



Update on macro outlook and debt restructuring strategy Republic of Ecuador

3 June 2020



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Introduction

- Despite inheriting a very difficult economic situation, the current administration has made important progress on economic reforms, fiscal consolidation, and monetary stability.
- Ecuador has been severely hit by two major external shocks this year: the COVID-19 outbreak and the fall in global oil prices. Those two shocks have translated into a collapse in global demand and a USD appreciation, which is weakening competitiveness in a dollarized economy. As a result, the country's economic prospects deteriorated significantly.
- The government has embarked on a comprehensive strategy with macroeconomic and financial strategy including the restructuring of the country's sovereign debt.
- The government has committed to a coordinated and market friendly strategy with its creditors in close coordination with the IMF throughout the process.
- The objectives of the contemplated debt restructuring operation are to (i) provide short-term liquidity relief, (ii) substantially reduce the medium-term financing gaps and (iii) restore debt sustainability in the medium and long term.



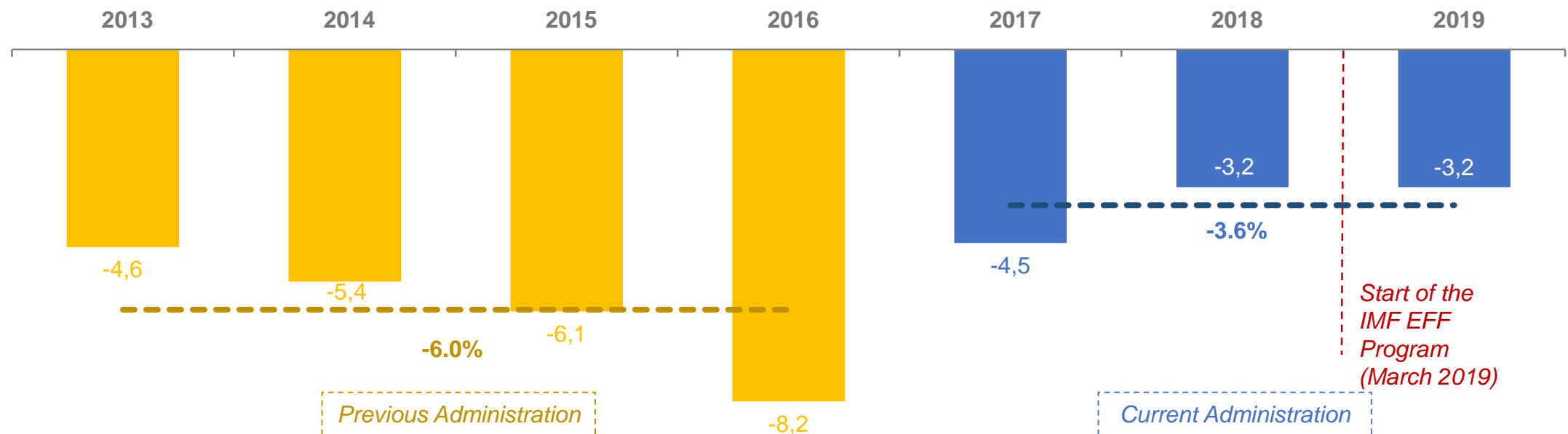
I Macroeconomic Update

The current administration has already accomplished significant fiscal consolidation

In spite of the challenging environment, the current administration has implemented fiscal consolidation and prudent fiscal management throughout 2017, 2018 and 2019

- These efforts have included a reduction in capital expenditures, a reduction in civil service wages in 2019 and fuel subsidy reforms enacted in early 2019

Overall Balance of the Non-Financial Public Sector (% of GDP)



Source: Ministry of Economy and Finance, Republic of Ecuador

Ecuador's economic situation has deteriorated significantly as a result of

1 COVID-19 Crisis

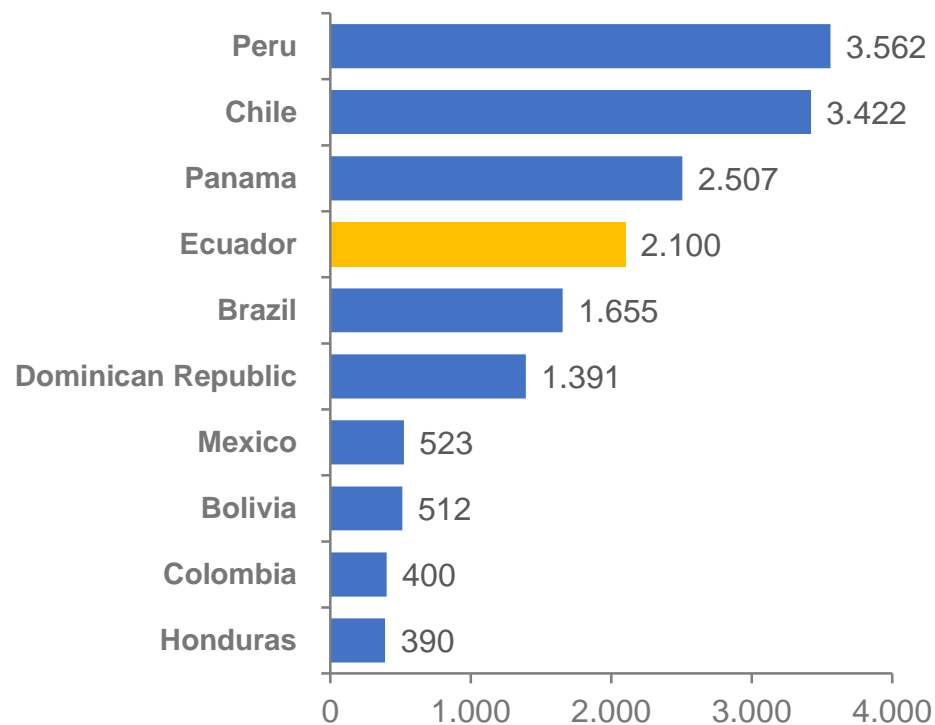
2 Oil Price Shock

1 The COVID-19 health crisis is putting pressure on Ecuador's economy and public finances

COVID-19 precipitated a fall in both domestic and global demand, damaging Ecuador's economy. An emergency response package followed by additional resources will be necessary to stabilize and reactivate the economy

Impact of COVID-19 health crisis on Latin America countries

Confirmed cases per million people



Source: European Centre for Disease Prevention and Control COVID-19 data as of 25 May 2020

Major impact on revenues and the need for additional spending

- Revenues are expected to decline by 5.4% of GDP
- Expenditures: +USD 0.7bn in additional spending
 - Health spending related to COVID-19: USD 0.4bn

Update on Ecuador's response to the crisis as of May 2020

- Revenues:
 - Increase in withholding of corporate income tax for banks, SOEs and other commercial corporations: USD 0.1bn
 - Proposed increase in withholding for personal and corporate income tax for the largest contributors that have been unaffected by the crisis USD 1bn

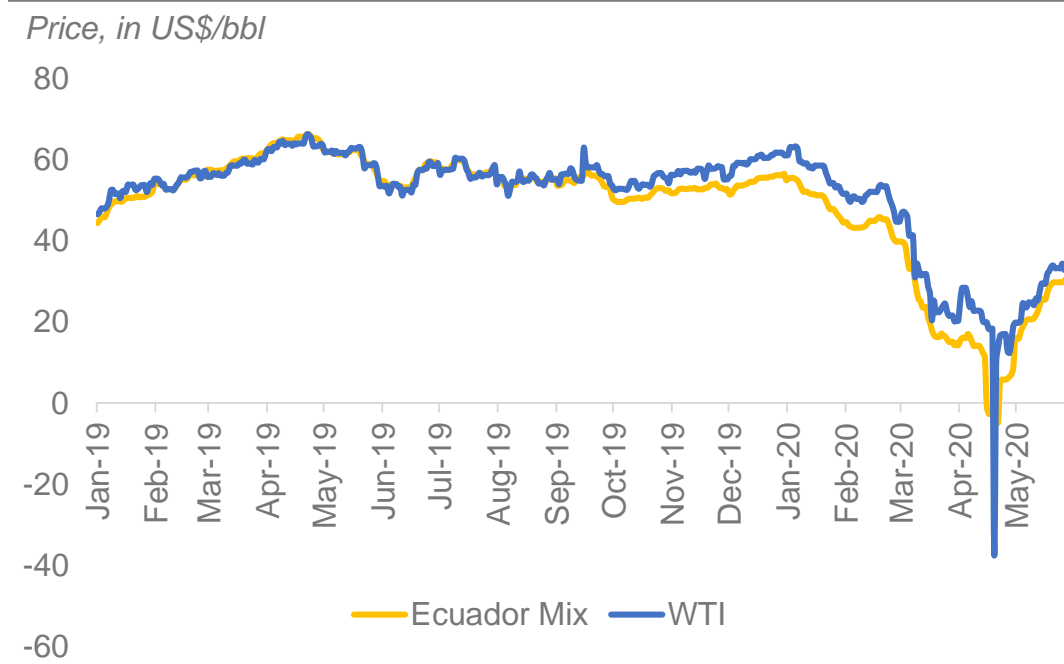
Note: This figures are in line with those discussed with the IMF in the context of the SFC microframework. That being said, the situation continues to evolve and numbers might be subject to future changes.

Source: Ministry of Economy and Finance, Republic of Ecuador

2 The collapse in oil prices and recent severe production cuts undermine government revenues

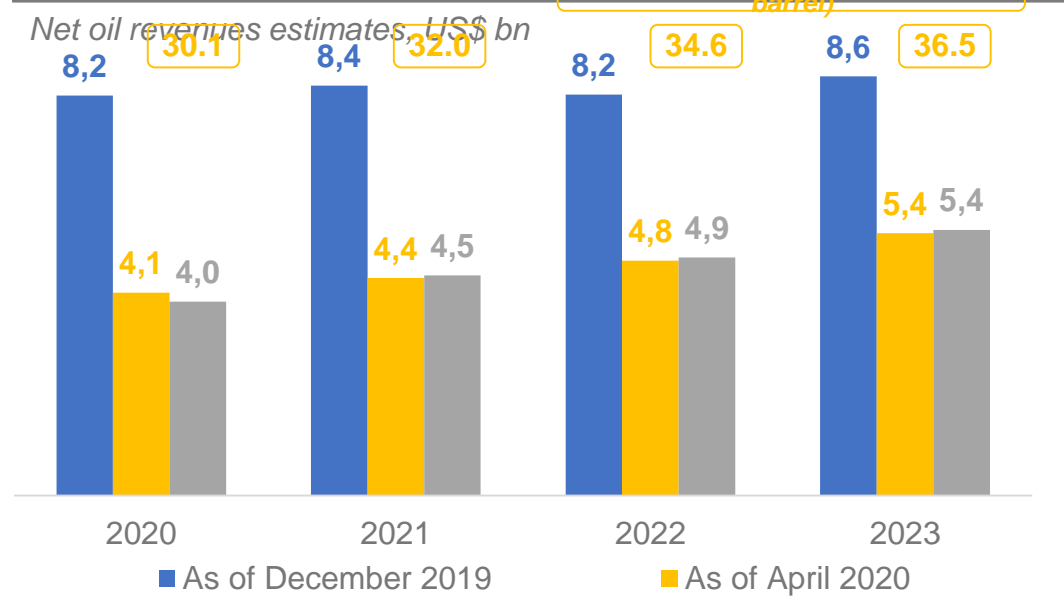
In 2019, gross oil revenues represented c. 37% of budget revenues and c. 39% of exports

WTI and Ecuador Mix market prices have fallen c. 65% since the beginning of the year



Note: Ecuador Mix is a 60-40 mix of Oriente and Napo
Source: Bloomberg, Petroecuador (as of 28 May 2020)

Ecuador's net oil revenues are expected to decrease in 2020 as a result of depressed oil demand and the fall in oil prices



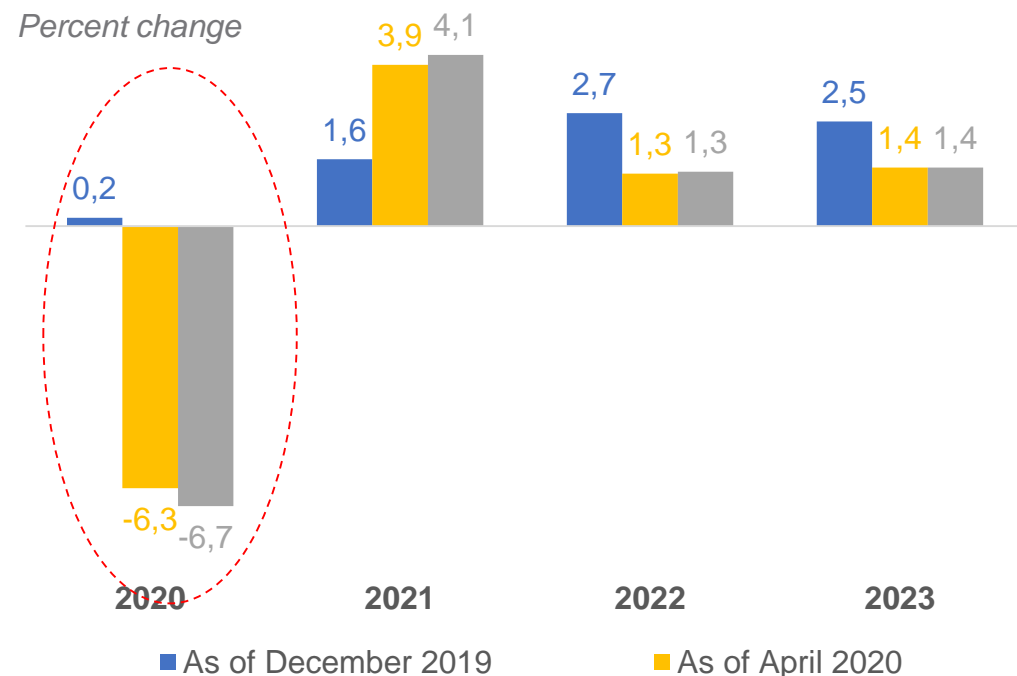
Note: (1) Estimates of future GDP growth are based upon data prepared in consultation with the IMF
(2) The probability of downward revision of these projections, particularly the short-term ones, is high due to the deterioration of world economic conditions.
Source: Ministry of Economy and Finance, Republic of Ecuador



These two shocks have resulted in a recession and a deterioration in the primary balance...

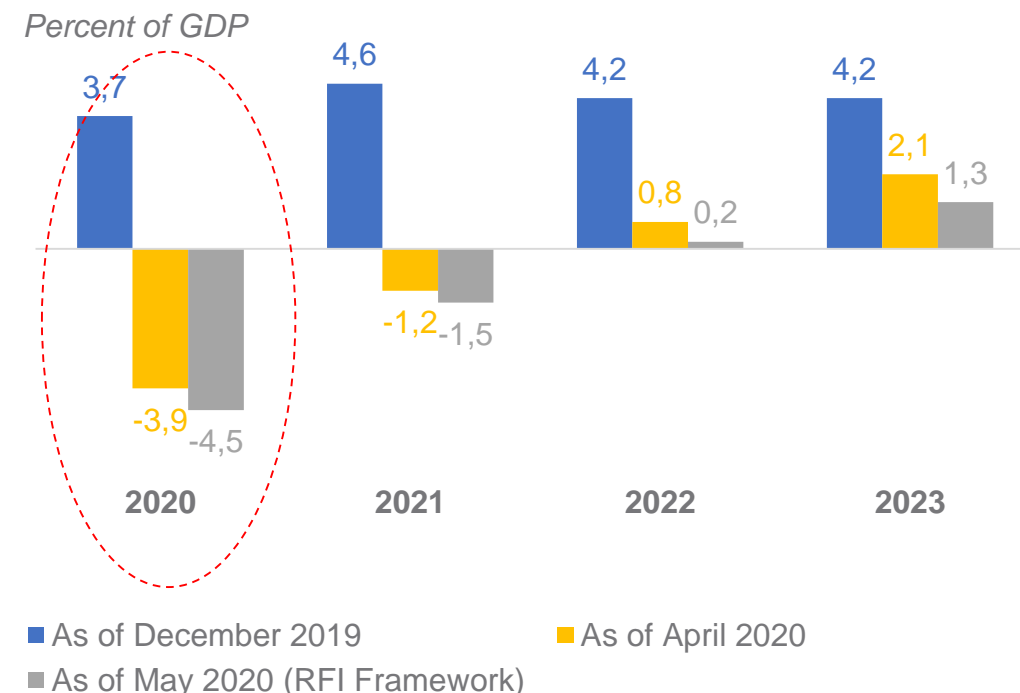
According to the latest estimates, real GDP growth is expected to fall by -6.7% this year, while the significant reduction in oil revenues will deteriorate the primary balance by 8.2 percentage points of GDP

Real GDP growth rate



Note: (1) Estimates of future GDP growth are based upon data prepared in consultation with the IMF.
 (2) The probability of downward revision of these projections, particularly the short-term ones, is high due to the deterioration of world economic conditions.
 Source: Ministry of Economy and Finance, Republic of Ecuador

Primary balance of the non-financial public sector (NFPS)



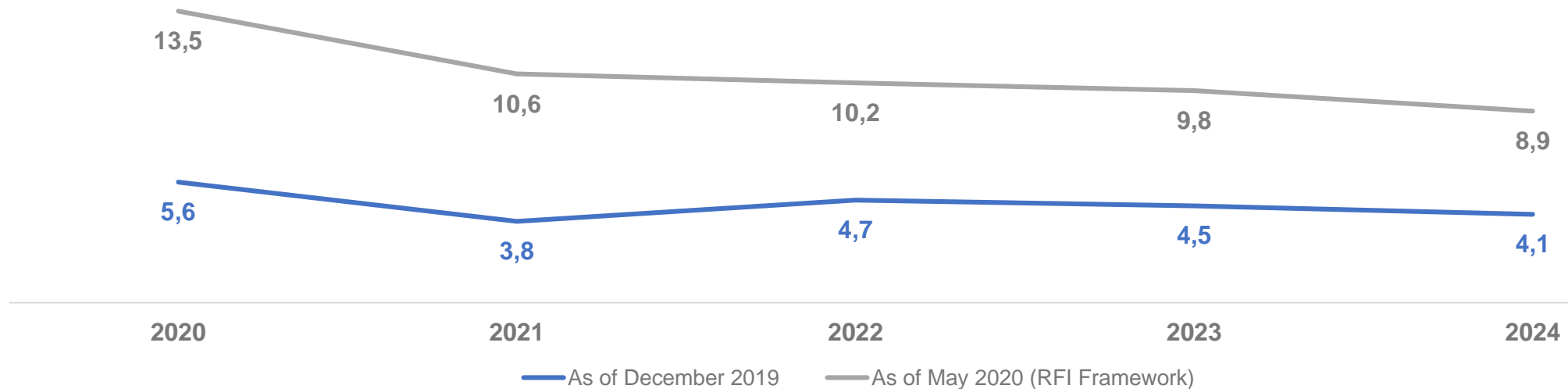
Note: (1) Estimates of future GDP growth are based upon data prepared in consultation with the IMF.
 (2) The probability of downward revision of these projections, particularly the short-term ones, is high due to the deterioration of world economic conditions.
 Source: Ministry of Economy and Finance, Republic of Ecuador

and a widening of Gross Financing Needs (GFNs)

- Gross financing needs for 2020-2024 have more than doubled as compared with December 2019 estimates
- Large financing gaps will persist until at least 2025 requiring substantial debt relief

Annual gross financing needs between 2020 and 2024

US\$ bn



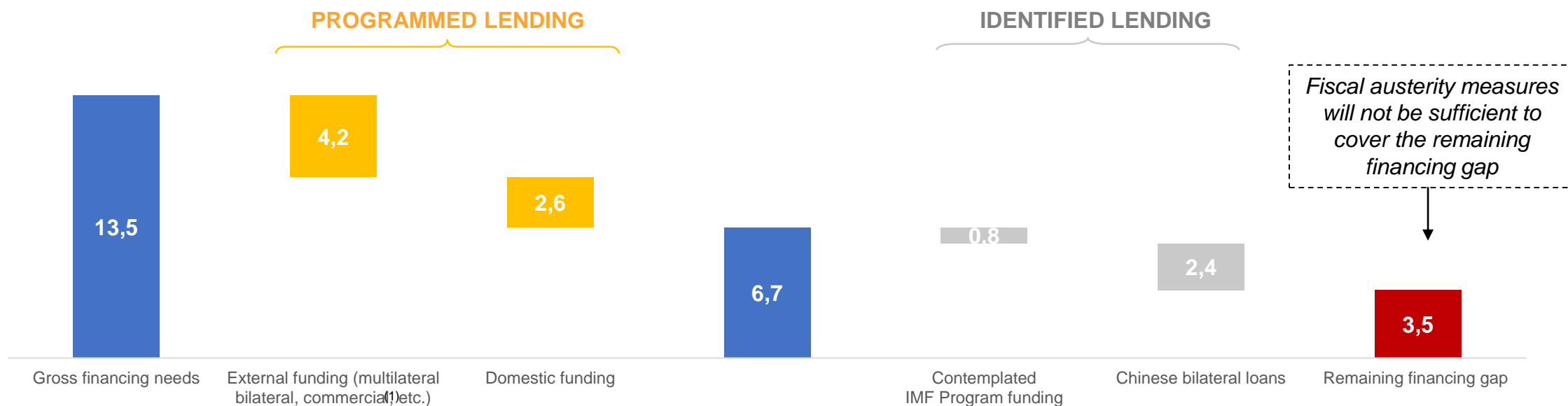
Note: (1) Gross Funding Needs are estimated taking into consideration the primary balance plus the interest and amortization payments. (2) Estimates of future financing needs are based upon data prepared in consultation with the IMF. Such estimates are based on numerous assumptions regarding the Republic's present and future policies and plans and the environment in which the Republic will operate in the future. (3) The probability of downward revision of these projections, particularly the short-term ones, is high due to the deterioration of world economic conditions.

Source: Ministry of Economy and Finance, Republic of Ecuador

Focus on 2020 financing gap and funding strategy

2020 Gross financing needs and associated financing sources

US\$ bn



Note: (1) The US\$ 4.2bn of external funding is composed of: US\$ 3.0bn official sector funding (excl. IMF), US\$ 0.6bn IMF Rapid Financing Instrument and US\$ 0.6 bn private sector issuance (of which US\$ 0.4bn social bond issuance in January 2020)

Source: Ministry of Economy and Finance, Republic of Ecuador

IMF is an important partner for Ecuador

- On May 1st 2020, the IMF approved Ecuador's request for emergency financial assistance under the Rapid Financing Instrument (RFI) of c. US\$ 643m, or 67.3% of Ecuador's quota
- The RFI has contributed to the financing of urgent balance of payment needs resulting from the outbreak of COVID-19, decline in oil prices and global demand
- As a result of the shocks, the authorities called for the cancellation of the previous EFF, and are working closely with staff on a possible successor arrangement, which better internalizes the new global reality

IMF statement on Ecuador

"The authorities are committed to addressing risks to fiscal and debt sustainability.[...]To ensure debt sustainability, the authorities aim to reach expeditiously a comprehensive debt restructuring agreement with private creditors, pursue a sustained and ambitious, yet realistic, fiscal consolidation over the medium-term, while securing additional medium-term debt relief and financing on favorable terms from official bilateral creditors and other stakeholders." - IMF, 2 MAY 2020

Going forward, Ecuador commits to a growth-friendly fiscal consolidation

Fiscal consolidation is expected by 2021 through several fiscal measures and a slight increase in oil prices

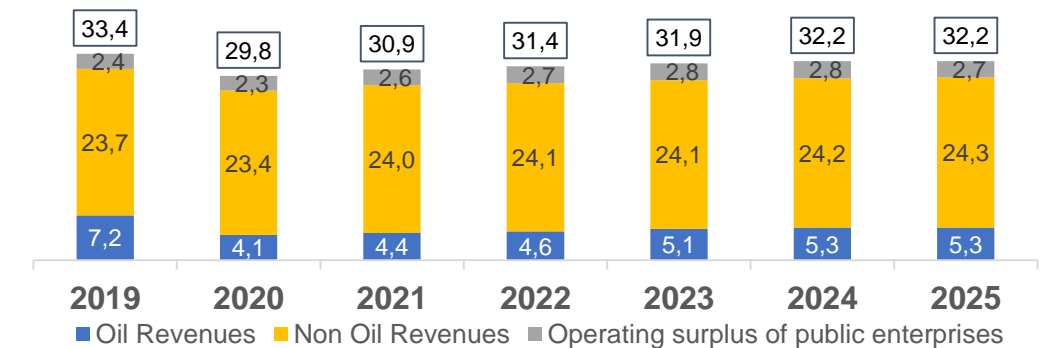
Post-pandemic fiscal policy

- Beyond 2020, an ambitious expenditure rationalization and a growth-friendly tax reform will need to be designed and implemented
 - The expected “low for long” oil prices necessitate reducing and re-aligning current spending towards growth-enhancing outlays and social assistance
 - This generates needs to review and rationalize nonpriority capital spending, and focus on high-quality current expenditure and revenue measures
- Enhancement of fiscal policy management with the reform of the organic code of budget and planning (COPLAFIP) over the medium-term
 - Its aim is to strengthen fiscal discipline and transparency by enhancing public financial management and compliance with the revamped fiscal rules framework

Source: Ministry of Economy and Finance, Republic of Ecuador

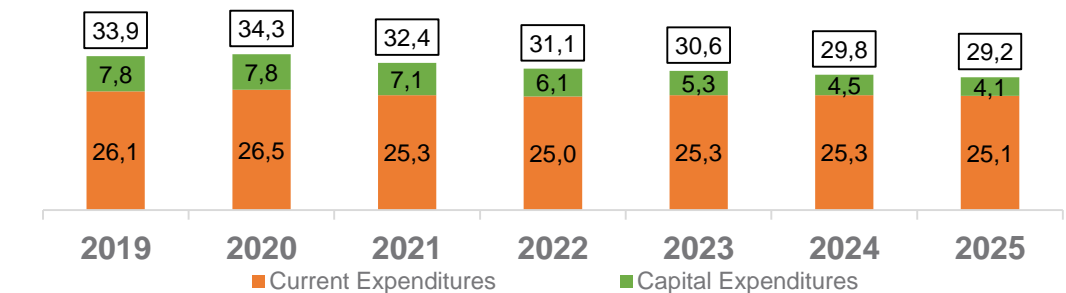
Evolution of budget revenues

In % of GDP



Evolution of primary expenditures

In % of GDP



Source: Ministry of Economy and Finance, Republic of Ecuador



II Debt Sustainability Objectives

Debt sustainability objectives

The contemplated debt restructuring operation aims at providing sufficient short-term debt relief while ensuring the long-term debt sustainability of Ecuador:

- **Short-term relief measures**
 - Provide immediate liquidity relief in response to the COVID-19 outbreak and oil price collapse by way of reduced coupon payments in the short term followed by gradual increases and no principal amortizations in the short term
- **Long-term debt sustainability measures**
 - Smoothing the amortization profile to reduce future refinancing risks;
 - Reducing medium to long term coupons to avoid refinancing risks down the road;
 - Compliance with the following two sustainability thresholds in order to secure continued IMF support by way of a successor program:

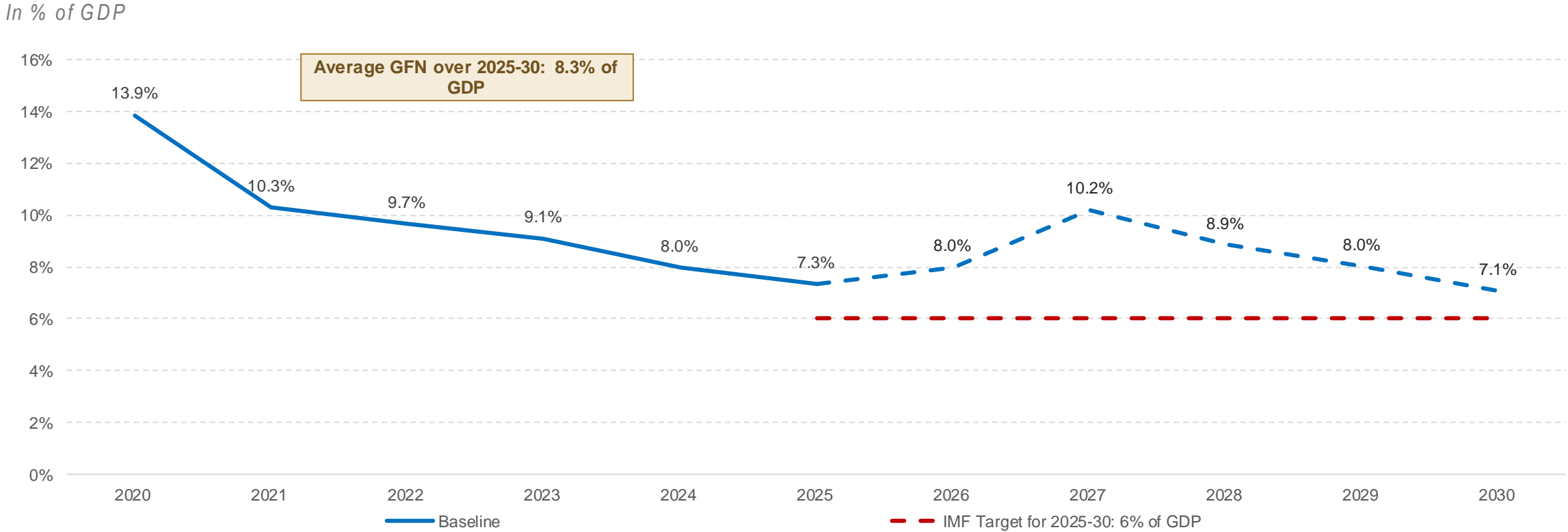
1 Gross Financing Needs (GFN) target of 6% of GDP on average for the period 2025-2030

2 Public Debt-to-GDP target of 55% of GDP by 2025 and 45% of GDP in 2030

1 Gross financing needs

GFNs' evolution in the baseline scenario is in breach of the sustainability condition of 6% of GDP starting in 2025

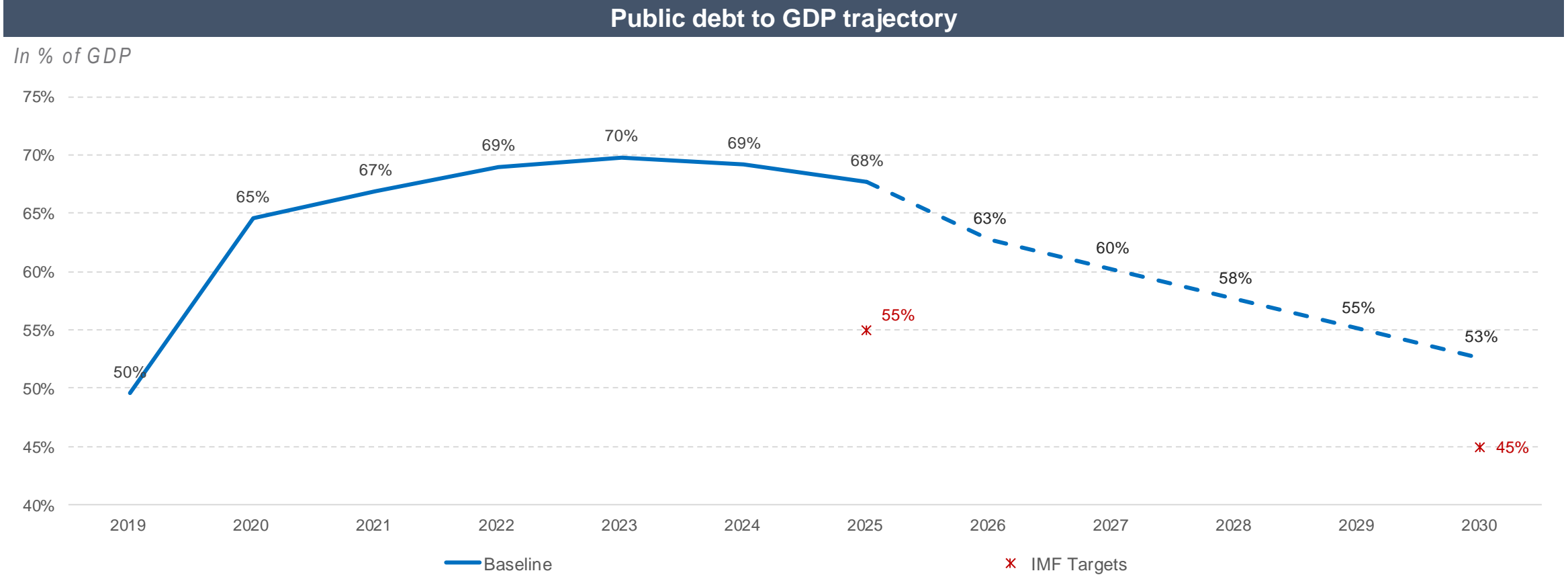
Overview of Gross Financing Needs (as % of GDP)



Notes: (1) Baseline scenario is estimated under presented macroeconomic framework and refinancing assumptions in the appendix and assuming no restructuring of existing debt lines
 (2) Beyond 2025, Authorities' preliminary estimates
 Source: Ministry of Economy and Finance, Republic of Ecuador

2 Public Debt-to-GDP trajectory

Public Debt-to-GDP trajectory is also in breach of the debt to GDP target of 55% in 2025 and 45% in 2030



Notes: (1) Baseline scenario is estimated under presented macroeconomic framework and refinancing assumptions in the appendix and assuming no restructuring of existing debt lines

(2) Beyond 2025, Authorities' preliminary estimates

Source: Ministry of Economy and Finance, Republic of Ecuador



III Debt Management Strategy

Comprehensive strategy addressing the different debt instruments

In order to achieve its debt sustainability objectives, the government is proposing a comprehensive debt management strategy encompassing each category of creditor

	Breakdown of Ecuador's public debt	Amount (US\$ bn) ⁽¹⁾	Amount (% of total debt)	Avg. remaining tenor	Avg. interest rate	Debt service over 2020-2021	Debt service over 2022-2030
①	Multilateral	US\$ 12.3 bn	23%	8.2 yrs	3.8%	US\$ 2.7 bn	US\$ 10.2 bn
②	Bilateral	US\$ 6.5 bn	12%	4.7 yrs	4.2%	US\$ 2.7 bn	US\$ 4.5 bn
③	Treasury certificates (CETES)	US\$ 2.0 bn	4%	1.0 yrs	1.1%	US\$ 2.0 bn	US\$ 0.0 bn
	Domestic debt	US\$ 11.3 bn ⁽²⁾	21%	4.8 yrs	3.8%	US\$ 1.6 bn	US\$ 4.4 bn
④	Other external debt (banks, Brady bonds, PAM) ⁽³⁾	US\$ 3.5 bn	7%	3.9 yrs	4.8%	US\$ 2.0 bn	US\$ 2.0 bn
⑤	International Bonds	US\$ 17.7 bn	33%	7.2 yrs	8.7%	US\$ 3.5 bn	US\$ 25.3 bn

Note: (1) Breakdown of Ecuador's public debt as at end-2019 of Non-Financial Public Sector Debt

(2) US\$11.3bn debt stock composed of US\$ 5bn of medium-term bonds and US\$ 6.2bn of other liabilities (domestic arrears). The financial conditions indicated in the table correspond to the US\$5 bn of domestic bonds.

(3) PAM stands for Petroamazonas

Source: Ministry of Economy and Finance, Republic of Ecuador

① Focus on multilateral debt

Ecuador will continue to seek support from multilateral organizations, enabling continued access to financing at below market rates

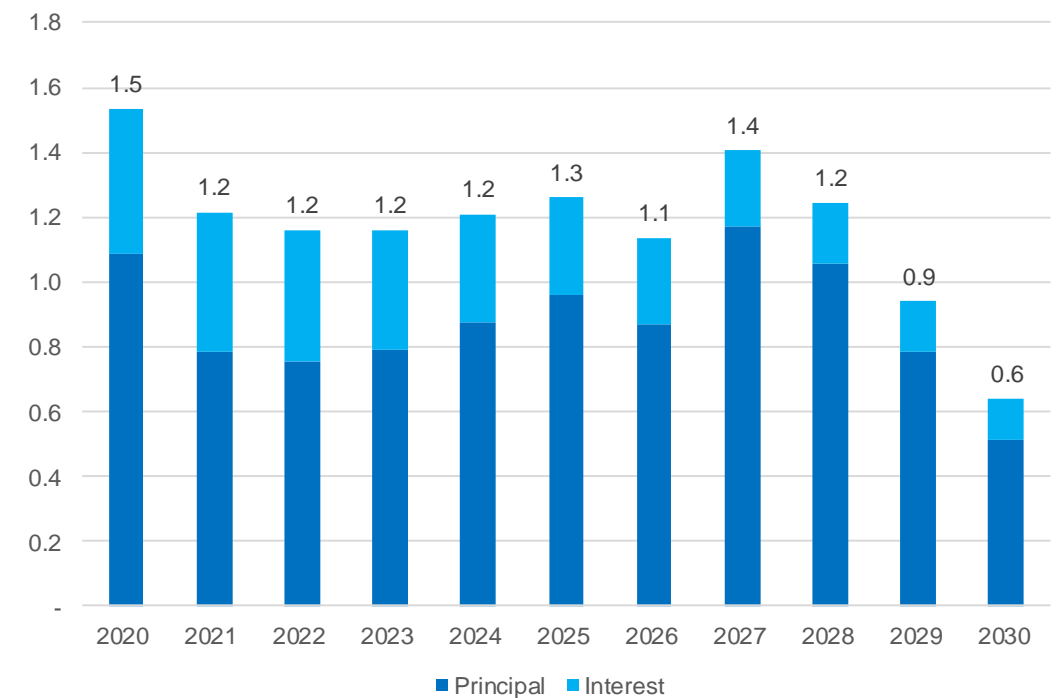
Key treatment of multilateral debt

- Ecuador secured US\$ 3.4 bn of multilateral funding for 2020, including:
 - US\$ 640m IMF Rapid Financing Instrument
 - US\$ 795m World Bank budget support
 - US\$ 575m of CAF funding
 - US\$ 899m from IADB for contingency and COVID-related expenditures

Source: Ministry of Economy and Finance, Republic of Ecuador

Existing debt service – Multilateral debt

USDbn



Note: Debt service resulting from multilateral debt stock as at end-2019
Source: Ministry of Economy and Finance, Republic of Ecuador

② Focus on bilateral debt

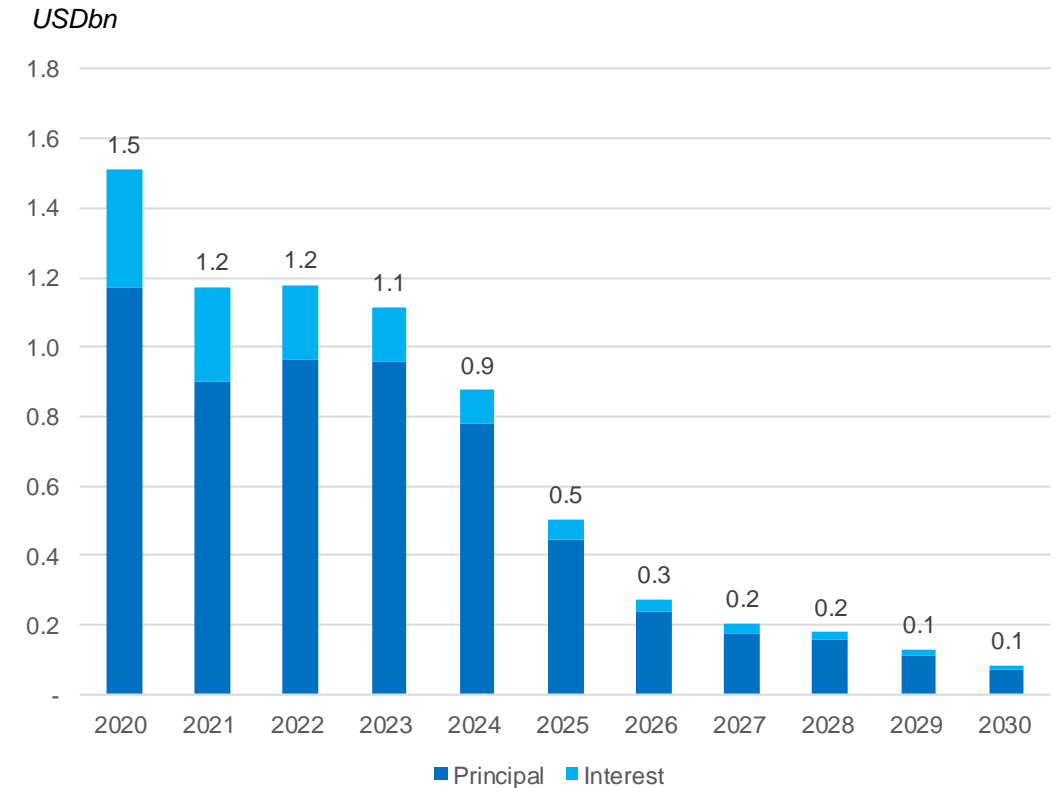
Ecuador will continue to seek support from bilateral creditors to obtain the renewal of credit lines at below market rates to fund the financing gap

Key treatment of bilateral debt

- Out of the total stock of bilateral debt (US\$6.46bn), 92% is held by China
- Contemplated rescheduling strategy with China:
 - Liquidity support in the form of new US\$ 2.4bn debt issued in 2020
 - Some loans with high outstanding amount are being rescheduled, with the objective of providing significant debt relief in the short and medium term

Source: Ministry of Economy and Finance, Republic of Ecuador

Existing debt service – Bilateral debt



Note: Debt service resulting from bilateral debt stock as at end-2019
Source: Ministry of Economy and Finance, Republic of Ecuador

3 Focus on domestic debt

Domestic debt⁽¹⁾ is composed of US\$ 2.0bn of treasury certificates and US\$ 5.0bn of domestic bonds. Ecuador will seek to roll over its maturing domestic debt under existing terms and conditions

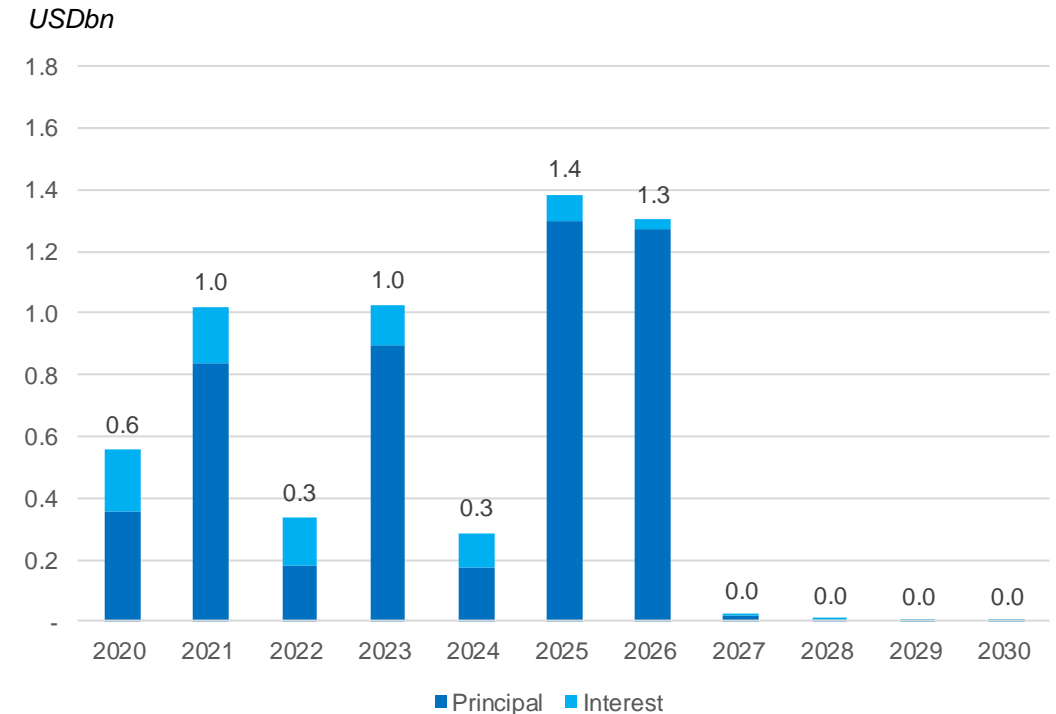
Key treatment of domestic debt

- Domestic debt comprises about 25% of total debt, of which a fifth is in short term maturities (US\$ 2bn CETEs)
- Ecuador will seek to develop a program to lengthen the maturity of these instruments and build a long-term domestic yield curve. Ecuador will seek to:
 - Reduce the GFNs from these instruments
 - Achieve all the benefits of developing a long-term yield curve (boost investor confidence, development of domestic debt markets, establish benchmark for corporates etc.)

Note: (1) Excluding the US\$6.2bn of other liabilities, (domestic arrears) and also excluding intra debt of non-financial public sector

Source: Ministry of Economy and Finance, Republic of Ecuador

Existing debt service – Domestic debt (excl. CETES)



Note: Debt service resulting from domestic bonds debt stock as at end-2019

Source: Ministry of Economy and Finance, Republic of Ecuador

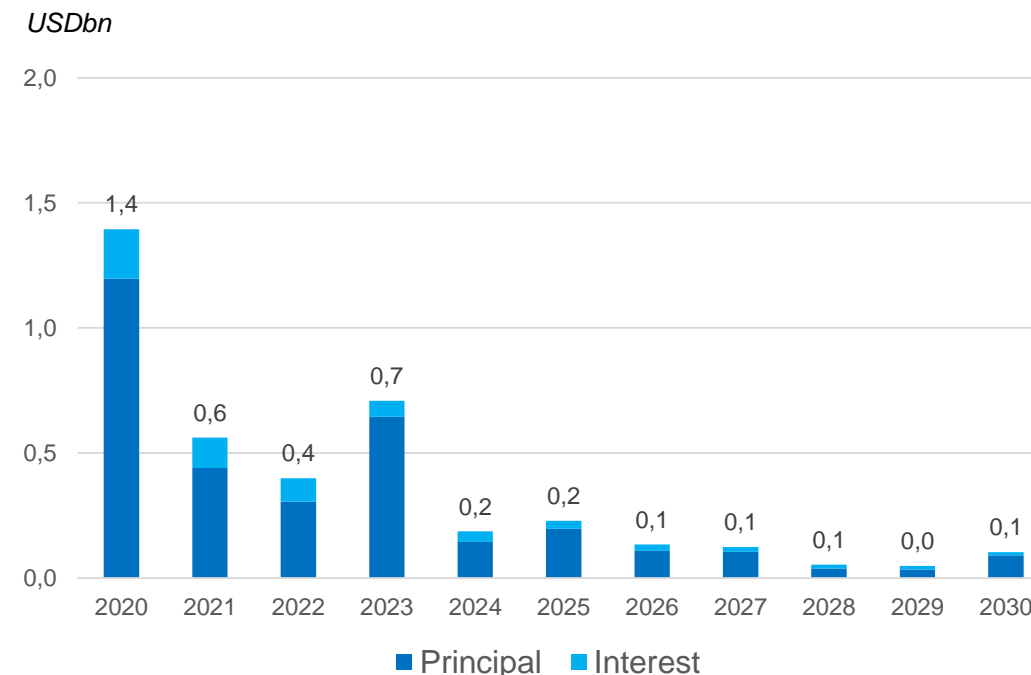
④ Focus on other external commercial debt

The government has negotiated with bank creditors over the first half of 2020 on a case by case basis, in order to: (i) ensure rollover of credit lines when necessary, (ii) negotiate rescheduling of debt service payments and (iii) liquidate repo transactions collateralized by international bonds

Other external commercial debt stock (as of end-2019)

- **Banks: US\$ 3.1bn, comprising**
 - US\$ 1.5bn of secured funding (Repo and Gold back transactions), out of which U.S.\$ 1bn of Repo transactions have been successfully liquidated
 - The remaining US\$1.6bn are being analyzed on a case by case basis
- **Petroamazonas Bonds: US\$ 0.3bn**
 - As of end-April 2020, the US\$175m outstanding of the 4.625% Petroamazonas notes due 2020 have been successfully rescheduled.
 - The rescheduling managed to more than double the outstanding duration of the bond, extending the maturity from Nov. 2020 to Dec. 2021 and providing significant debt service relief for 2020
- **Other: US\$ 0.2bn**
 - US\$ 63m Brady Bonds and US\$ 96m bonds issued in 2000 - considered not material

Existing debt service – Other external commercial debt



Note: Debt service resulting from debt stock as at end-2019
Source: Ministry of Economy and Finance, Republic of Ecuador

5 Focus on sovereign unsecured external bonded debt

Overview of the bonds eligible for the contemplated debt operation

Instrument	Maturity Date	Coupon rate	Amount outstanding (excl. Collateral ⁽²⁾) (USDm)
TOTAL		9.171%⁽¹⁾	17,375
2022 Notes	28/03/2022	10.750%	2,000
2023 Notes	02/06/2023	8.750%	1,000
2025 Notes	27/03/2025	7.875%	600
2026 Notes	13/12/2026	9.650%	1,750
9.625% 2027 Notes	02/06/2027	9.625%	1,000
8.875% 2027 Notes	23/10/2027	8.875%	2,500
2028 Notes	23/01/2028	7.875%	3,000
2029 Notes	31/01/2029	10.750%	2,125
2030 Notes	27/03/2030	9.500%	1,400
2024 Notes	20/06/2024	7.950%	2,000

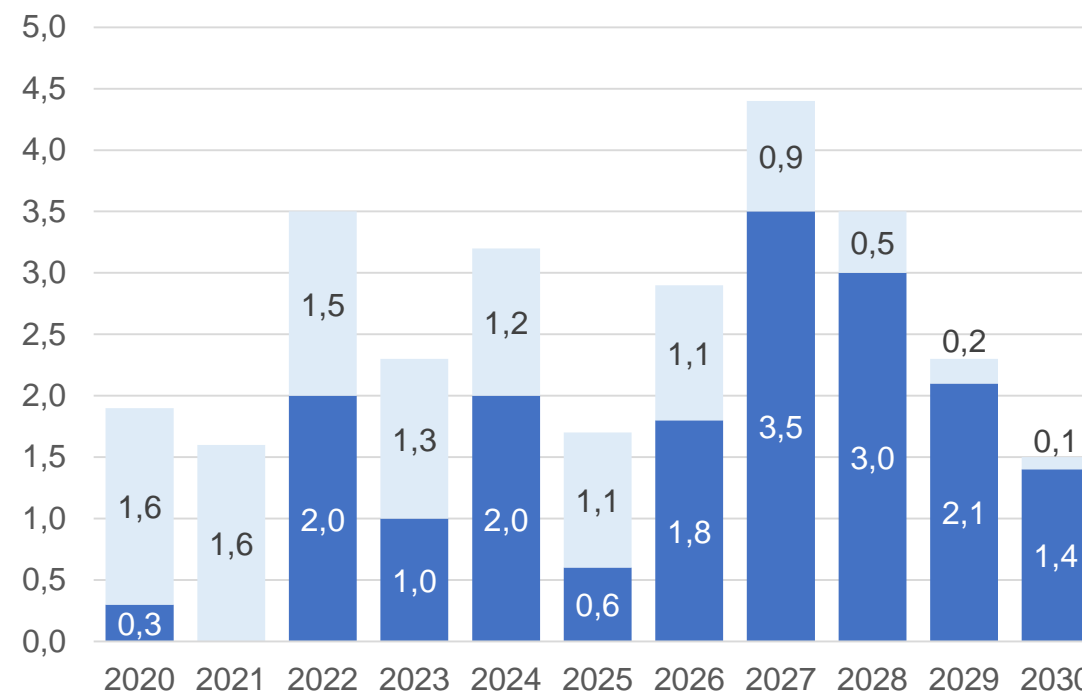
Notes: (1) Weighted average coupon based on amount excl. collateral

(2) Collateral in repo and gold backed transactions

Source: Ministry of Economy and Finance, Republic of Ecuador

Existing debt service – External bonded debt

USDbn



Note: This redemption profile excludes the collateralized amounts

Source: Ministry of Economy and Finance, Republic of Ecuador

■ Principal ■ Interest





IV Next Steps

Two main phases are envisaged in debt management discussions with international bondholders

1 PRESENTATION OF THE MACROECONOMIC FRAMEWORK

- Presentation and discussions of the updated macroeconomic framework
- Focus on Ecuador's debt sustainability analysis and main short-term and long-term debt sustainability objectives

2 DISCUSSIONS IN RELATION TO THE FINANCIAL TERMS OF DEBT REPROFILING

- Discussions on financial terms of the offer aimed at providing Ecuador with short term liquidity relief, long-term debt sustainability and compliance with IMF targets
- Engagement with creditors with the objective of finding viable restructuring terms
 - The objective is to launch an exchange offer to the investor community around end of June - first week of July
- Finalize the transaction by end of July

Next steps & Contact Information

The government of Ecuador will remain engaged with its creditors on the basis of the following principles:

- Transparency
- Good faith efforts for a collaborative process to restore debt sustainability
- Fair treatment across eligible creditors
- Consistency with the main objectives and IMF debt sustainability analysis

If bondholders are interested in finding out more information and engaging in discussions with the government please contact::

- Lazard Frères – Financial Advisor: ec.debtholders@lazard.fr; and
- Citigroup Global Markets Inc. – Dealer Manager: ecuadorlm@citi.com

The government is mindful of the exceptional circumstances surrounding this process due to the COVID-19 crisis. In this regard, interactions with bondholders are expected to take place on video and conference calls.



V Appendix

Key macroeconomic assumptions

Updated macroeconomic assumptions, aligned with IMF forecasts (discussed in the framework of the RFI disbursement during the month of May)

Overview of key macroeconomic assumptions												
	Unit	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth	%	(6.7%)	4.1%	1.3%	1.4%	1.8%	2.2%	2.5%	2.5%	2.5%	2.5%	2.5%
GDP deflator	%	(3.1%)	1.5%	1.1%	1.0%	1.4%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Primary balance	% of GDP	(4.5%)	(1.5%)	0.2%	1.3%	2.4%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Nominal GDP	USDbn	97.1	102.6	105.0	107.5	111.0	115.2	120.5	125.9	131.7	137.7	143.9
Oil Price Ecuador Mix	US\$ per barrel	30.1	32.0	34.6	36.5	38.0	39.2	n.a.	n.a.	n.a.	n.a.	n.a.

Note: The probability of downward revision of these projections, particularly the short-term ones, is high due to the deterioration of world economic conditions.
Source: Ministry of Economy and Finance, Republic of Ecuador

Key refinancing assumptions

Funding needs	Funding sources
Multilateral debt service	<ul style="list-style-type: none"> • For 2020-21: Covered by current disbursements by multilateral donors • For 2022 onwards: roll-over of multilateral debt service assuming 10-Y tenor, 2-Y grace period, and 2.6% interest rate
Bilateral debt service	<ul style="list-style-type: none"> • Roll-over of debt service assuming 10-Y tenor, 2-Y grace period, 5.7% interest rate
Domestic debt service⁽¹⁾	<ul style="list-style-type: none"> • Roll-over of domestic debt service, assuming 6-Y bullet instrument with 6.0% interest rate • Roll-over of CETES debt service, assuming 1-Y bullet instrument with 1.0% interest rate

Note: (1) The Domestic debt is excluding the Non-Financial Public Sector debt
 Source: Ministry of Economy and Finance, Republic of Ecuador