INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/325

ECUADOR

DECEMBER 2020

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 21, 2020, following discussions that ended on November 20, 2020, with the officials of Ecuador on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 9, 2020.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Ecuador.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Ecuador*
Memorandum of Economic and Financial Policies by the authorities of Ecuador*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR20/387

IMF Executive Board Completes First Review of the Extended Fund Facility Arrangement for Ecuador

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed today the first review of the extended arrangement under the Extended Fund Facility (EFF) for Ecuador, allowing for an immediate disbursement equivalent to US$2 billion for budget support.
- The economic recovery is under way, following the worst contraction on record as a result of the pandemic. The authorities continued to expand and improve targeted social assistance, bringing in more than 270,000 low-income families into the social safety net since July.
- The authorities have continued to advance their reform agenda in key areas, including the recent approval of amendments to the anticorruption law with broad support across the political spectrum in the National Assembly.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the first review of the extended arrangement under the Extended Fund Facility (EFF) for Ecuador. The Board's decision allows for an immediate disbursement of SDR 1.42 billion (about US$2 billion), bringing Ecuador's total disbursements for budget support under the arrangement to about US$4 billion.

Ecuador's 27-month EFF arrangement was approved by the Executive Board on September 30, 2020 (see Press Release No. 20/302) for SDR 4.615 billion (about US$6.5 billion or around 661 percent of Ecuador's quota). The program aims to support Ecuador's policies to stabilize the economy and protect lives and livelihoods, expand the coverage of social assistance programs, ensure fiscal and debt sustainability, and strengthen domestic institutions to lay the foundations for strong, job-rich, and long-lasting growth that benefits all Ecuadorians.

Following the Executive Board discussion on Ecuador, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"The Ecuadorian economy is showing nascent signs of economic recovery after bottoming out in the second quarter. New COVID-19 infections and deaths have moderated compared to the high levels seen in the Spring, reflecting the authorities' decisive actions to contain the outbreak. Economic activity is now projected to contract by 9½ percent in 2020, which is an improvement over the 11 percent contraction anticipated at program approval.

"The authorities' vigilant approach leading up to program approval helped cushion delays in external financing. All end-September quantitative performance criteria and indicative targets were met with large margins. Moreover, the authorities continued to expand and improve well-targeted social assistance, bringing in more than 270,000 low-income families into the social safety net since July, ahead of their end-December goal, and helping to mitigate the impact of the crisis on the most vulnerable groups.

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USA

“The authorities have continued to advance their reform agenda in key areas. On governance and transparency, the National Assembly has approved near unanimously the amendments to significantly enhance the anti-corruption framework, and the authorities have expanded public access to asset declarations of politically exposed persons. They have taken important steps to strengthen the foundations for dollarization by aligning the central bank’s internal audit function to best international standards and finalizing the amendments to the organic monetary and financial code (COMYF) for submission to the National Assembly. The authorities have also adopted regulations on fiscal rules and the medium-term fiscal framework under the organic budget code and developed a financial plan for next year. These steps will improve public financial management and support fiscal sustainability.

“Going forward, further reprioritization of spending as the recovery takes hold will buttress fiscal sustainability and reduce public debt as a share of GDP. Furthermore, a credible medium-term fiscal strategy that includes an ambitious and progressive tax reform, and better aligns Ecuador’s spending levels to regional peers would reduce the debt burden on future generations.

“Swiftly enacting the reform amendments to COMYF will strengthen the underpinnings of the dollarized system; as would the rebuilding of buffers. Continuing to prudently apply regulatory and supervisory tools will help the financial system withstand economic stress in the post-pandemic period. Vigilantly monitoring credit risk accumulation and ensuring the liquidity fund has the resources to provide emergency liquidity as intended will be important. These arrangements should be complemented by strengthening further the legal framework for the financial system, including enhanced contingent arrangements.

“The EFF-supported program continues to face considerable risks. Globally, uncertainty about the depth and duration of the pandemic still lingers. Domestically, building a broad-based consensus and buy-in across the political spectrum for key program objectives and policies would help mitigate significant program implementation risks. With continued capacity development and close coordination across public sector agencies, the authorities can achieve their objectives and deliver a robust, job-rich recovery that benefits all Ecuadorians.”

INTERNATIONAL MONETARY FUND

ECUADOR

December 9, 2020

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR MODIFICATION OF QUANTITATIVE PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. On September 30, 2020, the IMF Executive Board approved a 27-month arrangement under the Extended Fund Facility (EFF) with exceptional access (SDR 4,615 million, 661 percent of quota, about $6.5 billion) to help Ecuador restore macroeconomic stability and pursue the unfinished structural agenda from the previous program. High frequency indicators point to improvements in economic activity after bottoming out in Q2, while oil prices have been declining relative to earlier assumptions, leaving the macroeconomic outlook broadly unchanged over the medium term.

Political environment. As the early February elections near, the political environment has become increasingly challenging. Three presidential candidates are widely seen to be the main contenders. At this stage, they broadly support the main objectives and key policies of the program to achieve these objectives, including strengthening the institutional foundations of dollarization and a tax reform to anchor fiscal sustainability. However, as the official election period has not yet begun, the candidates have not yet fully specified all of their policies.

Program implementation. The program is off to a prudent start; all end-September quantitative performance criteria (PCs) and indicative targets (ITs) were met with large margins. The authorities are making progress toward meeting the two prior actions for the First Review on the anticorruption and central banking laws and upcoming structural benchmarks for the reviews ahead.

Exceptional access. The four exceptional access criteria are judged to be met (Box 1). The potential for balance of payments pressures remains high under depressed oil prices (criterion 1) and Ecuador has prospects for re-accessing the capital market over the next two years, facilitated by the recent market-friendly debt exchange (criterion 3). Public debt remains sustainable with high probability (criterion 2), helped by debt at end-year projected to be lower by 1 ppt of GDP than at program approval, supported by fiscal overperformance. While political fragmentation and

institutional and technical capacity constraints pose severe risks to program implementation, continued progress on strengthening capacity, as well as commitment to strong prior actions on key reforms underlying the program, support the positive assessment for criterion 4. Work is underway to improve Ecuador's institutional and technical capacity, with extensive capacity development (CD) support from the Fund and other IFIs, reflecting the authorities' resolve ahead of the presidential elections. The program, however, remains subject to substantial risks, and partial or non-implementation would undermine credibility and significantly strain Ecuador's capacity to repay.

Approved By
Krishna Srinivasan (WHD) and Maria Gonzalez (SPR)

Discussions were held via videoconferences during October 28–November 20, 2020. The report was prepared by a team comprised of Ceyda Oner (head), Botir Baltabaev, Matteo Ghilardi and Constant Lonkeng Ngouana (all WHD), Deirdre Daly (SPR), Mario Mansilla (MCM), Mariano Moszoro (FAD), Mariana Sabates Cuadrado (STA), Julien Reynaud (Resident Representative) and Juan Pablo Erraez (Resident Representative Office), with support from Ivan Burgara, Nicolas Landeta (all WHD) and Lizeth Crow (Resident Representative Office). Antonio Manzanera (FIN), Virginia Alonso (FAD), Clifford Blair, Olya Kroytor, Ivana Rossi and Karla Vasquez (all LEG) participated in some meetings and provided substantive input in the formulation of conditionality, review of legislation, and in the drafting of relevant sections of the report. Alejandro Werner, Krishna Srinivasan (WHD) and Afonso Bevilaqua (OED) attended some meetings. Ricardo Velloso and Francisco Rivadeneira (OED) joined the discussions.

CONTENTS

TABLES

ANNEXES

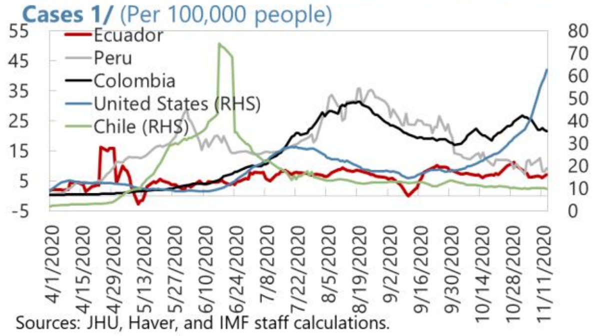
APPENDIX

CONTEXT

1. **The Ecuadorian economy is showing nascent signs of recovery following the gradual reopening since the summer.** After recording one of the highest COVID-19 death tolls in the region early on, Ecuador put in place decisive nationwide containment measures and managed to stabilize the outbreak—the country now records one of the lowest infection rates in the region (6 new daily cases per 100,000 people). Economic growth in the second quarter was significantly better than projected, and with containment measures being gradually lifted beginning in July, high frequency indicators suggest further uptick in activity in 2020:Q3 (¶6).

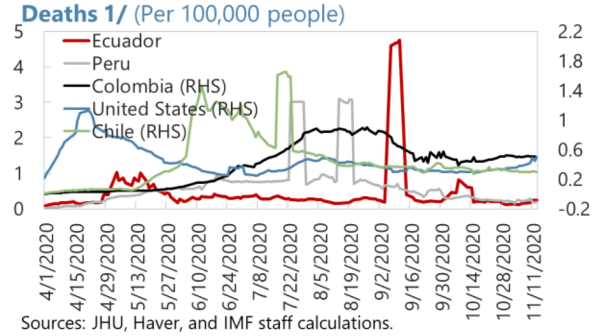
Ecuador: COVID-19 Developments

Ecuador and Selected Economies: New COVID-19 Cases 1/ (Per 100,000 people)



Sources: JHU, Haver, and IMF staff calculations.
1/ Calculated as the 5-day moving average of the difference between time t and time t-1.

Ecuador and Selected Economies: New COVID-19 Deaths 1/ (Per 100,000 people)



Sources: JHU, Haver, and IMF staff calculations.
1/ Calculated as the 5-day moving average of the difference between time t and time t-1.

2. **The new 27-month arrangement under the Extended Fund Facility (EFF) began on a prudent note.** The authorities pursued a careful policy stance leading up to program approval on September 30, meeting all end-September quantitative performance criteria and indicative targets with large margins, owing to improved economic activity in 2020:Q3 and spending restraint (¶16). Following the completion of all five prior actions for program approval in September, the authorities have met nearly all structural benchmarks on public financial management, central bank reform, and transparency (¶17). They also continue to work closely with legislators to ensure a swift passage of the anticorruption law in the National Assembly.

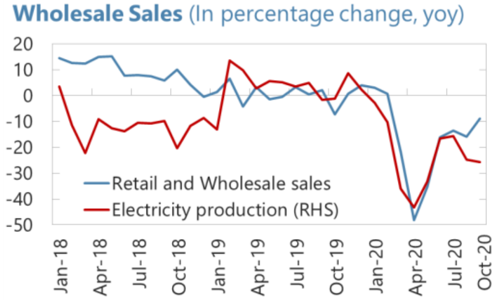
3. **The political environment, however, has become more charged since program approval.** Presidential candidates were finalized in October and many have since published their election manifestos. The parties appear to be unanimous on the need for the government to support economic recovery, safeguard dollarization, and ensure fiscal sustainability. To this end, all three leading candidates, Guillermo Lasso (CREO-PSC), Andrés Arauz (UNES), and Yaku Perez (Pachakutik), have called for broad fiscal reforms, notably a tax reform, but some explicitly oppose a VAT rate hike, which accounts for a quarter of the envisaged fiscal consolidation in the Fund-supported program, and all have noted that alternative revenue and expenditure measures should also be explored. Moreover, both Mr. Arauz and Mr. Perez have publicly expressed their intent to renegotiate the IMF-supported program if elected. The current administration remains strongly and publicly committed to the program at the highest level and has pursued an active public communications campaign to garner broad support for its key objectives and policies.

4. Risks to the program remain significant, with political risks now higher than envisaged at the time of program approval (¶15). Successful implementation of the Fund-supported program following the elections will hinge on the degree of alignment of the incoming administration's policies with the Fund-supported program's main objectives and key policies, and the strength of the coalition that the new government will be able to forge in the National Assembly and the political will of the legislators. In the interim, building non-partisan support for the anticorruption and central bank laws would not only meaningfully tackle corruption and strengthen dollarization, two of the most important issues that the people of Ecuador underscore according to public opinion polls, but also help demonstrate Ecuador's political capacity to carry the program forward. Further strengthening public communications on policy objectives and tradeoffs faced by Ecuador will strengthen ownership and mitigate risks to program implementation over the political cycle. Weaknesses in institutional capacity are being tackled, with extensive technical assistance (TA) from the Fund and other IFIs, but fully resolving them will take time. The frontloaded disbursements with important reforms inked for later in the program reflect the timing of crisis-related financing gaps, but also pose a major source of risk to program implementation; the program's success, including rebuilding buffers over the medium term, will critically hinge on strong implementation that helps restore and entrench confidence. In any event, there is little room for deviation, as policy options are limited in a dollarized economy. In that regard, partial or non-implementation would undermine confidence and the credibility of policymaking in Ecuador, and severely strain its capacity to repay the Fund, including through delayed capital market access and potential delays in other sources of financing.

RECENT DEVELOPMENTS

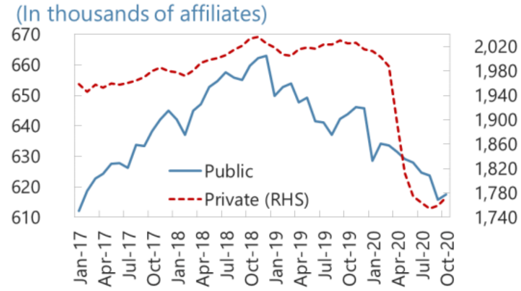
Ecuador: High Frequency Indicators

Ecuador: Electricity Output, and Retail and Wholesale Sales (In percentage change, yoy)



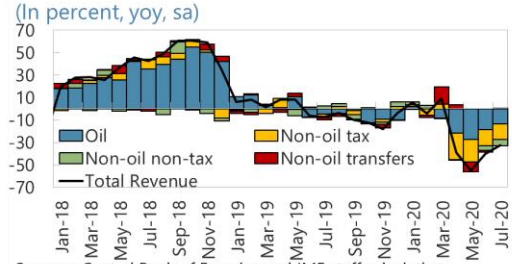
Sources: SRI, CENACE, and IMF staff calculations.

Ecuador: Public and Private Formal Employment
(In thousands of affiliates)



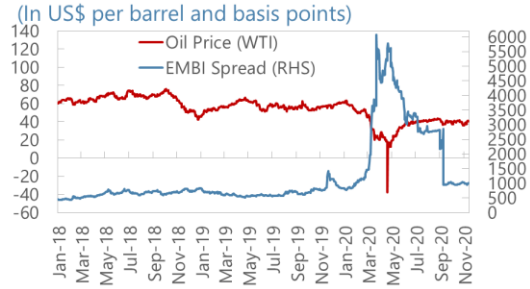
Source: IESS.

Ecuador: CG Contribution to Revenue Growth 1/
(In percent, yoy, sa)



Sources: Central Bank of Ecuador and IMF staff calculations.
1/ Excludes $1 billion in tax amnesty in December, 2018.

Ecuador: EMBI Spread and Oil Price
(In US$ per barrel and basis points)



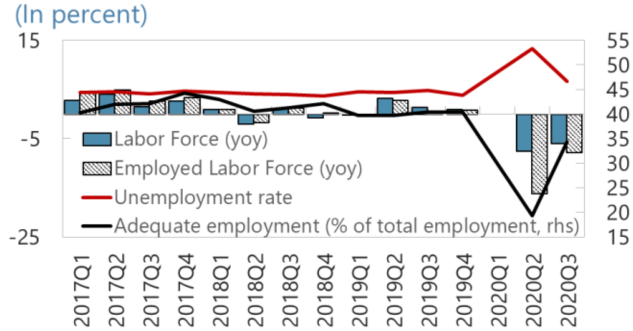
Source: Bloomberg.

5. Preliminary data point to a less severe contraction in economic activity in 2020:Q2 than anticipated. The economic contraction in Q2 (-12.4 percent, y-o-y) was significantly milder than staff's forecast (-18.4 percent, y-o-y) and better than the Q2 growth prints of regional peers that had experienced similar declines in mobility indicators. The contraction was driven by sharp declines in investment and private consumption, reflecting the needed restrictions to curb the pandemic. On the supply side, the collapse in GDP was led by sharp, yet ultimately temporary contractions in crude oil extraction, manufacturing, transportation and trade sectors.

6. High frequency indicators suggest that the rate of new infections is moderating, and the economy is on its way to recovery. The nationwide curfew was fully lifted in mid-September, with regions now having full autonomy in pursuing containment measures. With mobility indicators continuing to trend upwards throughout 2020:Q3, the number of new COVID-19 infections reached about 8 cases per 100,000 people in mid-September, before declining to about 6 by mid-November. High-frequency indicators point to continued improvements in economic activity in 2020:Q3, with a y-o-y change in the economic activity index at about -5 percent in September, compared with -15½ percent in June and -34 percent in April. Inflation was negative in October, close to -1.6 percent, owing to the persistent weakness in food and transport services prices. Ecuador mix oil price recovered to $36.7 per barrel in 2020:Q3, broadly in line with expectations, after plunging to $27 in 2020:Q2. The daily average crude oil output in 2020:Q3 stood at around 515,000 barrels, on track to reach 173 million barrels of annual output in 2020, having fully recovered from the pipeline damages earlier in the year. The improved economic activity was reflected in stronger than expected non-oil tax revenues in Q3 (¶16).

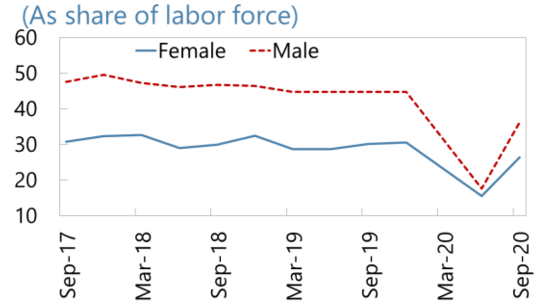
7. The unemployment rate more than halved between June and September (from 13.3 to 6.6 percent), partly driven by the continued decline in labor force participation. The massive job loss recorded in 2020:H1 (about 1.2 million) subsequently reversed partly, with about 800 thousand jobs created in 2020:Q3 following the gradual re-opening of the economy. This marked improvement coincided with the introduction of flexible work hours under the Humanitarian Emergency Law (*Ley Humanitaria*) in June and is broadly in line with other high frequency indicators. The decline in unemployment was generalized, with male and female unemployment declining to 5.7 and 8 percent, respectively. The fall in headline unemployment was, however, partly driven by the continued decline in the labor force (chart). The quality of jobs also deteriorated during the pandemic, with the share of adequate employment (full time workers earning at least the minimum wage) dropping

Ecuador: Employment
(In percent)



Sources: Haver and INEC.

Ecuador: Adequate Employment
(As share of labor force)



Source: Instituto Nacional de Estadística y Censos (INEC).

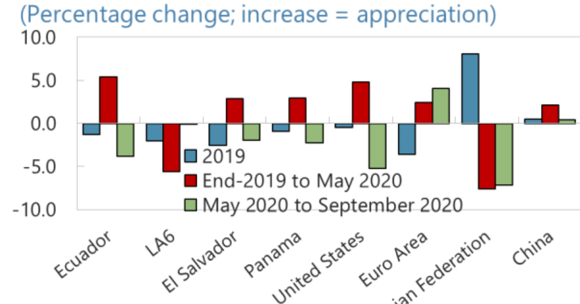
from around 40 percent to below 20 in June, then recovering to around 35 percent in September. The recovery was faster for men than for women, even though both were equally affected by the slowdown; an unfortunate trend observed in other countries as well.

8. The current account continued to improve, as sharp import compression and strong performance in non-oil exports more than offset the decline in oil exports. The current account recorded a surplus of $0.3 billion in 2020:Q2, after posting a surplus of $0.2 billion in 2020:Q1. Remittances remained robust at $1.5 billion at end-June, roughly 10 percent below their level in the corresponding period last year. High frequency data indicate a marked improvement in the trade balance in 2020:Q3, notwithstanding the partial recovery in imports amidst the gradual re-opening of the economy and still depressed oil prices. The cumulative trade surplus since the beginning of the year stood at about $2.4 billion at end-September, supported by an import decline of roughly 25 percent compared to the same period in 2019—mainly of durable goods, oil, construction material and transport equipment—reflecting the sharp contraction in economic activity and domestic demand. Exports also experienced an overall decline of around 12 percent during the same period, mainly driven by the drop in oil exports, which was offset, in part, by a sharp uptick in the exports of both traditional commodities (bananas) and non-traditional products (mining). Gross reserves stood at $5.5 billion at end-October, propped up by the Fund disbursement upon program approval ($2 billion).

9. After strengthening at the beginning of the year, the real effective exchange rate (REER) has depreciated in recent months. Following a real depreciation of 1.3 percent in 2019, the REER appreciated by 5.4 percent between January and May, before recording a real depreciation of about 3.8 percent over the past 4 months. These trends have broadly mirrored swings in the US dollar—Ecuador being a dollarized economy—and have led to a slight cumulative real appreciation of 1.6 percent since the beginning of the year. Other dollarized economies (El Salvador and Panama) have followed similar patterns. In contrast, the large LAC countries, mostly under inflation targeting regimes, have witnessed a sharper nominal depreciation of their currencies this year, leading to some competitiveness gains (chart). Ecuador's EMBI spreads have hovered around 1,000 bps since the steep decline that followed the debt exchange in end-August and the announcement of a staff level agreement on the new Fund-supported program.

Real Effective Exchange Rate

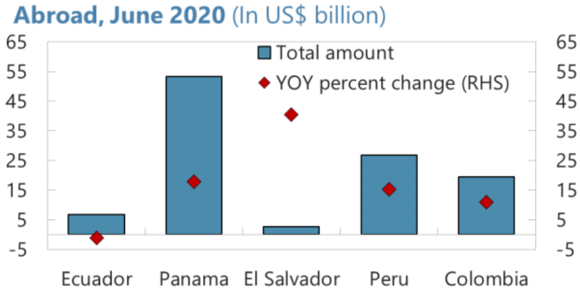
(Percentage change; increase = appreciation)



Sources: INS and IMF staff calculations.

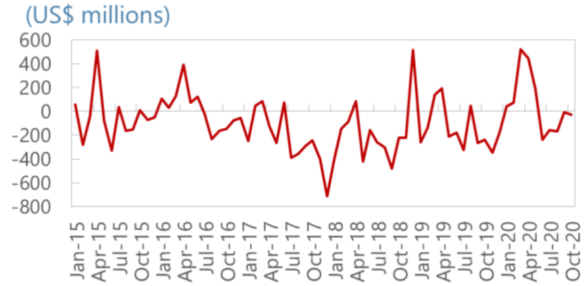
10. Several indicators point to lower capital outflows and even trends toward inflows in 2020. Total net international private sector transactions (includes banks, firms and households) registered an average monthly net inflow of $67 million over January–October 2020, compared with an average monthly outflow of $117 million over 2015-19. Revenues from the tax on capital outflows (*Impuesto a la Salida de Divisas*) for Jan.–Jul. 2020 were also down 14 percent year-over-year, corroborating lower (gross) outflows.[1] BIS data based on international banks' reporting of liabilities with Ecuadorian counterparties, shows that loans and deposits held abroad by Ecuadorian banks, non-bank financial and non-financial institutions declined slightly by $70 million during the first half of 2020, standing at $6.7 billion at end-June 2020. The inflows are notable in comparison with peer countries that all saw increases in holdings abroad during the same period. The change in trend could reflect lower imports, as imports tend to be correlated with capital outflows. In addition, there was some repatriation of Liquidity Fund assets held abroad, by close to $1 billion, in the early days of the pandemic in preparation for a liquidity crunch. BCE BOP data (a broader measure that includes the central bank, banks, general government and the private sector) for the first half of 2020, on the other hand, show an overall net accumulation in currency and deposits held abroad by $2.3 billion. However, this category is a residual under the BCEs compilation methodology and amounts are influenced by discrepancies in other BOP flows and the change in reserve assets.[2] BCE's weekly data on private bank flows, the narrowest concept compared to the data above, also show a trend of net accumulation of foreign assets in Q3. This likely reflects developments in the trade balance rather than capital outflows: strong non-oil exports can drive accumulation of assets abroad, while weak imports reduce the accumulation of foreign liabilities.

Ecuador and LAC: Loans and Deposits Held Abroad, June 2020 (In US$ billion)



Source: BIS data on loans and deposit liabilities by counterparty.

Ecuador: Net Private Inflows (US$ millions)



Source: Central Bank of Ecuador.

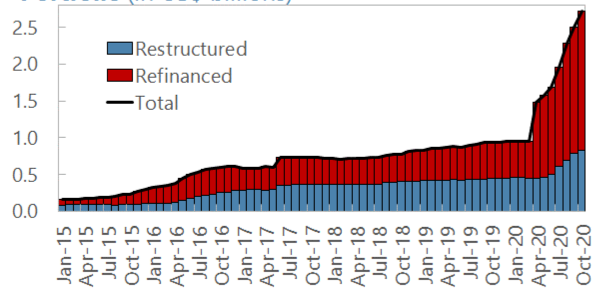
11. Liquidity in the banking system has recovered beyond pre-pandemic levels. Following the initial shock at the beginning of the health emergency, banks rebuilt their internal liquidity (the ratio of liquid assets to short-term liabilities recovered to 32 percent), supported by private deposits that continued to grow during the pandemic (11.7 percent y-o-y at end-October). The measure that permitted deferred payments on private credit obligations adopted in the wake of the pandemic expired in November, and ultimately covered about one-third of the total loan portfolio in the banking system, mainly personal and microcredit loans. This measure helped borrowers withstand the initial shock and explains the still-low overall NPL ratio of 2.8 percent at end-October (close to its 3 percent average pre-pandemic), though it is higher in public institutions (12.3 percent) and

[1] The tax constitutes both a capital flow management measure (CFM) under the Fund's *Institutional View on Liberalization and Management of Capital Flows* and an exchange restriction subject to Fund approval under Article VIII. The authorities are committed to phase out this tax once macroeconomic stability is restored, and the reserves position is strengthened. The Fund approved maintaining the exchange restriction arising from the tax on transfers abroad for balance of payments-reasons for a year in September.

[2] See "Is Ecuador Experiencing Deposit Outflows? Interpreting Data From the Balance of Payments" in IMF Country Report 19/80 for further discussion.

cooperatives (5 percent). Banks have been building provisions, including on a voluntary basis, in preparation for NPLs to rise as crisis measures are rolled back: provision coverage stood at 270 percent at end-October, close to its peak of 280 percent at end-July (chart). Against that background, capital buffers (CAR of 15 percent) appear sufficient for now, but could deteriorate as crisis measures expire and NPLs rise. Temporary measures on loan classification and provisioning that give banks more time to prepare their balance sheets to absorb credit losses resulting from the crisis will expire in June 2021. The amount of restructured or refinanced credit obligations on banks portfolio rose to about $3 billion at end-October, from $1 billion prior to the pandemic (chart). Private credit growth has steadily declined, from double digit prior to the pandemic to 2.2 percent at end-October (y-o-y), and profitability has deteriorated significantly but remains positive (ROA is 0.5 percent and ROE 4.6 percent).

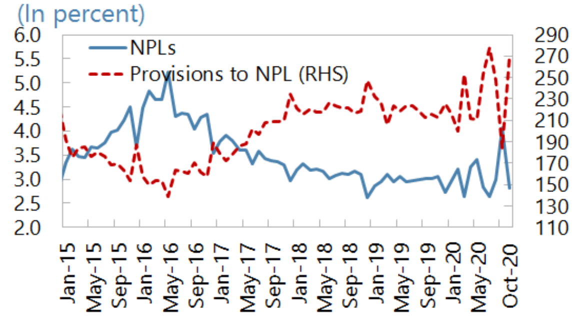
Ecuador: Private Banks Restructured and Refinanced Portfolio (In US$ billions)



Sources: Ecuador Superintendency of Banks and IMF staff calculations.

Ecuador: Non-Performing Loans 1/

(In percent)



Sources: Superintendency of Banks and IMF staff calculations.
1/ Data corresponds to the private banks aggregate, which includes *Banco del Pacifico*.

OUTLOOK AND RISKS

12. The outlook for 2020 growth, while still the lowest on record, has improved somewhat. The better than expected growth outturn in 2020:Q2 and subsequent improvements in high frequency indicators suggest that the contraction in growth in 2020 should be milder than forecasted at the time of program approval. On the flipside, oil prices have been volatile, and the outlook remains highly uncertain for the remainder of the year due to the evolution of the pandemic elsewhere. Given this, staff has been conservative in assuming almost no recovery in the second half of the year, which results in an economic contraction of 9.5 percent in 2020 (better than the 11 percent contraction projected at program approval). Growth is expected to gradually reach its potential of 2½ percent over the medium term, driven by the private sector as the public sector shrinks and competitiveness improves.

13. Inflation is expected to remain subdued. The consumer prices are expected to be marginally deflationary in 2020 owing to weak demand, lower food and transportation prices, with consumer prices falling -0.3 percent. Next year, the resumption in economic activity and higher domestic fuel prices are expected to marginally raise inflation to a still low 1 percent. Over the medium term, inflation is expected to remain low at about 1 percent, which will help to gradually restore competitiveness through internal devaluation.

14. The current account balance is projected to turn into a slight deficit in 2020 while improving over the medium term. The 2020 deficit is projected to be 0.6 percent of GDP for 2020 (from a near balance in 2019), significantly better than anticipated at program approval, due to strong performance of non-oil exports and import compression. In the medium term, the current account is expected to strengthen to 2.1 percent of GDP, supported by a partial recovery in global oil prices. The growing role of the private sector as the economy strengthens and regains the confidence of investors, and higher private inflows—both FDI and portfolio flows—would support reserves accumulation over the medium term.

15. The macroeconomic outlook is subject to considerable uncertainty and significant risks, which are tilted to the downside.

- On the downside, key near-term risks continue to include: (i) a more severe and/or protracted COVID-19 pandemic, which could result in higher economic and fiscal cost; (ii) a more protracted recovery of the domestic or global economy, which could lead to a more pronounced decline in fiscal revenues, delays in private sector recovery, and the intensification of domestic financial sector vulnerabilities (e.g., from a premature withdrawal of policy support); (iii) further collapse and/or higher volatility in oil prices, as witnessed in recent months, could also be accompanied by bouts of international financial volatility with a further sharp rise in risk premia that creates outflows from the dollarized banking system, exposes financial vulnerabilities and might generate additional pressures on public and private finances; (iv) the reemergence of social tensions or discord in pursuing much-needed fiscal and structural reforms, which could undermine the outlook and debt sustainability; and policy discontinuity following the upcoming elections. Beyond the short-term, scarring from the COVID-19 crisis, the risks of increased protectionism and longer-term structural de-globalization could also hurt long-term growth prospects.

- On the upside, risks include: (i) a faster recovery of the domestic and/or global economy, trading partners, and oil prices, possibly facilitated by advancements in the availability of a vaccine, and (ii) even greater policy support from the next administration and buy-in across the political spectrum for continued implementation of the structural reforms that would improve Ecuador's competitiveness and business climate during and beyond the program horizon, which would boost the economy's productive capacity and strengthen its external position, crucial for a dollarized economy.

PROGRAM IMPLEMENTATION

16. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-September were met with large margins:

- **Central government balance.** The end-September QPC on the overall balance of the budgetary central government (PGE) and the domestic derivatives financing account (CFDD) was met with a sizeable margin—the actual deficit was $1,121 million, well-below the target, adjusted for oil prices, of $2,887 million (Text table 1). On the revenue side, non-oil tax revenues were higher than expected by $570 million, aided by continued economic recovery and advance payments of income taxes being brought forward from Q4 to Q3. Combined with higher VAT payments from oil companies and higher oil revenues, total revenues ended up being $767 million more than expected. On the expenditure side, spending restraint of about $1 billion, largely on goods and services and capital expenditures, accounted for the bulk of the overperformance. This restraint largely reflects the authorities' prudent approach to avoid building further arrears in the absence of readily available financing.

- **Nonfinancial public sector (NFPS) deposits.** The QPC on NFPS deposits at the central bank, adjusted for oil prices and multilateral disbursements, was met with a large margin of $1,765 million, reflecting the lower-than-expected fiscal deficit.

- **Continuous performance criteria**. The continuous performance criteria on no new gross credit to government from the central bank and on the non-accumulation of external payment arrears were both met.

- **NFPS non-oil primary balance with fuel subsidies (NOPBS) and overall balance.** The end-September IT on the NOPBS was met with a sizeable margin of $1,543 million; the margin of overperformance for the IT on the NFPS overall balance was $1,366 million.

- **Net international reserves (NIR).** The change in NIR, evaluated at program exchange rates between end-June and end-September was $40 million, well-above the program target, adjusted for oil prices, of about -$2.2 billion. The strong NIR overperformance reflects the Fund disbursement being made in October rather than by end-September as programmed, resulting in lower foreign liabilities than anticipated.

- **Social assistance coverage.** The authorities brought an additional 67,244 families into the social safety net in 2020:Q3 while exiting 3,460 families from the social registry whose incomes are now above the thresholds. This corresponds to an increase in active beneficiary families by 63,764 in Q3, above the program target of 62,240. The authorities have since added another 169,000 beneficiary families, already ahead of their end-December goal.

17. Structural reforms have progressed broadly in line with program commitments:

- The end-November structural benchmark (SB) on operationalizing COPLAFIP (¶26) was implemented with a small delay, and the end-November benchmark on adopting an internal audit charter covering all BCE functions (¶29) was met. The SB on the financial plan for 2021 (December 16) is on track to be met (¶26).

- The authorities made commendable progress on the SB on asset declaration, adopting regulations to publish additional information online from high-level public officials and/or politically exposed persons (PEP) declarations. However, it became clear during the deliberations that meeting the SB in full would require legal amendments as data on incomes, a key component of the SB, is not collected under the current declaration form. The legislation would need further changes to bring it in line with international best practices, such as requiring the collection and publication of information on incomes along with the financial interests of high-level public officials. Therefore, despite the excellent progress, the SB is considered partially implemented. The authorities are committed to overcoming these obstacles and fully implementing this reform; therefore, a new SB is proposed to clear the path to align Ecuador's framework with best practices (¶32-33).

- The National Assembly is advancing in its deliberations on the anticorruption law; the first of the two requisite debates was concluded on November 28 and the Assembly is expected to approve the amendments to align Ecuador's framework with the UN Conventions in the coming days (prior action, ¶32).

- Last but not least, the authorities are making progress on finalizing the amendments to the Monetary and Financial code (COMYF) at the executive level (prior action, ¶29) to advance towards the end-January 2021 goal of enacting the amendments.

Text Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets

(In million US$, unless specified otherwise)

	End-Sept. 2020			
	Prog. 2/	Adj. 3/	Actual	Status
Quantitative performance criteria				
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-2,894	-2,887	-1,121	Met
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	0	-1,993	-227	Met
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met
Indicative targets				
6. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*) 1/	-2,539	-2,539	-996	Met
7. Overall balance of the NFPS (*floor*) 1/	-2,706	-2,699	-1,333	Met
8. Change in the stock of NIR - program definition (*floor*) 1/	-2,200	-2,193	40	Met
9. Coverage of the cash transfer programs for lower income families - number of families (*floor*) 1/	62,240	62,240	63,764	Met

Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).

1/ Cumulative change from July 1, 2020.

2/ Staff report for the EFF approval, No. 20/286.

3/ Adjusted for oil prices (and for disbursements from multilateral institutions and China for NFPS deposits) as per the TMU.

POLICY DISCUSSIONS

A. Expanding the Social Safety Net

18. Continuing to expand social assistance programs is crucial to support vulnerable families during and beyond the pandemic. The expansion of social assistance programs to low income households envisaged under the program would increase coverage from 37 to 80 percent of families in need by end-2021, corresponding to 625,600 families. This increase would not only support the vulnerable families through the pandemic and help mitigate its economic and social effects but also extend lasting support for the coming years. To complement this expansion and further tackle the rising poverty and income inequality caused by the crisis, the authorities adopted a compensatory coverage for economic contingency of $90, payable in six installments of $15 from December 2020 to October 2021 to beneficiaries of social assistance programs.

19. Reorienting spending from subsidies to social assistance would improve the progressivity of spending policies. The envisioned expansion would cost about $592 million in 2020-21, with an additional $126 million for the new economic contingency support. The savings from gradually aligning fuel prices with international prices are estimated to save $508 million in 2020–21 alone, covering a large share of the increase in social assistance spending. By replacing distortive and regressive subsidies with transfers to low income families, these changes together would improve the fairness and equity of public finances (Annex I). An interagency committee has been established to better monitor progress in updating the social registry. A robust communications campaign to convey the broader benefits of rebalancing spending from subsidies to social assistance would be instrumental in ensuring its sustainability.

B. Restoring Fiscal Sustainability While Supporting the Population

20. Spending is expected to increase in Q4 from Q3, while saving some of the overperformance in Q3. The spending restraint in Q3 – which reflected financing not being immediately available – would be relaxed in Q4, including to partly accommodate seasonal spending patterns. More importantly, COVID-related spending, which was lagging in Q3, would be brought in line with commitments at program approval (i.e., $800 million for the year against about $300 million having been spent through September),

Text Table 2. Ecuador—Change in Fiscal Balances, 2020 Q3-Q4
(in million USD)

	Q3		Q4	
	Program Approval	Actual Data	Program Approval	Current Forecast
PGE+CFDD 1/				
Revenues	3,744	4,511	4,335	4,064
Expenditures	6,638	5,632	6,536	6,947
Overall balance	-2,894	-1,121	-2,201	-2,884
NFPS				
Revenues	6,079	6,975	7,047	6,614
Expenditures	8,785	8,308	11,002	10,938
Overall balance	-2,706	-1,333	-3,956	-4,324
Change in deposits	0	-227	590	527

1/ PGE is the budgetary central government. CFDD is the account used to finance the purchase of oil derivatives.

providing essential services.[3] Staff discussed with the authorities their updated spending needs for Q4 to ensure that they adequately support the population and the economy through the crisis, including through higher spending on health and education. At the NFPS level, expenditure is expected to remain broadly in line with earlier forecasts. In executing COVID-related spending in particular, observing the best standards of governance and transparency will be important.

21. Despite higher deficits in Q4, the 2020 overall deficit is expected to be lower than previously envisaged (Text table 2)**.** Revenues at both central government and NFPS levels are now expected to be somewhat lower in Q4 than expected at program approval because of the reprofile in tax payments (¶16). With the expenditure outlook described above, the central government (PGE and CFDD) and NFPS deficits are projected at about $2.9 and $4.3 billion in Q4, larger than at program approval by about $700 million and about $400 million, respectively. Notwithstanding these higher deficits, the end-year overall central government deficit is expected to reach about $7.7 billion (8.1 percent of GDP), and the overall deficit at the NFPS level is expected at about $7.3 billion (7.8 percent of GDP), both about $1 billion lower than forecasted at program approval. This will lock in about $1.1 billion out of the overperformance in Q3 at the central government level, which will partially cover the financing shortfall in Q4 (¶23) and strengthen the economy's buffers.

Text Table 3. Ecuador—Change in Fiscal Balances, 2021
(in million USD)

	Jan-Apr	May-Aug	Sep-Dec
PGE+CFDD 1/			
Revenues	6,999	6,226	6,419
Expenditures	7,239	7,785	8,553
Overall balance	-241	-1,559	-2,134
NFPS			
Revenues	10,222	10,570	10,456
Expenditures	10,495	11,064	12,503
Overall balance	-273	-494	-2,047
Change in deposits	-47	-90	387

1/ PGE is the budgetary central government. CFDD is the account used to finance the purchase of oil derivatives.

22. Progress toward fiscal sustainability, starting next year, would be facilitated by an improving economy. The fiscal policy plans for 2021 are broadly in line with those at program approval. The main improvement in the deficit would come from the recent bond restructuring that significantly lowered the interest cost of Ecuador's debt by 1½ ppt of GDP in 2021 alone. As the economy strengthens and oil prices recover, both non-oil and oil revenues would recover from their low levels in 2020, by a total of 1¼ of GDP. Discretionary spending cuts would include wage restraint (0.6 ppts of GDP) and moderation of capital spending (0.7 ppts of GDP). Together with savings from the ongoing fuel subsidy reform and the roll-back of pandemic-related spending when the crisis subsides, these automatic effects and policy steps would improve the NOPBS deficit by 2.0 ppts to 4.2 percent of GDP, and the overall NFPS deficit by 5.0 ppts of GDP to 2.8 percent (Text table 3).

[3] In Q4, the authorities also cleared outstanding social security contributions, past-due payments on wages, tax refunds and transfers to local authorities; payments were also cleared with more than 20,000 small service providers, prioritizing payments of those suppliers within the social protection and education sectors.

23. Financing needs and sources are expected to be lower than envisaged at the time of program approval in 2020 and 2021. For 2020, financing needs are now expected to be lower, largely owing to improved fiscal balances by about $1 billion and about $400 million in savings from other sources (lower net repayments on margin calls and a small gross accumulation in accounts payable). At the same time, the planned financing from China of $1.7 billion this year is now delayed. As a result, the authorities plan to reduce the pace at which they build buffers in Q4 by about $300 million. For 2021, financing needs are somewhat lower, since part of the needs would have been to service the debt contracted in 2020. On sources, staff has not built into baseline projections the previously expected loans from China of about $700 million, since the discussions are ongoing between relevant parties. Instead, the authorities have identified alternative sources of financing from international and domestic sources to cover the potential shortfall (¶36). In fact, the authorities plan to continue building buffers next year of about $250 million. They continue to work actively with their bilateral partner to secure disbursements. Should the previously expected loans from China materialize in 2021 as described above, the authorities would allocate more resources to the budget, raising the deficits by up to $500 million (¶23, TMU¶14, 38, 45).

24. Continued commitment to reducing deficits is needed to ensure sustainable public finances over the medium-term and lower the debt burden on future generations. Anchoring the medium-term path on the 57 percent of GDP debt limit in COPLAFIP entails a reduction of the NOPBS deficit by 5.5 ppt of GDP between 2019-2025, and of the overall NFPS balance by 5.3 ppt. Achieving these ambitious, yet realistic, goals requires a combination of a progressive tax reform—with permanent revenue yield of 2½ percent of GDP from 2022—and sustained expenditure rationalization. While ambitious, the size of the envisaged fiscal consolidation is in line with Ecuador's historical performance in response to public debt increases.[4]

25. The medium-term adjustment envisioned under the program has been designed to be progressive, to shield lower income groups and reduce income inequality (Annex I). An increase in the VAT rate, for example, would be borne predominantly by high-income families, since most food and basic items (*canasta básica*) consumed by low income families would remain exempted from VAT and these items make up the bulk of these families' consumption. The personal income tax paid by high income groups is one of the lowest in the region. Taken together with the expansion of social assistance, the envisaged tax package would help reduce income inequality. The composition of fiscal consolidation in the program reflects extensive TA and analysis; it balances growth and equity considerations, efficiency gains, and gaps with regional peers on both taxes and expenditure.

[4] See Annex III in IMF Country Report No 2020/286: Ecuador - 2020 - Request for an Extended Arrangement Under the Extended Fund Facility

C. Strengthening Public Financial Management and Revenue Administration

26. The authorities are making progress on strengthening the management of public resources and ensuring better program monitoring and implementation.

- Operationalizing the organic budget code: the regulation to implement the amendments to COPLAFIP (*structural benchmark for end-November 2020*) was implemented with delay (early December). This regulation took the form of a Presidential decree and encompassed the regulation adopted in September on data provision through a Ministerial decree.

- Enhancing public procurement practices: the authorities continue to publish information on public procurement contracts on a dedicated website, including COVID-related, and are refining their open data to be able to reflect information on final beneficial owners of public contracts, in line with the related regulation adopted in September and the current binding template already in force.[5] SERCOP, the Comptroller General of the State, and the Superintendency of Companies are working with the Ministry of Economy and Finance to standardize public procurement practices across the public sector and improve efficiency, including through increased use of competitive processes and reliance on the catalog.[6]

- Improving cash and debt management: a financial plan for 2021 (*structural benchmark for December 16, 2020*) was prepared with support from FAD TA and is expected to be approved by the Committee on Public Finance at its next meeting before December 16. An MCM TA, with WB collaboration, started work in November and will assist the authorities in preparing a medium-term debt management strategy document (*structural benchmark for end-February, 2021*). The TA will also discuss possible liability management operations in 2021 targeting debt service for at least 2022.

- Government finance statistics (GFS, *structural benchmark for end-May, 2021*): the work of the STA short-term expert (STX) on GFS started in mid-September, with initial focus on the compilation guide and historical monthly time series for revenues and expenditures for the NFPS and its subsectors. The STX is also working with data compilers on the compendium of sources data and cross checking between them.

- Audit of COVID spending (*structural benchmark for end-June, 2021*). So far, the Comptroller General's Office conducted more than 300 special examinations of the procurement processes

[5] https://www.compraspublicas.gob.ec/

[6] The Single Registry of Suppliers (RUP) provides information on the entities that can have a contract with the Ecuadorian State (https://www.compraspublicas.gob.ec/ProcesoContratacion/compras/EP/BusquedaProveedorCpc.cpe). Public procurement processes and documentation are publicly available: (https://www.compraspublicas.gob.ec/ProcesoContratacion/compras/PC/buscarProceso.cpe?sg=1).

carried out during the state of emergency including contracting, execution, delivery, reception, and distribution. The authorities are making steady progress towards meeting the benchmark.

27. Improving debt transparency, including disclosure of debt-linked oil sale contracts, would allow for a better comparison of cost of funds across debt instruments (Annex II). The Ecuadorian authorities have vastly improved the transparency of oil sale agreements, including the ones that are linked to financial loan contracts. These off-market sales agreements are being published on Petroecuador's website with a usual lag of one year, or immediately if confidentiality clauses allow. A closer look shows that the oil sales that are linked to financial loans are priced similarly with the market. The data shows that sale prices are similar across buyers, with a premium for longer term contracts such as those with Chinese companies. Going forward, the staff encouraged the authorities to further enhance transparency and disclosure terms while continuing to publish old contracts as legally permissible. Staff also called for efforts to identify further areas to improve debt information disclosure (coverage and details of debt instruments) with the support of World Bank technical assistance. The authorities agreed with the recommendations and reiterated their commitment to enhance debt transparency further.

28. Improving the compliance of large taxpayers would enhance revenue collection over time. The authorities are working to establish a full-fledged Large Taxpayers Office (LTO) within the revenue authority (IRS) by January 2021, building on earlier Fund TA. The unit will be responsible for all tax administration functions for large taxpayers nationwide. It is envisaged to cover the 500 largest taxpayers nationwide—accounting for 54 percent of tax revenue collection—and the 100 wealthiest individuals. The IADB will provide support on the IT aspects as well as institutional design. In line with Fund TA advice, the authorities intend to pass the necessary amendments to the by-laws for the LTO to become fully functional and strengthen the compliance programs, among other reforms.

D. Reforming the Central Bank

29. The authorities are moving forward with strengthening the central bank's autonomy and safeguards. The planned amendments to the Monetary and Financial Organic Code (COMYF) will align it with best practice in areas of governance, independence, objectives, transparency, and controls. A draft legislation was prepared with Fund technical support in late 2019. Given the importance of this reform to strengthen the basis of dollarization, finalizing the law at the Presidential level for subsequent submission to the Assembly in early-January is a *prior action*. This will set Ecuador firmly on a path to enacting the law by end-January, as envisioned (*structural benchmark*). Separately, the Minister of Finance also intends to work on draft amendments to the capital market legislation, with support from the US Treasury, to develop domestic financial markets. In the interim, and following recommendations from the 2019 safeguards assessment, the JPRF approved the establishment of an independent Audit Committee and the internal audit charter, which expands the scope of BCE's internal audit (*structural benchmark for end-November 2020*).

E. Safeguarding Financial Stability

30. Staff underscored the need to monitor liquidity conditions and to remain vigilant on credit risks accumulated during the pandemic. NPLs are expected to rise in the coming months as some borrowers face difficulties in servicing their debt obligations following the expiration of credit deferral measures. Debt restructuring might become prevalent, and with it, the need to account for potential losses. While the system has built loan-loss provisioning buffers and its capital level (15 percent on average) can defend balance sheets to some extent, institutions that have more consumption and micro credits may require liquidity support or even recapitalization in the future. The Liquidity Fund should be used as needed to support illiquid but solvent entities, but further reductions in the rate of contribution by financial institutions should be avoided. Staff encouraged supervisory authorities to maintain their closer surveillance, including via enhanced stress testing. It will be critical to improve coordination among oversight entities and develop a clear and coherent communication strategy.

31. Fund TA will support strengthening the regulatory and supervisory capacity. Technical assistance to improve stress testing capacity of the Superintendency of banks has started and is expected to be completed in April. It is expected that further technical assistance will support the preparation of reforms to bring the banking law up to international standards, including on bank resolution. Continued Fund support to the Superintendency of cooperatives is oriented to gradually close regulatory gaps vis-a-vis banks.

F. Strengthening the Rule of Law and Supporting the Recovery

32. Passing the anticorruption legislation would be a major achievement in this review. According to public opinion polls, corruption is one of the top concerns for the Ecuadorian people. Passing the amendments to the penal code would be significant for at least three reasons: 1) it would address a key concern of the citizens and begin to rebuild their trust; 2) it would strengthen Ecuador's anticorruption framework and align it with international standards; and 3) it would demonstrate that the National Assembly can coalesce around a key reform such as on governance. The commitment to enact the law by end-December requires successfully approving it by the last working day of the Assembly, following the requisite two rounds of debate. In that light, the Office of the President receiving the approved law with the COIP amendments from the National Assembly for the next stage towards enacting the law is a *prior action*.

33. The authorities plan to continue with reforms to prevent and manage conflicts of interests in the public sector. As a follow up to the work done on transparency and corruption, particularly on asset declarations towards the November SB, the authorities plan to enact legislation, by end-January 2022, to strengthen the conflict of interest framework in line with the UNCAC (Articles 7 and 8) and international good practices, such as those included in the *G20 Preventing and Managing Conflicts of Interests Good Practices Guide* elaborated by the World Bank, the OECD and the UNODC (2019) (*new structural benchmark for January 2022*). This reform would allow for broadening the data that are collected and published on incomes and interests of public official and by their close family members, enhancing transparency and management of potential conflicts of interest.

34. Extending the labor market measures adopted in the wake of the pandemic could support the economic recovery. The significant drop in labor force participation since the COVID-19 outbreak and the decline in the share of adequate employment (¶15) call for public policy to continue supporting the labor market. The measures adopted in the wake of the pandemic to make the labor market more flexible was followed by robust job creation in 2020:Q3. Maintaining the flexibility provided by those measures, such as shorter work weeks, more flexible shift and remote work arrangements, could support the labor market and the recovery. The authorities are also exploring measures to support women's return to work and adequate employment, as they were disproportionately affected by the pandemic (¶7). The authorities' consultative approach to labor market changes under the initiative "*Juntos por el empleo*" that brings together all the actors of the labor market, could foster consensus building and generate policies that garner broader political support. These labor market initiatives would complement the program *Reactívate Ecuador* which seeks to alleviate credit constraints on small and medium-size enterprises, including through credit guarantees, with support from the World Bank and the IADB.

PROGRAM ISSUES

35. Modifications are proposed to the end-December 2020 targets (Table 9). Notably, the end-December QPC on the central government balance and IT on NFPS overall balance would be revised up by about $1 billion each, to save some of the overperformance in Q3. The QPC on NFPS deposits would be reduced by $289 million, as the lower deficits less than offset the delays in financing from bilateral creditors (¶23).

36. Financing Assurances. The program is fully financed for the next 12 months and has good financing prospects beyond. While previously expected fresh financing from China ($1.7 billion in 2020 and $700 million in 2021) has not been built into the baseline as a working assumption, due to current delays in their operationalization, the authorities continue to closely engage with their bilateral partner to secure disbursements in 2021. Financing in 2020 is fully covered, owing both to better-than-expected fiscal and growth outcomes (¶23, Table 3), greater use of existing buffers and savings from other sources. Alternative financing from multilateral, bilateral, and domestic sources has been identified to cover the now-lower financing needs in 2021; in particular, additional financing from the IADB and CAF totaling $410 million has been secured. While this strategy is feasible, the reduced accumulation of buffers, and greater reliance on domestic financing sources to cover for the substantial delays in bilateral financing in 2020 and 2021 entail tradeoffs and costs that would be mitigated if disbursements from bilateral creditors were to materialize in 2021. Financing assumptions in the outer years remain unchanged and are predicated on multilateral and bilateral financing, and conservative assumptions of market access and asset monetization, as required by the debt sustainability framework to meet EA2 standards.

37. Capacity to repay. The EFF would result in peak Fund credit reaching SDR 6,096 million or 874 percent of quota (about $8.6 billion) in 2022. Peak Fund obligations would constitute 5.4 percent of exports and 3.4 percent of government revenues—at or below median compared to other exceptional access cases. Outstanding credit to the Fund relative to GIR would peak at 107 percent, well above exceptional access cases, and net international reserves are projected to remain negative at program completion. Although reserves in a dollarized economy are not straightforward to compare to those in countries with their own currencies, it is still critical to sustain access to financing and continued credit support. Staff judges that Ecuador would have adequate capacity to repay, contingent on steadfast program implementation and support from other creditors. However, partial or non-implementation of the program could severely strain the capacity to repay.

38. Political Assurances (PoA). At this stage, the three main presidential candidates broadly support the main program objectives, as well as key program policies. However, the candidates' policies still lack specificity, ahead of the official start of the election campaign in early January, and it is difficult to fully assess possible divergences from the program without a more granular elaboration of policies by the candidates. In the challenging pre-election environment, two of the three lead candidates have stated that they would renegotiate the Fund-supported program (¶3), without being specific about the elements of the program that they would like to renegotiate. All have called for a broad tax reform to anchor fiscal sustainability, a key objective of the program, though some still evolving. Staff has provided the high-level objectives and key policies of the Fund-supported program to these candidates and remains open to a candid policy dialogue.

39. Safeguards Assessments. The authorities are making progress in the implementation of the 2019 safeguards assessment recommendations. Five recommendations have been already implemented, and the BCE is progressing on the plan to transition to the International Financial Reporting Standards. The enactment of the COMYF—expected by end-January 2021—will improve the central bank's autonomy and governance (¶29), and enable the implementation of other recommendations, such as the publication of the full set of audited financial statements. The fiscal safeguards review, as required when at least 25 percent of Fund support is for the budget, is tentatively set for January 2021.

40. Lending into Arrears. Ecuador maintains a residual amount of arrears to international private bond holders arising from outstanding claims on those international bonds that the authorities repudiated in 2008/2009. At that time, the majority of government obligations were repurchased by the government. However, US$52 million remain outstanding in the hands of individual creditors and the authorities have been unable to identify these creditors in order to settle the claims. The authorities established a public procedure to follow in the event that a holder of these bonds requests the liquidation of the securities. Staff judges that good faith efforts have been made to reach a collaborative agreement with the remaining creditors and the requirements under the policy on lending into arrears have been met. The authorities have indicated they have no outstanding arrears to bilateral or multilateral creditors.

41. Article VIII. The authorities confirmed that new exchange restrictions and multiple currency practices have not been introduced; neither have existing ones been intensified.

Box 1. Assessment of Exceptional Access Criteria

Staff judge that the exceptional access criteria are met, as described below.

Criterion 1—*The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account resulting in a need for Fund financing that cannot be met within the normal limits.*

Ecuador continues to experience exceptional BOP pressures, stemming from the deepest recession on record and a loss of market access. The financing gap from the confluence of shocks described above is estimated at $4.5 billion over 2020:Q4-22, after factoring in the fiscal overperformance in 2020:Q3, support from official bilateral creditors and IFIs, and keeping the size of fiscal consolidation unchanged from program approval.

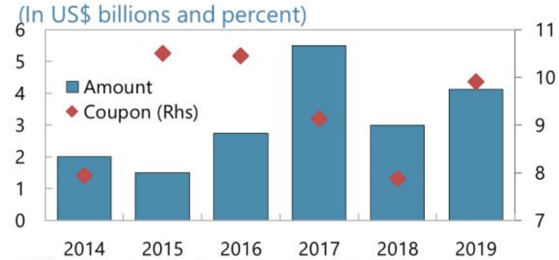
Criterion 2— *A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources***.**

Ecuador's public debt was assessed to be sustainable with high probability at program approval, based on the successful debt exchange, credible financing assurances from bilateral and multilateral creditors and commitment to an ambitious fiscal consolidation over the medium-term. Since then, the macroeconomic situation has somewhat improved in the near term and is broadly unchanged over the medium term. Public debt at end-2020 is projected to be 1 ppt of GDP lower compared to program approval, helped by improvements in fiscal balances and better-than-expected growth (Annex III). Stress tests show that the debt trajectory is sensitive to shocks to the primary balance and growth, particularly in the near term, making the sustained medium-term fiscal consolidation crucial for debt to remain on a sustainable path. The envisaged consolidation has been designed to be realistic to help improve its sustainability, but efforts will be required to stay on track, as the path is nevertheless ambitious. The fact that the debt anchors of 57 percent of GDP by end-2025 and 40 percent of GDP over the medium term are enshrined in the organic budget code provides a key safeguard to debt sustainability.

Criterion 3—*The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*

Ecuador: Global Bond Issuance 1/

(In US$ billions and percent)



1/ The amount for each year corresponds to the sum of all issuances in that year and the coupon corresponds to the weighted average coupon across those issuances.

Until losing market access this year, Ecuador had sustained access to foreign financial markets, with long-term global bond issuances around $3-5 billion per year over the last four years, although the terms of this financing were often not favorable. Historical evidence suggests that Ecuador has been successful in regaining access to the international capital markets within 24-36 months following a debt restructuring. While the global economic outlook is uncertain and markets are volatile in the current conjuncture, Ecuador's re-access to foreign capital could be supported by the wide perception that the debt exchange was market-friendly and negotiated in good faith and a robust implementation of the authorities' reform program. The EMBI spread has hovered around 1000 bp (from 6000 bp in the wake of the pandemic), following the successful debt exchange and supported by the new EFF and recent sovereign upgrades.

Criterion 4—*The policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*

The Ecuadorian authorities have been steadily moving forward with implementing the policies of the program and remain fully committed to take the needed steps to ensure its success. They started the new EFF on a prudent note, meeting all end-September targets with margins (¶18). The current administration's commitment to reform reflects its resolve to leave the country with stronger institutions for the next administration. The new Economy

Box 1. Assessment of Exceptional Access Criteria (concluded)

and Financed Minister has expressed a strong commitment to the program, and together with the Head of the National Assembly, is working toward the timely adoption of the anticorruption and central bank laws.

The fragmented politics and upcoming elections, however, continue to pose important risks to policy and program continuity. Some of the presidential candidates stating they would renegotiate the program should they be elected, and opposing key elements of the tax reform package, has raised the risks of policy discontinuity after the elections.

Reforming the anticorruption and the central bank laws would be key safeguards: they would not only meaningfully strengthen Ecuador's institutions, but meeting key milestones towards their timely adoption would also bring credibility to demonstrate Ecuador's political capacity to carry the program forward and rally around its key elements. The authorities' continued implementation of the active and successful communication campaign to better inform the public opinion about their objectives, and the new national dialogue initiated by the authorities on the policy tradeoffs faced by Ecuador would further help foster ownership and buy in. They plan to prepare draft tax, labor and social security reforms for the next administration in the coming months, with the aim of supporting a smooth transition and policy continuity.

Important technical and institutional deficiencies, including in the collection and compilation of fiscal statistics, is a well-recognized risk to program implementation. The authorities have made commendable and tangible improvements in transparency and information provision to the Fund. The Fund, along with other international organizations, have supported and will continue to support those efforts through extensive capacity development. Key pillars of capacity development are a long-term expert (LTX) in cash management and a short-term expert (STX) in government finance statistics (both by the Fund), working closely with the authorities since program approval. The authorities are not complacent vis-à-vis recent progress in those areas. Cognizant of the still enormous technical and institutional gaps, they have expressed commitment to continue leveraging capacity building support from the Fund and other IFIs as they seek to improve domestic institutions and strengthen the prospects of success beyond the current administration.

The strong program performance to date, including the progress towards fiscal sustainability, commitment to strong prior actions and policies towards which steady progress is being made, tangible improvements in capacity, and plans to prepare draft reforms for policy continuity all provide a reasonably strong prospect of success. Ultimately, successful implementation of the program under the next administration will hinge on the degree of alignment of the incoming administration's policies with the Fund-supported program's main objectives and key policies, and the buy-in and political will from the authorities and legislators. Staff will continue to seek a close and candid dialogue with the presidential candidates and a broad range of stakeholders in the lead up to the elections.

STAFF APPRAISAL

42. The 27-month EFF, approved on September 30, is off to a prudent start. The authorities' decision to adopt a tight policy stance in Q3 was prescient, limiting further accumulation of domestic payment arrears and keeping their year-end goals within reach despite the delays in external financing. At the same time, spending more in Q4 to support the people through the pandemic, especially on health, education and COVID-related needs, would be appropriate. The reform agenda is advancing steadily in key areas to strengthen institutions and policy frameworks that will leave Ecuador stronger for future administrations.

43. The steadfast and commendable expansion of social assistance programs is essential for limiting the economic fallout from the crisis on vulnerable groups. The authorities set bold goals for themselves and are already progressing faster than envisaged. The ongoing expansion and improved targeting of social assistance programs has already brought cash benefits to an additional 232,000 families across Ecuador between July and mid-November, a critical step to mitigate the increase in poverty through the pandemic. Combined with the new compensation scheme to counter the economic downturn, these programs will significantly strengthen the social safety net, allowing the government to reach low-income households in a timely manner.

44. Firming up the path towards fiscal sustainability as the recovery takes hold will help rebuild policy buffers and reduce the debt burden on future generations. For 2020, locking in part of the welcomed overperformance achieved in Q3 would help cushion shortfall in financing. For 2021, it would be important to start from a conservative baseline financial plan to hedge against potential shortfall in financing. A timely and well-calibrated roll-back of pandemic-related spending will be a useful first step to reduce debt towards the debt threshold of 57 percent of GDP by end-2025. A smart and progressive tax reform with permanent revenue yields of 2½ percentage points of GDP from 2022 should be part of a credible medium-term fiscal strategy, together with aligning Ecuador's spending levels to regional peers. The regulations that were adopted to operationalize the landmark COPLAFIP legislation will provide strong institutional foundations for much-needed policy coordination across the public sector.

45. Developing robust public finance management practices will support the path to fiscal sustainability. A robust and forward-looking approach to managing public finances, including through preparing cash flow plans, adopting a medium-term debt management strategy, developing a medium-term fiscal framework, having a risk-based approach and well-articulated contingency plans, will help secure financing in an efficient and least-costly way. In doing so, it would reduce the need to consider less-beneficial financing terms. In this context, further promoting debt transparency would allow for a better comparison of cost of funds, instill market confidence and bolster policy predictability to facilitate a smooth and durable re-access to capital markets.

46. Strengthening the legal and institutional framework for the BCE will solidify the foundations of the dollarization regime. Recent measures aligning the central bank's audit function to international standards will prove essential to enhance accountability and instill confidence on the institution's role in the economy. Swiftly following on with enacting amendments to COMYF will fundamentally strengthen the basis for the dollarization regime.

47. Developing a longer term comprehensive structural reform agenda, built on social dialogue, will be crucial to enhance transparency, improve competitiveness and unlock Ecuador's growth potential. In the near term, enacting the anticorruption law would strengthen the rule of law, protect public finances and reduce the trust gap between public officials and citizens and businesses. Going forward, the authorities' plan to follow a public consultative approach to key reforms is commendable. Ongoing efforts to modernize and standardize public procurement practices will not only enhance transparency around public contracts but also improve efficiency in public service delivery and generate fiscal savings when fully enforced. Other reforms in the areas of governance, corruption, AML/CFT, public enterprises, social security, labor markets, and the business climate, would help address bottlenecks in the economy and promote private sector expansion and job creation.

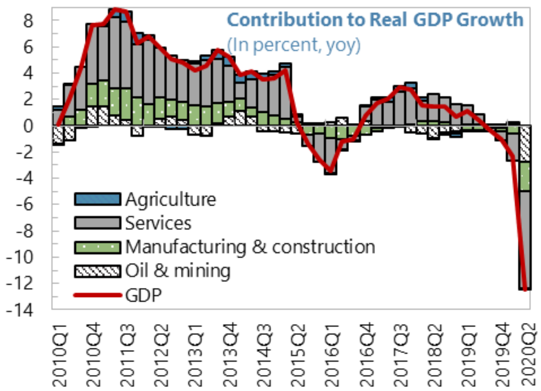
48. The continued prudent application of regulatory and supervisory tools would help the financial system withstand economic stress. The liquidity fund has the resources to provide significant emergency liquidity and must be preserved to be able to pool risks across banks, adapting its conditions if necessary. The continued vigilance of credit risk accumulation is warranted, especially during the transition to the post-COVID measures. These arrangements should be complemented by the development of a more robust legal framework for the financial system, including enhanced contingent arrangements. While the implementation of the *Reactivate Ecuador* program is a significant step to support recovery of the real sector, a continuous assessment of its effectiveness (e.g. in terms of reaching target segments, with appropriate tenors, and at sustainable spreads) is warranted to ensure it contributes to close existing market gaps in financing viable firms, as intended.

49. Capacity development (CD) should continue to be a core pillar of Ecuador's Fund-supported program. One clear tangible result of ongoing CD is the steadfast improvement in fiscal data, owing to the authorities' diligent efforts. Strengthening human capital and expertise to ensure a well-functioning and efficient public sector will play a catalytic role for private sector expansion and deliver long-term gains for all Ecuadorians. The Fund, together with other IFIs, would continue to provide CD support to Ecuador, particularly in the area of government finance statistics for which inter-agency coordination would be of paramount importance, public financial management, social assistance and financial programming. Prioritization of CD needs by topic and appropriate sequencing will ensure effectiveness and help secure lasting results.

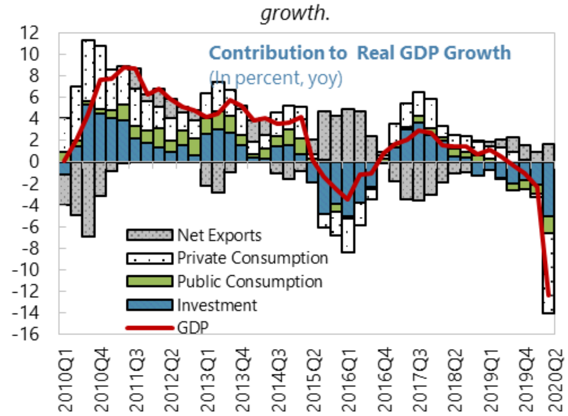
50. Building broad-based social consensus around the reform program would mitigate the still substantial risks to program implementation and deliver a robust job-rich recovery that benefits all Ecuadorians. Risks include heightened pandemic-related uncertainties surrounding the global outlook, as well as Ecuador-specific factors that could make program implementation challenging in the short and medium term, including the political will of the next administration and its ability to forge a reform-minded coalition in the National Assembly. Notwithstanding those risks, the government's continued commitment to the program, tangible results, and strong communication plan for advancing their reform agenda should boost confidence over the political cycle, buttress the recovery and entrench fiscal sustainability. Therefore, staff supports the authorities' request to complete the First Review for the arrangement under the EFF and the proposed modifications of performance criteria.

Figure 1. Ecuador: Recent Economic Developments

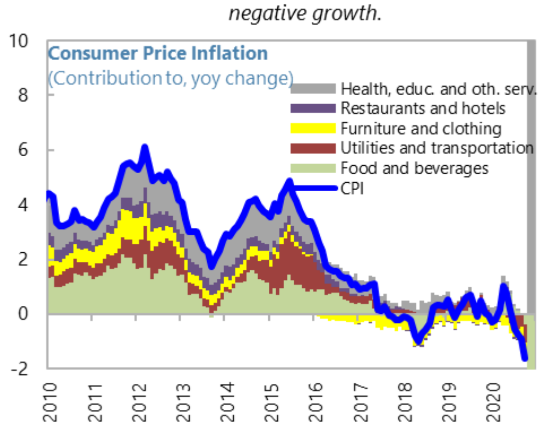
Real GDP growth fell to -12.4% in 2020Q2...



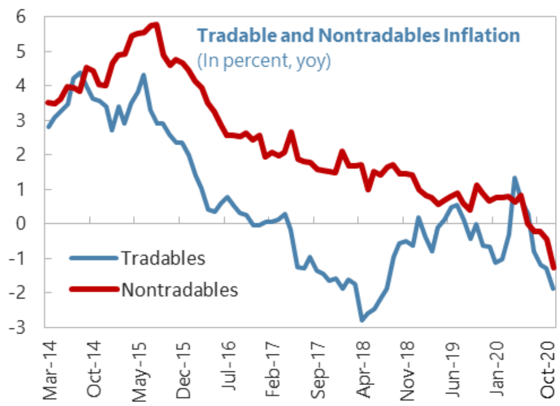
... as a fall in consumption and investment outweighed export growth.



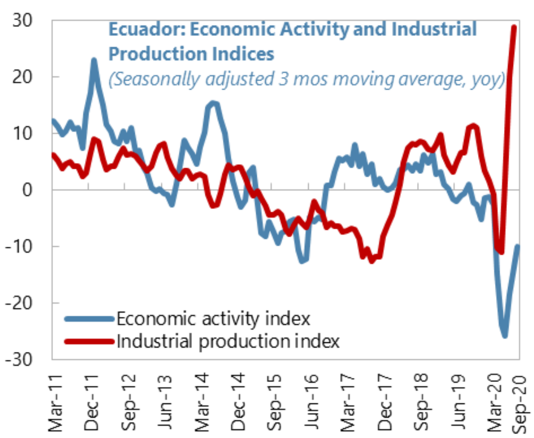
October inflation fell to -1.6%, with all categories - with the exception of health, education, and other services- experiencing negative growth.



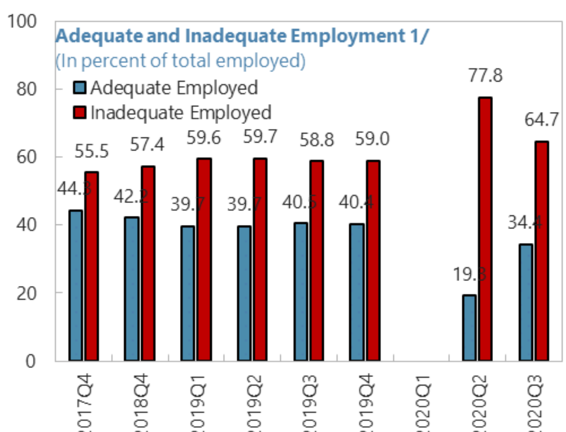
Nontradables inflation has slowed in line with wage growth, while tradables inflation fell to -1.9%.



In September, economic activity continued its recovery to -10.1%, while industrial production rebounded to 28.8% in August....



...while job quality significantly declined in Q2 before rebounding in Q3.



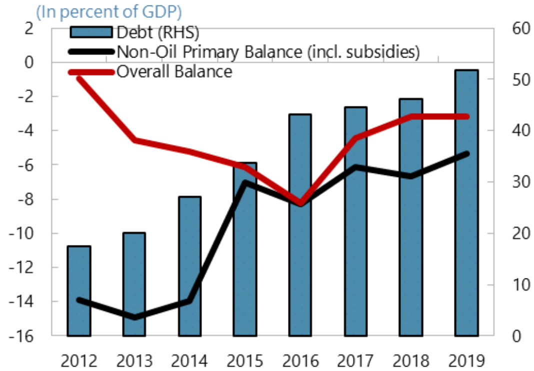
Sources: Central Bank of Ecuador, National Statistical Institute of Ecuador (INEC), and IMF staff calculations.
1/ Employment data unavailable in 2020Q1 because of COVID-19.

Figure 2. Ecuador: Fiscal Developments 1/

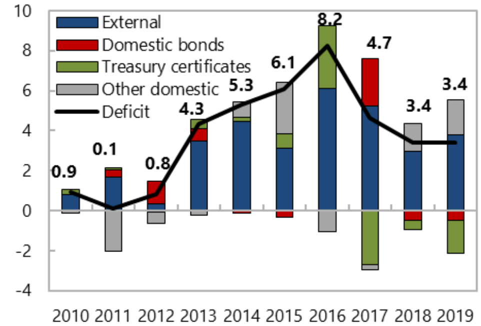
Rising fiscal deficits led to higher debt.

The deficit was financed largely by external bond issuances.

Debt and Fiscal Deficit
(In percent of GDP)



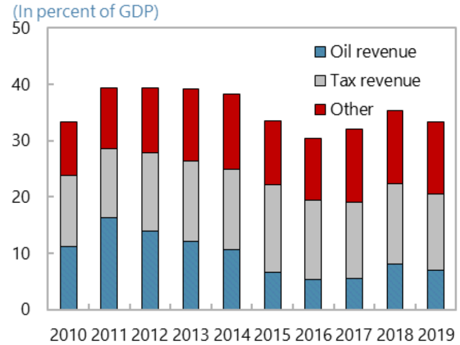
Fiscal Deficit and Financing Sources
(In US$ Billions)



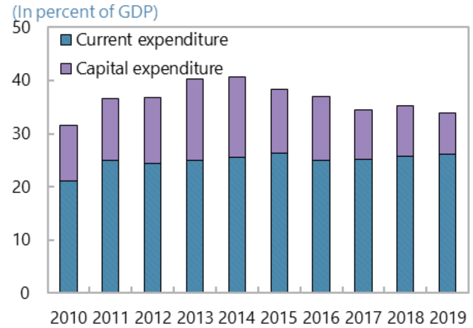
Revenues fell, in part due to the fall in oil revenues...

... while capital expenditure contraction helped offset the increase in current primary spending.

Revenues
(In percent of GDP)



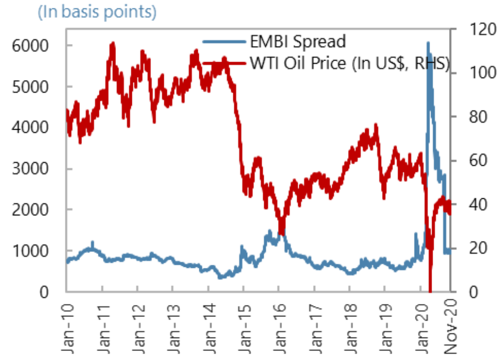
Primary Expenditures
(In percent of GDP)



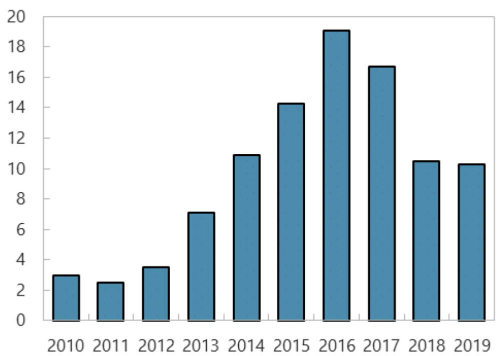
External and domestic events had significant, negative, effects on spreads, which had previously mirrored fluctuations in oil prices...

... which increased GFNs, eventually resulting in a bond restructuring.

EMBI Spread and Oil Price
(In basis points)



Gross Financing Needs
(In percent of GDP)

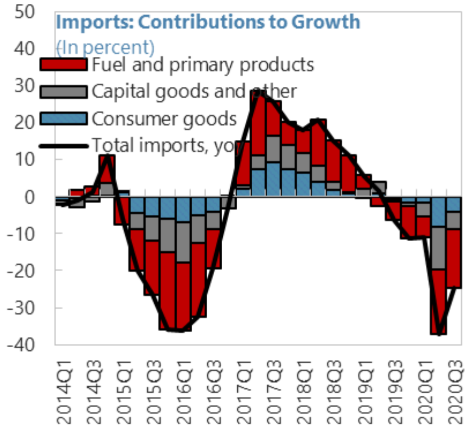


Sources: Central Bank of Ecuador, Ministry of Finance, Haver, Bloomberg, and IMF staff calculations.

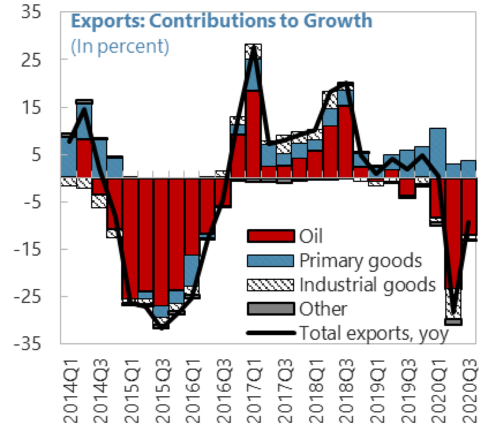
1/ The data for Ecuador reflect net lending/borrowing for the Non-Financial Public Sector (NFPS). Ecuadorian authorities, in the context of the EFF approved in March of 2019 and with the technical support from the IMF Staff, are undertaking revisions of the historical fiscal data for the net-lending borrowing of the NFSP with the view of correcting recently-identified statistical errors, mostly in the recording of revenues and expenditures of the local governments. Fiscal data reported in the table for 2018 and 2019 reflect the corrected series while the data for earlier years are still under revisions and will be corrected in the subsequent WEO releases as the authorities proceed with the corrections in the earlier years, going as far back as 2012. The authorities are also working on reconciling historical revenue and expenditure data with financing.

Figure 3. Ecuador: A Vulnerable External Position

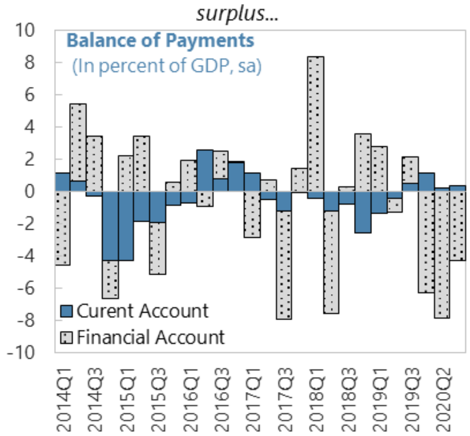
After falling to -37% in 2020Q2, import growth saw a recovery to -25% in 2020Q3...



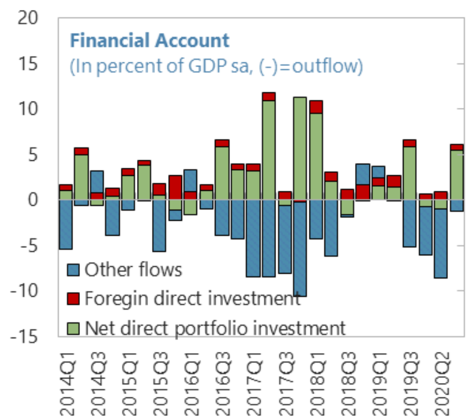
...with export growth following suit, growing -9.3% in Q3.



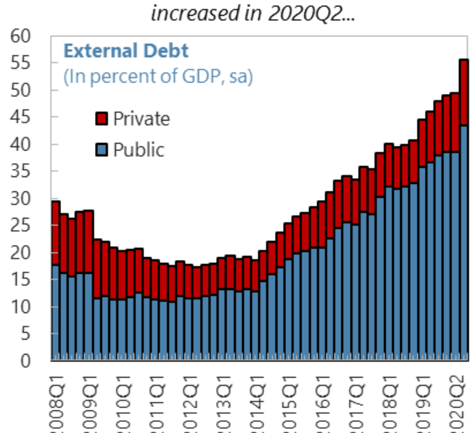
The current account registered a slight surplus...



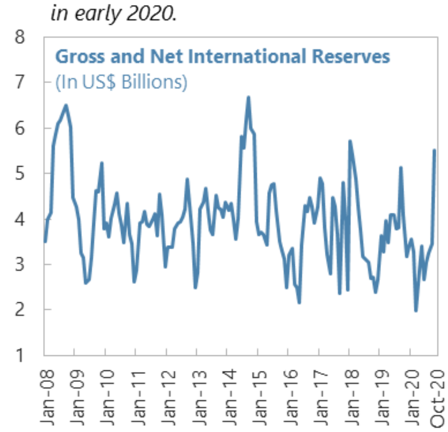
... and FDI flows remained low.



Both public and private external debt increased in 2020Q2...

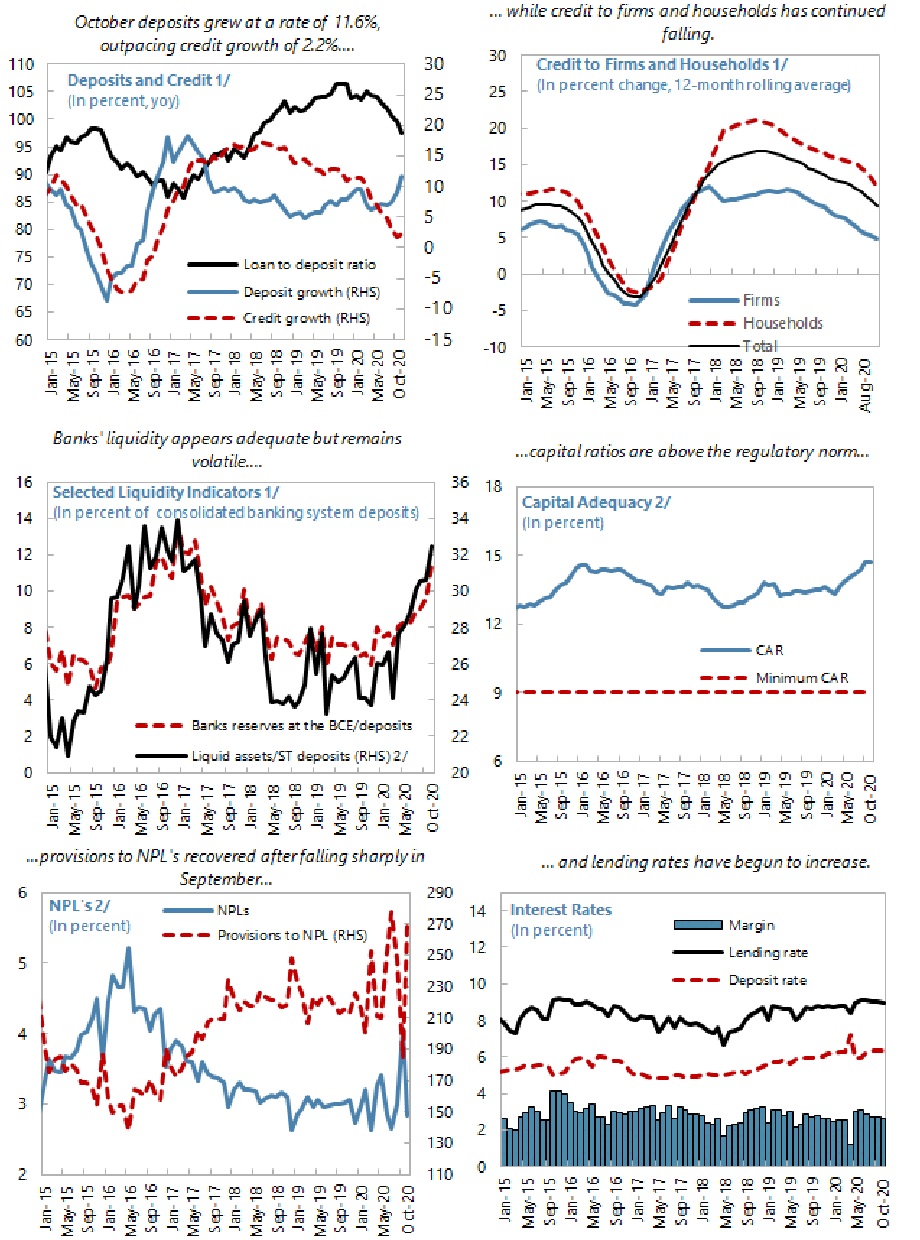


... while GIR has recovered after a sharp fall in early 2020.



Sources: Central Bank of Ecuador, STA BOP database, and IMF staff calculations.

Figure 4. Ecuador: Financial System Developments

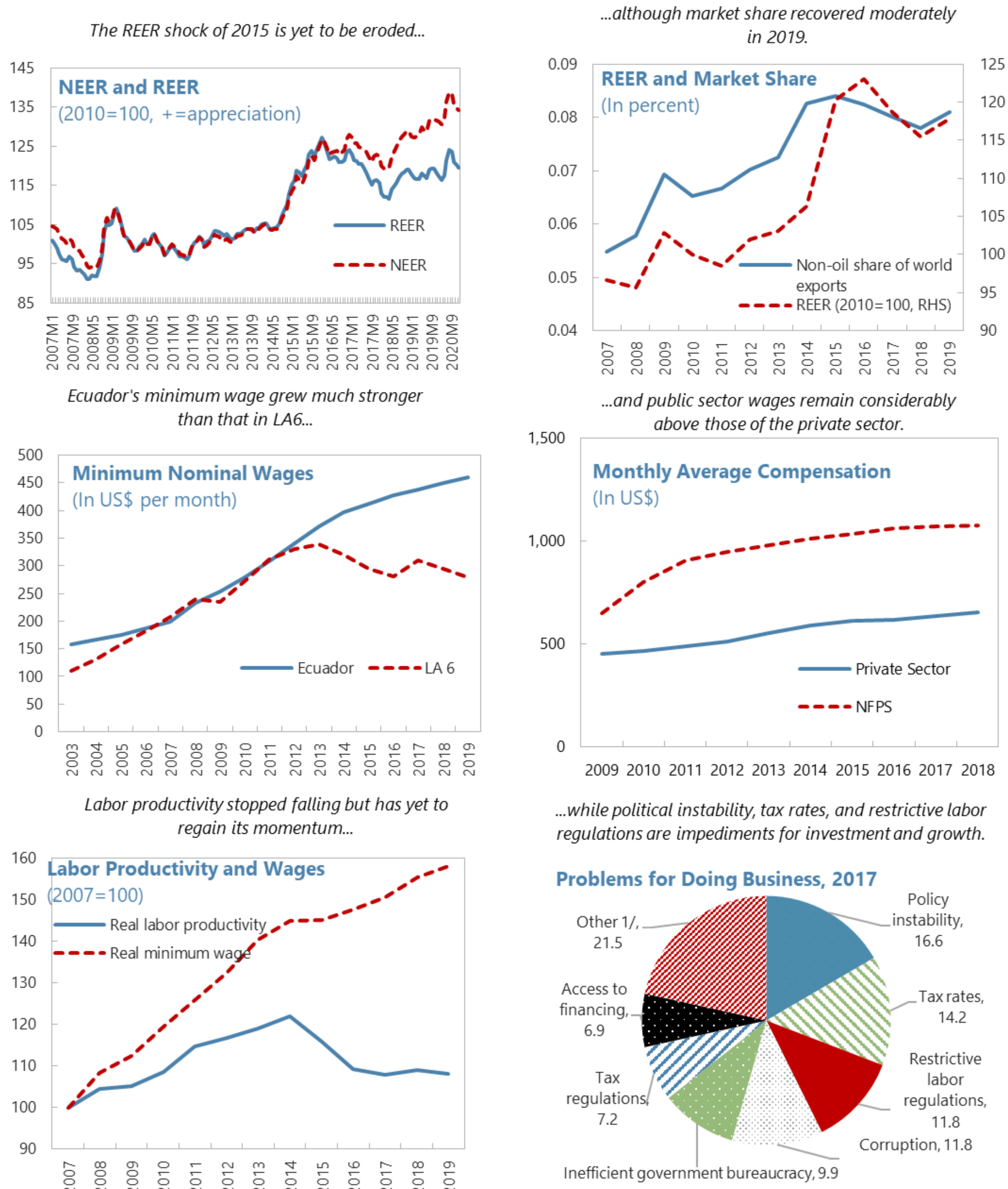


Sources: Central Bank of Ecuador, Superintendency of Banks, IMF Monetary and Financial Statistics, and IMF staff calculations.

1/ Loan to deposit data corresponds to Other Depository Institutions, which include private banks, *Banecuador*, *Banco del Pacifico*, private financial companies, mutualists, cooperatives, and credit card companies. While credit and deposit data corresponds to the whole financial system.

2/ Data corresponds to the private banks aggregate, which includes *Banco del Pacifico*.

Figure 5. Ecuador: Competitiveness



Source: INEC, BCE, ILO, INS database, Haver, World Economic Forum (Executive Opinion Survey 2017), and IMF staff calculations.

1/ Other includes: Foreign currency regulations, poor work ethic in national labor force, inadequate supply of infrastructure, government instability/coups, restrictive labor regulations, tax regulations, insufficient capacity to innovate, poor public health, and crime and theft (in order of importance).

Table 1. Ecuador: Selected Economic and Financial Indicators

		Est.	Projections							
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
			(Percent change, unless otherwise indicated)							
National income and prices										
Real GDP	1.3	0.1	-11.0	-9.5	4.8	3.5	1.3	1.7	2.0	2.3
Domestic demand (contribution to growth)	2.2	-0.9	-13.1	-13.2	5.6	4.6	0.7	0.9	1.7	2.2
External Demand (contribution to growth)	-0.9	1.0	2.1	3.7	-0.8	-1.1	0.6	0.8	0.3	0.1
Consumer price index period average	-0.2	0.3	0.0	-0.3	1.0	1.0	2.4	1.4	1.0	1.0
Consumer price index end-of-period	0.3	-0.1	-0.3	-0.6	2.0	2.3	1.9	1.1	1.0	1.0
Banking system										
Net domestic assets	7.6	9.5	0.7	5.7	4.1	1.5	-3.9	-3.7	-5.4	-0.6
Liabilities	4.7	8.6	-2.3	9.4	6.6	4.7	2.1	1.8	1.5	1.6
Credit to the private sector	14.9	11.3	-1.8	-0.5	8.2	10.8	3.4	3.3	3.5	3.9
External sector										
Exports	12.5	2.9	-21.1	-21.0	6.2	4.7	5.0	4.8	4.8	4.7
Oil	27.3	-1.5	-40.7	-42.1	14.4	9.3	4.6	3.6	3.2	3.2
Non-oil	5.3	5.8	-8.0	0.1	2.8	2.9	5.2	5.2	5.5	5.3
Imports	14.2	-1.5	-18.3	-23.4	5.4	6.2	3.1	2.5	3.3	3.8
Terms of trade	1.3	-0.8	-10.7	-11.1	3.8	1.0	-0.1	-0.6	0.6	0.7
Real effective exchange rate (2010=100)	115.4	117.8								
Real effective exchange rate, end-of-period (depreciation, -)	-2.8	2.0								
			(Percent of GDP)							
Current account balance	-1.2	0.0	-2.0	-0.6	-0.1	1.0	1.6	2.0	2.1	2.0
NFPS Public finances										
Revenue	35.3	33.4	30.1	30.2	31.6	31.5	34.4	35.0	35.4	35.4
Expenditure	38.5	36.6	39.0	38.0	34.6	34.3	33.8	33.1	33.0	33.2
Overall balance (deficit -)	-3.2	-3.2	-8.9	-7.8	-2.9	-2.8	0.6	1.9	2.3	2.2
Non-oil primary balance	-4.2	-3.1	-6.8	-5.1	-3.6	-3.2	-0.4	1.0	1.2	1.3
Non-oil primary balance (incl. fuel subsidies)	-6.7	-5.3	-7.9	-6.2	-4.6	-4.2	-1.5	-0.1	0.1	0.1
Public debt 2/	46.1	51.8	68.9	66.4	67.4	66.2	64.9	61.9	60.1	56.4
Domestic	12.4	13.9	17.2	17.2	15.5	16.1	15.6	14.5	14.5	13.3
External	33.8	37.9	51.7	49.2	52.0	50.1	49.3	47.4	45.6	43.1
Gross Financing Needs										
In percent of GDP	10.5	10.3	16.1	14.8	8.1	7.7	4.1	3.9	3.1	4.8
In percent of Exports	51.0	48.4	82.5	73.1	42.0	38.3	20.1	18.6	14.8	22.6
In percent of Revenues	29.7	30.7	53.4	49.0	25.7	24.5	11.9	11.0	8.8	13.6
			(Percent of GDP)							
Saving-investment balance										
Consumption	74.4	75.0	78.3	77.9	77.2	77.2	76.6	76.3	76.1	76.0
Private	59.7	60.5	62.0	62.0	62.5	62.5	62.7	62.7	62.7	62.7
Public	14.7	14.5	16.3	15.9	14.7	14.7	13.9	13.6	13.4	13.3
National saving	25.5	24.9	20.3	20.9	23.2	23.4	24.2	24.5	24.5	24.3
Private	19.1	20.3	21.7	21.5	19.7	19.8	17.3	16.8	16.4	16.3
Public	6.4	4.6	-1.4	-0.6	3.5	3.6	6.9	7.7	8.2	8.0
Gross investment	26.7	25.0	22.4	21.5	23.4	22.4	22.6	22.5	22.4	22.3
Private 3/	18.7	18.3	15.9	15.4	17.9	16.8	17.3	17.6	17.4	17.4
Public	8.0	6.6	6.4	6.1	5.4	5.6	5.3	4.9	4.9	4.9
Memorandum items:										
Nominal GDP (US$ millions)	107,562	107,436	93,078	94,297	99,247	99,197	102,841	106,012	109,458	113,362
GDP per capita (US$)	6,318	6,222	5,316	5,385	5,589	5,586	5,711	5,806	5,912	6,038
Gross international reserves (US$ millions) 4/	2,158	2,933	2,475	5,660	3,275	6,826	8,930	10,814	13,040	13,786
Gross international reserves (as a percent of ARA metric)	12	15	13	28	17	32.6	41.6	49.6	59.2	62.8
Net international reserves (US$ millions) 5/	-2,895	-2,903	-7,848	-8,276	-8,679	-8,838	-7,907	-5,940	-3,160	-1,178
Oil price Ecuador mix (US$ per barrel)	60.6	55.3	35.6	34.7	39.8	37.1	38.3	39.3	40.1	40.9
Oil production (millions of barrels)	188.8	193.8	173.0	173.0	185.8	185.8	187.5	189.1	190.8	192.4
Exports of oil (millions of barrels) 6/	145.1	153.4	140.8	140.8	143.7	143.7	145.5	147.2	148.9	150.6

Sources: Ministry of Finance; Central Bank of Ecuador; Haver; World Bank Development Indicators; and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Gross debt consolidated at the level of the NFPS. Includes the outstanding balance for advance oil sales, treasury certificates, central bank loans, other liabilities and the stock of domestic floating debt. The estimates are based on the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).

3/ Includes inventories.

4/ GIR excludes non-liquid and encumbered assets.

5/ Net international reserves is equal to gross international reserves less outstanding credit to the IMF, short-term foreign liabilities of the BCE, deposits of other depository institutions and other financial institutions (excl. BIESS) at the central bank, and short-term liabilities of the central government, all derivative positions. Program exchange rates are those in effect on July 31, 2020 (see TMU).

6/ Includes both crude and derivatives.

Table 2a. Ecuador: Operations of the Nonfinancial Public Sector (Net Accounting)

(in millions of U.S. dollars, unless otherwise indicated)

		Est.	Projections							
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
Revenue	**37,996**	**35,914**	**28,006**	**28,505**	**31,396**	**31,248**	**35,396**	**37,084**	**38,704**	**40,121**
Oil revenue, net 2/	8,181	7,785	4,538	4,601	5,563	5,516	6,032	6,117	6,595	6,969
Nonpetroleum revenue	26,966	25,506	21,492	22,220	23,215	23,661	26,528	28,009	29,024	30,066
Taxes	15,422	14,490	11,880	12,243	12,921	13,122	15,852	17,003	17,661	18,298
Social security contributions 3/	5,541	5,863	4,959	5,266	5,534	5,381	5,729	5,906	6,098	6,315
Other	6,003	5,153	4,652	4,711	4,760	5,158	4,947	5,100	5,266	5,453
Operating surplus of public enterprises	2,849	2,623	1,976	1,685	2,619	2,071	2,836	2,958	3,085	3,085
O/w profits of oil companies withheld for investment	2,748	2,489	1,847	1,448	2,469	1,921	2,686	2,808	2,935	2,935
Expenditure	**41,412**	**39,319**	**36,308**	**35,830**	**34,303**	**34,062**	**34,740**	**35,087**	**36,156**	**37,680**
Primary expenditure	38,748	36,405	33,440	32,962	32,738	32,612	33,060	33,258	34,135	35,220
Current	27,603	28,023	26,395	26,217	26,383	26,175	26,637	27,062	27,737	28,591
Wages and salaries	10,323	10,190	9,438	9,643	9,535	9,535	9,590	9,645	9,874	10,109
Purchases of goods and services	4,735	4,643	5,043	4,593	4,327	4,281	4,011	4,035	4,066	4,211
Social security benefits 3/	5,382	5,773	6,080	6,080	6,033	5,946	6,164	6,354	6,561	6,795
Other	7,163	7,418	5,835	5,902	6,488	6,412	6,872	7,028	7,236	7,476
Cost of imports of oil derivatives	4,041	4,440	3,038	3,034	3,068	2,852	3,045	3,241	3,362	3,505
Payments to private oil companies (SH) 4/	1,521	1,337	1,145	1,198	1,130	1,130	1,130	1,130	1,130	1,130
Other	1,601	1,641	1,651	1,670	2,289	2,430	2,697	2,657	2,743	2,841
Capital	10,342	8,335	7,018	6,718	6,356	6,437	6,423	6,196	6,399	6,629
Fixed capital spending	9,941	8,193	6,883	6,583	6,212	6,296	6,276	6,045	6,243	6,467
O/w investment in oil	1,570	1,625	1,351	1,458	1,643	1,643	1,765	1,781	1,797	1,812
Net-lending	402	143	135	135	143	142	147	151	156	162
Extra budgetary expenses	803	46								
Primary balance	**-752**	**-491**	**-5,434**	**-4,456**	**-1,342**	**-1,364**	**2,336**	**3,826**	**4,569**	**4,901**
Interest	**2,663**	**2,914**	**2,868**	**2,868**	**1,565**	**1,450**	**1,680**	**1,829**	**2,020**	**2,461**
O/w external	2,314	2,577	2,505	2,505	1,281	1,166	1,392	1,553	1,745	2,171
Overall balance	**-3,415**	**-3,405**	**-8,302**	**-7,324**	**-2,907**	**-2,813**	**656**	**1,997**	**2,548**	**2,441**
Memorandum items:										
Non-oil primary balance 5/	-4,550	-3,361	-6,285	-4,816	-3,532	-3,176	-443	1,052	1,328	1,444
Non-oil PB (incl. fuel subsidies)	-7,156	-5,714	-7,336	-5,867	-4,523	-4,167	-1,559	-111	110	169
Cyclically Adjusted Non-oil Primary Balance	-4,583	-3,227	-4,057	-2,914	-2,488	-2,227	535	1,890	1,899	1,641
Oil balance 6/	3,798	2,871	851	359	2,190	1,812	2,779	2,774	3,241	3,457
Social Spending		1,016	1,446	1,446	1,774	1,774	1,998	1,875	1,875	1,875
Public Debt 7/	49,629	55,678	64,151	62,629	66,908	65,692	66,741	65,616	65,748	63,953

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Net of operational cost.

3/ From 2011 on, includes additional public pension sytems which previously had not been consolidated into the NFPS accounts.

4/ Reflects service contract payments to private oil companies beginning in 2011.

5/ The primary balance less oil balance.

6/ Oil revenue plus profits of state-owned oil companies, which is retained for investment in the oil sector, less oil-related expenditure (the costs of imports of oil derivatives, service payments to private oil companies, and investment in oil).

7/ Gross debt consolidated at the level of the NFPS. Includes the outstanding balance for advance oil sales, treasury certificates, central bank loans, other liabilities and the stock of domestic floating debt. The public debt estimates are preliminary and subject to revisions in accordance with the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).

Table 2b. Ecuador: Operations of the Nonfinancial Public Sector (Net Accounting)

(in percent of GDP, unless otherwise indicated)

		Est.			Projections					
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
Revenue	**35.3**	**33.4**	**30.1**	**30.2**	**31.6**	**31.5**	**34.4**	**35.0**	**35.4**	**35.4**
Oil revenue, net 2/	7.6	7.2	4.9	4.9	5.6	5.6	5.9	5.8	6.0	6.1
Nonpetroleum revenue	25.1	23.7	23.1	23.6	23.4	23.9	25.8	26.4	26.5	26.5
Taxes	14.3	13.5	12.8	13.0	13.0	13.2	15.4	16.0	16.1	16.1
Social security contributions 3/	5.2	5.5	5.3	5.6	5.6	5.4	5.6	5.6	5.6	5.6
Other	5.6	4.8	5.0	5.0	4.8	5.2	4.8	4.8	4.8	4.8
Operating surplus of public enterprises	2.6	2.4	2.1	1.8	2.6	2.1	2.8	2.8	2.8	2.7
O/w profits of oil companies withheld for investment	2.6	2.3	2.0	1.5	2.5	1.9	2.6	2.6	2.7	2.6
Expenditure	**38.5**	**36.6**	**39.0**	**38.0**	**34.6**	**34.3**	**33.8**	**33.1**	**33.0**	**33.2**
Primary expenditure	36.0	33.9	35.9	35.0	33.0	32.9	32.1	31.4	31.2	31.1
Current	25.7	26.1	28.4	27.8	26.6	26.4	25.9	25.5	25.3	25.2
Wages and salaries	9.6	9.5	10.1	10.2	9.6	9.6	9.3	9.1	9.0	8.9
Purchases of goods and services	4.4	4.3	5.4	4.9	4.4	4.3	3.9	3.8	3.7	3.7
Social security benefits 3/	5.0	5.4	6.5	6.4	6.1	6.0	6.0	6.0	6.0	6.0
Other	6.7	6.9	6.3	6.3	6.5	6.5	6.7	6.6	6.6	6.6
Cost of imports of oil derivatives	3.8	4.1	3.3	3.2	3.1	2.9	3.0	3.1	3.1	3.1
Payments to private oil companies (SH) 4/	1.4	1.2	1.2	1.3	1.1	1.1	1.1	1.1	1.0	1.0
Other	1.5	1.5	1.8	1.8	2.3	2.4	2.6	2.5	2.5	2.5
Capital	9.6	7.8	7.5	7.1	6.4	6.5	6.2	5.8	5.8	5.8
Fixed capital spending	9.2	7.6	7.4	7.0	6.3	6.3	6.1	5.7	5.7	5.7
O/w investment in oil	1.5	1.5	1.5	1.5	1.7	1.7	1.7	1.7	1.6	1.6
Net-lending	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Extra budgetary expenses	0.7	0.0								
Primary balance	**-0.7**	**-0.5**	**-5.8**	**-4.7**	**-1.4**	**-1.4**	**2.3**	**3.6**	**4.2**	**4.3**
Interest	**2.5**	**2.7**	**3.1**	**3.0**	**1.6**	**1.5**	**1.6**	**1.7**	**1.8**	**2.2**
O/w external	2.2	2.4	2.7	2.7	1.3	1.2	1.4	1.5	1.6	1.9
Overall balance	**-3.2**	**-3.2**	**-8.9**	**-7.8**	**-2.9**	**-2.8**	**0.6**	**1.9**	**2.3**	**2.2**
Memorandum items:										
Non-oil primary balance 5/	-4.2	-3.1	-6.8	-5.1	-3.6	-3.2	-0.4	1.0	1.2	1.3
Non-oil PB (incl. fuel subsidies)	-6.7	-5.3	-7.9	-6.2	-4.6	-4.2	-1.5	-0.1	0.1	0.1
Cyclically Adjusted Non-oil Primary Balance	-4.3	-3.0	-4.4	-3.1	-2.5	-2.2	0.5	1.8	1.7	1.4
Oil balance 6/	3.5	2.7	0.9	0.4	2.2	1.8	2.7	2.6	3.0	3.0
Social Spending		0.9	1.6	1.5	1.8	1.8	1.9	1.8	1.7	1.7
Public Debt 7/	46.1	51.8	68.9	66.4	67.4	66.2	64.9	61.9	60.1	56.4

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Net of operational cost.

3/ From 2011 on, includes additional public pension sytems which previously had not been consolidated into the NFPS accounts.

4/ Reflects service contract payments to private oil companies beginning in 2011.

5/ The primary balance less oil balance.

6/ Oil revenue plus profits of state-owned oil companies, which is retained for investment in the oil sector, less oil-related expenditure (the costs of imports of oil derivatives, service payments to private oil companies, and investment in oil).

7/ Gross debt consolidated at the level of the NFPS. Includes the outstanding balance for advance oil sales, treasury certificates, central bank loans, other liabilities and the stock of domestic floating debt. The public debt estimates are preliminary and subject to revisions in accordance with the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).

Table 3. Ecuador: Nonfinancial Public Sector Financing

(in millions of U.S. dollars, unless otherwise indicated)

		Est.			Projections					
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
Gross financing needs	**11,284**	**11,028**	**14,954**	**13,976**	**8,069**	**7,651**	**4,211**	**4,095**	**3,418**	**5,452**
Nonfinancial public sector deficit	3,415	3,405	8,302	7,324	2,907	2,813	-656	-1,997	-2,548	-2,441
Amortization	7,868	7,623	6,651	6,651	5,163	4,838	4,867	6,092	5,966	7,892
External	4,871	4,800	3,980	3,980	2,038	1,763	2,279	2,741	3,215	3,887
Multilateral	685	785	817	817	772	772	757	1,228	1,956	2,990
Bilateral	1,614	1,023	791	791	428	428	1,215	1,248	994	580
Private sector and other	879	2,124	2,237	2,237	720	445	213	173	173	225
Oil related financing	1,692	868	135	135	118	118	95	92	92	92
Domestic	2,998	2,823	2,671	2,671	3,124	3,074	2,588	3,350	2,751	4,005
Bonds	884	1,163	697	697	890	840	354	1,216	617	1,871
Treasury certificates	2,113	1,660	1,974	1,974	2,234	2,234	2,234	2,134	2,134	2,134
Gross financing sources	**11,284**	**11,028**	**15,007**	**13,976**	**7,928**	**7,651**	**4,211**	**4,095**	**3,418**	**5,452**
External	7,817	8,615	11,446	9,671	5,305	5,015	3,283	2,333	2,833	2,833
Multilateral	1,640	3,310	7,678	7,652	4,605	5,015	2,783	833	833	833
World Bank	236	653	1,481	1,455	935	935	133	133	133	133
Inter-American Development Bank	485	733	762	762	1,081	1,291	500	400	400	400
CAF	549	517	787	787	650	850	800	300	300	300
Other	370	5	4	4	439	439	350	0	0	0
IMF	0	1,401	4,643	4,643	1,500	1,500	1,000	0	0	0
Bilateral	978	738	998	269	700	0	0	0	0	0
Private sector and other	4,504	4,171	2,770	1,749	0	0	500	1,500	2,000	2,000
Oil related financing	695	445	0	0	0	0	0	0	0	0
Advance Payments for Contingencies		-48	0	0						
Domestic	2,175	2,444	3,561	4,305	2,624	2,636	928	1,762	585	2,619
Bonds	403	679	697	697	500	652	500	500	1,131	1,131
Bonds official	38	679	697	697	500	652	500	500	500	500
Bonds FPS	366	0	0	0	0	0	0	0	631	631
Treasury certificates	1,660	1,974	2,234	2,234	1,974	2,234	2,134	2,134	2,134	2,134
Change in deposits (+ = drawdown)	-951	-23	-170	203	150	-250	-1,706	-872	-2,049	-15
Privatization and BCE transfers	0	0	0	0	0	0	0	0	0	0
Convenios de liquidez	564	-185	300	300	0	0	0	0	0	0
Other	498	0	0	200	0	0	0	0	0	0
Acquisition of fiancial assets	0	0	0	0	0	0	0	0	-631	-631
Margin calls				172						
Net Arrears acumulation and other financing 2/	-823	0	0		0	0	0	0	0	0
Other liability to BCE			500	500						
Discrepancy	2,115	-31	0	0	0	0	0	0	0	0
Net financing	**3,415**	**3,014**	**4,302**	**7,324**	**1,407**	**2,813**	**-656**	**-1,997**	**-2,548**	**-2,441**
External	2,947	3,815	3,413	5,691	1,907	3,251	1,004	-408	-382	-1,054
Domestic	-823	-379	890	1,634	-501	-438	-1,660	-1,588	-2,166	-1,386
Net Arrears acumulation and other financing 2/	-823	0	0	0	0	0	0	0	0	0
Discrepancy	2,115	-423	0	0	0	0	0	0	0	0
Public Sector Debt 3/	**49,629**	**55,678**	**64,151**	**62,629**	**66,908**	**65,692**	**66,741**	**65,616**	**65,748**	**63,953**
External	36,323	40,748	48,161	46,439	51,569	49,690	50,694	50,286	49,903	48,849
o.w. oil related financing	629	716	581	581	463	463	368	276	184	92
Domestic	13,306	14,930	15,990	16,190	15,339	16,001	16,047	15,331	15,844	15,104
Bonds	5,417	5,120	5,120	5,120	4,729	4,931	5,077	4,361	4,874	4,134
Treasury certificates	1,660	1,974	2,234	2,234	1,974	2,234	2,134	2,134	2,134	2,134
Other liabilities	6,228	7,836	8,636	8,836	8,636	8,836	8,836	8,836	8,836	8,836
					(In percent of GDP)					
Gross financing needs	**10.5**	**10.3**	**16.1**	**14.8**	**8.1**	**7.7**	**4.1**	**3.9**	**3.1**	**4.8**
Nonfinancial public sector deficit	3.2	3.2	8.9	7.8	2.9	2.8	-0.6	-1.9	-2.3	-2.2
Amortization	7.3	7.1	7.1	7.1	5.2	4.9	4.7	5.7	5.5	7.0
Gross financing sources	**10.5**	**10.3**	**16.1**	**14.8**	**8.1**	**7.7**	**4.1**	**3.9**	**3.1**	**4.8**
External	7.3	8.0	12.2	10.3	5.5	5.1	3.2	2.2	2.6	2.5
Domestic	2.0	2.3	3.8	4.6	2.6	2.7	0.9	1.7	0.5	2.3
Arrears acumulation and other financing 2/	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt 3/	**46.1**	**51.8**	**68.9**	**66.4**	**67.4**	**66.2**	**64.9**	**61.9**	**60.1**	**56.4**
External	33.8	37.9	51.7	49.2	52.0	50.1	49.3	47.4	45.6	43.1
Domestic	12.4	13.9	17.2	17.2	15.5	16.1	15.6	14.5	14.5	13.3

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Includes domestic floating debt and statistical discrepancy.

3/ Gross debt consolidated at the level of the NFPS. Includes the outstanding balance for advance oil sales, treasury certificates, central bank loans, other liabilities and the stock of domestic floating debt. The public debt estimates are preliminary and subject to revisions in accordance with the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).

Table 4. Ecuador: Balance of Payments

(in millions of U.S. dollars, unless otherwise indicated)

		Est.				Projections				
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
Current account	**-1,328**	**-53**	**-1,864**	**-563**	**-144**	**969**	**1,594**	**2,080**	**2,345**	**2,265**
Trade balance	-226	1,025	472	2,024	621	1,807	2,242	2,769	3,191	3,501
Exports, f.o.b.	22,133	22,774	18,119	19,129	19,228	19,999	21,000	22,007	23,082	24,170
Oil	8,802	8,669	5,142	5,015	5,882	5,482	5,732	5,941	6,131	6,325
Non-oil	13,331	14,105	12,977	14,114	13,346	14,517	15,268	16,066	16,951	17,845
Imports, f.o.b.	22,359	21,749	17,648	17,105	18,607	18,193	18,758	19,238	19,891	20,669
Oil	4,341	4,256	3,195	2,907	3,197	2,985	3,140	3,315	3,409	3,523
Non-oil	18,018	17,493	14,453	14,198	15,410	15,208	15,618	15,922	16,482	17,147
Services	-682	-789	-968	-1,216	-982	-1,252	-1,262	-1,261	-1,278	-1,308
Credits	3,248	3,350	2,480	1,498	2,656	1,593	1,681	1,755	1,828	1,904
Debits	3,930	4,138	3,448	2,714	3,638	2,846	2,943	3,016	3,106	3,212
Primary income	-2,829	-3,028	-3,426	-3,425	-1,947	-1,750	-1,830	-1,968	-2,180	-2,612
Credits	236	195	304	274	151	177	206	236	258	282
Debits	3,065	3,224	3,729	3,699	2,098	1,927	2,035	2,204	2,438	2,894
Secondary income	2,409	2,739	2,059	2,054	2,163	2,165	2,444	2,539	2,612	2,685
Of which: workers' remittances, net	2,578	2,595	1,906	1,899	2,000	2,003	2,275	2,365	2,433	2,499
Capital account	**-193**	**70**	**70**	**70**	**61**	**62**	**65**	**67**	**69**	**72**
Financial account	**-1,583**	**701**	**3,577**	**1,693**	**479**	**1,229**	**555**	**29**	**-363**	**1,199**
Direct investment	-1,389	-946	-607	-595	-673	-664	-843	-884	-996	-1,135
Other public sector flows	-2,947	-3,815	-3,413	-1,690	-1,907	-1,751	-4	408	382	1,054
Disbursements	-7,817	-8,615	-7,393	-5,671	-3,946	-3,515	-2,283	-2,333	-2,833	-2,833
Amortizations	4,871	4,800	3,980	3,980	2,038	1,763	2,279	2,741	3,215	3,887
Other private sector flows	2,752	5,463	7,597	3,979	3,059	3,644	1,401	504	251	1,281
Errors and omissions	**-209**	**14**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-146**	**-670**	**-5,371**	**-2,186**	**-563**	**-198**	**1,105**	**2,118**	**2,777**	**1,137**
Financing	**146**	**670**	**5,371**	**2,185**	**563**	**198**	**-1,105**	**-2,118**	**-2,777**	**-1,137**
Change in GIR (increase, -) 2/	-171	-713	908	-2,278	-801	-1,165	-2,105	-1,884	-2,226	-746
IMF net credit and loans	0	-46	463	463	-136	-136	0	-160	-321	-160
Other external financing 3/	317	26	0	0	0	0	0	0	0	0
IMF exceptional financing under the EFF	0	1,403	4,000	4,000	1,500	1,500	1,000	-74	-230	-230
Memorandum items:										
Current account balance (percent of GDP)	-1.2	0.0	-2.0	-0.6	-0.1	1.0	1.6	2.0	2.1	2.0
Oil balance (percent of GDP)	4.1	4.1	2.1	2.2	2.7	2.5	2.5	2.5	2.5	2.5
Exports	8.2	8.1	5.5	5.3	5.9	5.5	5.6	5.6	5.6	5.6
Imports	4.0	4.0	3.4	3.1	3.2	3.0	3.1	3.1	3.1	3.1
Non-oil balance (percent of GDP)	-5.4	-4.2	-4.1	-2.8	-2.9	-1.5	-1.0	-0.5	-0.3	-0.5
Goods export volume growth rate (percent)	-0.1	6.3	-7.7	-1.9	1.9	1.9	3.1	3.2	2.4	2.3
Goods import volume growth rate (percent)	3.6	0.2	-16.3	-17.7	5.5	4.7	1.0	0.3	1.7	2.2
Goods terms of trade growth rate (percent)	1.3	-0.8	-10.7	-11.1	3.8	1.0	-0.1	-0.6	0.6	0.7
Oil price Ecuador mix (U.S. dollars per barrel)	60.6	55.3	35.6	34.7	39.8	37.1	38.3	39.3	40.1	40.9
External debt (percent of GDP)	42.5	48.2	60.2	59.4	57.7	58.5	57.8	56.4	54.6	51.2

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Reflects the national definition of gross international reserves.

3/ Includes foreign arrears and net flows from oil funds held abroad and flows associated with debt default and restructuring.

Table 5. Ecuador: External Financing
(in millions of U.S. dollars, unless otherwise indicated)

		Est.	Projections							
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
Gross external financing requirements	**10,073**	**9,081**	**10,293**	**8,992**	**6,759**	**5,371**	**5,312**	**5,437**	**5,719**	**6,406**
Current account financing need	1,328	53	1,864	563	144	-969	-1,594	-2,080	-2,345	-2,265
Public sector amortizations	4,871	4,800	3,980	3,980	2,038	1,763	2,279	2,741	3,215	3,887
Private sector amortizations	3,875	4,227	4,449	4,449	4,577	4,577	4,627	4,775	4,849	4,784
Identified External Financing	**9,927**	**9,862**	**8,922**	**10,806**	**7,697**	**6,673**	**7,417**	**7,481**	**8,266**	**7,313**
Multilateral	1,640	3,310	3,625	3,652	3,246	3,515	1,783	833	833	833
Bilateral	978	738	998	269	700	0	0	0	0	0
Oil related financing	695	445	0	0	0	0	0	0	0	0
Private sector	4,504	4,171	2,770	1,749	0	0	500	1,500	2,000	2,000
Direct investment	1,389	946	607	595	673	664	843	884	996	1,135
Portfolio investment Financing	225	-247	-630	94	303	187	645	854	920	701
Other investment Financing	898	-988	-2,518	376	1,214	746	2,581	3,416	3,678	2,803
Net Transfers 2/	-402	85	70	70	61	62	65	67	69	72
IMF exceptional financing	0	1,403	4,000	4,000	1,500	1,500	1,000	-74	-230	-230
Gross external financing sources	**10,244**	**9,842**	**9,385**	**11,269**	**7,560**	**6,537**	**7,417**	**7,321**	**7,945**	**7,152**
Identified External Financing	9,927	9,862	8,922	10,806	7,697	6,673	7,417	7,481	8,266	7,313
Past IMF Net Programs	0	-46	463	463	**-136**	-136	0	-160	-321	-160
Gross international reserves (-, increase) 3/	**-171**	**-713**	**908**	**-2,278**	**-801**	**-1,165**	**-2,105**	**-1,884**	**-2,226**	**-746**
Net international reserves, prog. definition (-, increase) 4/	**-397**	**7**	**4,945**	**5,373**	**831**	**562**	**-931**	**-1,967**	**-2,780**	**-1,982**

Sources: Central Bank of Ecuador and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Net transfers is defined as capital account flows plus unidentified flows (errors and omissions).

3/ Reflects the national definition of gross international reserves.

4/ Program net international reserves is equal to gross international reserves less outstanding credit to the IMF (incl. budget support to the Treasury), short-term foreign liabilities of the BCE, deposits of other depository institutions and other financial institutions (excl. BIESS) at the central bank, and short-term liabilities of the central government.

Table 6. Ecuador: Monetary Survey

(in millions of U.S. dollars, unless otherwise indicated)

		Est.				Projections				
	2018	2019	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025
I. Central Bank										
Net foreign assets	**3,902**	**4,628**	**3,345**	**6,533**	**4,351**	**7,887**	**10,031**	**11,949**	**14,211**	**15,000**
Of which: gross international reserves 2/	2,158	2,933	2,475	5,660	3,275	6,826	8,930	10,814	13,040	13,786
Net domestic assets	**1,108**	**-116**	**1,058**	**1,801**	**337**	**837**	**-1,119**	**-2,873**	**-5,149**	**-6,090**
Credit to the nonfinancial public sector, net	-2,086	-2,567	-620	-16	-838	-622	-2,318	-3,961	-5,396	-5,996
Of which: central government, net	1,398	1,130	2,124	2,750	2,087	2,288	699	-851	-2,190	-2,692
credits	3,035	2,932	4,093	4,093	3,716	3,716	3,716	2,937	3,567	3,022
debits	1,637	1,802	1,969	1,343	1,629	1,429	3,018	3,788	5,758	5,714
Credit to financial institutions	4,531	4,217	4,050	4,050	3,547	3,692	3,430	3,319	2,478	2,137
Other depository institutions	1,006	979	982	982	791	936	844	752	686	619
Other financial institutions	3,524	3,238	3,068	3,068	2,755	2,755	2,586	2,566	1,792	1,518
Credit to the private sector	17	13	11	12	12	12	13	13	13	14
Other, net	-1,353	-1,779	-2,384	-2,244	-2,384	-2,244	-2,244	-2,244	-2,244	-2,244
Liabilities	**5,011**	**4,512**	**4,403**	**8,334**	**4,688**	**8,725**	**8,911**	**9,075**	**9,063**	**8,910**
Currency and electronic money	84	81	70	80	74	84	87	90	93	95
Banks' reserves	4,859	4,377	4,278	8,200	4,559	8,586	8,770	8,931	8,916	8,760
Other depository institutions 3/	3,172	3,527	3,447	5,420	3,674	5,675	5,797	5,903	5,992	6,089
Other financial institutions 4/	1,688	850	831	2,780	886	2,911	2,973	3,028	2,924	2,671
Other 5/	68	54	54	54	54	54	54	54	54	54
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 3/ 6/										
Net foreign assets	**4,965**	**4,731**	**4,860**	**4,860**	**5,190**	**5,118**	**5,311**	**5,478**	**5,659**	**5,865**
Net domestic assets	**32,666**	**36,154**	**35,100**	**36,564**	**37,395**	**41,715**	**42,525**	**43,238**	**43,789**	**44,385**
Assets held at the BCE, net	1,757	2,502	2,520	4,493	2,793	4,794	5,008	5,206	5,295	5,392
Credit to the nonfinancial public sector, net	1,107	1,029	479	562	-320	-187	-187	-187	-266	-266
Of which: central government, net	1,284	1,336	786	869	-13	120	120	120	40	40
Credit to the private sector	39,980	44,524	43,731	44,287	47,317	49,054	50,726	52,407	54,267	56,379
Other items, net	-10,179	-11,901	-11,630	-12,778	-12,395	-11,947	-13,022	-14,189	-15,507	-17,120
Liabilities	**37,631**	**40,885**	**39,960**	**44,728**	**42,585**	**46,834**	**47,835**	**48,715**	**49,449**	**50,250**
Of which: Private sector deposits	37,631	40,885	39,960	44,728	42,585	46,834	47,835	48,715	49,449	50,250
III. Consolidated Banking System										
Net foreign assets	**8,867**	**9,359**	**8,205**	**11,393**	**9,541**	**13,006**	**15,341**	**17,426**	**19,871**	**20,865**
Net domestic assets	**28,915**	**31,661**	**31,879**	**33,469**	**33,173**	**33,966**	**32,635**	**31,433**	**29,725**	**29,535**
Credit to the nonfinancial public sector, net	-979	-1,538	-141	546	-1,157	-809	-2,505	-4,147	-5,662	-6,262
Credit to the private sector	39,998	44,537	43,742	44,299	47,329	49,067	50,738	52,420	54,281	56,393
Other items, net	-10,104	-11,339	-11,722	-11,376	-12,999	-14,291	-15,598	-16,840	-18,894	-20,595
Liabilities	**37,782**	**41,020**	**40,084**	**44,862**	**42,714**	**46,972**	**47,977**	**48,859**	**49,595**	**50,400**
Memorandum items:										
Credit to the private sector (percent change, yoy) 7/	14.9	11.3	-1.8	-0.5	8.2	10.8	3.4	3.3	3.5	3.9
Deposits of the private sector (percent change, yoy) 7/	5.0	8.6	-2.3	9.4	6.6	4.7	2.1	1.8	1.5	1.6
Broad money (M2) (percent change, yoy)	5.7	8.0	-5.5	3.1	6.6	4.8	2.5	2.2	2.0	2.1
Broad money velocity	2.0	1.9	1.8	1.7	1.7	1.6	1.5	1.5	1.5	1.5
ODI and OFI's reserves at the central bank as a share of liabilities (perce	12.9	10.7	10.7	18.3	10.7	18.3	18.3	18.3	18.0	17.4
Credit to the private sector (percent of GDP)	37.2	41.5	47.0	47.0	47.7	49.5	49.3	49.4	49.6	49.7
Liabilities (percent of GDP)	35.1	38.2	43.1	47.6	43.0	47.4	46.7	46.1	45.3	44.5

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ Excludes non-liquid and encumbered reserves included in the authorities' definition of GIR.

3/ ODI include private banks, Banecuador (formerly Banco Nacional de Fomento), Banco del Pacifico, private financial companies, mutualists, cooperatives, and credit card companies.

4/ Reserves of OFIs includes deposits of Corporación Financiera Nacional, COSEDE, BIESS, and a transitory account for the payments system.

5/ Includes monetary deposits, Titulos del Banco Central de Ecuador, stabilization bonds, and accounts payable.

6/ OFI comprises Corporación Financiera Nacional.

7/ Consolidated banking system.

Table 7. Ecuador: Financial Soundness Indicators 1/

	2015	2016	2017	2018	2019	Q3 2020
	(In percent, unless otherwise indicated; end-of-period values)					
Capital Adequacy						
Regulatory capital to risk-weighted asse	14.4	13.9	13.7	13.4	13.5	14.7
Asset Quality and Distribution						
Nonperforming loans to gross loans	3.7	3.5	3.0	2.6	2.7	4.1
Provisions to nonperforming loans	187.1	189.5	234.4	247.7	225.6	184.4
Gross loans to assets	86.2	80.0	84.4	86.0	87.8	84.3
Earnings and Profitability						
Return on average assets (ROA)	0.9	0.6	1.0	1.4	1.4	0.5
Return on average equity (ROE)	9.0	6.7	10.4	13.6	13.9	4.7
Interest margin to assets	0.8	0.4	0.9	1.6	1.4	0.1
Noninterest expenses to spread	87.4	92.6	85.0	76.9	78.5	97.2
Liquidity						
Liquid assets to short-term liabilities	29.6	33.9	29.4	27.9	26.0	30.7
Deposit to loan ratio	126.1	137.0	121.9	111.8	109.5	117.5

Source: Superintendency of Banks.

1/ Values refer to private banks and Banco del Pacifico.

Table 8. Ecuador: Indicator of Fund Credit 2020-2030

(units as indicated)

				Projections									
	2020 1/	2020	2021 1/	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Existing and prospective Fund arrangements						**(millions of SDRs)**							
Disbursements 2/	3,310	3,310	1,065	1,065	710	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	4,419	4,419	5,386	5,386	6,096	5,925	5,521	4,738	3,901	2,963	2,026	1,142	373
Obligations	57	7	214	215	149	336	571	962	985	1050	1012	919	780
Principal	33	0	98	98	0	172	403	783	837	938	938	884	769
Charges/interest 3/	25	7	115	117	149	165	167	179	148	112	74	35	11
Obligations, relative to key variables						**(percent)**							
Quota	8.2	1.0	30.6	30.8	21.4	48.2	81.8	137.9	141.2	150.5	145.0	131.7	111.9
Gross domestic product	0.1	0.0	0.3	0.3	0.2	0.4	0.7	1.2	1.2	1.2	1.1	1.0	0.8
Gross international reserves 4/	3.2	0.2	8.9	4.3	2.3	4.3	6.0	9.6	9.6	9.9	9.2	7.8	6.3
Exports of goods and services	0.4	0.0	1.3	1.4	0.9	1.9	3.2	5.1	5.1	5.4	5.2	4.6	3.9
Revenues of the NFPS	0.3	0.0	0.9	0.9	0.6	1.2	2.0	3.3	3.3	3.4	3.1	2.7	2.2
External debt service	0.6	0.1	3.0	3.1	1.9	4.0	6.4	10.1	9.7	10.4	9.9	18.8	15.8
Fund credit outstanding, relative to key variable						**(percent)**							
Quota	633.4	633.4	772.0	772.0	873.8	849.2	791.4	679.1	559.1	424.7	290.3	163.7	53.4
Gross domestic product	6.5	6.4	7.4	7.4	8.1	7.7	6.9	5.8	4.6	3.4	2.2	1.2	0.4
Gross international reserves	244.0	106.7	225.3	108.1	93.6	75.2	58.3	47.4	37.9	28.0	18.4	9.7	3.0
External debt	10.8	10.8	12.9	12.7	14.1	13.6	12.7	11.3	9.6	7.4	5.1	2.9	0.9
Memorandum items:													
Exports of goods and services (US$m)	20,599	20,627	21,884	21,593	22,681	23,762	24,911	26,074	26,423	26,741	27,101	27,451	27,783
External debt (US$m)	56,004	55,989	57,268	58,012	59,489	59,758	59,787	57,998	56,305	55,074	54,406	54,723	55,344
Quota (SDRm)	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7
Gross international reserves (US$m)	2,475	5,660	3,275	6,826	8,930	10,814	13,040	13,786	14,186	14,594	15,184	16,329	17,203
Gross international reserves (% ARA metric)	13	28	17	33	42	50	59	63	65	67	70	74	77
NIR, program definition (US$m)	-7,848	-8,276	-8,679	-8,838	-7,907	-5,940	-3,160	-1,178	295	1,859	3,601	8,243	10,076
Nominal GDP (US$m)	93,078	94,297	99,247	99,197	102,841	106,012	109,458	113,362	117,501	121,910	126,479	131,191	136,111
SDRs per U.S. dollar	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

Sources: Central Bank of Ecuador and Fund staff estimates and projections.

1/ Request for an Extended Arrangement Under the Extended Fund Facility (October 5, 2020; CR No. 20/286).

2/ An RFI disbursement of 67% of quota took place in May 2020.

3/ Using the GRA rate of charge of 1.123 as of November 19, 2020, for projected charges/interest

4/ GIR excludes non-liquid and encumbered assets.

Table 9. Ecuador: Quantitative Performance Criteria and Indicative Targets, 2020-21

(in million USD, unless specified otherwise)

	End-Sept. 2020				End-Dec. 2020		End-Apr. 2021	End-Aug. 2021	End-Dec. 2021
	Program	Adj. 3/	Actual	Status	Program	Revised Program	Program	IT	IT
Quantitative performance criteria									
1. Overall balance of the budgetary central government and CFDD (*floor) 1/*	-2,894	-2,887	-1,121	Met	-5,095	-4,005	-241	-1,799	-3,934
2. Accumulation of NFPS deposits at the central bank (*floor) 1/*	0	-1,993	-227	Met	589	300	-47	-137	250
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	0	0
Indicative targets									
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor) 1/*	-2,539	-2,539	-996	Met	-6,825	-5,467	-572	-1,682	-4,167
6. Overall balance of the NFPS (*floor) 1/*	-2,706	-2,699	-1,333	Met	-6,662	-5,656	-273	-767	-2,813
7. Change in the stock of NIR - program definition (*floor) 1/*	-2,200	-2,193	40	Met	-3,939	-4,228	-579	-1,334	-1,550
8. Coverage of the cash transfer programs for lower income families - number of families (*floor) 2/*	62,240	62,240	63,764	Met	225,557	225,600	384,600	503,600	625,600

Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).

1/ For 2020 targets, cumulative change from July 1, 2020. For 2021 targets, cumulative change from January 1, 2021.

2/ Cumulative change from July 1, 2020.

3/ Adjusted for oil prices (and for disbursements from multilateral institutions and China for NFPS deposits) as per the TMU.

Table 10. Ecuador: Access and Phasing Under the Extended Fund Facility (EFF) 1/

Review	Availability Date	Action	SDR million	US$ million 2/	Percent of quota 1/ Disbursement	Percent of quota 1/ Cumulative
	September 30, 2020	Board approval of EFF	1420.0	2000.0	203.5	203.5
First Review	December 15, 2020	Observance of continuous and end-September 2020 performance criteria, completion of first review	1420.0	2000.0	203.5	407.1
Second Review	April 15, 2021	Observance of continuous and end-December 2020 performance criteria, completion of second review	284.0	400.0	40.7	447.8
Third Review	August 15, 2021	Observance of continuous and end-April 2021 performance criteria, completion of third review	284.0	400.0	40.7	488.5
Fourth Review	December 15, 2021	Observance of continuous and end-August 2021 performance criteria, completion of fourth review	497.0	700.0	71.2	559.7
Fifth Review	April 15, 2022	Observance of continuous and end-December 2021 performance criteria, completion of fifth review	213.0	300.0	30.5	590.2
Sixth Review	August 15, 2022	Observance of continuous and end-April 2022 performance criteria, completion of sixth review	213.0	300.0	30.5	620.8
Seventh Review	December 1, 2022	Observance of continuous and end-August 2022 performance criteria, completion of seventh review	284.0	400.0	40.7	661.5
Total			**4615.0**	**6500.0**	**661.5**	

Source: IMF staff estimates

1/ Ecuador's quota is SDR 697.7 million.

2/ Based on the program exchange rate.

Table 11. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs)				
Reform area	**Structural Conditionality**	**Objectives**	**Due date**	**Status**
	Prior Actions			
Transparency and Governance	The office of the President to receive from the National Assembly the approved law with the amendments to the COIP, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Strengthen anticorruption and protect public finances	Prior action	
Organic Monetary and Financial Code (COMYF) reform of the Central Bank framework	Finalize at the Presidential level, in consultation with IMF staff, the amendments to the Central Bank's legal framework that would be submitted to the National Assembly, in line with the substantive elements and constitutional process described in MEFP ¶10.	Strengthen the autonomy and governance framework of the BCE	Prior action	
	Structural Benchmarks			
Fiscal framework	Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTFF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Strengthen the public financial management framework and fiscal discipline, and increase fiscal transparency	End-Nov. 2020	Implemented with delay
BCE	The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Improve the BCE's audit mechanisms	End-Nov. 2020	Met
Transparency and AML/CFT	Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs), and publishing additional information online, including itemized information on incomes, assets and liabilities, based on regulations adopted by the General Comptroller, at the request of the government.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2020	Partially implemented. New benchmark added to fulfil and advance the reform

Table 11. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)

Cash Management	Deliver to IMF staff a PGE financial plan for the year 2021 approved by the Financial Committee.	Improve institutional capacity and identify early warning signs of impending liquidity constraints	Dec. 16, 2020	On track
Transparency and Governance	Enactment of the anticorruption legislation, approved by the National Assembly, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Strengthen anticorruption and protect public finances	End-Dec. 2020	On track, as demonstrated by the related prior action
Organic Monetary and Financial Code (COMYF) reform of the Central Bank framework	Enactment of amendments to the Central Bank's legal framework, elaborated in consultation with Fund staff as committed to under the 2019 EFF, in line with the substantive elements and constitutional process described in MEFP ¶16.	Strengthen the autonomy and governance framework of the BCE	End-Jan. 2021	On track, as demonstrated by the related prior action
Debt management	Publish a Medium-Term Debt Management Strategy (MTDS), prepared with the support of IMF TA, which assesses the cost and risk trade-offs of the different sources of public funding, and establishes a policy agenda.	Facilitate domestic debt market development, promote medium-term debt management, and increase transparency of public debt policies	End-Feb. 2021	In progress
Domestic arrears	Share with IMF staff an updated arrears' clearance strategy with the updated information on the stock of arrears as of end 2020 based on quarterly flows for central government and selected relevant entities of the NFPS in line with IMF technical assistance recommendations.	Strengthen the monitoring and reduce accumulation of payment arrears	End-Apr. 2021	
Fiscal Statistics	Correct and publish the historical NFPS data, both above- and below-the-line, back to 2012.	Improve quality of fiscal statistics	End-May 2021	In progress
Fiscal Statistics	Prepare a compilation guide, in consultation with IMF TA, and disseminate it to data providers across the NFPS through a workshop.	Improve quality of fiscal statistics	End-May 2021	In progress
Transparency	Undertake an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publish the results on a government website.	Improve expenditure control, including COVID related spending, and governance	End-Jun. 2021	In progress

Table 11. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (concluded)

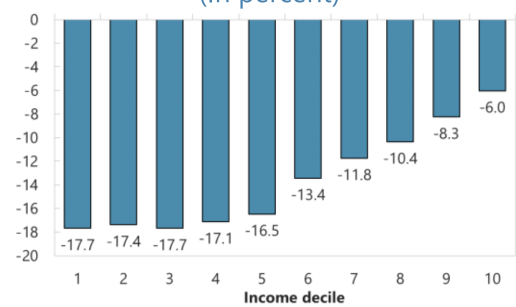
Tax reform	Enactment of a tax reform, elaborated in consultation with Fund staff, aimed at generating revenue and improving the overall efficiency of the tax system, in line with the substantive elements and constitutional process described in MEFP ¶7, bullet 1.	Improve the efficiency of the tax system	End-Sep. 2021	
Social assistance	Complete the upgrade of the social registry and expand the coverage of the social assistance program to at least 80 percent of families in the bottom three deciles of the income distribution.	Strengthen the social safety net	Dec. 16, 2021	In progress
Transparency and Governance	Enact legislation to strengthen the framework to prevent and manage conflicts of interest in the public sector, broadening the existing asset declaration system to include incomes and interests of high-level public officials and/or politically exposed persons (PEPs), and ensuring the online publication of this information on incomes and interests for high-level public officials and/or politically exposed persons (PEPs), in line with the UNCAC (articles 7 and 8) and international good practices.	Strengthen the framework of conflict of interest and illicit enrichment	End-Jan. 2022	Newly proposed

Annex I. The Distributional Impact of Fiscal Consolidation and Social Assistance[1]

The expansion of social assistance programs in Ecuador is offsetting the economic downturn for vulnerable families and reversing the impact of the pandemic on income inequality. Regressive fuel subsidies are being replaced by targeted cash transfers. Ecuador is doubling social assistance coverage to over 80 percent of vulnerable families and increasing the post-tax income at the bottom of the distribution by one third.

1. The economic crisis due to the COVID-19 pandemic has disproportionally affected low-income families, increased poverty headcount, and exacerbated income inequality in Ecuador. According to the World Bank (Olivieri and Castillo 2020), families in the bottom decile of the income distribution lost about 18 percent of their market income,[2] while families in the top decile lost only a third of that (see Table 1 and Figure 1).[3]

Figure 1. Ecuador: Impact of Great Lockdown by Income Decile
(In percent)



Sources: Olivieri and Castillo (2020).

Table 1. Ecuador: Market Income by Decile

	Monthly per capita (US$)		Annual per family (US$)		Annual per aggregated decile (US$ millions)		
Decile	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**F2021**
1	29.1	23.9	1,395.6	1,148.8	681.3	560.8	590.4
2	60.2	49.8	2,891.3	2,388.3	1,411.6	1,166.0	1,227.5
3	84.7	69.7	4,067.6	3,347.9	1,985.8	1,634.5	1,720.7
4	108.5	89.9	5,210.3	4,317.2	2,543.7	2,107.7	2,218.8
5	135.8	113.4	6,518.2	5,444.4	3,182.2	2,657.9	2,798.1
6	166.8	144.4	8,006.5	6,930.6	3,908.8	3,383.5	3,562.0
7	208.9	184.3	10,026.0	8,847.8	4,894.7	4,319.5	4,547.3
8	269.7	241.7	12,945.2	11,603.2	6,319.9	5,664.7	5,963.5
9	372.4	341.6	17,874.2	16,398.0	8,726.2	8,005.5	8,427.8
10	807.2	758.4	38,743.6	36,403.1	18,914.7	17,772.1	18,709.5
Mean	**224.3**	**201.7**	**10,767.9**	**9,682.9**	**5,256.9**	**4,727.2**	**4,976.6**

Sources: Olivieri and Castillo (2020) and IMF staff calculations.

Notes: The monthly market income is from Olivieri and Castillo (2020); the annual income assumes four members per family according to INEC standards; and the aggregated income per decile assumes 488,202 families per decile according to MIES.

The forecast for 2021 assumes an increase in income by 5.3 percent across all income groups.

[1] Prepared by Mariano Moszoro (FAD). The current analysis was performed using new and aggregated data and should be treated as preliminary. The World Bank is performing a detailed distributional study using granular input-output tables and household data.

[2] We follow Lustig and Higgins (2013) in the typology of income concepts: market income – personal income taxes = net market income; net market income + direct transfers = disposable income; disposable income + indirect subsidies – indirect taxes = post-fiscal income; post fiscal income + in-kind transfers – co-payments & user fees = final income.

[3] There are 488,202 families in each decile. The aggregated income per decile is calculated using ENEMDU survey data and the National Institute of Statistics and Censuses' (INEC) standards of four members per family. The income in 2020 reported in Table 1 includes the "Bono Familiar the Emergencia" for $120 for 550,000 beneficiaries. The aggregated income only includes market income and is known to be underestimated at the bottom of the distribution.

2. The authorities are expanding social assistance to increase coverage of associated programs from 37 to at least 80 percent of the families in the bottom three income deciles, which corresponds to adding 625,600 new families. The expansion of social assistance and cash transfers—mostly through the "Bono de Desarrollo Humano" (BDH)—will increase cash transfers to the bottom three income deciles by US$52 million in 2020 compared to 2019 and by US$540 million in 2021 compared to 2020, and fill the COVID-related income void (see Table 2).[4] The authorities are also making efforts to clean the Social Registry from beneficiaries whose incomes are above the thresholds.

Table 2. Ecuador: Social Assistance by Decree

	Annual per capita (US$)		Annual per family (US$)		Annual per aggregated decile (US$ millions)		
Decile	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**F2021**
1	71.8	68.9	287.4	275.6	140.3	134.6	233.0
2	114.0	109.9	456.2	439.6	222.7	214.6	458.4
3	100.5	98.8	402.0	395.3	196.2	193.0	459.7
4	66.5	57.9	266.1	231.5	129.9	113.0	60.3
5	40.3	35.3	161.1	141.2	78.6	68.9	38.6
6	20.9	18.3	83.7	73.4	40.8	35.8	16.2
7	12.4	10.8	49.5	43.3	24.2	21.2	9.7
8	4.6	3.9	18.2	15.6	8.9	7.6	3.1
9	1.6	1.3	6.3	5.4	3.1	2.6	0.8
10	0.1	0.1	0.6	0.5	0.3	0.2	0.1
Mean	**43.3**	**40.5**	**173.1**	**162.1**	**84.5**	**79.2**	**128.0**

Sources: MIES, MEF, and IMF staff calculations.

3. The government introduced a reform to phase out untargeted and distortive fuel subsidies. Fuel subsidies are regressive and favor the rich (see Table 3). The low international oil prices reduced fuel subsidies in 2020 and facilitated the fuel subsidy reform transition.[5] The automatic fuel price mechanism seeks to make domestic retail fuel prices gradually converge to the import parity price.[6] The savings from this reform almost fully covers the expansion in social programs described above, making the spending policies more progressive.

4. An additional cash transfer program was introduced to counter the effects of the economic downturn. The authorities adopted a compensatory coverage for economic contingency of US$90, payable in six bi-monthly installments of US$15 from December 2020 to October 2021 to the beneficiaries of social assistance programs (see Table 5, columns 2–3), with the exclusion of one program not targeted to the poor. This additional coverage, estimated at $126 million, will complement existing social assistance cash transfers to weather the crisis.[7]

[4] The "Nota metodológica: Identificación de núcleos familiares por beneficio de transferencia monetaria recibida y decil"—prepared by the Ministry of Social and Economic Inclusion (MIES)—details the transmission from the RS2014 to RS2018 and the methodology for the counting new beneficiaries and the exclusion of ghost beneficiaries that should not receive social assistance.

[5] Only diesel and gasoline subsidies are considered.

[6] See: Decreto Ejecutivo No. 1183, signed on November 4, 2020, by Lenín Moreno Garcés, Presidente Constitutional de la República, on the regulation of oil fuel prices.

[7] The contingency cash transfers will provide support for the economic downturn and also fully cover for the estimated loss of fuel subsidies for the bottom three income deciles: cf. difference in fuel subsidies between columns 3 and 6 and between columns 4 and 7 in Table 3 with the direct contingency cash transfers reported in columns 5–6 in Table 5, respectively.

Table 3. Ecuador: Fuel Subsidies

Diesel

	Annual per aggregated decile (US$ millions)			Annual per aggregated decile (US$ millions)		
Decile	**Plain 2019**	**Plain 2020**	**Plain 2021**	**Plain 2019**	**IPP 2020**	**IPP F2021**
1	47.0	23.1	36.0	47.0	21.9	9.0
2	57.9	28.4	44.3	57.9	26.9	11.1
3	67.6	33.2	51.7	67.6	31.4	13.0
4	76.0	37.3	58.2	76.0	35.4	14.6
5	83.2	40.9	63.7	83.2	38.7	16.0
6	90.5	44.4	69.3	90.5	42.1	17.3
7	97.7	48.0	74.8	97.7	45.5	18.7
8	117.0	57.5	89.6	117.0	54.4	22.4
9	148.4	72.9	113.6	148.4	69.0	28.4
10	179.7	88.3	137.6	179.7	83.6	34.5
Total	**965.0**	**474.0**	**739.0**	**965.0**	**449.0**	**185.0**

Gasoline

	Annual per aggregated decile (US$ millions)			Annual per aggregated decile (US$ millions)		
Decile	**Plain 2019**	**Plain 2020**	**Plain 2021**	**Plain 2019**	**IPP 2020**	**IPP F2021**
1	4.5	1.5	0.4	1.3	0.4	0.8
2	6.0	2.0	0.5	2.3	0.7	1.4
3	8.9	2.9	0.8	3.0	0.9	1.8
4	10.5	3.5	0.9	4.6	1.4	2.2
5	12.3	4.1	1.1	7.8	2.3	3.9
6	14.3	4.7	1.3	10.4	3.2	5.3
7	16.5	5.5	1.4	13.0	4.1	6.8
8	21.4	7.1	1.9	18.4	5.9	9.7
9	29.0	9.6	2.5	29.5	9.7	15.9
10	36.6	12.1	3.2	69.7	23.4	38.2
Total	**160.0**	**53.0**	**14.0**	**160.0**	**52.0**	**86.0**

Sources: ENIGHUR 2011-2012, World Bank, and IMF staff calculations.

Notes: "Plain" assumes pre-reform status quo in the fuel subsidies and "IPP" means import price parity. Assumes partial implementation in 2020 and full implementation in 2021.

5. **An increase in the VAT rate will be borne predominantly by high-income families.**[8] Most food and basic items (i.e., "canasta básica") are exempted from VAT and will therefore not be affected by the VAT rate hike. Because low-income families allocate a higher share of their consumption to food (42 percent for the bottom income decile; see Table 4) than the rich (12 percent for the top income decile), their consumption goods would be shielded from any VAT hike, allowing the policy change to improve the progressivity of the tax system.[9] This would be partly

[8] The program foresees the tax reforms in 2022; for comparability, all the reforms are assumed to be implemented in 2021.

[9] See Fenochietto, R, Schatan, R, and Villalobos Montalvo, R. (2019, March). "Ecuador—Aumentar la Recaudación con Equidad y Eficiencia." International Monetary Fund, Informe Técnico, and Castillo, J. G. and Gomez, N. (2018, July). "Progresividad en los

(continued)

mitigated by the fact that the ratio of consumption to income decreases with income (see Table 5, column 7).[10]

Table 4. Consumption Composition

(In percent)

Decile	Food	Fuels	Transport (w/o fuels)	Other non-food
1	42.2	1.0	8.0	45.8
2	39.8	1.0	8.0	48.2
3	37.3	1.0	8.0	50.7
4	34.5	1.3	8.5	53.0
5	31.5	1.8	9.5	55.0
6	28.5	2.0	10.8	57.0
7	25.5	2.0	12.3	59.0
8	21.5	2.3	13.8	61.3
9	16.5	2.8	15.3	63.7
10	11.5	3.3	16.8	66.2

Source: ENIGHUR 2011-2012, World Bank, and IMF estimations.
Notes: Linearly inter- and extrapolated from quintiles.

6. **The personal income tax (PIT) system needs to increase progressivity, reduce deductions, and include middle-income groups.** The current PIT threshold starts at an annual income of US$11,315, corresponding to the top three income deciles: i.e., at least 70 percent of the population is not subject to PIT. Moreover, personal expenses are deductible.[11] Ecuador ranks second (after Paraguay) in Latin America in terms of zero PIT rate and tax deductions to GDP per capita. An increase in the PIT rate from zero to 3 percent from US$3,600 (fourth income decile), lower tax breaks for the US$11,000–27,000 income group equivalent to an effective PIT increase of 3 percent, and an increase in the marginal PIT rate by 5 percent for income above US$27,000 could bring an additional 1.1 percent of GDP in tax revenues (see Table 5, columns 4–5).

7. **Reductions in capital expenditure and wage bill would help reduce income inequality, although the impact is difficult to quantify.** The reductions would be made while social assistance programs are expanded significantly. Moreover, while a thorough analysis should consider the full fiscal consolidation package, insufficient granular data limits the precise distributional quantification of these fiscal consolidation measures. Since public-sector employees earn above the median income,[12] a first-order effect of reductions in infrastructure spending and the wage bill is equivalent to a progressive income tax and would go towards reducing income inequality.

impuestos regresivos: un análisis del Impuesto al Valor Agregado." Boletín de Política Económica, Issue 2, pp. 13–19. Centro de Investigaciones Económicas FCSH-ESPOL. On the progressivity of VAT see also: Jenkins et al. (2006) and Mariscal and Werner (2018). Based on combined household data from 31 countries, Bachas et al. (2020) show that the budget share spent in the informal sector steeply declines with income, which makes consumption taxes as progressive and redistributive as personal income taxes.

[10] The impact of a VAT hike is based on input-output tables prepared by the World Bank in collaboration with IMF-FAD, and calibrated to the aggregate macro estimates of Fenochietto, Schatan, and Villalobos Montalvo (2019).

[11] For example, a person earning three times the GDP per capita and applying the allowed deductions in personal expenses, pays zero PIT.

[12] According to the MEF's wage bill microdata, the average public-sector monthly salary in October 2020 equaled US$1,530, i.e., US$18,360 annually and threefold the GDP per capita.

Table 5. Ecuador: Contingency Cash Transfers and Taxes

	Contingency CT (US$)		PIT hike		VAT hike		
Decile	**2020**	**F2021**	**F2021**	**% income**	**F2021**	**cons/income**	**% cons.**
1	2.9	17.8	-	-	(17.9)	1.15	1.9
2	6.1	40.3	-	-	(36.8)	1.04	2.1
3	6.4	44.9	-	-	(48.3)	1.00	2.2
4	1.4	2.0	(13.8)	0.6	(50.4)	1.00	2.2
5	0.9	1.4	(31.2)	1.1	(61.9)	0.99	2.2
6	0.5	0.7	(54.1)	1.5	(79.7)	0.95	2.3
7	0.3	0.3	(83.7)	1.8	(103.0)	0.95	2.4
8	0.1	0.3	(126.2)	2.1	(140.7)	0.93	2.5
9	0.0	0.1	(200.1)	2.4	(213.1)	0.89	2.8
10	0.0	0.0	(619.1)	3.3	(489.4)	0.82	3.2
Total	**18.6**	**107.8**	**(1,128.3)**		**(1,241.3)**		

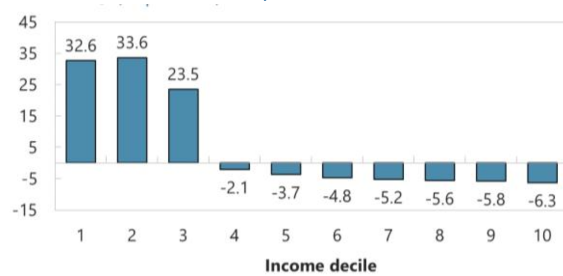
Sources: ENIGHUR 2011-2012, World Bank, and IMF staff calculations.

Notes: Assumes PIT hike by 3 percent from $3,600 to $27,000 and by 5 percent from $27,000 up; VAT hike by 3 percent.
VAT distributional impact is calculated using input-output tables from the World Bank and IMF staff calculations, and calibrated to the aggregate estimates from Fenochietto, Schatan, and Villalobos Montalvo (2019).

8. **The cumulative effect of the reform package (VAT rate hike by 3 ppts, PIT reform, and increase in cash transfers) will reduce income inequality.** The expansion of social assistance, contingency cash transfers, and tax reforms will substantially increase the post-fiscal income for families in the bottom income deciles (by about 24–34 percent) at the expense of a small reduction (about minus 5–6 percent) in the post-fiscal income at the top of the distribution in 2021 in comparison to the counter-factual of no reforms in 2021 (see Figure 2 and Table 6).

Figure 2. Ecuador: Effect of the Reforms by Income Decile 1/

(In percent)



Sources: MIES, MEF, and World Bank and IMF staff calculations.
1/ Income change between the expansion of social assistance, contingency cash transfers and tax reforms to no reforms in 2021.

Table 6. Total Post-Fiscal Income

(In US$ millions)

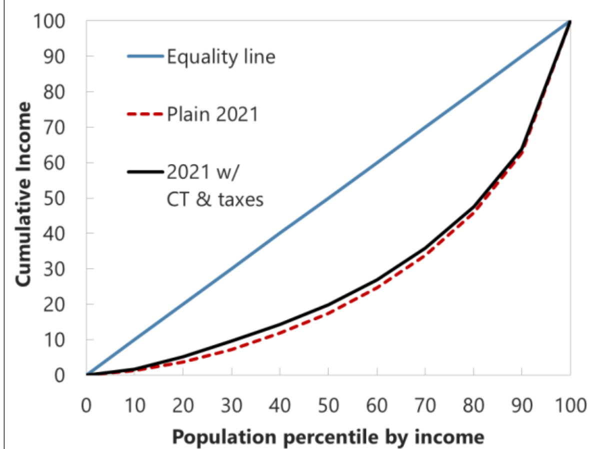
Decile	Plain 2019	Plain 2020	Plain 2021	2020 w/ cash transfers	2021 w/ cash transfers	2021 w/ CT & taxes
1	728.4	583.9	626.4	720.1	850.3	830.8
2	1,469.5	1,194.4	1,271.8	1,413.6	1,737.3	1,699.7
3	2,053.3	1,667.6	1,772.4	1,865.2	2,238.2	2,189.4
4	2,619.7	2,145.0	2,277.0	2,257.4	2,295.8	2,230.1
5	3,265.4	2,698.8	2,861.9	2,766.5	2,854.1	2,756.2
6	3,999.3	3,428.0	3,631.3	3,462.0	3,596.2	3,458.2
7	4,992.4	4,367.5	4,622.2	4,386.5	4,576.0	4,381.2
8	6,436.9	5,722.2	6,053.1	5,726.9	5,989.2	5,713.5
9	8,874.6	8,078.4	8,541.4	8,077.2	8,457.0	8,043.6
10	19,094.4	17,860.4	18,847.1	17,856.0	18,744.1	17,665.9

Sources: MIES, MEF, and IMF staff calculations.

Notes: "Plain" assumes pre-reform status quo in the fuel subsidies and cash transfers.

9. The cumulative effect of the fiscal reforms would be to improve income equality, partly reversing the adverse effects of the pandemic. A Gini coefficient of zero means that income is equally distributed in population (e.g., the "poorest" 10 percent of the population earns 10 percent of aggregated income) and a Gini coefficient close to one means that income all income is hold by a tiny fraction of the population (e.g., the richest one percent of the population earns 99 percent of the aggregated income). Generally, changes in the Gini coefficient are small and take time. In Ecuador, the Gini coefficient increased from 0.390 to 0.396 in the aftermath of the COVID-19 pandemic. The expansion of social assistance mitigated the increased inequality and reduced the Gini coefficient to 0.392 in 2020 and 0.389 in 2021. The introduction of PIT and VAT reforms would further decrease the Gini coefficient to 0.388 in 2021 (see Figure 1 and Table 6 and 7). The reduction in inequality and reduction of the Gini coefficient from 0.396 to 0.388 is considerable and commendable, given the circumstances and when compared to the experiences of other countries.

Figure 3. Ecuador: Lorentz Curves 1/



Sources: MIES, MEF, and World Bank and IMF staff calculations.
1/ "Plain" assumes status quo in the fuel subsidies and cash transfers.

Table 7. Ecuador: Total Cumulative Post-Fiscal Income
(In percent)

Equality line	Plain 2019	Plain 2020	Plain 2021	2020 w/ cash transfers	2021 w/ cash transfers	2021 w/ CT & taxes
10	1.4	1.2	1.2	1.5	1.7	1.7
20	4.1	3.7	3.8	4.4	5.0	5.2
30	7.9	7.2	7.3	8.2	9.4	9.6
40	12.8	11.7	11.8	12.9	13.9	14.2
50	18.9	17.4	17.4	18.6	19.4	19.8
60	26.4	24.5	24.6	25.7	26.4	26.9
70	35.7	33.7	33.8	34.8	35.3	35.8
80	47.8	45.7	45.8	46.6	47.0	47.5
90	64.3	62.6	62.7	63.2	63.5	63.9
100	100.0	100.0	100.0	100.0	100.0	100.0

Sources: MIES, MEF, and IMF staff calculations.
Notes: "Plain" assumes pre-reform status quo in the fuel subsidies and cash transfers.

Table 8. Ecuador: Gini Coefficient

Centile	Plain 2019	Plain 2020	Plain 2021	2020 w/ cash transfers	2021 w/ cash transfers	2021 w/ CT & taxes
10	6.8	6.1	6.2	7.4	8.3	8.5
20	120.5	118.6	118.8	122.0	125.2	125.8
30	239.7	236.1	236.3	241.2	247.0	248.2
40	364.2	358.5	358.9	364.5	369.4	371.0
50	494.7	486.8	487.2	493.0	497.2	499.1
60	632.0	622.7	623.2	628.6	632.2	634.4
70	778.7	768.4	768.9	773.8	776.7	779.2
80	938.8	928.4	928.9	932.8	935.1	937.5
90	1,121.7	1,113.0	1,113.4	1,116.0	1,117.4	1,119.6
100	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0	1,400.0
Gini coefficient	**0.390**	**0.396**	**0.396**	**0.392**	**0.389**	**0.388**

Sources: MIES, MEF, and IMF staff calculations.

Notes: "Plain" assumes pre-reform status quo in the fuel subsidies and cash transfers.

10. Caution is warranted when excluding beneficiaries. Generally, improving targeting and eliminating non-poor beneficiaries from social assistance program helps financing coverage expansion among the poor. At the time of program design, the poverty line overlapped with the third income decile and the authorities planned to gradually exclude beneficiaries in 2021 that were above the poverty line.[13] The negative impact of COVID-19 on the income of poor households is estimated to have pushed around 1.5 million people into poverty, moving the poverty line from the 30th to the 38th centile: i.e., from the third to almost all the fourth income decile. Inasmuch as the fourth decile may be now below the updated poverty line, the families in the bottom three income deciles are in a more precarious situation than before, including in extreme poverty. Despite limited fiscal resources, lowering *relative poverty*—e.g., covering a large fraction of the bottom income deciles—is *feasible*. While the program target of covering 80 percent of families in the bottom three income deciles strikes a fine balance between covering a wide enough group of low income families and providing each with meaningful support, the authorities are encouraged to revise and update all the social registry information before eliminating benefits. Until the poverty line is updated by INEC, the authorities plan to proceed with caution when eliminating families that are above the current poverty line according to previous records but would fall below the poverty line during the COVID-19 downturn.

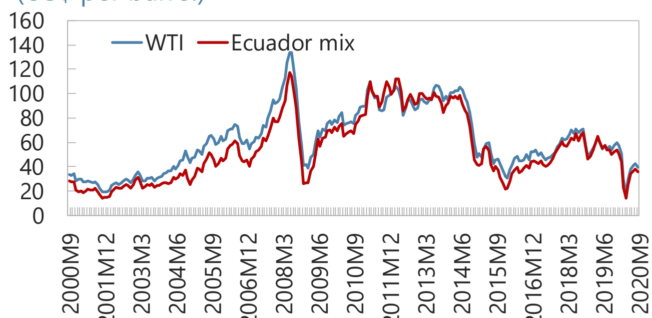
[13] See Annex II in IMF Country Report No. 2020/286: Ecuador - 2020 - Request for an Extended Arrangement Under the Extended Fund Facility.

Annex II. Ecuador Crude Oil Sale Agreements[1]

1. Oil production in Ecuador is dominated by the public sector. Petroamazonas EP (Petroamazonas, Empresa Pública de Exploración y Explotación de Hidrocarburos), a state-owned company, produced over three quarters of all oil output in the country, at about 419,000 bpd in 2019. The rest of the output comes from private international oil companies, such as Repsol (Spain), Eni (Italy), Tecpetrol (Argentina), and Andes Petroleum (China). Crude oil resources are exclusively owned by the government, as provided in the Constitution of Ecuador, and foreign companies sign service agreements with the government which offers the former a fixed per-barrel fee for exploration and production activities. The shift from production sharing to fee-for-service agreements have significantly improved government share of oil revenue in recent years, which stood at around 98 percent as of 2019. Another public company, Petroecuador, is responsible for the transportation, refining, storage and sales of hydrocarbon products, both domestically, and internationally. Petroecuador is expected to merge with Petroamazonas at the end of 2020, which will result in Petroecuador taking over all of the upstream, midstream and downstream operations, with Petroamazonas becoming defunct.

2. Ecuador sells crude oil through long-term sale agreements and the local spot market. There are two types of long-term crude oil sale agreements: i) where a certain schedule of oil delivery is agreed, with purchase payments made in full a month after the delivery, and ii) where the counterparty (buyer) advances part of the future payments to Petroecuador (seller), while Petroecuador delivers the oil to the counterparty in accordance with a certain schedule, and the advance is retained from future sales proceeds. Currently there are only two contracts in effect with advance payments, the most recent of which was signed in 2016, each with a relatively small amount oil balance for delivery. Until the development of the local spot market in 2017, long-term sale agreements have been the historical mode of crude oil sales and continue to account for the bulk of oil export volumes (about 90 percent of total exports). In the case of spot market sales and sales to private companies, Petroecuador tenders its crude oil to several traders that participate in the market and sells to the winning bid. According to the current internal policy of Petroecuador (DIR-EPP-01-2012-01-16), at least 10 percent of total exportable volume of crude oil in Ecuador must be tendered for spot market sales.

Ecuador Mix and WTI Crude Oil Prices
(US$ per barrel)



Sources: Haver Analytics and IMF Primary Commodity Prices.

3. The spot market functions like an auction market, with competitive bidding. The only seller in the market, Petroecuador, announces the amount and grade of oil it plans to sell at a certain

[1] Prepared by Botir Baltabaev (WHD) and Deirdre Daly (SPR), with inputs from the Ecuadorian authorities.

date, and the buyers make a bid, using West Texas Intermediate (WTI) around the bill of lading dates as a benchmark, while adjusting for the grade of the scheduled delivery.

4. **All long-term sale agreement prices have a benchmark and differential over benchmark.** The relatively short-term agreements have a pricing formula where the price of sale is only linked to the WTI and a variable differential (Table 1). For instance, recent sale prices in contracts with Rosneft Trading and Petrojam Limited utilized this type of pricing. On the other hand, sale commitments spanning over several years also include a fixed premium in favor of Petroecuador. The latest contract with Shell had a premium of US$ 0.71 per barrel. Such a pricing formula was developed in 2014 by Petroecuador in conjunction with international industry consultants. Since the differential element in long-term contracts employs the prices of Ecuadorian crude oil published by S&P Global Platts, long-term contract prices are influenced spot market prices.

5. **The differential accounts for varying trading prices in different markets, the grade of Ecuador's crude, and transportation costs**. For buyers from geographically closer markets (e.g., US, Peru), the value of the differential with regards to the WTI is usually linked to the value of the difference between the WTI and the spot or medium-term price that Petroecuador awards in competitive tenders. For buyers from markets that are geographically distant (China, Thailand), the calculation of the differential is different, and consists of Argus Sour Crude Index (ASCI) Differential (volume-weighted average of differential trades for various types of crude) - quality adjustment – freight factor. Quality adjustment is based on the price differential between the benchmark and the similarly graded oil in the US Gulf Coast. The freight factor takes into account the cost of shipping from Ecuador (Esmeraldas) to the US (the average of cost of delivery to Houston and Los Angeles), regardless of the jurisdiction of the buyer.

6. **The premium is determined by bidding or negotiation.** Petroecuador usually attracts a premium over the WTI + differential price either by placing open tenders on contracts or negotiating directly with prospective state-owned buyers. These premiums provide an incentive for Petroecuador to enter into longer-term agreements.

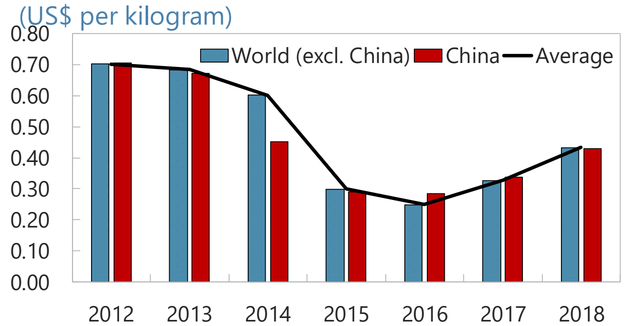
7. **While long-term oil contracts are a common practice, some are linked to financial loans to the government of Ecuador.** Such contracts are currently in effect with Chinese financial institutions. In these agreements, the Chinese banks (ICBC, China Minsheng Bank, Export-Import Bank of China and CDB) provide loans to the government (Ministry of Economy and Finance) which are repaid with government funds, and in parallel Petroecuador commits to ship certain barrels of crude oil to Petrochina, as per the agreed schedule. Petrochina transfers funds for the shipped oil to an account of Petroecuador at a Chinese financial institution that provided lending. Petroecuador can freely repatriate the funds, provided that the account maintains a minimum balance as per the agreement, typically 1-2 quarters of loan repayments, and the government has no past due debt repayment to the Chinese bank.[2] The financial and oil sale contracts are linked such that non-delivery of oil could accelerate the loan repayment, but not vice versa; i.e., nonpayment of the loan does not

[2] Gallagher, Irwin and Koleski 2012. The New Banks in Town: Chinese Finance in Latin America, China and Latin America, 2012

give rise to accelerated obligations on oil delivery, and neither the oil nor the bank account are pledged as collateral for the financial loan.

8. Price determination in debt-financing linked long-term oil contracts are the same as in normal long-term oil contracts. For instance, debt-linked pre-sale contract with Petrochina-2016279 (China) and PTT International-2016916 (Thailand) had the same pricing formula. Moreover, at the time of signing, the fixed premiums were also very close (0.26 for PTT and 0.25 for Petrochina). The analysis of oil export prices to China and the rest of the world further indicates no major differences in actual prices (text chart).

Ecuador: Crude Oil Export Prices by Destination
(US$ per kilogram)



Sources: UN Comtrade and IMF staff calculations.

9. While these financing arrangements linked to long-term oil contracts are not considered collateralized debt, there are potential risks. A close analysis of the borrowing contracts in the context of the 2019 EFF found that they did not involve features that would legally be considered to be collateralized.[3] The link of these agreements to oil sales may have also enabled Ecuador to secure financing at better terms for projects than it otherwise may have been able to secure (text table). Nevertheless, frequent use of such agreements could tie up an increasing share of oil production.

Ecuador: Loan Agreements with Chinese Banks

Lender	Date of agreement	Loan amount (US$ millions)	Interest rate (percent)	EMBI yeild (percent)
CDB	12/20/2018	675.0	6.6	797
CDB	12/20/2018	223.3	6.2	797
CDB	4/29/2016	1500.0	7.25	941
CDB	4/29/2016	500.0	6.87	941
ICBC	1/22/2016	970.0	6.2+LIBOR (3-m)	1570
CDB	12/20/2012	1400.0	7.19	823
CDB	12/20/2012	300.0	7.19	823
CDB	12/20/2012	300.0	6.87	823
CDB	6/27/2011	1400.0	7.16	810
CDB	6/27/2011	600.0	6.25	810
CDB	8/31/2010	1000.0	6	1040

Source: Ecuadorian authorities.

10. Ecuadorian authorities have improved the transparency of long-term oil sale agreements. This also holds true for long-term sale agreements that are linked to debt arrangements with China (Table 1). The authorities have been publishing the signed long-term sale agreements on the Petroecuador website with a usual lag of one year, or immediately in cases of contracts lacking confidentiality clauses. The authorities also took considerable steps to disclose necessary information on the borrowing contracts to relevant parties for analysis. Going forward, they plan to enhance transparency and disclosure terms in future contracts and continue to publish old ones as legally permissible.

[3] Ecuador: Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Ecuador.

Table.1. Ecuador: Crude Oil Sale Agreements

	Counterparty	Amount committed (million barrels)	Status	Pricing formula	Premium
1	Shell	20.16	Active	WTI +differential + premium (0.71)	0.71
2	Petrojam Limited	1.08	Expired	WTI +differential	-
3	Rosneft Trading	0.72	Expired	WTI +differential	-
4	ENAP	6.48	Expired	WTI +differential	-
5	Petroperu SA	3.96	Expired	WTI +differential	-
6	ENAP	2.52	Expired	WTI +differential	-
7	Petroperu SA	2.88	Expired	WTI +differential	-
8	PTT International	122.76	Active	WTI +differential + premium (0.26)	0.26
9	Petrochina	181.44	Active	WTI +differential[1] + premium (0.9)	0.9
10	Petrochina	76.35	Active	WTI +differential + premium (0.9)	0.9
11	PTT International	116.64	Active	WTI +differential + premium (0.45)	0.45
12	Unipec Asia	120.96	Expired	WTI +differential + premium (0.45)	0.45
13	Unipec Asia	8.28	Expired	WTI +differential + premium (0.55)	0.55
14	Petrochina	190.08	Expired	WTI +differential + premium (0.555)	0.555
15	Unipec Asia	61.74	Expired	WTI +differential + premium (0.8)	0.8
16	Petrochina	61.74	Expired	WTI +differential + premium (0.8)	0.8
17	Petrochina	123.48	Expired	WTI +differential + premium (0.9)	0.9
18	Petrochina	73.8	Expired	WTI +differential + premium (0.525)	0.525
19	Petrochina	28.44	Expired	WTI +differential + premium (0.51)	0.51
20	Petrochina	86.4	Expired	WTI +differential + premium (1.25 Oriental Crude; 1.30 (Napo Crude)	1.25

Source: Petroecuador.
http://www4.eppetroecuador.ec/rcp/GCIComercial/invitaciones/consultaInvitaciones2.cfm?titulo=%24titulo&anio=2015&tipo=contratos&ejecuta=BuscarThere.

Annex III. Debt Sustainability Analysis[1]

Under baseline projections, Ecuador's public debt remains sustainable with high probability, in line with the assessment at the time of program approval. Public debt is now expected to peak at 64.4 percent of GDP in 2020 and decline to 56.4 percent of GDP in 2025 thanks to the envisaged fiscal consolidation and the recently concluded debt operation. Gross financing needs are about 14.8 percent of GDP in 2020, but they are forecasted to retreat to 4.8 percent of GDP by 2025. Despite the improvements in the debt dynamics, the declining debt path is vulnerable to a growth shock.

1. **Definition and Debt Profile.** Public-sector debt includes the obligations of the non-financial public sector (general government and non-financial sector state-owned enterprises). Under this measure, public debt more than doubled between 2012 and 2019 (from 17.5 to 51.8 percent of GDP).

2. **Macroeconomic and Fiscal Assumptions.** Growth in 2020 is forecasted at -9.5 percent while CPI inflation is expected to decline slightly and reach -0.3 percent. Growth is expected to recover in the medium term and reach 2.3 percent by 2025 - in line with the economy's potential – while CPI inflation is expected to converge to 1 percent. Thanks to the envisaged fiscal consolidation, the fiscal position is projected to improve gradually to reach a primary surplus of about 4.3 percent of GDP by 2025. This is conditional on continuous policy efforts resulting in an improvement of the non-oil primary balance with subsidies of 5.5 percent of GDP between 2019 and 2025. On the financing side, the framework envisages budget support from IFIs of US$7.7 billion in 2020, US$5.0 billion in 2021, and US$2.8 billion in 2022and market access of US$0.5-2 billion from 2022 onwards.

3. **Baseline Scenario**. The authorities are committed to undertaking the needed fiscal consolidation and to pursuing fiscal policy consistent with achieving a debt-to-GDP ratio of no more than 45 percent by 2030, with an intermediate target of 57 percent by 2025, as stated by the COPLAFIP law.[2] In the baseline scenario, public debt is projected to decline from its projected peak at end-2020 of 66.4 percent of GDP to 56.4 percent by 2025, implying that the public debt-to-GDP ratio will remain below the critical threshold for emerging economies of 70 percent of GDP. . Gross financing needs are also expected to decline significantly over the medium term, as they are projected to fall from 14.8 percent of GDP in 2020 to 4.8 percent of GDP by 2025. As a result, gross financing needs do not breach the low-risk threshold of 15 percent of GDP in the baseline scenario). The realism analysis still shows that the projected fiscal adjustment is in the top quartile when compared to experience of other countries.[3] The cyclically-adjusted primary fiscal adjustment over any of the three years during the projection horizon is above the threshold of 3 percent of GDP,

[1] Prepared by Matteo Ghilardi, with inputs from Deirdre Daly.

[2] These targets are in line with the ones discussed in the RFI report in the context of the recent debt restructuring operation (IMF Country Report No. 20/178).

[3] See Annex III on Ecuador's recent history of fiscal adjustment, comparing it to other developing countries, including LA-6 peers, in IMF Country Report No. 2020/286: [Ecuador - 2020 - Request for an Extended Arrangement Under the Extended Fund Facility](#).

while the average of the cyclically-adjusted primary balance for any consecutive 3-year period during the projection horizon is greater than the threshold of 3.5 percent of GDP. The effective interest rate (defined as interest rate payments divided by the debt stock) is expected to decline on the back of the recently concluded debt restructuring operation.

4. Stress Tests. The debt restructuring operation and the fiscal consolidation path would reduce significantly debt and gross financing risks in the short- and medium-term. However, despite the improvements in the debt dynamics, the declining debt path is vulnerable to a growth shock. The growth shock would bring the debt-to-GDP ratio to 73.3 percent in 2022 before declining below the critical threshold for emerging economies of 70 percent of GDP and reach 65.3 percent in 2025. Under current assumptions, public debt does not appear vulnerable to a primary balance shock, a real interest shock or a RER shock, meaning that under these shocks the critical threshold is not crossed. Gross financing needs do not breach the low-risk threshold of 15 percent of GDP under any of the stress test scenario.

5. Risks and Vulnerabilities. Risks are tilted on the downside, which are enhanced by the global economic and financial uncertainty. Key near-term risks include a stronger-than-envisaged impact of the COVID pandemic and/or a more protracted recovery at the domestic or global level, which would result in lower fiscal revenues and higher fiscal costs. The framework also hinges on a steadfast implementation of the policy agenda which is needed to generate the needed fiscal savings. Any lags in mobilizing revenues and containing and rationalizing spending could ultimately result in higher financing needs. A delay in market access, and/or lower support from bilateral and/or multilateral creditors would present substantive challenges, and potentially open financing gaps. The public DSA risk assessment identifies the ratio of public debt held by non-residents as a high risk for Ecuador, while the current level of spreads, which remain higher than regional averages despite the recently concluded debt restructuring operation, is keeping the market perception risk to high. At about 73 percent of the total debt, non-residents' holdings of Ecuador's public debt are high but about half of external debt is owed to official creditors and therefore reduces this as a source of vulnerability.

6. External Sustainability Analysis. The total external debt-to-GDP is expected to increase to 59.4 by end-2020, primarily due to the effects of the current crisis on the current account balance and growth (Table III.6). However, in the medium-term, external debt is projected to decrease to 51.2 percent of GDP by 2025, supported by an improvement in the external position under program policies, especially under the consolidation of the fiscal stance and efforts to raise competitiveness by increasing productivity and reducing labor costs. The non-interest current account is expected to improve to a surplus of 4.6 percent of GDP by 2025, from a surplus of 2.5 in 2020 (well in excess of the 0.3 percent of GDP deficit needed to stabilize external debt). Shock scenarios indicate the external debt trajectory would particularly sensitive to the non-interest current account (e.g. terms of trade) or growth shock. While a large real exchange rate depreciation would create unstable debt dynamics, it is highly improbable scenario in Ecuador's dollarized system.

Figure 1. Ecuador: Public Sector Debt Stainability Analysis (DSA) – Baseline Scenario

(in percent of GDP, unless otherwise indicated)

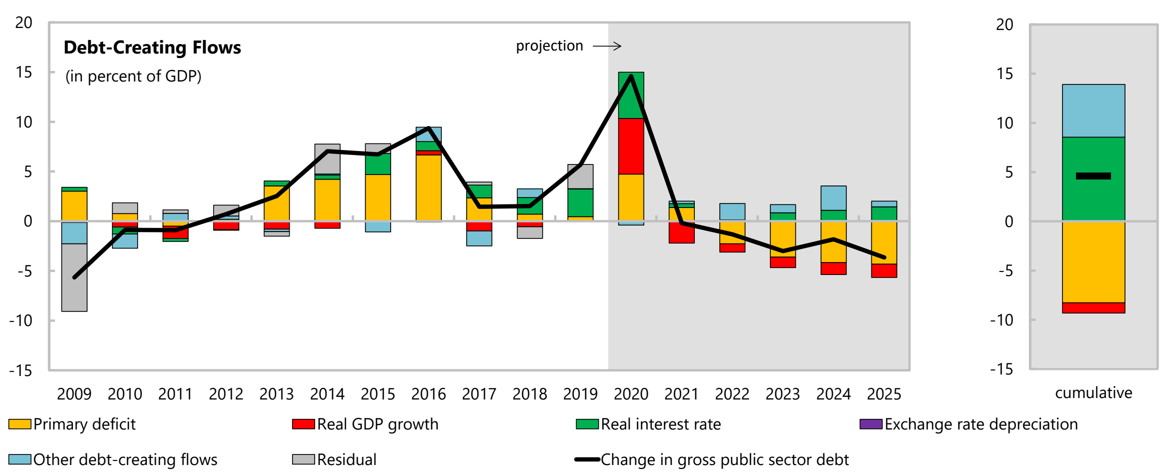
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	26.6	46.1	51.8	66.4	66.2	64.9	61.9	60.1	56.4
Public gross financing needs	9.2	10.5	10.3	14.8	7.7	4.1	3.9	3.1	4.8
Net public debt	21.6	40.2	45.9	59.9	59.8	57.0	53.4	50.0	46.7
Real GDP growth (in percent)	3.1	1.3	0.1	-9.5	3.5	1.3	1.7	2.0	2.3
Inflation (GDP deflator, in percent)	2.9	1.8	-0.2	-3.0	1.6	2.3	1.4	1.2	1.2
Nominal GDP growth (in percent)	6.1	3.1	-0.1	-12.2	5.2	3.7	3.1	3.3	3.6
Effective interest rate (in percent) [4/]	4.6	5.7	5.9	5.2	2.3	2.6	2.7	3.1	3.7

As of November 18, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		1034
5Y CDS (bp)		n.a
Ratings	Foreign	Local
Moody's	Caa3	Caa3
S&Ps	B-	B-
Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.3	1.5	5.7	14.6	-0.2	-1.3	-3.0	-1.8	-3.7	4.6	
Identified debt-creating flows	2.3	2.7	3.2	14.6	-0.2	-1.3	-3.0	-1.8	-3.7	4.6	
Primary deficit	2.8	0.7	0.5	4.7	1.4	-2.3	-3.6	-4.2	-4.3	-8.3	0.7
Primary (noninterest) revenue and grants	35.0	35.3	33.4	30.2	31.5	34.4	35.0	35.4	35.4	201.9	
Primary (noninterest) expenditure	37.8	36.0	33.9	35.0	32.9	32.1	31.4	31.2	31.1	193.6	
Automatic debt dynamics [5/]	0.0	1.1	2.8	10.3	-1.8	-0.7	-0.2	-0.1	0.1	7.5	
Interest rate/growth differential [6/]	0.0	1.1	2.8	10.3	-1.8	-0.7	-0.2	-0.1	0.1	7.5	
Of which: real interest rate	0.5	1.7	2.8	4.7	0.4	0.1	0.8	1.1	1.4	8.6	
Of which: real GDP growth	-0.5	-0.6	0.0	5.6	-2.2	-0.8	-1.1	-1.2	-1.3	-1.0	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.4	0.9	0.0	-0.4	0.3	1.7	0.8	2.4	0.6	5.4	
Deposits drawdown and privatization receipts (negative sign)	-0.4	0.9	0.0	-0.2	0.3	1.7	0.8	1.9	0.0	4.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-0.1	-1.2	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff calculations.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

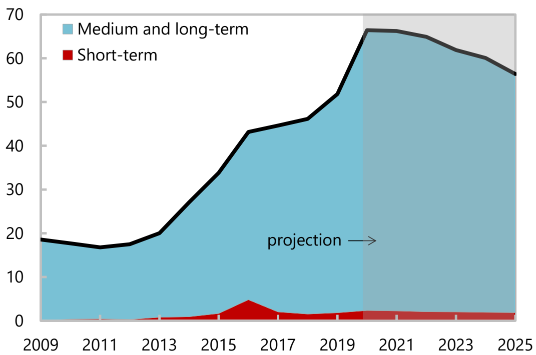
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. It also includes the issuance of domestic debt for the asset swap operation with the central bank.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

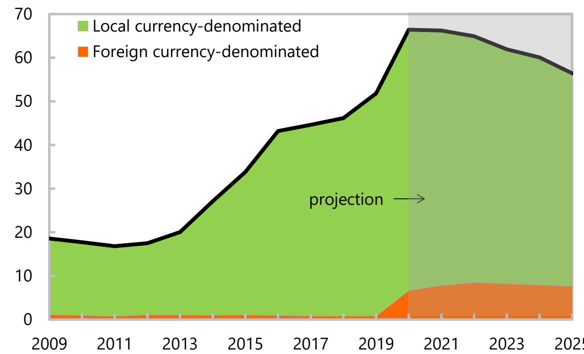
Figure 2. Ecuador: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



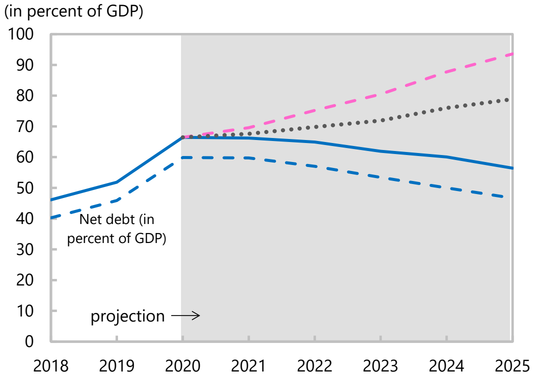
By Currency
(in percent of GDP)



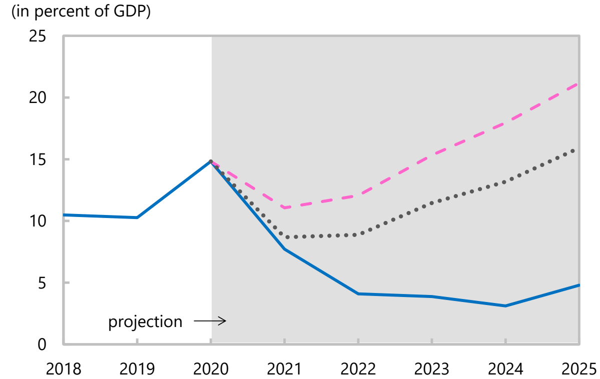
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



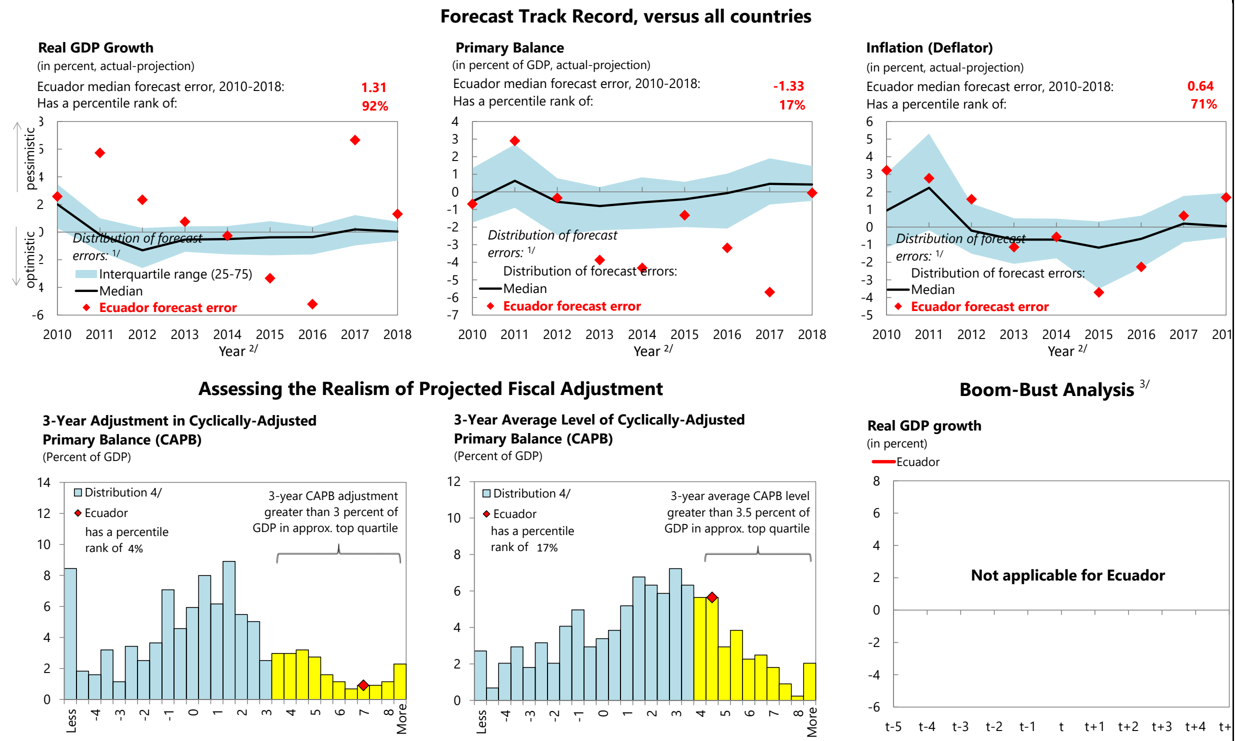
Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.5	3.5	1.3	1.7	2.0	2.3
Inflation	-3.0	1.6	2.3	1.4	1.2	1.2
Primary Balance	-4.7	-1.4	2.3	3.6	4.2	4.3
Effective interest rate	5.2	2.3	2.6	2.7	3.1	3.7
Constant Primary Balance Scenario						
Real GDP growth	-9.5	3.5	1.3	1.7	2.0	2.3
Inflation	-3.0	1.6	2.3	1.4	1.2	1.2
Primary Balance	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Effective interest rate	5.2	2.3	2.5	2.7	3.3	4.2

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.5	2.8	2.8	2.8	2.8	2.8
Inflation	-3.0	1.6	2.3	1.4	1.2	1.2
Primary Balance	-4.7	-2.3	-2.3	-2.3	-2.3	-2.3
Effective interest rate	5.2	2.3	2.5	2.7	3.3	4.1

Source: IMF staff calculations.

Figure 3. Ecuador: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff calcuulations.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

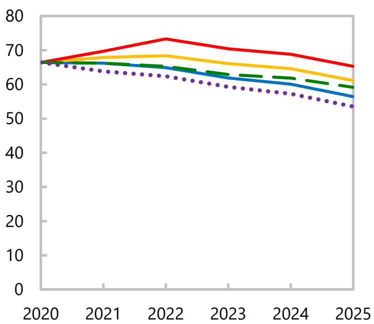
3/ Not applicable for Ecuador, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

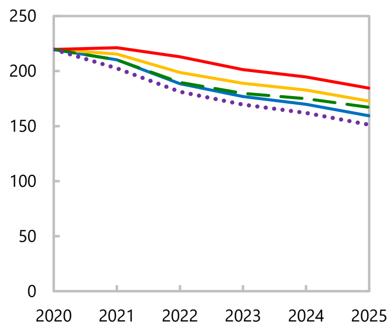
Figure 4. Ecuador: Public DSA – Stress Tests

Macro-Fiscal Stress Tests

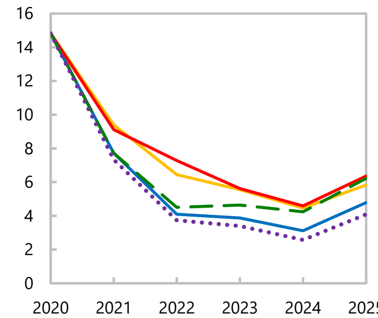
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)

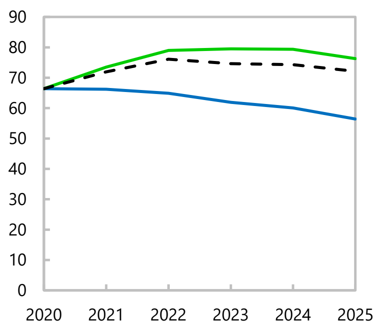


Public Gross Financing Needs
(in percent of GDP)

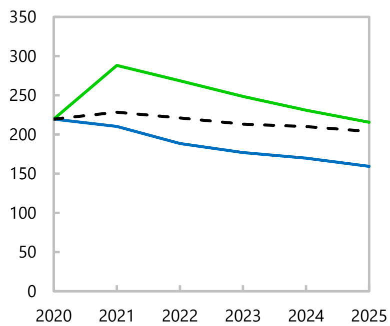


Additional Stress Tests

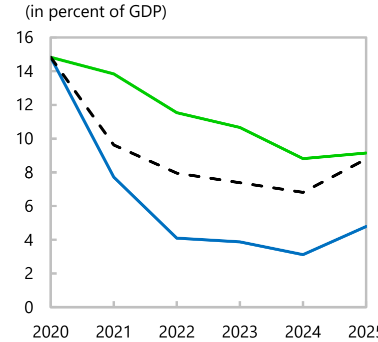
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.5	3.5	1.3	1.7	2.0	2.3
Inflation	-3.0	1.6	2.3	1.4	1.2	1.2
Primary balance	-4.7	-3.1	0.4	2.9	3.9	4.2
Effective interest rate	5.2	2.3	2.6	2.8	3.2	3.9
Real Interest Rate Shock						
Real GDP growth	-9.5	3.5	1.3	1.7	2.0	2.3
Inflation	-3.0	1.6	2.3	1.4	1.2	1.2
Primary balance	-4.7	-1.4	2.3	3.6	4.2	4.3
Effective interest rate	5.2	2.3	3.2	3.7	4.3	5.3
Combined Shock						
Real GDP growth	-9.5	0.6	-1.5	1.7	2.0	2.3
Inflation	-3.0	0.9	1.6	1.4	1.2	1.2
Primary balance	-4.7	-3.1	-0.1	2.9	3.9	4.2
Effective interest rate	5.2	2.3	3.2	3.9	4.6	5.6

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-9.5	0.6	-1.5	1.7	2.0	2.3
Inflation	-3.0	0.9	1.6	1.4	1.2	1.2
Primary balance	-4.7	-2.5	-0.1	3.6	4.2	4.3
Effective interest rate	5.2	2.3	2.6	2.8	3.2	3.8
Real Exchange Rate Shock						
Real GDP growth	-9.5	3.5	1.3	1.7	2.0	2.3
Inflation	-3.0	8.3	2.3	1.4	1.2	1.2
Primary balance	-4.7	-1.4	2.3	3.6	4.2	4.3
Effective interest rate	5.2	2.3	2.5	2.7	3.0	3.6
Oil Shock						
Real GDP growth	-9.5	1.5	-0.7	1.7	2.0	2.3
Inflation	-3.0	1.6	2.3	1.4	1.2	1.2
Primary balance	-4.7	-7.4	-2.7	0.6	3.2	4.3
Effective interest rate	5.2	2.3	3.1	3.4	3.9	4.5

Source: IMF staff calculations.

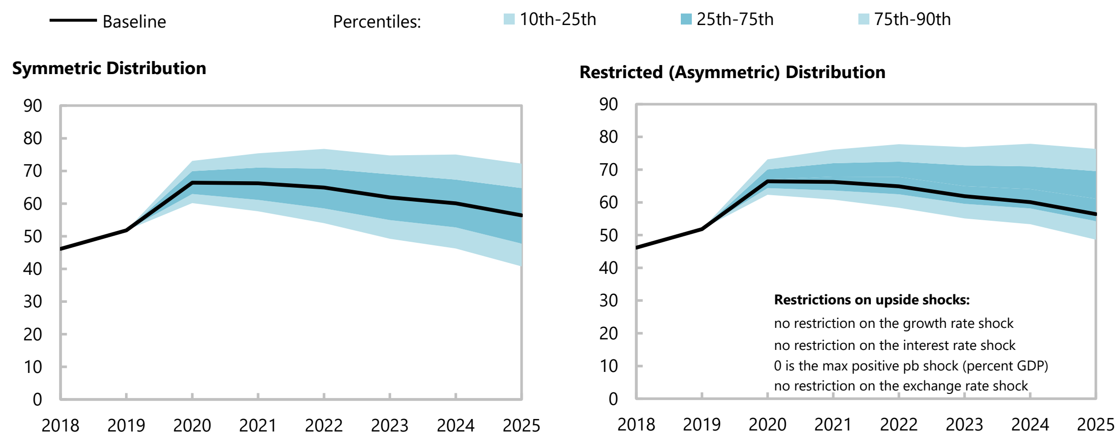
Figure 5. Ecuador: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

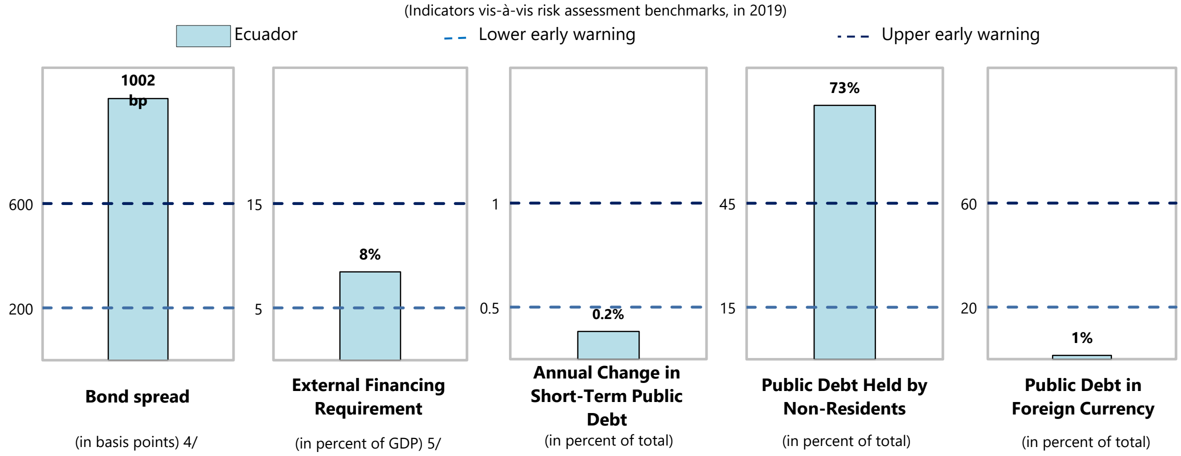
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff calculations.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last month, 19-Oct-20 through 18-Nov-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Table 1. Ecuador: External Debt Sustainability Framework 2015-2025

(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	30.0	36.6	41.1	42.5	48.2			**59.4**	**58.6**	**57.9**	**56.4**	**54.7**	**51.2**	**-0.3**
Change in external debt	4.8	6.6	4.5	1.4	5.6			11.2	-0.8	-0.6	-1.5	-1.7	-3.5	
Identified external debt-creating flows (4+8+9)	1.5	-2.1	-2.0	-1.3	-0.8			5.2	-3.6	-3.1	-3.7	-4.2	-4.2	
Current account deficit, excluding interest payments	0.8	-2.9	-2.1	-1.4	-2.8			-2.5	-2.6	-3.6	-4.1	-4.4	-4.6	
Deficit in balance of goods and services	2.5	-0.6	0.4	0.8	-0.2			-0.9	-0.6	-1.0	-1.4	-1.7	-1.9	
Exports	21.6	20.1	21.6	23.6	24.3			21.9	21.8	22.1	22.4	22.8	23.0	
Imports	24.1	19.5	22.1	24.4	24.1			21.0	21.2	21.1	21.0	21.0	21.1	
Net non-debt creating capital inflows (negative)	-1.3	-0.8	-0.6	-1.3	-0.9			-0.6	-0.7	-0.8	-0.8	-0.9	-1.0	
Automatic debt dynamics 1/	2.1	1.5	0.7	1.4	2.9			8.3	-0.4	1.3	1.2	1.2	1.4	
Contribution from nominal interest rate	1.5	1.7	2.2	2.6	2.9			3.1	1.6	2.1	2.2	2.3	2.6	
Contribution from real GDP growth	0.0	0.4	-0.8	-0.5	0.0			5.2	-2.0	-0.7	-0.9	-1.1	-1.2	
Contribution from price and exchange rate changes 2/	0.6	-0.6	-0.7	-0.7	0.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.3	8.7	6.5	2.7	6.4			6.0	2.8	2.5	2.3	2.4	0.8	
External debt-to-exports ratio (in percent)	139.0	182.2	190.1	180.3	198.1			271.4	269.0	262.6	251.8	240.3	222.7	
Gross external financing need (in billions of US dollars) 4/	9.1	5.3	8.1	10.6	9.1			9.0	5.4	5.3	5.4	5.7	6.4	
in percent of GDP	9.2	5.3	7.7	9.8	8.5	10-Year	10-Year	9.5	5.4	5.2	5.1	5.2	5.7	
Scenario with key variables at their historical averages 5/								**59.4**	**61.5**	**63.6**	**64.8**	**66.1**	**65.7**	**-0.8**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	0.1	-1.2	2.4	1.3	0.1	2.8	2.9	-9.5	3.5	1.3	1.7	2.0	2.3	
GDP deflator in US dollars (change in percent)	-2.5	1.9	1.9	1.8	-0.2	2.7	2.9	-3.0	1.6	2.3	1.4	1.2	1.2	
Nominal external interest rate (in percent)	5.8	5.8	6.4	6.6	6.8	5.7	0.8	5.7	2.9	3.7	3.9	4.2	4.9	
Growth of exports (US dollar terms, in percent)	-25.9	-6.3	12.3	12.5	2.9	6.2	14.9	-21.0	4.7	5.0	4.8	4.8	4.7	
Growth of imports (US dollar terms, in percent)	-20.8	-18.4	18.1	14.2	-1.5	5.6	16.7	-23.4	6.2	3.1	2.5	3.3	3.8	
Current account balance, excluding interest payments	-0.8	2.9	2.1	1.4	2.8	0.9	1.4	2.5	2.6	3.6	4.1	4.4	4.6	
Net non-debt creating capital inflows	1.3	0.8	0.6	1.3	0.9	0.8	0.3	0.6	0.7	0.8	0.8	0.9	1.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate. e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

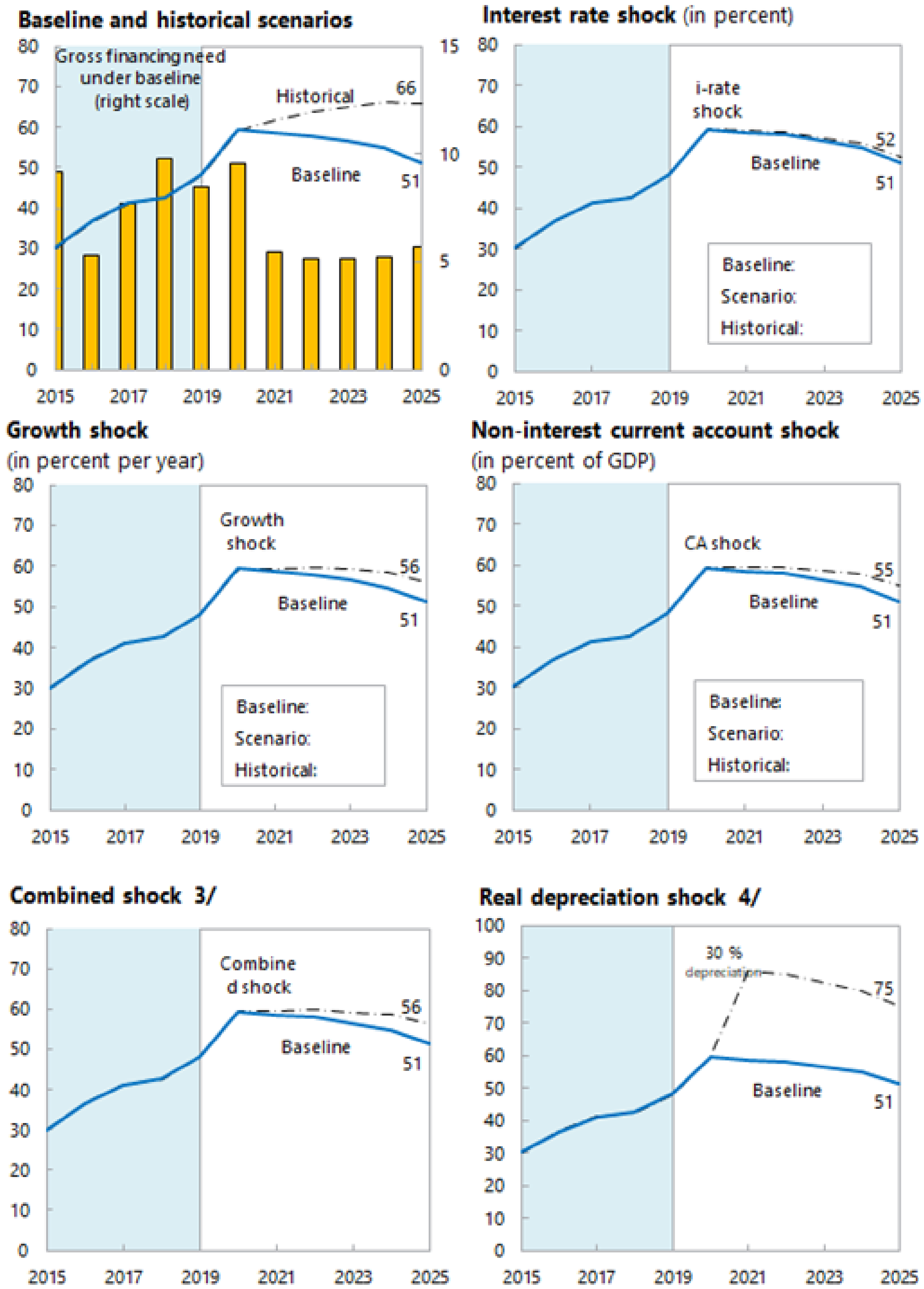
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Ecuador: External Debt Sustainability: Bound Tests 1/ 2/
(external debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Appendix I. Letter of Intent

Quito, December 8, 2020

Ms. Kristalina Georgieva
The Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva:

1. Like many countries in the world, Ecuador continues to experience the most severe crisis in recent history, triggered by the COVID-19 pandemic and related global economic slowdown. The necessary containment measures we took to contain the spread of the virus and save lives, coupled with the sharp decline in global demand and a plummeting of our exports, notably of oil, Ecuador's major export, led to a sharp contraction in economic activity in the second quarter of this year. Since then, our economy is showing nascent signs of recovery, as the rates of new COVID-19 infections have stabilized, but our public finances and external balances remain under undue strain.

2. Our policy program, supported by the 27-month Extended Fund Facility (EFF) approved by the IMF Board on September 30, is starting to bear fruit. The GDP contraction in the second quarter, while severe, was milder than feared at the time of the program request. Since then we continue to see improvements in domestic sales, mobility and tax collections. At the same time, we are cognizant of the significant uncertainty concerning the future path of the pandemic, as evidenced by rising infections rates in Europe and the US.

3. The disbursement from the IMF of $2 billion at the time of program approval has helped bolster our public finances, mitigate the impact of the pandemic, and support the economic recovery. The funds have been critical in clearing arrears to the private sector, providing more support to lower income households, and facilitating the wheels of the economy to start turning again.

4. We have been making good progress towards the goals set for the First Review of our policy program. We met all quantitative performance criteria and indicative targets for end-September with large margins. The targets on the overall balance of the budgetary central government and the account of financing oil derivatives was met with a very sizeable margin, which reflects both our prudent approach to spending and the impact of better-than-projected economic recovery on tax revenues. We also exceeded program targets by bringing an additional 63,764 families on net into the social safety net, which demonstrates our strong commitment to support lives and livelihoods during these difficult times.

5. We request that the Fund complete the first review of the extended arrangement under the IMF's Extended Fund Facility and make the associated disbursement of SDR 1.42 billion (about US$2 billion) available for budget support. The disbursement would continue to provide resources to bolster spending on health care to fight the pandemic, increase the coverage of targeted cash transfers to vulnerable households, clear more arrears of the central government to the private sector, all of which would strengthen the nascent economy. The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) reports on progress in implementing Ecuador's economic program and lays out macroeconomic and structural policies that we plan to implement going forward.

6. Our main goal is to leave a stronger and more prosperous Ecuador for the next several administrations. In the remaining few months of the current administration, we will undertake further reforms to strengthen governance and domestic institutions. In this regard, we have operationalized the recently approved Organic Code of Planning and Public Finances code, approved an internal audit charter of the BCE, enhanced the transparency of asset declarations and will soon submit the central government's 2021 financial plan to the IMF. We are also moving expeditiously towards the timely enactment of key legislations in upcoming weeks. In particular, we are working with legislators towards the timely adoption of the Anticorruption Legislation, so that the law can be enacted by the President by the end of the year. At the Presidential level, and in consultation with IMF staff, we will finalize the amendments to the Organic Monetary and Financial Code that will be submitted to the National Assembly, to ensure the timely enactment of this critical reform by the end of January. We will also use our remaining time in office to develop drafts of key reforms for the next administration to implement, in consultation with all stakeholders, including the broader public. These include drafts of a tax, social security, and labor market reforms.

7. In line with the government's transparent approach to policymaking, we consent to the publication of this letter, the Memorandum of Economic Policies, and the Staff Report associated with our request for support. We will provide information requested by the Fund to assess our policy implementation and will consult with the Fund on additional measures that may be needed in the course of program implementation and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/	/s/
Mauricio Pozo Minister of Economy and Finance	Verónica Artola Jarrín General Manager The Central Bank of Ecuador

Attachment I. Memorandum of Economic and Financial Policies
Attachment II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

1. The Government of Ecuador remains fully committed to the 27-month extended arrangement under the Extended Fund Facility (EFF) approved by the IMF Executive Board on September 30, 2020. This memorandum outlines in detail the progress we have made toward meeting the objectives of our Fund-supported program and our policy plans to advance these objectives for a stronger, more prosperous Ecuador. Tables 1 and 2 show how we plan to update the quantitative targets and structural benchmarks that serve to track our progress.

A. Expanding our Social safety nets

2. Our immediate priority continues to be supporting our population, notably the most vulnerable, affected by the COVID-19 pandemic and its economic and social impact. We are making progress in upgrading our social registry and expanding the coverage of social assistance programs with the assistance of the UN and the World Bank. We exceeded the first objective that we had set for ourselves by increasing the number of beneficiary families by 63,764 instead of 62,240 between July and September 2020. In addition to increasing the number of families receiving support, we are also making progress in better targeting our cash transfer program graduating those families whose incomes are above the threshold. We will continue to work towards meeting our target of adding a cumulative of 625,600 beneficiary families between July 2020 and December 2021, therefore covering 80 percent of families in the bottom three income deciles by end-December 2021 (*structural benchmark*). We take note that the poverty has increased during the pandemic and income inequality likely worsened in Ecuador. To address this problem and support households in need during the economic contraction, we passed a decree implementing a contingency transfer in which BDH and pension beneficiaries will receive an additional transfer of $15 every other month, for a total of $90, between December 2020 and October 2021.

B. Restoring fiscal sustainability while Supporting Our Population

3. We remain fully committed to ensuring the sustainability of Ecuador´s fiscal accounts and leave the next administration with a more robust public financial management framework and stronger institutions. Ensuring fiscal sustainability and meeting the debt limits enshrined in our organic budget code requires a responsible management of public finances.

4. The $2 billion disbursed by the IMF upon program approval has helped meet urgent needs and support lives and livelihoods. We aimed to utilize these resources transparently to maximize its reach across the Ecuadorian society, clear accumulated arrears, and reactivate activity to engender an inclusive economy. Given the critical role of social security in the wellbeing of retirees and the need to help preserve the sustainability of the pension fund, we allocated about $350 million to IESS towards the outstanding contributions (about $1.6 billion) that had accumulated from October 2019 to September 2020 and $98.9 million to ISSFA. We also cleared past due wage payments to public sector employees ($461 million) covering all entities in the public sector, especially in health and education. We paid $239 million to municipalities (GADs) by COOTAD payments and VAT refunds and $31.6 million to SRI for tax refunds. In order to reach as many small contractors as possible, we used about $400 million of the disbursement to clear outstanding payments to more than 20,000 service providers, prioritizing payments of those suppliers within the social protection and education sectors and of the arrears of less than $500,000 and more than 180 days.

5. Our conduct of fiscal policy continues to be guided by the principle of restoring sustainability and reducing public debt, that is ultimately a burden for future generations, consistent with the limits in the organic budget code.

- *For 2020*, we have faced a mix of fortunes and setbacks outside our control. On the bright side, the economy is improving faster than we had anticipated, leading to stronger collection of non-oil tax revenue (by $766 million through 2020). Though oil prices have fallen and are expected to remain lower in the coming years than earlier forecasted, total oil income for 2020 is expected to be higher than initially forecasted due mainly to the change in the domestic fuel prices and the budget optimization of the oil sector SOE's. On the flip side however, the financing that we had expected to receive from some international creditors for this year and next is now further delayed. Although we have been able to secure some additional new financing, the constellation of these factors has necessitated that we use our buffers to the extent possible without jeopardizing our cash flow needs, and further prioritize expenditure so as to limit a re-accumulation of domestic payment arrears that risks undermining the nascent economic recovery. In that context, we will ensure that COVID-related spending is sheltered, maintained, and fully disbursed, consistent with our resolve to support the lives and livelihood of the Ecuadorian people during these difficult times.

- *For 2021,* we are exploring alternative financing options to hedge against potential shortfalls in financing and will adopt a conservative financial plan. *Over the medium-term*, we remain committed to a consolidation in non-oil primary balance (including fuel subsidies) of 5.5 percentage point of GDP over 2019-2025 (corresponding to an improvement of 5.3 percent of GDP in the overall balance of the NFPS), necessary to comply with the legislated debt limit.

6. The necessary fiscal package will be underpinned by the following measures, some of which are already in train:

- *We are making adjustments in the public sector wage bill to support a more fair labor market*: We have continued our policy to reduce public sector wages in temporary contracts, which will result in an overall improvement in labor market equity given the significant wage premium that public sector workers enjoy compared to those in the private sector. We will continue to balance the number of occasional contracts being renewed while safeguarding the quality of public services.

- *We continue to work towards improving public procurement*. Based on the technical support from the World Bank's analysis and in-house analysis by SERCOP, we are reviewing the terms and modalities of public procurement to improve efficiency in public service delivery. In this regard, and based on our data-driven analysis, SERCOP is working with the Ministry of Economy and Finance to translate the identified administrative improvements, including the use of bidding process and reliance on the catalog, into tangible savings for the budget. We also aim to pass regulations to enforce the use of competitive and standardized procurement methods across the public sector.

- *We have made further refinements to the automatic fuel pricing mechanism to align domestic fuel prices with international prices*. The mechanism, which we put in place earlier in the year and was recently reformed, limits the monthly changes in prices to +/- 5 percent, making the domestic retail price gradually converge to the import parity price. With the recent change, the import parity price is determined taking into account the international price of oil derivatives, diesel and naphtha, in the US Gulf Coast, adjusted for the quality of Ecuador's derivatives; and freight, insurance, domestic transportation, and storage costs. For the domestic retail price a markup is added to the import parity price. The mechanism establishes a clear link between domestic retail prices and import prices set on the basis of a benchmark reference price. Moreover, to safeguard the sanctity of the pricing formula, the recent reform, introduced through an executive decree, assigns the responsibility of calculating the import parity price to the energy regulatory and control body (ARCE), through the application of the pricing formula, thus eliminating any discretionary management of the pricing formula. We will seek ways to make this reform permanent and limit the risk of reversals when international prices rise in the future. This will enhance transparency and generate incentives to seek the lowest possible import cost. Importantly, the reform will generate long lasting fiscal savings, encourage a more efficient energy use and help preserve the environment, reduce smuggling dramatically, and limit the depletion of natural resources. The fiscal savings from the reform will finance higher priority public spending, including the increase in spending required to strengthen our social safety net through expanded coverage of poor families under social assistance programs.

- *We are prioritizing capital expenditure projects for this year and next*. To support this objective and lock in the gains over the medium term, we plan to undertake a Public Investment Management Assessment (PIMA), supported by IMF technical assistance, to improve the public investment management cycle and increasing the transparency and efficiency of public investment, with a view to ensure that resources are allocated to growth-enhancing investment in public infrastructure.

- *We are working on a draft tax reform yielding permanent revenues for the next administration.* There are various avenues for reform. We have a relatively small tax base, high personal allowances, and complexity, while the income and value added tax revenues remain low by international and regional standards, owing to low tax rates and weak enforcement. Total tax expenses are also high: in 2018 they were $5.8 billion (5.3 percent of GDP) and 41 percent of tax collected by SRI. In order to finance the much-needed spending to support a more prosperous, fair and equitable Ecuador, our National Assembly will approve, in the exercise of its powers and enacted by the Executive by September 2021, an ambitious tax reform, including a growth-friendly VAT reform, a reform of the PIT focused on the higher end of the income distribution, and a CIT reform geared towards base-broadening, yielding 2½ percentage points of GDP

(*Structural Benchmark*). With this timeframe, the revenue gains can accrue fully in 2022. *The implementation of this tax* package will be complemented by measures to reduce compliance risk, including by enhancing the Large Taxpayers Office (LTO) responsible for all tax administration functions, in particular in reinforcing its audit functions.

- *Finally, we believe a reform of the social security system is necessary and urgent,* as the present system is not only actuarially insolvent but is already incurring cash flow shortages while posing rapidly rising pressures on the central government's budget. We intend to promote a rigorous, open, and factual national debate on the need to reform the national pensions system and the features of alternative reform options. To that end, we will involve analysts, universities, civil society organizations, labor and enterprise associations, and other relevant stakeholders. The national discussion will be facilitated by technical assistance from the World Bank and the ILO, which should help ground the debate on factual evidence, sound economic analysis, and access to international experiences. We hope that the national debate will establish a firmer ground for the next administration to propose a comprehensive reform of the pensions system. As the debate advances, we plan to mobilize the appropriate expertise to prepare a draft pensions reform legislation for the consideration of the next administration. The national debate will help determine the pensions reform option that can best suit Ecuador. Reform options can range from deep parametric and governance changes to the current pay-as-you-go system (to ensure its financial sustainability and substantially reduce its dependence on central government's transfers) to a hybrid system whereby a basic pension under the pay-as-you-go system is complemented with individual savings (401K-type) accounts.

C. Strengthening Fiscal Frameworks, Governance, and Transparency

7. We are making progress towards increasing transparency and improving practices in Ecuador´s fiscal management. On October 15, Ecuador became the 55th member to join the Extractive Industries Transparency Initiative (EITI), the 11th member in Latin America. Under the terms of EITI membership, Ecuador will be required to publicly disclose information on contracts, beneficial owners, revenues and payments, information on state-owned enterprises and data related to gender and environmental payments. This marks an important advancement in terms of transparency for our oil and gas industry.

8. Increasing the transparency of our sovereign debt remains a priority. We have been publishing sovereign debt contracts as legally permissible and will continue to promote transparency in future debt contracts. We have also been publishing all crude oil pre-sale agreements, including the ones linked to financial loan agreements with China, with a usual lag of one year, or immediately as permissible by the confidentiality clauses. We have adopted a regulation that requires publication of audited financial statements by all public enterprises. Also, in order to safeguard the creditworthiness of our country, we will continue to refrain from new government international borrowing arrangements that are based on repurchase agreements or the pledging of Central Bank assets.

9. We have advanced in improving our fiscal policy management, with the following actions:

- *We finalized operationalizing COPLAFIP*. The amendments to the organic code of planning and public finances COPLAFIP that were adopted in July 2020 are a game changer for Ecuador's public financial management. In order to make the timely collection, accurate compilation and publication of fiscal data systematic, we adopted a regulation on data reporting by subsectors of the NFPS in end-September. We adopted the remaining regulations with a Presidential decree in early December, also encompassing the regulations on data reporting that were adopted in September 2020 by a ministerial decree, so as to fully consolidate and operationalize all amendments to the law (*Structural Benchmark*).
- *We are enhancing transparency in our public procurement system*. We have enacted a regulation mandating the publication of all public procurement contracts along with key information such as the names of the awarded entities and their beneficial owner(s), and ex-post validation of delivery on a dedicated government website to prevent the misuse of public resources. To further promote data synergies that improve the overall capacity to reduce opportunities for corruption, we have been working on complementary measures, including the updating of the register of entities participating in public procurement (*registro único de proveedores*) and the data requested by the company registry, to incorporate beneficial ownership identification requirements.
- *Avoid accumulation of arrears*. Given the significant cash pressures faced by our treasury, we needed to prioritize cash payments to public entities primarily involved in supporting the health crisis, social protection and run large account payables to other public entities such as sub-national governments. Consequently, the central government arrears had increased significantly and to a lesser amount in the NFPS. Since the onset of the program, we have been able to decrease the stock of arrears by $693 million, at the central government level. Going forward, we remain committed to comply with our budget obligations. With the assistance of a long-term expert (LTX) provided by the IMF, we have started to work on the implementation of the new monitoring system. We will evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS that were accumulated over 2020 by April 2021. We will put in place a strategy to clear, monitor and prevent further accumulation, in line with IMF technical assistance recommendations (*Structural Benchmark*).
- *We are improving cash and debt management*. With the technical support of the Fund, we have prepared a financial (cash) plan for the budgetary central government for the remainder of the year. We are working on preparing a similar plan for 2021, to be approved by the MEF Financial Committee, by December 16, 2020, which will be particularly important for an election year, absent a full budget (*Structural Benchmark*). We also started working, with a technical assistance from the Fund, on preparing a Medium-term Debt Management Strategy (MTDS) that we aim to publish by end-February 2021 (*Structural Benchmark*). The MTDS will assess the cost and risk trade-offs of the different sources of public funding and establish a policy agenda. The Strategy will also analyze possible liability management operations in 2021 targeting debt service at least for 2022. Overtime, our debt management strategy will be a conduit for our domestic debt development goals and achievements.

D. Strengthening the Institutional Framework of our Central Bank

10. We have started technical work, with IMF support, on amendments to the central bank legal framework within COMYF to align it with international standards. Indeed, under the existing law, the BCE lacks autonomy and a clear mandate, and is characterized by weak governance, low coverage of financial sector deposits with liquid reserve assets, and no clearly defined role for the BCE in financial stability. As a result, the balance sheet of the BCE remains burdened by legacy assets. It is therefore urgent to move forward with the necessary amendments to COMYF with a view to fortifying the BCE, and by the same token, the dollarization system. We remain committed to passing the amendments to the COMYF by end-January 2021 (Structural Benchmark). This landmark reform will, among other things:

- Clearly define the objectives of the BCE and focus its functions on supporting the dollarization regime;
- Strengthen the operational autonomy of the BCE, including by establishing an independent Board that has fiduciary responsibilities to the Central Bank;
- Unwind past transactions that resulted in the Central Bank holding either directly or indirectly government debt, and reverting the transfer of equity in public banks to the Central Bank's balance sheet, and provide closure to the legacy bad bank from the 1999 crisis;
- Set the BCE on a path of gradually building up international reserves in order to fully back both the deposits of private and public financial institutions held at the Central Bank and coins in circulation.

11. To ensure the timely implementation of this reform by the target date of the structural benchmark, we will finalize at the Presidential level, in consultation with IMF staff, the COMYF amendments that will be submitted to the National Assembly (*Prior Action*). In the interim, we have made progress towards strengthening the institutional framework of the Central Bank. Consistent with our commitment to transparency and good governance, the Monetary Policy and Regulatory Board (JPRF) adopted a resolution on the BCE external auditor selection and rotation policy at the end of September 2020. The JPRF also passed a resolution to create an audit committee on September, and a new charter was approved to align the BCE's internal audit with best international practices and ensure the independence of the BCE internal audit function, meeting the related end-November structural benchmark.

E. Boosting the Resilience of our Financial System

12. Our financial system remains resilient, liquid, and well-capitalized. Although the economy has started recovering, large uncertainties remain that could put strains on the system. We are committed to ensuring greater supervisory scrutiny, particularly of cooperatives, which had grown rapidly in the pre-pandemic period. To support those efforts, a Fund technical assistance in the area of stress testing is in progress. The objective is the improvement of stress testing models of liquidity and credit risk in support of banking supervision and policymaking during the transition to the post-COVID period

13. It is expected that the post-emergency environment will continue to demand exceptional effort of the supervisory authorities. To buttress this effort, we will start preparatory work, with technical support from the Fund, to modernize our financial framework, with the objective of strengthening the supervision functions of the superintendencies, aligning them with international best practices, including by upgrading the available resolution toolkit. Equally important, we have crafted the simplification of the interest regulation, prepared in collaboration with the World Bank, which is ready to be implemented in early 2021. In addition, the JPRF has issued a resolution that will help an orderly exit from the emergency measures towards mid-2021. Loan payment deferral measures have already expired for banks' borrowers, so the resolution established temporary rules for loan classification of past due loans (after 60 days). It also establishes the temporary rules for provisioning for banks to begin reflecting the credit risks in their loan portfolios, while absorbing the impact on their capitalization levels. The current rules will expire in June 2021; in the meantime, supervisors will maintain the closer monitoring and prepare plans for the final exit from these extraordinary measures. Finally, our cooperatives supervisor (SEPS) has continued its efforts to better enforce prudential regulatory practices in that segment, e.g. on minimum capital requirements, and plans to impose higher standards in the statutes governing those entities, which will better practices to be adopted in the sector. Meanwhile, SEPS has continued managing the market exit of weak cooperatives using the legal tools at its disposal.

14. In addition, to ensure continued effective monitoring and the adequate policy response to the needs of the different layers of our financial system, we will make official the formation of a financial coordination committee. The main purpose of the committee will be to prevent financial instability, and foster information sharing, communication and joint analysis among the Monetary Policy and Regulatory Board (JPRF), Central Bank, Ministry of Economy and Finance, Superintendencies, and the deposit insurance agency, without overlapping with the legal competencies of these institutions. The committee will also support the post-emergency policy making and the design of a medium-term strategy for financial deepening.

15. We made progress on the implementation of the Reactívate Ecuador program. The program has four components, all geared to support the real sector: a line of credit for the private banking system (via DFC); a line of credit to be provided directly to enterprises (currently via Banco del Pacifico and to be expanded); a credit line for cooperatives (via CONAFIPS, with funds from IADB); and credit lines for banks and cooperatives (via CFN, with funds from the World Bank) as well as for the recapitalization of the National Guarantee Fund. The recapitalization of the National Guarantee Fund is also an opportunity to reconsider the functioning of the Fund, such that the guarantees it provides are widely accepted as collateral. Our objective is to support microenterprises and SMEs in accordance with the needs of the market. We are assessing the activity of the program and plan to reconsider appropriate conditions that stimulate intermediation. Thus far, the latter three components of the program have disbursed \$63.2 million mainly to micro and small enterprises and has an additional \$62.8 million approved that is pending disbursement.

16. Fiscal pressures starting late last year forced us to pay certain claims from suppliers via ad-hoc issuance of government bonds and CETES. Thus far the issuance for this purpose has reached $350 million; suppliers are able to liquidate these securities in the secondary market with no intervention, albeit at a discount. We will cap the stock of issuance for this purpose at $500 million, and work with the IMF on a time-bound implementation plan to avoid potential disruption in the domestic debt and money markets.

17. In the meantime, we will remain vigilant of the liquidity stance in the market. The liquidity fund is a key safeguard and the emergency lending tool for the financial system in Ecuador's dollarized economy. Our goal is to ensure that it acts as a risk pooling tool, it is well resourced, and provides liquidity support where needed. To that end, in coordination with the IMF, we will re-examine the liquidity fund's lending options to optimize the impact of its assistance via lending to solvent but illiquid entities. In case that the necessity arises, the authorities will coordinate with the IMF prior to take any decision related to the fund.

18. The Covid pandemic creates a health concern about the use of cash and has sped up technological absorption by individuals and businesses. This creates an opportunity to further incentivize alternative forms of payments. Promoting alternative means of payment—such as credit cards, online transfers, and online payment in e-commerce—that reduce use of cash can bring operational efficiency to the BCE, increase financial inclusion, reduce potential sources of COVID contagion, and even facilitate cash transfers for social policy. To the extent that new options for payment remain fully backed by deposits, they will strengthen dollarization. We will revise sources of red tape and disincentives in the use of these technologies, with a view to allow further adoption of those technologies. For the time being, starting in February, the BCE has reduced its charges related to digital payments and is currently taking steps for the implementation of a new payments system during 2021 that will allow for electronic payments to be made in real time.

F. Strengthening competitiveness and private sector-led growth

19. Our administration remains committed to restoring the international competitiveness of the Ecuadorian economy and to catalyzing a private sector-led growth that raises the living standards for all Ecuadorians. Our goal is to make Ecuador a preferred destination for businesses worldwide and to boost employment while reducing informality in the economy.

20. Enactment of the anticorruption legislation to strengthen the rule of law and protect public finances is a top priority. To ensure that enactment is feasible by end-December, the target date for the *structural benchmark*, we are working with legislators towards the timely approval of the legislation by the National Assembly and plan to have the approved amendments be received by the office of the Presidency as soon after the Assembly vote as possible (*Prior Action*).

21. We adopted a regulation in November 2020 to enhance the online publication of asset declarations by high-level officials, and/or politically exposed persons (PEPs) to increase transparency and reduce corruption risks. This step is part of a broader reform to strengthen the asset and interest disclosure regime for high-level public officials and update it in line with international good practices, and in accordance with the domestic legal framework. We have therefore ensured the General Comptroller can now publish additional information online, including itemized information on assets and liabilities, and ensuring the easy, searchable, and timely access to declarations (*Structural Benchmark*).

22. To continue with our broader reform agenda to promote good governance and effective anticorruption and AML/CFT frameworks, we will continue to strengthen our legal foundations in line with international good practices and sustain the efforts towards their effective implementation. To this end, we plan to enact legislation, by end-January 2022, to strengthen the framework to prevent and manage conflicts of interests in the public sector in line with the UNCAC (Articles 7 and 8) and international good practices, such as those included in the 'G20 Preventing and Managing Conflicts of Interests Good Practices Guide' elaborated by the World Bank, the OECD and the UNODC (2019) (*Structural benchmark*). Our efforts will broaden the existing asset declaration system to ensure it continues detecting and enforcing against illicit enrichment while also becoming a fundamental tool to detect and prevent potential conflicts of interest in the public sector. To this end, the declaration form will incorporate new categories of relevant information such as incomes (types, sources, and values) and interests (for example, details of positions held outside of office, participation in public and private entities, professional experience and past employment, etc.) directly or indirectly owned (for which public officials are beneficial owners) by the public official or by their close family members, in the country or abroad. Public access to the information in the declarations is a key component of this commitment as it allows civil society to complement these efforts. The legislation will therefore prioritize transparency and ensure on-line public access to relevant information on the assets, incomes, liabilities and interests in the declarations.

23. We will use our regulatory and supervisory tools to ensure that financial institutions and other designated non-financial businesses and professionals are required to conduct enhanced customer due diligence when transacting with senior officials and PEPs, in line with FATF Recommendation 12. We will also conduct a broader review of the AML/CFT legal framework to ensure it is in line with FATF standards and strengthen the implementation of a risk-based approach to AML/CFT bank supervision, with technical support from Fund staff.

24. We remain committed to conduct an independent audit of COVID-related spending by end-June 2021 by the Office of the Comptroller General, as per our commitment to the Fund when securing emergency financing in May under the RFI, to ensure that emergency funds were used as originally intended (*Structural Benchmark*). So far, the Office of the Comptroller General conducted more than 300 special examinations of the procurement processes carried out during the state of emergency. As a result of these audits the control agency established 34 reports with indications of criminal responsibility.

25. We are committed to strengthening the framework for the operation of state-owned enterprises. This will help improve the efficiency of public sector operations, increase productivity and growth. In the near term, we will seek to complete the merger of PetroAmazonas and PetroEcuador and eliminate seven state-owned enterprises (SOEs). We are also revamping the law for

SOEs, with IADB support, and will seek to improve transparency and strengthen SOEs governance and align SOEs standards to that for private companies.

26. We are continuing with our efforts to make the private sector the main growth engine in Ecuador. We have made progress on developing a PPP framework, with IADB support, which will lay the foundations for private sector participation in areas currently handled by the government and do not fall under the traditional remit of the public sector. The fiscal risk unit that is being set up within the ongoing reorganization of MEF will *inter alia* evaluate the viability of PPPs projects, including quantification of risks to the public sector's balance sheet, and propose ways to mitigate them. Such risks will be clearly presented in our fiscal risk statement, to be developed starting with the 2022 budget.

27. We will continue working on developing domestic capital markets to allow financial deepening and diversifying financing sources for the government and the private sector, with technical assistance from the United States Treasury. We intend to standardize government securities, replace, on a voluntary basis, the non-standardized and excessively short-term government debt securities held by market participants, including the BIESS, with standardized, longer-term ones, develop a yield curve, and lengthen maturities of government short-term instruments. To date, domestic bonds with standardized financial conditions have been placed to private and public investors. These reforms can help increase the flow of resources from investors to corporations and to the government and eventually increase investment, productivity, and growth.

28. In order to improve competitiveness, Ecuador needs to improve and modernize the labor market to allow new forms of labor contracts that can particularly support an increase in female labor force participation and youth employment opportunities. Since June 22, when the Humanitarian Law was in effect, more than 240.000 jobs have been created and 74.000 jobs have been saved through the mechanism of emergency hour reduction and agreement between parties. Other reforms have been made through secondary legislation ("acuerdos ministeriales") to facilitate job creation and improve competitiveness. To foster consensus and promote the joint interest of employers and employees, we are adopting a consultative approach to labor market changes through our program "*juntos por el empleo*" that brings together all labor market participants, including the unemployed.

29. In the spirit of policy continuity, we plan to prepare draft of reforms that the next administration could quickly leverage to improve the living standards of our citizens. Our plan includes three reforms; a pension reform to ensure the sustainability of the social security to safeguard the life savings of our retirees (¶6), a smart and progressive tax reform (¶6) to ensure the sustainability and efficient use of our public finances, and a reform of the labor market that focuses on ensuring a credible path towards the formalization of Ecuadorian workers and increases flexibility to support competitiveness (¶26).

G. Capacity Development

30. We are moving forward to build capacity and modernize our public financial management. Two important work streams have started focusing (i) on cash management and financial planning;

and (ii) on government financial statistics, with the support of the Fund short- and long-term experts. We have identified and assigned dedicated staff to work closely and follow-up on the experts' recommendations, in coordination with Fund staff.

31. We will continue to improve balance of payments statistics. In order to improve the understanding of the financial account and capital flow movements, we will work to improve the quality and coverage of information on the private sector for external sector statistics, drawing on micro data where relevant. We will continue efforts to ensure that the transition to BPM6 is fully implemented, including by strengthening compilation and dissemination, and improving quality and coverage of the International Investment Position, in accordance with recommendations from the IMF.

32. Finally, we have been working with the Fund over the last 12 months on customizing a Financial Programming and Policies (FPP) course for Ecuador. Our staff at MEF and the BCE have already received virtual training on FPP, and the core technical assistance that would deliver a customized macro-framework is now scheduled for delivery in January 2021 The FPP training—which we see as a continuation of a series of macro-fiscal-financial courses for our government officials—will allow our staff working in different areas and relevant public entities to study the inter-linkages among different sectors of the economy and run internally consistent policy scenarios. By bringing together staff from different agencies, the strong inter-relations among the different sectors of the economy, inherent to the FPP's framework, will also practically illustrate the role of inter-agency coordination.

H. Monitoring Progress Towards Our Goals

33. We have complied with all the quantitative conditionality for end-September 2020. In particular, the improvement in the economy—leading to a stronger non-oil tax revenue collection—and lower financing—prompting spending restraint—led to a larger-than-projected fiscal adjustment and overperformance of our fiscal targets by healthy margins (see Table 1). The NFPS balance is an important indicator of progress towards the debt limits enshrined in COPLAFIP. We are currently monitoring it through an indicative target under the program, with the plan of improving the timeliness and reliability of the underlying data from subsectors before elevating the target to the level of a quantitative performance criterion from end-August 2021. To prepare for this transition we will put in place the electronic data submissions systems and press upon subsectors to screen the data of individual entities before submitting. We are also improving the speed of data transmission and transparency around data updates following original submissions. Data submission will be based on actual execution as opposed to budgeted amounts.

34. The program will be monitored based on performance criteria, indicative targets, and structural benchmarks as set out in Tables 1, and 2, based on definitions in the Technical Memorandum of Understanding attached hereto. It is expected that the second review will take place on or after April 15, 2021, and the third on or after August 15, 2021.

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets, 2020-2021

(Millions of U.S. dollars, unless otherwise indicated)

	End-Sept. 2020				End-Dec. 2020		End-Apr. 2021	End-Aug. 2021	End-Dec. 2021
	Program	Adj. 3/	Actual	Status	Program	Revised Program	Program	IT	IT
Quantitative performance criteria									
1. Overall balance of the budgetary central government and CFDD (*floor) 1/*	-2,894	-2,887	-1,121	Met	-5,095	-4,005	-241	-1,799	-3,934
2. Accumulation of NFPS deposits at the central bank (*floor) 1/*	0	-1,993	-227	Met	589	300	-47	-137	250
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	0	0
Indicative targets									
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor) 1/*	-2,539	-2,539	-996	Met	-6,825	-5,467	-572	-1,682	-4,167
6. Overall balance of the NFPS (*floor) 1/*	-2,706	-2,699	-1,333	Met	-6,662	-5,656	-273	-767	-2,813
7. Change in the stock of NIR - program definition (*floor) 1/*	-2,200	-2,193	40	Met	-3,939	-4,228	-579	-1,334	-1,550
8. Coverage of the cash transfer programs for lower income families - number of families (*floor) 2/*	62,240	62,240	63,764	Met	225,557	225,600	384,600	503,600	625,600

Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).

1/ For 2020 targets, cumulative change from July 1, 2020. For 2021 targets, cumulative change from January 1, 2021.

2/ Cumulative change from July 1, 2020.

3/ Adjusted for oil prices (and for disbursements from multilateral institutions and China for NFPS deposits) as per the TMU.

Table 2. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs)

Reform area	Structural Conditionality	Objectives	Due date	Status
	Prior Actions			
Transparency and Governance	The office of the President to receive from the National Assembly the approved law with the amendments to the COIP, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Strengthen anticorruption and protect public finances	Prior action	
Organic Monetary and Financial Code (COMYF) reform of the Central Bank framework	Finalize at the Presidential level, in consultation with IMF staff, the amendments to the Central Bank's legal framework that would be submitted to the National Assembly, in line with the substantive elements and constitutional process described in MEFP ¶10.	Strengthen the autonomy and governance framework of the BCE	Prior action	
	Structural Benchmarks			
Fiscal framework	Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTFF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Strengthen the public financial management framework and fiscal discipline, and increase fiscal transparency	End-Nov. 2020	Implemented with delay
BCE	The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Improve the BCE's audit mechanisms	End-Nov. 2020	Met
Transparency and AML/CFT	Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs), and publishing additional information online, including itemized information on incomes, assets and liabilities, based on regulations adopted by the General Comptroller, at the request of the government.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2020	Partially implemented. New benchmark added to fulfil and advance the reform

Table 2. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)				
Cash Management	Deliver to IMF staff a PGE financial plan for the year 2021 approved by the Financial Committee.	Improve institutional capacity and identify early warning signs of impending liquidity constraints	Dec. 16, 2020	On track
Transparency and Governance	Enactment of the anticorruption legislation, approved by the National Assembly, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Strengthen anticorruption and protect public finances	End-Dec. 2020	On track, as demonstrated by the related prior action
Organic Monetary and Financial Code (COMYF) reform of the Central Bank framework	Enactment of amendments to the Central Bank's legal framework, elaborated in consultation with Fund staff as committed to under the 2019 EFF, in line with the substantive elements and constitutional process described in MEFP ¶16.	Strengthen the autonomy and governance framework of the BCE	End-Jan. 2021	On track, as demonstrated by the related prior action
Debt management	Publish a Medium-Term Debt Management Strategy (MTDS), prepared with the support of IMF TA, which assesses the cost and risk trade-offs of the different sources of public funding, and establishes a policy agenda.	Facilitate domestic debt market development, promote medium-term debt management, and increase transparency of public debt policies	End-Feb. 2021	In progress
Domestic arrears	Share with IMF staff an updated arrears' clearance strategy with the updated information on the stock of arrears as of end 2020 based on quarterly flows for central government and selected relevant entities of the NFPS in line with IMF technical assistance recommendations.	Strengthen the monitoring and reduce accumulation of payment arrears	End-Apr. 2021	
Fiscal Statistics	Correct and publish the historical NFPS data, both above- and below-the-line, back to 2012.	Improve quality of fiscal statistics	End-May 2021	In progress
Fiscal Statistics	Prepare a compilation guide, in consultation with IMF TA, and disseminate it to data providers across the NFPS through a workshop.	Improve quality of fiscal statistics	End-May 2021	In progress
Transparency	Undertake an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publish the results on a government website.	Improve expenditure control, including COVID related spending, and governance	End-Jun. 2021	In progress

Table 2. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (concluded)

Tax reform	Enactment of a tax reform, elaborated in consultation with Fund staff, aimed at generating revenue and improving the overall efficiency of the tax system, in line with the substantive elements and constitutional process described in MEFP ¶7, bullet 1.	Improve the efficiency of the tax system	End-Sep. 2021	
Social assistance	Complete the upgrade of the social registry and expand the coverage of the social assistance program to at least 80 percent of families in the bottom three deciles of the income distribution.	Strengthen the social safety net	Dec. 16, 2021	In progress
Transparency and Governance	Enact legislation to strengthen the framework to prevent and manage conflicts of interest in the public sector, broadening the existing asset declaration system to include incomes and interests of high-level public officials and/or politically exposed persons (PEPs), and ensuring the online publication of this information on incomes and interests for high-level public officials and/or politically exposed persons (PEPs), in line with the UNCAC (articles 7 and 8) and international good practices.	Strengthen the framework of conflict of interest and illicit enrichment	End-Jan. 2022	Newly proposed

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs) and indicative targets (ITs) that will be applied under the Extended Fund Facility, as specified in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables.** It also describes the methods to be used in assessing the program's performance and the information requirements to ensure adequate monitoring of the targets.

2. **Any variable that is mentioned herein for the purpose of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Finance Statistics.** For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Ecuador shall consult with the Fund staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology. All references to "days" indicate "calendar days", unless stated otherwise.

3. **Program exchange rates.** For the purposes of the program, the exchange rates of the U.S. dollar for the duration of the program are those that prevailed on July 31, 2020 as shown in Table 1.

Table 1. Ecuador Program Exchange Rates

US Dollar to Euro	0.85
US Dollar to Renminbi	6.98
US Dollar to Yen	105.83
US Dollar to SDR	0.71
US Dollar to British Pound	0.76
US Dollar to South Korean Won	1,191.03
US Dollar to Swiss Franc	0.91
US Dollar to Canadian Dollar	1.34
US Dollar to Danish Krone	6.32
US Dollar to Swedish Krone	8.78
US Dollar to Norwegian Krone	9.10
US Dollar to Australian Dollar	1.40
US Dollar to Mexican Peso	22.28
US Dollar to Colombian Peso	3,732.71
Gold prices (US$/ounce)	1,975.86

Source: Bloomberg, as of July 31, 2020.

Table 2. Ecuador Quantitative Performance Criteria and Indicative Targets, 2020
(In millions of US$, unless otherwise indicated)

	End-Sept. 2020				End-Dec. 2020		End-Apr. 2021	End-Aug. 2021	End-Dec. 2021
	Program	Adj. 3/	Actual	Status	Program	Revised Program	Program	IT	IT
Quantitative performance criteria									
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-2,894	-2,887	-1,121	Met	-5,095	-4,005	-241	-1,799	-3,934
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	0	-1,993	-227	Met	589	300	-47	-137	250
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	0	0
Indicative targets									
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*) 1/	-2,539	-2,539	-996	Met	-6,825	-5,467	-572	-1,682	-4,167
6. Overall balance of the NFPS (*floor*) 1/	-2,706	-2,699	-1,333	Met	-6,662	-5,656	-273	-767	-2,813
7. Change in the stock of NIR - program definition (*floor*) 1/	-2,200	-2,193	40	Met	-3,939	-4,228	-579	-1,334	-1,550
8. Coverage of the cash transfer programs for lower income families - number of families (*floor*) 2/	62,240	62,240	63,764	Met	225,557	225,600	384,600	503,600	625,600

Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).
1/ For 2020 targets, cumulative change from July 1, 2020. For 2021 targets, cumulative change from January 1, 2021.
2/ Cumulative change from July 1, 2020.
3/ Adjusted for oil prices (and for disbursements from multilateral institutions and China for NFPS deposits) as per the TMU.

4. In addition to the performance criteria listed in Table 2 above, the arrangement will include the performance criteria standard to all Fund arrangements, namely:

(i) no imposition or intensification of restrictions on the making of payments and transfers for current international transactions;
(ii) no imposition or intensification of import restrictions for balance of payments reasons;
(iii) no introduction or modification of multiple currency practices;
(iv) no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement.

These four performance criteria will be monitored continuously.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

A. Floor on the Overall Balance of the Budgetary Central Government and CFDD

Definitions

5. The budgetary central government (Gobierno Central or CG hereafter) and CFDD, for the purposes of the program, consist of the budgetary central government (PGE, including universities) and the account of financing oil derivatives, namely Cuenta de Financiamiento de Derivados Deficitarios (CFDD).

6. The overall balance of CG and CFDD is defined as the total revenues of the CG and CFDD minus their total spending.

7. Total revenues are recorded on cash basis.

Revenues explicitly included are:

- Revenues from oil exports;
- Revenues from the domestic sales of oil derivatives;
- Interest revenues;
- Tax revenues (ingresos tributarios);
- Other revenues (otros ingresos);
- Proceeds from asset monetization (i.e. revenues from the leasing of assets owned by CG and CFDD).

8. Total spending is recorded on an accrual basis and comprises spending on wages and salaries (sueldos y salarios), purchases of goods and services (compra de bienes y servicios), interest expenditure (interés), other current spending, capital expenditures (including capital transfers and other investment outlays). Other current spending also includes the cost of imports and local purchases of petroleum derivatives (Cuenta de Financiamento de Derivados Deficitarios).

9. Government-funded, public-private partnerships will be treated as traditional public procurements. CG obligations that are accrued on public private partnerships would be recorded transparently in budget data and measured as part of the CG deficit as they accrue. The accrued but not settled obligations related to these public private partnerships will be transparently recorded either as public debt or as a contingent liability of the government (e.g. public guarantees) depending on the nature of the obligation.

10. Costs associated with divestment operations or the liquidation of public entities, such as the cancellation of existing contracts or severance payments to workers, will be recorded as spending.

11. All expenditures recorded as a credit in "Account 99" (due to the lack of corresponding budget allocations) will be recorded as spending above-the-line on an accrual basis as the spending obligations accrue.

Monitoring

12. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund within 45 days from the end of each test date as shown in Table 2. Preliminary monthly data will be provided with the lag of no more than 30 days after the end of each month.

Adjustors

13. Adjustor on oil prices: The floor on the overall balance of the budgetary central government and CFDD will be adjusted upward/downward by US$23.85 million at corresponding test dates for each US$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US$119.33 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

Table 3. Ecuador—Adjustor due to Oil Price Differences Relative to Program Assumptions

	2020		2021		
	Q3	Q4	April	August	December
Ecuador mix crude oil price (US$ per barrel)	36.4	34.4	36.5	37.2	37.7
Actual	36.7				
Difference	0.3				

Source: Ministry of Finance and IMF staff estimates

14. Adjustor on external financing from China. The floor on the overall balance of the budgetary central government and CFDD will be adjusted downward by the amount of excess in external loan disbursements from China relative to the baseline projections reported in Table 4, up to a cumulative maximum through end-December 2021 of US$500 million.

Table 4. Ecuador—Adjustor due to excess in external loans from China

	2020	2021		
	Q4	April	August	December
Expected disbursements from China 1/	0.0	0.0	0.0	0.0

1/ For 2020, cumulative from July 1. For 2021, cumulative from January 1, 2021.

B. Floor on The Accumulation of Non-Financial Public Sector Deposits at the Central Bank

Definitions

15. The Non-Financial Public Sector (NFPS, Sector Público No-Financiero) for the purposes of the program consists of the CG and CFDD, as defined above, Decentralized Autonomous Governments (including municipal governments, provincial governments and parish boards), Social Security Funds (including IESS, ISSFA, ISSPOL and BIESS), Non-Financial State Owned Enterprises (SOEs, detailed in Table 5), Development Bank of Ecuador (BDE) as well as accounts related to the payments to private operators of oil concessions (Ministerio de Energia y Recursos Naturales no Renovables). The Central Bank of Ecuador falls outside of the NFPS perimeter.

Table 5. Ecuador: Non-Financial Public Sector Corporations Covered Under the Definition of NFPS

Empresa Pública de Exploración y Explotación de Hidrocarburos Petroamazonas - PAM
Empresa Pública de Hidrocarburos del Ecuador Petroecuador - PEC
Empresa Pública Flota Petrolera Ecuatoriana-EP FLOPEC
Empresa Nacional de Ferrocarriles del Ecuador – ENFE (*)
Empresa Pública Línea Aérea del Ecuador TAME (*)
Empresas Públicas Menores (Empresas de Agua Potable)

(*) SOEs in liquidation process, which will be in fiscal data until the liquidation process finishes.

16. Deposits of the NFPS at the Central Bank of Ecuador (BCE) include all depository liabilities (time and on-call deposits) at the BCE of the NFPS, as defined above.

Monitoring

17. The accumulation of NFPS deposits at the BCE at each test date will be measured as the change in the stock of deposits between the first and last day of the corresponding test dates as shown in Table 2.

18. NFPS deposits at the BCE data will be provided to the Fund at weekly frequency within 5 business days following the end of the week.

Adjustors

19. Adjustor on external borrowing. The floor on the accumulation of NFPS deposits will be adjusted upward/downward by the amount of NFPS borrowing from non-residents above/below than envisioned under the program, as reported in Table 6 below and net of issuances related to liability-management operations that have no net impact on the outstanding stock of NFPS debt. International borrowing will comprise issuance of international bonds.

Table 6. Adjustor Due to International Borrowing in Shortfall/Excess vis-a-vis Program Assumptions

	2020	2021		
	Q4	April	August	December
Total market issuance consistent with program targets (cumulative) 1/	0.0	0.0	0.0	0.0

1/ For 2020, cumulative from July 1. For 2021, cumulative from January 1, 2021.

20. Adjustor on disbursements from multilateral institutions.[1] The floor on the accumulation of NFPS deposits will be adjusted upward/downward by the amount of the excess/shortfall in program loan disbursements from the IMF, other multilateral institutions (the IADB, World Bank, CAF, and FLAR), and grants, relative to the baseline projection reported in Table 7. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are freely usable for the financing of the NFPS budget operations.

Table 7. Adjustors Due to Shortfall/Excess in Program Loan Disbursements by Multilateral Creditors

	2020	2021		
	Q4	April	August	December
Expected disbursements of program loans by multilaterals 1/	4843	400	900	3250

1/ For 2020, cumulative from July 1. For 2021, cumulative from January 1, 2021.

[1] The adjustor for disbursements from China is temporarily removed given that disbursements are not currently built into the baseline projections. It would be reintroduced when disbursements are projected in the baseline.

21. Adjustor on oil prices. The floor on the accumulation of NFPS deposits will be adjusted upward/downward by US$23.85 million at corresponding test dates for each US$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in Table 3. This adjustor is capped at US$119.33 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

C. Ceiling on External Payment Arrears by the Non-Financial Public Sector

Definitions

22. External debt is determined according to the residency criterion except in the case of the debt securities for which the criterion is the place of issuance of the instrument.[2] The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

(i) *loans*, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) *Suppliers' credits*, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) *Leases*, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

23. Under the definition of debt set out above, arrears, penalties and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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[2] As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 15688-(14/107).

24. **External payment arrears** for program monitoring purposes are defined as (i) external debt obligations (principal and interest) falling due after September 30, 2020 that have not been paid within 90 days of the due date, considering the grace periods specified in contractual agreements, as well as (ii) payment arrears on goods delivered or services rendered by external entities.

Coverage

25. This performance criterion covers the NFPS. This performance criterion does not cover (i) arrears on short-term trade credit or letters of credits, (ii) arrears on debt subject to renegotiation or restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of any litigation initiated prior to September 30, 2020.

Monitoring

This PC will be monitored on a continuous basis.

D. Ceiling on New Gross Central Bank Direct Financing to the NFPS and Indirect Financing to the NFPS Through the Public Banks

Definitions

26. **BCE direct financing to the NFPS and indirect financing to the NFPS through the public banks** includes overdraft transfers from the BCE to the entities of the NFPS as defined above, advance distribution of unrealized profits from the BCE, the BCE acquisition of government debt on the primary market or by purchase from public institutions, and the BCE lending to public banks for the purpose of acquisition of government debt on the primary market or by purchase from public institutions.[3]

Monitoring

27. This PC will be monitored on a continuous basis. Monthly data on amortizations and disbursements of credit to NFPS and to publicly-owned banks for the purpose of financing the NFPS will be provided within five business days to the Fund.

INDICATIVE TARGETS (IT): DEFINITION OF VARIABLES

A. Floor on The Non-Oil Primary Balance Including Fuel Subsidies of the Non-Financial Public Sector

Definitions

[3] For the purpose of this target, any restructuring of the debt originally owed by the Ministry of Economy and Finance to Goldman Sachs that was subsequently transferred to the BCE will not be considered as financing to the NFPS.

28. **The Non-Financial Public Sector (NFPS)** is defined as above.

29. **The non-oil primary balance of NFPS, including fuel subsidies**, is defined as the non-oil primary balance of the NFPS minus spending on subsidies on petroleum products.

30. **The Non-Oil Primary Balance of the NFPS** is defined as total non-oil revenues (ingresos no petroleros) minus primary non-oil spending (gastos primarios no petroleros).

31. **Primary non-oil revenues** are recorded on cash basis.

Revenues explicitly included are:

- Tax revenues (ingresos tributarios), but excluding corporate income tax paid by state-owned oil companies;
- Social security contributions (contribuciones sociales);
- Other revenues (otros ingresos);
- Proceeds from asset monetization (i.e. revenues from the leasing of assets owned by the non-financial public sector);

Revenues that are explicitly excluded from primary non-oil revenues are:

- Interest income (recorded on cash basis);
- Proceeds from the sale of financial assets;
- Revenues from the privatization of government-owned entities;
- Revenues from oil exports;
- Revenues from the domestic sales of oil derivatives;
- The operating surplus of state-owned oil companies (PetroAmazonas and PetroEcuador);

32. **Primary non-oil spending** is recorded on accrual basis and comprises spending on wages and salaries (sueldos y salarios), purchases of goods and services (compra de bienes y servicios), social security benefits (prestaciones sociales), other current spending, capital expenditures not related to oil investment. Other current spending excludes cost of imports of petroleum derivatives (Cuenta de Financiamento de Derivados Deficitarios) and payments to private operators of oil concessions (Ministerio de Energia y Recursos Naturales no Renovables).

33. **Petroleum product subsidies** include, but are not limited to, subsidies for gasoline, diesel, jet fuel, av gas, fuel oil and liquefied petroleum gas. Subsidies are defined as a difference between the distributor sale price of the product and the cost of this product. The cost of the product is a weighted average between the cost of imported petroleum derivative products and the cost of domestically produced petroleum products, cost of transportation, storage, and commercialization. For the cost of domestically produced petroleum products, the export price of eastern crude (opportunity cost) is considered as raw material, as well as the cost of refining. The import cost includes the price at FOB value plus freight and insurance.

34. Government-funded, public-private partnerships will be treated as traditional public procurements. NFPS government obligations that are accrued on public private partnerships would be recorded transparently in budget data and measured as part of the NFPS government deficit as they accrue. The accrued but not settled obligations related to these public private partnerships will be transparently recorded either as public debt or as a contingent liability of the government (e.g. public guarantees) depending on the nature of the obligation.

35. Costs associated with divestment operations or the liquidation of public entities, such as the cancellation of existing contracts or severance payments to workers, will be recorded as spending.

All expenditures recorded as a credit in "Account 99" (due to the lack of corresponding budget allocations) will be recorded as spending above-the-line on an accrual basis as the spending obligations accrue.

Monitoring

36. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund within 60 days from the end of each test date as shown in Table 2. The data submission would also include below the line data. Preliminary monthly data will be provided with the lag of no more than 45 days after the end of each month.

Adjustors

37. Adjustor on oil prices. The floor on the non-oil primary balance including fuel subsidies of the NFPS will be adjusted downward/upward by US$23.85 million at corresponding test dates for each US$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US$119.33 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

38. Adjustor on external financing from China. The floor on the non-oil primary balance of the non-financial public sector including fuel subsidies will be adjusted downward by the amount of excess in external loan disbursements from China relative to the baseline projections reported in Table 4, up to a cumulative maximum through end-December 2021 of US$500 million.

B. Floor on the Overall Balance of the Non-Financial Public Sector

Definitions

39. The Non-Financial Public Sector (NFPS) is defined as above.

40. The overall balance of the NFPS is defined as the non-oil primary balance of the NFPS plus the oil balance of the NFPS plus interest revenues of the NFPS minus interest expenditures of the NFPS.

41. The oil balance of the NFPS will be defined as the sum of (i) revenues from oil exports, (ii) revenues from the domestic sales of oil derivatives, and (iii) the operating surplus of state oil companies (PetroAmazonas and PetroEcuador) minus the sum of (i) expenditures on investment in the oil sector, (ii) expenditures on imports of petroleum derivatives (de Financiamento de Derivados Deficitarios) and (iii) payments to private oil companies (Ministerio de Energia y Recursos Naturales no Renovables).

42. NFPS interest expenditures are measures on cash basis while all other expenditures are measured on accrual basis.

Monitoring

43. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 60 days after the end of each test date as shown in Table 2 and preliminary data with the lag of no more than 45 days after the end of each month.

Adjustors

44. Adjustor on oil prices. The floor on the overall balance of the NFPS will be adjusted upward/downward by US$23.85 million at corresponding test dates for each US$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US$119.33 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

45. Adjustor on external financing from China. The floor on the overall balance of the non-financial public sector will be adjusted downward by the amount of excess in external loan disbursements from China relative to the baseline projections reported in Table 4, up to a cumulative maximum through end-December 2021 of US$500 million.

C. Floor on the Change in the Stock of Net International Reserves (NIR)

Definitions

46. Net International Reserves (NIR) of the central bank are computed under the program as the US dollar value of the usable gross international reserve assets of the BCE minus (i) gross reserve related liabilities to nonresidents of the BCE, and (ii) the reserve holdings of domestic banks and deposits of other financial institutions held at the BCE. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

47. Usable gross international reserve assets comprise all readily available claims on non-residents denominated in convertible foreign currencies and controlled by monetary authorities, consistent with the Balance of Payments and International Investment Position Manual (Sixth Edition). Specifically, they include: (i) currency and deposits; (ii) monetary gold; (iii) holdings of SDRs;

(iv) the reserve position in the IMF; (v) securities (including debt and equity securities); (vi) financial derivatives; and (vii) other claims (loans and other financial instruments).

Specifically excluded from gross international reserves are:

- Any precious metals or metal deposits, other than monetary gold, held by the BCE
- Assets in nonconvertible currencies and illiquid assets
- Claims on residents.
- Any reserve assets that are pledged, collateralized or otherwise encumbered (in so far as those assets are not already excluded from gross international reserve assets of the central bank), including assets tied up in repurchase agreement transactions.
- Net positions with ALADI and SUCRE.

48. Gross reserve-related liabilities comprise:

- All short-term liabilities of the BCE vis-à-vis non-residents denominated in convertible foreign currencies with an original maturity of one year or less;
- Short-term loans, securities, and other liabilities (excluding account payables) of the central government with an original maturity of less than 30 days;
- The stock of IMF credit outstanding
- The nominal value of all derivative positions (including swaps, options, forwards, and futures) of the BCE, implying the sale of foreign currency or other reserve assets

The reserve holdings of domestic banks held at the BCE comprise:

- All liabilities of the BCE to other depository institutions (*otras sociedades de depósitos*, as defined in the BCE's Metodología: Información Estadística Mensual, 4th Edition of May 2017).

The deposits of other financial institutions at the BCE comprise:

- All liabilities of the BCE to other financial institutions (*otras sociedades financieras*, as defined in the BCE's Metodología: Información Estadística Mensual, 4th Edition of May 2017), with the exception of deposits of the BIESS, including those held in trust funds ("fideicomisos BIESS y fideicomisos IESS).

Adjustors

49. Adjustor on external borrowing. The floor on net international reserves will be adjusted upward/downward by the amount of borrowing from non-residents above/below that envisioned under the program, as reported in Table 6 above and net of issuances related to liability-management operations that have no net impact on the outstanding stock of NFPS debt. International borrowing will comprise issuance of international bonds.

50. Adjustor on multilateral disbursements.[4] The floor on net international reserves will be adjusted downward/upward by the shortfall/excess in loan disbursement by multilateral institutions (the IADB, World Bank, CAF, and FLAR), and grants, relative to the baseline projection reported in Table 7. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are freely usable for the financing of the NFPS budget operations.

51. Adjustor on oil prices. The floor on the on net international reserves will be adjusted upward/downward by US$23.85 million at corresponding test dates for each US$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US$119.33 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

Monitoring

52. The change in net international reserves (NIR) will be measured as the cumulative change in the stock of NIR between test dates in Table 2.

53. Foreign exchange asset and liability data will be provided to the Fund at weekly frequency within 5 business days following the end of the week.

D. Floor on Social Assistance Coverage of Poor Families Under Central Government's Social Programs

Definitions

54. Social assistance coverage of poor families for the purpose of the program is computed as the sum of all active beneficiary families in the three bottom deciles of the income distribution that benefit from at least one social assistance programs. Poor beneficiary families are defined according to information in the RS2018. Coverage expansion will occur through the following social assistance programs: Bono de Desarrollo Humano (BDH), Bono de Desarrollo Humano Variable (BDH-V), Personas con discapacidad, Pensión para Adultos Mayores, Mis mejores años, and Pensión Toda Una Vida. The level (size) of benefits of any of the cash transfer programs in the bottom three deciles of the income distribution should not be reduced (with respect to their level on September 30, 2020).

Monitoring

55. Monthly data on (i) number of poor families with at least one active beneficiary in any of the social assistance programs, and (ii) monthly data on numbers of registries with

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[4] The adjustor for disbursements from China is temporarily removed given that disbursements are not currently built into the baseline projections. It would be reintroduced when disbursements are projected in the baseline.

information updated and validated following RS2018 by income decile will be provided to the Fund with a lag of no more than 30 days after the end of each month.

OTHER INFORMATION REQUIREMENTS

In addition to the data needed to monitor program conditionality, the authorities will also provide to Fund staff the following data so as to ensure adequate monitoring of economic variables:

56. In accordance with IMF Government Finance Statistics Manual (GFSM) 2014 and Public Sector Debt Guide for compilers and users total gross debt covers all liabilities that are debt instruments. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future. The following instruments are considered debt instruments:

- Special drawing rights (SDRs);
- Currency and deposits;
- Debt securities;
- Loans;
- Insurance, pension, and standardized guarantee schemes; and
- Other accounts payable.

57. All liabilities included in the GFSM balance sheet are considered debt, except for liabilities in the form of equity and investment fund shares and financial derivatives and employee stock options. Equity and investment fund shares are not debt instruments because they do not require the payment of principal or interest. For the same reason, financial derivatives are not considered debt liabilities because no principal is advanced that is required to be repaid, and no interest accrues on any financial derivative instrument.

58. For the purpose of the program, Ecuador's NFPS debt includes the following instruments:

- Debt Securities including short term liquidity instruments (held by nonresidents, and by residents not included in the Non-Financial Public-Sector entities)
- Loans
- Other Accounts Payables

59. Any liabilities issued by entities of the NFPS, held as an asset by other entity of the NFPS should be netted out. Since the consolidation is done at the level of NFPS, central bank lending to the government is included in the stock of NFPS debt.

Monitoring

60. The data on NFPS stock of debt in US$ will be provided to the Fund monthly with a lag of no more than 60 days after the end of each month. The data submission will also include cross-holdings among NFPS entities.

Daily

61. Daily monetary and financial data in the template agreed with Fund staff, no later than 1 business days after the end of the day. This template at least will include: (a) movements of international reserves by inflows and outflows. b) Main balance sheet accounts of financial institutions, broken down by private banks, cooperatives and mutual banks. c) Daily oil production.

Weekly

62. Consolidated balance sheets of the banking system, by main accounts, including deposits in the banking system, available funds, credit to the private sector, and credit to the government.

63. BCE balance sheet. Financial indicators: deposits of banks at the BCE.

64. Weekly monetary data in the template agreed with Fund staff, no later than 5 business days after the end of the week.

65. Weekly data on international reserves and foreign currency liquidity, in line with SDDS requirements (see http://data.imf.org/?sk=2DFB3380-3603-4D2C-90BE-A04D8BBCE237), no later than 5 business days after the end of the week.

Monthly

66. Data on stocks and flows (above- and below the line), disaggregated by each subsector of the NFPS (budgetary central government and CFDD, rest of the central government, subnational governments, SOEs and social security) using the templates previously agreed with the IMF team. One template with the detailed data on revenues and expenditures of each of the subsectors and the consolidations between them, and the other template data by subsectors with a summary of above the line data and the comparison with the below the line data for monitoring the statistical discrepancy and data on stocks of financial assets and liabilities and the financing (below the line data) also by subsectors.

67. NFPS financing data compiled based on the detailed information on financial assets and liabilities, namely, deposits, loans, securities, equities, other accounts payable including oil related, and their amortizations, disbursements and arrears accumulation.

68. NFPS cash flow data from the beginning to the end of the current fiscal year, with a lag of no more than 60 days after the closing of each month. This will include expected monthly amortizations and repayments on NFPS debt as defined above.

69. Provision of detailed information on collateralized debt and debt with similar arrangements, such as repo transactions and other similar debt involving the pledge, sale/resale, or encumbrance of assets within 2 weeks of signing new contracts. The information on collateralized debt and debt with similar arrangements will include all contracts related to such debt; information on the escrow accounts overseas that serve as collateral; and detailed information for each creditor on the stock of debt, its terms (including on the amounts pledged, sold/resold, or encumbered, as well as any related commitments or obligations to purchase related or unrelated goods and/or services from the lender), and expected repayment schedules.

70. Export price of Ecuador mix crude oil, with a lag of no more than 20 days after the closing of each month.

Quarterly

71. Detailed balance of payments data, no later 90 days after the end of the quarter.

Statement by the Staff Representative on Ecuador
Executive Board Meeting
December 21, 2020

1. **This statement provides information that has become available since the staff report was finalized.** This information does not alter the thrust of the staff appraisal.

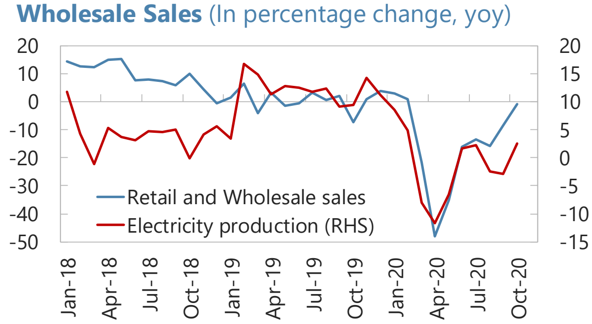
2. **The authorities completed the two prior actions for the First Review.**

- The National Assembly has approved the amendments to the anticorruption law with broad support from across the political spectrum and the public—the vote in Congress was near unanimous, with no objection (127 lawmakers in favor and 3 abstentions). This key piece of legislation will help protect public finances and begin to rebuild trust in the Ecuadorian society. It will also strengthen domestic institutions and leave Ecuador stronger for future administrations.

- The draft amendments to the Monetary and Financial Organic Code (COMYF) were finalized—in consultation with Fund staff—by the President for submission to the National Assembly. The draft amendments strengthen the basis for dollarization, including by limiting its monetary policy operations, as well as prohibiting quasi-fiscal operations and monetary financing. The amendments also strengthen the balance sheet of the Central Bank of Ecuador (BCE) by cleaning up legacy assets from the previous crisis, introduce a recapitalization provision, provide the BCE with a clear macroprudential mandate, enhance the autonomy of the BCE, and modernize its governance framework.

3. **With the pandemic stabilizing, the economy continued to improve through early Q4, presenting an upside risk to staff's baseline forecast, absent major downward revisions to actual data for Q2.** High-frequency indicators suggest that the economic recovery has continued well into Q4—with improving mobility, retail and wholesale sales growth recovered to -1 percent in October (y-o-y), compared to -8.4 percent in September (text chart). The economic activity index grew by 5.7 percent (y-o-y) in October, partly reflecting the lower base effect due to the protests in October last year. The numbers of new daily infections from COVID-19 have remained stable, hovering around 5-6 per 100 thousand people in recent weeks, while new deaths remain at about 0.3 per 100 thousand.

Ecuador: Electricity Output, and Retail and Wholesale Sales (In percentage change, yoy)



Sources: SRI, CENACE, and IMF staff calculations.

4. **The current account has continued to improve, supporting reserve accumulation, and may exceed the baseline forecasts.** The cumulative trade surplus since the beginning of

the year reached $2.7 billion at end-October, approximately $0.4 billion higher than anticipated, owing to continued strong performance in non-oil exports and import compression. These developments present an upside risk to staff's year-end forecasts of current account and gross international reserves, the latter also supported by robust private deposits.

5. **Program implementation remains strong with continued expansion of social assistance programs.** The authorities have brought in more than 38,000 low-income families into the social safety net in the last two weeks, bringing the cumulative net increase since July to more than 270,000 families and meeting the end-December 2020 target of 225,600 families with a large margin. They are on track to meet the other quantitative targets for end-December, based on preliminary data on performance at end-November. The authorities have also developed a financial plan for the central government for the year 2021, approved by the Committee on Public Finance, meeting the related structural benchmark for December 16, 2020.

6. **Ecuador signed a trade agreement with the United States in early December on protocols on trade rules and transparency, which may pave the way for a more comprehensive trade agreement between the two nations in the future.** The agreement focuses on best practices and norms to facilitate trade and includes commitments consistent with improving the business environment, enhancing transparency, and combatting corruption. Key areas of the agreement include: (i) modernizing customs procedures; (ii) harmonizing regulations to ensure transparency and efficiency among regulatory institutions in both countries; (iii) establishing mechanisms to prevent, control, and sanction acts of trade and investment-related corruption; and (iv) strengthening the role of micro, small and medium-size enterprises by facilitating access to credit, digital commerce, and promotion.

Statement by Afonso Bevilaqua, Executive Director for Ecuador, Ricardo Velloso, Senior Advisor to Executive Director, and Francisco Rivadeneira, Advisor to Executive Director

December 21, 2020

1. On behalf of our Ecuadorian authorities, we express our gratitude to the Managing Director and the other members of the IMF management team for their unwavering support to Ecuador's economic policies and structural reform agenda during this time of great suffering and need. We also thank Ms. Oner and her team for their engagement, very good work and informative report.

2. As detailed below, our Ecuadorian authorities have taken tangible actions to successfully implement a strong program under extremely challenging circumstances posed by the global pandemic. The successful conclusion by Executive Directors of the first review under the Extended Arrangement would signal the international community's continuing support to sound policies and to the well-being of the Ecuadorian people. It would also play an important role in helping secure a smoother transition to the next administration, following next year's elections. As noted by staff, the major political candidates broadly support the main objectives and key policies of the program, although in the heat of the political campaign they have refrained from fleshing out their economic policies in detail.

Background

3. The Government continues to fight decisively the COVID-19 pandemic and its dire effects. With almost 200,000 confirmed cases, Ecuador was hit hard by the global pandemic but has been able to gradually reduce the number of daily COVID-19 related deaths; the country has now one of the lowest infection rates in the region. Also, social safety nets continue to be expanded, with focus on the most vulnerable. A clear example of the authorities' resolve in this area is that the first review target for the number of families benefitting from social assistance was surpassed. This bodes well for achieving the end-2021 objective of covering four-fifths of families in the bottom three income deciles. To further support households in need during the pandemic-induced economic contraction, the Government has issued a decree implementing a contingency transfer to human development bond (BDH) and pension beneficiaries, who will receive an additional US$15 every other month, for a total of US$90, from December 2020 to October 2021.

4. The disbursement upon the IMF supported program approval was used transparently to meet urgent needs and support lives and livelihoods. The Government allocated resources to social security to help protect the wellbeing of retirees and the sustainability of the pension fund; to clear past due wage payments in the public sector, especially in the health and education sectors; to local governments to preserve basic services to the population; and to clear outstanding payments to more than 20,000 service providers, prioritizing payments to small suppliers in the social protection and education sectors.

Recent economic developments

5. The economy is performing better than expected. The real GDP contraction in the second quarter (year-on-year) was much smaller than projected by staff, and high-frequency indicators for the third quarter point to a smaller contraction as well. As a result, the economy is now projected to contract by 9.5 percent this year, instead of an initial projection of a contraction of 11 percent. In addition, the risks to this cautiously revised projection appear to be on the upside. Unemployment has been halved since its peak in April. Inflation and inflation expectations remain well-anchored by the long-standing dollarization regime. The current account has improved due to lower imports and strong non-oil exports that more than offset lower oil exports. External capital flows have turned slightly positive, and liquidity in the banking system has recovered beyond pre-pandemic levels supported by private deposits.

6. Cautious spending management and stronger revenue collections led to a better than projected fiscal performance in the third quarter. Spending was lower than targeted under the program, as the Government successfully rationalized the wage bill and prioritized capital expenditure. The decision to push forward income taxes together with stronger non-oil exports and consumption, as lockdown measures were eased, led to higher non-oil fiscal revenues, more than offsetting lower oil revenues due to lower oil prices.

Program performance

7. Performance under the program has so far been strong. All end-September quantitative performance criteria and indicative targets were met with large margins. The prior actions related to approval by the National Assembly of anti-corruption legislation (COIP) and to finalization of the draft Organic Monetary and Financial Code (COMYF) were met. All structural benchmarks were met, although the regulation of the new Organic Code of Planning and Public Finances (COPLAFIP) was met with a delay of a few days and the much-improved asset declaration for public servants was partially implemented for reasons outside the immediate control of the authorities.

8. The program is fully financed through 2021. For 2020, the program's government deposit target will be achieved through a combination of better fiscal performance (less borrowing) and alternative sources of financing, given that loan negotiations with a bilateral creditor are taking longer than expected. For next year, the Government has secured additional financial support from the Inter-American Development Bank (IDB) and the Development Bank of Latin America (CAF) to cover additional financing needs identified during the first review mission discussions. Also, the authorities have made and will continue to make all efforts to secure the official bilateral financing that is envisaged under the program.

Structural reforms

9. The National Assembly approved on December 15 landmark anti-corruption legislation (COIP). Ecuador's legal framework is now on par with the most advanced countries in this area. The new legislation includes, inter alia, provisions to ensure that acts of corruption are criminalized, taking into consideration recommendations of the United Nations Convention Against Corruption. This is a major reform that will have a lasting positive impact in Ecuador.

10. The Government has taken several additional measures to strengthen transparency. For example, Ecuador has recently joined the Extractive Industries Transparency Initiative (EITI), published detailed information on sovereign debt contracts, strengthened the central bank's external auditing function, and improved public procurement procedures by, inter alia, reviewing their terms and modalities and standardizing procurement methods for all public institutions.

11. The draft Organic Monetary and Financial Code (COMYF) will be finalized by the end of the week. This draft benefitted from technical assistance from the Fund and will be submitted to the National Assembly in the beginning of January 2021. This reform, once approved, will strengthen the independence of the Central Bank of Ecuador (BCE), providing an extra layer of security to Ecuador's dollarization regime. Also, it will align the BCE's procedures in the areas of governance, transparency and control with best international practices.

12. The authorities continue to eliminate fuel subsidies while protecting the poor. International prices are gradually being introduced into the domestic retail market, while ensuring that the poor are protected from the potential adverse impact of this reform. Looking ahead, these efforts will not only yield fiscal savings but will help also the country to continue moving towards a more progressive spending structure—one that prioritizes the most vulnerable while advancing the global climate agenda.

13. Finally, the authorities are preparing with technical assistance from the Fund and other IFIs draft reform proposals for the tax system, labor market and social security. These proposals—that are critical for building a fast growing and competitive economy—will be left for consideration of the next administration.

Final remarks

14. The EFF supported program has been crucial for Ecuador to begin overcoming the harsh humanitarian and economic crisis that the country is facing due to the global pandemic. While some signs of recovery are already visible, much remains to be done. In this vein, the continued support—financial as well as policy advice and capacity development—from the IMF and other IFIs is more important than ever. The authorities are confident that the measures already taken, and the additional actions agreed under the program will help Ecuador's economy emerge stronger and more resilient in the post-COVID environment.