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Ecuador: Brutal economic decisions (“paquetazo”)

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With a stubborn position that borders on political suicide, the government of Lenin Moreno, during the seventh day of massive and combative Popular Unemployment, has preferred to repress thousands of indigenous, students, settlers and workers who have risen throughout the country, by employing savage police and military force against them. In fact, this decision was stringently placed ahead of the possibility of repealing the “economic package” imposed on October 1 through Decree No. 883.

In the official line, president, vice president and ministers have followed the same script: "There was no alternative", that's what they asserted. Furthermore, they even argued that it is necessary to eliminate fuel subsidies (gasoline and diesel), so that collapse of dollarization as national currency is avoided. They keep stating, obsessively, that public spending must be cut, even if it carries high costs like violating the labor rights of state servants in a serious and unconstitutional way. And they intend to affirm that, by reducing the capital outflow tax (ISD) or by lightening, eliminating or getting lower importing-and-business-charges tariffs, they are acting at the service of "common interest".

The fact is that the alliance between government, the institutions of commerce, the association of private banks and other business associations, have given in, with no displeasure, to what the International Monetary Fund (IMF) dictates in the agreements that have been signed with the regimen.

Indeed, the economic measures of October 1 - which are the first among others that will be sent gradually to the National Assembly such as economic reforms, as announced by government spokesmen -are deeply harmful for most people, damage the economy and do not contribute to solve any of the fiscal or current account problems. It even puts the dollarization system at risk.

The elimination of subsidies aiming: extra gasoline with ethanol (which price will increase by 75%), to extra gasoline (which will rise by 60%) and to diesel (that will increase by more than 200%), makes the price of all goods and services more expensive (in the context of a country which is expensive already). Therefore, small farmers in the mountains have mobilized immediately, due to this measure that increase their transportation costs and the price of all products (especially those that they buy from the urban sector), leading to a further deterioration of their poverty situation.

It should be mentioned that rural poverty rates increased from 38.2% in December 2016 to 43.8% in June 2019; while extreme poverty rose from 17.6% to 17.9%, in that period. Likewise, the reaction of secondary students, university students and residents, especially from Quito, is understandable, since poverty in the Capital increased from 7.9% in June 2016 to 11.9% in this year; and extreme poverty from 1.7% to 3.6%, in the same period. The rise in transportation prices in Quito, for example, means that a person who takes 4 buses a day, will go from a transportation cost of 1 dollar per day to 1.40 dollars (42 dollars per month), equivalent to 10.6% of the minimum monthly salary.

It has been announced that the salaries of public employees will be reduced, through other measures such as the renewal of occasional contracts with 20% less pay; the contribution of one day of salary per month and the decrease from 30 to 15 days of vacation per year. Brutal measures in a country where adequate employment fell from 41.2% in December 2016 to 37.9% last June; and where the forecast for economic growth for this year, according to the IMF itself, is -0.5%. If prices rise, if growth is negative and wages are frozen or decreasing, the logical result is a drop in purchasing power and a tremendous deterioration in living conditions. But there is also the perverse idea of the civil

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servant as a vague and unproductive person (that is why the holidays are reduced by half the time), which is part of the strategy for devaluing public elements, to sustain the proposal, also a fundraiser, of "Monetize" public assets, read privatize them.

But due to the difficulties of the living conditions of the population, the benefits are added to the import and business sectors, at the expense of the already deteriorated external sector. In a dollarized country, where the non-oil trade balance closed last year with a negative account balance of USD 4,958.5 million, by means of the “package”, it is decided to eliminate or reduce tariffs for capital goods (machinery, equipment and agricultural raw material and industrial), cell phones, computers and tablets. Likewise, the capital outflow tax (ISD) for some imports and the tax for vehicles of less than USD 32,000 are reduced by half. All these measures will have a negative impact on liquidity, due to the outflow of dollars, thus compromising dollarization.

It is outrageous that in a falling economy since 2017, where bank profits have increased from USD 396 million in that year to USD 554 million in 2018, the “economic package” of October 1 keeps on increasing the benefits of Great economic powers. This is how, it was decided to tax with a pyrrhic contribution to companies with revenues exceeding USD 10 million per year, which will generate only USD 100 million annually for the treasury (less than 0.1% of GDP); as well as eliminating- indiscriminately - the advance of income tax. These tax benefits are added to those who have already received last year - delinquent businessmen or evaders, when the government forgave fines-interest and surcharges on debts with the Internal Revenue Service (SRI), with the Ecuadorian Institute of Security Social (IESS) and with the municipalities, in an amount that borders USD 4,000 million (about 4% of GDP).

According to the announcement of the Minister of Economy the day after the package, it will generate revenues of USD 2,986 million and the “fiscal sacrifice” - read direct transfers to importers and entrepreneurs - will be USD 713 million. On the other hand, the “social compensation”, for an increase of \$ 15 to the “poorest”, will only mean USD 54 million, if it is for the 300,000 new poor, or USD 234 million, if it is for the one million 300 thousand citizens who would receive the human development bonus, in the best scenario. Yet, this is not certain.

What is clear is that the tariff and tax measures do not contribute to solving the fiscal deficit, or the problems of the external sector, nor the productive problems. They aggravate, of course, the already deteriorated living conditions of the majority low-and-middle-income-sector of society.

Quito, 9 de Octubre de 2019

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