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FEATURED Q&A

How Can Ecuador Handle Both an Oil Shock & Pandemic?

Ecuadorean President Lenín Moreno is facing major threats to the country's economy—the coronavirus pandemic and the plunge in the price of oil, Ecuador's chief export. // File Photo: Ecuadorean Government.

Q **Ecuadorean President Lenín Moreno said March 10 that he will seek to cut the government's budget by $1.4 billion and improve the country's debt payment terms amid the economic fallout of the coronavirus pandemic and the plunge in the price of oil, a key export for the Andean nation. How vulnerable is Ecuador to those two threats to its economy? Will Moreno face legislative pushback to his plan? Will social unrest flare up? Is Moreno taking the right actions in light of the developments, and what more should he be doing?**

A **Daniela Chacón Arias, executive director at Fundación TANDEM and former Quito vice mayor and city council member:** "Since the announcement, the crisis caused by the coronavirus pandemic has deepened, forcing the government to take extreme measures to prevent its expansion. The country is now under quarantine for 15 days with only basic industries functioning. Amid these measures, the government has assured Ecuadoreans that there will be economic aid to stimulate businesses' recovery. Nonetheless, the impact of this quarantine on an already-weak economy will be immense. Ecuador is facing a triple menace: low oil prices, appreciation of the dollar and a higher country risk rate, which makes external indebtedness a costly option. Additionally, Ecuador has a high rate of informality in the economy, with only 39 percent of the population formally employed. The backbone of Ecuador's economy is made up of small and medium businesses (formal and informal), which will suffer the most, making the recovery from

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TODAY'S NEWS

POLITICAL

U.S. Postpones Hearings on 'Remain in Mexico' Policy

Citing concern over the coronavirus pandemic, the administration of U.S. President Donald Trump is postponing all hearings related to its controversial policy of returning migrants to Mexico to await their court dates.

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BUSINESS

Mexicali Voters Reject Completion of Brewery

Voters in the Mexican border city of Mexicali rejected the completion of a Constellation Brands brewery.

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ECONOMIC

Brazil to Inject Nearly $234 Bn Into Country's Financial System

Brazil's central bank, headed by Roberto Campos Neto, said it would inject 1.2 trillion reais ($233.81 billion) into the country's financial system.

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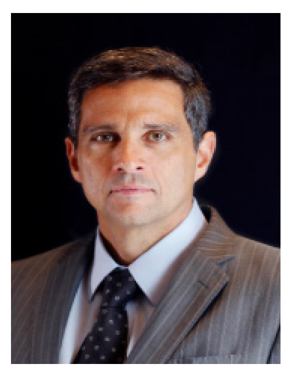

Campos Neto // File Photo: Brazilian Government.

ECONOMIC NEWS

Brazil to Inject Nearly $234 Billion Into Financial System

Brazil's central bank said Monday that it would inject 1.2 trillion reais ($233.81 billion) into the country's financial system in order to counter the negative economic affects of the coronavirus pandemic, Reuters reported. More than half of that amount would be earmarked for loans to banks. "This is the biggest liquidity injection ever announced by the central bank," the institution's president, Roberto Campos Neto, told reporters in a conference call. "We understand that the acquisition of long-term deposits backed by banks' loans will allow money to get to companies." Under the program, banks would be able to package loan portfolios into long-term deposits that the central bank would acquire. The program would be aimed at freeing up some 670 billion reais for new loans, the wire service reported. The central bank wants consumers and businesses to continue borrowing amid the pandemic, and it has said that it would make available the equivalent of 16.7 percent of the country's gross domestic product in new cash. Campos Neto said the central bank would soon release new regulations to govern loan-backed letters of credit. Brazil's central bank has also lowered long-term reserve requirements for banks from 25 percent to 17 percent, a move that has freed up 68 billion reais. Additionally, the central bank is allowing small- and medium-sized lenders to issue as much as 2 billion reais in special long-term bonds that will be guaranteed by a deposit-insurance fund that is privately held. That measure is expected to allow banks to make as much as 200 billion reais' worth of new loans. The central bank may take further steps to lower reserve requirements more, and it may announce other measures in order to bolster the economy amid the pandemic, said Campos Neto.

POLITICAL NEWS

U.S. Postpones Hearings on 'Remain in Mexico' Policy

The administration of U.S. President Donald Trump is postponing all hearings related to

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this external and internal crisis long and painful. In the midst of all these problems, we are approaching presidential elections, and some of the political actors have not yet expressed their views on the future of the economy. Given the political weakness of Moreno's government, many of us are expecting maturity from the political class and solidarity from the population, given that the measures to be taken will be hard, will affect everybody and will require support from across the political spectrum. The government will have to present a comprehensive package that takes into consideration the realities of inequality and the country's informal sector. Otherwise, political and social support could be at risk."

A **Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito:** "In the early years of the 21st century, Ecuador created funds using unexpected income from oil. During Rafael Correa's short stint as finance minister in 2005, those funds were all but destroyed. Then, during the first eight years of Correa's presidential term (2007-2014), the country enjoyed a long period of unusually high oil prices that gave the government unexpected additional income. Sadly, the government spent all of that income, and none of it was kept in any stabilization fund for a rainy day. Furthermore, the government, even during the oil boom, acquired substantial new

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NEWS BRIEFS

Almagro Re-elected Secretary General of OAS

Luis Almagro, who has been secretary general of the Organization of American States since 2015, was re-elected on Friday to a second five-year term heading the organization. An Uruguayan, Almagro garnered 23 of the 33 votes cast by member states, MercoPress reported. Ecuadorean María Fernanda Espinosa received 10 votes. Assistant Secretary General Nestor Mendez of Belize was re-elected to his post by acclimation. Almagro and Mendez are to begin their second terms on May 26.

U.S. Military Operation Rescues Woman in Honduras: Defense Sec'y

A U.S. military operation rescued a U.S. citizen from an unspecified danger in Honduras, and she has been reunited with her family, Defense Secretary Mark Esper said Monday, The Wall Street Journal reported. Speaking at a press conference at the Pentagon, Esper declined to offer specifics about the operation or the circumstances that led to it. He only said the woman was a victim of a violent crime. Defense officials declined to say what units or equipment were used and how many U.S. troops were involved in the operation.

Brazil's Hi Technologies Working on Rapid-Results Test for Coronavirus

Brazil-based health and technology start-up Hi Technologies has announced that it is currently working on the mass production of a 15-minute test for Covid-19, ZDNet reported Monday. The firm said all of its 130 employees are focused on manufacturing and delivering the tests, which are expected to be ready in the second week of April. The company's distribution priorities will be São Paulo state, where the majority of Brazil's Covid-19 cases are located, and Curitiba, where Hi Technologies is based.

its controversial policy of returning migrants to Mexico until their court date in the United States, the Justice Department's Executive Office for Immigration Review, or EOIR, announced late Monday, citing concerns over the coronavirus pandemic, CNN reported. Hearings through April 22 will be rescheduled, the statement said, adding that the administration's so-called "Remain in Mexico" policy will not be canceled, nor will the hearings. EOIR oversees the United States' immigration courts. The policy, officially dubbed the Migrant Protection Protocols, allows U.S. officials to send asylum seekers, many of whom are from Central America, to Mexico while they await their U.S. immigration hearings. It has resulted in the creation of makeshift camps where hundreds of migrants have waited for weeks, if not months, in unsafe conditions, CNN reported. The Supreme Court earlier in March said that the policy can stay in effect while legal challenges proceed.

BUSINESS NEWS

Voters Reject Completion of Brewery in Mexicali

Residents in the Mexican border city of Mexicali voted against the completion of a $1.4 billion brewery owned by Constellation Brands in a public consultation the government of President Andrés Manuel López Obrador organized on Saturday and Sunday, The Wall Street Journal reported. Residents rejected the project on grounds that its intensive water consumption would harm the community and cause irrigation shortages in the agriculture sector. The vote raises concerns about undermining foreign investment in Mexico as the country faces a deep economic contraction. Around 76 percent of those who voted rejected the project, which was to be developed by Constellation, the third-largest U.S. beer producer and brewer of Mexico's Corona and Modelo brands for U.S. consumers. Just 27,973 of 796,447 eligible voters participated in the public consultation, which represent just 3.51 percent of Mexicali's electoral roll, Expansión reported. As a result of the vote, the government will not grant a water-supply permit to the company, Deputy Interior Minister Diana Álvarez said Monday after announcing the results, adding that the government is soon scheduled to begin talks with Constellation over compensation for incurred losses. The cancellation of such a large project sends a negative signal to foreign investors, business groups say, The Wall Street Journal reported. It comes at a time when the Mexican economy is lagging, having registered a slight contraction in economy activity last year, with fixed investment falling 4.9 percent in 2019 from the previous year. Economists polled last Friday by local bank Citibanamex expect gross domestic product to contract 3 percent this year, down from an estimate of 0.7 growth a few weeks ago.

CORRECTION

In a commentary published March 20 in the Advisor, Carlos Iannizzotto meant to say that 800,000 fewer hectares of crops (as opposed to 800 hectares) are expected following the government's announcement of higher export taxes on soybeans and their byproducts.

THE DIALOGUE CONTINUES

Can the Caribbean Tourism Industry Withstand Covid-19?

Q The coronavirus pandemic has brought most of the cruise industry to a halt as companies including Royal Caribbean and Norwegian Cruise Line have temporarily halted U.S. sailings. Even before the suspensions, officials expressed alarm in the Caribbean, including in Jamaica, where the country's tourism minister said the island had welcomed 50,000 fewer cruise ship passengers than normal in recent weeks. How big of an impact will Covid-19 have on tourism in the Caribbean, and which countries face the most severe effects? What should government officials in the Caribbean do to prepare their countries and mitigate the consequences? How well are tourism-related businesses, such as cruise lines and hotels, handling the situation?

A José Raúl Perales, director for trade at the Center for International Private Enterprise: "Caribbean economies are among the most tourism-dependent in the world, so the drop in tourist visits will be an economic shock of enormous magnitude, much more than the recent Zika crisis. The key for Caribbean countries is how long the travel bans last, as that will determine the magnitude of the economic shock. If the crisis lasts until the beginning of peak season at the end of the year, we can expect double-digit drops in GDP as compared to the onset of the crisis. For some of the most tourism-dependent countries in the region, such as Jamaica and Barbados, their debt-to-GDP ratio is already quite high, which means they may face additional challenges to secure capital in international markets for counter-cyclical domestic spending."

> **"The key for Caribbean countries is how long the travel bans last..."**
> **— José Raúl Perales**

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Monday's issue of the Advisor.

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debt. So when the boom ended, the country did not have any savings, and it was highly indebted. As the situation deteriorated, the country only reluctantly began an adjustment program. However, Ecuador's public finances are grossly unprepared for the situation the country now faces, especially the fall in oil prices. The price per barrel is $30 less than the level set in the government's budget. This means there is an significant deficit that will not be covered, even by the plans announced earlier this month. Ecuador should be seen as a cautionary tale about the need for savings in countries that depend on volatile prices of primary goods."

A **César Coronel Jones, founding partner at Coronel & Pérez in Guayaquil, Ecuador:** "Both the pandemic and the fall of oil prices are predicted to have catastrophic effects on Ecuador's economy. Ecuador has carried a hefty budget deficit for more than a decade, which combined with the fall in oil prices makes it impossible to enact expansionary fiscal policies to combat the recession. In addition, being a dollarized economy also makes it impossible to use monetary policy. In short, Ecuador's government is incapable of enacting any significant counter-cyclical policies in the face of the economic downturn. On the contrary, the government is essentially forced to do the opposite: to enact austerity measures in a time of recession. Moreno's tax increases will likely face legislative pushback. However, the executive branch has the discretion to cut public salaries. As of now, there are no signs of social unrest, but unrest might flare up if more aggressive measures are taken, which will likely be necessary. Moreno's measures are pointing in the right direction, but they are too shallow. Putting an end to fuel subsidies, substantial public-sector salary reductions or a significant reduction in labor regulations would be more effective at controlling the deficit, but they would be hard to achieve given the current political climate. Another option that Moreno could consider is a declaration of a temporary default on the national debt. Ecuador's country risk rate is so high that a default would hardly have a real impact."

A **Abelardo Pachano, president of Finanview in Ecuador, former CEO of Produbanco and former Ecuadorean central bank president:** "Within political and social constraints, the government's decisions are going in the right direction, but they are insufficient. They lessen the situation, but they do not lead to structural changes to the issues that brought us to this complex situation. Since 2007, macroeconomic balances have been neglected, obligations have accumulated, public accounts have been inflated, savings mechanisms have been undervalued and, today, the country is financially suppressed and competitively deteriorated. Ecuador has no financial buffers. Without resources, a recession is imminent. The Ecuadorean Congress is still reluctant to make appropriate adjustment decisions. The government is confined to its political agenda. Correcting the economic policy course has encountered serious difficulties. Indigenous leaders maintain their threats if subsidies are eliminated or taxes are created. Despite all this, there is relative calm. Health measures are accepted as a priority, and businesses are seeking to safeguard what they have. The country requires emergency international resources, and the multilateral lenders are maintaining an open dialogue. The IMF is showing understanding. What is missing is a national political agreement that encompasses the most difficult challenges."

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

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