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Impact of External Debt on the Sustainability of the Ecuadorian State Budget, Period (2019–2024)

Incidencia de la deuda externa en la sostenibilidad del presupuesto del Estado Ecuatoriano, periodo (2019-2024)

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Resumen

El artículo evidencia la incidencia de la deuda externa en la sostenibilidad del Presupuesto General del Estado, tomando como referencia el contexto ecuatoriano durante el período 2019–2024, con el propósito de analizar cómo el endeudamiento ha condicionado el equilibrio fiscal y el espacio presupuestario del Estado. La investigación se desarrolla bajo un enfoque cuantitativo de alcance descriptivo, empleando el método analítico-sintético y el análisis de datos secundarios provenientes de fuentes oficiales, principalmente del Banco Central del Ecuador y del Ministerio de Economía y Finanzas. Los resultados muestran un incremento nominal sostenido de la deuda externa y la permanencia de una razón deuda/PIB elevada, con un punto máximo en 2020 y una posterior estabilización, identificándose que la principal presión sobre la sostenibilidad presupuestaria no proviene del nivel del endeudamiento, sino del servicio de la deuda, especialmente del repunte de los intereses externos, que ha reducido el espacio fiscal y limitado la capacidad del Estado para sostener el gasto sin recurrir a nuevo financiamiento, incluso en años con mejoras del resultado primario. El estudio aporta evidencia empírica al demostrar que la sostenibilidad presupuestaria depende fundamentalmente del costo financiero y de la estructura fiscal subyacente más que del tamaño del presupuesto, concluyéndose que la deuda externa ha operado como un factor estructural de restricción fiscal que incrementó la vulnerabilidad presupuestaria del Estado ecuatoriano en el período analizado.

Palabras clave: deuda externa; sostenibilidad presupuestaria; Presupuesto General del Estado; Ecuador

Abstract

The article examines the impact of external debt on the sustainability of the General State Budget, using the Ecuadorian context as a reference during the 2019–2024 period, to analyze how indebtedness has conditioned fiscal balance and the State's budgetary space. The study adopts a quantitative approach with a descriptive scope, employing the analytical-synthetic method and the analysis of secondary data from official sources, mainly the Central Bank of Ecuador and the Ministry of Economy and Finance. The results show a sustained nominal increase in external debt and the persistence of a high debt-to-GDP ratio, with a peak in 2020 followed by subsequent stabilization, indicating that the main pressure on budgetary sustainability does not stem from the level of indebtedness itself, but rather from debt servicing, particularly the rebound in external interest payments, which has reduced fiscal space and constrained the State's ability to sustain expenditure without resorting to additional financing, even in years with improvements in the primary balance. The study provides empirical evidence demonstrating that budgetary sustainability depends fundamentally on financial costs and the underlying fiscal structure rather than on the size of the budget, leading to the conclusion that external debt has operated as a structural fiscal constraint that increased the budgetary vulnerability of the Ecuadorian State during the period analyzed.

Keywords: external debt; budgetary sustainability; General State Budget; Ecuador

Introduction

External debt is a fiscal policy instrument that allows the State to access resources from the international capital market to finance productive investments, address emergencies, or overcome economic crises (Zambrano and Ruiz, 2024). However, when it is repeatedly used to cover budget deficits or unproductive current expenditures, it generates a growing dependence on external borrowing, creating a cycle in which new loans are primarily used to pay off previous obligations.

In Ecuador, limited productive diversification and scarce foreign direct investment have restricted the country's capacity to generate sufficient domestic income (Akolgo, 2023), which has repeatedly led to external borrowing as a mechanism to cover fiscal imbalances. According to the Ministry of Economy and Finance, the Central Government's external debt represented approximately 37% of GDP in 2024, a high figure for a developing economy. This situation was exacerbated by the fall in oil prices and by cyclical shocks, such as the COVID-19 pandemic, which reduced economic activity and contracted tax revenues, deepening dependence on external financing (Ortiz, 2025).

In this context, the need to resort to new loans is interpreted by creditors as a sign of fiscal fragility. Powell and Valencia (2023) point out that this perception causes lenders to react more sensitively to any shock, raising the country's risk assessment and tightening financing conditions—for example, through higher interest rates. This phenomenon increases the cost of debt service and reduces the State's room to sustain its fiscal policies without compromising its solvency, particularly when access to new resources becomes more restrictive.

Several studies have analyzed the influence of external debt on fiscal sustainability, especially in economies dependent on external financing. In Ecuador, studies such as that by Mejía and Sánchez (2022) demonstrate that increased indebtedness puts pressure on the state budget and reduces the government's capacity to meet its obligations over time. These findings help us understand the fiscal risks that emerge when debt is used for extended periods to cover recurring expenses, limiting the state's room for maneuver and compromising budgetary stability. Hence the importance of examining in greater detail how indebtedness has affected the sustainability of the public budget.

This article analyzes the impact of external debt on the sustainability of the state budget during the period 2019–2024, using Ecuador as a case study. During these years, the country faced a particularly demanding economic environment, influenced by external shocks and internal events that increased fiscal pressure. Although the period analyzed is brief, the results allow us to identify significant patterns and provide a basis for future studies that delve deeper into the country's budgetary sustainability.

Theoretical Framework

External Debt

External debt is the set of financial obligations and loans that a country maintains with foreign lenders (Molina et al., 2023). It is classified into public debt, contracted by the State and its institutions; and private debt, assumed by companies and individuals. External creditors can come from multilateral organizations, bilateral agreements, and private entities through the issuance of bonds in international markets (Munévar, 2012).

It comprises different instruments, short-term or long-term, which countries access under terms and conditions defined by the creditors during the loan's term (Román and Arufe, 2004). Each type has specific characteristics in terms of financial costs, political and economic restrictions, and inherent risks related to variations in interest rates and exchange rates.

Table 1
Classification of External Financing Sources

Instrument types	Creditor types	Creditor names
Loan	International internaizations	International Monetary Fund (IMF) Inter-American Development Bank (IDB) Others
	Bilaterals	Governments EXIMBANK CHINA Others
	Banks	Bank of China UniCredito Others
Debt security	Bonds issued in international markets	JP Morgan Citibank-USA Others

Note. Own elaboration based on data from the Ministry of Economy and Finance of Ecuador (2025a)

Access to these types of financing requires the State to generate sufficient fiscal surpluses to cover debt service obligations. An efficient way to use these resources is to invest in productive projects that generate income and facilitate loan repayment (Asteriou, 2021). Conversely, allocating them to unproductive expenditures becomes a burden on the economy, as it does not generate sufficient returns to repay the debt (Lau et al., 2022). This can lead to resorting to new loans to cover previous obligations, creating a vicious cycle of borrowing to pay off debt.

From an economic perspective, borrowing should be used to finance projects capable of generating sufficient

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returns to ensure their own repayment, although in practice this does not always occur. In countries like Ecuador, external debt has shown sustained growth because a significant portion of resources is not directed toward productive investments but rather toward covering recurring deficits. In this context, debt has ceased to play a countercyclical role and has become a structural component of an economy limited by its low productive capacity.

Classical economic theory warns that prolonged dependence on debt generates adverse effects, especially by restricting domestic savings and compromising future well-being (Aybarç, 2019). Along these lines, David Ricardo (1817), in his book *Principles of Political Economy and Taxation*, argues that debt does not eliminate the state's tax burden but rather shifts it to future generations through higher taxes. Similarly, Krugman (1988) argues that a high level of debt reduces productive investment because public resources are concentrated on debt servicing and not on activities that promote growth.

The continuous payment of interest and principal diminishes the State's capacity to finance priority sectors and may force it to take on new debt solely to cover previous obligations. This mechanism generates a vicious cycle that undermines fiscal sustainability and widens social gaps, as the country ends up allocating more resources to paying creditors than to obtaining new funds for investment (United Nations, 2023). When this process intensifies and the State cannot meet its obligations, the risk of default arises, a situation that increases country risk, makes access to financing more expensive, and reduces public budget revenues (Palmén, 2020).

Faced with this scenario, many countries are forced to guarantee debt service even under unfavorable contractual conditions, accepting clauses and structural adjustment programs that limit their economic and political autonomy (Hinkelammert, 1990). For this reason, responsible management of external debt is essential to ensure the availability of foreign currency for its repayment and to promote positive economic effects in the medium and long term.

The effectiveness of borrowing depends on the state's ability to use the resources obtained without compromising budgetary balance or displacing public investment necessary for development. Only under these conditions can external debt avoid becoming a structural burden and instead become an instrument that contributes to fiscal sustainability, spending efficiency, and macroeconomic stability.

General State Budget

The state budget determines the distribution of state revenues and expenditures for a fiscal period (Orellana, 2024), forming the basis of fiscal policy and demonstrating the allocation of resources according to the government's priorities and objectives. Therefore, budget management reflects decisions regarding the allocation and use of public funds, allowing for the identification of dominant interests, underlying power relations, and the degree of institutional commitment to equity, efficiency, and national development.

The budget components are divided into revenues and expenditures, which determine the state's available resources and guide their allocation to fulfill functions, execute investments, and provide essential services. Tax revenues, which include taxes, fees, contributions, and other public resources, constitute the main source of state financing and allow for the sustainability of public spending, ensuring citizens' access to goods and services.

Public spending reflects the government's priorities during a fiscal period and can stimulate the economy when a greater proportion is allocated to investment rather than current expenditures, such as non-targeted subsidies or wages (León et al., 2022). If tax revenues are insufficient to cover spending, the government resorts to borrowing, especially through external financing. Interest payments and principal repayments on this debt must be carefully planned to maintain financial equilibrium and ensure budgetary sustainability.

Budgetary Sustainability

Sustainability is the capacity to guarantee present well-being without compromising future needs (Tapia, 2020). In the fiscal sphere, this implies that the State manages its resources responsibly, fulfills its obligations, and uses debt as a complementary instrument, avoiding making it a permanent source of financing (Castellanos et al., 2020). Under this approach, the Central Government must maintain a coherent relationship between income and expenses, generating primary surpluses that cover debt service without continually resorting to new loans, thus avoiding imbalances that compromise macroeconomic stability (Balestero, 2021).

In Ecuador, budget sustainability is based on Article 286 of the 2008 Constitution, which establishes that the management of public finances must be sustainable, responsible, transparent, and balanced, ensuring that permanent expenditures are covered by permanent revenues and that areas such as health, education, and justice maintain priority even in exceptional situations (Constitution of the Republic of Ecuador [Const.], 2008). Based on this framework, regulations such as the Organic Law for Economic Development and Fiscal Sustainability were promoted, aimed at strengthening fiscal responsibility, stimulating productive investments, and boosting strategic sectors, thus contributing to reducing dependence on volatile activities such as oil extraction (International University of Valencia, 2025).

However, the Ecuadorian fiscal structure faces limitations in generating stable and sufficient revenues. The primary-export profile exposes the country to the volatility of the international cycle, while tax evasion reduces the effectiveness of the tax system and weakens the state's revenue-generating capacity (Fernández et al., 2024). As a result, revenues are insufficient to cover public spending, generating recurring deficits and increasing dependence on financing sources, including external debt.

According to Onofrei et al. (2020), indebtedness must be kept within the state's revenue-generating capacity, ensuring intertemporal solvency and avoiding the transfer of excessive burdens to future generations. Failure to do so leads to unsustainable debt, causing liquidity constraints, an increased fiscal deficit, and greater vulnerability to external capital flows, raising the perception of risk among investors (Salamaliki and Venetis, 2024).

Governments must preserve fiscal stability, guarantee long-term financial viability, and fulfill social commitments in complex contexts (Kaur et al., 2024). Budgetary sustainability allows for the timely payment of state obligations, including external debt service, and directs resources towards productive investments that strengthen fiscal soundness and economic growth (Mohsin et al., 2021), consolidating the decisive role of the general state budget in the realization of these objectives.

Methodology

This study adopts a quantitative approach, focused on collecting and analyzing data on variables such as external debt and budget sustainability. According to Barreto and Lezcano (2023), this approach facilitates the identification of significant trends and patterns, providing a detailed understanding of the results in relation to the research topic.

Furthermore, a descriptive study was chosen, aiming to systematically detail observable behaviors, events, and results, without seeking to establish causal relationships or generate theoretical predictions. This design allows for the identification of changes and trends, regardless of the relatively short period analyzed (2019–2024), offering a precise understanding of the phenomenon under study.

The analytical-synthetic method was used for the research, which allows for the decomposition of the variables of the object of study to analyze them separately and then integrate them, with the purpose of obtaining a clear and coherent view of the problem studied (Reyes et al., 2022). Its application is especially useful in studies that do not employ econometric methods, as it provides an organized framework for interpreting the available information and adequately supporting the results.

Finally, the secondary data analysis technique was used, since the information used comes from official sources—mainly the Central Bank of Ecuador and the Ministry of Economy and Finance. As this is an economic study, the required data corresponds to statistical series that, by legal mandate, must be published and available for consultation, which allowed for reliable and standardized information for the analysis.

Results

Evolution of External Debt

During the analyzed period, the Central Government's external debt experienced an approximate increase of 24%, which demonstrates a constant use of international financing to compensate for insufficient revenue relative to the level of expenditure. The information presented in Table 2 details the trajectory of the balance recorded between 2019 and 2024.

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Table 2

External Debt of the Central Government of Ecuador, 2019-2024

Years	Public external debt (USD millions)	Total PGE amount (USD millions)	% of GDP
2019	37467.44	31318.80	34.82
2020	41763.19	35498.42	43.56
2021	43875.72	32948.64	40.94
2022	45648.58	33899.70	39.31
2023	44905.57	31503.00	37.07
2024	46175.08	35536.04	37.04

Note. Own elaboration based on data from the Ministry of Economy and Finance (2025a, 2025b)

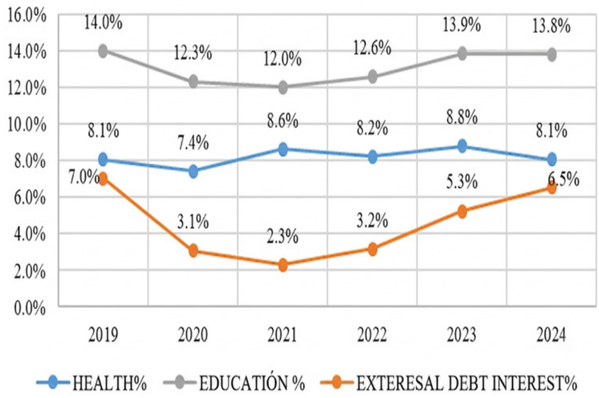
The year 2019 ended with a debt-to-GDP ratio of USD 37.467 billion, equivalent to 34.82% of GDP. Limited revenue-generating capacity reduced fiscal space and forced recourse to multilateral organizations. In this context, an Extended Fund Facility agreement was signed with the IMF for a value equivalent to 1.35% of GDP (King and Samaniego, 2019). During 2020, the ratio rose to 43.56% of GDP, driven by the accumulated fiscal deterioration and the impact of the pandemic, which slowed economic activity and increased public spending, while prior commitments continued to put pressure on the balance.

Between 2021 and 2022, a moderate reduction in the debt-to-GDP ratio was observed thanks to economic growth that advanced slightly faster than borrowing. However, the nominal amount continued to increase. Government spending grew by 4.20% in 2021 to address the effects of the health emergency (Ministry of Economy and Finance [MEF], 2021); and this trend continued in 2022 to meet priority social needs. In 2023, the total balance decreased slightly as a result of lower disbursements and an increase in debt service payments (Central Bank of Ecuador [BCE], 2024).

During 2024, the debt-to-GDP ratio stood at 37.04%, a marginal adjustment compared to the previous year. Even so, the nominal amount increased again due to the USD 4 billion agreement with the IMF (International Monetary Fund [IMF], 2024). This behavior is related to tax and oil revenues that were insufficient to offset the level of public spending.

Figure 1

External Debt Service: Interest and Amortization



Note: Prepared by the author using data from the Ministry of Economy and Finance (2025c).

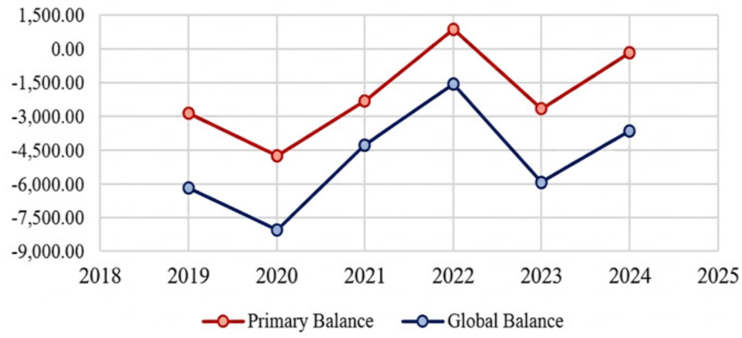
Figure 1 shows that the interest component of external debt exhibited a U-shaped pattern during 2019–2024, with a marked decline between 2020 and 2021, reaching its lowest point near 2%, followed by a sustained rebound from 2022 onward, returning it to levels close to 6% in 2024. This trajectory is particularly relevant for sustainability analysis, as it suggests that the financial relief was temporary and that debt service pressure has once again become a significant factor in public obligations. Consequently, fiscal policy faces a narrower margin for prioritizing productive spending as financial costs regain momentum.

In parallel, the relative allocations for education and health remained more stable during the period, with education around 14% and health close to 8%. This implies budgetary rigidities associated with social priorities that do not easily adjust to changes in the cost of debt. Under this scenario, the increase in external interest payments tends to compete for resources with other budget items and can translate into cuts in less protected areas, a greater need for financing, or pressure on the fiscal balance. Therefore, the impact of external debt on sustainability is not limited to the level of indebtedness but also to how its servicing reduces the fiscal space available to sustain the budget without jeopardizing the balance.

Fiscal Results: Evolution of the Primary and Overall Balances

Figure 2

Primary and Overall Balances, 2019-2024



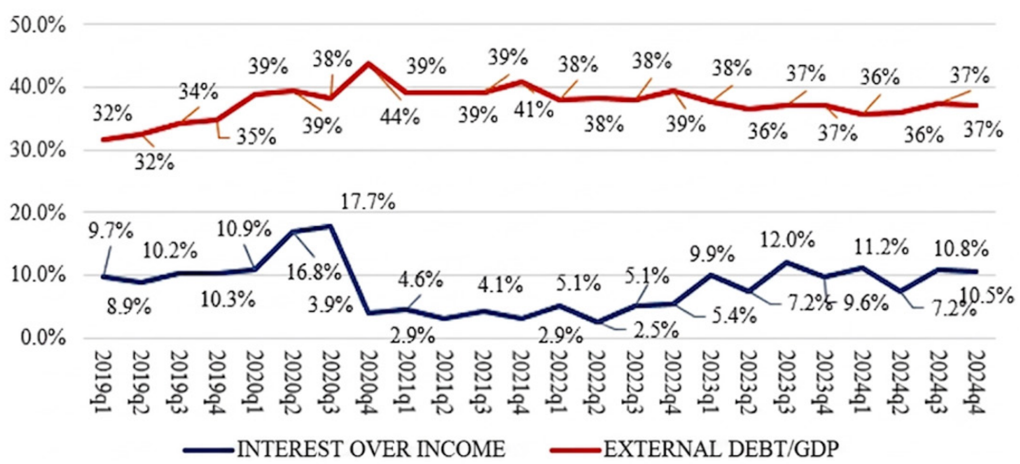
Note: Prepared by the authors using data from the Central Bank (2025).

The evolution of the primary balance and the overall balance between 2019 and 2024 reveals a fiscal dynamic in which both indicators are closely related, demonstrating a limited capacity of the State to maintain a balanced budget. The primary balance shows years with slight improvements that indicate some operational leeway; however, these advances do not translate into a balanced overall result. The persistence of deficits in the overall balance, even in years with a primary surplus, reflects that budgetary obligations exceed the resources generated in the short term. This constant difference between the result before and after additional obligations demonstrates a pressured fiscal structure, in which operational improvements are insufficient to reverse a deeper imbalance that affects the sustainability of the General State Budget.

Solvency and Fiscal Effort Metrics: An Approach Using Budgetary Ratios

Figure 3

External Interest Burden on Revenue and External Debt (2019-2024)



Note: Prepared by the author using data from the Central Bank (2025).

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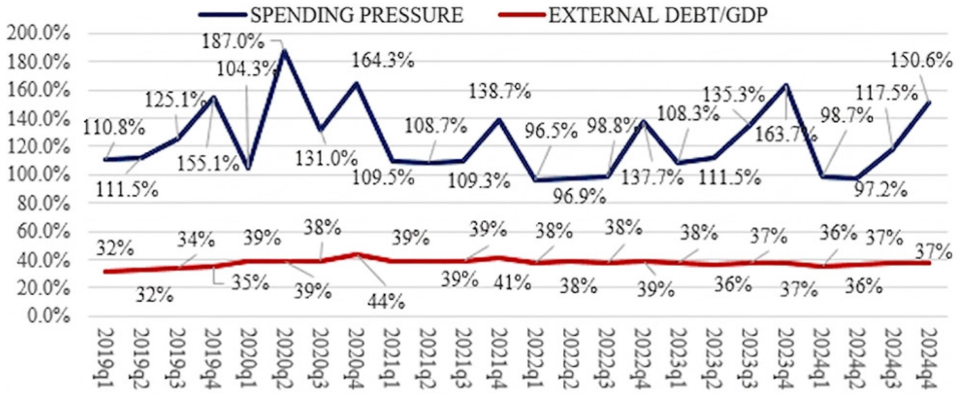
The interest-to-income ratio exhibits greater volatility, peaking near 17.7% and subsequently falling to low levels, followed by a rebound approaching 12% before settling in the double digits. This dynamic suggests that the cost of servicing did not keep pace with the debt-to-GDP ratio, which is consistent with changes in financial conditions, payment schedules, or debt composition. From a sustainability perspective, the key finding is that interest-to-income pressure can resurface even when relative debt appears stable, reducing the fiscal space available to sustain spending priorities without jeopardizing the balance.

Figure 4

Spending Pressure and External Debt (2019-2024)



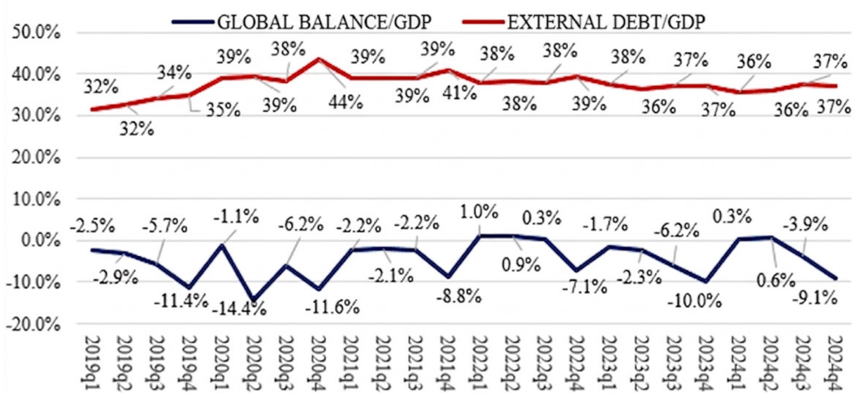
Note: Prepared by the author using data from the Central Bank (2025).

Spending pressure exhibited high volatility during 2019–2024, registering marked episodes of strain, notably a peak of nearly 187% and other spikes above 160%. This indicates that actual spending tended to exceed current financing capacity, forcing the government to operate with reduced fiscal margins. This trajectory is consistent with a budget subject to rigidities and shocks that increase resource requirements in the short term. Consequently, budget sustainability becomes more fragile because adjustments often translate into cuts in less protected areas or greater financing needs to avoid disruptions in public provision.

In contrast, the external debt-to-GDP ratio remained relatively stable within a high range, peaking around 44% and subsequently converging to values close to 37%. This suggests that external borrowing did not move at the same pace as spending pressures quarter by quarter and that some of the adjustment was channeled through debt rescheduling, changes in the composition of financing, or partial spending restraint. However, the combination of a persistent level of debt with recurring peaks in budgetary pressures implies a structural risk. When spending repeatedly puts pressure on the fiscal balance, the space to sustain the budget without deteriorating the fiscal outcome narrows, and the likelihood of debt service competing with public policy priorities increases.

Figure 5

Overall Balance on Nominal GDP and External Debt (2019-2024)



Note. Own elaboration based on data from the Central Bank (2025)

The overall balance line as a percentage of nominal GDP shows that the fiscal result remained mostly in deficit, with pronounced variations, including significant drops reaching approximately -14% and occasional periods of improvement approaching zero. This behavior indicates that the budget faced recurring difficulties in maintaining a balance between revenues and expenditures. Even though the external debt-to-GDP ratio stabilized in several quarters, the message is clear: sustainability deteriorates when the deficit becomes persistent because it forces the continuous financing of gaps, increasing dependence on borrowing or adjustments. Thus, external debt acts as a constraint in a context where the overall balance fails to consolidate.

Relationship between Total Budget Amount and External Debt

Table 3

Correlation between Public External Debt and Budget, 2019–2024

Statistics	
Pearson Correlation Coefficient	***0.4260***

Note: Prepared by the authors based on data from the Central Bank of Ecuador (2025) and the Ministry of Economy and Finance (2025a, 2025b).

The estimated correlation between public external debt and the total amount of the General State Budget in 2019–2024 yields a moderately positive coefficient of approximately $r = 0.43$. This indicates that, in aggregate terms, the years with the highest external debt tended to coincide with larger budgets. From a financial perspective, this association suggests an operational link between access to external financing and the State's capacity to sustain the level of programmed spending. Therefore, debt appears as a mechanism that contributes to expanding or sustaining the budgetary framework when internal revenue generation is insufficient.

However, the moderate nature of the association and the low explanatory power of the linear fit ($R^2 \approx 0.18$) indicate that the size of the General State Budget (PGE) was not primarily driven by external debt, but rather by a combination of fiscal and macroeconomic factors that alter revenues and spending priorities. In practice, the budget can increase due to public policy needs, cyclical shocks, or changes in the revenue structure, while external debt responds to both deficits and refinancing and composition decisions. Consequently, the correlation should be interpreted as a sign of co-movement and not as a stable, mechanical relationship.

From a budget sustainability perspective, the result is relevant because a positive debt-to-general budget ratio usually implies that part of the budget expansion or maintenance relies on temporary resources that generate future obligations. In terms of the state's financial health, this tends to narrow fiscal space through debt servicing, increasing the risk that the budget will face adjustment pressures when financing conditions change, tax revenue deteriorates, or financial costs increase. Therefore, sustainability depends not only on the budget level but also on the structural capacity to finance it without increasing external vulnerabilities.

Discussion

The results show a nominal increase in external debt throughout the period, accompanied by a temporary rise in the debt-to-GDP ratio to its highest point in 2020 and a subsequent stabilization towards 2024. Meanwhile, the total amount of the General State Budget (PGE) exhibited variations that did not follow a perfectly parallel trajectory. At the same time, external interest service showed a downward and then upward pattern, suggesting temporary relief followed by a recomposition of financial costs, along with episodes of high spending pressure and a predominantly deficit-ridden overall balance. This, taken together, outlines a scenario of fiscal sustainability conditioned by financing constraints and the persistence of gaps between state revenues and obligations (Escolano, 2010).

The observed dynamics can be explained by the interaction between macroeconomic shocks and financing decisions, since the decline in activity and the pressure on spending during the most critical phase of the period increased the need for liquid resources even as tax collection capacity weakened. In this context, external borrowing acted as a safety valve for the fiscal imbalance rather than as a strictly countercyclical instrument aimed at productive investment. This is consistent with approaches that warn that the repeated use of debt to sustain current expenditures shifts the burden to the future and displaces budgetary space through interest and amortization, reinforcing the risk of a refinancing cycle when the balance does not converge to levels compatible with intertemporal solvency (Sánchez and Mejía, 2022).

From a critical perspective aligned with the study's objective, the impact of external debt on budget sustainability is manifested less by the specific level of the debt-to-GDP ratio and more by debt service and fiscal space. This is because the rebound in external interest payments after their lowest point, the relative rigidity

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of social allocations, and the recurrence of deficits limit the State's capacity to sustain policies without resorting to adjustments or new financing. Additionally, the separation between the primary and overall results suggests that even with operational improvements at certain times, financial costs and other obligations ultimately put pressure on the overall balance, resulting in fragile sustainability. This is because budget stability requires consistency between permanent revenues, permanent expenditures, and financial obligations (Hinkelammert, 1990).

The contrast with expectations and empirical evidence is illustrative, since the literature usually anticipates that higher levels of indebtedness are associated with greater budgetary pressure through interest payments and less room for priority spending, a finding that holds true insofar as the deficit and spending pressure appear as persistent phenomena. Even so, a relevant divergence emerges when observing that the cost of servicing did not move proportionally to the debt-to-GDP ratio throughout the period, which is consistent with changes in financial conditions, rescheduling, and debt portfolio recomposition. Along the same lines, the annual correlation between external debt and the General State Budget (PGE) is at a moderately positive level, suggesting co-movement but ruling out a single mechanical relationship, reinforcing the idea that the budget responds to a broader set of fiscal, institutional, and cyclical determinants (Fernández et al., 2024).

The interpretation must also incorporate unexpected results and design limitations, since the analysis relies on a descriptive quantitative approach with secondary series and a relatively short period, which restricts causal inference and leaves open the possibility of endogeneity, lags, and regime changes that alter the sign or magnitude of contemporaneous associations. Additionally, the use of annual correlations with few observations reduces statistical power and may underestimate relationships that are more clearly expressed at quarterly frequency. Therefore, the value of the exercise lies in documenting patterns consistent with fiscal pressure and financing dependence rather than in establishing stable elasticities between variables.

Conclusion

It is concluded that the impact of external debt on the sustainability of the Ecuadorian General State Budget was consistently manifested through the persistence of a high level of relative indebtedness. The external debt-to-GDP ratio remained within a high range during 2019–2024, reaching a peak around 2020 and subsequently stabilizing near the end of the period. This behavior meant that the budget was managed under a structural financing constraint that limited fiscal flexibility in the face of economic cycle and revenue fluctuations. Therefore, the objective of identifying its impact was met by demonstrating that indebtedness did not operate as a marginal element but rather as a determining factor in the fiscal framework.

Furthermore, it was determined that budget sustainability was more clearly explained by debt service and the fiscal result than by the budget level itself. This was because external interest payments showed a temporary decline followed by a recovery toward 2024, while the overall balance as a percentage of GDP remained mostly in deficit with episodes of significant deterioration. This combination reflected that financial costs and the gap between revenues and expenditures reduced available fiscal space and increased the budget's sensitivity to liquidity shocks. Consequently, the impact of external debt manifested as pressure on the State's capacity to meet its obligations without repeatedly resorting to additional financing.

The relationship between external debt and the size of the General State Budget (GSP) was neither decisive nor stable during the analyzed period. The estimated annual correlation was moderately positive with limited explanatory power, indicating partial co-movement but not a mechanical dependence of the budget on indebtedness. This finding implied that sustainability was not guaranteed by expanding the GSP with debt, but rather by strengthening permanent sources of income and controlling spending pressures to avoid persistent deficits. Therefore, the contribution of this study was to demonstrate, with evidence from the 2019–2024 period, that the external constraint translated into fiscal vulnerability primarily due to debt service and structural insufficiency, and not solely due to the level of the outstanding debt balance.

Finally, the study's time horizon limits the scope of the analysis, given that fiscal dynamics and the effects of external debt manifest themselves gradually and require longer periods for adequate observation. This restricts the possibility of examining the stability of the identified relationships and establishing more robust causal links. This limitation highlights the need for research based on longer time series, which would allow for a more precise analysis of the effects of external debt on budget balance and its implications for Ecuadorian fiscal policy.

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