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## RECENT PERFORMANCE OF THE ECUADORIAN ECONOMY IN A CONTEXT OF HIGH UNCERTAINTY: AN ANALYSIS OF ECONOMIC GROWTH, POVERTY, AND UNEMPLOYMENT

### ABSTRACT

This study assesses the recent performance of the Ecuadorian economy, focusing on economic growth, poverty, and unemployment within a context of heightened uncertainty exacerbated by international crises and national policies. It highlights an initial period of significant socioeconomic advancement, with reductions in poverty and inequality levels as a result of progressive policies and increased social spending. However, since 2017, fiscal austerity measures and flexibilization of the labor market have reversed these gains, exacerbating vulnerability to the COVID-19 crisis. The labor market exhibits high informality and rising unemployment, reflecting the diminished labor protection and employment quality. As Ecuador is a dollarized economy reliant on primary exports, it faces structural challenges limiting its response to external imbalances. This work underscores how shifts in economic policy have influenced the reversal of previous achievements, pointing out the importance of coherent economic and social policies in managing future crises and fostering equitable growth.

**Keywords:** Ecuador; Economic Growth; Poverty; Unemployment; COVID-19

**JEL Codes:** E24; I32; O47; O54

### RIASSUNTO

*Recenti performance dell'economia dell'Ecuador in un contesto di elevata incertezza:  
un'analisi relativa a crescita, povertà e disoccupazione*

In questo articolo si effettua una valutazione della recente performance dell'economia dell'Ecuador con particolare riferimento a crescita, povertà e disoccupazione in un contesto di

elevata incertezza aggravata dalla crisi internazionale e dalla politica interna. In esso si evidenzia un iniziale periodo di progresso socioeconomico significativo, con riduzione della povertà e dei livelli di disuguaglianza grazie a politiche progressiste e ad un aumento della spesa pubblica. Le misure di austerità fiscale e maggiore flessibilità nel mercato del lavoro adottate a partire dal 2017 hanno invertito queste tendenze, aumentando la vulnerabilità del paese alla crisi da COVID-19. Il mercato del lavoro si caratterizza per un aumento di lavoro non regolamentare e della disoccupazione: ciò riflette minori tutele dei lavoratori e una più bassa qualità del lavoro. Essendo l'Ecuador un'economia dollarizzata basata sull'export del settore primario, il paese dovrà affrontare sfide strutturali che limiteranno la sua capacità di reazione agli squilibri esterni. In questo studio viene sottolineato come alcuni cambiamenti nella politica economica abbiano vanificato obiettivi conseguiti in precedenza, evidenziando l'importanza di adottare politiche economiche e sociali mirate alla gestione di crisi future ed allo sviluppo di un'equa crescita economica.

## 1. INTRODUCTION

The last two major international crises have been unique due to their intensity, complexity, and the difficulty of overcoming them. The COVID-19 crisis and the corresponding national responses seem to be establishing and accelerating certain trends in the Latin American region, some of which were already underway prior to this shock. This crisis has highlighted vulnerabilities and structural weaknesses in the economies of the region, including health system issues, social fissures, disparities in access to and infrastructure of medical care, weaknesses in international coordination for crisis management, limited fiscal space, and increasing public debt. The Ecuadorian economy has been particularly affected by these events, as previously accumulated imbalances made it especially vulnerable to changes in macroeconomic and financial conditions experienced as a result of this economic shock.

A fundamental lesson from the COVID-19 crisis is the need to reevaluate the economic growth policies that have prevailed over the last decades. Even before the pandemic, economic growth in Ecuador was not adequately reducing poverty levels or addressing the prevalence of a predominantly informal labor market. Beginning in 2017, strong fiscal austerity measures were implemented, leading the economy to zero growth. As a result of continuous fiscal adjustment measures, demanded in the agreement with the IMF, in just two years, poverty and extreme

poverty returned to 2013 levels. According to ECLAC (2023a), in 2019, poverty and extreme poverty reached levels of 25.7% and 7.6%, respectively. This context was exacerbated by increases in unemployment rates, political instability, rising insecurity and violence, and growing social discontent. Added to this is the precariousness of the labor market in Ecuador – a common trend in Latin America: in 2019, the proportion of informal employment was 63.5% (ILO, 2022).

In 2020, with the COVID-19 crisis, the country's economic growth significantly reduced to -7.8%. Since then, Ecuador has experienced a slow economic recovery, placing it among the countries with the worst post-pandemic economic performance in South America. Indeed, in 2022, the GDP *per capita* still remained below the levels of 2011. Predicting where the Ecuadorian economy is headed has been a complex task, not only because of the external shocks that have hit it but also due to the complexity of interpreting the structural changes experienced over the last years. The COVID-19 crisis further complicated this task but also made it more necessary. Therefore, it is of utmost relevance and urgency to analyze the current challenges and the respective policies to manage them.

The aim of this paper is to analyze the current state of the Ecuadorian economy, the challenges it faces, and its prospects, with an emphasis on economic growth, poverty, and unemployment. To this end, the study is organized as follows. The first section examines the fluctuations in economic activity in Ecuador, the impact of major crises, and the responses to them. Subsequently, there is a review of the trends and characteristics of unemployment, as well as labor informality and the challenges it presents. The third section analyzes the evolution of poverty and extreme poverty in the country, with an emphasis on the social challenges faced, especially in the context of recent economic and public health crises. The document concludes with a synthesis of the findings from the previous sections and discusses the implications of these for the formulation of economic and social policies in the country.

## 2. UNDERSTANDING THE EVOLUTION OF ECONOMIC GROWTH IN RECENT YEARS

Despite the international financial crisis of 2008-09 and the sustained reduction in oil prices from 2014, Ecuador achieved a decade of political stability and economic growth. In just seven years, between 2007 and 2014, the GDP *per capita* increased by about 23%. Social spending

doubled, moving from 5.4% in 2007 to 8.5% in 2014 (see Naranjo, 2013 and ECLAC, 2023a). And even throughout that period, spending on education exceeded the regional average, positioning it above countries such as Argentina, Brazil, Colombia, Chile, and Mexico. Various social programs and solid macroeconomic indicators<sup>1</sup> were key to the achievements in reducing poverty and inequality. Poverty and extreme poverty were reduced by about 12 and 5 percentage points, respectively (see Ray and Kozameh, 2012). Meanwhile, the Gini coefficient, a key indicator for measuring income inequality, fell by 15.9%.

All this demonstrates that Ecuador, despite being a small developing country with the inherent implications of a dollarized economy, can achieve significant social and positive macroeconomic indicators if solid and independent economic policies are adopted. These achievements were not only attributable to high oil prices but also to institutional reforms and innovative policy decisions, such as ending the autonomy of the Central Bank of Ecuador, imposing taxes on capital outflows, defaulting on illegitimate debt<sup>2</sup>, implementing countercyclical fiscal policies, and establishing tariffs under the WTO's emergency balance of payments safeguard provisions in response to the oil price drop (see Weisbrot *et al.*, 2017).

However, the adoption of counterproductive economic policies demonstrated that these gains could be quickly eroded. In May 2017, Lenin Moreno assumed the presidency and abandoned the leftist ideology that brought him to power. Since then, the Ecuadorian government significantly shifted its economic policies and began forming different government coalitions to dismantle the institutional reforms in strategic sectors. Market-friendly policies and fiscal austerity measures backed by right-wing parties such as the Social Christian Party (PSC) and Creating Opportunities Movement (CREO) started to be adopted (see Labarthe and Saint-Upéry, 2017 and Navia and Umpierrez de Reguero, 2021).

On February 21, 2019, with the country's return to the IMF in search of an agreement under the Extended Fund Facility for a sum of \$4.2 billion in loans (see IMF, 2019), the implementation of a series of rigorous fiscal austerity measures began<sup>3</sup>. Shortly after, on March 1 of the same year, the Ministry of Economy and Finance of Ecuador and the Central Bank of Ecuador, acting on behalf

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<sup>1</sup> Another key aspect that contributed to social progress was political stability, which contrasts significantly with the previous decade in which seven presidential changes were recorded.

<sup>2</sup> See CAIC (2007).

<sup>3</sup> Or 'fiscal consolidation' measures, as the IMF calls them.

of the state, presented a letter of intent to the IMF to request a loan of 3.035 billion dollars<sup>4</sup>. As a way to implement the measures in accordance with the agreement with the IMF, on October 1, 2019, President Lenin Moreno announced a series of economic and labor measures in a national broadcast.

These measures, in practice, translated into drastic cuts in social spending, reduction of public investment, policies aimed at decreasing the tax burden on large economic groups, elimination of fuel subsidies<sup>5</sup>, reduction of the tax on currency outflows, trade liberalization (withdrawal and reduction of tariffs), elimination of public entities and privatization of companies, labor market flexibility, and layoffs of public sector workers in fundamental areas such as health and education<sup>6</sup>, even during the Covid-19 pandemic. As a result of all these fiscal austerity measures, the Ecuadorian government was not prepared to face the upcoming crisis. Hence, in 2020 Ecuador became the global focus of the COVID-19 outbreak with one of the highest *per capita* mortality rates in the world (see Cuéllar *et al.*, 2021).

To these figures, which imply a regression of almost a decade, is added the issue of public over-indebtedness through international financial markets (particularly through the issuance of sovereign bonds) and the International Monetary Fund (IMF). The growth of the external public debt is notable; in 2016, this debt represented 23.2% of GDP. However, by the year 2019, it had risen to 34.7% (ECLAC, 2023a). To justify this over-indebtedness, around mid-2018, Moreno approved a law prohibiting the Central Bank from financing the State. This meant that any cash deficit of the central government had to be financed through the issuance of private external debt<sup>7</sup>.

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<sup>4</sup> This borrowing was officially approved by the Debt and Financing Committee through Resolution 006 of March 11, 2019, and there was no other formal act of approval. However, certain political sectors, particularly Correísmo, and some civil society groups questioned the agreement due to its unconstitutionality, lack of transparency in the negotiations, and the content of the commitments.

<sup>5</sup> This was instantly adopted through Executive Decree 833. With the elimination of this subsidy, gasoline prices increased by 25%, diesel prices doubled, and the cost of transportation rose by 40%. It was precisely this measure that triggered national protests for twelve days (led particularly by indigenous groups), thereby forcing the government to abandon the measure.

<sup>6</sup> Between January and May 2020, the Ecuadorian government reduced public servant payroll by USD 365 million, from USD 8.897 billion to USD 8.532 billion (see Presidencia Constitucional de la República, 2020a). An immediate lesson that can be drawn from this crisis is that reducing public spending on social services makes us weak as a society in the face of external or health shocks like the current one.

<sup>7</sup> In a dollarized economy, it becomes highly relevant to consider the impact of financing through external debt. Eventually, this process will create pressures on the balance of payments, which, supposedly, was the situation that motivated the need to enter into an agreement with the International Monetary Fund (IMF) initially. To compensate for the interest payments that the initial debt creates, the government will need to increase the number of loans and credits, leading to a debt spiral. While financing through external debt increases the international reserves (assets of

It's important to note that such measures were not justified by an external shock or a reduction in government revenues. External variables (international interest rates, oil prices, exports, among others) were recording positive values with the economy growing at 2.4% and 1.3% in 2017 and 2018, respectively. In an environment of economic growth without a debt crisis, returning to the IMF and accepting its conditionality is unjustified. There was also no legal justification. The institutional structure of the public sector, as defined by the Constitution of Ecuador, includes automatic mechanisms for mitigating the impact of fiscal deficits on current spending. For example, the fiscal rule included in Article 286 of the Constitution, which directly links current income to current expenditure (see Asamblea Nacional del Ecuador, 2008).

Another aspect to consider is the governance crisis. Various surveys indicated that Moreno had reached his lowest levels of credibility and acceptability, due to multiple corruption scandals and fragile socioeconomic conditions (Financial Transparency Coalition, 2021; El País, 2023; Reuters, 2023; Primicias, 2023). A similar decline in credibility was observed in other key institutions, such as the National Assembly and the National Electoral Council.

In the last six years, the situation in Ecuador has changed drastically, raising serious concerns about the country's future direction. Following the significant institutional dismantling and austerity measures implemented by that government, poverty levels began to rise, and economic growth started a downward trend, eventually reaching zero growth in 2019 (see Figure 1), just before the onset of the Covid-19 pandemic. Over the last six years (2017-2022), the country's *per capita* GDP has decreased at an average rate of 1%. As of 2022, it had fallen to \$5,913, slightly below the 2011 levels (refer to the subsequent figure).

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the Central Bank of Ecuador, BCE) and therefore liquidity in the national economy, in the medium and long term, this dynamic leads to a net outflow of foreign currency from the country, as both the principal and the respective financial costs must be repaid to external creditors.

Figure 1- Ecuador: Rate of growth of Total Annual Gross Domestic Product (GDP) at constant prices in dollars (Percentage), 2017-2022

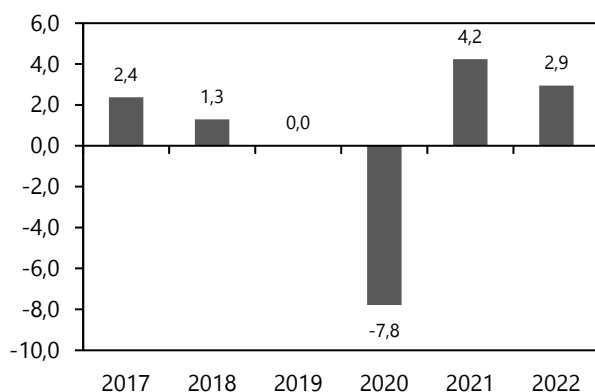
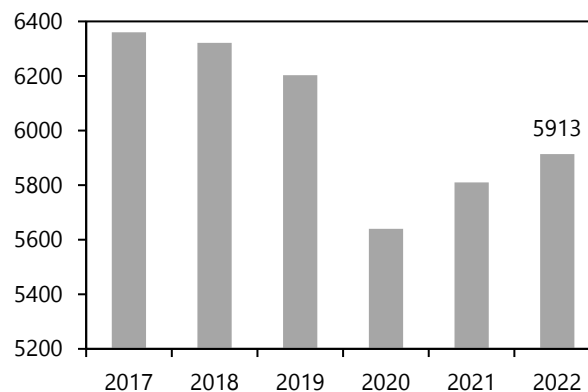


Figure 2 - Ecuador: Gross Domestic Product (GDP) per capita at constant prices in dollars (Dollars per inhabitant)



*Source:* Own elaboration using data from the Economic Commission for Latin America and the Caribbean (ECLAC, 2023a).

In 2019, the factors explaining the fall in GDP were the reduction in government consumption and gross fixed capital formation, with 0.3 and 0.8 percentage points, respectively (see ECLAC, 2023a). Reduced public spending played a crucial role in this economic slowdown. Indeed, studies such as the one conducted by the IMF (2021) indicate that low public demand was the main factor in the deceleration of real growth prior to the pandemic, with repercussions on potential growth. Hence, weak aggregate demand and rigid labor markets meant that any impact on the factors of production initially manifested as a decrease in total factor productivity (TFP) and with a subsequent slower capital accumulation.

In February 2020, the Ministry of Public Health announced the official report of the first case of Covid-19 in the country. And on March 13, through an executive decree, the President of the Republic declared a state of emergency for public calamity throughout Ecuador. This measure involved the mandatory suspension of productive activities throughout the national territory, prioritizing the modality of telework in most areas, except in critical sectors such as health, food security, and others.

These were months of confinement and cessation of activities, which exacerbated an already weakened economy. According to the statistics from the Central Bank of Ecuador (BCE, 2020),

in the second quarter of 2020, the GDP decreased by 12.4% compared to the same period in 2019. This represented a contraction not observed since 2000.

ECLAC estimates that in 2020 the productive activity in Ecuador contracted by 7.8%. This unprecedented contraction is consistent with the collapse of domestic demand – which had already been declining since 2019 – and, to a lesser extent, the weakening of external demand. The components of aggregate demand that experienced the greatest fall during 2020 were: gross fixed capital formation (-18.9%), private consumption (-8.2%), and public consumption (-5.1%). It is important to note that the government failed to implement measures to protect household consumption – which is the main driver of the country's growth – nor support the productive sector during the months of shutdown due to isolation measures.

In 2021, Guillermo Lasso assumed the presidency of Ecuador. This new government deepened the structural dismantling carried out by the previous administration of the economic reforms implemented in the period 2007-2017. Despite experiencing positive growth of 4.2% and 2.9% in 2021 and 2022, respectively, Ecuador's economic performance was among the worst in South America. International organizations such as ECLAC and the IMF project that in 2023 the Ecuadorian economy will grow by 2.0% and 1.4%, respectively (see ECLAC, 2023b, and IMF, 2023). Additionally, there has recently been a growing spiral of insecurity and violence (see Telegraph, 2023; Diálogo Americas, 2023; The Guardian, 2023). This data underscores the failure of the economic policies applied over the last six years. Beyond the forces supporting Lasso's government, the concrete action of governing leaves an impression of improvisation, weak management, and lack of political experience.

### *2.1 A Brief Comparison of the Impact of the most Recent Economic Crises on Ecuador's GDP*

Figure 3 compares the macroeconomic impact of the two most significant recent international crises in Ecuador: the global financial crisis of 2008 and the current COVID-19 crisis. When comparing the effects on economic growth, it is noticeable that the impact of the 2008 global financial crisis was less profound. On September 15, 2008, the financial giant Lehman Brothers declared bankruptcy, and this announcement accelerated the crisis that was already brewing. However, the most significant effects in Ecuador occurred in the third quarter of 2009, when the most substantial drop in GDP during that period was recorded. It only took Ecuador three

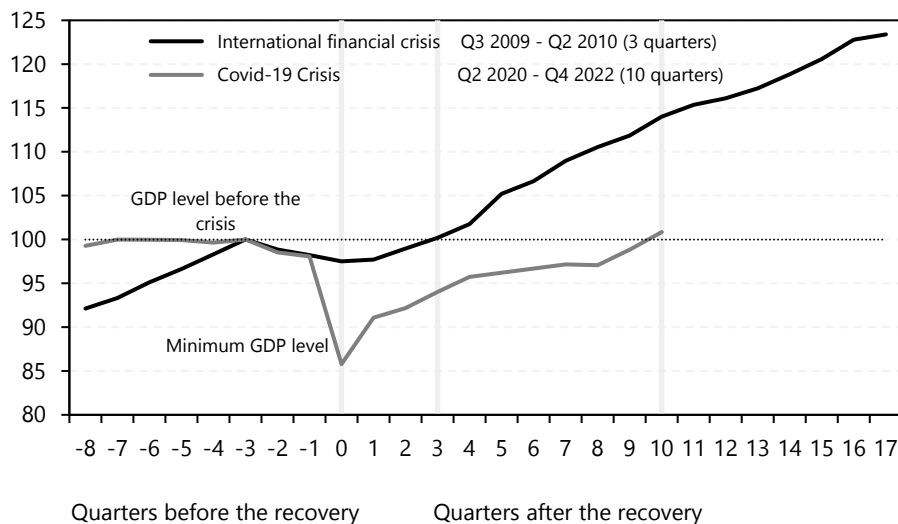
quarters to return to its pre-crisis trend levels (fourth quarter of 2008), specifically, the economic recovery took from the third quarter of 2009 to the second quarter of 2010. Among some of the factors that allowed for a prompt and effective government response to the crisis are the implementation of a series of fiscal reforms<sup>8</sup> and the fact that the government made the Central Bank part of the executive branch, thus allowing the reduction of real interest rates.

Finally, on January 30, 2020, the COVID-19 pandemic was declared a public health emergency by the World Health Organization (WHO). Its economic impact was immediate, and the Ecuadorian economy entered an even more severe recession than it had been experiencing. When examining the evolution of GDP during 2020 compared to the 2008 crisis, it is observed that the decrease in 2020 was evidently more pronounced. In the second quarter of 2020, Ecuador's GDP was just 85.8% of its last peak level reached in the third quarter of 2019. The magnitude of the collapse of economic activity shows the substantial contraction of aggregate demand as a result of the pandemic, along with the effect of the simultaneous supply shock. Although economic activity began to recover from that year, Ecuador did not regain pre-crisis GDP levels until 10 quarters later, that is, in the fourth quarter of 2022.

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<sup>8</sup> In a dollarized economy, fiscal policy becomes very important to stimulate aggregate demand, soften the recessive phases of the economic cycle, and maintain the expansive phases.

FIGURE 3 – *Ecuador: GDP Recovery in the Context of the last two Crises*  
*Observed Trajectory of Seasonally Adjusted GDP*



*Source:* Own elaboration using data from ECLAC (2023a).

*Note:* The reference value of 100 corresponds to the last maximum GDP level observed in each compared context. These were: Q4 2008 for the 2008 global crisis, and Q3 2019 for the Covid-19 crisis.

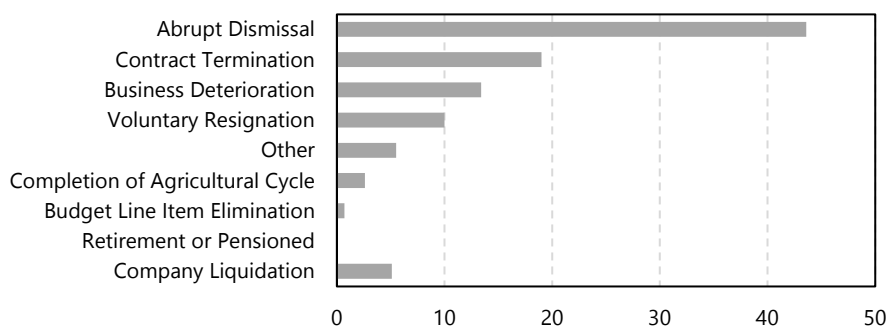
### 3. UNEMPLOYMENT AND THE ECUADORIAN LABOR MARKET

Ecuador's structural conditions create a heterogeneous productive apparatus, a segmented labor market characterized by high levels of informality. It is worth noting that, in the period following dollarization – from the year 2000 onwards – the high rate of migration to Europe and the U.S. created conditions for remittances received to become one of the most important sources of foreign income, which helped to reactivate the economy. The unemployment rate decreased mainly as a result of the large number of Ecuadorian citizens who migrated to other countries, leaving job vacancies that were filled by those who were unemployed.

The arrival of COVID-19 significantly affected the Ecuadorian labor market. A survey conducted by the National Institute of Statistics and Census (INEC) between May and June 2020, through telephone interviews, reveals significant findings about the causes of unemployment in the context of the COVID-19 pandemic. The results indicate that the main cause of unemployment was due to sudden layoffs by the business sector (32%) and that only 5% of unemployment is attributed to the liquidation of companies. The latter suggests that the majority of companies

preferred to lay off their workers with the expectation of establishing new contracts that would be favorable for them but detrimental to the workers (see the following figure).

FIGURE 4 - *Ecuador: Reasons Why the Population Stopped Working During the 2020 Health Contingency*



*Source:* Own elaboration using data from INEC-Encuesta de Empleo, Desempleo y Subempleo ENEMDU (2020).

The above was a result of the fact that companies used a set of regulations and legal figures established by the Ministry of Labor that proposed labor flexibility through six ministerial agreements issued between July and October (numbers 136, 173, 220, 221, 222, and 223). Furthermore, the situation was exacerbated by the ‘Organic Law of Humanitarian Support to Combat the Health Crisis Derived from COVID-19’, approved by the National Assembly. This law allowed new special counteractive measures, enabling the reduction of working hours and, consequently, workers’ salaries (see Presidencia Constitucional de la República, 2020b).

Additionally, through Agreement number 15 of the Ministry of Labor, a formula was established for calculating the variation of the Unified Basic Salary, which, in practice, translated into the freezing of the minimum wage at USD 400 for 2021. And, consequently, omitting the constitutional mandate of the progressive increase of the salary until covering the cost of the basic basket, through the incorporation of discretionary parameters on inflation and labor productivity.

Later, during Lasso’s government, a bill was promoted that aimed to generate a set of regulations parallel to the Labor Code with the supposed purpose of creating jobs for the population without

adequate work. This included, among other aspects, the following: the possibility of reducing the working hours by up to 50% for up to two years and the salary by up to 55% of the amount set before the reduction, fixed-term contracts for up to four years, elimination of employer-funded retirement (the current Labor Code establishes it for those who have worked in the same company for 20 years), the increase of the daily working hours up to 12 hours without overtime pay, substantial reduction of compensation for contract termination, vacation periods set by the employer which can be continuous or discontinuous (flexibilizing Art. 21 of the current Code), the fixed-term contract has a minimum duration of six months and a maximum of four years (subject to modifications) and is only considered fixed after four years (the current Labor Code considers contracts indefinite if they exceed one year) and dismissals without the prior approval of the labor authority, that is, at the discretion of the employer and even with payment of compensation by the worker with a month of their last remuneration (see *Presidencia Constitucional de la República, 2020b*). This bill was returned by the National Assembly to the Executive due to constitutional procedural errors. In reality, this project sought to legalize labor flexibilization and prevent the State from being the regulator of working time and guarantor of labor rights under conditions of stability and dignity for workers.

In recent years, specifically, in 2020, the unemployment rate reached 6.2%, representing an increase of 2.4% compared to 2019 (see figure 5), with the age groups from 18 to 44 being the most affected by the labor crisis (see *INEC, 2022*). In 2021 and 2022, the unemployment rate was observed to decrease to 4.6% and 3.8%, respectively. Although the unemployment rate in Ecuador is not especially high compared to other South American countries such as Argentina (6.8%), Brazil (9.3%), Colombia (11.2%), Chile (7.9%), and Uruguay (7.9%)<sup>9</sup>, it is necessary to question the structure of the Ecuadorian labor market, which reflects the prevalence of low-quality employment<sup>10</sup>.

As per *INEC*, in 2017 and 2018, adequate employment accounted for 42.3% and 40.6% of the Economically Active Population (EAP), respectively (refer to figure 6). In 2019, there was a decline in adequate employment to 38.8% due to the stagnation of oil prices; while in 2020, the year when COVID-19 reached Ecuador, this figure fell by nearly 8 percentage points. In 2022,

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<sup>9</sup> Refer to data from *ECLAC (2023a)*.

<sup>10</sup> According to *Lasio et al. (2020)*, Ecuador is one of the countries with the highest percentage of individuals starting new businesses. This is a result of the urgent need for people to find means of subsistence due to the lack of proper employment.

only three out of ten workers in Ecuador had adequate employment, meaning just three out of ten workers earned more than the minimum wage and worked 40 hours a week or more. Consequently, the majority of workers were in inadequate employment situations, characterized by underemployment, unpaid work, or other forms of non-fully compensatory employment, leading to reduced work hours, income below the legal minimum wage, or no remuneration<sup>11</sup>.

Figure 5 - Ecuador: National Unemployment Rate, 2017-2022 (As a Percentage of the Labor Force)

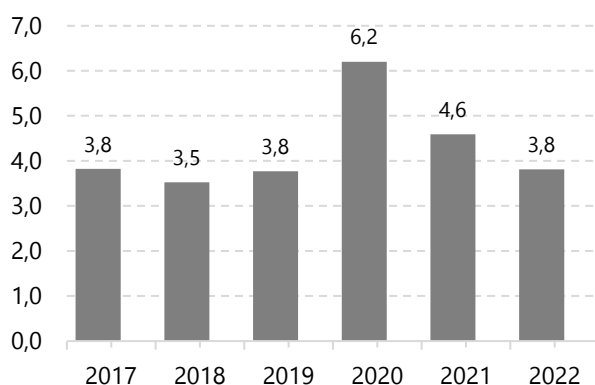
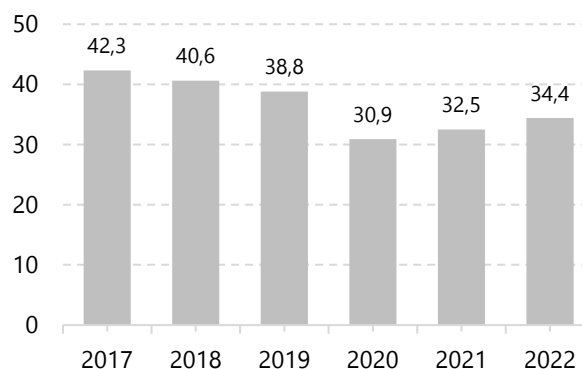


Figure 6 - Ecuador: Appropriate/Full Employment Rate at the National Level, 2017-2022 (As a Percentage of the Labor Force)



Source: Own elaboration using data from INEC (2022) and ECLAC (2023a).

When disaggregating the data by sociodemographic and geographic characteristics, marked disparities among different population groups become evident. Table 1 data show that the lack of adequate employment primarily affects women. Only 27% of the female labor force has adequate employment, with more than half in the informal sector, signifying a significant proportion operates without social security benefits. Additionally, the youth population faces barriers, with those aged 15 to 17 years being predominantly employed in the informal sector (82.50%).

Although adults (30 years or more) have greater access to adequate employment and a lower unemployment rate, over 40% of them are still in the informal sector, indicating that formal employment does not necessarily increase with age. Geographically, urban residents enjoy greater access to formal employment compared to rural workers, who largely depend on the

<sup>11</sup> This situation is exacerbated by the low coverage of social security. Social security – linked to a formal employment relationship – covered only 25.9% of Ecuadorian workers in 2022 (see INEC, 2022).

informal sector. Last but not least, ethnic gaps are even more significant, with indigenous peoples and nationalities experiencing the lowest rate of adequate employment (14%) and the highest rate of participation in the informal sector (80.2%) – evidently significant barriers to entering the formal economy.

TABLE 1 - *Ecuador: Labor Indicators by Sociodemographic Characteristics and Geographical Breakdown, 2022*

Indicators		Adequate employment rate	Unemployment rate	Informal sector
Gender	Male	40.10%	3.80%	49.00%
	Female	27.00%	5.10%	52.70%
Age groups	15 to 17 years	1.00%	2.00%	82.50%
	18 to 29 years	29.00%	9.30%	45.70%
	30 to 44 years	44.0%	3.6%	42.8%
	45 to 64 years	36.2%	2.2%	52.9%
	65 years and older	13.0%	0.9%	79.5%
Ethnicity	Indigenous	14.00%	1.80%	80.20%
	Afro-Ecuadorian	31.80%	8.10%	52.90%
	Montubio	20.30%	2.20%	67.50%
	Mestizo	37.5%	4.6%	46.2%
	White	39.7%	4.4%	45.1%
Area	Urban	42.30%	5.50%	39.40%
	Rural	19.30%	2.20%	71.30%

*Source:* Own elaboration using data from INEC (2022).

This underscores the urgent need to implement public policies aimed at increasing formal employment in the country, improving access to social security for all demographic groups, and reducing the existing gaps between the different ethnic groups in the country, particularly for indigenous groups and in rural areas. The consequences of the low quality of Ecuador's labor market are evident, for example, in households' limited capacity to cover the cost of the basic basket of goods with their total income. Approximately 70% of households in the country fail to do so (see figure 7 and table 2).

FIGURE 7 - Ecuador: Coverage of the Basic Basket\* by Deciles, 2022

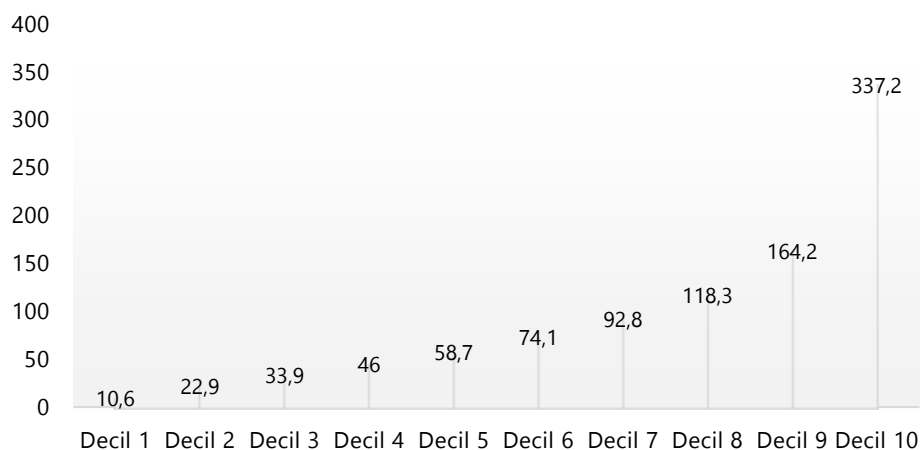


TABLE 2 - Ecuador: Coverage of the Basic Basket\* by Deciles, 2022

	Decil 1	Decil 2	Decil 3	Decil 4	Decil 5	Decil 6	Decil 7	Decil 8	Decil 9	Decil 10
Monthly labor income per earner	92.75	161.79	214.24	255.29	295.11	342.14	390.71	460.33	582.91	1102.34
Number of income earners	1	1	1	1	1	2	2	2	2	2
Total household monthly labor income	95.72	195.38	261.07	359.84	416.75	534.28	616.3	738.55	958.78	1645.01
Coverage of the basic basket by labor income, adjusted for household size	10.6	22.9	33.9	46.0	58.7	74.1	92.8	118.3	164.2	337.2

\*Cost of the basic basket for a household of 4 members: \$744.62.

Source: INEC (2022).

The poorest households in Ecuador can barely cover 10.6% of the basic basket each month. It is even observed that not even the fourth decile can cover at least half of the basic basket (46.0%). In contrast, the richest decile of the population covers 337.2% of it. It should be added that this does not even show the true extent of the inequality in the country, due to underreporting (declaration of income lower than what is received) and truncation in household survey data (individuals at the top of the distribution who are not surveyed). If the data included large fortunes or wealth in tax havens, the gap would be even more significant. This demonstrates the country's high levels of economic vulnerability alongside significant economic inequality.

#### 4. POVERTY AND EXTREME POVERTY IN ECUADOR: AN OVERVIEW OF TRENDS

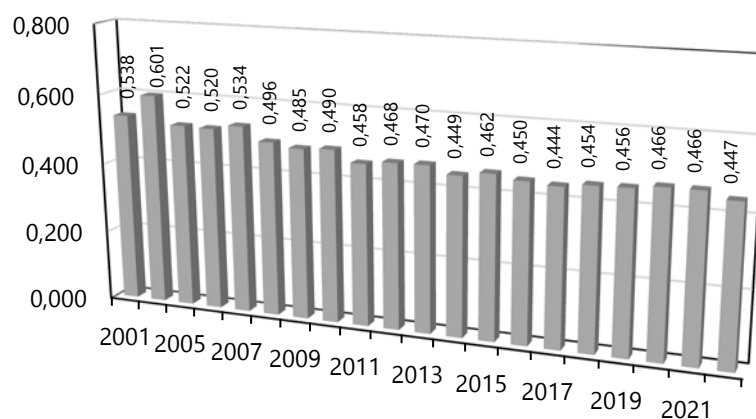
Ecuador is a country that has historically relied heavily on the export of primary goods. Since the year 2000, the Ecuadorian economy has been dollarized and has gone through various phases in its economic structure. These phases range from colonial legacies and a primary export model to the attempt at import substitution industrialization in the seventies, and a return to a primary export model dependent on oil production from the eighties onwards. These phases have been linked to hegemonic groups and forms of articulation with the global market (Valdez *et al.*, 2021).

The Ecuadorian economy is determined by the export of natural resources, among which oil currently predominates. This productive arrangement sets a scenario of continuous deterioration in terms of trade, which progressively restricts Ecuador's import capacity and causes the exports of this country to be insufficient to meet economic requirements. Additionally, this has led to productive heterogeneity and unequal income distribution. It's worth noting that as a dollarized economy, Ecuador faces limitations in implementing macroeconomic policies to address external imbalances.

The levels of labor informality (see section 2) are partly reflected in the levels of inequality in income distribution, where income inequity generates a process of social exclusion that hinders the development of the population. During the period 2003-2017, the Gini index showed a decreasing trend, reaching its lowest level in the latter year (0.44).

However, by 2018, the Gini index began to show an increasing trend again, reaching 0.47 in 2021 (see figure 8).

FIGURE 8 - Ecuador: Evolution of the Gini Index in Ecuador during the Period 2001-2022



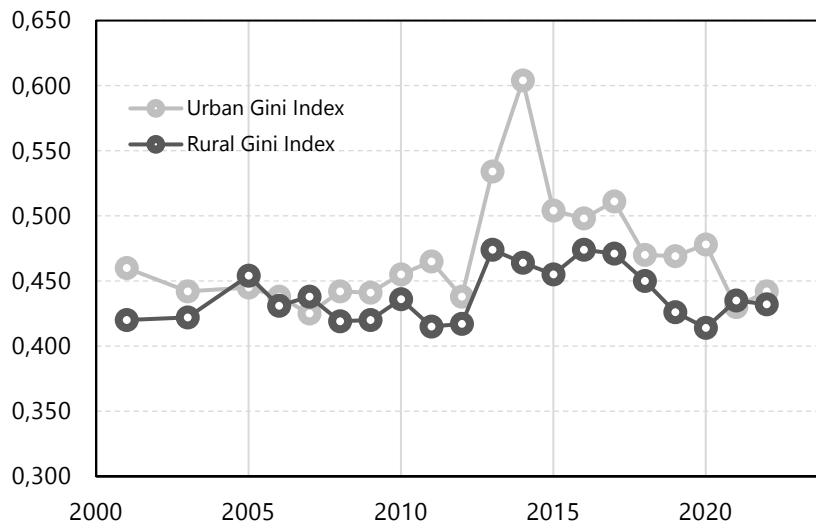
Source: Own elaboration using data from ECLAC (2023a).

It should be noted that the reduction in inequality between 2003 and 2017 has various causes. Between 2001 and 2005, the progressive decrease in economic inequality was mainly due to the substantial remittances sent by migrants. Between 2007 and 2010, the reduction in inequality was mainly due to significant injections of capital by the state, generated from high oil prices. This period marked significant reductions in inequality as the poorest improved their situation through higher employment and reduced informality (Acosta and Cajas Guijarro, 2016).

Between 2011 and 2016, the government implemented a series of fiscal reforms that injected liquidity into the economy. Simultaneously, the tax burden on higher-income individuals increased, which, in turn, decreased economic inequality in Ecuador. This was the only period in which public policy had a medium-term effect on this variable.

Starting in 2017, with the change in government, the reversal of economic inequality reduction was observed, attributed to policies aimed at reducing expenditure and decreasing the tax burden on the wealthiest. The distinction between rural and urban areas in terms of inequality and poverty is crucial. From 2008 to 2021, income inequality was notably higher in urban areas compared to rural ones. This trend is attributed to the substantial forced migration of the rural population to cities, seeking better living conditions amidst the neglect of rural sectors (see figure 9).

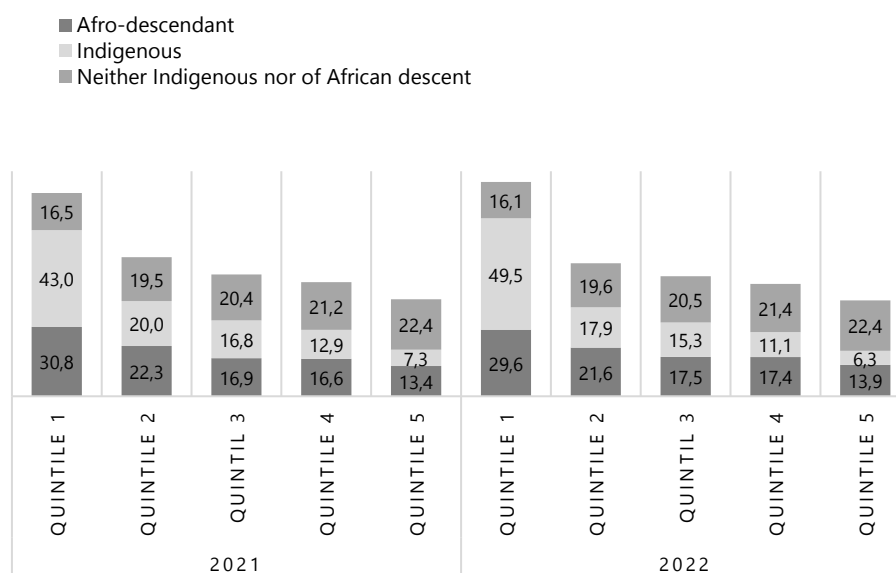
FIGURE 9 - Evolution of the Urban-Rural Gini Index in Ecuador during the Period 2001-2022



Source: Own elaboration using data from ECLAC (2023a).

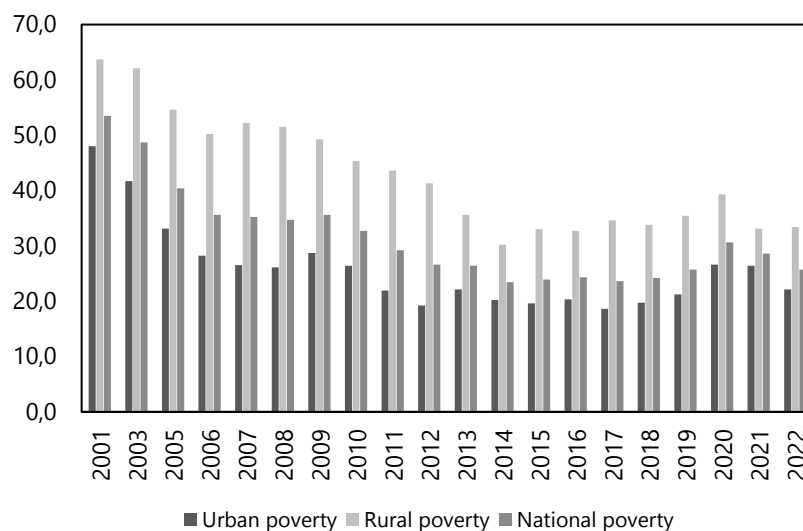
The disparities between rural and urban areas not only highlight differences in local contexts but also underscore the diversity within these areas and the connections between them. This asymmetry is evident in poverty patterns, which are not randomly distributed but rather influenced by specific household characteristics, leading certain population segments into deep vulnerability. It is observed that 43% of Indigenous people and 30.8% of Afro-descendants were in the quintile (quintile 1) with the lowest income in 2021, while only 13.4% of Afro-descendants and 7.3% of Indigenous people were in the quintile with the highest incomes in 2021 (quintile 5) (see figure 10).

At the same time, for the year 2022, 49.5% of Indigenous people and 29.6% of Afro-descendants were in the quintile with the lowest incomes, and only 13.9% of Afro-descendants and 6.3% of Indigenous people were in the highest income quintile. The poverty profile by ethnicity exhibits the relationship between poverty and the economic and social exclusion of certain groups, indicating that for Indigenous people the incidence of poverty is higher. Income poverty is determined by comparing total *per capita* income with the poverty line; individuals with incomes below this threshold are considered poor.

FIGURE 10 - *Income Distribution by Ethnic Groups 2021-2022*

*Source:* Own elaboration using data from ECLAC (2023a).

From 2001 to 2022, Ecuador saw a decreasing trend in national income poverty, dropping from 53.5% in 2001 to 25.7% in 2022. The income poverty rate steadily declined between 2001 and 2019, reaching one of its lowest points at 23.6%. However, starting in 2018, poverty levels began to climb, impacting approximately 1.3 million individuals, with the poverty rate experiencing an increase of over 1.3 percentage points (see figure 11).

FIGURE 11 - *Evolution of Poverty in Ecuador 2001-2022*

**Source.** Own elaboration using data from ECLAC (2023a).

Between 2007 and 2017, poverty in Ecuador fell by 12%, with rural poverty consistently higher than urban poverty. During this period, a policy shift towards increasing public and specifically social spending led to a downward trend in poverty across both rural and urban areas. Funding for sectors such as education, health, housing, and social inclusion saw continuous growth, with public investment in education and health rising from 2.02% and 0.56% of GDP in 2007 to 4.76% and 2.70% in 2017, respectively (see table 3). The Human Development Bond, the most extensive social inclusion program, had reached 741,387 beneficiaries nationwide by 2022.

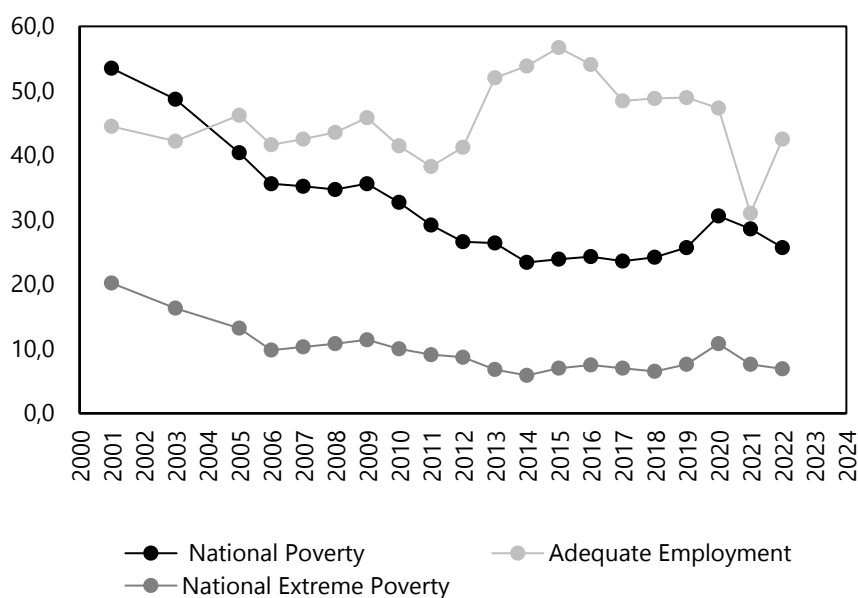
Figure 12 suggests the possible presence of an inverse relationship between adequate employment and poverty, higher levels of adequate employment lead to a reduction in income poverty. It is noteworthy that the highest point of adequate employment (56.70%) coincides with the lowest level of poverty (23.4%) in 2014.

TABLE 3 - Structure of Public Spending as a Percentage of GDP for the Period 2012-2022

Years	Recreational, cultural, and religious activities	Education	Environment	Social protection	Health	Housing and community amenities	Social expenditure
2017	0.1%	4.8%	0.1%	1.3%	2.7%	0.2%	9.2%
2018	0.2%	4.6%	0.1%	1.4%	2.8%	0.1%	9.1%
2019	0.1%	4.5%	0.1%	2.8%	2.7%	0.2%	10.4%
2020	0.1%	4.1%	0.1%	3.9%	2.7%	0.5%	11.4%
2021	0.1%	3.7%	0.1%	4.1%	2.9%	0.1%	11.0%

Source: Own elaboration using data from ECLAC (2023a).

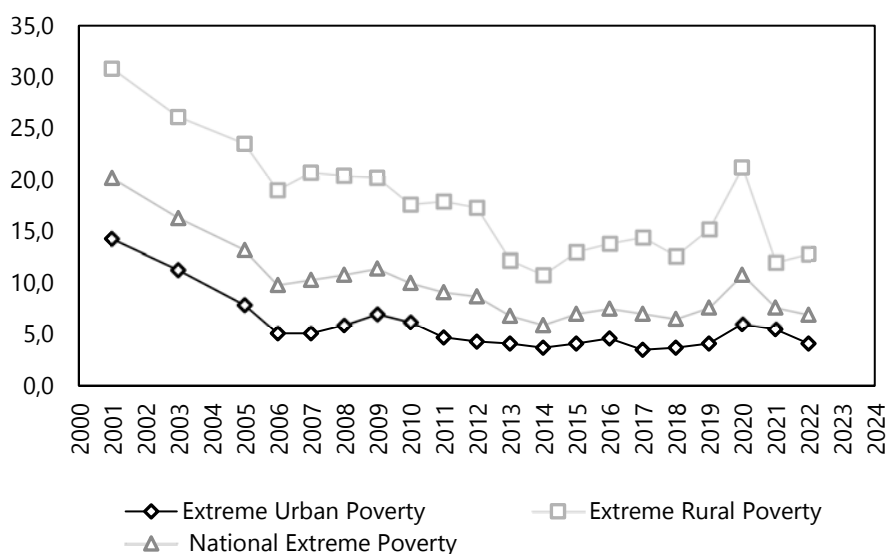
FIGURE 12 - Ecuador: Employment Rate versus Income Poverty



Source: Own elaboration using data from ECLAC (2023a).

It should also be noted that the coastal poor are, to some extent, rendered invisible by statistics. This region is home to the largest concentration of rural poverty, with a notably higher incidence of extreme poverty, a situation exacerbated by land tenure issues (see figure 13). Chiriboga and Wallis (2010) indicate that the majority of landless peasants are located on the coast.

FIGURE 13 - *Evolution of Extreme Poverty in Ecuador 2001-2022*



*Source:* Own elaboration using data from the Central Bank of Ecuador.

## 5. FINAL COMMENTS

The Ecuadorian economy has been characterized by productive heterogeneity, which has translated into dynamics of intergenerational poverty and high levels of inequality. The study of the performance of the Ecuadorian economy in a context of high uncertainty has revealed a series of critical challenges and opportunities for the country's economic and social policy. Between 2007 and 2017, a period marked by political stability, Ecuador experienced a rise in GDP *per capita* and implemented an economic policy aimed at significantly expanding social spending. This policy was effective in reducing poverty and inequality levels, enabling many impoverished individuals to access essential services for the first time.

However, the results of the last six years have been catastrophic, with an increase in poverty and unemployment, a marked reduction in economic growth, and renewed political instability. The

fiscal austerity policies implemented since 2017, along with the reduction of public investment and the relaxation of the labor market, have reversed many of the previous social advances. Poverty and extreme poverty, which had decreased significantly, have once again increased. The COVID-19 crisis exposed and exacerbated pre-existing vulnerabilities.

The deterioration of income distribution and the increase in extreme poverty since 2018 underscore the importance of a progressive fiscal policy. Fiscal reforms must be designed to expand the tax base and ensure a more equitable distribution of the tax burden, especially among large fortunes. Poverty and inequality in Ecuador remain endemic challenges that manifest more intensely in certain ethnic groups and rural areas. The need for public policies that increase formal employment and improve access to social security for all demographic groups is imperative.

The labor market, now with a high proportion of informality and an increasing unemployment rate, reflects the urgency of reforming labor and employment policies. Adequate employment is a key indicator for poverty reduction. Thus, employment policies must focus not only on job creation but also on improving the quality of employment and reducing informality, which is particularly high among women, youth, and ethnic groups. Likewise, urban and rural gaps in terms of poverty and access to adequate employment require a differentiated approach in public policy.

To overcome the challenges presented by high global uncertainty and economic shocks, Ecuador must reassess its economic and social policies. In times of great uncertainty, it becomes even more important to reflect, analyze, and understand the effects that this crisis has had, in order to guide policy responses to future similar crises. This reality highlights the importance of identifying new sources of growth and competitiveness, ensuring inclusive and equitable development. The Ecuadorian economy requires a comprehensive vision that contemplates both macroeconomic stability and social justice to navigate in times of uncertainty. It is imperative that economic and social policies ensure that the benefits of economic growth are shared by the entire Ecuadorian society.

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