

Ecuador: Upgrade from 6/7 to 5/7 for medium- to long-term political risk | Credendo

Macroeconomic recovery supported by oil prices

Ecuador's macroeconomic landscape has notably improved since 2020, largely due to higher oil prices. After a decade of modest current account deficits (1% of GDP on average between 2010-2020), the country posted small current account surpluses in the past four years (averaging around 3% of GDP). Hence, external debt (service) ratios fell and solvability significantly improved. Public debt has also declined, though it remained relatively elevated at 54% of GDP in the end of 2024, which is manageable but elevated for a country with low debt tolerance. Looking ahead, the economic outlook remains relatively positive. The country is projected to maintain small current account surpluses of about 3% of GDP despite lower oil price forecast. Moreover, external debt- and debt service-to-current account revenues are expected to remain below their unsustainable 2020 levels, while public debt ratios are expected to gradually decrease.

Oil dependency, security and climate change remain structural vulnerabilities

Ecuador still faces important structural challenges, which need to be tackled, as the 2% recession of last year illustrates. While the government has made [security](#) a top priority, recurrent droughts – intensified by climate change – cause persistent power shortages (given that three quarters of electricity come from drought-affected hydropower) and hinder economic growth. Furthermore, Ecuador's heavy reliance on oil makes its economy vulnerable to price shocks – which could trigger a recession and reduce current account revenues, undermining solvency. Additionally, foreign exchange reserves remain low, covering only 1.5 months of imports in April 2025. In a fully dollarised economy, this level may be insufficient to support the domestic financial sector or the public sector during unexpected shocks, potentially leading to a liquidity crisis. Ecuador's ongoing arrangement with the IMF (2024-2028) – to which the country showed strong commitment in the past year – is therefore crucial to ensuring its external debt service repayments, as the country is still shut off from financial markets.

Rising US protectionism is a threat given the US's bilateral trade deficit and Ecuador's remittance dependence

[Rising protectionism in the US](#) is a threat to Ecuador. First of all, most [remittances](#), which account for 15% of current account revenues, come from the US. Hence, any economic slowdown in the US or mass deportation would hurt current account revenues. Secondly, the US has a small bilateral trade deficit with Ecuador, which could place Ecuador in Trump's tariff radar. Trump's 10% blanket tariffs have the potential to significantly hurt current account revenues as almost a fifth of Ecuador's goods exports are directed to the US. However, given the exemptions on oil, which accounts for almost half of its exports to the US, current account revenues should be less severely affected than expected. That said, the blanket tariffs do hurt food exports, which are highly elastic products. President Noboa's personal relationship with Donald Trump and ongoing negotiations for a new free trade agreement offer some reassurance and potential mitigation of trade-related risks.

Commitment to IMF programme ensures macroeconomic orthodox

policies

The re-election in April of President Daniel Noboa ensures macroeconomic orthodox policies and the country's commitment to the vital IMF programme. Moreover, Noboa's ruling party significantly increased its position at the National Assembly and built a working legislative majority, strengthening (fiscal) policy stability. In the light of the improved macroeconomic fundamentals and the continued commitment to orthodox economic policies, Credendo upgraded the MLT political risk rating of Ecuador to category 5/7.

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