Ecuador Intervention

Thank you very much for this opportunity to talk in this important group of G24 about the situation that Ecuador is facing in this really complicated moment of our economy and the importance of a new allocation of SDR.

First of all, it is important to mention, that Ecuador is a dollarized economy since 2000, and highly dependent on oil revenues…in that sense, we are very vulnerable to external shocks. Therefore, given the need for a constant flow of foreign exchange and stocks to mitigate risks, especially in terms of liquidity, trade and fiscal policy has focused on one fundamental pillar: the sustainability of dollarization, by optimizing its balance of payments, the promotion of foreign direct investment and sustainable levels of deficit in its trade balance.

In the process of international financial cooperation, I must emphasize that Ecuador has had an important history with the IMF. IMF has been fundamental in critical moments of our country; its financial support has allowed to cope with adverse situations for our economy, such as the earthquake of August 2016 and now, the health crisis caused by COVID-19.

The international situation derived from the Covid-19 pandemic earlier this year, and consequently, the health emergency measures that were adopted in Ecuador in March 2020 by the government, meant a general stoppage of economic and financial activities in the country. Also the effects of the decrease in the price of oil (March 31, 2020 recorded a price of USD 14.85 per barrel of WTI oil) and the high levels of country risk (exceeded 6,000 points), which had a direct impact over the financial conditions, exacerbated fiscal problems and deteriorated the liquidity provision by the government in the Ecuadorian economy.

The economic crisis, resultant of this unfavorable national and international context, will lead to an unprecedented economic and social crisis (a decrease in real GDP is forecasted between -7.3% to -9.6%). This situation will weaken the position of the International Reserves (as of May 2020, IRs represented 3.5% of nominal GDP USD 96.512 billion.

From a historical point of view, our country has had 19 Credit Agreements and the recent one, called the Extended Fund Facility dated March 2019, reflects the strengthening of financial ties with the IMF. These Credit Agreements have helped to overcome the lack of capital in the balance of payments, restoring confidence towards our country in the international context, to resume the path towards sustainable growth.

As is common knowledge, countries that are members of the IMF are assigned an SDR amount under the figure of complementary reserve asset. With the development of international markets and the accumulation of solvent governments reserves, for some years the dependence on this world reserve asset was lost; however, in 2009, in the context of the international financial crisis, the IMF gave Ecuador as financing through the Ministry of Economy and Finance (MEF), a special allocation of Special Drawing Rights (SDR) 288 millions. Of that total 255 millions was transferred to the Single Current Account of the National Treasury, in September 2009, and 33 millons the IMF gave to the Central Bank.

In this sense, the value of the SDR holdings issued by the IMF is recorded as part of the external assets held by the Central Bank of Ecuador, that is, in international reserves, and which are also recorded in the country’s balance of payments.

In addition to acting as a reserve asset, being an instrument that has the capacity of free availability, the Government has implemented fiscal adjustment policies to maintain stability and economic growth, using SDRs as a source of external financing.

RAPID FINANCING INSTRUMENT (RFI)

As indicated, the country has accessed to RFI on two occasions:

I.-. In 2016, IMF would grant the Central Bank for 37.5% of the quota that the Republic of Ecuador registered with the IMF, to solve balance of payments needs within liquidity management to support the monetary and financial market.

Thus, on August 9, 2016, the Central Bank of Ecuador received a payout of SDR 261millons, equivalent to USD 365 millions, from the procurement of the IFR.

The duration of this Credit is 5 years, with a variable interest rate, called the "Rate of Charge", which is paid quarterly, on the fourth business day of November, February, May and August, respectively, starting the first installment of interest on November 4, 2016.

Regarding capital, it is paid in 8 quarterly quotas, starting the first on November 08, 2019 and ending on August 09, 2021.

Also, Ecuador in 2020 signed an operation of funding for up to SDR 470 millions between the Republic of Ecuador, through the MEF and the IMF, under this Rapid Financing Instrument modality, whose funding was received on May 05 and 06 of this year.

The financing has a term of 5 years, with a variable interest rate determined by the IMF, which will be paid quarterly both in principal and interest, with the final payment date being April 2025. It should be noted that as a guarantee for contracted obligations, Promissory Notes are issued, which constitute a liability until the country finishes paying the obligation.

EXTENDED FUND FACILITY

The Ministry of Economy and Finance and the Central Bank of Ecuador requested the IMF an Extended Fund Facility (EFF) for up to SDR 3.035 billion (435% of the country's quota and equivalent to approximately USD 4.209 billion). The goal of this funding is to support: 1) serious balance of payments problems due to structural deficiencies or 2) an economy characterized by slow development and a greatly weakened balance of payments situation. Our country is located in this second case, since it has slowed economic growth in recent years and a weak balance of payments in terms of current account.

Under the Ecuadorian regulatory framework, Ecuador can enter into agreements and contract public debt operations for financing programs. Thus, the operation is aimed at "financing programs, investment projects in infrastructure and that have the financial capacity to pay, as well as financing external public debt in better conditions. "

It is important to note that Ecuador, as a result of obtaining IFR financing in May of this year, canceled the unspent balance of this Extended Fund Facility.

As a guarantee of this financing, the Republic of Ecuador issued a Promissory Note, the value of which is updated as disbursements are received.

The service of the debt contracted with the IMF by the Republic of Ecuador, either through the Ministry of Economy and Finance or the Central Bank, is paid out through automatic debit from the Central Bank account in the Organism, for which and if it is the case, the Central Bank and the Ministry of Finance must sign an Inter-institutional Coordination Agreements through which the MEF authorizes the debit of its accounts in order to cover the debt payments, that such government entity holds with the IMF.

In order for the Central Bank account with the IMF to maintain sufficient balance to cover obligations with that Organism, SDR acquisitions are made in coordination with the IMF.

Additionally, it is necessary to point out that the financing provided by the IMF to the Republic of Ecuador is proportional to the amount of participation that a member country has in this International Organism.

The active participation of international organizations such as the IMF, World Bank, IDB, CAF, among others, through their liquidity mechanisms, will regain importance not only in our country, but in various world economies. Furthermore, considering that developed economies have suffered stagnation in their production of goods and services, and in some cases a contraction in financial dynamics, foreign direct investment will weaken considerably, undoubtedly affecting the balance of payments. In Ecuador, we estimate that our exports will decrease in -5.2% and imports in -16.1%.

In this sense, the relevance of international organizations and their support policies through financing and liquidity facilities will provide relief to member countries against the global economic and financial crisis, influencing the positive development in the subsequent months, or even next years.

Finally, the work of the Ecuadorian Government is based on the transparency of the Prosperity Plan, so based on its regulations, the Public Debt report is published with an updated methodology, where the External Public Debt, in addition to maintaining the concepts that had been reported, incorporates figures for anticipated oil sales, intangible contractual rights liabilities and the Special Drawing Rights (SDR) that the Central Bank of Ecuador keeps in the International Monetary Fund.