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Table 1	2023
Population, million[a]	18.0
GDP, current US$ billion[a]	116.6
GDP per capita, current US$	6476.6
International poverty rate ($2.15)[b]	3.2
Lower middle-income poverty rate ($3.65)[b]	9.5
Upper middle-income poverty rate ($6.85)[b]	29.9
Gini index[b]	45.5
School enrollment, primary (% gross)[c]	97.5
Life expectancy at birth, years[c]	73.7
Total GHG emissions (mtCO2e)	100.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022).
b/ Most recent value (2022), 2017 PPPs.
c/ WDI for School enrollment (2022); Life expectancy (2021).

Ecuador faces an unprecedented security crisis and significant fiscal challenges due to escalating security costs, diminished oil revenues, surging costs of fuel and electricity imports and high interest payments. Growth has slowed, also due to the effects of El Niño climate phenomenon and electricity shortages. To unlock sustainable growth, Ecuador needs to address fiscal imbalances, improve its security situation, and remove barriers to private sector development to unleash investment, formal job creation, and export diversification.

Key conditions and challenges

Ecuador is grappling with an unprecedented security crisis. A surge in violence associated with drug trafficking activities led to the declaration of a state of internal armed conflict and the army to intervene in January. At the same time, the country faces an electricity generation deficit amid historically low investment aggravated by climatic events, which led to electricity rationing in 2023, disrupting economic activity. Against this backdrop, snap elections yielded a fragmented National Assembly and a minority government with an 18-month term. The new government that took office in November faces significant liquidity constraints and a large financing gap, which is set to increase in the coming years in the absence of structural fiscal reforms. Ecuador remains excluded from international capital markets, with the EMBI spread around 1300 basis points. Adding to the fiscal and growth challenges, a referendum held in August 2023 will lead to a shutdown of oil extraction in the Yasuni National Park by the end of August 2024, affecting one-tenth of national oil production.

The Noboa administration has taken important steps to address the challenging fiscal situation. Besides implementing measures to address short-term liquidity constraints, the government passed a bill to increase the VAT rate. Moreover, plans are underway to reduce fuel subsidies and cut current expenditures, particularly within State-Owned Enterprises (SOEs), among other initiatives. A referendum on policies encompassing security, part-time employment, asset forfeiture, and other issues is scheduled for April.

Amid declining domestic oil output and long-term global decarbonization trends, private investment is needed to ignite new growth sources in sectors with competitive advantages, such as mining and agriculture. Improving barriers to private sector development by strengthening the insolvency framework, reducing market intervention, allowing for competition, further expanding trade integration, and improving labor regulation will be critical, particularly in the context of dollarization.

Recent developments

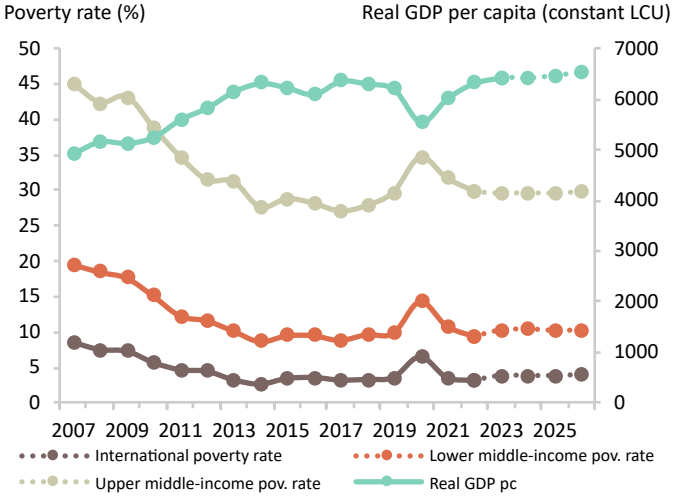
Real GDP grew by an estimated 2.8 percent in 2023, thanks to a good performance in the first half of the year, and despite a marked slowdown in the second half. Oil disruptions, the El Niño effect, heightened political uncertainty, and insecurity affected private consumption and investment in H2, slightly increasing poverty by the end of 2023. Annual inflation decreased from a peak of 4.2 percent in June 2022 to 1.4 percent in December 2023, one of the lowest in the region, amid weak domestic demand.

Labor market conditions deteriorated, with the unemployment rate reaching 3.4 percent in December 2023 (3.2 percent as of December 2022), still mainly impacting women at a rate of 4.2 percent (compared

FIGURE 1 **Ecuador** / Emerging Market Bond Index (EMBI)

Source: JP Morgan Chase.

FIGURE 2 **Ecuador** / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

to 2.8 percent for men). Job quality also deteriorated as underemployment in rural areas reached 22.3 percent (compared to 18.6 percent in 2022) and 20.6 percent in urban areas, explained by droughts, security concerns, and energy rationing. Despite a labor market deterioration, low inflation helped maintain poverty – measured at $6.85PPP, the upper-middle-income poverty line – constant at about 30 percent. However, incomes for the poorest declined, especially in rural areas, resulting in a slight increase in extreme poverty measured at $2.15PPP.

The fiscal deficit is expected to have widened to 3.5 percent of GDP in 2023. Interest payments and a higher fuel and electricity import bill increased spending last year. Revenues declined amid lower economic growth and oil revenues. Given liquidity shortages, arrears to the private sector surpassed 2020 levels. To address liquidity constraints, the government turned to short-term measures such as reprofiling of Central Bank debt, as well as a tax amnesty and advance income tax payments starting in 2024. The Assembly also approved temporary additional contributions to banks' and firms' profits and increased capital outflow tax rates in February. In addition, the VAT is set to increase from 12 to 15 percent as of April.

The current account surplus narrowed from 1.8 percent of GDP in 2022 to an estimated 1.4 percent in 2023 amid declining oil prices. With limited external financing and foreign investment, financial account outflows surpassed the current account surplus, and international reserves almost halved from US$8.5 billion in December 2022 (3.3 months of imports) to US$4.5 billion in December 2023 (2.3 months of imports).

Outlook

Growth is projected to decline to 0.7 percent in 2024 due to the security crisis, political uncertainty, declining oil production, and the impacts of El Niño and La Niña. Government arrears to the private sector are also expected to affect negatively economic growth. A reduction in political uncertainty following the 2025 elections and an improvement in the security, energy, and fiscal outlook after measures taken by the new administration are expected to help the economy start a gradual recovery in 2025, although medium-term growth would remain sluggish overall. Weak economic growth and structural labor market conditions, especially for women, will maintain poverty measured at $6.85PPP at the same level in 2024.

While fiscal accounts will be pressured in 2024 by the economic slowdown, declining oil revenues, and growing security expenditures, recently approved measures are expected to bolster revenues. Considering these measures, the fiscal deficit is expected to narrow to 2 percent of GDP. The NFPS faces around $7bn in financing needs in 2024, which are expected to grow further in 2025 and 2026.

The current account surplus is projected to narrow further to almost balance in 2024, driven by lower oil production and exports, while non-oil export growth continues to soften amid subdued investment prospects. Declining current account surpluses, low foreign investment, and rising external debt service would continue to put downward pressure on international reserves.

In addition to its vulnerability to lower oil prices and tighter-for-longer global financial conditions, Ecuador is exposed to natural hazards, including stronger-than-expected El Niño and La Niña that directly affect household incomes in rural areas. Domestically, risks stem from an inability to solve the fiscal crisis, a disorderly ending of oil exploitation in the Yasuni, social unrest, political instability, and a further worsening of the security crisis.

TABLE 2 **Ecuador** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	9.8	6.2	2.8	0.7	1.7	2.0
Private consumption	11.3	7.4	1.3	1.1	2.3	2.4
Government consumption	0.0	1.8	1.9	0.2	1.5	1.7
Gross fixed capital investment	13.2	8.5	0.2	0.2	2.7	1.2
Exports, goods and services	9.4	7.3	2.3	-1.6	-0.9	2.9
Imports, goods and services	21.5	10.5	-4.0	-1.5	1.0	2.9
Real GDP growth, at constant factor prices	9.5	6.0	2.8	0.7	1.7	2.0
Agriculture	9.0	2.3	2.0	1.9	2.4	2.5
Industry	12.5	4.9	0.9	-4.9	-6.0	1.0
Services	8.2	7.1	3.8	3.0	4.8	2.4
Inflation (consumer price index)	0.1	3.5	2.2	1.9	1.8	1.8
Current account balance (% of GDP)	2.9	1.8	1.4	0.1	-0.1	0.0
Net foreign direct investment inflow (% of GDP)	0.6	0.7	0.4	0.3	0.3	0.3
Fiscal balance (% of GDP)	-1.7	0.0	-3.5	-2.0	-1.7	-1.5
Revenues (% of GDP)	34.5	36.4	34.5	35.4	35.7	35.7
Debt (% of GDP)	61.5	56.9	57.8	58.3	59.2	59.0
Primary balance (% of GDP)	-0.3	1.6	-1.5	0.1	0.4	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.6	3.2	3.8	3.8	3.8	3.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	10.9	9.5	10.3	10.4	10.3	10.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	31.7	29.9	29.6	29.7	29.6	29.9
GHG emissions growth (mtCO2e)	2.2	1.8	1.7	0.7	1.1	1.6
Energy related GHG emissions (% of total)	34.9	35.6	36.3	36.3	36.7	37.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2022-ENEMDU. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projections using microsimulation methodology.