

**Statement by the Staff Representative on Ecuador**  
**September 29, 2021**

**1. This statement provides information that has become available since the staff report was finalized.** This information does not alter the thrust of the staff appraisal.

**2. The September employment survey data suggests some improvements in the labor market.** The unemployment rate declined by 0.6 ppt to 6.1 percent among women between June and August; it remained flat at 4 percent among men. Adequate employment (full time workers earning at least the minimum wage) improved from 31.3 to 32.4 percent but remains well below the pre-pandemic level of around 40 percent.

**3. The three prior actions for the Second and Third Reviews have been completed:**

- The procurement contracts that had been awarded after September 2020 that exceeded US\$962,410 have been published on the national public procurement agency SERCOP's website, including the legal ownership and, when available, beneficial ownership information of legal entities participating in public procurement, in a directly and freely accessible and user-friendly manner.<sup>1</sup> Of the 522 contracts published, 119 were missing the ultimate beneficial ownership information.
- Approved audits of COVID-19 related spending during the state of emergency were published on a dedicated webpage on the Comptroller General Office website in an easily accessible way.<sup>2</sup> The dedicated webpage also provides a summary of the findings in audit reports that cannot be published at this time due to ongoing investigations and legal proceedings. The main findings of this summary were a) deficiencies in the publication of relevant information of the contracting processes (most common error detected), b) deficiencies in the determination of the reference budget of the contracts, c) selected suppliers not complying with the legal requirements to contract with the State, d) uncompetitive pricing, and e) deficiencies in the elaboration of technical specifications.
- The authorities prepared and presented to IMF staff a central government financial plan for the remaining of year 2021 that was approved by the Financial Committee. The financial plan included a detailed monthly cash flow, the arrears until August 2021, clearance of arrears from past years and estimated monthly accumulation of arrears during 2021, a document with the potential risks associated to the financial plan, and potential mitigating measures. A supplementary report explained the deviations from the 2021 Financial Plan that had been delivered to IMF staff in December 2020. Staff is

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<sup>1</sup> <https://portal.compraspublicas.gob.ec/sercop/beneficiario-final/>

<sup>2</sup> <https://www.contraloria.gob.ec/EmergenciaSanitaria/Covid19/Informes>

reviewing the Plan jointly with the authorities to ensure full consistency with the program and alignment with PFM practices.

**4. The National Planning Council approved the National Development Plan (NDP) for 2021-2025 on September 21.** The NDP aims to promote trade, tourism, foreign investment, and modernize the domestic financial system. It sets out medium term goals, including achieving a real GDP growth rate of 5 percent, generating 2 million high-quality jobs, reducing rural poverty and malnutrition by 15 and 6 ppts respectively, expanding access to the internet by 10 percent to reach a coverage of 78 percent across Ecuador, and combatting corruption to improve Ecuador's ranking in the Transparency International's index of perception of corruption from 93 to 50 by 2025. The NDP was provided to the National Assembly for information following its approval.

**5. The tax rate on transfers abroad for foreign airline companies operating in Ecuador has been lowered to zero** (Staff Report ¶49). The Executive Decree was published in the official gazette on September 22, 2021.

**6. The National Assembly sent the 2021 Budget back to the government, but this will not affect enactment of the budget.** The Assembly was consulted on the budget and rejected it, seeking clarification on several technical issues including oil price assumptions (deemed optimistic), inflation forecast, quantification of savings from fuel subsidies reform, and consistency between the budget revenue forecast and information previously provided by the revenue agency. They also inquired about the budget allocation for education and health, support to women, arrears to the social security fund, and the use of the recent IMF SDR allocation. The authorities plan to provide technical responses to the Assembly and resubmit the budget without changes in the coming days. Regardless of the Assembly vote, the submitted bill will be enacted as is, as per Ecuadorian law.

**7. The authorities submitted to the National Assembly a package of reforms ("Law for Creating Opportunities") on September 24.** The reform package includes i) a tax bill aimed at raising revenues; ii) a labor bill aimed at making the labor market more flexible, and iii) reforms to improve competitiveness and promote investment. The law was submitted under emergency procedures, which gives the Assembly 30 days to vote on the bill; failure to do so would result in automatic adoption of the law.

- i. The main changes on **tax policy** are the reform of personal income tax to have a greater contribution from those who earn more than \$2,000 per month, a temporary tax on high net-worth individuals for two years, and a similar tax on profitable large companies for one year. The largest measures in the bill, the personal and corporate income tax policy changes, are aligned with the commitments in the MEFP (MEFP ¶16). Compared to the MEFP, the temporary tax on high net-worth individuals would be applied to a wider base and for two years instead of one year, and a new administrative measure to mediate tax disputes would raise both permanent and temporary revenues. By contrast, the temporary tax on profitable large companies would be applied for one instead of two years; some personal hygiene goods would be exempted from VAT; mobile phone plans would be

exempted from excise taxes; and the 2 percent sales tax for micro, small and medium size firms would be eliminated. Overall, the authorities estimate that the proposed bill may yield slightly higher revenues compared to the MEFP commitments of about \$220 million (0.2 percent of GDP) per year in the next two years; staff is liaising closely with the authorities to assess the measures and their expected yields.

- ii. The **labor bill** includes provisions to increase flexibility in work arrangements and reduce rigidity in temporary contracts, such as allowing hourly hiring schemes, with the view to promoting formal employment and promoting equity in the labor market (Staff Report ¶39).
- iii. Among the main changes to improve **competitiveness and investment** are opening the possibility for some public services to be provided by the private sector, such as utilities and transportation, reducing customs red tape in order to facilitate trade, allowing banks to invest in the stock market.