Economic crisis forces Ecuador to abandon its own currency

Our Correspondent
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The small South American nation of Ecuador will abandon its own currency, the sucre, and dollarize its economy, President Jamil Mahuad announced Sunday in a nationally televised address. Mahuad declared a state of emergency January 6, the fourth since he took office 18 months ago, and ordered his 15-member cabinet to resign.

Mahuad appealed to trade union and indigenous organizations to abandon plans for a general strike set to begin on January 15. Oil workers at the state-owned Petroecuador have announced an indefinite strike starting January 17, and other public sector workers, including bus drivers and teachers, have already begun strike action.

The dollarization of the Ecuadorian economy means that the sucre will no longer be accepted as a means of payment except for coinage. All bills will be withdrawn from circulation and only US dollars will be permitted as currency. The US Treasury, not the Ecuadorian government, would then have effective control of the money supply, interest rates and other economic policies. Ecuador would become the second Latin American country to suffer such a total collapse of economic sovereignty, joining Panama as a colony in all but name.

Mahuad's action came only three days after Central Bank President Pablo Better rejected dollarization, saying that he would not be party to any "rushed, crazy measures." After Mahuad's speech, Better resigned, and the four remaining directors of the Central Bank were compelled to ratify the dollarization plan.

The exchange rate announced by Mahuad, 25,000 sucres to the dollar, testifies to the rapid impoverishment of the Ecuadorian masses over the past year, during which the sucre's value has fallen by 82 percent. At this exchange rate the minimum wage in Ecuador would be only $30 a month, half its value only six months ago.

Ecuador has been bankrupted by the collapse of oil prices in 1998 and early 1999 and by the effects of the El Nino and La Nina weather conditions on agricultural production. Oil is the country's main export and largest source of foreign exchange, and Ecuador's export earnings have plunged over the past two years. At the same time, storms caused by the unusual weather patterns in the Pacific Ocean have damaged much of the country's crop of bananas—another key export—and prices of food staples have skyrocketed.

Mahuad, who took office in August 1998, has faced one financial crisis after another. Last March he imposed a one-week bank holiday, then in April he ordered all savings and checking accounts frozen for a year. In September the government defaulted on part of its $20 billion in foreign debt, and by December ten of the country's largest banks had failed.

The dollarization plan is a desperate expedient to save Mahuad's government from the combination of financial catastrophe and social upheaval. The regime is seeking $250 million in new IMF loans and an additional $1 billion from other lenders conditional on the IMF action.

US officials have been cautious about the move. Before Mahuad's Sunday night speech, President Clinton telephoned him to express his support and Treasury Secretary Lawrence Summers issued a statement reiterating US interest in a stable Ecuadorian government and economy. But no high-level pronouncement was issued after the dollarization plan was made public.

IMF Managing Director Michel Camdessus, however, indicated full cooperation with Mahuad, issuing a statement Monday: "In light of the

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announcement yesterday by the government of Ecuador of its intention to move the economy to full dollarization, the IMF is prepared to send a fact-finding mission to Quito to provide technical assistance in adapting their fiscal and banking strategies to dollarization."

The Ecuadorian ruling class has been deeply shaken by the financial collapse and the mounting opposition to the Mahuad government, reflected in strikes, demonstrations and rioting in both Quito and Guayaquil, the two major cities, and in the countryside. Their demoralization was expressed by Jorge Rodriguez, an economist and former adviser to Mahuad, who declared, "We're now on the edge of economic collapse. We have just started to fall and are in the first phase of total collapse. If something dramatic is not done immediately, then I would predict total economic collapse within this year."

There have been rumblings of a military coup, although the military brass is not anxious to assume power under conditions of economic catastrophe. The day before he announced the dollarization plan, Mahuad met for seven hours with the top generals and admirals. These officers then issued a statement, published as a full-page advertisement in the country's major newspaper *El Mercurio*, declaring they would uphold "the constitutional process," but significantly making no mention of Mahuad or his government.

A particularly dangerous role is being played by the leaders of the trade unions and the former Stalinists of the Ecuadorian Communist Party, who are openly appealing for the military to intervene against the Mahuad government. They have established an alliance, the Patriotic Front, which includes student, peasant and indigenous groups. Luis Villacis, president of the Patriotic Front, called for continued protests until Mahuad resigns and for his replacement by a "Patriotic Government of National Unity," with representatives of the Catholic Church, the armed forces and "honest business leaders."

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