**Statement by the Staff Representative on Ecuador**
**December 14, 2022**

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 prior action on the healthcare audits of 2020 and 2021 has been met.** The audits have been completed and their results have been shared with Fund staff. This prior action was also a corrective action to address the recent misreporting.

- As informed to the Executive Board during the joint discussion of the combined Fourth and Fifth Reviews and the misreporting report, the authorities decided to record 50 percent of healthcare transfers as estimated above-the-line expenses and to record the difference between gross claims from the Social Security Institute (IESS) and the estimated amounts as a contingent liability. 50 percent was considered by the authorities and staff to be conservative at the time based on previous audit results. The audits that were recently completed identified central government healthcare obligations to the IESS of $256 and $359 million for 2020 and 2021, respectively; higher than the 50 percent estimate used by the authorities, but still within the range disclosed to the Executive Board at the time of the last review.

- The results imply revised outturns for the overall balance (OB) of the budgetary central government and the oil derivatives financing account (PGE) for the test dates in 2020 and 2021 that do not change the assessment that these targets were "not met." At the time of the last review, staff briefed the Board that the adjusted quantitative performance criteria (QPC) on the PGE OB "would be missed by *up to* $520 million and $196 million for end-December 2020 and end-April 2021, respectively." The audit results indicate that the adjusted targets for these dates would be missed by $452 and $139 million, respectively. Likewise, the end-December 2021 target would be missed by $349 million. The end-August 2022 target that is assessed in the current (6th) review is still met by a wide margin of $1,720 million after assuming 73 percent rather than 50 percent of claims could be verified, in line with the audit results for 2021.

- Healthcare obligations could also be higher than assumed in the projected PGE OB for 2023 by some 0.1 percent of GDP. For the fiscal outturns to remain within the goals agreed under the Fund-supported program, it will be important to closely monitor the level of verified claims and activate compensatory measures if needed, along the lines specified in the authorities' Memorandum of Economic and Financial Policies (¶27).

3. **The prior action on the action plan/strategy for strengthening the legal framework for the State obligations on the healthcare expenditure and related audits is expected to be completed ahead of the December 14 Executive Board meeting.** The authorities are working

on an inter-institutional agreement between the Ministry of Economy and Finance (MEF) and IESS that will outline administrative actions that IESS and MEF will follow to audit, verify, and settle healthcare obligations of the budgetary central government to IESS.

**4. The President plans to veto the National Assembly's decision to repeal the 2021 tax reform.** On November 29, the National Assembly voted to repeal the tax bill that was enacted in November 2021. The President has pledged to veto the repeal in December. There are two possible outcomes after the veto: the repeal may be permanently rejected in early 2023, or the National Assembly could vote to overturn the veto only after a year has passed (i.e., in early 2024). In the case of the latter, tax collection starting in 2026 would decline by about 0.7 percent of GDP, which would require compensatory measures to keep fiscal policy on the authorities' envisaged debt reduction path. The enactment of this tax bill was a structural benchmark under the EFF-supported program (combined Second and Third Reviews), and it is an important measure underpinning the medium-term fiscal consolidation.

**5. The authorities have eliminated diesel subsidies to large shrimp producers.** An Executive Decree issued on December 2 eliminated the diesel subsidy to large shrimp farms (more than 30 hectares), accounting for about 80 percent of the diesel subsidy received by the shrimp industry. The resulting annual average savings are expected to be about $160 million (about 0.1 percent of 2022 GDP). This is a step in the right direction to reduce fuel subsidies and make them more targeted.

**6. Another significant minimum wage hike has been enacted for next year.** The authorities have raised the monthly minimum wage by $25 (about 6 percent) to $450. This is among the highest minimum wage levels in the region. A hike of the same amount was enacted last year. The impact on the public sector wage bill is expected to be minimal, given that public sector salaries are above the minimum wage and there is no indexation. At the same time, by adding to already high labor costs, this decision may compound labor market rigidities and weigh on Ecuador's external competitiveness.