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FEATURED Q&A

How Well Has Moreno Managed Ecuador's Economy?



Since 2017, Ecuadorean President Lenin Moreno has sought economic reforms and has distanced himself from the more controversial policies of his predecessor. // File Photo: Ecuadorean Government.

Q Ecuadorean President Lenin Moreno earlier this year reached the halfway point of his four-year term. Moreno, whose government agreed this year to a \$4.2 billion loan deal with the International Monetary Fund and has sought to reduce the country's fiscal deficit through austerity measures, has seen his approval rating fall over the past several months. How well has Moreno managed Ecuador's economy, and what can Ecuadoreans expect for the second half of his administration? What will the government's austerity measures and the IMF deal mean for the economy in the long term? What accounts for Moreno's declining approval rating?

A Daniela Chacón Arias, executive director at Fundación TANDEM and former Quito vice mayor and city council member: "The majority of the country understands that there is a need for austerity measures, as the economic crisis we are living through is a product of the excesses and corruption of 10 years of government under President Rafael Correa. Nonetheless, President Moreno has not yet given signs of real change in government spending, leaving citizens worried that they will be the ones paying for past mistakes. Some of the announcements regarding higher taxes have been greeted with protests. Some of the austerity measures made so far have only meant an elimination of ministries and reduction of personnel, which also leaves policymakers worried about weaker institutions that cannot cope with current security and inequality challenges. Nothing has been done to deal with the migration issue, which puts more pressure on an already weak economy. In addition, Moreno has not been able to

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TODAY'S NEWS

POLITICAL

U.S. Accuses Maduro's Stepsons of Corruption

The U.S. Treasury imposed sanctions on 10 people, including three stepsons of Venezuelan President Nicolás Maduro, in connection with an alleged scheme to steal money from a program meant to provide subsidized food to poor Venezuelans.

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ECONOMIC

Argentina Posts First Rise in Economic Activity Since Last Year

Economic activity in the South American country had fallen 1.3 percent in April versus the same month in 2018.

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POLITICAL

Mexico's Murder Rate Hits Record High, Keeps Rising

The country's homicide rate hit a record high last year and is continuing to rise, posing a challenge to the government of President Andrés Manuel López Obrador.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

U.S. Treasury Sanctions Family of Venezuela's Maduro

The U.S. Treasury Department on Thursday accused three stepsons of Venezuelan President Nicolás Maduro of involvement in an alleged scheme to steal hundreds of millions of dollars from the South American country's food subsidy program. In addition to sanctioning the stepsons, the Treasury also imposed sanctions on seven other people, including a prominent Colombian-born businessman, Alex Saab, who the Treasury alleged was the mastermind of the alleged scheme. "Alex Saab engaged with Maduro insiders to run a wide scale corruption network they callously used to exploit Venezuela's starving population," U.S. Treasury Secretary Steven Mnuchin said in a statement. "Treasury is targeting those behind Maduro's sophisticated corruption schemes, as well as the global network of shell companies that profit from the former regime's military-controlled food distribution program." The Treasury alleged Maduro's three stepsons, Walter, Yosser and Yoswal, of receiving money that Saab allegedly funneled to them in exchange for Venezuelan government contracts, including ones for the food subsidy program. As early as 2009, Saab exploited his ties with people inside the Maduro government, paying frequent bribes and kickbacks, in order to win overvalued government contracts, the Treasury alleged. Among its accusations, the Treasury alleged that Saab and a company created by business partner Alvaro Enrique Pulido Vargas received a housing contract that was four-times overvalued to build 25,000 homes that were intended for vulnerable populations. Saab also became involved in the Venezuelan government's CLAP program, which was created in 2016 with the stated goal of providing subsidized food to poor Venezuelans, the Treasury said in its statement. "Rather than ensure that this vulnerable population receives the food it desperately needs, the regime uses the CLAP program as a political tool to reward support

and punish political criticism, the Treasury said. Saab and Pulido devised a structure to acquire food from a foreign distributor and ship it to Venezuela at "the most profitable rate for themselves" and imported just a fraction of the food needed for the CLAP program, the Treasury said. Saab also used some of the profits he allegedly obtained to pay kickbacks to Maduro's stepsons in order to maintain access to Venezuelan government officials and keep winning lucrative government contracts, the Treasury alleged. Maduro's government had no immediate response to the accusations, the Financial Times reported.

Mexico's Murder Rate Hits Record High, Killings Keep Rising

Mexico's homicide rate hit a record high level last year, and the number of killings is continuing to rise this year, according to the country's National Statistics Institute, The Wall Street Journal reported Thursday. Mexico recorded 35,964 murders in 2018, a 12 percent increase as compared to the previous year, the statistics institute said. The homicide rate rose to 29 per 100,000 inhabitants, up from 26 per 100,000 the previous year. The states that recorded the most homicides last year were Guanajuato, where gang members have been engaged in fighting over fuel-theft schemes, and Mexico State, where suburbs of Mexico City have seen high levels of crime and violence. Jalisco State, where Mexico's largest drug cartel is based, and the border states of Chihuahua and Baja California, also had among the country's highest murder rates. The murder rate declined last year as compared to 2017 in Guerrero State. Among the first actions of Mexican President Andrés Manuel López Obrador, who took office last December, was to create a new National Guard, which is to eventually replace Mexico's Federal Police. In the latest National Urban Public Security Survey, which the national statistics institute released, 73.9 percent of Mexicans said that living in their city is unsafe, El Financiero reported. [Editor's note: See related [Q&A](#) in the April 17 issue of the Advisor.]

NEWS BRIEFS

Peru's Vizcarra to Reconsider Permit for Tía María Copper Project

Peruvian President Martin Vizcarra said late Wednesday he will re-evaluate a recent decision to grant a construction permit to Mexico's Southern Copper for its proposed Tía María mine, Reuters reported. Local authorities had called for the decision's annulment following more than a week of protests. The proposed \$1.4 billion copper project has been stalled for nearly a decade. Local residents fear the mine will damage crops and water supplies.

Paraguay's Central Bank Slashes Economic Growth Forecast

Paraguay's central bank on Thursday cut the country's economic growth forecast for this year by more than half, Reuters reported. Citing lower agricultural sector output and trade problems in neighboring Argentina and Brazil, the bank cut its 2019 growth outlook to 1.5 percent from 3.2 percent. Last month, Paraguay's government announced plans to accelerate the disbursement of \$1.5 billion into various sectors in a bid to stimulate the economy.

Latin America Setbacks Dent Principal Financial's Second Quarter Earnings

Setbacks in Latin America took a toll on Principal Financial Group's profits during the second quarter of 2019, the Des Moines-based company said in an earnings statement Thursday. Pre-tax operating earnings from international operations increased \$6.9 million during the period, but combined net revenue decreased \$2.4 million as foreign currency translation headwinds and unfavorable inflation more than offset favorable encaje, the term for the company's investment in the underlying funds of its mandatory pension operations in Chile and Mexico.

ECONOMIC NEWS

Argentina Posts First Rise in Economic Activity in a Year

Argentina's government said Thursday that economic activity rose in May for the first time in more than a year, Reuters reported. The 2.6 percent increase in May from the same month a year ago exceeded estimates of analysts polled by Reuters. Economic activity in Argentina had fallen 1.3 percent in April versus the



Macri // File Photo: Argentine Government.

same month in 2018, the 12th consecutive monthly decline. Argentina's Treasury Department said the rise was due to strong growth from the farming sector, which it said was up nearly 50 percent versus a year ago, as well as improvements in sectors including transportation, industry, commerce and construction. Bad weather conditions damaged crops last year across much of the country. Looking ahead, better salaries and lower inflation should help boost consumer spending, the statement added. The improving economy is good news for conservative President Mauricio Macri, who is in a tight election campaign ahead of the nation's Oct. 27 vote. The International Monetary Fund and Argentina reached an agreement on July 5 to allow the release of a \$5.4 billion disbursement under the South American country's loan program with the lender. The deal came just days after economists in an Argentine central bank survey said they expected the country's economy to contract 1.4 percent this year. [Editor's note: See related [Q&A](#) in the July 19 issue of the Advisor.]

BUSINESS NEWS

Carrefour Sees Stronger Sales in Latin America

France-based retailer Carrefour said Thursday that stronger sales growth in Latin America helped boost the company's profitability in the first half of the year. In an earnings release, the company said sales in the first half of 2019 in Latin America were up 15.2 percent on a like-for-like basis. In Brazil, where the company has a significant retail as well as financial services presence, second-quarter sales were up 12.9 percent at constant exchange rates.

"This was the highest quarterly increase of the last five years," the company said in the statement, adding that food inflation in Brazil has been slowing since May. A repositioning of its hypermarket strategy, initiated in 2018, helped increase sales in South America's largest economy, while stronger performance in convenience, food transition initiatives and strong e-commerce sales also contributed to results. In Argentina, where growth on a like-for-like basis reached 50.5 percent in the second quarter this year, high food inflation in the country contributed to results, the company said, as well as an improvement in traffic and volumes. At constant exchange rates, Carrefour's recurring operating income from Latin America increased by nearly \$68 million in the first half of the year.

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form a strong coalition in the legislature that would assure Ecuadoreans of broad support for the austerity measures agreed to with the IMF. Scandals continue to be the talk of the day, given the political reform that this government started. Because that reform will take a while, the political support that Moreno needs will continue to decline. In September, he is to present the National Assembly with economic reforms, which will surely encounter opposition from several parties (especially Correa's) and social sectors. Ecuadoreans are aware that this is a transition government. However, there is still a lack of clarity about where that transition is going, and past fears about IMF deals are re-emerging."

A **Walter Spurrier, president of Grupo Spurrier and director of Weekly Analysis in Guayaquil:**

"Let us start with the easiest question. Moreno's popularity is plummeting because the economy is in the doldrums. His management of the economy has one huge positive: he made a U-turn from Correa's policies that were leading to a collapse. The main criticism is that Moreno took over running the economy only at the start

of his second year, leaving Correa appointees at the helm during the first. Moreno has appointed businessmen and orthodox economists to his cabinet, gaining credibility

“His management of the economy has one huge positive: he made a U-turn from Correa's policies that were leading to a collapse.”

— Walter Spurrier

with the business sector. The problem is that there are two formidable economic problems to tackle: the fiscal deficit and very steep domestic prices, which dollarized Ecuador cannot bring down through devaluation. The policies must center on reducing the bloated bureaucracy as well as raising taxes and fuel prices. These are expected to improve the fiscal situation by the equivalent of five points of GDP, while recession should usher in deflation and bring down domestic prices. Until domestic costs go down or household consumption rises, there will not be much

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private investment. Ecuadoreans should expect economic stagnation for the second half of Moreno's term. It will be a struggle for Moreno to meet his commitments with the IMF: it is difficult for the government to lay off employees, and there is no legislative majority for a tax increase. The next government will have to continue current policies. There is the danger of adjustment fatigue. If after all, the reforms are carried through and deliver on their promise, Ecuador would emerge fit to compete and succeed in the global market."

A **Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito:** "President Moreno can be described, at least in his stance toward economic policies, as a 'reluctant reformer' because he has eschewed most radical and unpopular reforms. Sadly, those radical and unpopular reforms are the ones most needed in Ecuador. The adjustment mea-

“**President Moreno can be described, at least in his stance toward economic policies, as a 'reluctant reformer'.**”

— Vicente Albornoz

asures implemented in Ecuador to date have been a timid reduction in public expenditure (exclusively in capital expenditure and not in current expenditure), a lukewarm reduction of fuel subsidies and many unfulfilled announcements of tax and labor reforms. This leaves Ecuador in something of an economic limbo, where growth has slowed (due to the fall in aggregate demand caused by the shrinking public expenditure) but where private investment has not yet recovered

(because of the fear that implemented reforms will be insufficient). This conjunction of slow growth and economic pessimism for the future may explain Moreno's declining approval ratings. For the second half of his term, one should expect just more of the same: only those small, cautious reforms needed for his government to survive until the next presidential election, scheduled for February 2021."

A **César Coronel Jones, founding partner at Coronel & Pérez in Guayaquil:** "We must keep in mind that Ecuador's current economic woes are the direct result of the mismanagement that occurred during the previous regime of President Rafael Correa. Indeed, Correa was simply overly ambitious regarding government spending and relied too much on oil exports to fund it. Now that oil prices have fallen and production has slowed, a budgetary adjustment is inevitable. Although President Moreno promised to implement significant economic reforms, they have been few and rather conservative. Moreno knows that raising taxes and cutting spending, the only sensible way out of the current predicament, will carry a hefty political cost that he is undoubtedly reluctant to bear. That being said, the IMF deal is bound to force Moreno's hand into finally implementing the necessary (albeit harsh) budgetary restructuring measures that will balance Ecuador's budget. The IMF deal will certainly be hard during the first years, but will benefit the Ecuadorean economy in the long run. Moreno's declining approval rating is caused by the fact that he is seen as an overly 'passive' president who is reluctant to take a firm stance on many issues."

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