

Ecuador: Current Situation and Future Challenges in the Banking Sector



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Agenda

- I. Overview of Banking in Ecuador*
- II. Current Situation and Main Trends*
- III. Future Challenges & Opportunities*
- IV. Final Remarks*

Overview of Banking in Ecuador

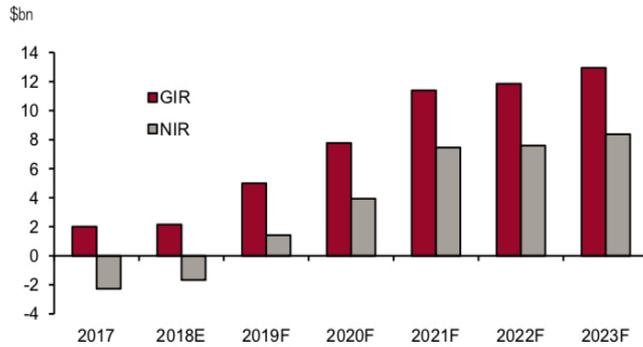
- Between the 1940`s and early 1980`s, the financial system in Ecuador grew quickly due to a stable currency (Sucre) and the main financial institutions were: Banco Pichincha and Banco de Guayaquil
- In the 1980`s Ecuador`s external debt soared. The government began slowly depreciating the Sucre for 19 years going from 25 (1980) to 25'000 (1999)
- In January 2000, the financial system collapsed and the president elect instilled the dollar as Ecuador`s the main currency
- Ecuador`s banking system currently has 24 private financial institutions that are very solid and liquid, regulated and supervised by the Banco Central del Ecuador (Bank Regulator)

Current Situation

- The 5 main financial institutions in Ecuador that hold most of the market share are:
 - Banco de Pichincha (25%)
 - Banco Pacifico (20%)
 - Banco Guayaquil 15%)
 - Banco Internacional (12%)
 - Banco Bolivariano (10%)
- Financial institutions have gained access abroad
 - LATAM (Panama, Peru and Bahamas) and North America
- Foreign Financial Institutions are starting to gain some access to the country
 - Grupo Promerica, and Citibank
- Banking and financial sector contributed the most to the GDP's growth in 2018 which was around 4%

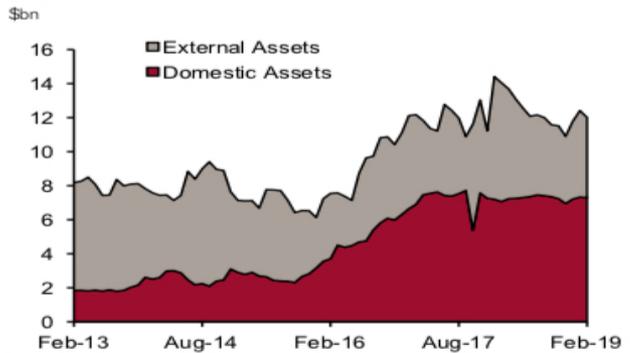
Main Trends

Figure 1: Gross and net international reserves projected by the IMF



Source: IMF, Credit Suisse

Figure 2: Central bank's balance sheet assets

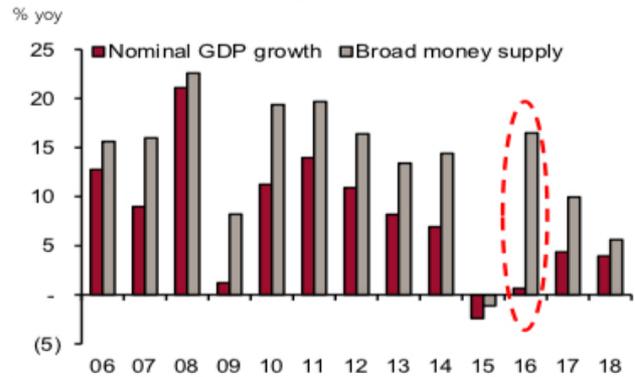


Source: Central bank, Credit Suisse

- Employment
 - Due to the deterioration of the country in 2017 and 2018, we have seen an increase in the unemployment rate in the last 4 semesters
- Consumption / Lending
 - Due to the deterioration that the economy was going through, the private consumption and lending decrease during 2018 but in the 1st quarter of 2019 we have seen an improvement in the lending of the private sector
- Reserves
 - During 2018, the international reserves drop to a below the minimum requirement, but due to the increase of the external debt, increase oil price and some reduction on govt. spending the reserves have improve in the 1st quarter of 2019

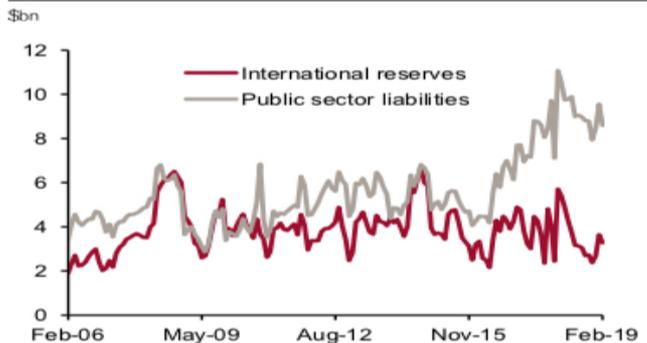
Main Trends

Figure 3: Nominal GDP growth and money supply



Source: Central bank, Credit Suisse

Figure 4: International reserves and public sector liabilities of the central bank



Source: Central bank, Credit Suisse

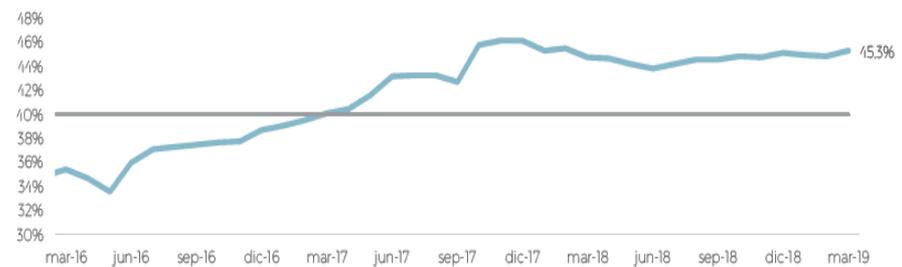
- Increase Opportunities in the M&A in different sectors in Ecuador
 - Since 2017, we have seen an increased appetite of foreign companies to get in the Ecuadorian market (Pharmaceutical, Consumption and Utilities Sector)
- Inflation
 - After having a negative inflation during 2018, the 1st quarter of 2019 Ecuador is experiencing a slow improvement with an acceleration of 0.1%
- Banking Sector
 - Ecuadorian Banks close the 1st semester of 2019 with a positive balance of USD 41'120 million dollars

The Future of Ecuador

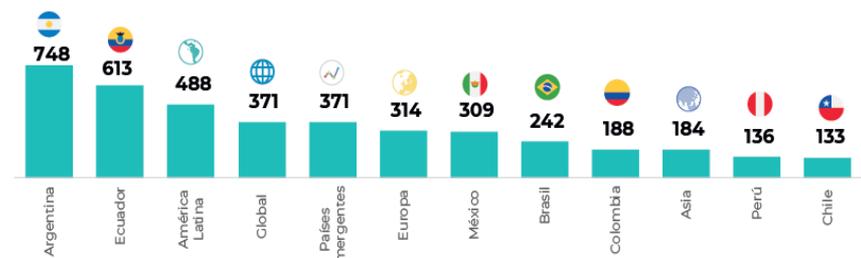
Challenges

- Reduction of Government Spending
- Reduction of External Debt
- Political Stability and Law Enforcement
- Decrease of Country Risk
- Increase of involvement of international financial institutions (e.g. WB, IDB, IMF)

External Debt / GDP



Country Risk



The Future of Ecuador

Opportunities

- Opening of Private Foreign Investment
- Increase of international financial institutions
- Reduction of interest rates
- Increased Lending: Private Sector and Rural Areas
- Increase in employment and consumption

GDP Growth



Interest Rates



Final Remarks

- The current government has gained some momentum and with the loan that the IMF will provide Ecuador, they will manage to create some liquidity to start making some reforms that will allow the country to start growing again
- Ecuador as a USD oriented market is not very competitive in comparison with other countries in Latin America, but with political and monetary stability many international players in the corporate world will be interest in having exposure in the country
- The government needs to be more open to foreign investment and needs to create some stability by allowing international banks to start competing with the local banks
- If the government spending starts decreasing, and foreign investment increases we can get by 2020-2021 to the 3.8% target growth.

Thank You for Your Attention

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