

CENTRAL BANK OF ECUADOR'S ACCOUNTANCY UNDER DOLLARIZATION

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At the beginning of the year 2000, the Government of Ecuador, in view of the recent economic and financial crisis, popular discontent and the increasing social tension, decided to eliminate the sucre as the legal tender and instead to establish the U.S. dollar as the new legal tender. This change of monetary scheme involved an intense modification of different aspects in Ecuador's economic management. In this paper we focus on the main changes that the Central Bank of Ecuador had to adopt related to its financial and accountant management.

FOREWORD

The last five years of the twentieth century, probably was the most negative period in Ecuador's economic history. After the undeclared war against Peru in 1995, the financial crisis became more severe showing early public signs of weakness with the cession of a middle sized bank under the control of the Central Bank of Ecuador. The economic and financial situation deteriorated even more due to the effects of "El Niño" phenomenon in 1997, and reached its peak between 1998 and 1999, with the closing of thirteen private banks and three financial trading institutions. The end of the crisis was preceded by a bank holiday of a week, and the freezing of a large part of demand and term deposits in the financial system. The freezing of bank deposits sought to avoid a dramatic reduction in international reserves and the beginning of a hyperinflation period. Nevertheless, this policy measure weakened the financial system's credibility

¹ The comments expressed in this document are of exclusive responsibility of the Author and do not bind nor represent the official position of the Central Bank of Ecuador.

causing a 43% flight of capital between January 1998 and December 1999.

During 1999 the dollar quotation passed from S/. 7.114 to S/. 17.982, registering a peak in the exchange market at about S/. 21.000. During the first two weeks of the year 2000, the U.S. dollar quotation continued bullish passing the barrier of S/. 25.000 per dollar. On January 10, 2000, the National Government announced the establishment of the dollarization monetary scheme, applying a conversion quotation of S/. 25.000 per dollar. The bill that allowed to settle this scheme was passed in parliament on March 2000, and considered among other things the modification to the Monetary Regime Law, the establishment of the U.S. dollar as a legal tender; several modifications to the Financial Institutions General Law allowing banks to manage their accountancy in dollars; reforms to the Company Law; reforms to the Stock Market Law, modifications to the Internal Tax Laws; amendments in the Hydrocarbon Law, reforms to the Telecommunication Law, reforms to the Electric Sector Law, reforms to the Labor Laws, reforms to the Social Security and Income Tax Law; the elimination of authority for the Central Bank to issue local currency, the one time reduction in the interest rates, the automatic conversion of all the accounts in Sucres to the new legal tender currency and the conversion of the financial statements of all the organizations into dollars.

1. EFFECTS IN CENTRAL BANK OF ECUADOR'S ACCOUNTANCY

Design of Accounting Systems in Central Bank of Ecuador's Balance:

Since the implementation of the dollarization system in Ecuador was not carried out with the anticipation that the experts advise, the economic agents received the news with a marked skepticism regarding its support; the main concern was the belief that in order for the system to be maintainable, the conversion quotation was supposed to be higher than the S/. 25.000 sucres per dollar. To eliminate this concern it was necessary to show that the Monetary Reserves in custody of the Central Bank of Ecuador, were enough to cover the conversion of:

- The circulating national currency issued by the Central Bank of Ecuador.
- The public and private financial sector deposits in the Central Bank of Ecuador.

- The securities issued by the Central Bank of Ecuador (Monetary Stabilization Bonds).
- Central Bank of Ecuador's liabilities with International Organisms

The rest of the liabilities were expected to be settled with the surplus balance of the monetary reserves. It was expected that the payment of these obligations could be programmed and covered with other assets different from the monetary reserves and the funds proceeding from the Central Bank of Ecuador's management.

Aiming to avoid any doubt about the absolute preference of the conversion liabilities from the local currency and private banks deposits over the remaining Central Bank of Ecuador's obligations, the issuance of a legal standard was proposed to the National Congress that obligated the Central Bank to keep in its accountancy separate countable systems that established distinct priorities for the different assets and liabilities, dividing the Central Bank of Ecuador's financial statements into four countable systems (balances):

1. Exchange system account: It is part of the disposable international reserves. It registers:

Backs up currency issue

2. Financial reserve system: It is part of the disposable international reserves.

Backs up reserve requirements and Central Bank sucre-bonds (BEMs)

3. Operations system accounts: It is part of the disposable international reserves

Government bonds

Backs up monetary operations of the CBE
US dominated Central Bank paper
Nonfinancial public sector deposits
Obligations to official international financial institutions

4. Residual accounts: It is constituted by other domestic and foreign assets and other domestic and foreign liabilities

Free disposable reserves back up accounts 1+2+3

Sucres to dollar conversion:

To perform these legal mandates the Financial Controller issued the “Ecuadorian Accounting Norms (Conversion to Balance Sheets)”, to define the procedures to adjust the sucres balance sheets, before converting those values to US Dollars under common parameters.

Non monetary

2. Disposable International Reserve

Under a dollarized scheme, the international reserves have a different objective than in an emitting central bank. In Ecuador, the purpose of foreign reserves held by the Central Bank is to support the liabilities of the four independent balance sheets detailed herein. The interpretation of international reserves has changed from the concept managed before the application of the new monetary model. It is considered important to maintain liquid assets, in order to avoid liquidity risks related to the impossibility to trade reserve assets when needed. The international reserve assets are market valued to cover, according to law mandate, the four accountability systems of the monetary reserve.

3. Central Bank's Budget Management

Due to the legal obligation to cover central bank's liabilities to public and financial institutions with the international reserves resources

This constitutes a healthy limitation for a central bank under a dollarized economy, that has been successfully implemented by a new policy adopted in 1992 by which the central bank, by itself, restricted its operational costs and the acquisition of new fixed assets to the financial resources that it is capable to generate.

To implement this financial policy, the central bank has created in his fourth balance sheet, an account in which are registered the disposable resources for its internal management which are separated from the resources of the foreign reserve.

BANCO CENTRAL DEL ECUADOR				
SISTEMAS CONTABLES				
En miles de dólares				
BALANCE SISTEMA DE CANJE	2000		2001	2002
	ABRIL	DICIEMBRE	DICIEMBRE	SEPTIEMBRE
Activo	338,992	35,227	27,211	36,811
Caja en divisas	96,780	35,227	27,211	36,811
Bancos e Inst. Finan. del Exterior	175,149			
Remesas de Cheques y Valores	966			
Oro	66,098			
Pasivo	338,992	35,227	27,211	36,811
Esp.Monet. Emitidas en Circulación	338,992	35,227	27,211	36,811

BALANCE SISTEMA DE RESERVAS FINANCIERAS	2000		2,001	2,002
	ABRIL	DICIEMBRE	DICIEMBRE	SEPTIEMBRE
Activo	230,892	225,990	261,423	187,861
Caja en divisas	-	80,178	52,185	65,540
Bancos e Inst. Finan. Del Exterior	-	84,993	146,301	29,147
Remesas de Cheques y Valores		5,434	10	6
Inversiones en el exterior	63,399			
Oro	167,493	55,384	62,926	93,168
Pasivo	230,892	225,990	261,423	187,861
Bonos de Estabiliza.(menos Repos)	7,014	52	52	51
Depósitos del Sector Financiero	223,878	225,937	261,371	187,810

BALANCE SISTEMA DE OPERACIONES	2000		2001	2002
	ABRIL	DICIEMBRE	DICIEMBRE	SEPTIEMBRE
Activo	1,063,433	1,579,028	1,453,878	1,570,598
Inversiones en el exterior	355,376	738,278	595,171	745,768
Oro	-	177,332	170,893	180,259
Tenencias Org. Finan. Internacionales	1,307	372	2,565	1,802
Participación Org. Financieros	22,625	22,336	21,535	22,685
Acuerdos de Pago y Créd. Recíproco	-10,597	-19,839	-4,993	-728
Operaciones de Reporto	8,218	-	50,237	1,000
Títulos del Gobierno	686,504	660,549	618,469	619,812
Pasivo	1,063,433	1,579,028	1,453,878	1,570,598
Depósitos Sector Público no Finan.	485,521	1,065,328	987,895	13,310
Tít. del Bco. Central del Ecuador				1,245,890
Depósitos Sector Privado y Emisión de (T)	33,055	14,233	70,403	14,861
Endeudamiento Sector Externo BCE	544,857	499,467	395,580	296,537

BALANCE SISTEMA DE OTRAS OPERACIONES	2000		2001	2002
	ABRIL	DICIEMBRE	DICIEMBRE	SEPTIEMBRE
TOTAL ACTIVO Y GASTOS	4,560,156	3,758,106	3,655,563	4,115,128
TOTAL ACTIVO BAL. GENERAL	3,712,845	3,758,106	3,655,563	3,623,731
ACTIVO SIST.OTRAS OPERACIONES	2,439,014	1,498,640	1,381,864	1,851,979
Activo	2,439,014	1,498,640	1,381,864	1,851,979
Caja	2	36,903	3,032	83,437
Activos Externos	410,270	245,855	284,102	329,168
Inversiones	126,645	509,161	650,245	585,923
Crédito Interno	117,737	102,153	20,671	11,381
Cuentas por Cobrar	76,921	33,266	53,176	86,348
Bienes Adjudicados en Dación en Pago	672,622	303,998	107,404	105,782
Activos Fijos	37,270	35,718	41,428	47,000
Otros Activos	150,004	231,587	221,806	111,488
Gastos	847,312	-	0	491,397
Efectos de Cobro Inmediato	231	-	0	56
TOTAL PASIVO, PATRIM. E INGRESOS	4,560,156	3,758,106	3,655,563	4,115,128
TOTAL PASIVO DEL BALANCE	2,356,329	2,415,012	2,439,701	2,364,126
PASIVO SIST. OTRAS OPERACIONES	2,439,014	1,498,640	1,381,864	3,057,896
Pasivo	2,439,014	1,498,640	1,381,864	1,851,979
Pasivos Externos	487	487	332	289
Cuentas por Pagar	199,230	151,403	161,893	50,584
Otros Pasivos	35,470	3,656	3,777	50,104
Ingresos	1,069,980	-	0	545,085
Patrimonio	1,133,847	1,343,094	1,215,862	1,205,917

