ECUADOR

Table 1	2020
Population, million	17.6
GDP, current US$ billion	102.6
GDP per capita, current US$	5812.8
International poverty rate ($1.9)[a]	3.6
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	25.4
Gini index[a]	45.7
School enrollment, primary (% gross)[b]	103.3
Life expectancy at birth, years[b]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

After a pandemic-driven recession, the economy is expected to start a tame recovery in 2021 on the back of eased mobility restrictions. With no macroeconomic buffers and limited access to external financing, the new government is not expected to deploy a stimulus package to underpin the recovery. Therefore, to maintain confidence, set a solid ground for recovery, and stabilize public debt ratios, additional structural reforms will be needed, including improving fiscal policy efficiency and progressivity, and catalyzing private investment.

Key conditions and challenges

After the commodity boom, Ecuador had to start rebalancing its economy, to cement confidence in dollarization and pave the way for sustained and equitable growth. With a fully dollarized economy and no macroeconomic buffers, the bulk of the adjustment fell on the fiscal front. This process was eventually supported by a medium-term IMF program designed to boost competitiveness and job creation, secure fiscal sustainability, strengthen the institutional foundations of dollarization, protect the poor and vulnerable, and improve transparency.

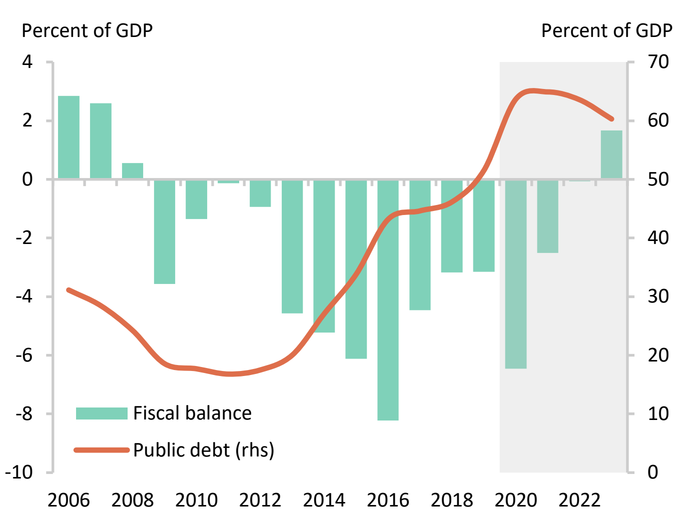
However, with limited policy room, Ecuador struggled to deal with the pandemic, which pushed the economy into a deep recession and increased poverty by an estimated 1.4 million. The crisis also deepened existing inequality of opportunities by curtaining access to education and reducing job opportunities for women, youth, low-skill workers, and migrants. In this context, Ecuador renegotiated debt with international bondholders and China. It also set a new medium-term program with the IMF to protect lives and livelihoods, expand the coverage of social assistance, ensure fiscal sustainability, and strengthen domestic institutions.

The ongoing presidential election cycle creates an opportunity to reevaluate recovery priorities and set Ecuador onto a green, resilient, and inclusive development path. With limited policy room to deploy a stimulus package, the recovery requires accelerated vaccine rollout and sustained confidence in macroeconomic management. The new government also needs to prioritize policies to tackle long-lasting structural challenges. After many years of capital expenditure compression, fiscal sustainability requires reforms to mobilize fiscal revenues and rationalize current expenditure. Improving expenditure quality would also help create budgetary room to support vulnerable people, continue improving poor people's access to quality services and, consequently, recover pre-COVID-19 access to opportunities. Finally, to prevent fiscal consolidation from depressing long-term growth, Ecuador also needs to foster private investment to promote employment, diversity, and productivity gains.

Recent developments

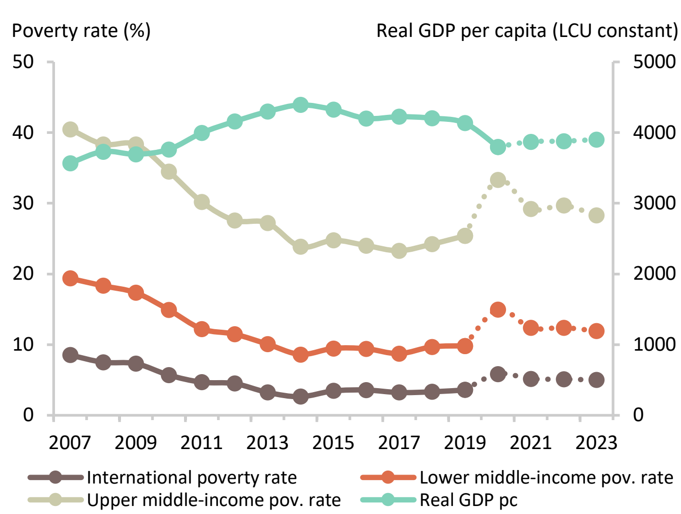
The economy shrank by 6.8 percent in 2020 as the government had limited policy room to cushion the effect of lockdown measures and mounting uncertainty. Additionally, oil production was disrupted in April and May after two landslides damaged the main crude pipelines. Thanks to eased mobility restrictions, most sectors showed stronger than expected recovery by the end of the year. Despite recent improvements, unemployment and underemployment remained well above pre-pandemic levels by the end of 2020, particularly among women, youth, and low-skilled workers.

FIGURE 1 Ecuador / Fiscal balance and public debt



Sources: Central Bank of Ecuador and staff's estimates.

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



Sources: World Bank. Notes: see Table 2.

Additionally, economic contraction eroded self-employed earnings, mainly in retail, tourism, and restaurants.

Lower hydrocarbon and tax revenues, combined with emergency expenditures, widened the fiscal deficit. In the absence of fiscal buffers, this deficit forced the authorities to cut non-emergency expenditure and renegotiate debt with international bondholders and China. Financing from multilateral creditors contributed to meeting financing needs and reduced arrears by the end of the year.

Despite low oil exports and remittances, the current account balance turned into a sizable surplus owing to falling imports and growing non-oil exports, including nascent mining exports. The current account also benefited from low factor payment abroad, including lower interest payments after the debt restructuring. With significant financing to the public sector, the current account surplus increased international reserves to their highest levels since the economy was dollarized in 2000.

The current account surplus and external financing to the public sector translated into higher deposits that contributed to expanding domestic credit, partially cushioning the pandemic's effect.

Poverty increased from 25.4 to an estimated 33.3 percent between 2019 and 2020 as the pandemic-driven recession eroded households' labor earnings. Although the government tried to support a larger number of households through existing and new social protection programs, this effort only partially offset the recession effects.

Outlook

The economy is expected to start recovering in 2021 due to greater mobility and oil output recovery. However, the recovery could be dampened by a slow vaccination rollout, the lack of policy room for a fiscal stimulus, and uncertainty about the next government's development strategy. Moreover, the fragmentation of the recently elected National Assembly could obstruct some reforms.

The fiscal deficit is projected to drop to 2.5 percent of GDP in 2021 on the back of recovering tax and hydrocarbon revenues and lower interest payments. After that, with limited access to international capital markets, the new government will likely need to continue fiscal consolidation until reaching a surplus by the end of the projection period, reducing the public debt from a peak of 66 percent in 2021 to 61 percent in 2023. Failing to do so could force the government to tap alternative financing sources with the risk of adverse effects on the economy, such as accumulation of domestic arrears, Central Bank financing, or costly external financing.

Although exports will be favored by recovering external demand and higher oil prices, recovering imports will gradually reduce the current account surpluses over the projection period. However, with low foreign investment and modest external financing to the public sector, the current account surpluses will stabilize the international reserves.

Poverty is expected to decrease to 28.3 percent in 2023 as the slow recovery will reduce unemployment and increase self-employed earnings. However, poverty and inequality reduction will be constrained by the pandemic's long-term effects on businesses and people, such as decapitalization of small firms, and loss in human capital as consequence of increased in food insecurity and limited access to distance learning. Thus, the recovery is likely to be slow and social exclusion is likely to increase.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.3	0.0	-6.8	3.4	1.4	1.8
Private Consumption	2.1	0.3	-5.9	3.5	1.2	1.7
Government Consumption	3.5	-2.0	-6.7	2.4	-0.3	0.5
Gross Fixed Capital Investment	2.0	-3.3	-8.5	11.1	2.0	1.5
Exports, Goods and Services	1.2	3.6	-4.4	1.9	2.4	2.6
Imports, Goods and Services	4.4	0.3	-9.4	8.1	1.6	1.4
Real GDP growth, at constant factor prices	1.2	0.3	-6.8	3.4	1.4	1.8
Agriculture	0.1	1.6	1.0	2.8	2.8	2.8
Industry	-1.0	0.2	-7.3	3.5	1.3	1.4
Services	2.7	0.1	-7.8	3.4	1.3	1.9
Inflation (Consumer Price Index)	-0.2	0.3	-0.3	0.0	1.3	1.3
Current Account Balance (% of GDP)	-1.2	-0.1	2.8	2.0	1.6	1.4
Net Foreign Direct Investment (% of GDP)	1.3	0.9	1.2	0.6	0.8	0.8
Fiscal Balance (% of GDP)	-3.2	-3.1	-6.5	-2.5	0.1	1.6
Debt (% of GDP)	46.1	51.5	64.9	65.8	64.2	61.0
Primary Balance (% of GDP)	-0.7	-0.5	-3.6	-0.3	2.2	3.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.3	3.6	5.8	5.1	5.1	5.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.7	9.8	15.0	12.4	12.4	11.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.2	25.4	33.3	29.2	29.7	28.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2019-ENEMDU.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using microsimulation.