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Ecuadoran President Jamil Mahuad Finds Little Success in First Year in Office

by LADB Staff

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Ecuadoran President Jamil Mahuad marked his first anniversary in office Aug. 10 amid the nation's worst economic crisis in decades, with little congressional support for his programs, and abysmal approval ratings. When Mahuad signed a pact with Peruvian President Alberto Fujimori last October to end a longstanding border dispute, his approval ratings rose to 65%, but the support was short-lived (see NotiSur, 1998-10-30).

Soon after taking office, the 50-year-old Harvard-education Mahuad acknowledged that Ecuador faced "the worst economic crisis in 70 years." The country had been hard hit by El Nino floods and by the falling international price of oil Ecuador's main export. Mahuad responded with austerity reforms, nearly tripling gasoline prices and cutting subsidies for electricity and domestic cooking gas (see NotiSur, 1998-09-18, 1998-10-02).

The austerity measures met opposition from business leaders on the right outraged by increased taxes, and by unions and student groups on the left who staged protests against the 18.1% unemployment rate and the 60% inflation the highest in Latin America.

After ten bank failures and a currency devaluation, Mahuad closed the banks for a week in March. When they reopened, access to accounts was frozen or severely limited (see NotiSur, 1999-03-19). Following a series of crippling transportation strikes, Mahuad imposed a state of emergency in July, and more than 500 people were arrested and dozens injured during the protests (see NotiSur, 1999-07-16).

Mahuad has also struggled with political infighting and the lowest approval ratings of any first-year president in the 20 years since the return to democracy. In recent polls, only 12% of Ecuadorans said they support Mahuad's administration. Analysts say Mahuad's weak leadership and inability to convince citizens of the merit of administration projects have prevented progress in solving national problems. "I see the Mahuad government begging for political support from one side to another," said political analyst Eduardo Castillo. "It's an untenable situation."

National address calls for unity

In his address to the nation, Mahuad mentioned among his accomplishments the peace treaty with Peru, the overhaul of the banking system, the creation of a stipend for the poor, and a school-lunch program. He also said his administration has improved Ecuador's image abroad. Mahuad said that 2000 will see production reactivated, based on US\$1.25 billion in new foreign credit that will be available after an agreement is reached with the International Monetary Fund (IMF).

Mahuad announced the restructuring of his Cabinet, which will include new secretariats for economy, production, and human development. The Economy Secretariat will include the Ministries

of Finance, Energy, and Mines, as well as the entity in charge of modernizing the state and the solidarity fund, which administers resources earned from privatizations. It will also include the National Financial Corporation. The Production Secretariat will include the Ministries of Agriculture, Industry and Trade (now combined), Tourism, Environment, and Public Works. The Human Development Secretariat will include the Ministries of Labor and Social Welfare (now combined), Housing, Education, and Health.

On Aug. 7, all ministers submitted their resignations, but Mahuad has not yet confirmed who all will be replaced. He has accepted the resignations of Agriculture Minister Emilio Gallardo, Public Works Minister Raul Samaniego, and Tourism Minister Rocio Vasquez. Reception of speech is tepid. Opponents found Mahuad's speech "discouraging," and called his announced Cabinet changes "lukewarm."

The daily newspaper El Comercio said, given the political weakness of the president and the impossibility that the country can overcome the economic crisis without some consensus in Congress, Mahuad was appealing to public opinion to pressure political leaders to support him.

Mahuad's call for all sectors to support a "minimal" government agenda for his second year in office that would include tax reform and measures to reduce inflation found little support in Congress, where he lacks a majority. The president began his term with the support of the rightist Partido Social Cristiano (PSC), but that support ended last March. The PSC, the second-largest bloc in Congress has repeatedly called for the resignation of Finance Minister Ana Lucia Armijos and said it would continue to oppose the president.

Deputy Victor Hugo Sicouret of the Partido Roldosista Ecuatoriano (PRE) said Mahuad's message was "a disaster," since he did not say how he would confront inflation or reduce the fiscal deficit, bank interest rates, and unemployment. "He said nothing about the recession, about how to increase economic growth, instead he gave a speech with a litany of offers as if he were campaigning," said Sicouret.

Deputy Antonio Posso of the Movimiento Pachakutic, which represents the interests of the indigenous communities, called the message "full of good intentions," but said the president offered nothing substantial. "We have heard the same tired speech," he said. "Combining ministries, naming superministers, does not signify substantial changes. The country needs a new economic model."

"Mahuad's first year has been a complete failure, especially in economic and social policies," said former president Rodrigo Borja (1988-1992). "Although it seems incredible, the government still lacks a plan of action. This is without precedent and explains the confusion and the chaotic state of the country's direction." Borja said today there is more unemployment, frustration, discontent, less social cohesion, a growing concentration of wealth and income, while the conditions of the majority of Ecuadorans are deplorable.

On Aug. 10, Juan Jose Pons, the president of Congress and a member of Mahuad's Democracia Popular, also called for a change in the economic model. He said "for too long, the macroeconomic

policy has excessively favored the market forces." Pons said high annual interest rates, which hover around 70%, "have made investment impossible, weakened production, and deteriorated the financial system." He said the GDP has dropped from US\$19.7 billion in 1998 to US\$14.3 billion this year and per capita income has fallen from US\$1,619 six years ago to US\$1,152 in 1999.

Mahuad sees salvation in IMF agreement

Earlier, on Aug. 7, Finance Minister Armijos said the country's budget for 2000 will be presented in September. It will be based on an oil price of US\$14.70 per barrel and a production goal of 141 million barrels, she said. The budget also projects economic growth in 2000 of between 2% and 2.5% and inflation of between 25% and 30%. Armijos said Ecuador is braced this year for an economic contraction of between 6% and 7%, 60% inflation, and a fiscal deficit equal to 4% of GDP.

Armijos is spearheading negotiations to reach a US\$400 million, 18-month loan agreement with the IMF. An IMF pact, Ecuador's first in five years, would enable the country to renegotiate more than US\$1 billion in debt with the Paris Club of creditor nations. But the loan would commit Ecuador to more austerity measures and probably an increase in the value-added tax (impuesto al valor agregado, IVA) from 10% to 15%.

While Mahuad's administration is counting on the IMF loans to help the country out of its economic crisis, it must first overcome opposition to IMF-backed reform efforts, including congressional rejection of new laws to restructure the banking sector and the government's decision to drop increases in fuel prices after the nationwide strikes.

Despite his adjustment measures, Mahuad has been unable to reduce the fiscal deficit to the 3.5% of GDP acceptable to the IMF. Mahuad said the letter of intent could be signed with the IMF by September. But without a majority in the fractious Congress, any IMF-required tax increase will be difficult to pass and opposition parties have already said they are against it.

The agreement with the IMF has been postponed several times since May because of Mahuad's difficulties in getting congressional support for the required policies. "I am committing all my political capital," said Mahuad, "because I continue to believe that it would give the country a way out of the crisis." [Sources: Reuters, 08/03/99, 08/07/99, 08/10/99; Associated Press, 08/10/99; Spanish news service EFE, 08/07/99, 08/10/99, 08/11/99; Notimex, 08/09- 11/99; El Nuevo Herald (Miami), 08/11/99]

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