

CareEdge Global assigns Long Term Foreign Currency Rating of B- (Unsolicited) to Republic of Ecuador

Credit Profile

Ecuador is facing significant economic challenges stemming from a deteriorating security situation, political uncertainty, and fiscal pressures. The country's economic growth is expected to slow in 2024, largely due to rising drug-related gang violence, which is affecting private consumption and investment. Ecuador's 2024 budget aims to reduce the fiscal deficit, and the government has reached a staff-level agreement with the IMF on policies to support a 48-month arrangement under the Extended Fund Facility (EFF), amounting US\$4 billion. Despite these challenges, Ecuador has some strengths, including oil reserves and unexploited mining resources. However, that also exposes the economy to volatility in global crude oil prices. The economy also benefits recently improved road network. The country is also a major exporter of bananas, cocoa, and palm oil.

Strengths

- Undertaken structural reforms
- Abundant mineral resources
- Low inflation

Weaknesses

- Internal security risk
- Narrow government revenue base
- Uncertainty of oil production due to security reasons

Key Monitorables

- Low level of liquidity
- Investments in energy infrastructure

Key Rating Drivers

Economic Structure & Resilience

Ecuador's economy is facing significant challenges, marked by weakened GDP growth of 2.4% in 2023 compared to 6.2% in 2022. GDP contracted by 0.7% in the last quarter of 2023, primarily due to decline in private consumption and net exports. The economy with GDP of USD 119 billion, benefits greatly from its abundant oil and mineral resources, as well as a growing tourism sector. However, the concentration of exports—over 40% directed to major markets like the USA and China—exposes Ecuador to growth concerns in these economies. The unwinding of the Ishpingo-Tambococha-Tiputini (ITT) oil field is expected to further hinder growth, while an ongoing electricity crisis poses risks to economic stability and agricultural productivity. Additionally, elevated security risks, exemplified by a state of emergency in early 2024, threaten tourism revenue. Climate-related shocks and geopolitical tensions also present medium

to long-term concerns, complicating Ecuador's path to economic resilience and sustainable growth.

Fiscal Strength

Ecuador's financial health is under significant strain due to a narrow revenue base, high share of external debt in total government debt, and a weak debt repayment history indicated by frequent defaults in the past (1998, 2008 and 2020). There is significant dependence on the oil sector which comprises 33% of total government revenue in 2023. The fiscal balance, which had improved between 2020 and 2022, has deteriorated to -3.5% of GDP in 2023 because of lower oil prices and production and higher government spending. Liquidity is critically low, with gross financing needs rising from US\$6.3 billion in 2022 to US\$9.8 billion in 2023, primarily covered by depleting forex reserves. Although public debt has decreased to 55.3% of GDP in 2023 following a successful debt-for-nature swap, external debt continues to constitute a significant portion of the total government debt. Moreover, upcoming elections in 2025, a rise in debt amortization from 2025-26 onwards and rising security costs are likely to exacerbate fiscal pressures, complicating efforts to stabilize the economy further.

External Position & Linkages

External sector risks broadly stem from volatility in commodity prices, low FDI attractiveness and relatively high external debt. Inadequate foreign exchange reserves pose challenges in maintaining the dollarization regime, especially during capital outflow or other external shocks. Given the political uncertainties, the economy will remain prone to capital flight risks and limited access to external funding in the near term. However, Ecuador's external position has somewhat benefitted from the elevated oil prices since the pandemic, witnessing an average current account surplus of 2.3% of GDP from 2020 to 2022 and is expected to remain in surplus, in near term, despite easing commodity prices due to an increase in non-oil exports.

Monetary & Financial Stability

Ecuador's dollarization presents significant challenges for its economic stability, particularly in managing liquidity risks. The reliance on the U.S. dollar limits the central bank's ability to respond to economic shocks, as it cannot inject liquidity during times of stress. The country's financial system faces vulnerabilities, highlighted by an increasing trend of non-performing loan (NPL) of nearly 4.2% in 2023. The risk is specifically high within public banks and cooperatives that have lower loan loss provisions coupled with a weak financial system. Political uncertainties and social unrest could worsen banking asset quality, compounding these financial challenges. Banks are heavily invested in low-liquidity assets, showing the need for effective liquidity risk management strategies. Inflation stands at 2.5% in May 2024, with an annual projection of around 1.4%.

Institutions & Quality of Governance

Ecuador faces significant challenges stemming from institutional weaknesses, political instability, and a deepening internal security crisis driven by organized crime. The country's homicide rate has skyrocketed, with the government declaring a state of emergency in early 2024. A fragmented National Assembly and upcoming general elections in 2025 add to the uncertainty. Combating corruption remains a major hurdle, with a lack of judicial independence. Recent events, such as an impeachment attempt and the assassination of a presidential candidate, highlight Ecuador's ongoing struggle with corruption.

Ecuador – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	107	108	96	107	117	119	122	126
GDP Per Capita (Constant-PPP)	USD	11,594	11,449	10,246	11,096	11,620	11,720	11,567	11,504
Real GDP Growth	%	1.0	0.2	-9.2	9.8	6.2	2.4	0.1	1.2
GFCF/GDP	%	21.0	20.7	18.0	19.0	20.1	19.7	-	-
Gross Domestic Savings/GDP	%	21.6	21.1	20.2	21.8	22.2	21.7	-	-
Exports (G&S)/GDP	%	23.5	24.0	23.3	27.0	30.8	29.1	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.3	65.7	66.0	66.3	66.5	66.6	66.8	67.0
Old-Age (65+) Population (% Share in Total)	%	7.2	7.4	7.5	7.6	7.8	8.1	8.3	8.6
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.8	-3.5	-7.4	-1.6	0.0	-3.5	-2.0	-1.2
Revenue/GDP	%	38.1	36.3	32.9	35.8	38.8	36.2	38.5	37.6
Expenditure/GDP	%	41.0	39.8	40.2	37.4	38.7	39.7	40.5	38.8
GG Gross Debt/GDP	%	49.1	51.7	63.1	61.6	57.0	55.3	56.3	56.4
GG External Debt (by Creditor)/GG Gross Debt	%	64.4	71.1	72.9	71.8	73.9	73.2	74.4	75.4
Interest/Revenue	%	7.1	8.4	10.2	4.2	4.9	-	-	-
External Indicators									
Current Account Balance/GDP	%	-1.2	-0.2	2.3	2.9	1.8	1.9	2.1	2.2
FDI, Net Inflows/GDP	%	1.3	0.9	1.1	0.6	0.8	0.3	-	-
Outstanding FII Liabilities/GDP	%	15.0	17.4	19.0	16.8	15.5	13.7	-	-
NIIP/GDP	%	-23.1	-26.1	-27.9	-24.3	-22.8	-20.0	-	-
Foreign Exchange Reserves	USD Billion	2.2	2.9	7.1	7.9	8.5	4.5	-	-
Import Cover	Months	1.0	1.4	4.3	3.4	2.8	1.6	-	-
External Debt/GDP	%	41.3	49.0	59.6	54.0	53.7	50.6	-	-
Monetary and Financial Indicators									
CPI Inflation	%	-0.2	0.3	-0.3	0.1	3.5	2.2	1.4	1.5
Non-Performing Loans/Total Gross Loans	%	2.9	3.2	3.6	3.7	3.7	4.2	-	-
Private debt, loans and debt securities/GDP	%	43.1	46.4	51.5	53.6	55.0	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	B-	October 3, 2024

Analytical Contacts

Amya Parmar

amy.a.parmar@careedgeglobal.com

Anurag Chandra

anurag.chandra@careedgeglobal.com

Kiran Kavala

kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra

mradul.mishra@careedge.in

Criteria Applied

CareEdge Sovereign Rating Methodology

About Us

CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise**. As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer

This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CareEdge Global.

All rights reserved @CareEdge Global IFSC Limited.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
CIN-U66190GJ2024PLC151103