Ecuador: deepening crisis, floods trigger surge of inflation

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In Ecuador, it is clear that inflation for the first quarter of this year is going to surpass the rate projected by the government for all of 2008, according to statistics from the country's Central Bank. The principal causes of the inflationary surge are the financial crisis gripping Wall Street and climatic events, which have both served to expose the weaknesses of the Ecuadoran economy.

Ecuador's National Institute of Statistics and Census (INEC) put the monthly inflation in January at 4.9 percent and in February at 5.10 percent. The government estimates for the two months had been 2.68 percent and 2.03 percent, respectively. In comparison with February 2007, which closed at 2.03 percent, the inflation rate has risen by more than 100 percent.

According to Maurício Ramírez, professor at the School of Economy and Business Sciences of the University of Espirito Santo, Ecuador is confronting a process of stagflation in which scarcities of basic food items are becoming evident. This has been caused, he said, by the government's failure to deal with the effects of floods that had wiped out various crops. "It can easily be foreseen that this first quarter will surpass the government's predictions for annual inflation, basically because of the high cost of food," said Ramírez.

This inflationary effect, according to most estimates, could take months to stabilize. This is made clear by the soaring prices of basic foodstuffs, such as manioc, whose price has more than doubled, eggs, which went up 50 percent, and rice, which has risen by 14.2 percent. According to Ramírez, "There exists a direct inflationary effect as a result of the floods, principally upon basic foods. In April, it will be even worse, when inflation from education spending hits due to the school year resuming on the coast." Ramírez insists that the government of President Rafael Correa should exercise better control over market prices. Such controls, he says, should be accompanied by inspections conducted by the police and other agencies, such as the municipalities and the Ministry of Health, to determine whether certain products that are stored for long periods, like rice and grains, are fit for sale and consumption.

Teresa Laso, director of the Institute of Economic Investigations of the University of Guayaquil, agrees with Ramírez, but is even less optimistic. "Ecuador is part of an inflationary wave that is sweeping all of Latin America," she said. The impact of climactic events in Ecuador, Bolivia, Chile and Argentina and the fall of the dollar are the determining factors of this high inflation, she stressed.

Laso emphasized that importing agricultural products and selling them with subsidies (like wheat and rice) would not have any effect on lowering the inflation rate.

Ecuador's floods were triggered by heavy and continuous rainfall that began in February and is expected to continue through May. Its results have been catastrophic, resulting in scores of deaths and hundreds of millions of dollars in property damage. More than 250,000 acres of farmland were flooded.

The torrential rains were caused by La Niña, a cooling of Pacific Ocean surface temperatures that can trigger dramatic and widespread changes in weather. Ecuador's rains were the heaviest the country has seen in 25 years.

Natural disasters, like Ecuador's floods, serve merely as an aggravating factor in this overall inflationary process, exposing the fragility of the capitalist market.

Ecuador's plight is emblematic of the crisis confronting all of Latin America. In the face of the rapidly deepening crisis of the US economy, governments like that of Correa are unable to control the growing wave of inflation in their countries, which must inevitably give rise to sharpening social tensions and renewed class struggle.