



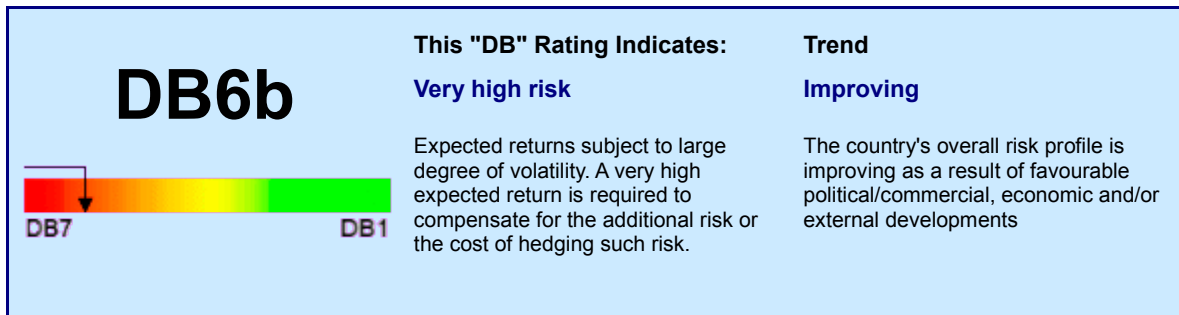
Decide with Confidence

D&B Country RiskLine Report

ECUADOR

Region : The Americas
Edition : February 2010

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	13.2m
Surface area (sq km):	283,560
Capital:	Quito
Timezone:	GMT -05:00
Official language:	Spanish
Head of state:	President Rafael CORREA
GDP (USD):	45.8bn
GDP per capita (USD):	3,470
Life expectancy (years):	75
Literacy (% of adult pop.):	91.0

Country Overview:

Located on the equator, Ecuador is bounded by the Pacific Ocean in the west, Colombia in the north, and Peru in the west and south. Featuring Amazon rainforest, Andean highlands, coastal plains and the Galapagos Islands, it is one of the most bio-diverse countries in the world, despite its comparatively limited size.

Ecuador gained independence from Spain (as part of Greater Colombia) in 1822 and became an independent state in 1830. The country lost territories to its neighbours in a series of conflicts between 1904 and 1942, and was embroiled in a border war with Peru in 1995-99. Following seven years of military rule, Ecuador returned to democracy in 1979. Political instability has been rife, with protests leading to the ouster of three presidents since 1997.

Traditionally a farming country, Ecuador relies heavily on crude oil exports (substantial reserves were discovered in the 1970s). Ecuador remains the world's major banana exporter.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	CLC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CLC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	15-45 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-2 months
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

According to D&B's latest proprietary cross-border payments performance data, 42.8% of payments arrived 30 or more days over terms in the year to end-Q3 2009. Around 53.1% of payments were paid promptly in the same period, while 23.5% of payments were paid 60 or more days over terms. Some 2.9% of payments were severely delinquent, paid after a delay of 120 days or longer. In view of the payments performance of companies, D&B recommends the use of CLC terms when trading with counterparties. We do not expect the payments performance of companies operating in Ecuador to improve in the short term due to commercial pressures. We advise shippers to expect a range of buyers to experience difficulties in opening LCs because of the relative scarcity of credit.

Export Credit Agencies

US Eximbank	Limited ST/MT public sector cover available
Atradius	ST cover subject to CLC, no discretionary limits
ECGD	ST cover subject to CLC, restricted MT cover
Euler Hermes UK	Restrictions will apply

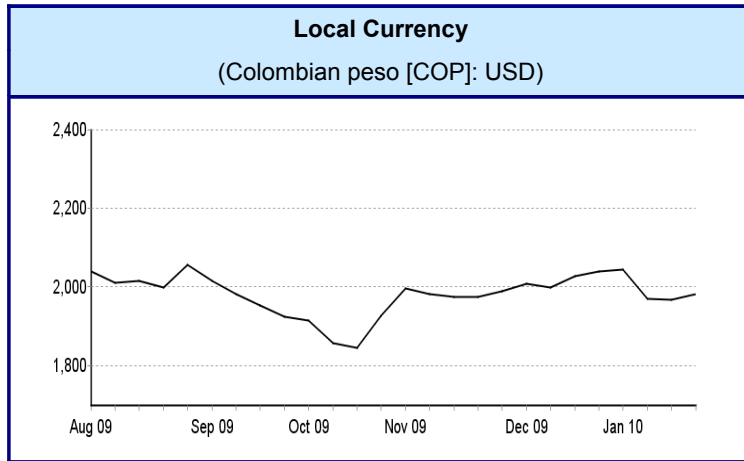
Economic Indicators

	2007	2008	2009e	2010f	2011f
Real GDP growth, %	2.5	1.4	0.4	2.0	3.8
Inflation, annual ave, %	2.4	9.1	4.1	3.2	4.5
Govt balance, % GDP	2.2	-0.5	-1.8	-1.2	-1.5
Foreign debt, % GDP	38.4	36.8	35.9	37.1	36.2
C/A balance, % GDP	3.6	6.3	-1.3	2.6	3.7

"Local Currency" chart shows the rate of the Colombian peso against the US dollar; Ecuador dollarised in September 2000, Colombia is an important trading partner for Ecuador.

Currency Information

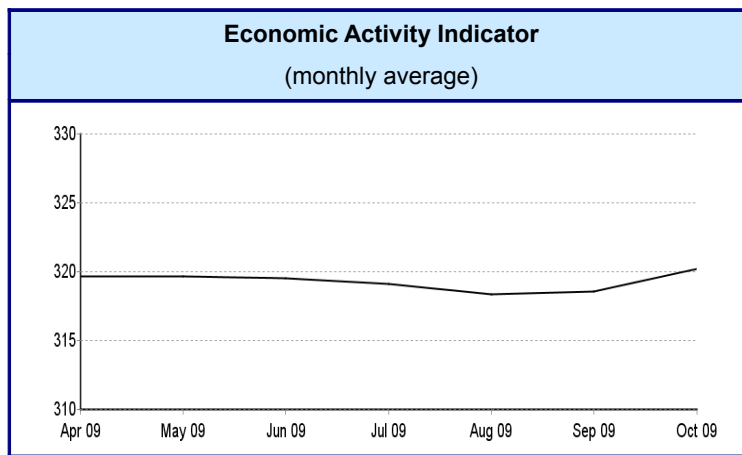
Exchange Rates	
(London, 18 Jan 10)	
EUR	2827.15
GBP	3198.04
JPY*	2165.53
USD	1967.6
*(x 100)	



Local Currency
(Colombian peso [COP]: USD)

	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10
Week 1	2039.380	2016.230	1914.900	1995.250	2007.350	2043.000
Week 2	2009.900	1981.650	1856.800	1980.550	1997.350	1969.750
Week 3	2015.930	1952.350	1846.050	1974.650	2027.500	1967.600
Week 4	1999.250	1925.150	1927.150	1975.330	2039.100	1982.750
Week 5	2055.700			1990.030		

Economic Activity Indicator



Data Table

Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09
319.6	319.6	319.5	319.1	318.3	318.5	320.2

Risk Factor

The commercial environment in Ecuador in 2010 will be dominated by the anti-business agenda of the administration of President Rafael Correa (as it was in 2009). The brunt of his bureaucratic policy measures fell on foreign-owned business in the extractive sectors during his first term in office (2006-09), mostly via renegotiating contracts and by tightening controls with existing foreign investors. In 2009, the government also exerted operational control over the nominally independent central bank and imposed controls on the permissible interest rates chargeable by banks. The latter contributed to a shortage of credit available to the private sector, as banks were forced to ration credit, while the expansion of government programmes also reduced the availability of credit for the private sector. Furthermore, exporters have been affected by the imposition of tariffs and import controls as part of an emergency safeguard scheme.

Meanwhile, the harmful consequences of Correa's tactical success in buying back bonds at a discount after defaulting on the country's 2012 and 2030 Global bonds are becoming apparent. The government accepted onerous conditions for a Chinese loan for the construction of the USD2bn Coca Codo Sinclair hydro-electric dam. However, as the country's continuing series of outages attest, Correa faces a stiff medium-term challenge to upgrade deficient infrastructure; this task is complicated by his difficulties in raising money.

Looking forward, Correa has stated that he wants to emphasise Ecuador's self-sufficiency in food (which could potentially affect the viability of Ecuador's large intensive-crop agribusinesses). A proposed law on water use could well impact on agribusinesses as well. The timing of such measures is ill-advised as the EU has finally begun to lower tariffs on banana imports, which will directly benefit Ecuadorean exporters. Meanwhile, we believe that further legislation on the hydrocarbon sector and other extractive industries is likely, despite the fact that Ecuador's hydrocarbon production is forecast to decline without increased investment, while Correa's commitment to reviving large-scale mining (after a three-year interregnum) requires an improvement in the country's attractiveness to foreign investment.

Correa's foreign policy choices (which currently encompass Iran, Russia and Venezuela) mean that relations with the US are likely to be strained; his announcement that he plans to authorise domestic laboratories to violate patent protection and produce generic versions of pharmaceuticals will do little to ease tensions. Meanwhile, bilateral suspicions with Colombia will remain elevated after Correa decided to construct two radar installations near the Colombian border. The risk of a renewed stand off between the two countries will be high over the two-year outlook period.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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