



# Ecuador's Economy Since 2007

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## About the Authors

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## Executive Summary

Outside observers could be forgiven for expecting Ecuador to suffer terribly during and after the recent global crisis. Two of the country's largest sources of foreign earnings, petroleum exports and remittances from abroad, crashed during the global recession. Furthermore, lacking its own currency, the government's options for responding were limited. But instead of a deep, protracted recession, Ecuador lost only 1.3 percent of GDP during three quarters of contraction. After four additional quarters the economy returned to the pre-recession level of output, and two years after the recession started, it reached its 20-year growth trend.

How did Ecuador emerge so soon and with relatively little damage from the recession? The government acted creatively to work around the challenges of spurring growth in a dollarized economy, while expanding social spending:

- It implemented fiscal stimulus by extending widespread housing assistance programs to low-income households, nearly doubling the amount of housing finance in three years. It also expanded its main cash transfer program, the *Bono de Desarrollo Humano*, by nearly one-fourth, through outreach to eligible families who were not already enrolled. By using existing private-sector financial institutions for the distribution of funds in each of these programs, it limited the bureaucracy and time needed for implementation.
- In terms of monetary policy, it kept interest rates low and expanded liquidity by requiring banks to keep at least 45 percent of their reserves in Ecuador.
- It accelerated an existing plan to increase education funding, more than doubling it as a percent of GDP between 2006 and 2009.

As a result, poverty and unemployment fell below their pre-recession levels, while school enrollment rose:

- Poverty fell from a recession peak of 36.0 to 28.6 percent; prior to the recession, its lowest level had been 35.0 percent. Urban poverty fell from 25.5 to 17.4 percent, an improvement on its pre-recession record low of 22.0 percent.
- Unemployment fell from 9.1 to 4.9 percent. This is its lowest level on record since the series began in early 2007. The lowest level it reached in the last boom was 6.4 percent.
- School enrollment has risen dramatically, especially in the pre-primary level as enrollment is now mandatory at age five. But even at the secondary school level, gross enrollment jumped by over 10 percentage points in two years, from 69.0 percent in 2007 to 80.4 percent in 2009.

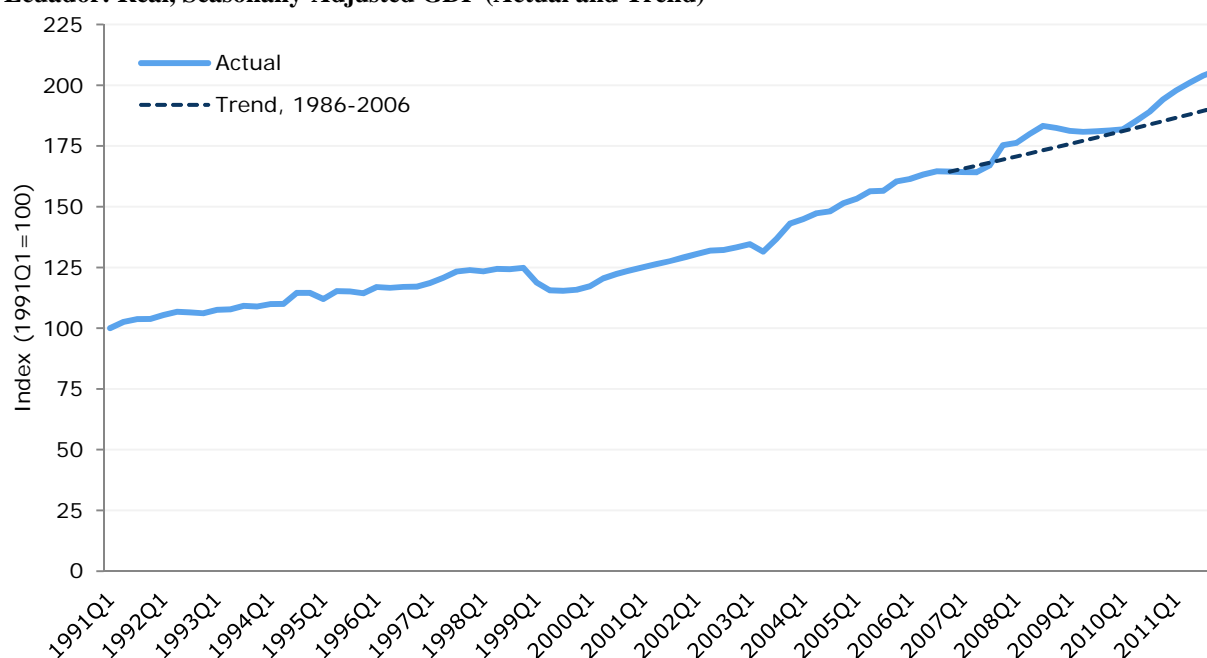
## Introduction

Rafael Correa has just become the first president in more than eighty years of Ecuador's history to reach five years in office. Now is an appropriate time to examine the economic and social indicators during his term so far. Ecuador emerged much sooner and more intact from the latest recession than might be expected given that the global downturn hit two of the country's largest sources of foreign earnings simultaneously and drastically: petroleum exports and remittances from abroad. Moreover, as a dollarized economy without its own currency, its options for responding to the slump were limited. But Ecuador was able to restore growth quickly by acting creatively to work around the challenges of spurring growth in a small, dollarized economy. This paper takes a detailed look at the fiscal, monetary, and other economic and social policies implemented during the last five years, as well as the role of the external sector in the economy. It then examines economic and social outcomes including levels of poverty, inequality, and unemployment as well as education and health outcomes for children.

## Economic Policy and Outcomes

Ecuador's economy suffered only a mild recession during the 2008-2009 global downturn, a remarkable feat given that Ecuador has the U.S. dollar as its currency. As such it has no control over its exchange rate, and extremely limited use of monetary policy – two of the three most important macroeconomic policy tools that can be used to counteract falling private demand. The government fought the recession in two main ways: through expansionary fiscal policy – including expanding access to housing finance – and through what limited monetary policy it had available, keeping interest rates low and limiting the amount of bank reserves that could leave the country.

**FIGURE 1**  
Ecuador: Real, Seasonally-Adjusted GDP (Actual and Trend)



Sources: Banco Central del Ecuador (No Date – a), International Monetary Fund (No Date).

## National Accounts and Fiscal Policy

**Figure 1** shows GDP growth over the last 20 years, comparing actual performance to its long-term trend. **Table 1** shows annual growth for each industry and type of expenditure. The recent recession was not very deep in Ecuador; it lasted three quarters from late 2008 to mid-2009. The total loss of GDP was 1.3 percent during the recession; after four additional quarters the economy returned to the pre-recession level of output and two years after the recession started it caught up to its 20-year growth trend.

Construction has seen strong growth for the last several years, as Table 1 shows, but this has accelerated dramatically in 2011, with construction accounting for over 40 percent of total GDP growth for the year. 2011 has also seen strong growth in other sectors, including agriculture, commerce and manufacturing, but agriculture's growth is a recovery from the previous year's decline.

**TABLE 1**  
**Ecuador: GDP by Industry and Expense Category, Annual Percent Growth**

	2004	2005	2006	2007	2008	2009	2010	2011
Overall GDP	8.8	5.7	4.8	2.0	7.2	0.4	3.6	7.8
<b>By Industry:</b>								
Agriculture <sup>1</sup>	0.2	0.8	5.1	4.1	5.4	1.5	-0.2	5.9
Commerce	0.6	0.9	5.1	3.2	6.6	-2.3	6.3	6.3
Construction	0.3	0.6	3.8	0.1	13.8	5.4	6.7	21.0
Manufacturing	0.4	1.2	7.1	4.9	8.1	-1.5	6.7	6.9
Mining, Extraction, and Refining	6.3	0.1	3.1	-7.7	1.0	-2.4	-2.5	4.3
Public Administration <sup>2</sup>	0.1	0.1	2.8	5.9	14.6	5.4	0.5	2.4
Transportation and Warehousing	0.2	0.2	5.2	3.1	5.4	3.7	2.5	6.1
Other Services <sup>3</sup>	0.9	1.4	5.8	6.0	7.1	1.7	5.4	9.3
Other <sup>4</sup>	0.9	0.5	3.5	4.7	11.8	-1.5	4.7	5.9
<b>By Expense Category:</b>								
Private Consumption	4.6	7.2	5.4	3.7	6.9	-0.7	7.7	5.9
Government Consumption	3.6	3.5	3.7	6.1	11.5	4.0	1.4	4.1
Gross Fixed Capital Formation	4.9	10.9	3.8	2.5	16.1	-4.3	10.2	12.3
Exports	15.1	8.6	8.8	2.3	3.3	-5.9	2.3	8.2
Imports	11.4	14.1	9.1	7.9	9.9	-11.6	16.3	0.7

Notes:

Source: Banco Central del Ecuador (No date – a).

<sup>1</sup> Agriculture also includes livestock, hunting, forestry, and fishing.

<sup>2</sup> Public administration also includes defense and social security.

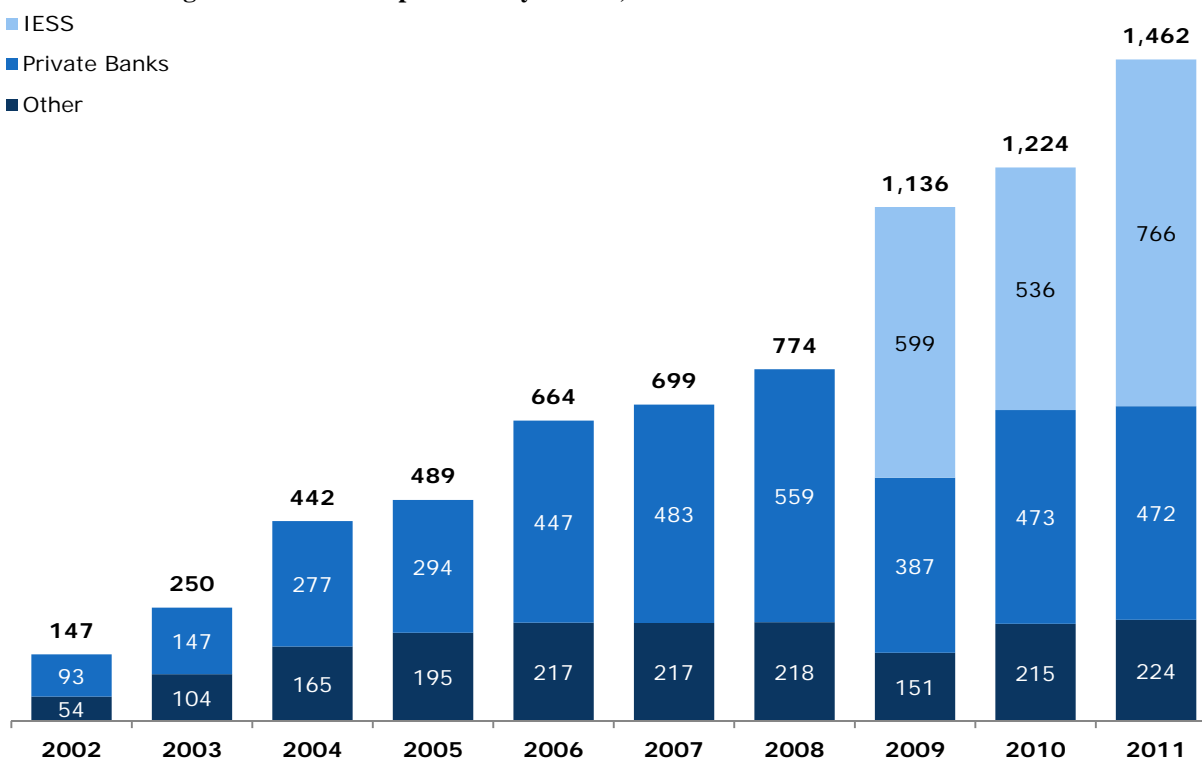
<sup>3</sup> Other Services include hospitality, communications, rental housing, business and household services, education, and health.

<sup>4</sup> Other includes electricity and water provision, finance, and private households with domestic staff.

The recent construction boom is largely due to expanded access to housing financing, through *bono de la vivienda* programs and concessional mortgage loans issued through the Social Security Institute

(IESS). The *bono de la vivienda* programs, combinations of grants and loans targeted for specific low-income and senior citizen groups, began in 2007.<sup>1</sup> The IESS loans began in the second half of 2009, and this timing helps explain the timing of the boom, which began in early 2010. The results of the IESS loan program can be seen in **Figure 2**; total housing credit in Ecuador grew by nearly 50 percent in 2009, and IESS now accounts for over half of all housing credit.

**FIGURE 2**  
Ecuador: Housing Credit Extended per Year by Source, in Millions of USD



Source: Ministerio de Coordinación de la Política Económica 2011, SBS 2011, authors' calculations.

This housing boom will not last forever, of course. The scope of the *bono* programs and IESS loans is limited by their focus on first-time homeowners. But for that same reason it is unlikely to turn into the type of bubble seen elsewhere in recent years.

The initiation of these housing loans was part of an economic stimulus plan announced in late 2009. The stimulus amounted to nearly 5 percent of GDP in total and was made of three major initiatives to use new lines of credit to bolster the economy. Apart from housing loans, the stimulus also included a large, temporary increase in the *Crédito de Desarrollo Humano* microcredit program, as shown in **Table 2**.

<sup>1</sup> For more information on the *bono de la vivienda* programs, see Ministerio de Desarrollo Urbano y Vivienda 2011a, b, c.

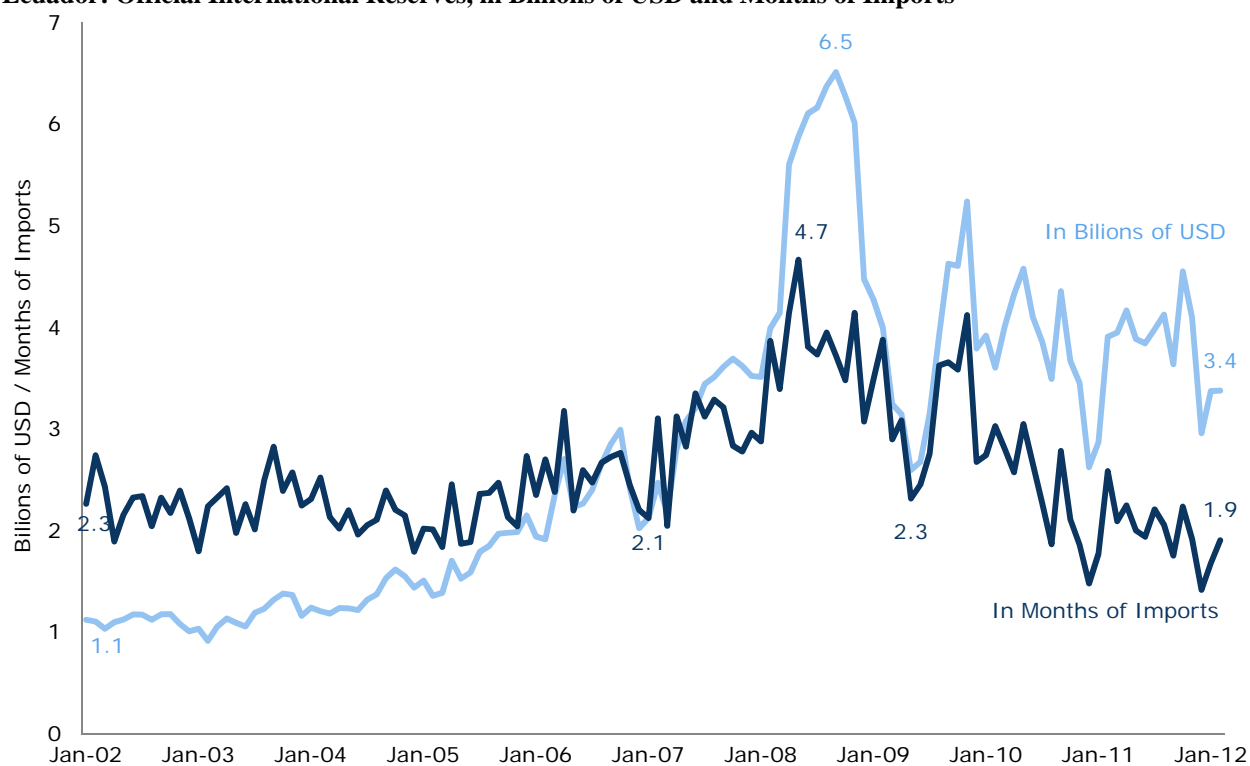
**TABLE 2**  
**Ecuador: Crédito de Desarrollo Humano**

	Beneficiaries	Funding Extended to Beneficiaries	
		Millions of USD	Percent of GDP
2007	38,218	13.0	0.0%
2008	64,120	21.7	0.0%
2009	94,500	34.8	0.1%
2010	414,462	324.8	0.6%
2011	81,932	34.5	0.1%

Source: Ministerio de Inclusión Económica y Social (No Date, b).

The 2009 stimulus was funded largely from reserves, which had accumulated during the oil boom prior to the last quarter of 2008, more than doubling in two years. Since 2008, reserves have fallen to levels roughly comparable to their 2006 levels (**Figure 3**). Because Ecuador has the U.S. dollar as its national currency, its need for international reserves is lower than it would otherwise be.

**FIGURE 3**  
**Ecuador: Official International Reserves, in Billions of USD and Months of Imports**



Source: Banco Central del Ecuador (No Date, e).

Overall government spending rose by only one half of 1 percent of GDP in 2009, actually falling in absolute terms; but the central budget deficit was 4.3 percent of GDP in that year due to falling revenue. Since then, spending and revenue have both resumed growing and the deficit has steadily shrunk to about 1 percent of GDP (projected) in 2011.

**TABLE 3**  
**Ecuador: General Government Finance**

	In Billions of USD			In Percent of GDP		
	Revenue	Expenditure	Deficit / Surplus	Revenue	Expenditure	Deficit / Surplus
2002	6.3	6.1	0.2	25.6%	24.6%	1.0%
2003	6.9	6.5	0.5	24.3%	22.7%	1.6%
2004	8.2	7.5	0.7	25.0%	22.9%	2.2%
2005	9.0	8.7	0.3	24.4%	23.7%	0.7%
2006	11.4	9.8	1.5	27.2%	23.6%	3.6%
2007	13.5	12.5	1.0	29.6%	27.4%	2.1%
2008	18.7	18.4	0.3	34.5%	33.9%	0.6%
2009	15.7	17.9	-2.2	30.2%	34.4%	-4.3%
2010	19.7	20.7	-1.0	34.0%	35.6%	-1.7%
2011 <sup>1</sup>	27.1	27.8	-0.7	40.9%	41.9%	-1.0%

<sup>1</sup>Projections.

Source: International Monetary Fund (2012).

In mid-2007 Ecuador established a public debt audit commission, the CAIC, with a mandate to review current debt arrangements. The commission's December 2008 final report recommended that two major bonds be declared illegal: the Global 2012 and Global 2030. These bonds were the product of restructuring prior debt, which included debt assumed under military dictatorship as well as debt transferred from the private sector under the "sucretización" bailout process. The commission found both of these arrangements to have been illegal, and also cited irregularities in the restructuring process such as the absence of a competitive bid process when Solomon Smith Barney was chosen to direct the process.<sup>2</sup>

As **Figure 4** shows, the debt default had a moderate impact on the already low level of public debt. However, it had a larger impact on the amount spent on interest payments, due to the comparatively high interest rates on the Global 2012 and 2030 bonds. This has freed up public-sector revenues for social spending, as discussed below.

## Inflation and Monetary Policy

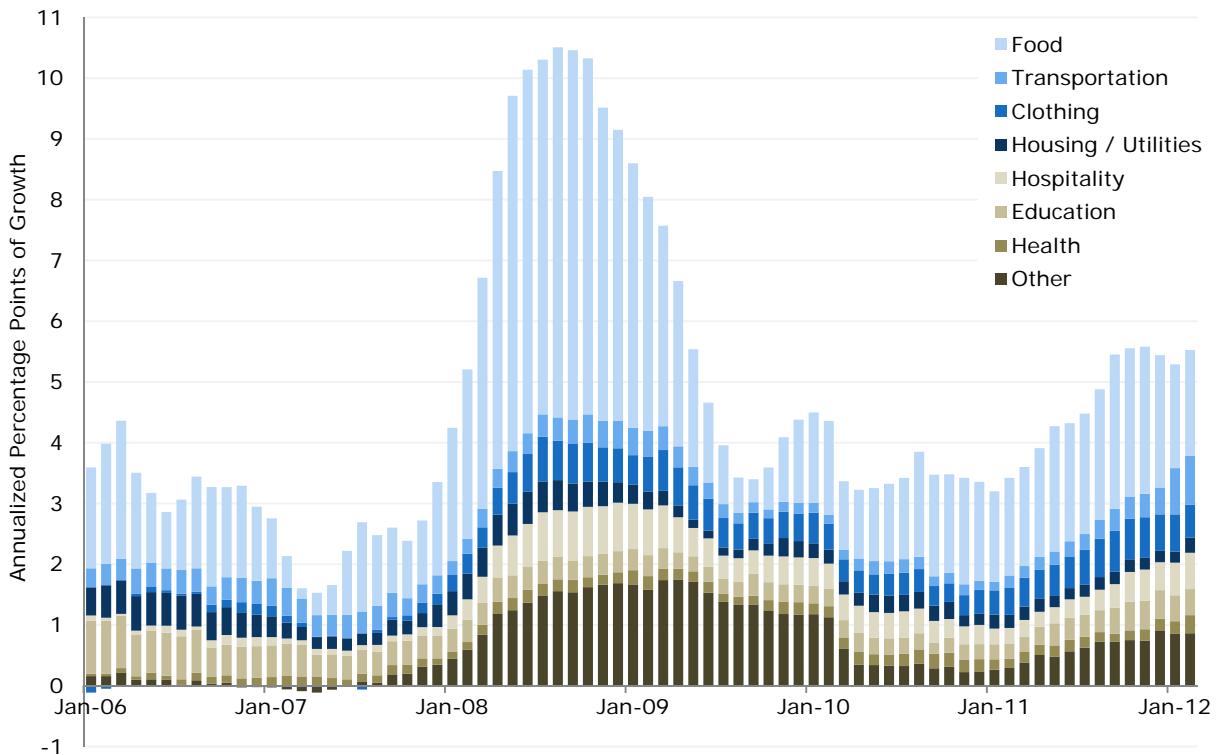
Without the ability to create its own currency, the central bank's monetary policies are limited to control over banks' required reserve ratios, and some influence on interest rates. Since the beginning of the recession, it has pursued expansionary policy in both areas.

The Banco Central del Ecuador (BCE) has resisted the temptation to raise rates in the face of volatile headline inflation. Like much of the world, Ecuador saw rising inflation in 2008, and volatile inflation since then. But as **Figure 5** shows, food has been the overwhelming driver of this inflation. Hospitality, consisting largely of restaurant meals, has been another important category. The inflation was therefore mostly a result of external shocks.

<sup>2</sup> For more on the CAIC audit, see Comisión para la Auditoría Integral del Crédito Público (2008) and Weisbrot and Sandoval (2009).



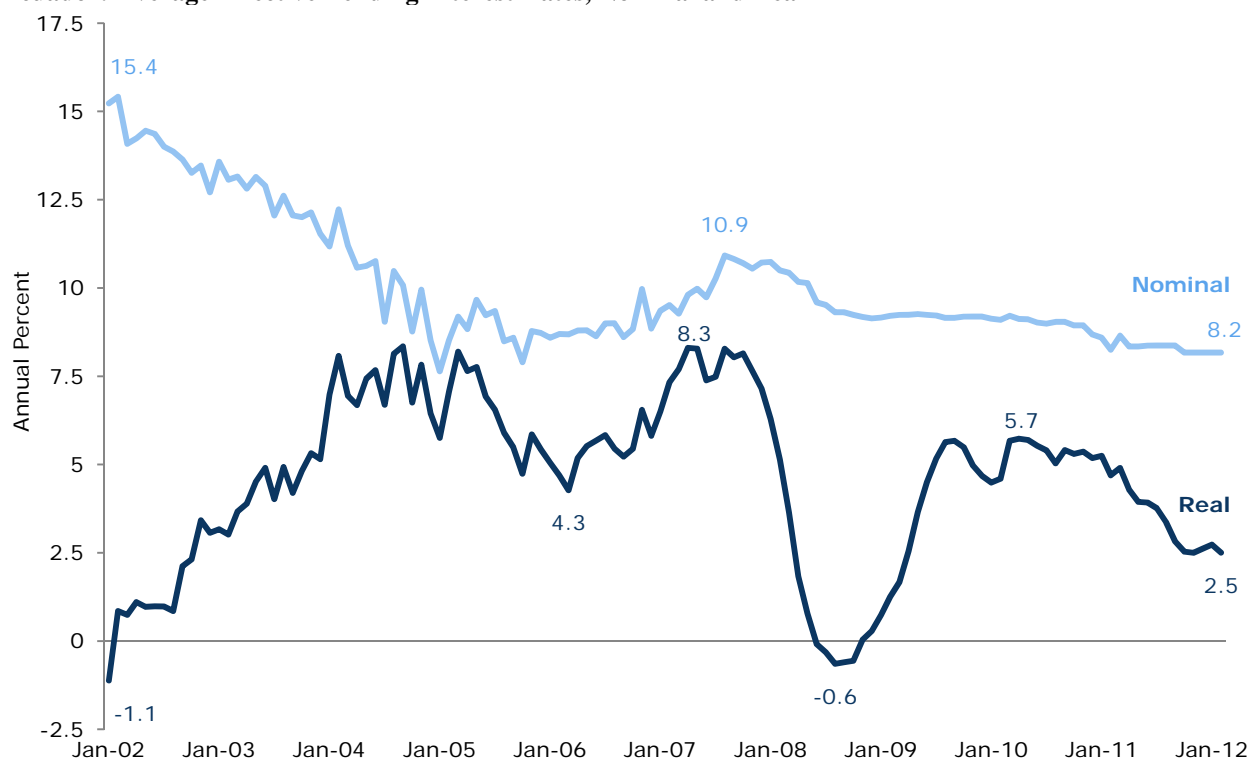
**FIGURE 5**  
**Ecuador: Contributions to Year-over-Year Inflation**



Source: Banco Central del Ecuador (No Date – b).

Given the concentration of inflation within the categories of food and hospitality, the BCE's decision to hold interest rates low was appropriate. Dampening demand by raising interest rates would not have much impact on inflation that had its origin outside the Ecuadorian economy, but it would worsen the recession. Instead, the policy variable rate actually fell throughout most of 2008, from nearly 6 percent in January to just 0.2 percent by December, and has held steady since early 2009. **Figure 6** shows the resulting average effective interest rates, both nominal and real.

**FIGURE 6**  
**Ecuador: Average Effective Lending Interest Rates, Nominal and Real**



Source: Banco Central del Ecuador (No Date - e).

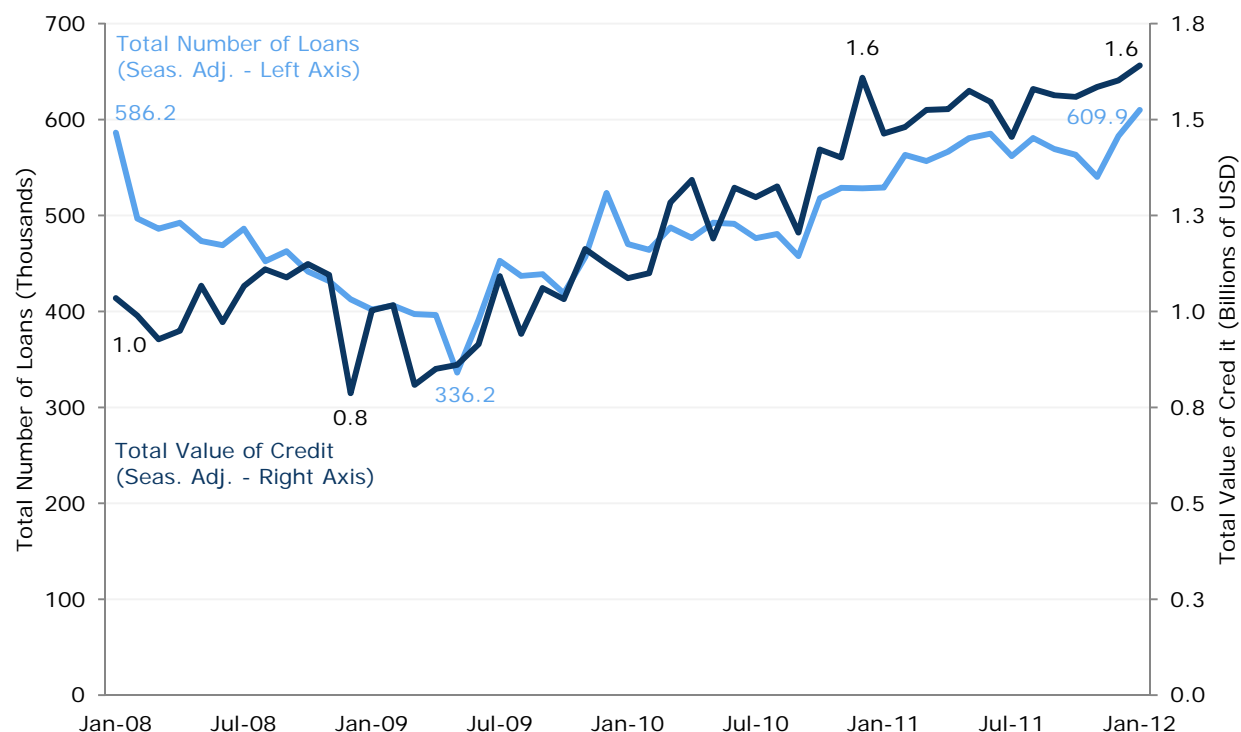
The BCE acted on bank reserve requirements policy in 2009 with two banking regulations that, taken together, raised both banking reserves and liquidity. First, the *Fondo de Liquidez* was formed in February 2009 as a reserve fund and lender of last resort to back private bank deposits. Initially, banks were required to contribute 3 percent of their deposits, and each year must contribute an additional 0.25 percent.<sup>3</sup> Secondly, in March 2009, the BCE introduced regulations requiring private banks to hold at least 45 percent of their reserves (not counting their contributions to the *Fondo de Liquidez*) domestically, creating the *Coficiente de Liquidez Doméstica*.<sup>4</sup>

The desired effect seems to have occurred, as shown in **Figure 7**. After falling throughout 2008 and early 2009, both the number of loans given by the private financial sector and the total amount of credit bounced back. The total value of credit doubled from its trough in late 2008 to January 2012, and the number of loans nearly doubled.

<sup>3</sup> For more information on the *Fondo de Liquidez*, see BCE 2010a and 2011.

<sup>4</sup> For more on the *Coficiente de Liquidez Doméstica*, see BCE 2011 and Correa 2010.

**FIGURE 7**  
**Ecuador: Credit Extended by the Private Sector Financial System, Seasonally Adjusted**



Source: Banco Central del Ecuador 2012.

## The External Sector

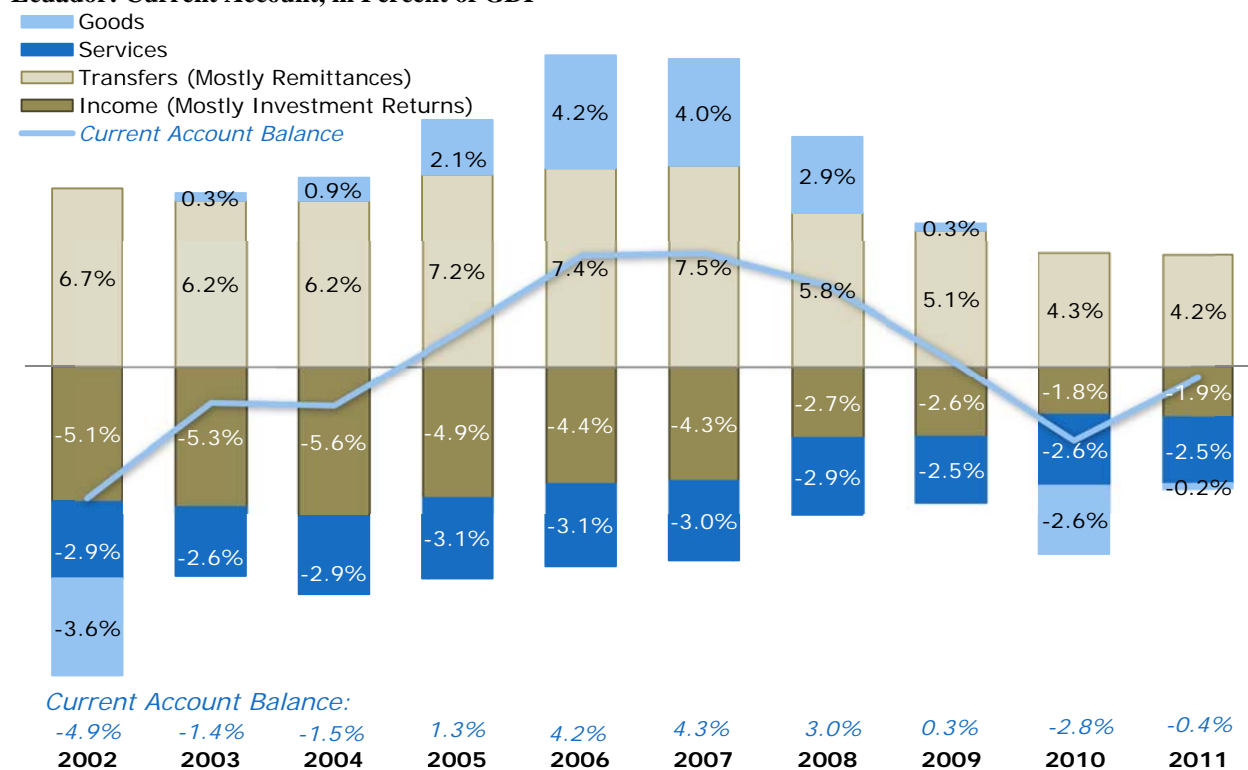
Ecuador's progress is especially impressive given the huge fall-off in revenue from exports and remittances over the last few years. Between 2008 and 2009, revenue from exports of goods fell by more than 25 percent, leading to the first current account deficits in several years.

In 2009, Ecuador's current account balance fell into negative territory for the first time in five years as oil prices fell worldwide. In response, Ecuador enacted a series of WTO-approved temporary safeguard measures in 2009, raising tariffs on 8.7 percent of tariff lines comprising 23 percent of imports in 2008. The import restrictions limited the current account damage for 2009, but they expired in mid-2010, leading to a worsening current account deficit and the first trade deficit in goods since 2002.<sup>5</sup>

Of course, diversifying exports could help stabilize the balance of payments. **Figure 9** shows exports of goods disaggregated by industry. There has been little increase outside of the petroleum and traditional agricultural sectors. Dollarization makes diversification into non-traditional goods difficult, as the BCE can't use the exchange rate to make exports more competitive in the global market; or to promote the growth of import-competing industries.

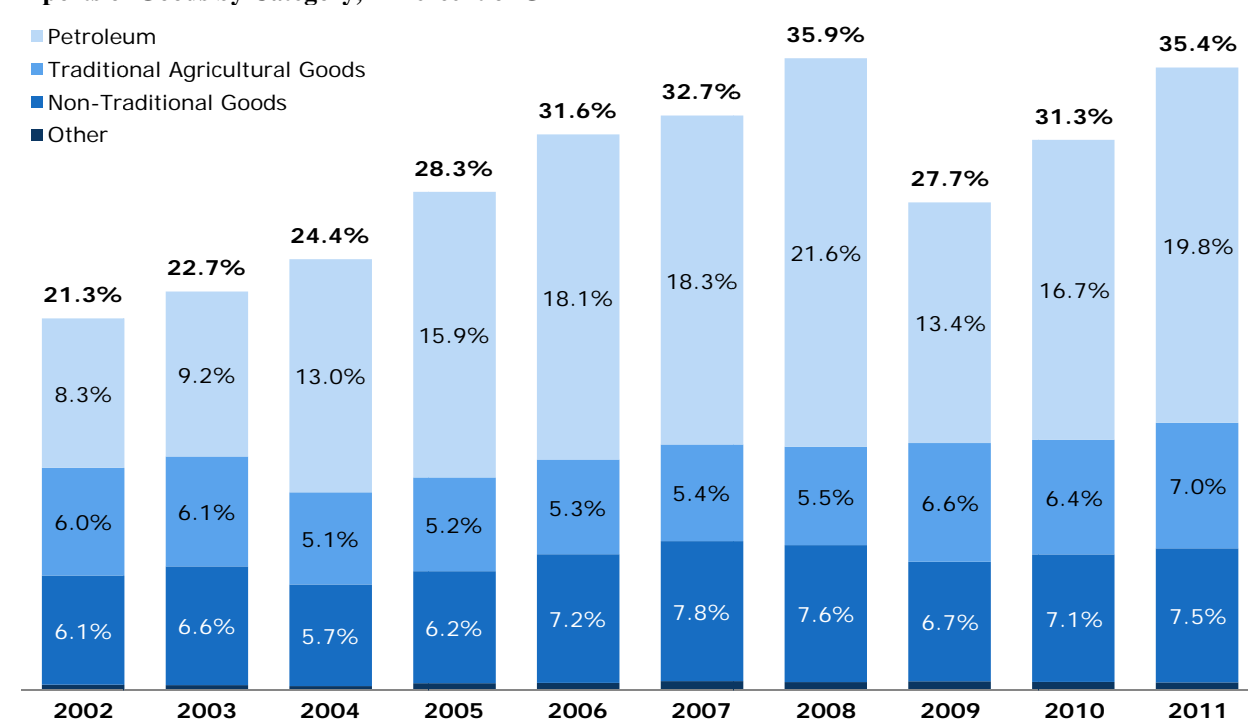
<sup>5</sup> World Trade Organization 2009, 2011.

**FIGURE 8**  
**Ecuador: Current Account, in Percent of GDP**



Source: Banco Central del Ecuador (No Date – c).

**FIGURE 9**  
**Exports of Goods by Category, in Percent of GDP**

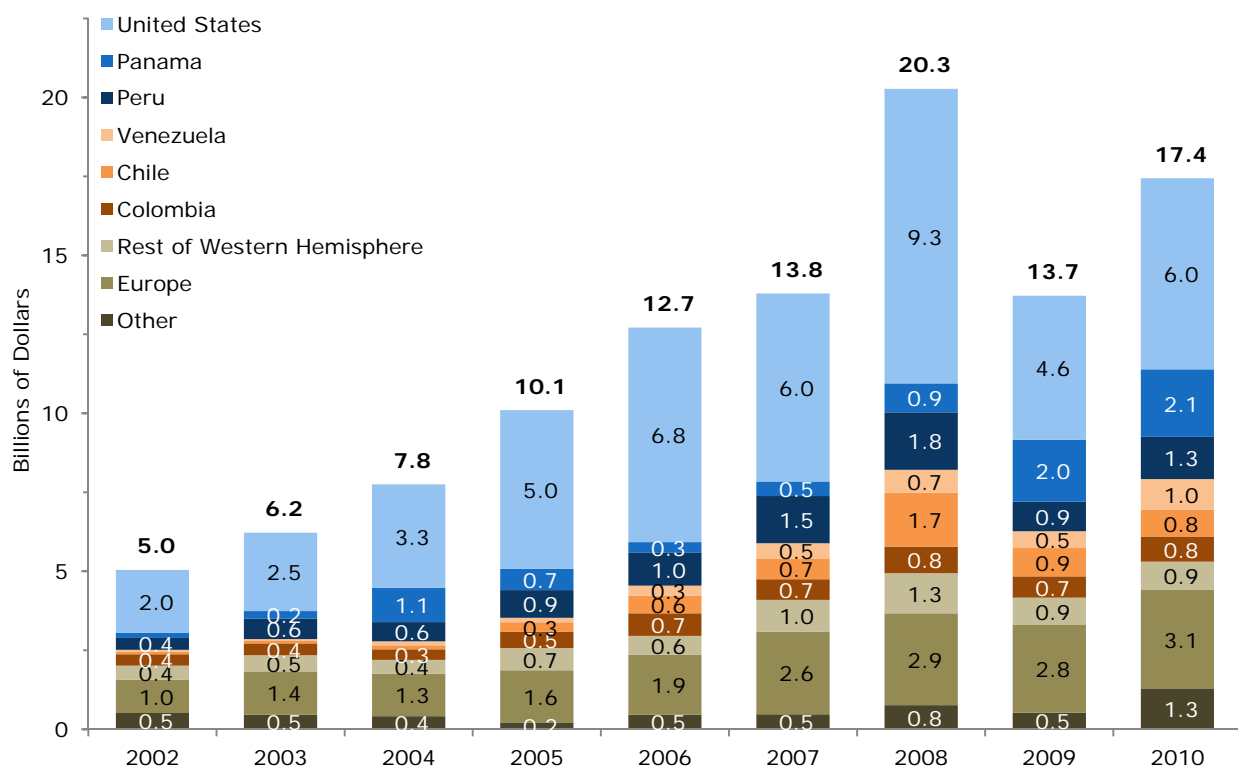


Source: Banco Central del Ecuador (No Date – c).

However, the distribution of Ecuador's exports among countries of destination has changed some. This can be seen in **Figure 10**. For example, over half of all exports in goods went to the U.S. in 2006, but in 2010 this had fallen to just over one-third. After the 2008 export peak, exports to the U.S. fell by over half, while other exports fell by only 16 percent. Moreover, exports to the U.S. did not recover in 2010, whereas other exports surpassed their 2008 levels. However, only one country saw a substantial increase from 2008 to 2010: Panama. Exports to Panama have almost as volatile a history as those to the U.S., though, having fallen from 14 percent of total exports in 2004 to seven percent in 2006, mainly due to its role as an intermediate destination for oil exports, so further diversification could help buffer Ecuador from future world recessions.

**FIGURE 10**

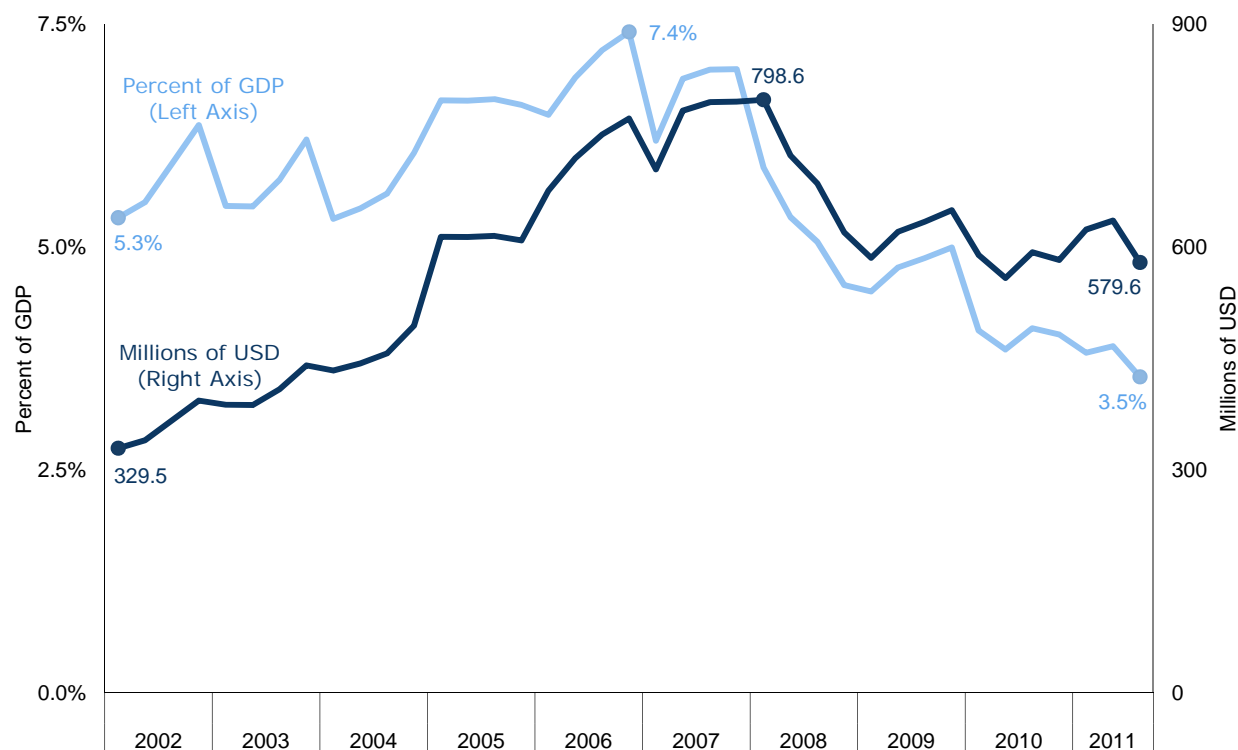
**Ecuador: Exports of Goods, in Billions of USD, by Destination Country**



Source: Comisión Económica para América Latina y el Caribe (No Date).

The other major source of current account revenue for Ecuador is remittances (**Figure 11**), which have fallen by about a quarter in dollar value and by over half as a percent of GDP since their peak before the recession. They peaked at 7.4 percent of GDP in 2006 and since then have fallen by nearly 4 percentage points of GDP. In absolute (dollar) value, this represents a loss of about 800 million dollars per year. Remittances from the United States have fallen from \$442 million in the third quarter of 2007 to \$270 million four years later, and those from Spain have fallen from \$375 million to \$228 million. Neither the United States nor Spain appears to have strong enough labor market conditions to bolster prospects of higher remittances in the foreseeable future.

**FIGURE 11**  
**Ecuador: Workers' Remittances from Abroad (Quarterly, Seasonally-Adjusted)**



Source: Banco Central del Ecuador (No Date – c), International Monetary Fund (2012), and authors' calculations.

## Human Development

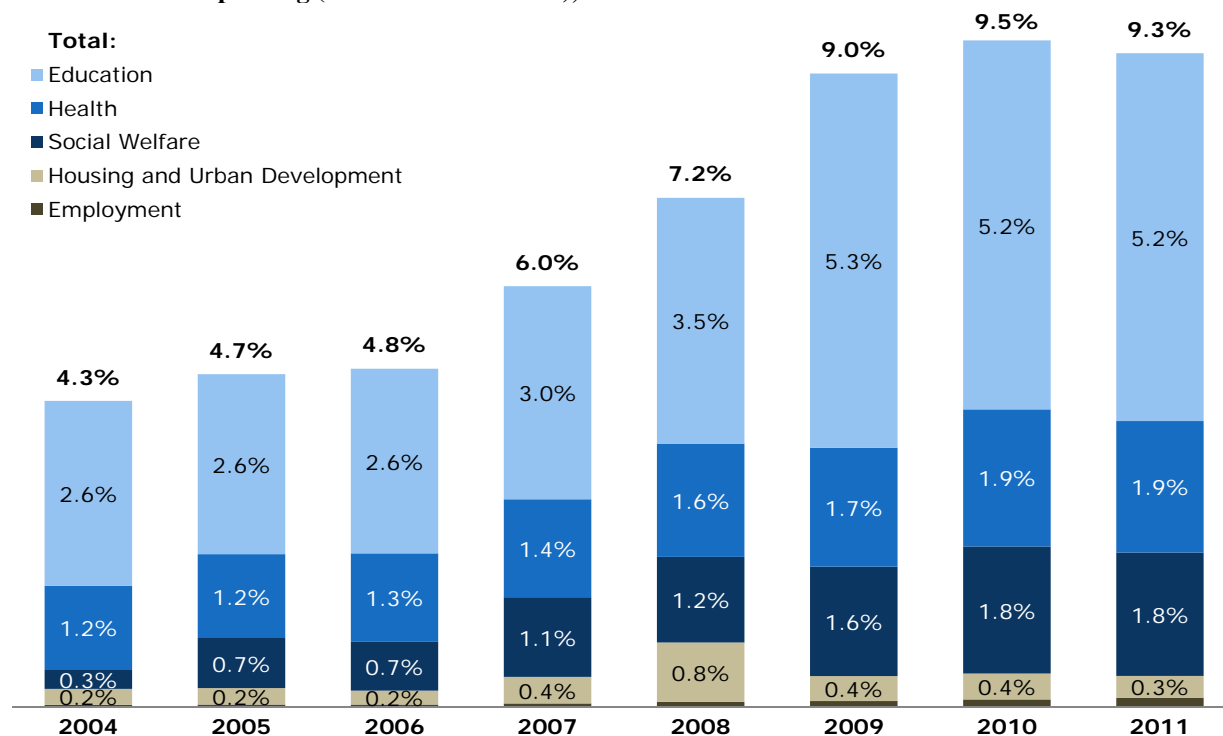
Over the last five years, human development has grown as a priority within government spending, especially in the areas of education and health.

### Government Social Spending

Between 2006 and 2009, social spending nearly doubled as a percent of GDP (**Figure 12**). In fact, government spending on education did double – from 2.6 to 5.2 percent of GDP – and spending on social welfare<sup>6</sup> more than doubled – from 0.7 to 1.8 percent of GDP.

<sup>6</sup> The Social Welfare category consists of funding for a variety of social programs including the *Bono de Desarrollo Humano* and other cash transfer programs, the *Instituto para la Niñez y la Familia*, an institute supporting child and family development, the food security program *Alimentate Ecuador* and other nutritional development programs, as well as funding for the construction and maintenance of a diverse array of community centers. For a breakdown of spending for the Social Welfare category, see UNICEF (2010).

**FIGURE 12**  
**Public and Social Spending (Central Government), in Percent of GDP**



Source: Ministerio de Finanzas del Ecuador (No Date – b).

## Labor Market

Ecuador's recovery from the recent recession has been robust enough to show real progress in the labor market. Unemployment is currently at 4.9 percent (its lowest point since the current methodology began in 2007), while the minimum wage has risen by about 40 percent in real terms over the last five years.<sup>7</sup> It is important to note that this unemployment rate includes "hidden" unemployment; those who have given up looking for a job are still counted in the labor force if they are willing and able to work. So the drop in the unemployment rate is not due to discouraged workers leaving the workforce.

Moreover, worker pay has gotten a recent boost: with the introduction of the *salario digno*, any business earning a profit must first distribute that profit among its employees, until either the employees' total earnings rise to the level of a living wage or the entire profit has been distributed before reporting the remainder as its final profit.<sup>8</sup>

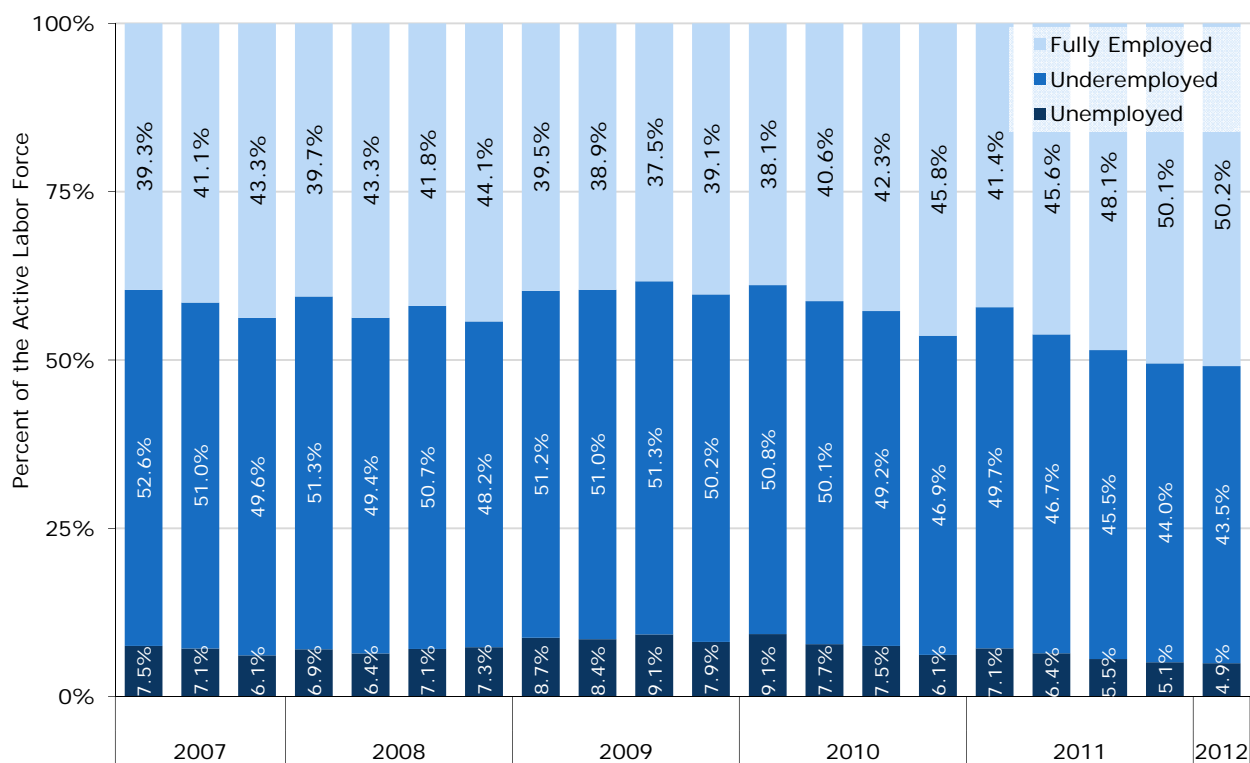
Underemployment in urban areas has fallen to its lowest level since the series began, from 52.6 in 2007 to 43.5 percent in 2012. Ecuador defines underemployment very broadly, applying to anyone who is working but willing and able to change their work arrangement to improve the "duration or productivity" of their work. Because of this broad definition, Ecuador has higher levels of underemployment than in countries with a more narrow definition. Meanwhile, the proportion of

<sup>7</sup> Banco Central del Ecuador (No Date – b).

<sup>8</sup> Ministerio de Relaciones Laborales (2012).

workers who are enrolled in the social security system has grown dramatically. At the end of 2007, less than 30 percent of workers were covered by social security; by late 2011 that rate rose to over 40 percent.<sup>9</sup>

**FIGURE 13**  
**Ecuador: Labor Force Indicators, Urban Population Age 15 and Above**



Source: Instituto Nacional de Estadística y Censos (No Date).

## Poverty

Income poverty has fallen dramatically since 2009. Before the recession, urban poverty had fallen to 22 percent, but then rose during the downturn, reaching 25.5 percent by mid-2009. In the last two years it has fallen by about one third, to 17.4 percent. Rural poverty rose from 58 to 59.7 percent during the recession, but fell back sharply to 50.9 percent by the end of 2011. Nationwide, it has fallen by about one-fourth over the last five years.

<sup>9</sup> Instituto Ecuatoriano de Seguridad Social (2007, 2011), Banco Central del Ecuador (No Date, b), authors' calculations.



**TABLE 4**  
**Ecuador: Income Poverty**

		Poverty			Extreme Poverty		Gini Coefficient		
		Urban	Rural	National	Urban		Urban	Rural	National
2006	II	26.3%					49.3		
	III	25.6%					49.8		
	IV	25.9%	60.6%	37.6%			51.1	50.5	54.0
2007	I	24.3%					49.2		
	II	22.4%					52.3		
	III	22.0%			7.0%		50.1		
	IV	24.3%	61.3%	36.7%	7.9%		52.2	50.1	55.1
2008	I	26.2%			8.2%		48.4		
	II	23.3%	58.0%	35.0%	7.6%		49.7	48.0	52.5
	III	22.0%			7.4%		50.6		
	IV	22.6%	59.7%	35.1%	7.6%		48.3	47.9	51.5
2009	I	23.6%			7.4%		48.3		
	II	21.8%			6.7%		49.0		
	III	<b>25.5%</b>			<b>8.6%</b>		<b>50.2</b>		
	IV	25.0%	57.5%	36.0%	8.2%		48.2	45.5	50.4
2010	I	22.6%			6.5%		47.7		
	II	22.9%	52.9%	33.0%	7.9%		49.8	47.0	51.9
	III	22.7%			7.7%		48.2		
	IV	22.5%	53.0%	32.8%	7.0%		48.7	44.1	50.5
2011	I	21.4%			6.3%		47.7		
	II	19.2%			5.9%		47.3		
	III	18.0%			6.5%		46.0		
	IV	17.4%	50.9%	28.6%			44.1	45.6	47.0

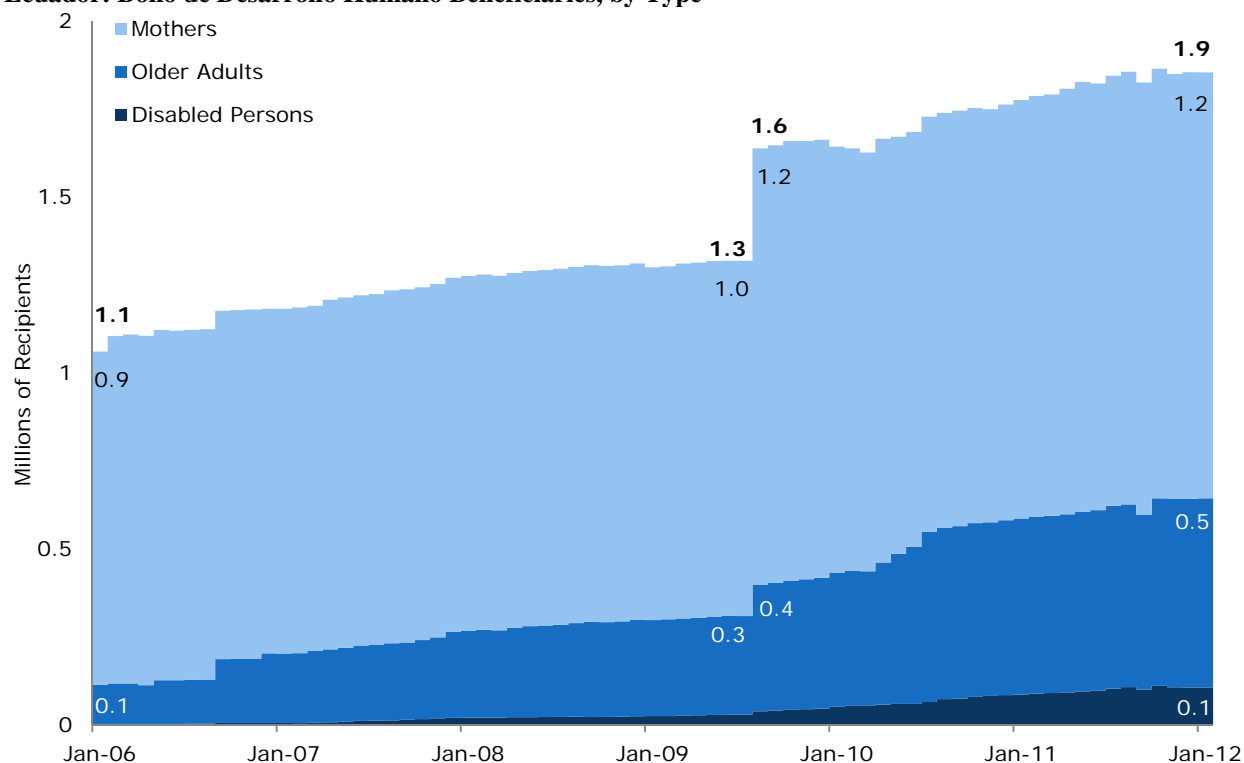
Source: Banco Central del Ecuador (No Date – d), Instituto Nacional de Estadística y Censos 2012.

An important factor in improving income, public health, and education has been the *bono de desarrollo humano* (BDH), a cash transfer program for those in the lower 40 percent of income distribution who are mothers of children under age 16, are above the age of 65, or are disabled.<sup>10</sup> The BDH was designed in 2003 to be conditional on regular medical checkups and school attendance for children. However, in practice, proof of meeting these requirements is only needed for initial registration, not for continued participation. Thus once families are enrolled, it becomes an unconditional cash transfer program. Nevertheless, even with its unconditional format, several recent studies have found significant, positive health and education effects associated with poor children's receiving the BDH.<sup>11</sup>

<sup>10</sup> BDH is also occasionally given to fathers, in cases of absent or deceased mothers. For more, see Ministerio de Inclusión Económica y Social (No Date - b) and Weisbrot and Sandoval (2009).

<sup>11</sup> See Fernald and Hidrobo (2011), Paxson and Schady (2010), and Schady et al. (2008). It remains to be seen whether these improvements will be sustained or decline over time. Paxson and Schady found most parents thought the BDH was conditional on taking children to regular medical checkups, and Schady et al. found a large, significant relationship among BDH recipients between children's school attendance and the mistaken belief that the BDH was conditional. Over time, parents may realize that this is not the case, and the program may need to implement its originally planned conditionality to maintain these improvements.

**Figure 14**  
**Ecuador: Bono de Desarrollo Humano Beneficiaries, by Type**



Source: PPS (No Date).

In August 2009, the BDH expanded its reach dramatically, increasing the number of beneficiaries by 25 percent. Most of the new enrollees were mothers, but an important increase also occurred among older adults. Prior to 2009, registration was piecemeal and depended on potential recipients seeking out and applying for the program. In 2008, surveyors canvassed potential recipients in a concerted effort to find eligible households not already receiving the BDH. While the poverty rate did increase some in 2009 – as would be expected due to the recession – as shown in Table 4, the increase was small compared to that of the BDH roster. Thus, the expansion of the BDH shows expanded coverage, not just expanded eligibility.

## Health

Given the expansion of the *Bono de Desarrollo Humano*, we would expect to see an increase in vaccination rates in the short term, translating into lower child mortality in the long term. Vaccination rates have, in fact, soared. Total vaccines given across the country were fairly flat from 2007 to 2008, falling from 2.6 to 2.5 million, but then jumped to 3.3 and then 3.6 million in 2009 and 2010, respectively.<sup>12</sup> It will bear watching child mortality rates for the 2010 to 2015 time period to see the size of the impact on overall child health.

<sup>12</sup> Secretaría de Planificación y Desarrollo (2011).

Ecuador has already achieved remarkable progress in child health. To adequately analyze this progress, it is important to give context because of the diminishing returns that inevitably come as countries reach lower mortality rates. **Table 5** provides this context by comparing Ecuador's reduction in mortality to that of countries with similar levels of GDP and mortality in 2000, the year the table begins.<sup>13</sup> Ecuador began the period slightly ahead of its peers: mortality rates were 2 to 3 percent lower in Ecuador than in the overall group. But these gaps have continued to widen, both in absolute and relative terms. By 2000, Ecuador's infant and child mortality rates had fallen to nine and 12 percent, respectively, below the group average.

**TABLE 5**  
**Ecuador and Similar Countries: Infant and Child Mortality, 2000-2010**

	Infant Mortality (Per 1,000 Live Births)				Child Mortality (Per 1,000 Children Under Age 5)			
	Group Average	Ecuador	Difference		Group Average	Ecuador	Difference	
			Level	Percent			Level	Percent
2000	27.4	26.7	-0.7	-2.7%	33.5	32.7	-0.8	-2.4%
2001	26.5	25.6	-0.9	-3.4%	32.2	31.1	-1.1	-3.5%
2002	25.6	24.6	-1.0	-3.8%	31.0	29.7	-1.3	-4.2%
2003	24.7	23.7	-1.0	-4.1%	29.8	28.2	-1.6	-5.5%
2004	23.9	22.6	-1.3	-5.4%	28.8	27.0	-1.8	-6.2%
2005	23.1	21.7	-1.4	-6.0%	27.7	25.6	-2.1	-7.5%
2006	22.3	20.7	-1.6	-7.0%	26.6	24.5	-2.1	-8.1%
2007	21.5	19.9	-1.6	-7.4%	25.7	23.3	-2.4	-9.3%
2008	20.8	19.1	-1.7	-8.0%	24.7	22.3	-2.4	-9.8%
2009	20.1	18.2	-1.9	-9.3%	23.8	21.1	-2.7	-11.5%
2010	19.4	17.6	-1.8	-9.3%	23.0	20.1	-2.9	-12.5%

Source: World Bank (No Date) and authors' calculations.

Note: Similar countries are defined as those with per-capita GDP within \$250 USD and mortality rates within 20 deaths per 1,000 of Ecuador's level in 2000. For child mortality, this group includes Albania, Belarus, Cape Verde, Egypt, Honduras, Kazakhstan, Paraguay, Philippines, Samoa, Solomon Islands, Syria, Tuvalu, Vanuatu, and the West Bank and Gaza. For infant mortality the group also includes Bosnia and Morocco. Iraq meets these definitions but was excluded due its unusual circumstances of war.

## Education

The quality of education in Ecuador has historically lagged behind that of others in the region,<sup>14</sup> with low levels of education spending, low enrollment and graduation rates, and wide disparities in access to education between different economic and ethnic groups, as well as between urban and rural groups.

In late 2006, under the administration of President Alfredo Palacio, Ecuador passed a ten-year education plan with the intention of overhauling the educational system to improve the quality and reach of public education. The *Plan Decenal de Educación de Ecuador 2006-2015* was implemented in 2007, during the first days of the Correa administration, and focuses on eight goals for educational reform that, on one front, aim for the universalization of pre-primary (0-5 years old) and primary

<sup>13</sup> We define "similar countries" here as those with per-capita GDP within \$250 of Ecuador's level (between \$1,041 and \$1,541 USD), and mortality rates within 20 deaths per 1,000 of Ecuador's level, in 2000.

<sup>14</sup> Telam (2012).

education, achieving a secondary school graduation rate of 75 percent of students in the relevant age group, and ending illiteracy. On another front, the plan calls for improving infrastructure and equipment in schools, developing a national evaluation system, increased training and professional development for teachers, as well as improved teacher working conditions.

In order to attain these goals, an annual increase of 0.5 percent of GDP to the education budget was mandated under the *Ley Orgánica de Financiamiento y Educación* (Law of Financing and Education) until 2012, or until the education budget reaches at least 6 percent of GDP. Since the implementation of the ten-year education plan, the government has consistently met its goal of increasing the education budget, reaching 5.2 percent of GDP in 2011 (See Figure 12).<sup>15</sup>

At 3.5 percent of GDP in 2008, Ecuador's education spending, which had already risen from a low of 2.3 percent of GDP in 2003, still fell below the 4.6 percent average for spending on education as a percent of GDP across upper-middle income countries. By 2010, Ecuador had increased education spending to 5.2 percent, surpassing the 2008 average for upper-middle income countries.<sup>16</sup> (It is worth noting that Ecuador's per capita income puts it at the bottom of the range of the World Bank's "Upper Middle Income" category, with \$4000 in a grouping that ranges from \$3,976 to \$12,275 per capita in Purchasing Power Parity dollars. Thus, Ecuador is being compared here with countries that are two and three times as rich in per capita income.)

Under the ten-year plan for education, all school fees were eliminated, the free breakfast program was expanded, and the government began providing school children with free textbooks, school materials and uniforms,<sup>17</sup> increasing accessibility to children of impoverished families who may previously have been unable to attend school.

**Figure 15** shows gross enrollment rates through 2009.<sup>18</sup> Gross enrollment rises above 100 percent when non-traditional age students enroll, as shown here. Of course these rates will not remain above 100 percent indefinitely; as completion rates rise among older students, fewer will return to school. Thus, gross enrollment for primary school – which has been above 100 percent for decades – has fallen slightly while net enrollment has remained fairly constant between approximately 97 and 98 percent since 2000. In 2005, a new law mandating compulsory pre-primary education beginning at age five led to the rise in pre-primary enrollment rates. It continued to rise, surpassing 100 percent in 2008, due to the enrollment of children returning to or repeating pre-primary school, as well as non-traditional age students newly enrolling as a result of the new law. Nonetheless, the large increases beginning in 2006 in pre-primary and secondary enrollment show a dramatic expansion of coverage.

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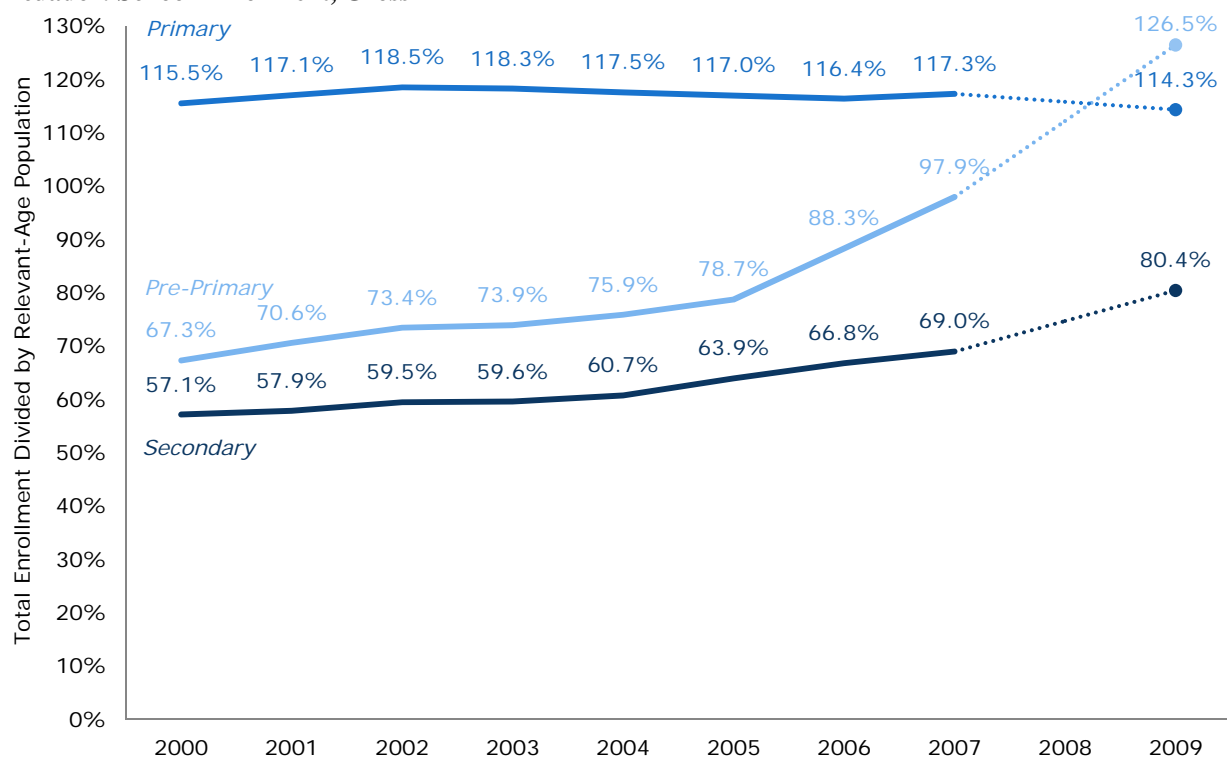
<sup>15</sup> Ministerio de Educación and Consejo Nacional de Educación (2007). Also, the calculation by the Ministerio de Finanzas uses money that was *spent* by the government rather than money that was *budgeted*. Since budgeting and spending occur at different paces, other indices of public and social spending might appear to show contradicting amounts of social and public spending.

<sup>16</sup> World Bank (No Date). Data after 2008 for average education spending in upper-middle income countries is unavailable, but for the years 1999-2008 the average has fluctuated between 4 and 4.6 percent, suggesting that in 2010 a similar average would remain.

<sup>17</sup> For more information on these programs, see <http://www.pae.gob.ec/>.

<sup>18</sup> Unfortunately more recent data is not available, nor is net enrollment data for pre-primary or secondary levels.

**Figure 15**  
**Ecuador: School Enrollment, Gross**



Source: World Bank (No Date).

Note: Data for 2008 is unavailable. Dotted lines represent interpolation between data for 2007 and 2009.

Despite the large expansion in coverage and the numerous projects that have been undertaken in order to improve the educational system, the gaps in completion rates among students remain high. Students from the poorest quintiles still attend school for only 6.7 years on average, while those from the most affluent quintile attend school for an average of 14.2 years.<sup>19</sup> The disparity also continues to be strong for children from ethnic minorities and children living in rural areas, both of whom are completing fewer years of education than their non-minority and urban counterparts. The government has recently acknowledged the challenges to meeting all of the goals proposed in the ten-year education plan and has announced new policies, including the implementation of nationwide standards for education.<sup>20</sup>

## Conclusion

Since the recession of 2008-2009, Ecuador has taken a creative approach to economic and social policy. The Correa administration pursued fiscal stimulus through concessional loans, using already-existing infrastructure of private banks to jump-start the recovery without delays or burdensome additions to bureaucracy. Their monetary policy got around the limits of not having a local currency by using bank regulation to add liquidity. Finally, faced with low participation in their main cash transfer program, they set out to find the missing households and enroll them – improving access to health care and education along the way.

<sup>19</sup> PREAL, Fundación Ecuador and Grupo FARO (2010).

<sup>20</sup> Salazar (2011).

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