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Ecuador: Export Producers & Distributors Protest New Measures To Reduce Money Supply

by Barbara Khol
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On July 19, the Monetary Council (Junta Monetaria) implemented a 4% devaluation of the sucre. The devaluation was in addition to the existing policy of a weekly 3.5 sucre per US dollar devaluation. As of Monday, July 22, the exchange rate for exports was 1,065 sucres per dollar, and for imports, 1,086.3 per dollar. Also on Friday, the Council reduced the term for advance payment in sucres on export revenues from 120 to 60 days. The advance system constitutes a concessionary loan program for coffee and fishmeal exporters who presumably use the cash advances as working capital to prepare products for export. Council spokespersons said the advance payment term reduction was justified by the Central Bank's assumption of risk resulting from exchange rate differentials, and the impossibility of monitoring how the cash advances are actually used. Next, the Council announced a floating interest rate 15% above commercial banks' lowest rate/s on bonds and fixed-term deposits in state-run financial institutions. The interest rate on money borrowed from the Central Bank was increased by 2%. The Monetary Council's actions were motivated by an attempt to reduce consumer price inflation via money supply reduction. At present, the annualized inflation rate is running at about 50%. On July 23 in Guayaquil, producers and exporters of shrimp, bananas, coffee, cocoa, fishmeal and other products convened to discuss the impact of Council decisions. Spokespersons said the currency devaluation is inadequate since it did not compensate for domestic inflation. Marco Arturo Leon, shrimp exporter association leader, said that unless the Council favorably responds to exporters' demands, a strike may be in order. Under current conditions, he added, exporters are losing their ability to compete in the world market. Miguel Marchan Solorzano, manager of Ecuadoran Agro-industrial Cocoa and Coffee Exporters (CEEACC), said that the Council's decision to reduce the cash advance term on anticipated export revenues is overturned, Ecuadoran exporters will be unable to compete with counterparts in other Andean nations when the project trade opening occurs. Andres Barreiro, president of the Guayaquil Chamber of Commerce, said the Council's policies are intended to withdraw 80 billion sucres ($76 million) from circulation. He described the measures as ill-conceived, since they will likely result in production cutbacks, productivity decline, and higher unemployment. According to spokespersons for the Ecuadoran Exporters Federation (FEX), output decline and unemployment are inevitable. Exporters' profitability is expected to decline because they will be forced to obtain commercial bank production loans. Ecuador's "traditional" products (coffee, cocoa, bananas, seafood, etc.) comprise over 90% of non-oil exports. (Basic data from AFP, 07/19/91, 07/23/91)

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