Appendix I. Letter of Intent

Quito, May 15, 2024

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

Dear Ms. Georgieva:

1. Ecuador is going through one of the most difficult times in its history. A combination of external shocks, including a fall in oil prices, a rise in global interest rates, as well as natural disasters and weather-related events, electricity shortages, low international financing, and domestic political uncertainty in the runup to the 2023 early general elections hit our economy over the past year. These shocks have led to a sharp slowdown in economic activity starting in the second half of 2023 and weighed heavily on our public finances. In this context, the fiscal position weakened markedly, domestic liquidity tightened significantly, and treasury deposits and foreign exchange reserves declined sharply. In addition, a severe security crisis exacerbated our economic and fiscal challenges.

2. In recent months, the Government has taken bold actions to tackle the fiscal challenges and address the domestic security situation as a priority. These actions comprised a package of measures to boost fiscal revenue, including an increase in the value-added tax rate, and actions to strengthen our security forces and capabilities in the context of a new national security plan.

3. We are committed to implementing policies to strengthen fiscal sustainability, protect vulnerable groups, rebuild fiscal and external buffers, safeguard dollarization and financial stability, and advance the structural reform agenda to unlock Ecuador's significant economic potential. With the support of the IMF and the international community, we are confident that we will be able to achieve these objectives and lay the foundations for strong, sustained, and inclusive economic growth.

4. To help us meet these objectives, we kindly request IMF support through a 48-month extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 3 billion (about US$4 billion), or 430 percent of Ecuador's IMF quota, to be provided for budget support, with an initial purchase of SDR 752.9 million (107.9 percent of quota) upon approval of the EFF arrangement. This borrowing is consistent with the provisions of the Constitution of Ecuador (in particular Article 290, sections 2 and 3) as well as relevant domestic legislation.

5. Together with our economic policies, the support from this new Fund arrangement will help cover Ecuador's balance of payments and fiscal needs and foster a strong and job-rich economic recovery that generates opportunities for all Ecuadorians, including the youth. The new arrangement will build upon the significant progress made under the previous IMF-supported programs, helping us implement important economic reforms and providing a valuable anchor for our economic policies. The new program will also play a catalytic role in mobilizing international support, including from other multilateral partners, as well as from our bilateral creditors, ensuring that the program is fully financed and helping restore access to international capital markets.

6. The Government believes that the policies described in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives underpinning the program. However, if necessary, the Government stands ready to take any additional measures that may become necessary to achieve our program objectives. The Government will consult with the Fund on the adoption of these measures and in advance of any substantive revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will also provide the Fund's staff with all the relevant information required to complete the program reviews and to monitor performance on a timely basis.

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

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

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

Sincerely yours,

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

Attachment I. Memorandum of Economic and Financial Policies

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

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

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

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

4. During the early months of our administration, we have taken bold actions to address the fiscal and security challenges. On the fiscal and economic fronts, we implemented a three-percentage point value added tax (VAT) rate hike alongside additional revenue measures, totaling about 2 percent of GDP, to reduce the fiscal gap. We also introduced a limited set of tax incentives to stimulate growth and promote youth employment and encouraged private participation in the energy sector. In January, we announced the intention to target the fuel subsidies to the most vulnerable. On the security front, we bolstered the government's capability to fight crime, including by reorienting current expenditure to boost the security envelope and enhancing the role of the military. A referendum held in April 2024 approved measures to tackle the security situation. Our decisive actions to address the fiscal and security challenges contributed to a decline in sovereign debt spreads of about 1,000 basis points since December 2023 to below 1,200 basis points in April.

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

6. The following sections of this memorandum outline our policy plans under the new arrangement.

A. Strengthening Fiscal Sustainability

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

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

9. The 2024 fiscal plan envisages a reduction of the non-financial public sector (NFPS) overall fiscal deficit of 1.6 percentage points of GDP to 2 percent of GDP. The 2024 plan will still accommodate a moderate increase in capital spending and urgent spending needs to deal with the security situation and protect the most vulnerable segments of the population. The fiscal plan will also seek to start clearing domestic payment arrears and address the difficult liquidity situation facing the economy. The fiscal efforts will be supported by the revenue measures enacted in the first quarter of 2024 as well as expenditure restraint:

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

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

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

10. We aim to achieve a gradual medium-term fiscal consolidation to place public finances on a sustainable path. To this end, we expect to further reduce the NFPS overall deficit to 1.2 percent of GDP in 2025 and reach an overall surplus of 0.5 percent of GDP by the end of the program in 2028. This is consistent with achieving a surplus in the NFPS primary balance of 0.1 percent of GDP already in 2025 and a cumulative consolidation of about 5.5 percentage points of GDP in the non-oil primary balance including fuel subsidies (NOPBS) over 2024-28 relative to end-2023. This consolidation effort would strike an appropriate balance between strengthening fiscal sustainability, supporting the economic recovery, and protecting the most vulnerable, while at the same time allowing us to reduce oil dependence and meet international reserves coverage and public debt limits set out in the COMYF and COPLAFIP legislations, respectively. The measures that we are planning to take to achieve the projected medium-term consolidation would include the following key items:

- **Non-Oil Revenues.** Increasing non-oil revenues remains important to reduce volatility in fiscal revenues triggered by global commodity prices. We will aim to continue mobilizing non-oil revenues to replace temporary measures with permanent high-quality ones, thereby sustaining a higher level of non-oil fiscal revenues over the medium term. To achieve this, we plan to streamline inefficient tax expenditures and exemptions. A plan to mobilize non-oil revenues over the medium term will be prepared and shared with Fund staff (***mid-November 2024 structural benchmark***).

- **Oil Revenues.** The fiscal opportunity cost of selling oil derivatives at below market prices was about US$3.2 billion in 2023, equivalent to 2.7 percent of GDP. Most of these subsidies benefit many who do not need the support, encourage over-consumption of fossil fuels, undermine the energy transition, damage the environment, and provide ground for corruption and smuggling, benefiting informal mining activities and drug trafficking. As we announced in January, one of the administration's priorities is to make fuel subsidies more focused, while ensuring an appropriate social protection mechanism for the most vulnerable. In addition, the government is launching initiatives to increase net oil revenues, including by gradually increasing production (partly through greater private investments) and enhancing the capacity of the oil refinery system.

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

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

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

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

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

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

B. Expanding Our Social Safety Nets

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

C. Enhancing the Institutional Framework, Governance, and Transparency

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

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

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

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

19. We will continue working on implementing better cash management practices. The fact that we run up accounts payable throughout the year points to the need to improve our financial planning on an ongoing basis. With the assistance of a long-term PFM expert provided by the IMF, we have been able to expand our cash management planning capability and horizon to encompass the full length of the annual budget cycle. The remaining challenge is to develop further capability to update our cash management planning on a 12-month rolling basis from any given point in the budget year. The expert has also helped implement a new monitoring system to evaluate the existing stock of domestic payment arrears of the central government and selected relevant entities of the NFPS. In January 2022, we published a methodology to estimate the stock of arrears and the reporting templates to be used by public sector entities. We have estimated the stock of potential claims on PGE, including with the IESS, GADs, private sector, or others (if any) by type of expenditure, year, and beneficiaries. We have started publishing data on monthly arrears in the public debt bulletins, as per COPLAFIP law. We will design a policy so MEF can gather monthly information on arrears from other entities of the NFPS, as mandated by COPLAFIP.

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

21. MEF has implemented several actions to improve public debt transparency. Following the new debt methodological definition and with WB and Fund technical assistance, a new Debt Bulletin was developed and released on a monthly basis on the official website of the MEF. The Bulletin includes detailed information on previously not included past obligations related to internal debt, arrears, accounts payable, and previous unregistered budgetary obligations. In addition, the current public external and internal debt profile is published, as well as the amortization profile by source and operation. The detailed database supporting the Bulletin is now accessible on our website.

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

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

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

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

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

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

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

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

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

29. We plan to increase coordination among agencies involved in financial sector oversight. To this effect, we plan to establish a Financial Stability Committee in line with best international practices, comprising the BCE, the MEF, the Financial Board (JPRF), the Monetary Board (JPRM), the Superintendency of Banks (SB), the Superintendency of Popular and Solidarity Economy (SEPS), the Superintendency of Companies (SCVS), and the Deposit Insurance Corporation (COSEDE) (***end-September 2024 structural benchmark***). The Committee will facilitate coordination and information exchange among the agencies involved, providing a holistic perspective to financial sector surveillance, and supporting prompt policymaking in response to financial sector vulnerabilities.

30. We are enhancing the prudential framework on capital and liquidity. We have prepared the methodologies to identify the systemically important financial institutions, and plan to issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and countercyclical capital buffer (***end-November 2024 structural benchmark***). These regulations are expected to enhance capital buffers and support financial stability. In addition, we have started implementing the FSSA recommendations on liquidity, including the phased implementation of the Liquidity Coverage Ratio, expected to be achieved by 2028.

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

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

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

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

34. We are committed to restoring the competitiveness of the economy and raising the living standards for all Ecuadorians. To this end, we are taking important strides in improving transparency and economic governance, fighting crime and corruption, addressing bottlenecks for investment and employment, and making Ecuador a preferred destination for businesses worldwide, supported by our international trade agreements. We will further facilitate environmentally sustainable investment in the mining sector, which in recent years has already increased production and exports.

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

36. We will enhance our financial integrity and our efforts against organized crime and related illicit activities by strengthening our Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework. We expect to enact new AML/CFT legislation to strengthen the AML/CFT framework in line with Financial Action Task Force (FATF) standards (***end-February 2025 structural benchmark***). Such draft legislation is currently under the consideration of the National Assembly and was originally developed with IMF's technical support. We will also work to further enhance the governance and independence of the UAFE and enhance its capabilities in producing comprehensive strategic and operational financial intelligence that will be proactively disseminated to law enforcement agencies for further investigation in financial crimes. More broadly, we are taking other measures to tackle illicit financial flows. Notably, we recently launched a Joint Investigation Unit to formally align efforts across key public institutions in the fight against money laundering, tax fraud, and other illegal activities that help finance organized crime.

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

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

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

40. To foster private sector-led growth, we have developed a new framework for PPPs. A law approved by the National Assembly in December 2023 laid out this new framework, complemented with regulations issued last February. PPP projects in the pipeline prioritize sectors such as road infrastructure and renewable energies. A fiscal risk unit within the MEF will evaluate the viability of PPP projects, including quantification of risks to the public sector's balance sheet, and propose ways to mitigate them. These risks will be clearly presented in our fiscal risk statements, which will be annexed to the annual budgets.

41. We are committed to addressing the electricity shortages and increasing renewable energy generation. Power shortages since late 2023 are largely associated with climate change, affecting hydroelectrical power generation, and longstanding underinvestment in the energy sector. It is therefore critical to undertake essential maintenance work on existing plants, including through private investment. The government has developed 12 projects for electricity generation through Non-Conventional Renewable Energies (NCRE)—solar, wind, and hydroelectric—with support from the IDB. These generation projects will contribute 833 MW of power, backed by private investments. Establishing a mechanism to cover commercial revenue risks, coupled with the commitment from the state and an IDB guarantee, has sparked significant interest among private investors and international development financial institutions in participating in upcoming bidding processes for electric generation and transmission projects.

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

G. Program Monitoring

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

Table 1. Ecuador: Quantitative Performance Criteria and Indicative Targets
(US$, unless otherwise indicated)

	End-Aug. 2024	End-Dec. 2024	End-Apr. 2025	End-Aug. 2025
	Program	Program	IT	IT
(US$ million, unless otherwise indicated)				
Quantitative performance criteria				
1. Nonoil primary balance of the budgetary central government (PGE) (*floor*) 1/	-1,078	-2,295	-472	-1,245
2. Overall balance of the PGE and CFDD (*floor*) 1/	-2,200	-4,213	-753	-2,377
3. Accumulation of NFPS deposits at the central bank (*floor*) 1/	200	360	50	150
4. Non-accumulation of external payments arrears by the NFPS (*continuous performance criterion*)	0	0	0	0
5. (No new) Central bank direct and indirect financing to the NFPS (*continuous performance criterion*)	0	0	0	0
Indicative targets				
6. Overall balance of the NFPS (*floor*) 1/	-1,628	-2,442	-491	-982
7. Nonoil primary balance including fuel subsidies (NOPBS) of the NFPS *(floor)* 1/	-4,100	-6,528	-1,500	-3,400
8. Change in the stock of NIR (*floor*) 1/	-200	-310	116	382
9. Stock of PGE arrears to the domestic private sector *(ceiling)*	862	662	600	400
10. Number of families in the first three income deciles nationwide covered by cash transfer programs *(floor)*	1,192,713	1,212,984	1,228,660	1,244,336

Sources: Ministry of Economy and Finance and IMF staff estimates.
Note: Aggregates and adjustors as defined in the Technical Memorandum of Understanding (TMU).
1/ Cumulative change from January of each year.

Table 2. Ecuador: Prior Actions and Structural Benchmarks

Reform Area	Structural Conditionality	Objectives	Due Date
	Prior Actions		
Public financial management	1. Prepare and share with the Fund a projected monthly cash flow and financing plan for the budgetary central government for the remainder of 2024.	Improve mechanisms to monitor real-time fiscal performance and take corrective action if needed to achieve program targets.	
Contingency planning	2. Prepare a contingency plan to ensure compliance with program fiscal targets if revenues underperform.	Be ready to take corrective action if needed to achieve program targets.	
	Structural Benchmarks		
Public financial management	1. Publish an updated Medium-Term Fiscal Framework (MTFF) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024
Public financial management	2. Publish a Medium-Term Debt Management Strategy (MTDS) in line with program targets.	Strengthen fiscal planning and management.	End-October 2024
Domestic arrears	3. Share with Fund staff an updated plan to clear and prevent the resurgence of domestic arrears of the budgetary central government (PGE), including obligations to the private sector and intra-public sector claims.	Strengthen the monitoring and reduce accumulation of payment arrears.	End-November 2024
Tax reform	4. Prepare and share with the Fund a plan to mobilize non-oil fiscal revenues, including by streamlining inefficient tax expenditures and replacing transitory revenue measures with permanent high-quality ones.	Inform future efforts to broaden the tax base and streamline tax expenditures.	Mid-November 2024
Fiscal strategy	5. Enact regulation on revenue and/or expenditure measures to ensure that the 2025 fiscal plan is in line with program and MTFF commitments.	Ensure fiscal consolidation.	December 6, 2024
Social safety net	6. Share with the Fund a plan to complete the social registry to cover families in the lowest three deciles of the income distribution throughout the country.	Enhance the social safety net	End-October 2024

Table 2. Ecuador: Prior Actions and Structural Benchmarks (continued)

Reform Area	Structural Conditionality	Objectives	Due Date
Governance	7. Establish an updated agreement between the MEF and IESS on the transfer of healthcare obligations (including both internal and external providers), building on the December 2022 agreement. The updated agreement should include a decision about the 2022 healthcare audits.	Improve expenditure control.	End-October 2024
Governance	8. Establish a timeline to operationalize the National Control Subsystem (SNC) to increase transparency in procurement.	Strengthen anticorruption framework and improve expenditure control.	End-December 2024
Transparency and governance	9. Initiate the tender process to select an auditor to undertake the 2023 and 2024 healthcare audits (based on the updated MEF/IESS agreement).	Improve the quality and reliability of fiscal data.	End-December 2024
Transparency and governance	10. Complete the audits of the 2019 and 2020 financial statements of Petroecuador and Petroamazonas and share the results with Fund staff.	Enhance transparency and governance in the oil sector.	End-March 2025
Anti-money laundering framework	11. Enact new AML/CFT legislation to strengthen the AML/CFT framework in line with FATF standards.	Mitigate the risk of illicit flows including those related to organized crimes.	End-February 2025
Financial sector	12. Establish a Financial Stability Committee in line with best international practices, comprising the BCE, MEF, JPRF, JPRM, SB, SEPS, SCVS, and COSEDE.	Enhance coordination among agencies involved in financial sector oversight.	End-September 2024
Financial sector	13. Issue macroprudential regulations on bank capital buffers, including surcharges on systemically important institutions and a countercyclical capital buffer.	Strengthen financial sector buffers.	End-November 2024

Table 2. Ecuador: Prior Actions and Structural Benchmarks (concluded)

Reform Area	Structural Conditionality	Objectives	Due Date
Financial sector	14. Prepare and share with Fund staff a study of the system of interest rates, including recommendations to improve credit allocation, financial inclusion, and economic growth, while preserving financial stability.	Foster financial sector deepening and improve economy's growth potential.	End-March 2025
Domestic capital market development	15. Sign a contract to implement a new platform for the BCE's central securities depository (DCV) to modernize the compensation, liquidation, and custody functions in line with international standards.	Foster domestic capital market development.	End-November 2024