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2024 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the 2024 Article IV Consultation and First Review Under the Extended Arrangement Under the Extended Fund Facility and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 19, 2024 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 19, 2024, following discussions that ended on November 8, 2024, with the officials of Ecuador on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 9, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Ecuador.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.

IMF Executive Board Concludes First Review of the Extended Fund Facility for Ecuador and 2024 Article IV Consultation

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review of the 48-month arrangement under the Extended Fund Facility (EFF) for Ecuador, allowing for an immediate disbursement of SDR 375.9 million (about US$500 million). The Executive Board also concluded the 2024 Article IV consultation.
- Ecuador has made significant progress in the implementation of its economic reform program, meeting all end-August 2024 quantitative performance criteria and indicative targets for the first review and advancing important structural reforms.
- The authorities' strong and decisive policy efforts helped safeguard macroeconomic stability, strengthen the fiscal and external positions, and protect vulnerable groups amid a challenging environment.

Washington, DC – **December 19, 2024:** The Executive Board of the International Monetary Fund (IMF) completed today the first review of the EFF arrangement for Ecuador and concluded the 2024 Article IV consultation.[1] The completion of the first review enables the authorities to immediately draw an amount of SDR 375.9 million (about US$500 million), bringing total disbursements under this arrangement to SDR 1,128.8 million (about US$1.5 billion).

Ecuador's 48-month EFF arrangement was approved by the Executive Board on May 31, 2024 (see Press Release No. 24/197) with access equivalent to SDR 3 billion (about US$4 billion or 430 percent of Ecuador's quota). The program aims to support Ecuador's policies to strengthen fiscal and debt sustainability, protect vulnerable groups, rebuild liquidity buffers, safeguard macroeconomic and financial stability, and advance the structural reform agenda to lay the foundations for sustainable, inclusive, and stronger growth that benefits all Ecuadorians.

Program performance has been strong. All end-August 2024 quantitative performance criteria and indicative targets for the first review of the EFF arrangement have been met, and the authorities have made substantial progress on the implementation of their ambitious structural reform agenda supported by the program.

The strong performance happened amid a challenging macroeconomic backdrop. A security crisis was compounded by a historic drought triggering an electricity crisis that adversely affected economic activity. Real GDP is projected to contract by 0.4 percent in 2024 and recover by 1.6 percent in 2025, with inflation remaining low at about 2 percent.

The Article IV consultation discussions considered strategies to strengthen fiscal sustainability while safeguarding priority social and investment spending. Enhancing oversight of the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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financial sector is crucial. Additionally, discussions emphasized the need to promote stronger and inclusive growth, including by improving the security situation, fostering financial integrity and good governance, increasing female and youth employment opportunities, and boosting competitiveness. In addition, implementing measures to reduce vulnerabilities to climate change would help enhance macroeconomic resilience.

Following the Executive Board's discussion today, Ms. Gita Gopinath, First Deputy Managing Director and Acting Chair, issued the following statement:

The Ecuadorian authorities have made significant progress in implementing their economic reform program supported by the Extended Fund Facility (EFF) arrangement. Despite renewed challenges from a severe electricity crisis, the authorities embarked on a set of decisive policy actions and reforms to restore macroeconomic stability while protecting vulnerable groups. All quantitative targets for the first review of the EFF arrangement have been met and implementation of structural benchmarks is progressing well.

The authorities remain committed to their fiscal consolidation plan, which will help strengthen Ecuador's fiscal sustainability and keep public debt on a downward path consistent with the debt target. The plan envisages balanced efforts on the revenue and expenditure sides. These include mobilizing non-oil revenue through permanent measures and reducing reliance on the oil sector, while containing current expenditures and protecting essential social and investment spending.

The authorities continue to work on enhancing the social safety net by broadening the coverage of the social registry and gradually expanding cash transfer programs. This will help increase government support to the most vulnerable and mitigate the impact of fiscal consolidation on those groups.

The financial policy agenda include steps to strengthen financial sector oversight and resolution frameworks, increase coordination among financial supervisors, foster capital market development, and enhance the financial safety net, in line with the recommendations of the IMF's 2023 Financial Sector Stability Assessment for Ecuador.

The authorities remain committed to implementing their structural reform agenda. They are taking actions to enhance governance and transparency, combat crime, bolster financial integrity, strengthen public financial management, facilitate female and youth labor force participation, and promote strong and inclusive growth. In addition, the authorities are committed to advancing their climate policy agenda to enhance macroeconomic resilience, including measures to reduce vulnerabilities to climate change, diversify the energy supply, and lower greenhouse gas emissions.

Executive Board Assessment[2]

Executive Directors commended the authorities' strong program performance and reform implementation under their EFF arrangement, including taking decisive policy actions to address fiscal and external imbalances while protecting vulnerable groups. Directors particularly noted the strong program performance despite the difficult environment exacerbated by a severe electricity crisis triggered by a historic drought and security

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[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

challenges, which have both weakened economic activity. With risks to the outlook remaining high, Directors urged the authorities to continue to deliver on their ambitious reform agenda to safeguard macroeconomic stability and promote stronger and inclusive growth.

Noting the authorities' commendable progress, Directors agreed that further fiscal consolidation in line with the EFF is needed to ensure fiscal sustainability over the medium term. They welcomed the authorities' fiscal plan combining measures to mobilize permanent, high-quality tax revenue and rationalize current expenditure, including containing the public wage bill. Gradual implementation of these measures, together with careful communication, will be important to secure public support. Directors commended the authorities' continued efforts to expand social assistance programs targeting the most vulnerable.

Directors highlighted the authorities' steps to align domestic gasoline prices with international prices alongside a compensation scheme. This will help reduce reliance on volatile oil revenue and address longstanding structural fiscal vulnerabilities, while creating space for critical social and investment spending, especially in education, health, security, and energy.

Directors noted that the financial sector is broadly stable, but the financial soundness of some small banks and credit cooperatives has deteriorated. They welcomed the improved coordination among financial supervisors and advances in financial sector reforms in line with the recommendations of the 2023 FSAP. They urged the authorities to closely monitor and address weak institutions, strengthen financial sector oversight and resolution frameworks, and phase out regulatory forbearance at an appropriate pace.

Directors underscored the importance of continuing to advance the structural reform agenda, including to improve transparency and governance (including of SOEs), foster private investment, strengthen public financial management, enhance the AML/CFT framework, facilitate female and youth labor force participation, and build resilience to climate change.

Directors emphasized that risks to the program remain significant, including due to energy and security challenges, election uncertainties, and elevated sovereign spreads. Steadfast commitment to the program and its implementation will remain crucial for success and international market re-access when conditions allow. Directors underscored the importance of continued close program monitoring, contingency planning, capacity development support, and timely and adequate external financing. Directors urged staff to maintain close engagement with stakeholders in the context of the forthcoming elections, to safeguard the program objectives.

Table 1. Ecuador: Selected Economic Indicators

		Projection	
	2023	2024	2025
Output			
Real GDP growth (%)	2.4	-0.4	1.6
Employment			
Unemployment (%)	3.7	4.2	4.0
Prices			
Inflation, average (%)	2.2	1.9	2.2
Inflation, end of period (%)	1.3	2.8	1.7
Public sector			
Revenue (% GDP)	36.7	38.9	37.7
Expenditure (% GDP)	40.2	40.7	38.9
Overall fiscal balance (% GDP)	-3.6	-1.8	-1.3
Primary balance (% GDP)	-2.7	-0.8	-0.3
Non-oil primary balance (incl. fuel subsidies) (% GDP)	-7.7	-5.6	-4.6
Public sector debt (% GDP)	55.4	56.8	56.8
Money and credit			
Broad money (% change) 1/	6.7	4.8	3.8
Credit to the private sector (% change)	8.4	4.5	4.0
Balance of payments			
Current account (% GDP)	1.9	4.4	3.1
Foreign direct investment, net (% GDP)	0.3	0.3	0.4
Gross international reserves (US$ billion)	4.5	7.6	10.5
External debt (% GDP)	52.5	54.6	54.9
Exchange rate			
REER (% change, depreciation-)	-1.1	…	…

Sources: Central Bank of Ecuador, Ministry of Economy and Finance, National Statistical Institute (INEC), and IMF staff calculations.

1/ M2.

ECUADOR

December 9, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Ecuador is making significant progress in the implementation of its economic reform program. The authorities have embarked on a set of decisive policy actions and reforms to address fiscal and external imbalances, supported by the 48-month Extended Fund Facility (EFF) arrangement approved by the Executive Board in May 2024 of SDR 3 billion (430 percent of quota, about US$4 billion). The core objectives of the EFF-supported program are to (i) strengthen fiscal sustainability, while protecting vulnerable groups; (ii) safeguard dollarization and macroeconomic stability; (iii) rebuild liquidity buffers; (iv) enhance financial stability and integrity; and (v) further advance the structural reform agenda to promote sustainable and inclusive growth.

Outlook. A historic drought has triggered a severe electricity crisis, affecting economic activity. Real GDP is projected to contract by 0.4 percent in 2024 and recover by 1.6 percent in 2025. Liquidity risks have subsided since early 2024 but overall risks to the outlook remain high and tilted to the downside, stemming from both domestic and external factors.

Program Issues. All quantitative performance criteria (QPCs) and indicative targets (ITs) for the first review have been met. The authorities have made substantial progress in the implementation of structural benchmarks (SBs). Staff assesses that the exceptional access criteria continue to be met.

Article IV Consultation. The authorities are implementing an ambitious strategy to strengthen fiscal sustainability while protecting priority social and investment spending. It is essential to strengthen financial sector oversight. Improving the security situation and advancing structural reforms to strengthen energy sufficiency, increase female labor participation, enhance governance, foster competition, and boost competitiveness would promote stronger and inclusive growth. In addition, measures to reduce vulnerabilities to climate change would enhance macroeconomic resilience.

Approved By
Ana Corbacho (WHD) and Bergljot Barkbu (SPR)

Discussions were held in Quito during October 28-November 8, 2024. The report was prepared by a team comprised of Varapat Chensavasdijai (head), Pablo Morra (deputy head), Vu Chau, Niels-Jakob Hansen, Giovanni Ugazio (all WHD), Dominique Lam, Francisco Vazquez (both MCM), Giulio Lisi (SPR), Jorge Salas (Resident Representative), Juan Pablo Erraez, Paola Hidalgo (all Resident Representative Office), with support from Mauricio Amaya, Kristine Laluces (all WHD) and Dulce Maria Garcia (Resident Representative Office). Staff from FAD and LEG participated virtually in some meetings. Ana Corbacho (WHD), Bernardo Acosta and André Roncaglia (all OED) joined the discussions.

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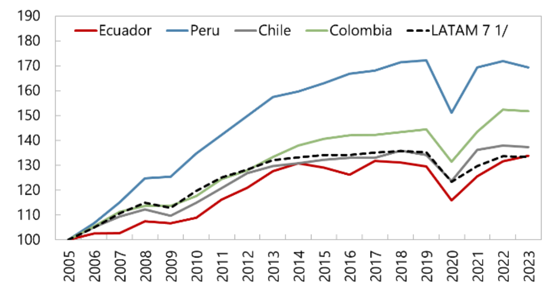
CONTEXT

1. Ecuador accomplished significant structural and institutional reforms in recent years, but still faces longstanding macroeconomic challenges. Key reforms included the overhaul of the organic budget code (COPLAFIP) to strengthen fiscal management, the amendment of the organic monetary and financial code (COMYF) that enhanced central bank independence, and new anti-corruption legislation. Despite these advancements, significant challenges remain. These include fiscal imbalances, high reliance on volatile oil revenues, financial sector vulnerabilities, a thin domestic capital market, labor market rigidities and informality, low productivity, limited trade integration, and governance challenges. As a result, Ecuador's real GDP per capita growth has lagged behind those of regional peers over the past two decades. More recently, these challenges have been intensified by a rise in insecurity, a sudden deterioration in the fiscal position and reserve buffers in 2023, electricity shortages, and increasing vulnerabilities to climate change.

Ecuador and Peers: GDP per Capita
(Real GDP Per Capita in 2010 US$, Index 2005 = 100)



Sources: Haver and IMF staff calculations.
1/ LATAM 7: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay (no data for 2021-2023).

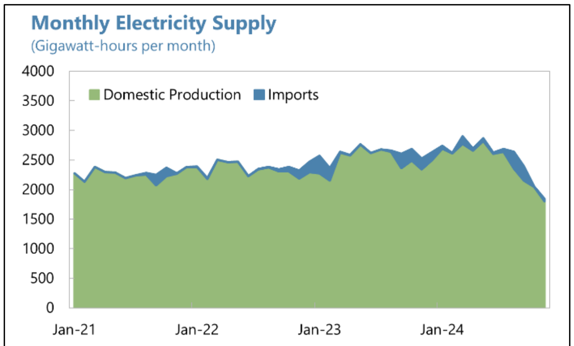
2. The authorities implemented decisive policy actions to address fiscal and external imbalances, help stabilize the security situation, and tackle energy needs. These actions, supported by the Fund's Extended Fund Facility (EFF) arrangement approved in May 2024, helped safeguard macroeconomic stability, strengthen fiscal sustainability, and protect vulnerable population groups. They also alleviated the severe liquidity stress that the economy was experiencing in late 2023 and early 2024 and allowed rebuilding buffers and clearing some domestic arrears, helping restore the payments chain and support economic activity. In the fourth quarter of 2024, a historic drought triggered a severe electricity crisis, with renewed pressures on economic activity and the fiscal balance that the authorities are addressing within the existing fiscal envelope.

3. The authorities remain fully committed to the EFF-supported program. They met all quantitative targets for the first review with comfortable margins and made substantial progress on SBs. However, risks to the outlook remain tilted to the downside, stemming from a prolonged electricity crisis, a deterioration of the security situation, lower oil revenue, increased financial sector vulnerabilities, shortfalls in external financing, and extreme weather events.

4. Ecuador will hold presidential and legislative elections in February 2025. The new president will take office in May. To win in the first round, a candidate is required to obtain 50 percent of the votes, or over 40 percent with a 10 percentage-point lead over the second most voted candidate; otherwise, a second round between the two most voted candidates would be held in April. A new National Assembly will be elected in February.

RECENT MACROECONOMIC DEVELOPMENTS

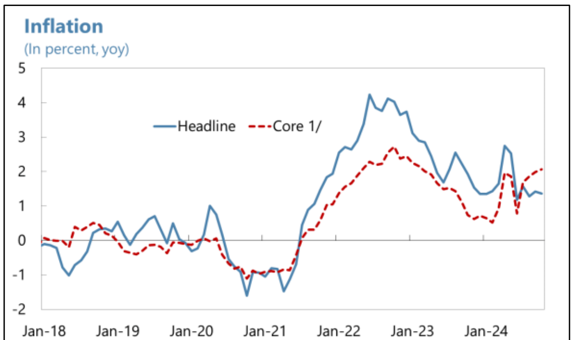
5. A historic drought triggered a severe electricity crisis in late 2024 (see Selected Issues Paper (SIP)). Ecuador is facing its worst drought in decades, significantly affecting hydroelectric generation, which supplies about three quarters of the country's electricity. The decline in electricity supply led to nationwide power outages for both industries and households. The power outages are expected to negatively affect economic activity, exports, and the fiscal balance in the fourth quarter of 2024. The authorities are implementing a swift policy response to mitigate the crisis to ensure that the impact on economic activity remains temporary and does not lead to lasting scarring effects. Emergency measures include renting or purchasing barges or turbines to increase thermal generation, temporarily reducing VAT on electric generators, partially compensating households for their electric bills up to a specified usage from November 2024 to February 2025, and implementing a one-off cash transfer program for three months beginning in December 2024. As of end-November 2024, the authorities were able to resume electricity imports from Colombia, thereby alleviating the electricity shortage.



Notes: 1. The figures for November 2024 are based on estimates. 2. Domestic production is calculated as total domestic production minus total exports.
Source: Operador Nacional de Electricidad - CENACE.

6. After an incipient recovery in 2024H1, real GDP is projected to fall in 2024 due to the electricity crisis. After contracting in 2023H2, real GDP began to recover in 2024H1, driven by net exports while domestic demand remained weak. The labor market has also showed signs of gradual recovery, though inadequate employment remained above pre-pandemic levels, disproportionally affecting the youth. The poverty rate decreased slightly to 25.5 percent in 2024H1 but increased in rural areas. The electricity crisis is expected to cause a significant decline in economic activity in 2024Q4.

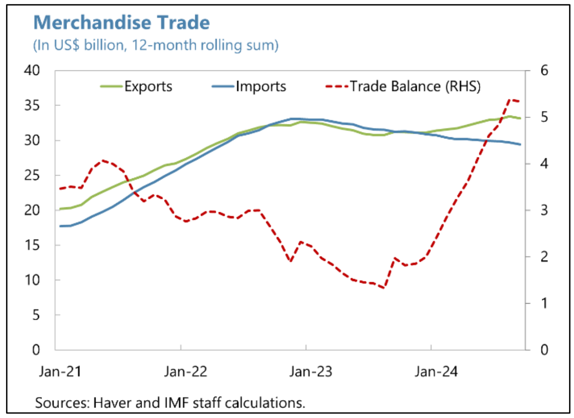
7. Inflation remained subdued despite increases in the VAT rate and gasoline prices. Following an increase to 2.7 percent (y/y) in April 2024, headline inflation has decelerated to 1.4 percent (y/y) as of October 2024. The deceleration has been driven by a temporary cut in electricity prices and declining food price inflation. Core inflation (excluding food, gas, fuel, and lubricants) stood at 2.1 percent (y/y) in October 2024.



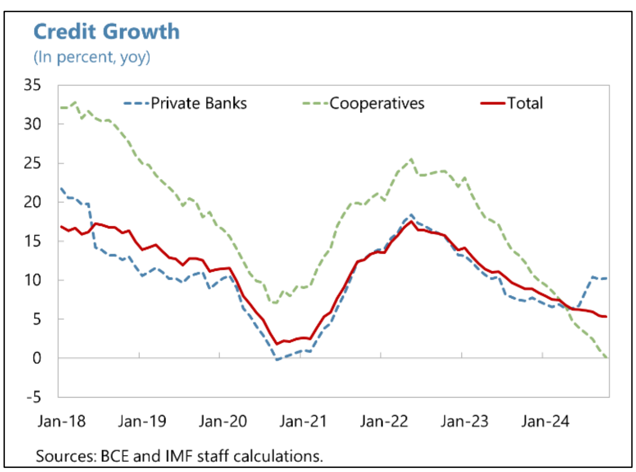
Sources: BCE and IMF staff calculations.
1/Excludes: food (except for coffee, tea, and cocoa; and mineral waters, soft drinks, and fruit/vegetable juices); gas; and fuel and lubricants.

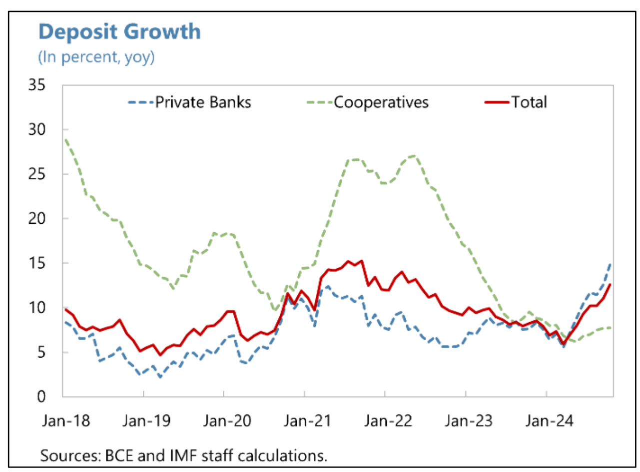
8. The balance of payments recorded a significant surplus through September 2024, driven by an increase in the trade surplus, robust remittance flows, and multilateral loans. Between January and September 2024, the merchandise trade balance recorded a surplus of

4.2 percent of projected 2024 GDP (up from 1.5 percent of GDP during the same period of 2023), supported by a 9 percent (y/y) increase in exports and a 6 percent (y/y) decline in imports. Higher net exports and robust remittance flows, together with disbursements from international financial institutions (IFIs) contributed to an increase in gross international reserves (GIR) from US$4.5 billion at end-2023 to US$7.7 billion as of end-November 2024. Ecuador's external position was moderately weaker than the level implied by medium-term fundamentals and desirable policies in 2023 but is expected to improve in 2024 and the medium term (Annex I). While remaining below adequacy thresholds, GIR is projected to increase in the near to medium term, strengthening economic resilience (see SIP).



9. Deposit growth rebounded and bank credit growth is leveling up in recent months, but trends differ among segments of the financial system. Total credit grew by 5.3 percent (y/y) in October 2024, slowing from its 2022 peak in line with the weakening of the economy since then. Total deposits growth rebounded to 12.6 percent (y/y), supported by a strong trade performance and remittance flows, multilateral inflows, and the clearance of government arrears. Credit and deposit trends differed significantly between private banks and credit cooperatives. Private banks saw a strong increase in deposit and credit growth, while credit cooperatives exhibited more modest deposit growth and very weak credit growth. Financial soundness indicators also point to diverging performances between banks and cooperatives, with the latter showing higher non-performing loans and lower provisioning and profitability (Figure 4 and Table 8) due to a larger exposure to the microcredit and consumer segments.





10. Fiscal performance through August 2024 exceeded program targets amid higher revenues and prudent expenditure execution. The nonfinancial public sector (NFPS) posted a surplus of US$1.8 billion (1.5 percent of GDP) during the period January-August 2024, compared to a deficit of US$1.5 billion (1.3 percent of GDP) forecasted at program approval. The overperformance was driven by both stronger revenues and lower expenditure (text table). Non-oil revenue was boosted by measures enacted by the authorities in early 2024, while oil revenues also improved with higher export prices and the increase in low-octane gasoline domestic prices since June. On the expenditure side, current and capital budget execution were below program projections, as the authorities adopted a prudent expenditure stance while IFI disbursements were still forthcoming. In line with the higher fiscal balances, NFPS deposits at the Central Bank of Ecuador (BCE) increased by US$1.5 billion since end-2023 to US$5.3 billion as of end-November 2024.

Fiscal Overperformance[1] Jan-Aug 2024
(In percent of GDP)

Oil balance	0.9
Nonoil revenue	0.3
Lower current expenditure	0.3
Lower capital expenditure	0.6
Decline in interest rates	0.1

Source: IMF staff estimates.
1/ Overperfomance defined as amount of revenues in excess of and amount of expenditures below program forecast, respectively.

11. The electricity crisis is expected to have a significant fiscal cost that the authorities intend to absorb within the existing fiscal envelope. The cost is estimated at about 0.9 percent of GDP in late 2024 and early 2025. This includes lower revenues stemming from the adverse effects of the electricity shortages on economic activity and higher expenditures to increase generation capacity, cover the higher costs of alternative energy sources, and provide support to vulnerable population groups. The authorities intend to absorb the cost within the existing fiscal envelope, mainly through expenditure reprioritization.

Estimated Cost of the Electricity Crisis
(In percent of GDP)

	2024	2025
Decline in tax revenue	0.1	0.0
Higher capital spending	0.3	0.2
Transfers to electricity SOE	0.1	0.2
Cash transfers	0.1	0.0
Total	0.6	0.3

Source: IMF staff estimates.

OUTLOOK AND RISKS

12. Compared to the forecasts at program approval, real GDP is now expected to contract in 2024, alongside lower inflation and a stronger external balance. Real GDP is projected to contract by 0.4 percent in 2024, compared to an increase of 0.1 percent at the time of program approval, as the electricity crisis is expected to weigh heavily on economic activity in 2024Q4. Inflation is projected to average 1.9 percent, compared to 2.4 percent at program approval, reflecting lower-than-expected outturns thus far in the year. The current account surplus is expected to rise to 4.4 percent of GDP (up from 2.1 percent at program approval) driven by strong export growth, import compression, and robust remittance flows.

13. The medium-term macroeconomic outlook is broadly unchanged. Real GDP growth is projected to recover to 1.6 percent in 2025 as the electricity situation stabilizes. Growth is then projected to rise gradually towards its estimated potential rate of 2½ percent in the medium term (see SIP), supported by macroeconomic stability and structural reforms, with inflation converging to around 1½ percent. The projections continue to assume that oil production in the Ishpingo-Tambococha-Tiputini (ITT) field is unwound gradually and broadly offset by increased production in other fields over the medium term. The current account surplus is projected to stabilize at around 2½ percent of GDP over the medium term, which together with stronger financial account flows, would support a gradual rebuilding of international reserve buffers to about 57 percent of the Fund's reserve adequacy metric (ARA) by the end of the program. Considering additional buffers from the Liquidity Fund and liquid net foreign assets of the domestic banking sector, liquidity buffers would represent 96 percent of ARA by 2028.

14. Liquidity risks have subsided since early 2024 when the country was in an extremely precarious situation. However, overall risks to the outlook remain high and tilted to the downside (Annex IV).

- **Downside risks** include (i) a deterioration of the security situation; (ii) a prolonged electricity crisis; (iii) an increase in social discontent and/or political fragmentation following the 2025 general elections, hampering and/or slowing reform efforts; (iv) a decline in the oil balance beyond program assumptions; (v) a weakening in the balance sheet of some financial institutions; (vi) shortfalls in external financing; and (vii) extreme weather events disrupting economic activity. The materialization of one or more of these risks could adversely affect economic activity, sovereign debt spreads, the financial sector, the fiscal balance, and the balance of payments, triggering negative feedback loops.

- **Upside risks** could arise from stronger-than-expected global growth, an increase in oil prices beyond program assumptions, and/or a faster improvement of the security and energy situations. These occurrences would help improve Ecuador's growth prospects, fiscal revenues, and financing at more favorable terms. Lower political fragmentation and/or increased reform appetite following the 2025 elections could also boost the economy by reducing risk premia and accelerating the implementation of the reform agenda.

Authorities' Views

15. The authorities broadly concurred with staff's assessment of the economic outlook and risks. They noted that their policy actions to address the electricity crisis, including investments in generation and the normalization of the hydroelectric generation capacity once the drought comes to an end would lead to a normalization of economic activity in 2025. They also indicated that ongoing investments—from both the private and public sectors (within the existing capital expenditure envelope)—in electricity generation would lead to a more reliable energy supply going forward. The authorities agreed with the external sector assessment for 2023 and conveyed optimism regarding the future trajectory of the current account surplus and reserve buffers. They foresee that an increase in mining exports, spurred by planned investment projects, alongside continued strong remittance flows and moderate import growth, may result in larger current account surplus projections, with higher levels of international reserves.

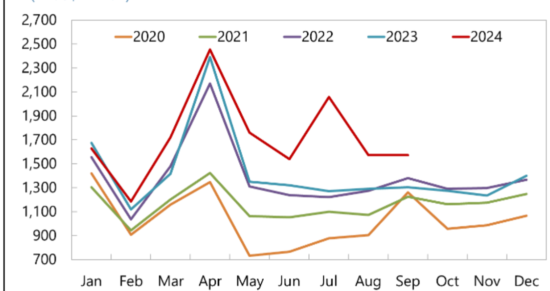
POLICY DISCUSSIONS

16. Focus of the Article IV Consultation. Building on the progress made since the 2021 Article IV consultation (Annex VI) and consistent with the objectives under the EFF-supported program, the 2024 consultation focused on policies to (i) strengthen fiscal sustainability and rebuild buffers; (ii) protect the most vulnerable; (iii) safeguard dollarization and financial stability; (iv) strengthen governance, boost competitiveness, and promote strong and inclusive growth; and (v) build resilience to climate change and natural disasters.

A. Strengthening Fiscal Sustainability

17. The authorities have successfully increased non-oil revenue. From January to September 2024, tax revenue rose by 18 percent (y/y) compared to the same period in 2023 and is expected to post an increase of about 17 percent for the full year. This represents an annual rise of around 1.8 percent of GDP, broadly in line with program projections. This improvement was approximately equally driven by the increase in the VAT rate and by other temporary revenues.

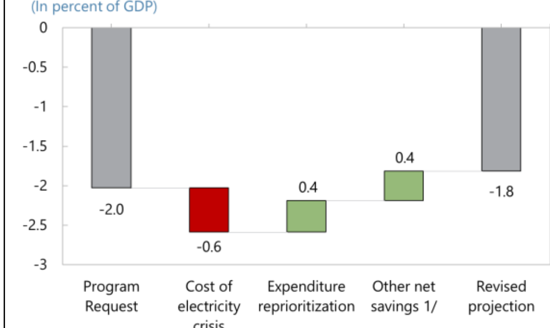
Gross Tax Revenue by Year
(In US$ million)



Note: In July 2024, the SRI collected a one-time total of $279 million due to VAT witholdings on oil and gas exploration and explotation service contracts.
Source: SRI.

18. The oil fiscal balance in 2024 is also improving amid higher export revenues and the rise in domestic gasoline prices. In June 2024, the authorities reformed the price setting mechanism for domestic sales of low-octane gasoline, broadly aligning them with international prices. The revamped scheme establishes a price adjustment mechanism involving monthly upward (downward) adjustments, capped at 5 (10) percent per month, respectively, to preserve alignment to international prices while preventing excessive price fluctuations. This is a welcome step, considering that fuel subsidies are costly, disproportionately benefit higher income groups, detrimental to the environment, and contribute to criminal activities such as smuggling. Together with the new pricing mechanism, the authorities implemented a compensation scheme to prevent transport fare increases for vulnerable groups, which covered over two-thirds of eligible recipients as of September 2024, while strengthening the social safety net. At current international oil prices, net fiscal savings from this reform are estimated at about 0.1 percent of GDP in 2024 and 0.3 percent of GDP in 2025.

Projected NFPS Deficit in 2024
(In percent of GDP)



Source: IMF staff estimates.
1/ Includes changes in the oil balance, net interest expense, and other residual items.

19. The deficit of the NFPS is expected to narrow to 1.8 percent of GDP in 2024 from 3.6 percent of GDP in 2023. While public investment execution is expected to accelerate in the last months of the year, especially to mitigate the electricity crisis, the 2024 fiscal deficit is expected to be about 0.2 percent of GDP lower than projected at program approval. The cost of the electricity crisis (estimated at about 0.6 percent of GDP in 2024) would be financed by reprioritizing expenditures (primarily in goods and services) and other net fiscal savings (including from a stronger oil balance and lower external interest payments). The financing strategy in 2024 relied on multilateral (US$4.6 billion, including the IMF) and bilateral (US$319 million) support, with the NFPS deposit buildup target through end-December 2024 within reach.

20. The authorities' strategy envisages further fiscal reforms to improve the NFPS non-oil primary balance including subsidies (NOPBS) by 5.5 percentage points of GDP over 2024-28, fully in line with the EFF-supported program. This strategy is designed to strengthen fiscal sustainability, while protecting priority social and investment expenditure. Under the plan, public debt is assessed as sustainable but not with high probability (Annex II). It is expected to continue declining to reach 40 percent of GDP by 2032, in line with the COPLAFIP target, from 55.4 percent of GDP in 2023. In October 2024, the authorities published an updated Medium-Term Fiscal Framework (MTFF) that adheres to program targets (***end-October 2024 structural benchmark, met***). The fiscal plan for 2025 aligns with program targets (***early December 2024 structural benchmark, met***) and contemplates maintaining the VAT rate at 15 percent, replacing 0.7 percent of GDP in transitory revenue measures with permanent ones, and extending the 2024 spending envelope to the 2025 budget, in line with legal provisions in an election year to achieve an improvement in the NOPBS of 1 percent of GDP. The cost of the electricity crisis (estimated at 0.3 percent of GDP in 2025) and a projected decline in the oil balance of 0.4 percent of GDP would be offset by savings in the interest bill (including due to the IMF reform of charges and surcharges) and a more frontloaded adjustment in the NOPBS balance vis-à-vis projections at program approval.

Fiscal Consolidation Plan
(Change in the non-oil primary balance including fuel subsidies, in percent of GDP)

	2024	2025	2026	2027	2028	2024-28
Revenue	**2.4**	**0.5**	**0.7**	**0.2**	**0.2**	**4.1**
Tax revenue	1.7	0.2	0.0	0.1	0.1	2.2
Other	0.8	0.3	0.7	0.1	0.1	1.9
Expenditure	**-0.3**	**0.4**	**0.4**	**0.4**	**0.5**	**1.4**
Wages and salaries	-0.1	0.2	0.2	0.3	0.3	1.0
Goods and services	0.4	0.0	0.0	0.1	0.1	0.7
Social and capital	-0.5	0.3	-0.1	-0.1	0.0	-0.4
Other	-0.2	0.0	0.3	0.0	0.0	0.1
Total	**2.1**	**1.0**	**1.1**	**0.6**	**0.7**	**5.5**

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

21. Building on the consolidation efforts implemented in 2024, the medium-term fiscal plan will entail revenue and expenditure measures.

- *Tax revenue mobilization.* Following the success in mobilizing non-oil revenue in 2024, the focus will shift towards stabilizing revenues at the higher level consistent with fiscal sustainability. Efforts will rely on the plan prepared by the authorities to mobilize non-oil revenue by rationalizing inefficient tax expenditures

Non-Oil Revenue Measures
(Percent of GDP; positive numbers reduce gap)

	2024	2025
Tax revenue	**1.9**	**2.2**
Increase VAT rate from 12 to 15 percent	0.7	1.1
Increase ISD rate to 5 percent	0.1	0.1
Implement tax amnesty	0.2	
Reintroduce self-withholding of income tax	0.4	
Corporate extra profit tax	0.3	0.3
Banks profit tax	0.2	
Additional measures	0.0	0.7
Tax incentives	**-0.2**	**-0.3**
Reduce VAT on construction materials	-0.2	-0.2
Other tax incentives from December 2023 reform	-0.1	-0.1
Total	**1.7**	**1.9**

Sources: MEF and IMF staff calculations.

(currently estimated at above 2 percent of GDP) and replacing the transitory measures enacted in 2024 with permanent high-quality ones (***mid-November 2024 structural benchmark, met***). Additionally, strengthening tax administration will complement the revenue mobilization strategy. Further efforts could include modernizing the legislation on tax and customs procedures and administration, strengthening management of large corporate taxpayers and high-net-worth individuals, and reinstating advance payments of income taxes for all legal persons. The tax and customs administrations could improve their performance by adopting an institutional compliance risk management framework and developing risk-based compliance improvement plans.

- *Other revenue mobilization*. The authorities plan to make further efforts to improve the efficiency of the oil sector, which is important to continue reducing the fiscal cost of fuel production and distribution. Going forward, implementing plans to increase oil production while remaining mindful of risks associated with stranded assets and including the promotion of greater private participation, further improving the targeting of subsidies, and enhancing the efficiency and capacity of the oil refinery system will be essential to support the fiscal consolidation strategy over the medium term.

- *Expenditure consolidation*. The authorities' strategy focuses on a gradual but durable reduction of current spending as a share of GDP by containing the public sector wage bill and improving public procurement governance. The wage bill could be rationalized by adjusting the number of fixed-term contracts, tightening the use of temporary contracts, and enhancing data collection and reporting on public wages. Work is underway to improve the efficiency of public procurement by further exploiting economies of scale from centralizing and cataloguing procurement orders, which already brought savings according to calculations by the National Procurement Service (SERCOP). To support these efforts, the authorities are establishing an operationalization timeline for the National Control Subsystem (SNC) (***end-December 2024 structural benchmark***) and will develop the conceptual and operational framework for an upgraded Official System of Public Procurement (SOCE) (***proposed structural benchmark for end-July 2025***), with technical support from the Inter-American Development Bank (IDB). Additional current expenditure savings could be achieved through enhanced efficiency in state-owned enterprises (SOEs). Expenditure consolidation will continue to preserve fiscal space for essential social and capital spending, especially in security, priority investment projects, and the social safety net.

22. The 2025 financing plan includes domestic, multilateral, bilateral, and commercial borrowing, with market access expected in the second half of the year.

- Financing needs estimated at US$8.3 billion (6.6 percent of GDP) would be addressed through a mix of multilateral loans totaling US$3.4 billion, domestic financing (including T-bills and bonds) of US$3.4 billion, bilateral loans of US$630 million, external commercial borrowing of US$381 million, and external bond issuance of US$1.5 billion. This financing plan would facilitate building NFPS deposit buffers of about US$1 billion, broadly in line with projections at the time of program approval.

- While Ecuador's sovereign debt spreads remain elevated, at about 1,300 basis points as of end-November 2024, the successful implementation of the fiscal consolidation plan and reforms envisaged under the EFF-supported program, coupled with the authorities' active debt management strategy, are expected to support a reduction in spreads, paving the way for renewed market access in the second half of 2025.

Estimated Gross Financing Needs and Sources

(US$ million)

	2024	2025	2026	2027	2028
Gross Financing Needs	**8,097**	**8,250**	**8,264**	**7,916**	**7,248**
NFPS Deficit	2,187	1,570	280	-1	-765
Amortization	5,910	6,680	7,984	7,918	8,013
Domestic	3,598	3,467	3,708	3,408	3,804
External	2,312	3,212	4,276	4,509	4,209
Gross Financing Sources	**8,097**	**8,250**	**8,264**	**7,916**	**7,248**
Domestic	3,219	2,339	3,029	2,769	3,104
NFPS deposits (- = accumulation)	-362	-1,070	-718	-977	-1,090
T-bills	2,166	2,166	2,166	2,166	2,166
Bonds	1,414	1,243	1,582	1,579	2,028
External	4,878	5,911	5,235	5,148	4,144
IMF	1,500	1,250	500	500	250
Multilateral (excl. IMF)	3,059	2,150	1,900	1,900	1,400
Bilateral	319	630	490	490	490
Commercial	0	381	345	258	4
Bonds	0	1,500	2,000	2,000	2,000
Memo: NFPS deposits stock (US$ million)	4,152	5,222	5,940	6,917	8,008

Sources: MEF and IMF staff calculations.

23. Building on the authorities' important achievements during 2024, reforms to strengthen public financial management (PFM), fiscal governance, and the social security system will support efforts to improve the fiscal position:

- **PFM.** The authorities have published a Medium-Term Debt Management Strategy (MTDS) (***end-October 2024 structural benchmark, met***), with IMF technical assistance. Additionally, the authorities developed a strategy to clear and prevent the resurgence of budgetary central government's payment arrears (***end-November 2024 structural benchmark, met***). To further strengthen PFM, efforts will focus on enhancing fiscal and financial planning and improving cash flow management by implementing a system to automatize central government payments (***proposed structural benchmark for end-March 2025***). The authorities also plan to implement budget quotas and expenditure controls and further strengthen fiscal risk analysis and monitoring, with IMF technical assistance. In public investment management, efforts should continue focusing on improving cross-institutional coordination, strengthening project appraisals, and enhancing monitoring of public investment execution, in line with the recommendations of the 2023 Public Investment Management Assessment (PIMA). Finally, operationalizing the authorities' revamped framework for Public-Private Partnerships (PPPs) could also help improve the environment for private investment.

- **Fiscal Governance and Social Security.** The Ministry of Economy and Finance (MEF) is working on an updated agreement with the Ecuadorian Institute of Social Security (IESS) for the settlement and payment of healthcare obligations (***end-October 2024 structural benchmark, proposed to be reset for end-March 2025***). The new agreement will build upon the existing agreements signed in May and December 2022, respectively, and is expected to facilitate the resolution of both past and future healthcare obligations with IESS. The authorities have also initiated the process to audit the 2023 and 2024 healthcare obligations with IESS (***end-December 2024 structural benchmark, met ahead of schedule***). These actions, together with steps to address pension obligations, represent important steps to strengthen the liquidity position and the sustainability of the IESS.

Authorities' Views

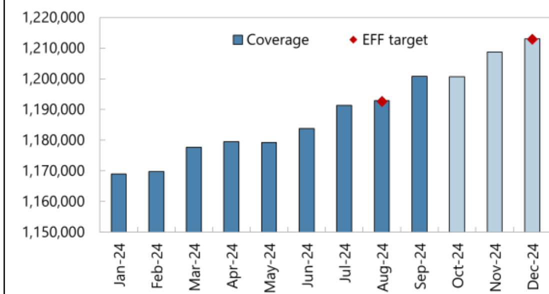
24. The authorities reaffirmed their full commitment to the fiscal plan supported by the EFF arrangement and the debt reduction targets established by COPLAFIP, while preserving space for priority expenditure in security, energy and other key public investments, and social protection. They emphasized that all quantitative conditionality was met with significant margins for the EFF first review, while substantial progress has been made regarding fiscal structural benchmarks. Going forward, they agreed that achieving durable fiscal sustainability will require mobilizing non-oil revenue through permanent measures. The authorities acknowledged the need to rationalize current expenditure, while stressing that, to remain sustainable over time, measures should be implemented gradually, ensuring the social and political support, without undermining essential public sector services while protecting vulnerable groups. The authorities expressed that their ambitious structural agenda will support fiscal reforms and enhance the efficiency and transparency of the public sector. Based on their revamped framework for PPPs, the authorities emphasized their plans to undertake infrastructure projects.

B. Enhancing the Social Safety Net

25. The authorities have intensified their efforts to enhance the social safety net. Building on the improvements made to the social safety net in recent years with World Bank technical assistance, the Social Registry Unit (URS) and the Ministry Economic and Social Inclusion (MIES) have elaborated a comprehensive plan to revamp the social registry to cover more families in the lower deciles of the income distribution (***end-October 2024 structural benchmark, met***). The inclusion of additional families in the registry will enable them to receive cash transfers. Expanding the social safety net is expected to help combat child malnutrition through the dedicated government program. The plan for developing the new social registry foresees finalizing the validation of existing data by end-2025 and transitioning to a system with enhanced coverage by end-2027. Additionally, the Social Registry Unit (URS) and the Ministry of Economic and Social Inclusion (MIES) have completed a ministerial agreement that will facilitate the transition out of social benefits for households that no longer meet the low-income requirement.

26. The coverage of government cash transfers targeting low-income families increased in line with the EFF target. In the year through August 2024, the authorities expanded social transfer programs to 23,489 new families, bringing the total number of families covered by social transfer programs to 1.19 million, in line with the indicative target set under the EFF-supported program. For the remainder of the year, efforts to enroll new families in the scheme have continued, with latest data indicating that 1,200,811 families were receiving cash transfer as of end-September 2024. This bodes well for accomplishing the December indicative target, helping further enhance the social safety net to assist those most in need across the country.

Coverage of the Cash Transfers Programs
(Number of households in deciles 1-3 of the income distribution)



Note: October-December 2024 include projected coverage according to the EFF approval.
Source: MEF.

Authorities' Views

27. The authorities are firmly committed to enhancing the social safety net, which they consider as a key pillar of their policy initiatives to shield the most vulnerable population groups from the adverse effects of fiscal consolidation measures and ensure a more equitable use of fiscal resources. They expect that the planned improvements to the social registry will facilitate the administration of the cash transfer programs in a transparent and efficient manner.

C. Safeguarding Financial Stability

28. The financial system has remained largely stable, but financial soundness in some banks and credit cooperatives has deteriorated. The 2023 Financial Sector Assessment Program (FSAP) concluded that the financial system was overall resilient to adverse macro-financial shocks, with credit and liquidity being the main risks to financial stability. More recently, progress under the EFF-supported program, together with a strong current account performance, have alleviated liquidity pressures in the financial sector and allowed a recovery of deposits. However, systemic risk has increased since the 2023 FSAP, as unresolved legacy losses from the pandemic were exacerbated by the weak economic environment, insecurity, and the electricity crisis, leading to higher NPLs, lower loan loss provisions, and weaker capital ratios in the system (Table 8). Direct contagion risk from cooperatives to banks appears limited.

29. The authorities are taking steps to curb longstanding financial sector vulnerabilities and advancing an extensive agenda of financial sector policies, in line with the FSAP (Annex V)**.** The supervisory authorities are closely monitoring the weak institutions, undertaking actions within the legal framework to mitigate contagion risks. This includes measures to strengthen capital and intensive supervision programs with preventive and corrective action plans. The authorities took other steps to enhance the resilience of financial institutions, including cancelling the CFN-Banecuador merger, reviewing a corrective action plan for a public bank, and transmitting BIESS credit information to the private credit bureaus. They also established the Financial Stability Committee (FSC) (***end-November 2024 structural benchmark, met***), which has started to facilitate information sharing and coordination among financial sector authorities. The two Superintendencies have standardized client identifiers, allowing them to carry out system-wide analyses of credit risk. On the prudential side, the authorities issued regulations on capital surcharges for systemically important institutions and the countercyclical capital buffer (***end-November 2024 structural benchmark, met***). They enacted a 6 percent minimum Tier 1 capital requirement and are preparing to implement the Basel Liquidity Coverage Ratio for banks and credit cooperatives. The authorities are also working on the assessment of the system of interest rate caps (***end-March 2025 structural benchmark***) (Annex III) that will provide reform recommendations. They are also developing stress testing capacities with support from IMF technical assistance.

30. The authorities agreed with the need to strengthen financial sector oversight and resolution frameworks and to phase out regulatory forbearance at an appropriate pace. Challenging conditions in the financial sector have led to increased regulatory forbearance, as the authorities are balancing the need to sustain economic activity and preserve financial soundness. Going forward, it is important to maintain and enforce the current regulations on loan classification and provisioning for banks and credit cooperatives while allowing prudent renegotiation of loan terms within strict regulatory guidelines, as transparent risk disclosures play a vital role in fostering market discipline. Increasing the frequency of credit data transmission from the Superintendency of Banks to the credit bureaus would also improve lenders' ability to properly assess counterparty risk. The authorities on the financial safety net aim to continue enhancing coordination mechanisms and strengthening the resolution toolkit through legal and operational improvements to facilitate timely action to address unviable institutions, with support from IMF technical assistance. To this end, they plan to establish an inter-institutional group within the FSC to coordinate resolution reforms and strategies (***proposed structural benchmark for end-January 2025***).

31. Developing the domestic bond market remains high in the policy agenda. Having a well-functioning domestic bond market is key to provide fiscal flexibility and facilitate liquidity management within the financial system. To lay the groundwork, the authorities are working to revamp the payments system by improving the Real Time Gross Settlement System (RTGS) and overhaul the BCE's central securities depository (DCV), including the compensation, liquidation, and custody functions (***end-November 2024 structural benchmark; proposed to be reset for end-January 2025***). Once these systems are in place, the authorities intend to start auctioning public securities at market-determined rates as market conditions allow.

Authorities' Views

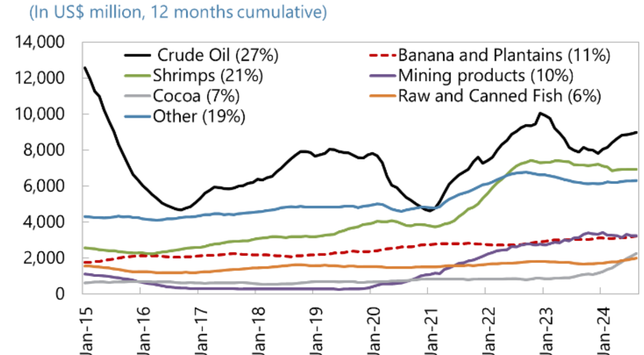
32. While acknowledging the challenges, especially for credit cooperatives, the authorities emphasized that the financial sector remained resilient and expressed their commitment to closely monitor and respond promptly to tackle existing vulnerabilities. They noted that regulatory forbearance measures were needed on a temporary basis, given the significant impact of the ongoing electricity crisis on the financial sector. They concurred with the importance of ensuring proper classification and transparent disclosure of the impaired credit exposures. They also concurred with the need for enhanced financial oversight, notably of credit cooperatives, as weak supervision in the past had led to lower lending standards and household over-indebtedness. They highlighted the substantial progress made in addressing macro-critical FSAP recommendations, including the implementation of financial sector SBs under the EFF-supported program, and their resolve to further strengthen policies to safeguard financial stability.

D. Advancing Structural Reforms and Boosting Competitiveness and Growth

33. Swift implementation of the authorities' plans to address challenges in the electricity sector is key for fostering sustainable growth. The sector is facing a structural deficit partly driven by infrastructure limitations and critically exacerbated by droughts impacting hydroelectric generation. Electricity imports from Colombia have been increasingly used to fill the domestic deficit in recent years. In their updated Electricity Master Plan, the authorities aim to increase generation capacity by 7,404 MW by 2032, prioritizing thermal, solar, wind, and hydroelectric projects, expected to be financed with a mix of public investment, public-private partnerships, and private funds. Over the medium term, the government plans to strengthen interconnection with Peru. The recent legislative reform allowing greater private sector participation in electricity generation is a welcome step to close the electricity gap, as it can provide needed funding for essential investment, including in renewable energy. Although the authorities have already taken some steps to encourage private investment and diversify the energy matrix, establishing a wholesale electricity market with private participation could be another initiative to consider (see SIP).

34. The authorities' declaration of "regulatory improvement" as a national priority is a welcome initiative to promote efficiency, competitiveness, and entrepreneurship, as well as enhance legal certainty. Streamlining regulatory processes and licenses is crucial to unlock the potential of industries such as formal mining and energy, which can attract significant foreign direct investment. The authorities could also consider prioritizing reforms in the corporate insolvency regime that facilitate corporate restructuring and promote investment. Expedited efforts to modernize customs can ease non-tariff trade barriers. Achieving further export diversification remains essential to increase the economy's growth prospects, with significant opportunities in sectors such as agroindustry, mining, and tourism. New

Ecuador's Main Exports
(In US$ million, 12 months cumulative)



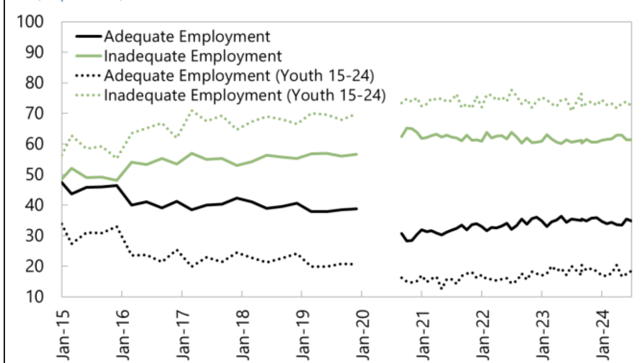
Note: Values in parentheses indicate the percentage of total exports as of the latest data point.
Source: BCE.

Free Trade Agreements with China, Costa Rica and soon with South Korea, as well as ongoing discussions with Canada, offer promising opportunities for trade expansion.

35. Addressing longstanding efficiency problems and enhancing governance in SOEs would help foster competition and boost competitiveness. SOEs operate in many industries, including in several open to competition; are subject to favorable regulations; and are prone to conflicts of interest and political intervention (World Bank, 2024). Therefore, there is ample scope for reforms to foster efficiency, enhance corporate governance, increase accountability, and creating a more level playing field. In light of these challenges, the government has recently closed the Public Enterprise Coordinating Company (EMCO) and is seeking to reform several SOEs' own collective labor agreements. Additionally, the authorities are working on completing the 2019 and 2020 financial audits of Petroecuador and Petroamazonas (***end-March 2025 structural benchmark***).

36. Building on the significant advancements enacted with the Violet Economy Law (VEL), improving opportunities for women and the youth would support employment and inclusive growth (see SIP)**.** The approval of the VEL in 2023 marked a critical step towards closing the gender gap in the labor market. Nevertheless, women still face a lower labor force participation rate, a high incidence of informality, unpaid work, and a sizeable salary gap that limits economic independence and equal opportunities. Key priorities, which would also benefit the youth, can focus on promoting more flexible work arrangements, improving specialized and vocational training, introducing more comprehensive family-friendly policies, and incentivizing women's participation in higher-remunerated technical fields. Moreover, continued initiatives to support the integration of migrants into the workforce would have growth and social benefits (IMF, 2022), while creating job opportunities, enhancing economic resilience, and strengthening social safety nets would help stem emigration flows.

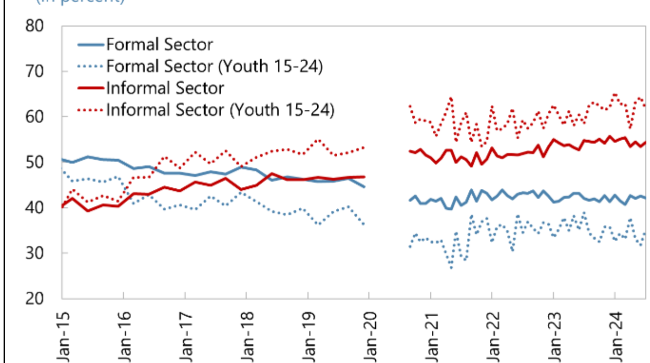
Adequate Employment and Inadequate Employment
(In percent)



Note: No data for March and June 2020.
Source: INEC.

37. Other labor market reforms, along with education policies, would help boost formal jobs in the private sector. Actions to address rigidities, reduce informality, and foster job creation could include implementing a formula-based minimum wage setting mechanism to reduce the wage-productivity gap and

Employment by Sector
(In percent)



Note: No data for March and June 2020.
Source: INEC.

further enhancing specialized training programs (see also World Bank, 2024). Moreover, expanding access to quality basic and tertiary education would enhance human capital formation and upskilling of the labor force. Effective public communication, together with stronger social safety nets, is key to ensure broad-based support for labor market reforms. IMF staff analysis (IMF 2019, 2023) also suggests that labor reforms can have larger benefits when (i) preceded by improvements in areas such as governance and business regulation, and (ii) when implemented under strong macroeconomic conditions; or if implementation cannot be delayed, some reforms could be grandfathered (that is, new rules would apply only to new beneficiaries).

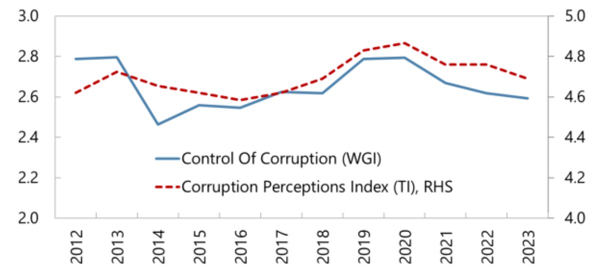
38. **Combating crime and enhancing security are a top government priority.** Crime has surged rapidly in Ecuador, linked to organized crime and drug-related violence, with adverse economic and social effects, including a high human toll. IMF staff analysis finds that a 1 percent increase in the murder rate at the local level in Ecuador is associated with a decline in the level of economic activity of up to 0.5 percent (see SIP). The authorities agreed that reducing crime requires a multifaceted approach, including actions to strengthen citizen security; diminish the profitability of crime; tackle illicit financial flows; enhance the efficiency of resources allocated to security; and promote macroeconomic job-rich growth, notably for youth, while reducing inequality. In addition, since crime manifests locally, granular data, monitoring, and policy coordination between national and local authorities is critical in addressing insecurity effectively (IMF 2024) .

39. **Ecuador has made significant progress in strengthening its AML/CFT framework and next steps should tackle effective implementation while focusing policy priorities on financing of organized crime.** In July 2024, the National Assembly approved a law to strengthen the AML/CFT framework, incorporating reforms in line with Financial Action Task Force (FATF) standards (***end-February 2025 structural benchmark***). Once effectively implemented, the upgraded framework will enhance financial integrity tools and support efforts to fight financing of organized crime. The authorities plan to issue regulations to implement the AML/FCT law approved by the National Assembly. Its implementation should ensure the establishment of a multi-pronged approach to beneficial ownership (BO) information transparency for this information to be adequate, accurate, and up-to date, facilitating access to all competent authorities and imposing sanctions in case of failure to provide BO information or the provision of false information. It is also important to provide the Economic and Financial Analysis Unit (UAFE) with a robust governance structure to ensure its independence from undue influence. The implementation of the AML/CFT law should consider further strengthening the framework on targeted financial sanctions from the United Nations Security Council related to terrorism and its financing. A deeper understanding of organized crime activities and how their profitable illegal activities are laundered throughout economic channels would support Ecuador's efforts towards fighting crime, prioritizing measures that can disrupt illicit financial flows. This could be done with IMF technical support, by approving and publishing a summarized version of an AML/CFT Strategic Action Plan, establishing actionable policy priorities to mitigate money laundering, including by organized crime, and terrorist financing risks identified in the National Risk Assessment approved in 2024 (***proposed structural benchmark for end-September 2025***). Effective financial integrity tools and institutions are fundamental to tackle organized crime proceeds and weaken its financing sources and profitability.

40. Continued efforts to increase transparency and accountability are needed to mitigate vulnerabilities to corruption. The recently approved National Policy of Public Integrity 2030 outlines integrity and anticorruption priorities, including the adoption of new technologies to fight corruption, increase transparency, and prevent conflicts of interest. However, weak enforcement, insufficient inter-agency coordination, and corruption risks in some sectors contribute to governance vulnerabilities. Further steps to strengthen the anticorruption framework would include: (i) passing legislation to prevent conflicts of interest in public administration; (ii) effectively operationalizing the enhanced asset and interest declaration framework introduced by the recently approved AML/CFT law; and (iii) sustained enforcement efforts against corruption. Ensuring the accuracy of BO information of participants in procurement processes would also help limit corruption risks.

Governance Indicators

(Index 1-7, 7=best)



Note: These indicators do not reflect IMF assessments of level of corruption. Use of these indicators should be considered carefully as they are derived from perceptions-based data. Point estimates are shown. The 90 percent confidence interval for the Control of Corruption indicator is +/- 0.3 in 2023, and for the Corruption Perceptions Index is +/- 0.08 in 2023.
Sources: World Governance Indicators (WGI) and Transparency International (TI).

Authorities' Views

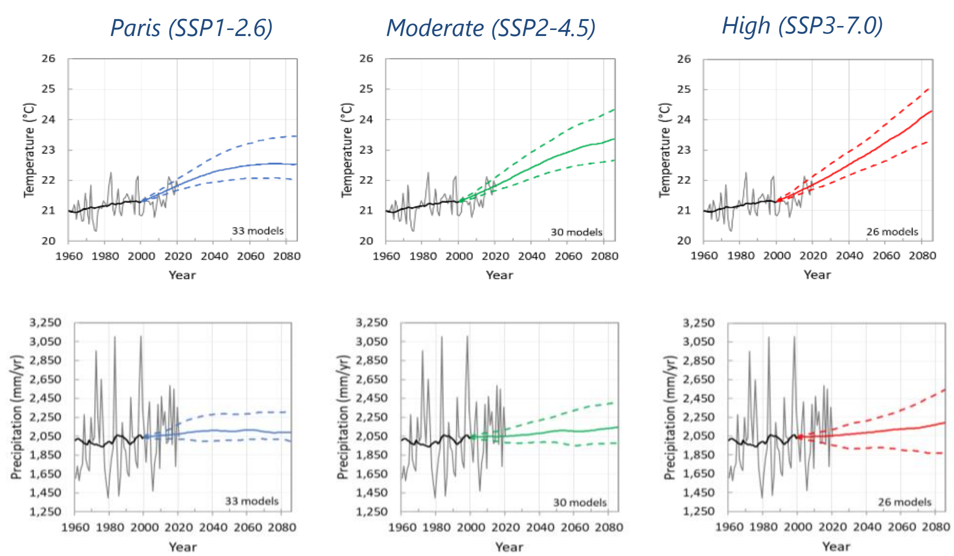
41. The authorities agreed that structural reforms are needed to foster growth. They underscored their efforts to address the electricity deficit in the short term by enhancing supply capacity. They are also working to ensure energy security in the medium term, including with two new laws approved in 2024 that aim to boost private investment in energy generation and many new projects to promote renewable energy. The authorities expressed their commitment to further expand trade opportunities through new free trade agreements. They also acknowledged the potential of mining, oil, gas, and renewable energies, highlighting several initiatives to unlock investment opportunities. They also recognized the need to address governance and efficiency challenges in SOEs. The authorities highlighted recent labor market policies to foster female and youth employment, including new norms to reduce the gender gap, hiring tax incentives, and IDB-supported training programs. Finally, they stressed their work on "circular migration" (temporary migration programs for Ecuadorians coordinated with other countries), as well as their efforts supported by UN agencies to regularize migrants.

42. The authorities are firmly committed to fighting organized crime. They see progress but underscored that more time and resources are critical. They emphasized their efforts to reduce the profitability of crime and tackle illicit financial flows, including by strengthening the institutional capacity of the UAFE and deepening their understanding of organized crime financing and laundering of illegal proceeds. They reiterated their commitment to align the AML/CFT framework with FATF international standards. The authorities also highlighted their efforts to fight corruption, based on the National Policy of Public Integrity 2030. They are working to establish a centralized registry of ultimate beneficial owners (UBO) led by the Internal Revenue Service (SRI), which will cross-reference existing information with other relevant institutions such as the National Procurement Service (SERCOP) and the Superintendency of Companies (SCVS).

E. Building Resilience to Climate Change

43. Enhancing adaptation to climate change would strengthen macroeconomic resilience. Ecuador is vulnerable to many climate-related natural hazards, such as floods, landslides, extreme heat, and droughts. In the coming decades, climate change is expected to have significant negative impacts on the economy through slow-moving warming, more frequent extreme weather events, and sea level rise (see SIP). Ecuador has recently adopted a National Adaptation Plan (2023-2027), which serves as a policy framework for adaptation, and is working to further enhance adaptive capacity.[1] Going forward, potential areas of focus for adaptation policies include (i) removing market imperfections (e.g., inefficient credit allocation) to promote private adaptation; (ii) building resilient infrastructure; (iii) implementing regulations that internalize climate considerations (e.g., zoning that prohibits construction in flood zones); (iv) refining disaster risk management responsibilities and integrating disaster risk in public finance; and (v) increasing cooperation at the national and international level.

Annual Temperature and Precipitation in Ecuador under Different Climate Scenarios



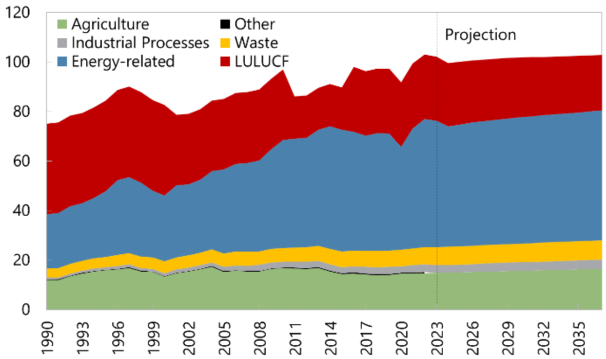
Notes: The gray line describes historical mean annual temperature/precipitation based on observations (CRU). The black line describes the 30-year moving average of historical data centered around each 30-year period. Colored lines represent the median and the 80 percent range of temperature and precipitation anomalies (10th and 90th percentiles) added to the CRU value (thick black line in the year 2000). SSP1-2.6 is in line with the Paris goal to keep global mean temperature increase below 2 °C with respect to pre-industrial times. SSP2-4.5 represents continuation of present trends. SSP3-7.0 is a high emission scenario.

Source: FADCP Climate Dataset (Massetti and Tagklis, 2023), using CRU data (Harris et al., 2020), and CMIP6 data (Copernicus Climate Change Service, Climate Data Store, (2021): CMIP6 climate projections).

[1] Ecuador already has some adaptive capacity, with an IMF adapted readiness score around the median compared to Latin American peers, but there is room to improve in the areas of governance readiness, ecosystem services, health, and human habitat.

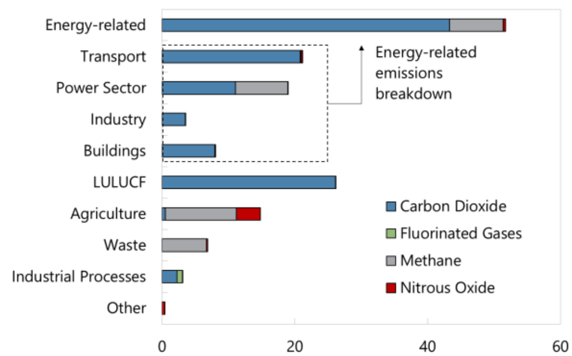
44. The authorities are committed to reducing greenhouse gas (GHG) emissions, as outlined in the Nationally Determined Contributions (NDCs) Implementation Plan. While Ecuador's GHG emissions are relatively low, emissions have been growing over the past three decades, largely driven by the transportation sector (text chart).[2] In 2019, Ecuador's NDCs plan committed to reducing emissions by 9 percent by 2025 compared to the business-as-usual (BAU) scenario, and by 20.9 percent conditional on receiving international support. The authorities are preparing updated NDCs through 2030 expected by next year. The authorities agree that achieving NDC goals would require, among others, a policy focus on limiting deforestation, reducing emissions from the vehicle fleet, and minimizing fugitive, vented, and flared emissions in the energy sector (see SIP).[3] Providing green public investment (e.g., green R&D, network infrastructure) and incentives for other renewable energy sources (besides hydropower) and sustainable forest conservation could also contribute to decarbonization while promoting growth through investment, higher productivity, and job opportunities.

Historical and Projected GHG Emissions by Sector (BAU scenario)
(Metric tons of carbon dioxide equivalent)



Sources: CPAT and IMF staff calculations.

GHG Emissions by Sector and Gas in 2022
(Metric tons of carbon dioxide equivalent)



Sources: CPAT and IMF staff calculations.

45. The authorities aim to gradually diversify the economy to mitigate transition risks associated with the shift to a low-carbon global economy. Ecuador's exports are less diversified than regional peers, and the high dependence on oil makes the country vulnerable to international oil price developments (text charts).[4] The ongoing global transition to a low-carbon economy thus poses significant downside risks for Ecuador's oil revenue due to projected declining global oil demand and uncertain oil prices.[5] Reducing dependence on fossil fuels is necessary for long-term

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[2] In 2022, energy-related emissions, which include transportation, was the largest source and accounted for half of total emissions, followed by land use/land use change/forestry (LULUCF, 25 percent) and agriculture (14 percent).

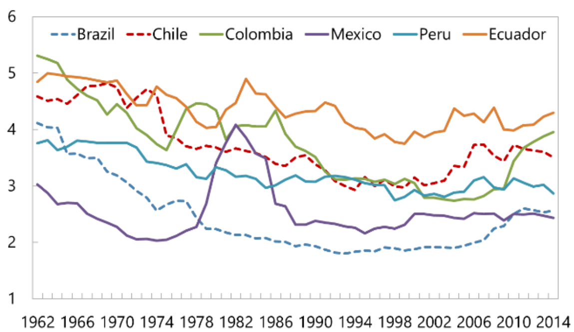
[3] The National Climate Change Strategy 2012-2025 listed five priority sectors for reducing emissions: agriculture, energy, LULUCF, waste, and industry. In 2024, the government presented a new National Climate Change Mitigation Plan with measures to reduce emissions in these sectors.

[4] In 2023, the oil sector accounted for 7.5 percent of GDP, one-quarter of exports, and one-third of the NFPS fiscal revenue.

[5] The International Energy Agency projects that global oil demand would decline by between 4 and 29 percent by 2040, depending on mitigation scenarios. Other uncertainty factors include the developments of renewable energy and electric vehicles. Oil prices are also subject to large uncertainty, depending on whether the energy transition is led by demand-side or supply-side policies (Boer et. al., 2023).

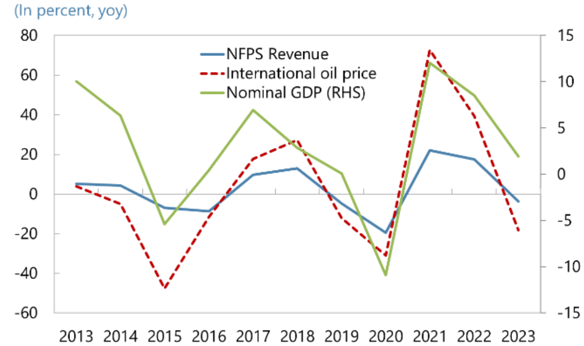
macroeconomic stability and should be done in a gradual and orderly manner, supported by the development of non-oil industries, export diversification, and improving export quality (see SIP). This could be achieved through improving key fundamentals (especially education, infrastructure, and government effectiveness); further enhancing trade integration and participation into global value chains; and removing market imperfections. Recent free trade agreements are welcome steps to expand trade and diversify exports. By implementing these strategies, Ecuador can ensure a resilient economic future that aligns with global sustainability efforts while safeguarding its long-term economic stability.

Export Diversification
(Theil Index, higher = less diversified))



Sources: IMF Diversification & Quality Database (Papageorgiou et. al., 2015); IMF staff elaboration.

Correlated Growth Rates of International Oil Price and Domestic GDP and Fiscal Revenue
(In percent, yoy)



Sources: Haver and IMF.

46. Continuing to develop the sustainable bond and green finance ecosystem would help attract financing for the country's climate needs (see SIP)**.** Ecuador's green finance market appears to be well-positioned for further growth. The authorities and the financial sector have made strides to create a green finance ecosystem, including by developing a national green taxonomy. In the private sector, several financial institutions have issued sustainable bonds since 2019. Sustainable bond issuances carry specific requirements that extend beyond those of conventional financing. To further attract private financing for green investments, three strategies could be implemented. First, streamlining the sustainable bond issuance process could incentivize the use of green financing instruments over conventional methods. Second, enhancing the governance of the country's NDC plan would bolster investor confidence in the implementation of the country's climate and environmental strategy. Third, assessing which green financing instruments might suit public investment needs and catalyze private investments, while at the same time optimizing efficiency in line with the country's overall financing strategy.

Authorities' Views

47. The authorities are strongly committed to continue reducing emissions and plan on releasing updated NDC targets next year. Given that Ecuador has relatively low GHG emissions, the authorities view adaptation—rather than mitigation—as being more critical to address vulnerabilities to extreme weather and natural disasters. They are implementing measures to reduce the energy sector's vulnerability to droughts, including by diversifying towards non-conventional renewable energy sources and increasing private sector participation. They highlighted the importance of having a unified legal framework for climate change, combining mitigation and adaptation, and of increasing coordination among different government agencies. On climate finance, the authorities recognized the significant investment needs for adaptation and mitigation. They are committed to creating a supportive environment for green finance and are considering the development of carbon markets.

PROGRAM MODALITIES

48. All quantitative performance criteria (QPCs) and indicative targets (ITs) set for the first review under the EFF were met with margin:

- **QPCs:** In the year through end-August 2024, the budgetary central government (PGE) and the oil derivatives financing account (CFDD) recorded a non-oil primary surplus of US$899 million (0.7 percent of GDP) and an overall surplus of US$215 million (0.2 percent of GDP), exceeding the adjusted quantitative performance targets by US$2 billion (1.6 percent of GDP) and US$2.3 billion (1.9 percent of GDP), respectively. The overperformance was mostly due to delays in capital budget execution. NFPS deposits at the BCE rose by US$1.8 billion over the same period, exceeding the target. The continuous performance criteria of no accumulation of external arrears or new central bank credit to the NFPS were met.

- **ITs:** The overall balance of the NFPS registered a surplus of US$1.8 billion as of August 2024, considerably higher than the adjusted deficit target of US$1.5 billion. The non-oil primary balance of the NFPS including fuel subsidies also overperformed the end-August IT. Net international reserves (NIR) increased by US$1.6 billion in the year through end-August 2024, substantially exceeding the adjusted target of -US$458 million, reflecting the increase in NFPS deposits. The fiscal overperformance allowed the authorities to clear domestic arrears with the private sector faster than originally forecasted, with the stock of PGE arrears at end-August 2024 declining to US$322 million compared to an IT of US$862 million. The number of families in the lowest three income deciles nationwide covered by cash transfer programs reached 1,192,883 as of end-August 2024, exceeding the IT by 170 families.

49. The authorities have made significant progress in the implementation of SBs (Table 14)**.** They (i) established a Financial Stability Committee (**end-September 2024 SB**); (ii) published the updated MTFF and MTDS in line with program targets (**end-October 2024 SBs**); (iii) developed plans to expand the social registry (**end-October 2024 SB**), mobilize non-oil fiscal revenues (**mid-November 2024 SB**), and clear and prevent the resurgence of domestic arrears (**end-November 2024 SB**); (iv) issued macroprudential regulations on capital buffers (**end-November 2024 SB**); and (v) enacted measures to ensure that the 2025 fiscal plan is in line with the program (**December 6, 2024 SB**). The benchmark on the tender process to undertake the 2023 and 2024 healthcare audits (**end-December 2024 SB**) was implemented ahead of schedule. The establishment of an updated agreement between the MEF and IESS to settle healthcare obligations (**end-October 2024 SB**) and the initiation of the tendering process to sign a contract for the new platform for the BCE's central securities depository (**end-November 2024 SB)** are in progress but will require additional time to be finalized; these SBs are proposed to be reset for end-March 2025 and end-January 2025, respectively. Other SBs with future dates are also in progress, including the establishment of a timeline to operationalize the SNC to increase transparency in procurement (**end-December 2024 SB**), the enactment of new AML/CFT legislation (**end-February 2025 SB**), and the completion of the 2019 and 2020 audits of PetroEcuador and PetroAmazonas (**end-March 2025 SB**).

50. QPCs are set through end-April 2025, with new ITs covering the period through end-December 2025. QPCs for end-December 2024 are unchanged vis-a-vis those proposed at program approval, while the NIR indicative target was adjusted upwards reflecting a stronger-than-expected balance of payments outturn. The attached Technical Memorandum of Understanding (TMU) clarifies program definitions for the EFF reviews and defines adjustors as relevant to assess program performance.

Quantitative Performance Criteria and Indicative Targets, 2024-2025

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

	End-August 2024				End-Dec. 2024	End-Apr. 2025	End-Aug. 2025	End-Dec. 2025
	Program 2/	Adj. 3/	Actual	Status	Program	Program	IT	IT
(US$ million, unless otherwise indicated)								
Quantitative performance criteria								
1. Non-oil primary balance of the budgetary central government (PGE) (floor) 1/	-1,078	-1,078	899	Met	-2,295	-341	-1,220	-2,452
2. Overall balance of the PGE and CFDD (floor) 1/	-2,200	-2,108	200	Met	-4,213	-1,041	-2,628	-3,868
3. Accumulation of NFPS deposits at the central bank (floor) 1/	200	-58	1,756	Met	360	0	-5	1,070
4. Non-accumulation of external payments arrears by the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
Indicative targets								
6. Overall balance of the NFPS (floor) 1/	-1,628	-1,537	1,795	Met	-2,442	-89	-1,103	-1,570
7. Non-oil primary balance including fuel subsidies (NOPBS) of the NFPS (floor) 1/	-4,100	-4,192	-1,865	Met	-6,528	-1,151	-3,070	-5,751
8. Change in the stock of NIR (floor) 1/	-200	-458	1,573	Met	65	-34	46	1,038
9. Stock of PGE arrears to the domestic private sector (ceiling)	862		322	Met	662	600	400	262
10. Number of families in the first three income deciles nationwide covered by cash transfer programs (floor)	1,192,713		1,192,883	Met	1,212,984	1,228,660	1,244,336	1,260,012

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.
2/ Staff report for the EFF Request.
3/ Adjusted for oil prices and disbursements from multilateral institutions.

51. New SBs are proposed for the second and third reviews. These include (i) the establishment of an inter-institutional group within the Financial Stability Committee to coordinate resolution reforms and strategies (**end-January 2025 SB**); (ii) the implementation of a system to automatize payments of the PGE, including arrears' payments (**end-March 2025 SB**); (iii) the development of a conceptual framework for an upgraded Official System of Public Procurement to strengthen expenditure control and the transparency of public procurement systems (**end-July 2025 SB**); and (iv) the approval and publication of an AML/CFT Strategic Action Plan, establishing actionable policy priorities to mitigate money laundering, including by organized crime, and terrorist financing risks identified in the National Risk Assessment approved in 2024 (**end-September 2025 SB**).

52. Capacity to Repay. Ecuador's capacity to repay is adequate, but remains subject to significant risks, critically depending on the implementation of envisaged policies and availability of external financing. GRA credit to Ecuador will peak in 2025, reaching 978.8 percent of quota and 25.7 percent of exports, while it peaks at 7.4 percent of GDP in 2024 (Table 9). Fund obligations relative to gross international reserves would peak at 15.8 percent in 2025 and decline steadily to

2.84 percent by 2034. Fund obligations in percent of GDP and exports peaks at 1.3 and 4.7 percent, respectively, in 2027.

53. Financing Assurances. The program is fully financed, with firm financing commitments for the next 12 months and good prospects of adequate financing for the remaining program period (Table 6). IFIs (WB, IDB, Development Bank of Latin America and the Caribbean (CAF), and FLAR) have committed to maintain or increase their support for Ecuador. Financing commitments for the next 12 months have been obtained from all official bilateral creditors and included in program financing. Financing is partly predicated on assumptions of rollover of commercial borrowing and of market access of approximately US$1.5 billion in 2025 and US$2 billion per year starting in 2026, which are below Ecuador's average access before the pandemic. In the event of financing plan shortfalls, alternative financing sources and/or a contingent policy response would be required in line with the contingency plan prepared prior to program approval.

54. Safeguards. The 2024 update safeguards assessment is in the process of being finalized. The BCE has significantly strengthened its safeguards since the 2019 assessment, notably through the 2021 COMYF reforms, which prohibited the BCE financing of the sovereign and quasi-fiscal operations and established a "backing rule" to fully cover the BCE monetary liabilities and government deposits with international reserve assets. Recently, the BCE has taken steps to ensure the continued quorum capacity of the BCE Board and the full and permanent constitution of the Audit Committee. Further work is needed to align the BCE annual financial statements with International Financial Reporting Standards, in particular for BCE-owned public debt. An update fiscal safeguards review is currently underway. The main finding is that Ecuador's PFM system provides broadly adequate safeguards for the use of Fund resources for budget support. Some progress has been made since the last review in 2021, notably in the areas of financial and macro-fiscal reporting, mitigating the risk of misreporting. The Treasury Single Account (TSA) at the BCE is comprehensive and with adequate controls. In line with existing priorities for PFM reform, further work is needed to improve treasury and budget management to prevent arrears accumulation.

55. Lending into Arrears. Ecuador maintains a residual amount of arrears to international private bond holders arising from outstanding claims on those international bonds that the authorities repudiated in 2008-09. At that time, most government obligations were repurchased by the government. However, US$52 million remain outstanding in the hands of individual creditors, and the authorities have been unable to identify these creditors to settle the claims. The authorities established a public procedure to follow in the event that a holder of these bonds requests the liquidation of the securities, which continues to operate to solve outstanding claims. Staff judges that the authorities continue to make good faith efforts to reach a collaborative agreement with the remaining creditors.

56. Article VIII/Capital Flow Management Measures (CFMs). Ecuador maintains a tax on transfers abroad ("impuesto a la salida de divisas," ISD) for financial and current international transactions. Following reductions in 2022-23, the ISD rate was increased from 3.5 percent to 5 percent in April 2024 to address the rapid deterioration of the reserve position amid weak public finances and continued financial account pressures. The reductions in the ISD rate in 2022-23 constituted an easing of an existing CFM on outflows under the Fund's Institutional View on the Liberalization and Management of Capital Flows, while its increase in 2024 represented a tightening of the outflow CFM. The ISD also constitutes an exchange restriction subject to Fund approval under Article VIII, Section 2(a). The authorities are committed to gradually phasing out the ISD as macroeconomic and balance of payments stability is restored and the reserve position is strengthened, supported by the implementation of the policies under the EFF-supported program.[6] The authorities are requesting Board approval for the retention of the exchange restriction arising from the ISD, on the basis that it is maintained for balance of payment reasons and is temporary and non-discriminatory.

57. Enterprise Risks. The Fund continues to face significant business, operational, financial, and reputational risks related to the EFF arrangement. Liquidity pressures have declined, and program implementation has been strong, though other risks identified at program approval remain in place. Business risks of analytical accuracy arise from an uncertain economic outlook, a fragmented political landscape, and uncertainty ahead of the forthcoming elections in 2025. Operational risks involve staff safety and well-being and weaknesses in Ecuador's institutional capacity, notably lags and variability in data sources (Annex VII). These risks could hamper or slow program implementation and lead to larger-than-envisaged financing gaps. Financial risks could arise if difficulties in program implementation delay additional international financial support and market re-access. These scenarios could also carry reputational risks for the Fund. There are also important risk mitigants, including the bold policy actions already taken by the authorities; the authorities' strong program implementation since program approval (including meeting all program targets with large margins) and their commitment to continue implementing the policies under the program (including progress towards meeting SBs); strong multilateral financial support; the authorities' commitment to honoring external debt obligations; the program's protection of social spending; and contingency planning. Nevertheless, risks remain elevated. However, on balance staff judges these to be lower than the reputational, financial, and business risks of the Fund not continuing to support a member facing severe challenges that has already taken substantive actions to address them and demonstrated strong ownership of program objectives.

Box 1. Assessment of Exceptional Access Criteria

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.*

Staff assesses that this criterion is met. Ecuador is experiencing an exceptional balance of payments (BoP) need stemming from large external debt obligations and loss of market access. Although implementation of the authorities' fiscal plan and disbursements from IFIs and bilateral creditors have contributed to ease immediate liquidity pressures after the approval of the EFF arrangement, the country faces an estimated financing gap of US$3 billion in 2024-28, resulting in exceptional BoP pressures. Ecuador's IMF credit outstanding stands at SDR 6.4 billion as of end-October 2024 (equivalent to about US$8.5 billion, or 914 percent of quota), so IMF support requires exceptional access.

[6] The ISD rate for 2025 on the imports of certain raw materials will be reduced starting in January 2025.

Box 1. Assessment of Exceptional Access Criteria (continued)

Criterion 2 – *A rigorous and systematic analysis indicates that there is a high probability that the member's debt is sustainable in the medium-term; where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*

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

To investigate whether Ecuador meets EA2, staff carried out two tests that utilize the tools of the Fund's new Debt Sustainability Framework for Market Access Countries (see Review of the Debt Sustainability Framework for Market Access Countries):

- *Debt sustainability test.* The analysis examined whether Ecuador's public debt would remain sustainable in the face of a large shock at the end of the program period (defined as a shock that would propel Ecuador's debt to the 80th percentile of the debt fanchart by 2034). Staff assesses that this condition is met.
- *FX availability test.* A shock of the simulated magnitude would imply that Ecuador would face additional financing needs. Given that debt would remain sustainable under the shock, the analysis examined whether, after such a shock, Ecuador would have sufficient FX liquidity to manage its international obligations under a set of plausible assumptions with regard to fiscal adjustment and net financing (including from liability management operations to extend maturities) from domestic and external creditors. Staff assesses that this condition is met.

Criterion 3 – *Staff judges that 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.*

Staff assesses that this criterion is met. While sovereign bonds continue trading at distressed levels, partly due to political uncertainty ahead of the 2025 general elections, spreads have declined by about 800 basis points since the beginning of 2024, reflecting policy measures undertaken by the authorities, including a substantial fiscal effort. Ecuador has remained current on external debt obligations despite tight liquidity conditions in early 2024. Staff judges that the commitment to remain current on external debt obligations, continued strong program implementation, and adherence to COPLAFIP's debt ceilings will help Ecuador re-access international markets as envisaged under the program's baseline. In addition, the expected decline in global interest rates should facilitate market access. This assessment is subject to significant risks and depends on steadfast implementation of the authorities' fiscal and reform plans.

Ecuador had regularly issued international bonds until 2019, providing reasonable prospects for external debt issuance in a context of gradual macroeconomic improvement and robust policy reforms under the EFF arrangement.

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

Staff assesses that this criterion is met. The authorities remain fully committed to the objectives of the program and are implementing policies to ensure its success. All QPCs for end-August 2024 have been met with wide margins, and the authorities are on course to complete all SBs envisaged under the program. The

Box 1. Assessment of Exceptional Access Criteria (concluded)

government decision to enact an increase in the VAT rate to 15 percent and align domestic gasoline prices with international prices alongside a social compensation scheme, as well as the significant revenue package implemented in April 2024, demonstrate capacity to implement needed reforms to address longstanding fiscal and macroeconomic challenges and strong ownership of the broader objectives of the program. While these considerations support prospects for program success, the assessment remains subject to considerable risks related to the challenging economic environment, political fragmentation in the National Assembly, and forthcoming general elections in early 2025 for the presidency and the National Assembly.

However, based on discussions with four key presidential candidates and/or their appointed representatives, staff assesses that there is broad support for continued engagement with the Fund and for the overall objectives and key policies of the EFF-supported program, notably the need to implement policies to foster stronger and inclusive growth, protect the most vulnerable segments of the population, ensure sound public finances, and safeguard dollarization and financial stability. One party emphasized the importance of increasing investment to stimulate growth and improve public services and social protection, suggesting that such initiative could be financed through a different policy mix, relying on enhanced tax compliance and other potential domestic financing sources. Staff's assessment aligns broadly with the policy plans published so far by the candidates.

STAFF APPRAISAL

58. Ecuador is facing renewed challenges from a severe electricity crisis and the authorities are implementing swift policy actions to mitigate its effects. The electricity crisis stemming from a historic drought is causing electricity shortages and nationwide outages, hurting economic activity. The authorities' actions will be instrumental in preventing a further deepening of the crisis, with GDP growth expected to recover in 2025 and over the medium term. The authorities are also taking steps to foster needed investment in the medium term to tackle the structural deficit in electricity generation. This calls for structural reforms to encourage private sector participation, including in renewable energy. Liquidity risks have subsided since early 2024 but overall risks to the outlook remain high and tilted to the downside. Ecuador's external position was moderately weaker than the level implied by medium-term fundamentals and desirable policies in 2023 but is expected to improve in 2024 and the medium term.

59. The authorities made significant progress with the implementation of their economic reform program supported by the EFF arrangement. The authorities have embarked on a set of decisive policy actions and reforms, which strengthened the fiscal position and catalyzed access to multilateral and bilateral financing. These efforts have alleviated the severe liquidity conditions experienced in early 2024, enabling the rebuilding of buffers and the clearance of some domestic arrears. All quantitative targets for the first review of the EFF arrangement have been met, most with large margins, and implementation of SBs is progressing well, with some met ahead of schedule.

60. Fiscal reforms are proceeding in line with the authorities' plan supported by the EFF. The fiscal plan is anchored on implementing a NOPBS consolidation of 5.5 percent of GDP over 2024-28, which would ensure public debt remains on a firm downward path to meet the 40 percent of GDP target by 2032 as established in COPLAFIP. To this end, policies aim at stabilizing non-oil revenue by replacing temporary measures with permanent high-quality ones and improving the oil balance by enhancing the efficiency of the oil sector and reducing the fiscal cost of fuel production and distribution. On the expenditure side, the authorities plan on implementing a gradual but durable reduction in current spending, while safeguarding fiscal space for essential social and capital spending, especially in the education, health, security, and energy sectors. Appropriate contingency planning remains critical to tackle any fiscal shortfalls and/or potential delays in external financing.

61. The authorities continue expanding the social safety net. Broadening the coverage of the existing social registry, in line with the plan formulated by the authorities with support from the World Bank, would help expanding and targeting the existing cash transfers schemes. Boosting the social safety net would ensure that the most vulnerable have adequate access to government support in the near term, while efforts to improve access to education and health would promote more inclusive and job-rich growth.

62. Strengthening public financial management, transparency, and governance will help support fiscal efforts. Priorities in the fiscal structural agenda include improving cash flow management and strengthening fiscal risk analysis. Implementing the authorities' arrears clearance strategy would prevent the resurgence of payment arrears. It is key to finalize the updated agreement between the MEF and the IESS and complete the pending audits of health claims, so that healthcare obligations can be recognized and payments made on a timely basis. Enhancing public investment management based on the recommendations of the 2023 PIMA could significantly increase efficiency.

63. Plans to strengthen the resolution framework and increase coordination among financial sector supervisors are welcome. While the financial sector has remained broadly stable, financial soundness of some small banks and credit cooperatives has deteriorated. The authorities have taken steps to curb vulnerabilities and advance an extensive agenda of financial sector policies in line with FSAP recommendations, which will help safeguard financial stability. They recognize the importance of improving financial sector oversight, ensuring proper and transparent risk disclosures, and gradually phasing out regulatory forbearance at an appropriate pace. Continuing to closely monitor and address weak institutions, while working to enhance the financial safety net, would further bolster the resilience of the financial system.

64. Continued efforts in advancing structural reforms and combating crime would promote inclusive growth. Streamlining regulations and licenses would help unlock the potential of industries such as mining and energy. Recent trade agreements offer opportunities for trade expansion and export diversification. There is also ample scope to foster efficiency and enhance governance in SOEs. Labor market policy priorities include reducing informality, promoting more flexible work arrangements, improving specialized training, and facilitating female labor participation. Implementing family-friendly policies and incentives for women to participate in higher-paying technical fields would help advance progress in reducing the gender wage gap. The approval of a new AML/CFT law by the National Assembly was an important step to strengthen the financial integrity framework, with effective implementation being an important subsequent priority. Further increasing transparency and accountability will help mitigate vulnerabilities to corruption.

Continued efforts to reduce crime and make it less profitable, including by tackling illicit financial flows and strengthening the UAFE, are key for boosting growth.

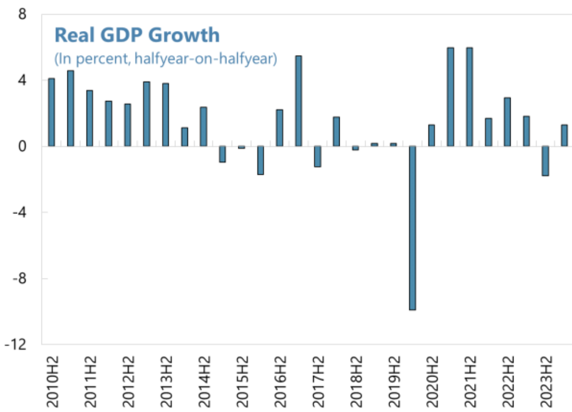
65. The authorities are strongly committed to continue advancing the climate policy agenda to enhance macroeconomic resilience. The authorities' policy agenda includes proactive adaptation measures to reduce vulnerabilities to climate change, including actions to diversify and secure the energy supply, and continued efforts to reduce GHG emissions to reach NDC goals. Continuing to foster private sector participation, integrating climate considerations in policymaking, and enhancing coordination between government agencies will facilitate climate policy efforts. Gradually diversifying the economy to reduce dependence on fossil fuels is also essential for mitigating risks associated with the global shift to a low-carbon economy. Given significant adaptation and mitigation investment needs, the authorities are also exploring solutions to catalyze climate financing.

66. Staff supports the completion of the First Review under the arrangement. Staff also recommends completion of the financing assurances review, including given Ecuador's ongoing good faith efforts to resolve external arrears with private creditors, and supports the authorities' request for Board approval for the retention of the exchange restriction arising from the ISD. The exchange restriction is maintained for balance of payment reasons, is temporary, and non-discriminatory.

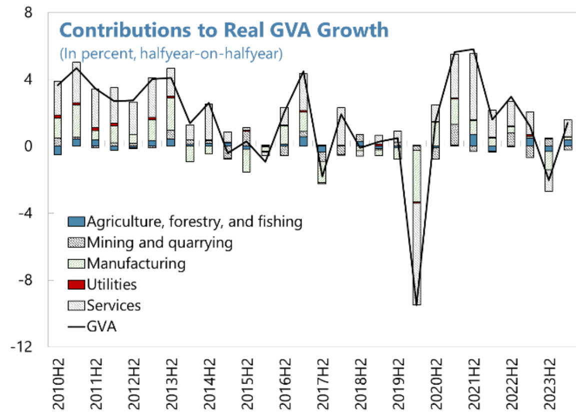
67. It is recommended that the next Article IV consultation take place on a 24-month cycle.

Figure 1. Ecuador: Recent Economic Developments

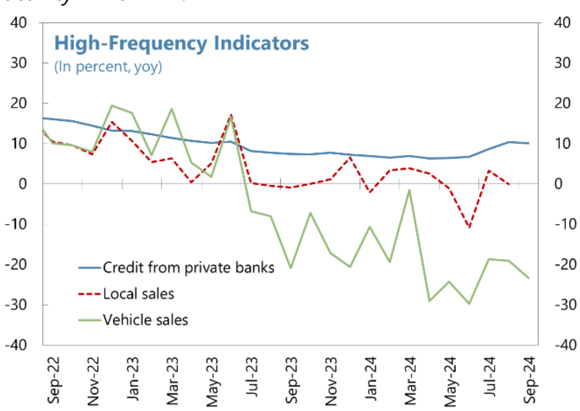
The economy temporarily picked up in 2024H1....



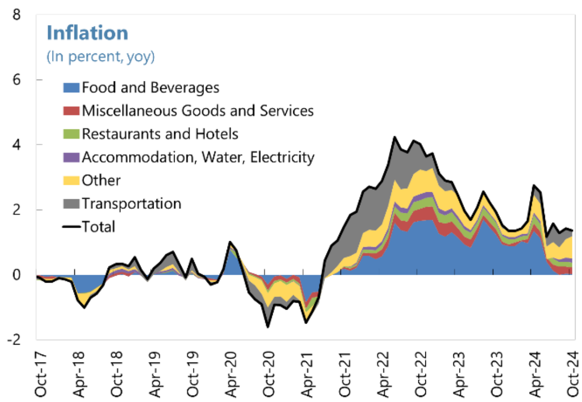
... aided by most sectors.



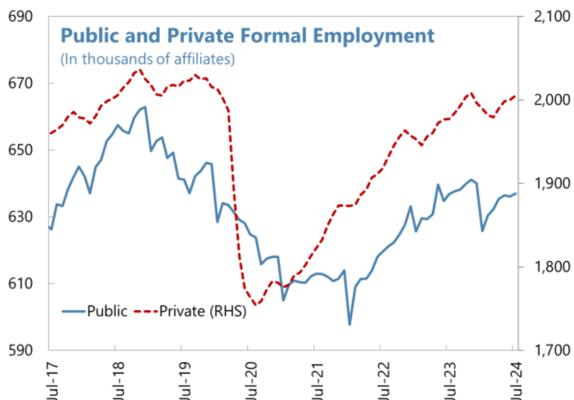
However, high-frequency data points to weaker economic activity in 2024H2.



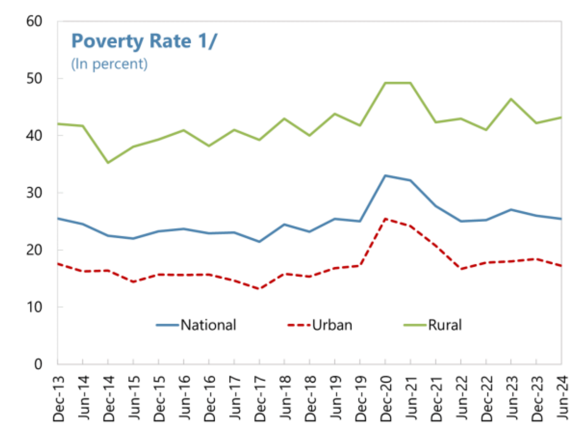
Inflation has stabilized after a spike in April.



Formal employment in the private sector is gradually edging up in 2024....



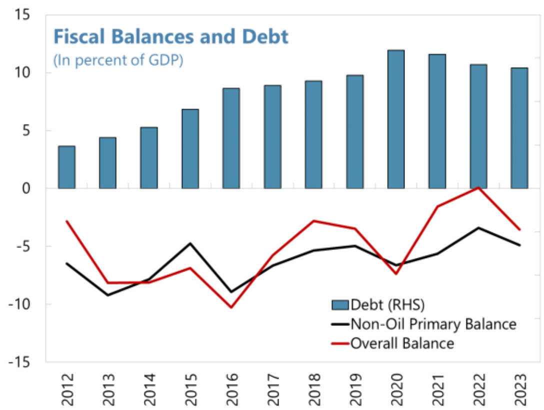
...while the poverty rate has crept down except in rural areas.



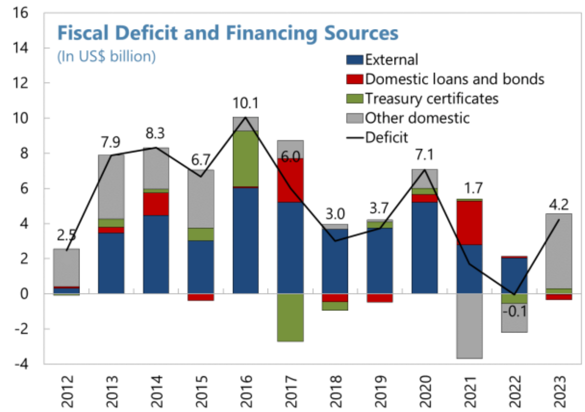
Sources: Ecuador's Internal Revenue Service, Central Bank of Ecuador, INEC, IESS, and IMF staff calculations.
1/ Income poverty rate, calculated as the ratio between the total number of people below the poverty line and the total population. The poverty line was in 2006 determined to be an income below $56.64 per month per person. Since then, it has been updated annually with changes in the CPI.

Figure 2. Ecuador: Fiscal Developments 1/

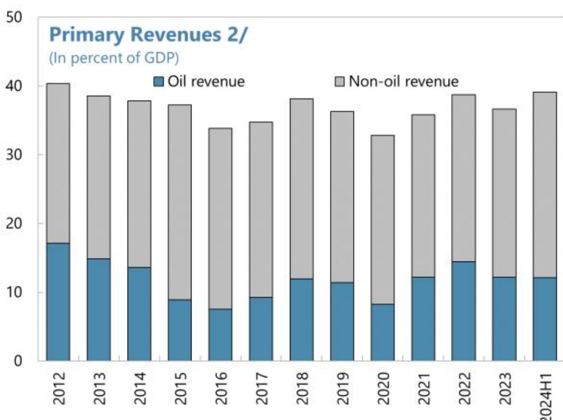
The fiscal deficit weakened in 2023, reversing the improvement over 2020-2022…



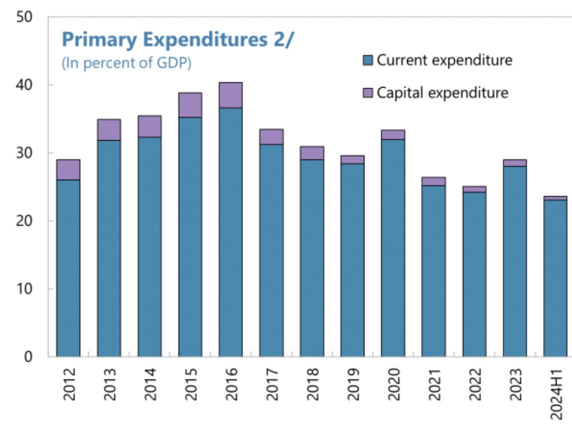
…leading to a fast drawdown of fiscal buffers and an increase in domestic arrears.



Revenues recovered with the new fiscal package in 2024…

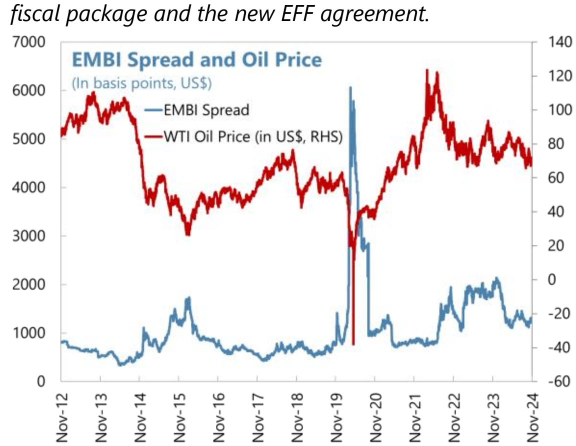


…while primary expenditures were contained.



The 2023 fiscal deterioration led to a sharp increase in gross financing needs.

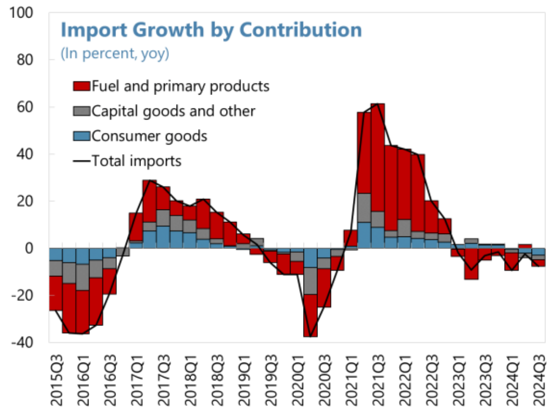
Sovereign spreads narrowed following the authorities' fiscal package and the new EFF agreement.



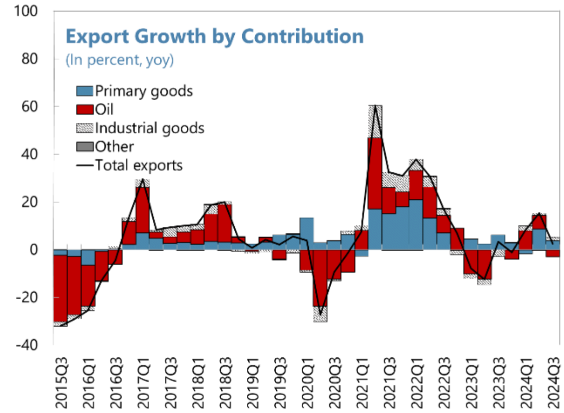
Sources: Central Bank of Ecuador, Ministry of Economy and Finance, Haver, Bloomberg, and IMF staff calculations.
1/ The data for Ecuador reflect net lending/borrowing for the Non-Financial Public Sector (NFPS).
2/ Fiscal data for 2024 represents the total of monthly figures from January to June (not seasonally adjusted) and annualized. GDP data represents the total from the first and second quarters of 2024 (seasonally adjusted).

Figure 3. Ecuador: External Sector Developments

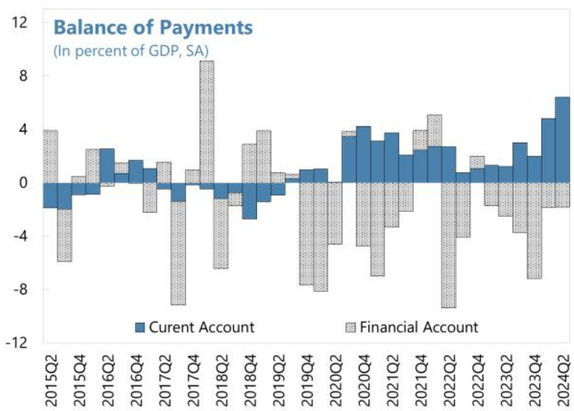
The decline in economic activity compressed imports so far in 2024….



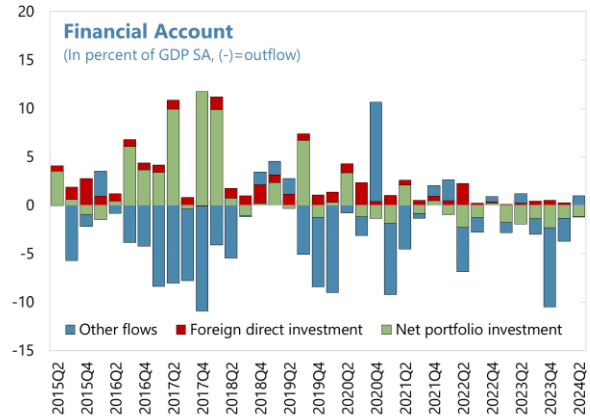
…while exports remained robust, including for oil products…



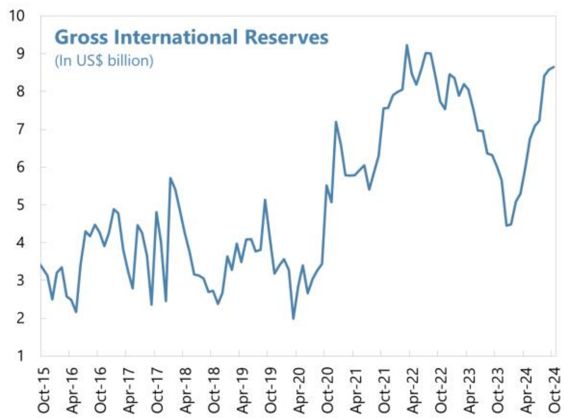
…leading to a stronger current account surplus.



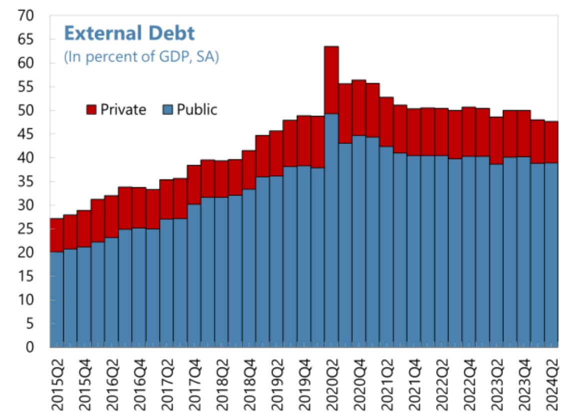
Lower net debt repayments supported the financial account…



… contributing to a recovery in gross international reserves.



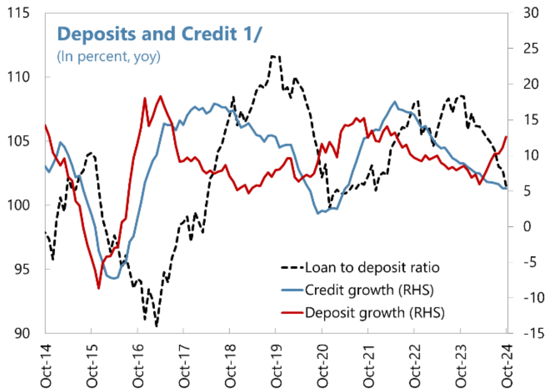
External debt remained broadly stable in 2024Q2.



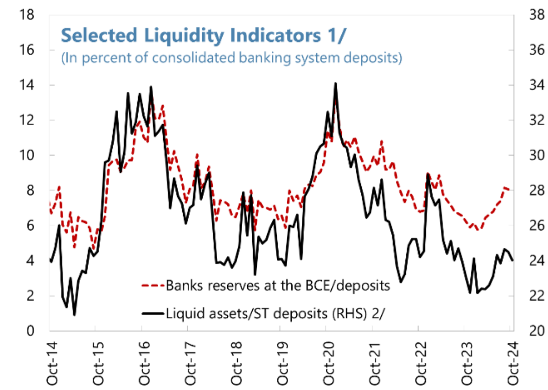
Sources: Central Bank of Ecuador, STA BOP database, and IMF staff calculations.

Figure 4. Ecuador: Financial System Developments

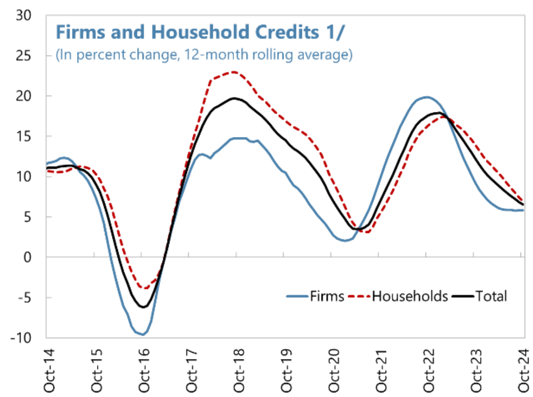
Deposit growth is starting to recover…



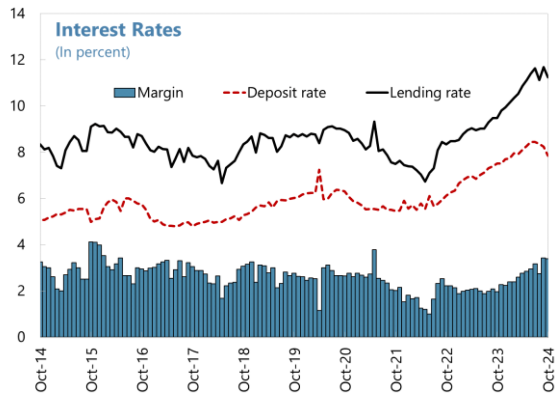
…leading to an incipient increase in bank reserves.



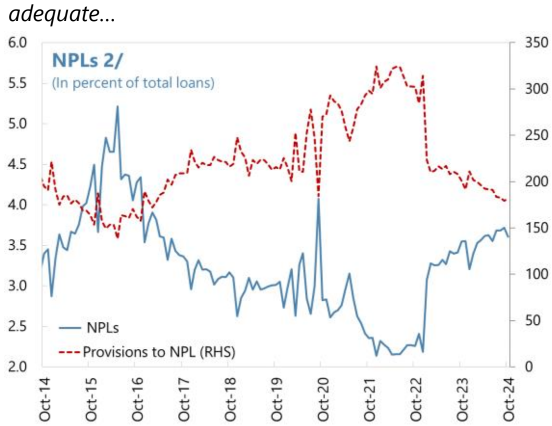
Household credit growth continues decelerating, while firm credit growth has stabilized.



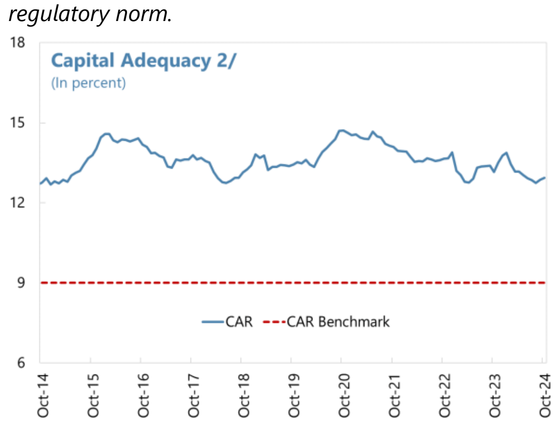
The revision of some lending caps led to an ongoing widening of lending margins.



Loan quality continues to decline, while provisioning is still adequate…



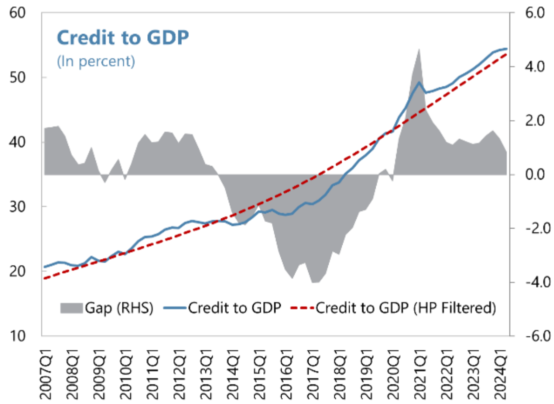
…and solvency ratios are also falling but remain above the regulatory norm.



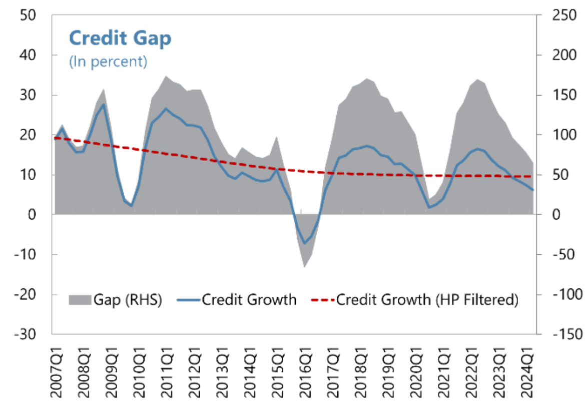
Sources: Central Bank of Ecuador, Superintendency of Banks, IMF Monetary and Financial Statistics, and IMF staff calculations.
1/ Loan to deposit data corresponds to Other Depository Institutions, which include private banks, Banecuador, Banco del Pacifico, private financial companies, mutualists, cooperatives, and credit card companies. Credit and deposit data correspond to the whole financial system.
2/ Data correspond to the private banks aggregate, which includes Banco del Pacifico.

Figure 5. Ecuador: Credit Market Dynamics

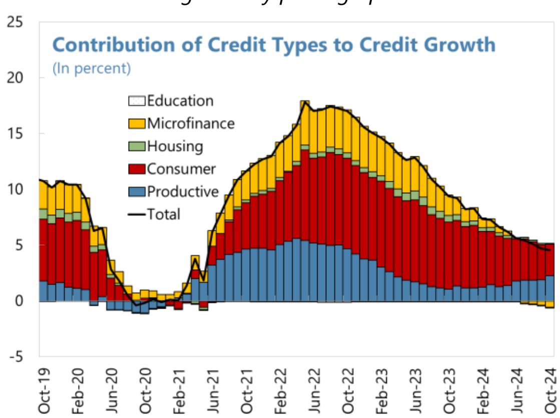
The credit-to-GDP gap remains positive…



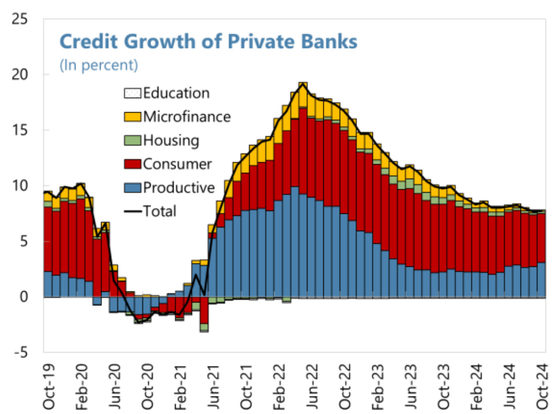
…while credit growth is falling below trend.



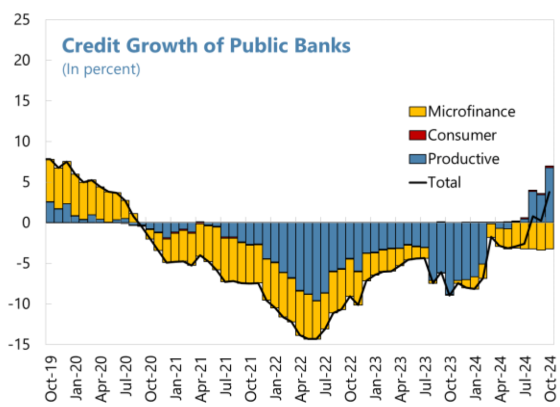
Credit growth continues to decelerate, led by SMEs, but productive credit is gradually picking up.



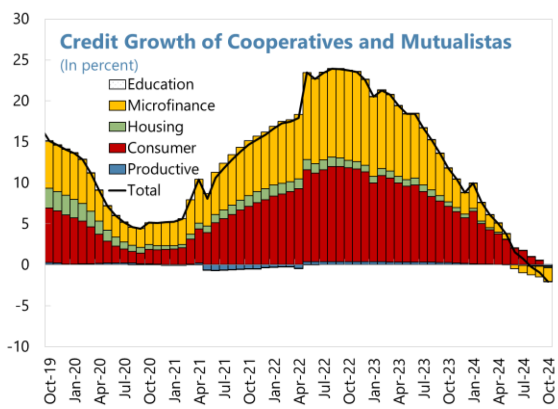
Across institutions, credit by private banks is starting to resume…



…but public banks are extending a contraction in credit…



…and cooperatives are also undergoing a sharp deceleration.



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

Table 1. Ecuador: Selected Economic and Financial Indicators, 2022-29

						Projections				
	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
				(Percent change, unless otherwise indicated)						
National income and prices										
Nominal GDP (US$ millions)	116,586	118,845	121,789	120,433	125,968	125,038	129,175	134,226	139,645	145,328
GDP per capita (US$)	6,581	6,664	6,806	6,703	6,982	6,907	7,080	7,300	7,537	7,783
Real GDP	6.2	2.4	0.1	-0.4	1.2	1.6	1.8	2.4	2.5	2.5
Domestic demand (contribution to growth)	7.0	1.4	-0.8	-3.2	-0.1	1.9	2.0	2.3	2.4	2.5
Consumption (contribution to growth)	5.0	1.4	-0.9	-0.9	-0.1	1.1	0.8	0.9	0.7	0.5
Investment (contribution to growth)	2.0	0.0	0.1	-2.4	0.0	0.8	1.2	1.5	1.6	2.0
External demand (contribution to growth)	-0.8	1.0	0.9	2.8	1.3	-0.3	-0.1	0.0	0.1	0.0
Imports (contribution to growth)	-2.7	0.3	-0.4	1.2	-0.4	-0.5	-1.5	-1.3	-1.3	-1.3
Exports (contribution to growth)	2.0	0.7	0.5	1.6	0.9	0.3	1.3	1.3	1.4	1.4
Consumer price index (period average)	3.5	2.2	2.4	1.9	2.2	2.2	1.6	1.5	1.5	1.5
Consumer price index (end-of-period)	3.7	1.3	3.4	2.8	1.7	1.7	1.5	1.5	1.5	1.5
					(Percent of GDP)					
Saving-investment balance										
Consumption	77.8	78.3	77.3	77.8	76.9	77.6	77.3	76.9	76.5	76.3
Private	64.4	64.3	63.6	64.2	63.6	64.2	64.2	64.2	64.2	64.2
Public	13.4	13.9	13.8	13.6	13.4	13.4	13.1	12.7	12.4	12.1
National saving	24.1	23.3	23.4	23.8	24.2	24.0	24.3	24.6	25.1	25.3
Private	22.1	25.1	23.3	23.8	23.5	23.5	22.6	22.8	22.7	22.7
Public	2.0	-1.8	0.1	0.0	0.7	0.5	1.7	1.9	2.4	2.6
Gross investment	22.3	21.4	21.3	19.4	22.0	20.9	21.4	22.0	22.5	22.8
Private 1/	16.4	16.3	15.2	14.0	16.4	15.6	15.9	16.5	17.0	17.4
Public	5.9	5.2	6.1	5.3	5.5	5.3	5.6	5.6	5.5	5.5
				(Millions of barrels, unless otherwise indicated)						
Oil production, demand, and prices										
Oil production	175.6	173.5	175.2	173.8	175.4	172.5	174.6	175.9	176.1	176.3
Domestic consumption of oil derivatives	99.0	104.1	109.2	106.9	110.3	108.0	110.1	112.9	115.7	119.0
Oil price West Texas Intermediate (US$ per barrel)	94.8	77.6	75.5	78.5	70.7	70.2	67.4	65.6	64.5	63.9
Oil price Ecuador mix (US$ per barrel)	85.8	68.0	67.5	68.5	63.7	63.2	61.4	59.6	58.5	57.9
				(Percent of GDP, unless otherwise indicated)						
External sector										
Current account balance	1.8	1.9	2.1	4.4	2.2	3.1	2.8	2.6	2.5	2.5
Trade balance	2.2	1.9	2.5	4.6	2.3	3.3	3.0	2.8	2.7	2.7
Financial account balance	2.5	3.7	1.5	1.8	1.1	0.9	1.2	1.2	1.2	1.2
Exports of oil (US$ millions)	11,587	8,952	8,699	9,053	8,025	7,824	7,579	7,304	7,266	7,173
Gross international reserves (US$ millions) 2/	8,459	4,454	5,212	7,648	6,724	10,544	12,676	14,679	16,678	18,740
As a percent of the ARA metric 3/	33.7	17.8	20.7	29.1	26.2	38.7	45.2	51.0	56.6	61.9
Real effective exchange rate (2010=100)	117.8	116.5	…	…	…	…	…	…	…	…
Real effective exchange rate, end-of-period (depreciation,-)	3.1	-1.1	…	…	…	…	…	…	…	…
					(Percent of GDP)					
Public finances										
Non-financial public sector (NFPS)										
Overall balance	0.0	-3.6	-2.0	-1.8	-1.2	-1.3	-0.2	0.0	0.5	0.8
Primary balance	0.5	-2.7	-0.9	-0.8	0.1	-0.3	0.9	1.1	1.6	1.9
NOPBS	-7.3	-7.7	-5.4	-5.6	-4.7	-4.6	-3.5	-2.9	-2.2	-1.8
Budgetary Central Government (PGE+CFDD)										
Overall balance	-1.8	-5.4	-3.5	-3.4	-2.8	-3.1	-2.0	-1.6	-1.0	-0.8
Public debt 4/	57.0	55.4	56.3	56.8	56.4	56.8	55.7	54.4	52.5	50.0
Domestic	14.9	14.8	14.4	14.6	13.9	14.0	13.6	13.4	13.1	12.8
External	42.1	40.5	41.9	42.1	42.5	42.7	42.1	41.0	39.4	37.2
					(Percent change)					
Monetary sector										
Broad money (M2) (percent change, yoy) 5/	7.5	6.7	2.5	4.8	3.4	3.8	3.3	3.9	4.0	4.1
Credit to the private sector (percent change, yoy) 6/	13.9	8.4	4.0	4.5	3.3	4.0	4.0	4.4	4.5	4.8
Net international reserves (US$ millions) 7/	-6,193	-7,639	-8,310	-7,574	-7,150	-6,470	-4,821	-2,712	-147	2,239

Sources: Ministry of Economy and Finance; Central Bank of Ecuador; Haver; and Fund staff calculations and projections.
a/ Staff report from program approval.
1/ Includes inventories.
2/ Gross international reserves excludes non-liquid and encumbered assets.
3/ Does not include the Liquidity Fund.
4/ Gross debt consolidated at the level of the NFPS.
5/ Broad money comprises monetary species in circulation, demand deposits, and quasi-money.
6/ Consolidated banking system.
7/ Program net international reserves are 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. BEDE and BIESS) at the central bank, and short-term liabilities of the central government.

Table 2. Ecuador: Real and Oil Sector, 2022-29

	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
			Projections							
	(Percent change, unless otherwise indicated)									
National income and prices										
Nominal GDP (US$ millions)	116,586	118,845	121,789	120,433	125,968	125,038	129,175	134,226	139,645	145,328
Population (millions)	17.7	17.8	17.9	18.0	18.0	18.1	18.2	18.4	18.5	18.7
GDP per capita (US$)	6,581	6,664	6,806	6,703	6,982	6,907	7,080	7,300	7,537	7,783
Real GDP per capita	5.6	1.7	-0.7	-1.1	0.4	0.8	1.0	1.6	1.7	1.7
Real GDP	6.2	2.4	0.1	-0.4	1.2	1.6	1.8	2.4	2.5	2.5
Domestic demand	7.0	1.4	-0.9	-3.4	0.0	1.9	2.1	2.3	2.3	2.4
Consumption	6.3	1.8	-1.1	-1.1	-0.1	1.4	1.0	1.1	1.0	0.7
Investment	9.7	-0.3	-0.1	-12.1	0.5	4.3	6.6	6.9	7.5	8.7
External demand	-47.2	118.6	39.6	164.8	57.7	-5.6	0.2	3.9	6.5	4.5
Imports	10.5	-0.9	-1.5	-4.3	-1.4	2.0	5.4	4.7	4.9	4.9
Exports	7.3	2.3	0.9	5.5	3.3	0.9	4.7	4.6	5.1	4.8
Real GDP	6.2	2.4	0.1	-0.4	1.2	1.6	1.8	2.4	2.5	2.5
Domestic demand (contribution to growth)	7.0	1.4	-0.8	-3.2	-0.1	1.9	2.0	2.3	2.4	2.5
Consumption (contribution to growth)	5.0	1.4	-0.9	-0.9	-0.1	1.1	0.8	0.9	0.7	0.5
Investment (contribution to growth)	2.0	0.0	0.1	-2.4	0.0	0.8	1.2	1.5	1.6	2.0
External demand (contribution to growth)	-0.8	1.0	0.9	2.8	1.3	-0.3	-0.1	0.0	0.1	0.0
Imports (contribution to growth)	-2.7	0.3	0.4	1.2	0.4	-0.5	-1.5	-1.3	-1.3	-1.3
Exports (contribution to growth)	2.0	0.7	0.5	1.6	0.9	0.3	1.3	1.3	1.4	1.4
Consumer price index (period average)	3.5	2.2	2.4	1.9	2.2	2.2	1.6	1.5	1.5	1.5
Consumer price index (end-of-period)	3.7	1.3	3.4	2.8	1.7	1.7	1.5	1.5	1.5	1.5
GDP deflator (period average)	2.2	-0.4	2.6	1.7	2.2	2.2	1.5	1.5	1.5	1.5
	(Millions of barrels, unless otherwise indicated)									
Oil production, demand, and prices										
Oil production	175.6	173.5	175.2	173.8	175.4	172.5	174.6	175.9	176.1	176.3
Exports of crude oil	116.9	115.0	119.0	123.0	115.1	112.7	114.6	114.5	115.4	115.3
Exports of derivative 1/	14.0	10.6	7.6	7.0	8.6	8.5	6.7	6.2	6.7	6.5
Domestic consumption of oil derivatives	99.0	104.1	109.2	106.9	110.3	108.0	110.1	112.9	115.7	119.0
Import of oil derivatives	60.8	66.1	65.7	67.9	62.2	61.2	60.6	62.2	62.7	64.2
Oil price West Texas Intermediate (US$ per barrel)	94.8	77.6	75.5	78.5	70.7	70.2	67.4	65.6	64.5	63.9
Oil price Ecuador mix (US$ per barrel)	85.8	68.0	67.5	68.5	63.7	63.2	61.4	59.6	58.5	57.9

Sources: Ministry of Economy and Finance; Central Bank of Ecuador; Haver; and Fund staff calculations and projections.
a/ Staff report from program approval.
1/ For derivatives, only exports of public companies are included.

Table 3a. Ecuador: Statement of Nonfinancial Public Sector Operations, 2022-29

			Projections							
	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
					(US$ million)					
Revenue (1)	**45,172**	**43,576**	**46,859**	**46,791**	**47,352**	**47,104**	**49,046**	**50,404**	**52,013**	**53,515**
Oil revenue	**16,854**	**14,507**	**14,505**	**14,800**	**14,890**	**14,251**	**15,105**	**14,951**	**15,002**	**15,020**
Non-oil revenue	**28,318**	**29,069**	**32,354**	**31,991**	**32,462**	**32,853**	**33,941**	**35,453**	**37,010**	**38,495**
Taxes	15,781	15,049	17,617	17,239	17,913	18,204	18,855	19,761	20,721	21,590
Income tax	4,440	4,635	5,876	5,567	5,141	5,576	5,821	6,111	6,424	6,711
Property tax	1,212	872	961	1,104	836	885	665	720	743	771
Goods and services	7,582	7,391	8,288	8,341	8,848	9,307	9,860	10,335	10,875	11,318
o/w Value added tax	6,440	6,269	7,100	7,525	7,660	8,108	8,519	8,941	9,425	9,808
o/w Excise tax	852	813	866	768	855	826	913	949	987	1,027
International trade and transactions	2,303	1,885	2,242	1,927	2,575	2,076	2,187	2,251	2,320	2,417
Other tax	245	266	250	300	514	360	324	345	358	373
Social security contributions	5,773	6,051	6,237	6,220	6,376	6,444	6,645	6,886	7,160	7,451
Other revenue	6,763	7,969	8,501	8,533	8,173	8,205	8,441	8,805	9,130	9,453
Interest	1,288	1,559	1,678	1,640	1,728	1,718	1,780	1,883	1,895	1,923
Other	5,475	6,410	6,823	6,893	6,445	6,487	6,661	6,922	7,235	7,530
Expenditure (2)	**45,120**	**47,796**	**49,302**	**48,978**	**48,826**	**48,674**	**49,326**	**50,403**	**51,247**	**52,419**
Expense	**42,805**	**45,711**	**46,790**	**46,805**	**46,458**	**46,420**	**46,883**	**47,868**	**48,635**	**49,721**
Compensation of employees	12,273	12,925	13,148	13,194	13,317	13,431	13,573	13,675	13,748	13,955
Use of goods and services	16,729	16,865	16,910	16,508	15,782	15,526	15,450	15,585	15,576	15,711
Oil 1/	12,348	11,806	11,860	11,937	10,824	10,748	10,570	10,658	10,573	10,565
Non-oil	4,381	5,060	5,050	4,570	4,958	4,778	4,881	4,928	5,002	5,146
Interest	1,788	2,609	3,000	2,848	3,347	2,971	3,203	3,315	3,407	3,562
Nonresidents	1,319	2,126	2,597	2,439	2,876	2,523	2,760	2,859	2,944	3,064
Residents	469	483	403	409	471	447	443	456	463	498
Social benefits	9,298	10,219	10,506	10,507	10,756	10,736	11,088	11,502	11,933	12,363
Social security benefits	6,162	7,164	7,368	7,278	7,531	7,553	7,802	8,105	8,431	8,774
Social assistance benefits	1,262	1,295	1,334	1,434	1,386	1,387	1,439	1,491	1,543	1,606
Employment-related social benefits	1,874	1,760	1,803	1,794	1,840	1,796	1,847	1,906	1,959	1,983
Other expense	2,717	3,093	3,227	3,619	3,256	3,482	3,484	3,707	3,887	4,046
Transfers not elsewhere classified	1,852	2,181	2,251	2,611	2,113	2,368	2,347	2,509	2,648	2,756
Current	877	1,017	1,054	1,089	900	1,006	872	894	913	950
Capital	976	1,165	1,198	1,522	1,214	1,362	1,474	1,615	1,735	1,806
Other	865	912	976	1,008	1,143	1,114	1,138	1,198	1,239	1,290
Net/gross investment in nonfinancial assets	**2,315**	**2,085**	**2,511**	**2,173**	**2,368**	**2,254**	**2,443**	**2,534**	**2,612**	**2,698**
Net lending (+) / Net borrowing (-) (NLB = 1-2)	**52**	**-4,220**	**-2,442**	**-2,187**	**-1,473**	**-1,570**	**-280**	**1**	**765**	**1,096**
Net acquisition of financial assets (3)	**2,795**	**-538**	**360**	**362**	**954**	**1,070**	**718**	**977**	**1,090**	**524**
Net incurrence of liabilities (4)	**2,790**	**4,392**	**2,802**	**2,548**	**2,427**	**2,640**	**998**	**975**	**325**	**-572**
Domestic	752	4,421	-79	-18	-58	-58	39	337	390	333
External	2,038	-30	2,880	2,566	2,486	2,698	959	638	-65	-905
Overall statistical discrepancy (-NLB+3-4)	-47	-709	0	0	0	0	0	0	0	0
Memorandum items:										
Primary balance	551	-3,170	-1,121	-979	145	-317	1,143	1,433	2,278	2,734
Non-oil primary revenue	27,029	27,511	30,676	30,352	30,734	31,136	32,161	33,569	35,116	36,571
Non-oil primary expenditure	30,984	33,382	34,441	34,193	34,655	34,956	35,554	36,430	37,267	38,292
Non-oil primary balance (NOPB)	-3,954	-5,871	-3,765	-3,841	-3,921	-3,820	-3,393	-2,861	-2,151	-1,721
NOPB including fuel subsidies (NOPBS)	-8,501	-9,136	-6,528	-6,722	-5,956	-5,751	-4,460	-3,868	-3,072	-2,679
Oil balance	4,476	2,662	2,645	2,850	4,066	3,490	4,523	4,281	4,416	4,443
Central government (PGE+CFDD) NLB	-2,067	-6,452	-4,213	-4,070	-3,566	-3,868	-2,545	-2,182	-1,373	-1,132
NFPS gross debt	66,431	65,821	68,580	68,370	71,007	71,009	72,008	72,983	73,308	72,736
Domestic	17,404	17,633	17,556	17,615	17,498	17,557	17,596	17,933	18,324	18,657
External	49,028	48,188	51,024	50,755	53,509	53,453	54,412	55,050	54,985	54,080
Nominal GDP	116,586	118,845	121,789	120,433	125,968	125,038	129,175	134,226	139,645	145,328

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

a/ Staff report from program approval.

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

Table 3b. Ecuador: Statement of Nonfinancial Public Sector Operations, 2022-29

			Projections							
	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
					(In percent of GDP)					
Revenue (1)	**38.7**	**36.7**	**38.5**	**38.9**	**37.6**	**37.7**	**38.0**	**37.6**	**37.2**	**36.8**
Oil revenue	**14.5**	**12.2**	**11.9**	**12.3**	**11.8**	**11.4**	**11.7**	**11.1**	**10.7**	**10.3**
Non-oil revenue	**24.3**	**24.5**	**26.6**	**26.6**	**25.8**	**26.3**	**26.3**	**26.4**	**26.5**	**26.5**
Taxes	13.5	12.7	14.5	14.3	14.2	14.6	14.6	14.7	14.8	14.9
Income tax	3.8	3.9	4.8	4.6	4.1	4.5	4.5	4.6	4.6	4.6
Property tax	1.0	0.7	0.8	0.9	0.7	0.7	0.5	0.5	0.5	0.5
Goods and services	6.5	6.2	6.8	6.9	7.0	7.4	7.6	7.7	7.8	7.8
o/w Value added tax	5.5	5.3	5.8	6.2	6.1	6.5	6.6	6.7	6.7	6.7
o/w Excise tax	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7
International trade and transactions	2.0	1.6	1.8	1.6	2.0	1.7	1.7	1.7	1.7	1.7
Other tax	0.2	0.2	0.2	0.2	0.4	0.3	0.3	0.3	0.3	0.3
Social contributions	5.0	5.1	5.1	5.2	5.1	5.2	5.1	5.1	5.1	5.1
Other revenue	5.8	6.7	7.0	7.1	6.5	6.6	6.5	6.6	6.5	6.5
Interest	1.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3
Other	4.7	5.4	5.6	5.7	5.1	5.2	5.2	5.2	5.2	5.2
Expenditure (2)	**38.7**	**40.2**	**40.5**	**40.7**	**38.8**	**38.9**	**38.2**	**37.6**	**36.7**	**36.1**
Expense	**36.7**	**38.5**	**38.4**	**38.9**	**36.9**	**37.1**	**36.3**	**35.7**	**34.8**	**34.2**
Compensation of employees	10.5	10.9	10.8	11.0	10.6	10.7	10.5	10.2	9.8	9.6
Use of goods and services	14.3	14.2	13.9	13.7	12.5	12.4	12.0	11.6	11.2	10.8
Oil 1/	10.6	9.9	9.7	9.9	8.6	8.6	8.2	7.9	7.6	7.3
Non-oil	3.8	4.3	4.1	3.8	3.9	3.8	3.8	3.7	3.6	3.5
Interest	1.5	2.2	2.5	2.4	2.7	2.4	2.5	2.5	2.4	2.5
Nonresidents	1.1	1.8	2.1	2.0	2.3	2.0	2.1	2.1	2.1	2.1
Residents	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Social benefits	8.0	8.6	8.6	8.7	8.5	8.6	8.6	8.6	8.5	8.5
Social security benefits	5.3	6.0	6.1	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Social assistance benefits	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Employer social benefits	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4
Other expense	2.3	2.6	2.6	3.0	2.6	2.8	2.7	2.8	2.8	2.8
Transfers not elsewhere classified	1.6	1.8	1.8	2.2	1.7	1.9	1.8	1.9	1.9	1.9
Current	0.8	0.9	0.9	0.9	0.7	0.8	0.7	0.7	0.7	0.7
Capital	0.8	1.0	1.0	1.3	1.0	1.1	1.1	1.2	1.2	1.2
Other	0.7	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Net/gross investment in nonfinancial assets	**2.0**	**1.8**	**2.1**	**1.8**	**1.9**	**1.8**	**1.9**	**1.9**	**1.9**	**1.9**
Net lending (+) / Net borrowing (-) (NLB = 1-2)	**0.0**	**-3.6**	**-2.0**	**-1.8**	**-1.2**	**-1.3**	**-0.2**	**0.0**	**0.5**	**0.8**
Net acquisition of financial assets (3)	**2.4**	**-0.5**	**0.3**	**0.3**	**0.8**	**0.9**	**0.6**	**0.7**	**0.8**	**0.4**
Net incurrence of liabilities (4)	**2.4**	**3.7**	**2.3**	**2.1**	**1.9**	**2.1**	**0.8**	**0.7**	**0.2**	**-0.4**
Domestic	0.6	3.7	-0.1	0.0	0.0	0.0	0.0	0.3	0.3	0.2
External	1.7	0.0	2.4	2.1	2.0	2.2	0.7	0.5	0.0	-0.6
Overall statistical discrepancy (-NLB+3-4)	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance	0.5	-2.7	-0.9	-0.8	0.1	-0.3	0.9	1.1	1.6	1.9
Non-oil primary revenue	23.2	23.1	25.2	25.2	24.4	24.9	24.9	25.0	25.1	25.2
Non-oil primary expenditure	26.6	28.1	28.3	28.4	27.5	28.0	27.5	27.1	26.7	26.3
Non-oil primary balance (NOPB)	-3.4	-4.9	-3.1	-3.2	-3.1	-3.1	-2.6	-2.1	-1.5	-1.2
NOPB including fuel subsidies (NOPBS)	-7.3	-7.7	-5.4	-5.6	-4.7	-4.6	-3.5	-2.9	-2.2	-1.8
Oil balance	3.8	2.2	2.2	2.4	3.2	2.8	3.5	3.2	3.2	3.1
Central government (PGE+CFDD) NLB	-1.8	-5.4	-3.5	-3.4	-2.8	-3.1	-2.0	-1.6	-1.0	-0.8
NFPS gross debt	57.0	55.4	56.3	56.8	56.4	56.8	55.7	54.4	52.5	50.0
Domestic	14.9	14.8	14.4	14.6	13.9	14.0	13.6	13.4	13.1	12.8
External	42.1	40.5	41.9	42.1	42.5	42.7	42.1	41.0	39.4	37.2

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

a/ Staff report from program approval.

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

Table 4. Ecuador: Nonfinancial Public Sector Financing, 2022-29

	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
				Projections						
					(US$ million)					
Gross financing needs	**6,321**	**9,813**	**8,035**	**8,097**	**7,849**	**8,250**	**8,264**	**7,916**	**7,248**	**7,128**
NFPS deficit (=-NLB)	**-52**	**4,220**	**2,442**	**2,187**	**1,473**	**1,570**	**280**	**-1**	**-765**	**-1,096**
Amortization	**6,373**	**5,592**	**5,593**	**5,910**	**6,375**	**6,680**	**7,984**	**7,918**	**8,013**	**8,224**
Domestic	3,997	2,936	3,269	3,598	3,221	3,467	3,708	3,408	3,804	3,939
Loans	168	0	79	79	158	158	161	163	165	167
Securities	2,947	2,936	2,990	3,320	2,662	2,909	3,248	3,246	3,639	3,772
Treasury certificates	2,418	1,873	2,166	2,166	2,166	2,166	2,166	2,166	2,166	2,166
Bonds	529	1,063	824	1,154	496	743	1,082	1,079	1,473	1,606
Other accounts payable clearance 1/	883	0	200	200	400	400	300	0	0	0
External	2,376	2,656	2,325	2,312	3,154	3,212	4,276	4,509	4,209	4,285
Loans	2,227	1,867	2,181	2,181	2,981	3,052	3,291	3,583	3,303	3,375
Multilateral	1,110	1,003	1,314	1,314	2,140	2,211	2,502	2,843	2,686	2,832
Bilateral	922	709	718	406	704	392	401	447	531	413
Commercial	194	154	149	461	137	449	387	293	86	130
Securities (Eurobonds)	54	708	44	44	74	74	905	905	906	910
Other accounts payable clearance 2/	95	81	100	87	100	87	80	22	0	0
Gross financing sources	**6,321**	**9,813**	**8,035**	**8,097**	**7,849**	**8,250**	**8,264**	**7,916**	**7,248**	**7,128**
Domestic	1,555	6,775	2,830	3,219	2,209	2,339	3,029	2,769	3,104	3,748
Use of deposits	-947	3,156	-360	-362	-954	-1,070	-718	-977	-1,090	-524
o/w Deposits at the BCE	-277	2,864	-360	-362	-954	-1,070	-718	-977	-1,090	-524
Loans	0	11	0	0	0	0	0	0	0	0
Securities	2,501	2,918	3,190	3,580	3,162	3,409	3,748	3,746	4,194	4,272
Treasury certificates	1,873	2,166	2,166	2,166	2,166	2,166	2,166	2,166	2,166	2,166
Bonds	629	752	1,024	1,414	996	1,243	1,582	1,579	2,028	2,106
Other accounts payable accumulation 1/	0	689	0	0	0	0	0	0	0	0
External	4,414	2,626	5,205	4,878	5,640	5,911	5,235	5,148	4,144	3,380
Loans	4,399	2,611	5,205	4,878	4,140	4,411	3,235	3,148	2,144	1,380
Multilateral	4,200	1,581	4,795	4,559	3,150	3,400	2,400	2,400	1,650	1,180
World Bank (WB)	1,328	700	500	916	400	400	400	400	400	400
Inter-American Development Bank (IDB)	846	594	1,300	1,198	550	800	550	550	550	330
Development Bank of Latin America (CAF)	414	285	495	445	450	450	450	450	450	450
International Monetary Fund (IMF)	1,611	0	1,500	1,500	1,250	1,250	500	500	250	0
Latin America Reserve Fund (FLAR)	0	0	500	500	0	0	0	0	0	0
Other	0	2	500	0	500	500	500	500	0	0
Bilateral	196	256	410	319	990	630	490	490	490	200
Commercial	3	775	0	0	0	381	345	258	4	0
Securities (Eurobonds)	15	15	0	0	1,500	1,500	2,000	2,000	2,000	2,000
Special Drawing Rights (2021 SDR allocation)	0	0	0	0	0	0	0	0	0	0
Other accounts payable accumulation 2/	0	0	0	0	0	0	0	0	0	0
Other assets (-)/liabilities 3/	400	1,121	0	0	0	0	0	0	0	0
Statistical discrepancy	-47	-709	0	0	0	0	0	0	0	0
Net financing	**-5**	**4,929**	**2,442**	**2,187**	**1,473**	**1,570**	**280**	**-1**	**-765**	**-1,096**
Net acquisition of financial assets	**2,795**	**-538**	**360**	**362**	**954**	**1,070**	**718**	**977**	**1,090**	**524**
Net incurrence of liabilities	**2,790**	**4,392**	**2,802**	**2,548**	**2,427**	**2,640**	**998**	**975**	**325**	**-572**
Domestic	752	4,421	-79	-18	-58	-58	39	337	390	333
External	2,038	-30	2,880	2,566	2,486	2,698	959	638	-65	-905
					(In percent of GDP)					
Gross financing needs	**5.4**	**8.3**	**6.6**	**6.7**	**6.2**	**6.6**	**6.4**	**5.9**	**5.2**	**4.9**
NFPS deficit (=-NLB)	0.0	3.6	2.0	1.8	1.2	1.3	0.2	0.0	-0.5	-0.8
Amortization	5.5	4.7	4.6	4.9	5.1	5.3	6.2	5.9	5.7	5.7
Gross financing sources	**5.4**	**8.3**	**6.6**	**6.7**	**6.2**	**6.6**	**6.4**	**5.9**	**5.2**	**4.9**
Domestic	1.3	5.7	2.3	2.7	1.8	1.9	2.3	2.1	2.2	2.6
External	3.8	2.2	4.3	4.1	4.5	4.7	4.1	3.8	3.0	2.3
Other assets (-)/liabilities 3/	0.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy (-)	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NFPS gross debt	**57.0**	**55.4**	**56.3**	**56.8**	**56.4**	**56.8**	**55.7**	**54.4**	**52.5**	**50.0**
Domestic	14.9	14.8	14.4	14.6	13.9	14.0	13.6	13.4	13.1	12.8
External	42.1	40.5	41.9	42.1	42.5	42.7	42.1	41.0	39.4	37.2

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

a/ Staff report from program approval.

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

2/ Includes accumulation/clearance of oil related financing.

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

Table 5a. Ecuador: Balance of Payments, 2022-29

	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
			Projections							
	(US$ million)									
Current account	**2,093**	**2,229**	**2,537**	**5,280**	**2,755**	**3,886**	**3,642**	**3,481**	**3,552**	**3,641**
Trade balance	2,544	2,207	2,991	5,566	2,849	4,087	3,872	3,760	3,784	3,994
Exports, f.o.b.	33,033	31,484	32,015	33,423	31,550	32,645	33,851	35,076	36,624	38,069
Oil	11,587	8,952	8,699	9,053	8,025	7,824	7,579	7,304	7,266	7,173
Non-oil	21,446	22,532	23,316	24,370	23,525	24,820	26,273	27,772	29,358	30,896
Imports, f.o.b.	30,489	29,277	29,024	27,857	28,702	28,558	29,980	31,316	32,841	34,076
Oil	7,640	7,041	6,620	6,957	5,756	5,690	5,350	5,298	5,190	5,268
Non-oil	22,849	22,236	22,404	20,899	22,945	22,867	24,629	26,018	27,650	28,808
Services	-2,652	-2,097	-2,292	-2,316	-1,604	-2,421	-2,514	-2,628	-2,753	-2,962
Credits	2,910	3,188	2,615	2,910	3,377	2,979	3,098	3,216	3,346	3,377
Debits	5,562	5,285	4,907	5,226	4,981	5,400	5,613	5,844	6,098	6,339
Primary income	-1,909	-2,648	-3,271	-3,157	-3,739	-3,081	-3,158	-3,245	-3,328	-3,556
Credits	204	406	426	210	348	230	259	293	326	359
Debits	2,113	3,054	3,697	3,367	4,087	3,311	3,417	3,538	3,654	3,915
Secondary income	4,110	4,767	5,109	5,186	5,250	5,301	5,442	5,593	5,848	6,166
Of which: workers' remittances, net	4,113	4,747	4,933	5,166	5,068	5,280	5,420	5,571	5,825	6,141
Capital account	**86**	**82**	**79**	**83**	**81**	**85**	**88**	**91**	**94**	**98**
Financial account 1/	**2,947**	**4,450**	**1,859**	**2,170**	**1,324**	**1,074**	**1,598**	**1,568**	**1,647**	**1,678**
Direct investment, net	-880	-383	-664	-368	-1,120	-557	-1,397	-1,490	-1,490	-1,574
Public sector, net	-2,196	-366	-2,880	-2,566	-2,486	-2,698	-959	-638	65	905
Disbursements	-4,575	-3,020	-5,205	-4,878	-5,640	-5,911	-5,235	-5,148	-4,144	-3,380
Multilaterals	4,200	1,581	4,795	4,559	3,150	3,400	2,400	2,400	1,650	1,180
Bilaterals	196	256	410	319	990	630	490	490	490	200
Commercial	3	775	0	0	0	381	345	258	4	0
External securities	15	15	0	0	1,500	1,500	2,000	2,000	2,000	2,000
Others	0	0	0	0	0	0	0	0	0	0
Amortizations	2,379	2,654	2,325	2,312	3,154	3,212	4,276	4,509	4,209	4,285
Multilaterals	1,110	1,003	1,314	1,314	2,140	2,211	2,502	2,843	2,686	2,832
Bilaterals	922	709	718	406	704	392	401	447	531	413
Commercial	194	154	149	461	137	449	387	293	86	130
External securities	54	708	44	44	74	74	905	905	906	910
Others	95	81	100	87	100	87	80	22	0	0
Private sector, net	4,235	5,012	5,404	5,105	4,930	4,329	3,954	3,696	3,072	2,347
Portfolio investment, net	1,142	1,462	1,609	1,314	1,849	1,439	1,433	1,507	1,445	757
Other investment, net	3,092	3,549	3,794	3,791	3,082	2,890	2,521	2,189	1,628	1,591
Errors and omissions	**-290**	**-1,934**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-1,059**	**-4,073**	**757**	**3,193**	**1,512**	**2,896**	**2,132**	**2,004**	**1,999**	**2,061**
Change in reserve assets (increase, -) 1/	**-568**	**4,285**	**-757**	**-3,193**	**-1,512**	**-2,896**	**-2,132**	**-2,004**	**-1,999**	**-2,061**
IMF net credit	1,611	-228	971	959	255	229	-570	-764	-1,100	-1,481
Of which: purchases under the EFF	1,611	0	1,500	1,500	1,250	1,250	500	500	250	0
Other external financing 2/	20	19	0	0	0	0	0	0	0	0
Memorandum items:	(Units as indicated)									
Gross international reserves (US$ millions)	8,459	4,454	5,212	7,648	6,724	10,544	12,676	14,679	16,678	18,740
In months of the following year's imports of G&S	2.9	1.6	1.9	2.7	2.4	3.6	4.1	4.5	5.0	5.5
As a percent of ARA metric, excluding the Liquidity Fund	33.7	17.8	20.7	29.1	26.2	38.7	45.2	51.0	56.6	61.9
As a percent of ARA metric, including the Liquidity Fund	45.8	31.5	35.0	42.8	40.6	52.3	58.9	64.9	70.7	76.1
Oil balance (US$ millions)	3,947	1,910	2,079	2,095	2,269	2,134	2,228	2,006	2,076	1,905
Exports (US$ millions)	11,587	8,952	8,699	9,053	8,025	7,824	7,579	7,304	7,266	7,173
Imports (US$ millions)	7,640	7,041	6,620	6,957	5,756	5,690	5,350	5,298	5,190	5,268
Non-oil balance (US$ millions)	-1,854	319	459	3,185	486	1,752	1,414	1,475	1,476	1,736
Export volume growth (percent)	4.6	6.0	-0.7	6.0	3.4	1.4	3.8	3.8	4.3	3.9
Non-oil	5.3	11.7	2.4	1.3	3.1	3.2	4.7	3.4	3.3	3.0
Import volume growth (percent)	9.4	2.1	-2.3	-4.1	-0.7	3.1	4.4	3.7	3.8	3.8
Non-oil	9.2	1.5	-0.2	-6.1	1.0	8.2	6.6	4.5	5.0	4.3
Goods terms of trade growth (percent)	1.0	-3.0	-0.2	-1.0	-2.4	-2.9	-0.4	-0.8	-0.8	-0.2
Foreign direct investment, net (US$ millions)	880	383	664	368	1,120	557	1,397	1,490	1,490	1,574
External debt (US$ millions)	64,239	62,375	58,989	65,786	61,333	68,657	71,905	73,387	74,594	75,211
Private	12,556	11,875	14,762	11,818	15,442	10,929	12,984	14,128	15,324	14,938
Public	51,684	50,500	51,024	53,967	53,509	57,729	58,921	59,259	59,270	60,273

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.
a/ Staff report from program approval.
1/ Positive numbers indicate outflows.
2/ Includes foreign arrears and net flows from oil funds held abroad and flows associated with debt default and restructuring.

Table 5b. Ecuador: Balance of Payments, 2022-29

	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
			Projections							
					(In percent of GDP)					
Current account	**1.8**	**1.9**	**2.1**	**4.4**	**2.2**	**3.1**	**2.8**	**2.6**	**2.5**	**2.5**
Trade balance	2.2	1.9	2.5	4.6	2.3	3.3	3.0	2.8	2.7	2.7
Exports, f.o.b.	28.3	26.5	26.3	27.8	25.0	26.1	26.2	26.1	26.2	26.2
Oil	9.9	7.5	7.1	7.5	6.4	6.3	5.9	5.4	5.2	4.9
Non-oil	18.4	19.0	19.1	20.2	18.7	19.9	20.3	20.7	21.0	21.3
Imports, f.o.b.	26.2	24.6	23.8	23.1	22.8	22.8	23.2	23.3	23.5	23.4
Oil	6.6	5.9	5.4	5.8	4.6	4.6	4.1	3.9	3.7	3.6
Non-oil	19.6	18.7	18.4	17.4	18.2	18.3	19.1	19.4	19.8	19.8
Services	-2.3	-1.8	-1.9	-1.9	-1.3	-1.9	-1.9	-2.0	-2.0	-2.0
Credits	2.5	2.7	2.1	2.4	2.7	2.4	2.4	2.4	2.4	2.3
Debits	4.8	4.4	4.0	4.3	4.0	4.3	4.3	4.4	4.4	4.4
Primary income	-1.6	-2.2	-2.7	-2.6	-3.0	-2.5	-2.4	-2.4	-2.4	-2.4
Credits	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Debits	1.8	2.6	3.0	2.8	3.2	2.6	2.6	2.6	2.6	2.7
Secondary income	3.5	4.0	4.2	4.3	4.2	4.2	4.2	4.2	4.2	4.2
Of which: workers' remittances, net	3.5	4.0	4.1	4.3	4.0	4.2	4.2	4.2	4.2	4.2
Capital account	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial account 1/	**2.5**	**3.7**	**1.5**	**1.8**	**1.1**	**0.9**	**1.2**	**1.2**	**1.2**	**1.2**
Direct investment, net	-0.8	-0.3	-0.5	-0.3	-0.9	-0.4	-1.1	-1.1	-1.1	-1.1
Public sector, net	-1.9	-0.3	-2.4	-2.1	-2.0	-2.2	-0.7	-0.5	0.0	0.6
Disbursements	-3.9	-2.5	-4.3	-4.1	-4.5	-4.7	-4.1	-3.8	-3.0	-2.3
Multilaterals	3.6	1.3	3.9	3.8	2.5	2.7	1.9	1.8	1.2	0.8
Bilaterals	0.2	0.2	0.3	0.3	0.8	0.5	0.4	0.4	0.4	0.1
Commercial	0.0	0.7	0.0	0.0	0.0	0.3	0.3	0.2	0.0	0.0
External securities	0.0	0.0	0.0	0.0	1.2	1.2	1.5	1.5	1.4	1.4
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations	2.0	2.2	1.9	1.9	2.5	2.6	3.3	3.4	3.0	2.9
Multilaterals	1.0	0.8	1.1	1.1	1.7	1.8	1.9	2.1	1.9	1.9
Bilaterals	0.8	0.6	0.6	0.3	0.6	0.3	0.3	0.3	0.4	0.3
Commercial	0.2	0.1	0.1	0.4	0.1	0.4	0.3	0.2	0.1	0.1
External securities	0.0	0.6	0.0	0.0	0.1	0.1	0.7	0.7	0.6	0.6
Others	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Private sector, net	3.6	4.2	4.4	4.2	3.9	3.5	3.1	2.8	2.2	1.6
Portfolio investment, net	1.0	1.2	1.3	1.1	1.5	1.2	1.1	1.1	1.0	0.5
Other investment, net	2.7	3.0	3.1	3.1	2.4	2.3	2.0	1.6	1.2	1.1
Errors and omissions	**-0.2**	**-1.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.9**	**-3.4**	**0.6**	**2.7**	**1.2**	**2.3**	**1.7**	**1.5**	**1.4**	**1.4**
Change in reserve assets (increase, -) 1/	**-0.5**	**3.6**	**-0.6**	**-2.7**	**-1.2**	**-2.3**	**-1.7**	**-1.5**	**-1.4**	**-1.4**
IMF net credit	1.4	-0.2	0.8	0.8	0.2	0.2	-0.4	-0.6	-0.8	-1.0
Of which: purchases under the EFF	1.4	0.0	1.2	1.2	1.0	1.0	0.4	0.4	0.2	0.0
Other external financing 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross international reserves	7.3	3.7	4.3	6.4	5.3	8.4	9.8	10.9	11.9	12.9
Oil balance	3.4	1.6	1.7	1.7	1.8	1.7	1.7	1.5	1.5	1.3
Exports	9.9	7.5	7.1	7.5	6.4	6.3	5.9	5.4	5.2	4.9
Imports	6.6	5.9	5.4	5.8	4.6	4.6	4.1	3.9	3.7	3.6
Non-oil balance	-1.6	0.3	0.4	2.6	0.4	1.4	1.1	1.1	1.1	1.2
Foreign direct investment, net	0.8	0.3	0.5	0.3	0.9	0.4	1.1	1.1	1.1	1.1
External debt	55.1	52.5	48.4	54.6	48.7	54.9	55.7	54.7	53.4	51.8
Private	10.8	10.0	12.2	9.8	12.3	8.7	10.1	10.5	11.0	10.3
Public	44.3	42.5	42.0	44.8	42.6	46.2	45.6	44.1	42.4	41.5

Sources: Central Bank of Ecuador; and Fund staff calculations and estimates.
a/ Staff report from program approval.
1/ Positive numbers indicate outflows.
2/ Includes foreign arrears and net flows from oil funds held abroad and flows associated with debt default and restructuring.

Table 6. Ecuador: External Financing, 2022-29

	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
			Projections							
	(US$ million)									
Gross external financing requirements	**5,154**	**6,568**	**4,346**	**888**	**5,101**	**4,000**	**4,407**	**5,288**	**4,507**	**4,649**
Current account deficit	-2,093	-2,229	-2,537	-5,280	-2,755	-3,886	-3,642	-3,481	-3,552	-3,641
Public sector amortizations	2,379	2,654	2,325	2,312	3,154	3,212	4,276	4,509	4,209	4,285
Multilaterals	1,110	1,003	1,314	1,314	2,140	2,211	2,502	2,843	2,686	2,832
Of which: IMF	0	228	529	541	995	1021	1070	1264	1350	1481
Bilaterals	922	709	718	406	704	392	401	447	531	413
Commercial	194	154	149	461	137	449	387	293	86	130
External securities	54	708	44	44	74	74	905	905	906	910
Others	95	81	100	87	100	87	80	22	0	0
Private sector amortizations	4,871	6,141	4,565	3,857	4,700	4,674	3,773	4,259	3,850	4,005
External financing sources	**5,722**	**2,283**	**5,157**	**4,082**	**6,613**	**6,897**	**6,539**	**7,291**	**6,506**	**6,710**
Public sector	4,575	3,020	5,205	4,878	5,640	5,911	5,235	5,148	4,144	3,380
Multilateral	4,200	1,581	4,795	4,559	3,150	3,400	2,400	2,400	1,650	1,180
Of which: IMF	1,611	0	1,500	1,500	1,250	1,250	500	500	250	0
Bilaterals	196	256	410	319	990	630	490	490	490	200
Commercial	3	775	0	0	0	381	345	258	4	0
External securities	15	15	0	0	1,500	1,500	2,000	2,000	2,000	2,000
Others	0	0	0	0	0	0	0	0	0	0
Private sector	1,513	1,509	-128	-880	892	902	1,216	2,053	2,267	3,232
Direct investment	880	383	664	368	1,120	557	1,397	1,490	1,490	1,574
Portfolio investment	-690	23	-174	-334	-47	-155	-245	-200	-122	639
Other investment	1,323	1,103	-697	-915	-190	500	63	763	900	1,019
Net transfers 1/	-205	-1,852	79	83	81	85	88	91	94	98
Change in reserve assets (-, increase)	**-568**	**4,285**	**-757**	**-3,193**	**-1,512**	**-2,896**	**-2,132**	**-2,004**	**-1,999**	**-2,061**
Of which: 2021 SDR Allocation	0	0	0	0	0	0	0	0	0	0
Of which: Net IMF credit	1,611	-228	971	959	255	229	-570	-764	-1,100	-1,481

Sources: Central Bank of Ecuador and Fund staff calculations and estimates.
a/ Staff report from program approval.
1/ Net transfers is defined as capital account flows plus unidentified flows (errors and omissions).

Table 7. Ecuador: Monetary and Financial Statistics, 2022-29

			Projections							
	2022	2023	2024 a/	2024	2025 a/	2025	2026	2027	2028	2029
					(US$ million)					
I. Central Bank										
Net foreign assets	**9,325**	**5,976**	**6,735**	**8,793**	**8,269**	**11,734**	**13,905**	**15,956**	**18,007**	**20,122**
Of which: gross international reserves 1a/	8,459	4,454	5,212	7,648	6,724	10,544	12,676	14,679	16,678	18,740
Of which: net international reserves 1b/	-6,193	-7,639	-8310	-7,574	-7150	-6,470	-4,821	-2,712	-147	2,239
Net domestic assets	**-1,988**	**-389**	**-950**	**-1,290**	**-2,286**	**-2,761**	**-3,878**	**-5,272**	**-6,790**	**-7,752**
Credit to the nonfinancial public sector, net	-835	1,386	902	769	-316	-566	-1,557	-2,804	-4,167	-4,966
Credit to financial institutions	790	686	670	670	639	639	607	575	542	507
Other depository institutions	200	112	112	112	112	112	112	112	112	111
Other financial institutions	590	573	558	558	526	526	495	462	430	396
Credit to the private sector	8	8	8	8	8	8	8	9	9	9
Other, net	-1,951	-2,469	-2,530	-2,737	-2,617	-2,842	-2,936	-3,051	-3,174	-3,303
Liabilities	**7,337**	**5,587**	**5,785**	**7,503**	**5,983**	**8,972**	**10,027**	**10,684**	**11,217**	**12,370**
Banks' reserves	7,230	5,484	5,679	7,401	5,874	8,866	9,917	10,570	11,098	12,247
Other depository institutions 2/	5,455	3,890	4,045	6,132	4,184	7,549	8,556	9,156	9,627	10,715
Other financial institutions 3/	1,776	1,595	1,634	1,269	1,690	1,318	1,361	1,414	1,471	1,531
Other 4/	19	15	16	16	16	16	17	17	18	19
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 2/ 5/										
Net foreign assets	**4,686**	**5,950**	**6,097**	**6,612**	**6,306**	**6,777**	**6,913**	**7,095**	**7,283**	**7,491**
Net domestic assets	**51,278**	**54,457**	**56,726**	**59,654**	**58,672**	**63,440**	**66,635**	**69,929**	**73,320**	**77,481**
Assets held at the BCE, net	4,957	3,438	3,632	5,720	3,809	7,175	8,221	8,862	9,374	10,463
Credit to the nonfinancial public sector, net	2,082	2,952	3,041	3,158	3,167	3,663	4,168	4,674	5,236	5,742
Of which: central government, net	1,229	1,772	1,819	1,984	1,886	2,299	2,614	2,930	3,280	3,595
Credit to the private sector	59,039	63,984	66,553	66,893	68,762	69,601	72,397	75,570	79,005	82,763
Other items, net	-14,800	-15,916	-16,500	-16,117	-17,066	-17,000	-18,152	-19,178	-20,294	-21,487
Liabilities	**55,965**	**60,407**	**62,823**	**66,266**	**64,979**	**70,217**	**73,548**	**77,023**	**80,603**	**84,972**
Of which: Private sector deposits	55,965	60,407	62,823	66,266	64,979	70,217	73,548	77,023	80,603	84,972
III. Depository Corporations Survey										
Net foreign assets	**14,011**	**11,926**	**12,832**	**15,405**	**14,575**	**18,510**	**20,817**	**23,051**	**25,290**	**27,614**
Net domestic assets	**42,060**	**48,583**	**50,096**	**50,963**	**50,512**	**51,813**	**52,840**	**54,086**	**55,432**	**57,482**
Credit to the nonfinancial public sector, net	1,248	4,338	3,942	3,927	2,851	3,098	2,612	1,870	1,069	777
Credit to the private sector	59,047	63,991	66,561	66,901	68,770	69,609	72,405	75,579	79,014	82,772
Other items, net	-18,234	-19,745	-20,407	-19,865	-21,109	-20,894	-22,177	-23,363	-24,650	-26,067
Liabilities	**56,072**	**60,509**	**62,928**	**66,368**	**65,087**	**70,323**	**73,657**	**77,137**	**80,722**	**85,096**
Memorandum items:					(Units as indicated)					
Change in Gross International Reserves (US$ million, increase, +) 6/	561	-4,004	757	3,193	1,512	2,896	2,132	2,004	1,999	2,061
Change in Net International Reserves (US$ million, increase, +)	-445	-1,446	-305	65	1,160	1,104	1,648	2,110	2,565	2,385
1st COMYF balance (percent) 7/	155	115	129	125	161	140	148	160	173	175
2nd COMYF balance (percent) 8/	194	43	72	121	151	228	303	391	479	524
3rd COMYF balance (percent) 9/	20	-18	-10	6	16	30	44	57	68	74
Broad money (M2) (percent change, yoy) 10/	7.5	6.7	2.5	4.8	3.4	3.8	3.3	3.9	4.0	4.1
Credit to the private sector (percent of GDP) 11/	50.6	53.8	54.7	55.6	54.6	55.7	56.1	56.3	56.6	57.0
Credit to the private sector (percent change, yoy) 11/	13.9	8.4	4.0	4.5	3.3	4.0	4.0	4.4	4.5	4.8
Liabilities (percent of GDP)	48.1	50.9	51.7	55.1	51.7	56.2	57.0	57.5	57.8	58.6
Deposits of the private sector (percent change, yoy) 11/	9.2	7.9	4.0	9.7	3.4	6.0	4.7	4.7	4.6	5.4
ODI and OFI reserves at the central bank as a share of liabilities (percent) 2/ 3/	12.9	9.1	9.0	11.2	9.0	12.6	13.5	13.7	13.8	14.4
Liquidity Fund (US$ million)	3,033	3,451	3,589	3,589	3,712	3,712	3,837	3,988	4,151	4,320

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

a/ Staff report from program approval.

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

1b/ Program net international reserves are equal to gross international reserves less outstanding IMF credit, short-term foreign liabilities of the BCE, deposits of other depository institutions and other financial institutions (excl. BEDE and BIESS) at the BCE, and short-term liabilities of the central government.

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

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

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

5/ OFI comprises Corporación Financiera Nacional and BDE.

6/ Changes in Gross International Reserves include valuation effects and could differ from change in reserves arising from BOP flows reported in Table 5a.

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

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

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

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

11/ Consolidated banking system.

Table 8. Ecuador: Banking System Financial Soundness Indicators, 2018-24

	2018	2019	2020	2021	2022	2023	Oct-24
			(In percent, end of period)				
Banking system							
Capital adequacy							
Regulatory capital to risk-weighted assets	17.1	16.7	17.3	15.8	15.7	15.1	14.7
Asset quality and distribution							
Nonperforming loans to total gross loans	2.9	3.2	3.6	3.7	3.7	4.6	4.7
Provisions to nonperforming loans	212.2	203.0	230.7	232.9	225.9	185.9	161.5
Earnings and profitability							
Return on assets	2.4	2.0	0.7	0.7	1.8	2.2	1.7
Return on equity	11.1	8.8	3.1	2.3	9.5	11.8	9.5
Interest margin to gross income	63.9	63.7	66.1	66.3	64.3	60.4	59.8
Noninterest expenses to gross income	54.8	54.8	54.7	55.7	49.6	46.2	47.9
Liquidity							
Liquid assets to total assets	17.2	16.4	23.6	20.7	18.3	15.2	16.6
Liquid assets to short-term liabilities	36.4	35.5	48.1	36.9	34.4	29.5	32.6
Customer deposits to total (noninterbank) loans	109.6	107.2	119.8	117.2	109.0	105.1	109.0
Cooperatives (Segment 1-3)							
Capital adequacy (Segment 1)							
Regulatory capital to risk-weighted assets	16.9	17.0	17.2	17.3	16.0	15.5	15.9
Asset quality and distribution							
Nonperforming loans to total gross loans	3.9	3.9	3.8	4.2	4.0	7.0	8.9
Provisions to nonperforming loans	125.4	127.5	162.4	142.9	145.9	102.8	89.4
Earnings and profitability							
Return on assets	1.2	1.0	0.5	0.5	0.4	0.5	0.4
Return on equity	8.8	7.5	3.4	4.1	3.5	4.0	2.8
Liquidity							
Liquid assets to short-term liabilities	21.3	24.4	30.0	28.5	24.5	26.4	32.4

Sources: IMF Financial Soundness Indicators and Superintendency of Popular and Solidarity Economy.

Table 9. Ecuador: Indicators of Fund Credit, 2022-34

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	(In millions of SDRs, unless otherwise indicated)												
Existing and prospective Fund credit (SDR million)													
Disbursements	1207	0	1129	939	374	374	185	0	0	0	0	0	0
Stock of existing and prospective Fund credit	6096	5925	6650	6829	6407	5843	5028	3930	2801	2082	1456	956	519
Obligations	182	577	860	1189	1231	1344	1366	1397	1353	872	737	585	502
Principal (repayments/repurchases)	0	172	403	759	796	938	1001	1098	1129	718	627	500	437
Charges and interest	182	406	457	430	436	406	366	299	224	154	110	85	65
Surcharges	77	96	110	126	129	117	101	74	44	15	1	0	0
Fund obligations (repurchases and charges) in percent of:													
Quota	26.1	82.8	123.3	170.4	176.5	192.6	195.8	200.2	194.0	125.0	105.6	83.8	71.9
GDP	0.2	0.6	1.0	1.3	1.3	1.3	1.3	1.3	1.2	0.7	0.6	0.5	0.4
Exports of goods and services	0.7	2.2	3.2	4.5	4.5	4.7	4.6	4.5	4.2	2.7	2.2	1.7	1.4
Gross international reserves	2.9	17.3	15.0	15.1	13.1	12.3	11.0	10.1	9.0	5.6	4.5	3.5	2.9
Government revenue	0.5	1.8	2.4	3.4	3.4	3.6	3.5	3.5	3.3	2.0	1.7	1.3	1.1
External debt service, public	10.3	29.0	49.6	49.7	38.7	40.1	43.8	44.0	29.5	16.8	14.0	11.0	9.5
Fund credit outstanding in percent of:													
Quota	873.8	849.2	953.1	978.8	918.4	837.5	720.6	563.3	401.4	298.5	208.7	137.0	74.3
GDP	7.0	6.7	7.4	7.3	6.7	5.9	4.9	3.6	2.5	1.8	1.2	0.8	0.4
Exports of goods and services	22.7	22.8	24.4	25.7	23.3	20.5	17.0	12.8	8.6	6.4	4.3	2.7	1.4
Gross international reserves	96.4	177.4	115.8	86.9	68.0	53.6	40.7	28.3	18.6	13.3	8.9	5.6	2.9
Government revenue	13.5	13.6	14.2	14.5	13.1	11.6	9.7	7.3	5.0	3.6	2.4	1.5	0.8
External debt, public	16.6	16.4	17.4	17.1	15.8	14.3	12.3	9.8	7.2	5.7	4.2	2.9	1.7
Memorandum items:													
Quota (SDR million)	698	698	698	698	698	698	698	698	698	698	698	698	698
Gross domestic product (USD million)	116,586	118,845	120,433	125,038	129,175	134,226	139,645	145,328	151,181	157,271	163,605	170,195	177,050
Exports of goods and services (USD million)	35,944	34,672	36,334	35,624	36,950	38,292	39,970	41,447	43,747	43,817	45,582	47,418	49,328
Gross international reserves (USD million)	8,459	4,454	7,648	10,544	12,676	14,679	16,678	18,740	20,272	21,089	21,938	22,822	23,741
Government revenue (USD million)	45,172	43,576	46,791	47,104	49,046	50,404	52,013	53,515	55,670	57,913	59,836	61,831	63,900
External debt service, public (USD million)	2,376	2,656	2,312	3,212	4,276	4,509	4,209	4,285	6,193	7,013	7,072	7,146	7,147
Total external debt, public (USD million)	49,028	48,188	50,755	53,453	54,412	55,050	54,985	54,080	52,266	49,633	46,941	44,175	41,407
SDRs per USD	0.75	0.75	0.75	0.75	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74

Source: IMF staff calculations.

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

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

Source: IMF staff estimates.

1/ Ecuador's quota is SDR 697.7 million.

Table 11. Ecuador: Quantitative Performance Criteria and Indicative Targets, 2024-25

	End-August 2024				End-Dec. 2024	End-Apr. 2025	End-Aug. 2025	End-Dec. 2025
	Program 2/	Adj. 3/	Actual	Status	Program	Program	IT	IT
(US$ million, unless otherwise indicated)								
Quantitative performance criteria								
1. Non-oil primary balance of the budgetary central government (PGE) (floor) 1/	-1,078	-1,078	899	Met	-2,295	-341	-1,220	-2,452
2. Overall balance of the PGE and CFDD (floor) 1/	-2,200	-2,108	200	Met	-4,213	-1,041	-2,628	-3,868
3. Accumulation of NFPS deposits at the central bank (floor) 1/	200	-58	1,756	Met	360	0	-5	1,070
4. Non-accumulation of external payments arrears by the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
Indicative targets								
6. Overall balance of the NFPS (floor) 1/	-1,628	-1,537	1,795	Met	-2,442	-89	-1,103	-1,570
7. Non-oil primary balance including fuel subsidies (NOPBS) of the NFPS (floor) 1/	-4,100	-4,192	-1,865	Met	-6,528	-1,151	-3,070	-5,751
8. Change in the stock of NIR (floor) 1/	-200	-458	1,573	Met	65	-34	46	1,038
9. Stock of PGE arrears to the domestic private sector (ceiling)	862		322	Met	662	600	400	262
10. Number of families in the first three income deciles nationwide covered by cash transfer programs (floor)	1,192,713		1,192,883	Met	1,212,984	1,228,660	1,244,336	1,260,012

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.

2/ Staff report for the EFF Request.

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

Table 12. Ecuador: Structural Benchmarks

Reform Area	Structural Conditionality	Objectives	Due Date	Status
		Structural Benchmarks		
Public Financial Management	1. Publish an updated Medium-Term Fiscal Framework (MTFF) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024	Met
Public Financial Management	2. Publish a Medium-Term Debt Management Strategy in line with program targets.	Strengthen fiscal planning and management.	End-October 2024	Met
Public Financial Management	3. Implement an automatized process for budgetary central government (PGE) payments, including arrears' payments.	Strengthen financial management, increase transparency, and reduce accumulation of payment arrears.	End-March 2025	Proposed
Domestic Arrears	4. Share with Fund staff an updated plan to clear and prevent the resurgence of domestic arrears of the budgetary central government (PGE), including obligations to the private sector and intra-public sector claims.	Strengthen the monitoring and reduce accumulation of payment arrears.	End-November 2024	Met
Tax Reform	5. Prepare and share with the Fund a plan to mobilize non-oil fiscal revenues, including by streamlining inefficient tax expenditures and replacing transitory revenue measures with permanent high-quality ones.	Inform future efforts to broaden the tax base and streamline tax expenditures.	Mid-November 2024	Met
Fiscal Strategy	6. Enact regulation on revenue and/or expenditure measures to ensure that the 2025 fiscal plan is in line with program and MTFF commitments.	Ensure fiscal consolidation.	December 6, 2024	Met
Social Safety Net	7. Share with the Fund a plan to complete the social registry to cover families in the lowest three deciles of the income distribution throughout the country.	Enhance the social safety net.	End-October 2024	Met

Table 12. Ecuador: Structural Benchmarks (continued)				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
Governance	8. Establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement. The updated agreement should include a decision about the 2022 healthcare audits.	Improve expenditure control.	End-October 2024	Not met. Reset to end-March 2025
Governance	9. Establish a timeline to operationalize the National Control Subsystem (SNC) to increase transparency in procurement.	Strengthen anticorruption framework and improve expenditure control.	End-December 2024	
Governance	10. Prepare and share with the Fund the conceptual and operational framework for an upgraded Official System of Public Procurement (Sistema Oficial de Contratación Pública del Ecuador, SOCE).	Increase transparency and efficiency in procurement and improve expenditure control.	End-July 2025	Proposed
Transparency and Governance	11. Initiate the tender process to select an auditor to undertake the 2023 and 2024 healthcare audits (based on the updated MEF/IESS agreement).	Improve the quality and reliability of fiscal data.	End-December 2024	Met
Transparency and Governance	12. Complete the audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas and share the results with Fund staff.	Enhance transparency and governance in the oil sector.	End-March 2025	
Anti-Money Laundering Framework	13. Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with FATF standards.	Mitigate the risk of illicit flows including those related to organized crimes.	End-February 2025	

Table 12. Ecuador: Structural Benchmarks (concluded)

Reform Area	Structural Conditionality	Objectives	Due Date	Status
Anti-Money Laundering Framework	14. The National AML/CFT Coordination Committee to approve and publish a summarized version of an AML/CFT Strategic Action Plan, establishing actionable policy priorities to mitigate money laundering, including by organized crime, and terrorist financing risks identified in the National Risk Assessment approved in 2024.	Mitigate the risk of illicit flows, including those related to organized crimes.	End-September 2025	Proposed
Financial Sector	15. Establish a Financial Stability Committee in line with best international practices, comprising the BCE, MEF, JPRF, JPRM, SB, SEPS, SCVS, and COSEDE.	Enhance coordination among agencies involved in financial sector oversight.	End-September 2024	Met
Financial Sector	16. Establish an inter-institutional group within the Financial Stability Committee, comprising BCE, MEF, JPRF, JPRM, SB, SEPS, and COSEDE to coordinate resolution reforms and strategies.	Strengthen financial sector resolution framework.	End-January 2025	Proposed
Financial Sector	17. Issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and a countercyclical capital buffer.	Strengthen financial sector buffers.	End-November 2024	Met
Financial Sector	18. Prepare and share with Fund staff a study of the system of interest rates, including recommendations to improve credit allocation, financial inclusion, and economic growth, while preserving financial stability.	Foster financial sector deepening and improve economy's growth potential.	End-March 2025	
Domestic Capital Market Development	19. Sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards.	Foster domestic capital market development.	End-November 2024	Not met. Reset to end-January 2025

Annex I. External Sector Assessment

Overall Assessment: *The external position of Ecuador in 2023 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The current account (CA) surplus improved so far in 2024, supported by strong exports and a contraction in imports. Reserves, while increasing in 2024, continue to be below adequate levels.*

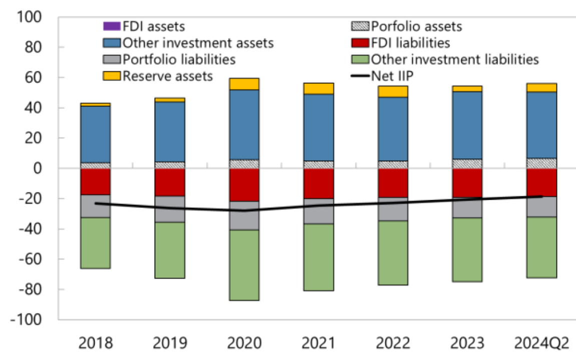
Potential Policy Responses: *The fiscal consolidation envisaged under the EFF-supported program will allow to preserve external sustainability and build stronger reserve buffers. In addition, the implementation of structural reforms will help attract private investment and bolster competitiveness, further supporting the external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Between 2019 and 2023 (last year of available annual data), Ecuador's net international investment position (NIIP) gradually improved to -20.3 percent of GDP, with gross external liabilities dominated by public sector external debt. Preliminary data through 2024Q2 show a further improvement in the NIIP of about US$4.7 billion (4 percent of projected 2024 GDP) relative to end-2023, stemming from an increase in reserve assets and a decline of other investment liabilities.

Assessment. The planned fiscal consolidation envisaged under the EFF-supported program will help rebuild reserve buffers, thereby limiting the build-up of NIIP vulnerabilities over the medium term.

NIIP Composition
(In percent of GDP)



Sources: BCE and IMF staff calculations.

2023 (% GDP):	NIIP: -20.3	Gross Assets: 54.4	Debt Assets: 50.6	Gross Liab.: 74.9	Debt Liab.: 55.9

Current Account

Background. The CA surplus rose from 1.8 percent of GDP in 2022 to 1.9 percent of GDP in 2023, broadly in line with the historical average (1.7 percent of GDP over 2019-23); the increase was driven by a narrower services deficit and larger remittances, offsetting a decline in the trade surplus as a result of lower oil exports. In the first two quarters of 2024, the CA increased further to US$3.8 billion (over 3 percent of projected 2024 GDP) driven by higher exports, import compression, and robust remittance flows. Preliminary data through August indicate continued strong outturns in the trade balance. Over the medium term, the CA is projected to maintain a strong surplus, of about 2½ percent of GDP, supported by (i) an expansion in exports and tourism alongside robust remittances; and (ii) the envisaged fiscal consolidation under the EFF-supported program, which would improve the public saving-investment balance.

Ecuador: EBA-lite Model Results, 2023			
	CA model 1/	REER model 1/	Consumption model 1/
		(in percent of GDP)	
CA-Actual	**1.9**		**1.9**
Cyclical contributions (from model) (-)	-0.2		
Additional temporary/statistical factors (-)	0.0		
Natural disasters and conflicts (-)	1.0		
Adjusted CA	**1.1**		
CA Norm (from model) 2/	**1.9**		**3.2**
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**1.9**		
CA Gap	**-0.9**	**-1.7**	**-1.3**
o/w Relative policy gap	-2.5		
Elasticity	-0.2		
REER Gap (in percent)	**4.9**	**9.6**	**7.3**

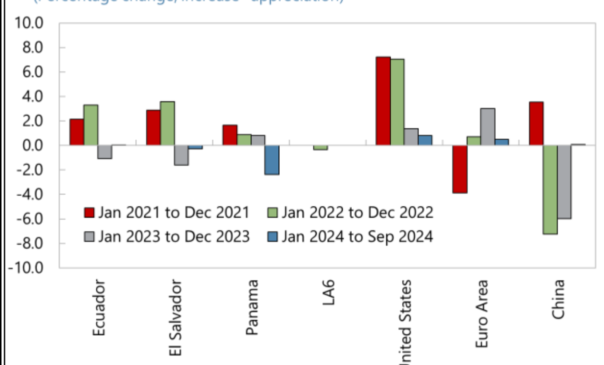
1/ Based on the EBA-lite 3.0 methodology. The consumption model uses staff projections to 2029 as reference for the assessment.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The EBA-Lite CA model estimates a cyclically adjusted CA norm of 1.9 percent of GDP. Compared to an adjusted CA surplus of 1.1 percent of GDP (taking into consideration cyclical factors), resulting in a CA gap of -0.9 percent. As Ecuador is a commodity exporter, the CA balance was also assessed using the EBA-Lite consumption module, which incorporates commodity price volatility and intergenerational equity considerations into the assessment. The consumption model points to a CA norm of 3.2 percent of GDP and a CA gap of -1.3 percent of GDP. In turn, the EBA-Lite REER model points to a CA gap of -1.7 percent of GDP. The projected increase in the CA surplus bodes well for the CA gap to narrow in 2024. The assessment is grounded on the results from the consumption model given that Ecuador is a commodity exporter.

Real Exchange Rate

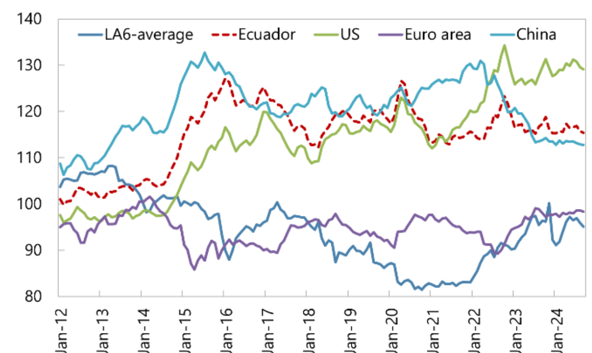
Background. The real effective exchange rate (REER) depreciated by approximately 1.5 percent in 2023 on the back of lower inflation differentials relative to trading partners, bringing the REER level roughly in line with its 5-year average, and remained broadly stable between January and October 2024.

Real Effective Exchange Rate
(Percentage change; increase=appreciation)



Sources: INS and IMF staff calculations.

Real Effective Exchange Rates
(Index, 2012=100)



Sources: INS and IMF staff calculations.

Assessment. The staff-estimated CA gap from the consumption model points to a REER overvaluation of around 7.3 percent for 2023. The EBA-Lite models point to a REER gap (overvaluation) in 2023 ranging between 5 percent (EBA-Lite CA model) to 10 percent (EBA-Lite REER model). The projected increase in the CA balance and moderate inflation trends bode well for a decline in the REER gap in 2024.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital flows fell significantly in 2023, largely due to higher net external debt service and private capital outflows and a contraction in foreign direct investment. Net capital flows are projected to increase in 2024, mainly driven by loans from IFIs.

Assessment. The implementation of the fiscal consolidation and reforms contemplated under the EFF-supported program are expected to help Ecuador regain access to international capital markets and attract higher net private capital flows over the medium term. Ecuador maintains a tax (ISD) on financial and current account transactions. After a gradual easing in 2022-23, the authorities enacted an increase in the ISD to 5 percent in early 2024 in the context of severe fiscal and balance of payments pressures. The ISD reductions in 2022-23 constituted an easing of an existing CFM on outflows under the Fund's Institutional View on Liberalization and Management of Capital Flows, while the subsequent increase represented a tightening. The authorities intend to phase out this measure as macroeconomic and balance of payments stability are restored and the international reserve position is strengthened, in line with staff's recommendation.

Reserves Level

Background. After declining by US$4 billion to US$4.5 billion at end-2023, gross international reserves (GIR) rose to US$7.7 billion as of end-November 2024. Negative public sector financial flows were the main driver of the decline in reserves in 2023. IFIs disbursements, together with the authorities' fiscal consolidation and positive net private flows, supported a recovery in reserves in the first three quarters of 2024.

Assessment. GIR stand below adequacy levels, constituting only 18 percent of the IMF's reserve adequacy metric (ARA metric) as of end-2023 (or 21 percent of the adjusted ARA metric for countries with CFMs). It is important to consider, however, that Ecuador is a fully dollarized economy; as such, the need for the authorities to hold FX liquidity buffers differs from other countries and GIR levels are not directly comparable with those of countries that issue their own currencies.[1] Other liquidity buffers available to the financial system, but not controlled by the monetary authorities, include the financial system's Liquidity Fund[2] and liquid net foreign assets (NFA) of the domestic financial sector. When these additional buffers are considered, available external liquidity at end-2023 rises to 55 percent of the ARA metric (66 percent when also adjusted for CFMs), still below adequacy levels.[3] Additional liquidity facilities at the BCE include a FIMA repo facility with the Federal Reserve Bank of New York (FRBNY) and liquidity lines with the Bank of International Settlements (BIS) and the Latin American Reserve Fund (FLAR). The authorities plan to gradually strengthen international reserves under the IMF-supported program. Building stronger reserve buffers would help Ecuador increase resilience to shocks, reducing macroeconomic volatility.

[1] See IMF (2015) "Assessing Reserve Adequacy–Specific Proposals", ¶44.

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

[3] See SIP Chapter 9. Excluding banks' NFA, but including the Liquidity Fund, the ratio of gross reserves to the ARA metric at end-2023 was 32 percent (38 percent using the CFM-adjusted ARA metric). Neither the Liquidity Fund nor banks' NFA are readily available to monetary authorities to address potential BoP drains; as such, they do not form part of gross international reserves and are not included in the baseline ARA ratios.

Annex II. Sovereign Risk and Debt Sustainability Framework

Ecuador's public debt continues to be assessed as sustainable but not with high probability, with the steadfast implementation of fiscal reforms supported by the program essential to gradually rebuild buffers and restore market confidence. The prospective fiscal adjustment remains ambitious as highlighted by the realism assessment and the debt fanchart module continues to flag a large confidence interval surrounding the debt projection.

1. **Background.** The public debt-to-GDP ratio declined in 2023 to 55.4 percent of GDP from 57 percent in 2022 (Text table). The reduction was mostly driven by a decline in external debt with the debt-for-nature swap that lowered the amount of international bonds outstanding by US$970 million and by net repayments to bilateral creditors. At the same time, unavailability of sufficient financing forced the government to draw down deposit buffers. Spreads widened considerably, reaching a peak of over 2,100 basis points in late 2023 before retreating as fiscal reform measures were taken in early 2024, and dropped to around 1,300 basis points at end-November 2024.

Ecuador: Public Sector Gross Debt by Creditor
(US$ Million and Percent of GDP)

	2023	%GDP	% of total
Domestic Debt			
Treasury bills	2,166	1.8	3.3
Medium- and long-term debt	15,467	13.0	23.5
Total domestic	**17,633**	**14.8**	**26.8**
External Debt			
External loans (financial institutions)	**2,688**	**2.3**	**4.1**
China Development Bank	*1,089*	*0.9*	*1.5*
GPS Blue - Blue bonds	*656*	*0.6*	*1.0*
European Investment Bank	*557*	*0.5*	*0.8*
Bank of China	*281*	*0.2*	*0.4*
Deutsche Bank	*42*	*0.0*	*0.1*
Credit Suisse	*48*	*0.0*	*0.1*
Other	*15*	*0.0*	*0.0*
Eurobonds	**15,988**	**13.5**	**24.3**
Official creditors	**27,953**	**23.5**	**42.5**
Bilateral	3,387	2.9	5.1
China	*1,958*	*1.6*	*3.0*
France	*828*	*0.7*	*1.3*
Spain	*232*	*0.2*	*0.4*
Japan	*218*	*0.2*	*0.3*
Korea	*73*	*0.1*	*0.1*
Other	*79*	*0.1*	*0.1*
Multilateral	24,565	20.7	37.3
IMF	*7,949*	*6.7*	*12.1*
IDB	*7,835*	*6.6*	*11.9*
WBG	*4,855*	*4.1*	*7.4*
CAF	*3,898*	*3.3*	*5.9*
IFAD	*28*	*0.0*	*0.0*
Other (SDRs and OAP 1/)	**1560**	**1.3**	**2.4**
Total external	**48,188**	**40.5**	**73.2**
Total gross debt	**65,821**	**55.4**	

Source: MEF.
1/ OAP = other accounts payable.

1. **Baseline Assumptions.** The fiscal and debt projection is based on the fiscal reform plan supported by the EFF-supported program. The NFPS primary deficit, defined as the overall fiscal balance excluding interest revenue and interest expense, is expected to narrow to 0.3 percent of GDP in 2025 and to converge to a primary surplus of about 2 percent of GDP in the medium term. The fiscal adjustment would keep debt on a sustained downward path with the public debt-to-GDP ratio expected to decline from 55.4 percent in 2023 to about 40 percent by 2032 in line with the COPLAFIP debt limit. Gross financing needs (GFNs) are forecasted to decline from 8.1 percent of GDP in 2023 to 6.7 percent in 2024, and then decline to around 5 percent of GDP over the medium term.

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

3. Fiscal Multiplier. Headwinds from fiscal adjustment envisaged under the EFF arrangement are expected to impact growth in the near term, but they would be mitigated by the resolution of the liquidity crisis, the ongoing clearance of arrears, the reduction in uncertainty, and improvement in risk sentiment. The baseline scenario assumes a fiscal multiplier of 0.5 and a growth path that is somewhat more conservative than the benchmark metrics provided in the SRDSF to assess the realism of the fiscal adjustment (Figure 5). The impact of the negative fiscal impulse is assessed as highest in 2024 and is expected to gradually dissipate during the program.

4. Risks to the Debt Outlook and Realism. Like the result at program approval, the realism assessment continues to illustrate that the primary consolidation under the program is ambitious compared to cross-country historical experience. The width of the debt fanchart tool, determined by past outcomes for debt in Ecuador, shows that debt could increase significantly under an adverse yet plausible scenario, underscoring the need to continue reducing outstanding debt in the program. Downside risks to the fiscal outlook mainly stem from implementation capacity of the fiscal plan, while risks to revenues relate to the possibility of growth underperforming, including given uncertainty on the evolution of the security situation, thereby reducing tax revenue, as well as possible disruptions in oil production or more severe energy shortages. Mitigating factors include the large share of multilateral and bilateral official debt, with comparatively low rollover risk and long maturities, and the relatively low GFNs in the projection, as well as the successful performance of the fiscal measures implemented so far under the program.

Figure 1. Ecuador: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting the moderate level of vulnerability assessed for the medium-term and the large adjustment needs to ensure fiscal sustainability.
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	High	...	
GFN	Moderate	...	
Stress test	Comm. Prices Nat. Disast.	...	
Long term	...	Moderate	Long-term risks are assessed as moderate. The large amortization module projects a low risk scenario under the EFF baseline, with risks increasing proportionally if adjustment falls short. The natural resources module points to the continued need to diversify fiscal revenue out of oil revenue, though pressures from reasource exhaustion are only projected to increase in the long-term.
Sustainability assessment 2/	...	Sustainable but not with high probability	Debt is assessed as sustainable but not with high probability, given the high downside risks faced by the baseline scenario.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Ecuador is at a moderate overall risk of sovereign stress and debt is sustainable but not with high probability in the baseline program forecast. Debt declined in 2023 and is expected to continue on a downward trajectory in the medium-term provided the program fiscal plan is implemented successfully. Medium-term liquidity risks are assessed as moderate by the GFN module, but financing risks remain subject to high sovereign spreads. Steadfast implementation of fiscal reforms would 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	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				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

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

Source: Fund staff.

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

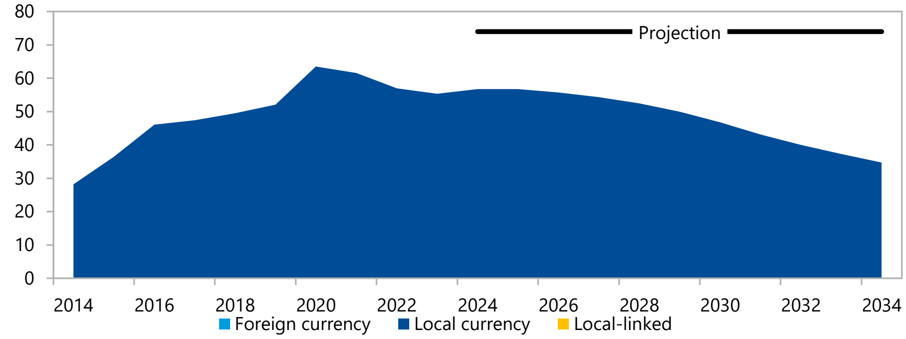
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

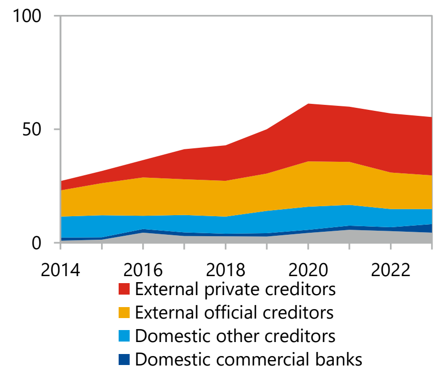
Figure 3. Ecuador: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



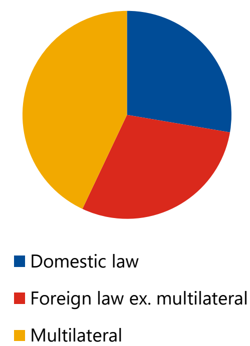
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



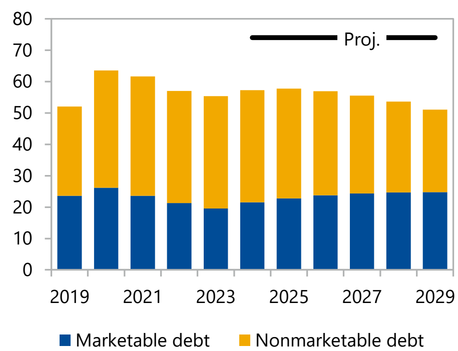
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Governing Law, 2023 (Percent)



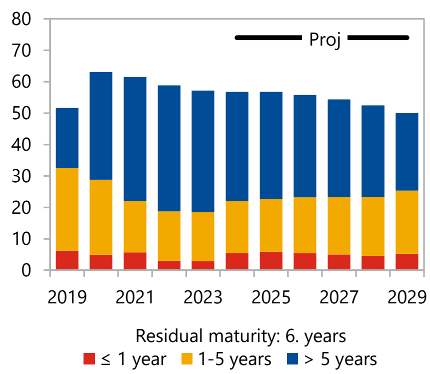
Note: The perimeter shown is nonfinancial public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is nonfinancial public sector.

Source: Fund staff.

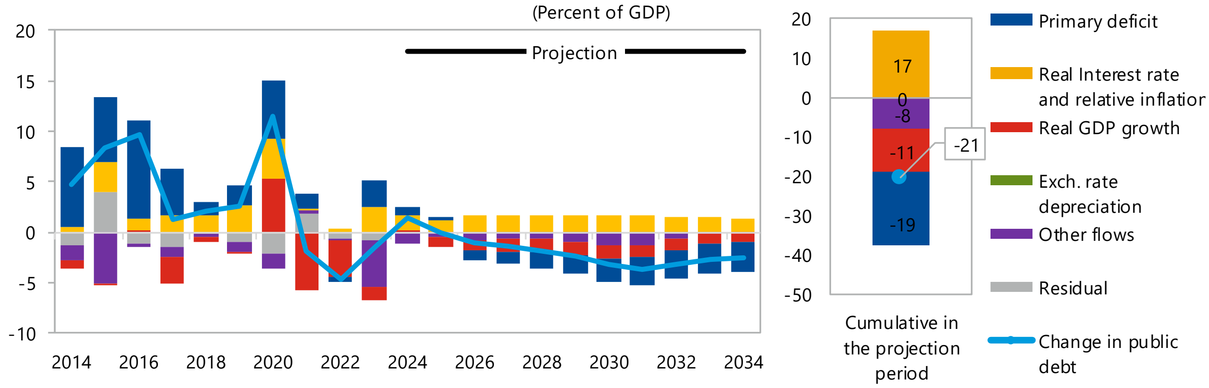
Figure 4. Ecuador: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	55.4	56.8	56.8	55.7	54.4	52.5	50.0	46.8	43.1	40.0	37.3	34.8
Change in public debt	-1.6	1.4	0.0	-1.0	-1.4	-1.9	-2.4	-3.2	-3.7	-3.1	-2.7	-2.5
Contribution of identified flows	-0.8	1.4	0.0	-1.1	-1.4	-1.9	-2.4	-3.2	-3.7	-3.1	-2.7	-2.5
Primary deficit	2.7	0.8	0.3	-0.9	-1.1	-1.6	-1.9	-2.4	-2.9	-2.9	-3.0	-3.0
Noninterest revenues	35.4	37.5	36.3	36.6	36.1	35.9	35.5	35.5	35.5	35.2	35.0	34.8
Noninterest expenditures	38.0	38.3	36.6	35.7	35.1	34.3	33.6	33.1	32.6	32.3	32.0	31.8
Automatic debt dynamics	1.1	1.7	0.3	0.6	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5
Real interest rate and relative inflation	2.4	1.4	1.2	1.6	1.7	1.7	1.7	1.7	1.6	1.5	1.4	1.4
Real interest rate	2.4	1.4	1.2	1.6	1.7	1.7	1.7	1.7	1.6	1.5	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	-1.3	0.2	-0.9	-1.0	-1.3	-1.3	-1.3	-1.2	-1.1	-1.0	-1.0	-0.9
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	-4.5	-1.1	-0.5	-0.8	-0.7	-0.6	-1.0	-1.3	-1.3	-0.7	-0.2	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Other transactions	-3.2	0.3	0.9	0.6	0.7	0.8	0.4	0.0	0.0	0.6	1.1	1.3
Contribution of residual	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	8.3	6.7	6.6	6.4	5.9	5.2	4.9	5.5	5.3	4.9	4.5	4.2
of which: debt service	6.9	7.3	7.7	8.7	8.4	8.2	8.1	9.2	9.5	9.1	8.8	8.5
Local currency	6.9	7.3	7.7	8.7	8.4	8.2	8.1	9.2	9.5	9.1	8.8	8.5
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:												
Real GDP growth (percent)	2.4	-0.4	1.6	1.8	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator; percent)	-0.4	1.7	2.2	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Nominal GDP growth (percent)	1.9	1.3	3.8	3.3	3.9	4.0	4.1	4.0	4.0	4.0	4.0	4.0
Effective interest rate (percent)	3.9	4.3	4.3	4.5	4.6	4.7	4.9	5.0	5.1	5.2	5.2	5.3

Contribution to Change in Public Debt

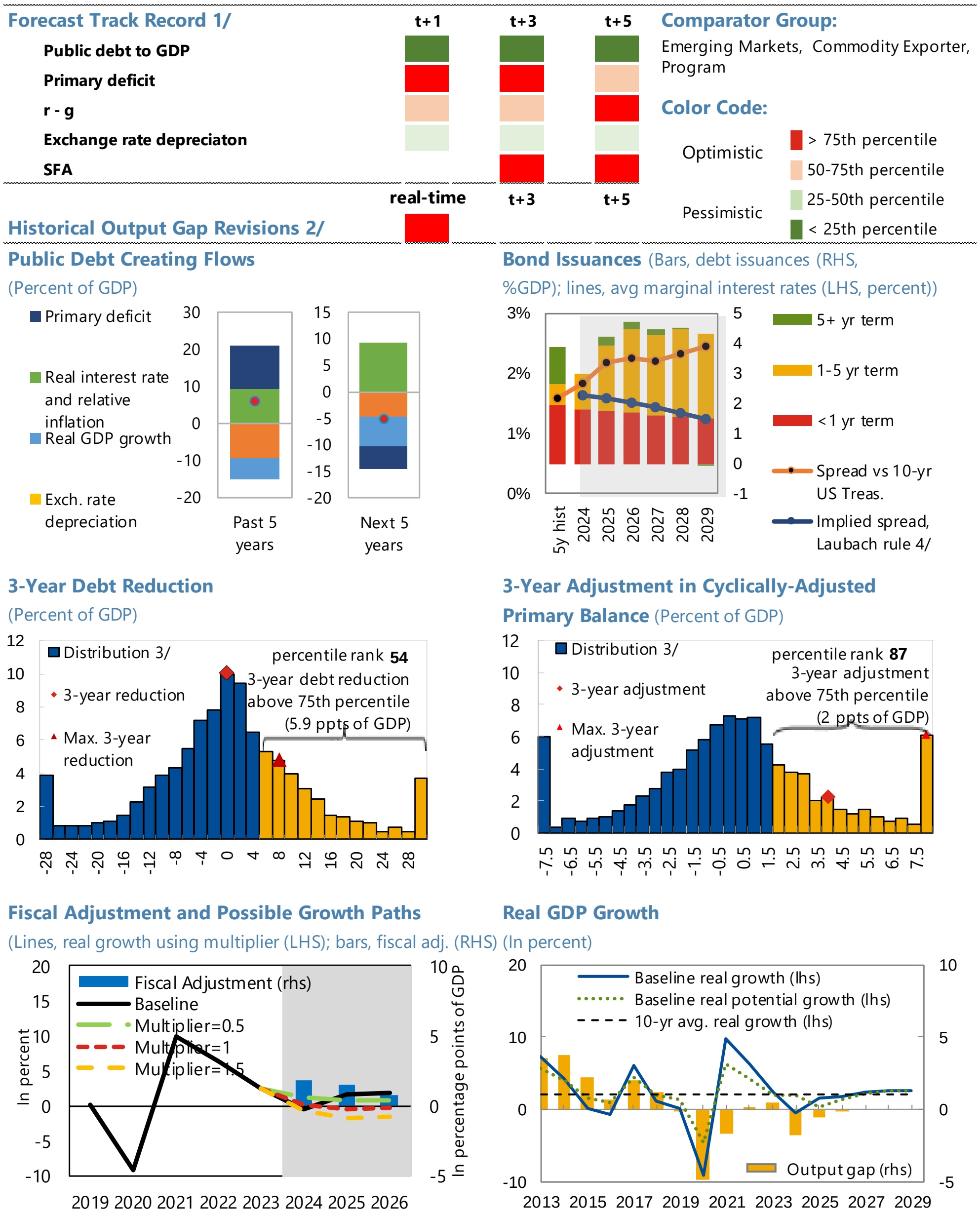
(Percent of GDP)



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

Source: Fund staff.

Figure 5. Ecuador: Realism of Baseline Assumptions



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

Source : IMF Staff.

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

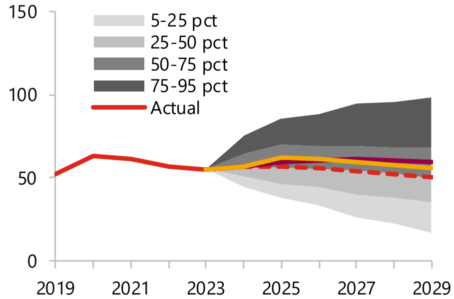
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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

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

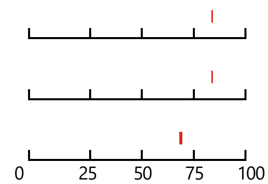
Figure 6. Ecuador: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

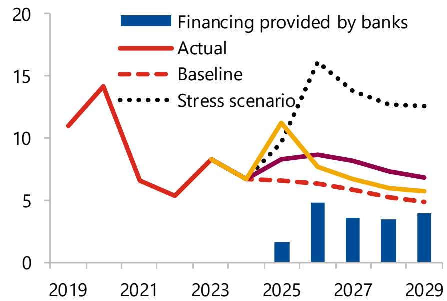


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	81.7	1.2	
Probability of debt non-stabilizaiton *(percent)*	24.9	0.2	
Terminal debt-to-GDP x institutions index	35.8	0.8	
Debt fanchart index (DFI)		2.2	
Risk signal: 3/		**High**	

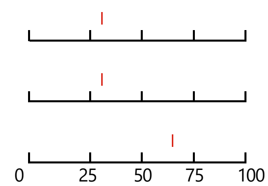


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

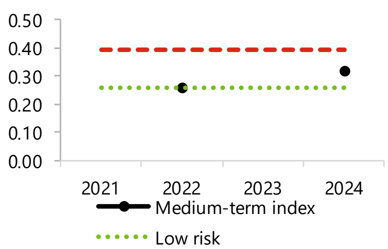
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	6.0	2.0	
Initial Banks' claims on the gen. govt *(pct bank assets)*	4.9	1.6	
Chg. In banks' claims in stress *(pct banks' assets)*	13.6	4.6	
GFN financeability index (GFI)		8.2	
Risk signal: 4/		**Moderate**	



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

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	2.2	0.5	0.5	0.2
GFN finaceability index	8.2	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 25.0 pct.

Commentary: The two medium-term tools assess sovereign risk as moderate, mostly driven by the width of the confidence interval in the debt fanchart tool.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, commodity exporter, program.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Ecuador: Long-Term Modules

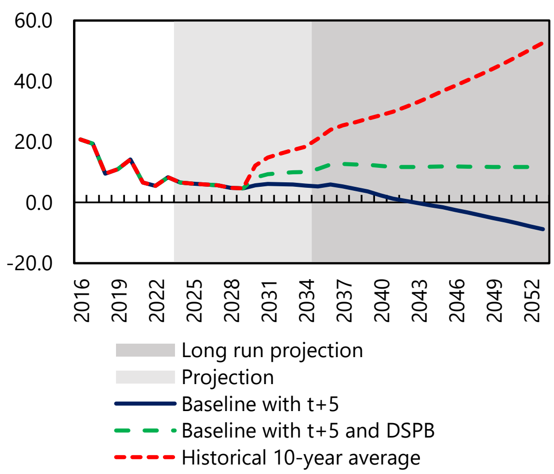
Ecuador: Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	**Natural Resources**
	Health	Climate change: Mitigation	

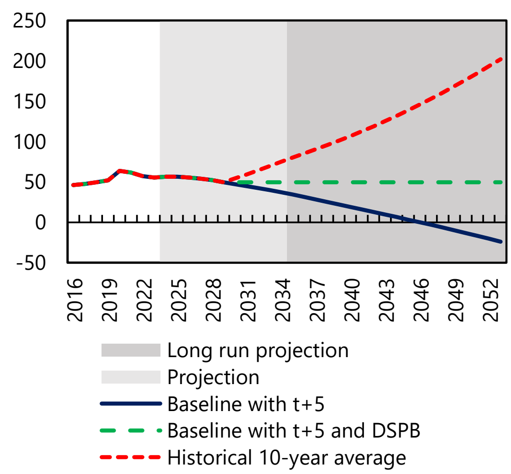
Ecuador: Long-Term Risk Assessment: Large Amortization

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

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

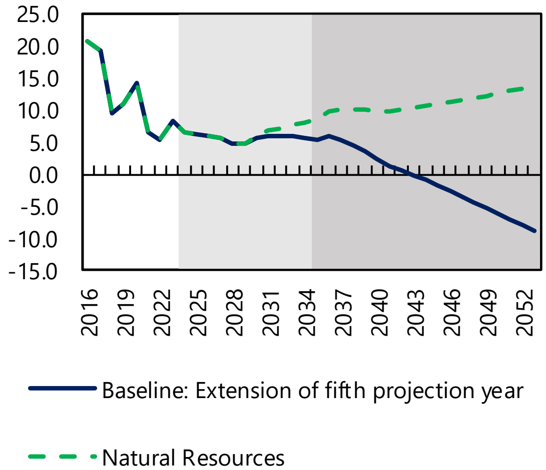


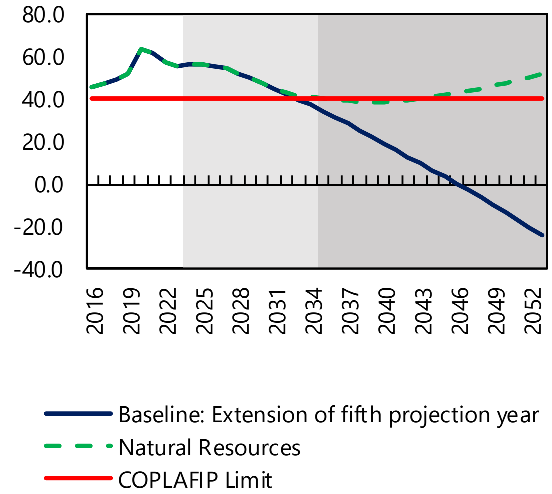
Commentary: Ecuador faces sizeable amortizations in the medium-term. Following the program completion, maintaining a fiscal stance consistent with a debt stabilizing primary balance would ensure that debt remains below the COPLAFIP limit. At the same time, the module highlights that large fiscal imbalances as experienced in the past decade could lead to a rapidly increasing debt ratio.

Source: Fund staff.

Figure 8. Ecuador: Natural Resources Long-Term Module

Ecuador: Natural Resources





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

Source: Fund staff.

Annex III. Interest Rate Ceilings in Ecuador

1. **With the adoption of official dollarization in 2000, Ecuador established a system of interest rate ceilings (IRC) applicable to all financial intermediaries.** Initially, the ceilings were calculated using LIBOR, adjusted for country risk and a four percent operating margin. By 2007, interest rate limits were imposed on specific credit portfolios and banks were banned from charging certain fees and commissions. Since then, the IRC scheme has evolved, with modifications to the methodology for calculating the interest rate caps, and to the number and definition of regulated credit types. As of July 2007, the ceilings were based on the weighted average of market rates plus two standard deviations, with the average effective interest rate (Tasa Efectiva Activa - TEA) derived as a standard measure. However, this method was later deemed unconstitutional. A new methodology was introduced in December 2007 reflecting several factors, including the average cost of funds and credit risk. The most recent methodological overhaul was established in 2021 but not fully implemented, leading to lags in the adjustment of the lending caps to changing market conditions, particularly during 2023. To help alleviate unwarranted constraints on lending margins, a formula reverting to two standard deviations above the observed average is currently applied to consumer and commercial credits.

2. **Several studies have broadly concluded that IRCs lead to a decline in credit supply and an increase in average loan size in Ecuador, hindering financial deepening and inclusion.** The findings of Astorga and Morillo (2010) indicate that the introduction of IRCs reduced the probability of access to credit for small borrowers, which plummeted from an average of 55 percent in 2006 to 31 percent in 2007. In terms of average loan size, which often indicates reduced access for smaller creditors, Cuevas (2020) reported an increase of US$528 following the 2007 reform. Furthermore, Asobanca (2019) highlighted that the growth in average loan size post-2018 was three times greater compared to 2006. These observations align with similar findings from other countries.

3. **Analysis carried out by the 2023 FSAP also suggested negative effects of IRCs on financial inclusion.** The analysis focused on newly banked borrowers, defined as individuals or firms without credit operations prior to 2015. Covering 27 banks across various sizes, the study employed a three-pronged methodological approach: measuring the binding nature of IRCs, exploring correlations between IRC gaps and outcomes like new borrowers and average loan sizes, and performing regression analysis. Findings indicate that the IRC gap is narrower in the productive segment compared to microcredit, with significant differences in gaps across various credit sub-segments. Following the reduction of IRCs in microcredit in January 2018, banks shifted their focus to customers in segments with wider IRC gaps, resulting in a decrease in newly banked borrowers but an increase in loan sizes. Overall, a 1 percentage point reduction in the IRC gap correlates with a 10 percent decrease in new borrowers and a 14 percent increase in average loan size, with larger elasticities observed in large and state-owned banks and the consumer credit segment. Based on these findings, the 2023 FSAP recommended gradually simplifying IRCs to reduce credit segmentation, improving transparency in the determination of lending caps, and migrating to a market-wide usury rate.

Annex IV. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Conjunctural Shocks and Scenarios			
Intensification of Regional Conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Medium** Difficulties in finding new markets for exports hit by the disruptions can reduce trade flows and slow economic growth. Higher oil and metal prices are expected to have a net positive impact on Ecuador's external and fiscal balances.	Gradually reduce dependency on oil through economic diversification and promote private sector-led growth. Continue to diversify export markets through new high standard regional free trade agreements.
Commodity Price Volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**High** Uncertainty on commodity prices will affect investment and economic activity. Financial conditions will tighten, leading to higher funding costs for banks and non-financial corporations. Fluctuations in commodity prices would impact the fiscal sector and Ecuador's balance of payments.	Pursue fiscal consolidation to restore confidence and ensure debt and fiscal sustainability. Gradually reduce dependency on oil through economic diversification and promote private sector-led growth. Continue to closely monitor financial sector stability. Continue to address financing needs by closely working with IFIs and wait for an opportune time to re-access international markets.
Global Growth Slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or	**Medium**	**Medium** A global slowdown could decrease economic activity and impact the balance of payments in Ecuador	Diversify the economy to reduce dependency on commodity exports. Continue to diversify export markets through new high standard regional free trade agreements.

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

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.		via direct trade effects—China, the U.S. and Europe are Ecuador's largest trading partners—and indirect effects stemming from the wider growth slowdown.	
Global Growth Acceleration. Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	**Low**	**Medium** A global acceleration could increase economic activity and impact the balance of payments in Ecuador via direct trade effects—China, the U.S. and Europe are Ecuador's largest trading partners—and indirect effects stemming from the wider growth pick-up.	Diversify the economy to reduce dependency of commodity export and to be able to take advantage of a growth pick-up more broadly. Continue to diversify export markets through new high standard regional free trade agreements.
Monetary Policy Miscalibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	**Medium**	**Medium** Ecuador is a fully dollarized economy with no independent monetary policy. A premature loosening of monetary policy in major economies would also hinder disinflation in Ecuador. Abrupt market movements caused by excessively tight monetary policy could hit Ecuador through higher funding costs, and negative spillovers via lower growth in trading partners and lower commodity prices.	Strengthen (financial) crisis preparedness and management.

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
Systemic Financial Instability. High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	Medium Higher risk aversion and tighter global financial conditions would lead to capital outflows from vulnerable EMDEs, with adverse effects on their economies and financial systems. Ecuador would be affected by the adverse financial environment, which could lead to a delay in re-accessing capital markets, and by real spillovers from trading partners.	Pursue fiscal consolidation to rebuild credibility with markets. Strengthen (financial) crisis preparedness and management.
Social Discontent. High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	High	High Social unrest and uncertainty regarding future macroeconomic policies could lead to increase in interest spreads and hurt confidence and economic activity.	Design reforms such 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 to achieve more inclusive growth. Continue to liberalize trade and improve the business climate to promote faster job creation, including for youth, and foster inclusive growth.
Structural Risks			
Deepening Geoeconomic Fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs,	High	Medium Geopolitical tensions that impact commodity prices (in particular oil) could have significant ramifications on growth and fiscal and external balances. Tensions could also affect Ecuador via reductions in the trade volumes of non-oil products (such	Adopt policies that improve the resilience of trading relationships, including by removing trade barriers, fostering free trade agreements, and limiting policy uncertainty through clearly articulated medium-term policy frameworks. In the event tensions reduce oil prices,

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
financial instability, a fracturing of international monetary system, and lower growth.		as bananas or shrimps). Higher oil and metal prices are expected to have a net positive impact on Ecuador's external and fiscal balances.	implement fiscal contingency measures.
Climate Change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	**Medium**	**High** Ecuador is vulnerable to a wide range of natural hazards related to climate change, such as landslides, floods, extreme heat, and droughts. Ecuador is also exposed to volcanic and seismic activity. Such disasters could cause infrastructure damage and hit production (including in the oil and mining sectors) with knock-on effects to the fiscal, external, and financial sectors.	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.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**High** Cyberattacks on critical infrastructures (including through state-owned enterprises) could jeopardize operational, energy, financial, and economic stability. Cyberattacks could also imply serious costs.	Ensuring critical systems are properly protected and backup systems are available. Insurance could help mitigate some of the fiscal risk.
Domestic Risks			
Prolonged or Deeper Security Crisis. A renewed flare-up in domestic violence causing renewed curfews and other disruptions.	**High**	**High** High insecurity would lower domestic activity, tourism, and fiscal revenue, and deter long-term investment.	Ensure adequate fiscal spending on security, through adequate prioritization. Implement contingency fiscal measures to ensure fiscal sustainability is not

Source of Risks	Relative Likelihood	Possible Impact	Policy Response
			undermined. Implement targeted measures to support the most vulnerable. Advance governance, AML/CFT, and inclusive growth agenda.
Renewed Political Impasse. The government is unable to complete its reform agenda due to faltering political and public support.	**High**	**High** Lack of access to international financing and lower investment. Further build-up of arrears, which will hit the economy and lower growth.	Design reforms such 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 to achieve more inclusive and job-rich growth.
Unexpected and Large Disruptions in Oil Production. Repeated and long disruptions to oil production owing to natural disasters and lacking maintenance of infrastructure.	**Medium**	**High** Reduced oil production and export. Lower fiscal revenue, leading to further liquidity constraints for the government along with additional build-up in arrears.	Invest in maintenance of oil infrastructure. Advance the diversification and SOE governance agendas.

Annex V. Progress on 2023 FSAP Key Recommendations

Recommendations	Authorities[1]	Time[2]	Developments
Systemic Risk and Financial Sector Resilience			
Enhance capitalization, promptly recognize loan losses, and address unviable financial institutions.	SBs, SEPS	I	The authorities have been requiring banks to retain a larger share of profits during 2021–23. Two small banks that were under intensive supervision have been recapitalized, and two other weak banks are expected to follow.
Improve credit information: (i) transmit data on BIESS to credit bureaus; (ii) grant access to the credit registry data to BCE and SEPS.	JPRF, SB, SEPS, BCE	I	Since November 2023, credit data from BIESS has been transmitted periodically and in a timely manner to the private credit bureaus. The authorities made progress to improve access to credit registry data to BCE and SEPS, including by creating a unique artificial identifier for the clients of banks and credit cooperatives.
Gradually remove requirements for banks to hold liquid assets domestically.	MEF, JPRF, JPRM	NT	Pending.
Financial Sector Oversight			
Develop processes, organizational arrangements, and tools to monitor, assess and mitigate systemic risks.	MEF, JPRF, JPRM SB, SEPS, BCE	I	There is an ongoing TA on stress testing delivered in parallel to five institutions (JPRF, JPRM SB, SEPS, BCE).
Clarify responsibilities, functions, and powers of different agencies, and consider the establishment of a Financial Stability Committee.	MEF, JPRF, JPRM, SB, SEPS, BCE	NT	A Financial Stability Committee was created, which is expected to facilitate inter-institutional coordination and decision-making.
Implement Basel III buffers (conservation, countercyclical, D-SIB) and borrower-based measures.	MEF, JPRF, SB, SEPS	NT	Basel III regulations on capital surcharges for D-SIBs and the countercyclical capital buffers for both banks and credit cooperatives were issued in November 2024.
Enhance technical and analytical capacity of supervisory agencies by stablishing a career plan, sound training program, and adequate resources.	SB, SEPS, MEF, UAFE, CONALAFT	I	In progress. The superintendencies are working to enhance their technical capacities through specialized training programs offered by international supervisory associations. Yet, frequent personnel rotation continues to be a challenge.
Strengthen the institutional framework for supervision by making safety and soundness the primary goal of the superintendencies and enhancing their independence.	MEF, SB, SEPS	MT	Pending.

Recommendations	Authorities[1]	Time[2]	Developments
Strengthen the supervisory approach, consolidated supervision, and corporate governance requirements and ensure convergence of supervisory standards for large cooperatives and both public and private banks.	SB, SEPS, JPRF	NT	In progress. The authorities have requested TA on consolidated supervision and risk-based supervision. The Superintendency of Banks is currently developing the methodology and supervisory approach for the evaluation of corporate governance and the consolidated and cross-border supervision of financial groups.
Align capital and liquidity requirements with Basel III.	SB, SEPS, JPRF	NT	Resolution No. SB-2023-02562 issued the Methodology for Calculating the Liquidity Coverage Indicator. In addition, Circular No. SB-IG-2024-0016-C communicates the technical note for its implementation in the banking system. A pilot project is currently being implemented among the largest credit cooperatives. The regulations for the gradual implementation of macroprudential capital buffers were issued in November 2024. A minimum Tier 1 capital requirement of 6 percent was also established.
Improve the legal basis for corrective actions and sanctioning powers.	SB, SEPS, MEF	NT	Pending.
Ensure timely enactment of the New Organic AML/CFT Law.	CONALAFT	I	An AML/CFT Law was approved in July 2024. The authorities are working on the preparation of secondary regulations for practical implementation.
Financial Safety Net and Crisis Preparedness			
Separate supervisory and resolution functions and overhaul legal framework for resolution.	MEF, SB, SEPS, COSEDE	MT	A scoping TA on the financial sector safety net in August 2024 proposed an implementation plan. The Superintendency of Banks is setting up a dedicated team to deal with resolution matters. The JPRF issued regulations for ordinary and extraordinary mergers, and to improve P&A, though additional refinements to the latter are still required.
Address operational barriers to deposit insurance payout and strengthen COSEDE governance and resources.	MEF, COSEDE	MT	A scoping TA on the financial sector safety net in August 2024 proposed an implementation plan.
Reform the Liquidity Fund's lender-of-last resort function, including governance and information-sharing, ease of collateral posting, size of the fund, relations with the BCE, and terms of lending.	MEF, COSEDE	NT	In progress. The authorities are discussing MCM TA on emergency liquidity assistance. The BCE sent a reform proposal to the JPRF regarding the functioning, information-sharing, terms of lending, and BCE's role in the Liquidity Fund.

Recommendations	Authorities[1]	Time[2]	Developments
Market Development			
Address vulnerabilities in public banks, implement AQR provisioning recommendations, and intensify prudential supervision of SOFIs.	MEF, SB, IESS	I	Provisioning requirements following the AQR were posted, and an action plan was prepared for Banecuador, but implementation was delayed due to an incomplete Board of Directors. The Board of Directors has recently been completed. An updated action plan is being discussed.
Redesign credit support programs, remove expectations of debt forgiveness, and migrate interest rate caps to a usury rate.	MEF, JPRM	NT	Ad hoc formulas were implemented in some credit segments to alleviate unwarranted constraints on lending rates. The Financial Stability Committee tasked the BCE with the preparation of a study to assess the impact of lending caps and establish a gradual move towards a market-determined system. Since the FSAP, two additional loan forgiveness programs were mandated by Presidential Decree.
Streamline the supply of government securities and transition to regular auctions, promote the development of the repo and secondary markets and broadening of the investor base.	MEF, JPRF, SB, BCE, SCVS	NT	A TA on domestic bond market development will take place in December 2024.
1/ Ecuadorian financial authorities. 2/ I: immediate (less than one year), NT: short term (1–2 years), MT: medium term (3–5 years).			

Annex VI. Implementation of Recommendations of the 2021 Article IV Consultation

Recommendations	Policy Actions
Fiscal Policy	
Implement a gradual fiscal consolidation plan to restore medium-term fiscal sustainability while building buffers.	The improved macroeconomic and oil price outlook, combined with good fiscal management that avoided procyclical spending increases, led to the successful conclusion of the remaining reviews of the 2020 EFF, despite the setback from the suspension of the fuel subsidy reform in October 2021. Following the 2023 shocks and the resulting fiscal deterioration, the authorities have embarked on an ambitious fiscal consolidation plan under the 2024 EFF and have already implemented bold fiscal measures, including a significant revenue package and gasoline subsidy reform.
Reduce the reliance of public finances on volatile oil revenues.	Following some policy setbacks in 2023, the authorities implemented a very ambitious plan that successfully raised non-oil revenues in 2024.
Contain expenditure through a slower nominal growth of the wage bill (including by rolling back one-off crisis measures) and modernize procurement processes.	The authorities made efforts to contain the nominal growth of the wage bill during the 2020 EFF, reducing it by about 1 percent of GDP by the end of 2022 compared to 2019. Further efforts to contain the wage bill are envisaged as part of the ongoing EFF-supported program. The authorities began work on the National Control System (SNC) to ensure coordination between supervisory agencies and strengthen risk-based monitoring of public procurement, with a goal to establish a timeline to operationalize the SNC by December (**end-December 2024 SB**).
Increase the coverage of social protection.	The authorities, in collaboration with the World Bank and other development partners, comprehensively revamped the social registry during the 2020 EFF and increased the coverage of social transfer schemes to cover over 80 percent of vulnerable households. More recently, the authorities are further expanding the coverage of the social registry and met the end-August 2024 indicative target of having approximately 1.19 million families covered by the cash transfers programs.
Public Financial Management	
Implement new public financial management frameworks by operationalizing COPLAFIP reforms. Monitoring and clearing arrears.	The authorities have completed reforming the COPLAFIP, which includes establishing the MTFF and revamping fiscal risk management and cash management planning, and are receiving IMF technical assistance on various areas to implement

Recommendations	Policy Actions
	changes associated with the law. PFM improvements are built into the 2024 EFF, with **end-October 2024 SBs** to publish an updated MTFF and a MTDS in line with program targets. The authorities have prepared a strategy to clear and prevent the resurgence of budgetary central government's payment arrears (**end-November 2024 SB**).
Enhance transparency and governance, especially around the use of public resources and debt. Overhaul AML/CFT legislations and enhance anti-corruption efforts.	The authorities completed and published audits of COVID-19 public expenditures, published procurement contracts including information on the ultimate beneficiary ownership of involved entities, and enhanced the online publication of asset declaration of high-level public officials. Ongoing work on the SNC (see above) will enhance transparency around public procurement. On anti-corruption, the legal framework for criminalizing corruption (COIP) was amended to meet international best practices and standards. On AML/CFT, the authorities approved a new AML/CFT law in July 2024 (**end-February 2025 SB**) to strengthen the AML/CFT framework in line with FATF standards.
Financial Sector	
Strengthen public banks, including implementing AQRs, identifying governance issues, and revising the banks' business models.	See Annex V.
Revise lending rate caps to widen financial inclusion and enhance supervision.	See Annex V.
Close the regulatory gap between cooperatives and banks.	Capital, loan classification and provisions, and liquidity requirements of cooperatives have been harmonized with banks. There remain differences in reserve requirements and contributions to the liquidity fund.
Structural Reforms	
Address longstanding bottlenecks to growth and private sector development and reducing labor market rigidities.	New Free Trade Agreements were signed, including with China and Costa Rica. The government passed the VEL in 2023 aiming at closing the gender gap in the labor market. At end-2023, a new PPP framework was introduced to boost private sector-led growth, prioritizing projects in road infrastructure, renewable energy, and transport logistics.
Align the governance framework and operations of SOEs to that of private companies to improve efficiency and limit contingent liabilities.	The authorities recently closed the Public Enterprise Coordinating Company (EMCO) and are seeking to reform several SOEs' own collective labor agreements. They are working on completing the 2019 and 2020 financial audits of Petroecuador and

Recommendations	Policy Actions
	Petroamazonas to share with IMF staff (**end-March 2025 SB**).
Enhance climate and natural disaster resilience, in part using savings from oil windfall, and reducing dependence on oil.	The authorities published the Implementation Plan for the NDC in 2021 and the National Adaptation Plan in 2023. In 2024, they presented a new National Climate Change Mitigation Plan with strategies to reduce emissions in key sector and are working on a National Plan for the Transition to Decarbonization. The authorities completed a debt-for-nature swap for the conservation of the Galápagos in 2023.

Annex VII. Data Issues

Table 1. Ecuador: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	B	B	A	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	B	B	A	B		
Granularity 3/	B		B	B	B		
			B		B		
Consistency			B	A		B	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided to the Fund for surveillance are comprehensive and broadly adequate for macroeconomic and financial analyses. Data coverage, frequency, and timeliness are generally in line with expectations/requirements set in the IMF Data Standards Initiatives, while the budgetary central government (PGE) and the oil derivatives financing account (CFDD) are available within 30 days. On national accounts statistics, there is room for improvement in the calculation of demand components of the quarterly GDP to better measure the changes resulting in a large level of inventories. The CPI (2014 =100) has weights from the 2011/12 National Survey of Income and Expenditure of Urban and Rural Households which do not reflect the current consumption patterns in the country, while the PPI (2015=100) has weights from the 2013 Supply and Use Tables of national accounts with base year 2017 that should be updated with the results of the new benchmark revision to 2017. Monetary and financial statistics are broadly adequate for surveillance but has shortcomings related to data availability for credit cooperatives in segments 4 and 5 (which represent only a very small share of the financial system). External sector statistics are generally adequate for surveillance, with timely provision on trade, balance of payments, and international investment position statistics; there are shortcomings concerning the breakdown of private external debt by remaining maturity.

While GFS and debt data are regularly and consistently reported, there is still room for improvement related to debt time series and the integration of stocks and flows in SOEs. Enhancements can be achieved by publishing debt time series data. Additionally, further efforts are required to integrate flows and financial stocks in certain state-owned enterprises (SOEs). Moreover, the coverage of SOEs can be expanded to include electric and communications public corporations, which are currently not within the institutional scope of the Non-Financial Public Sector (NFPS).

Changes since the last Article IV consultation. The overall assessment of data adequacy is broadly aligned with the one included in the 2021 Article IV consultation. The Central Bank of Ecuador, which is in charge of compiling the national accounts statistics, conducted a benchmark revision to 2017 disseminated in December 2023. New annual and quarterly series in current values and chain linked volume at previous year prices have been compiled, including backcasted series. On monetary and financial data, the authorities have resumed the transmission of FSIs for banks.

Corrective actions and capacity development priorities. It is essential to continue capacity development (CD) activities to further enhance the adequate measurement of macroeconomic aggregates. The ongoing and planned TA work is aligned with key areas for continued improvement and CD support. A national accounts TA mission conducted in August 2024 in the BCE worked on improving the quarterly GDP estimates of the demand components in volume terms. A TA on import and export price indices is needed to complete the indices to obtain quarterly volume terms of imports and exports. A project to update the PPI is ongoing with TA from the IMF Statistics Department. The authorities are working to include credit cooperatives in the FSIs transmitted to the Fund.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Official data is used whenever provided.

Other data gaps. Climate data could be further improved by having more updated emissions data (last year for which official emissions data is available is 2018). The authorities are working on improving the register of social programs.

Table 2. Ecuador: Data Standards Initiative

Ecuador subscribes to the Special Data Dissemination Standard (SDDS) since March 1998 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Ecuador: Common Indicators Required for Surveillance

As of November 15, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Ecuador[8]	Expected Timeliness[6,7]	Ecuador[8]
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov-24	Nov-24	D	D	D	D	D	D
Reserve/Base Money	Nov-24	Nov-24	W	W	M	7	2W	3
Broad Money	Sep-24	Nov-24	M	M	M	30	1M	30
Central Bank Balance Sheet	Nov-24	Nov-24	W	W	M	7	2W	3
Consolidated Balance Sheet of the Banking System	Oct-24	Nov-24	W	W	M	30	1M	30
Interest Rates[2]	Nov-24	Nov-24	W	W	D	...	...	1
Consumer Price Index	Oct-24	Nov-24	M	M	M	30	1M	4
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Aug-24	Oct-24	M	M	A	365	2Q	180
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Aug-24	Oct-24	M	M	M	30	1M	90
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Aug-24	Oct-24	M	M	Q	90	1Q	90
External Current Account Balance	Q2-2024	Oct-24	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	Sep-24	Nov-24	M	M	M	30	8W	90
GDP/GNP	Q2-2024	Sep-24	Q	Q	Q	90	1Q	90
Gross External Debt	Q2-2024	Oct-24	Q	Q	Q	90	1Q	90
International Investment Position	Q2-2024	Oct-24	Q	Q	Q	90	1Q	90

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Appendix I. Letter of Intent

Quito, December 6, 2024

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

Dear Ms. Georgieva:

1. We are making important progress in the implementation of our economic reform program, supported by the 48-month Extended Fund Facility (EFF) arrangement. We have addressed the acute liquidity challenges experienced in early 2024 and strengthened our public finances. We are placing a high priority on crime reduction. Inflation has remained low, and our international reserves have recovered. While economic activity had begun to pick up earlier this year, a historic drought season has led to significant electricity shortages in recent months, an exogenous shock that we are urgently working to address.

2. We are committed to a path of fiscal sustainability that protects the most vulnerable. Disbursements from the IMF and other development partners are critically supporting our budget needs. These funds are also being used to clear domestic arrears and enhance social protection. We are rebuilding our fiscal and reserve buffers, which help increase economic resilience, enhance growth, and safeguard the dollarization regime.

3. We have accomplished the goals set for the First Review under the EFF arrangement. All quantitative performance criteria and indicative targets for end-August 2024 were met. We also enhanced social protection by bringing an additional 23,489 new lower-income families into the social safety net. Furthermore, we have made significant progress on the implementation of structural benchmarks under our policy program, with some met ahead of schedule.

4. We request the completion of the First Review under the EFF arrangement, allowing for the associated disbursement of SDR 375.9 million (about US$500 million) to be made available for budget support. These funds would provide resources to help address the ongoing electricity crisis and mitigate its effects on the economy and vulnerable groups, as well as to continue supporting our planned reforms and policies to secure an inclusive and sustainable economic recovery. We also request completion of the financing assurances review.

5. The attached Memorandum of Economic and Financial Policies (MEFP) reports on progress in implementing Ecuador's economic program and lays out the macroeconomic and structural policies that we plan to implement. We believe that the policies described in the attached MEFP are adequate to achieve the objectives underpinning the program. However, if necessary, we stand

ready to take additional measures that may become necessary to achieve our program objectives. We will consult with the Fund on the adoption of these measures and in advance of any substantive revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. We will also continue to provide the Fund's staff with all the relevant information required to complete the program reviews and to monitor performance on a timely basis.

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

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

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

Sincerely yours,

/s/	/s/
Juan Carlos Vega Minister of Economy and Finance	Guillermo Avellán General Manager, Central Bank of Ecuador

Attachment I. Memorandum of Economic and Financial Policies

This memorandum describes the key policies of our IMF-supported program under a 48-month Extended Fund Facility (EFF) arrangement, approved by the IMF Executive Board on May 31, 2024, which builds on the previous 2020-22 EFF arrangement (hereinafter the "2020 EFF")**.**

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

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

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

4. **During the early months of our administration, we have taken bold actions to address the fiscal and security challenges.** On the fiscal and economic fronts, we implemented a three-percentage point value added tax (VAT) rate hike alongside additional revenue measures, totaling about 2 percent of GDP, to reduce the fiscal gap. We also introduced a limited set of tax incentives to stimulate growth and promote youth employment and took steps to encourage private participation in the electricity generation sector. In January, we announced the intention to target the fuel subsidies to the most vulnerable, with subsequent actions implemented in June 2024, as

described below. On the security front, we bolstered the government's capability to fight crime, including by reorienting current expenditure to boost the security envelope and enhancing the role of the military. A referendum held in April 2024 approved measures to tackle the security situation. Our decisive actions to address the fiscal and security challenges contributed to a decline in sovereign debt spreads of over 700 basis points since December 2023 to around 1,300 basis points as of late November 2024.

5. We are committed to continue implementing policies to protect macroeconomic stability, strengthen fiscal sustainability, enhance the social safety net, and foster inclusive growth. Building on the important structural reforms supported by previous IMF agreements and the significant measures that we have already implemented in 2024, the current IMF-supported EFF arrangement intends to: (i) strengthen fiscal sustainability, while protecting vulnerable groups; (ii) rebuild fiscal and external buffers; (iii) safeguard dollarization and macroeconomic stability; (iv) enhance financial stability and integrity; and (v) continue the structural reform agenda to unlock the economy's potential, fostering strong and inclusive economic growth.

6. We are addressing the causes and impacts of a significant electricity crisis. Our priority is to tackle this issue largely caused by climate change effects on hydroelectric power generation, which normally provides around 70 percent of our total generation capacity. We are undertaking substantial efforts to enhance our electricity supply capacity both in the short term and over the medium and long term. Our immediate focus is on reducing the energy deficit and ensuring energy security in the medium term. To address the energy deficit in the short term, we plan to incorporate 1,276 MW through the purchase or lease of land-based or floating thermal generation in 2024. To strengthen energy security, two laws were enacted in January and October 2024 to stimulate private investment in energy generation. These laws grant the Ministry of Energy and Mines the authority to directly delegate projects of up to 100 MW in non-conventional and transitional renewable energy. Additionally, we are promoting diversification of the energy matrix through conventional and non-conventional renewable energy projects. Twelve projects have already been awarded and are expected to add approximately 820 MW to the system in the medium term.

7. The following sections of this memorandum outline our policy plans under the EFF arrangement.

A. Strengthening Fiscal Sustainability

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

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

10. The 2024 fiscal plan envisages a reduction of the non-financial public sector (NFPS) overall fiscal deficit of 1.8 percentage points of GDP to 1.8 percent of GDP. The 2024 plan will still accommodate a moderate increase in capital spending and urgent spending needs to deal with the security situation and the electricity crisis, while protecting the most vulnerable segments of the population. We have also started clearing domestic payment arrears, thereby improving the difficult liquidity situation facing the economy. The fiscal efforts are supported by the revenue measures enacted in 2024 as well as expenditure restraint:

- On the revenue side, the enacted measures are expected to bring about 2 percent of GDP in additional non-oil revenue. Main measures taken include a hike in the value added tax (VAT) rate and temporary contributions payable on corporate and bank profits.

- On the expenditure side, we are committed to containing current expenditure, underpinned by maintaining wages and goods and services broadly constant in real terms, reprioritizing some spending towards addressing the electricity crisis, while protecting space to address the security crisis and meet urgent social and investment needs.

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

11. We aim to achieve a gradual medium-term fiscal consolidation to place public finances on a sustainable path. To this end, we expect to further reduce the NFPS overall deficit to 1.3 percent of GDP in 2025 and reach an overall surplus of 0.6 percent of GDP by the end of the program in 2028. This is consistent with achieving a surplus in the NFPS primary balance of 0.9 percent of GDP in 2026 and a cumulative consolidation of about 5.5 percentage points of GDP in the non-oil primary balance including fuel subsidies (NOPBS) over 2024-28 relative to end-2023. This consolidation effort would strike an appropriate balance between strengthening fiscal sustainability, supporting the economic recovery, and protecting the most vulnerable, while at the same time allowing us to reduce oil dependence and meet international reserves coverage and public debt limits set out in the COMYF and COPLAFIP legislations, respectively. The measures that we are planning to take to achieve the projected medium-term consolidation would include the following key items:

- **Non-Oil Revenues.** Increasing non-oil revenues remains important to reduce volatility in fiscal revenues triggered by global commodity prices. We have prepared a plan to mobilize non-oil revenues to replace temporary measures with permanent high-quality ones, mainly through streamlining inefficient tax expenditures and exemptions, thereby sustaining a higher level of non-oil fiscal revenues over the medium term (***mid-November 2024 structural benchmark, met***).

- **Oil Revenues.** As we announced in January 2024, one of the administration's priorities is to make fuel subsidies more focused, while ensuring an appropriate social protection mechanism for the most vulnerable. In June 2024, with World Bank technical support, we enacted a reform of the price-setting mechanism for domestic sales of low-octane gasoline, aligning domestic prices with international prices, which is expected to boost oil revenue by about 0.4 percent of GDP in steady state, reducing the fiscal opportunity cost of selling oil derivatives at below market prices. In addition, the government is launching initiatives to increase net oil revenues, including by gradually increasing production (partly through greater private investments) and enhancing the capacity of the oil refinery system. Most of these subsidies benefit many who do not need the support, encourage over-consumption of fossil fuels, undermine the energy transition, damage the environment, and provide ground for corruption and smuggling, benefiting informal mining activities and drug trafficking.

- **Public Sector Wage Bill.** We are committed to continue efforts to contain the public sector wage bill, building on efforts made in recent years. To this end, we plan to limit increases in headcount and wages. In this spirit, we have recently issued a norm to enforce that all public sector wages be capped below the salary of the President. The strategy will be carefully crafted to ensure the delivery of quality public services and needed hiring of additional police personnel and domestic security forces to counter the security crisis.

- **Procurement.** We aim to continue reforming our procurement system to optimize expenditure in goods and services, while ensuring the highest standards of transparency and the quality of public services. In July 2023, the National Public Procurement Agency (SERCOP) issued norms to operationalize the 2022 Procurement Law. Ongoing efforts to increase efficiency include the cataloguing of public procurement processes and prices, introducing standardized and bulk purchases of medicine, medical inputs, and other goods and services. In June 2024, SERCOP presented the evaluation report of the public procurement systems ("MAPS"), a joint work with the Inter-American Development Bank (IDB). To promote transparency, we have created the National Control Subsystem (SNC), presided by SERCOP, and comprised by the Economic and Financial Analysis Unit (UAFE), the Internal Revenue Service (SRI), the Office of the Comptroller, the State Attorney's Office, and financial regulators. The SNC will facilitate coordination among public entities with control competencies over the public procurement system, via the interoperability of their databases. We will establish a timeline to operationalize the SNC (***end-December 2024 structural benchmark***) and prepare and share with the Fund the conceptual and operational framework to upgrade the Public Sector Procurement System (SOCE) (***proposed structural benchmark for end-July 2025***), with support from the IDB.

- **Capital Expenditure.** We will prioritize capital expenditure projects based on their estimated social and economic impact. We will also promote public-private partnerships (PPPs) and concessions to the private sector for infrastructure investment, with due account of contingent liabilities and the associated fiscal risks. The Ecuadorian Development Bank (a public bank) will channel multilateral and bilateral resources for infrastructure investment by local governments. We undertook a Public Investment Management Assessment (PIMA) in 2023 to improve our public investment process. This technical assistance included a climate-related assessment of public investment management (C-PIMA) to help us build low-carbon and climate-resilient infrastructure. We intend to gradually implement the recommendations of the PIMA/C-PIMA assessments.

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

13. We are committed to clearing domestic arrears. The accumulation of public sector arrears due to tight fiscal and liquidity conditions has been weighing heavily on economic activity. As the fiscal liquidity situation improves, we will continue working on regularizing overdue obligations to the private sector and intra-public sector claims. To this effect, we have already included in the multi-year fiscal financing plan the clearance of budgetary central government (PGE) arrears with the private sector, and have prepared and shared with Fund staff a plan for clearing and preventing the resurgence of PGE arrears, including obligations to the private sector and intra-public sector claims (***end-November 2024 structural benchmark, met***).

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

B. Expanding Our Social Safety Nets

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

C. Enhancing the Institutional Framework, Governance, and Transparency

16. We have made significant improvements in enhancing the timeliness, reliability, and consistency of fiscal statistics. The 2020 COPLAFIP reforms included the adoption of regulations, including those that require timely collection, accurate compilation, and transparent publication of fiscal data, with adequate coverage (by subsectors of the NFPS). We have enhanced our technical and institutional capacity in fiscal data recording and reconciliation. In that regard, we established a dedicated statistics unit at the Ministry of Economy and Finance (MEF), with expertise in government finance statistics compilation. With the support of IMF TA, we have updated the training curriculum in GFS compilation and produced a training schedule, to ensure ongoing training of new and existing staff in above- and below-the-line fiscal data recording, reconciliation, and verification. An IMF long-term expert (LTX) worked during one year with the statistics unit on improving MEF's capacity in compiling, verifying, and reconciling government finance and debt statistics. Additionally, one of the objectives of the fiscal statistics team is to increase the coverage of the NFPS through the inclusion of public companies in the electricity sector and expand the statistical sample of local government companies.

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

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

19. We are committed to making steadfast progress in establishing a revised mechanism to settle healthcare claims from IESS. This will bring legal predictability to the process of auditing and clearing verified obligations. To that effect, we will establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement (***end-October 2024 structural benchmark, proposed to be reset for end-March 2025***). The updated MEF/IESS agreement will also stipulate the process to be taken to audit and settle the 2022 healthcare obligations. We will implement the resulting agreement, to prevent future arrears on healthcare obligations, improve the reliability of fiscal statistics, and strengthen the sustainability of the IESS. We have finalized the procurement to hire the external auditor to review the 2023 and 2024 healthcare obligations to IESS (***end-December 2024 structural benchmark, met***).

20. We will continue working on implementing better cash management practices. With the assistance of a PFM expert provided by the IMF, we have been able to expand our cash management planning capability and horizon to encompass the full length of the annual budget cycle. The remaining challenge is to develop further capability to update our cash management planning on a 12-month rolling basis from any given point in the budget year. The expert has also helped implement a new monitoring system to evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS. In January 2022, we published a methodology to estimate the stock of arrears and the reporting templates to be used by public sector entities. We have estimated the stock of potential claims on PGE, including with the IESS, GADs, private sector, or others (if any) by type of expenditure, year, and beneficiaries. We have started publishing data on monthly arrears in the public debt bulletins, as per COPLAFIP law. We will design a policy so MEF can gather monthly information on arrears from other entities of the NFPS, as mandated by COPLAFIP. To further strengthen financial management, increase transparency, and reduce accumulation of payment arrears, we will implement an automatized process for PGE payments, including arrears' payments (***proposed structural benchmark for end-March 2025***).

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

22. MEF has implemented several actions to improve public debt transparency. Following the new debt methodological definition and with WB and Fund technical assistance, a new Debt Bulletin was developed and is published monthly on the official website of the MEF. The Bulletin also 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.

23. We plan to implement IMF TA recommendations on strengthening tax administration. In 2023, we produced an assessment of our tax administration, and with the support of the IMF, we also undertook the Tax Administration Diagnostic Assessment (TADAT). We plan to implement an institutional model under the TADAT methodology to close the gaps in tax administration against best international practices, especially in control processes. Implementation, with support from the IDB, will focus on process integration, transparency, tax registration, data intelligence, and information management. Moreover, we have requested IDB's technical assistance for the National Customs Service of Ecuador (SENAE), aiming to enhance its modernization process.

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

24. We have made significant progress in strengthening the institutional framework of the BCE in recent years. In 2021, we revised the COMYF with measures to support the dollarization regime, which included eliminating the possibility of direct and indirect central bank financing of the government, restoring full reserve coverage of private and public financial institutions' deposits at the BCE; and giving technical and managerial autonomy to the BCE. The revised law also strengthened the BCE balance sheet, including by removing all legacy assets from the 1999 banking crisis. It also improved central bank transparency, by establishing an audit committee, appointing external auditors, and publishing the audited BCE financial statements on the BCE website. Besides enacting the law, we took other steps to strengthen institutional framework of the BCE by: (i) implementing a capacity development program for auditors; (ii) requiring the certification of the audit departments and individual auditors by the Institute of Internal Auditors (an international organization); and (iii) implementing some recommendations regarding our audit department from a peer-review assessment. We also have modified the BCE's organizational structure to strengthen its technical areas.

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

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

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

28. The BCE reached record net profit in 2023. The BCE's net profit reached a maximum of US$683 million in 2023, double the amount reported in 2022 and triple the value reached in 2021. Moreover, in line with the COMYF, the BCE's equity was strengthened. Due to the high level of profits in the past three years, the BCE attained an equity of US$100 million and a general reserve fund of US$500 million, strengthening its buffers to deal with potential future financial losses.

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

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

30. We are increasing coordination among agencies involved in financial sector oversight. To this effect, we have established a Financial Stability Committee (FSC) in line with best international practices, comprising the BCE, the MEF, the Financial Board (JPRF), the Monetary Board (JPRM), the Superintendency of Banks (SB), the Superintendency of Popular and Solidarity Economy (SEPS), the Superintendency of Companies (SCVS), and the Deposit Insurance Corporation (COSEDE) (***end-September 2024 structural benchmark, met***). The Committee aims to facilitate coordination and information exchange among the agencies involved, providing a holistic perspective to financial sector surveillance, and supporting prompt policymaking in response to financial sector vulnerabilities. We will establish an inter-institutional group within the FSC, comprising the BCE, MEF, JPRF, JPRM, SB, SEPS, and COSEDE, to coordinate bank resolution reforms and strategies (***proposed structural benchmark for end-January 2025***).

31. We are enhancing the prudential framework on capital and liquidity. We have prepared the methodologies to identify the systemically important financial institutions, and plan to issue macroprudential regulations on capital buffers, including surcharges on systemically important institutions and countercyclical capital buffer (***end-November 2024 structural benchmark, met***). These regulations are expected to enhance capital buffers and support financial stability. In addition, we have started implementing the FSSA recommendations on liquidity, including the phased implementation of the Liquidity Coverage Ratio, expected to be achieved by 2028. COSEDE recently issued a new operative manual for the Liquidity Fund's trust fund. We also plan to phase out regulatory forbearance at an appropriate pace.

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

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

34. We will make important investments in BCE's central securities depository and payment system to strengthen the domestic capital market and promote digital payments nationwide. To achieve these objectives, we will sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards (***end-November 2024 structural benchmark, proposed to be reset for end-January 2025***). We will also work on enhancing the payments system by improving the real time gross settlement (RTGS) system at the BCE. The improvements to the payments infrastructure managed by the BCE will facilitate payments at the national level through interoperability between the different payment networks, reducing transaction costs, mitigating the risks related to the use of cash, encouraging the development of digital commerce, and promoting the revitalization of economic activity.

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

35. We are committed to restoring the competitiveness of the economy and raising the living standards for all Ecuadorians. To this end, we are taking important strides in improving transparency and economic governance, fighting crime and corruption, addressing bottlenecks for investment and employment, and making Ecuador a preferred destination for businesses worldwide, supported by our international trade agreements. A decree issued in June 2024 announced a National Policy aimed at making competitiveness-enhancing regulatory improvements. We will further facilitate environmentally sustainable investment in the mining sector, which in recent years has already increased production and exports. We are also implementing measures to boost electricity supply.

36. We have concluded important trade agreements to foster trade integration and investments. In 2024, the National Assembly ratified trade agreements with Costa Rica and China. As a result, 84 percent of Ecuadorian products exported to Costa Rica will be exempted from tariffs. Other products will also benefit from gradual tariff reductions over the next five to fifteen years. With China as Ecuador's second-largest trading partner and the largest market for its non-petroleum exports, the benefits of the new trade agreement should be significant. The agreement will allow 99.6 percent of Ecuadorian exports to China to benefit from immediate or gradual tariff reductions. These trade deals will also increase the potential for productive FDI inflows. Ecuador is currently in the process of negotiating other agreements with South Korea and Canada.

37. We are enhancing our financial integrity and our efforts against organized crime and related illicit activities by strengthening our Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. We have adopted new AML/CFT legislation to strengthen the AML/CFT framework, incorporating reforms in line with Financial Action Task Force (FATF) standards (***end-February 2025 structural benchmark***). Such legislation was originally developed with IMF's technical support. We will issue necessary regulations to implement the new AML/CFT legislation to ensure its effective entering into force in line with the FATF standards. We are also working to further enhance the governance and independence of the UAFE and enhance its capabilities in producing comprehensive strategic and operational financial intelligence that will be proactively disseminated to law enforcement agencies for further investigation in financial crimes. More broadly, we are taking other measures to tackle illicit financial flows. Notably, we have launched a Joint Investigation Unit to formally align efforts across key public institutions in the fight against money laundering, tax fraud, and other illegal activities that help finance organized crime. To support these efforts, we will approve, with IMF technical support, and publish a summarized version of an AML/CFT Strategic Action Plan, establishing actionable policy priorities to mitigate money laundering and terrorist financing risks, such as those identified in the National Risk Assessment approved in 2024, including measures focused on tackling organized crime-related illicit financial flows (***proposed structural benchmark for end-September 2025***)

38. We remain committed to bringing more accountability and transparency to the public sector. To this end, we have issued our first holistic policy on public sector integrity ("National Policy of Public Integrity 2030"), covering SOEs. This policy has several strategic lines, including transparency in public spending and conflict of interests. The recently approved AML/CFT law introduced an enhanced asset and interest declaration framework. To prevent and manage conflict of interests, in 2022 a Draft Law to Prevent Conflict of Interests in Public Administration (prepared by the General Comptroller together with the Anti-Corruption Secretariat) was submitted to the National Assembly to advance public sector integrity and reduce vulnerabilities to corruption. Once in force, the law would expand the asset declarations of politically exposed persons (PEPs) to ensure it continues detecting and enforcing against illicit enrichment while also becoming a fundamental tool to detect and prevent potential conflicts of interest in the public sector. It would also encourage transparency, by mandating online public access to relevant information on the assets, incomes, liabilities, and interests in the declarations.

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

40. In another major transparency milestone, financial audits of the national oil company are under way. In January, we hired an independent top-tier audit firm, with support from the IDB. The audits, as envisaged during the EFF-supported program that concluded in 2022, will cover the 2019 and 2020 financial statements of Petroecuador and Petroamazonas, and the 2021 financial statement of the now merged entity (Petroecuador). We plan to complete and share with IMF staff the 2019 and 2020 audit results (***end-March 2025 structural benchmark***). We will gradually address any issues identified in the audits going forward.

41. To foster private sector-led growth, we have developed a new framework for PPPs, and we are working to increase private investment in key sectors. A law approved by the National Assembly in December 2023 laid out this new framework, complemented with regulations issued last February. PPP projects in the pipeline prioritize sectors such as road infrastructure and renewable energies. A fiscal risk unit within the MEF will evaluate the viability of PPP projects, including quantification of risks to the public sector's balance sheet, and propose ways to mitigate them. These risks will be clearly presented in our fiscal risk statements, which will be annexed to the annual budgets. We are also working to give a jump-start to new environmentally sustainable projects in mining and oil. Our government has created an interinstitutional committee to devise near-term actions aimed at fighting illegal mining and updating the mining cadaster. Furthermore, a June 2024 decree issued a new regulatory framework for natural gas projects.

42. We are committed to urgently addressing the electricity shortages and increasing renewable energy generation over the longer term. Power shortages since late 2023 are largely associated with climate change, affecting hydroelectric power generation, and longstanding underinvestment in the energy sector. It is therefore critical to undertake essential maintenance work on existing plants, including through private investment. In October 2024, the National Assembly approved an Organic Law to Promote Private Initiative in the Transition to Renewable Energies, aiming to boost private sector participation in the energy sector. We are also making efforts to recover existing generation plants, rent barges, and buy generators. For the longer term, we aim to diversify beyond hydroelectric generation, as contemplated in our latest Electricity Master Plan. The government has developed 12 projects for electricity generation through Non-Conventional Renewable Energies (NCRE)—solar, wind, and hydroelectric—with support from the IDB. These generation projects will contribute 833 MW of power, backed by private investments. Establishing a mechanism to cover commercial revenue risks, coupled with the commitment from the state and an IDB guarantee, has sparked significant interest among private investors and international development financial institutions in participating in upcoming bidding processes for electric generation and transmission projects. We have already approved environmental licenses for several renewable energy projects. With the IDB's support, we have started to execute a plan to strengthen electricity interconnection with Peru.

43. We are strengthening our resilience to climate change and natural disasters by stepping up adaptation and mitigation efforts. Climate policy action is a macroeconomic imperative for Ecuador. The World Bank's Country Climate and Development Reports (CCDR), published in September 2024, provides an insightful analysis of the challenges facing Ecuador. Our exposure to natural disasters calls for preparation, for which the financial support of the international community would be needed, including to protect populations in vulnerable areas. We have established an institutional committee on climate finance within MEF, with the support of the IDB. We recently expanded several protected areas, including the Galapagos marine reserve, for which in May 2023 we secured long-term financing for its protection as part of the world's largest debt-for-nature swap on record. We continue exploring options to mobilize climate financing, with support from international partners.

G. Program Monitoring

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

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets

	End-August 2024				End-Dec. 2024	End-Apr. 2025	End-Aug. 2025	End-Dec. 2025
	Program 2/	Adj. 3/	Actual	Status	Program	Program	IT	IT
(US$ million, unless otherwise indicated)								
Quantitative performance criteria								
1. Non-oil primary balance of the budgetary central government (PGE) (floor) 1/	-1,078	-1,078	899	Met	-2,295	-341	-1,220	-2,452
2. Overall balance of the PGE and CFDD (floor) 1/	-2,200	-2,108	200	Met	-4,213	-1,041	-2,628	-3,868
3. Accumulation of NFPS deposits at the central bank (floor) 1/	200	-58	1,756	Met	360	0	-5	1,070
4. Non-accumulation of external payments arrears by the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
Indicative targets								
6. Overall balance of the NFPS (floor) 1/	-1,628	-1,537	1,795	Met	-2,442	-89	-1,103	-1,570
7. Non-oil primary balance including fuel subsidies (NOPBS) of the NFPS (floor) 1/	-4,100	-4,192	-1,865	Met	-6,528	-1,151	-3,070	-5,751
8. Change in the stock of NIR (floor) 1/	-200	-458	1,573	Met	65	-34	46	1,038
9. Stock of PGE arrears to the domestic private sector (ceiling)	862		322	Met	662	600	400	262
10. Number of families in the first three income deciles nationwide covered by cash transfer programs (floor)	1,192,713		1,192,883	Met	1,212,984	1,228,660	1,244,336	1,260,012

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.
2/ Staff report for the EFF Request.
3/ Adjusted for oil prices and disbursements from multilateral institutions.

Table 2. Ecuador: Structural Benchmarks				
Reform Area	**Structural Conditionality**	**Objectives**	**Due Date**	**Status**
Structural Benchmarks				
Public Financial Management	1. Publish an updated Medium-Term Fiscal Framework (MTFF) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024	Met
Public Financial Management	2. Publish a Medium-Term Debt Management Strategy in line with program targets.	Strengthen fiscal planning and management.	End-October 2024	Met
Public Financial Management	3. Implement an automatized process for budgetary central government (PGE) payments, including arrears' payments.	Strengthen financial management, increase transparency, and reduce accumulation of payment arrears.	End-March 2025	Proposed
Domestic Arrears	4. Share with Fund staff an updated plan to clear and prevent the resurgence of domestic arrears of the budgetary central government (PGE), including obligations to the private sector and intra-public sector claims.	Strengthen the monitoring and reduce accumulation of payment arrears.	End-November 2024	Met
Tax Reform	5. Prepare and share with the Fund a plan to mobilize non-oil fiscal revenues, including by streamlining inefficient tax expenditures and replacing transitory revenue measures with permanent high-quality ones.	Inform future efforts to broaden the tax base and streamline tax expenditures.	Mid-November 2024	Met
Fiscal Strategy	6. Enact regulation on revenue and/or expenditure measures to ensure that the 2025 fiscal plan is in line with program and MTFF commitments.	Ensure fiscal consolidation.	December 6, 2024	Met
Social Safety Net	7. Share with the Fund a plan to complete the social registry to cover families in the lowest three deciles of the income distribution throughout the country.	Enhance the social safety net.	End-October 2024	Met

Table 2. Ecuador: Structural Benchmarks (continued)

Reform Area	Structural Conditionality	Objectives	Due Date	Status
Governance	8. Establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement. The updated agreement should include a decision about the 2022 healthcare audits.	Improve expenditure control.	End-October 2024	Not met. Reset to end-March 2025
Governance	9. Establish a timeline to operationalize the National Control Subsystem (SNC) to increase transparency in procurement.	Strengthen anticorruption framework and improve expenditure control.	End-December 2024	
Governance	10. Prepare and share with the Fund the conceptional and operational framework for an upgraded Official System of Public Procurement (Sistema Oficial de Contratación Pública del Ecuador, SOCE).	Increase transparency and efficiency in procurement and improve expenditure control.	End-July 2025	Proposed
Transparency and Governance	11. Initiate the tender process to select an auditor to undertake the 2023 and 2024 healthcare audits (based on the updated MEF/IESS agreement).	Improve the quality and reliability of fiscal data.	End-December 2024	Met
Transparency and Governance	12. Complete the audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas and share the results with Fund staff.	Enhance transparency and governance in the oil sector.	End-March 2025	
Anti-Money Laundering Framework	13. Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with FATF standards.	Mitigate the risk of illicit flows including those related to organized crimes.	End-February 2025	

Table 2. Ecuador: Structural Benchmarks (concluded)

Reform Area	Structural Conditionality	Objectives	Due Date	Status
Anti-Money Laundering Framework	14. The National AML/CFT Coordination Committee to approve and publish a summarized version of an AML/CFT Strategic Action Plan, establishing actionable policy priorities to mitigate money laundering, including by organized crime, and terrorist financing risks identified in the National Risk Assessment approved in 2024.	Mitigate the risk of illicit flows, including those related to organized crimes.	End-September 2025	Proposed
Financial Sector	15. Establish a Financial Stability Committee in line with best international practices, comprising the BCE, MEF, JPRF, JPRM, SB, SEPS, SCVS, and COSEDE.	Enhance coordination among agencies involved in financial sector oversight.	End-September 2024	Met
Financial Sector	16. Establish an inter-institutional group within the Financial Stability Committee, comprising BCE, MEF, JPRF, JPRM, SB, SEPS, and COSEDE to coordinate resolution reforms and strategies.	Strengthen financial sector resolution framework.	End-January 2025	Proposed
Financial Sector	17. Issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and a countercyclical capital buffer.	Strengthen financial sector buffers.	End-November 2024	Met
Financial Sector	18. Prepare and share with Fund staff a study of the system of interest rates, including recommendations to improve credit allocation, financial inclusion, and economic growth, while preserving financial stability.	Foster financial sector deepening and improve economy's growth potential.	End-March 2025	
Domestic Capital Market Development	19. Sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards.	Foster domestic capital market development.	End-November 2024	Not met. Reset to end-January 2025

Attachment II. Technical Memorandum of Understanding

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

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

3. **Program exchange rates.** For the purposes of the program, the exchange rates of the U.S. dollar for the duration of the program are those that prevailed on April 23, 2024, as shown in Table 1.

Table 1. Ecuador: Program Exchange Rates

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

Source: Haver, as of April 23, 2024.

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

	End-August 2024				End-Dec. 2024	End-Apr. 2025	End-Aug. 2025	End-Dec. 2025
	Program 2/	Adj. 3/	Actual	Status	Program	Program	IT	IT
(US$ million, unless otherwise indicated)								
Quantitative performance criteria								
1. Non-oil primary balance of the budgetary central government (PGE) (floor) 1/	-1,078	-1,078	899	Met	-2,295	-341	-1,220	-2,452
2. Overall balance of the PGE and CFDD (floor) 1/	-2,200	-2,108	200	Met	-4,213	-1,041	-2,628	-3,868
3. Accumulation of NFPS deposits at the central bank (floor) 1/	200	-58	1,756	Met	360	0	-5	1,070
4. Non-accumulation of external payments arrears by the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS (continuous performance criterion)	0		0	Met	0	0	0	0
Indicative targets								
6. Overall balance of the NFPS (floor) 1/	-1,628	-1,537	1,795	Met	-2,442	-89	-1,103	-1,570
7. Non-oil primary balance including fuel subsidies (NOPBS) of the NFPS (floor) 1/	-4,100	-4,192	-1,865	Met	-6,528	-1,151	-3,070	-5,751
8. Change in the stock of NIR (floor) 1/	-200	-458	1,573	Met	65	-34	46	1,038
9. Stock of PGE arrears to the domestic private sector (ceiling)	862		322	Met	662	600	400	262
10. Number of families in the first three income deciles nationwide covered by cash transfer programs (floor)	1,192,713		1,192,883	Met	1,212,984	1,228,660	1,244,336	1,260,012

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.
2/ Staff report for the EFF Request.
3/ Adjusted for oil prices and disbursements from multilateral institutions.

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

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

These four performance criteria will be monitored continuously.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

Definitions

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

6. The non-oil primary balance of the PGE is defined as the total revenues of the PGE excluding oil revenues and interest revenue, minus total non-oil expenditure of the PGE excluding interest expense.

7. Non-oil primary revenues are recorded on a cash basis. Revenues explicitly included are:

- Tax revenues (ingresos tributarios); and
- Other revenues (otros ingresos), including transfers, dividends, administrative fees, proceeds from asset monetization, and other.

8. Non-oil primary expenditures are recorded on an accrual basis. Expenditures explicitly included are:

- Wages and salaries (sueldos y salarios);
- Purchases of goods and services (compra de bienes y servicios);
- Transfers to international organizations, decentralized autonomous governments (GADs), IESS, other social security institutions (ISSFA and ISSPOL), SOEs, and the private sector. Transfers to private sector explicitly include the "account 99" (cuenta 99) expense items;
- Social assistance benefits;
- Employment-related social benefits; and
- Transactions in nonfinancial assets.

9. Estimated transfers to the IESS for healthcare expenses. PGE transfers to the IESS will include US$337 million in accrued estimated expenses for 2024. This estimated amount will increase every year in line with projected average annual CPI inflation and will be updated as soon as the agreement on the treatment of future healthcare expenditures between MEF and IESS is operational.

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

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

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

Monitoring

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

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

Definitions

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

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

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

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

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

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

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

18. **Estimated transfers to the IESS for healthcare expenses.** PGE transfers to the IESS will include US$337 million in accrued estimated expenses for 2024. This estimated amount will increase every year in line with projected average annual CPI inflation and will be updated as soon as the agreement on the treatment of future healthcare expenditures between MEF and IESS is operational.

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

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

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

Monitoring

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

Adjustors

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

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

Table 3. Ecuador: Oil Price – Program Assumptions

	Nov. 2024
Ecuador mix crude oil price (US$ per barrel)	68.52

Sources: Ministry of Finance and IMF staff estimates.

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

Definitions

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

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

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

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

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

Monitoring

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

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

Adjustors

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

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

	Dec. 2024	Apr. 2025
Total external borrowing consistent with program targets 1/	0.0	0.0

1/ Cumulative from January 1 of each year.

29. Adjustor on disbursements from the IMF and other multilateral institutions[1]. The floor on the accumulation of NFPS deposits will be adjusted upward/downward by the amount of the excess/shortfall in program loan disbursements from the IMF and other international financial institutions (IFIs, comprising the IDB, World Bank, CAF, and FLAR), relative to the baseline projection reported in Table 6. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are freely usable for the financing of the NFPS budget operations.

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

	Dec. 2024	Apr. 2025
Expected disbursement of IMF credit 1/	1,500	417
Expected disbursements of program loans by other IFIs 1/	2,600	400

1/ Cumulative from January 1 of each year.

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

[1] Multilateral institutions refer to institutions with more than one official shareholder. This classification follows the authorities' definition which may not necessarily align with the creditor classification treatment for the purposes of IMF policies.

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

Definitions

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

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

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

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

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

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

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

Coverage

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

Monitoring

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

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

Definitions

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

Monitoring

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

INDICATIVE TARGETS (IT): DEFINITION OF VARIABLES

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

Definitions

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

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

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

- Tax revenues of the PGE and of GADs;

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

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

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

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

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

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

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

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

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

Monitoring

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

Adjustors

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

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

Definitions

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

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

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

Monitoring

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

Adjustors

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

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

Definitions

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

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

Specifically excluded from gross international reserves are:

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

57. Gross reserve-related liabilities comprise:

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

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

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

The deposits of other financial institutions at the BCE comprise:

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

Adjustors

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

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

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

Monitoring

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

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

D. Ceiling on the Stock of PGE Payment Arrears to the Domestic Private Sector

Definitions

63. The PGE is defined as above.

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

Monitoring

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

E. Floor on Social Assistance Scheme Coverage

Definitions

66. Social assistance coverage of poor families for the purpose of the program is computed as the sum of all active beneficiary family units in the three bottom deciles of the income distribution that benefit from at least one social assistance programs. Poor beneficiary families are defined according to information in the RS2018. Coverage expansion will occur through the following social assistance programs, that are in force on the date of issuance of the program: Bono de Desarrollo Humano (BDH), BDH con Componente Variable (BDH-V), Bono Joaquin Gallegos Lara, Pension Mis Mejores Años, Pensión Toda Una Vida, Bono para niños, niñas y adolescentes en situación de Orfandad por muerte violenta de la madre o progenitora, Cobertura de Contingencias, Bono para personas afectadas por eventos de origen natural o antrópico, and Bono 1000 Días, and others monetary transfers that might set into place for strengthen the social protection net. The level (size) of benefits, understood as number of family units, of any of the cash transfer programs in the bottom three deciles of the income distribution should not be reduced (with respect to their level on May 1, 2024).

Monitoring

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

OTHER INFORMATION REQUIREMENTS

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

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

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

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

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

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

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

Monitoring

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

Daily

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

Weekly

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

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

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

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

Monthly

78. Data on stocks and flows (above- and below the line), disaggregated by each subsector of the NFPS (budgetary central government and CFDD, rest of the central government, subnational governments, SOEs and social security) using the templates previously agreed with the IMF team. One template with the detailed data on revenues and expenditures of each of the subsectors and the consolidations between them, and the other template data by subsectors with a summary of above the line data and the comparison with the below the line data for monitoring the statistical discrepancy and data on stocks of financial assets and liabilities and the financing (below the line data) also by subsectors.

79. NFPS financing data compiled based on the detailed information on financial assets and liabilities, namely, deposits, loans, securities, equities, other accounts payable including oil related, and their amortizations, disbursements, and arrears accumulation.

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

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

82. Data on social spending, including Bono de Desarrollo Humano (BDH), Bono de Desarrollo Humano con Componente Variable (BDH-V), Personas con discapacidad, Pensión para Adultos Mayores, Mis mejores años, Pensión Toda Una Vida, and Bonos Mis Primer 1000 Dias, Bono para niños, niñas y adolescentes en situación de Orfandad por muerte violenta de la madre o progenitora, Cobertura de Contingencias, Bono para personas afectadas por eventos de origen natural o antrópico, as well as Bono Joaquin Gallegos Lara.

83. Data to determine the latest net SDR position at the end of each month. For the central government, this would include total external liabilities with the SDR department. For the central bank, this would include total SDR holdings. All reported data should be denominated in SDRs.

84. Provision of detailed information on collateralized debt and debt with similar arrangements, such as repo transactions and other similar debt involving the pledge, sale/resale, or encumbrance of assets within 2 weeks of signing new contracts. The information on collateralized debt and debt with similar arrangements will include all contracts related to such debt; information on the escrow accounts overseas that serve as collateral; and detailed information for each creditor on the stock of debt, its terms (including on the amounts pledged, sold/resold, or encumbered, as well as any related commitments or obligations to purchase related or unrelated goods and/or services from the lender), and expected repayment schedules.

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

Quarterly

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

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

INTERNATIONAL MONETARY FUND

ECUADOR

December 9, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In Consultation with other Departments)

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FUND RELATIONS

(As of November 30, 2024)

A. Financial Relations

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	697.70	100.00
IMF's Holdings of Currency (Holdings Rate)	6,988.51	1,001.65
Reserve Tranche Position	28.53	4.09

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	957.07	100.00
Holdings	15.29	1.60

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Emergency Assistance[1]	117.43	16.83
Extended Arrangements	6,201.91	888.91

Safeguards Assessment: The 2024 update safeguards assessment is in the process of being finalized. The BCE has significantly strengthened its safeguards since the 2019 assessment, notably through the 2021 COMYF reforms, which prohibited the BCE financing of the sovereign and quasi-fiscal operations and established a "backing rule" to fully cover the BCE monetary liabilities and government deposits with international reserve assets. Recently, the BCE has taken steps to ensure the continued quorum capacity of the BCE Board and the full and permanent constitution of the Audit Committee. Further work is needed to align the BCE annual financial statements with International Financial Reporting Standards, in particular for BCE-owned public debt. An update fiscal safeguards review is currently underway. The main finding is that Ecuador's PFM system provides broadly adequate safeguards for the use of Fund resources for budget support. Some progress has been made since the last review in 2021, notably in the areas of financial and macro-fiscal reporting, mitigating the risk of misreporting. The Treasury Single Account (TSA) at the BCE is comprehensive and with adequate controls. In line with existing priorities for PFM reform, further work is needed to improve treasury and budget management to prevent arrears accumulation.

B. Nonfinancial Relations

Exchange Rate Arrangement: Ecuador adopted the United States dollar as its official currency on March 9, 2000, at an exchange rate of 25,000 sucres per U.S. dollar. The de jure and de facto

[1]Emergency Assistance may include ENDA, EPCA, and RFI.

exchange rate arrangement is an arrangement with no separate legal tender; there are local coins (small denomination) in circulation in the amount of about US$80 million.

Article VIII Issues: Ecuador has accepted the obligations of Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement. Ecuador maintains an exchange restriction arising from a tax on transfers abroad (*Impuesto a la Salida de Divisas*, ISD) applicable, inter alia, for the making of payments and transfers on current international transactions. In 2024, the ISD rate was increased from 3.5 percent to 5 percent to address the rapid deterioration of the reserve position amid weak public finances and continued financial account pressures. The exchange restriction arising from the Ecuador participation in the SUCRE (*Sistema Unitario de Compensación Regional de Pagos*) regional payment system is considered eliminated as under this agreement Ecuador has no outstanding balances, operations were terminated, and the internal regulatory framework for such transactions was repealed in March 2022.

Financial Sector Assessment Program (FSAP): The most recent FSAP took place in 2023. The staff report is available at: Ecuador: Financial System Stability Assessment.

Last Article IV Consultation: On September 29, 2021, the Executive Board concluded the 2021 Article IV consultation and the combined second and third reviews of the extended arrangement under the Extended Fund Facility (EFF). The staff report is available at: https://www.imf.org/en/Publications/CR/Issues/2021/10/07/Ecuador-2021-Article-IV-Consultation-Second-and-Third-Reviews-Under-the-Extended-482093

Technical Assistance:

FAD Budget Execution, November 2024

FAD Fiscal Safeguards Review, November 2024

FAD Cash Management, October 2024

ICD Macroeconomic Framework, September/October 2024

MCM Special Resolution Regime and Deposit Insurance, August/September 2024

MCM Stress Testing Models of Solvency and Liquidity Risk, August/December 2024

FAD Cash Management, August 2024

STA National Account Statistics, July/August 2024

MCM Stress Testing, July/August 2024

FIN Safeguards Assessment, July 2024

STA Government Finance Statistics, June 2024

STA Price Statistics, May 2024

ICD Macroeconomic Framework, May 2024

ICD Macroeconomic Framework, January 2024

STA National Accounts: Re-basing GDP, November 2023

ICD Macroeconomic Framework, November 2023

STA Prices Statistics, September 2023

STA Quarterly National Accounts and GDP rebasing, September 2023
STA National Accounts: re-basing GDP, September 2023
ICD Macroeconomic Framework, August 2023
STA External Sector Statistics (BOP), August 2023
ICD Macroeconomic Framework, July 2023
FAD RA-GAP – Tax Gap Analysis, July 2023
STA Monetary and Financial Statistics, June 2023
ICD Macroeconomic Framework, May 2023
MCM Financial Sector Assessment Program (FSAP), May 2023
STA Government Finance Statistics, February/March 2023
ICD Macroeconomic Framework, January 2023
FAD Public Investment Management Assessment (PIMA), February 2023
FAD Revenue Administration (TADAT), January 2023
STA Government Finance Statistics and Public Debt Statistics (LTX), Nov. 2022/Oct. 2023
STA External Sector Statistics (BOP), August 2022
STA Quarterly National Accounts and GDP Rebasing, August 2022
LEG Conflict of Interest Legislation, July 2022
MCM Cybersecurity, February 2022
STA National Accounts: Re-basing GDP, April 2022
STA Government Finance Statistics, July/August 2022
STA Government Finance Statistics, February/March 2022
LEG Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), November 2021
LEG Conflict of Interest Legislation, December 2021
STA Government Finance Statistics, December 2021
FAD Medium-Term Fiscal Framework (MTFF), September 2021
MCM Banking Stress Testing, July/November 2021
STA Government Finance Statistics, November 2021
FAD Fiscal Risks, July 2021
STA Government Finance Statistics, July 2021
MCM Banking Stress Testing, January 2021
FAD Revenue Administration, March 2021
STA Government Finance Statistics, April 2021
LEG Developing Implementation Regulations for COPLAFIP, December 2020
MCM Medium-Term Debt Strategy, November 2020
STA Government Finance Statistics, September/October 2020
FAD Tax Expenditure, April 2020
FAD Revenue Administration and Tax Procedures, June/July 2019
STA External Sector Statistics, August/September 2019

STA Export and Import Price Indices, July 2019

FAD PFM and Fiscal Rules, May 2019

FAD Customs Administration, March/April 2019

FAD Revenue Administration, March 2019

STA External Sector Statistics, January/February 2019

FAD Non-Resource Revenues, January/February 2019

FAD Wage Bill Reform, January 2019

MCM Debt Management, December 2018

STA National Accounts Statistics, November 2018

FAD Public Financial Management, September 2018

STA Government Finance Statistics and Public Debt Statistics, August 2018

STA Monetary and Financial Statistics, August/September 2017

STA Balance of Payments Statistics, August/September 2017

MCM Network Analysis Toolkit, January 2016

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

Development Bank of Latin America and the Caribbean: https://www.caf.com/en/countries/ecuador/

Statement by Andre Roncaglia, Executive Director for Ecuador,
Bernardo Acosta, Alternate Executive Director,
and Felipe Antunes, Alternate Executive Director
December 19, 2024

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

Context

2. **Ecuador made important progress in restoring macroeconomic stability and strengthening domestic institutions under the 2020 EFF, but vulnerabilities reemerged in 2023**. During the 2010s the country developed deep-rooted macroeconomic imbalances that the Ecuadorean authorities aimed to address with the support of an EFF arrangement in 2019. The pandemic compounded those imbalances. Consequently, the authorities cancelled the 2019 EFF and requested a successor program, the 2020 EFF, which they successfully completed in December 2022. The 2020 EFF yielded significant achievements, including restoring fiscal sustainability and advancing fundamental fiscal, monetary, financial, and anti-corruption legislations. However, in 2023, amid a complex political landscape, fiscal challenges reemerged and the reform momentum halted. With limited external financing sources, public sector deposits declined markedly, government domestic arrears rose well above historical averages, and international reserves fell sharply, resulting in a balance of payments need associated with pressures on the financial account.

3. **The current administration has taken crucial steps to address the fiscal and external imbalances, including by requesting and duly implementing a new Fund-supported arrangement**. The current government, which started its tenure in late November 2023, has taken decisive steps to strengthen macroeconomic stability. In early 2024, a VAT rate increase and other transitory revenue measures were implemented. In June, a price-setting mechanism for domestic sales of low-octane gasoline was adopted, leading to a gradual reduction of fuel subsidies. These policy actions were complemented by prudent expenditure execution. As a result, the severe liquidity stress that the economy experienced in late 2023 and early 2024 has considerably subsided, as reflected in the rebuilding of fiscal buffers, the clearance of some domestic arrears, the growth of deposits in the financial sector, and the pronounced upswing of international reserves.

4. **Ecuador has faced two severe exogenous shocks in 2024**. First, the country continues to grapple with an unflinching security crisis which has abruptly turned the nation into the deadliest one in Latin America and has dampened economic activity, mainly by altering investment and consumption decisions. Second, climate change triggered an unprecedented drought that caused nationwide power outages, given that hydroelectric generation supplies about 75 percent of the country's electricity. In April and May, Ecuador faced 12 days of electricity shortages lasting

between six and 10 hours per day. Since September, the country has dealt with daily power outages lasting between six and 14 hours per day. As a result, in 2024 the population and industries have endured over 90 days of power outages, with considerable effects on economic activity.

Program Performance

5. **Program implementation has been strong, despite the challenging context**. All quantitative performance criteria and indicative targets for the first review have been met with margins. Of the large number of wide-ranging structural benchmarks for this review, nine have been met and two have been reset. In addition, the authorities have proposed four new ones. The robust implementation of the EFF arrangement, amid the severe insecurity and electricity crises, showcases the authorities' strong ownership of the program.

Recent Economic Developments

6. **The severe exogenous shocks have taken a toll on economic activity, while the external sector has improved markedly**. As a result of the ongoing security problems and especially the electricity crisis, IMF staff foresees an economic downturn of 0.4 percent in 2024 and a modest recovery of 1.6 percent in 2025. If the electricity shortages are resolved soon, economic activity is likely to have a more pronounced rebound in 2025. In this context, inflation has remained low and is projected to stand at 2.8 percent at the end of 2024, despite the effects of the VAT rate hike from 12 percent to 15 percent and the upward adjustment of the gasoline prices. Supported by strong export growth, declining imports, and robust remittance flows, the current account balance is projected to reach 4.4 percent of GDP in 2024, significantly exceeding the 2.1 percent of GDP envisaged at program approval as well as the average of 1.7 percent of GDP over 2019-23. That result, coupled with the disbursements from international financial institutions, has contributed to a substantial increase in gross international reserves from US$4.5 billion at end-2023 to US$7.7 billion in mid-December 2024, greatly surpassing the US$5.2 billion expected for end-2024 at program approval.

Fiscal Policy and Debt Management

7. **In 2024, the authorities have achieved a sizeable frontloaded fiscal consolidation**. The fiscal plan supported by the EFF arrangement is anchored on a consolidation of the non-oil primary balance including fuel subsidies of 5.5 percent of GDP over the program period. The authorities' met with overperformance the fiscal targets set for this review and are on track to delivering a consolidation of the non-oil primary balance including fuel subsidies of 2.1 percent of GDP in 2024 alone, more than one-third of the adjustment envisaged for the entire four years of the EFF arrangement. As a result of these efforts, the overall fiscal deficit is expected to decline to 1.8 percent of GDP in 2024, halving the overall deficit of 3.6 percent of GDP in 2023. Public debt is expected to continue declining from 55.4 percent of GDP in 2023 to the 40 percent of GDP target for 2032 set in the organic budget code.

8. **Relevant measures were taken to help to address longstanding fiscal weaknesses**. The Ex-Post Evaluation of the 2020 EFF, considered by the Executive Board in November 2023, noted that "low non-oil revenues remain a critical vulnerability" and concluded that "raising non-oil revenue in a growth-friendly manner therefore remains a critical reform priority." The authorities have successfully increased non-oil revenue in 2024. Tax revenue is expected to increase by about 15 percent in 2024, which represents an annual rise of around 1.8 percent of GDP. The reform of the price-setting mechanism of low-octane gasoline effectively reduced decades-long fuel subsidies, which were distributionally regressive, environmentally harmful, and contributed to criminal activities, including smuggling. Both these measures –the VAT rate increase and the gasoline pricing reform– have lowered the budget's exposure to volatile oil prices.

9. **These meaningful fiscal reforms were adopted ensuring adequate social and political support, thereby strengthening their sustainability over time**. The last time the VAT rate was increased in Ecuador was in 2016: it rose from 12 percent to 14 percent and the hike lasted only one year. Meanwhile, fixed fuel prices had been politically untouchable in Ecuador for decades. In 2019, the authorities attempted to cut fuel subsidies, but the measure unleashed violent popular protests that almost toppled the government, and the policy was reversed. In 2020, the authorities set an automatic fuel pricing formula to gradually reduce subsidies, which led to considerable progress in reducing fuel subsidies until social unrest in 2021 prompted the suspension of the automatic fuel pricing formula and the resumption of fixed prices, halting the reform momentum. This time around, building on the lessons learned from the previous experience, the authorities reintroduced an automatic gasoline pricing formula and, in addition, took ample steps to design sensible compensation mechanisms and engage the sectors affected by the reform to increase the public's acceptance of the measure. In a tough year for the population, the authorities managed to increase three percentage points in the VAT rate and reduce gasoline subsidies without leading to destabilizing social unrest. The authorities' decisive actions and careful planning to make the measures socially viable and sustainable over time are a crucial element of the strong program performance, even more so considering that large segments of the population were likely experiencing adjustment fatigue after multiple years of fiscal consolidation.

10. **In addition to strong fiscal measures, the authorities have taken key actions to ensure that fiscal consolidation follows the program's envisaged trajectory**. In October, they published an updated Medium-Term Fiscal Framework (MTFF) in line with program targets. In November, they shared with Fund staff their plan to mobilize non-oil fiscal revenues, which aims to stabilize revenues at the higher level by replacing the transitory measures enacted in 2024 with permanent high-quality ones. They also developed a plan to continue to clear and prevent the resurgence of domestic arrears, which became an acute problem with significant negative spillover effects in late 2023 and early 2024. In early December, they enacted regulations to ensure that the 2025 fiscal plan remains in line with program targets and the MTFF commitments. They have started actions to improve the efficiency and transparency of public procurement, in line with their strategy of achieving a gradual but durable reduction of current spending as a share of GDP. The authorities are committed to establishing a plan to prevent future arrears of the government's

healthcare obligations to the Social Security Fund. They will also continue strengthening public financial management –including cash flow management and fiscal risk analysis– and revenue administration.

11. **The financing strategy has relied on multilateral and bilateral sources and aims at gradually regaining market access starting in the second half of 2025**. The 2024 financing plan has been fully executed and relied on critical support from IFIs and bilateral creditors. In addition, as a result of the authorities' active debt management strategy, this week (the third week of December) they announced a debt-for-nature swap, which will provide dual benefits: a commitment to allocate crucial resources to protect the Amazon rainforest while reducing the stock of public debt, thus strengthening debt sustainability. In October, the authorities published their Medium-Term Debt Management Strategy in line with program targets. The program is fully financed for 2025, with firm financing commitments from multilateral and official bilateral creditors. While the authorities acknowledge that market access remains elusive at current sovereign spreads of around 1,200 basis points, they continue to envisage good prospects of regaining market access in the second half of 2025, once the medium-term horizon becomes clearer and more stable after the general elections.

Social Protection Policy

12. **The expansion of social assistance programs continues to strengthen the social safety net**. A remarkable expansion of social assistance programs was achieved during the 2020 EFF arrangement, increasing the number of households in need receiving cash transfers from 30 percent to 80 percent. Building upon this progress, the authorities have increased the coverage of cash transfer programs in the lowest three deciles of the income distribution in line with program targets. They also elaborated a comprehensive plan to revamp the social registry with the aim to better expand and target the existing cash transfer schemes.

Financial Sector Policy

13. **The authorities are committed to maintaining financial sector stability**. They acknowledge that, while the financial system remains well-capitalized and stable, non-performing loans have risen amid the weak economic environment and the financial soundness of some institutions has deteriorated. They are committed to addressing these emerging issues as well as longstanding sector shortcomings, while also closely monitoring institutions and undertaking actions within the legal framework. Given the impact of the electricity crisis in the financial sector, the authorities adopted temporary regulatory forbearance measures, but going forward they are committed to ensure proper loan classification and provisioning. In line with the 2023 FSAP recommendations, a Financial Stability Committee was established in August. It has enhanced coordination among agencies involved in financial sector oversight and regulation. Furthermore, the authorities will establish an inter-institutional group within the Financial Stability Committee with the purpose of strengthening the resolution frameworks. The group will develop resolution

reforms and strategies to effectively address unviable institutions. On the prudential side, in November the authorities issued macroprudential regulations on bank capital buffers. They remain committed to reforming the complex system of caps on lending rates –which has led to distortions and restrictions in the credit market. The are also committed to developing the domestic debt market and continuing to implement the FSAP recommendations.

Structural Reforms

14. **The authorities' top priority is to restore the electricity supply in a reliable way and strengthen resilience to climate change**. As the most severe drought in decades has triggered the electricity crisis, the authorities have developed a strategy to boost electricity generation with short- and medium-term actions while strengthening resilience to climate change. They reformed legislation to allow greater private sector participation in electricity generation and increased public spending in emergency electricity generation solutions, mainly through expenditure reprioritization to ensure adherence to the existing fiscal envelope. In the medium-term, they plan to reliably increase generation capacity by diversifying generation sources with projects financed with a mix of public, public-private partnerships, and private funds. They will also strengthen the electricity interconnection with Peru through a strategic infrastructure project financed by the Inter-American Development Bank. In addition to these efforts to create a more resilient energy supply going forward, they have assigned high importance to proactively enhancing adaptation to climate change, reducing greenhouse gas emissions, and continuing to diversify the economy. Given the considerable climate investments needed in Ecuador, they are exploring options to catalyze climate financing.

15. **Combatting crime and promoting licit, efficient, and inclusive markets are crucial policy objectives to boost potential economic growth**. The authorities are mindful that the unprecedented surge in insecurity –linked to organized crime and drug-related violence– has taken a considerable human and economic toll. They have developed a multipronged approach to effectively combat insecurity, which goes beyond implementing strong direct policy actions to tackle it. Given that violent crime rises with governance deficiencies, a new AML/CFT law in line with FATF standards was unanimously approved in July. This legislation will enhance financial integrity tools and support efforts to mitigate the risk of illicit flows –including those related to financing organized crime. The authorities are also streamlining regulatory processes and licenses to unlock the significant potential of industries such as formal mining and energy, alongside efforts to promote more flexible and inclusive labor arrangements. In addition, they have assigned high priority to improving transparency, accountability, and ultimately efficiency of SOEs, with the purpose of fostering market efficiency and mitigating conflicts of interest and corruption. In that regard, they are on track to completing the 2019 and 2020 financial audits of the state-owned oil company. These actions and others will help to reduce crime and boost medium-term economic growth.

Concluding Remarks

16. **Ecuador has considerably strengthened macroeconomic stability, despite the severe security and electricity crises**. As a result of the authorities' swift and well-designed measures, the economy stands on a much stronger footing in December 2024 than a year ago. Recent and forthcoming actions confirm the authorities' commitment to a sound fiscal consolidation path and their overarching goal of reducing the dependency of public finances on volatile oil revenues. The authorities reaffirm their full commitment to the objectives of the EFF arrangement as well as their ownership of the reform agenda, including during the upcoming presidential and legislative elections in the first half of 2025. The Fund has been a crucial partner of Ecuador and the authorities are grateful for its continued financial, policy, and technical support.