

January 17, 2019

The Ministry of Economy and Finance will continue to safeguard bond values

Since the shift in fiscal and economic policy, embodied by the commitment to obtaining a primary surplus by 2021 at the latest within the new Plan for Prosperity, the Ministry of the Economy and Finance has agreed to several credit operations to put public finances on a sustainable trajectory. It has worked to restore the public trust in the transparency and capacity of the Ministry following a decade of irresponsible fiscal policy that has weakened financial stability.

Under Minister of Economy and Finance Richard Martínez, the administration has been able to continue accessing external sources of financing. It has achieved this despite a deteriorating market for Ecuador's main export product, crude oil, in recent weeks as well as an adverse situation for emerging market bonds in general. Operations with multilateral lenders which amount to \$1'325 million include \$368.8 million with the Latin America Reserve Fund; \$31 million with the World Bank; \$508.9 million with the Inter-American Development Bank; and \$415.5 million with the Andean Development Corporation (CAF), along with other, smaller loans and credit lines. Additionally, \$695 million were raised using oil presales operations. Financing from governments totals \$936 million of which \$821 million originate from China while financing from commercial banks totals \$1.3 billion of which \$1 billion in repurchase agreements as described below.

Regarding the international financial markets, analysts have recognized the creativity of the ministry by obtaining funding through repurchase agreements (repos). The total value of the funds received is close to \$1 billion from Goldman Sachs and Crédit Suisse at lower interest rates than would have been available in the bond market, which we have not needed to tap since January when \$3bn were raised. We have however observed that the reopening of bond issues as support for repurchase agreements may weigh on the market value of bonds in the market, even though terms of the repo agreements ensure that the repurchase agreement counterparties maintain an economic exposure to the additional issuance, accounted for as contingent liabilities, unless Ecuador were to suffer a credit event. To safeguard the market value of bonds, until further notice, the Ministry has decided to refrain from agreeing to further operations of this kind as a potential policy instrument.

The Debt Committee also approved two new financing lines at the end of 2018: one from the International Development Bank, in the amount of US\$100 million; and the second one with the Andean Development Corporation, in the amount of US\$210 million.