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2021 ARTICLE IV CONSULTATION, SECOND AND THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the Article IV Consultation, Second and Third Reviews Under the Extended Arrangement Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its September 29, 2021 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 29, 2021, following discussions that ended on September 7, 2021, with the officials of Ecuador on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 20, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- 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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PRESS RELEASE

PR21/278

IMF Executive Board Concludes Second and Third Reviews of the Extended Fund Facility for Ecuador and 2021 Article IV Consultation

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded yesterday the combined second and third reviews of the 27-month Extended Fund Facility (EFF) for Ecuador, allowing for an immediate disbursement equivalent to about US$800 million. The Executive Board also concluded the 2021 Article IV consultation.
- Ecuador's EFF-supported economic program aims to support the economic recovery from the pandemic, restore fiscal sustainability with equity, and generate sustainable growth with high quality jobs.
- Continued improvement in public financial management and advances in transparency and anti-corruption would strengthen confidence in public institutions and boost private sector activity going forward.

Washington, DC – September 30, 2021: The Executive Board of the International Monetary Fund (IMF) concluded yesterday the combined second and third reviews of the extended arrangement under the Extended Fund Facility (EFF) for Ecuador. The Board's decision allows for an immediate disbursement of SDR 568 million (about US$800 million), bringing Ecuador's total disbursements under the arrangement to about US$4.8 billion. The Ecuadorian authorities plan to use the disbursement for budget support.

Ecuador's 27-month EFF arrangement was approved by the Executive Board on September 30, 2020 (see Press Release No. 20/302) for SDR 4.615 billion (about US$6.5 billion or around 661 percent of Ecuador's quota). The program aims to support Ecuador's policies with the economic recovery from the pandemic, to restore fiscal sustainability with equity by reducing public debt while expanding social safety nets, and generate environmentally friendly sustainable growth with high quality jobs that benefits all Ecuadorians.

The Executive Board granted a waiver of nonobservance of the end-April 2021 quantitative performance criterion on nonfinancial public sector deposits based on the minor nature of the nonobservance and corrective action taken by the authorities.

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

The COVID-19 and oil price shocks severely hit the Ecuadorian economy in 2020. The recovery has been slow but the accelerated pace of vaccinations, the improving global economy, and funding from the IMF and other IFIs are supporting Ecuador's recovery.

The authorities have significantly expanded social assistance programs. Over 440,000 low-income families have been added to the social safety net since July 2020. The continued expansion of social safety nets, reaching families in the lowest income groups and in generally underserved locations, will be crucial to mitigate the impact of the pandemic on the most vulnerable.

The ongoing pandemic and gradual economic recovery warrant continued support of the economy this year. Going forward, the authorities are committed to securing medium-term fiscal sustainability, reducing public debt, and building buffers through an expenditure-led consolidation strategy while protecting the most vulnerable, supplemented by progressive tax reform. Coordinating within the nonfinancial public sector, enforcing the timelines for data submission, and establishing budget ceilings in key spending categories in the near and medium term will be critical to achieve expenditure targets. Progressing with structural reforms to strengthen public financial management will also be essential.

The authorities have implemented key structural reforms to strengthen the anticorruption framework and the foundations of dollarization by enacting a new anticorruption law and a new organic monetary and financial code.

Improved transparency and governance in the management of public resources, including COVID-related spending, is crucial for bolstering trust in public institutions. Implementing fully and swiftly the regulation that was adopted last year to collect and publish ultimate beneficial ownership information in public procurement contracts is also critical. Further efforts are needed to improve asset declarations of politically exposed people, overhauling the AML/CFT framework, and conducting audits of taxes.

The banking system appears ready for the removal of the crisis measures at the end of the year, as currently envisaged by the authorities. Closing regulatory gaps over time across the financial system will level the playing field and enhance resilience.

The need to improve competitiveness and raise potential growth puts a premium on structural reforms, informed by national dialogue. In this regard, the authorities' ongoing efforts to forge new international trade deals and reform the labor market can help foster private sector growth and foreign direct investment.

Executive Board Assessment

Executive Directors commended the authorities for the measures taken to mitigate the economic and social impact of the pandemic and for the progress made in implementing reforms. Directors welcomed the decision to continue with the EFF-supported program and its objectives of supporting the economic recovery from the pandemic, restoring fiscal sustainability, and generating green, inclusive growth with high quality jobs.

Directors supported a more gradual fiscal consolidation to accommodate urgent pandemic-related spending needs this year, to expand social assistance programs, and to support the economic recovery. They welcomed the authorities' commitment to fiscal consolidation over the medium term, stressing the need for strong revenue efforts, including a progressive tax reform, to complement the expenditure-led consolidation strategy. Contingency planning in case of financial shortfalls was also encouraged. Directors recommended further efforts to strengthen public financial management, informed by the planned public expenditure review, fiscal transparency evaluation, and public investment management assessment.

Directors underscored the need to continue strengthening transparency and governance in the management of public resources to further improve trust in public institutions. They urged the full and swift implementation of the regulation for collecting and publishing ultimate beneficial ownership information in public procurement contracts. They also encouraged continued efforts to enhance the AML/CFT framework and conduct audits of taxes.

Directors welcomed the recent amendments to the central bank law to strengthen its independence and governance. They commended the authorities for the progress in improving the central bank balance sheet and the foundations of the dollarization regime.

Directors welcomed the authorities' intention to unwind the crisis measures in the banking system to preserve its health and avoid creating distortions. The planned third-party asset quality review for public banks would help identify provisioning and capitalization needs. Directors encouraged the development of a plan to close regulatory gaps, level the playing field, and strengthen the overall financial system.

Directors underscored the need to make progress on structural reforms to improve competitiveness, enhance the business environment, and accelerate environmentally friendly growth led by the private sector. Directors welcomed the authorities' ongoing efforts to forge new trade agreements and reform the labor market to set the course for higher and more inclusive growth. They noted that reducing the dependence on oil would help prepare Ecuador for the global transition to reduce carbon emissions while also promoting the development of other sectors.

Ecuador: Selected Economic Indicators

	2020	Proj. 2021	Proj. 2022
Output			
Real GDP growth	-7.8	2.8	3.5
Employment			
Unemployment (%)	5.3	4.6	4.2
Prices			
Inflation, average (%)	-0.3	0.0	2.1
Public sector			
Revenue (% GDP)	29.8	33.2	33.8
Expenditure (% GDP)	35.9	35.5	33.8
Overall fiscal balance (% GDP)	-6.1	-2.3	0.1
Non-oil primary fiscal balance (excl. fuel subsidies) (% GDP)	-3.8	-4.4	-2.0
Non-oil primary fiscal balance (incl. fuel subsidies) (% GDP)	-4.9	-5.8	-2.8
Public sector debt (% GDP) 1/	61.2	61.0	59.9
Money and credit			
Broad money (% change) 2/	6.0	5.9	5.2
Credit to the private sector (% change)	2.5	9.9	7.0
Balance of payments			
Current account (% GDP)	2.5	1.7	1.7
FDI (% GDP)	-1.2	-0.8	-1.1
GIR (in months of imports of goods and services)	4.3	3.9	4.3
External debt (% GDP)	54.9	52.3	50.3
Exchange rate			
REER (% change, depreciation-)	-3.5	…	…
REER (% change, depreciation-)			

Sources: Central Bank, Ministry of Finance, National Statistical Institute (INEC), UNDP Human Development Indicators, World Bank WDI, and IMF staff calculations.

1/ Gross debt consolidated at the level of the NFPS. Includes the outstanding balance for advance oil sales, treasury certificates, central bank loans, other liabilities and the stock of domestic floating debt. The public debt estimates are preliminary and subject to revisions in accordance with the IMF's Government Financial Statistics Manual.

2/ M2

ECUADOR

September 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, SECOND AND THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The new administration has committed to continue with the Fund-supported Extended Fund Facility (EFF) of SDR 4,615 million (661 percent of quota, about $6.5 billion) that was approved by the IMF Executive Board on September 30, 2020. The authorities' objectives under the program are to ensure an environmental-friendly growth with high quality jobs, promote a transparent management of public resources, and ensure equity in the conduct of fiscally sustainable policies. Upon the completion of the Second and Third Reviews under the EFF, an additional SDR $568 million would be made available.

Outlook. While the historic downturn in 2020 triggered by the pandemic was milder than originally anticipated, the recovery has been timid so far in 2021. Significant progress in vaccination and an improved global outlook should support the recovery going forward. Risks to the outlook remain high, albeit balanced.

Program implementation. All quantitative performance criteria (QPCs) for end-December 2020, and all but one for end-April 2021, as well as all indicative targets (ITs) were met. Progress on the structural reform agenda has been good, including amendments to the central bank legal framework, notwithstanding some delays relative to the timetable under the program. The program has been flexibly recalibrated to support the timid economic recovery and maximize the authorities' ownership. The structural agenda has been enhanced, including on strengthening social safety nets, public financial management, transparency in the management of public resources, and the anti-corruption agenda.

Article IV consultation. Improving competitiveness and generating environmentally friendly growth with high quality jobs remains a key medium term challenge for

Ecuador. A strong push for a comprehensive structural reform agenda, informed by national dialogue, are needed in this regard. Reducing the dependence on oil would not only strengthen fiscal policy and leave space for other economic sectors to develop, but also help prepare Ecuador for the global transition to reduce carbon emissions.

Approved By
James Morsink (WHD) and Maria Gonzalez (SPR)

Discussions were held in Quito, Guayaquil and via videoconferences during August 2–September 7, 2021. The report was prepared by a team comprised of Ceyda Oner (head), Botir Baltabaev, Matteo Ghilardi and Constant Lonkeng Ngouana (all WHD), Deirdre Daly (SPR), Pablo Druck (MCM), Mariano Moszoro (FAD), Mariana Sabates Cuadrado (STA), Julien Reynaud (Resident Representative) and Juan Pablo Erraez (Resident Representative Office), with support from Ivan Burgara, Nicolas Landeta, Anaysa Delsid (all WHD) and Lizeth Crow (Resident Representative Office). Staff from FAD, FIN, LEG, MCM, SPR and STA joined meetings, including Antonio Manzanera (FIN), Virginia Alonso, Ricardo Fenochietto, and Miguel Pecho (all FAD), and Ivana Rossi (LEG), who provided substantive input in the formulation of conditionality, review of legislation, and in the drafting of relevant sections of the report. Alejandro Werner, James Morsink (WHD) and Afonso Bevilaqua (OED) attended some meetings. Ricardo Velloso and Jorge Gallardo (OED) joined the discussions.

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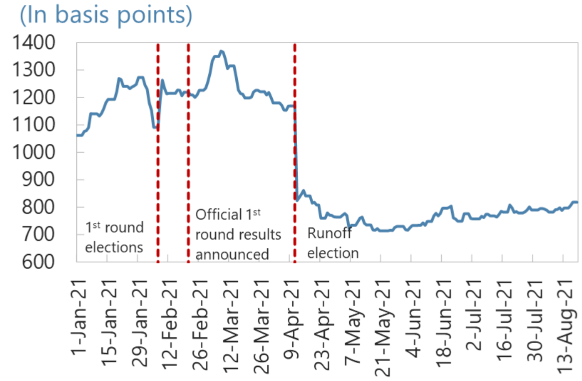
CONTEXT

1. **Ecuador made significant strides in macroeconomic management and institutional reform over the past two years.** A good track record of program implementation by the Moreno administration helped restore macroeconomic stability and strengthen domestic institutions. Notable achievements since 2019 have included amendments to the fiscal responsibility law (COPLAFIP) to anchor medium-term fiscal sustainability, a successful debt exchange that lowered financing needs for the next five years, amendments to the anti-corruption framework (COIP) to criminalize corruption offenses, and to the central bank law (COMYF) to restore the autonomy of the central bank and strengthen the basis for dollarization. The government also took important actions to limit the economic fallout of the COVID-19 pandemic on the population, supported by Fund's emergency financing under the RFI in May 2020 ($643 million), and exceptional access under the Extended Fund Facility (EFF) of $6.5 billion starting in September 2020.

2. **Following a smooth transition post-election, the new administration has committed to continue with the EFF-supported economic program.** The market reaction to President Lasso's election was positive, with spreads dropping by about 400 bps overnight and remaining low thereafter (text chart). Vaccination has progressed significantly after some initial setbacks. The completion of the combined Second and Third Reviews, together with the 2021 Article IV consultation—as requested by the new administration—will help anchor the reform agenda. The authorities' economic objectives under the EFF arrangement are to ensure an environmental-friendly growth with high quality jobs, promote a transparent management of public resources, and ensure equity in the conduct of fiscally sustainable policies. With a fragmented National Assembly, governing will require forging alliances across the political spectrum.

Ecuador: EMBI Spread
(In basis points)



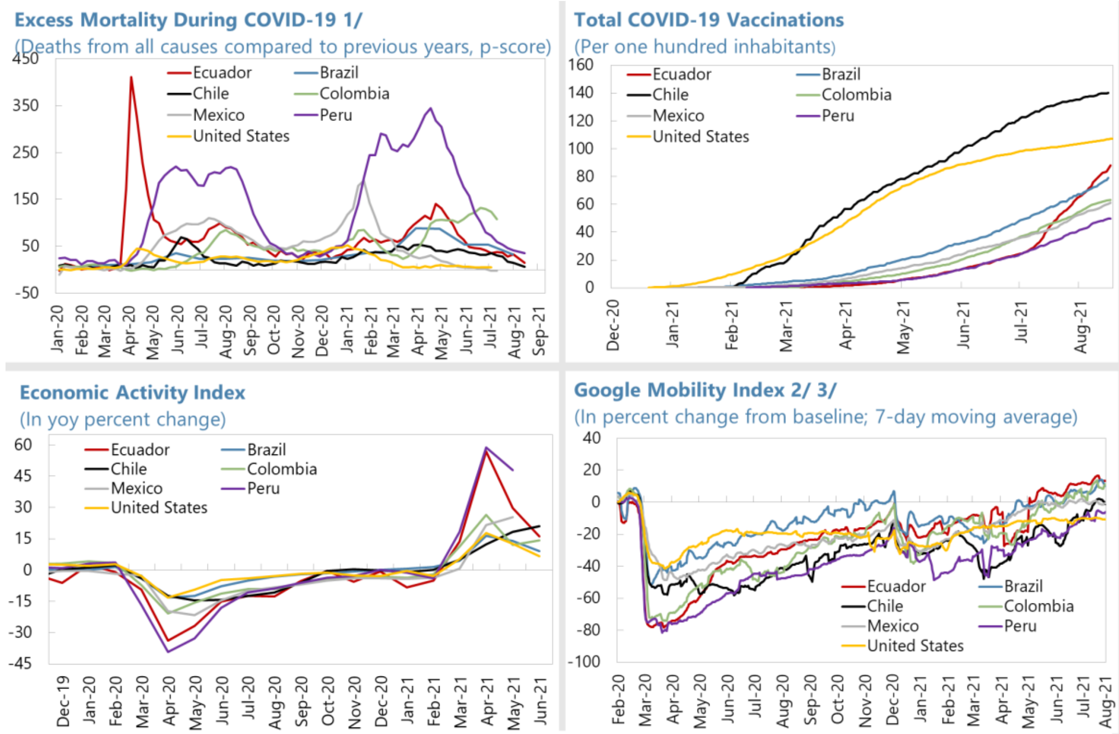
Source: Bloomberg.

3. **The authorities request a reorientation of the fiscal policies to meet the objectives of their Fund-supported program.** The authorities are committed to the overall program's fiscal objectives while pursuing a somewhat narrower consolidation path--so as to better support the economic recovery—with a different composition. For 2021, they see a strong need for additional spending, striking a balance between supporting the still fragile economic recovery and saving some of the oil windfall. Going forward, they favor achieving the consolidation targets by reducing the size of the public sector more than originally envisaged, while raising revenues with a smaller albeit progressive tax reform, coupled with some administrative measures. Considering the updated outlook, staff and the authorities concurred that the program objectives are achievable under this strategy. The mission also discussed the authorities' reform agenda and incorporated key steps in structural conditionality under the program.

RECENT ECONOMIC DEVELOPMENTS

4. COVID-19 infections eased over the past months, and vaccination has progressed. The number of infections has moderated over the past months, after reaching their second highest point at end-April. Over 9 million people have received at least one dose of a COVID-19 vaccine as of September 5, with close to 8 million (50 percent of the population) fully vaccinated. The authorities continue to acquire more vaccines and have stepped up capacity to administer them.

Ecuador: COVID-19 Developments



Sources: Our World in Data COVID-19 dataset, Haver, Google Community Mobility Reports, national authorities, IHS Markit, and IMF staff calculations.
1/ Calculated as: [Deaths in period 2020-2021]-[Average deaths in period 2015-2019] / [Average deaths in period 2015-2019].
2/ Baseline is the median value, for the corresponding day of the week, during the 5-week period of January 3- February 6, 2020. Index is the simple average of 4 Google mobility indices: retail and recreation, grocery and pharmacy, transit stations, and workplaces.
3/ Cross-country comparability, given changing day-to-day sample sizes, unique country characteristics, and lack of seasonal adjustment, is not always accurate.

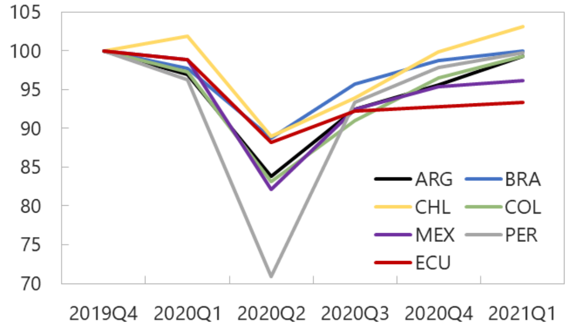
5. While the downturn triggered by the pandemic—the worst contraction on record—was milder than originally anticipated in 2020, the recovery has been timid so far in 2021, including relative to peers (text chart):

- After bottoming out in 2020:Q2, GDP rebounded in 2020:Q3, leading to a milder contraction in 2020 as a whole than anticipated (7.8 percent y/y, compared to 9.5 percent in the First Review). The economic recovery subsequently lost momentum in 2020:Q4, reflecting in part new waves of mobility restrictions to curb the spread of the virus, while regional peers continued to rebound. GDP expanded modestly in 2021:Q1, by 0.7 percent q/q (5.6 percent y/y) on the back of private consumption and investment that drove up imports of raw materials and investment goods.

- High frequency indicators suggest a mild improvement during 2021:Q3, with wholesale and retail sales up by 30 percent (y/y) in June, reflecting a base effect. Indices of business confidence and economic activity have also recovered somewhat, as the election-related uncertainty waned after April.

- CPI inflation was subdued in 2020, averaging -0.3 for the year; a weakness that continued through 2021:H1. Inflation turned positive (1 percent, y/y) in July for the first time in a year, driven by the prices of food, transport and utilities.

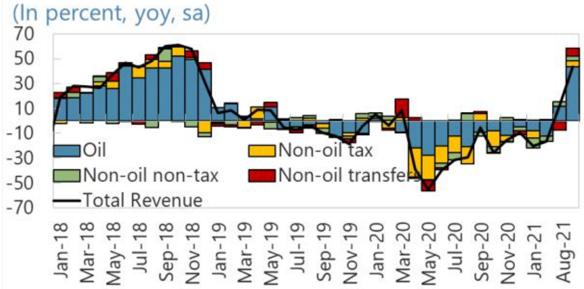
Ecuador and LA6: Quarterly GDP
(2019Q4=100)



Source: Haver analytics.

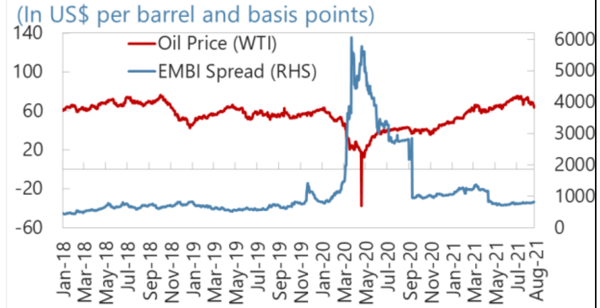
Ecuador: High Frequency Indicators

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



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

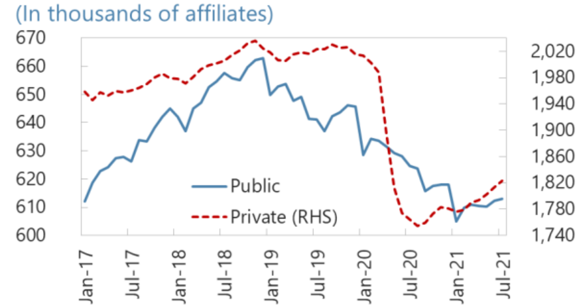
Ecuador: EMBI Spread and Oil Price
(In US$ per barrel and basis points)



Source: Bloomberg.

6. The labor market remains weak, with less educated workers, minority groups and women with children hit hardest by the pandemic. While the level of employment and labor force participation have almost recovered to pre-pandemic levels, important vulnerabilities and disparities have emerged. Despite some recent improvements, the share of adequate employment (full time workers earning at least the minimum wage) stood at 31.3 percent in June 2021, still well below its pre-pandemic level of around 40 percent. The recovery in formal employment has also been timid (text chart) and labor market outcomes uneven across population groups (***SIP #2***).

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



Source: IESS.

Ecuador: Changes in Fiscal Balances – 2020 First Review Forecast vs. Actual Outturn
(In US$ millions)

	2020		
	Forecast	Actual	Difference
PGE+CFDD			
Revenues	18,052	18,578	526
Expenditures	25,711	25,683	-28
Overall Balance	-7,659	-7,105	554
NFPS			
Revenues	28,505	29,408	903
Expenditures	35,830	35,476	-353
Overall Balance	-7,324	-6,068	1,256
Change in Deposits at the BCE	-590	403	993

Source: Ministry of Finance and IMF staff calculations.

7. **The fiscal outturns at end-December 2020 were significantly better than envisaged at the time of the First Review.** The overall balance of the budgetary central government (PGE) and the domestic derivatives financing account (CFDD) recorded a deficit of about $7.1 billion, $554 million better than programmed; other fiscal balances were also better than expected (text table, Table 2a). At the NFPS level, the over-performance was driven by both better-than-expected revenues (about $900 million) owing to partial economic recovery in the latter part of 2020 and spending restraint at the NFPS level ($350 million), particularly by local governments, lower oil investment, net lending, and lower social security benefits. In particular, COVID-related spending was $410 million, below expected by $622 million. The sizeable fiscal overperformance more than offset a shortfall in IFI disbursements, leading to higher NFPS deposit accumulation at end-2020 by $1 billion. Public debt ended 2020 at 61.2 percent of GDP, about 5 ppt lower than expected, largely owing to the denominator effect (Table 3).

Ecuador: Changes in Fiscal Balances – Jan-Apr 2021, First Review Forecast vs. Actual Outturn
(In US$ millions)

	Jan-Apr 2021		
	Forecast	Actual	Difference
PGE+CFDD			
Revenues	6,999	7,578	580
Expenditures	7,239	7,762	523
Overall Balance	-241	-184	57
NFPS			
Revenues	10,222	11,501	1,279
Expenditures	10,495	10,659	164
Overall Balance	-273	842	1,115
Change in Deposits at the BCE	-47	-55	-8

Source: Ministry of Finance and IMF staff calculations.

8. **The overall balance for the first four months of 2021 at the PGE+CFDD level was in line with expectations, while fiscal balances at the NFPS level significantly overperformed owing to better revenues** (see ¶11 for assessment of program performance). With a substantial increase in oil prices, revenues were well above expected at both the PGE+CFDD and NFPS levels, by $580 million and about $1.3 billion, respectively (text table, Table 2a). Besides higher CFDD expenses caused by higher oil prices (about $550 million), the expenditure restraint at the NFPS level also continued in 2021:Q1. Notwithstanding the better fiscal outturns, as well as higher domestic financing, NFPS deposit accumulation was slightly lower than expected, owing to financing shortfalls from IFIs ($534 million) and higher-than envisaged repayment of other accounts payable as well a statistical discrepancy ($666 million).

9. **The external position was considerably stronger than anticipated in 2020 and in 2021 year-to-date.**

- The current account posted a surplus of 2.5 percent of GDP in 2020, well-above the forecasted deficit of 0.6 percent, supported by a tighter fiscal stance, robust remittances, and higher-than-anticipated exports (mainly non-oil). This, together with buoyant private deposits and the $2 billion Fund disbursement towards the end of the year, lifted end-2020 gross international reserves (GIR) to $7.2 billion.

- The current account recorded a surplus of $0.7 billion in Q1:2021, driven by continued growth in exports and buoyant remittances. Exports increased by 30 percent during this period, driven by oil and mining. Imports increased by 30 percent (y/y) over the same period, driven by raw materials and machinery/equipment from firms that had drawn down inventories during the pandemic.

- International reserves declined by $1.4 billion in 2021:H1 on account of external public debt repayment and the gradual recovery in imports, as the December Fund disbursement was utilized. Election-related uncertainty may have also led to a temporary uptick in capital outflows in 2021:Q1, which subsequently subsided.

10. The financial sector remains liquid. The ratio of liquid assets to short-term liabilities stood at about 30 percent at end-July 2021, supported by buoyant private deposits and ample buffers, aided by the 3 ppts reduction in the contribution to the liquidity fund earlier in the pandemic. While reported non-performing loans (NPLs) dropped to 2.5 percent at end-July 2021, down from their peak of 4 percent in September last year, these low levels reflect the crisis measure that gives more time to record an overdue loan as past due, and masks true NPLs. These crisis measures for banks are set to expire in December 2021, but for the cooperative sector have been extended until December 2022. Private deposits have continued to trend up (14.2 percent at end-July, y/y), supporting recovery in private credit (6.4 percent at end-July 2021, y/y) from the crisis trough, including to the productive sector.

PROGRAM IMPLEMENTATION

11. All quantitative performance criteria (QPCs) for end-December 2020, and all but one for end-April 2021, as well as all indicative targets (ITs) were met:

- **NFPS deposit accumulation.** The end-April QPC was missed by a margin of $77 million due to insufficient monitoring of accounts payable. Specifically, deposits declined in the first 4 months by $55 million, while the adjusted QPC required an increase of at least $22 million. The unadjusted QPC, a drawdown of at most $47 million, was adjusted up for oil prices (by $119 million) and down for IFIs disbursements (by $50 million). The latter reflects that the forecasted IMF disbursement ($400 million) did not materialize, while unplanned budget loans from the IADB ($350 million) were received. The authorities request a waiver of nonobservance (¶43). They will also prepare a cash plan for the rest of the year, with analysis of arrears, fiscal risks, and deviations from the earlier cash plans, with support from the Fund-provided long-term expert (prior action, MEFP ¶22).

Ecuador: Quantitative Performance Criteria and Indicative Targets for end-December 2020 and end-April 2021

(In US$ millions, unless otherwise indicated)

	End-Dec. 2020				End-Apr. 2021			
	Prog. 3/	Adj. 4/	Actual	Status	Prog. 3/	Adj. 4/	Actual	Status
Quantitative performance criteria								
1. Overall balance of the budgetary central government and CFDD (*floor*)[1/]	-4,005	-3,893	-3,655	Met	-241	-305	-184	Met
2. Accumulation of NFPS deposits at the central bank (*floor*)[1/]	300	487	1,293	Met	-47	22	-55	Not Met
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	Met
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	Met
Indicative targets								
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*)[1/]	-5,467	-5,355	-4,072	Met	-572	-636	-90	Met
6. Overall balance of the NFPS (*floor*)[1/]	-5,656	-5,544	-4,334	Met	-273	-337	842	Met
7. Change in the stock of NIR - program definition (*floor*)[1/]	-4,228	-4,041	-2,357	Met	-579	-110	542	Met
8. Coverage of the cash transfer programs for lower income families - number of families (*floor*)[2/]	225,600	225,600	271,668	Met	384,600	384,600	443,619	Met

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

[1/] Cumulative change from July 1, 2020 for the end-December 2020 target, and from January 1, 2021 for the end-April 2021 target.

[2/] Cumulative change from July 1, 2020.

[3/] Staff report for the EFF first review, No. 20/325.

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

- **Central government balance.** The end-December 2020 QPC on the overall balance of the budgetary central government and the domestic derivatives financing account (CFDD) was met with a sizeable margin of $238 million, reflecting prudent macroeconomic management in the face of uncertainty in timing of disbursements. The end-April 2021 QPC was also met—the actual deficit was $184 million, compared to the adjusted QPC of $305 billion. The QPC was adjusted down for oil prices ($119 million) and up for unplanned loans from China ($183 million in budget support from CDB).

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

- **NFPS non-oil primary balance with fuel subsidies (NOPBS) and overall balance.** The end-December 2020 IT on the NOPBS was met with a sizeable margin of $1,282 billion, while the end-April IT was met with a margin of $1,405 billion; the margin of overperformance for the IT on the NFPS overall balance at the end of 2020 was $1,449 billion, while the end-April IT was met with a margin of $843 million.

- **Net international reserves (NIR).** The change in NIR at end-December 2020, evaluated at program exchange rates was negative $2,357 billion, well-above the program IT, adjusted for oil prices of about negative $4,041 billion, mainly on account of higher-than-expected NFPS deposits. The NIR IT was also met at end-April 2021 ($542 million at end-April 2021 compare to the adjusted target of negative $110 million).

- **Social assistance coverage.** 271,000 additional families were brought into social assistance programs in 2020:H2, 46,000 above the end-December 2020 IT. The end-April 2021 IT was also exceeded by about 59,000 families.

12. Progress on the structural reform agenda has been good, notwithstanding some delays relative to the timetable under the program:

- **Central bank law (COMYF) (end-January benchmark – Not met; Implemented with delay).** The authorities amended on April 22, 2021 the central bank legal framework within the Organic Monetary and Financial Code (COMYF). The enacted amendments to COMYF were comprehensive revisions that significantly strengthened the basis for dollarization and the autonomy of the central bank.

- **MTDS (end-February benchmark – Met).** The authorities produced and published a MTDS. While the benchmark was met, the strategy would have been stronger if it had provided a better roadmap by demonstrating how the current debt portfolio would be transformed into a future debt portfolio based on future issuance choices. The authorities are building up capacity to strengthen investor relations and will work on an updated strategy.

- **Arrears clearance strategy (end-April benchmark – Not met).** The authorities prepared an arrears strategy in April. The document summarized how to clear and prevent arrears accumulation at the central government level. However, it did not provide an estimate of the arrears stock or cover the NFPS as stipulated in the benchmark. The authorities are advancing on estimating arrears and strengthening the strategy for clearing them, including with assistance from the Fund LTX (¶23). The MEF will issue a methodology to estimate the arrears stock and the template for public sector entities to report them (proposed structural benchmark for end-November 2021).

- **GFS benchmarks (end-May benchmarks – one met, one not met; implemented with delay).** The GFS compilation guide was finalized and disseminated by end-May. The revised historical revenues and expenditures data for each of the sectors of the NFPS (central government, local governments, social security, and public corporations) were published in August.

- **Audit of COVID-related spending (end-June benchmark—Not met).** The Office of the Comptroller General conducted close to 400 special examinations of the procurement processes carried out during the state of emergency (with 268 approved audit reports and 128 reports indicating potential criminal responsibility that were forwarded to the public prosecutor's office). While the criminal investigation and subsequent resignation of the Comptroller General impeded progress, the authorities remain committed to continue advancing the work while the position is being filled.[1] As such, they have recently published the approved audit reports performed during the state of emergency in a dedicated website that compiles and facilitates access to all information. The website also notes the existence of 128 COVID-related audit reports whose content cannot be published on the webpage at this moment due to

[1] The timeline envisaged by the legal process in Ecuador suggests that a new Comptroller General could be named in six months.

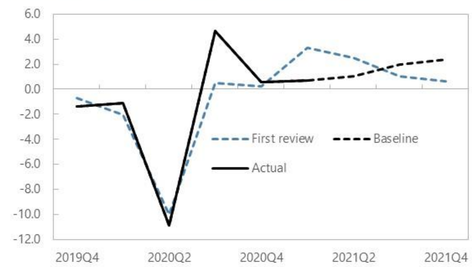
confidentiality required by law arising from ongoing investigations and legal proceedings (***prior action***).[2]

OUTLOOK AND RISKS

13. The macroeconomic outlook remains uncertain:

- **2021**. Economic activity is projected to expand by 2.8 percent in 2021, 0.7 ppts below the forecast at the time of the First Review, with Ecuador's recovery being weaker relative to peers. This downward revision reflects two opposing forces: On the one hand, the stronger base from 2020 implies a lower growth rate in 2021 all else equal. On the other hand, compared to the First Review forecast, global demand is expected to be stronger, oil prices are expected to be higher (by about $23 per barrel in 2021 alone), and fiscal policy would be more supportive (¶18). Nonetheless, the first effect dominates the latter in the baseline. The current account surplus is expected to contract by 0.8 ppt (to 1.7 percent of GDP) in 2021 as imports recover. The upward revision of the current account balance relative to the First Review reflects higher oil exports and continued buoyancy in non-oil exports.

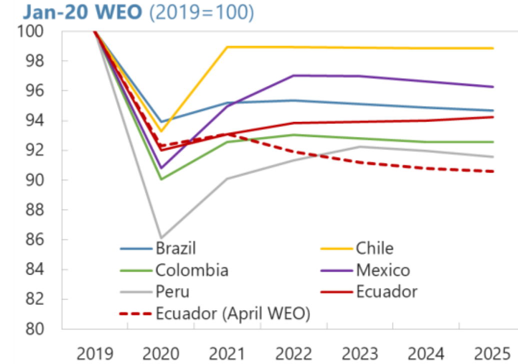
Ecuador: Quarterly GDP growth
(percentage change over previous quarter)



Source: BCE; IMF staff estimates

- **Medium-term**. The growth outlook has improved slightly, owing to less fiscal consolidation compared to the First Review to strengthen the recovery and limit long term scarring (¶15-17), higher oil prices, and a stronger recovery in trading partners. Even so, Ecuador would have a relatively weak recovery among regional peers (chart). The contact intensive sectors (about 43 percent of 2019 GDP) are assumed to permanently lose about 5 percent of output relative to pre-pandemic levels. Potential scarring could be even larger in the absence of structural reforms in the areas of labor and product markets, access to finance, and governance. Inflation would remain subdued relative to trading partners, supporting competitiveness. The current account is expected to stabilize toward around 2 percent of GDP, as imports continue to recover with the economy and non-oil exports offset declines in oil exports.

Ecuador and LA5: Real GDP Change: Apr-21 WEO vs Jan-20 WEO (2019=100)



Source: World Economic Outlook and IMF staff calculations.

14. Risks to the outlook are broadly balanced (Annex IV):

[2] https://www.contraloria.gob.ec/EmergenciaSanitaria/Covid19

- **On the downside**, subsequent waves of the pandemic, coupled with a slowdown in vaccinations, could prompt renewed economic closures, worsen labor market outcomes, push many more people into extreme poverty, and fuel social unrest. Confidence could wane if the new administration does not capitalize on the honeymoon period to durably transform the economy and/or does not implement concrete structural measures to firmly anchor fiscal sustainability. Garnering political and social support for the larger expenditure rationalization under the revised fiscal strategy could prove challenging. This, together with an abrupt tightening in global financing conditions, would dampen financing prospects. A significant downgrade of the oil price outlook could reduce fiscal and external buffers if policies do not adjust commensurately, or stifle the recovery if policies adjust abruptly to make up for the new financing gap.

- **On the upside**, with the election uncertainty finally resolved, continued strong program implementation could further lower sovereign risk and allow Ecuador to re-access international capital market in the near term. As the new administration makes progress in implementing its policy agenda to restore fiscal sustainability, improve Ecuador's competitiveness, liberalize and develop the private sector, confidence can continue to rise, boosting domestic as well as foreign investment and Ecuador's potential growth prospects (***SIP #1***). A stronger recovery in trading partners, including the large fiscal stimulus in the US, could boost exports, oil prices, and remittances inflows beyond current projections.

POLICY DISCUSSIONS

The COVID-19 shock underlined the pre-existing vulnerabilities of the Ecuadorian economy, including the need to reduce the reliance of public finances on oil revenues and tackle deep-rooted structural rigidities that limit Ecuador's potential growth. With the elections behind, the recovery from the pandemic and the period ahead provide a unique opportunity to reorient policies to improve fiscal sustainability with equity, manage public resources transparently and restore confidence in institutions, and generate environmentally friendly, job-rich, private sector-led growth. The AIV policy discussions were interwoven with the reform plans under the EFF arrangement.

A. Improving Fiscal Sustainability with Equity

Balancing Supporting the Economy and Restoring Sustainability

15. The fiscal strategy has been recalibrated to provide more support to the economy and build more buffers while preserving medium term sustainability.

- The outlook at program approval and First Review—with oil prices remaining around $40/barrel through the medium term and debt peaking above 66 percent of GDP at end-2020—necessitated a large and front-loaded fiscal consolidation plan to attain the debt targets enshrined in COPLAFIP, reorient the budget deficits to surpluses, and build up liquidity buffers in Treasury deposits.

- Fast forward to today, the stronger-than-anticipated fiscal performance in 2020, lower debt outturn of 61 percent of GDP, and higher oil prices (by $20/barrel in 2021 and around $10/barrel over the medium-term) implies that a smaller, albeit still ambitious consolidation would achieve the same fiscal objectives of reaching the COPLAFIP debt target of 57 percent of GDP by 2025, attaining a nonoil primary surplus over the medium-term, and building significant liquidity buffers. Moreover, this path can be formulated with a less front-loaded consolidation path to meet the continuing expected pandemic-related spending needs in the near term and help limit long-term scarring.

- Against these considerations, a consolidation in the nonoil primary balance with subsidies (NOPBS) of 4.5 ppts of GDP over 2019-2025 (corresponding to an improvement in the NFPS overall balance (OB) of 4.1 ppts of GDP) strikes a good balance between supporting the economy in the near-term and firmly restoring fiscal sustainability, while building adequate policy buffers against negative shocks or contingent liabilities. This represents a 1 percentage point reduction in total consolidation over the medium term relative to what was envisaged at the time of the First Review (text table).

Ecuador: Select Balances, Non-oil Primary Balance with Subsidies

(Change from previous year, in percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2020-25
Revenue	**-1.3**	**-0.7**	**-0.3**	**0.7**	**0.3**	**0.2**	**0.0**	**0.2**
o/w Planned tax reform	0.0	0.4	0.0	0.1	0.6	0.0	0.0	1.1
o/w Temporary Tax measures	0.0	0.0	0.0	0.5	-0.4	0.0	0.0	0.0
o/w Administrative Measures	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.3
o/w Macroeconomic effect on tax revenues	0.0	-1.4	0.0	0.0	0.0	0.1	0.0	-1.3
Expenditure	**2.0**	**0.6**	**-0.6**	**2.3**	**1.0**	**0.6**	**0.4**	**4.2**
Wages and salaries	0.2	-0.3	0.6	0.4	0.3	0.1	0.1	1.2
Goods and services	0.1	0.2	0.1	0.4	0.2	0.3	0.1	1.3
Other spending	-0.1	-0.2	-0.2	0.2	0.0	0.0	0.0	-0.2
Capital spending	1.3	0.2	0.0	0.4	0.4	0.2	0.1	1.3
Fuel subsidies	0.8	1.1	-0.6	0.9	0.0	0.0	0.0	1.4
Social spending	-0.3	-0.5	-0.5	0.0	0.1	0.0	0.0	-0.8
Total	**0.7**	**-0.1**	**-0.8**	**3.0**	**1.3**	**0.8**	**0.4**	**4.5**
Memo items								
First Review								
Revenue	-1.3	-0.1	0.2	1.9	0.6	0.1	0.0	2.8
Expenditure	2.6	-0.9	1.7	0.9	0.8	0.1	0.0	2.7
Total	1.3	-0.9	1.9	2.8	1.4	0.2	0.0	5.5

Sources: Ministry of Finance and IMF staff calculations.

16. The 2021 fiscal targets envisage higher expenditures and a larger nonoil primary deficit relative to the First Review, accommodating urgent and mostly pandemic-related spending pressures while saving more of the oil windfall.

- On the one hand, important expenditure pressures this year, which are temporary or one-off in nature, justify a larger deficit to support the economic recovery. These include, at the central government level, the continued higher pandemic-related spending relative to the First Review projections, including securing vaccines and administrating them, safely re-opening schools and supporting online learning, and shoring up social protection (social security payments, unemployment benefits, and medical insurance). The government is actively negotiating with Perenco on the payment of a $374 million indemnification pursuant to a recent international arbitration award, which is outside the central government budget but adds to NFPS deficit in 2021.

Ecuador: One-off Expenditures in the Central Government Budget, 2021 (In US$ millions)

Increase in social spending (*bonos*)	125
Vaccines and vaccination-related expenses	293
Additional spending on health care workers	25
Refurbishing schools and education expenses	121
Expenses related to termination of employment	135
Expenses for elections	21
Overdue VAT payment to local governments	300
Total	**1,020**

Sources: Ministry of Finance and IMF staff estimations.

- On the other hand, higher oil prices would lead to smaller deficits, all else equal. The increase in oil prices is expected to bring in net additional revenues of $1.6 billion this year after considering the higher cost of production and of importing oil derivatives and of $3.9 billion cumulatively over 2021–25 compared to the First Review. Moreover, the plans to restore fiscal sustainability would also argue for continuing the trend of expenditure reduction.

- On balance, the 2021 fiscal plans have been revised to entail 35.5 percent of GDP in total expenditure, which is both higher than the 34.3 percent envisaged in the First Review, but also lower than the 2020 outturn of 35.9 percent, thereby balancing the two considerations of supporting the recovery while continuing with the medium-term expenditure reduction strategy. This level of expenditure would correspond to a relaxation of the nonoil primary deficit to 4.4 percent of GDP (from 3.8 percent last year) and of the NOPBS deficit to 5.8 percent (from 4.9 percent last year). At the same time, more of the oil windfall would be saved in Treasury deposits under this plan compared to the First Review, by an additional $400 million (beyond the SDR allocation).

17. For 2022 and the medium-term, the authorities' objective is to follow an expenditure-led consolidation path, supplemented by a progressive tax reform:

- Tax reform (MEFP ¶16). Shifting away from volatile oil revenues and reducing the procyclicality of fiscal policy requires raising permanent non-oil revenues. Sustaining that shift, in turn, requires a progressive and equitable tax system. To that end, the authorities have developed a tax bill to make it more equitable, simpler, and growth-friendly, which they plan to submit to the National Assembly in September, for enactment by end-October (***proposed revision to structural benchmark***). The bill is underpinned by a combination of policy and administrative measures as well as one-off contributions:

    - *Policy measures (0.7 percent of GDP)* include changes in (i) personal income tax to lower personal expenditure deductions (from the current maximum of $14,575 to the median of deductions); change deductions from being applied to pre-tax income to a tax credit with a quota, and narrow income brackets for the higher tax brackets, while leaving marginal tax rates unchanged; and (ii) corporate income tax, with measures to eliminate credits and deductions.

- *Administrative measures (0.3 percent of GDP)* include improvements in collection through the Large Contributors Unit, enhanced customs tariff collection, and improved VAT compliance, implementing the recommendations of past Fund TA.

- *Transitory measures (0.5 percent of GDP)* include (i) a special contribution from corporations with net worth over $1 million, whose sales in 2020 exceeded those of 2019; (ii) a special contribution of high-net-worth individuals, with rates progressively increasing from 0.5 percent to 1.5 percent; and (ii) the disclosure of foreign investments/assets held abroad, previously not reported to the tax authority, which would allow for a one-time tax to be charged.

18. Expenditure prioritization (MEFP ¶17). Given the expected permanent yield from the tax bill of 1 ppt of GDP, reaching the authorities' medium-term sustainability targets entails a cumulative primary spending reduction of 4.2 ppts of GDP over 2022–25 (Tables 2a-2b). To achieve these savings in the most growth-friendly and distributionally optimal way, the authorities have opted for a diversified approach: important savings will come from rolling back the one-off spending incurred in 2021 (0.9 ppt of GDP), generating efficiency gains from enforcing new guidelines in the procurement of goods and services and for capital investment (1.5 ppt), and enforcing spending rationalization through multi-year and budget ceilings across various line items (0.9 ppt). Continuing to implement the fuel subsidy reform will contribute to the consolidation (0.9 ppt). More specifically:

Ecuador: Expenditure Rationalization 2022-25
(In percent of GDP)

	2022	2023	2024	2025	Total
Expenditure Rationalization	2.3	1.0	0.6	0.4	4.2
Identified policies and measures	2.6	0.8	0.4	0.2	4.1
Wage bill measures	0.2	0.3	0.1	0.1	0.7
Procurement efficiency measures	0.6	0.5	0.3	0.1	1.5
Implementing fuel subsidy reform	0.9	0.0	0.0	0.0	0.9
Rollback of 2021 one off spending	0.9				0.9
Measures to be identified	-0.4	0.2	0.2	0.1	0.2

- Wage bill: The plan is to have a slower nominal growth in the wage bill over the medium term than GDP growth, thereby reducing the total wage bill from 9.1 percent of GDP to 8.2 percent by 2025. Such a path can be achieved by rolling back one-off crisis measures, allowing wages to grow with inflation, and replacing retiring staff and expiring fixed-terms contracts partially. Additional savings could be generated from lower wages for new hires, or a lower replacement rate of retiring of fixed-term staff. The authorities plan to set wage bill targets in annual budgets and closely coordinate with the Ministry of Labor to generate the planned savings.

- Procurement: Most of the expenditure reduction is expected to happen from goods and services, from 4 percent of GDP in 2021 to 3 percent by 2025, and capital expenditure (which, in Ecuador, includes non-investment spending financed by non-permanent revenues) from 7.3 percent in 2021 to 6.1 percent in 2025. A key component of this expenditure reduction strategy is to generate savings by putting in place more efficient procedures: the national public procurement agency (SERCOP) and the MEF have identified several measures to that end, drawing on World Bank TA (MEFP ¶17).[3] These include using more bulk and standardized purchases, relying more on competitive bidding, process simplification and dynamization, suppliers' pre-qualification, better project management, and catalog purchases for off-the-shelf items. The cumulative savings from these measures is estimated at 1.5 percent of GDP over 2022–25. The authorities will undertake several actions to enforce those savings. First, they will establish the Subsistema Nacional de Control (SNC) comprising MEF, SERCOP, UAFE, the tax administration, the Office of the Comptroller, the State Attorney's Office, and financial regulators (proposed new structural benchmark for October 2021), which will coordinate to tackle irregularities in procurement across the public sector, including through interoperable databases, and thereby generate savings. Second, in coordination with MEF and the National Secretary of Planning, SERCOP will issue and enforce procurement guidelines (proposed new structural benchmark for November 2021) for adoption by the central government and the social security administration by the end of the year, and by local governments and SOEs by the first quarter of 2022. In addition to the efficiency gains, rolling back the one-off spending from 2021 and enforcing further spending rationalization through the medium-term and annual budgets would achieve the planned savings.

- Capital expenditure (¶22): In addition to rolling back the one-off spending in 2021 and strategically selecting growth enhancing projects to achieve the planned savings, the authorities also plan to undertake a Public Investment Management Assessment (PIMA) in 2022:Q1. This IMF technical support would help improve the public investment management cycle, increase transparency and efficiency in public investment, and prioritize investments, thereby generating savings from the historically high public investment levels.

- Expenditure review. The authorities have requested support from the Fund and the WB for this year to identify measures for any additional savings, including for contingency purposes, building on the extensive TA provided in the past, updating and conducting new analyses as needed.

- SDR allocation (Box 2). The authorities have chosen to reflect the newly allocated SDRs (equivalent of $940 million for Ecuador) on the central government balance sheet. A MOU was signed between the MEF and the BCE, enabling the BCE to conduct the operation as the

[3] https://openknowledge.worldbank.org/bitstream/handle/10986/32359/Ecuador-Public-Finance-Review-Phase-Two.pdf?sequence=1&isAllowed=y

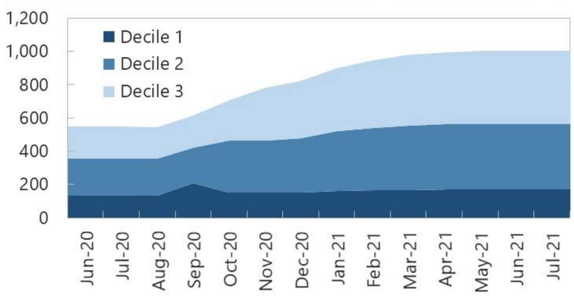
government's fiscal agent, with MEF being responsible for all interest costs and exchange rate risks. Strong proponents of COMYF and adverse to monetary financing, the authorities have verified that the operation is in line with domestic legislations, does not undermine the institutional safeguards against central bank financing of the budget or central bank independence. Since the allocation is reflected in the net international reserves and central government deposits at the BCE, the program targets on both indicators have been updated to include the new allocation.

- Contingency planning. The authorities have developed contingent policies to hedge against oil price shocks, materialization of contingent liabilities, and financial shortfalls (MEFP ¶20). Low oil price assumptions and a fiscal risk report that are being included in the 2022 and medium-term budgets, as per COPLAFIP, will transparently analyze fiscal risks and mitigation measures. In case of unexpected developments, the authorities have identified a set of contingent fiscal measures, with spending adjustment as the first port of call. Should transitory tax measures yield less than planned, additional revenue measures should be implemented in 2022 to achieve the same yield.

Improving Social Outcomes

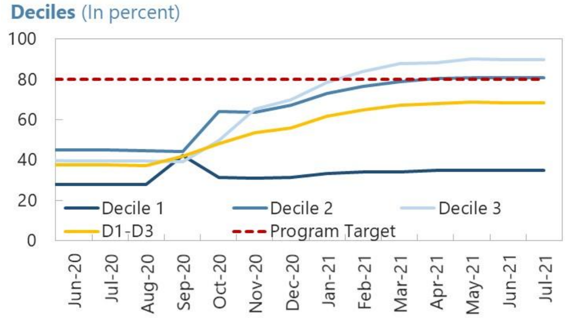
19. While coverage of social assistance programs had been expanding ahead of schedule, progress is now slowing. The authorities had exceeded past targets towards the year-end goal of covering at least 80 percent of the low-income families (lowest 3 deciles of the income distribution). However, progress plateaued in May for a number of reasons, including the change in the operator to survey poor families, lack of vaccination of social workers, and lack of census data in the Social Registry to identify vulnerable families (MEFP ¶9). The authorities are now increasing efforts to continue with the expansion, utilizing the pre-census work, and plan to achieve the 80 percent target by no later than mid-April 2022 (***proposed revision to structural benchmark***).

Ecuador: Number of Families with Social Protection in the Bottom Three Income Deciles (In thousands of families)



Sources: MIES, MEF, and IMF staff calculations.

Ecuador: Coverage of Social Protection by Income Deciles (In percent)



Sources: MIES, MEF, and IMF staff calculations.

20. The authorities intend to improve the coverage of social protection by income groups and across provinces. The speedy increase in coverage over the last year was mainly in the second and third income deciles with uneven geographical coverage, partly reflecting challenges in reaching the most vulnerable households in some peripheral areas and urban pockets of poverty. Vulnerability to economic challenges also overlaps with climate and social challenges; this makes covering bottom-income groups across provinces urgent and crucial (SIP #7). In this regard, the authorities are committed to work towards covering at least 70 percent of the first three income deciles in each province and at least 65 percent of the first income decile nationwide by end-December 2022 (***proposed new structural benchmark***, MEFP ¶10).

B. Manage Public Resources Transparently, Improve Confidence in Institutions

Strengthening Fiscal Frameworks

21. The authorities are moving forward with implementing the new PFM framework (MEFP ¶22). PFM reforms are anchored by the amended organic code of public finances and planning (COPLAFIP), with Fund support being provided in nearly all areas. They include i) the development and implementation of a fiscal risk strategy to underpin the fiscal risk statement that would be annexed to the budget. The statement will present, analyze, and estimate the impact of fiscal risks on the budget, including from PPPs; ii) a medium-term fiscal framework (MTFF) to be presented together with the budget documents in October 2021 and in April 2022 to guide the budget process with a top-down approach; iii) issuance of a regulation effectively putting budget ceilings at the institutional, group and sub-sector levels, as part of the expenditure growth rule under COPLAFIP; iv) enhanced intra-NFPS coordination, including to improve GFS and meet budget goals. To this effect, a National Fiscal Coordination Committee (NFCC) will be established **(proposed structural benchmark end-November 2021).**

22. In parallel, the authorities intend to undertake a public expenditure review, Fiscal Transparency Evaluation (FTE), and a Public Investment Management Assessment (PIMA). The public expenditure review will supplement earlier TA from the IMF and the WB on expenditure rationalization and efficiency in public procurement, and help identify additional options for implementing the expenditure-led consolidation strategy (MEFP ¶18). The FTE will inform the next set of reforms in transparency. The PIMA will support the authorities' objective to prioritize spending on public investment and improve the efficiency of public investment management.

23. Monitoring and clearing arrears will require concerted effort and a system adjustment. The current financial information system (SIGEF) is not conducive to collecting data on arrears; moreover, data reporting from other NFPS institutions is not regular (Box 1). These shortcomings impede getting a clear account of NFPS arrears. That said, staff estimates that central government (PGE) arrears are at $967 million as of end-June 2021, mostly to other public institutions. The authorities' plan to put in place a new system that could track arrears in real time (SINAFIP) at the beginning of 2021 has been delayed to at least 2023 due to technical issues. In the meantime, the authorities will publish templates for reporting on arrears to be used by public sector entities and develop a methodology to estimate the arrears stock **(proposed structural benchmark end-November 2021).** They also plan to improve a number of processes, including using short-term securities to address temporary liquidity deficiencies, keeping the Financial Plan up to date under the guidance of the Financial Committee (MEFP ¶18) and putting in place partial systems that can track arrears at the start of 2022.

24. The pension system needs to be reviewed. A diagnostic of the pension system conducted by MEF and the World Bank found that the system is overly generous in payouts compared to contributions. With persistently weak formal employment due to the pandemic, and arrears from the central government, the sustainability of the system has come under more stress. The authorities are working on a reform, with support from the WB, to prevent large imbalances over the medium term without creating additional fiscal needs, namely, adjusting key parameters such as the retirement age and the payout rate (MEFP ¶18).

Box 1. Estimation of Arrears

Arrears are used as a source of financing. The causes of arrears have been identified through several technical assistance missions, and various alternatives have been proposed for their clearance and to prevent accumulation. The government is working on the technological and regulatory changes for the identification of arrears, as well as on a management strategy that will generate more transparency and their eventual elimination.

The central government (PGE) financial information system (e-SIGEF) does not include the due date of payment obligations, precluding data collection on arrears. Instead, estimates are made by taking the approximate accrual date and adding 90 days, which is the definition of arrears as per COPLAFIP.[1/] Using this approach, as of June 2021, the PGE arrears were $967 million, showing an increase since December 2020 of 48 percent (see Table 1). As of June 2021, 69 percent of the arrears were with the local governments (GADs) and Social Security; 21 percent were with the private sector.

Table 1. Estimated PGE Arrears (in US$ million)

	Dec-2020		Jun-2021	
	Private Sector	Total	Private Sector	Total
From previous years	340	641	165	529
From current year	8	15	36	438
Total	**348**	**655**	**201**	**967**

Table 2. PGE Arrears by Creditor (in US$ million, as of June 2021)

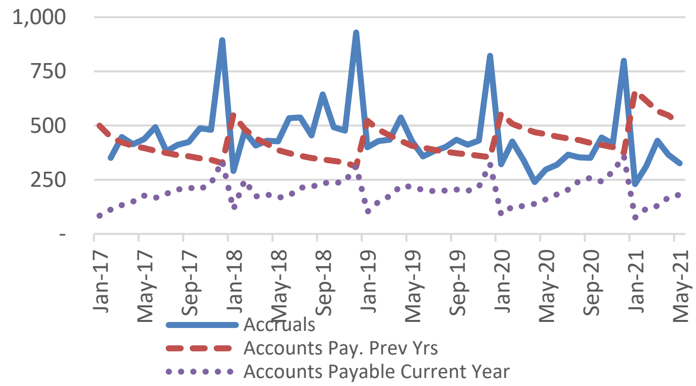
Creditor	From current 2021		From previous years		Total Arrears	
GAD	24	6%	174	33%	199	21%
Social Security	375	86%	96	18%	471	49%
Devel. Bank of ECU (BEDE)		0%	56	11%	56	6%
Private Sector	36	8%	165	31%	201	21%
Others	3	1%	37	7%	40	4%
Total	**438**		**529**		**967**	

The GADs, social security, public companies, and the rest of the NFPS do not carry out transactions in the e-SIGEF, which makes information on arrears more difficult to estimate. According to the COPLAFIP regulatory decree, the unit in charge of cash management in each entity has to report monthly to the MEF the stock of arrears, its causes, the adopted mechanisms of control, the payment forecast, and the preventive actions to avoid arrears. To this end, the MEF must "issue technical guidelines, mandatory for Public Sector entities, for the determination of arrears and the provision of information on the arrears generated at each level of government." [2/] The implementation of these guidelines and reporting mechanism, however, is pending. Therefore, the information keeps missing on the MEF side.

Box 1. Estimation of Arrears (concluded)

There is a high concentration of expenditure execution at the end of the year. Accrued expenditure usually peaks at the fourth quarter every year and accounts payable, which may include arrears, accumulate throughout the year peaking by the fourth quarter too, causing a subsequent larger amount of previous year accounts payable in January. This shows the difficulty that the authorities are having in aligning the cycle of budget execution with the availability of cash and the need to use the available alignment tools, already in their regulation, such as the quarterly commitments and monthly accrual quotas (see Figure 1, yellow dashed line).

Figure 1. Accruals, Accounts Payable from Previous Years, and Accounts Payable from the Current Year (in US$ millions)



The Accounting Undersecretary has information for the GADs with a time-lag, which distinguishes between accounts payable from the current year and accounts payable from previous years; however, arrears are not identified. With this information, the level of arrears can be estimated assuming that by end-March, all accounts payable from previous years have at least 90 days and are therefore arrears. Additionally, it would be expected that the payment of accounts payable from previous years will be prioritized. Thus, all accounts payable generated in January would be arrears 90 days later, that is, in April 2021, and those of February would be new arrears in May 2021. Using this methodology, arrears are estimated at $622 million in April 2021 ($547 million from the previous year 2020 plus $75 million from January 2021) and $550 million in May 2021 ($508 million from the previous year 2020 minus $75 million from January 2021 plus $117 from February 2021).

Table 3. Accounts Payable in the GADs (in US$ million)

	Dec-20	Jan-21	Feb-21	Mar-21	Abr-21	May-21
From previous years	374	660	615	567	547	508
From 2021	360	75	117	129	169	181
Arrears in GADs				**567**	**622**	**550**

Arrears from social security entities are small while public companies have arrears to April of $422 million. The arrears of public companies are concentrated in Petroecuador, with arrears of $192 million, and Tame, an airline in liquidation, with arrears of $200 million, of which $154 million are with Petroecuador.

1/ The accrual date of the system date does not necessarily coincide with the date of delivery of the good or service.
2/ Art. (...) Determination, reporting and management of arrears. Second unnumbered article, after Article 176 of COPLAFIP.

Entrenching Governance, Transparency and Anti-corruption Reforms

25. **The authorities are committed to fostering transparency around the use of public resources** (MEFP ¶22)**.** A resolution had been passed in September 2020 allowing SERCOP to request and publish ultimate beneficial ownership (UBO) information in public procurement contracts. To improve transparency, SERCOP is building a new section on its website to publish all contracts in a more accessible way. The end-goal would be to ensure that this website reflects UBO information for all contracts, as full compliance with this requirement remains uneven. As a first step, all contracts above $962,410 (the threshold beyond which the Office of the Comptroller General

preapproves the contracts, corresponding to 0.003 percent of the central government budget) awarded since September 2020 will be published, including the UBO information currently available, (***prior action***) and all remaining contracts, also including UBO information currently available by the end of November (***proposed structural benchmark***). In addition, the authorities will ensure full compliance with UBO requirement in all new contracts after November when they revise the procurement application procedures, which will continue to be published regularly on the site. This will complement the efforts to enhance the efficiency in procurement which are anchoring the savings in the program.

26. The authorities will also enhance the governance of tax expenditures. They will conduct an independent audit of the 100 largest public procurement contracts awarded over 2020-21 to assess tax expenditures (***new structural benchmark for end-September 2022***). As revenue mobilization and fiscal transparency will become more critical in the coming years, the authorities need to ensure there is full compliance and no discretion in the attribution of tax expenditure in investment and public contracts from the private sector.

27. Improving debt transparency remains a priority. The authorities continue to regularly publish a statistical public debt information bulletin as well as sovereign debt and crude oil pre-sale contracts as legally permissible. They have also produced information on the debt holder profile in line with the new requirements under the Debt Limits Policy (Annex I). The authorities will seek to identify additional areas to improve debt data disclosure, seeking technical assistance as needed.

28. The authorities intend to overhaul the AML/CFT legislation and enhance anti-corruption efforts to tackle related crimes and support asset recovery. The IMF is providing TA to various government entities (UAFE, Superintendency of Banks) to bring the current legislation in line with international standards that Ecuador committed to through its membership of the FATF-style regional body, GAFILAT. The assistance focuses on i) legal drafting to assist the country in the enhancement of the legal and regulatory framework for AML/CFT; and ii) strengthening the country's supervisory capacity of the financial sector with the implementation of a risk-based approach (RBA) to AML/CFT supervision. Enactment of the new AML/CFT legislation, in line with FATF international standards, is a ***proposed structural benchmark for end-March 2022***, so that it is in effect ahead of the GAFILAT assessment later in 2022. While published information on asset declarations, including assets and liabilities, was enhanced and is available in an easily-accessible way, work towards enacting legislation to strengthen the framework to prevent and manage conflict of interest and the asset declaration regime in line with international best practices, originally planned for end-January 2022 has lagged, the work agenda is being reset to be advanced even in the absence of the Comptroller General and is proposed for completion by August 2022 with Fund technical assistance (***structural benchmark for end-August 2022***).[4]

Strengthening the Central Bank and Safeguarding Financial Stability

[4] There is currently an acting Comptroller General until the position is filled as per the established selection procedures. Itemized information on assets and liabilities of high-level officials can be found at https://www.contraloria.gob.ec/Consultas/DeclaracionesJuradas.

29. The authorities are making progress in implementing the amendments to the central bank law (COMYF). A recent agreement between the Ministry and the BCE transferred about $2.4 billion in shares of three public financial institutions—acquired by the BCE from the MEF in 2017—back to MEF, with the MEF committing to repay the BCE in equal annual installments during 2027–35 (MEFP ¶23). The authorities have also issued a decree initiating the process to remove legacy assets (from the 1999 financial crisis) from the BCE balance sheet. The President sent his nominations of the new board members for the Financial Policy Board (*Junta de Politica y Regulacion Financiera*) and for the BCE Board (*Junta de Politica y Regulacion Monetaria*) to the National Assembly in August. The Ministry and the BCE are working together on long-term projections of reserves, since government deposits are an essential part of reserves, to ensure that the four reserve balances legislated in COMYF are met under the timeframe set in the law. These steps are critical for strengthening the central bank balance sheet that had been weakened in past years (***SIP #4***).

30. Staff support the authorities' plan to strengthen public banks. The portfolios of two of the public banks, BanEcuador and Corporacion Financiera Nacional (CFN), have further deteriorated during the pandemic, with their NPLs ratios reaching about 16 and 19 percent respectively. To have a comprehensive view of the strength of the public banks' balance sheets, the authorities will conduct independent third-party asset quality reviews for all four public banks (***proposed structural benchmarks*** for November 2021 to initiate the reviews, and for June 2022 to finalize them), to ascertain any provisioning and/or capitalization needs (MEFP ¶33). In addition to the AQRs, the authorities should identify governance issues that may have contributed to past NPLs, and consider remedies including revising the banks' business models and strengthening corporate governance.

Ecuador: Selected Financial Indicators of Public Banks[1/ 2/]

(In percent, unless otherwise indicated)

	Banco de Desarrollo	BANECUADOR	CFN	CONAFIPS
ROE	9.7	-3.9	2.4	2.6
ROA	2.7	-1.0	1.1	1.3
Financial Intermediation/Assets	2.7	-3.8	-2.0	1.3 3/
NPL	0.0	16.4	18.5	0.0
Liquidity	162.0	32.5	60.3	110.6
CAR	39.9	29.1	38.4	60.7
Assets (In million of US$)	2509.2	2021.4	3412.3	488.6

Sources: Central Bank of Ecuador and Corporacion Nacional de Finanzas Publicas.

Note: CFN is the Corporacion Financiera Nacional and CONAFIPS is the Corporacion Nacional de Finanzas Publicas y Solidarias.

1/ Banco del Pacifico is excluded because, despite the fact that it is publicly owned, it is not classified as a public bank by COMYF.

2/ Data as of June 2021, except for CAR that corresponds to May 2021.

3/ Data as of December 2020, except for CAR which corresponds to May 2021.

31. The planned revision to lending rate caps, aimed at widening financial inclusion, should be coupled with enhanced supervision. The central bank has prepared a proposal to revise the methodology for setting interest rate caps for approval by the Financial Policy and Regulation Board (MEFP ¶35). The proposal is to replace the caps with bands that reflect market conditions, including credit risk, funding costs, as well as operational and capital costs. The rates would be reviewed periodically by the BCE based on information provided by the regulators. The revised methodology would allow higher interest rates to be charged to new borrowers, thereby increasing financial inclusion and fostering competition in the financial system. It is expected to be approved by the new Financial Policy and Regulation Board through a regulation by the end of the year. Staff stressed the need to make sure that lending in new segments is coupled with higher provisioning requirements and with enhanced supervision to ensure that banks assess risks adequately and take needed safeguards.

32. The banking system appears prepared for the crisis measures to be unwound at the end of the year. The measures implemented by the authorities since the onset of the crisis, including the restructuring of loans, the reduction in contributions to the liquidity fund, the extension of the period for classifying loans as non-performing and the reduction in provisioning requirements, helped to shelter financial institutions and borrowers from the pandemic. While these measures have also been instrumental in maintaining financial stability, keeping them for too long could create distortions and weaken the health of the banking system. With the economic recovery underway and banks having taken proper safeguards, the system appears ready for the crisis measures to expire at the end of this year as currently planned. If some banks are still under-provisioned after the NPL classification and provisioning requirements revert to the pre-crisis system, the Superintendency of Banks, after a thoroughly assessment of these bank's financial situation, could grant additional time to achieve compliance under certain conditions on a bank-by-bank basis. Such conditions should include a clear financial plan to reach needed provisioning levels, restrictions on dividend payouts, and closer supervisory scrutiny to safeguard financial stability.

33. Supervisory authorities should use the additional time afforded to cooperatives to close the regulatory gap vis-à-vis banks on NPL classification and provisioning. The crisis measures for cooperatives were recently extended to December 2022. Supervisory authorities plan to examine the expansion of this sector and the regulatory arbitrage vis-à-vis the banking sector, especially for the larger cooperatives, which are closer to banks in size and lending activity. Following the principle of *same activity, same risk, same regulation*, the additional time afforded by the extension of crisis measure could be leveraged to close the regulatory gap vis-à-vis banks for these larger cooperatives on NPL classification and provisioning. The supervisory agency plans to develop a proposal in that regard by end 2022 (MEFP ¶30).

C. Restoring Competitiveness, Reforming the Labor Market and Boosting Growth Potential

34. The External Sector Assessment (ESA) suggests that the external position in 2020 was moderately weaker than implied by fundamentals, although much improved from the 2019 assessment (Annex 2). The REER is estimated to be overvalued by about 9 percent, albeit significantly improved compared with the 30 percent overvaluation estimated in the 2019 ESA. The improvement reflects the strengthening of the current account in 2020 and a depreciation in the REER (by 3.8 percent).

35. Competitiveness can be restored by addressing longstanding bottlenecks to growth and private sector development. Policy uncertainty and high borrowing costs are recurrently listed among the main impediments to growth in Ecuador. Sound macroeconomic management with clearly established policy anchors would improve policy predictability, further reduce Ecuador's sovereign risk, and lower local private borrowing costs (***SIP #3***). These important pull factors would in turn stimulate domestic investment and attract FDI. Staff supports the authorities' ongoing efforts to strengthen the country's digital infrastructure and to foster capital market development (MEFP ¶36).

36. Aligning the governance framework and operations of state-owned enterprises (SOEs) to that of private companies will improve efficiency and limit contingent liabilities. The National Assembly is overhauling the SOE law to promote corporate governance practices and strengthen transparency in the operations of SOEs. These best practices will limit calls on the state budget and contingent liabilities overtime. Seven SOEs are in the process of liquidation. It will be critical to reconcile the data of PetroAmazonas and PetroEcuador for the merged entity (also called Petroecuador), in line with ongoing improvements in GFS. To that end, the authorities will conduct independent audits of the individual 2019 and 2020 financial statements of PetroEcuador and PetroAmozonas (***new structural benchmarks*** *to begin the audits by end-Nov. 2021 and complete the audits by end-April 2022) as well as the 2020 financial statement of the merged entity* (***new structural benchmark by end-October 2022)***. The recently issued executive decree aims to increase private sector participation in the extractive sectors, aligning incentives between the state and oil private companies, and also reducing the need for public sector investments. To support private sector-led activity, the PPP Committee is developing guidelines, with help from the IDB and US Treasury, as a follow up to the PPP decree of November 2020. It will be important for the MEF to assess fiscal risks from PPPs on an ongoing basis as part of its enhanced fiscal risk monitoring function (MEFP ¶22, 42). Greater transparency in foreign investment contracts is essential to provide a level playing field and foster accountability, good governance, and protect the public's interest.

37. COVID-19 has made the need to reduce labor market rigidities more pressing. Pre-existing sources of labor market rigidities range from high separation costs to high minimum wages that affect both competitiveness and equity across sectors. Implementing the newly established formula-based minimum wage setting mechanism would help avoid widening the wage-productivity gap, which could further affect competitiveness (Annex II). The authorities' plans for a labor market reform to, *inter alia*, promote flexible work arrangements and reduce current rigidities in part-time employment, should help lower informal employment over time. Other areas of reform, based on disparities in labor market outcomes during COVID-19, include expanding quality education for all to level the playing field among labor market participants (***SIP #2***).

38. Staff estimates that structural reforms in these areas could yield substantial long-term growth dividends. Ecuador has significant room to i) improve the labor market flexibility and better link wage growth to productivity; ii) increase access to finance, including by reducing domestic lending rates; iii) further enhance the business climate by streamlining regulations and licenses; iv) further improve governance by raising transparency and accountability of public spending; v) liberalize external trade and external finance, including by better integrating into global value chains and gradually eliminating the tax on transfers abroad (ISD). These could add 1.5-2 percentage points to baseline potential growth in the 5 to 10-year horizon from implementation, through higher capital accumulation and TFP growth (***SIP #1***).

39. The authorities broadly concurred with staff's diagnostic of Ecuador's competitiveness challenges and the recommended policies. While broadly agreeing with the bottom-line ESA assessment, the authorities noted that the improvement in the current account last year reflected a number of one-off factors related to the pandemic, such as the sharp import compression. They also noted that the medium-term current account path is subject to uncertainty (e.g., COVID-related developments, oil prices and production), which could change the degree of exchange rate misalignment going forward. They agree with the need to press ahead with structural reforms to complement fiscal consolidation, and in that context, argued that their ongoing discussions towards international trade agreements would generate higher growth dividends. They believe that the pending reform of the labor market will complement their ongoing efforts to make Ecuador a destination of choice for businesses, supporting private sector-led growth. They are committed to fostering transparency in foreign investments and PPPs, openness to private sector participation in the economy. They see these reforms and a gradual reduction in the ISD as conditions that will attract foreign investment flows, lower the country risk, and reduce domestic borrowing costs.

Enhancing Climate and Natural Disaster Resilience and Reducing the Dependence on Oil

40. Reducing dependence on oil and ensuring resilience to natural disasters is a double climate and macro imperative for Ecuador. While there is a lot of uncertainty on the global transition to a zero-net carbon world, expectations are that in the medium to long term, oil prices could decline as global demand for energy shifts to cleaner sources. That would permanently hit fiscal revenues, making gradually transitioning away from oil a medium-term policy priority. And even if not dictated by the global transition trends, Ecuador has its part to play in the global drive for climate mitigation, including as a signatory country of the Paris Agreement. Moreover, Ecuador's vulnerability to natural disasters puts a premium on building resilient infrastructure and exploring options for climate risks financing. Notably, Ecuador is already equipped with a relatively adequate institutional set up for climate action, which needs to be fully implemented, including with help from its development partners (***SIP #5***). Climate change could also potentially impact Ecuador's savings and investment balance, through a potential transition away from fossil fuels or the need for investment for climate change adaptation and mitigation. Additional data, such as costing of climate change adaptation and mitigation plans, along with multilateral considerations, would be critical for determining the optimal savings and investment mix more precisely (***SIP #6***).

41. Savings from oil windfall, governed by a sound fiscal framework, would not only make fiscal policy less procyclical, but also help build critical buffers that give resilience to the state's fiscal position, fund environmental reforms, and improve inter-generational equity. Although precise cost estimates are not yet available, Ecuador will likely need substantial resources to finance its climate and natural disaster mitigation policies, including mitigating their socio-economic impact in vulnerable areas (**SIP #5, 7**). Saving part of the oil windfall would not only improve inter-generational equity, but would also reduce fiscal procyclicality, and help finance environmental policies. It is essential to ensure sufficient scaling up of the natural resource governance framework, given past experiences in the country, as weaknesses in governance frameworks typically exploit vulnerabilities in the areas of allocation of property rights, revenue collection from extractive industries, and the oversight of state-owned enterprises involved in the sector. Sound governance is critical to ringfence savings and support an effective scaling-up of investment capacities. To ensure that investment projects can fully meet their economic and social objectives, it is essential to establish the capacity to effectively appraise, select, and implement strategic public investment projects.

42. The authorities affirmed their commitment to advance the climate agenda and reduce Ecuador's oil dependence. They appreciated staff's work on incorporating climate issues into policy discussions with Ecuador. On procyclicality of oil prices and fiscal policy, they noted that the carry-forward arrangement with oil companies and the import of fuel derivatives are natural hedges, given that these costs move in tandem with global oil prices. On climate adaptation, they acknowledged that Ecuador's regions vary in their vulnerability to climate events and argued that financing from the international community could support their adaptation efforts. They also signaled their intention to consider climate risks financing. A recent Presidential decree laid out a plan for establishing a small fund to tackle child malnutrition funded by oil revenues; COPLAFIP requires setting up a sovereign wealth fund (SWF) for oil once debt reached the long-term target of 40 percent of GDP. The authorities expressed their interest in establishing such a fund ahead of schedule, if possible, fully cognizant of the need to avoid governance pitfalls that were associated with such funds in the past.

PROGRAM ISSUES

43. Program monitoring and fiscal quantitative conditionality (Tables 8-9b). The delay in concluding the Second Review requires revising the disbursement schedule for 2021. The QPCs for end-August 2021 were expected to be set at the time of the Second Review, but with the delay in completing the review, and the fact that the combined Second and Third Reviews are now expected to be completed after end-August, staff propose to move the end-August test date and set QPCs for end-September 2021, while maintaining the end-December 2021 test date under the original program, as indicated in Table 9a. Staff also propose to set the fiscal balance QPC targets on PGE+CFDD for both test dates, since time lags in the compilation of data on the NFPS fiscal balance would make it impossible for the authorities to take corrective actions in between the reviews, if needed, and more work is needed to shorten the lags. The test dates and phasing for 2022 would remain unchanged from the original program; QPCs would be set on the NFPS balance on a 4-monthly cycle.

44. Request for a waiver. While the authorities diligently tracked progress against targets during the test period, the missed April QPC on deposit accumulation highlights the need for better cash management practices. The authorities request a waiver of nonobservance from the Executive Board for the missed NFPS deposits QPC. The ***prior action*** on a cash plan for the rest of the year, prepared with Fund support, will help in this regard (¶11).

45. Financing assurances. Staff has obtained assurances from all creditors and ensured that the program is fully financed, with firm commitments for the next 12 months and good financing prospects for the remainder of the program. The contribution of other multilateral institutions is critical for better burden sharing. Financing post program is partly predicated on reasonable assumptions of market access, reflecting the improving sovereign risk profile of Ecuador. The authorities continue to see asset monetization as an important source of upside financing risk in outer years and have developed several contingency measures (¶18). The BCE has also increased their contingency liquidity line with the BIS against shortfalls in USD availability (MEFP ¶34).

46. Exceptional access/Capacity to repay. Staff judge that the exceptional access criteria continue to be met, as elaborated in Box 3. Ecuador's capacity to repay the Fund for disbursements under the current and previous EFF arrangements, and the recent RFI disbursement, remains adequate; it has improved markedly since the First Review, owing mainly to significant improvements in the outlook for global oil prices and better than expected fiscal outturns. However, the capacity to repay remains contingent on steadfast program implementation, including to sustainably regain market access, and on continued support from other creditors. A sharp deterioration in the outlook for oil prices or new large contingent liabilities materializing could severely strain the capacity to repay if policy or financing does not adjust commensurately; the authorities' reform program is designed to mitigate this risk by building buffers (¶¶15-17).

47. Safeguards reviews and assessments. A fiscal safeguards review was conducted in February 2021. As a follow up on the recommendations, the authorities plan to implement a risk-based approach to internal and external audits, establishing an internal working group to oversee the implementation of reforms under COPLAFIP, and ensuring a smooth and timely transition to the new transactional digital platform (SINAFIP). The enactment of COMYF paved the way to governance and accountability reforms for the BCE (¶29). The authorities have implemented most of the recommendations from the last safeguards assessment of the BCE and are on track to implement the remainder albeit with some delay. These include adopting IFRS accounting standards and making the Audit Committee operational by appointing its members; they also intend to publish the audit opinion on the BCE financial statements starting with the 2021 report (MEFP ¶26). Steps are being taken to modernize the BCE's internal audit function.

48. Statistical issues. Ecuador will continue aligning GFS to international standards with support from STA. The financial data of the oil companies and a successful implementation of the new financial reporting system in the MEF are critical for the improvement of the fiscal data. The transmission lag of fiscal data from local governments—currently at 90 days—would also need to be brought in line with the 60-day norm under the related COPLAFIP regulation. This would help ensure better fiscal monitoring at the NFPS level, in line with COPLAFIP, and program monitoring. The mission will follow-up with the BCE on their project for rebasing GDP.

49. Article VIII/CFM. The authorities plan to gradually phase out the tax on transfers abroad (ISD), once the macroeconomic stability is restored, and the reserves position is strengthened. As a sign of policy direction, in September 2021 the government enacted an Executive Decree lowering the tax rate to zero for foreign airline companies operating in Ecuador, which will enter into force upon its publication in the official gazette, which would have an annual fiscal cost of less than $10 million (0.01 percent of GDP). Staff recommended that any reduction be gradual, based on market conditions, and be properly calibrated to avoid undue BOP pressures. The ISD tax constitutes both an exchange restriction subject to Fund approval under Article VIII, Section 2(a), and a capital flow management measure (CFM) under the Fund's Institutional View on Liberalization and Management of Capital Flows. The authorities have requested temporary Fund approval for maintaining the exchange restriction arising from the tax on transfers abroad for one year for balance of payments-reasons (see LOI).

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

STAFF APPRAISAL

51. The new administration's decision to continue with the EFF-supported program is welcomed. The new administration's objective of instilling environmentally friendly growth with high quality jobs, promoting a transparent management of public resources, and ensuring equity in the conduct of fiscally sustainable policies is in line with the objectives set out in the 27-month EFF approved by the IMF Executive Board a year ago. Policy continuity and predictability will cement the hard-earned gains in macroeconomic management and institutional reforms in Ecuador over the past two years and support private sector development. It would be instrumental for the authorities to leverage the early phases of their term to firmly anchor medium term policies and advance key reforms.

52. Further strengthening social safety nets will allow the government to continue providing the much-needed financial support to vulnerable groups. The COVID-19 pandemic has increased poverty and re-affirmed the need for having strong social support programs in place for reaching and compensating vulnerable households in a timely manner when needed. The authorities should redouble efforts to reach families in the lowest income groups and in generally underserved locations. Improving the institutional capacity of the Social Registry and using new technologies to identify low-income households will help in this endeavor. Going forward, providing greater access to quality education and health will promote job opportunities for all and help limit the long-term effects of the pandemic on Ecuador's workforce.

53. The ongoing pandemic and timid economic recovery warrants continuing to support the economy this year. To avoid stifling the fragile economic recovery and meet the urgent spending needs to address pandemic-related pressures, a larger-than-envisaged deficit would be justified. Starting with next year, it would be important to roll back the pandemic-related one-off spending items to make progress towards restoring fiscal sustainability.

54. Over the medium term, a lower and more gradual pace of consolidation can restore medium-term fiscal sustainability while building higher buffers. Under the improved macroeconomic outlook, less consolidation of the NOPBS over 2019–25 by 1 ppt of GDP (4.5 vs. 5.5 percent) can achieve the same fiscal objectives as before, while saving part of the oil windfall. With the authorities' preference for a progressive tax bill that is smaller than envisaged earlier in the program, the consolidation strategy would rely more on expenditure rationalization. A larger tax reform would have provided a more balanced consolidation and help further reduce the reliance on oil revenues. In this context, the authorities' preferred strategy will need to be implemented in coordination with the subsectors of the nonfinancial public sector to ensure its effectiveness, and with resolve in a timely and sustainable way in the coming years. Contingency measures and financial planning will be critical to handle unexpected developments, including from oil prices or financing.

55. Operationalizing the landmark COPLAFIP and COMYF laws would support the sustainability of public finances and fortify the foundations of dollarization. Implementing the envisaged reforms on the medium-term fiscal framework, fiscal risk, and expenditure ceilings, will be crucial to achieve the expenditure rationalization plans. Just as important will be coordinating across the subsectors of the nonfinancial public sector; the NFCC would be instrumental if well operated. Enforcing the timelines for data submission established in COPLAFIP will be critical to improve the timeliness and quality of fiscal data. This, in turn, is essential for successfully implementing Ecuador's own fiscal targets. On the central bank side, the authorities' resolve to clean up the BCE balance sheet from legacy assets and diligently build reserves over the coming years to fulfil COMYF amendments is commendable and will serve Ecuador well by strengthening the dollarization regime.

56. Strengthening transparency and governance in the management of public resources, including COVID-related, will improve trust in public institutions. The regulation passed last year to collect and publish information on the ultimate beneficial owners of public procurement contracts was an important reform, but remains to be fully implemented. Efforts to ensure full compliance with the legal framework going forward for all procurement contracts and ensuring this information is easily accessible is a priority, not just to fulfil a commitment made under the emergency financing, but also for accountability to the public. A third of the COVID-related audits leading to legal proceedings also points to the need to put further efforts into strengthening governance in the use of public funds. The work plans on improving asset declarations of politically exposed people, overhauling the AML/CFT framework, and conducting audits of taxes are ambitious but necessary.

57. Unwinding the crisis measures in the banking system at the end of the year as currently envisaged would preserve the health of the financial system and avoid creating distortions. More than a year into the pandemic, the system appears ready to move from blanket measures to targeted ones as needed. The authorities' ongoing work to assess the impact of reverting to pre-crisis regulations will help prepare the system better for the change. Coordinating across relevant supervisory and policy agencies to close regulatory gaps over time across the financial system will also level the playing field and strengthen the overall financial system.

58. The authorities' resolve to assess the health of publicly-owned institutions is commendable. Their plans to conduct AQRs for all public banks and audit the financial statements of the oil companies are welcomed initiatives. These will help get a clear picture of any contingent liabilities and build any needed future actions into the fiscal and financial plans of the administration early on.

59. Improving competitiveness and generating environmentally-friendly growth requires a stronger push for structural reforms, informed by national dialogue. Under the dollarization regime, fiscal prudence and structural reforms become even more important drivers of competitiveness. To that end, the authorities' ongoing efforts to forge new international trade ties, reform the labor market, bring policy continuity and predictability, and create an environment that is more conducive to private sector growth and FDI can help regain competitiveness. Reducing the dependence on oil would not only strengthen fiscal policy and leave space for other economic sectors to develop, but also help prepare Ecuador for the global transition to reduce carbon emissions. Ecuador's vulnerability to climate events put a premium on preparation and adaptation, especially considering the populations that are particularly vulnerable. It will be important to enhance the national dialogue around all these initiatives for the reforms to be durable.

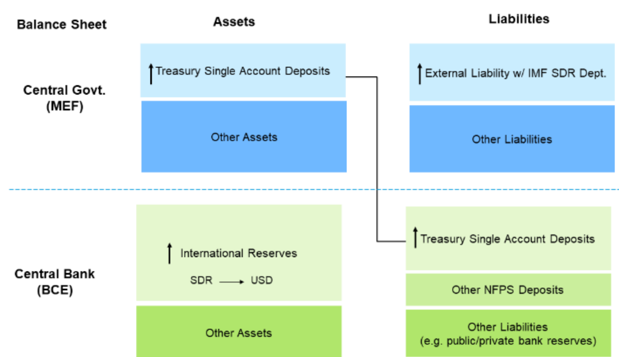
60. Staff supports the request for a waiver of nonobservance of the NFPS deposits QPC and completion by the Executive Board of the combined Second and Third Reviews under the EFF arrangement. Staff support the waiver of nonobservance based on the grounds that the nature of the nonobservance was minor and the authorities are taking corrective action (cash plan) as a prior action. Staff also supports the request for changes to the structural conditionality and completion of the financing assurances review.

61. Staff also supports Board approval for the retention for a one-year period of the exchange restriction arising from the tax on transfers abroad (ISD) given that it is maintained for BOP reasons, is temporary and non-discriminatory. The authorities intend to phase it out once macroeconomic stability is restored, and the reserve position is strengthened. Already, the authorities have started phasing out the tax, with any reduction to be gradual and properly calibrated to avoid undue BOP pressures.

62. It is recommended that the next Article IV consultation take place on a 24-month cycle.

Box 2. Recording and Use of the SDR Allocation

The authorities have chosen to reflect the new SDR allocation directly on the central government balance sheet (Figure). As the fiscal agent, the central bank (BCE) served as the intermediary for receiving the allocation, and it was registered directly in the Treasury Single Account (TSA), for which the BCE is the custodian. When the allocation took place, the central government (MEF) recorded: (i) an increase of its deposits at the central bank (TSA deposits); and (ii) an increase in external debt liabilities.[1] Simultaneously, the BCE recorded: (i) an increase in external financial assets (increase in GIR/NIR); and (ii) an increase in its liabilities with the central government (deposits in the TSA).



All interest costs and exchange rate risks lie with the central government (MEF). The central government is responsible for paying for any interest on the SDR allocation as well the repayment of the use of allocation (at the SDR terms). The BCE and MEF have signed a Memorandum of Understanding (MOU) for this arrangement (similar to MOUs they have for Fund disbursements for budget support under the RFI and EFF).

The authorities have obtained a legal opinion that ascertains that the operation is in line with domestic legislation. The central bank law (COMYF) indicates that the State (i.e., the Republic of Ecuador) is the legal owner of international reserves and the BCE holds and manages the reserves. The BCE is responsible for investing them in a conservative matter, based on safety, liquidity and the profitability, which would enable purchasing SDRs when needed. The law also explicitly defines SDR holdings as part of Ecuador's international reserves, and indicates they are to be used for international payments needs in a manner that respects the BCE's objectives of ensuring financial stability and a stable monetary system (Article 137).

MEF intends to use the SDRs to address immediate cash flow deficiencies but build treasury deposits back up by the end of the year by more than the new allocation. The authorities have converted the SDRs to freely usable currencies and will use a new budget code to transparently reflect how the SDR proceeds are spent. Deposit targets under the Fund program would ensure that reserves will be built back up to cover the new allocation by the end of the year, which would ensure that SDRs will be spent for cash management until more financing becomes available, and not for relaxing fiscal targets.

The immediate impact of using SDRs on reserves depends on the transactions owing to the dollarization system. The BCE serves as the clearing house for all domestic transactions. If the SDR proceeds (i.e., USD) are used for purely domestic payments (e.g., government wages), there would be a reallocation of central bank liabilities (e.g., from TSA deposits to private banks) but no immediate change in international reserves at the time of the transactions.[2] International reserves would decline overtime if those resources were used for external payments (e.g., for imports or external debt repayment). Either way, as MEF builds treasury deposits at the BCE back up using the inflow of dollars from anticipated external financing (including from the Fund), international reserves would rise. These changes in international reserves position will not be the direct result of the SDR allocation but depend on how the use of the proceeds of the allocation impacts the balance of payments.

1/ For statistical purposes, the full SDR allocation would be part of the stock of external debt in the GFS, and the allocation would be part of the reporting requirements for total gross debt in line with GFSM 2014. For the purposes of the DSA, SDR holdings are added to readily available financing sources that may mitigate debt sustainability risks, with only the shortfall in SDR holdings relative to allocations included in the stock of nominal debt. see (¶39 of the SDR Guidance Note). For the purposes of any program conditionality, SDR allocations are not included in the debt definition (¶70 of the SDR GN).

2/ For example, when the MEF pays wages civil servants the BCE would serve as the clearing house (civil servants have bank accounts, and these banks have accounts at the BCE). No currency would be withdrawn from the BCE.

Box 3. Assessment of Exceptional Access Criteria

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

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

Ecuador continues to experience exceptional BOP pressures, stemming from the deepest recession on record and a loss of market access. The financing gap from the confluence of shocks described above is estimated at $2.5 billion over 2021-22, after factoring in the fiscal consolidation underway, the new SDR allocation, and the support from IFIs.

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

Ecuador's public debt was assessed to be sustainable with high probability at program approval, based on the successful debt exchange, credible financing assurances from bilateral and multilateral creditors and commitment to an ambitious fiscal consolidation over the medium-term. Since then, the less severe economic downturn and tight fiscal management in 2020 has resulted in lower debt and a smaller deficit last year (¶7). All else equal, this better starting point improves the prospect of attaining the debt targets; in fact, they are attained ahead of schedule in the baseline, providing buffer for shocks. Similarly, gross financing needs remain around 4-5.5 percent of GDP over the medium term, well below stress levels. Stress tests show that the debt trajectory is sensitive to shocks to contingent liabilities, and growth, particularly in the near term (Annex I), underlining the need to continue with medium-term fiscal consolidation to keep public debt on a sustainable path. The envisaged consolidation has been recalibrated to reflect the new economic outlook and the objectives of the new administration, which would lower execution risk. The fact that the debt anchors in COPLAFIP of 57 percent of GDP by end-2025 and 40 percent of GDP from 2032 onwards are enshrined in the organic budget code provides a key safeguard to debt sustainability.

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

Until losing market access last year, Ecuador had sustained access to foreign financial markets, with long-term global bond issuances of around $3-5 billion per year over the last four years, although the terms of this financing were often not favorable. Historical evidence suggests that Ecuador has been successful in regaining access to the international capital markets within 24-36 months following a debt restructuring.

While the global economic outlook is uncertain and markets are volatile in the current conjuncture, markets have so far reacted positively to the elections and the new economic cabinet, and have hovered around 750-800 bps, levels last seen before the pandemic and debt crisis (¶12). Notwithstanding these recent improvements in Ecuador's sovereign risk, staff's assumptions on market re-access starting in 2022 at US$1 billion are broadly unchanged from the First Review.

Ecuador's re-access to foreign capital markets would be supported by the market-friendly debt exchange, the pro-market stance of the new administration, and their continued implementation of the fiscal and structural reform agenda.

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.*

Box 3. Assessment of Exceptional Access Criteria (concluded)

The Ecuadorian authorities have been steadily moving forward with implementing the policies of the program and remain fully committed to take the needed steps to ensure its success.

The Moreno administration, under the leadership of Minister Pozo on the economic team, continued implementing the program diligently though their last day in office. They enacted two milestone structural reforms since the First Review: the anticorruption and the central bank laws. These reforms meaningfully strengthened Ecuador's institutions, and also demonstrated the political capacity to carry the program forward and rally around its key elements.

The Lasso administration took over in May, with the economic team led by Minister Cueva, who had been part of the economic team of President Moreno as an advisor. The outgoing and incoming Ministers worked very closely through the transition, and the new administration is determined to continue with the policy program that has been supported by the EFF arrangement. Their will to continue with the program is evidenced in their request for the IMF Executive Board to consider the combined Second and Third Reviews and the 2021 Article IV in the coming months.

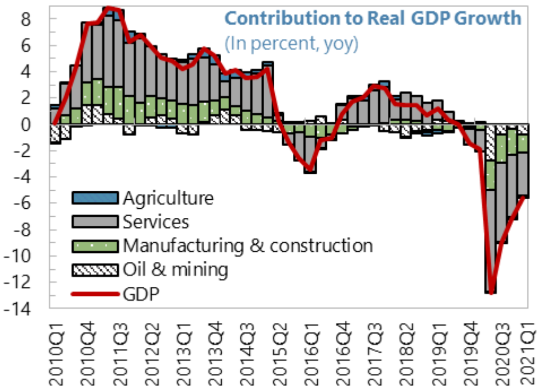
The challenging political environment remains an important risk to policy and program continuity. The National Assembly elected in February is fragmented, with no clear majority for any party. Therefore, all reforms will need to garner support from across the political spectrum. On the upside, the legislative agenda set forth by the new Assembly in July includes key reforms that are in line with the program. The new administration's focus on building consensus on policies through extensive dialogue with various stakeholders, and Minister Cueva's attention to communication should help garner the needed broad support and buy in.

The authorities have continued to make commendable and tangible improvements in the technical and institutional deficiencies that have been well-recognized as key risk factors in the past. The new administration has put in place a strong economic team and has continued to receive extensive capacity development from the Fund and other development partners. The publication of corrected historical fiscal data, the newly minted fiscal data compilation guide, prepared with the NFPS subsector representatives under the guidance of STA and a Fund short-term expert (STX), are tangible improvements in fiscal statistics. The authorities continue to work with the Fund long-term expert (LTX) in cash management to improve financial planning and advance the arrears clearance strategy. Cognizant of the need to keep improving technical and institutional capacity, the new administration has requested further technical assistance support from the Fund and other IFIs.

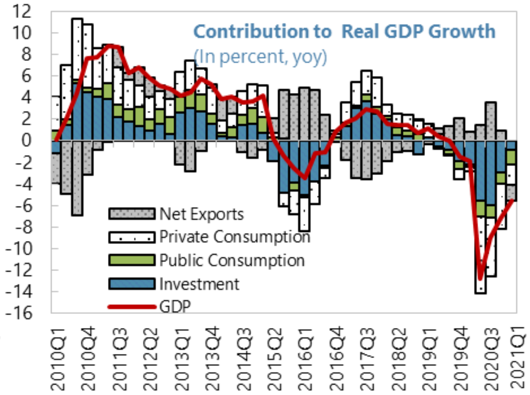
The strong program performance to date, including the progress towards fiscal sustainability, the commitment of the new administration to the key objectives of the program and to implement the policies needed to attain those objectives, their focus on building consensus and buy in across the political spectrum, tangible improvements in capacity all provide a reasonably strong prospect of success. Ultimately, successful implementation of the reform agenda will hinge on the buy-in and political will of the legislators and the executive.

Figure 1. Ecuador: Recent Economic Developments

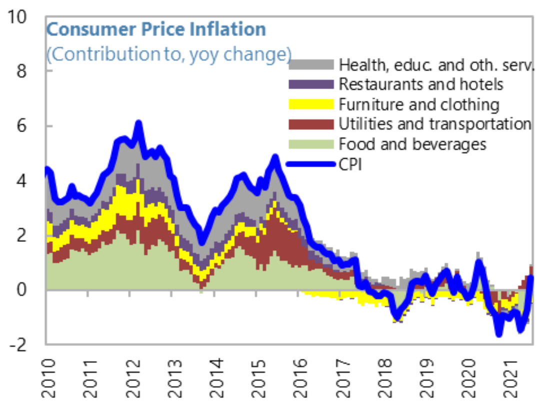
Real GDP growth continued its recovery, growing -5.6% in 2021Q1 ...



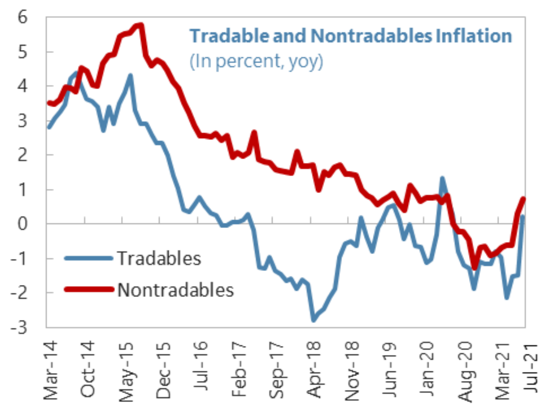
... as investment and consumption began to recover, while net exports fell.



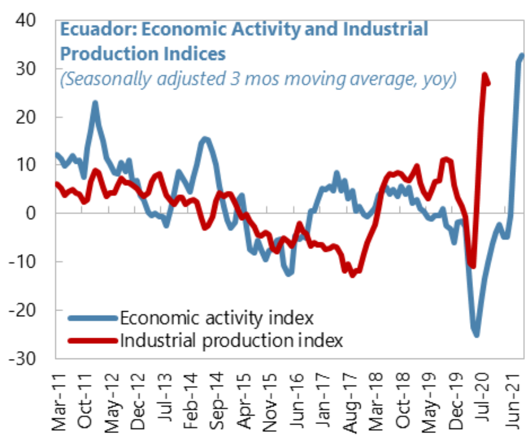
July inflation increased to 0.45%, with furniture, clothing, food and beverages outweighing an increase in utilities and transportation.



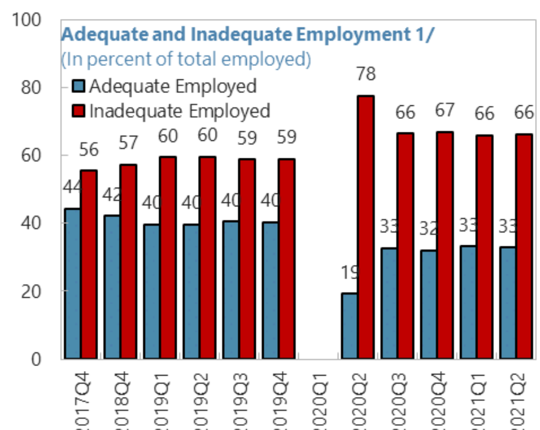
Nontradables inflation has slowed in line with wage growth, while tradables inflation rose slightly to 0.2%.



June economic activity rebounded to 32.7%...

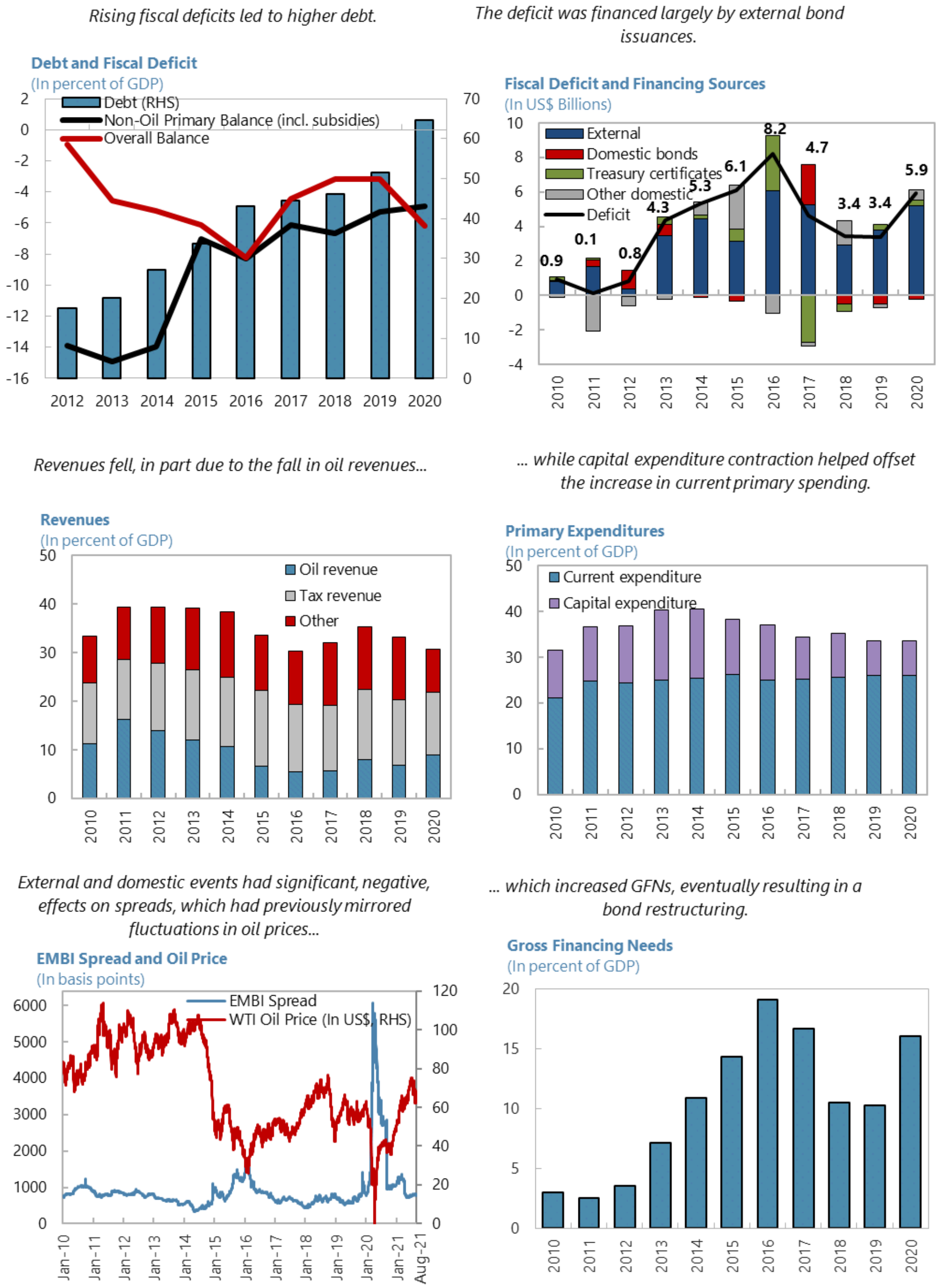


...while job quality has remained below its pre-pandemic levels.



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

Figure 2. Ecuador: Fiscal Developments 1/

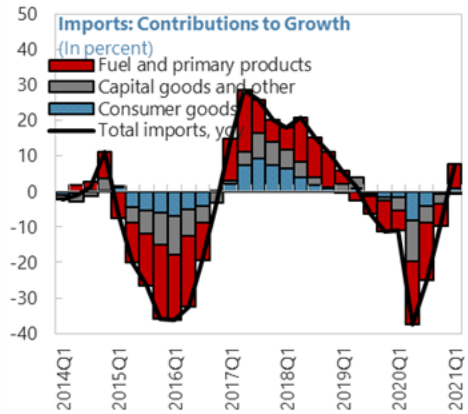


Sources: Central Bank of Ecuador, Ministry of Finance, Haver, Bloomberg, and IMF staff calculations.

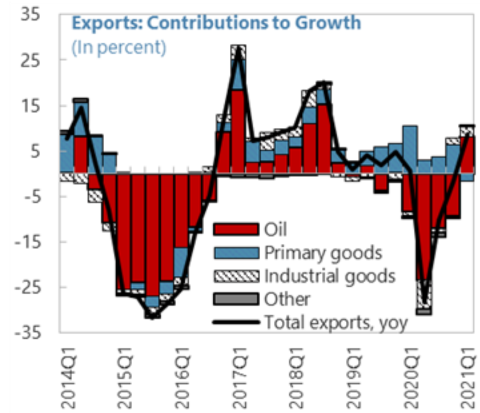
1/ The data for Ecuador reflect net lending/borrowing for the Non-Financial Public Sector (NFPS). Ecuadorian authorities, in the context of the EFF approved in March of 2019 and with the technical support from the IMF Staff, are undertaking revisions of the historical fiscal data for the net-lending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

Figure 3. Ecuador: A Vulnerable External Position

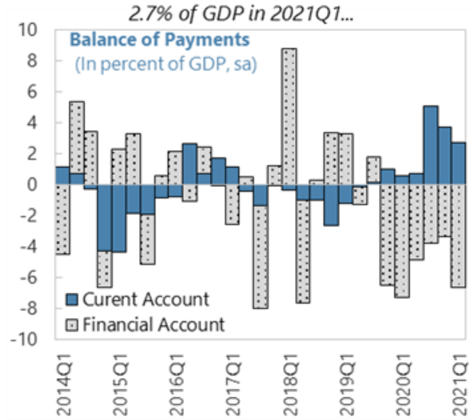
After falling to -38% in 2020Q2, import growth has recovered to 7% in 2021Q1...



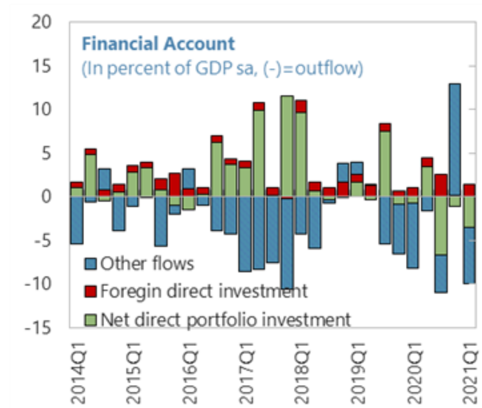
...with export growth following suit, growing 8.7% in Q1.



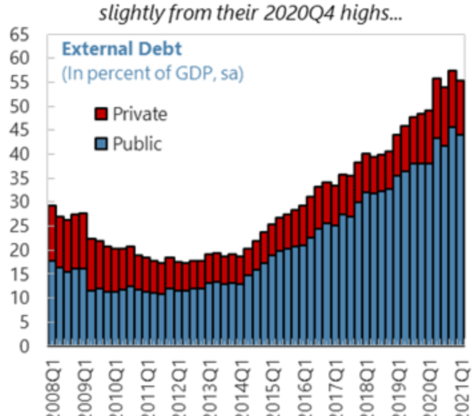
The current account registered a surplus of 2.7% of GDP in 2021Q1...



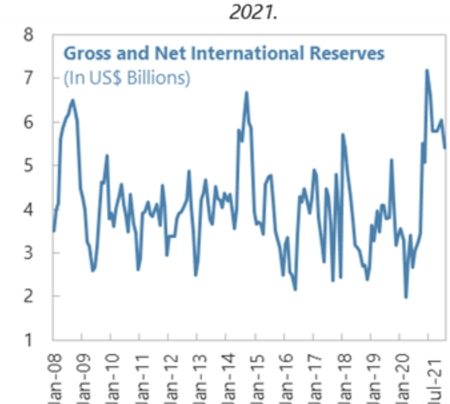
... while FDI flows remained low.



Both public and private external debt fell slightly from their 2020Q4 highs...

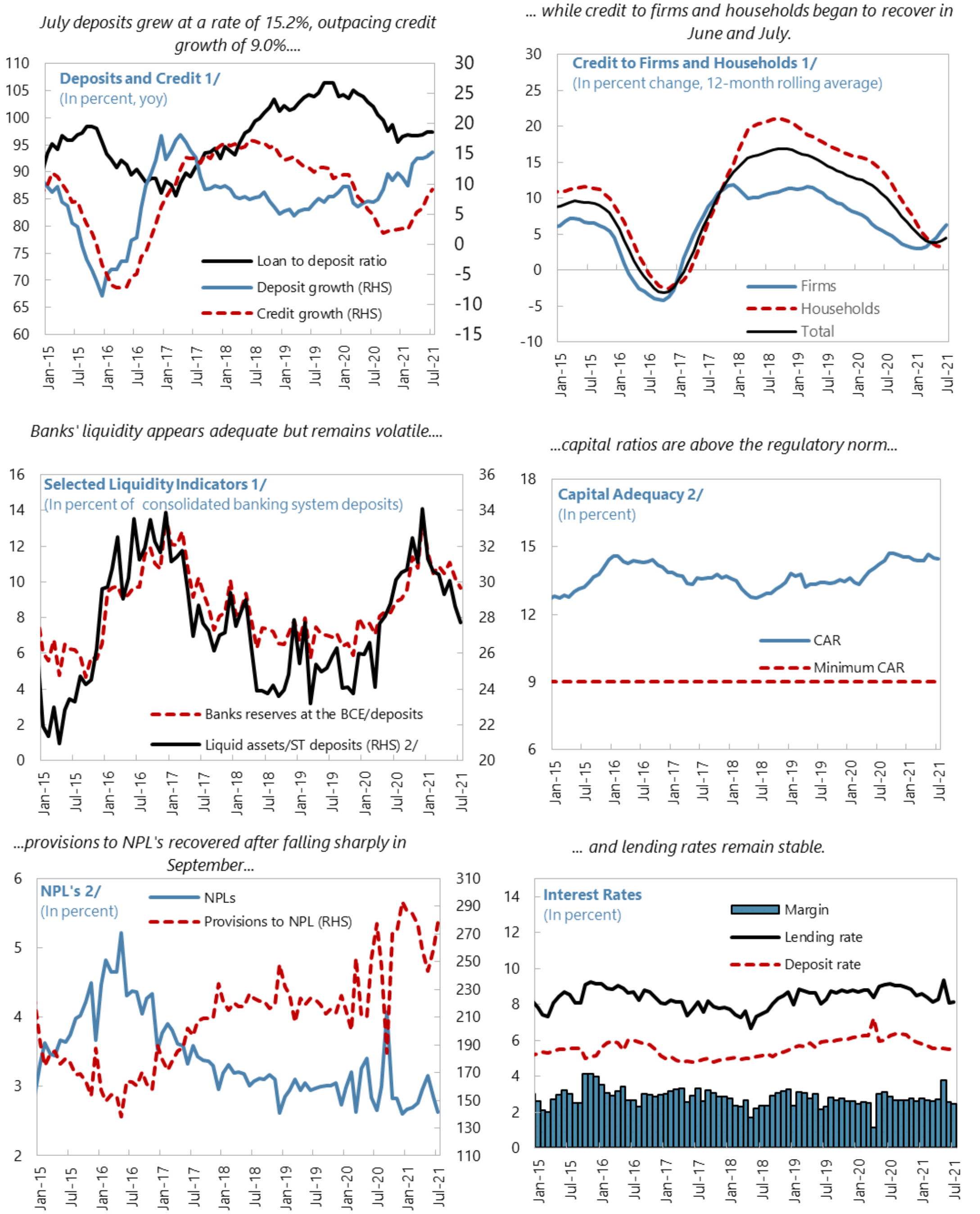


... while GIR stands at $5.4 billion as of July, 2021.



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

Figure 4. Ecuador: Financial System Developments

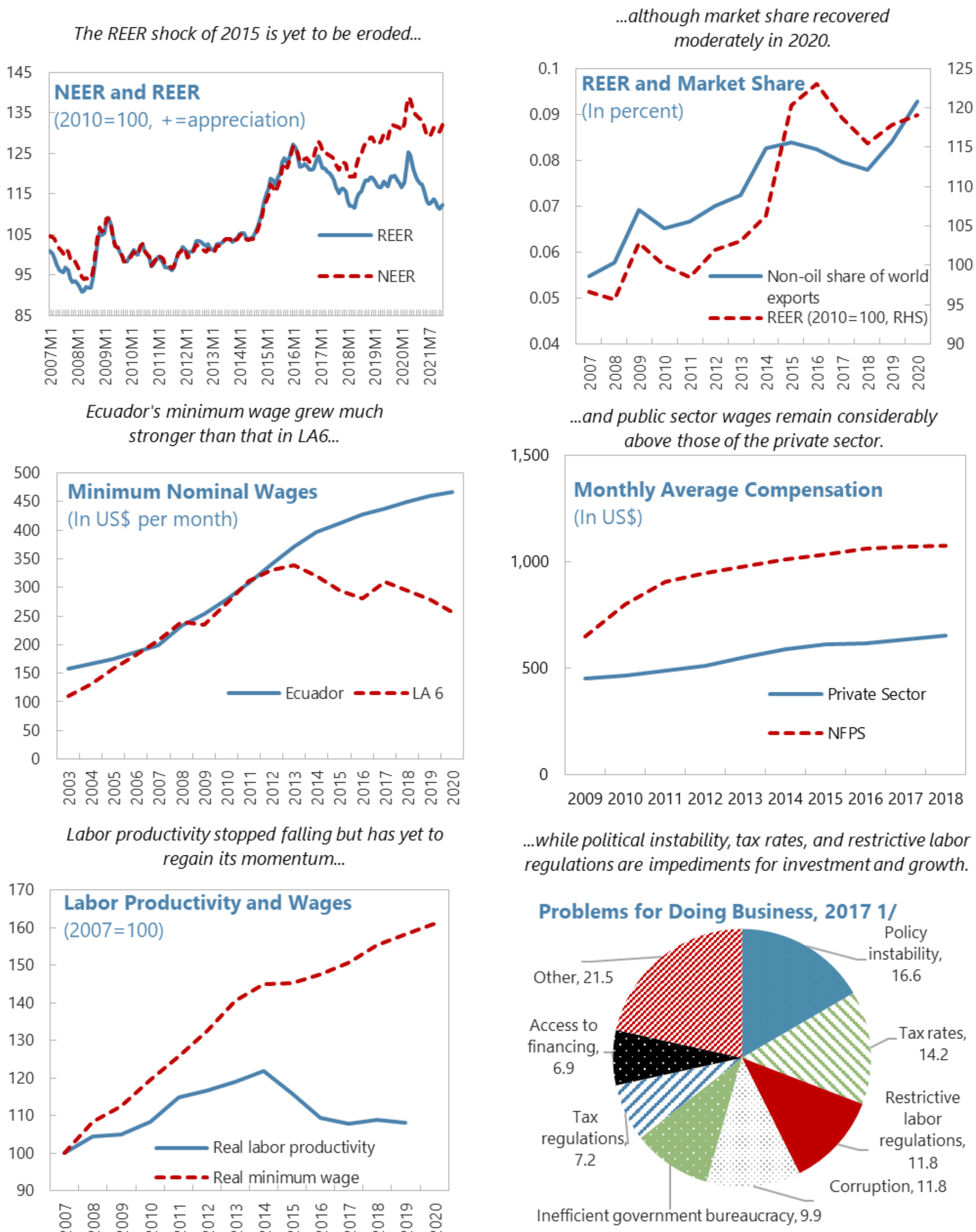


Sources: Central Bank of Ecuador, Superintendency of Banks, IMF Monetary and Financial Statistics, and IMF staff calculations.

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

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

Figure 5. Ecuador: Competitiveness



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

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

Table 1. Ecuador: Selected Economic and Financial Indicators

	2018	Est. 2019	2020 1st Rev. 1/	Projections 2020	2021 1st Rev. 1/	2021	2022	2023	2024	2025	2026
					(Percent change, unless otherwise indicated)						
National income and prices											
Real GDP	1.3	0.0	-9.5	-7.8	3.5	2.8	3.5	2.5	2.6	2.8	2.8
Domestic demand (contribution to growth)	2.2	-0.9	-13.2	-9.5	4.6	8.6	3.5	1.5	2.2	2.2	2.7
External Demand (contribution to growth)	-0.9	0.9	3.7	1.7	-1.1	-5.8	0.0	1.1	0.4	0.6	0.0
Consumer price index period average	-0.2	0.3	-0.3	-0.3	1.0	0.0	2.1	1.8	1.5	1.3	1.0
Consumer price index end of period	0.3	-0.1	-0.6	-0.9	2.3	0.3	2.2	1.6	1.3	1.1	1.0
Banking system											
Net domestic assets	7.6	9.5	5.7	4.1	1.5	3.1	2.2	0.1	-0.4	0.9	2.3
Liabilities	4.7	8.6	9.4	12.0	4.7	6.0	5.2	3.7	3.9	4.0	4.0
Credit to the private sector	14.9	11.3	-0.5	2.5	10.8	9.9	7.0	5.0	5.0	3.9	3.9
External sector											
Exports	12.5	2.9	-21.0	-14.8	4.7	17.0	6.1	3.8	4.0	4.6	2.9
Oil	27.3	-1.4	-42.1	-39.5	9.3	53.6	1.0	-4.7	-2.6	-1.2	-0.6
Non-oil	5.3	5.7	0.1	7.9	2.9	4.7	8.4	5.1	4.5	5.1	4.1
Imports	14.2	-1.5	-23.4	-23.1	6.2	31.3	6.2	2.2	3.1	2.8	2.2
Terms of trade	1.3	-2.0	-11.1	-5.1	1.0	2.0	-0.1	-1.5	-0.2	-0.1	0.5
Real effective exchange rate (2010=100)	115.4	117.9		119.1							
Real effective exchange rate, end-of-period (depreciation, -)	-2.7	2.1		1.0							
						(Percent of GDP)					
Current account balance	-1.2	-0.1	-0.6	2.5	1.0	1.7	1.7	1.9	2.0	2.1	2.0
NFPS Public finances											
Revenue	35.6	33.7	30.2	29.8	31.5	33.2	33.8	33.8	33.3	32.8	32.5
Expenditure	37.7	36.4	38.0	35.9	34.3	35.5	33.8	32.6	31.8	31.4	31.5
Overall balance (deficit -)	-2.1	-2.7	-7.8	-6.1	-2.8	-2.3	0.1	1.2	1.4	1.4	1.0
Non-oil primary balance	-3.1	-2.6	-5.1	-3.8	-3.2	-4.4	-2.0	-0.7	0.1	0.5	0.4
Non-oil primary balance (incl. fuel subsidies)	-5.5	-4.8	-6.2	-4.9	-4.2	-5.8	-2.8	-1.5	-0.7	-0.3	-0.4
Public debt 2/	49.1	51.4	66.4	61.2	66.2	61.0	59.9	57.9	56.2	52.9	49.6
Domestic	14.8	13.9	17.2	16.2	16.1	15.3	14.8	13.7	13.1	11.6	10.1
External	34.2	37.5	49.2	45.0	50.1	45.6	45.1	44.2	43.0	41.3	39.5
Gross Financing Needs											
In percent of GDP	9.4	9.9	14.8	12.7	7.7	7.0	4.3	3.9	3.6	5.1	5.6
In percent of Exports	45.5	46.9	73.1	61.4	38.3	30.4	18.6	17.4	16.1	22.9	25.6
In percent of Revenues	26.3	29.3	49.0	42.7	24.5	21.0	12.7	11.7	10.9	15.5	17.3
						(Percent of GDP)					
Saving-investment balance											
Consumption	74.4	74.1	77.9	75.1	77.2	74.4	73.6	73.1	72.6	72.4	71.9
Private	59.7	59.7	62.0	60.4	62.5	60.5	60.5	60.5	60.5	60.5	60.0
Public	14.7	14.4	15.9	14.7	14.7	13.9	13.1	12.6	12.1	11.9	11.9
National saving	25.5	25.8	20.9	25.6	23.4	28.1	29.0	29.3	29.6	29.5	29.8
Private	18.6	20.9	21.5	24.5	19.8	23.1	22.0	21.5	21.7	21.9	22.4
Public	6.9	4.9	-0.6	1.1	3.6	5.1	7.1	7.8	7.9	7.7	7.3
Gross investment	26.7	25.9	21.5	23.1	22.4	26.4	27.3	27.4	27.6	27.4	27.7
Private 3/	18.7	19.1	15.4	16.6	16.8	20.0	21.2	21.6	22.0	21.9	22.2
Public	8.0	6.8	6.1	6.5	5.6	6.5	6.1	5.8	5.6	5.5	5.5
Memorandum items:											
Nominal GDP (US$ millions)	107,562	108,108	94,297	98,808	99,197	104,483	109,975	114,076	118,502	123,202	128,089
GDP per capita (US$)	6,318	6,261	5,385	5,643	5,586	5,884	6,108	6,248	6,400	6,562	6,727
Gross international reserves (US$ millions) 4/	2,158	2,933	5,660	7,196	6,826	8,427	9,903	11,529	13,443	15,021	16,190
Gross international reserves (as a percent of ARA metric)	12	15	28	35	33	39.2	44.8	51.4	59.1	65.6	71
Net international reserves (US$ millions) 5/	-2,895	-2,903	-8,276	-7,161	-8,838	-6,239	-5,013	-2,601	535	2,369	3,574
Oil price Ecuador mix (US$ per barrel)	60.6	55.1	34.7	35.6	37.1	59.8	59.2	55.0	52.3	50.5	49.3
Oil production (millions of barrels)	188.8	193.8	173.0	175.4	185.8	178.7	182.7	186.1	189.2	192.5	194.8
Exports of oil (millions of barrels) 6/	145.1	156.2	140.8	146.4	143.7	133.2	135.9	139.5	142.8	146.2	148.7

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

1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).

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

3/ Includes inventories.

4/ GIR excludes non-liquid and encumbered assets.

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

6/ Includes both crude and derivatives.

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

(in millions if US dollars, unless otherwise indicated)

		Est.	Projections								
	2018	2019	2020 1st Rev. 1/	2020	2021 1st Rev. 1/	2021	2022	2023	2024	2025	2026
Revenue	**38,290**	**36,389**	**28,505**	**29,408**	**31,248**	**34,689**	**37,223**	**38,521**	**39,423**	**40,428**	**41,637**
Oil revenue, net 2/	8,255	7,892	4,601	4,839	5,516	8,412	8,525	8,496	8,129	8,042	8,064
Nonpetroleum revenue	27,189	25,865	22,220	22,820	23,661	23,976	26,008	27,368	28,617	29,771	30,951
Taxes	15,417	14,486	12,243	12,366	13,122	13,065	14,525	15,457	16,243	16,906	17,576
Social security contributions	5,541	5,863	5,266	5,443	5,381	5,810	6,115	6,343	6,589	6,850	7,122
Other	6,231	5,516	4,711	5,011	5,158	5,101	5,369	5,569	5,785	6,014	6,253
Operating surplus of public enterprises	2,845	2,632	1,685	1,749	2,071	2,301	2,690	2,656	2,677	2,616	2,622
O/w profits of oil companies withheld for investment	2,748	2,489	1,448	1,486	1,921	2,151	2,540	2,506	2,527	2,466	2,466
Expenditure	**40,500**	**39,354**	**35,830**	**35,476**	**34,062**	**37,111**	**37,138**	**37,148**	**37,732**	**38,730**	**40,301**
Primary expenditure	37,882	36,434	32,962	32,692	32,612	35,839	35,636	35,455	35,789	36,448	37,707
Current	27,399	28,122	26,217	25,421	26,175	27,719	27,944	27,888	28,134	28,712	29,645
Wages and salaries	10,323	10,190	9,643	9,598	9,535	9,479	9,590	9,645	9,874	10,109	10,510
Purchases of goods and services	4,735	4,642	4,593	4,010	4,281	4,173	3,931	3,835	3,628	3,649	3,794
Social security benefits	5,353	5,749	6,080	6,020	5,946	6,506	6,708	6,958	7,228	7,515	7,813
Other	6,989	7,541	5,902	5,793	6,412	7,561	7,715	7,450	7,403	7,440	7,529
Cost of imports of oil derivatives	4,011	4,439	3,034	3,163	2,852	4,176	4,296	4,074	3,946	3,896	3,895
Payments to private oil companies (SH) 3/	1,504	1,407	1,198	1,232	1,130	1,278	1,278	1,278	1,278	1,278	1,278
Other	1,474	1,695	1,670	1,398	2,430	2,107	2,142	2,098	2,180	2,266	2,356
Capital	9,680	8,265	6,718	7,195	6,437	7,745	7,692	7,567	7,655	7,736	8,062
Fixed capital spending	9,680	8,265	6,583	7,195	6,296	7,607	7,545	7,414	7,496	7,570	7,890
O/w investment in oil	1,779	1,760	1,458	1,441	1,643	1,667	1,698	1,835	1,918	1,948	1,979
Net-lending	0	0	135	0	142	139	146	153	159	166	173
Extra budgetary expenses	803	46									
Primary balance	**408**	**-45**	**-4,456**	**-3,283**	**-1,364**	**-1,150**	**1,587**	**3,066**	**3,634**	**3,980**	**3,930**
Interest	**2,618**	**2,920**	**2,868**	**2,785**	**1,450**	**1,272**	**1,502**	**1,693**	**1,944**	**2,281**	**2,594**
O/w external	2,340	2,627	2,505	2,453	1,166	999	1,164	1,357	1,617	1,979	2,350
Overall balance	**-2,210**	**-2,965**	**-7,324**	**-6,068**	**-2,813**	**-2,422**	**85**	**1,373**	**1,690**	**1,699**	**1,337**
Memorandum items:											
Non-oil primary balance 4/	-3,301	-2,820	-4,816	-3,773	-3,176	-4,592	-2,206	-750	120	594	551
Non-oil PB (incl. fuel subsidies) 5/	-5,908	-5,173	-5,867	-4,863	-4,167	-6,030	-3,087	-1,667	-828	-382	-453
Cyclically Adjusted Non-oil Primary Balance	-3,339	-2,681	-2,914	-2,287	-2,227	-3,772	-1,708	-365	357	624	503
Oil balance 6/	3,709	2,775	359	489	1,812	3,442	3,793	3,815	3,514	3,387	3,379
Fuel Subsidies	3,233	2,353	1,051	1,091	991	1,811	881	917	948	975	1,004
Social Spending		1,016	1,446	1,446	1,774	1,974	1,998	1,875	1,875	1,875	1,875
Public Debt 7/	52,799	55,580	62,629	60,458	65,692	63,687	65,894	66,040	66,583	65,124	63,577
Revised fixed capital spending (PGE+CFDD)	1,040	820		533							
Revised fixed capital spending (the rest of the NFPS)	2,648	2,075		1,336							

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

1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).

2/ Net of operational cost.

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

4/ The primary balance less oil balance.

5/ Excludes the payments of lawsuits.

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

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

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

(in percent of GPD, unless otherwise indicated)

		Est.	Projections								
	2018	2019	2020	2020	2021	2021	2022	2023	2024	2025	2026
			1st Rev. 1/		1st Rev. 1/						
Revenue	**35.6**	**33.7**	**30.2**	**29.8**	**31.5**	**33.2**	**33.8**	**33.8**	**33.3**	**32.8**	**32.5**
Oil revenue, net 2/	7.7	7.3	4.9	4.9	5.6	8.1	7.8	7.4	6.9	6.5	6.3
Nonpetroleum revenue	25.3	23.9	23.6	23.1	23.9	22.9	23.6	24.0	24.1	24.2	24.2
Taxes	14.3	13.4	13.0	12.5	13.2	12.5	13.2	13.5	13.7	13.7	13.7
Social security contributions	5.2	5.4	5.6	5.5	5.4	5.6	5.6	5.6	5.6	5.6	5.6
Other	5.8	5.1	5.0	5.1	5.2	4.9	4.9	4.9	4.9	4.9	4.9
Operating surplus of public enterprises	2.6	2.4	1.8	1.8	2.1	2.2	2.4	2.3	2.3	2.1	2.0
O/w profits of oil companies withheld for investment	2.6	2.3	1.5	1.5	1.9	2.1	2.3	2.2	2.1	2.0	1.9
Expenditure	**37.7**	**36.4**	**38.0**	**35.9**	**34.3**	**35.5**	**33.8**	**32.6**	**31.8**	**31.4**	**31.5**
Primary expenditure	35.2	33.7	35.0	33.1	32.9	34.3	32.4	31.1	30.2	29.6	29.4
Current	25.5	26.0	27.8	25.7	26.4	26.5	25.4	24.4	23.7	23.3	23.1
Wages and salaries	9.6	9.4	10.2	9.7	9.6	9.1	8.7	8.5	8.3	8.2	8.2
Purchases of goods and services	4.4	4.3	4.9	4.1	4.3	4.0	3.6	3.4	3.1	3.0	3.0
Social security benefits	5.0	5.3	6.4	6.1	6.0	6.2	6.1	6.1	6.1	6.1	6.1
Other	6.5	7.0	6.3	5.9	6.5	7.2	7.0	6.5	6.2	6.0	5.9
Cost of imports of oil derivatives	3.7	4.1	3.2	3.2	2.9	4.0	3.9	3.6	3.3	3.2	3.0
Payments to private oil companies (SH) 3/	1.4	1.3	1.3	1.2	1.1	1.2	1.2	1.1	1.1	1.0	1.0
Other	1.4	1.6	1.8	1.4	2.4	2.0	1.9	1.8	1.8	1.8	1.8
Capital	9.0	7.6	7.1	7.3	6.5	7.4	7.0	6.6	6.5	6.3	6.3
Fixed capital spending	9.0	7.6	7.0	7.3	6.3	7.3	6.9	6.5	6.3	6.1	6.2
O/w investment in oil	1.7	1.6	1.5	1.5	1.7	1.6	1.5	1.6	1.6	1.6	1.5
Net-lending	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Extra budgetary expenses	0.7	0.0	0.0		0.0	0.0					
Primary balance	**0.4**	**0.0**	**-4.7**	**-3.3**	**-1.4**	**-1.1**	**1.4**	**2.7**	**3.1**	**3.2**	**3.1**
Interest	**2.4**	**2.7**	**3.0**	**2.8**	**1.5**	**1.2**	**1.4**	**1.5**	**1.6**	**1.9**	**2.0**
O/w external	2.2	2.4	2.7	2.5	1.2	1.0	1.1	1.2	1.4	1.6	1.8
Overall balance	**-2.1**	**-2.7**	**-7.8**	**-6.1**	**-2.8**	**-2.3**	**0.1**	**1.2**	**1.4**	**1.4**	**1.0**
Memorandum items:											
Non-oil primary balance 4/	-3.1	-2.6	-5.1	-3.8	-3.2	-4.4	-2.0	-0.7	0.1	0.5	0.4
Non-oil primary balance (percent of non-oil GDP)	-3.3	-2.8	-5.3	-4.0	-3.3	-4.7	-2.1	-0.7	0.1	0.5	0.5
Non-oil PB (incl. fuel subsidies) 5/	-5.5	-4.8	-6.2	-4.9	-4.2	-5.8	-2.8	-1.5	-0.7	-0.3	-0.4
Cyclically Adjusted Non-oil Primary Balance	-3.1	-2.5	-3.1	-2.3	-2.2	-3.6	-1.6	-0.3	0.3	0.5	0.4
Oil balance 6/	3.4	2.6	0.4	0.5	1.8	3.3	3.4	3.3	3.0	2.7	2.6
Fuel Subsidies	3.0	2.2	1.1	1.1	1.0	1.7	0.8	0.8	0.8	0.8	0.8
Social Spending		0.9	1.5	1.5	1.8	1.9	1.8	1.6	1.6	1.5	1.5
Public Debt 7/	49.1	51.4	66.4	61.2	66.2	61.0	59.9	57.9	56.2	52.9	49.6
Revised fixed capital spending (PGE+CFDD)	1.0	0.8		0.5							
Revised fixed capital spending (the rest of the NFPS)	2.5	1.9		1.4							

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

1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).

2/ Net of operational cost.

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

4/ The primary balance less oil balance.

5/ Excludes the payments of lawsuits.

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

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

Table 3. Ecuador: Nonfinancial Public Sector Financing
(in millions of US dollars, unless otherwise indicated)

		Est.	Projections								
	2018	2019	2020 1st Rev. 1/	2020	2021 1st Rev. 1/	2021	2022	2023	2024	2025	2026
Gross financing needs	**10,060**	**10,674**	**13,976**	**12,555**	**7,651**	**7,285**	**4,721**	**4,495**	**4,280**	**6,274**	**7,223**
Nonfinancial public sector deficit	2,210	2,965	7,324	6,068	2,813	2,422	-85	-1,373	-1,690	-1,699	-1,337
Amortization	7,850	7,709	6,651	6,487	4,838	4,863	4,806	5,868	5,970	7,973	8,560
External	4,225	4,895	3,980	3,978	1,763	1,790	2,355	2,521	3,299	4,023	4,540
Multilateral	673	780	817	817	772	781	784	984	1,994	3,120	3,122
Bilateral	1,601	1,005	791	785	428	419	1,212	1,219	1,017	597	321
Private sector and other	885	2,125	2,237	2,233	445	465	246	217	188	206	1,051
Oil related financing	1,066	984	135	143	118	125	112	100	100	100	47
Domestic	2,998	2,814	2,671	2,508	3,074	3,073	2,451	3,347	2,671	3,949	4,019
Bonds	884	1,154	697	534	840	800	179	1,175	499	1,777	1,847
Treasury certificates	2,113	1,660	1,974	1,974	2,234	2,272	2,272	2,172	2,172	2,172	2,172
Gross financing sources	**10,060**	**10,674**	**13,976**	**12,555**	**7,651**	**7,285**	**4,721**	**4,495**	**4,280**	**6,274**	**7,223**
External	7,885	8,626	9,671	9,180	5,015	5,968	4,341	3,341	3,841	3,841	4,341
Multilateral	1,644	3,310	7,652	7,502	5,015	4,588	3,341	1,841	1,841	1,341	1,341
World Bank	236	653	1,455	1,242	935	923	341	341	341	341	341
Inter-American Development Bank	497	733	762	709	1,291	1,382	500	400	400	400	400
CAF	542	517	787	868	850	475	650	600	600	600	600
Other	370	5	4	0	439	308	850	500	500	0	0
IMF	0	1,401	4,643	4,683	1,500	1,500	1,000	0	0	0	0
Bilateral	1,042	701	269	149	0	420	0	0	0	0	0
Private sector and other	4,504	4,170	1,749	1,529	0	20	1,000	1,500	2,000	2,500	3,000
Oil related financing	695	445	0	0	0	0	0	0	0	0	0
2021 SDR Allocation		0	0	0	0	940					
Domestic	1,298	3,509	4,305	3,207	2,636	1,151	380	1,154	439	2,433	2,882
Bonds	769	1,041	697	497	652	791	500	500	500	500	500
Treasury certificates	1,660	1,974	2,234	2,272	2,234	2,272	2,172	2,172	2,172	2,172	2,172
Change in deposits (+ = drawdown)	-2,018	-609	203	-875	-250	-1,668	-2,042	-1,418	-2,184	-240	210
Privatization and BCE transfers	0	0	0	0	0	0	0	0	0	0	0
Convenios de liquidez	564	138	300	114	0	0	0	0	0	0	0
Other	323	1,140	200	528	0	-245	-250	-100	-50	0	0
Margin calls		-174	172	172	0						
Net Arrears acumulation and other financing 2/	-823	0	0		0	0	0	0	0	0	0
Other liabilities			500	500	0						
Discrepancy	1,700	-1,461	0	168	0	83	0	0	0	0	0
Net financing	**2,837**	**4,004**	**7,324**	**6,068**	**2,813**	**2,339**	**-85**	**-1,373**	**-1,690**	**-1,699**	**-1,337**
External	3,659	3,731	5,690	5,202	3,251	4,178	1,986	820	542	-182	-199
Domestic	-1,700	695	1,634	699	-438	-1,922	-2,071	-2,193	-2,232	-1,516	-1,137
Net Arrears acumulation and other financing 2/	-823	0	0	0	0	0	0	0	0	0	0
Discrepancy	1,700	-423	0	168	0	83	0	0	0	0	0
Public Sector Debt 3/	**52,799**	**55,580**	**62,629**	**60,458**	**65,692**	**63,687**	**65,894**	**66,040**	**66,583**	**65,124**	**63,577**
External	36,831	40,555	46,439	44,420	49,690	47,658	49,645	50,465	51,006	50,824	50,625
o.w. oil related financing	1,255	716	581	574	463	449	337	237	137	37	-10
Domestic	15,968	15,025	16,190	16,038	16,001	16,029	16,250	15,575	15,576	14,300	12,953
Bonds	6,046	5,541	5,120	5,992	4,931	5,983	6,304	5,629	5,631	4,354	3,007
Treasury certificates	1,660	1,974	2,234	2,320	2,234	2,320	2,220	2,220	2,220	2,220	2,220
Other liabilities 4/	8,261	7,510	8,836	7,726	8,836	7,726	7,726	7,726	7,726	7,726	7,726
					(In percent of GDP)						
Gross financing needs	**9.4**	**9.9**	**14.1**	**12.7**	**7.3**	**7.0**	**4.3**	**3.9**	**3.6**	**5.1**	**5.6**
Nonfinancial public sector deficit	2.1	2.7	7.8	6.1	2.8	2.3	-0.1	-1.2	-1.4	-1.4	-1.0
Amortization	7.3	7.1	7.1	6.6	4.9	4.7	4.4	5.1	5.0	6.5	6.7
Gross financing sources	**9.4**	**9.9**	**14.1**	**12.7**	**7.3**	**7.0**	**4.3**	**3.9**	**3.6**	**5.1**	**5.6**
External	7.3	8.0	10.3	9.3	5.1	5.7	3.9	2.9	3.2	3.1	3.4
Domestic	1.2	3.2	4.4	3.2	2.5	1.1	0.3	1.0	0.4	2.0	2.3
Other financing	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Public sector debt 3/	**49.1**	**51.4**	**66.4**	**61.2**	**66.2**	**61.0**	**59.9**	**57.9**	**56.2**	**52.9**	**49.6**
External	34.2	37.5	49.2	45.0	50.1	45.6	45.1	44.2	43.0	41.3	39.5
Domestic	14.8	13.9	17.2	16.2	16.1	15.3	14.8	13.7	13.1	11.6	10.1

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff calculations and estimates.
1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).
2/ Includes domestic floating debt and statistical discrepancy.
3/ Gross debt consolidated at the level of the NFPS. Includes the outstanding balance for advance oil sales, treasury certificates, central bank loans, other liabilities and the stock of domestic floating debt. The public debt estimates are preliminary and subject to revisions in accordance with the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG).
4/ Other liabilities include: Floating debt from all sectors, convenios de liquidez, other oil related debt (ex SH oil contracts) and deposits and other obligations from BDE

Table 4. Ecuador: Balance of Payments
(in millions of US dollars, unless otherwise indicated)

	2018	Est. 2019	2020 1st Rev. 1/	Projections 2020	2021 1st Rev. 1/	2021	2022	2023	2024	2025	2026
Current account	**-1,333**	**-61**	**-563**	**2,469**	**969**	**1,786**	**1,906**	**2,222**	**2,318**	**2,628**	**2,602**
Trade balance	-226	1,025	2,024	3,331	1,807	1,415	1,485	1,582	1,464	1,666	1,930
Exports, f.o.b.	22,133	22,774	19,129	20,461	19,999	23,993	25,410	25,909	26,528	27,395	28,168
Oil	8,802	8,680	5,015	5,250	5,482	8,066	8,145	7,764	7,559	7,467	7,423
Non-oil	13,331	14,094	14,114	15,211	14,517	15,928	17,265	18,145	18,969	19,928	20,745
Imports, f.o.b.	22,359	21,749	17,105	17,131	18,193	22,579	23,926	24,326	25,063	25,729	26,238
Oil	4,341	4,149	2,907	2,647	2,985	4,491	4,476	4,197	4,023	3,932	3,892
Non-oil	18,018	17,600	14,198	14,484	15,208	18,088	19,450	20,129	21,041	21,797	22,345
Services	-687	-797	-1,216	-986	-1,252	-1,532	-1,631	-1,291	-898	-524	-522
Credits	3,249	3,346	1,498	1,800	1,593	2,047	2,231	2,779	3,316	3,835	3,978
Debits	3,936	4,143	2,714	2,786	2,846	3,579	3,862	4,070	4,214	4,360	4,499
Primary income	-2,829	-3,028	-3,425	-2,869	-1,750	-1,107	-1,154	-1,368	-1,659	-2,030	-2,425
Credits	236	195	274	86	177	193	239	330	445	597	624
Debits	3,065	3,223	3,699	2,955	1,927	1,300	1,393	1,698	2,104	2,627	3,048
Secondary income	2,409	2,739	2,054	2,993	2,165	3,010	3,206	3,298	3,411	3,517	3,618
Of which: workers' remittances, net	2,578	2,595	1,899	2,830	2,003	2,839	3,026	3,111	3,216	3,315	3,409
Capital account	**-193**	**70**	**70**	**108**	**62**	**99**	**104**	**110**	**114**	**118**	**123**
Financial account	**-1,586**	**677**	**1,693**	**4,664**	**1,229**	**2,017**	**1,534**	**472**	**-34**	**779**	**1,326**
Direct investment	-1,388	-974	-595	-1,190	-664	-880	-1,200	-1,406	-1,466	-1,710	-1,767
Other public sector flows	-3,659	-3,731	-1,690	-519	-1,751	-2,678	-986	-820	-542	182	199
Disbursements	-7,885	-8,626	-5,671	-4,497	-3,515	-4,468	-3,341	-3,341	-3,841	-3,841	-4,341
Amortizations	4,225	4,895	3,980	3,978	1,763	1,790	2,355	2,521	3,299	4,023	4,540
Other private sector flows	3,462	5,382	3,979	6,373	3,644	5,575	3,720	2,697	1,974	2,307	2,894
Errors and omissions	**-207**	**-2**	**0**	**106**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-146**	**-670**	**-2,186**	**-1,981**	**-198**	**-133**	**477**	**1,860**	**2,466**	**1,968**	**1,399**
Financing	**146**	**670**	**2,185**	**2,087**	**198**	**133**	**-477**	**-1,860**	**-2,466**	**-1,968**	**-1,399**
Change in GIR (increase, -) 2/	-171	-713	-2,278	-4,146	-1,165	-1,231	-1,477	-1,626	-1,915	-1,577	-1,169
IMF net credit and loans	0	-46	463	464	-136	-136	0	-160	-321	-160	0
Other external financing 3/	317	26	0	1,726	0	0	0	0	0	0	0
IMF exceptional financing under the EFF	0	1,403	4,000	4,683	1,500	1,500	1,000	-74	-230	-230	-230
Memorandum items:											
Current account balance (percent of GDP)	-1.2	-0.1	-0.6	2.5	1.0	1.7	1.7	1.9	2.0	2.1	2.0
Oil balance (percent of GDP)	4.1	4.2	2.2	2.6	2.5	3.4	3.3	3.1	3.0	2.9	2.8
Exports	8.2	8.0	5.3	5.3	5.5	7.7	7.4	6.8	6.4	6.1	5.8
Imports	4.0	3.8	3.1	2.7	3.0	4.3	4.1	3.7	3.4	3.2	3.0
Non-oil balance (percent of GDP)	-5.4	-4.2	-2.8	-0.1	-1.5	-1.7	-1.6	-1.2	-1.0	-0.7	-0.7
Goods export volume growth rate (percent)	-0.1	8.0	-1.9	5.1	1.9	-1.6	5.3	4.0	2.6	3.0	2.9
Goods import volume growth rate (percent)	3.6	0.4	-17.7	-11.3	4.7	12.2	5.3	1.7	2.6	1.9	2.4
Goods terms of trade growth rate (percent)	1.3	-2.0	-11.1	-5.1	1.0	2.0	-0.1	-1.5	-0.2	-0.1	0.5
Oil price Ecuador mix (U.S. dollars per barrel)	61	55	35	36	37	60	59	55	52	50	49
External debt (percent of GDP)	43.2	47.9	59.4	54.9	58.5	52.3	50.3	48.2	46.2	43.2	40.1

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

1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).

2/ Reflects the national definition of gross international reserves.

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

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

		Est.	Projections							
	2018	2019	2020 1st Rev. 1/	2020	2021 1st Rev. 1/	2021	2022	2023	2024	2025
Gross external financing requirements	**9,433**	**9,184**	**8,992**	**5,958**	**5,371**	**4,581**	**5,076**	**5,074**	**5,830**	**6,179**
Current account financing need	1,333	61	563	-2,469	-969	-1,786	-1,906	-2,222	-2,318	-2,628
Public sector amortizations	4,225	4,895	3,980	3,978	1,763	1,790	2,355	2,521	3,299	4,023
Private sector amortizations	3,875	4,227	4,449	4,449	4,577	4,577	4,627	4,775	4,849	4,784
Identified External Financing	**9,286**	**9,917**	**10,806**	**8,660**	**6,673**	**5,948**	**6,553**	**6,860**	**8,065**	**7,917**
Multilateral	1,644	3,310	3,652	2,819	3,515	3,088	2,341	1,841	1,841	1,341
Bilateral	1,042	701	269	149	0	420	0	0	0	0
Oil related financing	695	445	0	0	0	0	0	0	0	0
Private sector	4,504	4,170	1,749	1,529	0	20	1,000	1,500	2,000	2,500
Direct investment	1,388	974	595	1,190	664	880	1,200	1,406	1,466	1,710
Portfolio investment Financing	83	-231	94	-385	187	-200	181	416	575	495
Other investment Financing	330	-924	376	-1,539	746	-799	726	1,662	2,300	1,982
Net Transfers 2/	-399	68	70	214	62	99	104	110	114	118
IMF exceptional financing	0	1,403	4,000	4,683	1,500	1,500	1,000	-74	-230	-230
2021 SDR Allocation	0	0	0	0	0	940	0	0	0	0
Gross external financing sources	**9,604**	**9,897**	**11,269**	**10,850**	**6,537**	**5,812**	**6,553**	**6,700**	**7,745**	**7,756**
Identified External Financing	9,286	9,917	10,806	8,660	6,673	5,948	6,553	6,860	8,065	7,917
Exceptional financing	317	26	0	1,726	0	0	0	0	0	0
o/w IADB	0	0	0	0	0	0	0	0	0	
o/w World Bank	0	0	0	0	0	0	0	0	0	
Past IMF Net Programs	0	-46	463	464	-136	-136	0	-160	-321	-160
IMF Net EFF Financing	0	1,403	**4,000**	4,683	**1,500**	1,500	1,000	0	0	0
IMF Net RFI Financing	0	-47	**-136**	-136	**-136**	-136	0	0	0	0
Net international reserves (-, increase) 2/	**-171**	**644**	**-2,459**	**361**	**-1,302**	**-1,367**	**-1,477**	**-1,626**	**-1,915**	**-1,577**
Gross international reserves (-, increase) 3/	**-171**	**-713**	**-2,278**	**-4,146**	**-1,165**	**-1,231**	**-1,477**	**-1,626**	**-1,915**	**-1,577**
Net international reserves, prog. definition (-, increase) 4/	**-397**	**7**	**5,373**	**4,259**	**562**	**-922**	**-1,226**	**-2,412**	**-3,137**	**-1,834**

Sources: Central Bank of Ecuador and Fund staff calculations and estimates.
1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No.
2/ Net transfers is defined as capital account flows plus unidentified flows (errors and omissions).
3/ Reflects the national definition of gross international reserves.
4/ Program net international reserves is equal to gross international reserves less outstanding credit to the IMF (incl. budget support to the Treasury), short-term foreign liabilities of the BCE, deposits of other depository institutions and other financial institutions (excl. BIESS) at the central bank, and short-term liabilities of the central government.

Table 6. Ecuador: Monetary and Financial Statistics

(in millions of US dollars, unless otherwise indicated)

	2018	Est. 2019	2020 1st Rev. 1/	2020	2021 1st Rev. 1/	Projections 2021	2022	2023	2024	2025	2026
I. Central Bank											
Net foreign assets	**3,902**	**4,628**	**6,533**	**8,064**	**7,887**	**9,494**	**11,027**	**12,694**	**14,654**	**16,279**	**17,498**
Of which: gross international reserves 2/	2,158	2,933	5,660	7,196	6,826	8,427	9,903	11,529	13,443	15,021	16,190
Net domestic assets	**1,108**	**-116**	**1,801**	**739**	**837**	**-1,508**	**-3,801**	**-5,986**	**-8,762**	**-10,179**	**-11,180**
Credit to the nonfinancial public sector, net	-2,086	-2,567	-16	-1,074	-622	-2,979	-5,038	-7,203	-9,552	-10,951	-11,933
Credit to financial institutions	4,531	4,217	4,050	4,043	3,692	3,700	3,466	3,446	3,019	3,000	2,981
Other depository institutions	1,006	979	982	983	936	937	872	871	963	964	964
Other financial institutions	3,524	3,238	3,068	3,060	2,755	2,764	2,594	2,575	2,055	2,036	2,017
Credit to the private sector	17	13	12	11	12	12	12	13	13	14	14
Other, net	-1,353	-1,779	-2,244	-2,242	-2,244	-2,242	-2,242	-2,242	-2,242	-2,242	-2,242
Liabilities	**5,011**	**4,512**	**8,334**	**8,802**	**8,725**	**7,986**	**7,225**	**6,708**	**5,892**	**6,100**	**6,319**
Banks' reserves	4,859	4,377	8,200	8,620	8,586	7,799	7,034	6,514	5,694	5,899	6,114
Other depository institutions 3/	3,172	3,527	5,420	6,556	5,675	5,738	5,019	4,412	4,033	4,193	4,359
Other financial institutions 4/	1,688	850	2,780	2,064	2,911	2,061	2,015	2,102	1,661	1,706	1,754
Other 5/	68	54	54	102	54	102	102	102	102	102	102
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 3/ 6/											
Net foreign assets	**4,965**	**4,731**	**4,860**	**4,897**	**5,118**	**5,193**	**5,480**	**5,694**	**5,925**	**6,171**	**6,426**
Net domestic assets	**32,666**	**36,154**	**36,564**	**40,845**	**41,715**	**43,302**	**45,564**	**47,253**	**49,077**	**51,013**	**53,026**
Assets held at the BCE, net	1,757	2,502	4,493	5,803	4,794	5,056	4,429	3,914	3,535	3,695	3,861
Credit to the nonfinancial public sector, net	1,107	1,029	562	965	-187	332	332	332	252	252	252
Of which: central government, net	1,284	1,336	869	1,100	120	466	466	466	386	386	386
Credit to the private sector	39,980	44,524	44,287	45,638	49,054	50,165	53,698	56,383	59,184	61,511	63,930
Other items, net	-10,179	-11,901	-12,778	-11,561	-11,947	-12,251	-12,895	-13,375	-13,894	-14,445	-15,018
Liabilities	**37,631**	**40,885**	**44,728**	**45,742**	**46,834**	**48,496**	**51,045**	**52,948**	**55,002**	**57,184**	**59,452**
Of which: Private sector deposits	37,631	40,885	44,728	45,742	46,834	48,496	51,045	52,948	55,002	57,184	59,452
III. Depository Corporations Survey											
Net foreign assets	**8,867**	**9,359**	**11,393**	**12,961**	**13,006**	**14,687**	**16,507**	**18,388**	**20,579**	**22,450**	**23,924**
Net domestic assets	**28,915**	**31,661**	**33,469**	**32,963**	**33,966**	**33,995**	**34,729**	**34,754**	**34,621**	**34,935**	**35,733**
Credit to the nonfinancial public sector, net	-979	-1,538	546	-108	-809	-2,647	-4,706	-6,871	-9,300	-10,698	-11,680
Credit to the private sector	39,998	44,537	44,299	45,649	49,067	50,177	53,710	56,396	59,197	61,525	63,945
Other items, net	-10,104	-11,339	-11,376	-12,577	-14,291	-13,535	-14,276	-14,771	-15,276	-15,891	-16,532
Liabilities	**37,782**	**41,020**	**44,862**	**45,924**	**46,972**	**48,682**	**51,235**	**53,142**	**55,200**	**57,385**	**59,657**
Memorandum items:											
Credit to the private sector (percent change, yoy) 7/	14.9	11.3	-0.5	2.5	10.8	9.9	7.0	5.0	5.0	3.9	3.9
Deposits of the private sector (percent change, yoy) 7/	5.0	8.6	9.4	11.9	4.7	6.0	5.3	3.7	3.9	4.0	4.0
Broad money (M2) (percent change, yoy) 8/	5.7	8.0	3.1	6.0	4.8	5.9	5.2	3.7	3.9	4.0	4.0
Broad money velocity	2.0	1.9	1.7	1.6	1.6	1.5	1.4	1.4	1.3	1.3	1.2
ODI and OFI's reserves at the central bank as a share of liabilities (percent) 3/ ◦	12.9	10.7	18.3	16.1	18.3	16.1	13.8	12.3	10.4	10.3	10.3
Credit to the private sector (percent of GDP)	37.2	41.2	47.0	46.2	49.5	48.0	48.8	49.4	50.0	49.9	49.9
Liabilities (percent of GDP)	35.1	37.9	47.6	46.5	47.4	46.6	46.6	46.6	46.6	46.6	46.6
1st COMYF balance	68	84		110		147	198	262	334	358	371
2nd COMYF balance	-59	-68		32		131	243	339	567	635	674
3rd COMYF balance	-46	-25		-24		9	30	46	59	68	77

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.
1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).
2/ Excludes non-liquid and encumbered reserves included in the authorities' definition of GIR.
3/ ODI include private banks, Banecuador (formerly Banco Nacional de Fomento), Banco del Pacifico, private financial companies, mutuals, cooperatives, and credit card companies.
4/ Reserves of OFIs includes deposits of Corporación Financiera Nacional, COSEDE, BIESS, and a transitory account for the payments system.
5/ Includes monetary deposits, Titulos del Banco Central de Ecuador, stabilization bonds, and accounts payable.
6/ OFI comprises Corporación Financiera Nacional.
7/ Consolidated banking system.
8/ Broad money comprises monetary species in circulation, demand deposits, and quasi-money.

Table 7. Ecuador: Financial Soundness Indicators[1]

	2015	2016	2017	2018	2019	2020	Q2 2021
	(In percent, unless otherwise indicated; end-of-period values)						
Capital Adequacy							
Regulatory capital to risk-weighted assets (C	14.4	13.9	13.7	13.4	13.5	14.5	14.5
Asset Quality and Distribution							
Nonperforming loans to gross loans	3.7	3.5	3.0	2.6	2.7	2.6	2.8
Provisions to nonperforming loans	187.1	189.5	234.4	247.7	225.6	293.1	258.4
Gross loans to assets	86.2	80.0	84.4	86.0	87.8	82.4	84.8
Earnings and Profitability							
Return on average assets (ROA)	0.9	0.6	1.0	1.4	1.4	0.5	0.7
Return on average equity (ROE)	9.0	6.7	10.4	13.6	13.9	4.8	6.9
Interest margin to assets	0.8	0.4	0.9	1.6	1.4	0.1	0.3
Noninterest expenses to spread	87.4	92.6	85.0	76.9	78.5	98.3	93.9
Liquidity							
Liquid assets to short-term liabilities	29.6	33.9	29.4	27.9	26.0	34.1	28.6
Deposit to loan ratio	126.1	137.0	121.9	111.8	109.5	123.7	121.1

Source: Superintendency of Banks.

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

Table 8. Ecuador: Indicators of Fund Credit 2020-30

			Projections											
	2020 1st Rev. 1/	2020	2021 1st Rev. 1/	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Existing and prospective Fund arrangements						(millions of SDRs)							
Disbursements 2/	3,310	3,310	1,065	1,065	710	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	4,419	4,419	5,386	5,386	6,096	5,925	5,521	4,762	3,925	2,987	2,049	1,166	396
Obligations	7	0	215	34	145	332	566	934	983	1049	1011	919	780
Principal	0	0	98	0	0	172	403	759	837	938	938	884	769
Charges/interest 3/	7	0	117	34	145	160	163	175	146	111	73	35	11
Obligations, relative to key variables						(percent)							
Quota	1.0	0.0	30.8	4.8	20.8	47.6	81.2	133.9	140.9	150.3	144.9	131.7	111.8
Gross domestic product	0.0	0.0	0.3	0.0	0.2	0.4	0.7	1.0	1.1	1.1	1.0	0.9	0.7
Gross international reserves 4/	0.2	0.0	4.3	0.5	2.0	4.0	5.8	8.6	8.4	8.4	7.7	7.0	6.4
Exports of goods and services	0.0	0.0	1.4	0.2	0.7	1.6	2.6	4.1	4.2	4.4	4.1	3.6	2.9
Revenues of the NFPS	0.0	0.0	0.9	0.1	0.5	1.2	2.0	3.2	3.3	3.3	3.1	2.7	2.2
External debt service	0.1	0.0	3.1	0.5	1.9	4.1	6.4	9.8	9.8	10.4	10.1	21.4	20.4
Fund credit outstanding, relative to key variables						(percent)							
Quota	633.4	633.4	772.0	772.0	873.8	849.2	791.4	682.5	562.5	428.1	293.7	167.1	56.8
Gross domestic product	6.4	6.1	7.4	7.1	7.6	7.1	6.4	5.3	4.2	3.1	2.0	1.1	0.4
Gross international reserves	106.7	83.9	108.1	87.6	84.4	70.6	56.5	43.7	33.5	24.0	15.5	8.9	3.2
External debt	10.8	11.1	12.7	13.5	15.1	14.8	13.9	12.3	10.5	8.3	6.0	3.7	1.4
Memorandum items:													
Exports of goods and services (US$m)	20,627	22,261	21,593	26,040	27,641	28,688	29,844	31,230	32,146	33,113	34,238	35,404	36,642
External debt (US$m)	55,989	54,290	58,012	54,674	55,291	55,014	54,723	53,258	51,392	49,510	47,459	43,995	39,190
Quota (SDRm)	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7
Gross international reserves (US$m)	5,660	7,196	6,826	8,427	9,903	11,529	13,443	15,021	16,190	17,196	18,211	18,064	16,897
Gross international reserves (% ARA metric)	28	35	33	39	45	51	59	66	71	75	79	79	76
NIR, program definition (US$m)	-8,276	-7,161	-8,838	-6,239	-5,013	-2,601	535	2,369	3,574	4,600	5,623	6,625	5,264
Nominal GDP (US$m)	94,297	98,808	99,197	104,483	109,975	114,076	118,502	123,202	128,089	133,167	138,449	143,940	149,650
SDRs per U.S. dollar	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

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

1/ First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Quantitative Performance Criteria (December 21, 2020; CR No. 20/325).

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

3/ Using the GRA rate of charge of 1.05 as of September 2, 2021, for projected charges/interest

4/ GIR excludes non-liquid and encumbered assets.

Table 9a. Ecuador: Proposed Quantitative Performance Criteria and Indicative Targets for 2021

(in millions if USD dollars, unless otherwise indicated)

	End-Dec. 2020				End-Apr. 2021				End-Sep.	End-Dec. 2021
	Program	Adj. 3/	Actual	Status	Program	Adj. 3/	Actual	Status	Program	Program
Quantitative performance criteria										
1. Overall balance of the budgetary central government and CFDD (floor)1/	-4,005	-3,893	-3,655	Met	-241	-305	-184	Met	-2,301	-4,188
2. Accumulation of NFPS deposits at the central bank (*floor)* 1/	300	487	1,293	Met	-47	22	-55	Not Met	899	1,527
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	Met	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	Met	0	0
Indicative targets										
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor)* 1/	-5,467	-5,355	-4,072	Met	-572	-636	-90	Met	-3,368	-6,030
6. Overall balance of the NFPS (*floor)* 1/	-5,656	-5,544	-4,334	Met	-273	-337	842	Met	-513	-2,422
7. Change in the stock of NIR - program definition (*floor)* 1/	-4,228	-4,041	-2,357	Met	-579	-110	542	Met	38	717
8. Coverage of the cash transfer programs for lower income families - number of families (*floor)* 2/	226,000	226,000	271,668	Met	384,600	384,600	443,619	Met	453,700	514,000

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

1/ Cumulative change from January 1, 2021.

2/ Cumulative change from July 1, 2020.

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

Table 9b. Ecuador: Proposed Indicative Targets for 2022

(in millions if USD dollars, unless otherwise indicated)

	End-Apr. 2022	End-Aug. 2022
	IT	IT
Quantitative performance criteria		
1. Overall balance of the NFPS (floor)1/	713	1,117
2. Accumulation of NFPS deposits at the central bank (*floor)* 1/	678	1,135
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0
Indicative targets		
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor)*	-76	-991
6. Change in the stock of NIR - program definition (*floor)* 1/	432	693
7. Coverage of cash transfer programs for families in the bottom three income deciles - percent of families in each province *(floor)*	60.0	65.0
8. Coverage of cash transfer programs for families in the first income decile - percent of families in the first income decile *(floor)*	50.0	57.5
9. Coverage of cash transfer programs for families in the first income decile - number of families in the first income decile *(floor)* 2/	625,600	–

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

1/ Cumulative change from January 1, 2022.

2/ Cumulative change from July 1, 2020.

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

Review	Availability Date 2/	Action	SDR million	US$ million 3/	Percent of quota 1/	
					Disbursement	Cumulative
	September 30, 2020	Board approval of EFF	1420.0	2000.0	203.5	203.5
First Review	December 15, 2020	Observance of continuous and end-September 2020 performance criteria, completion of first review	1420.0	2000.0	203.5	407.1
Second Review	April 15, 2021	Observance of continuous and end-December 2020 performance criteria, completion of second review	284.0	400.0	40.7	447.8
Third Review	August 15, 2021	Observance of continuous and end-April 2021 performance criteria, completion of third review	284.0	400.0	40.7	488.5
Fourth Review	December 15, 2021	Observance of continuous and end-September 2021 performance criteria, completion of fourth review	497.0	700.0	71.2	559.7
Fifth Review	April 15, 2022	Observance of continuous and end-December 2021 performance criteria, completion of fifth review	213.0	300.0	30.5	590.2
Sixth Review	August 15, 2022	Observance of continuous and end-April 2022 performance criteria, completion of sixth review	213.0	300.0	30.5	620.8
Seventh Review	December 1, 2022	Observance of continuous and end-August 2022 performance criteria, completion of seventh review	284.0	400.0	40.7	661.5
Total			**4615.0**	**6500.0**	**661.5**	

Source: IMF staff estimates

1/ Ecuador's quota is SDR 697.7 million.

2/ The Executive Board completed the First Review on December 21, 2020

3/ Based on the program exchange rate.

Table 11. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs)				
Reform area	**Structural Conditionality**	**Objectives**	**Due date**	**Status**
Prior Actions				
Transparency and AML/CFT	Pursuant to the regulation issued by SERCOP in September 2020, make procurement contracts exceeding US$962,410 awarded since September 2020, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, available to the public in the procurement website, in a directly and freely accessible and user-friendly manner.	Strengthen anticorruption and AML/CFT and protect the public purse	Prior action	
Transparency	Consolidate COVID-19 audit work in a dedicated webpage within the Comptroller General Office website. The webpage will provide easy access to all the published independent audit reports of COVID-19-related spending with the corresponding links to the reports. The dedicated COVID-19 audit webpage should also inform the public of other COVID-19 related audit reports that cannot be published on the webpage at this moment due to confidentiality required by law arising from ongoing investigations and legal proceedings. The webpage should provide a summary of the findings of such reports based on information that can be disclosed.	Improve expenditure control, including COVID related spending, and governance	Prior action	
Cash management	Prepare and present to IMF staff a central government financial plan for the remaining of year 2021 approved by the Financial Committee. The financial plan will include the detailed monthly cash flow, the arrears as of July 2021 verified by MEF following the COPLAFIP definition by sector, 2021 clearance estimate and monthly accumulation data, a document with the potential risks associated to the financial plan, potential mitigating measures, and an explanation of the deviations of the 2021 Financial Plan delivered to IMF staff in December 2020.	Improve institutional capacity and identify early warning signs of impending liquidity constraints	Prior action	

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

Structural Benchmarks				
Fiscal framework	Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTFF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Strengthen the public financial management framework and fiscal discipline, and increase fiscal transparency	End-Nov. 2020	Implemented with delay
BCE	The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Improve the BCE's audit mechanisms	End-Nov. 2020	Met
Transparency and AML/CFT	Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs), and publishing additional information online, including itemized information on incomes, assets and liabilities, based on regulations adopted by the General Comptroller, at the request of the government.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2020	Partially implemented. Proposed new Structural benchmark to advance the reform
Cash Management	Deliver to IMF staff a PGE financial plan for the year 2021 approved by the Financial Committee.	Improve institutional capacity and identify early warning signs of impending liquidity constraints	Dec. 16, 2020	Met
Transparency and Governance	Enactment of the anticorruption legislation, approved by the National Assembly, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Strengthen anticorruption and protect public finances	End-Dec. 2020	Met

Table 11. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)				
Organic Monetary and Financial Code (COMYF) reform of the Central Bank framework	Enactment of amendments to the Central Bank's legal framework, elaborated in consultation with Fund staff as committed to under the 2019 EFF, in line with the substantive elements and constitutional process described in MEFP ¶16.	Strengthen the autonomy and governance framework of the BCE	End-Jan. 2021	Not met. Implemented with delay in April
Debt management	Publish a Medium-Term Debt Management Strategy (MTDS), prepared with the support of IMF TA, which assesses the cost and risk trade-offs of the different sources of public funding, and establishes a policy agenda.	Facilitate domestic debt market development, promote medium-term debt management, and increase transparency of public debt policies	End-Feb. 2021	Met
Domestic arrears	Share with IMF staff an updated arrears' clearance strategy with the updated information on the stock of arrears as of end 2020 based on quarterly flows for central government and selected relevant entities of the NFPS in line with IMF technical assistance recommendations.	Strengthen the monitoring and reduce accumulation of payment arrears	End-Apr. 2021	Not met. Converted to new benchmark
Fiscal Statistics	Correct and publish the historical NFPS data, both above- and below-the-line, back to 2012.	Improve quality of fiscal statistics	End-May 2021	Not met. Implemented with delay in August
Fiscal Statistics	Prepare a compilation guide, in consultation with IMF TA, and disseminate it to data providers across the NFPS through a workshop.	Improve quality of fiscal statistics	End-May 2021	Met
Transparency	Undertake an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publish the results on a government website.	Improve expenditure control, including COVID related spending, and governance	End-Jun. 2021	Not met. Reset as PA

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

Tax reform	Enactment of a tax reform, elaborated in consultation with Fund staff, aimed at generating revenue and improving the overall efficiency of the tax system.	Improve the efficiency of the tax system	End-Sep. 2021	New deadline of end-Oct. 2021
Transparency	Establish and start operating the National Control Subsystem (SNC) to fight corruption in procurement. The SNC will facilitate coordination amongst public entities with control competencies over the public procurement system, via the interoperability of their databases.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Oct. 2021	Newly proposed
Transparency	Pursuant to the regulation issued by SERCOP in September 2020, make all procurement contracts awarded since September 2020, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, available to the public in the procurement website, in a directly and freely accessible and user-friendly manner.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2021	Newly proposed
Transparency	SERCOP, in coordination with the Ministry of Economy and Finance and the National Secretary of Planning, will issue procurement guidelines for all sectors of government to increase reliance on catalog purchases, improve procurement processes, and enforce bulk and standardized purchases for the central administration. Enforcement will be phased in from the end of 2021 (Central Government, IESS) until the end of first quarter 2022 (subnational governments, SOEs).	Improve expenditure control	End-Nov. 2021	Newly proposed
SOE	Initiate independent audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas by agreeing on the terms of reference and timeline for completing the audits.	Strengthen SOEs	End-Nov. 2021	Newly proposed
Financial sector	Initiate independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks by selecting the third-party firm and agreeing on a terms of reference.	Improve fiscal transparency	End-Nov. 2021	Newly proposed

Table 11. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)				
Domestic arrears	MEF will publish a methodology to estimate the arrears' stock and the templates for reporting on arrears to be used by public sector entities.	Strengthen the monitoring and reduce accumulation of payment arrears	End-Nov. 2021	Newly proposed
Fiscal framework	Establish the National Fiscal Coordination Committee (NFCC) as set out in COPLAFIP	Strengthen the public financial management framework and fiscal discipline	End-Nov. 2021	Newly proposed
Social assistance	Complete the upgrade of the social registry and expand the coverage of the social assistance program to at least 80 percent of families in the bottom three deciles of the income distribution.	Strengthen the social safety net	Dec. 16, 2021	New deadline of mid-Apr. 2022
Transparency and AML/CFT	Enact legislation to strengthen the framework to prevent and manage conflicts of interest in the public sector, broadening the existing asset declaration system to include incomes and interests of high-level public officials and/or politically exposed persons (PEPs), and ensuring the online publication of this information on incomes and interests for high-level public officials and/or politically exposed persons (PEPs), in line with the UNCAC (articles 7 and 8) and international good practices.	Strengthen the framework of conflict of interest and illicit enrichment	End-Jan. 2022	New deadline of end-Aug. 2022
AML/CFT	Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with the FATF standards.	Strengthen anticorruption and AML/CFT	End-Mar. 2022	Newly proposed
SOE	Share with IMF staff the completed independent audits of the 2019 and 2020 individual financial statements of Petroecuador and Petroamazonas	Strengthen SOEs	End-Apr. 2022	Newly proposed
Financial sector	Share with IMF staff the completed independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks.	Improve fiscal transparency	End-June 2022	Newly proposed

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

Transparency and Governance	Share with IMF staff the results of the independent audits by the Office of the Comptroller General on tax expenditures of the largest 100 public procurement contracts awarded over 2020- 2021.	To fight against tax evasion, increase revenues, enforce the new tax code	End-Sep. 2022	Newly proposed
SOE	Share with IMF staff the completed independent audits of the 2020 financial statements of the merged entity Petroecuador and Petroamazonas (joint entity audits, to accommodate IFRS requirements)		End-Oct. 2022	Newly proposed
Social assistance	Expand the coverage of the social assistance program to no less than 70 percent coverage of the bottom three income deciles by province and no less than 65 percent of the first income decile nationwide.	Strengthen the social safety net	End-Dec. 2022	Newly proposed

Annex I. Debt Sustainability Analysis

Under the baseline projection, Ecuador's public debt remains sustainable with high probability, in line with the assessment at program approval and the First Review, owing to the successful debt restructuring operation and the envisaged fiscal consolidation. Debt is expected to decline gradually from its end-2020 peak of 61.2 percent of GDP to 49.6 percent of GDP by end-2026. At 52.8 percent of GDP in 2025 and 39.6 percent in 2030 under the baseline, debt would be in compliance with the COPLAFIP targets. Gross financing needs are also estimated to decline gradually from the 2020 peak over the next decade, reaching 5.6 percent of GDP in 2026 and 4.7 percent in 2030. The debt profile is vulnerable to a growth shock and to a contingent liability shock, but its trajectory is expected to be below the critical threshold by the end of the forecasting period.

1. **Definition and debt profile.** Public-sector debt includes the consolidated obligations of the non-financial public sector (central government and non-financial sector state-owned enterprises), as reported by the authorities, as well as liabilities under oil related financing, treasury certificates, central bank lending to the government, and other liabilities. Under this measure, public debt almost tripled between 2012 and 2019 (from 17.5 to 51.5 percent of GDP). Debt in 2020 reached 63 percent of GDP as a result of the collapse in economic activity, which lowered nominal GDP, and the subsequent borrowing required to finance the budget.

2. **Macroeconomic and Fiscal Assumptions.** Real growth in 2021 is projected at a 2.8 percent, while inflation (GDP deflator) is projected at 1.5 percent. Over the medium term, growth is forecasted to remain around 2.5–3 percent, in line with the economy potential, while inflation is expected to hover around 1.1 percent. The fiscal position is expected to improve gradually over the medium term and reach a primary surplus of 3 percent of GDP by 2026. This is conditional to a timely implementation of the measures envisioned under the program. On the financing side, the framework envisaged support from the IFIs of about $4.6 billion in 2021 and about $3.3 billion in 2022, while market access is expected to resume from 2022 with an annual access between $1 and $3 billion.

3. **Baseline Scenario.** The authorities are committed to implement policies that reduce the debt-to-GDP ratio, strengthen the fiscal position, and build buffers. In the baseline scenario, public debt is forecasted to decline from 61.2 percent at the end of 2020 to 49.6 percent of GDP at the end of 2026. The ratio at the end of 2025 is expected to be 52.8 percent of GDP, well below the level envisaged in the COPLAFYP law, which targets a ratio of 57 percent of GDP. Maintaining a small nonoil primary surplus on 0.4 percent of GDP beyond 2026 would keep debt on a declining trend to 39.6 percent of GDP by 2030, ahead of target. Public debt would therefore remain below the critical risk threshold of 70 percent of GDP in the forecasting period. Gross financing needs are also expected to decline significantly over the medium term and remain well below the critical threshold of 15 percent of GDP, declining from 12.7 percent of GDP in 2020 to 5.1 percent in 2026, and further to 4.7 in 2030.

4. **Stress Tests.** Despite a significant reduction of the level of debt and gross financing needs in the baseline scenario, the debt path is vulnerable to a growth shock, which brings

the debt-to-GDP ratio to 72 percent of GDP in 2023 before declining steadily and reaching 64.8 percent of GDP in 2026. A contingent liability shock, which increases expenditures by about $6.5 billion in 2022, brings the debt-to-GDP ratio to 72.8 percent of GDP before reaching 65.1 percent of GDP in 2026. The size of the shock is standard and equivalent to 10 percent of banking sector assets, which is more than covers the size of pending lawsuits and the contingent liabilities in public institutions. Despite falling below the built-in critical threshold of 70 percent of GDP by the end of the forecasting period, debt would breach the COPLAFIP targets. While this would still fall below the critical threshold of 70 percent of GDP, it would breach the COPLAFIP target of 57 percent of GDP. Under current assumptions, public debt does not appear vulnerable to a primary balance shock, a real interest sock or a REER shock, meaning that under these shocks the critical threshold of 70 percent of GDP is never crossed. Regarding gross financing, the critical threshold of 15 percent of GDP is not breached in any of the shocks considered.

5. Risks and Vulnerabilities. The public DSA risk assessment identifies the ratio of public debt held by non-residents as a high risk for Ecuador. While spreads have come down in recent months, they still reflect the fact that Ecuador went through a debt restructuring, albeit a market-friendly and successful operation, only recently. At about 73 percent of the total debt, non-residents' holding of Ecuador's public debt is high (and may be higher given that non-resident holdings of domestic debt are not available due to data limitations on secondary market transactions). However, this vulnerability is mitigated by the fact that about half of external debt is owed to official creditors, with long maturities and relatively low interest rates. Thanks to the 2020 debt restructuring operation, near-term external debt rollover risks are limited.

6. Debt Transparency. The authorities remain committed to debt transparency, including on the debt holder profile in line with new requirements under the Debt Limits Policy (DLP) (Table 1). The authorities have agreed to publication of all required elements on Debt Holder Profile. They are planning to request IMF technical assistance to further improve debt data.

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

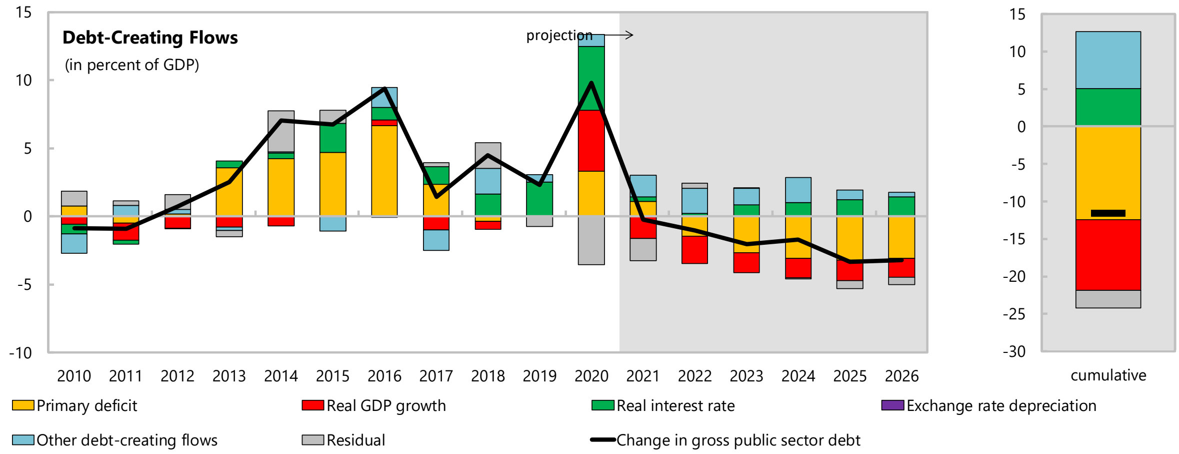
(in percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections							As of August 31, 2021		
	2010-2018 2/	2019	2020	2021	2022	2023	2024	2025	2026	2030	Sovereign Spreads		
Nominal gross public debt	30.0	51.4	61.2	61.0	59.9	57.9	56.2	52.8	49.6	39.6	EMBIG (bp) 3/		793
Public gross financing needs	9.6	9.9	12.7	7.0	4.3	4.0	3.6	5.1	5.6	4.7	5Y CDS (bp)		n.a
Net public debt	25.0	44.0	52.2	50.9	48.5	45.6	42.5	39.5	36.9				
Real GDP growth (in percent)	3.1	0.0	-7.8	2.8	3.5	2.5	2.6	2.8	2.8	2.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.0	0.5	-3.3	1.5	1.9	1.1	1.1	1.1	1.1	1.1	Moody's	Caa3	Caa3
Nominal GDP growth (in percent)	6.3	0.5	-8.6	5.7	5.3	3.7	3.9	4.0	4.0	4.0	S&Ps	B-	B-
Effective interest rate (in percent) 4/	5.0	5.5	5.0	2.1	2.4	2.6	2.9	3.4	4.0	5.4	Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections								
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	cumulative 2021-26	debt-stabilizing primary balance 9/
Change in gross public sector debt	3.4	2.3	9.8	-0.2	-1.0	-2.0	-1.7	-3.3	-3.2	-3.0	-11.6	
Identified debt-creating flows	2.5	3.1	13.3	1.4	-1.4	-2.1	-1.6	-2.8	-2.7	-3.1	-9.2	
Primary deficit	2.4	0.0	3.3	1.1	-1.4	-2.7	-3.1	-3.2	-3.1	-3.0	-12.4	0.4
Primary (noninterest) revenue and grants	35.7	33.7	29.8	33.2	33.8	33.8	33.3	32.8	32.5	32.3	199.4	
Primary (noninterest) expenditure	38.1	33.7	33.1	34.3	32.4	31.1	30.2	29.6	29.4	29.3	187.0	
Automatic debt dynamics 5/	0.1	2.5	9.1	-1.3	-1.8	-0.6	-0.4	-0.3	0.0	0.6	-4.4	
Interest rate/growth differential 6/	0.1	2.5	9.1	-1.3	-1.8	-0.6	-0.4	-0.3	0.0	0.6	-4.4	
Of which: real interest rate	0.6	2.5	4.7	0.3	0.2	0.8	1.0	1.2	1.4	1.8	5.1	
Of which: real GDP growth	-0.6	0.0	4.5	-1.6	-2.0	-1.5	-1.4	-1.5	-1.4	-1.1	-9.5	
Exchange rate depreciation 7/	0.0	0.0	0.0	…	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.6	0.9	1.6	1.9	1.2	1.8	0.7	0.3	-0.8	7.6	
Deposits drawdown and privatization receipts (negative sign)	0.0	0.6	0.9	1.6	1.9	1.2	1.8	0.2	-0.2	-0.8	6.6	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	0.9	-0.7	-3.6	-1.6	0.4	0.0	-0.1	-0.6	-0.5	0.1	-2.3	



Source: IMF staff calculations.

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

2/ Based on available data.

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

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

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

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

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

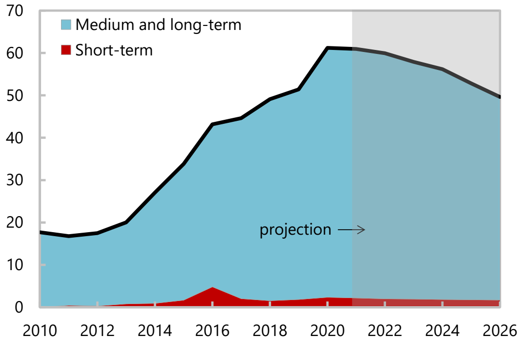
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. It also includes the issuance of domestic debt for the asset swap operation with the central bank.

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

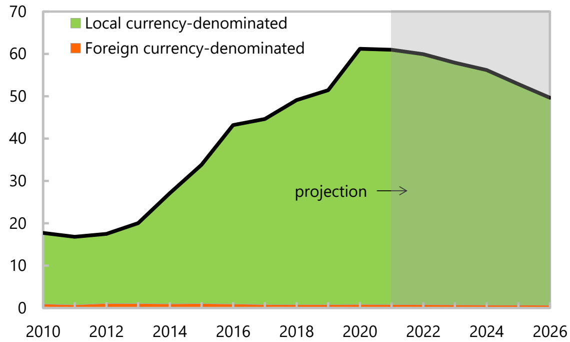
Figure 2. Ecuador: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



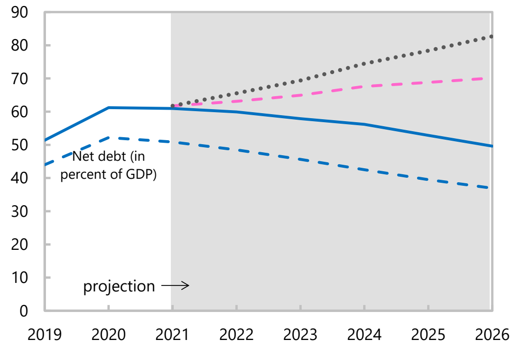
By Currency
(in percent of GDP)



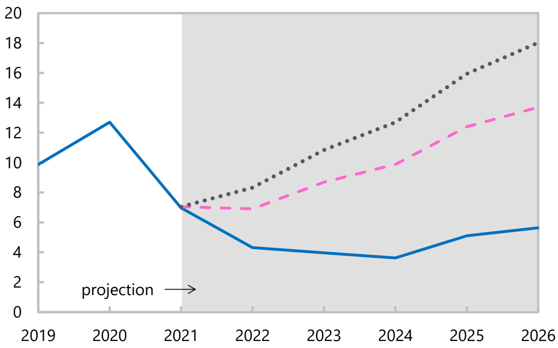
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



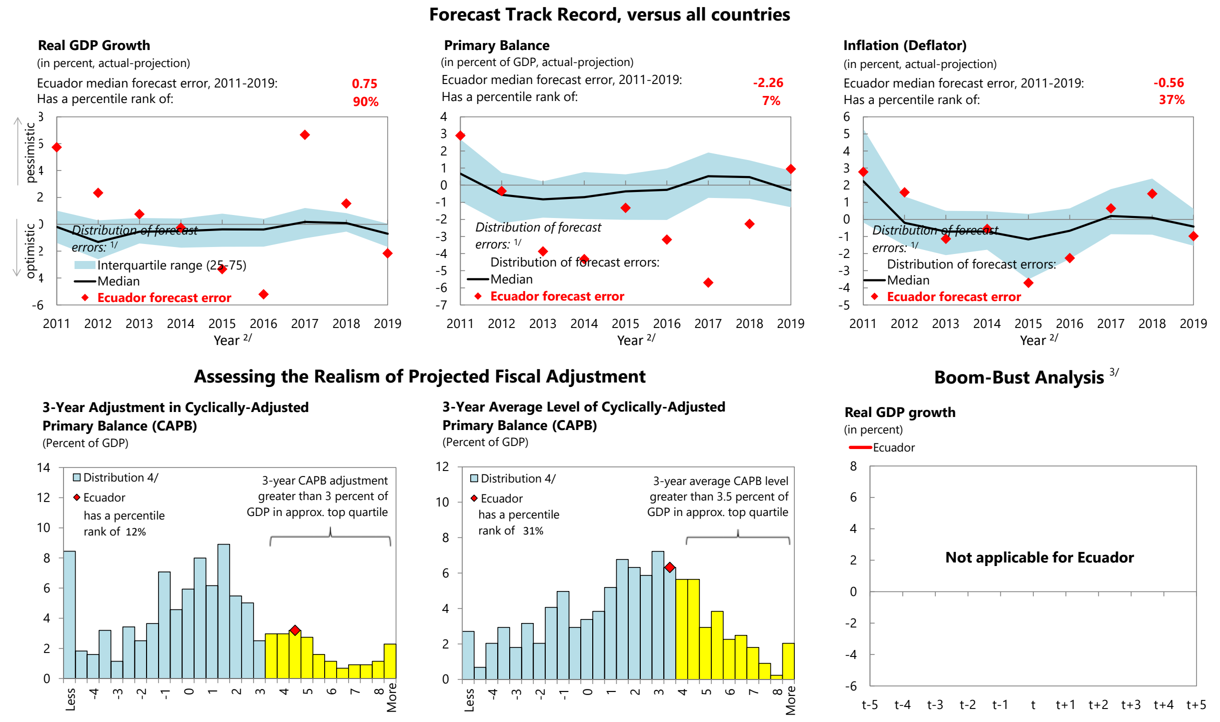
Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	3.5	2.5	2.6	2.8	2.8
Inflation	1.5	1.9	1.1	1.1	1.1	1.1
Primary Balance	-1.1	1.4	2.7	3.1	3.2	3.1
Effective interest rate	2.1	2.4	2.6	2.9	3.4	4.0
Constant Primary Balance Scenario						
Real GDP growth	2.8	3.5	2.5	2.6	2.8	2.8
Inflation	1.5	1.9	1.1	1.1	1.1	1.1
Primary Balance	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	2.1	2.4	2.6	3.1	3.8	4.5

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	1.7	1.7	1.7	1.7	1.7
Inflation	1.5	1.9	1.1	1.1	1.1	1.1
Primary Balance	-1.1	-2.4	-2.4	-2.4	-2.4	-2.4
Effective interest rate	2.1	2.4	3.0	3.8	4.6	5.6

Source: IMF staff calculations.

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



Source : IMF Staff calculations.

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

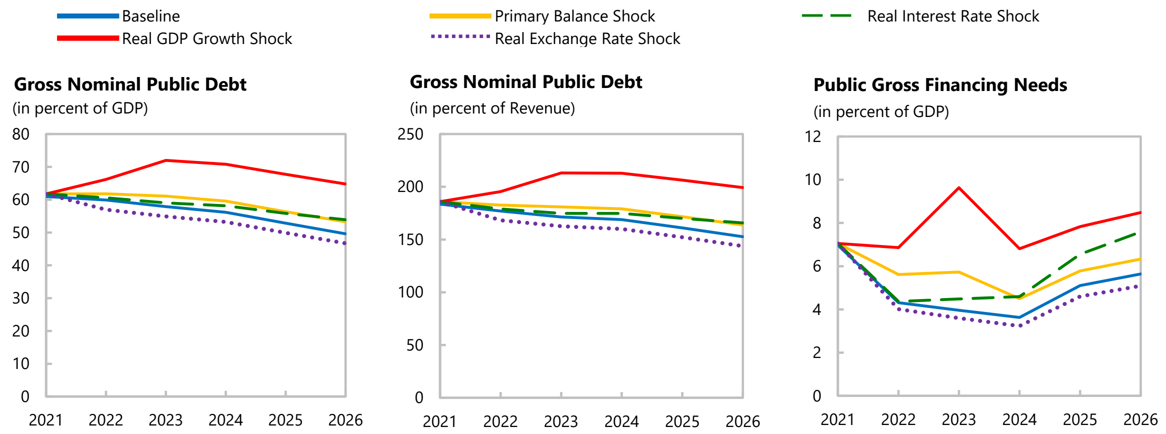
2/ Projections made in the spring WEO vintage of the preceding year.

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

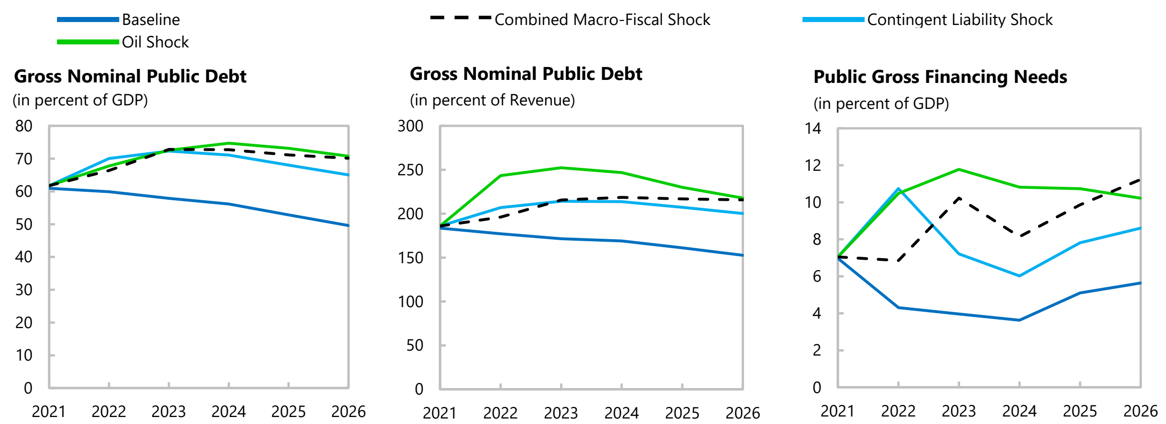
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Ecuador: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	3.5	2.5	2.6	2.8	2.8
Inflation	1.5	1.9	1.1	1.1	1.1	1.1
Primary balance	-1.1	0.2	1.4	3.1	3.2	3.1
Effective interest rate	2.1	2.4	2.6	3.1	3.6	4.1
Real Interest Rate Shock						
Real GDP growth	2.8	3.5	2.5	2.6	2.8	2.8
Inflation	1.5	1.9	1.1	1.1	1.1	1.1
Primary balance	-1.1	1.4	2.7	3.1	3.2	3.1
Effective interest rate	2.1	2.4	3.3	4.2	5.2	6.3
Combined Shock						
Real GDP growth	2.8	-0.9	-1.9	2.6	2.8	2.8
Inflation	1.5	0.8	0.0	1.1	1.1	1.1
Primary balance	-1.1	-0.7	-1.3	3.1	3.2	3.1
Effective interest rate	2.1	2.4	3.6	4.9	6.0	7.1

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.8	-0.9	-1.9	2.6	2.8	2.8
Inflation	1.5	0.8	0.0	1.1	1.1	1.1
Primary balance	-1.1	-0.7	-1.3	3.1	3.2	3.1
Effective interest rate	2.1	2.4	2.7	3.3	3.8	4.4
Real Exchange Rate Shock						
Real GDP growth	2.8	3.5	2.5	2.6	2.8	2.8
Inflation	1.5	8.6	1.1	1.1	1.1	1.1
Primary balance	-1.1	1.4	2.7	3.1	3.2	3.1
Effective interest rate	2.1	2.4	2.6	2.9	3.4	3.9
Oil Shock						
Real GDP growth	2.8	1.5	0.5	2.6	2.8	2.8
Inflation	1.5	1.9	1.1	1.1	1.1	1.1
Primary balance	-1.1	-4.6	-2.3	0.1	2.2	3.1
Effective interest rate	2.1	2.4	3.3	4.0	4.6	5.1

Source: IMF staff calculations.

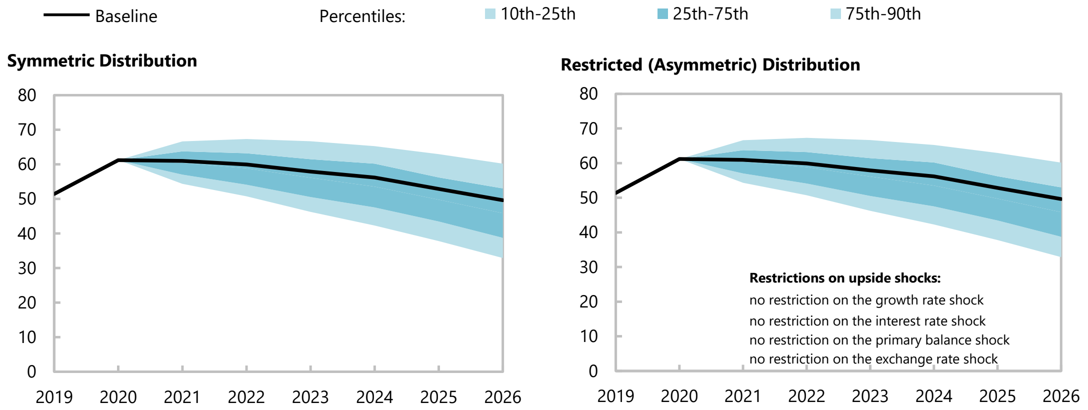
Figure 5. Ecuador: Public DSA Risk Assessment

Heat Map

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

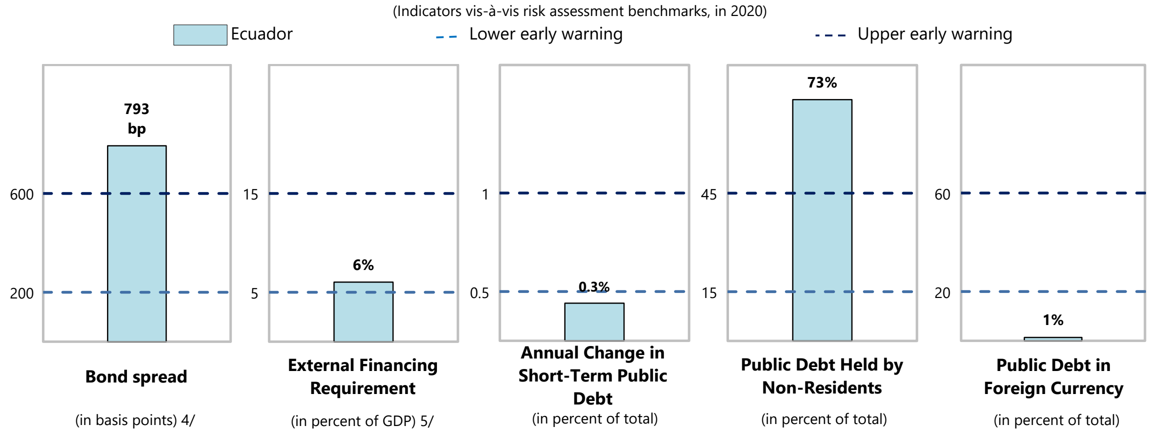
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff calculations.

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

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

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

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

4/ Long-term bond spread over U.S. bonds, an average over the last month, 01-Aug-21 through 31-Aug-21.

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

Table 1. Ecuador: Decomposition of Public Debt and Debt Service by Creditor 2020-22 [1]

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$ Mil)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	**60,458**	**100.0**	**61.2**	4,013	2,651	2,885	4.1	2.5	2.6
External	**44,420**	**73.5**	**45.0**	3,479	1,851	2,417	3.5	1.8	2.2
Multilateral creditors[2]	18,772	31.0	19.0	817	781	786	0.8	0.7	0.7
IMF	6,224	10.3	6.3						
World Bank	2,476	4.1	2.5						
ADB/AfDB/IADB	5,911	9.8	6.0						
Other Multilaterals	4,161	6.9	4.2						
Development Bank of Latin America	3,999	6.6	4.0						
Other	163	0.3	0.2						
Bilateral Creditors	5,795	9.6	5.9	785	483	1,278	0.8	0.5	1.2
Paris Club	10	0.0	0.0	10	8	1	0.0	0.0	0.0
Italy (SACE)	2	0.0	0.0						
United States (USAID)	1	0.0	0.0						
Israel (Ministry of Finance)	1	0.0	0.0						
Other	5	0.0	0.0						
Non-Paris Club	5,785	9.6	5.9	775	474	1,278	0.8	0.5	1.2
China (EXIMBANK)	2,439	4.0	2.5						
China (China Development Bank)	2,162	3.6	2.2						
Other	1,184	2.0	1.2						
Bonds	17,889	29.6	18.1	477	204	58	0.5	0.2	0.1
Commercial creditors	1,965	3.2	2.0	1,399	384	295	1.4	0.4	0.3
Schlumberger	574	0.9	0.6						
Bank of China	489	0.8	0.5						
European Investment Bank	458	0.8	0.5						
Other	444	0.7	0.4						
Domestic	**16,038**	**26.5**	**16.2**	534	800	469	0.5	0.8	0.4
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
T-Bills	4,871	8.1	4.9	0.00	0.00	0.00	0	0	0
Bonds	2,320	3.8	2.3	534	800	469	0.5	0.8	0.4
Other liabilities	8,847	14.6	9.0	0	0	0	0	0	0
Memo items:									
Collateralized debt[3]	0	0.0	0.0						
Contingent liabilities	3,607	6.0	3.7						
o/w: Public guarantees	2,347	3.9	2.4						
o/w: Other explicit contingent liabilities[4]	1,259	2.1	1.3						
Nominal GDP	98,808			98,808	104,483	109,975			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Annex II. External Sector Assessment

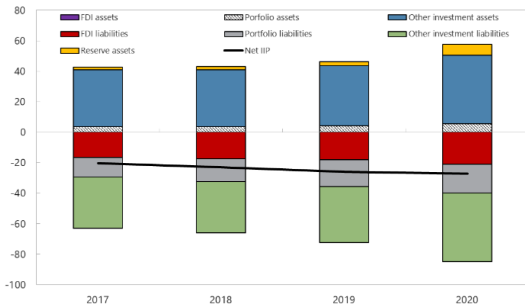
Overall Assessment: *The external position of Ecuador in 2020 was moderately weaker than the level implied by fundamentals and desirable policies, an improvement from 2019 ESA when the external position was assessed as weaker than fundamentals and desirable policies. The assessment is driven by the significant improvement in the current account (CA), owing to sharp import compression amid lockdown, strong performance in non-oil exports, and buoyant remittances. Nevertheless, considerable bottlenecks to structural competitiveness remain.*

Potential Policy Responses: *Continued fiscal adjustment efforts to restore sustainability while supporting the recovery as envisaged under the program, reduction in labor market rigidities, and other structural reforms would help further strengthen the external position. Greater diversification of the export base would also support external sector sustainability.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The Net International investment position (NIIP) deteriorated slightly from -26.0 percent of GDP in 2019 to -27.2 percent of GDP in 2020, according to official statistics. Over the last five years, increases in debt liabilities (likely driven by government borrowing, although a sectoral breakdown is not available) have been mostly offset by an accumulation of foreign assets by the private sector and, more recently, increases in reserve assets.

Ecuador: IIP Composition
(In percent of GDP)



Sources: Central Bank of Ecuador and IMF staff calculations.

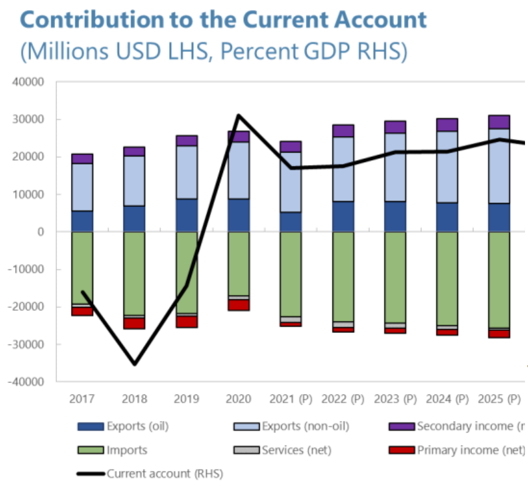
Assessment. Continued fiscal consolidation and reserve accumulation are expected to strengthen the NIIP. Most external debt is held by the public sector, of which the largest shares are from official creditors and Eurobond holders, with long maturities (see Annex 1. DSA). Further improvements to the quality and coverage of IIP data would be important for better understanding risks.

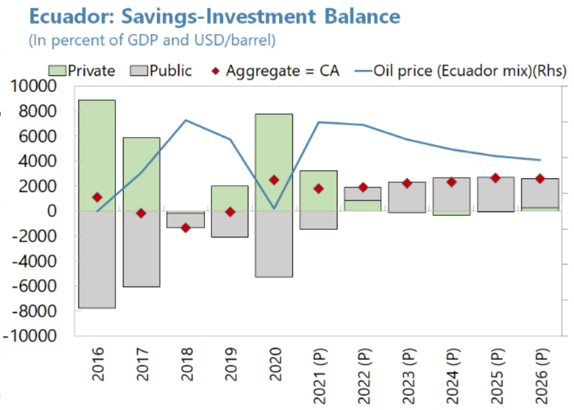
2020 (% GDP)	NIIP: -25.6	Gross Assets: 57.6	Debt Assets: 50.2	Gross Liab.: 84.7	Debt Liab.: 67.5

Current Account

Background. Despite the impact of the Covid-19 shock, the CA improved to a surplus of 2.5 percent of GDP in 2020, from a modest deficit of -0.1 percent of GDP in 2019 and an average of -0.5 percent of GDP over 2015-19. Although oil exports experienced a significant decline (40 percent yoy), this was offset by significant import compression (21 percent yoy decline), and an 8 percent yoy increase in non-oil exports (driven by bananas, shrimp, and mining). The current account is expected to narrow to 1.7 percent of GDP in 2021 as imports continue to rise with the recovering economy, and would strengthen thereafter, as non-oil exports continue to grow. Fiscal adjustment over the medium term would shift the public savings and investment balance from negative to positive (chart).

Assessment. The EBA current account (CA) model estimates a current account norm of 0.7 percent of GDP. The adjustment for cyclical factors as well as a COVID-19-related adjustment to the oil balance, tourism, and remittances, take the CA balance to 3.7 percent of GDP (from the non-adjusted balance of 2.5 percent of GDP). This leads to a positive current account gap of 2.9 percent of GDP, including a policy gap of 0.7 percent of GDP driven by Ecuador's fiscal balance and capital control deviations from desirable policies being smaller compared with other EBA-Lite countries (in particular, relatively larger fiscal expansions in the model's global comparator countries). Notwithstanding the cyclical and COVID-19-related adjustments, the results are affected by the relatively strong CA, which is expected to be temporary.





Sources: Central Bank of Ecuador and IMF staff calculations.

As Ecuador is a commodity-exporting country, the CA norm using the EBA Lite consumption model was also estimated. This model relies on a longer-term view for the assessment, and factor in both commodity price volatility and intergenerational equity considerations in the context of exhaustible natural resources. The model suggests a medium-term current account norm of 3.6 percent of GDP, which would imply a current account gap of -1.0 percent of GDP.[1] Consistent with previous ESAs, the bottom-line assessment relies on the consumption-based module results given the importance of commodity exports resulting in an assessment that the external position is "moderately weaker" than implied by fundamentals. This is also consistent with developments in the economy since 2019. The depreciation in the REER during the second half of 2020 and ongoing policy efforts indicates some improvement in price competitiveness, but continued weaknesses in structural competitiveness suggests the exchange rate remains overvalued.

Ecuador: Model Estimates for 2020 (in percent of GDP)			
	CA model	**REER model**	**Consumption Module**
CA-Actual	**2.5**		**2.5**
Cyclical contributions (from model) (-)	0.05		0.05
COVID-19 adjustor (+) 1/	1.2		0.16
Natural disasters and conflicts (-)	-0.02		
Adjusted CA	**3.7**		**2.6**
CA Norm (from model) 2/	**0.7**		**3.6**
CA Gap	**2.9**	**-1.4**	**-1.0**
o/w Relative policy gap 3/	0.7		
Elasticity	-0.12	-0.12	-0.12
REER Gap (in percent)	**-25.0**	**12.0**	**8.7**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balance (1.0 percent of GDP), tourism (0.2 percent of GDP), and remittances (-0.1 percent GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments. Ecuador uses 2025 as reference year for consumption based module CA norm.

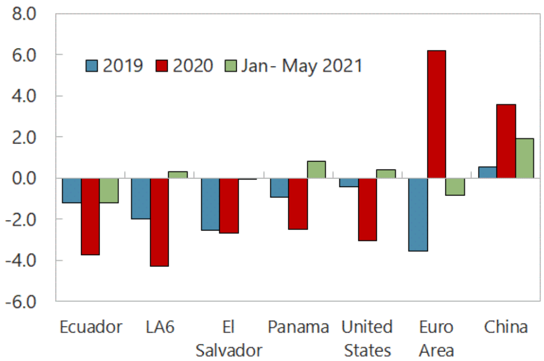
3/ Based on desirable policies consistent with program objectives, including: cyclically-adjusted fiscal balance of 2.0 percent of GDP; public health expenditure of 4.3 percent of GDP; annual change in reserves of 1.0 percent of GDP; a private credit level of 43 percent of GDP, and the capital control index set at Ecuador's actual value.

Real Exchange Rate

Background. The REER was flat in 2020 on average relative to 2019, appreciating in the first half of the year and depreciating in the second part of the year, following movements of the USD. By end-2020, the REER had depreciated 3.8 percent y/y, further reflecting movements in the USD and the downward trend in inflation. It has continued to depreciate (by 1.2 percent in Jan-May 2021). This depreciation was slightly larger than the REER depreciation in other dollarized economies (e.g., El Salvador and Panama).

Real Effective Exchange Rate

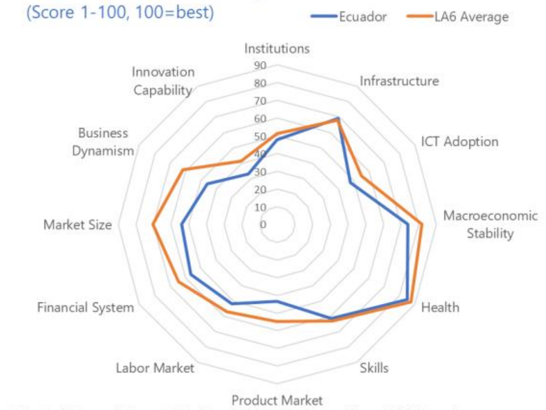
(Percentage change; increase = appreciation)



Sources: INS and IMF staff calculations.

WEF Competitiveness Index, 2019[1]

(Score 1-100, 100=best)



1/The World Economic Forum's Global Competitiveness Index combines official data and survey responses from business executives on several dimensions of competitiveness.

Although relatively lower inflation compared with trading partners has helped Ecuador regain competitiveness, it still lags peers in key areas. Both average and minimum wages have outpaced productivity growth and the minimum wage remains high relative to peers (***SIP #2***). Ecuador also experiences weaknesses in structural competitiveness. Labor and product market rigidities and high borrowing costs as key challenges to doing business. Ecuador also scores lower than peers in survey-based competitiveness indicators like the World Economic Forum's Global Competitiveness

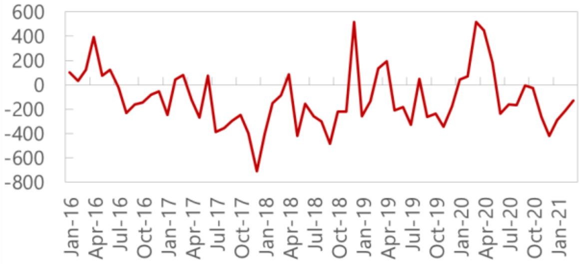
Index, scoring an average of 55.7 across indicators compared with an average of 63.0 for LA6 countries. Ecuador scored particularly low in the areas of product market and innovation capability and behind LA6 countries in most dimensions.

Assessment. Using export and import elasticities that have been calibrated to account for specific features of the Ecuadorian economy including its status as an oil exporter,[2] the CA model implies a REER undervaluation of 25 percent, while the EBA REER model suggests an overvaluation of 12 percent. The consumption model result of 9 percent overvaluation that serves as the basis for the bottom-line assessment for 2020. This compares with an overall assessment of an overvaluation of 30 percent in the 2019 ESA.

Capital and Financial Accounts: Flows and Policy Measures

Background. Despite the pandemic, FDI rose slightly from 0.9 percent of GDP in 2019 to 1 percent of GDP in 2020, driven by investment in the mining sector. Net public sector inflows narrowed from 4 Percent of GDP in 2019 to 0.5 percent in 2020, reflecting lower disbursements from bilateral and multilateral creditors (other than the IMF), although debt service payments were lower. Other private sector flows registered a modest increase in outflows (5.8 percent of GDP in 2019 to 6.2 percent of GDP in 2020), although this data is subject to some limitations.[3] BIS data based on international banks' reporting of liabilities with Ecuadorian counterparties suggests modest outflows as loans and deposits held abroad by Ecuadorian banks increased by 5 percent to $6.7 billion. BCE data on net private bank flows also showed average monthly net outflows in 2020 of $100 million, compared with average monthly net outflows of $146 million in 2019.

Ecuador: Net Private Inflows
(US$ millions)



Source: Central Bank of Ecuador.

Assessment. External financing needs fell significantly in 2020 and are expected to narrow further in 2021-22 owing to the strong CA and relatively lower public debt service, aided by the 2020 debt restructuring. Over the medium-term, continued reform efforts should help build investor confidence and attract private sector flows. Ecuador continues to maintain a tax on transfers abroad (*Impuesto a la Salida de Divisas, or ISD*), which constitutes a capital flow measure (CFM) under the Fund's Institutional View on Liberalization and Management of Capital Flows and an exchange restriction subject to Fund approval under Article VIII Section 2(a) (¶49).

FX Intervention and Reserves Level

Background. Ecuador is a fully dollarized economy and does not have its own currency. The strong current account, together with the IMF disbursements, supported gross international reserves (GIR), which rose by around $4.2 billion to $7.1 billion at end-2020. Reserves declined by $1.4 billion in the first half of 2021, reflecting debt repayment and the gradual recovery in imports as the Fund disbursement was utilized (¶9).

Assessment. Despite the significant improvement over the past year, international reserves remain below levels adequate for prudential purposes and to support dollarization. While end-2020 GIR were above the traditional 3-months of imports metric at 4.3 months of imports, they were below the 20 percent of broad money metric at 11.1 percent and only 36 percent of the Fund's risk-weighted ARA metric.[4] Continued efforts to build reserves, including through higher government deposits, along with higher private inflows as the economy strengthens and investor confidence improves will strengthen the reserve position. An SDR allocation of US$940 million (equivalent to 12 percent of the 2020 AR metric for Ecuador) could improve reserve adequacy metrics.

[1] Key assumptions in the consumption-based model include total oil reserves of 8.3 billion barrels (in line with proven reserves); flat oil production and price growth beyond the medium-term; population growth of 1.4 percent per annum. It includes also projected net investment income from direct and portfolio investment (but excludes other investment due to IIP data limitations).

[2] A Method for Calculating Export Supply and Import Demand Elasticities" by S. Tokarick (2010) (IMF/WP/180).

[3] Other private sector flows include "other investment" category is a residual under the BCEs compilation methodology and amounts are influenced by discrepancies in other BOP flows and the change in reserve assets.

[4] However traditional reserves metrics are not directly comparable between fully dollarized economies and other economies. In fact, fully dollarized economies do not face the risk of exchange rate fluctuations and currency mismatches. They however may need a buffer for government financing and extra liquidity buffers to support domestic financial institutions when needed. The latter need is covered separately under the Liquidity Fund (LF) in Ecuador—the authorities indeed taped into the LF to support liquidity in the financial system to the tune of $950 million in the aftermath of COVID-19, by lowering the contribution of financial institutions to the Fund by 3 ppts to 2 percent; it has an outstanding balance of about $2 billion.

Annex III. Status of Implementation of 2019 Article IV Consultation Recommendations

	Main Staff Recommendations during the 2019 Article IV Consultation	Key Actions Undertaken by the Authorities Since the 2019 Article IV Consultation
Fiscal policy	Reverse the upward trend in public debt and bring it to more prudent levels in the medium term, including by reducing fiscal deficits	The non-oil primary deficit (including fuel subsidies) of the non-financial public sector (NOPBS) tightened by 0.7 ppts of GDP in 2019. The fiscal effort continued in 2020, with the government taking fiscal consolidation measures in the midst of the COVID-19 pandemic—the NOPBS deteriorated by only 0.1 ppt of GDP despite high pandemic-related spending and the pressure on non-oil tax revenues caused by the collapse in economic activity.
	Adopt an equitable, broad-based, and growth-friendly tax reform to address inefficiencies in the tax system	The authorities adopted a less ambitious tax reform with estimated yields of ½ ppt of GDP at end-2019 (short of the envisaged 1½–2 ppts of GDP)
	Realign the public sector wage bill, optimize the system of fuel subsidies, and reduce public spending on capital and goods and services as part of the expenditure reform.	The authorities curtailed primary spending (by 1.5 ppts of GDP at the NFPS level in 2019), including cuts in public employment and capital expenditure. Ecuador also implemented a homegrown fuel subsidy reform to gradually align domestic fuel prices with international levels and channel the associated fiscal savings to social assistance and critical public outlays.
Public Financial Management (PFM) and fiscal transparency	Strengthen the medium-term fiscal policy framework and adopt better PFM practices to enhance the effectiveness of fiscal policy	Ecuador amended its Organic Code of Public Finances and Planning (COPLAFIP) in July 2020, and is on track to implementing associated regulations, including the development of a Medium-Term Fiscal Framework (MTFF), adoption and enforcement of budget ceilings and instauration of disclosure, quantification and management of fiscal risks
	Bring transparency in public debt statistics, align its reporting to international best practices, and revising historical data	A Medium-term Debt Management Strategy (MTDS) was prepared and published, with planned frequent updates. The MEF also revised and published in June 2021 historical fiscal statistics for the consolidated NFPS and its sub-sectors
Social protection	Expand eligibility for social assistance, improve targeting, and increase the generosity of social assistance programs.	The coverage of social assistance programs was significantly expanded to include more than 457,000 additional low-income families among beneficiaries between January 2020 and July 2021; targeting was

		also improved by removing about 80,000 higher-income families among beneficiaries
Monetary and financial sector policies	Strengthen the governance framework of the central bank to fortify the foundations of dollarization	Ecuador amended its Organic Monetary and Financial Code (COMYF) on May 3, 2021 to strengthen the central bank balance sheet and ensure its technical autonomy. These amendments, *inter alia,* permanently prohibit government financing by the central bank
	Further strengthen oversight for banks and cooperatives to build up crisis-preparedness and contingency-planning capabilities.	The stress-testing capabilities of oversight authorities was improved, building on Fund TA
	Remove impediments to effective financial intermediation	The number of interest rate caps was reduced from 23 to 13, and the BCE is revising the mechanism for setting interest rate caps to better reflect market conditions
Transparency, governance, and anti-corruption	Improve transparency and good governance to public sector operations while strengthening the fight against corruption and the AML/CFT framework	The anti-corruption framework (COIP) was amended in December 2020 to criminalize corruption. Regulations to request and publish information on beneficial ownership (BO) in procurement contracts was adopted in September 2020; contracts are being published with BO information where available. Asset declarations of high-level officials, including itemized assets and liabilities are published. COVID-related spending audits have been conducted and are published where legally feasible.
Other structural policies	Reduce labor market rigidities and improve competitiveness	The government adopted a series of labor market flexibilization measures under la "*Ley Humanitaria*" in the wake of the COVID-19 pandemic.

Annex IV. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Conjunctural shocks and scenario			
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries. Outbreaks in slow-to-vaccinate countries force new lockdowns. The policy response may be constrained by a lack of policy space.	High	**High** Uncontrolled local outbreak could lead to massive local disruptions and jeopardize the expected economic recovery.	Re-instate containment measures if a severe third wave of infections occur. Prioritize social and health-related spending and continue supporting the population, along with clearly anchored policies when the pandemic subsides.
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	**High** The materialization of this downside risk could further depress recovery through trade, and foreign direct investment (FDI). This would widen BOP and fiscal financing gaps	Continue prioritize social and health-related spending, including vaccines. Seek additional donor funding to support the economy and vaccination. Strengthen (financial) crisis preparedness and management.
Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	Medium	**Medium** This represents an *upside risk* and would improve fiscal and external balances and help reduce BOP and fiscal financing gaps faster.	Save part of the oil proceeds towards policy buffers, including to ensure inter-generational equity. Roll-back crisis-related accommodative policy measures and stick to the planned fiscal consolidation to restore confidence (implementing identified fiscal contingency measures if needed) and promote private sector-led growth.
Lack of social consensus around the reform program and policy reversal	Medium	**High** This would raise concerns among the public and the international community. A drop in market confidence could delay market re-access and financing from other	Continue engaging the broader public, explaining the benefits of the reform program, including the opportunity for a reset post-COVID-19 and the policy-tradeoffs that the dollarization regime entails.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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 scenario 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.

		sources, which in turn could require abrupt adjustments.	
Structural risks			
Intensified geopolitical tensions and security risks. Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.	High	Medium In the case of Ecuador, geopolitical tensions that reduce oil prices further could have significant fiscal, growth, and BOP ramifications. The shock from migration from Venezuela could also intensify fiscal pressures and have a negative impact on growth in the short term though a positive impact on growth would be expected in the longer term.	Adopt policies that improve the perception of Ecuador, including by removing trade barriers and limiting policy uncertainty through clearly articulated medium-term policy frameworks to limit discretion. In the event tensions reduce oil prices, implement identified fiscal contingency measures.
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	Medium	High Ecuador is prone to many natural disasters.	Implement policies to invest to protect critical financial, transport, communication or energy infrastructure. Build precautionary savings buffers.

Appendix I. Letter of Intent

Quito, September 16, 2021

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

Dear Ms. Georgieva:

1. With the landmark victory of Guillermo Lasso at the Presidential elections in April this year, our newly elected government took office on May 24, 2021, with the objectives of ensuring environmentally-friendly growth with high quality jobs, promoting a transparent management of public resources, and ensuring equity in the conduct of fiscally sustainable policies. The transition between administrations has been very smooth and well-coordinated. We thank the IMF for its support to the Republic of Ecuador during the most severe crisis in our recent history. Our economic objectives include the need for sustainable growth, labor market recovery and strengthened public finances. In this new political context, we consider Ecuador will benefit from a continued financial and technical support from the international community, so we request a continuation of the ongoing Fund-supported Extended Fund Facility (EFF) arrangement approved by the IMF Executive Board on September 30, 2020.

2. Since taking office, we have made great strides in vaccinating our population, yet the COVID- 19 pandemic continues to take a toll on our economy. GDP contracted 7.8 percent in 2020 (year-on- year) but is showing only initial signs of recovery so far this year, while the labor market remains weak. In addition, downside risks from uncertainties surrounding the duration of the pandemic and the global economy remain high. Our spending needs have increased this year, owing to the need to support the economic recovery and make vaccines as widely available as possible to our citizens. At the same time, we remain committed to continuing restoring fiscal sustainability.

3. Since the First Review under the EFF was concluded in December 2020, important progress has been made. On the economic front, all quantitative performance criteria (QPC) for end- December 2020, and all but one for end-April 2021, as well as all Indicative Targets (IT) have been met. We are requesting a waiver of nonobservance of the performance criterion on accumulation of NFPS deposits at the Central Bank. While the macroeconomic impact of the breach is minor, it highlights the need for better cash management, which we plan to do with the preparation and presentation of a central government financial plan for the remaining of year 2021 approved by the Financial Committee. The financial plan will include the detailed monthly cash flow, the arrears as of July 2021 verified by MEF following the COPLAFIP definition by sector, 2021 clearance estimate and monthly accumulation data, a document with the potential risks associated to the financial plan, potential mitigating measures, and an explanation of the deviations of the 2021 Financial Plan delivered to IMF staff in December 2020.

4. A major achievement on the structural front has been the enactment of the Law in Defense of Dollarization. These amendments to the central bank legal framework within the

Organic Monetary and Financial Code (COMYF), enacted in April, were comprehensive revisions that strengthened the basis for dollarization and the autonomy of the Central Bank of Ecuador. In addition, a Government Financial Statistics (GFS) compilation guide has been finalized and disseminated by end-May. The revised historical revenues and expenditures statistics for each of the sectors of the Nonfinancial Public Sector (NFPS) have been published. We also made good progress in several other areas, including on developing a medium-term debt strategy and assessing arrears. We will continue with the progress in these areas that started under the former administration.

5. We request that the Fund complete the second and the third reviews of the extended arrangement under the IMF's Extended Fund Facility and make the associated disbursement of SDR 568 million (about US$800 million) available for budget support. The disbursement would continue to support our efforts to contain the pandemic, make vaccines as widely available as possible, increase the coverage of targeted cash transfers to vulnerable households, and support economic recovery. In addition, we are facing large one-off expenses since we took office, some related to the vaccination process and other related to past contingencies (such as past dues to ISSFA and local governments). The Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) attached to this Letter of Intent present the specific policies our government intends to implement.

6. Our main goal is to ensure an environmentally friendly growth with high quality jobs, promote a transparent management of public resources, and ensure equity in the conduct of fiscally sustainable policies. It is imperative to fix our public finances to ensure a high and sustained growth that will create quality jobs. In this regard, we will undertake an important tax reform focused on equity and sustainable growth. Those who earn the most should be contributing more. The current personal income tax system lacks progressivity and allows large deductions across the income scale. We will therefore ensure deductions and the personal income tax brackets are reformed to ensure greater progressivity. In addition, we will aim at increasing the tax base and fighting tax evasion by nudging Ecuadorians with income and assets abroad to declare those to our Internal Revenue Service (SRI). To ensure more equitable policies, we will also balance the needed fiscal consolidation by prioritizing expenditures. Ecuador’s public sector has among the highest cost of labor and capital expenditure in the region without delivering the highest quality of services for our citizens. We have already identified concrete actions to improve efficiency in public procurement and generate fiscal savings to support fiscal consolidation. We will also undertake an expenditure review to evaluate further gains while protecting crucial spending on health and education. Finally, with the help of the Fund, we are dedicated to continuing improving our public financial management (PFM) framework. This will allow a better and more transparent management of public finances.

7. Our government is dedicated to spur a private sector-led economic recovery that will create quality jobs. We will bring more Ecuador to the world, and more world into Ecuador, by entering into trade agreements and reforming keys areas to enhance competitiveness of the Ecuadorian economy. We already started lowering tariffs for capital and intermediate goods in key productive sectors, and plan to reform our public private partnership (PPP) framework, our capital and labor markets, and business environment in general, including state owned enterprises (SOEs), to attract foreign direct investments. We aim to enhance the transparency of foreign investments to level the playing field and increase accountability. In addition, we are taking steps to strengthen our Central Bank, by clearing its balance sheet of legacy assets and supporting its auditing capacities. Overall, those actions will support job creation but will also strengthen the dollarization monetary system.

8. In terms of program monitoring, we are not yet ready to move to targeting the nonfinancial public sector as was envisaged earlier, mostly due to delays in capacity building and turnover of our GFS compilers and the failure to upgrade the accounting software of the Treasury. We are fully dedicated to review processes and improve our capacities in order to move to NFPS balances targets for April 2022.

9. We also request the IMF Executive Board's approval for retaining the existing exchange restriction arising from the tax on transfers abroad for the making of payments and transfers on current international transactions on the ground that the measure is maintained for balance of payments purposes. We intend to phase out this measure once macroeconomic stability is restored, and the reserve position is strengthened.

10. In line with this government's objective to foster transparency, we consent to the publication of this letter, its attachments, and the Staff Report associated with our request for support. We will provide information requested by the Fund to assess our policy implementation and will consult with the Fund on additional measures that may be needed during program implementation and in advance of any changes to our policy plans, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s/	/s/
Simón Cueva Armijos Minister of Economy and Finance	Guillermo Avellán Solines General Manager, Central Bank of Ecuador

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

Attachment I. Memorandum of Economic and Financial Policies

1. With the landmark victory of Guillermo Lasso at the Presidential elections in April this year, our newly elected government took office on May 24, 2021, with the objectives of ensuring environmentally friendly growth with high quality jobs, promoting a transparent management of public resources, and ensuring equity in the conduct of fiscally sustainable policies.

2. It is imperative to fix our public finances to ensure a high and sustained growth that will create quality jobs. In this regard, we will undertake an important tax reform focused on equity. Those who earn the most should be contributing more; at the time we aim at increasing the tax base and fighting tax evasion by nudging Ecuadorians with income and assets abroad to declare those to our Internal Revenue Service (SRI). To ensure more equitable policies, we will also balance the needed fiscal consolidation by prioritizing expenditures.

3. Our government is dedicated to spur a private sector-led economic recovery that will create quality jobs. We will bring more Ecuador to the world, and more world into Ecuador, by entering into trade agreements and reforming keys areas to enhance competitiveness of the Ecuadorian economy. We already started lowering tariffs for capital and intermediate goods in key productive sectors, and plan to reform our public-private partnership (PPP) framework, our capital and labor markets, and business environment in general, including state owned enterprises (SOEs), to attract foreign direct investments. Through Presidential Decrees 68, 95, 123 and 151, we have already laid the groundwork for more private investment in the oil and mining sectors, promoted more labor flexibility, and sought to enhance competitiveness. We aim to enhance the transparency of foreign investments to level the playing field and increase accountability. In addition, we are taking steps to strengthen our Central Bank, by clearing its balance sheet of legacy assets and supporting its auditing capacities. Overall, those actions will support job creation but will also strengthen the dollarization system.

4. The Government of Ecuador already made important progress in some of the objectives set by President Lasso. We acquired and administered vaccines for close to 9 million Ecuadorians since the beginning of our mandate on May 24, 2021, and are committed to deliver more in the coming months with the support of our international allies. While working on a comprehensive roadmap to implement its government plan, the administration has already begun to make progress in the direction of reverting distortive taxes (as exemplified by the reduction of ISD for the aeronautical sector), while issuing directives to boost oil production and identifying concrete actions to improve efficiency in public procurement and generate fiscal savings to support fiscal consolidation.

5. The Government of Ecuador remains fully committed to the 27-month extended arrangement under the Extended Fund Facility (EFF), approved by the IMF Executive Board on September 30, 2020, aimed at stabilizing the economy and protecting lives and livelihoods, expanding the coverage of social assistance programs, ensuring fiscal and debt sustainability, and strengthening domestic institutions to lay the foundations for strong, job-rich, and long-lasting growth that benefits all Ecuadorians.

6. In this regard, our key priorities on the economic front are to (i) ensure fiscal stabilization with equity; (ii) manage public resources honestly and transparently; (iii) rebuild trust in our institutions; and (iv) improve the competitiveness of our economy to create environmentally friendly, private sector-led growth with job opportunities for all Ecuadorians.

7. This memorandum outlines in detail the progress we have made toward meeting the objectives of our Fund-supported program and our policy plans to advance these objectives for a stronger, more prosperous Ecuador. Tables 1 and 2 show how we plan to update the quantitative targets and structural benchmarks that serve to track our progress.

A. Making Vaccines Available to All Ecuadorians and Expanding our Social Safety Nets

8. The initial priority of the Presidency has been to move quickly ahead with the vaccination process, acknowledging that economic recovery efforts could prove fruitless if the pandemic was not under control. Economic, diplomatic, and logistical efforts, involving the private sector, were undertaken to secure vaccine availability. The President laid a target of fully vaccinating 9 million Ecuadorians (51 percent of the total population and 73 percent of the population older than 16), within 100 days of the government; this target will be met. We will continue until we achieve at least a 75 percent coverage of the entire population (we have started vaccinating 12–16-year-old youths). The rapid progress in the vaccination program is enabling a faster economic recovery and lowering health costs.

9. We continue to support our population for the economic and social effects of the COVID-19 pandemic. We continue to make progress in upgrading our social registry and expanding the coverage of social assistance programs with the assistance of the UN and the World Bank (WB). We increased the number of beneficiary families by 443,619 between July 2020 and end-April 2021, meeting the related targets that we set for ourselves under the EFF arrangement. In addition to increasing the number of families receiving support, we are also making progress in better targeting our cash transfer program graduating those families whose incomes are above the threshold. We will continue to work towards meeting our target of adding a cumulative of 625,600 beneficiary families relative to July 2020, therefore covering 80 percent of families in the bottom three income deciles. We are cognizant that, while we were ahead of schedule up to now, progress has slowed and meeting the year-end target of 80 percent, a commitment under both the WB and IMF supported programs, will no longer be feasible. The pandemic and demographic change impacted information collection in the Amazon region and other vulnerable zones in urban and con-urban areas beyond expectations. Hence, we are working alongside the statistics agency (INEC) and the Social Registry to boost registration in these areas, by taking advantage of pre-census data collection to identify previously uncharted pockets of vulnerable populations, a process that is set to yield fruit by the turn of the year. In the meantime, the Social Registry, in consultation with the World Bank, is working on recalibrating the algorithm that processes surveyed households. Preliminary results show this procedure will allow us to pick up the pace at which we incorporate vulnerable households in the first three deciles of the distribution by including previously misclassified ones. The technical work will be concluded during September, so that between October and December, we aim at adding around 60 thousand beneficiaries to the registry. With these efforts, we will be able to expand the number of families in the first three deciles who receive social support to 453,700 by the end of September, and to 514,000 by the end of the year. The expected additional data collection and the updated algorithm will enable us to reach the target of providing support to 625,600 additional families by the end of the first quarter, and no later than April 2022 (***revised structural benchmark***).

10. We note that Ecuador's provinces differ markedly in their vulnerability to economic, social, and climate conditions. We also note that the expansion of social assistance has mostly been in the second and third deciles of the income distribution and unevenly across provinces. We will make it a priority to improve the regional coverage of our social assistance programs to make sure that all Ecuadorian families in need across geographical regions are reached, with special attention to the coverage of the first income decile, who are the economically most vulnerable group. To operationalize this goal, we will expand the coverage of the social assistance programs to no less than 70 percent coverage of the bottom three income deciles by province and no less than 65 percent of the first income decile nationwide by the end of 2022 (***structural benchmark for end-December 2022***).

B. Restoring Fiscal Sustainability with Equity

11. Our administration is fully committed to ensuring the sustainability of Ecuador´s public finances and building a more robust public financial management framework underpinned by stronger institutions. Our focus is to ensure that consolidating public finances will equitably be supported by the Ecuadorian population. Those who benefited from the crisis and those who earn more should be helping the most affected by the pandemic and the most in need. The design of our fiscal policy will be guided by the principle of restoring sustainability and reducing public debt, consistent with debt limits and expenditure growth rules in the organic code of public finances and planning (COPLAFIP).

12. The $4 billion disbursed by the IMF since program approval has helped meet urgent needs and support lives and livelihoods. We utilized these resources to maximize its reach across the Ecuadorian society and revitalize the economy. The main uses included investment spending in the face the pandemic shock, payments to almost 170 thousand suppliers as well as Autonomous Subnational Governments (GADs), which allowed to significantly reduce the overdue payments dating as far back as 2019 and other arrears.

13. The fiscal balances in 2020 were better than expected due to a rebound in economic activity in the second half of year, when confinement measures were partially relaxed and generated large revenues over performance and somewhat lower spending, especially at the subnational levels. The nonfinancial public sector (NFPS) registered a deficit of less than $6 billion for 2020, close to $1.4 billion better than expected. Some underspending was due to delays in COVID-related spending, which was planned at $622 million but ended up at $410 million, due to supply constraints and the expectation that pandemic-related expenses would expand through multiple years. Public debt ended the year much lower than expected; just over 61 percent of GDP instead of 63 percent as expected in December. Part of those under-executed spending have materialized this year. We have faced significant financing pressures since we took office, in part, as we were able to acquire and distribute a large number of vaccines as our top priority.

14. Between January and April 2021, revenues were well above expected levels at both the PGE+CFDD and NFPS levels, by $580 million and about $1.3 billion respectively, due to a substantial increase in oil prices and, to a lesser extent, a better macroeconomic landscape than expected. In parallel, higher oil prices increased CFDD expenses by about $550 million. These developments resulted in the fiscal balance at the PGE+CFDD level to be in line with expectations, and the NFPS balance to be over $1 billion better than expected. Nonetheless, even with higher domestic financing, NFPS deposit accumulation at the central bank, which is the quantitative performance target (QPC) under the Fund-supported program, was slightly lower than the target. While the degree of noncompliance was small, at $77 million, and its macroeconomic impact is minor, since April QPCs are the controlling ones for the combined Second and Third Reviews, we request a waiver of nonobservance. We will take corrective actions related to enhance our cash management capacities (***prior action***).

15. We have submitted a 2021 budget of the central government, which balances the pressing needs from vaccination and economic recovery, one-off payments partly inherited by our administration such as a court ruling on VAT past due to be paid to subnational governments (GADs) and additional health costs over the period January-May 2021 (text table), and also considering the sustainability of public finances in the short and medium term. With the nascent global economic recovery, oil prices have significantly increased over the last 12 months, allowing for sizable oil revenue windfalls. Our intentions are to support as much as possible our citizens and the economy through vaccination and measures to support the recovery, but we are also aware of the need to build fiscal buffers, in particular given uncertainties regarding the future of the pandemic, oil prices, large arrears that need clearance over time, and the large contingent liabilities that we are facing. We are committed to roll back those one-offs measures next year.

One-off Expenditures in the Central Government Budget, 2021
(In US$ millions)

Increase in social spending (*bonos*)	125
Vaccines and vaccination-related expenses	293
Additional spending on health care workers	25
Refurbishing schools and education expenses	121
Expenses related to termination of employment	135
Expenses for elections	21
Overdue VAT payment to local governments	300
Total	**1,020**

Sources: Ministry of Finance and IMF staff estimations.

16. For 2022 and the medium term, we have developed our vision for the country under our 2021-2025 Development Plan. The main objectives of the plan are to promote an environmentally friendly, private sector-led growth, with emphasis on an ecological transition based on greater renewable energy capacity, greater energy efficiency, and increased productivity. We are also considering to reduce state-owned enterprises, including through the liquidation of some companies and the monetization of other assets, which could bring additional revenues over the medium term. These one-off measures would further support a broader and structural cost-optimization strategy including a comprehensive efficiency assessment of the state which would enable us to curtail unproductive activities and exploit efficiency gains, enhancing PPP-led investment, and procurement reform that are expected to lead to a reduction in the size of the state from almost 36 percent of GDP last year, to below 32 percent by the end of our administration. We are committed to a consolidation in non-oil primary balance (including fuel subsidies) of 4.5 percentage points of GDP over 2019-2025 (corresponding to an improvement of 4.1 percentage points of GDP in the overall balance of the NFPS over the same period). This consolidation path will strike the right balance between supporting the still fragile economic recovery, reducing public debt towards our debt limits in COPLAFIP, and saving some of oil windfall to build buffers and boost reserves towards the targets set out in the Law of Defense for Dollarization (COMYF). The necessary fiscal package will be underpinned by the following measures:

Tax reform

- Ecuador needs to reduce its dependency on oil revenues, which has been a source of vulnerability to our fiscal position, given unpredictable prices. To decisively move away from oil dependency the government needs to generate higher permanent revenues, based on a fair and equitable tax system. The current personal income tax system lacks progressivity, allowing large deductions across the income scale. We have therefore developed a tax bill that we will submit to the National Assembly in September, for enactment by end-October, to upgrade our current system of taxation to make it more equitable, simpler, and growth-friendly (***revised structural benchmark for October 2021***). The tax bill will be framed around the following components:

    i. Policy measures (0.7 percent of GDP). This includes changes in: (i) personal income tax to lower personal expenditure deductions (from the current maximum of $14,575 to the median of deductions); change deductions from being applied to pre-tax income to a tax credit with a quota, and narrow income brackets for the higher tax brackets, while leaving marginal tax rates unchanged; and (ii) corporate income tax, with measures to eliminate credits and deductions.

    ii. Administrative measures (0.3 percent of GDP). We have received extensive technical assistance from the IMF on tax and customs administration. We will implement the recommendations covering improving collection through the Large Contributors Unit, enhanced customs tariff collection, and VAT compliance (see text table).

    iii. Transitory measures (0.5 percent of GDP). These include (i) a special contribution from corporations with net worth over $1 million, whose sales in 2020 exceeded those of 2019; (ii) a special contribution of high-net-worth individuals, with rates progressively increasing from 0.5 percent to 1.5 percent; and (ii) the disclosure of foreign investments/assets held abroad, previously not reported to the tax authority, which would allow for a one-time tax to be charged

Administrative Measures
Large Taxpayer Unit (LTU)
Strengthen the LTU debt collection powers: national jurisdiction, high rank within SRI, KPI-driven.
Properly staff LTU; set up offices in each province.
Improve segmentation of debt, debtors, and risks in profiling activities.
Enhance the use of information exchanges with other jurisdictions and third parties to control cross-border operations of large taxpayers.
Special attention to cross-border operations of large taxpayers; apply Action 13 of Action Plan BEPS on transfer prices.
Set up special sub-unit to control and follow-up wealthy individuals.
Customs administration
Improve trade facilitation through processes automation and adopting new technologies.
Develop a compliance risk management program with an emphasis on the most sensitive sectors.
Optimize the use of data to define trade facilitation and control measures by HS codes and foreign trade operator segments.
Strengthen the post-clearance audit.
Ensure and improve cooperation with the SRI, in particular the information exchange and data matching.
Combat fuel smuggling.
VAT gap
Use VAT gap estimates to support SRI's actions and VAT-compliance risk strategic management.
Conduct in-depth statistical and regulatory analysis of sectors and sub-sectors with largest compliance gaps.
Use RA-GAP model to monitor the accumulation of credit carry-forwards and collection performance and to validate SRI estimates every 2-3 years.
Exchange with the BCE key statistical and regulatory information.
Close VAT compliance gap through integrated control based on the taxpayer life-cycle approach.

Spending prioritization

17. Our public sector has among the highest share of spending dedicated to wages and salaries and capital expenditure compared to our regional peers, without delivering the highest quality of public services for our citizens. Therefore, we have decided to implement an expenditure-led consolidation as our medium-term strategy for restoring sustainability to our fiscal balances. With the tax reform described above, reaching our medium-term sustainability targets will require reducing public primary expenditures by about 4.2 percentage points of GDP by the end of our administration. The largest savings will be generated from improving procurement practices, which are expected to yield 1.5 ppt of GDP in savings in goods and services and capital expenditure during our term. Rolling back the one-off spending from 2021 (0.9 ppt of GDP) will contribute to spending reduction, as will continuing with the fuel subsidy reform with global oil prices expected to decline (0.9 ppt of GDP). The remaining 0.9 ppt of GDP will be achieved through expenditure rationalization across a range of spending items while protecting essential services such as health, education, and social spending.

18. Starting with our first full-year budget in 2022, and the accompanying medium-term budget program through 2025, we will be setting expenditure ceilings on both the central government and the other subsectors of the nonfinancial public sector to enforce this expenditure reduction plan, as reflected in the table below. We will complement this top-down strategy with a bottom-up approach of putting in place policies and procedures to ensure that budget execution progresses in line with the targets and objectives set out in our medium-term plans. The range of reforms and measures to achieve these savings is elaborated below.

Ecuador: Select Balances, Non-oil Primary Balance with Subsidies
(Change from previous year, in percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2020-25
Revenue	**-1.3**	**-0.7**	**-0.3**	**0.7**	**0.3**	**0.2**	**0.0**	**0.2**
o/w Planned tax reform	0.0	0.4	0.0	0.1	0.6	0.0	0.0	1.1
o/w Temporary Tax measures	0.0	0.0	0.0	0.5	-0.4	0.0	0.0	0.0
o/w Administrative Measures	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.3
o/w Macroeconomic effect on tax revenues	0.0	-1.4	0.0	0.0	0.0	0.1	0.0	-1.3
Expenditure	**2.0**	**0.6**	**-0.6**	**2.3**	**1.0**	**0.6**	**0.4**	**4.2**
Wages and salaries	0.2	-0.3	0.6	0.4	0.3	0.1	0.1	1.2
Goods and services	0.1	0.2	0.1	0.4	0.2	0.3	0.1	1.3
Other spending	-0.1	-0.2	-0.2	0.2	0.0	0.0	0.0	-0.2
Capital spending	1.3	0.2	0.0	0.4	0.4	0.2	0.1	1.3
Fuel subsidies	0.8	1.1	-0.6	0.9	0.0	0.0	0.0	1.4
Social spending	-0.3	-0.5	-0.5	0.0	0.1	0.0	0.0	-0.8
Total	**0.7**	**-0.1**	**-0.8**	**3.0**	**1.3**	**0.8**	**0.4**	**4.5**
Memo items								
First Review								
Revenue	-1.3	-0.1	0.2	1.9	0.6	0.1	0.0	2.8
Expenditure	2.6	-0.9	1.7	0.9	0.8	0.1	0.0	2.7
Total	1.3	-0.9	1.9	2.8	1.4	0.2	0.0	5.5

Sources: Ministry of Finance and IMF staff calculations.

- *Wage bill.* The increase in public servants and wages over the last fifteen years was unsustainable. It is therefore our endeavor to ensure a sustainable wage bill over the period 2022-2025. Our plan is to slow the growth of the wage bill, which can be achieved with a combination of partial replacement of retiring staff and partial nonrenewal of fixed-term contracts, all while wages grow with inflation. Further savings could be generated by additional measures on contracts and/or wages, such as revised pay scales for new hires; inflation-adjusted wages; lower replacement rates for retiring staff; and/or lower renewal rates of fixed-term contracts. To enforce the wage bill targets in the annual budgets, guidelines will be provided on the public sector work force to all levels of the public sector, to be jointly defined with the Labor Ministry. Specific policies will be further strengthened through a thorough assessment of the public sector, with assistance of external experts.

Estimated Savings from Procurement Efficient Measures
(In percent of GDP)

	2022	2023	2024	2025	**2022-2025**
Bulk and standardized purchases	0.2	0.1	0.1	0.0	**0.4**
Dynamic and electronic processes, modernization of pre-contractral procedures, and transparency	0.1	0.1	0.0	0.0	**0.2**
Increased competition in procurement	0.2	0.2	0.1	0.1	**0.6**
Subsystem of control of the National System of Public Procurement and close relationship with suppliers	0.1	0.1	0.1	0.0	**0.3**
Total savings (percent of GDP)	**0.6**	**0.5**	**0.3**	**0.1**	**1.5**

Source: Ministry of Economy and Finance based on SERCOP, World Bank, and IMF staff estimates.

- *Procurement.* Procurement represents a significant share of our total spending, and we are committed to curb past excesses in terms of cost surcharges and attribution of contracts. We will reform our procurement system to save costs while ensuring the highest standards of transparency. On August 12, 2021, President Lasso issued Presidential Decree No. 155 to regulate recent anti-corruption legislation that requires the Office of the Comptroller General to control budget availability and the existence of market studies, before any public procurement is initiated. This will ensure *ex-ante* review of costs and a fair attribution of public contracts. SERCOP, in coordination with the Ministry of Economy and Finance and the National Secretary of Planning, will issue and enforce procurement guidelines to improve procurement processes as summarized in the text table, which would generate significant savings (***new structural benchmark for November 2021***). The guidelines would lay out an action plan with target dates to attain the planned savings, e.g, enforce catalog, bulk and standardized purchases, expand electronic catalogues to cover the majority of items purchased by public entities, negotiate bulk contracts with suppliers, provide information to regulators on competitive bidding, etc. The mechanisms that allow the measures to yield the desired result would involve crosschecks by the Ministry of Economy and Finance or a related entity that purchases adhere not only to the guidelines, but to budgetary limits set for the procuring institution. The guidelines would be in immediate effect for the central administration and IESS. Local governments and SOEs would need more time to prepare for compliance with the guidelines, including analysis to expand electronic catalogues, and training on using them; hence enforcement for them would start no later than the first quarter of 2022. Additionally, an anticorruption law approved in February 2021 created the National Control Subsystem (*Subsistema Nacional de Control,* SNC) presided by SERCOP and integrated by UAFE, SRI, the Office of the Comptroller, the State Attorney's Office, and financial regulators, which is set begin operating later this year (***new structural benchmark for October 2021***). The SNC will allow public entities with control competencies over public procurement to share information about their activities, through the interoperability of their databases, and act in a coordinated manner when tackling irregularities in procurement. This will generate savings and improve the effectiveness and transparency of all involved agencies in controlling public procurement, both directly, by curbing corruption in procurement, and indirectly, by closing informational loopholes and therefore discouraging corruption. Building on SERCOP's in-house assessment and a World Bank's study using data on public procurement contracts across the public sector for 2013–17, those measures (SERCOP guidelines and SNC) are estimated to yield cumulative savings of 1.5 percent of GDP starting with the 2022 budget execution and through 2025 (text table). We will also ensure that SERCOP has the needed resources and staff to support the effective implementation of procurement reforms.

- *Capital expenditure.* We will prioritize capital expenditure projects, focusing on the oil sector (while at the same time opening the oil sector to private sector investment). We will also promote public-private partnerships and concessions to the private sector for infrastructure investment, with due account to 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. Finally, in line with TA recommendations, we aim at reducing expenses in unused infrastructure for over 5 years and related maintenance costs. To support capital expenditure prioritization and lock in the gains over the medium term, we will undertake a Public Investment Management Assessment (PIMA) in the first quarter of 2022, supported by IMF technical assistance, to improve the public investment management cycle and increasing the transparency and efficiency of public investment, with a view to ensure that resources are allocated to growth-enhancing investment in public infrastructure.

- *Fuel subsidies.* We will maintain the current automatic fuel pricing mechanism to gradually align domestic fuel prices with international prices. The automatic monthly change in diesel prices was changed from +/-5 percent to +/-3 percent in January

2021, to smooth the adjustment for economic agents and sectors, considering the large increases in global oil prices and pass through to date. We believe those subsidies are not well-targeted instruments to support those in need. Instead, fuel subsidies benefit more those who do not need the support, and also provide ground for corruption and smuggling, with a significant fiscal cost. They also encourage more fuel consumption, which is harmful to the environment and in conflict with our goals for reducing carbon footprint. We will look for opportunities to advance on the reform in the period ahead. We are currently exploring options to target subsidies on public transportation, while continuing the reduction in the subsidy for other users, with some tariff reductions for vehicles and inputs for the transportation sector. We have also lowered import tariffs on energy efficient vehicles, so that Ecuadorians can more cheaply get vehicles that use less energy, both saving resources and helping the environment. We will seek ways to make the subsidy reform permanent and limit the risk of reversal when international prices rise in the future. Importantly, in addition to generating long lasting fiscal savings, the reform will encourage a more efficient use of energy and help preserve the environment, curtail smuggling, and limit the depletion of natural resources. The fiscal savings from the reform will finance higher priority public spending, including the expansion of coverage of poor families under social assistance programs.

- *Expenditure review*. Important analyses on our expenditure profile have been carried out over the last years, as covered in the bullets above, pointing to redundancies in some public sectors and large inefficiencies. In other areas where we received significant technical assistance from the IMF and other multilateral partners, we will implement the relevant recommendations. In addition to identify measures for any additional savings, including as backup contingency purposes, we will carry out a detailed expenditure review, drawing on inputs from the IMF and the World Bank over the coming months, focusing on updating earlier analyses and less-studied areas.

- *Arrears*. We are dedicated to clear arrears gradually and avoid accumulating new ones. Given the significant cash pressures faced by our treasury, the government ran large account payables to other public entities and also to the private sector in previous years. Consequently, our government inherited large central government account payables of over 90 days overdue amounting to $967 million as of June 2021. Going forward, we are committed to comply with our budget obligations. With the assistance of a long-term expert provided by the IMF, we will work on the implementation of the new monitoring system to evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS that were accumulated in previous years and the first half of 2021. We will publish a methodology to estimate the stock of arrears, and the reporting templates to be used by public sector entities (***structural benchmark for November 2021***) We will also revamp the strategy to clear, monitor, and prevent further accumulation at the NFPS level that was prepared earlier this year. To that end, we will develop the Financial Management Information System (the e-SIGEF in the short term and SINAFIP in the long term), to register the due dates and other information required to determine when an obligation falls into arrears in the system. We will design a policy to monthly gather the information on arrears from other entities of the NFPS by the MEF. To prioritize payments, we will outline detailed policies and systematize them.

- *Social security.* A reform of the social security system is necessary and urgent, as the present system is not only actuarially insolvent but will incur cash flow shortages while posing rapidly rising pressures on the central government's budget. A diagnostic of the social security system was undertaken with World Bank support: we intend to establish a high-level commission to promote a widespread public communication effort on the need for pension reform and consider options to address it. The social security administration (IESS) has started to reduce its personnel, and more efficiency gains will be promoted while protecting the provision of health, pension, and disability benefits.

- *International cooperation*. In addition to the establishment of a Large Taxpayer Unit and enabling the declaration of assets held abroad, we will also pursue information exchange with foreign tax authorities; already an agreement has been established with the United States, and we are promoting an agreement with the Global Forum (CAAM) that would also enable information exchange with more than 140 jurisdictions.

SDR allocation use

19. The new SDR allocation served a dual purpose of boosting Ecuador's international reserves and supporting government's finances. To this end, we have reflected the new SDR allocation directly on the Ministry of Economy and Finance (MEF) balance sheet and are using it for the budget transparently. As every other balance of payments inflow, the SDR allocation had the effect of increasing international reserves, an asset on the BCE's balance sheet. Its corresponding liability was recorded in the Single Account of the National Treasury, enabling use by the MEF towards the budget. As the fiscal agent, the BCE converted the SDRs into freely usable currency. All spending from the proceeds is recorded with a unique budget code, which provides transparency and accountability to its use. We have verified that the recording and use of the SDRs is in compliance with the Organic Code of Planning and Public Finance (COPLAFIP) and the Organic Monetary and Financial Code (COMYF). As the holder of the liability of the SDR allocation, MEF will be responsible for the interest rate cost and exchange rate risk on the SDRs, along with reconstituting the SDR balances when needed, as outlined in the joint BCE-MEF Memorandum of Understanding.

Contingency policies

20. Cognizant of the risks to our 2021 and 2022 budgets and overall medium-term fiscal framework, we have identified credible contingent policies. For the 2022 budget, these risks will be reflected in the fiscal risk statement to be annexed to our budget document. Risks to our fiscal framework include, but are not limited to, a deterioration of the outlook for global oil prices, shortfalls in financing, and materialization of contingent liabilities. In particular, a decline of global oil prices from our budget assumptions—$59.8/barrel for 2021 and $59.2/barrel for 2022—would increase the annual fiscal deficit by 0.7-0.8 percent GDP for each $10 dollar/barrel decline, after taking into account the concomitant reduction in fuel subsidies and import bill for fuel derivatives. We are adopting a two-pronged strategy to cushion the impact of those risks on the near-term budget and medium-term fiscal sustainability:

- ***For the near-term,*** we have prepared backup fiscal measures to be implemented should there be a sharp decline in global oil prices or shortfalls in financing. These include accelerating reforms on the expenditure side while continuing to base our revenue forecast on conservative assumptions for asset monetization until the related projects mature.

- ***From a medium-term perspective***, we will keep in mind inter-generational equity considerations and broader public finances implication in allocating any additional oil revenue windfall from what is currently envisaged. Saving part of windfall in nonrenewable resources toward buffers would also reduce the procyclicality of fiscal policy going forward and help finance environmental-friendly reforms. Two oil stabilization funds are envisioned (in Decree 95 and in COPLAFIP, respectively). Moreover, our ongoing SOEs reform, supported by asset quality reviews of public banks, should help contain unexpected contingent liabilities and limit calls on the State budget. The expenditure review we undertake later this year and the PIMA next year will help identify additional contingency measures.

C. Strengthening Fiscal Frameworks, Governance, and Transparency

21. *We are dedicated to increasing transparency and improving practices in Ecuador´s fiscal management*. In August, we published revised historical government financial statistics for 2012-2020. This is an important improvement in fiscal transparency as fiscal data from the public sector was discontinued in the mid-2010s and required significant efforts, supported by IMF technical assistance, to bring the fiscal data up the latest GFS manual. The data is now published on the MEF website (https://www.finanzas.gob.ec/estadisticas-fiscales-historicas/). Importantly, the data is now disaggregated between different levels of the non-financial public sector with consistency between above- and below-the-line. These improvements will allow our government to make better informed policy choices and our civil society to better monitor the state of the public finances. We remain committed to further improving debt transparency. Furthermore, a Compilation Guide for financial statistics has been published to enhance transparency and statistics standardization. This includes continuing regular publication of a statistical public debt bulletin as well as sovereign debt and crude oil pre-sale contracts as legally permissible. Information on debt holder profile is now included in IMF staff reports, in line with requirements under the Debt Limits Policy. We will also seek to identify additional areas to improve debt data disclosure with the support of technical assistance. In this connection, we will request IMF TA on quarterly debt data. *Beyond the publication of GFS, we are dedicated to enhancing fiscal transparency*. To support this objective, we will undertake a Fiscal Transparency Evaluation (FTE) in the second quarter of 2022, supported by IMF technical assistance, to improve the quality of fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and resource revenue management, which are of importance for Ecuador. To enhance debt transparency and make our debt operations more predictable, we will update the existing Medium Term Debt Strategy that was formulated in February, so that it establishes a debt policy agenda, including analysis on costs and risk tradeoffs of financing options and their impact on the future debt portfolio. Public procurement reforms will enable more transparent and competitive bidding processes. Under the leadership of the MEF, the Public Finance Statistics Committee has been implemented, through which statistical compilation methodologies are coordinated and communicated among the organizations that make up the NFPS.

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

- *We started implementing COPLAFIP regulations*. The amendments to the organic code of planning and public finances COPLAFIP that were adopted in July 2020 are a game changer for Ecuador's public financial management. In order to make the timely collection, accurate compilation and publication of fiscal data systematic, a regulation on data reporting by subsectors of the NFPS has been adopted end-September 2020. Remaining regulations were adopted by Presidential decree in early December 2020, also encompassing the regulations on data reporting that were adopted in September 2020 by a ministerial decree, so as to fully consolidate and operationalize all amendments to the law. Going forward, we will implement the COPLAFIP with support from the IMF on four areas: fiscal risks; medium term fiscal framework; fiscal rules, and fiscal coordination.

    i. *Fiscal risk*: We are developing and implementing a fiscal risk strategy to underpin the fiscal risk statement that is now requested to be annexed to our budget documents. The statement will present, analyze, and estimate the impact of fiscal risks on the budget implementation, including from PPPs. The 2021s Budget *Proforma* incorporates the first Fiscal Risk analysis and strategy, utilizing Fund TA. Advances are being made in establishing a fiscal risks unit within MEF.

    ii. *Medium-term fiscal framework (MTFF)*: We will start presenting MTFF together with our budget documents starting October 2021 and April 2022. MTFF will help to guide the budget process with a top-down approach and ensure better execution.

    iii. *Fiscal rules*: With the enactment of amendments to COPLAFIP last year, we are issuing regulations on expenditure ceilings that will support the newly introduced expenditure growth fiscal rule.

    iv. *Fiscal coordination*: Both the MTFF and fiscal rules require an enhancement of coordination among intra-NFPS entities. In view of strengthening a coherent fiscal policy at the national level, we will establish a National Fiscal Coordination Committee (NFCC) by end-November, 2021 (***structural benchmark***). The Ministry of Finance and Economy and the National Planning Agency will appoint delegates to the NFCC. The Committee will be tasked with monitoring and evaluating the National Development Plan as well as the budget execution, voting on the overall and sectoral fiscal targets, while assessing the quality of public spending. This Committee may formulate specific recommendations for the rationalization of budget resources and corrections or modifications to the planning instruments.

- *We are enhancing transparency in our public procurement system*. Our procurement website centralizes information providing access to relevant procurement documents, including contracts. In September 2020, we enacted a regulation mandating the publication of additional information from procurement processes such as the names of the awarded entities and their beneficial owner(s), and ex-post validation of delivery on a dedicated government website to prevent the misuse of public resources. To further promote data synergies that improve the overall capacity to reduce opportunities for corruption, we have been working on complementary measures, including the updating of the register of entities participating in public procurement (registro único de proveedores) and the data requested by the company registry, to incorporate beneficial ownership identification requirements. Our government will ensure that such information will be direct and freely accessible. While all information regarding entities participating in procurement processes is being requested, including beneficial ownership, the implementation and accessibility should be improved.[1] To illustrate the progress so far, SERCOP will present on a dedicated webpage the legal ownership and, where available, the ultimate beneficiary owner information of the contracts exceeding US$962,410 (a threshold defined by the Office of the Comptroller General, equivalent to 0.003 percent of the central government budget, to issue preemptive clearance reports on public procurement, in order to improve anticorruption practices) awarded since September 2020, which represent about 90 percent of the value of awarded purchases over the last 12 months (***prior action***). SERCOP will also enhance the collection of beneficial ownership information and its accessibility for all remaining contracts by the end of November (***proposed structural benchmark***). Changes to the bidder application process will ensure publication of 100 percent of new contracts, and beneficial ownership information, going forward beyond end-November 2021. While SERCOP maintains an independent and isolated registry of self-reported data, including final beneficiaries, working in coordination with other entities such as UAFE would significantly improve the robustness of our transparency capacity. Moreover, we will conduct an independent audit of the 100 largest public procurement contracts awarded over 2022-21. This audit will shed light on compliance and discretions in the attribution of tax expenditure to the private sector in public contracts (***structural benchmark for September 2022***).

- *Additionally, we will improve our cash management capacities by preparing and presenting to IMF staff a central government financial plan for the remaining of year 2021 approved by the Financial Committee (**prior action**).* The financial plan will include the detailed monthly cash flow, the arrears as of July 2021 verified by MEF following the COPLAFIP definition by sector, 2021 clearance estimate and monthly accumulation data, a document with the potential risks associated to the financial plan, potential mitigating measures, and an explanation of the deviations of the 2021 Financial Plan delivered to IMF staff in December 2020. Going forward, our cash management will aim at monitoring the budget quota for the expenditure execution of the entities and align it with the availability of cash, using instruments such as commitment and accrual quotas. We will ensure that the budget Proforma and its corresponding Financial Plan consider all the information on budget expenditure, arrears, and any other non-budgetary expenditure and how they will be financed. We will proactively use commitment control along the year and update to the Financial Plan. We will use the tools of alignment between budget execution and cash availability and short-term securities (CETES/NOTES) to solve temporary liquidity deficiencies. Finally, we will also improve our projection capabilities of cash availability and its level of detail and use the Financial Committee or other mechanism of high-level alignment.

D. Strengthening the Institutional Framework of our Central Bank

23. The landmark COMYF law was adopted on May 3rd of this year. As part of the implementation of this law aiming to strengthen the Central Bank balance sheet, the

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[1] Available information is available at https://portal.compraspublicas.gob.ec/sercop/biblioteca/. Ultimate beneficial ownership (UBO) information, where available, can be accessed by following these steps: go to Ofertas Adjudicadas/ Descarga/ Ofertas/ choose REGIMEN/ choose sector; download contract; see section I.3.

Ministry of Finance and the Central Bank signed an agreement on June 30, to transfer the shares of the public banks held by the Central Bank to the Ministry of Finance with the commitment by the Ministry of Finance to pay about US$2.4 billion during 2027–35

Treasury Payments to Central Bank

(In USD millions)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Maturing Treasury securities	708.4	242	871.4	200	1,175.60	1,210.20	...	...	...	...	...	...	...	...	...
Repurchase of public bank shares	...	...	...	...	...	...	264.2	264.2	264.2	264.2	264.2	264.2	264.2	264.2	264.2

Source: Ministry of Economy and Finance and Central Bank of Ecuador.

according to the table included below.

24. The BCE will strengthen its research department with the goal of supporting policymaking decisions. This includes preparing a financial stability report in 2022 and presenting an annual technical assessment on the fiscal budget to the National Assembly.

25. A new unit, the Unit of Management and Regularization (*Unidad de Gestion y Regularizacion)*, was created for the clean-up of legacy assets in the central bank from the 1999 banking crisis. All legacy assets, liabilities, obligations, and rights that resulted from the 1999 banking crisis will be transferred to the new agency after an independent audit, expected to be completed by end December 2021. From the legacy assets, the central bank already transferred 17 vehicles to the technical secretary of real estate management and more than 100 items to the Ministry of Culture.

26. In addition, and consistent with our objective to improve central bank transparency, we have continued to implement the recommendations of the IMF safeguards assessment. In this regard, we will publish in 2022 the audit opinion on the BCE financial statements starting with the 2021 report. We are also on track for making the Audit Committee operational by appointing its Board members, and adopting the IFRS accounting standard, both by the end of this year. Following the establishment of the Audit Committee, the central bank will also advance the independence and capacity of the BCE's internal audit function.

27. The Latin American Bank for Foreign Trade (BLADEX) increased the amount of letters of credit it has with the central bank, which are needed for fuel imports. New letters of credit are planned to be negotiated with international banks to help manage the short-term liquidity of the nation's Treasury. Finally, in September, the central bank will establish a working group with private and public entities to identify shortcomings in the financial payments system and develop a plan to address them. This initiative aims to prepare reforms and proposals for the approval of the new Monetary Board.

E. Boosting the Resilience of our Financial System

28. Our financial system remains resilient and liquid. Although the economy has started recovering, large uncertainties remain that could put strains on the system. We are committed to ensuring greater supervisory scrutiny. To support those efforts, a Fund technical assistance on stress testing is in progress. The objective is the improvement of stress testing models of liquidity and credit risk in support of banking supervision and policymaking during the transition to the post-COVID period. We will ensure that the Superintendency of Banks has the needed resources and staff to effectively supervise the system, implement the technical assistance being provided by the Fund on enhancing stress testing capacity and risk-based AML/CFT supervision, as well as the assistance being provided by other development partners.

29. We note that the crisis measures introduced at the outset of the pandemic, including the deferral and restructuring of loans, a reduction in banks' contributions to the liquidity fund as well as extending the period to classify borrowers as non-performer and reducing provisioning requirements, have helped financial institutions and borrowers to deal with the impacts of the crisis. At the same time, we recognize that crisis measures being in place for too long can create distortions and weaken the health of the banking system. On balance, since economic activity has started to gain steam, and banks have been taking the proper safeguards measures under the close watch of the Superintendency of Banks, we believe that banks are ready for a smooth transition for the crisis measures to expire at the end of this year. If some banks are still under-provisioned after the NPL classification and provisioning requirements revert to the pre-crisis system, the Superintendency of Banks, after a thoroughly assessment of these bank's financial situation, and in line with international best practices, could grant additional time on a bank by bank basis to achieve compliance under certain conditions, such as a clear financial plan to reach needed provisioning levels, restrictions on dividend payouts, and closer supervisory scrutiny to safeguard financial stability. The IMF would support the Superintendency on the strategy of the action plans.

30. For the cooperative sector, the crisis measures, previously set to expire in December 2021, were extended recently to December 2022. At the same time, we note that the regulatory arbitrage between the cooperatives sector and the banking sector, especially for Segments 1 and 2, has spurred a growth in this sector that warrants closer scrutiny. Some of these institutions are close in size to medium sized banks and their lending activities and deposit taking and should eventually be held up to similar standards, in particular in terms of their lending activities (following the principle of "same activity, same risk, same regulation"). Therefore, we intend to use the additional time afforded by the crisis measure extension to close the regulatory gap on NPL classification and provisioning by the time the crisis measure expires. To this end, SEPS plans to work with the largest cooperatives to develop a plan, in consultation with the IMF, aiming at aligning the provisioning requirements for large cooperatives with those of banks by end 2022.

31. The supervisor of cooperatives and mutuals (SEPS) is implementing a plan to strengthen the institutional framework by introducing higher standards in the statutes of the institutions under their oversight and setting minimum capital requirements, to be fully implemented by mid-2023. In addition, SEPS is in the process of enhancing corporate governance standards for the institutions under their supervisory umbrella. These initiatives, together with strict enforcement and further efforts to strengthen resources, are important to enhance the stability of the cooperative system. While these initiatives are being implementing, it is necessary to maintain the moratorium on the creation of new entities until the technical conditions are appropriate for the reopening of registrations.

32. Separately, we are also interested in updating the overall provisioning framework for banks as well as cooperatives. As there is no one-size-fits-all approach, designing a new system of provisioning requires advance preparation and careful analysis on the Ecuadorian system on credit cycles and expected losses. Through the technical assistance provided by the Fund, we are in the process of building that capacity. We intend to carry out the needed preparations before designing such a system, in close consultation with the Fund and banks, in the period ahead.

33. Non-performing loans in public banks, which were already high prior to the pandemic, have further increased during the pandemic to reach an average of about 17 percent in two public banks; Banecuador and CFN. The other two public banks, BEDE and CONAFIPS, are regularly audited and are in better financial health. To have a comprehensive view on potential contingent liabilities arising from public banks, and to ensure that they remain solvent and well capitalized, supervised by the Superintendency of Banks, we plan to conduct an independent Asset Quality Review (AQR) in consultation with the IMF to estimate any shortfall in provisioning and to assess capitalization needs (***structural benchmarks*** *for November of 2021 to initiate the reviews, and for June 2022 to finalize them*). In addition, we will reform the CFN to focus its effort of being a second-floor bank to support our development objectives. Banco del Pacífico, which is not legally a public bank but is fully owned by the State, went through a detailed evaluation in 2019 in preparation for an eventual sale. Its management plans to conduct another such evaluation in 2022.

34. In view of strengthening the central bank's contingency facilities and improving the resilience of the financial system, we recently doubled the size of our swap facility with the Bank of International Settlements to $840 million as a precautionary measure in case of USD liquidity shortages.

35. In August, the BCE completed the methodology for setting interest rate caps. The new members of the Financial Policy and Regulation Board will have two months after taking office to revise and approve the methodology developed by the BCE. It will be implemented progressively for the thirteen credit segments. This methodology is based on four components such as credit risk, funding, operational and capital costs in order to be consistent with market conditions. Interest rates will be reviewed periodically by the BCE based on information provided by regulators. This methodology pursues three objectives: 1) to have technical support for setting interest rates, 2) to foster competition in the financial system, and 3) to promote financial inclusion. The Financial Policy and Regulation Board will develop the regulation to apply the new methodology, while financial regulators ensure its implementation.

36. The COVID pandemic creates a health concern about the use of cash and has sped up technological absorption by individuals and businesses. This creates an opportunity to further incentivize alternative forms of payments. Promoting alternative means of payment—such as credit cards, online transfers, and online payment in e-commerce—that reduce use of cash can bring operational efficiency to the BCE, increase financial inclusion, reduce potential sources of COVID contagion, and even facilitate cash transfers for social policy. We have been taking steps to encourage digitalization of payments to reduce costs and improve transparency. The Monetary and Financial Policy and Regulation Board approved Resolution 672 on August 5, 2021, that eliminated the 22-cent fee for receiving electronic interbank transactions. This resolution also requests that all public service payments for amounts greater than $76 will be made through of electronic means starting January 1, 2022. We will revise sources of red tape and disincentives in the use of these technologies, with a view to allow further adoption of those technologies. We also plan to implement a Real-Time Gross Settlement (RTGS) for large-value interbank funds transfers in early 2022.

37. We plan to maintain the liquidity fund assets in high quality liquid investments abroad at top international financial institution. As of June 2021, the liquidity fund had about $2.7 billion, and about 95 percent of these funds are invested with CAF, FLAR, and the BIS. We plan to continue this strategy. Regarding banks' contributions to the fund, which had been reduced in 2020 to help the financial system face the impacts of the pandemic, COSEDE will make an assessment on restoring the pre-crisis contributions soon after the president of its Board is appointed and share with the IMF.

F. Strengthening Competitiveness and Private Sector-led Growth

38. Our administration is committed to restoring the international competitiveness of the Ecuadorian economy and to catalyzing a private sector-led growth that raises the living standards for all Ecuadorians. Our goal is to make Ecuador a preferred destination for businesses worldwide, supported by our international trade agreements, a gradual reduction in the ISD, and reforming capital and labor markets. In this respect, the recent Decree 95 will foster greater private sector participation in the oil and gas sector, enabling participation contracts; mining Decree 151 will further facilitate investment in the mining sector, which already is increasing production and exports at a high annual growth rate.

39. The COVID-19 pandemic has compounded pre-existing labor market weaknesses, resulting in a timid recovery in formal employment to date and weak jobs quality. The Humanitarian Law in effect since June 22, 2020, has helped save 74,000 jobs and create an additional 240,000 jobs, including through a mechanism of emergency hour reduction upon agreement between employers and employees. In order to improve competitiveness, Ecuador needs to modernize its labor market to foster new forms of labor contracts that can particularly support female labor force participation and employment opportunities for the youth. We are preparing a new bill (*Ley de Oportunidades Laborales*) to foster private sector employment, particularly for those currently in the informal sector (mostly women and young people) lacking any social protection mechanisms. The law seeks to increase flexibility in work arrangements, reduce rigidity in part-time work and temporary contracts, and overall equity on the labor market, including the gender dimension. To build consensus and promote the joint interest of employers and employees, we are adopting a consultative approach to those labor market changes, bringing together all labor market participants, including the unemployed. We are also committed to applying our newly developed mechanism for setting the minimum wage, tied to concrete and predictable macroeconomic aggregates such as inflation and productivity.

40. We adopted a regulation in November 2020 to enhance the online publication of asset declarations by high-level officials, and/or politically exposed persons (PEPs) to increase transparency and reduce corruption risks. This step is part of a broader reform to strengthen the asset and interest disclosure regime for high-level public officials and update it in line with international good practices, and in accordance with the domestic legal framework. We have therefore ensured the General Comptroller can now publish additional information online, including itemized information on assets and liabilities. The General Comptroller Office has also enhanced the accessibility of this information in its website, to ensure that additional information, including itemized information on assets and liabilities, are accessible in an easy, searchable, free, and timely way.[2]

41. To continue with our broader reform agenda to promote good governance and

[2] https://www.contraloria.gob.ec/Consultas/DeclaracionesJuradas

effective anticorruption and AML/CFT frameworks, we will continue to strengthen our legal foundations in line with international good practices and sustain the efforts towards their effective implementation. To this end, we plan to:

- upgrade the AML/CFT legislative framework so that it is in effect ahead of the on-site visit for the GAFILAT assessment expected to start in April 2022. With technical support from the Fund, we are working to bring the current AML/CFT legislation in line with FATF international standards by end-March 2022 (***structural benchmark***).

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

- continue strengthening the Superintendency of Banks' capacity, with technical support from the Fund, to implement of a risk-based approach (RBA) to AML/CFT supervision. This will strengthen our AML/CFT framework and better support our efforts to tackle underlying crimes, such as corruption and tax evasion, and support asset recovery.

42. Building on IADB's technical support, we are committed to strengthening the framework for the operation of state-owned enterprises (SOEs), aligning their standards to that of private companies to improve efficiency and limit contingent liabilities to the budget—the government absorbed about $490 million in SOEs losses during 2018–2020 in addition to more than $600 million in transfers. The National Assembly is overhauling the SOEs law to promote corporate governance practices, including on the appointment of Board members, and strengthen transparency in the operations of SOEs. Seven SOEs are in the process of liquidation. A presidential Decree (#[95]) was adopted to audit the merger process of PetroAmazonas and PetroEcuador. To that end, we will also conduct an audit of the 2019 and 2020 financial statements of PetroAmazonas and PetroEcuador ***(structural benchmarks** to launch the audits by end-November 2021, to complete the audits of individual companies by end-April 2022 and the 2020 financial statements of the joint entity by end-October 2022 in compliance with IFRS guidelines*). We consider the reform of our public banks an important pillar of SOEs reform. Consistent with our quest for private sector-led growth, the PPP Committee is developing guidelines—with IADB and US Treasury support—to operationalize the executive decree institutionalizing the approval and bidding process for PPPs that was adopted in November 2020. A fiscal risk unit is being set up within the ongoing reorganization of MEF; it will *inter alia* evaluate the viability of

PPPs projects, including quantification of risks to the public sector's balance sheet, and propose ways to mitigate them. Such risks will be clearly presented in our fiscal risk statement, to be developed starting with the 2021 and 2022 budgets.

43. The conduct of audits of COVID-related spending by the Office of the Comptroller General, as per our commitment to the Fund when securing emergency financing in May 2020 under the RFI, have been implemented. The COVID-19 audit reports have been consolidated and displayed in a dedicated webpage within the Comptroller General Office website (see https://www.contraloria.gob.ec/EmergenciaSanitaria/Covid19). The webpage provides easy access to all the published independent audit reports of COVID-19-related spending with the corresponding links to the reports. The dedicated COVID-19 audit webpage will also inform the public of other COVID-19 related audit reports that cannot be published in the webpage at this moment due to confidentiality required by law arising from ongoing investigations and legal proceedings (***prior action***).

44. We are dedicated to reducing the cost of operations of strategic infrastructure by enhancing private sector's participation with leasing concession rights (including for renewable energy generation). To foster private sector's participation, we will review and enhance the Public Private Partnerships (PPPs) legal framework. For now, given recent difficulties to secure asset monetization and PPP contracts, we will rely on conservative revenue projections for the purpose of our budgets and medium-term fiscal framework. We will strive to rely on international best practices to ensure transparent processes and protecting the budget from contingent liabilities.

45. Our government is committed to pursuing equitable and environmental-friendly policies. We will seek to reduce the reliance of our economy on oil and strengthen our resilience to natural disasters. Leveraging our existing institutional set-up, we intend to work with our international partners to identify, cost, and implement concrete actions to reduce GHG emissions, including as part of our commitment under the Paris Agreement. Already, our ongoing fuel subsidy reform and extensive reliance on hydropower for electricity generation, by reducing CO_2 emissions, are important steps toward climate mitigation. Going forward, we will promote the transition to electric vehicles and the installation of electric recharging stations. Climate change is a macroeconomic imperative for Ecuador, as the global drive towards net-zero CO_2 emissions is likely to permanently depress oil prices. Our quest for private sector development will open up new business opportunities and progressively contribute to diversifying our economy away from fossil fuels. Moreover, our exposure to natural disasters calls for ex-ante preparation, for which the financial support of the international community would be needed, including to protect populations in vulnerable areas. We will receive IADB support to establish a climate finance unit within MEF.

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

G. Capacity Development

47. We are committed to radically enhance the capacity of our civil servants in both the MEF and the BCE. For this purpose, we are engaging in vast capacity building and technical assistance programs with various international organizations, including the Fund. As stated above, we are receiving support on cash management with the assignment of a long-term expert, we have requested technical assistance on fiscal risks, fiscal rules, MTFF, and fiscal coordination. In addition, we also plan to request support of the IMF in the process of the expenditure review and have agreed to undertake a Public Investment Management Assessment (PIMA) in the first quarter of 2021 and a Fiscal Transparency Evaluation (FTE) in the second quarter of 2021.

48. We are committed to continue to work with the Fund on a customized Financial Programming and Policies (FPP) for Ecuador. Our technical staff at MEF and the BCE already received virtual training on FPP, and the core capacity building that would deliver a customized macro-framework has been scheduled for delivery in the second quarter of 2022, The FPP training—which we see as a continuation of a series of macro-fiscal-financial courses for our government officials—will allow our staff working in different areas and relevant public entities to study the inter-linkages among different sectors of the economy and run internally consistent policy scenarios. By bringing together staff from different agencies, the strong inter-relations among the different sectors of the economy, inherent to the FPP's framework, will also practically illustrate the role of inter-agency coordination.

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

50. We will also ensure various public agencies have the capacity to upgrade their knowledges and processes via the support of the Fund's capacity building. Various Superintendencies, e.g, of banks and of cooperatives and mutuals, are receiving technical assistance support on stress tests. The Financial and Economic Analysis Unit (UAFE) and the Superintendency of Banks are also receiving technical assistances to strengthen the AML/CFT framework. Further technical assistance is also contemplated with the Office of the Comptroller General in order to strengthen anti-corruption capacities.

H. Monitoring Progress Towards Our Goals

51. The program will be monitored based on performance criteria, indicative targets, and structural benchmarks as set out in Tables 1, 2, and 3, based on definitions in the Technical Memorandum of Understanding attached hereto. It is expected that the Fourth Review will take place on or after December 15, 2021, and the Fifth Review on or after April 15, 2022.

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets, 2020-21

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

	End-Dec. 2020				End-Apr. 2021				End-Sep.	End-Dec. 2021
	Program	Adj. 3/	Actual	Status	Program	Adj. 3/	Actual	Status	Program	Program
Quantitative performance criteria										
1. Overall balance of the budgetary central government and CFDD (floor)1/	-4,005	-3,893	-3,655	Met	-241	-305	-184	Met	-2,301	-4,188
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	300	487	1,293	Met	-47	22	-55	Not Met	899	1,527
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	Met	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	Met	0	0
Indicative targets										
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*) 1/	-5,467	-5,355	-4,072	Met	-572	-636	-90	Met	-3,368	-6,030
6. Overall balance of the NFPS (*floor*) 1/	-5,656	-5,544	-4,334	Met	-273	-337	842	Met	-513	-2,422
7. Change in the stock of NIR - program definition (*floor*) 1/	-4,228	-4,041	-2,357	Met	-579	-110	542	Met	38	717
8. Coverage of the cash transfer programs for lower income families - number of families (*floor*) 2/	226,000	226,000	271,668	Met	384,600	384,600	443,619	Met	453,700	514,000

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

1/ Cumulative change from January 1, 2021.

2/ Cumulative change from July 1, 2020.

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

Table 2. Ecuador: Quantitative Indicative Targets, 2022

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

	End-Apr. 2022	End-Aug. 2022
	IT	IT
Quantitative performance criteria		
1. Overall balance of the NFPS (floor)1/	713	1,117
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	678	1,135
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0
Indicative targets		
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*)	-76	-991
6. Change in the stock of NIR - program definition (*floor*) 1/	432	693
7. Coverage of cash transfer programs for families in the bottom three income deciles - percent of families in each province *(floor)*	60.0	65.0
8. Coverage of cash transfer programs for families in the first income decile - percent of families in the first income decile *(floor)*	50.0	57.5
9. Coverage of cash transfer programs for families in the first income decile - number of families in the first income decile *(floor)* 2/	625,600	–

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

1/ Cumulative change from January 1, 2022.

2/ Cumulative change from July 1, 2020.

Table 3. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs)

Reform area	Structural Conditionality	Objectives	Due date	Status
Prior Actions				
Transparency and AML/CFT	Pursuant to the regulation issued by SERCOP in September 2020, make procurement contracts exceeding US$962,410 awarded since September 2020, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, available to the public in the procurement website, in a directly and freely accessible and user-friendly manner.	Strengthen anticorruption and AML/CFT and protect the public purse	Prior action	
Transparency	Consolidate COVID-19 audit work in a dedicated webpage within the Comptroller General Office website. The webpage will provide easy access to all the published independent audit reports of COVID-19-related spending with the corresponding links to the reports. The dedicated COVID-19 audit webpage should also inform the public of other COVID-19 related audit reports that cannot be published on the webpage at this moment due to confidentiality required by law arising from ongoing investigations and legal proceedings. The webpage should provide a summary of the findings of such reports based on information that can be disclosed.	Improve expenditure control, including COVID related spending, and governance	Prior action	
Cash management	Prepare and present to IMF staff a central government financial plan for the remaining of year 2021 approved by the Financial Committee. The financial plan will include the detailed monthly cash flow, the arrears as of July 2021 verified by MEF following the COPLAFIP definition by sector, 2021 clearance estimate and monthly accumulation data, a document with the potential risks associated to the financial plan, potential mitigating measures, and an explanation of the deviations of the 2021 Financial Plan delivered to IMF staff in December 2020.	Improve institutional capacity and identify early warning signs of impending liquidity constraints	Prior action	

Table 3. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)				
Structural Benchmarks				
Fiscal framework	Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTFF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Strengthen the public financial management framework and fiscal discipline, and increase fiscal transparency	End-Nov. 2020	Implemented with delay
BCE	The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Improve the BCE's audit mechanisms	End-Nov. 2020	Met
Transparency and AML/CFT	Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs), and publishing additional information online, including itemized information on incomes, assets and liabilities, based on regulations adopted by the General Comptroller, at the request of the government.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2020	Partially implemented. Proposed new Structural benchmark to advance the reform
Cash Management	Deliver to IMF staff a PGE financial plan for the year 2021 approved by the Financial Committee.	Improve institutional capacity and identify early warning signs of impending liquidity constraints	Dec. 16, 2020	Met
Transparency and Governance	Enactment of the anticorruption legislation, approved by the National Assembly, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Strengthen anticorruption and protect public finances	End-Dec. 2020	Met

Table 3. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)

Organic Monetary and Financial Code (COMYF) reform of the Central Bank framework	Enactment of amendments to the Central Bank's legal framework, elaborated in consultation with Fund staff as committed to under the 2019 EFF, in line with the substantive elements and constitutional process described in MEFP ¶16.	Strengthen the autonomy and governance framework of the BCE	End-Jan. 2021	Not met. Implemented with delay in April
Debt management	Publish a Medium-Term Debt Management Strategy (MTDS), prepared with the support of IMF TA, which assesses the cost and risk trade-offs of the different sources of public funding, and establishes a policy agenda.	Facilitate domestic debt market development, promote medium-term debt management, and increase transparency of public debt policies	End-Feb. 2021	Met
Domestic arrears	Share with IMF staff an updated arrears' clearance strategy with the updated information on the stock of arrears as of end 2020 based on quarterly flows for central government and selected relevant entities of the NFPS in line with IMF technical assistance recommendations.	Strengthen the monitoring and reduce accumulation of payment arrears	End-Apr. 2021	Not met. Converted to new benchmark
Fiscal Statistics	Correct and publish the historical NFPS data, both above- and below-the-line, back to 2012.	Improve quality of fiscal statistics	End-May 2021	Not met. Implemented with delay in August
Fiscal Statistics	Prepare a compilation guide, in consultation with IMF TA, and disseminate it to data providers across the NFPS through a workshop.	Improve quality of fiscal statistics	End-May 2021	Met
Transparency	Undertake an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publish the results on a government website.	Improve expenditure control, including COVID related spending, and governance	End-Jun. 2021	Not met. Reset as PA

Table 3. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)				
Tax reform	Enactment of a tax reform, elaborated in consultation with Fund staff, aimed at generating revenue and improving the overall efficiency of the tax system.	Improve the efficiency of the tax system	End-Sep. 2021	New deadline of end-Oct. 2021
Transparency	Establish and start operating the National Control Subsystem (SNC) to fight corruption in procurement. The SNC will facilitate coordination amongst public entities with control competencies over the public procurement system, via the interoperability of their databases.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Oct. 2021	Newly proposed
Transparency	Pursuant to the regulation issued by SERCOP in September 2020, make all procurement contracts awarded since September 2020, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, available to the public in the procurement website, in a directly and freely accessible and user-friendly manner.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2021	Newly proposed
Transparency	SERCOP, in coordination with the Ministry of Economy and Finance and the National Secretary of Planning, will issue procurement guidelines for all sectors of government to increase reliance on catalog purchases, improve procurement processes, and enforce bulk and standardized purchases for the central administration. Enforcement will be phased in from the end of 2021 (Central Government, IESS) until the end of first quarter 2022 (subnational governments, SOEs).	Improve expenditure control	End-Nov. 2021	Newly proposed
SOE	Initiate independent audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas by agreeing on the terms of reference and timeline for completing the audits.	Strengthen SOEs	End-Nov. 2021	Newly proposed
Financial sector	Initiate independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks by selecting the third-party firm and agreeing on a terms of reference.	Improve fiscal transparency	End-Nov. 2021	Newly proposed

Table 3. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (continued)

Domestic arrears	MEF will publish a methodology to estimate the arrears' stock and the templates for reporting on arrears to be used by public sector entities.	Strengthen the monitoring and reduce accumulation of payment arrears	End-Nov. 2021	Newly proposed
Fiscal framework	Establish the National Fiscal Coordination Committee (NFCC) as set out in COPLAFIP	Strengthen the public financial management framework and fiscal discipline	End-Nov. 2021	Newly proposed
Social assistance	Complete the upgrade of the social registry and expand the coverage of the social assistance program to at least 80 percent of families in the bottom three deciles of the income distribution.	Strengthen the social safety net	Dec. 16, 2021	New deadline of mid-Apr. 2022
Transparency and AML/CFT	Enact legislation to strengthen the framework to prevent and manage conflicts of interest in the public sector, broadening the existing asset declaration system to include incomes and interests of high-level public officials and/or politically exposed persons (PEPs), and ensuring the online publication of this information on incomes and interests for high-level public officials and/or politically exposed persons (PEPs), in line with the UNCAC (articles 7 and 8) and international good practices.	Strengthen the framework of conflict of interest and illicit enrichment	End-Jan. 2022	New deadline of end-Aug. 2022
AML/CFT	Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with the FATF standards.	Strengthen anticorruption and AML/CFT	End-Mar. 2022	Newly proposed
SOE	Share with IMF staff the completed independent audits of the 2019 and 2020 individual financial statements of Petroecuador and Petroamazonas	Strengthen SOEs	End-Apr. 2022	Newly proposed
Financial sector	Share with IMF staff the completed independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks.	Improve fiscal transparency	End-June 2022	Newly proposed

Table 3. Ecuador: Prior Actions (PAs) and Structural Benchmarks (SBs) (concluded)				
Transparency and Governance	Share with IMF staff the results of the independent audits by the Office of the Comptroller General on tax expenditures of the largest 100 public procurement contracts awarded over 2020- 2021.	To fight against tax evasion, increase revenues, enforce the new tax code	End-Sep. 2022	Newly proposed
SOE	Share with IMF staff the completed independent audits of the 2020 financial statements of the merged entity Petroecuador and Petroamazonas (joint entity audits, to accommodate IFRS requirements)		End-Oct. 2022	Newly proposed
Social assistance	Expand the coverage of the social assistance program to no less than 70 percent coverage of the bottom three income deciles by province and no less than 65 percent of the first income decile nationwide.	Strengthen the social safety net	End-Dec. 2022	Newly proposed

Attachment II. Technical Memorandum of Understanding

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

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

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

Table 1. Ecuador Program Exchange Rates

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

Source: Bloomberg, as of July 31, 2020.

Table 2a. Ecuador Quantitative Performance Criteria, 2021

(In millions of US$, unless otherwise indicated)

	End-Dec. 2020				End-Apr. 2021				End-Sep.	End-Dec. 2021
	Program	Adj. 3/	Actual	Status	Program	Adj. 3/	Actual	Status	Program	Program
Quantitative performance criteria										
1. Overall balance of the budgetary central government and CFDD (floor)1/	-4,005	-3,893	-3,655	Met	-241	-305	-184	Met	-2,301	-4,188
2. Accumulation of NFPS deposits at the central bank (*floor)* 1/	300	487	1,293	Met	-47	22	-55	Not Met	899	1,527
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met	0	0	0	Met	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met	0	0	0	Met	0	0
Indicative targets										
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor)* 1/	-5,467	-5,355	-4,072	Met	-572	-636	-90	Met	-3,368	-6,030
6. Overall balance of the NFPS (*floor)* 1/	-5,656	-5,544	-4,334	Met	-273	-337	842	Met	-513	-2,422
7. Change in the stock of NIR - program definition (*floor)* 1/	-4,228	-4,041	-2,357	Met	-579	-110	542	Met	38	717
8. Coverage of the cash transfer programs for lower income families - number of families (*floor)* 2/	226,000	226,000	271,668	Met	384,600	384,600	443,619	Met	453,700	514,000

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

Table 2b. Ecuador Indicative Targets, 2022

(In millions of US$, unless otherwise indicated)

	End-Apr. 2022	End-Aug. 2022
	IT	IT
Quantitative performance criteria		
1. Overall balance of the NFPS (floor)1/	713	1,117
2. Accumulation of NFPS deposits at the central bank (*floor)* 1/	678	1,135
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0
Indicative targets		
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor)*	-76	-991
6. Change in the stock of NIR - program definition (*floor)* 1/	432	693
7. Coverage of cash transfer programs for families in the bottom three income deciles - percent of families in each province *(floor)*	60.0	65.0
8. Coverage of cash transfer programs for families in the first income decile - percent of families in the first income decile *(floor)*	50.0	57.5
9. Coverage of cash transfer programs for families in the first income decile - number of families in the first income decile *(floor)* 2/	625,600	–

Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).
1/ Cumulative change from January 1, 2022.
2/ Cumulative change from July 1, 2020.

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

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

These four performance criteria will be monitored continuously.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

Definitions

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

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

7. Total revenues are recorded on cash basis.

Revenues explicitly included are:

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

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

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

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

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

Monitoring

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

Adjustors

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

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

	2021		2022	
	September	December	April	August
Ecuador mix crude oil price (US$ per barrel)	62.1	62.1	56.1	54.6

Source: Ministry of Finance and IMF staff estimates

14. Adjustor on external financing from China. The floor on the overall balance of the budgetary central government and CFDD will be adjusted downward by the amount of excess in external loan disbursements from China relative to the amounts in the baseline reported in Table 4, which are the amounts received during 2021 through the end of August, up to a cumulative maximum through end-December 2021 of US$300 million.

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

	2021		2022	
	September	December	April	August
Expected disbursements from China 1/	209.4	209.4	0.0	0.0

1/ For 2021, cumulative from January 1. For 2022, cumulative from January 1, 2022.

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

Definitions

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

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

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

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

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

Monitoring

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

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

Adjustors

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

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

	2021		2022	
	September	December	April	August
Total market issuance consistent with program targets (cumulative) 1/	0.0	0.0	0.0	0.0

1/ For 2021, cumulative from January 1. For 2022, cumulative from January 1, 2022. 2022 market issuance projected in Table 3 is expcted to take place after August, 2022.

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

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

	2021		2022	
	September	December	April	August
Expected disbursements of program loans by multilaterals 1/	1483.0	3803.0	300.0	600.0

1/ For 2021, cumulative from January 1. For 2022, cumulative from January 1, 2022.

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

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

Definitions

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

(i) *loans*, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the

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

[2] As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 16919-(20/103).

funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

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

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

Coverage

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

Monitoring

This PC will be monitored on a continuous basis.

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

Definitions

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

Monitoring

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

INDICATIVE TARGETS (IT): DEFINITION OF VARIABLES

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

Definitions

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

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

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

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

Revenues explicitly included are:

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

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

- Interest income (recorded on cash basis);
- Proceeds from the sale of financial assets;
- Revenues from the privatization of government-owned entities;

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

- Revenues from oil exports;
- Revenues from the domestic sales of oil derivatives;
- The operating surplus of state-owned oil companies (PetroAmazonas and PetroEcuador);

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

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

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

35. Costs associated with divestment operations or the liquidation of public entities, such as the cancellation of existing contracts or severance payments to workers, will be recorded as spending. All expenditures recorded as a credit in "Account 99" (due to the lack of corresponding budget allocations) will be recorded as spending above-the-line on an accrual basis as the spending obligations accrue.

Monitoring

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

Adjustors

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

38. Adjustor on external financing from China. The floor on the non-oil primary balance of the non-financial public sector including fuel subsidies will be adjusted downward by the amount of excess in external loan disbursements from China relative to the baseline projections reported in Table 4, up to a cumulative maximum through end-December 2021 of US$300 million.

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

Definitions

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

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

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

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

Monitoring

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

Adjustors

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

42. Adjustor on external financing from China. The floor on the overall balance of the non-financial public sector will be adjusted downward by the amount of excess in external loan disbursements from China relative to the baseline projections reported in Table 4, up to a cumulative maximum through end-December 2021 of US$300 million.

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

Definitions

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

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

Specifically excluded from gross international reserves are:

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

45. Gross reserve-related liabilities comprise:

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

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

Adjustors

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

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

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

Monitoring

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

50. 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.

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

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

Definitions

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

Monitoring

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

53. 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:

54. 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.

55. 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:

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

56. 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

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

Daily

58. 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. c) Daily oil production.

Weekly

59. 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.

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

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

61. 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

62. 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.

63. 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.

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

65. 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.

66. 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.

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

Quarterly

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

69. Detailed fiscal and debt data by the subsectors of NFPS, no later than 60 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.

INTERNATIONAL MONETARY FUND

ECUADOR

September 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, SECOND AND THIRD REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In Consultation with other Departments)

CONTENTS

FUND RELATIONS

(As of August 31, 2021)

Financial Relations

https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=270&date1key=2099-12-31

Membership Status: Joined: December 28, 1945, Article VIII.

Safeguards Assessment: An update to the safeguards assessment of the BCE was finalized in June 2019, which provided recommendations on restoring the autonomy of the BCE as well as strengthening the credibility of the dollarization regime. With the enactment of the new central bank law (COMYF) in April 2021, the authorities have implemented most of the recommendations. The BCE is on track implement the remainder albeit with some delay. These include adopting IFRS accounting standards and making the Audit Committee operational by appointing its members; they also intend to publish the audit opinion on the BCE financial statements starting with the 2021 report (MEFP ¶26). Steps are being taken to modernize the BCE's internal audit function.

A. Nonfinancial Relations

Exchange Rate Arrangement:

On February 12, 1999 the central bank abandoned the exchange rate band and floated the sucre. On March 9, 2000 the economy was dollarized at 25,000 sucres per U.S. dollar. The de jure and de facto exchange rate arrangement is an arrangement with no separate legal tender; there are local coins (small denomination) in circulation in the amount of about US$80 million. Ecuador has accepted the obligations of Article VIII, Sections 2, 3, and 4 but maintains an exchange restriction subject to Fund approval arising from a 5 percent tax on transfers for the making of payments and transfers abroad on current international transactions. There are a number of exemptions from this tax. In September 2021 the government enacted an Executive Decree lowering the tax rate to zero for foreign airline companies operating in Ecuador, which will enter into force upon its publication in the official gazette. In addition, the SUCRE (Sistema Unitario de Compensación Regional de Pagos) regional payments arrangement also gives rise to an exchange restriction subject to Fund approval since the period for settlement under the bilateral payment arrangement exceeds three months.

FSAP: The most recent FSAP took place in 2004.

Last Article IV Consultation:

On March 11, 2019 the Executive Board concluded the 2019 Article IV consultation and approved the request for EFF arrangement. The staff report is available at: https://www.imf.org/en/Publications/CR/Issues/2019/03/20/Ecuador-Staff-Report-for-the-2019-Article-IV-Consultation-and-Request-for-an-Extended-46682

Technical Assistance:

STA Government Finance Statistics, July 2021

STA	Government Finance Statistics, April 2021
FAD	Revenue Administration, March 2021
MCM	Stress Testing, January 2021
LEG	Developing Implementation Regulations for COPLAFIP, December 2020
MCM	Medium Term Debt Strategy, November 2020
STA	Government Finance Statistics, September/October 2020
MCM	Credit Cooperatives Supervision, July 2020
FAD	Tax Expenditure, April 2020
STA	Government Finance Statistics, September/October 2019
STA	External Sector Statistics, August/September 2019
STA	Export and import price indices, July 2019
FAD	Revenue Administration and Tax Procedures, June/July 2019
MCM	Regulatory and Prudential Framework, June 2019
FAD	PFM and Fiscal Rules, May 2019
LEG	Central Bank Law, April 2019
FAD	Customs Administration, March/April 2019
FAD	Revenue Administration, March 2019
FAD	Non-Resource Revenues, January/February 2019
STA	External Sector Statistics, January/February 2019
FAD	Wage Bill Reform, January 2019
MCM	Debt Management, December 2018
STA	National Accounts Statistics, November 2018
FAD	Public Financial Management, September 2018
STA	Government Finance Statistics and Public Debt Statistics, August 2018
STA	Monetary and Financial Statistics, August/September 2017
STA	Balance of Payments Statistics, August/September 2017
MCM	Network Analysis Toolkit, January 2016

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/ecuador

Inter-American Development Bank: https://www.iadb.org/en/countries/ecuador/overview

STATISTICAL ISSUES

(As of September 10, 2021)

I. Assessment of Data Adequacy for Surveillance
General: In spite of some shortcomings, macroeconomic data are broadly adequate for surveillance purposes.
National Accounts: The Central Bank of Ecuador (BCE) disseminates GDP series with fixed base year of 2007. Annual and quarterly GDP series are compiled based on the expenditure and production approaches, both in current and constant 2007 prices. Currently, disseminated data spans from 2007-20 for annual series and 2007Q1-2021Q1 for quarterly series. The GDP by the income approach is published on an annual basis, up to 2019. Annual gross fixed capital formation is disseminated by product under the expenditure-based GDP; the disaggregation of private and public capital formation is only available in current prices. The BCE is working on a project to update the base year of the national accounts.
Price Statistics: The CPI is a Laspeyres-type index covering nine urban areas amounting to 83 percent of the population and 87 percent of the expenditure. The weights are based on the 2011-12 household expenditure survey results, and the current index reference period is 2014. The PPI is also a Laspeyres-type index with weights based on the national accounts of 2013, and the current index reference period is 2015. International best practices call for updating weights every five years. The PPI covers the sectors agriculture, forestry and fishing, and manufacturing.
Government Finance Statistics: The authorities publish GFS time series (revenues expenditures and financing data) for Non-Financial Public Sector (NFPS) and its subsectors (Central Government, Social security Funds, Local Government and a sample of SOEs) from January 2012 up to December 2020. The national classification of revenues and expenditures has been updated and improved. The improvement on the classification of revenues and expenditures will allow the authorities to participate in the Government Finances Statistics Yearbook (GFSY) database shortly, which is based on GFSM 2014. Areas of further improvement include the provision and dissemination of the consolidated NFPS Debt Statistics Data broken down by sector.
Monetary and Financial Statistics: The BCE compiles monetary statistics generally following the methodology of the *Monetary and Financial Statistics Manual*. The BCE reports detailed monthly monetary data for the central bank and other depository corporations using the standardized report forms (SRFs). An integrated monetary database that meets the monetary data needs of the BCE the Fund is in progress. Core financial soundness indicators (FSIs) for deposit-takers and five (out of 13) encouraged FSIs are reported to STA on a monthly basis.

External sector statistics: Ecuador compiles and disseminates quarterly balance of payment and annual international investment position (IIP) statistics. It completed the migration to the sixth edition of the Balance of Payments and International Investment Position Manual (*BPM6*) in 2019. Ecuador also disseminates quarterly external debt data and monthly data on the Template on International Reserves and Foreign Currency Liquidity. Areas of further strengthening as noted by recent TA, include improve quality and coverage of balance of payments and IIP. These include enhancing the coverage and analysis of quarterly data on the non-financial public sector for External Sector Statistics (ESS) and making better use of available source data for compiling ESS.	
II. Data Standards and Quality	
The country has been a SDDS subscriber since March 27, 1998 and met all SDDS requirements on July 14, 2000.	

Ecuador: Table of Common Indicators Required for Surveillance
(As of September 10, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jul, 2021	Aug, 2021	M	M	M
Reserve/Base Money	Jul, 2021	Aug, 2021	M	M	M
Broad Money	Jul, 2021	Aug, 2021	M	M	M
Central Bank Balance Sheet	Jul, 2021	Aug, 2021	M	M	M
Consolidated Balance Sheet of the Banking System	Jul, 2021	Aug, 2021	M	M	M
Interest Rates[2]	Aug, 2021	Aug, 2021	M	M	M
Consumer Price Index	Mar, 2021	Apr, 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	May, 2021	Aug, 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	May, 2021	Aug, 2021	M	M	M
Stock of consolidated Non-Financial Public Sector debt	May, 2021	Aug, 2021	M	M	M
External Current Account Balance	Q1/2021	Jul, 2021	Q	Q	Q
Exports and Imports of Goods and Services	Q1/2021	Jul, 2021	Q	Q	Q
GDP/GNP	Q1/2021	Apr, 2021	Q	Q	Q
Gross External Debt	2019	Jan, 2020	A	A	A
International Investment Position[5]	Q1/2021	Jul, 2021	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by the Staff Representative on Ecuador
September 29, 2021

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

2. **The September employment survey data suggests some improvements in the labor market.** The unemployment rate declined by 0.6 ppt to 6.1 percent among women between June and August; it remained flat at 4 percent among men. Adequate employment (full time workers earning at least the minimum wage) improved from 31.3 to 32.4 percent but remains well below the pre-pandemic level of around 40 percent.

3. **The three prior actions for the Second and Third Reviews have been completed:**

- The procurement contracts that had been awarded after September 2020 that exceeded US$962,410 have been published on the national public procurement agency SERCOP's website, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, in a directly and freely accessible and user-friendly manner.[1] Of the 522 contracts published, 119 were missing the ultimate beneficial ownership information.

- Approved audits of COVID-19 related spending during the state of emergency were published on a dedicated webpage on the Comptroller General Office website in an easily accessible way.[2] The dedicated webpage also provides a summary of the findings in audit reports that cannot be published at this time due to ongoing investigations and legal proceedings. The main findings of this summary were a) deficiencies in the publication of relevant information of the contracting processes (most common error detected), b) deficiencies in the determination of the reference budget of the contracts, c) selected suppliers not complying with the legal requirements to contract with the State, d) uncompetitive pricing, and e) deficiencies in the elaboration of technical specifications.

- The authorities prepared and presented to IMF staff a central government financial plan for the remaining of year 2021 that was approved by the Financial Committee. The financial plan included a detailed monthly cash flow, the arrears until August 2021, clearance of arrears from past years and estimated monthly accumulation of arrears during 2021, a document with the potential risks associated to the financial plan, and potential mitigating measures. A supplementary report explained the deviations from the 2021 Financial Plan that had been delivered to IMF staff in December 2020. Staff is

[1] https://portal.compraspublicas.gob.ec/sercop/beneficiario-final/
[2] https://www.contraloria.gob.ec/EmergenciaSanitaria/Covid19/Informes

reviewing the Plan jointly with the authorities to ensure full consistency with the program and alignment with PFM practices.

4. The National Planning Council approved the National Development Plan (NDP) for 2021-2025 on September 21. The NDP aims to promote trade, tourism, foreign investment, and modernize the domestic financial system. It sets out medium term goals, including achieving a real GDP growth rate of 5 percent, generating 2 million high-quality jobs, reducing rural poverty and malnutrition by 15 and 6 ppts respectively, expanding access to the internet by 10 percent to reach a coverage of 78 percent across Ecuador, and combatting corruption to improve Ecuador's ranking in the Transparency International's index of perception of corruption from 93 to 50 by 2025. The NDP was provided to the National Assembly for information following its approval.

5. The tax rate on transfers abroad for foreign airline companies operating in Ecuador has been lowered to zero (Staff Report ¶49)**.** The Executive Decree was published in the official gazette on September 22, 2021.

6. The National Assembly sent the 2021 Budget back to the government, but this will not affect enactment of the budget. The Assembly was consulted on the budget and rejected it, seeking clarification on several technical issues including oil price assumptions (deemed optimistic), inflation forecast, quantification of savings from fuel subsidies reform, and consistency between the budget revenue forecast and information previously provided by the revenue agency. They also inquired about the budget allocation for education and health, support to women, arrears to the social security fund, and the use of the recent IMF SDR allocation. The authorities plan to provide technical responses to the Assembly and resubmit the budget without changes in the coming days. Regardless of the Assembly vote, the submitted bill will be enacted as is, as per Ecuadorian law.

7. The authorities submitted to the National Assembly a package of reforms ("Law for Creating Opportunities") on September 24. The reform package includes i) a tax bill aimed at raising revenues; ii) a labor bill aimed at making the labor market more flexible, and iii) reforms to improve competitiveness and promote investment. The law was submitted under emergency procedures, which gives the Assembly 30 days to vote on the bill; failure to do so would result in automatic adoption of the law.

i. The main changes on **tax policy** are the reform of personal income tax to have a greater contribution from those who earn more than $2,000 per month, a temporary tax on high net-worth individuals for two years, and a similar tax on profitable large companies for one year. The largest measures in the bill, the personal and corporate income tax policy changes, are aligned with the commitments in the MEFP (MEFP ¶16). Compared to the MEFP, the temporary tax on high net-worth individuals would be applied to a wider base and for two years instead of one year, and a new administrative measure to mediate tax disputes would raise both permanent and temporary revenues. By contrast, the temporary tax on profitable large companies would be applied for one instead of two years; some personal hygiene goods would be exempted from VAT; mobile phone plans would be exempted from excise taxes; and the 2 percent sales tax for micro, small and medium size firms would be eliminated. Overall, the authorities estimate that the proposed bill may yield slightly higher revenues compared to the MEFP commitments of about $220 million (0.2 percent of GDP) per year in the next two years; staff is liaising closely with the authorities to assess the measures and their expected yields.

ii. The **labor bill** includes provisions to increase flexibility in work arrangements and reduce rigidity in temporary contracts, such as allowing hourly hiring schemes, with the view to promoting formal employment and promoting equity in the labor market (Staff Report ¶39).

iii. Among the main changes to improve **competitiveness and investment** are opening the possibility for some public services to be provided by the private sector, such as utilities and transportation, reducing customs red tape in order to facilitate trade, allowing banks to invest in the stock market.

Statement by Afonso Bevilaqua, Executive Director for Ecuador, Ricardo Velloso, Senior Advisor to Executive Director, and Jorge Gallardo, Advisor to Executive Director

September 29, 2021

1. We wish to express, on behalf of our Ecuadorian authorities, our gratitude to the Managing Director and the other members of the IMF management team for their continuing support to Ecuador's economic policies and reforms. Also, we want to thank Ms. Oner and her team for the hard work and well-written set of reports on the Article IV consultation and the second and third reviews under the Extended Arrangement.

2. As detailed below, our Ecuadorian authorities have taken tangible actions to successfully implement a strong program under extremely challenging circumstances posed by the global pandemic. In addition, the authorities of the new government have shown strong commitment to the program's objectives. The successful conclusion by Executive Directors of the second and third reviews under the Extended Arrangement would signal the international community's continuing support to sound policies and the well-being of the Ecuadorian people. It would also recognize the smooth and efficient transition that took place, following peaceful and open elections earlier in the year that reaffirmed the pursuit of market-friendly reforms to boost inclusive growth.

Background

3. **The former government took swift actions to deal with the health and economic challenges posed by the global pandemic**. It concluded a debt restructuring with private creditors that provided much needed relief. Also, it called on the IMF for policy advice and financial support, initially through an RFI emergency disbursement that was shortly followed by the approval of an exceptional access 27-month Extended Arrangement. This also unlocked technical and financial support from other IFIs. Altogether, the strong support by the international community has been instrumental in mitigating the effects of the crisis. The economy contracted by 7.8 percent of GDP in 2020, but less than the 11.0 percent initially projected by staff. In the first quarter of 2021, the economy expanded by 0.7 percent (quarter-on-quarter). The fiscal position in 2020 was better than projected by staff and, together with a higher nominal GDP, public debt at end-2020 was almost eight percentage points of GDP lower than projected by staff at the time of the EFF-supported program request. Inflation remains subdued, and the financial system is liquid and well capitalized.

4. **Following peaceful and open elections, the transition to a new administration was smooth and efficient, and engagement with the Fund remained close**. On April 11, 2021, Mr. Guillermo Lasso obtained a landmark victory in the presidential runoff election, and a new government took office on May 24, 2021. During the transition, President Moreno and then President-Elect Lasso organized several commissions to be briefed on, and receive information from, different governmental institutions, greatly facilitating the initial work of the incoming administration. In addition, during this time and subsequently there was a close dialogue with Fund management and staff, which was critical to bringing to the Board, in a timely fashion, this request for completion of the second and third reviews under the Extended Arrangement.

Recent performance under the Extended Arrangement

5. **Program implementation has been strong since the first review**. All quantitative performance criteria for end-December 2020 and all but one for end-April 2021 were met. In this period, all indicative targets were met. The authorities are requesting a waiver of the end-April

2021 quantitative performance criterion on the accumulation of NFPS deposits at the central bank, which was not met by a small margin. While the breach was minor and does not have a significant macroeconomic effect, it highlights the need for a better management system. In this regard, the authorities have requested IMF technical assistance in this area. On the structural reform side, the compilation guide for the government financial system has been concluded and published. The initial challenges to publish information on historical revenue and expenditure statistics of each of the sectors of the NFPS have been overcome, and these data have been disseminated. In other areas, including the review of the medium-term debt strategy and better assessing domestic payments arrears, good progress is being made with technical assistance from the IMF.

6. **Parliament approved in April 2021 a landmark reform that gave the Central Bank of Ecuador (BCE) institutional independence to conduct monetary policy**. This reform created a new institution, the Monetary Commission (*Junta Monetaria*), in charge of monetary policy decisions. This institution will appoint the General Manager of the BCE. Each member of the *Junta Monetaria* will be appointed by parliament out of a list of three candidates put forward by the President of the Republic. To strengthen the balance sheet of the central bank, shares of three of the state-owned banks held at the central bank (worth US$2.4 billion) were transferred to the ministry of finance, which agreed to repay the central bank in equal installments during 2021-2035. Also, legacy assets received by the BCE during the 1999 banking crisis will be removed from its balance sheet.

7. **Support to the vulnerable population most affected by the economic and social effects of the pandemic has continued**. The authorities have made progress in updating the social registry to expand the coverage of social assistance programs. Between July 2020 and end-April 2021, the number of beneficiary families has increased substantially. While changes in the survey of poor families and lack of census data to clearly identify poor families are affecting the pace of implementation, the authorities have increased their efforts to continue expanding the reach of the social assistance programs using pre-census data. The government's target to cover under these programs four-fifths of the families in the bottom three income deciles is expected to be reached no later than April 2022.

Near-term priorities of the new administration

8. **The authorities acknowledge that the recovery may prove elusive if the pandemic is not quickly brought under control**. As promised during the campaign, the administration of President Lasso has been implementing a comprehensive plan to vaccinate the eligible population as soon as possible, reaching ahead of time its initial goal of vaccinating more than half of the adult population in the first one-hundred days in office. As of September 20, 2021, 60 percent of the adult population received at least one dose of the vaccine, and 55 percent were fully vaccinated. A rapid vaccination rollout will enable a faster, stronger, and more equitable recovery.

9. **Another immediate goal of the new administration is to change Ecuador's economic strategy, from government promoted to private sector led growth**. In this regard, the government is committed to opening the economy to the world, bringing more Ecuador to the world and more world to Ecuador. The authorities have already started conversations with Mexico, Colombia, Peru, and Chile to be part of the Pacific Alliance. Also, conversations with the United States, which started by the former administration, are underway on a bilateral free trade agreement. In addition, negotiations on a free trade agreement with China will begin soon.

Medium-term priorities of the new administration

10. **Fiscal consolidation will place stronger emphasis on expenditure rationalization**. Overall, the authorities are targeting a reduction in primary spending by 4.2 percent of GDP by the end of the administration, through improvements in procurement practices, lower fuel subsidies, and expenditure rationalization. The largest savings will be generated by improving procurement practices, which are expected to yield 1.5 percent of GDP. Rolling back one-off expenditures (from this year) will yield another 0.9 percent of GDP in savings, together with savings of 0.9 percent of GDP from the continued reduction in fuel subsidies. The remaining 0.9 percent of GDP will be achieved through expenditure rationalization across a range of items, including the wage bill.

11. **The envisaged tax reform will increase revenues while making the tax system more equitable, simpler, and growth friendly**. The authorities believe that those who benefitted most from the crisis and those who earn more should make an additional contribution to support the ones most affected by the crisis. In this regard, the reform will reduce tax expenditures in both the personal and corporate income taxes, yielding a combined 0.7 percent of GDP in additional revenues. The government will introduce revenue administration measures to improve collections through the newly created Large Taxpayers Unit as well as improved customs controls and VAT compliance that will yield, altogether, 0.3 percent of GDP. Special contributions from corporations and high net worth individuals as well as enhanced disclosure of foreign assets held abroad will generate 0.5 percent of GDP in one-time revenue collections. The admission of Ecuador's Internal Revenue Service (SRI) as a member of the Global Forum on Transparency and Information Exchange under the auspices of the OECD should contribute to the fight against tax evasion.

12. **Fiscal transparency will continue to be strengthened with IMF technical assistance**. During the previous administration, the fiscal responsibility law (COPLAFIP) was amended to help anchor medium-term fiscal sustainability, and the anti-corruption framework (COIP) was strengthened with the criminalization of corruption offenses. More recently, revised historical government financial statistics have been published. In the second semester of 2022, a Fiscal Transparency Evaluation will be undertaken. The authorities are updating the medium-term debt strategy, with a view to further enhancing debt transparency. They are also updating the registry of entities that participate in public procurement and are incorporating requirements on beneficial ownership identification in public tenders. This information will be freely accessible through the public procurement institution (SERCOP). Finally, the AML/CFT legislation will be reviewed and amended, as needed, by end-March 2022 to incorporate the latest available international standards.

13. **Fostering competitiveness is key to boost Ecuador's medium-term growth potential**. In this regard, on September 24, 2021, President Lasso presented to parliament the Draft Law on Creating Opportunities that envisages the establishment of a modern labor market framework, with greater flexibility to promote job creation. The BCE has prepared a reform proposal to promote financial inclusion and competition in the financial system. This should facilitate a market-driven reduction in interest rates, which in Ecuador are extremely high in comparison to other dollarized economies in the region. The government is also committed to liberalizing foreign trade and fostering businesses' access to external trade and finance. These reforms, together with the other reforms mentioned above, will create a favorable environment for private investment and private sector led growth and job creation.

Final remarks

14. The EFF supported program has been critical for Ecuador to mitigate and start overcoming the harsh humanitarian and economic crisis triggered by the global pandemic. The program is fully financed and Ecuador's capacity to repay the Fund remains adequate. While some signs of recovery are already visible, much remains to be done. The continued support from the IMF and other IFIs is therefore more important than ever for Ecuador to successfully overcome the pandemic crisis, open the economy to the world, and set course on a clear path of inclusive growth.