

ECUADOR

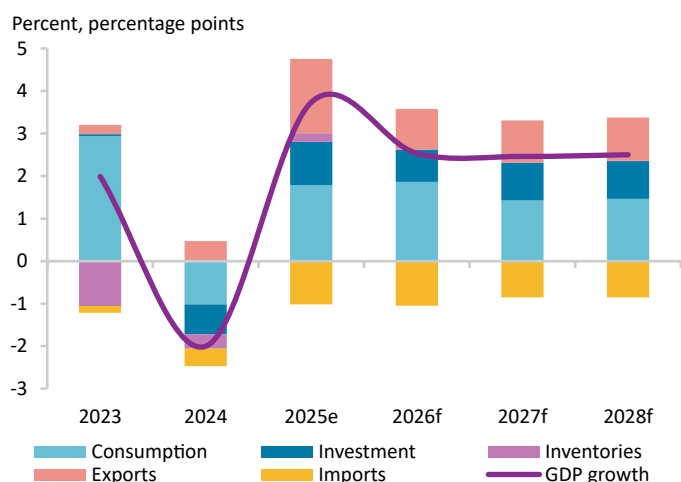
Ecuador's structural challenges include low growth, low-quality employment, and fiscal accounts heavily dependent on oil revenues. Near-term priorities center on preserving fiscal sustainability, addressing power shortages, and improving security. Growth rebounded in 2025, estimated at 3.7 percent, with a modest 2026–28 growth outlook of around 2.5 percent, supported by private spending as fiscal risks diminish, with poverty expected to decline gradually.

Key conditions and challenges

GDP growth averaged 1.1 percent over 2015–24, weighed down by structural constraints—including rigid labor regulations, price distortions, fiscal uncertainty, and trade restrictions—and further compounded by climate shocks and rising crime. More recently, progress under the International Monetary Fund (IMF)'s Extended Fund Facility (EFF), approved in May 2024, proved critical to the 2025 rebound, restoring policy credibility, easing financing constraints and creating the conditions for the return to international capital markets. Nevertheless, elevated spending pressures continue to pose risks to medium-term sustainability and fiscal revenues remain exposed to oil price volatility.

Improving economic conditions have fostered poverty reduction, but challenges persist. As of 2025, 30.1 percent Ecuadorians lived below the US\$8.3/day (2021 PPP) poverty line and 8.4 percent below the US\$4.2/day (2021 PPP) line. High informality and the dominance of micro and small firms (96 percent of formal businesses) continue to constrain productivity and earnings growth, with women disproportionately affected, accounting for 65 percent of part-time and below-minimum-wage jobs.

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Central Bank of Ecuador and World Bank.

| | | | |
|--|-------|---|--------|
| Population ¹ million | 18.3 | Poverty ² millions living on less than \$8.30/day | 5.5 |
| Life expectancy at birth ³ years | 77.4 | School enrollment ⁴ primary (% gross) | 97.2 |
| GDP ⁵ current US\$, billion | 129.9 | GDP per capita ⁶ current US\$ | 7101.0 |

Sources: WDI, MFM, and official data. 1/ 2025. 2/ 2025 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2025. 6/ 2025.

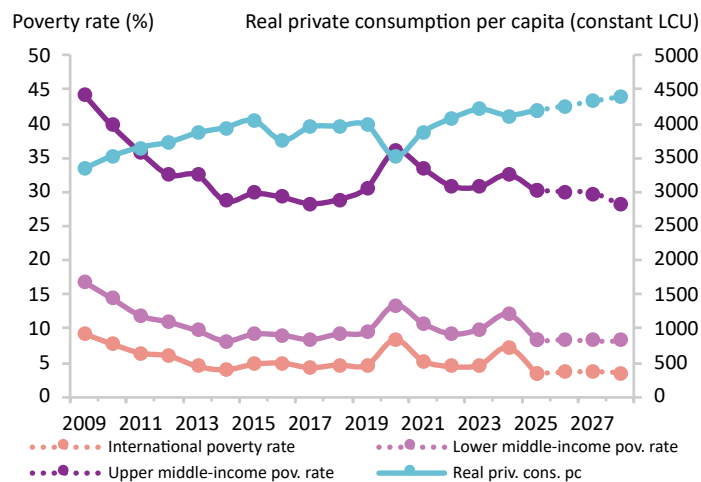
To revitalize growth, Ecuador must boost investment by reducing barriers to private sector development, strengthening the insolvency framework, promoting competition and trade, and improving labor regulations.

Recent developments

GDP rebounded by 3.7 percent in 2025, driven by a pickup in exports, investment and private consumption. Improved energy availability and reduced fiscal risks supported the recovery, outweighing the resurgence of violence and electoral uncertainty. The current account posted a surplus of around 5.1 percent of GDP, underpinned by a sharp increase in non-oil goods exports and stronger remittance flows, while import growth remained modest. Inflation stayed low, averaging 0.7 percent over the year.

The economic rebound resulted in a decline in poverty. At US\$8.3/day (2021 PPP), poverty fell by 2.5 percentage points to 30.1 percent in 2025, driven by improved job quality, higher labor incomes, and an increase in transfers to targeted groups. Informality declined from 58.0 to 54.2 percent, while adequate employment (Ecuadorian measure) rose from 33.0 to 37.1 percent. With the

FIGURE 2 / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: See footnotes in table on the next page.

participation rate unchanged at 63.6 percent, the gains appear to stem from increased hours and earnings among those already employed, rather than net job creation.

The fiscal deficit widened to 2.9 percent of GDP in 2025. Revenues were nearly flat, as growth in non-oil revenues was offset by lower oil receipts amid declining prices and production. Tax collection rose 4.4 percent in real terms and social contributions 2.0 percent. These gains were partly supported by measures adopted in 2024—such as the higher value-added tax rate—which continued to yield returns in 2025. Spending grew 4.3 percent real, driven by current transfers, social security, and capital expenditures. In December, the IMF approved the fourth review under the EFF, citing strong program performance. The government also issued US\$4 billion in bonds and repurchased US\$3.1 billion in maturing debt, reducing near-term financing pressures.

Outlook

GDP growth is projected at 2.5 percent in 2026 and over the medium term, led by investment as political uncertainty recedes and fiscal risks diminish. Improving labor market conditions and credit expansion are expected to support private consumption, contributing to a gradual decline in poverty to 29.8 percent by 2027 at the US\$ 8.3/day (2021 PPP) line. Non-oil exports are expected to maintain momentum, while imports would rise in response to stronger private spending, gradually narrowing the external surplus since 2027. Moderate inflation is expected to help preserve households' purchasing power. The impact of higher oil

prices from the conflict in the Middle East is likely to be broadly neutral for aggregate output, as higher production costs may be offset by a more gradual pace of fiscal adjustment stemming from the revenue windfall.

Fiscal accounts are projected to approach balance in 2026, driven by higher revenues in the context of higher oil prices, and are expected to turn positive by 2027–28, as fiscal adjustment progresses. Public revenues are projected to remain above 36 percent of GDP in 2027–28, with stronger tax collection offsetting lower oil production and sales. Over this period, expenditures are projected to decline, reflecting reductions in payroll, subsidies, and procurement. However, amortization pressures are expected to remain elevated, with gross financing needs exceeding US\$ 6 billion in 2027. Renewed access to private capital markets is expected to alleviate rollover risks. As a result, the public debt-to-GDP ratio is projected to decline below 50 percent by 2028, gradually approaching the 40 percent legal debt target.

Several risks could affect this outlook. Domestically, the energy sector remains vulnerable due to its dependence on volatile hydroelectric power supply and imports. A further deterioration in security could dampen investment, growth, and poverty reduction. Over the medium term, a relaxation of fiscal consolidation efforts or delays in structural reforms could undermine growth prospects. Externally, Ecuador's reliance on oil revenues makes it fiscally vulnerable to price declines, even as higher oil prices provide a short-term benefit. Slower growth in key trading partners, particularly the United States and China, poses an additional risk to export performance.

Recent history and projections

| | 2023 | 2024 | 2025e | 2026f | 2027f | 2028f |
|--|------|------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 2.0 | -2.0 | 3.7 | 2.5 | 2.5 | 2.5 |
| Private consumption | 4.2 | -1.3 | 2.7 | 2.5 | 2.5 | 2.5 |
| Government consumption | 1.7 | -1.2 | 0.0 | 1.7 | -1.6 | -1.3 |
| Gross fixed capital investment | 0.2 | -3.8 | 5.6 | 4.1 | 4.7 | 4.6 |
| Exports, goods and services | 0.8 | 1.8 | 6.4 | 3.4 | 3.5 | 3.5 |
| Imports, goods and services | 0.6 | 1.7 | 3.9 | 4.0 | 3.2 | 3.2 |
| Real GDP growth, at constant factor prices | 2.0 | -1.7 | 3.7 | 2.5 | 2.5 | 2.5 |
| Agriculture | 2.7 | 2.5 | 9.0 | 2.5 | 2.2 | 2.2 |
| Industry | -0.3 | -3.7 | 2.2 | 1.7 | 1.8 | 1.8 |
| Services | 3.0 | -1.4 | 3.7 | 2.9 | 2.8 | 2.8 |
| Employment rate (% of working-age population, 15 years+) | 62.2 | 61.3 | 61.3 | 61.3 | 61.3 | 61.3 |
| Inflation (consumer price index) | 2.1 | 1.6 | 0.7 | 3.3 | 1.9 | 1.5 |
| Current account balance (% of GDP) | 1.8 | 5.7 | 5.1 | 5.4 | 4.4 | 3.9 |
| Net foreign direct investment inflow (% of GDP) | 0.3 | 0.3 | 0.8 | 0.9 | 0.9 | 0.9 |
| Fiscal balance (% of GDP) | -3.5 | -1.3 | -2.9 | -0.5 | 0.4 | 1.2 |
| Revenues (% of GDP) | 36.0 | 36.8 | 35.4 | 37.3 | 36.5 | 36.4 |
| Debt (% of GDP) | 54.3 | 53.8 | 54.3 | 52.5 | 51.7 | 49.5 |
| Primary balance (% of GDP) | -2.6 | -0.2 | -1.8 | 0.6 | 1.6 | 2.2 |
| International poverty rate (\$3.00 in 2021 PPP)^{1,2} | 4.7 | 7.3 | 3.4 | 3.6 | 3.6 | 3.5 |
| Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2} | 10.0 | 12.1 | 8.4 | 8.5 | 8.4 | 8.4 |
| Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2} | 30.8 | 32.6 | 30.1 | 29.9 | 29.8 | 28.1 |
| GHG emissions growth (mtCO₂e) | 0.0 | -1.9 | 0.5 | 0.4 | 0.4 | 0.4 |

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SEDLAC harmonization, using 2025-ENEMDU. Actual data: 2025. Forecasts are from 2026 to 2028.

2/ Projections using microsimulation methodology.