....	70
3.2.3.2. Openness to Foreign Investment .....	71
3.2.3.3. Private Structure: Sectors .....	72
3.2.4. The Reform of the State.....	73
3.2.4.1. State Size .....	74
3.2.4.2. Tax Reform.....	74
3.2.4.3. Public Spending .....	76
3.2.4.4. Relief from Extreme Poverty .....	77



**The Ecuadorian Economy:  
Key Reforms of the 90's and their Assessment**



3.2.4.5. Institutional Reforms.....	78
<b>4. Chapter: Assessment of the Reforms .....</b>	<b>81</b>
4.1. International Financial Reintegration.....	81
4.2. Establishment of the Macroeconomic Foundations.....	81
4.2.1. Inflation .....	83
4.2.2. Unemployment.....	85
4.2.3. GDP Growth.....	86
4.2.4. International Reserves .....	87
4.2.5. Fiscal Deficit.....	89
4.3. Market Deregulation.....	89
4.3.1. Goods and Services.....	90
4.3.2. Monetary .....	91
4.3.3. Labor.....	92
4.4. State .....	94
4.5. Concluding Observations .....	96
<b>5. Chapter: Finding, Recommendation and Conclusions.....</b>	<b>98</b>
Bibliography	



## LIST OF TABLES

<i>Table 1: Mountain Elevations of the Republic of Ecuador.....</i>	<i>11</i>
<i>Table 2: Export Data January to May 2021. ....</i>	<i>16</i>
<i>Table 3: Assumptions Used. ....</i>	<i>20</i>
<i>Table 4: Cumulative External Debt, Total (DOD, Current US \$) – Ecuador. ....</i>	<i>29</i>
<i>Table 5: Details of the Economy Indicators. ....</i>	<i>34</i>
<i>Table 7: Evolution of the Deficit.....</i>	<i>39</i>
<i>Table 1: Evolution: Annual GDP Ecuador.....</i>	<i>41</i>
<i>Table 2: Export Details.....</i>	<i>43</i>
<i>Table 3: Evolution of Public Debt (1972 – 2003). ....</i>	<i>46</i>
<i>Table 4: Petroleum Production in the 70's, 80's and 90's.....</i>	<i>47</i>
<i>Table 5: Details of the Presidents of the Republic of Ecuador during the 90's up to the Present. ....</i>	<i>53</i>
<i>Table 6: Details of Central Banks participation in the Banking Crises in some Countries of Latin America in the 90's.....</i>	<i>59</i>
<i>Table 7: Relationship between Certain Banking Financial Crises and Massive, Systematic, and Serious Violations of Rights. ....</i>	<i>61</i>
<i>Table 8: Details of Some Amounts of External Indebtedness of Ecuador in the 90's.....</i>	<i>63</i>
<i>Table 9: Details of Some Amounts of external indebtedness of Ecuador in the 90's. ....</i>	<i>64</i>
<i>Table 10: Macroeconomic Indicators of the Ecuadorian Economy in the years 90's. ....</i>	<i>65</i>
<i>Table 11: Details and Specifications of Tax Reforms in 1999. ....</i>	<i>75</i>
<i>Table 12: Growth Rate of the Gross Domestic Product of Latin America.....</i>	<i>81</i>



## LIST OF FIGURES

<b>Figure 1: Description of Ecuador's Map.....</b>	<b>13</b>
<b>Figure 2: Exports of Merchandise.....</b>	<b>17</b>
<b>Figure 3: Evolution of Poverty and Extreme Poverty (Percentage Rate).....</b>	<b>18</b>
<b>Figure 4: Evolution: GDP per Capita. ....</b>	<b>19</b>
<b>Figure 5: Nominal GDP (Quarterly). ....</b>	<b>21</b>
<b>Figure 6: Gross Domestic Product. ....</b>	<b>21</b>
<b>.....</b>	<b>21</b>
<b>Figure 7: Accumulated External Debt, Total (DOD, current US \$) – Ecuador.....</b>	<b>23</b>
<b>Figure 8: Crude Price Variation (First Quarter 2021).....</b>	<b>25</b>
<b>Figure 9: Ranking 15 Main Destinations of Ecuador's Non-Petroleum exports.....</b>	<b>25</b>
<b>Figure 10: Evolution of Ecuador's International Reserves Dec 2006 - Dec 2020. ....</b>	<b>26</b>
<b>Figure 11: Details of Survey of Employment, Unemployment and Underemployment. ....</b>	<b>27</b>
<b>Figure 12: Unemployment Rate at the National Level and Areas (In Percentage with respect to the EAP). ....</b>	<b>28</b>
<b>Figure 13: National Monthly Inflation.....</b>	<b>28</b>
<b>Period: 2005 - 2021 - In Percentage. ....</b>	<b>28</b>
<b>Figure 6: Details of Consumer Price Inflation (annual%).....</b>	<b>37</b>
<b>Figure 14: Evolution of the Main Components of GPD.....</b>	<b>40</b>
<b>Figure 15: Evolution of Exports of Primary and Industrialized Products. ....</b>	<b>42</b>
<b>Figure 16: National Unemployment. ....</b>	<b>45</b>
<b>Figure 17: Details of Exports of Goods and Market Services (Percentage of Annual Growth).....</b>	<b>67</b>
<b>Figure 18: Details of Traditional Exports from Ecuador (in thousands of USD), 1960-2016.....</b>	<b>72</b>
<b>Figure 19: Structure of Public Spending (Participation percentages). ....</b>	<b>76</b>
<b>Figure 20: Real Annual Growth Rate (1983-2000) of the Gross Domestic Product.....</b>	<b>86</b>
<b>Figure 21: Evolution of Ecuador's International Reserves 1970 - 2005 .....</b>	<b>88</b>



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



**Levántate con mucha alegría, porque la alegría te llena de vida y te da  
ganas de luchar por tus sueños.**



## **Abstract**

This thesis work includes four essential parts of "The Ecuadorian economy and key Reforms of the 90s and their Assessment" as we could detail:

The first chapter illustrates a broader detail of the Republic of Ecuador, its main characteristics such as the infrastructure of the economy and more details.

The second chapter describes the situation of the Republic of Ecuador in the 90's and the consecutive governments and the economic indicators for example: uncontrolled inflation, growing foreign debt and exchange deficit, exports, international reserves and adding to other factors that affected the economy of the country and all the important points because the presidents of those times left the Republic of Ecuador in a total crisis and also because during 10 years, seven presidents have been removed from his charge and therefore Ecuador had become one of the countries with the highest rates of poverty and unemployment of Latin America.

The third chapter covers the entire implementation process of the Ecuadorian Republic. The Economic Program was based in the Central Bank of Ecuador, they had the main role. Also, the series of reforms that they proposed, such as, the regulation of the labor market and the minimization of the State, according to Bresser Pereira (State reform - 1998), without leaving behind the option of opening to foreign investment.

The fourth chapter is an evaluation of the results of the implementation reforms, in the macroeconomic performance of the country as a growth prospect, an opening investment environment and a continuous reduction of poverty rates. Even though, the big disadvantage of the country was the corruption of their governments.

The development of this investigation work is to give a greater understanding of the process of change in the Ecuadorian State in the 90's, my intention is to give an analysis of how the country reached the crisis.





## **1. Chapter: Republic of Ecuador.**

The Republic of Ecuador is a country located in the northwestern part of South America. Ecuador borders Colombia to the north, Peru to the south and east with the Pacific Ocean. (Wikipedia, Geografía de Ecuador, 2021).

Ecuador is located on the equatorial line of the world, which is in South America. On the other hand, the area of the country is currently 256,370 square kilometers and it has a population of 17.6 million habitants according to the surveys.

Ecuador belonged to the Great Colombia and on May 13<sup>th</sup> of 1830, Ecuador became an independent Republic from the Great Colombia lead by Simón Bolívar. The Department of the South was the first to separate Ecuador from the Great Colombia, followed by the Departments of Guayaquil and Azuay, it happened on May 19<sup>th</sup> and 20<sup>th</sup> of that same year.

On May 13<sup>th</sup> of 1830, the department of the South (Quito) declared its independence from Great Colombia and formed the Republic of Ecuador. (Ecuador M. d., 2008 )

Ecuador is currently divided into three regions: Coast, Sierra and Orient.

The boundaries between regions correspond to provincial boundaries, so their definition is not climatic or geographical but political. However, there are considerable differences in topography and weather between regions.

Ecuador also has an Archipelago located 1000 km from the coast, called Colón or the Galapagos Islands and those are distributed in 22 provinces and 205 cantons.

The provinces of Esmeraldas, Manabí, Los Ríos, Guayas, and El Oro are located in the coast.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



The Sierra is located in the northern part of The Cordillera Andes. Carchi, Imbabura, Pichincha, Cotopaxi, Tungurahua and Chimborazo are in the north sector and at the south sector are Bolívar, Cañar, Azuay and Loja.

Sucumbíos, Napo, Pastaza, Orellana, Morona Santiago belongs to Amazon, and Zamora Chinchipe in the insular region. The Galapagos Islands are made of thirteen islands.

There are only two definite seasons: wet on winter and dry on summer. The length of the seasons varies up the region.

In the Coast, the wet season begins on December and lasts on May; the dry season starts on June and lasts on November.

In the Andes, the wet season start from October to May and the dry season from June to September.

In the Amazon there are differences between the north and the south. In Amazon north (Sucumbíos province), the wet season lasts from March to November while the dry season from December to February. In the rest of the Amazon, the seasonal pattern is like the Andean one.

We can say that the weather of Ecuador is highly influenced by the topography, its altitudinal range is from 0 to 6300m, so it generates a wide temperature gradient, so from 0 to 26 degrees Celsius of average annual temperature in the country. For this reason, there is a very close relationship between altitude and temperature. Although, the Amazon has a higher temperature than expected due to its elevation, while the opposite occurs in the dry scrub of the Coast.

The altitude also influences the amount of rainfall because cold air has little ability to retain moisture. Therefore, the high areas have low rainfall, while the low areas up to 2000 meters elevation, present wide variation in the amount of rain they receive throughout the year. Generally, the params receive little rainfall (generally less than 1,500 mm per year) compared to Andean and lowland forests.



The regions that receive the highest levels of precipitation are the Northern Andes Forest and the Chocó lowland forest. (Ms. Susana Leon-Yanez; Lcda. Erika Caicedo., 2020).

### **1.1. Geography.**

Since the Royal Audience of Quito, Ecuador has suffered several territorial dismemberments in treaties that marked undefined borders. Today Ecuador is one of the smallest countries in South America. At the beginning of it, Gonzalo Pizarro marked that the Royal Audience of Quito reached from the north to the present department of Valle del Cauca in Colombia and from the south to the deserts of Piura in Peru.

Ecuador has an area of 283,561 km<sup>2</sup> and over a water surface of 6,720 km<sup>2</sup>. The Pacific Ocean is located next to the Latin American country of Ecuador. The longitude and latitude of the capital of Ecuador, Quito, the other very important city of Ecuador that is also its commercial capital, Guayaquil.

Like most Latin American countries, Ecuador also experiences a tropical weather because it is a coastal area. Rain is heavy in some parts of the mountains while at high altitudes, temperatures are quite low.

In addition to the mainland, Ecuador is made up of the Colón archipelago, apart from others close to the continent, such as Puná, Santay, and Isla de la Plata.

It has 4 regions that are differentiated by their weather, customs, culture.



## Pacific Coast.

Its territory is made up of fertile lands, hills, and low elevations. Rivers run through its territory that start from the Andes and reaches the Pacific Ocean. The five provinces have very attractive beaches which are plenty of tourists. Those of Esmeraldas, Manabí and Guayas stand out. In this area there is the most extensive river network in the country. It is the Guayas River Basin, which has about twelve tributaries together with the towns of Daule, Babahoyo, Macul, Puca, Paján and Colimes. Ecuador has 640 kilometers of coastline.

## Sierra: Los Andes – Austro.

The Andes Mountain range crosses the country from south to north. From this mountainous system of the Western and Eastern Mountain ranges where they divide into the province of Loja, forming holes and valleys along the inter-Andean. Between the two mountain ranges there is a plateau that reaches up to three thousand meters in height. The Sierra covers ten provinces that has important mountainous elevations such as Chimborazo, Illinizas, Cotopaxi, Cayambe and Antisana as you can see in the following table:

**Table 1: Mountain Elevations of the Republic of Ecuador.**

Chimborazo	6310	meters above sea level
Cotopaxi	5897	meters above sea level
Cayambe	5790	meters above sea level
Antisana	5758	meters above sea level
Altar	5320	meters above sea level
Illinizas	5248	meters above sea level
Tungurahua	5023	meters above sea level
Cotacahi	4944	meters above sea level

**Source:** (Ecuador B. , 2020).



The great elevations occur from the center to the north of the country. From Riobamba to the south its altitude decreases, and its width increases, forming a kind of plateau.

### **Amazon.**

The relief of the Amazon is made up of series of hills that originate in the eastern part of the Andes and descend to the Amazon lands, to whose basin important rivers such as Putumayo, Napo and Pastaza. There are two geographic regions: Upper Amazon and Amazon plains. The firsts are Napo Galeras, Cutucú and Cóndor mountains. The most outstanding reliefs in the region are found in the northern region, near the Sumac volcano, and the lowest ones towards the east side. Five of the country's provinces are in the Amazon.

### **Galapagos.**

The Archipelago is made up of 13 main islands, 17 islets and dozens of ancient rocks. Its origin is volcanic, and they are almost a thousand kilometers from the continent. Its territory borders eight thousand square kilometers. Its main volcanoes, which range between approximately one thousand and six hundred meters high, are located on Isabela Island. Some of them are Wolf, Cerro Azul, and Darwin.

Ecuador is located on the terrestrial equatorial line; therefore, its territory is in both hemispheres. It comprises two distant spaces: the continental territory to the northwest of South America with some islands adjacent to the coast, and the archipelago or insular province of Galapagos, which is located 1000 kilometers away from the Ecuadorian coast in the Pacific Ocean. (Ecuador M. d., 2008 ).

Figure 1: Description of Ecuador's Map.



Source: (World, 2002).





## **1.2. Demography.**

According to data from the National Institute of Statistics and Censuses (INEC) the country has 24 provinces, 221 cantons, 405 urban parishes and 778 rural parishes at the level of the Political, Administrative Division of the Republic of Ecuador. In general, the population's universal language is Spanish and Quechua as its native language.

Ecuador, like most Latin American countries, lacks a solid statistical culture. The dismantling of public planning during the 80's and 90's, coupled with financial crises at the end of the 90s, made the production of public statistics a low priority element.

In other hand, the census had to be postponed for a year due to the lack of a state budget, it was financed with a loan from the Inter-American Development Bank, and it brought a series of technical and political inconveniences. In the same decade of the nineties and already beginning the new millennium, the absence of solid statistical information degenerated into a painful behavior for public policy. Local, regional, and national decisions were made without considering demographic factors, causing structural problems in the population. A clear example of this is the situation of the fourth largest city in Ecuador, Santo Domingo de los Tsáchilas: "The lack of a land uses a plan to determine developable areas had led to disorderly population growth. Santo Domingo de los Tsáchilas, for example, has become the fourth city with the highest population growth. From its cantonization in 1967 and thanks to its important geographical location, migratory flows intensified causing disorderly settlements and improvised urbanizations with deficient socioeconomic conditions and very low coverage in terms of infrastructure and basic services. Therefore, the population growth of Santo Domingo has been so accelerated and disproportionate that it places it among the cities with the greatest conflict in terms of management, regulation and planning of its development ".



The absence of timely demographic information and the low valuation of its importance in decision-makers, promotes the need to strengthen the production, frequency, quality and use of demographic statistics that allow accurate linkage of political action with its production. Starting in the 90s, a proposal was presented to begin a process of reconstruction of the Ecuadorian statistical system, with emphasis on demographic information. To have a clear overview of the stock of information available since then, the sources of demographic statistics in the country are described below, including a first diagnosis of their benefits and limitations. (Byron Villacis, 2012).

### **1.3. Economy and infrastructure.**

The official report of the first review of economic growth of 2020 was published on June 3<sup>rd</sup>, 2020, it represents that it is between 7.3% and 9.6%. Therefore, based on the information provided by the Ministry of Economy and Finance, it is known that the Gross Domestic Product (GDP) for 2020 was registered an interannual decrease of 8.9% (GDP of USD 65,535 million in constant values according to the report of the Ministry of Economy and Finance).

It could be said that in the temporary suspension of productive activities due to the covid-19 pandemic exposed on March 16<sup>th</sup>, 2020, generally the National Government promulgated Executive Decree N° 1017, where they decided the state of exception due to public calamity in the national territory, must be renewed on two occasions and ended on September 13<sup>th</sup>, 2020. Since then, there was flexibility in the confinement measures and economic activities were gradually resumed being the producing sector a total imbalance in the Ecuadorian economy.





## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



Further, in the reduction of the price of crude petroleum, it was estimated at USD 14.22 on average in April 2020, it has been increasing month by month until reaching an average of USD 36 per barrel in September 2021. They also suffered breaks and damages in their pipes the Trans-Ecuadorian Pipeline (SOTE) and the Heavy Crude petroleum Pipeline (OCP) causing the erosion of the Coca River and the decrease in its production to 12.06%, between January and September 2020, having parity with the same period of the previous year.

Finally, in the exports of crude petroleum and derivatives, they would show a contraction of USD 3,700 million. On the other hand, non-petroleum exports (mainly mining, banana and plantains, shrimp, cocoa, and processed products) would have a favorable performance, as it is estimated that they would grow by USD 250.0 million. (Exterior, 2020).

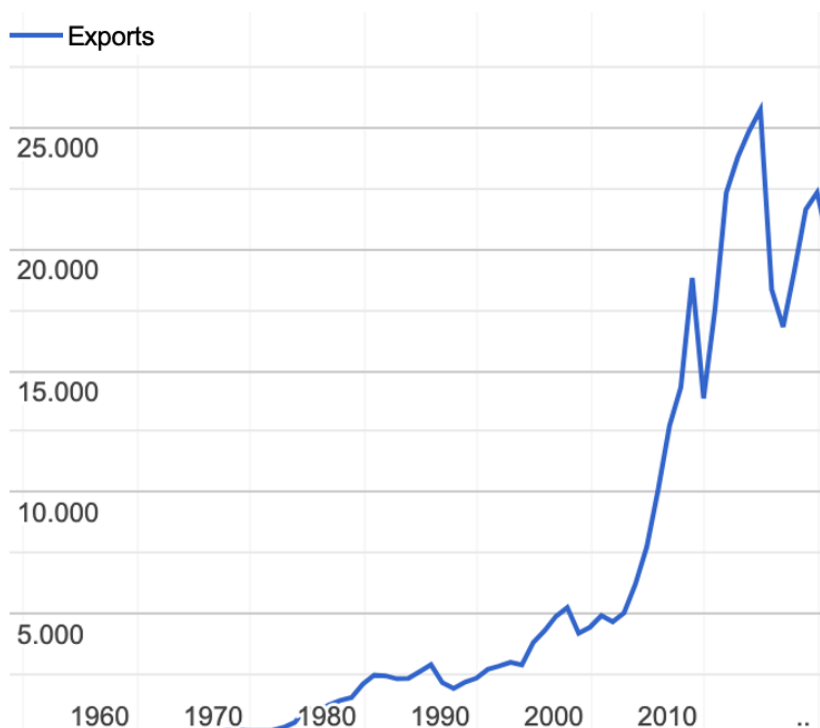
**Table 2: Export Data January to May 2021.**

Traditional Export Products				Non-Traditional Export Products			
	USD Millions FOB	% Variation Annual	Variation Annual USD MM		USD Millions FOB	% Variation Annual	Variation Annual USD MM
<b>Shrimp</b>	\$1.774 MM	7%	+111	<b>Tuna</b>	\$514 MM	16%	+69
<b>Banana</b>	\$1.492 MM	-9%	-144	<b>Flowers</b>	\$417 MM	3%	+14
<b>Cocoa</b>	\$266 MM	2%	+4	<b>Gold</b>	\$227	109%	+118
<b>Fish</b>	\$130 MM	16%	+18	<b>Manufactures Metals</b>	\$181 MM	95%	+89
<b>Others</b>	\$142 MM	-3%	-5	<b>Extracts and Vegetable oils</b>	\$69 MM	12%	+7
				<b>Others</b>	\$1.419 MM	26%	+290

**Source:** ((BCE), 2021).



Figure 2: Exports of Merchandise.



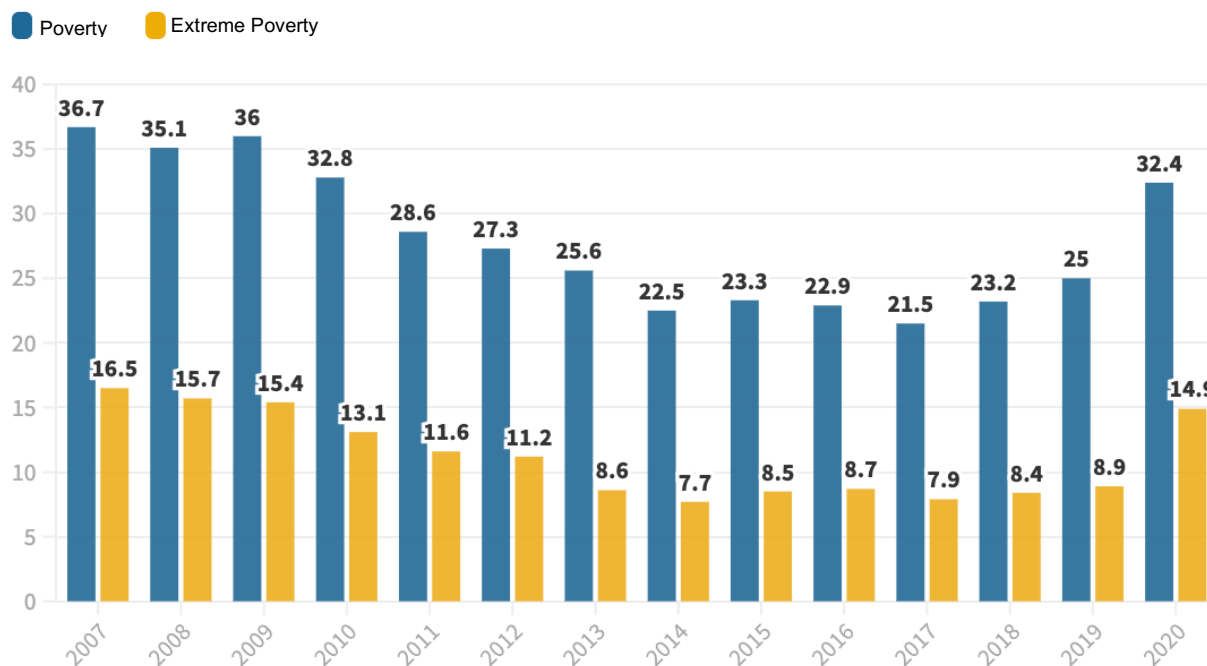
Source: (Expansion/Datos estadísticos, 2020).

As we can illustrate in the figure, in 2020 the exports of the Republic of Ecuador fell by 9.42% compared to the previous year and sales are represented by 20.41% of its GDP. Therefore, in that year Ecuador has an amount of 20,226.6 million dollars, which is why it is ranked number 68 in the ranking of countries according to the amount of its exports during that year.

In general, in the coverage rate (percentage of what is imported in the country that can be paid with what is exported), therefore, it was 112.63%.

If we analyze the evolution of exports in the Republic of Ecuador in recent years, we can observe that they have fallen compared to 2018, although they have risen compared to 2010 with an amount of 17,489.9 million dollars, which deducted with a 25.15% of its GDP. (Roca, 2020).

**Figure 3: Evolution of Poverty and Extreme Poverty (Percentage Rate).**



**Source:** (Comercio, 02 de marzo de 2021 12:53).

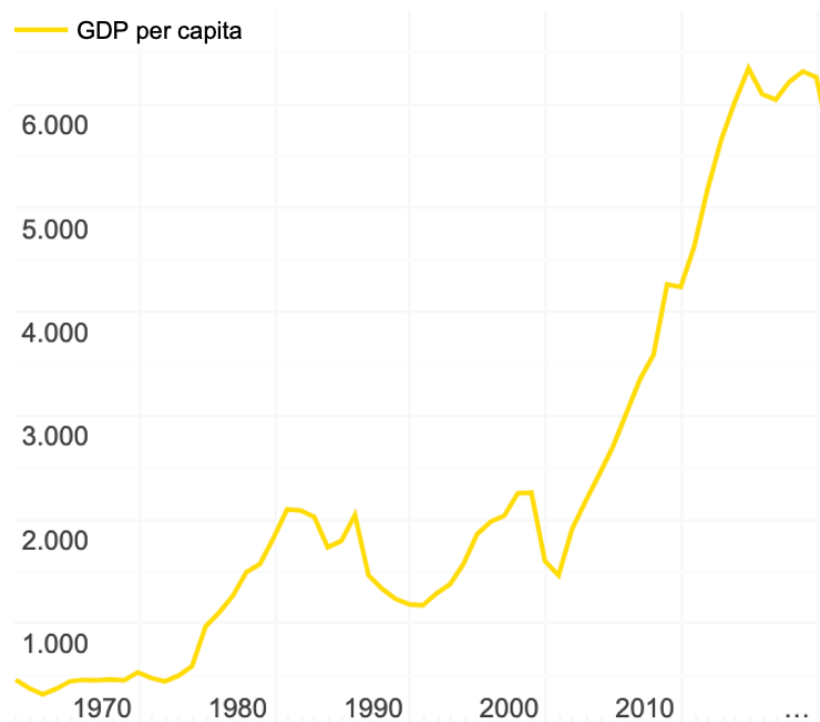
As we can see in the figure of poverty and extreme poverty, according to the latest survey by the National Institute of Statistics and Censuses (INEC), published on March 2<sup>nd</sup>, 2021.

Therefore, exists an increase of poverty, measured by the income of each person, compared to December 2019 where we could say that at that time 25 out of a 100 Ecuadorians were poor. But the extreme poverty line also grew by December 2020 as can see in this figure. and so, in the surveys made, according to the INEC, we can say that 15 out of a 100 Ecuadorians live with an income of USD 1,5 a day. Compared with December 2019, the increase of poverty is 6 points up since the month of the rate.

The annual report of 2020 warned that the covid-19 pandemic “has aggravated economic conditions in the Republic of Ecuador, placing a raising number of Ecuadorians facing an abyss of low economic resources.



Figure 4: Evolution: GDP per Capita.



Source: (Expansion, 2020).

As we analyze this figure, it shows the evolution of the GDP per capita of the Republic of Ecuador in 2020 was \$ 5,643, compared to 2019, which was \$ 6,261. Also, through the evolution of the GDP per capita is interesting, if we look back a few years and compare these data with those of 2008 when the GDP per capita in Ecuador was \$4,267.

#### 1.4. The Economy and Infrastructure and More Details.

The Central Bank of Ecuador showed the revision to the macroeconomic forecast for 2021 published on November 30<sup>th</sup> of the previous year.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



The main facts that would characterize positive performance are related to:

- Continuity with the International Monetary Fund (IMF) program.
- The economic growth of the main world economies.
- The expectation in the generalized vaccination of the population against covid-19.

For the generation given in this new macroeconomic forecast, several assumptions were established, among the highlighted in the following table shown:

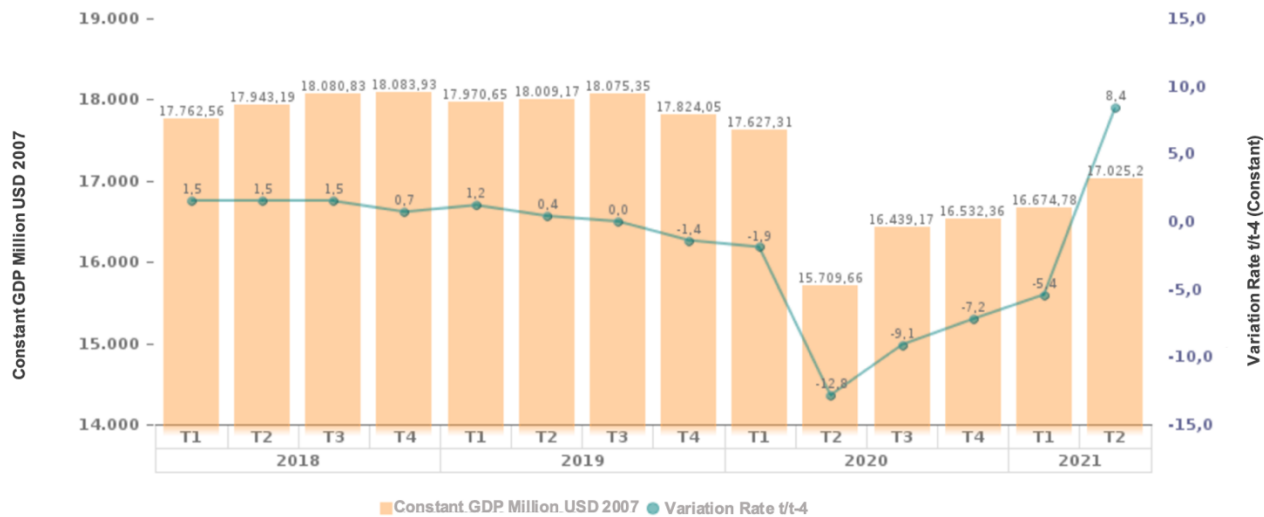
**Table 3: Assumptions Used.**

Assumptions	Measures	2021
Controlled Crude Petroleum Production	Million Barrels	174,20
Variation of Total Imports of Goods and Services	Millions of Current Dollars	4.331,50
Variation of Total Exports of Goods and Services	Millions of Current Dollars	2.609,50
Variation Public Investment	Millions of Current Dollars	671,60
Variation Government Spending	Millions of Current Dollars	-11,30
Variation of Remittances	Millions of Current Dollars	227,00

**Source:** (Ecuador B. d., 2021).

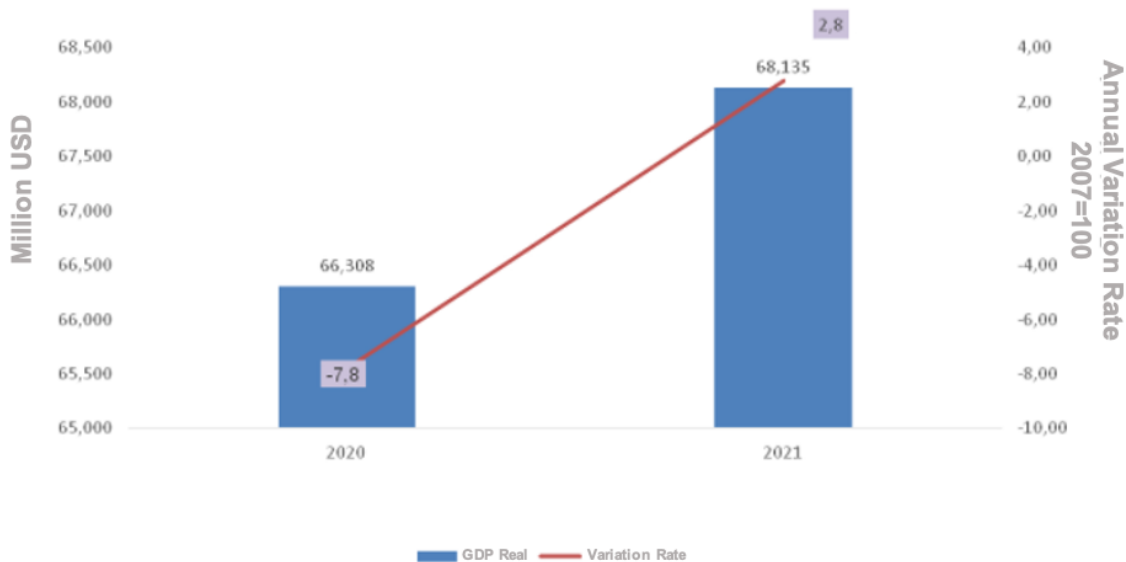
Additionally, it could be explained in the internal economy, in which the effects of covid-19 must be faced, it is expected to allocate several strategies that allow aid to Ecuadorian families, making a supply to the working capital of the Ecuadorian economy. Although, the mobility and capacity limitations among other measures to prevent the contagious of the epidemic making the trade lose. Its essence of presence and having as alternatives online sales on different platforms and banking transactions, only for fundamental products or services to survive the chaos, therefore the country will have delays in economic recovery.

Figure 5: Nominal GDP (Quarterly).



Source: (Ecuador B. C., PRODUCTO INTERNO BRUTO (PIB) TRIMESTRAL).

Figure 6: Gross Domestic Product.



Source: (Ecuador B. d., 2021).



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



Regarding the first component of the supply, imports, an expansion is expected in: consumer goods (USD 696.7 million), raw materials (USD 1,280.7 million), capital goods (USD 866.7 million) and fuels and lubricants (USD 983.8 million), all this because of the growth in domestic economic activity.

Therefore, Government Expenditure will decrease by 0.03% in 2021 compared to 2020, due to the shortfalls in the items of wages and salaries, and the purchase of goods and services. (Ecuador B. d., 2021).

The Final Consumption Expenditure of Households, the expected variation rate is 2.1% in 2021 compared to 2020. In which this could be related to an increase in imports of consumer goods and the increase of 6.8% in the remittances received from Italy, Spain and the United States, countries that according to the projected predictions that will restore their economic growth, and from where many inhabitants emigrated due to the crisis in the country previously.

Correspondingly, different family protection bonds were allocated to help residents to survive, whose increase is estimated at USD 905.4 million in aid for the health crisis to Ecuadorians.

Therefore, in relation to the Gross Formation of Fixed Capital (investment), a growth of 1% is expected in 2021 compared to the previous cycle. This is associated with the expected increase in public investment of USD 671.6 million, which will have an impact on imports of capital goods of USD 866.7 million.

Finally, exports show a positive annual variation of 2.8% in 2021, mainly because of an expansion in non-oil exports, such as: metallic and non-metallic minerals, bananas and plantains, processed shrimp, cocoa beans, and their elaborated.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment

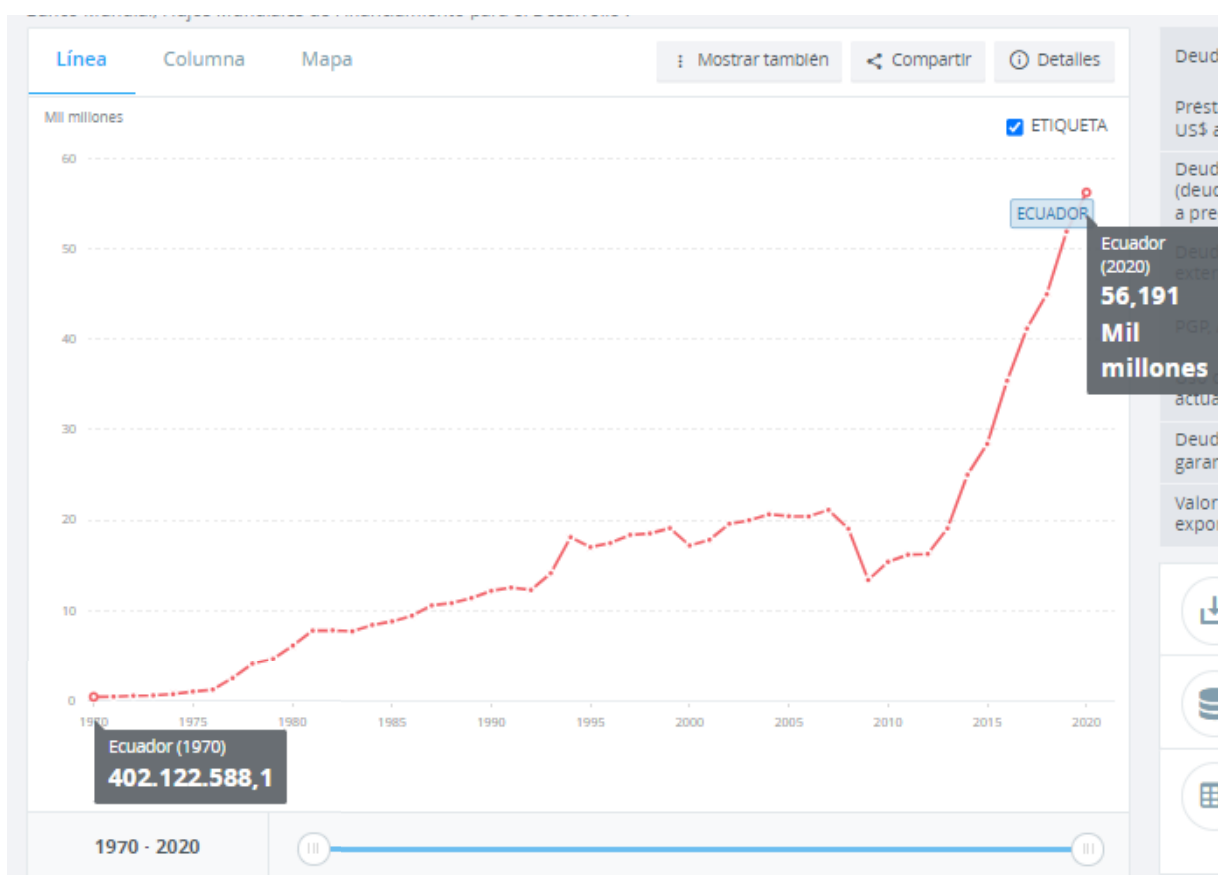


### External Debt.

The external debt of the Republic of Ecuador according to the official website of the world bank, is an amount of 56,190,547.68 US dollars until 2020 as shown in the figure.

As we can see in the statistical table that the country has increased its external debts clearly identified since the 1970s with an amount of \$ 402,122,588.1.

**Figure 7: Accumulated External Debt, Total (DOD, current US \$) – Ecuador.**



**Source:** (Mundial, Banco Mundial, s.d.).





### **Deficit and Public Debt.**

We could say that the fall in nominal GDP and the deficit registered in 2020 led to the public debt increased to 63.9% that year and the budget deficit was USD 5,723 million. This year 2021, a budget deficit of USD 4,812 million is projected, which is USD 911 million less than the previous one. Therefore, the public debt will continue to increase. According to the reports of the Ministry of Finance, the public debt will reach 64.6% of GDP at the end of 2021. It can be distinguished that the current Government inherited a debt of 61%. (Desarrollo, 2021).

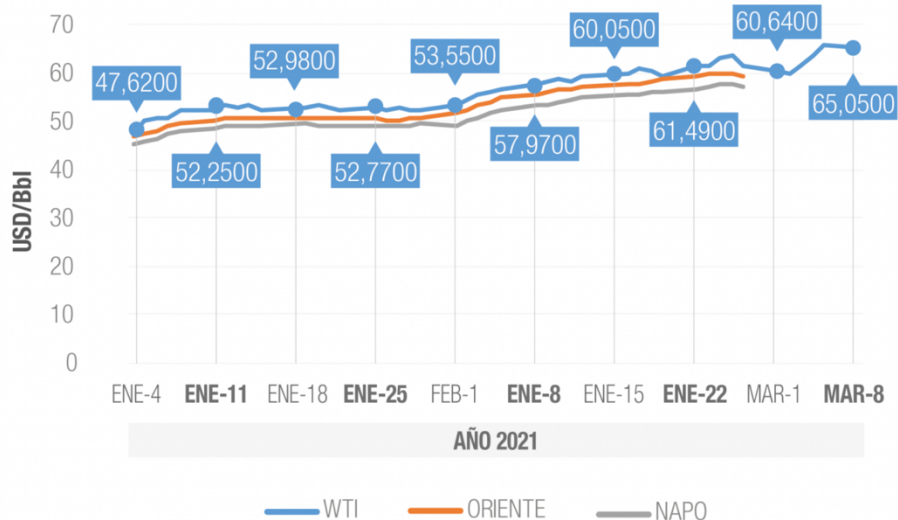
### **Petroleum Participation in Exports and in the General State Budget.**

A projection made by PETROCUADOR-EP reported that, during the first quarter of 2021, Ecuador will receive USD 422'413,191.38 as an additional income from the net export of Napo and orient crude to international markets.

It should be noticed that the Ecuadorian petroleum billing formula is indexed to the marker crude (West Texas Intermediate), so its behavior in the world hydrocarbon market directly impacts the final price of Orient and Napo crude, in which are traded under rows of direct sales contracts, as well as short, medium, and long-term tenders.

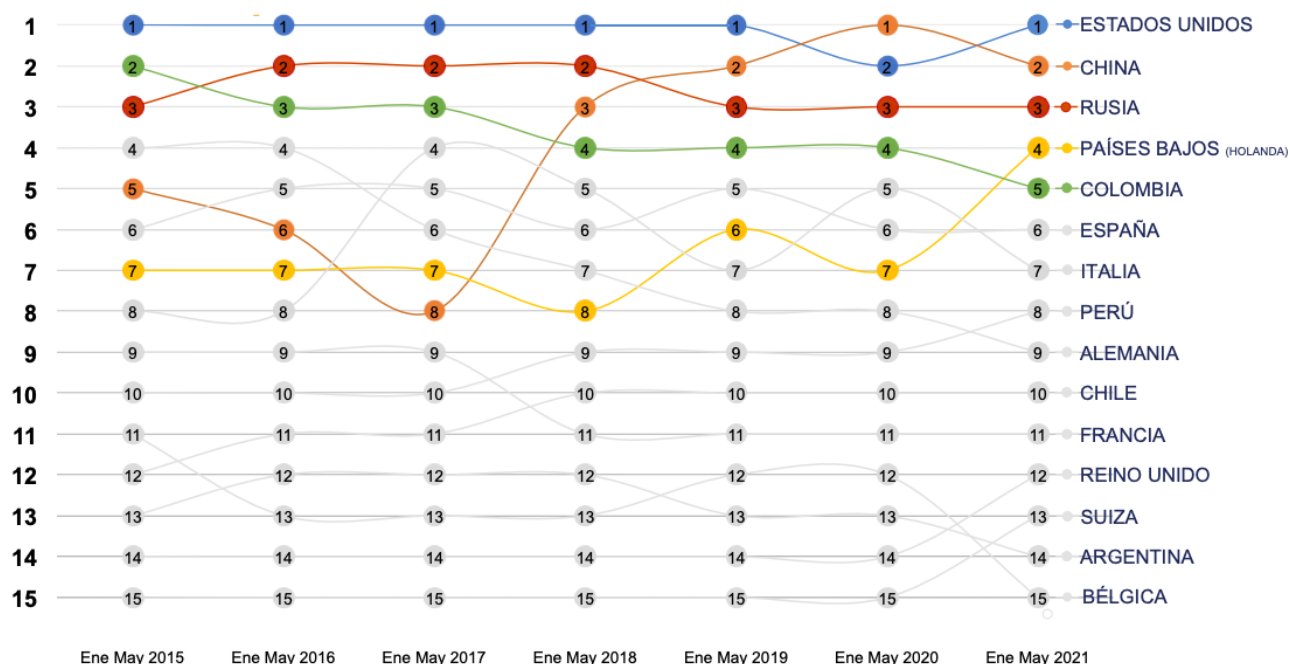
The General Manager of PETROCUADOR-EP Gonzalo Maldonado, indicated that "in the first quarter, with the exportable balance and the actual amount billed of 28,733,463.16 barrels of petroleum, will have total revenues of USD 1,612,525,945.47, which include additional earnings, better spreads and the premium of the contract made with the Shell company, during the spot sale for export of 1,440,000 barrels of petroleum, with a differential of USD (-1.39) per barrel". (Gerente General de EP Petroecuador).

**Figure 8: Crude Price Variation (First Quarter 2021).**



**Source:** (PETROECUADOR).

**Figure 9: Ranking 15 Main Destinations of Ecuador's Non-Petroleum exports.**



**Source:** ((BCE), 2021).



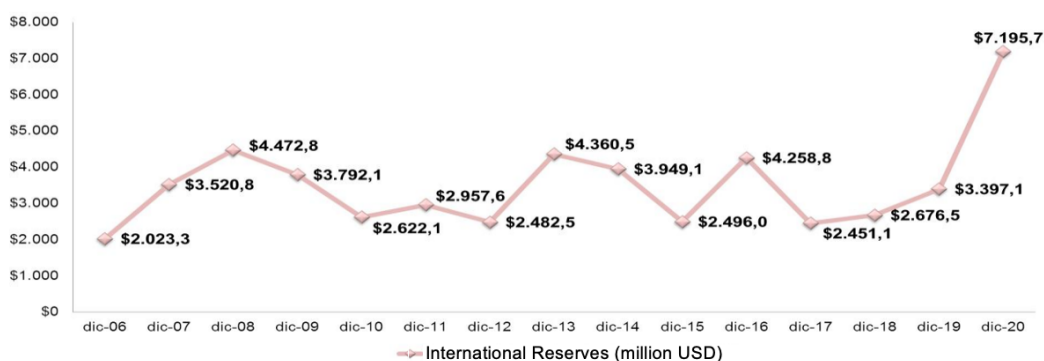
The figure illustrates the Ranking of 15 main destinations in non-petroleum exports from Ecuador during (January to May) from 2015 to (January to May) 2021 in which we can explain that the United States ranked the first place according to the Report of the Central Bank of Ecuador and that only China was ranking the First place in (January to May 2020). Since the trajectory of the previous years the Chinese were ranking different as when they ranked number 8 in 2017.

Therefore, currently, we have the United States ranking the first place followed by China, Russia, the Netherlands, Colombia, etc.

### International Reserves.

The Republic of Ecuador registered an amount of \$ 7,195.7 million dollars in international reserves in December 2020, for this reason it was more than 111.8% as in December 2019), so, both in average interannual variation rate of 9.5% was registered between December 2006 and December 2020. And so, the international reserves for January 2021 were \$ 6,590.9 million dollars, this is the hypothesis that the Central Bank of Ecuador currently says according to the analysis.

Figure 10: Evolution of Ecuador's International Reserves Dec 2006 - Dec 2020.



Source: (Freire).

## Unemployment.

The figure shows the Urban and Rural Area, in which together with the National Survey of Employment, Unemployment and Underemployment or in its acronym (ENEMDU) a collection of necessary information was obtained through surveys that were carried out in a semi-panel the same that were carried out on the same group of analysis gather at various points of time, in this case it was in the year 2020 and 2021 but quarterly, this was done in order to determine and quantify the changes that were obtained through this phenomenon, therefore it took place in the homes settlers, the family groups that live together with them or more of the residents of the house where they migrated.

In general, these quarterly figures are from 2021, with the quarterly accumulated ENEMDU, the INEC published figures of labor indicators with national representation, area (urban and rural).

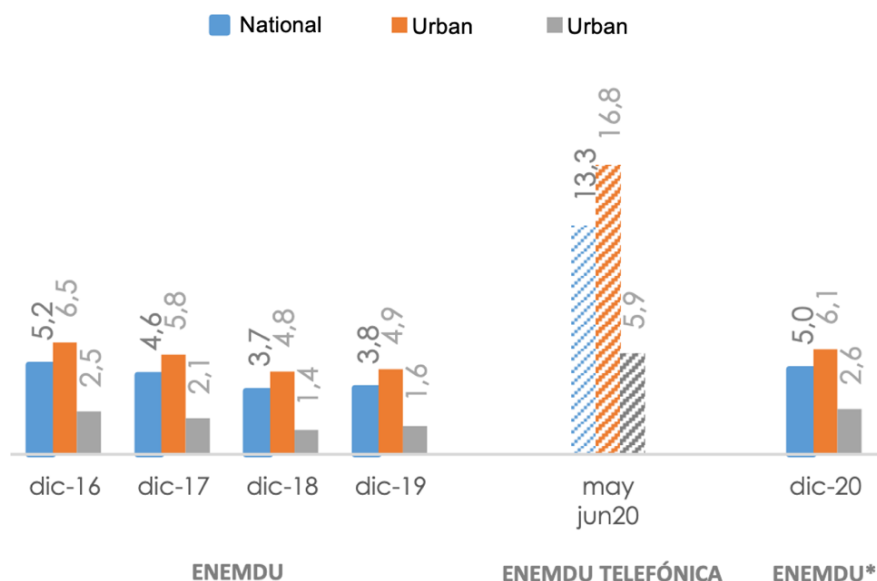
**Figure 11: Details of Survey of Employment, Unemployment and Underemployment.**



**Source:** (Encuesta Nacional de Empleo, 2021).

In December 2020, as the figure illustrates, the level of the unemployment rate at the national level was 5.0%, therefore for the urban area the unemployment rate was 6.1%, meanwhile for the rural area was 2.6% this year.

Figure 12: Unemployment Rate at the National Level and Areas (In Percentage with respect to the EAP).

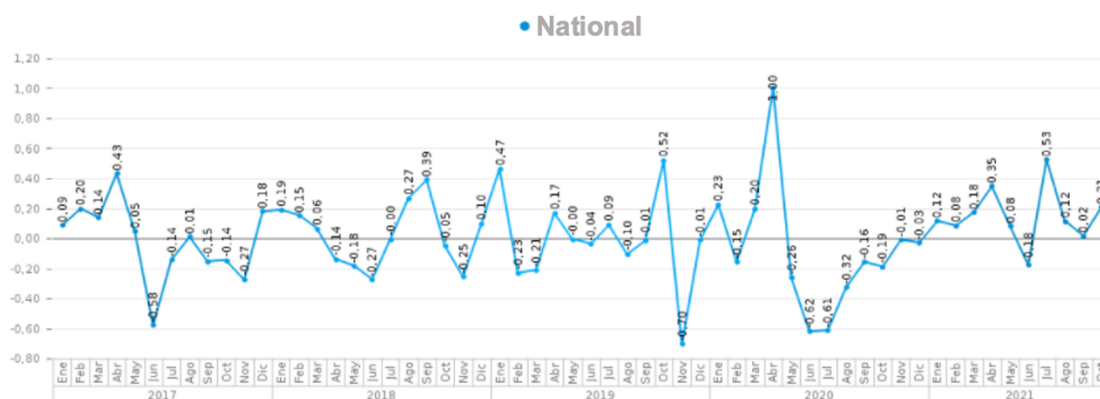


Source: (Gestión de Planificación de Estudios, 2021).

In reference to the TELEFÓNICA ENEMDU it is an emerging statistical operation, for this reason it was necessary to use this strategy to generate information on the Ecuadorian labor market during the health emergency due to COVID-19 during the year 2020.

## Inflation.

Figure 13: National Monthly Inflation  
Period: 2005 - 2021 - In Percentage.



Source: (Ecuador B. C., INFLACIÓN MENSUAL NACIONAL, 2021).



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



According to the figure shown, National Inflation in the Republic of Ecuador begins on January 2017 with a percentage of 0.09 of inflation and during the years the curve increased and decreased inflation according to the year and the government plan that the country presented, Therefore, currently the country is having an inflation of 0.21 percent according to the report of the Central Bank of Ecuador.

**Table 4: Cumulative External Debt, Total (DOD, Current US \$) – Ecuador.**

Years	Thousands of Millions
1980	6,109
1985	8,792
1990	12,162
1995	17,001
1996	17,448
1997	18,355
1998	18,513
1999	19,1
2000	17,174
2005	20,423
2010	15,377
2015	28,402
2019	51,883
2020	56,191

**Source:** (Banco Mundial F. M.).

In the foreign debt of the Republic of Ecuador, as shown in the table, the difference is between the 80's with 6,109 billion US dollars, as opposed to the 90's with 12,162 billion US dollars which there is a high increase, therefore, as the years goes on, the debt is getting bigger as we can see in the table that today the total debt in 2020 is 56,191 billion US dollars.



## **Reforms.**

During Mr. Correa government, a set of financial and institutional reforms were designed to adjust and improve the financial sector and enable the Government to play a broader role and maintaining stable the economics of the country; For this reason, a financial crisis could be avoided; and in promoting growth, development, and economic equality. These reforms were especially important for Ecuador because it has adopted the dollar as its national currency in the year 2000.

For this reason, on September, 2008, a new Constitution was approved in a referendum, with 64% of voters in favor with the Assembly members of the country. One of the most important effect were to reverse the mandate of the 1998 Constitution that had made the Central Bank formally independent from the Government, with the primary responsibility for ensuring price stability.

Another extremely and important reform was the establishment of domestic liquidity requirements for banks, which were introduced on May 2009, admitting the global recession. In which the Banks maintain 45% of their liquid assets in the country, and so it will increase to 60% in 2012, and the real sum of these domestic reserves increased up to 80% in 2015. Due, this reform helped reinforce the country with billions of dollars; And so, the Government required the Central Bank itself to divide around 2,000 million dollars withheld abroad between 2009 and 2012.

Another reform that was created was the increase in Ecuador's reserves and therefore strongly increased tax revenues was a tax on capital that left the country. For this reason, it was possible to increase government revenues by around one billion dollars annually between the years 2012 and 2015.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



Therefore, this tax allowed an increase in the government revenue from 27% of GDP in 2007 to a maximum of 44% in 2012; Consequently, the Government managed to double the country's social spending.

Other regulatory reforms and the new control over the Central Bank also helped the government to achieve its objective of regulating the interest rates that the country has. For this reason, the types of Real interest fell from a high of 8.3% in April 2007 to an average of 3.9% since August from 2008 to September 2014. Where, inflation was declining, the real interest rate has recently increased to 5.4% in the last 27 months.





## **2. Chapter: The Situation before the Implementation of the Program.**

In the 70's, the petroleum exportation woke up to the country of Ecuador when it just depended of the export of bananas, coffee, and cocoa.

As a consequence of the production and external commercialization of petroleum between 1972 and 1980 increase from 2.5 to 35.2 dollars a barrel, highlighting this stretch the variation of 1979 due to the crisis in the Persian Gulf.

These two factors allowed the State to have a substantial and unusual source of resources. In addition, the escalation of petroleum revenues made it possible to strengthen international reserves and therefore, the country's purchasing capacity, so those imports over the course of eight years, increased from US \$ 284 to US \$ 2,242 million. In public finances, the contribution of petroleum revenues to the State budget increased from 16 to 43%. Additionally, this apparently favorable context allowed the country to become an attractive credit subject, beginning a significant external indebtedness as of 1976. (Ecuador P. d.).

So, if it refers to the early 80s, the petroleum contribution to total exports represented 68%. Due to public finances the contribution of petroleum revenues to the State budget increased from 16 to 43%.

To this was added an unfavorable international context, characterized by:

- 1) The moratorium on the Mexican foreign debt and the impossibility of paying the financial commitments acquired by developing countries, which determined the closure of external financing for Latin America.
- 2) The rising interest rates in the international market, which further increased in subsequent years the service of the external debt to worrying levels.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



- 3) The contraction of international trade due to the drop in prices and demand of primary products and restrictions on trade by the United States.
- 4) The weakening of the petroleum market. (Ecuador P. d.).

The 80's began with an important political and economic changes, the return in 1979 to the democratic regime and the military conflict with Peru in January 1981 was added as well as the floods that affected the coast in 1982. With losses of around 400 million dollars in terms of banana, coffee, and cocoa exports.

It is common for financial crises to explode suddenly and in unpredictable times, but they incubate gradually, the gestation of the Ecuadorian crisis that broke out at the end of 1998 dates back at least a decade ago and can be explained from three related perspectives, but conceptually different. These perspectives highlight economic and financial policy factors that generated a growing systemic vulnerability to external shocks.

The first prospect emphasizes the failure to establish an effective regulatory and supervisory framework amid an accelerated process of liberalization of the financial services industry. The second is related to the aftermath of the macroeconomic cycle pronouncement (expansion-recession) registered during 1993-1996. The third focuses on the intensification of the vulnerability (shared between economic authorities and political leaders) of introducing a set of urgent financial reforms, even though the need for those reforms became clear some years before the great crisis of 1998-1999, during the banking crisis of much less seriousness than Ecuador experienced during 1995-1996.



The first perspective highlights the microeconomic roots of the crisis, the second highlights its macroeconomic roots, and the third is a combination of the two. The three perspectives, in combination, clarify how the seeds of the crisis, sown differently and independently, converged, and interacted to create significant vulnerability, eroding the capacity of the system to face the strong exogenous shocks that hit the country in the second half of the year. 1998 and that caused the fragile macro-financial situation to crumble. (Cañete).

## **2.1. Economic Indicators.**

Economic indicators judge the overall health of the economy, figures and variations were drawn in a figure that approximate what happens in an economy. They allow an analysis of economic performance and make predictions for the future.

When the economy of a country is healthy, its indicators move smoothly and in a balance way. There are no sudden variations in the factors that influence the decision making of economic agents.

Some of the main indicators are inflation, fiscal deficit, the GDP and the GDP growth, exports, and international reserves. We briefly analyze each of them:

**Table 5: Details of the Economy Indicators.**

	1998	1999	2000
<b>Annual Variation Rate</b>			
Gross domestic product (GDP)	0.4	-6,70	2,00
Inflation	43,4	60,70	96,60
Real Minimum Salary	-7.2	-10,70	-4,00
Money (M1)	34.8	88,60	...
Real Effective Exchange Rate	3.8	38,70	18,10
Terms of Trade	-1.1	6,70	14,30
<b>Percentage</b>			
Urban Unemployment Rate	11.5 %	15,10%	14,70%
Fiscal Result / GDP	-56,00%	-4,60%	0,00%



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



Passive Real Interest Rate	2.6%	-2,00%	-43,00%
Active Real Interest Rate	10.3 %	7,90%	38,60%
External Debt / GDP	65,00%	97,00%	100,00%
<b>Millions of Dollars</b>			
Exports	5007	5264	5845
Imports	6409	3761	4165
Current Account Balance	-2169		750
Capital and Financial Account	1335		-950
Global Balance	-834		-200

**Source:** (Ecuador B. C., ESTADÍSTICAS MACROECONÓMICAS PRESENTACIÓN ESTRUCTURAL 2013, 2013).

In 1998, Ecuador suffered a sharp drop in the terms of trade, due to the decrease in petroleum prices, in addition to a serious destruction of crops caused by a climatic phenomenon. These two shocks caused a current account deficit of more than 8% of GDP. The economy needed to finance this deficit through an increase in its debt, or a reduction in its existing reserves of foreign assets as it did in its previous recessions, however the financial crisis that broke out in 1999 brought as a consequence the freezing of bank accounts of the local financial system, a strong internal debt, and a decrease in international reserves to control the devaluation of the currency, in addition to international credit restrictions. Therefore, in order to adjust the deficit, the agents had to strongly reduce their domestic consumption.

Across the sample, government consumption is positively correlated with GDP. Government consumption is pro-cyclical and coincides with the GDP cycle. This result differs from the evidence found for industrialized countries, where the behavior is a-cyclical. The high volatility of this variable suggests that government consumption could play an important role causing economic fluctuations. Another relevant characteristic is the lower volatility of this variable after dollarization.



According to Savastano in 1999, he maintains that one of the benefits of official dollarization is that it generates fiscal discipline since it eliminates the possibility of monetary issuance to finance the fiscal deficit. Another important point is the economic cycle in Ecuador is the presence of large fluctuations in investment. As we can see about the fraction of GDP, the gross training of 72 Universities, 15 Social and Human Sciences Magazine No. 15, 2011, fixed capital of the Salesian Polytechnic University of Ecuador increased from a low 17% at the beginning of the decade of the 90 having 28% reaching the end of the year in 2009.

The imports are extremely procyclical, therefore exports are weakly procyclical. The procyclical pattern of imports may be associated with the strong procyclical of investment made by the country. Having an interesting result in which the lower volatility of the cyclical component of imports arises after dollarization, this may be the direct result of the lower volatility of the exchange rate, since with the dollarization of the country, transaction costs are reduced related to trade in goods.

### **2.1.1. Inflation.**

Basically, Inflation consists in the general increase of prices over a period, reducing the purchasing power of the currency. The Ecuadorian economy has suffered its consequences several times throughout its history.

In a healthy economy, although prices vary, they do so in isolation and according to changes or consumer preferences, demand; or the quantity of goods and services produced, the supply on the contrary, during an inflation process, the increase in prices has not been caused by variations in the supply or demand of goods and services. It is the result of inflating the means used to carry out transactions in the market.

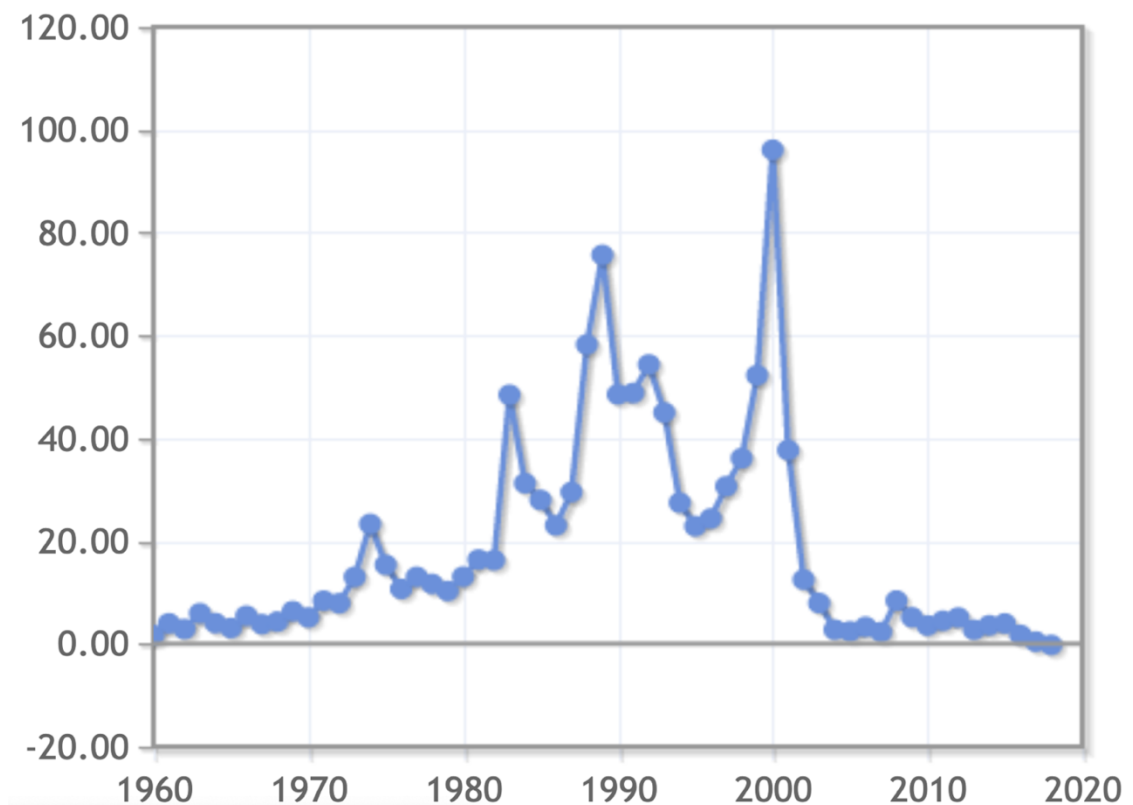


## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



The value of inflation, in consumer prices (annual%) in the Republic of Ecuador was -0.22 in 2018, a key point in that period as shown in the figure. Therefore, figure illustrates, during the last 58 years, in such a way that the detailed figure that in the year 1961 starting with an inflation of 1.68% and consecutively the years is shown in the figure the inflation rate and ending with an inflation of -0.22% in the year 2020. Therefore, the indicator has achieved a maximum amount of 96.09 in 2000 and a minimum value of -0.22 in 2018 as shown in the figure.

**Figure 6: Details of Consumer Price Inflation (annual%).**



**Source:** (Mundi).



The year 1998 was marked by the typical instability of an electoral year. During that period, even after the political change, the economic program based on the exchange rate band was maintained, and so avoided greater inflationary pressures, although it did not correct the fundamental economic imbalances. Inflation was increasing, as it went from an annual variation of 30.7% in January to 43.4% in December 1998.

The slowdown in the economy became evident in 1998, which was reflected in the Gross Domestic Product (GDP), which grew by just 0.4%. This result reflects the adverse shocks that the economy had to face, the fall in the price of petroleum, the effects of the phenomenon (El Niño), that complicated the production on the coast especially, and also the marketing, due to floods and the destruction of the network country road and social infrastructure, as well as the impact of the political instability that prevailed throughout the year.

### **2.1.2. Fiscal Deficit.**

The deficit is the gap, the negative balance in the government accounts. Generally, governments generate inflation to cover it. Any government party that makes public spending to satisfy the demands of a sector of the population can obtain the approval in that moment or even in the short term, but the problem usually appears later. The pre-reform administration was tempted to pass the bill later, thus avoiding the bitter pill of strict spending management built on tax revenue.

Therefore, to measure the magnitude of the deficit in the fiscal accounts and to be able to compare it with other years, the deficit was expressed as if it was part of the total goods and services produced in a fiscal year as a percentage of GDP.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



According to the statistics highlighted by the Central Bank of Ecuador, it is illustrated that in 2020 the public deficit in the Republic of Ecuador reached 6.14% of GDP, with that percentage places the country at the 116th place in the ranking deficit respect to GDP, in a total of 191 countries, and they are ordered from lowest to highest.

Therefore, the Republic of Ecuador has maintained its position in the ranking respect to 2019, obtaining a deficit of 2.74% of GDP.

In absolute terms and according to the record of the year 2020, the Republic of Ecuador registered a deficit of 6,068 million dollars, with a deficit of 2,965 million dollars in the year 2019, therefore this is lower than the mounts reached in 2020.

**Table 7: Evolution of the Deficit.**

Years	Deficit (M.€)	Deficit (%PIB)
2020	-6.068	-6,14%
2019	-2.965	-2,74%
2018	-2.210	-2,06%
2017	-4.653	-4,46%
2016	-8.226	-8,23%
2015	-6.076	-6,12%
2014	-5.314	-5,22%
2013	-4.348	-4,57%
2012	-824	-0,94%
2011	-100	-0,13%
2010	-944	-1,36%
2009	-2.232	-3,57%
2008	347	0,56%
2007	1.325	2,60%
2006	1.335	2,85%
2005	266	0,64%
2004	683	1,87%
2003	324	1,00%
2002	200	0,70%
2001	8	0,03%



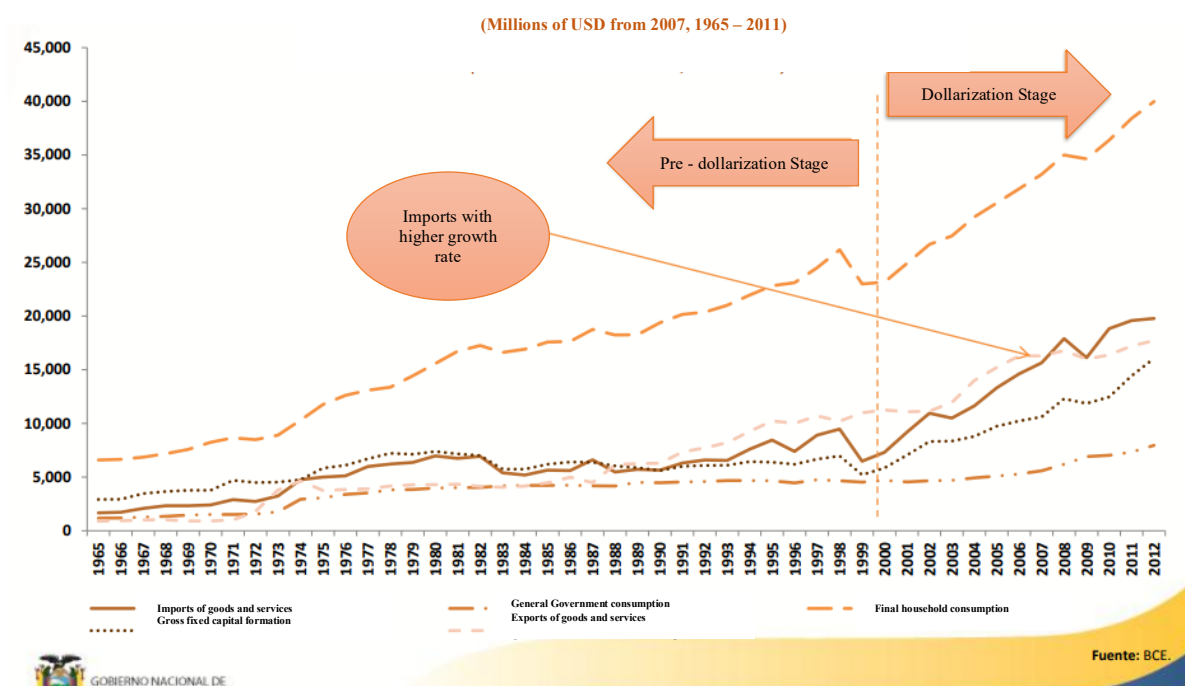
2000	-56	-0,31%
1999	-911	-4,62%
1998	-1.341	-4,88%
1997	- 730	-2,70%
1996	-791	-3,29%
1995	-445	-1,94%
1994	0	0%
1993	0	0%

**Source:** (Datosmacro.com, Expansion, 2020).

### 2.1.3. Gross Domestic Product.

Final Household Consumption is the most important component of GDP, which has grown steadily throughout the period, and particularly in these recent years. It is worth highlighting the behavior of the Gross Formation of Fixed Capital (investment), which is closely related to the evolution of imports of capital goods and presents an outstanding dynamism of the public sector.

**Figure 14: Evolution of the Main Components of GDP.**



**Source:** (Ecuador B. C., ESTADÍSTICAS MACROECONÓMICAS PRESENTACIÓN ESTRUCTURAL 2013).



**Table 1: Evolution: Annual GDP Ecuador.**

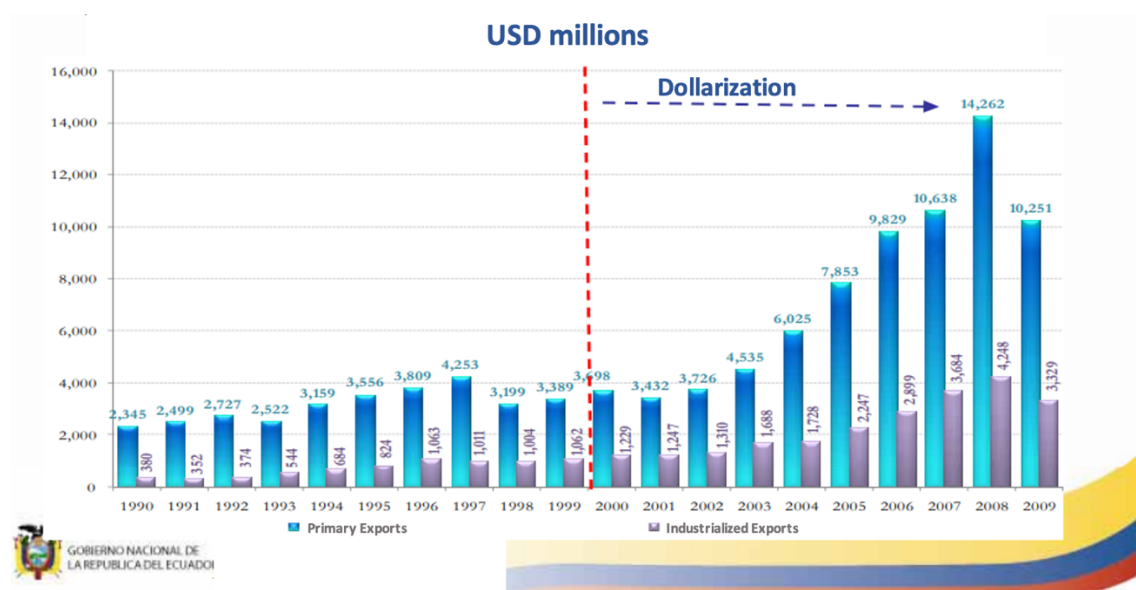
Years	Annual GDP	Var. GDP (%)
1990	12.236 M\$	3,0%
1989	12.049 M\$	0,3%
1988	12.277 M\$	10,5%
1987	12.910 M\$	-6,0%
1986	13.816 M\$	3,1%
1985	18.830 M\$	4,4%
1984	16.101 M\$	4,2%
1983	15.129 M\$	-2,8%
1982	17.214 M\$	1,2%
1981	17.243 M\$	3,9%
1980	16.840 M\$	4,9%
1979	14.175 M\$	3,7%
1978	11.923 M\$	5,7%
1977	11.026 M\$	1,6%
1976	9.092 M\$	7,4%
1975	7.732 M\$	11,0%
1974	6.599 M\$	11,2%
1973	3.892 M\$	14,0%
1972	3.186 M\$	5,0%
1971	2.754 M\$	6,3%

**Source:** (Datosmacro.com, Expansion).

#### **2.1.4. Exports.**

In the international division of labor, the Ecuadorian economy has historically fulfilled the role of supplier of raw materials and its dynamism has been characterized by cyclical booms in the export of primary goods: cocoa (1866-1925), bananas (1946-1968) and petroleum (1972-2010).

**Figure 15: Evolution of Exports of Primary and Industrialized Products.**



**Source:** ((www.bce.fin.ec), 2010).

If we refer to the exports of industrialized products with high added value between the years 1990 to 2009, where it is represented with a 22% of the country's total exports. Due to the exports of primary products in little added value having an average of 92% in only four basic products: such as petroleum, bananas, shrimp, and natural flowers, for that reason petroleum had had the largest participation in the exports that were obtained around 40,2% between the years 1990 to 1999 and 62% between the years 2000 to 2009.

On the other hand, as shown in the figure, the range during the years will be considered from the 90s to 2009 and as we refer to in the 90s, we see the evolution of the country's exports. For this reason, they will be considered the key points during the growth or decline of exports that existed in those years.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



**Table 2: Export Details.**

Years	Export	Export (%GDP)		Years	Export	Export (%GDP)
<b>2000</b>	4.926,6 M\$	26,89%		<b>1984</b>	2.620,4 M\$	16,27%
<b>1999</b>	4.451,1 M\$	22,55%		<b>1983</b>	2.347,7 M\$	15,52%
<b>1998</b>	4.202,9 M\$	15,30%		<b>1982</b>	2.327,4 M\$	13,52%
<b>1997</b>	5.264,4 M\$	19,49%		<b>1981</b>	2.451,4 M\$	14,22%
<b>1996</b>	4.899,9 M\$	20,39%		<b>1980</b>	2.480,8 M\$	14,73%
<b>1995</b>	4.307,2 M\$	18,75%		<b>1979</b>	2.104,2 M\$	14,84%
<b>1994</b>	3.819,9 M\$	18,06%		<b>1978</b>	1.557,5 M\$	13,06%
<b>1993</b>	2.903,7 M\$	16,56%		<b>1977</b>	1.436,3 M\$	13,03%
<b>1992</b>	3.007,4 M\$	20,03%		<b>1976</b>	1.257,5 M\$	13,83%
<b>1991</b>	2.851,5 M\$	20,77%		<b>1975</b>	973,9 M\$	12,60%
<b>1990</b>	2.714,3 M\$	22,18%		<b>1974</b>	1.123,5 M\$	17,02%
<b>1989</b>	2.353,8 M\$	19,54%		<b>1973</b>	532,0 M\$	13,67%
<b>1988</b>	2.192,4 M\$	17,86%		<b>1972</b>	326,3 M\$	10,24%
<b>1987</b>	1.927,8 M\$	14,93%		<b>1971</b>	199,1 M\$	7,23%
<b>1986</b>	2.171,5 M\$	15,72%		<b>1970</b>	189,9 M\$	6,63%
<b>1985</b>	2.904,7 M\$	15,43%				

**Source:** (Datosmacro.com, Ecuador - Exportaciones de Mercancías, 2019).

### 2.1.5. International Reserves.

International Reserves measure, indirectly, the degree of vulnerability of a country and how it changes the world's economy. The variations in the value of the currencies, the prices of the raw materials or the manufactured products. Will determine variations in the amounts obtained by exports and those required for importation.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



The non-performing loan portfolio of private banks increased from 9.2% at the end of 1998 to 51.8% in November 1999. The weakening of an activity prevented inflation from spiraling out of control despite the accelerated depreciation of the sucre and the strong increase in the monetary issue. In contrast, an improvement in petroleum prices and the terms of trade helped to increase in petroleum exports, in this way, exports at the end of the period had decreased by 3%, however, imports decreased by 35%, and this generated a significant trade balance surplus, which caused a current account surplus of 6% of GDP. Access to foreign credit was made difficult and foreign direct investment showed a slight decline. Therefore, there was a 40% of reduction in the international reserves between 1998 and 1999.

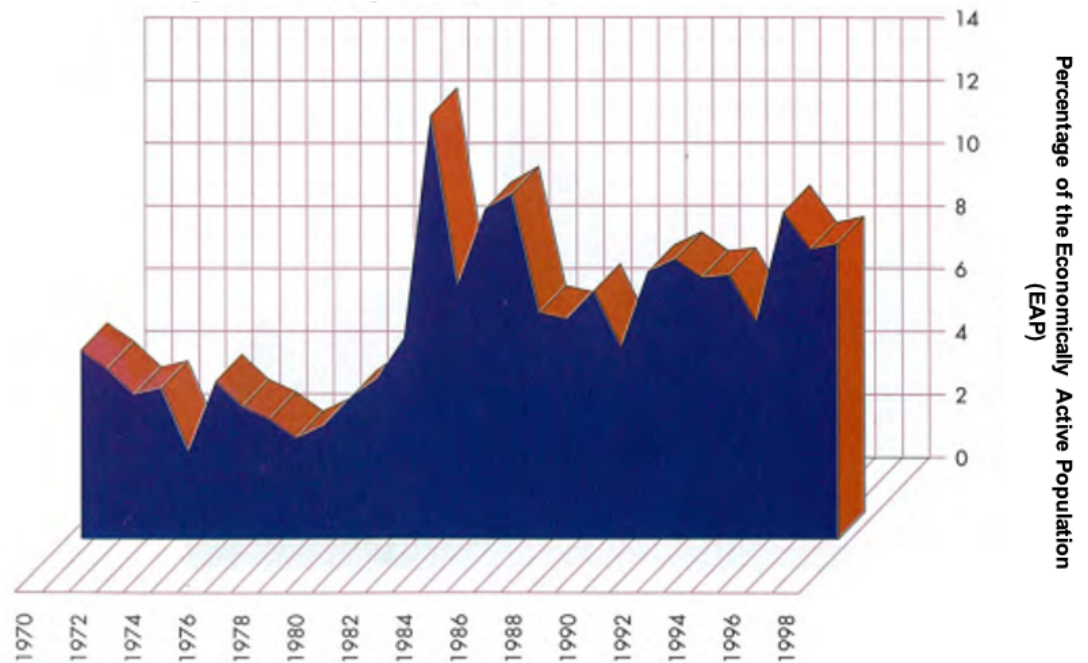
(([www.bce.fin.ec](http://www.bce.fin.ec)), 2010).

### **2.2. Relevant Historical Economic Facts in the Economy.**

An important point in what happened between 1998 and 2000, is that the Republic of Ecuador experienced a deep economic crisis when the banking system collapsed, for external and internal reasons, which produced chaos in the country. therefore, among the former, the growth of the short-term interest rates of the US creditors influenced. For this reason, among other external factors, were El Niño phenomenon in 1998, and caused losses for 2,800 million dollars and an impact of 13% on the GDP of that year; consequently, the remnants of the Cenepa war, in 1995, as well as the Asian crisis of 1997 that determined the fall of the "seven dragons", whose tail struck Ecuador in 1999.

## 2.2.1. Table Comparative of the Unemployment Rate in the decade of the 70's, 80's and 90's.

Figure 16: National Unemployment.



Source: (Davalos, 1999).

The figure illustrates unemployment between the years 1970 to 1988, consequently having a high unemployment rate in the 70s with a high percentage of 6.0%, therefore in 1974 the unemployment rate was lower, unemployment with 2.8%.

In addition, in the 1980s, it suffered a great impact on the unemployment rate with a percentage of 13.5% in 1983, therefore was almost double that in the 1970s. In the 90's it underwent a little change compared to the 70's and 80's, and in 1996 with a high percentage of 10.4%.

In general, in these three decades where there was the highest unemployment rate was in 1983 with 13.5% and the lowest unemployment rate was in 1974 with 2.8% as shown in the figure.

## 2.2.2. Table of External Indebtedness of Ecuador in the 70's, 80's and 90's.

Table 3: Evolution of Public Debt (1972 – 2003).

Years	Amounts in Millions of US \$			As% of GDP		
	External Debt	Internal Debt	TOTAL DEBT	External Debt	Internal Debt	TOTAL DEBT
1972	325	-	325	16,8	-	16,8
1976	636	-	636	11,2	-	11,2
1980	3.530	434	3.964	29,7	3,6	33,3
1985	7.955	781	8.736	67,2	6,6	73,8
1990	12.052	273	12.325	116,4	2,6	119,00
1991	12.629	240	12.869	111,3	2,1	113,40
1992	12.537	845	13.382	104,6	7	111,60
1993	13.025	1.213	14.238	86,5	8,1	94,60
1994	13.758	1.218	14.976	74,1	6,6	80,70
1995	12.379	1.252	13.631	61,3	6,2	67,50
1996	12.628	1.471	14.099	59,4	6,9	66,30
1997	12.579	1.322	13.901	53,2	5,6	58,80
1998	13.185	2.461	15.646	56,7	10,6	67,30
1999	13.760	3.112	16.872	82,5	18,7	101,20
2000	11.229	2.830	14.059	70,5	17,8	88,2
2001	11.367	2.809	14.176	51,6	12,8	64,4
2002	11.430	2.771	14.201	43,7	10,6	54,4
2003 (mar)	11.226	2.826	14.052	39,1	9,8	48,9

Source: (CANJE, CONVERSION Y REDUCCION DE DEUDA PUBLICA: EL CASO ECUATORIANO, 2003)

It should also be mentioned that the increase in the nominal value of the external debt, occurs even though Ecuador obtained a discount of approximately 42% of the facial value of the main trade debt when the so-called Brady Bonds, these bonds are issued by governments within the framework of the refinancing of the outer debt of 90 indices. Typical emissions are the FRB (by floating rate bond), PAR and discount in 1995, and an additional discount close to 40% when Brady Bonds were replaced to Eurobonds by Global Bonds in 2000.





### 2.2.3. Table Comparative of Variation in the Value of a Barrel of Petroleum.

The data show us effectively the price of petroleum in Ecuador within that period was very variable even having casualties and even more when the production did not accompany this price in repeated occasions, and the country passes through economic hardship since within of this period and the previous one we had already become dependent on the sale of barrels of petroleum abroad for that and for taking the price of foreign petroleum as a reference for ours, it was often wrapped in these problems, is opening to other products that can be corrected a bit the gap generated by the fall of the petroleum price by the country in the following table, the data set out in the afore mentioned Ecuador.

Table 4: Petroleum Production in the 70's, 80's and 90's.

Years	Unit Value /Barrel Petroleum (Thousands of USD)	Total Production	GDP Petroleum (Thousands of USD)
1970	-	-	-
1971	-	-	-
1972	\$ 2,50	28758	\$ 71.895,00
1973	\$ 4,20	66357	\$ 278.699,40
1974	\$ 13,70	64789	\$ 887.609,30
1975	\$ 11,50	58938	\$ 677.787,00
1976	\$ 11,50	68419	\$ 786.818,50
1977	\$ 13,00	66779	\$ 868.127,00
1978	\$ 12,50	73896	\$ 923.700,00
1979	\$ 23,50	78320	\$ 1.840.520,00
1980	\$ 35,20	74770	\$ 2.631.904,00
1981	\$ 34,50	77028	\$ 2.657.466,00
1982	\$ 32,80	77072	\$ 2.527.961,60
1983	\$ 28,10	86566	\$ 2.432.504,60
1984	\$ 27,50	93869	\$ 2.581.397,50
1985	\$ 25,90	102417	\$ 2.652.600,30
1986	\$ 12,70	106994	\$ 1.358.823,80
1987	\$ 16,40	63413	\$ 1.039.973,20
1988	\$ 12,50	111284	\$ 1.391.050,00
1989	\$ 16,20	101658	\$ 1.646.859,60





## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



1990	\$	20,30	104511	\$	2.121.573,30
1991	\$	16,20	190387	\$	3.084.269,40
1992	\$	16,90	117034	\$	1.977.874,60
1993	\$	14,42	124149	\$	1.790.228,58
1994	\$	13,68	135862	\$	1.858.592,16
1995	\$	14,83	138768	\$	2.057.929,44
1996	\$	18,02	138246	\$	2.491.192,92
1997	\$	15,45	141708	\$	2.189.388,60
1998	\$	9,20	137079	\$	1.261.126,80
1999	\$	15,50	136293	\$	2.112.541,50
2000	\$	24,87	146209	\$	3.636.217,83

**Source:** (Hernández, 2015).

### 2.3. Additional Conditioning Factors of the Crisis.

#### 2.3.1. Cenepa War 1995 and Granting of the Territory as part of the Peace Agreement in 1988.

On October 26th, 1998, the president of Peru, Alberto Fujimori, and the president of Ecuador, Jamil Mahuad, signed the document at the Itararaty Palace, the headquarters of the Brazilian Foreign Ministry.

With this act, they ended more than 50 years of conflict between the two countries, and it was possible to delimit the 78 kilometers of the border area in dispute, in the middle of the jungle of the Cordillera del Cóndor.

The Act established that the limit passes through the high peaks of the mountain range and the creation of two natural parks in the bordering area.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



High were the costs generated by the Cenepa war, between January and March 1995, as well as direct victims. Military mobilization is considered the subsequent presence of the members of Military Observers Mission Ecuador-Peru (MOMEPE). The positive factor was the unity of all sectors and the government chaired by the president Sixto Durán Ballén, who immortalized the phrase: "Ecuador, not a step back".

"During the development of the conflict, interest rates in the country were shot at 110%, the savings account withdrawn about 300 billion sucres (about 125 million dollars), inflation shot from 16 to 21%, A 2% war tax was created to financing the vehicles, which produced an income of more than 150 billion (about 65.5 million dollars), the stock exchanges of Quito and Guayaquil reduced the volumes negotiated from 4,000 million, And if the state of war was more than 22 days needed to sign the Itamaraty Agreement, the country was going bankrupt" (Wikipedia, Guerra del Cenepa 1995, s.d.).

Calculations of economic analysts of the time refer that the war meant to Ecuador a 250 million dollar expenditure. Additionally, the presence of the MOMEPE meant at the beginning a spending of 3 million dollars per day.



### **2.3.2. Bank Holiday March 8, 1999.**

In 1999, the Central Bank of Ecuador to help the country and save the state budget deficit that prevented it from covering with public spending, implemented a series of strategies that would help the deviating measures of Sucre that were generally implemented since 1998. Therefore, the effect of decreeing inflation was the depreciation of the population's savings, causing a paralysis in the economic movements. In measures that the Central Bank and the Ecuadorian population immediately began to exchange all the savings of the national currency, Sucre, for the US dollar. consequently, this meant that many savers decided to withdraw their funds to change it into dollars, generating a banking panic in the entire population of the country.

On March 8th, 1999, a 24-hour banking holiday was declared, which finally lasted 5 days. All financial operations were suspended to prevent financial institutions from being chain by the mass withdrawal of savers. Meanwhile, Mahuad decreed a freezing of deposits for 1 year, of the accounts of more than 2 million sucres. Even so, financial institutions continued to close their operations.

During the economic crisis, approximately 70% of the closure of the country's financial institutions occurred (including both commercial banks and savings and credit cooperatives). In 1999, economic activity was -7% or -8% and the Sucre lost its value for 195%. Economic losses amounted to 8,000 million dollars. The capital income had fallen by 32% during that year. Unemployment increased from 9% to 17% and underemployment increased from 49% to 55%. 1.6 billion dollars were used from Ecuador state funds to banks that broke. The circulating means increased to an annual proportion of 170% both to cover the state fiscal deficit (aggravated by the lowest price of Ecuadorian petroleum in the decade, 6 dollars per barrel) and to pay depositors from broken financial institutions. (Mesías, 2002.).



Therefore, the price of a dollar went from 4000 sucres in mid-1998, which is why at the end of 1999 the sucre passed 25,000 sucres, equivalent to one US dollar. In general, this happened on Sunday, January 9th, 2000, where that year's president of the Republic, Jamil Mahuad, announced on a television channel that information and explained everything that was happening in the country at that time.

### **2.3.3. Dollarization of Ecuador.**

Ecuador officially adopted the dollar as a legal currency in 1999, after the country suffered a great economic and inflation crisis at the end of the 1990s. Between 1998 and 1999 the devaluation of the currency almost leads to Ecuador to become in a failed state, in addition to an being accompanied by a series of bankruptcy of banks and savings cooperatives.

Due to which, how could it be explained that in the Government of Jamil Mahuad in 1999 said dollarization began. At that time, they thought it was one of the great controversies in this regard, it was not only the loss of Ecuadorian monetary sovereignty, but the exchange rate that the country had to adapt, with an extreme exchange rate of 25,000 sucres is an American dollar. For this reason, the counterproductive actions of the Central Bank of Ecuador and the Internal Revenue Service are added to hinder the process. It could be declared in large part, despite the relative inflationary stability of the country, and one of the reasons for the increase in Ecuadorian migration to other countries because they wanted to flee from the chaos that they were facing in the country and the collapse of the middle classes of Ecuador, who lost their savings.



#### **2.3.4. Falling Petroleum Barrel.**

The collapse of the world petroleum price between 1998 and 1999, the international cost of Ecuadorian petroleum decreased to US \$ 6.30 per barrel according to those years, for this reason the Ecuadorian State highly dependent on the petroleum industry to finance the petroleum industry state budget. Faced with this situation of fiscal deficit to the country, great problems are generated to pay salaries to the public sector and other current expenses, so the State must comply with its responsibilities in paying the external debt in order to access more international credit and So try to get out of this problem; Therefore, the response of the central bank of Ecuador was to increase the printing of national currency to pay bureaucratic salaries and other internal expenses of the State, causing a devaluation that will become hyperinflation that will be more than 50% of the annual inflation of the Ecuadorian Country.

For this reason, the Central Bank of Ecuador also authorized the impression of success on its capacity as a last resort lender of the country's financial system. This reason will help to inject funds into the banks and thus prevent them from closing and chaos. Consequently, in 1998, the Ecuadorian State had increased the money supply by 44% in relation to the previous year, according to statistical details.

#### **2.4. Natural Disasters: “El Niño Phenomenon “1988 and 1999.**

El Niño is a meteorological phenomenon that heats the surface of the Pacific Ocean throughout Ecuador. Therefore, when this phenomenon is generated, the wind weakens in the central and western Pacific Ocean, where the temperature of the surface increases. Thus, the additional heat unbalanced the atmospheric circulation, and causes, environment droughts, overflow, or unusual humidity in different regions of the planet.



The phenomenon El Niño is a stage of the ENOS meteorological pattern, the Southern Child-Oscillation, and has three phases:

1. **El Niño:** In this case it is presented when the surface of the Pacific Ocean warms up. Therefore, this causes rains to decrease in Indonesia and increase in the American continent.
2. **La Niña:** This phenomenon has an opposite effect to El Niño, so, the surface of Pacific Ocean gets cold. For this reason, there the rain increases in Indonesia and decrease in the American continent.
3. **Neutral:** In this phase is when the surface temperature of the sea remains close to the average parameters.

The abnormal climatic conditions of TSSC (the Southern Swing child) usually last periods ranging from twelve to eighteen months. During these periods, intense rains, landslides, floods, droughts, and forest fires are developed in different and distant areas.

The total amount of the damage caused by the phenomenon The Child in 1997-1998 in Ecuador is estimated up to US \$ 2,869.3 million. Of these, US \$ 783.2 million (27%) correspond to direct damages and US \$ 2,086.1 million (73%) to indirect damages. (Salud, 2000).

## **2.5. Chronology of Presidents of the Republic of Ecuador (7 presidents in 10 years).**

**Table 5: Details of the Presidents of the Republic of Ecuador during the 90's up to the Present.**

<b>Years</b>	<b>Presidents</b>	<b>Politic Party</b>	<b>Clarifications</b>
<b>1988 - 1992</b>	Rodrigo Borja Cevallos	Democratic Left (DL)	Full period.
<b>1992 - 1996</b>	Sixto Durán Ballén Córdovez	Republican Unity Party (RUP)	-



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



<b>1996 - 1997</b>	Abdalá Bucaram Ortiz	Ecuadorian Roldosista Party (ERP)	After a popular mobilization, Bucaram was removed by Congress for "mental incapacity to govern."
<b>1997</b>	Fabián Alarcón	Alfarista Radical Front	President of Congress, appointed interim president before the declaration of impeachment initiated against President Bucaram
<b>1997</b>	Rosalía Arteaga Serrano	Independent Movement for an Authentic Republic (MIRA)	Vice President of the government of Bucaram. She assumed the presidency for two days (between February 9 and February 11) when Congress declared that Bucaram was not in her power to govern.
<b>1997 - 1998</b>	Fabián Alarcón	Alfarista Radical Front	President of Congress, appointed interim president before the declaration of impeachment initiated against President Bucaram
<b>1998 - 2000</b>	Jamil Mahuad	Popular Democracy - Christian Democratic Union (PD-CDU)	Presidency interrupted by civil-military coup
<b>2000</b>	<ul style="list-style-type: none"> <li>Col. Lucio GutiérrezBorbúa</li> <li>Carlos Antonio Vargas</li> <li>Carlos Solórzano</li> </ul>	-	<ul style="list-style-type: none"> <li>Government of the National Salvation Board</li> <li>Head of the Board: Col. Lucio Gutiérrez</li> <li>Carlos Vargas was president of CONAIE</li> <li>Carlos Solórzano was former president of the Supreme Court</li> </ul>
<b>2000</b>	<ul style="list-style-type: none"> <li>Gen. Carlos Mendoza Poveda</li> <li>Carlos Antonio Vargas</li> <li>Carlos Solórzano</li> </ul>	-	Council of State (board)
			Vice-president,



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



<b>2000 - 2002</b>	Gustavo Noboa	Popular Democracy - Christian Democratic Union (DP-UDC)	assumed the presidency on January 22, 2000, before the collapse of the Mahuad government
<b>2002 - 2005</b>	Lucio Gutiérrez	Patriotic Society Party (PSP)	Presidency interrupted
<b>2005 - 2007</b>	Alfredo Palacio Gabinete/Cabinet	-	Does not belong to any political party
<b>2007 - 2017</b>	Rafael Correa Gabinete/Cabinet	Country Alliance	Being the Ecuadorian president who has remained in power continuously for 10 years
<b>2017 - 2021</b>	Lenín Moreno Garcés	Country Alliance-Independent	He complied with in the established period
<b>2021 - nowadays</b>	Guillermo Lasso Mendoza	CREO movement	He is the current president of the Republic of Ecuador

**Source:** (Wikipedia M. d., 2009; 2021)

As shown in the table, the effects caused by ungovernability denote several details of circumstances such as: populism that incorporates impoverished and excluded sectors into politics, regionalism through the existence of differentiated political cultures and settled in the regions of the Coast and Sierra, a level of corruption that has been increasing, accentuating with each government.

In what can be said, the political and social crises handled by each of these governments are nothing more than the accumulation of risk factors for the economy of the Ecuadorian country in that decade, where corruption and loans enlarging the foreign debt among others. Factors caused the bubble of bad economic versatility to increase, sowing economic and social instability for the country.





### 3. Chapter: Implementation of the Economic Program.

#### 3.1. The Principles of the Economic Program.

The economic program to get out of the 90's crisis that was based on the banks was based on the actions stipulated by the government in which the banks received economic aid by appeasing the problems using the following financial mechanisms:

- ✓ Purchase at Par, by the Central Bank, of "bad" loans with government bonds that provide market returns.
- ✓ The second mechanism is like the previous one with the difference that there is no obligation to repurchase the past due portfolio, but in these programs some bank officials benefited since they had the obligation to work for the Central Bank, to help to accelerate the recovery of credits.
- ✓ The Central Bank granted loans with subsidized interest rates so that the institutions with problems acquire other titles that grant market returns and thus obtain a flow of fresh money.

The so-called "**Bank Holiday**" was announced by the Superintendent of Banks, Jorge Egas Peña, who announced that this mechanism was to prevent:

- ✓ Deposit withdrawals.
- ✓ Preserve the level of the international monetary reserve.
- ✓ Limit the instability of the exchange market and stop a greater acceleration in the price increase.



The Banking Holiday was decreed during the government of Jamil Mahuad that decreed that depositor could not withdraw their savings to avoid the collapse of the system.

One of the main causes of the banking crisis is the lack of Control on the part of the Superintendency of Banks, for the granting of linked credits and especially to shell companies that turned out to be owned by the bankers themselves or their relatives, thereby harming thousands of depositors.

Rising inflation and recession, business bankruptcies, rising unemployment, failure to pay salaries to public servants for several months, temporary seizure (called freezing) of savings and working capital of companies of Ecuadorian citizens was the trigger to experience an economic and social crisis.

### **3.2. Structural Reforms.**

The failed economic program in 1998 was the consequence of previous events that took place within what is called the 'legal cobweb'. This spider web is named after the number of laws in favor of a corrupt and inadequate banking administration in the country.

On May and July in 1994, the General Law of Institutions of the Financial System and its Regulations were published in the official registry respectively. The main objective of this law was to suppress and replace scattered laws to favor the country's bankers, in fact, the laws and some of the previous decrees were repealed in this law. (Acosta & Juncosa, 2000 ).



In addition, government-run credit programs through private banks were terminated, reserve requirements were reduced and rationalized, explicit interest rate controls were removed, Ecuadorian banks were allowed to conduct credit transactions, and deposits in dollars or foreign currency and accounts, the prohibition that prevented foreign banks from attracting local resources in savings and term deposits was eliminated, and Ecuadorian banks were allowed to carry out off-shore operations outside the country. pretending that this law would facilitate the transition from a restricted banking scheme supervised by the government to an universal or global banking system.

### **3.2.1. The Stabilization of Economy.**

#### **3.2.1.1. The Referral Program.**

A reference to a similar aid system occurred in Panama between Ecuador and Panama, it has been indicated with different statistics of the financial indicators of the banks of both countries that:

- a) The banking system of Panama presents better financial results than Ecuador.
- b) The amount of loans and deposits of Panamanian banks are up to 5 times greater than those of Ecuador, despite the difference in territorial size.
- c) There is an extensive difference favorable to Panama of foreign banks over national banks.
- d) Ecuador is the country with the least presence of foreign banks in its banking system, in the sample of selected Latin American countries.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



**Table 6: Details of Central Banks participation in the Banking Crises in some Countries of Latin America in the 90's.**

Countries	Years	Observation
Bolivia	1994	Small bank debts were canceled, managed to incorporate money from private banks and the government to face the crisis.
Ecuador	1999	The central bank failed to absorb liquidity fully totally.
Perú	1999	Monetary aggregates remained controlled (PUT aid restriction)
Colombia	1999	monetary aggregates remained controlled (PUT aid restriction)
Guatemala	2001	Small bank debts were canceled, managed to incorporate money from private banks and the government to face the crisis.
Dominican Republic	2003	The central bank failed to fully absorb liquidity
Venezuela	2003	The central bank failed to fully absorb liquidity

**Source:** (H., 2012).

Ecuador is an example of the excessive dependence that financial safety nets have on central bank money. The Central Bank of Ecuador (CBE) provided extensive aid as PUT and paid the insured deposits and, later, a general guarantee, which together represented about 12% of GDP by the end of 1999. The Central Bank of Venezuela (CBV) also financed deposit withdrawals, but no general guarantee was explicitly provided.



Regarding minor crises, there are several episodes that illustrate the excessive use of central bank money, including the cases of Bolivia (1994). The Central Bank of Bolivia paid most of the deposits in two small banks that were in serious trouble, although it managed to incorporate resources from private banks and government money in the resolution of the crisis.

### **3.2.1.2. The Program Accumulation of Rights.**

It could be said that banking crises are sudden changes that affect financial institutions and bring serious consequences to the main line of business of banks due to the scarcity of resources or illiquidity, which produces panic, suffering and despair between the citizens, who Prisoners of this sentiment go to the banks to withdraw their resources in a massive way.

In general, all human beings have rights inherent to our condition. Any action or omission that has serious effects on those rights, to the point of rendering them impractical, can be configured as a violation of human dignity. Regarding its configuration, it is recognized that there is a violation when there is one or more injuries to fundamental rights, which can be classified according to their effects in individual or general violations. Liability will depend on the damage caused and what or who caused it.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



The detailed measures are framed within a typology of serious violation of rights, which is possible to be carried out in the banking crisis. However, it should not be confused with measures that, based on necessity, may temporarily restrict rights without violating them. From this topic we go on to illustrate this relationship to justify the application of the elements of violations of rights and banking crises with serious consequences for the dignity of people. (Source: (Soliz, 2016).

**Table 7: Relationship between Certain Banking Financial Crises and Massive, Systematic, and Serious Violations of Rights.**

Criterion	Victims	Period	Planning	Character: Inhuman and Degrading
Banking Crisis - Violation of Rights caused by speculation and / or corruption	<ul style="list-style-type: none"> <li>All the population.</li> <li>No access to deposits.</li> <li>Forced evictions from homes.</li> <li>Massification of unemployment.</li> </ul>	<ul style="list-style-type: none"> <li>All the population.</li> <li>No access to deposits.</li> <li>Forced evictions from homes.</li> <li>Massification of unemployment.</li> </ul>	<ul style="list-style-type: none"> <li>Laws that provide unlimited guarantees for the financial system.</li> <li>Bank rescue through laws or states of emergency</li> <li>Amnesties</li> </ul>	<ul style="list-style-type: none"> <li>Detriment of generalized psychological health in the population. Massive migration</li> <li>Do not access health, neither social security.</li> <li>They do not judge those responsible.</li> </ul>
Violation of Rights in Banking Crisis	<ul style="list-style-type: none"> <li>Effects on civil rights, politicians; and economic, social, and cultural rights.</li> <li>The right to property over all deposits.</li> <li>State Assignments - ESCR (Economic, Social and Cultural Rights)</li> </ul>	<p>The holiday to seize money: permanent affectation.</p>	<ul style="list-style-type: none"> <li>States assumes the debt of banks.</li> <li>Systematically deny the violation of rights systematically.</li> <li>It is not investigated.</li> </ul>	<ul style="list-style-type: none"> <li>Impoverce the population and affect the quality of life.</li> <li>Effective judicial tutelage is not guaranteed.</li> <li>Suffering and indignation.</li> </ul>

**Source:** (Soliz, 2016).



Finally, as shown, it is possible to identify a clear relationship between certain banking - financial crises and massive violations, systematic, and serious of rights. The lack of recognition of this fact in the face of the obvious violations of the constitutional system shows that it is not very effective in imposing limits on the relationship between governments and banks and by admitting the bailout of banks without protecting citizens, evidence that it has as purpose the violation of rights.

### **3.2.1.3. The Extended Fund Facility Program.**

In 1994, Ecuador accepted the Brady Plan, in the government of Sixto Durán Ballén, Alberto Dahik and Ana Lucía Armijos, the debt reached 13,758 million dollars, of which 6,990 were expired.

The Republic of Ecuador accepted the Brady Plan in 1994, in the government of Sixto Durán-Ballén, Alberto Dahik and Ana Lucía Armijos, therefore the debt reached 13,758 million dollars, and 6,990 as an overdue.

In general, with this Brady Plan, the Central Bank exchanges old debt, which had to devalue for the new debt through the issuance of debt securities guaranteed with United States Treasury Securities that were also purchased with loans from international financial organizations.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



Therefore, 52% of the external debt became Brady bonds, for them it could be said that each bond worthed \$ 250,000, and the principal payment would be made within a period of 30 years and if it is calculated in the year of 2025 it will be would pay the entire amount, so the interest would be paid in February and August of each year that would be 160 million dollars each semester, for these payments conditions were originated, since the foreign exchange brokers (banks and individuals) take advantage of the situation, and manage to increase the price of the dollar, to make money easily damaging the economy of the country.

Thus, 1600 bonds were also included in this negotiation, corresponding to the private foreign debt of businessmen and bankers. Therefore, this strategy includes the prohibition for the government to buy back debt at low values, so if they want to buy back, it must be at PAR with a nominal value.

**Table 8: Details of Some Amounts of External Indebtedness of Ecuador in the 90's.**

Years	Public Debt in Millions of Dollars	Private Debt in Millions of Dollars
1990	\$ 12.052,00	\$ 170,00
1991	\$ 12.629,50	\$ 172,40
1992	\$ 12.537,00	\$ 258,20
1993	\$ 13.025,00	\$ 605,90
1994	\$ 13.757,80	\$ 831,60
1995	\$ 12.378,90	\$ 1.555,10
1996	\$ 12.628,00	\$ 1.958,10
1997	\$ 12.579,10	\$ 2.520,10
1998	\$ 13.240,00	\$ 3.159,00
1999	\$ 13.372,00	

**Source:** (Ministerio de Finanzas del Ecuador, s.d.).





## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



**Table 9: Details of Some Amounts of external indebtedness of Ecuador in the 90's.**

Years	Total Public and Private Debt (Millions of Dollars)	Debt Service (Millions of Dollars)	Debt per Capita (Dollars)	External Debt as% of GDP	External Debt as% of Exports
1990	\$ 12.222,00	\$ 480.359,00	\$ 1.190.750,00	116%	448.7%
1991	\$ 12.801,90	\$ 415.248,00	\$ 1.219.050,00	111%	449%
1992	\$ 12.795,20	\$ 468.630,00	\$ 1.191.270,00	103%	412.5%
1993	\$ 13.630,90	\$ 431.340,00	\$ 1.241.320,00	94%	444.6%
1994	\$ 14.589,40	\$ 611.122,00	\$ 1.300.190,00	86%	379.4%
1995	\$ 13.934,00	\$ 1.400.755,00	\$ 1.215.880,00	77%	315.9%
1996	\$ 14.586,10	\$ 828.752,00	\$ 1.246.890,00	76%	298.3%
1997	\$ 15.099,20	\$ 1.363.605,00	\$ 1.264.910,00	75%	290.9%
1998	\$ 16.204.300,00	\$ 1.312.347,00	\$ 1.330.950,00	76%	395.1%
1999	\$ 16.700,00	\$ 1.344.850,00		114%	

**Source:** (Ministerio de Finanzas del Ecuador, s.d.).

In 1999 was the worst period the crisis as shown in Table 8 and 9 with detailed what happened in the 90s, the debt service covers three quarters of the current revenues of the State, that is, of taxes collected and petroleum revenues.

### 3.2.1.4. Macroeconomic Policies.

Since 1980, the economic growing in Ecuador has been insignificant.

Primary economic indicators showed it. But the most serious thing was that the income did not grow for two decades either in 1999 this indicator shows a setback that could not only compromise the economic stability of the country, but also the increasing levels of poverty.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



**Table 10: Macroeconomic Indicators of the Ecuadorian Economy in the years 90's.**

Years	GDP (Million US \$)	Population (Thousands)	GDP per Capita US \$	GDP Growth Rate per Capita %
1990	\$ 10.351,00	9.698	\$ 1.067,00	6.3%
1991	\$ 11.343,00	9.899	\$ 1.146,00	7.4%
1992	\$ 11.991,00	10.105	\$ 1.187,00	3.6%
1993	\$ 15.056,00	10.314	\$ 1.460,00	23.0%
1994	\$ 18.573,00	10.528	\$ 1.764,00	20.8%
1995	\$ 20.195,00	10.747	\$ 1.879,00	6.5%
1996	\$ 21.268,00	10.970	\$ 1.939,00	3.2%
1997	\$ 23.635,00	11.198	\$ 2.111,00	8.9%
1998	\$ 23.255,00	11.430	\$ 2.035,00	-3.6%
1999	\$ 16.675,00	11.667	\$ 1.429,00	-29.8%

**Source:** (Ecuador B. C., Information Monthly Statistics No. 1811).

The following table clearly shows that Ecuador has lost two decades of development with the macroeconomic indicators of the Ecuadorian economy, during the GDP per capita was sealed and in 1999 it was significantly reduced this fall would be more drastic if the dollar deflates , whose purchase value in them therefore the United States decreased in these 20 years because of inflation, even if it was moderate as observed, per capita product of Ecuadorians in 1999 was lower than that would be obtained.



### **3.2.2. The Modernization of the Economy.**

Recognized as a socio-economic process of industrialization and technification.

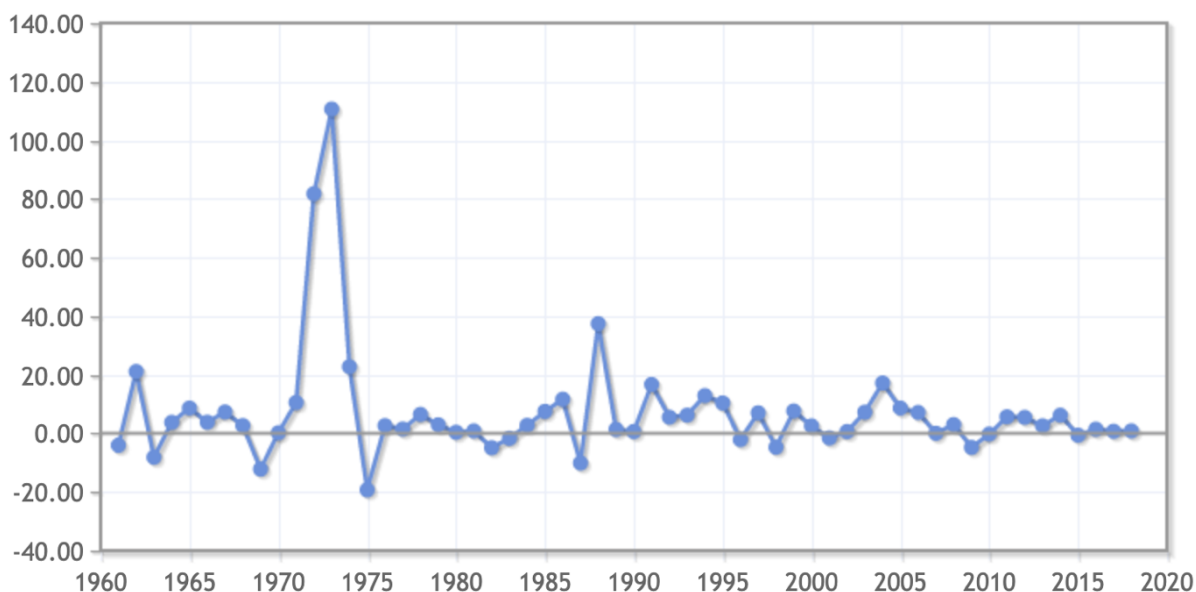
Modernization tries to identify the social variables that contribute to social progress and the development of societies. In order to guarantee the rights of vulnerable sectors and create better living conditions, governments since the 90's have been applying different mechanisms of economic support and promoting micro-enterprises, which is not enough if there is no culture or education and proper resources management at home.

#### **3.2.2.1. Goods and Market Services.**

The Ecuadorian market is divided into: petroleum (34.6%), crustaceans (17.5%), bananas (14.8%), Prepared and preserved fish (5.3%), refined oil (4, 2%), flowers (3.9%).

According to FEDEXPOR data, Ecuador currently exports some services, representing an approximate item of USD 2,100 million per year, consisting mainly in tourism, transportation, and telecommunications services, not being the case in the 1990s when tourism and telecommunications were not experienced as a strong source of income.

**Figure 17: Details of Exports of Goods and Market Services (Percentage of Annual Growth).**



**Source:** (Fondo Monetario Internacional).

The value of Exports of goods and market services annual growth in Ecuador was 0.85% in 2018. Therefore, during the last 57 years this indicator has reached a maximum value of 110.63% reached in 1973 and in 1975 having a minimum value of -19.27% according to the details shown in the figure.

Therefore, we refer to the annual growth rates of exports of goods and market services expressed in local currency at constant prices in the country. for them the added values that are expressed in US dollars at constant prices for 2010. This means that exports of goods and market services represent the value of all goods and other market services that are shared with the rest of the world.



These generally includes the value of merchandise, freight, insurance, transportation, travel, royalties, license fees, and other services such as communications, construction, financial, news, business, personal, and government. Thus, this excludes employee compensation and investment income such as factor services, as well as transfer payments.

### **3.2.2.2. Money Market.**

Ecuador opted for the Dollarization model, a medium-term monetary model that initially had three stages:

- 1) Set the exchange rate at 25,000 sucres,
- 2) Legal reforms that were carried out through the Economic Transformation Law I, II, III, known as the "Trole Law",
- 3) Progressive extraction of sucres and circulation of dollars and fractional currency.

Procedures like this cause economic agents to lose confidence in the country and decide to not invest and taking their money to other countries, causing unemployment, poverty and increasing inequalities.



### **3.2.2.3. Labor Market.**

The decade of the 90 with the socioeconomic problems that happened with emphasis between 1998 and 1999, having a low unemployment rate, for which in 1998 it went from 8% to 17%, according to statistics, poverty urban went from 36% to 65%. %. This leads to the crisis therefore there was a massive international migration. It is estimated that at least 700,000 Ecuadorians have left the country since 1998, mostly emigrating to countries such as Spain, Italy and England, among others.

The latest information available shows that the urban unemployment rate reached 14.4% in November 1999 and informal employment reached 58.6% of urban employment in 1998.

The crisis manifested itself in a vertiginous expansion of unemployment, underemployment, and poverty.

### **3.2.3. The Reform of Private Property.**

At the end of the 90's, Ecuador harvested the bad actions sown at the beginning of the decade. In 1999, it suffered the most drastic decline in its GDP in all Latin America, which fell by 31%. Between 1998 and 2000, GDP fell from \$ 19.7 billion to \$ 13.7 billion. (Bayas, 2005)

The transformation of the development model in Ecuador since then, the substitution of imports of the 1970s for the opening of the 1980s, and especially in the 90's, meant a sharpening of the exploitation of natural resources, privatization of state companies and especially on the supply of cheap labor as the main strategy.



The Law for the Reform of Public Finances of 1999 established salary ceilings and maximum amounts for the economic benefits that are agreed in collective contracts, affecting the effective right to collective bargaining:

- The Fundamental Law for the Economic Transformation of Ecuador (Trole 1) of 2000, whose main change has to do with the introduction of hourly work.
- The Law for the Promotion of Investment and Citizen Participation (Trole II), which was later declared unconstitutional.

### **3.2.3.1. Privatization of Public Companies.**

At that time, the recurring argument, by the State, that it was necessary for public companies to be efficient and competitive led, in recent years, to a substantial increase in the rates of basic services, with the aim of putting them “at point ”for sale, water, gas and electricity rates increased at a rate of 40% per year, consequently causing an escalation in the prices of goods and services, which translates into extremely high inflation rates: 61% in 1999. Less and less Ecuadorians were able to access these basic services and the products of the basic family basket, showing a clear decrease in the quality of life of the population. (Yep, Arias, & Freire).

The State was forced to carry out profound economic reforms to clean up the battered public sector: it eliminated subsidies (gas, fuels, and electricity) and began a process of privatization of public companies, especially in the petroleum, electricity, and telecommunications sectors.



### **3.2.3.2. Openness to Foreign Investment.**

In the 80's, Ecuador was characterized by the debt crisis, the fall of petroleum prices, and the strong earthquake; They unleashed a prolonged period of financial crisis, adjustment, and macroeconomic instability, which pushed the rate of foreign investment to the decline.

At the beginning of 90's, it starts with a series of policies that were indicated, between 1992 and 1994, which had a positive influence on foreign investors; Consequently, according to the data provided by the Central Bank of Ecuador, Foreign Direct Investment (FDI) tripled in this period and doubled between 1996 and 1998. At the end of the decade, Ecuador suffered the worst political, economic, and social crisis of all the time (inflation reached 100% in 1998, GDP decreased by 7% in 1999), however, FDI inflows did not decrease considerably, maintaining a slight growth in 2000.

Therefore, Ecuador, like the rest of Latin American countries, also used the policies recommended by the World Bank and the International Monetary Fund, which started in the 90's, applying policies to open their economy to international trade, reinforcing the tax and fiscal system and trying to initiate a privatization program.

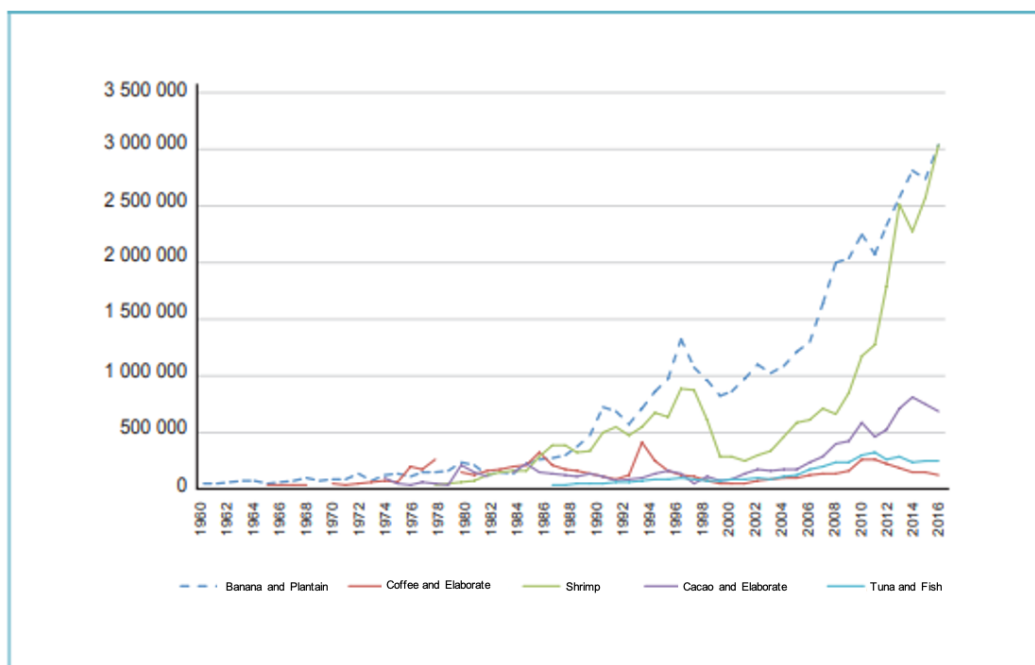




### 3.2.3.3. Private Structure: Sectors.

Private banks obtained the help of the state, leading them to reduce their economy, remaining indebted to public sector workers and public companies, causing the economic decline to affect private companies directly and indirectly, even leading them to bankruptcy after freezing the accounts of savers.

Figure 18: Details of Traditional Exports from Ecuador (in thousands of USD), 1960-2016.



**Source:** (Ecuador B. C., Caracterización del perfil económico-productivo de Ecuador Trayectorias históricas, desafíos y oportunidades para la transformación de la matriz productiva en formas social y ambientalmente sostenibles, 2019).

The living conditions of Ecuadorians got worse significantly: between 1995 and 2000, the number of poor people has doubled, from 34% to 71%, while growth remained stagnant. GDP per capita in constant dollars was USD 3,687 in 1980 and USD 3,720 in 1990; for the year 2000, it still stood at USD 3,678 (World Bank).



Neither was it possible to stabilize the economy, there was no substantial increase in investments, the concentration of wealth and inequality worsened: the country closed the decade with the worst crisis in its history (Acosta, 2012: 245, 298).

#### **3.2.4. The Reform of the State.**

According to Bresser Pereira (1998), the reform of the State comprises four problems that can be subdivided into:

- a) Economic - political: the delimitation of the State size.
- b) Economic - political, but deserves special consideration: the redefinition of the regulatory role of the State.
- c) Economic - administrative: the recovery of the "government" (ruler) or financial and administrative capacity to implement political decisions.
- d) Political: the increase in governance or political capacity of the government to mediate interests and govern.

Political instability means that in the 90's Ecuador had five presidents, one vice-presidential dismissal (1995), and two presidential overthrows in (1997 and 2000). As a result of the first political crisis in 1997, a Constituent Assembly is called to design a Political Charter that expresses the economic vocation that had been intended to be implemented since the 80's.



The Constituent Assembly of 1997-98 provided the entire legal framework to redesign the State based on market guidelines and orient it more towards the private sector. That is, the withdrawal of the central and strategic role that had been conferred on the State according to the 1979 Constitution. (López, 2006).

#### **3.2.4.1. State Size.**

The state as a company implemented institutional modifications that reduced its size, which include, above all: Tax reform, Reforms in fiscal policies, Reforms in Social Security and Pensions Systems, Social spending, Deconcentration, Decentralization, Changes in public logic management.

Reforms in the electoral system, judicial reforms, reforms in the party system, new mechanisms of social control, strengthening of the presidential regime.

#### **3.2.4.2. Tax Reform.**

During 1999, fiscal management was restricted by the country's macroeconomic evolution, which continued to deteriorate in the real, external, monetary, and financial spheres. Likewise, the aftermath of the El Niño phenomenon contributed to deepening the imbalances in the fiscal and financial fields.



## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



**Table 11: Details and Specifications of Tax Reforms in 1999.**

Rules	Dates	Tributes
Economic Reordering Law, in the Tributary - Financial area	December 1, 1998	<ul style="list-style-type: none"> <li>• Creation of the capital circulation tax.</li> <li>• Removal of income tax.</li> </ul>
Law for Reform to Public Finances	April 30, 1999	<ul style="list-style-type: none"> <li>• Implementation of income tax with fewer exonerations and a tax base of S / . 80 million onwards with a range of rates between 5 and 15%.</li> <li>• Decreased exemptions to VAT.</li> <li>• Inclusion of tax services with VAT.</li> <li>• Creation of vehicle property tax</li> <li>• Creation of heritage tax.</li> </ul>
Tax Rationalization Law	November 5, 1999	<ul style="list-style-type: none"> <li>• Establishment of integral monetary correction.</li> <li>• Increase in the tax base of income tax of 5 - 15% to 5 - 25%.</li> <li>• Increase in VAT rate from 10 to 12%.</li> <li>• Decrease in the tax rate for the capital circulation of 1 to 0.8%.</li> <li>• Imputation of the capital circulation tax on the payment of income tax.</li> </ul>

**Source:** (Ecuador B. c.).

The restitution of the income tax would have generated additional income for an amount equivalent to 0.1% of GDP, while the partial elimination of VAT exemptions would have resulted in an additional income equivalent to 0.5% of GDP and the elimination of tariff exemptions and rate changes, an amount equivalent to 0.3% of GDP.

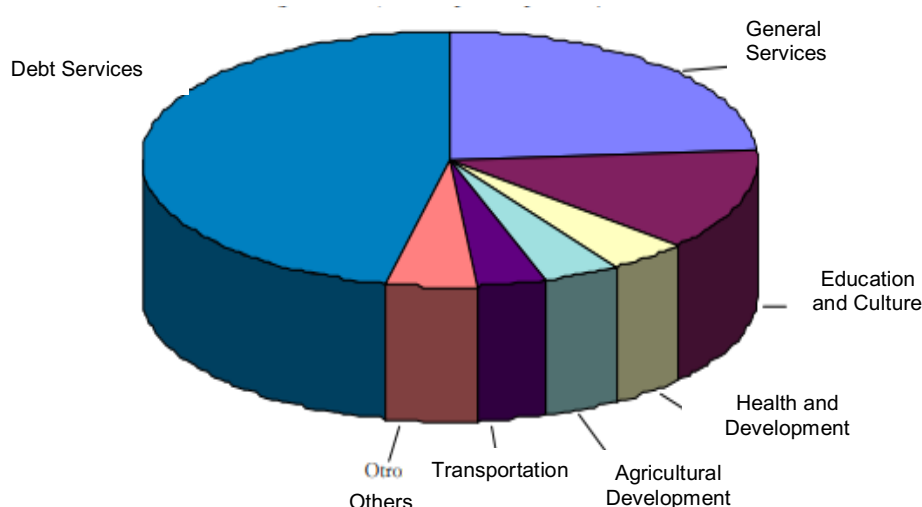


### 3.2.4.3. Public Spending.

The participation of public spending in GDP in 1999 was 30% and was higher than the previous year with 25.9% according to the data provided by the Central Bank of Ecuador. Consequently, the large total expenditure corresponded to current expenditure of 76% of the total, for this reason the internal and external public debt of the interest payments reached an amount equivalent to 8.5% of GDP and 7.1% of GDP was related to the payment of salaries to the public sector.

Regarding the percentage structure of central government spending, including amortization and interest, it is examined in 1999 the public debt service represented 43.7% of total spending, the Education sector with 12.8%, the health sector with 4.1%, in general services with 18.5%, spending on agricultural development with 4%, in transport and communications sector with 3.7% and among other categories we have 13.2%.

**Figure 19: Structure of Public Spending (Participation percentages).**



**Source:** (Ecuador B. c.).



In general, it could be said that the debt service in dollars increased 9.3% in relation to the amount observed in 1998, evidencing the impact of a strong positive variation in the interests of internal debt with 72.3%, in the same way that the expenses for its amortization with 39.1%.

#### **3.2.4.4. Relief from Extreme Poverty.**

In 1998, the Bono Solidario, also called the “Poverty Bond,” was created and its initial objective was to eliminate subsidies for domestic gas, fuel, and electricity. In 2003 its name was changed to “Human Development Bond” (BDH), and in 2007 its transfer was changed conditional on compliance with the requirements established by the Social Protection Program for mothers and without conditionality for older adults and people with disabilities. (Larrea, 2009 ).

The economic crisis in the Republic of Ecuador between 1998 and 1999 was an inflationary crisis along with a financial crisis, a fiscal crisis and a sovereign debt crisis that began in 1998 and continue to get worse and therefore led to a social panic. banking in 1999.

The post-dollarization real exchange rate has led to a relative cheapening of imported goods. For this reason, the availability of consumer credit and the growing remittances of foreign currency from emigrants have facilitated the accelerated growth of imports, in this way of consumer goods. This leads the country in the total expansion of imports to be significant.



Therefore, the price of petroleum recovered in 1999, reaching a very favorable values to date, since the massive international emigration to Spain, the United States and Italy among other countries had repercussions in high currency transfers. In which remittances have become the second source of foreign currency after petroleum exports, surpassing a total of 200 million dollars in 1993 to 1,539 million dollars in 2003. Consequently, the construction of the petroleum pipeline Heavy Crude Oil petroleum (OCP) has boosted the economy and has been the largest foreign investment in Ecuador since the 80's.

The exchange rate which dollarization was adopted (25 thousand sucres per dollar) allowed exceptionally favorable relative prices for exports in 2000, which at the time of dollarization doubled their value in 1994.

#### **3.2.4.5. Institutional Reforms.**

As the 90's start in Ecuador, once again, faced with the growing economic crisis, the delegitimization of the mechanisms of social representation and with a state institutionalist of the Welfare State, which was not compatible with the demands of the new development model. From the governments of the moment, it was hoped to apply to the neoliberal state in which:

- A)** First process of institutional change of the decade of the 90's.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



The presidency of Sixto Durán Ballén:

- 1) Reduction and rationalization of public administration.
- 2) Transformation of the representation system.

For this reason, the mechanisms to operate this institutional change, it could be said, that they are the 2 popular consultations, in which they approved the Law of Modernization of the State, Privatizations and Provision of Services by Private Initiative (Law of Trolleybuses I).

**B)** Second process of institutional change of the decade of the 90s.

The presidency of Abdalá Bucaram:

- 1) Greater discipline in economic policy.
- 2) The National Planning System is abolished and replaced with CONADE.
- 3) Political parties are limited in their participation in influencing the definition of the public budget structure.
- 4) Greater connection with international financial regulatory bodies.





## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



The presidency Mr. Jamil Mahuad.

This government sought to continue and deepen the previous economic reforms, until expanding the privatization program of public companies.

During this year the country faced series of economic problems that stopped the economic growth and furthermore, deepened the crisis. For these reasons, the government of Jamil Mahuad was unable to consider planning measures, but rather to react to national and international crises. An example of this is the deposit freeze in 1999 and the consequent dollarization of the Ecuadorian economy in 2000.



## 4. Chapter: Assessment of the Reforms.

### 4.1. International Financial Reintegration.

A significant recovery in trade was observed at the regional level, a growth of 20% and thus contributed to the decrease in the current account deficit, which went from 3.1% of regional GDP in 1999 to 2.5% in 2000.

Economic growth in the region was 4%, reflecting a significant increase in exports, as well as consumer and investment activities.

Petroleum exporting countries were favored by the rise in hydrocarbon prices observed in the international market, which allowed Venezuela, Colombia, Mexico, and Ecuador to achieve better economic results than the expected.

(Ecuador B. C., Informacion de la Economica del Ecuador).

**Table 12: Growth Rate of the Gross Domestic Product of Latin America.**

Countries	Real Growth Rate 1995 = 100		
	1998	1999	2000
Argentina	3,9%	-3,4%	-0,5%
Bolivia	5,5%	0,6%	2,0%
Brazil	0,2%	0,9%	4,2%
Chile	3,9%	-1,1%	5,4%
Colombia	0,5%	-4,3%	3,0%
Costa Rica	8,0%	8,0%	1,4%
Ecuador	0,4%	-7,3%	2,3%
El Salvador	3,5%	3,4%	2,0%
Guatemala	5,0%	3,6%	3,3%
Honduras	2,9%	-1,9%	4,8%
Mexico	4,9%	3,7%	6,9%
Nicaragua	4,1%	7,0%	4,3%
Panama	4,4%	3,0%	2,7%
Paraguay	-0,4%	0,5%	0,0%
Peru	-0,4%	1,4%	3,6%
Republic Dominican	8,2%	8,3%	7,8%
Uruguay	4,6%	-3,2%	-1,0%
Venezuela	0,2%	-6,1%	3,2%
<b>TOTAL</b>	<b>2,3%</b>	<b>0,3%</b>	<b>4,0%</b>

**Source:** (ECLAC).



## **4.2. Establishment of the Macroeconomic Foundations.**

### **Business, Liquidity and Political cycle.**

Since the end of 1998, the external shocks faced by the economy (El Niño phenomenon and the fall in oil prices) combined with the presence of significant internal imbalances of fundamental economic variables, deepened structural weakness and macroeconomic fragility, deteriorating the economy. confidence of economic agents. In this context, 1999 was a year marked by instability, with serious repercussions on the development of the economy, which was reflected in a drop in the economic growth, rate of 7.3% in real terms and an increase in inflation that went from 43.4% in December 1998 to 60.7% as of December 1999. (ECLAC).

In the 1999 scenario, the Central Bank of Ecuador had to face not only unprecedented economic imbalances, but also the lack of minimal political and social consensus, which weakened the adjustment process and seriously affected the independence in the management of policy instruments. currency that the Central Bank of Ecuador traditionally had at its disposal.

The External Public Debt aggregate an amount of USD 12,052 million in 1990, which corresponds to 108.1% of GDP, one of the highest percentages since the 1970s that committed more resources than the economy generated. Therefore, in 1994, the Republic of Ecuador accepted the renegotiation of its external public debt through the Brady Plan in which it could help the country, in which it allowed the country to reduce the external debt / GDP ratio.



Given the deterioration of the national economy and the non-compliance in the payment of external obligations, the debt that the country had with the holders of Brady Bonds and Eurobonds was renegotiated in 2000 through the issuance of Global Bonds with a maturity of 12 and 30 years. USD 3.95 billion in Global bonds were issued and the average discount amounted to 40% of the original face amount. 98.6% of the holders offered their securities in the exchange. This operation reduced the nominal value of the debt, and it was possible to place longer-term bonds and in better financial conditions than those originally determined.

#### **4.2.1. Inflation.**

Inflation is the sustained and generalized increase in the prices of goods and market services in an economy over time. The increase of a single good or service is not considered as inflation. A great example could be given is that "the prices of all products go up."

In which, we could say that there was a significant gap between inflation and devaluation, that heralded for the coming months price realignments in goods and services.

- a) The accelerated depreciation of the exchange rate in 1999 unleashed strong inflationary inertia and an iterative adjustment of relative prices.
- b) The revision of the rates for managed services: electricity, drinking water, telecommunications, and transportation.
- c) The process of rounding off absolute prices, encouraged by a recovery in demand that is inelastic to price increases (household consumption, imports).



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



- d) The loss of reference of prices in dollars since prices in sucres have been eliminated since there is no public reference on the evolution of prices in the centers of sale of basic products.
- e) The expectations of the agents regarding important decisions such as the revision of prices of public goods and services such as fuel and gas.

The inflation rate is one of the indicators that shows the greatest contrasts between the period of 1990-1999 and 2000-2009, before and after dollarization. The currency exchange was important in the change in inflation without neglecting other important factors that constantly influenced and still influence the evolution of prices, among the main ones: natural phenomena (floods and droughts); composition of the chain production-transport intermediation-consumption; international prices of both inputs and tradable goods, devaluations (previously internally with the sucre, in dollarization of neighboring countries), and the level of liquidity in the economy. Thus, during the 1990's, the annual inflationary index started at around 49%, rose to 60% in 1992 and fell to 23% in 1995. Later it rose gradually until reaching 61% in the year 1999 and closed the decade with an average of 39.8%. Between 1990 and 2009, the lowest annual inflation was registered in 2005 (2.1%), while in 2000 the highest level was observed (91%). After dollarization, annual inflation fell drastically, but slowly, until it reached 2% in 2004, and then stabilized below 5%, with the exception of 2008 (8.83%). From 2000 to 2009, the average annual inflation was less than half of the previous decade (15.3%). (Ecuador B. C., La Economía Ecuatoriana Luego de 10 Años de Dolarización, 2010).



#### **4.2.2. Unemployment.**

Unemployment, together with underemployment, remain structural problems of the Ecuadorian economy that have not been solved before or after the dollarization. In Ecuador, the issue of unemployment is worrying because there is no insurance or other type of social protection for the unemployed.

From 1992 to 2009, the average unemployment rate for the last quarter of the year was 9.1% 54. From 1992 to 1999, said average was 9.6%, while from 2000 to 2009 the average unemployment rate fell to 8.6%. In the year of the crisis, 1999, the highest rate of the period was recorded, 14.4%, while the lowest corresponded to 2007 with 6.1%. Despite the changes in the measurement of unemployment, a good approximation of its trend is open unemployment, which does not show major changes. In this way, it can be observed that from 1994 to 2001 it presented an upward trend, then until 2007, its trend was downward and in the last two years, during the global economic crisis, this indicator has increased slightly. (Ecuador B. C., La

*Economía Ecuatoriana Luego de 10 Años de Dolarización, 2010).*

In general, during the analysis period, according to the data obtained by the INEC, it reveals that the urban underemployment rate has not been less than 49%. and that between the years 1992 to 1999 the average underemployment rate was 56.6% and in the years 2001 to 2009 it decreased to 53.4%. In the year 2000, the highest rate of the entire period was presented, 60.5%, in which added to the unemployment rate (9.0%), it shows the chaotic situation that the country experienced in that year, since about two-thirds, 69.5% of the EAP did not have a secured job. The trend shows that after dollarization the underemployment rate tended to decrease. This can be explained, to some extent, by the high growth that has increased in emigration.

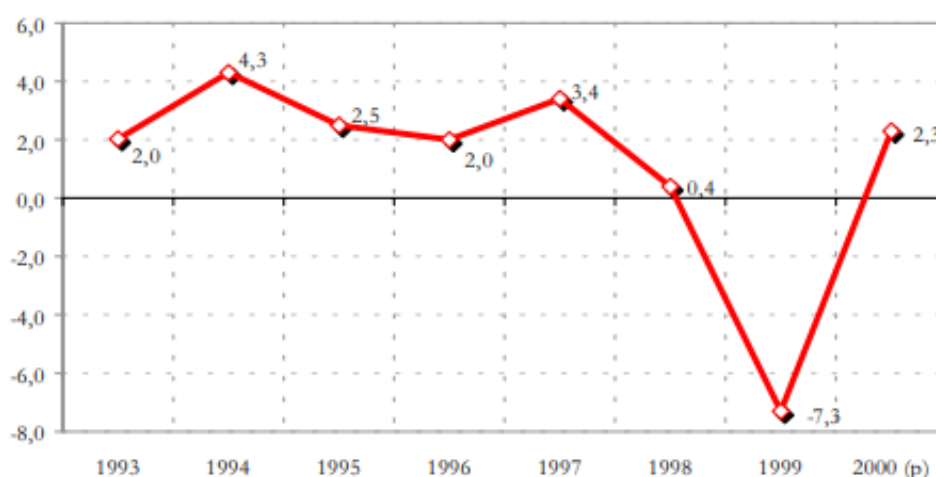


There are difficulties in knowing the magnitude of the population that has left the country because official figures account for legal migration. According to the INEC, it is estimated that between 1990 and 2000 around 628,000 people left the country, about 5.2% of the total population. In addition, of legal travelers, in 1999 the majority traveled to the United States, and secondly to Spain.

In 2000 there was a drastic change in trend: Spain came first and the United States second. Spain has been considered as a migratory destination also for other Latin American countries such as Colombia, Venezuela, Peru, and Argentina. For the migration analysis, other important destination countries such as Italy, Holland, England, and Germany should be considered. An approximation of the legal migratory flow would be the international entry and exit of people through airports, and more than proportional increase in the migratory balance can be seen since 1999.

#### **4.2.3. GDP Growth.**

**Figure 20: Real Annual Growth Rate (1983-2000) of the Gross Domestic Product.**



**Source:** (Ecuador C. B.).



The population's demand capacity was seriously affected by the restrictions in household consumption credit, (which represents 63% of GDP), which decreased by 9.7% in real terms, experiencing the strongest contraction of the last years.

The reduction in demand was the consequence of the deposit freeze, high inflation, low wage increases, and unemployment.

The weight of the adjustment was reflected in the external sector, which showed a historical surplus in the current account equivalent to US \$ 942 million (6.8% of GDP), despite which, the International Monetary Reserve, decreased by US \$ 422 million. The result of a capital outflow of around US \$ 520 million and the closing of credit lines from abroad to the private sector.

Average GDP growth in the pre-dollarization period was lower than that of the dollarization period. Thus, between the years 1990-1999 the growth of the product was 1.8% while in the following decade it was 4.4%.

#### **4.2.4. International Reserves.**

The year 1999 was characterized by a reduction in external sources of financing, a profound weakening of the balance of payments, deferral of the payment of external public debt, and a fragile situation of the domestic financial system.

Public External Debt totaled USD 12,052 million in 1990, equivalent to 108.1% of GDP, one of the highest percentages since the 1970s that committed more of the resources that the economy generated. In 1994, Ecuador accepted the renegotiation of its external public debt through the Brady Plan, which made it possible to reduce the external debt / GDP ratio.



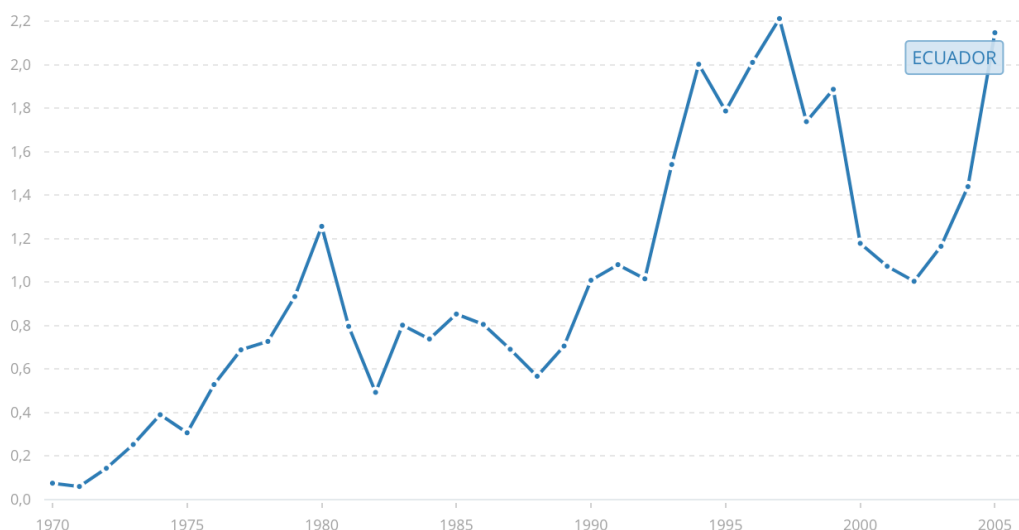


## The Ecuadorian Economy: Key Reforms of the 90's and their Assessment



Given the deterioration of the national economy and the non-compliance in the payment of external obligations, the debt that the country had with the holders of Brady Bonds and Eurobonds was renegotiated in 2000 through the issuance of Global Bonds with a maturity of 12 and 30 years. USD 3.95 billion in Global bonds were issued and the average discount amounted to 40% of the original face amount. 98.6% of the holders offered their securities in the exchange. This operation reduced the nominal value of the debt, and it was possible to place longer-term bonds and in better financial conditions than those originally determined.

**Figure 21: Evolution of Ecuador's International Reserves 1970 - 2005**



**source:** (Mundial, Datos del Banco Mundial. org, s.d.)

The figure shows the International Reserves during a period from 1970 to 2005, it can analyze that in 1971, having an International Reserve of 60,390,308,364 dollars, in contrast with impact in 1997 with 2,213 billion according to information from the World Bank.



#### **4.2.5. Fiscal Deficit.**

Additional problems, such as the suspension of payment of interest on Brady bonds and Eurobonds in September 1999, caused a substantial increase in the perception of country risk. Public external debt as a percentage of GDP increased from 67.2% in 1998 to 100% in 1999, thus registering levels close to those at the beginning of the decade and becoming one of the highest in the world. For its part, the stock of domestic public debt increased by US \$ 522 million (18% of nominal growth), from US \$ 2,781.7 million (14.1% of GDP) in 1998 to US \$ 3303.9 million (24% of GDP) to late 1999. (Ecuador B. C., La Economía Ecuatoriana Luego de 10 Años de Dolarización, 2010).

#### **4.3. Market Deregulation.**

Remittances from migrants are an important source of external financing of the balance of payments. Since 1999, these have registered a marked dynamism, becoming the second currency-generating item, after petroleum exports, and have boosted the aggregate demand of the economy through the increase in household consumption, with its respective impact on the levels of income. imports of consumer goods. During 2006 and 2007, they represented 7% and 6.8% of GDP respectively and reached their maximum level of USD 3,088 million at the end of 2007. The international financial crisis had a direct impact on this item due to the contraction of world economic activity and the increase in unemployment in the main countries receiving Ecuadorian labor: the United States, Spain, and Italy. At the end of 2009, remittances received by the country totaled USD 2.495 million.



#### **4.3.1. Goods and Services**

According to the classification by economic activity, the non-petroleum sectors had a higher percentage share in total GDP were: "Other services", "Wholesale and retail trade", "Manufacturing sector", "Other elements of GDP", "Construction", "Agriculture" and "Transportation and storage", the same as for the years 1991-1999, registered shares of: 13.5%, 16.0%, 13.7%, 9.7%, 8.4%, and 7.8%, among others.

In the case of the fishing sector the low dynamism of this industry in the period 1991-1999 was reflected in its low average growth level of 0.2%.

The agriculture, livestock, hunting and forestry sector, while between 1991 and 1999 its average growth was 3.1%. This activity, however, reflects relatively moderate growth rates, a situation that must be considered because a significant percentage of the population lives in the countryside.

The petroleum Added Value registered an average growth of 2.2% between 1990 and 1999, and 1.4%; in the subsequent decade in the 1990-1999 period, the average annual petroleum production was 129.1 million barrels (353.8 thousand barrels per day average) in 1994 (119.7 million barrels), and then decreased until 1999 (90.3 million barrels). barrels).

The production of petroleum derivatives has been constantly growing. In 1990, 43.0 million barrels were produced, and this figure rose to 57.6 million barrels in 1996, after which, due to the change in the processing pattern at the Esmeraldas Refinery, the production trend was reversed until the end of the decade. of the 90 in 50.7 million barrels. (Ecuador B. C., La Economía Ecuatoriana Luego de 10 Años de Dolarización, 2010).



#### **4.3.2. Monetary.**

Faced with the crisis of the Ecuadorian financial system, the Central Bank of Ecuador fulfilling its main function, which is to provide necessary information that the country is happening, also with the fulfillment of the role of lender of last resort assigned by the Law, and to reduce the Risks of a systemic crisis with unpredictable consequences, it solved the liquidity deficiencies of some banks, which had a direct impact on the monetary issue, which registered a growth rate of over 150% per year. Therefore, it happened in despite of the aggressive policy of open markets operations implemented by the Issuing Institute and the increase in interest rates, mainly in the last weeks of December.

Additionally, the evolution of other monetary indicators such as the preference for liquidity and the growth rate of quasi-money, revealed a change in attitude of the agents in the conformation of their portfolios and, therefore, of their expectations, which were mainly oriented towards a greater preference for liquidity or monetary hoarding, especially in dollars, which deepened financial disintermediation. The exchange market was characterized by an upward trend in the exchange rate, which determined an annual devaluation of close to 200% because of the misalignment of the fundamental variables, and the uncertainty of the economic agents regarding the sustainability of the exchange rate scheme.



In general, during the 90's, a change was originated in the instruments for the application of monetary policy, and it will convert, and thus giving greater importance to market instruments, such as exchange and currency tables and auctions of Monetary Stabilization Bonds (BEM). As well as in 1992 the exchange system was restored and went from a Mini Devaluation system (Crawling Peg) to one of controlled floating or "dirty floating", through the exchange table. Therefore, within the controlled flotation system, several modalities were admitted, such as: wide and hard bands, small and soft bands, intervention without pre-announcements, among others. Due to which, in 1999, the Central Bank of Ecuador adopted a clean floating system, for this reason it was basically intended to end the increasing trend of the dollar and reduce inflationary expectations thanks to a stable exchange rate. Due to which, the intervention of the Central Bank of Ecuador through the local money table should try to establish interest rates in the interbank market that support the stability of the exchange rate and thus helping the country.

#### **4.3.3. Labor.**

The labor variables expose the structural problems that the economy presents in the Republic of Ecuador. For this reason, the productive apparatus in both decades indicates insufficient to absorb a growing supply of employment in the country.

In the 1990's, within the framework of the reduction of the State and the search for greater flexibility, the structure of the labor market changed over the years. Precariousness deepened with outsourcing and labor intermediation, later eliminated with mandate 8 of the Constituent Assembly in May 2008 by majority.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



According to INEC data, the percentage of people with full employment was 50% from 1992 to 51% in 1998 fluctuated between 32% and 39%, while in 1999 was 27%, the lowest percentage of the entire period, for the following three years, 2000, 2001 and 2002 there was a notable escalation to 30.5%, 33.3% and 37.0% respectively. The average rate of fully employed persons from the years 92 to 99 was 33.8%. Starting in 2000, this rate began to rise, reaching 43.6% in 2008, the highest value in the period. From 2000 to 2009, the average rate of fully employed persons was 37.5%, having reached its maximum level in 2008 with 43.6%. (Ecuador B. C., La Economía Ecuatoriana

Luego de 10 Años de Dolarización, 2010).

On the other hand, The Economically Active Population (EAP) of the urban area showed a differentiated dynamic between the two periods. From 1992 to 1999, there was a clear upward trend, and it grew at an average annual rate of 3.6%. In the years 2000, 2001 and 2007 the EAP was reduced by -1.6%, -0.7% and -1.8 respectively. From 2000 to 2009, the EAP grew at an annual rate of just 1.7% on average.

Generally, the growth of the EAP is associated with the dynamics of population growth. The reduction that can be observed from the year 2000 in the growth rate of the EAP could be due to the migratory wave that was accentuated as of that year.



The analysis of the migratory phenomenon of Ecuador in the last decade should be considered with its two components, one is the departure of Ecuadorians to countries such as the United States and Spain mainly and the other the entry of people to the country, especially from Colombia and Peru, willing to work for a salary that in many cases is less than the legal unified salary. There are difficulties in knowing the magnitude of the population that has left the country because official figures account for legal migration. According to the INEC, it is estimated that between 1990 and 2000 around 628,000 people left the country, about 5.2% of the total population.

#### **4.4. State.**

Given the depth of the economic imbalances and political instability, on January 9<sup>th</sup> in 2000, the National Government announced the decision to adopt a dollarization scheme for the economy to reassure the population and control its discontent among the inhabitants. This measure implied that the North American currency replaces the national currency in its functions of reserve of value, unit of account and means of payment.

The US dollar then becomes legal tender, and the BCE is prohibited from issuing new sucres, except for fractional currency. The economic policy alternative adopted was justified on the grounds of wanting to break the instability of the exchange market, reduce inflationary pressures of monetary and exchange origin, and favorably modulate the expectations of economic agents to boost productive activity, stimulate investments and promote a greater inflow of capital from abroad.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



The process of implementation of dollarization began with the fixing of the exchange rate of 25,000 sucres per dollar, the price at which the ECB would exchange the sucres issued in dollars (coins and banknotes). Additionally, to introduce the legal and institutional reforms necessary for the consolidation of the dollarization process, the National Congress issued, on March 13th, 2000, the Law for the Economic Transformation of Ecuador (Law 2000-4), which modified the monetary and exchange regime, and introduced changes to the current legislation in the financial field and in other legal bodies. (Ecuador B. C., La Economía Ecuatoriana Luego de 10 Años de Dolarización, 2010).

Therefore, in the importance of the monetary change and its new regulations: the bank reserve was realigned, determining a single rate of 11% for the currency of sucres and dollars, the requested reserve was gradually reduced until reaching a rate of 4% in January 2000, it was minted and issued fractional by the Central Bank of Ecuador, the national currency was exchanged, therefore the sucres, for dollars, a process that concluded on June 2001, which was the deadline date. In addition, various modifications were made to the statistics, since dollarization implied, in part, losing the possibility of measuring and controlling the monetary issue, so that monetary aggregates such as the monetary base and M1 were no longer available in Ecuador.





#### **4.5. Concluding Observations.**

In the 1990s, several important crises affected other economies by generalizing contagion: in 1994 the Mexican crisis, which had worldwide repercussions; a series of banking crises in Latin America such as that of Venezuela in 1994, generated by the insolvency of a third of its commercial banks that generated the collapse of its economic system; the 1997 Asian crisis increased fears of a global economic disaster due to financial contagion (Thailand, Malaysia, Indonesia, the Philippines, Taiwan, Hong Kong and South Korea); finally, the Russian crisis of 1998 and the fall in world commodity prices. As of the year 2000, this type of crisis seemed to disappear, and the international economy improved its performance. In the second half of this decade, the real estate, financial and economic crisis of the United States, made its appearance, becoming a global crisis, in 2009, for the first time in more than 60 years, the world economy decreased by -2.3%. (Ecuador B. C., La Economía Ecuatoriana Luego de 10 Años de Dolarización, 2010).

The behavior of the Ecuadorian GDP has been highly volatile in the face of external and internal shocks, global crises, and especially in the face of variations in the price of petroleum in the international market. It should be noticed that since 2000 there has been a considerable improvement in the Ecuadorian terms of trade, due especially to the evolution of the price of petroleum, which has favored the growth of the Ecuadorian economy, except for the last year (2009).

After the financial crisis of 1999, the adoption of the dollar as legal tender allowed economic agents to regain confidence in the currency. Progressively and slowly, confidence in financial institutions also recovered, a situation that was reflected in the strong growth rate of private sector deposits, which in turn contributed to the expansion of credit operations, favoring the dynamism of economic activities.



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



As a result, at the end of the year 2000 a gradual recovery of financial indicators has been observed: deposits, credit, investments, interest rates, among others.

For this reason, inflation, and employment, one of the contrasts that both inflation and employment revealed in the last two decades suggest that the Republic of Ecuador continues to be a country with a volatile economy. Therefore, inflationary pressures were also no longer determined by monetary issues to the country, as in the 90's, and were conditioned by external factors, they made the decision to raise international prices or the devaluations of neighboring countries to the country.

On the other hand, the problem of unemployment and underemployment could not be overcome. In fact, migration served as an escape valve from the danger of a reduction in quality jobs, especially because of the crisis since 1998. These situations reveal the fragile productive structure, unable to absorb the growing supply of labor that also requires a decent salary, which is why, in the end, the shortcomings in employment have resulted in serious social imbalances.



## 5. Chapter: Finding, Recommendation and Conclusions.

### Finding.

In this researching work, several findings were kept by the great participation in the economy of the Republic of Ecuador, where they can be mentioned:

One of the impacts that happened in 1988, such as the banking holiday, was consequently a product of the reforms in financial legislation in the mandate of Sixto Durán Ballén and Alberto Dahik, in 1994, giving a great step to panic banking, unemployment and uncontrolled prices leading to the devaluation of the national currency, as the Sucre, with an escalation of the exchange rate that reached 25,000 Sucres per US dollar.

We could say that at the end of 1999, investors withdrew about 6,000 million dollars, 16 financial institutions went bankrupt, an external financing of 8,000 million dollars was made to cover the debts of the bankrupt agencies, but it was not possible.

On the other hand, according to the statistics provided by the Central Bank of Ecuador, in 2019, it can be observed, the nominal GDP that reached 16,282 million dollars in 2000, went to a GDP of 45,503 million in 2007 and 107,562 million in 2007. 2018. achieving a growth rate of 1.3% in 2018 and 0.1% in 2019.

Thus, with the information published by the World Bank, was observed that the inflation decreased significantly by 2001, generating an evident firmness, except for 2008, consequently in that period it rises slightly. Therefore, one of the impacts of this inflationary regulation is observed and we could mention such as unemployment, the face of inflation with a downward trend, remains at high thresholds above 10% between the years 2000 to 2003, 2005 and 2006. Therefore, during the setback of 2008, and thus showing Ecuador in 2009, the indicators of the economy such as inflation and unemployment that report similar levels to 8%. Consequently, the boom periods between 2011 and 2015 also show stability at



reasonable levels. In which the average unemployment rates were 4.38% and inflation is 3.86% between those years. After 2016, the same pattern was evidenced, with inflation rates decreasing and unemployment increasing slightly.

From a general perspective, it could be said that the dollarization of an economy is an adequate disposition when the territorial areas and industries are properly integrated through international trade and the movement of factors are strong and flexible, such as Sierra and Lozano, 2010, which wealth must be generated and incremental taxes are reported to resolve imbalances such as Minda, 2005. Therefore, when this does not occur with due strength, economies face tensions, which allows us to appreciate that during an analyzed period and that helps to reduce the weight of public debt in relation to the economy that grew progressively. However, according to what was reported in the Monthly Bulletins of the Ministry of Economy and Finance of Ecuador in 2019, it is illustrated that the Debt has been continuously increasing in the recent years, exceeding the limit of 40% of GDP as the Organic Code has been implemented of Planning and Public Finance.

## **Recommendations.**

The Republic of Ecuador is being a country with improvement prospects in economic, even though there are so many difficulties, but the economy could be recover thanks to the good use of the reforms that would help to reduce inflation and increasing local and foreign investment.

One of the important points is that if the president had the thought to change the local currency (sucre) into dollar, it must be when the sucre was cheaper than the dollar, for example, if 10,000 sucres = one dollar, It would have been a help to the economy of the country and not to wait until the dollar costs 25,000 sucres.

Therefore, in each government there is a leader that governs and create an economy plan that should help to improve the economic situation of the country, making decisions, that must be analyzed in depth before carrying it out, so the country does not suffer drastic changes that harm the economy.



## **Conclusions.**

Important impact of the Republic of Ecuador in the 90's there were many setbacks with the impact of crisis together with debts that left the country in total bankruptcy, and that there were 7 presidents in office and that have been removed in 10 years, as a result mismanagement of the government leading the country into crisis, leaving a high volume of inflation and unemployment that has affected the country's citizens.

Another point, I can see is, that during 1999 the Central Bank of Ecuador, save the budget deficit of the Republic of Ecuador that prevented it from covering with public spending, implemented a series of devaluation measures of the sucre that it had been implementing since 1998, Consequently, on March 8th, 1999, at a 24-hour holiday was declared and that all the citizens did not accept the decision taken, but it finally lasted at 5 days and all financial operations were suspended, which during the economic crisis produced approximately 70% of the closure of the country's financial institutions (including commercial banks and credit unions). Therefore, in 1999, economic activity was -7 and -8% and the sucre lost its value by 95% and economic losses amounted to 8,000 million dollars.

Consequently, in the events that occurred in the 90s and that harmed the Republic of Ecuador, there were drastic measures such as the country taking over in this case in 1988 the war in Peru called the Cenepa war, which resulted in having to allocate the economic resources and people to defend the sovereignty of the country which I concluded several years later in giving up part of the Ecuadorian territory in a peace agreement signed by President Yamil Mahuad

One of the main points was the collapse in the price of oil worldwide in 1998 and 1999 the international price of Ecuador's petroleum dropped to as much as US 6.30 dollar per barrel, with the Ecuadorian State being highly dependent on the petroleum industry for financing the state budget and in another important part that the Central Bank of Ecuador also authorized the printing of sucres in its capacity as



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



last resort lender of the financial system, to inject funds into banks and prevent them from closing. In 1998, the Ecuadorian State had increased the money supply by 44% in relation to the previous year.

Likewise, with some of the crisis problems such as natural disasters such as the "El Niño phenomenon" that occurred between 1998 and 1999 during these periods there were heavy rains, landslides, floods, droughts, and forest fires. develop in different and distant areas of the Ecuadorian country and that the total amount of all the damages caused by this phenomenon in Ecuador is estimated at approximately US \$ 2,869.3 million according to the reports of the Central Bank of Ecuador. in which that amount, US \$ 783.2 million (27%) correspond to direct damages and US \$ 2,086.1 million (73%) to indirect damages.

In general, what else to say, The Ecuadorian Republic officially adopted the dollar as legal tender in 1999, after the country suffered a major economic and inflationary crisis at the end of the 1990s. Between 1998 and 1999 the devaluation Of the currency almost led Ecuador to become a failed state, in addition to being accompanied by a series of bankruptcies of banks and savings and credit cooperatives, therefore in the government of Jamil Mahuad in 1999 declared the beginning of dollarization.

On the other hand, the Structural Reforms of the economy established, given by means of supreme decrees of the Republic of Ecuador, among which are mainly: the reform of macroeconomic policy; the liberalization of the country's markets for goods and services, money, and labor; reform of the structure of public and private property; the reform of the State to reduce its size and functions in different sectors (public and private), and institutional reforms. Therefore, hoping with proposed reforms to help have a stable economy.

Commonly in 1994, Ecuador accepted the Brady Plan, in the government of Sixto Durán Ballén, Alberto Dahik and Ana Lucía Armijos, the debt reached 13,758 million dollars, of which 6,990 were past due. Therefore, with this Brady Plan, the Central Bank exchanges old, devalued debt for new debt by issuing debt securities



## **The Ecuadorian Economy: Key Reforms of the 90's and their Assessment**



guaranteed with United States Treasury Securities that were also purchased with loans from international financial organizations.

Likewise, in the 1990s, within the framework of the reduction of the State and the search for greater flexibility, the structure of the labor market was changing. Precariousness deepened with outsourcing and labor intermediation, later eliminated with mandate 8 of the Constituent Assembly on May 2008.

In general, the prospects for the economy in Ecuador is to continue growing in the coming years together with the governors or leaders in charge and their work team, allowing solving the main problems such as the crisis and unemployment that may arise in certain periods depending of each governor who is in charge, but this will also depend on the evolution of the global economy which is also a key point; Therefore, in a favorable situation, the internal factors of the country that would drive the country to the expansion, are: large infrastructure projects in the country, such as the service sector through the strengthening of small, medium and large companies that can increase the production, exploitation of new mining projects and development of hydroelectric potential contributing to the economic growth of the country.





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**The Ecuadorian Economy:  
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