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ECUADOR

July 2019

FIRST REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE AND STAFF REPORT

In the context of the First Review under the Extended Fund Facility Arrangement, 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 and summarizing the views of the Executive Board as expressed during its June 28, 2019 consideration of the staff report that concluded the First Review under the Extended Fund Facility Arrangement with Ecuador.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 28, 2019, following discussions with the officials of Ecuador on economic developments and policies underpinning the Extended Fund Facility Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 14, 2019.

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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Press Release No. 19/257
FOR IMMEDIATE RELEASE
June 28, 2019

IMF Executive Board Concludes First Review of the Extended Arrangement Under the Extended Fund Facility for Ecuador, Approves US$251.14 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Ecuador's performance under its economic program supported by the Extended Arrangement under the Extended Fund Facility (EFF) for Ecuador. The completion of the review allows the authorities to draw the equivalent of SDR 180.65 million (about US$251.14 million). The 36-month EFF with a total access of SDR 3.035 billion (about US$4.2 billion), equivalent of 435 percent of Ecuador's quota in the IMF, was approved by the IMF's Executive Board on March 11, 2019 (see Press Release 19/72).

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Chair, summarized the Board's findings:

"The authorities' reform program supported by the Fund arrangement is yielding results. The underlying fiscal position is improving, international reserves are rising, and borrowing costs are declining. Notwithstanding downside risks, including spillovers from neighboring countries, the strengthening of the fiscal position and structural reforms should help boost growth and create jobs.

"The Ecuadorian government has demonstrated its resolve to restore fiscal discipline by rationalizing public spending. The planned tax reform will be instrumental in raising revenues and making the tax system more efficient, simple and equitable. These reforms will help put public debt on a sustainable path and strengthen Ecuador's external competitiveness.

"Fiscal sustainability should be underpinned by reforms in public financial and debt management, and improvements in fiscal transparency. The authorities are taking steps towards strengthening budget formulation and execution, reducing discretion, strengthening oversight and controls, introducing robust fiscal rules, and improving public debt management.

"Fortifying the financial system is paramount to preserving financial stability, improving crisis preparedness, and boosting the efficiency of financial intermediation. The institutional reform of the central bank will be key in supporting the dollarization regime and boosting international reserves.

“Labor market reforms are essential in supporting job creation as well as boosting competitiveness and growth. Measures to facilitate hiring, reduce rigidities and informality, and increase female labor force participation are needed. Efforts to increase transparency and governance will also help safeguard public resources and promote a business environment supportive of growth and job creation.

“Protecting the poor and the most vulnerable remains a key priority. The authorities are taking steps to upgrade the social registry and expand the coverage of social assistance. The Ecuadorian government stands ready to step up efforts to ensure that the vulnerable remain protected.”

Comunicado de Prensa No. 19/257 (S)
PARA SU PUBLICACIÓN INMEDIATA
28 de junio de 2019

Fondo Monetario Internacional
Washington, D. C., 20431, EE.UU.

El Directorio Ejecutivo del FMI concluye la Primera Revisión del Programa en el marco del Servicio Ampliado a favor de Ecuador, y aprueba un desembolso de USD 251,14 millones

El Directorio Ejecutivo del Fondo Monetario Internacional (FMI) concluyó el día de hoy la primera revisión del desempeño de Ecuador en el marco de su programa económico respaldado por el Servicio Ampliado del FMI (SAF). La conclusión de la revisión permite a las autoridades acceder a un monto equivalente a DEG 180,65 millones (aproximadamente USD 251,14 millones). El SAF a 36 meses con un acceso total de aproximadamente USD 4.204 millones (DEG 3.035 millones), equivalente a 435% de la cuota de Ecuador en el FMI, fue aprobado por el Directorio Ejecutivo del FMI el 11 de marzo de 2019 (véase el Comunicado de Prensa 19/72).

Tras la reunión de Directorio Ejecutivo, el Sr. Tao Zhang, Subdirector Gerente del FMI, realizó la siguiente declaración:

“El programa de reforma de las autoridades respaldado por el acuerdo del FMI está rindiendo fruto. La posición fiscal subyacente está mejorando, las reservas internacionales están en aumento y los costos de endeudamiento están disminuyendo. A pesar de los riesgos a la baja, incluidos los efectos secundarios de los países vecinos, el fortalecimiento de la posición fiscal y las reformas estructurales deberían ayudar a impulsar el crecimiento y crear empleos.

“El gobierno ecuatoriano ha demostrado que está resuelto a restablecer la disciplina fiscal mediante la racionalización del gasto público. La reforma tributaria prevista será decisiva para incrementar los ingresos y lograr que el sistema tributario sea más eficiente, simple y equitativo. Estas reformas ayudarán a colocar la deuda pública en una trayectoria sostenible y a reforzar la competitividad externa de Ecuador.

“La sostenibilidad fiscal debe apoyarse en reformas de la gestión financiera pública. Las autoridades están tomando medidas para reforzar la elaboración y ejecución del presupuesto, reducir la discrecionalidad, fortalecer la supervisión y los controles, introducir reglas fiscales robustas y mejorar la gestión de la deuda pública.

“Apuntalar al sistema financiero es crucial para preservar la estabilidad financiera, mejorar la preparación frente a las crisis y hacer más eficiente la intermediación financiera. La reforma institucional del banco central será fundamental para respaldar el régimen de dolarización y estimular las reservas internacionales.

“Las reformas del mercado laboral son esenciales para apoyar la creación de empleo, así como para impulsar la competitividad y el crecimiento. Se necesitan medidas para facilitar la contratación, reducir las rigideces y la informalidad y aumentar la participación de la fuerza laboral femenina. Los esfuerzos para aumentar la transparencia y la gobernabilidad también ayudarán a salvaguardar los recursos públicos y promover un entorno empresarial que favorezca el crecimiento y la creación de empleo.

“La protección de los pobres y los más vulnerables sigue siendo una prioridad fundamental. Las autoridades están tomando medidas para modernizar el registro social y ampliar la cobertura de la asistencia social. El gobierno ecuatoriano está preparado para redoblar los esfuerzos a fin de garantizar que los vulnerables sigan estando protegidos.”

Ecuador: Selected Economic Indicators

Population (2018, million): 17.3
Quota (current): SDR 697.7 millions/100 percent of quota
Main products and exports: Petroleum, flowers, bananas, shrimp
Key export markets: United States, Europe

	2016	2017	Prel. 2018	Proj. 2019	2020
Output					
Real GDP growth	-1.2	2.4	1.4	-0.5	0.2
Employment					
Unemployment (%)	5.2	4.6	3.7	4.3	4.7
Prices					
Inflation, average (%)	1.7	0.4	-0.2	0.4	1.2
Public sector					
Revenue (% GDP)	30.3	32.0	35.9	34.7	37.3
Expenditure (% GDP)	38.6	36.5	37.1	35.0	34.1
Overall fiscal balance (% GDP)	-8.2	-4.5	-1.2	-0.3	3.2
Non-oil primary fiscal balance (excl. fuel subsidies) (% GDP)	-6.7	-4.1	-1.9	-1.0	0.9
Non-oil primary fiscal balance (incl. fuel subsidies) (% GDP)	-7.6	-6.1	-4.9	-2.9	-1.0
Public sector debt (% GDP) 1/	43.2	44.6	45.8	48.4	47.4
Money and credit					
Broad money (% change) 2/	16.5	10.0	5.6	2.3	3.9
Credit to the private sector (% change)	6.2	16.4	14.9	7.3	6.6
Balance of payments					
Current account (% GDP)	1.3	-0.5	-1.3	0.5	1.4
FDI (% GDP)	-0.8	-0.6	-1.3	-1.1	-1.1
GIR (in months of imports of goods and services)	2.7	1.1	1.0	2.3	4.2
External debt (% GDP)	36.6	39.7	41.0	42.8	44.3
Exchange rate					
REER (% change, depreciation-)	2.2	-3.5	-2.8	..	..

Sources: Central Bank; Ministry of Finance; National Statistical Institute (INEC); UNDP Human Development Indicators; and Fund staff estimates/projections.

1/ 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 Government Financial Statistics Manual.
2/ M2

ECUADOR

June 14, 2019

FIRST REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT, REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

Program context. A 36-month EFF with access of SDR 3.035 billion (435 percent of quota or about US$4.204 billion) was approved on March 11, 2019. Economic activity is projected to decelerate further in 2019 as fiscal consolidation and a slowdown in credit growth weigh on economic growth. However, external financing conditions have improved on the back of rising oil prices and the approval of the IMF program, with sovereign bond spreads falling by 250 basis points since January 1, 2019.

Program implementation. All but one of the end-March quantitative targets were met. This includes the performance criteria (PCs) on non-oil primary balance including fuel subsidies (NOPBS), net international reserves (NIR), and social assistance spending. The continuous performance criteria (CPC) on external arrears, non-imposition and non-intensification of restrictions on payments for current international transactions, and non-introduction and non-modification of multiple currency practices were also met. However, the authorities are requesting a waiver on the end-March CPC on no new gross financing of the government by the central bank. The end-March structural benchmark (SB) on the provision of detailed information on new external non-financial public sector (NFPS) debt incurred, the end-April structural benchmark on the publication of the PFM action plan, and the end-May structural benchmark on the reform of the central bank were met. Modifications of PCs on NOPBS, NIR and social assistance spending, changes in the definition of NIR and social assistance spending, as well as an adjustor for oil price fluctuations are proposed, together with minor modifications to the structural benchmark on amending the Organic Code of Planning and Public Finances.

Focus of the Review. Discussion centered on continued efforts to (i) achieve fiscal sustainability; (ii) strengthen public financial management; (iii) fortify the social safety net; (iv) reform the central bank; (v) remove rigidities in the labor market; and (vi) improve governance.

Staff supports authorities' request for completion of the first review. The purchase release upon completion of this review would be in the amount of SDR 180.65 million.

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

Discussions took place in Quito (May 13-May 24, 2019). The staff team comprised Anna Ivanova (head), Matteo Ghilardi and Rosalind Mowatt (all WHD), Irene Yackovlev (SPR), Mario Mansilla and Svetlana Popova (MCM), Fernanda Brollo (FAD), and Clifford Blair and Ivana Rossi (LEG). Krishna Srinivasan (WHD) and Francisco Rivadeneira (OED) participated in the discussions.

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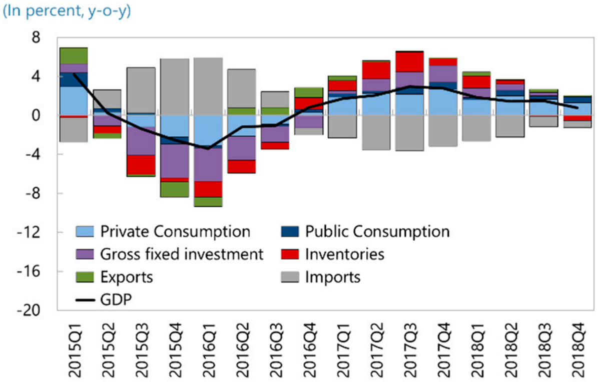
CONTEXT

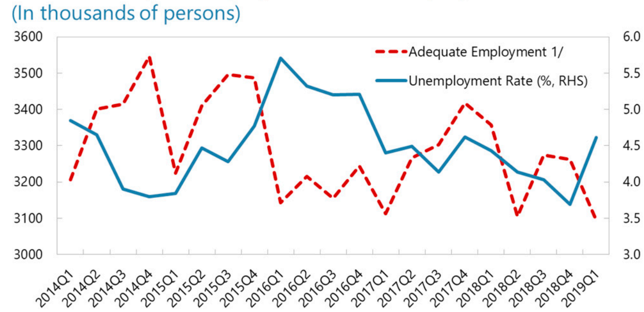
1. Economic growth has decelerated, and inflation remains subdued. Real GDP grew by 1.4 percent in 2018, slightly above staff's projection of 1.1 percent at the time of program approval (Figure 1). The better-than-expected performance was due to higher-than-projected investment growth, and a smaller drag from net exports. However, growth decelerated to 0.8 percent (y-o-y) in Q4 with the slowdown being broad-based. Preliminary indicators suggest that growth continued slowing in early 2019, with indicators of economic activity (IDEAC) and consumer confidence falling in the first quarter. Although the unemployment rate fell from 4.6 percent in December 2017 to 3.7 percent in December 2018, it bounced back to 4.6 percent by March 2019, accompanied by an increase in informal employment. Inflation, at 0.2 percent y-o-y in April 2019, remains subdued, with a temporary uptick early this year due to the removal of fuel subsidies being short-lived.

Ecuador: Contributions to Growth, 2015-2018
(In percent, y-o-y)



Sources: Haver, BCE, and IMF staff calculations.

Ecuador: Adequate Employment and Unemployment Rate
(In thousands of persons)



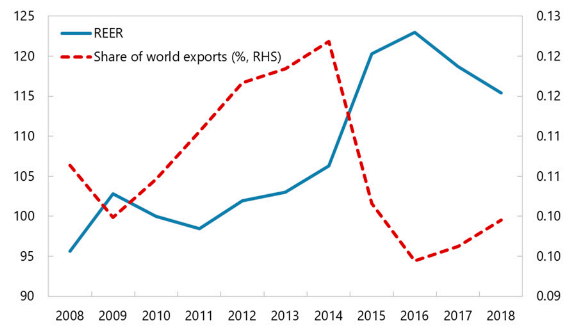
Source: INEC.
1/ Adequate employment is defined as: workers who receive weekly earnings at or above the minimum wage and who work 40 or more hours a week; or workers who earn at or above the minimum wage and work less than 40 hours a week, but have no desire to work additional hours.

2. The underlying fiscal position in 2018 is estimated to have been somewhat stronger-than-assessed at the time of program approval, though the headline deficit is estimated to have been larger. At 4.9 percent of GDP, the non-oil primary deficit including fuel subsidies—the program measure of the fiscal position—was 0.4 percentage points of GDP lower than programmed (5.3 percent of GDP), as fuel subsidies surprised on the downside. However, the overall fiscal deficit turned out to be 0.3 percentage points of GDP higher (at 1.2 percent of GDP versus 0.9 percent of GDP), mostly due to lower operating surplus of public enterprises. Despite a large decline in the overall fiscal deficit in 2018 (from 4.5 percent of GDP in 2017), public debt continued to rise, ending 2018 at 45.8 percent of GDP—a tad lower than estimated at the time of program approval (Figure 2). However, external financing conditions have improved on the back of rising oil prices and IMF program approval, with sovereign spreads falling 250 basis points since January 1, 2019.

3. The current account deficit in 2018 was higher than anticipated. The current account deficit, at 1.3 percent of GDP in 2018, was 0.6 percentage points higher than estimated at the time of program approval, owing to a shortfall in primary and secondary income, in part, due to the payment of litigation costs. Compared to 2017, the current account deficit increased by 0.8 percentage points of GDP in 2018, partly due to higher imports, which led to a deterioration in the non-oil trade balance (Figure 3). Foreign companies brought back to Ecuador US$445 million in earnings to take advantage of the tax amnesty during 2018. Higher FDI, together with lower private sector outflows, financed the rising current account deficit, while external debt increased only slightly to 41 percent of GDP.

4. **Staff continues to judge Ecuador's external position as weaker than the level consistent with medium-term fundamentals and desirable policies.** The economy continues to adjust to the terms-of-trade shock of 2014 and subsequent U.S. dollar appreciation, which undermined Ecuador's competitiveness. The external sector assessment is broadly unchanged since the program approval. The current account gap is estimated at 3.8 percent of GDP, while the real effective exchange rate (REER) is judged to be overvalued by around 32 percent.

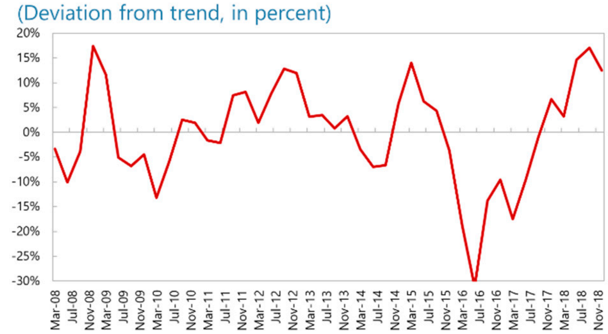
Ecuador: REER and Share of World Exports
(Index, 2010=100)



Sources: INS, WEO, and IMF staff calculations.

5. **The financial sector is stable, but the divergence between credit and deposit growth warrants continued vigilance.** Banking sector indicators appear adequate (Figure 4), with the ratio of capital to risk-weighted assets at 13.2 percent, non-performing loans (NPLs) at 3 percent of total loans, and liquid assets at 25 percent of short-term liabilities, but liquidity conditions are tightening. Financial sector credit growth remains in double digits (14 percent y-o-y in April) though there are signs of deceleration in 2019Q1. Reflecting this, credit-to-GDP growth has been above trend since mid-2017 driven by consumption and microcredit, the most profitable and short-term segments, thus potentially creating conditions for BOP pressures. In contrast, deposit growth has remained weak (5 percent y-o-y), although higher yields have prompted some recovery in the term deposit segment. New credit has been funded in part by running down foreign assets and increasing external funding (net foreign assets of other depository institutions declined by 16 percent y-o-y in April). Credit and deposit growth in the cooperative sector are more balanced but outpaced that in the private banks.

Ecuador: Credit to the Private Sector-to-GDP Ratio
(Deviation from trend, in percent)



Sources: Central Bank of Ecuador and IMF staff calculations.
Note: The trend was calculated using a Hodrick–Prescott filter with a smoothing parameter (lambda) equal to 1600.

OUTLOOK

6. The macro-economic outlook and external position for 2019 and beyond remain broadly unchanged from the time of program approval:

- In line with the available indicators, the growth forecast for 2019 remains in the range of negative 0.5 to positive 0.5 percent, with the program scenario based on the negative 0.5 percent forecast. The slowdown in growth in 2019 is predicated on the contraction of domestic demand due to the impact of fiscal consolidation and the expected slowdown in credit growth as banks face tighter liquidity conditions. Growth in the medium term is projected to recover to 2.5 percent, as the impact of fiscal consolidation wanes, confidence recovers, and structural reforms take hold.

- Inflation is expected to remain subdued over the medium term, which, together with nominal wage restraint and improving productivity, is projected to steadily reduce the overvaluation of the real effective exchange rate, albeit at a slower pace than the narrowing of the current account gap.

- The external position is expected to strengthen significantly in 2019, pushing the current account into a surplus of 0.5 percent of GDP. Stronger demand for Ecuadorian agricultural commodities and declining imports demand due to lower real investment will strengthen the non-oil balance. The oil balance is now expected to remain broadly flat (at 4 percent of GDP), reflecting lower oil production due to the delay with obtaining environmental licenses. The current account position will continue improving over the medium term and is expected to reach external equilibrium by 2021.[1]

- At US$7.6 billion, gross external financing requirements in 2019 are now estimated to be US$300 million higher than at the time of program approval. Higher public sector amortizations (at about US$4 billion) reflect the repayment of past obligations to FLAR, which is required to obtain new financing (net financing from Fondo Latinoamericano de Reservas (FLAR) remains unchanged from the time of program approval). The lion's share of these amortizations could be financed by the support from multilaterals (US$3.3 billion).

[1] In line with the external sector assessment at the time of the program request, current account norm is estimated at 1.6 percent of GDP.

Table 1. Ecuador: Selected Indicators
(Percent of GDP, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024
			Projections					
Real								
Growth (percent change)	2.4	1.4	-0.5	0.2	1.6	2.7	2.5	2.5
Inflation (average, percent change)	0.4	-0.2	0.4	1.2	1.7	1.3	1.2	1.1
Fiscal								
Non-oil primary balance	-4.1	-1.9	-1.0	0.9	1.4	1.3	1.4	1.2
Non-oil primary balance (incl. fuel subsidies)	-6.1	-4.9	-2.9	-1.0	0.1	0.0	0.1	0.0
Primary balance	-2.3	1.3	2.3	6.0	5.4	5.0	5.0	4.9
Overall balance	-4.5	-1.2	-0.3	3.2	2.8	2.7	2.9	2.8
Debt (IMF definition)	44.6	45.8	48.4	47.4	45.7	41.3	37.1	33.0
Capital expenditure	9.3	6.6	6.1	6.0	5.3	5.8	5.7	5.7
Gross financing needs - Fiscal (Millions of U.S. dollars)	17,400	9,169	8,109	2,091	1,919	3,685	3,432	2,778
Bonds - external ($ mil.)	7,251	4,504	2,227	0	0	680	1,257	1,294
Change in NFPS deposits (Millions of U.S. dollars)	562	951	1,899	3,036	2,701	0	0	0
External								
Current account balance	-0.4	-1.3	0.5	1.4	1.7	1.7	1.8	1.9
Non-oil current account balance	-4.0	-5.4	-3.5	-2.4	-2.1	-1.6	-1.3	-1.0
Gross financing needs - External (Millions of U.S. dollars)	8,193	10,103	8,726	6,427	4,854	7,166	6,171	6,712
Foreign direct investment (Millions of U.S. dollars)	618	1,401	1,221	1,244	1,496	1,569	1,580	1,607
Public sector bonds (Millions of U.S. dollars)	7,251	4,504	2,227	0	0	680	1,257	1,294
Private sector borrowing (Millions of U.S. dollars)	-2,974	2,545	2,855	6,459	5,459	5,648	4,715	5,078
Monetary				(Millions of U.S. dollars)				
Gross International Reserves 1/	2,006	2,158	4,679	8,446	11,947	12,528	13,750	14,837
Percent of ARA metric	12	12	26	46	64	67	72	78
less Outstanding credit of the BCE to the IMF	373	364	316	135	0	0	0	0
less Short-term foreign liabilities	0	300	0	0	0	0	0	0
less Reserves of Other Depository Institutions (ODIs) at the BCE	3,904	3,172	2,941	3,444	3,707	4,021	4,348	4,700
equals Program NIR 2/	-2,271	-1,677	1,422	4,867	8,240	8,507	9,403	10,137
less Deposits of Other Financial Institutions (excl. BIESS deposits) & short-term liabilities of the central government	1,021	1,218	1,186	1,199	1,235	1,282	1,327	1,374
equals Program NIR - new definition 3/	-3,293	-2,895	237	3,668	7,006	7,225	8,075	8,763
Underlying reserves 4/	-2,271	-1,677	27	2,078	4,056	4,322	5,293	6,318
Decomposition of change in Gross International Reserves				(Millions of U.S. dollars)				
Change in Gross International Reserves	-2,210	153	2,521	3,767	3,501	581	1,222	1,087
Change in bank reserves, incl. Other Financial Institutions	-994	-396	-263	516	299	362	372	399
Change in NFPS deposits	562	951	1,899	3,036	2,701	0	0	0
Net IMF financing to the BCE	0	0	-45	-180	-135	0	0	0
Change in credit to public sector (increase, -)	-978	-90	182	41	735	262	891	729
Gold transaction 5/	-376	0	0	356	0	0	0	0
Other	-424	-312	748	-2	-99	-43	-40	-41

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

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

2/ Net international reserves (current definition) is equal to gross international reserves less outstanding credit to the IMF (excl. budget support), short-term foreign liabilities of the BCE, and deposits of other depository institutions at the central bank.

3/ Net international reserves (new definition) is equal to gross international reserves less outstanding credit to the IMF (excl. budget support), 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.

4/ Underlying reserves refers to NIR (current definition) less outstanding obligations of the treasury to the IMF.

5/ In 2017, the BCE exchanged 300,000 troy oz. of its monetary gold in a gold derivative transaction. Although this derivative is included in the national definition of reserve assets, it is excluded from the IMF's definition, since it is not liquid. This operation will mature in 2020 when the monetary gold will return to the BCE's reserve assets.

PROGRAM IMPLEMENTATION

7. **The fiscal target on the NOPBS was met.** The end-March PC was met with a large margin—an actual deficit of US$115 million versus a programmed deficit of US$712 million—owing to lower spending on capital and goods and services. However, a decline in the surplus of oil companies due to lower oil production translated in an underperformance on the overall balance versus the end-March indicative target (IT).

8. **The end-March target for NIR was also met.** Some transactions that were not envisioned in the program forecast, which included payments of past obligations by the central government (accounts payable) of US$600 million and a higher-than-projected drawdown of deposits of other financial institutions in the central bank (by US$221 million), contributed negatively to NIR accumulation. However, the authorities' issuance of domestic securities and other movements on the central bank balance sheet (such as amortizations of public bank securities and the reversal of the BIS gold loan) had a positive impact on NIR (US$1.4 billion). As a result, the target was met with a margin of US$565 million.

Table 2. Ecuador: Program Implementation
(Millions of U.S. dollars, unless otherwise indicated)

	End-March 2019		
	Prog. 1/	Actual	Status
Fiscal Targets 2/			
Quantitative Performance Criteria			
Floor on non-oil primary balance of the non-financial public sector, including petroleum subsidies	-712	-115	**Met**
Floor on social assistance spending of the central government	175	183	**Met**
Indicative Targets			
Floor on overall fiscal balance of the non-financial public sector	277	148	**Not met**
Monetary Targets			
Quantitative Performance Criterion			
Floor on the change in the stock of NIR - program measure 2/	1,823	2,388	**Met**
Continuous Performance Criteria 3/			
Ceiling on the change in external payment arrears 4/	0	0	**Met**
Ceiling on the new gross central bank direct financing of the NFPS and indirect financing to the NFPS through the public banks	0	120	**Not met**

Sources: Central Bank of Ecuador, Ministry of Finance, IMF staff calculations.
1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)
2/ Cumulative flow from January, 1 to the test date.
3/ Continuous performance criteria must be observed at all points in time.
4/ Excluding interest on earlier obligations resulting from the 2008 swap that have not been claimed by creditors even though authorities pursued them in good faith.

9. **The performance criterion on social assistance spending by the central government at end-March was also met.** The authorities continue their efforts to strengthen the social safety net, and in May established an upgraded Unit of Social Registry aimed at extending coverage of the social safety net to all vulnerable households. Following severe flooding in coastal areas in February,

the authorities also authorized a one-off payment to the beneficiaries of the conditional cash transfer programs in the most affected areas (*Bono Naranja*).

10. The authorities have requested a waiver for the continuous performance criterion on no new gross central bank financing to the NFPS, which was breached inadvertently. The performance criterion on "no new gross" financing from the central bank to the NFPS was missed due to the rolling over of previously contracted debt. A rollover of these liabilities was allowed per the Law for Productive Development adopted in 2018, under a pre-specified repayment schedule that was shifted forward to 2021−25. Hence, these rollovers were automatically executed by the treasury system, including a rollover of US$120 million in March 2019. Once the authorities recognized the divergence relative to program commitments, they committed to take corrective action by reversing the rollover and repaying US$120 million by mid-September (the earliest legally-allowed date)[2]. They also plan to modify the repayment schedule to prohibit rollovers that had been envisioned for October 2019 and March 2020. This will be made concrete by the draft law of the central bank, which will explicitly prohibit not just new financing but also rollovers.

11. The authorities have also complied with all the structural benchmarks for the first review. The authorities have prepared, an action plan for much-needed PFM reforms aimed at strengthening budget preparation, execution, and cash management practices, as well as transparent fiscal reporting. The plan was published on April 30 thereby fulfilling the end-April benchmark.[3] Similarly, the amendments to the Central Bank's legal framework were also submitted to Cabinet by end-May, thereby fulfilling the SB. The authorities have complied with the end-March SB on the disclosure of information on external non-financial public sector debt. Further, no new collateralized debt or debt with similar arrangements has been contracted in Q1.

POLICY DISCUSSIONS

A. Strengthening the Institutional Foundations of Dollarization

Restoring Fiscal Prudence

12. The authorities reaffirmed their commitment to the size and pace of fiscal adjustment agreed at the time of program approval. The envisaged consolidation is expected to remain at 5 percent of GDP over the program period (2, 2, and 1 percent of GDP in 2019−21). However, in level terms, the NOPBS is now expected to be somewhat higher than previously estimated due to the upward revision of the base (2018). Moreover, given the revised oil price forecast (about US$5 per barrel higher than envisaged under the program) and the corresponding lower savings from fuel

[2] Public entities by law are not allowed to take a loss in a debt-related transaction. The only dates that would satisfy this requirement are the scheduled amortization dates or the date of maturity.

[3] The plan can be accessed on-line at https://www.finanzas.gob.ec/plan-de-accion-para-el-fortalecimiento-de-las-finanzas-publicas/

subsidies (by 0.7 percentage points of GDP), as well as slower-than-expected accrual of savings in the wage bill, the composition of adjustment has shifted towards lower spending on goods and services and capital, including due to slower-than-anticipated execution of the housing program "Casa Para Todos". Measures to reduce the public sector wage bill[4] are likely to accrue at a slower pace than programmed due to the staggered schedule of reductions and the need to protect workers in critical sectors. While the total savings from the wage bill reforms undertaken so far are still estimated at 0.5 percent of GDP, the timing of accrual has shifted, with 0.2 percent of GDP expected in 2019 and additional savings of 0.3 percent of GDP in 2020. The authorities have also brought forward energy subsidy measures from 2021 yielding 0.1 percent of GDP.

Table 3. Ecuador: Fiscal Consolidation Measures

(In percent of GDP, Nonfinancial public sector)

	Current Scenario				Difference with the Approved Program			
	2019	2020	2021	2019-2021	2019	2020	2021	2019-2021
Revenue	**-0.3**	**1.4**	**-0.5**	**0.6**	0.0	0.0	0.0	0.0
Planned tax reform	0.0	1.4	0.2	1.6	0.0	0.0	0.0	0.0
Earlier adopted tax changes 1/	-1.2	0.0	0.1	-1.1	0.0	0.0	0.0	-0.1
Asset monetization (net) 2/	0.8	0.0	-0.8	0.0	0.0	0.0	0.0	0.0
Other revenues	0.1	0.1	0.0	0.2	0.0	0.0	0.0	0.0
Expenditure	**2.3**	**0.6**	**1.4**	**4.3**	-0.1	0.0	0.0	0.0
Wages and salaries	0.2	0.6	0.2	1.0	-0.3	0.3	0.0	0.0
Goods and services	0.8	0.0	0.1	1.0	0.2	-0.1	0.0	0.2
Other spending	0.1	-0.1	0.0	0.0	0.1	0.0	0.0	0.1
Capital spending	0.5	0.1	0.6	1.2	0.5	-0.3	0.0	0.2
Fuel subsidies 3/	1.1	0.0	0.5	1.6	-0.6	0.1	0.0	-0.4
of which: Price Change	*0.6*	*0.0*	*0.1*	*0.8*	-0.7	0.1	0.1	-0.4
Policy Change	*0.5*	*0.0*	*0.4*	*0.9*	0.1	0.0	-0.1	0.0
Social spending	-0.4	0.0	0.0	-0.4	0.0	0.0	0.0	0.0
Total	**2.0**	**2.0**	**1.0**	**5.0**	0.0	0.0	0.0	0.0

Sources: Ministry of Finance and IMF staff calculations.

1/ For 2019, 1 percent of GDP is a one-off effect from tax amnesty collection in 2018, while 0.2 percent of GDP is the effect of other tax changes introduced in 2018.

2/ Refers to revenues from leasing of government assets to private sub-contractors for temporary use and maintenance. For 2019, this includes the proceeds from the concession of the Sopladora hydropower plant. For 2020, it includes the proceeds from the concession of electric lines.

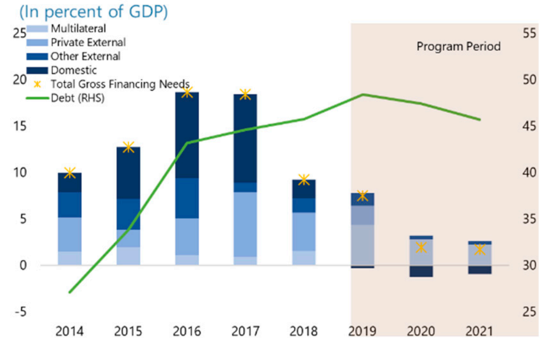
3/ This includes: (i) increase in the price of retail, domestic and industrial gasoline, (ii) increase in the price of diesel for certain fishing categories, (iii) removal of the subsidies in industrial gas, and (iv) increase in the price of electricity.

13. **However, the overall balance is now expected to be lower.** Despite higher oil prices, the oil balance is expected to decline to 3.4 percent of GDP in 2019—versus 4.1 percent of GDP at the time of program approval—on the back of lower oil production and a revision in the methodology of computing oil-related VAT revenues. As a result, the overall deficit is now expected to reach 0.3 percent GDP in 2019—versus a balance estimated at the time of program approval.

[4] These include the non-renewal of occasional contracts and limiting the replacement rate of retirements to 1:2.

14. Medium-term program goals remain intact. With public debt projected to approach 49 percent of GDP by end-2019, maintaining fiscal discipline is key. The adjustment is expected to continue in 2020 and beyond broadly as planned. Further consolidation will be largely underpinned by the planned tax reform, savings from the rationalization of the wage bill as well as other expenditure cuts. As a result, public debt is expected to decline to about 40 percent by end-2022.

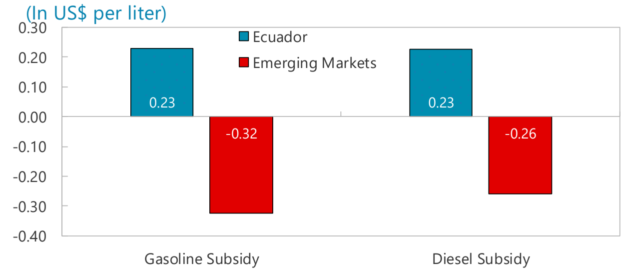
Ecuador: Public Debt and External Financing
(In percent of GDP)



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

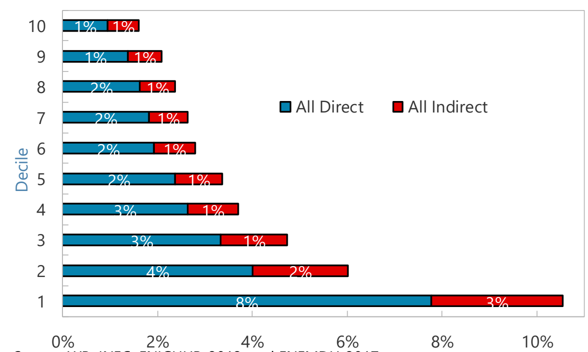
15. Measures to reduce fuel subsidies have been put in place, while limiting the adverse impact on the poor. Fuel subsidies in Ecuador are high compared to other emerging markets. The measures to reduce fuel subsidies envisaged in the program for 2019 are expected to yield fiscal savings of about 0.5 percent of GDP and have already been enacted. These include: (i) the elimination of subsidies on high octane gasoline (super gasoline); (ii) a reduction of subsidies on regular gasoline; and (iii) a reduction of diesel subsidies for industrial use. The authorities have also decided to frontload some of the measures envisioned for 2021, including an increase in the tariffs on industrial gas, a removal of the night-time tariff for electricity, and modifications to the social electricity tariff to improve its targeting. The impact of these measures on the poor is estimated to be relatively small, as households in the lower income groups do not benefit from subsidies on gasoline and affected types of diesel. In contrast, low-income households benefit most from subsidies on liquified petroleum gas, which are not affected by the implemented measures. Savings accrued from the fuel subsidy reform will create additional fiscal space for raising social assistance spending and protecting other spending conducive of growth and poverty reduction.

Ecuador and Emerging Markets: Energy Subsidies Comparison, 2018
(In US$ per liter)



Source: FADEP energy and fuel price database and IMF staff calculations.

Ecuador: Fuel Subsidies as a Share of Household Income
(In percent, by household income decile)



Source: WB, INEC, ENIGHUR 2012, and ENEMDU 2017.

16. A comprehensive tax reform is under consideration. The goals of the planned tax reform are to simplify the tax regime, reduce administrative and tax burdens on investment, and boost competitiveness and job creation. While the tax reform package is still being refined, it aims at generating additional revenue of 1.5 to 2 percent of GDP per year, consistent with program commitments. Measures to strengthen tax and customs administration, including enhancing tax enforcement by increasing the number of audits, would complement this effort.

17. The authorities are committed to strengthening the legal framework for public financial management (PFM) and fiscal rules. They have published a PFM action plan, prepared in close cooperation with IMF technical experts, and are preparing amendments to the Organic Code of Planning and Public Finances (Annex I). The reforms should help strengthen a top-down budget formulation process; limit the Executive's discretion to amend the budget approved by the National Assembly; introduce a robust framework for the use of cash management instruments; enhance budget execution through targeted reforms; and strengthen the role of the Ministry of Economy and Finance as the fiscal oversight authority. Staff has also advocated for further changes to the fiscal rules framework in line with Fund technical assistance recommendations, which includes: a) ensuring that the debt ceiling and expenditure rules apply to the consolidated NFPS; b) introducing the necessary mechanisms to support the effective operation of expenditure rule and its interaction with the constitutional golden rule; c) introducing an annual target for the NFPS non-oil primary balance; and d) suspending the accumulation of assets of the fiscal stabilization fund until the public debt ceiling becomes operational.

18. Identifying the existing stock of domestic payment arrears remains a priority. In Ecuador, arrears are not defined by law and therefore there is no requirement to collect data to monitor them nor is there a requirement to report them. The recent IMF technical assistance mission provided recommendations on taking steps to compile the current stock of payment arrears and to ensure proper arrears recording and monitoring going forward. The recommendations included: (i) introducing a legal definition of expenditure arrears; (ii) establishing a maximum payment period of 90 days for expenditures on goods and services; (iii) introducing a requirement to record, monitor and report expenditure arrears, which would entail an upgrade of the existing information system (e-SIGEF) to allow for recording of a payment due date; (iv) preparing an action plan for arrears clearance at the central government level (end-September SB); and (v) budgeting for the repayment of arrears. To reflect further findings of technical assistance, the structural benchmark on legal amendments to the Organic Code of Planning and Public Finances is proposed to be refined slightly. The authorities are working on including a legal definition of arrears in the Organic Code of Planning and Public Finances (SB June 2019), as well as upgrading the information system (SB January 2020). Under the existing accounting practices, all accounts payable are considered as arrears regardless of their due date. The authorities are working on identifying the stock of existing arrears, which according to preliminary information appear small. In addition, prompt measures are needed to properly account for existing floating debt (accounts payable) of the NFPS. This debt is not necessarily arrears as the payments may not be overdue by more than the maximum established payment period but represent legally binding payment obligations. It will be important to improve forecasting of repayments and accumulation of the floating debt on quarterly basis. IMF technical assistance will support the authorities in the identification and elaboration of an action plan for arrears clearance, strengthening commitment controls and cash management and reducing reliance on financing through floating debt over the medium term.

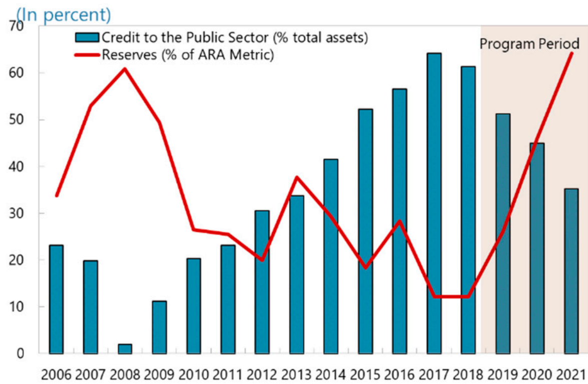
19. The authorities are working on strengthening debt management practices. Debt management in Ecuador had been until recently focused on raising funds to cover short-term financing needs, which has prevented the establishment of sound debt management practices. The domestic debt market is underdeveloped, with limited domestic investor participation and low secondary market transaction volumes. Also, debt portfolio risk-monitoring is incipient, and a medium-term, strategic vision is lacking. Continue promoting the development of local debt markets, enhancing investor relation activities, and formulating a medium-term debt management strategy could help strengthen debt management in Ecuador.

Strengthening the Institutional Framework of the Central Bank

20. The authorities are committed to strengthening the institutional foundations of the Central Bank (BCE). The main objectives of the reform are:

- to align the BCE's objectives and functions with best practices (Annex II);
- to strengthen the autonomy of the BCE by establishing an independent board that has fiduciary responsibilities to the BCE;
- to introduce strong internal and external audit function in the BCE;
- to legislate the prohibition of all quasi-fiscal operations by the BCE as well as direct and indirect lending to the government or public sector. These legal changes will make explicit the prohibition of no new gross financing by the BCE of the NFPS;
- to introduce a backing rule requiring international reserve assets to fully back deposits from other depository institutions (which include private banks) at the BCE and coins in circulation.

Ecuador: BCE Balance Sheet and Gross International Reserves



Sources: Central Bank of Ecuador and IMF staff calculations.

The program aims at boosting international reserves from its currently very low level of 12 percent of the ARA metric at end-2018 to 64 percent by 2021. This, together with the legal reforms of the BCE, will help strengthen the institutional foundations of dollarization.

Boosting Resilience of the Financial System

21. Financial sector reforms envisaged under the program are aimed at fortifying the crisis preparedness and management frameworks, removing impediments to efficient financial intermediation, and breaking the sovereign-financial linkages. The findings of a sequence of technical assistance missions from IMF already underway will inform the reform agenda, and structural conditionality for 2020–21 will reflect the key findings of these efforts. The program ranks the reform of the central bank as a fundamental pre-condition for further reforms of the financial system. Planned financial sector reforms include: (i) a regulatory upgrade for the banking system and the cooperative sector; (ii) improvement of crisis management, preparedness, and safety nets; (iii) a functioning macroprudential framework; and (iv) phasing-out of the tax on transfers abroad.[5] The authorities are already working on the reform of the banking law and supervisory framework for cooperatives. These and other financial sector reforms will require careful consideration and planning. Given the recent divergence in credit-deposit growth, reviewing macroprudential tools as well as crisis management and preparedness are key priorities.

22. Existing liquidity requirements for the banking sector represent a significant burden for intermediation and are part of the sovereign-financial link. In addition to traditional reserve requirements (segmented by bank size) and the contributions to the liquidity fund, regulation requires: (i) a minimum liquidity requirement that establishes specific minimum percentages of liquid assets to be held; and (ii) a floor on balances that must be held in domestically issued instruments. The latter imply significant obligations to hold government and public bank-issued paper. Under the program these regulations need to be phased out, and staff has recommended a gradual approach to this process. The regulation requiring minimum holdings of liquid domestic assets was redefined in June to include banks' contributions to the liquidity fund (as it was prior to 2017) as part of their compliance. This measure will increase the ability of banks (and cooperatives) to allocate their assets more freely, including through higher lending to the private sector. It is expected that, given the reduced secondary market for securities, the reallocation will take place gradually, and the BCE is committed to monitoring the impact closely. While this measure will help the recovery of intermediation towards the private sector, careful market monitoring (including lending standards, NPLs and overall liquidity) and readiness to adjust reserve requirements to graduate the impact on domestic demand and prevent undue pressures on reserves will be needed. Under the program, a macroprudential framework will provide a more structured policy response strategy to these issues.

B. Boosting Competitiveness and Job Creation

23. Structural reforms to increase competitiveness and job creation are an important element of the authorities' reform program (Figure 6). In this regard, the authorities are planning to bring forward and submit to the National Assembly in 2019 labor market reforms, together with the tax, PFM, and central bank reforms. While elements of labor reform are still being refined they are aimed at reducing hiring costs for entrepreneurs and reducing rigidities and labor informality as well as increasing female labor force participation.

24. Female labor force participation in Ecuador is relatively high by international standards, but significant gender gaps in labor markets persist. The female labor force participation rate increased in recent years and fares well in international comparison. However, women are still significantly less likely to participate in the labor market than men (Figure 5). The observed difference in average hourly wages between men and women is relatively low, but this simple difference does not consider differences in individual characteristics between men and

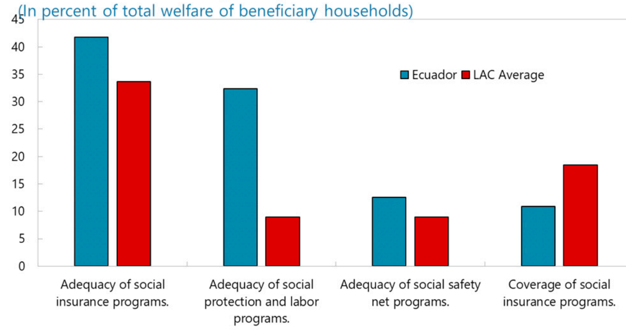
[5] The taxes on transfers abroad is both a capital flow management measure (CFM) under the IMF's Institutional View on Liberalization and Management Capital Flows (IV) and an exchange restriction subject to Fund approval under Article VIII. The authorities are committed to phasing out the tax on transfers abroad as macroeconomic stability is restored and the reserves position is strengthened (see MEFP¶6).

women. When accounting for differences in education, age, and geographic location, women tend to receive lower hourly wages than men with similar characteristics, with this gender wage gap reaching 12 percent and 24 percent in the formal and informal sectors, respectively (Annex III). The authorities are committed to strengthening policies to reduce gender gaps in labor markets. These include policies supporting families with young children, childcare provision, as well as retraining and job placement programs, which give priority to women. In addition, some of the proposed labor market reforms, such as the introduction of less rigid contractual arrangements, as well as policies supporting the growth of the services sector should support greater female labor force participation. The authorities are also planning to raise awareness about women rights (including economic and property rights) and have expressed their strong commitment to the reduction of gender-based violence, as demonstrated by the 2018 Comprehensive Organic Law to Prevent and Eradicate Gender Violence against Women.

C. Promoting Shared Prosperity and Protecting the Poor and Most Vulnerable

25. The authorities reaffirmed their commitment to strengthening the social safety net to ensure that the most vulnerable households are protected. While Ecuador compares favorably to large Latin American countries on the adequacy of social programs, coverage remains low. Social assistance programs are targeted at the bottom 20 percent of the income distribution and are centered around six cash transfer programs that span the life cycle.

Ecuador and LAC: Social Spending 1/
(In percent of total welfare of beneficiary households)



Sources: Ministry of Finance, World Development Indicators, and IMF staff Calculations.
1/ Latest available data.

26. To strengthen the social safety net, the authorities are focusing their efforts on expanding the coverage of social assistance and increasing spending for the disabled. To reduce errors of exclusion on social assistance programs, the authorities are working on upgrading and expanding the Social Registry. A recent Presidential Decree created a new institute that will oversee and manage the expanded Social Registry, in collaboration with the World Bank. This is a first step to the planned extension of coverage of the *Bono de Desarrollo Humano* targeted transfer program, which currently covers just about 40 percent of households living below the poverty line. The authorities are also focused on expanding social assistance for the disabled through *Misión Las Manuelas 2.0*, a program that aims to provide integrated social assistance services in addition to cash transfers for the disabled (*Bono Personas con Discapacidades*) as well as their primary caretakers (Bono Joaquín Gallegos Lara). The authorities are also exploring, in consultation with the World Bank, how best to supplement the existing social assistance programs to cover an additional 37,000 poor and vulnerable households in 2019, and introduce new programs directed at beneficiaries that are not yet covered by the existing social safety net.

D. Improving Transparency and Governance

27. Efforts are underway to increase fiscal transparency. The authorities' plans for a publication of quarterly fiscal reports consistent with program definition would facilitate monitoring of the budget execution vis-à-vis program targets. Progress is also being made towards increasing the fiscal transparency of the state-owned oil companies (end-June SB). Finally, adopting the reforms aimed at strengthening PFM and central bank governance should further strengthen governance and reduce vulnerabilities to corruption.

28. Concrete actions to address corruption should start materializing soon. The transitional Citizens' Participation and Social Control Council is completing its mandate; it evaluated past performance, designated new authorities in key anticorruption institutions, and is producing final recommendations. With new authorities in key offices, the last months have mostly been dedicated to stocktaking. The President recently designated an Anticorruption Secretary to lead the Executive's agenda and established an International Experts Commission to support anticorruption efforts and international cooperation. In the coming months, the authorities plan to take concrete actions to enhance the anticorruption legal and institutional framework, including by (i) submitting to the National Assembly revisions to the anticorruption legal framework (end-September structural benchmark); (ii) strengthening anticorruption institutions ensuring effective coordination and collaboration efforts; and (iii) starting the work on enhancing the asset declaration regime in line with international good practices.

29. The AML/CFT framework should support anticorruption efforts. The forthcoming development of an AML/CFT national risk assessment will help prioritize efforts to mitigate risks. In parallel, the authorities should ensure that banks and other relevant entities effectively monitor their business relationships with politically exposed persons, to prevent the laundering of proceeds of acts of corruption. In this regard, it is key to implement a risk-based approach to AML/CFT supervision.

PROGRAM MODALITIES AND RISKS

30. The program remains fully financed and Ecuador's capacity to repay remains adequate. The program now incorporates additional external bilateral financing of US$500 million in 2019 and remains to be fully financed in 2020-2021. Some of the revisions in financing affected both amortizations and disbursements, for example, the recent liability management operation and financing from FLAR. Higher net financing needs of US$500 million stem from the larger-than-anticipated fiscal deficit (US$315 million), higher repayment of domestic obligations, including a triangular transaction with the central bank and a public bank CFN, repayment of the credit line (Convenios de Liquidez) to the public electricity company, as well as other net domestic obligations (about US$1 billion), and higher external debt amortizations (US$150 million), which are partially offset by higher net financing from multilaterals, including France Development Agency (US$140 million) and lower accumulation of NFPS deposits (US$820 million). The liability management operation that took place in June included an exchange of about US$1.2 billion of government bonds maturing in 2020 for bonds maturing in 2029. The remainder of US$0.3 billion out of the total outstanding amount of US$1.5 billion of bonds maturing in 2020 will be amortized as scheduled earlier, in March 2020. The indicators of IMF credit remain in line with those forecasted at the time of program approval (Table 11).

31. The authorities request modifications of the performance criteria on NOPBS, NIR and social assistance spending, changes in the definition of NIR and social assistance spending, as well as an introduction of adjustors to provide a cushion against changes in oil prices.

- *NOPBS targets:* while the target for the second quarter of 2019 remains unchanged, the targets for the third and fourth quarters are more ambitious than at the time of program approval, reflecting the upward revision to the base (2018) while maintaining the unchanged size of consolidation between the years.

- *NIR targets:* Downward revisions of the end-June and end-September PCs are proposed. This is partly to better reflect the seasonality of payments to domestic suppliers; about US$1 billion is expected to be repaid to suppliers in the first half of the year, with an accumulation of accounts payable of a similar magnitude occurring in the second half. A higher deficit in the overall balance due to lower oil production will also imply a different path for NFPS deposit accumulation at the central bank through 2019; the overall balance is projected to be about US$830 million lower in Q2 and US$746m lower in Q3, compared with the original program. The end-December target remains in line with the original program due to the offsetting accumulation of accounts payable in 2019H2 and other movements on the central bank balance sheet which will increase NIR (including repayments of credit by public banks and higher deposits of public entities outside of the NFPS). The NIR targets will also be revised in line with the new definition (below).

- *NIR definition.* Staff proposes revising the definition of the program NIR measure to exclude certain components that are outside the direct control of the authorities and short-term liabilities of the *central* government, which do not constitute freely usable reserves to defend against shocks. While the current definition excludes only the deposits of depository institutions from the calculation of NIR, in staff's view, the deposits of other financial institutions should also be excluded from the program definition.[6] This would align the program measure of NIR more closely with the accumulation of savings by the non-financial public sector at the central bank.

- *Social spending definition and targets.* The technical definition of social assistance has been revised to reflect more accurately the contours of the social safety net. The revised definition includes social assistance spending on seven (instead of six) cash transfer programs for poor and vulnerable households, social services provided to those beneficiaries, and direct monitoring and *implementation* costs. It also continues to reflect spending on the Social Registry. The expanded

[6] These deposits belong to (i) the deposit insurance corporation (COSEDE), (ii) a transitory payments system account for payment between the public and private sectors, (iii) the reserves of CFN, a public bank, and (iv) private sector non-bank entities. Deposits related to the social security system and the social security bank (BIESS), which are also included in Other Financial Institutions in the monetary statistics, are part of the NFPS and therefore should not be excluded from NIR.

definition will include spending on in-kind transfers for mobility devices and services for over 66,000 disabled beneficiaries and on child development centers for over 250,000 poor and vulnerable infants up to age 3; both programs also support female labor force participation. Program targets were revised to be aligned with the new definition, while preserving the ambitious fiscal effort included in the original commitment.

- *Oil Price Adjustor.* To compensate for unexpected deviations in oil prices and avoid procyclicality in the fiscal stance, the mission will propose a symmetric adjustor to the NOPBS and to NIR targets to accommodate small (below US$5 per barrel) and temporary (one quarter) oil price fluctuations. The adjustor will be calculated per each US$ deviation of the actual simple average oil price of dated Brent, West Texas intermediate, and the Dubai *Fateh* from the most recent reference price in the TMU and will be capped at US$119.33 million for the target on NOPBS and at US$108.5 million for the NIR target per quarter. Larger and more persistent deviations (more than one quarter) of the oil prices from the forecast will continue to be handled in the course of quarterly program reviews.

32. Safeguards assessment. An update safeguards assessment, which was finalized in June 2019, provided recommendations on restoring the autonomy of the BCE as well as strengthening the credibility of the dollarization regime. Key recommendations included: (i) legal reforms to strengthen the BCE's institutional framework; (ii) the establishment of a new governance arrangement (i.e., a Board and an Audit Committee); (iii) the enhancement of transparency through the adoption of International Financial Reporting Standards and the publication of the full set of audited financial statements; and (iv) the restoration of the internal audit function. The draft legal amendments prepared with IMF technical assistance and submitted to Cabinet, incorporate safeguards recommendations on governance, autonomy and accountability.

33. Financing assurances. The authorities continue to make good faith efforts to resolve outstanding arrears to external private creditors. A total of around US$52 million (including accrued interest) remains outstanding to international private bondholders from those international bonds that the authorities repudiated in 2008/2009, the majority of which were subsequently repurchased by the government.[7] Staff is of the view that, based on the authorities' actions, they are making good faith efforts as required under the Fund's Lending into Arrears policy.

34. Exchange Restrictions. During the first program review, staff followed up on the existing exchange restriction arising from the 5 percent tax on transfers abroad (*impuesto a la salida de divisas*) when making of payments and transfers on current international transactions.[8] In line with the authorities' commitment, they are currently preparing studies on phasing out this tax. During these discussions, one new exchange restriction was identified arising from the SUCRE (*Sistema*

[7] The authorities' advisors continue to negotiate with bondholders that have been identified, while litigation initiated by one bondholder continues.

[8] This exchange restriction was temporarily approved by the Board until March 2020.

Unitario de Compensación Regional de Pagos)[9] regional payments arrangement.[10] This exchange restriction has no implications for the standard continuous PC on the non-imposition or non-intensification of exchange restrictions since it predates the EFF arrangement. Staff does not recommend approval of the exchange restriction arising from the SUCRE mechanism, since it is discriminatory.

35. Risks. The economic outlook and program implementation are subject to a number of downside risks:

On the external side:

- a sharp fall in oil prices, which could necessitate a larger and more accelerated economic adjustment, would weigh on incomes and job creation; on the other hand, an unexpected increase in oil prices would be an upside risk.
- an unanticipated tightening of global financing conditions coupled with an appreciation of the U.S. dollar would undermine competitiveness and exacerbate external vulnerabilities;
- weaker-than-anticipated global growth, including due to rising protectionism, would reduce the demand for exports and put further strains on the external position.
- continued labor migration from Venezuela could put pressure on health and education spending, worsen labor market indicators, and increase informality.

On the domestic front:

- a complicated political landscape could increase political and social opposition to the reforms contemplated under the program. The authorities' plan of bringing forward some key reforms carries two-way risks. If they are successful, it would yield a significant boost to confidence. If the strategy backfires, it could affect adversely market sentiment. The recent changes in the composition of the National Assembly mitigate this risk and create a window of political opportunity for passing the needed reforms. It will be important that policy changes are carefully calibrated and well-communicated to garner societal consensus.
- shortfalls in oil production, including due to the delays in ramping up production at the Ishpingo oil field, could negatively affect oil revenue.
- weak expenditure controls, including a large stock of accounts payable (both year to year and intra-year), could undermine program targets and counteract the authorities' efforts to rein in fiscal spending.

[9] Unitary System of Regional Compensation of Payments.

[10] The payments arrangement gives rise to an exchange restriction since the period for settlement under the bilateral payment arrangement exceeds three months. See Decision No. 10749-(94/67).

- frequent and large data revisions due to weak fiscal data accounting and reporting generate a risk for program monitoring.

- composition of the NIR target in 2019 now includes a sizeable component emanating from changes in the central bank balance sheet, not related to public sector deposits, such as repayment of credit by public banks, and the reversal of the BIS gold loan. While most of these changes have already been realized, there is a risk that some of these gains may be reversed.

The program envisions several mechanisms for managing these risks. In particular, for small and temporary shortfalls in oil revenue due to lower-than-expected oil prices, the program incorporates an adjustor. Beyond the adjustor-related provision, temporary and further small shortfalls in oil revenue may need to be accommodated by some relaxing of program targets for NIR. However, if oil revenue shortfalls prove to be large and more persistent, additional fiscal consolidation may be warranted and could have broader implications for program design. Weaker global growth, tighter global financing conditions, and spillovers from Venezuela may require (absent additional external financing related to Venezuela) further adjustment and more expedient implementation of growth-friendly structural reforms. Weak expenditure controls and frequent data revisions will be addressed as part of the public financial management and transparency reforms, which are being undertaken with the support of IMF technical assistance, including through the changes to the organic code of budget and planning. Staff and the authorities will also carefully monitor movements in the central bank balance sheet and identify contingency measures, which could help safeguard NIR program targets, if the realized gains from other items on the central bank balance sheet fall short of program expectations.

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36. While growth has decelerated, external financing conditions have improved. Real GDP grew by 1.4 percent in 2018 but signs of a broad-based deceleration emerged in the last quarter of the year. Preliminary indicators suggest continued slowdown in early 2019 and there are signs of weakening labor market conditions. The external position deteriorated in 2018, in part due to strong imports growth and one-off factors but is expected to strengthen in 2019. Inflation remains subdued. External financing costs have declined sharply on the back of increased oil prices and IMF program approval.

37. Restoring fiscal prudence remains a key priority in reinforcing institutional foundations for dollarization and supporting growth. The authorities remain committed to efforts to rationalize the public sector wage bill. This will not only help put public debt on a sustainable path, but also help strengthen Ecuador's external competitiveness. Gradual optimization of fuel subsidies while shielding vulnerable groups would also help restore fiscal sustainability. A tax reform aimed both at raising revenue and at making the tax system more efficient, simple, and equitable will assist in mobilizing resources and strengthening growth.

38. Strengthening the legal framework for public financial management and fiscal rules will help safeguard fiscal sustainability in the longer term. Planned reforms would help strengthen budget formulation and execution, including a robust cash-management framework, reduce discretion, strengthen fiscal oversight and controls, and introduce a robust fiscal rules' framework. Identifying the existing stock of domestic payment arrears remains an urgent priority. Developing strategic medium-term vision of debt management and taking steps to develop domestic debt market will help reduce borrowing costs and allow for a more efficient resource allocation.

39. The authorities remain strongly committed to promoting shared prosperity and protecting the poor and most vulnerable. Staff strongly supports authorities' efforts to upgrade the social registry, expand the coverage of social assistance, and increase spending for the disabled. Staff is also encouraged by the authorities' plans to supplement the existing social assistance programs, targeted largely at the extreme poor, with the new program directed at those who might be affected by the fiscal adjustment measures but are not covered by the existing social safety net.

40. Strengthening the institutional framework of the central bank (BCE) will further help buttress dollarization. The reform aims at aligning BCE objectives and functions with best international practices while taking into account particularities of a dollarized regime, strengthening autonomy and governance of the BCE, boosting and safeguarding international reserves. These reforms will support the program objective of rebuilding international reserves.

41. Fortifying the financial system will help safeguard financial stability and improve the efficiency of financial intermediation. While the financial sector appears stable, the divergence between credit and deposit growth warrants vigilance. System-wide financial sector indicators appear adequate, but liquidity conditions are tightening. While recent modifications to the liquidity regulation will help support intermediation, staff encourages the authorities to carefully monitor the situation and raise reserve requirements promptly if signs of weakening in international reserve position, acceleration of credit growth, and cross-border flows emerge. Staff also strongly supports authorities' financial sector reform plans, which include: (i) a regulatory upgrade for the banking system and the cooperative sector; (ii) improvement of crisis management, preparedness, and safety nets; (iii) a functioning macroprudential framework; and (iv) phasing-out the tax on transfers abroad.

42. Structural reforms will help boost competitiveness and create jobs. Staff supports authorities' efforts to improve the functioning of the labor market through measures aimed at reducing hiring costs and reducing rigidities, reducing labor informality and increasing female labor force participation. The labor reform should be carefully designed in consultation with various stakeholders to generate conditions for a dynamic and robust labor market. The development of the framework for PPPs and asset monetization can help improve efficient resource management, reduce fiscal costs, and increase productivity and growth.

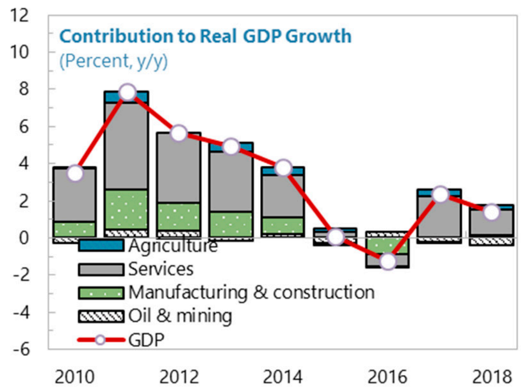
43. Staff welcomes authorities' efforts to restore transparency and good governance. Efforts to increase fiscal transparency, including in state enterprises, will help reduce vulnerabilities to corruption and help safeguard public resources. Staff is encouraged by the plans and ongoing work towards compliance with United Nations Convention Against Corruption (UNCAC) and Financial

Action Task Force (FATF) standards to combat corruption and AML/CFT, and towards adopting an anti-corruption legislation. Continued strengthening of anticorruption institutions and tools, such as the asset declaration regime, will be important.

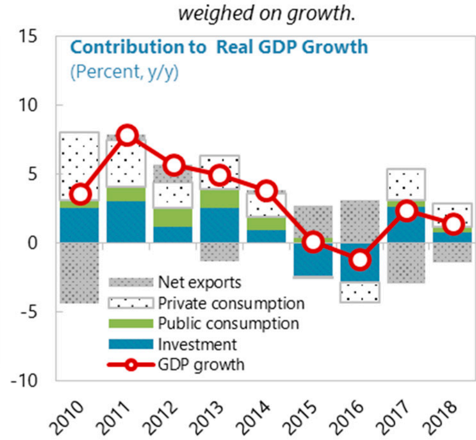
44. The authorities have demonstrated strong commitment to their economic reform program. They have taken difficult measures to rationalize the public sector wage bill and reduce fuel subsidies, which are yielding results, while efforts are under way to strengthen protection of vulnerable groups. Steadfast progress on public financial management reform and the reform of the central bank are laudable. As such, performance under the Fund-supported program remains on track and staff fully supports the authorities' requests for a waiver on the continuous performance criterion on no new gross direct or indirect central bank financing to the NFPS, modification of the performance criteria on the non-oil primary balance, social spending, and net international reserves, as well as the completion of the first review under the Extended Fund Facility Arrangement.

Figure 1. Ecuador: Recent Economic Developments

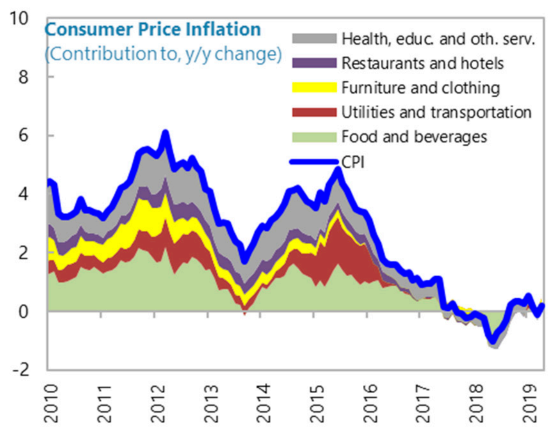
Real GDP growth decelerated to 1.4 percent in 2018...



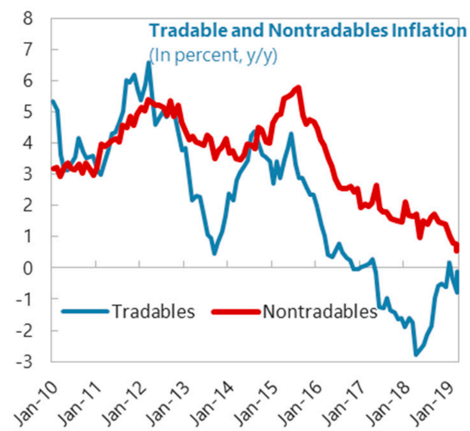
... as cuts in public investment and high imports weighed on growth.



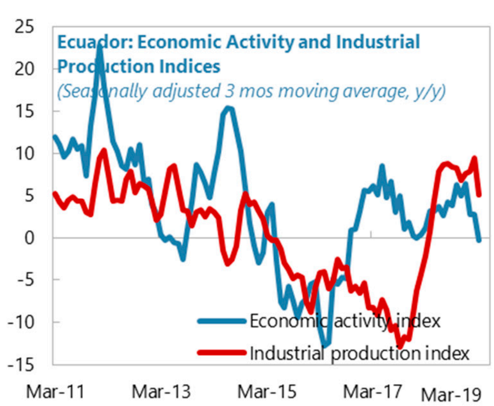
The recent uptick in inflation was not sustained...



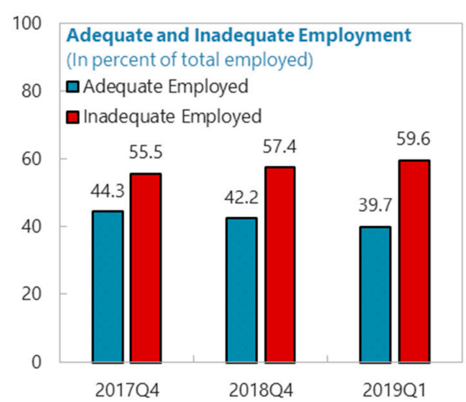
...with continued deflation in tradable goods.



In 2019Q1, industrial production showed signs of moderating and economic activity remained sluggish.



...while job quality in the labor market has been declining.

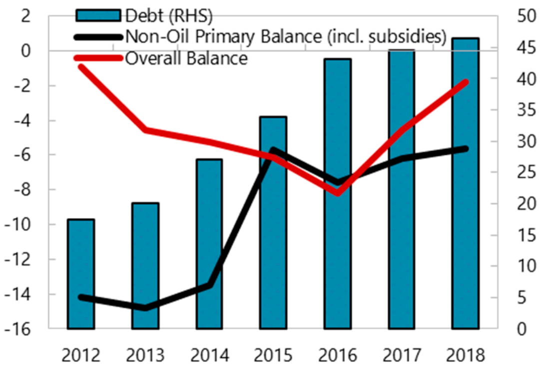


Sources: Central Bank of Ecuador, National Statistical Institute of Ecuador (INEC), World Economic Outlook Database, and IMF staff calculations.

Figure 2. Ecuador: Fiscal Developments

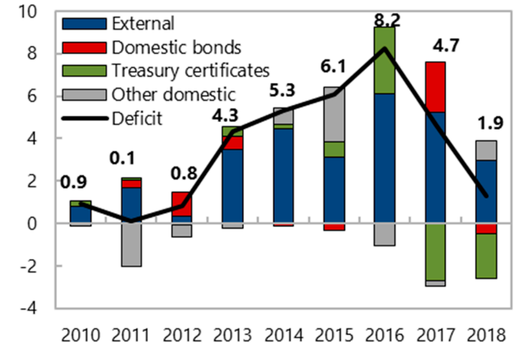
Despite declining fiscal deficit over the past two years, public debt continued rising.

Debt and Fiscal Deficit
(In percent of GDP)



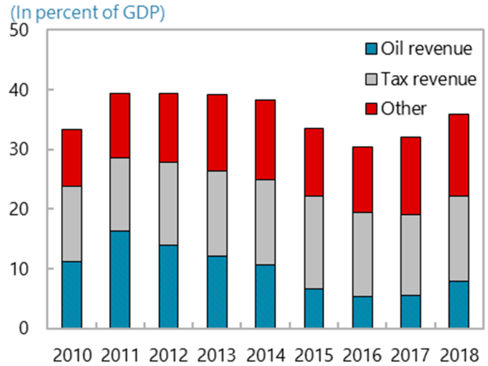
The deficit was financed largely by the external bonds issuance.

Fiscal Deficit and Financing Sources
(US$ Billions)



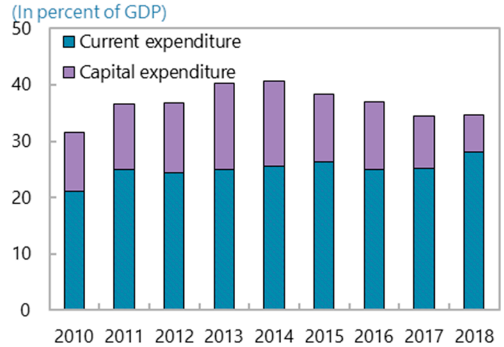
The recovery in oil revenues supported deficit reduction...

Revenues
(In percent of GDP)



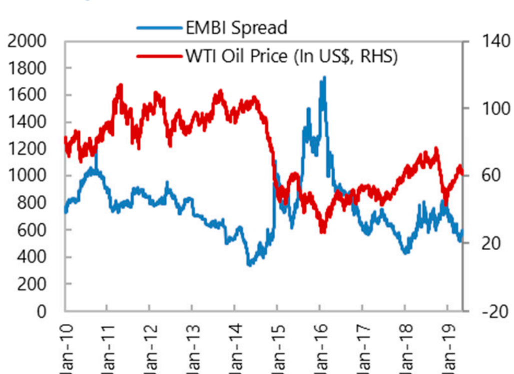
... while capital expenditure contraction helped offset the increase in current primary spending.

Primary Expenditures
(In percent of GDP)



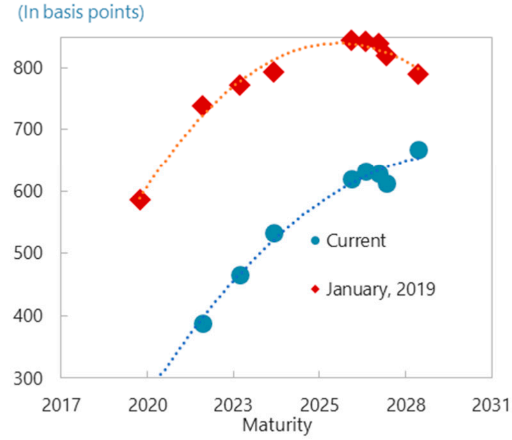
Since the beginning of 2019, the EMBI spread has fallen sharply, in part, due to rising oil prices...

EMBI Spread and Oil Price



...though the yield curves have steepened.

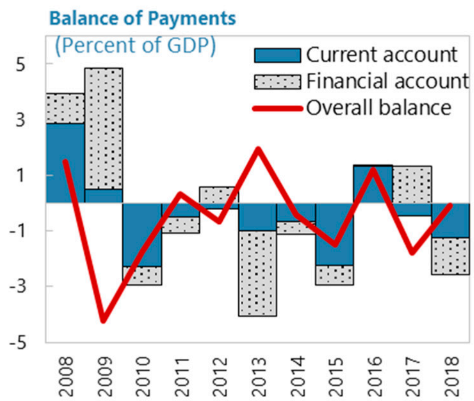
Ecuador Yield Curves
(In basis points)



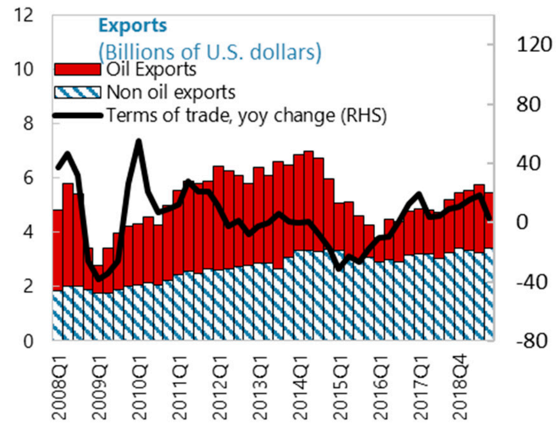
Sources: Central Bank of Ecuador, Ministry of Finance, Haver, Bloomberg, and IMF staff calculations.

Figure 3. Ecuador: A Vulnerable External Position

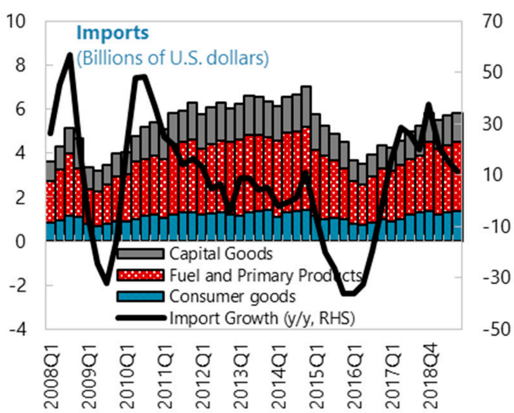
The current account deficit widened in 2018...



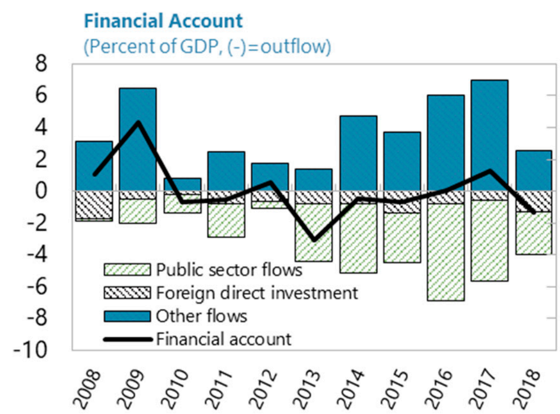
...as the increase in oil exports...



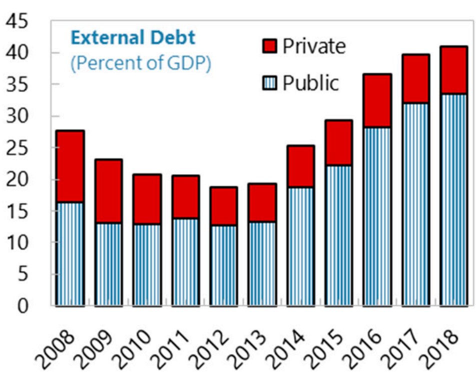
... was more than offset by rising imports, in part, due to the removal of BOP safeguards.



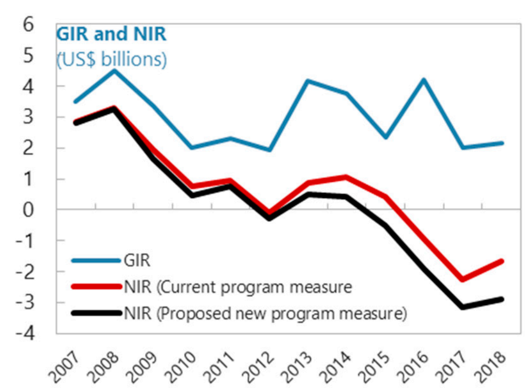
Higher FDI and lower private sector outflows financed a rising deficit.



External debt increased only slightly..

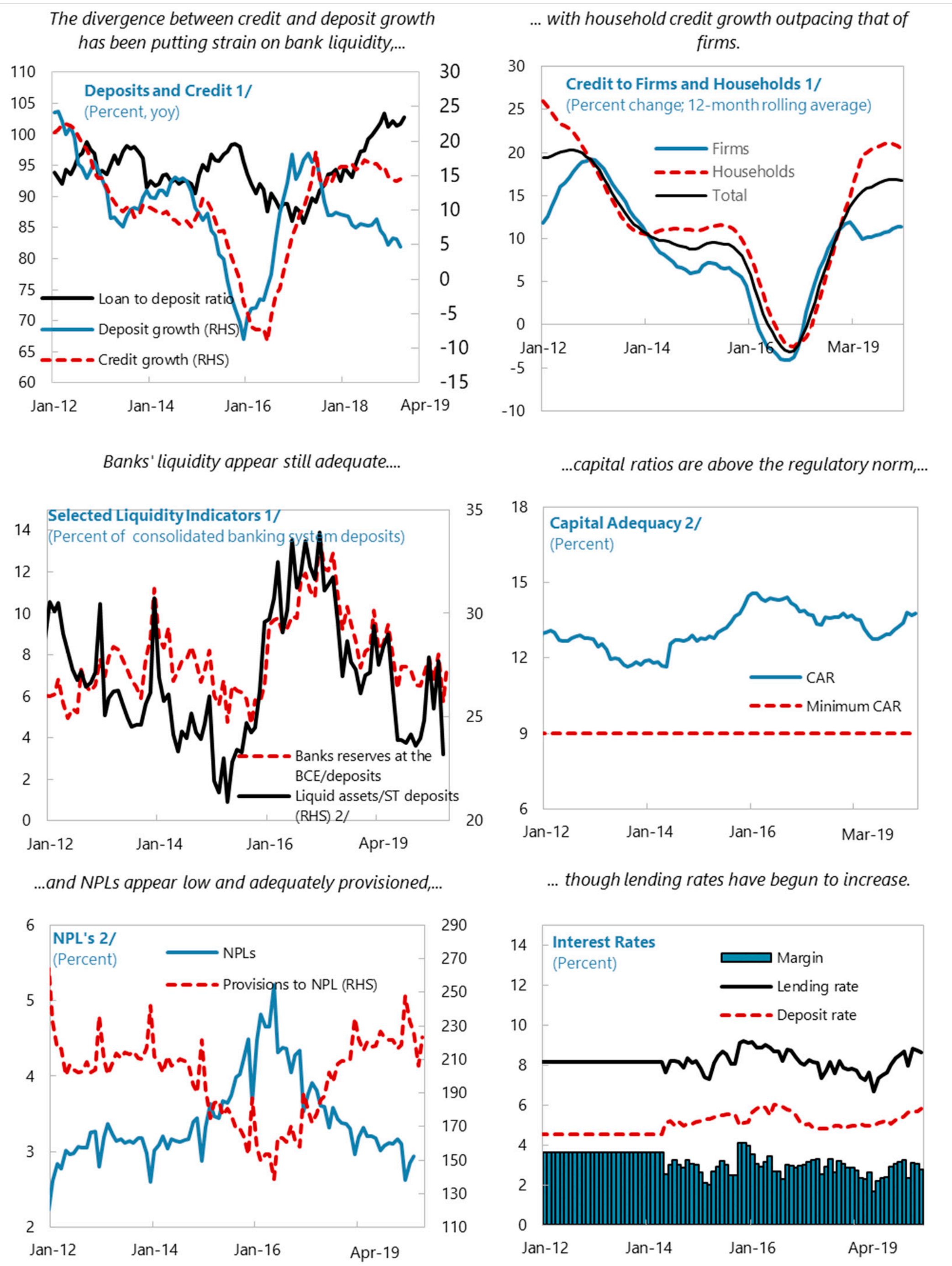


Net international reserves remained negative.



Sources: Central Bank of Ecuador and IMF staff calculations.

Figure 4. Ecuador: The Financial System Has Recovered



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

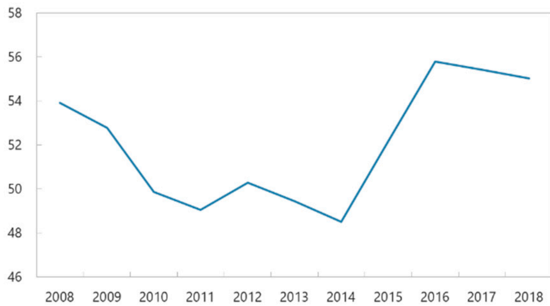
1/ Loan to deposit data corresponds to Other Depository Institutions, which include private banks, *Banecuador*, *Banco del Pacifico*, private financial companies, mutualists, cooperatives, and credit card companies. While credit and deposit data corresponds to the whole financial system.

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

Figure 5. Ecuador: Labor Force Gender Issues

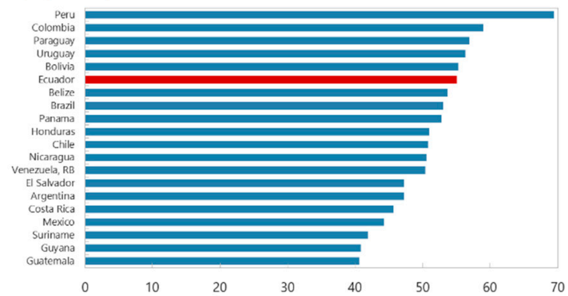
Female labor force participation in Ecuador has increased in recent years…

Ecuador: Female Labor Force Participation Rate
(In percent)



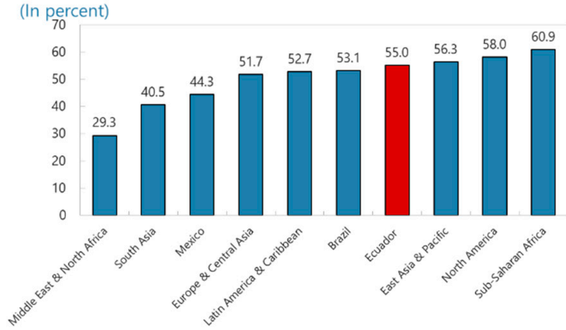
…and ranks high in LAC…

LATAM: Female Labor Force Participation Rate, 2018
(In percent)



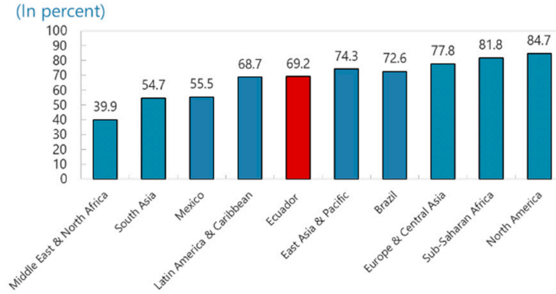
…and above average in a broader international comparison.

Regional+Ecuador: Female Labor Force Participating Rate, 2018
(In percent)



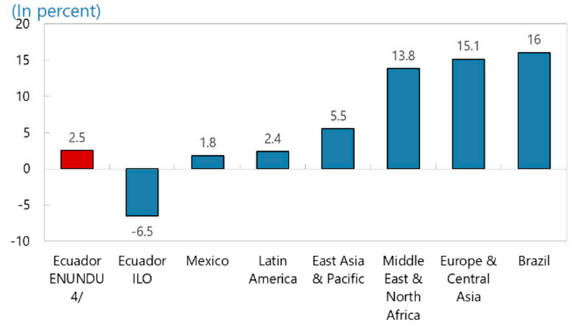
Nevertheless, female labor force participation remains significantly below male labor force participation.

Regional+Ecuador: Relative Female Labor Force Participation, 2018 1/
(In percent)



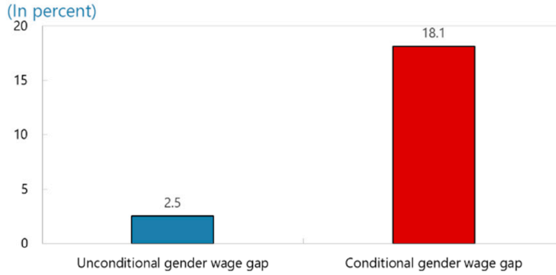
The difference in hourly wages between men and women on average is relatively low in Ecuador…

Regional+Ecuador: Hourly Gender Wage Gap 2/ 3/
(In percent)



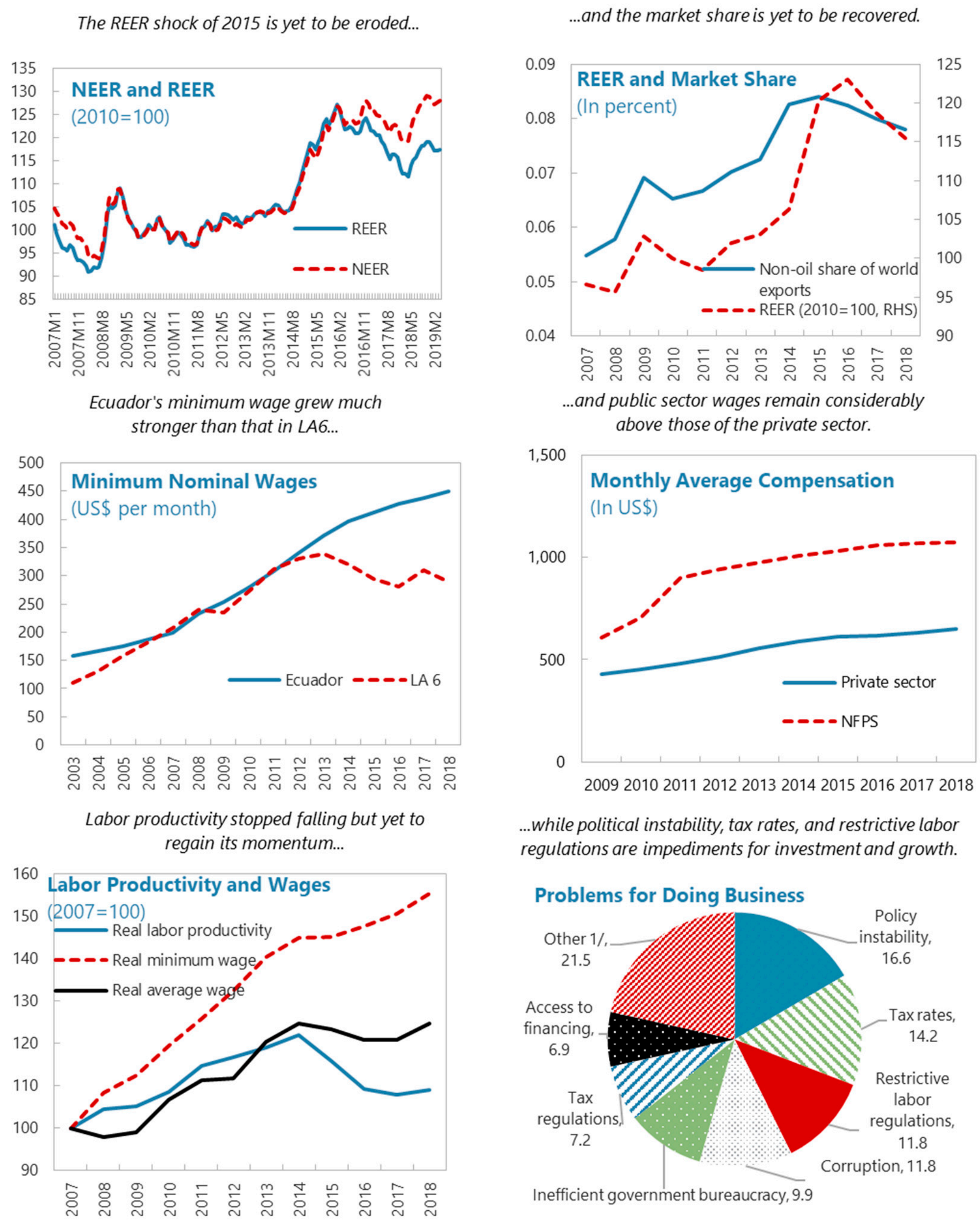
…but wage differences are larger once we take into account differences in education and other individual characteristics

Ecuador: Hourly Gender Wage Gap, 2017 5/
(In percent)



Sources: Instituto Nacional de Estadística y Censos (INEC), International Labor Organization (ILO), World Bank Development Indicators, and IMF staff calculations.
1/ Relative female labor force participation is calculated as the ratio of female to male labor force participation rates.
2/ Hourly wage gap is calculated as the difference between average hourly earnings of men and average hourly earnings of women as a percentage of average hourly earnings of men.
3/ Regional averages based on data from 65 countries, latest available data in the period 2014-2017 used.
4/ Ecuador data comes from two sources: 2017 ENENDU survey from INEC and ILO. Regional data comes from ILO.
5/ The unconditional hourly wage gap is calculated as the difference between average hourly earnings of men and average hourly earnings of women as a percentage of average hourly earnings of men. The conditional hourly wage gap is estimated as the difference in (log) hourly wages between men and women, controlling for categorical variables for age, education, and geographic location.

Figure 6. 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 4. Ecuador: Selected Economic and Financial Indicators

	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
				Prel.	Est.	Prog. 1/			Projections			
Social Indicators												
Life expectancy at birth (years)	75.9	76.1	76.3									
Infant mortality (per thousand live births)	13.4	13.0	12.7	12.5								
Adult literacy rate	94.2	94.5	94.4									
Poverty rate at national line (total)	22.5	23.3	22.9	21.5	23.2							
Unemployment rate	3.8	4.8	5.2	4.6	3.7	4.3	4.3	4.7	4.8	4.6	4.4	4.2
Population (millions)	16.0	16.3	16.5	16.8	17.0	17.3	17.3	17.5	17.8	18.0	18.3	18.5
				(Percent change, unless otherwise indicated)								
National income and prices												
Real GDP	3.8	0.1	-1.2	2.4	1.4	-0.5	-0.5	0.2	1.6	2.7	2.5	2.5
Domestic demand (contribution to growth)	3.6	-2.2	-4.3	5.3	2.8	-3.5	-2.9	-0.9	1.1	2.6	2.4	2.5
External Demand (contribution to growth)	0.2	2.3	3.1	-3.0	-1.4	3.1	2.4	1.1	0.5	0.1	0.1	0.0
Consumer price index period average	3.6	4.0	1.7	0.4	-0.2	0.6	0.4	1.2	1.7	1.3	1.2	1.1
Consumer price index end-of-period	3.7	3.4	1.1	-0.2	0.3	0.5	0.6	1.4	1.5	1.3	1.1	1.1
Banking system												
Net domestic assets	20.7	1.4	20.6	18.3	7.5	-2.9	-4.9	-1.7	0.0	10.9	8.2	8.9
Liabilities	11.0	-6.2	21.3	9.4	4.6	2.8	3.4	5.0	7.6	8.5	8.1	8.1
Credit to the private sector	8.7	-3.4	6.2	16.4	14.9	4.4	7.3	6.6	9.4	8.3	8.0	8.3
External sector												
Exports	4.8	-25.9	-8.7	11.5	13.1	0.1	1.6	2.2	2.3	3.0	3.1	3.6
Oil	-5.9	-49.8	-18.0	26.6	27.3	-8.7	-7.2	-3.0	1.9	-4.0	0.1	0.6
Non-oil	16.0	-7.0	-3.4	6.2	4.9	5.6	7.3	4.9	2.2	6.6	4.3	4.8
Imports	2.0	-20.8	-20.3	18.6	13.4	-6.5	-5.2	-0.8	1.7	3.6	3.5	3.7
Terms of trade	0.9	-13.4	0.7	7.6	8.4	-3.8	-1.4	-0.6	-1.0	-0.6	-0.7	-0.5
Real effective exchange rate (2010=100)	106.3	120.3	123.0	118.7	115.4							
Real effective exchange rate, end-of-period (depreciation, -)	3.2	13.2	2.2	-3.5	-2.8							
						(Percent of GDP)						
External current account balance	-0.7	-2.2	1.3	-0.4	-1.3	0.4	0.5	1.4	1.7	1.7	1.8	1.9
Public finances												
Revenue	38.4	33.6	30.3	32.0	35.9	35.2	34.7	37.3	34.9	34.3	34.2	34.2
Expenditure	43.6	39.7	38.6	36.5	37.1	35.2	35.0	34.1	32.2	31.6	31.3	31.4
Overall balance (deficit -)	-5.2	-6.1	-8.2	-4.5	-1.2	0.0	-0.3	3.2	2.8	2.7	2.9	2.8
Non-oil primary balance	-7.4	-4.0	-6.7	-4.1	-1.9	-1.5	-1.0	0.9	1.4	1.3	1.4	1.2
Non-oil primary balance (incl. fuel subsidies)	-13.5	-5.7	-7.6	-6.1	-4.9	-3.3	-2.9	-1.0	0.1	0.0	0.1	0.0
Public debt 2/	27.1	33.8	43.2	44.6	45.8	49.2	48.4	47.4	45.7	41.3	37.1	33.0
Domestic	8.4	11.5	15.0	12.6	12.3	12.5	11.7	11.4	10.4	10.0	8.2	7.3
External	18.7	22.3	28.1	32.0	33.5	37.3	36.7	36.0	35.3	31.4	28.8	25.8
Saving-investment balance												
Consumption	73.3	75.9	74.5	74.5	74.3	85.0	74.2	73.6	73.5	73.3	73.3	73.3
Private	59.0	61.4	59.9	59.9	59.7	59.6	60.5	60.5	60.7	60.5	60.5	60.5
Public	14.3	14.4	14.6	14.6	14.6	25.5	13.7	13.1	12.8	12.8	12.8	12.8
National saving	27.6	24.6	26.3	25.9	24.7	26.2	25.0	25.8	26.1	26.5	26.7	26.8
Private	17.1	17.9	22.5	20.8	19.0	19.0	18.9	16.4	17.8	17.8	17.9	18.1
Public	10.1	6.5	3.8	5.0	6.3	7.2	6.7	10.0	8.9	9.3	9.4	9.3
Gross investment	28.3	26.9	25.0	26.3	26.0	25.8	24.5	24.4	24.4	24.7	24.8	24.9
Private 3/	13.6	14.5	12.6	16.3	18.8	18.5	18.2	18.2	18.8	18.5	18.8	18.8
Public	14.8	12.3	12.4	10.0	7.2	7.3	6.3	6.2	5.6	6.2	6.1	6.1
Memorandum items:												
Nominal GDP (US$ millions)	101,726	99,290	99,938	104,296	108,398	106,289	107,778	109,020	112,238	116,586	120,678	124,916
GDP per capita (US$)	6,347	6,099	6,046	6,217	6,368	6,155	6,241	6,226	6,321	6,475	6,609	6,746
Gross international reserves (US$ millions) 4/	3,762	2,351	4,216	2,006	2,158	4,999	4,679	8,446	11,947	12,528	13,750	14,837
Gross international reserves (as a percent of ARA metric)	29	18	28	12	12	28	26	46	64	67	72	78
Net international reserves (current definition) 5/	1,065	423	-961	-2,271	-1,677	1,419	1,422	4,867	8,240	8,507	9,403	10,137
Net international reserves (new definition) 6/	..	..	..	-3,293	-2,895	..	237	3,668	7,006	7,225	8,075	8,763
Underlying reserves 7/	..	..	..	-2,271	-1,677	21	27	2,078	4,056	4,322	5,293	6,318
Oil price Ecuador mix (US$ per barrel)	84.0	42.1	34.5	45.6	60.4	47.8	52.0	51.9	51.1	50.6	50.6	50.9
Oil production (millions of barrels)	203.1	198.2	200.7	193.9	188.8	206.2	194.0	194.0	201.6	194.3	194.3	194.3
Exports of oil (millions of barrels) 8/	157.5	156.9	156.6	150.9	145.1	167.4	156.4	152.1	157.3	152.4	152.4	152.4

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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 public debt estimates are preliminary and subject to revisions in accordance with the IMF's Government Financial Statistics Manual.

3/ Includes inventories.

4/ GIR excludes non-liquid and encumbered items included in the authorities' measure of GIR.

5/ Net international reserves (current definition) is equal to gross international reserves less outstanding credit to the IMF (excl. budget support), short-term foreign liabilities of the BCE, and deposits of other depository institutions at the central bank.

6/ Net international reserves (new definition) is equal to gross international reserves less outstanding credit to the IMF (excl. budget support), 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.

7/ Underlying reserves refers to NIR (current definition) less outstanding obligations of the treasury to the IMF.

8/ Includes both crude and derivatives

Table 5a. Ecuador: Operations of the Nonfinancial Public Sector (Net Accounting)
(Millions of U.S. dollars, unless otherwise indicated)

				Prel.	Est.	Prog. 1/	Projections					
	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
Revenue	**39,032**	**33,322**	**30,314**	**33,426**	**38,866**	**37,465**	**37,449**	**40,670**	**39,226**	**40,013**	**41,242**	**42,690**
Oil revenue, net 2/	10,906	6,487	5,402	5,840	8,621	7,649	7,676	8,648	7,626	7,240	7,232	7,486
Revenue from oil exports	8,857											
Domestic sales of oil derivatives (CADID)	2,049											
Nonpetroleum revenue	23,939	25,758	24,294	25,473	27,644	27,035	27,155	29,002	29,331	30,419	31,570	32,776
Taxes	14,460	15,588	14,017	14,078	15,422	14,091	14,148	15,815	16,576	17,109	17,796	18,511
Social security contributions 3/	4,718	5,057	4,741	5,414	5,553	5,548	5,521	5,585	5,750	5,972	6,182	6,399
Other	4,761	5,113	5,535	5,981	6,670	7,395	7,486	7,603	7,006	7,338	7,592	7,867
Operating surplus of public enterprises	4,187	1,076	618	2,113	2,600	2,780	2,618	3,020	2,270	2,353	2,440	2,531
O/w profits of oil companies withheld for investment	3,999	833	487	2,077	2,535	2,780	2,518	3,020	2,270	2,353	2,440	2,530
Expenditure	**44,346**	**39,398**	**38,540**	**38,079**	**40,166**	**37,441**	**37,741**	**37,169**	**36,140**	**36,891**	**37,799**	**39,194**
Primary expenditure	43,323	37,976	36,980	35,870	37,488	34,638	34,938	34,095	33,221	34,133	35,238	36,543
Current	27,968	26,129	25,043	26,198	30,355	27,057	28,367	27,593	27,223	27,383	28,391	29,445
Wages and salaries	9,478	9,904	10,014	10,365	10,672	10,019	10,412	9,858	9,934	10,318	10,681	11,056
Purchases of goods and services	5,328	5,112	4,684	5,056	6,183	5,001	5,299	5,340	5,332	5,539	5,733	5,935
Social security benefits 3/	3,665	4,222	4,655	4,999	5,382	5,372	5,462	5,574	5,807	6,074	6,297	6,517
Other	9,497	6,890	5,691	5,777	8,118	6,665	7,194	6,821	6,151	5,451	5,681	5,938
Cost of imports of oil derivatives	6,103	3,788	2,332	2,889	4,041	2,993	3,521	3,278	2,826	2,855	2,919	3,005
Payments to private oil companies (SH) 4/	1,578	1,439	1,117	1,385	1,984	1,299	1,383	1,120	930	739	739	739
Other	1,815	1,664	2,242	1,502	2,093	2,373	2,290	2,423	2,395	1,857	2,023	2,194
Capital	15,354	11,848	11,937	9,672	7,133	7,581	6,572	6,502	5,998	6,750	6,846	7,099
Fixed capital spending	13,980	10,178	10,293	8,648	6,456	6,452	5,680	5,636	5,202	6,029	6,099	6,324
O/w investment in oil	4,023	2,804	2,375	1,766	1,669	1,753	1,649	1,649	1,714	1,652	1,652	1,652
Net-lending	1,375	1,669	1,644	1,024	678	1,129	892	866	796	721	747	775
Primary balance	**-4,291**	**-4,655**	**-6,666**	**-2,444**	**1,377**	**2,827**	**2,511**	**6,575**	**6,006**	**5,880**	**6,005**	**6,147**
Interest	**1,024**	**1,421**	**1,561**	**2,209**	**2,678**	**2,803**	**2,803**	**3,074**	**2,919**	**2,758**	**2,561**	**2,651**
O/w external	829	1,143	1,335	1,850	2,306	2,409	2,409	2,701	2,581	2,461	2,313	2,471
Current balance	**10,040**	**5,772**	**3,710**	**5,019**	**5,833**	**7,604**	**6,280**	**10,004**	**9,084**	**9,872**	**10,290**	**10,595**
Overall balance	**-5,314**	**-6,076**	**-8,226**	**-4,653**	**-1,300**	**24**	**-292**	**3,502**	**3,087**	**3,122**	**3,444**	**3,496**
Memorandum items:												
Non-oil primary balance 5/	-7,491	-3,944	-6,730	-4,320	-2,086	-1,558	-1,130	955	1,580	1,532	1,642	1,526
Non-oil PB (incl. fuel subsidies)	-13,719	-5,651	-7,576	-6,394	-5,320	-3,506	-3,148	-1,054	66	40	119	-57
Cyclically Adjusted Non-oil Primary Balance	-8,098	-4,152	-6,345	-4,316	-1,975	-751	-403	2,226	2,994	2,701	2,619	2,295
Cyclically Adjusted Non-oil Primary Balance (incl. fuel subsidies)	-14,326	-5,859	-7,191	-6,390	-5,208	-2,699	-2,420	218	1,481	1,209	1,095	712
Structural non-oil primary balance	-8,098	-4,016	-5,432	-4,241	-2,430	-1,551	-1,253	1,426	2,994	2,701	2,619	2,295
Structural non-oil primary balance (incl. fuel. subsidies)	-14,326	-5,723	-6,278	-6,315	-5,663	-3,499	-3,270	-582	1,481	1,209	1,095	712
Oil balance 6/	3,200	-711	64	1,876	3,463	4,385	3,642	5,620	4,426	4,348	4,362	4,621
Oil balance excluding oil investment	7,223	2,093	2,440	3,642	5,132	6,138	5,290	7,270	6,140	6,000	6,014	6,272
Public Debt 7/	27,543	33,558	43,139	46,533	49,628	52,293	52,150	51,684	51,299	48,177	44,733	41,237
Change in social spending, program definition						400	400	0	0			

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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 Government Financial Statistics Manual.

Table 5b. Ecuador: Operations of the Nonfinancial Public Sector (Net Accounting)
(Percent of GDP, unless otherwise indicated)

				Prel.	Est.	Prog. 1/	Projections					
	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
Revenue	**38.4**	**33.6**	**30.3**	**32.0**	**35.9**	**35.2**	**34.7**	**37.3**	**34.9**	**34.3**	**34.2**	**34.2**
Oil revenue, net 2/	10.7	6.5	5.4	5.6	8.0	7.2	7.1	7.9	6.8	6.2	6.0	6.0
Revenue from oil exports	8.7											
Domestic sales of oil derivatives (CADID)	2.0											
Nonpetroleum revenue	23.5	25.9	24.3	24.4	25.5	25.4	25.2	26.6	26.1	26.1	26.2	26.2
Taxes	14.2	15.7	14.0	13.5	14.2	13.3	13.1	14.5	14.8	14.7	14.7	14.8
Social security contributions 3/	4.6	5.1	4.7	5.2	5.1	5.2	5.1	5.1	5.1	5.1	5.1	5.1
Other	4.7	5.1	5.5	5.7	6.2	7.0	6.9	7.0	6.2	6.3	6.3	6.3
Operating surplus of public enterprises	4.1	1.1	0.6	2.0	2.4	2.6	2.4	2.8	2.0	2.0	2.0	2.0
O/w profits of oil companies withheld for investment	3.9	0.8	0.5	2.0	2.3	2.6	2.3	2.8	2.0	2.0	2.0	2.0
Expenditure	**43.6**	**39.7**	**38.6**	**36.5**	**37.1**	**35.2**	**35.0**	**34.1**	**32.2**	**31.6**	**31.3**	**31.4**
Primary expenditure	42.6	38.2	37.0	34.4	34.6	32.6	32.4	31.3	29.6	29.3	29.2	29.3
Current	27.5	26.3	25.1	25.1	28.0	25.5	26.3	25.3	24.3	23.5	23.5	23.6
Wages and salaries	9.3	10.0	10.0	9.9	9.8	9.4	9.7	9.0	8.9	8.9	8.9	8.9
Purchases of goods and services	5.2	5.1	4.7	4.8	5.7	4.7	4.9	4.9	4.8	4.8	4.8	4.8
Social security benefits 3/	3.6	4.3	4.7	4.8	5.0	5.1	5.1	5.1	5.2	5.2	5.2	5.2
Other	9.3	6.9	5.7	5.5	7.5	6.3	6.7	6.3	5.5	4.7	4.7	4.8
Cost of imports of oil derivatives	6.0	3.8	2.3	2.8	3.7	2.8	3.3	3.0	2.5	2.4	2.4	2.4
Payments to private oil companies (SH) 4/	1.6	1.4	1.1	1.3	1.8	1.2	1.3	1.0	0.8	0.6	0.6	0.6
Other	1.8	1.7	2.2	1.4	1.9	2.2	2.1	2.2	2.1	1.6	1.7	1.8
Capital	15.1	11.9	11.9	9.3	6.6	7.1	6.1	6.0	5.3	5.8	5.7	5.7
Fixed capital spending	13.7	10.3	10.3	8.3	6.0	6.1	5.3	5.2	4.6	5.2	5.1	5.1
O/w investment in oil	4.0	2.8	2.4	1.7	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.3
Net-lending	1.4	1.7	1.6	1.0	0.6	1.1	0.8	0.8	0.7	0.6	0.6	0.6
Primary balance	**-4.2**	**-4.7**	**-6.7**	**-2.3**	**1.3**	**2.7**	**2.3**	**6.0**	**5.4**	**5.0**	**5.0**	**4.9**
Interest	**1.0**	**1.4**	**1.6**	**2.1**	**2.5**	**2.6**	**2.6**	**2.8**	**2.6**	**2.4**	**2.1**	**2.1**
O/w external	0.8	1.2	1.3	1.8	2.1	2.3	2.2	2.5	2.3	2.1	1.9	2.0
Current balance	**9.9**	**5.8**	**3.7**	**4.8**	**5.4**	**7.2**	**5.8**	**9.2**	**8.1**	**8.5**	**8.5**	**8.5**
Overall balance	**-5.2**	**-6.1**	**-8.2**	**-4.5**	**-1.2**	**0.0**	**-0.3**	**3.2**	**2.8**	**2.7**	**2.9**	**2.8**
Memorandum items:												
Non-oil primary balance 5/	-7.4	-4.0	-6.7	-4.1	-1.9	-1.5	-1.0	0.9	1.4	1.3	1.4	1.2
Non-oil primary balance (percent of non-oil GDP)	-8.3	-4.2	-7.0	-4.4	-2.1	-1.5	-1.1	0.9	1.5	1.4	1.4	1.3
Non-oil PB (incl. fuel subsidies)	-13.5	-5.7	-7.6	-6.1	-4.9	-3.3	-2.9	-1.0	0.1	0.0	0.1	0.0
Cyclically Adjusted Non-oil Primary Balance	-8.0	-4.2	-6.3	-4.1	-1.8	-0.7	-0.4	2.0	2.7	2.3	2.2	1.8
Cyclically Adjusted Non-oil Primary Balance (incl.fuel subsidies)	-14.1	-5.9	-7.2	-6.1	-4.8	-2.5	-2.2	0.2	1.3	1.0	0.9	0.6
Structural non-oil primary balance	-8.0	-4.0	-5.4	-4.1	-2.2	-1.5	-1.2	1.3	2.7	2.3	2.2	1.8
Structural non-oil primary balance (including fuel. subsidies)	-14.1	-5.8	-6.3	-6.1	-5.2	-3.3	-3.0	-0.5	1.3	1.0	0.9	0.6
Oil balance 6/	3.1	-0.7	0.1	1.8	3.2	4.1	3.4	5.2	3.9	3.7	3.6	3.7
Oil balance excluding oil investment	7.1	2.1	2.4	3.5	4.7	5.8	4.9	6.7	5.5	5.1	5.0	5.0
Public Debt 7/	27.1	33.8	43.2	44.6	45.8	49.2	48.4	47.4	45.7	41.3	37.1	33.0
Change in social spending, program definition						0.4	0.4	0.0	0.0			

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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 Government Financial Statistics Manual.

Table 6. Ecuador: Nonfinancial Public Sector Financing

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

				Prel.	Est.	Prog. 1/			Projections			
	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
Gross financing needs	**11,035**	**14,181**	**19,086**	**17,400**	**9,169**	**5,903**	**8,109**	**2,091**	**1,919**	**3,685**	**3,432**	**2,778**
Nonfinancial public sector deficit	5,314	6,076	8,226	4,653	1,300	-24	292	-3,502	-3,087	-3,122	-3,444	-3,496
Amortization	5,721	8,105	10,859	12,747	7,868	5,926	7,817	5,592	5,006	6,807	6,876	6,273
External	3,549	3,985	3,336	4,012	4,871	3,715	5,226	3,755	2,547	5,091	4,381	5,252
Multilateral	942	560	771	709	685	812	1,118	667	854	1,417	1,746	1,672
Bilateral	737	636	659	1,322	1,614	1,088	1,031	1,124	918	1,053	1,030	949
Private sector and other	35	898	399	845	879	989	2,124	1,584	247	2,177	1,160	2,186
Oil related financing	1,848	1,901	1,510	1,136	1,692	826	952	380	528	445	445	446
Domestic	2,172	4,120	7,523	8,735	2,998	2,211	2,592	1,838	2,459	1,716	2,495	1,021
Bonds	1,420	3,168	5,866	3,912	884	551	932	178	799	56	835	191
Treasury certificates	752	953	1,657	4,822	2,113	1,660	1,660	1,660	1,660	1,660	1,660	830
Gross financing sources	**11,035**	**14,181**	**19,086**	**17,475**	**9,169**	**5,903**	**8,109**	**2,091**	**1,919**	**3,685**	**3,432**	**2,778**
External	8,013	7,105	9,430	9,252	7,817	6,409	8,404	3,467	2,960	2,025	2,602	2,641
Multilateral	1,497	1,933	1,092	943	1,640	4,268	4,715	3,022	2,515	900	900	900
World Bank	7	115	18	175	236	978	978	644	122	100	100	100
Inter-American Development Bank	508	1,321	604	349	485	1,009	1,084	251	281	400	400	400
CAF	355	485	465	415	549	600	500	600	600	300	300	300
Other	627	13	5	4	370	278	750	124	110	100	100	100
IMF	0	0	0	0	0	1,403	1,403	1,403	1,403	0	0	0
Bilateral	1,180	957	2,267	658	978	559	1,017	0	0	0	0	0
Private sector and other	3,735	1,880	3,946	7,251	4,504	1,137	2,227	0	0	680	1,257	1,294
Oil related financing	1,600	2,335	2,125	400	695	445	445	445	445	445	445	447
Domestic	2,143	5,540	9,233	9,947	2,175	-507	-295	-1,376	-1,041	1,660	830	136
Bonds	1,310	2,844	5,853	6,258	403	552	274	0	0	0	0	136
Treasury certificates	953	1,657	4,822	2,113	1,660	1,660	1,660	1,660	1,660	1,660	830	0
Change in deposits (+= drawdown)	-120	1,040	-1,443	-562	-951	-2,719	-1,899	-3,036	-2,701	0	0	0
Privatization and BCE transfers	0	0	0	2,137	0	0	0	0	0	0	0	0
Other	0	0	0	0	1,062	0	0	0	0	0	0	0
Convenios de liquidez							-330					
Net Arrears acumulation and other financing 2/	998	1,503	499	-1,643	-823	0	0	0	0	0	0	0
Discrepancy	-118	32	-76	-81								
Financing Gap					**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Exceptional Financing					**0**	**1,403**	**1,403**	**1,403**	**1,403**	**0**	**0**	**0**
IMF 3/					0	1,403	1,403	1,403	1,403	0	0	0
Net financing	**5,314**	**6,076**	**8,226**	**4,728**	**1,300**	**-24**	**292**	**-3,502**	**-3,087**	**-3,122**	**-3,444**	**-6,138**
External	4,464	3,120	6,093	5,240	2,947	2,694	3,179	-288	414	-3,066	-1,779	-5,252
Domestic	-29	1,420	1,710	1,212	-823	-2,718	-2,887	-3,214	-3,500	-56	-1,665	-886
Net Arrears acumulation and other financing 2/	998	1,503	499	-1,643	-823	0	0	0	0	0	0	0
Discrepancy	-118	32	-76	-81	0	0	0	0	0	0	0	0
Public Sector Debt 3/	**27,543**	**33,558**	**43,139**	**46,533**	**49,628**	**52,293**	**52,150**	**51,684**	**51,299**	**48,177**	**44,733**	**41,237**
External	19,046	22,123	28,122	33,376	36,323	39,653	39,501	39,214	39,627	36,561	34,782	32,171
o.w. oil related financing	1,464	1,898	2,442	1,626	629	882	123	188	104	104	104	105
Domestic	8,497	11,435	15,018	13,157	13,306	13,274	12,648	12,470	11,671	11,616	9,950	9,065
Bonds	3,810	3,437	3,461	5,866	5,417	5,385	4,760	4,582	3,783	3,727	2,892	2,836
Treasury certificates	953	1,657	4,822	2,113	1,660	1,660	1,660	1,660	1,660	1,660	830	0
Other liabilities	3,735	6,341	6,735	5,178	6,228	6,228	6,228	6,228	6,228	6,228	6,228	6,228
					(In percent of GDP)							
Gross financing needs	**10.8**	**14.3**	**19.1**	**16.7**	**8.5**	**5.6**	**7.5**	**1.9**	**1.7**	**3.2**	**2.8**	**2.2**
Nonfinancial public sector deficit	5.2	6.1	8.2	4.5	1.2	0.0	0.3	-3.2	-2.8	-2.7	-2.9	-2.8
Amortization	5.6	8.2	10.9	12.2	7.3	5.6	7.3	5.1	4.5	5.8	5.7	5.0
Gross financing sources	**10.8**	**14.3**	**19.1**	**16.8**	**8.5**	**5.6**	**7.5**	**1.9**	**1.7**	**3.2**	**2.8**	**2.2**
External	7.9	7.2	9.4	8.9	7.2	6.0	7.8	3.2	2.6	1.7	2.2	2.1
Domestic	2.1	5.6	9.2	9.5	2.0	-0.5	-0.3	-1.3	-0.9	1.4	0.7	0.1
Arrears acumulation and other financing 2/	1.0	1.5	0.5	-1.6	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt 3/	**27.1**	**33.8**	**43.2**	**44.6**	**45.8**	**49.2**	**48.4**	**47.4**	**45.7**	**41.3**	**37.1**	**33.0**
External	18.7	22.3	28.1	32.0	33.5	37.3	36.7	36.0	35.3	31.4	28.8	25.8
Domestic	8.4	11.5	15.0	12.6	12.3	12.5	11.7	11.4	10.4	10.0	8.2	7.3
Memorandum items:												
Stock of other accounts payable (in millions of U.S. dollars)				876.3	1574.6	..	1574.6	1574.6	1574.6	1574.6	1574.6	1574.6

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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 Government Financial Statistics Manual.

Table 7. Ecuador: Balance of Payments

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

				Prel.	Est.	Prog. 1/	Projections					
	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
Current account	**-677**	**-2,223**	**1,324**	**-481**	**-1,358**	**427**	**515**	**1,491**	**1,918**	**2,022**	**2,199**	**2,366**
Trade balance	-63	-1,650	1,567	311	-263	1,341	1,317	1,976	2,116	2,038	1,984	2,004
Exports, f.o.b.	26,596	19,049	17,425	19,618	22,123	22,122	22,464	22,920	23,402	24,085	24,798	25,667
Oil	13,275	6,660	5,459	6,914	8,802	8,038	8,165	7,922	8,071	7,745	7,751	7,796
Non-oil	13,321	12,388	11,966	12,705	13,321	14,085	14,299	14,997	15,331	16,339	17,046	17,871
Imports, f.o.b.	26,660	20,699	15,858	19,307	22,386	20,781	21,147	20,943	21,285	22,047	22,814	23,663
Oil	6,417	3,950	2,490	3,182	4,341	3,419	3,831	3,828	3,830	3,897	3,997	4,121
Non-oil	20,243	16,748	13,368	16,125	18,045	17,362	17,316	17,115	17,455	18,150	18,817	19,542
Services	-1,171	-805	-1,054	-1,103	-710	-599	-562	-462	-432	-439	-439	-437
Credits	2,346	2,391	2,140	2,191	2,540	2,629	2,592	2,697	2,802	2,915	3,033	3,159
Debits	3,517	3,197	3,194	3,294	3,249	3,228	3,154	3,159	3,233	3,354	3,472	3,597
Primary income	-1,552	-1,731	-1,843	-2,354	-2,794	-3,206	-3,112	-3,002	-2,842	-2,743	-2,608	-2,555
Credits	121	140	164	187	239	383	387	529	574	617	638	672
Debits	1,672	1,871	2,007	2,541	3,033	3,589	3,499	3,530	3,416	3,359	3,246	3,227
Secondary income	2,108	1,963	2,654	2,665	2,409	2,890	2,873	2,978	3,075	3,166	3,262	3,354
Of which: workers' remittances, net	2,277	2,100	2,314	2,483	2,578	2,705	2,687	2,790	2,881	2,965	3,054	3,139
Capital account	**67**	**-69**	**-814**	**69**	**-193**	**74**	**71**	**71**	**72**	**74**	**77**	**80**
Financial account	**-411**	**-769**	**-797**	**1,434**	**-1,617**	**-1,007**	**-615**	**-605**	**-245**	**1,515**	**1,054**	**1,359**
Direct investment	-772	-1,322	-767	-618	-1,401	-1,219	-1,221	-1,244	-1,496	-1,569	-1,580	-1,607
Other public sector flows	-4,464	-3,120	-6,093	-5,240	-2,947	-1,291	-1,776	1,691	990	3,066	1,779	2,611
Disbursements	-8,013	-7,105	-9,430	-9,252	-7,817	-5,006	-7,001	-2,064	-1,557	-2,025	-2,602	-2,641
Amortizations	3,549	3,985	3,336	4,012	4,871	3,715	5,226	3,755	2,547	5,091	4,381	5,252
Other private sector flows	4,825	3,674	6,063	7,292	2,731	1,503	2,382	-1,051	262	18	855	354
Portfolio investment	2,235	407	1,745	761	1,903	523	1,868	-327	-341	-51	625	666
Other investment	2,590	3,267	4,318	6,531	828	979	514	-724	603	69	231	-312
Errors and omissions	**-225**	**35**	**-101**	**-13**	**-158**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-424**	**-1,488**	**1,207**	**-1,859**	**-92**	**1,508**	**1,202**	**2,167**	**2,234**	**581**	**1,222**	**1,087**
Financing	**424**	**1,488**	**-1,207**	**1,859**	**92**	**-1,508**	**-1,202**	**-2,167**	**-2,234**	**-581**	**-1,222**	**-1,087**
Change in GIR (increase, -) 2/	411	1,453	-1,763	1,808	-225	-2,865	-2,559	-3,389	-3,501	-581	-1,222	-1,087
IMF net credit and loans	0	0	365	0	0	1,357	1,357	1,222	1,267	0	0	0
Net EFF lending to BCE	0	0	0	0	0	0	0	0	0	0	0	0
Net lending RFI	0	0	365	0	0	-46	-45	-180	-135	0	0	0
Net lending to Treasury	0	0	0	0	0	1,403	1,403	1,403	1,403	0	0	0
Exceptional financing 3/	13	35	191	51	317	0	0	0	0	0	0	0
Memorandum items:												
Current account balance (percent of GDP)	-0.7	-2.2	1.3	-0.5	-1.3	0.4	0.5	1.4	1.7	1.7	1.8	1.9
Oil balance (percent of GDP)	6.7	2.7	3.0	3.6	4.1	4.3	4.0	3.8	3.8	3.3	3.1	2.9
Exports	13.1	6.7	5.5	6.6	8.1	7.6	7.6	7.3	7.2	6.6	6.4	6.2
Imports	6.3	4.0	2.5	3.1	4.0	3.2	3.6	3.5	3.4	3.3	3.3	3.3
Non-oil balance (percent of GDP)	-7.4	-5.0	-1.6	-4.0	-5.4	-3.9	-3.5	-2.4	-2.1	-1.6	-1.3	-1.0
Goods export volume growth rate (percent)	5.8	-0.3	4.3	-0.3	-2.5	8.8	5.4	2.0	2.6	3.0	2.7	2.9
Goods import volume growth rate (percent)	4.9	-7.5	-10.5	16.0	8.8	-2.5	-3.2	-1.6	1.0	3.0	2.5	2.6
Goods terms of trade growth rate (percent)	0.9	-13.4	0.7	7.6	8.4	-3.8	-1.4	-0.6	-1.0	-0.6	-0.7	-0.5
Oil price Ecuador mix (U.S. dollars per barrel)	84	42	35	46	60	48	52	52	51	51	51	51
External debt (percent of GDP)	25.2	29.4	36.6	39.7	41.0	42.8	42.8	44.3	43.9	40.6	37.9	34.6

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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 8. Ecuador: External Financing
(Millions of U.S. dollars)

	2014	2015	2016	Prel. 2017	Est. 2018	Prog. 1/ 2019	Projections 2019	2020	2021	2022	2023	2024
Gross external financing requirements	**6,844**	**8,802**	**5,092**	**8,193**	**10,103**	**7,263**	**8,726**	**6,427**	**4,854**	**7,166**	**6,171**	**6,712**
Current account financing need	677	2,223	-1,324	481	1,358	-427	-515	-1,491	-1,918	-2,022	-2,199	-2,366
Public sector amortizations	3,549	3,985	3,336	4,012	4,871	3,715	5,226	3,755	2,547	5,091	4,381	5,252
Private sector amortizations	2,617	2,593	3,079	3,700	3,875	3,974	4,015	4,163	4,224	4,097	3,990	3,826
Identified External Financing	**6,419**	**7,313**	**6,299**	**6,335**	**10,011**	**8,771**	**9,928**	**8,594**	**7,088**	**7,747**	**7,394**	**7,799**
Public Sector	8,013	7,105	9,430	9,252	7,817	5,006	7,001	2,064	1,557	2,025	2,602	2,641
Multilateral	1,497	1,933	1,092	943	1,640	2,865	3,312	1,619	1,112	900	900	900
Bilateral	1,180	957	2,267	658	978	559	1,017	0	0	0	0	0
Oil related financing	1,600	2,335	2,125	400	695	445	445	445	445	445	445	447
Private sector	3,735	1,880	3,946	7,251	4,504	1,137	2,227	0	0	680	1,257	1,294
Private sector	-1,436	242	-2,216	-2,974	2,545	3,690	2,855	6,459	5,459	5,648	4,715	5,078
Direct investment	772	1,322	767	618	1,401	1,219	1,221	1,244	1,496	1,569	1,580	1,607
Portfolio investment Financing	-442	-216	-597	-718	229	494	327	1,043	792	816	627	694
Other investment Financing	-1,766	-865	-2,387	-2,874	915	1,977	1,307	4,172	3,170	3,263	2,507	2,777
Net Transfers 2/	-158	-34	-915	56	-351	74	71	71	72	74	77	80
Gross external financing sources	**6,432**	**7,348**	**6,855**	**6,386**	**10,328**	**10,128**	**11,285**	**9,816**	**8,355**	**7,747**	**7,394**	**7,799**
Identified External Financing	6,419	7,313	6,299	6,335	10,011	8,770	9,928	8,594	7,088	7,747	7,394	7,799
Exceptional financing	13	35	191	51	317	0	0	0	0	0	0	0
IMF Net Financing	0	0	365	0	0	1,357	1,357	1,222	1,267	0	0	0
IMF Net EFF Financing	0	0	0	0	0	1,403	1,403	1,403	1,403	0	0	0
IMF Net RFI Financing	0	0	365	0	0	-46	-45	-180	-135	0	0	0
Net international reserves (-, increase) 3/	**411**	**1,453**	**-1,398**	**1,808**	**-225**	**-2,911**	**-2,605**	**-3,570**	**-3,637**	**-581**	**-1,222**	**-1,087**
Gross international reserves (-, increase) 4/	**411**	**1,453**	**-1,763**	**1,808**	**-225**	**-2,865**	**-2,559**	**-3,389**	**-3,501**	**-581**	**-1,222**	**-1,087**
Financing Gap 5/	**13**	**35**	**556**	**51**	**317**	**1,357**	**1,357**	**1,222**	**1,267**	**0**	**0**	**0**
o/w closed by IMF Net Lending	0	0	365	0	0	1,357	1,357	1,222	1,267	0	0	0

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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

3/ Changes in NIR are defined as changes in GIR minus IMF net lending excluding direct budget support.

4/ Reflects the national definition of gross international reserves

5/ Financing gap is the difference between total external financing sources and identified external financing

Table 9. Ecuador: Monetary Survey

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

					Est.	Prog. 1/			Projections			
	2014	2015	2016	2017	2018	2019	2019	2020	2021	2022	2023	2024
I. Central Bank												
Net foreign assets	**4,536**	**2,964**	**4,435**	**3,584**	**3,902**	**6,762**	**6,500**	**9,444**	**13,114**	**13,740**	**15,005**	**16,136**
Of which: gross international reserves 2/	3,762	2,351	4,216	2,006	2,158	4,999	4,679	8,446	11,947	12,528	13,750	14,837
Net domestic assets	**-865**	**306**	**1,806**	**1,964**	**1,108**	**-1,602**	**-1,766**	**-4,188**	**-7,543**	**-7,785**	**-8,658**	**-9,369**
Credit to the nonfinancial public sector, net	-2,738	-1,369	323	-1,230	-2,073	-4,775	-4,433	-6,814	-9,811	-9,792	-10,554	-10,536
Of which: central government, net	92	614	2,840	1,556	1,169	-1,570	-1,210	-3,553	-6,454	-6,306	-6,945	-6,801
credits	903	1,314	4,311	3,044	3,048	3,048	2,930	3,580	3,203	3,203	2,424	2,424
debits	811	700	1,472	1,488	1,879	4,618	4,140	7,133	9,657	9,509	9,369	9,224
Credit to financial institutions	2,530	2,167	2,187	4,431	4,517	4,499	4,454	4,412	4,054	3,793	3,681	2,952
Other depository institutions	530	431	454	930	1,005	1,052	985	985	939	847	755	755
Other financial institutions	2,001	1,736	1,733	3,501	3,512	3,447	3,469	3,428	3,115	2,946	2,927	2,197
Credit to the private sector	26	27	24	20	17	17	16	16	17	17	18	19
Other, net	-684	-520	-728	-1,258	-1,353	-1,343	-1,803	-1,803	-1,803	-1,803	-1,803	-1,803
Liabilities	**3,671**	**3,270**	**6,241**	**5,548**	**5,011**	**5,160**	**4,734**	**5,256**	**5,571**	**5,955**	**6,347**	**6,767**
Currency and electronic money	87	87	92	94	84	83	81	82	85	88	91	94
Banks' reserves	3,506	3,053	6,044	5,244	4,859	5,010	4,584	5,106	5,418	5,798	6,187	6,604
Other depository institutions 3/	2,697	1,927	4,825	3,904	3,172	3,262	2,941	3,444	3,707	4,021	4,348	4,700
Other financial institutions 4/	809	1,126	1,219	1,340	1,688	1,748	1,643	1,662	1,711	1,777	1,840	1,904
Other 5/	78	130	105	209	68	67	69	69	69	69	69	69
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 3/ 6/												
Net foreign assets	**5,891**	**5,391**	**5,826**	**5,633**	**4,972**	**4,032**	**5,063**	**4,539**	**3,991**	**4,148**	**4,296**	**4,449**
Net domestic assets	**24,580**	**22,392**	**26,968**	**30,166**	**32,653**	**34,666**	**33,848**	**36,311**	**39,982**	**43,551**	**47,276**	**51,300**
Assets held at the BCE, net	913	450	3,346	2,400	1,751	1,885	1,823	2,325	2,635	3,041	3,459	3,811
Credit to the nonfinancial public sector, net	1,612	1,379	1,972	1,959	1,108	1,108	767	627	492	492	492	412
Of which: central government, net	1,830	1,448	2,053	2,073	1,284	1,284	944	804	668	668	668	588
Credit to the private sector	29,131	28,141	29,886	34,785	39,976	41,739	42,898	45,736	50,054	54,208	58,534	63,381
Other items, net	-7,075	-7,579	-8,236	-8,977	-10,182	-10,067	-11,640	-12,378	-13,199	-14,190	-15,210	-16,305
Liabilities	**30,471**	**27,782**	**32,794**	**35,799**	**37,626**	**38,698**	**38,910**	**40,850**	**43,973**	**47,699**	**51,572**	**55,749**
Of which: Private sector deposits	30,415	27,782	32,794	35,799	37,626	38,698	38,910	40,850	43,973	47,699	51,572	55,749
III. Consolidated Banking System												
Net foreign assets	**10,426**	**8,355**	**10,261**	**9,218**	**8,875**	**10,794**	**11,563**	**13,984**	**17,105**	**17,888**	**19,301**	**20,585**
Net domestic assets	**18,593**	**18,854**	**22,730**	**26,885**	**28,902**	**28,053**	**27,497**	**27,017**	**27,021**	**29,967**	**32,431**	**35,327**
Credit to the nonfinancial public sector, net	-1,126	10	2,295	728	-965	-3,667	-3,666	-6,187	-9,319	-9,300	-10,062	-10,124
Credit to the private sector	29,157	28,169	29,910	34,805	39,994	41,756	42,914	45,753	50,071	54,225	58,552	63,400
Other items, net	-9,437	-9,324	-9,475	-8,648	-10,126	-10,036	-11,751	-12,549	-13,731	-14,958	-16,059	-17,949
Liabilities	**29,019**	**27,209**	**32,991**	**36,103**	**37,777**	**38,847**	**39,060**	**41,001**	**44,127**	**47,855**	**51,732**	**55,912**
Memorandum items:												
Credit to the private sector (percent change, yoy) 7/	8.7	-3.4	6.2	16.4	14.9	4.4	7.3	6.6	9.4	8.3	8.0	8.3
Deposits of the private sector (percent change, yoy) 7/	10.4	-8.6	18.0	9.3	5.0	2.8	3.4	5.0	7.6	8.5	8.1	8.1
Credit to the nonfinancial public sector (percent change, yoy) 7/	64.5	-1.6	109.8	-17.0	-10.6	0.0	-8.9	10.8	-9.8	0.0	-16.5	-2.0
Deposits of the nonfinancial public sector (percent change, yoy) 7/	5.1	-26.4	41.1	8.2	21.3	43.5	36.0	36.3	23.0	-0.1	-0.1	-0.1
Broad money (M2) (percent change, yoy)	14.4	-1.1	16.5	10.0	5.6	1.7	2.3	3.9	6.3	7.2	6.9	6.9
Broad money velocity	2.5	2.5	2.2	2.1	2.0	1.8	1.8	1.7	1.6	1.5	1.4	1.3
ODI and OFI's reserves at the central bank as a share of liabilities (percent) 3/ 4/	11.5	11.0	18.4	14.6	12.9	12.9	11.8	12.5	12.3	12.2	12.0	11.8
Credit to the private sector (percent of GDP)	28.7	28.4	29.9	33.4	36.9	39.3	39.8	42.0	44.6	46.5	48.5	50.8
Liabilities (percent of GDP)	28.5	27.4	33.0	34.6	34.9	36.5	36.2	37.6	39.3	41.0	42.9	44.8

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

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 comprise Corporación Financiera Nacional and *Banco Ecuatoriano de Vivienda*.

7/ Consolidated banking system.

Table 10. Ecuador: Financial Soundness Indicators 1/

	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018	Q1 2019
	(In percent, unless otherwise indicated; end-of-period values)										
Capital Adequacy											
Regulatory capital to risk-weighted assets (CAR)	13.8	12.4	13.0	12.8	11.9	12.7	14.4	13.9	13.7	13.4	13.8
Asset Quality and Distribution											
Nonperforming loans to gross loans	2.9	2.2	2.2	2.8	2.6	2.9	3.7	3.5	3.0	2.6	3.1
Provisions to nonperforming loans	222.8	252.1	263.9	235.7	242.0	221.7	187.1	189.5	234.4	247.7	206.2
Gross loans to assets	87.0	87.6	89.3	86.0	84.2	86.2	86.2	80.0	84.4	86.0	88.6
Earnings and Profitability											
Return on average assets (ROA)	1.2	1.3	1.7	1.1	0.9	1.0	0.9	0.6	1.0	1.4	1.3
Return on average equity (ROE)	13.2	14.3	18.9	12.8	10.1	12.0	9.0	6.7	10.4	13.6	12.0
Interest margin to assets	1.0	1.2	1.4	0.9	0.8	1.0	0.8	0.4	0.9	1.6	1.5
Noninterest expenses to spread	85.0	82.1	79.7	86.3	86.8	84.3	87.4	92.6	85.0	76.9	77.4
Liquidity											
Liquid assets to short-term liabilities	35.2	32.4	28.7	30.5	30.7	26.0	29.6	33.9	29.4	27.9	23.2
Deposit to loan ratio	148.4	142.4	136.1	138.4	140.6	136.5	126.1	137.0	121.9	111.8	111.4

Source: Superintendency of Banks.
1/ Values refer to private banks and *Banco del Pacifico*.

Table 11. Ecuador: Indicators of Fund Credit 2019–2028

(Units as indicated)

	Prog. 1/	Projections									
	2019	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Existing and prospective Fund arrangements						**(millions of SDRs)**					
Disbursements 2/	1,011	1,011	1,011	1,011	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	1,241	1,241	2,121	3,035	3,035	2,981	2,770	2,391	1,885	1,379	873
Obligations	53	47	174	176	101	156	314	480	585	559	537
Principal	33	33	131	98	0	54	211	379	506	506	506
Charges/interest	20	14	43	78	101	102	104	101	79	54	31
Obligations, relative to key variables						**(percent)**					
Quota	7.5	6.7	24.9	25.3	14.5	22.4	45.1	68.8	83.9	80.2	76.9
Gross domestic product	0.1	0.1	0.2	0.2	0.1	0.2	0.3	0.5	0.6	0.6	0.5
Gross international reserves 3/	1.5	1.4	2.9	2.0	1.1	1.6	2.9	5.1	5.3	4.7	4.2
Exports of goods and services	0.3	0.3	0.9	0.9	0.5	0.8	1.5	2.2	2.7	2.5	2.3
Revenues of the NFPS	0.2	0.2	0.6	0.6	0.3	0.5	1.0	1.5	1.8	1.6	1.5
External debt service	0.5	0.4	1.6	1.8	0.9	1.5	2.9	4.4	5.3	5.1	4.9
Fund credit outstanding, relative to key variables						**(percent)**					
Quota	177.8	177.8	304.1	435.0	435.0	427.2	397.0	342.7	270.1	197.6	125.1
Gross domestic product	1.6	1.6	2.7	3.8	3.6	3.4	3.1	2.6	1.9	1.4	0.8
Gross international reserves	34.4	36.8	34.8	35.2	33.6	30.1	25.9	25.3	17.2	11.7	6.8
External debt	3.8	3.7	6.1	8.5	8.9	9.0	8.9	7.5	6.0	4.7	3.1
Memorandum items:											
Exports of goods and services (US$m)	24,751	25,055	25,617	26,203	27,000	27,830	28,826	29,634	30,464	31,317	32,195
External debt service (US$m)	14,024	15,641	14,848	13,679	15,772	14,633	15,235	15,246	15,256	15,267	15,277
External debt (US$m)	45,512	46,039	48,348	49,262	47,353	45,738	43,278	43,996	43,360	40,722	38,862
Quota (SDRm)	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7
NIR, current program definition (US$m)	1,419	1,422	4,867	8,240	8,507	9,403	10,137	8,069	9,841	10,565	11,436
NIR, proposed new program definition (US$m)	..	237	3,668	7,073	7,292	8,143	8,831	6,643	8,362	9,099	9,913
Gross international reserves (US$m)	4,999	4,679	8,446	11,947	12,528	13,750	14,837	13,087	15,228	16,370	17,691
Gross international reserves (% ARA metric)	28	26	46	64	67	72	78	68	78	83	88
Underlying reserves (US$m)	21	27	2,078	4,056	4,322	5,293	6,318	4,772	7,242	8,664	10,232
Nominal GDP (US$m)	106,289	107,778	109,020	112,238	116,586	120,678	124,916	129,528	134,310	139,269	144,411
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

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

2/ An RFI of 37.5% of quota disbursed in 2016; an EFF of 435% of quota disbursed beginning March 2019.

3/ GIR excludes non-liquid and encumbered items included in the authorities' measure of GIR.

Table 12. Ecuador: Access and Phasing Under the Extended Fund Arrangement

Review	Availability Date	Action	SDR million	US$ million	Percent of quota 1/	
					Disbursement	Cumulative
	March 11, 2019	Board approval of EFF	469.70	651.47	67.32	67.32
First Review	June 15, 2019	Observance of continuous and end-March 2019 performance criteria, completion of first review	180.65	250.14	25.89	93.21
Second Review	September 15, 2019	Observance of continuous and end-June 2019 performance criteria, completion of second review	180.65	250.14	25.89	119.11
Third Review	December 15, 2019	Observance of continuous and end-September 2019 performance criteria, completion of third review	180.65	250.14	25.89	145.00
Fourth Review	March 15, 2020	Observance of continuous and end-December 2019 performance criteria, completion of fourth review	252.92	350.20	36.25	181.25
Fifth Review	June 15, 2020	Observance of continuous and end-March 2020 performance criteria, completion of fifth review	252.92	350.20	36.25	217.50
Sixth Review	September 15, 2020	Observance of continuous and end-June 2020 performance criteria, completion of sixth review	252.92	350.20	36.25	253.75
Seventh Review	December 15, 2020	Observance of continuous and end-September 2020 performance criteria, completion of seventh review	252.92	350.20	36.25	290.00
Eighth Review	March 15, 2021	Observance of continuous and end-December 2020 performance criteria, completion of eighth review	252.92	350.20	36.25	326.25
Ninth Review	June 15, 2021	Observance of continuous and end-March 2021 performance criteria, completion of ninth review	252.92	350.20	36.25	362.50
Tenth Review	September 15, 2021	Observance of continuous and end-June 2021 performance criteria, completion of tenth review	252.92	350.20	36.25	398.75
Eleventh Review	December 15, 2021	Observance of continuous and end-September 2021 performance criteria, completion of eleventh review	252.91	350.19	36.25	435.00
Total			**3035.0**	**4203.5**	**435.0**	

Source: IMF staff estimates

1/ Ecuador's quota is SDR 697.7 million

Annex I. Legal Reform on Public Financial Management and Fiscal Rules in Ecuador[1]

1. **The legal framework for PFM in Ecuador has been consolidated and updated in the past decade.** Constitutional reforms of 2008 introduced a new fiscal policy regime; established requirements and procedures for borrowing; revised the budget formulation, approval, and execution procedures; and envisaged the creation of a Treasury Single Account. This was followed by the adoption of the COPFP (Organic Code of Planning and Public Finances) in 2010, instrument that for the first time ranked above ordinary statutes and achieved consolidating the legal framework on public finance. The COPFP governs all fundamental aspects of PFM, including macroeconomic and fiscal policy, budget preparation and approval, budget execution and cash management, and accounting reports and internal control.

2. **However, several weaknesses in the COPFP pose risks for a predictable and sustainable management of the country's public finances.** With regard to the PFM framework, these weaknesses include: a fragmented budget preparation process with a lack of a top-down orientation; excessive power of the Executive to increase the budget approved by the National Assembly; weak monitoring of expenditure arrears; reliance on cash management instruments to finance part of the budget execution; and, weak fiscal oversight mandate of the Ministry of Economy and Finance (MEF). Similarly, on the fiscal rules' framework, the main shortcomings are: the inadequate coverage of debt and expenditure rules; potential inconsistencies between the expenditure rule and the constitutional golden rule; weak monitoring and enforcement mechanisms; and, rigid funding rules for the stabilization fund, which could hamper the compliance with the fiscal rules.

3. **To address these weaknesses the authorities are taking important steps.** As a key first step, the MEF has published an Action Plan to strengthen the PFM and fiscal rules frameworks, which includes an integral work plan to align them with international good practices including specific commitments to undertake operational and legal reform. The following are the main areas identified for reform:

- **PFM:** (i) strengthen the top-down budget formulation process including by introducing an aggregate expenditure ceiling and eliminating the fragmentation between capital and recurrent budgets; (ii) limit the Executive's discretion to amend the budget approved by the National Assembly; (iii) for the current stock of CETES, prepare a plan for a gradual reduction and for the future flow introduce a robust framework for the use of cash management instruments; (iv) enhance budget execution by limiting advances, incorporating past-year non-accrued commitments, and removing the Cuenta de Financiamiento de Derivados Deficitarios (CFDD)

[1] Prepared by Karla Vasquez.

from the budget; iv) enhance control and monitoring of expenditure arrears and prepare a plan for the clearance of the stock; and (v) strengthen the MEF fiscal risk oversight role.

- **Fiscal rules:** (i) modify the institutional coverage for the fiscal rules to the consolidated NFPS; (ii) introduce a binding non-oil primary balance target for the NFPS; (iii) enhance the enforcement and monitoring mechanisms by clearly defining the escape clauses, automatic correction mechanisms, and in-year fiscal reporting; and (iv) suspend the accumulation of assets for the fiscal stabilization fund until the public debt ceiling becomes operational.

Annex II. Progress on the Reform of the Legal Framework of Banco Central del Ecuador (BCE)[1]

1. **The objective and functions of a central bank in a dollarized economy are different from those applicable to other central banks**. In dollarized economies, the central bank's primary objective typically should be to foster and maintain a stable financial system (in contrast to price stability). The central bank's functions should include: (a) conducting macro-prudential policies to ensure financial stability; (b) providing liquidity to banks within a predetermined ceiling; (c) ensuring sufficient cash currency (banknotes and coins) needed in the economy; (d) performing a lender of last resort function within prescribed limits, (e) holding and managing all the country's international reserves; (f) providing a centralized clearing function for the payment system; (g) performing an oversight of other payments and security settlement systems; (h) compilation and dissemination of statistics necessary for the other core functions; (i) acting as financial adviser and fiscal agent of the state; and (j) reporting to the government and National Assembly (accountability).

2. **The policy choice of full dollarization means that the country relinquishes an independent monetary policy.** Typical central bank responsibilities such as conducting an independent interest rate policy then become constrained, especially in the context of a fully liberalized capital account. However, a central bank in a dollarized economy could still act as a market maker and influence the liquidity position of banks both through reserve requirements (as is in Ecuador) and market operations, although in a limited way, with a view to smoothing short-term interest rate fluctuations. This means that the central bank in a dollarized economy would have to regularly define a cap for liquidity management operations with local banks, adopt prudential restrictions (e.g. collateral, terms, etc), and take into account the need to align with US$ interest rates and balance of payments' sustainability limits.

3. **The authorities plan to include the core central bank functions listed above in the BCE's revised legal framework.** With the help of IMF technical assistance, the authorities identified a list of core central bank functions and responsibilities to be included in the BCE's revised legal framework. A limited number of additional functions that are specific to Ecuador—e.g. the BCE certifies electronic signatures—will also be added to the list of the BCE's functions.

4. **One of the main objectives of the reform of the central bank legal framework is supporting the dollarization regime.** In practical terms this means that the BCE's legal framework should prohibit all central bank financing of the public sector, including quasi-fiscal spending and all forms of indirect lending to the government and public sector. In addition, the BCE's balance sheet requires at a minimum the full backing of specific central bank liabilities with freely usable international reserves. The authorities intend to reintroduce the so-called four balances system, which provides for such a backing. An appropriate set of transitional arrangements will need to be defined.

[1] Prepared by Hans Weenink.

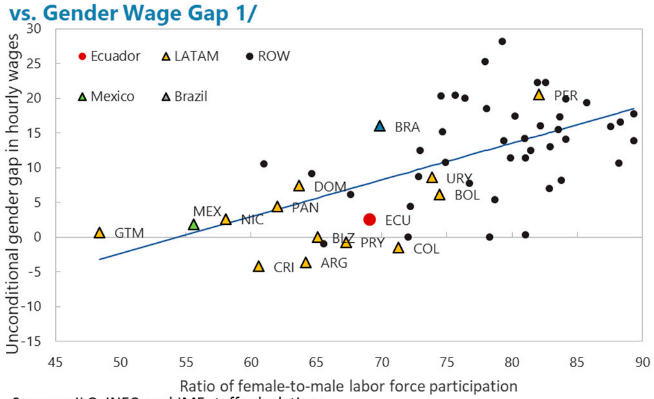
5. The authorities have indicated that they accept the need to align the BCE with international good practices with respect to central bank autonomy and sound governance. These good practices require a central bank to have autonomy to decide on the substance and implementation of its core functions. The latter implies that third parties (including the government and banks) cannot block the central bank's decisions. Also, decision-making bodies should not seek instructions from other authorities, while members of those bodies should have security of tenure, and the institution should be financially autonomous to fulfill its mandate. This implies that the BCE's revised legal framework should contain provisions ensuring sustainability of the BCE's bank operations (i.e. a capital level that covers key risks faced by the BCE), and a commitment to take adequate measures (i.e. seek recapitalization) in case of erosion of the BCE's capital. In addition, the BCE needs a sound governance structure that provides for internal checks and balances and ensures effective oversight over the way that management and policy decisions are taken. Finally, the authorities accept the need for collegial decision-making in the BCE.

Annex III. Gender Wage Gap in Ecuador[1]

1. **The difference in average hourly wages between men and women is relatively low in Ecuador.** The unconditional gender wage gap (defined as the difference in average hourly wages between men and women, as a percentage of the average male hourly wage) in Ecuador reached 2.5 percent in 2017, similar to the average of Latin America and below that of other regions (Figure 5, Panel 4).

2. **Female labor force participation remains below male labor force participation.** The female labor force participation rate in Ecuador has increased in recent years, from 49 percent in 2014 to 55 percent in 2018. However, women are still significantly less likely to participate in the labor market than men, with the relative female labor force participation (defined as the ratio of female to male labor force participation rates) reaching only 69 percent in 2018.

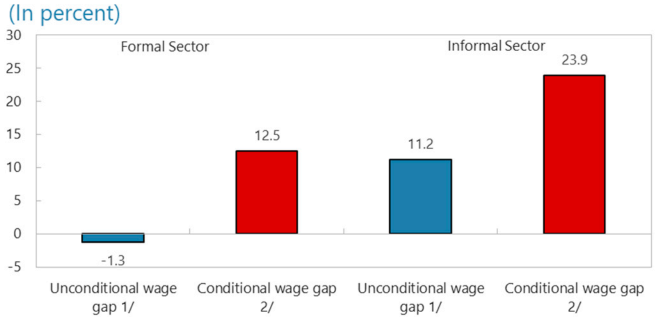
Figure 1. Ratio of Female-to-Male Labor Force Participation vs. Gender Wage Gap 1/



Sources: ILO, INEC, and IMF staff calculations.
1/ Data on 57 countries, latest available for each country in the period 2014-2017.

3. Ecuador's low unconditional gender wage gap and its low relative female labor force participation are in line with cross-country evidence. In countries with lower relative female participation in labor markets, only more qualified women tend to enter the labor force. As a result, the observed gender differences in average wages tend to be lower. There is indeed a positive correlation between relative female labor force participation and the unconditional wage gap across countries (Figure 1). And this relationship also holds within regions. For instance, in Latin America the countries with lower participation of women in labor markets also have lower unconditional pay gaps.

Figure 2. Ecuador: Gender Wage Gap, 2017
(In percent)



Sources: INEC and IMF staff calculations.
1/ The unconditional hourly wage gap is calculated as the difference between average hourly earnings of men and average hourly earnings of women as a percentage of average hourly earnings of men.
2/ The conditional hourly wage gap is estimated as the difference in (log) hourly wages between men and women, controlling for categorical variables for age, education, and geographic location.

4. **Once we account for worker characteristics, the gender wage gap in Ecuador is significantly larger.** The unconditional gender wage gap does not consider differences in attributes such as education and age between men and women. Female workers in Ecuador tend to be more qualified than male workers. For example, almost 28 percent of female workers have at least some college education, compared to 16 percent of male workers. When controlling for worker characteristics (education and age) and geographic location, we find a much larger gender wage gap, which reaches 12 percent and 24 percent in the formal and informal sectors, respectively (Figure 2).

[1] Prepared by Fernanda Brollo.

Appendix I. Letter of Intent

June 14, 2019

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms Lagarde:

1. Ecuador has embarked upon a historic transition that will both modernize the economy and strengthen economic growth and job creation for generations to come. These efforts are being undertaken with special regard to Ecuador's vulnerable citizens ensuring their living standards improve as this transition proceeds. We are moving ahead with the utmost transparency, which we believe should be the hallmark of a modern Ecuador, leaving behind the opaque practices of the recent past and consulting closely with the Ecuadorian people as we embark upon our program of prosperity.

2. It is in this context that we have sought the support of the International Monetary Fund. We have updated our comprehensive social and macroeconomic program called *Plan de Prosperidad*, which is detailed in the attached Memorandum of Economic and Financial Policies. This economic program is aligned with the objectives of our National Development Plan and has the achievement of the U.N. Sustainable Development Goals 2030 as its north star. Our program is based on four basic tenets: (i) to rebuild and strengthen the institutional foundations of dollarization; (ii) to generate employment and growth through more competitiveness; (iii) to promote equality of opportunity and protect the poor and vulnerable; and, (iv) to ensure full transparency and good governance. Additionally, strengthening Ecuador´s dollarized system will require efforts on the following fronts: restoring prudence in fiscal policy, strengthening the institutional framework of the Central Bank; boosting resilience of the financial system, and supporting job creation through competitiveness and growth.

3. To further the implementation of our program, we are requesting completion of the first review of the extended arrangement under the IMF's Extended Fund Facility and the disbursement of the associated amount, equivalent to SDR 180.65 million (the equivalent of US$250.14 million). We are requesting that the full amount of this Fund financing be made available for budget support. We have also secured the necessary support to our program from other international partners that have collectively agreed to provide additional financing of about US$6 billion over the course of the next three years. We are also requesting a waiver of non-observance of the continuous performance criteria on new gross central bank financing of the non-bank public financial sector, and modifications of the performance criteria on the non-oil primary balance, floor on social spending, and floor on net international reserves.

4. The Ecuadorian government will collaborate with Fund staff to keep track of economic developments and performance under our program and we stand ready to take additional policy decisions that may become necessary to achieve our program objectives. In accordance with Fund policies, we will consult with the IMF on the adoption of these decisions and in advance of any changes to our policy plans. We are committed to providing the Fund with timely and accurate data in order to facilitate the tracking of our progress in the implementation of our program.

5. 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.

Sincerely yours,

/s/

Richard Martínez Alvarado
Minister of Economy and Finance

/s/

Verónica Artola Jarrín
General Manager
The Central Bank of Ecuador

Attachments:

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

1. The foundations of our dollarized economic system have been undermined by a steady erosion of domestic institutions, including the independence of the Central Bank; by a weakened system of public governance; and by persistent fiscal imbalances that are inconsistent with our dollarized economy. It is our strong commitment to reverse these trends in order to leave the next administration with a well-managed, and more socially equitable, efficient, and competitive economy.

2. We have already made important progress in implementing our policy plans in a range of areas. In August of last year, we reached consensus in the National Assembly to pass the *Ley de Fomento Productivo*. This law put an end to Central Bank financing of the budget and introduced a new fiscal framework that will help guide policies and reduce our public debt in the short and medium term. We are also carefully reducing the cost and distortions rooted in how fuel subsidies are provided, generating efficiencies and social equity as we redirect those resources to better support for lower income households.

3. The following sections of this memorandum outline in detail our policy plans for the coming three years that will underpin our goals of strengthening the institutional foundations of dollarization, raising the living standards of our most vulnerable citizens, bolstering competitiveness and job creation, and ensuring our government is accountable to the people that it serves.

A. Restoring Prudence to Fiscal Policy

4. Over the past decade, our total public debt has almost doubled from 24 percent of GDP in 2008 to 46 percent of GDP in 2018 according to IMF metrics and institutional coverage. This happened despite Ecuador benefitting from unusually high world oil prices during this period. Buffers, including the Central Bank's international reserves and savings in the Oil Fund, have been eroded and the government's ability to respond to national emergencies has been seriously weakened.

5. At this stage, with global financial conditions tightening and an uncertain outlook for global oil prices, the government is committed to restoring order to Ecuador´s fiscal accounts. Our goal is to quickly reverse the upward trajectory of our public debt-GDP ratio and, over time, bring our debt below our benchmark target of 40 percent of GDP. That target will once again become a legally binding limit on future public indebtedness. Our fiscal plan is carefully designed to minimize the impact of this transition on the real economy and the living standards of the Ecuadorian people, helping generate opportunities in the near future. To bridge this transition, we have asked the Fund to provide temporary financing to the budget.

6. Our intention is to reduce the Non-Financial Public Sector non-oil primary deficit including fuel subsidies, by 5 percent of GDP during 2019-2021. The burden of the realignment of our fiscal position will mostly be borne by the ongoing streamlining the operations of the government but also with a broad-based effort on the part of the people of Ecuador. This effort will remain focused on promoting high quality employment, and on continued wide access to services, including health and education. The main pillars of this effort includes the following: (i) a realignment of the public sector wage bill respecting labor rights and protecting the provision of services; (ii) an optimization of the system of fuel subsidies to benefit the poor and vulnerable and reduce distortions; (iii) a reform of the tax system to make it more equitable, growth-friendly and simpler (structural benchmark under the program); and, (iv) a reduction in public spending on capital and goods and services. The savings and revenues generated from these efforts will allow us to increase spending on social assistance and phase out the distortionary tax on transfers abroad once macroeconomic stability is restored and the reserve position is strengthened.

7. A significant down-payment on this deficit reduction effort will be made in 2019. This year, we intend to achieve our fiscal goals largely through a reduction in primary spending. The measures envisaged for 2019 include:

- A careful realignment of the wage bill through a balanced strategy of wage restraint and prudent decisions on the renewal of occasional contracts and new hiring of public employees. We have already announced measures in this regard, including changes in state-owned enterprises. We also plan to renew only one of every two expiring contracts in the non-social sectors and will harmonize the wages of newly hired public employees with those in the private sector, which are currently generally lower than public sector wages;

- Continued optimization of fuel subsidies through the normalization of diesel prices for industrial purposes reducing distortions and ensuring that the intended population benefits from the subsidy. This continued optimization will get Ecuador closer to having a system to administer fuel subsidies in a way that promotes social equity and efficiency and reduces the environmental and health effects of excessive consumption. We also expect to continue to benefit from savings resulting of the increases in gasoline prices that were implemented in 2018. It is worth noting that these and future policy decisions will be designed not to affect the poor and vulnerable and that they are expected not to have a major impact on retail consumer price levels;

- Improving the terms and conditions in the procurement of goods and services by using competitive bidding, framework and wholesale agreements, making processes more transparent and timely and improving inventory management;

- Updating the schedule of fees charged for government services to more accurately reflect their costs and the markets they serve;

- Leasing concession rights of public assets to private partners ensuring that they remain under public ownership. This will be done with utterly transparent process maximizing the benefit to the state, ensuring coverage of services will not be affected and protecting the budget from contingent liabilities.

8. Part of the savings and revenue generated from these measures will allow the government to increase social assistance spending and provide greater support to the most vulnerable. *Plan Toda Una Vida,* the Government´s emblematic program will be strengthened. This program ensures access to health, education, safe and healthy habitat, housing and water by all segments of the population with emphasis on the most vulnerable, women, the elderly and disabled. It is our strong commitment to ensure that all Ecuadorian citizens have access to equal opportunities and a decent and fulfilling life.

9. In the event fiscal outcomes are projected to fall short of program targets, we are committed to deploying contingency measures to fully comply with program targets. Such measures could include a further rationalization of spending (on a commitment basis) on goods and services, capital, and fuel subsidies.

10. We also intend to strengthen the structural underpinnings of our fiscal system. The revisions to the medium-term fiscal policy framework contained in the *Ley de Fomento Productivo* were a major step forward in creating a consistent, prudent, and accountable framework for the conduct of fiscal policies. We intend to strengthen this framework by complementing the expenditure growth rule with binding annual targets for the non-oil primary balance. As an end-June structural benchmark under the program, we will review the Law and corresponding regulations to ensure that public debt is comprehensively defined and, for statistical purposes, is measured on a consolidated basis in line with international standards; that the institutional coverage of the debt and expenditure rule apply to the nonfinancial public sector, that the necessary mechanisms are put in place to ensure the effective operation of the expenditure rule and its interaction with the constitutional "golden rule"; that rules dictating the accumulation of assets for the stabilization fund do not jeopardize compliance with fiscal rules and our fiscal plan; and that escape clauses, automatic correction mechanisms (e.g. for past deviations from the fiscal rules), and in-year fiscal reporting are strengthened.

11. To increase our accountability to the Ecuadorian people we will strengthen our current system of data disclosure, provision and monitoring at all stages of the budget cycle as well as institute clear and automatic enforcement mechanisms and effective sanctions for non-adherence to the law. We are also working with technical assistance experts to modernize our budget processes.

12. Amendments to the *Código Orgánico de Planificación y Finanzas Públicas* will ensure that the role of the Minister of Economy and Finance as the fiscal oversight authority is strengthened; that annual budgets are prepared in line with best international practices; that binding expenditure ceilings are introduced in line with the overall fiscal framework; that government discretion to amend approved budgets is limited and a robust framework for contingency allocation is introduced; that budget execution is kept in check by comprehensive, timely, and proper government accounting and reporting as well as the adoption of better cash management practices and commitment controls. As part of these efforts, we intend to create a system of information collection on domestic expenditure arrears, assess the current stock of expenditure arrears, and implement institutional arrangements to better report on and control expenditure commitments (structural benchmarks under the program by end-June and end-September). We will work with technical assistance experts from international institutions to modernize our budget and cash management processes and controls. We published an action plan aimed at strengthening our public financial management at the end of April and intend to submit to the National Assembly the relevant legislative amendments by the end of June (structural benchmarks under the program).

13. In order to safeguard the creditworthiness of our country, we commit to refrain from new government international borrowing arrangements that are based on repurchase agreements or the pledging of Central Bank assets.

B. Strengthening the Institutional Framework of the Central Bank

14. Our strong commitment to the dollarization regime requires that the institutional basis governing the Central Bank is rebuilt and fortified with a clear legal framework. These efforts to strengthen dollarization will ensure that the purchasing power of all Ecuadorian families is protected and the financial value of their homes and other family assets is maintained, allowing access to credit and stability and predictability when making economic decisions.

15. Regrettably, the institutional foundations of the Central Bank of Ecuador have been seriously eroded but the recently passed *Ley de Fomento Productivo* has prohibited the Central Bank from investing in securities issued by public sector entities.

16. To reinforce these already-legislated limits on Central Bank budgetary financing, we have recently issued a regulation of the Monetary Board of the Central Bank that prohibits all future quasi-fiscal activities of the Central Bank as well as direct and indirect lending to the government or public sector (including loans, advances, guarantees or transactions that indirectly support lending operations of the public sector). We intend to incorporate these changes into legislation (i.e. *Código Orgánico Monetario Financiero*) by end-September (a structural benchmark under the program). We underline, however, that the Central Bank will continue to be able to provide temporary liquidity support to public banks, if needed for prudential purposes. We also intend to unwind past transactions that resulted in the Central Bank holding either directly or indirectly government debt (including the recent transfer of equity in public banks to the Central Bank's balance sheet).

17. To further strengthen the basis for dollarization, our goal is to gradually build international reserves over the remainder of this administration to ensure that, by the end of this arrangement, that international reserve assets of the Central Bank fully back both: (i) the reserves held at the Central Bank of private financial institutions and public financial institutions that receive deposits from the public; and (ii) national coins in circulation.

18. Finally, in keeping with the end-May structural benchmark, we submitted to Cabinet an overhaul the legislative underpinnings of Central Bank activities. We intend to ensure the Central Bank has clear objectives and limited functions, designed to fully support the dollarization regime. This will include strengthening operational autonomy by establishing an independent Central Bank Board that has fiduciary responsibilities to the Central Bank and building a strong internal and external audit function. As a first step in this process, and consistent with our commitment to transparency and good governance, we have recently published the past externally-audited financial statements of the Central Bank.

C. Boosting Resilience of the Financial System

19. We are confident that our financial system is strong, liquid, and well-capitalized. We have seen private credit growing at a rapid pace and the economic slowdown is likely to put strains on the system and pressure on the BOP via imports, calling for greater supervisory scrutiny, particularly of cooperatives which have grown rapidly of late. To improve our ability to better understand and manage financial stability risks, we intend to strengthen our monitoring of household indebtedness and housing prices and will consider whether a new macroprudential framework is needed to mitigate risk accumulation in the system. New requirements—including loan-to-value ratios for mortgage lending—will be under consideration.

20. To bolster confidence in the banking system, we intend to re-examine our banking resolution procedures, our crisis preparedness framework, and the adequacy of the liquidity fund and deposit insurance scheme. Over time, we will diversify the deposit insurance fund's assets away from sovereign debt under a revised portfolio strategy based on best international practice.

21. Finally, to deepen financial intermediation and reduce sovereign-financial linkages we intend to simplify the various liquidity requirements that face banks to better align minimum and domestic liquidity requirements with international best practice. The liquidity constraints imposed on the financial sector will be gradually removed in order to achieve a simpler and more efficient reserve requirement system. To create a more competitive financial system, we intend to improve our interest rate policies to foster savings, investment and production.

D. Supporting Job Creation, Competitiveness and Growth

22. Our administration is committed to restoring the international competitiveness of our economy and to catalyzing private sector-led growth while raising living standards for all of Ecuador's people. Our goal is to make Ecuador a preferred destination for businesses worldwide and to boost employment and reduce informality in the economy. This will require fundamental changes on a number of fronts including:

- ***Tax Regime***. The government will publish a plan of the tax changes by end-August and submit to the National Assembly by end-October a legislation to upgrade our current system of taxation to make it more equitable, growth-friendly and simpler (structural benchmarks under the program). The goals of the tax reform will be to: (i) simplify the tax system, (ii) broaden the tax base; and, (iii) eliminate unwarranted and unequitable tax exemptions, special regimes and preferences which now benefit the wealthier segments of the population; (iv) rebalance the system from direct to indirect taxation; and (v) phase out distortionary turnover taxes and levies on transfers abroad. The revenue yield from this reform will be enhanced by strengthening the current system of tax and customs administration, including the merger of tax and customs authorities.

- ***Entrepreneurship***. Our administration is committed to foster entrepreneurship and innovation as a way to bolster job creation and growth. In addition to the measures established in the *Ley de* Fomento *Productivo,* we are currently discussing an Entrepreneurship Law that will eliminate obstacles to business formation and operation and provide a strong legal framework for new businesses.

- ***Housing.*** Our housing program "*Casa Para Todos*" will help promote job creation and activity in the construction sector while, broadening the opportunity for low and middle-income households to own their own home. We are partnering with private businesses and financial institutions in this effort and are confident that broader home ownership will provide a path for wealth creation, help the poor move out of poverty by increasing their ownership of assets and providing them a safe and healthy habitat, while also strengthening and expanding the middle class.

- ***Labor Markets.*** Ecuador is in urgent need of a labor market reform that will improve access to formal jobs -especially by women and young workers-; and increase the ability and willingness of entrepreneurs and firms to hire and grow. A labor reform will involve adapting to market and social conditions, carefully rolling back the current constraints that result in less opportunities for the unemployed. With this reform we intend to gradually reduce implicit hiring costs and provide a strong incentive to create new jobs and for small and medium enterprises to grow. This reform will converge to a labor market that adapts to different industries and responds to the needs of women and the youth.

- ***Public-Private Partnerships.*** To encourage private investment, we will legislate an institutional framework for public-private partnerships guided by best international practices. We believe this will increase productivity, lessen the pressures on the budget, and create efficiency gains to support economy-wide increases in productivity.

- ***Capital Market Regulations.*** To provide capital for new investments, we are examining our legal framework for capital markets to increase the flow of resources from investors to corporations that are in need of financing.

- ***Trade.*** Our administration has already taken steps in opening Ecuador to world trade. The *Ley de Fomento Productivo* ensured companies will have access to international arbitration mechanisms in line with our constitutional framework. This should attract foreign investors. Our recent trade agreements with the European Union and the European Free Trade Association (EFTA) could further increase business opportunities and incentivize private investment. Our intent is to continue seeking trade agreements with both regional and international players. In this regard, we are in the process of joining the Pacific Alliance, and we expect these negotiations to be concluded in the near future.

- ***Gender equality.*** While Ecuador compares favorably to other countries in the region on pay gap between men and women, we are committed to further promote fairness and gender equality. We will continue our policies of supporting families with young children and ensuring provision of childcare programs. The introduction of a broad range of employment contracts will particularly benefit women who may prefer to work part-time or in temporary employment likely increasing their participation in the workforce. Other policies aimed at making the labor market more dynamic could help stimulate the growth of the services sector, which would support participation of women in the labor market. We are committed to the reduction of gender-based violence in all its forms as shown by the recently approved legislation to prevent and eradicate it.

E. Promoting Shared Prosperity and Protecting the Poor and Vulnerable

23. Our nation is proud of the gains we have made in supporting those who struggle to make ends meet in their daily lives. *"Plan Toda Una Vida"* is a government priority and we intend to expand the coverage of the program during our administration as our poverty rate must be reduced further. Poverty rates among the rural and indigenous populations are particularly worrying. We are committed, therefore, to do more to protect the neediest members of our society. Our economic program will incorporate a significant increase (of around US$400 million) on social assistance spending in 2019 and we will maintain a floor on social assistance spending of 1.2 percent of GDP throughout the life of our program.

24. We are currently working with international partners to extend coverage and raise the level of benefits for the existing "*Bono de Desarrollo Humano*" conditional cash transfer program. We also intend to increase spending to support our disabled population through the "*Misión Las Manuelas*" program and the elderly through the "*Mis Mejores Años*" program. We intend to expand the coverage of our system of non-contributory pensions and will design a comprehensive plan to strengthen our social programs, ensuring their resources are concentrated on supporting those most in need. These programmatic changes will be supported by an update and modernization of the social registry (which identifies those citizens in need of assistance). This will ensure proper targeting, comprehensive coverage, and better information management of administrative data.

25. We are committed to strengthen the efficiency and quality of primary education and health spending to improve our education and health outcomes and to underpin our longer-term efforts to build human capital and improve inclusion and mobility. Learning, preventive health and stunting are areas where our social programs will be working. We will identify efficiency gains in sectoral budgets without sacrificing coverage and quality of service provision, while prioritizing investments with high human capital returns (publication of an action plan by end-September is a structural benchmark under the program).

F. Transparency and Good Governance

26. Much has been achieved in promoting transparency and fighting corruption in the country during the present administration, but there is a lot more to be done, through a multi-pronged strategy that covers various areas (outlined below). The combination of these efforts will help improve the business climate, lower the cost of public financing, and support private investment and job creation.

- ***Anti-Corruption Legislation.*** At the core of our strategy will be a broad anti-corruption law that we intend to submit to the National Assembly later this year (an end-September structural benchmark). The strategy will enhance the independence and power of law enforcement agencies and the judiciary; strengthen anti-corruption institutions and domestic and international coordination of anti-corruption efforts among different agencies; and improve access to information about government operations to facilitate civil society oversight. In advance of this legislation, this administration has already taken steps to improve governance through the appointment of a transitional Citizens Participation and Social Control Council last year. This will deepen our commitment as signatories of the United Nations Convention against corruption.

- ***Fiscal policy.*** We are working to increase transparency and improve practices in Ecuador´s fiscal management. Our recent publication of public debt data that is in conformity with international standards is an important first step. We are committed to publishing greater information on our draft budget to better quantify fiscal measures and risks and to better assess our compliance with our fiscal rules. We are working with international partners to strengthen our public procurement processes and will, in the near future, require all procurement contracts to be published always in compliance with the regulations protecting personal data. Additionally, we are improving our budget management practices to ensure transparency, timeliness, quality and efficiency, and will encourage observatories to hold the government accountable on its commitments. As part of our transparency effort, we will provide detailed information on external non-financial public-sector debt, including information on all collateralized debt and debt with similar arrangements to the IMF on regular basis (quarterly structural benchmarks for end-March, end-June, end-September, and end-December under the program).

- ***Central Bank.*** As discussed above, we have already published the Central Bank's financial statements for 2017 and will publish future statements as they become available. In 2019, we intend to produce the financial statements of the Central Bank in conformance with International Financial Reporting Standards and will begin publishing financial statements of the Central Bank under this new standard starting in 2021.

- ***Oil Sector.*** We will begin publishing externally-audited financial statements of the state-owned enterprises, including oil companies (adoption by end-June of the regulation to ensure publication is a structural benchmark under the program) and will increase the transparency of employment policies in oil companies. To achieve greater efficiencies and improve governance, we intend to merge the operations of the two state-owned oil companies, in coordination with the Inter-American Development Bank. To further institutionalize transparency in our oil sector, over the course of the extended arrangement we will seek technical assistance to assist us in pursuing membership of the Extractive Industries Transparency Initiative.

- ***Anti-Money Laundering and Countering Financing of Terrorism.*** In line with the FATF standard, we intend to develop an AML/CFT national risk assessment that properly prioritizes corruption-related threats by 2020. By end-September 2019 we will start upgrading our regulatory and risk-based supervisory tools to ensure that banks and other relevant entities adequately monitor business relationships with senior officials and that the existing asset declaration regime for senior government officials is strengthened. The Government will submit draft legislation to the National Assembly by end-September 2019 to strengthen the framework to ensure that the proceeds of acts of corruption can be frozen, seized and confiscated in line with the Constitution and the United Nations Convention Against Corruption.

27. 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 TMU attached hereto. It is expected that the second review will take place on or after September 15, and third on or after December 15.

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets, 2019-2020

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

	2019								2020
	End-Mar		End-Jun		End-Sep		End-Dec		End-Mar
	Prog. PC 1/	Actual	Prog. PC 1/	Proposed PC	Prog. 1/	Proposed PC	Prog. 1/	Proposed IT	Proposed IT
Fiscal Targets 2/									
Quantitative Performance Criteria									
Floor on non-oil primary balance of the non-financial public sector, including petroleum subsidies	-712	-115	-885	-885	-2,450	-2,200	-3,506	-3,148	245
Floor on social assistance spending of the central government - program definition	175	183	440	343	705	..	1,040	..	..
Floor on social assistance spending of the central government - revised program definition	..	..	..	380	..	695	..	1,202	315
Indicative Targets									
Floor on overall fiscal balance of the non-financial public sector	277	148	890	59	354	-392	24	-291	1,241
Monetary Targets 2/									
Quantitative Performance Criterion									
Floor on the change in the stock of NIR - program definition 3/	1,823	2,388	2,627	1,220	2,788	..	3,097	..	..
Floor on the change in the stock of NIR - revised program definition 4/	..	..	..	1,284	..	2,057	..	3,132	716
Continuous Performance Criteria 5/									
Ceiling on the change in external payment arrears 6/	0	0	0	0	0	0	0	0	0
Ceiling on the new gross central bank direct financing of the NFPS and indirect financing to the NFPS through the public banks	0	120	0	0	0	0	0	0	0

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

1/ Staff Report for the 2019 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility (March 20, 2019, CR 19/79)

2/ Cumulative flow from January, 1 to the test date.

3/ Based on program exchange rates as defined in the TMU.

4/ Excluding deposits of Other Financial Institutions and short-term liabilities of the central government.

5/ Continuous performance criteria must be observed at all points in time.

6/ Excluding interest on earlier obligations resulting from the 2008 swap that have not been claimed by creditors even though authorities pursued them in good faith.

Table 2. Ecuador: Prior Actions and Structural Benchmarks

Past Prior Actions				**Implementation Status**
1.	Passage by the Monetary Board (Junta de Política y Regulación Monetaria y Financiera) of a regulation that prohibits quasi-fiscal spending by the Central Bank, as well as any direct or indirect lending to the non-financial public sector, including that via public banks. This PA covers the purchase of securities, advances, or guarantees, or financial transactions that are a condition precedent for lending operations entered into by the government. This PA does not cover trade credits.			Met
2.	Publication of the Central Bank's financial statements.			Met
3.	Provision of detailed information on external non-financial public-sector debt, including information on all collateralized debt and debt with similar arrangements, such as repo transactions, debt requiring escrow or other encumbered accounts overseas that may serve the function of collateral, and other similar debt involving the pledge, sale/resale, or encumbrance of assets. The information on collateralized debt and debt with similar arrangements will include all contracts related to such debt; information on the escrow or similar accounts overseas that may serve as the function of 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.			Met
Structural Benchmarks		**Objective**	**Date**	**Implementation Status**
1.	Provision of detailed information on new external non-financial public-sector debt incurred during the previous quarter, including on all collateralized debt and debt with similar arrangements, such as repo transactions, debt requiring escrow or other encumbered accounts overseas that may serve the function of collateral, and other similar debt involving the pledge, sale/resale, or encumbrance of assets. The information on collateralized debt and debt with similar arrangements will include all contracts related to such debt; information on the escrow or similar accounts overseas that may serve as the function of collateral; and detailed information for each creditor on the	To ensure transparency of new debt operations.	End-March, June, September, and December 2019	Met at end-March

Table 2. Ecuador: Prior Actions and Structural Benchmarks (Continued)				
Structural Benchmarks		**Objective**	**Date**	**Implementation Status**
	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.			
2.	Publication of an action plan, in coordination with IMF technical assistance, to strengthen public financial management aimed at preparing budgets with a top-down approach and medium-term orientation; implementing sound budget execution and cash management practices, and transparent fiscal reporting.	To improve budget processes.	End-April 2019	Met
3.	Submission to the Cabinet, in coordination with Fund staff, of amendments to the Central Bank's legal framework to (i) introduce autonomous governance arrangements, (ii) improve its objectives and functions in line with best practice, (iii) provide for the phased-in recapitalization of the Central Bank, (iv) introduce a backing rule that requires a timetable to cover specific Central Bank liabilities with international reserve assets and (v) introduce a prohibition on quasi-fiscal activities of the Central Bank and on monetary financing of the government that prohibits quasi-fiscal spending by the Central Bank, as well as any direct or indirect lending to the non-financial public sector, including that via public banks (this covers the purchase of securities, advances, or guarantees, or financial transactions that are a condition precedent for lending operations entered into by the government but not trade credits), and (vi) introduce modifications to allow for the publication of external auditor's opinion and detailed notes.	To strengthen the institutional underpinnings of dollarization.	End-May 2019	Met

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

Structural Benchmarks		Objective	Date	Implementation Status
4.	Submission to the National Assembly of amendments to the Organic Code of Planning and Public Finances and any other relevant laws, in consultation with Fund staff, to (i) limit the discretion of the Executive to amend the annual budget that is approved by the National Assembly and introduce a robust framework for a contingency allocation in the budget, (ii) restrict the use of CETES (treasury certificates) for short-term financing and develop a plan of reducing the current stock of CETES, (iii) explicitly define the institutional coverage of the public debt and expenditure rules to be the consolidated nonfinancial public sector (NFPS); (iv) adopt binding annual targets for the NFPS non-oil primary balance; (v) introduce the necessary mechanisms to support the effective operation of expenditure rule and its interaction with the Constitutional "golden rule," (vi) adopt a standardized definition of arrears and strengthen their monitoring and reporting, and (vii) introduce a 90-day payment deadline for the current and capital expenses associated with the acquisition of goods and services from the date of their accrual ("*devengo*" according to Ecuadorian statutes).	To strengthen fiscal management and clarify the fiscal rules framework.	End-June 2019	Proposed to be modified
5.	Adoption of a government regulation to ensure the publication of audited, annual financial statements by all state-owned enterprises starting in fiscal year 2019.	To strengthen transparency of state enterprises.	End-June 2019	
6.	Modernize computer systems at the level of the central government to introduce necessary changes to collect information on domestic payment arrears of the central government.	To strengthen expenditure controls.	End-January 2020	Dates proposed to be reset
7.	Publication of a plan, in coordination with IMF technical assistance, to upgrade our current system of taxation to make it more growth-friendly, simpler, and more equitable. The tax reform will be aimed at improving revenue	To improve the tax system.	End-August 2019	

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

Structural Benchmarks		Objective	Date	Implementation Status
	mobilization, increasing efficiency, simplicity, and equity, shifting from direct to indirect taxes, and reducing exemptions and preferential treatment. This reform will target an increase in revenues of 1½ to 2 percent of GDP by 2021.			
8.	Define and publish the eligibility thresholds for social assistance (non-contributory) cash transfer programs included in the definition of the floor on social assistance spending of the central government.	To strengthen social protection.	End-September 2019	Newly proposed benchmark
9.	Submission of an anti-corruption legislation to the National Assembly including measures to (i) ensure that acts of corruption are criminalized in line with the UNCAC and that preventive measures, in particular with a focus on public officials, are implemented, (ii) freeze, seize and confiscate proceeds of acts of corruption in line with FATF Recommendation 4, and (iii) ensure that banks and other relevant institutions and professions are required to implement enhanced customer due diligence on senior officials in line with FATF Recommendation 12.	To improve governance and tackle corruption.	End-September 2019	
10.	Submission to the National Assembly, in consultation with Fund staff, of amendments to the Central Bank's legal framework to (i) introduce autonomous governance arrangements, (ii) improve its objectives and functions in line with best practice, (iii) provide for the phased-in recapitalization of the Central Bank, (iv) introduce a backing rule that requires a timetable to cover specific Central Bank liabilities with international reserve assets and (v) introduce a prohibition on quasi-fiscal activities of the Central Bank and on monetary financing of the government that prohibits quasi-fiscal spending by the Central Bank, as well as any direct or indirect lending to the non-financial public sector, including that via public	To strengthen the institutional underpinnings of dollarization.	End-September 2019	

Table 2. Ecuador: Prior Actions and Structural Benchmarks (Concluded)				
Structural Benchmarks		**Objective**	**Date**	**Implementation Status**
	banks (this covers the purchase of securities, advances, or guarantees, or financial transactions that are a condition precedent for lending operations entered into by the government but not trade credits), and (vi) introduce modifications to allow for the publication of external auditor's opinion and detailed notes.			
11.	Submit to IMF staff a plan of arrears clearance based on the survey of arrears at the central government level.	To strengthen expenditure controls.	End-September 2019	
12.	Publication of an action plan, in coordination with World Bank technical assistance, to strengthen the efficiency and quality of primary education and health spending.	To improve education and health outcomes.	End-December 2019	Dates proposed to be reset
13.	Submission to the National Assembly, in consultation with Fund staff, of a broad-based growth-friendly tax reform aimed at improving revenue mobilization, increasing efficiency, simplicity, and equity, shifting from direct to indirect taxes, and reducing exemptions and preferential treatment. This reform will target an increase in revenues of 1½ to 2 percent of GDP by 2021.	To improve the tax system.	End-October 2019	
14.	Submission of a plan to IMF staff, prepared jointly by the Ministry of Economy and Finance and the Central Bank, setting out a plan for divesting the shares in public banks received by the BCE in 2017.	To strengthen the institutional underpinnings of dollarization.	End-December 2019	Newly proposed benchmark
15.	Establishment by the BCE of an audit committee, consisting of non-executive directors of the BCE Board, including at least one member with accounting expertise.	To strengthen the institutional underpinnings of dollarization.	End-March 2020	Newly proposed benchmark
16.	Approval of an internal audit charter by the new BCE audit committee, which (i) states the function's mandate, independence, authority, and objectivity; (ii) requires adherence to the Institute of Internal Auditors (IIA) standards; (iii) ensures full coverage of all BCE's activities; and (iv) defines the reporting lines and modalities.	To strengthen the institutional underpinnings of dollarization.	End-March 2020	Newly proposed benchmark

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), indicative targets (ITs), and 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 purposes 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.

3. Program exchange rates. For the purposes of the program, the exchange rate of the U.S. dollar for the duration of the program is set as shown in Table 1.

Table 1. Ecuador: Program Exchange Rates

US Dollar to Euro	0.87
US Dollar to Renminbi	6.70
US Dollar to Yen	108.89
US Dollar to SDR	0.71
US Dollar to British Pound	0.76
US Dollar to South Korean Won	1,112.72
US Dollar to Swiss Franc	0.99
US Dollar to Canadian Dollar	1.31
US Dollar to Danish Krone	6.52
US Dollar to Swedish Krone	9.05
US Dollar to Norwegian Krone	8.43
US Dollar to Australian Dollar	1.37
US Dollar to Mexican Peso	19.11
US Dollar to Colombian Peso	3,106.50
Gold prices (US$/ounce)	1,321.25

Source: Bloomberg, as of January 31, 2019.

4. In addition to the performance criteria listed in Table 1 of Attachment I 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 introduction or modification of multiple currency practices;

(iii) no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement;
(iv) no imposition or intensification of import restrictions for balance of payments reasons;

These four performance criteria will be monitored continuously.

A. Quantitative Performance Criteria: Definition of Variables

Floor of the Non-Oil Primary Balance of the Non-Financial Public Sector, Including Petroleum Subsidies

Definitions

5. *The Non-Financial Public Sector (NFPS, Sector Público No Financiero)* for the purposes of the program consists of the central government (PGE, including universities), Decentralized Autonomous Governments (including municipal governments, provincial governments and parish boards), Social Security Funds (including IESS, ISSFA, ISSPOL and BIESS), Non-Financial Public Corporation (detailed in the table below) and Development Bank of Ecuador (BDE)**.**

Table 2. Ecuador: Non-Financial Public Sector Corporations Covered Under the Definition of NFPS
Empresa Pública de Exploración y Explotación de Hidrocarburos Petroamazonas EP
Empresa Pública de Hidrocarburos del Ecuador Petroecuador EP
Empresa Pública Flota Petrolera Ecuatoriana-EP FLOPEC
Ferrocarriles del Ecuador Empresa Pública - FEEP
Empresa Pública TAME Línea Aérea del Ecuador TAME EP

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

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

8. 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);

9. 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, and net lending. 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 Energía y Recursos Naturales no Renovables*).

10. Subsidies on petroleum products include, among others, subsidies on gasoline, kerosene, diesel, natural gas and liquified petroleum gas. The subsidies are defined as the difference between the retail sales price of a product and the cost of this product. The cost for imported petroleum derivative products will be estimated as import price plus transportation, storage and commercialization costs and for domestically-produced petroleum products as refinery gate price plus transport, storage and commercialization costs.

11. 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.

12. 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.

13. 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.

Adjustor to the floor of non-oil primary balance including petroleum subsidies

14. The floor on non-oil primary balance including petroleum subsidies will be adjusted downward/upward by US$23.85 million (quarterly) for each US$1 per barrel that the quarterly average APSP crude oil price (i.e. the simple average of dated Brent, West Texas Intermediate, and the Dubai Fateh prices) is above/below the program assumption defined in Table 3. This adjustor is capped at US$119.33 million (quarterly).

Table 3. Ecuador: Cap on Adjustor Due to Changes in Oil Prices

	2019			
	Q1	Q2	Q3	Q4
Program petroleum spot crude price (APSP) forecast (US$ per barrel) 1/	51.78	51.47	52.21	52.53

Sources: Ministry of Finance, WEO, and IMF Staff Calculations
1/ APSP is a simple average of UK Brent, Dubai, and West Texas intermediate spot prices reflecting world exports of light, medium, and heavy crude oil.

Monitoring

15. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund within 60 calendar days from the end of each quarter. Preliminary monthly data will be provided with the lag of no more than 45 days after the end of each month.

A floor on social assistance spending of the central government

Definitions

16. Social assistance spending for the purposes of the program is computed as the sum of central government spending on social assistance programs for the poor, elderly, disabled, and very young comprised of: (i) benefits payments; (ii) financial transaction costs, (iii) costs related to monitoring, accompaniment, and implementation (*gastos conexos*) where applicable; (iv) one-off payments to beneficiaries (e.g. *bonos de emergencia)*; (v) and capital costs related to *Centros de Desarrollo Infantil (CDI), Centros Infantiles del Buen Vivir* (CIBV) and the Social Registry. The social assistance programs included in the definition are as follows:

Mission Less Poverty, More Development

- Bono de Desarrollo Humano
- Bono de Desarrollo Humano – Variable

Mission My Best Years

- Pensión Adultos Mayores
- Pensión Mis Mejores Años
- Servicio de Atención Domiciliar para Adultos Mayores en Extrema Pobreza, Pobreza, y Vulnerabilidad

Mission Las Manuelas

- Pensión Para Personas Con Discapacidad
- Bono Joaquín Gallegos Lara
- Brigada Las Manuelas
- Ayudas Técnicas

Mission Tenderness

- Centros de Desarrollo Infantil (CDI)
- Centros Infantiles del Buen Vivir (CIBV)

Social Registry

Stronger Social Protection

- Programs aimed at protecting poor and vulnerable households from the impact of economic adjustment.

Monitoring

17. Data recorded at monthly frequency will be provided to the Fund with a lag of no more than 30 calendar days after the end of each month. Data provided the Fund will include expenditure execution, broken down by program and expenditure type (benefits payments, financial transaction costs, costs related to monitoring and implementation ("*costos conexos*"), one-off payments to beneficiaries, and capital costs, if any). Monthly data to also include number of beneficiaries and benefit amount. The authorities will also report any changes to the eligibility requirements under each program.

A floor on the change in the stock of Net International Reserves (NIR)

Definitions

18. Net International Reserves (NIR) of the central bank (program measure) are computed 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.

19. 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

20. Gross reserve-related liabilities comprise:

- All short-term liabilities of the BCE vis-à-vis non-residents denominated in convertible foreign currencies with a remaining maturity of one year or less
- Short-term liabilities of the central government with maturity of less than 30 days
- The stock of IMF credit outstanding but excluding credit transferred by the Fund into a Treasury account to meet the government's financing needs directly
- 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 to the floor on the change in the stock of Net International Reserves

21. 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 4 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 4. Ecuador: Adjustors Due to International Borrowing in Excess of Program Assumptions

	2019			
	Q1	Q2	Q3	Q4
Expected program market issuance	0.0	0.0	0.0	0.0

22. The floor on the change in the stock of net international reserves will be adjusted downward/upward by the shortfall/excess in program loan disbursements from the IMF and other multilateral institutions (IADB, World Bank, CAF, and FLAR) as well as grants, relative to the baseline projection reported in Table 4. 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 5. Ecuador: Adjustors Due to Shortfall in Program Loan Disbursements by Multilaterals

	2019			
	Q1	Q2	Q3	Q4
Expected disboursement of program loans by multilaterals	651.7	750.6	900.6	440.6

23. The floor on the change in net international reserves will be adjusted upward/downward by US$21.7 million (quarterly) for each US$1 per barrel that the quarterly average APSP crude oil price (i.e. the simple average of dated Brent, West Texas Intermediate, and the Dubai Fateh prices) is above/below the program assumption defined in Table 6. This adjustor is capped at US$108.5 million (quarterly).

Table 6. Ecuador: Cap on Adjustor Due to Changes in Oil Prices

	2019			
	Q1	Q2	Q3	Q4
Program petroleum spot crude price (APSP) forecast (US$ per barrel) 1/	51.78	51.47	52.21	52.53

Sources: Ministry of Finance, WEO, and IMF Staff Calculations
1/ APSP is a simple average of UK Brent, Dubai, and West Texas intermediate spot prices reflecting world exports of light, medium, and heavy crude oil.

Monitoring

24. The change in net international reserves will be measured as the change in the stock of NIR at each test date relative to the stock on December 31, 2018 which stood at negative US$1.7 billion, according to old NIR definition, or negative US$2.9 billion, according to new NIR definition. Foreign exchange asset and liability data will be provided to the Fund at weekly frequency within 5 business days.

Ceiling on external payment arrears by the non-financial public sector

Definitions

25. 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. 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 purposes 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.

26. 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.

27. External payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after March 11, 2019 that have not been paid within 90 days of the due date, considering the grace periods specified in contractual agreements.

Coverage

28. This performance criterion covers the non-financial public sector. 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 March 11, 2019.

Monitoring

This PC will be monitored on a continuous basis.

Ceiling on new gross central bank direct financing to the NFPS and indirect financing to the NFPS through the public banks.

Definitions

29. Central bank (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.

Monitoring

30. 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 purposes of financing the non-financial public sector will be provided within 5 business days to the Fund.

B. Indicative Targets (IT): Definition of Variables

A floor on the overall balance of the non-financial public sector (IT)

Definitions

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

32. 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.

33. 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).

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

Monitoring

35. 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 calendar days after the end of each quarter and preliminary data with the lag of no more than 45 days after the end of each month.

C. Other Information Requirements

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

37. For the purposes of the program, the NFPS debt stock will be defined in accordance with IMF Government Finance Statistics Manual (GFSM) 2014 and Public Sector Debt Guide for compilers and users. Total gross NFPS debt will cover 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.

38. 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.

39. Following the above manuals, Ecuador's debt should include the following instruments:

- Debt securities (held by non-residents and residents, not included in the NFPS entities)
- Bonds
- Treasury certificates
- Loans
- Other accounts payables
- Advanced oil sales
- Schlumberger deal
- Arrears with resident suppliers.

40. 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

41. The data on NFPS stock of debt in U.S. dollars will be provided to the Fund monthly with a lag of no more than 30 calendar days after the end of each month.

Weekly

42. Consolidated balance sheets of the banking system, by main accounts, including deposits in the banking system, available funds, and credit to the private sector; BCE balance sheet; Financial indicators: interest rates, deposits of banks at the BCE, interbank rates.

43. Monetary data in the template agreed with Fund staff, no later than 5 business days.

Monthly

44. 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 when the information on the latter becomes available.

45. 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.

46. 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.

Quarterly

47. Detailed balance of payments data, no later 90 days.

Statement by Alexandre Tombini, Executive Director for Ecuador,
Pedro Fachada, Alternate Executive Director, and
Francisco Rivadeneira, Advisor to Executive Director

June 28, 2019

1. On behalf of the Ecuadorian authorities, we thank the mission team for the report and the unwavering support to Ecuador's economic transformations. We also thank IMF management and staff for the extensive and valuable technical assistance provided to Ecuador in recent months.

2. Ecuador's economic program supported by a three-year Extended Fund Facility (EFF) has had a promising start. All but one of the quantitative targets for this first review have been met. In particular, the performance criteria for the non-oil primary balance, including fuel subsidies—the main fiscal indicator under the program—has been met with a significant margin. All structural benchmarks for this review have also been met. The continuous performance criterion regarding no new gross financing of the government by the central bank has been unintentionally missed, due to the automatic roll over of previous debt. However, corrective actions have been taken to avoid similar breaches in the future, and the authorities request the Executive Board to consider a waiver of non-observance of this criterion. Ecuador's economic program remains fully financed, with significant financial assistance provided by other multilateral and bilateral partners.

3. The Ecuadorian authorities remain fully committed to their economic program and are confident that their policies would derive economic sustainability over time and long-term benefits to their people. They are considering bringing forward part of their structural reforms agenda to take advantage of the current positive momentum and increase the growth potential of the economy more rapidly. As staff recognizes, the recent changes in the composition of the National Assembly create a window of opportunity for approving the reforms.

4. The economy has been performing broadly as expected by the authorities. In the last quarter of 2018 (last available national accounts data), real GDP expanded by 0.1 percent quarter-on-quarter, supported by still robust household consumption (0.8 percent growth). For the year as a whole, GDP grew by 1.4 percent, above staff's 1.1 percent projection at the time of program approval in March. Household consumption and capital investment expanded by 1.6 and 0.5 percent in the year, respectively, while net exports contributed negatively to growth, reflecting a strong upsurge in imports (+5.8 percent). The oil sector also represented a drag to GDP in 2018, contracting by 4 percent in value-added terms.

5. Economic activity slowed down in the initial months of 2019, as expected, but amid some encouraging leading indicators. For instance, the index of business confidence (ICE) compiled by the Central Bank (BCE) based on responses from 974 companies was up 3.2 percent in the year to April, and 8.8 percent up compared to April 2018, with strong readings in both the manufacturing and services sector. Growth in credit to the private sector remains relatively robust (+12.8 percent in May, year-on-year), as well as in bank deposits, retail sales, VAT collection, and non-oil traditional exports. Against this background, the authorities remain confident that real GDP will grow this year, albeit very modestly.

6. Inflation has remained close to zero and well below Ecuador's trading partners inflation. Consumer prices declined by 0.2 percent in 2018, compared with the previous year. In the 12 months to May 2019, consumer prices rose by 0.5 percent, partly reflecting first-round effects of the withdrawal of fuel subsidies (high octane gasoline, for instance, rose by 32.3 percent in the May reading of the consumer price index). The authorities agree with staff's projection that inflation will remain subdued over the medium term. This will contribute to a gradual depreciation of the real effective exchange rate in the context of a fully dollarized economy, and hence restore external competitiveness.

7. Fiscal outturns remain in line with program objectives. As mentioned above, the non-oil primary balance including fuel subsidies (NOPBS) for the first quarter of 2019 has been met by a large margin. For the year, the authorities remain committed to ensure a decline of the NOPBS by about 2 percent of GDP, as agreed under the program. This will be achieved mostly by reductions in expenditure, including measures already taken on fuel subsidies and the wage bill, as well as cuts in other current and capital spending.

8. Over the medium-term, the authorities reiterate their commitment to improve the NOPBS by 5 percent of GDP between 2018 and 2021, including both revenue and spending actions. The objective is to bring the public debt to below 40 percent of GDP over the medium term. The fiscal consolidation strategy continues to be conducted in a way that seeks to minimize the impact on the real economy and on the most vulnerable in society. A key component of the consolidation strategy is a growth-friendly and broad-based tax reform that the authorities are developing, which is expected to contribute additional revenue of about 1.5 to 2 percent of GDP from 2020 onwards, while at the same time helping attract private investment and boosting competitiveness.

9. Given the priority to mitigating the effects of the economic transformation program on the poor, the authorities continue to make efforts to strengthen the social safety net. They are working with the support of the World Bank on upgrading the social registry to extend coverage to all vulnerable households, and they established a new institution to manage the upgraded registry. It is important to highlight the commitment and efforts that the authorities are taking to expand and strengthen the social protection network and implement the "*Plan Toda Una Vida*", with programs and projects that serve the vulnerable, such as the Mission "Less Poverty, More Development", the "Human Development Bonds", pension and home care services to older adults, pension for people with disabilities, as well as children's development and day care centers.

10. The authorities are also working to improve public financial management (PFM) and have published their PFM action plan, which constituted an important structural benchmark for this review. The new framework will improve budget formulation, limit discretionary spending, enhance expenditure controls, as well as clarify the scope of the fiscal rule and improve overall fiscal transparency. Implementation of all these reforms is ongoing, with the support of IMF technical assistance, and will align Ecuador's fiscal reporting and transparency with international best practices.

11. In parallel, improving the debt profile and the debt management framework remain a high priority. As indicated by staff, debt management in Ecuador has been, until recently, focused on raising resources to cover immediate financing needs. In early June, the authorities launched a successful liability management operation, with the sale of around US$1.2 billion in bonds maturing in 2029 that allowed the buyback of most of the outstanding bonds due next year. This operation reduced considerably 2020 financing needs. With the improvement of the fiscal position, reduction of short-term financing needs, and increased fiscal credibility, the authorities are now in a position to start formulating a medium to long-term debt management strategy.

12. The authorities thank staff for the recently completed safeguards assessment, which has provided useful recommendations on how to strengthen the role and autonomy of the BCE, aimed at enhancing the credibility of the monetary regime. The reforms will include strengthening the bank's operational autonomy by, among other measures, establishing an independent Board, creating strong internal and external audit functions, and prohibiting all lending of the BCE to the public sector.

13. Labor reforms to boost job creation, reduce informality, attract private investment, and increase competitiveness are a fundamental component of the authorities' structural agenda. Preparation of proposals are at an advanced stage and will include measures to encourage female and youth employment, as well as to diminish hiring and excessive firing costs.

14. On governance, the authorities recently formed an International Experts Commission that will operate in coordination with the United Nations (UN), the Organization of American States (OAS), the Inter-American Development Bank (IDB), and Transparency International to support domestic institutions in charge of detecting, investigating, and prosecuting corruption acts. The authorities also established an Anticorruption Secretary to coordinate their anti-corruption agenda. They plan to announce in the coming months several additional initiatives to strengthen the anticorruption framework.

15. The Ecuadorian authorities remain concerned about the impact of the Venezuelan crisis on the country, particularly regarding the inflow of refugees. This became relevant again in recent weeks, as Venezuela has reopened its borders and some Latin American countries have imposed visa entry to its citizens. The authorities estimate that there are about 300,000 Venezuelan refugees in Ecuador, putting a substantial burden on public services, including health and education, and adding pressures on a labor market already affected by informality and lack of enough jobs. Spillovers from the Venezuelan crisis may require additional financial support from the international community to Ecuador.

16. In conclusion, the EFF program has had a good start. Strong implementation so far provides confidence that the program will fully meet its objectives. This is reflected in the improvement of business and investor's confidence and in the reduction of Ecuador's sovereign bond spreads referenced by staff in the report. Importantly, program implementation has evolved amid political and social normalcy. The authorities remain very optimistic that their economic transformation program will be successful in generating growth, competitiveness, jobs and prosperity to the Ecuadorian people.