CareEdge Global Downgrades Long Term Foreign Currency Rating of the Republic of Ecuador to CCC+ (Unsolicited)

Issuer rating	CareEdge CCC+ (Unsolicited)

CareEdge Global has downgraded the Long-Term Foreign Currency rating of the Republic of Ecuador to 'CareEdge CCC+ (Unsolicited)' from 'CareEdge B- (Unsolicited)'.

The rating downgrade is driven by weakening economic performance and an expected increase in debt repayment pressure starting 2026. Further, ongoing internal violence and a minority government add to the challenge.

The country's economy contracted by 2.0% in 2024, mainly due to a severe drought that caused electricity shortages and weak private consumption and investment. Debt repayments will rise sharply to about USD 8 billion annually between 2026 and 2028. This, combined with Ecuador's inability to access international capital markets, heightens refinancing risks. The ability to meet gross financing needs depends on the government's success in improving the fiscal balance. However, fiscal consolidation could be constrained by limited revenue expansion, which is susceptible to the pace of economic growth. This uncertainty is further compounded by low oil production as well as low prices, given the oil sector's significant role in public finances.

Further, the internal security environment continues to be challenging, which is expected to weigh on the macroeconomic outlook. Political fragmentation and a fragile legislative alliance further make reform implementation difficult, undermining the prospects for sustained fiscal consolidation.

Ecuador completed two debt-for-nature swap transactions in 2023 and 2024, which contributed to a modest reduction in its external debt burden. However, comprehensive details regarding the terms and nature of these transactions remain limited. Based on information in the public domain, the swap transactions do not indicate that this is equivalent to a distressed exchange as the transactions were not primarily intended to avert an imminent payment crisis.

Key Rating Drivers

Economic Structure & Resilience

The economy contracted by 2.0% in 2024, reversing growth of 2.0% in 2023, as both domestic and external shocks weighed heavily on activity. Electricity shortages from prolonged drought conditions, escalating security challenges, political tensions, and the gradual shutdown of oil wells in the key Block 43-ITT area contributed to the downturn.

Ecuador is a resource-driven economy, with exports accounting for 29% of GDP (2023). Key export products include oil, minerals, bananas, cocoa, and shrimp. While Ecuador's USD 122 billion economy benefits from significant oil and mineral resources, its high export concentration—over 40% to the U.S. and China—heightens vulnerability to external demand shocks. Over the medium term, exposure to climate-related risks and global geopolitical shifts may weigh on Ecuador's economic recovery and growth prospects. Going forward, growth is expected to pick up modestly to 1.7% in 2025 and 2.1% in 2026, though risks remain elevated.

Fiscal Strength

Ecuador's fiscal profile remains structurally constrained by a narrow revenue base, a high share of external debt, and a history of sovereign defaults (1998, 2008, 2020). Ecuador entered into a 48-month Extended Fund Facility (EFF) with the IMF in May 2024, totalling USD 4 billion, aimed at supporting fiscal consolidation and structural reforms. The IMF's first review in December 2024 acknowledged significant progress on key reform benchmarks, enabling a disbursement of approximately USD 500 million. Under the program, the fiscal deficit narrowed significantly from 3.5% of GDP in 2023 to 1.3% in 2024, achieved through VAT hikes from 12% to 15% and targeted fuel subsidy reductions.

Nonetheless, program execution risks remain elevated due to governance constraints and institutional weaknesses. The sustainability of fiscal consolidation efforts is further undermined by revenue performance that remains sensitive to slow economic growth. Oil revenues accounted for approximately 32% of total government revenue in 2024, making the fiscal position susceptible to commodity price fluctuations and production risks. Although the debt-to-GDP ratio declined to 54.3% in 2023 following debt-for-nature swaps, it rose slightly to 55% in 2024, with external debt continuing to account for a substantial share of total government debt.

Amortization pressures are projected to rise markedly in the medium term, with repayments increasing from USD 6.7 billion in 2025 to around USD 8 billion annually between 2026 and 2028. This, coupled with continued exclusion from international capital markets, increases refinancing risk and heightens Ecuador's dependence on multilateral and bilateral financing sources to meet its obligations.

External Position & Linkages

External sector risks stem from commodity price volatility, low FDI attractiveness, and elevated external debt. However, the current account surplus rose to 5.8% of GDP in 2024 (from 1.8% in 2023), supported by strong exports, import compression, and resilient remittances, and is expected to remain in surplus at ~2.5% of GDP over the medium term. Reserves improved to USD 6.9 billion (from USD 4.5 billion in 2023), import cover remains low at 2.4 months. FDI inflows declined amid political uncertainty and persistent internal security challenges, undermining investor confidence and external financing prospects.

Monetary & Financial Stability

Ecuador's dollarization limits monetary policy independence and tools for monetary policy implementation. The reliance on the U.S. dollar constrains the central bank's ability to respond to economic shocks, as it cannot inject liquidity during times of stress. Inflation declined from 2.2% in 2023 to 1.5% in 2024 and is projected to remain around 1.5% over the medium term.

The financial system is witnessing an increasing trend in non-performing loans (NPLs), rising to 4.7% by October 2024. The risk is specifically high within public banks and cooperatives that have lower loan loss provisions.

Institutions & Quality of Governance

Ecuador faces significant challenges stemming from institutional weaknesses and governance quality. Persistent corruption, limited judicial independence, and weak institutional capacity continue to constrain effective policymaking. The government’s difficulty in maintaining public order is underscored by repeated states of emergency and elevated crime levels, reflecting a deteriorating internal security environment.

Although President Daniel Noboa's National Democratic Action (ADN) party improved its standing in the 2025 general elections, the ADN-Pachakutik alliance remains one seat short of a majority. The coalition's fragility, exacerbated by ideological divides on key issues like extractive industries and security raises the risk of legislative gridlock undermining reform progress and fiscal consolidation efforts.

Rating Sensitivity Factors

Downside Scenario

The rating could face further downward pressure if economic growth remains persistently weak or if the debt burden rises to unmanageable levels. Additionally, further escalation of internal security crisis could further put downside pressure on the rating.

Upside Scenario

We could upgrade the rating if refinancing risks reduce significantly, supported by improved fiscal performance. A recovery in economic growth, aided by improved domestic security, energy supply stability, and restored investor confidence, would further reinforce the sovereign’s fiscal and external accounts. Effective implementation of the reforms under the IMF program, along with policy certainty and continuity, could help restore market confidence and access to external financing on more favorable terms.

Ecuador– Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	108	96	107	116	121	122	126	130
GDP Per Capita (Constant-PPP)	USD	13,857	12,454	13,560	14,274	14,460	14,073	14,207	14,396
Real GDP Growth	%	0.2	-9.2	9.4	5.9	2.0	-2.0	1.7	2.1
GFCF/GDP	%	20.7	18.0	19.0	20.1	19.7	-	-	-
Gross Domestic Savings/GDP	%	21.1	20.2	21.8	22.2	21.7	-	-	-
Exports (G&S)/GDP	%	24.0	23.3	27.0	30.8	29.1	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.7	66.0	66.3	66.5	66.6	66.8	67.0	-
Old-Age (65+) Population (% Share in Total)	%	7.4	7.5	7.6	7.8	8.1	8.3	8.6	-
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-3.5	-7.4	-1.6	0.0	-3.5	-1.3	-1.9	-1.1
Revenue/GDP	%	36.3	32.8	35.9	38.9	36.0	37.6	35.9	36.2
Expenditure/GDP	%	39.8	40.2	37.5	38.9	39.5	38.9	37.8	37.3
GG Gross Debt/GDP	%	52.1	63.6	61.8	57.2	54.3	55.0	55.1	54.3
GG External Debt (by Creditor)/GG Gross Debt	%	71.1	72.9	71.8	73.9	73.2	74.4	75.4	75.7
Interest/Revenue	%	8.5	10.2	4.3	4.9	8.7	8.7	-	-
External Indicators									
Current Account Balance/GDP	%	-0.5	2.1	2.7	1.8	1.8	5.8	3.4	2.6
FDI, Net Inflows/GDP	%	0.9	1.2	0.6	0.8	0.4	0.2	-	-
Outstanding FII Liabilities/GDP	%	17.4	19.0	16.8	15.6	13.6	12.2	-	-
NIIP/GDP	%	-26.2	-28.1	-24.6	-23.0	-20.0	-13.4	-	-
Foreign Exchange Reserves	USD Billions	2.9	7.1	7.9	8.5	4.5	6.9	-	-
Import Cover	Months	1.3	4.2	3.3	2.8	1.5	2.4	-	-
External Debt/GDP	%	49.0	59.6	54.1	53.9	50.9	50.2	-	-
Monetary and Financial Indicators									
CPI Inflation	%	0.3	-0.3	0.1	3.5	2.2	1.5	1.3	1.5
Non-Performing Loans/Total Gross Loans	%	3.2	3.6	3.7	3.7	4.6	-	-	-
Private debt, loans and debt securities/GDP	%	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 2024

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge CCC+	June 05, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge B-	October 03, 2024

Criteria Applied
[CareEdge Sovereign Rating Methodology]

Analytical Contacts
Kiran Kavala
kiran.kavala@careedgeglobal.com

Annie Mahajan
annie.Mahajan@careedgeglobal.com

Amya Parmar
amya.parmar@careedgeglobal.com

Media Contact
Mradul Mishra
mradul.mishra@careedge.in

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 solely 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.

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