

COUNTRY PROFILE:**REPUBLIC OF ECUADOR**

IES/02: ATTACHMENT A

DATED:**SEPTEMBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	CILC

Recent Political Highlights

- ❑ Rafael Correa won the run-off vote in presidential elections in November 2006, promising a social revolution to benefit the poor. The new congress took office took office in January 2007 and Correa was sworn in as Ecuador's eighth president since 1996. The constitution provides for four-year terms of office for the president, vice president and members of Congress, although none of the last three democratically-elected presidents finished their terms; presidents may be re-elected after an intervening term. Constitutional reform could result in fresh elections in 2008.
- ❑ A referendum was approved in April this year with over 80% of the vote and requires the setting up of a constituent assembly. Ecuadorians go to the polls on September 30 to choose a 134-member constituent assembly empowered to draft a new constitution that will be submitted to a public vote for its approval. Mr Correa remains sufficiently popular and the EIU expects him to dominate the assembly. Cash transfers to 1.3m of the country's poorest people (out of a total population of 13.4m) have been doubled to \$30 a month. About \$3bn a year goes to public subsidies for domestic gas, petrol and electricity in addition to housing subsidies and grants of \$350 which are described as micro credit.
- ❑ President Rafael Correa believes lawmakers will reject a Supreme Court request to lift his immunity as president to face defamation charges brought on him by the former Economy Ministry adviser, Quinto Pazmino. Correa's made defamative comments after Pazmino, who was fired, leaked a video showing then-Economy minister Ricardo Paton meeting with investors discussing a plan to manipulate bond prices. The president has immunity from prosecution but can still be tried with the approval of two-thirds of Congress. If convicted he faces up to two years in prison.

Recent Economic Highlights

- ❑ The Ecuadorian economy is based on petroleum production, manufacturing for the domestic market and agricultural production for domestic consumption and export. The country exports primary products such as oil (accounted for about 56% of total export earnings in 2005), bananas, flowers and shrimp; fluctuations in world market prices can have a substantial domestic impact. The country's GDP was estimated at \$33bn in 2006.
- ❑ Although Ecuador has a relative abundance of oil reserves it has been unable to take full advantage of those resources for its own development due to mismanagement, lack of investment and corruption in the state-owned oil sector. Ecuador's government is planning an investment of \$180m into the state-owned oil company Petroecuador, to halt declining production levels. Without this investment, Petroecuador's oil production will likely fall to 50 million barrels this year, from the expected 60 million barrels. Including production from the private sector oil companies, Ecuador is forecast to produce around 185 million barrels of crude this year down from 196 million barrels in 2006.
- ❑ The Ecuadorian Congress met in an extraordinary session in a second and last debate over an energy sovereignty bill against illegal oil traffic, following its rejection in June. The Ecuadorian Oil and mining Minister urged the deputies to approve it, telling them this legislation would save Ecuador more than \$700m lost because of smuggling.
- ❑ In 2006, economic growth was 4.1% and inflation was 2.9%. GDP is forecast to decline to 2.9% in 2007 and 2.8% in 2008 owing to slowing export and investment growth. Multinationals are holding off investment due to political uncertainty as the Ecuadorian government plans to revise the contract terms of all foreign companies operating in Ecuador.
- ❑ Mr Correa stated that social spending will take priority over debt servicing, raising fears of default. However the Economic Coordinator has given assurances to creditors that Ecuador has reversed a slow down in economic growth and is likely to honour its debt commitments. Ecuador's nominal debt to GDP is estimated at 30.2%.
- ❑ The innovative offer by the government of Ecuador to refrain from exploiting its largest oil reserve in exchange for international compensation is attracting increasing support. The government hopes to raise \$350m as compensation for 10 years worth of output, after which compensation would drop steadily because an alternative source of income for the state would be developed. Swapping Ecuadorian foreign debt against the country's commitment to protect its Amazon region, where the oil reserve lies, is to be negotiated with the Paris Club. Ecuador's foreign creditors could reduce payment or cancel debt in exchange for the oil not being extracted.

Latest Trade Developments

- ❑ Main exports: oil and oil product, banana and plantain, shrimp, canned fish, cut flowers, cacao, hemp and wood.
- ❑ Main imports: raw materials, capital goods, consumer goods and fuel and lubricants.
- ❑ Major trade partners: US, Colombia, Venezuela, Peru, Chile and Brazil.
- ❑ South African exports to Ecuador totalled R28.4m in 2006 and R9.4m in the year-to-date-to-June 2007.

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