IMF Country Report No. 22/225

ECUADOR

July 2022

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, REPHASING OF ACCESS, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the Fourth and Fifth Reviews Under the Extended Arrangement Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing of Access, 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.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 24, 2022, following discussions that ended on May 9, 2022, with the officials of Ecuador on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 7, 2022.
- 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes Fourth and Fifth Reviews of the Extended Fund Facility for Ecuador

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the combined fourth and fifth reviews of the 27-month Extended Fund Facility (EFF) for Ecuador, allowing for an immediate disbursement equivalent to about US$1 billion.
- Ecuador's EFF-supported economic program aims to stabilize the economy, ensure fiscal and debt sustainability, expand the coverage of social assistance programs to protect the vulnerable, promote a transparent management of public resources, and lay foundations for sustainable and inclusive growth.
- Continued improvement in public financial management and advances in transparency and anti-corruption would strengthen efficiency and accountability of the public sector.

Washington, DC – June 24, 2022: The Executive Board of the International Monetary Fund (IMF) concluded today the combined fourth and fifth reviews of the extended arrangement under the Extended Fund Facility (EFF) for Ecuador. The Board's decision allows for an immediate disbursement of SDR 710 million (about US$1 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 economic recovery from the pandemic, restore fiscal sustainability with equity, and generate sustainable and inclusive growth with high quality jobs.

The Executive Board approved the authorities' request for a waiver of non-observance of the end-December 2021 performance criterion on the overall balance of the budgetary central government (PGE) and the oil derivatives financing account (CFDD) based on the corrective actions the authorities have already taken and have committed to take. The Executive Board also reviewed a report from the Managing Director on the provision of inaccurate data on the overall balance of the budgetary central government (PGE) and the domestic derivatives financing account (CFDD), which led to a noncomplying purchase by Ecuador in September 2021 and a breach of obligation under Article VIII, Section 5 of the IMF's Articles of Agreement. The under-recording of PGE pension and healthcare transfer obligations to the social security fund (IESS) gave rise to the noncomplying purchase.

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

"The economy rebounded with a 4.2 percent growth in 2021, supported by a successful vaccination campaign and good macroeconomic management. Macroeconomic and financial stability have been preserved. While the ongoing war in Ukraine is adversely affecting some export sectors, higher oil prices are improving Ecuador's external and fiscal balances.

"Social assistance to low-income families continues to be expanded. 8 in 10 low-income families now receive government support, up from 3 in 10 only two years ago. This increased support is helping cushion the adverse impact of rising inflation on the most vulnerable.

"The enactment of a progressive tax bill last year marked an important milestone in improving fiscal sustainability with equity. While fuel subsidy reform has been suspended, the authorities remain committed to improving fiscal sustainability and equity and rebuilding buffers, demonstrated by the recently enacted decrees to improve spending efficiency, and plans to prioritize growth-enhancing investment in physical and human capital.

"The financial sector appears liquid and ready for crisis measures to be gradually rolled back, with continued vigilance to promote stability. Gradually closing the regulatory gaps between banks and cooperatives will enhance the sector's resilience.

"Stronger governance and accountability will help bolster trust in government institutions. In this regard, the authorities' commitments to enhance asset declarations of politically exposed people, strengthen the AML/CFT framework, and provide further transparency on ultimate beneficiary ownership for procurement contracts are welcome. Following delays, the authorities are moving forward with bringing more transparency to state-owned oil companies and remain committed to working with the Fund in this regard in the future. Improving timeliness, reliability, and consistency of fiscal statistics remains a priority.

"The authorities have already undertaken strong corrective actions to address institutional and technical shortcomings that gave rise to the inaccurate information. These included: (i) publishing revised historical data with explanations for revisions; (ii) recording of a conservative estimate for the PGE healthcare transfer obligations to the IESS for 2017-22, while healthcare audits are pending; and (iii) signing an agreement between the Ministry of Economy and Finance (MEF) and the IESS to initiate a procurement process for firm(s) to undertake the medical audits.

"In addition, the authorities committed to undertake the following remedial measures in the coming months: (i) hiring of an independent medical audit firm(s); (ii) identifying and sharing with staff the existing stock of PGE potential obligations; (iii) publication of the revised historical PGE and NFPS data back to 2013; (iv) finalizing medical audits for 2020 and 2021; (v) including PGE pension and estimated healthcare obligations to the IESS in both the 2023 budget and the medium-term fiscal framework; (vi) establishing a dedicated statistics unit at MEF headed by a senior Chief Statistician and updating the training curriculum in government finance statistics; (vii) developing a time-bound action plan to undertake legal reform and administrative actions aimed at strengthening the legal framework of the state obligations on healthcare expenditures and related audits.

"In view of the corrective actions the authorities have already undertaken and remedial measures they have committed to undertake to strengthen the quality of fiscal statistics, the Executive Board decided to waive the nonobservance of the performance criterion, and determined that no further remedial action is required in connection with the breach of obligations under Article VIII, Section 5."

INTERNATIONAL MONETARY FUND

ECUADOR

June 7, 2022

FOURTH AND FIFTH REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, REPHASING OF ACCESS, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The economy rebounded more strongly than expected in 2021 at 4.2 percent, bolstered by a well-executed vaccination campaign that allowed for a steady reopening of the economy. The recovery will continue in 2022, but at a more moderate pace of 2.9 percent. Inflationary pressures, mostly due to higher commodity prices, are expected to rise. The government remains committed to the Fund-supported program under the 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. Upon completion of the combined Fourth and Fifth Reviews under the EFF, an additional SDR 710 million would be made available.

Program implementation. All but one quantitative performance criteria (QPCs) and all but one indicative targets (ITs) for this review were met. Progress on the structural side has been mixed: while only two structural benchmarks (SBs) were met, several others were implemented with short delays. The enacted tax bill was larger than expected. The structural agenda has been enhanced for this review to mitigate significant delays on some SBs and achieve further gains on improving fiscal data quality, strengthening social safety nets, and enhancing governance and efficiency in the management of public resources. The exceptional access criteria continue to be met (Box 2).

Approved By
James Morsink (WHD) and Bjoern Rother (SPR)

Discussions were held in Quito and in Washington, DC and via videoconferences during March 7- May 9, 2022. The report was prepared by a team comprised of, Ceyda Öner (head), Anastasia Guscina (deputy head), Eriko Togo, Aslı Şenkal (all WHD), Majdi Debbich (SPR), Pablo Druck (MCM), Mariano Moszoro (FAD), Mariana Sabates Cuadrado (STA), Julien Reynaud (Resident Representative), Juan Pablo Erráez, Paola Hidalgo (all Resident Representative Office), with support from Ivan Burgara, Nicolas Landeta, Kristine Laluces, Samuel Patino, (all WHD) and Lizeth Crow (Resident Representative Office). Staff from FAD, LEG, MCM, and STA joined meetings. Ivana Rossi (LEG) provided substantive input. Ilan Goldfajn, James Morsink (all WHD), and Afonso Bevilaqua (OED) attended some meetings. Jorge Gallardo (OED) joined the discussions.

CONTENTS

TABLES

ANNEXES

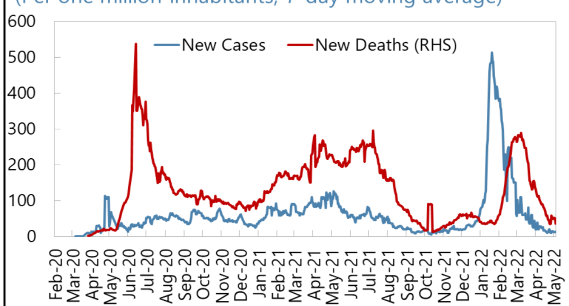
APPENDIX

CONTEXT

1. The first year of the administration has been marked by economic stabilization and dynamism in international relations, but also a challenging global outlook and domestic political climate. A well-executed vaccination campaign allowed for a sustained reopening and is supporting the economic recovery. The government continues to show strong commitment to good macroeconomic management and fiscal transparency, successfully enacting a tax bill, expanding social protection, and advancing with trade, investment, and financing agreements with international partners. The war in Ukraine poses uncertainty for the global outlook as well as for Ecuador, although the higher oil prices on balance stand to improve its external and fiscal balances. On the domestic side, the government is facing rising security challenges, and an increasingly divided National Assembly.

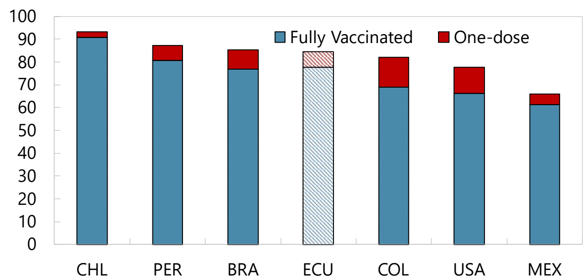
COVID-19 Developments

Ecuador: New COVID-19 Cases and Deaths
(Per one million inhabitants; 7-day moving average)



Sources: Our World in Data COVID-19 dataset and IMF staff calculations.

Ecuador: People Vaccinated and Fully Vaccinated 1/
(Per one hundred inhabitants)



Sources: Our World in Data COVID-19 dataset and IMF staff calculations.
1/ As of May 4, 2022.

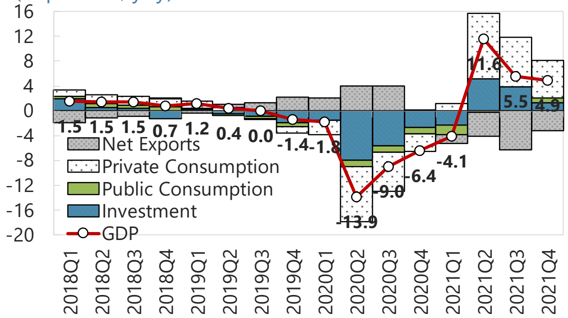
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2. Economic recovery is underway (Panel, Fig. 1). Economic activity expanded by 4.2 percent in 2021, 1.4 ppts higher than expected in the previous review, reflecting stronger rebounds in private consumption and non-oil exports in the first half of 2021. While inflation was subdued in 2021 (at 0.1 percent on average), reflecting continued economic slack, it picked up in the second half of the year and reached 2.9 percent (yoy) in April 2022, largely due to increases in food and transportation prices. Formal employment in the private sector recovered throughout 2021 and early 2022, but unemployment and inadequate employment remain above the pre-pandemic levels.

Real Sector Developments

Ecuador: Contribution to Real GDP Growth

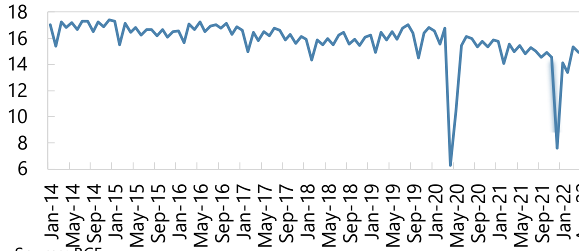
(In percent, yoy)



Source: BCE.

Ecuador: Oil Production 1/

(In millions of barrels)

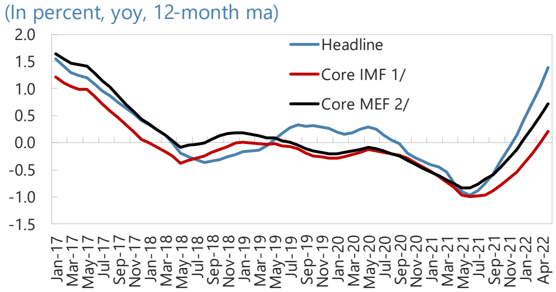


Source: BCE.

1/ The shaded line represents the decline in oilproduction caused by the pipeline disruption of December2021.

Ecuador: Inflation Rate

(In percent, yoy, 12-month ma)



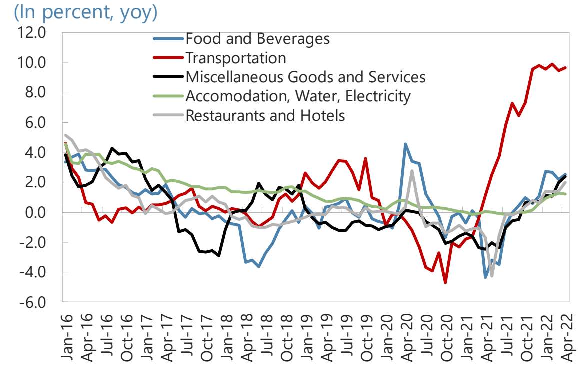
Source: INEC.

1/ Excludes: Food and Nonalcoholic Beverages; Housing, Rent, Water, Electricity/Gas & Other Fuels; and Transportation.

2/ Excludes: Food (except for Coffee, Tea, and Cocoa; and Mineral Waters, Soft Drinks, and Fruit/Vegetable Juices); Gas; and Fuel and Lubricants.

Ecuador: Inflation Rate

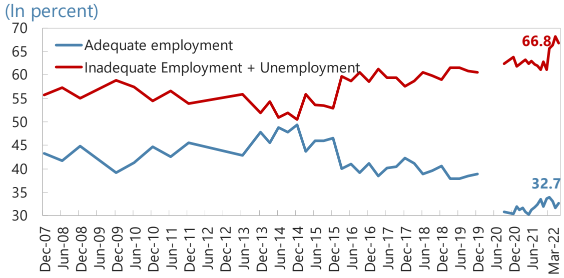
(In percent, yoy)



Source: INEC.

Ecuador: Adequate and Inadequate Employment + Unemployment, Dec. 2007 - Mar. 2022 1/

(In percent)

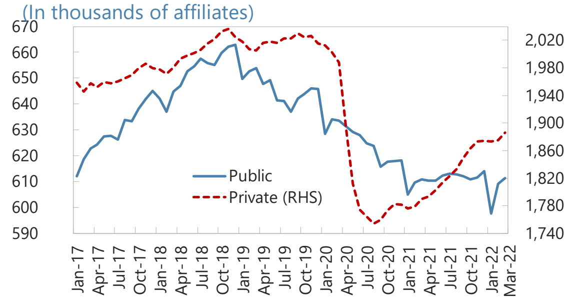


Source: INEC.

1/ No data for March and June 2020.

Ecuador: Public and Private Formal Employment

(In thousands of affiliates)



Source: IESS.

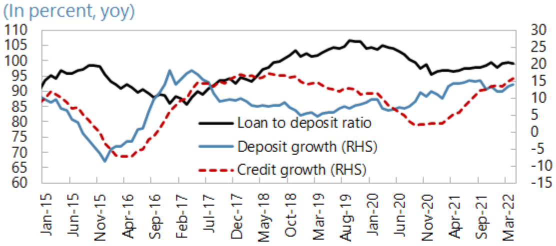
3. **The current account (CA) strengthened considerably, supported by the recovery in global demand.** Higher oil and non-oil exports combined with strong remittances from the United States raised the CA surplus to 2.9 percent of GDP in 2021, despite an uptick in imports late in the year. Gross international reserves reached $7,898 million in 2021 on account of the CA surplus, public sector disbursements, and resilient FDI. The CA is expected to moderate somewhat in 2022 to

2.4 percent of GDP, as higher imports and to a lesser extent lower non-oil export volumes to Russia and Ukraine (Box 1) outweigh higher oil exports.

4. As bank deposits continue to grow, credit to the private sector is gaining momentum (Fig. 3). Credit to the private sector increased by about 16 percent yoy in March 2022, up from about 14 percent in 2021 and 3 percent in 2020, while deposits grew by about 14 percent yoy in March 2022, slightly higher than the 12 percent increase per year during 2020-21. As of March 2022, liquidity in the financial system was ample at about 27 percent. Non-performing loans (NPLs) remain low at 2 and 4 percent in the banking and cooperative sectors, respectively, albeit reflecting the crisis measures that allow overdue loans to be classified as NPLs after 60 days instead of 15-30 days. These measures have been extended for banks until end June and for the cooperative sector until end 2022.

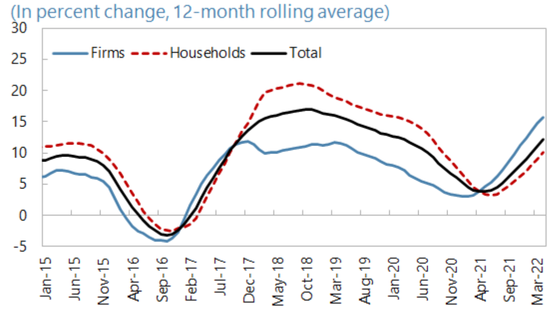
Deposits and Credit

Ecuador: Deposits and Credit 1/
(In percent, yoy)



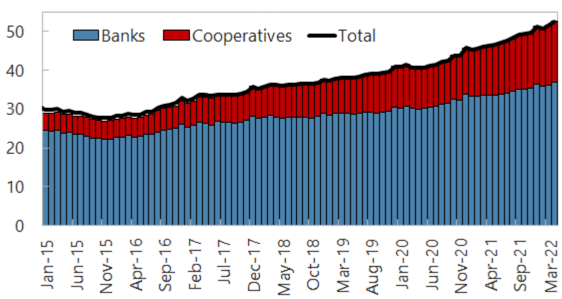
Sources: Superintendency of Banks and IMF staff calculations.
1/ Loan to deposit data corresponds to Other Depository Institutions, which include private banks, *Banecuador*, *Banco del Pacifico*, private financial companies, mutualists, cooperatives, and credit card companies. While credit and deposit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

Ecuador: Credit to Firms and Households 1/
(In percent change, 12-month rolling average)



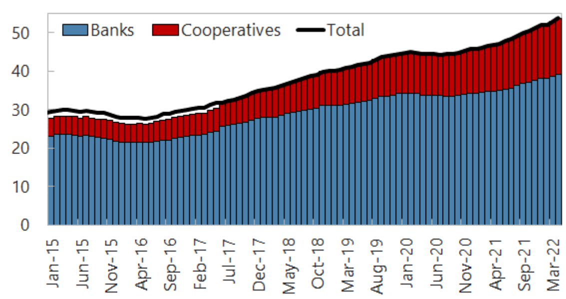
Source: IMF Monetary and Financial Statistics database and IMF staff calculations.
1/ Corresponds to the whole financial system.

Ecuador: Deposits by Sector
(In US$ billions)



Sources: Central Bank of Ecuador and IMF staff calculations.

Ecuador: Credit by Sector
(In US$ billions)



Sources: Central Bank of Ecuador and IMF staff calculations.

5. The fiscal outturns at end-2021 were generally better than envisaged owing to higher oil revenues and expenditure restraint, although some balances were revised down with data corrections (Fig. 4, ¶10). The overall balance (OB) of the nonfinancial public sector (NFPS) came in $843 million better than expected, largely reflecting a higher oil balance, and across the board current expenditure restraint, in particular on wage and salaries and goods and services, which was only partially offset by capital expenditure. The 2021 OB of the budgetary central government (PGE) and oil derivatives financing account (CFDD) came $112 million lower than expected at the last review, mostly reflecting historical data corrections to PGE transfers to the social security fund (IESS) of some $562 million (¶15). Similarly, the nonoil primary balance including subsidies (NOPBS) of the NFPS was $1,402 million lower than projected, mostly reflecting statistical corrections to the IESS expenditure data, and exclusion of interest income from the NOPBS definition (which was not available when the target was set and therefore was previously not excluded, ¶15, Table 2a).

6. Delays in external financing raised PGE's accounts payable by the end of the year. With the IMF and World Bank (WB) disbursements ($700 million each) planned for December delayed, the shortfall in PGE financing was offset by additional borrowing from domestic banks and the social security fund and a build-up of accounts payable. At the NFPS level, the oil surplus allowed for clearing $500 million in oil-related arrears to suppliers and carry-forward oil contracts with the private sector. Debt to GDP was revised up to 62.2 percent to include i) the transfer in public bank shares of $2.4 billion (part of the reform to the organic monetary and financial code, COMYF), and ii) the net SDR holdings (see Annex 1).

Changes in Fiscal Balances – Jan-Dec 2021
Second and Third Reviews Forecast vs. Actual Outturn
(In US$ millions)

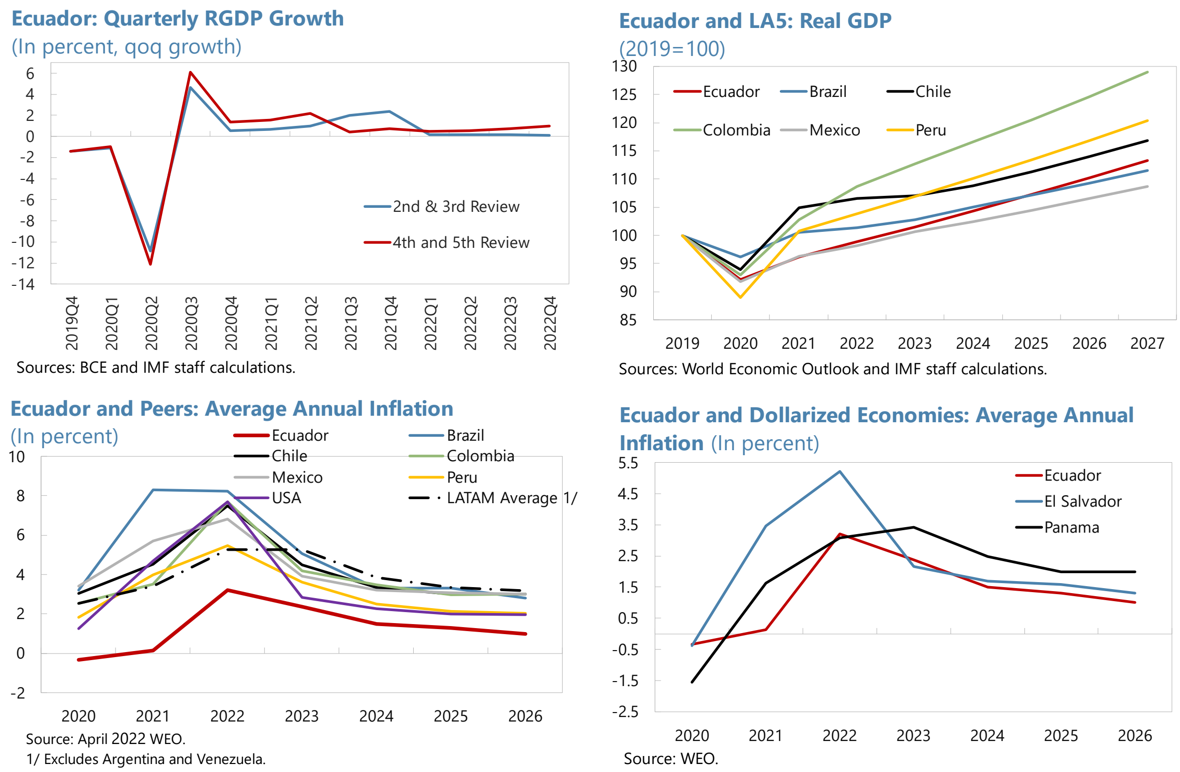
	Proj.	Act.	Diff.
PGE+CFDD			
Overall Balance	-4,188	-4,300	-112
Oil balance	2,594	2,908	314
Nonoil balance	-6,782	-7,208	-427
Nonoil revenues	15,414	16,255	841
Nonoil expenditures	22,196	23,463	1,268
NFPS			
Overall Balance	-2,422	-1,579	843
Oil balance	3,442	4,194	752
Nonoil balance	-5,864	-5,773	91
Nonoil revenues	24,126	24,590	464
Nonoil expenditures	29,990	30,363	373
Memorandum items:			
Change in deposit at the BCE	1,527	1,357	-170

Sources: MEF and IMF staff calculations.

7. Growth is expected to moderate and inflation to pick up in 2022. Real GDP is projected to grow at 2.9 percent in 2022 (0.6 ppts lower than expected at the last review), reflecting both the base effect from a higher 2021 growth and the global impact of the war in Ukraine (See Box 1). Domestic demand will continue to be the main driver of growth in 2022, however, net exports will subtract from growth. Average inflation is projected at 3.2 percent in 2022, reflecting recovering consumer demand and passthrough from higher import prices, including higher commodity prices. Inflationary pressures, although rising, are projected to be more muted compared to regional peers due to dollarization and recently fixed domestic fuel prices.

8. The medium-term outlook is unchanged. Growth is expected to converge to its potential of 2 ¾ percent by 2024, while inflation is set to recede below 2 percent over the medium term as supply chain bottlenecks are resolved and commodity price pressures ease. The CA surplus is expected to moderate in the medium-term to its norm of around 2 percent as oil prices decrease.

Real GDP and Inflation



9. **Risks to the outlook remain broadly balanced:**

- **On the downside**, subsequent waves of the pandemic could result in further closures and slowing economic activity. Weaker-than-anticipated global growth, including due to a longer-lasting war in Ukraine, would reduce trading partner demand. Further disruptions in global supply chains, continued USD appreciation, difficulty in finding alternative markets for non-oil exports, coupled with higher cost of inputs (e.g. fertilizers) could weigh on growth, competitiveness, and external buffers. Confidence could wane if the government faces challenges in durably transforming the economy, implementing reforms, combatting crime, or continuing with strong macroeconomic management. An abrupt tightening in global financing conditions, would dampen financing prospects. A higher pass-through from international prices than projected, including due to the prolongation of the war, can further add to inflationary pressures and erode real incomes. Finally, a worsened oil price outlook would reduce the build-up of fiscal and external buffers if policies do not adjust commensurately, or stifle the recovery if policies adjust abruptly to make up for any new financing gaps.

- **On the upside**, higher oil prices would raise liquidity buffers and reserves. Financing pressures would ease if the ongoing discussions with Chinese creditors to reprofile debt obligations bear fruit. More ambitious structural reform efforts to improve competitiveness, governance, anticorruption and AML/CFT, and lower barriers to trade and investment have the potential to boost potential growth, lower sovereign credit risk and allow Ecuador to re-access international capital market earlier or under better terms.

Box 1. Impact of the War in Ukraine on Ecuador

Beyond its devastating human toll, the war in Ukraine is slowing global growth and accelerating inflation due to the surge in commodity prices. As an oil exporter, Ecuador's external and fiscal accounts stand to benefit from higher oil prices in the near term. However, disruptions in agricultural exports to Russia, higher prices of raw materials, including for fertilizers, will weigh on productivity and growth and result in higher cost-push inflation.

The war is expected to affect the Ecuadorian economy mostly through trade and commodity price channels.[1/]

External trade. Ecuador's terms of trade are expected to improve in the short run as higher export prices of oil and the USD appreciation will more than offset rising import prices. As a result, the CA surplus would improve by 0.3 ppts in 2022 compared to the pre-conflict baseline despite lower export volumes to Russia and Ukraine.

- Ecuador's exports to Russia and Ukraine have been limited but some agricultural products are particularly exposed, including bananas, shrimps, and flowers. In 2021, exports to Russia reached almost $1 billion, accounting for 5.3 percent of total non-oil exports, of which $700 million were banana exports. While shrimp and flower producers have found alternative markets, following losses in the short-term, the banana sector is expected to take the largest hit given difficulties in finding new markets with compatible phytosanitary regulations. In 2022, it is expected that almost all the banana production for the Russian and Ukrainian markets will be lost.
- With oil exports representing a third of total exports in 2021, Ecuador is benefitting from higher oil prices. Between March and end-May, oil prices (WTI) reached an average of 107.1 $/barrel, compared to 87.0 $/barrel during the first two months of the year. The rise in oil prices is expected to generate a net oil windfall of $760 million or 0.7 percent of GDP in 2022.
- Ecuador's direct exposure to imports from Russia and Ukraine have been limited. However, higher commodity and food prices - as Ecuador is a net-wheat and fertilizer importer - will reduce the current account balance. Moreover, second round effects from lower availability of fertilizers could affect agricultural output and subsequently reduce exports.

Growth. Weakening global and regional growth, coupled with near-term disruptions in exports of agricultural products, will lower growth in 2022, compared to the pre-war expectations. Marked increase in fertilizer and raw materials prices are expected to hamper agricultural productivity and production overall, deteriorating competitiveness. Higher consumer prices and drag on confidence are also expected to dampen the strong recovery in private consumption but will be cushioned by strong remittance inflows and credit growth. Staff estimates the negative economic impact of war on growth at 0.1 ppts in 2022.

Inflation. Global inflationary pressures were rising even before the war driven by higher energy prices and pandemic induced supply-demand imbalances, and average inflation was projected at 2 percent for 2022. The war related supply shortages have further increased global price pressures. Dollarization and fixed fuel prices are expected to shield Ecuador from the surge in global inflation relative to peers, while rising fertilizer prices and production costs in general and increasing global food prices will increase inflationary pressures. Staff estimates that the surge in global commodity prices would add 1.2 ppts to average inflation in 2022.

Box 1. Impact of the War in Ukraine on Ecuador (concluded)

Fiscal. The rise in oil prices will improve overall fiscal balances in 2022. The oil balance is set to improve to $4.7 billion or 4.1 percent of GDP in 2022.

Financial. The exposure of the financial sector to Russia or Ukraine is low and therefore risks through financial channels appear limited. However, a deterioration of risk appetite for emerging markets and further tightening of monetary policy in the US could potentially raise spreads and adversely affect Ecuador's planned reentrance to international bond markets.

1/ The baseline forecast assumes the war remains limited to Ukraine and that sanctions on Russia (along with European plans to become independent of Russian energy) do not tighten beyond those announced by March 31 and remain in place over the forecast horizon. The effects of conflict and sanctions will hit Ukraine, Russia, and Belarus directly. But international spillovers via global commodity prices, trade and financial linkages, labor supply, and humanitarian impacts will spread the effects more widely (World Economic Outlook, April 2022).

PROGRAM IMPLEMENTATION

10. All QPCs controlling for the combined fourth and fifth reviews were met except for the end-December target on the OB of PGE+CFDD:

- **OB of PGE+CFDD.** The end-December deficit was $4,300 million, missing the target by $229 million over the adjusted QPC of $4,071 million, mostly due to the historical data corrections to account for accrued spending obligations from PGE to IESS (¶15).
- **Accumulation of NFPS deposits at the central bank.** The end-December QPC outturn was an *accumulation* of $1,357 million, $1,133 million above the adjusted target of $223 million.
- **Continuous performance criteria.** The QPCs on no new gross credit to government from the central bank and on the non-accumulation of external payment of arrears were both met.

Quantitative Performance Criteria and Indicative Targets for end-September and end-December 2021

(In US$ millions, unless otherwise indicated)

	End-Sep. 2021				End-Dec. 2021			
	Prog. 4/	Adj. 5/	Actual	Status	Prog. 4/	Adj. 5/	Actual	Status
Quantitative performance criteria								
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-2,301	-2,253	-1,675	Met	-4,188	-4,071	-4,300	Not Met
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	899	-161	1,095	Met	1,527	223	1,357	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/ 2/	-3,368	-3,475	-4,068	Not Met	-6,030	-6,218	-7,432	Not Met
6. Overall balance of the NFPS (*floor*) 1/	-513	-525	366	Met	-2,422	-2,372	-1,579	Met
7. Change in the stock of NIR - program definition (*floor*) 1/	38	-222	1,704	Met	717	261	1,498	Met
8. Coverage of the cash transfer programs for lower income families - number of families (*floor*) 3/	453,700		452,799	Not Met	514,000		549,819	Met

Sources: MEF, BCE, and IMF staff calculations.
Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).
1/ Cumulative change from January 1, 2021.
2/ Excludes interest receipts and oil-related arbitration awards, except figures for Program and Adjusted targets include interest receipts.
3/ Cumulative change from July 1, 2020.
4/ Staff report for the EFF Second and Third Reviews, No. 21/171.
5/ Adjusted for oil prices and disbursements from multilateral institutions and China as per the TMU.

11. All end-September QPCs were met. The end-September OB of PGE+CFDD deficit was $1,675 million; $579 million lower than the adjusted QPC of $2,253 million. The end-September QPC on NFPS deposits at the central bank was an *accumulation* of $1,095 million; $1,257 million above the adjusted target of a *decumulation* of $161 million. The main reason for the overperformance was the SDR allocation not being fully spent as was programmed.

12. The September and December ITs on the NFPS OB were met, but missed for the NOPBS. The OB of the NFPS in September and December performed better than the adjusted targets by $891 million and $793 million, respectively. The NOPBS of the NFPS in September and December targets were missed by $593 million and $1,213 million, respectively, relative to their adjusted targets, due to statistical data corrections and the exclusion of interest income from the calculation (¶15, 24).

13. Both September and December ITs on the change in the stock of NIR were comfortably met. The September adjusted target was met by a significant margin of $1.9 billion as NIR *accumulation* reached $1.7 billion while the adjusted target was a *decumulation* of $222 million. The adjusted December target was also met by a significant margin of $1.2 billion.

14. The IT on social assistance coverage was missed by a small margin in September, but it was more than made up for by year-end. The September target was missed by 901 families (0.2 percent of the target) due to challenges with updating the social registry. With TA from the WB, the registry was updated and the end-December target of 514,000 families was exceeded by almost 36,000 families.

15. Corrections to PGE and IESS data affect NFPS and PGE targets under both the current and the 2019 arrangements:

- **PGE balances:** An STA TA mission conducted over December 2021 through March 2022 found that PGE expenditure had been under-recorded by $130-370 million per year over 2019-21, as pension transfers to IESS had been recorded based on budgeted amounts rather than on an accrual basis. In addition, PGE's reported expenditures did not include accruing healthcare transfer obligations to the IESS, as MEF was recording them after medical audits of claims were complete and PGE obligations to IESS were verified. However, since these audits are often delayed (the authorities recently completed audits for 2013-16), this practice results in continual data revisions (¶23). To more accurately reflect past potential obligations and avoid risks of large revisions in the future, the authorities have recorded a conservative estimate for past healthcare obligations and will budget accordingly going forward. These corrections have led to a downward shift to the PGE OB and have changed the assessment of the end-April 2021 QPC on the PGE+CFDD OB from met to unmet, thereby resulting in misreporting. The authorities are undertaking corrective actions to address data quality issues (see ¶22-23, and ¶26-29 of the MEFP). Since the corrections are to transfers between sub-sectors of the NFPS, they are consolidated within NFPS and therefore do not affect NFPS public debt on which the debt rules are set.

Quantitative Performance Criteria on the OB of PGE+CFDD, September 2020-December 2021

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

	Targets 1/		Original Assessment 2/		Current Assessment 3/	
	Prog.	Adj. 4/	Actual	Status	Actual	Status
End-Sep, 2020	-2894	-2887	-1121	Met	-1378	Met
End-Dec, 2020	-4005	-3893	-3655	Met	-4297	Not Met
End-Apr, 2021	-241	-305	-184	Met	-419	Not Met
End-Sep, 2021	-2301	-2253			-1675	Met
End-Dec, 2021	-4188	-4071			-4300	Not Met

Sources: MEF and IMF staff calculations.

1/ For 2020 test dates, cumulative change from July 1, 2020. For 2021 test dates, cumulative change from January 1, 2021.

2/ Actual and status at the time of the respective reviews.

3/ Assessment following latest statistical corrections including accrued pension transfers and preliminary estimates of healthcare transfer based on 50 percent of IESS claims.

4/ Adjusted for oil prices and disbursements from multilateral institutions and China as per the TMU.

- **NFPS balances:** The STA TA mission recommended corrections to IESS expenditures to account for the distribution of investment income to three special IESS funds' beneficiaries. In addition, staff has adjusted the calculations of the NOPBS to exclude interest income, the data for which became available only later in 2021. While not giving rise to misreporting, the latter change is significant, giving rise to a greater margin of nonobservance of end-June 2019 and end-September 2019 NOPBS targets (which were QPCs in the 2019 EFF) than what was previously reported to the Executive Board (text table). The corrections to 2020 and 2021 data also lower the margins of compliance on past ITs on both NOPBS and OB under the current arrangement without changing the assessments (text table). These corrections amount to a downward level shift of fiscal balances and therefore have insignificant impact on the fiscal consolidation achieved under the program (measured as yoy changes to the NOPBS in percent of GDP).

Quantitative Performance Criteria on NOPBS, March-September 2019

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

	Targets		Original Assessment 2/		2020 Misreporting Report 3/		Current Assessment 4/	
	Prog.	Adj. 1/	Actual	Status	Revised Actual	Revised Status	Revised Actual	Revised status
End-Mar 2019	-712		-124	Met	-510	Met	-585	Met
End-Jun 2019	-885	-1004	-386	Met	-1169	Not Met	-1701	Not Met
End-Sep 2019	-2200	-2319	-1625	Met	-2750	Not Met	-3517	Not Met

Sources: MEF and IMF staff calculations.

1/ Adjustors for the NOPBS QPC were established at the First Review for targets on/after June 2019.

2/ Actual and status at the time of the respective reviews and published in SR.

3/ Revised actual and status after the misreporting in March 2020.

4/ Revised actual and status following latest statistical corrections and excluding interest recepits.

Indicative Targets on NOPBS and OB of the Nonfinancial Public Sector, September 2020-April 2021

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

		Targets			Original Assessment 3/		Current Assessment 4/	
		Prog.	Adj. 1/	Revised Adj. 2/	Actual	Status	Actual	Status
End-Sep 2020	NOPBS	-2539	-2539	-2546	-996	Met	-1302	Met
	NFPS OB	-2706	-2699		-1333	Met	-1352	Met
End-Dec 2020	NOPBS	-5467	-5355	-5580	-4072	Met	-5513	Met
	NFPS OB	-5656	-5544		-4334	Met	-5018	Met
End-Apr 2021	NOPBS	-572	-636	-874	-90	Met	-711	Met
	NFPS OB	-273	-337		842	Met	552	Met

Sources: MEF and IMF staff calculations.

1/ Adjusted target at the time of the respective reviews and published in SR.

2/ Revised adjusted target with correction for a downward adjustment on oil prices.

3/ Actual and status at the time of the respective reviews and published in SR.

4/ Revised actual and status following latest statistical corrections. For the NOPBS, excludes interest recepits.

16. Progress on the structural benchmarks was mixed (Table 11). The authorities' focus on enacting the critical tax reform last fall resulted in delays in implementing other structural conditionality. Of the 11 SBs due for this review, two have been met outright: procurement contracts were published with ultimate beneficiary information, where available, and the terms of reference (TORs) for public banks' asset quality review were agreed. One was partially implemented: the National Control Subsystem (SNC) was established on time and has been operational, but making the entities' databases interoperable requires further technical work. Four SBs were implemented with a slight delay: the tax reform was enacted in November; the National Fiscal Coordination Committee (NFCC) was established in December; the methodology and templates for estimating and reporting of domestic arrears were published in January 2022; and social assistance programs were expanded to 80 percent of low-income families in May 2022. Four SBs have not yet been implemented: The SB on issuing procurement guidelines was not met; the SB was revised and upgraded to a presidential decree that will be enacted as a prior action (¶18). The SB on the enactment of the AML/CFT legislation was not met; with Fund support, the draft law has been finalized and will be submitted to the National Assembly in the coming weeks. Finally, the SBs on initiating independent audits of Petroecuador and Petroamazonas' financial statements in November 2021 and finishing the first batch by April 2022 were not met. Given the importance of transparency in the sector, the initiation of the independent audits by agreeing on the TOR and timeline for their completion has been set as a prior action and work is now under way (¶36).

POLICY DISCUSSIONS

A. Improving Fiscal Sustainability with Equity

17. The fiscal strategy has been recalibrated to build stronger buffers and improve medium-term debt sustainability, while allowing for a more gradual pace of growth-friendly improvement of the nonoil primary balance including subsidies, mainly due to a higher subsidy bill:

- The good fiscal management over 2021 will allow for a lower adjustment of the NOPBS over 2022-25 and a lower NOPBS in 2025 by 0.9 ppt than envisaged in the last review, while still achieving 4.5 ppts of GDP in fiscal consolidation, as per program commitments. In 2021, despite the downward revisions to the NOPBS historical data (¶14), the year-to-year change in the balance in percent of GDP was better than planned: the NOPBS improved in percent of GDP by 0.2 ppt rather than the programmed relaxation of 0.8 ppt. This allows the adoption of a more gradual pace of consolidation going forward that is more supportive of economic growth.

- The planned consolidation for 2022 is 1.5 ppts of GDP; lower than the 3 ppt of GDP that had been planned in the last review, partly reflecting the reason above, and also a higher fuel subsidy bill. The latter resulted from a presidential decree issued in October 2021 that fixed domestic diesel and gas prices after a one-time increase, effectively suspending the fuel subsidy reform that had been ongoing since July 2020. Coupled with the surge in oil prices due to the war in Ukraine, the new price policy is estimated to raise the subsidy bill to $3 billion (2.6 percent of GDP) in 2022. To partially compensate for the higher fuel subsidy bill, which raises the deficit keeping all else constant, this plan envisages higher non-oil non-subsidy expenditure consolidation than envisaged at the time of the 2nd/3rd Review, underpinned by permanent measures (see ¶18). At the same time, this new consolidation path would accommodate higher nominal capital expenditure on essential infrastructure and the expansion of social assistance programs to achieve greater regional and low-income coverage targets as per the ITs (¶13 and ¶19). While oil prices are expected to decline in the coming years and lower the subsidy bill, restoring the reform would generate further savings that could be channeled to priority investment, such as higher spending on health, education, social assistance, and growth-enhancing infrastructure.

- Despite more modest improvements in nonoil primary balances including subsidies in the near term, higher oil prices (by $24.2/barrel in 2022 and around $13.5/barrel over the medium term relative to the last review) imply better overall balances and higher deposit accumulation. The overall NFPS balance is set to turn a surplus in 2022 for the first time in a decade of $1 billion (0.9 percent of GDP), and the PGE+CFDD deficit is expected to decline to $2.3 billion (2 percent of GDP), making progress toward the administration's goal of reaching a balance by 2025.

- The better overall fiscal balances would improve debt dynamics and buffers. Public debt is set to decline to the 2025 COPLAFIP target of 57 percent of GDP in 2023, with net public debt 10 ppt lower, leaving buffers to absorb emergent contingent liabilities and negative oil price shocks that could increase public debt to the emerging market risk threshold of 70 percent (Annex1). The plan to save a significant portion of the oil windfall would build public sector deposits and make progress towards reaching the reserves targets under the COMYF.

18. **For 2022 and the medium term, the authorities plan to implement their preferred strategy of rationalizing expenditure, supported by a progressive tax reform, while protecting the most vulnerable**. Savings are planned from the following measures:

- On the revenue side, the enactment of the tax bill (***October 2021 SB, implemented with delay***) marks an important milestone for restoring fiscal sustainability and will generate more revenues than planned. The tax bill has 0.7 ppt in permanent measures, and temporary measures of 0.8 ppt in 2022 and 0.4 ppt in 2023, above the MEFP commitment by 0.3 and 0.4 ppt, respectively. The bill also included new administrative measures beyond those comprising the 0.3 ppt in the MEFP commitments, which pose upside risk to the projections.

Tax Reform as Enacted

(In percent of GDP)

	2022	2023	2024
Tax policy	**0.1**	**0.7**	**0.7**
PIT	0.1	0.5	0.5
CIT	0.1	0.3	0.2
Other 1/	0.0	-0.1	-0.1
Temporary	**0.8**	**0.4**	**0.0**
Personal wealth	0.2	0.0	0.0
Corporate net asset	0.4	0.4	0.0
Foreign capital	0.1	0.0	0.0
Admin 2/	**0.1**	**0.2**	**0.3**
Total	**1.0**	**1.3**	**0.9**
o/w Legislative	1.0	1.2	0.7
Memorandum item:			
2nd & 3rd Reviews			
Tax policy	0.1	0.7	0.7
Temporary	0.5	0.0	0.0
Administrative	0.1	0.2	0.3

Sources: MEF and IMF staff estimates.
1/ Includes VAT, excise, and SME exemptions.
2/ Includes LTU, VAT compliance, customs, and new form of tax dispute mediation.

Select Balances, Non-oil Primary Balance with Subsidies, NFPS

(Change from previous year, in percent of GDP)

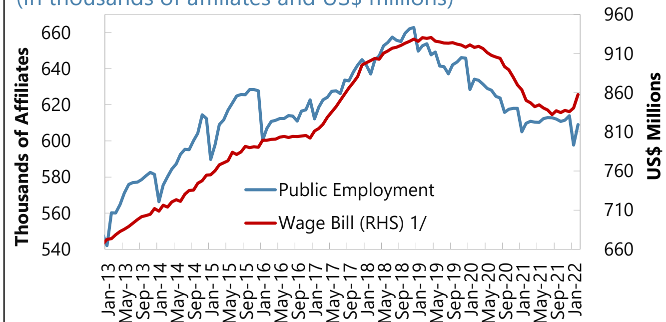
	2020	2021	2022	2023	2024	2025	2020-2025
Non-Oil Primary Revenues 1/	**-1.1**	**0.2**	**0.3**	**0.6**	**-0.1**	**0.2**	**0.2**
o/w Tax policy reform	0.4	0.0	0.1	0.6	0.0	0.0	1.1
o/w Temporary tax measures	0.0	0.0	0.8	-0.4	-0.5	0.0	0.0
o/w Administrative measures	0.0	0.0	0.2	0.0	0.1	0.0	0.3
Non-oil Primary Expenditures including Subsidies	**0.7**	**-0.1**	**1.2**	**0.9**	**1.0**	**0.6**	**4.3**
Wages and salaries 2/	-0.7	1.0	0.9	0.3	0.2	0.2	1.8
Goods and services 2/	0.5	0.1	0.3	0.1	0.1	0.0	1.1
Social assistance	-0.4	-0.1	0.0	0.0	0.0	0.0	-0.5
Other spending 3/	-0.8	0.2	0.3	0.0	0.1	-0.1	-0.3
Capital spending 2/	0.9	-0.3	0.3	0.0	0.0	0.1	1.1
Fuel subsidies	1.1	-1.0	-0.5	0.5	0.5	0.5	1.0
Total	**-0.4**	**0.2**	**1.5**	**1.5**	**0.8**	**0.8**	**4.5**
Memorandum items:							
Second and Third Reviews							
Revenue	-0.7	-0.3	0.7	0.3	0.2	0.0	0.2
Expenditure	0.6	-0.6	2.3	1.0	0.6	0.4	4.2
Total	**-0.1**	**-0.8**	**3.0**	**1.3**	**0.8**	**0.4**	**4.5**

Sources: Ministry of Economy and Finance and IMF staff calculations.
1/ Excludes interest income.
2/ Current expenditures previously under capital expenditures have been reclassified to wages and salaries and goods and services.
3/ Excludes oil-related arbitration awards.

- On the expenditure side, savings to partially compensate for the higher fuel subsidy bill as a result of higher international oil prices and the suspension of the subsidy reform will come from unwinding the one-off COVID-related expenditure from 2021, containing wages and salaries, realizing efficiency gains from procurement for goods and services as well as capital expenditure. More specifically:

- *Public Sector Wage Bill and Efficiency*. The authorities view the increase in public employment and compensation over the last fifteen years as unsustainable. They plan to contain wage bill growth, saving 1.8 ppts of GDP over 2020-25, with a combination of partial replacement of retiring staff and of temporary contracts. To enforce the wage bill targets in the annual budgets, guidelines will be provided on the public sector workforce to all levels of the public sector, to be jointly defined with the Labor Ministry. With the support of technical assistance from the IDB, a review of the central government agencies will be undertaken to strengthen budgetary oversight and human resource planning, e.g., by merging various public agencies and reviewing the institutional roles within the government of Ecuador.

Ecuador: Public Employment and Wage Bill
(In thousands of affiliates and US$ millions)



Sources: MEF and IMF calculations
1/ 12-month moving average.

- *Procurement*. As per Decree 155, the Office of the Comptroller General is conducting market studies before any public procurement is initiated, so as to ensure *ex-ante* review of costs and a fair attribution of public contracts. The authorities will issue bylaws to the procurement law with a presidential decree (*Reglamento General de Compras Públicas*) (***Prior Action***), in lieu of the end-Nov. 2021 SB that was not implemented. Following its issuance, the National Procurement Authority (SERCOP) will issue resolutions to operationalize the bylaws, prioritizing those that enforce efficiency gains in procurement and the collection of ultimate beneficiary ownership information in contracts. Building on SERCOP's in-house assessment and a 2018 World Bank study, these measures are estimated to potentially yield 1.5 percent of GDP in cumulative savings over the next four years, more than covering the 1 ppt of GDP planned consolidation in goods & services and non-oil capital expenditure.

- *Capital expenditure*. The authorities made their capital expenditure more transparent by reclassifying spending in line with best practices (MEFP ¶12). To further support the expenditure rationalization plans, the authorities plan to prioritize capital expenditure projects and promote public-private partnerships (PPPs), with due account to contingent liabilities and the associated fiscal risks. They will undertake a Public Investment Management Assessment (PIMA) in 2022.

19. The authorities plan to ground their expenditure rationalization efforts by i) adopting a presidential decree for controlling public expenditures, including the wage bill ***(prior action)***; ii) publishing the medium-term fiscal framework (MTFF), as well as the fiscal targets including expenditure ceilings, in line with program commitments, approved by the MEF and the NFCC in accordance with the COPLAFIP ***(prior action)***, which had been established last year (*Nov. 2021 SB, implemented with delay*) and iii) sign an inter-ministerial memorandum of understanding to ensure that the central government agencies follow the strategy to deliver the expected results. To anchor the savings in the next year's budget, they also plan to submit the 2023 Budget to the National Assembly in line with the program and MTFF commitments (***proposed October 2022 SB***).

20. The consolidation strategy will provide fiscal space to further expand social safety nets. Over 2020-22, social spending programs have been expanded to reach an additional 625,600 families (***mid-April 2022 SB, implemented with delay***), corresponding to 80 percent of households in the lowest three income deciles. During 2022, the authorities will expand the coverage of cash transfer programs even further, aiming to reach 65 percent of the lowest income decile nationwide and 70 percent of the lowest three deciles in each province (*end-November 2022 SB*). They will also introduce a new program in the coming months called "1000 Días" ("Thousand Days") aimed at improving nutrition for 0–3 years old. This new program will cover about 30–50 thousand low-income beneficiaries for about $60 per month, at an estimated fiscal cost of $22–36 million per year.

21. Under the envisaged fiscal plans and supported by higher oil prices, public debt would reach the medium-term target ahead of schedule notwithstanding the weaker-than-expected NOPBS (Annex 1).[1] The growth-friendly fiscal consolidation plan, supported by the authorities' financing strategy to maximize borrowing from multilaterals, generates positive debt dynamics while also lowering the gross financing needs. Although public debt increased by 2.2 ppt of GDP last year due to public bank shares previously held at the central bank being transferred to the government (as required under COMYF), and by 1.3 ppt of GDP due to the conversion of the SDR allocation, public debt is projected to decline to below the 2025 target of 57 percent of GDP in the organic budget code (COPLAFIP) by 2023. Pursuing operations consistent with their published medium-term debt management strategy, including reprofiling the $5 billion debt to Chinese creditors and re-accessing international bond markets by leveraging the recently approved $400 million IDB guarantee, would produce space to build further buffers, including to clear arrears. Over the medium term, deepening the domestic debt market would reduce vulnerabilities to external financing shocks.

B. Improving Fiscal Frameworks, Governance, Transparency, and Accountability

22. Enhancing the transparency and accountability of public finances remains a key priority for the government. The authorities established the SNC to fight corruption in procurement, presided by SERCOP and comprising other relevant agencies and financial regulators

[1] Changes to NFPS balances are already in the baseline and the DSA.

(*October 2021 SB, partially implemented*); integrating the databases of the participating agencies, as intended in the SB, will take more technical work. SERCOP has made all procurement contracts awarded since September 2020, including the legal ownership, and, when available, ultimate beneficial ownership (UBO) 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 *(end-November 2021 SB, met)*.[2] They will backfill missing UBO information of the companies awarded the 100 largest procurement contracts between October 2020 through December 2021, and publish in an easily accessible manner on a government website ***(proposed June 2022 SB)*.** Moreover, the Tax Administration (SRI) will conduct audits on tax expenditures of the companies awarded the largest 100 public procurement contracts over 2020-21 ***(end-September SB, proposed to be reset to end-October)*.** The authorities also plan to undertake a Fiscal Transparency Evaluation (FTE) in 2023 to improve the quality of fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, and resource revenue management.

23. In view of the data corrections that led to a nonobservance of a performance criterion the authorities are actively working on improving timeliness, reliability, and consistency of fiscal statistics (¶15)**.** Working closely with the IMF's Statistics Department (STA) over several months, the authorities have revised the historical balances of IESS, and corrected and published the transfers from the PGE to IESS for accrued pension and estimated healthcare liabilities going back to 2017. To further improve fiscal data quality and consistency, the authorities have committed to undertake several corrective actions, including: (i) publishing the corrected NFPS and PGE fiscal historical series back to 2013 with explanations for the revisions (***proposed September 2022 SB)***; (ii) establishing a dedicated statistics unit at the MEF, headed by a new chief statistician position with expertise in government finance statistics (GFS), (iii) updating training curriculum in GFS compilation and ensuring ongoing training of staff, in collaboration with STA; (iv) estimating the stock of potential claims on PGE, including with the IESS, local governments (GADs), private sector or others (if any) by nature of expenditure, year, and beneficiary (***proposed June 2022 SB)***; and (v) including in the central government 2023 budget and MTFF the accrued pension and healthcare obligations to IESS. The authorities have also requested a long-term expert (LTX) from STA to support the authorities' efforts to improve fiscal data quality.

24. The authorities are starting to address the lack of clarity in the legal framework for healthcare expense audits, which has led to past claims being unverified and unpaid for many years. The authorities have completed the audits for claims over 2013-16 and already reflected the arrears to IESS in the PGE expenditure and debt statistics. They have also incorporated conservatively estimated potential obligations for 2017-22, to be replaced by actual obligations once the audits for these years are completed. To determine the actual obligations, IESS will procure medical audit firms to conduct the audits, based on the timeline and prioritization that will be laid out in an agreement between the Ministry of Economy and Finance (MEF) and IESS; signing the agreement will be a ***prior action*.** They will complete and share with Fund staff the results of 2020 and 2021 healthcare audits by end-October (***proposed October SB***). Moreover, the President has

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

put together a commission to develop proposals for a comprehensive reform of the social security system. In that context and as a corrective action for end-October (¶15), the authorities will develop a time-bound action plan/strategy to undertake legal reform and administrative actions aimed at strengthening the legal framework for the State obligations on the healthcare expenditure and related audits starting in 2023, such that the obligations of PGE to IESS (if any) would be reported, recorded, and cleared in a timely and transparent way. In the absence of a far-reaching healthcare expenditure reform by end-2022, the authorities should undertake by mid-2023 the medical audits of 2022 healthcare expenditure, for timely verification and recording in accounting and statistics of actual PGE healthcare obligations to the IESS.

25. The authorities are making progress on clearing domestic arrears and implementing better cash management practices to avoid accumulating new ones. With the assistance of an FAD long-term expert (LTX), the authorities are implementing a new monitoring system to evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS. The authorities have already published a methodology to estimate the stock of arrears and the reporting templates to be used by public sector entities for reporting arrears ***(November 2021 SB, implemented with delay).*** The next step is to start preparing a monthly arrears report, as per COPLAFIP, including the estimate of past arrears with the GADs and social security institutions not recognized yet as arrears or debt, if any. The authorities are working on designing a policy to gather monthly information on arrears from other entities of the NFPS by the MEF, as mandated by COPLAFIP. They will also adopt a strategy for settling the past potential PGE obligations (¶22) once confirmed, with a detailed calendar for their recording in public accounts and statistics and for their clearance.

26. Debt transparency continues to be improved. Following the new debt methodological definition and with World Bank and Fund technical assistance, the new Debt Bulletin was developed and released on a monthly basis on the official website of the Ministry of Economy and Finance. It includes detailed information on previously not included past obligations related to internal debt, arrears, accounts payable and previous unregistered budgetary obligations. In addition, the current public external and internal debt profile is published, as well as the amortization profile by source and operation. The detailed database supporting the bulletin is now accessible on MEF website.

27. While delayed, the AML/CFT reforms are key and will be informed by the ongoing GAFILAT evaluation. Prior to the on-site GAFILAT visit in April 2022, a number of decrees were issued to amend specific areas of the AML/CFT framework. The plan to submit a comprehensive AML/CFT draft law to the Assembly that would bring Ecuador's legal framework in line with FATF international standards was delayed but will be done in the coming days; its enactment was an SB for Mar. 2022, which is ***proposed to be reset to October 2022***. The authorities plan to continue enhancing the AML/CFT framework next year, following the recommendations from the GAFILAT Mutual Evaluation Report expected in early 2023.

28. To strengthen the anti-corruption framework, the authorities are working on enhancing financial disclosure by public officials to also prevent conflicts of interest. The publication of asset declarations of high-level public officials and/or politically exposed persons

(PEPs) had already been largely expanded in late 2020. This was a welcome step to enhance transparency and accountability. The aim of the current reforms is to ensure the declarations not only serve the detection of illicit enrichment, but also become a fundamental tool to detect and prevent conflicts of interest in the public sector. Further expanding asset declaration requirements to include 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.) would require legal changes. The authorities plan to submit legislation to this end for enactment by *end-August 2022 (SB*) and ensure it also grants public access to all information.

C. Strengthening the Central Bank and Safeguarding Financial Stability

29. The banks appear mostly ready for crisis measures to be unwound. The crisis measures that allow a longer period for classifying loans as non-performing and lower provisioning requirements are currently set to expire for banks by end-June and for cooperatives by end-December. These measures have been instrumental in helping the financial system to weather the crisis well and continue to support economic activity. While a decision has not yet been made on the next steps, the banking system appears mostly ready for the measures to be gradually rolled back. Against this background, staff advised the authorities to prepare a plan to unwind the crisis measures considering that if some financial institutions were to remain under-provisioned, the supervisory authority, after a thorough assessment of the financial situation of these financial institutions, could grant—under certain conditions— additional time to achieve compliance on an institution-by-institution basis. Such conditions may include a clear financial plan to reach needed provisioning levels, restrictions on dividend payouts, and closer supervisory scrutiny to safeguard financial stability.

30. The authorities plan to close some of the regulatory gaps between banks and cooperatives. In Ecuador, there are some regulatory gaps in the classification of NPLs, provisioning, capital requirements, reserve requirements, and contribution to the liquidity fund. While some gaps are constitutionally mandated, the authorities have already begun to close the gap on reserve requirements and plan to gradually close the NPL and provisioning regulatory differences between banks and at least large cooperatives to prevent unfair competition.

31. The authorities are making progress on assessing the health of public banks. After agreeing on the TORs and the timeline for the asset quality reviews (AQR, *November 2021 SB, met*), the authorities are on track for completing the AQRs of the four public banks (*June 2022 SB*). In April, a decree was promulgated to merge two public banks, CFN and BanEcuador. The AQRs will be timely in informing any capitalization or balance sheet operations to strengthen the banks before moving further with the merger. In addition, banks' business models and corporate governance frameworks will likely warrant further improvements.

32. The authorities are closely monitoring banks' liquidity following the recent revision of the liquidity framework. The authorities streamlined the liquidity framework in early 2022, which used to be a complex system that imposed various liquidity requirements on bank assets. With this streamlining, liquidity requirements would effectively be reduced for banks from about 19 percent of deposits to about 13.5 percent. Banks tend to hold high excess reserves at the Central Bank of Ecuador (BCE) due to official dollarization, as a form of self-insurance, given the limited capacity of the central bank to act as a lender of last resort. As such, the change in requirements has not had a significant impact on banks' liquidity positions. The authorities are monitoring financial institutions' liquidity positions daily. In that context, the authorities are assessing the plans to restore banks' contributions to the Liquidity Fund, which had been lowered at the onset of the crisis in 2020 from 8 percent of deposits to 5 percent to support systemic liquidity. Staff advised that the ample liquidity in banks provides the space for the contribution rate to be restored, which would build the fund back up to its pre-pandemic levels.

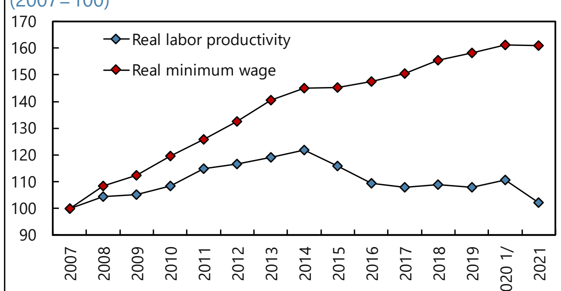
33. The BCE has implemented most safeguards recommendations. Following the establishment of the Audit Committee, the central bank has taken steps to improve the internal audit function by undergoing an External Quality Assessment and approving a capacity building plan. Outstanding safeguards recommendations refer to the adoption of the International Financial Reporting Standards and publication of audited financial statements. Both measures are expected to be implemented in 2022.

34. Preparations for a Financial Sector Assessment Program (FSAP) are under way. The FSAP, which will be joint with the World Bank, is scheduled to begin in the coming months. It will provide an opportune vehicle for assessing and providing recommendations on the resilience of the financial system, including in areas such as stress testing, assessments of systemic risks, reviews of the quality of financial supervision and regulation, payment systems, domestic capital markets, and the effectiveness of the financial safety net.

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

35. Addressing structural impediments to inclusive and jobs-rich growth and competitiveness have become imperative post-COVID. The pandemic has compounded pre-existing labor market weaknesses, and longstanding structural bottlenecks remain. The large minimum wage hike last year could further increase the already high labor costs and encourage informality (Fig. 5). The authorities are working on modernizing Ecuadorian labor market to foster new forms of labor contracts that can particularly support female labor force participation and employment opportunities for the youth.

Ecuador: Labor Productivity and Wages
(2007=100)



Sources: Haver, BCE, INEC, and IMF staff calculations.
1/ 2020 Employment data is based on IMF staff estimates.

36. Steps are being taken to encourage private sector development. Recently promulgated presidential decrees aim at encouraging domestic and foreign investment by: (i) lowering tariffs on many inputs for the industrial sector; (ii) allowing the private sector to take part in oil extraction and the import of fuel; (iii) gradually reducing the tax on transfers abroad (ISD) from 5 to 4 percent over 2022.

37. Efforts to bring transparency to oil companies have faced significant delays. The government had planned to have the financial statements of Petroecuador and Petroamazonas from 2019-21 audited during this year: agreeing on the TOR and timeline for the audits was an SB for November 2021; the audits were to be completed in batches in April and October 2022. This would have allowed the results to be available during the EFF arrangement, and for the results to be incorporated in the authorities' policy plans thereafter. Despite some initial progress, however, the process has been significantly delayed, largely due to changes in Petroecuador's management, with none of the benchmarks met. Under new management, the authorities are moving forward with the process and working with IDB to secure financing to procure an independent third-party auditor. Agreeing on the terms of reference and timeline will be a ***prior action*** for this review. Given the delays and the need to convert the financial statements to IFRS, the 2019 audits of both oil companies can only be done by end-November, 2022 (part of ***end-April structural benchmark, not met, reset for end-November 2022***). However, the 2020 audits of the individual companies, and the 2021 audit of the merged entity will only be done by April 2023, after the EFF arrangement expires. The authorities remain committed to bringing transparency to the oil companies and to continue working with the Fund to incorporate any findings into their policy plans going forward.

38. The authorities are pursuing policies to reduce the reliance on oil and strengthen resilience to natural disasters. Climate change presents macroeconomic challenges for Ecuador, as the global drive towards net-zero CO2 emissions may depress oil prices. The authorities aim to boost reliance on hydropower for electricity generation, reduce CO2 emissions, are promote the transition to electric vehicles through the installation of electric recharging stations. They have expanded several protected areas, including the Galapagos marine reserve, and are working with international partners to generate long term financing for its protection. With IDB support they plan to establish a climate finance unit within MEF.

PROGRAM ISSUES

39. Program monitoring, access, and fiscal quantitative conditionality (Table 10). The delays caused first by the suspension of the fuel subsidy reform and then by revisions to fiscal data have effectively postponed the Fourth EFF Review and brought the review into the timeframe for assessing the end-December targets of the Fifth Review and setting end-August QPCs. Staff propose to rephase the EFF arrangement to combine the Sixth and Seventh Reviews and make end-August 2022 QPCs the last quantitative target for the program. Staff propose to set the fiscal balance QPC targets on OB of PGE+CFDD for that test date, given ongoing data issues at the NFPS level and lags in compiling the data, while continuing to monitor NFPS balances with the existing two ITs and anchoring fiscal consolidation on the NFPS NOPBS. Commensurate with the rephasing, access for the Sixth and final review is proposed at SDR 497 million (about $700 million).

40. Request for a waiver of nonobservance. The authorities request a waiver of nonobservance for the missed end-December 2021 QPC on the OB of PGE+CFDD, on the basis of the corrective actions they have already taken and further remedial measures they are committed to take to address the issues that led to this nonobservance (¶15).

41. Financing assurances. Staff has obtained assurances from all creditors and ensured that the program is fully financed, with firm commitments for the remainder of the program (Table 3). On upside risks (not in the baseline): i) the authorities are working with the Chinese creditors to reprofile their $4.4 billion debt, including $1.7 billion coming due during 2022:H2-23; ii) the French Development Agency (AfD), European Investment Bank (EIB), and the Japan International Cooperation Agency (JICA) are planning new disbursements of $100 million, $100 million, and $180 million of budget support, respectively; and iii) discussions are ongoing with the U.S. Development Finance Corporation (DFC) for a debt-for-nature deal. The $400 million IDB bond guarantee approved last year will make the planned market reaccess this year more favorable. Financing post-program is partly predicated on reasonable assumptions of market access, reflecting the improving sovereign risk profile of Ecuador.

42. Exceptional access/Capacity to repay (Table 8). Staff judge that the exceptional access criteria continue to be met (Box 2). Ecuador's capacity to repay (CtR) the Fund remains adequate and has improved markedly since the last Review, owing mainly to better overall fiscal balances, which are in turn due to higher-than-expected oil prices. Possible debt reprofiling operations with Chinese creditors pose upside risks to CtR. A worse oil price outlook or new contingent liabilities materializing could put pressures on building buffers if policies or financing do not adjust commensurately, potentially straining CtR. CtR remains contingent on steadfast program implementation; the program is designed to mitigate these risks by incorporating conservative assumptions and building policy buffers.

43. 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

44. A well-executed vaccination campaign, higher oil prices, and good macroeconomic management are supporting the recovery. A successful vaccination campaign has helped save lives and livelihoods and allowed for a sustained reopening of the economy. Economic activity expanded by 4.2 percent in 2021, reflecting stronger than expected recovery in private consumption and non-oil exports. Macroeconomic and financial stability was maintained in the face of a range of domestic and external shocks, helped by higher oil prices and a prudent policy mix. This has kept credit to the economy flowing and raised international reserves as well as public sector deposits to historic highs.

45. The authorities' commitment to growth-friendly, sustainable, and equitable policies is starting to bear fruit. The enactment of the progressive tax bill marks an important milestone for reducing dependency on oil, ensuring that the better-off are paying their share, and providing the government with the fiscal space for investment in both physical and human capital. Fiscal policy is increasingly supportive of low-income families, with social assistance reaching more vulnerable households, even in remote areas. This is an important achievement, especially if food prices continue to rise. Fiscal balances are steadily improving.

46. Despite these achievements, there are challenges on the horizon. While vaccination rates are high, vaccine-resistant variants may undo some of the gains. Spillovers from the ongoing war in Ukraine have hurt some export sectors and finding alternative markets for their products may prove difficult. Inflationary pressures are among the lowest in the region but are still rising and will affect the poor and vulnerable the most while labor markets are still recovering. Domestic security remains a key concern for the Ecuadorian society. A challenging domestic political climate creates headwinds for reforms.

47. Higher oil prices present both an opportunity and a challenge. Higher oil prices stand to improve Ecuador's external and fiscal balances, helping to rebuild buffers and bolster resilience to future negative shocks. At the same time, high oil prices raise the fuel subsidy bill and create pressure for spending. Breaking away from the procyclical spending patterns of the past will require commitment and focus on the long-term benefit of the country. The fiscal plans are calibrated to both provide space for additional spending on key priorities such as infrastructure investment and social assistance to low-income households, and also make progress on debt reduction and building buffers. Maintaining this balance going forward will be key to support the economy while strengthening resilience.

48. With the enactment of the tax bill, the remaining medium term fiscal effort will rely primarily on containing public expenditure growth. Staff supports the authorities' plans to unwind one-off COVID-related expenditures from 2021, lower the growth of the public wage bill, further expand the social safety net, improve procurement practices to generate efficiency gains, and reprioritize capital expenditure to growth-enhancing infrastructure. These measures would ensure fulfilling the program objectives of putting public debt on a firmly downward trajectory, helping Ecuador meet the legislated debt and reserve coverage targets. Concerted outreach is needed to garner broad societal and political support for the policy plans.

49. Building on important early steps, further progress with the authorities' action plan to improve fiscal data quality is critical. Fiscal data quality has steadily improved over the last few years, with technical support from STA, and the authorities have promptly implemented the recommended corrections. The corrective action plan they put in place, and their commitment to account for all transfer obligations in future budgets and medium-term fiscal frameworks, will greatly improve the timeliness, transparency, reliability, and consistency of fiscal statistics. Proactively identifying other potential claims on the central government and planning to clear them once verified, advancing swiftly on the audits of the financial statements of IESS, and continuing to improve public finance management practices will strengthen fiscal risk management and accountability. The continued enhancement of debt transparency is commendable.

50. The good progress made on fighting corruption, and on improving governance, transparency, and accountability should continue. Stronger governance and transparency in the management of public resources will help rebuild trust in public institutions and create a more even playing field for businesses. The commitments to enhance asset declarations of politically exposed people including incomes and interest, strengthen the AML/CFT framework in line with FATF standards, and conduct audits of tax expenditures are welcomed in that regard. The authorities need to ensure full compliance with the legal framework to collect and publish ultimate beneficiary ownership for all procurement contracts.

51. Accelerated efforts are critical to bring transparency to state-owned oil companies. The delays in starting the financial audits of the state-owned oil companies imply that their completion will now fall outside of the current program, precluding the possibility of incorporating the findings into the program agenda. At the same time, the authorities' commitment to remain continuously engaged with the Fund after the current program ends will provide the opportunity to meet this objective, albeit with delay. Advancing swiftly on the audits is of upmost importance to demonstrate resolve in making the public sector more transparent.

52. The financial sector seems ready for crisis measures to be rolled back, but vigilance is needed to guard against risks. Banks appear healthy, liquid, and well-capitalized, although still supported by crisis measures. Thus, continued vigilance and agility in supervision is needed as crises measures are rolled back. Liquidity should be closely monitored in light of the new regulatory framework. The steps to begin closing the regulatory gaps between banks and large cooperatives are welcome and should continue. Lowering banks' contributions to the liquidity fund at the onset of the crisis helped banks weather the crisis well; now ensuring that the fund has adequate resources to serve as the lender of last resort if needed should be a priority in a fully-dollarized economy. The ongoing AQRs for public banks will provide the information needed to ensure that they are financially sound. The upcoming FSAP will offer an opportunity to have a comprehensive assessment of the financial sector and recommend avenues for reform.

53. Staff supports the request for a waiver of nonobservance of the end-December 2021 OB of PGE+CFDD QPC and completion by the Executive Board of the combined Fourth and Fifth Reviews under the EFF arrangement. Staff support the waiver of nonobservance based on the grounds of the corrective actions the authorities have already undertaken and the further remedial measures they are committed to take to address the issues that led to this nonobservance. Staff also supports the request for changes to the structural conditionality.

Box 2. 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. Although the economy is recovering from its deepest recession on record, with the effects of the pandemic being more prolonged than expected at the outset, coupled with the loss of market access in 2020. The residual financing gap from the confluence of shocks described above that is proposed to be provided by the Fund is estimated at $1,700 billion over 2022, after factoring in the fiscal consolidation that is underway 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, prudent fiscal management and higher oil prices have resulted in lower deficits and debt levels compared to the projections at the time of program approval. All else equal, the better outcomes improve the prospect of attaining the debt targets; in fact, public debt is projected to reach its 2025 target in 2023, providing a healthy buffer for shocks. Gross financing needs remain around 3-4.5 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, declining path. 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, Ecuador had sustained access to foreign financial markets, with long-term global bond issuances of around $3-5 billion per year over the previous 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, Ecuador's spreads fell after the elections last year and have remained stable around 800 bps since then; levels last seen before the pandemic and the debt crisis. The rise in oil prices due to the war in Ukraine have supported Ecuador's fiscal and external balances, further improving its risk profile. At the same time, the war and rising concerns over global inflation have started raising interest rates and risk souring markets' appetite for emerging market debt. On balance, staff's assumptions on market re-access starting in 2022 at US$1 billion are broadly unchanged from the 2nd/3rd Review. The $400 million IDB bond guarantee would enable Ecuador to tap markets at a more favorable rate. Ecuador's re-access to foreign capital markets would be supported by the pro-market stance of the administration, and their continued implementation of the fiscal and structural reform agenda. The assumptions on market financing for the outer years have been reduced to support the debt reduction plans and build buffers.

Box 2. Assessment of Exceptional Access Criteria (continued)

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

The Ecuadorian authorities have continued to move forward with implementing the policies of the program and have proactively addressed challenges in policy and reform implementation. They remain fully committed to take the needed steps to ensure its success.

The smooth change in administration in May 2021 provided continuity in commitment and implementation of the policy program that has been supported by the EFF arrangement. The combined Second and Third Reviews and the 2021 Article IV were successfully completed in September. Notwithstanding the suspension of the subsidy reform in October, which was an important setback in the authorities' strategy to restore fiscal sustainability, especially in light of the subsequent oil price increase, a critical tax reform was enacted in November. The enacted bill makes the tax system more efficient and progressive, and contains higher temporary revenues than originally envisaged.

The challenging political environment remains an important risk to policy implementation and program continuity. The National Assembly remains fragmented, which could make passing important economic reforms challenging. Notably, the Minister of Government is working actively to strengthen the government's relations with all political parties and stakeholders to improve governability and political stability. Also of note is the fact that most of the legislative actions under the program have been successfully implemented, including the anticorruption reform of the organic penal code (COIP) ahead of the First Review, the landmark reform of the COMYF to strengthen the basis for dollarization in early 2021, and the tax reform mentioned above, which was a critical part of the fiscal consolidation plans. The remaining legislative benchmarks, on overhauling the AML/CFT framework and expanding political actors' asset declaration forms, are continuations of already legislated reforms that further strengthen these policy frameworks. The authorities are committed to advance these reforms, and, if needed, will look to enact decrees or regulations in these areas to safeguard the originally-envisaged results as much as possible. All other economic and structural policies under the program are fully within the authority and legal competency of the government and the executive.

Notwithstanding a mixed performance on structural benchmarks, several crucial policy measures being implemented up front and in a timely way ahead of the Executive Board's consideration of the combined Fourth and Fifth Reviews strongly demonstrate the authorities' resolve to implement the policies supported by the program. In particular, the prior actions on the expenditure control measures will ensure that the expenditure-led consolidation plans are robust and can be implemented in the years to come. The structural agenda has been enhanced to address the delays in the last months that led to the mixed performance assessment, and to further ensure that the fiscal plans remain in line with the Fund-supported program plans after the current arrangement expires. The ambitious structural reform agenda enhanced for this review will be critical to meeting the key program objectives of ensuring sustainability and building trust in public institutions.

The authorities have continued to make tangible improvements in the technical and institutional deficiencies that have been well-recognized as key risk factors in the past. The administration has continued to receive extensive capacity development from the Fund and other development partners. Data quality issues that have recently come to light and led to a second case of data corrections that led to a misreporting of a performance criterion, only two years after the last one, are unfortunate. However, it should be noted that these data issues are different from the ones addressed in the course of the 2020 misreporting, both in terms of impacted data (GADs then vs. IESS and PGE now) and statistical issues. Hence, they could not have been prevented by the corrective actions undertaken after the last case. Progress is being made to address the technical and institutional weaknesses responsible for the new case. Thanks to these efforts, fiscal data quality has already and will further improve significantly. The authorities have implemented a number of

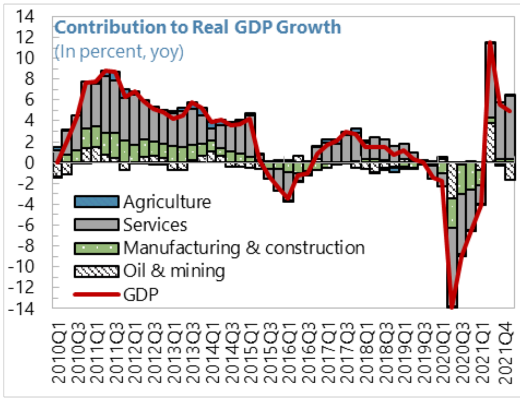
Box 2. Assessment of Exceptional Access Criteria (concluded)

corrections in recent months and are committed to continue taking steps to improve processes so that changes are long lasting and prevent large historical revisions in the future, especially due to the underreporting of accrued spending commitments. These corrective actions include: (i) publishing revised historical series for PGE and NFPS with explanations for revisions; (ii) signing an agreement between MEF and IESS to promptly procure firms to conduct healthcare audits for 2017-21 medical expenditure; and completing the audits of 2020 and 2021 claims by end-October; (iii) identifying the existing stock of PGE potential obligations to IESS, GADs, private sector and others; (iv) inclusion in the 2023 budget and MTFF properly estimated pension and healthcare transfers to IESS; (v) establishing a dedicated statistics unit at the MEF headed by a senior Chief Statistician, and upgrading the training curriculum in data compilation, reconciliation, and verification; (vi) developing a time-bound plan to undertake legal reform aimed at strengthening the legal framework for State healthcare obligations and related audits; and (vii) completing the financial audit of IESS statements from 2019-21 by an independent third party. The authorities are working closely with STA, as well as with the Fund 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 authorities have sought further technical assistance support from the Fund and other IFIs.

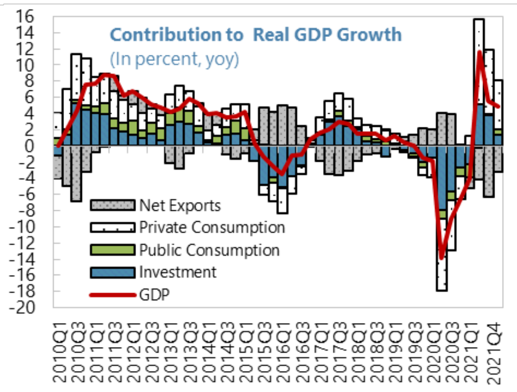
The strong macroeconomic policy management to date and commitment to advance on the structural agenda, and numerous steps to improve data quality and technical capacity all provide a reasonably strong prospect of success for the Fund-supported program. Ultimately, successful implementation of the reform agenda will hinge on the continued political will of the executive.

Figure 1. Ecuador: Recent Economic Developments

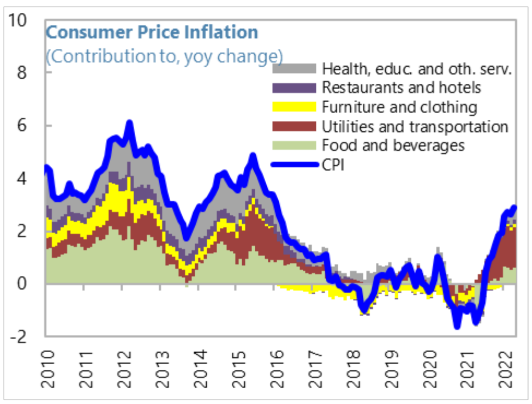
The economic recovery is underway,...



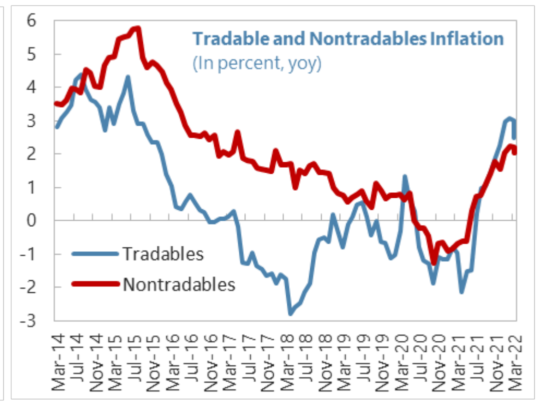
...but its pace has slowed down during the second half of 2021.



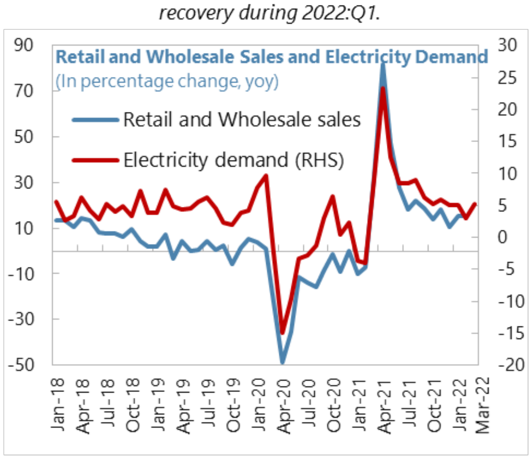
Inflation reached 2.9% in April, led by increases in transportation, food, and utilities.



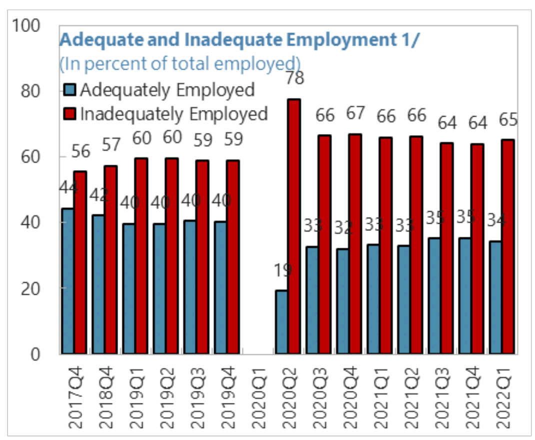
...with both nontradables (2.0%) and tradables (2.5%) inflation showing sharp increases.



High frequency indicators point to sustained but slower recovery during 2022:Q1.

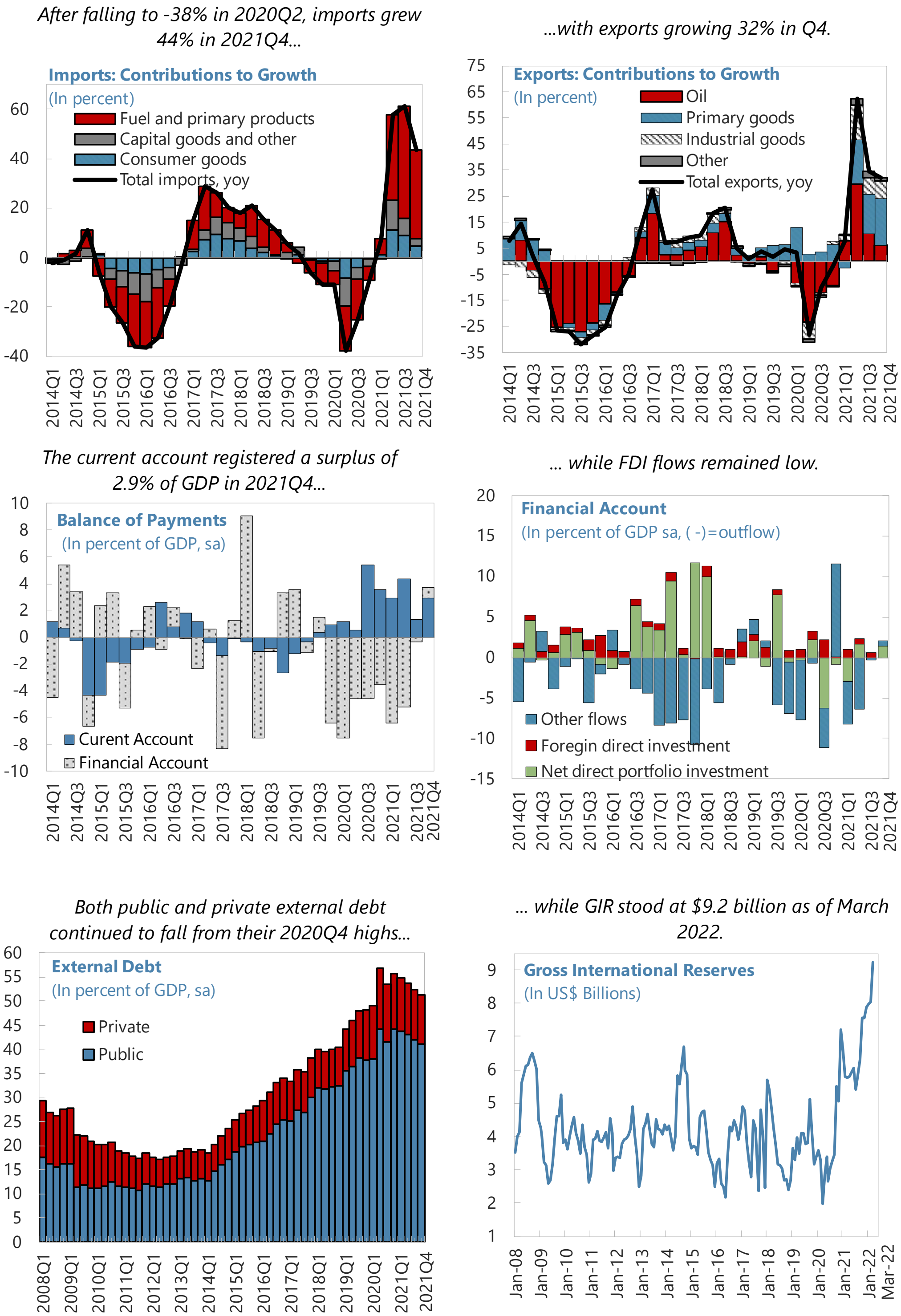


Labor market outcomes remain weak, with adequate employment below its pre-pandemic levels.



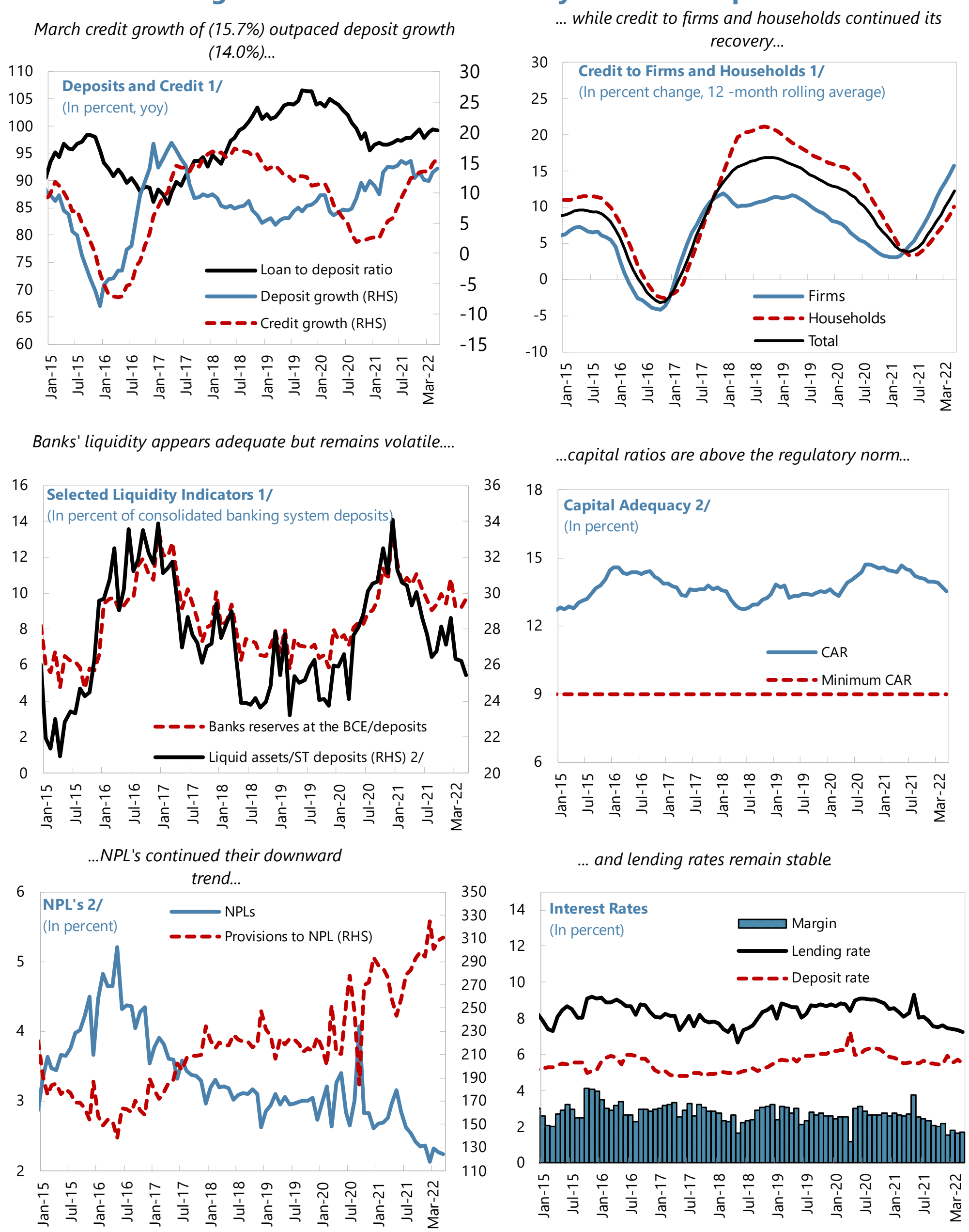
Sources: Central Bank of Ecuador, National Statistical Institute of Ecuador (INEC), and IMF staff calculations.
1/ Employment data is unavailable for 2020Q1 because of the COVID-19 pandemic. Employment data for 2020Q2 employs a different methodology (phone calls vs in-person surveys) and may not be fully comparable to the rest of the time series.

Figure 2. Ecuador: External Sector Developments



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

Figure 3. Ecuador: Financial System Developments



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

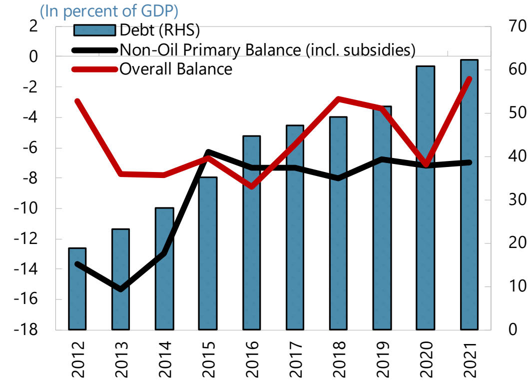
2/ Data corresponds to the private banks aggregate, which includes *Banco del Pacifico*.

Figure 4. Ecuador: Fiscal Developments 1/

The fiscal deficit is at its lowest levelsince 2011 and the pace of debt accumulation has moderated.

Fiscal Balances and Debt

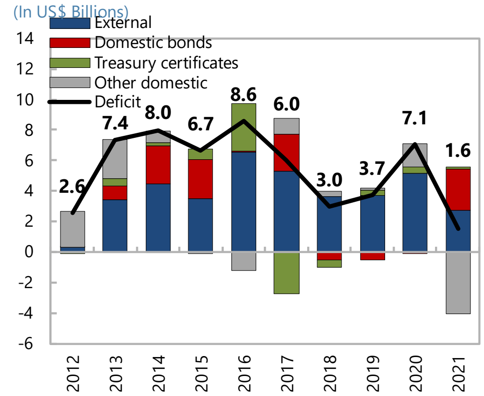
(In percent of GDP)



The deficit was financed largely byexternal official credit.

Fiscal Deficit and Financing Sources

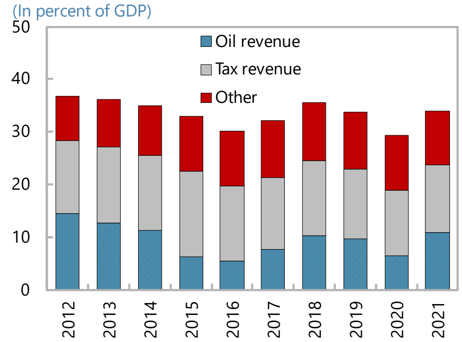
(In US$ Billions)



Revenues have recovered to their pre-pandemic levels, assisted by higher oil revenues...

Revenues

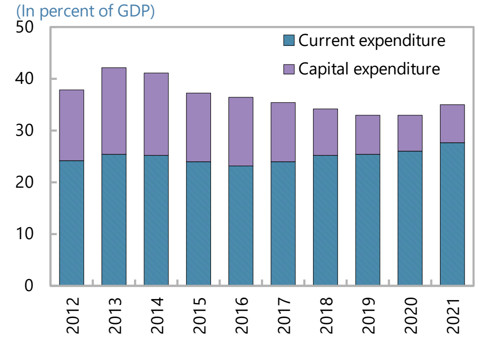
(In percent of GDP)



... while a slight current primary expenditure contraction was offset by an increase in capital spending.

Primary Expenditures

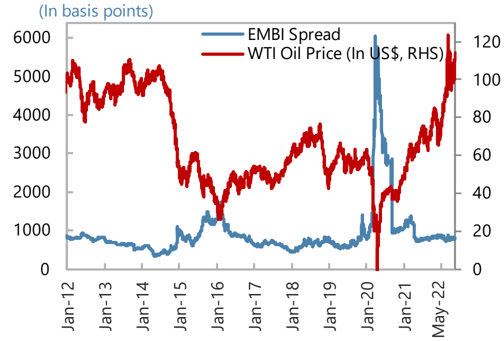
(In percent of GDP)



EMBI spreads have normalized towards historical levels, ending 2021 at around 870bps...

EMBI Spread and Oil Price

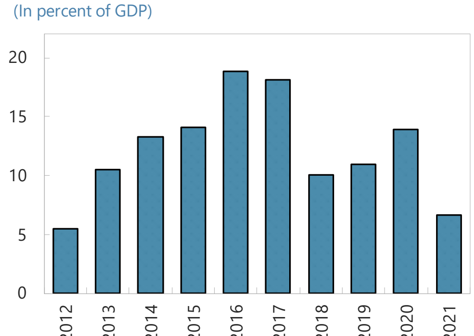
(In basis points)



... while GFNs decreased sharply following the 2020 debt restructuring.

Gross Financing Needs

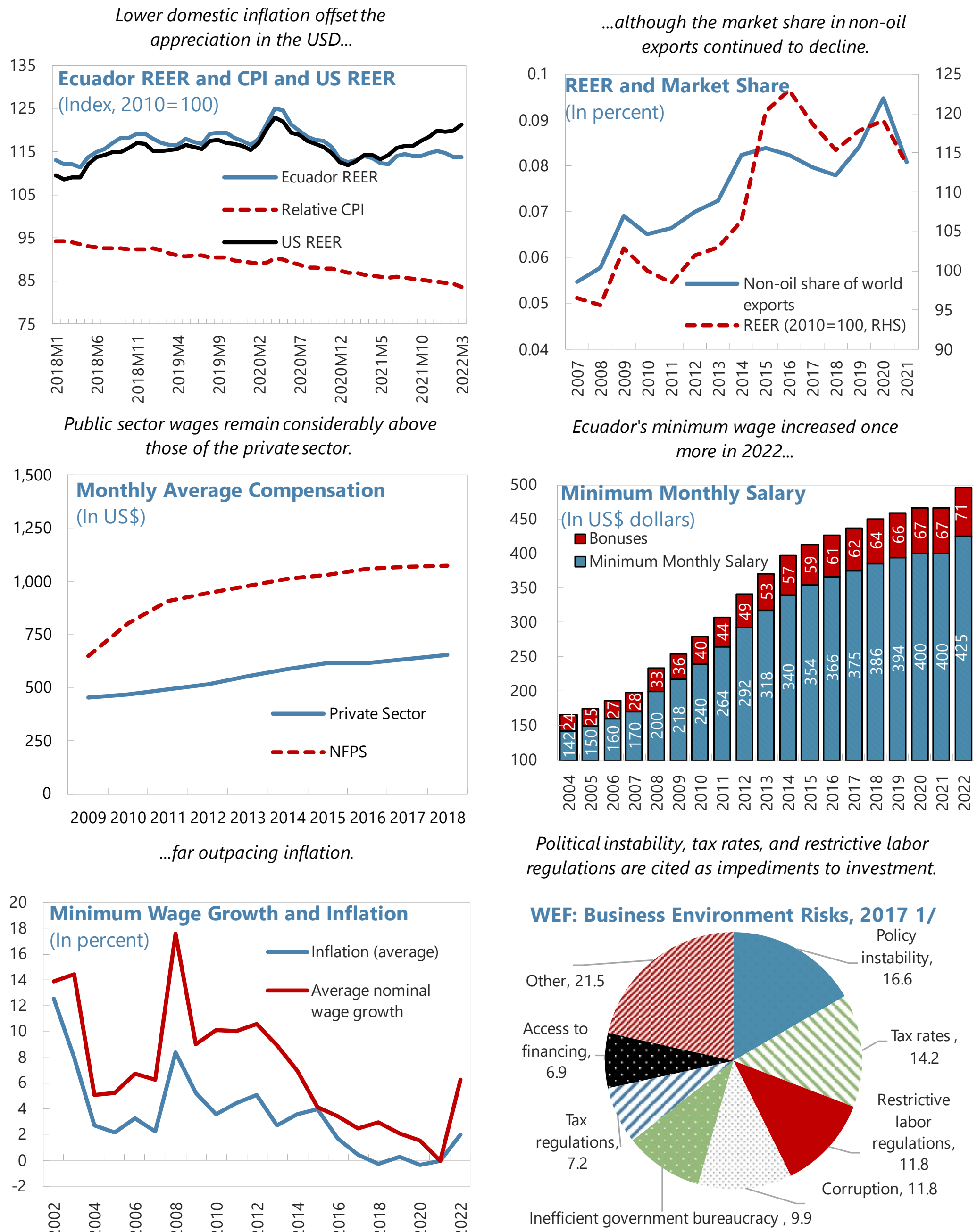
(In percent of GDP)



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, with the technical assistance support from the IMF Staff, have undertaken revisions of the historical fiscal data for the net-lending borrowing of the NFPS from 2017, mostly in the recording of revenues and expenditures of the social security fund. Revision of the data for earlier years by the Ecuadorian authorities is ongoing.

Figure 5. Ecuador: Competitiveness



Sources: 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, 2020-27

	2020	2021 2/3 Rev. 1/	2021 Est.	2022 2/3 Rev. 1/	2022 Projections	2023	2024	2025	2026	2027
			(Percent change, unless otherwise indicated)							
National income and prices										
Real GDP	-7.8	2.8	4.2	3.5	2.9	2.7	2.8	2.8	2.8	2.8
Domestic demand (contribution to growth)	-10.3	8.6	7.9	3.5	6.2	2.6	2.2	1.7	2.6	2.6
External Demand (contribution to growth)	2.5	-5.8	-3.7	0.0	-3.3	0.1	0.6	1.1	0.2	0.2
Consumer price index period average	-0.3	0.0	0.1	2.1	3.2	2.4	1.5	1.3	1.0	1.0
Consumer price index end-of-period	-0.9	1.8	1.9	2.2	3.8	1.4	1.3	1.1	1.0	1.0
Banking system										
Net domestic assets	3.6	3.1	14.5	2.2	2.7	1.7	-2.8	-0.8	1.2	2.3
Liabilities	12.0	6.0	12.0	5.2	8.3	6.5	3.6	3.4	3.4	3.4
Credit to the private sector	2.5	9.9	13.6	7.0	9.9	7.2	4.0	3.3	3.3	3.3
External sector										
Exports	-14.2	17.0	31.0	6.1	13.6	1.5	1.4	1.4	1.7	1.6
Oil	-39.5	53.6	63.9	1.0	34.4	-4.9	-6.4	-6.5	-3.6	-3.3
Non-oil	8.8	4.7	21.4	8.4	4.6	5.0	5.4	5.0	4.1	3.7
Imports	-23.2	31.3	43.4	6.2	17.7	2.4	1.2	0.1	1.0	0.8
Terms of trade	-5.7	2.0	1.5	-0.1	1.4	-1.6	-1.1	-1.9	-0.1	0.2
Real effective exchange rate (2010=100)	119.1		113.6							
Real effective exchange rate, end-of-period (depreciation,-)	1.1		-4.6							
					(Percent of GDP)					
Current account balance	2.7	1.7	2.9	1.7	2.4	2.2	2.0	2.0	2.0	2.0
NFPS Public finances										
Revenue	29.4	33.2	34.0	33.8	36.1	36.2	35.2	34.7	34.2	33.5
Expenditure	36.5	35.5	35.5	33.8	35.2	34.3	33.4	32.9	32.2	32.1
Overall balance (deficit -)	-7.1	-2.3	-1.5	0.1	0.9	1.9	1.8	1.9	2.0	1.4
Non-oil primary balance	-6.1	-4.4	-5.3	-2.0	-2.9	-1.8	-1.5	-1.1	-0.4	-0.4
Non-oil primary balance (incl. fuel subsidies)	-7.2	-5.8	-7.0	-2.8	-5.5	-4.0	-3.1	-2.3	-1.6	-1.5
Public debt 2/	60.9	61.0	62.2	59.9	58.9	56.2	54.5	51.4	47.7	45.1
Domestic	16.2	15.3	17.6	14.8	15.3	14.1	13.0	11.7	10.3	9.6
External	44.7	45.6	44.6	45.1	43.6	42.1	41.5	39.7	37.5	35.5
Gross Financing Needs										
In percent of GDP	14.2	7.0	6.7	4.3	4.9	3.5	3.3	4.2	4.6	4.1
In percent of Exports	68.4	30.4	26.1	18.6	18.3	13.5	12.8	17.0	18.8	17.0
In percent of Revenues	48.2	21.0	19.7	12.7	13.6	9.8	9.3	12.2	13.6	12.3
					(Percent of GDP)					
Saving-investment balance										
Consumption	75.6	74.4	76.7	73.6	72.8	73.6	73.8	73.5	73.4	73.4
Private	59.3	60.5	61.4	60.5	60.5	60.5	60.5	60.5	60.5	60.5
Public	16.4	13.9	15.3	13.1	12.3	13.1	13.3	13.0	12.9	12.9
National saving	24.8	28.1	25.2	29.0	29.4	28.7	28.3	28.2	28.1	28.0
Private	24.9	23.1	19.3	22.0	21.9	20.1	19.9	19.9	19.8	20.2
Public	-0.2	5.1	5.9	7.1	7.5	8.6	8.3	8.3	8.3	7.8
Gross investment	22.0	26.4	22.3	27.3	27.1	26.5	26.3	26.3	26.2	26.0
Private 3/	14.9	20.0	14.6	21.2	20.2	19.6	19.5	19.6	19.6	19.4
Public	7.2	6.5	7.7	6.1	6.9	6.9	6.8	6.7	6.6	6.6
Memorandum items:										
Nominal GDP (US$ millions)	99,291	104,483	106,166	109,975	115,469	120,292	124,578	128,795	133,155	137,663
GDP per capita (US$)	5,670	5,884	5,979	6,108	6,413	6,588	6,728	6,860	6,993	7,130
Gross international reserves (US$ millions) 4/	7,133	8,427	7,898	9,903	10,634	13,318	16,282	18,411	19,872	20,953
Gross international reserves (as a percent of ARA metric)	34	39	35.0	44.8	45.8	55.8	66.3	73.3	77.8	80.9
Net international reserves (US$ millions) 5/	-7,161	-6,239	-5,747	-5,013	-4,729	-1,753	1,926	4,227	5,691	6,766
Oil price Ecuador mix (US$ per barrel)	35.6	59.8	62.0	59.2	83.4	75.3	68.9	63.1	59.8	57.9
Oil production (millions of barrels)	175.4	178.7	172.6	182.7	179.3	186.1	189.2	192.5	194.8	194.8
Exports of oil (millions of barrels) 6/	146.4	133.2	133.7	135.9	134.1	141.4	144.7	147.8	150.2	150.2

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

1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No. 2021/228).

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 TMU).

6/ Includes both crude and derivatives.

Table 2a. Ecuador: Operations of the Consolidated Nonfinancial Public Sector, 2020-27

(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021 2/3 Rev. 1/	Est. 2021	2022 2/3 Rev. 1/	Projections 2022	2023	2024	2025	2026	2027
Revenue	**29,206**	**34,689**	**36,121**	**37,223**	**41,630**	**43,538**	**43,798**	**44,754**	**45,549**	**46,147**
Oil revenue, net 2/	4,839	8,412	9,041	8,525	11,634	11,747	11,282	11,123	10,455	9,944
Non-oil revenue	22,631	23,976	24,362	26,008	26,888	28,710	29,571	30,785	32,286	33,456
Taxes	12,366	13,065	13,623	14,525	15,312	16,256	16,737	17,565	18,623	19,275
Social security contributions	5,079	5,810	5,305	6,115	5,687	6,043	6,188	6,425	6,639	6,890
Other	5,186	5,101	5,433	5,369	5,888	6,410	6,645	6,796	7,025	7,291
o/w Interest income	1,231		1,184		1,290	1,298	1,356	1,386	1,436	1,490
Operating surplus of public enterprises	1,736	2,301	2,718	2,690	3,109	3,081	2,945	2,845	2,807	2,747
o/w Profits of oil companies withheld for investment	1,486	2,151	2,490	2,540	2,867	2,814	2,665	2,551	2,504	2,432
Expenditure	**36,280**	**37,111**	**37,700**	**37,138**	**40,626**	**41,264**	**41,580**	**42,357**	**42,911**	**44,173**
Primary expenditure	33,490	35,839	36,336	35,636	38,949	39,438	39,487	39,843	40,227	41,354
Current	27,601	27,719	29,236	27,944	32,075	32,196	32,118	32,374	32,587	33,455
Wages and salaries (reclassified) 3/	11,394	9,479	11,153	9,590	11,133	11,196	11,315	11,494	11,631	12,025
Purchases of goods and services (reclassified) 3/	2,461	4,173	2,504	3,931	2,434	2,429	2,445	2,477	2,502	2,587
Social security benefits	6,830	6,506	7,178	6,708	7,586	7,957	8,176	8,515	8,672	9,001
Other	6,917	7,561	8,400	7,715	10,922	10,614	10,182	9,888	9,781	9,842
Cost of imports of oil derivatives	3,186	4,176	4,512	4,296	6,554	6,104	5,588	5,272	5,117	5,069
Payments to private oil companies (SHE) 4/	1,232	1,278	1,236	1,278	1,503	1,499	1,579	1,434	1,434	1,434
Social assistance	1,066	2,107	1,242	2,142	1,357	1,444	1,505	1,556	1,609	1,663
Other	1,433		1,411		1,508	1,568	1,510	1,626	1,621	1,676
Capital (reclassified) 3/	5,813	7,745	6,594	7,692	6,857	7,242	7,369	7,469	7,640	7,899
o/w Investment in oil	1,381	1,667	1,589	1,698	1,723	1,953	1,948	1,979	1,980	2,047
Extra budgetary expenses	77	0	506	0	17	0	0	0	0	0
Primary balance (excl. interest income)	**-5,515**		**-1,398**		**1,392**	**2,801**	**2,955**	**3,525**	**3,886**	**3,302**
Interest	**2,790**	**1,272**	**1,364**	**1,502**	**1,677**	**1,826**	**2,093**	**2,514**	**2,684**	**2,818**
o/w External	2,422	999	958	1,164	1,185	1,394	1,643	2,070	2,340	2,533
Overall balance	**-7,074**	**-2,422**	**-1,579**	**85**	**1,004**	**2,273**	**2,218**	**2,397**	**2,637**	**1,975**
Memorandum items:										
Primary balance (incl. interest income)	-4,285	-1,150	-214	1,587	2,681	4,099	4,311	4,911	5,322	4,793
Non-oil primary balance (excl. interest income) 5/	-6,041		-5,593		-3,329	-2,204	-1,876	-1,464	-542	-524
Non-oil PB (incl. fuel subsidies, excl. interest income) 6/	-7,132		-7,432		-6,317	-4,762	-3,878	-2,953	-2,136	-2,067
Non-oil PB (incl. fuel subsidies, incl. interest income) 6/	-5,901	-6,030	-6,248	-3,087	-5,027	-3,463	-2,522	-1,566	-700	-577
Cyclically adjusted non-oil primary balance	-3,328	-3,772	-3,914	-1,708	-1,721	-754	-461	-47	894	966
Oil balance 7/	526	3,442	4,194	3,793	4,721	5,005	4,832	4,989	4,428	3,827
Fuel subsidies	1,091	1,811	2,214	881	2,988	2,558	2,002	1,488	1,594	1,543
Overall balance of PGE and CFDD	-7,629		-4,300		-2,277	-741	-602	142	428	613
Public debt 8/	60,462	63,687	66,074	65,894	68,020	67,566	67,924	66,212	63,549	62,046

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

1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No. 2021/228).

2/ Net of operational cost.

3/ Reflects reclassification of expenditures from capital expenditures.

4/ Reflects service contract payments to private oil companies.

5/ Primary balance less oil balance.

6/ Excludes payments to settle oil-related arbitration awards.

7/ Oil revenue plus operating surplus 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).

8/ 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 Consolidated Nonfinancial Public Sector, 2020-27

(In percent of GDP, unless otherwise indicated)

	2020	2021 2/3 Rev. 1/	Est. 2021	2022 2/3 Rev. 1/	Projections 2022	2023	2024	2025	2026	2027
Revenue	**29.4**	**33.2**	**34.0**	**33.8**	**36.1**	**36.2**	**35.2**	**34.7**	**34.2**	**33.5**
Oil revenue, net 2/	4.9	8.1	8.5	7.8	10.1	9.8	9.1	8.6	7.9	7.2
Non-oil revenue	22.8	22.9	22.9	23.6	23.3	23.9	23.7	23.9	24.2	24.3
Taxes	12.5	12.5	12.8	13.2	13.3	13.5	13.4	13.6	14.0	14.0
Social security contributions	5.1	5.6	5.0	5.6	4.9	5.0	5.0	5.0	5.0	5.0
Other	5.2	4.9	5.1	4.9	5.1	5.3	5.3	5.3	5.3	5.3
o/w Interest income	1.2		1.1		1.1	1.1	1.1	1.1	1.1	1.1
Operating surplus of public enterprises	1.7	2.2	2.6	2.4	2.7	2.6	2.4	2.2	2.1	2.0
o/w Profits of oil companies withheld for investment	1.5	2.1	2.3	2.3	2.5	2.3	2.1	2.0	1.9	1.8
Expenditure	**36.5**	**35.5**	**35.5**	**33.8**	**35.2**	**34.3**	**33.4**	**32.9**	**32.2**	**32.1**
Primary expenditure	33.7	34.3	34.2	32.4	33.7	32.8	31.7	30.9	30.2	30.0
Current	27.8	26.5	27.5	25.4	27.8	26.8	25.8	25.1	24.5	24.3
Wages and salaries (reclassified) 3/	11.5	9.1	10.5	8.7	9.6	9.3	9.1	8.9	8.7	8.7
Purchases of goods and services (reclassified) 3/	2.5	4.0	2.4	3.6	2.1	2.0	2.0	1.9	1.9	1.9
Social security benefits	6.9	6.2	6.8	6.1	6.6	6.6	6.6	6.6	6.5	6.5
Other	7.0	7.2	7.9	7.0	9.5	8.8	8.2	7.7	7.3	7.1
Cost of imports of oil derivatives	3.2	4.0	4.3	3.9	5.7	5.1	4.5	4.1	3.8	3.7
Payments to private oil companies (SHE) 4/	1.2	1.2	1.2	1.2	1.3	1.2	1.3	1.1	1.1	1.0
Social assistance	1.1	2.0	1.2	1.9	1.2	1.2	1.2	1.2	1.2	1.2
Other	1.4		1.3		1.3	1.3	1.2	1.3	1.2	1.2
Capital (reclassified) 3/	5.9	7.4	6.2	7.0	5.9	6.0	5.9	5.8	5.7	5.7
o/w Investment in oil	1.4	1.6	1.5	1.5	1.5	1.6	1.6	1.5	1.5	1.5
Extra budgetary expenses	0.1	0.1	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (excl. interest income)	**-5.6**		**-1.3**		**1.2**	**2.3**	**2.4**	**2.7**	**2.9**	**2.4**
Interest	**2.8**	**1.2**	**1.3**	**1.4**	**1.5**	**1.5**	**1.7**	**2.0**	**2.0**	**2.0**
o/w External	2.4	1.0	0.9	1.1	1.0	1.2	1.3	1.6	1.8	1.8
Overall balance	**-7.1**	**-2.3**	**-1.5**	**0.1**	**0.9**	**1.9**	**1.8**	**1.9**	**2.0**	**1.4**
Memorandum items:										
Primary balance (incl. interest income)	-4.3	-1.1	-0.2	1.4	2.3	3.4	3.5	3.8	4.0	3.5
Non-oil primary balance 5/	-6.1		-5.3		-2.9	-1.8	-1.5	-1.1	-0.4	-0.4
Non-oil primary balance (percent of non-oil GDP) 5/	-6.8	-4.7	-5.9	-2.1	-3.3	-2.1	-1.7	-1.3	-0.5	-0.4
Non-oil PB (incl. fuel subsidies, excl. interest income) 6/	-7.2		-7.0		-5.5	-4.0	-3.1	-2.3	-1.6	-1.5
Non-oil PB (incl. fuel subsidies, incl. interest income) 6/	-5.9	-5.8	-5.9	-2.8	-4.4	-2.9	-2.0	-1.2	-0.5	-0.4
Cyclically adjusted Non-oil primary balance	-3.4	-3.6	-3.7	-1.6	-1.5	-0.6	-0.4	0.0	0.7	0.7
Oil balance 7/	0.5	3.3	4.0	3.4	4.1	4.2	3.9	3.9	3.3	2.8
Fuel subsidies	1.1	1.7	2.1	0.8	2.6	2.1	1.6	1.2	1.2	1.1
Overall balance of PGE and CFDD	-7.7		-4.1		-2.0	-0.6	-0.5	0.1	0.3	0.4
Public debt 8/	60.9	61.0	62.2	59.9	58.9	56.2	54.5	51.4	47.7	45.1

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

1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No. 2021/228).

2/ Net of operational cost.

3/ Reflects reclassification of expenditures from capital expenditures.

4/ Reflects service contract payments to private oil companies.

5/ Primary balance less oil balance. Excludes interest income.

6/ Excludes payments to settle oil-related arbitration awards.

7/ Oil revenue plus operating surplus 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).

8/ 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: Consolidated Nonfinancial Public Sector Financing, 2020-27

(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021 2/3 Rev. 1/	Est. 2021	2022 2/3 Rev. 1/	Projections 2022	2023	2024	2025	2026	2027
Gross financing needs	**14,092**	**7,285**	**7,107**	**4,721**	**5,679**	**4,249**	**4,083**	**5,474**	**6,184**	**5,687**
Nonfinancial public sector deficit	7,074	2,422	1,579	-85	-1,004	-2,273	-2,218	-2,397	-2,637	-1,975
Amortization	6,483	4,863	5,022	4,806	5,808	6,323	6,101	7,871	8,822	7,662
External	3,978	1,790	1,847	2,355	2,722	2,942	2,804	3,825	4,651	4,381
Multilateral	817	781	780	784	1,094	1,336	1,482	2,951	2,964	3,122
Bilateral	785	419	482	1,212	1,275	1,286	1,030	565	565	208
Private sector and other	2,233	465	463	246	252	221	191	209	1,078	1,052
Oil related financing	143	125	121	112	101	100	100	100	45	0
Domestic	2,505	3,073	3,175	2,451	3,086	3,380	3,296	4,046	4,171	3,280
Loans	0		0		0	0	0	0	0	339
Bonds	531	800	855	179	668	1,062	979	1,728	1,853	624
Treasury certificates	1,974	2,272	2,320	2,272	2,418	2,318	2,318	2,318	2,318	2,318
Arrears clearance and payment of other liabilities	534		506		875	200	200	0	0	0
Gross financing sources	**14,092**	**7,285**	**7,107**	**4,721**	**5,679**	**4,249**	**4,083**	**5,474**	**6,184**	**5,687**
External	9,182	5,968	4,612	4,341	5,690	3,251	3,841	3,341	3,341	3,341
Multilateral	7,502	4,588	3,257	3,341	4,674	1,751	1,841	1,341	1,341	1,341
World Bank	1,242	923	318	341	974	251	341	341	341	341
Inter-American Development Bank	709	1,382	1,348	500	500	400	400	400	400	400
CAF	868	475	480	650	650	600	600	600	600	600
Other	0	308	308	850	850	500	500	0	0	0
IMF	4,683	1,500	802	1,000	1,700	0	0	0	0	0
Bilateral	151	420	346	0	16	0	0	0	0	0
Private sector and other	1,529	20	61	1,000	1,000	1,500	2,000	2,000	2,000	2,000
Oil related financing	0	0	0	0	0	0	0	0	0	0
2021 SDR Allocation	0	940	949	0	0	0	0	0	0	0
Domestic	4,575	1,151	2,662	380	-11	998	242	2,133	2,843	2,346
Bonds and Loans	984	791	3,361	500	622	500	500	500	500	500
Treasury certificates	2,320	2,272	2,418	2,172	2,318	2,318	2,318	2,318	2,318	2,318
Change in deposits (+= drawdown)	-251	-1,668	-1,585	-2,042	-2,723	-1,820	-2,576	-685	26	-472
o/w At the BCE	-403		-1,357		-2,723	-1,820	-2,576	-685	26	-472
Other 2/	1,523	-245	-1,532	-250	-227	0	0	0	0	0
o/w Convenios de liquidez	114	0	-139	0	0	0	0	0	0	0
o/w Acumulation of arrears	749		586		0	0	0	0	0	0
o/w Transfer of public bank shares from BCE	0		-2,378		0	0	0	0	0	0
Discrepancy	335	83	-167	0	0	0	0	0	0	0
Net financing	**7,074**	**2,339**	**1,579**	**-85**	**-1,004**	**-2,273**	**-2,218**	**-2,397**	**-2,637**	**-1,975**
External	5,203	4,178	2,766	1,986	2,968	309	1,037	-484	-1,310	-1,040
Domestic	1,321	-1,922	-1,099	-2,071	-3,097	-2,382	-3,055	-1,913	-1,327	-934
Net Arrears acumulation and other financing	215	0	80	0	-875	-200	-200	0	0	0
Discrepancy	335	83	-167	0	0	0	0	0	0	0
Public sector debt 3/	**60,462**	**63,687**	**66,074**	**65,894**	**68,020**	**67,566**	**67,924**	**66,212**	**63,549**	**62,046**
External	44,420	47,658	47,364	49,645	50,332	50,641	51,678	51,194	49,884	48,843
o.w. Oil related financing	574	449	452	337	351	251	151	51	6	6
Domestic	16,041	16,029	18,709	16,250	17,688	16,925	16,247	15,018	13,665	13,203
Loans and bonds	5,996	5,983	8,486	6,304	8,440	7,877	7,398	6,170	4,817	4,355
Treasury certificates	2,320	2,320	2,418	2,220	2,318	2,318	2,318	2,318	2,318	2,318
Other liabilities 4/	7,726	7,726	7,805	7,726	6,930	6,730	6,530	6,530	6,530	6,530
				(In percent of GDP)						
Gross financing needs	**14.2**	**7.0**	**6.7**	**4.3**	**4.9**	**3.5**	**3.3**	**4.2**	**4.6**	**4.1**
Nonfinancial public sector deficit	7.1	2.3	1.5	-0.1	-0.9	-1.9	-1.8	-1.9	-2.0	-1.4
Amortization	6.8	4.7	5.2	4.4	5.8	5.4	5.1	6.1	6.6	5.6
Gross financing sources	**14.2**	**7.0**	**6.7**	**4.3**	**4.9**	**3.5**	**3.3**	**4.2**	**4.6**	**4.1**
External	9.2	5.7	4.3	3.9	4.9	2.7	3.1	2.6	2.5	2.4
Domestic	4.6	1.1	2.5	0.3	0.0	0.8	0.2	1.7	2.1	1.7
Other financing	0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt 3/	**60.9**	**61.0**	**62.2**	**59.9**	**58.9**	**56.2**	**54.5**	**51.4**	**47.7**	**45.1**
External	44.7	45.6	44.6	45.1	43.6	42.1	41.5	39.7	37.5	35.5
Domestic	16.2	15.3	17.6	14.8	15.3	14.1	13.0	11.7	10.3	9.6

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

1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No. 2021/228).

2/ Change in financial assets minus change in financial liabilities.

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). For 2021, the difference between SDR allocation and holdings, and the transfer of public bank shares previously held at the central bank are added.

4/ Other liabilities include: Floating debt from all sectors, convenios de liquidez, other oil-related debt and deposits and other obligations from BDE.

Table 4. Ecuador: Balance of Payments, 2020-27
(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021 2/3 Rev. 1/	Est. 2021	2022 2/3 Rev. 1/	Projections 2022	2023	2024	2025	2026	2027
Current account	**2,693**	**1,786**	**3,060**	**1,906**	**2,715**	**2,621**	**2,477**	**2,514**	**2,612**	**2,734**
Trade balance	3,499	1,415	3,263	1,485	2,648	2,426	2,534	2,994	3,337	3,736
Exports, f.o.b.	20,591	23,993	27,236	25,410	31,064	31,470	31,869	32,278	32,856	33,425
Oil	5,250	8,066	8,607	8,145	11,570	11,002	10,293	9,629	9,284	8,982
Non-oil	15,341	15,928	18,629	17,265	19,493	20,468	21,575	22,649	23,572	24,444
Imports, f.o.b.	17,092	22,579	23,972	23,926	28,416	29,044	29,334	29,283	29,519	29,689
Oil	2,647	4,491	4,641	4,476	6,690	6,237	5,746	5,364	5,163	5,053
Non-oil	14,445	18,088	19,332	19,450	21,726	22,807	23,589	23,919	24,356	24,637
Services	-976	-1,532	-2,424	-1,631	-2,844	-2,910	-2,951	-2,961	-3,071	-3,179
Credits	1,809	2,047	2,115	2,231	2,291	2,393	2,478	2,563	2,577	2,590
Debits	2,785	3,579	4,540	3,862	5,136	5,303	5,429	5,524	5,647	5,768
Primary income	-2,823	-1,107	-1,636	-1,154	-1,426	-1,431	-1,786	-2,337	-2,625	-2,886
Credits	86	193	89	239	242	437	527	575	615	647
Debits	2,909	1,300	1,725	1,393	1,668	1,868	2,313	2,913	3,241	3,533
Secondary income	2,993	3,010	3,858	3,206	4,337	4,537	4,679	4,818	4,971	5,063
Of which: workers' remittances, net	2,830	2,839	3,767	3,026	4,159	4,352	4,487	4,619	4,766	4,851
Capital account	**108**	**99**	**142**	**104**	**152**	**165**	**172**	**178**	**185**	**191**
Financial account	**5,007**	**2,017**	**2,834**	**1,534**	**1,831**	**-140**	**-891**	**-528**	**191**	**496**
Direct investment	-1,104	-880	-621	-1,200	-1,074	-1,251	-1,250	-1,499	-1,533	-1,490
Other public sector flows	-709	-2,678	-2,101	-986	-1,268	-552	-1,613	-607	166	-307
Disbursements	-4,499	-4,468	-3,810	-3,341	-3,990	-3,251	-3,841	-3,341	-3,341	-3,341
Amortizations	3,790	1,790	1,709	2,355	2,722	2,699	2,228	2,734	3,507	3,034
Other private sector flows	6,819	5,575	5,555	3,720	4,173	1,662	1,972	1,578	1,558	2,294
Errors and omissions	**118**	**0**	**-106**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-2,087**	**-133**	**263**	**477**	**1,036**	**2,927**	**3,540**	**3,220**	**2,605**	**2,429**
Financing	**2,087**	**133**	**-263**	**-477**	**-1,036**	**-2,927**	**-3,540**	**-3,220**	**-2,605**	**-2,429**
Change in GIR (increase, -) 2/	-4,146	-1,231	-948	-1,477	-2,736	-2,684	-2,964	-2,129	-1,461	-1,081
IMF net credit and loans	500	-136	-140	0	0	-166	-335	-169	0	0
Other external financing 3/	1,726	0	24	0	0	0	0	0	0	0
IMF exceptional financing under the EFF	4,007	1,500	802	1,000	1,700	-77	-241	-923	-1,144	-1,348
Memorandum items:										
Current account balance (percent of GDP)	2.7	1.7	2.9	1.7	2.4	2.2	2.0	2.0	2.0	2.0
Oil balance (percent of GDP)	2.6	3.4	3.7	3.3	4.2	4.0	3.7	3.3	3.1	2.9
Exports	5.3	7.7	8.1	7.4	10.0	9.1	8.3	7.5	7.0	6.5
Imports	2.7	4.3	4.4	4.1	5.8	5.2	4.6	4.2	3.9	3.7
Non-oil balance (percent of GDP)	0.1	-1.7	-0.9	-1.6	-1.9	-1.8	-1.7	-1.4	-1.1	-0.9
Non-oil goods export volume growth rate (percent)	15.3	-1.6	17.1	5.3	-2.1	3.8	4.4	4.1	3.5	3.3
Non-oil goods import volume growth rate (percent)	-11.9	12.2	18.1	5.3	4.0	4.4	2.7	-0.4	1.8	1.1
Goods terms of trade growth rate (percent)	-5.7	2.0	1.5	-0.1	1.4	-1.6	-1.1	-1.9	-0.1	0.2
Oil price Ecuador mix (U.S. dollars per barrel)	36	60	62	59	83	75	69	63	60	58
External debt (percent of GDP)	55.5	52.3	54.4	50.3	50.0	48.5	47.8	46.3	44.2	41.9

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.
1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No. 2021/228).
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, 2020-27
(In millions of U.S. dollars, unless otherwise indicated)

			Est.		Projections					
	2020	2021 2/3 Rev. 1/	2021	2022 2/3 Rev. 1/	2022	2023	2024	2025	2026	2027
Gross external financing requirements	**5,546**	**4,581**	**3,098**	**5,076**	**4,634**	**4,853**	**4,600**	**5,004**	**5,632**	**4,957**
Current account financing need	-2,693	-1,786	-3,060	-1,906	-2,715	-2,621	-2,477	-2,514	-2,612	-2,734
Public sector amortizations	3,790	1,790	1,709	2,355	2,722	2,699	2,228	2,734	3,507	3,034
Private sector amortizations	4,449	4,577	4,449	4,627	4,627	4,775	4,849	4,784	4,737	4,658
Identified External Financing	**7,466**	**5,948**	**4,163**	**6,553**	**7,370**	**7,703**	**7,900**	**7,302**	**7,094**	**6,038**
Multilateral	2,819	3,088	2,455	2,341	2,974	1,751	1,841	1,341	1,341	1,341
Bilateral	151	420	346	0	16	0	0	0	0	0
Oil related financing	0	0	0	0	0	0	0	0	0	0
Private sector	1,529	20	61	1,000	1,000	1,500	2,000	2,000	2,000	2,000
Direct investment	1,104	880	621	1,200	1,074	1,251	1,250	1,499	1,533	1,490
Portfolio investment Financing	-474	-200	-221	181	91	623	575	641	636	473
Other investment Financing	-1,896	-799	-885	726	364	2,490	2,302	2,564	2,543	1,891
Net Transfers 2/	226	99	36	104	152	165	172	178	185	191
IMF exceptional financing	4,007	1,500	802	1,000	1,700	-77	-241	-923	-1,144	-1,348
2021 SDR Allocation	0	940	949	0	0	0	0	0	0	0
Gross external financing sources	**9,692**	**5,812**	**4,046**	**6,553**	**7,370**	**7,537**	**7,564**	**7,133**	**7,094**	**6,038**
Identified External Financing	7,466	5,948	4,163	6,553	7,370	7,703	7,900	7,302	7,094	6,038
Exceptional financing	1,726	0	24	0	0	0	0	0	0	0
Past IMF Net Programs	500	-136	-140	0	0	-166	-335	-169	0	0
Change in net international reserves (-, increase) 2/	**361**	**-1,367**	**-287**	**-1,477**	**-1,036**	**-2,927**	**-3,540**	**-3,220**	**-2,605**	**-2,429**
Change in gross international reserves (-, increase) 3/	**-4,146**	**-1,231**	**-948**	**-1,477**	**-2,736**	**-2,684**	**-2,964**	**-2,129**	**-1,461**	**-1,081**
Change in net international reserves, prog. definition (-, increase) 4/	**4,258**	**-922**	**-1,414**	**-1,226**	**-1,018**	**-2,977**	**-3,678**	**-2,301**	**-1,464**	**-1,076**

Sources: Central Bank of Ecuador and Fund staff calculations and estimates.
1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances
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, 2020-27
(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021 2/3 Rev. 1/	Est. 2021	2022 2/3 Rev. 1/	Projections 2022	2023	2024	2025	2026	2027
I. Central Bank										
Net foreign assets	**8,064**	**9,494**	**8,969**	**11,027**	**11,799**	**14,532**	**17,539**	**19,710**	**21,216**	**22,342**
Of which: gross international reserves 2/	7,133	8,427	7,898	9,903	10,634	13,318	16,282	18,411	19,872	20,953
Net domestic assets	**739**	**-1,508**	**-685**	**-3,801**	**-3,783**	**-6,520**	**-9,639**	**-11,543**	**-12,771**	**-13,611**
Credit to the nonfinancial public sector, net	-1,074	-2,979	-104	-5,038	-2,896	-5,452	-7,990	-9,813	-10,959	-11,729
Credit to financial institutions	4,043	3,700	1,045	3,466	784	672	153	134	114	110
Other depository institutions	983	937	287	872	195	103	103	103	103	103
Other financial institutions	3,060	2,764	758	2,594	588	569	50	30	11	7
Credit to the private sector	11	12	9	12	10	10	11	11	11	12
Other, net	-2,242	-2,242	-1,634	-2,242	-1,680	-1,750	-1,813	-1,874	-1,937	-2,003
Liabilities	**8,802**	**7,986**	**8,284**	**7,225**	**8,016**	**8,011**	**7,899**	**8,168**	**8,445**	**8,732**
Banks' reserves	8,620	7,799	8,094	7,034	7,809	7,796	7,676	7,936	8,205	8,482
Other depository institutions 3/	6,556	5,738	5,904	5,019	5,756	5,657	5,460	5,645	5,836	6,034
Other financial institutions 4/	2,064	2,061	2,190	2,015	2,054	2,140	2,216	2,291	2,368	2,449
Other 5/	102	102	105	102	115	120	124	128	132	137
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 3/ 6/										
Net foreign assets	**4,897**	**5,193**	**4,745**	**5,480**	**5,181**	**5,407**	**5,608**	**5,805**	**6,009**	**6,221**
Net domestic assets	**40,845**	**43,302**	**46,514**	45,564	**50,333**	**53,715**	**55,621**	**57,496**	**59,435**	**61,440**
Assets held at the BCE, net	5,803	5,056	5,267	4,429	5,447	5,459	5,459	5,644	5,835	6,032
Credit to the nonfinancial public sector, net	965	332	1,456	332	1,634	1,726	1,728	1,808	1,892	1,978
Of which: central government, net	1,100	466	1,816	466	1,994	2,086	2,088	2,168	2,252	2,338
Credit to the private sector	45,638	50,165	51,838	53,698	56,971	61,082	63,505	65,624	67,816	70,082
Other items, net	-11,561	-12,251	-12,047	-12,895	-13,718	-14,551	-15,070	-15,580	-16,108	-16,653
Liabilities	**45,742**	**48,496**	**51,259**	**51,045**	**55,514**	**59,122**	**61,229**	**63,302**	**65,445**	**67,660**
Of which: Private sector deposits	45,742	48,496	51,259	51,045	55,514	59,122	61,229	63,302	65,445	67,660
III. Depository Corporations Survey										
Net foreign assets	**12,961**	**14,687**	**13,714**	**16,507**	**16,980**	**19,939**	**23,147**	**25,516**	**27,225**	**28,563**
Net domestic assets	**32,963**	**33,995**	**37,735**	34,729	**38,740**	**39,399**	**38,306**	**38,018**	**38,460**	**39,347**
Credit to the nonfinancial public sector, net	-108	-2,647	1,351	-4,706	-1,263	-3,727	-6,263	-8,005	-9,067	-9,751
Credit to the private sector	45,649	50,177	51,847	53,710	56,980	61,092	63,515	65,635	67,827	70,094
Other items, net	-12,577	-13,535	-15,463	-14,276	-16,977	-17,966	-18,947	-19,613	-20,300	-20,996
Liabilities	**45,924**	**48,682**	**51,449**	**51,235**	**55,721**	**59,338**	**61,452**	**63,533**	**65,685**	**67,910**
Memorandum items:										
Credit to the private sector (percent change, yoy) 7/	2.5	9.9	13.6	7.0	9.9	7.2	4.0	3.3	3.3	3.3
Deposits of the private sector (percent change, yoy) 7/	11.9	6.0	12.1	5.3	8.3	6.5	3.6	3.4	3.4	3.4
Broad money (M2) (percent change, yoy) 8/	10.1	5.9	6.7	5.2	8.4	5.9	3.6	3.4	3.4	3.4
Broad money velocity	1.6	1.5	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1
ODI and OFI reserves at the central bank as a share of liabilities (percent) 3/ 4/	16.1	16.1	15.8	13.8	14.1	13.2	12.5	12.5	12.5	12.5
Credit to the private sector (percent of GDP)	46.0	48.0	48.8	48.8	49.3	50.8	51.0	51.0	50.9	50.9
Liabilities (percent of GDP)	46.3	46.6	48.5	46.6	48.3	49.3	49.3	49.3	49.3	49.3
1st COMYF balance	108	147	134	197.7	184	234	297	324	338	345
2nd COMYF balance	27	131	94	242.9	237	357	487	556	591	608
3rd COMYF balance	-27	9	-2	30.3	31	50	64	74	83	86

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

1/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No. 2021/228).

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

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

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

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

6/ OFI comprises Corporación Financiera Nacional.

7/ Consolidated banking system.

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

Table 7. Ecuador: Financial Soundness Indicators, 2015-22 1/

	2015	2016	2017	2018	2019	2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
	(In percent, unless otherwise indicated; end-of-period values)										
Capital Adequacy											
Regulatory capital to risk-weighted assets (CAR)	14.4	13.9	13.7	13.4	13.5	14.5	14.4	14.5	14.1	13.9	13.5
Asset Quality and Distribution											
Nonperforming loans to gross loans	3.7	3.5	3.0	2.6	2.7	2.6	2.8	2.8	2.4	2.1	2.2
Provisions to nonperforming loans	187.1	189.5	234.4	247.7	225.6	293.1	276.7	258.4	293.0	324.4	310.4
Gross loans to assets	86.2	80.0	84.4	86.0	87.8	82.4	84.3	84.8	86.7	85.9	86.8
Earnings and Profitability											
Return on average assets (ROA)	0.9	0.6	1.0	1.4	1.4	0.5	0.7	0.7	0.7	0.8	1.1
Return on average equity (ROE)	9.0	6.7	10.4	13.6	13.9	4.8	6.4	6.9	6.9	7.6	10.7
Interest margin to assets	0.8	0.4	0.9	1.6	1.4	0.1	0.1	0.3	0.4	0.4	0.9
Noninterest expenses to spread	87.4	92.6	85.0	76.9	78.5	98.3	96.8	93.9	92.3	92.2	82.4
Liquidity											
Liquid assets to short-term liabilities	29.6	33.9	29.4	27.9	26.0	34.1	30.4	28.6	26.7	28.6	25.5
Deposit to loan ratio	126.1	137.0	121.9	111.8	109.5	123.7	122.7	121.1	119.0	119.6	116.8

Source: Superintendency of Banks.

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

Table 8. Ecuador: Indicators of Fund Credit, 2020-30
(Units as indicated)

	2020	2021 2/3 Rev. 1/	Est. 2021	2022 2/3 Rev. 1/	Projections 2022	2023	2024	2025	2026	2027	2028	2029	2030
Existing and prospective Fund arrangements						**(millions of SDRs)**							
Disbursements 2/	3,310	1,065	568	710	1,207	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	2,121	5,386	4,889	6,096	6,096	5,925	5,521	4,762	3,966	3,028	2,091	1,207	438
Obligations	130	34	34	145	90	364	597	963	968	1072	1030	934	790
Principal	98	0	0	0	0	172	403	759	796	938	938	884	769
Charges/interest 3/	31	34	34	145	90	192	193	203	172	135	93	50	21
Obligations, relative to key variables						**(percent)**							
Quota	18.6	4.9	4.8	20.8	12.9	52.1	85.6	138.0	138.7	153.7	147.7	133.9	113.2
Gross domestic product	0.2	0.0	0.0	0.2	0.1	0.4	0.7	1.0	1.0	1.1	1.0	0.9	0.7
Gross international reserves 4/	2.5	0.6	0.6	2.0	1.2	3.8	5.0	7.2	6.7	7.1	6.6	5.8	5.0
Exports of goods and services	0.8	0.2	0.2	0.7	0.4	1.5	2.4	3.8	3.8	4.1	3.9	3.5	2.9
Revenues of the NFPS	0.6	0.1	0.1	0.5	0.3	1.1	1.9	3.0	2.9	3.2	3.0	2.6	2.2
External debt service	1.3	0.5	0.5	1.9	1.2	4.5	7.2	10.4	9.7	10.9	10.6	20.6	18.2
Fund credit outstanding, relative to key variables						**(percent)**							
Quota	304.1	772.0	700.8	873.7	873.8	849.2	791.4	682.5	568.5	434.0	299.6	173.0	62.8
Gross domestic product	2.9	7.1	6.3	7.6	7.2	6.8	6.1	5.1	4.1	3.0	2.0	1.1	0.4
Gross international reserves	40.6	87.5	84.8	84.4	78.6	61.1	46.7	35.7	27.5	19.9	13.4	7.5	2.8
External debt	5.3	13.5	11.6	15.1	14.5	14.0	12.8	11.0	9.3	7.3	5.2	3.1	1.2
Memorandum items:													
Exports of goods and services (US$m)	22,401	26,040	29,351	27,641	33,355	33,863	34,347	34,841	35,432	36,015	36,523	37,038	37,477
External debt (US$m)	55,055	54,674	57,681	55,291	57,600	58,240	59,477	59,499	58,767	57,548	55,663	53,922	51,472
Quota (SDRm)	697.7	697.7	697.7	698	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7
Gross international reserves (US$m)	7,133	8,427	7,898	9,903	10,634	13,318	16,282	18,411	19,872	20,953	21,514	22,103	21,787
Gross international reserves (% ARA metric)	34	39	35	45	46	56	66	73	78	81	82	84	82
NIR, program definition (US$m)	-7,161	-6,239	-5,747	-5,013	-4,729	-1,753	1,926	4,227	5,691	6,766	7,313	9,108	8,574
Nominal GDP (US$m)	99,291	104,483	106,166	109,975	115,469	120,292	124,578	128,795	133,155	137,663	142,323	147,141	152,122
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/ 2021 Article IV Consultation, Second and Third Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review (October 7, 2021; CR No.

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

3/ Using the GRA rate of charge of 1.498 as of May 12, 2022, for projected charges/interest.

4/ GIR excludes non-liquid and encumbered assets.

Table 9. Ecuador: Proposed Quantitative Performance Criteria and Indicative Targets, 2022
(In millions of US dollars, unless otherwise indicated)

	End-Aug.	End-Nov.
Quantitative performance criteria		
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-1,600	
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	1,200	
3. Non-accumulation of external payments arrears (*continuous PC*)	0	
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	
Indicative targets		
5. Non-oil primary balance of the NFPS (including fuel subsidies, *floor*) 1/ 2/	-4,350	
6. Overall balance of the NFPS (*floor*) 1/	410	
7. Change in the stock of NIR - program definition (floor) 1/	675	
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)	280,716	
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)		
AZUAY	39,974	43,049
BOLIVAR	24,250	26,116
CAÑAR	18,910	20,364
CARCHI	10,416	11,217
CHIMBORAZO	44,464	47,884
COTOPAXI	41,592	44,791
EL ORO	26,338	28,364
ESMERALDAS	56,266	60,594
GALAPAGOS	145	157
GUAYAS	198,818	214,112
IMBABURA	25,244	27,186
LOJA	42,536	45,808
LOS RIOS	84,751	91,271
MANABI	139,151	149,855
MORONA SANTIAGO	19,014	20,477
NAPO	11,214	12,076
ORELLANA	16,275	17,527
PASTAZA	7,511	8,089
PICHINCHA	36,178	38,960
SANTA ELENA	21,857	23,538
SANTO DOMINGO DE LOS TSACHILAS	25,920	27,913
SUCUMBIOS	16,330	17,586
TUNGURAHUA	30,322	32,654
ZAMORA CHINCHIPE	10,237	11,025
ZONA EN ESTUDIO	4,280	4,609

Source: IMF staff calculations.
1/ Cumulative change from January 1, 2022.
2/ Excludes interest receipts and oil-related arbitration awards.

Table 10a. Ecuador: Original Schedule of Review and Purchases, 2020-22 1/

Availability Date 2/	Amount of purchase		Conditions
	Millions of SDRs	Percent of Quota	
September 30, 2020	1,420.0	203.5	Approval of arrangement
December 15, 2020	1,420.0	203.5	First review and end-September 2020 performance/ continuous criteria
April 15, 2021	284.0	40.7	Second review and end-December 2020 performance/continuous criteria
August 15, 2021	284.0	40.7	Third review and end-April 2021 performance/continuous criteria
December 15, 2021	497.0	71.2	Fourth review and end-September 2021 performance/continuous criteria
April 15, 2022	213.0	30.5	Fifth review and end-December 2021 performance/continuous criteria
August 15, 2022	213.0	30.5	Sixth review and end-April 2022 performance/continuous criteria
December 1, 2022	284.0	40.7	Seventh review and end-August 2022 performance/continuous criteria
Total	4,615.0	661.5	

Source: IMF staff estimates

1/ Ecuador's quota is SRD 697.7 million

2/ Date at which resources become available

Table 10b. Ecuador: Proposed Schedule of Reviews and Purchases after Phasing, 2020-22 1/

Availability Date 2/	Amount of purchase		Conditions
	Millions of SDRs	Percent of Quota	
September 30, 2020	1,420.0	203.5	Approval of arrangement
December 15, 2020	1,420.0	203.5	First review and end-September 2020 performance/ continuous criteria
April 15, 2021	284.0	40.7	Second review and end-December 2020 performance/continuous criteria
August 15, 2021	284.0	40.7	Third review and end-April 2021 performance/continuous criteria /3
December 15, 2021	497.0	71.2	Fourth review and end-September 2021 performance/continuous criteria
April 15, 2022	213.0	30.5	Fifth review and end-December 2021 performance/continuous criteria /4
December 1, 2022	497.0	71.2	Sixth review and end-August 2022 performance/continuous criteria
Total	4,615.0	661.5	

Source: IMF staff estimates

1/ Ecuador's quota is SRD 697.7 million.

2/ Date at which resources become available.

3/ Second and Third reviews were combined (April 15, 2021 and August 15, 2021).

4/ Fourth and fifth reviews are combined (December 15, 2021 and April 15, 2022).

Table 11. Ecuador: Prior Actions and Structural Benchmarks				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
		Prior Actions		
Transparency, Fiscal Strategy	Adopt a presidential decree (*Reglamento General de Compras Públicas*), in consultation with Fund staff, for the design and operation of the Public Procurement Framework that will mandate the use of public framework agreements and other dynamic procurement methods and collection and publication of ultimate beneficiary ownership information in public procurement contracts.	Improve expenditure control and transparency		
Fiscal Strategy	Adopt presidential decree establishing optimization of public expenditure, including the wage bill, in line with the MTFF and fiscal targets.	Improve expenditure control		
Fiscal Strategy	Publish the MTFF, and fiscal targets approved by the NFCC, in line with program commitments.	Improve expenditure control		
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		
Transparency	Sign an agreement between MOF and IESS to undertake procurement process, agree on the timeline and prioritization for the firm(s) to undertake healthcare audits, to be reflected in the terms of reference for healthcare audits.	Improve quality of fiscal statistics		
		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

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
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. Was reformulated as a new SB for Aug. 2022
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
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

Table 11. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
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. Was converted to new SB for Nov. 2021
Fiscal Statistics	Correct and publish the historical NFPS data, both above- and below-the-line, back to 2013.	Improve quality of fiscal statistics	End-May 2021	Not met. Implemented with delay in Aug. 2021
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. Was completed as a prior action in Sep. 2021
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-Oct. 2021	Not met, implemented with delay in Nov. 2021
Transparency	Establish and start operating the National Control Subsystem (SNC) to fight corruption in procurement. The SNC will facilitate coordination	Strengthen anticorruption and	End-Oct. 2021	Not met, partially implemented

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
	amongst public entities with control competencies over the public procurement system, via the interoperability of their databases.	AML/CFT and protect the public purse		
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	Met
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	Not met, revised and converted to a PA
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	Not met, converted to a PA
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	Met
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	Not met, implemented with delay in Jan. 2022
Fiscal Framework	Establish the National Fiscal Coordination Committee (NFCC) as set out in COPLAFIP.	Strengthen the public financial	End-Nov. 2021	Not met, implemented with

Table 11. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
		management framework and fiscal discipline		delay in Dec. 2021
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	Not met, reset for end-Oct.
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	Mid-Apr. 2022	Not met, implemented with delay
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	Not met, split into end-Nov. 2022 SB and MEFP commitment for 2023
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-Jun. 2022	In progress
Domestic Arrears	Identify and share with IMF staff the existing stock of PGE potential obligations, including gross health claims from IESS, other claims from IESS, GADs, private sector or others (if any), by nature of expenditure, year and beneficiaries.	Improve fiscal transparency monitoring of contingent liability risks	End-Jun. 2022	*Proposed*
Transparency	SERCOP, with support from the National Control Subsystem (SNC) and Superintendency of Companies, to backfill missing UBO information in the largest 100 procurement contracts awarded since September 2020 and publish in an easily accessible on a government website.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Jun. 2022	*Proposed*
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	Strengthen the framework of	End-Aug. 2022	In progress

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
	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.	conflict of interest and illicit enrichment		
Fiscal Statistics	Publish revised historical NFPS data, with explanations for IESS data revisions, both above- and below-the-line, back to 2013.	Improve quality of fiscal statistics	End-Sep. 2022	*Proposed*
Transparency and Governance	Share with IMF staff the results of the audits by the Tax Administration (SRI) of tax expenditures of the companies awarded 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	Proposed to be reset to end-Oct.
SOE	Share with IMF staff the completed independent audits of the 2021 financial statements of the merged entity of Petroecuador and Petroamazonas (joint entity audits, to accommodate IFRS requirements).	Strengthen SOEs	End-Oct. 2022	Changed to MEFP commitment to finish in 2023 as the earliest possible completion
Fiscal Strategy	Submit a 2023 Budget in line with program and MTFF commitments.	Ensure fiscal consolidation	End-Oct. 2022	*Proposed*
Transparency and Governance	Complete 2020 and 2021 healthcare audits and share the results with Fund staff.	Assess contingent liabilities and arrears	End-Oct. 2022	*Proposed*
SOE	Share with IMF staff the completed independent audits of the 2019 individual financial statements of Petroecuador and Petroamazonas.	Strengthen SOEs	End-Nov. 2022	*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	In progress. Proposed to be reset to end-Nov. 2022.

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 subsequent Reviews, owing to the successful debt restructuring operation and the envisaged fiscal consolidation. Debt is expected to decline gradually from its end-2021 peak of 62.2 percent of GDP to 45.1 percent of GDP by end-2027. At 51.4 percent of GDP in 2025 and 45.1 percent in 2027 under the baseline, debt would be in compliance with the COPLAFIP targets with large buffers. Gross financing needs are also projected to decline gradually from 6.7 percent in 2021, and average around 4.1 percent of GDP between 2022-27. The debt profile is vulnerable to growth, oil price, and contingent liability shocks, but its trajectory is expected to be below the critical threshold through the forecasting period.

1. Definition and Debt Profile. Public-sector debt includes the consolidated obligations of the non-financial public sector (general government and five major non-financial sector state-owned enterprises, and the Development Bank of Ecuador), as reported by the authorities, as well as liabilities under oil related financing, treasury certificates, central bank lending to the government, and other liabilities including arrears. Under this measure, public debt more than tripled between 2012 and 2020 (from 17.5 to 60.9 percent of GDP). Debt in 2021 reached 62.2 percent of GDP, including 2.2 percent of GDP in the transfer of public bank shares previously held at the central bank, as part of the central bank balance sheet clean up under the COMYF reform. The difference between the SDR allocation and holdings (1.3 percent of GDP) have also been added as debt in 2021, in accordance with the Guidance Note (the allocations are being held as USD in government deposits). Consistent with newly available data on interest revenues, the primary balance now excludes interest revenues.

2. Macroeconomic and Fiscal Assumptions. Real growth in 2022 is projected at 2.9 percent, while inflation (GDP deflator) is projected at 5.7 percent. Over the medium term, growth is forecasted to remain around 2.8 percent, in line with the economy's potential, while the GDP deflator is projected below 1 percent. The fiscal position of the NFPS is expected to improve gradually over the medium term and reach a primary surplus of 2.4 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 2022 and about $1.8 billion in 2023, while market access is expected to resume from 2022 with an annual access between $1 and $2 billion. Interest rate projections reflect forward rates implied by the recent global rate hikes.

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 62.2 percent at the end of 2021 to 51.7 percent of GDP by 2025, and 45.1 percent of GDP by 2027, well ahead of the targets in COPLAFIP of 57 percent of GDP by 2025 and 45 percent of GDP by 2030. A primary surplus of 0.8 percent of GDP beyond 2027 would stabilize debt at the 2030 target of 45 percent of GDP. Public debt would therefore remain below the critical risk threshold for emerging markets of 70 percent of GDP in the forecasting period. Gross financing needs (GFN) are also expected to remain well below the critical threshold of 15 percent of

GDP, declining from 6.9 percent of GDP in 2021 to an average of 4.3 percent of GDP between 2022-27, and remain at these levels through 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 66.5 percent in 2024 before declining steadily and reaching 57.1 percent in 2027. A contingent liability shock, which increases expenditures by about $6.5 billion in 2023, brings the debt-to-GDP ratio to 67 percent before reaching 61 percent in 2027. 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. An oil shock resulting in a sharp fall in public revenues and collapse in economic activity over 2023-24 results in a rise in the debt-to-GDP ratio at 69.4 percent. Despite these shocks the debt-to-GDP ratios would remain within the built-in emerging market threshold of 70 percent of GDP through the forecasting period, however, they would breach the COPLAFIP targets of 57 percent of GDP by 2025. Regarding gross financing needs, the critical threshold of 15 percent of GDP is not breached in any of the shock scenarios.

5. Risks and Vulnerabilities. While spreads have continued to decline following the successful and market-friendly debt restructuring, they are still high reflecting the still nascent recovery from the economic crisis overlaid by the COVID-19 pandemic. At about 72 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. The authorities are working with the Chinese authorities on reprofiling their $5 billion debt; if successful, this would further lower GFNs and strengthen debt resilience. The $400 million IDB guarantee improves prospects and cost of reaccessing markets.

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 have received World Bank technical assistance to improve debt data and transparency and have begun publishing the monthly public debt bulletin and accompanying excel file with detailed debt data on the website of MEF.[1]

[1] https://www.finanzas.gob.ec/https-wwwdeuda-publica-nueva-metodologia/

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

(in percent of GDP, unless otherwise indicated)

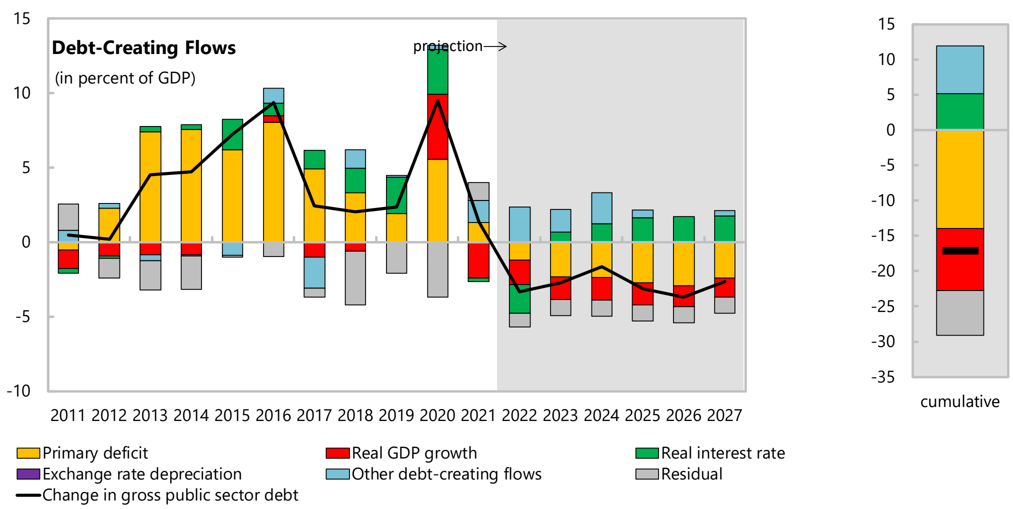
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	35.1	60.9	62.2	58.9	56.2	54.5	51.4	47.7	45.1
Public gross financing needs	11.8	14.7	6.7	4.9	3.5	3.3	4.2	4.6	4.1
Net public debt	30.5	54.9	55.1	50.0	46.1	42.7	39.5	36.2	33.6
Real GDP growth (in percent)	2.8	-7.8	4.2	2.9	2.7	2.8	2.8	2.8	2.8
Inflation (GDP deflator, in percent)	2.3	-0.4	2.6	5.7	1.5	0.8	0.6	0.6	0.6
Nominal GDP growth (in percent)	5.1	-8.2	6.9	8.8	4.2	3.6	3.4	3.4	3.4
Effective interest rate (in percent) [4]	4.8	5.0	2.3	2.5	2.7	3.1	3.7	4.1	4.4

As of May 06, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		786
5Y CDS (bp)		n.a
Ratings	Foreign	Local
Moody's	Caa3	Caa3
S&Ps	B-	B-
Fitch	B-	B-

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	2022-27	primary
Change in gross public sector debt	3.7	9.5	1.3	-3.3	-2.7	-1.6	-3.1	-3.7	-2.7	-17.2	balance [9]
Identified debt-creating flows	4.9	13.2	0.2	-2.4	-1.7	-0.6	-2.0	-2.6	-1.6	-10.8	0.8
Primary deficit	4.6	5.6	1.3	-1.2	-2.3	-2.4	-2.7	-2.9	-2.4	-14.0	
Primary (noninterest) revenue and grants	33.8	28.2	32.9	34.9	35.1	34.1	33.7	33.1	32.4	203.4	
Primary (noninterest) expenditure	38.4	33.7	34.2	33.7	32.8	31.7	30.9	30.2	30.0	189.4	
Automatic debt dynamics [5]	0.4	7.4	-2.7	-3.6	-0.8	-0.3	0.2	0.3	0.5	-3.7	
Interest rate/growth differential [6]	0.4	7.4	-2.7	-3.6	-0.8	-0.3	0.2	0.3	0.5	-3.7	
Of which: real interest rate	0.9	3.0	-0.2	-1.9	0.7	1.3	1.6	1.7	1.8	5.1	
Of which: real GDP growth	-0.6	4.4	-2.4	-1.6	-1.5	-1.5	-1.5	-1.4	-1.3	-8.8	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	0.0	
Other identified debt-creating flows	0.0	0.3	1.5	2.4	1.5	2.1	0.5	0.0	0.3	6.8	
Deposits drawdown and privatization receipts (negative sign)	0.0	0.3	1.5	2.4	1.5	2.1	0.5	0.0	0.3	6.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-1.2	-3.7	1.2	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-6.3	



Source: IMF staff calculations.

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

2/ Based on available data.

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

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

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

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

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

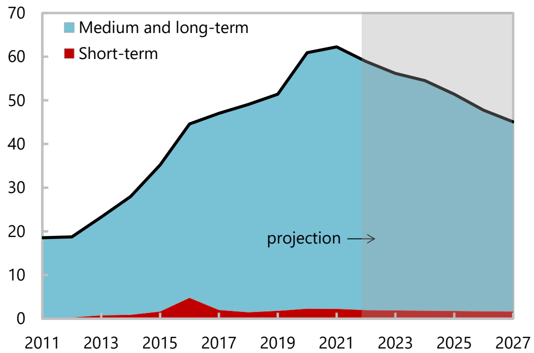
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. It also includes the issuance of domestic debt for the asset swap operation with the central bank.

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

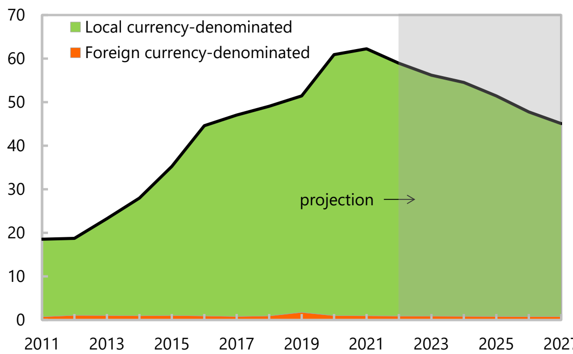
Figure 2. Ecuador: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



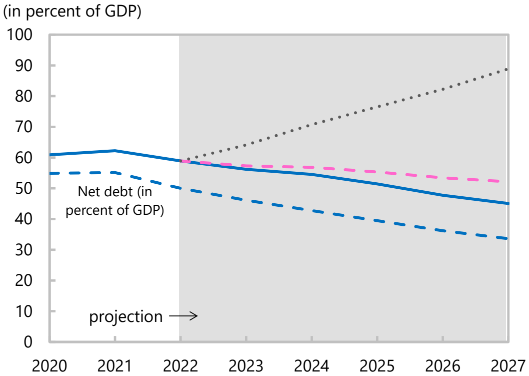
By Currency
(in percent of GDP)



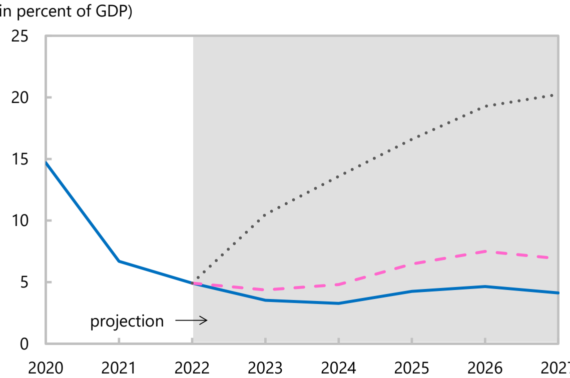
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



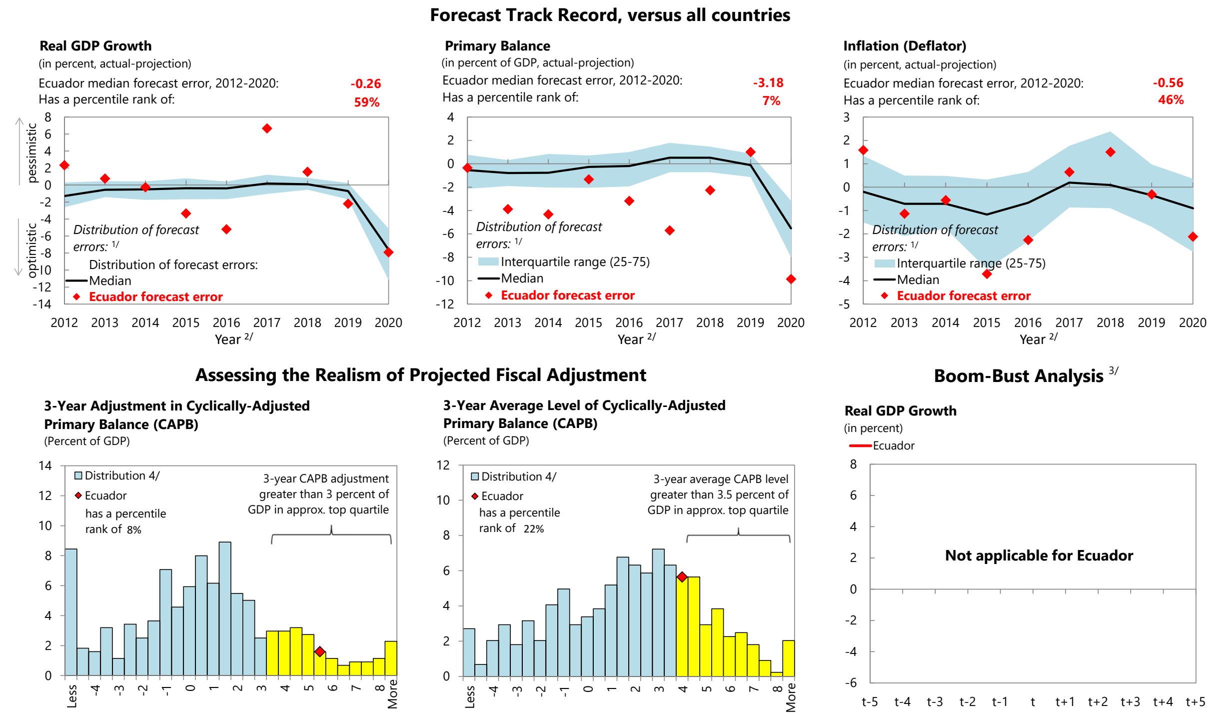
Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.9	2.7	2.8	2.8	2.8	2.8
Inflation	5.7	1.5	0.8	0.6	0.6	0.6
Primary Balance	1.2	2.3	2.4	2.7	2.9	2.4
Effective interest rate	2.5	2.7	3.1	3.7	4.1	4.4
Constant Primary Balance Scenario						
Real GDP growth	2.9	2.7	2.8	2.8	2.8	2.8
Inflation	5.7	1.5	0.8	0.6	0.6	0.6
Primary Balance	1.2	1.2	1.2	1.2	1.2	1.2
Effective interest rate	2.5	2.7	3.1	3.8	4.2	4.7

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.9	1.3	1.3	1.3	1.3	1.3
Inflation	5.7	1.5	0.8	0.6	0.6	0.6
Primary Balance	1.2	-4.9	-4.9	-4.9	-4.9	-4.9
Effective interest rate	2.5	2.7	3.3	4.1	4.6	5.1

Source: IMF staff calculations.

Figure 3. Ecuador: Public Debt Sustainability Analysis – Realism of Baseline Assumptions



Source : IMF Staff calcuulations.

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

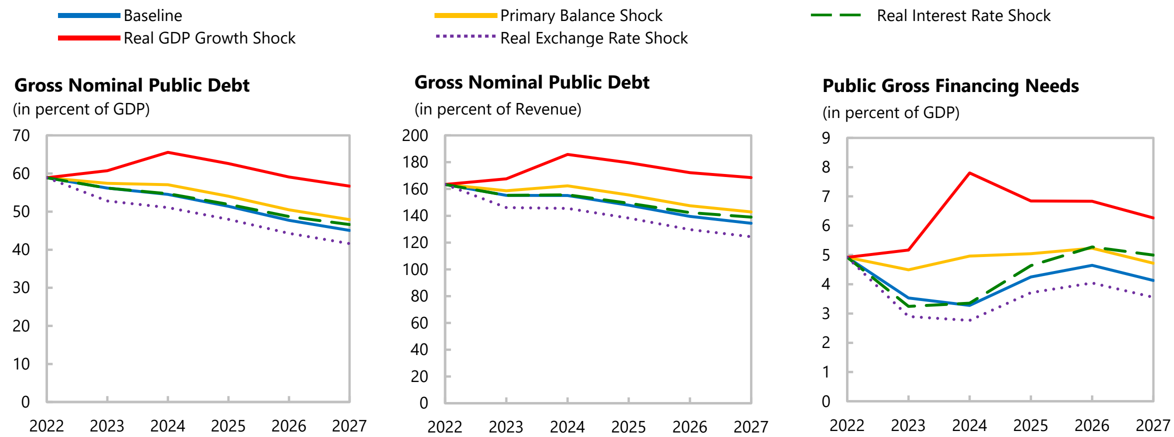
2/ Projections made in the spring WEO vintage of the preceding year.

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

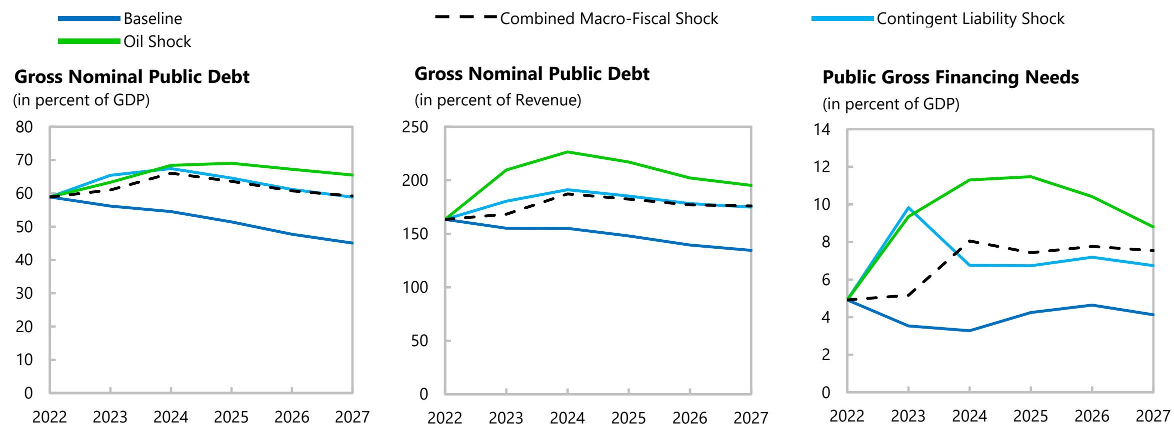
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Ecuador: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	2.9	2.7	2.8	2.8	2.8	2.8
Inflation	5.7	1.5	0.8	0.6	0.6	0.6
Primary balance	1.2	1.1	1.1	2.7	2.9	2.4
Effective interest rate	2.5	2.7	3.2	3.8	4.2	4.6
Real Interest Rate Shock						
Real GDP growth	2.9	2.7	2.8	2.8	2.8	2.8
Inflation	5.7	1.5	0.8	0.6	0.6	0.6
Primary balance	1.2	2.3	2.4	2.7	2.9	2.4
Effective interest rate	2.5	2.7	3.4	4.3	5.0	5.6
Combined Shock						
Real GDP growth	2.9	-1.3	-1.2	2.8	2.8	2.8
Inflation	5.7	0.5	-0.2	0.6	0.6	0.6
Primary balance	1.2	0.7	-0.9	2.7	2.9	2.4
Effective interest rate	2.5	2.7	3.6	4.8	5.5	6.2

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	2.9	-1.3	-1.2	2.8	2.8	2.8
Inflation	5.7	0.5	-0.2	0.6	0.6	0.6
Primary balance	1.2	0.7	-0.9	2.7	2.9	2.4
Effective interest rate	2.5	2.7	3.2	4.0	4.4	4.8
Real Exchange Rate Shock						
Real GDP growth	2.9	2.7	2.8	2.8	2.8	2.8
Inflation	5.7	8.1	0.8	0.6	0.6	0.6
Primary balance	1.2	2.3	2.4	2.7	2.9	2.4
Effective interest rate	2.5	2.7	3.1	3.7	4.0	4.4
Oil Shock						
Real GDP growth	2.9	0.7	0.8	2.8	2.8	2.8
Inflation	5.7	1.5	0.8	0.6	0.6	0.6
Primary balance	1.2	-3.7	-2.6	-0.3	1.9	2.4
Effective interest rate	2.5	2.7	3.8	4.8	5.3	5.6

Source: IMF staff calculations.

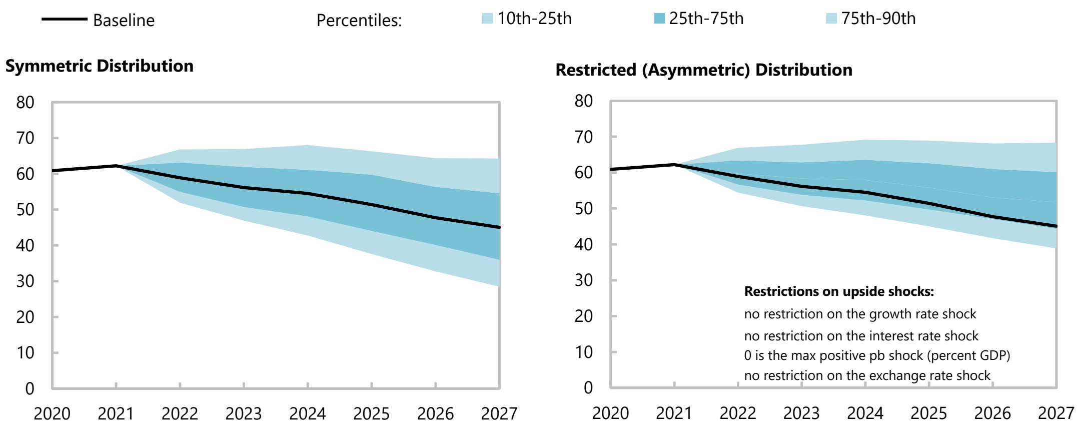
Figure 5. Ecuador: Public Debt Sustainability Analysis – Risk Assessment

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

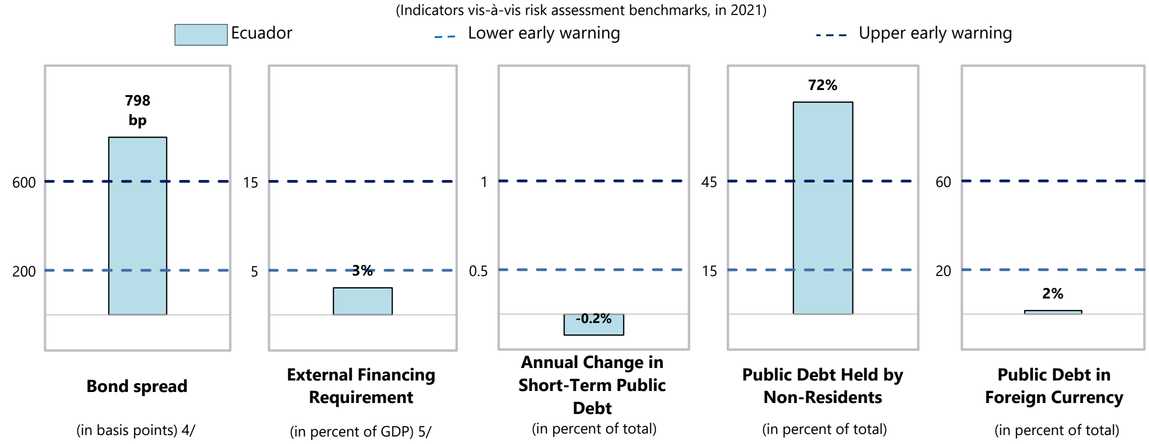
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



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, 06-Apr-22 through 06-May-22.

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 2021-23[1]

	Debt Stock (end of period) 2021		Debt Service 2021	2022	2023	2021	2022	2023
	(In US$ Mil)	(Percent GDP)	(In US$ Mil)			(Percent GDP)		
Total	**66,074**	**62.2**	**6,892**	**8,360**	**8,550**	**6.5**	**7.2**	**7.1**
External	**47,365**	**44.6**	**2,804**	**3,906**	**4,538**	**2.6**	**3.4**	**3.8**
Multilateral creditors[2]	22,382	21.1	1,219	1,772	2,131	1.1	1.5	1.8
IMF	6,805	6.4	224	120	485	0.2	0.1	0.4
World Bank	2,779	2.6	67	125	126	0.1	0.1	0.1
IADB	7,030	6.6	377	576	578	0.4	0.5	0.5
Other Multilaterals	4,449	4.2	625	879	927	0.6	0.8	0.8
Development Bank of Latin America (CAF)	4,042	3.8	496	561	567	0.5	0.5	0.5
FLAR	308	0.3	125	311	353	0.1	0.3	0.3
Other	99	0.1	3	7	7	0.0	0.0	0.0
SDR allocation less holdings	1,319	1.2						
Bilateral Creditors	5,656	5.3	826	1,562	1,484	0.8	1.4	1.2
Paris Club	1,153	1.1	9	143	113	0.0	0.1	0.1
France (AFD, NATEXIS Banque)	614	0.6		59	65		0.1	0.1
Spain (ICO)	261	0.2		18	21		0.0	0.0
Korea (Exim Bank)	77	0.1		3	3		0.0	0.0
Other	200	0.2		63	23		0.1	0.0
							-	
Non-Paris Club	4,503	4.2	818	1,419	1,371	0.8	1.2	1.1
China (EXIMBANK)	2,454	2.3		680	545		0.6	0.5
China (China Development Bank)	2,049	1.9		739	826		0.6	0.7
Other	-	-		-	-		-	-
Bonds	17,704	16.7	325	251	639	0.3	0.2	0.5
Commercial creditors	1,170	1.1	312	222	183	0.3	0.2	0.2
European Investment Bank	488	0.5		30	38		0.0	0.0
Bank of China	419	0.4		69	80		0.1	0.1
Other	263	0.2		123	65		0.1	0.1
Oil-related financing (Schlumberger)	452	0.4	122	100	100	0.1	0.1	0.1
Domestic	**18,709**	**17.6**	**4,088**	**4,453**	**4,012**	**3.9**	**3.9**	**3.3**
Held by residents, total	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
T-Bills	2,418	2.3	2,373	2,490	2,387	2.2	2.2	2.0
o/w held by central bank	-	-	-	-	-	-	-	-
Bonds and loans	8,486	8.0	1,209	1,088	1,425	1.1	0.9	1.2
o/w held by central bank	6,548	6.2	611	425	1,014	0.6	0.4	0.8
Other liabilities	7,805	7.4	506	875	200	0.5	0.8	0.2
Floating debt	1,369	1.3						
Deposits and other obligations by BDE	1,138	1.1						
SH oil contracts	1,319	1.2						
Letter of credit	939	0.9						
OAP SOEs	1,936	1.8						
OAP GADs	1,105	1.0						
Memo items:								
Collateralized debt[3]	0	-						
Contingent liabilities	2,567	2.4						
o/w: Public guarantees	2,185	2.1						
o/w: Other explicit contingent liabilities[4]	382	0.4						
Nominal GDP			106,166	115,469	120,292			

Sources: Ministry of Finance and Fund staff calculations and estimates.

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. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Conjunctural Shocks and Scenario			
The war in Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	**High**	**Medium** Difficulties in finding new markets for agricultural exports that were hit by the supply chain disruptions (banana, shrimp, flowers), can slow economic growth. Higher oil and metal prices are expected to have a net positive impact on Ecuador's external and fiscal balances.	Save the oil windfall to build buffers. Stick to the planned fiscal consolidation to restore confidence, strengthen debt and fiscal sustainability. Gradually reduce dependency on oil through economic diversification and promote private sector-led growth. Continue to closely monitor financial sector stability. Continue to address financing needs by closely working with IFIs and wait for an opportune time to re-access international markets.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	**High**	**Medium** Higher inflation may increase poverty and inequality. However, inflationary pressures are likely to be more muted compared to the regional peers, as Ecuador has a positive energy balance, is dollarized, and has suspended the oil subsidy reform in October 2021, which is slowing down the green transition.	Save oil proceeds to restore fiscal sustainability. Continue expanding the coverage and improving the targeting of the social assistance programs to protect the poor and the vulnerable from the negative poverty impacts of rising inflation.

[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.

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Widespread social discontent and political instability. Social unrest fueled by increasing prices and shortages of essentials, rising inequality, inadequate healthcare, financial and social scars from the prolonged pandemic amid rising interest rates trigger political instability, capital outflows, higher unemployment, and slower economic growth.	**High**	**High** A rise in global food prices, slower global growth can translate into slower recovery in economic activity and employment, higher domestic prices and can in turn raise social discontent due to increased poverty and inequality.	Increase social assistance coverage to ensure that the fiscal adjustment does not hurt the poor and the vulnerable. Continue engaging the broader public, explaining the benefits of the reform program. Prioritize social spending, including health expenditures, to achieve more inclusive growth. Continue to liberalize trade and improve the business climate to promote faster job creation and inclusive growth. Continue to closely monitor household indebtedness, and rebuild the liquidity fund.
Abrupt growth slowdown in China. A combination of extended Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	**Medium**	**High** China is Ecuador's second largest trade partner. A slowdown in China would imply lower exports and falling terms of trade, which would put a dent on growth.	Diversify the economy to reduce dependency on commodity exports.
Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening,	**Medium**	**Medium** A large share of population is fully vaccinated and boosted. However, uncontrolled local outbreaks from vaccine-resistant variants could lead to local disruptions and jeopardize the expected economic recovery. Lower external	Re-instate containment measures if a severe wave of vaccine-resistant infections occur. Continue vaccination campaign, including boosters. Prioritize social and health-related spending and continue supporting the population. Provide targeted policy support

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
currency depreciations, and debt distress in some EMDEs.		demand would widen BOP and fiscal financing gaps.	to the most affected households and firms. Pursue fiscal consolidation to rebuild buffers. Should financial conditions tighten, seek additional concessional funding.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	**Medium**	**Medium** Ecuador is a fully-dollarized economy with no independent monetary policy. The financial sector can absorb major shocks. As a commodity exporter, it is vulnerable to knock-on effects from lower commodity prices, which could pressure both BOP and fiscal. A drop in market confidence could delay market re-access and financing from other sources, which in turn could require adjustments.	Should risk premia increase, seek additional low-cost financing and reprofiling existing obligations; and seek re-entry to the international capital markets when the conditions return to favorable. Pursue fiscal consolidation to rebuild credibility with markets. Strengthen (financial) crisis preparedness and management.
Structural Risks			
Geopolitical tensions and deglobalization. Intensified geopolitical tensions, security risks, conflicts, and wars cause economic and political disruptions, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence.	**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, limiting policy uncertainty through clearly articulated medium-term policy frameworks to limit discretion, and improving labor market flexibility. In the event tensions reduce oil prices, implement identified fiscal contingency measures.

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability or widespread disruptions in socio-economic activities	**Medium**	**Medium**	Invest to protect critical financial, transport, communication or energy infrastructure. Strengthen (financial) crisis preparedness and management.
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	**Medium**	**High** Ecuador is prone to many natural disasters.	Implement policies to build resilience in infrastructure to natural disasters. Invest to protect critical financial, transport, communication or energy infrastructure to minimize disruptions. Build precautionary savings buffers.

Appendix I. Letter of Intent

Quito, June 6, 2022

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

Dear Ms. Georgieva:

1. Since we took office in May 2021, we made significant progress in managing the pandemic, laying the foundations of a more transparent, sustainable, and equitable fiscal policy, improving the resilience of the financial sector, and providing an enabling environment for the private sector. As of end May, 83 percent of the population has been fully vaccinated, and 37 percent of the population received booster doses. This allowed us to safely relax COVID-19 containment measures, avoid further lockdowns, and gradually reopen the economy. In 2021, real economic activity registered a 4.2 percent growth, driven by a recovery of household consumption, and exceeding all initial forecasts.

2. The support of the IMF and the international community has been instrumental in helping us save lives and livelihoods and lay foundations for a stronger and more inclusive recovery during one of the most difficult times in our history. This year, just as we are recovering from the COVID-19 crisis, the world has been hit with another shock due to the Russian invasion of Ukraine. Though the accompanying rise in oil prices improves Ecuador's fiscal and external balances, some of our export sectors are negatively affected and rising inflation, while less acute than in other countries, will erode real incomes. The slowdown in global growth and possible deterioration in financing conditions due to the conflict in Ukraine, and the still uncertain course of the pandemic, could strain the economic, financial, and social conditions for Ecuador. Cognizant of global risks, we aim to continue to strengthen our public finances and build credibility, including through saving part of the oil windfall from the recent surge in oil prices.

3. We have made considerable progress since the conclusion of the Second and Third Reviews under the EFF in September 2021. A major achievement in safeguarding fiscal sustainability and improving equity of our public finances was the enactment of a progressive tax bill in November 2021. The new tax policy measures are expected to yield 0.7 percent of GDP in permanent revenues by 2023 through progressive tax policy changes. Furthermore, we expect to raise 0.8 and 0.4 percent of GDP through temporary measures in 2022 and 2023, respectively. In addition, improvements in tax administration should expand collection by 0.3 percent of GDP by 2024. We also initiated independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks, published a methodology and templates to estimate the stock of domestic arrears by public sector entities, established the National Fiscal Coordination Committee, set up the National Control Subsystem to fight corruption in procurement, and published all public procurement contracts with ultimate beneficiary ownership, where available. We are making good progress upgrading the social registry expanding the social assistance programs towards reaching 80 percent of the low-income households nationwide.

4. Our plans to begin the financial audits of the oil companies last year have been delayed due to change in management in Petroecuador. Our plans for SERCOP to issue procurement guidelines were also delayed, as it was important to first issue bylaws to the procurement law to be signed by the President that will modernize and bring order to the procurement process by reinforcing the use of tools aimed at ensuring optimization of public expenditures in goods and services and fighting against corruption in public procurement, with tools including improved UBO controls.

5. On the economic front, we acknowledge that progress has been mixed towards meeting the quantitative performance (QPC) and indicative targets (IT) for September and December 2021. Our steadfast focus on increasing the transparency of our fiscal accounts led to revisions to the historical balances of the Social Security Fund (IESS) and to the correction of the transfers from the central government to IESS for accrued pension liabilities going back to 2017. Working closely with the IMF over several months, we have also conservatively estimated healthcare transfers from the central government to IESS, with the final amounts determined by medical audits and other controls as per local regulations. While these corrections to historical data changed the assessment of end-December 2020 and end-April 2021 QPCs on the central government overall balances from "met" to "unmet", the latter of which constitutes misreporting of a performance criterion under the current Fund-supported program, they were necessary to fulfil our ultimate commitment to all Ecuadorians to bring transparency and accountability to the use of public funds. These corrections also result in the end-December 2021 QPC on the overall balance of the central government (PGE) and oil derivatives financing accounts (CFDD), to be missed, for which we request a waiver of nonobservance of the performance criterion on the basis of the corrective actions we have already taken, and further actions we will be taking to address the issues that led to this nonobservance. Our commitment to improving fiscal balances and the sustainability of public finances is demonstrated by the quantitative targets on the nonfinancial public sector (NFPS) deposits and overall balances being met with significant margins, ahead of our expectations over 2019-21. We have also met all indicative targets for end-December 2021 except for the target on the nonoil primary balance of the NFPS including fuel subsidies, which was missed mainly due to technical changes to the calculation that were not considered in the original target. We successfully exceeded the target on expanding social assistance to low-income families by more than 35,000 families.

6. Ensuring fiscal sustainability remains a key priority for this administration. To ensure more equitable policies, we will continue to prioritize and rationalize public expenditures. We will adopt a Presidential decree to implement a strategy to ensure that the growth in the public sector wage bill supports the sustainability of our public finances and not hamper private sector development. Public procurement also represents a significant share of our total spending. We will improve the efficiency and transparency of public procurement by enacting Presidential bylaws to the procurement law and guidelines to be issued by the national procurement agency SERCOP for all government agencies to follow efficient and cost-effective procurement procedures, saving precious public resources for priority spending on health, education, and social assistance. Cognizant of the risks to our macroeconomic framework, we will enhance resiliency by directing additional oil windfalls, to clear domestic arrears, address infrastructure needs, and build buffers to provide financing flexibility to choose the optimal timing for a successful return to the international capital markets.

7. The lack of clarity in the legal framework regarding the timing of healthcare audits has led to past claims being unaudited, unverified, and unpaid for many years. To determine the central government's obligations to IESS stemming from past healthcare expenses of pensioners, medical audits for the healthcare claims from 2020-21 will be conducted in the coming months and further expanded back to 2017 afterwards. Going forward, we will continue to use conservative estimates in our budgets until medical audits verify actual obligations. We also plan to develop a strategy in the coming months for implementation in 2023 of legal actions that significantly reform the system and regularize the healthcare audits such that the obligations of the state (if any) would be recorded and cleared in a timely and transparent way.

8. Under new management of Petroecuador, we will swiftly move forward with agreeing on the terms of reference and timeline for the audits of the public oil companies, reflecting our commitment to assess the financial health of these important state-owned enterprises. While the 2020 and 2021 statement audits will not be completed this year as had been planned, we remain committed to work closely with the Fund after the current arrangement expires, to share the results and to incorporate the findings from the audits into our statistics and fiscal plans.

9. We have strengthened the identification and monitoring of the stock of government arrears and will devise a plan with a timetable to clear them, while strengthening the control system to reduce the incurrence of new arrears. Reflecting our commitment to transparency, we will fast track the audits of past claims on the central government from IESS for past health care-related obligations and reflect any contingent liabilities transparently in our statistics until the audits are finished.

10. We have maintained stability of our financial system through the COVID-19 crisis. Our financial institutions remain liquid and well capitalized. Private credit and deposits have been growing at healthy rates, while domestic interest rates have significantly decreased. Our international reserves are at historical highs. The work on a strategy to unwind the COVID-19 crisis measures in the financial system is ongoing. We have taken steps to further strengthen financial stability among banks and cooperatives. The process has started with setting a gradual path to bring closer reserve requirements between banks and large cooperatives in the medium term. The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) present these and several additional specific policies that our government plans to implement.

11. Against this background, we request that the Fund complete the Fourth and Fifth Reviews of the Extended Arrangement under the IMF's Extended Fund Facility. We also request the rephasing of access and modification of the review schedule due to delays in completing reviews as well as to better align them with our budgetary financing needs, which typically rise toward the end of the year. We propose combining the Sixth and Seventh Reviews and having only one additional review in 2022, such that we would only see two disbursements this year: SDR 710 million (about US$ 1 billion) following the completion of the Fourth and Fifth Reviews, and SDR 497 million (US$ 700 million) following the Sixth and final review. The disbursement would continue to support our budgetary efforts to contain the pandemic, increase the coverage of targeted cash transfers to vulnerable households, and support economic recovery through addressing long-standing barriers to growth.

12. 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 pending upgrade of the accounting software of the Treasury. We are committed to full transparency of data and ongoing work suggests more time is needed to fully complete the review process and improve our capacities. In light of this, we request to continue with the quantitative target for OB of PGE+CFDD and indicative targets on NFPS balances for the remainder of 2022.

13. 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 President of the Public Debt Committee General Manager, Central Bank of Ecuador

Attachment I. Memorandum of Economic and Financial Policies

1. Our government 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 growth that benefits all Ecuadorians.

2. Since we took office in May 2021, we have acted decisively to ensure that all Ecuadorians have access to COVID-19 vaccines. As of end- May, 83 percent of the population over 3 years old received two doses of vaccines, and 37 percent received booster doses. After two years of the implementation of mask requirements for public indoors establishments, the President lifted the requirement by the end of April. This well-executed vaccination campaign is allowing a sustained reopening of the economy.

3. On the economic front, we are committed to promoting a private sector-led and job-rich economic recovery, liberalizing trade and investment regimes, and enhancing competitiveness of the Ecuadorian economy. We are entering into trade agreements, lowering tariffs for capital and intermediate goods in key productive sectors, aiming to deepen capital markets, making the labor market more flexible and fair, and improving the business climate to attract domestic and foreign direct investment. In addition, we are taking steps to strengthen our Central Bank, not only consolidating its technical independence but by clearing its balance sheet of legacy assets and supporting its auditing capacities.

4. Our government is dedicated to put our public finances on a sustainable path, rebuild buffers, reduce public debt, improve the debt sustainability by reshaping the public debt profile, and create fiscal space for priority social and infrastructure spending. In this regard, we undertook an important tax reform focused on equity and progressivity. Those who earn the most will be paying their fair share. We are strengthening the tax administrations, undertaking measures to broaden the tax base, close existing tax loopholes, and fight tax evasion. We are creating the incentives for adequate declaration of assets and net-worth of Ecuadorians with income and assets abroad and report them to our Internal Revenue Service (SRI). We are reducing government spending by reprioritizing expenditure, postponing non-priority projects, and enforcing better procurement practices. We are also taking measures to improve civil service efficiency, including the containment of the public wage bill, while enhancing the quality-of-service delivery. At the same time, we are expanding social assistance programs to protect the most vulnerable and promote inclusive growth across geographical areas.

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

A. Protecting Lives and Livelihoods

6. Our goal is to ensure that burden of fiscal consolidation is not borne by the poor and vulnerable. Instead, those who benefited from the crisis and the better off should be paying their fair share of taxes, allotting government the fiscal space to help those the most affected by the pandemic and the most in need.

7. The $4.8 billion disbursed by the IMF since program approval and the $643 million provided under the Rapid Financing Instrument (RFI) back in May 2020 have helped meet urgent spending needs and support lives and livelihoods. We utilized these resources prudently and efficiently to provide targeted support to sectors and households most affected by the crisis.

8. The initial priority of the Presidency has been to move quickly ahead with the COVID-19 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. This helped save lives and allowed us to gradually lift restrictions and reopen the economy. By end-April 2022, 83 percent of Ecuadorians over 3 years old are fully vaccinated against COVID-19.

9. We continue to address the economic and social effects of the COVID-19 pandemic on the most vulnerable. We are upgrading our social registry and expanding the coverage of social assistance programs with the assistance of the UN and the World Bank (WB). While we were slightly short of meeting the end-September 2021 target of incorporating 453,700 families from the bottom three income deciles by 901 families, we surpassed the end-December 2021 target of 514,000 families by a wide margin. The Social Registry, in consultation with the World Bank, is working on recalibrating the algorithm that processes surveyed households. The additional data collection and the updated algorithm will enable us to provide support to 625,600 additional families by May 2022, with a slight delay from the mid-April 2022 target date (***structural benchmark, not met***). We are making progress on the targets of reaching 65 percent of the bottom income decile nationwide and 70 percent of the lowest three deciles in each province (***structural benchmark for end-November 2022***). To measure progress towards these targets, we will aim to reach the number of families listed in Table 1, which correspond to 57.5 percent and 65 percent, respectively, of the two objectives, by August 2022.

B. Restoring Fiscal Sustainability with Equity

10. Our administration remains fully committed to the objectives of the EFF program. We are undertaking difficult reforms to ensure the sustainability and equity of Ecuador´s public finances, and to build a more robust public financial management framework underpinned by stronger institutions. 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).

11. Our performance on the quantitative fiscal targets was mixed. September quantitative performance criterion (QPC) on the budgetary central government (PGE) and the oil derivatives financing account (CFDD) was met by a wide margin of $579 million. However, after incorporating historical data corrections to PGE pension and healthcare transfers to the IESS, we missed the end-December QPC by $229 million. We are committed to improve fiscal data quality (see ¶25) and request a waiver of nonobservance for the missed QPC. We met September and December indicative targets (ITs) on the overall balance of the nonfinancial public sector (NFPS) by a margin of $891 and $793 million respectively. Higher oil prices and across-the-board current expenditure restraint, especially on wages and salaries and goods and services, contributed to this overperformance. However, the suspension of fuel subsidy reform in October 2021, coupled with higher oil prices, and the exclusion of interest income from and addition of other expenditures to the calculation, which were not considered in the original target, made it more difficult to meet the IT on the non-oil primary balance including subsidies (NOPBS). End-September IT on the NOPBS was missed by a margin of $593 million, the December IT was missed by $1,213 million. Had interest income been included in the calculation of the NOPBS, the ITs would have been met with a margin of $297 million in September 2021 and missed by $30 million in December 2021. Better-than-expected performance on the overall balance (OB) of NFPS allowed for higher accumulation of NFPS deposits at the central bank compared to the adjusted QPC, by $1.26 billion and $1.13 billion in September and December, respectively as well as the NIR being higher-than-programmed by $1.24 billion by end-December 2021.

12. To improve fiscal transparency, in 2021, we began a process of expenditure reclassification. Through this process, we have reclassified 2021 spending totaling $1.5 billion on salaries, goods and services, and social assistance that had been recorded under capital expenditure. These spending items have now been correctly classified in line with international best practices and historical data going back to 2017 have also been revised. This reduces the overstatement of capital expenditures, helps improve the transparency of expenditure items, and strengthens budgetary planning.

13. During 2021, arrears in payments related to VAT refunds to GADs where cleaned reaching $250 million. COVID-19 related expenditures by end 2021 totalized $863 million, including expenses of vaccines, one-off social protection bonds, benefits to health workers, among others.

14. Importantly, our public debt remains on a firmly downward trajectory and the gross financing needs are manageable. Public debt, as measured by Fund definition, ended the year higher than expected at 62.2 percent of GDP on account of the transfer of public bank shares previously held at the central bank, and the addition of 1.3 percent of GDP in the difference between the SDR allocation and holdings. Delayed disbursements from the IMF and the World Bank towards the end of the year created financing shortfalls, which we managed by more short-term borrowing from the banking sector and public institutions, as well as increasing other accounts payable.

15. An important milestone since the last review was the enactment of the tax bill *(**structural benchmark for end-October SB, implemented with delay in November 2021),*** which will yield 0.7 percent of GDP in permanent revenues by 2023 and 0.8 and 0.4 percent of GDP in temporary revenues in 2022 and 2023, respectively. This flagship progressive structural reform of this administration has made our tax system more equitable, simpler, and growth friendly. It will allow Ecuador's public finances to be less reliant on oil revenues, which has been a source of vulnerability in the face of uncertain global oil prices. Together with the establishment of a Large Taxpayer Unit and enabling the declaration of assets held abroad, these reforms will strengthen our revenue mobilization efforts. To further support our revenue mobilization efforts, we will also pursue information exchange with foreign tax authorities. To that end, we have already established an agreement with the United States) and are pursuing an agreement with the Global Forum (CAAM), which would enable information exchange with more than 140 jurisdictions.

16. So far in 2022 the fiscal performance has been good and in line with expectations. Total revenues of the PGE+CFDD have increased 30 percent by March compared to the same period in 2021, with a 25 percent increase in tax revenues reflecting the initial yields from the tax reform including the collection of temporary taxes on net wealth, better performance of the economy and improved tax collection efficiency. Non-oil primary expenditures have remained flat for the same period. We have received important support from World Bank and CAF, which contributed to the accumulation of deposits in the Central Bank of $831 million compared to only $50 million in 2021.

17. With the COVID crisis abating and economy recovering, we will continue with our strategy to make public finances more sustainable by improving our fiscal balances. For 2022, Covid-19 related expenses are expected to reach $264 million, including $80 million in vaccination for booster dozes. We remain committed to achieving a consolidation of 4.5 ppts of GDP of the NOPBS over 2020-25, which has been the anchor measure of the program. This consolidation will strike the right balance between supporting the economic recovery on the one hand and 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) on the other hand. We believe building buffers is necessary given uncertainties regarding the future of the pandemic and oil prices, large arrears that need clearance, and large contingent liabilities that might emerge.

18. With the NFPS level of fiscal consolidation over 2019-21 being better than expected (¶12), the pace of improvement in the fiscal balances can also be at a more gradual pace than envisaged before. In 2022, we will target the NOPBS improvement of 1.5 ppts of GDP—half of the planned consolidation in the last review, which will also help improve our overall fiscal balances at the central government and NFPS levels. This will strike the balance of using some of the oil windfall for infrastructure investment, while meeting the fiscal objectives. The consolidation will be supported by the recently enacted tax reform, additional revenue buoyancy from lifting the remaining COVID-related restrictions, unwinding of temporary COVID-related spending, and additional measures to reduce spending:

- On the revenue side, the tax reform has begun to bear fruit, albeit mostly from the temporary taxes; for the year revenues from the reform are expected at $1.1 billion (1 percent of GDP). Lifting the remaining COVID-related restrictions will buoy revenues from VAT and result in $126 million (0.1 ppts of GDP) improvement. These improvements in nonoil revenues will be partly offset by the measures announced in 2021 to boost competitiveness: tariff reductions (cost of 0.1 percent GDP), and the gradual reduction of the capital exit tax rate (ISD) from 5 to

4 percent this year (cost of 0.1 ppt of GDP). In addition to better-than-expected 2021 revenues and the economic recovery boosting tax revenues, formal employment, and social security contributions, total non-oil revenues are expected to increase by $2.5 billion compared to 2021, which represents 0.3 ppts of GDP in fiscal consolidation.

- The consolidation in 2022 will be primarily expenditure-based (1.2 ppts of GDP), in line with our medium-term strategy, including unwinding the one-off COVID-related expenditure from last year, containing wages and salaries, rationalizing goods and services, and reprioritizing capital expenditure towards the infrastructure projects needed to strengthen our roads in light of the damages caused by a challenging rainy season.

- Most of the consolidation effort on the non-oil expenditure side will come from the central government. (1.0 ppts of GDP, including an increase in subsidies by 0.5 ppt of GDP due to the surge in oil prices), while 0.2 ppt of GDP comes from the rest of the NFPS. The combination of more transparent accrual accounts between the central government and social security, local government VAT withholdings going forward, and higher oil prices boosting both public enterprises balances and central government transfers to local governments explains a wider gap between PGE and NFPS balances.

19. Over the medium-term, our fiscal strategy will be guided by our 2021-2025 Development Plan and grounded in the medium-term fiscal framework (MTFF). 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 aim to reduce nonoil primary expenditures by 3.7 ppts of GDP over 2022-25. Improving procurement practices, and general spending prioritization, would yield 0.4 ppt of GDP in savings in goods and services, 0.4 ppt of GDP in capital expenditure, and 0.1 ppt of GDP in other spending over the next 4 years. While the fuel subsidy has been paused, the anticipated decline in oil prices is expected to yield 1.0 ppt of GDP in savings. This would allow some expansion of social assistance spending (0.1 ppt of GDP) as envisaged by the increased coverage planned over 2022 to be maintained over the medium term (¶9). The bulk of the consolidation (1.6 ppts of GDP) over 2022-25 will come from containing the wage bill (see below). The detailed measures that we are planning to take to achieve the needed spending consolidation are described below:

- *Public Sector Wage Bill and Efficiency*. The increase in public employment and compensation over the last fifteen years was unsustainable. Relatively high public-private wage gap, especially at entry level positions, disincentivizes private sector employment and results in a loss of competitiveness. Hence, it is important to contain the growth of the wage bill. Based on microdata studies, we have developed a wage bill strategy that encompasses permanent and balanced measures to achieve fiscal consolidation of 1.5 ppt of GDP over 2022-25 at the NFPS level (corresponding to 1.8 ppt of GDP over 2019-25). The strategy relies on nominally increasing wage bill that declines in percent of nominal GDP, driven by partial replacement of retirees, less reliance on occasional contractors, and wage growth below nominal GDP growth. The strategy is carefully crafted to protect frontline workers in key sectors such as education, health, defense, and the police, while also complying with the increase in teacher salaries as mandated by a law that is expected to be enacted once all legal procedures are concluded. Further savings could be generated by additional measures on contracts and/or wages, such as revised pay scales for new hires and inflation-adjusted wages. To implement this strategy and enforce the wage bill targets in the annual budgets, guidelines will be provided on the public sector workforce to all levels of the public sector, to be jointly defined with the Labor Ministry. We will adopt presidential decrees for controlling public expenditures, including to implement this wage bill strategy (***prior action***), which will specify the corresponding policy actions. We will also sign an inter-ministerial memorandum of understanding to ensure that the central government agencies follow the strategy to deliver the expected results. With the support of technical assistance from the IDB, we will be undertaking a review of the central government agencies to strengthen budgetary oversight and human resource planning, e.g., by merging various public agencies and reviewing the institutional roles within the government of Ecuador.

- *Procurement*. We will reform our procurement system to save costs while ensuring the highest standards of transparency. As per Decree 155, the Office of the Comptroller General is conducting market studies before any public procurement is initiated, so as to ensure *ex-ante* review of costs and a fair attribution of public contracts. In the coming days, we will issue bylaws to the procurement law with a presidential decree (*Reglamento General de Compras Públicas*) (***prior action***) that will mandate the use of public framework agreements and other dynamic procurement methods and collection and publication of ultimate beneficiary ownership information in public procurement contracts. Following its issuance, SERCOP will issue a set of *Codification of Resolutions* to operationalize the bylaws within 180 days from the issuance of the bylaws. To generate the expected savings from efficient and transparent procurement practices, SERCOP will prioritize the resolutions that provide procurement rules for all sectors of government to, among others, 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, and also to collect and publish information on the ultimate beneficiary owners of contracts (***end-Nov. 2021 benchmark, not met, revised into the prior action above***). Additionally, to fight corruption in procurement, we established the National Control Subsystem (SNC) presided by SERCOP and integrated by UAFE, SRI, the Office of the Comptroller, the State Attorney's Office, and financial regulators (***October-2021 SB, partially implemented)***. The SNC allows public entities with control competencies over public procurement to put in place a risk-based monitoring of public procurement activities and share information, through the interoperability of their databases, which is expected to be finalized before the end of 2022. 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 over the next four years. 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

PPPs 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. To support capital expenditure prioritization and lock in the gains over the medium term, we will undertake a Public Investment Management Assessment (PIMA) in 2022. Moreover, we have put considerable effort into making our capital expenditure more transparent by reclassifying spending in line with best practices, reducing the overstatement of capital expenditure and making our expenditure plans more transparent (¶12).

- *Fuel subsidies.* The fuel subsidy reform that started in July 2020 allowed domestic prices to adjust towards international price recovery and saved the government almost $500 million before it was suspended in October 2021, following a one-time price adjustment. The cumulative reduction of fuel subsidies through this reform is consistent with the country´s goals of reducing carbon footprint by encouraging less fuel consumption. Maintaining fuel subsidies carries high costs for the government, benefits more those who do not need the support, and provides ground for corruption and smuggling. The high cost this year (estimated at $3 billion, 2.6 percent of GDP) partly reflects the surge in oil prices, as a consequence of the Russia invasion of Ukraine, that we expect to be temporary. To help the environment and encourage the use of cleaner energy, we have lowered import tariffs on energy efficient vehicles, and are encouraging the import of higher quality gasoline. We will look for opportunities to advance on the fuel subsidy reform in the period ahead, recognizing that any resulting savings on this matter could be channeled to priority investment, such as higher spending on health, education, social assistance, and growth-enhancing infrastructure.

20. The fiscal strategy described above for 2022 and the medium term will be anchored in this year's budget targets, expenditure ceilings, and the MTFF. The National Fiscal Coordination Council

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

	2020	2021	2022	2023	2024	2025	2020-2025
Non-Oil Primary Revenues	**-1.1**	**0.2**	**0.3**	**0.6**	**-0.1**	**0.2**	**0.2**
o/w Tax policy reform	0.4	0.0	0.1	0.6	0.0	0.0	1.1
o/w Temporary tax measures	0.0	0.0	0.8	-0.4	-0.5	0.0	0.0
o/w Administrative measures	0.0	0.0	0.2	0.0	0.1	0.0	0.3
Non-oil Primary Expenditures including Subsidie	**0.7**	**-0.1**	**1.2**	**0.9**	**1.0**	**0.6**	**4.3**
Wages and salaries 1/	-0.7	1.0	0.9	0.3	0.2	0.2	1.8
Goods and services 1/	0.5	0.1	0.3	0.1	0.1	0.0	1.1
Social assistance	-0.4	-0.1	0.0	0.0	0.0	0.0	-0.5
Other spending 2/	-0.8	0.2	0.3	0.0	0.1	-0.1	-0.3
Capital spending 1/	0.9	-0.3	0.3	0.1	0.0	0.1	1.2
Fuel subsidies	1.1	-1.0	-0.5	0.5	0.5	0.5	1.0
Total	**-0.4**	**0.2**	**1.5**	**1.5**	**0.8**	**0.8**	**4.5**
Memorandum items:							
Second and Third Reviews							
Revenue	-0.7	-0.3	0.7	0.3	0.2	0.0	0.2
Expenditure	0.6	-0.6	2.3	1.0	0.6	0.4	4.2
Total	**-0.1**	**-0.8**	**3.0**	**1.3**	**0.8**	**0.4**	**4.5**

Sources: Ministry of Finance and IMF staff calculations.

1/ Current expenditures previously under capital expenditures have been reclassified from capital expenditures to wages and salaries and goods and services.

2/ Excludes oil-related arbitration awards.

(NFCC, ¶22), which comprises representatives of the subsectors of the NFPS, voted on these targets ensuring consistency across the public sector. We published the MTFF, and the targets and ceilings as approved by the NFCC, in line with our commitments (***prior action***). The 2023 budget we submit to the National Assembly will also be in line with our fiscal consolidation commitments (***structural benchmark for October 2022***).

21. Our financing strategy is to prioritize borrowing from low-cost multilateral sources and will seek re-entry to the international capital market when conditions are favorable, with the option to leverage on the credit guarantee provided by the IDB. We are negotiating with the Chinese authorities and development banks to restructure those debt obligations, which will further alleviate near-term financing pressures.

Contingency Policies

22. Cognizant of the risks to our 2022 and 2023 budgets and overall medium-term fiscal framework, we have identified credible contingent policies. For the 2023 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. We will build the budget based on conservative oil price assumptions lower than current prices or futures prices implied by markets, and accordingly, providing upside risk to our budget outturns. However, higher oil prices also partially reduce fiscal gains by adding to the cost of fuel subsidies as well as to constitutionally mandated transfers that are linked to oil revenues. Factoring in these effects, we estimate that each $1 increase in international prices adds $70 million in net revenue at the NFPS level, while just short of $50 million for the central government. At the same time, should oil prices decline, the annual fiscal deficit would widen 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 plan to use a significant part of the oil windfall to build buffers and reduce arrears. We have also 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.

- *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 in order to counter the procyclicality of our public finance's reliance on oil revenues. We will start working on the analytics of the creation of oil stabilization funds, as per the recent reform to COPLAFIP. 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.

- To address a key fiscal risk stemming uncertainty with respect to the health audit results, which would affect our PGE overall balance targets, we program conservative estimates of these obligations and are confident that the final numbers, once all legal procedures and requirements are completed, will reveal lower actual obligations. We are going one step further to improve fiscal transparency and reflecting in contingent liabilities the difference between total claims and the estimated maximum cost, as per international best practice.

- Mindful of any contingent risks that could materialize in the future, it is all the more important to make steadfast progress on auditing past claims from IESS, bringing legal predictability to the process of auditing and clearing verified obligations, while also building space to recognize new obligations by reducing debt and building buffers, benefitting from the currently high oil prices.

C. Strengthening Fiscal Institutions, Managing Risks, Addressing Fiscal Data Quality

23. The amendments to the organic code of planning and public finances (COPLAFIP) that were adopted throughout 2020 marked an important milestone in Ecuador's public financial management. COPLAFIP includes regulations on the timely collection, accurate compilation and publication of fiscal data, with adequate coverage (by subsectors of the NFPS). Going forward, we will implement the COPLAFIP with support from the IMF in four areas:

- *Fiscal risk*: We have developed a strategy to underpin the fiscal risk statement annexed to our budget documents. The statement presents, analyzes, and estimates the impact of fiscal risks on the budget implementation, including from PPPs. Advances are being made in establishing a fiscal risks unit within MEF, including with support from the IDB.

- *Medium-term fiscal framework (MTFF)*: We have started 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 (¶19).

- *Fiscal rules*: With the enactment of amendments to COPLAFIP in 2020, we are issuing regulations on expenditure ceilings that will support the newly introduced expenditure growth fiscal rule (¶19).

- *Fiscal coordination*: Both the MTFF and fiscal rules require an enhanced coordination among intra-NFPS entities. With a goal of strengthening a coherent fiscal policy dialog at the national level, we established a National Fiscal Coordination Committee (NFCC) (***end-November SB, implemented with delay in December 2021***). The Committee is 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. The committee has already met several times and approved the 2022 fiscal targets, expenditure ceilings, and MTFF (¶19).

24. We are committed to enhancing fiscal transparency. To support this objective, we will undertake a Fiscal Transparency Evaluation (FTE) in 2023, 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.

25. SERCOP has made all procurement contracts awarded since September 2020, including the legal ownership, and, when available, ultimate beneficial ownership (UBO) 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 ***(end-November 2021 structural benchmark, met).***[1] With support from the National Control Subsystem (SNC) and Superintendency of Companies, SERCOP will backfill missing UBO information of the companies awarded the 100 largest procurement contracts between October 2020 through December 2021, and publish in an easily accessible manner on a government website ***(newly proposed end-June 2022 structural benchmark).*** Moreover, the SRI will conduct audits on tax expenditures of the companies awarded the largest 100 public procurement contracts over 2020-21. This benchmark was originally formulated as audits to be done by the Comptroller General; however, upon further analysis, it became clear that the right entity is the SRI. The benchmark has been reworded accordingly. This audit will shed light on compliance and discretions in the attribution of tax expenditure to the private sector in public contracts. To ensure that the work is completed timely and accurately, we request the resetting of the deadline from end-September to end-October ***(structural benchmark).***

26. We are committed to improving timeliness, reliability, and consistency of fiscal statistics. Working closely with the IMF's Statistics Department over several months, we have revised the historical balances of the Social Security Fund (IESS) and corrected the transfers from the central government to IESS for accrued pension liabilities going back to 2017. We also incorporated into our expenditure and debt statistics additional healthcare transfer obligations to IESS for 2013-16 based on completed audits and conservatively estimated healthcare transfers to IESS for 2017-21, while health audits are pending. We will continue recording these conservative estimates in future budgets until healthcare audits are completed. In the meantime, we have already published in April the revised historical series for pension and healthcare transfers to IESS. While these corrections to historical data change the assessment of end-December 2020 and end-April 2021 QPCs on the OB of PGE+CFDD from "met" to "unmet", the latter of which constitutes a nonobservance of a performance criterion under the current Fund-supported program, i.e., misreporting, they were necessary to fulfil our ultimate commitment to all Ecuadorians to bring transparency and accountability to the use of public funds.

27. We request a waiver of nonobservance of the performance criterion on the OB of PGE+CFDD, on the basis of the corrective actions we have already taken and further actions we will be taking, to address the issues that led to this nonobservance. These corrective actions will include, among

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

others: (i) publishing the corrected NFPS and PGE fiscal historical series back to 2013 with explanations for the revisions (***newly proposed structural benchmark for end-September 2022)***; (ii) establishing a dedicated statistics unit at the MEF, headed by a new chief statistician position with expertise in government finance statistics, (iii) updating training curriculum in GFS compilation and ensure ongoing training of new and existing staff in above- and below-the-line fiscal data recording, reconciliation, and verification (continued STA engagement, including through a long-term expert to support this work will be essential); (iv) estimating the stock of potential claims on PGE, including with the IESS, GADs, private sector or others (if any) by nature of expenditure, year, and beneficiaries (***newly proposed structural benchmark for end-June 2022)***; (v) including in the central government 2023 budget and medium-term fiscal framework accrued pension transfer obligations and health transfer allocations to the IESS based on pre-specified criteria;

28. In addition to the data quality measures described above, we will evaluate and seek to address risks stemming from the social security (IESS). To determine the central government's obligations to IESS stemming from past healthcare expenses, we will sign an agreement (*convenio*) with IESS establishing that IESS will procure firm(s) to conduct medical audits of the healthcare expenditures for 2017-21, within the timeline and prioritization laid out in the *convenio*, which should be reflected in the terms of reference for such healthcare audits **(*Prior Action*).** We will complete and share with Fund staff the results of 2020 and 2021 healthcare audits by end-October (***proposed structural benchmark for end-October 2022***). We will undertake by mid-2023 the medical audits of 2022 healthcare expenditure, for timely verification and recording in the 2022 accounting and statistics of verified PGE healthcare obligations to the IESS.

29. The lack of clarity in the legal framework regarding the timing of healthcare audits has led to past claims being unaudited, unverified, and unpaid for many years. The President has put together a commission to develop proposals for a comprehensive reform of the social security system. In that context, we will by end-October 2022, develop and share with Fund staff, a time-bound plan/ strategy to undertake legal reform and administrative actions aimed at strengthening the legal framework for the State's obligations on the healthcare expenditures and related audits starting in 2023, such that the obligations of the state (if any) would be reported, recorded and cleared in a timely and transparent way. We also plan to have third-party independent audits of IESS' 2019-2021 financial statements, with the support of IFIs, by end-March 2023, considering the procurement and auditing processes, to support our plans to reform it. A reform of the social security system is indeed 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 and the above-mentioned commission will 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.

30. We are dedicated to clearing domestic arrears and implementing better cash management practices to avoid accumulating new ones. With the assistance of a long-term expert provided by the

IMF, we are implementing a new monitoring system to evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS. We have already published a methodology to estimate the stock of arrears and the reporting templates to be used by public sector entities for reporting arrears ***(end-November 2021 SB, implemented with delay in January 2022).*** We will start preparing monthly arrears report, as per COPLAFIP law, including the estimate of past arrears with the GADs and social security institutions not recognized yet as arrears or debt, if any. We will design a policy to gather monthly information on arrears from other entities of the NFPS by the MEF, as mandated by COPLAFIP. To prioritize payments, we will outline detailed policies and systematize them. We will adopt a strategy for settling the past potential PGE obligations (¶27) once confirmed, with a detailed calendar for their recording in public accounts and statistics and for clearance.

31. We are rationalizing state-owned enterprises (SOEs) and monitoring fiscal risks. Building on IDB'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. We have begun the process of rationalizing state-owned enterprises, including through the liquidation of some companies (seven SOEs are in the process of liquidation). 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 and enhance PPP-led investment.

32. We remain committed to having the financial statements of Petroecuador (PEC) and Petroamazonas (PAM), which together form the largest SOE, audited as soon as possible. The work that began last year was interrupted by the change in leadership at the merged entity (also called Petroecuador), followed by delays in securing the financing for a reputable, independent and internationally recognized auditing firm. Notwithstanding delays, we are moving steadfastly to initiate the process by agreeing on the TOR and timeline for completing the audits of the 2019 and 2020 financial statements of PEC and PAM, and the 2021 financial statement of the merged entity PEC ***(structural benchmark for November 2021, reset as prior action).*** Given the delays in starting the auditing process, we will only be able to finish the 2019 audits of PEC and PAM by end-November 2022, which would still be within the timeframe for the Executive Board's consideration of the final review of the program (part of ***end-April structural benchmark, not met, reset for end-Nov. 2022***). The 2020 audits of the individual financial statements and the 2021 financial statement of the merged entity PEC will be done by April 2023. While the original work plan would be concluded after the current program, we remain committed to work closely with the Fund to incorporate the findings from these audits into our statistics and fiscal plans. We expect to remain closely engaged with the IMF after the current arrangement expires, at least through the Post-Financing Arrangement. In that context, we will share with IMF staff the audit results when they are available, work with them to address any issues identified in the audits going forward.

33. Consistent with our quest for private sector-led growth, the PPP Committee is developing guidelines—with IDB 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.

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

D. Strengthening the Institutional Framework of the Central Bank

35. The Unit of Management and Regularization (*Unidad de Gestion y Regularización, UGR)*, created for the clean-up of legacy assets in the central bank from the 1999 banking crisis, has been fully functioning since January of this year. As previously committed, after the external audits of the closed banks were completed in December 2021, all legacy assets, liabilities, obligations, and rights resulting from the 1999 banking crisis were transferred to the new agency. At end of May of this year, the balance sheet of the central bank will be published excluding the transferred items.

36. Moving forward with our goal to improve central bank transparency and following-up on the recommendations of the IMF safeguards assessment, the audit committee was appointed as well as the external auditors. We anticipate having the 2021 central bank financial statements audited based on the International Financial Reporting Standards (IFRS) by the end of May 2022, and soon after they will be published on the central bank's website. From now on our financial statements would be based on the IFRS. In addition, the Central Bank of Chile recently completed a peer-review to our internal audit department, which will be a key aspect for the approval of our capacity development plan at the end of May 2022.

37. The Central Bank of Ecuador (BCE) is strengthening its research department with the goal of supporting policymaking decisions. Our research department recently published a macroeconomic report established by the Monetary and Financial Code. Additionally, it is preparing a report on Ecuador's financial stability framework and presenting an annual technical assessment on the fiscal budget to the National Assembly. The BCE is receiving technical assistance from the US Treasury Department and Bank of Spain on financial stability and macroprudential policies, respectively.

38. The Central Bank renewed its swap facility with the Bank for International Settlements up to $840 million as a precautionary measure in case of USD liquidity shortages. In addition, the BCE successfully completed the refining of 80,850.70 troy ounces of non-monetary gold. This operation allowed the BCE to add certified gold bars valued at USD 157.98 million into the International

Reserves. The Monetary Board plans to update the regulation on the purchase of non-monetary gold in order to strengthen this activity during the second semester of this year.

39. One of the strategic goals of the Monetary Board and the Central Bank consists of promoting electronic payments. Therefore, we are working on new regulations to reduce the cost of electronic interbank transactions as well as to diminish the demand for cash. We have requested IDB technical assistance to ensure interoperability among financial institutions and to foster digital payments.

E. Boosting the Resilience of our Financial System

40. Our financial system is healthy, well-capitalized, and liquid. Deposit and credit growth has been increasing at healthy rates, surpassing pre-pandemic growth rates, while market-driven interest rates have significantly declined throughout all lending segments. With the help of the Fund's TA, we are improving our stress testing models of better understand risk to ensure a smooth transition to the post-COVID period. We have also benefited from TA in the areas of tracking anti-money laundering activities and on cybersecurity.

41. A Financial Sector Assessment Program (FSAP), scheduled for the second part of the year, will offer an opportunity to have a comprehensive assessment regarding the resilience of our financial system, including a number of areas such as stress testing, assessments of systemic risks, cyber risks, review the quality of financial supervisions, payment systems, assessments of microprudential and macroprudential frameworks, regulatory arbitrage, domestic capital markets, and the effectiveness of the financial safety net. We plan to implement the recommendations of this comprehensive assessment to ensure our oversight of the financial system meets international standards and best practices aiming to improve services for all stakeholders of the financial system.

42. We have helped financial institutions and borrowers weather the impact of the crisis. The crisis measures that we introduced at the outset of the crisis include: (i) deferral and restructuring of loans; (ii) a temporary reduction in banks' contributions to the Liquidity Fund; (iii) extension of the period to classify loans as non-performing; and (iv) reduction in provisioning requirements. These measures, except for deferral and restructuring of loans, have remained in place even as the crisis abated.

43. We understand that keeping these measures for too long could create distortions in the financial system. At the same time, we want to give our institutions enough time to prepare for the transition which is why we extended the NPL classification and provisioning measures through June 2022 for the banking sector and through December 2022 for the cooperatives sector. To guide the transition to an exit from the crisis measures, we are working with each financial institution to ensure they use this additional time prudently to rebuild its regulatory buffers. The strengthened risk-based banking supervision and the expected increase in capitalization during 2022, especially in the smaller banks, will help banks be better prepared for the eventual transition. On balance, economic activity has started to gain steam, and financial institutions as well as the supervisory bodies have been taking proper safeguards measures to protect the financial system, including stress testing, cybersecurity, and anti-money laundering measures. Based on this, we plan to allow the crisis measures in the banking system to be rolled back in steps between November and December, exiting by the end of the year. If some financial institutions are still under-provisioned at that time, the regulatory body or the supervisor, after a thoroughly assessment of the financial situation of these financial institutions, and in line with international best practices, could grant additional time to meet regulatory requirements on an institution-by-institution 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.

44. At the outset of the pandemic in early 2020, we decided to reduce the contributions to the Liquidity Fund, from 8 to 5 percent of deposits, to give more liquidity to banks to navigate the uncertainty of the potential impacts from the crisis. Fortunately, the adverse liquidity shock did not materialize, and in fact, banks' deposits have continued to increase at a healthy rate. Based on these developments, we will continue to delineate strategies to rebuild our liquidity buffers and strengthen the resilience of our banking system for future shocks, including potential gradual adjustments to the deposits banks' contribution rates to the liquidity fund.

45. The liquidity requirement framework was revised in February 2022 to streamline financial institutions compliance with this regulation. The new regulation dictates that financial institutions have to hold a certain percentage of deposits in liquid assets at the Central Bank, while the old regulation included a long list of deposits accounts with its respective percentage to be kept as liquid assets, making this regulation complicated and costly for financial institutions to administer. In response to the regulatory change, we are monitoring on a daily basis financial institutions' excess liquidity at the Central Bank, which we expect to reduce as financial institutions keep their credit growth at increasing and healthy rates. In addition, we will ask that the upcoming FSAP mission conduct a comprehensive assessment of our liquidity management and macroprudential policies.

46. We started to take steps to fulfil our commitment to ensure financial stability among cooperatives. In January 2022, regulations were issued to establish reserve requirements to large cooperatives, aiming to gradually relocate part of their liquid assets in other financial institutions to their accounts at the BCE in order to ensure adequate liquidity levels. By 2025, the reserve requirements are expected to reach 5 percent of deposits for banks, and 4.5 percent for segment 1 cooperatives, 4 percent for segment 2 cooperatives, and 3 percent for segment 3 cooperatives, while maintaining some regulatory gap between banks and cooperatives, as mandated in our Constitution. We plan to work on a strategy, in consultation with the IMF, to close regulatory gaps on non-performing loan (NPL) classification and provisioning for banks and large cooperatives (segment 1 and 2), aiming to implement it in 2023. The upcoming FSAP will provide a useful opportunity to get recommendations and develop the plans in this area.

47. We are taking steps to ensure financial soundness of the cooperatives sector. The Monetary and Financial Policy and Regulation Board, through resolution No. 645-2021-F of January 31, 2021, issued the "Standard to determine the minimum capital of Savings and Credit Cooperatives". The goal of this regulation is to ensure that entities have the capital necessary to sustain their operations and meet the requirements for a financial intermediary. As of December 2021, 446 entities complied with this regulation, representing 99.9 percent of the total assets of the sector.

48. As part of our financial inclusion strategy, the President has issued a decree to merge two public banks, CFN and Banecuador, into a new bank called Banco de Fomento Económico (BFE). The purpose of the merger is to focus the business model of the merged entity on providing small loans (up to $20,000) to borrowers with no access or limited access to private banks with a strong capital position. The ongoing asset quality review (AQRs) of the public banks, for which agreeing on the TORs was a ***structural benchmark for end-November 2021*** (met). Based on the AQR results, which should be finalized and shared with Fund staff by ***end-June 2022*** (***structural benchmark***), we plan to clean the balance sheet of both institutions and ensure that BFE is well-capitalized. We anticipate the merger to be completed by the end of 2022.

49. In the last years, particularly with the pandemic changing consumer preferences, electronic payments have increased rapidly, albeit from a low base compared to the region. Digital payments also provide opportunities for more secure operations with lower transaction costs. To support this trend of modernizing payments, (i) the Monetary and Financial Policy and Regulation Board eliminated the 22-cent fee for receiving electronic interbank transactions in August 2021; (ii) channeled payments for basic public services of $76 or higher must be made through electronic means since January 2022; (iii) the Central Bank and the Monetary Board are working on new regulations to reduce the fee for electronic interbank transactions as well as to diminish the demand for cash; and (iv) we expect to implement a Real-Time Gross Settlement (RTGS) system for large-value interbank funds transfers in the second half of the year, with US Treasury Assistance. This new platform would introduce a new communication technology to settle payments that would facilitate the integration of other payment systems.

F. Strengthening Competitiveness and Private Sector-led Growth

50. 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 reformed capital and labor markets. In this respect, Decree 95 is expected to foster greater private sector participation in the oil and gas sector, enabling participation contracts. Decree 151 will further facilitate investment in the mining sector, which already is increasing production and exports at a high rate.

51. 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. We are working on modernizing our labor market to foster new forms of labor contracts that can particularly support female labor force participation and employment opportunities for the youth. To build consensus and promote the joint interest of employers and employees, we are adopting a consultative approach to address labor market changes, bringing together all labor market participants, including the unemployed. We also plan to assess the best mechanism for setting the minimum wage, tied to concrete and predictable macroeconomic aggregates such as inflation and productivity.

52. We remain committed to support private-sector development by bringing more accountability and transparency to the public sector and strengthening 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. To this end, 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] We plan to expand the asset declarations of PEPs to ensure it continues detecting and enforcing against illicit enrichment while also becoming a fundamental tool to detect and prevent potential conflicts of interest in the public sector. 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. In order to expand the asset declaration form, we will submit legislation for enactment by ***end-August 2022 (structural benchmark***). 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 would therefore prioritize transparency and ensure on-line public access to relevant information on the assets, incomes, liabilities and interests in the declarations.

53. In May 2021, a presidential decree (Number 4 of May 24, 2021) was issued establishing norms for the integrity and ethical behavior of high-level public officials in the Executive. We will strengthen its implementation, ensuring that interest declarations are duly submitted and published to prevent conflict of interests by the end of the calendar year, and proactively sharing information with the general public to enhance transparency and accountability.

54. To continue with our broader reform agenda to promote good governance and 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 framework in light of GAFILAT's on-site visit in April 2022 and the recommendations resulting from this assessment, that are expected in early 2023. In addition, with technical support from the Fund, we have developed draft AML/CFT legislation to bring our framework in line with FATF international standards and plan to submit it to the National

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

Assembly in the coming days ***(end-March 2022 structural benchmark, not met, proposed to be reset to end-October 2022***).

55. 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. Boosting reliance on hydropower for electricity generation, and reducing CO2 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 CO2 emissions is likely to permanently depress oil prices. 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 IDB support to establish a climate finance unit within MEF. We have expanded several protected areas, including the Galapagos marine reserve, for which we are working with international partners to generate long term financing for its protection. Ecuador supports the Fund recent approval of the Resilience and Sustainability Trust (RST).

56. 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 Fund and 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

57. 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 requested support of the IMF to undertake a Public Investment Management Assessment (PIMA) later this year and a Fiscal Transparency Evaluation (FTE) in early 2023. We are also following up on ongoing important TA on tax administration (LTU) and customs.

58. The Vice Ministry of Finance is committed to improving the quality of government finance statistics (GFS). We have benefitted from a series of TA missions from STA. To build on those and anchor best practices in the Ministry, we will create a statistics office, headed by a senior expert, and have requested a long-term expert from STA to help build capacity in recording and reconciliation. Sufficient staffing and training of GFS compilers is critical to fully implement the corrective actions outlined in ¶25 and the upcoming report to the Executive Board on the misreporting of a performance criterion.

59. We are committed to continue working 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 half 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 from various public entities to study and model the inter-linkages among different sectors of the economy and run internally consistent policy scenarios. By bringing together staff from different agencies, to work through the inter-relations among the different sectors of the economy inherent to the FPP's framework, would help illustrate and strengthen the inter-agency coordination.

60. We will continue to improve balance of payments statistics and national accounts. To improve our 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.

61. To help strengthen supervisory capacity, 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 CD to strengthen the AML/CFT framework. Further technical assistance is underway with the Office of the Comptroller General to strengthen anti-corruption asset declarations framework.

H. Monitoring Progress Towards Our Goals

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

Table 1. Ecuador: Proposed Quantitative Performance Criteria and Indicative Targets, 2022

(In millions of US$, unless otherwise indicated)

	End-Aug.	End-Nov.
Quantitative performance criteria		
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-1,600	
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	1,200	
3. Non-accumulation of external payments arrears (*continuous PC*)	0	
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	
Indicative targets		
5. Non-oil primary balance of the NFPS (including fuel subsidies, *floor*) 1/ 2/	-4,350	
6. Overall balance of the NFPS (*floor*) 1/	410	
7. Change in the stock of NIR - program definition (floor) 1/	675	
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)	280,716	
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)		
AZUAY	39,974	43,049
BOLIVAR	24,250	26,116
CAÑAR	18,910	20,364
CARCHI	10,416	11,217
CHIMBORAZO	44,464	47,884
COTOPAXI	41,592	44,791
EL ORO	26,338	28,364
ESMERALDAS	56,266	60,594
GALAPAGOS	145	157
GUAYAS	198,818	214,112
IMBABURA	25,244	27,186
LOJA	42,536	45,808
LOS RIOS	84,751	91,271
MANABI	139,151	149,855
MORONA SANTIAGO	19,014	20,477
NAPO	11,214	12,076
ORELLANA	16,275	17,527
PASTAZA	7,511	8,089
PICHINCHA	36,178	38,960
SANTA ELENA	21,857	23,538
SANTO DOMINGO DE LOS TSACHILAS	25,920	27,913
SUCUMBIOS	16,330	17,586
TUNGURAHUA	30,322	32,654
ZAMORA CHINCHIPE	10,237	11,025
ZONA EN ESTUDIO	4,280	4,609

Source: IMF staff calculations.

1/ Cumulative change from January 1, 2022.

2/ Excludes interest receipts and oil-related arbitration awards.

Table 2. Ecuador: Prior Actions and Structural Benchmarks

Reform Area	Structural Conditionality	Objectives	Due Date	Status
Proposed Prior Actions				
Transparency, Fiscal Strategy	Adopt a presidential decree (*Reglamento General de Compras Públicas*), in consultation with Fund staff, for the design and operation of the Public Procurement Framework that will mandate the use of public framework agreements and other dynamic procurement methods and collection and publication of ultimate beneficiary ownership information in public procurement contracts.	Improve expenditure control and transparency		
Fiscal Strategy	Adopt presidential decree establishing optimization of public expenditure, including the wage bill, in line with the MTFF and fiscal targets.	Improve expenditure control		
Fiscal Strategy	Publish the MTFF, and fiscal targets approved by the NFCC, in line with program commitments.	Improve expenditure control		
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		
Transparency	Sign an agreement between MOF and IESS to undertake procurement process, agree on the timeline and prioritization for the firm(s) to undertake healthcare audits, to be reflected in the terms of reference for healthcare audits.	Improve quality of fiscal statistics		
Structural Benchmarks				
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-Oct. 2021	Not met, implemented with delay in Nov. 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	Not met, partially implemented

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
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	Met
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	Not met, revised and converted to a PA
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	Not met, converted to a PA
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	Met
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	Not met, implemented with delay in Jan. 2022
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	Not met, implemented with delay in Dec. 2021

Table 2. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
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	Not met, reset for end-Oct.
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	Mid-Apr. 2022	Not met, implemented with delay
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	Not met, split into end-Nov. 2022 SB and MEFP commitment for 2023
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-Jun. 2022	In progress
Domestic Arrears	Identify and share with IMF staff the existing stock of PGE potential obligations, including gross health claims from IESS, other claims from IESS, GADs, private sector or others (if any), by nature of expenditure, year and beneficiaries.	Improve fiscal transparency monitoring of contingent liability risks	End-Jun. 2022	*Proposed*
Transparency	SERCOP, with support from the National Control Subsystem (SNC) and Superintendency of Companies, to backfill missing UBO information in the largest 100 procurement contracts awarded since September 2020 and publish in an easily accessible on a government website.	Strengthen anticorruption and AML/CFT and protect the public purse	End-Jun. 2022	*Proposed*
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-Aug. 2022	In progress

Table 2. Ecuador: Prior Actions and Structural Benchmarks (concluded)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
Fiscal Statistics	Publish revised historical NFPS data, with explanations for IESS data revisions, both above- and below-the-line, back to 2013.	Improve quality of fiscal statistics	End-Sep. 2022	*Proposed*
Transparency and Governance	Share with IMF staff the results of the audits by the Tax Administration (SRI) of tax expenditures of the companies awarded 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	Proposed to be reset to end-Oct.
SOE	Share with IMF staff the completed independent audits of the 2021 financial statements of the merged entity of Petroecuador and Petroamazonas (joint entity audits, to accommodate IFRS requirements).	Strengthen SOEs	End-Oct. 2022	Changed to MEFP commitment to finish in 2023 as the earliest possible completion
Fiscal Strategy	Submit a 2023 Budget in line with program and MTFF commitments.	Ensure fiscal consolidation	End-Oct. 2022	*Proposed*
Transparency and Governance	Complete 2020 and 2021 healthcare audits and share the results with Fund staff.	Assess contingent liabilities and arrears	End-Oct. 2022	*Proposed*
SOE	Share with IMF staff the completed independent audits of the 2019 individual financial statements of Petroecuador and Petroamazonas.	Strengthen SOEs	End-Nov. 2022	*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	In progress. Proposed to be reset to end-Nov. 2022.

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 2. Ecuador: Proposed Quantitative Performance Criteria and Indicative Targets, 2022

(In millions of US$, unless otherwise indicated)

	End-Aug.	End-Nov.
Quantitative performance criteria		
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-1,600	
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	1,200	
3. Non-accumulation of external payments arrears (*continuous PC*)	0	
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	
Indicative targets		
5. Non-oil primary balance of the NFPS (including fuel subsidies, *floor*) 1/ 2/	-4,350	
6. Overall balance of the NFPS (*floor*) 1/	410	
7. Change in the stock of NIR - program definition (floor) 1/	675	
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)	280,716	
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)		
AZUAY	39,974	43,049
BOLIVAR	24,250	26,116
CAÑAR	18,910	20,364
CARCHI	10,416	11,217
CHIMBORAZO	44,464	47,884
COTOPAXI	41,592	44,791
EL ORO	26,338	28,364
ESMERALDAS	56,266	60,594
GALAPAGOS	145	157
GUAYAS	198,818	214,112
IMBABURA	25,244	27,186
LOJA	42,536	45,808
LOS RIOS	84,751	91,271
MANABI	139,151	149,855
MORONA SANTIAGO	19,014	20,477
NAPO	11,214	12,076
ORELLANA	16,275	17,527
PASTAZA	7,511	8,089
PICHINCHA	36,178	38,960
SANTA ELENA	21,857	23,538
SANTO DOMINGO DE LOS TSACHILAS	25,920	27,913
SUCUMBIOS	16,330	17,586
TUNGURAHUA	30,322	32,654
ZAMORA CHINCHIPE	10,237	11,025
ZONA EN ESTUDIO	4,280	4,609

Source: IMF staff calculations.

1/ Cumulative change from January 1, 2022.

2/ Excludes interest receipts and oil-related arbitration awards.

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

- no imposition or intensification of restrictions on the making of payments and transfers for current international transactions;

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

These four performance criteria will be monitored continuously.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

Definitions

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

6. The overall balance of PGE and CFDD is defined as the total revenues of the PGE 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 PGE and CFDD).

8. Total spending is recorded on an accrual basis except for interest expenditure which is recorded on a cash basis and comprises spending on wages and salaries (sueldos y salarios), purchases of goods and services (compra de bienes y servicios), interest expenditure (interés), spending on social assistance programs, other current spending, and capital expenditures (including capital transfers and other investment outlays). Other current spending also includes expenditures under Account 99 (see below) including oil-related arbitration awards and the cost of imports and local purchases of oil derivatives (CFDD). Before the completion of IESS healthcare audits, preliminary estimates of healthcare transfers from PGE to IESS will be recorded as above-the-line spending (50 percent of IESS claims); with the difference between preliminary estimates and total IESS healthcare claims on PGE recorded as a contingent liability. Once health audits are complete, preliminary estimates will be replaced with the actual data for the period when the health spending by beneficiaries took place, and the corresponding contingent liability will be extinguished.

9. **Government-funded public-private partnerships** will be treated as traditional public procurements. PGE obligations that are accrued on public private partnerships would be recorded transparently in budget data and measured as part of the PGE deficit as they accrue. The accrued but not settled obligations related to these 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 in the year the obligation was accrued or, if information on the year is not available, in the year the obligation is credited to the account

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$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

Table 3. Ecuador: Oil Price – Program Assumptions

	Aug. 2022
Ecuador mix crude oil price (US$ per barrel)	85.7

Sources: Ministry of Finance and IMF staff estimates

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

Definitions

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

Table 4. Ecuador: Non-Financial Public Sector Corporations Covered Under the Definition of NFPS

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

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

15. 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

16. 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.

17. 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

18. 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 5 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 5. Ecuador: International Borrowing – Program Assumptions
(In millions of U.S. dollars)

	Aug. 2022
Total market issuance consistent with program targets (cumulative) 1/	0.0

1/ Cumulative from January 1, 2022. Market issuance projected in Table 3 is expected to take place after August, 2022.

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

Table 6. Ecuador: Program Loan Disbursements by Multilateral Creditors – Program Assumptions (In millions of U.S. dollars)

	Aug. 2022
Expected disbursement of IMF credit 1/	1,000
Expected disbursements of program loans by other multilaterals 1/	1,165

1/ Cumulative from January 1, 2022.

20. Adjustor on oil-related arbitration awards. The floor on the accumulation of NFPS deposits will be adjusted downward by the payment of oil-related arbitration awards relative to the amount in the baseline reported in Table 7.

Table 7. Ecuador: Oil-related Arbitration Awards – Program Assumptions
(In millions of U.S. dollars)

	Aug. 2022
Expected payments on oil-related arbitration awards 1/	0.0

1/ 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$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

C. 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.[1] The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

- *loans*, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

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

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

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.

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

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

- Interest income (recorded on cash basis);
- Proceeds from the sale of financial assets;
- Revenues from the privatization of government-owned entities;
- Revenues from oil exports;
- Revenues from the domestic sales of oil derivatives;
- The operating surplus of state-owned oil company (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 (beneficios de seguridad social), spending on social assistance programs, other current spending, and capital expenditures not related to oil investment. Other current spending includes disbursements of property expense for investment income and expenditures under Account 99 and excludes: (i) obligations arising from oil-related arbitration awards; (ii) cost of imports of oil derivatives (CFDD) and (iii) payments to private operators of oil concessions through service and participation contracts (Ministerio de Energia y Recursos Naturales no Renovables).

33. **Petroleum product subsidies** include, but are not limited to, subsidies for gasoline, diesel, jet fuel, 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 in the year the obligation was accrued or, if information of the year is not available, in the year the obligation is credited to the account.

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$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

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

Definitions

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

38. 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 company (PetroEcuador) minus the sum of (i) expenditures on investment in the oil sector, (ii) expenditures on imports of oil derivatives (CFDD) and (iii) payments to private oil companies (Ministerio de Energia y Recursos Naturales no Renovables).

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

Monitoring

39. 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

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

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

Definitions

41. 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.

42. 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.

43. 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

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

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

46. Adjustor on oil prices. The floor on the 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$178.9 million at corresponding test dates. The average price of Ecuador mix oil price will be calculated as the total value of crude oil exports divided by the total volume of oil exports over the period since the prior test date.

47. Adjustor on oil-related arbitration awards. The floor on the net international reserves will be adjusted downward by the payment of oil-related arbitration awards relative to the amount in the baseline reported in Table 7.

Monitoring

48. 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.

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

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

Definitions

50. 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, Pensión Toda Una Vida, and Bonos Mis Primeros 1000 Días. 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

51. 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 and province will be provided to the Fund with a lag of no more than 30 days after the end of each month.

OTHER INFORMATION REQUIREMENTS

52. 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:

53. 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.

54. 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

55. 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

56. 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

57. 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

58. 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.

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

60. 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

61. 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.

62. 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.

63. Data on amortizations and disbursements of credit from the BCE to NFPS and to publicly-owned banks for the purpose of financing the NFPS will be provided within five business days from the end of the month.

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. Data on social spending including Bono de Desarrollo Humano (BDH), Bono de Desarrollo Humano Variable (BDH-V), Personas con discapacidad, Pensión para Adultos Mayores, Mis mejores años, Pensión Toda Una Vida, and Bonos Mis Primer 1000 Dias, as well as Bonos Joaquin Gallego Lara.

66. 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.

67. 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.

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

Quarterly

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

70. 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.

Statement by the Staff Representative on Ecuador
June 24, 2022

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. **All five prior actions for the Fourth and Fifth Reviews have been completed:**

- The Ministry of Economy and Finance (MEF) and the Social Security Institute (IESS) signed an agreement on May 30, 2022, to undertake the procurement process, agree on the timeline, and prioritization for the medical firm(s) to undertake healthcare audits, to be reflected in the terms of reference for these audits. This prior action is also a corrective action (CA) to address the misreporting. MEF made a payment of US$140 million to IESS on May 31 for the recognized healthcare transfer obligations resulting from the 2013-16 healthcare audits.

- The terms of reference and timeline for completing the independent audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas and the 2021 financial audit of the merged entity Petroecuador have been agreed. The authorities are proceeding with contracting the audit firms with financial and procurement support from the IADB.

- The authorities published the MTFF, and fiscal targets approved by the NFCC, in line with program commitments on June 8, 2022, in the Official Bulletin No. 79.[1]

- A Presidential Decree was issued on June 20, 2022, which establishes the optimization of public expenditure, including of the wage bill, in line with the MTFF and fiscal targets.

- A Presidential Decree was issued on June 20, 2022, which mandates the use of public framework agreements and other dynamic procurement methods and collection and publication of ultimate beneficiary ownership information in public procurement contracts.

3. **The Ministry of Economy and Finance published on May 31 revised historical nonfinancial public sector (NFPS) and budgetary central government (PGE) data back to 2017, with explanations for revisions.**[2] The NFPS data included nonoil primary balance including subsidies, with the recommended treatment of interest income and its distribution. The PGE data incorporated corrections to the pension transfers based on accrual principles of accounting, as well as the conservatively estimated healthcare transfer obligations to the social security fund (IESS). These adjustments were reflected in the debt statistics and fiscal risk report,

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[1] https://www.finanzas.gob.ec/wp-content/uploads/downloads/2022/06/Informe-programacion-2022-2026.pdf

[2] https://www.finanzas.gob.ec/estadistica-nueva-metodologia-2017-2022/

including in the estimate of contingent PGE liabilities, as part of the corrective actions for the misreporting.

4. **The authorities are progressing with upgrading the social registry and expanding the coverage of social assistance to low-income households**. The number of poor families that receive social assistance increased by 630,173 from July 2020 to June 2022, surpassing 80 percent coverage of families in the bottom three deciles of the income distribution. In addition, on Children's Day, June 1, 2022, the authorities announced a new cash transfer program to address child malnutrition called "1,000 Days." This program is expected to further enhance the coverage of the social safety net by an additional 37,500 households.

5. **The authorities are making steady progress on the structural benchmarks (SBs) and corrective actions (CAs) that are due in the coming months:**

- IESS has initiated a procurement process to hire an independent medical audit firm(s) to undertake healthcare audits, with the goal of hiring the first at end-June (CA).

- MEF is making progress at identifying the existing stock of PGE potential obligations, including gross health claims from IESS, other claims from IESS, local governments, private sector or others (if any), by nature of expenditure, year and beneficiaries (end-June SB and CA).

- Public banks' asset quality reviews (AQR) are close to being finalized, except for a slight delay with one bank. One of the AQRs is already finalized (CFN), and two others are well advanced to be finalized by the June deadline of the relevant SB. The authorities are working on speeding up the AQR for the Ecuadorian Development Bank (BDE), which had been delayed because of a change in the bank's management team in April. They expect BDE's AQR to be finalized in July.

- The Procurement Agency, SERCOP, is backfilling missing UBO information in the largest 100 procurement contracts awarded since September 2020. Staff has been working closely with SERCOP and the Superintendent of Companies to ensure that the information will be made available on time (end-June 2022 SB). So far, SERCOP has identified 4 contracts, out of the largest 100, with missing UBO information and has contacted the companies to request the information.

- The authorities are advancing on the strengthening of the frameworks of conflict of interest and AML/CFT. Staff has been supporting the Comptroller General's Office (CGE) and the Financial and Economic Analysis Unit (UAFE) with capacity building and technical assistance. Draft legislation is close to being finalized and is expected to be submitted in time for enactment by the end-August SB target date.

6. **Inflation pressures continue to grow.** May 2022 inflation data showed a 0.6 percent monthly increase and a 3.4 percent year-on-year increase, slightly above staff's projections, led

by higher food and transport prices. The WEO assumptions released in June entail higher global food prices and pose upside risk to the inflation projections.

7. There are anti-government protests ongoing. Protests by the indigenous movement (CONAIE) started on June 13, against, among others, the rising cost of living, fuel prices, and natural resource extraction on indigenous land. President Lasso announced a package of measures, including higher social spending on low-income families and financial support to the agriculture sector and small businesses. The measures are estimated to cost about $44 million (0.04 percent of GDP) but would not have a net fiscal impact as the authorities will absorb the cost within the current budget envelope by reprioritizing other expenditure. The authorities are working to promote a dialogue and reach agreement with the protestors. They remain committed to the program objectives and policies, and plan to absorb any potential new cost within the existing fiscal plans.

8. Ecuador's spreads have risen relatively more than other emerging markets' since the protests began, by about 200 bps to over 1,000 bps. Bond yields have also risen to over 14 percent up from 10-11 percent in early June, partly due to the spreads and partly due to higher global interest rates as in other emerging markets. The impact on debt service is expected to be limited, as Ecuador's debt other than to multilateral creditors has fixed rates, and the DSA already includes conservative assumptions on future rates and borrowing costs. The $400 million IDB bond guarantee would enable Ecuador to reaccess markets at more favorable rates when they choose to do so.

Statement by Afonso Bevilaqua, Executive Director for Ecuador,
Ricardo Cicchelli Velloso, Senior Advisor to Executive Director,
and Jorge Gallardo, Advisor to Executive Director
June 24, 2022

We wish to express, on behalf of our Ecuadorian authorities, our appreciation and recognition to the Managing Director and other members of the IMF management team for their continuing support to Ecuador's EFF program. The authorities also thank Ms. Ceyda Oner and her team for the hard work and collaboration with them, and for the well-written report on the fourth and fifth EFF reviews. The authorities appreciate the constructive discussions and thoughtful analysis conducted during this process, and they consent to the publication of the staff report.

Background

Since they took office a year ago, the authorities' main concern has been to improve the wellbeing of the Ecuadorian population, particularly the most vulnerable. To reach that goal the economic program is based on four main pillars. The first one is a massive vaccination campaign against COVID-19 to ensure a rapid reopening of the economy. The second pillar is to improve the competitiveness of the economy with a market friendly environment. Third, fiscal discipline with the aim of putting public debt as a share of GDP on a declining path, according to the recent amendments to the Organic Code of Public Finance and Planning, COPLAFIP, that establish targets and fiscal rules, based on the tax reform and expenditure adjustments. Fourth, an independent central bank and a well-capitalized financial system.

The EFF supported program approved in September 2020 has provided a key framework to successfully implement the authorities' economic reform agenda. In 2020, Ecuador was hit not only by the pandemic as the rest of the world, but also by a negative external shock as oil prices reached record lows. The unwavering support of the IMF and other multilateral institutions was extremely important to deal with these shocks. The authorities agree with staff that the EFF has helped to strengthen the implementation of sound macroeconomic and financial policies and to close financing gaps.

Program Implementation

The staff report for the fourth and fifth EFF reviews shows that program implementation has been strong. Ecuador met most of the performance criteria and indicative targets. The target on the overall balance of the Budgetary Central Government was met for end-September 2021 but was not met for end-December 2021, reflecting a statistical correction to consider the accrual information of pension transfers from the Central Government to the Social Security Institute (IESS) instead of the budgeted amounts. The deposit accumulation target of the Non-Financial Public Sector (NFPS) was met for both end-September and end-December 2021. All the indicative targets were met—overall balance of the NFPS, accumulation of NIR, beneficiaries from social programs—except the end-December 2021 target on the non-oil primary balance including Subsidies (NOPBS) that was missed by only US$30 million, when including interest income in the calculation of the NOPBS, as per the original target setting. Net international reserves (NIR) have increased considerably, with NIR accumulation targets met with comfortable margins.

Our authorities decided to suspend the fuel subsidy reform in October 2021 shortly after increasing the prices of the main oil derivatives by about 50 percent. Social unrest, partly due to the gradual adjustment of domestic fuel prices, led the Government to suspend the increases aimed at closing the gap of domestic to international prices, which were rising far above expected. Currently, the price of diesel is equivalent to US$71 per barrel and the price of regular gasoline to US$105 per barrel, which are close to their expected medium-term levels.

One of the key elements of the program is to protect the most vulnerable population from the necessary adjustment. Ecuador has made significant improvements in social assistance coverage, reaching 80 percent of the families from the bottom three deciles, up from a 37 percent coverage in July 2020. As of June 3, 2022, the social assistance coverage reached around 1.18 million families, corresponding to an increase of more than 630,000 families from July 2020. The implementation of the "1,000 Days Program" is designed to tackle child malnutrition and to engender a virtuous circle to reduce poverty in the future.

Methodological changes led to some data revisions. Our authorities worked closely with the IMF's Statistics Department over several months to improve the accuracy and transparency of the fiscal statistics, IMF technical assistance recommended to register in the Budgetary Central Government accounts the above-mentioned pension fund transfers to the IESS, and the settlement of health obligations that the Central Government must make to the IESS once auditing and data reconciliation processes are concluded. Another change is the inclusion in NFPS data, as expenditure, the earnings of third-party pension funds managed by the IESS. Historical series were also revised to reflect the new methodological standards.

Recent Economic Developments and Outlook

Economic performance in 2021 was better than expected by staff. After declining by 7.8 percent in 2020 in the context of the pandemic, GDP growth recovered to 4.2 percent in 2021 (compared to 3.5 percent projected at the time of the 2021 Article IV consultation). Inflation remained subdued at 1.9 percent and the external current account registered a surplus of 2.9 percent of GDP. The authorities expect that the economy will grow by 3 percent this year, with inflation of 3.8 percent and an external current account surplus of 2.4 percent of GDP. Three main reasons explain these positive results. First, the highly successful vaccination campaign that allowed the safe reopening the economy. Second, the pro-market policies that have been pursued by the Government, reducing import tariffs and distortionary taxes, such as the tax on transfers

abroad (ISD), and the signing of international trade agreements. Third, the application of sound macroeconomic policies and structural reforms coupled with the oil price recovery.
There was a very significant fiscal consolidation last year, with the NFPS deficit declining from 7.1 percent of GDP in 2020 to 1.5 percent of GDP in 2021. This is explained by an increase of 3.2 percent of GDP in the oil balance, a decline by 1.5 percent of GDP in interest payments (following the successful debt restructuring of 2020), and a reduction of the non-oil primary balance by 0.8 percent of GDP.

The oil revenue windfall is not fueling unsustainable procyclical policies as in the past. Rather, it is allowing the Government to address the fiscal deficit and tackle arrears, while providing space for key priorities. This is a very important departure of economic policy from past practices. The oil revenue windfall is allowing an orderly debt reduction, the rebuilding of buffers, and the strengthening of spending on key priority areas, such as infrastructure and security, and social assistance to low-income households, in the context of the EFF.

The NFPS balance is also better than originally envisaged under the program (Table 2a of the staff report). For 2021, the overall balance of the NFPS was better than programmed by US$843 million, reflecting a stronger oil balance of US$377 million (considering expenditures for oil related arbitration awards) and a better non-oil primary balance of US$558 million, and despite higher interest payments of US$92 million. These figures are consistent with a higher accumulation of deposits of the NFPS at the Central Bank by US$1.13 billion.

Fiscal Policy

Fiscal policy follows the guidelines established in the recent amendments to COPLAFIP, which fixes debt limits and expenditure growth rules. Accordingly, public debt must be lower than 57 percent of GDP by 2025 and 45 percent of GDP by 2030. Those targets shall be met with margin. Starting from 62.2 percent of GDP in 2021, and reflecting the planned fiscal consolidation, the public debt to GDP ratio is projected to reach 51.4 percent by 2025 and 45.1 percent by 2027.

The landmark tax bill approved last year will yield 0.7 percent of GDP in permanent revenues in 2023, and 0.8 percent of GDP and 0.4 percent of GDP, respectively, in temporary revenues in 2022 and 2023. This reform has increased the income tax on the wealthier people, made the tax system more equitable, simpler, and growth-friendly, and reduced dependence on oil revenues. In addition, a strengthened tax administration, including through the recently created large taxpayers' unit, is already helping to increase tax collections.

On the expenditure side, the program considers measures to contain the wage bill and to improve the efficiency of the procurement system as prior actions. A presidential decree was issued to optimize public expenditures, including the wage bill, in line with medium-term fiscal targets. Another decree was issued to optimize the design and operation of the public procurement framework that will allow savings in goods and services expenditures while improving transparency and controlling for corruption. Public investment is prioritizing key projects and promoting PPPs and concessions to the private sector.

Monetary Policy and Financial Stability

Measures have been taken to settle legacy assets on the Central Bank's balance sheet originated from the 1999 banking crisis. The published Central Bank balance sheet excludes all legacy assets and obligations transferred to a Unit of Management and Regularization.

The financial system has proven to be robust during the pandemic crisis. Credit and deposits are recovering and showing healthy trends since the onset of the crisis, and the system remains liquid and well-capitalized, and non-performing loans remain low. Progress is being made to gradually unwind all COVID-19 crisis related measures and to close the regulatory gap between banks and large cooperatives. The upcoming FSAP mission will be very useful in helping identifying measures to improve and strengthen the financial system even further.

Final Remarks

Ecuador's main challenge is to improve potential growth to continue reducing poverty. All the policies set forth in the EFF supported program have the ultimate objective of improving the wellbeing of the Ecuadorian people in an environment conducive to the development of private sector initiative and the generation of formal sector employment, which is the best way to deal with poverty in Ecuador. With the financial contribution and capacity building from the IMF and other International Financial Institutions, Ecuador will continue to implement sound economic policies to face the headwinds from a challenging environment.

Given the above considerations, our authorities request to the Executive Board the completion of the fourth and fifth reviews under the EFF arrangement, including a waiver for nonobservance of the missed end-December 2021 performance criterion based on the corrective actions already taken and further remedial measures our authorities are committed to take. The program is fully financed according to the assurances obtained by staff, and all exceptional access criteria continue to be met. Ecuador´s capacity to pay the Fund remains adequate.

Finally, we thank again IMF management and staff for their support. This support remains critical for the final phase of implementation of the program, which is laying the basis for a more resilient, equitable, and prosperous economy.