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On behalf of our Ecuadorean authorities, we wish to express our appreciation to management and staff for their support to Ecuador's economic policies and structural reform agenda. We would like to recognize the mission team for their hard work and comprehensive report on the sixth EFF review.

Program Performance

The main objectives established at the outset of the EFF supported program have been successfully met. Ecuador has restored macroeconomic stability, the economy has recovered, and the public finances have improved significantly and are on a sustainable path. Rigorous implementation of a very demanding program has also laid the foundations for sustainable and inclusive economic growth. These achievements are particularly impressive considering the economic effects of the COVID-19 pandemic, the spillovers of the war in Ukraine, and the challenging global environment of surging inflation, rising interest rates, and growth deceleration.

Program implementation has been strong. Ecuador met with large margins the quantitative performance criteria and all but one indicative targets for the sixth EFF review. Of the large number of structural benchmarks and corrective actions for this review, most were met, albeit in a few cases with slight delays. We reaffirm our authorities' strong commitment to the reform agenda.

Ecuador concludes the program in a much stronger position than expected at program approval. Public debt reduction and international reserve accumulation have greatly exceeded what was expected when the program was approved in September 2020. Public debt is on a declining path and is expected to reach the 57 percent of GDP target in 2023, as opposed to in 2025 as originally envisaged. International reserves soared from US$2.5 billion at program approval to US$8.5 billion as of mid-October 2022, significantly surpassing the US$5 billion expected for end-2022 when the EFF arrangement was approved.

Recent Economic Developments

Economic growth recovered, but it has recently slowed amid a more challenging external and domestic environment. After an economic downturn of 7.8 percent in 2020, which however turned out considerably better than the 11 percent contraction projected at program approval, activity expanded by 4.2 percent in 2021. A deterioration in global economic conditions and domestic protests that disrupted economic activity last June diminished this year's

output growth forecast to 2.7 percent, 0.2 percent lower than expected in the fourth and fifth reviews. Even though year-on-year inflation has risen to 3.6 percent in November, it remains among the lowest in the world.

As a result of rigorous fiscal consolidation, the economy is on sustainable and resilient path. Our authorities have taken decisive policy actions to turn an overall fiscal deficit of 7.1 percent of GDP in 2020 into a small surplus in 2022, the first surplus since 2008. The fiscal dependency on oil revenues has diminished significantly. As opposed to the pattern exhibited since Ecuador began exporting oil in the 1970s, this time around oil revenues increased but public expenditures did not, breaking a vicious correlation that heightened economic risks. This year's non-oil primary deficit is expected to be 2.7 percent of GDP, markedly lower than in previous years.

Despite the notable fiscal consolidation and reform progress, market access remains extremely difficult. Tighter global financial conditions and a challenging domestic environment have increased spreads and postponed access to international capital markets. However, the revised financing strategy for 2023 does not rely on such markets. The recent reprofiling of bilateral debt with China, which lowered debt service payments by an average of US$400 million per year over 2022-2024, and the conversion of a US$400 million bond guarantee from the IDB into a direct budget support disbursement of the same amount have reduced near-term financing needs. The 2023 budget remains fully financed, relying on multilateral and bilateral external funding, as well as domestic financing.

The financial system has been strengthened further. The significant increase in international reserves was accompanied by reforms that underpinned the autonomy of the central bank and eliminated the possibility of monetary financing of the budget. Full reserve coverage of private and public financial institutions' deposits at the central bank has been restored, thereby strengthening the dollarization regime and financial stability. Credit to the private sector has recently increased at a faster pace than deposits, making up for the low credit growth observed during the height of the pandemic. The financial system remains well-capitalized and non-performing loans remain low. The recently started FSAP mission will be instrumental in helping to identify measures to strengthen even further the financial system.

Structural Reforms

Fiscal reforms ensure a sustainable and equitable fiscal consolidation path. The progressive tax bill approved in late 2021 decisively enhanced the long-term sustainability of public finances. It also increased the income tax on the wealthier population and made the tax system more equitable. Tax administration has been strengthened with the creation of a large taxpayers' unit. On the expenditure side, measures to contain the wage bill and to improve both the efficiency and transparency of public procurement have been adopted. In the first year of the EFF, the government gradually increased fuel prices at the pump, thereby reducing the fiscal resources

allocated to fuel subsidies, a bold measure that had been avoided for decades. Further adjustments to the gasoline price had to be suspended in October 2021 and there was a slight increase in fuel subsidies in June 2022 due to unsurmountable political and social pressures.

Recent and forthcoming actions confirm our authorities' commitment to fiscal consolidation. On November 29, the National Assembly repealed the tax reform approved in late 2021. However, President Lasso will veto this decision in the coming days. Even in the event the veto is overridden – which is unlikely as the Constitution clearly states that only the President is entitled to submit bills that levy, amend, or eliminate taxes – the repeal would become effective only in 2025 due to the lengthy legal process that must be followed. On December 1, President Lasso issued a decree eliminating fuel subsidies for the shrimp sector, except for the smallest farms.

Fiscal governance and transparency have been strengthened. Regulations to operationalize the amendments to the organic budget code have been adopted to establish a prudent fiscal framework. Enhanced technical capacity on fiscal statistics and the recognition of government obligations to the Social Security Fund have provided a clearer picture of the fiscal balance and underlying fiscal risks. The approval of legislation that criminalizes acts of corruption as well as numerous other reforms have increased trust in public institutions. Our authorities remain fully committed to the approval of further reforms to strengthen governance and reduce vulnerabilities to corruption, including the anti-money laundering and conflict of interest bills that have been recently submitted to the National Assembly for consideration and approval.

Our authorities took every action under their control to contract a top-tier firm to audit the state-owned oil company's financial statements; and they remain fully committed to enhancing the company's efficiency and transparency. Despite our authorities' best efforts, the tender process to select an auditing firm, to be financed with an IDB loan, ended without any bids. Our authorities are working closely with the IDB to identify the best way forward and swiftly hire an independent firm to perform these audits.

Reforms to the organic monetary and financial code have strengthened the central bank's autonomy and governance framework. In addition to institutionally protecting the dollarization regime, these reforms tackled decades-long unresolved issues, including by clearing the central bank's balance sheet of legacy assets from the 1999 banking crisis and supporting its auditing capacities.

Despite fiscal consolidation, our authorities have carried out a remarkable expansion of social assistance programs. While only three out of 10 households in need received cash transfers prior to the approval of the EFF arrangement, now eight out of 10 do. The number of beneficiary families expanded from about 550 thousand to 1.2 million. However, one indicative target on the regional coverage of such programs was not met in three out of the country's 24 provinces because the program prioritizes cash transfers to the poorest families nationwide,

without necessarily considering the provinces where those families live. In addition, our authorities have launched and are increasingly implementing a conditional cash transfer program to address child malnutrition.

Legacy institutional and technical deficiencies that gave rise to inaccurate data reporting are being dealt with decisively. Our authorities took swift and profound corrective actions to address the issue and adopted remedial measures to prevent such cases from recurring, including publishing revised historical fiscal data back to 2013, restructuring the fiscal statistics office at the Ministry of Economy and Finance, fully registering the obligations with the Social Security Fund in both the 2023 budget and the medium-term fiscal framework, and developing a plan to prevent future arrears of the government's healthcare obligations to the Social Security Fund. As a result, Ecuador has now better- quality fiscal statistics and a stronger institutional framework to ensure the accuracy and transparency of fiscal data as well as fiscal accountability.

Final Remarks

The EFF has been instrumental in helping Ecuador to overcome one of the most economically challenging moments of its history and lay the foundations for sustainable and inclusive economic growth. During its 27-month period, two administrations have restored macroeconomic stability, ensured the sustainability of public finances, and strengthened domestic institutions while protecting the most vulnerable. This was accomplished despite several powerful external shocks during the program period.

Our authorities reaffirm their unwavering commitment to sound economic policies and to work closely with the Fund after the current arrangement expires. The continued support of the IMF and other IFIs remains critical for the development of Ecuador.