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For more information, see Ecuador and the IMF

The following item is a Letter of Intent of the government of Ecuador, which describes the policies that Ecuador intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Ecuador, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Mr. Stanley Fischer
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Fischer:

1. The attached policy memorandum describes the economic policies and objectives of the Government of Ecuador for the year 2000, in support of which the government requests from the Fund a 12-month Stand-By Arrangement in an amount equivalent to SDR 226.75 million (about US$300 million). The government believes that these policies will stabilize the present difficult economic situation, address priority social needs, restore the banking system to good health, lay the basis for a sustained recovery in output and employment, and put inflation firmly on a downward trend.

2. During the period of the arrangement, the authorities of Ecuador will maintain close relations with the Fund, and will consult on the adoption of policy measures that may be needed. The program incorporates four reviews during 2000, to be completed by June, August, October, and December, respectively, and one review in 2001 to be completed by February.

/s/	/s/
Jorge Guzmán Minister of Finance and Public Credit	Modesto Correa President of the Board Central Bank of Ecuador

Mr. Stanley Fischer
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

MEMORANDUM OF ECONOMIC POLICIES OF THE GOVERNMENT OF ECUADOR FOR 2000

I. BACKGROUND

1. When the administration of President Noboa took office on January 22, 2000, it inherited a desperate economic situation. A combination of external shocks in 1997-99 (the *El Niño*

weather phenomenon, the sharp drop in world oil prices, and a turbulent international financial situation) and policy weaknesses had resulted in a sharp contraction of real GDP; rising unemployment; accelerating inflation; a large fiscal deficit and mounting public sector payments arrears; and a banking system deep in crisis.

2. To restore confidence in economic management, stem the decline in economic activity, and lay the basis for renewed economic growth, the new government is undertaking an ambitious program of economic reform. The legal basis for many of the reforms is the *Ley Fundamental para la Transformación Económica del Ecuador* (the "economic transformation law") which was approved by congress on March 1, 2000. This legislation paves the way for the official dollarization of the economy announced on January 9, 2000, a more flexible labor market, a strengthened framework for addressing the problems of the financial sector, and should facilitate increased private foreign and domestic investment in key sectors of the economy. The government also expects that it will send a strong positive signal to the official international community, and to private investors, and thereby will help mobilize financial support for the economic and structural reform process.

II. RECENT DEVELOPMENTS

3. After stagnating in 1998, the economy moved into a deep recession in 1999 as a result of a rapidly developing banking crisis and associated credit crunch, a squeeze on real incomes from real exchange rate depreciation, large net private capital outflows, and low export prices of crude oil for much of the year. In 1999 real GDP fell by about 8 percent, reflecting a sharp decline in investment and private consumption. Unemployment nearly doubled to 16 percent in the 12 months to December 1999. Twelve-month inflation in consumer prices accelerated from 43 percent at end-1998 to 91 percent in February 2000; and in producer prices it rose from 35 percent to 301 percent. The *sucre* depreciated by almost 200 percent in 1999, and by a further 25 percent in the first week of January 2000.

4. The public finances have been in a poor state for several years but deteriorated sharply in 1998 as the result of the collapse of oil export prices, a decline in petroleum production because of cutbacks in maintenance, and increased expenditures, mainly on wages. At the same time, they were affected adversely by the failure of some of the private electricity distribution companies to remain current on payments for energy supplied by the state Electricity Company (INECEL). In response to a sharply widening nonfinancial public sector (NFPS) deficit, in September 1998 the government eliminated most of the subsidy on the prices of cooking gas and electricity (estimated at about 1½ percent of GDP at the time), and increased the prices of diesel and gasoline by 40 percent and 12 percent, respectively, and indexed their prices to the U.S. dollar exchange rate. To protect the poorest segments of the population, the social safety net was strengthened and targeted more effectively. The government increased the minimum wage by about 12 percent, and introduced a cash subsidy —*bono solidario*—targeted to the poorest 1.3 million households. In spite of the revenue measures, the combined public sector deficit widened to 5.9 percent of GDP in 1998 (from 2½ percent of GDP in 1997).

5. In 1999 several attempts were made to reduce the public sector deficit. In February, the temporary import tariff surcharge of 2-5 percentage points, which had lapsed in December 1998, was reintroduced with surcharges of up to 10 percentage points. In March, domestic fuel prices were increased by a further 23-27 percent. In April the congress approved a fiscal package that included the reinstatement of the income tax that had been suspended on January 1, 1999, the broadening of the base of the value-added tax, the elimination of some import tariff exemptions, a tax on luxury vehicles, a one-time tax on corporate net worth, and additional powers for the internal revenue service to enforce tax compliance.

6. To strengthen the social safety net further, the cash benefit of the *bono solidario* was increased by 50 percent in April 1999, and in May 1999 recipients were exempted from recently introduced health service charges. The measures were reinforced by tight control over expenditures, particularly on wages, and the beneficial effects on revenues of higher world oil prices in the second half of the year. However, following increased social unrest, in July the government froze the refinery price of gasoline until June 2000 at the level set in March 1999, and the existing freeze on the price of cooking gas was extended until the same date. In the context of the increase in world oil prices, higher inflation and the depreciation of the *sucre*,

large subsidies on domestic fuel prices re-emerged. Furthermore, interest payments increased significantly, reflecting the impact of exchange rate depreciation (most public debt is U.S. dollar-denominated), and the carrying cost of government bonds issued in connection with the banking crisis (see below). In addition, there were quasi-fiscal losses of 1.2 percent of GDP from monetary policy operations. As a result, although the NFPS deficit narrowed somewhat, and a primary surplus of about 4 percent of GDP was recorded, the combined public sector deficit widened further to 7.2 percent of GDP.

7. In October 1999 the government submitted a tax package to the congress aimed at reducing the combined fiscal deficit to around 2½ percent of GDP in 2000. However, the package finally approved fell far short of what the government had sought. An increase in the value-added tax of 2 percentage points (to 12 percent), and in the maximum marginal rate of tax on personal income and corporate profits of 10 percentage points (to 25 percent), was largely offset by a reduction in the financial transactions tax from 1.0 percent to 0.8 percent, making the financial transactions tax an advance on the personal income tax, and the abolition of taxes on luxury vehicles and the net worth of corporations. In addition, to strengthen expenditure control, the government had sought a substantial reduction in tax revenue earmarking. However, the congress assigned the revenue from the increase in the value-added tax to the municipalities and earmarked about 40 percent of the revenue from the financial sector transactions tax for increased expenditures on infrastructure.

8. Total public debt rose sharply from 64 percent of GDP in 1997 to 118 percent of GDP in 1999, reflecting the combination of weak public finances that have given rise to large-scale net borrowing, public sector bonds issued in support of the banking system, and the effects of economic contraction and the large real exchange rate depreciation in 1998-99. In August 1999 the government temporarily interrupted debt service payments on Brady bonds and Euro bonds pending an orderly resolution of negotiations with external private creditors in a manner that would help attain a more sustainable debt and debt service position consistent with medium-term external viability. In addition, about US$500 million of short-term domestic government bonds were restructured to longer maturities at a reduced rate of interest.

9. The worsened macroeconomic conditions accentuated the problems in the banking system stemming from connected lending practices, the growth of foreign currency credit to borrowers that do not generate earnings in foreign currency, and lax oversight, particularly of offshore operations. The introduction of the 1 percent tax on financial transactions on January 1, 1999 added to the banks' difficulties by encouraging substantial financial disintermediation. In December 1998 the government created a deposit insurance agency (AGD) with a broad mandate to restructure the banking system, and announced that it would guarantee all onshore and offshore deposits and external credit lines of the banking system. In April 1999 international auditing firms were hired to conduct special audits of all banks aimed at distinguishing between viable and nonviable banks. The results of the audits were delivered to each bank and the board of the AGD in June 1999; banks with negative net worth were put under the control of the AGD, and four capital-deficient banks were recapitalized with subordinated loans from a state-owned bank. So far, 14 financial institutions (including the two largest banks), accounting for about 65 percent of the system's onshore assets, have been intervened or closed by the AGD, with the owners losing their equity.

10. A run on deposits led to a bank holiday during March 8-12, 1999, and to the freezing of demand and savings deposits for six months and time deposits for one year. In August the government began to liberalize US$465 million of demand and savings deposits; by January 2000 all such deposits had been liberalized, with a substantial part of the U.S. dollar deposits appearing to have gone into capital flight. In October 1999 three of the four banks that had been recapitalized were intervened by the AGD, or merged with state banks, following a continued deterioration in their operations. By January 2000, nonperforming loans had reached 43 percent of the total loan portfolio compared to 9 percent at end-1998, and banks' external credit lines had fallen by half to US$918 million.

11. The banking crisis undermined monetary policy in 1998-99. The government has issued US$1.4 billion of bonds for the AGD to recapitalize troubled banks, pay out on deposit guarantees of failed banks, and to cover withdrawals of balances by external creditors. About US$1.2 billion of these bonds have been rediscounted at, or sold to, the central bank. With the central bank unable to sterilize all the resulting increase in liquidity, the 12-month growth of the monetary base accelerated from 41 percent at end-1998 to about 136 percent by end-1999. Initially, the liquidity injections were largely sterilized by losses of international reserves;

however, in the face of sustained exchange rate pressure and dwindling international reserves, the central bank floated the *sucre* in February 1999. Exchange rate pressures intensified in November 1999, interbank interest rates rose from 60 percent to about 150 percent, and the central bank increased the reserve requirement on sucre deposits. However, market pressures did not ease until the announcement on January 9, 2000 of the intention to dollarize. Since then, the exchange rate has remained stable; interest rates have declined to around15-18 percent; the monetary base has increased only marginally; and the banking system has experienced net deposit inflows.

12. The sharp decline in domestic demand and higher oil prices contributed to a shift in the external current account from a deficit of US$2.2 billion (11 percent of GDP) in 1998 to a surplus of about US$840 million (6.2 percent of GDP) in 1999. In U.S. dollar terms, imports fell by 50 percent, while oil exports increased by 47½ percent. In spite of the large real exchange rate depreciation in 1999 (81 percent against the U.S. dollar and 36 percent on an effective basis), non-oil exports fell by 15 percent, reflecting the crisis in the corporate sector (particularly the lack of working capital) and weak demand in other Andean Community countries. The large current account surplus and a decline in net international reserves of about US$423 million (to US$1.2 billion) helped finance private capital outflows of about US$2.6 billion (19 percent of GDP). External payments arrears reached US$925 million at end-1999 (of which about 75 percent was to Paris Club creditors).

III. THE GOVERNMENT'S MACROECONOMIC PROGRAM FOR 2000

13. The proposed macroeconomic framework for 2000 assumes zero growth of GDP; some further contraction is likely in the early part of the year but there should be a modest recovery in the second half of the year (Box 1). This recovery would be generated by a return of confidence and improved access to working capital as the bank restructuring takes hold and banks' external credit lines are reconstituted. As price and wage relativities adjust to the sharp exchange rate depreciation prior to dollarization, inflation in consumer prices is likely to be significant initially. The magnitude of this initial inflation is uncertain, but developments in the first two months of 2000 make it unlikely that the 12-month rate would be below 55-60 percent by the end of the year. The external current account surplus is projected to narrow in 2000, mainly reflecting a sharp recovery in imports (including for the construction of the new oil pipeline), and a modest recovery in exports stemming from higher world oil prices and increased competitiveness from the real depreciation of the *sucre*. Complete dollarization would imply the allocation of international reserves of about US$800 million to provide full backing for the monetary base and central bank stabilization bonds outstanding (as would be required by the dollarization legislation). After adjusting for this coverage, the program would target an increase in the net free disposable international reserves of the central bank of US$160 million during end-January to end-December 2000 to assist in the development of a liquidity support facility for troubled banks.

Box 1. Ecuador: Macroeconomic Framework, 2000

	IH	IIH	Total
	(Annual percentage change)		
Real GDP	-3.3 to -2.7	3.5 to 4.0	0 to 1
Consumer price inflation			
Average	71 to 76	68 to 73	70 to 75
End-of-period	66 to 71	55 to 60	55 to 60
	(In millions of U.S. dollars)		
External current account balance	821	-523	298
In percent of GDP			2.7
Change in net free disposable international reserves	410	49	459

14. The macroeconomic framework is supported by a bank restructuring strategy aimed at restoring soundness to individual financial institutions and confidence to the banking system, thus reestablishing the basis for sustained economic growth. The strategy sets out the legal and operational framework for bank restructuring; calls for specific measures to strengthen the solvency of banks based on international best practices; facilitates the effective restructuring of private sector debt; gradually unfreezes deposits and develops supporting measures to strengthen banks' liquidity management; establishes specific measures for resolving closed banks; and includes measures to strengthen prudential regulation, supervision, and transparency.

15. The performance criteria and indicative targets of the economic program supported by the Fund are set out in a separate technical memorandum.

IV. FISCAL POLICY AND SOCIAL SAFETY NET

16. The program will aim at a reduction in the nonfinancial public sector deficit from 6 percent of GDP in 1999 to 3.9 percent of GDP in 2000, consistent with an increase in the primary balance of the NFPS from 4.1 percent of GDP to 6.6 percent of GDP in the same period. The combined public sector deficit would be reduced from 7.2 percent of GDP in 1999 to 3.2 percent of GDP in 2000, reflecting a quasi-fiscal surplus of the central bank stemming mainly from interest receipts on its large holdings of AGD bonds. This adjustment would seek to balance several considerations: (i) the need to adapt the public finances to the realities of a dollarized regime, taking account of the likely amount of available domestic and external financing for the public sector; (ii) the need to move toward medium-term fiscal viability and (iii) limiting, to the extent possible, the fiscal contraction in an economy where demand is already weak.

17. Fiscal adjustment is to be achieved through a combination of: (i) higher petroleum revenues; (ii) a significant reduction in domestic fuel price subsidies; (iii) extending the temporary import tariff surcharge through end-2000; (iv) improvements in tax administration; and (v) continued tight control over expenditures, including on the wage bill. The adjustment would seek to safeguard resources for social programs, finish the repair of damage caused by *El Niño*, and reduce the central government domestic payments arrears.

18. Oil export prices in the program are assumed, conservatively, to average US$20 a barrel for Ecuador's export mix. Oil production is estimated to increase by about 4 percent this year (after a fall of about 1 percent in 1999) mainly because of the increased capacity of the existing pipeline (an increase of 60,000 barrels daily by end-2000, or 18.7 percent) due to begin in March 2000.

19. The revenue lost from the freeze of gasoline prices, and the costly general subsidies for cooking gas and electricity prices (the benefits of which mainly accrue to middle and upper income quartiles of the population and to the industrial sector), are major barriers to the government implementing effectively its social programs. To generate the necessary fiscal resources, the prices of these products will be moved broadly to international levels over the next two years. The first increase in prices will take place at end-June 2000 and will be of 60 percent in the case of domestic fuels and 40 percent in the case of cooking gas (GLP). A second increase will be implemented in October 2000, and will be of 60 percent for 92-octane gasoline, 40 percent for GLP, and 30 percent for diesel fuel and 82-octane gasoline. Further increases will be phased-in during 2001 at amounts to be determined during the third review of the program. To protect the most vulnerable social groups from the worst effects of the price increases, there will be accompanying increases of 50 percent in the cash transfer to the poor (*bono solidario*), phased in over the same period as the above price increases.

20. While the government had hoped to eliminate the temporary import tariff surcharge at the end of 1999, the revenues from this measure will be needed in 2000 to facilitate the reduction in the financial sector transaction tax (of 0.2 percentage points to 0.8 percent), and to compensate for revenue losses from the phasing out of temporary taxes on luxury vehicles and capital assets, and the amendment to the tax legislation introduced by congress which made the financial transactions tax an advance on the personal income tax. It is the government's intention to eliminate the surcharge at end-2000.

21. The revenue measures will be accompanied by further improvements in tax administration, including by: strengthening the internal revenue service through increased staffing; greater financial autonomy; improved coordination between tax collection agencies; and strengthened tax enforcement of public enterprises and the largest contributors.

22. Public expenditure under the program will give priority to addressing the needs of the poorest segments of the population, protecting them from the worst effects of the adjustment process and improving their human capital and earning capacity over the medium term. Key elements of the government's social program include: (i) improved targeting of the *bono solidario*, including to those living in remote regions, with additional cash transfers for families whose children have good school attendance records; (ii) the provision of nutritional and medical support for young children and pregnant women; and (iii) the development of a fund to accelerate the social and economic development of indigenous communities, with financial assistance from the Inter-American Development Bank (IDB). To support our social programs, the IDB also has indicated that it will speed up disbursements from existing lending programs focused on poor families and communities.

23. The repair of the damage caused by El *Niño* could contribute to poverty reduction to the extent that these projects are labor-intensive and/or restore access to vital services and markets. To accelerate damage repair, the government is working to improve coordination between the ministry of public works and COPEFEN (a government agency charged with rebuilding the coastal region) and to streamline control procedures so as to facilitate disbursements of emergency loans from multilateral agencies.

24. To help secure the needed fiscal adjustment, the increase in public sector wages in 2000 will be limited to 20 percent in January 2000 for selected groups, 10 percent across-the-board in April, and 20 percent each in July and October to certain groups. As a result, the wage bill of the NFPS is projected to decline by 1.1 percentage points of GDP in 2000 to 6.2 percent of GDP.

25. In the ongoing process of fiscal decentralization, the government will put in place mechanisms aimed at transferring expenditure responsibilities *pari passu* with the constitutionally mandated transfer of central government revenues to the municipalities, and measures to strengthen the institutional capacity of the municipal authorities. Thus, revenues will be transferred only when municipal governments have proven themselves competent to assume additional spending responsibilities. For 2000 the government has reached agreement with the municipal governments that the transfer of budgetary revenues in 2000 will be kept at the rate of 9 percent of total revenues that was transferred in 1999. On November 15, 1999 the authorities issued a regulation closing a potential tax loophole ensuring that there would be no reimbursement of payments under the financial transactions tax for those earning below the personal income tax threshold.

26. The budget for 2001, and a comprehensive tax reform package, which are to be submitted to Congress in September 2000, will aim at consolidating the improvement in the public finances, and achieving a more efficient tax structure. Measures that will be submitted to congress include: (i) a significant reduction in tax revenue earmarking from the present level of about 60 percent of total revenue; (ii) an increase in the rate and coverage of the value-added tax, and a reduction in exemption threshold for personal income tax, to facilitate the abolition of the import tariff surcharge and a further reduction in the financial transactions tax; (iii) the elimination of many nuisance taxes; and (iv) the introduction of a consumption tax on domestic fuel to facilitate the liberalization of domestic oil prices. This latter measure would be complemented by legislation to be sent to congress in 2000 aimed at opening up the production, distribution, and retailing of domestic fuels to competition.

27. Every effort will be made by the government to collect overdue claims on private electricity distribution companies, to ensure that they remain current on payments, and to recover overdue claims of public enterprises. During the program period, electricity tariffs will be adjusted to reflect opportunity costs to allow the electricity companies to remain current on payments to suppliers, and prepare the sector for increased private sector participation.

28. The government will monitor closely the investment plans of the nonfinancial public enterprises and the rest of the general govern-ment, and ensure that pricing policies are consistent with achieving an operating surplus in the nonfinancial public enterprise sector of about 1 percent of GDP in 2000. Given the difficult macroeconomic situation and its impact

on budget revenues, fiscal developments will be kept under constant surveillance and reassessed at the time of each program review. Should there be strong indications of a revenue shortfall prior to the first review, the government will adopt the additional measures deemed necessary to ensure the achievement of the fiscal objectives of the program. If there are higher than programmed fiscal revenues in the first half of 2000, they will be devoted entirely to lowering the fiscal deficit given the financing needs of the program. This strategy will be reassessed during the second review of the program to examine the scope for devoting some portion of such an increase to spending on social programs and infrastructure.

V. MONETARY AND EXCHANGE RATE POLICY

29. The dollarization legislation makes the U.S. dollar legal tender and provides for the central bank to exchange on demand *sucres* at a rate of 25,000 per U.S. dollar. The law provides for a limited issue of *sucre* coins to remain in circulation to facilitate small transactions and requires that they be fully backed at all times by U.S. dollars. It mandates four operating accounts at the central bank (Box 2) in which there is to be full backing with freely disposable international reserves of *sucre* currency outstanding (account one), bankers deposits at the central bank, and *sucre*-denominated central bank stabilization bonds (account two). The central bank would be allowed to operate a banking system liquidity recycling facility, partly funded by remaining disposable international reserves, and the placement of U.S. dollar-denominated central bank bonds in the local market (account three). The final account would cover all remaining assets and liabilities of the central bank.

30. Upon approval of the economic transformation law, the central bank has ceased the creation of sucre-denominated liabilities, and it stands ready to redeem sucre coins and banknotes for U.S. dollars on demand; it is envisaged that dollarization will be largely complete within 12 months.

Box 2. Central Bank of Ecuador Balance Sheet After Dollarization

Assets	Liabilities
Account one	
Free disposable international reserves	Currency in circulation
Account two	
Free disposable international reserves	Bankers' deposits Central bank *sucre* stabilization bonds
Account three	
Remaining free disposable international reserves	Obligations to official international financial institutions (including IMF)
Government bonds	Central bank U.S. dollar-denominated instrument
Repurchase agreements	Public sector deposits
Account four	
Other foreign assets	Other foreign liabilities
Other domestic assets	Other domestic liabilities

31. In the conduct of monetary policy, the central bank will monitor its holdings of remaining net disposable international reserves, consistent with an accumulation of US$160 million over the period end-January to end-December 2000, to assist in the development of a liquidity support facility for troubled banks (see below). The economic transformation law imposes a ceiling on domestic interest rates, calculated as the sum of LIBOR, plus an operating margin for the banks of up to 4 percent, plus a margin for country risk. The margin for country risk will be determined by the central bank and will be set flexibly to ensure the orderly functioning of the banking system. In addition, a regulation is to be issued by the

Superintendency of Banks requiring provisioning on an increasing scale for loan operations carrying interest rates in excess of 18 percent a year.

32. The decision to dollarize the economy has imposed a strict limitation on the scope for central bank liquidity assistance to the banking system at a time when liquidity is the main short-term vulnerability. To ensure that banks have access to liquidity facilities under dollarization, the authorities are: (i) developing a mechanism to recycling liquidity within the banking system, mainly in the form of sales of U.S. dollar-denominated bonds by the central bank combined with repurchase operations; and (ii) establishing a liquidity support facility to supplement the resources of the central bank available for providing liquidity assistance. The possible sources of liquidity include: (i) the central bank's free disposable international reserves in excess of those needed to cover the monetary base and the existing stock of stabilization bonds; (ii) the reallocation of public entities' financial assets held abroad to the central bank; (iii) external borrowing; and (iv) foreign exchange that could be raised in the local market by placements of central bank U.S. dollar-denominated bonds. Access to the liquidity support scheme will only be in exchange for appropriate collateral.

33. Although at present the bulk of central bank *sucre*-denominated stabilization bonds are of a one-week maturity, the central bank will aim to auction U.S. dollar-denominated instruments at increasingly longer maturities to fund repurchase operations with commercial banks of up to 90 days maturity. Interest rates on repurchase operations will be set to reflect market conditions and to discourage the use of this facility as a "first resort".

34. The liquidity recycling facility will be in place by mid-March 2000 and the support facility by end-April. Under this scheme, about US$250 million of time deposits will be made available in cash, the bulk of which will be freed in the March-July period. The remaining time deposits are to be exchanged for bank bonds of between two, three, and five years maturity, at annual interest rates of 7 percent (two- and three-year bonds) and 7½ percent (five-year bonds), with the exact maturity depending upon the size of deposit and type of depositor. In addition, the AGD has resumed the pay-out of the guarantee of deposits on closed banks, in a combination of cash (for which a budgetary allocation has been made) and government bonds.

VI. FINANCIAL SECTOR RESTRUCTURING

35. The government is committed to pursuing a strategy to restructure and reform the banking system that will provide support for economic recovery and a basis for sound macroeconomic management at the least fiscal cost. The strategy has been designed in collaboration with the Fund, World Bank, the IDB, and the Andean Development Corporation (CAF). The key measures and timetable for this strategy are set out in the Annex to this memorandum.

36. During the program period, the government will take additional measures to strengthen the banking system in several key areas: (i) legislation will be enacted allowing banks to operate temporarily with capital below the 9 percent minimum requirement, provided they have time-bound rehabilitation and recapitalization plans approved by the Superintendency of Banks; (ii) a comprehensive corporate and household debt restructuring program will be introduced by end-April, aimed at restoring the cash-flow of enterprises and asset quality of the banking system; (iii) capital requirements would be redefined to conform to Basle standards by December 2001; (iv) loan classification and provisioning rules will be brought up to international standards, and schedules to comply with provisioning requirements would be established; (v) minimum bank capital will be increased to US$2.5 million by end-June 2001; (vi) to maximize reliance on private sector financing, a program for providing public capital (through public purchase of shares in viable private banks) proportionally to private capital contributions will be considered; and (vii) nonviable banks will be closed as soon as possible.

37. Measures also will be taken to strengthen the AGD, including to facilitate the prompt disposal of assets of closed banks: (i) a time-bound program is to be established for the disposal of assets acquired in the resolution process, including an asset management strategy covering institutional arrangements, information and transparency, and private sector outsourcing; (ii) asset and bank management and control capabilities will be strengthened with the help of technical assistance from multilateral organizations; and (iii) viable but

undercapitalized AGD banks will be recapitalized with government bonds and will establish business plans for strengthening their management, including results-linked management contracts, restoring profitability through cutting operating costs and other means, improving the recovery of weak assets, and privatization.

38. The public finances also will be better protected by phasing out the full coverage of the deposit guarantee, in favor of a limited coverage, and the deposits of closed banks will be transferred to remaining open banks rather than being paid-out in cash.

39. The Superintendency of Banks is committed to ensuring strict compliance with banking regulations, in accordance with best international practices. Penalties and disciplinary measures are to be reviewed and applied on a systematic and nondiscretionary basis. Reporting requirements will be enforced, including for offshore banks. A strengthening program for the Superintendency of Banks will be developed which will include: (i) improved *extra-situ* supervision, including identification of "at risk" banks to be placed under intensive monitoring; (ii) reorganization of the organizational structure so as to ensure adequate regional and departmental coordination; (iii) a training program for supervisory staff with special emphasis in risk analysis and *in-situ* banking supervision; (iv) a review of staffing needs and allocation to improve efficiency of supervision; (v) the introduction of a ladder of phased and intensified supervisory action for noncompliance with regulatory norms; (vi) bilateral agreements with relevant foreign supervisors to share supervisory information; and (vii) testing and adapting to the Ecuadoran norms and legislation the existing manuals for consolidated supervision and on-site inspection. An assessment of compliance with Basle core principles will be undertaken and an action plan will be formulated to correct observed deficiencies.

40. Steps also will be taken to improve the accountability of banks to their creditors by improving transparency. Banks will be required to publish selected financial indicators on a quarterly basis; accounting standards for financial institutions will be amended to bring them into line with best international practice; and independent audits of the special-purpose public banks will be initiated.

41. The ultimate fiscal cost of the banking crisis cannot be estimated with any precision at this stage. As noted in paragraph 11, bonds issued by the government on behalf of the AGD in 1998-99 amounted to US$1.4 billion. The fiscal program assumes a further US$300 million will be issued in 2000 to capitalize banks, and a budgetary transfer to the AGD of about US$155 million to pay-out in cash-guaranteed deposits of closed banks. A further US$811 million of bonds will be issued to pay-out guaranteed deposits in closed banks, part of which will be offset by asset recovery. A minimum net fiscal cost at this point would appear to be about US$2.7 billion (24 percent of 2000 GDP) in bond issues and cash transactions to pay-out the deposit guarantee, and an annual interest carrying cost of about US$260 million (2.4 percent of GDP).

VII. CORPORATE AND HOUSEHOLD DEBT RESTRUCTURING

42. The efficiency and speed with which corporate and household debt is restructured will be a crucial determinant of how quickly the banking system and the economy recover. The government is working with the multilateral institutions to develop a comprehensive program that: (i) restructures corporate and household sector debt; and (ii) provides working capital to companies.

43. The debt restructuring strategy will include a systemic compulsory approach to the restructuring of debts of U$50,000 or less, which accounts for about 12 percent of banking system loans and 95 percent of bank debtors. There will be a tailored approach to the restructuring of large debtors, and the judicial framework will be streamlined to facilitate corporate debt workouts. The program will be based upon the principles of fiscal neutrality and the voluntary participation of creditors and debtors. Only the debt of viable enterprises will be restructured, and there will be no net commitment of funds of the public sector or of multilateral institutions.

VIII. FINANCING OF THE PROGRAM

44. Taking account of already committed net external financing, the need to clear official external payments arrears, the need for additional reserves to build up the bank liquidity support facility, there could be an external financing gap of about US$1.5 billion (13.7 percent of GDP) in 2000. To meet this gap, the government is to seek exceptional financial support, from the official international community and an orderly resolution with private external creditors to achieve a more sustainable debt and debt service position.

45. Projected new lending from multilateral institutions includes an additional program of US$600 million over the next 12 months from the World Bank, the IDB, and the Andean Development Corporation (CAF) to support bank recapitalization and improvements in the bank supervisory and regulatory structure, or other quick-disbursing assistance.

46. The government is to seek a full rescheduling of arrears and of principal and interest falling due to Paris Club creditors on pre-cut off date debt of about US$600 million and a deferral of late interest and arrears and maturities due on the last rescheduling in 2000.

47. Discussions are ongoing with foreign banks with a view to securing commitments to stabilizing and reconstituting their exposure under interbank and trade-related credit lines, and eliminating arrears on such lines of intervened banks guaranteed by the AGD through the issue of internationally tradable bonds. In addition, negotiations are underway with key private sector creditors aimed at restoring medium-term fiscal and external sustainability, and securing net new medium-term financing in 2000. As part of these negotiations, the government is establishing a collaborative framework for negotiations with creditors with the objective of reaching an agreement on an exchange offer for Brady and Euro bonds which, if successful, would generate a combination of initial cash flow relief and medium-term debt-service reduction. We understand that the management of the IMF would need to be assured that the Ecuadoran authorities are continuing to make cooperative efforts to reach agreement with their creditors to secure such financing before it would recommend that the arrangement is brought to the Executive Board of the Fund for approval. As noted in paragraph 8 above, the government also has restructured domestic debt.

48. For purposes of achieving the target for net new medium-term financing from private sources, the government understands that the following would not be counted: (i) borrowings secured on future multilateral borrowing, or financed by AGD bonds, central bank bonds, or export receivables, except to the extent that it was agreed with the staff of the Fund that the borrowings were of a size and on terms consistent with medium-term balance of payments viability; (ii) debt collateralized through the pledge of foreign assets; and (iii) mobilization of new money from the domestic subsidiaries of foreign commercial banks.

IX. OTHER STRUCTURAL POLICIES

49. The approval of the *Ley Fundamental para la Transformación Económica del Ecuador* paves the way for reforms aimed at boosting productivity, raising potential output, and strengthening the regulatory framework for sectors to be privatized. The labor market would be made more flexible, and unemployment reduced, by permitting employment on temporary contracts. In the oil sector, the law would allow private companies to build and operate pipelines, and facilitate the construction of a new oil pipeline planned to start this year, which is expected to facilitate an increase oil exports from about 90 million barrels a year at present to 190 million barrels a year in 2002. Investment for the pipeline is estimated to be about US$600 million and would be financed mainly through foreign direct investment. In the electricity sector, the law would permit the privatization of the six state electricity generation companies and 18 electricity distribution companies; the government already has retained the services of an international investment bank and the IFC to advise on these privatizations. In the telecommunications sector, the law will facilitate the privatization of the two state companies with majority private sector participation. Net revenue from the privatization program during 2000 is tentatively estimated at US$300 million. Ecuador's constitution provides for the proceeds from privatization to be managed by the social solidarity fund and invested in high quality assets; the investment income is to be used to increase social expenditures.

50. Concessions to the private sector for the provision of other services currently supplied by the state will be expanded. The municipal government of Guayaquil will invite bids for the supply of sewage and water services by July 2000; bids have been invited for the operation of the seaports of Guayaquil and Esmeraldas; and bids will be invited for the state oil refineries during 2000.

51. There is substantial scope for reducing public sector employment in the medium term. In September 1998 the government introduced a program aimed at reducing central government employment by 26,000 during 1998-2002; the net reduction in employment to date has been about 8,500 which has been achieved mainly by voluntary separations. To accelerate the program, the government is seeking assistance from multilateral organizations to finance severance payments, retraining programs, and assistance with the creation of small businesses for employees that leave the public sector.

52. The government is undertaking a comprehensive pension reform, and is committed to allowing private sector participation in the provision of pensions as soon as the health of the financial system has been restored. Legislation has been sent to congress to reform the pay-as-you-go state pension system, and establish an unemployment insurance scheme. The government will ensure that the reforms are consistent with strengthening the public finances in the near and medium term. Steps also are being taken to ensure that the cross subsidies between the old age and health insurance schemes of the social security institute are more transparent, and the accounting of both insurance schemes is being separated.

X. GOVERNANCE

53. The government fully recognizes that economic and social progress requires improved governance, a key element of which is the development of an effective and impartial judicial system. The lack of confidence in the impartiality and efficiency of the judicial system is a major impediment to attracting talented people to undertaking public service, as well as being detrimental to foreign and domestic investment. Accordingly, the government is working with the supreme court to reform the country's judicial system to ensure rapid and impartial decisions based on accepted international standards and principles and Ecuadoran law.

XI. STATISTICS

54. Ecuador provides the core minimum data to the Fund on a regular basis, has subscribed to the Special Data Dissemination Standard, and posts its metadata on the IMF's Dissemination Standards Bulletin Board. The government recognizes that further efforts are needed to address deficiencies in the macroeconomic database, particularly in the national accounts, balance of payments, government finance statistics, and banking statistics, which are contaminated by the presence of offshore operations. The government is working to address these problems, including with assistance from the Fund. Ecuador has recently received technical assistance from the Fund to assist in the design of a producer price index, and in improving the quality and timeliness of the national accounts statistics.

Table 1.
Ecuador: Quantitative Performance Criteria and Indicative Targets for 2000 [1]
(In millions of U.S. dollars)

	April	June	August [2]	October [3]	December [4]
1. Cumulative combined public sector borrowing requirement	317	323	426	368	355
2. Cumulative nonfinancial public sector borrowing requirement	310	337	462	424	431
3. Cumulative total central government expenditure	995	1,417	1,964	2,385	2,857

4. Cumulative net reduction in central government non-interest domestic arrears	0	2	3	5	6
5. Cumulative disbursements of medium- and long-term external debt to the nonfinancial public sector:					
Maturity of over one year	290	510	610	700	850
Maturity of one to five years	40	60	70	90	100
6. Stock of net "excess" freely disposable international reserves of the central bank	187	155	101	154	205
7. Stock of nonfinancial public sector deposits at the central bank [5]	334	416	411	440	487

[1] As defined in the attached Technical Memorandum of Understanding.

[2] The reserve target is indicative and will be changed to performance criterion during the second program review.

[3] Targets 1-5 are indicative and will be changed to performance criteria during the second review. Target 6 is indicative and will be changed to performance criterion during the third review.

[4] Targets 1-5 are indicative and will be changed to performance criteria during the third review. Target 6 is indicative and will be changed to performance criterion during the fourth review.

[5] Indicative target.

Ecuador: Financial Sector Reforms[1]

Objective	Action	Date of Implementation
I. Improve **coordination** internally and with international financial institutions (IFIs)	a. Appoint a senior government official to act as counterpart to IFIs on issues related to banking sector restructuring and reform. This individual would be accountable for all aspects of the bank restructuring process and program implementation, including coordination among all relevant official agencies.	**Prior action.**
	b. Establish a technical coordination committee representing the SoB, AGD, CBE and MoF, for banking sector restructuring and reforms.	**Prior action.**
II. Establish the **legal basis** for bank restructuring	a. Approve amendments to the financial institutions and AGD Laws as contained in the draft economic transition law, especially: (i) allowing capital-deficient banks with a regularization program approved by the superintendency (and CAR above 1.8 percent) to temporarily operate below 9 percent CAR; (ii) increasing AGD's asset management capabilities, including *"coactiva"* (extra-judicial procedure for seizing collateral and other debtor's assets), and allowing for transfers of deposits of closed banks to other banks; (iii) providing legal protection to staff and directors of the superintendency, AGD, and CBE, (iv) not interfering with the basis for a corporate debt restructure scheme according to the principles included in section IV below; and all other specific provisions necessary for the implementation of this matrix.	**Prior action.**
III. Strengthen **solvency of banks** based on best international practices	a. Revise requirements for **loan classification, loss provisioning, and interest suspension** to conform with best international practices. Provisioning requirements should be as a minimum: **Category** **A** 1 percent; **B** 3 percent; **C** 20 percent; **D** 50 percent; **E** 100 percent Compliance with provisioning requirements will be phase-in over two years, starting at a minimum of	March 31, 2000. June 30, 2000 **Performance criterion.**

	50 percent of required levels. (i) Approval (ii)Implementation	
	b. Revise **loan classification and loss provision requirements of restructured loans** so that a restructured loan cannot be reclassified to a better credit risk category prior to establishing a track record of at least three payments or six months.	Announcement by March 31, 2000. Implementation by June 30, 2000 **Performance criterion.**
	c. Undertake intensified on-site examination focussing on the loan portfolio of commercial banks with priority given to larger and weaker banks. Cover banks with: (i) All large and weak banks (representing at least 50 percent of banking system assets) (ii) 100 percent of banking system assets	 December 31, 2000 March 31, 2001
	d. **Redefine rules for composition of capital** in accordance with Basle standards. Rules will be implemented gradually during one year.	Approval by September 30, 2000. Implementations will start by December 31, 2000 **Performance criterion**
	e. Introduce and regulate a system of **prompt corrective action** when banks fall below their regulatory minimum CAR, including mandatory intervention (and removal of shareholders' voting rights) in cases where a bank's CAR falls below 1.8 percent or it fails to meet its recapitalization plans. In these cases, banks would be wound up or would continue operating after being recapitalized by (and ownership transferred to) the AGD, according to least cost criteria.	June 30, 2000
	f. For banks falling below the regulatory minimum CAR of 9 percent (but remaining above 1.8 percent), establish time-bound and contractually binding memoranda of understandings (MOUs) based on uniform criteria for their **strengthening**, which will be reviewed at least every six months**.** Such plans must include bringing in new capital and a business plan for strengthening management, restoring profitability through cutting operating costs and other means, and improving the recovery of weak assets.	General framework established by June 30, 2000 **Performance criterion.** Subsequently reviewed by end of 2000/calendar semester.
	g. Recapitalization should maximize reliance on private resources. The government will introduce a **scheme for providing public capital proportionally to private capital** contributions under uniform and strictly defined rules.	June 30, 2000
	h. **Viable but undercapitalized AGD banks** will be recapitalized with government bonds and will establish business plans for strengthening their management (including results-linked management contracts and foreign expertise), restoring profitability through cutting operating costs and other means, improving the recovery of weak assets, and reprivatization.	September 30, 2000 **Performance criterion.**
IV. Facilitate effective **restructuring of private sector bank debt**	a. Develop a comprehensive **debt restructuring strategy**, acceptable to the IFIs, including a generalized and mandatory approach to the restructuring of debts of small- and medium-sized enterprises (SME) and households.	**Prior action**.
	b. For large debtors (i.e., above US$50,000) announce a **debt restructuring framework** for case-by-case restructuring of debts based on the principles of voluntary participation of creditors and debtors acceptable to IFIs. Only debt of viable enterprises will be restructured; no support or subsidies by the public sector or IFIs.	April 30, 2000
	c. **Identify structural obstacles** to corporate	May 31, 2000

	workouts and remove those which could be eliminated by administrative action.	
	d. Undertake an assessment of the adequacy of existing **bankruptcy legislation** and legislation related to the mobilization of loan collateral and debt recovery.	May 31, 2000
	e. Assess adequacy of **judicial and administrative procedures** for bankruptcy, debt recovery, and foreclosure of property.	May 31, 2000
	f. Develop a time-specific **corrective action plan** to deal with the deficiencies observed in (c), (d), and (e) above.	July 31, 2000
V. Gradually **unfreeze frozen deposits**	a. Develop a scheme, for **conversion of bank's frozen deposits above certain thresholds into long-term bonds** and for unfreezing mutual fund investors.	**Prior action**
	b. Develop infrastructure for issuing and managing "unfreezing" bonds.	**Prior action**
	c. Develop rules for use of bonds for loan servicing consistent with points IV.a and IV.b above.	**Prior action**
VI. **Strengthen banks' liquidity management**	a. Develop instruments for **liquidity recycling** by the CBE (through its third balance sheet)	**Prior action**
	b. Start issuing short-term **CBE dollar bonds** in daily auctions.	**Prior action**
	c. Design **repo facility** in such a way that illiquid banks have access to it.	**Prior action**
	d. Introduce a **liquidity support facility** to provide additional liquidity to banks, under uniform and transparent rules.	April 30, 2000 Performance criterion
	e. Negotiate **fast disbursing funds** for the liquidity support facility.	April 30, 2000
	f. Secure commitments with foreign banks to stabilize and reconstitute their **interbank and trade-related credit lines** to open AGD banks with the technical support of the IFIs during the negotiations.	May 31, 2000
VII. **Resolve closed AGD banks**	a. Develop regulations for the **resolution of closed banks**. Shareholders will lose their investment and voting rights and managers will be legally accountable. Deposit guarantees will be paid out as soon as possible within the constraints of the dollarization scheme and fiscal sustainability.	April 30, 2000
	b. Establish a time-bound program for the **disposal of assets acquired by the AGD in the resolution process**, which will include an asset management strategy covering institutional arrangements, information and transparency, and private sector outsourcing.	March 31, 2000
	c. AGD will start the **disposal of assets** of closed banks and will announce a timetable for the liquidation of remaining AGD assets.	May 31, 2000
VIII. **Strengthen prudential regulations**	a. **Minimum capital** required for banks will be increased by the *Junta Bancaria* to give incentives for mergers and consolidations. This will be set at first at US$2.5 million, and later at US$5 million.	Approval by July 30, 2000. Effective by June 30, 2001
	b. Issue regulations regarding gradual **elimination of** offshore banking operations conducted within the country and in countries which do not meet international supervisory standards.	June 30, 2000
	c. Amend **accounting standards** to bring them into conformity with GAAP (Generally Accepted Accounting Principles), including with respect to proper asset valuation (mark-to-market valuation of	Approval by December 31, 2000, with full application by June 2002

	securities—except held to maturity portfolio—and real estate assets) and accounting of restructured loans.	
	d. Complete satisfactory review of supervisory practices and undertake, with the assistance of the IFIs and foreign supervisors, compliance assessments of the Basle **core principles.**	September 30, 2001
	e. Develop time-specific action plan to address any deficiencies found in (d)	December 31, 2001
IX. Strengthen **prudential supervision**	a. Prepare a **strengthening plan for the superintendency of banks** that should include the following actions: (i) Improve on-site supervision through a practical training program, which will support the special loan portfolio assessments mentioned in III.d. (ii) Reorganization of the structure of the superintendency of banks to ensure adequate regional and interdepartmental coordination, including a proposal to rationalize human resources. (iii) Improvement of off-site supervision, including system developments that will ensure monitoring, analysis, and eventual identification of "at risk" banks (based on a system of stress testing).	June 30, 2000. Implementation will begin by September 30, 2000
	b. Introduce a ladder of intensified **supervisory action for noncompliance** with regulatory norms.	April 30, 2000
	c. Initiate **bilateral agreements** with relevant foreign supervisors to share supervisory information.	April 30, 2000
	d. Adapt to the Ecuadoran norms and legislation the existing **manuals** for consolidated supervision and on-site inspections to be carried out with the assistance of an international consultant (expected in September 2000).	March 31, 2001
	e. The superintendency of banks will **enforce existing regulations** and will apply penalties and disciplinary measures on a uniform and nondiscretional basis. It will enforce reporting requirements and require access to any other information that it deems relevant, especially for offshore banks. The authorities will review the level and uniformity of penalties.	April 30, 2000
	f. Strictly apply Basle **fit and proper criteria** to owners and managers of all banks and develop a public registry for management, directors, and principal owners.	April 30, 2000
	g. Enforce existing limits on **connected lending, loan concentration, and investment in fixed assets**, in part by introducing appropriate penalties for banks, management, and board members.	April 30, 2000
X. Improve **transparency**	a. Require publication of **selected financial indicators** by banks on a quarterly basis, including at least capital, capital adequacy ratio, nonperforming loans, loan provisions, and classified assets.	September 30, 2000
	b. Evaluate and develop a national program for strengthening corporate governance, including strengthened awareness of the responsibilities of owners, directors, external and internal auditors, audit committees, and the protection of minority shareholders.	June 30, 2000
	c. Undertake independent financial and management **audits of the Central Bank of Ecuador and of all special-purpose public banks** to provide the informational basis for a reform program to substitute first-tier operations with more effective mechanisms and to consolidate second-tier operations in one institution.	Initiated by June 30, 2000 and completed by December 30, 2000

[1] All measures in this matrix have to be acceptable to the Fund staff and developed in consult with the Fund staff.

ECUADOR-TECHNICAL MEMORANDUM OF UNDERSTANDING

April 4, 2000

1. This technical memorandum of understanding (TMU) sets out the specific performance criteria (PC), indicative targets (ITs), structural benchmarks, and prior actions that will be applied under the arrangement for Ecuador. It details some specific daily, weekly, and monthly data that the authorities will provide to the staff of the Fund. In addition, the TMU provides the technical details that underlay the government's plans for 2000 as discussed in the government's memorandum of economic policies (MEP).

I. PHASING OF PURCHASES AND REVIEWS

2. After approval of the 12-month Stand-By Arrangement, which will make available to Ecuador a first purchase of SDR 85.0 million, it is envisaged that Ecuador will complete four reviews during calendar 2000 and one review in 2001. The amounts and sources, dates of review, conditions for completion of the review, and timing of the setting of PC's, are shown in Table 1. It is envisaged that the 2000 Article IV consultation will be concluded at the time of the first review.

II. QUANTITATIVE TARGETS

A. Fiscal Targets

Box 1.
Ecuador: Performance Criteria for the Nonfinancial and Combined Public Sector Deficits[1]
(In millions of U.S. dollars)

	Subceiling on Nonfinancial Public Sector [2]	Ceiling on the Combined Public Sector [2]
Cumulative public sector borrowing requirement [1]		
January 1–March 31 (indicative target)	259	262
January 1–April 30 (performance criterion)	310	317
January 1–May 31 (indicative target)	326	326
January 1–June 30 (performance criterion)	337	323
January 1–August 31 (performance criterion)	462	426
January 1–October 31 (indicative target) [3]	424	368
January 1–December 31 (indicative target) [4]	431	355

[1] Public sector as defined below.
[2] Maximum cumulative deficit.
[3] Performance criterion to be set at the time of the second review under the arrangement.
[4] Performance criterion to be set at the time of the third review under the arrangement.

3. There is a ceiling on the combined public sector deficit and a subceiling in the nonfinancial public sector (NFPS) deficit. The public sector deficits will be measured by their net borrowing requirements and the combined public sector deficit is defined as the sum of the net cumulative borrowing requirements of the NFPS and the operating cash result of the Central Bank of Ecuador (CBE). Revenues are measured on a cash basis, while expenditures are on an accrual basis, in particular interest is on a due basis. The NFPS comprises: (i) the central government (CG), including budgetary operations and the sectional development fund (FODESEC); (ii) the rest of the general government, including the Ecuadoran Social Security Institute (IESS), the Development Bank of Ecuador (BEDE), the port authorities, public universities and technical schools, municipal and provincial governments, *otras residuales* (which comprise the national defense council and military enterprises), and the Social Solidarity Fund (SSF) as described in paragraph 6; and (iii) public enterprises, including the oil company (Petroecuador), the railroad company (ENFE), the maritime oil transportation company (FLOPEC), the national airline (TAME), and other minor operations. The borrowing requirement of the CG is to be increased by the interest accrued on bonds issued to the deposit insurance agency (AGD) as described in paragraph 5, and on all other government bonds issued for the recapitalization of the banking system. The interest on the different types of bonds issued to unfreeze time deposits, in closed banks under AGD control, starting in March 2000 will carry an interest of 7.0-7.5 percent with a quarterly coupon and is included in the interest bill of the CG. In addition, a transfer of US$158 million to the AGD is also included in the CG expenditures to pay the deposit guarantee in cash.

4. The net borrowing requirements of all the NFPS entities are measured in U.S. dollars as the sum of the net change in: (i) the indebtedness of the NFPS to the domestic banking system, net of deposits and excluding Ecuadoran Brady bonds and other government bonds initially sold abroad; (ii) the domestic public debt of the NFPS (including securities issues by any of its entities) held by the non-banking private sector; (iii) the floating debt of the NFPS including the non-interest domestic arrears of the CG as defined in paragraph 9; (iv) the financial assets held abroad by NFPS entities; and (v) the total external debt of the NFPS. Disbursements and debt service charges in other currencies will be converted into U.S. dollars according to paragraph 63. The domestic banking system comprises the central bank, commercial banks, the National Development Bank, and any other financial institution holding deposits from or claims against the NFPS.

5. For the purpose of the program, and regardless of the terms with respect to grace periods on interest, bonds issued to the AGD for the recapitalization of banks will accrue monthly simple interest at a rate of 12 percent per annum or the coupon interest rate, whichever is the highest, from the effective date of issuance.

6. The interest debt settlements between the public enterprises being prepared for privatization (including PACIFICTEL, ANDINATEL, and the successor of INECEL) and the CG will be counted as current revenue of the CG. Privatization and concession receipts will be deposited in the account of the SSF in the CBE, and for the purpose of the program will not be considered revenue of the government; its operations are consolidated with the accounts of the CG. Privatization receipts will not be counted as revenue of the SSF but concessions receipts will be to the extent that they do not exceed the annuity component.

Box 2.
Ecuador: Performance Criteria for
Total Central Government Expenditure[1]

	Ceiling [2] (In millions of US$)
Cumulative total central government expenditure [1]	
January 1–March 31 (indicative target)	751.3
January 1–April 30 (performance criterion)	994.8
January 1–May 31 (indicative target)	1,217.5
January 1–June 30 (performance criterion)	1,417.4
January 1–August 31 (performance criterion)	1,964.4

January 1–October 31 (indicative target) [3]	2,385.2
January 1–December 31 (indicative target) [4]	2,857.2

[1] Central government as defined in paragraph 3.
[2] Maximum cumulative expenditure of the CG.
[3] Performance criterion to be set at the time of the second program review.
[4] Performance criterion to be set at the time of the third program review.

7. Expenditure of the CG includes the interest accrued on bonds issued to the AGD for the recapitalization of banks and for the payment of the deposit guarantee in AGD closed banks in bonds as described in paragraph 5.

Adjuster for an increase in total revenue of the central government

8. For the test dates of October and December 2000, consideration will be given at the time of the second and third review, respectively, to the possibility of increasing the ceilings for the cumulative central government spending in the event that total revenue of the CG exceeds on a cumulative basis US$1,176 millions by June 30, and US$1,637 millions by August 31, respectively.

Box 3.
Ecuador: Performance Criteria for the Net Change of Non-interest Domestic Arrears of the Central Government[1]

	Floor [2] (In millions of US dollars)
Stock as of January 1, 2000	91.0
Cumulative net reduction in CG non-interest domestic arrears	
January 1–March 31 (indicative target)	0.0
January 1–April 30 (performance criterion)	0.0
January 1–May 31 (indicative target)	1.0
January 1–June 30 (performance criterion)	2.0
January 1–August 31 (performance criterion)	3.0
January 1–October 31 (indicative target) [3]	4.5
January 1–December 31 (indicative target) [4]	6.0
Stock as of December 31, 2000	85.0

[1] CG as defined in paragraph 3 and non-interest domestic arrears as defined below.
[2] Minimum cumulative clearance of central government domestic arrears.
[3] Performance criterion to be set at the time of the second program review.
[4] Performance criterion to be set at the time of the third program review.

9. Non-interest domestic arrears of the CG are defined as the difference between orders of payments submitted (*valores determinados*) by the budget directorate (*Secretaría de Presupuesto*) to the treasury (*Tesorería de La Nación*) and the payments issued (*valores emitidos*) by the treasury to the central bank to credit the public entities' accounts. Financial expenditures (*gastos financieros*) are excluded from this definition.

B. External and Monetary Sector Targets

Box 4.
Ecuador: Performance Criteria on Medium- and Long-term External Debt Disbursements to the Nonfinancial Public Sector[1 2]

	Ceilings (In millions of US$)	
	Maturity of Over One Year	Maturity of One to Five Years
Maximum increase from December 31, 1999 until:		
March 31 (indicative target)	240	30
April 30 (performance criterion)	290	40
May 31 (indicative target)	400	45
June 30 (performance criterion)	510	60
August 31 (performance criterion)	610	70
October 31 (indicative target) [3]	700	90
December 31 (indicative target) [4]	850	100

[1] Including the central government, rest of general government, and nonfinancial public enterprises, as previously defined.
[2] Excludes concessional debt, defined as debt that contains a grant element of 35 percent or more on the basis of currency-specific discount rates based on OECD commercial interest reference rates.
[3] Performance criterion to be set at the time of the second program review.
[4] Performance criterion to be set at the time of the third program review.

10. The above limits apply to all public- and publicly-guaranteed external debt. Limits on new debt do not apply to: (i) loan disbursements to restructure, refinance, or prepay existing debts that do not result in an increase in outstanding external debt; (ii) any government loans or guarantees issued associated with the restructuring of banks intervened or under AGD administration, including the refinancing of arrears on external trade and interbank lines, or for the funding of government participation in the recapitalization of private banks and the restructuring of their loan portfolio; (iii) proceeds of a forward sale of oil exports not exceeding US$400 million with at least one-year maturity; and (iv) short-term financing contracted for the purpose of bridging the period between the day of an eventual payment of Brady and Euro bond holders under the process of restructuring and the day of implementation of the restructuring, at which time the government will repay the bridge loan. The above figures include disbursements from emergency credit lines from the World Bank, the Inter-American Development Bank (IDB), and the Andean Development Corporation (CAF), which will be used exclusively for the purposes listed below, and will be made to the extent needed for those purposes only. In the event that disbursements for balance of payments support from bilateral sources were to materialize, the above ceilings will be adjusted upwards for their full amount.

Box 5.
Ecuador: Performance Criterion on New Short-term External Debt of the Nonfinancial Public Sector

The government will not contract, guarantee, or collateralize any new debt of maturity of less than one year. The ceiling applies to the nonfinancial public sector, as defined above. Excluded from it are guarantees associated with the financial sector restructuring, normal import-related credits, and eventual bridge financing that might be needed in the restructuring of Brady and Euro bonds.

11. The government announced on January 9, 2000, the adoption of dollarization whereby the U.S. dollar becomes legal tender and the CBE ceases issuing domestic currency other than *sucre* coins in exchange for existing *sucre* coins and bank notes or for U.S. dollars. The *Ley Fundamental para la Transformación Económica del Ecuador*, approved on March 9, 2000 mandates the full backing with freely disposable international reserves—**FDIR**, of the following *sucre*-denominated CBE liabilities: currency in circulation and in bank's vaults—C; banker's deposits at the central bank—**BD**; and central bank *sucre*-denominated stabilization bonds—**BEMs**.

12. The law defines **FDIR** as the difference between the following foreign assets and reserve liabilities, and is allocated to three accounting systems, $\mathbf{FDIR_1}$, $\mathbf{FDIR_2}$, and $\mathbf{FDIR_3}$ (see below). The eligible assets are:

a. **monetary gold** held in custody or deposited abroad earning an interest and nonmonetary gold valued at current world market prices. Gold swaps are netted out. The CBE valued its monetary gold holdings at US$400 per troy ounce while the international market price was US$283.2 as of January 31, 2000;

b. **deposits in foreign bank and other financial intermediaries**, and checks and transfers not yet deposited or in transit drawn against these financial institutions. Deposits in the subsidiaries of Ecuadoran banks abroad are excluded. Overdrafts and deposits held as collateral of the State's foreign liabilities, including for Brady bonds, are excluded. The deposits included are those that are highly liquid, including sight, overnight, call and term deposits with a maturity of no more than 90 days;

c. **freely convertible foreign bills and coins** held by the CBE or in transit to the country;

d. **investments in time deposits and fixed income instruments** that are easily disposable at low risk in secondary markets. It comprises mostly sovereign debt instruments. Those held as Brady collateral are excluded;

e. holdings of **SDRs**;

f. the **reserve position at the IMF**; and

g. **the net position with ALADI**, a multilateral clearing mechanism of Latin American countries to settle trade operations and transfer of funds. Settlement is done every four months;

h. the **reserve liabilities** included are gold swap operations, and foreign loans with a maturity of up to one year.

13. After December 31, 1999, any contingent liabilities incurred by CBE during the program period to nonresidents (including foreign branches or subsidiaries of Ecuadoran institutions), or the resident private sector, would be netted from **FDIR**.

14. The legislation partitions the CBE balance sheet into four systems:

- an **exchange system where C, is to be fully backed by** $\mathbf{FDIR_1}$ **at all times**;

- a **financial reserves system where BD and BEMs, are to be fully backed by $\mathbf{FDIR_2}$ at all times**;

- an **operations system** where the liabilities include public sector deposits (**GD**), private sector deposits (**PD**), medium- and long-term foreign debt of the CBE (**FD**), and U.S. dollar-denominated CBE instruments (**$CBEBs**), and on the assets side, the remainder of the freely disposable international reserves, $\mathbf{FDIR_3}$, repo operations with financial institutions (**RP**), and holdings of government bonds as balancing item ($\mathbf{GB_3}$); and

- **other operations of the CBE system** which captures the rest of the accounts, including the remaining stock of government bonds ($\mathbf{GB_4}$), other foreign assets (**OFA**) and liabilities (**OFL**), and other domestic assets (**ODA**) and liabilities (**ODL**).

15. Outstanding purchases from the Fund will be recorded in the operations system accounts of the BCE.

16. The program sets a performance criteria on the path for **net "excess" FDIR** of the CBE, which is defined as: the sum of foreign assets ,a)-g) in paragraph 12; minus foreign liabilities, h) in paragraph 12, and outstanding purchases from the Fund; and minus the following CBE sucre denominated liabilities, **C**, **BD**, and **BEMs**.

Box 6.
Ecuador: Performance Criteria and Indicative Targets on Net "Excess" FDIR[1]

Floor[1]
(In millions of U. S. dollars)

Outstanding stock as of:	
January 31(actual)	44.6
April 30 (performance criteria)	186.8
May 31 (indicative targets)	126.4
June 30 (performance criteria)	155.3
August 31 (indicative target) [2]	100.8
October 31 (indicative targets) [3]	154.3
December 31 (indicative target) [4]	204.8

[1] Indicates the minimum level of net "excess" FDIR in the CBE (i.e., larger numbers are above the floor).
[2] Performance criterion will be set at the time of the second program review.
[3] Performance criterion will be set at the time of the third program review.
[4] Performance criterion will be set at the time of the fourth program review.

Adjuster for higher-than-programmed assistance to banks

17. The floor on net "excess" FDIR could be lowered by up to a half the amounts indicated in Box 6 to provide further liquidity assistance to banks through repurchase operations, if needed.

Adjuster for foreign loan disbursements shortfall

18. The floor on net "excess" FDIR will be lowered (increased) on any test date, and on that test date only, by the shortfall (excess) in disbursements on policy-based loans from multilateral or regional development institutions,[1] relative to the cumulative program baseline as specified below, to the extent that delays in disbursements do not reflect failure to meet loan conditionality as reported by the creditor institutions. In the event that bilateral creditors were to provide balance of payments support loans (not currently envisioned) the floor on "excess" reserves will be adjusted upwards by the amount of disbursement.

Adjuster for debt relief on CBE external debt

19. The path for net "excess" FDIR assumes the repayment of US$96 million to the FLAR in 2000. Any relief obtained in these repayments will result in an increase in the floor of net "excess" FDIR from the corresponding test date onwards. Furthermore, new foreign loan disbursements to the BCE from this or other sources, but excluding from the Fund, will result in a matching upward adjustment to the net "excess" FDIR floor.

Box 7.
Ecuador: Policy-Based Loans from Multilateral and Regional Development Banks

Cumulative baseline levels	(In millions of U.S. dollars)
March 31	80
April 30	140
May 31	140
June 30	270
August 31	290
October 31	290
December 31	435

Adjuster for the accumulation of new external payments arrears

20. Prior to reaching a rescheduling agreement with Paris Club creditors shortly after the Executive Board approval of the request for a Stand-by Arrangement, accumulation of arrears on debts that are not expected to be refinanced by Paris Club creditors would result in an upward adjustment of the net "excess" FDIR target, the same as for new arrears to other creditors. Subsequently, there will be no accumulation of external payments arrears. Any cash savings in excess of the amounts assumed under the program resulting from the restructuring and/or deferral of Brady and Euro bonds payments will result in a full upward adjustment of the net "excess" FDIR target.

Monitoring the relation between net "excess" FDIR and U.S. dollar-denominated central bank paper

21. The CBE will operate a liquidity recycling facility with repurchase operations for up to 90-days. A key source of funding will be the placement of dollar-denominated central bank paper ($CBEBs), which initially could have a much shorter maturity than the repos and thus will represent a significant rollover risk. The liquidity needs of the banking system are likely to rise in the near term as the cash unfreezing of time deposits gets underway in mid-March. Taking these elements into consideration, the authorities intend to keep, at least for the next few months, the monthly average of the ratio of the net "excess" FDIR to $CBEBs at around 50 percent or higher, which would increase the attractiveness of this paper. As experience with

this instrument increases, and its maturity lengthens, the backing could be gradually diminished.

Management of the nonfinancial public sector deposits at the CBE

22. The NFPS will manage its deposits at the CBE to the extent possible in a manner that supports the implementation of the dollarization process and the CBE's plans to provide liquidity assistance to banks. In this endeavor, it will aim to keep the level of its deposits above the indicative targets presented in Box 8. If the NFPS deposits fall below the indicated levels, the authorities will consult with the Fund staff on possible policy actions.

Box 8.
Ecuador: Indicative Target for the Nonfinancial Public Sector Deposits at the Central Bank

	Floor (In millions of U.S. dollars)
April 30	334
May 31	359
June 30	416
August 31	411
October 31	440
December 31	487

23. In the event that developments warranted consideration of a change in current reserve requirements, the authorities will consult with the Fund staff before making any such change.

III. PRIOR ACTIONS, DEPOSIT GUARANTEE, AND UNFREEZING OF TIME DEPOSITS

A. Prior Actions

24. Congressional approval of an amendment to "*Ley Fundamental para la Transformación Económica del Ecuador*" in a manner satisfactory to the International Financial Institutions supporting the restructuring of the banking system.

25. Issue a Presidential Decree acceptable to the IFIs, regulating the restructuring of large (i.e., above US$50,000) household and corporate debt to banks based on the principle of voluntary participation of creditors and debtors, and where only debt of viable enterprises will be restructured; there will be no support or subsidies from the government or the IFIs.

26. The CBE will develop a mechanism for recycling liquidity in the banking system involving the issuance of U.S. dollar-denominated instruments and temporary lending operations to banks through a repurchase facility (items VI. a, b, and c in the Financial Sector Reforms Matrix (FSRM) attached to the MEP).

B. Indicative Timetable and Modalities for Unfreezing Time Deposits and Payment of the Deposit Guarantee in Closed Banks

27. The unfreezing of time deposits will proceed according to the agreed schedule set out in Table 2 and the payment of the deposit guarantee in AGD closed banks will proceed according to Table 3. The unfreezing of time deposits and the payment of the deposit guarantee with

bonds will proceed according to the maturity of deposits. Any changes to this timetable will be made in consultation with the Fund staff.

IV. STRUCTURAL BENCHMARKS AND PERFORMANCE CRITERIA

28. Throughout the program period, there will be no accumulation of external payments arrears to all creditors except on Brady and Euro bonds until a comprehensive restructuring agreement is reached with these creditors, and on reschedulable debt to Paris Club creditors until an agreement is reached with them shortly after the Executive Board meeting of the Fund approves Ecuador's request for an SBA. For purposes of the performance criteria amounts subject to rescheduling will not be considered arrears (**PC**).

A. For Completion of the First Review (No Later than June 15, 2000)

29. The CBE will develop and introduce a **liquidity support facility** to provide additional liquidity to banks under uniform and transparent rules by April 30, 2000 (item VI.d in the FSRM attached to the MEP, SB).

30. Develop regulations for the resolution of AGD closed banks, with shareholders losing their investment and voting rights and managers becoming legally accountable by April 30, 2000 (item VII.a in the FSRM; **SB**).

31. Establish a time-bound program for the disposal of assets acquired by the AGD in the resolution process, which will include an asset management strategy covering institutional arrangements, information and transparency, and private sector outsourcing by April 30, 2000 (item VII. b. in the FSRM; **SB**).

32. The government will negotiate fast disbursing funds for the liquidity support facility by April 30, 2000 (item VI. e. of the FSRM; **SB**).

B. For Completion of the Second Review (No Later than August 15, 2000)

33. Start the implementation of the revised requirements for loan classification, loss provisioning, and interest suspension to conform with best international practices by June 30, 2000 (item III.a in the FSRM; **PC**).

34. Implement the revised loan classification and loss provision requirements of restructured loans by June 30, 2000 (item III. b. in the FSRM; **PC**).

35. Establish a general framework to deal with banks whose capital fall below the minimum CAR of 9 percent, but remains above 1.8 percent, including time-bound and contractually binding memoranda of understating based on uniform criteria for their strengthening by June 30, 2000 (item III. F in the FSRM; **PC**).

36. Introduce and regulate a system of prompt corrective action when banks fall below their regulatory minimum CAR, including mandatory intervention in cases where a bank's CAR falls below 1.8 percent or fails to meet its recapitalization plans by June 30, 2000 (item III. E. in the FSRM; **SB**).

37. Secure commitments with foreign banks to stabilize and reconstitute their interbank and trade-related credit lines to AGD open banks by May 31, 2000 (item VI. f . in the FSRM; **SB**).

38. The AGD will start the disposal of assets of closed banks and will announce a timetable for the liquidation of remaining assets by May 31, 2000 (item VII. c. in FSRM; **SB**).

39. On July 1, 2000, the government will increase the refinery prices of high- and low-octane gasoline and diesel by 60 percent, and of cooking gas by 40 percent (**PC**).

C. For Completion of the Third Review (No Later than October 15, 2000)

40. Viable but undercapitalized AGD banks will be recapitalized with government bonds and will establish business plans for strengthening their management, restoring profitability, and improving the recovery of weak assets by September 30, 2000 (item III. H in the FSRM; **PC**).

41. On October 1, 2000, relative to the June 2000 refinery prices, the government will increase the refinery prices of high-octane gasoline by 60 percent, of low-octane gasoline and diesel by 30 percent, and of cooking gas by 40 percent (**PC**).

42. The Banking Board will approve a timetable for increasing the minimum capital of banks by July 30, 2000 (item VIII. a. in FSRM; **SB**).

43. The Banking Board will issue regulations leading to a gradual elimination of offshore banking operations conducted within the country and in countries which do not meet international supervisory standards by June 30, 2000 (item VIII. B. in FSRM; **SB**).

D. For Completion of the Fourth Review (No Later than December 15, 2000)

44. The central government's revenue projections to be included in the budget proposal for 2001 to be submitted to congress in September 2000 will provide for the elimination of the import tariff surcharge as of January 1, 2001 (**SB**).

45. The tax reform to be submitted by the government to congress in September will include an increase in the rate and a broadening of the base of the VAT, a reduction in the personal exemption under the income tax, a significant reduction in tax revenue earmarking from the present level of 60 percent, and the introduction of a consumption tax on domestic petroleum derivatives (**SB**).

E. For Completion of the Fifth Review (No Later than February 15, 2001)

46. Start with the implementation of the redefined rules for the composition of bank's capital in accordance with Basle standards by December 31, 2000 (item III. D. in the FSRM; **PC**).

47. Undertake intensified on-site examination of banks, focusing on the loan portfolio of large and weak commercial banks representing at least 50 percent of the banking system assets by December 31, 2000 (item III. C in FSRM; **SB**).

48. The Banking Board will amend the accounting standards for financial institutions to bring them into conformity with GAAP, including with respect to proper asset valuation and accounting of restructured loans by December 31, 2000 (item VIII. C. in FSRM; **SB**).

V. DISCLOSURE OF SPECIFIC INFORMATION

49. The authorities will provide regularly to Fund staff and the necessary information to monitor the program in an adequate form, in particular as it refers to the following specific daily, weekly, and monthly data with a delay not exceeding the lag indicated in parenthesis. The lag is measured from the last working day in the period covered in the reported data. Whenever possible, the information will be sent by electronic mail; otherwise, by facsimile. In both cases, a copy will be provided to the Fund Resident Representative.

A. Monetary and Foreign Exchange Data

50. **Weekly**. Individual bank data of onshore deposits, separating between free and frozen, external credit lines, and other assets and liabilities (one week).

51. **Monthly**. Individual bank data of offshore deposits, separating between free and frozen, external credit lines, and other assets and liabilities (two months).

52. **Monthly**. The outstanding stock and uses (capitalization/payment of guarantees) of AGD bonds. The information will include also the date of issuance, holder, and financial terms and conditions (one week).

53. **Daily**. The stock of currency issue, broad money, and foreign currency deposits. Broad money is defined as M1 plus savings deposits and time deposits, and other private sector holdings of bank financial instruments (two days).

54. **Daily**. A detailed central bank balance sheet (Form 10R), which will include the following memorandum items: (i) a detailed breakdown of central bank credit to the banking system by bank (Article 24 and Article 25, and other loans, of which nonperforming loans); (ii) central bank purchase of AGD bonds by bank with a brief explanation of how this was registered in the central bank accounts and whether provisions for unpaid past accrued interest were made; (iii) central bank purchase of goods and portfolio in repayment of loans by bank, indicating whether a repurchase agreement has been obtained; and (iv) repurchase agreements (repos), and other open market injections of liquidity (one week).

55. **Weekly**. The stock and composition of external payments arrears (one week).

56. **Monthly**. Detailed accounts of the central bank, the consolidated private commercial banks, and Banco Nacional de Fomento (BNF) (four weeks).

B. Fiscal Data

57. **Weekly**. A summary investment and savings account of the central government (two weeks). A full version of these account on a monthly basis (three weeks).

58. **Monthly**. The different components of the nonfinancial public sector borrowing requirements: (i) external financing; (ii) domestic bond financing, including maturity and effective yield of new placements; (iii) deposits at the CBE and banking system; and (iv) domestic arrears (i.e., floating debt) (six weeks).

59. **Monthly**. A summary of the domestic debt amortization, disbursements, and interest payments by type of instrument and currency. In addition, the previous information will be disaggregated by creditor type (i.e., public institutions, and private sector) (three weeks).

C. External Sector Data

60. **Monthly**. Information on the terms and conditions of new external credit facilities being considered by the MOF and CBE (one week).

61. **Monthly**. Provision of regular revisions to the two months ahead disbursements projections from all external credit lines to the public sector (two weeks).

62. **Weekly**. Provision of scheduled amortization payments on external credit lines of domestic and foreign banks operating in Ecuador, falling due in one, two, three, and four weeks; two, three, and six months; and one year and beyond (one week).

VI. BASELINES AND CONVERSION RATES USED FOR SELECTED VARIABLES

63. SDR-denominated accounts will be converted into U.S. dollar at US$1.384 per SDR. Disbursements and debt-service payments falling due on foreign debt not denominated in U.S. dollars will be converted to U.S. dollars at the international market exchange rates.

[1] Includes the World Bank, the IDB, the CAF, and the Latin-American Reserve Fund (FLAR).

Table 1.
Ecuador: Purchases and Reviews, 1999–2000

Amounts (Millions SDRs)	Date of Review (earliest possible dates)	Conditions	Performance Criteria To be Set
85.0	April [19], 2000	Board approval	Fiscal and external PCs for the first three reviews; monetary PC for the first two reviews.
28.3	May 31, 2000	Completion of first review, and observance of end-April 2000 performance criteria.	
28.3	July 31, 2000	Completion of second review, and observance of end-June 2000 performance criteria.	Fiscal and external PCs for the fourth review; monetary PC for the third review.
28.3	September 30, 2000	Completion of third review, and observance of end-August 2000 performance criteria.	Fiscal and external PCs for the fifth review; monetary PC for the fourth review.
28.3	November 30, 2000	Completion of fourth review, and observance of end-October 2000 Performance criteria.	Monetary PC for the fifth review.
28.3	January 31, 2001	Completion of fifth review, and observance of end-December 2000 performance criteria.	

Table 2.
Ecuador: Schedule for the Unfreezing of Time Deposits in Open Banks (Onshore and Offshore)
(In millions of U.S. dollars)

Type and size of account	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	2000	After 2000	Total	N Ac
Total time deposits	**372.5**	**276.6**	**173.8**	**101.0**	**103.0**	**79.3**	**50.5**	**5.6**	**5.6**	**5.6**	**1,173.4**	**27.6**	**1,201.1**	**15**
Of which: pensioners	47.8	39.4	22.8	13.3	14.6	10.6	6.7	1.5	1.5	1.5	159.6	7.3	**166.9**	3
D <= 4,000	4.3	6.5	2.4	1.4	2.4	1.2	0.8	0.7	0.7	0.7	21.2	3.6	24.8	2
4,000 < D <= 20,000	7.1	6.9	3.5	2.1	2.5	1.7	1.1	0.4	0.4	0.4	26.2	2.1	28.3	
20,000 < D	36.4	25.9	16.9	9.8	9.7	7.6	4.9	0.3	0.3	0.3	112.2	1.6	113.8	
Sucres **and UVC**	29.3	47.7	16.5	10.1	17.2	8.8	5.6	5.6	5.6	5.6	151.8	27.6	179.5	12
D <= 4,000	14.5	23.7	8.2	5.0	8.6	4.4	2.8	2.8	2.8	2.8	75.5	13.7	89.3	11
4,000 < D <= 20,000	7.4	12.1	4.2	2.5	4.4	2.2	1.4	1.4	1.4	1.4	38.3	7.0	45.3	

20,000 < D	7.3	11.9	4.1	2.5	4.3	2.2	1.4	1.4	1.4	1.4	38.0	6.9	44.9
Of which: pensioners	7.8	12.7	4.4	2.7	4.6	2.3	1.5	1.5	1.5	1.5	40.3	7.3	47.6
D <= 4,000	3.8	6.2	2.1	1.3	2.2	1.1	0.7	0.7	0.7	0.7	19.7	3.6	23.3
4,000 < D <= 20,000	2.3	3.7	1.3	0.8	1.3	0.7	0.4	0.4	0.4	0.4	11.8	2.1	13.9
20,000 < D	1.7	2.8	1.0	0.6	1.0	0.5	0.3	0.3	0.3	0.3	8.8	1.6	10.4
U.S. dollars	343.2	228.8	157.3	90.9	85.8	70.5	44.9	0.0	0.0	0.0	1,021.6	0.0	1,021.6
D <= 4,000	5.2	3.5	2.4	1.4	1.3	1.1	0.7	0.0	0.0	0.0	15.5	0.0	15.5
4,000 < D <= 20,000	41.8	27.9	19.2	11.1	10.4	8.6	5.5	0.0	0.0	0.0	124.4	0.0	124.4
20,000 < D	296.3	197.5	135.8	78.5	74.1	60.8	38.8	0.0	0.0	0.0	881.7	0.0	881.7
Of which: pensioners	40.1	26.7	18.4	10.6	10.0	8.2	5.2	0.0	0.0	0.0	119.3	0.0	119.3
D <= 4,000	0.5	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	1.5	0.0	1.5
4,000 < D <= 20,000	4.8	3.2	2.2	1.3	1.2	1.0	0.6	0.0	0.0	0.0	14.4	0.0	14.4
20,000 < D	34.7	23.2	15.9	9.2	8.7	7.1	4.5	0.0	0.0	0.0	103.4	0.0	103.4
Cash unfreezing [1]	**63.0**	**61.7**	**31.0**	**18.3**	**22.7**	**14.9**	**9.5**	**3.9**	**3.9**	**3.9**	**232.7**	**19.3**	**252.1**
***Sucres* and UVC**	17.8	29.1	10.1	6.1	10.5	5.4	3.4	3.4	3.4	3.4	92.6	16.8	109.4
D <= 4,000	14.5	23.7	8.2	5.0	8.6	4.4	2.8	2.8	2.8	2.8	75.5	13.7	89.3
4,000 < D <= 20,000 [2]	2.9	4.7	1.6	1.0	1.7	0.9	0.6	0.6	0.6	0.6	15.1	2.7	17.9
20,000 < D 2/	0.4	0.6	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	1.9	0.4	2.3
U.S. dollars	29.9	20.0	13.7	7.9	7.5	6.1	3.9	0.0	0.0	0.0	89.1	0.0	89.1
D <= 4,000	5.2	3.5	2.4	1.4	1.3	1.1	0.7	0.0	0.0	0.0	15.5	0.0	15.5
4,000 < D <= 20,000 2/	15.5	10.3	7.1	4.1	3.9	3.2	2.0	0.0	0.0	0.0	46.1	0.0	46.1
20,000 < D 2/	9.2	6.2	4.2	2.4	2.3	1.9	1.2	0.0	0.0	0.0	27.5	0.0	27.5
Pensioners [3]	15.2	12.7	7.2	4.2	4.7	3.4	2.1	0.5	0.5	0.5	51.1	2.5	53.6
***Sucres* and UVC**													
4,000 < D <= 20,000	2.3	3.7	1.3	0.8	1.3	0.7	0.4	0.4	0.4	0.4	11.8	2.1	13.9
20,000 < D	0.4	0.6	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	1.9	0.4	2.3
U.S. dollars													
4,000 < D <= 20,000	4.8	3.2	2.2	1.3	1.2	1.0	0.6	0.0	0.0	0.0	14.4	0.0	14.4
20,000 < D	7.7	5.1	3.5	2.0	1.9	1.6	1.0	0.0	0.0	0.0	23.0	0.0	23.0
Memorandum item:													
Maturity profile [4]													
Sucre accounts (in percent)	16.3	26.6	9.2	5.6	9.6	4.9	3.1	3.1	3.1	3.1	84.6	15.4	100.0
Dollar accounts (in percent)	33.6	22.4	15.4	8.9	8.4	6.9	4.4	0.0	0.0	0.0	100.0	0.0	100.0

Sources: Superintendency of Banks, Central Bank of Ecuador; and Fund staff projections.

[1] Based on joint resolution No 1-2000.

[2] Excludes accounts held by pensioners which are treated differently.

[3] The aforementioned resolution provides for the cash unfreezing of accounts with balances up to US$20,000 for pensioners only.

[4] Based on the survey reported in the Central Bank of Ecuador note "Requerimientos de Liquidez del Sistema Bancario."

Table 3.
Ecuador: Schedule for the Payment of Deposit Guarantee in AGD Closed Banks (Onshore and Offshore) [1]

(In millions of U.S. dollars)

Size of Account	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	2000	After 2000
Total guranteed deposits	**12.5**	**268.7**	**195.3**	**132.2**	**82.5**	**82.0**	**67.6**	**48.3**	**16.5**	**16.5**	**6.8**	**928.8**	**11.3**
Cash unfreezing	**12.5**	**14.3**	**14.2**	**14.3**	**14.2**	**14.3**	**14.3**	**14.3**	**14.3**	**14.3**	**4.5**	**145.3**	

Nonpensioners	9.4	4.6	0.0	8.2	14.2	1.8	0.0	11.6	14.3	14.3	4.5	82.8	
0 < D <= 500	9.4	4.6											
500 < D <= 1,000				8.2	14.2	1.8							
1,000 = D [1]								11.6	14.3	14.3	4.5		
Pensioners	3.1	9.7	14.2	6.1	0.0	12.5	14.3	2.7	0.0	0.0	0.0	62.6	
0 < D <= 500	3.1												
500 < D <= 7,000		9.7	14.2	6.1									
7,000 = D [1]						12.5	14.3	2.7					
Bond unfreezing													
D > 1,000 for non-pensioners													
and D > 7,000 for pensioners		**254.4**	**181.1**	**117.9**	**68.3**	**67.6**	**53.4**	**34.0**	**2.3**	**2.3**	**2.3**	**783.5**	**11.3**
Of which: in onshore banks		**146.5**	**109.2**	**68.4**	**39.7**	**40.7**	**31.2**	**19.9**	**2.3**	**2.3**	**2.3**	**462.5**	**11.3**
Memorandum items:													
Cumulative cash pay out	12.5	26.8	41.0	55.3	69.5	83.8	98.0	112.3	126.6	140.8	145.3	145.3	
Cumulative budgetary allocation	12.5	26.8	41.0	55.3	69.5	83.8	98.0	112.3	126.5	140.8	158.0	158.0	
Maturity profile [2] (in percent)		32.0	22.8	14.8	8.6	8.5	6.7	4.3	0.3	0.3	0.3	98.6	1.4

Sources: Deposit Insurance Agency and Fund staff estimates and projections.

[1] Based on the procedure for the payment of the deposit guarantee issued by the AGD as Memorandum AGD-2000-3 of February 11, and discussions with AGD Ministry of Finance officials.

[2] Based on a Central Bank survey weighted by the currency composition of guaranteed deposits in AGD banks.