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FEATURED Q&A

Will Austerity Measures Lead to Unrest in Ecuador?



Ecuadorian President Guillermo Lasso is seeking to halve the country's fiscal deficit, but austerity measures led to massive protests against his predecessor. // File Photo: Ecuadorian Government.

Q Ecuadorian President Guillermo Lasso said Sept. 2 that he aims to cut the country's fiscal deficit next year in half, to approximately \$2.4 billion, including by laying off state workers and other austerity measures. Lasso also said many people who benefit from fuel subsidies don't need government assistance, but Lasso's predecessor, Lenín Moreno, faced massive protests in 2019 after he tried to do away with the popular subsidies and was forced to reverse their cancellation. How critical is it for Ecuador to cut its deficit as much as Lasso is suggesting? How likely are Lasso's plans to face large-scale protests? What types of cuts can Lasso make, and what should he avoid cutting, in order for his plan to win acceptance among the public and in the National Assembly?

A Walter Spurrier, president of Grupo Spurrier and director of Weekly Analysis in Guayaquil, Ecuador: "In October 2019, then-President Moreno raised prices to eliminate fuel subsidies except for cooking gas. Leonidas Iza, an Indigenous leader who was preparing a Columbus Day uprising, changed the leitmotif of the protest to the fuel hike and almost toppled Moreno, who had to withdraw the measure. Moreno retook raising prices at a 5 percent monthly clip; Lasso has maintained the hike. The population seems to have reluctantly accepted the price crawl. Iza toys with the idea of a new uprising in October, but he is unlikely to muster popular support. Lasso will have to cut bureaucracy while avoiding tax hikes for the middle class; financing sources have dried up. Lasso has already reduced the number of employees in the president's office by 30 percent. The public sector

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Haitian Prime Minister's Office Rejects Allegations

Prime Minister Ariel Henry's office made its first public statements rejecting allegations of a connection between Henry and a key suspect in the assassination of President Jovenel Moïse.

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Salvadoran Court to Probe Government's Bitcoin Purchases

A Salvadoran court will investigate the government's purchases of Bitcoin following a complaint from a human rights group.

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POLITICAL

U.N. Report Finds 'Significant' Repression in Venezuelan Courts

Venezuela's judiciary plays a "significant" role in repressing opponents of the government, according to a U.N. report. Venezuelan Attorney General Tarek William Saab rejected the findings.

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Saab // File Photo: Venezolana de Televisión.

POLITICAL NEWS

Venezuelan Courts Play ‘Significant’ Role in Repression: U.N.

Venezuela’s judiciary plays a “significant” role in repressing critics of the government by allowing evidence obtained through torture and other irregularities, “marring all stages of the criminal process,” according to a report released Thursday by the United Nations Human Rights Council. “Based on the investigations and the analysis conducted, the mission has reasonable grounds to believe that instead of providing protection to victims of human rights violations and crimes, the Venezuelan justice system has played a significant role in the state’s repression of governmental crimes,” Marta Valiñas, the chair of the fact-finding mission that compiled the report, said in releasing it in Geneva. Among the problems in Venezuela’s justice system are “lengthy procedural delays that denied defendants the opportunity to challenge evidence against them” as well as “hurdles and harassment” that defense lawyers have faced, in addition to pretrial detentions longer than two years, the limit of what the country’s constitution allows. “The mission also reviewed cases that it previously documented in 2020 of state intelligence forces who had subjected male and female detainees to enforced disappearance, torture—including sexual violence—and death,” the United Nations said in a statement, adding that the mission found no evidence of high-level officials being investigated or prosecuted in connection with the incidents. The findings of the report were based on 177 interviews, including several with actors in Venezuela’s justice system. The mission also surveyed former Venezuelan judges, prosecutors and defense lawyers, and it reviewed thousands of pages of official documents, including legal case files. Venezuelan Attorney General Tarek William Saab dismissed the study, telling reporters Thursday that it was part of an effort “to sully the work of all officials” in the country’s justice system, The New York Times reported. However, at the same

time, Saab said the government would create a special judicial unit to investigate possible violations of human rights, calling the move “a new sign of commitment in the defense of human rights.”

Haitian Prime Minister’s Office Rejects Allegations

The office of Haitian Prime Minister Ariel Henry on Thursday for the first time addressed evidence that authorities have said links him to one of the key suspects in the assassination of President Jovenel Moïse, the Associated Press reported. Haitian authorities in recent days made public information about calls that allegedly took place between Henry and Joseph Badio, a former government employee for whom authorities have an arrest warrant, just hours after the president’s murder on July 7. Badio is still at large. Henry fired both the top prosecutor of Port-au-Prince and the minister of justice after the prosecutor raised the accusations, but the prime minister had not referred to the purported calls until Thursday. The prime minister’s office said in a statement that Henry received many calls from people concerned for his safety following the assassination, adding that the office is unable to identify all of those who called Henry or determine the nature of the conversations. “After an act of such gravity, many people naturally wanted to inquire about this situation,” the office said, the AP reported. The former Port-au-Prince prosecutor, Bed-Ford Claude, has said evidence shows Badio was near Moïse’s home when the calls were made. Just hours before Henry dismissed him on Tuesday, Claude asked the judge in the case to charge the prime minister. In the statement, Henry’s office said political interests do not allow anyone to make “serious and baseless innuendos, much less to attempt to hand someone over to popular retribution,” the AP reported. “Conversations with individuals against whom charges are laid cannot, in any case, be used to incriminate anyone,” it added. Haiti has been rocked by the political crisis, which also coincided with two back-to-back natural

NEWS BRIEFS

Mexican Authorities Kill Nine After Coming Under Fire Near Nuevo Laredo

Mexican soldiers and police killed nine suspected gunmen near the border city of Nuevo Laredo in Coahuila state, with authorities saying state police officers came under fire while patrolling a dirt road, the Associated Press reported. The state government said soldiers were summoned as reinforcement. One of the vehicles left behind by the suspects at the scene was a truck fitted with homemade steel-plate armor, a common vehicle among drug gangs in the region.

U.S. Judge Stops Expulsion of Migrants With Children Under Health Order

A U.S. federal judge ruled on Thursday that the U.S. government can no longer use a public health order issued during the administration of former President Donald Trump to expel migrants with children at the U.S.-Mexico border, the Associated Press reported. U.S. District Judge Emmet Sullivan said the current government has two weeks to stop using the order, which critics say is unnecessary and deprives migrants of their right to seek asylum.

Salvadoran Court to Probe Government’s Bitcoin Purchases

El Salvador’s Court of Accounts, which oversees public resources, will start a probe of the government’s Bitcoin purchases and the construction of ATMs for the cryptocurrency after receiving a complaint from human rights and transparency organization Cristosal, Reuters reported Thursday, citing a court document. El Salvador this month introduced Bitcoin as legal tender in the country alongside the U.S. dollar, launching a digital wallet known as Chivo. The system has been plagued with problems and has frequently been offline for maintenance.

disasters that have left tens of thousands of Haitians awaiting help for more than a month, the AP reported, citing Bruno Lemarquis, U.N. humanitarian coordinator in Haiti. Lemarquis said the country's dire political situation and the control that gangs have of key roads are complicating efforts to deliver aid following the 7.2-magnitude earthquake in the country's southern region more than a month ago. Haiti's Civil Protection Agency estimates only about 46 percent of people in need have received some kind of humanitarian aid.

BUSINESS NEWS

Apple Pay Reportedly Expanding to Chile After Brazil Rollout

Apple Pay is expanding to Chile, its second South American market following Brazil, website 9to5mac.com reported Thursday. Banco de Chile and Banco Edwards are now supporting Apple Pay through the use of Visa credit cards, according to blog Chocale and multiple users discussing the rollout on Twitter. Chile's Banco Industrial y de Comercio Exterior, also known as Banco BICE, said in August that it was preparing for the launch of the service, 9to5mac.com reported. On Thursday, users were able to add their Visa credit card details after changing their iPhone region to the United States in order to use the service and then following various steps to use Apple Pay. Apple's website in Chile and Banco de Chile are not currently promoting the launch, and users have been able to add their credit card details earlier than expected. MasterCard credit cards are also likely to soon be compatible with the service, 9to5mac.com reported. Apple Pay is also likely to be rolled out in Costa Rica and other countries in Central America, according to the website. Earlier this month, the site reported that Costa Rica-based BAC Credomatic was ramping up testing of Apple Pay. BAC Credomatic is expected to support both Visa- and MasterCard-branded credit cards in conjunction with Apple Pay, the website reported.

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payroll is 10 percent of GDP, three points above the Latin American average, and yet public services are deficient. In Ecuador, public sector layoffs are very costly but unavoidable as current spending is dead weight. Layoffs would be unpopular with those who are cut or those who feel they are next in line. However, Lasso's popularity is sky high, and he must draw on that popularity to stabilize the economy as soon as possible. Private investment, which he sorely needs, hinges on the perception that Lasso will straighten out the economy, paving the way for his re-election or a similar-minded president in 2025. Investors dread an Argentina-like scenario with Correa returning to power under the cover of a protégé as president."

A **Carolina Caballero, associate, and Lisa Schineller, managing director and lead analyst, both for Sovereign & International Public Finance Ratings at Standard & Poor's:** "Large and persistent fiscal deficits, as growth slowed and oil prices declined, underpinned a doubling in Ecuador's debt burden between 2015 and 2020. Tight financing conditions forced Ecuador to implement austere policies, in addition to debt restructuring last year. Nonetheless, financing needs still remain large and depend on official financing given small local capital markets. Notwithstanding President Lasso's strong approval ratings, we believe there is limited room to maneuver in a context of a complex political landscape, institutional weaknesses and still-stressed socioeconomic conditions. Therefore, our 'B-' rating assumes a more gradual fiscal adjustment, with the general government deficit falling to around \$2.9 billion in 2022-2023. This implies debt stabilizing just above 60 percent of GDP. The Lasso administration has already internalized various political constraints and society's rejection of tax hikes, and it will target a less ambitious tax reform than the one included in the initial IMF program. This

implies more adjustment in expenditures, but still with an eye to balancing pressures in society and the National Assembly. In our view, there may be some gains from payroll cuts in decentralized entities; however, at the central government level this could prove challenging, as most personnel is related to the provision of education, health and public safety. That said, we think the bulk of public sector reduction would come from cuts in infrastructure spending, which even though has considerably fallen from its record in 2014, it is still above the share dedicated by regional peers. To help limit the negative hit on the economy, we expect the government to continue to advance policies conducive to a friendlier environment for private investment."

A **Jaime Reusche, vice president and senior credit officer in the Sovereign Risk Group at Moody's Investors Service:**

"President Lasso will face resistance to any austerity measures he imposes because there is little flexibility on the structure of expenditures, given that capital spending has already been reduced significantly over the past five years. The margin to cut goods and services purchases is limited such that the focus has shifted to the wage bill. Politically, the president enjoys strong approval levels given the success of the vaccination campaign, providing some degree of acceptance for spending cuts. However, both the opposition and political allies to the government will be less tolerant of drastic reductions in public spending. The government has been careful in not attracting too much attention to the painful fiscal measures integral to its deficit reduction strategy, and this will support deficit reduction efforts. Beyond political opposition to fiscal measures, the government will find it challenging to meet its fiscal targets if the economy slows markedly following this year's rebound. For the fiscal measures to be effective in stabilizing public finances, sustainable economic growth will

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need to be supportive of government revenues. Ecuador's economy struggles to grow due to its dependence on public spending, and without extensive competitiveness-enhancing reforms that will require ever more political capital to enact. Fiscal challenges will increase as the liquidity relief from recent debt restructuring wanes. If successful, fiscal adjustment is only a first step to avoid relapsing into the liquidity issues that the sovereign faced in the past. The following step is the more challenging one as it entails a restructuring of the economy."

A **Todd Martinez, senior director in the Sovereigns Group at Fitch Ratings:** "Ecuador's fiscal deficit is no longer very high. However, it is a key macroeconomic vulnerability in the context of narrow financing options, so it is important to reduce. President Lasso's plan to halve the fiscal deficit in 2022 requires a significant consolidation effort, but even this represents a relaxation of the adjustment envisioned in the prior IMF program. Lasso hasn't detailed his fiscal plan, which will likely emerge soon when the IMF board approves a revised program, but it appears he will aim for a slower adjustment more focused on spending containment than tax hikes. Lasso, who thinks raising taxes (even a low 12 percent VAT rate) would complicate the economic outlook, may see this as a political nonstarter and appears

to have convinced the IMF of this view. He even wants to cut some taxes, and already did so for import tariffs. Yet while spending cuts may sound more politically palatable now, they could also prove unpopular when details emerge. Laying off enough workers to generate major fiscal savings could face

“**While spending cuts may sound more politically palatable now, they could also prove unpopular when details emerge.**”

— Todd Martinez

a backlash, and teachers are pushing for wage hikes after the courts overturned one approved by the prior government. Social groups are mobilizing against fuel price increases required under a new subsidy scheme introduced last year, and Lasso has stood firm on this so far. Greater clarification around a fiscal consolidation plan, and confidence in its political viability, will be key to any upside potential for Ecuador's sovereign rating, which we recently affirmed at B-/stable."

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

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