ECUADOR: SOCIETY'S REACTION TO IMF AUSTERITY PACKAGE

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Ecuador's President Lenin Moreno has been cutting government spending since signing an Extended Fund Facility (EFF) agreement with the International Monetary Fund (IMF) in February of this year. This policy has benefited multinational corporations, the banks, and in general, powerful economic groups at the expense of the middle and working classes, who are being pushed toward poverty and extreme poverty.

In the context of the IMF negotiations the administration issued a law ironically called "the Organic Law to Foster Productivity, Attract Investment, and Create Jobs, Stability, and a Balanced Budget," which has been in force since August of 2018. The law brought neoliberalism back to the country by instituting a policy to reduce the budget deficit and national debt, which have now become the top priorities. The law contemplates the collection of interest, fines, and other charges for outstanding obligations with several government institutions: the Internal Revenue Service (SRI), decentralized autonomous governments, the Office of the Superintendent of Businesses, the Ecuadoran Institute of Credit for Education and Scholarships, state enterprises, and even the Ecuadoran Social Security Institute (IESS).

On the day that the Law entered into force the private sector owed the government US$4,291,200,00 (**almost $4.3 billion**)—**for unpaid income tax alone**—not counting interest. This figure is higher than the total credit granted by the IMF. The IMF loan is for $4.2 billion and will be paid in installments if the country is deemed to be complying with the IMF conditions.

The list of big winners from the new policy is topped by fossil fuel corporations: Andes Petróleum Ecuador LTD , which owed US$396.2 million, of which US$228.3 million would be forgiven; Oleoducto de Crudos Pesados, OCP, which owed US$347.7 million and would be forgiven US$194.4 million; Consorcio Petrolero Bloque 16, which owed US$141.6 million and would be forgiven US$78.7 million; AGIP OIL Ecuador, which owed US$96.1 million and would be forgiven US$61.5 million; Repsol Ecuador S.A. which owed US$93.7 million and would be forgiven US$52.2 million, just to name a few. A second tier of winners includes the offshore phone company OTECEL S.A., which owed US$78.4 million and was forgiven US$38.9 million; Exportadora Bananera Noboa S.A., that owed US$71.1 million and will be forgiven US$41.2 million. There are several private banks, including: Banco Pichincha that owed US$39.6 million and will be forgiven US$18.3 million; Banco de la Producción S.A. Produbanco, which owed US$29.3 million and will be forgiven US$14.9 million; Banco de Guayaquil which owed US$6.3 million and will be forgiven

US$3.9 million. It bears mention that this list of beneficiaries only includes income tax debt. ODEBRECHT is also on the list, owing US$11.8 million of which US$4.5 million will be forgiven. And Mr. Alex Bravo, former manager of Petroecuador, who is known to still have accounts in offshore tax havens even though he is in prison, owes US$6.3 million and would be forgiven US$3.9 million. [1]We should also remember the acts of corruption associated with Odebrecht operations, for which Ecuadoran beneficiaries and accomplices have yet to stand trial. This stands in stark contrast with how this was handled in other countries, such as Peru.

Once these debts were collected, the SRI reported that US$1.25 billion had been taken in. However, it did not explain what happened with the rest of the US$3 billion, which is twice the amount that the government estimates it will save from the fuel subsidies it eliminated as of October 1, 2019—US$1.3 billion.

The total amount of debt collected by other public entities included in the aforementioned law is not known, nor is there any information on how much the many tax exemptions included in the law cost the government. There has been an utter lack of transparency in both the approval of the law and its true scope.

The legislature passed this law without requesting even the basic information outlined above. It did so with the votes of Alianza País (the movement started by former President Rafael Correa, with only the votes of the Moreno supporters in the Assembly after the defection of all of Correa's supporters), and with the Social Christian Party.

While the most powerful economic interests in the country have been enjoying debt reduction and tax exemptions, the current administration has been punishing the middle and working classes by cutting government spending under the agreement signed with the IMF.

IMF CONDITIONALITY IN MOU AND LETTER OF INTENT

The Memorandum on Economic and Financial Policy gives details about "the public policy program for the next three years," which includes targets for reducing the fiscal deficit and national debt. These are much more drastic than the targets the IMF set for Argentina.

Target for reducing the debt to GDP ratio:

[1] Source: "Trole 3. 50 beneficiario de la remisión tributaria: hacer más ricos a los más ricos" (Trole 3.50 beneficiary of debt collection plan: making the rich richer."). OBSERVATORIO DE LA DOLARIZACION. In dolarizacionec.wordpress.

- In Argentina debt was to be reduced to 55.8% of GDP over three years, that is by 2021;
- In Ecuador debt is to be reduced to 40% of GDP over three years, by 2022; in 2018 debt was close to 60% of GDP.

Target for reducing the budget deficit:

- In Argentina the primary fiscal deficit for 2018 was 2.7% of GDP, and the country was given two years to eliminate it, which meant a 1.35% reduction per year;
- In Ecuador the primary fiscal deficit was estimated at 7% of GDP in 2018 (at the time of the IMF negotiations) and is to be eliminated over three years, which means a 2.3% reduction each year.

In order to reduce the debt burden and budget deficit, under its agreement with the IMF the government has been cutting spending by laying-off government workers, eliminating subsidies, and drastically cutting programs. Cumulative reductions since 2016 amount to 75%, from US$6,104,000,000 in 2016 to US$773 million as of July 2019, which amounts to approximately US$1.5 billion in 2019.

The last package announced by President Moreno on October 1, 2019 included the elimination of gasoline and diesel subsidies, causing their prices to go up 24% for gasoline (from $1.85 to $2.30), while premium diesel went up 119% (from $1.037/gallon to $2.27/gallon). The government expects this measure to bring in additional funds of $1.3 billion/year.

In addition to the elimination of these fuel subsidies, the announced package includes a broad array of measures, including: new tariff reductions on raw materials and capital goods imports for the agricultural and industrial sectors; reduced import taxes on vehicles priced under US$32,000; elimination of advance payment of income taxes by companies; elimination of taxes on technology imports (cell phones, computers, and tablets); 50% tax cut on foreign exchange being used to import raw materials and capital goods; 20% cut in compensation for government employees; increase in the number of beneficiaries of the human development bonus; and loans at 4.99% interest under the Own Your Own Home plan—just to mention some of the bigger programs.

Elimination of the fuel subsidies is what is hitting the poor the hardest. We Ecuadorans have already been impacted by a stagnant economy and competition from imported goods, especially from neighboring Colombia and Peru whose currencies have been devalued in recent months. The border provinces, particularly El Carchi on the border with Colombia, have been clamoring for government relief from a deep economic crisis, even resorting to ad hoc measures sometimes.

People's reaction to the IMF austerity package was immediate, particularly in the organized social movements: transport workers, the indigenous movement, workers' organizations, and social movements in general.

The IMF agreement also includes the following elements:

- The transfer of profitable businesses from the Ecuadoran State to the private sector, resulting in decapitalization and the loss of future revenue, which harms public finances;
- The opening of markets with Ecuador joining the Pacific Alliance, and the negotiation of free trade agreements with the United States and even with China;
- Extensive labor reform to make employment and the labor market more precarious;
- Tax reform to increase excise taxes that punish the most vulnerable sectors of society and make taxation even more regressive, instead of correcting it by increasing income taxes on the wealthy; and
- Greater financial deregulation by eliminating taxes on foreign exchange leaving the country, which has allowed interest rates to reach their currently usurious levels. Interest rates are set by the monetary authority at almost 25% annually for loans to microenterprises, despite the fact that the economy is dollarized and there is no risk of inflation or devaluation. For every 1% of interest collected by the financial system, US$422 million is extracted from the economy as a whole, considering the balance of credit to the private sector as of July 31, 2019. This means that with a 3% interest rate, banks extract $US1.266 billion, which is close to the US$1.3 billion that the government estimates the fuel subsidies cost. A 4% reduction in interest rates would be like injecting US$1.688 billion into the economy. Or a tax on the excessive fees charged by financial intermediaries could give the government more revenue than the US$1.3 billion it expects to save by eliminating the fuel subsidies.

  Meanwhile, government spending on agricultural development in the first half of 2019 was a paltry US$53 million, or US$106 million annually—just a quarter of the US$422 million the financial system collects for every 1% of interest it charges customers. This is surprising given that the agricultural sector is such an important source of employment, accounting for 28.3% of jobs in the country.

> Ecuador is in dire need of far-reaching financial reforms, including drastic cuts in interest rates—rates which everywhere else in the world go down when there is a need to stimulate the economy and boost production.

The policies the government has implemented under the IMF agreement have brought the economy to a standstill. The IMF itself predicts a 0.5% reduction in GDP this year. Unemployment has continued to rise (only 37.9% of the economically active population has adequate employment, that is, with salaries above minimum wage and benefits, as of June 2019). The poverty rate has risen from 35.3% of the population in December 2014 (5.6 million poor people in a total population of 15.9 million), to 43.8% in June 2019—that means 2 million more people have fallen into poverty, for a total of 7.6 million Ecuadorans living in poverty out of a total population of 17.3 million people.

The IMF policies are still geared toward serving the interests of creditor countries and the national debt. The objectives are as follows:

- Generate surpluses in the debtor countries and transfer them to the creditor countries through deficit reduction policies and by reducing the debt to GDP ratio at the expense of the middle and working classes;
- Expand profitable business options for foreign capital and for national capital allied with foreign capital by privatizing profitable state enterprises and assets;
- Expand export markets for the developed countries that are the IMF's biggest contributors by opening markets while giving nothing in return, putting sectors and businesses that cannot compete with exports at risk of collapse. Many of these imports are highly subsidized or come from countries that have devalued their currency, while Ecuador's economy is dollarized.

The policies adopted under IMF austerity packages do not resolve fiscal crises. Rather, they heighten them, forcing privatizations and the opening of the economy to foreign capital. Meanwhile, the structural problems in the intervened countries grow worse. The labor market becomes precarious, poverty and extreme poverty rise, there is a greater concentration of wealth, and the economy de-industrializes and reverts to raw materials. This encourages mining and fossil fuel extraction—extractivism—with its multiple harmful impacts on the environment and a deterioration of the living conditions of the people living in countries where these policies are imposed.