

**COUNTRY PROFILE:****REPUBLIC OF ECUADOR****DATED:****JULY 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>Export Department Comment/ Opinion</i>	Rating 3C. Restricted to LC cover. No exposure or commitments. This is not a claims free market (Euler Hermes: D; Atradius: 8/6 ; Cofas: C/C) Sanctions: None
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**Recent Political Highlights**

- President Rafael Correa was initially an outsider with no political party backing; in his current term in office he has moved quickly to win voters' approval for a special assembly to rewrite the constitution in a referendum. In a further referendum in May 2011, voters approved further reforms, including giving the president more power over judicial appointments, regulating the media content and ownership and a ban on bullfighting as well as greater control of the judiciary. Final results show the practice of killing bulls in over half of Ecuador's 204 electoral districts is to be outlawed. The referendum was widely seen as a popularity test for Mr Correa, ahead of the 2013 presidential elections, when he is widely expected to run for a third time. The opposition has argued that Mr Correa's reforms constitute a power grab.
- President Correa has frozen talks on a free trade pact with the US saying it would hurt Ecuador's farmers; he has also refused to extend the US military's use of an air base on the Pacific coast for drug surveillance flights.

**Recent Economic Highlights**

- Ecuador's bonds are rewarding investors with the best performance in Latin America as Chinese loans and higher oil prices boost confidence in the economy two years after the country defaulted on \$3.2 billion in debt. Ecuadorean debt has returned 13% this year, compared with the average 5.2% for Latin American. Loans from China that Ecuador says will reach at least 3bn in 2011 and the government's forecast that oil revenue will exceed the budgeted amount by \$601 million are reassuring investors that South America's seventh-biggest economy will keep servicing its debt. According to Standard & Poor's, government investment and consumption are driving the economy's 12th straight year of expansion.
- According to the Finance Ministry's 2011 budget, Ecuador's inflation rate will be 3.6% this year. The Economic Policy Ministry said it raised its 2011 economic growth forecast to 5.2%. Ecuador's economy grew at its fastest pace 1Q'11 compared to the previous two years - higher oil prices fuelled government spending, boosting job creation and consumer demand. GDP growth in 1Q'11 was 8%, this is higher than the last quarter of 2010, when GDP rose 6.9% year on year and 2.6% from the third quarter.
- Ecuador is expected to grow faster this year than the 5% forecast in the 2011 budget in part because of higher oil prices due to conflict in the Middle East and energy shortages in Japan, Economic Policy Minister Katuska King said. Government spending on projects from roads to hydroelectric dams is creating jobs and pushing local companies to increase output to meet growing demand. Ecuador received a \$1 billion, four-year loan from China Development Bank Corp. last year for infrastructure projects. In June 2011 the Export-Import Bank of China agreed to finance a \$1.6 billion, 1,500-MW hydropower plant in the Amazon region, known as Coca-Codo Sinclair.
- Ecuador exported over 400,000 60-kilogram bags of coffee for the January-April period, up 31% from the 314,000 bags exported in the same period last year, the National Coffee Council has confirmed. Revenue from exports in the first four months reached \$61 million, up 44% from \$42 million a year earlier.
- Ecuador signed a \$2 billion loan with China Development Bank Corporation; this is the second in less than a year as the Asian nation seeks to secure energy and commodities supplies to meet demand. China is the world's largest energy consumer and has become the South American nation's biggest credit source since Ecuador defaulted on \$3.2 billion of bonds in 2008 and 2009. China has loaned Ecuador, the Organization of Petroleum Exporting Countries' (OPEC) smallest member, at least \$6.6 billion since 2009 for projects ranging from the construction of a hydroelectric dam to cash advances to guarantee future crude shipments to China. This loan comes on top of the \$1 billion that PetroChina Co. released in February in exchange for future oil sales.
- President Rafael Correa described the nationalisation of the Amistad oilfield as historic, after intense negotiations with the U.S. Noble Energy Company. The government finalised the \$74 million deal for the U.S. company to leave the country after no agreement was reached under the conditions of a new hydrocarbon law. With the new law, oil contracts become service contracts whereby the government pays a fixed fee for each barrel of oil extracted, taking into consideration operating expenses and a reasonable profit margin.
- Ecuador's June inflation was the highest it's been in 16 months due to higher clothing and shoe costs. Consumer prices in June rose 4.2% from a year earlier and 0.04% from May.

**Latest Trade Developments**

- Major exports: petroleum, bananas, cut flowers, shrimp, cacao, coffee, wood and fish
- Major imports: industrial materials, fuels and lubricants, nondurable consumer goods
- Main trading partners: US, Colombia, China, Venezuela, Brazil, Peru, Panama, Chile and Russia
- SA exports to Ecuador in 2009 totaled R19m; in 2010 it totaled R87m and year to May 2011 totaled R210m.
- SA imports from Ecuador in 2009 totaled R27m; in 2010 they were R36m and year to May 2011 totaled R491m.