

## The Two Faces of Ecuador's New President: Which One Will Govern?

Lucio Gutiérrez was sworn in as Ecuador's new president on January 15 (along with Vice President Alfredo Palacio), after a populist campaign and victory over an equally populist opponent. Three years ago, as a colonel in the Army, Gutiérrez led a coup against the government of President Jamil Mahuad. He was supported by an assortment of left-wing and populist indigenous organizations, unions, retired military and a generally alienated electorate.

Signs of trouble for Gutiérrez began even before his inauguration. The Social Christian Party (PSC) announced that it would not accept the presidency of the National Congress, to which it had the right, arguing that it did not want to share blame for the future problems that the Gutiérrez government is bound to have. In response, Gutiérrez announced he would not be sworn in before the Congress but would instead hold a public inauguration unless the legislature held a special session to elect its president. The next day, however, Gutiérrez's wife, Ximena Bohórquez, also elected as a deputy, explained that the president would be sworn in before Congress after all and had only wanted to call the attention of the deputies to their obligation to respect the constitution.

Three days before the inauguration, Gutiérrez said that all former presidents of Ecuador should be jailed for their role in bringing about the condition of the country. The following day, he lambasted former President León Febres Cordero as the "most evil person in the country" and pledged that he would not allow the "political mafias" to destroy Ecuador. He announced that he would call a "popular consultation" at the end of January to propose reducing the number of members of Congress to 62 and restructuring the Courts of Justice. Finally, the day before he was sworn in, Gutiérrez said his words should not have been taken literally and that it was enough for ex-presidents to be "in the jail of their own consciences." He also apologized to Febres Cordero.

### *Cabinet Appointments*

Once elected, Gutiérrez toned down his populist and often anti-US and anti-globalization rhetoric. His cabinet appointments reflected a conscious decision to balance some positions for the groups that backed him with other appointments designed to sooth concerns of the private sector, international banks and the international community. His choice for foreign minister was Nina Picari, a leftist from one of the leading indigenous groups who reportedly opposes the US lease of the Ecuadorian base at Manta, used intermittently to monitor drug flights. She has also spoken out against globalization and honoring debt payments. (Gutiérrez, who earlier opposed the Manta lease, now says he will respect it).

The new president calmed financial markets slightly with the appointment of Mauricio Pozo as economics minister. Pozo worked for 10 years in Produbanco and

is an expert on banking matters. He studied in the US and has his own consulting firm. Mario Canessa, president of Banco de Machala and the owner of a radio station, was named minister of the interior. Yvonne A. Baki was named minister of commerce; she is a former ambassador to the US and is highly respected for her expertise in conflict resolution and international trade. This appointment bodes well for serious cooperation with the US in moving ahead with the FTAA negotiations. Angel P. Córdova emerged as economic advisor to the president, he was president of the College of Economists at Pichincha and director of Cedatos Gallup. His name has been mentioned as a candidate for president of the Central Bank.

Augusto Barrera, the new secretary of planning and social dialogue, will lead the effort to implement the five points of the president's campaign: combating corruption, eliminating poverty, improving competitiveness, beefing up security and developing international policy. A surgeon with a background in international studies, he is a member of Pachakutik. Carlos Arboleda, a retired colonel and mechanical engineer, was named minister of energy. He is a member of the president's party and has been a collaborator of Gilmar Gutiérrez, the president's brother. He participated in the transition group on energy and petroleum.

In his inaugural address, Gutiérrez adopted a moderate tone while promising to attack corruption and asking Ecuadorians to restore their pride in their country. In a press interview just hours before his inauguration, he promised to go ahead with "popular consultation." His plan is to prepare a list of questions to send to the Supreme Electoral Tribunal and use popular street demonstrations to pressure it to accept changes. He also promised to allow direct pressure from the people to convince the deputies to accept laws handed down from the president.

### *The Economy*

The economy of Ecuador performed quite well in the last three years under the steady if unspectacular leadership of President Gustavo Noboa. GDP growth was 2.3% in 2000, 5.6% in 2001 and about 2% in 2002. Although not achieving outstanding growth, Ecuador avoided the economic crises that afflicted Argentina, Uruguay and Venezuela. On the fiscal side, hopes for a large surplus in 2003 disappeared as Gutiérrez complained of a \$400 million deficit. Some credit must go to the Noboa government for instituting a fiscal reform to increase tax collections from \$1.4 billion to \$2.3 billion from 1998 to 2001 and attempting to reduce corruption.\* However, at the end of his administration Noboa also implemented a large increase in public sector salaries. More vigorous reforms are needed, including measures to reduce tax evasion.

Ecuador's economy remains fragile and on the brink of insolvency. It will take a long time to restore private banking credits (Moody's rating is Caa 2). The country's foreign debt at the end of 2002 is estimated at \$16.1 billion, or 267% of exports. Amortization payments of about \$1.2 billion in 2003 will probably not be met. The dollarization of the economy embraced by former President Mahuad has

contributed to stability and low interest rates but is causing liquidity problems, as well as opposition from left-wing groups. Devaluations in neighboring countries have added pressure, creating competition for domestic producers and businessmen. Imports of consumer goods rose more than 34% in 2002 and the current account deficit is forecast at 9.2% of GDP.

Assistance can only come from the international financial institutions. Before his inauguration, Gutiérrez sent Economics Minister Pozo to Washington to meet with the IMF, World Bank, IDB, State Department and others. Pozo is, according to Quito press reports, pursuing a \$500 million stand-by agreement with the IMF. The *Miami Herald* reported that the IMF had a favorable view of the economic program of the incoming government and that an IMF mission would arrive in Quito on January 18. Mainstream Ecuador press reports were positive, with commentators saying the IMF would require some preconditions and insist on structural reforms.

According to informed observers in Ecuador, these reforms will include: reducing inefficiencies in public administration, limits on salary increases, cuts in expenses, increased income tax collections, greater labor market flexibility, financial sector reform, measures to deal with the external debt and some privatizations. In the meantime, Pozo made a favorable impression at the State Department with his knowledge of the problems that Ecuador faces and the steps needed to implement sound economic policy. Gutiérrez himself will meet with President Bush on February 11.

### *Observations*

There are many similarities between Lucio Gutiérrez and Hugo Chávez, the most dangerous of which seems to be their impulsiveness and populist ideology. But Gutiérrez has the benefit of seeing the consequences of Chávez's errors, and some important differences between him and the Venezuelan leader may be important for Ecuador.

Gutiérrez has appointed officials who can guide Ecuador through its required adjustments while accepting help from the IMF. With the very large foreign debt requiring payment, the new president does not have much space for freedom and must depend on the World Bank and other lenders to achieve some development goals. For this sort of aid, he will need to implement sound economic policies and carry out reforms. He has, at least for the moment, spurned anti-Americanism and expressed willingness to work on a free trade agenda with the US. To achieve some measure of advancement of his populist agenda as well as his economic reforms, he would probably be best served by avoiding inflammatory rhetoric.

Dollarization is going to be under pressure for the reasons mentioned above, but a return to domestic currency carries with it the risk of capital flight and hyperinflation. Investors and creditors are likely to be even more wary if such a change were to take place soon.

In general, Ecuadorians appear hopeful for a brighter future. Gutiérrez has adopted a more centrist rhetoric and he seems to be seeking the middle ground. Despite his victory at the polls, he does not have a big mandate and the Congress is fragmented. Neither the direction nor magnitude of change has clear and overwhelming support, and Gutiérrez is likely going to have to be satisfied with modest victories.

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\* From Centro Financiero, a Panamanian banking magazine.