



ECUADOR

December 2023

EX-POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2020 EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

The following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 29, 2023. Based on information available at the time of these discussions, the staff report was completed on November 14, 2023.
- A **Statement by the Executive Director** for Ecuador.

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

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APPENDIX II: Press Release

IMF Executive Board Discusses the Ex-Post Evaluation of Ecuador's Exceptional Access Under the 2020 Extended Fund Facility

FOR IMMEDIATE RELEASE

Washington, DC – November 29, 2023: The Executive Board of the International Monetary Fund (IMF) met today to discuss the Ex-Post Evaluation (EPE) of Ecuador's Exceptional Access Under the 2020 Extended Fund Facility (EFF).

The 2020 EFF arrangement approved by the Executive Board on September 30, 2020 ([Press release No. 20/302](#)) followed Fund emergency support to Ecuador in May 2020 and the previous EFF arrangement approved by the IMF Executive Board in March 2019 that was canceled in May 2020. The total amount of arrangements implied exceptional access to Fund resources and therefore led to an EPE of the 2020 EFF. The EPE reviews the program design and outcomes, examines the application of Fund policies, and assesses the achievements under the 27-months arrangement.

In the early months of the pandemic, the Ecuadorian authorities used the Fund's Rapid Financing Instrument (RFI) to meet urgent balance of payment needs stemming from the outbreak of COVID-19 and to support healthcare and social protection. They also conducted a successful debt exchange with external bondholders. The 2020 EFF arrangement aimed to support Ecuador's policies to stabilize the economy and protect lives and livelihoods, expand the coverage of social assistance programs, ensure fiscal and debt sustainability, and strengthen domestic institutions. The EFF concluded on December 14, 2022.

The EPE report finds that the EFF program achieved its primary objective of restoring macroeconomic stability against the backdrop of a historic economic downturn. Most of the program conditionality was eventually implemented, despite some delays to fiscal and structural reforms. The authorities strengthened fiscal buffers, taking advantage of higher oil prices. Fiscal structural reforms comprehensively revamped Ecuador's fiscal framework, although their successful implementation will hinge on building and retaining institutional capacity. Passing the COMYF reform was a major achievement to strengthen the Central Bank's independence and the dollarization regime. Nevertheless, market access has not been restored due to political uncertainty and remaining large fiscal vulnerabilities, including the strong reliance of government revenues on volatile oil prices. The report also finds that extensive technical assistance provided to the authorities has helped to strengthen capacity in critical areas, especially fiscal accounting. Ultimately, reform efforts will need to be reinvigorated to ensure fiscal sustainability and restore market access. Finally, the EPE finds that Fund policies and procedures for financing under exceptional access were followed.

Executive Board Assessment¹

Executive Directors welcomed the ex-post evaluation (EPE) of Ecuador's 2020 Extended Fund Facility (EFF). They noted that the large and frontloaded financing provided to Ecuador was instrumental in supporting the country during the COVID-19 pandemic, stabilizing the economy against the background of a historic economic downturn, and accommodating the mounting financing needs, especially spending on health and social protection. Directors also welcomed that the program catalyzed financing from other international financial institutions and a successful debt restructuring, which was critical for the success of the program.

Directors agreed that policy implementation under the EFF was broadly in line with program objectives. They welcomed the implementation of the reform agenda to boost fiscal resilience and strengthen institutions, including amendments to the monetary and financial code that helped strengthen central bank independence and the dollarization regime. However, Directors noted that vulnerabilities persist and more reforms will be needed to restore market access which remains elusive. In this context, they acknowledged that the program was implemented in a fragmented political environment and highlighted the importance of contingency planning in initial program design when uncertainty is high, as well as of appropriate political assurances to protect against policy reversals.

Directors observed that saving the windfall from higher-than-expected oil prices and expenditure restraint supported by the program allowed Ecuador to rebuild fiscal and external buffers. However, they underscored that non-oil revenues remain relatively low and noted that conditionality could have put greater emphasis on the quality and composition of fiscal consolidation. Directors considered that the suspension of the fuel subsidy reform following the social unrest and the redesign of the tax reform during the program hindered the authorities' consolidation efforts and allowed vulnerabilities to linger. In this context, some Directors pointed out the significantly frontloaded disbursements and backloaded conditionality, which pushed some of the fiscal consolidation beyond the program duration, noting the staff's assessment that reform implementation could have benefited from extending the program. However, Directors generally agreed that frontloading the disbursements was necessary for program success, and some Directors supported the authorities' view that an extension was not necessary as the program achieved its objectives. More careful sequencing of the reforms and clearer communication with regard to the social measures implemented to offset the impact of the fuel subsidy reform could have also been beneficial.

Directors welcomed the EPE's finding that the exceptional access policy was applied in line with Fund practices. However, they agreed that, while Ecuador clearly met criteria for exceptional access at the start of the program, assessment of some exceptional access criteria, particularly with regard to market access and implementation capacity, became increasingly difficult as the program proceeded. In this regard, they noted that the EPE's findings should provide a valuable input for future implementation of the EA framework and looked forward to the outcomes of the ongoing IEO evaluation.

¹ At the conclusion of the discussion, the Managing Director, as Chairman 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 summing ups can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Directors noted that the program was a good example of successfully integrating capacity development and program design and encouraged continued collaboration between the authorities and the Fund.



ECUADOR

EX-POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2020 EXTENDED FUND FACILITY

November 14, 2023

EXECUTIVE SUMMARY

The Executive Board approved a 27-month Extended Fund Facility (EFF) for Ecuador on September 30, 2020. The EFF supported program built on an earlier EFF arrangement in 2019, which had been canceled, and came on the heels of a Rapid Financing Instrument (RFI) purchase in 2020. With a total access of US\$6.5 billion, the 2020 EFF brought Ecuador's cumulative access to 897 percent of quota, triggering exceptional access (EA). After five purchases and with some of the reviews combined, the arrangement expired in December 2022.

The 2020 EFF aimed to maintain macroeconomic stability during the COVID-19 crisis, restore fiscal sustainability, and strengthen domestic institutions. To achieve these objectives, program design centered on reducing public debt through a combination of fiscal consolidation and debt restructuring, reforms to the fiscal framework, measures to strengthen transparency and anti-corruption efforts and governance of public institutions, notably the Central Bank. Purchases under the EFF arrangement were heavily frontloaded on account of large initial financing needs and lack of alternative funding.

The EFF arrangement successfully stabilized the Ecuadorian economy against the backdrop of a historic economic downturn. Macroeconomic outturns during the EFF program generally exceeded expectations at program onset, and policy buffers were rebuilt to levels above targets by program conclusion. The debt target under the program was achieved ahead of schedule, supported by stronger than expected nominal GDP growth and higher oil prices. The social safety net was expanded considerably, while poverty and inequality indicators improved. Implementation of landmark structural reforms, with crucial support from the Fund's technical assistance, laid the foundation for stronger institutions, although deeper and more comprehensive reforms are needed to raise Ecuador's long-term growth potential.

However, low non-oil revenues remain a critical vulnerability owing to changes in the program's fiscal strategy in response to Ecuador's political realities. After the 2021 presidential election, the authorities abandoned the planned increase in VAT, which would have raised non-oil revenues, and shifted the planned composition of fiscal consolidation to rely more on expenditure cuts, which proved difficult to sustain. Civil unrest ultimately prompted the authorities to stop the fuel subsidy reform, a key policy which predated the 2020 EFF but was an important component of the planned fiscal adjustment. Although the improvement in the overall fiscal balance was close to the program objectives, it primarily reflected the higher oil balance, while indicators of underlying fiscal consolidation underperformed initial program targets. Market access remains elusive and accumulated buffers have started to erode.

Fund policies and procedures for financing under exceptional access were followed. The application of the Exceptional Access Framework (EAF) was consistent with Fund policies. The assessment of EA criteria required an increasingly difficult balancing act over the course of program duration and staff judgement was appropriately applied. In hindsight, however, there is room to strengthen assessment for some criteria. Program-related risk management was consistent with Fund policies, comprising appropriate contingency planning, a safeguards assessment, a fiscal safeguards review, and support from ORM.

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WHD and SPR

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INTRODUCTION

1. This report evaluates Ecuador’s 2020 Extended Fund Facility (EFF) arrangement under the Ex-Post Evaluation (EPE) Policy. The 2020 EFF was the third engagement between the Fund and Ecuador in a short period of time. In March 2019, the Board approved a three-year EFF (2019 EFF) with total access of US\$4.2 billion (435 percent of quota). Following the discovery of serious statistical deficiencies in Ecuador’s fiscal data collection that resulted in misreporting and the COVID-19 shock, which necessitated a significant recalibration of the program, the authorities canceled the 2019 EFF. To cover immediate needs arising from the pandemic, the authorities requested a Rapid Financing Instrument (RFI) purchase of US\$643 million (67.3 percent of quota), which the Board approved on May 2, 2020. The Board then approved the 27-month EFF arrangement (2020 EFF) with a total access of US\$6.5 billion for Ecuador on September 30, 2020. The 2020 EFF expired in December 2022 with purchases in five installments instead of eight as originally planned, and with some of the reviews combined. Together with the outstanding obligations from the 2019 EFF and the RFI, the 2020 EFF put Ecuador’s cumulative access at 897 percent of quota, above exceptional access (EA) limits, triggering the need for an EPE within a year after the conclusion of the arrangement.

2. In line with the Ex-Post Evaluation policy, this report reviews the program design and outcomes, examines the application of Fund policies, and assesses the achievement of program objectives. There are two main elements to the report. First, it examines whether the program strategy, design and financing were appropriate to achieve the overall program objectives and whether justifications of exceptional access were consistent with Fund policies (IMF, 2010). Second, the report takes stock of program outcomes and assesses whether program objectives were achieved, with the goal to draw lessons for future Fund engagements with Ecuador as well as for the design of Fund programs more generally.

3. The report is structured as follows. First, it describes the context of the 2020 EFF, starting with the long-standing vulnerabilities and imbalances of the Ecuadorian economy that gave rise to the canceled 2019 EFF. Second, it examines the program strategy and design, and assesses program performance against the initial objectives. Third, the report evaluates whether Fund policies and procedures were followed, especially in the application of EA criteria and whether risks to the Fund were appropriately dealt with. Based on the analysis, the report presents an assessment of the role of the Fund in managing the macroeconomic crisis in Ecuador, the program ownership of the Ecuadorian authorities and how the shifting political developments impacted the performance under the program. The report concludes by drawing some lessons from the experience with the 2020 EFF for future design of Fund programs.¹

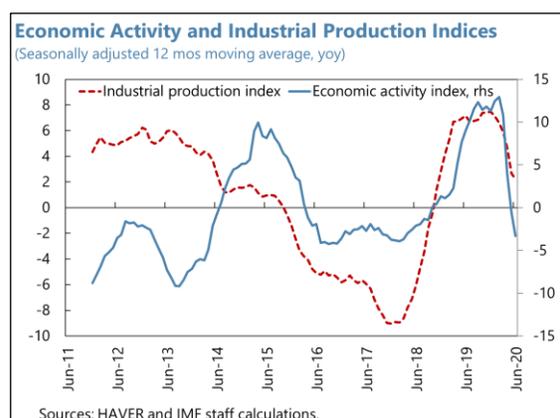
¹ EPEs would not normally be expected to review the decision-making process that led to the approval of the arrangement as the IEO is better placed to consider the roles of staff, management, and members of the Board. See IMF (2010).

CONTEXT

4. Ecuador is a fully dollarized oil exporter that experienced a sharp decline in growth after the 2014-15 oil shock. Ecuador exports mostly agricultural products and hydrocarbons, with oil revenues accounting for about 35 percent of fiscal revenue and goods exports, making it among the most oil-dependent economies in South America. Other important exports include fish, shrimp, and bananas. Ecuador adopted the US Dollar as its official currency as of January 10, 2000, following the 1998-99 economic crisis during which the country experienced a combined currency, fiscal and financial crisis. The dollarization regime helped Ecuador maintain financial stability and low inflation but contributed to relatively poor competitiveness, especially during episodes of dollar appreciation. During 2005-15, Ecuador experienced a decade of fast growth driven mostly by the rapid expansion of infrastructure investment and public sector dissaving. However, the 2014-15 oil price decline and the ensuing US dollar appreciation caused a sharp decline in economic growth, which persisted and was eventually magnified by the COVID pandemic (Figure 1).

5. Ecuador went through a prolonged period of unsustainable fiscal expansions and limited Fund engagement. Following the completion of the 2008 Article IV, the authorities ceased to engage with the Fund until mid-2014. Ecuador defaulted on its global bonds in 2008, but regained market access in 2014. The government used the large windfalls from high oil prices and new borrowing (including from China, Inter-American Development Bank, CAF² and directly from the Central Bank) to finance a large fiscal expansion. Although indicators of social inclusion and poverty improved, the unsustainable fiscal path undermined the viability of the de-jure dollarization regime due to Central Bank financing of the government. Wage growth greatly outpaced productivity, increasing the real effective exchange rate and compounding balance of payments pressures (Figure 1). The country reengaged with the Fund in 2014 and used the IMF's Rapid Financing Instrument to deal with the consequences of the 2016 earthquake. The 2019 EFF, although canceled in light of a misreporting incidence and the COVID emergency, laid important foundations for a much-needed reform agenda to address Ecuador's long-standing vulnerabilities and imbalances.

6. The twin shock from the COVID-19 pandemic and oil price collapse in 2020 compounded pre-existing vulnerabilities, putting the Ecuadorian economy under severe stress and leading the authorities to request a new EFF program. Ecuador was impacted by the COVID pandemic relatively early with the imposition of various containment measures, as well as the collapse in oil prices hurting government revenues. In 2020Q2, quarterly GDP

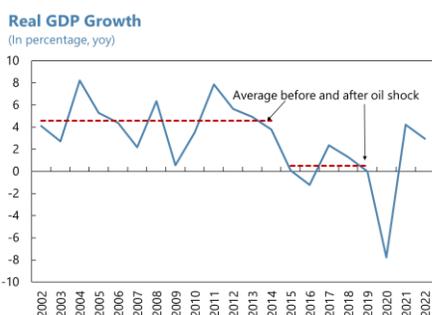


² CAF (formerly Corporacion Andina de Fomento) is the Development Bank of Latin America and the Caribbean.

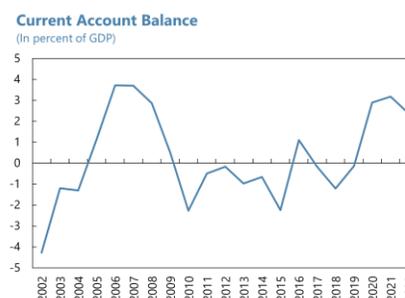
declined by 12 percent while the fiscal position deteriorated rapidly with the decline in both oil and non-oil revenues and the increase in expenditures related to the COVID crisis. With no other sources of funding available, public-sector deposits declined to about US\$3.5 billion in the summer of 2020, less than half their 2019 peak after the 2019 EFF purchases, and touching the lowest level since the aftermath of the 2015 oil price shock. Following the cancellation of the 2019 EFF, the authorities used the RFI facility to gain access to emergency resources at the onset of the COVID-19 crisis and requested a new EFF program in 2020.

Figure 1. Ecuador: Selected Economic Indicators

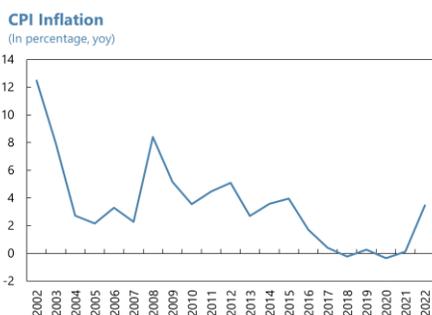
Economic growth was subdued in the 2010s...



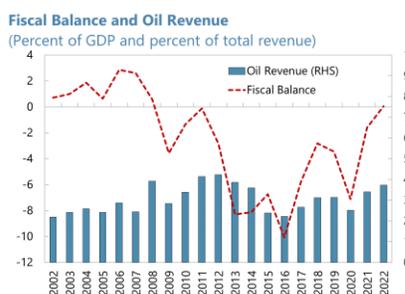
...and the current account turned to a persistent deficit.



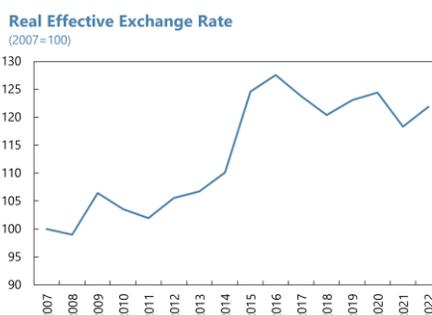
Inflation remained low with dollarization.



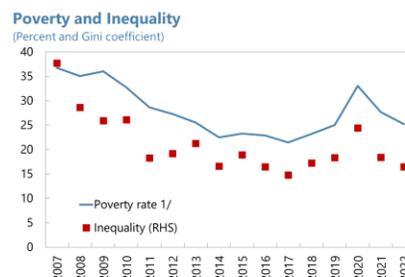
The fiscal deficit widened to unsustainable levels and reliance on oil revenue remained high.



Competitiveness deteriorated sharply in 2014 and has not recovered since.



Poverty and inequality indicators have been improving in the past 15 years but deteriorated sharply in COVID.

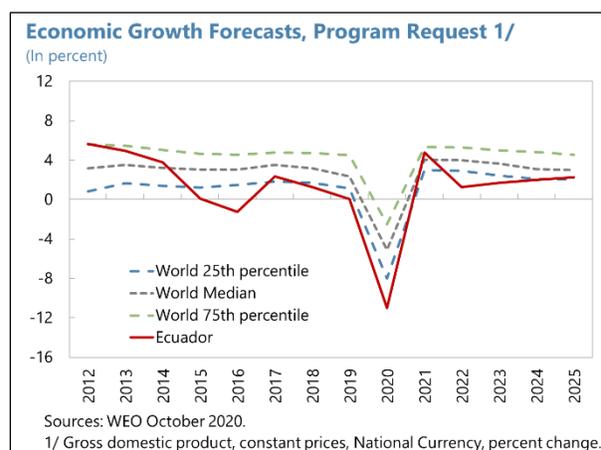


1/ Percent of households with monthly income below the poverty level. The poverty level was set by the authorities and was about \$89 in 2022.

PROGRAM STRATEGY AND DESIGN

7. The 2020 EFF arrangement aimed to i) mitigate the crisis by protecting lives and livelihoods and restore macroeconomic stability, and ii) ensure the sustainability of public finances and strengthen domestic institutions to lay the foundations for strong, job-rich, and long-lasting growth (IMF, 2020a). The first objective was to be achieved by providing the government with sufficient financing to maintain government operations at a time where revenues collapsed, spend on COVID-19 related measures (estimated at 0.8 percent of 2020 GDP) and expand the social safety net to lay the foundations for an inclusive recovery.³ To achieve the second, more long-term objective while ensuring a countercyclical fiscal stance during the crisis, the program envisaged a relatively ambitious and backloaded fiscal consolidation (5.5 percent of GDP over five years) coupled with a comprehensive reform of the organic budget code (COPLAFIP), the clearing of domestic payment arrears, as well as strengthening public procurement and transparency. Structural policies under the program focused on fiscal issues, combined with transparency and anti-corruption reforms. A key step was the passage of the monetary and financial code (COMYF) to strengthen Central Bank independence, governance, and revamp its balance sheet, which was severely weakened by past practices of Central Bank lending to the government. Much of the structural agenda reflected the objectives and priorities of the previous 2019 EFF arrangement.

8. The conservative macroeconomic framework and lack of alternative financing sources played a critical role in determining the size and phasing of the program request. The program request was made at the outset of the COVID-19 pandemic, with very pessimistic macroeconomic forecasts. Given the exceptional uncertainties surrounding the pandemic, the growth forecasts were broadly appropriate. Moreover, suffering from low oil prices, and having recently undergone debt restructuring on its external bonds (Box 1), Ecuador had limited fiscal space for providing support to the vulnerable amid the pandemic. Based on the low projected growth and backloaded fiscal consolidation, the external financing gap projections were realistic. As a result, the program featured a frontloaded purchase and relatively backloaded consolidation path to give the authorities space to mitigate the economic and human costs of the pandemic.



9. The program's quantitative conditionality was focused on monitoring fiscal targets in the context of limited statistical capacity. The key fiscal quantitative performance criterion (QPC)

³ A separate one-off targeted program of about US\$1 billion in COVID-19 transfers was implemented in 2020 to provide financial help to about 950,000 families in need.

was set on the overall balance of the central government and CFDD⁴, which was a narrower, but more reliable and timelier concept than the non-financial public sector balance (NFPS).⁵ Setting QPCs on the NFPS would have been more comprehensive, but would have required significant improvements to statistical capacity. The program also set a floor for the accumulation of the NFPS deposits at the Central Bank, which is a proxy for reserves accumulation, and imposed a prohibition on accumulating external payment arrears (in line with standard Fund policies) and Central Bank financing of the government (continuous performance criteria). There were also complementary indicative targets: (i) a floor on the non-oil primary balance including subsidies (NOPBS) of the NFPS, (ii) a floor on the overall balance of the NFPS, (iii) a floor on net international reserves and (iv) a floor on social spending measured as the coverage of lower income households by cash transfer programs (Table 1). At each program review, the targets for overall balance and deposits of the NFPS (ITs) were adjusted upward to save part of the projected oil windfall toward rebuilding policy buffer.

10. Structural conditionality was focused on strengthening fiscal institutions and was frequently modified during the program. There were in total 5 prior actions (PA) and 13 structural benchmarks (SB) at program request covering the main reform areas of fiscal institutions (8 SB and 1 PA) and transparency, anti-corruption and governance (3 SB and PA).⁶ Throughout the program, a number of structural conditionalities were added or revised, resulting in a cumulative total of 33 SB by the end of the Sixth Review. Program approval and subsequent reviews were based on the completion of prior actions (see below for details), often drawn from structural benchmarks whose implementation fell behind schedule. Relative to other EA programs, the 2020 EFF relied on significantly more SB (around 15 per year compared with an average of 11 per year in other EA programs, see Box 2 in IMF (2022)), put in place to address some of Ecuador's structural and institutional issues that were identified as important impediments to macro stabilization. The relatively larger set of SB also reflected the choice of stepwise implementation of big reforms, as well as the addition of corrective actions to address the misreporting case.

11. Staff originally envisaged seven reviews with test dates occurring every four months⁷, but policy changes required modifications to the original schedule. Only the First Review with end-September 2020 test date was completed as originally planned, at which point 61.5 percent of total financing had already been disbursed. As a result of the election timeline, the Second and Third Reviews were grouped with purchases based on end-April 2021 QPCs (accounting for 12.3 percent

⁴ CFDD - Cuenta de Financiamiento de Derivados Deficitarios is a special account from which the government finances purchases of fuel products, which are to be sold at subsidized rates.

⁵ An indicative target was set on the NFPS overall balance. Staff originally planned to transition to the QPC on the NFPS overall balance, which mapped directly into the program's debt aggregate, from August 2021 onwards, but this plan was first delayed owing to persistent lags in reporting and then dropped after the discovery of the misreporting incident.

⁶ Another SB was to complete the upgrade of the social assistance registry, complementing the IT on social safety net expansion.

⁷ At the end of April, August, and December throughout the program duration.

of total financing). Later on, in light of the unexpected suspension of the fuel subsidy reform and fiscal data misreporting, the Fourth and Fifth Reviews were also grouped, with purchases based on end-December 2021 QPCs (accounting for 15.3 percent of financing). That delay, in turn, prompted staff to propose a rephrasing of the remaining program reviews by cancelling the Seventh Review and making the Sixth Review (based on end-August 2022 QPCs) the last review of the program.

12. Fund engagement with Ecuador catalyzed significant debt restructuring (Box 1). In the request for RFI disbursement, staff noted that the twin shocks of the pandemic and the decline in oil prices severely undermined debt sustainability, but nonetheless assessed debt as “knife-edge” sustainable (IMF, 2020b). In July 2020, the authorities reached an agreement for a voluntary bond exchange targeting US\$17.4 billion in outstanding international bonds, which concluded on August 31st after authorities reached a Staff Level Agreement on the 2020 EFF, with the vast majority of bondholders agreeing to participate. The exchange resulted in providing financing in terms of interest savings of US\$5.7 billion over 2020-25 and a further savings of US\$5.6 billion in amortizations over 2022-25, exceeding the new Fund financing of US\$6.5 billion. Prior to program approval, the authorities concluded a reprofiling of credit lines with Chinese Development Bank (CDB) and China’s Eximbank, which together generated a cumulative cash flow relief of about US\$513 million over 2020-22.⁸

Box 1. 2020 Debt Restructuring in Ecuador

The need for debt restructuring arose after the twin shocks of COVID-19 and the subsequent oil price declines hit Ecuador. During the request for RFI in 2020, Ecuador’s public debt was already assessed as borderline “knife-edge” sustainable. Given the high risk of debt becoming unsustainable, in the context of the ongoing COVID crisis and declining oil prices, the authorities initiated a pre-emptive debt restructuring of outstanding bonds in April 2020 to achieve debt sustainability and secure further financing arrangement with the Fund. Ecuador announced a restructuring of its outstanding bonds in April 2020, and requested an initial consent solicitation on April 8, 2020 to, among other things, a standstill on payments falling due until August 15 to allow for time to negotiate a deeper restructuring. Ecuador also requested a debt treatment on Chinese bilateral debt.

Ecuador’s private creditor landscape was diverse, and most of Ecuador’s bonds had enhanced CACs. The consent solicitation was requested on ten bonds outstanding,¹ under New York law out of which nine had enhanced CACs. Considering the diversity of creditor base, three creditor committees were formed.² The bonds were restructured using a two-limb aggregated voting mechanism. Single limb aggregate voting was not used.³ Ecuador’s bond restructuring is a first example of reaching debt restructuring agreement using enhanced CACs.⁴ The market haircuts were 41 percent and over 98 percent of creditors consented to the Ecuador exchange, resulting in 100 percent participation after the use of CACs. Ecuador’s collateralized private debt, on the other hand, proved to be costly and exacerbated the financing crunch, as Ecuador had to fill margin calls and pre-pay these loans prior to the bond restructuring, draining much needed liquidity.

The bond exchange was made contingent on a Staff Level Agreement (SLA). On August 10, 2020, the consent solicitation and the invitation to exchange was approved by a majority of eligible bondholders with around 98.3 percent of the aggregate principal amount agreeing to the exchange.

⁸ Further renegotiation of credit agreements with CDB and Eximbank occurred after the Fourth and Fifth Reviews.

Box 1. 2020 Debt Restructuring in Ecuador (concluded)

The exchange offer was contingent on authorities reaching a SLA with the IMF staff, also necessitating extension in the debt service standstill until August 31, 2020. The authorities reached a SLA on August 28, 2020, and the bond exchange was made effective on August 31, 2020.

Ecuador also concluded two rounds of debt reprofiling with two Chinese state-owned banks. Even though Ecuador's official bilateral debt landscape was not diverse as China was the most significant bilateral creditor, the creditor landscape within China was fairly diverse – Ecuador had taken loans from multiple entities within the Chinese public sector. Chinese state-owned banks provided some liquidity relief shortly before the start of the program: China Eximbank reprofiled debt service coming due in 2020-21 to 2022-29, providing liquidity relief of US\$169 million over 2020:Q4-2022:Q4, while CDB reprofiled debt service coming due in 2020 and 2021:Q2 to 2021:Q3-2024, providing liquidity relief of US\$103 million over 2020:Q4-2022:Q4. In September 2022, after the Fourth and Fifth Reviews, Ecuador successfully concluded another round of debt reprofiling with these two banks, reducing debt service by US\$1.1 billion in 2022-24 and securing a favorable modification to linked oil sale contracts to Petrochina (see Annex IV of the Sixth Review Staff Report).

¹ The total outstanding balance was US\$17 billion, out of which US\$15 billion had enhanced CACs.

² The three creditor committees were the "Ad Hoc Group", comprising major institutional holders of Ecuador's external sovereign debt, a "Steering Committee" (the "Minority Committee"), and an ad hoc group of holders of the 2024 bond.

³ See IMF (2020d)

⁴ For an overview of recent developments in sovereign debt restructuring, including a comparison of latest restructuring cases in Ecuador and Argentina, see IMF (2020d).

13. The program envisaged the IMF being the largest source of financing for Ecuador in 2020, with a much smaller share in 2021-2022. Fund financing was made available to the budget. At program request, planned purchases for 2020 accounted for 45 percent of the total identified external financing, with the Fund's share declining to 19.5 and 11.5 percent in 2021 and 2022 respectively. The program also added a safeguard to insure against downside risks to the outlook by ensuring authorities build deposits, rather than raise the fiscal deficit, with any additional financing that may become available, including from the World Bank and other creditors.

PROGRAM IMPLEMENTATION AND PERFORMANCE

A. Macroeconomic Performance

14. The program stabilized the Ecuadorian macroeconomy amid an unprecedented downturn. IMF financing helped ensure that the government had the funds to perform key functions and provide relief from the COVID-19 crisis. Despite the delay in completing program reviews and related purchases (see ¶11), macroeconomic outturns during the EFF program generally exceeded expectations at program onset (Figure 2). Factors contributing to the better-than-expected outturns included the stabilization of fiscal accounts that avoided a sudden stop of expenditures, the success of the vaccination campaign that allowed Ecuador to contain new cases relatively effectively and restart economic activity, unexpectedly high oil prices, and the relief

provided by both the 2020 COVID-19 social spending and the expansion of the social safety net during the program. Despite the reforms, challenges to Ecuador’s competitiveness remained, especially in relation to high labor market rigidities, including a relatively high minimum wage that was raised twice by the government during the EFF program.

- Economic growth:** The recession in 2020 was smaller than expected, although still of historic proportions, with the economy contracting by 7.8 percent compared to the 11 percent expected at the time of program request. In 2021, at the time of the Second and Third Review, staff revised growth forecasts down for that year reflecting the base effects from smaller-than-expected contraction (IMF, 2021a). This decision had important implications for fiscal policy (see below). However, the recovery surprised on the upside in 2021, with a strong rebound in private consumption and non-oil exports. Despite the better-than-expected growth outcome, Ecuador experienced a relatively slow post-COVID recovery compared to peer countries.

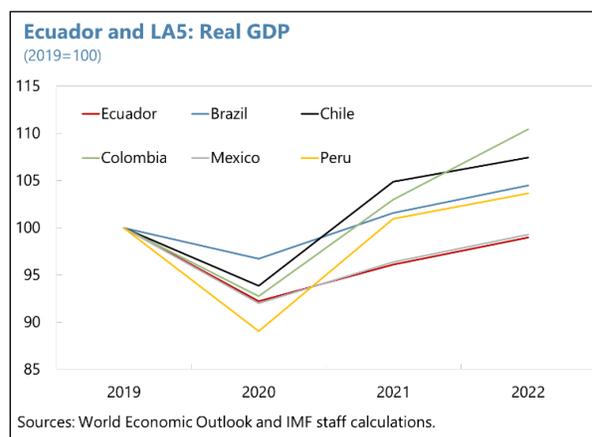
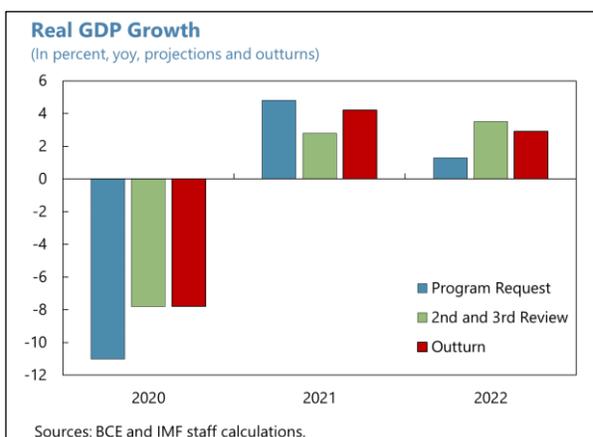
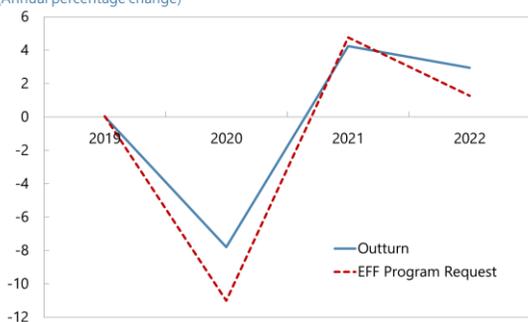


Figure 2. Ecuador: Key Macroeconomic Variables During the EFF Program

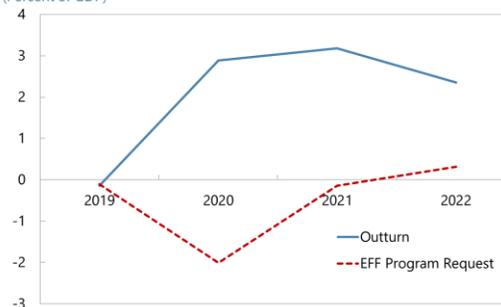
Real GDP Growth

(Annual percentage change)



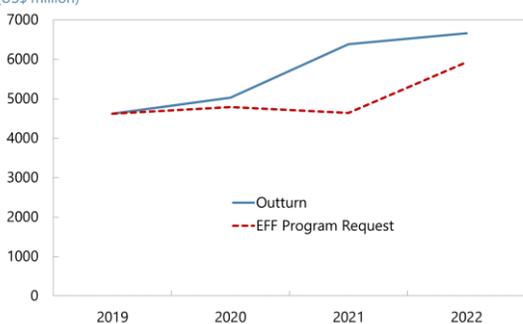
Current Account Balance

(Percent of GDP)



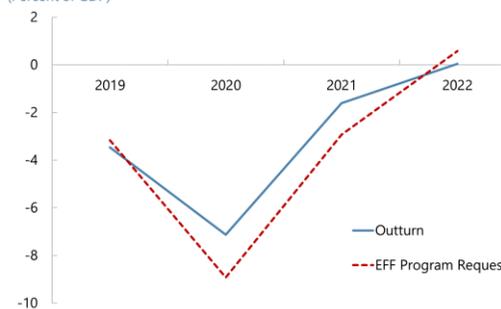
NFPS Deposits

(US\$ million)



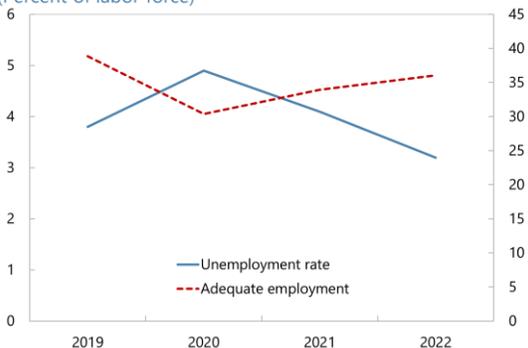
NFPS Fiscal Balance

(Percent of GDP)



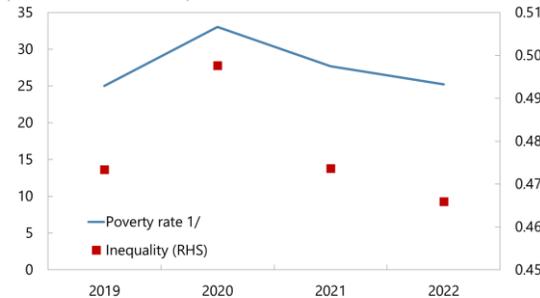
Unemployment and Adequate Employment

(Percent of labor force)



Poverty and Inequality

(Percent and Gini coefficient)



1/ Percent of households with monthly income below the poverty level. The poverty level was set by the authorities at about \$85-89 for the periods shown.

Sources: INEC, BCE, MEF and IMF staff calculations.

- Current account:** The current account balance surprised on the upside in 2020, posting a surplus of about 2.5 percent of GDP compared to a projected deficit of 2 percent of GDP at program request. The better-than-expected outcome was driven by higher non-oil exports as well as strong remittances inflows, both persisting throughout the program. The current account surplus was further boosted in 2021 and 2022 by even higher oil prices. As a result, external financing needs were considerably less than expected and reserves exceeded their targets.

- **Public sector deposits:** Given dollarization, the program used public sector deposits at the Central Bank of Ecuador (BCE) as a measure of buffers accumulation. The better-than-expected macroeconomic outcomes and the favorable oil prices led to significant overperformance of deposit accumulation in 2021 and to upward revisions of the related QPC on NFPS deposits. In observance of the EFF program conditionality and in departure from their past policies, the authorities saved a significant part of the oil windfall in 2021, thus ensuring that deposits significantly exceeded their programmed levels. However, towards the conclusion of the program at end 2022 and in the first half of 2023, a sizeable fiscal deterioration driven by lower oil revenues, higher interest payments, as well as a shortfall in domestic financing compared to program expectations led to a sharp drawdown of deposits.
- **Employment and inequality:** The EFF's program success in stabilizing the macroeconomy was reflected in the relatively strong recovery which, besides the growth outturns, saw unemployment, poverty and inequality indicators all improving during the EFF program, recovering and in some cases surpassing their pre-crisis levels. The 2020 EFF's conditionality on expanding the coverage of the social safety net likely contributed to the reduction in inequality during the program.

B. Fiscal Policy and Strengthening Social Protection

Objectives

15. Fiscal policy under the program was aimed at reducing debt according to the limits set by the organic budget code (COPLAFIP⁹), which required fiscal consolidation to achieve primary surpluses. The program request envisaged achieving the debt target of 57 percent of GDP by 2025 through implementing a nonfinancial public sector (NFPS)¹⁰ fiscal consolidation of 5.5 percent of GDP over five years. The consolidation effort was measured by an improvement in the non-oil primary balance including fuel subsidies (NOPBS), and, at the program request stage, was expected to be split roughly equally between revenue increases and expenditure reductions. The magnitude of the envisaged consolidation was comparable to the one proposed under the 2019 EFF program (5.0 percent of GDP), although the 2019 EFF consolidation plan was much more expenditure based with 4.3 percent of GDP to come from expenditure reduction (IMF, 2019a).

⁹ The reform of Ecuador's COPLAFIP (Código Orgánico de Planificación y Finanzas Públicas) was a key component of the structural reform agenda under the government's 2019 EFF arrangement. It was promulgated in July 2020 and established a public debt anchor of 40 percent of GDP to be achieved by 2032 with intermediate debt limits of 57 and 45 percent of GDP to be reached by 2025 and 2030 respectively. The anchor of 40 percent of GDP is broadly in the middle of the range suggested in the request for 2019 EFF arrangement on the basis of modeling predicting debt distress.

¹⁰ Non-financial public sector for the purposes of the program was defined as the budgetary central government, the "account of financing oil derivatives", decentralized autonomous governments, social security funds, non-financial state-owned enterprises, Development Bank of Ecuador, and accounts related to the payments to private operators of oil concessions.

16. Amidst the early stages of the COVID-19 pandemic, the program emphasized protecting the vulnerable and envisaged a backloaded fiscal consolidation plan. The program helped finance in 2020 one-off cash transfers to replace the income lost during COVID and, over the following two years, aimed at expanding the social safety net by setting floors on social protection. The goal was to more than double the coverage of low-income beneficiaries of cash transfers (from 37 percent of families in the bottom three deciles of the income distribution to 80 percent) by end-2021. The expansion of the social safety net was to be financed by savings from the planned fuel subsidy reform. Fiscal consolidation plans were backloaded to avoid exacerbating the COVID recession and to accommodate pandemic-related spending. NOPBS was expected to deteriorate by 2.6 percent of GDP in 2020 with subsequent improvements by 3.3 percent of GDP in 2021 (through spending cuts including from the unwinding of the COVID-19 health spending) and 3.0 percent of GDP in 2022 (through revenue increases from the proposed tax reform).

17. The size of planned fiscal adjustment was reduced during the program, its composition increasingly focused on expenditure cuts, and the timing shifted to beyond program horizon. As the program was anchored on achieving a certain debt target by 2025, fiscal policy plans were defined over a five-year horizon, even though the program was scheduled to expire in 2022. The program initially envisaged that 3.7 of the 5.5 percent of GDP in adjustment would be implemented during the program horizon (in 2021 and 2022), split equally between revenues and expenditure. At the Second and Third Reviews of the program (2021Q3), it became clear that growth and the fiscal deficit in 2020 were not as bad as expected, although there were also concerns that the recovery was weak.¹¹ Staff and the authorities therefore agreed to lower the planned adjustment from 5.5 to 4.5 percent of GDP, which was still expected to be sufficient to meet the 2025 COPLAFIP debt limit one year ahead of schedule. The authorities also sought to shift the planned composition of fiscal consolidation to rely mostly on spending cuts, especially on goods and services and the wage bill. The planned adjustment became increasingly backloaded to beyond program horizon, with 2.5 of the required 4.5 percent to be achieved after the end of the program at the Second and Third Reviews (rising to 3.1 percent by the Fourth and Fifth Reviews).

	Ecuador: Expected Cumulative Change in the NOPBS											
	Program Request			Second and Third Review			Fourth and Fifth Review			Sixth Review		
	2020-2022	2023-2025	Total	2020-2022	2023-2025	Total	2020-2022	2023-2025	Total	2020-2022	2023-2025	Total
Cumulative change in the NOPBS	3.7	1.7	5.5	2.1	2.5	4.5	1.3	3.1	4.5	0.8	3.5	4.3
<i>of which</i>												
Increase in revenues	1.9	0.7	2.6	-0.3	0.5	0.2	-0.6	0.7	0.2	-0.6	0.9	0.2
Reduction in expenditures	1.9	1.0	2.9	2.3	2.0	4.2	1.8	2.5	4.3	1.4	2.7	4.0
<i>of which</i>												
Capital spending	1.7	0.5	2.1	0.6	0.7	1.3	0.9	0.1	1.1	1.2	-0.1	1.1
Fuel subsidies	1.1	0.0	1.1	1.4	0.0	1.4	-0.6	1.5	1.0	-1.2	1.7	0.6
Goods and services	0.6	0.2	0.7	0.7	0.6	1.3	0.9	0.1	1.1	0.8	0.2	1.1
Wages and salaries	0.1	0.4	0.6	0.7	0.5	1.2	1.2	0.7	1.8	1.2	0.6	1.8
Social and other spending	-1.7	0.1	-1.6	-1.2	0.1	-1.1	-0.8	0.0	-0.8	-0.6	0.2	-0.5

¹¹ The fiscal targets for 2021 sought to strike a balance between accommodating one-off spending pressures and supporting the recovery and saving the oil windfall revenues.

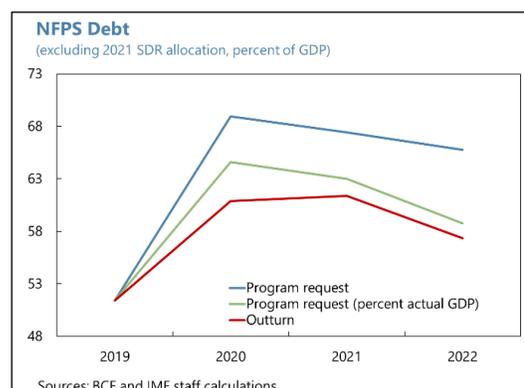
18. The main changes in the fiscal strategy over the course of the program were prompted by two key policy changes that led to important deviations from program request.

- First, the new administration of President Lasso decided to pursue an expenditure led fiscal consolidation and narrow the scope of the tax policy reform.¹² The previously planned increase in the VAT rate was abandoned and the revised plans for tax reform focused instead on narrowing PIT and CIT deductions as well as administrative and temporary measures. As a result, the expected yield of the reform was lowered from 2.5 to 0.8 percent of GDP. Notably, from the time of the combined Second and Third Reviews, the program assumed a decline in the non-oil revenue to GDP ratio between 2019 and 2022, with other revenue changes expected to offset the impact of the tax reform. To preserve the overall fiscal consolidation path, the authorities committed to additional expenditure cuts.
- Second, in October 2021, in response to social unrest, the authorities suspended the implementation of the fuel subsidy reform that had begun in July 2020 and featured automatic fuel pricing formula with gradual price increases.¹³ The authorities' subsidy reform predated the 2020 EFF program and, although not part of EFF conditionality, was an integral part of the fiscal strategy at the time of the program request. Staff supported this policy in line with the Fund's long-standing call to reduce costly and regressive subsidy systems (see Annex I of IMF (2020c)). The cost of the suspension was also to be offset with additional spending cuts.

Outcomes

19. The program achieved the COPLAFIP debt limit ahead of schedule, mostly due to stronger GDP growth and higher oil prices.

Government debt to GDP stood at 57.7 percent at end-2022, close to the 57 percent of GDP level of debt limit envisaged in the COPLAFIP by 2025. Most of the improvement in the debt to GDP ratio was driven by much stronger growth of nominal GDP than what was expected when the COPLAFIP targets were set. The economic contraction and fiscal deficit in 2020 both proved to be smaller than expected, resulting in a much lower debt to GDP ratio (60.9 percent compared to the projected 68.9 percent). Higher oil prices in 2022 resulted in another significant increase in nominal GDP due to a higher deflator. Overall, the



¹² Before program approval and during the first EFF review in November 2020, staff sought and received political assurances of broad support of key program objectives from then President Moreno and, subsequently, leading presidential candidates, which included President Lasso.

¹³ Suspending fuel price increases was one of the key demands of the indigenous community, who organized nationwide protests including road blockages in October 2019, October 2021 and June 2022. Previous attempts to reduce fuel subsidies in 2019 by the administration of President Moreno envisaged a complete reduction instead of a gradual one but had to be reversed within three weeks of their introduction following significant social unrest.

reduction in debt levels between 2020 and 2022 was 3.5 percentage points of GDP (excluding the 2021 SDR allocation¹⁴), slightly more than what was expected at the time of the program request (3.2 percentage points of GDP).

20. Improvements in the overall balance were close to initial expectations, although the underlying NOPBS consolidation was much weaker, mostly due to a surging fuel subsidies bill. The cumulative improvement in the overall balance between 2019 and 2022 was 3.5 percent of GDP, only 0.3 percent of GDP less than envisaged in the program request. However, over the same period, the NOPBS deteriorated by 0.2 percent of GDP instead of the 3.7 percent of GDP

improvement originally envisaged or even the 0.8 percent of GDP improvement planned at the Sixth Review. Of the 3.9 percent of GDP gap between the objective and outturn,

Ecuador: Change in the Fiscal Position								
(percent GDP, change from previous year)								
	2020		2021		2022		Total	
	Request	Outturn	Request	Outturn	Request	Outturn	Request	Outturn
Overall Balance	-5.7	-3.7	6.0	5.5	3.5	1.7	3.8	3.5
<i>of which</i>								
Primary Balance 1/	-5.3	-3.6	4.4	4.0	3.7	2.0	2.8	2.4
Oil	-1.7	-2.2	1.3	3.4	0.6	-0.4	0.2	0.9
Non-oil (A)	-3.7	-1.4	3.2	0.6	3.1	2.4	2.6	1.6
Interest	0.4	0.1	-1.5	-1.5	0.2	0.4	-0.9	-1.1
Fuel subsidies (B) 2/	-1.1	-1.1	-0.1	1.0	0.1	1.9	-1.1	1.8
NOPBS (C = A - B)	-2.6	-0.3	3.3	-0.4	3.0	0.5	3.7	-0.2

/1 Including interest income.
/2 This estimate includes direct subsidies (which are included in the oil balance) and indirect subsidies, which do not enter fiscal accounts.

2.9 percent is due to higher-than-expected fuel subsidies owing to higher import prices of oil derivatives in 2021 and especially 2022. The suspension of the subsidy reform further contributed to the higher subsidy bill. Non-oil fiscal consolidation measured as the improvement in the non-oil primary balance was also weaker than expected (by 1 percent of GDP smaller compared to the program request). Part of this underperformance reflected the aforementioned adjustment in program strategy at the Second and Third Reviews of delaying and reducing the total fiscal consolidation, so as to support the recovery, which was seen to be weak in 2021, while debt dynamics proved more favorable. Policy reversal on the fuel subsidy reform (including the additional discretionary reduction in fuel price in June 2022) and increasing spending pressures, including from the worsening security situation, likely contributed to a further deterioration of the underlying fiscal balance in 2022. To sum up, the overall balance improvement was close to its initial target despite the lower consolidation outturn because the authorities saved a significant part of the higher-than-expected oil windfall.¹⁵

¹⁴ As part of the 2021 General SDR allocation, which became effective in August 2021, Ecuador received SDR 668.7 million (equivalent to US\$949 million). This amount was reflected in the central government balance sheet, increasing government debt.

¹⁵ Even though higher oil prices increase Ecuador's fuel subsidy bill, they also increase oil revenues, making Ecuador a net beneficiary of oil price increases.

21. The fiscal position deteriorated notably in the second half of 2022 compared to the Sixth Review forecast. The cumulative NOPB improvement in 2020-2021 was broadly in line with what envisaged in the program request. In 2022, however, despite a robust growth outturn, the fiscal results deviated considerably not only from the program request targets, but also from the expectations at the Sixth Review. While the NOPB improvement was 2.3 percent of GDP (compared with 2.7 percent expected at the Sixth Review), the apparently small deterioration was only because one-off unexpected non-tax revenues partially offset large current expenditure overruns.^{16,17} The main drivers of increased spending were spending on non-oil goods and services by local governments. Wages and salaries contributed an additional 0.3 percent of GDP in overruns, though that could in part reflect bringing forward public sector hiring and wage increases that were anticipated by the Sixth Review to happen in 2023. Finally, as the Russian invasion of Ukraine led to a persistently higher import price for refined oil products, further upward revision of the fuel subsidies bill ensued, leading to an underperformance of the NOPBS by 1 percent of GDP compared to the Sixth Review forecast.¹⁸

Ecuador: 2022 Fiscal Outturn			
	(percent GDP, change from 2021)		
	Sixth Review	Outturn	Difference
Overall Balance	2.6	1.7	-1.0
<i>of which</i>			
Primary Balance 1/	2.8	2.0	-0.8
Oil	0.1	-0.4	-0.5
Non-oil (A)	2.7	2.3	-0.4
<i>of which</i>			
Revenue	0.0	0.8	0.8
Tax Revenues	0.4	0.3	0.0
Non-tax revenues	-0.3	0.5	0.9
Expenditure	2.7	1.5	-1.1
Goods and services	0.3	-0.3	-0.6
Wages and salaries	1.0	0.7	-0.3
Other	1.4	1.1	-0.2
Interest	0.2	0.4	0.2
Fuel subsidies (B) 2/	1.3	1.9	0.6
NOPBS (C = A - B)	1.4	0.4	-1.0
/1 Including interest income.			
/2 This estimate includes direct subsidies (which are included in the oil balance) and indirect subsidies, which do not enter fiscal accounts.			

22. Weaker outturns in 2022 eroded some of the deposits buffer buildup after program conclusion. Between August 2022 (the last test date of the EFF program) and December 2022, NFPS deposits declined by about US\$2 billion, offsetting a large part of the accumulation experienced in the first half of the year. For the entire 2022, NFPS deposits increased by US\$947 million, much less than the expected annual increase of US\$2.7 billion forecasted at the EFF Sixth Review. Factors that contributed to the lower outturn included a lower fiscal balance by about US\$1 billion—mostly driven by an underperformance in the oil balance (as the volume of exports fell short of

¹⁶ The Sixth Review did not anticipate any revenue increases despite the tax reform as higher tax revenue was expected to be offset by lower other revenue. Instead, the authorities received larger than anticipated profits from the Central Bank and one of the SOEs, which is not included in the general government perimeter.

¹⁷ Although the Sixth Review was discussed by the Board on December 14th, 2022, lags in data reporting for program purposes and the fact that the last test date for the QPC was set for end-August 2022, meant that only 8 months of fiscal data were available in formulating the annual projection, which ended up considerably different from the outturn.

¹⁸ In June 2022 the authorities further reduced fuel prices by US\$0.15 for both diesel (around 9 percent reduction) and gasoline (7 percent reduction).

expectations due to technical problems with the pipeline)—and a shortfall in domestic debt issuance by about US\$900 million. NFPS deposits stood at US\$6.7 billion as of December 2022, almost double the US\$3.5 billion in September 2020 when the EFF program was approved.

23. Overall, by the end of the program, Ecuador’s fiscal position was significantly stronger than its historical average, but vulnerabilities to oil shocks continued to loom large. The higher overall balance was driven by higher oil balances and some temporary expenditure restraint. In contrast, non-oil revenues in 2022 were 0.9 percent of GDP lower than their 2013-18 average, reflecting persistent weakness in tax revenues (still 1.2 percent of GDP lower than their historical average). Notably, revenues from VAT and excise taxes are still 0.8 percent of GDP lower than in 2013-18. Lower revenues from the tax on transfers abroad (ISD)¹⁹ and customs duties account for the rest of the shortfall. Offsetting expenditure cuts rightly focused on key areas that warrant efficiency gains. Program efforts to reduce spending on wages and goods and services bore some fruit, bringing it below historical averages. However, the larger part of spending reductions was in capital spending (3 out of 4.3 percent of GDP) which happened largely before 2020.

Ecuador: Fiscal Accounts						
	(percent GDP)					
	2013-2018		2019-2022			Difference (3)
	Average (1)	2019	2020	2021	2022 (2)	= (2) - (1)
Revenue	36.7	36.1	31.7	36.2	39.4	2.7
Oil Revenue	11.0	11.3	8.0	12.3	14.7	3.6
Non-Oil Revenue	25.6	24.8	23.8	23.9	24.7	-0.9
<i>of which</i>						
Tax	15.0	13.9	13.0	13.5	13.8	-1.2
<i>of which</i>						
VAT and Excises	7.3	7.0	6.2	6.7	6.6	-0.8
Income	4.2	4.0	4.0	3.6	3.9	-0.3
Intl. trade and transact.	2.7	2.2	1.8	2.1	2.0	-0.7
Property	0.5	0.4	0.6	0.7	1.1	0.6
Other	0.2	0.2	0.3	0.4	0.3	0.1
Other	10.7	10.9	10.7	10.4	10.9	0.3
Expenditure	43.6	39.6	38.9	37.8	39.3	-4.3
Wages and salaries	11.3	11.5	12.2	11.4	10.7	-0.6
Oil related spending 1/	10.2	8.3	7.1	8.1	10.7	0.5
Non-oil goods and services	5.1	4.3	3.7	3.5	3.8	-1.3
Capital spending	5.0	2.7	1.9	2.1	2.0	-3.0
Other	12.0	12.9	14.0	12.8	12.1	0.1
Overall balance	-7.0	-3.5	-7.1	-1.6	0.0	7.0
Memo: Fuel subsidies 2/	-4.0	-2.2	-1.1	-2.1	-4.0	0.0

/1 Includes cost of importing oil derivatives (CFDD), of oil contracts (SHE), of goods and services used in oil production, and of oil services.
/2 This estimate includes direct subsidies (which are included in the oil balance) and indirect subsidies, which do not enter fiscal accounts.

C. Strengthening Fiscal Institutions

Objectives

24. Initial program objectives were to tackle long-standing problems in public financial management practices with a special focus on transparency of public funds. Specific program conditionality was building on the previously cancelled 2019 EFF and included: (i) operationalizing

¹⁹ Throughout the program, the authorities have sought and the Board granted temporary approval for the maintenance of this tax, which constitutes both an exchange restriction subject to Fund approval under Article VIII, Section 2(a), and a capital flow management measure (CFM) under the Fund’s Institutional View on Liberalization and Management of Capital Flows. In 2022, the tax rate was lowered from 5 to 4 percent. The authorities are committed to lowering the ISD tax to zero over time.

COPLAFIP, (ii) improving cash and debt management, (iii) putting in place a framework to prevent domestic arrears, (iv) increasing the efficiency of public spending and (v) building and retaining technical capacity in statistics.

25. One of the early priorities of the 2020 EFF has been completing the comprehensive reform of the organic budget code. Plans for the organic budget code reform predated the 2020 EFF program and were based on staff assessment and technical assistance recommendations made in late 2018 in response to the authorities' request to evaluate Ecuador's public financial management framework, as well as subsequent staff technical assistance recommendations. These recommendations focused on strengthening the legal framework for public financial management²⁰ and fiscal rules (modifying their institutional coverage, enhancing enforcement). Reforming the organic budget code was a key conditionality of the 2019 EFF program, although its eventual adoption proved complicated. Initial legislative amendments to operationalize these reforms were rejected by the National Assembly in October 2019. A version of the amendments was approved by the National Assembly in May 2020, but it fell short of several important issues that the authorities committed to under the 2019 EFF.²¹ Finally, a revised version was promulgated in July 2020, and the issuance of necessary secondary legislation became conditionality for the 2020 EFF.

26. The 2020 EFF also aimed to make further progress with reducing the stock of domestic arrears and prevent their reemergence along with strengthening cash management.

Accumulation of domestic arrears (primarily within the general government) has been a long-standing problem in Ecuador arising from difficulties in controlling budget execution and cash management.²² The COVID-19 crisis compounded the issue with unexpected payments to public entities dealing with the health crisis. Initial conditionality to deal with these issues included preparing detailed monthly forecasts of revenues, expenditures, and financing (as a prior action for the program request), as well as an arrears clearance strategy (Table 2).

27. The program also aimed to increase the efficiency of public spending by strengthening procurement processes. Enhancing competitive procedures, consolidating procurement to reap economies of scale, and improving electronic procurement were expected to generate savings of 0.7 percent of GDP by 2025. While the program request had a prior action focused on procurement, structural benchmarks on procurement were introduced only during the combined Second and Third Reviews, with a requirement for the introduction of the National Control Subsystem²³ to fight

²⁰ These included inter alia: strengthening the top-down budget formulation process including by introducing aggregate expenditure ceilings, limiting the Executive's discretion to amend the budget approved by the National Assembly, strengthening the Finance Ministry's risk oversight role, etc. (See IMF (2019b) for more details).

²¹ Submission of the revised version was the sole prior action for the RFI disbursement in 2020.

²² Such difficulties included, for example, capital spending projects receiving substantial cash advances that are not reported to the cash management authority, leading to episodes of illiquidity.

²³ Subsistema Nacional de Control dedicated to fight corruption in procurement includes SERCOP (national public procurement agency), Ministry of Economy and Finance, Financial and Economic Analysis Unit (UAFE), the tax administration, the Office of the Comptroller, the State Attorney's Office and financial regulators.

corruption in procurement, the publication of procurement contracts, including legal ownership and beneficial ownership of entities awarded contracts, to enhance transparency and prevent corruption, and issuance of procurement guidelines.

28. Most of the program conditionality focused on strengthening fiscal institutions and advancing the transparency and anti-corruption agenda. Of the 29 new (excluding those that were reformulations of earlier ones) structural benchmarks introduced during the program, 16 (55 percent) focused on fiscal institutions and policy (especially on reforming fiscal framework and cash management) and 9 (31 percent) focused on transparency and anti-corruption reforms. Transparency measures also accounted for 5 out of 13 new prior actions. Reforms under the program included asset declarations of public officials, enacting anticorruption legislation, auditing COVID-19 related spending, strengthening procurement procedures and conducting various audits. The program's focus on transparency, governance and anti-corruption was an example of the application of the newly adopted 2018 Framework for Enhanced Fund Engagement on Governance.²⁴ Most of the structural benchmarks were introduced during the program request and the combined Second and Third Reviews, when there was still sufficient time to set new

Ecuador: New Conditionality at Each Review						
(number of prior actions and structural benchmarks)						
Program	1st	2nd-3rd	4th-5th	6th	Total	
Request	Review	Review	Review	Review		
Prior Actions 1/	5	2	2	3	1	13
Transparency, anti-corruption, and governance	1	1	1	1	1	5
Cash, debt management and arrears	1	0	1	0	0	2
Fiscal policy 2/	0	0	0	2	0	2
Fiscal framework	1	0	0	0	0	1
Other (COMYF, BCE, etc.)	2	1	0	0	0	3
New structural benchmarks 1/	13	0	11	5	...	29
Transparency, anti-corruption, and governance	3	0	4	2	...	9
Cash, debt management and arrears	3	0	0	1	...	4
Fiscal policy 2/	2	0	1	1	...	4
Fiscal framework	1	0	1	0	...	2
SOEs	0	0	3	0	...	3
Fiscal statistics	2	0	0	1	...	3
Other (COMYF, BCE, etc.)	2	0	2	0	...	4

1/ Excludes prior actions and structural benchmarks that are reformulations of previously introduced structural benchmarks.
2/ Includes conditionality on tax reform, expansion of social assistance, public sector wage bill, adopting the medium-term fiscal framework and the budget.

conditionality. At that point, conditionality on having independent audits of Petroecuador and Petroamazonas was also introduced, though ultimately not implemented (see below). Most of the conditionality introduced at the combined Fourth and Fifth Reviews dealt with the consequences of the second misreporting incident (concerning PGE pension and healthcare transfers to the IESS, see below) and focused on conducting audits of healthcare expenditure, publishing corrected data for the PGE overall balance and estimating the stock of potential obligations of the PGE to the IESS.²⁵

²⁴ Under the framework, there was a centralized interdepartmental assessment process of Ecuador's corruption vulnerabilities, and the anti-corruption reforms' criticality for helping promote a level-playing field, raise trust in public institutions, and create a healthier business environment. Ecuador's example was also featured in the Review of Implementation of the 2018 Framework (IMF, 2023a).

²⁵ A number of further corrective actions were implemented by the authorities before the Board discussion on the misreporting, and the authorities also committed to undertake other remedial measures in the following months, some of which were reflected as part of the structural conditionality under the EFF program.

29. The distribution of depth for program conditionality was bimodal – with almost half the benchmarks aimed at producing lasting institutional change. The 2018 Review of

Conditionality defined *high* depth of structural conditionality – as conditions leading to a permanent, institutional change (e.g., new legislation), distinguished from *medium* depth – leading to a change of one-off nature (e.g., an approval of the budget) and *low* depth, which is a step towards a change (IMF, 2019c). From 29 structural benchmarks and 13 prior actions in the program, 18 were of high depth (equally split between

Ecuador: Depth of Conditionality by Theme				
(number of prior actions and structural benchmarks)				
	High	Medium	Low	Total
Transparency, anti-corruption and governance	6	0	8	14
Cash, debt management and arrears	0	0	6	6
Fiscal policy 1/ ^{1/}	4	1	1	6
Fiscal framework	2	0	1	3
SOEs	0	0	3	3
Fiscal statistics	0	0	3	3
Other (COMYF, BCE, etc.)	6	0	1	7
Total	18	1	23	42

^{1/} Includes conditionality on tax reform, expansion of social assistance, public sector wage bill, adopting the medium-term fiscal framework and the budget.

fiscal issues, transparency agenda and other measures mostly focused on BCE) such as, for example, enacting anticorruption legislation, adopting regulations implementing COPLAFIP, and broadening the coverage of the social safety net. Except for the submission of the 2023 budget (medium depth), the rest of conditionality involved preparing audit reports, publishing various data, and preparing strategies for debt management and arrears clearance. Although this is assessed as low depth in this framework, it does not mean that these conditions were unimportant or easy to achieve (as the case of SOE audits makes clear).

Outcomes

30. Execution of fiscal reforms and transparency, anticorruption and governance reforms was challenging, reflecting difficult political environment and institutional capacity constraints. Although most (20 out of 25) of the structural benchmarks in the two key areas were

eventually met, only 8 of these were

implemented within the original schedule. The majority (12) were either delayed or required some modifications, i.e.

Ecuador: Execution of Fiscal and Transparency Conditionality at Each Review				
(cumulative number of structural benchmarks since program request)				
	1st Review	2nd-3rd Review	4th-5th Review	6th Review
Implemented	0	4	5	8
Implemented with delay and / or modification	1	2	6	8
Implemented after converting to prior action	0	1	3	4
Never met 1/	0	0	2	5
Total	1	7	16	25

^{1/} Where a structural benchmark is assessed in program documents as "Not met, partially implemented", it is considered not met for the purposes of monitoring program conditionality.

reformulation or rescheduling in advance of the review or were ultimately implemented as prior actions for the subsequent review (or both).²⁶ The five benchmarks that were not met were: (i) legislation to strengthen the framework for preventing and managing conflicts of interest in the public sector, (ii) two benchmarks on results of audits of Petroecuador and Petroamazonas, (iii) broadening the coverage of the social assistance program²⁷, and (iv) ensuring the ability of the National Control Subsystem to coordinate different entities controlling public procurement. The authorities passed a tax reform somewhat exceeding their (scaled down) ambition during the Second and Third reviews, meeting the corresponding SB, but it has been partially reversed after program conclusion.²⁸ On the whole, the program did not arrest the trend of declining tax revenues or raise non-oil revenues to make fiscal policy less procyclical.

31. Overall, the implementation of program conditionality on fiscal and transparency, anticorruption and governance issues laid the foundation for stronger institutions and more efficient public spending, and expanded the social safety net:

- *Completion of the COPLAFIP reform established a comprehensive and prudent fiscal framework for the country.* The new law reformed the fiscal rule, for example, by introducing expenditure growth rule, and appropriately defining coverage of public debt in line with international statistical standards, while strengthening the role of the Ministry of Economy and Finance in the control over budget execution and fiscal risks. As of 2023, the changes brought by the law are still being implemented in line with the recommendations of the Fiscal Safeguards Review (FSR) completed in February 2021. The authorities have published the Medium-Term Fiscal Framework report in April ahead of budget preparation and are preparing monthly financial plans. However, they have not yet implemented the contingency reserve allocation. In addition, a published medium-term debt management strategy (MTDS) introduced a more structured policy framework for managing public debt.
- *Efforts to improve cash forecasting and management and stronger controls over budget execution helped reduce the amount of arrears.* The preparation of the arrears clearance strategy was another of the FSR recommendations. However, arrears within the public sector have been on the rise again lately, reflecting difficulties with healthcare spending audits and government

²⁶ Of the four benchmarks on other issues, two were met, one was met with delay and one (on the enactment of AML/CFT legislation in line with FATF standards) was not met.

²⁷ The benchmark required no less than 70 percent of the bottom three income deciles by province and no less than 65 percent of the first income decile nationwide. The nationwide target was met, and target by province was met in all but three relatively richer provinces, thus the goals of the benchmark to increase the coverage of the social protection system were essentially achieved.

²⁸ In May 2023, following the dissolution of the Parliament and declaration of new presidential elections, the authorities introduced legislation to increase personal income tax exemptions and to increase lower limits of the PIT brackets. These measures were adopted by decree and entered into force starting in July 2023 after the reform was approved by the Constitutional Court in June 2023. They will need to be reconfirmed or repealed by the new National Assembly. The total cost of these measures is expected at around 0.2 percent of GDP compared to 0.5 percent of GDP yield of permanent measures on PIT expected in 2021.

liquidity constraints, although they are now better monitored with the help of the long-term expert from the Fiscal Affairs Department (FAD).

- *There was a substantial increase in the fiscal statistics capacity.* It is important to note that the discovery of the second incidence of misreporting in early 2022 was a direct result of substantial technical assistance provided by the Statistics Department (STA) to the authorities, allowing the production of consistent fiscal data from a variety of sources (central government, subnational governments, social security fund, etc.). This close engagement is still ongoing, aided by a long-term expert who is working with the revamped statistics office at the Ministry of Finance to adopt best practices for data collection, verification and coordination with other subsectors. There is still room for improving fiscal statistics, including data collection and production for COPLAFIP implementation.
- *The coverage and spending on social protection increased closer to peer country levels.* The expansion was designed by introducing floors to both (i) the overall dollar amount spent on cash transfers (bonos sociales) and (ii) the share of low-income families reached by the program in each province. While in 2020 only 3 out of 10 households in the bottom three deciles received support, by the time of the Sixth Review more than 8 out of 10 did. The new cash transfers program increased the social safety net size during the EFF from US\$650 million (0.7 percent of GDP) in the 2019 budget to about US\$1.2 billion (1.1 percent of GDP) in the 2022 budget.
- *There was substantial progress on the anti-corruption and transparency agenda.* The authorities completed and published audits of COVID-19 related expenditure, published procurement contracts including information on the ultimate beneficiary ownership of entities that were awarded public procurement contracts, and enhanced the online publication of asset declarations of high-level public officials. The authorities also began work on the National Control Subsystem (SNC) to ensure better coordination between various supervisory agencies and strengthened risk-based monitoring of public procurement, among other steps. Greater reliance on purchases from catalogs helped generate savings in e.g. procurement of medicines. The legal framework for criminalizing corruption (organic penal code COIP²⁹) was amended to be in line with international standards and good practices. The authorities adopted new legislation to prevent and manage conflicts of interest in the public sector. That said, the audit of financial statements of Petroecuador and Petroamazonas was not finalized as envisaged as the authorities were unable to recruit auditors for this task.³⁰ Moreover, two major elements of the reform agenda fell short: the legislations to strengthen conflict of interest in the public sector and to strengthen the AML/CFT framework in line with FATF standards were not enacted (Table 2).

²⁹ COIP: Código Organico Integral Penal, adopted by the National Assembly in 2014.

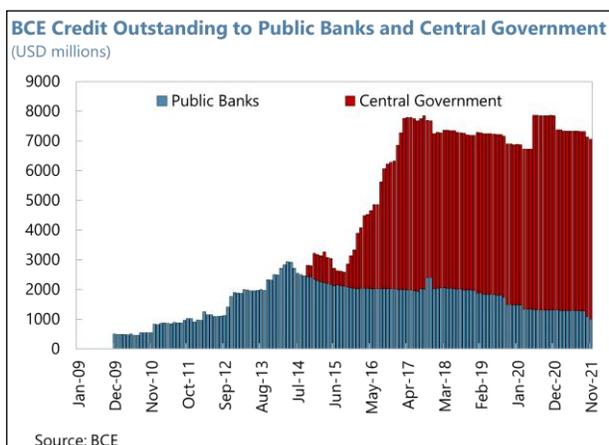
³⁰ The authorities are working with the IDB to procure an independent auditor for the financial statements of public oil companies, and a new tender for bids was launched in September 2023.

D. Strengthening the Central Bank and Safeguarding Financial Stability

Objectives

32. The institutional framework of the Central Bank had been severely weakened in the past and a first reform attempt under the 2019 EFF failed. Starting in 2009, amendments to the BCE regulation allowed the Central Bank to lend to state-owned banks. Such loans peaked at US\$2.9 billion (3 percent of GDP) around mid-2014. Later that year, a new monetary and financing code (COMYF) was enacted, which allowed the BCE to finance the central government directly.³¹ The government resorted to this financing during a liquidity crunch in the aftermath of the oil price decline of 2014. With credit to the government reaching about 7 percent of GDP in 2017, the balance sheet of the BCE was severely weakened, and reserve coverage of banks' deposits at the Central Bank fell below 40 percent (from above 100 percent in the early 2010s), raising doubts about the sustainability of the dollarization regime.

Credit from the BCE allowed the government to increase spending that was then channeled via transfers to the private sector. This contributed to an increase in liquidity of financial institutions which in turn led to a strong increase in credit to the private sector. To restore credibility and eliminate the possibility of another decline in reserves, the 2019 and 2020 EFFs aimed to reform the COMYF so as to eliminate the possibility of BCE financing the government. An attempt by the authorities to complete this reform failed to pass the National Assembly in 2019, and the government committed to resubmitting the proposal in the first half of 2020.



33. The COMYF reform aimed to strengthen the BCE independence, clearly define its objectives and improve its governance. As prepared during the 2019 EFF, the reform was elaborated in consultation with IMF staff, and included the recommendations of the 2019 safeguards assessment of the Central Bank and of Fund-provided technical assistance. To strengthen BCE's independence, the reform banned any new direct or indirect BCE lending to the public sector³², prohibited quasi-fiscal operations by the BCE, and established an independent Board of Directors³³ with fiduciary responsibilities to the Central Bank. The COMYF included a clear requirement for all third parties to respect the BCE's institutional autonomy, i.e., a provision on the

³¹ See Erraez and Reynaud (2022).

³² Prior to the reform, the BCE was tasked with purchasing government bonds, "instrumenting the domestic investment", and managing the liquidity of the system to boost economic development.

³³ Monetary Policy and Regulation Board (JPRM). The same mechanism to strengthen independence was established for the appointment and removal of members of the Financial Policy and Regulation Board (JPRF), in charge of financial system and insurance policy.

BCE's institutional autonomy, while its accountability was also strengthened. The reform significantly strengthened the Board's independence by stating that its members would be qualified individuals proposed by the President of the Republic and appointed by the National Assembly.³⁴ Under the amended code, the removal of Board members, at the request of the President and for reasons specified in the code, was also a prerogative of the National Assembly. COMYF also introduced a limited set of objective dismissal grounds. The bill streamlined the objectives of the Central Bank and stated its mandate to maintain a stable monetary system and manage its balance sheet to preserve dollarization and promote financial stability. The bill was not passed in the first half of 2020 partly due to the onset of the pandemic. At the time of the 2020 EFF request, the authorities committed to passing the legislation by end-January 2021 (structural benchmark). In the end, the reform was passed in April 2021 and the structural benchmark was implemented with a delay.

34. Besides the COMYF reform and anticipating that the post-program FSAP would identify financial sector reform priorities, there was no additional conditionality in this area at program request. In the immediate aftermath of the COVID-19 outbreak the authorities focused on supporting private credit and liquidity in the financial system. The contribution rate to the Liquidity Fund³⁵ was reduced from 8 to 5 percent of deposits (freeing up US\$950 million in liquid assets) and private credit obligations were deferred (strengthening emergency liquidity facilities became a key recommendation of the subsequent FSAP (IMF, 2023b)). Staff cautioned that extended loan deferrals could eventually weaken bank balance sheets. Furthermore, staff encouraged the authorities to upgrade bank resolution tools and deepen coordination between different regulatory financial sector agencies.

35. The authorities support measures helped ensure that the financial system withstood the COVID-19 shock and were extended repeatedly. This relative resilience combined with already significant adjustment and structural reform needs on the fiscal front explain the relative lack of financial sector conditionality during the program. For the banks, temporary crisis measures were originally scheduled to expire at end-2021, before being extended, first to end-June 2022 and then to end-December 2022. In 2023 the authorities intended to harmonize the regulatory framework between banks and cooperatives, putting them on a more equal footing.

36. The authorities conducted asset quality reviews (AQRs) for all four public banks and introduced some reforms in the cooperatives sector. The AQRs for public banks was the only other element of explicit financial conditionality of the EFF, introduced at the Second and Third Review. Although not included in structural conditionality, the authorities introduced minimum

³⁴ Prior to the reform, the Board members were the ministers of four areas related to economics and a delegate of the President.

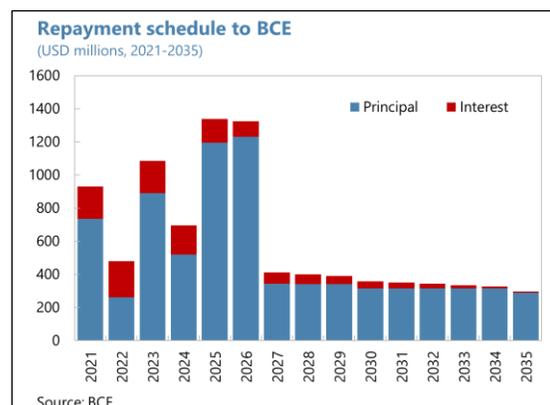
³⁵ The Liquidity Fund is a government-mandated private institution intended to operate as lender of last resort. The 2023 FSAP mission recommended comprehensive reforms to the Liquidity Fund to strengthen its lender-of-last resort function, including governance and information-sharing, ease of collateral posting, size of the fund, relations with the BCE, and terms of lending (IMF 2023b).

capital requirements for cooperatives and strengthened their institutional setup (e.g. by requiring compliance with money laundering regulations, and stronger provisioning).

Outcomes

37. The COMYF reform was a major overhaul that reinforced the foundation of the dollarization regime.

The reform included the recapitalization of the Central Bank, and the transfer of shares of public banks worth US\$2.4 billion that the Central Bank acquired from the Ministry of Finance (MEF) in 2017, back to the MEF, with the government committing to repay the BCE in equal installments in 2027-35. The repayment of other maturing Treasury securities through 2026 also helped strengthen the BCE's finances, although the concentrated maturity profile may create liquidity pressures for the government in the near term. The new COMYF created a special unit to remove from the Central Bank balance sheet the legacy assets



from the 1999 banking crisis.³⁶ It also restored the four-reserve balance scheme, that was first established at the onset of the dollarization regime to ensure the full coverage of Central Bank liabilities using its international reserves, with the expectation that the four balances would be fully covered by 2035. Without the ability of money creation and acting as lender of last resort in a dollarized economy, the restitution of the four-reserve balance of the BCE helps protect the dollarization regime. The first balance was covered by end-2021, and both the first and second balances were more than fully covered by end-2022. With regards to governance and in relation to the IMF safeguards assessment recommendations, the Central Bank audit committee was appointed, the audited BCE financial statements were published, and the BCE's decision-making structure was strengthened by the creation of a Monetary Policy and Regulation Board. By the end of the program, some gaps remained compared to full adoption of International Financial Reporting Standards (IFRS), which need to be addressed. All other safeguards recommendations were adopted. In addition, the new members of the Monetary Policy and Regulation Board and the Financial Policy and Regulation Board (3 members each) were nominated by the President in August 2021 and appointed by the National Assembly in October 2021.

38. The FSAP mission that visited Ecuador in late 2022 and April-May 2023 concluded that Ecuador's financial sector has been resilient to the crisis though vulnerabilities remain.

Banks' average capital ratios were at around 15 percent of risk-weighted assets as of end December 2022 reasonably above the 9 percent regulatory minimum. The acceleration of credit growth in the aftermath of the pandemic contributed to a mechanical dilution of NPL ratios, however, more

³⁶ All BCE assets, liabilities, rights and obligations from the resolution of the 1999 banking crisis were transferred to the newly created *Unidad de Gestion y Regularización* following an independent external audit that was completed in December 2021 in line with the schedule.

recently credit growth has slowed, and liquidity conditions have tightened considerably. Higher funding costs combined with inflexible caps on lending rates have weighed on the system's profitability and some institutions would be vulnerable under stress test scenarios performed in the recent FSAP (IMF 2023b).

39. The FSAP noted that public banks have significantly higher NPLs. The AQR performed under the program revealed substantial and persistent gaps in loan classification and provisioning in one bank, where loan quality is expected to deteriorate further as they mature. Its findings have not yet been fully addressed. While public banks have capital ratios above 30 percent, the absorption of the estimated provision deficits would trigger supervisory action in one bank. The FSAP recommended promptly recognizing loan losses and implementing AQR provisioning recommendations among other steps to address the problem (IMF, 2023b).

E. Structural Reforms—Boosting Growth Potential

Objectives

40. The need for structural reforms in Ecuador has been recognized throughout the 2019 and 2020 EFF programs. The 2019 EFF request notes the need for labor market reforms such as allowing less rigid labor contracts and reducing hiring and firing costs. However, by end-2019 only one structural benchmark in this area was set (on preparing an action plan to strengthen efficiency and quality of primary education and health spending), which was proposed to be rescheduled and was not taken up in the subsequent program. For the 2020 EFF, the focus was narrowed to secure progress with the transparency and the anti-corruption agenda. The program request noted that enhancing governance and anti-corruption frameworks are integral to improving the business environment, which would foster private investment and job creation.³⁷

41. Enhancing labor market flexibility, streamlining regulation and licenses, and reducing informality were identified as important to raising potential growth, although no conditionality was set in this area. A selected issues paper for the 2021 Article IV argued that there is substantial room to enhance labor market flexibility and further streamline regulations and licenses (IMF, 2021b). On labor market specifically, staff argued that informality is an endogenous response to prevailing economic conditions and policy distortions and called for lowering barriers to formalization, an income tax policy that does not unduly discourage the creation of formal jobs, and establishing schemes to improve employees-employers matching, including through specialized training. Staff also urged the authorities to adhere to the mechanism for setting the minimum wage that ties changes to the minimum wage to macroeconomic parameters such as inflation and productivity to support competitiveness and policy predictability.

³⁷ The Humanitarian Law passed in response to the COVID-19 crisis contained some measures to reduce labor market rigidities, for example, by allowing employers and employees to make mutually agreed changes to existing labor contracts.

Outcomes

42. The authorities' efforts at growth-enhancing structural reforms were limited reflecting the exigencies of COVID-19 and, at times, strong political opposition. In 2021, for example, the authorities noted that they were preparing a law to increase flexibility in work arrangements, reduce rigidity in part-time work and temporary contracts, and improve overall equity in the labor market. Furthermore, the authorities committed to applying the mechanism for setting the minimum wage, tied to concrete and predictable macroeconomic aggregates such as inflation and productivity. The law, however, was not submitted to the National Assembly amidst strong opposition and increases in minimum wage continue to be entirely discretionary, weighing on Ecuador's external competitiveness as noted in the Sixth Review. Some concrete steps taken towards the end of the program to encourage domestic and foreign investment included: (i) lowering tariffs on many inputs for the industrial sector; (ii) fostering greater private sector participation in the oil and gas sector via participation contracts; and (iii) gradually reducing the tax on transfers abroad (ISD) from 5 to 4 percent over 2022.

F. Financing

43. Ecuador's external financing needs were projected to increase in 2020 with the onset of the pandemic and lower international oil prices. Starting from an already fragile situation that had led to the approval of the 2019 EFF, Ecuador's external financing needs were expected to increase owing to higher current account deficits stemming from lower oil exports, tourism receipts and remittances.³⁸ Staff also expected a dramatic deterioration in private capital inflows in 2020 (by US\$4.1 billion, almost exactly the size of two EFF purchases received in 2020). Due to the ongoing debt operation, Ecuador did not have market access and, was expected to rely on multilateral and bilateral creditors for financing in 2020.

	Program Request				Outturn			Difference		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
Gross external financing requirements	9,139	10,293	6,759	6,860	5,369	2,782	4,292	-4,925	-3,978	-2,568
Current account financing need	112	1,864	144	-322	-2,870	-3,377	-2,711	-4,734	-3,521	-2,390
Public sector amortizations	4,800	3,980	2,038	2,554	3,790	1,709	2,376	-190	-329	-178
Private sector amortizations	4,227	4,449	4,577	4,627	4,449	4,449	4,627	0	-127	0
External Financing Sources	9,874	8,742	7,560	8,591	9,391	3,684	4,857	649	-3,876	-3,735
Bilateral	738	998	700	0	151	370	196	-847	-330	196
Multilateral (excluding IMF)	3,310	2,982	3,246	1,750	2,819	2,455	2,588	-162	-791	838
Private sector	4,470	299	2,251	5,841	1,913	-751	462	1,614	-3,002	-5,380
2020 RFI	0	643	0	0	643	0	0	0	0	0
2020 EFF	0	4,000	1,500	1,000	4,007	802	1,611	7	-698	611
2021 SDR Allocation	0	0	0	0	0	949	0	0	949	0
Previous IMF Programs	1,357	-180	-136	0	-143	-140	-1	38	-4	-1
Change in gross reserves (- denotes an increase)	-735	1,551	-801	-1,732	-4,022	-903	-565	-5,574	-101	1,167

³⁸ Note that the increase in financing needs was larger still when assessed in real time, that is relative to the 2020 projections in December 2019 (at the Second and Third Review of the 2019 EFF). Financing needs at the program request were 25 percent higher than the 2019 EFF projection.

44. The IMF was expected to be the largest multilateral creditor in Ecuador in 2020, and the large, frontloaded purchase was needed to arrest the projected decline in reserves. The combined RFI and EFF purchases would account for 53 percent of identified external financing. These numbers do not include the effect of debt restructuring and reprofiling, which had reduced public sector amortization needs (see ¶12). Staff expected a decline in reserves of around \$1.6 billion in 2020 (roughly one third of the combined RFI and EFF purchases) with gross international reserves falling to very low levels (13 percent of the ARA metric). The 2020 EFF was approved in September 2020, making US\$2 billion available immediately to address Ecuador’s balance of payments need and channeled to the budget, and an equal amount available in December upon the completion of the First Review. Over time, the share of IMF in the overall external financing was expected to decline as reserves were rebuilt. Fund financing would account for around 20 percent of external financing sources in 2021 and 12 percent in 2022. By 2022 private sector flows were expected to be the main source of financing, accounting for two-thirds of the total.

45. Current account outturns consistently exceeded program expectations enabling a much larger accumulation of reserves. Resilient non-oil exports and remittances (see ¶14) throughout the program horizon and higher oil revenues lowered the current account deficit by a cumulative US\$10.6 billion from 2020 to 2021, which was enough to offset a shortfall in other IFI and bilateral creditor disbursements (US\$1.1 billion lower than projected over 2020-2022), lack of market access, which was originally expected in 2022 (US\$0.5 billion) and a more significant shortfall in private sector flows (US\$6.3 billion lower than projected over 2020-2022). The latter difference reflects lower than expected portfolio and other investment financing. Overall, better current account outturns put reserves on a much higher trajectory in 2020. In 2021-2022, however, they were not enough to offset the impact of shortfall in private flows.

46. Making the EFF purchases available to the budget helped alleviate a tight liquidity constraint. Public sector financing needs were expected to increase by almost US\$4 billion in 2020 compared to 2019. Combined EFF and RFI purchases accounted for almost a third of identified financing sources. The outturn for deposits was very close to the projected amount with the unexpected shortfall in external financing offset by a lower fiscal deficit. In 2021 and 2022, government financing dynamics reflected the delay in the IMF disbursement (which was mirrored by delays for other IFIs) that was more than compensated by a much lower deficit and higher domestic financing, enabling significant deposit accumulation.

47. The balance of financing and adjustment under the program, and the burden sharing with other official creditors were appropriate. The fiscal adjustment—as measured by the overall balance of the non-financial public sector—over 2020-22 was 3.4 percent of GDP, very close to that envisaged at program request (3.8 percent of GDP, see above). The fiscal adjustment, aided in large parts by high oil prices, was more than half of the financing provided by the Fund under the EFF. Regarding the burden sharing between the IMF and other official creditors, the Fund provided 47 percent of the external financing provided by multilaterals in 2020-22 (with a significantly higher share at the beginning of the EFF), with the remaining 53 percent mainly provided by the IDB and the World Bank. The burden sharing for multilateral external financing was the same as envisaged at

program request. Financing from bilateral creditors and the private sector was lower than expected. The largest shortfall in bilateral financing occurred early in the program, when financing assurances for \$2.4 billion of new loans from China ended up not materializing in 2020-21 as expected at program approval.³⁹ This shortfall was offset primarily with a combination of fiscal adjustment, drawdown of buffers, and alternative financing from domestic and external sources. Part of the overall shortfall in financing in 2021 was also temporarily covered by the 2021 SDR allocation.

Ecuador: Public Sector Financing Requirements Projections and Outturns										
(USD million)										
	Program Request				Outturn			Difference		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
Gross Financing Needs	11,028	14,954	8,069	4,331	13,546	7,096	6,555	-1,407	-973	2,224
Nonfinancial public sector deficit	3,405	8,302	2,907	-601	7,073	1,704	182	-1,230	-1,202	782
Amortization	7,623	6,651	5,163	4,932	6,474	5,391	6,373	-178	229	1,441
External	4,800	3,980	2,038	2,554	3,978	1,847	2,376	-2	-192	-178
Domestic	2,823	2,671	3,124	2,378	2,496	3,545	3,997	-176	421	1,619
Gross Financing Sources	11,051	15,124	7,919	5,624	13,798	8,681	7,502	-1,326	762	1,878
External	8,615	11,393	5,446	3,250	9,182	4,636	4,414	-2,211	-810	1,164
Multilateral (excluding IMF)	1,908	2,982	3,246	1,750	2,819	2,455	2,588	-162	-791	838
Bilateral	738	998	700	0	151	370	196	-847	-330	196
Private sector	4,568	2,770	0	500	1,529	61	18	-1,241	61	-482
IMF	1,401	4,643	1,500	1,000	4,683	802	1,611	40	-698	611
2021 SDR Allocation	0	0	0	0	0	949	0	0	949	0
Domestic	2,436	3,731	2,474	2,374	4,616	4,045	3,088	885	1,571	714
Bonds and Treasury certificates	2,653	2,931	2,474	2,374	3,304	5,779	2,501	373	3,305	128
Other (including statistical discrepancy) 1/	-217	800	0	0	1,312	-1,734	586	512	-1,734	586
Change in deposits (- denotes an increase)	-23	-170	150	-1,292	-251	-1,585	-947	-81	-1,735	346

1/ The \$800 million in the program request and outturn includes \$500 million loan from Goldman Sachs transferred from BCE to MEF, which was excluded from the definition of BCE financing to the government. Other categories include financing under Convenio de Liquidez - essentially free financing from SOEs not part of the public sector (a financially repressive mechanism). Outturns also include government capital participations (incurrence of liabilities) and sales of assets by the social security fund, which are ex-ante projected at zero.

48. The SDR allocation, recorded as an increase in government deposits at the Central Bank, was partly used for cash management operations. The SDR allocation was recorded in the central government balance sheet as an increase in the Treasury Single Account (TSA) and as an increase in debt liabilities⁴⁰. The Central Bank recorded the allocation on the asset side as an increase in reserves (gross and net), and on the liability side as an increase in obligations with the central government (deposit). The Ministry of Finance and the BCE signed a Memorandum of Understanding stating that any interest cost or exchange rate risk from the SDR allocation lied with the central government. The authorities verified that the operation was in line with local legislation and that it did not undermine the institutional safeguards against Central Bank financing of the

³⁹ At the outset, Chinese institutions provided financing assurances for US\$2.4 billion of fresh financing for 2020-2021, in addition to the reprofiling of debt with CDB and Exim Bank with savings of US\$272 million from October 2020 to 2022. The fresh financing did not materialize, with CDB providing budget support of only US\$183 million in early 2021.

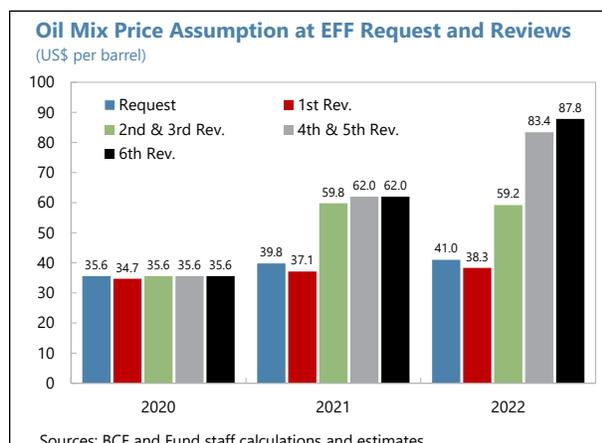
⁴⁰ Public debt increased by about 1 percent of GDP from the SDR allocation.

government or BCE's independence. The SDR allocation was used in the latter months of 2021 for cash management operations until more financing became available.

49. With oil prices in 2021-22 significantly higher than envisaged at program request and additional financing from the 2021 SDR allocation, a program extension and rephasing of access could have been pursued at the time of the Sixth Review.

When the RFI was approved in May 2020, oil prices for Ecuador mix were projected at US\$32 and US\$34.6 per barrel for 2021 and 2022 respectively. In October, at the time of the EFF approval, these projections had increased somewhat to US\$39.8 and US\$41 respectively. However, actual prices ended up being 56 percent higher than expected at the time of program request in 2021 (US\$62) and more than double in 2022 (US\$86). With oil prices starting to increase

steadily in the last quarter of 2020, the higher-than-anticipated oil price scenario was already visible in early 2021. In the first half of 2021, oil prices were about 70 percent higher from the same period the previous year. In addition, Ecuador's external financing in 2021 had increased by US\$950 million from the SDR allocation. Against this backdrop, the program could have been recalibrated by the time of the Sixth Review, when oil prices were around US\$80 per barrel and liquidity needs had eased. The program recalibration could have taken the form of an extension from the 27-month approved to at least 36 months, which is the typical EFF duration.⁴¹ The rephasing of access would have spread the remaining purchase through the third quarter of 2023, granting more time to implement reforms, and allowing the authorities to seek financing from other sources.



CONSISTENCY WITH FUND POLICIES AND PROCEDURES

A. Application of the Exceptional Access Framework

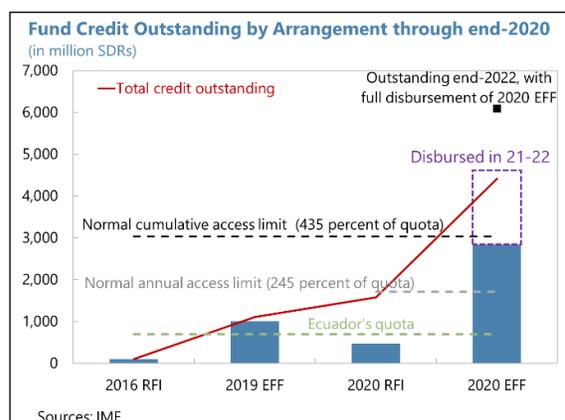
50. Given the surge in global financing needs triggered by the pandemic, the Fund increased the access limits for its lending framework in 2020. In a context of severe disruptions in global financial markets and with numerous emerging market and developing countries facing pressing financing needs, there was a substantial demand for IMF resources in 2020. In response, in April 2020, the Executive Board approved a temporary increase in access limits under the regular window of the RFI from 50 to 100 percent of quota for the annual limit and from 100 to 150 percent

⁴¹ The maximum duration for an EFF is 48 months. The duration of the most recent exceptional access EFFs were either 36 months (Portugal 2011, Ireland 2010) or 48 months (Greece 2012, Ukraine 2015).

of quota for the cumulative access, net of scheduled repayments. The annual access limit in the General Resources Account (GRA) was at 145 percent. This meant that countries that had already borrowed under the RFI, and especially those that had some credit outstanding with the Fund, had little or no room to borrow additional GRA resources. In response, in July 2020, the Executive Board supported the increase in the normal annual access limits (NAAL) in the GRA from 145 to 245 percent of quota, while the normal cumulative access limit (NCAL) was kept unchanged at 435 percent of quota.^{42,43} Access beyond the NAAL or NCAL entail exceptional access subject to the exceptional access policy.

51. With access equivalent to 661 percent of quota, Ecuador's 2020 EFF comprised

exceptional access. In addition, Ecuador had credit outstanding with the Fund from previous arrangements, amounting to 236 percent of quota. Almost two-thirds corresponded to the amount drawn under the 2019 EFF⁴⁴, and the rest to the 2020 RFI plus the amount outstanding on the 2016 RFI, for which the repayment period extended through August 2021.⁴⁵ Hence, access above US\$1.2 billion in 2020 or over US\$2 billion cumulatively would have already triggered exceptional access.



Box 2. Exceptional Access Criteria

The Exceptional Access Framework (EAF) was updated by the Executive Board in 2016. Under the EAF, Ecuador had to meet all four exceptional access criteria (EAC) described below:

EAC1. 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.

EAC2. A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable *ex ante*, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access is 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.

⁴² In March 2023, normal access limits were raised to 200 (600) percent of quota for annual (cumulative) for a one-year period, with the possibility of extending it with a Board decision before the expiration of the 12-month period (IMF, 2023c).

⁴³ See IMF 2020e.

⁴⁴ With three reviews completed under the 2019 EFF, Ecuador withdrew SDR 1.012 billion (145 percent of quota) out of the SDR 3.035 billion (435 percent of quota) that had been approved.

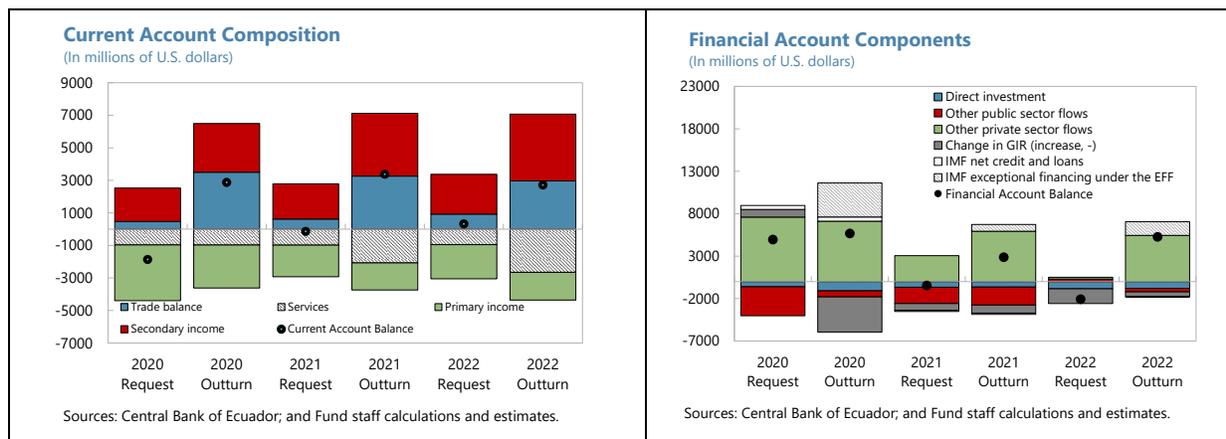
⁴⁵ The repayment period for RFIs is within 3¼ to 5 years.

Box 2. Exceptional Access Criteria (concluded)

EAC3. 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.

EAC4. The policy program of the member 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.

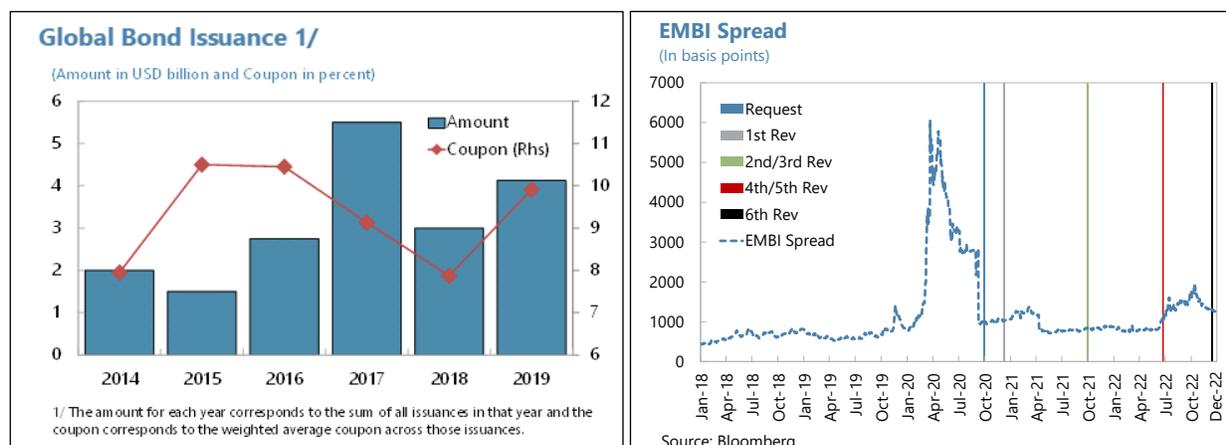
52. EAC1 was clearly met at the program approval stage since Ecuador was facing significant balance of payments needs in mid-2020. At the time of the program approval, with fiscal pressures stemming from the pandemic and declining oil prices, Ecuador was facing a deep recession and the overall external financing gap for 2020-22 was estimated at US\$6.5 billion, after the impact of the envisaged fiscal consolidation, a successful restructuring of the global bonds (see Box 1), and support from IFIs and official bilateral creditors. EAC1 was deemed to be met in all six reviews, though starting from the combined Second and Third Review the assessment could have been better justified. With current account outturns being significantly better than expected, largely due to higher oil prices since 2021, the nature of the BOP need shifted to being driven by lower private sector and official creditor inflows. At the same time, reserve accumulation exceeded program targets. In the latter reviews of the arrangement the case for meeting EAC1 focused more on the need for public sector financing which resulted in an exceptional balance of payment need.



53. After the satisfactory conclusion of the bond exchange Ecuador’s debt was assessed to be sustainable with high probability, satisfying EAC2. Following the May 2020 RFI disbursement when debt was assessed knife-edge sustainable, Ecuador’s debt was assessed to be unsustainable after continued deterioration of the macroeconomic environment. The successful restructuring of international bonds together with financing assurances from official bilateral creditors, support from IFIs, and a planned improvement of the fiscal situation restored Ecuador’s debt sustainability with high probability. At the time of the arrangement approval, public debt was expected to peak at 69 percent of GDP by end-2020 and decline to 56 percent of GDP by 2025, anchored on the limit

imposed by COPLAFIP. In the end, Ecuador's debt reached 60.9 percent of GDP by end-2020⁴⁶ and peaked at 62.3 percent in 2021, before declining to around 58 percent of GDP by end-2022. The faster than expected decline in debt was achieved primarily on the back of higher oil prices and better than assumed macro conditions. Against this favorable evolution of public debt during the program and with the assessment remaining sustainable with high probability, EAC2 was assessed as met in all reviews.

54. At program request, staff judged that Ecuador would regain market access even during the life of the program, thus satisfying EAC3. In the six years prior to the 2020 EFF, Ecuador had placed international bonds every year with annual issuances reaching a peak of more than US\$5 billion in 2017 and surpassing US\$4 billion in 2019. The 2020 international bonds renegotiation was successful and EMBI spreads had declined consistently below 1,000 basis points, after having reached a peak of 6,000 basis points at the onset of the pandemic. Guided by historical evidence showing that a country typically regains market access within 2-3 years following a debt restructuring (see Box 1), staff judged that Ecuador would tap the markets in 2022 for US\$500 million.



55. EAC3 was assessed to be satisfied in all program reviews, but in mid-2022 market conditions for Ecuador started to deteriorate. Spreads increased from slightly less than 800 basis points in early June to above 1,100 basis points the days before the Executive Board discussion of the combined Fourth and Fifth Review amid the ongoing global tightening of financial conditions. At that time, though, the expectation was that Ecuador would still regain market access in 2022 for US\$1 billion.⁴⁷ Following the June 2022 protests and the declaration of the state of emergency with the resulting political uncertainty, market conditions had deteriorated significantly for the country with EMBI spreads almost reaching 2,000 basis points and Ecuador was not able to tap private

⁴⁶ GDP growth and improvements in the fiscal balance in 2020 were stronger than anticipated at program request.

⁴⁷ Expected bond placement in private markets was revised up from US\$500 million to US\$1 billion at the time of the combined Second and Third review. The authorities were planning to rely on a US\$400 million guarantee from the IDB to receive a more favorable rate. By the time of the Sixth Review this guarantee was converted into direct budget support disbursement.

markets as had been expected. By the Sixth Review in December 2022, staff and authorities' views had changed considerably, and the expectation was that Ecuador would not regain market access until after 2023. With financing needs expected to remain manageable, including due to high oil prices and stronger buffers, the completion of a second reprofiling operation of bilateral debt with China, sustained decline in spreads that reached about 1,250 basis points by end-2022 from a peak of 1,800 basis points over the fall, and continued implementation of the fiscal consolidation plan, staff assessed that Ecuador would regain market access in 2024, in time before repayments to the Fund were expected to start, and judged EAC3 as met.

56. Ecuador's capacity to repay the Fund remained adequate throughout the program, notwithstanding postponement of market access. Both peak Fund credit outstanding in percent of quota and all indicators of peak obligations to the Fund were below the median for comparator GRA exceptional access cases. Capacity to repay was assessed as being contingent on full program implementation and financing from other creditors. As the program evolved, capacity to repay improved due to better fiscal outturns and considerably higher oil prices. This was reflected in better indicators of capacity to repay with peak obligations to the Fund declining from 15.3 percent of gross international reserves (5.1 percent of exports) at program request to 7.2 percent of reserves (4.1 percent of exports) in the combined Fourth and Fifth Review. By the end of the program, even though Ecuador was not able to re-access capital markets as expected (US\$ 1 billion), near-term net financing needs were alleviated by the reprofiling of debt with Chinese banks, a conversion of an IDB guarantee into budget support, and additional financing from domestic banks.

57. EAC4 was deemed met at arrangement request as there was broad political support from the prevailing government and Parliament for the Fund supported program objectives, and the government was taking steps to improve institutional capacity. With Presidential elections scheduled for early 2021, less than five months after the Executive Board's consideration of the arrangement request, obtaining political assurances was a key component of meeting EAC4. In this context, the President of the country provided a letter of support of the program and the National Assembly contributed with a letter of support of program objectives. At the same time, the authorities had implemented corrective actions to address the deficiencies that had resulted in the case of misreporting under the previous EFF in early 2020.

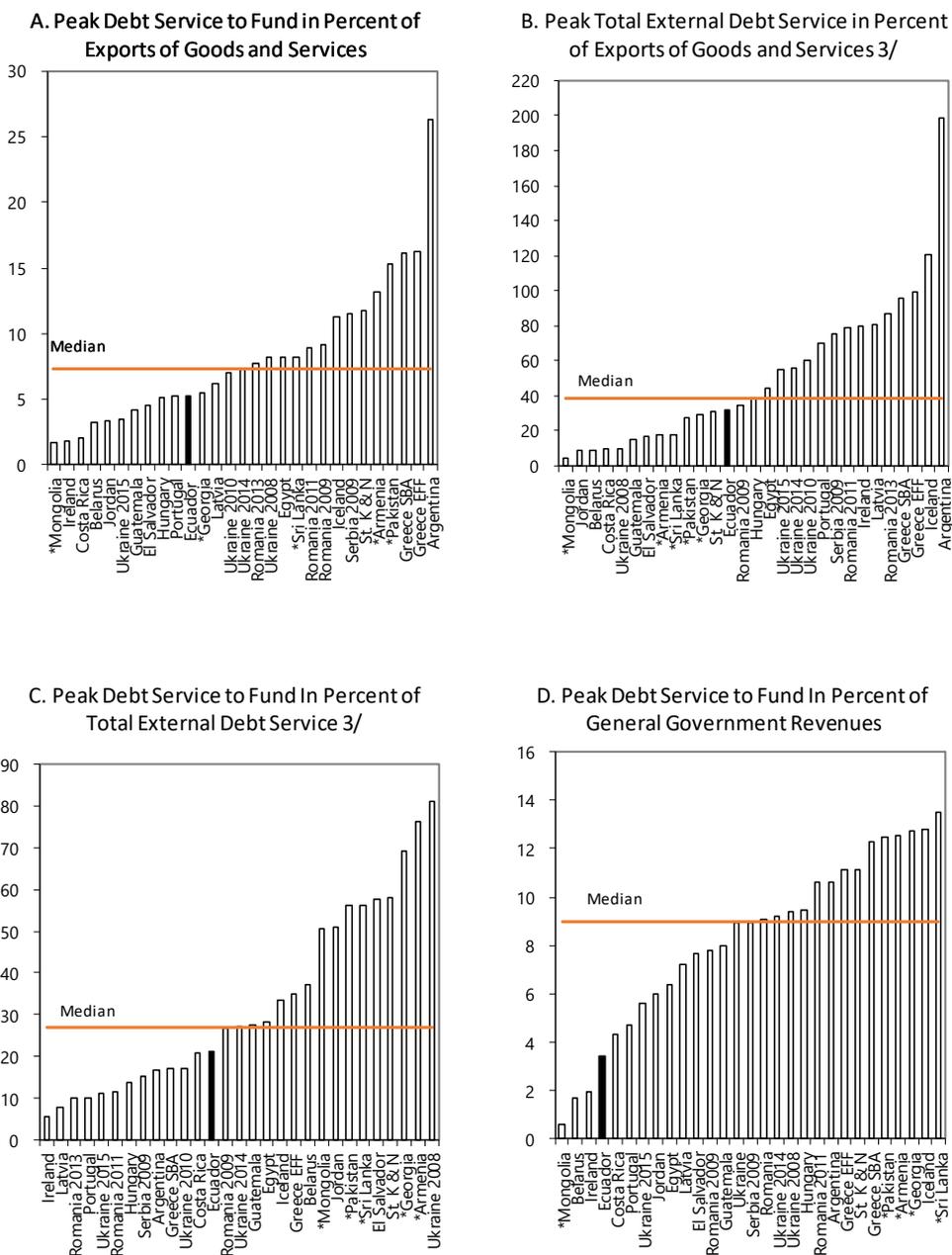
58. Staff sought political assurances on key objectives and overall policies of the Fund supported program as required ahead of forthcoming elections by the time of the First Review (December 2020). Two of the three leading presidential candidates for the 2021 election expressed a desire to renegotiate the program, while all three publicly opposed the VAT hike, which was at the time a cornerstone of the fiscal adjustment strategy. Although there was consideration of securing some assurances in writing, this ultimately did not materialize. Staff sought to mitigate political risk by securing prior actions on Central Bank and anticorruption laws, and a commitment to an open dialogue with a broad range of stakeholders. Moreover, the program was designed after seeking inputs from broader political groups such that the goals and the associated conditionality had at least no opposition at the outset of the program.

59. The political environment continued to be challenging during the rest of program with a fragmented National Assembly where the government only had a minority representation.⁴⁸

The new administration that took office in May 2021 sought to continue program implementation, although a fragmented National Assembly made reforms more challenging. The authorities eventually implemented most of the structural conditionality. However, political constraints resulted in important deviations from the original program: fiscal consolidation became more spending based (during the Second and Third Review), and fuel price increases were suspended shortly afterwards (October 2021). Fuel prices were furthermore reduced around the combined Fourth and Fifth Review (June 2022)— amidst strong social unrest. That said, two major reform priorities – the passing of the COMYF and anti-corruption reforms, which staff viewed as cornerstones to fulfill EAC4, were carried out, albeit with some delays in some areas (Table 2).

⁴⁸ The President's party had only 12 out of 137 seats in the Assembly elected in 2021. In addition, the President had narrowly survived an impeachment attempt in June 2022.

Figure 3. Peak Debt Service Ratios for Recent Exceptional Access Cases^{1/2/}



Source: IMF Finance Department

1/ Estimates as reported in relevant staff reports on the request of SBA, or arrangements under the EFF approved since September 2008.

2/ Asterisks indicate PRGT-eligible countries at the time of the program. Georgia's debt service to the Fund includes one from a PRGT loan.

3/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

60. In summary, while the exceptional access framework was followed at program request and at each review, there was room for a stricter assessment of some criteria. In particular, the case for exceptional BOP pressures (EAC1) was weaker as oil prices surged, and the prospects for regaining market access (EAC3) diminished markedly as of June 2022 with the rapid increase in credit spreads. Finally, the continuously challenging political environment mainly due to a fragmented National Assembly together with some major program slippages raise questions about the continued satisfaction of EAC4 by the time of the Fourth and Fifth Review.

B. Misreporting

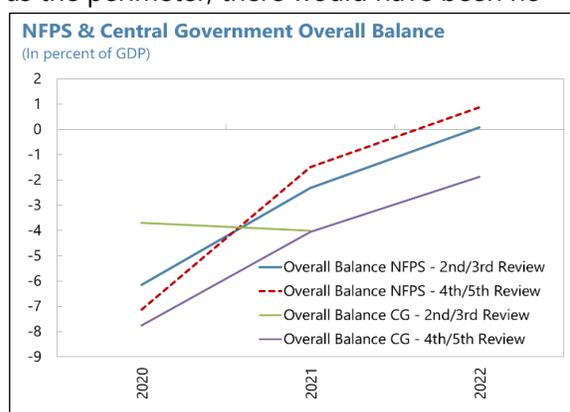
61. Context: Since the case of misreporting during the previous 2019 EFF was discussed by the Board on May 1, 2020, the Ecuadorian authorities have been, with extensive technical assistance from the IMF's Statistics Department, addressing long-standing institutional and technical capacity weaknesses in compiling, verifying, and reconciling their public finance statistics. These actions were instrumental for discussions on a new EFF arrangement with Ecuador with exceptional access, including to assess the EAC 4 as being met, despite the misreporting unearthed during the previous EFF.

62. Capacity Development in the 2020 EFF: At the outset the program included two structural benchmarks: (i) correct and publish the historical fiscal data, both above- and below-the-line, back to 2012; and (ii) prepare a compilation guide, in consultation with IMF TA, and disseminate it to data providers across the NFPS through a workshop. To help with achieving these benchmarks, an STA short-term expert began working in September 2020. The 2021 Article IV report lists three GFS missions (September 2020, April 2021 and July 2021). Capacity development efforts continued thereafter to fill in the gaps in data reporting.

63. Misreporting occurred owing to inaccurate measurement of PGE pension transfers to the IESS. PGE transfers were not recorded on an accrual basis – a requirement as per the TMU. There were significant delays in pension and healthcare transfer obligations to IESS, resulting in inaccurate measurement of the PGE overall balance. An STA TA mission in March 2022 detected the transfers that were recorded on cash basis were lower than accrued amounts by around US\$240 million (0.2 percent of GDP) per year. As per STA TA recommendation and the TMU, the authorities revised the historical pension transfers data in line with the amounts verified by the Fiscal Relations Department of the Ministry of Economy and Finance (MEF). This revision caused an increase in arrears of PGE with IESS and a downward shift in the PGE overall balance, resulting in the non-observance of the end-April 2021 PC that was controlling for the completion of Second and Third Reviews with an associated non-complying purchase.

64. The misreporting incident and the choice of fiscal anchor: The misreporting incident during the program stemmed from inconsistency of measurement of flows between the central government and the NFPS units. In this context, after rectifying the error, only the overall balance of the central government was revised – the overall balance of NFPS was unaffected owing to the consolidation effect. The choice of program anchor was therefore consequential for the incidence of

misreporting⁴⁹ – had the QPC been defined on NFPS as the perimeter, there would have been no misreporting. The misreporting was detected in part due to improved compilation of Government Finance Statistics (GFS) that facilitated staff analysis of each subsector. Anchoring the program with the QPC on the narrower perimeter of overall balance of central government and CFDD therefore resulted in unveiling the underlying problems in reporting data from NFPS to the central government, which may not have been possible with the broader perimeter.



65. Revision in Interest Income: There was another, unrelated downward data revision to the NOPBS of the NFPS for all test dates under the 2019 and 2020 EFF arrangements. This was done to properly account for the treatment of interest income. NOPBS of the NFPS was a QPC at the time of the 2019 EFF and is became an IT under the 2020 EFF. This revision resulted in a downward shift in the NOPBS but did not amount to a misreporting.⁵⁰

66. Relevance with previous misreporting case: Ecuador had a misreporting case in 2019 that resulted in a non-compliant purchase owing to a misreporting in NOPB. The immediate corrective actions as a result of previous misreporting case were geared towards the statistics and reporting of non-financial public sector. The misreporting incident during the 2020 EFF occurred owing to an inaccurate measurement of flows between the PGE and NFPS. While this misreporting may have highlighted a consistent weakness in data reporting, authorities have since taken remedial measures to remove the gaps. The Board provided a waiver on the non-complying purchase on the basis of corrective actions taken by the authorities, and the remedial measures committed by them, including those policy measures appropriate to achieve the accurate reporting of the overall balance of PGE.

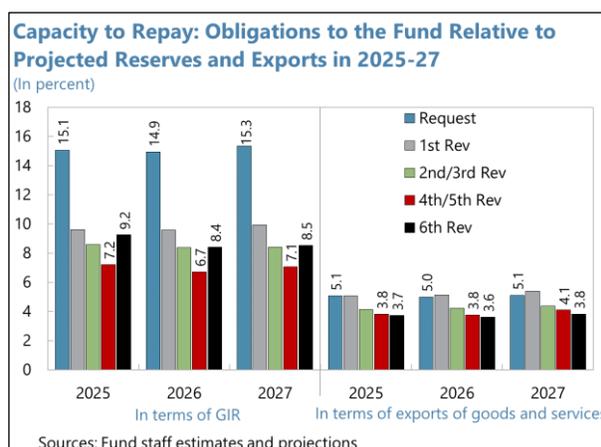
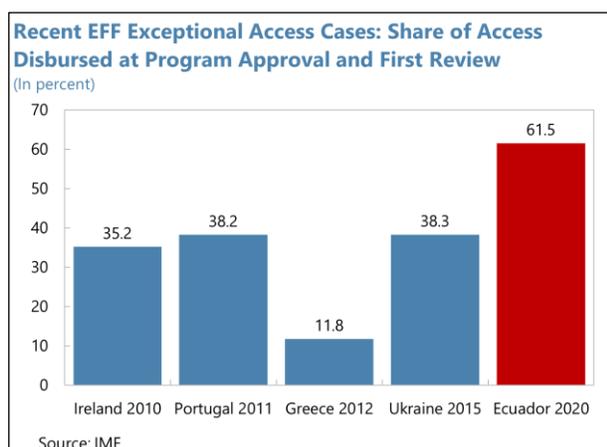
67. Misreporting policies compliance: The appropriate Fund policies were followed following the detection of the misreporting and the non-complying purchase. The Managing Director promptly wrote a letter to the Minister of Economy and Finance, informing him about the misreporting. The Minister of Economy and Finance, in his response confirmed the presence of the misreporting incident and explained the reasons behind misreporting. As per the policies, the MD thereafter submitted a report to the Executive Board with her recommendations. Based on the MD recommendations, the Executive Board granted a waiver.

⁴⁹ There was another unrelated misreporting that affected overall balance of NFPS. Please see below.

⁵⁰ On balance, staff saw ground for giving the authorities the benefit of the doubt and not considering these revisions as giving rise to misreporting due to: (i) the unavailability of relevant data through the Fall of 2021, (ii) staff's own calculations of NOPBS, and (iii) ambiguity in the TMU. Staff and the authorities revised the TMU to clarify the assessment of the NOPBS IT excluding interest income.

C. Risks to the Fund

68. Risks to the Fund from the program were elevated, especially due to the heavily frontloaded access. At the onset of the program, risks were particularly elevated due to the prevailing high uncertainty regarding the evolution of the pandemic and international oil prices. Access was heavily frontloaded in 2020 due to the large projected BOP needs⁵¹, but some important program measures, notably the revamping of the Central Bank legal framework and passing the tax reform were planned to take place only in 2021. The arrangement significantly increased the Fund's exposure to Ecuador, with the country becoming the sixth-largest borrower after the purchase at the completion of the First Review.⁵² On the other hand, the impact on the Fund's liquidity position was moderate and, as discussed in ¶56, at the time of program request Ecuador's capacity to repay the Fund was assessed as adequate contingent on program implementation and support from other creditors that would enable Ecuador to rebuild liquidity buffers. The assessment of capacity to repay improved as the program evolved given higher oil prices and better fiscal outturns.



69. The required safeguards assessments were conducted, a full-fledged risk assessment was conducted at program request, and the Office of Risk Management (ORM) contributed to the evaluation of overall risks to the Fund. All of these contributed to mitigate risks to the institution.

- In accordance with Fund policy, both a safeguards assessment of the Central Bank and a fiscal safeguards review were conducted. A safeguards assessment of the Central Bank had been finalized in June 2019 in the context of the 2019 EFF request, so no updated assessment was required at the time of the 2020 EFF request.⁵³ Two prior actions were included at program

⁵¹ 61 percent of total access set to be disbursed in the first four months of the program, before the end of 2020.

⁵² Fourth-largest borrower under a full drawing scenario—in which the Fund's total GRA exposure to Ecuador would amount to 7 percent—and compared with the exposure for other members as of end-July 2020.

⁵³ As per Fund policy following the 2015 streamlining, no assessment is required for a successor arrangement approved within 18 months from when the last safeguards assessment was conducted.

request to address some of the recommendations from the 2019 assessment related to establishing adequate external and internal audit structures. By the First Review, five recommendations from 2019 assessments had been implemented and the authorities were making progress to transition to International Financial Reporting Standards (IFRS). Other recommendations required passing the COMYF reform, which was approved in April 2021, with some delay. Implementation of IFRS accounting standards and other recommendations was considerably delayed and even when the BCE adopted IFRS in 2022, the financial reporting framework still deviated from international standards in some relevant respects, and needs to be further aligned to IFRS. Plans to implement the delayed recommendations were generally adequately discussed in the MEFPs.

- The fiscal safeguards review was conducted in February 2021. Recommendations included, among others, implementing a risk-based approach to internal and external audits, establishing an internal working group to oversee the implementation of reforms under COPLAFIP, and ensuring a smooth and timely transition to the new transactional digital platform (SINAFIP). Even though staff and the long-term expert from FAD followed up on the recommendations, a broader discussion of the findings and recommendations from the fiscal safeguards review could have been included in the staff reports, especially considering its focus on reforms on public financial management (PFM).
- Staff conducted a full-fledged risk assessment at the time of the program request in the “Assessment of Risk to the Fund and the Fund’s Liquidity Position” supplement. Throughout the program, staff was appropriately candid on the significant risks to the program and the Fund. The ORM provided guidance on Ecuador’s enterprise risk self-assessments from the onset of the program. Staff, advised by ORM, examined the business, operational, reputational, and financial risks of the program, while specifically considering credit risk to the Fund, including based on the capacity to repay assessments and DSAs discussed in the staff reports. The ORM was also involved in reviewing the 2022 case of misreporting and the remedial measures required from the authorities, highlighting the relevance of an adequate capacity development program, including on statistics and data reporting, to mitigate risks to the Fund.
- Finally, early in the program, contingency measures in case of a downside scenario were discussed with the authorities. These included measures on the fiscal, external and financing fronts. In addition, given the risks to their 2021 and 2022 budgets and their overall medium-term framework, starting in 2021, the authorities identified short- and medium-term contingency policies to be put in place should an adverse scenario materialize.

D. Lending into Arrears and Debt Limits Policies

70. The authorities complied with the lending into arrears policy by making good faith efforts to settle old claims arising from 2008-2009 default. At the outset of the program, Ecuador maintained a residual amount of arrears to international private bond holders arising from outstanding claims on those international bonds that the authorities repudiated in 2008-2009. Although most of these government obligations were repurchased by the government, US\$52

million remained outstanding belonging to individual creditors, who the authorities were unable to identify to settle the claims. As part of good faith efforts to clear the remaining arrears, the authorities established a public procedure to follow if a holder of these bonds requested the redemption of the securities. The staff's judgement that good faith efforts were made to reach a collaborative agreement with the remaining creditors, and the authorities' commitment to monitor evolving relations with these creditors was appropriate and consistent with the requirements of lending into arrears policy as applied to private creditors. The lending into arrears policy applied during all the reviews since the arrears were still outstanding at the end of the program.

71. Program documentation complied with the requirements of the debt limits policy. The Debt Limits Policy (PR 20/337) requires inclusion of a table with a profile of the holders of the country's public debt in the staff reports of program requests and all reviews, and wherever feasible, inclusion of debt service as well. The program documents included both the debt holders profile table and the debt service table to satisfy the requirement under the 2020 Debt Limits Policy. Ecuador, being a market access country, was not subject to setting conditionality (QPC/IT) on debt.

SUMMARY OF ASSESSMENT

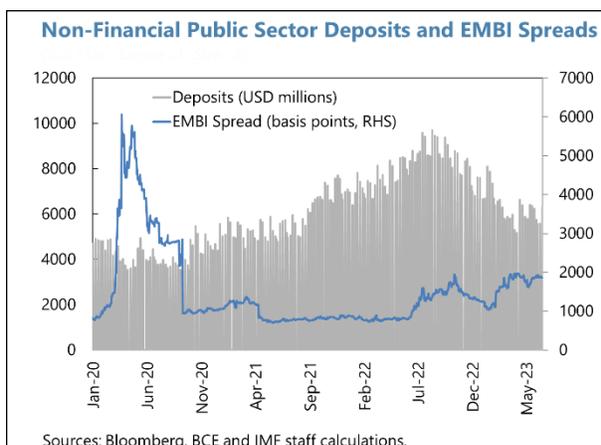
72. The 2020 EFF aimed to deal with the consequences of the COVID-19 shock amid long-standing imbalances and to continue the reform agenda of the 2019 EFF. Any assessment of the outcomes must consider not only the unprecedented COVID-19 shock but also the previous lack of Fund and other MDBs engagement with Ecuador. Between 2008 and 2014 there were no regular Article IV consultations with Ecuador. The country reengaged with the Fund in 2014 and the on-site Article IV consultations were conducted in 2015 and 2016 (when Ecuador used the IMF's Rapid Financing Instrument to deal with the consequences of the 2016 earthquake). The 2019 reopening of the Fund's Resident Representative Office in Quito marked an additional key step in this process. The 2019 EFF program request thus constituted the first attempt at supporting a comprehensive reform agenda after 10 years of very fragmented contacts. The institutional setup was opaque, and the authorities' technical capacity had been eroded. The first misreporting incident and the disruption brought about by the pandemic necessitated a new program, resulting in the 2020 EFF, which built on the foundations of the 2019 program. Initial program objectives were set during a time of unprecedented uncertainty, which persisted well into 2021, when crucial decisions on fiscal strategy were made.

73. The 2020 EFF program successfully stabilized the Ecuadorian economy against the backdrop of a historic economic downturn. The frontloaded purchases provided by the program were crucial in alleviating severe financing shortfalls in 2020. The program also catalyzed financing from other IFIs and a successful debt restructuring of international bonds, which provided debt service relief in the near-term and made Ecuador's debt profile more sustainable. Ultimately, the macroeconomic outcomes were better than envisaged at the time of the program request, partly due to favorable oil price developments. The authorities were able to rebuild fiscal and external buffers, although they came under pressure in 2022 owing to weaker fiscal adjustment effort and

policy reversal on subsidy reform. Thus, although the program helped stabilize the economy from the historic disruption, significant vulnerabilities persist, weighing on market access prospects.

74. Market access remains elusive reflecting skepticism about durability of fiscal consolidation and institutional reform, as well as rising political uncertainty. A proactive debt restructuring at the start of the program helped maintain orderly relations with private sector creditors. Although the debt target was achieved ahead of schedule, it was not supported by continued strong policies, which weakened already in 2022. Hence, market commentary remains focused on Ecuador's poor track record of fiscal adjustment and institutional weaknesses to which the positive achievements of the program (facilitated by high oil prices) provide only one counterexample. The spreads on outstanding bonds have increased to over 1,900 basis points (as of November 10, 2023) compared to their lowest point of about 730 basis points in 2022H2, reflecting the recent deterioration in fiscal accounts, challenging financing conditions as well as the reemergence of elevated political uncertainty and associated policy outlook. Global financial tightening is prompting flight to safety, which further weighs on market access prospects.

75. The unusually short duration of the program and the frontloaded purchase schedule were conditioned by the unprecedented COVID-19 shock but added to implementation risks. It was neither feasible nor desirable to start fiscal consolidation amidst the early stages of the pandemic, which, together with appropriately conservative projections gave rise to immediate and large financing needs. However, this also implied that better than expected outturns after 2020 gave the authorities more latitude to renegotiate program policies, sometimes to the detriment of their quality and durability. Although all program reviews envisaged 2020-25 as the time horizon for fiscal consolidation, post-program adjustment has not occurred, reflecting in part the political crisis and new elections in 2023. This underscores the importance of keeping planned adjustment within the program period. With hindsight, at least a marginal extension of the program to capture the full year of 2022 would have been preferable (see below) given the significant deviation in fiscal outcomes of 2022 from the Sixth Review projections and the ensuing rapid decline in NFPS deposit buffers (Text Figure).

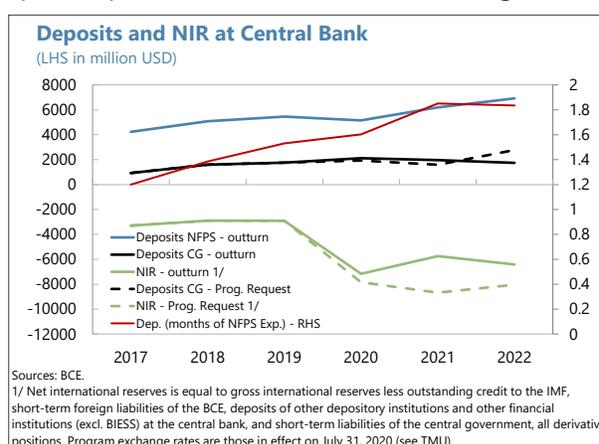


76. The choice of Quantitative Performance Criteria (QPC) and Indicative Targets (IT) was appropriate in light of institutional constraints, but limited the ability to track progress towards a broader goal of fiscal consolidation.

- The original fiscal anchor—the *overall balance of the Central Government (CG) including the derivatives account (CFDD)*, was chosen following the misreporting incident of the 2019 EFF. A broadening of the anchor to the overall balance of NFPS would have allowed for a more

consolidated tracking of fiscal balances, was originally envisaged, but did not materialize due to capacity constraints.

- The IT comprising *NOPBS of the NFPS* appropriately broadens the perimeter beyond the central government and in addition, prevents volatile oil revenues and exogenous variations in global financial conditions from affecting the program target. At the same time, efforts to curb oil subsidies, on the other hand, would appropriately improve the performance under this anchor. Ideally, this fiscal anchor would have been a QPC instead of IT, in addition or in place of the overall balance of the CG and CFDD. Using this QPC metric would have instilled more discipline into program implementation, as it allows less reliance on positive oil price windfalls.
- Beyond the level, the *quality and composition of fiscal adjustment* could have been monitored more closely, for example with a quantitative target for revenues collection. The 2020 EFF did not include a quantitative conditionality to monitor the composition of adjustment, allowing for a shift from revenue reforms to unsustainable expenditure cuts. Absent a more granular fiscal conditionality to ensure the quality of fiscal adjustment, much of the improvement in fiscal positions is at higher risk of being reversed, as the example of Ecuador shows.⁵⁴
- *NFPS deposits at the Central Bank* was the appropriate quasi-fiscal anchor for monitoring program performance, as it gives high-frequency information on above-the-line fiscal performance. It also serves as the most direct measure of external buffers, as in a dollarized economy, the Central Bank has limited policy levers to affect NIR.⁵⁵ However, to provide this QPC with a more explicit rationale, the NFPS deposits target could be anchored around a function of government expenditure or another adequacy metric.



Most QPC's and IT's were met at all six program reviews, often with a sizeable margin, even though the size and durability of underlying fiscal consolidation (measured either by NOPBS or NOPB) underperformed relative to program request and some subsequent reviews. The delay in fiscal consolidation to the post-program period, and the limitation of the QPCs for tracking underlying fiscal adjustment partly explain this divergence in outcomes measured by different metrics.

77. During the program the authorities strengthened fiscal buffers, taking advantage of higher oil prices and relying on expenditure cuts of uncertain durability. Although the

⁵⁴ IMF (2019c) also presents evidence of a positive relationship between granular fiscal conditionality and program performance.

⁵⁵ Other dollarized/Euroized economies (Panama, Kosovo) have similar anchors to monitor external buffers.

implemented fiscal adjustment was enough to meet the QPCs and the debt reduction targets were reached ahead of schedule, this was achieved due to favorable external circumstances (much higher oil prices than envisaged) and a contraction in expenditures of uncertain durability, as evidenced by post-program developments. The change in the program's fiscal strategy at the Second and Third Reviews may have been necessary to reflect Ecuador's political reality and also warranted to tackle inefficient spending. However, putting the burden of adjustment on spending raised new challenges as implementing current expenditure cuts through Fund programs is in general hard to sustain.⁵⁶ After the program, these achievements are further threatened by new spending pressures due to the worsening security situation and the potential impact of the El Niño phenomenon.

78. Although some of the higher oil revenues were saved, abandoning the previously planned VAT increase and suspending fuel subsidy reform allowed significant vulnerabilities to linger. The policy discipline provided by the program helped the authorities save a significant amount of recent years' oil windfall, in sharp contrast to past practices. The policy framework underpinned by the program and adjustments of corresponding performance criteria played an important role in securing these savings. However, the watered-down tax reform and suspension of the fuel subsidy reform left the budget still strongly dependent on volatile oil revenues and with elevated gross financing needs. A sustained decline in oil prices and/or production can potentially undo all the gains in fiscal and external positions achieved by the program. Raising non-oil revenue in a growth-friendly manner therefore remains a critical reform priority. The rising fuel subsidy bill remains a major drain on resources, which could have otherwise been better used for other purposes, including to build larger buffers.⁵⁷ A stronger emphasis on the quality and composition of the fiscal consolidation throughout the program could have helped make the short-term improvements in fiscal positions more durable, contributing toward the program objective of securing long-term fiscal sustainability and raising growth potential.

79. Staff decision to continue program engagement despite very significant policy reversals during the program reflected a difficult balancing act amid an increasingly challenging socio-political environment. Multiple delays in reviews indicate that staff took a reasonably strong stance in urging the authorities to stick to their initial policy commitments of a sizeable tax reform and fuel subsidy reform. However, the change in government, the still very tangible impact of the pandemic in 2021, and the social unrest episodes in 2021 and 2022 suggested that some flexibility was needed to safeguard the broader objectives of stabilization and institutional reform. This trade-off was at its most intense during the completion of the Sixth Review, when some of the important objectives have been achieved but evidence of policy reversals (e.g. a fuel price reduction) began to emerge. Staff needed to weigh the evidence of weakening policy commitment against the reputational risk of not completing or delaying the review for the Fund, and the implications for Ecuador's market access prospects. Subsequent events have shown that

⁵⁶ See IMF (2019c).

⁵⁷ As market access is not yet restored, the authorities are now using buffers built through the program to meet financing needs.

extending the program might have balanced these considerations better. The authorities' willingness to offer compensatory measures for the abandoned reforms was crucial in maintaining engagement, although such measures were often temporary and of lesser quality. On balance, the decision to continue engagement was appropriate to safeguard some important institutional reforms and ensure macroeconomic stability, but much work remains to address long-standing vulnerabilities.

80. The exceptional access policy was applied in line with Fund practices. Nevertheless, meeting some of the EA criteria became increasingly challenging over the course of the program. As the macro framework and oil prices turned out better than envisaged at the beginning, the BOP needs shifted to being driven by some shortfall in official financing, and the goal to build buffers beyond program expectations amid increased uncertainty (EAC1). Market access still remains elusive, with spreads starting to rise at the time of Sixth Review, signaling elevated obstacles towards accessing market for financing (EAC3). Evaluating political and institutional capacity to undertake reforms (EAC4) was the most challenging one, since arguments for meeting EAC4 weakened after policy reversals and the case of misreporting incident (second time within less than 2 years) arose. Staff judged the political capacity to implement the required policies as met given the authorities' commitment to the overall key objectives and continued close engagement with the Fund, even as political challenges intensified. Notwithstanding the emergence of misreporting, institutional capacity to implement the program was judged to be met given the authorities' strong willingness to rectify shortcomings by embracing a wide-ranging set of TA support from the Fund and other CD partners.

81. The expansion of social protection was an important element of the program, but its effectiveness could be enhanced. Despite the social spending anchor—an IT set on the number of families receiving social assistance—being an important innovation to the 2020 EFF conditionality, it is unclear whether the social protection expansion was perceived by the public as a complement to the adjustment efforts. It was also small relative to the fuel subsidies. The social spending program should have been a critical buffer in protecting the vulnerable population from any adverse impact of the program adjustment, especially the tax reform and the fuel subsidy reform. Yet the intensifying social unrest and opposition to the fuel subsidy reform suggest the public did not perceive these policies as providing sufficient buffers. A better alignment in the timing of the social protection expansion with the fuel subsidy reform could have enhanced the perception of the policy offset for the poor. In addition, a more effective and targeted communication strategy with the public could have been adopted, possibly anchored by a structural benchmark and linked with the overall objectives of the program.

82. The 2019 and 2020 EFF, however, provided valuable experience in introducing automatic fuel pricing mechanism, even if its operation remains suspended. Reducing energy subsidies is never an easy task and it was bound to be even more difficult when commodity prices began increasing and the political environment deteriorated. Despite the challenges over the fuel subsidies reform, the authorities achieved some important progress. First, even if the price of subsidized fuel products remains well below market prices, and more so since the oil price surge following the invasion of Ukraine, these prices were almost doubled during the EFF program.

Second, in the spirit of maintaining some reform effort in this area, the authorities have recently abolished diesel subsidies to large shrimp farms. Going forward, more should be done to continue reducing the fuel subsidy bill and replace blanket subsidies with targeted transfers to protect the vulnerable. Given the history of attempts to remove subsidies, building a broader coalition in support of this measure and associated compensation to the most affected population will be critical, which will require a stronger, more disciplined communications strategy.⁵⁸

83. Fiscal structural reforms comprehensively revamped Ecuador’s fiscal framework, but their successful implementation will hinge on building and retaining institutional capacity.

The landmark reform of the organic budget code, completed as a prior action to the 2020 EFF program approval, established the foundations for budget planning, expenditure discipline, and fiscal risk management. The program also made a strong effort to gradually eliminate domestic arrears both to suppliers (largely successful) and within the public sector (where more work remains to be done). The challenge lies in effectively implementing the reforms and sustaining the resulting improvements in the fiscal framework.

84. The program’s focus on advancing the anti-corruption and transparency agenda, which stemmed from staff’s assessment of governance vulnerabilities, was appropriate and put in place a foundation for improving spending efficiency and enhancing anti-corruption efforts. Reforms under the program achieved progress on addressing vulnerabilities that have persisted for many years and contributed to candid and productive engagement with the authorities in these difficult areas.

85. Passing the COMYF reform was a major achievement to strengthen the Central Bank independence and the dollarization regime, though there remains some room for fine-tuning.

The reform banned Central Bank financing to the public sector and established an independent Board of Directors, setting clear rules for the appointment and dismissal of its members. The amended COMYF streamlined the BCE objectives, including to preserve the integrity of the dollarization regime, and to promote financial stability. The reform strengthened the Central Bank balance sheet by returning shares of public banks to the central government—for which the Minister of Finance would repay the BCE—, removing legacy assets from the 1999 financial crisis and restoring the four-reserve balance scheme to ensure the full coverage of Central Bank liabilities with international reserves. The amended code could have established more clearly the powers of the Central Bank over the Financial Policy and Regulation Board (JPRF) on matters such as setting interest rates and conducting macroprudential policy, and on the BCE’s autonomy from the Ministry of Finance in terms of its budget preparation. The COMYF could also better clarify the responsibilities and powers of the different supervisory agencies, and overhaul the bank resolution legal framework.

⁵⁸ See e.g. IMF (2019d) for detailed recommendations in the case of Colombia.

86. Although boosting fiscal resilience and strengthening institutions were correct priorities amidst the COVID-19 crisis, broader reforms in financial sector and labor and product markets are needed. The 2020 EFF appropriately focused on restoring fiscal sustainability and improving institutions as the agenda set by the 2019 EFF program. The focus on debt sustainability, as well as fiscal policy and institutions instead of a more encompassing structural reform agenda reflected the most urgent priorities and political as well as capacity constraints amid first, the pandemic and second, political challenges. That said, much work remains ahead. The recently concluded FSAP outlined a comprehensive reform agenda, which the authorities should pursue, to improve financial sector supervision, reinforce financial sector safety nets and gradually reduce financial repression. The 2021 Article IV made important recommendations on labor market reforms and during the program staff continuously urged the authorities to abandon discretionary minimum wage increases. Such steps would have undoubtedly been difficult in a complicated political environment prevailing during the EFF program, but they remain highly relevant and should be considered in future arrangements.

LESSONS FROM THE 2020 EFF

87. The case of Ecuador suggests that clarity on the main goals is essential to design and execute an exceptional access program amid a difficult political environment and limited institutional capacity. For example, substantial modifications of the fiscal strategy (from balanced to expenditure-led) were a result of changing political preferences and constraints rather than economic considerations. While reflecting the authorities' political preferences is key to ensuring strong ownership of the agenda, this should not be at the expense of sacrificing quality and credibility of policies. Program design may have benefited from a more granular elaboration of program goals ex-ante. For example, staff could have focused not only on the clearly necessary debt and deficit reduction and achieving the specific COPLAFIP debt target, but also on explicitly making increasing non-oil revenues a first order goal of the fiscal adjustment. Conditionality on tax reform, which became less explicit over time, could have been more granular and stronger in preferring one reform design over another. Even if such benchmarks are not ultimately met, due to subsequent policy reversals, this would have provided a clearer signal for the evaluation of the exceptional access criteria (see below).

88. An early assessment of debt vulnerabilities and quick decisions on debt treatment are crucial to allow an EA program in a high-debt country a chance for success. Ecuador was able to reach agreement with private debt holders and close the debt operation in a short span of time, enabling exceptional access to much-needed financing to deal with the effects of the COVID-19 pandemic. Debt restructuring by Ecuador offers a good example of success, while also highlighting the importance of enhanced collective action clauses (CACs), see Box 1. The authorities played a proactive role in facilitating and achieving high creditor participation in the exchange, thanks to a transparent engagement strategy with creditors and a forthcoming communication strategy.

89. The policy reversals during the program suggest a re-calibrated program duration and phasing or more granular assurances ex-ante could have been considered. An extended

duration of the EFF up to 36 months, with a more backloaded phasing of purchases in the second half of the program when oil prices surged and buffer needs were less acute, could have allowed the final test date to encompass the whole fiscal year 2022. Such a rephasing would have also been helpful to maintain the momentum of the very backloaded policy adjustment, especially when financing pressures became less acute, and risks of policy slippages increased. In addition, policy commitment could have been strengthened through more granular program conditionality to target progress toward fiscal sustainability beyond temporary debt targets (for example, with QPCs on non-oil revenues). Enforcing more discipline into program implementation, however, may run counter the goal of securing the authorities' ownership, and thus presents the program strategy design with an inherently difficult trade-off.

90. Ecuador's experience suggests that there may be merit in making contingency plans against policy reversals as early as possible, especially when the reform package is very ambitious. It was clear at an early stage that the tax reform was going to be a difficult step and the authorities' fuel subsidy reform hard to sustain, even with authorities' full commitment. Moreover, renewed political turmoil since early 2023 is a clear reminder that no contingency plan can fully accommodate all risks to program implementation. Ecuador's program design was appropriately mindful of important downside risks to macroeconomic conditions and financing shortfalls. However, the Fund's internal debate and engagement with the authorities, especially at the stage of the program request, may have benefited from a more proactive articulation of what policies constitute essential requirements for maintaining the arrangement (especially in the context of meeting EAC4) and whether there are credible alternative policies to rely on if the original policies turn out to be unfeasible. For example, it would have been helpful to look for alternative savings in case the subsidy reform fails in advance rather than after the event. The timing of such planning is critical since once a program is in place, interrupting it carries an additional financial and reputational cost for the country and the Fund.

91. The experience with policy reversals in the case of the Ecuador program suggests that common practices of securing political assurances may not always be sufficient. Before the 2021 elections, staff sought political assurances on key policies and overall objectives from the main candidates but secured only what amounted to statements of broad support. Thus, only months after the elections, the new administration abandoned the proposal for VAT increase to raise non-oil revenue—one of the main program policies. There could be ways to seek more credible assurances. For example, staff could have asked for written assurances from the candidates (privately, or ideally publicly) as well as specific commitments to key policies that are essential to achieve program objectives. Should the new government decide to abandon its earlier commitments to staff made before the election, staff could request a formal letter to the Executive Board that explains the reasons to change course. Another option to boost credibility of political assurances could be to pass legislation on difficult measures—such as the original tax reform—early on, but have it come into effect with a delay, when the economy is expected to recover.

92. Ecuador's EFF shows that implementation of the exceptional access framework could be strengthened by developing a uniform guidance on how to proceed if the assessment

changes over the course of the program. In the case of Ecuador, it was entirely reasonable to argue for exceptional access in late 2020 based on pandemic disruption and the authorities' strong policy package. However, later, as fiscal and financing outturns proved better than expected, while evidence of policy reversals emerged, the assessment became less clear cut. On the prospects for regaining market access (EAC3), staff would have benefited from more granular guidance on when a comprehensive explanation is needed to justify that a country is assumed to regain market access⁵⁹, or when the criterion cannot be assessed as met unless there are special circumstances underlying the high spreads (e.g., conflict country, natural disaster). Although clear-cut objective requirements for assessing EAC4 may not be possible as the criterion is more qualitative and relies heavily on staff judgement, staff could consider specific circumstances under which the criterion cannot be assessed as being satisfied.⁶⁰ The Ecuador experience also shows that ownership is of utmost importance when assessing capacity to implement reforms and fulfill EAC4, but that securing robust ownership throughout the program implementation period is extremely challenging amid a politically fragmented and volatile environment. In such increasingly challenging socio-political environment, Fund programs may need to rely more heavily on Prior Actions to support the assessment of EAC4. The experience with the Ecuador 2020 EFF suggests that a more systematic look at the Fund's EA Policy may be needed. The ongoing IEO evaluation of the Fund's EA Policy provides a welcome opportunity to assess the policy and its application from a broader perspective across individual EA cases for the first time since 2004 (see IEO, 2023).

93. Given the significant risks from the outset, some of which subsequently materialized, the program could have benefited from periodic evaluations of the impact of a downside scenario on Ecuador's capacity to repay. There were significant risks to an EA program for Ecuador from the beginning given the weak capacity, the fragmented political landscape and the necessary front-loaded access, as was acknowledged by staff throughout the course of the program. Moreover, while the risks of downside scenarios in the 2020 EFF had been discussed at program requests, the risk assessment could have been updated with a quantitative analysis of a downside scenario on capacity to repay the Fund in all program reviews. Such an assessment could have transparently informed how the realization of key downside risks to the program in Ecuador—notably partial policy implementation and delayed market access—could affect the country's capacity to repay through the course of the program.

94. The Ecuador EFF program is a good example for the importance of intensive collaboration with CD departments. The various technical assistance workstreams put in place prior to the start of the 2020 EFF and lasting beyond its conclusion (with long-term experts provided by FAD and STA) have allowed the authorities to strengthen their capacity in critical areas, in particular fiscal accounting, and allowed for adequate tracking of program progress. Deep

⁵⁹ For example, in cases where sovereign bond spreads are very high, staff would be required to thoroughly explain the baseline scenario under which spreads are expected to recede and market access regained.

⁶⁰ For example, in cases of upcoming presidential elections when candidates that could be expected to win campaign on (or clearly voice) their opposition to program objectives, key reforms, or Fund engagement.

cooperation between the area and CD departments helped formulate structural conditionality, for instance in transparency and anti-corruption, and improved traction with the authorities. CD departments also engaged significantly at the technical level to assist with the COMYF reform. The uncovering of both misreporting incidences and the ensuing corrective actions were a direct result of the intensive TA collaboration, which in turn led to more transparency and improved data collection across government fiscal accounts.

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets for 2020, 2021 and 2022
(In million USD, unless specified otherwise)

	End-Sept. 2020			End-Dec. 2020			End-Apr. 2021			End-Sep. 2021			End-Dec. 2021			End-August 2022				
	Target	3/	Actual	Status	Target	3/	Actual	Status	Target	4/	Actual	Status	Target	4/	Actual	Status	Target	5/	Actual	Status
Quantitative performance criteria																				
1. Overall balance of the budgetary central government and CFDD (floor) 1/	-2,883	-1,378	Met	-3,893	-4,297	Not Met	-305	-419	Not Met	-2,253	-1,675	Met	-4,071	-4,300	Not Met	-1,455	338	Met		
2. Accumulation of NFPS deposits at the central bank (floor) 2/	-1,989	-227	Met	487	1,293	Met	22	-55	Not Met	-161	1,095	Met	223	1,357	Met	1,264	2,270	Met		
3. Non-accumulation of external payments arrears (continuous PC)	0	0	Met	0	0	Met	0	0	Met	0	0	Met	0	0	Met	0	0	Met		
4. (No new) Net credit to government from the central bank (continuous PC)	0	0	Met	0	0	Met	0	0	Met	0	0	Met	0	0	Met	0	0	Met		
Indicative targets																				
5. Non-oil primary balance of the NFPS (including fuel subsidies) (floor) 1/	-2,539	-996	Met	-5,355	-4,072	Met	-636	-90	Met	-3,475	-4,068	Not Met	-6,218	-7,432	Not Met	-4,495	-3,762	Met		
6. Overall balance of the NFPS (floor) 1/	-2,699	-1,333	Met	-5,544	-4,334	Met	-337	842	Met	-525	366	Met	-2,372	-1,579	Met	555	1,966	Met		
7. Change in the stock of NIR - program definition (floor) 2/	-2,193	40	Met	-4,041	-2,357	Met	-110	542	Met	-222	1,704	Met	261	1,498	Met	790	2,031	Met		
8. Coverage of the cash transfer programs for lower income families - number of families (floor)	62,240	63,764	Met	226,000	271,668	Met	384,600	443,619	Met	452,799	Not Met	549,819	Met							
8. Number of families in the first income decile nationwide covered by cash transfer programs (floor)																		385782	Met	
9. Number of families in the lowest three income deciles by province covered by cash transfer programs (floor)																		1,181,777	Not Met	

1/ Adjusted for oil prices as per the TMU.

2/ Adjusted for oil prices, for extra disbursements relative to baseline from multilateral institutions and other external sources as per the TMU.

3/ For 2020 targets, cumulative change from July 1, 2020.

4/ For 2021 targets, cumulative change from January 1, 2021.

5/ For 2022 targets, cumulative change from January 1, 2022.

Table 2. Ecuador: Prior Actions and Structural Benchmarks under the 2020 EFF

Prior Action	Introduced at	Implementation Status
Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP requiring the reporting of fiscal data from public sector entities, including GADs, social security entities and state-owned enterprises, to the Ministry of Economy and Finance, detailing the coverage of information (revenue, expenditure, assets, liabilities), periodicity of information provision and enforcement mechanisms in case of non-compliance.	Program Request	Met
Enact/amend regulation to mandate the publication on a government website of all public procurement contracts, and the names of the awarded entities and their beneficial owner(s), the names of the public officials awarding the contracts, and the ex-post validation of delivery of the contracted services, providing access to the corresponding documents.	Program Request	Met
Deliver to IMF staff a PGE financial plan, prepared in consultation with IMF technical assistance and approved by the MEF Financial Committee, with detailed monthly forecast of revenues, expenditures and financing for the rest of year 2020.	Program Request	Met
Pass a JPRF resolution allowing the BCE to adopt an external auditor selection and rotation policy that should provide for longer term mandates (three-five years), and include technical requirements for central banking experience, compliance with International Standards on Auditing, and experience in the application of IFRS.	Program Request	Met
Pass a JPRF resolution creating an audit committee, which should be composed of external non-executive members with relevant professional experience, especially in the area of audit and IFRS.	Program Request	Met
The office of the President to receive from the National Assembly the approved law with the amendments to the COIP, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	First Review	Met

Table 2. Ecuador. Prior Actions and Structural Benchmarks under the 2020 EFF (continued)

Prior Action	Introduced at	Implementation Status
Finalize at the Presidential level, in consultation with IMF staff, the amendments to the Central Bank's legal framework that would be submitted to the National Assembly.	First Review	Met
Pursuant to the regulation issued by SERCOP in September 2020, make procurement contracts exceeding US\$962,410 awarded since September 2020, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, available to the public in the procurement website, in a directly and freely accessible and user-friendly manner.	Combined Second and Third Review	Met
Consolidate COVID-19 audit work in a dedicated webpage within the Comptroller General Office website. The webpage will provide easy access to all the published independent audit reports of COVID-19-related spending with the corresponding links to the reports. The dedicated COVID-19 audit webpage should also inform the public of other COVID-19 related audit reports that cannot be published on the webpage at this moment due to confidentiality required by law arising from ongoing investigations and legal proceedings. The webpage should provide a summary of the findings of such reports based on information that can be disclosed.	Combined Second and Third Review	Met
Prepare and present to IMF staff a central government financial plan for the remaining of year 2021 approved by the Financial Committee. The financial plan will include the detailed monthly cash flow, the arrears as of July 2021 verified by MEF following the COPLAFIP definition by sector, 2021 clearance estimate and monthly accumulation data, a document with the potential risks associated to the financial plan, potential mitigating measures, and an explanation of the deviations of the 2021 Financial Plan delivered to IMF staff in December 2020.	Combined Second and Third Review	Met

Table 2. Ecuador. Prior Actions and Structural Benchmarks under the 2020 EFF (continued)

Prior Action	Introduced at	Implementation Status
Adopt a presidential decree (Reglamento General de Compras Públicas), in consultation with Fund staff, for the design and operation of the Public Procurement Framework that will mandate the use of public framework agreements and other dynamic procurement methods and collection and publication of ultimate beneficiary ownership information in public procurement contracts.	Combined Fourth and Fifth Review	Met
Adopt presidential decree establishing optimization of public expenditure, including the wage bill, in line with the MTFE and fiscal targets.	Combined Fourth and Fifth Review	Met
Publish the MTFE, and fiscal targets approved by the NFCC, in line with program commitments.	Combined Fourth and Fifth Review	Met
Initiate independent audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas by agreeing on the terms of reference and timeline for completing the audits.	Combined Fourth and Fifth Review	Met
Sign an agreement between MOF and IESS to undertake procurement process, agree on the timeline and prioritization for the firm(s) to undertake healthcare audits, to be reflected in the terms of reference for healthcare audits.	Combined Fourth and Fifth Review	Met
Develop and share with Fund staff a time-bound action plan/strategy to undertake legal reform and administrative actions aimed at strengthening the legal framework for the State obligations on the healthcare expenditure and related audits starting in 2023, such that obligations of PGE to IESS (if any) will be reported, recorded, and cleared in a timely and transparent way.	Sixth Review	Met
Complete the 2020 and 2021 healthcare audits and share the results with Fund staff.	Sixth Review	Met

Table 2. Ecuador. Prior Actions and Structural Benchmarks under the 2020 EFF (continued)

Structural Benchmark	Introduced at	Timing	Implementation Status
Adopt a regulation, in consultation with Fund staff, to implement the July 2020 amendments to COPLAFIP, among others, with regards to public debt, the MTF, budget preparation and expenditure ceilings, preparation and publication of a fiscal strategy document, budget execution, cash management and arrears, budget modification procedures, fiscal risk management framework, corrective measures regime, and the fiscal rules framework.	Program Request	End-Nov 2020	Not met. Implemented with delay
The JPRF will approve an internal audit charter prepared by the BCE Audit Committee aligned with international standards to provide for: (i) the function's mandate and independence; (ii) coverage of all BCE's operations, (iii) adoption of a risk-based approach, (iv) an internal and external quality assessment program, and (v) regular reporting to an independent oversight body.	Program Request	End-Nov 2020	Met
Enhance the existing online publication of asset declarations ensuring the easy, searchable, and timely access to declarations of high-level public officials and/or politically exposed persons (PEPs), and publishing additional information online, including itemized information on incomes, assets and liabilities, based on regulations adopted by the General Comptroller, at the request of the government.	Program Request	End-Nov 2020	Not met. Was reformulated as a new SB for Aug 2022
Deliver to IMF staff a PGE financial plan for the year 2021 approved by the Financial Committee.	Program Request	Dec. 16, 2020	Met
Enactment of the anticorruption legislation, approved by the National Assembly, including measures to ensure that acts of corruption are criminalized in line with Articles 15 to 30 of the United Nations Convention Against Corruption.	Program Request	End-Dec 2020	Met

Table 2. Ecuador. Prior Actions and Structural Benchmarks under the 2020 EFF (continued)

Structural Benchmark	Introduced at	Timing	Implementation Status
Enactment of amendments to the Central Bank's legal framework, elaborated in consultation with Fund staff as committed to under the 2019 EFF.	Program Request	End-Jan 2021	Not met. Implemented with delay in Apr 2021
Publish a Medium-Term Debt Management Strategy (MTDS), prepared with the support of IMF TA, which assesses the cost and risk trade-offs of the different sources of public funding, and establishes a policy agenda.	Program Request	End-Feb 2021	Met
Share with IMF staff an updated arrears' clearance strategy with the updated information on the stock of arrears as of end 2020 based on quarterly flows for central government and selected relevant entities of the NFPS in line with IMF technical assistance recommendations.	Program Request	End-Apr 2021	Not met. Was converted to new SB for Nov 2021
Correct and publish the historical NFPS data, both above- and below-the-line, back to 2012	Program Request	End-May 2021	Not met. Implemented with delay in Aug 2021
Prepare a compilation guide, in consultation with IMF TA, and disseminate it to data providers across the NFPS through a workshop.	Program Request	End-May 2021	Met
Undertake an independent audit of COVID-19-related spending by the Office of the Comptroller General by mid-2021 and publish the results on a government website.	Program Request	End-Jun 2021	Not met. Was completed as a PA in Sep 2021
Enactment of a tax reform, elaborated in consultation with Fund staff, aimed at generating revenue and improving the overall efficiency of the tax system, in line with the substantive elements and constitutional process described in MEFP paragraph 17, bullet 1 (Program request).	Program Request	End-Sep 2021	Not met. Implemented with major revision and delay in Nov 2021
Establish and start operating the National Control Subsystem (SNC) to fight corruption in procurement. The SNC will facilitate coordination amongst public entities with control competencies over the public procurement system, via the interoperability of their databases.	Combined Second and Third Review	End-Oct 2021	Not met. Partially implemented.

Table 2. Ecuador. Prior Actions and Structural Benchmarks Under the 2020 EFF (continued)

Structural Benchmark	Introduced at	Timing	Implementation Status
Pursuant to the regulation issued by SERCOP in September 2020, make all procurement contracts awarded since September 2020, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, available to the public in the procurement website, in a directly and freely accessible and user-friendly manner.	Combined Second and Third Review	End-Nov 2021	Met
SERCOP, in coordination with the Ministry of Economy and Finance and the National Secretary of Planning, will issue procurement guidelines for all sectors of government to increase reliance on catalog purchases, improve procurement processes, and enforce bulk and standardized purchases for the central administration. Enforcement will be phased in from the end of 2021 (Central Government, IESS) until the end of first quarter 2022 (subnational governments, SOEs).	Combined Second and Third Review	End-Nov 2021	Not met. Was reformulated and met as a PA in Jun 2022
Initiate independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks by selecting the third-party firm and agreeing on a terms of reference.	Combined Second and Third Review	End-Nov 2021	Met
Initiate independent audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas by agreeing on the terms of reference and timeline for completing the audits.	Combined Second and Third Review	End-Nov 2021	Not met. Was met as a PA in Jun 2022
MEF will publish a methodology to estimate the arrears' stock and the templates for reporting on arrears to be used by public sector entities.	Combined Second and Third Review	End-Nov 2021	Not met. Implemented with delay in Jan 2022
Establish the National Fiscal Coordination Committee (NFCC) as set out in COPLAFIP.	Combined Second and Third Review	End-Nov 2021	Not met. Implemented with delay in Dec 2021
Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with the FATF standards.	Combined Second and Third Review (original due date End Mar-2022)	End-Oct 2022	Not met
Complete the upgrade of the social registry and expand the coverage of the social assistance program to at least 80 percent of families in the bottom three deciles of the income distribution.	Program Request (original due date Dec. 16, 2021)	Mid-Apr 2022	Not met. Implemented with delay

Table 2. Ecuador. Prior Actions and Structural Benchmarks Under the 2020 EFF (continued)

Structural Benchmark	Introduced at	Timing	Implementation Status
Share with IMF staff the completed independent audits of the 2019 and 2020 individual financial statements of Petroecuador and Petroamazonas.	Combined Second and Third Review	End-Apr 2022	Not met. Was split into Nov 2022 SB and MEFP commitment for 2023
Share with IMF staff the completed independent third-party asset quality reviews of the 2019 and 2020 balance sheets of all public banks.	Combined Second and Third Review	End-Jun 2022	Not met. Implemented with delay in Aug 2022
Identify and share with IMF staff the existing stock of PGE potential obligations, including gross health claims from IESS, other claims from IESS, GADs, private sector or others (if any), by nature of expenditure, year and beneficiaries.	Combined Fourth and Fifth Review	End-Jun 2022	Not met. Implemented with delay in Aug 2022
SERCOP, with support from the National Control Subsystem (SNC) and Superintendency of Companies, to backfill missing UBO information in the largest 100 procurement contracts awarded since September 2020 and publish in an easily accessible on a government website.	Combined Fourth and Fifth Review	End-Jun 2022	Not met. Implemented with delay in Oct 2022
Enact legislation to strengthen the framework to prevent and manage conflicts of interest in the public sector, broadening the existing asset declaration system to include incomes and interests of high-level public officials and/or politically exposed persons (PEPs), and ensuring the online publication of this information on incomes and interests for high-level public officials and/or politically exposed persons (PEPs), in line with the UNCAC (Articles 7 and 8) and international good practices.	First Review (original due date End-Jan 2022)	End-Aug 2022	Not met
Publish revised historical NFPS data, with explanations for IESS data revisions, both above- and below-the-line, back to 2013.	Combined Fourth and Fifth Review	End-Sep 2022	Met
Share with IMF staff the results of the audits by the Tax Administration (SRI) of tax expenditures of the companies awarded the largest 100 public procurement contracts awarded over 2020-2021.	Combined Second and Third Review (original due date End-Sep 2022)	End-Oct 2022	Met
Share with IMF staff the completed independent audits of the 2021 financial statements of the merged entity of Petroecuador and Petroamazonas (joint entity audits, to accommodate IFRS requirements).	Combined Second and Third Review (originally set for the 2020 financial statements)	End-Oct 2022	Not met. Changed to MEFP commitment for end-2023

Table 2. Ecuador. Prior Actions and Structural Benchmarks Under the 2020 EFF (concluded)

Structural Benchmark	Introduced at	Timing	Implementation Status
Submit a 2023 Budget in line with program and MTF commitments.	Combined Fourth and Fifth Review	End-Oct 2022	Met
Complete 2020 and 2021 healthcare audits and share the results with Fund staff.	Combined Fourth and Fifth Review	End-Oct 2022	Not met. Was met as PA in Nov 2022
Share with IMF staff the completed independent audits of the 2019 individual financial statements of Petroecuador and Petroamazonas.	Combined Fourth and Fifth Review	End-Nov 2022	Not met
Expand the coverage of the social assistance program to no less than 70 percent coverage of the bottom three income deciles by province and no less than 65 percent of the first income decile nationwide.	Combined Second and Third Review (original due date End-Dec 2022)	End-Nov 2022	Not met. Partially implemented.

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—, 2023b, [Ecuador: Financial System Stability Assessment](#) (Washington)

—, 2023c, [Temporary Modifications to the Fund's Annual and Cumulative Access Limits](#) (Washington)

Appendix I. Authorities' Views

The Ecuadorean authorities agree that the main objectives established at the outset of the EFF were successfully met: the program restored macroeconomic stability against the backdrop of a historic economic downturn and laid some institutional foundations for sustainable growth. We broadly share the EPE's assessment and believe it provides valuable lessons for future Fund engagement with Ecuador as well as for the design of Fund-supported programs in general. However, in our view, the report should have considered some additional elements to ensure that the lessons learned from the program are well grounded and realistic.

Context

1. We welcome the inclusion of the country specific historical context in the report. The prolonged period of unsustainable fiscal expansions, institutional deterioration, and limited Fund engagement prior to the 2019 EFF meant that the Ecuadorean economy had accumulated deep macroeconomic imbalances and structural vulnerabilities before the pandemic. We, therefore, share the report's observation that the shock from the pandemic compounded pre-existing vulnerabilities and any assessment of the outcomes of the program must consider the pandemic as well as the underlying fragilities that had developed previously. Given the significant increase in financing needs in 2020, the lack of market access, and the absence of buffers, the 2020 EFF was instrumental in helping Ecuador overcome one of the most economically challenging moments of its history. Under these extreme circumstances, the Fund acted as an effective and timely lender of last resort and the program worked as an important policy anchor for Ecuador.

2. We strongly believe that properly acknowledging the political context in which the program was implemented would have enhanced the quality of the EPE. Throughout the report, there are remarks on decisions made during program implementation, often without a proper reference to the challenging political context in which those decisions were taken. This somewhat partial view limits the scope to draw effective policy lessons. As a general background, it is important to underline that the program, which contained an ambitious fiscal consolidation plan and a robust reform agenda with a high number of structural benchmarks, was implemented by two consecutive administrations, both with weak legislative support and significant political limitations.

3. Ecuador's fiscal achievements should also be analyzed in light of the very challenging global environment and the expansionary fiscal policies adopted globally at the time. Ecuador's overall fiscal balance improvement of 3.5 percent of GDP between 2020 and 2022 was accomplished during a very difficult economic cycle. While most economies in the world experienced expansionary fiscal and monetary policies, Ecuador continued, under the 2020 EFF, the fiscal consolidation process that had started under the 2019 EFF. A recognition of the global context and prevailing policies would have allowed to appropriately appraise our commitment to the program and the effort made by the Ecuadorean government and population during those challenging years.

Program Design

4. **While we agree that program design was mostly appropriate, the report tends to focus on the program's deviations from its initial design and fails to draw a few critical design lessons.**

First, the size and timeframe of the fiscal consolidation efforts initially envisaged under the program, particularly its ambitious tax reform, were not consistent with the fragmented political environment and the vulnerable social conditions. Second, while the program's aim to buttress the Central Bank's balance sheet was fully adequate, the planned monetary reforms could have smoothed the bumpy and inappropriate profile of the debt repayments from the government and the public banks to the Central Bank. Third, we are surprised that the report does not make any reference to the planned establishment of the two separate monetary and financial regulation boards and the alternative options discussed during program negotiations.¹ We consider that our views on these topics complement the conclusions of the EPE and provide a broader perspective to draw lessons for future Fund-supported programs.

5. In our view, the expected initial revenue from the tax reform was excessively ambitious both socially and politically, while it was conveniently expected to materialize in a successive administration. The report notes that the yield of the enacted tax reform was lower than expected at program approval. We consider that the report would have benefited from acknowledging the inherent challenges of the backloaded tax reform as well as the broader political context in which the reform was approved. First, in recognition of the exceptional challenges posed by the pandemic, program disbursements were strongly front-loaded while fiscal consolidation reforms were backloaded and had to be implemented by an incoming administration. The program did not envisage any initial action, not even one with a deferred effective implementation, to gather political consensus for the very sizable tax package. Second, the reform was a clear demonstration of the government's commitment to the program and to fiscal discipline. Even though President Lasso had announced publicly during the presidential campaign that he would not raise taxes, the administration submitted the tax bill to the National Assembly and resolutely worked with legislators to get it approved. The reform was passed despite the administration's marginal legislative support (the governing party had 12 legislators out of a total of 137) and as the economy was beginning to recover from the dire effects of the pandemic, which led relevant segments of the population to fiercely oppose it. For these reasons, the enacted reform was the best possible outcome that could have been achieved given the design and political constraints, and we believe that the amount of revenue from tax increases envisaged at the program inception was socially and politically overly ambitious. While the progressive reform made great strides in our fiscal consolidation strategy, we are aware that Ecuador might need to continue mobilizing more domestic revenues in the future, but it is imperative that any envisaged increases have the social and political support to be sustainable over time.

¹ We are referring to the Monetary Policy and Regulation Board and the Financial Policy and Regulation Board, which for simplicity we shorten in the text.

6. Even though spending cuts have proven to be challenging, we continue to believe that rebalancing fiscal consolidation towards lower expenditures was an appropriate strategy.

General government expenditures had historically been around 21 percent of GDP in Ecuador. In 2007, they rose to 24 percent of GDP and in 2008, the last year an Article IV Consultation was completed before 2014, they surged to 35 percent of GDP. General government expenditures reached a peak of 47 percent of GDP in 2013. In 2019, the year prior to the 2020 EFF, they had decreased to 40 percent of GDP. After the exponential and unsustainable increase in spending during the late 2000s and early 2010s, we strongly believe that a deliberate focus on expenditure efficiency was and continues to be needed. During the implementation of the program, we further reduced expenditures despite legal and structural challenges, including legal provisions that limit local governments' consolidation and relatively high public wages, among other factors that make the composition of expenditures rigid. The report's observation that the composition of the fiscal adjustment relied increasingly on expenditure cuts during the program would be better complemented by an explanation of the previously mentioned political constraints to raise tax revenues and by acknowledging the trend of surging and unsustainable fiscal expenditures during the period of eight years that started in 2007. Indeed, the report notes that the consolidation plan under the 2019 EFF was much more expenditure based.

7. While the program adequately aimed to buttress the Central Bank's balance sheet, the profile of debt repayments from the government to the Central Bank should have been smoother over time.

During the ten years of institutional weakening and fragmented Fund engagement that started in 2007, the Central Bank expanded its balance sheet to finance the government and public banks, undermining the dollarization regime. Under Fund reengagement, repaying the government and public banks' debt to the Central Bank –which amounted to US\$8.3 billion– became one of our key priorities to address the underlying imbalances and strengthen our institutions. The Monetary and Financial Code (COMYF), which was one of the key structural reforms under the EFF, included provisions so that all Treasury and public banks' bonds held by the Central Bank should be repaid in full at maturity, without any option of partial refinancing. The government and public banks have duly repaid the Central Bank as their bonds have matured, adding up to US\$2.4 billion over 2021-2023 (equivalent to more than 35 percent of the total disbursements under the EFF), of which over US\$1 billion were repaid only in 2023. These payments have strengthened the Central Bank balance sheet and further decreased Ecuador's public debt-to-GDP ratio. However, they have also effectively caused a monetary contraction during a period in which economic activity has been weak and inflation has remained low. Additionally, they have increased liquidity stress in the fiscal accounts. The repayment schedule continues to be concentrated and bumpy in the coming years, creating further concern about its contractionary effects. In hindsight, we would have designed a smoother but sustainable repayment schedule to ensure institutional strengthening without creating undue economic and fiscal pressures, which have importantly eroded public support for these essential reforms.

8. The EPE should have included a consideration of the coordination problems and inefficiencies that arose from Fund staff's insistence to create two separate monetary and financial regulation boards as part of the program reforms. We and Fund staff discussed at

length the best institutional setups to strengthen Central Bank governance and financial sector regulation during the 2019 EFF and the 2020 EFF preparations. In several instances, we raised our objections to having two separate boards, including gray areas and overlapping between each board's functions and responsibilities and, as a result, potential coordination issues; the financial and operational challenges related to the creation of an entirely new regulatory body (the monetary board would become the Central Bank's Board, but the financial board would become an entirely new body); and the less effective and more convoluted crisis management framework that would result. While different institutional settings can work in different contexts, given the limited functions of the Central Bank in our dollarized economy, we thought it would be more sensible to have one strong board in charge of monetary and financial regulation. While we accepted Fund staff's position on this institutional setup because we could not afford delaying the approval of the programs, the objections we raised during the process have indeed been reflected in practice, raising overlapping functions and gray zones between the two boards and creating a convoluted process for liquidity or crisis management. In addition, with similar nomination procedures for members of both boards, the ability to ensure technical and independent bodies would not have been affected by an alternative framework, although finding suitable profiles throughout the nomination process with a fragmented legislative body has proven to be harder with two separate boards. The Fund's recent Financial System Stability Assessment on Ecuador highlights limitations of the current arrangement. There is broad consensus among current and former authorities, financial market participants, and independent economists in Ecuador that a single monetary and financial board would have been more effective and would have created fewer risks than the two separate boards.

9. In our view, there are important lessons for the Fund to be learned from Ecuador's experience with the creation of the two separate boards. For this setup to become part of the program, there were multiple discussions involving Fund staff (including across functional departments) and the Ecuadorean authorities. We believe the Fund should reflect upon its own decision-making and its internal process of checks and balances during the design of this important piece of the program to draw lessons for future Fund programs.

Program Performance

10. Program objectives were achieved, and Ecuador concluded the EFF in a much stronger position than expected at program approval. As noted in the report, the program successfully stabilized the economy and promoted long-lasting institutional change. Despite the domestic and global challenges faced during implementation, we met all quantitative performance criteria, including important ones –such as public debt reduction and international reserve accumulation– with significant overperformance. As also noted in the report, structural reforms in key areas –fiscal, monetary, governance and anti-corruption, among others– strengthened the institutional framework, which was opaque and weak when the program was approved. Just like fiscal consolidation was achieved during an extremely challenging global economic environment, a large number of meaningful structural reforms were adopted during this period, despite the administrations' weak political support in the National Assembly and low levels of public approval.

11. Some sections of the report appear to fail to recognize the dual effects of oil prices in the Ecuadorean economy.

The EPE notes repeatedly that better than expected outturns during the program were a result of higher oil prices. While we recognize the positive effects of higher oil prices in helping achieve certain program targets, that observation looks only at the revenue side of higher oil prices and misses their effects on expenditures as well as other historical dynamics. Higher oil prices in Ecuador also mean higher fuel subsidies and, in the past, always led to higher government expenditures, beyond fuel subsidies. This time, however, it was different. A significant part of the oil windfall was saved. Therefore, the program outturns were a result of higher-than-expected oil prices, but also of deliberate policy actions, implemented under very challenging conditions. The report could have recognized in a clearer fashion these dynamics, decisions, and results.

12. In the same vein, we do not share the report's statement that ideally the non-oil primary balance including fuel subsidies should have been a QPC instead of an IT.

The non-oil primary balance consolidated by 1.6 percent of GDP during the program, while including fuel subsidies that consolidation was of only 0.2 percent of GDP. Fuel subsidies increased dramatically during the implementation of the program mainly as a result of the significant increase in oil prices – which led authorities in many countries around the world to introduce temporary energy subsidies. QPCs should be designed to promote specific policies. However, the non-oil primary balance including subsidies was dependent on external factors, well beyond the authorities' scope of action. Moreover, the *non-oil primary balance including subsidies* definition treats oil prices asymmetrically, as it excludes all oil related revenues but maintains oil subsidy outlays. For these reasons, we do not share the report's argument that ideally it should have been a QPC.

13. Ecuador made historical progress in reducing fuel subsidies during the program.

The report states that the suspension of the automatic fuel pricing formula to gradually reduce subsidies in October 2021 and the marginal increase in fuel subsidies in July 2022 were some of the factors that withheld the decline in expenditures envisaged in the program. Although this observation may be true, the EPE could have provided greater context to properly assess the important progress that Ecuador made on this matter. The reduction in fuel subsidies was a significant accomplishment, especially considering that fixed fuel prices had been politically untouchable in Ecuador for decades. The report should have acknowledged the fierce opposition to reducing fuel subsidies among influential groups of the population, as well as the social and political environment in which the decisions to suspend the fuel price adjustments were made. Ecuador faced weeks of destabilizing social unrest when fuel prices were revised. Violent social protests that almost toppled the government had also occurred when the administration tried to cut fuel subsidies in October 2019, which highlights how politically sensitive the issue had already been prior to program approval. Against this challenging backdrop, we managed to reduce fuel subsidies – even if not to the full extent expected when the program was approved – and remain committed to continuing to durably reduce the fuel subsidy bill. As a case in point, in December 2022 we targeted the fuel subsidies for the shrimp sector, yielding an expected yearly reduction in fiscal expenditures of around US\$170 million. We share the report's assessment that Ecuador provided valuable experience in introducing fuel pricing mechanisms.

14. The relevant increase in the coverage of low-income beneficiaries of cash transfers was a crucial social protection policy but not an effective mechanism to help reduce the fuel subsidies. We agree with the overall intention, noted in the report, of using an increase in cash transfers to the least favored citizens, an effective and well-targeted subsidy, to help pave the way for the reduction of inefficient and fiscally costly fuel subsidies. However, this was not the right mechanism to compensate for a reduction in fuel subsidies in Ecuador, as the people that benefited from the additional coverage of cash transfers were different from the more vocal groups most impacted by the reduction in fuel subsidies. In our view, a mechanism to compensate for subsidy reductions should target the population most affected by the measure. In that regard, we believe that another lesson of the program is that the Fund, in coordination with other IFIs, could provide technical assistance on a gradual, piecemeal approach to reducing fuel subsidies. That said, the expansion of the social safety net during the program was critical to protect the most vulnerable population from the economic effects of the pandemic as well as from the consequences of the lower economic activity resulting from the fiscal consolidation.

Financing

15. Financing and disbursement design was appropriate given the circumstances. Financing was appropriate to address the challenges Ecuador faced at the time. We share the EPE's view that the front-loaded purchases provided by the program were crucial in alleviating severe financing shortfalls in 2020. We recognize that the front-loaded disbursement design implied significant trust on our unwavering commitment to the program, which was fully corresponded throughout the 27 months of its implementation.

16. While the program catalyzed relevant financing from other IFIs, coordination among IFIs could improve. The program unlocked additional budget support loans from multilateral development banks, which were vital to satisfy our pressing financing needs. However, some loan projects proposed to us were not consistent with the program's objectives. In particular, while the program had clear fiscal consolidation targets, certain projects envisaged non-trivial fiscal expansions and included higher permanent current expenditures. In our view, enhancing coordination among IFIs, particularly in terms of maintaining broad fiscal objectives, could be another lesson learned from the program.

17. The EFF catalyzed crucial debt restructurings. In the summer of 2020, we reached an agreement for a voluntary exchange of outstanding international bonds, which was contingent on reaching Staff Level Agreement on the EFF. The exchange resulted in interest savings of US\$5.7 billion over 2020-2025 and additional savings of US\$5.6 billion in amortizations over 2022-2025, considerably exceeding the program's total financing of US\$6.5 billion. As noted in the EPE, this was the first time enhanced CACs were used in a debt restructuring agreement. Shortly before program approval, we concluded debt reprofiling with two Chinese state-owned banks which yielded a cumulative cash flow relief of US\$272 million over 2020-2022. In September 2022, we reprofiled debt with two Chinese state-owned banks, reducing debt service by US\$687 million over 2022-2024, among other favorable modifications. The report duly notes these restructurings and their positive impact on Ecuador's debt sustainability.

Exceptional Access Framework

18. The application of the exceptional access criteria can be discretionary; hence, in our view, it should be revised. While the report notes that the exceptional access policy was applied in line with IMF practices, it also clearly states that it is challenging to evaluate some of the exceptional access criteria. Given that staff's judgment on this matter appears to be discretionary, one should be extremely careful with the practical application of the criteria, so that they really add relevant safeguards to IMF and avoid creating room for lack of evenhandedness in Fund decisions.

Misreporting

19. The misreporting case was an opportunity to identify and swiftly address long-standing institutional and technical capacity weaknesses. One of the instrumental contributions of the EFF was helping the authorities address legacy institutional failures, including in the quality of statistics. Had it not been for the program, lingering failures in public finance statistics would not have been identified and resolved. For that reason, we saw the misreporting case as an opportunity to become aware of gaps in data reporting and resolve them, supported by valuable technical assistance from the Fund.

Assessment

20. While we mostly agree with the EPE's assessment, we do not endorse the reference to a presumably desirable extension of the program, as it lacks any basis. The EPE of Ecuador's 2020 EFF brings forth some valuable lessons. However, we note with concern the suggestion that a program extension should have been preferable. We met all quantitative performance criteria, including some with overperformance, and most of the significant number of structural benchmarks, as the report notes. The exceptional benchmarks that we were unable to fulfill were for reasons beyond our control. Therefore, before the completion of the program there was no reason for us to request any extension. We were not surprised that the Executive Board approved the Sixth and final Review of the program without any objection.

Concluding Remarks

21. We broadly share the EPE's assessment and lessons. As stated in the report, the program successfully stabilized the economy against the backdrop of a historic downturn with significant downside risks and strengthened key fiscal, monetary, and anti-corruption institutions to lay the foundations for sustainable growth. Despite these accomplishments, we share staff's observation that vulnerabilities persist, and market access remains elusive. We remain committed to safeguarding our achievements under the EFF and to continue working closely with the IMF and other development partners in addressing our macroeconomic challenges.

22. We have some specific disagreements with the EPE report. As discussed above, we are particularly concerned with the report's suggestion that an extension of the program would have been preferable. In our view, there are no grounds to make such observation as we met all

quantitative targets and nearly all the significant number of structural benchmarks and the very few that were not met were for reasons beyond our control. We strongly believe that the progress that Ecuador made in reducing fuel subsidies was a historical accomplishment. As noted in the report, the price of subsidized fuel was almost doubled during the EFF. We would have liked to continue cutting fuel subsidies, but we faced a fierce social and political backlash that could not be ignored. We underscore that the fuel subsidy reform was not part of the program's conditionality and believe that the EPE would have benefited from a better recognition of the policy constraints that we faced in adopting our decisions. In the same vein, we regard the tax reform as a significant accomplishment given the political circumstances and the economic cycle. Finally, we do not share the view that ideally the non-oil primary balance including fuel subsidies should have been a QPC. That parameter is asymmetrical and was impacted considerably by external factors that did not reflect policy decisions.

23. In our view, there is a lesson to be learned with regard to the profile of debt repayments from the government to the Central Bank. After witnessing the contractionary effects and the liquidity stress created by the concentrated bond maturity profile, we believe that we should have designed a smoother but sustainable repayment schedule. It would have ensured institutional strengthening without creating undue economic and fiscal constraints and social opposition to this critical reform.

24. We believe that there are important lessons for the Fund to be learned from the process that led to the establishment of the separate monetary and financial boards. Fund staff and the Ecuadorean authorities had protracted discussions on this institutional arrangement during program negotiations. As stated above, we accepted Fund staff's position on this setup because we could not afford delaying the approval of the programs. The design has multiple shortcomings that have been confirmed in practice. In our view, the Fund should reflect upon its internal process which, despite our objections, led to the creation of the current inefficient and cumbersome institutional setup.

25. It is important to take context into consideration to properly evaluate Fund-supported programs. The global economic circumstances and the domestic political environment were adverse during program implementation. In fact, the EFF faced considerable risks since its beginning when the outlook was highly uncertain amid a severe macroeconomic downturn and with a presidential election within six months –which could have had a significantly different outcome. The two administrations that led the implementation of the program had minimal legislative support and consistently low public support. Context helps in understanding the reasons and constraints behind important decisions taken and policy measures implemented during the program. While the *summary of assessment* section cautiously refers to the context under which most decisions were taken, many statements in the rest of the report provide much less context and, as a result, in some instances are less informative.

26. Our commitment to the program and staff's close engagement were decisive for the success of the EFF. As noted in the report, the program shows that ownership is of utmost importance when assessing capacity to implement reforms. We want to reiterate our ownership of

the program and commitment to it, including to this date. For instance, during the implementation of the EFF we took every action under our control to contract a top-tier firm to audit the state-owned oil company's financial statements, but the tender process to select an auditing firm, to be financed with an IDB loan, ended without any bids. After the conclusion of the program, we have made concrete progress in this regard. We have launched a new tender process and received bids, and currently expect that the audit of the state-owned oil company's financial statements will start in a few months. We want to recognize Fund staff for their very close engagement and their open and frank communication with us, which were essential for the success of the program.

27. The program was instrumental in helping to establish a national policy agenda. It is hard to reach consensus on key fiscal and structural objectives in Ecuador. The EFF effectively helped to reach those critical agreements during a very challenging period. We are grateful to the Fund for its crucial financial and technical support when Ecuador faced an unprecedented downturn with risks heavily tilted to the downside. We reaffirm our commitment to maintaining a close engagement with the IMF.

**Statement by Afonso Bevilaqua, Executive Director for Ecuador
Bernardo Acosta, Senior Advisor to Executive Director
and Pedro Miranda, Senior Advisor to Executive Director
November 29, 2023**

1. On behalf of our Ecuadorean authorities, we wish to express our appreciation to the Fund for the critical financial and policy support that the EFF provided to Ecuador. Our authorities broadly agree with the EPE's assessment and would like to thank staff for the report.

Background

2. **The Ecuadorean economy developed significant imbalances prior to the pandemic.** During the oil boom that started around 2008, public spending skyrocketed from an average of around 21 percent of GDP in the first half of the 2000s to 46 percent of GDP in 2014. When the boom ended in 2014, the Central Bank of Ecuador started to finance the central government, with credit outstanding reaching 7 percent of GDP in 2017 and undermining the dollarization regime. In 2015, the National Assembly approved legislation proposed by the administration to eliminate the then mandatory transfers from the Treasury to the Social Security Fund, weakening the sustainability of the pensions system. External bond placements at high interest rates and short maturities soared in 2016, 2017, and early 2018. Public debt rose from 19 percent of GDP in 2009 to 51 percent of GDP in 2019. These developments considerably undermined macroeconomic stability, and economic growth was anemic between 2015 and 2019, with output growing 2.4 percent during the entire period.

3. **The pandemic compounded the pre-existing vulnerabilities, and the exceptional access program was approved at a crucial moment.** The 2019 EFF set a comprehensive reform agenda that sought to address the underlying macroeconomic fragilities. With the disruption caused by the pandemic, together with the misreporting case, there was the need for a new program, the 2020 EFF. At the time of the 2020 EFF approval, output was expected to contract by 11 percent in that year. The program's heavily frontloaded purchases alleviated the large initial financing needs and GDP declined by 7.8 percent in 2020, which was still an unprecedented recession. Ecuador met the criteria for exceptional access, which was justified by the dire effect the pandemic shock had on an economy with significant underlying macroeconomic imbalances and the lack of alternative financing sources. The EFF also enabled the crucial restructuring of international bonds, which resulted in savings of US\$5.7 billion in interest over 2020-2025 and US\$5.6 billion in amortizations over 2022- 2025, significantly exceeding the US\$6.5 billion financing provided by the EFF. The program also facilitated debt reprofiling with Chinese state-owned banks. As highlighted by our authorities in the report, the arrangement was instrumental in helping Ecuador overcome one of the most economically challenging moments of its history and the Fund acted as an effective and timely lender of last resort for the country.

Program Performance

4. **The main objectives established at the outset of the EFF were successfully met.** Ecuador restored macroeconomic stability and laid critical foundations for sustainable growth. Our authorities took decisive policy actions to turn an overall fiscal deficit of 7.1 percent of GDP in 2020 into a small surplus in 2022, the first since 2008. The fiscal dependency on oil revenues diminished significantly. As opposed to the pattern exhibited since Ecuador began exporting oil in the 1970s, a substantial part of the oil windfall was saved this time around, breaking a vicious correlation that heightened economic risks. The non-oil primary deficit was markedly lower by program completion than in previous years. Important and in-depth structural reforms were implemented, including a progressive tax reform and legislations that strengthened the fiscal framework, bolstered Central Bank governance and autonomy, and criminalized corruption.

5. **Ecuador concluded the arrangement in a much stronger position than expected at its approval.** Public debt reduction and international reserve accumulation greatly exceeded what was expected when the program was approved in September 2020. Public debt, which has been on a sustained declining path, reached the 57 percent of GDP target in early 2023, right after the program concluded, as opposed to in 2025 as originally envisaged. International reserves soared from US\$2.5 billion at program approval to US\$7.7 billion by program completion, significantly surpassing the US\$5 billion expected when the EFF arrangement was approved. While higher than anticipated oil prices boosted oil revenues, they also led to a sharp increase in the fuel subsidy bill. Our authorities contained further spending pressures, supporting international reserve accumulation.

6. **The implementation of a very demanding reform package was also strong.** As noted in the EPE, the program contained a large number of structural benchmarks. The 33 structural benchmarks work out to around 15 per year –compared to an average of 11 per year in other exceptional access programs. Delivering on this ambitious reform agenda imposed a heavy burden on our authorities. Their steadfast commitment to the EFF was critical for the successful implementation of most of the reforms at a challenging juncture.

7. **The enactment of the progressive tax bill in late 2021 enhanced fiscal sustainability and marked a significant accomplishment.** In 2021, the economy started to recover from the significant downturn of 2020. A new administration took office in May, having publicly announced during the campaign that it would not raise taxes. In addition, the new administration had minimal legislative representation –12 legislators out of a total of 137. Despite this challenging backdrop, the tax bill was approved in November 2021. It increased the income tax on the wealthier population, making the tax system more equitable. The approval of this reform was a remarkable achievement and the best possible outcome given the circumstances, even though the increase in revenue as a percentage of GDP was less than expected when the program was designed. Even the EPE, which focuses on comparing the program outturns in relation to its design and pays relatively less attention to external circumstances, acknowledges that “it was clear

at an early stage that the tax reform was going to be a difficult step.” The enactment of the bill is a testament to our authorities’ unwavering commitment to the program.

8. **Fiscal governance and transparency were strengthened.** As noted in the EPE, most of the program conditionality focused on strengthening fiscal institutions and advancing the transparency and anti-corruption agenda. A wide range of significant structural benchmarks were completed in these areas, including on improving cash and debt management, building technical capacity in fiscal statistics, strengthening procurement procedures, and conducting various audits. Greater transparency was given to obligations of the central government to the Social Security Fund, part of which have since been repaid. As a result of these reforms, Ecuador has a solid fiscal framework, enhanced transparency, and legislation that criminalizes acts of corruption, all of which have increased trust in public institutions.

9. **The reforms to the monetary and financial code strengthened the Central Bank’s autonomy and governance, and the dollarization regime.** The reforms underpinned the Central Bank’s autonomy, establishing an independent Board of Directors and eliminating the possibility of monetary financing of the budget –which included ensuring the full repayment of the government’s debt to the Central Bank at maturity. In addition to institutionally protecting the dollarization regime, the reforms tackled issues that had been unresolved for decades. They strengthened the Central Bank balance sheet by mandating the repurchase by the central government of public bank shares from the Central Bank, removing legacy assets from the 1999 financial crisis, and restoring the four-reserve balance scheme to ensure the full coverage of Central Bank liabilities with international reserves.

10. **A remarkable expansion of social assistance programs strengthened the social safety net at a critical moment.** While only three out of 10 households in need received cash transfers prior to the approval of the EFF arrangement, eight out of 10 did at program conclusion. The number of beneficiary families expanded from about 550 thousand to 1.2 million. The successful expansion of the safety net was critical to protect the most vulnerable population from the economic effects of the pandemic as well as from the lower economic activity resulting from the fiscal adjustment.

11. **Although it was not part of program conditionality, Ecuador made considerable progress in reducing fuel subsidies.** During the first year of the EFF, the government gradually increased fuel prices at the pump, reducing the fiscal resources allocated to fuel subsidies, a bold measure that had been avoided for decades. Further adjustments to gasoline prices had to be suspended in October 2021 and there was a slight increase in fuel subsidies in June 2022 due to unsurmountable political and social pressures. However, our authorities have kept their commitment to durably reduce the fuel subsidy bill and in December 2022 eliminated fuel subsidies for the shrimp sector, except for the smallest farms. The EPE notes that fuel prices almost doubled during the program and acknowledges that “reducing energy subsidies is never an easy task and it was bound to be even more difficult when commodity prices began increasing and the

political environment deteriorated.” It must be noted that the multiple references of the EPE to policy reversal on subsidy reform could be misleading, as the reduction of fuel subsidies was not part of program conditionality.

Assessment and Lessons from the EFF

12. **Our authorities broadly share the EPE’s assessment and lessons.** They take positive note of the recognition that some flexibility to adapt to changing political, social, and economic circumstances was needed to safeguard the broader objectives of stabilization and institutional reform, which were met. They have one specific disagreement with the report and, in order to contribute to the design of Fund programs, they share two of their own lessons from the EFF arrangement that are not featured in the EPE.

13. **The EPE’s reference to a presumably desirable extension of the program lacks any basis in our authorities’ view.** As the report notes, Ecuador met all quantitative performance criteria and most of the significant number of structural benchmarks. Furthermore, macroeconomic outturns during the EFF generally exceeded –by a wide margin– expectations at program onset. There was no reason for our authorities to request an extension of the program and they have serious concerns with the report’s suggestion that an extension of the EFF would have been preferable.

14. **Our authorities believe that a smoother profile of debt repayments from the government to the Central Bank should have been programmed.** Given the significant financing from the Central Bank to the central government since 2014, our authorities established as one of their priorities to ensure the repayment of that debt. The monetary and financial reforms, approved as part of the program, mandated that all Treasury bonds held by the Central Bank be repaid in full at maturity. While the payments of the bonds that have matured have strengthened the Central Bank balance sheet, they have also increased liquidity stress in the fiscal accounts and effectively caused a monetary contraction during a period in which economic activity has been weak and inflation has remained low. The repayment schedule continues to be concentrated and bumpy in the coming years. In our authorities’ view, a smoother repayment schedule would have ensured institutional strengthening without creating undue economic and fiscal constraints and social opposition to this critical reform.

15. **Our authorities consider that the Fund could draw important insights from Ecuador’s experience with the creation of the two separate monetary and financial boards.** During the preparation of the 2019 and the 2020 EFFs, our authorities and Fund staff discussed at length the best institutional setup to strengthen Central Bank governance and financial sector regulation. While different institutional settings can work in different contexts, given the limited functions of the Central Bank in Ecuador’s dollarized economy, our authorities’ thought it would be more sensible to have one strong board in charge of monetary and financial regulation. Despite their well-grounded objections to having two separate boards, they accepted the Fund staff’s

position on two separate boards because they could not afford delaying the approval of the programs. In practice, there have been gray areas between each board's functions and responsibilities and, as a result, considerable coordination issues. The financial board has faced significant operational challenges, as it is an entirely new regulatory body. (This was not an issue for the monetary board since it was established as the Central Bank's board.) Finally, liquidity and crisis management require a convoluted process. The Fund's recent Financial System Stability Assessment of Ecuador highlights the limitations of the current arrangement. Current and former authorities and financial market participants in Ecuador consider that a single monetary and financial board would have been more effective and would have created fewer risks than the two separate boards. Our authorities believe that the Fund should reflect upon its own decision-making and its internal process of checks and balances during the design of this important piece of the program to draw lessons for future Fund programs.

Concluding Remarks

16. **The EFF was instrumental in helping Ecuador overcome an extremely vulnerable period and laid the foundations for sustainable economic growth.** During its 27-month period, two administrations made considerable progress in restoring macroeconomic stability and strengthening domestic institutions while protecting the most vulnerable. The mission team's hard work and close engagement with our authorities was essential for the program's success.

17. **Significant progress has been achieved during a challenging period, but vulnerabilities persist.** Ecuador's economic history during the past 15 years has been paradoxical: the economy developed imbalances and vulnerabilities when conditions were favorable and worked out a remarkable recovery when circumstances were adverse. Only two years after the devastating year of 2020, the country had balanced its public accounts and institutionalized a legal framework that strengthened sustainability and transparency. That said, our authorities are mindful of persistent macroeconomic challenges and committed to continue to address them. We reiterate our authorities' interest in remaining closely engaged with the Fund.