

STUDENT'S NAME: _____ DATE: _____

Ecuador has an abundant natural capital endowment. The country has significant mineral reserves and endowments of crop and pasture land. Around two-fifths of the country's land mass of 276,841 square kilometers is cultivated, with agricultural land comprising the majority (30 percent), followed by permanent crops (6 percent) and arable land (5 percent)². It is the World's 11th most biodiverse nation. Its 76 protected areas (including the Galapagos Archipelago), which cover 20 percent of its land and 13 percent of its marine areas are an integral source of eco-tourism.

Oil plays a central role in Ecuador's economy. Ecuador is the fifth largest oil producer in Latin America and the smallest OPEC member. Crude oil reserves are estimated at 8.3 billion barrels and are expected to last 35 years at current production rates, according to OPEC. While oil and oil-related activities currently account for only about one tenth of Ecuador's GDP, they represented up to a half of its exports and a third of its fiscal revenues during the boom years (2003-2014). Ecuador's economic cycle has been strongly correlated with oil prices. Similarly, the sector's fortunes have affected the country's fiscal stance and actions, particularly after 2007 when the State became the key administrator and investor in this sector.

Ecuador is a dollarized economy. In January 2000, the government of Ecuador adopted the US dollar in response to a major economic and political crisis, which brought the nation to the verge of hyperinflation. Its national currency (the Sucre) was depreciating rapidly due to the government's

monetization of the fiscal deficit. This situation led to one of the most debilitating banking crises in Latin America and the Caribbean (LAC). The economy entered a deep recession, with GDP contracting by 4.7 percent and unemployment increasing to 15 percent. By establishing a solid nominal anchor, dollarization provided the population with a stable medium of exchange as well as a reliable store of value. However, dollarization implies that a country gives up monetary policy and relies solely on fiscal policy and external buffers to mitigate the impact of shocks and to manage internal liquidity.

L. Reduce distortions associated with financial regulation and strengthen regulatory institutions.

Ecuador's financial intermediation sector is composed of public and private commercial banks, as well as cooperatives. Each of these segments face different regulatory requirements and oversight. Weaker regulatory requirements and oversight of public banks and cooperatives have contributed to lower performance and to relatively higher risk associated with this segment. Private banks face more stringent regulations and oversight, but these are not aligned to international standards. The banking system is broadly stable and profitable, although potentially vulnerable to liquidity shortages if the dollarization regime is put at risk. The system is also shallow. Private credit to GDP is only 29 percent in Ecuador versus 47 percent in Colombia, 36 percent in Peru and 49 percent on average in LAC. A ceiling on interest rates for borrowing distorts the allocation of financial resources and limits access to financial services among riskier segments (such as small- and medium-sized enterprises), even when potentially high returns are expected. Strengthening regulatory institutions and reducing regulatory distortions can help direct financing resources toward more productive investments and unleash productivity gains.

READ AND COMPLETE USING THE CORRECT WORDS

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