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BACKGROUND PAPER

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The IMF's Exceptional Access Policy in the 2020 Fund-Supported Program for Ecuador

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ABBREVIATIONS

BCE	Banco Central del Ecuador
BOP	Balance of Payment
CD	Capacity Development
EA	Exceptional Access
EAC	Exceptional Access Criterion
EAP	Exceptional Access Policy
EFF	Extended Fund Facility
EPE	Ex Post Evaluation
FIN	Finance Department (IMF)
PA	Prior Action
RFI	Rapid Financing Instrument
SB	Structural Benchmark
SBA	Stand-By Arrangement
SLA	Staff-Level Agreement
SPR	Strategy, Policy and Review Department (IMF)
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

This paper analyzes the experience with the IMF's Exceptional Access Policy (EAP) during the 2020 Extended Fund Facility (EFF) arrangement for Ecuador. The arrangement came in a context characterized by the devastating effects of the COVID-19 pandemic, Ecuador's dollarization system and political and institutional circumstances, the two immediately preceding arrangements with the Fund, and the high expectations placed by the international community on the IMF's involvement.

From the EAP perspective, the arrangement deserves a positive assessment in several ways. The framework proved useful to guide internal thinking, which contributed to strengthening the program and ensuring a thorough identification and presentation of the risks involved. The provisions under the policy were met and, in some cases, they were key to the design and implementation of the program. Most notably, fulfillment of the debt sustainability criterion required an ex ante debt restructuring and meeting the fourth criterion triggered the provision and absorption of needed capacity development (CD).

At the same time, the analysis of this case reveals some shortcomings and gaps in the EAP:

- The 2020 Ecuador EFF raises questions about the suitability of the framework in countries that are facing structural difficulties that can only be addressed in the long run. Relatedly, the case also sheds light on the issue of the balance between frontloading and backloading in exceptional access arrangements and its implications for risk management.

- This case also highlights problems with the design and *implementability* of the criteria. Their sensitivity to assumptions and data quality, the built-in room for judgment, the absence of clear definitions and, in some instances, of a robust analytical framework and tools, make it difficult for the criteria to work as the binding requirements they are presented and perceived to be. This, in turn, reduces the EAP's potential to contain political pressures. That said, the IEO found in this case no evidence of direct pressures on staff or of reverse engineering, as it is often argued by Fund critics.

- Specifically, on EAC4, given Ecuador's institutional weaknesses and political volatility, this case shows how difficult it is to assess a member's political and institutional capacity, and the limitations of a system based on the obtention of political assurances, which can be meaningless or even counterproductive.

The assessment of the outcomes of this case against the explicit objectives of the EAP is mixed. On the one hand, the framework was useful as a benchmark for internal decisions and its rigorous discussion led to sounder program design and clear presentation of risks. On the other hand, the case shows how issues with the design and implementation of the EAP can have the opposite effect, hampering predictability and credibility. By the same token, the case illustrates how the EAP may fall short in its objectives of safeguarding the Fund's resources and ensuring uniformity of treatment.

I. INTRODUCTION

1. **This paper evaluates the implementation and functioning of the IMF's exceptional access policy (EAP) during the 2020 Extended Fund Facility (EFF)-supported program for Ecuador (2020 EFF)**. It was prepared to support the IEO evaluation of "The IMF's Exceptional Access Policy." It discusses the context in which the arrangement was designed, how effectively the Fund managed this case—focusing on implementing the EAP—and its outcomes for Ecuador, the IMF, and the international monetary system. The 2020 Ecuador EFF constitutes an important case study because it is one of the three disbursing exceptional access (EA) arrangements after the latest (2016) revision of the EAP.

2. **The main objective of this paper is to evaluate the application and usefulness of the EAP and draw general lessons for the policy itself**.[1] Therefore, while complementary, it differs in its approach and focus from the ex post evaluation (EPE) conducted by IMF staff,[2] and covers somewhat different ground, including decision-making processes, discussions with authorities, and Board discussions. The EPE found that (i) the 2020 EFF stabilized the economy, with macroeconomic variables, debt reduction, and policy buffers all exceeding targets or being met ahead of schedule, with stronger-than-expected nominal GDP growth and higher oil prices; (ii) the economy, however, remained dependent on oil revenues, due to changes in the program's fiscal strategy, and away from tax increases (e.g., VAT reform) towards expenditure cuts (fuel subsidies reduction, restraint wage bill), which were not sustained;[3] (iii) market access remained "elusive;" and (iv) Fund policies and procedures under the EAP had been followed, and the staff judgments had been appropriately applied, requiring "an increasingly difficult balancing act" throughout the program, while suggesting that, "in hindsight," there was "room to strengthen assessment for some criteria."

3. **Methodology and structure of the paper.** The paper draws on a variety of sources: (i) desk review of IMF documents, both public and confidential, including policy notes, staff reports, and back-to-office reports; (ii) review of external literature; (iii) interviews with IMF staff and management, IMF Executive Directors, country authorities, and other stakeholders; and (iv) a sentiment analysis exercise using natural language processing (see Annex IV). The paper starts by reviewing the context in Section II, and the 2020 EFF in Section III. Section IV evaluates the implementation of the EAP criteria, and Section V evaluates the program outcomes. Section VI summarizes findings and concludes.

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[1] This paper does not evaluate the design and technical adequacy of the EAP's criteria and decision-making procedures, which are covered in Bal Gündüz (2024), Erce (2024), and Kincaid (2024).

[2] The EPE, discussed by the Board in November 2023, reviewed the program design and outcomes of the 2020 EFF, the application of Fund policies, and the achievement of program objectives (reference). For more details on EPEs, see Chopra and Li (2024).

[3] For example, oil revenues were 14.7 percent of GDP in 2022 compared to 11.3 percent in 2019, while VAT and excises were 6.6 percent of GDP in 2022 compared to 7.0 percent in 2019, and income taxes were 3.9 percent in 2022 compared to 4.0 percent in 2019 (EBS/23/121; p. 23). Regarding spending, wages accounted for 10.7 percent of GDP in 2022 compared to 11.5 percent of GDP in 2019, and oil subsidies were 4 percent of GDP in 2022 compared to 2.2 percent in 2019 (IMF, 2023; p. 23).

II. CONTEXT

4. **Ecuador is a dollarized economy.** Following the adoption of dollarization in 2000, inflation stabilized to remain low and growth was close to 4 percent during the 2001–14 period, displaying a high correlation with oil prices (particularly after the Global Financial Crisis, where the correlation was close to 0.8 percent). During Rafael Correa's presidency, 2007–17, the role of the state via higher public expenditures was promoted, and oil revenues accounted for 35 percent of tax revenues. Also, during this period, the government increased domestic borrowing, including direct borrowing from the central bank, and bilateral and multilateral external borrowing.[4]

5. **Ecuador's relationship with the Fund was interrupted between 2008 and 2014**.[5] During this period, no Article IV consultations were conducted and, according to interviewees, both among the authorities and staff, this disconnection generated a significant erosion of (i) the understanding of the Fund's operations; (ii) domestic capacity, mainly in statistics and accounting standards (e.g., fiscal accounts and local governments' debt), which later contributed to misreporting incidents and triggered substantial provision of IMF capacity development (CD); and (iii) domestic perceptions of the Fund, both public and institutional. Also damaged was the staff's understanding of the Ecuadorian political and economic situation, including the specificities of its dollarization scheme.

6. **Ecuador reengaged with the Fund in 2014**. Oil prices fell starting in 2014, and so did growth (Figure 1). As sources of financing dried up, Ecuador sought to regain access to international markets, for which investors demanded a normalization of relations with the Fund. Ecuadorian authorities also saw reengagement with the Fund as a way to counter the perception of the country's instability. The Executive Board concluded the first Article IV consultation since 2007 on July 30, 2014, following a complicated process that deviated from the usual practice, in that the consultations were held in Washington, DC instead of Quito. Article IV consultations resumed on-site in 2015. Following a major earthquake in April 2016, the Executive Board approved, on July 8, 2016, a disbursement of close to US$364 million (37 percent of quota) for Ecuador under the Rapid Financing Instrument (RFI). From May 2017, the Moreno administration strengthened the engagement with the Fund and, in 2019 the Fund reopened its Resident Representative office in Quito. Nevertheless, there was consensus that gaps remained in the relationship when negotiations began for the 2019 EFF.

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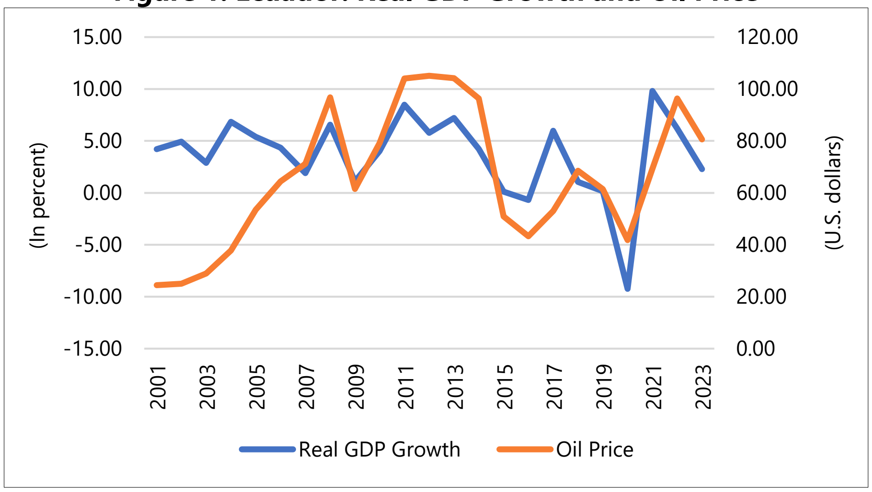
[4] According to staff, "the foundations of the dollarized system have been undermined by a fiscal policy that is inconsistent with the constraints imposed by dollarization and, in parallel, by an erosion of domestic institutions. The decision to dollarize the economy continues to receive significant public support. However, under the previous administration, policies steadily undermined the viability of the dollarization framework, mainly through central bank financing of fiscal spending. This, in turn, has resulted in an increase in balance of payments vulnerabilities, a high public debt-to-GDP ratio, inadequate reserve coverage, and an overvalued real exchange rate" (IMF, 2019).

[5] A detailed timeline is presented in Annex II.

7. **In March 2019, a three-year EFF (US$4.2 billion, 435 percent of the quota) was approved for Ecuador**. The total amount of Fund resources were available for direct budget support and the arrangement allowed for the immediate disbursement of US$652 million. The program was seen as catalyzing other multilateral funding and it was announced as a US$10 billion package of Fund and non-Fund financing, close to 10 percent of GDP. The program design addressed structural problems with fiscal consequences; as stated in the program request, "at the core of Ecuador's imbalances has been the pursuit of an unsustainable fiscal path" (IMF, 2019). The 2019 EFF did not project private market access in 2020 and 2021, and very limited access in 2022.

Figure 1. Ecuador: Real GDP Growth and Oil Price



Source: World Economic Outlook.

8. **The 2019 EFF remained within normal access (NA) limits and its design included the fundamental elements of the EFF that would later be approved in 2020.** It covered fiscal consolidation, restoration of the central bank's autonomy, and improvement of transparency and accounting practices measures (many inherited by the 2020 EFF program). There were conflicting views among departments regarding the appropriate level of access. The Western Hemisphere Department (WHD) was mindful of Ecuador's dire need for reserve buffers and judging the debt to be sustainable, argued for an EA program. The Finance Department (FIN) and especially the Strategy, Policy and Review Department (SPR) considered the balance of payments (BOP) needs could be covered within NA and highlighted program risks: diminished institutional capacity—slowly being remedied, including through the provision of CD—unsustainable debt, and concerns regarding the fulfilment of the EA criteria on market access and prospects for program success (EAC3 and 4). In the end, management opted for SPR's judgment, and the program did not go over the access limits, relying instead on contributions from other international financial institutions (IFIs)—which ultimately did not fully materialize—to fill the financing gap. According to some interviewees, authorities did not insist on EA, as they were conscious of the various restrictions and considered the program to provide substantial financing and a meaningful signal.

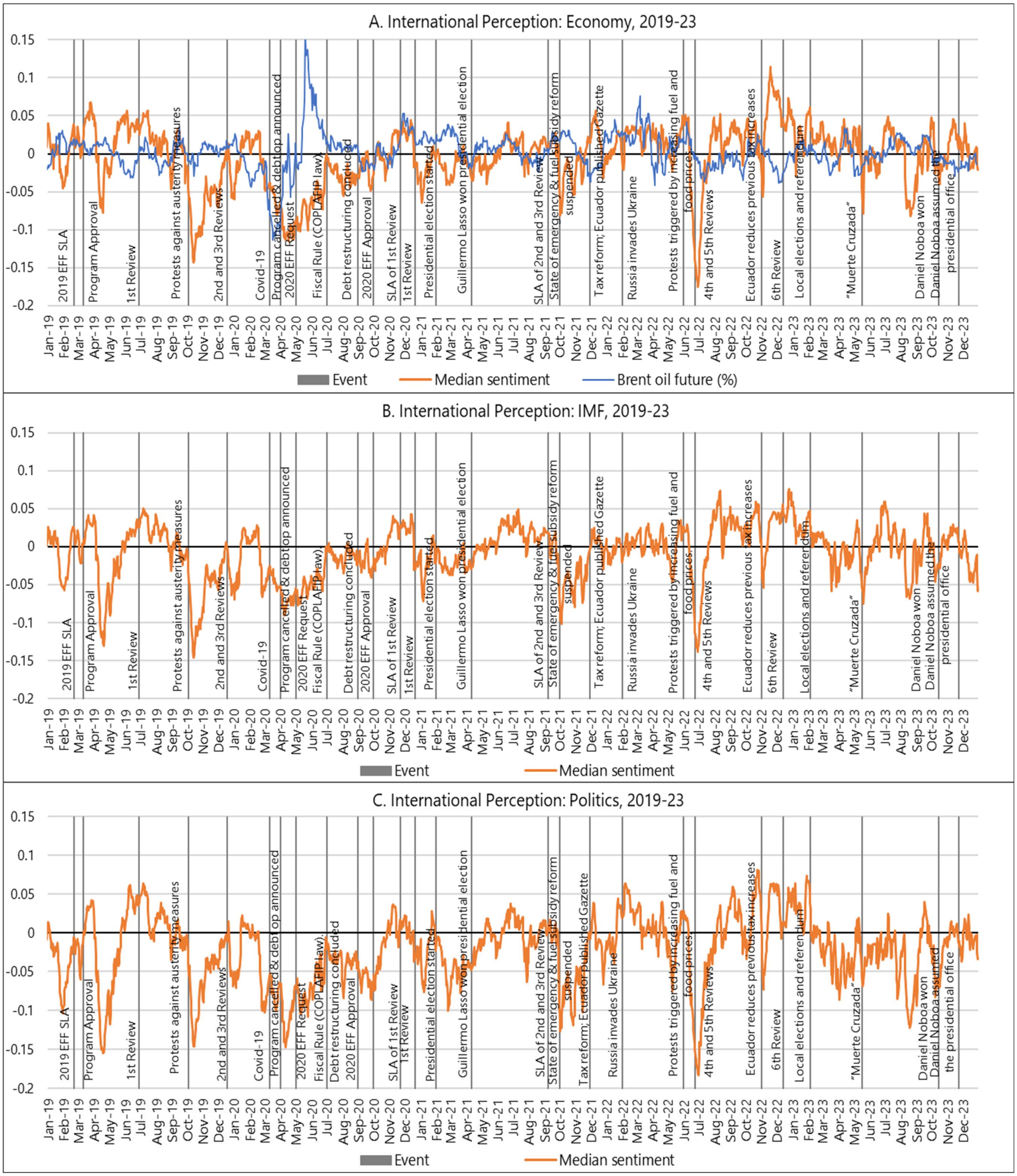
9. **The implementation of the 2019 EFF was mixed.** This owed mainly to a challenging social and political environment—the effects of protest can be seen, for example, in the international sentiment towards the Ecuadorian economy in October 2019 (see Figure 2, Panel A)—and shortcomings in institutional capacity. In the first review, in June 2019, the continuous performance criteria on no new gross financing from the central bank to the non-financial public sector was breached inadvertently, due to automatic rolling debt. The Board approved a waiver of non-observance and completed the review, allowing for the disbursement of US$251 million. The third and fourth reviews were combined and completed in December 2019, allowing for the disbursement of nearly US$498 million. This purchase was later (early 2022) found to be noncomplying generating a misreporting incident. Staff attributed the breach to statistical deficiencies, due in part to the previous extended lack of engagement between Ecuador and the Fund. Considering the "strong and proactive" commitment of the Ecuadorian authorities and the corrective measures adopted, the Board decided that no further remedial action was needed and granted a waiver.

10. **The COVID-19 pandemic took a high toll on the Ecuadorian economy.** Since the outset of the pandemic, Ecuador encountered a series of external shocks that worsened its existing vulnerabilities: additional expenditure associated with measures to control the virus's spread, the global economic downturn, sharp drops in oil prices, and temporary interruptions in oil production. Moreover, the authorities expected that the decrease in global demand, coupled with the strengthening of the U.S. dollar, would further debilitate Ecuador's exports. Forecasts projected a drop of 8 percent–11 percent in annual GDP and sharp falls in government revenue.[6]

11. **The 2020 RFI.** In April 2020, the authorities canceled the 2019 EFF—after one year out of the three foreseen at approval—started negotiations for an RFI and expressed their interest in a successor program. Ecuador was in dire need of financing; it was cut off from markets, and its bilateral debt with China was already high at 15 percent of external public debt (Chekir and others, 2024). In May, the Board approved a purchase of US$643 million (67.3 percent of quota) under the RFI to help Ecuador respond to the needs generated by the pandemic and support the most affected sectors, effectively providing a bridge to finalize the debt restructuring and prepare the ground for the 2020 EFF.

[6] Several interviewees noted that even though fiscal revenues were tied to the price of oil, representing 35 percent of revenues, fuel subsidies meant that what was available on the net was sustainably less.

Figure 2. Perceptions (Sentiment) on the Ecuadorian Economy and the Program



Sources: Haver; Clarivate ProQuest Global Newstream; and IEO staff calculations.

III. THE 2020 EFF

12. **Negotiations for the 2020 EFF were much smoother than in 2019.** There was consensus among interviewees, both within the IMF and among authorities, that as institutional relations had been re-established, the Fund had a better understanding of Ecuador's dollarization system, and the authorities had a better understanding of the Fund's operations. Besides, they had done sound preparatory work; the foundations of the reform package were ready in place from the 2019 EFF and 2020 RFI. In addition, the government implemented several prior actions (PAs), adopted fiscal measures, and completed a successful debt restructuring (see discussion below), showing strong commitment to the 2020 EFF. During interviews with staff members and government officials, it was widely shared that trust and a strong working relationship were established. At the same time, some authorities argued the negotiations were tough but fair and reasonable.

13. **Program negotiations took place against the background of political scrutiny, both internal and external**. Some interviewees recalled the political backing from major shareholders, including the heightened interest of the U.S. Treasury. Interviewees' interpretation was that the program was favored as a means to prevent (i) the return of *non-market policies*; (ii) Ecuador's growing financial dependence on China; and (iii) the use of IMF resources to repay bilateral debts. Internally, some interviewees also emphasized concerns with the idea of using IMF resources to repay bilateral debt instead of dealing with the problems at hand, which the COVID-19 pandemic had worsened. This led to calls for assurances from China for participation in the debt restructuring and for maintaining positive net flows to Ecuador. The Chinese authorities rejected participation in a restructuring, but eventually agreed to maintaining positive net inflows. Several Ecuadorian officials noted that their aim at the time was to receive financial support and regain access to the international financial markets while maintaining good relations with China. Some others expressed concerns at the time about the terms of bilateral debt with China, including its collateralization against Ecuador's oil revenue.

14. **The recent experience of the Fund in Argentina also weighed on the process**. At the time of negotiations, the 2018 Stand-By Arrangement (SBA) for Argentina was unravelling (see de Las Casas and Pérez-Verdía, 2024). The failure of that EA SBA, the largest in the Fund's history, triggered strong criticisms of the Fund and the WHD. Some staff members and senior government officials explained that both the negotiations and the internal decision-making processes were not immune to the reverberations of the Argentinian program. A few Ecuadorian authorities took it as a yardstick, demanding a treatment at least as favorable as the one they perceived Argentina had received. Internally, several interviewees mentioned that the negative experience with the Argentinian program was present during the decision-making process of the 2020 EFF, as it was understood that another EA program failure had to be prevented.

15. **The 2020 debt restructuring was seen as a success.** A debt restructuring was deemed necessary for debt sustainability before the Fund could proceed with an arrangement, while bondholders required an agreement with the Fund as a sine qua non-condition for the restructuring (several using the expression "chicken and egg problem"). In the end, the Fund

showed flexibility and went ahead with a staff-level agreement. During the restructuring process, the Fund provided guidance and technical support, helped the stakeholders understand the complexities of the debt structure, and explained the benefits of the operation while staying outside of the negotiations. Several authorities reiterated during interviews their commitment at the time to a "market-friendly" restructuring, aiming to re-enter private international capital markets smoothly at a later stage. The fact that most private bonds included enhanced collective action clauses (CAC) was paramount in this respect.[7] All interviewees—staff members, government officials, private sector, and civil society—deemed the restructuring successful, providing sufficient room to implement the program, while recognizing that the restructuring was no panacea or substitute for reforms. Views on the restructuring of Chinese bilateral debt were not as favorable, owing to the delays and lack of transparency in the negotiations, and the smaller debt relief.[8]

16. **The macro projections of the effects of COVID-19 done for the 2020 RFI informed the 2020 EFF design**. By the summer of 2020, the oil price averaged US$40 per barrel, which was lower than the average in 2019 but similar to Q1 2019. Pipelines were damaged during the protests in 2019, reducing production. Yet, with hindsight, the macro and BOP forecasts were overly pessimistic (even for Fall 2020) and remained somewhat pessimistic throughout the program.

17. **The authorities received substantial CD from the IMF in the run-up to the 2020 EFF.** Most of it was provided by the Statistics Department (STA) to address institutional and technical capacity weaknesses in compiling, verifying, and reconciling fiscal statistics.[9] Improvements in these areas were seen as crucial for progress towards a new EFF, and many staff and authorities considered them as one of the most significant benefits of the engagement during that period. However, advancement of the statistical and data collection capacity took time, as these are complex tasks, particularly during the COVID-19 pandemic.

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[7] The restructuring involved 10 bonds outstanding (US$17.4 billion) under New York law (9 with enhanced CACs) achieving haircuts of 41 percent and over 98 percent consent in the exchange. The restructuring involved interest savings of US$5.7 billion over 2020–25 and a further savings of US$5.6 billion in amortizations over 2022–25 (compared to the 2020 new IMF financing of US$6.5 billion).

[8] Ecuador engaged in two rounds of debt restructuring with two Chinese state-owned banks. China Eximbank extended the maturity of debt due in 2020–21 to 2022–29, providing liquidity relief of US$169 million from 2020:Q4 to 2022:Q4. Concurrently, China Development Bank (CDB) restructured debt due in 2020 and 2021:Q2 to 2021:Q3–2024, offering liquidity relief of US$103 million over the same period. Following the fourth and fifth reviews in September 2022, Ecuador negotiated another debt restructuring with these banks, reducing debt service obligations by US$1.1 billion for 2022–24. Additionally, favorable adjustments were secured to oil sale contracts with Petrochina (refer to Annex IV of the Sixth Review Staff Report).

[9] Ecuador has been a subscriber to the Special Data Dissemination Standard since 1998.

18. **The 2020 EFF was approved in September 2020, with a duration of 27 months and access of US$6.5 billion (661.5 percent of quota), bringing cumulative access to 897 percent of quota**.[10] Fund financing was made available to the budget, with an immediate disbursement of US$2 billion in September and another US$2 billion in December. The Fund provided 47 percent of the official creditor funding (IMF, 2019), with the remaining provided by IDB and the World Bank.[11] The 2020 program envisioned seven reviews, of which only the first one was completed according to the original schedule. The second and third reviews were combined at the end of April 2021 and, following another misreporting event and delays in implementation, the fourth and fifth reviews were also combined. Following a rephasing, the sixth review became the last (based on end-August 2022 quantitative performance criteria).

19. **In designing the program objectives, there was consensus about the budgetary problem, but a larger debate emerged about the needed level of reserves in a dollarized economy.** The program combined the objectives of "first, mitigate the crisis by protecting lives and livelihoods, and restore macroeconomic stability; and second, ensure the sustainability of public finances and strengthen domestic institutions to lay the foundations for strong, job-rich, and long-lasting growth that benefits all Ecuadorians." There was a consensus that Ecuador had a budgetary problem, with many interviewees emphasizing that it was structural in nature and built up over many years. Some staff argued that the program was rightly focused on stabilization, while others argued that the structural fiscal burden was too large to allow for stabilization and that, while there was political will, the institutional and political capacity was insufficient to reach the program's fiscal objectives. At the same time, the right level of reserves for a dollarized economy was a constant source of debate and discussion. There was, however, consensus that the dollarization regime was under strain and that one particular concern was the capacity of the Banco Central del Ecuador (BCE) to lend to the government.[12]

20. **Access was high but, given outstanding credit, virtually any amount would have taken the arrangement into EA territory.** The amount finally decided was widely seen as enough to address Ecuador's needs while catalyzing funds from other multilateral institutions.

[10] Normal access limits are 145 percent annually and 435 percent of quota cumulatively (the Executive Board has temporary kept those limits at the increased level of 200 percent and 600 percent of quota, respectively, since March 2023). Access beyond those limits triggers the requirement to fulfill the requirements of the EAP. The Fund's EFF is typically approved for periods of three years, but may be approved for periods as long as four years to implement deep and sustained structural reforms. The repayment period is 4½–10 years. The SBA typically covers a period of one to two years, with a maximum of three years. The repayment period is 3¼–5 years.

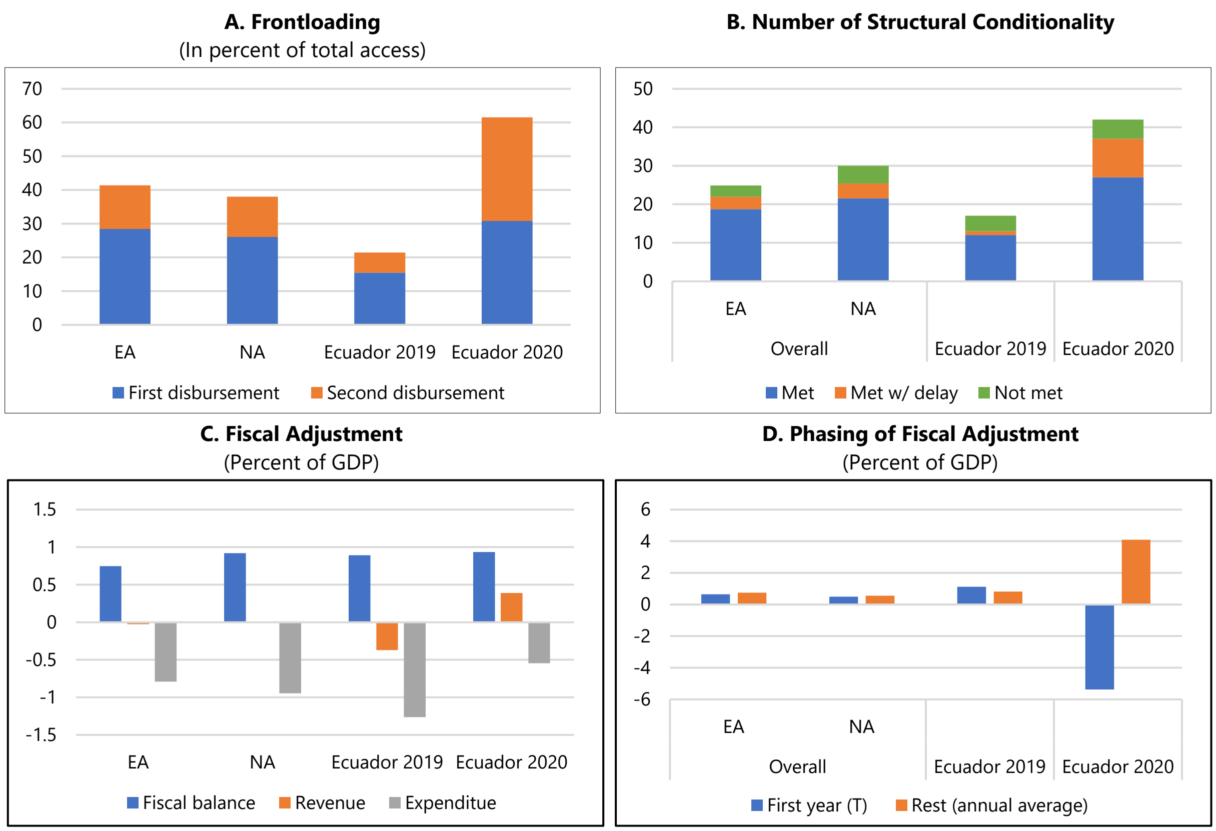
[11] The largest shortfall in bilateral financing occurred early in the program, when financing from China in 2020–21 did not reach the level expected at program approval. At the outset, the Chinese authorities provided financing assurances for US$2.4 billion of new financing for 2020–21, in addition to the reprofiling of debt with CDB and Exim Bank with savings of US$272 million from October 2020 to 2022. Little of the new financing materialized, with CDB providing budget support of only US$183 million in early 2021.

[12] From the EAP perspective, specifically for the fulfillment of EAC1, the question was whether a fiscal problem implied a BOP need in a dollarized economy. Some interviewees argued that this was the case, but others disagreed with the existence of a direct link between the fiscal and BOP needs. Erraez and Reynaud (2022) discusses these issues.

Negotiations focused on determining the fiscal gap in a context of uncertainty regarding government figures. Generally, both authorities and staff judged the level of access to be correct and the capacity to repay was deemed adequate under the program's baseline assumptions but subject to elevated risk. On the margins, some thought that perhaps more was needed, while others viewed it as more than required.

21. **The program's financing was also heavily frontloaded** (Figure 3). Disbursements foreseen at program approval plus the first review amounted to 61.5 percent of the total funding under the arrangement. In contrast, the comparable figure for the 2019 EFF was 21.5 percent. According to authorities and staff, frontloading of disbursements was unavoidable if the arrangement were to support government operations, including palliating the effects of the pandemic and clearing domestic arrears, therefore meeting the program's first objective, and preventing the collapse of the dollarization system. Domestic arrears were substantial at program request. Interviewed authorities stated that the initial disbursement was entirely used to pay government arrears, such as wages. More broadly, the problem of recurrent domestic arrears in Ecuador, both in terms of clearing existing ones and preventing future recurrence, was dealt with extensively in program documents.

Figure 3. Comparison of Program Indicators



Sources: Program documents; IEO calculations.
Note: The comparison includes 111 (38 EA and 73 NA) GRA completed programs between 2002 and July 2023.
EA = Exceptional Access; NA = Normal Access.

22. **Most government officials saw the EFF program as a continuation of the 2019 EFF, with modifications to address the challenges imposed by the COVID-19 pandemic**. Much of the program's structural agenda reflected the objectives and priorities of the 2019 EFF (fiscal consolidation, commitment to restore the central bank's autonomy, improve transparency and accounting practices, etc.). Many officials did not recall any difference between the previous and the 2020 EFF. A few interviewees were aware that EA arrangements carried different implications.

23. **At the time of approval, the program's foreseen fiscal adjustment was backloaded relative to the disbursements, but conditionality was demanding in terms of structural conditions and quasi-fiscal targets** (Figure 3). For the second program objective, reforms were backloaded, although most of the interviewees involved believed the Fund was asking for everything feasible, given the domestic circumstances and capacities. Internally, it was argued that the most critical reforms had been already begun, in reference to the 2019 EFF and the debt restructuring, generating trust and demonstrating commitment. The program included 13 structural benchmarks (SBs) and five PAs. Structural conditions were added or revised during the program duration and by the end of the sixth review they reached a total of 33 SBs.[13] These were put in place to address some of Ecuador's structural and institutional issues—some of them were considered as impediments to macro stabilization—and to correct deficiencies identified during the misreporting case. Given the administrative capacity and data availability limitations, the program would be monitored with a range of fiscal and quasi-fiscal targets. As mentioned, a lot of the structural reform agenda reflected the 2019 EFF, such as strengthening public procurement and transparency. Yet, it is not clear the reforms aimed at linking permanent income (taxes) to permanent (de jure or de facto) spending (a Constitutional mandate).

24. **During the program, the size of fiscal adjustment was revised downwards, and its composition changed.** The program reduced the size of the planned fiscal adjustments required during the program's duration, as lower levels would be consistent with hitting the debt target by 2025, which was outside the program window and above the constitutional limit of 40 percent.[14] There were positive revaluations of the growth and fiscal deficit (2021Q3), reducing planned adjustments (consistent with meeting debt limits). The Lasso administration changed the consolidation composition, away from tax reform—the VAT reform was abandoned, and the

[13] As reported by staff (IMF, 2023), relative to other EA programs, the 2020 EFF relied on significantly more SBs (around 15 per year compared with an average of 11 per year in other EA programs.

[14] As noted in IMF (2023), the program aimed to reduce the debt to 57 percent of GDP by 2025, with fiscal policies planned for a five-year period. Originally, 3.7 percent out of 5.5 percent of GDP was supposed to be adjusted during 2021 and 2022, split evenly between revenues and expenditures. However, during the second and third reviews in 2021Q3, the planned adjustment was reduced from 5.5 percent to 4.5 percent of GDP, still expected to meet the 2025 COPLAFIP (Jhzfitwx, Uzgqnh Krsfshj Qf│ . debt limit early. The adjustment plan was then shifted to be implemented after the program period, with 2.5 percent out of the required 4.5 percent to be achieved after the program end (rising to 3.1 percent by the fourth and fifth reviews). The program successfully reached the COPLAFIP debt limit ahead of schedule, mainly due to higher GDP growth and increased oil prices, resulting in the government debt to GDP ratio standing at 57.7 percent by the end of 2022, close to the 57 percent target level.

income tax reform was narrowed—and towards expenditure cuts. Also, the fuel subsidy reform, which envisioned gradual changes and had begun in July 2020, predating the 2020 EFF, was suspended in October 2021. These changes may have reflected not only better outturns but also a lower pressure to adjust as the economic situation improved. The pressure put by protests, in October 2021 and June 2022, can be seen in the international perception of the economy (see Figure 2). Ex post, this raised questions about whether a tighter implementation, especially on the fiscal front, should have been pursued.

25. **However, towards the end of the program, the fiscal situation deteriorated.** Following the sixth and last review, the fiscal position deteriorated substantially relative to the forecast and the program target. Many variables came into play, including the Lasso administration's decision to change fiscal policies and increase hiring and wages. At the end of the program, the fiscal accounts weakened and remained oil dependent. One interviewee mentioned the program did not sufficiently link permanent tax revenues and spending (a constitutional mandate).

26. **The Monetary and Financial Code (COMYF) was a pivotal reform to prevent the central bank from lending to the government while strengthening its independence.** The COMYF reform, approved at the time of the combined second and third reviews, aimed to strengthen BCE independence and prohibited any direct or indirect lending of the Central Bank to the public sector or quasi-fiscal operations. Some interviewees considered the reform very draconian, as it would also limit liquidity management. Still, most agreed it was a requirement for a sound dollarization regime and a move in the right direction.

27. **Throughout the program life, uncertainty about the quality of data was a concern.** The program included requirements to improve data collection, dissemination, and CD, including a STA short-term expert (since September 2020) and Government Finance Statistics missions (September 2020, April 2021, and July 2021. Yet, the 2022 misreporting incident occurred. Staff and the Board believed that the corrective actions taken and committed by the authorities were enough to justify waivers of non-observance. In hindsight, it was argued that perhaps the Fund should have put stronger emphasis on these shortcomings, as they increased the risks to the program.

28. **It is difficult to see how the Fund-supported program could have addressed, at the same time, Ecuador's short-term and structural needs**. On the one hand, Ecuador was experiencing a fiscal crisis and short-term BOP needs that required high levels of access to Fund resources in a frontloaded manner. On the other hand, Ecuador had long-standing structural problems, mainly on the fiscal front, which required the implementation of reforms over a protracted period. It was difficult to address both sets of problems with one program, supported by a 27-months-long EA EFF. In practice, the short-term support provided, which prevented the collapse of the dollarization system, squeezed the incentives for steady and continued implementation of reforms in the medium-term and the Fund´s leverage, leaving the program exposed to institutional weakness and high political volatility—including from approaching elections. In fact, policy reversals started right at the end of the program life.

IV. IMPLEMENTATION OF THE EAP

EAC1

29. **The program request justified fulfilment of EAC1, stating that Ecuador was "experiencing exceptional BOP pressures, stemming from the deepest recession on record and a loss of market access"** (Box 1) (IMF, 2020b). The estimated financing gap over 2020–22 was US$6.5 billion, and since Ecuador already had US$2.3 billion (236 percent of quota) in credit outstanding, access above US$1.2 billion in 2020 and over US$2 billion cumulatively would have required exceptional access. The justification remained the same throughout the third review, with the financing gap decreasing to US$4.5 billion (first review), and US$2.5 billion (second and third combined reviews) (IMF, 2021). The document for the fourth and fifth reviews (combined) argued that Ecuador continued "to experience exceptional BOP pressures. Although the economy is recovering from its deepest recession on record, with the effects of the pandemic being more prolonged than expected at the outset, coupled with the loss of market access in 2020" (IMF, 2022a). This justification remained unchanged for the sixth and final review, which noted a renewed loss of market access in June 2022 (IMF, 2022b). For these two last reviews, the financing gap was estimated, over 2022, at US$1.7 billion and $700 million, respectively.

Box 1. The Four Criteria for Exceptional Access (Revised 01/2016)

The Fund may approve access in excess of normal access limits in exceptional circumstances, provided that, at a minimum, the following four substantive criteria are met:

1. The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.
2. A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. For purposes of this criterion, financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential relevant contingent liabilities of the government, including those potentially arising from private external indebtedness.
3. The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.
4. The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

Source: Abrams and Arora (2024).

30. **There was wide consensus among interviewees that EAC1 was met at the time of approval, although as the program progressed, the existence of an exceptional BOP pressure became more debatable**.[15] From the first review, the current account improved, and remittances remained robust, while staff´s projections continued to be pessimistic (including for oil prices), relative to outturns. Reserves exceeded targets, which were increased significantly as the program went forward. It was also argued that Ecuador's dollarization setup—as explained in Erraez and Reynaud (2022)—meant that public sector financing needs could result in exceptional BOP needs, therefore fulfilling the EAC1 through a potential pressure. The private banking system was always deemed to be sound, with high capital ratios way above the regulatory minimum and ample reserves.[16] In the words of an interviewee, "it was feared there would be a BOP need, but it did not materialize." As explained before, given Ecuador's outstanding credit at the time of the approval of the 2020 EFF, virtually any amount would have taken the arrangement into EA territory, which made the discussion of exceptional BOP pressures somewhat moot.

EAC2

31. **At program request, and subject to the sustained medium-term fiscal consolidation foreseen in the program, staff assessed Ecuador's debt to be sustainable with high probability.** Public debt was "projected to steadily decline from its projected peak at end-2020 of 69 percent of GDP to 56½ percent by 2025 and 39.1 percent by 2030, after the successful debt restructuring, specific and credible assurances on financing/debt relief from bilateral and commitments from multilateral creditors in 2020–22, and resuming a path to further strengthen public finances on a sustained basis beginning next year, once the pandemic wanes, and continuing over the medium-term" (IMF, 2020b). This assessment was maintained throughout the program's life, with debt projections improving due to contained fiscal management, better-than-expected growth, and higher oil prices.

32. **Interviewees, both internal and external, agreed with the staff's view on debt sustainability**. The debt restructuring process was seen as successful, both in terms of process and resulting in sufficient fiscal space to undertake the reforms envisaged in the program (see appropriate section). Interviewees also recognized Ecuadorian authorities' commitment to an ambitious fiscal plan to ensure fiscal sustainability.

33. **While the assessment of EAC2 in this program was favourable, there were some internal concerns regarding the mechanics of EAC2.** Beyond the 2020 EFF-supported program for Ecuador, some staff expressed concerns about the DSA analytical framework being excessively sensitive to assumptions and data quality, which was a concern in Ecuador, and about the DSA constituting a black box for all departments other than SPR.

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[15] The EPE noted that "starting from the combined second and third review, the assessment could have been better justified."

[16] See IMF (2020a).

EAC3

34. **The justification for the fulfillment of EAC3 at program request was based on historical data, the evolution of sovereign spreads, and regular contact with markets**. Staff specifically mentioned (i) previous access to markets, although often in unfavorable terms; (ii) historical evidence of market access recovery within 24–36 months after a debt operation; and (iii) markets' positive perception—showed by the evolution of spreads and credit ratings—of the administration's commitment to reforms and good faith during negotiations for the debt restructuring (accepted by 98 percent of creditors) (IMF, 2020b). The assessment of EAC3 in subsequent reviews remained substantially unchanged, adding positive factors like markets' positive reaction to the April 2021 elections (second and third combined reviews), the rise in oil prices and appetite for emerging market debt, and the IDB bond guarantee (fourth and fifth reviews combined). However, prospects for market access worsened at the time of the sixth and final review. Spreads surged, reflecting a perception of elevated country risk, which staff associated with tighter global financial conditions and an increasingly difficult domestic political environment.[17] Given the improvement in fundamentals, and subject to the implementation of the fiscal consolidation plan, staff still foresaw a gradual return to markets starting in 2024.

35. **Partially confirming this narrative, authorities and experts interviewed explained that markets, despite trusting the government's goodwill and recognizing their record of responsible reforms, were always wary of Ecuador's political volatility and institutional weakness**. They saw the "big defaulter" reputation of the country looming large on investors. In the words of an interviewee, "in Ecuador, market access is determined by perceptions of political stability and oil price expectations, rather than by the evolution of economic fundamentals." Indeed, the sentiment analysis exercise shows a negative and volatile international perception of Ecuadorian politics and a positive correlation with oil prices (see Figure 2, Panel C). However, other interviewees showed confidence that, under the assumption of program implementation and policy continuity, it was reasonable to assume that Ecuador would re-access markets in the terms prescribed by EAC3.

36. **A widely shared view among staff interviewed was that the Fund lacked sufficient guidance or a solid analytical framework for assessing market access prospects**. External stakeholders believed that the Fund's analysis of market access was based on "frequent contacts" with market participants, which, although important, was insufficient. A critical recurring question during internal and external interviews went to the core of EAC3: how is market access defined? On what terms is access deemed acceptable?[18] Also, although medium-term historical assessments can be used as broad guidelines, there did not seem to be sufficient discussion of their relevance under a global pandemic scenario.

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[17] Protests had erupted in June, leading to higher fuel subsidies. Narcotraffic and crime were on the rise.

[18] For a detailed discussion of EAC3, see Erce (2024).

EAC4

37. **Staff presented to the Board a detailed and balanced case for EAC4 fulfillment at program request** (IMF, 2020b). The authorities' willingness and commitment to implement the program was deemed demonstrated by their actions both under the 2019 EFF[19] and after the March 2020 pandemic declaration. Among the latter, staff highlighted the adoption of the organic budget law, the fuel subsidy reform, the rationalization of expenditure, and the completion of five prior actions—and commitment to structural benchmarks—in the areas of institutional capacity, transparency, and policy making. At the same time, staff recognized significant risks to implementation stemming from institutional and political weaknesses. Notwithstanding the adoption of corrective measures following the misreporting case, capacity constraints remained, and the political environment was fragmented, with elections to be held in six months. In this context, the letter by the President supporting the program and the parliamentary letter of support for program objectives were taken by staff as a demonstration of strong ownership and political capacity. Finally, staff recognized the authorities' robust communications strategy, aiming to build public support for the program and enhance its success prospects.

38. **During reviews, EAC4 continued to receive due attention**. The report for the first review maintained the assessment of the program request while highlighting the continued robust implementation and commitment to the program—supported in many cases by the provision of IMF CD—and detailing the risks of policy discontinuity after the elections (IMF, 2020c). The reports for the combined second-and-third and fourth-and-fifth reviews assessed the commitment and implementation to have remained strong under the new administration (IMF, 2021; 2022a). At the same time, it was recognized that the fragmentation of the National Assembly posed a high political risk. The sixth and final review maintained the positive assessment of the authorities' commitment and performance while recognizing some policy reversals and a mixed performance on the structural front in an increasingly complex political environment characterized by social protests, an impeachment attempt against the president, and nearing local elections. Capacity constraints, mainly in the statistical realm, were deemed as being appropriately addressed (IMF, 2022b).

39. **Interviewees in Ecuador confirmed the accuracy of the staff's understanding regarding EAC4 but concurred that political statements can have little traction in environments of political volatility like Ecuador's**. There was unanimous agreement that the Moreno administration was committed to the reform program, with a view—beyond obtaining financial support for the program—to improve the country's economy in the longer run. At the same time, they emphasized the country's political volatility and institutional risk coming from (i) polarization, which easily translates into protests and social unrest (see Figure 2);

[19] As progress made by the authorities under the 2019 EFF, staff underlined the consolidation achieved (1.3 percent of GDP in 2019); the submission of an organic budget law with fiscal rules and a debt anchor; the prohibition of monetary financing; reforms on transparency and governance; and the strengthening social safety nets.

(ii) institutional weakness, which makes policy implementation dependent on incumbents; and (iii) some features of the institutional setup.[20] Several interviewees saw these factors as the reason why market participants' lack of confidence. In this context, while understanding the Fund's need for political assurances over a period of time, most authorities and experts thought that seeking them in the form of letters from across the political spectrum carried little weight. Some even argued that the statements may have been counterproductive—while having little real value, their obtention generated strong political pushback and consumed political capital that could have been used for reform implementation.

40. **The absence of letters in other EA cases led to the perception that more was demanded from Ecuador regarding EAC4 than from other member countries**. The idea of requesting letters as political assurances was inspired by previous Fund experiences (e.g., in Ukraine's 2014 and 2015 arrangements, public statements were asked from political leaders).[21] On evenhandedness concerns, reviewers argued that it was appropriate to ask for these letters in the case of Ecuador, and they should have also been demanded from other countries in similar circumstances.[22] During interviews, some alternatives were offered for gauging political commitments, including greater use of PAs, maintaining a strong and continuous engagement with all relevant actors in the country, and conducting systematic political assessments of the composition of the National Assembly.

General Considerations on the EAP

41. **The rationale and usefulness of the EAP as a yardstick was widely accepted**. There was nearly unanimous acceptance among staff that the criteria were useful as guidelines, as disciplining guardrails, to keep the analysis focused on the crucial issues. It required staff to go through the relevant issues in a deliberate manner and led to a robust review process that "left no stone unturned," through discussion and reasoned solution of interdepartmental differences on EAP criteria fulfillment. The resolution of disagreements did not require in this case the arbitration of management.

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[20] References to the "muerte cruzada" were recurrent in this respect. This "mutual death" is a mechanism by which, if a sitting President dissolves the National Assembly, presidential elections must also be held and, similarly, if a President is removed from office by the National Assembly, which can be done by a two-thirds majority, elections must also be held to elect a new National Assembly (Articles 130 and 148 of the 2008 Ecuadorian Constitution).

[21] In general, political assurances are requested by the Fund if a member seeks access to Fund resources or requests the completion of a program review in the runup to a national (parliamentary or presidential) election, if there is uncertainty about the electoral outcome and if the electoral outcome could impact the member's commitment to a program. The assurances need to satisfy the Fund about the member's commitment and capacity to implement a Fund-supported program after the elections. Political assurances are generally provided by the main opposition parties/presidential candidates before Board approval of an arrangement or completion of a review and cover the overall objectives and key policies in the national elections. Different modalities of assurances have been accepted, including letters, public statements, and consultations between authorities and staff.

[22] In the case of Argentina, for example, no letters were requested (see de Las Casas and Perez-Verdía, 2024).

42. **However, the application was not straightforward, and the use of the criteria as binding requirements was problematic**. Interviewees within staff generally agreed that the EAP could only function as a hard constraint in clear-cut circumstances—Ecuador's debt situation before the program being a good example. This is due to the lack of clarity in its design, the built-in room for judgment, and the inherent difficulties in coming to a diagnosis, including due to the lack of clear analytical frameworks for the assessment of EAC3 and EAC4. Besides, once the criteria are judged to be met and the program is in motion, reaching an inflection point in which the assessment moves from fulfilled to not-fulfilled was very difficult. In the words of an interviewee, the Fund "would have needed a very strong smoking gun," which was never found. In trying to make the program work, staff—WHD and review departments—took a constructive stance and worked with the authorities to find practical solutions to the problems faced along the way.

43. **Ecuador's 2020 program request was the first ever to include a paragraph on enterprise risk, which emphasized the reputational risk of not supporting a member**. The analysis of program risks contained in the "Assessment of the Risks to the Fund and the Fund's Liquidity Position" was complemented with a dedicated paragraph on enterprise risk, which weighed the risks to the program and the Fund—after mitigating measures—against the reputational cost of not supporting a member "facing enormous challenges and that stands ready to take the necessary steps to address them consistent with resolving its balance of payments needs" (IMF, 2020b). This consideration further illustrates the difficulty of the EAP working as a binding requirement in the presence of high-order strategic priorities.

44. **In this case, the EAP was not tested as a "shield" against political pressures**. Interviewees, both in Ecuador and among staff, confirmed that the favorable stance of the U.S. administration and management was well understood, although no explicit pressure was directly exerted. In any case, according to staff, there was never a conflict, as criteria were met, the authorities always did their best to keep the program going, and the Fund, guided by its mandate to assist a member country, provided flexibility within the framework, inter alia, through extensions, non-observance waivers, and combined reviews.

45. **For the authorities, the EAP mainly was an internal IMF process**. Their familiarity with the EAP and its implications was mixed. Only those who engaged closely with IMF staff—typically at higher levels—knew the policy and its rationale. For the remaining, EAP-related demands were just part of the Fund's conditionality, not a differentiated set of requirements. Authorities, however, never took reviews for granted, despite the external political support described above. As a demonstration of the Fund's "toughness," they referred to the fact that EA was denied to Ecuador until the restructuring was completed and the EAP assessed as fulfilled.

Decision-Making Procedures

46. **The process followed for the approval of the arrangement was in line with the requirements of the EAP (Box 2).** At the time of the May 1, 2020 discussion, when the 2019 EFF was cancelled and the RFI approved, authorities had already indicated their intention to seek a successor arrangement with the Fund, which would necessarily go beyond NA. An informal Board meeting occurred on July 30, while debt restructuring negotiations were ongoing. On August 28, the Fund announced a staff-level agreement paving the way for the debt restructuring that was concluded on August 30. There were no further Board meetings on Ecuador until the Board approval of the 2020 EFF on September 30.

Box 2. Decision-Making Procedures in the EAP

Along with the four criteria, the EAP includes a number of provisions aimed at enhancing the decision-making process in EA cases. These include:

(a) Raising the burden of proof required in program documents.
(b) Procedural requirements regarding early Board consultation.
(c) Requiring an EPE.

Board consultation procedures include:

(i) Once management decides that new or augmented EA, it will consult with Board promptly in an informal meeting that will provide the basis for consultation with capitals and help identify issues that would be addressed in a further informal session.

(ii) Directors are to be provided a concise note circulate at least two hours before the informal meeting that includes as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outline of the needed policy measures: (iii) the basis for judgment that exceptional access may be necessary with a preliminary evaluation of the four substantive criteria, and including a preliminary analysis of external and sovereign debt sustainability; and the likely timetable for discussions.

(iii) Before the Board's formal consideration of the UFR staff report additional consultations will normally be expected to keep the Board abreast of program-financing parameters including: (a) assumed rollover rates; (b) economic developments; (c) progress in negotiations; (d) any substantial changes in understandings; and any changes to the initially envisaged timetable for Board consultation.

(iv) In this connection, staff will provide the Board with a separate report evaluating the case for exceptional access based on further consideration of the four substantive criteria, including debt sustainability. Where time permits, this report will be provided to the Board in advance of the circulation of program documents. In all cases, this report will be included with the program documents.

(v) Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access.

(vi) Strict confidentiality will need to be maintained and public statements by members, staff, and management should take special care not to prejudge the Board's exercise of its responsibility to take the final decision.

Sources: Abrams and Arora (2024); Kincaid (2024).

47. **The documents sent to the Board were also in accordance with the EAP provisions in terms of content and circulation period**. The note circulated for the Board meeting on July 30 clearly explained the team's diagnosis of the problem and the measures needed to address them, the reasons why EA was requested—including an estimation of the level of access—a preliminary evaluation of the four EACs, and a roadmap for negotiations. During that informal Board meeting,

several Directors requested strict adherence to the EAP procedures in keeping them informed to avoid pre-empting Board decisions. The content of the program request package of documents also met EAP requirements. There were no complaints by Executive Directors on how the process had been handled; on the contrary, staff was thanked for their outreach efforts to keep the Board abreast of developments.

48. **The assessment of risks to the Fund and its liquidity position also complied with the requirements of the EAP**.[23] The supplement presented for the program request covered not only the usual metrics of the member's capacity to repay and the Fund's credit concentration, exposure, liquidity, and forward commitment capacity, but also the history of Ecuador's engagement with the Fund. Taking explicitly into account the two-pronged objectives, the report emphasized implementation risks, that could be triggered by domestic and exogenous factors, and the constrained room for policy manoeuvre in the context of full dollarization. It also commented on enterprise risks, arising both from program failure and the reputational risk of not supporting a country in need. Staff's overall assessment, which did not say the risks were manageable (as commonly the case), repeatedly emphasized the criticality of program implementation and the little room available for slippages (IMF, 2020b).

V. EVALUATION OF PROGRAM OUTCOMES[24]

49. **The program is widely considered a short-term success for Ecuador.** The arrangement stabilized the economy and prevented the collapse of the dollarization scheme, fiscal and external buffers were rebuilt, arrears were paid, funds from other institutions were catalyzed, debt was reduced, COVID-19-related health measures could be implemented, and the economic strategy was put on the right path. In support of this perception, a positive trend can be seen in the international sentiment towards the economy, starting at the time of the 2020 EFF request and debt restructuring, together with the surge in oil prices. From the first review onwards, the sentiment remained broadly stable until the end of the program (see Figure 2, Panel A). It is debatable, however, to what extent these outcomes were due to the Fund's financing and the EAP that made it possible. Many interviewees attributed the successes to adequate program design and implementation. Others emphasized the contribution of positive external shocks, especially the recovery of oil prices during the program, and an excessively pessimistic stance during program design.

50. **On the structural side, the assessment is more negative, as some of the reforms implemented were shortlived.** Ecuador's economy deteriorated quickly following the program, mainly due to policy reversals, epitomized by the 2023 partial repeal of the 2021 tax reform.

[23] This analysis is required by the EAP as part of the effort to raise the burden of proof in EA cases and takes the form of a supplement titled "Assessment of the Risks to the Fund and the Fund´s liquidity Position," authored by SPR and FIN. See "Summing Up by the Acting Chair—Access Policy in Capital Account Crises," Executive Board Meeting 02/94, September 6, 2002.

[24] See Annex III.

Contributing factors for these reversals may have been the backloading of reforms and the relaxation of fiscal targets when external conditions improved, what in turn limited the administration´s incentives for reform implementation. The increase in oil prices and the lack of control over the government accounts probably also contributed to lax implementation. Exogenous factors also added to the economic deterioration, including the political unrest, the reduction in oil production, the higher debt servicing costs, or the power outages. Among stakeholders, those more critical argued that, despite the difficult circumstances, the Fund should have been tougher on implementation, maybe by leveraging the EAP criteria. For example, they opined that the Fund should have found a way to implement permanent revenue measures. They thought that, during later reviews, the Fund could have maintained pressure to sustain reform momentum. However, the majority view was that program design was sufficiently demanding and there was little the Fund could have done to prevent policy reversals. Most stakeholders thought that more reforms could not be implemented during the COVID-19 crisis and that the chosen program phasing was needed to face immediate financing needs and to boost social and political support for reforms.

51. **The main issues likely stem from using one type of program—in this case an EA EFF—to address different problems.** One set of problems facing Ecuador arose from the COVID-19 crisis and its economic and social effects. A second set, which of course had feedback effects on the first one, had its roots in structural problems accumulated over many years. By combining the response to these issues in one arrangement, Ecuador received large and frontloaded financing, linked to longer-term reforms, many of which were to be completed and/or bear fruit after program completion. This raises questions about the sustainability of reforms, given the reduced incentives, but more importantly, about the coherence of the program with the spirit of the EAP. First, some of the measures that were intended to support debt sustainability and market access were assumed to be sustained over a prolonged period of time; and second, in a context of institutional and political uncertainty, the phasing of the program increased the very risks that the EAP is supposed to palliate, e.g., implementation risk. During interviews, stakeholders mentioned ways in which this problem could have been addressed. For instance, the Fund could have delayed the final reviews, or extended the program, to allow for more time to implement reforms. However, with the political situation deteriorating rapidly, this option did not seem promising, and a successful program closure was expected to send a positive signal. Another option was a successor arrangement (maybe precautionary), but the authorities' initial interest in this option vanished in mid-2023. Again, it is difficult to square the need for a successor arrangement with the logic behind EAP under its current design.

52. **For the Fund, the outcomes of the EAP implementation in this case are positive.** First, there is little questioning that the criteria were met. Second, in application of the EAP, a debt restructuring was completed by Ecuador to satisfy EAC2 before program approval. Third, internal and external interviewees agreed that the EAP helped ensure that all relevant aspects of the program were carefully considered and created a constructive debate among departments. All these elements, contributed to the reduction of risks, to the preservation of the credibility of

the EAP—and by extension of the IMF—and to the protection of the revolving nature of the Fund's resources. However, numerous interviewees agreed on the concerns that the criteria may be too lenient or loose to really restrain lending. Most stakeholders in the case of Ecuador opined that, given the way they are defined and the built-in room for judgment, it would have been difficult to use them as a sine qua non condition (Box 3).

Box 3. The Objectives of the Exceptional Access Policy

The framework attempts to:

(i) to shape members' and market expectations;

(ii) to provide clearer benchmarks for Board decisions on program design and exceptional access;

(iii) to safeguard the Fund's resources by controlling the Fund's assumption of risk; and

(iv) to help to ensure uniformity of treatment of members.

Source: Abrams and Arora (2024).

VI. SUMMARY OF FINDINGS AND CONCLUSIONS

53. **The analysis of the experience with the EAP in the 2020 EFF-supported program for Ecuador is broadly positive.**

- **The four EAP criteria were useful in guiding internal thinking about the arrangement and led to a stronger program**. They helped staff focus on the key issues and be systematic. The review process was strengthened and discussions on fulfillment generated a rich interdepartmental debate, with the aim or resolving disagreements and finding solutions. The EAP also incentivized the elaboration of thorough and clear reports for the Board. An outstanding example was staff's presentation of risks to the program and to the Fund itself—including credit, liquidity, political, institutional, and reputational risks—clearly presented to the Board from the start of the negotiations.

- **EAC2 and EAC4 were pivotal for program design**. The debt restructuring undertaken by Ecuador was indispensable to allow the EFF to move forward under the EAP and, after the misreporting cases, substantial efforts were made to reinforce the institutional capacity through TA.

- **All four criteria and enhanced decision-making procedures were considered met.**

54. **However, this case also highlights several shortcomings of the EAP.**

- **It is debatable whether the EAP, originally designed for short-term capital account shocks, works well in a country that has a potential BOP crisis and longstanding fiscal and institutional structural difficulties**. The 2020 EFF helped Ecuador with the stabilization component of its objectives but failed on some of its structural objectives. This raises the question of whether the long-term nature of the structural reforms needed in this case is compatible with the provisions of the EAP, including market access and debt sustainability.

- **This case also raises questions about the compatibility of EA with programs that are heavily frontloaded and require long-term implementation of reforms**. If a large portion of resources are disbursed at the early stages, the Fund's leverage and the authorities' incentives for implementation are reduced over the life of the program, which increases the risks that the EAP is supposed to reduce.

- **The imprecise definition of the criteria and the built-in room for judgment make it difficult for the criteria to work as binding requirements**, which is the way they are presented and perceived. There is so much flexibility in the definitions and application of the criteria that they give a very wide scope for a program approval or review to go ahead. This is particularly the case for EAC3 and EAC4, for which there is no clear threshold or analytical framework. This, in turn, can leave the decision-making process more exposed to potential political pressures. That said, despite the existence of explicit political backing, in this case the IEO found no evidence of direct pressures on staff or of reverse engineering, as it is often argued by Fund critics.

- **Relatedly, the EAP's sensitivity to assumptions is more worrisome when there are doubts about data quality**. In this case, uncertainty surrounding data quality and the gaps in mutual knowledge due to years of disconnection weighted on the implementation and assessment of the EAP.

- **There are also concerns regarding the tools and analytical apparatus for the assessment of the criteria**. Most notably, there are no analytical tools or solid guidance to undertake a robust assessment of market access perspectives. In this case, it was based on trends, historical experiences, and communications with market participants. On EAC2, the main concern was that other departments saw it as a black box managed by SPR.

- **This case clearly highlights issues with EAC4**. Adding to the vagueness of the criterion and the intrinsic difficulty to measure its components, Ecuador presented substantial political and institutional weaknesses. Staff reacted to this difficulty in two ways. First, political assurances were sought and obtained in the strongest form possible, although many stakeholders considered these assurances meaningless, even counterproductive. Second, beyond the binary assessment of fulfillment, staff clearly and explicitly laid down in reports the political and institutional risks to the program, what was appreciated by Executive Directors.

55. **The assessment of the EAP implementation against the EAP's explicit objectives is mixed in this case**.

(i) *To shape members' and market expectations.* On the one hand, the rigorous assessment and fulfillment of the EAP should be reassuring for members and markets; the treatment given to debt in this case is a milestone in this respect. However, design flaws, technical gaps, and the room for judgment seen in this case may all work in the opposite direction in cases where pressure is strong, and fulfillment of the criteria is debatable.

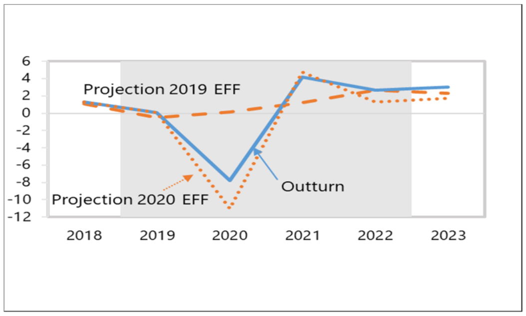
(ii) *To provide clearer benchmarks for Board decisions on program design and exceptional access.* The policy was useful as guidance for internal critical thinking, discussion, and decision making.

(iii) *To safeguard the Fund's resources by controlling the Fund's assumption of risk*. While the fulfillment of EAC1 and EAC2 was relatively clear, the assessment of EAC3 was weak and, for many, the political assurances obtained for EAC4 had no teeth, what left the Fund exposed. This is due to both, imprecisions in the definition of the criteria and the lack of an appropriate methodology to assess them. In the case of EAC4, which was pivotal in this case, staff compensated for these problems with an excellent exposition of risks.

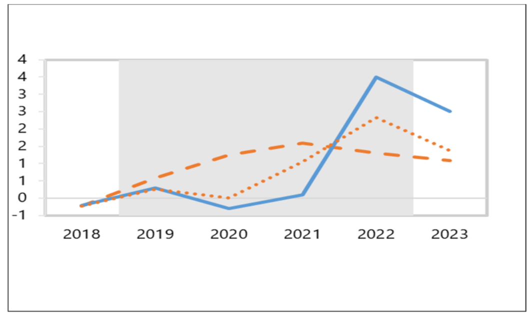
(iv) *To help ensure uniformity of treatment of members.* Although this objective cannot be judged on the analysis of one case, this one generated a strong perception that more was demanded from Ecuador than in other comparable cases of EA (i.e., the Fund was less willing to take risks).

ANNEX I. SELECTED MACROECONOMIC INDICATORS

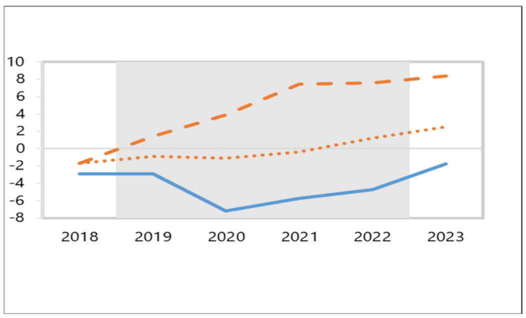
A. Real GDP Growth
(In percent)



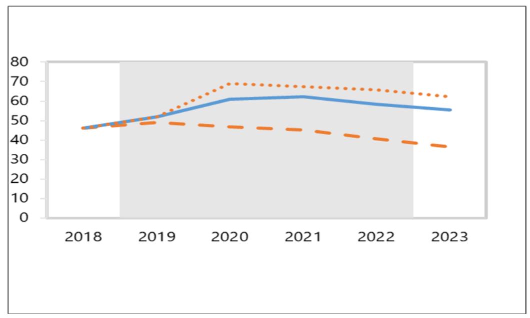
B. Inflation
(In percent)



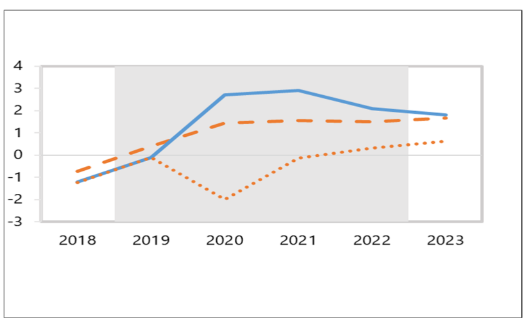
C. Net International Reserves
(In Billions of USD)



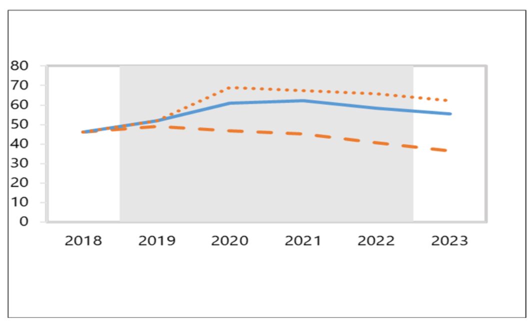
D. General Government Gross Debt
(Percent of GDP)



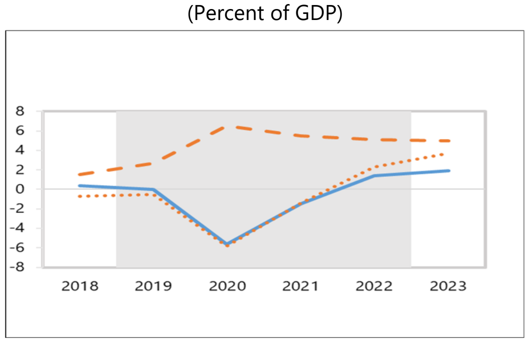
E. Current Account Balance
(Percent of GDP)



F. General Government Balance
(Percent of GDP)



G. Primary Balance
(Percent of GDP)



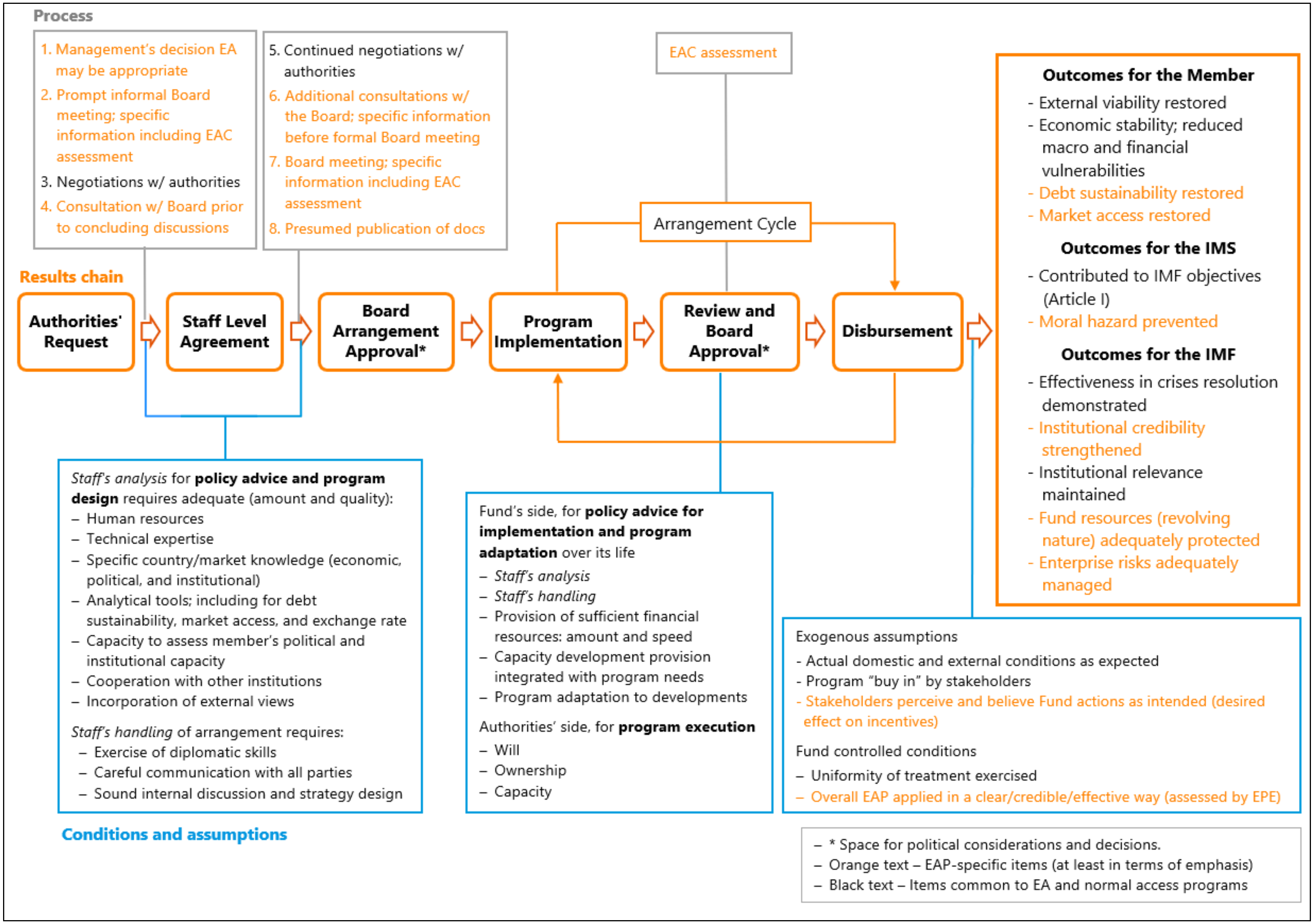
Sources: MONA database, staff reports, and IEO staff calculations.

ANNEX II. DETAILED TIMELINE

External Developments	Date	Internal IMF Developments
Rafael Correa becomes president	January 15, 2007	
Constitution: autonomy of the Central Bank eliminated	2008	
President Correa wins second term under the 2008 Constitution (two-term limit)	February 2013	
New monetary and financing code: BCE can lend directly to the government	2014	
Presidential term limits eliminated	December 2015	
7.8-magnitude earthquake hits Ecuador	April 2016	
	July 2016	2016 RFI Board Approval
Lenin Moreno becomes President	May 2017	
Referendum to reinstate two-term presidential limit	February 2018	
Richard Martínez MoF	May 2018	
	February 21, 2019	2019 EFF Staff Level Agreement (SLA)
	March 11, 2019	2019 EFF Board Approval
	June 28, 2019	2019 EFF First Review Approval
	September 23, 2019	2019 EFF SLA Second Review
Package of economic measures announced as part of an IMF deal, including the end of fuel subsidies	October 2019	
	October 2, 2019	IMF Statement on Ecuador
Mass protests	October 3, 2019	
Due to protests government is relocated and oil production is shut down at Sacha. Two more fields shut shortly thereafter.	October 8, 2019	
Protesters occupy the National Assembly.	October 9, 2019	
The government and CONAIE reach an agreement. Fuel subsidies restored.	October 13, 2019	
Announcement: tax reform on corporations, changes to personal income taxes, roll back of fuel price hike, VAT not to be increased (approved December 2019).	October 18, 2019	
	November 27, 2019	IMF Statement on Ecuador
	December 10, 2019	2019 EFF SLA Second and Third Review
	December 19, 2019	2019 EFF Second and Third Reviews
COVID-19 pandemic declared by WHO	March 11, 2020	
	March 23, 2020	MD Statement on Ecuador; Questions and Answers on Ecuador
	April 2020	Debt restructuring announced
	May 1, 2020	– Non-complying purchase – RFI approved – 2019 EFF cancelled

External Developments	Date	Internal IMF Developments
Fiscal Rule (COPLAFIP law)	July 2020	
	July 30, 2020	Board informal discussion
	August 28, 2020	2020 EFF SLA
	August 31, 2020	Debt restructuring concluded
	September 30, 2020	2020 EFF Board Approval
Mauricio Pozo Crespo MoF	October 7, 2020	
	November 23, 2020	2020 EFF SLA First Review
	December 21, 2020	2020 EFF First Review
First round presidential election	February 2021	
Second round presidential election	April 2021	
Guillermo Lasso becomes President	May 24, 2021	
Simón Cueva MoF	May 2021	
	September 8, 2021	2020 EFF SLA Second and Third Review
	September 29, 2021	2020 EFF Second and Third Reviews
Sixty-day state of emergency declared. Gradual fuel subsidy reform suspended.	October 2021	
Tax reform; Ecuador published Gazette	November 29, 2021	
Russia invades Ukraine	February 2022	
	May 11, 2022	2020 EFF SLA Fourth and Fifth Reviews
Protests triggered by increasing fuel and food prices. New state of emergency. Agreement to raise fuel subsidies. The President narrowly escapes impeachment.	June 2022	
	June 24, 2022	2020 EFF Fourth and Fifth Reviews
Pablo Arosemena Marriott MoF	July 2022	
	August 2022	Last Program Test Date
Previous tax increases rolled back	November 2022	
	December 14, 2022	2020 EFF Sixth Review
Referendum rejects changes. Government faces corruption accusations.	February 5, 2023	
President Lasso triggers Muerte Cruzada	May 17, 2023	
	September 21, 2023	FSSA
Daniel Noboa becomes President	November 23, 2023	

ANNEX III. THEORY OF CHANGE—FUND-SUPPORTED PROGRAM UNDER THE EAP



ANNEX IV. SENTIMENT ANALYSIS

This annex provides details on the data and methodology used for sentiment analysis (Figure 2). Sentiment analysis has gained prominence in natural language processing with the advent of machine learning. It is often used to gauge public opinions due to its ability to evaluate large text corpus to classify sentiments into positive, negative, or neutral.

The primary database utilized was Clarivate ProQuest Global Newstream. It was selected for its coverage of worldwide news across a wide time span.[1] The dataset served as the foundation for our analysis, offering comprehensive insights into international and national media coverage, as well as public sentiments related to three specific areas: the Ecuadorian economy, politics, and the 2020 EFF.

A text corpus for each area was constructed through two steps. First, relevant news articles were identified based on area-specific keywords (i.e., exchange rate, international reserves). Those keywords were selected based on (i) interviews with IMF staff, management, Executive Directors (EDs), and country authorities; (ii) desk review of internal and public country documents; and (iii) review of news articles. Second, within the articles identified in the previous step, sentences containing the keywords were extracted to generate the final corpus for sentiment analysis.[2, 3] Corpora were further classified as national or international based on the country of origin of articles.[4, 5] For example, an article originated in an Ecuadorian source was classified as national perception. This allowed to compare the key drivers of domestic and external perceptions, with distinct implications on the economy and the program (e.g., international perception was critical for market access and national perception for country ownership).

[1] The database collects both present-day news and archival content dating back to the 1980s. It includes newspapers, newswires, news journals, television and radio transcripts, blogs, video, podcasts, and digital-only websites.

[2] Considering the nature of news articles—often containing extensive descriptive text that provides background information unrelated to the topic-specific sentiment—this second step is essential to remove noise from the final corpus.

[3] Relevant sentences are extracted using a three-sentences window (i.e., the sentence containing the keywords along with its neighboring sentences). This approach preserves topic-specific information and provides contextual understanding. Together, these ensure the accuracy of the generated sentiment index.

[4] News publishers in international and national corpora are then examined to ensure their representativeness in the media. Prominent international news publishers include The New York Times, The Washington Post, The Guardian, and the Financial Times. Key Ecuadorian news outlets include El Comercio, El Universo and Lideres.

[5] In Figure 2, due to data limitations of Ecuadorian national news outlets in the database from 2019 to 2023, only international perceptions are shown.

Finally, Sentence-BERT (SBERT) model was used to generate sentiments.[6] First, sentiment score was produced on a sentence-level.[7] These scores were then aggregated to the article (document) level and, finally, to daily frequency. To account for fluctuations in the number of news articles—such as reduced economic news during weekends or holidays—and the persistent nature of public perception and belief, a backward-looking moving average was used on the daily sentiment.[8]

[6] Sentence-BERT (SBERT) modifies the BERT model to create embeddings for sentence-level tasks like semantic textual similarity, clustering, and information retrieval. Using siamese and triplet network structures, SBERT derives semantically meaningful sentence embeddings comparable with cosine similarity. This approach delivers state-of-the-art performance, particularly excelling in financial and economic document analysis with high accuracy.

[7] A probability score is assigned to emotions or affective stages (e.g., Anger, Disgust, Fear, Sadness, Happiness, Love, Surprise, Neutral, or Other). They are further aggregated into "positive" and "negative" sentiments. Finally, we take the difference between the two to produce the final sentiment score on a sentence-level.

[8] An exponential moving average (EMA) with a 15-day window is used. EMA is a type of moving average that places a greater weight and significance on the most recent data points. Therefore, it is more sensitive to recent market developments than to other moving averages. Empirically, a 15-day window removes excessive fluctuations of sentiments and provides a good trend of sentiments.

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