



Decide with Confidence

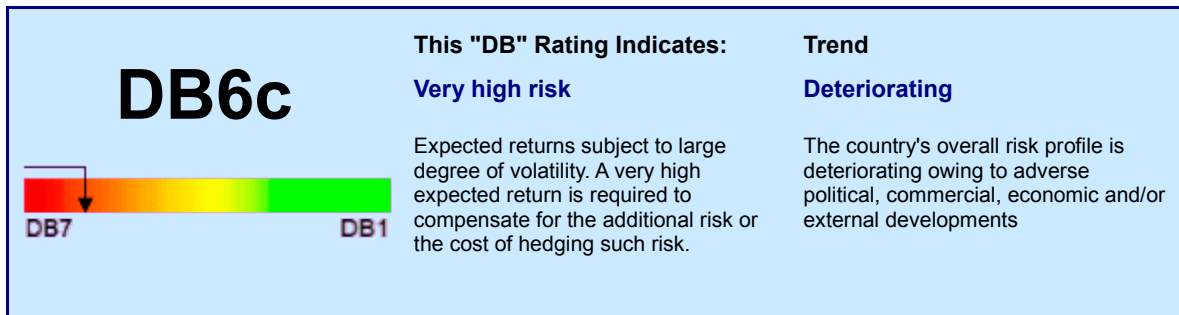
## D&B Country RiskLine Report

# ECUADOR

Region : The Americas

Edition : December 2013

### 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

<b>Population:</b>	14.9m
<b>Surface area (sq km):</b>	283,560
<b>Capital:</b>	Quito
<b>Timezone:</b>	GMT -05:00
<b>Official language:</b>	Spanish
<b>Head of state:</b>	President Rafael CORREA
<b>GDP (USD):</b>	84.0bn
<b>GDP per capita (USD):</b>	5,652
<b>Life expectancy (years):</b>	76
<b>Literacy (% of adult pop.):</b>	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

<b>Minimum Terms:</b>	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.

<b>Recommended Terms:</b>	CiA
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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.

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

### Transfer Situation

<b>Local Delays:</b>	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.

<b>FX/Bank Delays:</b>	1-3 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

Commercial risk is heightened by the government's willingness to impose new regulations that affect every aspect of trade with, and investment in, the country, from raising tariff and non-tariff barriers on imports, to imposing levies on repatriated profits and other FX outflows. The risk of the government abandoning the USD as Ecuador's currency could increase if oil prices trend lower. Furthermore, credit risk remains exacerbated by the under-developed financial sector and the need to maintain high capital-adequacy ratios due to the lack of a lender of last resort. The government has imposed import quotas on some goods, including cars and mobile phones, in an effort to reduce the non-oil trade deficit.

### Export Credit Agencies

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

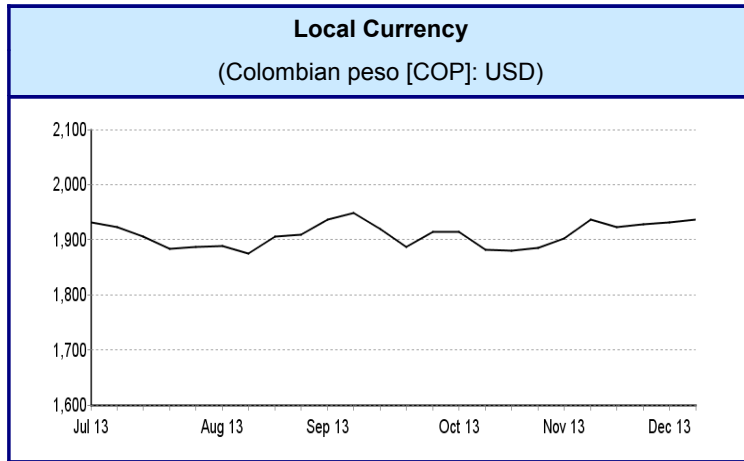
### Economic Indicators

	2010	2011	2012	2013f	2014f
<b>Real GDP growth, %</b>	3.0	7.8	5.1	3.6	4.0
<b>Inflation, annual ave, %</b>	3.6	4.5	5.1	2.8	2.4
<b>Govt balance, % GDP</b>	-2.5	-2.2	-4.8	-5.5	-4.8
<b>Foreign debt, % GDP</b>	30.0	33.0	35.0	34.0	33.0
<b>C/A balance, % GDP</b>	-2.4	-0.3	-0.2	-0.5	0.2

"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

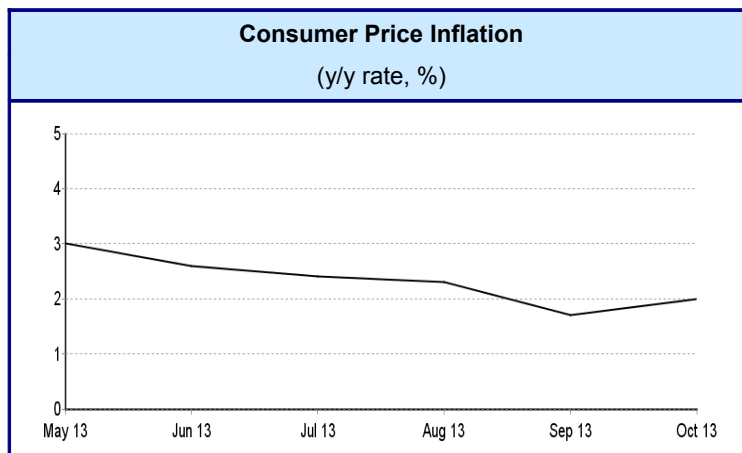
<b>Exchange Rates</b>	
(London, 02 Dec 14)	
EUR	2630.11
GBP	3164.22
JPY*	1887.07
USD	1931.7
*(x 100)	



**Local Currency**  
(Colombian peso [COP]: USD)

	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13
<b>Week 1</b>	1931.250	1889.330	1936.600	1914.700	1902.620	1931.700
<b>Week 2</b>	1923.580	1875.190	1947.680	1881.780	1936.180	1936.000
<b>Week 3</b>	1904.880	1905.530	1918.780	1880.060	1922.450	
<b>Week 4</b>	1883.470	1908.230	1887.050	1884.870	1927.930	
<b>Week 5</b>	1886.100		1914.700			

## Consumer Price Inflation



**Data Table**

May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13
3.0	2.6	2.4	2.3	1.7	2.0

## Risk Factor

Ecuador's risk profile remains under downward pressure this month following worrying developments regarding the Lago Agrio oil field pollution case. In late November, the National Court of Justice issued a judgment agreeing with an earlier one issued by the Provincial Court of Sucumbios, which ordered Chevron Corporation to pay compensation (although the National Court ruled that the level of compensation should be reduced to USD9.5bn from USD19.0bn previously). Compensation levels aside, the National Court's decision has done little to inspire confidence in the Ecuadorean justice system. Most notably, the Court seemingly chose to ignore uncontested evidence that lawyers for those seeking compensation had partaken in fraud and collusion. Moreover, the Court did not pay any attention to a recent ruling made by an international arbitration tribunal that the contracts originally entered into between Chevron and the Ecuadorean government released the former from any collective claims relating to possible environmental damage. It is unclear how this case will pan out. This episode further underscores our concerns regarding the opaque nature of the country's legal system and highlights the need for firms to conduct thorough due diligence, especially regarding contracts on environmental issues.

As well as these problems, potential foreign investors in Ecuador's extractive sector will be concerned by an incident that occurred early November in the south-east Amazon area. One man was killed and nine soldiers were injured during a violent confrontation at an illegal gold mining site. Trouble erupted when the soldiers attempted to confiscate equipment being used by the miners. At a broader level, the government is encountering stiff local opposition as it attempts to expand the country's lucrative mining sector. Tension is likely to heighten as official efforts are made to develop extensive deposits of copper and gold, especially at Intag, Morona-Santiago and Zamora Chinchipe where local groups see their way of life being challenged.

Despite the aforementioned difficulties, as well as various others such as Ecuador's continued stoking of the Edward Snowden affair and the government's intention to replace investment-protection treaties currently in place with 26 other countries, a trade agreement with the EU will probably be reached. In mid-November, the EU indicated that an exchange of proposals will take place shortly with respect to how trade talks can progress; this is likely before a possible commencement of negotiations in January. Approximately one-third of Ecuador's non-oil exports are currently sold to the EU; important markets in the bloc include Belgium, Germany, the Netherlands and Spain. Sectors in Ecuador that are likely to enjoy the benefits of such a deal include bananas and tuna.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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:

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:

Normal period of credit associated with transactions with companies in the stated country.

#### Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

#### F/X Bank Delays:

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.

#### 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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Email: [CustomerHelp@dnb.com](mailto:CustomerHelp@dnb.com)

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Email: [CustomerService@dnb.com](mailto:CustomerService@dnb.com)

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