INTERNATIONAL MONETARY FUND

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ECUADOR

May 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND CANCELLATION OF ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the Ecuador—Request for Purchase under the Rapid Financing Instrument (RFI) and Cancellation of Arrangement under the Extended Fund Facility, the following document have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 1, 2020, following discussions that ended on April 24, 2020, with the officials of Ecuador on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 29, 2020.
- A **Statement by the Executive Director** for Ecuador.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR20/203

IMF Executive Board Approves US$643 Million in Emergency Assistance to Ecuador to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF approved Ecuador's request for emergency financial assistance under the Rapid Financing Instrument (RFI) of about US$643 million.
- The authorities have taken decisive actions to contain the spread of the virus and mitigate the socio-economic impact of the health crisis on households and firms, while prioritizing efforts to protect the poor and vulnerable.
- This emergency financial assistance will support the country's balance of payment needs and its most affected sectors, including the healthcare system and social protection.

Washington, DC – May 2, 2020 The Executive Board of the International Monetary Fund (IMF) approved yesterday Ecuador's request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 469.7 million (about US$643 million, or 67.3 percent of quota) to meet urgent balance of payment needs stemming from the outbreak of COVID-19 and to support the country's most affected sectors, including the healthcare and social protection systems.

The pandemic and the sharp fall in oil prices have posed a major challenge to the Ecuadorian economy and generated important financing constraints since Ecuador is one the largest oil exporters in Latin America. The authorities have taken decisive policy actions to contain the spread of the virus and mitigate the socio-economic impact of the health crisis on households and firms, while prioritizing efforts to protect the poor and vulnerable. The RFI will help Ecuador finance the much-needed health and social assistance spending and catalyze financing from other multilateral financial institutions.

Following the Executive Board's discussion of Ecuador, the Managing Director and Acting Chair Kristalina Georgieva issued the following statement:

"The COVID-19 pandemic has had a devastating impact in Ecuador, along with plummeting oil prices and a sharp drop in global demand. The authorities have taken bold policy steps to mitigate the socio-economic fallout from the crisis, notably proactive measures to contain the spread of the virus and to accommodate the needed health-related spending.

"Protecting the poor and strengthening the social safety net are central priorities of the government at the time of this healthcare crisis. Efforts are underway to increase social assistance to protect the most vulnerable, while continuing to strengthen the framework for such assistance.

"The authorities are committed to addressing risks to fiscal and debt sustainability. To this end, they have taken some substantive initial steps, including by engaging with private sector creditors on a debt operation. To ensure debt sustainability, the authorities aim to reach expeditiously a comprehensive debt restructuring agreement with private creditors, pursue a sustained and ambitious, yet realistic, fiscal consolidation over the medium-term, while securing additional medium-term debt relief and financing on favorable terms from official bilateral creditors and other stakeholders.

"Amendments to the Organic Planning and Public Finance Law have been submitted to the Assembly, which will help strengthen control, reporting, and transparency of public finances. Transparent disclosure and audit of COVID-related spending will help safeguard the resources committed to fight the pandemic.

"Additional support from other external partners will be required and critical to close the remaining financing gap and ease budget constraints."

INTERNATIONAL MONETARY FUND

ECUADOR

April 29, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND CANCELLATION OF ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Balance of payment needs: Ecuador is facing urgent and immediate balance of payment (BOP) needs driven by the sharp propagation of the Covid-19 outbreak—Ecuador is one of the hardest hit countries in Latin America—a plummeting of oil prices, and a dramatic collapse of global demand. This confluence of shocks is expected to significantly reduce Ecuador's export revenues, put considerable strain on the budget, curtail external financing flows, dampen economic activity, which is expected to contract by 6.7 percent in 2020, and create substantial risks to debt sustainability. The resulting external financing gap is about 8.4 percent of GDP in 2020 and 7.6 percent of GDP in 2021. If not addressed promptly, the immediate BOP need could cause significant socio-economic disruptions.

Policies: In the near term, the authorities have taken significant measures to contain the spread of the virus and mitigate the socio-economic impact. Containment measures include the closing of schools and universities, public spaces and noncritical commercial activities, halting public transport, and imposing a nationwide curfew. To mitigate the impact of the pandemic and its spillovers, the authorities plan to accommodate the needed health care spending to ensure the well-being of the population and increase social assistance to protect the most vulnerable, while continuing to strengthen the framework for such assistance. Efforts are underway to shift fiscal resources from lower-priority programs towards health and social assistance, but an increase in the fiscal deficit in 2020 is unavoidable, including in light of the decline in revenues along with global oil prices and economic activity. The authorities continue to see the dollarization regime as a fundamental pillar to anchor macroeconomic stability and remain firmly committed to exercising oversight to ensure continued financial system stability. They are committed to eliminating macro-fiscal imbalances over the medium term, once the immediate health crisis and associated economic effects wane. These efforts would be anchored by the authorities' comprehensive plan to address high risks to debt sustainability, including through sufficient contributions from a private sector debt operation (and given initial progress based on their acceptance of the consent solicitation for the ongoing standstill to debt service payments). Support from official bilateral creditors has been secured for 2020, with good prospects for financing from both bilateral creditors and International Financial Institutions (IFIs) going forward. Finally, the authorities have reaffirmed their commitment to sustained and ambitious fiscal

adjustment over the medium-term. As part of their commitment to promptly resolve the issues related to the recent misreporting case under the recently cancelled EFF (see below), the authorities are working on improving the quality of fiscal statistics. The authorities are also committed to preventing the misuse of emergency financing and providing concrete safeguards to this end.

RFI: Ecuador has requested a purchase under the RFI to cover the urgent BOP needs associated with the COVID-19 crisis, sharp fall in world oil prices, and adverse capital market conditions. The authorities request to purchase 67.3 percent of quota (SDR 469.7 million, about US$644 million), which represents about 10 percent of the total increase in budgetary needs (US$6 billion) due to the confluence of plummeting oil prices, a dramatic collapse of global demand and COVID-19 shocks. These factors added to the wider deficit revealed by the recent revisions to the fiscal accounts, further limiting space for fiscal maneuver. The authorities have cancelled the Extended Fund Facility (EFF) approved on March 11, 2019 and indicated their interest in a successor arrangement with the Fund. The RFI is expected to catalyze financing from other multilaterals and provide a policy framework for discussions with external creditors.

Staff Assessment: Staff assess that Ecuador meets the eligibility requirements for the RFI. Ecuador has an urgent BOP need that can generate severe socio-economic disruptions if not immediately attended to; and the uncertainty about the outlook makes it difficult to reach understandings on policies necessary to craft a upper credit tranche (UCT)-quality program, as do the logistic issues at hand, given lockdowns not only for Fund staff, but for country authorities. Given heightened risks that put debt sustainability at a knife’s edge, the authorities have taken credible steps to safeguard the sustainability of public debt in a forward-looking sense. They have reiterated their commitment to strong fiscal consolidation over the medium term and have engaged with their private creditors (including via an initial consent solicitation), while securing official bilateral creditors on further support in 2020 and good prospects for the bilateral and multilateral financing needed over the medium-term. While risks to this process remain, if successfully implemented, this strategy would contribute to closing the large financing gaps in 2020 and over the medium term. Capacity to repay is constrained, subject to higher-than-usual risks, and depends on steps in train to safeguard debt sustainability. Staff therefore recommend Board approval of Ecuador’s request for a purchase under the Rapid Financing Instrument of 67.3 percent of quota (SDR 469.7 million).

Approved By	
Krishna Srinivasan (WHD) and Martin Mühleisen (SPR)	Discussions were held via videoconferences during April 21–22, 2020. The staff team comprised Anna Ivanova (head), Matteo Ghilardi and Constant Lonkeng Ngouana (All WHD), Fernanda Brollo (FAD), Mario Mansilla (MCM), Leandro Medina (SPR), Mariana Sabates Cuadrado (STA), and Julien Reynaud (Resident Representative). Ivan Burgara, Anaysa Delsid, and Juan-Pablo Erraez assisted the team. Francisco Rivadeneira (OED) participated in the discussions.

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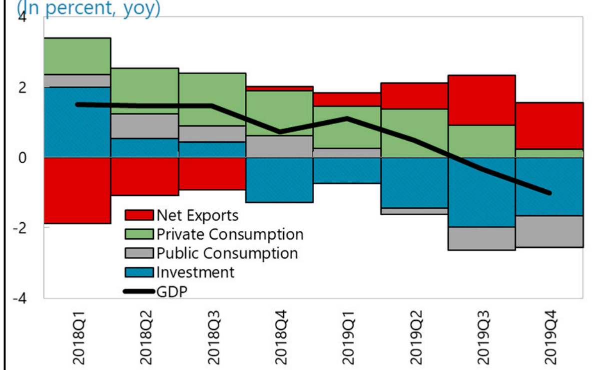
RECENT DEVELOPMENTS

1. **Economic activity was already slowing at the onset of the current crisis.** Real GDP contracted in the fourth quarter of 2019 by 1 percent (y-o-y), owing to social unrests in October and the impact of fiscal consolidation. Growth in 2019 was 0.1 percent, somewhat higher than the negative 0.5 percent projected at the time of the second and third review of the EFF program (December 2019). A contraction in domestic demand was offset by export performance. The unemployment rate stood at 3.8 percent in December 2019, although the quality of employment continued to deteriorate. High frequency data suggest sluggish domestic demand in early 2020, which was to some extent counteracted by still strong external demand prior to an intensification of the COVID-19 pandemic. Inflation printed positive 0.2 percent (y-o-y) in March.

Contribution to Real GDP Growth
(In percent, yoy)



Source: Central Bank of Ecuador.

2. **Gross international reserves are low and net international reserves are negative.** Gross reserves, which stood at US$2.9 billion at end-2019, remained broadly stable in early 2020, but declined sharply in March (by about US$1.3 billion) ending the month at US$1.4 billion (about 8 percent of ARA metric). The decline was driven by the payment of margin calls on transactions with some private banks, the withdrawal of cash from the central bank vaults as the demand for cash increased in the wake of the COVID-19 crisis, and public sector external debt service. In contrast, private transfers increased, reflecting, in part, the repatriation of liquidity cushions by the banks from abroad. Net international reserves (NIR, excluding all Fund disbursements) dropped to a negative US$3.1 billion as of end-March.[1]

3. **The financial system remains stable but worsening economic conditions will test its resilience.** Headline indicators suggest the banking system still has adequate capital buffers (on average, CAR is 13.5 percent), liquidity is adequate though falling (24 percent in liquid assets to short term deposits), NPLs are low (3 percent of total loans) and well covered with provisions (over 250 percent), ROA and ROE fell but remain positive (at 1 and 8 percent, respectively). Available bank-by-bank data reveal that systemic institutions are relatively more resilient while smaller banks (and cooperatives) are comparatively weaker, especially in terms of asset quality and profitability, and exposed to the shock through a loan portfolio concentrated in consumer loans and microfinance. The financial system experienced rapid credit growth in recent years, which leaves it vulnerable to the deterioration in economic conditions. Financial system's deposits declined by US$1

[1] The program definition of NIR used in the cancelled EFF, which included Fund-disbursements related to budget support fell short of the EFF program target in Q4 of 2019 by about 1.6 percentage of GDP, ended the year at negative 1.5 percent of GDP and continued declining in early 2020 with the final print in March of negative US$3.1 billion.

billion (2.3 percent of total) during March, partly due to higher demand for cash under lock down conditions. Oversight authorities have intensified their monitoring of the system to be able to detect spillovers from developments in the real economy as early as possible.

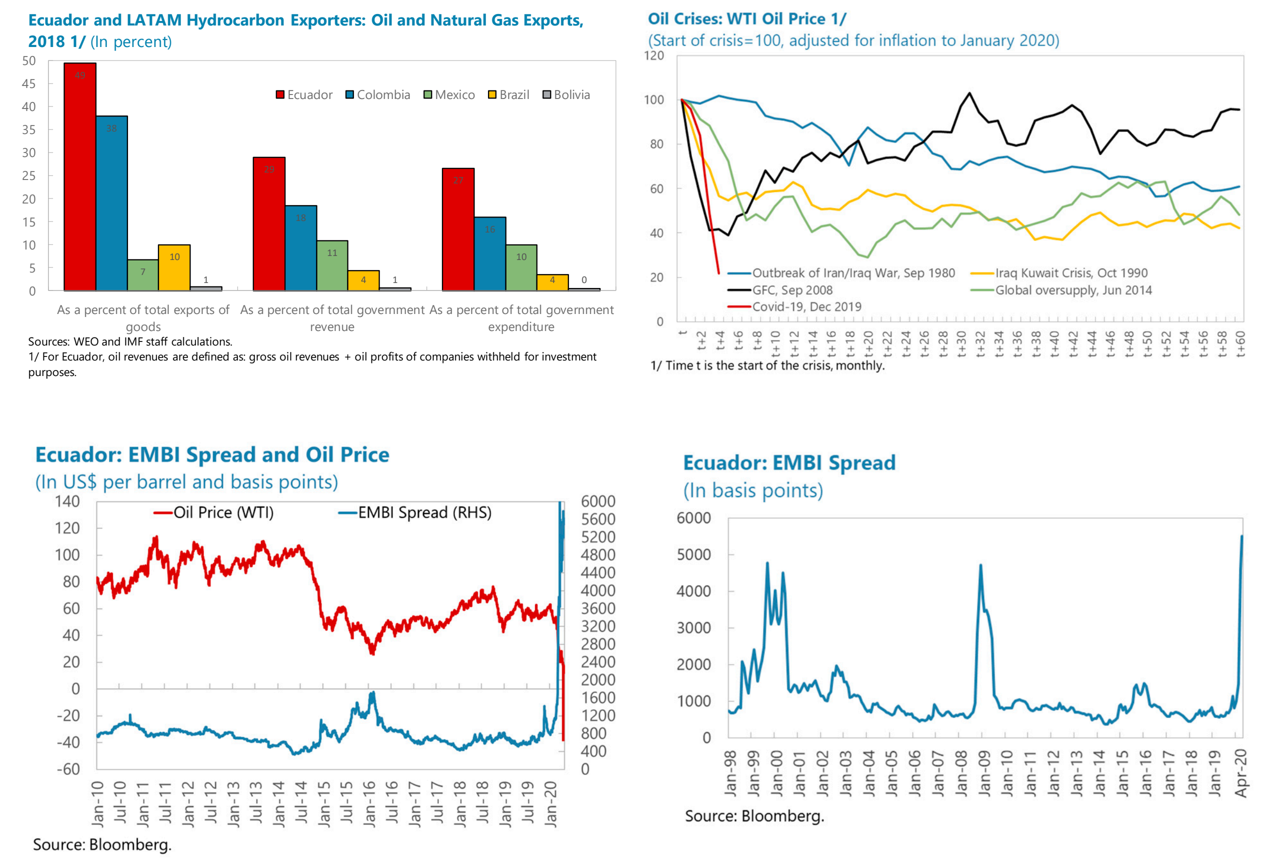
4. The authorities have reevaluated their processes for collecting and compiling public finance statistics with IMF support. The end-December quantitative performance criterion (QPC) on net international reserves (NIR) fell significantly short of the target under the cancelled EFF program, by about 1.5 percentage points of GDP. After a thorough investigation by the authorities and Fund staff, it became clear that fiscal data suffered from serious statistical deficiencies, largely in the recording of the revenues and expenditures of local governments, expenditures of state-owned enterprises, and transactions in the financial assets of social security entities. The problems appear to have festered for years, going as far back as 2012. The authorities have now corrected the above-the-line fiscal data for 2018 and the above- and below-the-line data for 2019. The work is ongoing to correct historical data for earlier years. These statistical problems, largely at the source data in the entities outside the central government, implied that the fiscal deficit at the onset of the cancelled EFF program was inaccurately measured (with revised figures being higher than previously estimated), which implied that nominal fiscal targets were beyond reach given the amount of fiscal consolidation that was built into the program.

5. Data revisions resulted in significantly higher fiscal deficits in 2018 and 2019, compared to those anticipated under the cancelled EFF program, and fiscal consolidation measured by the NOPBS was somewhat smaller than anticipated. The NOPBS is now estimated at a deficit of 6.7 percent of GDP in 2018 and 5.3 percent of GDP in 2019, compared to a deficit of 4.9 percent of GDP and 3.4 percent of GDP in 2018 and 2019, respectively, estimated at the time of the December 2019 EFF review. The corresponding overall deficit for 2018 and 2019 is now assessed at 3.2 percent of GDP in both years, compared with earlier estimates of 1.2 and 1.1 percent of GDP. The revised statistics suggest that fiscal consolidation in 2019 amounted to around 1.3 percent of GDP, falling somewhat short of program commitment of 1.5 percent of GDP. This said, program targets, expressed in nominal terms, were missed by a large amount. These revisions, however, did not significantly alter staff estimates of the public debt, since the "missing" deficits were mostly financed by higher than expected drawdown in assets rather than higher-than-estimated incurrence of liabilities.

THE IMPACT OF THE DUAL OIL PRICE AND COVID-19 SHOCK

6. A confluence of exogenous shocks—a sharp drop in oil prices, a dramatic slump in global demand, and the rapid spread of the COVID-19 virus—has given rise to an urgent BOP need in Ecuador. Ecuador is one of the largest oil exporters in Latin America (mostly crude). Oil comprises 40 percent of Ecuador's exports and about 35 percent of the public sector revenues. COVID-19 has been rapidly spreading in the country. Ecuador has the second highest number of cases and the highest number of deaths related to COVID-19 per capita in Latin America. As of April 28, Ecuador has 24,258 confirmed cases and 2,083 reported deaths. While the cost of external borrowing for Ecuador was already rising significantly by end-2019, the collapse in oil prices and the spread of COVID-19 globally made financial conditions worse, with spreads shooting up to 5,500 basis points—above those observed during the 1998–1999 combined banking, currency, and sovereign debt crisis as well as credit event in 2008—and effectively closing access to capital markets. The appreciation of the US$ in the wake of the crisis is further eroding competitiveness of Ecuador.

Ecuador and LATAM: Oil Price Shock and EMBI Spread



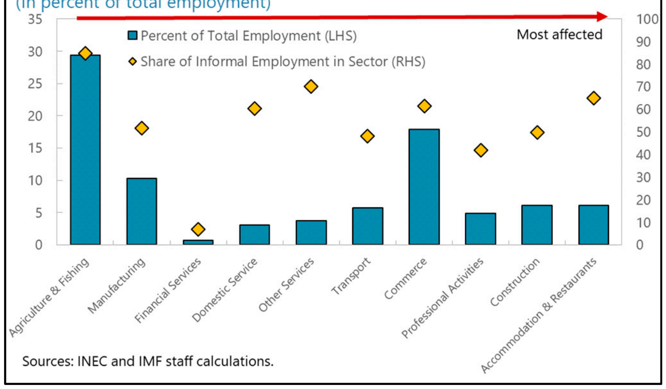
7. The oil price collapse, which coincided with the global demand shock, is estimated to add US$3.4 billion (3.5 percent of GDP) to the fiscal deficit and subtract 2 percentage points from real GDP growth in 2020. The key channels of the impact on the fiscal accounts of the expected decline in oil prices (by almost 45 percent in 2020 compared with the December 2019 EFF forecast) include the loss of oil revenues of about US$4.8 billion (4.9 percent of GDP), partly offset by the fiscal savings from oil subsidies of US$1.4 billion (1.4 percent of GDP). The oil price decline, which leads to the loss of export income, is expected to subtract about 2 percentage points from the real GDP growth. In addition, recent damages to two large pipelines for crude oil distribution are temporarily disrupting production—with an expected loss in crude oil production of 8–10 million barrels in 2020Q2. This explains a further mark-down in the growth forecast for 2020 by 0.4 ppt (in addition to the 2 ppts loss in real GDP growth from the oil price decline).

8. The rapid spread of COVID-19 in Ecuador—and the attendant domestic disruptions—is expected to increase public spending by US$600 million (0.6 percent of GDP) and to subtract 4.5 percentage points from real GDP growth in 2020. The main channels (summarized in text Table 1) include:

- ***Additional health spending of about US$350 million (0.35 percent of GDP)***, though the estimated health costs vary widely (from US$100 million to US$800 million), depending on the speed of the spread of the virus, hospital spare capacity, and mitigating measures implemented by the authorities (see Annex I). Higher health spending could help contain the spread of the disease and mitigate its social impact though capacity constraints may restrict its effectiveness.

- ***Additional social assistance spending of about US$250 million (0.25 percent of GDP).*** The shock is likely to have severe labor market repercussions given that the sectors most affected by the crisis are labor-intensive and often with a significant degree of informality. The health crisis is widely expected to affect more disproportionately the vulnerable groups of society. In consultation with the World Bank, staff estimates that additional cash transfers will be needed to provide temporary relief to the vulnerable population, which can help mitigate the impact of the virus on the poor.

Ecuador: Most Affected Sectors by Covid-19
(In percent of total employment)



Sources: INEC and IMF staff calculations.

- ***Lower GDP growth.*** Staff estimates a loss of 4.5 percentage points in real GDP growth in 2020 due to the COVID-19 crisis, compared to the pre-virus baseline. These estimates are based on a lockdown of 8 weeks announced by the government at the onset of the pandemic, with the losses assumed to be concentrated in services, particularly travel and tourism, and in construction.

Ecuador: Impact of External Shocks 1/
(In percent of GDP, unless otherwise specified)

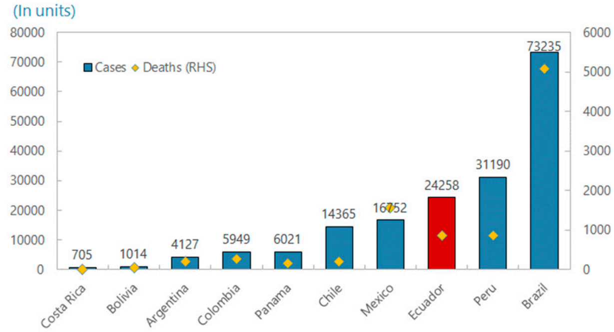
	COVID-19	Oil price	Combined Shock	Total Impact
Growth (Percent change)	**-4.5**	**-2.0**	**0.0**	**-6.5**
Overall balance	**-1.4**	**-3.8**	**-0.8**	**-6.0**
Oil revenues (gross)	0.0	-4.9	0.0	-4.9
Fuel subsidies	0.0	1.4	0.0	1.4
Non-oil tax revenues	-0.8	-0.3	0.0	-1.1
Asset monetization	0.0	0.0	-0.8	-0.8
Health spending and cash transfers related to Covid-19	-0.6	0.0	0.0	-0.6

Sources: Ministry of Finance and IMF staff calculations.

1/ The impact of external shocks on growth and fiscal balance only takes into account two shocks: Covid-19 and the drop in oil price. Other factors that have affected growth and fiscal balance since the pre-crisis scenario (Staff Report for the Second and Third Review under the EFF arrangement, December, 2019), including the break of two oil pipelines and statistical fiscal data revisions, are not included in this analysis. Therefore, the impact of the Covid-19 and oil price shocks on growth and fiscal balance does not sum-up to the total change in these accounts since the pre-crisis scenario.

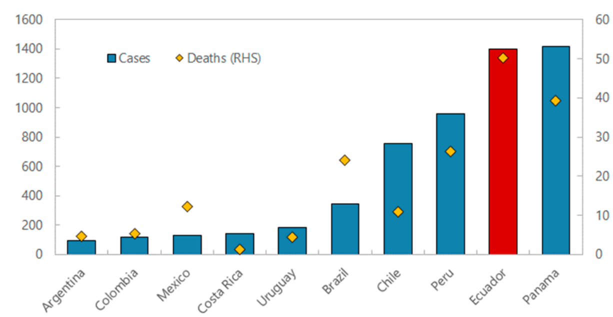
Ecuador and LATAM: Covid-19

Ecuador and LATAM: Confirmed Cases and Deaths 1/
(In units)



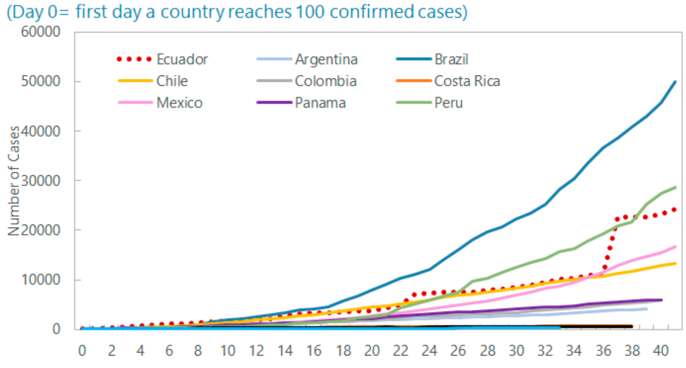
Sources: Johns Hopkins CSSE Covid-19 Data Repository and IMF staff calculations.
1/ As of April 28, 2020.

Ecuador and LATAM: Confirmed Cases and Deaths per Million Inhabitants 1/
(In units)



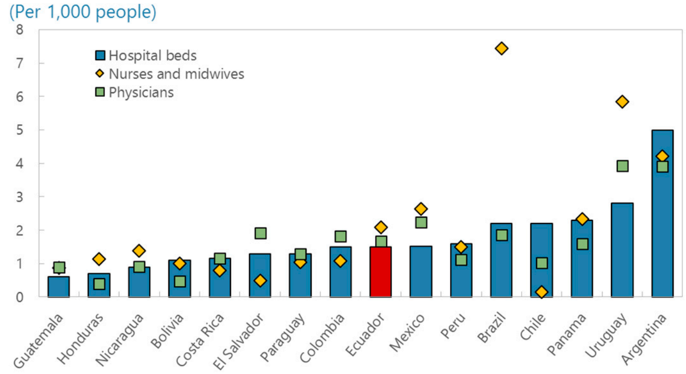
Sources: Johns Hopkins CSSE Covid-19 Data Repository and IMF staff calculations.
1/ As of April 28, 2020.

Ecuador and LATAM: Confirmed Cases After Threshold 1/
(Day 0= first day a country reaches 100 confirmed cases)



Sources: Johns Hopkins CSSE Covid-19 Data Repository and IMF staff calculations.
1/ Threshold is 100 confirmed cases.

Ecuador and LATAM: Hospital beds, Nurses, and Physicians 1/
(Per 1,000 people)



Sources: IMF FAD's Expenditure Assessment Tool, WB WDI, and IMF staff calculations.
1/ Latest available value.

9. The confluence of shocks will have a pronounced impact on the economy, with significantly lower growth and higher fiscal deficit, compared to the pre-crisis scenario. Real GDP is expected to contract by 6.5 percentage points in 2020, while the overall fiscal deficit is projected to be higher by US$5.8 billion (about 6 percentage points of GDP) due to the oil and COVID-19 shocks alone, adding to the wider deficit unveiled by the recent statistical revisions. In addition to the direct impact of the oil price decline and higher health and social assistance spending, the sharp contraction in GDP is estimated to reduce fiscal revenues by about US$1 billion (1.1 percent of GDP) due to a projected weakening in tax compliance –staff estimates are based on an increase in tax compliance gap of 5 percentage points, in line with the historical experience from the crises in Europe and Latin America.[2] Moreover, the uncertainty generated by the crisis both in Ecuador and in the rest of the World will affect the interest of outside investors in participating in asset monetization, which will result in a loss of fiscal revenue of US$0.8 billion, compared to the pre-crisis scenario.

10. As a result, large BOP financing gaps have opened in 2020 and 2021. Owing to both the crisis and because of statistical data revisions, the fiscal deficit is now larger by about US$8 billion, compared to the projections at the time of the December 2019 review. The underlying NOPBS is now expected to widen by 0.5 percentage points of GDP between 2019 and 2020, in contrast to the cancelled EFF program commitment of a consolidation of 1.7 percentage points of GDP. The current account is expected to worsen by 5.5 percentage points in 2020 while net international reserves are expected to remain broadly unchanged, compared to 2019, at the level of negative US$1.5 billion (US$3.5 billion lower than expected in December 2019). The resulting BOP gross financing needs are assessed to be US$ 13.7 billion in 2020 (13.9 percent of GDP), with an estimated external financing gap of US$8.4 billion (see Table 1). While the recovery from COVID-19 crisis is expected to be relatively strong, the lower oil prices will dampen real GDP growth in 2021 and the return to the 2019 GDP level is not expected until early 2023. As a result, the BOP financing gap remains large in 2021 at about US$7.6 billion.

AUTHORITIES' POLICIES ALREADY IMPLEMENTED TO ADDRESS THE CRISIS

11. The authorities have responded with a series of containment measures to limit the spread of the virus and policy measures to mitigate the impact of the economic fallout on households and firms:

- ***Containment measures to limit the spread of the virus:*** These included closing schools and universities, public spaces and non-critical commercial activities, halting public transport, and imposing a nationwide curfew. Ecuador has shut all its borders, and the Government requested the military to manage the province of Guayas where 75 percent of confirmed cases of COVID-19 are concentrated, as a zone of national security, to enforce confinement measures.

[2] See Pecho Trigueros and Gonzalez Amilivia (2014) for an analysis of VAT compliance gaps in Latin America, and Keen (2013) and (Ueda (2017) for estimates of C-efficiency ratios in advanced economies.

Ecuador: Fiscal Consolidation Measures
(In percent of GDP – Non-financial public sector)

	2019	2020	2021	2019-2021
Revenue	**-1.3**	**-0.3**	**0.6**	**-1.1**
Planned tax reform	0.0	0.5	0.0	0.5
Macroeconomic effect on tax revenues	0.0	-1.1	0.8	-0.3
Earlier adopted tax changes 1/	-1.3	0.0	0.0	-1.3
Measures to boost revenues after the Covid-19 crisis	0.0	0.2	-0.2	0.0
Expenditure	**2.6**	**-0.2**	**1.5**	**4.0**
Wages and salaries	0.1	-0.8	0.3	-0.4
Goods and services (exl. Covid-19 related spending)	0.1	0.1	0.3	0.5
Goods and services - Covid-19 related health spending	0.0	-0.4	0.4	0.0
Other spending	0.0	-0.4	0.0	-0.4
Capital spending	1.9	0.4	0.5	2.8
Fuel subsidies	0.8	1.4	-0.1	2.1
of which: Price Change	*0.4*	*1.4*	*-0.1*	*1.6*
Policy Change	*0.5*	*0.0*	*0.0*	*0.5*
Social spending (exl. Covid-19 related spending)	-0.3	-0.2	-0.1	-0.6
Social spending - Covid-19 related spending	0.0	-0.3	0.3	0.0
Total	**1.3**	**-0.5**	**2.1**	**2.9**

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 0.1 percent of GDP is the effect of other tax changes introduced in 2018.

- ***Fiscal policy to protect the real economy against the confluence of shocks.*** On March 19th, the authorities announced several measures to support the population and businesses, including a deferral of payroll contributions, an exceptional cash transfer amounting to US$120 (in April and May) to 400 thousand poor families, distribution of food baskets, and credit lines for small- and medium-size businesses. To shelter the budget from the sharp fall in oil prices and help protect fiscal sustainability, President Moreno also announced a series of tightening fiscal measures on March, 23, including both revenue-enhancing measures and expenditure cuts, to the tune of about 2 percent of GDP with respect to the 2020 original budget. The package also included some 2½ percent of GDP in new financing and refinancing of some current obligations. Measures to boost revenue were also implemented, including an increase in the withholding tax for banks, SOEs and other commercial corporations and a temporary increase in import duties.
- ***Monetary and financial policy measures to maintain macro-economic stability.*** The Monetary and Financial Policy and Regulation Board (MFPRB) issued temporary modifications to the Monetary, Financial, Securities Code and Insurance Resolutions to support the private sector including extraordinary deferrals of credit obligations and a requirement of additional generic

provisioning on banks' gross lending portfolio during 2020.[3] This approach will help alleviate the increasing pressures on the financial system but requires prudent implementation by supervisors. Finally, in order to alleviate liquidity constraints for the financial sector, the MFPRB has approved a reduction in the contribution by financial institutions to the Liquidity Fund by three percentage points from 8 to 5 percent of eligible deposits. The measure has freed about US$950 million in liquid resources for the financial system. Separately, the government is preparing a facility to support working capital needs of real sector enterprises. The facility will be funded by the World Bank and will be intermediated by CFN, a public bank, via the financial system.

POLICY RECOMMENDATIONS GOING FORWARD

A. Fiscal Policy

Fiscal Policy in Response to the Pandemic

12. Addressing the socio-economic fallout from the pandemic calls for providing a lifeline to the many affected Ecuadorians and containment measures to limit the spread of the virus. Increasing public health spending combined with mitigation measures will play a central role in helping Ecuador manage the health and economic impact of the crisis. Staff and the authorities agreed that increasing health spending to mitigate the spread of the coronavirus and treat those that require medical assistance are matters of overarching priority. In this regard, a purchase under the RFI will help finance the much-needed health and social assistance spending. In addition, the government might need to redirect resources from non-priority spending into health and emergency services. Given the financing constraints, it will be critical to transparently allocate the increased health spending to the type of interventions that may be most effective at managing the outbreak. This implies that spending on the activities required to monitor the incidence of the virus, contain its spread, and mitigate its health impact should aim to upgrade existing capacity as needed (for example, number of intensive care beds, stock of respirators or other necessary equipment). Staff recommended careful costing of these activities and sound estimates of human and financial resources available to implement them, including external resources that could be mobilized, and taking into consideration the need to maintain other essential health services.

[3] In particular, the resolution facilitates the orderly refinancing of loans extended by private banks, public banks, and cooperatives—with no extra costs, interest surcharges or fees for debtors, and on a case-by-case basis. The measure has a sunset clause (120 days). The resolutions mandate the deferral of obligations, at the request of clients or on the direct initiative of financial institutions, through the modification of contractual obligations. Financial entities will have to monitor and report to their supervisors the extraordinary deferrals derived from this measure, however for accounting purposes (and for provisioning and rating) the modified loans will not be classified as restructured loans (unless they already are). In addition, commercial and public banks are required to constitute additional generic provisions on their gross lending portfolio during 2020. Such provisions will represent from 0.2% to 2% of the total gross portfolio as of December 2019 and will form part of the secondary technical equity.

Table 1. Ecuador: Selected Indicators

(In percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Projections						
Real									
Growth (percent change)	2.4	1.3	0.1	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation (average, percent change)	0.4	-0.2	0.3	0.0	1.2	1.0	0.9	1.2	1.3
Fiscal									
Non-oil primary balance	-4.1	-4.2	-3.1	-5.0	-2.8	-1.4	-0.6	0.2	0.9
Non-oil primary balance (incl. fuel subsidies)	-6.1	-6.7	-5.3	-5.8	-3.7	-2.7	-2.1	-1.5	-0.9
Primary balance	-2.3	-0.7	-0.5	-4.5	-1.5	0.2	1.3	2.4	3.1
Overall balance	-4.5	-3.2	-3.2	-7.5	-4.8	-3.2	-2.4	-1.6	-1.0
Debt (IMF definition)	44.6	46.1	49.6	64.6	66.9	69.0	69.8	69.2	67.7
Capital expenditure	9.3	9.6	7.8	7.8	7.1	6.1	5.3	4.5	4.1
Gross financing needs - Fiscal (Millions of U.S. dollars)	17,400	11,284	11,028	13,463	10,563	10,152	9,797	8,853	8,455
Bonds and bank financing - external ($ mil.)	7,251	4,504	4,171	99	0	0	0	0	0
Financing gap	0	0	0	8,382	7,600	6,784	6,430	5,485	5,087
Change in NFPS deposits (Millions of U.S. dollars)	562	951	23	134	308	0	0	0	0
External									
Current account balance	-0.5	-1.4	-0.4	-5.2	-4.1	-3.0	-2.7	-2.4	-2.2
Non-oil current account balance	-4.0	-5.5	-4.5	-7.3	-6.1	-5.0	-4.7	-4.4	-4.1
Gross financing needs - External (Millions of U.S. dollars)	8,202	10,232	9,416	13,633	11,950	13,219	13,041	13,681	12,625
Foreign direct investment (Millions of U.S. dollars)	619	1,408	973	603	853	946	956	1,137	1,264
Public sector bonds/bank financing (Millions of U.S. dollars)	7,251	4,504	4,171	8,481	7,600	6,784	6,430	5,485	5,087
Private sector borrowing (Millions of U.S. dollars)	-2,964	2,673	1,497	2,318	4,417	5,957	6,989	8,750	8,371
Monetary				(Millions of U.S. dollars)					
Gross International Reserves 1/	2,006	2,158	2,933	1,981	3,054	3,411	4,389	5,227	6,527
Net International Reserves 2/	-3,293	-2,895	-2,903	-3,540	-2,543	-2,300	-1,195	59	1,592
Alternative NIR measure 3/	-3,293	-2,895	-1,500	-1,500	-503	-260	609	1,308	2,447
Decomposition of change in Net International Reserves				(Millions of U.S. dollars)					
Change in Net International Reserves	-1,375	397	1,396	0	997	243	869	699	1,139
Change in NFPS deposits	562	951	23	134	308	0	0	0	0
Change in government deposits outside NFPS	-80	-92	189	-500	0	0	0	0	0
Change in credit to public sector (increase, -)	-978	-90	445	-79	735	264	891	729	1,176
Gold operations 4/	-376	-410	429	449	0	0	0	0	0
Other	-503	39	310	-4	-46	-21	-21	-30	-37
Reserve adequacy metrics									
GIR as a percent of ARA metric	12	12	16	11	15	16	19	22	26
GIR as a percent of Ecuador-specific metric 5/	23	26	35	28	45	46	59	67	85
GIR as percent coverage of first two balances (backing rule) 6/	49	66	81	68	98	106	133	153	183

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 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, short-term liabilities of the central government, and outstanding obligations of the treasury to the IMF.

3/ Alternative NIR refers to NIR plus outstanding obligations of the treasury to the IMF.

4/ Includes operations with BIS and Goldman Sachs International. 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.

5/ Measures coverage of reserve assets of deposits of ODIs at the BCE, outstanding credit of the BCE to the IMF, outstanding central bank securities, one month of expenditure of the NFPS, and one quarter of public external amortizations due in the year. A similar metric is discussed in Ecuador Selected Issues (Country Report 19/80, pp. 39)

6/ Measures coverage of reserve assets of currency issuance, reserves of other depository institutions, and central bank securities.

13. The authorities are committed to protecting vulnerable groups that might be affected by both the health and the economic crisis. Cash transfers could play a powerful role in protecting vulnerable households, so that the loss of income does not prevent them from accessing necessities (food, medicine, utilities). Staff recommended expanding the recently announced cash transfer "Bono de Protección Familiar por Emergencia" of US$120 per family currently designated to 400,000 families, to all of the families currently listed in the social registry (about 2 million families). Additional cash transfers to poor households that are not listed in the social registry but identified through other mechanisms could be distributed using non-bank correspondents and payments through ATMs (cajeros electrónicos) without electronic card. Given the low coverage of the social registry, an in-kind provision of goods and services can also be considered.

14. While these temporary measures can help cushion the most vulnerable households from the impact of the shocks, a more fundamental reform of the social protection system is needed. To this end, in line with the commitments under the cancelled 2019 EFF , and as a reflection of the overarching importance the authorities place on protecting the well-being of the poor and the vulnerable, the authorities have developed an action plan—with inputs from both the World Bank and the Fund—to implement social assistance thresholds and upgrade the social registry. This plan, which will help increase coverage and improve targeting of the social assistance, is also an important safeguard that would help ensure that resources from the RFI are used in the most effective way.

15. There is also a need to support the spending capacity of households who lose income and to support firms to keep paying their workers and to start up production again after the crisis passes. The emergency law submitted to the National Assembly on April 16 contains a temporary relaxation of the eligibility criteria for unemployment insurance as well as modifications to the labor contracts aimed at protecting jobs and permitting flexible work schedules.

16. In parallel, the government is taking important steps to reduce budgetary pressures in 2020, given the limited fiscal space. Staff supports income measures the government has submitted as part of an emergency package to the National Assembly, with the tentative view to generate additional savings of 1.9 percentage points of GDP. The measures are needed to ensure sufficient resources for the emergency health and social assistance spending. This includes: (i) a temporary solidarity contribution of 5 percent of corporate profit tax by companies with revenues above US$1 million; and (ii) a temporary solidarity contribution from wages, which will be paid by both private and public sector employees. In addition, the Ministry of Economy and Finance has issued guidelines to the highest authorities of all public entities for the second quarter of 2020, which includes a hiring freeze, except for priority sectors, non-renewal of occasional and provisional contracts expiring in March, suspension of payment authorizations for overtime work in the public sector, and other measures to reduce spending on goods and services. Fiscal savings from these additional expenditure measures are estimated at 0.2 percent of GDP. To protect tax revenues during the crisis, the authorities are committed to taking measures to strengthen tax and customs administration, in consultation with IMF technical assistance advice. These measures have not been incorporated in the fiscal baseline and represent an upside risk to the fiscal balance in 2020.

Ecuador: Fiscal Measures Announced in the Wake of the Oil Price and Covid-19 Crises
(In percent of GDP)

Measures included in the Baseline	
Revenues	**0.2**
Tax Measures	
Increase in withholding of the corporate income tax for banks, SOEs and other commercial corporations	0.1
Increase in import duties	0.1
Expenditures	**0.6**
Additional spending measures	
Health spending related to Covid-19	0.4
Cash transfers related to Covid-19	0.3
Overall Balance	**-0.4**
Measures that could potentially be adopted	
Total	***1.9***
Solidarity Contribution: temporary wage contribution	1.1
Solidarity Contribution: temporary corporate profit contribution	0.6
Tax on vehicles	0.2

Sources: Ministry of Finance and IMF staff calculations.

Fiscal Policy Post-Pandemic

17. Continued commitment to ambitious, yet credible, fiscal consolidation after pressures from the crisis subside will be needed to anchor public debt sustainability and strengthen the country's resilience to shocks. Even before the current crisis, strengthening the fiscal position was an important objective of the government. This goal was motivated by the rapid increase in public debt, which more than doubled since 2013, though at about 50 percent of GDP it was still among the lowest in the region. The crisis is clearly hurting public finances and leading to a significant increase in debt over the next four years (Section D).

18. Once the pandemic wanes, a roll-back of pandemic-related spending will be of paramount importance. This includes 0.6 ppt of GDP in health-related expenditure and additional cash transfers.

19. Beyond 2020, an ambitious expenditure rationalization and a growth-friendly tax reform will need to be designed and implemented to support the much-needed and sustained fiscal adjustment. Given the unusually large size of the current shock and the long-standing medium-term challenges facing Ecuador, the size of the fiscal adjustment consistent with long-term fiscal and debt sustainability will have to be large. Staff estimates that a fiscal consolidation in NOPBS of about 6.2 percentage points of GDP over the period 2019-2025 (4.8 ppts of GDP in overall balance), compared to the consolidation assumed in the baseline scenario (4.4 ppts of GDP in NOPBS and 2.2 ppts of GDP in overall balance), will be required to help preserve public debt sustainability and welcomes the authorities' commitment to a fiscal path aligned with this objective. The expected "low for long" oil prices necessitate reducing and re-aligning current spending towards growth-enhancing outlays and social assistance as well as reversing the decline in non-oil revenues in recent years. Staff believes that there is further scope to review and rationalize non-priority capital spending, which remains high in Ecuador. The authorities believe that the change in the course of fiscal policy should focus on high-quality current expenditure and revenue measures, which would protect growth and help strengthen Ecuador's competitiveness.

20. Institutionally, fiscal policy management will be enhanced by the reform of the organic code of budget and planning (COPLAFIP) over the medium-term. This reform, which was an important structural benchmark under the cancelled EFF, was also submitted to the National Assembly on April 16 as an emergency law (prior action for the RFI). The amendments will strengthen fiscal discipline and transparency by enhancing public financial management and compliance with the revamped fiscal rules framework.

B. Financial Sector Policies

21. The priority is to step up monitoring activities while preparing the toolbox for a proper policy response to the combined shocks. In order to deploy the available policy tools in an effective manner, oversight authorities must deepen supervision, increase the frequency of their supervisory activities and sharpen their focus. The main channel through which financial stability may be tested is liquidity, which has already been affected by the fall in deposits and the payment deferral measure. Authorities' crisis management capacity can be enhanced with further contingency planning, particularly to face liquidity pressures and a consequence of the possible asset deterioration. The first line of defense is to ensure the liquidity fund windows are accessible and flexible, eliminating stigma elements. The rediscount window of the Central Bank of Ecuador (BCE), largely inactive for years, needs to become operational in case additional means of liquidity injection are required.

22. While Ecuadorean banks on average have reported sufficient liquidity levels at the outset of the crisis, the increased demand for credit to manage what is perceived as a temporary shock will create pressure on the system's balance sheet. The economic costs of dealing with the pandemic will lead to asset deterioration, and the emergency mode in the public sector will also limit the liquidity available for projects. The measures taken by the authorities so far will help alleviate the immediate pressure on the payments systems, but the authorities should stand ready to continue providing liquidity relief, especially from the liquidity fund. While reserve requirements could be used to inject liquidity to the system, recent experience shows that, during recessions, banks tend to protect their liquidity and may not respond as expected, at the same time by reducing reserve requirements liquid reserves at the BCE may decrease. Also, supervisors should start monitoring closely the loan portfolio subject to payment deferrals.

23. Finally, staff emphasized the importance of putting in place other elements of preparedness, including business continuity plans (both on the side of the authorities and the supervised entities), a strategy of communications to the public, and intensified coordination mechanism among all institutions: BCE, Ministry of Economy and Finance (MEF), Superintendencies, and the Junta Monetaria. Special attention should be paid to the interlinkages of different segments of the financial system.

C. Risks

24. Risks are firmly tilted towards the downside and have heightened substantially. On the external side, acute risks include lower-than-projected oil prices, a more severe and/or protracted Covid-19 pandemic globally, weaker-than-expected global growth, including through rising protectionism, as well as a further sharp rise in risk premia that exposes financial vulnerabilities that would generate additional pressures on public finances. On the domestic side, risks include a wider and prolonged spread of the COVID-19 pandemic; longer-than-expected time for repairing the damaged oil pipelines; a shortfall in fiscal revenues, higher-than-estimated health spending related to COVID-19, social discontent that causes economic disruptions and policy missteps; lack of political cohesion in pursuing much-needed structural reforms and policies to support the population in crisis and to restore macro-economic stability; and an intensification of financial sector vulnerabilities. Failure to achieve an agreement consistent with debt sustainability with creditors by mid-August (when the standstill on debt service to external private sector creditors expires) as well as lack of a sufficient contribution by bilateral creditors would result in insufficient relief in the near and medium term, keeping the country under very vulnerable conditions for a long period of time, including through the forthcoming presidential election period. Any or a combination of the above risks could lead to a further dampening of economic growth, increase poverty, and lead to additional balance of payments needs. On the fiscal side, these risks could adversely affect budget revenues (both oil and non-oil) and expenditures, on the back of higher-than-expected spending on health and income support. The authorities are taking steps to mitigate the negative impact of these shocks, including by requesting technical assistance (currently ongoing) to improve tax administration practices and boost revenues.

D. Debt Sustainability

25. The confluence of shocks is expected to raise the debt level significantly with large emerging financing gaps in 2020 and beyond, putting it at a knife's edge of unsustainability. Debt is expected to peak in 2023 at around 69.8 percent of GDP and then decline to 67.7 percent of GDP by 2025. Gross financing needs are very high at 13.9 percent of GDP in 2020, and remain large over the medium term even under favorable assumptions, including the prompt restoration of normal market access; sufficient financing from multilateral, and official bilateral sources is made available over the medium term. The debt profile is particularly vulnerable to real GDP growth, the primary balance and interest rate shocks, highlighting the need for continuous fiscal consolidation over the medium-term, to which the authorities are committed. The outlook is specially clouded by the large financing gaps in the short and medium term, which have widened in the wake of a COVID-19 crisis and a sharp decline in oil prices. A substantive debt operation is now required (and in motion) to address the large and protracted financing gaps expected over the medium term.

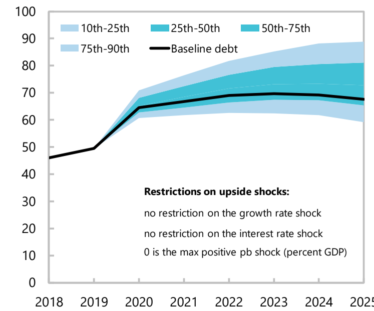
26. The authorities' continued commitment to fiscal consolidation over the medium term would contribute to safeguarding debt sustainability (Box 1). While the authorities are rightly focused on addressing the pressing health emergency and the consequences of the pandemic and a sharp decline in oil revenues in 2020, they are committed to a fiscal consolidation in 2021 and beyond. Ensuring public debt sustainability on a forward-looking basis will require continued fiscal efforts over the medium-term. A more ambitious, and yet credible, fiscal consolidation than currently assumed under the baseline scenario would improve sustainability and increase buffers to cope with shocks (Box 1). The authorities are committed to undertaking the needed fiscal consolidation and to pursuing fiscal policy consistent with achieving a debt-to-GDP ratio of no more than 45 percent by 2030, with an intermediate target of 55 percent by 2025. This would also be broadly consistent with achieving GFN targets averaging 6 percent of GDP in 2025-2030, which represents a more manageable level for Ecuador over the longer term. Under this scenario, the debt will be firmly on a downward path.

27. To achieve these targets, the participation of all of Ecuador's creditors and stakeholders will also be required. To complement the fiscal adjustment effort, the authorities have also taken important initial steps in a credible process towards a debt operation involving private external creditors that staff assesses having reasonable prospects for achieving sufficient creditor participation. The authorities have publicly announced their intention to carry out a debt operation involving external private creditors, hired legal and financial advisors, and, to signal their intent to pursue a market-friendly approach, successfully carried out a consent solicitation to defer interest payments that would provide time to articulate a debt plan and strategy. The MEF has made a comprehensive presentation to private sector creditors laying out the objectives of the exercise, while underscoring that the debt operation will need to be consistent with the Fund's debt sustainability requirements. With the inputs from Fund staff on the requirements for debt sustainability, Ecuador's financial advisors are currently helping the authorities elaborate a plan and strategy to inform the discussions with external private creditors, including the scope and depth of the debt operation. The authorities have also secured support from key bilateral creditors in 2020 and have good prospects for obtaining needed bilateral and multilateral financing over the medium term. Finally, the authorities have reached out to multilateral development banks and other bilateral development partners for additional financial support on favorable terms.

Box 1. Ecuador: Illustrative Adverse Scenario and a Sustainable Scenario

The COVID-19 pandemic and the concomitant collapse in global oil prices have compounded pre-crisis vulnerabilities and heightened risks to public debt sustainability in Ecuador. As a result of the confluence of shocks, EMBI spreads have skyrocketed (¶6), real activity is contracting sharply (¶9), and the fiscal deficit is expected to widen significantly (¶9). Downside risks loom large.

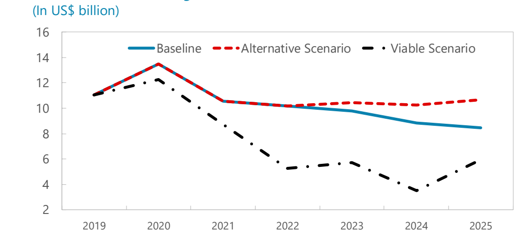
Restricted (Asymmetric) Distribution: Baseline
(In percent of GDP)



Against this backdrop, while public debt is assessed as sustainable on a forward-looking basis under the baseline scenario, debt sustainability is a "knife-edge". Heightened risks are firmly tilted to the downside, with many plausible shocks threatening to throw the debt path off balance. In particular, a lower than projected growth, higher spreads, lower oil prices, materialization of contingent liabilities, less ambitious fiscal consolidation than currently envisaged under the baseline scenario could render public debt unsustainable. An assessment of public debt paths based on the historical distribution of shocks shows that a large probability mass of the debt distribution is associated with unsustainable debt trajectories (text chart). [1] Given the very fluid situation, some of these risks are near-materialization.

To illustrate how the materialization of risks could alter public debt dynamics, the box zooms on one of the plausible risks, namely higher-than-currently-envisioned borrowing costs. This illustrative scenario assumes that the EMBI spreads remain elevated well into the medium-term. The focus on this risk is motivated by the sensitivity of Ecuador's sovereign spreads to changes in global oil prices (¶6), the current very high level of spreads (5500 bp) and the wide uncertainty surrounding the future path of oil prices and financial market conditions.

Ecuador: Gross Financing Needs
(In US$ billion)

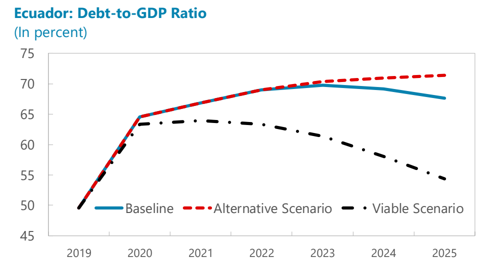


Source: Ministry of Finance and IMF staff calculations.

Public debt becomes unsustainable under this alternative scenario, with large and sustained GFNs well-into the medium term. More specifically, after increasing by 15 ppts to 64.6 percent of GDP in the wake of the dual COVID-19 and oil price shock in 2020, public debt continues to rise, reaching 71.4 percent of GDP by 2025, well above the baseline. GFNs remain elevated at 10.6 ppts of GDP in 2025, 2 ppts above the level under the baseline scenario.

[1] The baseline scenario is underpinned by a cumulative adjustment in NOPBS of 4.4 ppts of GDP during 2019–25.

Box 1. Ecuador: Illustrative Adverse Scenario and a Sustainable Scenario (concluded)



Source: Ministry of Finance and IMF staff calculations.

It is against this backdrop of heightened risks to debt sustainability that the Government of Ecuador is engaging with its creditors to prevent such alternative scenarios from materializing. Safeguarding against significant downside risks and ensuring that public debt is firmly on a sustainable path requires a combination of an ambitious, yet credible, fiscal adjustment, a successful definitive debt operation with private creditors, assured financing from bilateral creditors, and good prospects for financing from multilateral institutions going forward. Staff estimates that such a viable scenario could be underpinned by fiscal consolidation of about 6 ppts of GDP in NOPBS over the period 2019-2025, combined with the significant participation of Ecuador's external private and official creditors as well as multilaterals stakeholders. Such a scenario would be consistent with achieving a debt-to-GDP ratio of no more than 45 percent by 2030, with an intermediate target of 55 percent by 2025. This would also be broadly consistent with achieving GFN targets averaging 6 percent of GDP in 2025-2030, which represents a more manageable level for Ecuador over the longer term. Under this scenario, the debt will be firmly on a downward path.

MODALITIES OF SUPPORT

A. Modalities of Support

Staff supports the authorities' request and proposes to provide support of 67.3 percent of quota (SDR 469.7 million or US$644 million) under the RFI given the 145 percent normal annual access limit *on purchases within 12 months and past EFF purchases in 2019.*

28. Staff supports the authorities' request for an RFI.

- Ecuador faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic disruption.

- It is not feasible to implement a UCT program, owing to the high degree of uncertainty regarding the duration and scale of the COVID-19 impact and the practical difficulties of holding comprehensive policy discussions with the authorities in the current no-travel/work-at-home environment, including in the member country.

- Ecuador's debt is assessed as sustainable on a forward-looking basis (Annex III), after incorporating the government's commitment to undertaking additional fiscal consolidation; and expected contributions from Ecuador's creditors (consistent with the Fund's debt and GFN targets set out in ¶26), including through the in-train debt operation with private external creditors, and credible and specific assurances of support for 2020 received from major official bilateral creditors.

- Under the baseline scenario, which assumes that all of the remaining financing gaps are closed with borrowing at interest rates close to 10 percent in 2022-2025, Ecuador's capacity to repay (Table 8) is constrained and subject to important risks, given uncertainties to the external conditions facing Ecuador and the pending debt operation. The authorities are, however, committed to pursuing further fiscal consolidation and taking other steps, including a successful debt operation and have secured support from official bilateral creditors for 2020, and have good prospects for obtaining needed bilateral and multilateral financing needed over the medium term creditors to firmly anchor fiscal sustainability. These steps are critical to enable Ecuador to meet its obligations to the Fund in 2023 and beyond when new RFI repurchases start falling due.

- The staff report includes an updated DSA (Annex 3), that does not incorporate debt operation assumptions. Rather it assumes that normal market access would be restored and that current gaps are closed with market, multilateral and official financing.

- Staff has confidence that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the virus, based on the countries' track record of economic policies and relations with the Fund.

29. Ecuador canceled the existing EFF arrangement approved on March 11, 2019, with an access level of 435 percent of quota. Access of 100 percent of quota in addition to the EFF access would not be within the normal annual access limits under the GRA.

30. The proposed access of 67.3 percent of quota represents only 8 percent of the estimated financing gap in 2020. Remaining needs are expected to be filled by the fiscal policy adjustment (measures of 1.7 percent of GDP have been recently announced by President Moreno), resources from multilaterals as well as bilateral and private creditors. The authorities have indicated an interest in pursuing a successor EFF that staff is working on in parallel.

31. RFI purchase will be disbursed to the central bank and will be on-lent to the government to provide financing for virus- and other emergency spending. The Memorandum of Understanding (MoU) signed in March 2019 between the MEF and the BCE —that clarifies the responsibilities for timely servicing of the financial obligations to the IMF— will be updated to account for the new disbursement. The safeguards assessment for Ecuador was completed in 2019, and an update will not be required. Ecuador has committed to comply with the Fund's safeguards policies.

32. Implementation of safeguards recommendations will depend on the passage of the new BCE law. The last assessment, finalized in June 2019, found that structural reforms were required to restore the BCE's independence. While the central bank addressed some safeguards recommendations, such as the establishment of a risk management committee, the lack of enactment of the new central bank law has impeded the envisaged reforms, including the establishment of new governance arrangements. The BCE is making progress in the transition of International Financial Reporting Standards (IFRS), but the current legal framework continues to prohibit the publication of the full set of audited financial statements. The authorities are committed to pursuing the reform of the BCE after the current legislative emergency package has been discussed.

33. The authorities commit to taking necessary steps to ensure COVID-related spending is transparent and accountable. In particular, the authorities commit to (i) regularly publishing on the government's website COVID-19-related public procurement contracts and related documents, including the names of the awarded companies and their beneficial owners and ex-post validation of delivery, as well as information on all other COVID-19 related spending; and (ii) undertaking an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publishing the results.

STAFF APPRAISAL

34. Staff welcome the authorities' bold policy response to the confluence of shocks, including the pandemic, the plummeting of oil prices, and the dramatic slump in global demand. Despite significant resource constraints, the authorities announced a series of measures aimed at both supporting economy as well as mobilizing additional resources needed to fight the COVID pandemic.

35. Staff underscored the importance of allocating sufficient resources to health spending to fight the pandemic and for social assistance to support vulnerable groups. Increasing health spending to save lives and providing cash transfers to the most vulnerable is the first priority. Staff welcome the social assistance action plan published by the authorities, which outlines a more fundamental reform of the system of social protection and will help ensure the RFI resources are put to their best use. Staff welcomed the authorities' commitment to ensure transparency and accountability of COVID-related spending.

36. Once the crisis subsides, the authorities should stand ready to revert the emergency mitigating measures and anchor fiscal consolidation efforts around a credible forward-looking medium-term plan. Additional fiscal savings would help restore confidence and put public finances on a more sustainable footing. The submission to the National Assembly of amendments to the COPLAFIP will strengthen fiscal discipline and transparency.

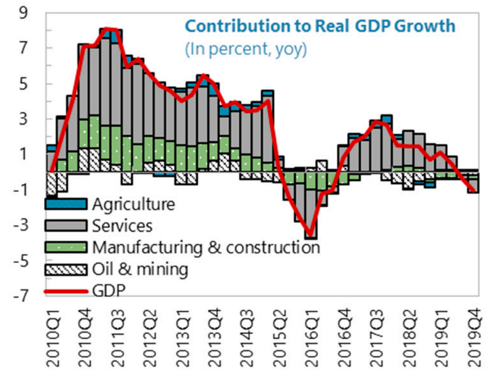
37. The authorities should strike a balance between liquidity provision to re-ignite growth and financial stability risk. The new credit lines for small- and medium-size enterprises would provide much-needed cash flow relief to otherwise credit-constrained firms. The approved regulation by the Monetary and Financial Board to lower the contribution of financial institutions to the liquidity Fund should be temporary to prevent a potential adverse impact on financial stability.

38. Ecuador should continue to strengthen institutional arrangements and technical capacity underpinning the compilation of public finance statistics. This includes stronger collaboration among the agencies involved in the compilation of fiscal statistics, enforcement of reporting standards, systematic reconciliation of above- and below-the-line data, and compilation of fiscal accounts by sub-sectors of the NFPS.

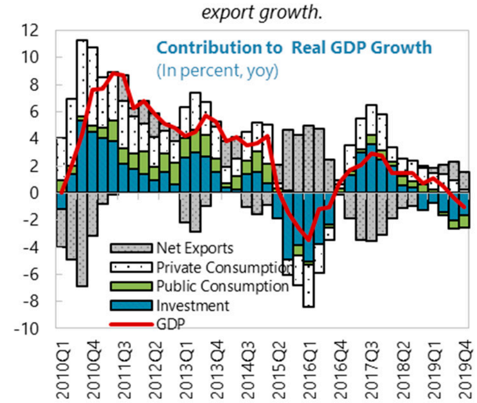
39. Staff views the request for purchase under the RFI to be justified, despite the heightened downside risks, and recommends its approval by the Board. The request for a purchase in the amount of 67.3 percent of quota is justified by the scale and severity of the confluence of shocks and the impact of the shocks on Ecuador's balance of payments. Treating the disbursement as budget support is warranted by the pressing healthcare and humanitarian needs facing the Ecuadorian government. Furthermore, the authorities' proposals for additional spending are consistent with medium-term economic sustainability, and necessary to maintain social cohesion and to protect the most vulnerable during the crisis. However, Ecuador's capacity to repay the Fund is constrained and subject to higher than usual risks. Ecuador's debt is deemed sustainable on a forward-looking basis given the progress achieved so far on the debt operation with private sector creditors, and the presence of specific and credible bilateral creditor assurances for 2020 and commitments to fiscal sustainability, although important risks remain.

Figure 1. Ecuador: Recent Economic Developments

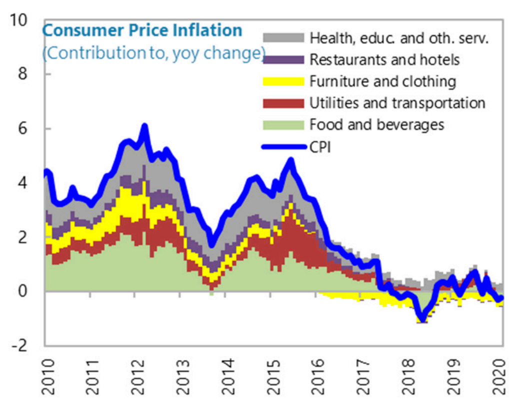
Real GDP growth fell to -1% in 2019Q4...



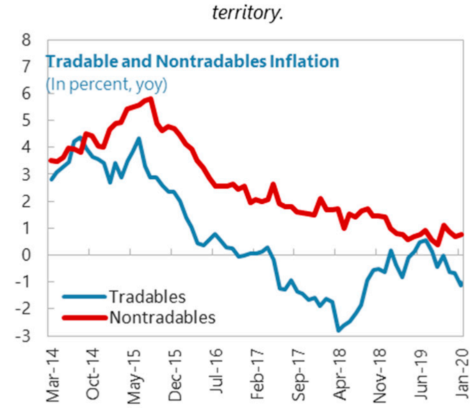
... as a fall in public consumption and investment outweighed export growth.



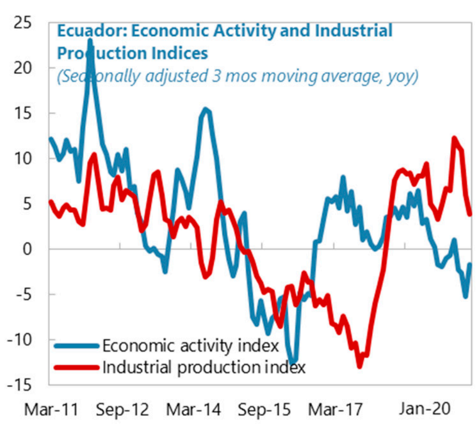
Inflation remains low, with health, education, and services being the main drivers.



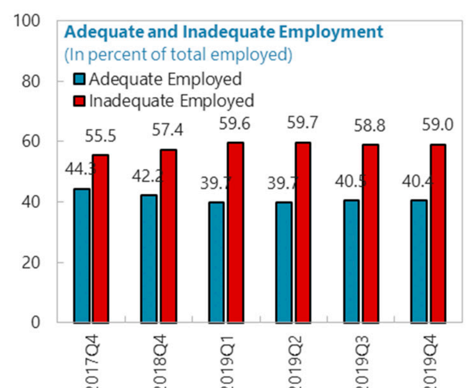
Nontradables inflation has slowed in line with wage growth, while tradables inflation has fallen into negative territory.



Industrial production fell in December 2019, while overall economic activity has been sluggish...



...and job quality has deteriorated.

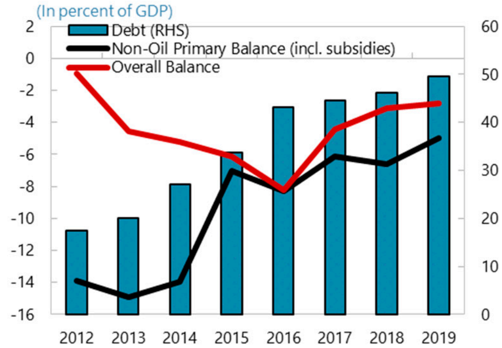


Sources: Central Bank of Ecuador, National Statistical Institute of Ecuador (INEC), and IMF staff calculations.

Figure 2. Ecuador: Fiscal Developments 1/

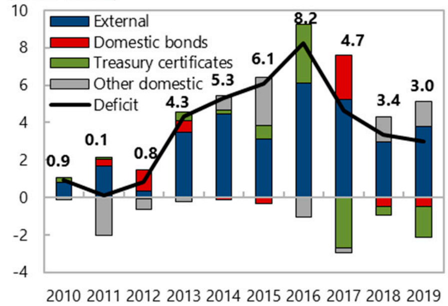
Despite a declining fiscal deficit , public debt continues to rise.

Debt and Fiscal Deficit
(In percent of GDP)



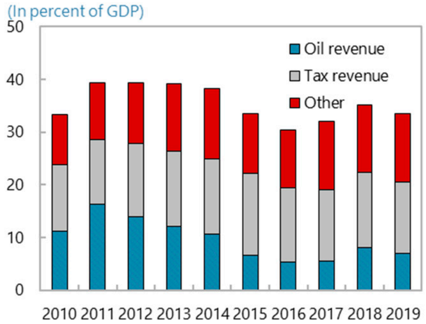
The deficit was financed largely by external bonds issuance.

Fiscal Deficit and Financing Sources
(In US$ Billions)



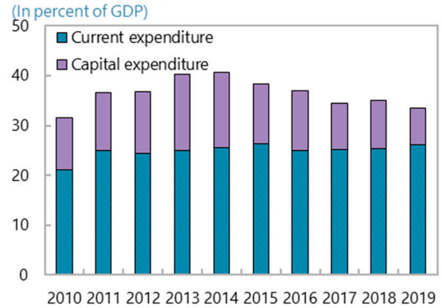
Revenues fell, in part due to the fall in oil revenues...

Revenues
(In percent of GDP)



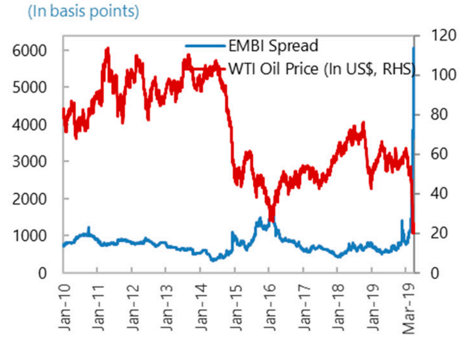
... while capital expenditure contraction helped offset the increase in current primary spending.

Primary Expenditures
(In percent of GDP)



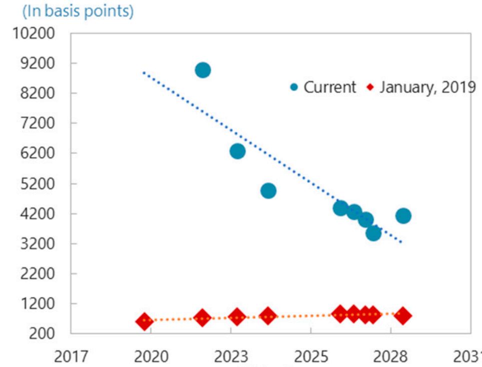
External and domestic events had significant, negative, effects on spreads, which had previously mirrored fluctuations in oil prices...

EMBI Spread and Oil Price
(In basis points)



...resulting in the inversion of the yield curve.

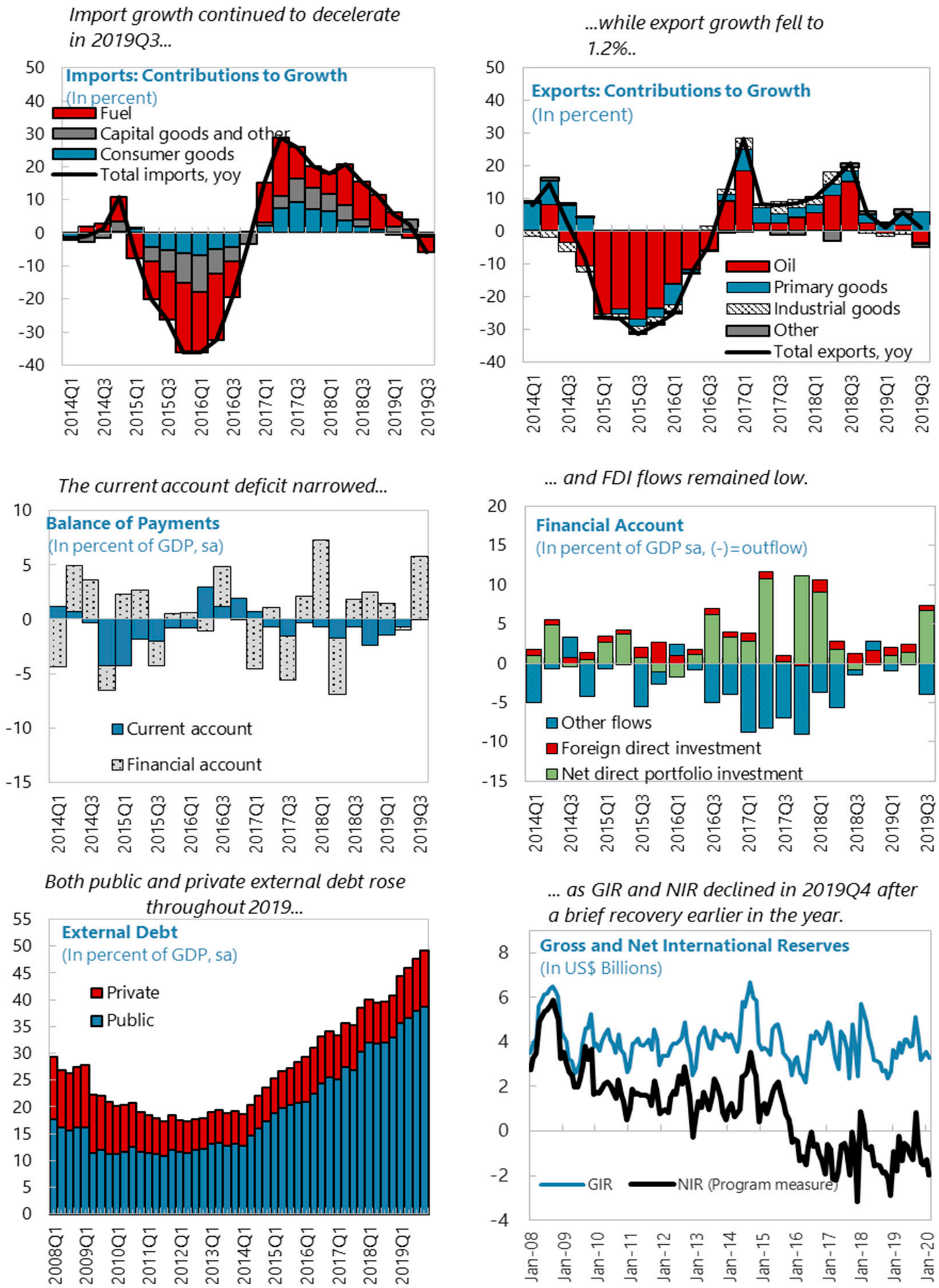
Ecuador Yield Curves
(In basis points)



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

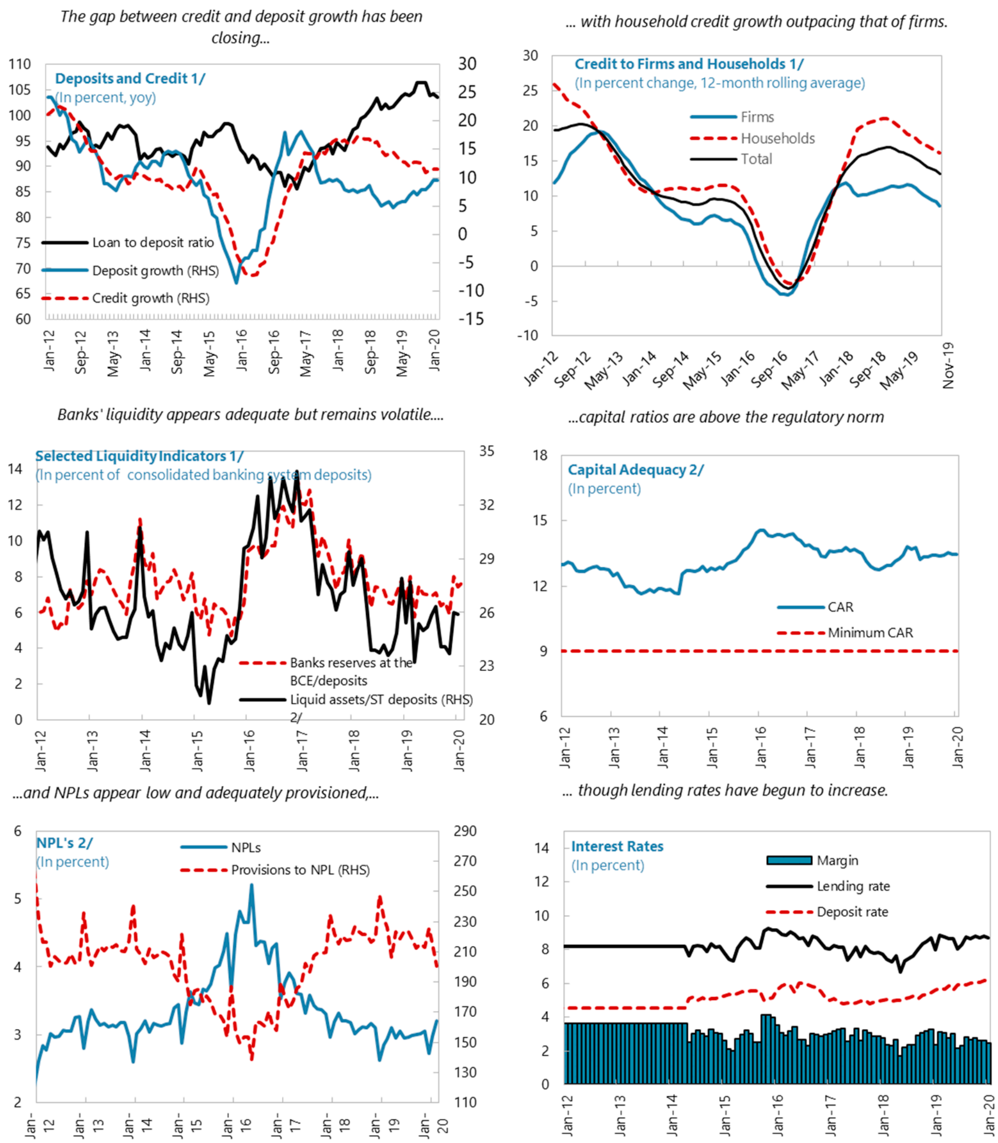
1/ The data for Ecuador reflect net lending/borrowing for the Non-Financial Public Sector (NFPS). Ecuadorian authorities, in the context of the EFF approved in March of 2019 and with the technical support from the IMF Staff, are undertaking revisions of the historical fiscal data for the net-lending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

Figure 3. Ecuador: A Vulnerable External Position



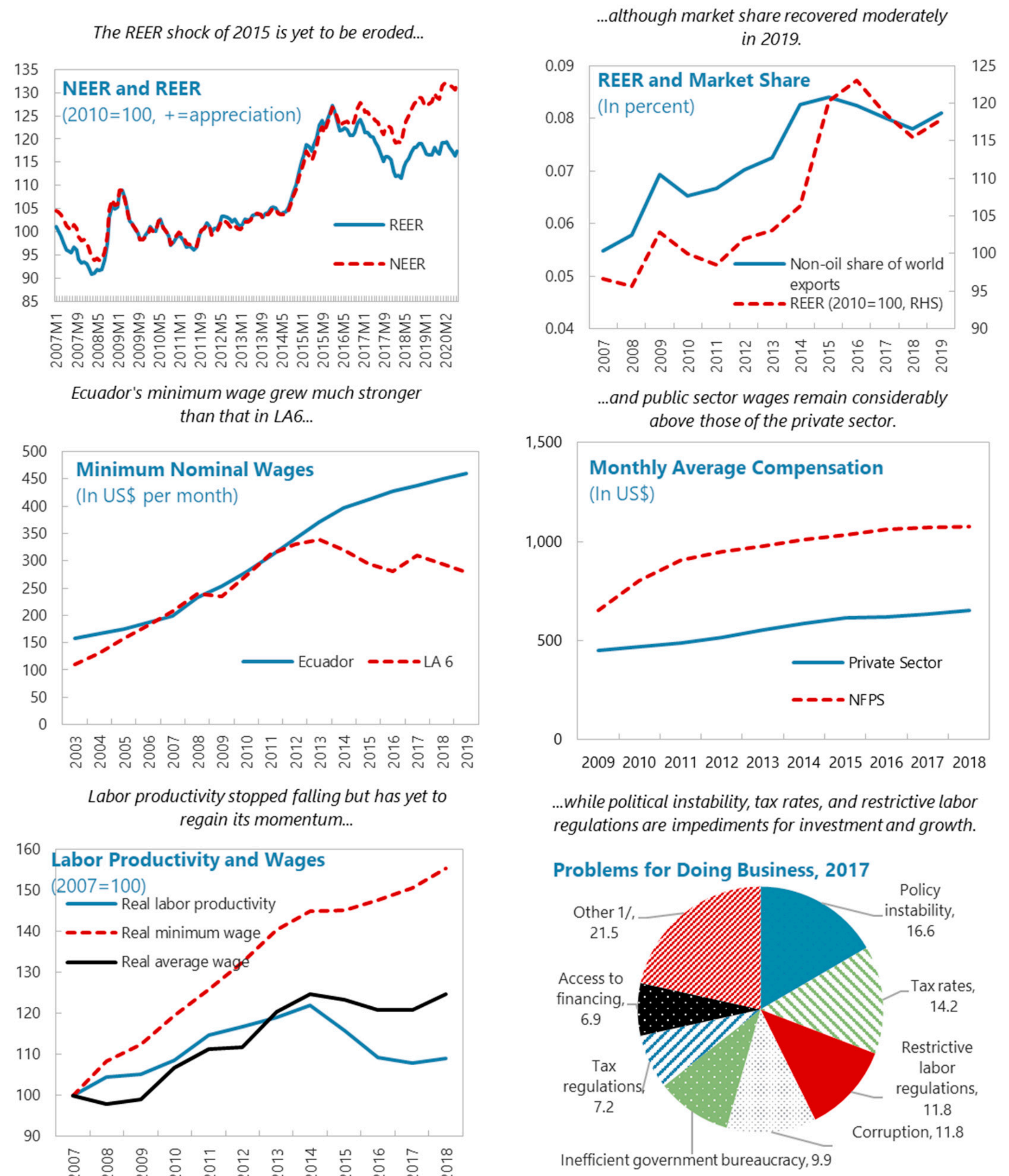
Sources: Central Bank of Ecuador and IMF staff calculations.

Figure 4. Ecuador: Financial System Developments



Sources: Central Bank of Ecuador, Superintendency of Banks, IMF Monetary and Financial Statistics, and IMF staff calculations.
1/ Loan to deposit data corresponds to Other Depository Institutions, which include private banks, *Banecuador*, *Banco del Pacifico*, private financial companies, mutualists, cooperatives, and credit card companies. While credit and deposit data corresponds to the whole financial system.
2/ Data corresponds to the private banks aggregate, which includes *Banco del Pacifico*.

Figure 5. Ecuador: Competitiveness



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

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

Table 2. Ecuador: Selected Economic and Financial Indicators

	2015	2016	2017	2018	2019	2020 1/	2020	2021	2022	2023	2024	2025
			Prel.	Est.	Proj.				Projections			
Social Indicators												
Life expectancy at birth (years)	76.1	76.3										
Infant mortality (per thousand live births)	13.0	12.7	12.5									
Adult literacy rate	94.5	94.4										
Poverty rate at national line (total)	23.3	22.9	21.5	23.2								
Unemployment rate	4.8	5.2	4.6	3.7	3.8	4.8	6.5	5.9	6.1	6.2	6.1	6.0
Population (millions)	16.3	16.5	16.8	17.0	17.3	17.5	17.5	17.8	18.0	18.3	18.5	18.8
	(Percent change, unless otherwise indicated)											
National income and prices												
Real GDP	0.1	-1.2	2.4	1.3	0.1	0.2	-6.7	4.1	1.3	1.4	1.8	2.2
Domestic demand (contribution to growth)	-2.2	-4.3	5.3	2.2	-0.9	-1.6	-7.2	3.2	0.8	0.9	1.9	2.7
External Demand (contribution to growth)	2.3	3.1	-3.0	-0.9	1.0	1.8	0.5	0.9	0.4	0.5	-0.2	-0.5
Consumer price index period average	4.0	1.7	0.4	-0.2	0.3	0.9	0.0	1.2	1.0	0.9	1.2	1.3
Consumer price index end-of-period	3.4	1.1	-0.2	0.3	-0.1	0.9	0.1	2.3	0.9	1.1	1.2	1.3
Banking system												
Net domestic assets	1.4	20.5	18.3	7.6	9.5	3.0	-3.4	2.8	2.5	0.3	1.7	0.8
Liabilities	-6.2	21.2	9.4	4.7	8.6	3.9	-7.0	6.3	3.2	3.0	3.7	4.1
Credit to the private sector	-3.4	6.2	16.4	14.9	11.3	5.7	-7.1	8.1	3.0	2.8	3.8	4.0
External sector												
Exports	-25.9	-8.7	11.5	13.1	0.4	2.5	-25.2	10.0	5.0	4.2	4.3	3.9
Oil	-49.8	-18.0	26.6	27.3	-1.5	0.5	-47.5	10.9	8.0	5.5	4.3	3.2
Non-oil	-7.0	-3.4	6.2	4.9	2.3	3.6	-10.8	5.4	4.0	3.8	4.3	4.3
Imports	-20.8	-20.3	18.6	13.4	-3.9	-2.1	-16.3	5.3	3.0	2.6	3.9	4.9
Terms of trade	-13.4	0.7	7.6	2.0	-0.5	-1.5	-12.2	1.3	0.4	0.0	1.0	0.9
Real effective exchange rate (2010=100)	120.3	123.0	118.7	115.4	117.8							
Real effective exchange rate, end-of-period (depreciation, -)	13.2	2.2	-3.5	-2.8	2.0							
	(Percent of GDP)											
External current account balance	-2.2	1.3	-0.5	-1.4	-0.4	0.3	-5.2	-4.1	-3.0	-2.7	-2.4	-2.2
Public finances												
Revenue	33.6	30.3	32.0	35.3	33.4	36.2	29.8	30.9	31.4	31.9	32.2	32.2
Expenditure	39.7	38.6	36.5	38.5	36.6	35.5	37.4	35.7	34.5	34.3	33.8	33.3
Overall balance (deficit -)	-6.1	-8.2	-4.5	-3.2	-3.2	0.7	-7.5	-4.8	-3.2	-2.4	-1.6	-1.0
Non-oil primary balance	-4.0	-6.7	-4.1	-4.2	-3.1	0.3	-5.0	-2.8	-1.4	-0.6	0.2	0.9
Non-oil primary balance (incl. fuel subsidies)	-7.0	-8.3	-6.1	-6.7	-5.3	-1.7	-5.8	-3.7	-2.7	-2.1	-1.5	-0.9
Public debt 2/	33.8	43.2	44.6	46.1	49.6	50.1	64.6	66.9	69.0	69.8	69.2	67.7
Domestic	11.5	15.0	12.6	12.4	12.2	12.2	15.4	14.3	14.8	14.1	14.0	12.7
External	22.3	28.1	32.0	33.8	37.4	37.9	49.2	52.5	54.2	55.7	55.2	55.0
Saving-investment balance												
Consumption	75.9	74.5	74.5	74.4	75.0	73.7	77.6	77.6	77.3	77.3	77.3	77.0
Private	61.4	59.9	59.9	59.7	60.5	60.3	62.0	63.0	63.0	63.0	63.0	63.0
Public	14.4	14.6	14.6	14.7	14.5	13.4	15.6	14.6	14.3	14.3	14.3	14.0
National saving	24.6	26.3	25.8	25.4	24.6	26.0	19.4	19.7	20.7	20.7	20.9	21.6
Private	18.8	22.6	21.0	18.9	20.0	18.0	19.2	17.4	17.8	17.8	18.0	18.6
Public	5.8	3.7	4.8	6.4	4.6	7.8	0.2	2.3	3.0	2.9	2.9	3.0
Gross investment	26.9	25.0	26.3	26.7	25.0	25.8	24.6	23.8	23.7	23.4	23.3	23.8
Private 3/	13.4	13.5	15.6	18.7	18.3	18.8	18.0	17.7	18.5	18.9	19.5	20.4
Public	13.4	11.5	10.6	8.0	6.6	7.0	6.6	6.1	5.2	4.5	3.8	3.4
Memorandum items:												
Nominal GDP (US$ millions)	99,290	99,938	104,296	107,562	107,436	107,991	97,114	102,575	105,040	107,548	111,031	115,220
GDP per capita (US$)	6,099	6,046	6,217	6,318	6,222	6,167	5,546	5,777	5,834	5,890	5,997	6,137
Gross international reserves (US$ millions) 4/	2,351	4,216	2,006	2,158	2,933	6,022	1,981	3,054	3,411	4,389	5,227	6,527
Gross international reserves (as a percent of ARA metric)	18	28	12	12	16	31	11	15	16	19	22	26
Net international reserves (US$ millions) 5/	-498	-1,917	-3,293	-2,895	-1,500	2,087	-1,500	-503	-260	609	1,308	2,447
Underlying reserves (US$ millions) 6/			-3,293	-2,895	-2,903	879	-3,540	-2,543	-2,300	-1,195	59	1,592
Oil price Ecuador mix (US$ per barrel)	41.9	35.0	45.7	60.6	55.3	53.5	30.1	32.0	34.6	36.5	38.0	39.2
Oil production (millions of barrels)	198.2	200.7	193.9	188.8	193.7	194.0	190.5	195.6	195.5	195.5	195.5	195.5
Exports of oil (millions of barrels) 7/	156.9	156.6	150.9	145.1	153.4	159.6	147.2	153.5	153.5	153.4	153.4	153.5

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

1/ Pre Covid-19 staff estimates (December, 2019).

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 Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).

3/ Includes inventories.

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

5/ Net international reserves 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. Program exchange rates are those in effect on January 31, 2019 (see TMU).

6/ Underlying reserves refers to NIR less outstanding obligations of the treasury to the IMF. The values for "Prog. 2019" and "Prog. 2020" have been updated to reflect the revised program definition of NIR, which was changed at the time of the first review.

7/ Includes both crude and derivatives

Table 3a. Ecuador: Operations of the Non-Financial Public Sector (Net Accounting)

(in millions of US dollars, unless otherwise indicated)

			Prel.	Est.	Proj.		Projections					
	2015	2016	2017	2018	2019	2020 1/	2020	2021	2022	2023	2024	2025
Revenue	**33,322**	**30,314**	**33,426**	**37,996**	**35,914**	**39,041**	**28,967**	**31,699**	**32,965**	**34,299**	**35,780**	**37,156**
Oil revenue, net 2/	6,487	5,402	5,840	8,181	7,785	8,648	3,964	4,504	4,866	5,432	5,858	6,079
Nonpetroleum revenue	25,758	24,294	25,474	26,966	25,506	28,264	22,721	24,576	25,263	25,908	26,838	27,992
Taxes	15,588	14,017	14,078	15,422	14,490	14,772	12,764	14,058	14,493	14,881	15,453	16,178
Social security contributions 3/	5,057	4,741	5,415	5,541	5,863	6,078	5,300	5,598	5,732	5,869	6,059	6,288
Other	5,113	5,535	5,981	6,003	5,153	7,414	4,658	4,920	5,038	5,158	5,325	5,526
Operating surplus of public enterprises	1,076	618	2,113	2,849	2,623	2,592	2,282	2,619	2,836	2,958	3,085	3,085
O/w profits of oil companies withheld for investment	833	487	2,077	2,748	2,489	2,451	2,132	2,469	2,686	2,808	2,935	2,935
Expenditure	**39,398**	**38,540**	**38,079**	**41,412**	**39,319**	**38,297**	**36,272**	**36,619**	**36,289**	**36,843**	**37,528**	**38,339**
Primary expenditure	37,976	36,980	35,870	38,748	36,405	35,080	33,290	33,235	32,738	32,866	33,137	33,609
Current	26,129	25,043	26,198	27,603	28,023	28,350	25,759	25,917	26,306	27,160	28,137	28,937
Wages and salaries	9,904	10,014	10,365	10,323	10,190	10,235	9,970	10,205	10,450	10,700	11,046	11,156
Purchases of goods and services	5,112	4,684	5,056	4,735	4,643	5,132	4,493	4,043	3,841	3,932	4,060	4,213
Social security benefits 3/	4,222	4,655	4,999	5,382	5,773	5,574	5,654	5,972	6,116	6,262	6,464	6,708
Other	6,890	5,691	5,777	7,163	7,418	7,410	5,643	5,697	5,899	6,267	6,567	6,860
Cost of imports of oil derivatives	3,788	2,332	2,889	4,041	4,440	3,855	2,428	2,877	3,209	3,515	3,729	3,917
Payments to private oil companies (SH) 4/	1,439	1,117	1,385	1,521	1,337	1,302	1,302	930	739	739	739	739
Other	1,664	2,242	1,502	1,601	1,641	2,253	1,913	1,891	1,951	2,013	2,099	2,203
Capital	11,848	11,937	9,672	10,342	8,335	6,729	7,531	7,318	6,432	5,706	5,000	4,672
Fixed capital spending	10,178	10,293	8,648	9,941	8,193	5,892	7,398	7,178	6,289	5,560	4,849	4,515
O/w investment in oil	2,804	2,375	1,766	1,570	1,625	1,835	1,840	1,809	1,858	1,857	1,857	1,857
Net-lending	1,669	1,644	1,024	402	143	837	133	140	143	146	151	157
Extra budgetary expenses				803	46							
Primary balance	**-4,655**	**-6,666**	**-2,444**	**-752**	**-491**	**3,961**	**-4,323**	**-1,537**	**228**	**1,432**	**2,643**	**3,547**
Interest	**1,421**	**1,561**	**2,209**	**2,663**	**2,914**	**3,217**	**2,982**	**3,383**	**3,552**	**3,977**	**4,391**	**4,730**
O/w external	1,143	1,335	1,850	2,314	2,577	2,821	2,729	3,033	3,168	3,542	3,931	4,256
Current balance	**5,772**	**3,710**	**5,019**	**6,927**	**4,930**	**7,473**	**226**	**2,398**	**3,108**	**3,162**	**3,253**	**3,489**
Overall balance	**-6,076**	**-8,226**	**-4,653**	**-3,415**	**-3,405**	**744**	**-7,305**	**-4,920**	**-3,324**	**-2,545**	**-1,748**	**-1,183**
Memorandum items:												
Non-oil primary balance 5/	-3,944	-6,730	-4,320	-4,550	-3,361	317	-4,850	-2,894	-1,518	-697	176	1,047
Non-oil PB (incl. fuel subsidies)	-6,991	-8,261	-6,394	-7,156	-5,714	-1,838	-5,625	-3,832	-2,817	-2,278	-1,648	-985
Cyclically Adjusted Non-oil Primary Balance	-4,106	-6,334	-4,393	-4,972	-3,859	1,226	-3,338	-1,783	-237	733	1,596	2,373
Cyclically Adjusted Non-oil Primary Balance (incl. fuel subsidies)	-7,153	-7,865	-6,467	-8,205	-6,212	-929	-4,113	-2,721	-1,536	-848	-228	341
Structural non-oil primary balance	-3,970	-5,421	-4,318	-5,982	-3,859	26	-3,338	-1,783	-237	733	1,596	2,373
Structural non-oil primary balance (incl. fuel. subsidies)	-7,017	-6,952	-6,392	-9,215	-6,212	-2,129	-4,113	-2,721	-1,536	-848	-228	341
Oil balance 6/	-711	64	1,876	3,798	2,871	3,644	527	1,357	1,746	2,129	2,468	2,500
Oil balance excluding oil investment	2,093	2,440	3,642	5,368	4,496	5,478	2,366	3,167	3,604	3,987	4,325	4,357
Public Debt 7/	33,558	43,139	46,533	49,629	53,267	54,142	62,707	68,578	72,495	75,040	76,788	77,971

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

1/ Pre Covid-19 staff estimates (December, 2019).

2/ Net of operational cost.

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

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

5/ The primary balance less oil balance.

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

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

Table 3b. Ecuador: Operations of the Non-Financial Public Sector (Net Accounting)
(in percent of GDP, unless otherwise indicated)

			Prel.	Est.	Proj.		Projections					
	2015	2016	2017	2018	2019	2020 1/	2020	2021	2022	2023	2024	2025
Revenue	**33.6**	**30.3**	**32.0**	**35.3**	**33.4**	**36.2**	**29.8**	**30.9**	**31.4**	**31.9**	**32.2**	**32.2**
Oil revenue, net 2/	6.5	5.4	5.6	7.6	7.2	8.0	4.1	4.4	4.6	5.1	5.3	5.3
Nonpetroleum revenue	25.9	24.3	24.4	25.1	23.7	26.2	23.4	24.0	24.1	24.1	24.2	24.3
Taxes	15.7	14.0	13.5	14.3	13.5	13.7	13.1	13.7	13.8	13.8	13.9	14.0
Social security contributions 3/	5.1	4.7	5.2	5.2	5.5	5.6	5.5	5.5	5.5	5.5	5.5	5.5
Other	5.1	5.5	5.7	5.6	4.8	6.9	4.8	4.8	4.8	4.8	4.8	4.8
Operating surplus of public enterprises	1.1	0.6	2.0	2.6	2.4	2.4	2.3	2.6	2.7	2.8	2.8	2.7
O/w profits of oil companies withheld for investment	0.8	0.5	2.0	2.6	2.3	2.3	2.2	2.4	2.6	2.6	2.6	2.5
Expenditure	**39.7**	**38.6**	**36.5**	**38.5**	**36.6**	**35.5**	**37.4**	**35.7**	**34.5**	**34.3**	**33.8**	**33.3**
Primary expenditure	38.2	37.0	34.4	36.0	33.9	32.5	34.3	32.4	31.2	30.6	29.8	29.2
Current	26.3	25.1	25.1	25.7	26.1	26.3	26.5	25.3	25.0	25.3	25.3	25.1
Wages and salaries	10.0	10.0	9.9	9.6	9.5	9.5	10.3	9.9	9.9	9.9	9.9	9.7
Purchases of goods and services	5.1	4.7	4.8	4.4	4.3	4.8	4.6	3.9	3.7	3.7	3.7	3.7
Social security benefits 3/	4.3	4.7	4.8	5.0	5.4	5.2	5.8	5.8	5.8	5.8	5.8	5.8
Other	6.9	5.7	5.5	6.7	6.9	6.9	5.8	5.6	5.6	5.8	5.9	6.0
Cost of imports of oil derivatives	3.8	2.3	2.8	3.8	4.1	3.6	2.5	2.8	3.1	3.3	3.4	3.4
Payments to private oil companies (SH) 4/	1.4	1.1	1.3	1.4	1.2	1.2	1.3	0.9	0.7	0.7	0.7	0.6
Other	1.7	2.2	1.4	1.5	1.5	2.1	2.0	1.8	1.9	1.9	1.9	1.9
Capital	11.9	11.9	9.3	9.6	7.8	6.2	7.8	7.1	6.1	5.3	4.5	4.1
Fixed capital spending	10.3	10.3	8.3	9.2	7.6	5.5	7.6	7.0	6.0	5.2	4.4	3.9
O/w investment in oil	2.8	2.4	1.7	1.5	1.5	1.7	1.9	1.8	1.8	1.7	1.7	1.6
Net-lending	1.7	1.6	1.0	0.4	0.1	0.8	0.1	0.1	0.1	0.1	0.1	0.1
Extra budgetary expenses				0.7	0.0							
Primary balance	**-4.7**	**-6.7**	**-2.3**	**-0.7**	**-0.5**	**3.7**	**-4.5**	**-1.5**	**0.2**	**1.3**	**2.4**	**3.1**
Interest	**1.4**	**1.6**	**2.1**	**2.5**	**2.7**	**3.0**	**3.1**	**3.3**	**3.4**	**3.7**	**4.0**	**4.1**
O/w external	1.2	1.3	1.8	2.2	2.4	2.6	2.8	3.0	3.0	3.3	3.5	3.7
Current balance	**5.8**	**3.7**	**4.8**	**6.4**	**4.6**	**6.9**	**0.2**	**2.3**	**3.0**	**2.9**	**2.9**	**3.0**
Overall balance	**-6.1**	**-8.2**	**-4.5**	**-3.2**	**-3.2**	**0.7**	**-7.5**	**-4.8**	**-3.2**	**-2.4**	**-1.6**	**-1.0**
Memorandum items:												
Non-oil primary balance 5/	-4.0	-6.7	-4.1	-4.2	-3.1	0.3	-5.0	-2.8	-1.4	-0.6	0.2	0.9
Non-oil primary balance (percent of non-oil GDP)	-4.2	-7.0	-4.4	-4.5	-3.3	0.3	-5.2	-2.9	-1.5	-0.7	0.2	0.9
Non-oil PB (incl. fuel subsidies)	-7.0	-8.3	-6.1	-6.7	-5.3	-1.7	-5.8	-3.7	-2.7	-2.1	-1.5	-0.9
Cyclically Adjusted Non-oil Primary Balance	-4.1	-6.3	-4.2	-4.6	-3.6	1.1	-3.4	-1.7	-0.2	0.7	1.4	2.1
Cyclically Adjusted Non-oil Primary Balance (incl.fuel subsidies)	-7.2	-7.9	-6.2	-7.6	-5.8	-0.9	-4.2	-2.7	-1.5	-0.8	-0.2	0.3
Structural non-oil primary balance	-4.0	-5.4	-4.1	-5.6	-3.6	0.0	-3.4	-1.7	-0.2	0.7	1.4	2.1
Structural non-oil primary balance (including fuel. subsidies)	-7.1	-7.0	-6.1	-8.6	-5.8	-2.0	-4.2	-2.7	-1.5	-0.8	-0.2	0.3
Oil balance 6/	-0.7	0.1	1.8	3.5	2.7	3.4	0.5	1.3	1.7	2.0	2.2	2.2
Oil balance excluding oil investment	2.1	2.4	3.5	5.0	4.2	5.1	2.4	3.1	3.4	3.7	3.9	3.8
Public Debt 7/	33.8	43.2	44.6	46.1	49.6	50.1	64.6	66.9	69.0	69.8	69.2	67.7

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

1/ Pre Covid-19 staff estimates (December, 2019).

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).

domestic floating debt. The public debt estimates are preliminary and subject to revisions in accordance with the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).

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

Table 4. Ecuador: Non-Financial Public Sector Financing

(in millions of US dollars, unless otherwise indicated)

	2015	2016	Prel. 2017	Est. 2018	Proj. 2019	2020 1/	Projections 2020	2021	2022	2023	2024	2025
Gross financing needs	**14,181**	**19,086**	**17,400**	**11,284**	**11,028**	**5,573**	**13,463**	**10,563**	**10,152**	**9,797**	**8,853**	**8,455**
Nonfinancial public sector deficit	6,076	8,226	4,653	3,415	3,405	-744	7,305	4,920	3,324	2,545	1,748	1,183
Amortization	8,105	10,859	12,747	7,868	7,623	6,317	6,158	5,643	6,828	7,253	7,105	7,272
External	3,985	3,336	4,012	4,871	4,800	4,089	3,833	2,561	4,553	4,288	4,908	3,816
Multilateral	560	771	709	685	785	1,040	964	681	792	1,181	1,704	2,363
Bilateral	636	659	1,322	1,614	1,023	1,151	1,158	1,065	1,074	1,101	927	558
Private sector and other	898	399	845	879	2,124	1,783	1,596	706	2,601	1,923	2,193	811
Oil related financing	1,901	1,510	1,136	1,692	868	114	114	109	86	84	84	84
Domestic	4,120	7,523	8,735	2,998	2,823	2,228	2,325	3,082	2,275	2,965	2,198	3,456
Bonds	3,168	5,866	3,912	884	1,163	468	357	855	307	1,097	330	1,588
Treasury certificates	953	1,657	4,822	2,113	1,660	1,760	1,968	2,228	1,968	1,868	1,868	1,868
Gross financing sources	**14,149**	**19,162**	**17,556**	**11,284**	**11,028**	**5,573**	**13,463**	**10,563**	**10,152**	**9,797**	**8,853**	**8,455**
External	7,105	9,430	9,252	7,817	8,615	4,830	2,350	1,104	800	800	800	800
Multilateral	1,933	1,092	943	1,640	3,310	3,882	2,634	1,104	800	800	800	800
World Bank	115	18	175	236	653	909	437	316	100	100	100	100
Inter-American Development Bank	1,321	604	349	485	733	551	251	281	400	400	400	400
CAF	485	465	415	549	517	272	660	497	300	300	300	300
Other	13	5	4	370	6	747	641	10	0	0	0	0
IMF	0	0	0	0	1,401	1,403	644	0	0	0	0	0
Bilateral	957	2,267	658	978	738	305	333	0	0	0	0	0
Private sector and other	1,880	3,946	7,251	4,504	4,171	642	99					
Oil related financing	2,335	2,125	400	695	445	0	0	0	0	0	0	0
Advance Payments for Contingencies					-48		-715					
Domestic	5,540	9,233	9,947	2,175	2,438	744	4,016	2,503	3,161	2,568	2,568	2,568
Bonds	2,844	5,853	6,258	403	679	636	1,922	843	1,293	700	700	700
Treasury certificates	1,657	4,822	2,113	1,660	1,968	1,760	2,228	1,968	1,868	1,868	1,868	1,868
Change in deposits (+= drawdown)	1,040	-1,443	-562	-951	-23	-1,394	-134	-308	0	0	0	0
Privatization and BCE transfers	0	0	2,137	0	0	0	0	0	0	0	0	0
Convenios de liquidez	0	0	0	564	-185	-258	500	0	0	0	0	0
Other	0	0	0	498	0	0	-500	0	0	0	0	0
Acquisition of fiancial assets	n.a.	n.a.	n.a.	0	0		-1,286	-643	-593	0	0	0
Net Arrears acumulation and other financing 2/	1,503	499	-1,643	-823	0	0	0	0	0	0	0	0
Discrepancy	0	0	0	2,115	-25	0	0	0	0	0	0	0
Financing Gap							8,382	7,600	6,784	6,430	5,485	5,087
Net financing	**6,044**	**8,302**	**4,809**	**3,415**	**3,008**	**-486**	**209**	**-2,037**	**-2,867**	**-3,885**	**-3,738**	**-3,904**
External	3,120	6,093	5,240	2,947	3,815	740	-1,482	-1,457	-3,753	-3,488	-4,108	-3,016
Domestic	1,420	1,710	1,212	-823	-385	-1,226	1,691	-580	886	-397	370	-888
Net Arrears acumulation and other financing 2/	1,503	499	-1,643	-823	0	0	0	0	0	0	0	0
Discrepancy	0	0	0	2,115	-423	0	0	0	0	0	0	0
Public Sector Debt 3/	**33,558**	**43,139**	**46,533**	**49,629**	**53,267**	**54,142**	**62,707**	**68,578**	**72,495**	**75,040**	**76,788**	**77,971**
External	22,123	28,122	33,376	36,323	40,138	40,917	47,753	53,896	56,927	59,868	61,246	63,317
o.w. oil related financing	1,898	2,442	1,626	629	206	-13	92	-17	-103	-187	-271	-355
Domestic	11,435	15,018	13,157	13,306	13,129	13,225	14,954	14,683	15,569	15,172	15,542	14,653
Bonds	3,437	3,461	5,866	5,417	4,933	5,237	6,498	6,486	7,472	7,076	7,446	6,557
Treasury certificates	1,657	4,822	2,113	1,660	1,968	1,760	2,228	1,968	1,868	1,868	1,868	1,868
Other liabilities	6,341	6,735	5,178	6,228	6,228	6,228	6,228	6,228	6,228	6,228	6,228	6,228
					(In percent of GDP)							
Gross financing needs	**14.3**	**19.1**	**16.7**	**10.5**	**10.3**	**5.1**	**13.9**	**10.3**	**9.7**	**9.1**	**8.0**	**7.3**
Nonfinancial public sector deficit	6.1	8.2	4.5	3.2	3.2	-0.7	7.5	4.8	3.2	2.4	1.6	1.0
Amortization	8.2	10.9	12.2	7.3	7.1	5.8	6.3	5.5	6.5	6.7	6.4	6.3
Gross financing sources	**14.3**	**19.2**	**16.8**	**10.5**	**10.3**	**5.3**	**13.9**	**10.3**	**9.7**	**9.1**	**8.0**	**7.3**
External	7.2	9.4	8.9	7.3	8.0	4.5	11.1	8.5	7.2	6.7	5.7	5.1
Domestic	5.6	9.2	9.5	2.0	2.3	0.9	4.1	2.4	3.0	2.4	2.3	2.2
Arrears acumulation and other financing 2/	1.5	0.5	-1.6	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt 3/	**33.8**	**43.2**	**44.6**	**46.1**	**49.6**	**50.1**	**64.6**	**66.9**	**69.0**	**69.8**	**69.2**	**67.7**
External	22.3	28.1	32.0	33.8	37.4	37.9	49.2	52.5	54.2	55.7	55.2	55.0
Domestic	11.5	15.0	12.6	12.4	12.2	12.2	15.4	14.3	14.8	14.1	14.0	12.7
Memorandum items:												
Stock of other accounts payable (in millions of U.S. dollars)			876	1,475	1,170	1,575	1,170	1,170	1,170	1,170	1,170	1,170

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

1/ Pre Covid-19 staff estimates (December, 2019).

2/ Includes domestic floating debt and statistical discrepancy.

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

Table 5. Ecuador: Balance of Payments

(in millions of US dollars, unless otherwise indicated)

			Prel.	Est.	Proj.		Projections					
	2015	2016	2017	2018	2019	2020 1/	2020	2021	2022	2023	2024	2025
Current account	**-2,221**	**1,321**	**-490**	**-1,487**	**-389**	**286**	**-5,059**	**-4,190**	**-3,149**	**-2,892**	**-2,677**	**-2,501**
Trade balance	-1,650	1,567	312	-263	841	1,426	-1,149	-934	-585	-289	-237	-453
Exports, f.o.b.	19,049	17,425	19,618	22,123	22,296	22,726	16,711	17,870	18,785	19,586	20,427	21,233
Oil	6,660	5,459	6,914	8,802	8,669	8,573	4,554	5,051	5,454	5,755	6,001	6,192
Non-oil	12,388	11,966	12,705	13,321	13,627	14,154	12,158	12,819	13,331	13,831	14,426	15,042
Imports, f.o.b.	20,699	15,858	19,307	22,386	21,455	21,301	17,860	18,805	19,370	19,875	20,664	21,686
Oil	3,950	2,490	3,182	4,341	4,256	4,275	2,532	2,990	3,325	3,614	3,805	3,965
Non-oil	16,748	13,368	16,125	18,045	17,199	17,026	15,327	15,815	16,045	16,261	16,858	17,721
Services	-805	-1,054	-1,103	-711	-716	-540	-954	-406	-382	-353	-354	-381
Credits	2,391	2,140	2,191	2,540	2,467	2,642	1,818	2,518	2,620	2,723	2,832	2,942
Debits	3,197	3,194	3,294	3,250	3,184	3,182	2,772	2,924	3,002	3,076	3,186	3,323
Primary income	-1,728	-1,846	-2,363	-2,922	-3,067	-3,262	-5,174	-5,118	-4,572	-4,741	-4,651	-4,304
Credits	140	164	187	238	186	185	2	-59	74	168	195	222
Debits	1,869	2,010	2,550	3,160	3,253	3,446	5,176	5,059	4,646	4,909	4,845	4,526
Secondary income	1,963	2,654	2,665	2,409	2,554	2,661	2,218	2,267	2,390	2,490	2,565	2,637
Of which: workers' remittances, net	2,100	2,314	2,483	2,578	2,367	2,474	2,049	2,089	2,207	2,303	2,372	2,436
Capital account	**-69**	**-814**	**69**	**-193**	**71**	**71**	**71**	**64**	**68**	**69**	**71**	**73**
Financial account	**-766**	**-800**	**1,424**	**-1,745**	**318**	**171**	**5,257**	**2,264**	**3,346**	**2,394**	**1,490**	**970**
Direct investment	-1,323	-769	-619	-1,408	-973	-1,154	-603	-853	-946	-956	-1,137	-1,264
Other public sector flows	-3,120	-6,093	-5,240	-2,947	-2,412	663	2,774	1,457	3,753	3,488	4,108	3,016
Disbursements	-7,105	-9,430	-9,252	-7,817	-7,212	-3,426	-1,059	-1,104	-800	-800	-800	-800
Amortizations	3,985	3,336	4,012	4,871	4,800	4,089	3,833	2,561	4,553	4,288	4,908	3,816
Other private sector flows	3,676	6,062	7,283	2,609	3,703	662	3,086	1,661	539	-138	-1,481	-782
Portfolio investment	407	1,745	761	1,903	1,012	715	1,346	1,154	847	-10	-450	153
Other investment	3,270	4,317	6,523	706	2,691	-53	1,740	507	-308	-128	-1,031	-935
Of which: Asset monetization					0		0	0	0	0	0	
Of which: without asset monetization					2,691		1,740	507	-308	-128	-1,031	
Errors and omissions	**35**	**-101**	**-13**	**-158**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-1,489**	**1,207**	**-1,858**	**-92**	**-636**	**185**	**-10,246**	**-6,391**	**-6,427**	**-5,217**	**-4,096**	**-3,397**
Financing	**1,488**	**-1,207**	**1,859**	**92**	**636**	**-185**	**10,246**	**6,391**	**6,427**	**5,217**	**4,096**	**3,397**
Change in GIR (increase, -) 2/	1,453	-1,763	1,808	-226	-721	-1,408	1,401	-1,072	-357	-978	-838	-1,300
IMF net credit and loans	0	365	0	0	1,357	1,222	463	-136	0	-234	-551	-391
Net EFF lending to BCE	0	0	0	0	0	0	0	0	0	0	0	0
Net lending RFI	0	0	0	0	-46	-45	463	-136	0	-160	-321	-160
Net lending to Treasury	0	0	0	0	1,403	1,403	0	0	0	-74	-230	-230
Exceptional financing 3/	35	191	51	317	0	0	0	0	0	0	0	0
Unidentified financing					0		8,382	7,600	6,784	6,430	5,485	5,087
Memorandum items:												
Current account balance (percent of GDP)	-2.2	1.3	-0.5	-1.4	-0.4	0.3	-5.2	-4.1	-3.0	-2.7	-2.4	-2.2
Oil balance (percent of GDP)	2.7	3.0	3.6	4.1	4.1	4.0	2.1	2.0	2.0	2.0	2.0	1.9
Exports	6.7	5.5	6.6	8.2	8.1	7.9	4.7	4.9	5.2	5.4	5.4	5.4
Imports	4.0	2.5	3.1	4.0	4.0	4.0	2.6	2.9	3.2	3.4	3.4	3.4
Non-oil balance (percent of GDP)	-5.0	-1.6	-4.0	-5.5	-4.5	-3.7	-7.3	-6.1	-5.0	-4.7	-4.4	-4.1
Goods export volume growth rate (percent)	-0.3	4.3	-0.3	-0.2	4.0	3.9	-7.6	4.4	1.9	1.8	1.3	1.3
Goods import volume growth rate (percent)	-7.5	-10.5	16.0	4.1	-1.3	-2.3	-10.3	3.0	0.5	0.2	2.0	3.3
Goods terms of trade growth rate (percent)	-13.4	0.7	7.6	2.0	-0.5	-1.5	-12.2	1.3	0.4	0.0	1.0	0.9
Oil price Ecuador mix (U.S. dollars per barrel)	42	35	46	61	55	54	30	32	35	36	38	39
External debt (percent of GDP)	30.0	36.6	39.7	41.7	43.7	48.5	55.9	59.3	62.3	65.4	66.4	66.6

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

1/ Pre Covid-19 staff estimates (December, 2019).

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 6. Ecuador: External Financing

(in millions of US dollars, unless otherwise indicated)

	2015	2016	Prel. 2017	Est. 2018	2019	2020 1/	Projections 2020	2021	2022	2023	2024	2025
Gross external financing requirements	**8,799**	**5,095**	**8,202**	**10,232**	**9,416**	**8,270**	**13,633**	**11,950**	**13,219**	**13,041**	**13,681**	**12,625**
Current account financing need	2,221	-1,321	490	1,487	389	-286	5,059	4,190	3,149	2,892	2,677	2,501
Public sector amortizations	3,985	3,336	4,012	4,871	4,800	4,089	3,833	2,561	4,553	4,288	4,908	3,816
Private sector amortizations	2,593	3,079	3,700	3,875	4,227	4,466	4,741	5,199	5,517	5,861	6,096	6,308
Identified External Financing	**7,311**	**6,301**	**6,344**	**10,142**	**8,830**	**7,966**	**4,810**	**5,585**	**6,825**	**7,858**	**9,620**	**9,244**
Public Sector	7,105	9,430	9,252	7,820	7,262	2,937	2,422	1,104	800	800	800	800
Multilateral	1,933	1,092	943	1,642	1,908	1,990	1,990	1,104	800	800	800	800
Bilateral	957	2,267	658	978	738	305	333	0	0	0	0	0
Oil related financing	2,335	2,125	400	695	445	0	0	0	0	0	0	0
Private sector	1,880	3,946	7,251	4,504	4,171	642	99	0	0	0	0	0
Private sector	240	-2,213	-2,964	2,673	1,497	4,958	2,318	4,417	5,957	6,989	8,750	8,371
Direct investment	1,323	769	619	1,408	973	1,154	603	853	946	956	1,137	1,264
Portfolio investment Financing	-217	-596	-717	253	105	761	343	713	1,002	1,206	1,523	1,421
Other investment Financing	-867	-2,386	-2,866	1,013	420	3,043	1,372	2,851	4,009	4,826	6,090	5,685
Net Transfers 2/	-34	-915	56	-351	71	71	71	64	68	69	71	73
Gross external financing sources	**7,346**	**6,858**	**6,395**	**10,460**	**10,187**	**9,188**	**13,655**	**13,049**	**13,609**	**14,053**	**14,555**	**13,940**
Identified External Financing	7,311	6,301	6,344	10,142	8,830	7,966	4,810	5,585	6,825	7,858	9,620	9,244
Exceptional financing	35	191	51	317	0	0	0	0	0	0	0	0
Financing Gap							8,382	7,600	6,784	6,430	5,485	5,087
IMF Net Financing	0	365	0	0	1,357	1,222	463	-136	0	-234	-551	-391
Net international reserves, prog. definition (-, increase) 3/			**1,375**	**-397**	**-1,396**	**-2,013**	**0**	**-997**	**-243**	**-869**	**-699**	**-1,139**
Gross international reserves (-, increase) 4/	**1,453**	**-1,763**	**1,808**	**-226**	**-721**	**-1,408**	**1,401**	**-1,072**	**-357**	**-978**	**-838**	**-1,300**
Financing Gap 5/	**35**	**556**	**51**	**317**	**1,357**	**1,222**	**8,845**	**7,463**	**6,784**	**6,195**	**4,934**	**4,696**
o/w closed by IMF Net Lending	0	365	0	0	1,357	1,222	463	-136	0	-234	-551	-391

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

1/ Pre Covid-19 staff estimates (December, 2019).

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

3/ Program net international reserves 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/ Reflects the national definition of gross international reserves

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

Table 7. Monetary Survey

(in millions of US dollars, unless otherwise indicated)

				Est.	Proj.							
	2015	2016	2017	2018	2019	2020 1/	2020	2021	2022	2023	2024	2025
I. Central Bank												
Net foreign assets	**2,964**	**4,435**	**3,584**	**3,902**	**4,628**	**7,009**	**2,732**	**3,989**	**4,369**	**5,370**	**6,240**	**7,578**
Of which: gross international reserves 2/	2,351	4,216	2,006	2,158	2,933	6,022	1,981	3,054	3,411	4,389	5,227	6,527
Net domestic assets	**306**	**1,806**	**1,964**	**1,108**	**-116**	**-2,558**	**1,041**	**18**	**-235**	**-1,116**	**-1,833**	**-2,993**
Credit to the nonfinancial public sector, net	-1,381	310	-1,248	-2,086	-2,567	-5,108	-225	-248	355	-415	-402	-1,564
Of which: central government, net	718	2,999	2,057	1,398	1,130	-1,609	3,117	3,282	3,970	3,286	3,387	2,317
credits	1,302	4,298	3,027	3,035	2,932	3,577	4,868	5,134	5,727	4,948	4,948	3,772
debits	584	1,299	970	1,637	1,802	5,186	1,751	1,852	1,757	1,661	1,560	1,456
Credit to financial institutions	2,179	2,200	4,448	4,531	4,217	4,352	3,066	2,065	1,208	1,097	367	367
Other depository institutions	433	454	933	1,006	979	1,020	753	562	348	256	256	256
Other financial institutions	1,747	1,746	3,515	3,524	3,238	3,332	2,313	1,503	860	841	111	111
Credit to the private sector	27	24	20	17	13	9	12	13	13	13	14	14
Other, net	-520	-728	-1,258	-1,353	-1,779	-1,811	-1,811	-1,811	-1,811	-1,811	-1,811	-1,811
Liabilities	**3,270**	**6,241**	**5,548**	**5,011**	**4,512**	**4,451**	**3,773**	**4,007**	**4,134**	**4,254**	**4,407**	**4,584**
Currency and electronic money	87	92	94	84	81	81	73	77	79	81	83	84
Banks' reserves	3,053	6,044	5,244	4,859	4,377	4,301	3,646	3,876	4,001	4,119	4,270	4,445
Other depository institutions 3/	1,927	4,825	3,904	3,172	3,527	3,048	2,855	3,035	3,133	3,225	3,344	3,481
Other financial institutions 4/	1,126	1,219	1,340	1,688	850	1,253	791	841	868	894	927	965
Other 5/	130	105	209	68	54	70	54	54	54	54	54	54
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 3/ 6/												
Net foreign assets	**5,391**	**5,826**	**5,633**	**4,965**	**4,731**	**3,879**	**4,860**	**5,140**	**5,266**	**5,394**	**5,573**	**5,787**
Net domestic assets	**22,392**	**26,968**	**30,166**	**32,666**	**36,154**	**37,301**	**33,179**	**35,294**	**36,471**	**37,576**	**38,978**	**40,591**
Assets held at the BCE, net	450	3,346	2,400	1,757	2,502	2,120	1,928	2,154	2,344	2,528	2,647	2,784
Credit to the nonfinancial public sector, net	1,379	1,972	1,959	1,107	1,029	692	1,149	400	400	400	321	321
Of which: central government, net	1,448	2,053	2,073	1,284	1,336	869	1,456	707	707	707	627	627
Credit to the private sector	28,141	29,886	34,785	39,980	44,524	46,749	41,365	44,696	46,048	47,319	49,137	51,108
Other items, net	-7,579	-8,236	-8,977	-10,179	-11,901	-12,259	-11,263	-11,956	-12,322	-12,672	-13,127	-13,622
Liabilities	**27,782**	**32,794**	**35,799**	**37,631**	**40,885**	**41,181**	**38,039**	**40,434**	**41,737**	**42,970**	**44,551**	**46,378**
Of which: Private sector deposits	27,782	32,794	35,799	37,631	40,885	41,181	38,039	40,434	41,737	42,970	44,551	46,378
III. Consolidated Banking System												
Net foreign assets	**8,355**	**10,261**	**9,218**	**8,867**	**9,359**	**10,888**	**7,592**	**9,129**	**9,635**	**10,764**	**11,812**	**13,365**
Net domestic assets	**18,856**	**22,730**	**26,885**	**28,915**	**31,661**	**30,443**	**30,575**	**31,436**	**32,235**	**32,341**	**32,876**	**33,153**
Credit to the nonfinancial public sector, net	-3	2,282	711	-979	-1,538	-4,416	923	152	755	-14	-82	-1,243
Credit to the private sector	28,169	29,910	34,805	39,998	44,537	46,758	41,377	44,709	46,061	47,332	49,151	51,122
Other items, net	-9,310	-9,462	-8,631	-10,104	-11,339	-11,899	-11,726	-13,424	-14,581	-14,976	-16,194	-16,727
Liabilities	**27,211**	**32,991**	**36,103**	**37,782**	**41,020**	**41,331**	**38,166**	**40,565**	**41,870**	**43,105**	**44,688**	**46,517**
Memorandum items:												
Credit to the private sector (percent change, yoy) 7/	-3.4	6.2	16.4	14.9	11.3	5.7	-7.1	8.1	3.0	2.8	3.8	4.0
Deposits of the private sector (percent change, yoy) 7/	-8.6	18.0	9.3	5.0	8.6	3.9	-7.0	6.3	3.2	3.0	3.7	4.1
Credit to the nonfinancial public sector (percent change, yoy) 7/	-1.5	110.2	-17.0	-10.6	-2.8	10.7	41.0	-6.8	9.0	-10.8	-1.2	-18.6
Deposits of the nonfinancial public sector (percent change, yoy) 7/	-26.4	41.1	8.2	21.3	6.8	19.1	-6.7	4.7	-0.2	-0.2	-0.2	-0.2
Broad money (M2) (percent change, yoy)	-1.1	16.5	10.0	5.7	8.0	3.0	-7.7	6.1	3.0	2.8	3.5	4.0
Broad money velocity	2.5	2.2	2.1	2.0	1.9	1.7	1.9	1.7	1.7	1.7	1.6	1.5
ODI and OFI's reserves at the central bank as a share of liabilities (percent) 3/ 4/	11.0	18.4	14.6	12.9	10.7	10.4	9.6	9.6	9.6	9.6	9.6	9.6
Credit to the private sector (percent of GDP)	28.4	29.9	33.4	37.2	41.5	43.3	42.6	43.6	43.9	44.0	44.3	44.4
Liabilities (percent of GDP)	27.4	33.0	34.6	35.1	38.2	38.3	39.3	39.5	39.9	40.1	40.2	40.4

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

1/ Pre Covid-19 staff estimates (December, 2019).

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

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

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

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

6/ OFI comprises *Corporación Financiera Nacional*.

7/ Consolidated banking system.

Table 8. Ecuador: Financial Soundness Indicators 1/

	2015	2016	2017	2018	2019	Q1 2020
	(In percent, unless otherwise indicated; end-of-period values)					
Capital Adequacy						
Regulatory capital to risk-weighted assets (CAR)	14.4	13.9	13.7	13.4	13.5	13.5
Asset Quality and Distribution						
Nonperforming loans to gross loans	3.7	3.5	3.0	2.6	2.7	2.6
Provisions to nonperforming loans	187.1	189.5	234.4	247.7	225.6	252.7
Gross loans to assets	86.2	80.0	84.4	86.0	87.8	88.7
Earnings and Profitability						
Return on average assets (ROA)	0.9	0.6	1.0	1.4	1.4	0.9
Return on average equity (ROE)	9.0	6.7	10.4	13.6	13.9	7.9
Interest margin to assets	0.8	0.4	0.9	1.6	1.4	0.6
Noninterest expenses to spread	87.4	92.6	85.0	76.9	78.5	88.3
Liquidity						
Liquid assets to short-term liabilities	29.6	33.9	29.4	27.9	26.0	24.1
Deposit to loan ratio	126.1	137.0	121.9	111.8	109.5	107.3

Source: Superintendency of Banks.

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

Table 9. Ecuador: Indicators of Fund Credit
(in percent of GDP, unless otherwise indicated)

		Projections								
	2020 1/	2020	2021	2022	2023	2024	2025	2026	2027	2028
Existing and prospective Fund arrangements					(millions of SDRs)					
Disbursements 2/	1,011	470	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	2,121	1,577	1,479	1,479	1,308	906	620	452	283	114
Obligations	174	125	131	31	202	425	301	181	178	175
Principal	131	98	98	0	171	402	285	169	169	169
Charges/interest	43	26	33	31	31	22	16	12	9	6
Obligations, relative to key variables					(percent)					
Quota	24.9	17.8	18.8	4.5	28.9	60.9	43.2	25.9	25.5	25.1
Gross domestic product	0.2	0.2	0.2	0.0	0.3	0.5	0.4	0.2	0.2	0.2
Gross international reserves 3/	2.9	8.6	5.9	1.2	6.3	11.1	6.3	3.1	3.0	2.9
Exports of goods and services	0.9	0.9	0.9	0.2	1.2	2.5	1.7	1.0	0.9	0.8
Revenues of the NFPS	0.6	0.6	0.6	0.1	0.8	1.6	1.1	0.6	0.6	0.6
External debt service	1.6	1.2	1.3	0.3	1.6	3.2	2.3	1.6	1.4	1.4
Fund credit outstanding, relative to key variables					(percent)					
Quota	304.1	226.1	212.0	212.0	187.5	129.8	88.9	64.7	40.6	16.4
Gross domestic product	2.7	2.2	2.0	1.9	1.7	1.1	0.7	0.5	0.3	0.1
Gross international reserves	34.8	108.7	66.2	59.2	40.7	23.7	13.0	7.8	4.8	1.9
External debt	6.1	4.0	3.3	3.1	2.5	1.7	1.1	0.7	0.4	0.2
Memorandum items:										
Exports of goods and services (US$m)	25,617	18,529	20,388	21,405	22,310	23,259	24,176	25,727	27,377	29,134
External debt service (US$m)	14,848	13,990	13,645	16,089	16,847	18,261	17,843	15,640	17,768	17,440
External debt (US$m)	48,348	54,303	60,838	65,394	70,300	73,672	76,701	83,061	86,369	90,127
Quota (SDRm)	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7
NIR, program definition (US$m)	2,087	-1,500	-503	-260	609	1,308	2,447	3,634	3,610	3,585
Gross international reserves (US$m)	8,446	1,981	3,054	3,411	4,389	5,227	6,527	7,909	8,090	8,280
Gross international reserves (% ARA metric)	46	11	15	16	19	22	26	30	28	27
Underlying reserves (US$m)	879	-3,540	-2,543	-2,300	-1,195	59	1,592	3,011	3,219	3,427
Nominal GDP (US$m)	109,020	97,114	102,575	105,040	107,548	111,031	115,220	117,980	120,806	123,700
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

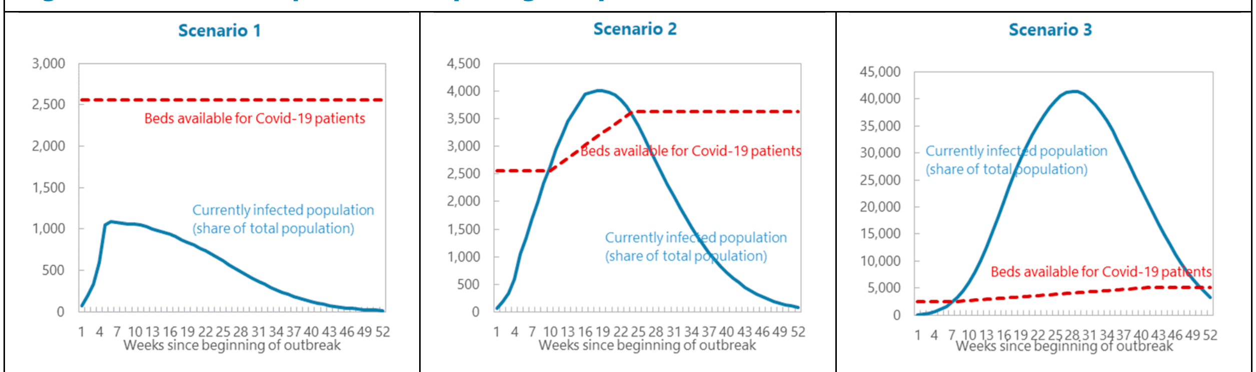
Sources: Central Bank of Ecuador and Fund staff estimates and projections.
1/ Pre Covid-19 staff estimates (December, 2019).
2/ An RFI of 37.5% of quota disbursed in 2016 and an EFF of 435% of quota disbursed in March, June and December 2019. An RFI disbursement of 67% of quota is assumed in April 2020.
3/ GIR excludes non-liquid and encumbered items included in the authorities' measure of GIR.

Annex I. The Impact of COVID-19 on Healthcare Spending in Ecuador

1. This annex presents estimates of the potential impact of COVID-19 on healthcare spending in Ecuador using a model developed by the IMF's Fiscal Affairs Department and customized for the case of Ecuador. The model projects the number of COVID-19 cases and the number of required hospitalizations over time using a textbook epidemiological model, adding potential hospital capacity constraints.[1] Based on the projected number of hospitalizations from the epidemiological model, the total required healthcare spending is calculated using estimates of the cost of treating COVID-19 patients and increasing capacity in the health sector, if required.[2]

2. Projections of the future number of cases of COVID-19 are fraught with high levels of uncertainty and are extremely sensitive to modeling choices. Thus, it is important to consider various scenarios to gauge the potential variation in outcomes. According to the epidemiological model, the evolution of the number of COVID-19 cases depends on the disease's transmission rate, which in turn depends on several factors, including the characteristics of the pathogen and the extent and effectiveness of mitigation and social distancing measures. Given the high uncertainty about the evolution of the disease's transmission rate, this annex presents three alternative scenarios for Ecuador.[3] These scenarios should not be considered as forecasts, but rather as illustrative of the potential range of outcomes depending on the evolution of the epidemic. Different assumptions regarding the evolution of the transmission rate have significant implications for the demand for hospitalizations (Figure 1).

Figure 1. Infected Population Requiring Hospitalization and Number of Available Beds 1/



Sources: IMF staff calculations.

1/ The figures in the model refer to the actual number of new CoVID-19 cases and the actual infected population, which is unknown. This will differ from the reported number of cases. Week 1 corresponds to the week ending on March 22, 2020.

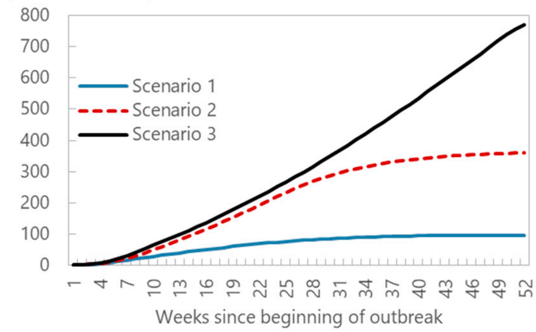
[1] The estimates rely on a SIR model, which is a widely used model of the spread of an epidemic in a population. The model divides the population into three categories: those susceptible to the disease (Susceptible); those actively infected with the disease, who can transmit it (**I**nfectious), and those who are no longer contagious, either because they have recovered or died (Recovered).

[2] The model assumes that 10 percent of existing hospital beds in Ecuador are available to accommodate COVID-19 patients. The number of beds available to COVID-19 patients can be expanded, but there are limits to this expansion.

[3] In all three scenarios, following Atkeson (2020) and Wang et al. (2020) we assume that without mitigation measures each infected person infects 3.1 persons over the duration of infection. The scenarios differ in terms of how the transmission rate then evolves over time.

3. The fiscal costs associated with COVID-19 epidemic vary widely under the different scenarios, reflecting the large differences in the number of hospitalizations. Additional public healthcare costs over the year following the outbreak of the epidemic total $97 million in Scenario 1, $360 million in Scenario 2, and $769 million in Scenario 3 (Table 1)[4] It is worth noting that healthcare costs do not increase in direct proportion to the number of infected people because under Scenario 3 a significant share of those how become critically ill do not receive hospital treatment. In terms of the evolution of fiscal costs over time, total costs evolve similarly under all scenarios until week 4, but under Scenario 1 the large fall in the transmission rate, and the resulting fall in the number of cases leads to a decrease in costs thereafter (Figure 2). Costs evolve relatively similarly under scenarios 2 and 3 until week 23 because, although the number of cases is much higher under Scenario 3, the number of hospitalized patients during this period is relatively similar in both scenarios as the expansion in the number of beds cannot keep up with demand. After week 23 under Scenario 2 the number of patients requiring hospitalization is below the number of available beds, while under Scenario 3 it remains above this level almost until the end of the period.

Figure 2. Total Cumulative Public Costs since Beginning of Outbreak 1/
(In US$ millions)



Source: IMF staff calculations.
1/ Week 1 corresponds to the week ending on March 22, 2020.

Table 1. Ecuador: Scenarios Estimates – Public Health Costs 1/

	Scenario 1	Scenario 2	Scenario 3
Total public cost (US$ millions)	96.70	350.8	747.5
Total public cost (percent of GDP)	0.00	0.36	0.77

Sources: IMF staff calculations.
1/ Totals over the year following the beginning of the outbreak.

[4] The estimates assume that public healthcare costs are 60 percent of total healthcare costs associated with COVID-19.

References

Atkeson, Andrew. What will be the economic impact of COVID-19 in the U.S.? Rough estimates of disease scenarios. National Bureau of Economic Research, Working Paper No. 26867, March 2020.

Annex II. Public Sector Debt Sustainability

Under the baseline scenario, debt levels are projected to rise significantly in 2020 and beyond due to the impact of the Covid-19 related shocks and decline in oil prices leading to severe liquidity pressures and raising concerns about debt sustainability. Debt is expected to peak in 2023 at around 69.8 percent of GDP and then decline to 67.7 percent of GDP by 2025. Gross financing needs are estimated at 13.9 percent of GDP in 2020 but would decline to 7.3 percent of GDP over the medium term if market access at reasonable cost would be reestablished. Debt is deemed sustainable on a forward-looking basis given the plans for and progress towards a deep private sector operation, the near-term liquidity support from bilateral creditors, and good prospects for financing from MDBs and bilateral creditors going forward. The debt profile is, however, at a knife's edge, as is highly vulnerable to real GDP growth, primary balance, and interest rate shocks, highlighting the need for continuous improvements in the fiscal balance over the medium-term, a successful debt operation, and sufficient bilateral support over the medium term.

Definition and Debt Profile

1. Public-sector debt includes the obligations of the non-financial public sector (general government and non-financial sector state-owned enterprises). Under this measure, public debt more than doubled between 2012 and 2019 (from 17.5 to 49.6 percent of GDP).

Macroeconomic and Fiscal Assumptions

2. Growth in 2020 is forecasted at -6.7 percent while inflation (GDP deflator) at about -3.1 percent. Over the medium-term, growth is expected to recover and reach 2.2 percent - in line with the economy's potential – while inflation is expected to converge to 1.5 percent. The fiscal position is projected to improve gradually to reach a primary surplus of about 3.1 percent of GDP by 2025. This is conditional on continuous policy efforts to improve the fiscal balance over 2022-25. For 2020 and 2021, the projected large financing gaps related to the COVID-19 epidemic and fall in oil revenues are assumed to be filled with a mix of bilateral and multilaterals loans, and a significant contribution from a debt treatment with private external creditors, while from 2022 onwards with a mix of bilateral and market financing, assuming that Ecuador regains market access at reasonable cost. The interest rates applied to the financing gap are an average of the financing mix forecasted for a specific year. Over the medium term, the interest rate on market financing is expected to decline significantly to the average between 2016-2019 on the back of fiscal consolidation and an improved macroeconomic scenario.

The Baseline Scenario

3. The shocks from the COVID-19 pandemic and steep fall in oil prices, have significantly increased Ecuador's public debt and have heightened the risks to sustainability going forward, putting debt sustainability at a knife's edge. At 64.6 percent of GDP, the debt level in 2020 is forecasted to be higher than projected at the time of the second and third review. Higher financing needs related to the collapse of oil prices, decline in trade, and lower non-commodity growth, together with payments for margin calls, and issuance of domestic debt for the repo operation with the central bank would contribute to higher debt to GDP than previously projected. Over the medium-term, the debt-to-GDP ratio is forecasted to peak at 69.9 percent of GDP in 2023 before declining to 67.7 percent by 2025 reflecting continuous policy efforts to reduce financing needs over 2020-25, and additional financing to close the financing gap, including a resumption of market access at reasonable cost which are expected to decline from 13.9 percent of GDP in 2020 to 7.3 percent by 2025. Given the plans for and progress towards a debt operation involving private creditors and good prospects for financing from multilaterals and bilateral creditors going forward, Ecuador's debt can be assessed as sustainable on a forward-looking basis.

Stress Tests

4. Following the COVID-19 shock, the current baseline debt path is more vulnerable to other macroeconomic shocks than at the time of the second and third review. Ecuador's debt-to-GDP ratio exceeds the emerging market debt burden benchmark of 70 percent of GDP in the case of a real GDP shock, a primary balance shock, and an interest rate shock which signals the need for cautious policies and moderate fiscal consolidation over the medium-term to maintain debt levels in check. In the case of a real GDP growth shock, debt would reach 78.7 percent of GDP in 2023. In the case of a primary balance shock and an interest rate shock, debt would increase to 72.9 percent of GDP and 70.8 percent of GDP respectively in 2024. In all the shocks, the debt-to-GDP ratio is expected to then gradually decline.

Risks and Vulnerabilities

5. A successful debt operation, combined with further fiscal adjustment and additional official financing, is needed to safeguard debt sustainability in a forward-looking sense. The authorities have publicly announced their intention to perform a debt operation, hired legal and financial advisors, and to signal their intent to pursue a market-friendly approach, the authorities have announced a consent solicitation to extend debt maturities. The Minister of Finance made a presentation to creditors laying out the objectives of the exercise, while underscoring that the debt operation will be consistent with the Fund's debt sustainability requirements. The consent solicitation has been accepted by a qualified majority of bondholders. Based on input provided by Fund staff, the financial advisors will help the authorities articulate a strategy for the public debt operation with external private creditors, which would inter alia be consistent with the Fund's debt sustainability requirements. The authorities have also committed to further fiscal adjustment, have secured support from official bilateral creditors for 2020, and have good prospects for financing from bilateral and multilateral creditors needed in the medium term.

6. As in the previous DSAs produced in the context of the EFF program, the risk assessment identifies the ratio of public debt held by non-residents as a high risk for Ecuador, while the significant increase in the spreads over the last months has increased further the market perception of risk to high. At about 75 percent of the total debt, non-residents' holdings of Ecuador's public debt remain high.

Figure 1. Ecuador: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

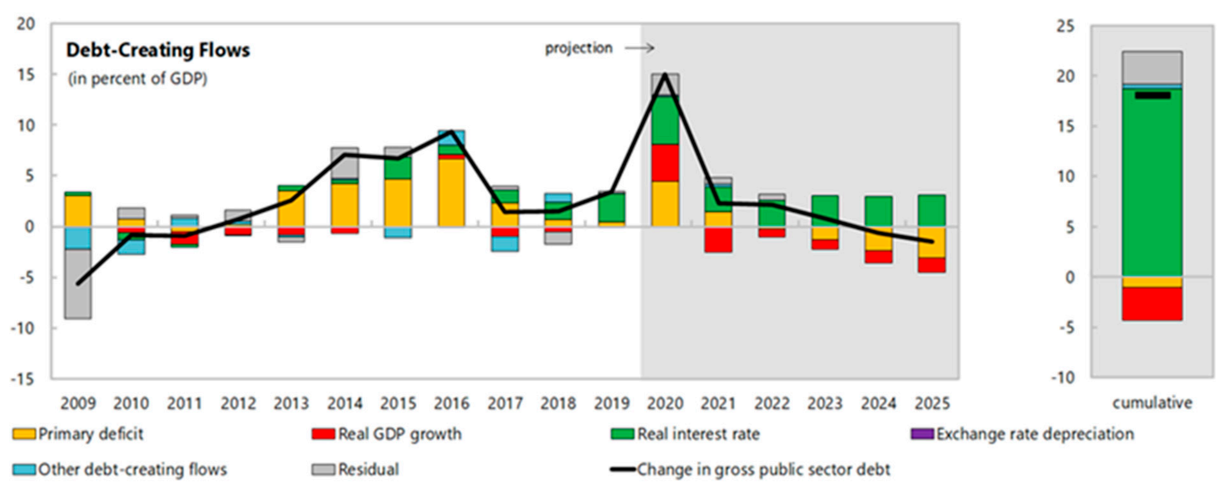
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2009-2017 2/	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	26.6	46.1	49.6	64.6	66.9	69.0	69.8	69.2	67.7
Public gross financing needs	9.2	10.5	10.3	13.9	10.3	9.7	9.1	8.0	7.3
Net public debt	21.6	40.2	43.7	57.9	60.2	62.5	63.4	63.0	61.8
Real GDP growth (in percent)	3.1	1.3	0.1	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation (GDP deflator, in percent)	2.9	1.8	-0.2	-3.1	1.5	1.1	1.0	1.5	1.5
Nominal GDP growth (in percent)	6.1	3.1	-0.1	-9.6	5.6	2.4	2.4	3.2	3.8
Effective interest rate (in percent) 4/	4.6	5.7	5.9	5.6	5.4	5.2	5.5	5.9	6.2

As of April 16, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		5142
5Y CDS (bp)		n.a
Ratings	Foreign	Local
Moody's	Caa1	Caa1
S&Ps	CCC	CCC
Fitch	CC	CC

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	2.3	1.5	3.4	15.0	2.3	2.2	0.8	-0.6	-1.5	18.1	
Identified debt-creating flows	2.3	2.7	3.2	12.9	1.7	1.6	0.8	-0.6	-1.5	14.8	
Primary deficit	2.8	0.7	0.5	4.5	1.5	-0.2	-1.3	-2.4	-3.1	-1.1	1.6
Primary (noninterest) revenue and grants	35.0	35.3	33.4	29.8	30.9	31.4	31.9	32.2	32.2	188.5	
Primary (noninterest) expenditure	37.8	36.0	33.9	34.3	32.4	31.2	30.6	29.8	29.2	187.4	
Automatic debt dynamics 5/	0.0	1.1	2.8	8.3	-0.1	1.8	2.1	1.8	1.6	15.5	
Interest rate/growth differential 6/	0.0	1.1	2.8	8.3	-0.1	1.8	2.1	1.8	1.6	15.5	
Of which: real interest rate	0.5	1.7	2.8	4.7	2.4	2.6	3.0	3.0	3.1	18.7	
Of which: real GDP growth	-0.5	-0.6	0.0	3.7	-2.5	-0.8	-0.9	-1.2	-1.5	-3.3	
Exchange rate depreciation 7/	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.4	0.9	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.4	
Fiscal, General Government, Total financing, Debt Holder, Domestic financing, From deposit money banks and privatization proceeds	-0.4	0.9	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	-0.1	-1.2	0.2	2.1	0.6	0.6	0.0	0.0	0.0	3.3	



Source: IMF staff calculations.

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

2/ Based on available data.

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

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

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

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

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

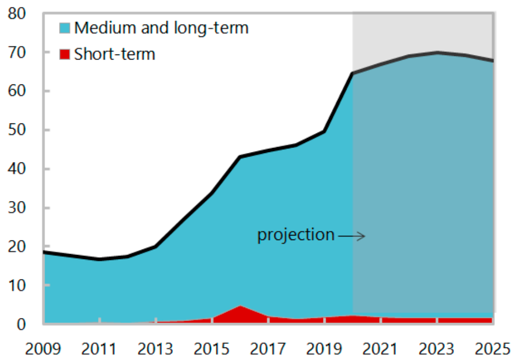
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. It also includes the issuance of domestic debt for the asset swap operation with the central bank.

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

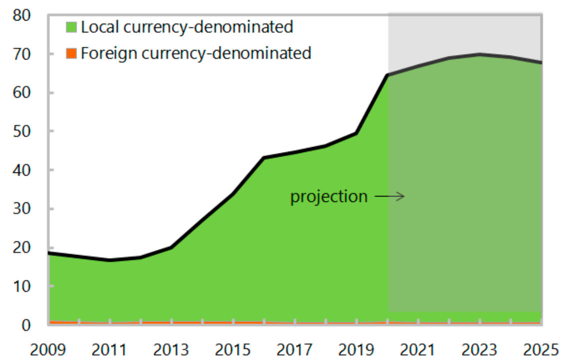
Figure 2. Ecuador: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



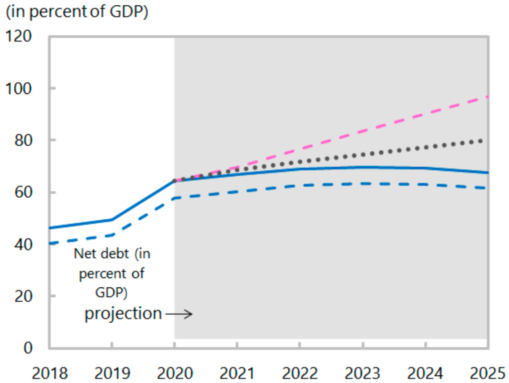
By Currency
(in percent of GDP)



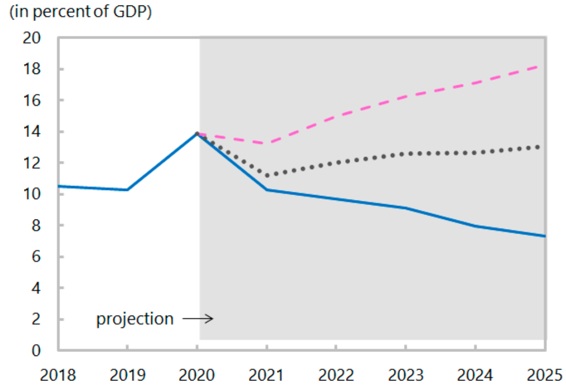
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



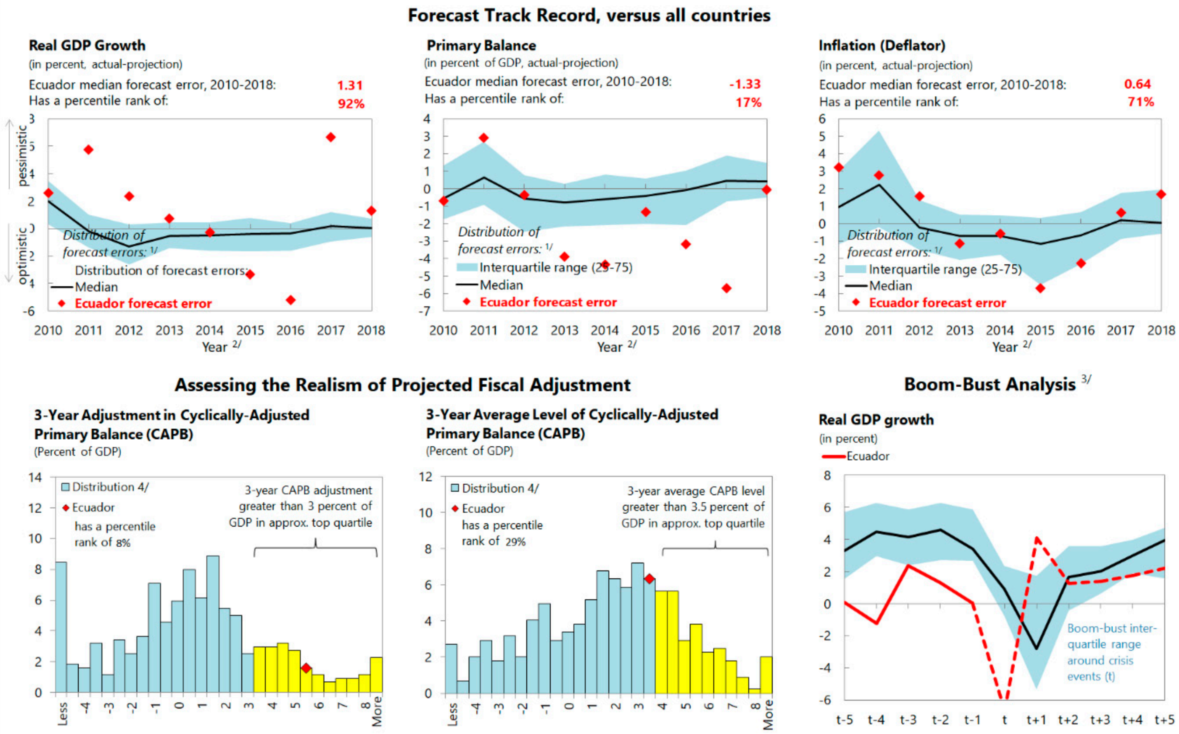
Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation	-3.1	1.5	1.1	1.0	1.5	1.5
Primary Balance	-4.5	-1.5	0.2	1.3	2.4	3.1
Effective interest rate	5.6	5.4	5.2	5.5	5.9	6.2
Constant Primary Balance Scenario						
Real GDP growth	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation	-3.1	1.5	1.1	1.0	1.5	1.5
Primary Balance	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5
Effective interest rate	5.6	5.4	5.1	5.6	6.0	6.4

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-6.7	2.8	2.8	2.8	2.8	2.8
Inflation	-3.1	1.5	1.1	1.0	1.5	1.5
Primary Balance	-4.5	-2.3	-2.3	-2.3	-2.3	-2.3
Effective interest rate	5.6	5.4	4.7	4.7	4.8	4.9

Source: IMF staff calculations.

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



Source : IMF Staff calcualutions.

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

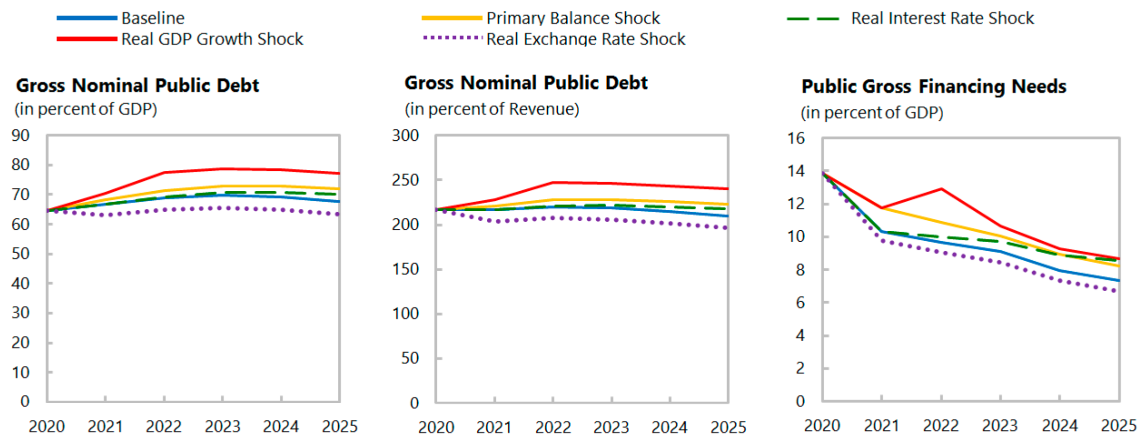
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Ecuador has had a positive output gap for 3 consecutive years, 2017-2019. For Ecuador, t corresponds to 2020; for the distribution, t corresponds to the first year of the crisis.

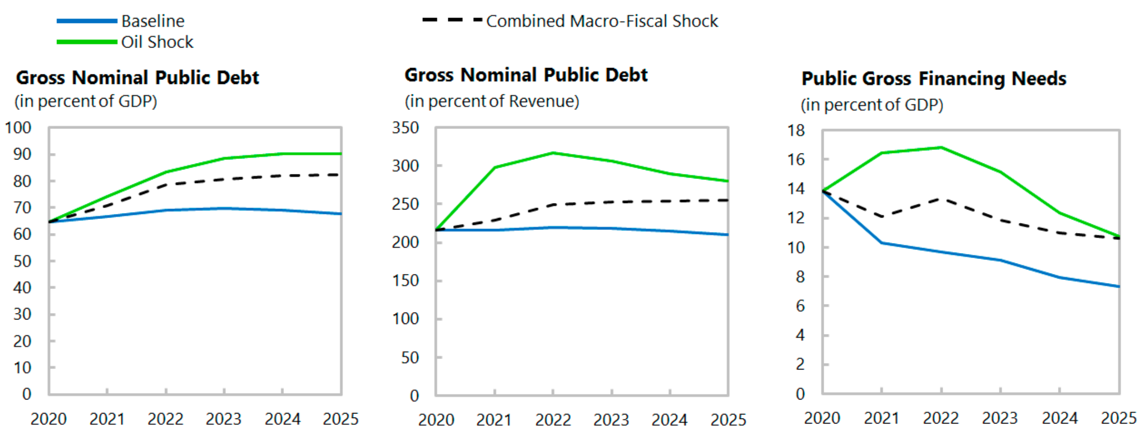
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Ecuador: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2020	2021	2022	2023	2024	2025
Primary Balance Shock						
Real GDP growth	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation	-3.1	1.5	1.1	1.0	1.5	1.5
Primary balance	-4.5	-3.0	-0.6	0.8	1.9	2.7
Effective interest rate	5.6	5.4	5.2	5.6	6.0	6.3
Real Interest Rate Shock						
Real GDP growth	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation	-3.1	1.5	1.1	1.0	1.5	1.5
Primary balance	-4.5	-1.5	0.2	1.3	2.4	3.1
Effective interest rate	5.6	5.4	5.6	6.3	6.9	7.5
Combined Shock						
Real GDP growth	-6.7	1.2	-1.6	1.4	1.8	2.2
Inflation	-3.1	0.8	0.4	1.0	1.5	1.5
Primary balance	-4.5	-3.0	-2.1	0.8	1.9	2.7
Effective interest rate	5.6	5.4	5.7	6.4	7.1	7.7

	2020	2021	2022	2023	2024	2025
Real GDP Growth Shock						
Real GDP growth	-6.7	1.2	-1.6	1.4	1.8	2.2
Inflation	-3.1	0.8	0.4	1.0	1.5	1.5
Primary balance	-4.5	-2.6	-2.1	1.3	2.4	3.1
Effective interest rate	5.6	5.4	5.2	5.7	6.0	6.3
Real Exchange Rate Shock						
Real GDP growth	-6.7	4.1	1.3	1.4	1.8	2.2
Inflation	-3.1	8.1	1.1	1.0	1.5	1.5
Primary balance	-4.5	-1.5	0.2	1.3	2.4	3.1
Effective interest rate	5.6	5.4	5.2	5.5	5.8	6.1
Oil Shock						
Real GDP growth	-6.7	2.1	-0.7	1.4	1.8	2.2
Inflation	-3.1	1.5	1.1	1.0	1.5	1.5
Primary balance	-4.5	-7.5	-4.8	-1.7	1.4	3.1
Effective interest rate	5.6	5.4	5.8	6.5	7.0	7.2

Source: IMF staff calculations.

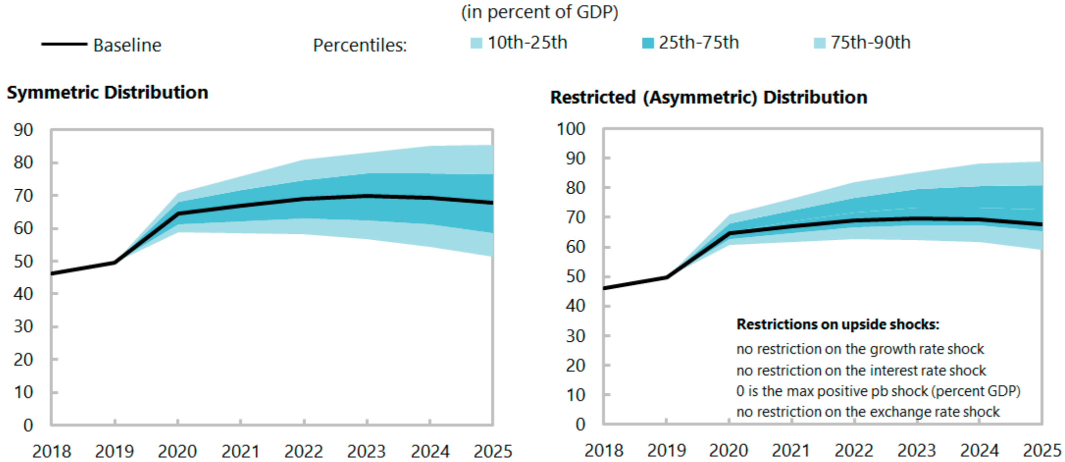
Figure 5. Ecuador: Public DSA Risk Assessment

Heat Map

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

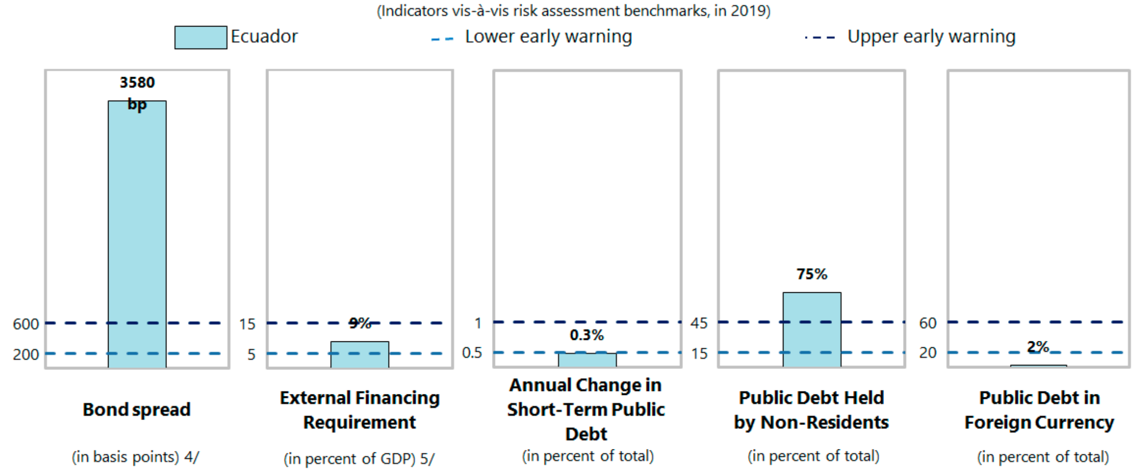
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

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



Source: IMF staff calculations.

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

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

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

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

4/ Long-term bond spread over U.S. bonds, an average over the last month, 17-Mar-20 through 16-Apr-20.

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

Appendix I. Letter of Intent

Quito, April 30, 2020

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

Dear Ms. Georgieva

1. The coronavirus (COVID-19) pandemic is inflicting enormous economic and social costs on our people. Unfortunately, Ecuador is one of the hardest hit countries in the world, with 23,240 confirmed cases and 1,801 deaths as of April 27. Starting March 12, President Moreno declared the State of Emergency, followed by full lockdown, excluding critical activities, on March 15, the closure of our borders on March 17, and national curfew on March 21. Notwithstanding those measures, our healthcare system is under severe pressure, with an urgent need for essential medical resources including medical equipment and supplies, testing kits, protective garments, and additional medical staff. Additionally, the Ecuadorian economic structure has a high component of informality and the current measures to prevent the spread of COVID-19 impedes this segment from meeting their daily sustenance. The percentage of the population that will fall into poverty will increase and this requires us to expand our social protection system to protect the most vulnerable. The recently developed action plan—with inputs from both the World Bank and the Fund—to implement social assistance thresholds and upgrade the social registry will be instrumental in this regard.

2. In addition to the tragic loss of life, the pandemic is an unprecedented external shock that affects severely our export and domestic production chains. Because of Ecuador's specific economic structure, including our dollarized system and deep dependence on oil exports, the sharp fall in world oil prices, the unexpected rupture of two of our main oil pipelines, lower world demand, and adverse capital market conditions pose additional unparalleled challenges. Public finances have come under critical strains due to lower tax collection and oil revenues and surging crisis-related healthcare and social assistance outlays. With much of the economy in containment and lockdown for a significant period, the overall impact has resulted in urgent and sizable Balance of Payment needs.

3. Notwithstanding the negative and uncertain economic outlook, we continue to be deeply committed to preserving fiscal discipline and ensuring debt sustainability, in particular with the constructive dialogue we have engaged with our external creditors, and maintain a transparent and sound policy setting as part of our Plan de Prosperidad. Our concerted efforts, with the dialogue with business and social sectors and financial and technical support of our international partners, will be critical to preserve confidence and financial stability, protecting the most vulnerable, and promoting a broad-based and inclusive economic growth. Yet, the crisis has necessitated urgent and significant recalibration of our near-term fiscal plans, given the need to support people and the economy amid emerging large financing gaps. While we have already taken decisive actions, more will be needed as the crisis evolves. Those policy actions include:

- Measures to support the health sector: Free COVID-19 tests for people who present symptoms and for those who are in the epidemiological area of a positive case; increase in the response capacity in the health system, particularly on intensive care facilities and hiring health professionals. Elimination of tariffs on medical products necessary to attend the emergency;

- Measures to support the vulnerable: Disbursement of ad-hoc emergency cash transfers for families in vulnerable conditions; no cuts in residential utility services for non-payment while the emergency lasts;

- Measures to support businesses: Opening financing credit lines for small and medium businesses for USD50 million; deferment of tax payments for the months of April, May and June over 6 months; suspension of social security contributions for 90 days; reprofiling of private and public sectors credits;

- Measures to alleviate fiscal and liquidity pressures: Submission to the National Assembly of an Economic Emergency Law on April 16, which addresses directly the health and economic crisis with the creation of a fund that will manage two solidarity contributions that aim at redistributing resources from the richest segments of the population to those that are unable to work and thus not able to meet their basic necessities.

- Putting public finances on a sustainable path is our main priority as soon as the crisis wanes, and over the medium and long terms. Specifically, we commit to pursuing policies that would maintain debt sustainability, in a manner that is fully consistent with the IMF’s debt sustainability assessments. To this end, fiscal policy will be geared towards meeting a public debt to GDP ratio of 55 percent of GDP in 2025, declining further to 45 percent of GDP by 2030. This would be broadly consistent with targeting average gross financing (GFNs) needs of about 6 percent of GDP in 2025-30. In order to meet this objective, we plan to embark on a fiscal adjustment once the pandemic wanes, amounting to around 6 percentage points of GDP of the non-oil primary balance including fuel subsidies of the NFPS anchored on credible and durable measures mainly linked to non-oil revenues and primary spending over the period 2019-25. In addition, to ensure that public debt remains on a sustainable path and rein in large and protracted financing gaps, we are in the process of implementing a comprehensive debt management plan. In particular, on Friday April 17 bondholders accepted a consent solicitation put forward by the Republic to defer all payments worth over USD 800 million, until August 15. During this grace period, we will work with our advisors, to put forward a second consent solicitation to the market to restructure Ecuador´s outstanding debt. We have also received assurances on 2020 financing and prospects for financing from multilateral development banks and bilateral creditors going forward.

- Measures to support financial stability: The Monetary and Financial Policy and Regulation Board issued temporary provisions such as a short-term payment deferral for borrowers from the financial system, a requirement of additional generic provisioning on banks' gross lending portfolio during 2020 and a reduction in the contribution by financial institutions to the Liquidity Fund of three percentage points to enhance liquidity. More generally, we stand ready to take any action necessary to preserve macro-financial stability.

4. To strengthen the institutional foundation of public financial management the emergency law sent to the National Assembly on April 16 includes amendments to the Organic Planning and Public Finance Law (COPLAFIP). We remain committed to implementing strong control, reporting, and transparency requirements concerning public sector finance statistics and crisis-related government spending. Ecuador will continue to comply with the Fund's safeguards policies. We are committed to the highest level of governance to help safeguard the resources committed to fight the pandemic, including (i) by regularly publishing on the government's website (SERCOP) COVID-19-related public procurement contracts and related documents, including the names of the awarded companies and their beneficial owners, and ex-post validation of delivery, as well as information on all other COVID-19 related spending; and (ii) by undertaking an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publishing the results. Any additional spending and or initiatives to combat the pandemic will be subject to similar assurances. Given recent government financial statistics revisions, we published revised 2019 Non-Financial Public Sector finance statistics by sub-sectors and a calendar for backward revisions from 2018 to 2012.

5. We will continue with other structural reforms in our efforts to modernize our economy. We have taken steps to modernize labor contracts (those changes are part of the Emergency Economic Law submitted to the National Assembly). We are also committed to continuing to reform the organic monetary and financial code (COMYF), the AML framework, the asset declaration regime, and PPP regulations.

6. Ecuador will comply with the provisions of the IMF's Articles of Agreement. We intend to avoid imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements, which are inconsistent with Article VIII of the IMF's Articles of Agreement. We will update the Memorandum of Understanding (MoU) signed in March 2019 between the Ministry of Economy and Finance and the Central Bank of Ecuador—that clarifies the responsibilities for timely servicing of the financial obligations to the IMF—to account for the new disbursement.

7. We hereby notify the current Extended Fund Facility (EFF) approved on March 11, 2019 to be cancelled with immediate effect. While we would like to request a successor Fund-supported arrangement, the economic and social emergency calls first to request urgent assistance under the Rapid Financing Instrument (RFI) in the maximum amount available to Ecuador at this point under current IMF policies, SDR 469.7 million, to address Ecuador's urgent balance-of-payment and fiscal needs. In the case that IMF policies in the near future change regarding access to RFI resources, the government of Ecuador urges the IMF that these funds will become available to the country in an expedited manner. We trust that the policies set out in this letter are satisfactory to achieve our objective of economic stabilization but we stand ready to implement additional measures to preserve macroeconomic and social stability in view of our forthcoming request for a follow-up Fund-supported arrangement. Maintaining our commitment to the policy of transparency, we will provide information requested by the Fund to assess our policy implementation and consent to the publication of this letter and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/	/s/
Richard Martínez Alvarado Minister of Economy and Finance	Verónica Artola Jarrín General Manager The Central Bank of Ecuador

ANNEX 1: Prior action

Prior action #1	Submission to the National Assembly of amendments to the Organic Code for Planning and Public Finances (COPLAFIP), in line with IMF technical recommendations.

Statement by Afonso Bevilaqua, Executive Director for Ecuador,
Pedro Fachada, Alternate Executive Director, and
Francisco Rivadeneira, Advisor to Executive Director

May 1, 2020

1. On behalf of our Ecuadorian authorities, we thank the Managing Director and her management colleagues for the unremitting support to Ecuador's economic transformation and the timely response to their request for financial assistance under the Rapid Financing Instrument (RFI). We extend our gratitude to the mission team led by Ms. Ivanova for the comprehensive report and the continued engagement and policy advice. This financial assistance in the amount of approximately USD 641 million (67.3 percent of quota) is greatly appreciated in light of the exceptional circumstances that Ecuador is facing as a result of the COVID-19 pandemic.

2. The pandemic is creating a substantial health, humanitarian and economic crisis in Ecuador and as a result, places a heavy burden on its citizens. The containment and mitigation measures coupled with the collapse in oil prices, the rupture of two of the country's main oil pipelines, lower export demand from traditional trading partners and risk aversion in global capital markets have formed the 'perfect storm'. As a consequence, substantial fiscal and balance of payments gaps have emerged.

3. The authorities remain fully committed to engage in a new, medium-term financing arrangement with the Fund. Due to the sweeping changes in the macroeconomic scenario, the Extended Fund Facility (EFF) program approved in March 2019 is no longer feasible. There is clear progress towards the agreement of a new EFF program, which the authorities intend to conclude as soon as possible. However, the economic and social situation requires immediate financing. Against this background, the RFI in the maximum amount available under normal access limits is the best option for Ecuador to face its urgent external and fiscal needs at this time.

COVID-19 in Ecuador

4. Ecuador is one of the countries in the world more severely affected by the pandemic. As of April 28, Ecuador had 24,258 confirmed cases, 871 confirmed deaths and 1,212 presumed deaths based on symptoms and possible exposure but not confirmed through testing. The coastal province of Guayas is the epicenter of the country's outbreak. With a share of about 24 percent of Ecuador's population, Guayas accounts for 65 percent of COVID-19 cases. The humanitarian situation in the province's capital Guayaquil is critical, with many fatalities being unaccounted for so far.

5. The authorities have acted firmly to limit the contagion and save lives. The first case was reported in late February. It was an Ecuadorian living abroad and visiting relatives near Guayaquil. At the time of her diagnosis, the outbreak had already spread quickly through the population. As

increased testing revealed community transmission, the authorities enhanced containment measures aggressively. In the second week of March, President Moreno declared a state of emergency, and soon after the authorities imposed a nationwide lockdown, including all non-essential activities. The authorities also suspended entry to all foreign travelers and closed land borders to neighboring countries. On March 21, the authorities implemented a national curfew, which is still fully in force.

6. The healthcare system in Ecuador is considered of relatively high quality for an emerging market economy. However, since the beginning of the crisis, the system has been under severe pressure and in need of additional medical resources including staff, supplies, equipment, testing kits and protective garment. Despite the difficulties, the authorities have taken several important measures to support the sector, such as providing free testing for people who present symptoms or are exposed to a positive case, increasing the capacity of intensive care units, hiring supplementary health professionals, increasing medical imports and eliminating import tariffs on medical supplies.

7. The Ecuadorian economy has an important level of informality and unfortunately the current lockdown has impeded this segment of the population from earning a living. The risk that this vulnerable group could fall into extreme poverty required the authorities to expand its social protection system. Some of the measures taken by the authorities to confront this threat included targeted cash transfers and prohibition for utilities to terminate residential services in case of nonpayment during the state of emergency. The authorities have also taken steps to aid the business sector, particularly small and medium-sized enterprises, including deferring tax payments, suspending social security contributions for 90 days and providing loans.

Preserving fiscal discipline

8. The Ecuadorian authorities continue to be sincerely committed to preserving fiscal discipline and ensuring public debt sustainability. Despite the impact of the pandemic, with increased healthcare and social protection spending and reduced tax collection and oil revenues, the authorities remain cognizant of the need to preserve fiscal responsibility. On April 16, the Executive branch submitted to the National Assembly an Economic Emergency Law, which addresses directly the health and economic crisis with the creation of a fund that will manage two solidarity contributions aimed at redistributing income from the richest segments of the population to those in need. On the same day, the authorities also sent to the Assembly amendments to the Organic Planning and Public Finance Law (COPLAFIP), which was a structural benchmark for the next review under the 2019 EFF. These amendments aim to strengthen the institutional foundation of public financial management and set robust accounting and reporting standards for the different levels of the public sector, ensuring that fiscal statistics in Ecuador follow international best practices and are fully reliable.

9. Importantly, the authorities have also taken steps to implement a comprehensive debt management plan and have initiated a constructive dialogue with external creditors. On April 17, bondholders accepted a consent solicitation put forward by Ecuador to defer all payments above USD 800 million for four months. During this period, the authorities will work with their advisors to put forward a second consent solicitation to restructure Ecuador´s outstanding debt. In parallel, considering the need to reprofile their obligations and secure additional financing, the authorities have received credible and specific assurances from key bilateral creditors.

10. Over the medium term, the authorities intend to embark on a fiscal consolidation plan once the pandemic subsides. The planned adjustment amounts to an increase of 6 percent of GDP of the non-oil primary balance including fuel subsidies until 2025, supported by credible and robust measures to boost non-oil revenues and reduce spending. This adjustment will form the core of the forthcoming EFF program.

Financial stability and structural reforms

11. In the context of a dollarized economy and without independent monetary policy, the authorities have adopted macroprudential measures to help support the economy and strengthen financial stability. These included short-term loan repayment deferral to borrowers, a 3-percentage point reduction in the contribution by financial institutions to the Liquidity Fund, and an increase in generic provisioning requirements of banks.

12. The authorities also remain fully committed to advance their structural reform agenda aimed at transforming the Ecuadorian economy. Modernizing labor contracts is already contemplated in the Economic Emergency Law submitted to the National Assembly on April 16. Other impactful reforms in consideration, which will be part of the upcoming EFF, include the amendments to the Organic Monetary and Financial Code (COMYF) and the anti-money laundering framework, as well as the implementation of an asset declaration regime and reforms to Public-Private Partnerships (PPP).

Final remarks

13. The authorities expect that the set of fiscal, macroprudential and structural policies already implemented will help mitigate the impact of the crisis and support employment, business activities and households, especially the most vulnerable. They are fully aware that uncertainties about the duration and potential spread of the pandemic weigh heavily on Ecuador's short-term outlook. Nevertheless, the authorities stand ready to take additional measures as the situation evolves. Looking beyond the COVID-19 shock, the authorities remain committed to continue to transform the Ecuadorian economy to make it more competitive and offer more opportunities to the Ecuadorian people.

14. The authorities count on the support of the Executive Board to pursue their economic vision. That said, the most pressing action is access to the RFI resources to address Ecuador's

urgent external and fiscal needs. Beyond this RFI, the authorities expect to conclude discussions around the new EFF program soon. This will be a critical step to rebuild a sustainable economy that benefits all Ecuadorians, especially the poor and vulnerable. The authorities see the Fund as a vital partner in this process and again express their gratitude to management, staff and the Executive Board for their continuous support.