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Ecuadoran Congress Approves President Mahuad's Economic Package

by LADB Staff

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The Ecuadoran Congress approved President Jamil Mahuad's economic package on April 21, but the public has little faith in the president's ability to address the current economic crisis. Mahuad's administration has been hit by frequent, often violent, demonstrations against its economic policies as well as by a serious banking crisis. Congress approved the 61-point austerity package, which restores the income tax, taxes vehicles and corporate assets, and ends tax and tariff exemptions in major sectors like energy, oil, and communications.

The administration says the new fiscal measures will bring in an additional US\$480 million and narrow the fiscal deficit to 3.5% of GDP from its current 6.5%. But the package is strongly opposed by business and by labor. Passage should help finalize a loan being negotiated with the International Monetary Fund (IMF). Ecuador is seeking a US\$400 million, 18-month standby-loan with the IMF, followed by a possible US\$1 billion three-year Extended Fund Facility.

An IMF deal would allow Ecuador to renegotiate its US\$1.2 billion debt with the Paris Club of creditor nations. Finance Minister Ana Lucia Armijos said Ecuador is also looking for US\$300 million to US\$400 million in loans from the World Bank and the Inter-American Development Bank (IDB). President seeks financial help in US In late April, Mahuad traveled to the US to look for help in addressing the crisis.

Mahuad said congressional approval of his economic plan had cleared the way for the IMF loan agreement. "We'll have a balanced fiscal sector, we'll have a 3.5% deficit, and this means we can have the program with the IMF," Mahuad said. The Ecuadoran president spoke at the John F. Kennedy School of Government at Harvard University. Mahuad, who compared his country's crisis to that of the Titanic, said the government would go to the IMF board by June for funds to allow it to renegotiate its debt with the Paris Club. Finance Minister Armijos, who accompanied Mahuad, met in Washington with a Paris Club representative and with the US Treasury Secretary Robert Rubin to "discuss topics related to the economy and the debt."

Armijos said an IMF team will arrive in Ecuador in early May to discuss signing a letter of intent. She said IMF vice president Stanley Fisher will visit Ecuador to meet with business leaders, bankers, and union leaders to examine the reality and needs of Ecuador. She said signing the letter of intent will make it easier to obtain credit from other multilateral financial institutions to strengthen the nation's banking system. Most economists see a recession as a given but differ on its severity.

The Multiplica consultants group estimates that, if the government reaches an agreement with the IMF, yearly inflation will rise to 75% and the economy will decline by 6%. If not, it says, inflation could rise to as much as 180% and output could drop as much as 10%. "I don't see how Mahuad can

bring the country forward," said Francisco Alarcon, head of the Industrial Chamber of Guayaquil. Alarcon expects the economy to contract between 5% and 6% this year, with inflation at 150%. In 1998, the economy grew only 0.4% and yearly inflation stood at 43.4% the highest in Latin America.

Analysts said the country's worsening banking crisis is also contributing to the dire outlook. Since mid-1998, operations at 10 of Ecuador's 39 banks have been suspended by the authorities because of liquidity problems. In March, the government froze the amount depositors could withdraw from their accounts for fear more banks would collapse.

"Deep recession is inevitable," said Pablo Lucio Paredes, director of Ekos consultants. "When bank deposits are frozen, the government is collecting more taxes, and we have trouble with our external balances, you will have recession." Paredes said, depending on what the government does to restore confidence, output could fall by anywhere from 2% to 10%.

Mahuad sees support drop

The country was paralyzed for almost two weeks in March by protests against earlier austerity measures. The president's approval rating fell to 11% in polls after the protests, which ended when the government partly gave in to the strikers and reduced an almost threefold increase in gasoline prices (see NotiSur, 1999-03-19).

Mahuad dismisses his low approval rating as the price he must pay for making unpopular but necessary reforms to Ecuador's economy. "Popular support is important, but it's a historical constant in Ecuador that a president arrives, has to make tough decisions, and falls out of popular favor," Mahuad said. Almost 90% of Ecuadorans say they disapprove of Mahuad's eight-month old government, which has had to deal with the damage left from El Nino storms, a steep fall in the price of crude oil, and fallout from the Asian and Brazilian crises.

Mahuad introduces his Plan Ecuador 2000

On April 15, Mahuad in a speech that lasted an hour and a half explained to politicians, church, business and civic leaders, and the media his Plan Ecuador 2000 to rescue the economy from what he has called its worst crisis in 70 years. Mahuad says Ecuador 2000 will revitalize social sectors such as education and health, increase employment, and address infrastructure repairs of El Nino damage. But the plan has not captured public support, since it is seen as an imposition of the IMF and unfavorable to the poor. As Congress approved Mahuad's economic package, social sectors began a new round of demonstrations.

On April 22, businesses in Guayaquil, Ecuador's key port and main financial center, closed to protest the austerity policies. Campesino groups, teachers, and public employees from other cities joined the one-day protest and blocked highways. The Frente Patriotico (FP), which includes indigenous and grassroots organizations, plans a march in Quito May 1 to oppose the privatization of state businesses and demand that Congress annul a law that allows massive layoffs of public employees. Privatization bill will likely bring more protests. The next major hurdles faced by Mahuad's administration are shoring up the banking sector, fighting corruption, and privatizing the nation's energy, oil, and telecommunications.

Privatization plans will be difficult to get through Congress but Mahuad is confident that legislation will be approved by summer. "We can get the votes to pass these laws," he said. Mahuad is sending a bill to Congress seeking expanded powers to facilitate the privatizations. The government will seek to sell to private and foreign investors between 51% and 100% of government-owned shares in telephone and power companies. It is also considering opening the oil industry to private and foreign investors and to privatize the postal service, port service, and infrastructure projects.

Alvaro Guerrero, head of the government's council for modernization, says the proposed privatization would solve Ecuador's economic problems. It would give the government an additional US\$3 billion in two years and improve public service. Government workers and other groups have opposed the proposed privatization, saying it would downgrade public service and sell off national patrimony. Unions have warned that the privatization bill would cause a social and political crisis and have announced new protests against the plan. Some analysts have also warned that the slowdown in international investment markets could depress the price of the companies the government wants to sell. [Sources: Associated Press, 04/20/99; The New York Times, 04/21/99; Spanish news service EFE, 04/15/99, 04/21/99; Notimex, 04/20/99, 04/23/99; Reuters, 04/22/99, 04/23/99, 04/25/99, 04/26/99; The Miami Herald, 04/28/99]

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