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## Ecuador: Transformations and adjustment put to the test by a decade of shocks (2015–2025)

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# Contents

**Summary** p. 5

**1. 2015–2025: A decade of shocks and crises that are weighing on the ecuadorian economic model** p. 6

**2. Signs of macroeconomic and financial stabilization in 2025–2026** p. 12

**3. Structural economic challenges remain and require attention in the medium term** p. 17

**Bibliography** p. 22

**List of figures** p. 23



# Ecuador: Transformations and adjustment put to the test by a decade of shocks (2015–2025)

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**Summary:** Between 2015 and 2025, a series of factors destabilized Ecuador’s economic, social, and political model: declining oil rents; another sovereign default; political instability following the end of the Correa era; rising crime; and a series of exogenous shocks, including natural disasters, the pandemic, and severe weather events. These induced profound transformations in the economic model, slowed the pace of growth, and aggravated fiscal and financial vulnerabilities.

The consequences were still being felt in 2023, with a deterioration in budget balances and pressure on foreign exchange (FX) reserves, then in 2024, when the economy experienced a 2% recession. Since early 2025, however, the economy has shown signs of stabilizing. Economic activity is benefiting from a more favorable macroeconomic and political environment, and the growth rate is expected to have reached between 3.4% and 3.8%. The state of public accounts, meanwhile, confirms the consolidation trajectory observed since 2016. The government has taken strong measures to improve tax revenues and control spending, which should reassure donors and private investors. As a result, Ecuador was able to issue debt on international capital market in early 2026 for the first time since 2020. Finally, the country’s FX reserves have reached a historic high, driven by the strong performance of the non-oil export sector. The Ecuadorian economy thus seems to have absorbed the impacts of the crises of 2015–2025, and its macroeconomic buffers were strengthened in 2025.

That said, Ecuador’s economic model has structural weaknesses. Potential growth is limited by low investment, a restrictive business environment, a high degree of uncertainty, and institutional rigidities that weigh on productivity. In the medium term, public finances are exposed to a significant increase in debt service and a gradual reduction in the exceptional support provided by donors since 2020. Because dollarization limits the degree to which domestic savings can be used to finance the public sector, the state is exposed not only to the sentiments of international markets, which remain wary, but also to persistent liquidity risk, despite the considerable efforts the government has made to reduce the deficit. Finally, climate and biodiversity issues are expected to intensify in the coming years. Transitioning to a climate-resilient, low-carbon economy that protects biodiversity, however, requires making adjustments to the economic model, a process that has thus far been gradual and constrained.

Thematic area: **Macroeconomics**

Geographical: **Ecuador**

## 1. 2015–2025: A decade of shocks and crises that are weighing on the Ecuadorian economic model

### A turbulent sociopolitical context of recurrent political instability and weakening security

Since 2017, Ecuador’s political scene has been characterized by a prolonged phase of political restructuring that has weakened the confidence of economic actors and made public policy less predictable. Following Rafael Correa’s two terms, the more economically liberal presidencies of Lenín Moreno (2017–2021) and Guillermo Lasso (2021–2023) faced significant social unrest, particularly the protests of 2019 and 2022, which were fueled by deteriorating socioeconomic conditions and austerity measures. They also struggled to build a robust base in the National Assembly during the post-Correa political restructuring. The weakening of both popular and parliamentary support resulted in frequent periods of political deadlock, culminating, in May 2023, with the *muerte cruzada* (“mutual death,” a rarely used constitutional mechanism) invoked by Guillermo Lasso, which triggered both his own resignation and the dissolution of the National Assembly. The government did implement some economic and budgetary measures between 2017 and 2023, but it delayed deeper reforms: Some were blocked by the National Assembly, while others were reversed shortly after being adopted. (The tax reforms adopted as part of the 2022 IMF program, for instance, were abandoned in 2023.) Finally, this instability has shaken the confidence of domestic and foreign investors, which has had an impact on the financing of both the productive economy and the public sector. (Sovereign spreads have been extremely sensitive to political developments and electoral timelines since 2018.)

Meanwhile, the security situation has deteriorated significantly over the past five years, particularly as a result of the consolidation of organized drug trafficking networks. Ecuador has grown increasingly integrated into regional cocaine

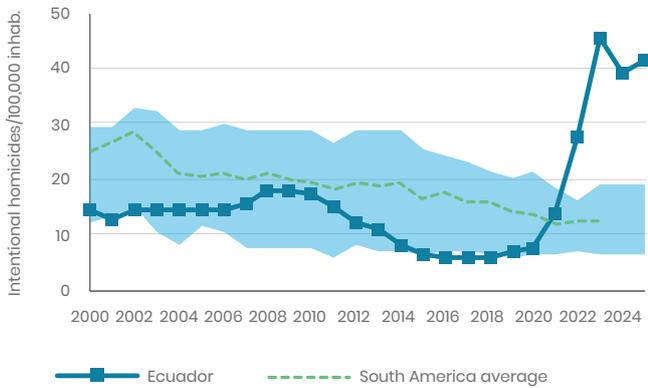
trafficking dynamics, as a result both of domestic developments (including fiscal austerity measures, the weakening of state control, political instability, and deteriorating socioeconomic conditions) and of regional shifts (the redirection of drug routes, particularly in southern Colombia following the 2016 agreement between the Colombian government and the FARC). According to the **United Nations Office on Drugs and Crime** (UNODC), cocaine seizures in Ecuador rose from 30 tons in 2019 to around 200 tons in 2023, or 11% of global seizures. The per capita homicide rate, meanwhile, increased sixfold between 2019 and 2024 (Figures 1 and 2), making Ecuador one of those South American countries whose crime indicators are rapidly worsening. Despite emergency measures and an increase in the resources allocated to fighting crime, this trend shows no sign of abating: The cumulative number of homicides in the first 10 months of 2025 was 22% higher than in 2024.

Figure 1- Monthly homicides in Ecuador (2015–2025)



Source: Ecuadorian Ministry of the Interior, AFD calculations

Figure 2 - Homicides per 100,000 inhabitants, Ecuador and South America (2000–2024)



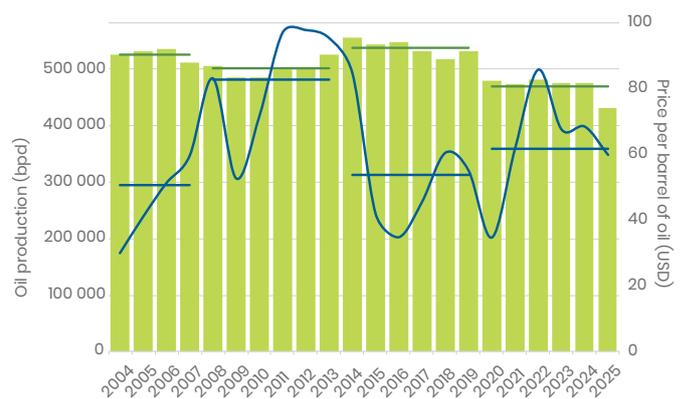
Source: Ecuadorian Ministry of the Interior, UN, AFD calculations

**This deterioration in security is having a profound impact on the country’s society, politics, and economy.** First, security has become a leading issue in political debate. A state of emergency has been declared on several occasions, and the government has classified the situation as an “internal armed conflict” and introduced exceptional measures, which complicates electoral timelines and public policies more broadly. Second, organized crime networks are extending their influence to other illegal activities, such as extortion, illegal mining, and wildlife trafficking. They are also infiltrating political life by assassinating candidates and elected officials and putting pressure on public institutions for corrupt purposes. Consequently, the country’s ranking in the Transparency International Corruption Perceptions Index fell from 92<sup>nd</sup> (out of 180) in 2020 to 121<sup>st</sup> in 2024. Finally, the deterioration in security comes with a significant economic cost for both public finances (because of increased security spending and decreased tax revenues) and economic activity: The extortion of business owners has become widespread, money laundering flows have grown, the business environment is deteriorating, and production and transport chains are being disrupted, particularly at ports.

### The gradual decline of oil rent: A major paradigm shift for the economy

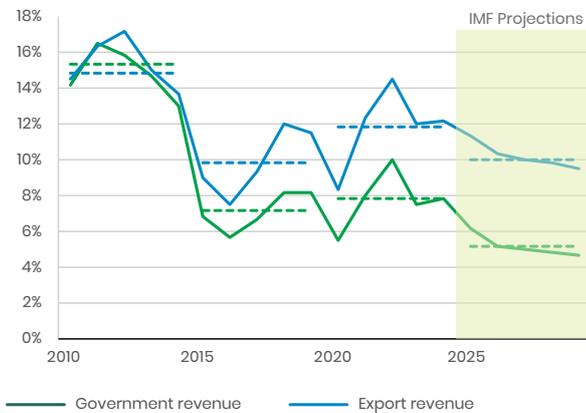
Since 2015, the Ecuadorian oil sector has faced both a downward trend in national production and volatility in barrel prices (Figure 3). The extraction of oil resources has supported the Ecuadorian economy for several decades. Production rose from 200,000 barrels per day (bpd) in 1980 to 360,000 bpd in 1990, 400,000 bpd in 2000, and 500,000 bpd in 2010, before peaking at 560,000 bpd in 2014. Conversely, production has been on a downward trend since 2014, falling from 560,000 bpd to an average of 530,000 bpd between 2015 and 2019, and then to 475,000 bpd on average over 2020–2024. It averaged only 430,000 bpd over the first nine months of 2025, its lowest level since 2003. This trend is the result both of underinvestment throughout the sector’s value chain (which has caused problems for production in certain fields) and of temporary operational disruptions of the main oil pipelines. Meanwhile, oil prices on international markets have been highly volatile: Prices dropped between 2014 and 2017, collapsed temporarily in 2020, and have been trending downward since early 2024.

Figure 3 - Oil production and oil prices, 2004–2025



Source: IMF, BCE, BP, AFD calculations

Figure 4 - Government revenue and export revenue from oil (% of GDP)



Source: IMF, BCE, Ecuadorian MoF, AFD calculations

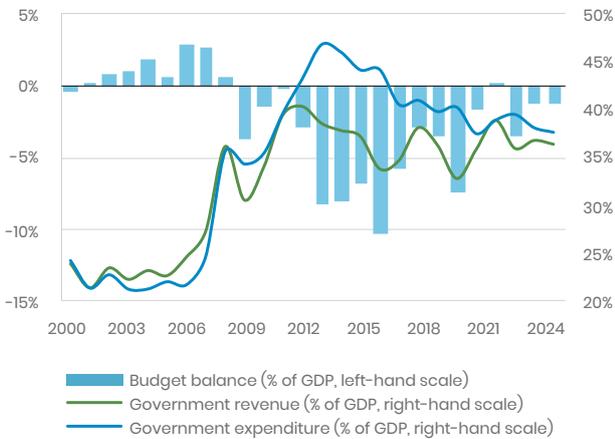
**The decline in oil rent is weighing heavily on Ecuador's macroeconomic aggregates** (Figure 4). The oil sector accounted for a little over 16% of GDP between 2005 and 2014, compared with just 7.5% on average since 2015. Likewise, while it was one of the main direct drivers of growth between the late 2000s and 2014—generating between 0.5 and 1 percentage point of growth annually—the decline in oil production has contributed to the growth slowdown observed since 2015 (averaging -0.1 percentage point annually). Beyond the impact on GDP and growth, the oil sector is a major provider of liquidity in this dollarized economy. Between 2010 and 2014, it generated an average of approximately 40% of public sector revenue and 55% of export revenue annually; in 2025, these contributions fell to 30% and 21%, respectively. This represents a loss of nearly 7 percentage points of GDP in government revenue between 2010–2014 and 2025, and a reduction of USD 5 billion in annual exports. Over the next five years, price and production levels are projected to remain stable or (according to some sources) even decline, which should cause oil rents to decline even further.

### **Growing fiscal pressures, marked by the 2020 sovereign default, persist despite the adjustments made in recent years**

#### **The deterioration of public accounts and the growing pressure on financing sources resulted in another sovereign default in 2020.**

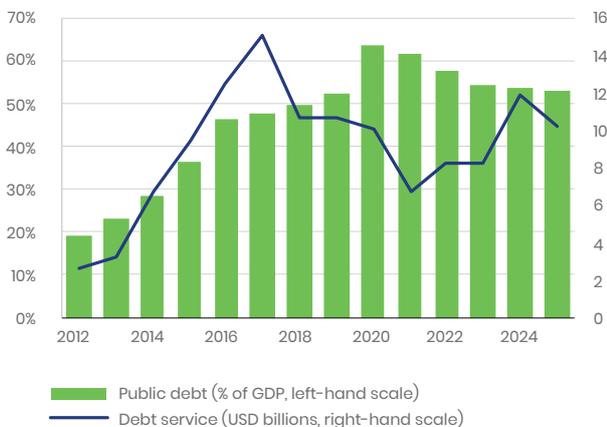
As a result of rising production and high oil prices, government revenue increased from just over 20% of GDP in the early 2000s to an average of 38% between 2010 and 2014. This growth was accompanied by a large increase in public spending, particularly following Rafael Correa's rise to power in 2007. Public accounts, which had been balanced between 2000 and 2008, posted a deficit starting in 2009. The rapid decline in oil revenues widened this deficit even further (to more than 6% of GDP on average over the 2014–2019 period). These deficits mechanically drove an increase in public debt, which rose from 20% of GDP in 2009 to nearly 64% in 2019. This debt was initially contracted i) on international markets (USD 20 billion between 2014 and 2019, at high rates); ii) from China, under specific contractual terms, particularly regarding oil collateralization; and iii) from the Central Bank of Ecuador (BCE), generating serious macroeconomic imbalances with respect to foreign exchange (FX) reserves and liquidity. Crucially, this indebtedness was soon accompanied by a rise in public debt service (which grew from USD 1.5 billion in 2014 to USD 10.5 billion in 2019). This prompted the Moreno government to negotiate a program with the IMF in 2019. With the added pressures of the pandemic, however, the IMF program was not enough to avoid a selective default. A restructuring with private creditors followed, in the spring of 2020, which provided significant relief on debt service between 2020 and 2026. The restructuring included a ten-year maturity extension (with the first repayment installments postponed to 2026) and a reduction in interest payments over 2021–2022 (these fell from 2.5% of GDP in 2020 to 1% in 2021–2022). Because Ecuador had defaulted before, however—most recently in 1999 and 2008—it has been effectively unable to access credit from international markets since 2020, making the country dependent on other lenders, particularly donors and the IMF.

Figure 5 - Expenditure, revenue, and budget balance (% of GDP), 2000–2025



Source: IMF, BCE, AFD calculations

Figure 6 - Public debt and debt service, 2012–2025



Source: IMF, BCE, Ecuadorian MoF, AFD calculations

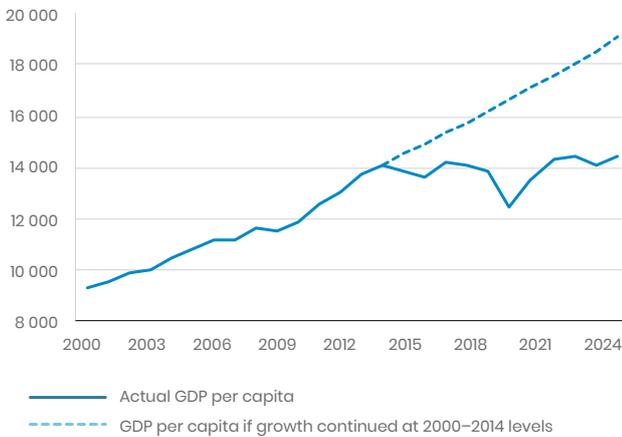
**Despite a significant improvement in the budget balance since 2016 and renewed support from the international community, Ecuador's public finances remain fragile.** The expenditure adjustments necessitated by the drop in oil revenues, the shift in economic policy begun in 2017 with the end of the Correa era, and the various IMF programs (2019–2020, 2020–2022, 2024–2028) have together helped reduce the public deficit from 10.3% of GDP to an average of 1.5% between 2021 and 2025. This reduction was

driven by spending cuts equivalent to 6 percentage points of GDP (largely borne by a contraction in public investment) and a revenue increase of just under 3 percentage points. Nevertheless, the country's public finances remain fragile because the state has limited resources available to repay its debt and finance the deficit. Domestic financing sources are limited by the halt in recourse to BCE financing (established by law in 2021) and the reluctance of Ecuadorian banks to finance the public sector. The state must therefore mobilize external financing, but it has been unable to issue debt on international financial markets since the 2020 default. The international community, particularly through the IMF and multilateral and regional development banks (World Bank, Inter-American Development Bank, Development Bank of Latin America and the Caribbean), has thus been financing the Ecuadorian budget on a massive scale since 2020. Their disbursements rose from an annual average of approximately USD 1 billion between 2012 and 2019 to over USD 5 billion annually between 2020 and 2022, and then to USD 4.5 billion in 2024 and 2025. Multilateral financing is now the government's primary source of external financing. Indeed, the deterioration of budget balances in 2023—caused by a drop of 2.5 percentage points in oil revenues as a share of GDP, rising spending, and the reversal of certain tax measures—resulted in a deficit equivalent to 1.3% of GDP. (The budget balance had initially been projected to be a surplus of 3%.) This situation created an additional financing need of USD 5 billion, which, in the absence of an IMF program, could be financed only by drawing down state deposits at the BCE (–USD 2.9 billion), accumulating domestic arrears (estimated at USD 1.2 billion), and increasing the issuance of domestic securities (which are largely subscribed by the social security fund). The accumulation of arrears weighed on economic activity, while FX reserves fell (from USD 6.5 billion at end-2022 to USD 2.7 billion at end-2023) alongside the drawdown of state deposits. This situation was unsustainable in the medium term, leading President Daniel Noboa, who took office in late 2023, to negotiate a new program with the IMF. This program, which was granted in May 2024, came with USD 4 billion in support (increased to USD 5 billion in 2025) and financing assurances from the main multilateral donors. This episode is evidence of how fragile the Ecuadorian state's financial situation remains as a result of the imbalances accumulated since the early 2010s.

**A significant slowdown in economic activity, which is also weighing on the population and social indicators**

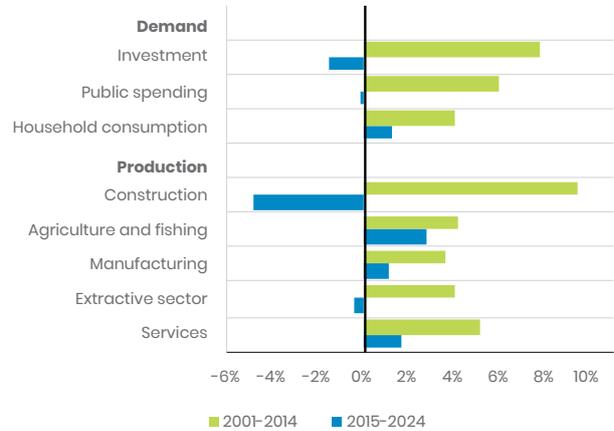
**While the macroeconomic stabilization that followed dollarization and high commodity prices enabled an average annual growth rate of 4.9% between 2001 and 2014, the economy grew at an average rate of just 1.1% per year between 2015 and 2024.** This slowdown in growth caused GDP per capita to stagnate: Calculated in purchasing power parity (PPP) at constant prices, it did not recover its 2014 level (USD 14,100) until 2025 (USD 14,412, Figure 7). In a single decade, Ecuador experienced three years of recession that were exacerbated by exogenous shocks: the fall in oil prices and the earthquake in 2016; the global pandemic in 2020; and a historic drought in 2024, which weighed on electricity production.

Figure 7 – Change in GDP per capita (PPP, constant prices)



Source: IMF, World Bank, AFD calculations

Figure 8 – Average annual growth rate of key macroeconomic aggregates



Source: IMF, BCE, World Bank, AFD calculations

**The observed slowdown also reflects the exhaustion of the domestic growth drivers that had prevailed until 2015** (Figure 8). Growth had been driven by dynamic household consumption and a marked increase in investment (from 17% of GDP in 2000 to 24% in 2014), both of which had been supported by high public spending enabled by high oil prices. Conversely, successive shocks have weighed on these macroeconomic aggregates. The average annual growth rate of household consumption fell from 4% between 2001 and 2014 to 0.9% between 2015 and 2024. Investment dropped from 24% to 18% of GDP, and public spending fell from 46% of GDP to 38% over the same period (including a 3.5 percentage point decline in public investment). Likewise, productive sectors have stalled since 2014. Beyond the sharp decline in the extractive sector’s (mainly oil’s) contribution to growth, overall activity has been growing much more slowly since 2015. (The contraction of the construction sector is particularly telling regarding the impact of reduced public procurement.)

**The economic slowdown and fiscal adjustment measures are weighing on socioeconomic indicators and fueling social unrest.** The trend toward a reduction in poverty has reversed: Calculated at the national threshold, poverty fell from 37% in 2007 to 22% in 2017, but it has risen in recent years to reach 28% at the end of 2024. Calculated according to World Bank criteria, the poverty rate increased by 2.75 percentage points between 2015 and 2025. Likewise, the “adequate” employment rate, which measures regular, full-time formal employment above the minimum wage, fell from just over 50% of the active population in 2015 to 34% in January 2025. Government austerity measures and the reduction in public investment have also had a significant impact. In 2014, the **United Nations Conference on Trade and Development** (UNCTAD) ranked Ecuador 46<sup>th</sup> out of 166 countries in terms of its progress toward the Sustainable Development Goals (SDGs). By 2024, the country had fallen to 78<sup>th</sup> place. This situation has fueled social unrest and complicates the political and budgetary equation. Since 2019, austerity measures have sparked major, recurring protests, particularly regarding subsidies. Continued fiscal consolidation is likely to involve more spending cuts, some of which will come from the reduction in fuel subsidies announced in mid-September 2025. The social acceptability of future tax increases (including in VAT) will need to be monitored over the coming months. The strong protest movements observed in 2019 and 2022 illustrated the sensitivity of economic adjustments. At this stage, however, while the social context remains tense, it appears to be more stable than during the episodes of unrest in 2019 and 2022, as the main protest movements have removed the blockades they set up after the cutting of diesel subsidies.

## 2. Signs of macroeconomic and financial stabilization in 2025–2026

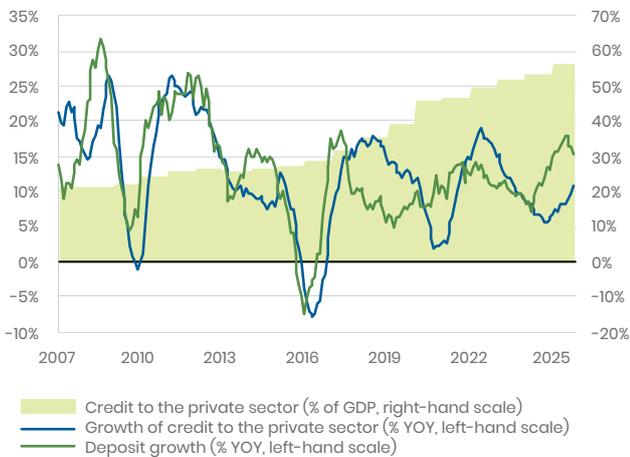
**Economic activity has benefited from a favorable environment and has regained some momentum since early 2025**

Figure 9 – Annual and quarterly real GDP growth



Source: IMF, BCE, AFD calculations

Figure 10 – Changes in credit to the private sector and financial sector deposits



Source: BCE, IMF, AFD calculations

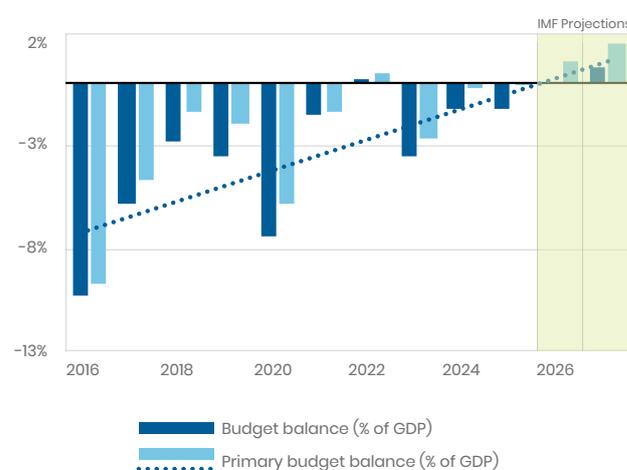
**Since early 2025, economic activity has rebounded sharply and may bring annual growth to between 3.4% and 3.8%.** Following the slowdown observed in 2023 (2% growth, down from 5.9% in 2022) and the recession of 2024 (-2%), GDP is expected to grow between 3.4% (IMF projections) and 3.8% (BCE projections). The growth observed in the first half of 2025 (+3.8%) supports these projections (Figure 9). Although this growth is partly the result of a base effect following the sharp recessions of the first two quarters of 2024, demand is up significantly, driven by both household consumption (+7.9%) and investment (+7.1%), reflecting renewed confidence among domestic economic actors. This growth in demand has in turn resulted in a 15% increase in imports of goods and services, which has widened the trade deficit (exports increased by only 5%). This slower growth in exports is due to the decline in oil exports (-20% over the first nine months of 2025). Non-hydrocarbon exports, meanwhile, remain dynamic (+19%, driven in particular by the shrimp and cocoa sectors, see below). Regarding production, services have benefited from growing domestic demand, manufacturing from a more stable business environment (the power cuts, notably, have been ended), and the agricultural and fishing sectors from better weather conditions.

**The sociopolitical context, business environment, and financial sector support should help stabilize economic activity.** Daniel Noboa’s resounding victory in the second round of the April 2025 presidential election, the fact that he has a stronger position in parliament than his predecessors did (his party has a relatively high number of seats and alliances with other parties), and his relatively high approval rating all augur political stability until 2029. This should help maintain the confidence of both domestic economic actors (who are likely reassured by the gradual clearance of the public sector arrears accumulated in 2023) and foreign investors,

particularly in the private sector. Growth is also likely to be supported by a relatively robust and liquid banking sector. The dynamism of non-oil exports, remittances (5% of GDP, or USD 6.1 billion, up 30% since 2023), and donor disbursements resulted in a 15% year-on-year (YOY) increase in deposits at financial institutions as of October 2025. This generated additional liquidity (Figure 10) and led to a lowering of credit rates since late 2024, which should help spur lending (which grew less rapidly, at +11% in October 2025). Furthermore, the banking sector is relatively solid and healthy, particularly private banks, which display not only adequate capitalization, but also a relatively low rate of non-performing loans, coupled with a good level of provisioning. Credit unions, which have expanded rapidly over the last fifteen years (their loan portfolio grew from USD 2 billion in 2010 to USD 20 billion in mid-2025), also support consumer demand and MSME activity through microcredit (38% of their portfolio, compared to 7% for traditional banks). Credit unions do warrant attention, however, because of their less robust prudential indicators, their distinct regulatory framework, and a slowdown in lending activity since mid-2024.

### Concerns about sovereign risk are gradually easing thanks to fiscal adjustment efforts and renewed international financial support

Figure 11 – Overall budget balance and primary budget balance, 2016–2027 (projection)



Source: IMF, AFD calculations

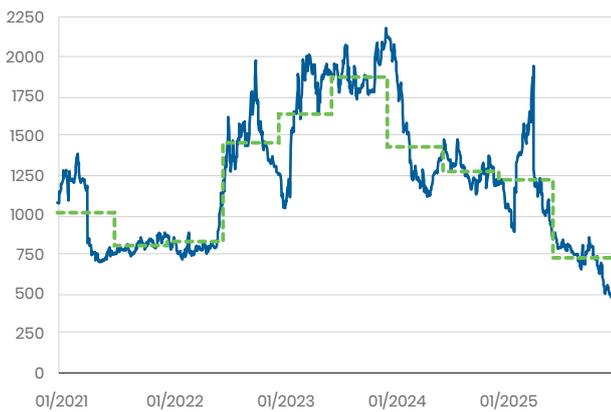
**Fiscal consolidation efforts are helping to limit the state's financing needs and are gradually easing liquidity pressures.** Since 2016, Ecuador has been gradually moving toward fiscal consolidation, going from a budget deficit of 10.3% of GDP in 2016 to 1.3% in 2024. The budget balance is estimated to remain relatively stable at -1.2% in 2025 (Figure 11). This improvement was achieved in spite of oil revenue volatility. It reflects several structural revenue measures, particularly regarding VAT, collection performance, and specific sectoral contributions. (The latter were initially temporary but have been frequently renewed since 2020–2021.) Efforts to cut spending have been particularly notable: Reductions in public investment (-3.6 points of GDP), combined with efforts to control current expenditure, have resulted in a reduction of 7 percentage points of GDP between 2016 and 2025. Gradual subsidy reductions, particularly for fuel, have been

paramount. Despite their social cost, these were confirmed by the September 2025 announcement suspending diesel subsidies. (Compensatory measures to protect the most vulnerable households are planned, however.) Expenditure was also alleviated by debt restructuring, which temporarily lowered the interest burden over the 2020–2024 period. The budget deficit is expected to reach equilibrium in 2026 (with a primary surplus estimated by the IMF at +1.1% of GDP). Indeed, a budget surplus could be attained in the following years if spending is kept under control and revenues continue to improve. (A further VAT increase could occur in 2027 or 2028.) This should help reduce the state’s financing needs, avoid liquidity pressures and the accumulation of domestic arrears (as seen in 2023), and contribute to public finance and debt sustainability. Public debt has already been reduced from 64% of GDP at end-2020 to 53% in 2025, and the government is aiming to return to the 40% target (the ceiling set by the organic budget law) by 2031.

**Alongside international donor support, international investors appear to be signaling renewed confidence in Ecuador.**

Massive support from the IMF and from donors since 2020 has been crucial in ensuring public sector financing (see above). This continued with the granting of a new program in May 2024 and the increase in IMF resources allocated to the country in July 2025 (from USD 4 billion to USD 5 billion). Program reviews have proceeded satisfactorily since then thanks to the measures and reforms Ecuador has implemented. The fourth program review was approved in December 2025, and two-thirds of the IMF financing for the 2024–2028 program has already been disbursed—around USD 3.3 billion, plus roughly USD 5.6 billion in budget financing from multilateral institutions. Sovereign risk has been decreasing significantly thanks to the post-2025 election political situation, combined with the credibility signals sent by macroeconomic stabilization and improved fiscal indicators. Sovereign spreads fell below 500 basis points in December 2025 (Figure 12), a historic low for Ecuador. Fitch also upgraded the country’s long-term debt rating from CCC+ to B- in late November 2025 (it held its sovereign rating at CCC+). In January 2026, Ecuador has been able to issue USD 4 billions in debt on international capital markets for the first time since the 2020 default. It should facilitate debt management operations and cover part of gross financing needs. This is an important first step for Ecuador, as the gradual phasing out of donor support will require a diversification of financing sources.

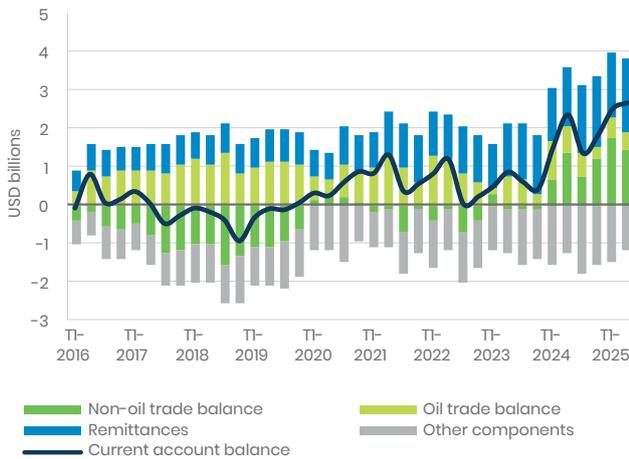
Figure 12 - Sovereign spreads (EMBI, basis points), 2021–2025



Source: JP Morgan, AFD calculations

**Ecuador’s external accounts are trending upward and supporting the accumulation of FX reserves.**

Figure 13 – Current account balance of the balance of payments, 2016–2025



Source: IMF, BCE, World Bank, AFD calculations

Figure 14 – Foreign exchange reserves and deposit coverage, 2011–2025



Source: BCE, IMF, AFD calculations

**Since 2020, the current account has been improving, driven by non-oil exports and remittances.** Ecuador’s balance of payments was in deficit for 14 of the years between 2000 and 2019, but it has posted a surplus since 2020 (Figure 13). The major driver of this improvement has been the strong growth in non-oil goods exports, which rose from USD 11 billion in 2016 (12% of GDP) to USD 25 billion in 2024 (20% of GDP). Most of this increase has come from the shrimp sector (20% of goods exports; Ecuador is the world’s leading exporter), bananas (10–15% of goods exports; again, Ecuador is the world’s leading exporter), and, more recently, cocoa, which was buoyed in 2024–2025 by sharp price increases on international markets. The development of these sectors allowed the country to generate a non-oil trade surplus starting in late 2023. This surplus offset the downward trend in the oil trade balance, which fell from USD 6.3 billion annually between 2005 and 2014 (10% of GDP) to USD 2.2 billion (1.8% of GDP) in 2024. The export data available for the first nine months of 2025 confirms both the strong performance of the non-oil sector (+USD 3 billion, or +19% compared to the same period in 2024) and the slowdown in the oil sector (–USD 1.5 billion, or –20%). Despite the uncertainties in global trade that have resulted, in particular, from US tariffs, the Ecuadorian export sector is expected to remain dynamic. It could benefit, above all, from a comparative advantage, since tariffs imposed on other shrimp exporters (India, Vietnam, Thailand, and Indonesia) are higher. At the same time, the current account surplus has been driven by the continuous rise in remittances, which grew from USD 2.6 billion (2.7% of GDP) in 2016 to USD 6.5 billion in 2024 (5.6% of GDP).

**Current account surpluses, the temporary relief from external debt service, and donor disbursements have enabled Ecuador to rebuild much of its FX reserves since 2020.** Beyond the strong current account performance, several dynamics have contributed to the rebuilding of FX reserves. (These had been drawn down significantly in 2019–2020, which contributed to the default in spring 2020.) First, the restructuring

of public debt with private creditors in 2020, along with the rescheduling agreements obtained from Chinese creditors in 2022 and the debt-for-nature swaps negotiated in early 2023 and late 2024, helped ease Ecuador's external public debt service. Repayments and interest payments, which stood at approximately USD 7 billion annually in 2018–2020, were reduced to an average of USD 4.2 billion annually between 2021 and 2024. Combined with massive donor disbursements (see above), these trends have allowed Ecuador to accumulate FX reserves. (2023, which saw a combination of budgetary slippage, falling oil prices, and the absence of an IMF program, was an exception.) Consequently, FX reserves (including gold) rose from a low of USD 1.9 billion in March 2020 to USD 9.7 billion in November 2025 (Figure 14).

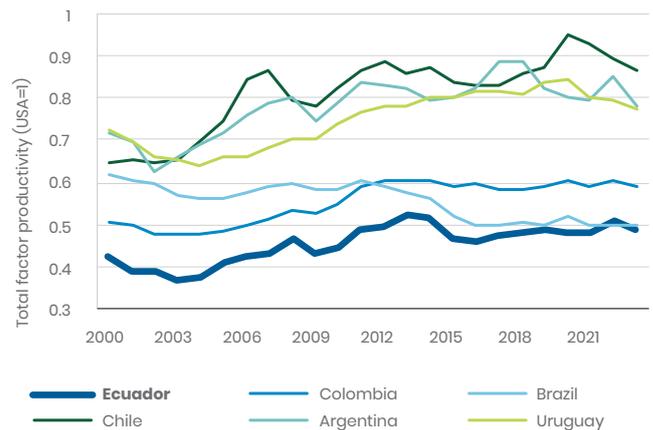
These reserves provide a buffer for Ecuador. The country has been fully dollarized since 2000, so the BCE cannot issue its own currency. Its liquid foreign assets are intended to cover its liabilities, which include currency in circulation, financial sector deposits at the BCE, non-financial public sector deposits (central government, public enterprises, local authorities), and other liabilities (the BCE's liability balance). These four types of liability correspond to four "systems" that FX reserves must legally cover by degree of liquidity, according to a 2000 law that was updated in 2021 (the amendment of the organic monetary and financial code, COMYF). In the event of a shock to growth, public finances, or external accounts, insufficient coverage poses a risk to the balance sheets of the BCE, banks, and the state. In 2020, reserves covered less than 30% of domestic deposits (financial sector and non-financial public sector). This ratio rose to 75% in November 2025, allowing the reserve adequacy metric calculated by the IMF to rise from 10% in 2020 to just under 40% at the end of 2025. This ratio remains low and well below 100%, and coverage of the four "systems" is not yet fully assured (though the first two are covered). That said, the reserve level at the end of 2025 is the highest since 2015 and provides Ecuador with a more comfortable buffer against potential new shocks.

### 3. Structural economic challenges remain and require attention in the medium term

**Structural obstacles are hampering Ecuador’s potential growth, which is still exposed to exogenous shocks**

**Ecuador’s business environment and institutional characteristics weigh on potential growth, investment, and productivity.** Total factor productivity, which is relatively low compared to peer countries (Figure 15), acts as a drag on growth, which has historically been driven by capital accumulation. The labor market, meanwhile, faces structural rigidities. Investment has slowed significantly over the past decade (Figure 16) because of a less favorable environment, lower oil prices, and declining public investment. Private sector development also faces a business environment with certain weaknesses: imperfect governance (ranked 136<sup>th</sup> out of 198 countries in the World Bank’s composite index), legal and regulatory uncertainty, limited market openness to competition, the still-significant presence of the state despite the disengagement process initiated in 2017, restricted access to finance (due to heavy regulation), and macroeconomic and political instability. These factors weigh on the private sector’s capacity to invest more heavily in development, and Ecuador’s level of FDI (averaging 0.6% of GDP annually over 2020–2024) is among the lowest in South America. Furthermore, labor market rigidities, a legacy of the Correa years, have resulted in a decoupling of wages (especially the minimum wage) from productivity, which undermines competitiveness. The IMF estimates potential growth at between 2.5% and 3%, a level that is insufficient to meet development and macroeconomic stabilization needs. These bottlenecks constitute the authorities’ main areas of focus for unlocking growth, but their effects may take time to materialize.

Figure 15 – Total factor productivity in South America, 2000–2023



Source: Penn World Tables, AFD calculations

Figure 16 – Investment rate and real GDP growth rate, 2000–2030 (IMF projection)



Source: IMF, World Bank, BCE, AFD calculations

**L'Economic activity is concentrated in low value-added segments and/or sectors that are exposed to macroeconomic and exogenous shocks.** Agriculture still accounts for 7% of GDP and has performed relatively well over the past ten years. However, it remains relatively unproductive, focused on products with volatile prices on international markets, and exposed to recurring climatic shocks. The manufacturing industry is fairly underdeveloped and, with the exception of food processing, generates little growth. The construction sector has struggled since 2014 because of the economic slowdown and the decline in public spending, particularly investment. The extractive sector remains dominated by oil (10% of GDP, see above), while mining is underdeveloped relative to other Andean countries (Peru, Bolivia, Chile). The government intends to support the development of the mining sector, but this will require long-term investment and major reforms, particularly to combat informal and illegal extraction. The announced reopening of the mining cadastre could constitute a first concrete step toward more regulated development of the sector. The export structure also reflects both the vulnerability of the Ecuadorian economy to exogenous shocks and the low complexity of the production system: More than 80% of goods exports are unprocessed or minimally processed raw materials (such as crude oil, shrimp, bananas, cocoa, flowers, wood, and fish). Finally, services (particularly trade, administration, financial services, and real estate) account for 65% of value added, but their growth is closely linked to the business environment and the confidence of economic actors. With investment stagnant, it remains uncertain whether engines for stable and inclusive growth will develop.

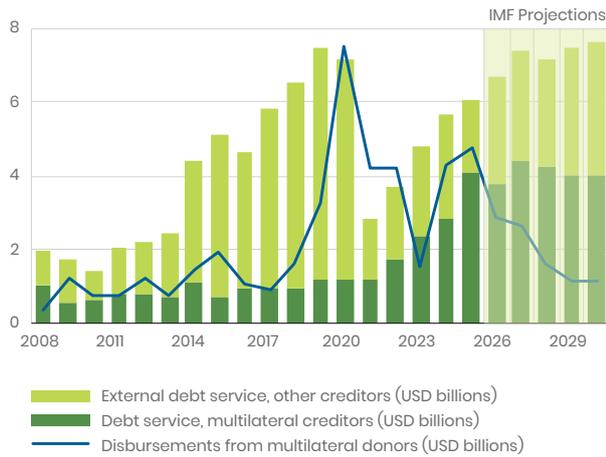
**Ecuador's public accounts remain exposed to a constrained financing strategy and vulnerable to foreign creditor sentiment**

**The high and rising level of external public debt service is a vulnerability, especially in light of the fact that international donor support is expected to gradually diminish.**

One of the main risks is that Ecuador's external public debt service is projected to rise, from approximately USD 6 billion in 2025 to USD 6.7 billion in 2026, and to nearly USD 7.5 billion annually between 2027 and 2030. This increase will result from the resumption of payments to private creditors and the repayment of amounts disbursed by multilateral donors between 2020 and 2025. At the same time, financing from the IMF and donors is expected to gradually decline (disbursements were concentrated in the early years of the program), falling from USD 4.5 billion in 2024 and 2025 to USD 2.7 billion in 2026 and 2027, and to approximately USD 1–1.5 billion in 2028, 2029, and 2030. Consequently, repayments to multilateral creditors (just over USD 4 billion annually over 2026–2030) are expected to exceed their disbursements starting in 2026 (Figure 17). This underscores just how important it is for Ecuador to win back the confidence of international markets in order to enable frequent issuances starting in 2026. Furthermore, given present conditions, the cost of financing on international markets is likely to remain high, which will only worsen Ecuador's debt sustainability profile. Compared to the gradual amortization of donor loans, it will also pose a growing refinancing risk. Finally, the IMF considers Ecuador's assumption of a continuous primary budget surplus over the next five years to be ambitious, for several reasons: Ecuador's revenue dependence on the oil sector, its exposure to exogenous shocks, and the social and economic costs of fiscal austerity. Any deviation from the planned trajectory would increase the country's financing needs and could create liquidity pressures. Consequently, the IMF considers the debt to be "sustainable but not with

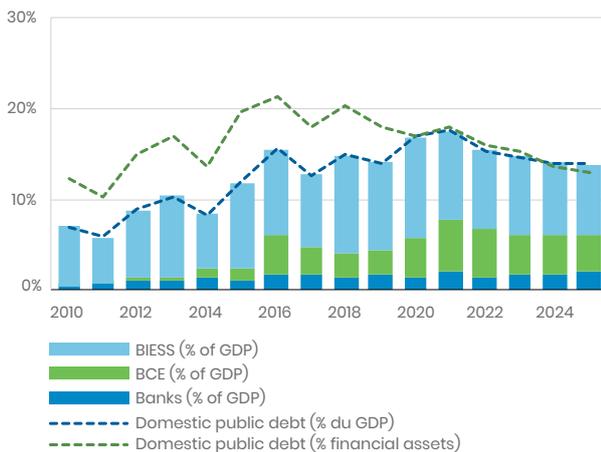
high probability,” and despite Ecuador’s seemingly favorable public finance metrics, rating agencies remain cautious: Moody’s at Caa3, Fitch Ratings at CCC+, and S&P at B-.

Figure 17 – External debt service and multilateral disbursements



Source: IMF, World Bank, AFD calculations

Figure 18 – Composition of domestic public debt as % of GDP and % of assets



Source: BCE, IMF, BIESS, Asobanca, AFD calculations

**The issues encountered in attempting to mobilize the domestic financial sector to cover the state’s needs constitute an additional constraint on public finances.** While domestic public debt has increased since 2010, it represents just under 14% of GDP in 2025 (one-quarter of total public debt), despite the depth of the domestic financial sector (just over 80% of GDP, Figure 18). The state’s main domestic creditors are the BCE, the social security fund (BIESS), and private banks, each of which faces specific constraints. The BCE was called upon for short-term financing between 2014 and 2016, which increased its exposure to the state from approximately USD 150 million at end-2013 to nearly USD 6 billion (6% of GDP and 40% of the BCE’s balance sheet) by mid-2017. This trend weighed heavily on the BCE’s balance sheet and helped push net FX reserves into negative territory. Consequently, this strategy was halted when Lenín Moreno came to power in 2017, and it became a key measure in the 2020 IMF program. In 2021, under the COMYF reform, BCE financing was prohibited. The BIESS holds the majority of Ecuador’s domestic public debt securities (USD 12 billion, or 40% of its assets), consistent with its mandate to invest in safe, liquid securities. However, it cannot pursue a more active state financing strategy. Private banks, meanwhile, have very little direct exposure to the state: Their holdings of public securities, which are legally set at a minimum of 3.5% of deposits, did not exceed USD 3 billion at the end of 2025 (just under 3% of their assets). Even though Ecuador’s banking sector is sufficiently liquid and robust, the state faces significant obstacles in mobilizing it. First, there is no lender of last resort in the dollarized context, so Ecuadorian banks take an extremely cautious approach. They are further constrained by asset management regulations: legal minimums of 4–5% reserves at the BCE and a 5% contribution to the Liquidity Fund. Second, market mechanisms for public securities are underdeveloped, characterized by non-competitive direct placements of issuances and the absence of a secondary market or repurchase agreement (repo) mechanism at the BCE. These factors constrain the degree to which

the domestic financial sector can be mobilized, which has forced the state to solicit external financing (from donors and capital markets), exposing it to liquidity risk in the event of a shock to public accounts or reduced external financing, as occurred in 2023.

### **The integration of climate and biodiversity issues: A present and future challenge for the economic model**

#### **The Ecuadorian economic model is exposed to climate risks and biodiversity loss.**

Ecuador is subject to diverse climate risks that weigh on the country's economy and its food and energy security. The effects of El Niño and La Niña are significant in Ecuador, and the country is particularly exposed to droughts. (As seen in the 2024 drought, these affect agricultural productivity and hydroelectric generation, which accounts for 75% of the nation's power.) It is also exposed to increased, irregular rainfall that can cause floods and landslides. According to World Bank scenarios, the aggregate impact of these climate risks could represent a GDP decline of 2% to 4% by 2050 and significantly increase not only social and territorial inequalities, but also poverty, particularly in the Amazon regions. Pressures on biodiversity and ecosystem services are an additional challenge for the Ecuadorian economy. A "megadiverse" country that is home to several biodiversity hotspots, Ecuador has recorded strong pressure on biodiversity and protected species for several years. These pressures stem from both terrestrial and ocean climate change (as in the Galápagos) and human economic activity, such as the impact of agriculture, livestock farming, extractive industries, and urbanization on deforestation. The country's macroeconomic aggregates, however, rely on precisely those sectors that are heavily dependent on ecosystem services, particularly agriculture (bananas, cocoa, coffee, flowers) and shrimp farming, which have become essential for the country's exports.

Moving to a climate-resilient, low-carbon economy that protects biodiversity will involve adapting the Ecuadorian economic model, and making those changes remains a gradual and constrained process. The 2008 Constitution assigns a decisive role to the government in implementing climate change adaptation and mitigation measures, a role that has been operationalized since the first National Plan for Climate Change and the National Climate Change Strategy (2012–2025; currently being updated). As outlined in the Nationally Determined Contribution (NDC), the priority sectors for adaptation are agriculture, land and water use, and energy. The adaptation plan, however, relies primarily on donor financing, which is already being mobilized to support the state budget. With respect to mitigation, the NDC targets an unconditional 9% reduction in greenhouse gas (GHG) emissions by 2030, as well as a 20.9% reduction conditional on international support. (This reduction is to be achieved by reducing the share of fossil fuels, cutting gas flaring from oil extraction, and combating deforestation.) However, achieving these mitigation and adaptation objectives would require financing amounting to 5–6% of GDP by 2030 (plus USD 6.5 billion by 2032 for renewable energy development, according to the Ministry of Energy). Whether the country has the capacity to implement this strategy is therefore an open question. Finally, the country's policies on biodiversity preservation are proactive and enjoy strong popular support, but they face the same challenges as its climate policies. The inclusion of "rights of nature" in the 2008 Constitution testifies to Ecuador's pioneering role in environmental and biodiversity issues, and the Ecosystem Vitality Index (Yale Center for Environmental Law & Policy) ranks Ecuador third in Latin America, after Costa Rica and Panama. The country joined the Convention on Biological Diversity (CBD) in 1993, and the first National Biodiversity Strategy and Action Plan (NBSAP) was adopted in 2001 and revised in 2016 (to be extended to 2030). The targets were also revised in July 2024 to increase the country's protected

territory coverage to 30% by 2030. Other objectives concern reforestation, ecosystem restoration, the preservation of threatened species (75% by 2030), and community participation. Particular attention is also paid to the Galápagos Islands and marine zones, as evidenced by the 2023 debt-for-nature swap, where a portion of the implicit savings was allocated to conservation funds. That said, protected area coverage still represents only 20% of the national territory and 28% of key terrestrial biodiversity areas. Ecuador's adaptation toward a low-carbon economy that better protects biodiversity could involve significant transition costs. A significant portion of economic activity, employment, government revenue, and exports involves sectors that are either emissive or exert pressure on biodiversity (e.g., oil, mining, agriculture, fishing, and shrimp farming). Strategies to support economic growth while reducing GHG emissions and protecting biodiversity have not yet been fully operationalized.

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# List of figures

---

**Figure 1** – Monthly homicides in Ecuador (2015–2025)

**Figure 2** – Homicides per 100,000 inhabitants, Ecuador and South America (2000–2024)

**Figure 3** – Oil production and oil prices, 2004–2025

**Figure 4** – Government revenue and export revenue from oil (% of GDP)

**Figure 5** – Expenditure, revenue, and budget balance (% of GDP), 2000–2025

**Figure 6** – Public debt and debt service, 2012–2025

**Figure 7** – Change in GDP per capita (PPP, constant prices)

**Figure 8** – Average annual growth rate of key macroeconomic aggregates

**Figure 9** – Annual and quarterly real GDP growth

**Figure 10** – Changes in credit to the private sector and financial sector deposits

**Figure 11** – Overall budget balance and primary budget balance, 2016–2027 (projection)

**Figure 12** – Sovereign spreads (EMBI, basis points), 2021–2025

**Figure 13** – Current account balance of the balance of payments, 2016–2025

**Figure 14** – Foreign exchange reserves and deposit coverage, 2011–2025

**Figure 15** – Total factor productivity in South America, 2000–2023

**Figure 16** – Investment rate and real GDP growth rate, 2000–2030 (IMF projection)

**Figure 17** – External debt service and multilateral disbursements

**Figure 18** – Composition of domestic public debt as % of GDP and % of assets

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