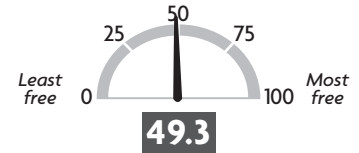


World Rank: **147**

Regional Rank: **26**

# ECUADOR

## Economic Freedom Score



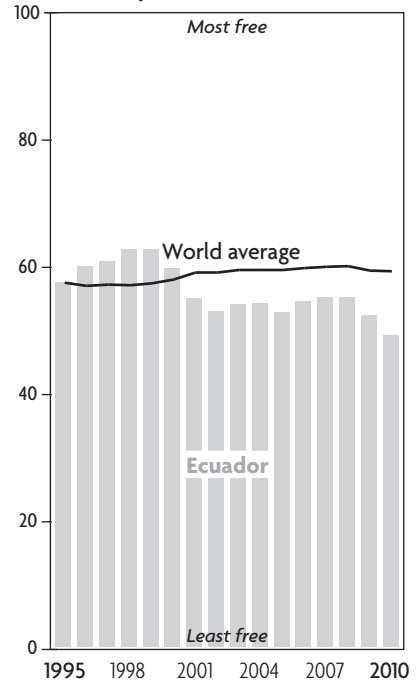
**E**cador's economic freedom score is 49.3, making its economy the 147th freest in the 2010 *Index*. Its overall score is 3.2 points lower than last year, continuing a sharp downward trend with declines in eight of the 10 economic freedoms. Ecuador is ranked 26th out of 29 countries in the South and Central America/Caribbean region, and its overall score is significantly below the world and regional averages.

Ecuador's new constitution, approved by referendum in September 2008, increases the state's role in management of the economy and expands government spending. As a result, government interference has increased in key industries such as energy, banking, and telecommunications, and it is estimated that the government now spends over 40 percent of GDP.

Ecuador performs particularly poorly in business freedom, property rights, investment freedom, and freedom from corruption. Burdensome regulations restrict business and labor flexibility, the rule of law is politically influenced and inefficient, and expropriation of private property is a concern. The judiciary rules erratically and remains vulnerable to corruption.

**BACKGROUND:** In January 2007, economist Rafael Correa was elected president on a populist platform of tighter government control of banking and oil production. He also promised to default on debt owed to international lenders and to oppose any free trade agreement with the United States. Capital flight has soared, and foreign direct investment has fallen. Aligned with Venezuela's leftist President Hugo Chávez, Correa has consolidated his political power under a new constitution and won re-election to a second term in April 2009. Ecuador is the world's largest banana exporter. It also has ample petroleum reserves, but the government-run oil industry is mismanaged and corrupt, and production is declining. Factions in the legislature fuel political and institutional instability, and there is a lack of respect for the rule of law.

## Country's Score Over Time



## Quick Facts

**Population:** 13.5 million

**GDP (PPP):** \$107.9 billion

6.5% growth in 2008

4.4% 5-year compound annual growth

\$8,009 per capita

**Unemployment:** 8.7%

**Inflation (CPI):** 8.4%

**FDI Inflow:** \$974 million

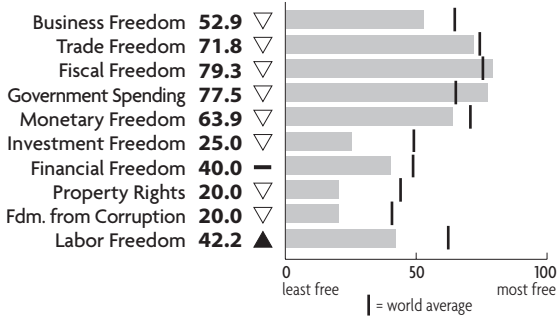
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## ECUADOR'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 52.9

The overall freedom to conduct business is limited by Ecuador's regulatory environment. Starting a business takes an average of 64 days, compared to the world average of 35 days. Obtaining a business license takes about the world average of 18 procedures. Closing a business is a lengthy process.

### TRADE FREEDOM — 71.8

Ecuador's weighted average tariff rate was 6.6 percent in 2008. Import restrictions, price bands and variable levies against certain agriculture goods, import taxes against certain products, import licenses, mandatory pre-approval for imports of certain agriculture products, inefficient administration of tariff rate quotas, discriminatory standards and regulations, non-transparent government procurement, and issues involving the enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Ecuador's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 79.3

Ecuador has an above-average income tax rate and an average corporate tax rate. The top income tax rate is 35 percent, and the corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 14.9 percent.

### GOVERNMENT SPENDING — 77.5

Total government expenditures, including consumption and transfer payments, have been relatively low. Government spending equaled 27.4 percent of GDP in the reference year of 2007 but has been rising rapidly since then. State-owned electricity and telecommunications enterprises remain inefficient.

### MONETARY FREEDOM — 63.9

Inflation, restrained somewhat by Ecuador's use of the U.S. dollar as its currency, averaged 6.4 percent between 2006 and 2008 and is climbing. Only public or mixed enterprises (with a public majority stake) may provide public services or control strategic sectors. The government sets domestic prices for bread, noodles, sugar, tuna, vegetable oil, rice, oats, milk, chicken, bananas, coffee, cocoa, fuels, and pharmaceuticals. Twenty points were deducted from Ecuador's

monetary freedom score to account for measures that distort domestic prices.

### INVESTMENT FREEDOM — 25

Foreign investment receives national treatment, but investment in petroleum, mining, domestic fishing, electricity, telecommunications, broadcast media, coastal and border real estate, and national security is subject to government approval and additional regulations. Rules are complex and non-transparent. There are no antitrust laws, and industry is relatively concentrated. Systemic weaknesses and political pressure are significant problems. Profit repatriation and foreign access to the credit market are allowed. There are no restrictions on foreign exchange, direct investment, or transfers. In some cases, the judicial system has failed to provide adequate protection from unlawful expropriations or effective compensation for expropriated property.

### FINANCIAL FREEDOM — 40

Ecuador's financial sector is not fully developed, and access to credit can be costly. Banking has undergone consolidation and restructuring since the late 1990s. There are now 25 banks; the four largest account for more than 60 percent of deposits. The state controls about 10 percent of bank assets. The U.S. dollar is the official currency. Credit is available on market terms, but lack of options hampers entrepreneurial activity. The financial system lacks efficiency and depth, and capital markets remain underdeveloped. There are two stock markets, but little equity has been traded. Foreign takeovers of banks and insurance companies are restricted.

### PROPERTY RIGHTS — 20

The rule of law is weak, and intellectual property rights are not enforced. Court delays are significant, judgments are unpredictable and inconsistent, and the judicial system is subject to corruption. Expropriation is possible, and agricultural land may be seized by squatters. The new constitution increases the state's role in the economy and enshrines the government's right to control strategic sectors such as natural resources and telecommunications. Ecuador is ranked 90th out of 115 countries in the 2009 International Property Rights Index.

### FREEDOM FROM CORRUPTION — 20

Corruption is perceived as pervasive. Ecuador ranks 151st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Laws and regulations to combat official corruption are inadequately enforced. Illicit payments for official favors and theft of public funds take place frequently. Dispute settlement procedures are complicated by the lack of transparency and inefficiency in the judicial system. Local authorities often demand gratuities to issue necessary permits.

### LABOR FREEDOM — 42.2

Burdensome labor regulations hinder employment opportunities and productivity growth. Job-tenure regulations create a disincentive for new hiring. Many employers resort to short-term outsourcing contracts.