INTERNATIONAL MONETARY FUND

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ECUADOR

September 2016

PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ECUADOR

In the context of the purchase under the Rapid Financing Instrument, 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 July 8, 2016, following discussions that took place in Quito on May 3−5 and in Washington D.C. on June 22, with the officials of Ecuador on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on July 1, 2016.
- A **Statement by the Executive Director** for Ecuador.

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

Letter sent to the IMF by the authorities of Ecuador*
*Also included in Staff Report

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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Press Release No. 16/328
FOR IMMEDIATE RELEASE
July 8, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$ 364 Million in Financial Support for Ecuador

The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of SDR 261.63 million (about US$364 million) for Ecuador under the Rapid Financing Instrument (RFI). This financial support will help the country meet an urgent balance-of-payments need due to the April 16, 2016 earthquake that caused significant damages to infrastructure, housing and agriculture.

The RFI[1] provides rapid and low-access financial assistance to member countries facing an urgent balance of payments need, without the need for a full-fledged economic program or reviews. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and post-conflict situations. Financial assistance under the RFI is provided in the form of immediate disbursements.

Following the Executive Board's discussion of Ecuador, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"The April 16 earthquake that hit Ecuador caused significant humanitarian losses and damage to infrastructure, housing, and agriculture. It created new fiscal pressures and an urgent balance of payments need at a time when Ecuador's economy is still suffering from the effects of lower oil prices, a strong U.S. dollar, low international reserves, and limited access to international financing.

"The authorities quickly responded with an emergency fiscal package to fund the relief efforts, including a temporary increase in the VAT rate and a one-time solidarity surcharge tax on wages, corporate profits, and personal assets. They are committed to re-prioritize capital spending and halt low-priority projects not related to earthquake reconstruction, in case of financing shortfalls. They have also expressed willingness to implement additional

[1] Access under the RFI is limited to 37.5 percent of quota per year and 75 percent of quota on a cumulative basis. The level of access in individual cases depends on the country's balance of payments need. Financial assistance provided under the RFI should be repaid within 3¼ to 5 years. A member country requesting RFI assistance is required to cooperate with the IMF to make efforts to solve its balance of payment difficulties and to describe the general economic policies that it proposes to follow. For more on the RFI, read the Factsheet.

income and expenditure measures if needed to bring the fiscal position in line with available financing and avoid increasing the stock of arrears.

"Given the risks facing Ecuador, there is a need for policies to address short- and medium-term macroeconomic imbalances and vulnerabilities. In addition to realigning the fiscal position with available financing, steps are needed to protect financial stability and ensure sufficient levels of liquidity in the banking system and improve competitiveness. Over the medium term, fiscal policy will need to rebuild adequate buffers to create space for countercyclical policy," Mr. Zhu said.

INTERNATIONAL MONETARY FUND

ECUADOR

July 1, 2016

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

KEY ISSUES

Context: On April 16, Ecuador was hit by a strong 7.8-magnitude earthquake which has created new fiscal and balance of payments needs. The earthquake compounds the existing difficulties facing Ecuador that include declining oil prices, U.S. dollar appreciation, low international reserves, and limited access to international financing, which have worsened the fiscal, economic, and financial outlook. The authorities' policy response to the earthquake has been timely, but limited access to financing and a weak fiscal position constrain the ability to pursue a deeper emergency and reconstruction response. Real GDP is expected to contract significantly this year and the next.

Request for Fund support: The Ecuadorian authorities are requesting financial assistance under the Fund's Rapid Financing Instrument (RFI) to address the urgent balance of payments needs associated with the emergency and reconstruction efforts. Given the urgency of their request, they are not currently in a position to implement a full-fledged upper credit tranche program, and they are of the view that they can make suitable adjustments to manage their medium-term BOP challenges. In the attached letter, they request a purchase in the equivalent of SDR 261.63 million under the RFI, the sum being equivalent to 37.5 percent of quota, with the full amount to become available upon Board approval. The authorities are also seeking grants and additional financing from multilateral and bilateral donors to cover the remaining financing needs.

Approved By
Nigel Chalk and Bob Traa

Discussions were held in Quito during May 3–5 and in Washington on June 22, with Ministers Rivera and Herrera, the President of the Central Bank Martinez, the Vice Minister of Security, the Secretary of Planning and Development, and senior officials of the Ministry of Finance. The mission also met with representatives from the World Bank, the IDB, the United Nations and other NGOs involved in the humanitarian effort, as well as other government officials and private sector representatives. The team comprised L. A. Ricci (Head), S. Acevedo and F. Grigoli (all WHD), P. de Imus (SPR), and M. Soto (FAD). F. Rivadeneira (OED) participated in the discussions.

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CONTEXT

1. Ecuador was hit by a 7.8-magnitude earthquake on April 16. The number of dead or missing has reached 675, while more than 4,600 people are injured. Further, more than 33,000 people are now in temporary shelters. In June, the authorities published a joint assessment with the United Nations (Economic Commission for Latin America and the Caribbean) estimating reconstruction costs at US$3.3 billion, of which more than two thirds are associated with the public sector.

Exposure to the Earthquake 1/

(Percent)

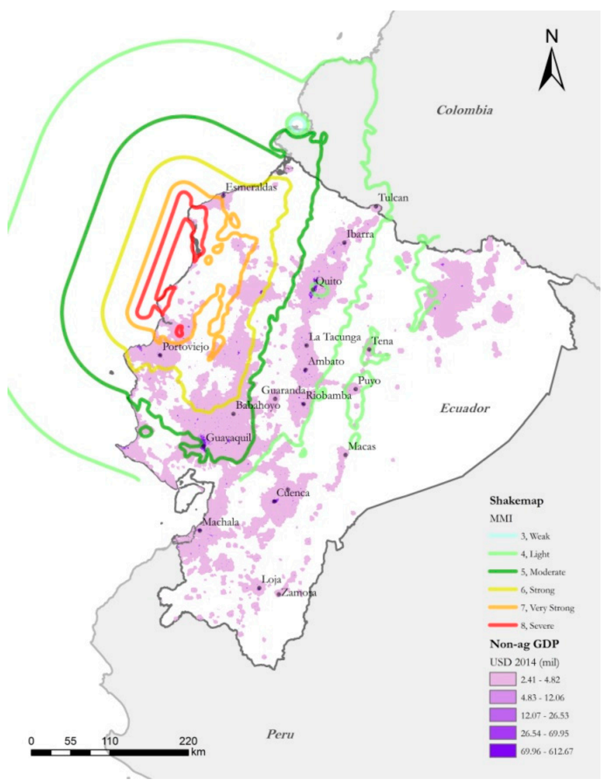
Modified Mercalli Intensity Scale (MMI) 2/	Nominal GDP	Gross Capital Formation	Population
6 (Strong)	12.4	5.8	14.9
7 (Very Strong)	1.1	2.3	3.9
8 (Severe)	0.1	0.4	0.4

Source: World Bank.

1/ The table illustrates the exposure of each variable to a given earthquake's magnitude. The chart shows the geographical area covered by each magnitude.

2/ For an MMI equal or higher than 6, damages to assets can be expected.

2. Prior to the earthquake, the near-term economic situation was highly vulnerable. Real GDP growth in 2015 was 0.3 percent, down significantly from 3.7 percent in 2014, on account of lower oil prices, strong real exchange rate appreciation, and limited access to international financing. In 2015, despite the government's important adjustment efforts, limited fiscal buffers (that had not been build up during times of high oil prices) and a shortfall in financing have caused an accumulation of arrears and a recourse to domestic financing sources (with a drawdown in public deposits and new borrowing from the central bank). High-frequency indicators—such as VAT revenue and imports of goods and services—point to a continued decline in domestic demand. In 2016Q1, unemployment increased to 5.7 percent from 4.8 percent at end-2015. Inflation in 2015 ended at 3.4 percent—mostly due to higher food prices—but it is falling and was 1.6 percent in May. Staff forecasts GDP



to contract by about 2¼ percent in 2016, of which about ½ percent is due to the impact of the earthquake.

3. **The earthquake added to budget financing and balance of payments pressures.** In the authorities' estimates, the public sector costs of addressing emergency assistance, rehabilitation, and reconstruction in the aftermath of the earthquake will amount to US$2.3 billion over the next 2−3 years. Damage to agriculture, commerce, and tourism and the need to import materials for rehabilitation and reconstruction are estimated to add around 1 percent of GDP to the current account deficit. Given the urgency of their request, the authorities are not currently in a position to implement a full-fledged upper credit tranche program, and they are of the view that they can make suitable adjustments to manage the medium-term BOP challenges.

4. **The authorities quickly responded with fiscal measures to raise resources to fund the relief efforts.** An emergency fiscal package was approved by the Assembly in May, and is expected to yield about 0.7 percent of GDP in new revenues in 2016. The package increases the VAT rate by two percentage points for up to one year and imposes a one-time solidarity surcharge tax on wages, corporate profits, and personal assets. Authorities also extended the duration of their balance of payments safeguards (import surcharges) through May 2017.

ECONOMIC IMPACT OF THE EARTHQUAKE

5. **Incorporating the effects of the earthquake damage, reconstruction efforts, and foreign financing inflows, staff projects growth of -2.3 percent in 2016.** The reconstruction effort expected to start later in the year is only expected to partly offset the negative impact from the economic disruption of the earthquake. Staff's baseline projection for economic growth in 2017 and 2018 is -2.7 and -1.1 percent respectively, with reconstruction activity adding around 0.4 percent to growth in both years.

6. **Despite the negative impact of the earthquake on the current account, the deficit is expected to widen only slightly from 2.2 percent of GDP in 2015 to 2.3 percent in 2016.** The earthquake hit the northern coast of the country, negatively affecting the agricultural, commercial, and tourism industry. Goods exports, particularly of key products like shrimp and tuna, and service exports (tourism) are estimated to decline by about US$0.5 billion. Moreover, imports of goods and services needed for reconstruction and rehabilitation are expected to increase by a similar amount. However, while the earthquake is expected to result in additional pressures to exports and imports, which have already deteriorated due to persistently low oil prices and the appreciation of the U.S. dollar, non-oil imports are projected to partially compensate this effect owing to the economic downturn. The impact on the banking system has been limited so far: some banks with important presence in the area are providing financial relief to customers of the affected regions in the form of a grace period of three months or outright write offs, which is reflected in marginally lower profitability and higher NPL ratios. No liquidity shortages or deposit runs were reported and public banks activated special credit lines to support credit.

7. External financing for the earthquake is expected from IFIs and bilateral donors. The authorities have confirmed emergency assistance of about US$630 million from bilaterals and other IFIs (excluding the RFI) over the next two years, of which about US$459 million are in addition to what was already planned ahead of the earthquake. However, the government expects that only a portion of the IFIs financing will be available in 2016 (see text table). In particular, the authorities expect that in 2016 the World Bank and IDB will provide assistance for US$45 million and US$160 million, respectively, and reports indicate external grants of US$20 million from the United Nations, NGOs, bilateral and multilaterals. The remaining external financing gap in 2016 on account of the earthquake after drawing down international reserves at the Central Bank is estimated at about US$364 million, which is expected to be filled by the RFI disbursement (see text Table).

Estimated Current Account Gap and Financing due to the Earthquake (US$ million)

	2016
Balance of Payments Impact	**-886**
Lower export	-436
Higher imports	-450
Total earthquake commitments	**359**
Grants 1/	20
Incremental Loans from IFIs 2/	339
IDB	160
WB	45
Other sources	134
Change in gross reserves 3/	**163**
BoP Gap	**-364**
IMF (RFI)	**364**

Source: News reports, IFIs, IMF staff estimates.

1/ Includes grants from bilateral sources, the UN and other NGOs.

2/ For the estimation of the financing gap only the additional financing after the earthquake, expected to be available in 2016 from IFIs is used. While the IDB, WB, and CAF have $550 million in emergency assistance ($300, $150, and $100 million, respectively) a large portion of these loans is a reallocation of existing funds to quickly address the emergency, while new loans for the reconstruction are expected over the medium-term.

3/ (- = accumulation).

8. Nevertheless, a pre-existing fiscal financing gap would still remain to be addressed. Including the needs for the earthquake response and above financing sources and the RFI, staff now projects the 2016 fiscal financing gap at about US$2.2 billion. The mission projects that closing this gap is likely to be achieved by delaying the planned repayment of domestic arrears, lowering capital spending in projects not related to the reconstruction, and relying on domestic financing.

Box 1. The April Earthquake

On April 16 Ecuador was hit by a 7.8 magnitude earthquake that mainly affected the coastal area; in particular, the provinces of Manabí and Esmeraldas. The earthquake killed 663 people, left 12 people missing, and forced more than 33,000 people to shelters (about 8,444 households). The government prepared with the help of the UN (ECLAC) a report on the extent of the damages and reconstruction costs, which are expected at about US$3.3 billion. Government figures estimate that more than 19,000 houses suffered moderate to severe damages, of which more than 6,000 need to be demolished and rebuilt. In addition, the government will need to repair 875 schools (of which 160 suffered medium to severe damages), 51 health facilities (e.g. clinics, and hospitals), 83 km of roads, more than 7,000 km of power lines, 180 telecommunications stations, and 144 water facilities (including pipes).

The emergency and initial response of the government involved dispatching more than 1,500 emergency personnel to the affected areas. Within the first two weeks of the disaster the government restored water and electricity access to most of the affected areas, it also set up 51 shelters, and provided medical care to over 31,000 people. The next phase of the response involves tearing down condemned buildings and removing debris and clearing streets and public spaces. The government is also in the process of building 20 permanent shelters where part of the displaced population (about 23 percent) will be housed for the next 6–10 months while the repair and reconstruction of the housing stock takes place. The government expects that the rest of the displaced will be able to find alternative housing (e.g. renting or staying with family or friends) with the help of government cash transfers (expected to be less than US$30 million).

The reconstruction will likely span 2 to 3 years. While the government quickly restored most basic services in many cases it was done with temporary fixes. Permanent solutions will take time as the earthquake changed the composition of the soil and in some cases it will require the relocation of communities and hence, basic services as well. The government is also working on the economic reactivation of the area; which should be helped by the reconstruction activity expected to start later this year. However, getting the local economies back on track will take some time.

OUTLOOK AND RISKS

9. **Economic risks and vulnerabilities remain high.** Underlying macroeconomic imbalances, the persistent effects of the terms of trade shock, the appreciation of the U.S. dollar, external financing risks, the economic downturn, and both political and economic uncertainty (presidential elections in early 2017) could yet undermine confidence, trigger deposit outflows, increase credit losses, and force a disorderly fiscal adjustment (for details please see Annex II).

POLICY ISSUES AND DISCUSSIONS

10. **Given the elevated risks and imbalances, staff recommended a range of policies to address short- and medium-term macroeconomic vulnerabilities.** This included steps to realign the fiscal position with available financing, protect financial stability and ensure sufficient levels of liquidity in the banking system, and address currency overvaluation (including through adjusting labor compensation, shifting from direct to indirect taxation, and enhancing flexibility in labor markets). Also, actions should be taken to remove the BOP safeguards as soon as possible. Over the

medium term, in the context of a fully dollarized economy, fiscal policy will need to rebuild adequate buffers in order to have the fiscal space and resources to act in a countercyclical manner.

11. The authorities remain committed to maintaining macroeconomic stability as outlined in their attached letter. The authorities are confident that they will receive the necessary resources to finance their fiscal plan. In the event that available financing falls short of the authorities' expectations, they are committed to re-prioritize the capital spending plans and to stop low-priority capital projects that are not related to earthquake reconstruction. They have also expressed the willingness to implement additional income and expenditure measures to bring the fiscal position into line with available financing, and avoid increasing the stock of arrears. Finally, the government is also examining additional resource mobilization possibilities through the sale of state assets.

12. The authorities welcomed further policy dialogue with the Fund. The authorities are committed to an ongoing dialogue and cooperation with the IMF to find solutions for Ecuador's short-term balance of payments needs and its medium-term macroeconomic challenges, which will enhance confidence in Ecuador's capacity to repay the Fund.

ACCESS AND CAPACITY TO REPAY

13. The Ecuadorian authorities have requested a purchase under the Rapid Financing Instrument in the equivalent of SDR 261.63 million (about US$364 million), equivalent to 37.5 percent of quota. The purchase, which amounts to 0.4 percent of GDP, will provide much needed financial support to address urgent balance of payments needs resulting from the earthquake. The medium term reconstruction effort to rebuild the affected areas will take place in the next few years supported by external financing from multilateral and bilateral sources.

14. Ecuador is expected to be able to repay its obligations to the Fund. Fund exposure to Ecuador is projected to be about 2 percent of exports, and 18.5 percent of net international reserves projected for 2016, following the RFI purchase. This exposure is moderate, and the associated servicing risks are mitigated by low indebtedness of the country. The authorities are committed to a progressive fiscal consolidation, as visible in their multi-year budgeting program that seeks to achieve a primary balance surplus by 2019. The government also plans to have a separate reporting mechanism for all earthquake related expenditures to transparently account for all the financing obtained for the earthquake. However, risks remain given the country's weak economic outlook and large vulnerabilities. In particular, the level of international reserves is already low by standard metrics—although such metrics may be less informative in a dollarized system—and there is limited U.S. dollar coverage of banking system deposits in the event of a liquidity shock, such as an increase in deposit outflows.

15. The Central Bank of Ecuador (BCE) is working with the Fund to undertake an update safeguards assessment. The most recent assessment was completed in 2003. The last assessment identified a need to strengthen the audit oversight and reporting frameworks at the BCE. The authorities are committed to completing the update assessment before the end of 2016.

16. Ecuador is in arrears to international private bond holders, but it is in the process of clearing the arrears in negotiations with creditors. Staff informed the authorities of the Fund's policies on arrears and the authorities assured staff that Ecuador is current on all its debts to multilateral, bilateral (including its Paris Club renegotiated debts), and external commercial creditors. However, Ecuador still has outstanding claims on international bonds that the authorities repudiated in 2008/2009. The large majority of those were repurchased by the government, but about 2.2 percent (US$70.3 million) of the original debt is still outstanding in the hands of individual creditors. The authorities noted that they have contracted the services of an international advisor to search for, identify, contact, and negotiate with outstanding bondholders. Despite this, it remains difficult to identify some of the remaining individual creditors.

STAFF APPRAISAL

17. Given the nature of the emergency, staff supports the authorities' request for a purchase under the Rapid Financing Instrument in the amount of SDR 261.63 million (about US$364 million), equivalent to 37.5 percent of quota. Ecuador faces an urgent balance of payments need due to the severity of the earthquake the country suffered. The authorities already have taken emergency fiscal measures in the immediate aftermath of the disaster to mobilize domestic resources but, given the urgency of their needs, they require further assistance of the international community. Access under the Rapid Financing Instrument would help fill the immediate balance of payments need and support relief and reconstruction efforts.

18. The authorities remain committed to macro stability and fiscal sustainability, and are committed to taking the steps needed to ensure the fiscal position is in line with available financing. On this basis staff judges the public debt to be sustainable under the baseline and the country to be able to repay its obligation to the Fund. However, the near term risks of a liquidity crisis remain high. It will be essential to undertake a broad set of policies to address imbalances and vulnerabilities in the fiscal, financial, and external sector, ensuring fiscal consolidation, preserving financial stability, safeguarding liquidity in the banking system, and restoring competitiveness. The staff stands ready to assist the authorities to face the medium-term balance of payments challenges if they were to conclude that this could be beneficial to manage their transition back to a higher growth path.

Table 1. Ecuador: Selected Economic and Financial Indicators, 2008–21

								Est.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Social Indicators														
Life expectancy at birth (years)	75.2	75.4	75.6	75.9	76.2	76.5	...	...	...	...	...	...	...	...
Infant mortality (per thousand live births)	22.5	21.9	21.3	20.7	20.1	19.5	19.0	18.4	...	...	...	...	...	...
Adult literacy rate		84.2	91.9	91.6	92.1	93.3	...	...	...	...	...	...	...	...
Poverty rate at national line (total)	35.1	36.0	32.8	28.6	27.3	25.6	22.5	...	...	...	...	...	...	...
Unemployment rate	6.0	6.5	5.0	4.2	4.1	4.2	3.8	4.8	6.1	6.9	6.9	6.7	6.9	6.3
Population (millions)	14.5	14.7	15.0	15.3	15.5	15.8	16.0	16.3	...	...	...	...	...	...
	(Percent change, unless otherwise indicated)													
National income and prices														
Real GDP	6.4	0.6	3.5	7.9	5.6	4.6	3.7	0.3	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Domestic demand (contribution to growth)	9.8	-1.2	8.0	7.5	4.4	6.2	4.1	-1.6	-4.3	-4.0	-1.7	-1.2	-1.6	3.2
External Demand (contribution to growth)	-3.5	1.8	-4.4	0.4	1.2	-1.7	-0.4	1.9	2.0	1.3	0.6	0.8	1.1	-1.6
Consumer price index period average	8.4	5.2	3.6	4.5	5.1	2.7	3.6	4.0	3.4	1.3	0.4	0.3	0.1	0.6
Consumer price index end-of-period	8.8	4.3	3.3	5.4	4.2	2.7	3.7	3.4	4.4	-0.6	1.0	0.2	0.3	0.6
Banking system														
Net domestic assets	40.3	28.6	57.6	28.9	26.3	16.3	19.7	-6.2	-6.5	-6.8	-3.7	0.1	-1.3	2.4
Liabilities	23.7	8.1	20.6	20.5	16.0	13.0	11.4	-10.5	-6.4	-5.2	-2.7	0.1	-1.0	1.8
Credit to the private sector	27.6	2.2	24.4	22.6	14.7	10.5	8.7	-3.3	-6.5	-5.3	-2.9	0.1	-1.0	2.2
External sector														
Exports	30.9	-25.9	25.8	27.3	6.4	4.5	3.6	-28.6	-14.6	11.8	2.9	2.5	2.6	2.0
Oil	40.7	-40.6	38.9	33.8	6.5	2.3	-5.7	-50.3	-15.8	18.2	4.8	3.1	3.5	2.8
Non-oil	18.3	-3.8	13.6	19.8	6.3	7.4	14.9	-6.9	-14.0	8.5	1.8	2.2	2.1	1.5
Imports	37.3	-20.3	37.7	19.1	4.8	6.8	1.8	-22.4	-15.3	0.4	5.1	-0.9	0.2	10.5
Terms of trade (deterioration -)	20.0	-22.3	20.4	20.4	0.2	1.1	-6.1	-25.1	-6.5	6.7	2.2	1.7	0.8	0.5
Real effective exchange rate (depreciation -)	-1.0	7.7	-2.2	-1.6	4.1	2.2	2.9	13.7	...	...	...	...	...	...
	(Percent of GDP)													
Public finances														
Revenue	35.8	29.4	33.3	39.3	39.3	39.3	38.7	33.3	31.8	33.1	32.9	33.3	33.8	34.3
Primary expenditure	34.1	32.4	34.1	38.8	39.5	42.9	42.9	37.1	35.4	30.7	30.3	29.9	29.5	31.5
Overall balance (deficit -)	0.6	-3.6	-1.4	-0.1	-0.9	-4.6	-5.3	-5.2	-5.2	0.3	0.4	1.2	2.1	0.6
Gross public debt 1/	22.2	17.7	19.7	19.4	21.6	25.9	31.2	33.8	39.4	39.5	39.6	38.4	36.5	35.2
Domestic	5.9	4.5	6.7	5.7	8.8	10.5	12.4	12.4	12.8	12.6	12.2	11.6	11.0	10.0
External	16.3	13.2	13.0	13.7	12.8	15.4	18.7	21.4	26.6	27.0	27.4	26.8	25.5	25.2
Gross public debt , official definition 2/	22.2	16.4	19.2	18.4	21.2	24.1	29.7	32.5	37.0	37.7	38.3	38.0	36.2	35.0
External current account balance	**2.9**	**0.5**	**-2.3**	**-0.5**	**-0.2**	**-1.0**	**-0.6**	**-2.2**	**-2.3**	**-1.0**	**-0.9**	**-0.1**	**0.6**	**-0.8**
Saving investment balance														
National saving	29.2	26.1	25.8	27.6	27.6	27.7	28.1	25.2	22.8	21.2	20.4	20.2	20.0	20.1
Gross investment	26.4	25.6	28.0	28.1	27.8	28.8	28.6	27.4	25.1	22.2	21.3	20.4	19.4	21.0
Private 3/	19.2	14.8	17.1	17.1	15.2	14.1	15.0	17.3	15.9	16.9	16.8	16.3	16.0	15.6
Public	7.2	10.9	10.9	11.0	12.6	14.6	13.7	10.1	9.2	5.3	4.5	4.1	3.5	5.3
Memorandum items:														
Nominal GDP (US$ millions)	61,763	62,520	69,555	79,277	87,925	94,776	100,917	100,872	99,403	98,490	97,361	97,461	97,067	98,830
GDP per capita (US$)	4,267	4,242	4,633	5,193	5,665	6,008	6,297	6,196	...	...	...	...	...	...
Net international reserves (US$ millions)	4,473	3,792	2,622	2,958	2,483	4,361	3,949	2,496	1,969	1,879	1,836	1,837	1,823	1,848
Oil price Ecuador mix (US$ per barrel)	126.5	72.9	93.6	97.0	98.5	95.7	84.1	42.1	37.0	43.0	44.5	46.4	48.0	49.3
Oil production (millions of barrels)	184.7	177.4	177.4	182.4	184.3	192.1	203.1	194.3	193.5	196.7	196.9	198.3	198.3	198.3
Exports of oil (millions of barrels)	92.9	95.8	103.5	132.6	139.6	147.4	157.5	156.9	150.6	152.8	154.8	153.1	153.1	153.1

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

1/ Includes balance for advance oil sales, but does not include arrears, which is reported in Table 4.

2/ The official public debt definition does not include the outstanding balance for advance oil sales and arrears.

3/ Includes inventories.

Table 2. Ecuador: Operations of the Nonfinancial Public Sector (Net Accounting), 2008–21
(Millions of U.S. dollars, unless otherwise indicated)

								Prel.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	**22,108**	**18,378**	**23,178**	**31,190**	**34,570**	**37,260**	**39,032**	**33,586**	**31,611**	**32,566**	**31,990**	**32,424**	**32,791**	**33,902**
Oil revenue, net 1/	8,675	5,212	7,845	12,935	12,220	11,433	10,906	6,346	5,877	7,330	7,404	8,130	9,267	9,460
Revenue from oil exports	7,354	3,763	6,061	11,214	9,895	9,153	8,857							
Domestic sales of oil derivatives (CFDD)	1,321	1,448	1,784	1,721	2,325	2,280	2,049							
Non-oil revenue	12,540	12,373	13,987	16,489	19,782	22,630	23,939	25,942	24,527	24,101	23,362	23,329	23,206	23,704
Taxes	6,919	7,553	8,667	9,765	12,255	13,668	14,460	15,588	14,685	14,350	13,723	13,680	13,596	13,919
Social security contributions 2/	2,097	2,061	2,540	3,971	4,756	4,547	4,718	5,055	4,982	4,936	4,880	4,885	4,865	4,953
Other	3,524	2,759	2,779	2,753	2,772	4,416	4,761	5,298	4,859	4,815	4,760	4,765	4,745	4,831
Operating surplus of public enterprises	893	794	1,346	1,766	2,567	3,196	4,187	1,298	1,207	1,135	1,224	966	318	738
O/w profits of oil companies withheld for investment	825	734	1,245	1,633	2,133	3,041	3,987	1,056	1,207	1,135	1,224	966	318	738
Primary expenditure	**21,056**	**20,261**	**23,710**	**30,788**	**34,741**	**40,637**	**43,323**	**37,445**	**35,222**	**30,226**	**29,461**	**29,114**	**28,610**	**31,146**
Current	14,056	13,581	16,492	21,441	23,779	26,006	27,968	26,114	24,425	24,548	24,611	24,693	24,793	25,383
Wages and salaries	4,870	5,929	6,786	7,265	8,345	8,896	9,478	9,904	9,627	9,773	9,811	9,836	9,849	9,904
Purchases of goods and services	2,087	1,924	2,090	2,543	3,473	4,435	5,328	5,112	4,440	4,523	4,171	4,175	4,158	4,234
Social Security Benefits 2/	1,563	1,875	2,245	3,205	3,335	3,410	3,665	4,214	4,426	4,784	4,875	4,960	5,041	5,144
Other	5,536	3,853	5,371	8,428	8,626	9,265	9,497	6,884	5,932	5,468	5,754	5,722	5,745	6,101
Cost of imports of oil derivatives	3,042	1,966	3,466	4,812	5,332	5,755	6,282	4,030	2,999	3,459	3,901	4,010	4,038	4,371
Payments to private oil companies (SH) 3/	0.0	0.0	0.0	1,765	1,788	1,674	1,578	1,439	1,117	830	689	546	546	546
Other	2,494	1,887	1,905	1,851	1,506	1,835	1,637	1,415	1,816	1,179	1,165	1,166	1,161	1,184
Capital	7,001	6,680	7,217	9,348	10,963	14,631	15,354	11,331	10,798	5,679	4,850	4,420	3,817	5,763
Fixed capital spending	6,930	6,310	6,571	9,014	10,312	14,039	13,980	10,345	9,279	5,269	4,446	4,017	3,417	5,356
O/w investment in oil	825	734	1,245	1,947	2,307	3,708	4,023	1,056	1,207	1,135	1,224	966	318	738
Net-lending	71	370	647	334	650	592	1,375	986	1,518	410	404	403	400	407
Primary balance	**1,052**	**-1,883**	**-531**	**402**	**-172**	**-3,377**	**-4,291**	**-3,859**	**-3,612**	**2,339**	**2,529**	**3,311**	**4,181**	**2,756**
Interest	**705**	**349**	**413**	**502**	**652**	**971**	**1,024**	**1,368**	**1,521**	**2,075**	**2,135**	**2,189**	**2,185**	**2,144**
O/w external	660	323	377	452	533	714	829	1,143	1,220	1,724	1,766	1,804	1,791	1,751
Current balance	**7,348**	**4,448**	**6,273**	**9,247**	**10,138**	**10,283**	**10,040**	**6,104**	**5,665**	**5,943**	**5,244**	**5,542**	**5,813**	**6,375**
Overall balance	**347**	**-2,232**	**-944**	**-100**	**-824**	**-4,348**	**-5,314**	**-5,226**	**-5,133**	**264**	**394**	**1,122**	**1,996**	**611**
Memorandum items:														
Oil balance 4/	5,633	3,246	4,379	6,044	4,925	3,337	3,010	877	1,761	3,141	2,915	3,674	4,783	4,643
Oil balance excluding oil investment	6,459	3,980	5,624	7,991	7,232	7,045	7,033	1,933	2,968	4,276	4,139	4,639	5,101	5,381
Nonoil primary balance 5/	-4,581	-5,129	-4,910	-5,642	-5,097	-6,714	-7,300	-4,736	-5,373	-801	-386	-363	-602	-1,887
Nominal GDP (US$ millions)	61,763	62,520	69,555	79,277	87,925	94,776	100,917	100,872	99,403	98,490	97,361	97,461	97,067	98,830

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff calculations and estimates.
1/ Net of operational cost.
2/ From 2011 on, includes additional public pension sytems which previously had not been consolidated into the NFPS accounts.
3/ Reflects service contract payments to private oil companies beginning in 2011.
4/ Oil revenue plus profits of state-owned oil companies, which is retained for investment in the oil sector, less oil-related expenditure (the costs of imports of oil derivatives , service payments to private oil companies, and investment in oil).
5/ The primary balance less oil balance.

Table 3. Ecuador: Operations of the Nonfinancial Public Sector (Net Accounting), 2008–21
(Percent of GDP, unless otherwise indicated)

								Prel.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	**35.8**	**29.4**	**33.3**	**39.3**	**39.3**	**39.3**	**38.7**	**33.3**	**31.8**	**33.1**	**32.9**	**33.3**	**33.8**	**34.3**
Oil revenue, net 1/	14.0	8.3	11.3	16.3	13.9	12.1	10.8	6.3	5.9	7.4	7.6	8.3	9.5	9.6
Revenue from oil exports	11.9	6.0	8.7	14.1	11.3	9.7	8.8	...	...	...	...	...	...	...
Domestic sales of oil derivatives (CADID)	2.1	2.3	2.6	2.2	2.6	2.4	2.0	...	...	...	...	...	...	...
Nonpetroleum revenue	20.3	19.8	20.1	20.8	22.5	23.9	23.7	25.7	24.7	24.5	24.0	23.9	23.9	24.0
Taxes	11.2	12.1	12.5	12.3	13.9	14.4	14.3	15.5	14.8	14.6	14.1	14.0	14.0	14.1
Social security contributions 2/	3.4	3.3	3.7	5.0	5.4	4.8	4.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Other	5.7	4.4	4.0	3.5	3.2	4.7	4.7	5.3	4.9	4.9	4.9	4.9	4.9	4.9
Operating surplus of public enterprises	1.4	1.3	1.9	2.2	2.9	3.4	4.1	1.3	1.2	1.2	1.3	1.0	0.3	0.7
O/w profits of oil companies withheld for investment	1.3	1.2	1.8	2.1	2.4	3.2	4.0	1.0	1.2	1.2	1.3	1.0	0.3	0.7
Primary expenditure	**34.1**	**32.4**	**34.1**	**38.8**	**39.5**	**42.9**	**42.9**	**37.1**	**35.4**	**30.7**	**30.3**	**29.9**	**29.5**	**31.5**
Current	22.8	21.7	23.7	27.0	27.0	27.4	27.7	25.9	24.6	24.9	25.3	25.3	25.5	25.7
Wages and salaries	7.9	9.5	9.8	9.2	9.5	9.4	9.4	9.8	9.7	9.9	10.1	10.1	10.1	10.0
Purchases of goods and services	3.4	3.1	3.0	3.2	3.9	4.7	5.3	5.1	4.5	4.6	4.3	4.3	4.3	4.3
Social security benefits 2/	2.5	3.0	3.2	4.0	3.8	3.6	3.6	4.2	4.5	4.9	5.0	5.1	5.2	5.2
Other current expenditure	9.0	6.2	7.7	10.6	9.8	9.8	9.4	6.8	6.0	5.6	5.9	5.9	5.9	6.2
Cost of imports of oil derivatives	4.9	3.1	5.0	6.1	6.1	6.1	6.2	4.0	3.0	3.5	4.0	4.1	4.2	4.4
Payments to private oil companies (SH) 3/				2.2	2.0	1.8	1.6	1.4	1.1	0.7	0.6	0.5	0.5	0.5
Other	4.0	3.0	2.7	2.3	1.7	1.9	1.6	1.4	1.8	1.3	1.3	1.3	1.3	1.3
Capital	11.3	10.7	10.4	11.8	12.5	15.4	15.2	11.2	10.9	5.8	5.0	4.5	3.9	5.8
Fixed capital spending	11.2	10.1	9.4	11.4	11.7	14.8	13.9	10.3	9.3	5.3	4.6	4.1	3.5	5.4
O/w investment in oil	1.3	1.2	1.8	2.5	2.6	3.9	4.0	1.0	1.2	1.2	1.3	1.0	0.3	0.7
Net-lending	0.1	0.6	0.9	0.4	0.7	0.6	1.4	1.0	1.5	0.4	0.4	0.4	0.4	0.4
Primary balance	**1.7**	**-3.0**	**-0.8**	**0.5**	**-0.2**	**-3.6**	**-4.3**	**-3.8**	**-3.6**	**2.4**	**2.6**	**3.4**	**4.3**	**2.8**
Interest	**1.1**	**0.6**	**0.6**	**0.6**	**0.7**	**1.0**	**1.0**	**1.4**	**1.5**	**2.1**	**2.2**	**2.2**	**2.3**	**2.2**
O/w external	1.1	0.5	0.5	0.6	0.6	0.8	0.8	1.1	1.2	1.8	1.8	1.9	1.8	1.8
Current balance	**11.9**	**7.1**	**9.0**	**11.7**	**11.5**	**10.8**	**9.9**	**6.1**	**5.7**	**6.0**	**5.4**	**5.7**	**6.0**	**6.5**
Overall balance	**0.6**	**-3.6**	**-1.4**	**-0.1**	**-0.9**	**-4.6**	**-5.3**	**-5.2**	**-5.2**	**0.3**	**0.4**	**1.2**	**2.1**	**0.6**
Memorandum items:														
Oil balance 4/	9.1	5.2	6.3	7.6	5.6	3.5	3.0	0.9	1.8	3.2	3.0	3.8	4.9	4.7
Oil balance excluding oil investment	10.5	6.4	8.1	10.1	8.2	7.4	7.0	1.9	3.0	4.3	4.3	4.8	5.3	5.4
Nonoil primary balance 5/	-7.4	-8.2	-7.1	-7.1	-5.8	-7.1	-7.2	-4.7	-5.4	-0.8	-0.4	-0.4	-0.6	-1.9
Output gap (in percent)	1.7	-1.8	-2.6	0.2	1.1	2.1	3.0	0.5	-1.6	-3.5	-3.5	-3.0	-3.4	-2.0
Structural nonoil primary balance	-9.1	-9.0	-8.3	-9.6	-8.7	-11.5	-11.9	-5.9	-6.2	-1.1	-0.8	-0.6	-0.1	-2.2
Fiscal impulse (- = expansionary) 6/	-5.4	0.1	0.7	-1.3	1.0	-2.8	-0.4	6.0	-0.3	5.1	0.3	0.2	0.5	-2.1

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

1/ Net of operational cost.

2/ From 2011 on, includes additional public pension sytems which previously had not been consolidated into the NFPS accounts.

3/ Reflects service contract payments to private oil companies beginning in 2011.

4/ Oil revenue plus profits of state-owned oil companies, which is retained for investment in the oil sector, less oil-related expenditure (the costs of imports of oil derivatives , service payments to private oil companies, and investment in oil).

5/ The primary balance less oil balance.

6/ Change in structural nonoil primary balance.

Table 4. Ecuador: Nonfinancial Public Sector Financing, 2008–21

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

								Prel.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Gross financing needs	**1,047**	**3,752**	**3,241**	**3,227**	**3,085**	**6,864**	**10,290**	**12,339**	**10,801**	**4,951**	**4,451**	**4,126**	**4,126**	**4,126**
Nonfinancial public sector deficit	-347	2,232	944	100	824	4,348	5,314	5,226	5,133	-264	-394	-1,122	-1,996	-611
Amortization	1,347	1,422	1,140	1,648	1,918	2,107	4,976	5,914	4,860	5,215	4,845	5,248	6,122	4,737
External	1,338	1,422	1,104	1,549	1,611	1,706	3,556	4,000	3,492	3,705	3,267	3,582	4,352	2,848
Domestic	10	0	36	99	307	401	1,420	1,914	1,368	1,510	1,578	1,665	1,770	1,890
Asset purchases	0	0	0	0	0	0	0	1,199	0	0	0	0	0	0
Arrears clearance and other financing needs	47	99	1,157	1,479	344	409	0	0	809	0	0	0	0	0
Gross financing provided	**1,047**	**3,752**	**3,241**	**3,227**	**3,085**	**6,864**	**10,290**	**12,339**	**10,801**	**4,951**	**4,451**	**4,126**	**4,126**	**4,126**
External	1,462	2,391	1,898	3,222	1,919	5,172	8,013	7,087	8,351	3,845	3,345	3,020	3,020	3,020
Multilateral	340	1,259	797	721	1,219	732	1,497	1,933	1,971	1,400	1,325	1,250	1,250	1,250
Bilateral	5	1,004	1,074	2,713	751	4,391	2,780	2,792	4,380	2,245	2,020	1,770	1,770	1,770
O/w advance oil sales	0	1,000	0	1,000	0	1,900	1,600	1,835	725	400	695	445	445	445
External oil funds	1,107	126	24	-213	-51	0	0	0	0	0	0	0	0	0
Private sector and other	10	2	2	1	0	49	3,735	2,362	2,000	200	0	0	0	0
Domestic	5	376	320	597	1,399	1,431	1,487	2,373	1,588	1,106	1,106	1,106	1,106	1,106
Treasury certificates	0	0	247	126	0	389	177	0	0	0	0	0	0	0
Long-term bonds	5	376	73	471	1,399	1,043	1,310	2,373	1,588	1,106	1,106	1,106	1,106	1,106
Privatization proceeds								0	495	0	0	0	0	0
Arrears acumulation and other financing 1/	374	24	23	32	60	21	911	1,682	0	0	0	0	0	0
Net deposits (+= drawdown)	**-794**	**962**	**1,000**	**-623**	**-293**	**240**	**-120**	**1,197**	**368**	**0**	**0**	**0**	**0**	**0**
NFPS deposits 2/	**5,666**	**4,704**	**3,705**	**4,328**	**4,621**	**4,381**	**4,501**	**3,304**	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**	**2,936**
						(In percent of GDP)								
Gross financing needs	**1.7**	**6.0**	**4.7**	**4.1**	**3.5**	**7.2**	**10.2**	**12.2**	**10.9**	**5.0**	**4.6**	**4.2**	**4.3**	**4.2**
Nonfinancial public sector deficit	-0.6	3.6	1.4	0.1	0.9	4.6	5.3	5.2	5.2	-0.3	-0.4	-1.2	-2.1	-0.6
Amortization	2.2	2.3	1.6	2.1	2.2	2.2	4.9	5.9	4.9	5.3	5.0	5.4	6.3	4.8
Other financing needs	0.1	0.2	1.7	1.9	0.4	0.4	0.0	1.2	0.8	0.0	0.0	0.0	0.0	0.0
Gross financing	**1.7**	**6.0**	**4.7**	**4.1**	**3.5**	**7.2**	**10.2**	**12.2**	**10.9**	**5.0**	**4.6**	**4.2**	**4.3**	**4.2**
External	2.4	3.8	2.7	4.1	2.2	5.5	7.9	7.0	8.4	3.9	3.4	3.1	3.1	3.1
Domestic	0.0	0.6	0.5	0.8	1.6	1.5	1.5	2.4	1.6	1.1	1.1	1.1	1.1	1.1
Other financing	0.6	0.0	0.0	0.0	0.1	0.0	0.9	1.7	0.5	0.0	0.0	0.0	0.0	0.0
Deposits (+= drawdown)	**-1.3**	**1.5**	**1.4**	**-0.8**	**-0.3**	**0.3**	**-0.1**	**1.2**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
NFPS deposits 2/	**9.2**	**7.5**	**5.3**	**5.5**	**5.3**	**4.6**	**4.5**	**3.3**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Memorandum Items:														
Gross public debt (US$ millions)	13,734	11,078	13,686	15,404	19,000	24,551	31,470	34,128	39,207	38,943	38,549	37,427	35,431	34,819
Gross public debt (in percent of GDP) 3/	22.2	17.7	19.7	19.4	21.6	25.9	31.2	33.8	39.4	39.5	39.6	38.4	36.5	35.2
External	16.3	13.2	13.0	13.7	12.8	15.4	18.7	21.4	26.6	27.0	27.4	26.8	25.5	25.2
Domestic	5.9	4.5	6.7	5.7	8.8	10.5	12.4	12.4	12.8	12.6	12.2	11.6	11.0	10.0
Stock of arrears (US$ millions)							3,591	5,273	4,464	4,464	4,464	4,464	4,464	4,464

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

1/ Includes domestic floating debt and statistical discrepancy.

2/ Includes deposits of pension funds, which are reported as nonfinancial public sector.

3/ Does not include arrears.

Table 5. Ecuador: Balance of Payments, 2008–21
(Millions of U.S. dollars, unless otherwise indicated)

								Est.	Proj.					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current account	**1,766**	**309**	**-1,586**	**-403**	**-166**	**-968**	**-567**	**-2,247**	**-2,280**	**-978**	**-874**	**-140**	**596**	**-834**
Trade account	1,549	144	-1,504	-303	50	-493	-53	-1,700	-1,311	538	165	799	1,260	-276
Exports, f.o.b.	19,461	14,412	18,137	23,082	24,569	25,686	26,604	18,998	16,225	18,147	18,666	19,136	19,636	20,025
Oil	11,721	6,965	9,673	12,945	13,792	14,108	13,302	6,610	5,565	6,577	6,891	7,103	7,349	7,553
Non-Oil	7,740	7,447	8,464	10,137	10,777	11,578	13,302	12,389	10,660	11,570	11,775	12,033	12,287	12,472
Imports (f.o.b.)	-17,912	-14,268	-19,641	-23,385	-24,519	-26,178	-26,657	-20,699	-17,536	-17,609	-18,501	-18,337	-18,375	-20,301
Oil	-3,358	-2,338	-4,043	-5,087	-5,441	-5,927	-6,417	-3,950	-2,916	-3,370	-3,798	-3,904	-3,932	-4,258
Non-Oil	-14,554	-11,930	-15,598	-18,298	-19,078	-20,251	-20,240	-16,748	-14,620	-14,239	-14,704	-14,433	-14,443	-16,043
Services (net)	-3,003	-2,556	-2,564	-2,822	-2,696	-2,874	-2,778	-2,625	-3,089	-3,561	-3,429	-3,375	-3,242	-3,290
Transfers (net)	3,221	2,722	2,481	2,722	2,480	2,399	2,264	2,078	2,120	2,045	2,391	2,435	2,578	2,733
Capital and Financial account	**-653**	**-2,712**	**479**	**453**	**-515**	**2,958**	**375**	**758**	**1,753**	**888**	**830**	**141**	**-611**	**859**
NFPS sector flows, net	124	969	426	1,673	309	3,466	4,457	3,087	4,495	140	78	-562	-1,332	173
Disbursements	1,462	2,390	1,531	3,222	1,919	5,172	8,013	7,087	8,351	3,845	3,345	3,020	3,020	3,020
o/w Multilateral	340	1,259	797	721	1,219	732	1,497	1,933	1,971	1,400	1,325	1,250	1,250	1,250
o/w Bilateral	5	1,004	1,074	2,713	751	4,391	2,780	2,792	4,380	2,245	2,020	1,770	1,770	1,770
o/w Advance oil sales	0	1,000	0	1,000	0	1,900	1,600	1,835	725	400	695	445	445	445
Amortization	1,338	1,422	1,104	1,549	1,611	1,706	3,556	4,000	3,492	3,705	3,267	3,582	4,352	2,848
Foreign direct investment	1,057	308	165	644	567	727	773	1,060	1,060	1,060	1,060	1,060	1,060	1,060
Other flows, net 1/	-1,834	-3,989	-112	-1,863	-1,390	-1,235	-4,855	-3,389	-3,802	-312	-308	-357	-339	-374
Banking system	46	-91	82	-85	37	-212	-357	478	0	0	0	0	0	0
Other sectors' flows 2/	-1,880	-3,898	-194	-1,779	-1,428	-1,023	-4,499	-3,866	-3,802	-312	-308	-357	-339	-374
Errors and Omissions	**-180**	**-244**	**-105**	**221**	**97**	**-145**	**-232**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**934**	**-2,647**	**-1,212**	**272**	**-582**	**1,846**	**-424**	**-1,489**	**-527**	**-90**	**-43**	**1**	**-15**	**25**
Financing	**-934**	**2,647**	**1,212**	**-272**	**582**	**-1,846**	**424**	**1,489**	**527**	**90**	**43**	**-1**	**15**	**-25**
Net int'l reserves (- = accum.)	-952	681	1,170	-336	475	-1,878	411	1,453	527	90	43	-1	15	-25
Gross int'l reserves (- = accum.)	-952	681	1,170	-336	475	-1,878	411	1,453	163	90	43	45	201	114
IMF RFI	0	0	0	0	0	0	0	0	364	0	0	-46	-186	-139
Net exceptional financing 3/	18	1,966	42	64	107	32	13	36	0	0	0	0	0	0
						(In percent of GDP)								
Current account	**2.9**	**0.5**	**-2.3**	**-0.5**	**-0.2**	**-1.0**	**-0.6**	**-2.2**	**-2.3**	**-1.0**	**-0.9**	**-0.1**	**0.6**	**-0.8**
Trade account	2.5	0.2	-2.2	-0.4	0.1	-0.5	-0.1	-1.7	-1.3	0.5	0.2	0.8	1.3	-0.3
Exports, f.o.b.	31.5	23.1	26.1	29.1	27.9	27.1	26.4	18.8	16.3	18.4	19.2	19.6	20.2	20.3
Oil	19.0	11.1	13.9	16.3	15.7	14.9	13.2	6.6	5.6	6.7	7.1	7.3	7.6	7.6
Non-Oil	12.5	11.9	12.2	12.8	12.3	12.2	13.2	12.3	10.7	11.7	12.1	12.3	12.7	12.6
Imports (f.o.b.)	-29.0	-22.8	-28.2	-29.5	-27.9	-27.6	-26.4	-20.5	-17.6	-17.9	-19.0	-18.8	-18.9	-20.5
Oil	-5.4	-3.7	-5.8	-6.4	-6.2	-6.3	-6.4	-3.9	-2.9	-3.4	-3.9	-4.0	-4.1	-4.3
Non-Oil	-23.6	-19.1	-22.4	-23.1	-21.7	-21.4	-20.1	-16.6	-14.7	-14.5	-15.1	-14.8	-14.9	-16.2
Services (net)	-4.9	-4.1	-3.7	-3.6	-3.1	-3.0	-2.8	-2.6	-3.1	-3.6	-3.5	-3.5	-3.3	-3.3
Transfers (net)	5.2	4.4	3.6	3.4	2.8	2.5	2.2	2.1	2.1	2.1	2.5	2.5	2.7	2.8
Capital and Financial account	**-1.1**	**-4.3**	**0.7**	**0.6**	**-0.6**	**3.1**	**0.4**	**0.8**	**1.8**	**0.9**	**0.9**	**0.1**	**-0.6**	**0.9**
Public sector flows, net	0.2	1.5	0.6	2.1	0.4	3.7	4.4	3.1	4.5	0.1	0.1	-0.6	-1.4	0.2
Private sector flows, net 1/	-3.0	-6.4	-0.2	-2.4	-1.6	-1.3	-4.8	-3.4	-3.8	-0.3	-0.3	-0.4	-0.3	-0.4
Foreign direct investment	1.7	0.5	0.2	0.8	0.6	0.8	0.8	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Errors and Omissions	**-0.3**	**-0.4**	**-0.2**	**0.3**	**0.1**	**-0.2**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.5**	**-4.2**	**-1.7**	**0.3**	**-0.7**	**1.9**	**-0.4**	**-1.5**	**-0.5**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:														
BOP Gap (excluding IMF financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-364	0.0	0.0	0.0	0.0	0.0
Oil trade balance	13.5	7.4	8.1	9.9	9.5	8.6	6.8	2.6	2.7	3.3	3.2	3.3	3.5	3.3
Non-oil trade balance:	-11.0	-7.2	-10.3	-10.3	-9.4	-9.2	-6.9	-4.3	-4.0	-2.7	-3.0	-2.5	-2.2	-3.6

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

1/ Other and private sector flows net in the balance of payments reflect also transactions between the domestic public and private sector affecting BCE reserves (based on Ecuador compiling practices, given dollarization) which do not necessarily mean inflows/outflows.

2/ Includes public financial sector and monetary authority.

3/ Includes foreign arrears and net flows from oil funds held abroad and flows associated with debt default and restructuring.

Table 6. Ecuador: Monetary Survey, 2008–17
(Millions of U.S. dollars, unless otherwise indicated)

									Proj.	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
I. Central Bank										
Net foreign assets	**5,872**	**4,982**	**3,856**	**4,584**	**4,659**	**5,216**	**4,536**	**2,964**	**2,437**	**2,347**
O/w : net international reserves	4,473	3,792	2,622	2,958	2,483	4,361	3,949	2,496	1,969	1,879
Net domestic assets	**-3,300**	**-2,072**	**-1,175**	**-1,733**	**-735**	**500**	**1,321**	**1,747**	**2,091**	**2,076**
Credit to the public sector, net	-2,616	-2,052	-1,260	-1,873	-1,768	-1,488	-552	72	448	453
O/w : central government	-1,081	-825	-897	-1,418	-1,267	-981	92	614	982	982
Credit to financial institutions, net	106	625	1,012	1,433	2,108	2,736	2,530	2,167	2,136	2,116
Other depository institutions	106	335	423	704	610	641	530	431	425	421
Other financial institutions	0	290	588	729	1,498	2,094	2,001	1,736	1,711	1,695
Credit to the private sector	38	40	35	33	36	27	26	27	27	27
Other, net	-827	-685	-963	-1,326	-1,111	-775	-684	-520	-520	-520
Liabilities	**2,572**	**2,910**	**2,681**	**2,851**	**3,924**	**5,716**	**5,857**	**4,711**	**4,528**	**4,424**
Currency and electronic money	77	77	82	83	85	87	87	87	86	85
Banks' reserves	1,239	1,703	1,607	1,595	2,360	3,898	3,506	3,053	2,774	2,684
Other depository institutions 1/	1,191	1,390	1,261	1,363	2,032	3,302	2,697	1,927	1,648	1,558
Other financial institutions 2/	48	313	346	232	329	597	809	1,126	1,126	1,126
Other 3/	1,256	1,130	992	1,173	1,479	1,730	2,264	1,571	1,668	1,655
II. Other Depository Institutions (ODI) and Other Financial Institutions (OFI) 1/ 2/										
Net foreign assets	**3,585**	**4,234**	**4,934**	**5,164**	**5,323**	**5,534**	**5,891**	**5,413**	**5,413**	**5,413**
Net domestic assets	**9,430**	**10,063**	**12,693**	**16,106**	**19,237**	**22,163**	**24,643**	**22,384**	**20,373**	**18,954**
Assets held at the BCE, net	1,250	1,049	740	739	804	1,543	913	469	124	37
Credit to the public sector, net	-1,352	-1,028	-647	-550	236	976	1,675	1,405	1,391	1,382
O/w : central government	-614	-392	-297	-256	539	1,208	1,830	1,452	1,452	1,452
Credit to the private sector	13,539	13,829	17,220	21,120	24,223	26,785	29,131	28,094	26,331	24,939
Other items, net	-4,007	-3,786	-4,620	-5,203	-6,026	-7,141	-7,075	-7,583	-7,473	-7,404
Liabilities	**13,015**	**14,297**	**17,628**	**21,270**	**24,560**	**27,697**	**30,534**	**27,797**	**25,786**	**24,367**
O/w : Private sector deposits	12,773	14,083	17,334	21,046	24,392	27,544	30,415	27,769	25,758	24,339
III. Consolidated Banking System										
Net foreign assets	**9,457**	**9,216**	**8,790**	**9,748**	**9,982**	**10,750**	**10,426**	**8,355**	**7,850**	**7,761**
Net domestic assets	**4,892**	**6,289**	**9,911**	**12,779**	**16,141**	**18,765**	**22,458**	**21,060**	**19,689**	**18,346**
Credit to the public sector, net	-3,968	-3,081	-1,906	-2,423	-1,532	-511	1,123	1,485	1,839	1,835
Credit to the private sector	13,576	13,869	17,255	21,153	24,259	26,812	29,156	28,190	26,358	24,966
Other items, net	-4,716	-4,500	-5,437	-5,951	-6,585	-7,536	-7,822	-8,614	-8,508	-8,455
Liabilities	**14,348**	**15,505**	**18,702**	**22,527**	**26,123**	**29,515**	**32,884**	**29,416**	**27,539**	**26,107**
Memorandum items:										
Credit to the private sector (percent change, yoy) 4/	27.6	2.2	24.4	22.6	14.7	10.5	8.7	-3.6	-6.3	-5.3
Deposits of the private sector (percent change, yoy) 4/	22.1	10.3	23.1	21.4	15.9	12.9	10.4	-8.7	-7.2	-5.5
Credit to the public sector (percent change, yoy) 4/	-87.3	32.8	71.1	44.2	161.5	38.1	64.5	-1.7	5.5	0.0
Deposits of the public sector (percent change, yoy) 4/	13.4	-20.1	-30.5	30.0	0.9	-15.1	-12.1	-18.3	-10.4	-0.3
Broad money velocity	4.3	4.0	3.7	3.5	3.4	3.2	3.1	3.4	3.6	3.8
ODI and OFI's reserves at the Central Bank as a share of liabilities (percent) 1/ 2/	9.5	11.9	9.1	7.5	9.6	14.1	11.5	11.0	10.8	11.0
Liquid NIR as a share of ODIs' deposits at the Central Bank (percent) 1/	373.3	270.9	204.2	212.1	92.1	124.5	137.3	119.1	109.8	110.9
Credit to the private sector (percent of GDP)	22.0	22.2	24.8	26.7	27.6	28.3	28.9	27.9	26.5	25.3
Liabilities (percent of GDP)	23.2	24.8	26.9	28.4	29.7	31.1	32.6	29.2	27.7	26.5

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

1/ ODI include private banks, *Banco Nacional de Fomento*, *Banco del Pacifico*, private financial companies, mutualists, cooperatives, and credit card companies.

2/ OFI include *Corporación Financiera Nacional* and *Banco Ecuatoriano de la Vivienda*.

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

4/ Consolidated banking system.

Table 7. Ecuador: Financial Soundness Indicators, 2008–16 1/

(In percent, unless otherwise indicated; end-of-period values)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 1/
Capital Adequacy									
Regulatory capital to risk-weighted assets (CAR)	12.9	13.8	12.4	13.0	12.8	11.9	12.7	14.4	14.3
Asset Quality and Distribution									
Nonperforming loans to gross loans	2.5	2.9	2.2	2.2	2.8	2.6	2.9	3.7	4.7
Provisions to nonperforming loans	217.8	222.8	252.1	263.9	235.7	242.0	221.7	187.1	153.5
Gross loans to assets	58.7	53.6	55.2	57.3	56.6	56.1	58.5	60.8	58.3
Earnings and Profitability									
Return on average assets (ROA)	1.7	1.2	1.3	1.7	1.1	0.9	1.0	0.9	0.6
Return on average equity (ROE)	19.9	13.2	14.3	18.9	12.8	10.1	12.0	9.0	5.9
Interest margin to assets	1.3	1.0	1.2	1.4	0.9	0.8	1.0	0.8	0.2
Noninterest expenses to spread	82.1	84.9	82.1	79.7	86.3	86.8	84.3	87.4	95.8
Liquidity									
Liquid assets to short-term liabilities	33.5	35.2	32.4	28.7	30.5	30.7	26.0	29.6	29.1
Deposit to loan ratio	94.6	89.5	92.3	93.9	92.9	90.8	88.7	95.8	91.4

Source: Superintendency of Banks.
1/ As of April 2016. Values refer to private banks and *Banco del Pacifico* .

Table 8. Ecuador: Financial and External Vulnerability Indicators, 2008–15

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	Est. 2015
Financial indicators								
Gross public sector debt	22.2	17.7	19.7	19.4	21.6	25.9	31.2	33.8
Velocity of money 1/	4.3	4.0	3.7	3.5	3.4	3.2	3.1	3.4
Net credit to the private sector 2/	22.0	22.2	24.8	26.7	27.6	28.3	28.9	27.9
External indicators								
Exports, U.S. dollars (percent)	30.9	-25.9	25.8	27.3	6.4	4.5	3.6	-28.6
Imports, U.S. dollars (percent)	37.3	-20.3	37.7	19.1	4.8	6.8	1.8	-22.4
Terms of trade (percent) (deterioration -)	20.0	-22.3	20.4	20.4	0.2	1.1	-6.1	-25.1
Real effective exchange rate, (end of period, percent) 3/	-1.0	7.7	-2.2	-1.6	4.1	2.2	2.9	13.7
Current account balance	2.9	0.5	-2.3	-0.5	-0.2	-1.0	-0.6	-2.2
Capital and financial account balance	-1.1	-4.3	0.7	0.6	-0.6	3.1	0.4	0.8
Total external debt	27.5	23.0	20.6	20.4	18.6	21.6	25.2	28.5
Medium- and long-term public debt	16.3	13.2	13.0	13.7	12.8	15.4	18.7	21.4
Medium- and long-term private debt	8.5	7.7	6.5	5.7	5.1	5.5	5.9	6.4
Short-term public and private debt	2.6	2.1	1.1	0.9	0.7	0.7	0.6	0.6
Total external debt (percent of exports of goods and services)	87.2	94.0	73.1	65.5	62.0	73.9	88.0	134.5
Total debt service (percent of exports of goods and services)	16.2	19.8	12.7	12.8	12.3	13.3	22.8	35.7
Net international reserves								
In millions of U.S. dollars	4,473	3,792	2,622	2,958	2,483	4,361	3,949	2,496
In percent of broad money	31.2	24.5	14.0	13.1	9.5	14.8	12.0	8.5
In months of imports of goods and services	2.6	2.7	1.4	1.3	1.1	1.8	1.6	1.5

Sources: Central Bank of Ecuador; IMF Information Notice System; and Fund staff calculations and estimates.

1/ Defined as the inverse of the ratio of end-period broad money to annual GDP.

2/ Consolidated banking system.

3/ End of period.

Table 9. Ecuador: Medium-Term Macroeconomic Framework, 2008–21

								Est.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(Percent change, unless otherwise indicated)													
Production														
GDP at constant prices	6.4	0.6	3.5	7.9	5.6	4.6	3.7	0.3	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Consumer prices (end of period)	8.8	4.3	3.3	5.4	4.2	2.7	3.7	3.4	4.4	-0.6	1.0	0.2	0.3	0.6
GDP deflator	13.8	0.7	7.5	5.7	5.0	3.1	2.7	-0.3	0.8	1.8	0.0	0.5	0.1	0.3
Trade														
Merchandise trade														
Exports, f.o.b	30.9	-25.9	25.8	27.3	6.4	4.5	3.6	-28.6	-14.6	11.8	2.9	2.5	2.6	2.0
Imports, f.o.b	37.3	-20.3	37.7	19.1	4.8	6.8	1.8	-22.4	-15.3	0.4	5.1	-0.9	0.2	10.5
Terms of trade (deterioration -)	20.0	-22.3	20.4	20.4	0.2	1.1	-6.1	-25.1	-6.5	6.7	2.2	1.7	0.8	0.5
	(In percent of GDP; unless otherwise indicated)													
Total external debt service	5.1	4.8	3.6	4.0	3.7	3.9	6.5	7.6	7.6	8.5	8.2	8.5	9.2	7.4
Medium- and long-term	5.0	4.7	3.5	3.9	3.6	3.9	6.5	7.5	7.5	8.5	8.2	8.5	9.2	7.3
Nonfinancial public sector	3.2	2.8	2.1	2.5	2.4	2.6	4.3	5.1	4.7	5.5	5.2	5.5	6.3	4.7
Private sector	1.7	1.9	1.4	1.4	1.2	1.3	2.2	2.4	2.8	3.0	3.0	3.0	2.9	2.7
Public sector														
NFPS primary balance	1.7	-3.0	-0.8	0.5	-0.2	-3.6	-4.3	-3.8	-3.6	2.4	2.6	3.4	4.3	2.8
Gen. govt. revenue	35.8	29.4	33.3	39.3	39.3	39.3	38.7	33.3	31.8	33.1	32.9	33.3	33.8	34.3
Gen. govt. non-interest exp.	34.1	32.4	34.1	38.8	39.5	42.9	42.9	37.1	35.4	30.7	30.3	29.9	29.5	31.5
NFPS interest due	1.1	0.6	0.6	0.6	0.7	1.0	1.0	1.4	1.5	2.1	2.2	2.2	2.3	2.2
NFPS overall balance	0.6	-3.6	-1.4	-0.1	-0.9	-4.6	-5.3	-5.2	-5.2	0.3	0.4	1.2	2.1	0.6
Gross public sector debt	22.2	17.7	19.7	19.4	21.6	25.9	31.2	33.8	39.4	39.5	39.6	38.4	36.5	35.2
Gross public debt , official definition 1/	22.2	16.4	19.2	18.4	21.2	24.1	29.7	32.5	37.0	37.7	38.3	38.0	36.2	35.0
Savings and investment														
Gross domestic investment	26.4	25.6	28.0	28.1	27.8	28.8	28.6	27.4	25.1	22.2	21.3	20.4	19.4	21.0
National savings	29.2	26.1	25.8	27.6	27.6	27.7	28.1	25.2	22.8	21.2	20.4	20.2	20.0	20.1
External current account	2.9	0.5	-2.3	-0.5	-0.2	-1.0	-0.6	-2.2	-2.3	-1.0	-0.9	-0.1	0.6	-0.8
Memorandum items:														
Nominal GDP (billions of U.S. dollars)	61.8	62.5	69.6	79.3	87.9	94.8	100.9	100.9	99.4	98.5	97.4	97.5	97.1	98.8
Total external debt service (percent of exports of GNFS)	15.1	19.2	12.7	12.8	12.3	13.3	22.8	35.7	40.8	40.9	37.9	38.3	40.2	32.0
Public external debt service (percent of exports of GNFS)	10.3	12.1	8.2	8.7	8.7	9.4	16.5	27.1	29.0	29.9	27.0	28.1	31.3	23.0

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

1/ The official public debt definition does not include the outstanding balance for advance oil sales.

Table 10. Ecuador: Indicators of Capacity to Repay the Fund, 2014–21

			Projections					
	2014	2015	2016	2017	2018	2019	2020	2021
Obligations from existing and prospective drawings 1/	0.0	0.0	2.3	2.9	2.9	35.6	132.8	98.7
Principal (in millions of SDRs)	0.0	0.0	0.0	0.0	0.0	32.7	130.8	98.1
Charges/interest (in millions of SDRs)	0.0	0.0	2.3	2.9	2.9	2.9	2.0	0.6
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	46.3	185.9	139.4
Charges/interest (in millions of U.S. dollars)	0.0	0.0	3.1	4.1	4.1	4.1	2.8	0.8
Total existing and prospective obligations								
In millions of U.S. dollars	0.0	0.0	3.1	4.1	4.1	50.4	188.7	140.2
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.2	0.8	0.6
In percent of debt service	0.0	0.0	0.0	0.0	0.1	0.6	2.1	1.9
In percent of quota	0.0	0.0	0.3	0.4	0.4	5.1	19.0	14.1
In percent of net international reserves	0.0	0.0	0.2	0.2	0.2	2.7	10.4	7.6
Fund credit outstanding 1/								
In millions of SDRs	0.0	0.0	261.6	261.6	261.6	228.9	98.1	0.0
In millions of U.S. dollars	0.0	0.0	364.1	369.4	369.5	324.2	139.4	0.0
In percent of exports of goods and services	0.0	0.0	2.0	1.8	1.7	1.5	0.6	0.0
In percent of debt service	0.0	0.0	4.8	4.4	4.6	3.9	1.6	0.0
In percent of quota	0.0	0.0	37.5	37.5	37.5	32.8	14.1	0.0
In percent of net international reserves	0.0	0.0	18.5	19.7	20.1	17.6	7.7	0.0
Net use of Fund credit 1/	0.0	0.0	261.6	0.0	0.0	-32.7	-130.8	-98.1
Disbursements (millions of SDRs)	0.0	0.0	261.6	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	0.0	0.0	32.7	130.8	98.1
Disbursements (millions of U.S. dollars)	0.0	0.0	364.1	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	46.3	185.9	139.4
Memorandum items:								
Exports of goods and services (millions of U.S. dollars)	29,048	21,476	18,497	20,580	21,261	21,823	22,418	22,894
External debt service (millions of U.S. dollars)	6,598	7,629	7,509	8,376	8,027	8,325	8,968	7,289
Quota (millions of SDRs)	347.8	347.8	697.7	697.7	697.7	697.7	697.7	697.7
Quota (millions of U.S. dollars)	528.2	486.6	971.0	985.2	985.5	988.2	991.6	991.0
Net international reserves (millions of U.S. dollars)	3,949	2,496	1,969	1,879	1,836	1,837	1,823	1,848
GDP (millions of U.S. dollars)	100,917	100,872	99,403	98,490	97,361	97,461	97,067	98,830
SDRs per U.S. dollar 2/	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7

Sources: Central Bank of Ecuador and Fund staff estimates and projections.

1/ Assumes an RFI of 37.5% of quota.

2/In 2016, based on the SDR exchange rate as of June 27, 2016; for the medium-term it is based on WEO GAS projections, dated June 9, 2016.

Annex I. Letter from the Authorities

Quito, Ecuador
July 1, 2016

Mme. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mme. Lagarde,

1. On April 16, 2016, Ecuador was hit by a 7.8-magnitude earthquake that killed 663 people, left 12 more missing, and resulted in about 5000 people injured and 80,000 in temporary shelters due to loss or damage to their housing. In addition to the tragic loss of life, the earthquake caused severe damages to road, energy, and water infrastructure, the private housing stock, and the tourism sector. At present, our preliminary estimate for the damages is about US$3.3 billion (3½ percent of GDP) and the public cost for reconstruction is expected at about US$2.3 billion. The reconstruction and recovery after this disaster is going to be a multiyear endeavor.

2. The earthquake comes on the back of external shocks that have buffeted the economy and worsened the fiscal position. The decline in oil prices and the strength of the U.S. dollar have had a negative impact on economic growth and government revenues, and have limited Ecuador's access to external financing. Lower exports, due to the disruptive effects of the earthquake, and higher imports, linked to the emergency, recovery, and reconstruction needs, are expected to put further pressure on the balance of payments. The impact of the earthquake on the economy is likely to be about -0.7 percent of GDP in 2016, but reconstruction activity could provide a partial offset as the government's recovery efforts are rolled out.

3. Shortly after the earthquake, the government announced a package of measures to gather resources for those communities that were affected by the earthquake. We have temporarily increased the VAT rate by two percentage points and imposed a one-time solidarity surcharge tax on wages, corporate profits, and personal assets, while allowing for tax breaks for affected areas. We also extended the balance of payment safeguards that were expiring in May 2016 for one more year. These measures are expected to yield about 0.7 percent of GDP in 2016 on a net basis. However, we are expecting significant costs for emergency, recovery and reconstruction, and addressing the social needs of those affected by the disaster.

4. The immediate post-earthquake needs are being supported by existing contingent credit lines that Ecuador has with the Inter-American Development Bank, the World Bank, and the Development Bank of Latin America and grants from multilateral and bilateral donors. We have already received pledges of about US$630 million of funding in loans and grants to cover earthquake related costs over the coming years, of which about US$459 million is incremental to existing lending plans (mainly US$190 and US$150 from the IADB and WB, respectively).

5. Against this background, the government of Ecuador requests emergency financing from the IMF in the equivalent of SDR 261.63 million (about US$364 million), corresponding to a purchase of 37.5 percent of quota under the Rapid Financing Instrument (RFI). This IMF assistance will help meet the urgent balance of payments needs that are associated with the reconstruction spending that stems from the disaster. This borrowing is consistent with the provisions of the Constitutions of Ecuador (in particular Article 290, sections 2 and 3) as well as relevant domestic legislation.

6. The macroeconomic outlook is challenging and we remain committed to maintaining macroeconomic stability, fostering competitiveness and growth, and reducing poverty. We are confident that our fiscal operations will be fully financed during the course of this year as our firm expectation is that we will be able to identify sufficient financing to meet our fiscal spending needs. Indeed, if needed, we will re-prioritize our capital spending plans and stop lower priority projects that are not related to earthquake reconstruction. Also, if needed, we would implement additional income and expenditure measures to bring our fiscal position into line with available financing, and avoid further arrears. We are examining additional resource mobilization possibilities through the sale of state assets.

7. The government intends to continue to maintain dialogue with the IMF to explore solutions to Ecuador's balance of payments difficulties, and will avoid measures or policies that would compound these difficulties. We also stand ready to collaborate with IMF staff in undertaking a safeguards assessment, providing IMF staff with the Central Bank of Ecuador's most recently completed external audit reports and coordinating meetings of IMF staff with the staff in charge of these issues in the Central Bank and external auditors. The country will comply with the provisions of the Fund's Articles of Agreement—including those related to imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payment agreements under Article VIII—and will implement public policies under that framework, and avoid additional trade restrictions for balance of payment purposes.

8. We authorize the Fund to publish this letter and the request for a purchase under the RFI.

Sincerely yours,

/s/	/s/
Fausto Herrera Nicolalde **Minister of Finance** **Government of Ecuador**	**Diego Martinez Vinueza** **Governor** **Central Bank of Ecuador**

Annex II. Risk Assessment Matrix

Risk Assessment Matrix[1]

	Likelihood	*Impact*	*Policy Advice*
		Country-specific risks	
Difficulties in operating oil fields; delays in hydro projects and oil exploration	M	H (↓). Negative impact on growth, exports, fiscal accounts.	Ensure full funding and completion of hydro projects; promote private sector participation in oil exploration.
External financing shortfalls due to Ecuador-specific events	H	H (↓). Negative impact on country ratings, growth, future financing.	Take timely and appropriate spending cuts.
Erosion of confidence due to uncertainty about the policy response and increased political uncertainty heading into 2017 elections; further pressure on the financial system	H	H (↓). Negative impact on investment and growth, as well as on deposits and capital outflows.	Clearly communicate the need for, and expected impact of, policy reforms; ensure adequate liquidity for the banking system, ease controls on interest rates, and strengthen macroprudential tools.
Potential natural disasters (further earthquakes/aftershocks, worse-than-expected spread of viruses, eruption of the Cotopaxi volcano)	M	H (↓). Negative impact on investment, exports, and growth, as well as positive impact on inflation; negative impact on deposits.	Rationalize public spending, emphasizing priority relief and infrastructure investments; ensure adequate liquidity for the banking system; build fiscal buffers in the medium term.
		External risks	
Surge in US dollar	H	H (↓). Pressure on the current account.	Undertake structural measures to improve productivity, competitiveness, and investment climate; facilitate wage and price adjustment.
Persistently low energy prices	H	H (↓). Pressure on fiscal and external accounts.	Rationalize public spending and build buffers; undertake structural measures to improve productivity and diversify the economy to reduce oil dependence.
Sharp asset price decline and decompression of credit spreads as investors reassess underlying risk	M	H (↓). External sovereign financing could shrink further and costs become prohibitive.	Build buffers; plan government spending contingent on financing; improve access to financing, via policy packages building confidence.
Structurally weak growth in key advanced and emerging economies/Significant China slowdown	H/M, L/M	H/H (↓). Worsening of the current account deficit and weaker growth, especially through lower exports; lower access to financing from China.	Ensure the stability of the domestic financial sector; improve access to financing.
Reduced financial services by global/regional banks ("de-risking")	M	H (↓). The risk of reduced correspondent banking services could significantly impair cross-border payments, trade finance, and remittances.	Ensure the stability of the domestic financial sector and diversify correspondent relationships; adopt policies which improve market confidence.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex III. Debt Sustainability Analysis[1]

The public debt has grown rapidly in recent years and is projected to reach about 40 percent of GDP in 2016.[2] The gross financing need is projected to remain high at about 10 percent of GDP in 2016. Over the medium-term fiscal risks remain manageable as the fiscal position is expected to improve. Both the public debt and financing needs will remain below the respective benchmarks even under standard macroeconomic shocks. Assessment of the realism of baseline assumptions for major macroeconomic variables does not point to significant one-sided error, particularly in recent years.

1. **Definition and debt profile.** The public sector debt in this debt sustainability analysis (DSA) includes the obligations of the non-financial public sector (central government and non-financial sector state-owned enterprises), as reported by the authorities, as well as liabilities under advance oil sales. After declining to 17.7 of GDP in 2009, following the 2008 default, the public debt increased to 33.8 percent of GDP in 2015. External debt accounted for about 64 percent of total debt at end-2015, of which about 71 percent was owed to official creditors. Medium- and long-term loans constitute 100 percent of the total public debt stock.

2. **Staff macroeconomic and fiscal assumptions.** Growth is projected at about 1.5 percent and inflation (GDP deflator) at about 0.3 percent in the medium term. The fiscal position is projected to improve with a primary surplus of about 3.1 percent of GDP on average over 2017−21 as the limited financing will restrict the authorities' capacity to carry out their capital expenditure plan. Under these assumptions, the gross financing needs of the public sector are projected to fall to about 4.2 percent of GDP in 2021. After peaking at about 39.6 percent of GDP in 2018, the public-debt-to GDP ratio is projected to decline to about 35 percent in 2021. The DSA tool that assesses the realism of projections for real GDP growth, primary balance, and inflation does not indicate significant systematic biases.

3. **Stress tests.** Both the gross financing needs and the public debt-to-GDP ratio remain within the corresponding low-risk thresholds under the standard macroeconomic shocks (i.e., shocks in real GDP growth, primary balance, real interest rate, and exchange rate). The public-debt-to GDP ratio remains below 50 percent and the gross financing needs below 12 percent of GDP even under the combined macro-fiscal shock. Note that as long as the legal limit of 40 percent is binding, corrective fiscal actions are likely to be triggered when debt approaches 40 percent.

4. **Risks and vulnerabilities.** The public DSA risk assessment identifies market perception, and the ratio of public debt held by non-residents as high risks for Ecuador. At about 66 percent of the total debt, non-residents' holding of Ecuador's public debt gives the appearance of being a source of vulnerability, but about 71 percent of the external debt is owed to official creditors and there is limited vulnerability. The high market perception risk is a reflection of the recent hike in spreads

[1] The DSA is based on the baseline scenario presented in the main text and the accompanying tables.

[2] Staff's definition of public debt figures includes liabilities under advance oil sales, which are not considered as public debt in the official definition from the authorities. Public debt excluding liabilities under advance oil sales—which is the relevant definition for the legal ceiling of 40 percent—was about 33 percent of GDP in 2015 and will reach 38.3 percent of GDP in 2018.

associated with the fall in oil prices. However, near-term rollover risks are limited since there will be no sovereign bond maturing before 2020.

5. **External DSA.** The current account deficit is projected to widen to about 2.3 percent of GDP in 2016, from about ½ a percentage point in 2014, due to lower oil exports (Ecuador's main export commodity) and continuing large fiscal deficits. The expected improvement in the fiscal position will, however, help reduce the current account deficit in the medium term. The current account deficit is expected to be financed mostly by public external borrowing. Consequently, the external debt-to-GDP ratio is projected to increase to about 34.6 percent of GDP in 2018, from 28.5 percent in 2015. The external debt trajectory is sensitive to the non-interest current account shock (e.g. terms of trade shock) and a large (30 percent) real exchange rate depreciation, which is unlikely to materialize due to dollarization.

Table 1. Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP unless otherwise indicated)

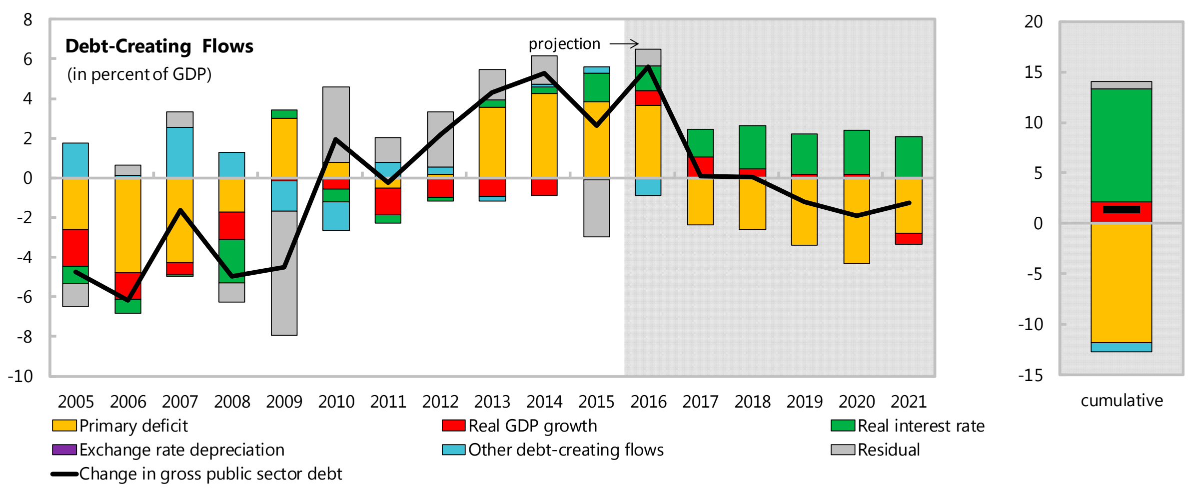
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2005-2013 [2]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	24.2	31.2	33.8	39.4	39.5	39.6	38.4	36.5	35.2
Public gross financing needs	3.2	10.2	11.0	10.1	5.0	4.6	4.2	4.3	4.2
Real GDP growth (in percent)	4.5	3.7	0.3	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Inflation (GDP deflator, in percent)	6.5	2.7	-0.3	0.8	1.8	0.0	0.5	0.1	0.3
Nominal GDP growth (in percent)	11.3	6.5	0.0	-1.5	-0.9	-1.1	0.1	-0.4	1.8
Effective interest rate (in percent) [4]	4.7	4.2	4.3	4.5	5.3	5.5	5.7	5.8	6.1

As of June 17, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		922
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-1.5	5.3	2.6	5.6	0.1	0.1	-1.2	-1.9	-1.3	1.4	
Identified debt-creating flows	-1.8	3.8	5.5	4.8	0.1	0.1	-1.2	-1.9	-1.3	0.6	
Primary deficit	-0.7	4.3	3.8	3.6	-2.4	-2.6	-3.4	-4.3	-2.8	-11.8	1.5
Primary (noninterest) revenue and grants	32.1	38.7	33.3	31.8	33.1	32.9	33.3	33.8	34.3	199.1	
Primary (noninterest) expenditure	31.4	42.9	37.1	35.4	30.7	30.3	29.9	29.5	31.5	187.2	
Automatic debt dynamics [5]	-1.5	-0.6	1.4	2.0	2.5	2.7	2.2	2.4	1.5	13.3	
Interest rate/growth differential [6]	-1.5	-0.6	1.4	2.0	2.5	2.7	2.2	2.4	1.5	13.3	
Of which: real interest rate	-0.5	0.3	1.5	1.3	1.4	2.2	2.0	2.2	2.1	11.2	
Of which: real GDP growth	-1.0	-0.9	-0.1	0.8	1.1	0.4	0.2	0.2	-0.5	2.1	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.4	0.1	0.3	-0.9	0.0	0.0	0.0	0.0	0.0	-0.9	
Residual, including asset changes [8]	0.3	1.5	-2.9	0.8	0.0	0.0	0.0	0.0	0.0	0.8	



Source: Fund staff estimates.

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

2/ Based on available data.

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

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

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

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

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

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

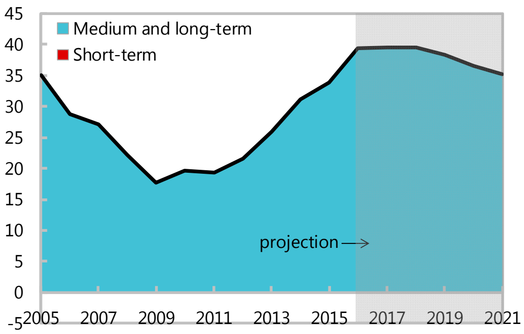
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Ecuador: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

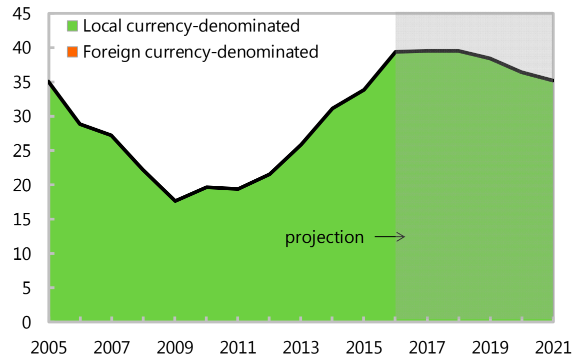
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

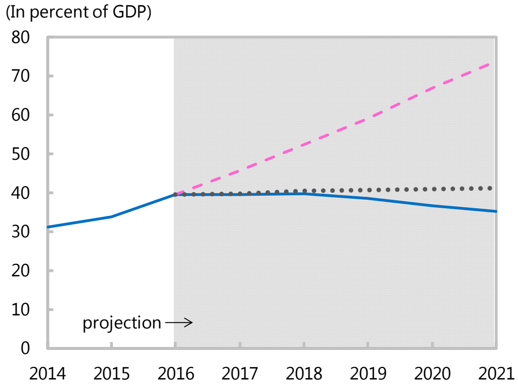


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

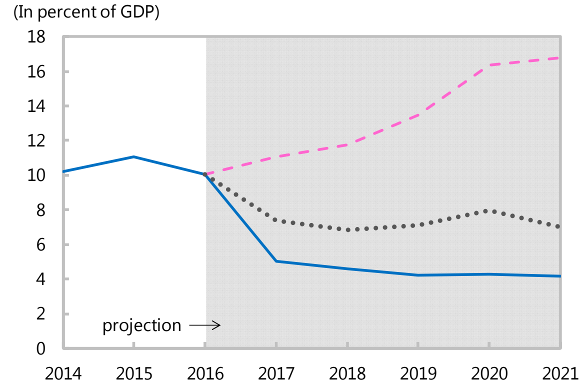
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

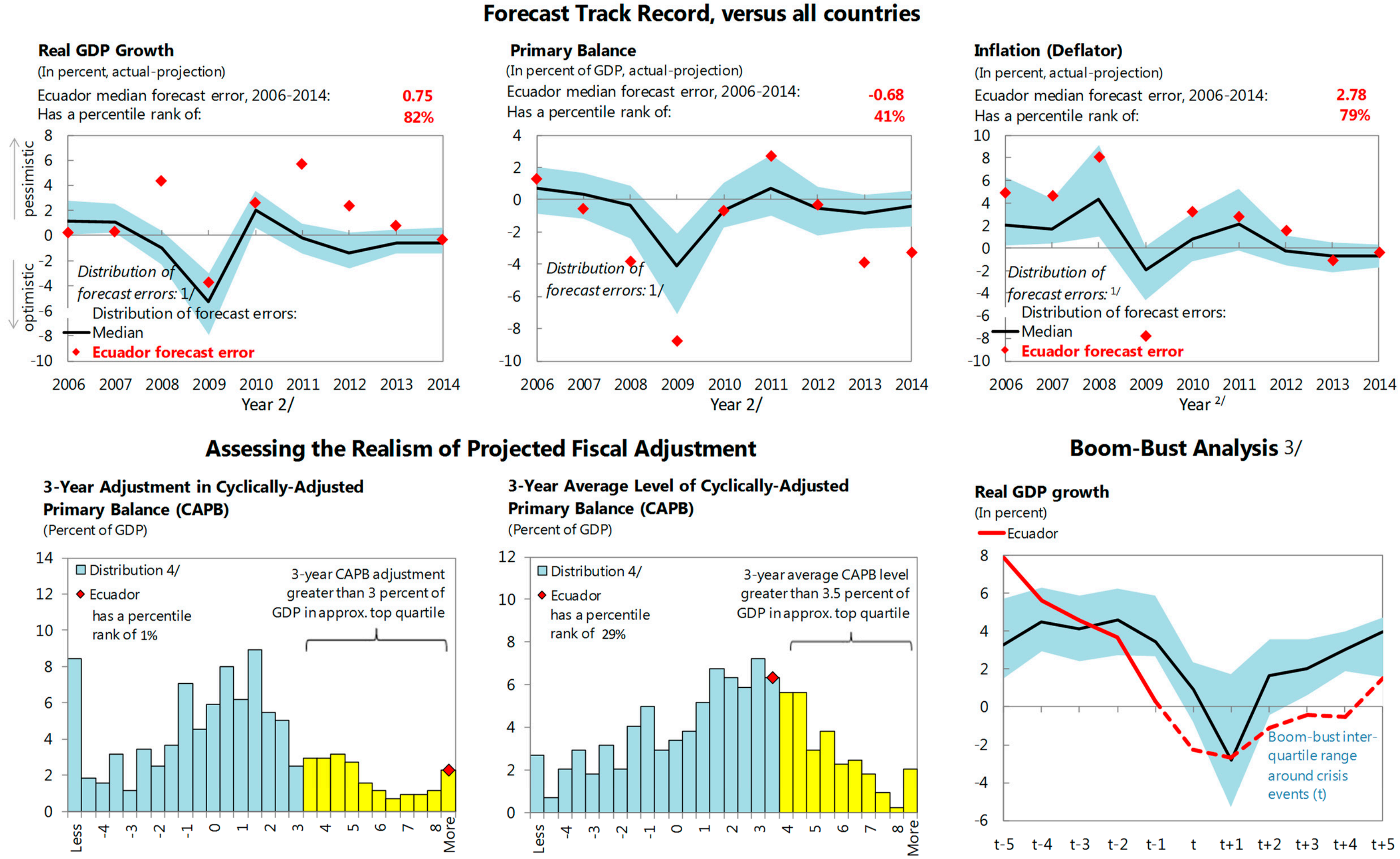
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Inflation	0.8	1.8	0.0	0.5	0.1	0.3
Primary Balance	-3.6	2.4	2.6	3.4	4.3	2.8
Effective interest rate	4.5	5.3	5.5	5.7	5.8	6.1
Constant Primary Balance Scenario						
Real GDP growth	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Inflation	0.8	1.8	0.0	0.5	0.1	0.3
Primary Balance	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	4.5	5.3	5.7	6.1	6.4	6.8

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.3	3.9	3.9	3.9	3.9	3.9
Inflation	0.8	1.8	0.0	0.5	0.1	0.3
Primary Balance	-3.6	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	4.5	5.3	4.6	4.1	3.7	3.4

Source: Fund staff estimates.

Figure 2. Ecuador: Public DSA—Realism of Baseline Assumptions



Source: Fund staff estimates.

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

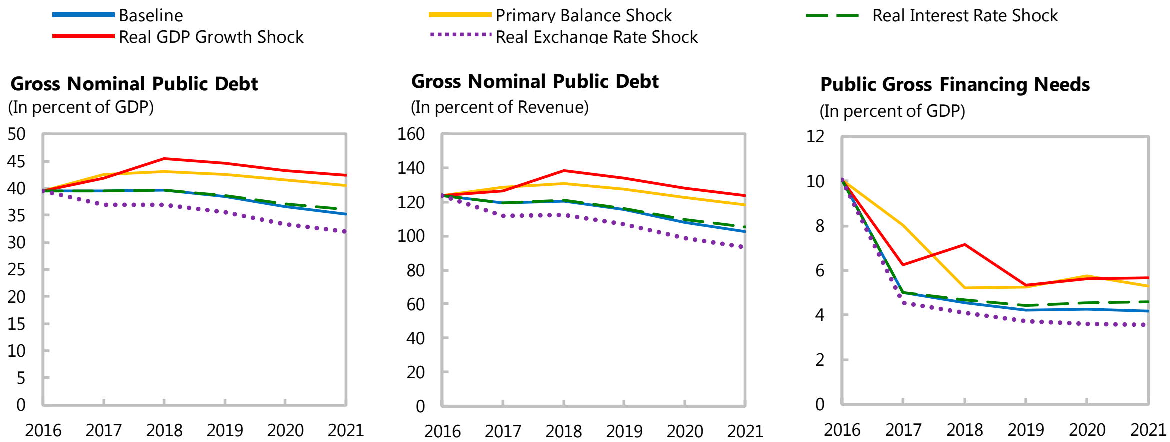
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Ecuador has had a positive output gap for 3 consecutive years, 2013-2015. For Ecuador, t corresponds to 2016; for the distribution, t corresponds to the first year of the crisis.

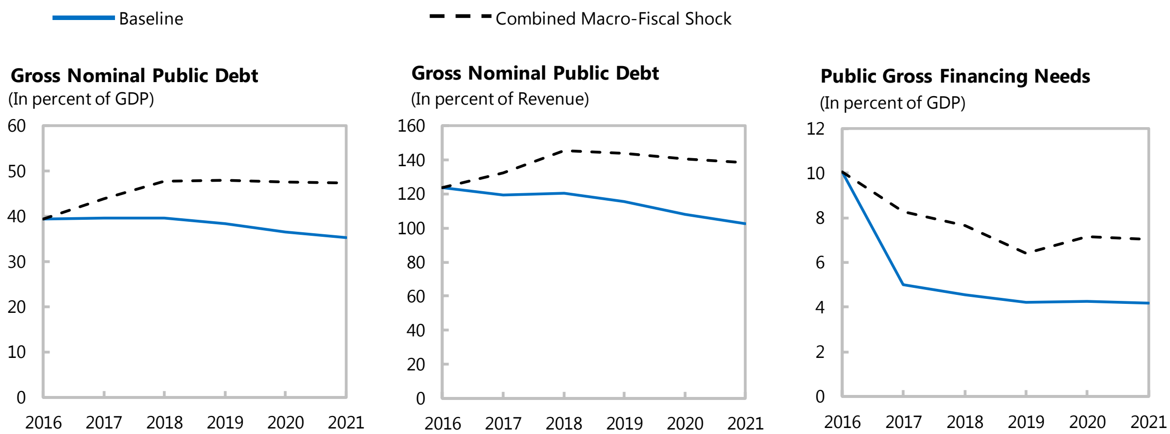
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Ecuador: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Inflation	0.8	1.8	0.0	0.5	0.1	0.3
Primary balance	-3.6	-0.6	2.5	3.0	3.9	2.8
Effective interest rate	4.5	5.3	5.7	5.9	6.1	6.4
Real Interest Rate Shock						
Real GDP growth	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Inflation	0.8	1.8	0.0	0.5	0.1	0.3
Primary balance	-3.6	2.4	2.6	3.4	4.3	2.8
Effective interest rate	4.5	5.3	5.7	6.2	6.5	6.9
Combined Shock						
Real GDP growth	-2.3	-5.1	-3.5	-0.4	-0.5	1.5
Inflation	0.8	1.2	-0.6	0.5	0.1	0.3
Primary balance	-3.6	-0.6	0.7	3.0	3.9	2.8
Effective interest rate	4.5	5.3	6.0	6.5	6.9	7.4

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.3	-5.1	-3.5	-0.4	-0.5	1.5
Inflation	0.8	1.2	-0.6	0.5	0.1	0.3
Primary balance	-3.6	1.4	0.7	3.4	4.3	2.8
Effective interest rate	4.5	5.3	5.6	5.9	6.1	6.3
Real Exchange Rate Shock						
Real GDP growth	-2.3	-2.7	-1.1	-0.4	-0.5	1.5
Inflation	0.8	8.5	0.0	0.5	0.1	0.3
Primary balance	-3.6	2.4	2.6	3.4	4.3	2.8
Effective interest rate	4.5	5.3	5.5	5.7	5.8	6.0

Source: Fund staff estimates.

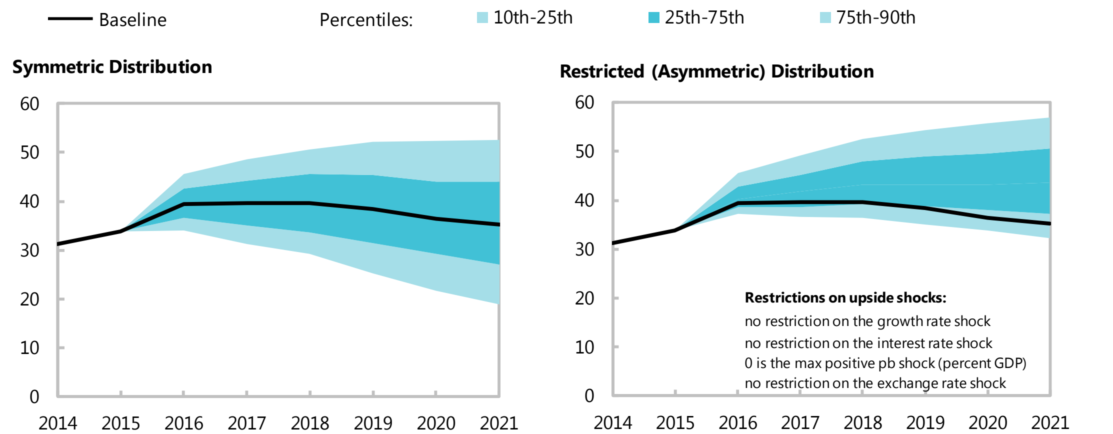
Figure 4. Ecuador: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

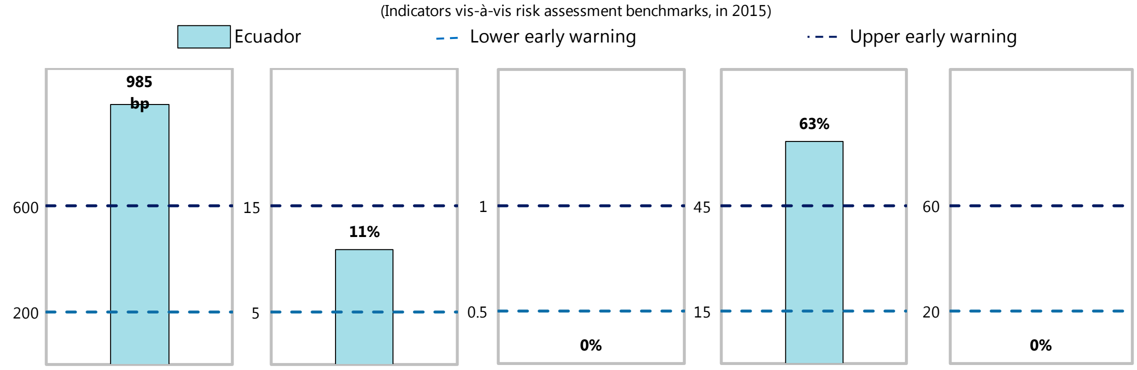
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Bond spread	**External Financing Requirement**	**Annual Change in Short-Term Public Debt**	**Public Debt Held by Non-Residents**	**Public Debt in Foreign Currency**
(in basis points) 4/	(in percent of GDP) 5/	(in percent of total)	(in percent of total)	(in percent of total)

Source: Fund staff estimates.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 19-Mar-16 through 17-Jun-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Table 2. Ecuador: External Debt Sustainability Framework, 2011–21

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	20.4	18.6	21.6	25.2	28.5			**34.0**	**34.4**	**34.6**	**33.7**	**32.2**	**31.5**	**0.5**
Change in external debt	-0.2	-1.8	3.0	3.6	3.3			5.5	0.4	0.3	-0.9	-1.6	-0.7	
Identified external debt-creating flows (4+8+9)	-2.8	-2.5	-1.1	-1.5	1.2			1.9	0.8	0.2	-0.8	-1.5	-0.7	
Current account deficit, excluding interest payments	-0.4	-0.7	0.0	-0.5	0.9			0.7	-1.2	-1.4	-2.2	-2.9	-1.4	
Deficit in balance of goods and services	2.4	1.5	2.1	1.3	2.6			2.1	0.1	0.3	-0.4	-1.0	0.6	
Exports	31.1	30.0	29.2	28.7	21.2			18.5	20.8	21.7	22.3	23.0	23.1	
Imports	33.5	31.5	31.3	29.9	23.7			20.6	20.8	22.1	21.8	22.0	23.7	
Net non-debt creating capital inflows (negative)	-0.8	-0.7	-0.8	-0.8	-1.1			-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	
Automatic debt dynamics 1/	-1.7	-1.1	-0.4	-0.3	1.4			2.2	3.1	2.7	2.5	2.5	1.7	
Contribution from nominal interest rate	0.9	0.9	1.0	1.0	1.4			1.6	2.2	2.3	2.3	2.3	2.2	
Contribution from real GDP growth	-1.4	-1.0	-0.8	-0.7	-0.1			0.7	0.9	0.4	0.1	0.2	-0.5	
Contribution from price and exchange rate changes 2/	-1.1	-1.0	-0.6	-0.6	0.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.6	0.7	4.1	5.1	2.1			3.6	-0.4	0.1	-0.1	0.0	0.0	
External debt-to-exports ratio (in percent)	65.5	62.0	73.9	88.0	134.5			183.5	165.4	159.4	151.4	139.9	136.4	
Gross external financing need (in billions of US dollars) 4/	3.6	3.3	4.4	6.7	9.1			8.9	7.8	7.3	6.7	6.6	6.4	
in percent of GDP	4.6	3.8	4.6	6.7	9.0	10-Year	10-Year	8.9	8.0	7.5	6.9	6.8	6.5	
Scenario with key variables at their historical averages 5/								**34.0**	**30.4**	**26.8**	**23.3**	**19.9**	**16.7**	**-1.3**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	7.9	5.6	4.6	3.7	0.3	3.9	2.4	-2.3	-2.7	-1.1	-0.4	-0.5	1.5	
GDP deflator in US dollars (change in percent)	5.7	5.0	3.1	2.7	-0.3	5.3	4.1	0.8	1.8	0.0	0.5	0.1	0.3	
Nominal external interest rate (in percent)	4.8	4.7	5.7	5.2	5.5	5.6	1.4	5.4	6.3	6.5	6.7	6.8	6.9	
Growth of exports (US dollar terms, in percent)	25.8	6.9	5.1	4.4	-26.2	8.3	20.0	-13.8	11.3	3.3	2.7	2.7	2.1	
Growth of imports (US dollar terms, in percent)	17.2	4.5	7.2	1.7	-20.8	8.8	18.7	-14.4	0.2	4.6	-0.9	0.2	9.7	
Current account balance, excluding interest payments	0.4	0.7	0.0	0.5	-0.9	1.8	2.9	-0.7	1.2	1.4	2.2	2.9	1.4	
Net non-debt creating capital inflows	0.8	0.7	0.8	0.8	1.1	0.7	0.4	1.1	1.1	1.1	1.1	1.1	1.1	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate. e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

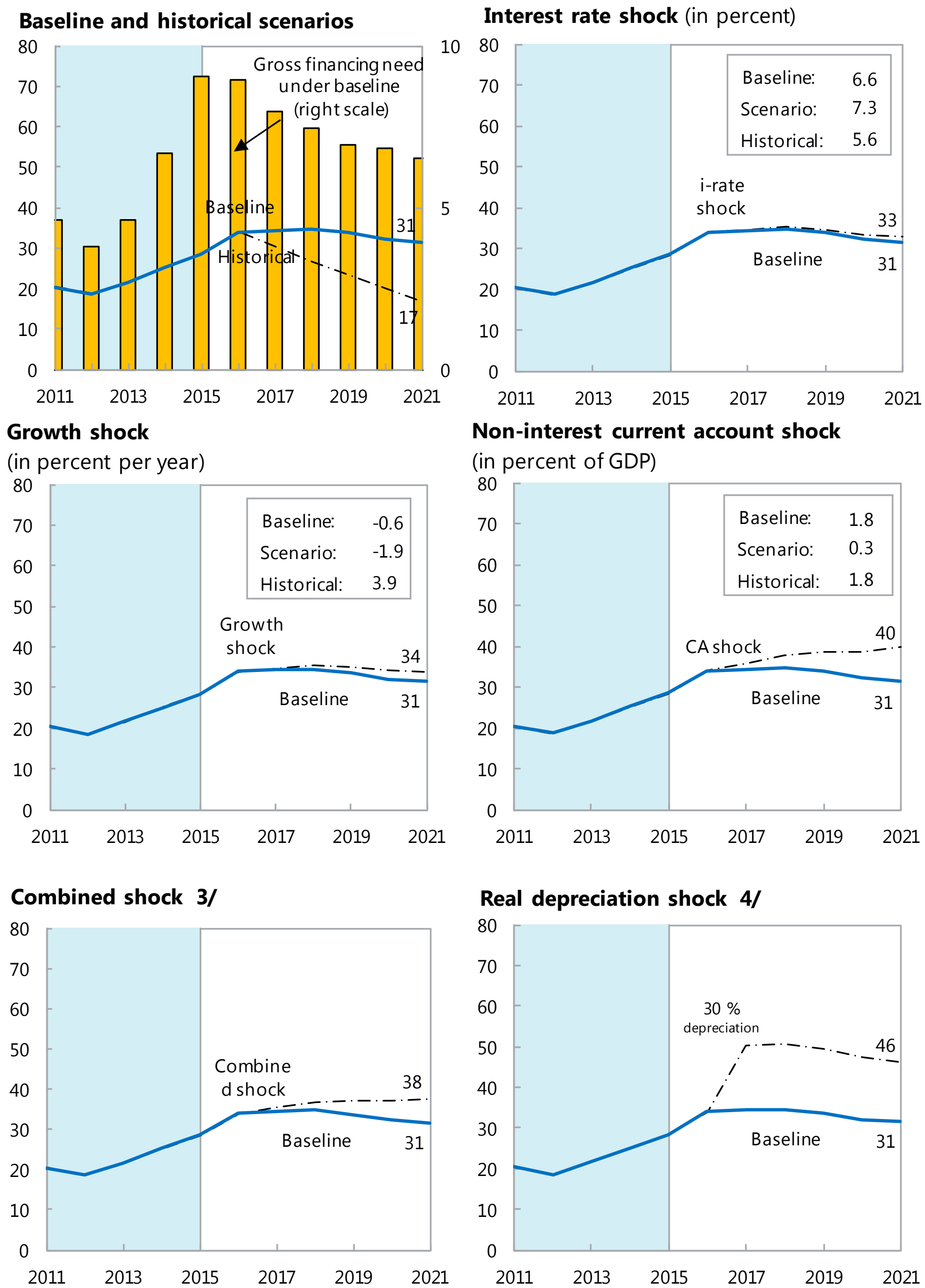
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 5. External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017.

Statement by Otaviano Canuto, Executive Director for Ecuador, Pedro Fachada, Alternate Executive Director, and Francisco Rivadeneira, Advisor to Executive Director July 8, 2016

1. On behalf of our Ecuadorian authorities, we thank Executive Directors for considering this request for emergency assistance under the Rapid Financing Instrument (RFI). Our authorities also wish to express their gratitude to the Managing Director for her supporting message to the people of Ecuador in the aftermath of the earthquake that struck the country in April, and for her offer to help deal with this catastrophe.

2. On the evening of April 16, 2016, the northern coast of Ecuador was hit by a 7.8-magnitude earthquake that caused significant loss of life, destruction, and disruption of economic activity. This was not the first nor will be the last earthquake to strike Ecuador, a country with intense seismic activity. However, it was one of the strongest and most destructive on record. There have been also numerous aftershocks, hitting the northern coastal provinces of Esmeraldas and Manabí.

3. The earthquake has caused intense damage to the transportation, energy, communications, and water supply infrastructure. It has also produced significant damage to housing, forcing the authorities to shelter thousands of families. Hospitals and schools have been destroyed. Economic activity in the provinces of Esmeraldas and Manabí have been severely affected, including fishery (particularly tuna processing and shrimp production), agriculture and the tourism sector. According to the joint assessment by the Ecuadorian government with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), reconstruction costs are estimated at about US$ 3.3 billion (3.3 percent of GDP).

The economic outlook before the earthquake

4. The Ecuadorian economy has been hit since mid-2014 by a series of external shocks. The country has been strongly affected by the collapse in oil prices, which accounted in 2014 for roughly half of its export revenues, as well as by the reduction in international prices of most of its other relevant commodity exports. Ecuador has also been impacted by the sharp appreciation of the U.S. dollar against most currencies, including the currencies of its two neighbors, and by the slowdown of some of its main foreign markets.

5. Despite these external adverse shocks, the economy continued to grow last year amid well-behaved inflation. Real GDP expanded by 0.3 percent in 2015, in line with the authorities forecast and well above IMF staff's projected contraction of 0.6 percent released at the time of the last Article IV consultation. Inflation stood at 3.4 percent in the year.

6. After a very difficult beginning of 2016, the macroeconomic outlook for Ecuador started to improve in the second quarter. This partly reflected the recovery in oil prices, the decline in

global risk aversion, and the successful access to new external financing, including an expressive loan for budget support from China, equivalent to about 1.5 percent of GDP. The improvement is evidenced by the decline in sovereign spreads and early signs of a pickup in business and consumer confidence.

Policy priorities going forward

7. The priorities going forward for Ecuador are to implement a set of policies to strengthen the fiscal position, avert a liquidity crisis, safeguard financial stability, and regain external competitiveness, without jeopardizing the substantial social progress achieved in recent years.

8. The authorities believe that the IMF staff's growth scenario over the medium term is excessively pessimistic. As acknowledged by staff, the growth outlook is closely tied to the availability of budget financing. The authorities are confident that they will secure the necessary external and domestic financing and that they can avoid the sharp contraction of GDP projected by staff. The recent loan from China is a concrete example that alternative sources of financing can be tapped. Moreover, the substantial recovery in oil prices since the trough in January 2016 has contributed to alleviate financing pressures.

Fiscal Policy

9. As we highlighted last year in our statement for the Article IV consultation, Ecuador has a track record of prudent fiscal policy, as attested by the fact that total public debt is among the lowest in the world. The country has fiscal rules that legally limit how much debt the government can contract. Nevertheless, given financing constraints, the authorities are well aware that they need to reduce substantially the fiscal deficit. In this context, they have adopted a series of measures since last year, including tax increases, freeze of public wages, reduction of subsidies, and prioritization of certain capital spending. The authorities have also initiated the process to transfer public assets in different economic activities to the private sector. Fiscal consolidation, however, will need to take into account spending pressures stemming from the April earthquake.

10. The authorities have recently announced the intention to sell a stake in *Banco del Pacífico,* the second largest in the country. They have also initiated the privatization process of the national airline and TV stations, and plan to sell stakes in the telecommunications and hydropower sectors. The government also intends to launch a large concession package including highways, hydroelectric generation, some of the most productive oil wells, and the new port of Guayaquil at Posorja (the first deep sea port of Ecuador).

11. In the aftermath of the earthquake, the government has announced a package of measures to assist the affected families and communities and to finance reconstruction efforts. The authorities have temporarily increased the VAT rate by two percentage points and have imposed a solidarity surcharge tax on wages, profits, and personal assets above a certain level, while

allowing for tax breaks for affected areas. With these measures, the authorities expect to raise revenues by close to 1 percent of GDP in 2016. However, this amount does not fully cover the costs with the earthquake, including the humanitarian assistance to the population directly affected by the disaster.

Dollarization and financial system

12. The Ecuadorian authorities remain committed to support the current monetary regime. They are well aware of the negative impact that de-dollarization would have on economic and financial stability, and on the welfare of the population.

13. Ecuador's banking sector is fundamentally sound, well-capitalized and profitable, and continued to operate smoothly, without any disruption, in the aftermath of the earthquake. A temporary relief has been granted to debtors in the provinces affected by the earthquake. Non-performing loans (NPL) are low for international standards, even accounting for the temporary surge due to the grace period given to debtors from affected areas. In addition, NPLs are fully provisioned with a comfortable margin.

14. The authorities will continue to focus on preserving liquidity, supporting confidence, and enhancing the banking system resilience. They are committed to continue strengthening prudential regulation and supervision, while sustaining an adequate Liquidity Fund (LF) invested in foreign liquid assets. The authorities have shown in many occasions a firm stance in relation to preserving capital adequacy, as for instance when they required banks not to distribute dividends last year.

Competitiveness, infrastructure, and poverty

15. Growth, labor market, and social policies in Ecuador have been inclusive. Poverty indicators have improved markedly in recent years. Considering the national poverty line, the poverty rate declined by a third over the period 2008-2014. Income inequality also fell albeit remaining relatively high, with the Gini index dropping from 0.54 to 0.47 in the same period.

16. The appreciation of the dollar has affected the competitiveness of the Ecuadorian economy. Given the lack of exchange rate flexibility, the government continues to work to boost the country's competiveness through implementing structural reforms, improving infrastructure and promoting labor market flexibility.

17. Medium-term prospects remain positive. Most of the hydroelectric plants under construction will start producing in 2017, reducing significantly fuel imports, increasing private sector energy supply and productivity, and enabling electricity exports to neighboring countries. The mining sector is expected to continue to grow over the medium-term with new investment in gold, silver, and copper mines, even accounting for less favorable international prices.

18. Ecuador continues to engage in trade negotiations to enhance market access to its exports through trade agreements with important counterparts. The country aims to reach an agreement with the European Union this year and has started negotiations with the European Free Trade Association and with South Korea. There are also several bilateral ongoing negotiations with countries such as Turkey, El Salvador, Honduras, and Nicaragua. Given balance of payments pressures, the authorities extended some temporary import tariff surcharges, in permanent coordination with the WTO and in accordance with its rules.

Balance of Payments

19. The earthquake has translated into additional pressure to the balance of payments due to lower exports, lower tourism inflows, and higher imports associated with the emergency assistance and reconstruction needs. The post-earthquake financing needs are being supported by grants from multilateral and bilateral donors, and by access to contingent credit lines with the Inter-American Development Bank (IDB), the World Bank, and the Development Bank of Latin America (CAF). So far, the authorities have received pledges of around US$630 million, of which about two-thirds in new resources.

20. These funds are still insufficient to close the additional balance of payments gap caused by the earthquake. Our authorities are thus requesting emergency financing from the Fund in the equivalent to 37.5 percent of quota (SDR 261.6 million, or approximately US$ 365 million) under the RFI. This is only the second time since its creation in 2011 that the RFI is requested by a non-PRGT eligible country (i.e., countries that are not eligible to use the IMF facilities for concessional financing).

Conclusion

21. The Ecuadorian authorities remain committed to close the budget gap and maintain macroeconomic and financial stability while preserving the substantial social progress achieved in recent years. They are confident that they will secure the necessary budget financing over the medium-term and will sustain the current monetary regime. As expressed in their letter to the Managing Director, the authorities intend to continue to maintain dialogue with the Fund to explore solutions to Ecuador’s balance of payments difficulties that derive essentially from exogenous shocks.