

ECUADOR

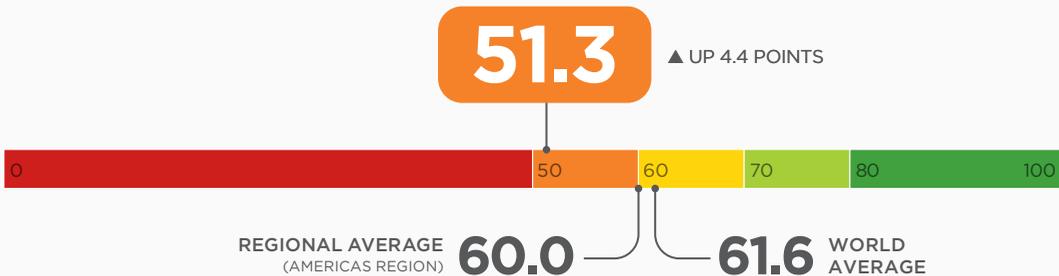
Ecuador's economic freedom score is 51.3, making its economy the 158th freest in the 2020 *Index*. Its overall score has increased by 4.4 points due to significant improvements in the **fiscal health** and **government integrity** scores. Ecuador is ranked 28th among 32 countries in the Americas region, and its overall score is well below the regional and world averages.

This year, for the first time in a decade, economic freedom has made a dramatic turn for the better in Ecuador, and the economy has reemerged from the ranks of the repressed where it resided under the previous socialist government. GDP growth has yet to make the same turnaround, as the economy is still shackled by many years of bad policies.

To continue this upward trajectory, the government is implementing ambitious structural reforms and austerity measures, but to attract new investment, it will also need to make a major push to strengthen Ecuador's weak rule of law.

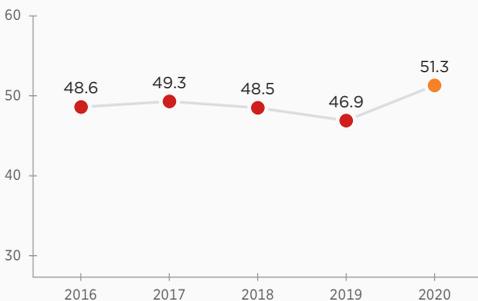
WORLD RANK: **158** | REGIONAL RANK: **28**
ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -6.4

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
17.0 million

GDP (PPP):
\$199.5 billion
1.1% growth in 2018
5-year compound annual growth 1.2%
\$11,718 per capita

UNEMPLOYMENT:
3.9%

INFLATION (CPI):
-0.2%

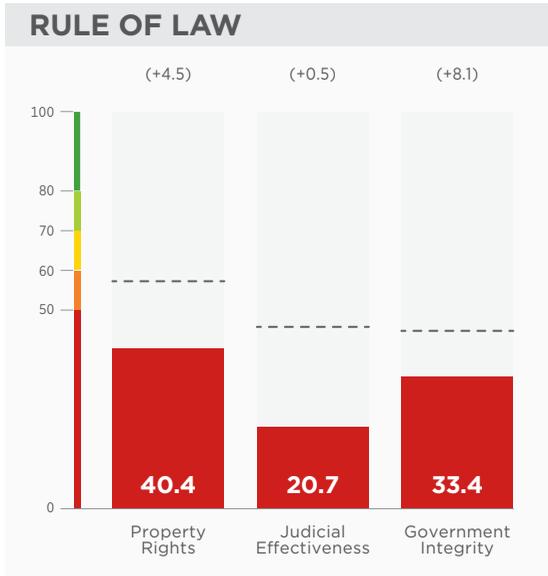
FDI INFLOW:
\$1.4 billion

PUBLIC DEBT:
46.1% of GDP

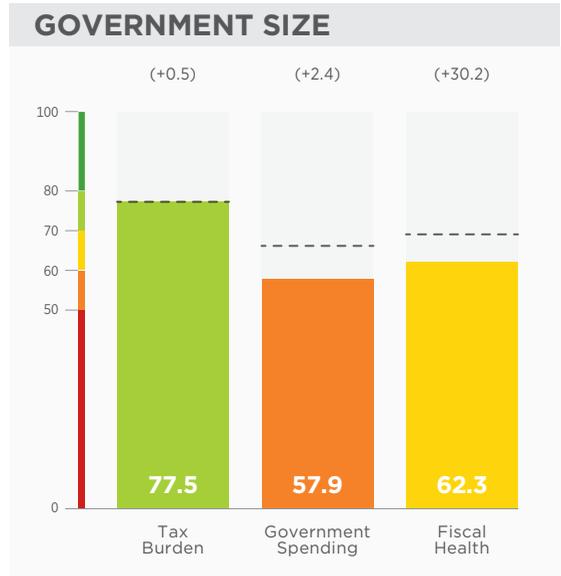
2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: The “Republic of the Equator” initially gained independence from Spain in 1830. President Lenin Moreno was narrowly elected to a four-year term in 2017, succeeding former two-term President Rafael Correa. In a stunning rebuke of his predecessor’s legacy, Moreno has adopted a pragmatic foreign policy, reestablished close relations with the United States, and moved his country toward the political center. 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 20 percent of the population still lives below the poverty line.

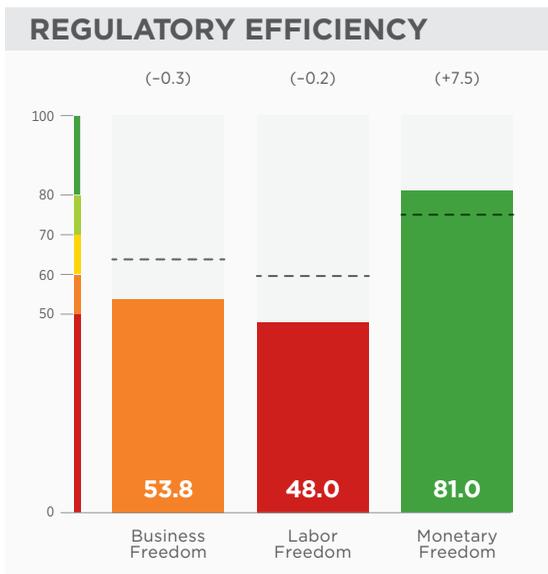
12 ECONOMIC FREEDOMS | ECUADOR



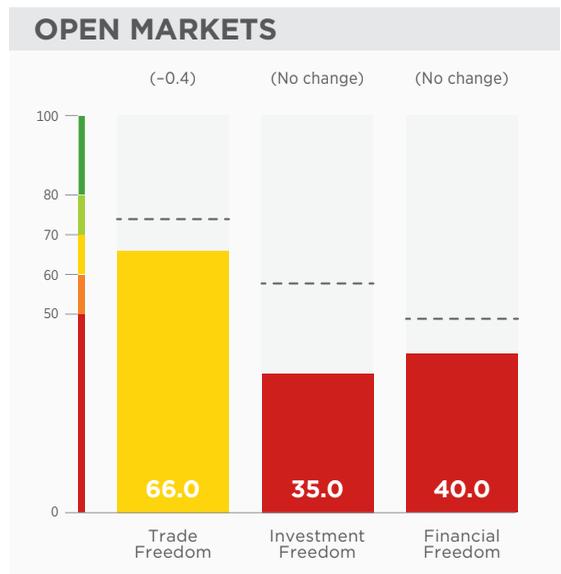
Historically, protection of property rights and enforcement of contracts have been weak in Ecuador. As part of his anticorruption initiative, President Moreno has moved to increase judicial independence, but judicial processes remain slow. In 2019, the government continued to probe high-level corruption and illegal campaign contributions to former President Rafael Correa’s regimes, calling Correa’s administration a “well-structured criminal organization.”



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 19.9 percent of total domestic income. Government spending has amounted to 37.5 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 4.6 percent of GDP. Public debt is equivalent to 46.1 percent of GDP.



Discontinuation of the “solidarity” contributions paid by employers and employees and allowing employers to deduct more of the cost of private medical insurance have made it easier to do business. Overly rigid labor regulations harm labor market flexibility. Labor costs are high relative to productivity. To help reduce its debt-to-GDP ratio, the government is gradually lowering expensive fuel subsidies and reducing other untargeted subsidies.



The total value of exports and imports of goods and services equals 45.9 percent of GDP. The average applied tariff rate is 7.0 percent, and 281 nontariff measures are in force. Government openness to foreign investment is below the global average. Although the banking sector has grown, state meddling constrains the overall growth of financial services. The number of nonperforming loans has been increasing.