



# ECUADOR

May 2024

## REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the Request for an Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 31, 2024, following discussions that ended on April 19, 2024, with the officials of Ecuador on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 20, 2024.
- A **Staff Supplement**: Assessment of Financial Risks to the Fund.
- 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.**



## IMF Executive Board Approves 48-Month US\$4 Billion Extended Fund Facility Arrangement for Ecuador

- The IMF Executive Board approved a new 48-month arrangement under the Extended Fund Facility (EFF) for Ecuador, with access equivalent to US\$4 billion. The Board's decision allows the authorities an immediate disbursement equivalent to US\$1 billion.
- The program aims to support Ecuador's policies to stabilize the economy, safeguard dollarization, and lay the foundations for sustainable and inclusive growth.
- Key elements of the authorities' policy agenda include cementing fiscal and debt sustainability, expanding the social safety net, enhancing financial sector resilience, and further strengthening transparency and governance.

**Washington, DC – May 31, 2024:** The Executive Board of the International Monetary Fund (IMF) approved today a 48-month extended arrangement under the Extended Fund Facility (EFF) for Ecuador, with access equivalent to SDR 3 billion (430 percent of quota, equivalent to US\$4 billion). The Board's approval allows the authorities an immediate disbursement of SDR 753 million, equivalent to US\$1 billion, available to the public budget. This follows a previous EFF arrangement approved by the IMF Executive Board in September 2020 and completed in December 2022.

The Ecuadorian authorities have put together a robust plan and have started to take important policy steps to address the liquidity and fiscal situation. The IMF-supported program will build on these steps to strengthen fiscal and debt sustainability, protect vulnerable groups, rebuild liquidity buffers, safeguard macroeconomic and financial stability, and advance the structural reform agenda to lay the foundations for sustainable, inclusive, and stronger growth that benefits all Ecuadorians.

Following the Executive Board's discussion on Ecuador, Ms. Kristalina Georgieva, Managing Director and Chair, issued the following statement:

"The Ecuadorian authorities have undertaken swift and bold actions to tackle the fiscal and security crises. The IMF-supported arrangement under the Extended Fund Facility, which incorporates lessons from the earlier Fund arrangement, will support the authorities' policy plans to strengthen fiscal sustainability and protect vulnerable groups, safeguard dollarization and macroeconomic stability, rebuild liquidity buffers, enhance financial stability and integrity, and further advance the structural reform agenda to promote sustainable and inclusive growth. Strong commitment to the program and steadfast reform implementation will be critical for success. Continued engagement with official creditors and development partners, contingency planning, and a strong communication of the program's objectives to the public will also be important.

"The authorities are committed to implementing an ambitious fiscal consolidation plan, which will help mitigate Ecuador's structural fiscal vulnerabilities and cement fiscal sustainability over

the medium term. It envisages balanced efforts on both the revenue and expenditure sides, with less reliance on oil sector developments, while protecting essential spending on security, the social safety net, and public investment.

“Work will continue to enhance the social safety net by expanding the coverage of cash transfer programs to families in need. This will help mitigate the adverse impact of fiscal consolidation on those vulnerable groups.

“Building on the recommendations of the IMF’s Financial Sector Stability Assessment for Ecuador, the financial policy agenda aims to strengthen financial sector oversight and coordination among relevant agencies, enhance the prudential framework governing capital and liquidity, and foster financial deepening and capital market development.

“The authorities are committed to continuing to strengthen their institutional framework by enhancing governance, transparency, public financial management, and public procurement. This will include advancing the audits of the state-owned oil company and healthcare expenditure, clearing arrears and improving cash management practices, and making progress with key AML/CFT legislation.”



# ECUADOR

May 20, 2024

## REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

### EXECUTIVE SUMMARY

**Context.** Following the completion of a 27-month Extended Fund Facility (EFF) arrangement in December 2022, political uncertainty, a security crisis, and exogenous shocks to oil revenue and interest rates led to a sharp macroeconomic and fiscal deterioration. The authorities implemented swift and bold measures in early 2024 to address the fiscal and liquidity challenges and requested a 48-month EFF arrangement of SDR 3 billion (about US\$4 billion, 430 percent of quota) to support their policy plans and advance an ambitious structural reform agenda.

**Program Objectives and Modalities.** The core objectives of the EFF-supported program are to (i) strengthen fiscal sustainability, while protecting vulnerable groups; (ii) safeguard dollarization and macroeconomic stability; (iii) rebuild liquidity buffers; (iv) enhance financial stability and integrity; and (v) further advance the structural reform agenda to promote sustainable and inclusive growth. Staff estimates that Fund resources are needed to close a financing gap of about US\$4 billion during the program period, after factoring in an ambitious and large fiscal plan, financial support from international financial institutions and official bilateral partners, and renewed access to international capital markets. The baseline scenario under the program is, however, subject to substantive risks, stemming from both external and domestic factors.

**Exceptional Access Policy.** All exceptional access criteria have been met. Ecuador's faces balance of payments needs stemming from lower oil revenues and pressures on the financial account arising from external debt obligations (Criterion 1). The public debt is assessed as sustainable but not with high probability, and staff assessed that liquidity would be adequate to safeguard Fund resources should adverse shocks materialize (Criterion 2). This assessment was finely balanced and hinged on the steadfast implementation of the proposed reforms envisaged under the EFF arrangement. Successful implementation of the EFF-supported program is expected to help further reduce sovereign spreads and facilitate Ecuador regaining access to international capital markets (Criterion 3). Staff assesses that the policy program provides a reasonably strong prospect of success, amid broad support to the main objectives of the EFF arrangement, and strong commitment and capacity by the authorities to take measures to ensure its successful implementation (Criterion 4).

**Approved By**

**Ana Corbacho (WHD)  
and Bergljot Barkbu  
(SPR)**

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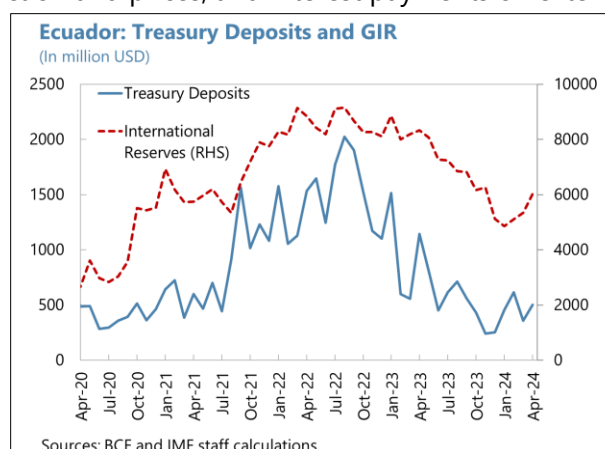
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## CONTEXT

**1. Ecuador completed an EFF-supported program in December 2022, advancing fiscal and structural reforms.** The 27-month extended arrangement under the EFF (2020 EFF) was approved by the Executive Board on September 30, 2020, for SDR 4.615 billion (about US\$6.5 billion or 661 percent of quota). The 2020 EFF was approved in the wake of the COVID-19 pandemic and successfully helped Ecuador mitigate the crisis by protecting lives and livelihoods. Moreover, the program put public finances on a more sustainable path and strengthened domestic institutions and policy frameworks. Structural reforms focused on (i) fiscal management and sustainability, including the comprehensive overhaul of the organic budget code (COPLAFIP) establishing medium-term public debt ceilings; (ii) governance and independence of the Central Bank of Ecuador (BCE) with the passage of the organic monetary and financial code (COMYF); (iii) governance and transparency of public institutions, including the issuance of legislation to criminalize corruption (COIP) and an updated public procurement resolution; and (iv) strengthened technical capacity in government finance statistics compilation and reporting.

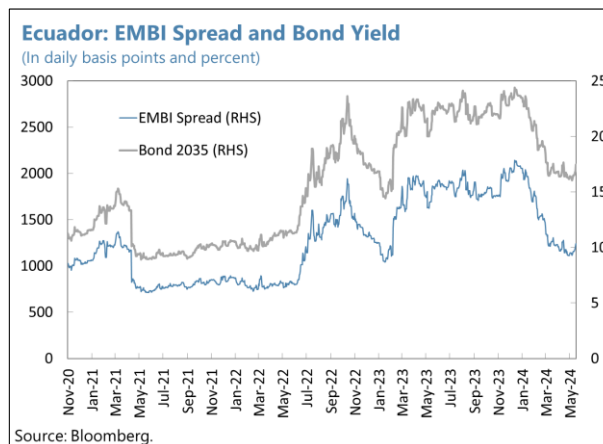
**2. Political developments in 2023 impeded further progress with the reform plan started under the 2020 EFF.** Political uncertainty increased, and early general elections took place in August 2023, with a run-off presidential election in October 2023. Amid a challenging political landscape, progress with fiscal and institutional reforms stalled.

**3. Political uncertainty was compounded by other shocks in 2023, leading to renewed fiscal vulnerabilities, a worsening of economic conditions, and a near depletion of buffers.** In 2023, oil revenue declined due to lower oil production and prices, and interest payments on external public debt increased significantly alongside the global monetary policy tightening cycle. In addition, national power outages weighed on economic activity starting in late-2023. Moreover, policy slippages put further strain on public finances. The fiscal position weakened, and treasury deposits and foreign exchange reserves declined, with government buffers almost depleted by end-2023. In this environment, after growing by 6.2 percent in 2022, real GDP slowed to 2.4 percent in 2023.



**4. A severe security crisis is exacerbating fiscal and economic challenges.** In recent years, Ecuador has grappled with a surge in crime, marked notably by a sharp escalation in homicides. In early January 2024, in response to a surge in violence amid security breaches, the government declared a nationwide 60-day state of emergency (later extended for another 30 days) and an internal armed conflict, including curfews and mobility restrictions.

**5. The new administration has proactively taken critical steps to address the challenging fiscal and external imbalances and improve economic prospects.** The government implemented a value added tax (VAT) rate hike of three percentage points in April, alongside additional transitory revenue measures. The authorities also introduced a limited set of tax incentives to stimulate growth and incentivize youth employment, and a bill to allow electricity generation by private companies to help stem the impact of blackouts. In addition, the government announced the intention to improve the targeting of fuel subsidies, while protecting the most vulnerable. To stem the sharp decline in FX reserves, the government also increased the tax on transfers abroad (ISD). These efforts contributed to a sharp decline in sovereign spreads, from over 2,000 basis points in early 2024 to below 1,200 basis points in April.



**6. The authorities have also taken actions to stabilize the security situation.** The actions aim to bolster the government's capability to fight crime, including by enhancing the role of the military. The authorities' security agenda received broad support in a referendum held in April, with nine questions related to security policies approved by a large margin. The referendum also included two economic initiatives, on introducing fixed-term and hourly employment contracts and using international arbitration for resolving investment and commercial disputes, which did not receive enough voter support.

**7. The authorities have requested an EFF arrangement.** They are committed to implementing measures to safeguard macroeconomic stability, strengthen fiscal sustainability, rebuild liquidity buffers, and strengthen resilience and inclusive growth. As existing Fund credit, at SDR 5.8 billion (835 percent of quota), already exceeds normal access levels, the new proposed arrangement is subject to the exceptional access policy.

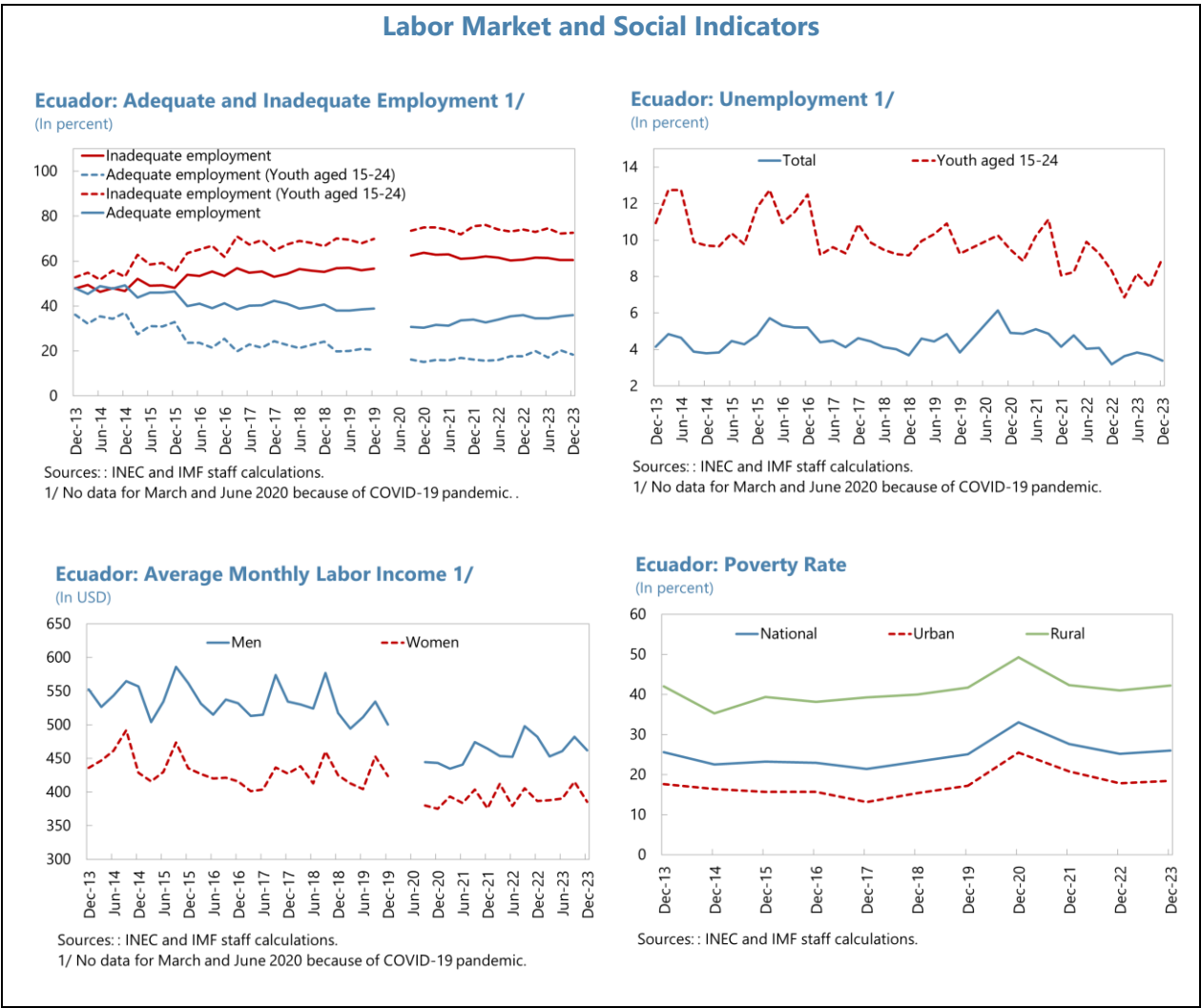
## RECENT MACROECONOMIC DEVELOPMENTS

**8. A sharp economic slowdown is underway.** In 2023Q4, real GDP contracted by 0.7 percent (y/y), down from +0.7 percent in 2023Q3, amid a decline in private consumption and net exports, while growth of public consumption and inventories remained in positive territory. High-frequency indicators (credit growth, local sales, and vehicle sales) continued to be weak into 2024Q1. In April, nationwide blackouts reappeared due to energy shortages.

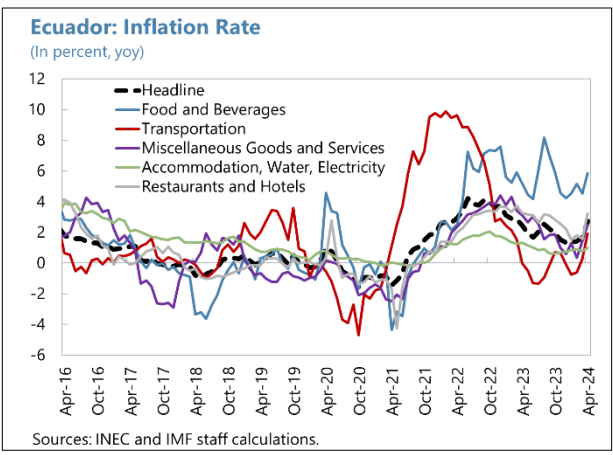
**9. The labor market has been recovering slowly since the pandemic, but persistent challenges disproportionately affect young people and women.** The ongoing economic slowdown might jeopardize the still incomplete post-pandemic recovery of employment. Official data shows inadequate employment (a broad measure of underemployment) remained above pre-



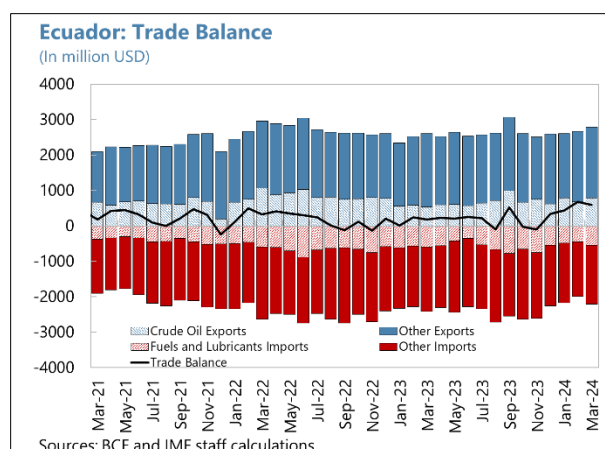
pandemic levels in 2023, while informal employment hovered at historically high rates. Moreover, labor market conditions are disproportionately adverse for the youth, and while decreasing, gender gaps remain significant. The poverty rate, which had been declining following the peak of the pandemic, started to increase again in 2023, notably in the rural areas.



**10. Inflation moderated during 2023 with lower international energy prices.** Headline inflation peaked at 4.2 percent y/y in June 2022 and has since been moderating largely driven by lower transportation prices. Food prices temporarily surged during 2023H2 due to weather-related production disruptions. In April 2024, headline (core) inflation accelerated to 2.7 (2.0) percent (y/y) driven by the effect of the VAT rate hike.



**11. The current account (CA) balance remained broadly flat in 2023, but the reserve position deteriorated.** The CA surplus increased marginally from 1.8 percent in 2022 to around 1.9 percent of GDP in 2023 amid a sharp decline in oil-related exports and higher interest payments on external public debt, while remittances remained robust and non-oil exports registered a moderate increase. The decline in net oil receipts in 2023, together with pressures on the financial account amid large external public debt obligations, led to a deterioration in the reserve position by end-2023. The deterioration was partly reversed by a recovery in the oil trade balance and lower imports during January-February this year. Gross international reserves dropped to about US\$4.5 billion at end-2023, from US\$8.5 billion at end-2022, before recovering somewhat to US\$5.3 billion at end-March. International reserves cover the deposits and reserves of private banks at the BCE, consistent with legal requirements set in the COMYF, but remain well below adequacy metrics. The external position in 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The CA gap is estimated at about -1.4 percent of GDP, pointing to a real effective exchange rate gap of about 8 percent (Annex I).

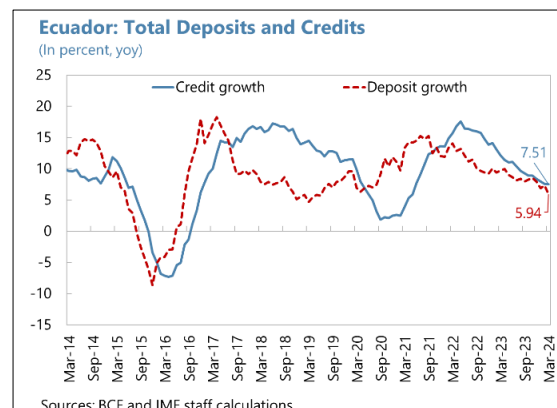


**12. Financial soundness indicators are robust on aggregate, but there are pockets of vulnerabilities.** Average capital ratios have been declining but remain comfortable at 15 percent (as of end-March 2024), helped by mandatory earnings retention. Asset quality deteriorated in 2023, partly owing to the weak macroeconomic environment but also to the new regulation on loan classification and provisioning that entered into force in January 2023 that closed a disparity in the prudential framework between banks and credit cooperatives. There is still a material share of restructured and refinanced loans from the pandemic reported in financial institutions' loan portfolios. Loan quality in small banks, public banks, and credit cooperatives is weak. Profitability is uneven across market segments, with negative profits among small banks and anemic returns for credit cooperatives. Lending margins have started to recover after a recent revision of the interest rate caps on corporate and commercial loans, but still appear compressed for other credit types, particularly for loans to small and medium-sized enterprises (SMEs) and micro enterprises.

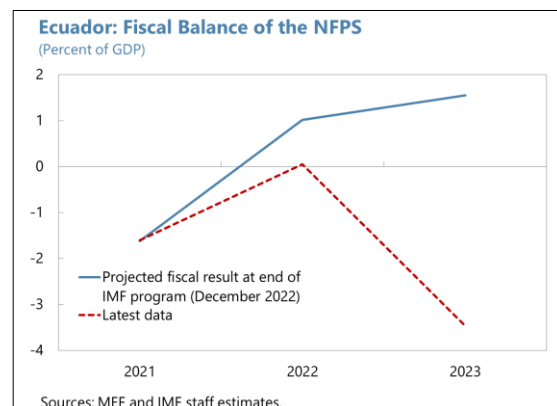
**13. Managing liquidity risk remains a challenge for Ecuador's financial system.** Banks maintain cross holdings of certificates of deposits and the bulk of their portfolio investments is in securities issued by the government and other resident counterparties, which offer limited effective liquidity. The deposit insurance fund also maintains investments in government securities and claims on resident counterparties, including bank deposits. A liquidity fund, funded by financial institutions and holding external assets totaling US\$3.5 billion as of end-2023, is available in the absence of a standard lender-of-last-resort regime. In addition, the BCE has access to about US\$2.1 billion in liquidity facilities with the Federal Reserve Bank of New York (FRBNY), the Bank for International

Settlements (BIS), and the Latin American Reserve Fund (FLAR), which can be used in the event of dollar liquidity shortages.<sup>1</sup>

**14. Credit and deposit growth has continued to slow.** The credit cycle has extended a slowdown that started in mid-2022, with new lending becoming negative in the first quarter of 2024. Credit market dynamics have been driven by a deceleration of credit to SMEs, housing, and corporates, partly in response to margin compression, as binding caps on lending rates prevented banks from passing on higher funding costs. Credit growth among public banks and small banks and credit cooperatives has remained negative. While the transmission of external financing conditions to domestic credit markets is limited, banks' recourse to external funding sources has also been affected by the tight external conditions and Ecuador's high sovereign risk.



**15. The fiscal position deteriorated significantly.** Following a steady improvement of the nonfinancial public sector (NFPS) fiscal balance during the 2020 EFF to a small surplus at end-2022, the fiscal position worsened to a deficit of US\$4.2 billion (3.6 percent of GDP) in 2023. This contrasts markedly with the 1.6 percent of GDP fiscal surplus expected at the final review of the 2020 EFF. The deterioration was in large part due to a lower-than-expected oil balance, with lower export prices and production, and higher-than-expected interest payments on floating rate debt. However, the non-oil primary balance (NOPB) also deteriorated by 2.1 percent of GDP, due to the weak cyclical position affecting tax revenue and policy loosening driving a large increase in current expenditure in 2023. Despite lower oil prices in 2023 compared to 2022, a still sizeable fuel subsidies bill (2.7 percent of GDP in 2023) added to fiscal pressures.



**16. Government liquidity buffers declined to historical lows in 2023.** With limited financing sources, the large increase in gross financing needs was mostly financed by a drawdown of buffers. Government deposits at the BCE declined by US\$2.9 billion, with NFPS deposits closing 2023 at US\$3.8 billion and erasing all the buildup of buffers achieved during the 2020 EFF-supported

<sup>1</sup> In October 2022, the FRBNY granted the BCE access to a FIMA Repo Facility of US\$1 billion for exclusive central banking operations. This facility allows the BCE to access liquid resources for potential needs through securities repurchase operations (repo), which are part of the BCE's investment portfolio. Additionally, the BCE renewed its swap facility with the BIS for up to US\$840 million as a precautionary measure in case of dollar liquidity shortages. In July 2023, FLAR granted the BCE access to a contingent credit line of up to US\$230 million.

program. Due to the severity of the liquidity situation, the central government also incurred about US\$900 million in arrears to private suppliers and borrowed US\$100 million in liquidity from public sector entities outside of the NFPS perimeter.

**17. A one-off reprofiling of public debt owed to the BCE provided relief to government financing needs in the near term.** The 2021 COMYF reform established the prohibition of new direct or indirect central bank financing of the government as a key measure to protect dollarization. However, this provision also left the government with large debt amortizations in the short term. The authorities amended the COMYF legislation in December 2023 to allow for a one-off reprofiling of these debt obligations to smooth the debt service profile, reducing interest and amortization payments in the near term. The operation reduced financing needs by about US\$300 million in 2024 and about US\$1 billion per year in 2025-26.

**18. Public debt declined in 2023 on account of a debt-for-nature swap.** The debt-to-GDP ratio declined to 55.3 percent in 2023 from 57 percent in 2022, due to the difficulty in accessing new financing and a successful swap that reduced the amount of external bonds outstanding by US\$970 million (0.8 percent of GDP). Public debt remains among the lowest in the Latin America and Caribbean region and among emerging market peers. With sovereign spreads still elevated, Ecuador has not been able to access international capital markets since 2019.

## OUTLOOK AND RISKS

**19. Growth is projected to begin recovering in the second half of 2024 and increase gradually over the medium term.** The economy faced significant headwinds in early 2024, including a challenging security situation, the accumulation of government domestic arrears, a tighter fiscal policy stance, and power outages. In addition, a negative carry-over from 2023H2 and the start of the planned unwinding of oil production in the Ishpingo-Tambococha-Tiputini (ITT) field in the Amazon region will weigh adversely on growth. The easing of liquidity pressures and the start of regularization of arrears are expected to lift economic activity in the second half of the year. But growth is only projected to average 0.1 percent for 2024 as a whole. Growth is then projected to gradually rise towards its estimated potential rate of 2½ percent in the medium term, *inter alia* as domestic demand is bolstered by decreased uncertainty and an improved liquidity situation. In the medium term, the gradual unwinding of oil production in the ITT field is assumed to be offset by increased production in other fields. Inflation is projected to average 2.4 percent in 2024, reflecting mainly the effect of a higher VAT rate, before converging to around 1½ percent over the medium term, below levels projected in trading partners.

**20. The CA surplus is projected to increase over the medium term.** In 2024, the CA surplus is projected to rise to about 2.1 percent of GDP, owing mainly to higher non-oil exports and lower imports and despite lower oil exports and tourism receipts. The CA surplus is projected to gradually increase, reaching about 2.5 percent of GDP over the medium term, driven by a gradual pickup in oil exports, the resumption of tourism flows, and higher non-oil exports (e.g., mining).

**21. The balance of risks around the baseline outlook is tilted to the downside** (Annex III):

- **Key downside risks** could arise from a further deterioration in the security situation and/or the electricity crisis, which would adversely affect investment, tourism, economic activity, the financial sector, and the fiscal balance. An increase in political fragmentation could delay the implementation of reforms, increase the fiscal deficit, and lead to liquidity pressures, impairing the payment chain in the economy and affecting the financial system (in particular, weaker financial institutions), triggering negative feedback loops. Further risks include unexpected declines in oil prices or disruptions to oil production that reduce oil revenue, while extreme climate events could increase social vulnerabilities and lower growth. Tighter global financing conditions could dampen capital flows and financing prospects, postponing international market re-access. Deeper geoeconomic fragmentation and increased geopolitical tension could hit trade flows and growth.
- **On the upside**, stronger-than-expected global growth along with higher oil prices could help rebuilding buffers and reserves, boost fiscal revenues, and improve growth prospects. A faster improvement of the security situation could also bring upside relief to investment sentiment, tourism, and economic activity more broadly.

## OBJECTIVES AND POLICIES UNDER THE EXTENDED FUND FACILITY ARRANGEMENT

**22. The authorities are committed to placing public finances on a sound footing and advancing structural reforms to foster resilience and inclusive growth.** Building on the achievements of the 2020 EFF, the new EFF arrangement will aim to (i) strengthen fiscal sustainability, while protecting vulnerable groups; (ii) safeguard dollarization and macroeconomic stability; (iii) rebuild liquidity buffers; (iv) enhance financial stability and integrity; and (v) further advance the structural reform agenda to promote sustainable and inclusive growth. The program would address key structural vulnerabilities, including the overarching goal of lowering the volatility of public finances linked to oil prices.<sup>2</sup> It would preserve space for needed priority spending on security, social protection, and public investment, and support reform efforts in the financial, governance, and structural areas, including climate transition.

### A. Strengthening Fiscal Sustainability

**23. The authorities enacted a significant mobilization of non-oil revenue.** Measures implemented are expected to yield a net increase of US\$2.2 billion (1.8 percent of GDP) in non-oil

<sup>2</sup> See Ecuador—Ex-Post Evaluation of Exceptional Access under the 2020 Extended Fund Facility, IMF Country Report No. 23/381.

revenue in 2024. These include: (i) a 3-percentage point hike in the VAT rate to 15 percent;<sup>3</sup> and (ii) temporary taxes to be levied mostly in 2024 and 2025. To ensure medium-term fiscal sustainability, additional sustained efforts are needed after the expiration of transitory tax measures, anchored in permanent, high-quality measures on both the revenue and spending side.

**24. The authorities' 2024 fiscal plan demonstrates commitment to containing public expenditure, while addressing priority security, social, and investment needs.** The 2024 fiscal plan contemplates containing spending in wages and goods and services, while protecting targeted social support and priority investment projects. Expenditure restraint on wages and goods and services would be achieved by delaying non-essential hiring and purchases, while protecting space to finance urgently needed security spending.

**25. The authorities' fiscal plan under the proposed EFF arrangement would target a frontloaded improvement in the NFPS non-oil primary balance including fuel subsidies (NOPBS) of 2.2 percent of GDP in 2024 and an additional 3.3 percent of GDP over 2025-28, totaling 5.5 percent of GDP over the program period.**

Building on the authorities' fiscal measures already in train, the consolidation under the program

would rely on non-oil revenue mobilization, higher net oil revenue, and non-oil expenditure rationalization that would bring increasing savings over time. The adjustment would be frontloaded and, together with the significant upfront structural reform efforts, would be broadly aligned with the phasing of financial support. The plan will be accompanied by enhancements in the social safety net by further expanding the coverage of social transfers for vulnerable households.

- **Tax revenue mobilization.** The tax measures enacted in 2024 are estimated to yield about 1.8 percent of GDP in 2024, of which 1.2 percent of GDP are transitory. Additional permanent revenue of about 0.8 percent of GDP is expected over 2025-28. The authorities will prepare a plan to further mobilize non-oil fiscal revenues, including by rationalizing inefficient tax expenditures and replacing transitory revenue measures with permanent high-quality ones (**mid-November 2024 structural benchmark**). The authorities are committed to gradually phasing out

Fiscal Consolidation Plan						
(Change in the non-oil primary balance including fuel subsidies, in percent of GDP)						
	2024	2025	2026	2027	2028	2024-28
<b>Revenue</b>	<b>2.5</b>	<b>-0.1</b>	<b>1.0</b>	<b>0.1</b>	<b>0.2</b>	<b>3.7</b>
Tax revenue	1.8	-0.2	0.2	0.1	0.1	1.9
Other	0.7	0.1	0.8	0.0	0.2	1.7
<b>Expenditure</b>	<b>-0.2</b>	<b>0.8</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>	<b>1.8</b>
Wages and salaries	0.1	0.2	0.3	0.3	0.3	1.2
Goods and services	0.1	0.2	0.2	0.2	0.1	0.8
Social and capital	-0.3	0.2	-0.1	-0.1	-0.1	-0.4
Other	0.0	0.1	0.0	0.0	0.1	0.2
<b>Total</b>	<b>2.2</b>	<b>0.6</b>	<b>1.4</b>	<b>0.6</b>	<b>0.7</b>	<b>5.5</b>

Sources: MEF and IMF staff calculations.

Nonoil Revenue Measures		
(Percent of GDP; positive numbers reduce gap)		
	2024	2025
<b>Tax revenue</b>	<b>2.0</b>	<b>1.9</b>
Increase VAT rate from 12 to 15 percent	0.7	1.0
Increase ISD rate to 5 percent	0.2	0.2
Remove ISD exemption for banks	0.0	0.1
Implement tax amnesty	0.2	
Reintroduce self-withholding of income tax	0.6	
Corporate extra profit tax	0.3	0.3
Banks profit tax	0.1	
Additional measures	0.0	0.4
<b>Tax incentives</b>	<b>-0.2</b>	<b>-0.3</b>
Reduce VAT on construction materials	-0.2	-0.2
Other tax incentives from December reform	-0.1	-0.1
<b>Total</b>	<b>1.8</b>	<b>1.6</b>

Sources: MEF and IMF staff calculations.

<sup>3</sup> The authorities enacted a 1-percentage point permanent increase in the VAT rate and made use of presidential powers to implement an additional increase of 2 percentage points to address the security and fiscal situation.

the ISD (see ¶152 and Letter of Intent (LOI), ¶17). Steps to strengthen tax administration (¶131) should also complement the revenue mobilization strategy.

- *Other revenue mobilization.* Fuel subsidies are costly, regressive (disproportionally benefiting the better off), harmful to the environment, and contribute to criminal activities such as smuggling. The authorities eliminated the fuel subsidy for large shrimp farms in 2023, generating about US\$150 million in savings. The authorities plan to further improve the targeting of fuel subsidies and promote the energy transition by encouraging the use of non-renewable energy sources, while implementing appropriate social compensatory mechanisms to protect the most vulnerable. In addition, the government plans to increase oil revenues by gradually increasing production and enhancing the capacity of the oil refinery system.
- *Expenditure consolidation and efficiency gains.* Building on the 2020 EFF, expenditure consolidation would be anchored in further improving the efficiency of (i) public employment by keeping wage growth in line with inflation and (ii) procurement by further exploiting economies of scale from centralizing procurement orders. Further savings would stem from efficiency gains in state-owned enterprises (SOEs), especially in the hydrocarbon and electricity sectors. Expenditure consolidation would be undertaken while preserving space for urgent security, social, and investment spending. Primary non-oil public expenditure rationalization is projected to produce 1.8 percent of GDP in savings in 2024-28.

**26. The fiscal consolidation plan would be calibrated to (i) meet the COPLAFIP debt limits; (ii) achieve sustainable gross financing needs; (iii) regularize arrears; and (iv) rebuild adequate fiscal buffers.** The NFPS overall deficit is projected to narrow by 1.6 percent of GDP to US\$2.4 billion (2 percent of GDP) in 2024 and turn into an overall surplus of 0.6 percent of GDP by 2028. At the same time, the NFPS primary balance would turn into a surplus already in 2025, increasing to 2 percent of GDP by 2028. Importantly, the authorities are committed to ensure that adequate fiscal measures are in place for the 2025 fiscal plan to be in line with program targets (**early December 2024 structural benchmark**). The envisaged fiscal consolidation would place the public debt-to-GDP ratio on a firm downward trajectory to comply with the COPLAFIP limit of 40 percent by 2032. It would also enable a steady reduction in gross financing needs. Staff assessed public debt as sustainable but not with high probability under the program baseline (Annex II). The improvement in the fiscal balance would allow gradually regularizing payment arrears, with the authorities expected to prepare a strategy to clear and prevent the re-emergence of budgetary central government's payment arrears (**end-November 2024 structural benchmark**). It would also allow gradually rebuilding liquidity buffers, with NFPS deposits expected to reach about US\$8 billion by end-2028, from US\$3.8 billion in 2023.

**27. The financing strategy would rely on multilateral and bilateral support and regaining external market access in 2025.** The program assumes that the government will be able to roll over all maturing domestic debt in 2024, with remaining financing needs of US\$5.2 billion (4.3 percent of GDP) to be covered by multilateral, official bilateral, and commercial creditors. Ecuador's gross financing needs would fall from 6.6 percent of GDP (US\$8 billion) in 2024 to about 4.8 percent of GDP (US\$6.8 billion) by 2028. The successful implementation of a credible fiscal plan

underpinned by the EFF-supported program is likely to continue lowering perceived sovereign credit risk, paving the way for renewed market access. The financing plan assumes additional domestic market financing, as well as external market re-access (gradually starting with US\$1.5 billion in 2025, increasing to US\$2 billion in 2026).

<b>Estimated Gross Financing Needs and Sources</b>					
(US\$ million)					
	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
<b>Gross Financing Needs</b>	<b>8,035</b>	<b>7,849</b>	<b>7,704</b>	<b>7,640</b>	<b>6,796</b>
NFPS Deficit	2,442	1,473	314	118	-832
Amortization	5,593	6,375	7,390	7,522	7,628
Domestic	3,269	3,221	3,404	3,080	3,341
External	2,325	3,154	3,986	4,442	4,287
<b>Gross Financing Sources</b>	<b>8,035</b>	<b>7,849</b>	<b>7,704</b>	<b>7,640</b>	<b>6,796</b>
Domestic	2,830	2,209	2,504	2,490	2,646
NFPS deposits (- = accumulation)	-360	-954	-939	-927	-1,031
T-bills	2,166	2,166	2,166	2,166	2,166
Bonds	1,024	996	1,277	1,251	1,510
External	5,205	5,640	5,200	5,150	4,150
IMF	1,500	1,250	500	500	250
Multilateral (excl. IMF)	3,295	1,900	1,900	1,900	1,400
Bilateral	410	990	800	750	500
Bonds	0	1,500	2,000	2,000	2,000
Sources: MEF and IMF staff calculations.					

**28. Given elevated risks, continuous monitoring of fiscal performance and robust contingency plans are critical.** Given downside risks to the program's baseline scenario (¶21), the authorities will need to closely monitor high frequency cashflow execution and projections, and, should risks materialize, stand ready to take timely corrective actions as needed to meet program objectives. The authorities have prepared a projected monthly financial plan, including cashflows for the budgetary central government for the remainder of 2024 (**prior action**). They have also outlined a contingency plan to ensure compliance with program targets (**prior action**).

## B. Strengthening the Social Safety Net

**29. The program will continue supporting the authorities' efforts to enhance the social safety net.** Over the past years, the authorities worked on improving the social safety net, supported by World Bank technical assistance, expanding the coverage of their social registry to cover families in the lowest three deciles of the income distribution throughout the country, including in more remote areas. The authorities will develop a plan to complete the social registry (**end-October 2024 structural benchmark**). Based on such registry, a key part of the fiscal program will focus on expanding cash transfer programs to ensure that families in need receive assistance, shielding them from an adverse impact from fiscal consolidation measures.



**30. The authorities' social transfers strategy supported by the EFF arrangement will aim to close the coverage gap of vulnerable families.** The authorities plan to expand cash transfer programs, adding about 50,000 new families each year (about 200,000 families by the end of 2028), prioritizing the lower income deciles of the income distribution in the social registry. The expansion is expected to cost about US\$300 million annually once all targeted families are covered. This strategy would ensure that all families in the lowest two deciles and a majority of the families in the third decile would be incorporated into the social safety net during the course of the EFF-supported program.

### C. Enhancing the Institutional Framework, Governance, and Transparency

**31. Building on the progress made during the 2020 EFF, the authorities plan to further strengthen public financial management (PFM), fiscal statistics and governance, and revenue administration.** Their efforts would be supported by CD from the Fund (Annex IV) and other development partners.

- **PFM.** The authorities plan to publish a Medium-Term Fiscal Framework (MTFF) and a Medium-Term Debt Management Strategy (MTDS) in line with program targets (**end-October 2024 structural benchmarks**). The authorities are also committed to continue (i) preparing and publishing a fiscal risks report, including identification, monitoring, and mitigation analyses of the most relevant fiscal risks (including SOEs); (ii) enhancing oversight and continuous monitoring of SOEs and public-private partnerships (PPPs) as part of the analysis by the Fiscal Risk Unit; (iii) implementing a multi-year expenditure ceiling per entity in accordance with the top-down aggregate limits set by the MTFF; and (iv) implementing annual expenditure execution through quarterly commitment and monthly accrual quotas.
- **Public Procurement.** Efforts will continue to strengthen public procurement systems by fully operationalizing the 2022 Procurement Law. The National Public Procurement Agency (SERCOP) will establish a timeline to operationalize the National Control Subsystem (SNC) (**end-December 2024 structural benchmark**). The SNC will facilitate coordination amongst public entities with control competencies over the public procurement system via the interoperability of their databases, thereby helping protect public procurement integrity and improve expenditure control. In addition, SERCOP will continue the regular publication of ultimate beneficiary ownership (UBO) of entities that have been awarded procurement contracts.
- **Fiscal Governance and Healthcare Claims.** The authorities are committed to setting a revised mechanism to settle healthcare claims from the Ecuadorian Social Security Institute (IESS) to bring predictability to the process of auditing and clearing verified obligations. The Ministry of Finance (MEF) will pursue an updated agreement with the IESS for the settling and payment of healthcare obligations (involving both internal and external healthcare providers), building on the December 2022 agreement (**end-October 2024 structural benchmark**). Based on the updated MEF/IESS agreement, the authorities will initiate the tender to procure an auditor to review the 2023 and 2024 healthcare obligations to IESS (**end-December 2024 structural**

**benchmark**). The agreement will also stipulate the process to be taken to audit and settle the 2022 healthcare obligations.

- **Revenue and Customs Administration.** Building on the recommendations of a Tax Administration Diagnostic Assessment (TADAT) completed in 2023, the authorities plan to pursue reforms to further strengthen revenue administration. Priorities include modernizing the tax procedures code and improving the management of large corporate taxpayers and high net worth individuals. The authorities will also work on enhancing and modernizing customs administration, with IMF technical assistance support. Efforts will focus on upgrading their IT systems and simplifying customs core processes, with a view to improve customs control, trade facilitation, and revenue collection.
- **Public Investment Management.** Building on the recommendations of the IMF 2023 Public Investment Management (PIMA) technical assistance, the authorities are working on enhancing the public investment management process, including by improving cross-institutional coordination, strengthening project appraisals, and enhancing monitoring of public investment execution.

## D. Safeguarding Financial Stability

### 32. Financial intermediation in Ecuador is affected by longstanding financial repression.

Banks and credit cooperatives are subject to a complex system of ceilings on lending rates differentiated by credit type and, for commercial loans, also by borrower firm size. The 2023 FSSA noted that the caps on lending rates in the current higher interest rate environment have led to margin compression, distortions in credit supply, and restrictions to financial inclusion, and recommended migrating the rate caps to a usury rate.<sup>4</sup> A recent update of the formulas to determine the interest rate caps on commercial and corporate loans led to marginal relief in these segments, and the authorities have announced changes in the adjustment of caps on mortgage loans. Financial institutions are also required to maintain at least 60 percent of their liquidity in Ecuador and face minimum required investments in sovereign bonds and securities issued by public companies.

### 33. The financial policy agenda is extensive, requiring careful and gradual

**implementation.** Key areas for policy action include: (i) strengthening financial sector oversight and coordination among agencies involved; (ii) enhancing the prudential framework governing capital and liquidity; (iii) strengthening the financial safety net; and (iv) fostering financial deepening and capital market development, including by gradually eliminating interest rate caps and developing the sovereign bond market. Financial liberalization needs to be gradual and carefully sequenced, to ensure that key preconditions are in place. Among these, for example, the transition to Basel III liquidity regulations would require the concurrent development of the domestic bond market.

<sup>4</sup> Ecuador—Financial System Stability Assessment, IMF Country Report No. 23/335.

Similarly, the dismantling of financial repression mechanisms would also require careful sequencing and transition plans, including to mitigate risks to financial stability.

**34. The authorities have started implementing recommendations of the 2023 FSSA.** The authorities are planning to establish a Financial Stability Committee in line with best international practices, with the participation of the BCE, MEF, the Monetary Board (JRPM), the Financial Board (JRPF), the Superintendency of Banks (SBs), the Superintendency of Popular and Solidarity Economy (SEPS), the Superintendency of Companies, Securities, and Insurance (SCVs), and the Deposit Insurance Corporation (COSEDE) (*end-September 2024 structural benchmark*). They are also planning to enhance their stress testing capacity (with Fund TA support), started transmitting Bank of the Ecuadorian Institute of Social Security (BIESS) credit data to the credit bureaus, and have taken steps to improve the coordination and information sharing among supervisory agencies. The authorities have also started implementing some of the recommendations on prudential regulations, including the phased implementation of the Liquidity Coverage Ratio, expected to be achieved gradually, and the preparation of regulations on systemic risk buffers (*end-November 2024 structural benchmark*). The authorities also plan to assess the system of interest rate caps, with Fund staff support, identifying policy recommendations to reform the system in an orderly way, while preserving financial stability, improving credit allocation, enhancing financial inclusion, and supporting growth (*end-March 2025 structural benchmark*).

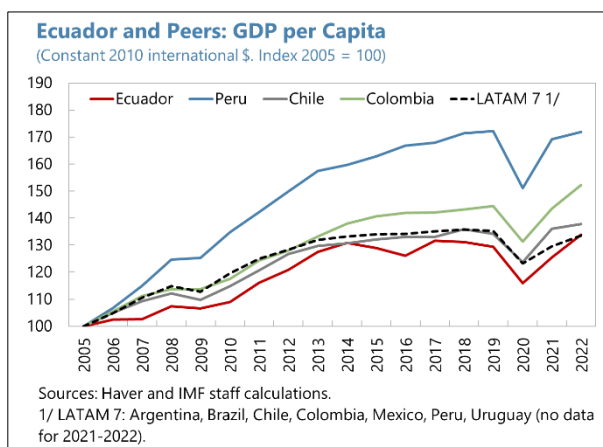
**35. The authorities are committed to taking steps to develop the domestic debt market.** The domestic debt market lacks liquidity and depth. The authorities have started to standardize government securities and aim to build a domestic yield curve to facilitate the development of the domestic debt market. To foster the deepening of the domestic capital market, the authorities plan to take actions to improve market infrastructure, building on technical assistance from development partners. They will start by signing a contract to overhaul the BCE's central securities depository (DCV), including the settlement, liquidation, and custody functions in line with international standards (*end-November 2024 structural benchmark*). Once these systems are in place, the authorities intend to start auctioning public securities at market-determined rates. The authorities also aim to revamp the payments system. An improved payments infrastructure would help establish a faster, more modern, and safer payments system, reducing transaction costs and risks associated with cash transactions, encouraging the development of digital commerce, and supporting financial deepening and economic activity.

**36. The EFF arrangement will also support the authorities' efforts to further strengthen the effectiveness of the AML/CFT framework to tackle illicit financial flows, particularly the financing and profitability of organized crime.** To this end, following the recommendations from GAFILAT to strengthen the AML/CFT regime and enhance financial integrity (as also noted by the 2023 FSSA) will be key. A Draft Law to Suppress and Prevent Money Laundering and Financing of Terrorism, elaborated with IMF technical assistance, was submitted to the National Assembly in October 2022. A new draft is under discussion in the National Assembly, resulting from the combination of different proposals. The authorities are committed to seeking approval of and enactment of a new law to strengthen the AML/CFT framework in line with FATF international

standards (**end-February 2025 structural benchmark**). Strengthening the AML/CFT legal framework is a necessary step to tackle organized crime proceeds, which should be complemented with measures to tackle illicit financial flows. Enhancing the independent supervisory role of the Economic and Financial Analysis Unit (UAFE) is also important to achieve these objectives.

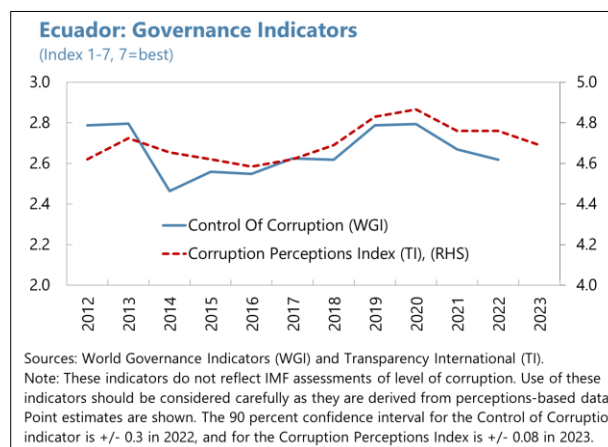
## E. Strengthening Competitiveness and Boosting Growth Potential

**37. The authorities’ economic agenda crucially aims to raise Ecuador’s growth potential.** Over the last two decades, Ecuador’s GDP per capita has underperformed that of regional peers. Some factors hindering growth include policy uncertainty, insecurity, labor market rigidities and informality, cumbersome regulations and licenses, limited trade integration, governance challenges (including in SOEs), and high borrowing costs.



**38. Sound macroeconomic management with clearly established policy anchors would improve policy predictability, reduce sovereign risk, and lower borrowing costs for both the public and private sectors.** Restoring macroeconomic stability and securing fiscal sustainability is paramount to reducing uncertainty, improving the business environment, and boosting resilient and inclusive growth. In addition, progress in institutional reforms will increase competitiveness and stimulate investment, capitalizing Ecuador’s comparative advantages in sectors such as agriculture, tourism, mining, and renewable energy. Recently approved Free Trade Agreements, including with China and Costa Rica, will also help foster integration and boost growth potential. The reforms envisaged under the IMF-supported program, including those to strengthen fiscal sustainability, expand the social safety net, improve PFM, develop domestic capital markets, safeguard financial stability, and enhance governance, transparency, and financial integrity, are expected to have a catalytic effect on potential growth by addressing key longstanding structural bottlenecks.

**39. Strengthening the anti-corruption framework will help create a more even playing field.** A recently approved law on dominion extinction may prove helpful to fight crime and corruption. Towards the end of the 2020 EFF arrangement, a Draft Law to Prevent Conflicts of Interest in Public Administration was submitted to the National Assembly to advance public sector integrity and reduce vulnerabilities to corruption. Approval of this



legislation would help promote integrity, transparency, and accountability, boosting the business environment.

**40. Enhancing governance in the oil sector will help improve efficiency.** The authorities are committed to enhancing governance in the oil sector, as part of their ongoing plans to streamline SOEs and increase their efficiency. In an important transparency milestone, the authorities signed in January a contract with an international audit firm to conduct audits of the financial statements of Petroecuador and Petroamazonas, now merged into a single SOE, the largest in Ecuador. The authorities plan to complete the 2019 and 2020 audits and share the results with IMF staff (**end-March 2025 structural benchmark**). They are also launching initiatives to increase oil output, including by promoting greater private sector participation and enhancing the capacity of the oil refinery system. Broader steps to increase competition in the distribution of local fuel markets could also be considered in the future.

**41. Efforts should continue to address the electricity crisis and increase resilience to climate change.** Ecuador is vulnerable to extreme climate events such as landslides, floods, storms, droughts, the El Niño and La Niña phenomena, and earthquakes. The energy sector and agriculture are particularly vulnerable to climate-related shocks, with significant effects on economic activity, prices, the fiscal accounts, and the balance of payments. An electricity crisis that started in late 2023 re-emerged in April 2024, and the authorities have implemented nationwide blackouts to ration the energy supply. Energy shortages are linked to climate trends, insufficient maintenance in key hydroelectric plants, and supply constraints in neighboring countries that export electricity to Ecuador. Ensuring essential investment to maintain the country's electricity generation plants should be a priority, while also unlocking private-led investment projects in renewable energy sources such as solar and wind, for which Ecuador has good potential. There is also a case for investing in climate-change adaptation and mitigation, including resilient infrastructure. Given limited fiscal space, the authorities should continue exploring options to mobilize climate financing, including possible new debt-for-nature swaps.

**42. Labor market reforms should aim to increase flexibility and foster high-quality employment, including for the youth.** Sources of labor market rigidities include rigid labor contracts, high separation costs, and high minimum wages. Increasing labor market flexibility to boost formal jobs in the private sector and expanding quality education for all would contribute to fight poverty and support inclusion, including of youth-at-risk. Fostering labor market opportunities will also support broader efforts to prevent crime and insecurity.

## PROGRAM MODALITIES

**43. Financing Needs.** Staff estimates that the EFF arrangement will close Ecuador's residual financing needs of about US\$4 billion (SDR 3 billion, 430 percent of quota) during the program period, after factoring in an ambitious fiscal consolidation and support from international financial institutions and official bilateral creditors. The estimates assume that Ecuador gradually regains access to international capital markets starting in 2025. Fund financing is proposed to be made

available to the budget. A memorandum of understanding will be established between the BCE and the MEF on their respective roles and obligations.

**44. Arrangement Type, Reviews, and Phasing of Purchases.** The authorities have requested a 48-month EFF-supported program. The program envisages triannual reviews during 2024-25 and shifts to semiannual reviews during 2026-28. The proposed phasing is driven by the size and timing of the estimated financing gap, with total access proposed at SDR 3 billion (US\$4 billion), starting with SDR 1.1 billion (US\$1.5 billion) in 2024, SDR 0.9 billion (US\$1.25 billion) in 2025, SDR 0.4 billion (US\$0.5 billion) in 2026 and 2027, and SDR 0.2 billion (US\$0.25 billion) in 2028.

**45. Prior Actions.** The EFF arrangement is subject to the following prior actions: (i) the preparation of a projected monthly cash flow and financial plan for the budgetary central government for the remainder of 2024; and (ii) the preparation of a contingency plan to ensure compliance with program fiscal targets if revenues underperform projected levels.

**46. Program Conditionality.** Quantitative program performance will be monitored with a set of quantitative performance criteria (QPCs) and indicative targets (ITs):

- QPCs on: (i) a floor on the NOPB of the PGE; (ii) a floor on the overall balance of the PGE and the oil derivatives financing account (Cuenta de Financiamiento de Derivados Deficitarios, CFDD); and (iii) a floor on the accumulation of NFPS deposits at the BCE.
- Continuous QPCs on: (i) non-accumulation of external payments arrears by the NFPS; and (ii) no new direct/indirect BCE lending to the NFPS.
- ITs on: (i) a floor on the NOPB including fuel subsidies (NOPBS) of the NFPS; (ii) a floor on the overall balance of the NFPS; (iii) a floor on the change in the stock of net international reserves (NIR); (iv) a ceiling on the stock of domestic arrears to private suppliers of the PGE; and (v) a floor on the coverage of the cash transfer programs for lower income households.

**47. Structural Benchmarks.** The program includes structural benchmarks to: (i) strengthen PFM, including publication of a MTFE and MTDS in line with program commitments; (ii) restore the chain of payments, including by preparing a plan to clear and prevent the resurgence of domestic arrears; (iii) strengthen non-oil tax collection as one-off tax measures expire, including by preparing a plan to reduce inefficient tax expenditures and broaden the tax base; (iv) rationalize and increase the efficiency of public expenditure, including by launching the SNC; (v) enhance the social safety net, including by establishing a plan to complete the social registry underpinning social transfer programs; (vi) foster financial intermediation and capital market development, by enhancing financial sector oversight and prudential regulation, identifying possible reforms of the interest rate system, and building capital market infrastructure; (vii) develop domestic capital markets through improved mechanisms for primary placement of government bonds; (viii) improve fiscal governance through the implementation of an agreement for the transfer of healthcare obligations; and (ix) further strengthen the effectiveness of the AML/CFT framework to adequately tackle illicit financial flows.

**48. Capacity to Repay.** Ecuador's capacity to repay the Fund is subject to significant risks and critically depends on policy implementation and timely external financing. Under the proposed arrangement, GRA credit to Ecuador will peak in 2025, reaching 1,000 percent of quota. Ecuador's external public debt will reach 956 percent of gross reserves in 2024 while external debt service will peak in 2027 to 48.6 percent of projected exports of goods and services. Peak Fund obligations relative to gross international reserves would reach 25.8 percent in 2025 and decline steadily to 3.9 percent in 2033.

**49. Financing Assurances.** The program is fully financed, with firm financing commitments in place for the first 12 months of the arrangement, and with good prospects of adequate financing for the remaining program period. Multilateral creditors (WB, IDB, Development Bank of Latin America and the Caribbean (CAF), and FLAR) have committed to maintain or increase their support for Ecuador. Financing commitments for the first 12 months have been obtained from most official bilateral creditors and included in program financing. The authorities are actively discussing options with the main bilateral creditor to maintain exposure to Ecuador. Obtaining this financing is very important to strengthen fiscal and external buffers. The assumed financing for the remainder of the program is based on good prospects of obtaining such support from all official creditors. Financing is partly predicated on assumptions of rollover of commercial borrowing and market access of about US\$1.5 billion in 2025 and US\$2 billion per year from 2026 onwards, which are below Ecuador's average access prior to the pandemic. In the event of financing plan shortfalls, alternative sources or a contingent response would be required (see ¶128).

**50. Safeguards.** The BCE made significant progress since the 2019 safeguards assessment, including implementing all the recommendations except for full alignment with International Financial Reporting Standards. An update safeguards assessment will be required to be completed no later than the first review of the EFF-supported program. In addition, given that the new EFF arrangement envisages exceptional access and budget support, an update of the fiscal safeguards review will also be required within the same timeframe.

**51. Lending into Arrears.** Ecuador maintains a residual amount of arrears to international private bond holders arising from outstanding claims on those international bonds that the authorities repudiated in 2008-09. At that time, the majority of government obligations were repurchased by the government. However, US\$52 million remain outstanding in the hands of individual creditors, and the authorities have been unable to identify these creditors to settle the claims. The authorities established a public procedure to follow in the event that a holder of these bonds requests the liquidation of the securities, which continues to operate to solve outstanding claims. Staff judges that the authorities continue to make good faith efforts to reach a collaborative agreement with the remaining creditors and will continue to monitor evolving relations with these creditors. Staff also judges that adequate safeguards remain in place for the use of Fund resources, and Ecuador's adjustment efforts are not undermined by developments in creditor-debtor relations. Financing assurances reviews will continue to be conducted at each review of the EFF arrangement until the external arrears to private bondholders are cleared.

**52. Article VIII/Capital Flow Management Measures (CFMs).** In April 2024, the ISD rate was increased from 3.5 to 5 percent to address the sharp deterioration of the FX reserve position, driven by net capital outflows in Ecuador’s financial account resulting from weak public finances and investor sentiment.<sup>5</sup> The tax constitutes both an outflow CFM under the Fund’s Institutional View on the Liberalization and Management of Capital Flows and an exchange restriction subject to Fund approval under Article VIII Section 2(a). The authorities are committed to gradually phasing out the ISD, as macroeconomic and balance of payments stability are restored and the FX reserve position is strengthened, supported by implementation of the policies under the EFF-supported program. The authorities are requesting Board approval for the retention of the exchange restriction arising from the ISD, on the basis that it is maintained for BOP reasons, temporary, and non-discriminatory.

**53. Enterprise Risks.** The Fund faces significant business, operational, financial, and reputational risks related to the EFF arrangement. Business and operational risks to the program arise from an uncertain economic outlook, weaknesses in institutional capacity, and a fragmented political landscape and forthcoming elections. These risks could lead to larger-than-envisaged financing gaps. Financial risks could arise if difficulties in program implementation delay international financial support and market re-access. These scenarios could also carry reputational risks for the Fund. There are also important risk mitigants, including the authorities’ strong commitment to implementation of the program; the upfront policy actions already taken; the authorities’ commitment to honoring external debt obligations; the program’s protection of social spending; and the prior actions on public financial management and contingency planning. Nevertheless, risks remain elevated. These should be weighed against the reputational risk of the Fund not supporting a member facing severe challenges and that has already taken substantive actions to address them.

### Box 1. Assessment of Exceptional Access Criteria

*Staff judges that all four exceptional access criteria are met.*

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

Ecuador is facing a balance of payments (BoP) need stemming from sharply slower growth, lower oil revenues, and pressures on the financial account arising from large external debt obligations and loss of market access. Although the fiscal measures recently approved by the authorities are expected to help address fiscal and financing pressures, the country still faces an estimated financing gap of US\$4 billion in 2024–28, even after accounting for an ambitious fiscal consolidation plan and support from international financial institutions and official bilateral creditors, resulting in exceptional BoP pressures. Ecuador’s IMF credit outstanding stands at SDR 5.8 billion (approximately US\$8 billion, equivalent to 835 percent of quota), so that additional Fund support would require exceptional access.

**Criterion 2**—*A rigorous and systematic analysis indicates that there is a high probability that the member’s public debt is sustainable in the medium term. Where the member’s debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other*

<sup>5</sup> The ISD was originally introduced in 2007 and the authorities had been taking gradual steps to reduce its rate in 2022 and 2023, before reversing course amid the ongoing balance of payments difficulties.



**Box 1. Assessment of Exceptional Access (EA) Criteria (concluded)**

*than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*

Staff assesses this criterion as met. Under the staff's proposed baseline, public debt is assessed to be sustainable but not with high probability (Annex II). Consistent with the EA framework, staff assesses that adequate safeguards are in place to meet EA Criterion 2 (EA2) should adverse shocks materialize. This assessment is finely balanced and hinges on the steadfast implementation of the proposed fiscal consolidation path and reforms envisaged under the program. As such, margins for maneuver are limited.

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

Although external sovereign bonds continue to trade at distressed levels, sovereign debt spreads have declined steadily by over 900 basis points year-to-date on account of the policy measures undertaken by the authorities. The government has remained current on external debt obligations despite tight liquidity conditions. Strong commitment to remain current on debt obligations, adhere to COPLAFIP's debt ceilings, and undertake ambitious fiscal consolidation and reforms is expected to help re-accessing international markets. In addition, the expected decline in global interest rates should also facilitate market access. Ecuador had regularly accessed international capital markets until 2019, providing reasonable prospects for the issuance of international bonds in a context of gradual macroeconomic improvement and robust policy reform implementation under the EFF arrangement.

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

The authorities are strongly committed to the objectives of the program and have demonstrated capacity to undertake measures to ensure its success. Between December 2023 and April 2024, the National Assembly approved 5 urgent economic laws, including several fiscal measures, which shows broad-based legislative support for macroeconomic stabilization. The authorities enacted an increase in the VAT rate to 15 percent as well as other measures to address the fiscal and liquidity challenges facing the country. The authorities are committed to implementing measures to meet the program's targets. While the authorities' strong ownership supports prospects for program success, the assessment remains subject to considerable risks stemming from a fragmented National Assembly and forthcoming general elections in early 2025. However, based on staff's discussions with political actors, there is broad support from several political parties for engagement with the Fund and other international financial institutions and for the overall objectives of the envisaged EFF-supported program, including the need to strengthen fiscal sustainability (though with different emphasis on specific measures), rebuild buffers and preserve dollarization, protect the most vulnerable, and boost inclusive growth.

## STAFF APPRAISAL

**54. The Ecuadorian authorities took swift and bold actions to tackle the severe fiscal and liquidity crisis.** The policy response was successful in containing the fiscal deficit and improving the government's liquidity position in the near term. It combined a VAT rate hike with transitory tax measures, bringing Ecuador's tax collection more in line with regional peers. In turn, the 2024 fiscal plan included efforts to contain public expenditure, while addressing priority security, social, and

investment needs. The policy package also contained some limited fiscal incentives to promote investment and youth employment.

**55. The authorities are committed to implementing further ambitious fiscal efforts to ensure fiscal sustainability and put debt on a firm downward path.** The fiscal consolidation should combine balanced efforts on revenues and expenditures. On the revenue side, the reform efforts aim at replacing short-term transitory measures with permanent high-quality ones, such as rationalizing inefficient tax expenditures, to anchor public finances on reliable sources of income and reduce oil dependence. On the expenditure side, the consolidation efforts focus on gradually streamlining the wage bill, improving the efficiency of public procurement, while protecting fiscal space for essential spending on the social safety net and public investment. The authorities also intend to improve the targeting of fuel subsidies. The fiscal plan should continue to be anchored on reducing debt in line with COPLAFIP's debt limits and on rebuilding fiscal buffers to adequate levels, with the objective of restoring market confidence and reestablishing access to international capital markets. Policy actions to reform domestic debt issuance and develop the domestic debt market will be crucial to boost domestic financing for both the private and public sectors.

**56. The coverage of the social assistance programs should continue to be expanded to protect the vulnerable and ensure burden sharing of fiscal adjustment.** The social safety net should build on the progress made in recent years with the social registry to map vulnerable households. Going forward, the objective should be to expand the social safety net with the overarching objective of gradually covering the most vulnerable families, prioritizing those in the lowest deciles of the income distribution.

**57. Efforts should continue to improve transparency, PFM, governance, and the AML/CFT framework.** Making swift progress with the healthcare audits and preparing a new actionable agreement between the MEF and IESS to settle healthcare and pension obligations would improve the transparency of social security spending and fiscal execution. Mapping and clearing arrears would help rebuild liquidity and protect the chain of payments, and ultimately support growth. Relatedly, improving cash management practices by the treasury would help the government preventing cash shortfalls and the accumulation of obligations. Finalizing the pending audits of the state-owned oil companies would improve the transparency and accountability of an important sector of the economy. Finally, strengthening the effectiveness of the AML/CFT framework would help tackle illicit financial flows, particularly the financing and profitability of organized crime.

**58. Safeguarding financial stability will hinge on strengthening the prudential and oversight frameworks.** To this end, implementing the recommendations of the 2023 FSSA would tackle coordination issues among agencies involved in financial sector oversight, including for crisis preparedness, boosting capital and liquidity requirements, and promoting financial deepening by gradually phasing out financial repression measures. Taking steps to improve market infrastructure would help develop the domestic debt market.

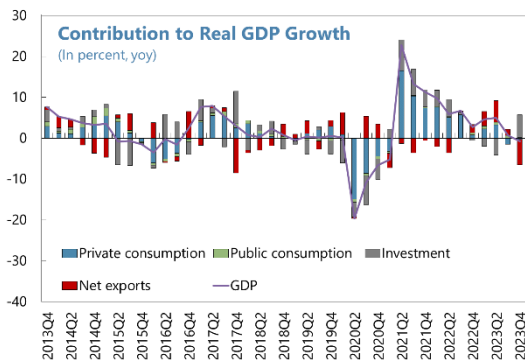
**59. Staff supports the authorities' request for a 48-month EFF arrangement with exceptional access.** The economic plan supported by the EFF arrangement is designed to phase the

needed fiscal adjustment, carefully balancing the goals of reducing public debt and rebuilding buffers while preserving space for protecting the most vulnerable and urgent priority spending. The swift fiscal actions, including the increase in the VAT rate by 3 percentage points, taken before program approval demonstrate the authorities' commitment to implement needed reforms and address the challenges facing the Ecuadorian economy.

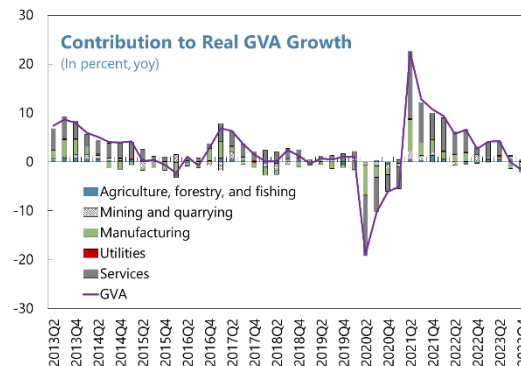
**60. Staff supports the authorities' request for Board approval for the retention of the exchange restriction arising from the ISD.** The exchange restriction is maintained for BoP reasons, temporary, and non-discriminatory.

**Figure 1. Ecuador: Recent Economic Developments**

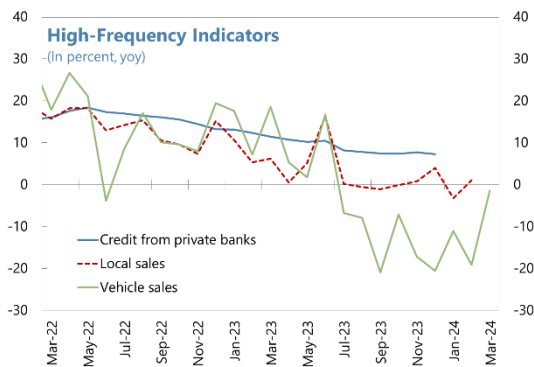
*Economic growth decelerated in 2023 ...*



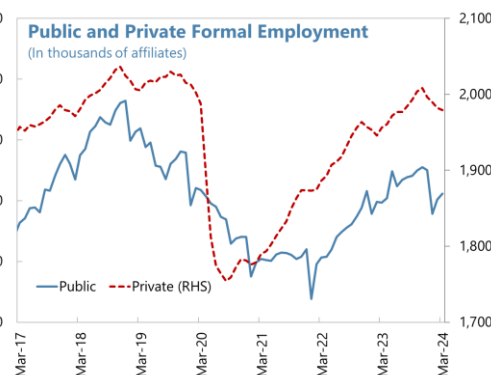
*... with most sectors slowing.*



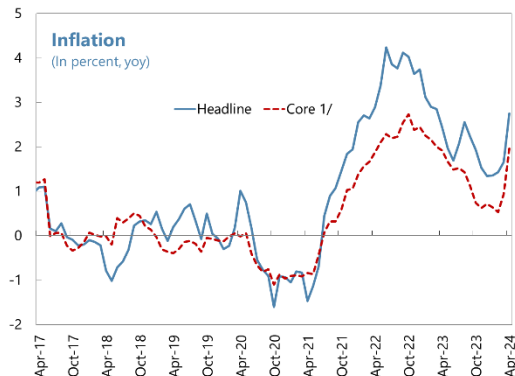
*High-frequency indicators point to continued weakness.*



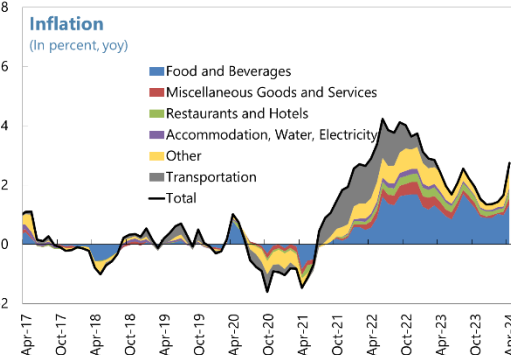
*Employment has gradually recovered since the pandemic.*



*Inflation has declined since its peak in mid-2022 ...*



*... amid lower contributions from transportation.*

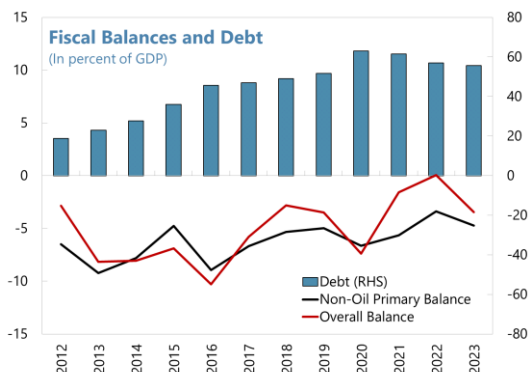


Sources: Ecuador's Internal Revenue Service, Central Bank of Ecuador, and IMF staff calculations.

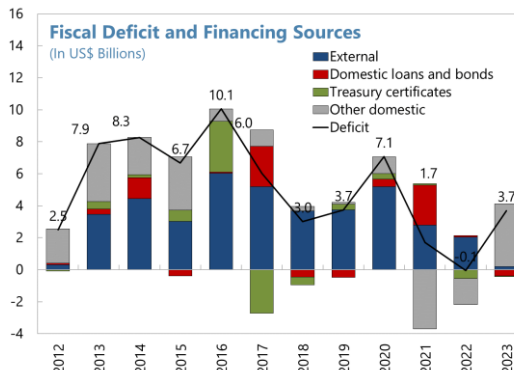
1/ Core inflation excludes food (except coffee, tea, and cocoa; and mineral waters, soft drinks, and fruit/vegetable juices); gas; and fuel and lubricants. Local sales are based on administrative tax data.

**Figure 2. Ecuador: Fiscal Developments 1/**

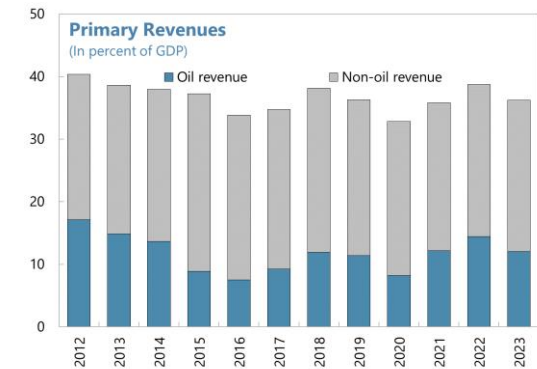
After improving in 2020-22, the fiscal balance weakened in 2023.



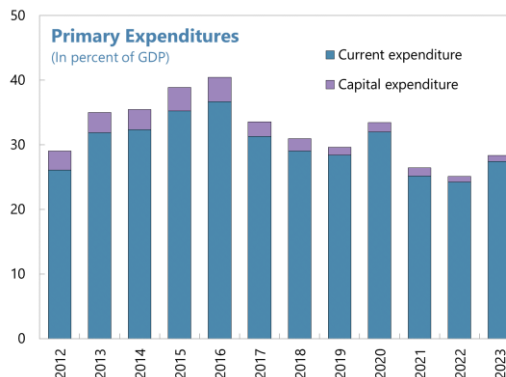
The deficit in 2023 was financed mainly through a drawdown in deposits and domestic arrears.



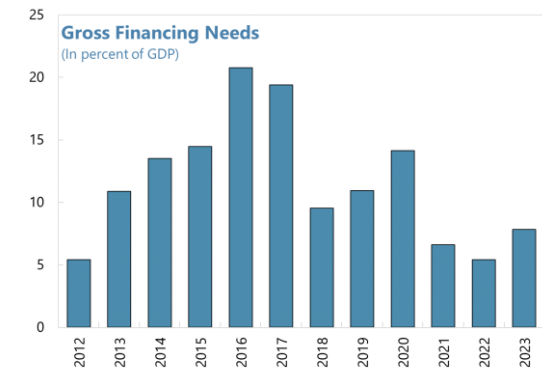
Fiscal revenues contracted in 2023 due to lower oil production and prices, and a slowing economy



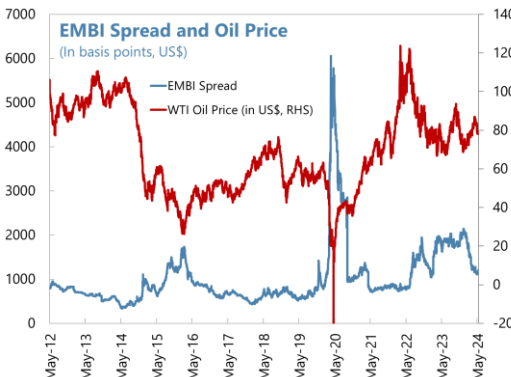
... while non-interest expenditure increased.



Gross financing needs increased due to the wider fiscal deficit.



Sovereign debt spreads narrowed in 2024 following the announcement of measures to reduce the fiscal deficit.

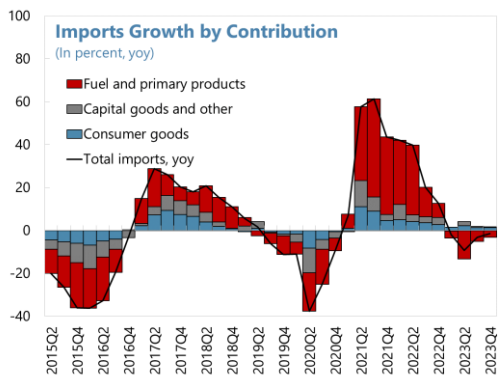


Sources: Central Bank of Ecuador, Ministry of Economy and Finance, Haver, Bloomberg, and IMF staff calculations.

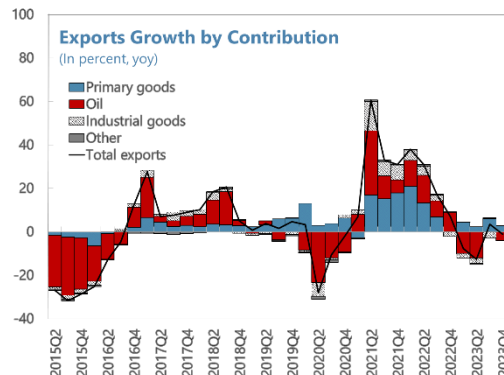
1/ The data for Ecuador reflect net lending/borrowing for the Non-Financial Public Sector (NFPS).

**Figure 3. Ecuador: External Sector Developments**

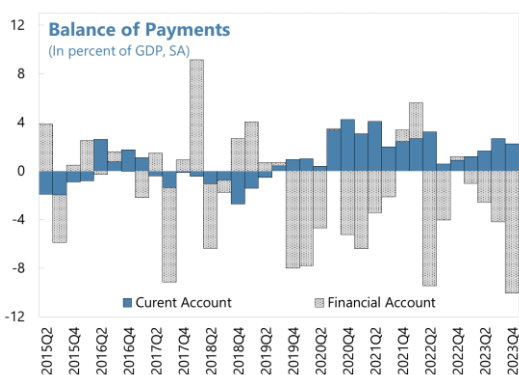
While imports moderated in 2023, ...



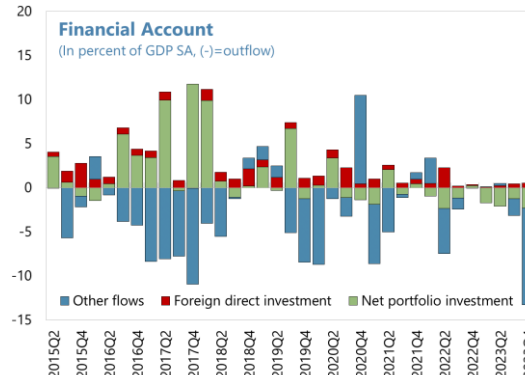
... oil exports declined, ...



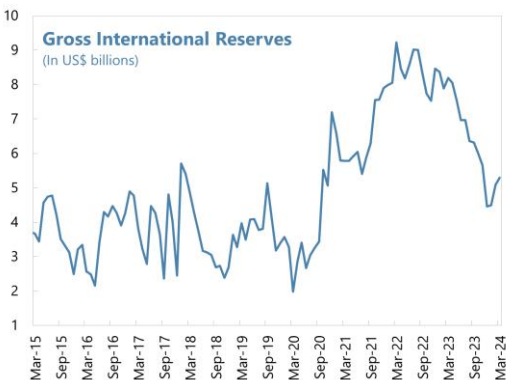
... reducing the current account surplus, ...



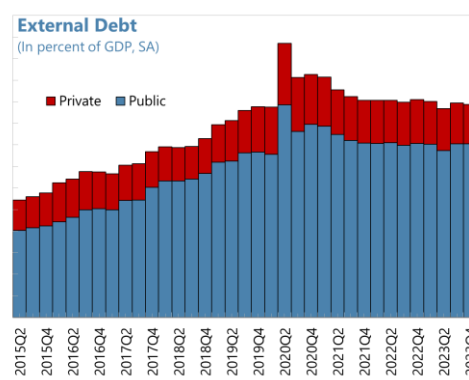
... which together with a deficit in the financial account balance ...



... led to a decline in gross international reserves.



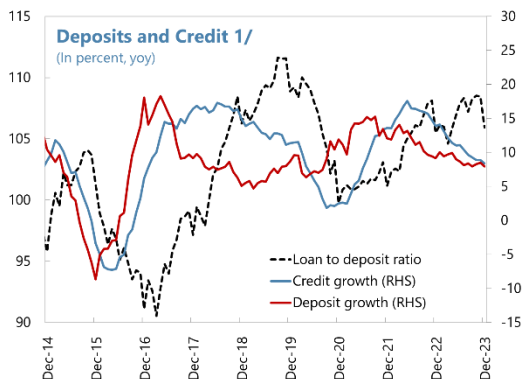
Public and private external debt remained broadly stable.



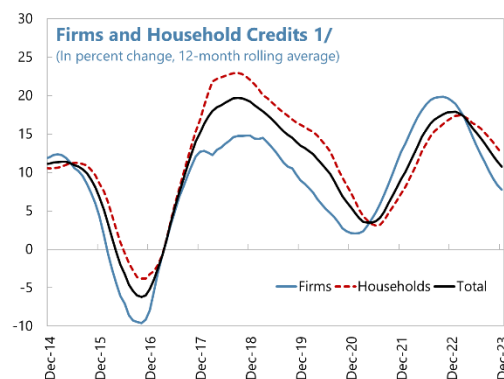
Sources: Central Bank of Ecuador, STA BOP database, and IMF staff calculations.

**Figure 4. Ecuador: Financial System Developments**

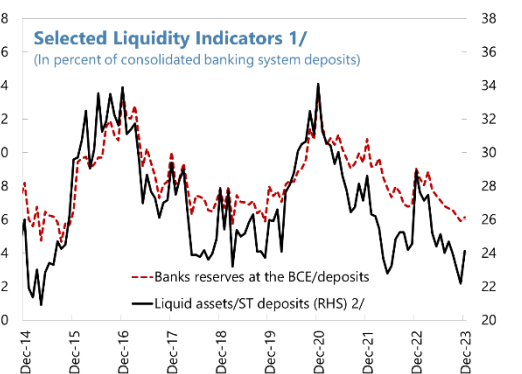
*Deposit and credit growth decelerated in 2023 ...*



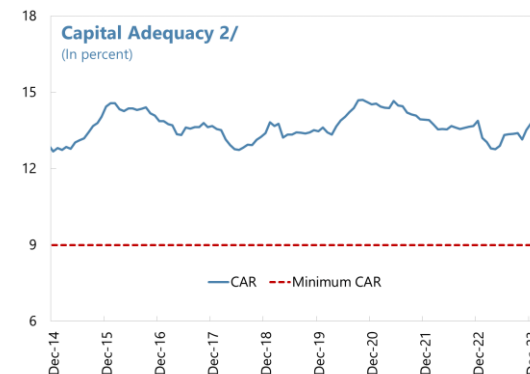
*... with a significant slowdown in credit to businesses.*



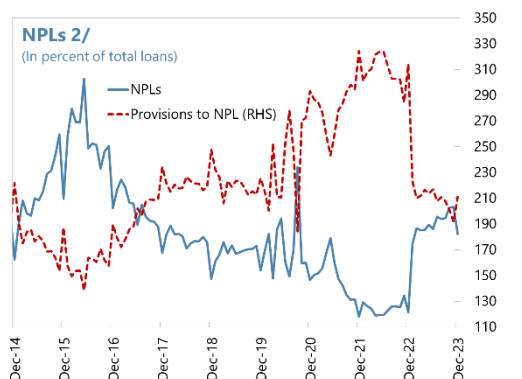
*Banks' liquidity declined.*



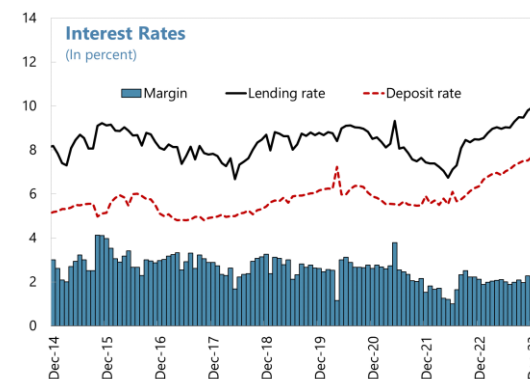
*Banks' capital ratios are above the regulatory norm.*



*NPLs returned to historical average levels following the lifting of COVID-19 credit relief measures.*



*Interest rates increased, with margins (lending minus deposit rates) remaining broadly stable.*



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. Credit and deposit data correspond to the whole financial system.

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

Table 1. Ecuador: Selected Economic and Financial Indicators, 2021-29

	2021	2022	2023	Projections					
				2024	2025	2026	2027	2028	2029
	(Percent change, unless otherwise indicated)								
<b>National income and prices</b>									
Real GDP	9.8	6.2	2.4	0.1	1.2	1.8	2.4	2.5	2.5
Domestic demand (contribution to growth)	12.1	7.0	1.4	-0.8	-0.1	1.3	1.9	2.3	2.4
Consumption (contribution to growth)	7.2	5.0	1.4	-0.9	-0.1	0.0	1.1	1.2	1.4
Investment (contribution to growth)	4.9	2.0	0.0	0.1	0.0	1.3	0.8	1.1	1.0
External demand (contribution to growth)	-2.3	-0.8	1.0	0.9	1.3	0.5	0.4	0.2	0.1
Imports (contribution to growth, -)	4.5	2.7	-0.3	-0.4	-0.4	0.3	1.0	0.7	0.7
Exports (contribution to growth)	2.2	2.0	0.7	0.5	0.9	0.8	1.4	0.9	0.8
Consumer price index (period average)	0.1	3.5	2.2	2.4	2.2	1.6	1.5	1.5	1.5
Consumer price index (end-of-period)	1.9	3.7	1.3	3.4	1.7	1.5	1.5	1.5	1.5
<b>Monetary sector</b>									
Credit to the private sector	13.6	13.9	8.4	4.0	3.3	3.3	3.8	4.0	4.0
Broad money (M2) 1/	9.8	7.5	6.7	2.5	3.4	3.4	3.9	4.1	4.1
<b>External sector</b>									
Exports	31.1	22.5	-4.7	1.7	-1.5	1.3	3.9	3.1	2.6
Oil	64.6	34.6	-22.7	-2.8	-7.7	-6.7	-2.3	-1.6	-0.3
Non-oil	19.7	16.8	5.1	3.5	0.9	4.0	5.8	4.4	3.4
Imports	40.3	27.2	-4.0	-0.9	-1.1	0.2	3.3	2.4	1.4
Terms of trade	13.6	6.5	-5.6	-0.2	-2.3	-1.2	0.7	-0.4	0.3
Real effective exchange rate (2010=100)	114.3	117.7	116.1	..	..	..	..	..	..
Real effective exchange rate, end-of-period (depreciation,-)	-4.9	3.0	-1.4	..	..	..	..	..	..
	(Percent of GDP)								
<b>Current account balance</b>	2.9	1.8	1.9	2.1	2.2	2.3	2.4	2.5	2.5
<b>NFPS public finances</b>									
Revenue	35.8	38.7	36.7	38.5	37.6	37.7	37.2	36.9	36.5
Expenditure	37.4	38.7	40.2	40.5	38.8	38.0	37.3	36.3	35.7
Net lending (+) / Net borrowing (-)	-1.6	0.0	-3.6	-2.0	-1.2	-0.2	-0.1	0.6	0.8
Primary balance	-1.4	0.5	-2.7	-0.9	0.1	1.2	1.3	2.0	2.2
Non-oil primary balance	-5.6	-3.4	-4.9	-3.1	-3.1	-2.6	-2.1	-1.5	-1.2
Public debt 2/	61.6	57.0	55.3	56.3	56.4	55.5	54.2	52.2	49.7
Domestic	17.4	14.9	14.8	14.4	13.9	13.5	13.2	12.9	12.6
External	44.2	42.1	40.5	41.9	42.5	42.0	41.0	39.3	37.1
	(Percent of GDP)								
<b>Saving-investment balance</b>									
Consumption	78.2	77.8	78.3	77.3	76.9	76.5	76.0	75.6	75.4
Private	63.8	64.4	64.3	63.6	63.6	63.6	63.6	63.6	63.6
Public	14.3	13.4	13.9	13.8	13.4	12.9	12.5	12.1	11.8
National saving	23.9	24.1	23.4	23.4	24.2	24.5	24.9	25.3	25.4
Private	23.3	22.1	25.2	23.3	23.5	22.8	23.1	22.8	22.7
Public	0.5	2.0	-1.8	0.1	0.7	1.7	1.8	2.5	2.7
Gross investment	21.0	22.3	21.4	21.3	22.0	22.2	22.5	22.8	22.9
Private 3/	14.7	16.4	16.4	15.2	16.4	16.5	16.8	17.1	17.3
Public	6.3	5.9	5.1	6.1	5.5	5.7	5.7	5.7	5.6
<b>Memorandum items:</b>									
Nominal GDP (US\$ millions)	107,435	116,586	118,845	121,789	125,968	130,212	135,317	140,849	146,591
GDP per capita (US\$)	6,129	6,613	6,694	6,806	6,982	7,137	7,360	7,602	7,851
Gross international reserves (US\$ millions) 4/	7,898	8,459	4,454	5,212	6,724	8,768	10,991	13,264	15,588
As a percent of the ARA metric 5/	34.4	34.3	18.2	20.7	26.2	33.1	40.3	47.6	55.6
Oil price Ecuador mix (US\$ per barrel)	62.0	85.8	68.0	67.5	63.7	61.3	59.3	58.3	58.0
Oil production (millions of barrels)	172.6	175.6	173.5	175.2	175.4	175.6	175.9	176.1	176.3
Exports of oil (millions of barrels) 6/	133.7	130.9	125.7	126.6	123.6	120.0	121.4	121.6	121.8

Sources: Ministry of Economy and Finance; Central Bank of Ecuador; Haver; and Fund staff calculations and projections.

1/ Broad money comprises monetary species in circulation, demand deposits, and quasi-money.

2/ Gross debt consolidated at the level of the NFPS.

3/ Includes inventories.

4/ Gross international reserves excludes non-liquid and encumbered assets.

5/ Does not include the Liquidity Fund. If the Liquidity Fund was included, the ARA metric would be 32.3 percent at end-2023.

6/ Includes crude and derivatives. For derivatives, only exports of public companies are included.



Table 2a. Ecuador: Statement of Nonfinancial Public Sector Operations, 2021-29

	2021	2022	2023	Projections					
				2024	2025	2026	2027	2028	2029
				(US\$ million)					
<b>Revenue (1)</b>	<b>38,443</b>	<b>45,172</b>	<b>43,574</b>	<b>46,859</b>	<b>47,352</b>	<b>49,130</b>	<b>50,298</b>	<b>52,024</b>	<b>53,440</b>
Oil revenue	13,106	16,854	14,507	14,505	14,890	15,291	15,105	15,319	15,328
Nonoil revenue	25,337	28,318	29,067	32,354	32,462	33,839	35,193	36,704	38,112
Taxes	14,210	15,781	15,049	17,617	17,913	18,831	19,658	20,576	21,378
Income tax	3,815	4,440	4,635	5,876	5,141	5,373	5,626	5,907	6,174
Property tax	733	1,212	872	961	836	634	670	710	739
Goods and services	7,094	7,582	7,391	8,288	8,848	9,380	9,811	10,288	10,708
o/w Value added tax	5,986	6,440	6,269	7,100	7,660	8,149	8,534	8,960	9,325
o/w Excise tax	821	852	813	866	855	885	918	954	993
International trade and transactions	2,240	2,303	1,885	2,242	2,575	2,916	3,000	3,094	3,157
Import tax	1,207	1,267	1,180	1,284	1,245	1,266	1,288	1,315	1,342
Transfers abroad tax	1,033	1,036	705	958	1,330	1,651	1,711	1,779	1,815
Other tax	328	245	266	250	514	528	551	576	600
Social security contributions	5,305	5,773	6,051	6,237	6,376	6,582	6,808	7,059	7,347
Other revenue	5,822	6,763	7,967	8,501	8,173	8,425	8,727	9,070	9,388
Interest	1,195	1,288	1,559	1,678	1,728	1,786	1,885	1,894	1,923
Other	4,627	5,475	6,408	6,823	6,445	6,639	6,842	7,176	7,465
<b>Expenditure (2)</b>	<b>40,145</b>	<b>45,120</b>	<b>47,796</b>	<b>49,302</b>	<b>48,826</b>	<b>49,444</b>	<b>50,416</b>	<b>51,191</b>	<b>52,257</b>
Expense	37,869	42,805	45,750	46,790	46,458	46,938	47,816	48,488	49,464
Compensation of employees	12,067	12,273	12,925	13,148	13,317	13,437	13,534	13,601	13,807
Use of goods and services	12,277	16,729	16,880	16,910	15,782	15,241	15,298	15,122	15,288
Oil 1/	8,561	12,348	11,845	11,860	10,824	10,417	10,500	10,276	10,301
Nonoil	3,717	4,381	5,036	5,050	4,958	4,825	4,797	4,846	4,987
Interest	1,375	1,788	2,609	3,000	3,347	3,631	3,773	3,946	3,965
Nonresidents	963	1,319	2,126	2,597	2,876	3,133	3,288	3,420	3,485
Residents	413	469	483	403	471	498	485	527	479
Social benefits	8,907	9,298	10,219	10,506	10,756	11,122	11,514	11,947	12,376
Social security benefits	5,888	6,162	7,164	7,368	7,531	7,792	8,076	8,396	8,739
Social assistance benefits	1,342	1,262	1,295	1,334	1,386	1,438	1,490	1,542	1,604
Employment-related social benefits	1,677	1,874	1,760	1,803	1,840	1,892	1,948	2,009	2,033
Other expense	3,242	2,717	3,117	3,227	3,256	3,507	3,697	3,871	4,028
Transfers not elsewhere classified	2,343	1,852	2,205	2,251	2,113	2,343	2,472	2,615	2,722
Current	1,029	877	1,041	1,054	900	1,009	1,010	1,008	1,049
Capital	1,314	976	1,165	1,198	1,214	1,334	1,462	1,608	1,673
Other	899	865	912	976	1,143	1,164	1,225	1,256	1,306
<b>Net/gross investment in nonfinancial assets</b>	<b>2,276</b>	<b>2,315</b>	<b>2,046</b>	<b>2,511</b>	<b>2,368</b>	<b>2,506</b>	<b>2,600</b>	<b>2,703</b>	<b>2,792</b>
<b>Net lending (+) / Net borrowing (-) (NLB = 1-2)</b>	<b>-1,701</b>	<b>52</b>	<b>-4,223</b>	<b>-2,442</b>	<b>-1,473</b>	<b>-314</b>	<b>-118</b>	<b>832</b>	<b>1,183</b>
<b>Net acquisition of financial assets (3)</b>	<b>4,444</b>	<b>2,795</b>	<b>-538</b>	<b>360</b>	<b>954</b>	<b>939</b>	<b>927</b>	<b>1,031</b>	<b>538</b>
<b>Net incurrence of liabilities (4)</b>	<b>5,847</b>	<b>2,790</b>	<b>4,394</b>	<b>2,802</b>	<b>2,427</b>	<b>1,253</b>	<b>1,045</b>	<b>198</b>	<b>-645</b>
Domestic	3,058	752	4,423	-79	-58	39	337	335	333
External	2,789	2,038	-30	2,880	2,486	1,214	708	-137	-978
Overall statistical discrepancy (-NLB+3-4)	298	-47	-709	0	0	0	0	0	0
<b>Memorandum items:</b>									
Primary balance	-1,522	551	-3,173	-1,121	145	1,531	1,771	2,885	3,228
Nonoil primary revenue	24,142	27,029	27,509	30,676	30,734	32,053	33,308	34,810	36,190
Nonoil primary expenditure	30,209	30,984	33,343	34,441	34,655	35,397	36,142	36,969	37,991
Nonoil primary balance (NOPB)	-6,067	-3,954	-5,835	-3,765	-3,921	-3,343	-2,834	-2,158	-1,801
NOPB including fuel subsidies (NOPBS)	-7,906	-8,501	-9,024	-6,528	-5,956	-4,390	-3,815	-2,970	-2,646
Oil balance	4,545	4,506	2,662	2,645	4,066	4,874	4,605	5,043	5,026
Central government (PGE+CFDD) NLB	-4,402	-2,067	-6,454	-4,213	-3,566	-2,530	-2,343	-1,450	-879
NFPS gross debt	66,190	66,431	65,778	68,580	71,007	72,261	73,306	73,505	72,859
Domestic	18,747	17,404	17,635	17,556	17,498	17,537	17,875	18,210	18,543
External	47,443	49,028	48,143	51,024	53,509	54,723	55,431	55,295	54,316
Nominal GDP	107,435	116,586	118,845	121,789	125,968	130,212	135,317	140,849	146,591

Sources: Ministry of Economy and Finance; and IMF staff estimates and projections.

1/ Includes cost of importing oil derivatives (CFDD), of oil contracts (SHE), of goods and services used in oil production, and of oil services (PEC and PAM).

Table 2b. Ecuador: Statement of Nonfinancial Public Sector Operations, 2021-29

	2021	2022	2023	Projections					
				2024	2025	2026	2027	2028	2029
	(In percent of GDP)								
<b>Revenue (1)</b>	<b>35.8</b>	<b>38.7</b>	<b>36.7</b>	<b>38.5</b>	<b>37.6</b>	<b>37.7</b>	<b>37.2</b>	<b>36.9</b>	<b>36.5</b>
<b>Oil revenue</b>	<b>12.2</b>	<b>14.5</b>	<b>12.2</b>	<b>11.9</b>	<b>11.8</b>	<b>11.7</b>	<b>11.2</b>	<b>10.9</b>	<b>10.5</b>
<b>Nonoil revenue</b>	<b>23.6</b>	<b>24.3</b>	<b>24.5</b>	<b>26.6</b>	<b>25.8</b>	<b>26.0</b>	<b>26.0</b>	<b>26.1</b>	<b>26.0</b>
Taxes	13.2	13.5	12.7	14.5	14.2	14.5	14.5	14.6	14.6
Income tax	3.6	3.8	3.9	4.8	4.1	4.1	4.2	4.2	4.2
Property tax	0.7	1.0	0.7	0.8	0.7	0.5	0.5	0.5	0.5
Goods and services	6.6	6.5	6.2	6.8	7.0	7.2	7.3	7.3	7.3
o/w Value added tax	5.6	5.5	5.3	5.8	6.1	6.3	6.3	6.4	6.4
o/w Excise tax	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
International trade and transactions	2.1	2.0	1.6	1.8	2.0	2.2	2.2	2.2	2.2
Import tax	1.1	1.1	1.0	1.1	1.0	1.0	1.0	0.9	0.9
Transfers abroad tax	1.0	0.9	0.6	0.8	1.1	1.3	1.3	1.3	1.2
Other tax	0.3	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4
Social contributions	4.9	5.0	5.1	5.1	5.1	5.1	5.0	5.0	5.0
Other revenue	5.4	5.8	6.7	7.0	6.5	6.5	6.4	6.4	6.4
Interest	1.1	1.1	1.3	1.4	1.4	1.4	1.4	1.3	1.3
Other	4.3	4.7	5.4	5.6	5.1	5.1	5.1	5.1	5.1
<b>Expenditure (2)</b>	<b>37.4</b>	<b>38.7</b>	<b>40.2</b>	<b>40.5</b>	<b>38.8</b>	<b>38.0</b>	<b>37.3</b>	<b>36.3</b>	<b>35.6</b>
<b>Expense</b>	<b>35.2</b>	<b>36.7</b>	<b>38.5</b>	<b>38.4</b>	<b>36.9</b>	<b>36.0</b>	<b>35.3</b>	<b>34.4</b>	<b>33.7</b>
Compensation of employees	11.2	10.5	10.9	10.8	10.6	10.3	10.0	9.7	9.4
Use of goods and services	11.4	14.3	14.2	13.9	12.5	11.7	11.3	10.7	10.4
Oil 1/	8.0	10.6	10.0	9.7	8.6	8.0	7.8	7.3	7.0
Nonoil	3.5	3.8	4.2	4.1	3.9	3.7	3.5	3.4	3.4
Interest	1.3	1.5	2.2	2.5	2.7	2.8	2.8	2.8	2.7
Nonresidents	0.9	1.1	1.8	2.1	2.3	2.4	2.4	2.4	2.4
Residents	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.3
Social benefits	8.3	8.0	8.6	8.6	8.5	8.5	8.5	8.5	8.4
Social security benefits	5.5	5.3	6.0	6.1	6.0	6.0	6.0	6.0	6.0
Social assistance benefits	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Employer social benefits	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.4
Other expense	3.0	2.3	2.6	2.6	2.6	2.7	2.7	2.7	2.7
Transfers not elsewhere classified	2.2	1.6	1.9	1.8	1.7	1.8	1.8	1.9	1.9
Current	1.0	0.8	0.9	0.9	0.7	0.8	0.7	0.7	0.7
Capital	1.2	0.8	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Other	0.8	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9
<b>Net/gross investment in nonfinancial assets</b>	<b>2.1</b>	<b>2.0</b>	<b>1.7</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>
<b>Net lending (+) / Net borrowing (-) (NLB = 1-2)</b>	<b>-1.6</b>	<b>0.0</b>	<b>-3.6</b>	<b>-2.0</b>	<b>-1.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.6</b>	<b>0.8</b>
<b>Net acquisition of financial assets (3)</b>	<b>4.1</b>	<b>2.4</b>	<b>-0.5</b>	<b>0.3</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.4</b>
<b>Net incurrence of liabilities (4)</b>	<b>5.4</b>	<b>2.4</b>	<b>3.7</b>	<b>2.3</b>	<b>1.9</b>	<b>1.0</b>	<b>0.8</b>	<b>0.1</b>	<b>-0.4</b>
Domestic	2.8	0.6	3.7	-0.1	0.0	0.0	0.2	0.2	0.2
External	2.6	1.7	0.0	2.4	2.0	0.9	0.5	-0.1	-0.7
Overall statistical discrepancy (-NLB+3-4)	0.3	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>									
Primary balance	-1.4	0.5	-2.7	-0.9	0.1	1.2	1.3	2.0	2.2
Nonoil primary revenue	22.5	23.2	23.1	25.2	24.4	24.6	24.6	24.7	24.7
Nonoil primary expenditure	28.1	26.6	28.1	28.3	27.5	27.2	26.7	26.2	25.9
Nonoil primary balance (NOPB)	-5.6	-3.4	-4.9	-3.1	-3.1	-2.6	-2.1	-1.5	-1.2
NOPB including fuel subsidies (NOPBS)	-7.4	-7.3	-7.6	-5.4	-4.7	-3.4	-2.8	-2.1	-1.8
Oil balance	4.2	3.9	2.2	2.2	3.2	3.7	3.4	3.6	3.4
Central government (PGE+CFDD) NLB	-4.1	-1.8	-5.4	-3.5	-2.8	-1.9	-1.7	-1.0	-0.6
NFPS gross debt	61.6	57.0	55.3	56.3	56.4	55.5	54.2	52.2	49.7
Domestic	17.4	14.9	14.8	14.4	13.9	13.5	13.2	12.9	12.6
External	44.2	42.1	40.5	41.9	42.5	42.0	41.0	39.3	37.1

Sources: Ministry of Economy and Finance; and IMF staff estimates and projections.

1/ Includes cost of importing oil derivatives (CFDD), of oil contracts (SHE), of goods and services used in oil production, and of oil services (PEC and PAM).

Table 3. Ecuador: Nonfinancial Public Sector Financing, 2021-29

	2021	2022	2023	Projections					
				2024	2025	2026	2027	2028	2029
				(US\$ million)					
<b>Gross financing needs</b>	<b>7,053</b>	<b>6,321</b>	<b>9,815</b>	<b>8,035</b>	<b>7,849</b>	<b>7,704</b>	<b>7,640</b>	<b>6,796</b>	<b>6,797</b>
<b>NFPS deficit (= -NLB)</b>	<b>1,701</b>	<b>-52</b>	<b>4,223</b>	<b>2,442</b>	<b>1,473</b>	<b>314</b>	<b>118</b>	<b>-832</b>	<b>-1,183</b>
<b>Amortization</b>	<b>5,352</b>	<b>6,373</b>	<b>5,592</b>	<b>5,593</b>	<b>6,375</b>	<b>7,390</b>	<b>7,522</b>	<b>7,628</b>	<b>7,980</b>
Domestic	3,505	3,997	2,936	3,269	3,221	3,404	3,080	3,341	3,621
Loans	0	168	0	79	158	161	163	165	167
Securities	3,175	2,947	2,936	2,990	2,662	2,943	2,917	3,176	3,455
Treasury certificates	2,320	2,418	1,873	2,166	2,166	2,166	2,166	2,166	2,166
Bonds	855	529	1,063	824	496	777	751	1,010	1,288
Other accounts payable clearance 1/	330	883	0	200	400	300	0	0	0
External	1,847	2,376	2,656	2,325	3,154	3,986	4,442	4,287	4,358
Loans	1,525	2,227	1,867	2,181	2,981	3,005	3,537	3,380	3,448
Multilateral	780	1,110	1,003	1,314	2,140	2,216	2,769	2,755	2,901
Bilateral	482	922	709	718	704	678	664	587	508
Banks	263	194	154	149	137	111	104	39	40
Securities (Eurobonds)	200	54	708	44	74	905	905	906	910
Other accounts payable clearance 2/	121	95	81	100	100	76	0	0	0
<b>Gross financing sources</b>	<b>7,053</b>	<b>6,321</b>	<b>9,815</b>	<b>8,035</b>	<b>7,849</b>	<b>7,704</b>	<b>7,640</b>	<b>6,796</b>	<b>6,797</b>
Domestic	4,194	1,555	6,776	2,830	2,209	2,504	2,490	2,646	3,417
Deposits accumulation (-)	-1,585	-947	3,156	-360	-954	-939	-927	-1,031	-538
o/w Deposits at the BCE	-1,357	-277	2,864	-360	-954	-939	-927	-1,031	-538
Loans	2,184	0	11	0	0	0	0	0	0
Securities	3,595	2,501	2,918	3,190	3,162	3,443	3,417	3,676	3,955
Treasury certificates	2,418	1,873	2,166	2,166	2,166	2,166	2,166	2,166	2,166
Bonds	1,177	629	752	1,024	996	1,277	1,251	1,510	1,788
Other accounts payable accumulation 1/	0	0	691	0	0	0	0	0	0
External	4,636	4,414	2,626	5,205	5,640	5,200	5,150	4,150	3,380
Loans	3,672	4,399	2,611	5,205	4,140	3,200	3,150	2,150	1,380
Multilateral	3,257	4,200	1,581	4,795	3,150	2,400	2,400	1,650	1,180
World Bank (WB)	318	1,328	700	500	400	400	400	400	400
Inter-American Development Bank (IDB)	1,348	846	594	1,300	550	550	550	550	330
Development Bank of Latin America (CAF)	480	414	285	495	450	450	450	450	450
International Monetary Fund (IMF)	802	1,611	0	1,500	1,250	500	500	250	0
Latin America Reserve Fund (FLAR)	308	0	0	500	0	0	0	0	0
Other	0	0	2	500	500	500	500	0	0
Bilateral	370	196	256	410	990	800	750	500	200
Banks	46	3	775	0	0	0	0	0	0
Securities (Eurobonds)	15	15	15	0	1,500	2,000	2,000	2,000	2,000
Special Drawing Rights (2021 SDR allocation)	949	0	0	0	0	0	0	0	0
Other accounts payable accumulation 2/	0	0	0	0	0	0	0	0	0
Other assets (-)/liabilities 3/	-2,074	400	1,121	0	0	0	0	0	0
Statistical discrepancy	298	-47	-709	0	0	0	0	0	0
<b>Net Financing</b>	<b>1,403</b>	<b>-5</b>	<b>4,931</b>	<b>2,442</b>	<b>1,473</b>	<b>314</b>	<b>118</b>	<b>-832</b>	<b>-1,183</b>
<b>Net acquisition of financial assets</b>	<b>4,444</b>	<b>2,795</b>	<b>-538</b>	<b>360</b>	<b>954</b>	<b>939</b>	<b>927</b>	<b>1,031</b>	<b>538</b>
<b>Net incurrence of liabilities</b>	<b>5,847</b>	<b>2,790</b>	<b>4,394</b>	<b>2,802</b>	<b>2,427</b>	<b>1,253</b>	<b>1,045</b>	<b>198</b>	<b>-645</b>
Domestic	3,058	752	4,423	-79	-58	39	337	335	333
External	2,789	2,038	-30	2,880	2,486	1,214	708	-137	-978
<b>NFPS gross debt</b>	<b>66,190</b>	<b>66,431</b>	<b>65,778</b>	<b>68,580</b>	<b>71,007</b>	<b>72,261</b>	<b>73,306</b>	<b>73,505</b>	<b>72,859</b>
<b>Domestic</b>	<b>18,747</b>	<b>17,404</b>	<b>17,635</b>	<b>17,556</b>	<b>17,498</b>	<b>17,537</b>	<b>17,875</b>	<b>18,210</b>	<b>18,543</b>
Loans	3,305	3,137	3,149	3,070	2,912	2,751	2,588	2,424	2,257
Securities	7,609	7,156	7,135	7,335	7,835	8,335	8,835	9,335	9,835
Treasury certificates	2,418	1,873	2,166	2,166	2,166	2,166	2,166	2,166	2,166
Bonds	5,191	5,283	4,968	5,168	5,668	6,168	6,668	7,168	7,668
Other accounts payable 1/	7,834	7,111	7,352	7,152	6,752	6,452	6,452	6,452	6,452
<b>External</b>	<b>47,443</b>	<b>49,028</b>	<b>48,143</b>	<b>51,024</b>	<b>53,509</b>	<b>54,723</b>	<b>55,431</b>	<b>55,295</b>	<b>54,316</b>
Loans	27,946	29,732	30,596	33,620	34,779	34,974	34,587	33,356	31,288
Securities	17,704	17,665	15,988	15,944	17,370	18,465	19,560	20,654	21,744
SDRs	1,340	1,274	1,284	1,284	1,284	1,284	1,284	1,284	1,284
Other accounts payable 2/	452	357	276	176	76	0	0	0	0
				(In percent of GDP)					
<b>Gross financing needs</b>	<b>6.6</b>	<b>5.4</b>	<b>8.3</b>	<b>6.6</b>	<b>6.2</b>	<b>5.9</b>	<b>5.6</b>	<b>4.8</b>	<b>4.6</b>
<b>NFPS deficit (= -NLB)</b>	<b>1.6</b>	<b>0.0</b>	<b>3.6</b>	<b>2.0</b>	<b>1.2</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.6</b>	<b>-0.8</b>
<b>Amortization</b>	<b>5.0</b>	<b>5.5</b>	<b>4.7</b>	<b>4.6</b>	<b>5.1</b>	<b>5.7</b>	<b>5.6</b>	<b>5.4</b>	<b>5.4</b>
<b>Gross financing sources</b>	<b>6.6</b>	<b>5.4</b>	<b>8.3</b>	<b>6.6</b>	<b>6.2</b>	<b>5.9</b>	<b>5.6</b>	<b>4.8</b>	<b>4.6</b>
Domestic	3.9	1.3	5.7	2.3	1.8	1.9	1.8	1.9	2.3
External	4.3	3.8	2.2	4.3	4.5	4.0	3.8	2.9	2.3
Other assets (-)/liabilities 3/	-1.9	0.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy (-)	0.3	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>NFPS gross debt</b>	<b>61.6</b>	<b>57.0</b>	<b>55.3</b>	<b>56.3</b>	<b>56.4</b>	<b>55.5</b>	<b>54.2</b>	<b>52.2</b>	<b>49.7</b>
Domestic	17.4	14.9	14.8	14.4	13.9	13.5	13.2	12.9	12.6
External	44.2	42.1	40.5	41.9	42.5	42.0	41.0	39.3	37.1

Sources: Ministry of Economy and Finance; and IMF staff estimates and projections.

1/ Includes domestic arrears accumulation/clearance and convenio de liquidez.

2/ Includes accumulation/clearance of oil related financing.

3/ Includes accumulation of assets other than deposits and incurrence of non-debt liabilities.

Table 4. Ecuador: Balance of Payments, 2021-29

	2021	2022	2023	Projections					
				2024	2025	2026	2027	2028	2029
	(US\$ million)								
<b>Current account</b>	<b>3,098</b>	<b>2,133</b>	<b>2,291</b>	<b>2,537</b>	<b>2,755</b>	<b>3,023</b>	<b>3,269</b>	<b>3,552</b>	<b>3,730</b>
Trade balance	2,993	2,544	2,210	2,991	2,849	3,204	3,498	3,799	4,260
Exports, f.o.b.	26,968	33,033	31,484	32,015	31,550	31,950	33,195	34,216	35,109
Oil	8,607	11,587	8,952	8,699	8,025	7,491	7,316	7,200	7,182
Non-oil	18,360	21,446	22,532	23,316	23,525	24,458	25,879	27,016	27,927
Imports, f.o.b.	23,975	30,489	29,274	29,024	28,702	28,745	29,697	30,417	30,849
Oil	4,643	7,640	7,041	6,620	5,756	5,247	5,424	5,409	5,355
Non-oil	19,332	22,849	22,232	22,404	22,945	23,499	24,273	25,008	25,494
Services	-2,083	-2,652	-2,017	-2,292	-1,604	-1,588	-1,637	-1,678	-1,823
Credits	2,070	2,910	3,156	2,615	3,377	3,495	3,633	3,771	3,791
Debits	4,153	5,562	5,173	4,907	4,981	5,083	5,270	5,450	5,614
Primary income	-1,669	-1,868	-2,669	-3,271	-3,739	-4,015	-4,194	-4,355	-4,467
Credits	89	233	237	426	348	288	285	317	348
Debits	1,758	2,101	2,906	3,697	4,087	4,303	4,479	4,672	4,815
Secondary income	3,858	4,110	4,767	5,109	5,250	5,422	5,601	5,786	5,761
Of which: workers' remittances, net	3,767	4,113	4,747	4,933	5,068	5,234	5,406	5,583	5,549
<b>Capital account</b>	<b>-232</b>	<b>80</b>	<b>78</b>	<b>79</b>	<b>81</b>	<b>84</b>	<b>87</b>	<b>90</b>	<b>94</b>
<b>Financial account</b>	<b>2,771</b>	<b>2,948</b>	<b>5,224</b>	<b>1,859</b>	<b>1,324</b>	<b>1,063</b>	<b>1,133</b>	<b>1,368</b>	<b>1,500</b>
Direct investment	-648	-879	-372	-664	-1,120	-1,862	-2,379	-2,985	-3,648
Other public sector flows	-1,987	-426	30	-2,880	-2,486	-1,214	-708	137	978
Disbursements	-3,834	-2,802	-2,626	-5,205	-5,640	-5,200	-5,150	-4,150	-3,380
Amortizations	1,847	2,376	2,656	2,325	3,154	3,986	4,442	4,287	4,358
Other private sector flows	5,406	4,254	5,566	5,404	4,930	4,139	4,220	4,217	4,170
<b>Errors and omissions</b>	<b>169</b>	<b>-328</b>	<b>-1,220</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall balance</b>	<b>263</b>	<b>-1,063</b>	<b>-4,075</b>	<b>757</b>	<b>1,512</b>	<b>2,044</b>	<b>2,223</b>	<b>2,273</b>	<b>2,324</b>
<b>Change in reserve assets (increase, -) 1/</b>	<b>-948</b>	<b>-568</b>	<b>4,284</b>	<b>-757</b>	<b>-1,512</b>	<b>-2,044</b>	<b>-2,223</b>	<b>-2,273</b>	<b>-2,324</b>
IMF net credit and loans	662	1,611	-228	971	255	-542	-728	-1,061	-1,438
IMF exceptional financing under the EFF	802	1,611	0	1,500	1,250	500	500	250	0
Other external financing 2/	23	20	0	0	0	0	0	0	0
<b>Memorandum items:</b>	(Units as indicated)								
Current account balance (percent of GDP)	2.9	1.8	1.9	2.1	2.2	2.3	2.4	2.5	2.5
Gross international reserves (US\$ millions)	7,898	8,459	4,454	5,212	6,724	8,768	10,991	13,264	15,588
In months of next year's imports	2.6	2.9	1.6	1.9	2.4	3.0	3.7	4.4	5.2
As a percent of nominal GDP	7.4	7.3	3.7	4.3	5.3	6.7	8.1	9.4	10.6
As a percent of ARA metric 3/	34.4	34.3	18.2	20.7	26.2	33.1	40.3	47.6	55.6
Oil balance (percent of GDP)	3.7	3.4	1.6	1.7	1.8	1.7	1.4	1.3	1.2
Exports	8.0	9.9	7.5	7.1	6.4	5.8	5.4	5.1	4.9
Imports	4.3	6.6	5.9	5.4	4.6	4.0	4.0	3.8	3.7
Non-oil balance (percent of GDP)	-0.8	-1.6	0.3	0.4	0.4	0.6	1.0	1.2	1.3
Export volume growth rate (percent)	7.5	4.6	6.1	0.1	3.3	1.8	2.5	2.4	2.0
Import volume growth rate (percent)	19.0	9.6	1.1	-2.3	-0.7	0.1	2.6	1.5	1.6
Non-oil goods export volume growth rate (percent)	15.4	5.3	11.7	2.4	3.1	3.9	3.4	3.3	3.0
Non-oil goods import volume growth rate (percent)	17.9	9.4	1.8	-1.6	1.0	1.3	1.8	1.5	2.1
Goods terms of trade growth rate (percent)	13.6	6.5	-5.6	-1.0	-2.4	-0.7	0.7	-0.4	0.3
Oil price Ecuador mix (U.S. dollars per barrel)	62	86	68	68	64	61	59	58	58
Foreign direct investment, net (percent of GDP)	0.6	0.8	0.3	0.5	0.9	1.4	1.8	2.1	2.5
External debt (percent of GDP)	54.1	51.6	48.1	48.4	48.7	48.0	47.0	45.1	42.7

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

1/ Reflects the national definition of gross international reserves.

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

3/ Does not include the Liquidity Fund. If the Liquidity Fund was included, the ARA metric would be 32.3 percent at end-2023.

Table 5. Ecuador: External Financing, 2021-29

	2021	2022	Est. 2023	Projections					
				2024	2025	2026	2027	2028	2029
	(US\$ million)								
<b>Gross external financing requirements</b>	<b>3,198</b>	<b>4,870</b>	<b>4,811</b>	<b>4,353</b>	<b>5,099</b>	<b>5,736</b>	<b>6,013</b>	<b>5,574</b>	<b>5,410</b>
Current account financing need	-3,098	-2,133	-2,291	-2,537	-2,755	-3,023	-3,269	-3,552	-3,730
Public sector amortizations	1,847	2,376	2,656	2,325	3,154	3,986	4,442	4,287	4,358
Multilaterals	780	1,110	1,003	1,314	2,140	2,216	2,769	2,755	2,901
IMF	140	0	228	529	995	1042	1228	1311	1438
Bilaterals	482	922	709	718	704	678	664	587	508
Banks	263	194	154	149	137	111	104	39	40
External securities	200	54	708	44	74	905	905	906	910
Others	121	95	81	100	100	76	0	0	0
Private sector amortizations	4,449	4,627	4,447	4,565	4,700	4,773	4,839	4,839	4,782
<b>Identified external financing</b>	<b>3,332</b>	<b>5,664</b>	<b>1,667</b>	<b>4,998</b>	<b>6,523</b>	<b>7,688</b>	<b>8,139</b>	<b>7,742</b>	<b>7,726</b>
Public sector	3,641	4,411	1,851	5,205	5,640	5,200	5,150	4,150	3,380
Multilateral	3,257	4,200	1,581	4,795	3,150	2,400	2,400	1,650	1,180
IMF	802	1,611	0	1,500	1,250	500	500	250	0
Bilaterals	370	196	256	410	990	800	750	500	200
Banks	46	3	775	0	0	0	0	0	0
External securities	15	15	15	0	1,500	2,000	2,000	2,000	2,000
Others	0	0	0	0	0	0	0	0	0
Private sector	-309	1,253	-185	-207	883	2,488	2,989	3,592	4,346
Direct investment	648	879	372	664	1,120	1,862	2,379	2,985	3,648
Portfolio investment	-191	75	-224	-174	-47	125	122	121	140
Other investment	-766	299	-334	-697	-190	501	488	486	559
<b>Net transfers 1/</b>	<b>-64</b>	<b>-248</b>	<b>-1,143</b>	<b>79</b>	<b>81</b>	<b>84</b>	<b>87</b>	<b>90</b>	<b>94</b>
<b>Gross external financing sources</b>	<b>4,217</b>	<b>5,416</b>	<b>524</b>	<b>5,077</b>	<b>6,604</b>	<b>7,772</b>	<b>8,226</b>	<b>7,832</b>	<b>7,819</b>
<b>Change in reserve assets (-, increase)</b>	<b>-948</b>	<b>-568</b>	<b>4,284</b>	<b>-757</b>	<b>-1,512</b>	<b>-2,044</b>	<b>-2,223</b>	<b>-2,273</b>	<b>-2,324</b>
2021 SDR Allocation	949	0	0	0	0	0	0	0	0
IMF exceptional financing under the EFF	662	1,611	-228	971	255	-542	-728	-1,061	-1,438
<b>Change in net international reserves, prog. definition (-, increase) 2/</b>	<b>-1,414</b>	<b>445</b>	<b>1,833</b>	<b>305</b>	<b>-1,160</b>	<b>-2,353</b>	<b>-2,690</b>	<b>-3,069</b>	<b>-3,596</b>

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

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

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

Table 6. Ecuador: Monetary and Financial Statistics, 2021-29

	2021	2022	2023	Projections					
				2024	2025	2026	2027	2028	2029
	(US\$ million)								
<b>I. Central Bank</b>									
<b>Net foreign assets</b>	<b>8,969</b>	<b>9,325</b>	<b>5,976</b>	<b>6,735</b>	<b>8,269</b>	<b>9,797</b>	<b>11,370</b>	<b>13,078</b>	<b>14,310</b>
Of which: gross international reserves 1/	7,898	8,459	4,454	5,212	6,724	8,768	10,991	13,264	15,588
<b>Net domestic assets</b>	<b>-685</b>	<b>-1,988</b>	<b>-389</b>	<b>-950</b>	<b>-2,286</b>	<b>-3,613</b>	<b>-4,943</b>	<b>-6,388</b>	<b>-7,348</b>
Credit to the nonfinancial public sector, net	-104	-835	1,386	902	-316	-1,523	-2,716	-4,012	-4,819
Credit to financial institutions	1,045	790	686	670	639	607	575	542	507
Other depository institutions	287	200	112	112	112	112	112	112	111
Other financial institutions	758	590	573	558	526	495	462	430	396
Credit to the private sector	9	8	8	8	8	8	9	9	9
Other, net	-1,634	-1,951	-2,469	-2,530	-2,617	-2,705	-2,811	-2,926	-3,045
<b>Liabilities</b>	<b>8,284</b>	<b>7,337</b>	<b>5,587</b>	<b>5,785</b>	<b>5,983</b>	<b>6,185</b>	<b>6,427</b>	<b>6,690</b>	<b>6,963</b>
Banks' reserves	8,094	7,230	5,484	5,679	5,874	6,072	6,310	6,568	6,836
Other depository institutions 2/	5,904	5,455	3,890	4,045	4,184	4,325	4,495	4,679	4,869
Other financial institutions 3/	2,190	1,776	1,595	1,634	1,690	1,747	1,816	1,890	1,967
Other 4/	105	19	15	16	16	17	18	18	19
<b>II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 2/ 5/</b>									
<b>Net foreign assets</b>	<b>4,602</b>	<b>4,686</b>	<b>5,950</b>	<b>6,097</b>	<b>6,306</b>	<b>6,519</b>	<b>6,774</b>	<b>7,051</b>	<b>7,339</b>
<b>Net domestic assets</b>	<b>46,658</b>	<b>51,278</b>	<b>54,457</b>	<b>56,726</b>	<b>58,672</b>	<b>60,649</b>	<b>63,027</b>	<b>65,604</b>	<b>68,278</b>
Assets held at the BCE, net	5,117	4,957	3,438	3,632	3,809	3,989	4,199	4,425	4,615
Credit to the nonfinancial public sector, net	3,401	2,082	2,952	3,041	3,167	3,295	3,449	3,617	3,790
Of which: central government, net	2,278	1,229	1,772	1,819	1,886	1,954	2,035	2,124	2,216
Credit to the private sector	51,851	59,039	63,984	66,553	68,762	71,006	73,711	76,644	79,732
Other items, net	-13,712	-14,800	-15,916	-16,500	-17,066	-17,641	-18,332	-19,082	-19,860
<b>Liabilities</b>	<b>51,259</b>	<b>55,965</b>	<b>60,407</b>	<b>62,823</b>	<b>64,979</b>	<b>67,168</b>	<b>69,802</b>	<b>72,655</b>	<b>75,617</b>
Of which: Private sector deposits	51,259	55,965	60,407	62,823	64,979	67,168	69,802	72,655	75,617
<b>III. Depository Corporations Survey</b>									
<b>Net foreign assets</b>	<b>13,571</b>	<b>14,011</b>	<b>11,926</b>	<b>12,832</b>	<b>14,575</b>	<b>16,316</b>	<b>18,145</b>	<b>20,129</b>	<b>21,649</b>
<b>Net domestic assets</b>	<b>37,879</b>	<b>42,060</b>	<b>48,583</b>	<b>50,096</b>	<b>50,512</b>	<b>50,964</b>	<b>51,774</b>	<b>52,648</b>	<b>54,094</b>
Credit to the nonfinancial public sector, net	3,297	1,248	4,338	3,942	2,851	1,772	734	-396	-1,029
Credit to the private sector	51,860	59,047	63,993	66,561	68,770	71,014	73,720	76,653	79,742
Other items, net	-17,278	-18,234	-19,747	-20,407	-21,109	-21,822	-22,680	-23,609	-24,618
<b>Liabilities</b>	<b>51,449</b>	<b>56,072</b>	<b>60,509</b>	<b>62,928</b>	<b>65,087</b>	<b>67,280</b>	<b>69,918</b>	<b>72,777</b>	<b>75,743</b>
<b>Memorandum items:</b>									
	(Units as indicated)								
Credit to the private sector (percent change, yoy) 6/	13.6	13.9	8.4	4.0	3.3	3.3	3.8	4.0	4.0
Deposits of the private sector (percent change, yoy) 6/	12.1	9.2	7.9	4.0	3.4	3.4	3.9	4.1	4.1
Broad money (M2) (percent change, yoy) 7/	9.8	7.5	6.7	2.5	3.4	3.4	3.9	4.1	4.1
Broad money velocity	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
ODI and OFI reserves at the central bank as a share of liabilities (percent) 2/ 3/	15.8	12.9	9.1	9.0	9.0	9.0	9.0	9.0	9.0
Credit to the private sector (percent of GDP)	48.3	50.6	53.8	54.7	54.6	54.5	54.5	54.4	54.4
Liabilities (percent of GDP)	47.9	48.1	50.9	51.7	51.7	51.7	51.7	51.7	51.7
Liquidity Fund (US\$ million)	2,768	3,033	3,451	3,589	3,712	3,837	3,988	4,151	4,320
1st COMYF balance (percent) 8/	134	155	115	129	161	203	245	284	320
2nd COMYF balance (percent) 9/	94	194	43	72	151	255	358	454	545
3rd COMYF balance (percent) 10/	-2	20	-18	-10	16	43	66	83	102

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

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

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

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

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

5/ OFI comprises Corporación Financiera Nacional and BDE.

6/ Consolidated banking system.

7/ Broad money comprises monetary species in circulation, demand deposits, and quasi-money.

8/ Liabilities of this balance include the national monetary species minted by the Central Bank of Ecuador that are in circulation, Central Bank Securities (TBC), any other direct obligation with the public and the deposits of other depository institutions, which include private banks, mutual banks, savings and credit cooperatives, and public banks with demand deposits. These liabilities must be covered one hundred percent with the assets of the International Reserves.

9/ Liabilities of this balance include the deposits of other financial entities, including CFN, BIESS (Banco del Instituto Ecuatoriano de Seguridad Social), other public sector financial entities and financial intermediaries that do not take demand deposits from the public. These liabilities will be covered with the remaining reserve assets once the First Balance is covered and must be equivalent to one hundred percent of the liabilities in this balance.

10/ The liabilities of this balance include deposits of the Non-Financial Public Sector (NFPS), deposits of authorized private legal entities in the Central Bank of Ecuador and transfers through the payments system pending settlement, as well as the BCE's own external indebtedness. These liabilities must be one hundred percent covered with the assets of International Reserves, once the second balance has been fully covered.

**Table 7. Ecuador: Banking System Financial Soundness Indicators, 2018-24**

	2018	2019	2020	2021	2022	2023	Mar-24
	(In percent, end of period)						
<b>Capital Adequacy</b>							
Regulatory capital to risk-weighted assets	17.1	16.7	17.3	15.8	15.7	15.1	15.0
<b>Asset Quality and Distribution</b>							
Nonperforming loans to total gross loans	2.9	3.2	3.6	3.7	3.7	4.6	4.7
Provisions to nonperforming loans	212.2	203.0	230.7	232.9	225.9	185.9	171.7
<b>Earnings and Profitability</b>							
Return on assets	2.4	2.0	0.7	0.7	1.8	2.2	1.7
Return on equity	11.1	8.8	3.1	2.3	9.5	11.8	9.2
Interest margin to gross income	63.9	63.7	66.1	66.3	64.3	60.4	60.4
Noninterest expenses to gross income	54.8	54.8	54.7	55.7	49.6	46.2	48.4
<b>Liquidity</b>							
Liquid assets to total assets	17.2	16.4	23.6	20.7	18.3	15.2	15.2
Liquid assets to short-term liabilities	36.4	35.5	48.1	36.9	34.4	29.5	30.1
Customer deposits to total (noninterbank) loans	109.6	107.2	119.8	117.2	109.0	105.1	104.3

Source: IMF Financial Soundness Indicators.

Table 8. Ecuador: Indicators of Fund Credit, 2022-33

	2022	2023	Projections									
			2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	(SDR million)											
<b>Existing Fund credit</b>												
Stock 1/	6,096.4	5,924.7	5,521.3	4,761.9	3,966.1	3,028.4	2,090.6	1,207.0	437.8	142.0	-	-
Obligations	169.0	543.8	840.4	1,187.4	1,167.1	1,242.4	1,166.9	1,036.9	862.3	355.2	187.1	39.2
Principal (repurchases)	-	171.6	403.5	759.4	795.8	937.8	937.8	883.6	769.2	295.8	142.0	-
Interest charges	169.0	372.1	436.9	428.0	371.3	304.6	229.2	153.3	93.2	59.4	45.1	39.2
<b>Prospective Fund credit</b>												
Disbursements	-	-	1,128.8	938.8	373.7	373.7	184.9	-	-	-	-	-
Stock 1/	6,096.4	5,924.7	6,650.1	6,829.4	6,407.4	5,843.5	5,027.8	3,930.1	2,800.7	2,082.4	1,455.8	955.8
<b>Stock of existing and prospective Fund credit 1/</b>												
In percent of quota 2/	873.8	849.2	953.1	978.8	918.4	837.5	720.6	563.3	401.4	298.5	208.7	137.0
In percent of GDP	7.0	6.7	7.3	7.2	6.6	5.8	4.8	3.6	2.5	1.8	1.2	0.7
In percent of exports of goods and services	22.7	22.8	25.5	26.0	24.1	21.2	17.8	13.6	9.3	6.6	4.5	2.8
In percent of gross reserves	95.8	177.4	169.6	135.5	97.6	71.2	50.9	33.8	20.7	14.8	9.9	6.3
In percent of external debt	13.5	13.8	15.0	14.9	13.7	12.3	10.6	8.4	6.2	4.8	3.5	2.3
In percent of government revenues	18.0	18.1	18.9	19.2	17.4	15.5	13.0	9.9	6.8	4.8	3.3	2.1
In percent of external debt service	60.9	56.8	61.6	57.6	50.0	43.8	37.8	29.6	19.3	14.7	10.6	7.2
<b>Obligations to the Fund from existing and prospective Fund credit</b>												
Millions of SDRs	169.0	543.8	868.3	1,299.6	1,340.6	1,447.4	1,462.2	1,479.7	1,421.1	926.6	776.3	602.3
In percent of quota 2/	24.2	77.9	124.5	186.3	192.1	207.5	209.6	212.1	203.7	132.8	111.3	86.3
In percent of GDP	0.2	0.6	0.9	1.4	1.4	1.4	1.4	1.4	1.3	0.8	0.6	0.5
In percent of exports of goods and services	0.6	2.1	3.3	5.0	5.1	5.3	5.2	5.1	4.7	3.0	2.4	1.8
In percent of gross reserves	2.7	16.3	22.1	25.8	20.4	17.6	14.8	12.7	10.5	6.6	5.3	3.9
In percent of external debt	0.4	1.3	2.0	2.8	2.9	3.0	3.1	3.2	3.1	2.1	1.8	1.5
In percent of government revenues	0.5	1.7	2.5	3.7	3.6	3.8	3.8	3.7	3.4	2.2	1.7	1.3
In percent of external debt service	1.7	5.2	8.0	10.9	10.5	10.8	11.0	11.1	9.8	6.6	5.6	4.5

Source: Fund staff estimates and projections.

1/ End of period.

2/ Ecuador's quota is SDR 697.7 million.



**Table 9. Ecuador: Proposed Schedule of Reviews and Purchases 1/**

Availability Date	Amount of purchase		Conditions
	Millions of SDRs	Percent of Quota	
May 31, 2024	752.9	107.9	Approval of arrangement
November 15, 2024	375.9	53.9	First review and end-August 2024 performance/continuous criteria
March 15, 2025	312.9	44.8	Second review and end-December 2024 performance/continuous criteria
July 15, 2025	312.9	44.8	Third review and end-April 2025 performance/continuous criteria
November 15, 2025	312.9	44.8	Fourth review and end-August 2025 performance/continuous criteria
March 15, 2026	186.9	26.8	Fifth review and end-December 2025 performance/continuous criteria
September 15, 2026	186.9	26.8	Sixth review and end-June 2026 performance/continuous criteria
March 15, 2027	186.9	26.8	Seventh review and end-December 2026 performance/continuous criteria
September 15, 2027	186.9	26.8	Eighth review and end-June 2027 performance/continuous criteria
March 15, 2028	184.9	26.5	Ninth review and end-December 2027 performance/continuous criteria
Total	3,000.0	430.0	

Source: IMF staff estimates.

1/ Ecuador's quota is SDR 697.7 million.

**Table 10. Ecuador: Quantitative Performance Criteria and Indicative Targets, 2024-25**

	End-Aug.	End-Dec.	End-Apr.	End-Aug.
	2024	2024	2025	2025
	Program	Program	IT	IT
(US\$ million, unless otherwise indicated)				
<b>Quantitative performance criteria</b>				
1. Nonoil primary balance of the budgetary central government (PGE) ( <i>floor</i> ) 1/	-1,078	-2,295	-472	-1,245
2. Overall balance of the PGE and CFDD ( <i>floor</i> ) 1/	-2,200	-4,213	-753	-2,377
3. Accumulation of NFPS deposits at the central bank ( <i>floor</i> ) 1/	200	360	50	150
4. Non-accumulation of external payments arrears by the NFPS ( <i>continuous performance criterion</i> )	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS ( <i>continuous performance criterion</i> )	0	0	0	0
<b>Indicative targets</b>				
6. Overall balance of the NFPS ( <i>floor</i> ) 1/	-1,628	-2,442	-491	-982
7. Nonoil primary balance including fuel subsidies (NOPBS) of the NFPS ( <i>floor</i> ) 1/	-4,100	-6,528	-1,500	-3,400
8. Change in the stock of NIR ( <i>floor</i> ) 1/	-200	-310	116	382
9. Stock of PGE arrears to the domestic private sector ( <i>ceiling</i> )	862	662	600	400
10. Number of families in the first three income deciles nationwide covered by cash transfer programs ( <i>floor</i> )	1,192,713	1,212,984	1,228,660	1,244,336

Sources: Ministry of Economy and Finance and IMF staff estimates.

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

1/ Cumulative change from January of each year.

Table 11. Ecuador: Prior Actions and Structural Benchmarks

Reform Area	Structural Conditionality	Objectives	Due Date
<b>Proposed Prior Actions</b>			
Public Financial Management	Prepare and share with the Fund a projected monthly cash flow and financing plan for the budgetary central government for the remainder of 2024.	Improve mechanisms to monitor real-time fiscal performance and take corrective action if needed to achieve program targets.	
Contingency Planning	Prepare a contingency plan to ensure compliance with program fiscal targets if revenues underperform.	Be ready to take corrective action if needed to achieve program targets.	
<b>Proposed Structural Benchmarks</b>			
Public Financial Management	Publish an updated Medium-Term Fiscal Framework (MTFF) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024
Public Financial Management	Publish a Medium-Term Debt Management Strategy (MTDS) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024
Domestic Arrears	Share with Fund staff an updated plan to clear and prevent the resurgence of domestic arrears of the budgetary central government (PGE), including obligations to the private sector and intra-public sector claims.	Strengthen the monitoring and reduce accumulation of payment arrears.	End-November 2024
Tax Reform	Prepare and share with the Fund a plan to mobilize non-oil fiscal revenues, including by streamlining inefficient tax expenditures and replacing transitory revenue measures with permanent high-quality ones.	Inform future efforts to broaden the tax base and streamline tax expenditures.	Mid-November 2024
Fiscal Strategy	Enact regulation on revenue and/or expenditure measures to ensure that the 2025 fiscal plan is in line with program and MTFF commitments.	Ensure fiscal consolidation.	December 6, 2024
Social Safety Net	Share with the Fund a plan to complete the social registry to cover families in the lowest three deciles of the income distribution throughout the country.	Enhance the social safety net	End-October 2024
Governance	Establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement. The updated agreement	Improve expenditure control.	End-October 2024

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

<b>Reform Area</b>	<b>Structural Conditionality</b>	<b>Objectives</b>	<b>Due Date</b>
	should include a decision about the 2022 healthcare audits.		
Governance	Establish a timeline to operationalize the National Control Subsystem (SNC) to increase transparency in procurement.	Strengthen anticorruption framework and improve expenditure control.	End-December 2024
Transparency and Governance	Initiate the tender process to select an auditor to undertake the 2023 and 2024 healthcare audits (based on the updated MEF/IESS agreement).	Improve the quality and reliability of fiscal data.	End-December 2024
Transparency and Governance	Complete the audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas and share the results with Fund staff.	Enhance transparency and governance in the oil sector.	End-March 2025
Anti-Money Laundering Framework	Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with FATF standards.	Mitigate the risk of illicit flows including those related to organized crimes.	End-February 2025
Financial Sector	Establish a Financial Stability Committee in line with best international practices, comprising BCE, MEF, JPRF, JPRM, SB, SEPS, SCVS, and COSEDE.	Enhance coordination among agencies involved in financial sector oversight.	End-September 2024
Financial Sector	Issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and a countercyclical capital buffer.	Strengthen financial sector buffers.	End-November 2024
Financial Sector	Prepare and share with Fund staff a study of the system of interest rates, including recommendations to improve credit allocation, financial inclusion, and economic growth, while preserving financial stability.	Foster financial sector deepening and improve economy's growth potential.	End-March 2025
Domestic Capital Market Development	Sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards.	Foster domestic capital market development.	End-November 2024

## Annex I. External Sector Assessment

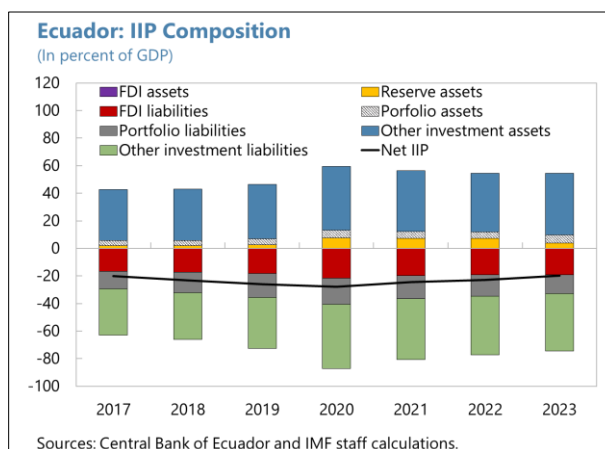
**Overall Assessment:** The external position of Ecuador in 2023 was moderately weaker than the level implied by fundamentals and desirable policies. The current account (CA) surplus remained broadly flat owing to a decline in oil exports and a wider deficit in the balance of services, with preliminary data showing some recovery in the trade balance in the first quarter of 2024. Reserves continue to be below adequacy metrics.

**Potential Policy Responses:** The planned fiscal consolidation will allow to preserve external sustainability and rebuild reserve buffers. Structural reforms contemplated under the IMF-supported program including measures to enhance governance and improve the investment climate, will also help to attract foreign investment and improve competitiveness.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Between 2019 and 2022, the net international investment position (NIIP) increased gradually from -26.1 percent of GDP to -22.8 percent of GDP, driven by a progressive accumulation in debt assets. The NIIP showed a further increase from -22.8 percent of GDP as of end-2022 to -19.8 percent of GDP as of end-2023, stemming from an increase in portfolio investment assets and a decline in debt liabilities. Ecuador’s gross liabilities are dominated by public sector external debt.

**Assessment.** The planned fiscal consolidation supported by the EFF arrangement will help improve the external balance and rebuild reserve buffers, thereby limiting the build-up of NIIP vulnerabilities over the medium term.



2023 (% GDP) NIIP: -19.8 Gross Assets: 54.6 Debt Assets: 50.9 Gross Liab.: -74.4 Debt Liab.: -55.4

### Current Account

**Background.** The CA surplus marginally increased from 1.8 percent of GDP in 2022 to 1.9 percent of GDP in 2023 driven by a narrower services deficit and stronger remittances, while the trade surplus declined due to lower oil exports. The CA surplus is expected to rise moderately in 2024, mainly driven by higher non-oil exports and lower imports and despite lower oil exports and tourism receipts. Over the medium term, the CA surplus is expected to progressively widen due to (i) an increase in exports and tourism; and (ii) the envisaged fiscal consolidation under the EFF-supported program, which would improve the public saving-investment balance.

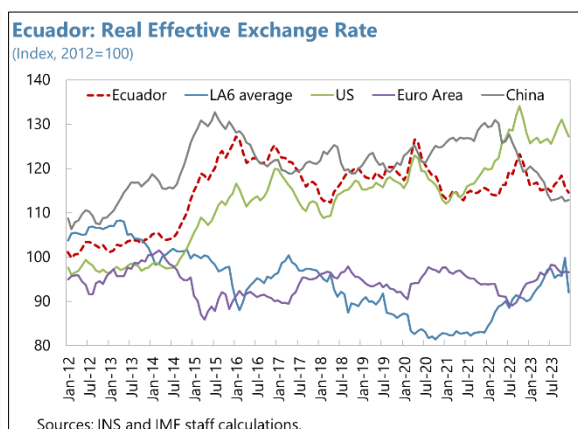
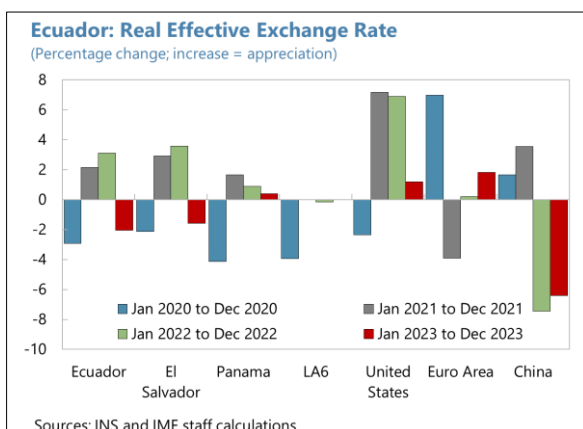
**Assessment.** The EBA-Lite CA model estimates a cyclically adjusted CA norm of 1.3 percent of GDP. Compared to an adjusted CA deficit of 0.6 percent of GDP (taking into consideration cyclical factors), this implies a CA gap of -0.7 percent. As Ecuador is a commodity exporter, the CA balance was also assessed using the EBA-Lite consumption module, which incorporates commodity price volatility and intergenerational equity considerations into the assessment. The consumption model points to a CA gap of -1.4 percent of GDP, which is broadly in line with the gap assessed under the EBA-Lite REER (-1.7 percent of GDP). Consistent with previous ESAs, the assessment is grounded on the results from the consumption model, although the CA gaps from the different models are broadly similar.

**Ecuador: EBA-Lite Model Estimates for 2023**

	CA model 1/	REER model 1/	Consumption model 1/
	(in percent of GDP)		
<b>CA-Actual</b>	<b>1.9</b>		<b>1.9</b>
Cyclical contributions (from model) (-)	0.3		
Additional temporary/statistical factors (-)	0.0		
Natural disasters and conflicts (-)	0.9		
<b>Adjusted CA</b>	<b>0.6</b>		
<b>CA Norm</b> (from model) 2/	<b>1.3</b>		<b>3.3</b>
Adjustments to the norm (-)	0.0		
<b>Adjusted CA Norm</b>	<b>1.3</b>		
<b>CA Gap</b>	<b>-0.7</b>	<b>-1.7</b>	<b>-1.4</b>
o/w Relative policy gap	1.0		
Elasticity	-0.2		
<b>REER Gap</b> (in percent)	<b>3.8</b>	<b>9.7</b>	<b>7.9</b>
1/ Based on the EBA-lite 3.0 methodology. The consumption module uses staff projections for 2029 as reference for the assessment.			
2/ Cyclically adjusted, including multilateral consistency adjustments.			

**Real Exchange Rate**

**Background.** The real effective exchange rate (REER) depreciated by approximately 1.5 percent in 2023 on the back of lower inflation differentials relative to trading partners, bringing the REER level roughly in line with its 5-year average.



**Assessment.** The staff-estimated CA gap points to a REER overvaluation of around 7.9 percent for 2023. The REER gap estimated by the REER model is 9.7 percent.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** Net capital flows fell in 2023, largely due to higher net external debt service and private capital outflows, including a contraction in net FDI to US\$0.4 billion, from US\$0.8 billion in 2022, as well as lower other private investment flows.

**Assessment.** The implementation of the fiscal consolidation and reforms contemplated under the EFF-supported program are expected to help regain access to international capital markets and attract higher net private capital flows, including by encouraging FDI and reducing private capital outflows.

**Capital flow management measures (CFMs).** In the context of fiscal and balance of payments pressures leading to a severe decline in FX reserves, the authorities enacted an increase in the ISD from 3.5 to 5 percent. This measure constitutes a CFM on outflows under the Fund’s Institutional View on the Liberalization and Management of Capital Flows. The authorities are committed to gradually phasing out this measure, as macroeconomic and balance of payments stability are restored and the FX reserve position is strengthened, supported by implementation of the policies under the EFF-supported program.

### FX Intervention and Reserves Level

**Background.** Gross international reserves (GIR) declined by US\$4 billion, totaling US\$4.5 billion at end-2023. The decline was primarily driven by the deterioration in the financial account due to reduced net financial flows for the public sector, given lower net oil revenues and net disbursements from multilateral partners, as well as lower net private capital inflows. Net international reserves (which exclude IMF credit outstanding and liabilities of the BCE vis-à-vis domestic banks and non-bank depository institutions<sup>1</sup>) declined to -US\$8 billion at end-2023, from -US\$6.2 billion at end-2022.

**Assessment.** GIR at end-2023 were below adequacy levels, constituting only 18.2 percent of the IMF’s standard ARA metric (or 21.7 percent of the adjusted ARA metric for countries with CFMs<sup>2,3</sup>), 1.6 months of prospective imports, and 3.7 percent of GDP. Including the financial system’s Liquidity Fund, gross reserves were equivalent to 32.3 percent of the ARA metric at end-2023. Besides the Liquidity Fund, the BCE has access to about US\$2.1 billion in liquidity facilities with the FRBNY, BIS, and FLAR, which can be used to address dollar liquidity shortages if needed. Ecuador is a fully dollarized economy and standard adequacy metrics are not directly comparable with those of other countries.

<sup>1</sup> Based on the definition provided in the Technical Memorandum of Understanding.

<sup>2</sup> The ARA metric captures the amounts of foreign currency liquidity that the authorities potentially need during a time of large outflows. Although the absence of currency mismatch gives different benefits of international reserves for precautionary purposes, gross reserves still provide liquidity to satisfy emergent balance of payment needs and constitute a buffer for the government. Also, they could be used to support domestic financial institutions if needed. The latter function, however, is covered separately under the Liquidity Fund (see Ecuador—Financial System Stability Assessment, IMF Country Report No. 23/335).

<sup>3</sup> See IMF (2015) “Assessing Reserve Adequacy—Specific Proposals”.

## Annex II. Sovereign Risk and Debt Sustainability Framework

*Ecuador's public debt remains sustainable but not with high probability in the program forecast. The realism assessment highlights the relatively large adjustment size required to keep debt on the desirable downward path, while the debt fanchart module flags a large confidence interval surrounding the debt projection. Ecuador remains cut-off from international capital markets and steadfast implementation of the EFF-supported fiscal adjustment is needed to restore confidence.*

**1. Background.** The public debt-to-GDP ratio declined in 2023 driven by the debt-for-nature swap that lowered the amount of international bonds outstanding by US\$970 million, coupled with insufficient financing that forced the government to draw down deposit buffers. However, political uncertainty and a sharply widening fiscal deficit fueled an increase in sovereign spreads, which reached a peak of over 2,100 bps in late 2023 before beginning a gradual decline when fiscal reform measures were taken in early 2024 to below 1,200 basis points in April. Ecuador's sovereign spreads are negatively correlated with oil prices, reflecting the impact of the latter on the current account and the fiscal sector, which are then transmitted to the rest of the domestic economy via financial and real channels.

Ecuador: Public Sector Gross Debt by Creditor (US\$ Million and Percent of GDP)		
	2023	
	US\$ billion	Percent of GDP
<b>Total Debt</b>	<b>65.8</b>	<b>55.3</b>
<b>External Debt</b>	<b>48.1</b>	<b>40.5</b>
Multilateral	24.6	20.7
Bilateral	4.4	3.7
Banks	1.6	1.3
Bonds	16.0	13.5
Oil related financing	0.3	0.2
SDRs	1.3	1.1
<b>Domestic Debt</b>	<b>17.6</b>	<b>14.8</b>
Loans	3.1	2.6
Bonds MLT	5.0	4.2
Treasury certificates	2.2	1.8
Other liabilities	7.4	6.2

Source: MEF.

**2. Baseline Assumptions.** The fiscal and debt projection assumes successful implementation of the proposed fiscal plan under the proposed EFF-supported program. Under the plan, the NFPS primary balance would turn into a surplus in 2025, increasing to about 2 percent of GDP in the medium term. The fiscal adjustment would contribute to a sustained decline in the public debt-to-GDP ratio, which is forecasted to decline from 55.3 percent in 2023 to about 40 percent by 2032 in line with the COPLAFIP debt limit. Gross financing needs (GFNs) are forecasted to decline from 8 percent of GDP in 2023 to 6.6 percent in 2024, and then gradually decline to about 4.8 percent of GDP over the medium term.

**3. Public Debt Definition.** Public debt in the SRDSF is defined as the consolidated liabilities of the NFPS, comprising the PGE, the CFDD, social security funds, public nonfinancial corporations, and the Development Bank of Ecuador (BEDE). Instruments in the debt measure include loans, securities (bonds and treasury certificates), liabilities under oil related financing, central bank lending to the government, deposits at BEDE, and other accounts payable including arrears.

**4. Fiscal Multiplier.** The fiscal adjustment envisaged under the EFF arrangement is expected to impact growth in the near term, but this effect would be mitigated by the resolution of the liquidity crisis, gradual clearance of arrears, the reduction in uncertainty, and improvement in risk sentiment. The baseline scenario assumes a fiscal multiplier of 0.5 and a growth path that is somewhat more conservative than the benchmark metrics provided in the SRDSF to assess the realism of the fiscal

adjustment (Figure 5). The impact of the negative fiscal impulse is assessed as highest in 2024 and is expected to gradually dissipate during the program.

**5. Risks to the Debt Outlook and Realism.** The realism assessment illustrates that the primary consolidation under the program would be ambitious compared to cross-country historical realizations yet necessary to restore fiscal sustainability. The debt fan chart tool shows that, under a simulated adverse debt scenario, the debt ratio could increase to large values, underscoring the need to implement the adjustment plan supported by the EFF arrangement. Downside risks to the fiscal outlook mainly stem from implementation capacity of the fiscal plan, while risks to revenues relate to the possibility of growth underperforming, including given uncertainty on the evolution of the security situation, thereby reducing tax revenue, as well as possible disruptions in oil production. Mitigating factors include the large share of multilateral and bilateral official debt, with comparatively low rollover risk and long maturities, and the relatively low GFNs in the projection.



**Figure 1. Ecuador: Risk of Sovereign Stress**

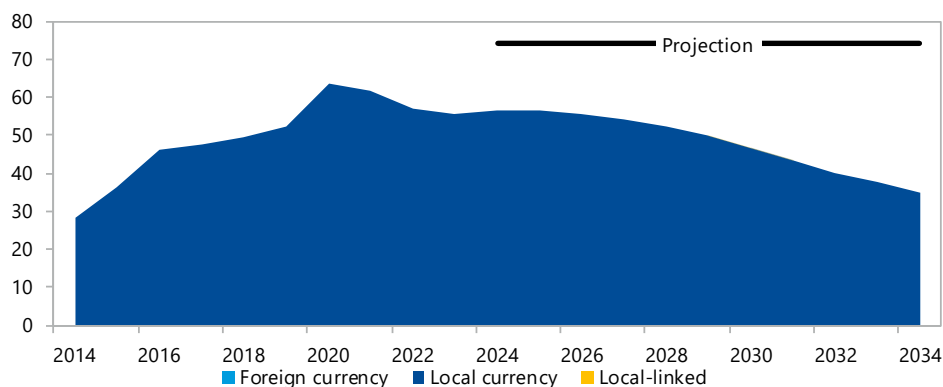
Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>Moderate</b>	The overall risk of sovereign stress is moderate, reflecting the moderate level of vulnerability assessed for the medium-term and the large adjustment needs to ensure fiscal sustainability.
<b>Near term 1/</b>	n.a.	n.a.	Not applicable.
<b>Medium term</b>	<b>Moderate</b>	<b>Moderate</b>	Medium-term risks are assessed as moderate in line with the mechanical signal. The largest risk driver in the moderate assessment is the width of the debt fanchart, representing the uncertainty surrounding the baseline forecast.
Fanchart	<b>High</b>	...	
GFN	<b>Moderate</b>	...	
Stress test	Comm. Prices Nat. Disast.	...	
<b>Long term</b>	...	<b>Moderate</b>	Long-term risks are assessed as moderate. The large amortization module projects a low risk scenario under the baseline in which Ecuador reaches the COPLAFIP debt limit by 2032, with risks increasing proportionally if adjustment falls short. The natural resources module points to the continued need to diversify fiscal revenue out of oil revenue, though pressures from resource exhaustion are only projected to increase in the long-term.
<b>Sustainability assessment 2/</b>	...	Sustainable but not with high probability	Debt is assessed as sustainable but not with high probability, given the high downside risks faced by the baseline scenario.
<b>Debt stabilization in the baseline</b>			Yes
<b>DSA Summary Assessment</b>			
<p>Commentary: Ecuador is at a moderate overall risk of sovereign stress and debt is sustainable but not with high probability in the baseline program forecast. Debt declined in 2023 and is expected to continue on a downward trajectory in the medium-term provided the program fiscal plan is implemented successfully. Medium-term liquidity risks are assessed as moderate by the GFN module, but financing risks remain subject to high sovereign spreads. Steadfast implementation of fiscal reforms would strengthen Ecuador's public debt sustainability.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Figure 2. Ecuador: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/						Comments							
	CG	GG	NFPS	CPS	Other								
1a. If central government, are non-central government entities insignificant?						n.a.							
2. Subsectors included in the chosen coverage in (1) above:													
Subsectors captured in the baseline						Inclusion							
CPS NFPS GG: expected CG	1	Budgetary central government				Yes	Not applicable						
	2	Extra budgetary funds (EBFs)				No							
	3	Social security funds (SSFs)				Yes							
	4	State governments				Yes							
	5	Local governments				Yes							
	6	Public nonfinancial corporations				Yes							
	7	Central bank				No							
	8	Other public financial corporations				No							
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/			
4. Accounting principles:						Basis of recording		Valuation of debt stock					
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/			
5. Debt consolidation across sectors:						Consolidated			Non-consolidated				
Color code: <span style="color: green;">■</span> chosen coverage <span style="color: red;">■</span> Missing from recommended coverage <span style="color: gray;">■</span> Not applicable													
Reporting on Intra-Government Debt Holdings													
Issuer		Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
CPS NFPS GG: expected CG	1	Budget. central govt									0		
	2	Extra-budget. funds									0		
	3	Social security funds									0		
	4	State govt.									0		
	5	Local govt.									0		
	6	Nonfin pub. corp.									0		
	7	Central bank									0		
	8	Oth. pub. fin. corp									0		
Total			0	0	0	0	0	0	0	0	0		
Source: Fund staff.													
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.													
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.													
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.													
4/ Includes accrual recording, commitment basis, due for payment, etc.													
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).													
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.													
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.													

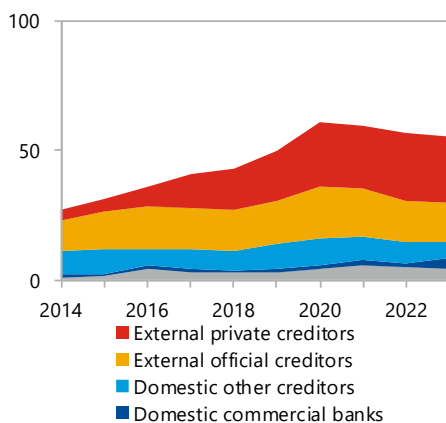
**Figure 3. Ecuador: Public Debt Structure Indicators**

**Debt by Currency (Percent of GDP)**



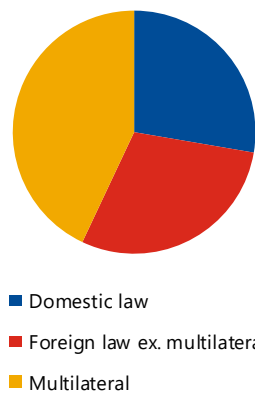
Note: The perimeter shown is nonfinancial public sector.

**Public Debt by Holder (Percent of GDP)**



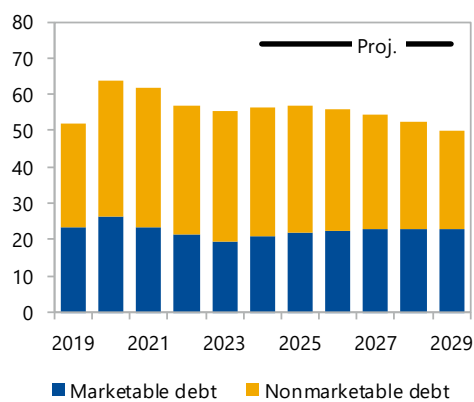
Note: The perimeter shown is nonfinancial public sector.

**Public Debt by Governing Law, 2023 (percent)**



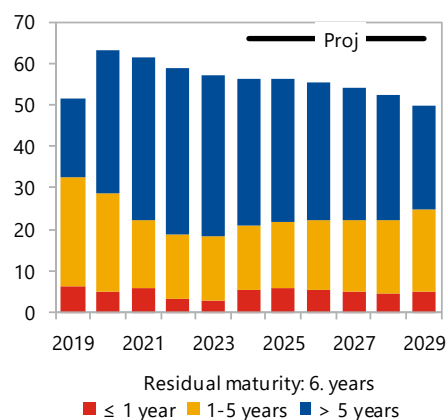
Note: The perimeter shown is nonfinancial public sector.

**Debt by Instruments (Percent of GDP)**



Note: The perimeter shown is nonfinancial public sector.

**Public Debt by Maturity (Percent of GDP)**



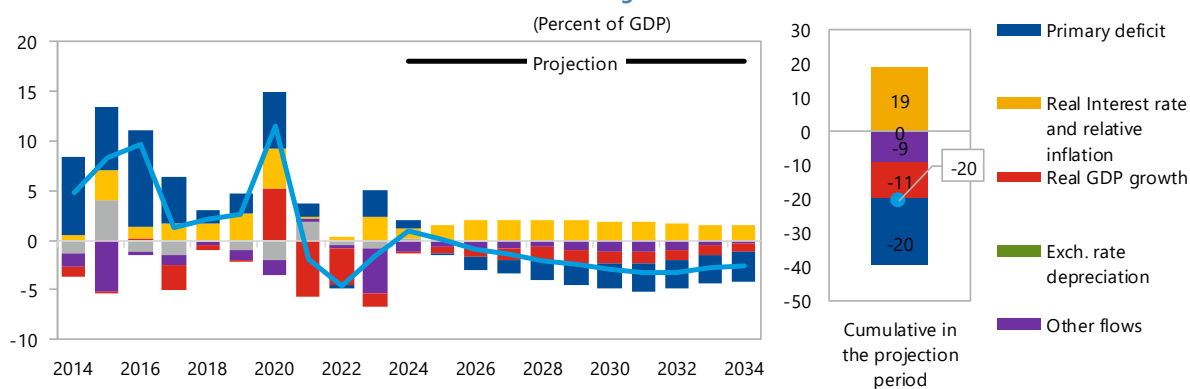
Note: The perimeter shown is nonfinancial public sector.

Source: Fund staff.

**Figure 4. Ecuador: Baseline Scenario**  
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	55.3	56.3	56.4	55.5	54.2	52.2	49.7	46.7	43.4	40.2	37.5	34.9
Change in public debt	-1.6	1.0	0.1	-0.9	-1.3	-2.0	-2.5	-3.0	-3.3	-3.2	-2.7	-2.6
Contribution of identified flows	-0.8	0.8	0.0	-0.8	-1.3	-2.0	-2.5	-2.9	-3.4	-3.2	-2.7	-2.6
Primary deficit	2.7	0.9	-0.1	-1.2	-1.3	-2.0	-2.2	-2.5	-2.8	-2.8	-2.9	-2.9
Noninterest revenues	35.4	37.1	36.2	36.4	35.8	35.6	35.1	35.1	35.1	34.9	34.6	34.3
Noninterest expenditures	38.0	38.0	36.1	35.2	34.5	33.5	32.9	32.6	32.3	32.0	31.7	31.5
Automatic debt dynamics	1.1	1.0	0.8	1.1	0.7	0.7	0.7	0.7	0.6	0.7	0.6	0.6
Real interest rate and relative inflation	2.4	1.0	1.5	2.0	2.0	2.0	2.0	1.9	1.8	1.7	1.6	1.5
Real interest rate	2.4	1.0	1.5	2.0	2.0	2.0	2.0	1.9	1.8	1.7	1.6	1.5
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.3	-0.1	-0.7	-1.0	-1.3	-1.3	-1.3	-1.2	-1.1	-1.1	-1.0	-0.9
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	...
Other identified flows	-4.5	-1.1	-0.6	-0.7	-0.7	-0.6	-1.0	-1.1	-1.2	-1.0	-0.5	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.3	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Other transactions	-3.2	0.3	0.8	0.7	0.7	0.7	0.3	0.2	0.1	0.3	0.8	1.0
Contribution of residual	-0.9	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Gross financing needs	8.3	6.6	6.2	5.9	5.6	4.8	4.7	5.4	5.3	5.0	4.7	4.4
of which: debt service	6.9	7.1	7.7	8.5	8.3	8.2	8.2	9.2	9.5	9.2	8.9	8.6
Local currency	6.9	7.1	7.7	8.5	8.3	8.2	8.2	9.2	9.5	9.2	8.9	8.6
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	2.4	0.1	1.2	1.8	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator; percent)	-0.4	2.6	2.2	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Nominal GDP growth (percent)	1.9	2.5	3.4	3.4	3.9	4.1	4.1	4.0	4.0	4.0	4.0	4.0
Effective interest rate (percent)	3.9	4.6	4.9	5.1	5.2	5.4	5.5	5.5	5.6	5.6	5.6	5.7

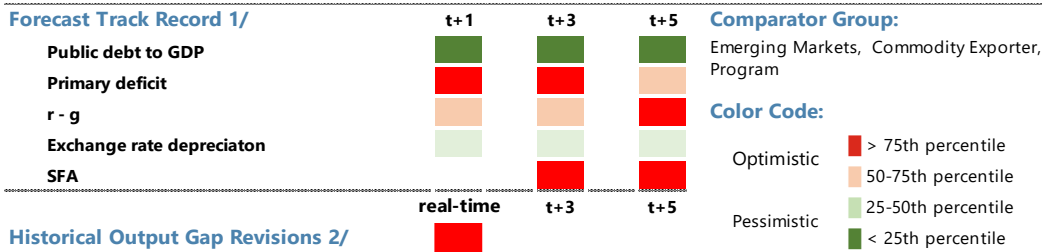
**Contribution to Change in Public Debt**



Commentary: Public debt would be on a downward path under the program.

Source: Fund staff.

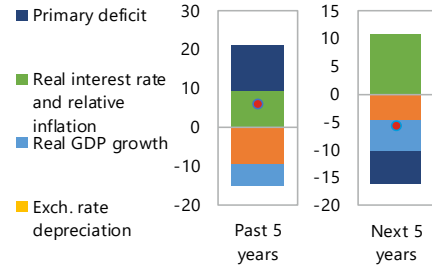
Figure 5. Ecuador: Realism of Baseline Assumptions



**Historical Output Gap Revisions 2/**

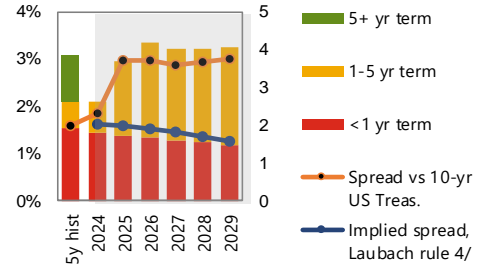
**Public Debt Creating Flows**

(Percent of GDP)



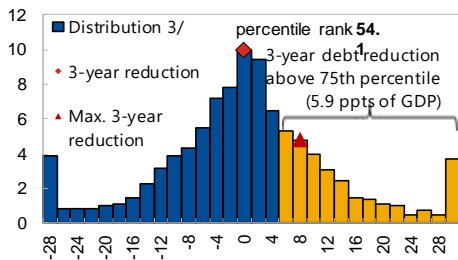
**Bond Issuances** (Bars, debt issuances (RHS,

%GDP); lines, avg marginal interest rates (LHS, percent)



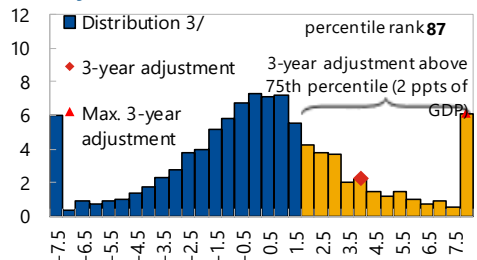
**3-Year Debt Reduction**

(Percent of GDP)



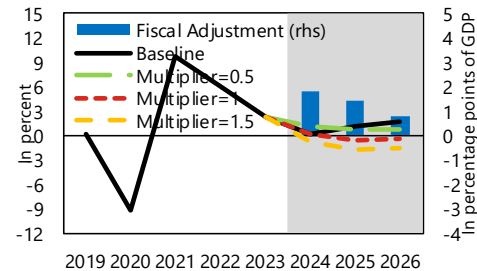
**3-Year Adjustment in Cyclically-Adjusted**

**Primary Balance** (Percent of GDP)

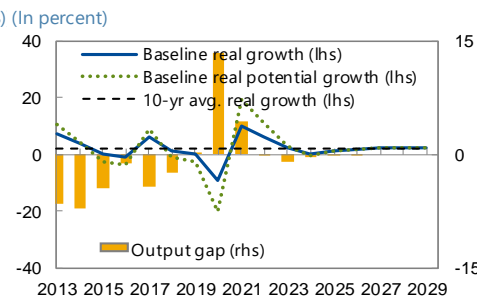


**Fiscal Adjustment and Possible Growth Paths**

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS) (In percent)



**Real GDP Growth**



Commentary: The program fiscal plan features a large fiscal adjustment, which is large compared to historical and cross-country comparisons. To achieve the debt reduction goals specified in the plan it will be important to avoid policy slippages.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

**Figure 6. Ecuador: Medium-Term Risk Assessment**

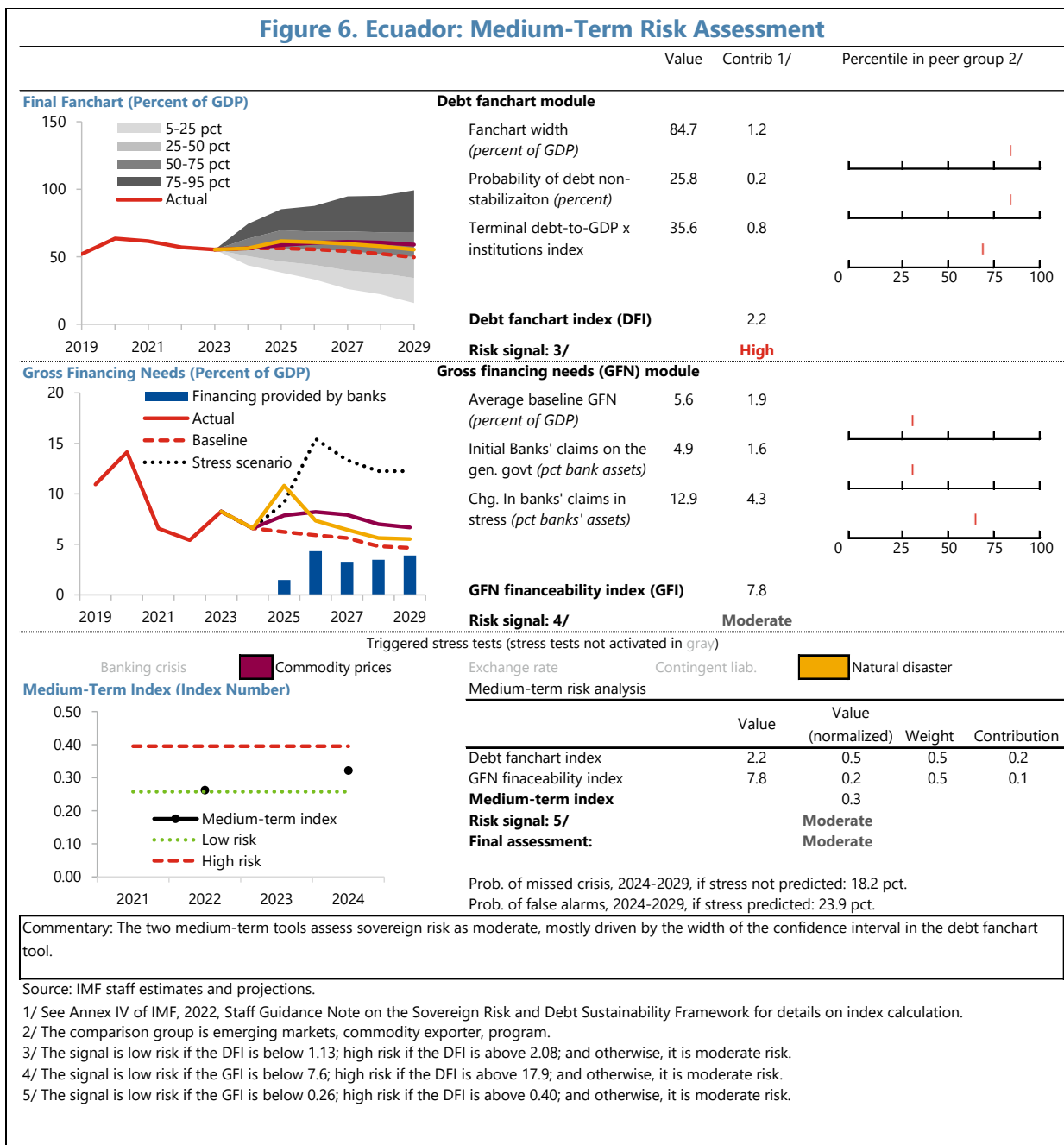


Figure 7. Long-Term Modules

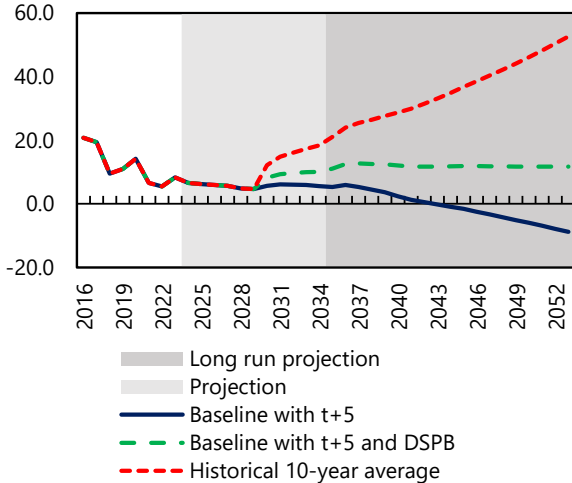
Ecuador: Triggered Modules

<b>Large amortizations</b>	Pensions Health	Climate change: Adaptation Climate change: Mitigation	<b>Natural Resources</b>
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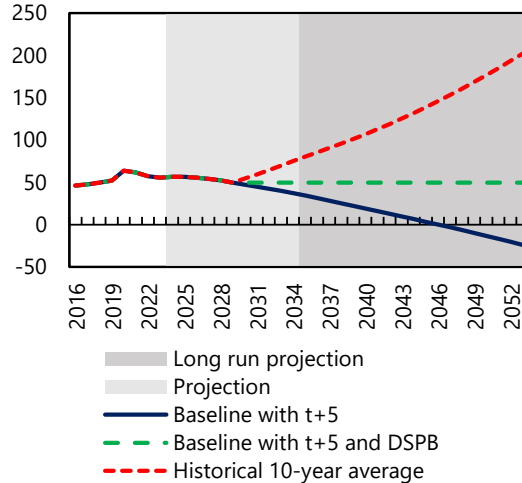
Ecuador: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Red
	Amortization-to-GDP ratio	Red
	Amortization	Red
Overall Risk Indication		Red

GFN-to-GDP Ratio

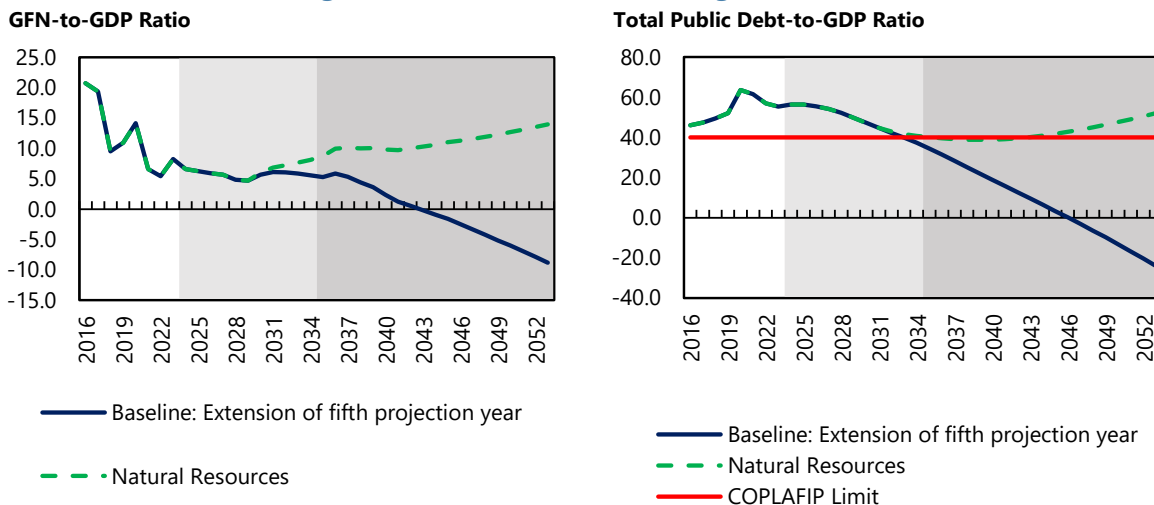


Total Public Debt-to-GDP Ratio



Source: Fund staff.

**Figure 8. Natural Resources Long-Term Module**



Commentary: Ecuador does not face immediate pressures from depleting oil resources.

Source: Fund staff.



Annex III. Risk Assessment Matrix<sup>1</sup>

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
<b>Conjunctural Shocks and Scenarios</b>			
<p><b>Intensification of regional conflicts.</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.</p>	<b>High</b>	<p style="text-align: center;"><b>Medium</b></p> <p>Difficulties in finding new markets for exports hit by the disruptions can reduce trade flows and slow economic growth. Higher oil and metal prices are expected to have a net positive impact on Ecuador's external and fiscal balances.</p>	Gradually reduce dependency on oil through economic diversification and promote private sector-led growth. Continue to diversify export markets through new high standard regional FTAs.
<p><b>Commodity price volatility.</b> A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.</p>	<b>High</b>	<p style="text-align: center;"><b>High</b></p> <p>Uncertainty on commodity prices will affect investment and economic activity. Financial conditions will tighten, leading to higher funding costs for banks and non-financial corporations.</p> <p>Fluctuations in commodity prices would impact the fiscal sector and Ecuador's balance of payments.</p>	Pursue fiscal consolidation to restore confidence and ensure debt and fiscal sustainability. Gradually reduce dependency on oil through economic diversification and promote private sector-led growth. Continue to closely monitor financial sector stability. Continue to address financing needs by closely working with international financial institutions and seek opportune times to re-access international markets.
<p><b>Abrupt global slowdown or recession.</b> Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.</p>	<b>Medium</b>	<p style="text-align: center;"><b>High</b></p> <p>An abrupt global slowdown or recession could cause a severe drop in economic activity and impact the balance of payments in Ecuador via direct trade effects—China, the U.S. and Europe are Ecuador's largest trading partners—and indirect effects stemming from the wider growth slowdown.</p>	Diversify the economy to reduce dependency on commodity exports. Continue to diversify export markets through new high standard regional FTAs.

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
<p><b>Monetary policy miscalibration.</b> Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.</p>	<p><b>Medium</b></p>	<p><b>Medium</b></p> <p>Ecuador is a fully dollarized economy with no independent monetary policy. A premature loosening of monetary policy in major economies would also hinder disinflation in Ecuador. Abrupt market movements caused by excessively tight monetary policy could hit Ecuador through higher funding costs, and negative spillovers via lower growth in trading partners and lower commodity prices.</p>	<p>Continue to closely monitor financial sector stability. Strengthen (financial) crisis preparedness and management.</p> <p>Pursue fiscal consolidation to rebuild credibility with markets. Continue to address financing needs by closely working with international financial institutions and seek opportune times to re-access international markets.</p>
<p><b>Systemic financial instability.</b> High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.</p>	<p><b>Medium</b></p>	<p><b>Medium</b></p> <p>Higher risk aversion and tighter global financial conditions would lead to capital outflows from vulnerable EMDEs, with adverse effects on their economies and financial systems. Ecuador would be affected by the adverse financial environment, which could lead to a delay in re-accessing capital markets, and by real spillovers from trading partners.</p>	<p>Pursue fiscal consolidation to rebuild credibility with markets. Strengthen (financial) crisis preparedness and management.</p> <p>Continue to address financing needs by closely working with international financial institutions and seek opportune times to re-access international markets.</p>
<p><b>Social discontent.</b> High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.</p>	<p><b>Medium</b></p>	<p><b>High</b></p> <p>Social unrest and uncertainty regarding future macroeconomic policies could lead to increases in interest spreads and hurt confidence and economic activity.</p>	<p>Implement policies to protect the poor and the most vulnerable. Continue engaging the broader public, explaining the benefits of the reform program. Prioritize social spending to achieve more inclusive growth. Continue to liberalize trade and improve the business climate to promote faster job creation and inclusive growth.</p>

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
<b>Structural Risks</b>			
<p><b>Deepening geoeconomic fragmentation.</b> Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.</p>	<b>High</b>	<p style="text-align: center;"><b>Medium</b></p> <p>Geopolitical tensions that impact commodity prices (in particular oil) could have significant ramifications on growth and fiscal and external balances. Geopolitical tensions could also affect Ecuador via reductions in the trade volumes of non-oil products (such as bananas or shrimps). Higher oil and metal prices are expected to have a net positive impact on Ecuador's external and fiscal balances.</p>	<p>Adopt policies that improve the resilience of trading relationships, including by removing trade barriers, fostering free trade agreements, and limiting policy uncertainty through clearly articulated medium-term policy frameworks. In the event tensions reduce oil prices, implement fiscal contingency measures.</p>
<p><b>Extreme climate events.</b> Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.</p>	<b>Medium</b>	<p style="text-align: center;"><b>High</b></p> <p>Ecuador is vulnerable to a wide range of natural hazards related to climate change, such as landslides, floods, storms, and the effects of El Niño and La Niña phenomena. Ecuador is also exposed to volcanic and seismic activity. Such disasters could cause infrastructure damage and hit production (including in the oil and mining sectors) with knock-on effects to the fiscal, external, and financial sectors.</p>	<p>Implement policies to build resilience in infrastructure to natural disasters. Invest to protect critical financial, transport, communication, or energy infrastructure to minimize disruptions. Build precautionary savings buffers.</p>
<b>Domestic Risks</b>			
<p><b>Prolonged or deeper security crisis.</b> A renewed flare-up in domestic violence causing renewed curfews and other disruptions.</p>	<b>High</b>	<p style="text-align: center;"><b>High</b></p> <p>High insecurity would lower domestic activity, tourism, and fiscal revenue, and deter long-term investment.</p>	<p>Ensure adequate fiscal spending on security, through adequate prioritization. Implement contingency fiscal measures as needed to ensure fiscal sustainability is not undermined. Implement targeted measures to support the most vulnerable. Advance governance, AML/CFT,</p>

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
			and inclusive growth agenda.
<b>Renewed political impasse.</b> The government is unable to complete its reform agenda due to faltering political and public support.	<b>High</b>	<b>High</b> Lack of access to international financing and lower investment. Further build-up of arrears, which will hit the economy and lower growth.	Implement policies to protect the poor and the most vulnerable. Continue engaging the broader public, explaining the benefits of the reform program. Prioritize social spending to achieve more inclusive growth.
<b>Unexpected and large disruptions in oil production.</b> Repeated and long disruptions to oil production owing to natural disasters and lacking maintenance of infrastructure.	<b>Medium</b>	<b>High</b> Reduced oil production and export. Lower fiscal revenue, leading to further liquidity constraints for the government along with additional build-up in arrears.	Invest in maintenance of oil infrastructure. Advance the diversification and SOE governance agenda.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

## Annex IV. Country CD Strategy Note<sup>1</sup>

*Ecuador's capacity development (CD) efforts should aim to be aligned with reform objectives under the Extended Fund Facility (EFF). Enhancing public financial management (PFM) and revenue administration are key CD priorities. Strengthening the financial system is another important area. The authorities' engagement and ownership are solid, but absorption capacity is affected by frequent staff turnover. The recent government transition has delayed some CD plans, affecting traction in some cases. Given significant CD needs, close engagement with other bilateral and multilateral partners to ensure coordination among CD providers remains critical.*

### Context

**6. Ecuador has received significant CD support.** Over the last few years, the Fund has been providing extensive CD to Ecuador in various areas, including government finance statistics (GFS), debt management and recording, public financial management (PFM), revenue administration, public investment, governance, the financial system, and macroeconomic frameworks. Several of the recommendations served as the basis for the design of structural conditionality of the previous EFF arrangements (2019 and 2020-22).

**7. CD needs remain substantial, including to improve technical capabilities in the fiscal and financial sectors.** Fund CD will be instrumental to advance the implementation of reforms under the new EFF, in areas such as PFM, domestic arrears, revenue administration, and financial stability.

### CD Engagement and Effectiveness

**8. Fund's CD engagement with Ecuador.** Since the re-engagement of the Ecuadorian authorities with the 2015 Article IV, IMF CD support also intensified. CD activities were substantially expanded since the request for a Fund-supported program in 2018. In fiscal areas, the IMF has provided CD on PFM, debt management, fiscal rules, medium-term fiscal framework (MTFF), tax expenditure and revenue administration, and GFS. In the monetary and financial areas, the technical assistance (TA) focused on banks stress testing, financial supervision and regulation, Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), and the comprehensive Financial Sector Assessment Program (FSAP). Other TA focused on governance, including conflict of interest, and macroeconomic statistics and modelling. Table 1 summarizes the CD engagement since 2016.<sup>2</sup>

<sup>1</sup> This country strategy note and the attached table matrix illustrate the integration of CD and program objectives, guided by key recommendations in the IMF Board Paper [2018 Review of the Fund's Capacity Development Strategy](#). The acronyms in the note refer to the following IMF and other CD providers: Fiscal Affairs Department (FAD), Institute for Capacity Development (ICD); Legal Department (LEG), Monetary and Capital Markets Department (MCM); Statistics Department (STA); and World Bank (WB).

<sup>2</sup> Institutions that benefited from these TAs include the Ministry of Economy and Finance (MEF), the Central Bank of Ecuador (BCE), the Internal Revenue Service (SRI), Customs (SENAE), the National Institute of Statistics (INEC), the

(continued)

**9. Integration of CD in Fund’s Surveillance and Lending.** Traditionally, the provision of CD activities in Ecuador has been closely integrated with the surveillance priorities identified in previous Article IV consultations. The coordination between the authorities and the country team intensified under the previous EFF-supported program, with significant support from the Resident Representative’s Office. This coordination helped ensure that CD was consistently integrated in the authorities’ reform priorities and effectively supported program implementation. The country team ensures the appropriate sequencing of CD in reform processes, in consultation with the authorities and CD providers, including other development partners, as appropriate.

**10. Collaboration and coordination with other CD partners.** Fund staff collaborates closely with the World Bank (WB) in areas such as debt management, financial stability, and social assistance. Staff also engages with other CD partners on a regular basis to ensure synergies in supporting CD objectives and broader EFF-related goals. Key partners include United Nations agencies such as UN Development Programme (UNDP) and UN Office on Drugs and Crime (UNODC); US Department of the Treasury’s Office of Technical Assistance (OTA); European Union; Inter-American Development Bank (IDB); and the Development Bank of Latin America and the Caribbean (CAF).

**11. CD effectiveness and traction.** Over the last few years, key TA recommendations on debt management, PFM, tax policy, GFS, and transparency have led to positive changes in policies, frameworks, and institutions. For example:

- **Debt Management and Statistics:** Publication of more transparent and timely debt statistics. New fiscal rule introduced under the 2020 EFF. Publication of a Medium-Term Debt Management Strategy (MTDS) in February 2021. With support from OTA and UNCTAD, a new public debt registry was concluded in 2023.
- **Medium-Term Fiscal Framework (MTFF).** In line with the Fund-supported reform to the Organic Code of Public Finances and Planning (COPLAFIP), the Ecuadorian authorities implemented a new PFM framework. Since 2022, they have published an MTFF with a top-down approach, fiscal rules, expenditure ceilings, and a fiscal risk assessment.
- **Tax Revenue and Administration.** Following Fund TA recommendations, a Large Taxpayers’ Unit (LTU) was created. To accelerate tax collections, legal incentives were developed, and mediation processes set up for taxpayers who had tax debts. These measures were incorporated in the tax reform legislature that was enacted in November 2021.
- **Fiscal Statistics.** With extensive STA’s CD on GFS, including the collaboration of an STA’s long-term expert (LTX) during 2023, significant improvements have been made in timeliness, reliability, and consistency of fiscal statistics at different levels of the public sector. There is now more accurate recording of central government fiscal data from 2013 onwards, as well as a better

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Superintendencies of Banks and Cooperatives, the Economic and Financial Analysis Unit (UAFF), and the Comptroller General’s Office.

recognition of central government's contingent liabilities with other entities of the non-financial public sector. Revised data have been published on the BCE and MEF websites with explanations for the changes.

- **Governance and Transparency.** With the help of Fund TA, the anti-corruption framework (COIP) was amended in 2020 to criminalize corruption. Also in 2020, regulations were adopted to request the ultimate beneficial ownership information in public contracts. The existing asset declaration regime for high-level officials, including detailed assets and liabilities, was improved and extended, and the declarations were published. Audits of COVID-related expenditures were conducted and published on the Comptroller General's Office's website. The Superintendency of Banks, the Office of the Comptroller General, and the UAFE have also benefited from CD and TA in the areas of AML and cybersecurity monitoring, supporting the building of risk-based frameworks.
- **Macroeconomic Statistics and Forecasting.** Extensive CD has focused on upgrading the quality of macroeconomic statistics. In 2022 and 2023, STA supported the benchmark revisions to the national accounts, conducted by the BCE and published in December 2023. ICD is conducting several missions on macroeconomic frameworks to help improve the authorities' forecasting and policy analysis, while also enhancing the coordination between members of the MEF and BCE.

## CD Priorities

**12. Ecuador's CD needs are expected to remain elevated going forward, consistent with the authorities' reforms agenda and EFF objectives.** Given the recent government transition, discussions on some specific TA plans are being conducted. CD needs are expected to remain elevated, with the aim of supporting key reform areas as follows:

### ***Strengthening PFM, Revenue Mobilization and Administration, Debt Management, and Fiscal Governance***

**13. Priorities would focus on fully implementing the COPLAFIP reform, addressing domestic arrears, and further enhancing revenues.** With support from FAD's LTX, CD work is helping the authorities advance in the areas of fiscal risks, cash management planning, monitoring and accounting for domestic arrears, and MTFP preparation. To strengthen domestic revenues, some CD priorities would include addressing tax expenditures and resuming TA activities in tax administration and customs. It will be important to build on 2023 CD work, such as the Tax Administration Diagnostic Assessment Tool (TADAT) and a tax gap analysis. It is also important to continue working on the recommendations of the 2023 Public Investment Management Assessment (PIMA) and the 2022 Medium-Term Debt Management Strategy (MTDS).

**14. Additional work can support increasing the efficiency and transparency of public expenditure.** One important goal is to fully implement and deepen the reforms to the procurement framework. Some CD partners are either working or planning to collaborate with the authorities in this area; for example, to support the implementation of the National System of Control (SNC) that

acts as a coordination mechanism for all institutions acting on procurement and anti-corruption. While the SNC has been created, it requires IT and CD support to ensure interoperability of the databases and a risk-based framework.

### ***Supporting Financial Stability***

**15. The 2023 Financial Sector Assessment Program (FSAP) identified a significant reform agenda.** This was the first comprehensive evaluation of the Ecuadorian financial system in almost 20 years. Implementing recommendations of this assessment will require extensive CD efforts, in coordination with the WB. TA activities may prioritize the following areas: development of domestic debt markets, bank resolution tools and processes, risk-based supervision, liquidity and capital regulations, and the reform of the interest rate system.

### ***Improving the Quality and Consistency of Statistics***

**16. Ecuador has received extensive support from the Fund on GFS since 2018.** STA's regular CD activities have allowed for continued improvement in the compilation of fiscal data in line with the GFS Manual 2014. In 2023, STA's LTX worked with the MEF to further enhance the statistical compilation process. Additional CD on GFS is planned to build on the progress achieved so far.

**17. Continuing CD on adequate measurement of all macroeconomic aggregates is essential.** The BCE would benefit from additional TA activities to improve the quality and coverage of the external sector statistics. CD work has already been committed to assist the authorities with projects to rebase the producer price index (PPI) and the consumer price index (CPI) and continue improving the quarterly national accounts with reference year 2018, with three missions planned for FY25. The BCE has also requested TA to compile Import and Export Price Indices to enhance the national accounts volume measures.

### ***Improving Macroeconomic Forecasting and Policy Analysis***

**18. Support with macroeconomic frameworks remains under way.** The MEF and the BCE are benefiting from TA in Financial Programming and Policies (FPP), which will allow staff from both institutions to better understand and model the inter-relationships between different sectors of the economy and execute internally consistent policies. Several TA missions have been conducted by ICD since 2023 and more work is expected in the next few months.

### **Challenges and Mitigating Factors**

**19. The authorities remain highly engaged in CD and TA activities, including to underpin the success of the new IMF's EFF arrangement.** Incorporating TA advice and lessons from CD activities in program conditionality helps support program performance. By adopting TA recommendations, significant progress has already been made in terms of reliability, transparency, and consistency of information. However, capacity building is a long-term process, and changes in authorities and high turnover levels of technical staff has often necessitated both follow-up and repeat CD activities. To improve traction, TA recommendations should be broken into



straightforward and easily digestible steps, adapted to local constraints, and implemented gradually but steadily, with sufficient planning and resource allocation to ensure absorption capacity to lock-in long lasting effects. The CD plans outlined above are part of staff's continuous dialogue with the authorities, taking into account their priorities and absorptive capacity as well as IMF staff's views on Ecuador's pressing needs for capacity building.

**Table 1. Ecuador: IMF Capacity Development Missions Since 2016**

<b>TA/Training Mission</b>	<b>Provider</b>	<b>Mission Date</b>
<b>Strengthening PFM</b>		
RA-GAP – Tax Gap Analysis	FAD	July 2023
Public Investment Management Assessment (PIMA)	FAD	February 2023
Revenue Administration (TADAT)	FAD	January 2023
Debt Management	MCM	September 2022
Medium-Term Fiscal Framework (MTFF)	FAD	September 2021
Fiscal Risks	FAD	July 2021
Revenue Administration	FAD	March 2021
Developing Implementation Regulations for COPLAFIP	LEG	December 2020
Medium-Term Debt Strategy	MCM	November 2020
Tax Expenditure	FAD	April 2020
Revenue Administration and Tax Procedures	FAD	June/July 2019
PFM and Fiscal Rules	FAD	May 2019
Customs Administration	FAD	March/April 2019
Revenue Administration	FAD	March 2019
Non-Resource Revenues	FAD	January/February 2019
Debt Management	MCM	December 2018
Public Financial Management	FAD	September 2018
<b>Implementing Structural Reforms</b>		
Conflict of Interest Legislation	LEG	July 2022
Conflict of Interest Legislation	LEG	December 2021
Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)	LEG	November 2021
Wage Bill Reform	FAD	January 2019
<b>Supporting Monetary and Financial Stability</b>		
Financial Sector Assessment Program (FSAP)	MCM	May 2023
Cybersecurity	MCM	February 2022
Banking Stress Testing	MCM	July/November 2021
Banking Stress Testing	MCM	January 2021
Credit Cooperatives Supervision	MCM	July 2020
Regulatory and Prudential Framework	MCM	June 2019
Central Bank Law	LEG	April 2019
Network Analysis Toolkit	MCM	January 2016

<b>Table 1. Ecuador: IMF Capacity Development Missions Since 2016 (concluded)</b>		
<b>TA/Training Mission</b>	<b>Provider</b>	<b>Mission Date</b>
<b>Improving and Updating Government Finance Statistics</b>		
Government Finance Statistics	STA	February/March 2023
Government Finance Statistics and Public Debt Statistics	STA (LTX)	November 2022 – October 2023
Government Finance Statistics	STA	July/August 2022
Government Finance Statistics	STA	February/March 2022
Government Finance Statistics	STA	December 2021
Government Finance Statistics	STA	November 2021
Government Finance Statistics	STA	July 2021
Government Finance Statistics	STA	April 2021
Government Finance Statistics	STA	September/October 2020
Government Finance Statistics	STA	September/October 2019
Government Finance Statistics and Public Debt Statistics	STA	August 2018
<b>Capacity Development in Macroeconomic Statistics and Frameworks</b>		
Macroeconomic Framework	ICD	January 2024
National Accounts: re-basing GDP	STA	November 2023
Macroeconomic Framework	ICD	November 2023
Prices Statistics	STA	September 2023
Quarterly National Accounts and GDP rebasing	STA	September 2023
National Accounts: re-basing GDP	STA	September 2023
Macroeconomic Framework	ICD	August 2023
External Sector Statistics (BOP)	STA	August 2023
Macroeconomic Framework	ICD	July 2023
Monetary and Financial Statistics	STA	June 2023
Macroeconomic Framework	ICD	May 2023
Macroeconomic Framework	ICD	January 2023
External Sector Statistics (BOP)	STA	August 2022
Quarterly National Accounts and GDP rebasing	STA	August 2022
National Accounts: re-basing GDP	STA	April 2022
External Sector Statistics	STA	August/September 2019
Export and import price indices	STA	July 2019
External Sector Statistics	STA	January/February 2019
National Accounts Statistics	STA	November 2018
Monetary and Financial Statistics	STA	August/September 2017
Balance of Payments Statistics	STA	August/September 2017

## Appendix I. Letter of Intent

Quito, May 15, 2024

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

Dear Ms. Georgieva:

- 1.** Ecuador is going through one of the most difficult times in its history. A combination of external shocks, including a fall in oil prices, a rise in global interest rates, as well as natural disasters and weather-related events, electricity shortages, low international financing, and domestic political uncertainty in the runup to the 2023 early general elections hit our economy over the past year. These shocks have led to a sharp slowdown in economic activity starting in the second half of 2023 and weighed heavily on our public finances. In this context, the fiscal position weakened markedly, domestic liquidity tightened significantly, and treasury deposits and foreign exchange reserves declined sharply. In addition, a severe security crisis exacerbated our economic and fiscal challenges.
- 2.** In recent months, the Government has taken bold actions to tackle the fiscal challenges and address the domestic security situation as a priority. These actions comprised a package of measures to boost fiscal revenue, including an increase in the value-added tax rate, and actions to strengthen our security forces and capabilities in the context of a new national security plan.
- 3.** We are committed to implementing policies to strengthen fiscal sustainability, protect vulnerable groups, rebuild fiscal and external buffers, safeguard dollarization and financial stability, and advance the structural reform agenda to unlock Ecuador's significant economic potential. With the support of the IMF and the international community, we are confident that we will be able to achieve these objectives and lay the foundations for strong, sustained, and inclusive economic growth.
- 4.** To help us meet these objectives, we kindly request IMF support through a 48-month extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 3 billion (about US\$4 billion), or 430 percent of Ecuador's IMF quota, to be provided for budget support, with an initial purchase of SDR 752.9 million (107.9 percent of quota) upon approval of the EFF arrangement. This borrowing is consistent with the provisions of the Constitution of Ecuador (in particular Article 290, sections 2 and 3) as well as relevant domestic legislation.
- 5.** Together with our economic policies, the support from this new Fund arrangement will help cover Ecuador's balance of payments and fiscal needs and foster a strong and job-rich economic recovery that generates opportunities for all Ecuadorians, including the youth. The new arrangement

will build upon the significant progress made under the previous IMF-supported programs, helping us implement important economic reforms and providing a valuable anchor for our economic policies. The new program will also play a catalytic role in mobilizing international support, including from other multilateral partners, as well as from our bilateral creditors, ensuring that the program is fully financed and helping restore access to international capital markets.

**6.** The Government believes that the policies described in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives underpinning the program. However, if necessary, the Government stands ready to take any additional measures that may become necessary to achieve our program objectives. The Government will consult with the Fund on the adoption of these measures and in advance of any substantive revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will also provide the Fund's staff with all the relevant information required to complete the program reviews and to monitor performance on a timely basis.

**7.** The Government will observe the standard performance criteria against imposing or intensifying foreign exchange restrictions or introducing or modifying multiple currency practices. Equally, we will not conclude bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, nor will we impose or intensify import restrictions for balance of payments reasons. We request the IMF Executive Board's approval for retaining the existing exchange restriction arising from the tax on transfers abroad (ISD) for the making of payments and transfers on current international transactions on the ground that the measure is maintained for balance of payments purposes, temporary, and non-discriminatory. We are committed to gradually phasing out this measure, as macroeconomic and balance of payments stability are restored and the foreign exchange reserve position is strengthened, supported by implementation of the policies under the EFF-supported program.

**8.** In line with our commitment to foster transparency, we consent to the publication of this letter, its attachment, and the Staff Report associated with our request for support, to keep domestic and international agents informed about our policy actions and intentions.

**9.** We thank you for your support and willingness to sustain a partnership with Ecuador as we carry forward our efforts to address our security challenges and revitalize our economy to achieve a sustainable, equitable, and resilient growth path.

Sincerely yours,

/s/

Juan Carlos Vega  
Minister of Economy and Finance

/s/

Guillermo Avellán  
General Manager, Central Bank of Ecuador

## Attachment I. Memorandum of Economic and Financial Policies

**This memorandum describes the key policies of our IMF-supported program under a 48-month Extended Fund Facility (EFF) arrangement, which builds on the previous 2020-22 EFF arrangement** (hereinafter the “2020 EFF”).

**1. Ecuador made significant progress in implementing important structural and fiscal reforms in recent years.** The 2020 EFF was instrumental in helping Ecuador recover from the pandemic, strengthen fiscal sustainability, support the dollarization regime, and advance the transparency and anti-corruption agendas. In 2022, we reached an overall fiscal balance, the strongest fiscal result in over a decade. Key structural reforms included updating the Organic Budget Code (COPLAFIP) that established a prudent fiscal framework and reinforced public financial management (PFM); enacting legislation that criminalized acts of corruption (COIP); and reforming the Organic Monetary and Financial Code (COMYF) to strengthen the independence and governance of the Central Bank of Ecuador (BCE). During the EFF, we also boosted the social safety net, increasing social assistance spending to protect the most vulnerable segments of the population and making it more geographically inclusive.

**2. Political events and other shocks hindered further progress with the reform plans that started under the 2020-22 EFF arrangement.** Political uncertainty dominated most of 2023 constraining financing options and fiscal and other reform efforts. In addition, oil revenue declined due to a fall in both production and prices, while interest payments on external public debt with floating rates increased significantly amid the global monetary policy tightening cycle. Together with a sharp slowdown in economic activity, these developments negatively impacted public finances. The fiscal position weakened markedly, and treasury deposits and international reserves declined sharply during 2023.

**3. In addition, a severe security crisis exacerbated Ecuador’s fiscal and economic challenges.** In recent years, Ecuador has grappled with a surge in criminal activities connected to international organized crime and drug trafficking. In early January 2024, in response to security breaches, the government declared a 60-day state of emergency (later extended for another 30 days) and an internal armed conflict, including curfews and mobility restrictions further weighing on the fragile macroeconomic situation. Addressing the security situation is our key priority for the well-being of our population and to help reactivate our economy.

**4. During the early months of our administration, we have taken bold actions to address the fiscal and security challenges.** On the fiscal and economic fronts, we implemented a three-percentage point value added tax (VAT) rate hike alongside additional revenue measures, totaling about 2 percent of GDP, to reduce the fiscal gap. We also introduced a limited set of tax incentives to stimulate growth and promote youth employment and encouraged private participation in the energy sector. In January, we announced the intention to target the fuel subsidies to the most vulnerable. On the security front, we bolstered the government’s capability to fight crime, including by reorienting current expenditure to boost the security envelope and enhancing the role of the

military. A referendum held in April 2024 approved measures to tackle the security situation. Our decisive actions to address the fiscal and security challenges contributed to a decline in sovereign debt spreads of about 1,000 basis points since December 2023 to below 1,200 basis points in April.

**5. We are committed to implementing policies to protect macroeconomic stability, strengthen fiscal sustainability, enhance the social safety net, and foster inclusive growth.**

Building on the achievements of recent years and the measures that we have already implemented in 2024, the new IMF-supported EFF arrangement intends to: (i) strengthen fiscal sustainability, while protecting vulnerable groups; (ii) rebuild fiscal and external buffers; (iii) safeguard dollarization and macroeconomic stability; (iv) enhance financial stability and integrity; and (v) continue the structural reform agenda to unlock the economy's potential, fostering strong and inclusive economic growth.

**6. The following sections of this memorandum outline our policy plans under the new arrangement.**

**A. Strengthening Fiscal Sustainability**

**7. In recent years, we have undertaken reforms to ensure the sustainability of Ecuador's public finances and build a more robust PFM framework underpinned by stronger institutions.** Key elements introduced by the updated COPLAFIP included the establishment of a medium-term fiscal framework, the introduction of clear anchors to reduce public debt, the setup of the National Fiscal Coordination Committee, and the introduction of a fiscal risk management exercise. Fiscal governance was further enhanced by a comprehensive revamp of fiscal statistics and cash management, supported by Fund technical assistance.

**8. Our fiscal policy will continue to be guided by the principle of strengthening the sustainability of public finances and reducing public debt, while protecting the most vulnerable.** We will aim at placing our public debt ratio on a firmly downward trajectory, maintaining manageable gross financing needs, and respecting the expenditure growth rules and the debt limit of 40 percent of GDP by 2032 that are enshrined in COPLAFIP. We will continue to allocate fiscal space in our budgets to protect the most vulnerable segments of our population and for priority investment projects. As a sign of our commitment, we will publish a medium-term fiscal framework (MTFF) that is in line with these objectives and the EFF-supported program (***end-October 2024 structural benchmark***).

**9. The 2024 fiscal plan envisages a reduction of the non-financial public sector (NFPS) overall fiscal deficit of 1.6 percentage points of GDP to 2 percent of GDP.** The 2024 plan will still accommodate a moderate increase in capital spending and urgent spending needs to deal with the security situation and protect the most vulnerable segments of the population. The fiscal plan will also seek to start clearing domestic payment arrears and address the difficult liquidity situation facing the economy. The fiscal efforts will be supported by the revenue measures enacted in the first quarter of 2024 as well as expenditure restraint:

- On the revenue side, the enacted measures are expected to bring about 2 percent of GDP in additional revenue. Main measures taken include a hike in the value added tax (VAT) rate and temporary contributions payable on corporate and bank profits.
- On the expenditure side, we are committed to restraining current expenditure, underpinned by maintaining wages and goods and services broadly constant in real terms, while protecting space to address the security crisis and meet urgent social and investment needs.

To monitor fiscal liquidity in real time, we have prepared and shared with Fund staff a projected monthly cash flow and financing plan for the budgetary central government for the remainder of 2024 (**prior action**). We will also be ready to take additional revenue or expenditure measures should fiscal shortfalls emerge that would jeopardize the achievement of program targets. To that effect, we have also elaborated a contingency plan (**prior action**).

**10. We aim to achieve a gradual medium-term fiscal consolidation to place public finances on a sustainable path.** To this end, we expect to further reduce the NFPS overall deficit to 1.2 percent of GDP in 2025 and reach an overall surplus of 0.5 percent of GDP by the end of the program in 2028. This is consistent with achieving a surplus in the NFPS primary balance of 0.1 percent of GDP already in 2025 and a cumulative consolidation of about 5.5 percentage points of GDP in the non-oil primary balance including fuel subsidies (NOPBS) over 2024-28 relative to end-2023. This consolidation effort would strike an appropriate balance between strengthening fiscal sustainability, supporting the economic recovery, and protecting the most vulnerable, while at the same time allowing us to reduce oil dependence and meet international reserves coverage and public debt limits set out in the COMYF and COPLAFIP legislations, respectively. The measures that we are planning to take to achieve the projected medium-term consolidation would include the following key items:

- **Non-Oil Revenues.** Increasing non-oil revenues remains important to reduce volatility in fiscal revenues triggered by global commodity prices. We will aim to continue mobilizing non-oil revenues to replace temporary measures with permanent high-quality ones, thereby sustaining a higher level of non-oil fiscal revenues over the medium term. To achieve this, we plan to streamline inefficient tax expenditures and exemptions. A plan to mobilize non-oil revenues over the medium term will be prepared and shared with Fund staff (**mid-November 2024 structural benchmark**).
- **Oil Revenues.** The fiscal opportunity cost of selling oil derivatives at below market prices was about US\$3.2 billion in 2023, equivalent to 2.7 percent of GDP. Most of these subsidies benefit many who do not need the support, encourage over-consumption of fossil fuels, undermine the energy transition, damage the environment, and provide ground for corruption and smuggling, benefiting informal mining activities and drug trafficking. As we announced in January, one of the administration's priorities is to make fuel subsidies more focused, while ensuring an appropriate social protection mechanism for the most vulnerable. In addition, the government is launching initiatives to increase net oil revenues, including by gradually increasing production



(partly through greater private investments) and enhancing the capacity of the oil refinery system.

- **Public Sector Wage Bill.** We are committed to continue efforts to contain the public sector wage bill, building on efforts made in recent years. To this end, we plan to limit increases in headcount and wages. In this spirit, we have recently issued a norm to enforce that all public sector wages be capped below the salary of the President. The strategy will be carefully crafted to ensure the delivery of quality public services and needed hiring of additional police personnel and domestic security forces to counter the security crisis.
- **Procurement.** We aim to continue reforming our procurement system to optimize expenditure in goods and services, while ensuring the highest standards of transparency and the quality of public services. In July 2023, the National Public Procurement Agency (SERCOP) issued norms to operationalize the 2022 Procurement Law. Ongoing efforts to increase efficiency include the cataloguing of public procurement processes and prices, introducing standardized and bulk purchases of medicine, medical inputs, and other goods and services. Additionally, to promote transparency, we created the National Control Subsystem (SNC), presided by SERCOP, and comprised by the Economic and Financial Analysis Unit (UAFE), the Internal Revenue Service (SRI), the Office of the Comptroller, the State Attorney's Office, and financial regulators. The SNC will facilitate coordination among public entities with control competencies over the public procurement system, via the interoperability of their databases. We will establish a timeline to operationalize the SNC (**end-December 2024 structural benchmark**) and upgrade the Public Sector Procurement System (SOCE), with support from the Inter-American Development Bank (IDB).
- **Capital Expenditure.** We will prioritize capital expenditure projects based on their estimated social and economic impact. We will also promote public-private partnerships (PPPs) and concessions to the private sector for infrastructure investment, with due account of contingent liabilities and the associated fiscal risks. The Ecuadorian Development Bank (a public bank) will channel multilateral and bilateral resources for infrastructure investment by local governments. We undertook a Public Investment Management Assessment (PIMA) in 2023 to improve our public investment process. This technical assistance included a climate-related assessment of public investment management (C-PIMA) to help us build low-carbon and climate-resilient infrastructure. We intend to gradually implement the recommendations of the PIMA/C-PIMA assessments.

**11. Specific actions to achieve annual fiscal targets will be established in the corresponding annual budgets.** Given that 2025 will be an election year, the 2024 budget will be extended into 2025, as stipulated by COPLAFIP. We will enact the necessary measures to ensure that our 2025 fiscal plan is in line with the EFF-supported program targets and the MTF (**early December 2024 structural benchmark**).

**12. We are committed to clearing domestic arrears.** The accumulation of public sector arrears due to tight fiscal and liquidity conditions is weighing heavily on economic activity. As the fiscal

liquidity situation improves, we will work on regularizing obligations to the private sector and intra-public sector claims. To this effect, we have already included in the multi-year fiscal financing plan the clearance of budgetary central government (PGE) arrears with the private sector, and we will prepare and share with Fund staff a plan for clearing and preventing the resurgence of PGE arrears, including obligations to the private sector and intra-public sector claims (**end-November 2024 structural benchmark**).

**13. Our financing strategy will rely on bilateral and multilateral sources in the near-term, while seeking to regain access to international capital markets as soon as possible, as the market conditions allow, and gradually developing domestic financing sources.** We will pursue an active public debt management strategy with the goal of covering the public sector's financing needs at the lowest possible cost with a prudent level of risk. We will publish a new medium-term debt management strategy (MTDS) in line with these objectives and the EFF-supported program (**end-October 2024 structural benchmark**). We are in active dialogue with our official bilateral partners to secure continued financial support. With sovereign debt spreads having declined rapidly in recent months, we hope to return to the international capital markets as soon as possible, as the market conditions allow. We will also work on developing domestic capital markets.

## B. Expanding Our Social Safety Nets

**14. Our goal is to ensure that the burden of fiscal consolidation is not borne by the poor and vulnerable.** We have made big strides in protecting the social and economic conditions of the most vulnerable in recent years by upgrading our social registry and expanding the coverage of the social protection system with the assistance of the World Bank (WB). We will prepare a plan to complete the social registry to cover all families in the lowest three deciles of the income distribution throughout the country (**end-October 2024 structural benchmark**). As of March 2024, 1.2 million family units from the bottom three income deciles already benefit from social protection transfers. We aim to extend the coverage of social protection for 47,000 additional family units per year into the social protection programs, thereby ensuring that almost all the families in the bottom two income deciles and the majority of the families in the third income decile are covered by social protection by the end of the IMF-supported program. Additionally, we are working on the permanent updating of the social registry base that includes institutional strengthening at the central level and territorial deployment work in coordination with subnational governments (GADs). Also, with the support of the WB, we have undertaken several actions to make the current social protection system more efficient and comprehensive, not only through monetary transfers but also through the provision of complementary services by the State.

## C. Enhancing the Institutional Framework, Governance, and Transparency

**15. We have made significant improvements in enhancing the timeliness, reliability, and consistency of fiscal statistics.** The 2020 COPLAFIP reforms included the adoption of regulations, including those that require timely collection, accurate compilation, and transparent publication of fiscal data, with adequate coverage (by subsectors of the NFPS). We have enhanced our technical

and institutional capacity in fiscal data recording and reconciliation. In that regard, we established a dedicated statistics unit at the Ministry of Economy and Finance (MEF), with expertise in government finance statistics compilation. With the support of IMF TA, we have updated the training curriculum in GFS compilation and produced a training schedule, to ensure ongoing training of new and existing staff in above- and below-the-line fiscal data recording, reconciliation, and verification. An IMF long-term expert (LTX) worked during one year with the statistics unit on improving MEF's capacity in compiling, verifying, and reconciling government finance and debt statistics. Additionally, one of the objectives of the fiscal statistics team is to increase the coverage of the NFPS through the inclusion of public companies in the electricity sector and expand the statistical sample of local government companies.

**16. Currently fiscal statistics are disseminated monthly according to a pre-established publication calendar, which is updated once a year.** The time series data on revenues, expenditures, and transactions in financial assets and liabilities by each subsector of the NFPS are published monthly along with indication whether the data is preliminary or definitive. Additionally, in collaboration with the IMF's Statistics Department, an analytical report on the Budgetary Central Government GFS has been created and is published alongside the monthly time series.

**17. Working closely with the IMF's Statistics Department, we have revised the historical balances of the Social Security Fund (IESS).** Based on this work, we adjusted the compilation process of the IESS and corrected the transfers from the central government to IESS for accrued pension liabilities going back to 2013. We also incorporated into our expenditure and debt statistics additional healthcare transfer obligations to IESS based on a conservative estimation while healthcare audits are pending. We have included in the central government 2024 budget and medium-term fiscal framework the accrued pension transfer obligations and the estimation of the healthcare transfer allocations to the IESS and will continue recording conservative estimates in future budgets.

**18. We are committed to making steadfast progress in establishing a revised mechanism to settle healthcare claims from IESS.** This will bring legal predictability to the process of auditing and clearing verified obligations. To that effect, we will establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement (***end-October 2024 structural benchmark***). The updated MEF/IESS agreement will also stipulate the process to be taken to audit and settle the 2022 healthcare obligations. We will implement the resulting agreement, to prevent future arrears on healthcare obligations, improve the reliability of fiscal statistics, and strengthen the sustainability of the IESS. Based on the updated MEF/IESS agreement, we plan to initiate the tender to procure the external auditor to review the 2023 and 2024 healthcare obligations to IESS (***end-December 2024 structural benchmark***).

**19. We will continue working on implementing better cash management practices.** The fact that we run up accounts payable throughout the year points to the need to improve our financial planning on an ongoing basis. With the assistance of a long-term PFM expert provided by the IMF, we have been able to expand our cash management planning capability and horizon to encompass

the full length of the annual budget cycle. The remaining challenge is to develop further capability to update our cash management planning on a 12-month rolling basis from any given point in the budget year. The expert has also helped implement a new monitoring system to evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS. In January 2022, we published a methodology to estimate the stock of arrears and the reporting templates to be used by public sector entities. We have estimated the stock of potential claims on PGE, including with the IESS, GADs, private sector, or others (if any) by type of expenditure, year, and beneficiaries. We have started publishing data on monthly arrears in the public debt bulletins, as per COPLAFIP law. We will design a policy so MEF can gather monthly information on arrears from other entities of the NFPS, as mandated by COPLAFIP.

**20. We will continue improving the efficiency of state-owned enterprises (SOEs) and monitoring fiscal risks.** At the moment, seven public companies that were not managed efficiently are in the process of closure. For SOEs that will remain in operation, we are committed to strengthening their operational framework, implementing best practices to improve efficiency and limit contingent liabilities to the budget. These efforts will support a structural cost-optimization strategy, including a comprehensive efficiency assessment of the state, which would enable us to curtail unproductive activities and obtain efficiency gains.

**21. MEF has implemented several actions to improve public debt transparency.** Following the new debt methodological definition and with WB and Fund technical assistance, a new Debt Bulletin was developed and released on a monthly basis on the official website of the MEF. The Bulletin includes detailed information on previously not included past obligations related to internal debt, arrears, accounts payable, and previous unregistered budgetary obligations. In addition, the current public external and internal debt profile is published, as well as the amortization profile by source and operation. The detailed database supporting the Bulletin is now accessible on our website.

**22. We plan to implement IMF TA recommendations on strengthening tax administration.** Last year, we produced an assessment of our tax administration, and with the support of the IMF, we also undertook the Tax Administration Diagnostic Assessment (TADAT). We plan to implement an institutional model under the TADAT methodology to close the gaps in tax administration against best international practices, especially in control processes. Implementation, with support from the IDB, will focus on process integration, transparency, tax registration, data intelligence, and information management. Moreover, we have requested IMF's technical assistance for the National Customs Service of Ecuador (SENAE), aiming to enhance its modernization process.

## **D. Strengthening the Institutional Framework and Capacity of the BCE and Safeguarding the Dollarization Regime**

**23. We have made significant progress in strengthening the institutional framework of the BCE in recent years.** In 2021, we revised the COMYF with measures to support the dollarization regime, which included eliminating the possibility of monetary financing of the government,

restoring full reserve coverage of private and public financial institutions' deposits at the BCE; and giving technical and managerial autonomy to the BCE. The revised law also strengthened the BCE balance sheet, including by removing all legacy assets from the 1999 banking crisis. It also improved central bank transparency, by establishing an audit committee, appointing external auditors, and publishing the audited BCE financial statements on the BCE website. Besides enacting the law, we took other steps to strengthen institutional framework of the BCE by: (i) implementing a capacity development program for auditors; (ii) requiring the certification of the audit departments and individual auditors by the Institute of Internal Auditors (an international organization); and (iii) implementing some recommendations regarding our audit department from a peer-review assessment.

**24. The BCE enhanced its access to contingent liquidity lines.** In 2023, the Latin American Reserve Fund (FLAR) granted the BCE access to a contingent credit line of up to US\$230 million. In 2022, the Federal Reserve Bank of New York granted the BCE access to a FIMA Repo Facility of US\$1 billion for exclusive central banking operations. This facility allows the BCE to access liquid resources for potential needs through securities repurchase operations (repo), which are part of our institution's investment portfolio. Additionally, the BCE renewed its contingent liquidity facility with the Bank for International Settlements (BIS) for up to US\$840 million as a precautionary measure in case of dollar liquidity shortages.

**25. The BCE completed the base year change project of Ecuador's national accounts.** With the technical assistance from the IMF and the Economic Commission for Latin America and the Caribbean (ECLAC), the BCE concluded and disseminated in December 2023 the update of Ecuador's Annual and Quarterly National Accounts, consisting in changing the fixed base methodology to a moving base with reference year 2018. This project enables the inclusion of a broader source of statistical indicators and reflects the country's most recent economic structure. Additionally, the new methodology implements the best international statistical practices and standards, facilitating the development of economic research, and supporting well-informed decision-making in the public and private sectors with updated data.

**26. The BCE completed a successful reallocation of international reserves (IR).** After completing two technical assistances on IR management offered by the WB and the IDB, the BCE successfully sold 241,124.26 troy ounces of gold into US\$494 million, which are being invested in safe and liquid financial instruments. This transaction enabled to reduce the volatility of monetary gold in the IR as well as increase BCE's revenues and liquidity.

**27. The BCE reached record net profit in 2023.** The BCE's net profit reached a maximum of US\$683 million in 2023, double the amount reported in 2022 and triple the value reached in 2021. Moreover, in line with the COMYF, the BCE's equity was strengthened. Due to the high level of profits in the past three years, the BCE now reports an equity of US\$100 million and a general reserve fund of US\$500 million. Nowadays, the BCE has an adequate level of buffers in place to deal with any potential financial losses in the future.

## E. Enhancing the Resilience of Our Financial System and Developing the Domestic Capital Market

**28. Ecuador’s 2023 Financial System Stability Assessment (FSSA) comprehensively assessed the health and resilience of our financial system**, including the areas of credit and liquidity vulnerabilities, financial sector oversight, macroprudential policies, and safety nets. The FSSA also analyzed the quality of the oversight framework of payment systems, preconditions for capital market development, and access to finance. Key recommendations included: (i) strengthening financial sector oversight and coordination among agencies involved; (ii) enhancing the prudential framework governing capital and liquidity; and (iii) fostering financial deepening and capital market development. We plan to gradually implement the recommendations of this comprehensive assessment to ensure our prudential regulatory framework and oversight of the financial system meets international standards and best practices and improve services for all stakeholders of the financial system.

**29. We plan to increase coordination among agencies involved in financial sector oversight.** To this effect, we plan to establish a Financial Stability Committee in line with best international practices, comprising the BCE, the MEF, the Financial Board (JPRF), the Monetary Board (JPRM), the Superintendency of Banks (SB), the Superintendency of Popular and Solidarity Economy (SEPS), the Superintendency of Companies (SCVS), and the Deposit Insurance Corporation (COSEDE) (**end-September 2024 structural benchmark**). The Committee will facilitate coordination and information exchange among the agencies involved, providing a holistic perspective to financial sector surveillance, and supporting prompt policymaking in response to financial sector vulnerabilities.

**30. We are enhancing the prudential framework on capital and liquidity.** We have prepared the methodologies to identify the systemically important financial institutions, and plan to issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and countercyclical capital buffer (**end-November 2024 structural benchmark**). These regulations are expected to enhance capital buffers and support financial stability. In addition, we have started implementing the FSSA recommendations on liquidity, including the phased implementation of the Liquidity Coverage Ratio, expected to be achieved by 2028.

**31. We are committed to fostering financial sector development and inclusion.** Banks and credit cooperatives are subject to ceilings on lending rates differentiated by credit types and, in the case of commercial loans, also by the size of the borrower firms. The 2023 FSSA noted that the caps on lending rates in the higher interest rate environment have led to margin compression, distortions in credit supply, and restrictions to financial inclusion. A recent revision in the rule to update the interest rate caps on commercial and corporate loans led to some relief in these segments, and we are assessing their effects. Further reforms to support financial sector intermediation will help lower borrowing costs, increase access to credit, and help unlock the economy’s growth potential. To this objective, and in line with our financial inclusion strategy, we will undertake and share with Fund staff a study of the system of interest rates (**end-March 2025 structural benchmark**). The study will

include recommendations to reform the interest rate system, with the objective of alleviating unwarranted credit constraints, enhancing financial inclusion, and supporting economic growth, while preserving financial stability. Based on these recommendations, we plan to establish an implementation strategy to improve the system.

**32. We will continue working on developing domestic capital markets to allow financial deepening and diversifying financing sources for the government and the private sector.** At present, the primary placements of government securities with private domestic stakeholders take place through the Guayaquil and Quito Stock Exchanges. We have started to standardize government securities and develop a domestic yield curve. To foster capital market development, we will also take actions to improve the domestic capital market infrastructure. Building on these reforms, we intend to begin regular auctions of government securities as market conditions allow. We expect these reforms to help develop a deeper domestic capital market to channel resources to the government and the private sector, contributing to increase investment, productivity, and growth.

**33. We will make important investments in BCE's central securities depository and payment system to strengthen the domestic capital market and promote digital payments nationwide.** To achieve these objectives, we will sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards (*end-November 2024 structural benchmark*). We will also work on enhancing the payments system by improving the real time gross settlement (RTGS) system at the BCE. The improvements to the payments infrastructure managed by the BCE will facilitate payments at the national level through interoperability between the different payment networks, reducing transaction costs, mitigating the risks related to the use of cash, encouraging the development of digital commerce, and promoting the revitalization of economic activity.

## F. Strengthening the Business Environment, Competitiveness, and Private Sector-led Growth

**34. We are committed to restoring the competitiveness of the economy and raising the living standards for all Ecuadorians.** To this end, we are taking important strides in improving transparency and economic governance, fighting crime and corruption, addressing bottlenecks for investment and employment, and making Ecuador a preferred destination for businesses worldwide, supported by our international trade agreements. We will further facilitate environmentally sustainable investment in the mining sector, which in recent years has already increased production and exports.

**35. We have concluded important trade agreements to foster trade integration and investments.** In 2024, the National Assembly ratified trade agreements with Costa Rica and China. As a result, 84 percent of Ecuadorian products exported to Costa Rica will be exempted from tariffs. Other products will also benefit from gradual tariff reductions over the next five to fifteen years. With China as Ecuador's second-largest trading partner and the largest market for its non-

petroleum exports, the benefits of the new trade agreement should be significant. The agreement will allow 99.6 percent of Ecuadorian exports to China to benefit from immediate or gradual tariff reductions. These trade deals will also increase the potential for productive FDI inflows. Ecuador is currently in the process of negotiating other agreements with South Korea and Canada.

**36. We will enhance our financial integrity and our efforts against organized crime and related illicit activities by strengthening our Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework.** We expect to enact new AML/CFT legislation to strengthen the AML/CFT framework in line with Financial Action Task Force (FATF) standards (*end-February 2025 structural benchmark*). Such draft legislation is currently under the consideration of the National Assembly and was originally developed with IMF's technical support. We will also work to further enhance the governance and independence of the UAFE and enhance its capabilities in producing comprehensive strategic and operational financial intelligence that will be proactively disseminated to law enforcement agencies for further investigation in financial crimes. More broadly, we are taking other measures to tackle illicit financial flows. Notably, we recently launched a Joint Investigation Unit to formally align efforts across key public institutions in the fight against money laundering, tax fraud, and other illegal activities that help finance organized crime.

**37. We remain committed to bringing more accountability and transparency to the public sector.** To this end, we are drafting our first holistic policy on public sector integrity, covering SOEs. This policy has several strategic lines, including transparency in public spending and conflict of interests. To prevent and manage conflict of interests, in 2022 a Draft Law to Prevent Conflict of Interests in Public Administration (prepared by the General Comptroller together with the Anti-Corruption Secretariat) was submitted to the National Assembly to advance public sector integrity and reduce vulnerabilities to corruption. Once in force, the law would expand the asset declarations of politically exposed persons (PEPs) to ensure it continues detecting and enforcing against illicit enrichment while also becoming a fundamental tool to detect and prevent potential conflicts of interest in the public sector. It would also encourage transparency, by mandating online public access to relevant information on the assets, incomes, liabilities, and interests in the declarations.

**38. SERCOP has continued to require information on the Ultimate Beneficial Ownership (UBO) of companies awarded public procurement contracts.** This information must now be submitted by state suppliers through an electronic form, which should facilitate its continuous publication on SERCOP's website. Within the SOCE, SERCOP maintains an updated section featuring the UBO information for the most recent public contracts, accessible for public consultation. Concurrently, the SRI is developing a Registry for Ultimate Beneficiaries, and set to be launched in the last quarter of 2024. This registry will serve to have a central repository of UBO information and cross-reference information with SERCOP and the Superintendency of Companies.

**39. In another major transparency milestone, financial audits of the national oil company are under way.** In January, we hired an independent top-tier audit firm, with support from the IDB. The audits, as envisaged during the EFF-supported program that concluded in 2022, will cover the 2019 and 2020 financial statements of Petroecuador and Petroamazonas, and the 2021 financial statement of the now merged entity (Petroecuador). We plan to complete and share with IMF staff



the 2019 and 2020 audit results (*end-March 2025 structural benchmark*). We will gradually address any issues identified in the audits going forward.

**40. To foster private sector-led growth, we have developed a new framework for PPPs.** A law approved by the National Assembly in December 2023 laid out this new framework, complemented with regulations issued last February. PPP projects in the pipeline prioritize sectors such as road infrastructure and renewable energies. A fiscal risk unit within the MEF will evaluate the viability of PPP projects, including quantification of risks to the public sector's balance sheet, and propose ways to mitigate them. These risks will be clearly presented in our fiscal risk statements, which will be annexed to the annual budgets.

**41. We are committed to addressing the electricity shortages and increasing renewable energy generation.** Power shortages since late 2023 are largely associated with climate change, affecting hydroelectrical power generation, and longstanding underinvestment in the energy sector. It is therefore critical to undertake essential maintenance work on existing plants, including through private investment. The government has developed 12 projects for electricity generation through Non-Conventional Renewable Energies (NCRE)—solar, wind, and hydroelectric—with support from the IDB. These generation projects will contribute 833 MW of power, backed by private investments. Establishing a mechanism to cover commercial revenue risks, coupled with the commitment from the state and an IDB guarantee, has sparked significant interest among private investors and international development financial institutions in participating in upcoming bidding processes for electric generation and transmission projects.

**42. We are strengthening our resilience to climate change and natural disasters by stepping up adaptation and mitigation efforts.** Climate policy action is a macroeconomic imperative for Ecuador. Our exposure to natural disasters calls for preparation, for which the financial support of the international community would be needed, including to protect populations in vulnerable areas. We have established an institutional committee on climate finance within MEF, with the support of the IDB. We recently expanded several protected areas, including the Galapagos marine reserve, for which in May 2023 we secured long-term financing for its protection as part of the world's largest debt-for-nature swap on record. We continue exploring options to mobilize climate financing, with support from international partners.

## G. Program Monitoring

**43. Program implementation will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** These are detailed in Tables 1 and 2, with definitions and data requirements provided in the attached Technical Memorandum of Understanding (TMU). The EFF arrangement with the Fund will be subject to triannual reviews during 2024-25 and shift to semiannual reviews during 2026-28, with the first and second reviews occurring on or after November 15, 2024, and March 15, 2025, respectively.

**Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets**  
(US\$, unless otherwise indicated)

	End-Aug. 2024	End-Dec. 2024	End-Apr. 2025	End-Aug. 2025
	Program	Program	IT	IT
(US\$ million, unless otherwise indicated)				
<b>Quantitative performance criteria</b>				
1. Nonoil primary balance of the budgetary central government (PGE) ( <i>floor</i> ) 1/	-1,078	-2,295	-472	-1,245
2. Overall balance of the PGE and CFDD ( <i>floor</i> ) 1/	-2,200	-4,213	-753	-2,377
3. Accumulation of NFPS deposits at the central bank ( <i>floor</i> ) 1/	200	360	50	150
4. Non-accumulation of external payments arrears by the NFPS ( <i>continuous performance criterion</i> )	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS ( <i>continuous performance criterion</i> )	0	0	0	0
<b>Indicative targets</b>				
6. Overall balance of the NFPS ( <i>floor</i> ) 1/	-1,628	-2,442	-491	-982
7. Nonoil primary balance including fuel subsidies (NOPBS) of the NFPS ( <i>floor</i> ) 1/	-4,100	-6,528	-1,500	-3,400
8. Change in the stock of NIR ( <i>floor</i> ) 1/	-200	-310	116	382
9. Stock of PGE arrears to the domestic private sector ( <i>ceiling</i> )	862	662	600	400
10. Number of families in the first three income deciles nationwide covered by cash transfer programs ( <i>floor</i> )	1,192,713	1,212,984	1,228,660	1,244,336

Sources: Ministry of Economy and Finance and IMF staff estimates.

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

1/ Cumulative change from January of each year.

<b>Table 2. Ecuador: Prior Actions and Structural Benchmarks</b>			
<b>Reform Area</b>	<b>Structural Conditionality</b>	<b>Objectives</b>	<b>Due Date</b>
<b>Prior Actions</b>			
Public financial management	1. Prepare and share with the Fund a projected monthly cash flow and financing plan for the budgetary central government for the remainder of 2024.	Improve mechanisms to monitor real-time fiscal performance and take corrective action if needed to achieve program targets.	
Contingency planning	2. Prepare a contingency plan to ensure compliance with program fiscal targets if revenues underperform.	Be ready to take corrective action if needed to achieve program targets.	
<b>Structural Benchmarks</b>			
Public financial management	1. Publish an updated Medium-Term Fiscal Framework (MTFF) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024
Public financial management	2. Publish a Medium-Term Debt Management Strategy (MTDS) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024
Domestic arrears	3. Share with Fund staff an updated plan to clear and prevent the resurgence of domestic arrears of the budgetary central government (PGE), including obligations to the private sector and intra-public sector claims.	Strengthen the monitoring and reduce accumulation of payment arrears.	End-November 2024
Tax reform	4. Prepare and share with the Fund a plan to mobilize non-oil fiscal revenues, including by streamlining inefficient tax expenditures and replacing transitory revenue measures with permanent high-quality ones.	Inform future efforts to broaden the tax base and streamline tax expenditures.	Mid-November 2024
Fiscal strategy	5. Enact regulation on revenue and/or expenditure measures to ensure that the 2025 fiscal plan is in line with program and MTFF commitments.	Ensure fiscal consolidation.	December 6, 2024
Social safety net	6. Share with the Fund a plan to complete the social registry to cover families in the lowest three deciles of the income distribution throughout the country.	Enhance the social safety net	End-October 2024

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

<b>Reform Area</b>	<b>Structural Conditionality</b>	<b>Objectives</b>	<b>Due Date</b>
Governance	7. Establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement. The updated agreement should include a decision about the 2022 healthcare audits.	Improve expenditure control.	End-October 2024
Governance	8. Establish a timeline to operationalize the National Control Subsystem (SNC) to increase transparency in procurement.	Strengthen anticorruption framework and improve expenditure control.	End-December 2024
Transparency and governance	9. Initiate the tender process to select an auditor to undertake the 2023 and 2024 healthcare audits (based on the updated MEF/IESS agreement).	Improve the quality and reliability of fiscal data.	End-December 2024
Transparency and governance	10. Complete the audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas and share the results with Fund staff.	Enhance transparency and governance in the oil sector.	End-March 2025
Anti-money laundering framework	11. Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with FATF standards.	Mitigate the risk of illicit flows including those related to organized crimes.	End-February 2025
Financial sector	12. Establish a Financial Stability Committee in line with best international practices, comprising the BCE, MEF, JPRF, JPRM, SB, SEPS, SCVS, and COSEDE.	Enhance coordination among agencies involved in financial sector oversight.	End-September 2024
Financial sector	13. Issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and a countercyclical capital buffer.	Strengthen financial sector buffers.	End-November 2024

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

<b>Reform Area</b>	<b>Structural Conditionality</b>	<b>Objectives</b>	<b>Due Date</b>
Financial sector	14. Prepare and share with Fund staff a study of the system of interest rates, including recommendations to improve credit allocation, financial inclusion, and economic growth, while preserving financial stability.	Foster financial sector deepening and improve economy's growth potential.	End-March 2025
Domestic capital market development	15. Sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards.	Foster domestic capital market development.	End-November 2024

## Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) sets out the definitions of the performance criteria (PCs) and indicative targets (ITs) that will be applied under the Extended Fund Facility, as specified in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables.** It also describes the methods to be used in assessing the program's performance and the information requirements to ensure adequate monitoring of the targets.
2. **Any variable that is mentioned herein for the purpose of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Finance Statistics and the Balance of Payments Manual.** For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Ecuador shall consult with the Fund staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology. All references to "days" indicate "calendar days", unless stated otherwise.
3. **Program exchange rates.** For the purposes of the program, the exchange rates of the U.S. dollar for the duration of the program are those that prevailed on April 23, 2024, as shown in Table 1.

**Table 1. Ecuador: Program Exchange Rates**

US Dollar to Euro	0.94
US Dollar to Renminbi	7.11
US Dollar to Yen	154.82
US Dollar to SDR	1.31
US Dollar to British Pound	0.80
US Dollar to South Korean Won	1,380.60
US Dollar to Swiss Franc	0.91
US Dollar to Canadian Dollar	1.37
US Dollar to Danish Krone	6.99
US Dollar to Swedish Krone	10.87
US Dollar to Norwegian Krone	10.99
US Dollar to Australian Dollar	1.55
US Dollar to Mexican Peso	17.00
US Dollar to Colombian Peso	3,924.82
US Dollar to Gold prices (US\$/ounce)	2,313.00

Source: Haver, as of April 23, 2024.

**Table 2. Ecuador: Proposed Quantitative Performance Criteria and Indicative Targets, 2024-25**

(In millions of US\$, unless otherwise indicated)

	End-Aug. 2024	End-Dec. 2024	End-Apr. 2025	End-Aug. 2025
	Program	Program	IT	IT
(US\$ million, unless otherwise indicated)				
<b>Quantitative performance criteria</b>				
1. Nonoil primary balance of the budgetary central government (PGE) ( <i>floor</i> ) 1/	-1,078	-2,295	-472	-1,245
2. Overall balance of the PGE and CFDD ( <i>floor</i> ) 1/	-2,200	-4,213	-753	-2,377
3. Accumulation of NFPS deposits at the central bank ( <i>floor</i> ) 1/	200	360	50	150
4. Non-accumulation of external payments arrears by the NFPS ( <i>continuous performance criterion</i> )	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS ( <i>continuous performance criterion</i> )	0	0	0	0
<b>Indicative targets</b>				
6. Overall balance of the NFPS ( <i>floor</i> ) 1/	-1,628	-2,442	-491	-982
7. Nonoil primary balance including fuel subsidies (NOPBS) of the NFPS ( <i>floor</i> ) 1/	-4,100	-6,528	-1,500	-3,400
8. Change in the stock of NIR ( <i>floor</i> ) 1/	-200	-310	116	382
9. Stock of PGE arrears to the domestic private sector ( <i>ceiling</i> )	862	662	600	400
10. Number of families in the first three income deciles nationwide covered by cash transfer programs ( <i>floor</i> )	1,192,713	1,212,984	1,228,660	1,244,336

Sources: Ministry of Economy and Finance and IMF staff estimates.

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

1/ Cumulative change from January of each year.

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

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

These four performance criteria will be monitored continuously.

## QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

### A. Floor on the Non-oil Primary Balance of the Budgetary Central Government

#### Definitions

**5. The budgetary central government consists of the Presupuesto General del Estado (PGE).** Revenues and expenditures related to social security, public banks, state-owned enterprises (SOEs), and decentralized autonomous governments are not considered part of the PGE.

- 6. The non-oil primary balance of the PGE** is defined as the total revenues of the PGE excluding oil revenues and interest revenue, minus total non-oil expenditure of the PGE excluding interest expense.
- 7. Non-oil primary revenues** are recorded on a cash basis. Revenues explicitly included are:
- Tax revenues (ingresos tributarios); and
  - Other revenues (otros ingresos), including transfers, dividends, administrative fees, proceeds from asset monetization, and other.
- 8. Non-oil primary expenditures** are recorded on an accrual basis. Expenditures explicitly included are:
- Wages and salaries (sueldos y salarios);
  - Purchases of goods and services (compra de bienes y servicios);
  - Transfers to international organizations, decentralized autonomous governments (GADs), IESS, other social security institutions (ISSFA and ISSPOL), SOEs, and the private sector. Transfers to private sector explicitly include the “account 99” (cuenta 99) expense items;
  - Social assistance benefits;
  - Employment-related social benefits; and
  - Transactions in nonfinancial assets.
- 9. Estimated transfers to the IESS for healthcare expenses.** PGE transfers to the IESS will include US\$337 million in accrued estimated expenses per year. This amount will be updated as soon as the agreement on the treatment of future healthcare expenditures between MEF and IESS is finalized.
- 10. Government-funded, public-private partnerships (PPPs)** will be treated as traditional public procurements. PGE obligations that are accrued on PPPs would be recorded transparently in budget data and measured as part of the PGE deficit as they accrue. The accrued but not settled obligations related to these PPPs will be transparently recorded either as public debt or as a contingent liability of the government (e.g., public guarantees) depending on the nature of the obligation.
- 11. Costs associated with divestment operations, with the liquidation of public entities, or that are otherwise awarded as part of lawsuits shall be recorded as expense.** Examples include but are not limited to the cancellation of existing contracts, severance payments to workers, awards related to unfair dismissal trials.



**12. All expenditures recorded as a credit in “Account 99”** (due to the lack of corresponding budget allocations) will be recorded in the year the obligation was accrued or, if information on the year is not available, in the year the obligation is credited to the Account 99.

### Monitoring

**13. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund within 45 days from the end of each test date as shown in Table 2.**

Preliminary monthly data will be provided with the lag of no more than 30 days after the end of each month.

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

### Definitions

**14. The budgetary central government and CFDD, for the purposes of the program, consist of the PGE and the oil derivatives financing account, namely the Cuenta de Financiamiento de Derivados Deficitarios (CFDD).**

**15. The overall balance of PGE and CFDD** is defined as the net lending/borrowing (NLB) of the PGE and CFDD, calculated as total revenues of the PGE and CFDD minus their total spending.

**16. Total revenues** are recorded on cash basis. Revenues explicitly included are:

- Revenues from oil exports;
- Revenues from the domestic sales of oil derivatives;
- Tax revenues (ingresos tributarios); and
- Other revenues (otros ingresos), including transfers, dividends, interest, administrative fees, proceeds from asset monetization, and other;

**17. Total expenditures** are recorded on an accrual basis except for interest expense that is recorded on a cash basis. Expenditures explicitly included are:

- Wages and salaries (sueldos y salarios);
- Purchases of goods and services (compra de bienes y servicios);
- Interest expenses (intereses);

- Transfers to international organizations, local governments (GADs), IESS, other social security institutions (ISSFA and ISSPOL), SOEs, and the private sector. Transfers to private sector explicitly include the “account 99” (cuenta 99) expense items;
- Social assistance benefits;
- Employment-related social benefits; and
- Transactions in nonfinancial assets.

**18. Estimated transfers to the IESS for healthcare expenses.** PGE transfers to the IESS will include US\$337 million in accrued estimated expenses per year. This amount will be updated as soon as the agreement on the treatment of future healthcare expenditures between MEF and IESS is finalized.

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

**20. Costs associated with divestment operations, with the liquidation of public entities, or that are otherwise awarded as part of lawsuits shall be recorded as expense.** Examples include but are not limited to the cancellation of existing contracts, severance payments to workers, awards related to unfair dismissal trials.

**21. All expenditures recorded as a credit in “Account 99”** (due to the lack of corresponding budget allocations) will be recorded in the year the obligation was accrued or, if information on the year is not available, in the year the obligation is credited to the account 99.

## Monitoring

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

## Adjustors

**23. Adjustor on oil prices:** The floor on the overall balance of the budgetary central government and CFDD will be adjusted upward/downward by US\$23.85 million at corresponding test dates for each US\$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in Table 3. This adjustor is capped at US\$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total

value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

<b>Table 3. Ecuador: Oil Price – Program Assumptions</b>	
	Apr. 2024
Ecuador mix crude oil price (US\$ per barrel)	67.52
Sources: Ministry of Finance and IMF staff estimates.	

## C. Floor on the Accumulation of Non-Financial Public Sector Deposits at the Central Bank

### Definitions

24. **The Non-Financial Public Sector (NFPS, Sector Público No-Financiero) for the purposes of the program consists of the PGE and CFDD, as defined above, Decentralized Autonomous Governments (including municipal governments, provincial governments and parish boards), Social Security Funds (including IESS, ISSFA, ISSPOL and BIESS), Non-Financial State-Owned Enterprises (SOEs, detailed in Table 4), Development Bank of Ecuador (BEDE) as well as accounts related to the payments to private operators of oil concessions (Ministerio de Energía y Recursos Naturales no Renovables).** The Central Bank of Ecuador falls outside of the NFPS perimeter.

<b>Table 4. Ecuador: Non-Financial Public Sector Corporations Covered Under the Definition of NFPS</b>
Empresa Pública de Hidrocarburos del Ecuador Petroecuador - PEC
Empresa Pública Flota Petrolera Ecuatoriana-EP FLOPEC
Empresa Nacional de Ferrocarriles del Ecuador – ENFE (*)
Empresa Pública Línea Aérea del Ecuador TAME (*)
Muestra de Empresas Públicas Menores (Empresas de Agua Potable)
(*) SOEs in liquidation process, which will be in fiscal data until the liquidation process is completed.

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

### Monitoring

26. **The accumulation of NFPS deposits at the BCE at each test date will be measured as the change in the stock of deposits between the beginning of the year and the last day of the corresponding test date month as shown in Table 2.**

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

## Adjustors

**28. Adjustor on external borrowing.** The floor on the accumulation of NFPS deposits will be adjusted upward/downward by the amount of NFPS borrowing from non-residents above/below that envisioned under the program, as reported in Table 5, and net of issuances related to liability-management operations that have no net impact on fiscal financing. External borrowing will comprise issuance of international bonds and other borrowing with non-official external creditors.

<b>Table 5. Ecuador: External Borrowing – Program Assumptions</b>	
(In millions of U.S. dollars)	
	Aug. 2024
Total external borrowing consistent with program targets (cumulative) 1/	0.0
1/ Cumulative from January 1, 2024.	

**29. Adjustor on disbursements from the IMF and other multilateral institutions.** The floor on the accumulation of NFPS deposits will be adjusted upward/downward by the amount of the excess/shortfall in program loan disbursements from the IMF and other multilateral institutions (the IDB, World Bank, CAF, and FLAR), relative to the baseline projection reported in Table 6. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are freely usable for the financing of the NFPS budget operations.

<b>Table 6. Ecuador: Program Loan Disbursements by Multilateral Creditors – Program Assumptions</b>	
(In millions of U.S. dollars)	
	Aug. 2024
Expected disbursement of IMF credit 1/	1,000
Expected disbursements of program loans by other multilaterals 1/	1,608
1/ Cumulative from January 1, 2024.	

**30. Adjustor on oil prices.** The floor on the accumulation of NFPS deposits will be adjusted upward/downward by US\$11.93/US\$23.85 million at corresponding test dates for each US\$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in Table 3. This adjustor is capped at US\$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

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

### Definitions

**31. External debt** is determined according to the residency criterion except in the case of the debt securities for which the criterion is the place of issuance of the instrument.<sup>1</sup> The term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

- *Loans*, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- *Suppliers’ credits*, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- *Leases*, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

**33. External payment arrears** for program monitoring purposes are defined as (i) external debt obligations (principal and interest) falling due after May 1, 2024 that have not been paid within 90 days of the due date, considering the grace periods specified in contractual agreements, as well as (ii) payment arrears on goods delivered or services rendered by external entities.

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<sup>1</sup> As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 16919-(20/103).

## Coverage

34. This performance criterion covers the NFPS. This performance criterion does not cover (i) arrears on short-term trade credit or letters of credits; (ii) arrears on debt subject to renegotiation or restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of any litigation initiated prior to May 1, 2024.

## Monitoring

35. This PC will be monitored on a continuous basis.

## E. Ceiling on BCE Direct and Indirect Financing to the NFPS

### Definitions

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

### Monitoring

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

## INDICATIVE TARGETS (IT): DEFINITION OF VARIABLES

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

#### Definitions

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

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

40. **Primary non-oil revenues** are recorded on a cash basis and include the following items:

- Tax revenues of the PGE and of GADs;

- Social security contributions; and
- Other revenues (otros ingresos), including administrative fees, sales of market and nonmarket establishments, and other Transfers not elsewhere classified.

**41. Primary non-oil revenues** explicitly exclude interest, proceeds from the sale of financial assets, revenues from the privatization of government-owned entities, revenues from oil exports, and revenues from the domestic sales of oil derivatives.

**42. Primary non-oil spending** is recorded on accrual basis and comprises:

- Wages and salaries (sueldos y salarios);
- Purchases of goods and services (compra de bienes y servicios), excluding purchases of goods and services and investments (“servicios petroleros”) of Petroecuador, CFDD and payments to private oil companies (SHE);
- Grants;
- Social benefits, including social security benefits (beneficios de seguridad social), social assistance, and employment related social benefits;
- Dividends paid by social security funds;
- Current and capital transfers, including “Account 99”; and
- Transactions in nonfinancial assets.

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

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

**45. Government-funded, PPPs** will be treated as traditional public procurements. PGE obligations that are accrued on public private partnerships would be recorded transparently in budget data and measured as part of the PGE deficit as they accrue. The accrued but not settled obligations related to these PPPs will be transparently recorded either as public debt or as a

contingent liability of the government (e.g., public guarantees) depending on the nature of the obligation.

**46. Costs associated with divestment operations, with the liquidation of public entities, or that are otherwise awarded as part of lawsuits shall be recorded as expense.** Examples include but are not limited to the cancellation of existing contracts, severance payments to workers, awards related to unfair dismissal trials.

**47. All expenditures recorded as a credit in “Account 99”** (due to the lack of corresponding budget allocations) will be recorded in the year the obligation was accrued or, if information on the year is not available, in the year the obligation is credited to the Account 99.

### Monitoring

**48. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund within 60 days from the end of each test date as shown in Table 2.** In addition to revenue and expenditure data, the data submission would also include fuel subsidies expenditures provided by Petroecuador, as well as below the line data. Preliminary monthly data will be provided with the lag of no more than 45 days after the end of each month.

### Adjustors

**49. Adjustor on oil prices.** The floor on the non-oil primary balance including fuel subsidies of the NFPS will be adjusted downward/upward by US\$23.85 million at corresponding test dates for each US\$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US\$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

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

### Definitions

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

**51. The overall balance of the NFPS** is defined as the net lending/borrowing of the NFPS. It is calculated as the non-oil primary balance of the NFPS defined above, plus the oil balance of the NFPS, plus interest revenues of the NFPS, minus interest expenditures of the NFPS. NFPS revenues and interest expenses are recorded on a cash basis, while NFPS primary expenditures are measured on an accrual basis.

**52. The oil balance of the NFPS will be defined as** the (i) revenues from oil exports and domestic sales of oil derivatives, minus (ii) expenditures on imports of oil derivatives (CFDD), (iii) payments to private oil companies (SHE), and (iv) goods and services expense and investments of Petroecuador, including “servicios petroleros”.



## Monitoring

**53. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 90 days** after the end of each test date as shown in Table 2 and preliminary data with the lag of no more than 60 days after the end of each month. In addition to revenue and expenditure data, the data submission would also include below the line data.

## Adjustors

**54. Adjustor on oil prices.** The floor on the overall balance of the NFPS will be adjusted upward/downward by US\$23.85 million at corresponding test dates for each US\$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US\$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

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

### Definitions

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

**56. Usable gross international reserve assets** comprise all readily available claims on non-residents denominated in convertible foreign currencies and controlled by monetary authorities, consistent with the Balance of Payments and International Investment Position Manual (Sixth Edition). Specifically, they include: (i) currency and deposits; (ii) monetary gold; (iii) holdings of SDRs; (iv) the reserve position in the IMF; (v) securities (including debt and equity securities); (vi) financial derivatives; and (vii) other claims (loans and other financial instruments).

Specifically excluded from gross international reserves are:

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

**57. Gross reserve-related liabilities comprise:**

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

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

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

The deposits of other financial institutions at the BCE comprise:

- All liabilities of the BCE to other financial institutions (otras sociedades financieras, with the exception of deposits of the BEDE and BIESS, including those held in trust funds (fideicomisos BIESS y fideicomisos IESS).

**Adjustors**

**58. Adjustor on external borrowing.** The floor on net international reserves will be adjusted upward/downward by the amount of borrowing from non-residents above/below that envisioned under the program, as reported in Table 5 above and net of issuances related to liability-management operations that have no net impact on the outstanding stock of NFPS debt. External borrowing will comprise issuance of international bonds and other borrowing with non-official external creditors.

**59. Adjustor on disbursement from other multilateral institutions.** The floor on net international reserves will be adjusted downward/upward by the shortfall/excess in loan disbursement by multilateral institutions (the IDB, World Bank, CAF, and FLAR), and grants, relative to the baseline projection reported in Table 6. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are freely usable for the financing of the NFPS budget operations.

**60. Adjustor on oil prices.** The floor on the net international reserves will be adjusted upward/downward by US\$11.93/US\$23.85 million at corresponding test dates for each US\$1 per barrel that the average Ecuador mix crude oil price is above/below the program assumption defined in the Table 3. This adjustor is capped at US\$178.9 million at corresponding test dates. The average

price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

### Monitoring

**61. The change in net international reserves (NIR) will be measured as the cumulative change in the stock of NIR between the beginning of the year and the last day of the corresponding test date month as shown in Table 2.**

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

## D. Ceiling on the stock of PGE payment arrears to the domestic private sector

### Definitions

**63. The PGE is defined as above.**

**64. Arrears are defined as other accounts payable included in the definition of PGE debt, which are overdue for more than 90 days from the date of accrual.** Stocks of "cartas de crédito" are explicitly excluded from the definition of arrears for this IT.

### Monitoring

**65. Below the line fiscal data referring to PGE accounts payable needed for program monitoring purposes will be provided to the Fund with a lag of no more than 60 days** after the end of each test date as shown in Table 2 and preliminary data with the lag of no more than 45 days after the end of each month. The data will include a breakdown by economic sector of accounts payable (e.g., health, education, infrastructure, etc.), with an "of which" detail for amounts overdue by more than 90 days from the date of accrual.

## E. Floor on Social Assistance Scheme Coverage

### Definitions

**66. Social assistance coverage of poor families for the purpose of the program is computed as the sum of all active beneficiary family units in the three bottom deciles of the income distribution that benefit from at least one social assistance programs.** Poor beneficiary families are defined according to information in the RS2018. Coverage expansion will occur through the following social assistance programs, that are in force on the date of issuance of the program: Bono de Desarrollo Humano (BDH), BDH con Componente Variable (BDH-V), Bono Joaquin Gallegos Lara, Pension Mis Mejores Años, Pensión Toda Una Vida, Bono para niños, niñas y adolescentes en situación de Orfandad por muerte violenta de la madre o progenitora, Cobertura de Contingencias,

Bono para personas afectadas por eventos de origen natural o antrópico, and Bono 1000 Días, and others monetary transfers that might set into place for strengthen the social protection net. The level (size) of benefits, understood as number of family units, of any of the cash transfer programs in the bottom three deciles of the income distribution should not be reduced (with respect to their level on May 1, 2024).

## Monitoring

**67. Monthly data** on (i) number of family units in the lowest three income deciles covered by the social assistance protection programs, and (ii) monthly data on numbers of registries with information updated and validated following RS2018 by income decile will be provided to the Fund with a lag of no more than 30 days after the end of each month.

## OTHER INFORMATION REQUIREMENTS

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

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

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

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

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

- Deposit liabilities;
- Debt securities including short term liquidity instruments (held by nonresidents, and by residents not included in the NFPS entities);
- Loans; and
- Other accounts payables.

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

### **Monitoring**

**72.** The data on NFPS stock of debt in US\$ will be provided to the Fund monthly with a lag of no more than 90 days after the end of each month. The data submission will also include cross-holdings among NFPS entities.

### **Daily**

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

### **Weekly**

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

**75.** BCE balance sheet. Financial Indicators: Deposits of banks at the BCE.

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

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

### **Monthly**

**78.** Data on stocks and flows (above- and below the line), disaggregated by each subsector of the NFPS (budgetary central government and CFDD, rest of the central government, subnational governments, SOEs and social security) using the templates previously agreed with the IMF team. One template with the detailed data on revenues and expenditures of each of the subsectors and

the consolidations between them, and the other template data by subsectors with a summary of above the line data and the comparison with the below the line data for monitoring the statistical discrepancy and data on stocks of financial assets and liabilities and the financing (below the line data) also by subsectors.

- 79.** NFPS financing data compiled based on the detailed information on financial assets and liabilities, namely, deposits, loans, securities, equities, other accounts payable including oil related, and their amortizations, disbursements, and arrears accumulation.
- 80.** Data on amortizations and disbursements of credit from the BCE to NFPS and to publicly-owned banks for the purpose of financing the NFPS will be provided within five business days from the end of the month.
- 81.** PGE cash flow data from the beginning to the end of the current fiscal year, with a lag of no more than 60 days after the closing of each month. This will include expected monthly amortizations and repayments on NFPS debt as defined above.
- 82.** Data on social spending, including Bono de Desarrollo Humano (BDH), Bono de Desarrollo Humano con Componente Variable (BDH-V), Personas con discapacidad, Pensión para Adultos Mayores, Mis mejores años, Pensión Toda Una Vida, and Bonos Mis Primer 1000 Dias, Bono para niños, niñas y adolescentes en situación de Orfandad por muerte violenta de la madre o progenitora, Cobertura de Contingencias, Bono para personas afectadas por eventos de origen natural o antrópico, as well as Bono Joaquin Gallegos Lara.
- 83.** Data to determine the latest net SDR position at the end of each month. For the central government, this would include total external liabilities with the SDR department. For the central bank, this would include total SDR holdings. All reported data should be denominated in SDRs.
- 84.** Provision of detailed information on collateralized debt and debt with similar arrangements, such as repo transactions and other similar debt involving the pledge, sale/resale, or encumbrance of assets within 2 weeks of signing new contracts. The information on collateralized debt and debt with similar arrangements will include all contracts related to such debt; information on the escrow accounts overseas that serve as collateral; and detailed information for each creditor on the stock of debt, its terms (including on the amounts pledged, sold/resold, or encumbered, as well as any related commitments or obligations to purchase related or unrelated goods and/or services from the lender), and expected repayment schedules.
- 85.** Export price of Ecuador mix crude oil, with a lag of no more than 20 days after the closing of each month.

### Quarterly

- 86.** Detailed balance of payments data, no later 90 days after the end of the quarter.

**87.** Detailed fiscal and debt data by the subsectors of NFPS, no later than 90 days after the end of the quarter. This data includes: above and below the line data, summary of the statistical discrepancy, calendar of amortization and payment of interest by instrument of debt stock at the end of the quarter and stock of gross debt.



# ECUADOR

## ASSESSMENT OF FINANCIAL RISKS TO THE FUND

May 23, 2024

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## INTRODUCTION

1. **The Ecuadorian authorities have requested access under the Extended Fund Facility (EFF) arrangement equivalent to 430 percent of quota (SDR 3 billion).** Building on the 2020 EFF, the new 48-month EFF-supported program will aim to strengthen fiscal sustainability, enhance financial stability and integrity, and rebuild liquidity buffers, safeguard dollarization and macroeconomic stability, and advance the structural reform agenda to promote sustainable and inclusive growth. The proposed access would meet Ecuador’s residual financing needs after factoring in an ambitious fiscal consolidation and financing from international financial institutions and official bilateral creditors, and renewed access to international capital markets. The program would start with tri-annual reviews during 2024-25 and shift to semi-annual reviews during 2026-28. The phasing would be driven by the size and timing of the estimated financing gaps and would be broadly aligned with the fiscal adjustment effort.
2. **The proposed program would be subject to the General Resources Account (GRA) Exceptional Access (EA) Framework.** Given that Ecuador’s existing Fund credit stands at SDR 5.8 billion (835 percent of quota), already exceeding normal cumulative access levels, the new arrangement would be subject to the Fund’s exceptional access policy.
3. **This note assesses the financial implications of the proposed arrangement for the Fund.** The assessment is provided in accordance with the policy on EA and based on the assumption that all four exceptional access criteria are met.<sup>1</sup>

## PAST FUND ARRANGEMENTS

4. **Ecuador has had several Fund arrangements in the last decade (Table 2).** In July 2016, the Executive Board approved a disbursement of SDR 261.63 million (37.5 percent of quota) under the Rapid Financial Instrument (RFI) to help the country meet an urgent fiscal and balance of payments need following an earthquake that caused significant damage to infrastructure, housing, and agriculture. In March 2019, an EFF arrangement was approved for an amount of SDR 3,035 million (435 percent of quota) to address Ecuador’s systemic vulnerabilities, including high non-oil primary deficit and rising public debt. During that program, despite steps taken by the authorities to improve public finances, shortcomings in institutional capacity and a lack of coordination among government entities led to deficiencies in the compilation of government finance statistics. The resulting misreporting of fiscal data after the completion of the combined second and third reviews masked significantly larger than targeted fiscal deficits. Only three out of eleven scheduled reviews were completed before the program went off track, with only 145 percent of quota drawn (one-third of the total amount approved in 2019) before cancellation of the arrangement in April 2020.

<sup>1</sup> See paragraph 5 of Decision No 14064-(08/18), adopted 2/22/2008, as amended, and The Acting Chair’s Summing Up of the Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy (3/5/03).

**5. In 2020, Ecuador requested Fund financial support to address the impact of the COVID-19 pandemic.** On May 2020, the Executive Board approved Ecuador's request for emergency financial assistance under the RFI for an amount of SDR 469.7 million (67.3 percent of quota) to meet the urgent balance of payments needs stemming from the outbreak of COVID-19 before a more comprehensive arrangement could be negotiated. During the summer of 2020, Ecuador completed a successful restructuring of global bonds with parameters structured around the debt sustainability targets provided in the RFI. In September 2020, the Executive Board approved a 27-month EFF with total access of SDR 4,615 million (661 percent of quota) to help restore macroeconomic stability, expand social assistance programs in the aftermaths of the COVID-19 pandemic, ensure debt sustainability, close the financing gap, and lay the foundations for sustainable growth. Access under the arrangement triggered EA policies, and the exceptional access criteria were considered to be met. The program ended in December 2022 and all reviews were completed.

## DEBT SITUATION AND OUTLOOK

**6. Following a rapid increase over 2014-2020, Ecuador's public debt stock has declined since 2020.** Ecuador's public debt increased rapidly between 2014 and 2020 from under 30 percent of GDP to over 60 percent of GDP. However, since 2020, the public debt-to-GDP ratio has declined to an estimated 55.3 percent of GDP at end-2023, driven, in part, by the debt-for-nature swap that lowered the amount of international bonds outstanding by US\$ 970 million, coupled with the difficulty in accessing new financing (Ecuador has not accessed the market since 2019), that also forced the government to draw down deposit buffers.

**7. Ecuador's public debt remains sustainable but not with high probability.<sup>2</sup>** The fiscal and debt projections assume successful implementation of the EFF-supported program and a return to international capital markets in 2025. Under the program, the primary balance of the non-financial public sector would turn to surplus in 2025, increasing to about 2 percent of GDP in the medium term. This fiscal adjustment is expected to contribute to a sustained decline in the public debt-to-GDP ratio, which is forecasted to decline from 55.3 percent in 2023 to 40 percent by 2032, the debt limit embedded in the organic budget code. However, the planned primary consolidation under the program, while necessary to restore fiscal sustainability, is ambitious compared to cross-country historical realizations. Downside risks to the fiscal and debt outlook stem mainly from implementation capacity of the fiscal adjustment. Risks to revenue mobilization partly arise from the possibility of growth underperforming, given the uncertainty due to the security situation, as well as possible disruptions in oil production. Risk mitigating factors in the debt sustainability assessment include the large share of multilateral and bilateral official debt, with comparatively low rollover risk and long maturities.

**8. Ecuador's total external debt service burden will peak at 13.2 percent of GDP in 2027 before declining to an average of 11.3 percent of GDP per year during 2030-34.** In terms of exports of goods and services, total external debt service would peak at 48.6 percent in 2027 and

<sup>2</sup> See the Sovereign Risk and Debt Sustainability Framework (SRDSF) included in this staff report.

decline to an average of 42.5 percent per year during 2030-34 (Table 3). The ratio of external debt service to exports of goods and services is somewhat above the median for other recent GRA exceptional access cases (Figure 1). Debt service due to the Fund in 2024-34 would average 1.0 percent of GDP per year, peaking in 2027 at 1.4 percent of GDP.

## FINANCIAL IMPLICATIONS OF THE PROPOSED ARRANGEMENT FOR THE FUND

**9. The IMF's credit outstanding to Ecuador at end-April 2024 was SDR 5.8 billion (835 percent of quota).** This exposure originates from purchases of SDR 1.0 billion under the 2019 EFF arrangement, SDR 469.7 million under the 2020 RFI, and SDR 4.6 billion under the 2020 EFF.<sup>3</sup> After the scheduled purchase upon approval of the proposed arrangement, Ecuador's debt outstanding to the IMF would increase to SDR 6.5 billion (935 percent of quota) by end-May 2024. Repurchases under the 2020 EFF arrangement begin in the first half of 2025, while repurchases under the proposed EFF arrangement would begin in 2028. Total scheduled Fund repurchases amount to SDR 306 million in the remainder of 2024, SDR 759 million in 2025 and SDR 796 million in 2026.

**10. The proposed EFF arrangement would increase the Fund's exposure to Ecuador.**

- After the scheduled purchase upon the approval of the arrangement, Ecuador would remain the Fund's fourth largest GRA borrower, with credit outstanding that would account for 7.1 percent of total Fund credit (Figure 6).
- Credit concentration measured by the Fund's exposure to the top five borrowers would increase slightly from 70.0 percent to 70.2 percent following the purchase upon approval of the proposed arrangement (Table 4).
- The Fund's current level of precautionary balances (PB) would continue to comfortably exceed the credit exposure to Ecuador. Fund GRA exposure to Ecuador after the purchase upon approval of the proposed arrangement would be modest and amount to 26.8 percent of PBs (Table 4), rising to 28.5 percent when credit to Ecuador peaks (assuming the level of precautionary balances at end-January 2024, which is slightly below the medium-term PB target of SDR 25 billion).

**11. Although Ecuador's access in terms of quota under the proposed EFF would be modest relative to other EA cases, the Fund's total exposure to Ecuador would peak at 1,002 percent of quota in November 2025, similar to the median of comparators.** At 430 percent of quota, Ecuador's access under the proposed EFF would be below the median access for other GRA exceptional access arrangements since 2008 (700 percent of quota; Figure 2). However, since Ecuador's debt outstanding stands already at 835 percent of quota (see ¶9), the Fund's exposure to Ecuador would increase to 935 percent of quota after the purchase upon approval of the proposed EFF and peak at 1,002 percent of quota in November 2025 assuming all purchases and repurchases

<sup>3</sup> Through end-April 2024, repurchases from the 2019 EFF and 2020 RFI totaled SDR 269 million.

are done according to schedule. This peak would be in line with the median peak for comparators since 2008 and above the peak for Ecuador's 2020 EFF (874 percent; Figure 4).

**12. Ecuador's capacity to repay the Fund is subject to significant risks and depends on full program implementation and timely external financing.** Ecuador's peak Fund exposure and peak payments obligations metrics compared to other GRA exceptional access cases are mixed (Figure 5). Ecuador's peak Fund exposure in terms of gross international reserves is the highest of comparator cases—only below that of Ecuador at the time of the approval of the 2020 EFF. Peak Fund exposure in terms of total external debt is also above the median of comparators, while the peak in terms of GDP is slightly below the median. With regards to peak payments obligations, debt service to the Fund in percent of exports of goods and services and in percent of total external debt service is below the median of other GRA exceptional access cases.

**13. The proposed EFF arrangement would have a modest impact on the Fund's liquidity position.** The Fund's Forward Commitment Capacity (FCC), which stood at SDR 163.9 billion as of April 24, 2024, would fall by 1.8 percent following the approval of the proposed EFF arrangement (Table 4).

**14. Income risks would be moderate.** Fund income from Ecuador is projected to account for about 17 percent of total lending income in FY2025, based on a desk survey scenario for projected program demand as of February 2024. If Ecuador were to accrue arrears on charges and surcharges in FY25, the Fund's burden sharing mechanism would be sufficient to cover such arrears. Total GRA charges and surcharges for Ecuador for FY25 are SDR 454 million, accounting for 34.5 percent of the Fund's current residual burden-sharing capacity of SDR 1.32 billion (as of April 24, 2024).

## ASSESSMENT

**15. The proposed EFF arrangement would help Ecuador face its pressing balance of payments needs.** In the context of a full dollarization regime, Ecuador is facing balance of payments needs driven by weak fiscal balances—including due to the decline in oil exports and subsequent contraction in net oil receipts—and pressures on the financial account due to capital outflows, large external debt obligations and lack of market access. After factoring in fiscal consolidation under the program and support from other international financial institutions and official bilateral creditors, the country faces an estimated financing gap of US\$4 billion in 2024-2028. The proposed arrangement will aim to strengthen fiscal sustainability and rebuild liquidity buffers, safeguard dollarization and macroeconomic stability, and advance the structural reform agenda to promote sustainable and inclusive growth.

**16. Ecuador's capacity to repay the Fund is subject to significant risks.** Key downside risks include a further deterioration in the security situation that would impact investment, tourism, economic activity, the fiscal accounts, and the financial sector. Political fragmentation could delay reform implementation and lead to additional liquidity pressures. Unexpected declines in oil prices or disruptions to oil production that reduce oil revenue would also affect the country's capacity to

repay. Finally, tighter financing conditions could affect Ecuador's ability to re-access the market in 2025 as envisaged. Upside risks include stronger-than-expected global growth and higher oil prices.

**17. The proposed arrangement would have a modest impact on the Fund's liquidity position, while the Fund's credit exposure to Ecuador would increase further.** The Fund's FCC would fall by 1.8 percent following the approval of the proposed EFF arrangement. After the purchase upon approval of the EFF, Ecuador would remain the fourth largest GRA borrower and will account for 7.1 percent of total GRA Fund credit outstanding. Assuming all proposed purchases are made according to schedule, Ecuador's GRA debt outstanding would peak slightly above 1,000 percent of quota in November 2025.

**18. Full program implementation would be critical to mitigate financial risks to the Fund.** Ecuador's capacity to repay the Fund depends critically on steadfast program implementation and timely external financing as the country has run out of liquidity buffers. Credible reform implementation is also key to regaining access to private international bond markets and mobilize resources from other official creditors. Despite the authorities' strong ownership, risks to policy implementation are high stemming from a fragmented National Assembly and forthcoming general elections in early 2025. If policy slippages—or reversals—were to materialize, the risks of arrears to the Fund would not be insignificant given Ecuador's large repurchases scheduled for the next five years.

**Table 1. Ecuador: Proposed Access and Phasing Under the Extended Fund Facility**

Availability Date	Amount of purchase		Conditions
	Millions of SDRs	Percent of Quota	
May 22, 2024	752.9	107.9	Approval of arrangement
November 15, 2024	375.9	53.9	First review and end-August 2024 performance/continuous criteria
March 15, 2025	312.9	44.8	Second review and end-December 2024 performance/continuous criteria
July 15, 2025	312.9	44.8	Third review and end-April 2025 performance/continuous criteria
November 15, 2025	312.9	44.8	Fourth review and end-August 2025 performance/continuous criteria
March 15, 2026	186.9	26.8	Fifth review and end-December 2025 performance/continuous criteria
September 15, 2026	186.9	26.8	Sixth review and end-June 2026 performance/continuous criteria
March 15, 2027	186.9	26.8	Seventh review and end-December 2026 performance/continuous criteria
September 15, 2027	186.9	26.8	Eighth review and end-June 2027 performance/continuous criteria
March 15, 2028	184.9	26.5	Ninth review and end-December 2027 performance/continuous criteria
<b>Total</b>	<b>3,000.0</b>	<b>430.0</b>	

Source: IMF staff estimates.

**Table 2. Ecuador: IMF Financial Arrangements and Fund Exposure, 1988-2038**  
(In millions of SDR)

Year	Type of New Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Fund Exposure 1/
1988	SBA	4-Jan-1988	28-Feb-1989	75.4	15.1	300.7 2/
1989	SBA	15-Sep-1989	28-Feb-1991	109.9	39.3	247.2
1990						186.0
1991	SBA	11-Dec-1991	10-Dec-1992	75.0	18.6	127.5
1992						72.6
1993						51.8
1994	SBA	11-May-1994	11-Dec-1995	173.9	98.9	135.7
1995						116.7
1996						100.9
1997						98.9
1998						49.5
1999						0.0
2000	SBA	19-Apr-2000	31-Dec-2001	226.7	226.7	113.3
2001						151.1
2002						226.7
2003	SBA	21-Mar-2003	20-Apr-2004	151.0	60.4	262.3
:						:
:						:
2011						0.0
2012						0.0
2013						0.0
2014						0.0
2015						0.0
2016	RFI	8-Jul-2016	8-Aug-2016	261.6	261.6	261.6
2017						261.6
2018						261.6
2019	EFF	11-Mar-2019	29-Apr-2020	3,035.0	1,011.7	1,240.6
2020	RFI	1-May-2020	5-May-2020	469.7	469.7	4,419.5
	EFF	30-Sep-2020	16-Dec-2022	4,615.0	4,615.0	4,419.5
2021						4,889.4
2022						6,096.4
2023						5,924.7
2024	EFF	<i>May-2024</i>	<i>April-2028</i>			<i>6,650.1 3/</i>
2025						<i>6,829.4 3/</i>
2026						<i>6,407.4 3/</i>
2027						<i>5,843.5 3/</i>
2028						<i>5,027.8 3/</i>
2029						<i>3,930.1 3/</i>
2030						<i>2,800.7 3/</i>
2031						<i>2,082.4 3/</i>
2032						<i>1,455.8 3/</i>
2033						<i>955.8 3/</i>
2034						<i>518.6 3/</i>
2035						<i>232.8 3/</i>
2036						<i>93.0 3/</i>
2037						<i>15.4 3/</i>
2038						<i>0.0 3/</i>

Source: Finance Department.

1/ As of end-December, unless otherwise stated.

2/ Fund exposure in 1988 included outstanding credit from arrangements prior to 1988.

3/ Figures including transactions under the proposed program are in italics. Fund exposure is derived assuming purchases and disbursements are made as per the schedule in Table 1 and Ecuador remains current on all its scheduled repurchases and repayments.

Table 3. Ecuador: Capacity to Repay Indicators<sup>1/</sup>

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Exposure and Repayments (In SDR millions)</b>											
GRA credit to Ecuador	6,650.1	6,829.4	6,407.4	5,843.5	5,027.8	3,930.1	2,800.7	2,082.4	1,455.8	955.8	518.6
(In percent of quota)	953.1	978.8	918.4	837.5	720.6	563.3	401.4	298.5	208.7	137.0	74.3
Charges due on GRA credit	464.9	540.2	544.9	509.6	461.6	381.9	291.8	208.3	149.7	102.3	74.8
Debt service due on GRA credit	868.3	1,299.6	1,340.6	1,447.4	1,462.2	1,479.7	1,421.1	926.6	776.3	602.3	512.1
<b>Debt and Debt Service Ratios</b>											
In percent of GDP											
Total external debt	48.4	48.7	48.0	47.0	45.1	42.7	39.8	37.0	34.3	31.9	29.7
External debt, public	41.9	42.5	42.0	41.0	39.3	37.1	34.8	32.4	30.0	28.0	26.0
GRA credit to Ecuador	7.3	7.2	6.6	5.8	4.8	3.6	2.5	1.8	1.2	0.7	0.4
Total external debt service	11.8	12.6	13.1	13.2	12.7	12.2	12.8	12.0	11.2	10.4	10.0
Debt service due on GRA credit	0.9	1.4	1.4	1.4	1.4	1.4	1.3	0.8	0.6	0.5	0.4
In percent of Gross International Reserves											
Total external debt	1,131.8	912.2	713.2	578.9	479.3	401.7	333.5	309.8	287.2	267.7	249.3
External debt, public	979.0	795.8	624.1	504.4	416.9	348.5	292.0	271.3	251.5	234.4	218.3
GRA credit to Ecuador	169.6	135.5	97.6	71.2	50.9	33.8	20.7	14.8	9.9	6.3	3.3
Debt service due on GRA credit	22.1	25.7	20.4	17.6	14.8	12.7	10.5	6.6	5.3	3.9	3.2
In percent of Exports of Goods and Services											
Total external debt service	41.4	45.3	48.3	48.6	47.0	45.9	48.3	45.1	42.1	39.3	37.8
Debt service due on GRA credit	3.3	5.0	5.1	5.3	5.2	5.1	4.7	3.0	2.4	1.8	1.4
In percent of Total External Debt											
GRA credit to Ecuador	15.0	14.9	13.7	12.3	10.6	8.4	6.2	4.8	3.5	2.3	1.3
In percent of Total External Debt Service											
Debt service due on GRA credit	8.0	10.9	10.5	10.8	11.0	11.1	9.8	6.6	5.6	4.5	3.8
In percent of Total Public External Debt											
GRA credit to Ecuador	17.3	17.0	15.6	14.1	12.2	9.7	7.1	5.4	3.9	2.7	1.5

Source: Ecuadorian authorities, Finance Department, and IMF staff estimates.

1/ Assumes full drawings. Indicators based on the baseline macroeconomic scenario presented in the staff report.



**Table 4. Ecuador: Impact on GRA Finances**  
(In millions of SDRs unless otherwise noted)

	<b>As of 04/24/2024</b>
<b>Liquidity measures</b>	
Current one-year Forward Commitment Capacity (FCC) 1/	163,937
Impact of approval on FCC 2/ (in percent of current one-year FCC)	-3,000 -1.8
<b>Prudential measures</b>	
Fund GRA credit outstanding to Ecuador upon approval 3/ In percent of current precautionary balances In percent of total GRA credit outstanding	6,580 26.8 7.1
Fund GRA credit outstanding to top five borrowers In percent of current precautionary balances In percent of total GRA credit outstanding In percent of total GRA credit outstanding upon approval 3/	64,273 261.7 70.0 70.2
ECU's GRA charges/surcharges in FY25 in percent of residual burden sharing capacity	34.5
<b>Memorandum items</b>	
Fund's precautionary balances (as of end-January 2024)	24,557
Fund's residual burden-sharing capacity 4/	1,318

Sources: Finance Department, and IMF staff estimates.

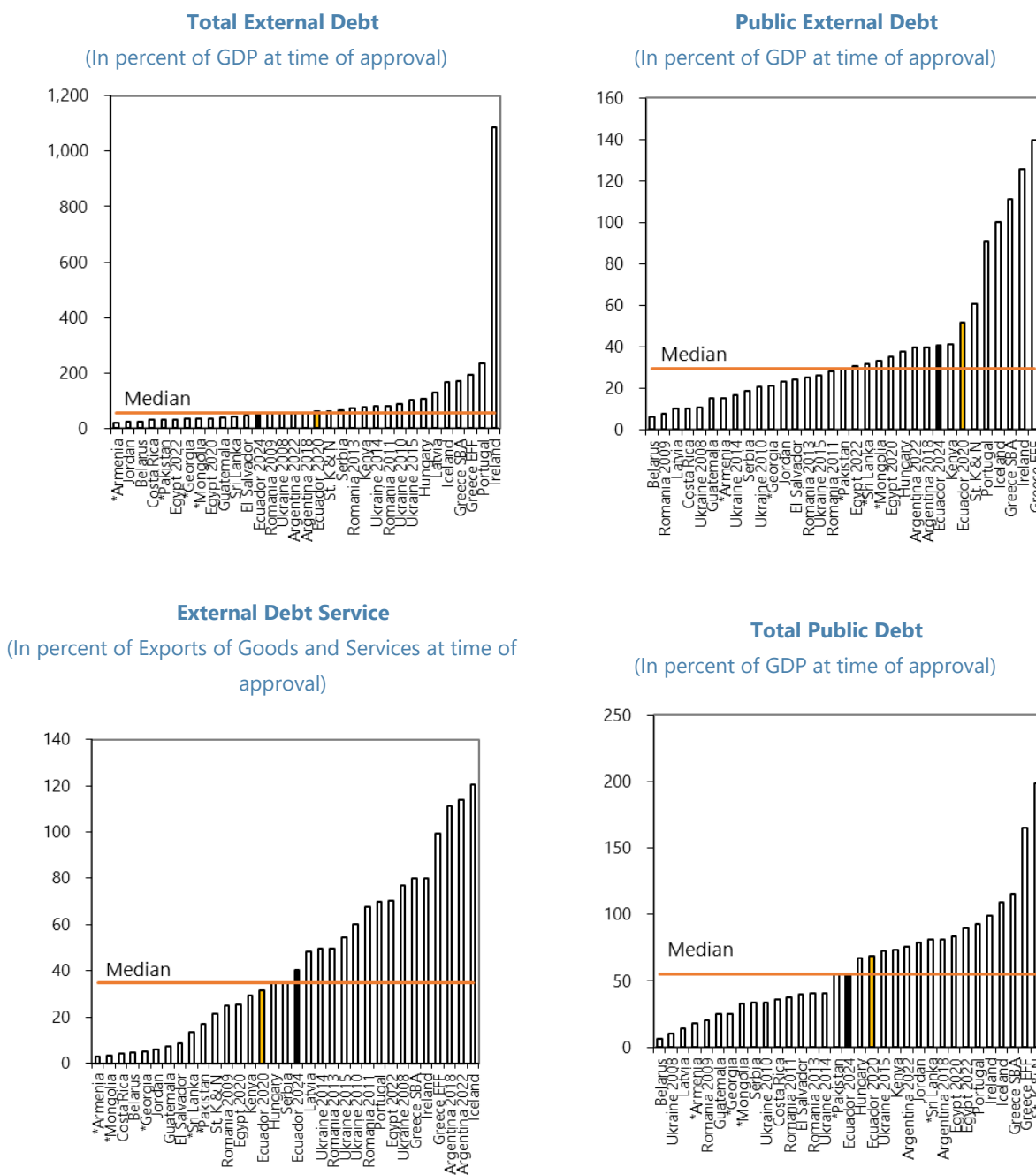
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the New Arrangements to Borrow or the Bilateral Borrowings Agreements.

2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.

3/ Projected credit outstanding for Ecuador at time of approval of the proposed arrangement, which includes the scheduled first purchase.

4/ Burden-sharing capacity is calculated based on the floor for remuneration which, under current policies, is 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges.

**Figure 1. Debt Ratios for Exceptional Access Arrangements<sup>1/2/</sup>**

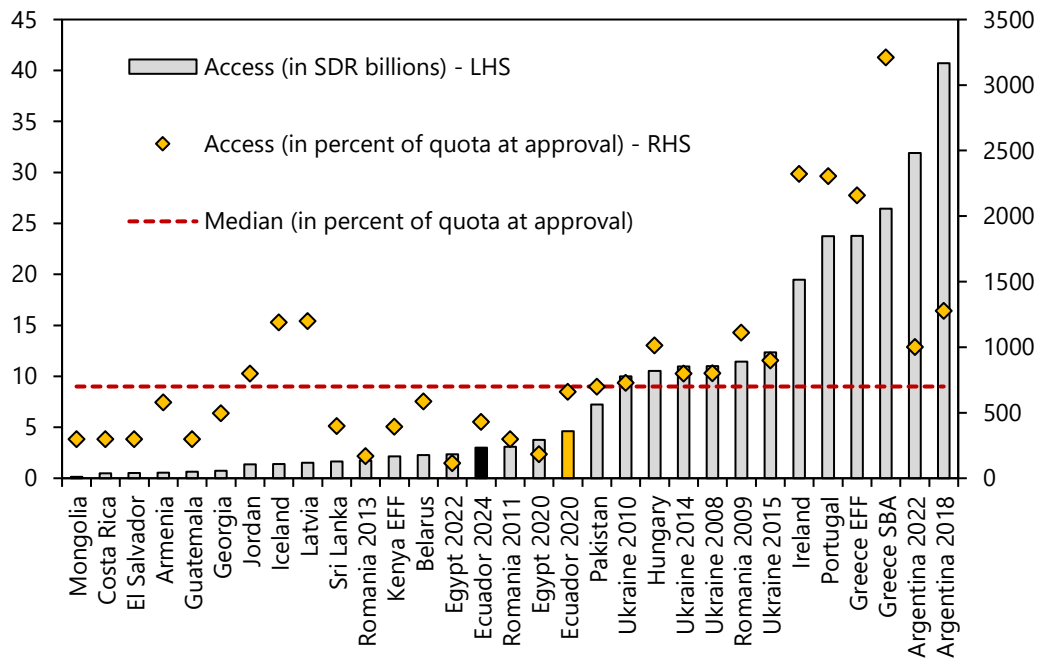


Source: Ecuadorian authorities and IMF staff estimates.

1/ Estimates as reported in relevant staff reports on the request or augmentation of SBAs or EFF arrangements approved since September 2008. For Ecuador, ratios reflect end-2023 data.

2/ Asterisks indicate PRGT-eligible countries at the time of the program.

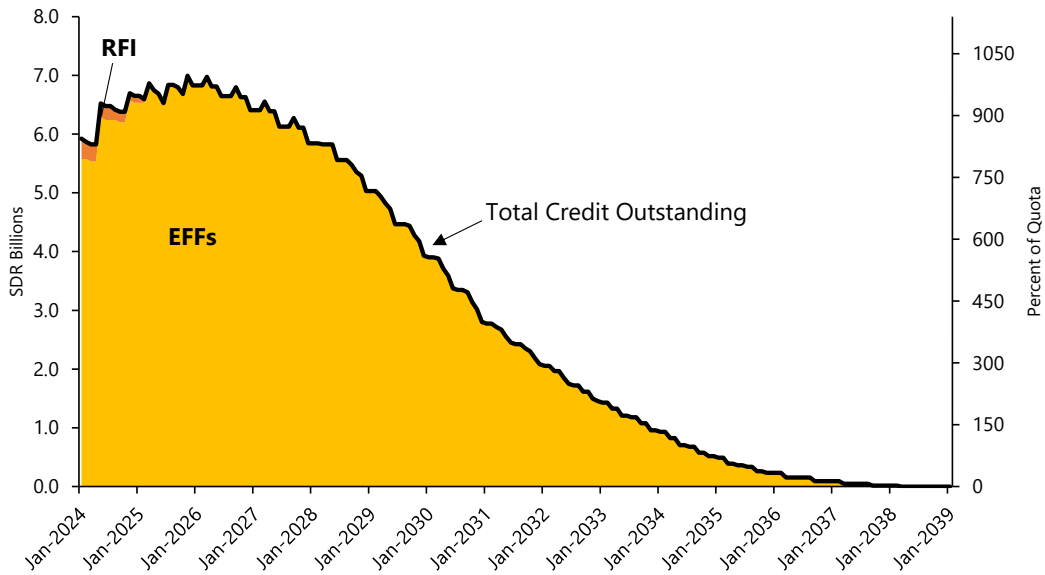
**Figure 2. Approved GRA Exceptional Access Cases Since September 2008<sup>1/</sup>**



Source: Finance Department and IMF staff estimates.

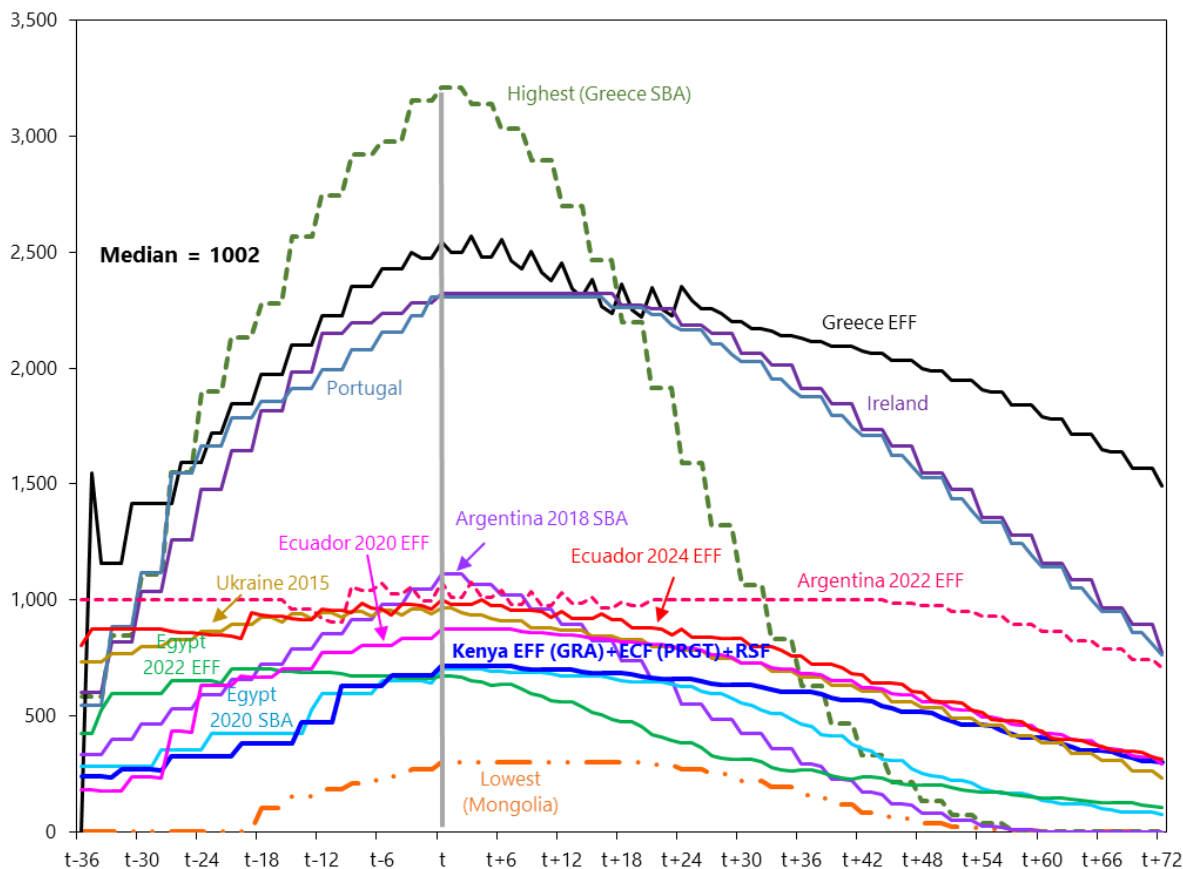
1/ FCL arrangements as well as arrangements with relatively low access in SDRs are not included.

**Figure 3. Projected Credit Outstanding Path Under Existing Arrangements and Proposed EFF**



Source: Finance Department and IMF staff estimates.

**Figure 4. Credit Outstanding in the GRA Around Peak Borrowing<sup>1/2/</sup>**  
(In Percent of Quota)

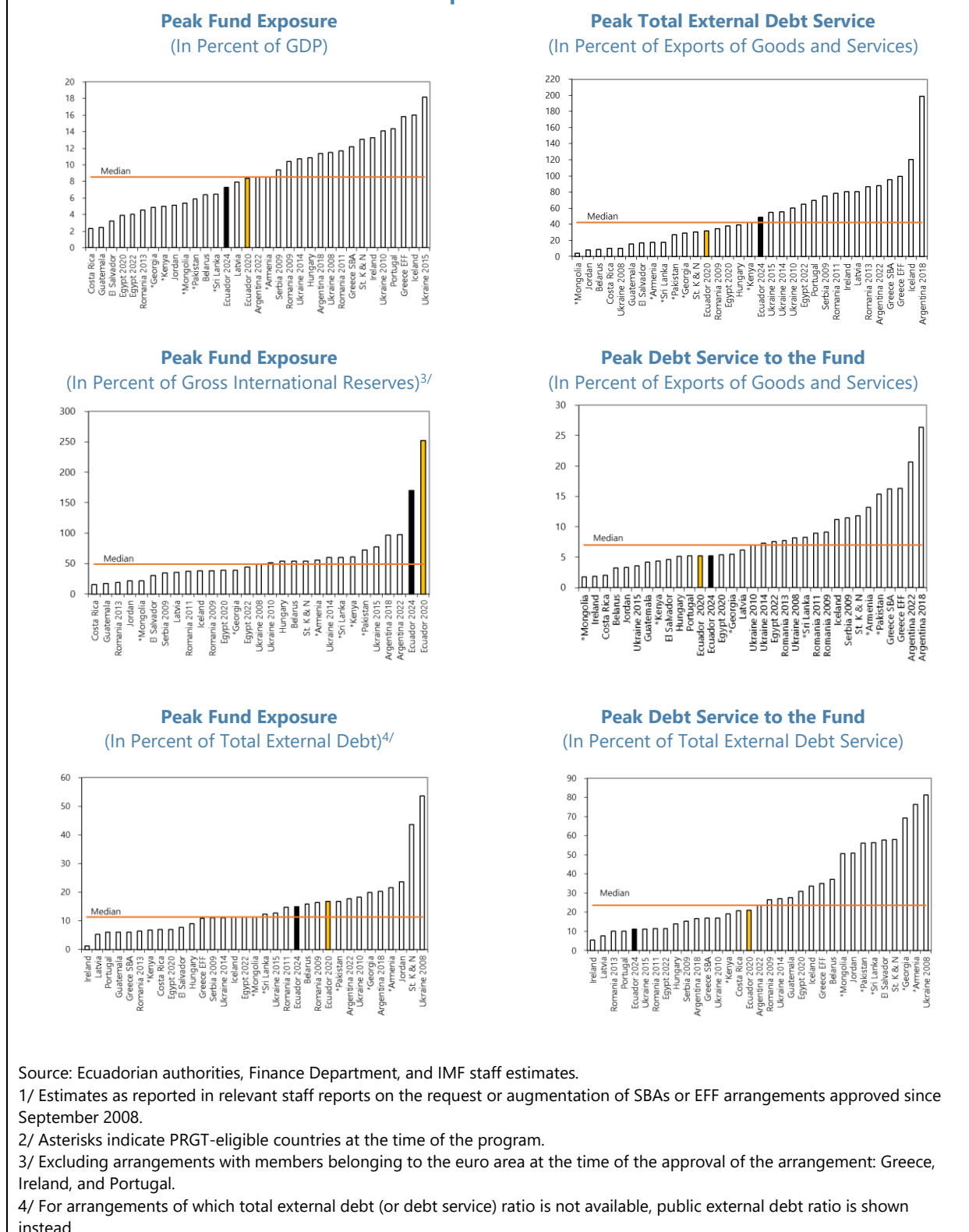


Source: Finance Department and IMF staff estimates.

1/ Peak borrowing “t” is defined as the highest level of credit outstanding for a member. Repurchases and repayments are assumed to be on an obligations basis.

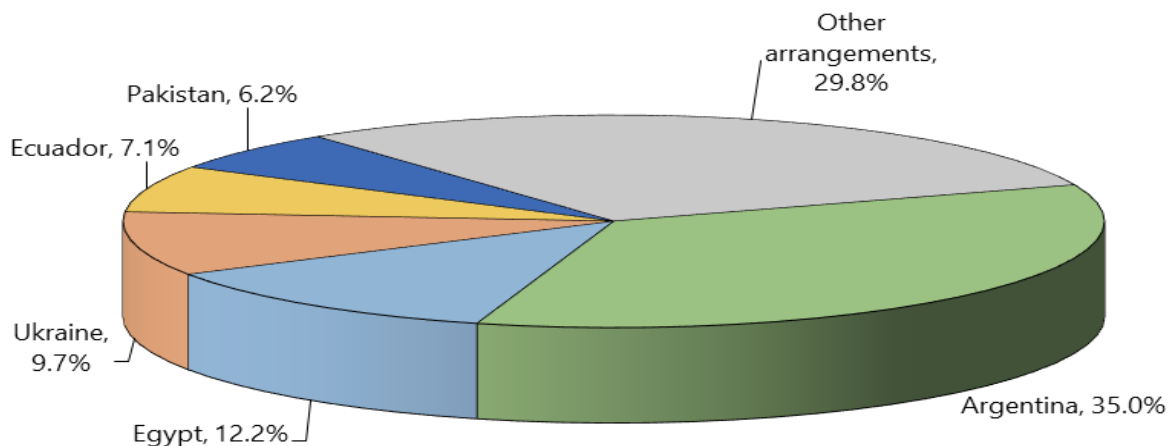
2/ Based on quotas at the time of approval, i.e., pre-14th General Review of Quotas for all countries except Argentina, Ecuador, Egypt, and Kenya. Median credit outstanding at peak is 1,002 percent of quota; average is 1,369 percent of quota.

**Figure 5. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases<sup>1/ 2/</sup>**



Source: Ecuadorian authorities, Finance Department, and IMF staff estimates.  
 1/ Estimates as reported in relevant staff reports on the request or augmentation of SBAs or EFF arrangements approved since September 2008.  
 2/ Asterisks indicate PRGT-eligible countries at the time of the program.  
 3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.  
 4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

**Figure 6. Credit Concentration of Fund GRA Exposure<sup>1/</sup>**  
 (As a percentage of total credit outstanding)



Source: Finance Department.

1/ Total credit outstanding refers to credit outstanding as of April 24, 2024, plus Ecuador's first purchase under the proposed EFF arrangement.

**Statement by Afonso Bevilaqua, Executive Director for Ecuador,  
Bruno Saraiva, Alternate Executive Director,  
and Bernardo Acosta, Senior Advisor to Executive Director  
May 31, 2024**

1. On behalf of our Ecuadorean authorities, we wish to express our appreciation to management and staff for their swift response to Ecuador's request for this EFF arrangement. We would like to recognize the mission team for their hard work and comprehensive report.

**Context**

2. **Ecuador made important progress in restoring macroeconomic stability and strengthening domestic institutions with the implementation of the 2020 EFF.** As a result of the implementation of the 27-month arrangement, an overall fiscal deficit of 7.1 percent of GDP in 2020 was turned into a small surplus in 2022, the first surplus since 2008. Economic growth recovered, exceeding expectations at program approval, and inflation remained among the lowest in the world. Far-reaching structural reforms were implemented, including a progressive tax reform and legislation that strengthened the fiscal framework, bolstered Central Bank governance and autonomy, and criminalized corruption.

3. **Political turmoil and external shocks brought about renewed fiscal vulnerabilities and economic challenges in 2023.** Amid a complex political landscape, snap general elections were held in the second semester of the year, halting Ecuador's reform momentum and increasing political uncertainty. Fiscal revenues declined as a result of lower oil production and prices, while expenditures increased because of higher interest payments on external public debt and policy loosening on current expenditures. The overall fiscal balance deteriorated from a small surplus in 2022 to a deficit of 3.6 percent of GDP in 2023. Treasury deposits declined markedly, and government domestic arrears rose well above historical averages. Climate shocks resulted in nationwide power outages at the end of the year, weighing on economic activity. Following a strong post-pandemic recovery, growth weakened from 6.2 percent in 2022 to 2.4 percent in 2023, with a contraction of 0.7 percent (y/y) in the last quarter of the year. With limited external financing sources, international reserves fell sharply, resulting in a balance of payments need associated with pressures on the financial account.

4. **Ecuador has faced an unprecedented security crisis.** In recent years, the country has drifted from one of the safest in Latin America, with a homicide rate of 6.7 per 100,000 in 2019 – similar to that in the United States–, to an estimated 45 per 100,000 in 2023, making Ecuador the deadliest country in Latin America. A presidential candidate was assassinated 11 days before the 2023 election. The surge in crime has become the population's main concern and has taken a toll on economic activity, mainly by altering investment and consumption decisions. Additional targeted public expenditures are needed to effectively tackle organized crime and enhance public security.

5. **The current administration has proactively taken crucial steps to address the weakened fiscal position and security conditions.** In its first five months in office, it managed to get five significant economic reforms approved by the National Assembly. These bills raised

the value added tax and created transitory contributions from corporations, among other measures to incentivize youth employment and to promote electricity generation by private companies. These revenue measures are expected to yield a net fiscal adjustment of around 1.8 percent of GDP in 2024. In addition, President Noboa announced his administration's commitment to target gasoline subsidies. In relation to the security crisis, the population supported the governments' policies by approving by a large margin nine security related questions in a referendum held in April.

## **Program Objectives**

6. **The proposed arrangement seeks to strengthen fiscal sustainability and advance a broad structural reform agenda to safeguard macroeconomic stability and foster strong and inclusive economic growth.** Building upon the considerable progress made under the previous Fund-supported programs, our authorities developed a robust macroeconomic program, aimed at strengthening fiscal sustainability, bolstering social protection, enhancing financial stability and integrity, and promoting sustainable and inclusive growth. Program design, including the pace of fiscal consolidation and reform sequencing, has been thoroughly considered and discussed with Fund staff.

## **Macroeconomic Policies and Structural Reforms**

7. **An ambitious medium-term fiscal consolidation will ensure the sustainability of public finances.** The fiscal plan is anchored on a consolidation of the non-oil primary balance including fuel subsidies of 5.5 percent of GDP over the program period, including a frontloaded adjustment of 2.2 percent of GDP in 2024. The envisaged adjustment combines balanced revenue and expenditure efforts and preserves space for priority spending on security, social protection, and public investment. As a result of the consolidation plan, public debt-to-GDP will continue to sustainably decline to reach the 40 percent legal limit by 2032.

8. **Key reforms will underpin the fiscal consolidation efforts.** Recent and forthcoming actions confirm our authorities' commitment with fiscal consolidation and their overarching goal of reducing the dependency of public finances on volatile oil revenues. In addition to the bold economic reforms enacted in early 2024, our authorities' fiscal plan includes additional permanent revenue mobilization, targeting of fuel subsidies, and expenditure consolidation. They will also continue strengthening public financial management, fiscal statistics, and revenue administration. Our authorities have carefully designed a credible fiscal plan that they can implement. If needed, they stand ready to take further actions to meet program objectives.

9. **Priority will be given to continue expanding the social safety net.** Building upon the remarkable expansion of the social assistance programs during the previous EFF arrangement – which increased the number of households in need receiving cash transfers from three out of 10 to eight out of 10–, our authorities aim to incorporate in the social safety net all families in the lowest two deciles of the income distribution and most families in the third decile during the implementation of this program. To achieve this goal, they plan to add about 50,000 new families each year to the cash transfer programs and to complete the social registry. They are determined



to ensure that the most vulnerable population is shielded from immediate negative effects of fiscal adjustment.

**10. Financial reforms will focus on gradually loosening financial repression, strengthening the oversight framework, and developing the domestic debt market.** Cognizant that a complex system of caps on lending rates have led to distortions and restrictions in the credit market, our authorities are committed to gradually phasing out financial repression measures and enhancing market efficiency. With the purpose of addressing coordination issues among agencies involved in financial sector oversight, a Financial Stability Committee will be established, in line with best international practices. Given that the domestic debt market lacks liquidity and depth, our authorities will improve market infrastructure and take other actions to help develop the domestic debt market –which will be crucial to boost domestic financing for public and private agents. The financial policy agenda, which includes additional measures, focuses on implementing the recommendations of the 2023 FSSA.

**11. Efforts to strengthen transparency, governance, and the AML/CFT framework will continue.** Our authorities will establish a new agreement between the Ministry of Economy and Finance and the Social Security Fund to settle healthcare obligations, with the purpose of providing a clearer picture of social security spending and underlying fiscal risks. They have assigned high priority to finalizing the audits of the state-owned oil company and improving transparency, accountability, and ultimately efficiency of SOEs. With the purpose of mitigating the risk of illicit flows –including those related to organized crime–, they will continue to work with legislators to enact new AML/CFT legislation in line with FATF standards.

## **Financing**

**12. The financing strategy relies on multilateral and bilateral sources in the near term and is centered on regaining market access as soon as 2025.** The program is fully financed for its first 12 months, with the EFF arrangement playing a catalytic role in mobilizing international financing, including from multilateral partners. Our authorities have assigned the highest priority to securing sustained financing support from our official bilateral creditors and are engaging with them on a continuous basis and at the highest level, with the goal of ensuring that each one of them maintains its exposure to Ecuador. After the deep fiscal reforms approved early this year, sovereign spreads declined about 800 basis points. With rigorous program implementation, including the build-up of fiscal buffers, our authorities plan to restore market confidence and regain access to international capital markets in the second half of 2025.

## **Final Remarks**

**13. Timely engagement with the Fund through an exceptional access EFF arrangement will be critical to safeguard macroeconomic stability and support the reform agenda.** The economy faces balance of payments needs, mainly from pressure on the financial account arising from external debt obligations. Given limited financial buffers and large financing needs in the short and medium run, staff assessed Ecuador’s public debt to be sustainable, but not with high probability. Fund’s financial assistance will help bridge the most pressing period in terms of financing needs, helping ensure debt sustainability. Successful program implementation, including

the completion of the ambitious reform agenda, should further reduce sovereign spreads and enable Ecuador to regain market access as well as boost the economy's potential growth. The country has proven capacity to implement a demanding program, and there is broad political support to the main objectives of the EFF arrangement, as showcased by the legislative approval of five important economic reforms between December 2023 and April 2024.

14. **Our authorities took swift and bold actions to address the tight liquidity conditions and strengthen fiscal sustainability.** They reaffirm their commitment to implement this ambitious program, which –in addition to the demanding fiscal plan– contains 15 structural benchmarks for the first 12 months, well above the average of 11 per year in other exceptional access programs. The Fund has been a crucial partner of Ecuador and our authorities are grateful for its continued financial, policy, and technical support.