

IMF and the Ecuadorian Authorities Reach Staff-Level Agreement on the Second and Third Reviews of Ecuador's Economic Program Under the Extended Fund Facility

September 8, 2021

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- IMF staff and the Ecuadorian authorities have reached a staff-level agreement on economic policies to conclude the combined second and third reviews of the 27-month EFF program. Upon completion of the reviews, Ecuador would have access to financing for about US\$800 million, which the authorities would use for the budget.
- Ecuador's EFF-supported economic program aims to support the economic recovery from the pandemic, restore fiscal sustainability with equity, and generate sustainable growth with high quality jobs.
- Making vaccines increasingly available is supporting the economic recovery.

Washington, DC: An International Monetary Fund (IMF) mission led by Ms. Ceyda Oner conducted in-person and virtual meetings with the Ecuadorian authorities during August 2 –September 7 to discuss policies to complete the second and third reviews under the Extended Fund Facility (EFF) arrangement and conduct the 2021 Article IV consultation. Ms. Oner issued the following statement in Washington, D.C today at the conclusion of those meetings:

"The IMF team and the Ecuadorian authorities have reached a staff-level agreement on the combined second and third reviews of Ecuador's economic program supported by a 27-month EFF arrangement. The teams also completed discussions for the 2021 Article IV consultation. The agreement is subject to the approval of the IMF Executive Board in the coming weeks, contingent on the implementation by the authorities of prior actions and fulfillment of all relevant Fund policies. Upon completion of the review, Ecuador would have access to about US\$ 800 million (equivalent to SDR 564,9 million).

"We welcome the new administration's commitment to continue with the EFF-supported economic program. The authorities' economic program backed by the IMF aims to support Ecuador's recovery from the pandemic, expand social

assistance to protect Ecuador's vulnerable families, promote a transparent management of public resources, restore fiscal sustainability with equity, and promote sustainable growth with high quality jobs.

"We commend the speed with which vaccines have been obtained and administered to 9 million Ecuadorians (more than half of the population) in the first hundred days of the new administration. These efforts are helping Ecuadorian families and businesses recover decisively from the pandemic. Continued efforts to secure vaccines, provide support to the most vulnerable families, and reopen the economy will further support the recovery.

"Notwithstanding the speedy vaccination program, the effects of the pandemic are still being felt in the economy. The downturn in 2020 was the largest on record at 7.8 percent and the economy is projected to expand by 2¾ percent in 2021 and 3½ percent in 2022. Going forward, like many other countries across the world, Ecuador's outlook faces significant uncertainty regarding the future path of the pandemic and global oil prices. Over the medium term, we expect growth to be 2¾ percent.

"The fiscal balances for December 2020 and April 2021 were better than projected at the time of the First Review. Higher revenues, expenditure restraint, and oil prices being higher than expected contributed to this outcome. As a result, most targets were met except for the April target on nonfinancial public sector (NFPS) deposits, which was missed by a small margin. There has been important progress on the structural reform agenda, notwithstanding some delays. Most notably, the authorities amended on May 3, 2021 the central bank legal framework within the Organic Monetary and Financial Code (COMYF). The enacted amendments to COMYF were comprehensive revisions that significantly strengthened the basis for dollarization and the technical autonomy of the Central Bank of Ecuador (BCE).

"The pandemic has increased the government's spending needs this year beyond what had been anticipated at the time of last review. The better fiscal outturns and somewhat improved economic outlook provide some space to accommodate these higher immediate spending needs. In addition, the program is being revised in terms of the pace and composition of policies to reflect the authorities' own plans, favoring a reduction of public sector expenditures more than what was envisaged initially. The reform agenda reflects their view on the need to firmly ensure a path of fiscal sustainability over the medium term, while lowering Ecuador's dependence on oil revenue. Looking ahead, restoring fiscal sustainability and building much-needed liquidity buffers will hinge upon the authorities' resolve and capacity to implement such plans in a timely and sustainable fashion.

"Going forward, the authorities are also committed to continue improving public financial management, enhancing transparency in the management of public resources—including on COVID spending and operations of State-Owned Enterprises— and advancing the anti-corruption agenda, which would strengthen confidence in public institutions and boost private sector activity. The authorities also plan to reform their public-private partnership framework, capital and labor markets, and improve the business environment to catalyze domestic private investment and attract foreign direct investment.

"The mission met with Minister of Economy and Finance Cueva, Minister of Government Vela, Minister of Production and Trade Prado, Minister of Labor Donoso, General Manager of the Central Bank of Ecuador Avellan, other senior government officials, private sector participants, and civil society in Quito and Guayaquil. We thank the Ecuadorian authorities for the candid and constructive discussions."

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