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FEATURED Q&A

Will Ecuador's New Economic Bill Meet Expectations?

Ecuadorean lawmakers last month approved new economic legislation. President Lenín Moreno faces significant challenges, including a national debt that is approximately 67 percent of GDP. // File Photo: Ecuadorean Government.

Q Ecuador's National Assembly in June approved a fast-track economic bill which, among other provisions, seeks to encourage companies to boost investments in the country and also paves the way for the government to receive additional revenues through a tax amnesty. Which components of the measure are most important? What is the outlook for Ecuador's economy under the new measures? Will businesses increase investments in the country in the months ahead? How well is President Lenín Moreno managing the economy?

A Daniela Chacón Arias, Quito city councilor: "The new economic bill seeks to increase investments and pave the way for reducing the high debt that Rafael Correa's government left. During his 10 years as president, Correa excessively increased public spending and illegally modified rules to acquire more debt than legally permitted. Economic analysts consider that reducing the national debt to levels below 40 percent of gross domestic product would take a long time—between seven and 10 years. But the new bill relies heavily on tax amnesty as a mechanism to obtain short-term liquidity, and it does not establish specific measures for reducing public spending, which is crucial to achieve fiscal stability and economic growth. It is positive and necessary for the country's economic health that the bill prioritizes fiscal stability and recognizes the private sector as the engine that moves the economy and creates employment. Nevertheless, if public spending is not controlled, these measures will be insufficient. We cannot continue to rely on tax amnesty but at the same time allow acquisition

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TODAY'S NEWS

POLITICAL

Police, Pro-Gov't Forces Storm Nicaraguan City

At least four people were killed in the Monimbó neighborhood of the city of Masaya as police and government-allied paramilitaries stormed the neighborhood. Some 300 people have been killed in three months of violence in the Central American country.

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U.S. Disputes Retaliatory Tariffs at WTO

The United States filed five dispute actions at the World Trade Organization against retaliatory tariffs imposed by Canada, Mexico, China, the European Union and Turkey.

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América Móvil Swings to Net Loss in Second Quarter

The telecom company, controlled by billionaire Carlos Slim, reported a $12.5 million net loss for the quarter.

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Slim // File Photo: Barrett90035, via Creative Commons.

POLITICAL NEWS

Police, Pro-Gov't Paramilitaries Storm Nicaraguan City

Hundreds of heavily armed police and hooded paramilitaries loyal to Nicaraguan President Daniel Ortega on Tuesday morning stormed the indigenous Monimbó neighborhood of the city of Masaya, tearing down barricades, shooting protesters and hauling away anti-government youths. At least three civilians and one police officer were killed in the violence in the city, which is 16 miles southeast of Managua, La Prensa reported, citing Nicaraguan human rights group ANPDH. The wave of violence began at about 6 a.m. when pro-government forces riding in pickup trucks streamed into Masaya, a stronghold of the opposition, from several points. The city has been at the center of anti-government demonstrations that began in mid-April and have claimed some 300 lives. "There is a massacre in Monimbó," high school teacher Álvaro Gómez told The Wall Street Journal in a telephone interview as shots were heard in the background. "They've killed a bunch of youths who are resisting with homemade mortars, bombs and their anger." Gómez said he saw the body of a youth lying in front of his house, adding that government forces were using shoulder-fired antitank missiles and automatic rifles. Christian Fajardo, the leader of an anti-Ortega group, told the newspaper that police and paramilitary forces killed at least five people, including women and children. He said pro-government forces were searching for him and other opposition leaders. "They are breaking into houses, searching for the leaders, and kidnapping young people who are against the government," said Fajardo. The police chief of Masaya, Ramón Avellán, told The Wall Street Journal that Ortega and his wife, Vice President Rosario Murillo, had ordered police officers to remove barricades in the city and "clean up the streets." He added, "We will obey the order at whatever the cost." After taking control of the Monimbó neighborhood, photos posted on the state news website El19 showed that police and paramilitary members had taken the Nicaraguan flag down in the main plaza and replaced it with the governing Sandinista party's red and black flag. On Tuesday, the U.S. State Department called for an end to the violence. "We strongly urge President Ortega not to attack Masaya," Francisco Palmieri, the State Department's top official for Latin America, wrote in a posting on Twitter. "Continued gov't-instigated violence and bloodshed in #Nicaragua must end immediately. The world is watching." Also, the auxiliary Catholic bishop of Managua, Silvio Báez, asked for prayers for thee people of Masaya. "Daniel Ortega, stop the massacre!" he wrote on Twitter. Tuesday's bloodshed happened a day after U.N. Secretary General António Guterres urged Ortega's government to stop using deadly force against Nicaraguans. "It's evident that there is a shocking number of deaths and a lethal use of force by entities tied to the state that is unacceptable," Guterres told reporters Monday in Costa Rica, Reuters reported. "It's essential to immediately halt the violence and rebuild national political dialogue. Only a political solution is acceptable." Hundreds of protesters took to the streets of Managua on Monday, following the deaths of 12 people at the hands of pro-government forces over the weekend, Newsweek reported. Ortega has described the ongoing protests as illegal and an effort to force him to hold an early presidential election and undermine democracy in the country, The Wall Street Journal reported. On Monday, Murillo, the vice president and first lady, called Monimbó a "torture center," saying its residents were murderers for allegedly having killed a police officer.

ECONOMIC NEWS

U.S. Files Disputes Against Retaliatory Tariffs at WTO

The United States on Monday filed five separate dispute actions at the World Trade Organization, or WTO, against Canada, Mexico,

NEWS BRIEFS

Cuba-Led Commission Rejects Company's Report of Deadly Crash's Cause

The Cuba-led commission that is investigating the plane crash that killed 112 people last May rejected a report in which the company that leased the plane to national airline Cubana said that human error was to blame, Reuters reported. Mexico-based Global Air, also known as Damojh, said Monday that the plane had taken off at a "very steep angle." However, the commission called the finding speculative and premature.

China's Baidu Ending Operations in Brazil

Baidu, the Chinese web search company, is ending operations in Brazil as part of a new global strategy, which includes setting up business units for apps and mobile advertising and a stronger focus on artificial intelligence, ZDNet reported Tuesday. The company launched its web services in the South American country five years ago and in 2015 considered expanding its presence in Latin America, but the change in strategy put the brakes on the idea. Baidu said it will operate its Brazil user base from China.

Uber Says its Mexico Investments Top $500 Million Since 2013

Uber said on Tuesday that it has invested more than $500 million in Mexico since 2013, including contributions to government-run mobility funds, social responsibility projects and security spending, Reuters reported. Mexico is Uber's fourth-largest market in terms of number of rides, but the ridesharing company has been facing more competition, including from China's Didi Chuxing, which began offering its transportation services in the city of Toluca in April and plans to expand to other Mexican cities, the wire service reported.

China, the European Union and Turkey, the office of the U.S. trade representative said in a statement. The U.S. government alleges that the retaliatory tariffs the five countries imposed on U.S. exports following the United States' increase in steel and aluminum duties are "completely without justification under international rules." U.S. Trade Representative Robert Lighthizer said the tariffs "are designed to punish American workers, farmers and companies." The retaliatory tariffs affect $23.4 billion worth of U.S. exports, Bloomberg News reported. The Trump administration earlier this year imposed 25 percent duties on steel and 10 percent duties on aluminum.

BUSINESS NEWS

América Móvil Swings to $12.5 Mn Net Loss in Q2

América Móvil, Latin America's largest telecommunications company, saw a small net loss in the second quarter as compared to the same period a year earlier, the telecom firm said Tuesday. The weakened Mexican peso against the U.S. dollar offset an increase in revenue and growing operating profits, leading to a net loss of 236 million pesos, or $12.5 million, in comparison to a net profit of 14.3 billion pesos last year, The Wall Street Journal reported. Revenue was up by 2.3 percent to 257.4 billion pesos, and operating profits rose 3 percent to 72 billion pesos, driven by a 14.9 percent growth in earnings before interest, taxes, depreciation and amortization, or Ebitda, in Mexico. América Móvil's Ebitda in Mexico improved due to funding provisions and insurance plans included in the company's mobile phone purchasing packages, El Universal reported. However, the peso's depreciation as a result of rising U.S. interest rates and investor caution, due to uncertainty regarding NAFTA and Mexico's July 1 presidential elections, more than doubled the company's financial costs to 32.2 billion pesos, contributing to the net loss, The Wall Street Journal reported.

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of more debt, as this bill does. What will to happen after 2021? Low productivity must also be addressed for Ecuador to be more competitive worldwide and for employment sources to be expanded. Moreno has focused more on political reform, which is necessary, but Ecuadoreans have yet to see if this bill will achieve all the marvelous things the president has promised it will do."

A **Francisco X. Swett, former Ecuadorean minister of finance, member of Congress, and central bank president:** "One law, and a very imperfect one at that, is not sufficient to undo the damage that the Correa administration inflicted upon the economy. Ecuador requires omnibus legislation to reverse its current circumstance, including the adoption of fiscal best practices, public credit management, tax code simplification and reform, revamping social security, building a new structure of revenue sharing, doing away with customs tariffs and protectionist practices, and eliminating the myriad agencies and regulations that seem to exist for the sole purpose of negating competitivity. The law, as approved by the National Assembly, is similar to other 'investment incentives' that were approved during Correa's tenure (the Production Code is a good example) and came to naught. There is the usual intent to carry out social engineering initiatives, while leaving out the core issues, of which the most immediately pressing is the total lack of liquidity of the end-of-June figures that show rising current spending, insufficient income, a collapsed investment program and scary cash balances. All normal financing channels are clogged or maxed out, whether they be the bond market, domestic borrowing or tax revenues; therefore, the only route left is to go the IMF way, complemented with multilateral financing. The tax remission program will yield some $500 million over a two-year period, and the investment incentives are the type of medicine that is tried-but-not-true because the framework of legal security and guarantees remains inadequate. Moreno has proved himself to be more adept at sniping at his predecessor than in providing a sense of direction to the economy."

A **Ramiro Crespo, president of Analytica Securities in Quito:** "The bill aims to achieve fiscal adjustment through pro-business policies and has five pillars: 1) fiscal discipline as state policy; 2) strict adherence to international commitments; 3) institutionalization of efficiency and transparency in public management; 4) sustainable social policies; and 5) enhancement of public-private partnerships. If everything goes as planned, the economic bill is expected to generate $584 million in additional tax revenues this year, while exceptions and other tax incentives would reduce revenues in 2019 and 2020. On the expenditure side, the authorities expect to cut disbursements by $2 billion, although they recognize that some expense categories are going to exceed their original budget, for a net reduction in total spending of $1.27 billion in 2018. Unfortunately, such advances are likely to fall short. According to official figures, the government foresees financing needs of $11.3 billion this year, an amount that is extremely high even for Ecuador. The country has been maneuvering with financing needs north of $10 billion for several years, but it is currently under a different set of circumstances, including market access, lower interest rates

> **"The bill aims to achieve fiscal adjustment through pro-business policies..."**
> — Ramiro Crespo

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and a lower overall debt burden. Failing to secure total financing needs would result in the under-execution of the fiscal budget and further accumulation in arrears with private-sector suppliers. A lack of external financing would also create liquidity issues in the domestic financial market as happened in 2015-2016 in the aftermath of the oil price meltdown."

A Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito: "Despite low oil prices and falling public income, in March 2017, the month before Lenín Moreno's election, public expenditure in Ecuador reached record heights (never had the government spent so much money in the month of March). But the fiscal deficit also reached a mind-boggling level, because 51 percent of public spending was financed with new debt. This indicates the dire state of financial affairs Ecuador was in when Moreno took office 14 months ago. Reining in the deficit should have been Moreno's main economic policy aim from the beginning of his term, but he could only address the issue after a resounding victory in last February's referendum, which freed him from the yoke placed on him by his predecessor, Rafael Correa. Lowering the public deficit has only been a priority for the government since mid-May, when a new finance minister was sworn in and when a fast-track economic bill was sent to the legislature. The bill is still in its approval process, and it may become law in mid-August. The bill points in the right direction when it restores the central bank's independence and limits investors' financial responsibility when a company goes bankrupt. Its weakest point may be that it is the fifth tax amnesty in a decade, something that looks like a reward for serial tax dodgers."

> **"Its weakest point may be that it is the fifth tax amnesty in a decade."**
> **— Vicente Albornoz**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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