Ecuador's economic freedom score is 46.9, making its economy the 170th freest in the 2019 Index. Its overall score has decreased by 1.6 points, with a steep drop in fiscal health and lower scores for government integrity and judicial effectiveness far exceeding gains in labor freedom and monetary freedom. Ecuador is ranked 29th among 32 countries in the Americas region, and its overall score is well below the regional and world averages.

Ecuador’s primary economic policy challenge is to reduce the large fiscal deficit in order to curb rising public debt but avoid stifling the ongoing economic recovery. The government took an important but politically difficult step in that direction in 2018 by cutting fuel subsidies. Another challenge will be to reduce the hugely bloated public sector, which has imposed a restrictive entrepreneurial environment on the struggling private sector. Pervasive corruption undermines the rule of law and weakens property rights.

**BACKGROUND:** The “Republic of the Equator” initially gained independence from Spain in 1830. Lenín Moreno of the Alianza País (AP) was narrowly elected in 2017 to succeed former two-term President Rafael Correa amid widespread charges of electoral fraud. Surprising his critics, Moreno moderated the populist Correa’s hard-left and anti-market policies and promoted a successful 2018 referendum to bar Correa from seeking another presidential term in 2021. The world’s largest banana exporter, Ecuador also remains a major transit country for narco-trafficking. Its dollarized economy depends substantially on petroleum, which accounts for more than half of export earnings and approximately 25 percent of public-sector revenues. More than 25 percent of the population still lives below the poverty line.
Protection of property rights and enforcement of contracts are weak despite recently reinstated penalties for the theft of intellectual property. The judiciary’s lack of independence and investigative capacity contributes to a climate of impunity. Some judges accept bribes for favorable decisions and faster resolution of cases. Corruption is pervasive, and anticorruption laws are enforced poorly. Bribery and facilitation payments are widespread.

The top personal income tax rate is 35 percent, and the corporate tax rate has been raised to 25 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 21.2 percent of total domestic income. Over the past three years, government spending has amounted to 38.5 percent of the country’s output (GDP), and budget deficits have averaged 6.3 percent of GDP. Public debt is equivalent to 45.0 percent of GDP.

Regulatory complexity increases the cost of conducting business, which has been raised further by a new “solidarity” contribution paid by employers and employees. Cumbersome labor regulations inhibit dynamic expansion of employment opportunities and foster the informal labor market. Dollarization generates a modicum of monetary stability, but subsidies for diesel, gasoline, and propane are a drain on the budget.

The combined value of exports and imports is equal to 42.0 percent of GDP. The average applied tariff rate is 6.8 percent. As of June 30, 2018, according to the WTO, Ecuador had 282 nontariff measures in force. The overall investment climate remains uncertain. The underdeveloped and state-controlled financial sector limits access to credit. About 57 percent of adult Ecuadorians have access to an account with a formal banking institution.