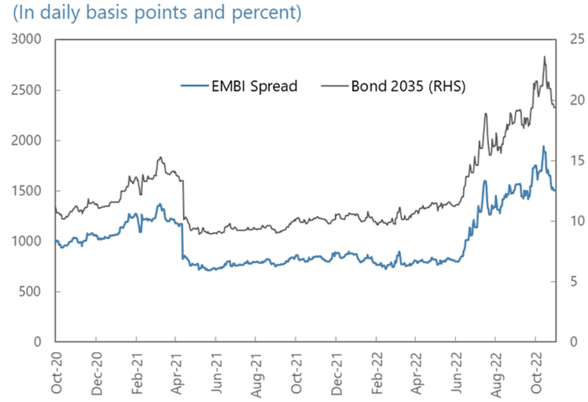
CONTEXT

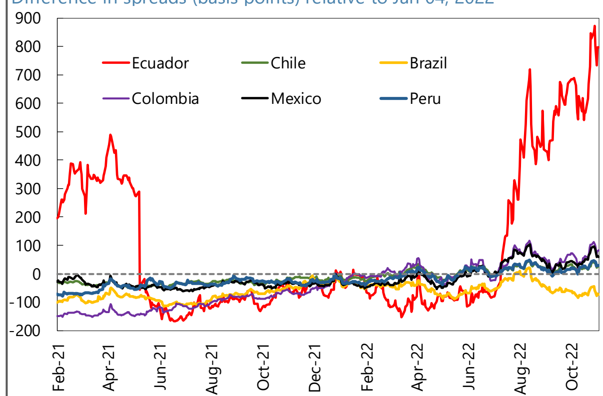
1. **The final review of the EFF-supported program takes place amidst a challenging domestic and external environment.** The 18-day protests in June, led by the indigenous community, resulted in a nationwide production disruption. In exchange for a temporary truce, the government granted a series of concessions, including higher fuel subsidies. The domestic security situation has become more challenging, with rising narcotraffic and crime adversely affecting daily life in big cities. The government is planning a public referendum at the time of local elections in February on legal amendments mainly aimed at fighting crime, reforming political institutions, and protecting the environment. Despite improving macroeconomic fundamentals, spreads and yields have increased rapidly, due to tighter financing conditions for all EMs, but also the challenging domestic political environment that increased the perception of country risk. With Ecuador's bond yields reaching 20 percent, the baseline scenario now assumes international markets re-access in 2024.

EMBI Spread and Bond Yield
(In daily basis points and percent)



Source: Bloomberg

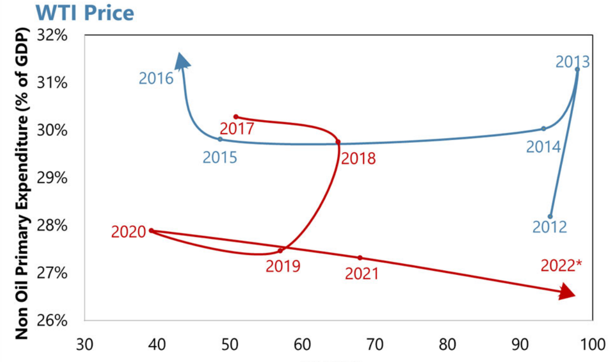
EMBIG Spreads
Difference in spreads (basis points) relative to Jan 04, 2022



Source: Bloomberg

2. **The broad objectives of the EFF-supported program have been met, although more work remains to be done.** Ecuador's EFF-supported economic program has so far helped Ecuador recover from the pandemic, restore fiscal sustainability with more equity, reduce dependency on oil (chart), strengthen the basis for dollarization, and advance the transparency and anti-corruption agenda. Key structural reforms have been successfully completed, including operationalizing the reforms to the organic budget code that established a prudent fiscal framework (COPLAFIP), a progressive tax reform, legislation that criminalized acts of corruption (COIP), and reforms to the organic monetary and financial code (COMYF) that strengthened the autonomy and governance of

Non Oil Primary Expenditure (% of GDP) and WTI Price

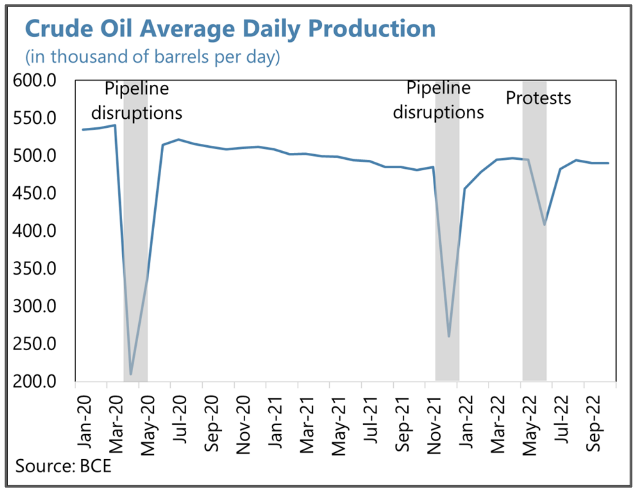


* 2022 = Program Forecast
Sources: Central Bank of Ecuador and IMF staff calculations

the central bank (BCE), and strengthened the institutional basis of the dollarization regime. Building on these accomplishments, preserving the achieved gains and persevering with future plans to cement fiscal and debt sustainability, rebuilding buffers, further reducing oil dependency, and ensuring continued financial sector resiliency will be crucial for a lasting improvement in macroeconomic stability and resilience.

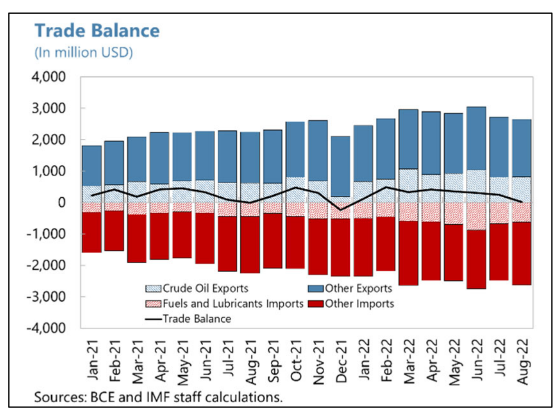
RECENT DEVELOPMENTS AND OUTLOOK

3. **Growth slowed in 2022:Q2, largely owing to the protests in June-July but also slower trading partner growth.** Real GDP growth slowed to 1.7 percent y/y in 2022:Q2, from 3.8 percent y/y in 2022:Q1. Growth was mainly driven by private consumption on the expenditure side, while services were the main engine of growth on the production side. During the protests, oil production fell sharply, and overall economic losses are estimated at about $1 billion (1 percent of GDP). In addition, growth momentum in Ecuador's main trading partners, particularly, United States, China, Russia, and European Union, is slowing, weighing on Ecuador's exports and growth. On a positive note, labor market indicators are continuing to strengthen, although under employment and unemployment are still above their pre-pandemic levels. High frequency indicators (energy demand, credit growth, vehicle sales, and local sales) are showing signs of faster growth after July.



4. **Inflationary pressures continue**. Headline inflation reached 4.0 percent at end-October (yoy), driven largely by the rise in food and beverages (7.4 percent), transport prices (5.1 percent) and non-tradables (3.3 percent percent). Inflationary pressures became more broad-based, with core inflation reaching 2.7 percent at end-October 2022, driven by the economic recovery and higher import prices. Inflation, although elevated, remains lower than in regional peers due to dollarization and subsidized fuel prices.

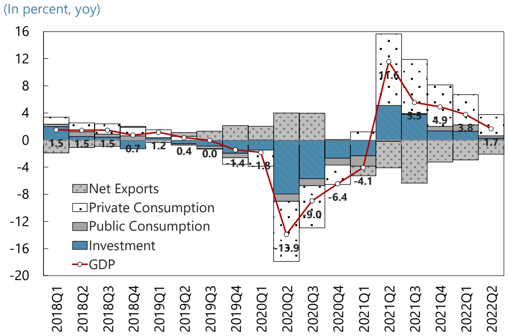
5. **The current account (CA) balance remained in surplus and the reserves position continued to improve.** High frequency data through August 2022 indicate that exports grew 30 percent (yoy), driven by oil, shrimp and mining exports, while imports increased by 33 percent (yoy) when compared to the same period in 2021, leading to a modest improvement in the trade balance. The 2022 CA is expected to end in a surplus of 2.1 percent of GDP, as the stronger trade balance will be offset by



lower remittances–which amounted to $4.3 billion in 2021–from weaker growth in the US. Gross international reserves increased to $8.5 billion as of mid-October from $7.5 billion a year ago, supported by the CA surplus, public sector borrowing, and resilient FDI. The reserve accumulation over 2022 was lower than envisaged at the last review due to the postponement of the Eurobond issuance. From December 2021 to September 2022, the real effective exchange rate (REER) appreciated by 3.6 percent, reflecting the nominal appreciation of the US dollar that more than offsets lower inflation in Ecuador compared to trading partners. The external sector assessment for 2022 (see Annex II) concludes that Ecuador's external position is moderately weaker than the level implied by medium-term fundamentals and desirable policies.

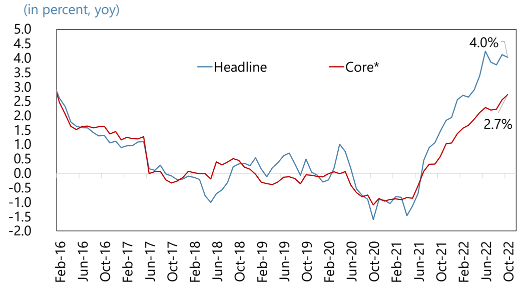
Real Sector Developments

Ecuador: Contribution to Real GDP Growth
(In percent, yoy)



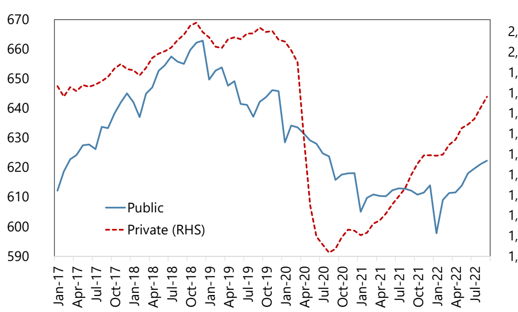
Source: BCE.

Ecuador: Inflation Rate
(in percent, yoy)



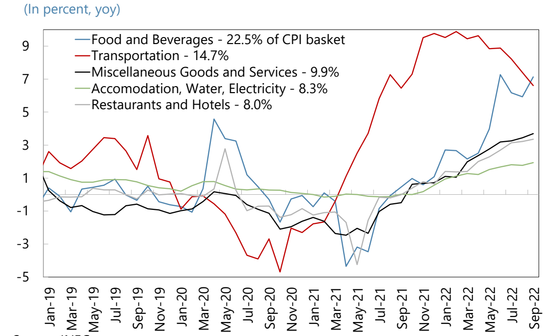
Source: INEC & MEF
*Excludes: Food (except for Coffee, Tea, and Cocoa; and Mineral Waters, Soft Drinks, and Fruit/Vegetable Juices); Gas; and Fuel and Lubricants.

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



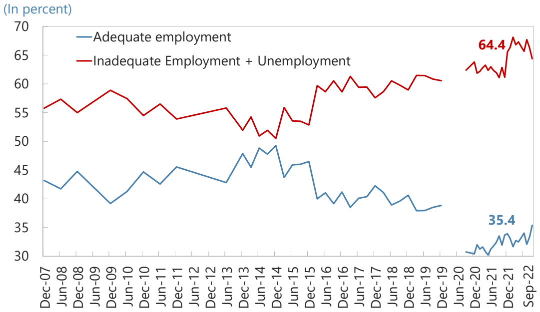
Source: IESS

Ecuador: Inflation Rate
(In percent, yoy)



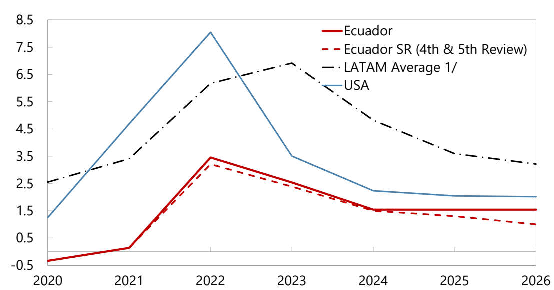
Source: INEC

Ecuador: Adequate and Inadequate Employment + Unemployment, Dec. 2007 - Aug. 2022 1/
(In percent)



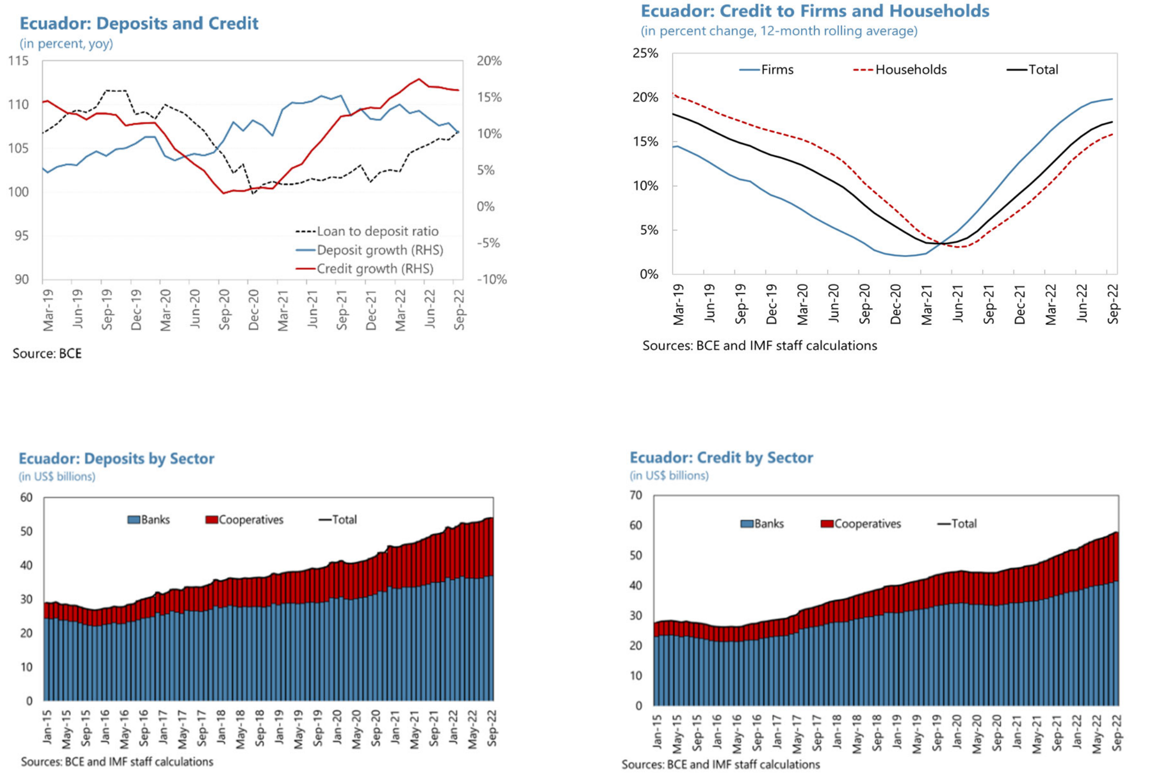
Source: INEC.
1/ No data for March and June 2020.

Ecuador and Peers: Average Annual Inflation
(In percent)



Source: October 2022 WEO.

Financial Sector Developments



6. **Financial sector indicators appear sound and the growth of credit to the private sector is strong**. Despite some deceleration in recent months, credit to the private sector increased by about 16 percent yoy in September, faster than the deposits growth of 10 percent, making up for the low credit growth during the pandemic. Credit growth appears broad-based, with about 60 percent of loans granted to households while the remaining 40 percent to companies. Liquidity conditions in the financial system appear ample, with liquid assets at about 24 percent of short-term deposits for banks and about 25 percent for cooperatives as of end-September. Non-performing loans (NPLs) remain low at 2.2 percent for banks and 4.4 percent for cooperatives as end-September, albeit reflecting the crisis measures that allow overdue loans to be classified as NPLs after 60 days instead of 15-30 days. The share of the cooperatives in the financial sector deposits continues to increase, to about 31.5 percent of the financial system in September, from about 28.7 percent a year earlier.

7. **Fiscal policy has remained on track, with the oil windfall prudently saved and nonoil balances aligned with the program.** The nonfinancial public sector's (NFPS) nonoil primary balance including subsidies (NOPBS) is set to improve by 1.2 ppts of GDP over 2020-22, while the NFPS fiscal balance is set to turn into a surplus in 2022 for the first time in over a decade. Public debt is expected to fall below the 2025 target of 57 percent in 2023 (Annex III), and reserves

(excluding the SDR allocation) have already exceeded the level expected in 2025 at the time of program approval.

8. While spending is likely to increase in the last three months of the year, end-2022 fiscal balances are expected to be stronger than projected in the last review. August fiscal targets have been met with wide margins (¶13). The OB of the budgetary central government (PGE), including the petroleum derivatives account (CFDD), is expected to overperform expectations by $268 million, due to higher oil revenues and notwithstanding the reduction in production in June. The NFPS OB is also expected to close the year approximately $175 million better than expected at the last review, mostly due to a higher oil balance and lower capital expenditure. Despite the postponement of the international bond issuance, deposit accumulation is projected at $2,693 million, in line with expectations at the last review.

Selected Fiscal Balances
(Sixth Review vs Fourth and Fifth Review Forecast, US$ million)

	2022 Forecast		
	4th/5th Rev.	6th Rev.	Difference
Overall Balance PGE+CFDD	-2277	-2009	268
Oil Balance	3,116	3,460	343
Tax Revenue	15312	15330	17
Other Revenue	2841	2755	-86
Nonoil Expenditure	23547	23553	6
Overall Balance NFPS	**1,004**	**1,179**	**175**
Oil Balance	4,721	4744	23
Nonoil Balance	-3,717	-3,565	151
Change in NFPS deposits	**2,723**	**2,693**	**-30**

Sources: MEF and IMF staff calculations.

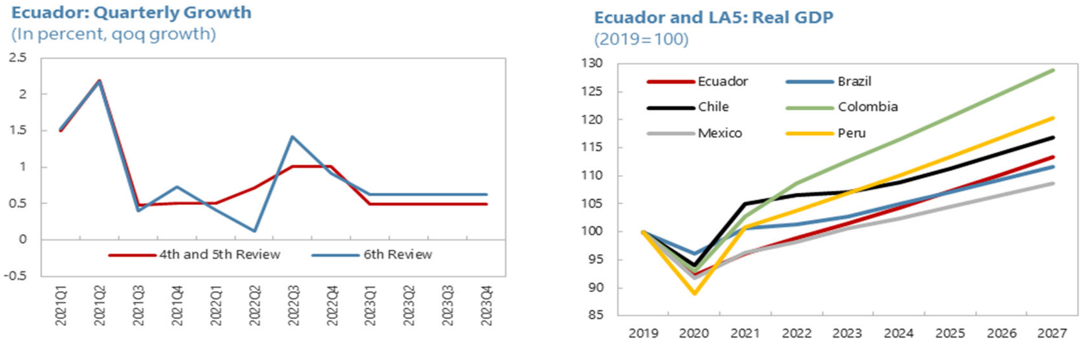
9. The government's near-term financing needs have been alleviated by recent deals. Following the postponement of the international bond issuance and lower than expected multilateral disbursements, the authorities converted the $400 million credit allocation approved by the IDB, initially planned to be utilized to guarantee an international bond issuance by Ecuador, into a direct budget support disbursement of the same amount for 2022 and increased domestic debt issuance. Moreover, the recent reprofiling of $3.2 billion of bilateral debt to China (Annex IV) lowered debt service over 2022-2024 by $400 million per year on average. Finally, the government settled the Perenco obligations with a first payment in 2022 and a prospective final payment scheduled in 2023 to settle the claim. The settlement was already accrued as a $375 million expense in the 2021 fiscal balance.

Outlook and Risks

10. Growth projections for 2022 have been revised downward and inflation upward. In 2022, the economy is expected to expand by 2.7 percent (0.2 ppts lower than expected in the previous review), mostly due to the protests-related disruptions in June, and to some extent, due to slower global and trading partners' growth, in particular US, China, and Russia. 2023 growth projections have been revised slightly upward to 3 percent, reflecting the 2022 base effect.

11. The medium-term growth outlook remains broadly unchanged. Growth is expected to converge to its potential of 2¾ starting in 2024. Inflation is expected to moderate to 1.5 percent over the medium term as global inflationary pressures ease. The CA surplus is expected to moderate in the medium-term to around 2 percent as oil prices decrease.

Real GDP



Sources: BCE and IMF staff calculations

Sources: Latest World Economic Outlook and IMF staff calculations

12. Risks to the baseline remain broadly balanced (Annex V):

- **On the downside**, another wave of protests or security concerns could disrupt economic activity, hurt confidence, discourage investment, and lead to policy reversals. Confidence could wane on the government's ability to garner political and social support to implement the needed reforms. Weaker-than-anticipated global growth could reduce trading partner demand and strain the external position. Tighter global financing conditions could dampen capital flows and financing prospects, further postponing international market re-access (beyond 2024), and increasing financial sector risk. 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 than expected oil prices would raise liquidity buffers and reserves, boost revenues, and improve growth prospects. Lower inflation compared to trading partners can strengthen Ecuador's competitiveness and external position. Faster and more ambitious reforms to improve governance, competition, anticorruption and AML/CFT frameworks, and/or to reduce nontariff barriers to trade and investment, could help boost potential growth, lower sovereign credit risk, and allow Ecuador to re-access international capital markets under better terms.

PROGRAM IMPLEMENTATION

13. The four quantitative performance criteria (QPC) and all but one indicative target (IT) on social assistance for end-August 2022 were met with significant margins (text table, Table 9). The end-August OB of PGE+CFDD overperformed the target by $1,793 million, while the accumulation of NFPS deposits was $1,006 million above the adjusted target. The OB of the NFPS overperformed the adjusted target by $1,411 million due to higher oil balances and lower expenditure, while the NOPBS IT was met with a margin of $733 million, as the fuel subsidy bill came in $500 million higher-than-expected mainly due to supply chain disruptions causing a larger price margin for refined oil over crude oil. The IT on NIR accumulation was met with a margin of $1,241 million. The nationwide social assistance ITs for the first income decile was met with a margin

of 105,066 families. The provincial target on the social assistance coverage in the first three income deciles has been achieved in all but three provinces, making the indicative target assessment "not met." However, the small shortfall in these three relatively richer provinces, about 2,300 families (less than 0.2 percent of total beneficiaries in the country) reflects the fact that the social registry prioritizes families based on national ranking in the income distribution, and other provinces have more low-income families.

Quantitative Performance Criteria and Indicative Targets for end-August 2022
(In US$, unless otherwise indicated)

	End-August 2022			
	Prog. 2/	Adj. 3/	Actual	Status
Quantitative performance criteria				
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-1,600	-1,455	338	Met
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	1,200	1,264	2,270	Met
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met
Indicative targets				
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*) 1/	-4,350	-4,495	-3,762	Met
6. Overall balance of the NFPS (*floor*) 1/	410	555	1,966	Met
7. Change in the stock of NIR - program definition (*floor*) 1/	675	790	2,031	Met
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)	280,716		385,782	Met
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)	947,713		1,181,777	Not Met 4/

Sources: Ministry of Economy and Finance and IMF staff estimates.
Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).
1/ Cumulative change from January 1, 2022.
2/ Staff report for the EFF Fourth and Fifth Reviews.
3/ Adjusted for oil prices and disbursements from multilateral institutions.
4/ Target met on aggregate but missed by a small margin in three provinces (Galapagos, Orellana, and Zamora Chinchipe) for a total of 2,359 families.

14. The authorities have made a strong push to complete the structural agenda left under the program and implement corrective actions (CA) to address the latest misreporting : Out of the 16 structural benchmarks (SBs) and/or CAs due by end-November, five have been met on time: (i) the SB/CA on publishing revised historical NFPS and PGE data through 2013 (¶23); (ii) the SB on completing tax expenditure audits (¶21); (iii) the CA on updating the training curriculum and schedule in government fiscal statistics (GFS) compilation (¶22); (iv) the CA on including the estimated pension and health obligations in the 2023 budget and MTFF (¶19); and (v) the SB on submitting a 2023 budget in line with the program and MTFF (¶19, end-October SB). Seven SBs and/or CAs have been implemented with delay: (i) the SB on completing public bank AQRs (¶28); (ii) the SB/CA on providing estimates/template for potential central government obligations (¶24); (iii) the CA on developing a time-bound action plan/strategy to undertake legal reforms to report, record, and clear PGE healthcare obligations to the Social Security Fund (IESS) (¶3; *prior action*); (iv) the SB/CA on completing the 2020 and 2021 healthcare audits (¶23; *prior action*); (v); the CA on restructuring the Statistics Unit, headed by a Chief Statistician with expertise in government finance statistics (GFS; ¶23), (vi) the CA on hiring an audit firm to undertake healthcare audits (¶23), (vii) the SB on backfilling missing UBO information (¶21). The SBs on enacting the two legislations (AML/CFT and conflict of interest) may not be completed before the end of the EFF-supported program, although they have been submitted to the National Assembly (¶31). The SB on completing the oil company audits has faced a number of challenges and will not be implemented before the end of the EFF-supported program either (¶32). Finally, the SB on the envisioned expansion of the social assistance program will not be fully implemented across a few richer provinces by end-November as lower income regions are prioritized (¶13).

POLICY DISCUSSION

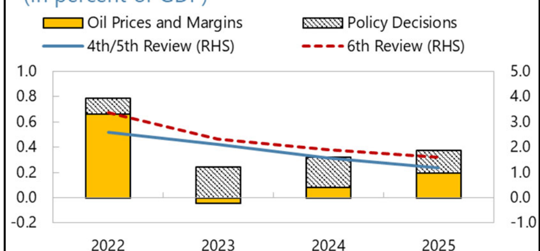
A. Improving Fiscal Sustainability with Equity

15. Key fiscal outturns are better than earlier projections. At the time of program approval in 2020, the most critical fiscal vulnerabilities were the high public debt and deficit, projected to peak that year at 69 and 9 percent of GDP, respectively, and the very low public sector deposits. The key anchor for the medium-term fiscal plans, the 57 percent of GDP debt target in the organic budget code (COPLAFIP), was expected to be reached only in 2025. Several factors contributed to a better-than-expected outturn: over the last two years, a prudent management of fiscal balances, including from saving much of the oil windfall and keeping nonoil primary expenditure under control, and more buoyant non-oil revenues, owing to a less severe downturn than originally envisaged, have helped improve fiscal balances and build buffers already beyond levels expected in earlier reviews.

16. Given the strong fiscal outturns to date, the near-term fiscal strategy has been recalibrated to allow for a more growth-friendly pace of improvement of the NOPBS:

- The planned consolidation in NOPBS in 2022 would be 1.1 ppts of GDP, 0.4 ppts lower than expected at the last review. This is mostly attributable to a higher-than-expected fuel subsidy bill (by 0.8 ppts of GDP), as prices for refined oil increased more than expected due to the supply chain disruptions, and the $0.15/gallon reduction in the gasoline and diesel prices that was made in response to widespread protests in June. Broad-based expenditure restraint, including the implementation of permanent measures to contain—and even reduce in some sectors —the wage bill in line with the program, is expected to partially compensate for the higher fuel subsidy bill, leading to a higher non-oil expenditure consolidation than in the previous review.

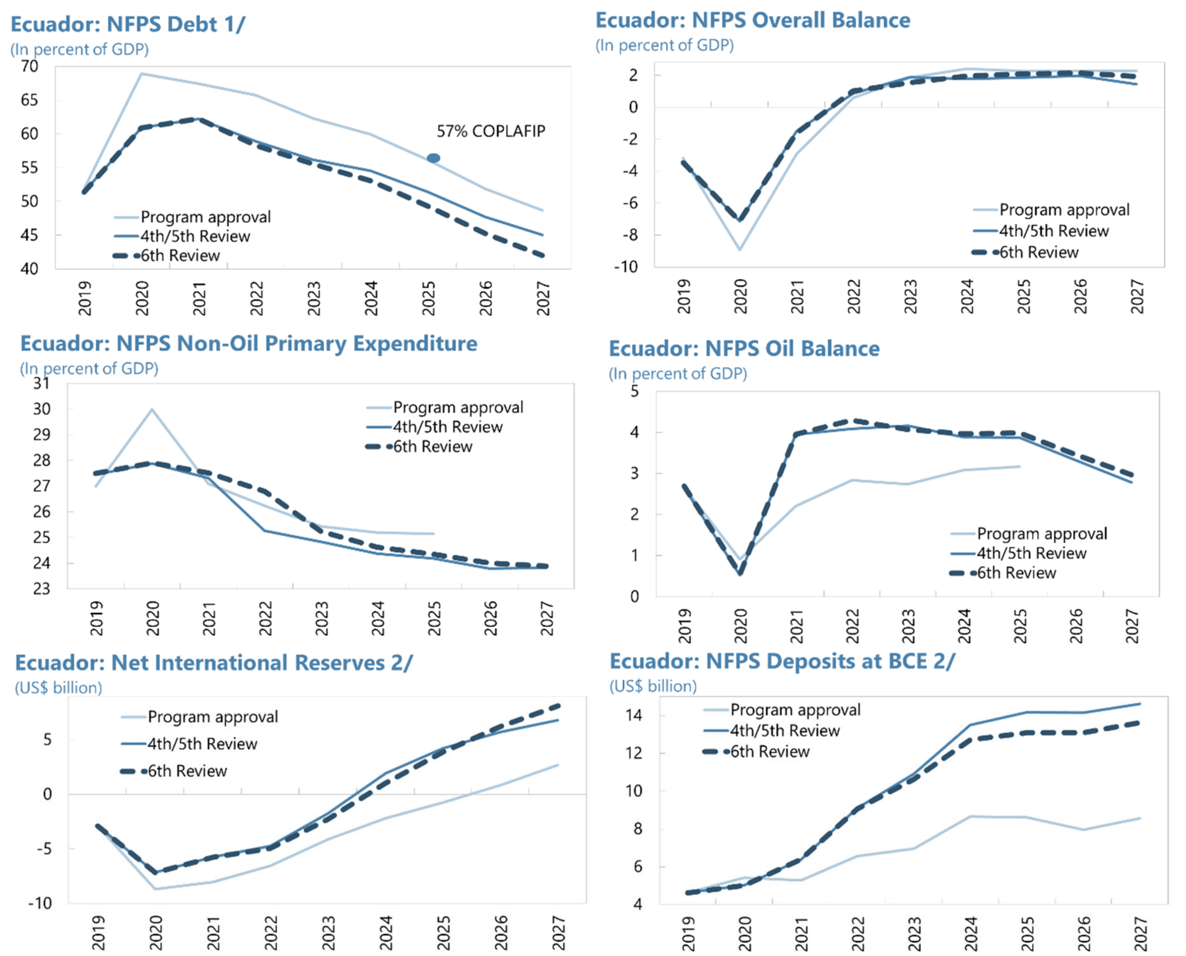
Change to Cost of Fuel Subsidies[1]
(In percent of GDP)



Sources: MEF and IMF staff estimates.
1/ Chart decomposes the increase in the cost of fuel subsidies from the 4th/5th review forecast between revisions in oil price assumptions and the policy change.

- The planned consolidation for 2023 will be 0.1 ppts of GDP lower than planned in the last review. Out of the planned 1.4 ppts of GDP consolidation, about 0.4 ppts will come from the full impact of the tax bill enacted in November 2021; 1 ppts will come from lower oil prices driving down the fuel subsidy bill, and the rest from containing goods and services and other spending. The fiscal plan also includes a higher wage bill to accommodate hiring additional police officers to strengthen domestic security and staff for new hospitals, as well as pay higher salaries to teachers following the Constitutional Court decision in July. While not in the staff's baseline, the government may implement measures to reduce fuel subsidies, which would generate savings that could be channeled to priority investment, such as higher spending on health, education, social assistance, and growth-enhancing infrastructure.

17. Even with this slightly lower medium-term consolidation of 4.3 ppts of GDP compared to earlier reviews, key variables would still largely overperform the original targets, allowing to address key vulnerabilities (charts). The 2020-25 consolidation had been set at 4.5 ppt of GDP in earlier reviews. This path was set to balance the two objectives of strengthening fiscal sustainability and supporting economic growth. The revised fiscal plans above, of 4.3 ppt consolidation over the same period, represents the same balance: under this path, fiscal balances and public debt would still reach their medium-term targets, NFPS deposits and international reserves would approach broadly the same levels, and the slower pace of adjustment would further support growth. The 2023 budget and the MTFF are in line with the program (*end-October SB, met*) and include 40 percent accrued pension obligations and estimated healthcare transfer obligations to the IESS, which was a corrective action for the recent misreporting.



Sources: Ministry of Economy and Finance and IMF staff projections.
1/ Starting in 2021, includes the difference between SDR holdings and allocations of US$1.3 billion (1.3 percent of GDP).
2/ Includes SDR holdings.

18. The financing strategy for 2023 has been conservatively revised so as not to rely on accessing international markets. As sovereign spreads remain elevated, the authorities plan to keep fiscal policy prudent, rely on multilateral and bilateral external funding, as well as domestic

financing, to meet their borrowing needs. Lower amortizations to China and the higher buffers accumulated in 2022 would reduce borrowing needs, making up for the lower external issuance. The financing envelope includes $465 million to cover domestic arrears clearance and payments to Perenco.

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**	**0.4**	**0.1**	**0.4**	**0.3**	**0.2**	**0.2**
o/w Tax policy reform	0.4	0.0	0.1	0.6	0.0	0.0	1.0
o/w Temporary tax measures	0.0	0.0	0.8	-0.3	-0.4	0.0	0.0
o/w Administrative measures	0.0	0.0	0.1	0.1	0.1	0.0	0.3
Non-oil Primary Expenditures including Subsidies	**0.7**	**-0.3**	**1.0**	**1.0**	**1.0**	**0.7**	**4.0**
Wages and salaries 2/	-0.7	0.9	1.0	0.0	0.3	0.3	1.8
Goods and services 2/	0.5	0.1	0.2	0.1	0.1	0.0	1.1
Social assistance	-0.4	-0.1	0.1	0.0	0.0	0.0	-0.4
Other spending 3/	-0.8	0.2	0.4	0.0	0.2	0.0	-0.1
Capital spending 2/	0.9	-0.4	0.7	-0.2	0.0	0.1	1.1
Fuel subsidies	1.1	-1.0	-1.3	1.0	0.4	0.3	0.6
Total	**-0.4**	**0.1**	**1.1**	**1.4**	**1.2**	**0.9**	**4.3**
Memorandum items:							
Fourth and Fifth Reviews							
Revenue	-1.1	0.2	0.3	0.6	-0.1	0.2	0.2
Expenditure	0.7	-0.1	1.2	0.9	1.0	0.6	4.3
Total	**-0.4**	**0.2**	**1.5**	**1.5**	**0.8**	**0.8**	**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.

19. **For 2023 and the medium-term, the authorities plan to continue implementing their preferred expenditure-based consolidation strategy, while protecting the most vulnerable.** On the revenue side, efforts should continue on improving risk-based audits, addressing any compliance gaps with tax incentives rules (¶23), addressing tax evasion and broadening the tax base, including through higher formality and digitalization. The upcoming technical assistance (TA) on tax administration diagnostic assessment tool (TADAT) in January 2023 will help in this regard. On the expenditure side, the bulk of the medium-term discretionary consolidation will come from containing the public wage bill, with the 2023 increase gradually offset by compensatory measures, rationalizing capital expenditure, and improving efficiency of goods and services expense through procurement reforms, while at the same time preserving social assistance spending. More specifically:

- *Public Sector Wage Bill* (MEFP ¶24, 1st bullet). The authorities' wage bill strategy encompasses permanent and balanced measures to achieve fiscal consolidation of 0.6 ppts of GDP over 2023-25 at the NFPS level (corresponding to a consolidation of 1.8 ppts of GDP over 2020-25, in line with the previous review). Following the 2023 nominal increase, which would maintain the wage bill in percent of GDP, the strategy relies on a nominally increasing wage bill that grows below nominal GDP growth, partial replacement of retirees and less reliance on occasional contractors. The strategy is carefully crafted to protect frontline workers in key sectors such as education, health, and security.

- *Procurement* (MEFP ¶24, 2nd bullet). SERCOP has started to issue a set of Resolutions (Secondary Norms) to operationalize the bylaws issued in June, to, among others, enforce catalog, bulk and standardized purchases, expand electronic catalogues, negotiate bulk contracts with suppliers, and provide information to regulators on competitive bidding. SERCOP is working on interoperability of the National Control Subsystem's (SNC) entities' databases with the expectation to fix the remaining issues during 2023.

- *Capital Expenditure* (MEFP ¶24, 3rd bullet). The authorities will prioritize capital expenditure projects and promote public-private partnerships (PPPs), with due account to explicit and contingent liabilities and the associated fiscal risks. They will undertake a Public Investment Management Assessment (PIMA) in early 2023, which will include C-PIMA component to build low-carbon and climate-resilient infrastructure.

B. Improving Fiscal Frameworks, Governance, and Transparency

20. The authorities are committed to enhancing fiscal transparency. To support this objective, they will undertake a Fiscal Transparency Evaluation (FTE) in May 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 debt operations more predictable, they will, with the help of recently provided MCM TA, update and publish the Medium-Term Debt Management Strategy by end-2022, 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.

21. The authorities are making efforts to enhance transparency and efficiency in public procurement. With support from the SNC and Superintendency of Companies, SERCOP has backfilled missing UBO information of the companies awarded the 100 largest procurement contracts between October 2020 through December 2021, and published in an easily accessible manner on a government website *(**end-June 2022 SB, implemented with delay in October**)*.[1] Moreover, the Internal Revenue Service (SRI) conducted audits on tax expenditures of the companies awarded the largest 100 public procurement contracts over 2020-21, to shed light on compliance and discretions in the attribution of tax expenditure to the private sector in public *contracts (**end-October SB, met,** MEFP ¶30).*

22. Concerted efforts are being made to improve timeliness, consistency, and reliability of fiscal statistics. The authorities published the revised historical NFPS and PGE data, back to 2013 ***(end-September SB/CA, met)***, with support from STA. As the healthcare audits are completed (¶23), the authorities will replace the conservative estimates of historical PGE healthcare obligations to the IESS with the actual data. To strengthen their technical and institutional capacity in fiscal data recording and reconciliation and as a corrective action to address the recent misreporting, the authorities have restructured the statistics unit at the MEF, now headed by a new Chief Statistician

[1] https://portal.compraspublicas.gob.ec/sercop/beneficiario-final/

with expertise in GFS, and have updated the training curriculum on GFS compilation and reconciliation. The incoming STA long-term expert (LTX) will work with the revamped unit starting in mid-November on improving MEF's capacity in compiling, verifying, and reconciling government finance and debt statistics.

23. The authorities are regularizing healthcare expense audits (MEFP ¶27)**.** Lack of clarity on PGE obligations to the IESS with respect to healthcare transfers has led to past claims being unverified and unpaid for many years, thereby aggravating domestic arrears problem and IESS's financial situation. In October, IESS hired a firm to complete healthcare audits of 2017-21 medical claims. The results of the 2020 and 2021 healthcare audits are expected in late November ***(prior action)***. To find a more permanent solution to the uncertainty with respect to PGE healthcare obligations to the IESS, the authorities developed a time-bound action plan to undertake legal reforms/administrative actions aimed at strengthening the legal framework for the state healthcare obligations to the IESS starting in 2023, such that the state obligations (if any) would be reported, recorded, and cleared in a timely and transparent way ***(prior action).*** The plan will require medical audits to be conducted at regular frequencies with a deadline for MEF to pay IESS within a certain timeframe. This action plan will help prevent future arrears, improve the reliability of fiscal statistics, and provide a steady cash flow to the IESS. In December, the authorities plan to contract the auditor to undertake the financial audits of IESS by end-March 2023.

24. More efforts are needed to address the problem of domestic arrears. The authorities have created the template of PGE potential payment obligations by nature of expenditure, year, and beneficiaries and began providing monthly data to staff ***(end-June CA, implemented with delay in August).*** With the assistance of the 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. However, more work will be needed to collect information for the wider NFPS, as well as to address the underlying causes of arrears through ongoing TA. Since expenditures are recorded on accrual basis, accumulation of arrears does not help meet program targets, but rather reflects deficiencies in cash management and forecasting, as well as uncertainty in the timing of disbursements. The prior action on the action plan described above (¶23) with respect to PGE obligations to the IESS will help address continued accumulation of PGE arrears and provide a steady cash flow to the IESS.

C. Strengthening the Central Bank and Safeguarding Financial Stability

25. The BCE has greatly strengthened the resilience of the dollarization system by enhancing its access to liquidity lines. In October, the Federal Reserve Bank of New York granted the BCE access to a FIMA Repo Facility of $1 billion for exclusive central banking operations. This facility will allow the BCE to access liquid resources for potential needs through securities repurchase operations (repo), which are part of the BCE's investment portfolio. Additionally, the BCE once again renewed its swap facility with the Bank for International Settlements for up to $840 million as a precautionary measure in case of USD liquidity shortages.

26. The FSAP will offer an opportunity to comprehensively assess the health and resilience of the financial system. The FSAP missions, scheduled for December 2022 and April 2023, will focus on credit and liquidity vulnerabilities, financial sector oversight, the macroprudential framework, and financial sector safety nets. The FSAP will also analyze the quality of the oversight framework of payment systems, preconditions for capital markets development and access to finance. The FSAP will also present an opportunity to evaluate risks from credit to the private sector, which has been increasing rapidly and the authorities' options for addressing such risks (including through macroprudential tools), as well as assess the recent changes to the liquidity and deposit insurance frameworks.

27. The planned exit from the crisis measures will present an opportunity to start closing the regulatory gaps between banks and cooperatives. The crisis measure that allows a longer period for classifying loans as non-performing and lowering provisions, is scheduled to expire by end-December. Also, starting in January 2023, and as part of a strategy to close regulatory gaps between banks and cooperatives, banks and large cooperatives will have to comply with the same regulatory framework in terms of classifying loans and provisioning. Both superintendencies, for banks and for cooperatives, have been working on a smooth transition, giving more time, if needed, to individual institutions. All financial institutions should be in compliance with the new regulatory framework during 2023.

28. The authorities are taking steps to fairly assess and strengthen the financial position of public financial institutions. The authorities have completed the AQRs of the four public banks *(end-June 2022 SB, implemented with delay)*. The results of the AQRs pointed to the need to increase provisioning in one public bank. The authorities plan to start increasing the provisioning this year, aiming to fulfil with the recommended provisioning in the next two years. In line with staff advice, they plan to first ensure that the balance sheets of both institutions are clean and well-capitalized before proceeding with the merger of Banecuador and CFN, (MEFP ¶49).

29. Interest rates developments should be monitored closely. The tightening in global financial conditions could translate into an increase in interest rates in Ecuador, and, in the presence of interest rate caps, result in create credit rationing, hurting financial inclusion. Gradually relaxing caps on lending rates would allow for proper pricing of credit risk.

D. Improving Governance, Competitiveness and Boosting Growth Potential

30. Raising Ecuador's growth potential is a priority. The authorities have taken important strides in creating a level playing field for businesses, improving economic governance, fighting corruption and making Ecuador a preferred destination for businesses worldwide, supported by international trade agreements and a gradual reduction in the ISD. However, the REER overvaluation, combined with increases in average and minimum wages outpacing productivity growth continue to weigh on Ecuador's external competitiveness (Annex II). Labor and product market rigidities (e.g. complex regulatory procedures, barriers to entry in some sectors), as well as high borrowing costs, remain among the key challenges to private sector-led growth.

31. Enhancing the AML/CFT regime and reducing vulnerability to corruption will help enhance efficiency and create a more even playing field (MEFP ¶51). The authorities submitted the conflict of interest and AML/CFT legislations that were prepared with technical assistance from LEG to the National Assembly. The SBs were on enactment by end-August and end-October, respectively, have not been met. The authorities plan to continue enhancing the AML/CFT framework, following the recommendations from the GAFILAT Mutual Evaluations Report expected in December.

32. Efforts to bring transparency to oil companies have faced significant delays. The financial audits of Petroecuador (PEC) and Petroamazonas, now merged into the largest SOE in Ecuador, are of the highest priority. The numerous changes in PEC leadership have led to delays in starting the auditing process. The authorities obtained IDB financing for the audits and launched the tender for bids (restricted to top tier international audit firms) in October. However, the tender process ended with no bids in November despite the authorities' best efforts to get participation. The authorities remain committed to bringing transparency to the oil companies and continue to work with the IDB to procure an auditor to begin the audit process as soon as possible. They also remain committed to working with the Fund to incorporate any findings from the audits into their policy plans going forward.

33. Environmentally friendly policies should be a priority. The authorities are working with international partners to identify, cost, and implement concrete actions to reduce GHG emissions, including as part of their commitment under the Paris Agreement. The authorities have established an institutional committee on climate finance within MEF, with the support of the IDB. 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.

PROGRAM ISSUES

34. Financing assurances/exceptional access/capacity to repay. Staff has obtained assurances from all creditors and ensured that the program remains fully financed. With international market re-access is no longer expected this year (was planned at $1 billion), near-term financing pressures have been alleviated by the reprofiling of debt to CDB and Chinese Exim bank (Annex IV), conversion of IDB's $400 million credit allocation for an international bond guarantee into budget support, and additional financing from domestic banks. Staff judge that the exceptional access criteria continue to be met (Annex I). Ecuador's capacity to repay (CtR) the Fund remains adequate. Protracted fragile market confidence, 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 implementation of sound policies beyond the end of the program.

35. Article VIII/CFM. The authorities plan to gradually phase out the tax on transfers abroad (*Impuesto a la Salida de Divisas,* or ISD) and have already lowered it by 1 ppt during 2022, from 5 to 4 percent. This tax constitutes an exchange restriction subject to Fund approval under Article VIII

Section 2(a), and a capital flow measure (CFM) under the Fund's Institutional View on Liberalization and Management of Capital Flows. The authorities have requested temporary Fund approval for maintaining the exchange restriction arising from the tax on transfers abroad for one year for balance of payments reasons (see LOI).

36. Safeguards assessment. In 2022, the BCE published the full set of audited financial statements and completed the project to adopt the International Financial Reporting Standards (IFRS). However, the new accounting framework of the BCE continues to depart from the international standards in key aspects, including the fair value recognition of financial instruments, and this safeguards recommendation remains outstanding. Staff will continue to engage with the authorities on further addressing gaps and completing the transition to full IFRS adoption. The central bank has implemented all other recommendations from the last assessment.

37. 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

38. Future engagement. The authorities remain strongly interested in continuing with a formal engagement with the Fund after the current EFF-supported arrangement ends. Their plan is to end the current program on time, and in early 2023, decide on the modalities of future Fund engagement depending on their needs and options at that time. They have also expressed interest in the Resilience and Sustainability Trust (RST). In the absence of a successor arrangement, given that outstanding credit to the Fund exceeds the 200 percent of quota threshold, staff propose that Post Financing Assessment (PFA) commence. Future engagement would likely focus on further improving fiscal and debt sustainability and the quality of fiscal statistics, strengthening public finance management, structural reforms to improve competitiveness, and implementing FSAP recommendations to strengthen financial sector resilience.

STAFF APPRAISAL

39. Completion of the last review of the EFF-supported program would mark a major milestone. The EFF-supported program was anchored on two main objectives: first, mitigating the pandemic-related crisis by protecting lives and livelihoods and restoring macroeconomic stability; and second, as the economy recovered, ensuring the sustainability of public finances and strengthening domestic institutions to lay the foundations for strong, job-rich, and long-lasting growth that benefits all Ecuadorians. Its approval came at one of the most difficult times in the

country's economic history. As elaborated below, the objectives have been broadly met; a remarkable achievement given the severity of the pandemic-related crisis and the confluence of domestic and external shocks that compounded pre-existing vulnerabilities. Upon the completion of this review by the Executive Board, Ecuador will have completed its first Fund-supported program in more than two decades.

40. **Ecuador has emerged from the pandemic-related crisis stronger and more resilient**. A successful vaccination campaign, high oil prices, and prudent macroeconomic management over the last two years have supported the recovery and helped save lives and livelihoods. The successful preemptive bond restructuring in 2020 and putting the fiscal house in order significantly improved the sustainability of public finances: this year, the public sector is expected to reach its first fiscal surplus since 2008, and public debt is expected to reach its 2025 target of 57 percent of GDP in 2023. In a departure from the procyclical policies of the past, the non-oil primary expenditure and deficit have remained under control even as oil prices rose. Macroeconomic and financial stability has been maintained, allowing credit to flow to the economy and international reserves to be rebuilt, strengthening Ecuador's resiliency to future shocks.

41. **Landmark structural reforms implemented under the EFF-supported program will serve Ecuador well for years to come**. On the fiscal side, operationalizing the reforms to the organic budget code (COPLAFIP) established a prudent fiscal framework, and the progressive tax reform of 2021 is already yielding stable revenues the government needs to provide services to the people of Ecuador. Institutional and technical capacity at MEF in compiling and verifying government fiscal statistics have been substantially strengthened, with extensive support from the IMF. Recognition of state pension and healthcare obligations to the IESS, as well as stocktaking of potential obligations to other entities, have allowed for a more comprehensive and accurate picture of the fiscal positions and underlying fiscal risks. Amendments to the organic monetary and financial code (COMYF) improved the autonomy and governance of the central bank and strengthened the basis for dollarization. Numerous reforms on transparency, governance, and the anti-corruption framework, including amendments to the organic penal code (COIP) that criminalized acts of corruption, help promote a level-playing field, raise trust in public institutions, and create a healthier business environment.

42. **The expansion of the social safety net is one of the key achievements of the last two years**. In 2020, only 3 out of 10 households in need received support; now more than 8 out of 10 do. The social support programs were expanded to over 650 thousand new families, bringing the total number of recipients to over 1.2 million families. After initially expanding the program in the bigger cities, the subsequent phase of the program focused on reaching 65 percent of the lowest income, and 70 percent of the lowest three income deciles in every region. A new program to support low-income mothers of infants will further expand the coverage. The total amount of support to low-income families more than doubled, from around $500 million in 2020 to over $1.2 billion in 2022.

43. **Until its suspension, the fuel subsidy reform helped finance the social safety net expansion; new reform efforts can generate meaningful savings**. The suspension of the fuel subsidy reform in October 2021 and subsequent reductions in gas and diesel prices in June 2022

represented a costly backtracking in policy implementation. At the currently elevated international oil prices, fuel subsidies cost the government almost $4 billion this year – resources that could have been better channels towards social and infrastructure spending. As fuel subsidies disproportionately benefit the rich, encourage overconsumption, add to the carbon footprint, and provide grounds for corruption and smuggling, finding ways to reduce the bill, reform the system, and make it more targeted would be beneficial.

44. Fiscal policy needs to remain well-managed over the medium term to cement sustainability. Notwithstanding the improvements noted above, the central government still runs a budget deficit, and reaching the medium-term public debt target of 40 percent will take years of running surpluses. This will in turn require continued commitment to the authorities' expenditure-led consolidation plan in the coming years, particularly to the wage bill plan and generating savings through better procurement practices without compromising the quality of services. The authorities' revised fiscal plans provide sufficient room to address rising spending needs while continuing to improve sustainability. Times of high oil prices provide an opportunity to improve fiscal balances and rebuild buffers. Contingency measures would need to be proactively implemented in the face of shocks to stay on course. Further encouraging private investment would reduce the burden on public finances to undertake capital expenditure. With the continued improvement of fiscal balances, the goal should be to re-access international markets at favorable rates.

45. Building on progress to date, efforts to improve public finance management practices and data quality should continue. The accumulation of domestic arrears within the year points to the need to keep building capacity in cash forecasting and management, which the IMF is supporting through an FAD LTX. The FTE and PIMA technical assistance activities planned for next year will further support the efforts to improve public finance management. The budget process has become more transparent with the inclusion of pension and health care obligations of the state, which should continue to be implemented along with operationalizing the new action plan to regularize the health care audits and payments. With ongoing structural improvements in the processes for data compilation, and the support of the new STA LTX being provided by the IMF, strengthening fiscal data quality and timeliness should remain as a priority.

46. The financial sector has remained stable, but continued vigilance is needed to guard against risks. Banks appear healthy, liquid, and well-capitalized, although still supported by crisis measures. Removal of the latter will also be an opportunity to close the regulatory gaps on provisioning and loan classification between banks and large cooperatives. Fast credit growth, particularly in the cooperatives sector, warrants close monitoring to safeguard credit quality. Ensuring that the safety nets of the liquidity and deposit insurance funds have adequate resources to support the system if needed should be a priority, particularly in an officially dollarized economy. The upcoming FSAP, the first in almost two decades, will offer an opportunity to have a comprehensive assessment of the financial sector and set out a roadmap for reforms.

47. Important strides have been made in improving the legal framework for anti-corruption and AML/CFT but efforts should continue to achieve concrete results. The enactment of the AML/CFT and conflict of interest laws, which were submitted to the National

Assembly, should be a priority to continue advancing public sector integrity and reducing vulnerabilities to corruption. The sustained and regular publication of ultimate beneficiary ownership of entities that have been awarded public procurement contracts will strengthen transparency and raise accountability.

48. The financial audits of the oil company and the IESS would need to be completed to get a clearer picture of the public-sector balance sheet and underlying risks. Delays in starting the financial audits of Petroamazonas and Petroecuador are unfortunate, but the authorities' resolve in moving forward with the audits and addressing governance challenges in the oil sector remain essential. Finding a way to commence these audits as soon as possible, following a robust and credible process, will be an important milestone. While the audit process did not proceed as envisioned in the last review, the authorities' commitment to keep a close engagement with the IMF and other IFIs, and to incorporate any findings from the audits in their fiscal plans, provides a sufficient safeguard to move forward with the completion of this review.

49. With stronger foundations having been laid, work on building a more prosperous and resilient Ecuador should continue in the future. In the near term, continued capacity development from the IMF and other IFIs will keep supporting the authorities' efforts to improve their policy frameworks and processes. Going forward, unlocking Ecuador's growth potential requires accelerating structural reforms. Decisive actions are needed to promote private-sector job creation, formal employment, and investment. Strengthening the anti-corruption framework, creating more agile and flexible labor markets, removing red-tape and reducing the economic footprint of the state would support these objectives and boost Ecuador's potential to grow in a sustainable way.

50. Staff also supports Board approval for the retention for a one-year period of the exchange restriction arising from the tax on transfers abroad (ISD) given that it is maintained for balance of payments (BOP) reasons, is temporary and non-discriminatory. Already, the authorities have started phasing out the tax, with any reduction to be gradual and properly calibrated to avoid undue BOP pressures.

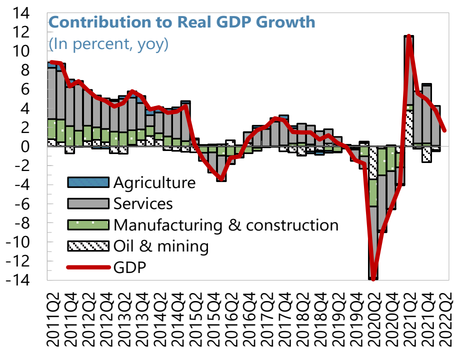
51. Staff supports the completion of the financing assurances review.

52. Staff supports the authorities' request for the completion of the Sixth Review under the EFF arrangement by the Executive Board.

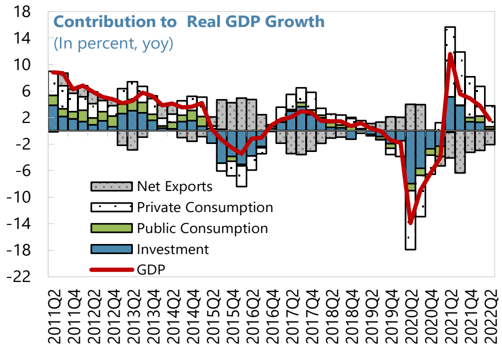
53. It is recommended that the next Article IV consultation revert to the standard 12-month cycle. Given that outstanding credit to the Fund exceeds the 200 percent of quota threshold, staff recommend initiation of a PFA.

Figure 1. Ecuador: Recent Economic Developments

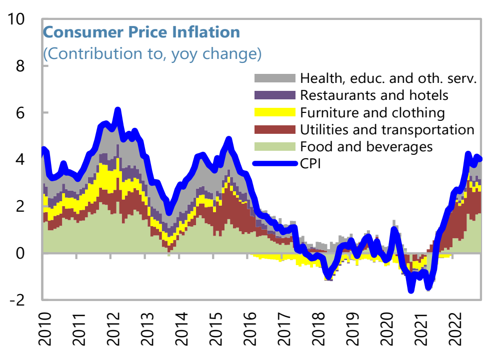
Services led growth in 2022:H1 on the production side....



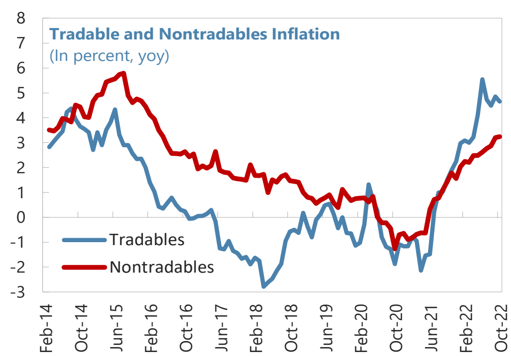
... while, private consumption was the engine of growth on the expenditure side.



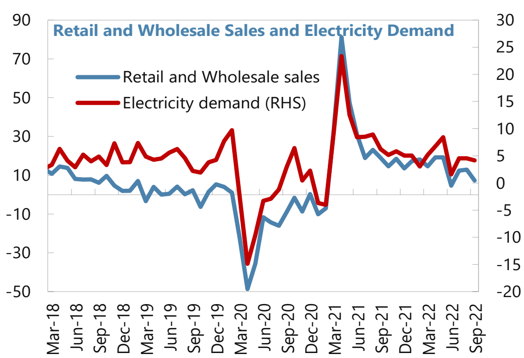
Inflation registered at 4 % in October, led by increases in food, transportation.



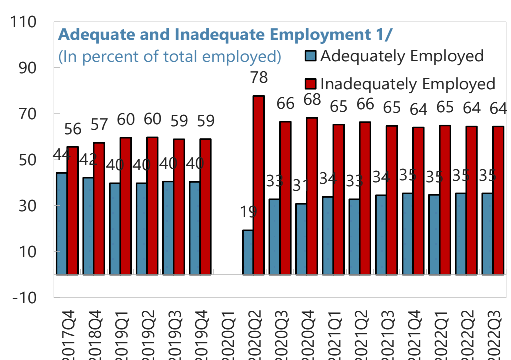
Inflation in nontradables increased to 3.3 percent in October.



High frequency indicators point to a pickup in growth in after July, following the protests.



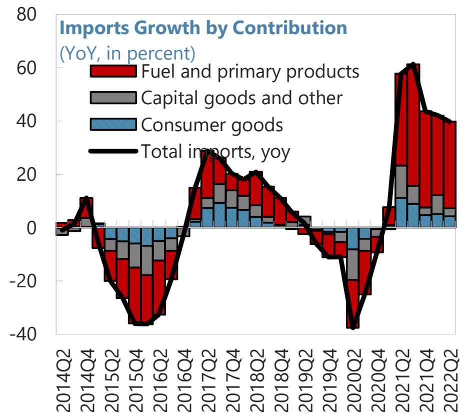
Labor market outcomes continued to improve, but remain weaker than pre-pandemic levels.



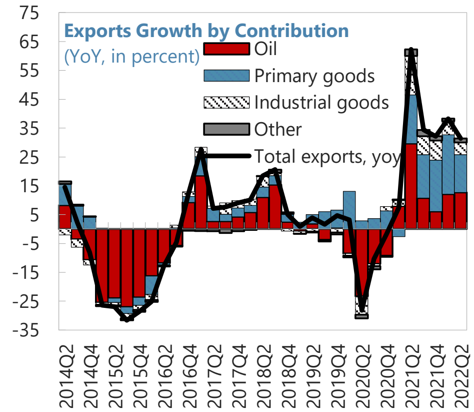
Sources: Central Bank of Ecuador, National Statistical Institute of Ecuador (INEC), and IMF staff calculations.
1/ Employment data is unavailable for 2020Q1 because of the COVID-19 pandemic. Employment data for 2020Q2 employs a different methodology (phone calls vs in-person surveys) and may not be fully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

Figure 2. Ecuador: External Sector Developments

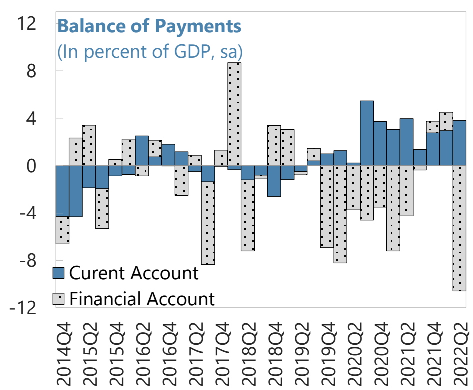
Imports grew strongly at 40% in 2022Q2...



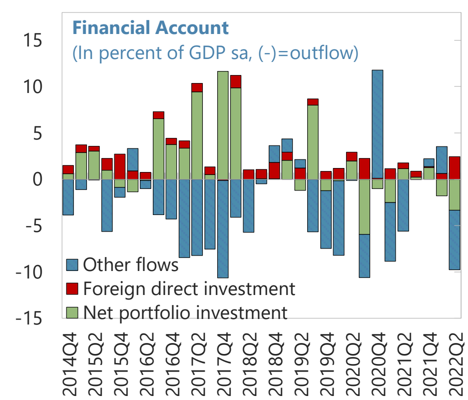
...with exports growing 28%.



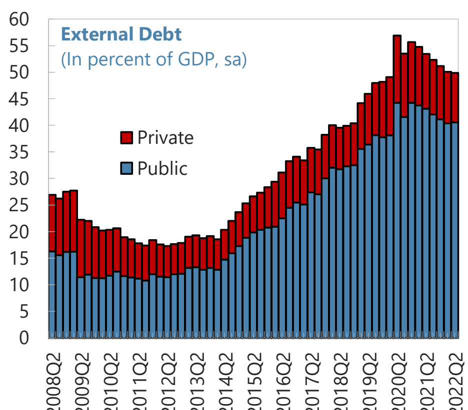
The current account registered a surplus of 3.8% of GDP in 2022Q2...



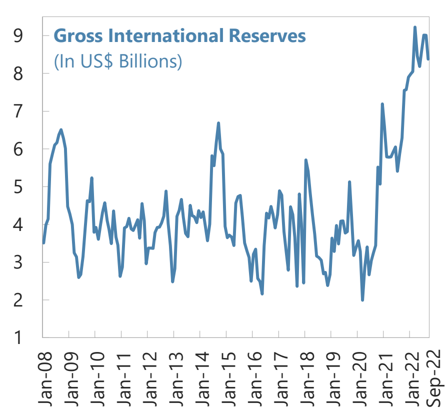
...while the financial account registered net portfolio outflows.



Both public and private external debt continued to fall from their 2020Q2 highs...

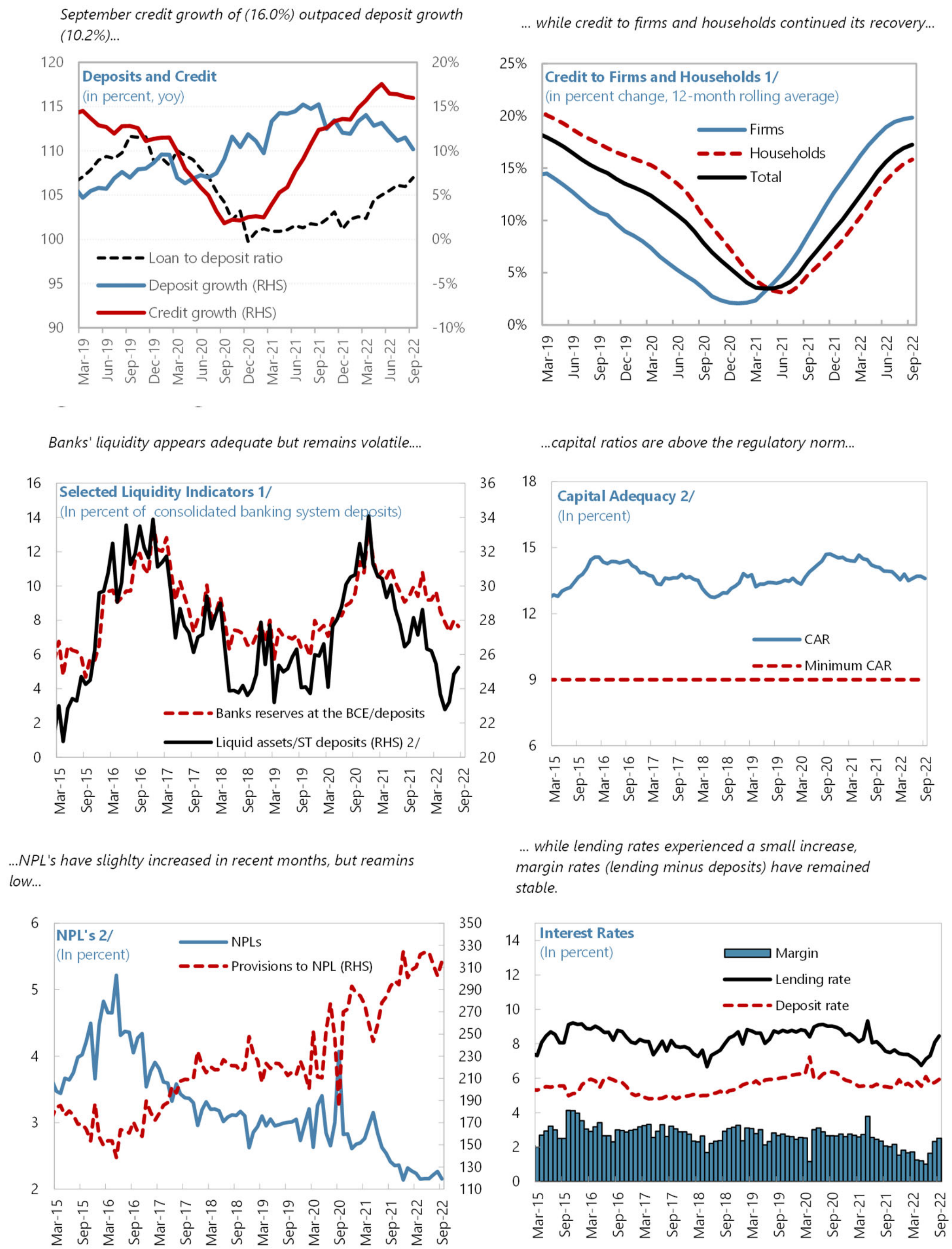


... while GIR stood at $8.4 billion as of September 2022.



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.

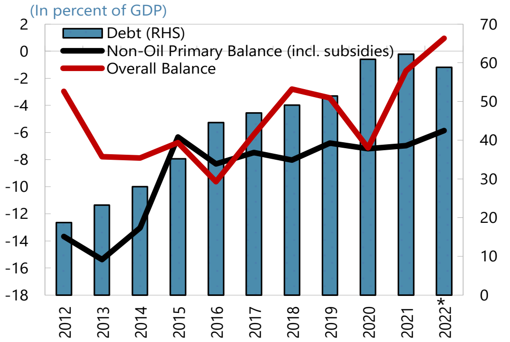
1/ Loan to deposit data corresponds to Other Depository Institutions, which include private banks, *Banecuador*, *Banco del Pacifico*, private financial companies, mutualists, cooperatives, and credit card companies. While credit and deposit data corresponds to the whole financial system.

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

Figure 4. Ecuador: Fiscal Developments 1/

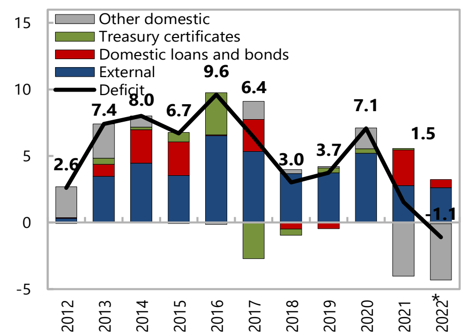
The fiscal deficit reached the lowest level in a decade and public debt stabilized.

Fiscal Balances and Debt
(In percent of GDP)



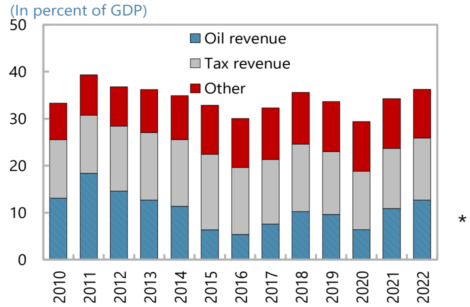
The deficit was financed by external official credit and domestic bond issuance.

Fiscal Deficit and Financing Sources
(In US$ Billions)



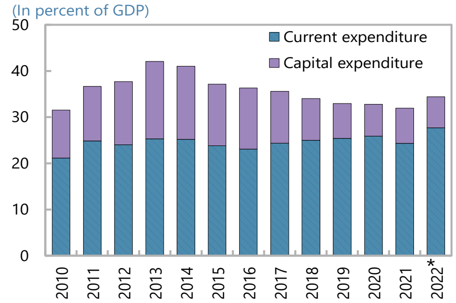
Oil and nonoil revenue have recovered to their pre-pandemic levels...

Revenues
(In percent of GDP)



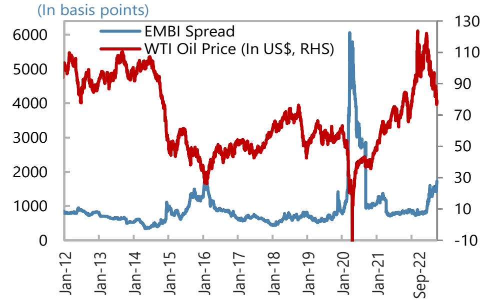
... while primary expenditure contracted slightly.

Primary Expenditures
(In percent of GDP)



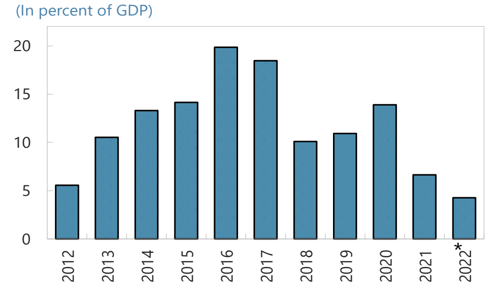
EMBI spreads normalized towards end-2021 but widened sharply in June 2022 following the protests...

EMBI Spread and Oil Price
(In basis points)



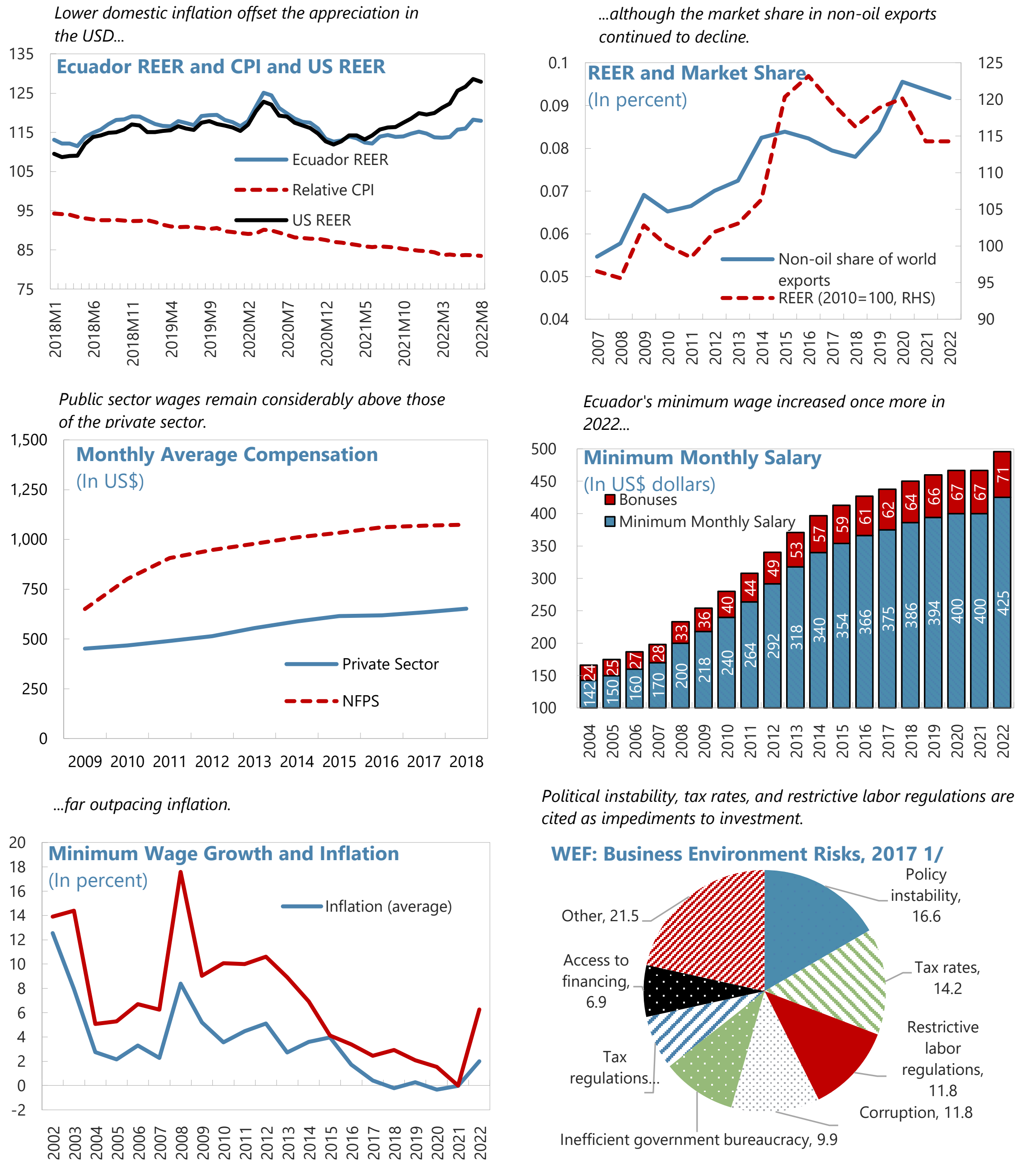
... while GFNs retreated with the lower fiscal deficit and succesful 2020 debt operation.

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.
* 2022 Projection

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

		Est.	Projections							
	2020	2021	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
			(Percent change, unless otherwise indicated)							
National income and prices										
Real GDP	-7.8	4.2	2.9	2.7	2.7	3.0	2.8	2.8	2.8	2.8
Domestic demand (contribution to growth)	-10.3	7.9	6.2	6.3	2.6	2.3	2.7	2.1	2.7	2.8
External Demand (contribution to growth)	2.5	-3.7	-3.3	-3.6	0.1	0.7	0.1	0.6	0.0	-0.1
Consumer price index period average	-0.3	0.1	3.2	3.5	2.4	2.5	1.5	1.5	1.5	1.5
Consumer price index end-of-period	-0.9	1.9	3.8	3.8	1.4	2.3	1.3	1.3	1.5	1.5
Banking system										
Net domestic assets	3.6	14.9	2.7	6.0	1.7	2.5	-0.7	0.9	1.9	2.8
Liabilities	12.0	12.0	8.3	9.0	6.5	6.5	4.1	3.9	3.9	3.9
Credit to the private sector	2.5	13.6	9.9	13.0	7.2	7.2	3.9	3.9	3.9	3.9
External sector										
Exports	-14.2	31.0	13.6	27.9	1.5	1.5	3.1	3.4	2.2	2.0
Oil	-39.5	63.9	34.4	38.5	-4.9	-6.2	-1.7	-1.8	-3.7	-4.3
Non-oil	8.8	21.4	4.6	25.0	5.0	5.3	5.3	5.5	4.4	4.1
Imports	-23.2	43.4	17.7	29.8	2.4	2.5	2.7	2.1	1.6	1.6
Terms of trade	-5.7	1.6	1.4	1.4	-1.6	-2.6	0.1	-0.4	-0.7	-0.5
Real effective exchange rate (2010=100)	120.2	114.3		109.9						
Real effective exchange rate, end-of-period (depreciation,-)	1.1	-4.9		-3.8						
					(Percent of GDP)					
Current account balance	2.7	2.9	2.4	2.1	2.2	1.8	1.9	2.0	2.0	2.0
NFPS Public finances										
Revenue	29.4	34.1	36.1	36.5	36.2	35.4	35.0	34.7	34.4	33.7
Expenditure	36.5	35.8	35.2	35.4	34.3	33.9	33.1	32.6	32.3	31.7
Overall balance (deficit -)	-7.1	-1.6	0.9	1.0	1.9	1.6	2.0	2.1	2.2	1.9
Non-oil primary balance	-6.1	-5.4	-2.9	-2.7	-1.8	-2.3	-1.5	-0.9	-0.3	-0.2
Non-oil primary balance (incl. fuel subsidies)	-7.2	-7.1	-5.5	-6.0	-4.0	-4.7	-3.4	-2.5	-1.8	-1.6
Public debt 2/	60.9	62.3	58.9	58.3	56.2	55.6	53.1	49.3	45.3	42.0
Domestic	16.2	17.6	15.3	15.7	14.1	14.2	13.0	11.6	10.2	9.6
External	44.7	44.7	43.6	42.6	42.1	41.4	40.0	37.6	35.0	32.4
Gross Financing Needs										
In percent of GDP	14.4	6.4	4.9	4.4	3.5	3.4	3.2	4.3	4.8	4.2
In percent of Exports	69.7	24.8	18.3	14.6	13.5	11.4	10.9	14.8	16.8	15.0
In percent of Revenues	49.1	18.6	13.6	12.2	9.8	9.5	9.1	12.4	13.9	12.5
					(Percent of GDP)					
Saving-investment balance										
Consumption	75.6	76.7	72.8	73.1	73.6	74.6	73.4	73.1	73.0	73.0
Private	59.3	61.4	60.5	60.9	60.5	61.4	60.4	60.4	60.4	60.4
Public	16.4	15.3	12.3	12.2	13.1	13.2	13.1	12.7	12.7	12.7
National saving	24.8	25.2	29.4	28.3	28.7	26.8	27.9	28.0	27.9	27.8
Private	24.9	19.2	21.9	20.6	20.1	18.6	19.4	19.5	19.3	19.5
Public	-0.2	6.0	7.5	7.7	8.6	8.2	8.5	8.5	8.6	8.3
Gross investment	22.0	22.3	27.1	26.2	26.5	25.0	26.0	26.0	25.9	25.8
Private 3/	14.9	14.4	20.2	19.3	19.6	18.1	19.2	19.3	19.2	19.2
Public	7.2	7.9	6.9	7.0	6.9	6.9	6.8	6.7	6.7	6.6
Memorandum items:										
Nominal GDP (US$ millions)	99,291	106,166	115,469	116,076	120,292	121,106	126,093	131,036	136,175	141,515
GDP per capita (US$)	5,670	5,979	6,413	6,446	6,588	6,633	6,810	6,979	7,152	7,330
Gross international reserves (US$ millions) 4/	7,133	7,898	10,634	9,693	13,318	12,050	14,543	16,360	17,836	19,001
Gross international reserves (as a percent of ARA metric)	34	34.9	45.8	41.0	55.8	49.5	58.0	63.7	68.2	71.4
Net international reserves (US$ millions) 5/	-7,161	-5,747	-4,729	-4,964	-1,753	-2,303	1,011	3,850	6,213	8,101
Oil price Ecuador mix (US$ per barrel)	35.6	62.0	83.4	87.8	75.3	76.0	72.6	69.7	66.4	63.8
Oil production (millions of barrels)	175.4	172.6	179.3	175.5	186.1	186.1	189.2	192.5	194.8	194.8
Exports of oil (millions of barrels) 6/	146.4	133.7	134.1	131.3	141.4	142.2	146.2	149.4	151.4	150.9

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

1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).

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).

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

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	Est. 2021	2022 4/5 Rev. 1/	Projections 2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
Revenue	**29,200**	**36,253**	**41,630**	**42,316**	**43,538**	**42,873**	**44,159**	**45,465**	**46,870**	**47,665**
Oil revenue, net 2/	4,839	9,041	11,634	13,250	11,747	11,612	11,539	11,689	11,113	10,522
Non-oil revenue	22,625	24,494	26,888	26,752	28,710	28,399	29,877	31,311	33,121	34,490
Taxes	12,366	13,623	15,312	15,330	16,256	16,225	17,037	17,828	19,075	19,824
Social security contributions	5,079	5,305	5,687	5,691	6,043	5,983	6,276	6,543	6,816	7,117
Other	5,180	5,565	5,888	5,731	6,410	6,191	6,564	6,940	7,230	7,549
o/w Interest income	1,226	1,194	1,290	1,267	1,298	1,355	1,381	1,383	1,362	1,422
Operating surplus of public enterprises	1,736	2,718	3,109	2,314	3,081	2,862	2,743	2,465	2,636	2,653
o/w Profits of oil companies withheld for investment	1,486	2,490	2,867	2,013	2,814	2,525	2,388	2,101	2,253	2,253
Expenditure	**36,278**	**37,976**	**40,626**	**41,137**	**41,264**	**40,995**	**41,696**	**42,732**	**43,931**	**44,920**
Primary expenditure	33,494	36,602	38,949	39,425	39,438	39,222	39,731	40,355	41,418	42,331
Current	27,605	29,305	32,075	32,540	32,196	32,121	32,400	32,872	33,459	34,102
Wages and salaries (reclassified) 3/	11,393	11,206	11,133	11,121	11,196	11,605	11,660	11,710	11,800	12,263
Purchases of goods and services (reclassified) 3/	2,461	2,512	2,434	2,477	2,429	2,452	2,474	2,516	2,615	2,717
Social security benefits	6,829	7,178	7,586	7,489	7,957	7,957	8,179	8,517	8,843	9,190
Other	7,000	8,916	10,922	11,593	10,614	10,108	10,087	10,129	10,201	9,932
Cost of imports of oil derivatives	3,186	4,512	6,554	7,314	6,104	6,099	5,901	5,737	5,632	5,233
Payments to private oil companies (SHE) 4/	1,232	1,235	1,503	1,389	1,499	1,134	1,255	1,350	1,447	1,447
Social assistance	1,066	1,242	1,357	1,265	1,444	1,307	1,419	1,471	1,529	1,589
Other	1,515	1,927	1,508	1,625	1,568	1,568	1,513	1,571	1,592	1,663
Capital (reclassified) 3/	5,812	6,790	6,857	6,745	7,242	7,101	7,330	7,483	7,959	8,229
o/w Investment in oil	1,381	1,589	1,723	1,816	1,953	1,768	1,798	1,829	1,851	1,851
Extra budgetary expenses	77	507	17	141	0	0	0	0	0	0
Primary balance (excl. interest income)	**-5,519**	**-1,543**	**1,392**	**1,624**	**2,801**	**2,296**	**3,047**	**3,726**	**4,090**	**3,911**
Interest	**2,785**	**1,374**	**1,677**	**1,712**	**1,826**	**1,773**	**1,966**	**2,377**	**2,513**	**2,589**
o/w External	2,456	958	1,185	1,241	1,394	1,303	1,460	1,843	2,052	2,175
Overall balance	**-7,078**	**-1,723**	**1,004**	**1,179**	**2,273**	**1,878**	**2,462**	**2,732**	**2,939**	**2,745**
Memorandum items:										
Primary balance (incl. interest income)	-4,294	-349	2,681	2,891	4,099	3,651	4,428	5,109	5,452	5,333
Non-oil primary balance (excl. interest income) 5/	-6,045	-5,737	-3,329	-3,121	-2,204	-2,840	-1,928	-1,148	-347	-333
Non-oil PB (incl. fuel subsidies, excl. interest income) 6/	-7,136	-7,576	-6,317	-7,020	-4,762	-5,649	-4,328	-3,256	-2,463	-2,320
Non-oil PB (incl. fuel subsidies, incl. interest income) 6/	-5,910	-6,382	-5,027	-5,753	-3,463	-4,295	-2,947	-1,873	-1,101	-897
Cyclically adjusted non-oil primary balance	-3,337	-4,046	-1,721	-1,506	-754	-1,390	-486	267	1,016	1,090
Oil balance 7/	526	4,194	4,721	4,744	5,005	5,136	4,975	4,874	4,436	4,244
Fuel subsidies	-1,091	-2,214	-2,988	-3,899	-2,558	-2,810	-2,400	-2,108	-2,117	-1,987
Overall balance of PGE and CFDD	-7,649	-4,306	-2,277	-2,009	-741	-1,255	-542	127	402	447
Public debt 8/	60,471	66,117	68,020	67,631	67,566	67,301	66,947	64,587	61,634	59,442

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

1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).

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)

		Est.				Projections				
	2020	2021	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
Revenue	**29.4**	**34.1**	**36.1**	**36.5**	**36.2**	**35.4**	**35.0**	**34.7**	**34.4**	**33.7**
Oil revenue, net 2/	4.9	8.5	10.1	11.4	9.8	9.6	9.2	8.9	8.2	7.4
Non-oil revenue	22.8	23.1	23.3	23.0	23.9	23.4	23.7	23.9	24.3	24.4
Taxes	12.5	12.8	13.3	13.2	13.5	13.4	13.5	13.6	14.0	14.0
Social security contributions	5.1	5.0	4.9	4.9	5.0	4.9	5.0	5.0	5.0	5.0
Other	5.2	5.2	5.1	4.9	5.3	5.1	5.2	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	1.0	1.0
Operating surplus of public enterprises	1.7	2.6	2.7	2.0	2.6	2.4	2.2	1.9	1.9	1.9
o/w Profits of oil companies withheld for investment	1.5	2.3	2.5	1.7	2.3	2.1	1.9	1.6	1.7	1.6
Expenditure	**36.5**	**35.8**	**35.2**	**35.4**	**34.3**	**33.9**	**33.1**	**32.6**	**32.3**	**31.7**
Primary expenditure	33.7	34.5	33.7	34.0	32.8	32.4	31.5	30.8	30.4	29.9
Current	27.8	27.6	27.8	28.0	26.8	26.5	25.7	25.1	24.6	24.1
Wages and salaries (reclassified) 3/	11.5	10.6	9.6	9.6	9.3	9.6	9.2	8.9	8.7	8.7
Purchases of goods and services (reclassified) 3/	2.5	2.4	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9
Social security benefits	6.9	6.8	6.6	6.5	6.6	6.6	6.5	6.5	6.5	6.5
Other	7.0	8.4	9.5	10.0	8.8	8.3	8.0	7.7	7.5	7.0
Cost of imports of oil derivatives	3.2	4.3	5.7	6.3	5.1	5.0	4.7	4.4	4.1	3.7
Payments to private oil companies (SHE) 4/	1.2	1.2	1.3	1.2	1.2	0.9	1.0	1.0	1.1	1.0
Social assistance	1.1	1.2	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.1
Other	1.5	1.8	1.3	1.4	1.3	1.3	1.2	1.2	1.2	1.2
Capital (reclassified) 3/	5.9	6.4	5.9	5.8	6.0	5.9	5.8	5.7	5.8	5.8
o/w Investment in oil	1.4	1.5	1.5	1.6	1.6	1.5	1.4	1.4	1.4	1.3
Extra budgetary expenses	0.1	0.5	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (excl. interest income)	**-5.6**	**-1.5**	**1.2**	**1.4**	**2.3**	**1.9**	**2.4**	**2.8**	**3.0**	**2.8**
Interest	**2.8**	**1.3**	**1.5**	**1.5**	**1.5**	**1.5**	**1.6**	**1.8**	**1.8**	**1.8**
o/w External	2.5	0.9	1.0	1.1	1.2	1.1	1.2	1.4	1.5	1.5
Overall balance	**-7.1**	**-1.6**	**0.9**	**1.0**	**1.9**	**1.6**	**2.0**	**2.1**	**2.2**	**1.9**
Memorandum items:										
Primary balance (incl. interest income)	-4.3	-0.3	2.3	2.5	3.4	3.0	3.5	3.9	4.0	3.8
Non-oil primary balance 5/	-6.1	-5.4	-2.9	-2.7	-1.8	-2.3	-1.5	-0.9	-0.3	-0.2
Non-oil primary balance (percent of non-oil GDP) 5/	-6.8	-6.1	-3.3	-3.1	-2.1	-2.7	-1.7	-1.0	-0.3	-0.3
Non-oil PB (incl. fuel subsidies, excl. interest income) 6/	-7.2	-7.1	-5.5	-6.0	-4.0	-4.7	-3.4	-2.5	-1.8	-1.6
Non-oil PB (incl. fuel subsidies, incl. interest income) 6/	-6.0	-6.0	-4.4	-5.0	-2.9	-3.5	-2.3	-1.4	-0.8	-0.6
Cyclically adjusted Non-oil primary balance	-3.4	-3.8	-1.5	-1.3	-0.6	-1.1	-0.4	0.2	0.7	0.8
Oil balance 7/	0.5	4.0	4.1	4.1	4.2	4.2	3.9	3.7	3.3	3.0
Fuel subsidies	-1.1	-2.1	-2.6	-3.4	-2.1	-2.3	-1.9	-1.6	-1.6	-1.4
Overall balance of PGE and CFDD	-7.7	-4.1	-2.0	-1.7	-0.6	-1.0	-0.4	0.1	0.3	0.3
Public debt 8/	60.9	62.3	58.9	58.3	56.2	55.6	53.1	49.3	45.3	42.0

Sources: Ministry of Economy and Finance; Central Bank of Ecuador; and Fund staff calculations and estimates.
1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).
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 3. Ecuador: Nonfinancial Public Sector Financing, 2020-27

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

		Est.	Projections							
	2020	2021	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
Gross financing needs	**14,342**	**6,745**	**5,679**	**5,146**	**4,249**	**4,071**	**4,000**	**5,637**	**6,522**	**5,957**
Nonfinancial public sector deficit	7,078	1,723	-1,004	-1,179	-2,273	-1,878	-2,462	-2,732	-2,939	-2,745
Amortization	7,264	5,022	5,808	5,467	6,323	5,483	6,262	8,169	9,461	8,701
External	4,768	1,847	2,722	2,381	2,942	1,973	2,390	3,850	4,834	4,987
Multilateral	817	780	1,094	1,094	1,336	966	1,425	2,857	3,032	3,333
Bilateral	785	482	1,275	933	1,286	691	678	688	696	605
Private sector and other	1,756	263	252	199	221	153	143	132	110	104
Oil related financing	143	121	101	101	100	100	100	100	51	0
Domestic	2,496	3,175	3,086	3,086	3,380	3,510	3,873	4,319	4,627	3,714
Loans	0	0	0	0	0	0	0	0	0	339
Bonds	522	855	668	668	1,062	1,192	1,555	2,001	2,309	1,057
Treasury certificates	1,974	2,320	2,418	2,418	2,318	2,318	2,318	2,318	2,318	2,318
Arrears clearance and payment of other liabilities	0	0	875	857	200	465	200	200	0	0
Gross financing sources	**14,896**	**7,137**	**5,679**	**5,146**	**4,249**	**4,071**	**4,000**	**5,637**	**6,522**	**5,957**
External	9,987	4,636	5,690	4,407	3,251	2,631	2,791	2,691	3,191	3,191
Multilateral	7,502	3,257	4,674	4,366	1,751	2,256	1,791	1,191	1,191	1,191
World Bank	1,242	318	974	1,575	251	220	391	341	341	341
Inter-American Development Bank	709	1,348	500	803	400	600	450	400	400	400
CAF	868	480	650	339	600	429	450	450	450	450
Other	0	308	850	0	500	1,007	500	0	0	0
IMF	4,683	802	1,700	1,649	0	0	0	0	0	0
Bilateral	151	370	16	35	0	339	0	0	0	0
Private sector and other	2,334	61	1,000	6	1,500	36	1,000	1,500	2,000	2,000
Oil related financing	0	0	0	0	0	0	0	0	0	0
2021 SDR Allocation	0	949	0	0	0	0	0	0	0	0
Domestic	4,574	2,669	216	739	998	1,439	1,209	2,946	3,331	2,766
Bonds and Loans	983	3,368	622	1,114	500	669	1,000	1,000	1,000	1,000
Treasury certificates	2,320	2,418	2,318	2,318	2,318	2,318	2,318	2,318	2,318	2,318
Change in deposits (+= drawdown)	-251	-1,585	-2,723	-2,693	-1,820	-1,547	-2,109	-372	14	-552
o/w At the BCE	-403	-1,357	-2,723	-2,693	-1,820	-1,547	-2,109	-372	14	-552
Other 2/	1,523	-1,532	0	0	0	0	0	0	0	0
o/w Convenios de liquidez	114	-139	0	0	0	0	0	0	0	0
o/w Acumulation of arrears	215	80	0	0	0	0	0	0	0	0
o/w Transfer of public bank shares from BCE	0	-2,378	0	0	0	0	0	0	0	0
Discrepancy	335	-167	0	0	0	0	0	0	0	0
Net financing	**7,632**	**2,116**	**-1,004**	**-1,179**	**-2,273**	**-1,878**	**-2,462**	**-2,732**	**-2,939**	**-2,745**
External	5,218	2,789	2,968	2,026	309	658	401	-1,159	-1,643	-1,796
Domestic	1,863	-586	-3,097	-2,348	-2,382	-2,070	-2,663	-1,374	-1,296	-948
Net Arrears acumulation and other financing	215	80	-875	-857	-200	-465	-200	-200	0	0
Discrepancy	335	-167	0	0	0	0	0	0	0	0
Public sector debt 3/	**60,471**	**66,117**	**68,020**	**67,631**	**67,566**	**67,301**	**66,947**	**64,587**	**61,634**	**59,442**
External	44,420	47,409	50,332	49,435	50,641	50,092	50,494	49,335	47,692	45,895
o.w. Oil related financing	574	452	351	351	251	251	151	51	0	0
Domestic	16,051	18,708	17,688	18,196	16,925	17,208	16,454	15,252	13,943	13,546
Loans and bonds	5,996	8,486	8,440	9,098	7,877	9,035	8,892	7,875	6,107	5,105
Treasury certificates	2,320	2,418	2,318	2,318	2,318	2,318	2,318	2,318	2,318	2,318
Other liabilities 4/	7,726	7,794	6,930	6,937	6,730	6,472	6,272	6,072	6,072	6,072
	(In percent of GDP)									
Gross financing needs	**14.4**	**6.4**	**4.9**	**4.4**	**3.5**	**3.4**	**3.2**	**4.3**	**4.8**	**4.2**
Nonfinancial public sector deficit	7.1	1.6	-0.9	-1.0	-1.9	-1.6	-2.0	-2.1	-2.2	-1.9
Amortization	7.3	4.7	5.8	5.4	5.4	4.9	5.1	6.4	6.9	6.1
Gross financing sources	**15.0**	**6.7**	**4.9**	**4.4**	**3.5**	**3.4**	**3.2**	**4.3**	**4.8**	**4.2**
External	10.1	3.5	4.9	3.8	2.7	2.2	2.2	2.1	2.3	2.3
Domestic	4.6	2.5	0.0	0.6	0.8	1.2	1.0	2.2	2.4	2.0
Other financing	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt 3/	**60.9**	**62.3**	**58.9**	**58.3**	**56.2**	**55.6**	**53.1**	**49.3**	**45.3**	**42.0**
External	44.7	44.7	43.6	42.6	42.1	41.4	40.0	37.6	35.0	32.4
Domestic	16.2	17.6	15.3	15.7	14.1	14.2	13.0	11.6	10.2	9.6

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

1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).

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)

		Est.			Projections					
	2020	2021	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
Current account	**2,693**	**3,060**	**2,715**	**2,431**	**2,621**	**2,180**	**2,396**	**2,621**	**2,772**	**2,884**
Trade balance	3,499	3,263	2,648	3,620	2,426	3,384	3,663	4,252	4,584	4,837
Exports, f.o.b.	20,591	27,236	31,064	35,214	31,470	35,709	36,812	38,045	38,858	39,593
Oil	5,250	8,607	11,570	11,920	11,002	11,177	10,986	10,790	10,395	9,952
Non-oil	15,341	18,629	19,493	23,293	20,468	24,532	25,826	27,255	28,464	29,641
Imports, f.o.b.	17,092	23,972	28,416	31,593	29,044	32,325	33,149	33,793	34,274	34,755
Oil	2,647	4,641	6,690	7,130	6,237	6,146	5,854	5,636	5,395	5,219
Non-oil	14,445	19,332	21,726	24,463	22,807	26,180	27,295	28,157	28,879	29,537
Services	-976	-2,424	-2,844	-3,090	-2,910	-3,207	-3,301	-3,373	-3,442	-3,520
Credits	1,809	2,115	2,291	2,329	2,393	2,393	2,487	2,586	2,679	2,769
Debits	2,785	4,540	5,136	5,419	5,303	5,600	5,788	5,959	6,121	6,288
Primary income	-2,823	-1,636	-1,426	-1,991	-1,431	-2,033	-2,095	-2,505	-2,749	-2,890
Credits	86	89	242	359	437	640	681	607	547	576
Debits	2,909	1,725	1,668	2,350	1,868	2,674	2,776	3,112	3,296	3,466
Secondary income	2,993	3,858	4,337	3,891	4,537	4,036	4,129	4,247	4,379	4,456
Of which: workers' remittances, net	2,830	3,767	4,159	3,712	4,352	3,850	3,934	4,045	4,169	4,238
Capital account	**108**	**142**	**152**	**152**	**165**	**166**	**173**	**181**	**188**	**195**
Financial account	**5,007**	**2,834**	**1,831**	**2,437**	**-140**	**-240**	**-465**	**-40**	**404**	**634**
Direct investment	-1,104	-621	-1,074	-934	-1,251	-1,196	-1,172	-1,392	-1,452	-1,407
Other public sector flows	-724	-1,176	-1,268	-377	-552	-886	-942	135	563	517
Disbursements	-5,304	-2,885	-3,990	-2,758	-3,251	-2,631	-2,791	-2,691	-3,191	-3,191
Amortizations	4,580	1,709	2,722	2,381	2,699	1,745	1,849	2,826	3,754	3,708
Other private sector flows	6,834	4,630	4,173	3,747	1,662	1,842	1,650	1,218	1,292	1,524
Errors and omissions	**118**	**-106**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-2,087**	**263**	**1,036**	**146**	**2,927**	**2,586**	**3,034**	**2,841**	**2,555**	**2,445**
Financing	**2,087**	**-263**	**-1,036**	**-146**	**-2,927**	**-2,586**	**-3,034**	**-2,841**	**-2,555**	**-2,445**
Change in GIR (increase, -) 2/	-4,146	-948	-2,736	-1,795	-2,684	-2,357	-2,493	-1,817	-1,476	-1,165
IMF net credit and loans	500	-140	0	0	-166	-157	-315	-158	0	0
Other external financing 3/	1,726	24	0	0	0	0	0	0	0	0
IMF exceptional financing under the EFF	4,007	802	1,700	1,649	-77	-72	-226	-866	-1,080	-1,279
Memorandum items:										
Current account balance (percent of GDP)	2.7	2.9	2.4	2.1	2.2	1.8	1.9	2.0	2.0	2.0
Oil balance (percent of GDP)	2.6	3.7	4.2	4.1	4.0	4.2	4.1	3.9	3.7	3.3
Exports	5.3	8.1	10.0	10.3	9.1	9.2	8.7	8.2	7.6	7.0
Imports	2.7	4.4	5.8	6.1	5.2	5.1	4.6	4.3	4.0	3.7
Non-oil balance (percent of GDP)	0.1	-0.9	-1.9	-2.0	-1.8	-2.4	-2.2	-1.9	-1.6	-1.3
Non-oil goods export volume growth rate (percent)	15.2	17.1	-2.1	16.8	3.8	5.7	3.8	4.3	3.3	3.0
Non-oil goods import volume growth rate (percent)	-11.9	18.3	4.0	16.8	4.4	6.0	3.4	2.0	1.2	0.9
Goods terms of trade growth rate (percent)	-5.7	1.6	1.4	1.4	-1.6	-2.6	0.1	-0.4	-0.7	-0.5
Oil price Ecuador mix (U.S. dollars per barrel)	36	62	83	88	75	76	73	70	66	64
External debt (percent of GDP)	55.4	54.4	50.0	49.3	48.5	47.9	46.7	44.7	42.5	40.0

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

1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).

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	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
Gross external financing requirements	**6,336**	**3,098**	**4,634**	**4,578**	**4,853**	**4,340**	**4,302**	**4,989**	**5,714**	**5,477**
Current account financing need	-2,693	-3,060	-2,715	-2,431	-2,621	-2,180	-2,396	-2,621	-2,772	-2,884
Public sector amortizations	4,580	1,709	2,722	2,381	2,699	1,745	1,849	2,826	3,754	3,708
Private sector amortizations	4,449	4,449	4,627	4,627	4,775	4,775	4,849	4,784	4,732	4,653
Identified External Financing	**8,256**	**5,112**	**7,370**	**6,373**	**7,703**	**6,854**	**7,110**	**6,964**	**7,190**	**6,643**
Multilateral	2,819	2,455	2,974	2,717	1,751	2,256	1,791	1,191	1,191	1,191
Bilateral	151	370	16	35	0	339	0	0	0	0
Oil related financing	0	0	0	0	0	0	0	0	0	0
Private sector	2,334	61	1,000	6	1,500	36	1,000	1,500	2,000	2,000
Direct investment	1,104	621	1,074	934	1,251	1,196	1,172	1,392	1,452	1,407
Portfolio investment Financing	-477	-36	91	176	623	587	640	713	688	626
Other investment Financing	-1,908	-145	364	704	2,490	2,346	2,559	2,853	2,752	2,503
Net Transfers 2/	226	36	152	152	165	166	173	181	188	195
IMF exceptional financing	4,007	802	1,700	1,649	-77	-72	-226	-866	-1,080	-1,279
2021 SDR Allocation	0	949	0	0	0	0	0	0	0	0
Gross external financing sources	**10,482**	**4,995**	**7,370**	**6,373**	**7,537**	**6,697**	**6,795**	**6,806**	**7,190**	**6,643**
Identified External Financing	8,256	5,112	7,370	6,373	7,703	6,854	7,110	6,964	7,190	6,643
Exceptional financing	1,726	24	0	0	0	0	0	0	0	0
Past IMF Net Programs	500	-140	0	0	-166	-157	-315	-158	0	0
Change in net international reserves (-, increase) 2/	**361**	**-287**	**-1,036**	**-146**	**-2,927**	**-2,586**	**-3,034**	**-2,841**	**-2,555**	**-2,445**
Change in gross international reserves (-, increase) 3/	**-4,146**	**-948**	**-2,736**	**-1,795**	**-2,684**	**-2,357**	**-2,493**	**-1,817**	**-1,476**	**-1,165**
Change in net international reserves, prog. definition (-, increase) 4/	**4,258**	**-1,414**	**-1,018**	**-783**	**-2,977**	**-2,662**	**-3,314**	**-2,839**	**-2,362**	**-1,888**

Sources: Central Bank of Ecuador and Fund staff calculations and estimates.
1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).
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)

		Est.	Projections							
	2020	2021	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027
I. Central Bank										
Net foreign assets	**8,064**	**8,969**	**11,799**	**10,885**	**14,532**	**13,295**	**15,839**	**17,706**	**19,235**	**20,455**
Of which: gross international reserves 2/	7,133	7,898	10,634	9,693	13,318	12,050	14,543	16,360	17,836	19,001
Net domestic assets	**739**	**-685**	**-3,783**	**-3,517**	**-6,520**	**-5,973**	**-8,618**	**-10,202**	**-11,436**	**-12,350**
Credit to the nonfinancial public sector, net	-1,074	-104	-2,896	-2,860	-5,452	-5,142	-7,206	-8,709	-9,860	-10,703
Credit to financial institutions	4,043	1,045	784	784	672	672	153	134	114	110
Other depository institutions	983	287	195	195	103	103	103	103	103	103
Other financial institutions	3,060	758	588	588	569	569	50	30	11	7
Credit to the private sector	11	9	10	10	10	10	11	11	11	12
Other, net	-2,242	-1,634	-1,680	-1,451	-1,750	-1,513	-1,576	-1,638	-1,702	-1,768
Liabilities	**8,802**	**8,284**	**8,016**	**7,368**	**8,011**	**7,322**	**7,221**	**7,504**	**7,799**	**8,105**
Banks' reserves	8,620	8,094	7,809	7,161	7,796	7,105	6,995	7,269	7,555	7,851
Other depository institutions 3/	6,556	5,904	5,756	5,094	5,657	4,950	4,751	4,937	5,130	5,332
Other financial institutions 4/	2,064	2,190	2,054	2,066	2,140	2,156	2,245	2,333	2,424	2,519
Other 5/	102	105	115	115	120	120	125	130	135	141
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 3/ 6/										
Net foreign assets	**4,897**	**4,602**	**5,181**	**5,031**	**5,407**	**5,249**	**5,465**	**5,680**	**5,902**	**6,134**
Net domestic assets	**40,845**	**46,658**	**50,333**	**50,842**	**53,715**	**54,255**	**56,490**	**58,704**	**61,006**	**63,399**
Assets held at the BCE, net	5,803	5,117	5,447	4,662	5,459	4,642	4,975	5,194	5,421	5,640
Credit to the nonfinancial public sector, net	965	3,401	1,634	3,513	1,726	3,679	3,845	4,008	4,178	4,355
Of which: central government, net	1,100	2,278	1,994	2,251	2,086	2,348	2,443	2,537	2,636	2,738
Credit to the private sector	45,638	51,851	56,971	58,611	61,082	62,821	65,252	67,774	70,396	73,136
Other items, net	-11,561	-13,712	-13,718	-15,944	-14,551	-16,887	-17,582	-18,272	-18,988	-19,733
Liabilities	**45,742**	**51,259**	**55,514**	**55,873**	**59,122**	**59,505**	**61,955**	**64,384**	**66,909**	**69,533**
Of which: Private sector deposits	45,742	51,259	55,514	55,873	59,122	59,505	61,955	64,384	66,909	69,533
III. Depository Corporations Survey										
Net foreign assets	**12,961**	**13,571**	**16,980**	**15,917**	**19,939**	**18,544**	**21,304**	**23,386**	**25,137**	**26,589**
Net domestic assets	**32,963**	**37,879**	**38,740**	**40,164**	**39,399**	**41,177**	**40,876**	**41,233**	**42,016**	**43,198**
Credit to the nonfinancial public sector, net	-108	3,297	-1,263	653	-3,727	-1,462	-3,361	-4,701	-5,682	-6,348
Credit to the private sector	45,649	51,860	56,980	58,621	61,092	62,831	65,263	67,785	70,407	73,148
Other items, net	-12,577	-17,278	-16,977	-19,110	-17,966	-20,192	-21,025	-21,851	-22,710	-23,602
Liabilities	**45,924**	**51,449**	**55,721**	**56,080**	**59,338**	**59,721**	**62,181**	**64,619**	**67,153**	**69,787**
Memorandum items:										
Credit to the private sector (percent change, yoy) 7/	2.5	13.6	9.9	13.0	7.2	7.2	3.9	3.9	3.9	3.9
Deposits of the private sector (percent change, yoy) 7/	11.9	12.1	8.3	9.0	6.5	6.5	4.1	3.9	3.9	3.9
Broad money (M2) (percent change, yoy) 8/	10.1	6.7	8.4	9.1	5.9	6.0	4.1	3.9	3.9	3.9
Broad money velocity	1.6	1.5	1.3	1.3	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	15.8	14.1	12.8	13.2	11.9	11.3	11.3	11.3	11.3
Credit to the private sector (percent of GDP)	46.0	48.8	49.3	50.5	50.8	51.9	51.8	51.7	51.7	51.7
Liabilities (percent of GDP)	46.3	48.5	48.3	48.3	49.3	49.3	49.3	49.3	49.3	49.3
1st COMYF balance	108	134	184	190	234	242	304	329	345	354
2nd COMYF balance	27	94	237	222	357	328	435	488	523	541
3rd COMYF balance	-27	-2	31	27	50	46	59	69	79	82

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.
1/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).
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, 2016-22 1/

	2016	2017	2018	2019	2020	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2
(In percent, unless otherwise indicated; end-of-period values)											
Capital Adequacy											
Regulatory capital to risk-weighted assets (CAR)	13.9	13.7	13.4	13.5	14.5	14.4	14.5	14.1	13.9	13.5	13.7
Asset Quality and Distribution											
Nonperforming loans to gross loans	3.5	3.0	2.6	2.7	2.6	2.8	2.8	2.4	2.1	2.2	2.2
Provisions to nonperforming loans	189.5	234.4	247.7	225.6	293.1	276.7	258.4	293.0	324.4	310.4	323.6
Gross loans to assets 2/	80.0	84.4	86.0	87.8	82.4	84.3	84.8	86.7	85.9	86.8	88.8
Earnings and Profitability											
Return on average assets (ROA)	0.6	1.0	1.4	1.4	0.5	0.7	0.7	0.7	0.8	1.1	1.1
Return on average equity (ROE)	6.7	10.4	13.6	13.9	4.8	6.4	6.9	6.9	7.6	10.7	11.2
Interest margin to assets 3/	0.4	0.9	1.6	1.4	0.1	0.1	0.3	0.4	0.4	0.9	0.9
Noninterest expenses to interest margin 4/	92.6	85.0	76.9	78.5	98.3	96.8	93.9	92.3	92.2	82.4	82.8
Liquidity											
Liquid assets to short-term liabilities	33.9	29.4	27.9	26.0	34.1	30.4	28.6	26.7	28.6	25.5	23.2
Deposit to loan ratio	137.0	121.9	111.8	109.5	123.7	122.7	121.1	119.0	119.6	116.8	110.9

Source: Superintendency of Banks.
1/ Values refer only to private commercial banks and Banco Pacifico.
2/ From the balance, gross loans (account 14) is divided over assets (account 1)
3/ From the balance, the financial income (account 51) minus the financial expenditure (account 41) is divided by the assets (account 1)
4/ From the balance, the operational expenditures (account 45) over the financial income (account 51) minus the financial expenditure (account 41)

Table 8. Ecuador: Indicators of Fund Credit, 2020-2030

(Units as indicated)

		Est.		Projections									
	2020	2021	2022 4/5 Rev. 1/	2022	2023 4/5 Rev. 1/	2023	2024	2025	2026	2027	2028	2029	2030
Existing and prospective Fund arrangements						**(millions of SDRs)**							
Disbursements 2/	3,310	568	1,207	1,207	0	0	0	0	0	0	0	0	0
Stock of existing and prospective Fund credit	2,121	4,889	6,096	6,096	5,925	5,925	5,521	4,762	3,966	3,028	2,091	1,207	438
Obligations	130	34	90	2	364	513	742	1096	1086	1174	1112	995	833
Principal	98	0	0	0	172	172	403	759	796	938	938	884	769
Charges/interest 3/	31	34	90	2	192	341	338	337	291	236	174	112	64
Obligations, relative to key variables						**(percent)**							
Quota	18.6	4.8	12.9	0.4	52.1	73.5	106.3	157.2	155.7	168.2	159.3	142.7	119.4
Gross domestic product	0.2	0.0	0.1	0.0	0.4	0.6	0.8	1.2	1.1	1.1	1.0	0.9	0.7
Gross international reserves 4/	2.5	0.6	1.2	0.0	3.8	5.8	7.0	9.2	8.4	8.5	7.5	6.2	4.8
Exports of goods and services	0.8	0.2	0.4	0.0	1.5	1.8	2.6	3.7	3.6	3.8	3.6	3.1	2.6
Revenues of the NFPS	0.6	0.1	0.3	0.0	1.1	1.6	2.3	3.3	3.2	3.4	3.1	2.7	2.2
External debt service	1.3	0.5	1.2	0.0	4.5	6.9	9.4	12.0	10.9	11.7	11.3	21.3	18.1
Fund credit outstanding, relative to key variables						**(percent)**							
Quota	304.1	700.8	873.8	873.8	849.2	849.2	791.4	682.5	568.5	434.0	299.6	173.0	62.8
Gross domestic product	2.9	6.3	7.2	7.2	6.8	6.7	6.0	5.0	4.0	3.0	2.0	1.1	0.4
Gross international reserves	40.6	84.8	78.6	86.3	61.1	67.5	52.2	40.2	30.7	22.0	14.1	7.5	2.5
External debt	5.3	11.6	14.5	14.6	14.0	14.0	12.9	11.2	9.5	7.4	5.2	3.0	1.1
Memorandum items:													
Exports of goods and services (US$m)	22,401	29,351	33,355	37,543	33,863	38,103	39,299	40,631	41,538	42,361	43,057	43,708	44,372
External debt (US$m)	55,055	57,726	57,600	57,181	58,240	57,989	58,914	58,625	57,828	56,627	55,616	54,827	54,126
Quota (SDRm)	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7	697.7
Gross international reserves (US$m)	7,133	7,898	10,634	9,693	13,318	12,050	14,543	16,360	17,836	19,001	20,480	22,103	23,775
Gross international reserves (% ARA metric)	34	35	46	41	56	49	58	64	68	71	76	80	84
NIR, program definition (US$m)	-7,161	-5,747	-4,729	-4,964	-1,753	-2,303	1,011	3,850	6,213	8,101	10,293	13,973	16,312
Nominal GDP (US$m)	99,291	106,166	115,469	116,076	120,292	121,106	126,093	131,036	136,175	141,515	147,064	152,829	158,822
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/ Fourth and Fifth Reviews Under the Extended Fund Facility, Request for a Waiver of Nonobservance of Performance Criterion, Rephasing Access, and Financing Assurances Review (July 22, 2022; CR No. 2022/225).

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

3/ Using the GRA rate of charge of 3.641 as of November 10, 2022, for projected charges/interest.

4/ GIR excludes non-liquid and encumbered assets.

Table 9. Ecuador: Quantitative Performance Criteria and Indicative Targets, end-August 2022

(US$, unless otherwise indicated)

	End-August 2022			
	Prog. 2/	Adj. 3/	Actual	Status
Quantitative performance criteria				
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-1,600	-1,455	338	Met
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	1,200	1,264	2,270	Met
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met
Indicative targets				
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*) 1/	-4,350	-4,495	-3,762	Met
6. Overall balance of the NFPS (*floor*) 1/	410	555	1,966	Met
7. Change in the stock of NIR - program definition (*floor*) 1/	675	790	2,031	Met
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)	280,716		385,782	Met
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)	947,713		1,181,777	Not Met 4/
AZUAY	39,974		44,859	Met
BOLIVAR	24,250		29,851	Met
CAÑAR	18,910		21,289	Met
CARCHI	10,416		16,843	Met
CHIMBORAZO	44,464		54,709	Met
COTOPAXI	41,592		55,435	Met
EL ORO	26,338		34,909	Met
ESMERALDAS	56,266		71,116	Met
GALAPAGOS	145		63	Not Met
GUAYAS	198,818		232,935	Met
IMBABURA	25,244		43,593	Met
LOJA	42,536		47,196	Met
LOS RIOS	84,751		100,651	Met
MANABI	139,151		161,097	Met
MORONA SANTIAGO	19,014		24,904	Met
NAPO	11,214		12,485	Met
ORELLANA	16,275		15,809	Not Met
PASTAZA	7,511		7,639	Met
PICHINCHA	36,178		66,189	Met
SANTA ELENA	21,857		39,598	Met
SANTO DOMINGO DE LOS TSACHILAS	25,920		36,104	Met
SUCUMBIOS	16,330		17,246	Met
TUNGURAHUA	30,322		38,831	Met
ZAMORA CHINCHIPE	10,237		8,426	Not Met

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

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

1/ Cumulative change from January 1, 2022.

2/ Staff report for the EFF Fourth and Fifth Reviews.

3/ Adjusted for oil prices and disbursements from multilateral institutions.

4/ Target met on aggregate but missed by a small margin in three provinces (Galapagos, Orellana, and Zamora Chinchipe) for a total of 2,359 families.

Table 10. Ecuador: Schedule of Reviews and Purchases 1/

Availability Date 2/	Amount of purchase		Conditions
	Millions of SDRs	Percent of Quota	
September 30, 2020	1420.0	203.5	Approval of arrangement
December 15, 2020	1420.0	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	4615.0	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 are 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		
Fiscal transparency	Develop and share with Fund staff 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 obligations of PGE to IESS (if any) will be reported, recorded, and cleared in a timely and transparent way.	Improve reliability of fiscal statistics, avoid accumulation of arrears		
Transparency and Governance	Complete the 2020 and 2021 healthcare audits and share the results with Fund staff.	Improve the quality and reliability of PGE fiscal data recording		
		Structural Benchmarks		
Fiscal Framework	Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTFF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Strengthen the public financial management framework and fiscal discipline, and increase fiscal transparency	End-Nov. 2020	Implemented with delay
BCE	The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Improve the BCE's audit mechanisms	End-Nov. 2020	Met
Transparency and AML/CFT	Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs),	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2020	Partially implemented. Was reformulated as a new SB for Aug. 2022

Table 11. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
	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.			
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
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	End-Feb. 2021	Met

Table 11. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
		transparency of public debt policies		
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	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 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
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

Table 11. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
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, was reformulated and met as a PA in June 2022
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
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, was met as a PA in June
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
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 2022.
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

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
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	Not met, implemented with delay in August
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	Not met, implemented with delay in August
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	Not met, implemented with delay in October
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	Not met
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	Met

Table 11. Ecuador: Prior Actions and Structural Benchmarks (concluded)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
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-Oct. 2022	Met
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	Met
Transparency and Governance	Complete 2020 and 2021 healthcare audits and share the results with Fund staff.	Assess contingent liabilities and arrears	End-Oct. 2022	Not met, set as ***prior action***
SOE	Share with IMF staff the completed independent audits of the 2019 individual financial statements of Petroecuador and Petroamazonas.	Strengthen SOEs	End-Nov. 2022	Not met
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-Nov. 2022	Not met; partially implemented. Target on first income decile met; target by province met in all but three provinces.

Annex I. 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, the effects of the pandemic proved more prolonged than expected at the outset and were coupled with renewed loss of market access in June 2022. Despite improving fundamentals, spreads have shot up to around 1900 bps (levels last seen during the COVID-19 pandemic and debt crisis) before retreating to about 1400 bps in November, while bond yields reached 16-20 percent at end-September. As market conditions remained volatile, the authorities have postponed their plans to issue $1 billion in Eurobond(s) this year. The residual financing gap from the confluence of shocks described above that is proposed to be provided by the Fund is estimated at $700 million over the remainder of 2022, after factoring in the fiscal consolidation that is underway, the support from other IFIs, and other financing sources.

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 fall below its 2025 target of 57 percent of GDP already in 2023, providing a healthy buffer for shocks. Following a successful reprofiling operation with Chinese banks (Annex IV), 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 III), underlining the need to continue with medium-term fiscal consolidation to keep public debt on a sustainable, declining path. Given the small share of international bonds in the total debt stock, debt is projected to remain on a firmly downward trajectory even if Ecuador were to issue at elevated rates. 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.

Ecuador's spreads had fallen after the 2021 elections and had remained stable around 800 bps until the June 2022 protests. Over the summer, spreads jumped by almost 700 bps to around 1450 bps, and then spiked again to around 1900s in late September – levels last seen during the 2020 pandemic and the debt crisis – before declining to 1400s in November. The rise in spreads is due to both tighter global financial conditions and domestic political concerns, as economic fundamentals have improved. While Russia's invasion of Ukraine and rising concerns over global inflation have soured markets' appetite for emerging market debt, the significant and rapid rise in Ecuador's risk rating points to a perception of elevated country risk. At the same time, notwithstanding a difficult domestic political environment, economic fundamentals have significantly improved compared to 2020: the economy has stabilized, a successful tax reform and expenditure-led consolidation strategy has turned the public sector balance to a surplus for the first time in over a decade, public debt is on a downward trend, and the rise in oil prices due to the war in Ukraine has further supported Ecuador's fiscal and external balances.

With higher oil prices, stronger buffers, lower deficits, and the recently completed reprofiling operation with the Chinese banks, Ecuador's financing needs are lower in the near term. As such, the decision to cancel the bond issuance planned for this year has not led to a financing shortage. Continued implementation of the fiscal consolidation plan, together with the positive factors reducing financing needs, would support a gradual return to markets. Given the volatile risk environment, staff and the authorities now assume more modest international bond issuances in 2024 and beyond, at volumes that could be covered by contingency buffers (deposits, reserves, additional IFI financing) in a downside scenario.

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 been proactively addressing 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-supported arrangement. A critical tax reform was enacted in November 2021, making the system more efficient and progressive. Unfortunately, there were some policy reversals, including the suspension of the subsidy reform in October 2021, and further lowering of diesel and gasoline prices by $0.15/gallon in June 2022 following protests. And despite delays in implementing structural conditionality (mostly attributed to change in management at MEF, the IESS, and Petroecudor), the authorities overperformed on the quantitative targets, signaling their commitment to fiscal consolidation. With five reviews successfully completed, the authorities are keen to bring the last review to a successful and timely completion.

The fragmented politics and upcoming local elections pose important risks to policy continuity. Another wave of protests is not off the table. The National Assembly remains fragmented, which could make passing important economic reforms challenging. The President narrowly survived an impeachment attempt in June. 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 in late 2021 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. Both legislations have been submitted to the National Assembly, with enactment pending. Should the laws not get approved, the authorities will look to enact decrees or regulations in these areas to safeguard the originally-envisaged results as much as possible, with LEG support. 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 were implemented ahead of the Executive Board's consideration of the combined Fourth and Fifth Reviews which strongly demonstrate the authorities' resolve to implement the policies supported by the program. Ahead of the Sixth and final review, the authorities have submitted a 2023 budget and MTFF to ensure that fiscal plans remain in line with the Fund-supported program after the current arrangement expires.

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. Thanks to these efforts, fiscal data quality has already and will further improve. To address the latest case of misreporting, the authorities have implemented a number of corrective

actions 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 back to 2013 (completed); (ii) hiring of medical audit firms to conduct healthcare audits for 2017-21 medical expenditure (June 2022, completed); and completing the audits of 2020 and 2021 claims by end-October (*prior action*); (iii) identifying the existing stock of PGE potential obligations to IESS, GADs, private sector and others (completed); (iv) inclusion in the 2023 budget and MTFF properly estimated pension and healthcare transfers to IESS (completed); (v) establishing a dedicated statistics unit at the MEF headed by a senior Chief Statistician (pending), and upgrading the training curriculum in GFS compilation, reconciliation, and verification (end-October, completed); (vi) developing a time-bound plan to undertake legal reform aimed at strengthening the legal framework for State healthcare obligations and related audits (end-October, *prior action*); and (vii) completing the financial audit of IESS statements from 2019-21 by an independent third party by end-March 2023. 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.

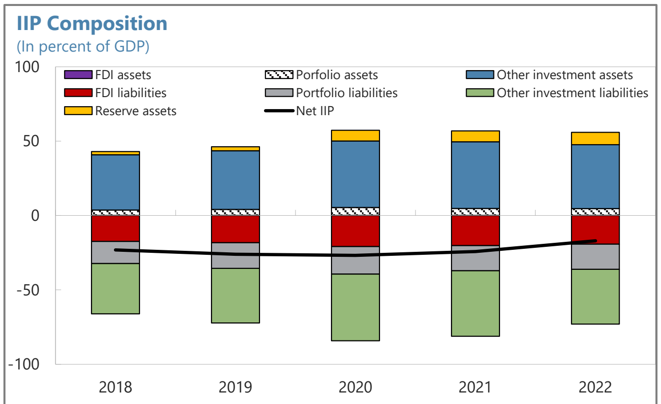
On balance, the strong macroeconomic policy management to date, including the progress toward reducing oil dependency and avoiding procyclicality, completion of five reviews with significant reforms and macroeconomic improvements already attained, commitment to strong prior actions all provide a reasonably strong prospect of success for the Fund-supported program.

Annex II. External Sector Assessment

Overall Assessment: *Results based on projected data for 2022 indicate the external position of Ecuador would remain moderately weaker than the level implied by medium-term fundamentals and desirable policies, in line with the external sector assessment (ESA) performed on 2020 data. The assessment is driven by strong performance in oil exports (more than doubling in value since 2020) that have been more than offset by the recovery in imports–from robust internal demand and higher international prices–and the slowdown in remittances. Performance in non-oil exports has been strong in a few sectors (mostly shrimp and mining) but significant bottlenecks remain to improve structural competitiveness.*

Potential Policy Responses: *Continued fiscal efforts to strengthen sustainability while supporting the economy, reduction in labor cost and market rigidities, and other structural reforms aimed at attracting private sector flows would help support the external position. Greater diversification of the export base would also contribute to external sector sustainability.*

Foreign Assets and Liabilities: Position and Trajectory



Sources: Central Bank of Ecuador and IMF staff calculations.

Background. The net international investment position (NIIP) improved since the 2020 ESA from -25.6 percent of GDP to -17.0 percent of GDP in 2022. Debt liabilities increased through 2020 owing to public borrowing which accelerated further at the onset of the pandemic before receding. A debt-equity swap operation undertaken by a foreign private company contributed to further reducing debt liabilities in 2022. In parallel, the steady accumulation of foreign assets (including from external investments of the deposit insurance corporation) and increases in gross international reserves (GIR) supported the NIIP.

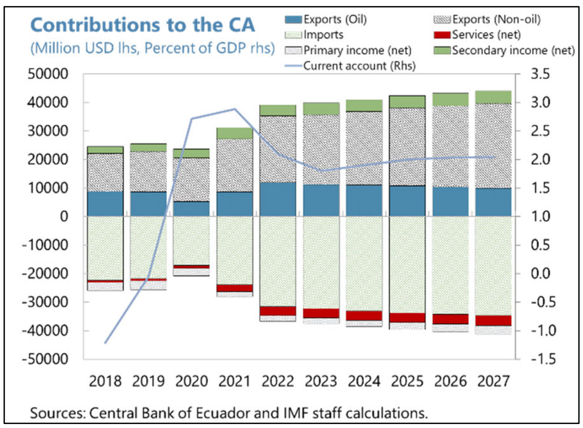
Assessment. The recent improvement in the NIIP has been driven by the recovery from the pandemic as well as one-off factors. Continued fiscal consolidation and reserve accumulation are expected to further strengthen the NIIP. As most external debt is held by the public sector, of which the largest shares are from official creditors and Eurobond holders with long maturities, risks to external sustainability appear limited and do not warrant a substantial CA adjustment.

2022 (% GDP)	NIIP: -17.0	Gross Assets: 55.9	Debt Assets: 46.2	Gross Liab.: 72.9	Debt Liab.: 57.9

Current Account

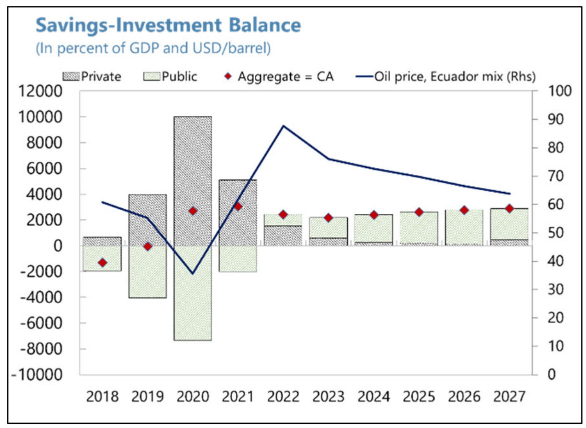
Background. The current account (CA) is projected to post a strong surplus in 2022 at 2.1 percent of GDP from a peak of almost 3.0 percent of GDP in 2021 and compared to an average of 1.3 percent of GDP over the last five years. Strong oil exports and robust remittances have supported the CA surplus throughout the pandemic. From January to August 2022, exports grew 30 percent (yoy), driven by oil, shrimp, and mining exports, while imports increased by 33 percent (yoy), leading to a modest improvement in the trade balance. Overall, the stronger trade balance is expected to be offset by lower remittances from weaker growth in the US. The CA surplus is projected to narrow to 1.8 percent of GDP in 2023 as growth in key exporting sector would moderate and imports would continue to rise from robust internal demand and higher international prices. The CA would strengthen to 2 percent in the medium-term as reforms and prices would support non-oil export competitiveness while fiscal adjustment would shift the public savings and investment balance from negative to positive.

Contributions to the CA
(Million USD lhs, Percent of GDP rhs)



Sources: Central Bank of Ecuador and IMF staff calculations.

Savings-Investment Balance
(In percent of GDP and USD/barrel)



Assessment. The EBA CA model estimates a CA norm of 1.3 percent of GDP. The adjustment for cyclical factors as well as COVID-19-related adjustment for tourism take the CA balance to 0.5 percent of GDP (from the non-adjusted balance of 2.1 percent of GDP). This leads to a CA gap of -0.8 percent of GDP, including a policy gap of 0.8 percent of GDP driven by deviations from desirable policies in the fiscal balance, accumulation of reserves and capital control. As Ecuador is a commodity-exporting country, the CA norm using the EBA Lite consumption model was also estimated. This model relies on longer-term view for the assessment, and factors in both commodity price volatility and intergenerational equity considerations in the context of exhaustible natural resources. The model suggests a medium-term CA norm of 3.9 percent of GDP, which would imply a CA gap of -1.6 percent of GDP once COVID-19-related adjustment for tourism is taken into account.[1] Consistent with previous ESAs, the bottom-line assessment relies on the consumption-based module results given the importance of commodity exports. This results in an assessment that the external position is "moderately weaker" than implied by

[1] Key assumptions in the consumption-based model include flat oil production and price growth beyond the medium-term; domestic exhaustible resource consumption growth of 2.7 percent beyond the medium-term; US dollar deflator of 1.9 percent; return on net foreign assets of 5.0 percent per annum; population growth of 1.4 percent per annum; and share of natural resources revenue to total public revenue of 31.0 percent.

medium-term fundamentals. This is consistent with the recent nominal appreciation of the US dollar that more than offsets lower inflation in Ecuador compared to trading partners and led to appreciation of the real effective exchange rate (REER). Together with continued weaknesses in structural competitiveness, this suggests the exchange rate remains overvalued.

EBA-lite Model Results, 2022

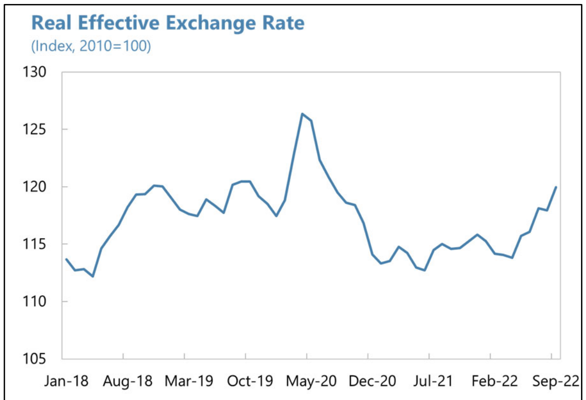
	CA model 1/	**REER model** 1/	**Consumption Module**
		(in percent of GDP)	
CA-Actual	**2.1**		**2.1**
Cyclical contributions (from model) (-)	0.8		
COVID-19 adjustors (-) 2/	-0.2		-0.2
Natural disasters and conflicts (-)	1.0		
Adjusted CA	**0.5**		**2.3**
CA Norm (from model) 3/	**1.3**		**3.9**
CA Gap	**-0.8**	**-1.6**	**-1.6**
o/w Relative policy gap	0.8		
Elasticity	-0.1	-0.1	-0.1
REER Gap (in percent)	**5.6**	**10.4**	**10.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.4 percent of GDP). 100 percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments. Ecuador uses 2027 as reference year for the consumption-based module CA norm.

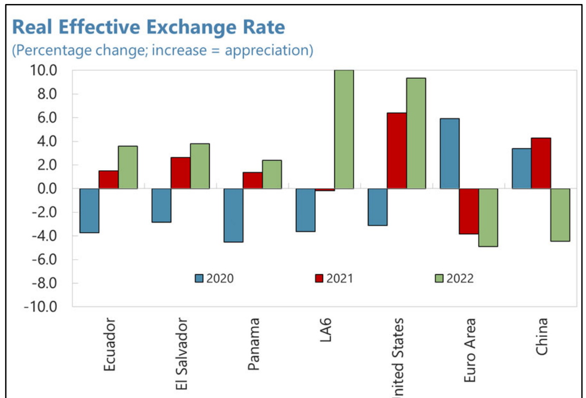
Real Exchange Rate

Background. The REER in Ecuador was relatively flat in 2021 before appreciating in 2022, reflecting on the upside the Federal Reserve's monetary tightening and ensuing nominal appreciation of the US dollar and on the downside relatively lower inflation compared to trading partners. From December 2021 to September 2022, Ecuador's REER appreciated by 3.6 percent, in line with REER developments in other dollarized economies such as El Salvador (+3.8 percent) and Panama (+2.4 percent) but lower than the LA6 average of 10.0 percent over the same period.[2] REER developments combined with increases in average and minimum wages–which have outpaced productivity growth–however continue to weigh on Ecuador's external competitiveness. Labor and product market rigidities as well as high borrowing costs remain also key challenges to private sector-led growth.

[2] The Latin America 6 (LA6) average is calculated on Argentina, Brazil, Chile, Colombia, Peru and Mexico



Sources: INS and IMF staff calculations.



Sources: INS and IMF staff calculations.

Assessment. Using export and import elasticities that have been calibrated to account for specific features of the Ecuadorian economy including its status as an oil exporter [3], the CA model implies a REER overvaluation of 5. 6 percent, while the EBA REER model suggests an overvaluation of 10.4 percent. The consumption model result of 10.7 percent overvaluation serves as the basis for the bottom-line assessment in 2022. This compares to an overvaluation of 8.7 percent in the 2020 ESA.

Capital and Financial Accounts: Flows and Policy Measures

Background. Foreign direct investments (FDI) have been resilient throughout the pandemic, reaching 0.8 percent of GDP in 2022 from 0.9 percent of GDP in 2019, mostly driven by investments in the mining sector. Net public sector inflows have narrowed quite substantially to 0.3 percent of GDP from 2.2 percent in 2019, reflecting lower disbursements from bilateral and multilateral creditors (other than the IMF). Other private sector flows had registered a large increase in net outflows at the onset of the pandemic, reaching 6.9 percent of GDP in 2020, as uncertainty fueled transfers abroad. Private sector net outflows started receding the following year and reached 3.2 percent of GDP in 2022.[4]

Assessment. External financing needs have narrowed over the medium-term due to lower public debt service from the restructuring of debt owed to China. Over the medium-term, continued reform efforts should help build investor confidence and attract more private sector flows. Notwithstanding the authorities' decision to progressively retire the tax on transfers abroad (*Impuesto a la Salida de Divisas,* or ISD), this tax continues to constitute a capital flow measure (CFM) under the Fund's Institutional View on Liberalization and Management of Capital Flows and an exchange restriction subject to Fund approval under article VIII Section 2(a).

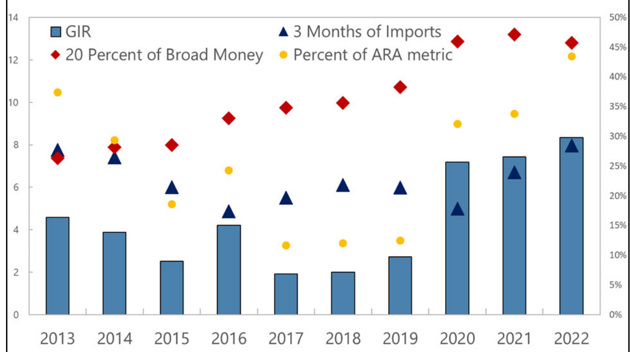
[3] "A Method for Calculating Export Supply and Import Demand Elasticities" by S. Tokarick (2010) (IMF/WP/180).

[4] Other private sector flows include the "other investments" category which is a residual under BCE's compilation methodology. Amounts are therefore influenced by discrepancies in other balance of payments flows and the change in reserve assets.

FX Intervention and Reserves Level

Background. Ecuador is a fully dollarized economy and does not have its own currency. The strong CA surplus combined with public sector borrowing (including IMF disbursements) and resilient FDI supported GIR, which rose to $8.5 billion as of mid-October 2022 from $7.5 billion a year ago. The 2021 SDR allocation of $949 million (equivalent to 10.7 percent of the 2022 ARA metric for Ecuador) contributed to improve reserve adequacy metrics.

Traditional Metrics
(In percent of GDP lhs, Percent rhs)



Sources: Central Bank of Ecuador and IMF staff calculations.

Assessment. Despite the significant improvement over the past three years, international reserves remain below levels adequate for prudential purposes. While GIR at mid-October 2022 were slightly above the traditional 3-months of imports metric at 3.2 months of imports, they were below the 20 percent of broad money metric at 13.1 percent and represented only 43 percent of the Fund's risk-weighted ARA metric.[5] Continued efforts to build reserves, including through higher government deposits, along with higher private sector inflows as the economy strengthens and reforms bear fruits will support the reserve position and strengthen the basis for dollarization.

[5] Traditional reserves metrics are not directly comparable between fully dollarized economies and other economies. In fact, dollarized economies do not face the risk of exchange rate fluctuations and currency mismatches. They however may need a buffer for government financing and extra liquidity buffer to support domestic financial institutions when needed. The latter need is covered separately under the Liquidity Fund (LF) in Ecuador.

Annex III. Sovereign Risk and Debt Sustainability Assessment

Ecuador's public debt remains sustainable with high probability in the baseline forecast, reflecting the ongoing fiscal reforms and macroeconomic stabilization following the COVID crisis. Nevertheless, the realism assessment and the debt fanchart modules highlight the need to avoid policy slippages in fiscal consolidation. Despite the favorable debt outlook, risks related to market perception remain high as shown by the recent large and persistent increase in spreads.

1. Background. The post-COVID recovery, the 2020 debt operation, and the ongoing fiscal consolidation supported by the EFF-supported program have stabilized public debt during 2021, while high oil prices are mitigating fiscal and external vulnerabilities. However, political instability concerns following the June 2022 events caused a sharp increase in Ecuador's borrowing costs and forced the authorities to postpone market access.

2. Baseline Assumptions. The authorities continue to implement the fiscal reforms agreed as part of the EFF-supported program, which solidify the primary surplus in the medium-term and contribute to a sustained decline in the public debt to GDP ratio, which is forecasted to reach 42 percent of GDP by 2027 from 62 percent in 2021. Gross financing needs (GFNs) are also forecasted to decline from 6.4 percent of GDP in 2021 to an average of about 4 percent in the medium-term, including with the recent reprofiling of US$3.2 billion in bilateral debt to China that reduced GFNs by about 0.3 percent of GDP over 2022-24.

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

4. Risks to the Debt Outlook and Realism. The realism assessment and the debt fanchart tools show that the realization of the debt baseline relies on the continuous implementation of ambitious fiscal consolidation compared to historical and cross-country experiences[1]. Downside risks to the debt outlook stem from the possibility that negotiations with protestors lead to fiscal policy slippages, the economic recovery falters, and from lower oil prices. Mitigating factors in the assessment include the large share of multilateral and bilateral official debt, with comparatively low debt service and long maturities, and the low financing requirements that remain below the 15 percent critical threshold.

[1] Comparator group consists of seven commodity exporting emerging markets with an active IMF program.

Figure 1. Ecuador: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	The overall risk of sovereign stress is low, reflecting a moderate level of vulnerability in the medium-term mitigated by the credibility of the ongoing fiscal consolidation underpinned by the IMF program.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate in line with the mechanical signal. The largest risk driver in the moderate assessment is the width of the debt fanchart, representing the uncertainty surrounding the baseline forecast.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test	...	…	
Long term	…	n.a.	
Sustainability assessment 2/	Sustainable with high probability	Sustainable with high probability	Ecuador's public debt remains sustainable with high probability under the baseline, in line with the assessment at program approval and the mechanical signal.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Ecuador is at a low overall risk of sovereign stress and debt remains sustainable with high probability in the baseline forecast. Following the post-COVID recovery and the succesful implementation of fiscal reforms under the IMF program, debt has started declining in 2022 and is expected to continue on a downward trajectory in the medium-term. Medium-term liquidity risks are assessed as low by the GFN module, though risks to market financing remain subject to fast-changing investor perception. Sticking to the fiscal consolidation plan would continue to strenghten Ecuador's public debt sustainability.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Ecuador: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

				#	Subsectors captured in the baseline	Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	Includes Banco de Desarrollo del Ecuador
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	Yes	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:	Consolidated		Non-consolidated		

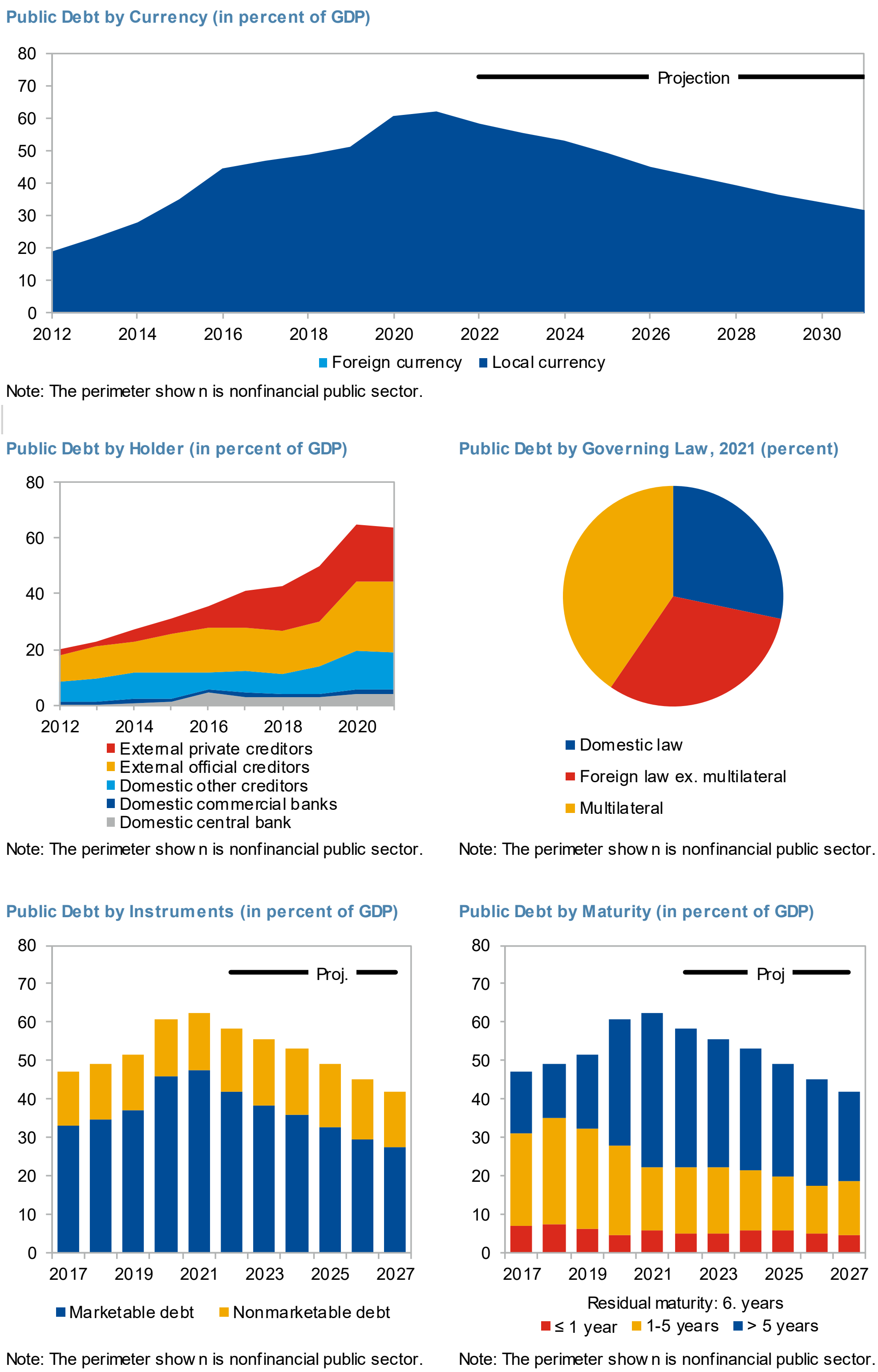
Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

					Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

Source: IMF Staff
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Figure 3. Ecuador: Public Debt Structure Indicators

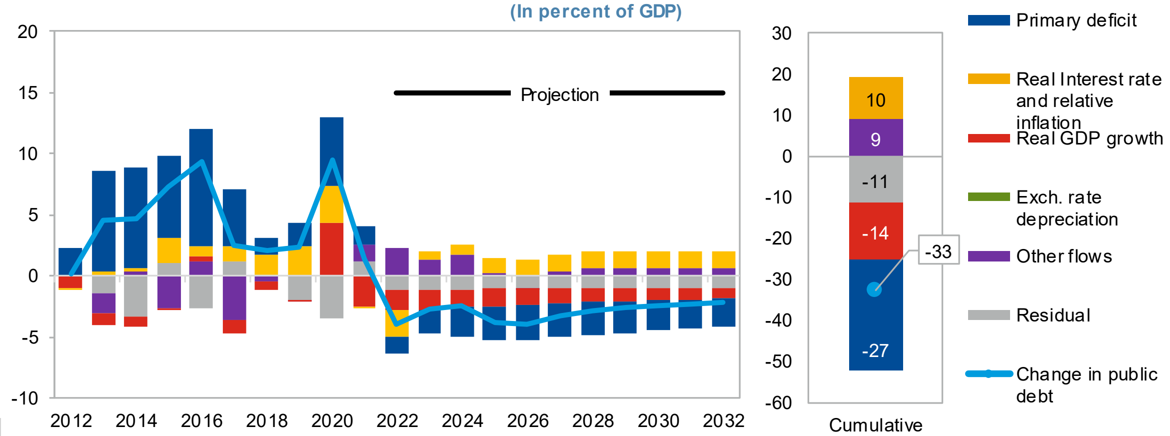


Source: IMF Staff

Figure 4. Ecuador: Baseline Scenario
(In percent of GDP unless otherwise indicated)

	Actual	Medium-term projection						Extended projection				
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	62.3	58.3	55.6	53.1	49.3	45.3	42.0	39.1	36.5	34.1	31.8	29.6
Change in public debt	1.4	-4.0	-2.7	-2.5	-3.8	-4.0	-3.3	-2.9	-2.6	-2.4	-2.3	-2.2
Contribution of identified flows	0.2	-2.9	-1.6	-1.4	-2.7	-3.0	-2.3	-1.9	-1.6	-1.4	-1.3	-1.2
Primary deficit	1.5	-1.4	-1.9	-2.4	-2.8	-3.0	-2.8	-2.7	-2.6	-2.5	-2.4	-2.3
Noninterest revenues	33.0	35.4	34.3	33.9	33.6	33.4	32.7	32.5	32.3	32.1	31.9	31.7
Noninterest expenditures	34.5	34.0	32.4	31.5	30.8	30.4	29.9	29.8	29.7	29.6	29.5	29.4
Automatic debt dynamics	-2.6	-3.8	-1.0	-0.6	-0.2	0.0	0.1	0.2	0.3	0.4	0.5	0.5
Real interest rate and relative inflation	-0.2	-2.2	0.7	0.8	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Real interest rate	-0.2	-2.2	0.7	0.8	1.2	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-2.5	-1.7	-1.7	-1.5	-1.4	-1.3	-1.2	-1.1	-1.0	-1.0	-0.9	-0.9
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	1.4	2.3	1.3	1.7	0.3	0.0	0.4	0.6	0.6	0.7	0.6	0.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions 1/	1.4	2.3	1.3	1.7	0.3	0.0	0.4	0.6	0.6	0.7	0.6	0.6
Contribution of residual 2/	1.1	-1.1	-1.1	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Gross financing needs	6.4	4.4	3.4	3.2	4.3	4.8	4.2	3.8	3.6	3.4	3.3	3.7
of which: debt service	6.0	6.9	6.4	6.7	8.2	8.8	8.0	7.5	7.2	7.0	6.8	7.1
Local currency	6.0	6.9	6.4	6.7	8.2	8.8	8.0	7.5	7.2	7.0	6.8	7.1
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	4.2	2.7	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Inflation (GDP deflator; percent)	2.6	6.4	1.3	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Nominal GDP growth (percent)	6.9	9.3	4.3	4.1	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Effective interest rate (percent)	2.3	2.6	2.6	2.9	3.6	3.9	4.2	4.5	4.8	5.2	5.5	5.6

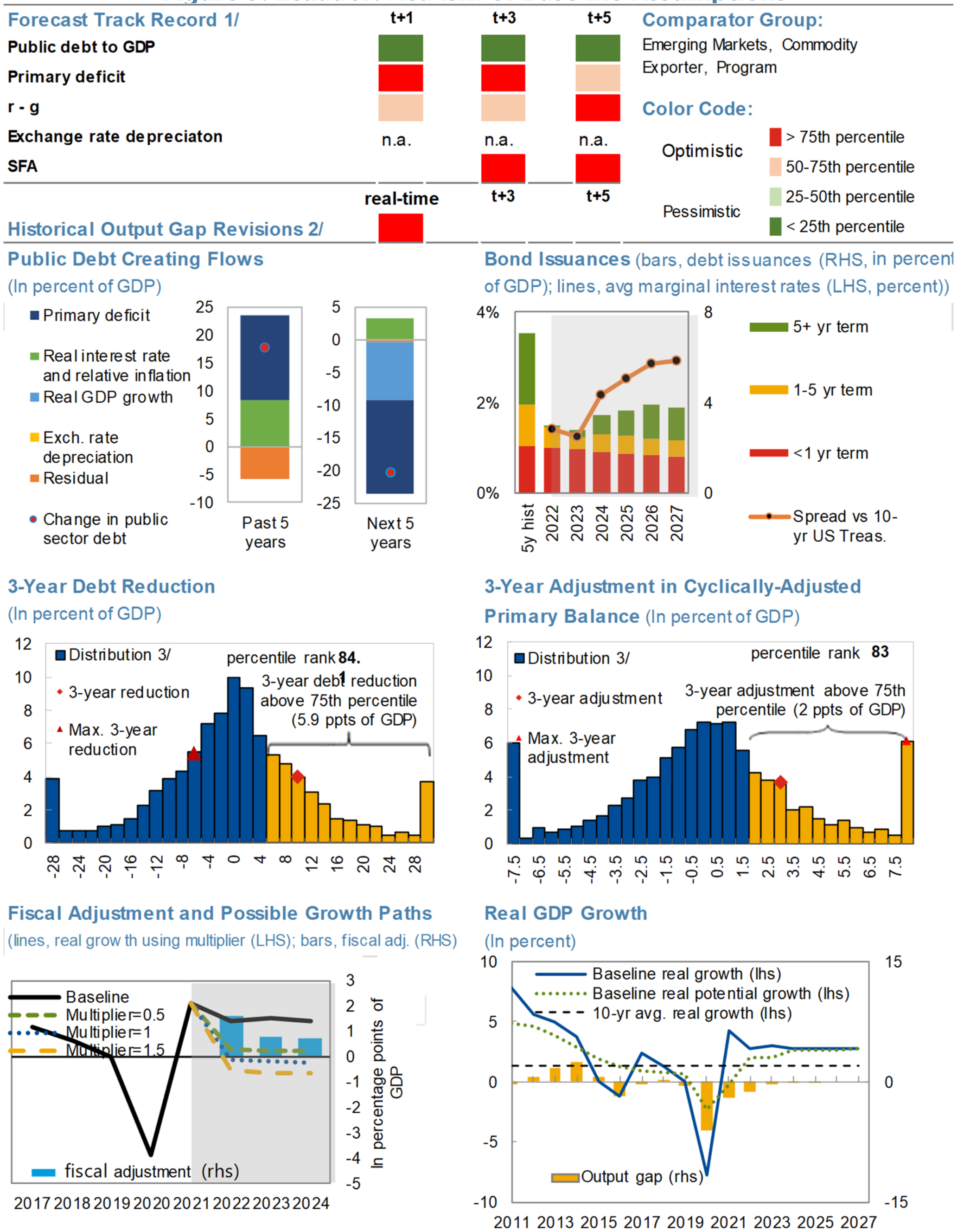
Contribution to Change in Public Debt
(In percent of GDP)



Commentary: Public debt will continue declining under the baseline reflecting ongoing fiscal reforms.

Source: IMF Staff.
1/ Includes NFPS deposits accumulation.
2/ Includes interest income.

Figure 5. Ecuador: Realism of Baseline Assumptions



Commentary: The baseline forecast includes significant fiscal adjustment including a primary surplus of about 2.5-3 percent in the medium-term, which is large compared to historical outcomes. In this context, avoiding policy slippages that would raise financing needs is key to avoid a worsening of the debt sustainability metrics.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage. Comparator group comprises seven countries.

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

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

Figure 6. Ecuador: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes[1]

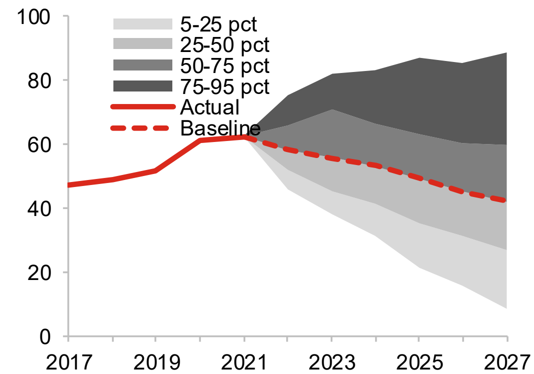
(In percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	80.0	1.2	…
	Probability of debt not stabilizing (pct)	12.8	0.1	…
	Terminal debt level x institutions index	32.4	0.7	…
	Debt fanchart index	**…**	**2.0**	**Moderate**
GFN finance-ability module	Average GFN in baseline	4.0	1.4	…
	Bank claims on government (pct bank assets)	2.5	0.8	…
	Chg. in claims on govt. in stress (pct bank assets)	6.8	2.3	…
	GFN financeability index	**…**	**4.5**	**Low**

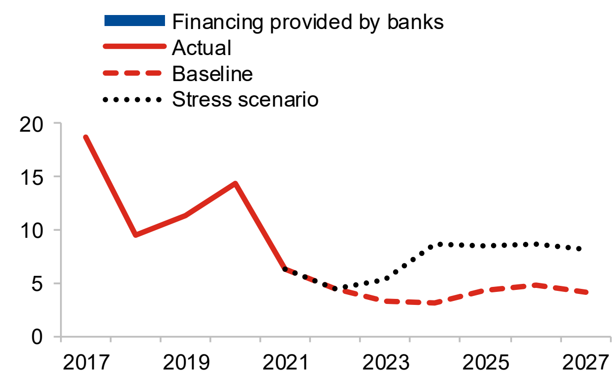
Emerging Markets, Com. Exp., Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Ecuador

Final Fanchart (In percent of GDP)



Gross Financing Needs (In percent of GDP)

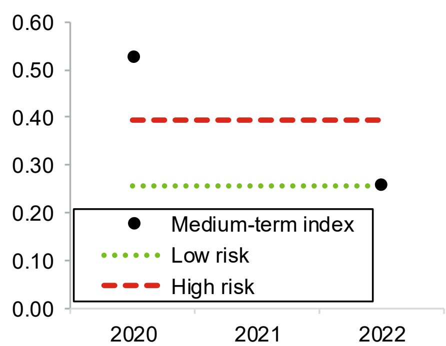


Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 39.8 pct.

Commentary: The two medium-term tools indicate an overall moderate risk, mostly driven by the width metric of the Debt Fanchart Module, while the GFN Financeability Module suggests a low level of risk in the baseline.

Source: IMF Staff.

1/ Comparator group includes seven countries.

Annex IV. Reprofiling of Debt to Chinese Institutions

In mid-September, the government of Ecuador reached an agreement with Chinese Development Bank (CDB) and China Exim Bank to reprofile $3,220 million of debt (78 percent of debt to China). The deal spread debt service over a longer horizon and lowered near-term financing needs included improvements in the linked oil sales and transparency terms. The full contracts are expected to be published soon.

1. CDB Operation. The operation extended $1.4 billion of debt in four loans coming due through 2024 and reduced the interest rate by 0.3-1 ppts. The operation will reduce total debt service (principal plus interest) by $687 million between 2022-24.

CDB RESTRUCTURING (USD Millions)	2022 (Sep - Dec)	2023	2024	2025	2026	2027	Total
Principal Payments							
Pre restructuring	226.4	699.7	461.8				**1,387.9**
Post restructuring	94.3	276.2	276.2	276.2	276.2	188.6	**1,387.9**
Interest Payments							
Pre restructuring	32.7	62.7	15.7				**111.1**
Post restructuring	32.8	74.9	57.6	40.1	22.7	6.0	**234.1**
Debt Service							
Pre restructuring	259.0	762.4	477.5				**1,499.0**
Post restructuring	127.1	351.1	333.9	316.3	299.0	194.6	**1,622.0**
Financial Relief*	131.9	411.3	143.7	-316.3	-299.0	-194.6	**-123.1**

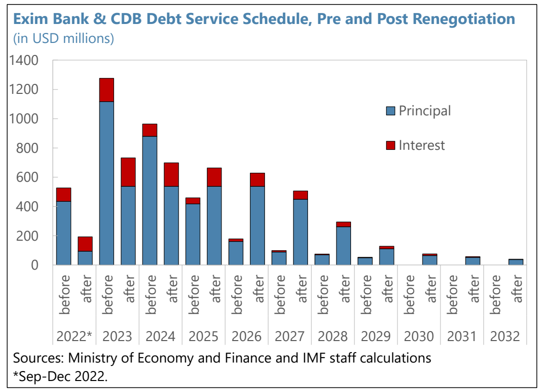
Source: Ministry of Economy and Finance and IMF staff calculations.
*Difference between the debt service pre restructuring and post restructuring
Note: A USD/RMB exchange rate of 7.12 as of September 23, 2022 is used for the debt service calculation

2. China Exim Bank Operation. The operation extended $1.8 billion of debt in four loans due in 2025-2029. The renegotiation included a 0.55 ppts decrease in the interest rate of a fixed rate loan, and a 20 bps decrease in the margin over Libor for two variable rate loans. Through 2025, this operation will reduce the financing needs by $569 million through 2025.

EXIM BANK RESTRUCTURING (USD Millions)	2022 (Sep - Dec)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Principal Payments												
Pre restructuring	208.9	417.8	417.8	417.8	160.8	88.7	69.5	50.2				**1,831.6**
Post restructuring	-	261.1	261.1	261.1	261.1	261.1	261.1	111.1	64.8	51.3	37.7	**1,831.6**
Interest Payments												
Pre restructuring	58.5	95.4	68.3	40.8	18.0	9.8	5.2	2.0				**298.0**
Post restructuring	65.4	120.2	102.7	85.3	67.8	50.4	32.9	17.8	10.6	5.6	2.2	**560.9**
Debt Service												
Pre restructuring	267.4	513.3	486.1	458.6	178.8	98.5	74.6	52.2	-	-	-	**2,129.5**
Post restructuring	65.4	381.3	363.9	346.4	328.9	311.5	294.0	129.0	75.4	56.9	39.9	**2,392.4**
Financial Relief*	202.0	131.9	122.3	112.2	-150.2	-212.9	-219.4	-76.7	-75.4	-56.9	-39.9	**-262.9**

Source: Ministry of Economy and Finance and IMF staff calculations
*Difference between the debt service pre restructuring and post restructuring.

3. Debt Service to Exim Bank and CDB. Following the reprofiling, Ecuador's total debt service to Exim Bank and CDB increased from $3,637 to $ 4,023 million due to a nearly $386 million rise in interest payments through the end of 2032, since the remaining principal payment remains unchanged.



4. Oil Sale Agreements. The renegotiation also led to an extension of 3 years in the oil delivery terms (2024 to 2027) to Petrochina, and an improvement in the price per barrel of oil exports. The extension in the delivery term volume will allow Petroecuador to have more oil available for free export in the spot market, leaving better prices for Ecuador.

5. Transparency. Once the renegotiation process of the contracts was completed, the government issued a press release about the new terms of the contracts (changes in interest rates and savings to 2025 in amortization payment schedule). The contracts have been published on MEF website.[1] In terms of improving the transparency of oil sales agreements, the authorities continue to publish all legally permitted oil contracts to date, including modification contracts, if applicable.[2]

[1] https://www.finanzas.gob.ec/biblioteca/

[2] https://sistemasinternos.eppetroecuador.ec:8301/rcppe/GCIComercial/invitaciones/consultaInvitacionesNS.cfm?titulo=%24titulo&anio=2021&tipo=contratos&ejecuta=Buscar

Annex V. Risk Assessment Matrix [1]

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Conjunctural Shocks and Scenario			
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	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.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	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 lowered domestic hydrocarbon prices in June 2022.	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.
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	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	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,

[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
		increased poverty and inequality.	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 global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	Medium	High Weaker-than-anticipated global growth could reduce trading partner demand, lower exports and deteriorate terms of trade, which would put a dent on growth and strain the external position.	Diversify the economy to reduce dependency on commodity exports.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	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 demand would widen BOP and fiscal financing gaps.	Re-instate containment measures if a severe wave of vaccine-resistant infections occurs. Continue vaccination campaign, including boosters. Prioritize social and health-related spending and continue supporting the population. Provide targeted policy support 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 and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	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. Tight financial conditions due to external factors and perceived	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.

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
		country risk could further delay market re-access and financing from other sources, which in turn could require adjustments.	
Structural Risks			
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	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.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt 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. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	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.

Annex VI. Country CD Strategy Note[1]

Ecuador's capacity development (CD) efforts have been and should remain well aligned with the reform objectives under the ongoing Extended Fund Facility (EFF)-supported program. Key CD priorities include improving the quality of government fiscal statistics (GFS) and public financial management (PFM). In the aftermath of the COVID-19 shock, CD to strengthen financial sector resilience will also be critical. The authorities' engagement and ownership are strong, but absorption capacity is often lacking due to frequent staff turnover. Given heavy CD needs, close engagement with other bilateral and multilateral partners to ensure coordination among CD providers remains critical.

Context

1. **Improving technical capabilities has been an essential part of Ecuador's engagement with the Fund and central to the EFF-supported programs.** Following a resumption of Article IV consultations and regular missions in 2015, the Fund has been providing extensive CD in various areas, including GFS, debt management and recording, PFM, governance, stress testing for monetary and financial institutions, and supervision of credit cooperatives. Several of the TA recommendations served as the basis for the design of structural conditionality of the 2019 EFF-supported program. Following the disbursement under the Rapid Financing Instrument in May 2020, the Executive Board approved on September 30, 2020, Ecuador's request for a 27-month arrangement under the EFF of about $6.5 billion. The program's objectives are to: (i) stabilize the economy, (ii) restore fiscal and debt sustainability, while expanding the coverage of social assistance programs to protect the poor and most vulnerable; (iii) generate sustainable growth with high quality jobs; and (iv) implement structural reforms, including to strengthen the anticorruption and transparency frameworks. Extensive Fund CD has been instrumental in advancing the implementation of these reform.

CD Engagement and Effectiveness

2. **Fund's CD Engagement with Ecuador**. The CD activities have been substantially expanded with the request for a Fund program in 2018. In fiscal areas, the IMF provided CD on PFM, fiscal rules, and medium-term fiscal framework (MTFF), cash management, tax expenditure and revenue administration, and government finance statistics (GFS). In the monetary and financial areas, the TA focused on banks stress testing, financial supervision and regulation, and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). Other TA focused on governance,

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

including conflict of interest, and macroeconomic modelling and forecasting. Table 1 summarizes the CD engagement since 2016 in various areas.[2]

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

4. Collaboration and Coordination with other CD Providers Partners. Fund staff collaborates with the World Bank on debt management and recording. In the area of governance, Fund staff coordinates with UNDP and UNODC on strengthening AML/CFT and conflict of interest frameworks. On social safety net, Fund staff coordinates with the World Bank on enhancing the social registry, and UNDP is supporting post-assessment efforts. Staff is also engaging on a regular basis with other CD partners, such as the IADB, US Treasury and AFD, to ensure consistency of policy advice and synergies in supporting program objectives.

5. CD Effectiveness and Traction. Key recommendations of TA on debt management, fiscal risks, tax policy, GFS, and transparency have led to positive changes in policies, frameworks, and institutions.

- **Debt Management and Statistics**: (i) publication of more transparent and timely debt statistics in line with the new requirements of the Debt Policy Limits (new fiscal rule introduced under the program). (ii) publication of the Medium-Term Debt Management Strategy at end-February 2021.

- **MTFF**. In line with the Fund-supported reform to the Organic Code of Public Finances and Planning (COPLAFIP), the Ecuadorian authorities operationalized a strengthened PFM framework in 2020; and, at end-May 2022, published a Medium-Term Fiscal Framework (MTFF) with a top-down approach, fiscal rules, expenditure ceilings, and a fiscal risk assessment.

- **Tax Revenue and Administration.** Following Fund TA recommendations, a Large Taxpayers' Unit (LTU) was created. To accelerate tax collections, legal incentives were developed, and mediation processes set up for taxpayers who had tax debts. These measures were incorporated in the tax reform legislature that was enacted in November 2021.

- **Fiscal Statistics**. With the extensive CD by STA on GFS since 2018, significant improvements have been made in timeliness, reliability, and consistency of fiscal statistics at different levels of the

[2] The institutions that benefited from these TAs included the Ministry of Economy and Finance (MEF), the Internal Revenue Service (SRI), Customs (SENAE), the Central Bank of Ecuador (BCE) and the Superintendents of Banks and Cooperatives, the Economic and Financial Analysis Unit (UAFE), and the Comptroller General's Office.

public sector. There is now more accurate recording of central government fiscal data for the years 2013-2021, as well as a better recognition of central government's contingent liabilities with other entities of the Non-Financial Public Sector. All revised data have been published on the BCE and the MEF websites with explanations for the changes.

- **Governance and Transparency,** With the help of Fund TA, the anti-corruption framework (COIP) was amended in December 2020 to criminalize corruption in line with international standards. In September 2020, regulations were adopted to request the ultimate beneficial ownership information in public contracts.[3] Currently, all public procurement contracts are published, in an easily downloadable format, with beneficial ownership information when available on the Service of Public Procurement's (SERCOP) website. The existing asset declaration regime for high-level officials, has been improved by the more detailed publication of public official's assets and liabilities. When enacted, the draft law on conflicts of interest will expand the existing asset declaration regime to also allow monitoring of incomes and interests of high-level public officials. Audits of COVID-related expenditures have been conducted and have been published on the Comptroller General's Office's website. The Superintendency of Banks, the Office of the Comptroller General, and the UAFE have also benefited from CDs and TAs activities in the areas of AML and cybersecurity monitoring, supporting the building of risk-based frameworks.

CD Priorities

Looking ahead, Ecuador's CD needs are expected to remain elevated, consistent with the authorities' reforms agenda. Fund's CD is expected to support the main reform areas as follows:

Strengthening Public Finance Management

6. Building on success in the development of a new PFM framework, the next step is to fully implement the COPLAFIP reform. FAD's long-term expert (LTX) will continue helping the authorities advance in financial planning and domestic arrears clearance strategy. In September 2022, MCM provided follow-up TA on the Medium-Term Debt Management Strategy (MTDS) framework, in response to the authorities' request given high turnover in staff and the corresponding loss of capacity. The authorities have requested a Public Investment Management Assessment (PIMA) for early 2023, including the climate component (C-PIMA), and a Fiscal Transparency Evaluation (FTE) for mid-2023. The PIMA will evaluate the public investment cycle planning, allocation, and implementation phases, so that public investment can be prioritized more efficiently. The FTE will complement past technical assistance conducted by the IMF and other development partners, to take stock of fiscal transparency and provide a roadmap for further reforms. Upcoming implementation of the Tax Administration Diagnostic Assessment Tool (TADAT) by FAD will further strengthen tax administration, following a TA request from the Internal Revenue Service (SRI).

[3] http://malta1481.startdedicated.com:8086/control22/index.php

Strengthening Governance and Transparency

7. **More CD is needed in to support the development of the anti-corruption legal framework in line with international standards**. These include the requirement for an asset declaration that takes into account all types of income and additional interests of high-level public officials and/or politically exposed persons (PEPs). Furthermore, there will be potential CD needs to support the newly created National System of Control (SNC) that acts as a coordination mechanism for all institutions acting on procurement and anti-corruption. While the SNC has been created, it requires IT and CD support to ensure interoperability of the databases and a risk-based framework. The authorities have communicated their potential need for further LEG's CD support to address the recommendations from the upcoming GAFILAT Mutual Evaluation Report, expected to be issued in December 2022.

Supporting Monetary and Financial Stability

8. **The Financial Sector Assessment Program (FSAP) is ready to begin in coordination with the World Bank**. The scoping mission took place in August 2022. This will be the first comprehensive evaluation of the Ecuadorian financial system in almost 20 years. Even though the Ecuadorian financial sector has shown strong resilience through the pandemic, the FSAP will be an opportunity to take a comprehensive look at the resilience of Ecuador's financial system, identify key risks and areas for improvement, focusing on the areas of credit and liquidity risk management, systemic risk, capital market development, payment systems, stress testing, financial sector supervision, regulatory arbitrage, and effectiveness of the financial safety net, among others. Implementing the recommendations of this comprehensive assessment will require extensive CD efforts to ensure that the supervision and regulation of the financial system is in line with international standards and best practices.

9. **Building capacity of the newly created Monetary and Financial Boards will help ensure a smooth transition to the post-COVID period and help strengthen their supervisory and regulatory capacities**. The FSAP should help improve the functioning of these two Boards, which were created with Fund guidance. Other areas identified by the authorities as potential priorities for future TA include digital payments (regulatory framework), stress testing, growth-at-risk, and regulation of the stock exchange and insurance sectors.

Improving Quality and Consistency of Government Finance Statistics

10. **Since 2018 Ecuador has received extensive support from the Fund on GFS, which particularly has intensified following the case of misreporting in April 2020**. STA's regular CD activities have allowed for continued improvement in the compilation of fiscal data in line with the GFS Manual 2014. Despite the progress made in recent years, some institutional and technical weaknesses still remain, as evidenced by the recent case of misreporting. The authorities, in consultation with Fund staff, have developed a comprehensive corrective action plan, to address these weaknesses. Recent STA CD has helped the authorities to properly correct above- and below-the line fiscal data and corresponding debt statistics back to 2013 (corrections back to 2017 have

already been done in May). The upcoming STA LTX will support the Chief Statistician and the statistics office, once it is restructured by the MEF this fall, in adopting best practices for data collection, verification, and coordination with other subsectors on the NFPS to ensure timely and accurate data provision. The LTX will also help the authorities design and implement a new training curriculum for new and existing MEF staff, so that capacity is built and retained over time.

Improving Quality of Macroeconomic Statistics and Forecasting

11. Continuing CD on adequate measurement of all macroeconomic aggregates is essential for the central bank (BCE), which by law is responsible for the compilation of macroeconomic statistics. Strong cooperation and data sharing among institutions, including between MEF and the BCE, is crucial to ensure reliable statistics and consistency across statistical domains. Further STA CD is needed to make progress in these areas, particularly in external sectors and national accounts statistics. The BCE needs to improve the quality and coverage of non-financial public and private sector information for external sector statistics and a formal agreement with MEF should be established for information exchange. Further TA on national accounts is essential to more accurately capture economic activity in GDP numbers and better reflect the recent evolution of prices.

12. The authorities will also benefit from TA in Financial Programming and Policies (FPP), which will allow staff from the MEF and the BCE to better understand and model the interrelationships between different sectors of the economy and execute internally consistent policies. Building on the FPP framework, a semi-structural model to enhance fiscal projections is planned to be developed with ICD's support, in response to a TA request from the authorities.

Challenges and Mitigating Factors

13. The authorities are committed to the Fund-supported program and underlying CD and TA activities. Incorporating TA advice and lessons from CD activities in program conditionality helps strengthen traction. By adopting TA recommendations, significant progress has already been made in terms of reliability, transparency, and consistency of information; however, capacity building is a long-term process, and recent changes in authorities and high turnover levels of technical staff necessitate both follow-up and repeat CD activities. To improve traction, TA recommendations should be broken into smaller, more easily digestible pieces, adapted to local constraints, and implemented gradually but steadily, with sufficient planning and resource allocation to ensure absorption capacity to lock-in long lasting effects. The planned CD agenda for the remainder of FY23 (Table 1) has been discussed and agreed with the authorities, taking into account their priorities and absorptive capacity as well as IMF staff's views on Ecuador's pressing needs for capacity building.

Table 1. Ecuador: IMF Capacity Development Missions Since 2016		
TA/Training Mission	**Provider**	**Mission Date**
Strengthening PFM		
Public Investment Management Assessment (PIMA)	FAD	Planned. Q1 2023
Fiscal Transparency Evaluation (FTE)	FAD	Planned. Q2 2023
Revenue Administration (TADAT)	FAD	Planned. Q1 2023
Debt Management	MCM	September 2022
Public Financial Management - LTX	FAD	2020-2022
Medium Term Fiscal Framework (MTFF)	FAD	September 2021
Fiscal Risks	FAD	July 2021
Revenue Administration	FAD	March 2021
Developing Implementation Regulations for COPLAFIP	LEG	December 2020
Medium Term Debt Strategy	MCM	November 2020
Tax Expenditure	FAD	April 2020
Revenue Administration and Tax Procedures	FAD	June/July 2019
PFM and Fiscal Rules	FAD	May 2019
Customs Administration	FAD	March/April 2019
Revenue Administration	FAD	March 2019
Non-Resource Revenues	FAD	January/February 2019
Debt Management	MCM	December 2018
Public Financial Management	FAD	September 2018
TA/Training Mission	**Provider**	**Mission Date**
Implementing Structural Reforms		
Conflict of Interest Legislation	LEG	July 2022
Conflict of Interest Legislation	LEG	December 2021
Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)	LEG	November 2021
Wage Bill Reform	FAD	January 2019
Supporting Monetary and Financial Stability		
Digital Payments	MCM	Planned. 2023 (after FSAP)
Cybersecurity	MCM	February 2022
Banking Stress Testing	MCM	July/November 2021
Banking Stress Testing	MCM	January 2021
Credit Cooperatives Supervision	MCM	July 2020
Regulatory and Prudential Framework	MCM	June 2019
Central Bank Law	LEG	April 2019
Network Analysis Toolkit	MCM	January 2016
Improving and Updating Government Finance Statistics		
Government Finance Statistics	STA	July-August 2022
Government Finance Statistics	STA	February/March 2022
Government Finance Statistics	STA	December 2021

Table 1. Ecuador: IMF Capacity Development Missions Since 2016 (concluded)		
Government Finance Statistics	STA	November 2021
Government Finance Statistics	STA	July 2021
Government Finance Statistics	STA	April 2021
Government Finance Statistics	STA	September/October 2020
Government Finance Statistics	STA	September/October 2019
Government Finance Statistics and Public Debt Statistics	STA	August 2018
Capacity Development in Macroeconomic Statistics		
Macroeconomic Framework TA	ICD	Planned. Q4 2022 and 2023
Export and Import price indices	STA	November 2022
External Sector Statistics (BOP)	STA	August 2022
Quarterly National Accounts and GDP rebasing	STA	August 2022
National Accounts: re-basing GDP	STA	April 2022
External Sector Statistics	STA	August/September 2019
Export and import price indices	STA	July 2019
External Sector Statistics	STA	January/February 2019
National Accounts Statistics	STA	November 2018
Monetary and Financial Statistics	STA	August/September 2017
Balance of Payments Statistics	STA	August/September 2017

Appendix I. Letter of Intent

Quito, November 29, 2022

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

Dear Ms. Georgieva:

1. Since the approval of the program in September 2020, we skillfully guided Ecuador through the COVID-19 crisis and met head-on other external and domestic challenges. The support of the IMF and the international community has been instrumental in helping us save lives and livelihoods and lay the foundations for a stronger and more inclusive recovery during one of the most difficult times in our history. With the help of the EFF-supported program, we have undertaken crucial reforms to lay the foundations for a more enabling environment for the private sector, a more transparent, sustainable, and equitable fiscal policy, and a more resilient financial sector.

2. Our timely and proactive response to the crisis, including through a successful vaccination campaign, allowed for a gradual reopening of the economy. With 84 percent of the eligible population fully vaccinated and 53 percent boosted, we have safely relaxed COVID-19 containment measures. Economic recovery is ongoing, with a 2.7 percent expansion in real economic activity expected this year, driven by a recovery of household consumption. While inflationary pressures are increasing, they remain lower than in regional peers, helping competitiveness.

3. Our political environment has become more challenging. The 18-day protests in June disrupted economic activity and hurt confidence in the second quarter of 2022, carrying economic and social costs. Nevertheless, the economic activity has recovered in the third quarter of 2022, driven by an increase in domestic sales, a strengthen of the external sector and a rise in business confidence.

4. Addressing the domestic security situation has become a priority. With a focus on reducing rising narcotraffic and crime organization, the government is implementing a national security plan to strengthen our police forces urgently.

5. We remain fully committed to the objectives of our EFF-supported reform program: preserving fiscal and debt sustainability, rebuilding buffers, reducing dependency on oil, strengthening the basis for dollarization, and advancing the transparency and anti-corruption agenda. Thanks to the prudent management of our public finances, we have improved our fiscal balances and built sizable buffers over the last two years. Our non-oil deficit is now the lowest it has been since 2006, and we are expecting the first fiscal surplus of NFPS in 2022 after thirteen consecutive years of fiscal deficits. Moreover, our international reserves are at record levels, enabling the Central Bank to provide full coverage for private and public financial institutions' deposits, and

our public debt is on a firmly declining path, expected to reach the 57 percent debt target of 2025 in 2023, two years earlier than envisaged at the outset of the program. Our gross financing needs are manageable, including due to a successful reprofiling operations with some external creditors.

6. Our fiscal policy is increasingly progressive and supportive of lower income families. On the revenue side, the enactment of the landmark tax reform in November 2021, coupled with ongoing concerted effort to improve tax compliance, helped ensure that the better-off pay their fair share. On the expenditure side, we have expanded the social assistance programs to reach 80 percent of the low-income households nationwide, compared to 30 percent before the program. We have also taken extra effort to raise coverage for the lowest income groups and across all provinces of Ecuador. In particular, we have launched "*Bono de mil días* (A Thousand Days Program)", which is a conditional cash transfer program to address child malnutrition.

7. We have maintained the stability of our financial system through the COVID-19 crisis and domestic social unrest. Our financial institutions remain liquid and adequately capitalized, while private credit and deposits have been expanding. The work on a strategy to unwind the COVID-19 crisis measures in the financial system is ongoing. The process has started to close some regulatory gaps between banks and large cooperatives, promoting competition in the financial sector. The upcoming Financial Sector Assessment Program (FSAP), the first in almost two decades, will allow for a comprehensive diagnostic of our financial system and set a roadmap for future reforms.

8. As per our program commitments, we met all quantitative performance criteria (QPC) and all indicative targets (IT) for end-August, except for the IT on the regional coverage of the social protection program in all but three provinces. We recognize that our progress on structural benchmarks has experienced delays, including due to high-level personnel changes in key agencies tasked with implementing these reforms. Despite our best efforts to begin the financial audits of the state-owned oil company, no audit firm has yet participated in the procurement process to complete the project. We will continue to work with international partners to find a way forward and begin the audits as soon as possible. We are also redoubling our efforts to complete as much of the structural agenda left under the program, as well as the measures to address the recent misreporting case. We have submitted the 2023 budget and medium-term fiscal framework (MTFF) that are fully in line with the program and set out our plans to continue improving fiscal sustainability for years to come. The budget transparently and conservatively incorporates central government transfer obligations to the social security fund.

9. To demonstrate our commitment to the structural agenda, we will undertake two important prior actions for this final review, both of which are also corrective actions to address the recent misreporting: i) we will complete the audits of 2020 and 2021 healthcare expenditures, and ii) prepare a time-bound action plan to undertake legal reform and administrative actions to strengthen the legal framework for the State obligations on healthcare expenditures. The latter will help address the legal ambiguity regarding the timing of healthcare audits that has led to past claims being unaudited, unverified, and unpaid for many years

10. Cognizant of global risks and uncertainty with respect to international market re-access, we aim to continue strengthening our public finances and build credibility, including through prudently saving the any potential oil windfall. Despite improving economic fundamentals, spreads and yields have increased rapidly. This is due both to tighter global financial conditions for all emerging markets and also the challenging domestic political environment that increased the perception of country risk without reflecting accurately the macroeconomic fundamentals. With spreads recently rising, and international bond yields reaching 20 percent, we postponed our plans to re-access international capital markets this year. We are hopeful that the successful completion of the EFF-supported program, our strong and credible budget and the MTFF, will send a positive signal and helps us re-access markets in the coming years.

11. We are committed to bringing this program to a successful completion in December. This would be a historic milestone –the first IMF program Ecuador will have completed in more than two decades, despite a challenging domestic and external environment. Against this background, we request that the Fund complete the Sixth and Last Review of the Extended Arrangement under the IMF's Extended Fund Facility with a disbursement of SDR 497 million (about US$700 million). The disbursement would continue to support our budgetary efforts to contain the negative effects of the COVID-19 pandemic, increase the coverage of targeted cash transfers to vulnerable households, and support economic recovery through addressing long-standing barriers to growth.

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

13. In line with this government's objective to foster transparency, we consent to the publication of this letter, its attachment, 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/
Pablo Arosemena Minister of Economy and Finance	Guillermo Avellán General Manager, Central Bank of Ecuador

Attachment I. Memorandum of Economic and Financial Policies

1. Our government remains fully committed to the timely completion of 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. The program has been instrumental in helping Ecuador recover from the pandemic, restore fiscal sustainability with equity, reduce dependency on oil, strengthen the basis for dollarization, and advance the transparency and anti-corruption agendas. Key structural reforms have been successfully completed, including operationalizing the reforms to the organic budget code (COPLAFIP) that established a prudent fiscal framework, a progressive tax reform, legislation that criminalized acts of corruption (COIP), and reforms to the organic monetary and financial code (COMYF) that strengthened the autonomy and governance of the central bank (BCE).

3. We have acted timely and prudently to minimize the health and economic fallout of the COVID-19 pandemic crisis. We have increased social assistance spending and made it more geographically inclusive. Taking advantage of the Rapid Financing Instrument (RFI) and EFF flexibility, we have expanded the capacity of the healthcare system to deal with the pandemic, including by providing access to COVID-19 vaccines for all Ecuadorians. As of end-October 2022, 84 percent of the population over 3 years old received two doses of vaccines, and 53 percent of the population over 12 years old received booster doses. The well-executed vaccination campaign has allowed a sustained reopening of the economy, despite multiple waves of the pandemic. On the monetary and financial side, we ensured that the financial system remained stable and supportive of businesses and households throughout the crisis. In addition, we have taken steps to strengthen our Central Bank, including by clearing its balance sheet of legacy assets from the 1999 banking crisis and supporting its auditing capacities. In combination, these measures helped save lives, keep workers employed, businesses afloat, and credit flowing.

4. With the economy stabilized and recovery entrenched, we are continuing our efforts to promote a private sector-led and job-rich economic recovery, liberalize trade and investment regimes, and enhance the 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.

5. Our government is dedicated to put our public finances on a sustainable path, rebuild buffers, reduce public debt, improve 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. We are strengthening the tax administration, undertaking measures to broaden the tax base, close tax loopholes, and fight tax

evasion. Those who earn the most will be paying their fair share. We are improving the timeliness and reliability of fiscal statistics and are addressing fiscal risks stemming from state-owned enterprises (SOEs) by conducting the first financial audits in years. We are creating the incentives for Ecuadorians with income and assets abroad to declare their assets and net-worth and report them to the Internal Revenue Service (SRI). We are 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. At the same time, we are expanding social assistance programs to protect the most vulnerable and promote inclusive growth across geographical areas.

6. To ensure that our financial system remains resilient, healthy, and supportive of growth and financial inclusion, we are undertaking a Financial Sector Assessment Program (FSAP) – the first in almost two decades. This comprehensive assessment will lay a roadmap for future reforms to ensure the continued resilience and health of the financial system going forward.

7. This memorandum takes stock of Ecuador's major achievements under the program to-date, 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 and beyond.

8. This memorandum also explains our plans to continue a close engagement with the Fund after the current program. We are committed to persevere with fiscal consolidation, building buffers, strengthening public finance management, and structural reforms to improve competitiveness and raise potential growth.

A. Protecting Lives and Livelihoods

9. Our goal is to ensure that the 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.

10. The $5.8 billion disbursed by the IMF so far under the current program and the $643 million provided under the 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. Thanks to our successful vaccination campaign, Ecuador now has less than 10 new cases of COVID-19 per million inhabitants, a figure below that of some neighboring countries.

11. We have made big strides in helping the most vulnerable. We continue upgrading our social registry and expanding the coverage of social protection programs with the assistance of the UN and the World Bank (WB). Back in June 2020, less than 550,000 families (38 percent) in the bottom three income deciles received social protection. From July 2020 to end-August 2022, we more than doubled this number and incorporated 634,129 families from the bottom three income deciles into

the social protection system. By end-December 2022, we will have incorporated more than 647,000 new families, surpassing by a wide margin the program target of 625,600 new families, and thereby ensuring that 82 percent of the families in the bottom three income deciles—almost 1.2 million families—receive social assistance support.

12. In April 2022, we fine-tuned the abovementioned nation-wide social protection target to address the hard-to-reach groups and areas by introducing two new targets – reaching at least 65 percent coverage of the lowest income decile and at least 70 percent of the lowest three deciles across each province (***end-November structural benchmark, not met, partially implemented***). We have already reached the target on the lowest income decile: after recalibrating—in consultation with the World Bank—the algorithm that processes surveyed households, by end-August we have incorporated 79 percent of the families in the lowest income decile, surpassing the end-August target of 57.5 percent and ahead of the end-December target of 65 percent.

13. Our social assistance program is now more geographically inclusive. We have made significant progress towards reaching at least 70 percent of the lowest three deciles in each province by end-December 2022, despite technical difficulties in surveying marginalized regions. We have achieved the target number of families (Table 1), corresponding to 65 percent of families by August 2022, in all but three provinces. The small shortfall in these three provinces, about 2,300 families (less than 0.2 percent of total beneficiaries in the country) reflects the fact the social registry prioritizes families based on national ranking in the income distribution, and other provinces have more low-income families. We will continue paying particular attention to the provinces where the social registry is less developed to achieve an equitable and geographically balanced inclusion to the social safety nets.

14. In July 2022, we introduced a new program to address child malnutrition—"Mil Días" ("One Thousand Days"). This conditional transfer program supports poor and extremely poor mothers from pregnancy to early childhood with an average transfer of $60 per month. The program also includes a package of supportive services. All entitled mothers who register for the program receive the benefits. Currently, the program is reaching 28,352 mothers, i.e., 68 percent of qualified beneficiaries; we aim at reaching 75 percent of qualified beneficiaries by end-2022 through targeted information campaigns.

B. Restoring Fiscal Sustainability with Equity

15. While the EFF-supported program is ending in December, we remain committed to persevere with the reform momentum. We have undertaken 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. After the program is completed, the design of our fiscal policy will continue to be guided by the principle of restoring sustainability with equity and reducing public debt, consistent with the debt limits and expenditure growth rules in COPLAFIP. As a sign of our commitment, we have submitted a 2023 budget and the medium-term fiscal framework that are in line with these objectives and the EFF-supported program (***end-October structural benchmark; met***).

16. Our public debt remains on a firmly downward trajectory and the gross financing needs are manageable. The successful reprofiling of US$3.2 billion in bilateral debt to China in September 2022 reduced fiscal financing pressures at a time of tighter global financial conditions by lowering debt service by an average of 0.3 percent of GDP per year over 2022-24. At the time of program approval in 2020, the most critical fiscal vulnerabilities were the high public debt and deficit, projected to peak that year at 69 and 9 percent of GDP, respectively, and the very low public sector deposits. The key anchor for the medium-term fiscal plans, the 57 percent debt target for 2025 in COPLAFIP, was expected to be reached only in 2023.

17. Over the last two years, our prudent management of fiscal balances, including from saving much of the oil windfall resulting from unexpectedly high oil prices, and more buoyant non-oil revenues owing to a less severe downturn than originally envisaged, followed by our progressive tax reform starting to yield returns, have helped improve fiscal balances and build buffers faster than expected. At the end of 2022, we expect public debt to reach 58 percent of GDP and attain a NFPS fiscal surplus of 1 percent of GDP; the first surplus since 2008.

18. The 2022 year-to-date fiscal performance has been good, supported by record oil prices and a prudent execution of non-oil balances, in line with commitments under the EFF-supported program. Nonoil revenues of the PGE have increased 15 percent by September compared to the same period in 2021, with a 14 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. Nonoil primary expenditures have remained mostly flat over the same period, in line with our commitment to an expenditure-based consolidation. Reflecting the good nonoil performance and higher oil prices, the accumulation of nonfinancial public sector (NFPS) deposits in the Central Bank through September has been over $2 billion compared to $1 billion over the same period in 2021, providing the government with buffers to meet its cash flow needs.

19. Our performance on the quantitative fiscal targets for this review was strong. The August quantitative performance criterion (QPC) on the budgetary central government (PGE) and the oil derivatives financing account (CFDD) was met by a wide margin of $1.8 billion. We met August indicative targets (ITs) on the overall balance of the NFPS by a margin of $1.4 billion. Higher oil prices and across-the-board current expenditure restraint, especially on wages and salaries and goods and services, contributed to this overperformance. The August IT on the non-oil primary balance including subsidies (NOPBS) was met with a margin of $733 million, despite higher fuel prices and policy decisions that raised the subsidy bill to nearly $4 billion this year (suspension of the fuel subsidy reform in October 2021 and a further drop in gasoline and diesel prices by $0.15 in June 2022).

20. Ecuador's public finances are now less reliant on oil revenues, which has been a source of vulnerability in the face of uncertain global oil prices. Over the last two years, the NFPS non-oil primary balance has improved by an estimated 3.4 ppts of GDP. An important milestone was the enactment of the tax bill 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 has made our tax system more equitable, simpler, and growth friendly. 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. In addition, we are also pursuing information exchange with foreign tax authorities. In this regard, 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.

21. With key fiscal variables higher than earlier projections, we are set to overperform medium-term targets even with a lower medium-term consolidation than in previous reviews**.** As such, we will aim to achieve a medium-term consolidation in the NOPBS of 4.3 ppt of GDP over 2020-25. Even though this is 0.2 ppts lower than the medium-term target in past reviews, this more gradual consolidation path would strike the right balance between supporting the economic recovery and addressing the rising needs of the country, while at the same time allowing us to reduce oil dependency and comfortably meet international reserves and public debt targets set out in COMYF and COPLAFIP legislations respectively. We believe building reserve buffers and reducing public debt 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.

22. In 2023, we will target a NOPBS improvement of 1.4 ppts of GDP, as the fuel subsidy bill is expected to decline together with lower oil prices, and fiscal consolidation measures will continue to be implemented. This 2023 fiscal plan would accommodate some additional spending needs on the wage bill ($410 million) compared to the original plan to hire additional police officers to deal with a deteriorating security situation, pay a higher-than-expected increase in teachers' wages, hire medical personnel in rural areas, and implement a more gradual reduction in headcount in other government ministries to reflect a more difficult socio-political situation. The consolidation will be supported by the full impact of the tax reform enacted in November 2021, and further expenditure restraint. The 2023 Budget and medium-term fiscal framework we have submitted at the end of October is fully in line with these plans:

- On the revenue side, the tax policy reform is expected to bring 0.6 percent of GDP in savings; efforts to improve tax administration will help save another 0.1 percent of GDP. These savings will be partly offset by the rollback of temporary taxes (0.3 percent of GDP).

- The non-oil consolidation in 2023 will be primarily expenditure-based (1 ppts of GDP), in line with our medium-term strategy, including rationalizing goods and services, and reprioritizing capital expenditure.

- All of the consolidation effort on the non-oil expenditure side in 2023 will come from the central government. (0.4 ppts of GDP), despite the overall NFPS non-oil expenditure increasing by 0.1 percent of GDP.

23. Over the medium-term, our fiscal strategy will be guided by the medium-term fiscal framework (MTFF) in our budget. 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 further reduce nonoil primary expenditures (including subsidies) by 3.6 ppts of GDP over 2023-25. Improving procurement practices, and general spending prioritization, would yield 0.2 ppt of GDP in savings in goods and services and 0.2 ppt of GDP in other spending over the next 3 years. Despite the recent fuel subsidy policy decisions, including the $0.15 reduction in the price of gasoline and diesel at the pump, the anticipated decline in oil prices is expected to yield 1.7 ppt of GDP in savings. These measures would allow expanding capital expenditure (0.1 ppt of GDP over 2023-25) and maintaining social assistance spending as envisaged by the increased coverage planned over 2023 to be maintained over the medium term (¶9). The bulk of the discretionary consolidation 0.6 ppts of GDP) over 2023-25 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 0.6 ppt of GDP over 2023-25 at the NFPS level (corresponding to a consolidation of 1.8 ppt of GDP over 2020-25). The strategy relies on a 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 the recently enacted law, healthcare needs of rural communities, and hiring of additional police personnel to strengthen domestic security forces. 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 have been provided on the public sector workforce to all levels of the public sector, that were jointly defined with the Labor Ministry. In June, we adopted presidential decrees for controlling public expenditures, including to implement this wage bill strategy, which specified the corresponding policy actions for the central government agencies. The Ministry of Labor will issue before the end of the year secondary norms that will operationalize the presidential decree to ensure that the wage bill strategy delivers the expected results. Also, with the support of technical assistance from IFIs we will be undertaking a review of the central government agencies to strengthen budgetary oversight and human resource planning e.g., performance-based budgeting within some central government agencies.

- 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 June, we issued bylaws to the

procurement law with a presidential decree (Reglamento General de Compras Públicas) that mandated 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 has started to issue a set of Resolutions (Secondary Norms) to operationalize the bylaws, a task to be completed within 180 days from the issuance of new regulation. To generate the expected savings from efficient and transparent procurement practices, SERCOP is prioritizing 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 those items purchased by public entities in large volumes, negotiate bulk contracts with suppliers, and provide information to regulators on competitive bidding. Notably, resolutions aimed at collecting and publishing information on the ultimate beneficiary owners of contracts were issued in early October. 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. 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. During this year, SERCOP has worked with all entities, on a one-by-one basis, to ensure interoperability of their databases. However, there have been found legal and technological issues that should be solved within the next year. So far, SERCOP has interoperability with SRI, IESS and Superintendency of Companies, that has allowed to filter all private contractors that have due obligations with these institutions. SERCOP is working in fixing the problems found in the interoperability of SNC entities' databases with the expectation to fix them during 2023. 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, 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 early 2023. This technical assistance will include the C-PIMA component to help us build low-carbon and climate-resilient infrastructure.

- Fuel subsidies. The fuel subsidy reform that started in July 2020 allowed domestic prices to adjust towards international prices and saved the government almost $500 million before it was suspended in October 2021, following a one-time price adjustment. In June, in response to the protests, we lowered the price of diesel and gasoline at the pump by $0.15. 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 $3.9 billion, 3 percent of GDP) partly reflects the surge in oil prices along with an increase in the oil derivative margins, likely a consequence of the Russia invasion of Ukraine and the disruptions in the supply chain, 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 we are already importing higher quality gasoline. One of the administration's priorities is to advance on the fuel subsidy reform in the period ahead. We are currently analyzing targeting mechanisms for the industrial and transport sectors, recognizing that any resulting savings could be channeled to priority investment, such as higher spending on health, education, social assistance, and growth-enhancing infrastructure.

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**	**0.4**	**0.1**	**0.4**	**0.3**	**0.2**	**0.2**
o/w Tax policy reform	0.4	0.0	0.1	0.6	0.0	0.0	1.0
o/w Temporary tax measures	0.0	0.0	0.8	-0.3	-0.4	0.0	0.0
o/w Administrative measures	0.0	0.0	0.1	0.1	0.1	0.0	0.3
Non-oil Primary Expenditures including Subsidies	**0.7**	**-0.3**	**1.0**	**1.0**	**1.0**	**0.7**	**4.0**
Wages and salaries	-0.7	0.9	1.0	0.0	0.3	0.3	1.8
Goods and services	0.5	0.1	0.2	0.1	0.1	0.0	1.1
Social assistance	-0.4	-0.1	0.1	0.0	0.0	0.0	-0.4
Other spending	-0.8	0.2	0.4	0.0	0.2	0.0	-0.1
Capital spending	0.9	-0.4	0.7	-0.2	0.0	0.1	1.1
Fuel subsidies	1.1	-1.0	-1.3	1.0	0.4	0.3	0.6
Total	**-0.4**	**0.1**	**1.1**	**1.4**	**1.2**	**0.9**	**4.3**

24. The fiscal strategy described above for 2023 and the medium term will be anchored in 2023 budget targets, expenditure ceilings, and the MTFF. The National Fiscal Coordination Council (NFCC, ¶22), which includes representatives of the subsectors of the NFPS, voted on these targets ensuring consistency across the public sector in May 2022. In June we published the MTFF, and the targets and ceilings as approved by the NFCC, in line with our commitments. In November 2022, we will assess the compliance of the 2022 projected outturns with the NFCC targets.

25. Our near-term financing needs have been alleviated by recent deals. In 2022, we have decided to convert the $400 million bond guarantee from the IDB to budget support of the same amount for 2022, and to increase domestic debt issuance to replace some of the lost external financing. In addition, we have recently reprofiled about $3.2 billion of debt to Chinese banks, which lowers debt service over 2022-2024 by about $400 million per year on average. Finally, we have settled the Perenco dispute with a prospective payment of US$375 million plus interest minus the taxes owed to the SRI until the end of 2023.

26. Our financing strategy going forward will continue to prioritize borrowing from low-cost multilateral sources and will seek a gradual re-entry to the international capital market. Despite

improving economic fundamentals, spreads and yields have increased rapidly in recent months and remain elevated, due to tighter financing conditions for all EMs, and the challenging domestic political environment that increased perception of country risk. With bond yields reaching 20 percent, we have decided to postpone our plans to issue a Eurobond this year. We are planning instead a more gradual return to the markets once market conditions normalize and more accurately reflect Ecuador's improving fundamentals.

Contingency Policies

27. Cognizant of the risks to our 2023 budget and overall medium-term fiscal framework, we have identified credible contingent policies. A fiscal risk monitoring section was included in the medium-term fiscal program published in September 2022 (see below). 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 have built the 2023 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 $67 million in net revenue at the NFPS level, while just short of $47 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 fund, as per the recent reform to COPLAFIP. Moreover, our ongoing SOEs reform, supported by recently completed asset quality reviews of public banks and the upcoming audits of oil companies and IESS financial statement, should help estimate and 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 in the 2023 budget and the MTFF 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. To that effect, we have completed the action plan/strategy to undertake legal reforms/administrative actions aimed at strengthening the legal framework for the state healthcare obligations to the IESS (¶33). This plan will require medical audits to be conducted on a quarterly basis and presented to MEF. *Subsecretaria de Relaciones Fiscales* will validate the audits to pay IESS within a certain (timeframe). We will implement this action plan in 2023, so as to prevent future arrears, improve the reliability of fiscal statistics, and provide a steady cash flow to the IESS. As a first step, we plan to procure the auditor for the 2022 obligations later this year and starting the 2022 audits in June 2023.

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

28. The amendments to COPLAFIP that were adopted in 2020 marked an important milestone in Ecuador's public financial management. The 2020 reforms included the adoption of regulations to COPLAFIP, including those that require 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*. A fiscal risk monitoring section was included in the medium-term fiscal program published in September 2022, as required by COPLAFIP. The statement presents, analyzes, and estimates the impact of fiscal risks on the budget implementation, including from PPPs. This document has served as a guideline for the preparation of the policy for the prevention, mitigation, and management of fiscal risks with NFPS coverage, which was enclosed to the 2023 budget. Advances are being made in establishing a fiscal risk unit within MEF, including with support from the IDB (¶38). The final steps to approve the new structure of the MEF were taken in October 2022 when we sent the matrix of attributions and competencies to the Ministry of Labor. The new structure will be implemented in early 2023.

- *Medium-Term Fiscal Framework (MTFF)*. We have started presenting an MTFF together with our budget documents starting October 2021 and April 2022. The October 2022 MTFF, which has been submitted to the National Assembly together with the 2023 budget, will help to guide the budget process with a top-down approach and ensure better execution of our medium-term goal of continuing to strengthen fiscal balances (¶24).

- *Fiscal Rules*. With the enactment of amendments to COPLAFIP in 2020, we have issued regulations on expenditure ceilings that will support the implementation of the expenditure growth fiscal rule (¶x). In 2021, we published the expenditure ceiling methodology in the annual budget instructions. In May 2022, we approved the expenditure ceilings per entity.

- *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) in December 2021. The Committee is tasked with monitoring and evaluating the National Development Plan as well as the budget execution, voting on the sectoral fiscal targets, while assessing the quality of public spending. The committee has already met several times and approved in May 2022 the fiscal targets and expenditure ceilings.

29. We are committed to enhancing fiscal transparency. To support this objective, we will undertake a Fiscal Transparency Evaluation (FTE) in May 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, with the help of recently provided MCM TA, update and publish the Medium-Term Debt Strategy by end-2022, 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.

30. 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 in November 2021.[1] With support from the National Control Subsystem (SNC) and Superintendency of Companies, SERCOP has backfilled missing UBO information of the companies awarded the 100 largest procurement contracts between October 2020 through December 2021, and published in an easily accessible manner on a government website *(**end-June 2022 structural benchmark, not met, implemented with delay in October**)*. Moreover, the SRI conducted audits on tax expenditures of the companies awarded the largest 100 public procurement contracts over 2020-21, to shed light on compliance and discretions in the attribution of tax expenditure to the private sector in public *contracts (**end-October structural benchmark, met**)*. Value added tax (VAT), corporate income tax, personal income tax, and tax on transfers abroad (*Impuesto a la Salida de Divisas*, or ISD) were included in the audits. Of the audited companies, 32 percent were identified as having some deficiencies in compliance with the existing tax incentives rules. Income tax and the ISD represent the biggest sources of risk in tax incentives compliance. While the potential recoverable amount from the conducted audits is relatively small ($592,216), SRI is planning to use the lessons learned from the exercise in the tax administration operations, continuing with control processes of the findings.

31. We are committed to improving timeliness, reliability, and consistency of fiscal statistics. Working closely with the IMF's Statistics Department (STA) 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 2013 (***end-September structural benchmark, met***). We also incorporated into our expenditure and debt statistics additional

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

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. Importantly, we have included in the central government 2023 budget and medium-term fiscal framework the accrued pension transfer obligations and health transfer allocations to the IESS based on the pre-specified criteria agreed in the last review and will continue recording these conservative estimates in future budgets until healthcare audits are completed.

32. We are strengthening our technical and institutional capacity in fiscal data recording and reconciliation. In that regard, we established a dedicated statistics unit at the MEF, and appointed a new chief statistician position with expertise in government finance statistics. With the support of STA, we have updated the training curriculum in GFS compilation and produced a training schedule, to ensure ongoing training of new and existing staff in above- and below-the-line fiscal data recording, reconciliation, and verification. The upcoming STA long-term expert (LTX) will work with the newly establish statistics unit starting in mid-November on improving MEF's capacity in compiling, verifying, and reconciling government finance and debt statistics. It will be crucial to take stock of the new unit and positions created and assess whether any adjustments are needed to make it function successfully as intended.

33. 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, in May we signed an agreement (*convenio*) with IESS establishing that IESS will procure a firm 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. We will complete and share with Fund staff the results of 2020 and 2021 healthcare audits (***end-October structural benchmark, prior action***). To find a more permanent solution to the uncertainty with respect to PGE healthcare obligations to the IESS, we have developed and shared with Fund staff, a time-bound plan/strategy to undertake legal reforms 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 (***prior action***, ¶27). We also plan to have third-party independent audits of IESS' 2019-2021 financial statements by end-March, with the support of IFIs. In order to meet this goal timely, we will begin the procurement process for the audits in November 2022. 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.

34. We are dedicated to clearing domestic arrears and implementing better cash management practices to avoid accumulating new ones. The fact that we have adequate cash buffers but run up accounts payable throughout the year points to the need to improve our financial planning on an ongoing basis. With the assistance of a long-term 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. In January 2022, we published a methodology to estimate the stock of arrears and the reporting templates to be used by public sector entities for reporting**.** We have estimated 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 (***end-June 2022 structural benchmark, implemented with delay in August***).

35. We have started publishing data on monthly arrears in the public debt bulletins, as per COPLAFIP law. We will work on 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.

36. We are rationalizing state-owned enterprises (SOEs) and monitoring fiscal risks. Building on the IDB's technical support, we are committed to strengthening the framework for the operation of 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 liquidating 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.

37. 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, in June 2022 we initiated 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. The numerous changes in PEC leadership have unfortunately led to delays in starting the auditing process. Furthermore, despite our best efforts, the tender process to contract an independent top-tier audit firm, to be financed by the Inter-American Development Bank (IDB), ended without bids. We are currently working closely with the IDB to identify a way forward and commence the audits as soon as possible. While the original work plan will not be concluded during the current program, as had been envisaged, we remain committed to work closely with the Fund to incorporate the findings from these audits when they are done 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.

38. 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 and should be operational by early 2023 (¶28); 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. These risks will be clearly presented in our fiscal risk statements, such as the one that we annexed to the 2023 budget.

39. 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. Moreover, we have obtained much improved transparency terms in the newly-renegotiated debt contracts with the China Development Bank (CDB and Eximbank). These contracts have been published on the Ministry website by end-November.

D. Strengthening the Institutional Framework of the Central Bank

40. We have made significant progress in strengthening our financial system during the EFF-supported program. We revised COMYF with measures to strengthen the basis for dollarization, including by eliminating the possibility of monetary financing of the government, restoring full reserve coverage of private and public financial institutions' deposits at the BCE; and giving more autonomy and independence to the central bank. The revised law also strengthens the central bank balance sheet, including by removing all legacy assets from the 1999 banking crisis. It also improves central bank transparency, through having established an audit committee, appointed external auditors, and published the audited central bank financial statements on the BCE website. Besides enacting the law, we took other steps to strengthen institutional framework of the central bank by: (i) implementing a capacity development program for auditors, (ii) requiring the certification of the audit departments and individual auditors by the Institute of Internal Auditors (an international organization), and (iii) implementing some recommendations regarding our audit department from a peer-review assessment.

41. The BCE has greatly strengthened the resilience of the dollarization system by enhancing its access to liquidity lines. In October, the Federal Reserve Bank of New York granted the BCE access to a FIMA Repo Facility of USD 1 billion for exclusive central banking operations. This facility will allow the BCE to access liquid resources for potential needs through securities repurchase operations (repo), which are part of our institution's investment portfolio. Additionally, the Central Bank once again renewed its swap facility with the Bank for International Settlements for up to USD 840 million as a precautionary measure in case of USD liquidity shortages.

42. The Central Bank of Ecuador (BCE) is strengthening its research department with the goal of supporting policymaking. The research department published a macroeconomic report as envisaged by COMYF. Additionally, it is preparing a financial stability report 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 advice from Bank of Spain on financial stability and macroprudential policies, respectively.

43. 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 promote digital payments as well as to diminish the demand for cash. The BCE will receive technical assistance from the IDB, including to ensure interoperability of digital payments among financial institutions nationwide.

E. Boosting the Resilience of our Financial System

44. Our financial system is healthy, adequately capitalized, and liquid. Deposits and credit growth have been rapid, with deposits growing about 10 percent yoy in September 2022 and credit growing about 16 percent during the same period. We have asked the Financial Sector Assessment Program (FSAP) team to assess credit growth development to ensure a sound financial system and to look for appropriate macroprudential tools to manage potential risks if needed.

45. Ecuador's FSAP, scheduled for December of this year, will offer an opportunity to comprehensively assess the health and resilience of our financial system, including the areas of credit and liquidity vulnerabilities, financial sector oversight, macroprudential policies, and safety nets. The FSAP will also analyze the quality of the oversight framework of payment systems, preconditions for capital markets development and access to finance. 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.

46. We have extended pandemic-related crisis measures to allow a longer period for classifying loans as non-performing and lower provisioning requirements until end-2022 for banks and cooperatives. According to the new regulatory framework[2] approved by the Financial Board, the classification of NPLs and provisioning will be the same for banks and cooperatives starting in January 2023. To achieve this, our supervisory institutions, the Superintendency of Banks and the Superintendency of Popular and Solidarity Economy (SEPS) have been working with the financial institutions under their respective oversight to ensure a smooth transition to this new regulatory framework. While complying with the regulatory framework for banks and cooperatives, we are convinced that narrowing the current regulatory gap for both institutions will strengthen the financial system. In this regard, the upcoming FSAP will help us to assess other areas of the regulatory framework that need to be revised.

[2] Resolution JPRF-F-2022-030 of June 29, 2022.

47. SEPS has made significant progress on implementing their plan to strengthen the institutional framework by introducing minimum capital requirements (a minimum capital for cooperatives of $200,000 was established in January 2021) and higher standards in the statutes of the institutions (the updated statutes for cooperatives should include requirements in several areas, including minimum capital, money laundering regulations, and provisions). To date, about 90 percent of the entities are in compliance with the minimum capital requirement (99.9 percent of the sector in terms of assets), and 306 entities have updated their statutes (97 percent of the sector in terms of assets). We are committed to continue with the full implementation of this plan, expected to be completed by mid-2023.

48. In recent years we have revised our liquidity framework. First, at the beginning of the pandemic in early 2020, we reduced the contributions to the Liquidity Fund, from 8 to 5 percent of deposits, to give more liquidity to banks to deal with the pandemic. Thankfully, the adverse liquidity shock did not materialize and deposits continued to grow. In January of this year, the Monetary Board revised our liquidity requirement regulations, as the previous ones enabled regulatory arbitrage within financial institutions and were complex and costly. In the context of our engagement with the FSAP team, we plan to evaluate our liquidity framework and set up a roadmap for further reforms in this area.

49. 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). In order to achieve the necessary technical and capital parameters to grant low-cost, long-term credit for the agricultural and productive sectors, we will ensure that the balance sheets of both institutions are clean and well-capitalized before the merger takes place, and that the process for the merger is followed thoroughly to ensure full operational coordination, including the interconnectedness of IT systems. Completing the whole process may take more time than anticipated, possibly beyond 2023. We are also planning to take some measures, such as improving credit committees to base their decisions on technical analysis and strengthening controls to ensure credit is being paid on time before the merger to avoid repeating past experience of accumulating NPLs. The asset quality reviews (AQRs) of the public banks, which were finalized in August 2022 (***end-June 2022 structural benchmark, implemented with delay***) showed that only one institution still needs to increase provisioning (half of it will be done this year and we will complete it in the next two years).

F. Strengthening Competitiveness and Private Sector-led Growth

50. Our administration is committed to restoring the international competitiveness of the Ecuadorian economy and raising the living standards for all Ecuadorians. To this end, we have taken important strides in creating a level playing field for businesses, improving economic governance, fighting corruption and making Ecuador a preferred destination for businesses worldwide, supported by our international trade agreements and a gradual reduction in the ISD. Decree 151 will further facilitate investment in the mining sector, which already is increasing production and exports at a high rate.

51. We remain committed to fight corruption and 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.[3] In order to expand the asset declaration regime, the General Comptroller, together with the Anti-Corruption Secretariat, prepared the Draft Organic Law for the Prevention of Conflict of Interests in the Public Administration. This legislation has been submitted to the National Assembly and is awaiting enactment (***end-August 2022 structural benchmark, not met***). Once in force, the law will 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 draft law revises the declaration form to incorporate new categories of relevant information such as incomes (types, sources, and values) and interests (for example, details of positions held outside of office, participation in public and private entities, professional experience, and past employment, etc.) directly or indirectly owned (for which public officials are beneficial owners) by the public official or by their close family members, in the country or abroad. Public access to the information in the declarations is a key component of this commitment as it allows civil society to complement these efforts. This legislation therefore prioritizes transparency and ensures on-line public access to relevant information on the assets, incomes, liabilities and interests in the declarations. The draft law has been well received by key stakeholders, who would contribute to the technical discussions to support its enactment by the National Assembly.

52. 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.

53. To continue with our broader reform agenda to promote good governance and effective anticorruption and AML/CFT frameworks, we are strengthening 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 submitted it to the National Assembly in

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

October. We are conducting a communications campaign to increase the chances of the legislation being enacted ***(end-October 2022 structural benchmark, not met***).

54. 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 have established an institutional committee on climate finance within MEF, with the support of the IDB. 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). The RST is also of interest to us in future engagement with the Fund.

55. 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

56. 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 also received technical assistance on fiscal risks, fiscal rules, MTFF, and fiscal coordination, and training on formulating medium-term debt management strategy. In addition, we have requested support of the IMF to undertake a Public Investment Management Assessment (PIMA), including the climate component (C-PIMA) in early 2023 and a Fiscal Transparency Evaluation (FTE) in mid-2023. To produce an assessment of our tax administration, we have also requested the IMF to implement the Tax Administration Diagnostic Assessment Tool (TADAT).

57. The Vice Ministry of Finance is committed to improving the quality of government finance statistics (GFS). In that regard, we have benefitted from a series of TA missions from IMF Statistics Department (STA), including from a short-term expert. To build on those and anchor best practices in the Ministry, we have restructured our statistics office, headed by a Chief Statistician, and will be working with the recently appointed long-term expert from STA to help build capacity in GFS recording and reconciliation. Sufficient staffing and training of GFS compilers is critical to fully address technical and institutional weakness that gave rise to the last case of misreporting of a performance criterion.

58. 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. The core capacity building that would produce a customized macro-framework is expected to deliver results by the first half of 2023. 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. 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. We have also requested from the Fund further assistance to develop a semi-structural model to enhance our fiscal projections, building on the FPP's framework. The scoping mission for this project should take place by the end of the year.

59. We continue to work on improving balance of payments statistics and national accounts, including through technical assistance missions from STA. 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. We will also enhance cooperation and data sharing among institutions, including between MEF and the BCE, to ensure consistency in data produced by the agencies.

60. 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 have also received CD to strengthen the AML/CFT framework. Further technical assistance with the Office of the Comptroller General has helped strengthen anti-corruption asset declarations framework.

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets, end-Aug. 2022
(US$, unless otherwise indicated)

	End-August 2022			
	Prog. 2/	Adj. 3/	Actual	Status
Quantitative performance criteria				
1. Overall balance of the budgetary central government and CFDD (*floor*) 1/	-1,600	-1,455	338	Met
2. Accumulation of NFPS deposits at the central bank (*floor*) 1/	1,200	1,264	2,270	Met
3. Non-accumulation of external payments arrears (*continuous PC*)	0	0	0	Met
4. (No new) Net credit to government from the central bank (*continuous PC*)	0	0	0	Met
Indicative targets				
5. Non-oil primary balance of the NFPS (including fuel subsidies) (*floor*) 1/	-4,350	-4,495	-3,762	Met
6. Overall balance of the NFPS (*floor*) 1/	410	555	1,966	Met
7. Change in the stock of NIR - program definition (*floor*) 1/	675	790	2,031	Met
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)	280,716		385,782	Met
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)	947,713		1,181,777	Not Met 4/
AZUAY	39,974		44,859	Met
BOLIVAR	24,250		29,851	Met
CAÑAR	18,910		21,289	Met
CARCHI	10,416		16,843	Met
CHIMBORAZO	44,464		54,709	Met
COTOPAXI	41,592		55,435	Met
EL ORO	26,338		34,909	Met
ESMERALDAS	56,266		71,116	Met
GALAPAGOS	145		63	Not Met
GUAYAS	198,818		232,935	Met
IMBABURA	25,244		43,593	Met
LOJA	42,536		47,196	Met
LOS RIOS	84,751		100,651	Met
MANABI	139,151		161,097	Met
MORONA SANTIAGO	19,014		24,904	Met
NAPO	11,214		12,485	Met
ORELLANA	16,275		15,809	Not Met
PASTAZA	7,511		7,639	Met
PICHINCHA	36,178		66,189	Met
SANTA ELENA	21,857		39,598	Met
SANTO DOMINGO DE LOS TSACHILAS	25,920		36,104	Met
SUCUMBIOS	16,330		17,246	Met
TUNGURAHUA	30,322		38,831	Met
ZAMORA CHINCHIPE	10,237		8,426	Not Met

Sources: Ministry of Economy and Finance and IMF staff estimates.
Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).
1/ Cumulative change from January 1, 2022.
2/ Staff report for the EFF Fourth and Fifth Reviews.
3/ Adjusted for oil prices and disbursements from multilateral institutions.
4/ Target met on aggregate but missed by a small margin in three provinces (Galapagos, Orellana, and Zamora Chinchipe) for a total of 2,359 families.

Table 2. Ecuador: Prior Actions and Structural Benchmarks

Reform Area	Structural Conditionality	Objectives	Due Date	Status
	Prior Actions			
Fiscal transparency	Develop and share with Fund staff 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 obligations of PGE to IESS (if any) will be reported, recorded, and cleared in a timely and transparent way.	Improve reliability of fiscal statistics, avoid accumulation of arrears		
Transparency and Governance	Complete the 2020 and 2021 healthcare audits and share the results with Fund staff.	Improve the quality and reliability of PGE fiscal data recording		
	Structural Benchmarks			
Fiscal Framework	Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTFF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Strengthen the public financial management framework and fiscal discipline, and increase fiscal transparency	End-Nov. 2020	Implemented with delay
BCE	The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Improve the BCE's audit mechanisms	End-Nov. 2020	Met
Transparency and AML/CFT	Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs), and publishing additional information online, including itemized information on incomes, assets and liabilities, based on regulations	Strengthen anticorruption and AML/CFT and protect the public purse	End-Nov. 2020	Partially implemented. Was reformulated as a new SB for Aug. 2022

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
	adopted by the General Comptroller, at the request of the government.			
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
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	Strengthen the monitoring and reduce	End-Apr. 2021	Not met. Was converted to new SB for Nov. 2021

Table 2. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
	entities of the NFPS in line with IMF technical assistance recommendations.	accumulation of payment arrears		
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 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
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.	Improve expenditure control	End-Nov. 2021	Not met, was reformulated and met as a PA in June 2022

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
	Enforcement will be phased in from the end of 2021 (Central Government, IESS) until the end of first quarter 2022 (subnational governments, SOEs).			
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
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, was met as a PA in June
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
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 2022.
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, was split into end-Nov. 2022 SB and MEFP

Table 2. Ecuador: Prior Actions and Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
				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	Not met, implemented with delay in August
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	Not met, implemented with delay in August
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	Not met, implemented with delay in October
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	Not met
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	Met
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-Oct. 2022	Met

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

Reform Area	Structural Conditionality	Objectives	Due Date	Status
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	Met
Transparency and Governance	Complete 2020 and 2021 healthcare audits and share the results with Fund staff.	Assess contingent liabilities and arrears	End-Oct. 2022	Not met, set as prior action
SOE	Share with IMF staff the completed independent audits of the 2019 individual financial statements of Petroecuador and Petroamazonas.	Strengthen SOEs	End-Nov. 2022	Not met
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-Nov. 2022	Not met; partially implemented. Target on first income decile met; target by province met in all but three provinces.