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FEATURED Q&A

How Much Do Falling Oil Prices Threaten Ecuador's Economy?

Q Ecuador's government said last month that it will cut spending next year by as much as $1.5 billion due to the slide in the price of oil, the country's top export. The Andean nation is also planning tax reforms and moves to spur private investment, the Finance Ministry added. How serious of an economic challenge is Ecuador facing? What must the government do in order to strengthen its economy? Will budget cuts come at a political cost to President Rafael Correa?

A Nathalie Cely, Ecuador's ambassador to the United States: "Ecuador's National Assembly approved a 2015 fiscal budget of $34.9 billion. The four percent cut is strategically designed not to affect the country's ongoing economic growth, domestic consumption or employment. Instead, it focuses primarily on projects related to imports that can be deferred to the following years. While the recent fluctuations in global energy prices do affect certain sectors of the economy, their overall impact on the health of Ecuador's economy are minimized, primarily due to the fact that in recent years Ecuador has dedicated itself to diversifying its economy to reduce its dependence on oil—including changing our production matrix and investing in the construction of major hydroelectric plants that will result in 92 percent of our energy coming from renewable resources by 2016. All this has been achieved without placing a burden on our economy, as our debt-to-GDP ratio of approximately 22 percent remains well below the regional average of 29 percent. As a result, our economy, which was expected to expand by approximately 4 percent last year, enjoys a similar positive forecast for this year as well (and well above the regional growth rate of 2.6 percent). Moving forward, Ecuador will continue with the implementation of strategic projects that support changing the production and energy matrixes, and will take advantage of a flexible fiscal budget system

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U.S. Rejects Prisoner Swap for Venezuela's López

The U.S. State Department on Monday rejected a prisoner swap offer by Venezuela's president to free jailed opposition leader Leopoldo López in exchange for the freedom of a jailed Puerto Rican nationalist. See story on page 2.

File Photo: Venezolana de Televisión.

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NEWS BRIEFS

Obama, Peña Nieto to Discuss Cuba in White House Meeting

U.S. President Barack Obama is expected to seek Mexican President Enrique Peña Nieto's help today in pressuring Cuba to make democratic reforms, Bloomberg News reported, citing a Obama administration official. The two leaders are scheduled to meet at the White House during Peña Nieto's first visit to Washington since taking office two years ago. The meeting follows Obama's surprise announcement last month that the United States would re-establish diplomatic relations with the communist island nation.

Peru's Economy Sees Slowest Growth in Five Years: Humala

Peru's economy grew about 2.6 to 2.7 percent last year, its slowest rate in five years and half the pace of 2013, amid a decrease in copper exports that hurt investment, President Ollanta Humala said, Bloomberg News reported Monday. The economy will rebound this year driven by a recovery in mining, fishing and agricultural output, the central bank has said, and Finance Minister Alonso Segura on Dec. 31 told state news agency Andina that GDP will increase 5 percent this year as investment resumes.

Former Walmex Leader to Become Grupo Lala's CEO

Scot Rank, the former chief executive officer of **Wal-Mart de México**, or Walmex, on Monday was named the new CEO of **Grupo Lala**, Mexico's largest dairy producer, Bloomberg News reported. Rank will replace Arquimedes Celis in the position, effective June 30. Celis, who is retiring, will remain on Grupo Lala's board, the company said in a statement.

Political News

U.S. Rules Out Prisoner Swap for Venezuela's López

The U.S. State Department on Monday rejected a prisoner swap offer by Venezuelan President Nicolás Maduro to secure the freedom of Leopoldo López, the Venezuelan opposition leader who has been jailed for nearly a year, BBC News reported. On Sunday, Maduro said he would release López if the United States freed a Puerto Rican nationalist imprisoned in the United States. "The only way I would use my presidential powers [to release López] would be to put him on a plane to the United States, to leave him there and that they hand over Óscar López Rivera—man for man," said Maduro. López Rivera, 72, was convicted of seditious conspiracy in 1981 for attempting to bring about Puerto Rico's independence from the United States. López Rivera was sentenced to 55 years in prison, and another 15 years were later tacked on because he attempted a prison escape. In 1999, then-U.S. President Bill Clinton offered López Rivera and a dozen other members of the Armed Forces of National Liberation (or FALN) group clemency, saying the prisoners' sentences were disproportionate to their crimes. However, López Rivera rejected the offer because it had not been extended to all imprisoned members of the FALN. On Monday, State Department spokeswoman Jen Psaki ruled out Maduro's prisoner swap offer, saying that it was not possible to compare the cases of López and López Rivera. The United States had "repeatedly requested the release of all political prisoners," said Psaki, adding that "President Maduro proposes to send into exile opposition figures instead of having a discussion about the real concerns and problems confronting Venezuela." López, who has been imprisoned since last February, has been held on charges of inciting violence during mass anti-government protests that happened in Venezuela early last year. López, of the Popular Will party, handed himself over to authorities on Feb. 18. His supporters say he is in prison because of his opposition to Maduro's government.

López has been imprisoned since last February on charges of inciting violent anti-government protests.

Retrial of Former Guatemalan Dictator Suspended

The retrial of former Guatemalan dictator Efraín Ríos Montt was suspended Monday, shortly after it started, BBC News reported. Ríos Montt, 88, who ruled the Central American country from 1982 to 1983, was wheeled into court on a stretcher. His attorneys have said that he is suffering from several health problems. The trial was suspended when the court accepted appeals from Ríos Montt's defense team that a judge in the case was not impartial. Ríos Montt's lawyers had challenged Judge Irma Valdés Rodas' impartiality, citing a master's thesis she wrote in 2004 relating to criteria for bringing genocide charges, EFE reported. Valdés said that her thesis was academic research and questioned why Ríos Montt's attorneys waited until Dec. 30 to seek her dismissal when they had known for months that she would preside during the trial. After the defense and prosecution delivered their arguments in court, Valdés and the two other judges on the court conferred privately and then returned to the courtroom to say they were recusing themselves and that another court would hear the case. Ríos Montt was convicted in 2013 of ordering the killings of indigenous people in the 1980s, during Guatemala's civil war. However, his conviction and 80-year prison sentence were later overturned by the country's Supreme Court, which said that Ríos Montt and his former defense chief, General José Rodríguez, who had been tried at the same time, were left without lawyers at critical moments of the trial, BBC News reported. Rodríguez had been acquitted, but the Supreme Court also

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threw out the acquittal and ordered a new trial. Both Ríos Montt and Rodríguez have remained under house arrest ever since.

Economic News

Dominican Tourism Reaches Record Levels in 2014: Minister

The Dominican Republic's minister of tourism, Francisco Javier García, said that the number of visitors to his country rose by "record levels" in 2014 compared to the year before, *Dominican Today* reported Monday. From January to November, the number of people visiting the country rose by 7.7 percent to reach 4.6 million tourists, some 407,000 more visitors than the year before. García predicted that 2015 will be an even better year, with an average growth of over 10 percent and expectations for 6 million visitors. García said there was a growth of 9.3 percent in November alone, compared with the same month in 2013, bringing in 33,293 additional visitors. With 6 percent economic growth, the Dominican Republic last year tied for first place with Panama for the fastest growing economy in Latin America and the Caribbean, according to preliminary data released last month by the U.N. Economic Commission for Latin America and the Caribbean, or ECLAC. The average regional growth rate in the Caribbean in 2014 was 1.9 percent and in Central America it was 3.7 percent, according to ECLAC. One of the big questions facing tourism industry leaders and government planners in the Dominican Republic and other countries in the vicinity is whether a more open U.S. policy toward Cuba could bring a "seismic shift" to the Caribbean tourism sector, and how gradual or rapid that shift might be, *Miami Herald* columnist Andres Oppenheimer wrote last week.

García

File Photo: Gov't of the Dominican Republic.

Featured Q&A

Continued from page 1

that allows the country to continue to adjust and adapt to external changes as needed. We also expect to conclude a number of new financing agreements this year."

A César Coronel Jones, founding partner at Coronel & Pérez in Guayaquil, Ecuador: "The challenge is very serious: there will be reduction of more than $1.4 billion from oil exports, resulting in a deficit of $5.3 billion. Additionally, amortization of several Chinese loans is due this year. Analysts estimate that the government needs to finance around $9 billion to $10 billion this year. The healthy way to strengthen the economy is to promote private investment, but the government has missed this opportunity. Its ideological inclinations have negatively affected the confidence of domestic and foreign private investors, and the flow of foreign investment has recently been negligible. There are signs that the government realizes this and is changing, the most significant of which is the imminent commercial treaty with the European Union. However, much more is needed. The president should abandon his hostility toward the private sector, embrace the rule of law as a serious goal, recognize the importance of a strong and independent judiciary and promote arbitration of commercial disputes. Major budget cuts would come at a high political cost for President Correa. A major alternative for him is import reduction. Others include increasing public debt, still feasible although costly, and incentivizing development of large-scale mining. In any case, the people will be hit hardest, and the political consequences are unpredictable, especially considering the fact that early last year the ruling party did surprisingly poorly in the local elections. My guess is that President Correa will attempt a mix of these measures to minimize political liability."

> "The healthy way to strengthen the economy is to promote private investment, but the government has missed this opportunity."
>
> *— César Coronel Jones*

A Ramiro Crespo, president of Analytica Securities in Quito: "The 2015 budget bill provides proof of the persistent deterioration in public finances, a process that accelerated in 2013 when the deficit was equivalent to 5.8 percent of GDP. Next year's budget, estimated at $36.3 billion, is 5.9 percent higher than the budget for 2014 and is based on a set of assumptions that face potential risks of being undershot, particularly in terms of oil prices and GDP growth. Government expenditures net of debt amortization are expected to reach $32.9 billion in 2015, 0.6 percent lower than the original budget for 2014 measured in real terms, but still large enough to result in a deficit equivalent to 4.9 percent of GDP under government assumptions. As a result, the administration faces financing needs for $8.8 billion this year, raising concerns about the sustainability of public finances over the medium term. Ecuador's debt burden at 28 percent of GDP remains low when compared to other countries in the 'B' and even 'BB' rating categories, but public debt service is growing at a fast pace. Authorities have shown calm about the evolution of oil prices. Given the already high financing needs, the government could be seriously considering containing the execution of public investment as suggested by Finance Minister Herrera's comments about a $1.5 billion expenditure cut. There are initiatives on the revenues side as well, including changes in the tax code and other bills affecting the communication sector and even land ownership. The

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Featured Q&A

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negative impact of such cuts and extra taxes could be important for economic growth precisely when countercyclical measures are needed. The degree of budget execution and the deficit will be closely linked to available financing sources."

Walter Spurrier, president of Grupo Spurrier and director of *Weekly Analysis* in Guayaquil, Ecuador: "Ecuador faces a very serious situation, although not as serious as a recent Fitch Ratings report suggests, that the country needs the highest price among oil exporting countries, about $140 per barrel, to balance its budget. A large percentage of the budget is capital investment, which can be put off if revenues fall. But the president would downsize expenditures only as a last result as the political cost would be high. During the Great Recession, the price of oil recovered after six months. Some analysts hold that prices will recover in the second half of 2015, in which case the crisis is manageable. But if oil remains low indefinitely, the present government-led development strategy would need to be abandoned, something Correa would be reluctant to do. As worrisome as is the falling price of oil is the soaring country risk, diminishing Correa's chances of making a significant international bond placement. He is to play the China card; this week, he will meet with President Xi in Beijing. If he fails to secure commitments for enough funds to overcome the budget squeeze, Correa is likely to change rules for the application of business taxes, so as to increase the tax burden while sparing the general population. He may selectively reduce fuel subsidies, and the new monetary code gives him sway over people's financial assets deposited in private banks. A dreaded last card in Correa's hand is having the central bank buy government paper with electronic currency not backed by liquid assets. That would doom dollarization."

> "A large percentage of the budget is capital investment, which can be put off if revenues fall."
>
> — *Walter Spurrier*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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