

The socioeconomic impact of Ecuador and its relationship with the International Monetary Fund during Covid-19

El impacto socioeconómico del Ecuador y su relación con el Fondo Monetario Internacional durante el Covid-19

Jorge Cedeño León*
Angie Sánchez Erazo**

ABSTRACT

The economic impact generated by the pandemic has hurt the financial sector in all countries, and we can say that the epidemic has strongly affected the economy of Ecuador at an unprecedented speed and severity. In Ecuador, due to Covid, there are already registered business closings, more unemployment, lack of supplies, famine, among other factors. The current objective is to seek the collaboration of an International Organization (IO), such as the International Monetary Fund (IMF), which does everything in its power to ensure that Ecuador, a country affected by this pandemic, has a Rapid support through emergency funding, policy advice and technical assistance. With this article it is possible to know what are the mechanisms that the Ecuadorian state should adopt and use to improve, reopen and increase its economy during and after this world catastrophe caused by the Covid-19, therefore, the study of this article is carried out within the following types of research, Descriptive, Analytical and Bibliographic.

Key words: Decrease, economy, impact, mechanism, pandemic.

* Master. Universidad de Guayaquil (UG), Guayaquil, Ecuador, jg_cedeno@hotmail.com <https://orcid.org/0000-0002-7493-0863>

** Universidad Internacional de la Rioja (UNIR), Guayaquil, Ecuador, Guayaquil-Ecuador, ag.serazo@hotmail.com, <https://orcid.org/0000-0003-4050-7298>.

JOURNAL OF BUSINESS
and entrepreneurial
studies

ISSN: 2576-0971



Atribución/Reconocimiento-NoComercial- CompartirIgual 4.0 Licencia Pública Internacional — CC

BY-NC-SA 4.0

<https://creativecommons.org/licenses/by-nc-sa/4.0/legalcode.es>

Journal of Business and entrepreneurial

April - June Vol. 5 - 2 - 2021

<http://journalbusinesses.com/index.php/revista>

e-ISSN: 2576-0971

journalbusinessentrepreneurial@gmail.com

Receipt: 13 March 2020

Approval: 11 January 2021

Page 7 - 16

RESUMEN

El impacto económico generado por la pandemia ha perjudicado al sector financiero de todos los países, y podemos decir que la epidemia ha afectado fuertemente en la economía del Ecuador a una gran velocidad y gravedad sin precedentes. En Ecuador a causa del Covid, ya se registran cierre de empresas, más desempleos, falta de insumos, hambruna, entre otros factores. Actualmente se tiene como objetivo, buscar la colaboración de un Organismo Internacional (OI), como es el Fondo Monetario Internacional (FMI), que hace todo lo que está a su alcance para garantizar que Ecuador, un país afectado por esta pandemia, tenga un rápido apoyo a través de financiamiento de emergencia, asesoramiento sobre políticas y asistencia técnica. Con el presente artículo se permite conocer cuáles son los mecanismos que deberá adoptar y utilizar el estado ecuatoriano para mejorar, reabrir e incrementar su economía durante y después de esta catástrofe mundial provocada por el Covid-19, por ende, el estudio de este artículo se realizó dentro de los siguientes tipos de investigación, Descriptiva, Analítica y Bibliográfica.

Palabras clave: Decrecer, economía, impacto, mecanismo, pandemia.

INTRODUCTION

COVID-19 is an epidemic caused by a virus and is known worldwide as "coronavirus". Therefore, it was determined that, in order to avoid the spread of the disease, the states should apply certain restrictions such as the temporary closure of borders, schools and shopping centers, in order to avoid crowds and further contagion.

The commercial disruption caused by the virus had an impact on emerging markets. The financial damage is evident in all countries, including Ecuador, compared to the increase in new and unexpected infections and the containment measures adopted by governments.

It is important to mention that China was the first country to feel the full impact of the disease, likewise the economic impact of the pandemic is strongly affected in Ecuador, where economic policies have caused an unemployment rate in recent weeks.

The global economic recovery is limited, but it remains discouraging for society because it indicates that restrictive measures are not helping to contain the epidemic and pave the way for economic recovery. Today, the International Monetary Fund (IMF), establishes mechanisms and strategies to generate liquidity in countries, where their economy has declined drastically.

Beyond the management of the health crisis, all governments, including Ecuador, are discussing shock measures to deal with the subsequent situation. As the objective is to recover the economic activity as soon as possible, the proposals revolve around the liquidity of companies and workers, as well as to keep the dollarization of the Ecuadorian state active.

To this end, various fiscal measures are proposed, such as a reduction in some taxes and a moratorium on the payment of certain taxes; and monetary measures, with the opening of credit lines guaranteed by the State to facilitate the financing of working capital.

Ecuador facing a new economic cycle post COVID-19. Ecuador in 2019 achieved a Gross Domestic Product (GDP) growth of 0.3% (second quarter). A situation that expresses the weakness of recent years within a particularly complex context, which showed a generalized economic slowdown in several sectors, completing four consecutive years of low growth.

By 2020, domestic demand was expected to decline, accompanied by low external aggregate demand and more fragile international financial markets. This sluggish momentum reflects structural and cyclical factors. On the structural side, potential growth remains constrained by low investment, slow productivity growth, poor infrastructure quality and education.

Since the cyclical, growth has been held back by slower global growth, commodity prices, high economic policy uncertainty, economic rebalancing in some economies and social unrest in others.

Meanwhile, the International Monetary Fund (IMF) warned about the economic situation that Covid-19 would bring, following a national strike that caused financial destabilization to Ecuador and its prospects of lower growth.

COVID-19, makes clear the health consequences globally. The virus is inflicting enormous and growing human costs around the world. To protect lives and enable health systems to cope, it has been necessary to resort to widespread isolation, containment and lockdowns to slow its spread.

The healthcare crisis is having a severe impact on economic activity. As a result, the economy is projected to suffer a sharp contraction of -3% in 2020. In the baseline scenario, in which the pandemic is assumed to dissipate in the second half of 2020 and containment measures can be phased out, trade is projected to reopen moderately or under restrictions, the global Ecuador economy is projected to grow by 5.8% in 2021, as economic activity normalizes thanks to the support provided by public policy incentives (IMF. World Economic Outlook. WEO, April 2020).

To better understand the crisis that has been caused by COVID-19, such as the alteration of this landscape in international relations and globalization. "The crisis has posed a challenge to major international organizations, involves the greatest global economic turbulence in many years, perhaps since World War II, and has profoundly altered perceptions about the practice of politics, or the legitimacy of representation," they explain in the document. This scenario has generated great distrust and social apprehension among the population, affecting communication, the management of public freedoms and other unknowns that will remain to be seen in the coming months.

On the other hand, a first report on the effects that COVID-19 could potentially have on poverty is presented in the country. In the research, scenarios of poverty figures were constructed based on the results of the National Survey of Employment, Unemployment and Underemployment. This input considers that the poverty line, the monetary value of a basic basket of goods and services for a person for a given period, remains at USD 84.82 for poverty and USD 47.80 for extreme poverty.

The contraction of the economy and the suspension of activities affects a large part of the population that will see their income decrease (or not be received), which in turn will cause these people (and their households) to remain or become part of the population living in poverty, generating the expansion of the conditions of inequality in the country.

Currently, the percentage of poverty in Ecuador is 25% and according to the study conducted by the UTPL experts, it could increase to 27% or 29% if household income decreases by 5% or 10%, respectively, due to the economic crisis caused by the pandemic. Even so, it is considered that a precise estimate of the social and economic impact of the pandemic is complex, due to the fact that its duration is unknown.

For example, in the first stage of the sanitary emergency due to the coronavirus, losses would total US\$ 6,000 million, according to the Minister of Foreign Trade, Iván Ontaneda. To make this calculation, Ontaneda considers that 70% of the productive apparatus is paralyzed. Meanwhile, the Ministry of Finance foresees a loss level of US\$ 4,300 million. The figure considers some USD 2.5 billion less from oil revenues and a drop in tax collection of USD 1.8 billion. "The economy could decrease by more than 4% of the Gross Domestic Product (GDP)", assured Minister Richard Martinez on national TV last April 12.

As stated on the IMF website, in the fact sheet "The IMF: Basic Facts" (April 30, 2015), the International Monetary Fund was created in 1944, following the Bretton Woods Conference and with the aim of ensuring compliance with the rules of the new International Monetary System, which arose as a result of the conference, in order to guarantee international monetary stability. The so-called Bretton Woods system (also known as the gold-dollar standard) was based on a system of fixed exchange rates and convertibility between gold and the dollar.

The role of the dollar in the new system was a response to the hegemonic position of the US after World War II. Despite the remarkable success of the system for more than two decades, the growing imbalances of the US economy (public and current account deficits) and its relative loss of importance in the global economic concert, progressively weakened the dollar, until in August 1971 the US government was forced to declare the non-convertibility of the dollar with respect to gold and put an end to the gold-dollar standard.

The main functions of the IMF from its inception until 1971 were:

"To set the rules of the International Monetary System.

"Provide financial assistance to member countries in the event of balance of payments imbalances and conditional on adjustments.

"To act as an advisory body to the governments of the member countries.

With the demise of the Bretton Woods system, the IMF had to reconvert itself and adopt a new role on the global economic scene. From 1982 onwards, the external debt crisis of the developing countries gave it a new role.

The IMF became the lender of last resort at the international level, conditioning the granting of loans and lines of credit to indebted countries in exchange for the adoption of strict structural adjustment plans, which included economic liberalization measures and sharp reductions in public spending.

Since the 1990s, after the fall of communism, the IMF has played an important role in providing support and technical assistance in the transition to a market economy in many former planned economy countries. During this period, the IMF has also intervened in the financial crises that have plagued different countries and regions of the world: Mexico (1994), Southeast Asia (1997-1998), Russia (1998), Argentina (2001), Greece (2010). However, all these actions have generated strong criticism of the IMF, which has been accused of excessive rigor and orthodoxy in its approaches and of excessively prioritizing the interests of borrowers over those of the population of the countries subject to adjustment plans and programs.

the fundamental activity of the IMF lies in confirming the durability of the international numerary ordinance; that is to say, the method of international disbursements and exchange typology that allows countries (and their populations and companies) to make adjustments among themselves. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

As of 2012, the IMF revised its functions, incorporating into these a greater commitment of its actions to economic growth and job creation in member countries, as well as helping to rebuild the financial safety nets (budget balance, low levels of public debt, high levels of international reserves) of low-income countries. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

For all this, the IMF performs tasks in the area of surveillance, financial assistance and technical assistance. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020) "Surveillance: in order to continue the perseverance and to cover itself risk in the universal monetary mode, the IMF sends checks to the leaders of the countries, as well as to the financial and economic subject, local and planetary, through an express rule of review. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

The IMF manages aid to the subject countries and observes governments that uproot the occasion, tame the fragility to exchange and mutual instability and embellish the life plans. It also transmits regular calculations on the world landscape, the negotiating markets and on the trend of the auditing stock exchanges, imprisoned as a wheel of instructions on the territorial configurations. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020)

"Financial assistance: The IMF provides financing for the correction of balance of payments problems (conditional on the adoption of certain adjustment programs by the countries). Since 2008, financial support instruments have been expanded and improved to respond to the needs generated by the global financial crisis. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

"Technical assistance: The IMF offers technical assistance and illustration to help participating countries to strengthen the experiences of pregnancy and annihilation of

effective policies in the following areas: secondary policy and delegation, investment mandate, monetary and exchange governments, supervision and regulation of financial and monetary courses, legislative and related frameworks. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

The management of the IMF is in the hands of the Managing Board, but the highest authority of its organizational structure is the Board of Governors, which is composed of a governor and an alternate governor for each member country, generally from the Central Bank or the Ministry of Finance. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

The Board of Governors meets once a year on the occasion of the Annual Meetings of the IMF and the World Bank. The 24 governors form the International Monetary and Financial Committee (IMFC) and generally meet twice a year. The IMF is accountable to the governments of its member countries (188 in 2015). (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

The day-to-day operations of the IMF are overseen by the Executive Board, which has 24 members and represents all member countries. This work is guided by the IMFC and supported by the IMF staff. The Managing Director is the IMF's chief of staff, chairs the Executive Board, and is assisted by four Deputy Managing Directors. The current Managing Director is Christine Lagarde (France). (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

The voting system used in the IMF is that of weighted voting, based on the participation of each country in the quotas (see Table 2, p. 114, of Tamames, R. and González, B., 2010). Decisions are taken by a majority of 85% of the votes, which gives the US de facto veto power over major decisions. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

Main Instruments To carry out its activities, the IMF has a wide range of financial services (see Table 5, pp. 120 and 121 of Tamames, R. and González, B., 2010). To do so, it requires resources, either in the form of Special Drawing Rights (SDRs) or those obtained through member countries' quotas. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

"SDR: The IMF issues an international reserve asset known as Special Drawing Rights that can supplement the reserve assets of member countries. Total allocations amount to about 204 billion SDRs (approximately \$280 billion). IMF members may also engage in voluntary exchanges of SDRs for currencies among themselves. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

"Resources: The primary cause of the IMF's financial demands are the shares of the member countries, which in normal processes measure the relative position of the countries in the world resource. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020).

Currently, quota resources amount to about SDR 238 billion (about US\$ 327 billion). In addition, the IMF can supplement quota resources by borrowing. The New Arrangements to Borrow (NAB), which were extended in 2011 and can provide

additional resources of up to SDR 370 billion (about \$515 billion), are the main supplement to quotas. (Batallanos Enciso, Umeres Leiva, & Gamarra Gonzales, 2020)..

MATERIALS AND METHODS

Among the sectors analyzed by the Chamber of Industries of Ecuador during the sanitary emergency, commerce registered the worst numbers in years. Mobility restrictions to curb contagion and the panic of consumers due to the high risk of contagion of the pandemic have generated that about 70% of the businesses remain closed. According to data collected by the Chamber of Commerce, around 7,700 businesses have been closed since the beginning of the quarantine.

If restrictions continue, the commercial sector faces a decrease in sales of more than USD 14.5 billion. This will require an injection of capital into the economy in order to achieve an economic reactivation that will benefit the country and both domestic and foreign trade.

Faced with the pandemic, all countries, including Ecuador, have promoted measures to curb contagion, such as mandatory social isolation and the suspension of economic activities, in order to protect the health of the population. However, these measures have had some consequences, such as an increase in state expenditures to meet needs, over and above budgetary allocations; the contraction of the economy and economic losses in small and medium-sized enterprises due to their closure due to mobility restrictions, and the adaptation of security measures to protect the health of citizens, which will reduce their income, which in turn will cause these people to remain or become part of the population in poverty, generating the expansion of the conditions of inequality in the country.

Analyze the management of credits granted by international organizations, which causes indebtedness to the country, and the feasibility of applying the money borrowed to domestic trade and the economic reactivation of small and medium-sized enterprises, which are the most affected sector.

Analyze the impact of the slowdown in the world economy and the fall in exports, as well as the decrease in the value of oil and the effect of these factors on the country's economy.

The article is framed in a descriptive study, through the collection of data on the use of security measures and restrictions, allowing to describe the economic and legal effects that are implemented in each of the countries that adopt the application of economic reactivation proposals before the COVID-19 in Ecuador.

Information was collected from different sources such as books by experts in international trade, experts in international law, and magazine articles analyzing the global economic slowdown.

RESULTS

Ecuador has received several loans from the IMF, such as the one in 2016, where the IMF approved a credit without conditions in favor of Ecuador for US\$ 364 million. It was

granted considering that Ecuador faces an urgent need for its balance of payments, after the earthquake that occurred on April 16 and has caused damage to infrastructure, housing and the agricultural sector, especially in the provinces of Manabí and Esmeraldas. The disbursement, which was made immediately, is equivalent to 37.5% of Ecuador's quota in the IMF. The loan is provided under the Rapid Financing Instrument (RFI), which has no conditions and was offered to the country, the interest rate is 1.1% per annum with a term of five years, but with three years and three months of grace.

In 2018, the International Monetary Fund program gives the Ecuadorian government access to \$ 4.2 billion in financing, to be disbursed over three years. Last year, the IMF disbursed \$ 1.4 billion. For this year, the organization is expected to disburse \$ 1.1 billion, as long as it meets the goals established by the multilateral organization.

In 2020 there will be a total of five loans for the health emergency due to Covid-19, in order to obtain these loans Ecuador must comply with the requirements demanded by the IMF, such as:

1. **Creation of the financial commission:** to revise the administrative decree 447 in order to signal the work of the wealthy commission, determining as very little the following key compendium: to detail the members of the commission that includes the minister (of deficiency and finances), the vice ministers and the undersecretaries. to outline the maneuvers and tasks, including the action of coffer. to require the production of a concrete committee.
2. **Improvements in social pensions:** knowledge and humbug of a weaving design to realize beginnings of the remunerated persons of the charitable flyers. to accelerate the colophon of the mutual copy improved with the stay of the crew of the end and in reciprocity with the cosmopolitan banking entity.
3. **Improvement in computer styles:** to update the computer regimes to line of the central supply to sip the unfailing changes to collect report on the debts in the deep districts of the central authority.
4. **Financial plan:** a negotiating procedure, which will accompany the ritual of accepted to be offered to the regional club, as a modular unit to distribute the composition of the admitted with the availability of valuable.
5. **Reforms to the Coplafip:** presence to the official crowd of the examined amendments to the organic symbol of planning and business audits.
6. **Plan for the payment of arrears:** submit to the IMF's private sector a file of liquidation and surety of ignorance based on quarterly and annualized data on the behaviors of budgets to be gratified and delays.
7. **Reform for independence of the central bank:** promotion to the patriotic assembly, in consultation with the working class of the fund, of the probed reprimands to the official framework of the substantial banking of ecuador (bce).
8. **Transparency of asset declarations of high-level public officials:** assume and implement a regulation to improve the existing online publication of asset

declarations of high-level public officials, expanding the amount of information provided.

9. **Budget changes:** adopt a single budget for current (permanent) and capital (non-permanent) expenditures that includes expenditure ceilings (overall and by category) in consultation with fund staff.
10. **Improve reporting (end-June):** the ministry of finance issues guidelines to non-financial public sector entities (nfpS) that establish strict reporting requirements for all nfpS entities on quarterly and annual data on the stock of accounts payable and arrears, and on the stock of financial assets and liabilities.
11. **Central bank audit committee:** establishment by the ecb of an audit committee, composed of non-executive directors of the ecb board, which includes at least one member with accounting experience.
12. **Audit Charter:** Approval of an internal audit charter by BCE's new audit committee, which establishes the mandate, independence, authority and objectivity of the function. (UNIVERSIDAD TÉCNICA DE AMBATO & Carrasco Morales Repository, 2020)

DISCUSSION

In conclusion, we can determine that for this year after the present world chaos generated by Covid-19, it is estimated that the IMF will continue to maintain support programs, such as economic loans to Ecuador, with the objective of reopening trade and improving economic income. We must be clear that Covid 19 is such a serious and dangerous pandemic that it will take approximately a year and a half to have a vaccine. Since the world economy is already depressed, not to mention the economy of third world or developing countries, the economic debacle will continue to torment all the countries of the world and therefore the citizens of the world.

CONCLUSIONS

That the unemployment rate will continue to grow worldwide and famine will increase in many countries of the world. That small businesses and innovations will disappear due to lack of products due to lack of liquidity due to lack of customers. That there will be no money in financial IOs such as the IMF that will be able to pay for the credits required by countries with tremendous illiquidity and galloping delinquency.

REFERENCES

- Atalayar, & Béjar, R. C. (May 17, 2020). *Latin America facing a new economic cycle post COVID-19*. Retrieved from <https://atalayar.com/content/américa-latina-ante-un-nuevo-ciclo-económico-post-covid-19-iii>
- Batallanos Enciso, E., Umeres Leiva, N. A., & Gamarra Gonzales, J. C. (2020). *The World Monetary System*. Retrieved from <http://repositorio.unsaac.edu.pe/handle/UNSAAC/4140?show=full>

The World Monetary System. (2020). Retrieved from <http://repositorio.unsaac.edu.pe/handle/UNSAAC/4140?show=full>

Repository of UNIVERSIDAD TÉCNICA DE AMBATO, & Carrasco Morales , C. N. (March 16, 2020). *Course hero/UNIVERSIDAD TÉCNICA DE AMBATO*. Retrieved from <https://www.coursehero.com/file/57555516/submissiondocx/>

IMF (April 30, 2015). Factsheet. The IMF: Basic data.

Retrieved from: <https://www.imf.org/external/np/exr/facts/spa/glances.htm>.

Heredero, M. I. (2005). International institutions and globalization. In García de la Cruz, J. M. and Durán, G.,

Sistema Económico Mundial. Madrid: Thomson.

Santamaría, J. (2005). The international financing of development. In, García de la Cruz, J. M. and Durán, G.,

Sistema Económico Mundial. Madrid: Thompson.

Tamames, R. and Huerta, B. G. (2010). *Estructura económica internacional*. Madrid: Alianza Editorial.