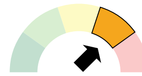
Best's Country Risk Report

Ecuador
CRT-5
August 22, 2018

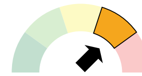
Region: Latin America

Country Risk Criteria Procedures

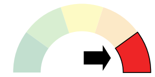
Guide to Best's Country Risk Tiers



Economic Risk



Political Risk



Financial System Risk

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Ecuador, a CRT-5 country, has high levels of economic and political risk and a very high level of financial system risk. The country's dependence on oil revenues makes it vulnerable to shifts in global demand and fluctuations in oil prices, which could constrain long-term growth. Ecuador's economy returned to growth in 2017 following a contraction in 2016. Growth is expected to remain steady, at 2.5% in 2018.
- The map depicts the countries A.M. Best evaluates in Central America, South America, and the Caribbean. The majority of the countries are categorized as CRT-4 or CRT-5, with the exceptions of Chile, Mexico, and Peru.

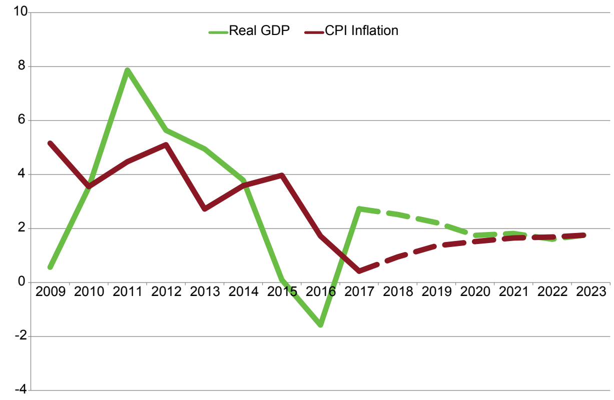
Vital Statistics 2017		
Nominal GDP	USD bn	102.31
Population	mil	16.8
GDP Per Capita	USD	6,098
Real GDP Growth	%	2.7
Inflation Rate	%	0.4
United Nations Estimates		
Literacy Rate	%	94.4
Urbanization	%	64.2
Dependency Ratio	%	55.6
Life Expectancy	Years	77.0
Median Age	Years	27.7
Insurance Statistics		
Insurance Regulator	Superintendency of Banks and Insurance	
Premiums Written (Life)	USD mil	431
Premiums Written (Non-Life)	USD mil	1,614
Premiums Growth (2016 - 2017)	%	25.9
Regional Comparison		
	Country Risk Tier	
Ecuador	CRT-5	
Argentina	CRT-5	
Brazil	CRT-4	
Bolivia	CRT-5	
Colombia	CRT-4	
Venezuela	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

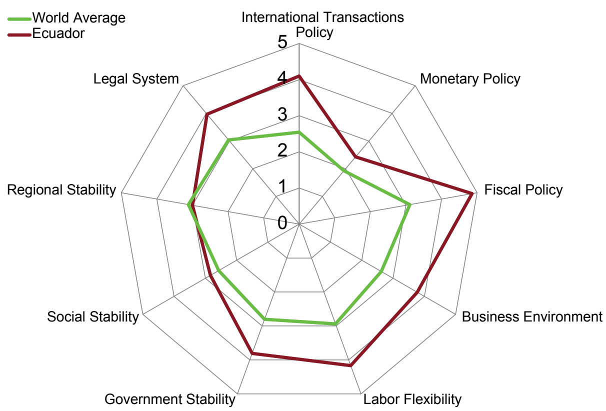
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

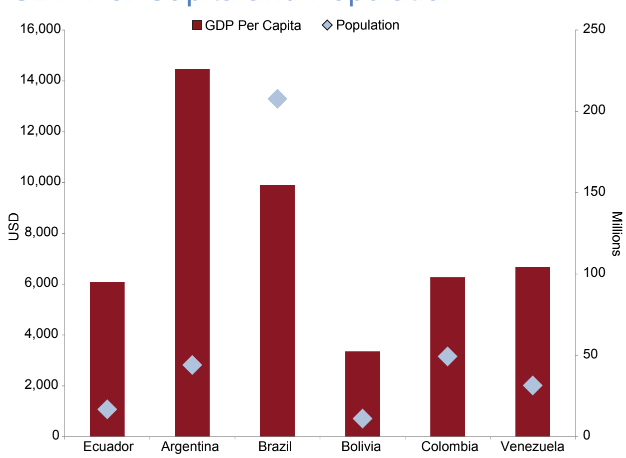
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Ecuador's economy depends heavily on oil production and is vulnerable to oil price volatility. The recovery of oil prices has helped the slow improvement in the country's fiscal position. As progress will likely be choppy, the government will have to adopt other measures to restore fiscal balance.
- The new government has rescinded some unpopular taxes but increased corporate taxes. It is also cutting expenditures and liquidating some government holdings. Although it has promised no further tax increases in 2018, one might become necessary.
- The nation enjoys abundant natural resources in a variety of sectors and security levels are high by regional standards. Extractive projects, however, have invoked high levels of indigenous protests and environmental activism.
- Ecuador has signed free trade agreements with the EU and secured tariff-free access to markets, which should help drive further economic expansion.

Political Risk: High

- Current President Lenín Moreno came into office in May 2017. His focus has been on privatization to lower debt, on attracting investment in extractive industries, and implementing tax reform.
- Moreno faces some opposition from his party (Alianza PAIS), which can cause some political instability.
- To tackle the high debt burden, Moreno has implemented a series of measures, increasing corporate taxes and limiting government spending. He aims to enhance the efficiency of tax collection rather than to increase tax rates further.
- Austerity policies and investments in extractive businesses are likely to trigger public opposition, but the likelihood is partly mitigated by Moreno's negotiation with indigenous organizations. Moreno's popularity also helps limit the risk.
- The legal system is opaque and vulnerable to political interference. Judicial processes are long and costly. Since the country's withdrawal from the World Bank's International Center for Settlement of Investment Disputes, legal options for investors have become even more limited.

Financial System Risk: Very High

- The Superintendency of Banks and Insurance is responsible for supervising the insurance sector.
- The current account will likely remain positive, and the liquidity gap is narrow. But Ecuador's fiscal deficits have been accumulating, escalated by the previous drop in oil prices, which has constrained the government policy options. Ecuador faces a USD1.5 billion amortization payment in 2020, which could impact further access to capital, if missed.
- The country pegged its currency to the US dollar in 2000, following a banking crisis. Although dollarization has helped stabilize the economy, the peg does limit the country's monetary policy and exchange rate flexibility.