The IMF's role in the devastating impacts of COVID-19 – the case of Ecuador

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In Ecuador, the impact of the coronavirus pandemic is one of the most devastating in the world, severely exacerbated by IMF-backed policies of austerity and structural adjustment implemented before the crisis. Yet, even now, Ecuador is undergoing further IMF-mandated structural reforms that dismantle its health system and suppress economic growth, just when it is necessary to increase public investment and delay fiscal austerity measures to overcome the crisis caused by the pandemic.

The evident weakness of the country's public health system is the result of six years of fiscal austerity measures endorsed by the IMF, including a fall of 64 percent in public investment in the health sector in just the last two years.[1] Reflecting the implications of these policies, just five days after the start of the quarantine, the country's health minister resigned, explaining that she could not face a health emergency without resources, and stated that "no budget allocation has been received from the competent authority for emergency management".[2]

While the IMF was careful not to explicitly condition its 2019 loan programme on cuts in social spending, the programme was based on the expectation that Ecuador would transform its current account deficit of 0.7 percent of GDP in 2018 to a surplus of 0.4 percent in 2019, including through the "strengthening of controls on expenditure commitments [in the health sector]" and "realigning the public sector wage bill".[3] Predictably, this led to 3,680 public health workers being laid off in 2019, or 4.5 percent of total employment in this ministry, ahead of the worst global public health crisis in decades.[4]

The state of emergency instituted on 16 March was used to further approve structural adjustment measures long called for by the IMF: a flexible labour law reform bill that had been postponed for fear of social opposition,[5] a tax reform bill that had been rejected by parliament in late 2019 and the elimination of fuel subsidies after a massive social protest had prevented that last year.[6] The implementation of the IMF agenda was only possible because social mobilization was made impossible.

Yet, things will only get worse. Bewilderingly, the IMF's austerity

1 A.L. Badillo Salgado and A. M.Fischer, " COVID-19: Ecuador, COVID-19 and the IMF: how austerity exacerbated the crisis," International Institute for Social Studies blog, April 2020. https://issblog.nl/2020/04/09/covid-19-ecuador-covid-19-and-the-imf-how-austerity-exacerbated-the-crisis-by-ana-lucia-badillo-salgado-and-andrew-m-fischer/

2 https://uk.reuters.com/article/us-health-coronavirus-ecuador/ecuador-coronavirus-cases-increase-by-over-400-in-less-than-a-week-health-minister-quits-idUKKBN21904T

3 https://www.imf.org/en/Publications/CR/Issues/2019/03/20/Ecuador-Staff-Report-for-the-2019-Article-IV-Consultation-and-Request-for-an-Extended-46682

4 https://issblog.nl/2020/04/09/covid-19-ecuador-covid-19-and-the-imf-how-austerity-exacerbated-the-crisis-by-ana-lucia-badillo-salgado-and-andrew-m-fischer/

5 See Observer Autumn 2019 (https://www.brettonwoodsproject.org/2019/10/imf-ecuador-agreement-undermines-workers-rights/)

6 See Observer Winter 2019) (https://www.brettonwoodsproject.org/2019/12/uprising-and-discontent-global-protests-erupt-against-imf-backed-policies/)

recommendations continue.[7] While the IMF has emphasized that it is supportive of increased public health spending in the immediate response to COVID-19, in its emergency financing loan to Ecuador agreed in May, the Fund revealed its proposal to continue "fiscal consolidation…of about 6.2 percentage points of GDP during the period 2019–2025", which will inevitably severely undermine social spending and protection. In this context, should we really be surprised by headlines finding that during the pandemic, a further 11,820 public sector workers were fired[8] or that as recently as 31 May 2020, another health budget cut of US$ 217 million relative to the initial 2020 budget was made?[9]

7 https://www.imf.org/en/Publications/CR/Issues/2020/05/28/Ecuador-Request-for-Purchase-under-the-Rapid-Financing-Instrument-and-Cancellation-of-49460

8 https://www.telesurenglish.net/news/More-Than-11000-Workers-Fired-in-3-Months-in-Ecuador-20190317-0021.html

9 https://www.finanzas.gob.ec/ejecucion-presupuestaria/

The reduction of social spending hits the poor, women and marginalized harder, while benefitting creditors and increasing the profits of the rich. While doctors are protesting in the midst of the pandemic due to the lack of financing for medical supplies, the Ecuadorian government is paying interest to private creditors and the IMF on time.[10]

These are the same supply-side reforms promoted by the IMF for more than four decades, with the aggravating circumstance that they are applied today in the midst of a pandemic that requires sustained counter-cyclical policies that support economic recovery and guarantee people's human rights.[11] The IMF must go beyond the declarations of good intentions and change the course of its specific policies.

10 https://www.expreso.ec/actualidad/economia/ecuador-debe-pagar-hoy-324-millones-deuda-externa-coronavirus-7604.html

11 https://www.ituc-csi.org/imf-renewed-supply-side-push

One cannot wait any longer: It is time to put finances at the service of life.

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12 https://www.brettonwoodsproject.org/2020/07/the-imfs-role-in-the-devastating-impacts-of-covid-19-the-case-of-ecuador/