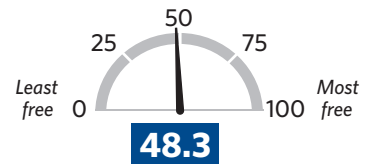


# ECUADOR

## Economic Freedom Score



World Rank: **156** Regional Rank: **26**

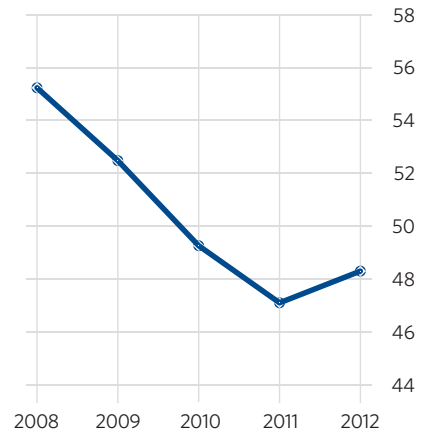
**E**cador's economic freedom score is 48.3, making its economy the 156th freest in the 2012 *Index*. Its overall score is 1.2 points higher than last year, with declining trade freedom offset by an improved score in government spending. Ecuador is ranked 26th out of 29 countries in the South and Central America/Caribbean region, and its overall score is far below world and regional averages.

Considerably undermining economic freedom, the reach of Ecuador's government continues to expand to economic sectors beyond the petroleum industry. The rule of law is undermined by pervasive corruption that weakens property rights. The private sector is struggling to compete with the growing public sector in what has become a restrictive entrepreneurial environment.

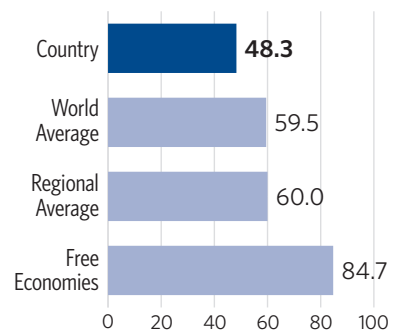
Private investment has shrunk as costly regulations and uncertainty have made expansion planning more difficult. The trade regime has become more restrictive, reducing competition and eroding productivity. Ecuador's underdeveloped and state-controlled financial sector limits access to credit and adds costs to entrepreneurs. The overall investment climate has become increasingly risky as the government's economic policies continue to evolve rapidly in a repressive political environment.

**BACKGROUND:** In 2007, Rafael Correa was elected president on a populist platform of tighter government control of banking and oil production. He also promised to renege on foreign debt and end free trade talks with the U.S. Capital flight has soared, and foreign direct investment has fallen. Aligned with Venezuela's Hugo Chávez, Correa has consolidated his power under a new constitution imposed in a climate of intimidation. He was elected to a second term in 2009. Ecuador is the world's largest banana exporter. It also has important petroleum reserves, but the government-run oil industry is mismanaged and corrupt, and production is declining. A series of 10 constitutional amendments passed in May 2011 have strengthened Correa's control of the media and the judicial system.

## Freedom Trend



## Country Comparisons



## Quick Facts

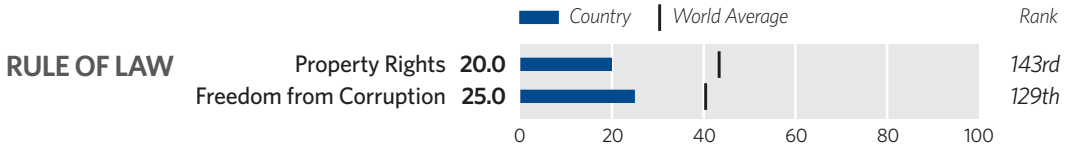
**Population:** 14.8 million  
**GDP (PPP):** \$115.0 billion  
 3.2% growth in 2010  
 5-year compound annual growth 3.5%  
 \$7,776 per capita  
**Unemployment:** 5.0%  
**Inflation (CPI):** 3.6%  
**FDI Inflow:** \$164.1 million  
**Public Debt:** 20.4% of GDP

### How Do We Measure Economic Freedom?

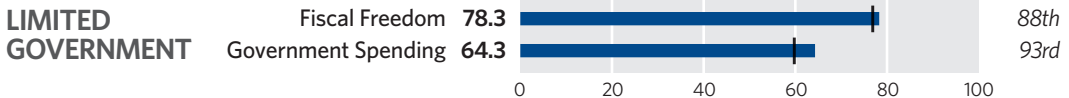
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

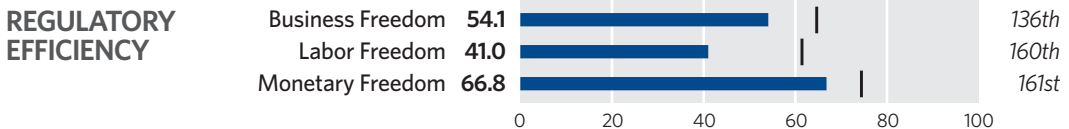
**THE TEN ECONOMIC FREEDOMS**



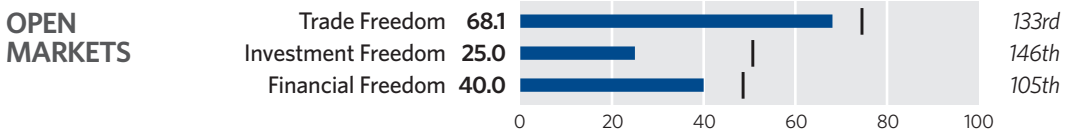
The foundations of economic freedom are fragile. The judicial system remains inefficient and vulnerable to political interference. Court delays are significant, and judgments are inconsistent. Expropriation is possible as the new constitution strengthens the government’s right to control strategic sectors such as natural resources and telecommunications. With corruption pervasive, illicit payments for official favors and thefts of public funds are common.



The top income tax rate is 35 percent, and the corporate tax rate is 25 percent. Profits reinvested in capital purchases are subject to a special 15 percent rate. Other taxes include a value-added tax (VAT) and an inheritance tax, with the overall tax burden equal to 17.9 percent of GDP. Government spending is equivalent to 34.5 percent of total domestic output. The deficit is now below 2 percent of GDP, but public debt has reached 20.4 percent of GDP.



The inconsistent application of commercial laws increases the cost of conducting business. Launching a business takes more than the world averages of seven procedures and 30 days. Job-tenure regulations create a disincentive for new hiring, and employers resort to short-term outsourcing contracts. The use of the U.S. dollar as the official currency has injected a degree of monetary stability. Price controls are often used by the state.



In 2011, Ecuador embarked on a program of import substitution and voluntary import restraints to reduce its trade deficit. Further suppressing trade, the trade weighted average tariff rate rose to 6 percent. The investment regime is complex and non-transparent, with decision-making significantly politicized. The financial sector remains poorly developed. Non-performing loans have been rising, and state interference in banking has expanded.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.6	Business Freedom	+0.6	Trade Freedom	-7.9
Freedom from Corruption	+3.0	Government Spending	+14.2	Labor Freedom	+0.9	Investment Freedom	0
				Monetary Freedom	+1.9	Financial Freedom	0