Country Overview

**Capital City:** Quito

**Land Area:** 276,840 sq km

**Population:** 14.3m (preliminary estimate, 2010 census)

**Main Towns:**
- Guayaquil: 2,350
- Quito (capital): 2,239
- Cuenca: 506
- Santo Domingo: 368
- Machala: 246
- Manta: 226

**Climate:** Tropical on the coast and in the eastern region. Temperate in the central mountain zone.

**Language:** Spanish (official); Indian languages, particularly Quichua, are also used. Quichua and Shuar received semi-official status in the 2008 constitution.

**Measures:** Metric system; also local units, including: 1 vara = 84 centimeters

**Currency:** The US dollar was officially adopted as legal tender in March 2000, replacing the former national currency, the sucre, at a conversion rate of Su25,000:US$1. The sucre ceased to be legal tender in September 2000, apart from sucre coins, equivalent to US dimes, nickels and cents, used as fractional money.

**Time:** 5 hours behind GMT

**Holidays:**
- New Year's Day (January 1st); Carnival; Good Friday; Labor Day (May 1st); Battle of Pichincha (May 24th); Founding of Guayaquil (Guayaquil only, July 25th); Independence Day (August 10th); Independence of Guayaquil (October 9th); All Souls' Day (November 2nd); Independence of Cuenca (November 3rd); Foundation of Quito (Quito only; December 6th); Christmas Day (December 25th)
- New Year's Eve Bank Holiday: December 30

**Government:**

- **President:** Rafael Correa
- **Vice-President:** Lenin Moreno
- **Agriculture & Fishing:** Wilfrido Stanley Vera Prieto
- **Culture:** Erika Sylva
- **Defense:** Miguel Carvajal
- **Economy:** Jeannette Sánchez
- **Education:** Gloria Vidal
- **Environment:** Marcela Agüinaga
- **Finance:** Patricio Rivera
- **Foreign Relations:** Ricardo Patiño
- **Interior:** José Serrano
- **Justice:** Johan Pesántez
- **Labour:** Richard Espinosa
- **Non-renewable Resources:** Wilson Pastor
- **Public Health:** Karina Vance
- **Social Welfare:** Doris Soliz
- **Tourism:** Freddy Elhers
- **Trade & Industry:** Verónica Sión
- **Transport & Public Works:** María de los Angeles Duarte
- **Central Bank President:** Pedro Delgado

Source: The Economist Intelligence Unit as of February 2012
B. POLITICAL STRUCTURE

- **Official Name**
  Republic of Ecuador

- **Form of State**
  Presidential

- **The Executive**
  The president, elected to a four-year term that can be renewed once, is head of state and appoints the cabinet.

- **National Legislature**
  Consists of a 124-member unicameral National Assembly; members are elected in 24 provincial constituencies by proportional representation for a four-year period. Congress was suspended in December 2007 and was replaced by an interim assembly formed from the constitutional assembly that was elected in September 2007. The new National Assembly has law-making and oversight powers and was inaugurated in August 2009.

- **Legal System**
  The new Constitutional Court replaced the Supreme Court as the top-level court under the new constitution and is also in charge of overseeing the legal aspects of the constitution transition.

- **National Elections**
  The last elections were held in April 2009 (presidential and legislative); the next presidential and legislative elections are due by April 2013.

- **National Government**
  Rafael Correa of Alianza País took office on January 15th 2007 after defeating Alvaro Noboa in the second round of the presidential election in November 2006. Mr. Correa was re-elected for a fresh four-year term in elections in April 2009, following the introduction of a new constitution.

- **Main Political Organizations**
  Alianza País (AP); Movimiento Unidad Plurinacional Pachakútik-Nuevo País (MUPP-NP); Democracia Popular (DP); Izquierda Democrática (ID); Movimiento Popular Democrático (MPD); Confederación de Nacionalidades Indígenas del Ecuador (Conaie); Opposition: Partido Renovador Institucional Acción Nacional (PRIAN); Partido Sociedad Patriótica (PSP); Partido Social Cristiano (PSC); Partido Roldósista Ecuatoriano (PRE)

Source: The Economist Intelligence Unit as of February 2012
C. POLITICAL OUTLOOK 2012 – 2016

With a presidential election due to take place in early 2013, the Economist Intelligence Unit expects the president, Rafael Correa, to continue to pursue a populist policy agenda in order to bolster his support among low-income voters, who have been key to his previous electoral successes. As such, we expect high public spending on social services and infrastructure to continue in the run-up to January 2013 (when the election is currently scheduled to take place). Mr. Correa remains far more popular than his recent predecessors. However, recent polling, as well as the close results of the May 2011 referendum, in which Mr. Correa fared worse than expected, suggest that he could be more vulnerable than previously thought. He remains vulnerable to shifts in political loyalties and much will depend on whether the opposition can rally around a single candidate. Something it failed to do in 2007, allowing Mr. Correa to win in the first round of voting. Significant ideological differences between opposition parties remain an obstacle to achieving this. Furthermore, Mr. Correa will enjoy all the advantages of incumbency. Such as a prominent campaign platform and the ability to increase spending on pet projects. Political fragmentation has led to rising legislative conflict in the past, and we expect bickering to intensify in the run-up to the 2013 election. Fuelled by Mr. Correa’s confrontational style, we anticipate increased conflict between the executive and the legislature in the short term. The unusually broad coalition that Mr. Correa initially forged will continue to unravel, further weakening the loose alliance of his Alianza País (AP) party and supportive left leaning groupings in the Assembly, making the AP more reliant on ad hoc coalition-building. Although our baseline scenario remains that Mr. Correa will win the election, slow progress on socio-economic reforms, a deteriorating security situation and concerns within liberal groups about the erosion of constitutional rights (particularly surrounding press freedom) will lead to sustained public dissatisfaction and add to the risk of social unrest. This will increase over the medium term, owing to potential conflict with the indigenous movement over land rights issues, as the Correa administration develops large-scale mining.

Mr. Correa’s populist stance and confrontational style will remain a source of unpredictability for Ecuador’s foreign policy. Ecuador will retain working relations with the US, its most important trade partner, but we expect anti-US rhetoric to continue in 2012-16. Negotiations for a free-trade agreement (FTA), abandoned in 2006, are unlikely to resume. The visit of Iran’s president, Mahmoud Ahmadinejad, in January and Mr. Correa’s continual efforts to shift policy orientation away from traditional allies in favor of developing closer ties with leftist governments in Latin America and non-traditional allies, will put additional strains on Ecuador’s relations with the US. Ecuador’s trade preferences with the US under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) have been extended until mid-
2013. However, they are unlikely to be extended beyond that date, as once Colombia fully implements its FTA with the US, Ecuador will be the only remaining ATPDEA beneficiary (Peru has its own FTA with the US and Bolivia’s membership has been suspended). The lack of a longer-term trade agreement, in addition to Mr. Correa’s stated aim to abandon bilateral investment treaties, will compound the deterrents to foreign investment. However, talks with the EU on a trade agreement are progressing slowly, and Mr. Correa recently floated the possibility of Ecuador pushing for full membership of the Mercosur trading bloc.

### D. ECONOMIC PERFORMANCE

<table>
<thead>
<tr>
<th>Expenditure on gross domestic product</th>
<th>2010 3 Qtr</th>
<th>2011 1 Qtr</th>
<th>2011 2 Qtr</th>
<th>2011 3 Qtr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>9.1</td>
<td>10.1</td>
<td>7.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Government consumption</td>
<td>1.7</td>
<td>3.1</td>
<td>3.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Gross fixed investment</td>
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<td>16.2</td>
<td>15.2</td>
<td>16.8</td>
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<tr>
<td>Exports</td>
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<td>8.3</td>
<td>10.7</td>
<td>4.7</td>
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<tr>
<td>Imports</td>
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<td>16.4</td>
<td>6.3</td>
<td>2.3</td>
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<tr>
<td>Real GDP</td>
<td>4.5</td>
<td>7.0</td>
<td>8.9</td>
<td>9.3</td>
</tr>
</tbody>
</table>

Source: Banco Central del Ecuador, Cuentas Nacionales Trimestrales.

On the supply side, the sectors showing the highest annual growth rates in the third quarter. In line with the first half of 2011 were construction (31.8%), oil refining (28.7%), and electricity, gas and water (18.4%). Construction, which makes up 11.5% of total output, was driven by strong public investment and increased private-sector activity, whereas oil refining benefited from increased stability in the energy sector in 2011, as well as high oil prices. Government services and mining (4.6% and 11%, respectively, of total output) were the sectors registering the lowest annual growth during the third quarter (3.3% and 2.3%, respectively).

We expect this strong performance to have continued in the fourth quarter of 2011 and into 2012, particularly as Mr. Correa is facing re-election in January 2013. We estimate growth of 8.5% in 2011, which we expect to ease to 5.3% in 2012, in line with a forecast fall in oil prices, the part-closure of Ecuador’s main Esmeraldas refinery for maintenance and the pessimistic global outlook, which could lead to a fall in external demand and a higher than forecast drop in oil prices.
Consumer price inflation reached a three-year high in 2011, according to the most recent data released by the Instituto Nacional de Estadística y Censos (INEC, the national statistics institute). Twelve-month consumer price inflation was 5.4% (5.5% on a seasonally adjusted basis) in December; over 2 percentage points higher than December 2010 (3.3%), but still above the 8.9% recorded in 2008, the previous period of high food and energy commodity prices. Although year-end inflation was high relative to recent years expectations, average inflation in 2011 was 4.5%, in line with the Ministry of Finance’s revised midyear target. Price rises were driven by rising costs for imported staple foods (such as corn), while high public spending filtered through into rising incomes and demand for goods, sustaining demand-side pressures. Prices for food and non-alcoholic drinks (which make up over 36% of the index) rose by 6.8%, while prices for alcoholic drinks also rose sharply (14.1%), as the government raised the taxes on alcohol as part of a wider set of reforms to the tax code in December (January 2011, Economic policy). Prices for clothing and footwear (7%), and restaurants and hotels (6.5%) also increased. In December, the price for the basic basket of goods, which includes 75 products, was estimated to be US$578.a 0.99% monthly increase and a 6.12% annual increase. We expect annual average inflation to remain high in 2012, before easing thereafter in line with falling commodity prices and an easing of demand-side pressures.
E. ECONOMIC FORECAST

Following the release of strong third-quarter results we have revised up our 2011 GDP estimate to 8.5%. However, we expect this to slow in 2012, owing to weak demand from the US (our upward revision to US growth for 2012 is still a sluggish 1.8%), the closure of Ecuador’s largest oil refinery, Refinería Esmeraldas, for maintenance in parts of 2012 and 2013, and the turbulent outlook for global markets. Nevertheless, we expect continued public spending prior to the 2013 election to keep growth at a healthy 5.3% in 2012. Thereafter, assuming Mr. Correa is re-elected, we expect growth to ease in line with a slight fall in public spending (although it will remain high by historical standards, fuelled by supportive oil prices). However, a large drop in oil prices as a result of a euro zone collapse (not our current baseline scenario) would lead to sharp falls in investment and private consumption as seen in 2009, a significant downside risk to this forecast.
Economic Growth

A more pronounced improvement in economic performance over the medium term will be prevented by low levels of private investment and relatively weak export growth, although we expect oil production and oil exports to increase in 2012-16. A poor business environment. The legacy of the 2008 debt default and the expiry of trade preferences with the US from 2013 will dampen private investment and affect the development of non-oil industries, hindering faster growth. Private consumption will grow by an average of 5.3% in 2012-16, driven in part by government efforts to continue to implement mandated private-sector and public-sector salary increases and cash transfer programmes. However, a weak domestic productive base means that private demand will fuel imports, and net trade will make a negative contribution to overall GDP growth. Government consumption will be constrained by spending delays and the administration's limited access to external financing, with growth averaging 3.8% in 2012-16, compared with 7.2% during Mr. Correa’s first three years in power (2007-09). We expect fixed investment (particularly in government-led projects) to remain substantial, but to fall slightly from the high of 2011 that was financed by oil revenue and Chinese loans. Reluctance among private companies to invest in plant or equipment upgrades, owing to poor operating conditions, will persist in the short term. In the medium term the implementation of large infrastructure projects, including the construction of a US$2bn hydroelectric plant and the new Pacifico oil refinery, will sustain private investment in the energy and mining sectors. Export growth

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<tr>
<td>US GDP</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>2.2</td>
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<td>OECD GDP</td>
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<td>World GDP</td>
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<tr>
<td>World trade</td>
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<td>6.2</td>
<td>6.4</td>
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</table>

<table>
<thead>
<tr>
<th>Inflation indicators (% unless otherwise indicated)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
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<tr>
<td>US CPI</td>
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<td>2.1</td>
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<td>2.2</td>
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<tr>
<td>OECD CPI</td>
<td>2.8</td>
<td>2.2</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
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<tr>
<td>Manufactures (measured in US$)</td>
<td>6.9</td>
<td>-1.0</td>
<td>0.9</td>
<td>1.3</td>
<td>1.8</td>
<td>1.9</td>
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<tr>
<td>Oil (WTI; US$/b)</td>
<td>95.5</td>
<td>93.4</td>
<td>100.9</td>
<td>109.9</td>
<td>109.2</td>
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<td>Non-oil commodities (measured in US$)</td>
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<td>-12.9</td>
<td>-2.6</td>
<td>-0.4</td>
<td>1.5</td>
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</table>

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<td>US$ 3-month commercial paper rate (av; %)</td>
<td>0.2</td>
<td>0.2</td>
<td>0.4</td>
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<td>Exchange rate US$:€ (av)</td>
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<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>
will accelerate gradually in 2012-16, but this will be a result of rising oil production, while non-oil exports will suffer from the expiry of the ATPDEA after 2013. Although measures will be put in place to restrict import growth, real imports will expand, reflecting improved domestic demand and weak local industry.

On the supply side, oil production will increase gradually as fresh investment in exploration and production filters through to output. Increased production by Petroecuador, the state-owned oil company, as well as some new discoveries, will raise total output to over 540,000 barrels/day by the end of 2016. Above 2006 levels. We expect agricultural output to grow by a forecast annual average of 3.1% in 2012-16, given that the expiry of the ATPDEA will have a negative effect on the sector. Downside risks from adverse weather conditions remain. The construction sector will expand further during the forecast period, as the Correa administration continues to promote large-scale housing projects for low- and middle-income families.

### Economic growth

<table>
<thead>
<tr>
<th></th>
<th>2011&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2013&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2016&lt;sup&gt;b&lt;/sup&gt;</th>
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<tr>
<td>Private consumption</td>
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<tr>
<td>Government consumption</td>
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<td>3.8</td>
<td>4.1</td>
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<td>4.0</td>
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<tr>
<td>Gross fixed investment</td>
<td>14.5</td>
<td>10.2</td>
<td>9.0</td>
<td>8.0</td>
<td>8.1</td>
<td>8.1</td>
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<tr>
<td>Exports of goods &amp; services</td>
<td>6.0</td>
<td>3.6</td>
<td>6.4</td>
<td>8.1</td>
<td>8.1</td>
<td>8.1</td>
</tr>
<tr>
<td>Imports of goods &amp; services</td>
<td>4.1</td>
<td>6.9</td>
<td>7.6</td>
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<td>Services</td>
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<td>5.4</td>
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</tbody>
</table>

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts.

### Inflation

A dollarized economy will protect the country against the hyperinflation problems of the past, although Mr. Correa’s heterodox economic policies will create market distortions that will lead to upside price pressures. This was underscored by a recent increase in a tax on capital outflows, which pushed up prices for imported goods. Politicized monetary policy will also make interest rate increases unlikely, sustaining demand-side inflationary pressures. We expect a combination of strong demand for consumer goods and still-high commodity prices to push inflation up to an average 5.2% in 2012 (from an average of 4.5% in 2011). Prices will ease thereafter, averaging 3.8% in 2013-16, as commodity prices fall and as the authorities continue to subsidies petrol prices and some basic goods (including foodstuffs).
Exchange Rates

Mr. Correa has stated that he plans to maintain dollarization of the economy, which is popular because it provides broad macroeconomic stability. Although fiscal mismanagement has heightened concerns over the potential abandonment of dollarization, the risk of such a move will be contained, given high oil prices by historical standards and Ecuador’s ability to access bilateral and multilateral lending. The real effective exchange rate (REER) will rise gradually in 2012-16, and in spite of mild inflation it will remain much stronger than its long-term (pre-dollarization) average. This will aggravate the loss in competitiveness caused by rigidities in the labor market and the unfavorable environment for investment.

External Sector

Easing, albeit still supportive, oil prices will lead to a slight widening of the trade deficit in 2012 and consequently a widening of the current-account deficit, to 2.5% of GDP (from an estimated 1.5% in 2011). However, our more bullish forecast for oil prices during the remainder of the outlook period will support the current account. Nevertheless, strong import growth (reflecting rising domestic consumption and stagnant domestic productivity), combined with structural weaknesses, will keep the current account in deficit in the forecast period. A strengthening transfers surplus, on the back of stronger remittances from Ecuadoreans working abroad, will provide further inflows in the latter part of the forecast period, although in the short term they will improve only modestly, given weaknesses in the US and Spanish labor markets. In addition, the services and income accounts will post average annual deficits of 3.2% of GDP and 3.1% of GDP, respectively, in 2012-16. This reflects Ecuador’s structural dependence on foreign services and debt-service payments, along with relatively large profit repatriation. In terms of the capital account, fresh inflows will remain lackluster, putting pressure on reserves. Under our baseline forecast, reserves levels will remain relatively stable, but there are significant risks that these will be tapped by the government if it encounters further financing difficulties.
## COUNTRY OVERVIEW

### Annual data and forecast

<table>
<thead>
<tr>
<th></th>
<th>2007&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2008&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2009&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2010&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2011&lt;sup&gt;b&lt;/sup&gt;</th>
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<td><strong>GDP</strong></td>
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<tr>
<td>Nominal GDP (US$ bn)</td>
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<td>54.2</td>
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<td>58.0</td>
<td>66.1</td>
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<td>Real GDP (US$ bn at constant 2000 prices)</td>
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<td><strong>Expenditure on GDP (% real change)</strong></td>
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<td><strong>Origin of GDP (% real change)</strong></td>
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<td>3.0</td>
</tr>
<tr>
<td>Services</td>
<td>4.3</td>
<td>8.0</td>
<td>0.8</td>
<td>4.7</td>
<td>14.0</td>
<td>7.6</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Population and income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (m)</td>
<td>13.6</td>
<td>13.8</td>
<td>14.0</td>
<td>14.3&lt;sup&gt;b&lt;/sup&gt;</td>
<td>14.4</td>
<td>16.6</td>
<td>14.8</td>
</tr>
<tr>
<td>GDP per head (US$ at PPP)</td>
<td>7,304</td>
<td>7,891</td>
<td>7,888</td>
<td>8,089&lt;sup&gt;b&lt;/sup&gt;</td>
<td>8,857</td>
<td>9,415</td>
<td>9,903</td>
</tr>
<tr>
<td>Recorded unemployment (av; %)</td>
<td>8.8</td>
<td>7.3</td>
<td>8.5&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7.6&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6.1</td>
<td>6.1</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Fiscal indicators (% of GDP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public-sector balance</td>
<td>2.0</td>
<td>0.6</td>
<td>-4.3</td>
<td>-1.6&lt;sup&gt;b&lt;/sup&gt;</td>
<td>-4.3</td>
<td>-5.4</td>
<td>-3.5</td>
</tr>
<tr>
<td>Public-sector debt interest payments</td>
<td>1.9</td>
<td>1.3</td>
<td>0.7</td>
<td>0.7&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0.6</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Public-sector primary balance</td>
<td>4.0</td>
<td>1.9</td>
<td>-3.6</td>
<td>-0.5&lt;sup&gt;b&lt;/sup&gt;</td>
<td>-3.7</td>
<td>-4.4</td>
<td>-2.1</td>
</tr>
<tr>
<td>Net public debt</td>
<td>30.5</td>
<td>25.3</td>
<td>19.7</td>
<td>22.3&lt;sup&gt;b&lt;/sup&gt;</td>
<td>26.0</td>
<td>31.4</td>
<td>33.6</td>
</tr>
<tr>
<td><strong>Prices and financial indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange rate W/US$ (end-period)</td>
<td>111.71</td>
<td>90.79</td>
<td>93.08</td>
<td>82.57</td>
<td>77.18</td>
<td>78.65</td>
<td>80.64</td>
</tr>
<tr>
<td>Consumer prices (end-period; %)</td>
<td>3.4</td>
<td>8.9</td>
<td>4.6</td>
<td>3.4</td>
<td>5.5</td>
<td>6.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Producer prices (av; %)</td>
<td>5.2</td>
<td>17.9</td>
<td>-18.6</td>
<td>17.1</td>
<td>8.0</td>
<td>8.5</td>
<td>9.5</td>
</tr>
<tr>
<td>Stock of money M1 (% change)</td>
<td>15.2</td>
<td>31.1</td>
<td>4.8</td>
<td>23.4</td>
<td>21.8</td>
<td>14.6</td>
<td>16.9</td>
</tr>
<tr>
<td>Stock of money M2 (% change)</td>
<td>17.2</td>
<td>22.8</td>
<td>9.8</td>
<td>20.0</td>
<td>29.8</td>
<td>12.8</td>
<td>15.9</td>
</tr>
<tr>
<td>Lending interest rate (av; %)</td>
<td>10.1</td>
<td>9.8</td>
<td>9.2</td>
<td>9.0&lt;sup&gt;b&lt;/sup&gt;</td>
<td>8.6</td>
<td>8.7</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Current account (US$ m)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade balance</td>
<td>1,823</td>
<td>1,569</td>
<td>144</td>
<td>-1,580</td>
<td>72</td>
<td>-549</td>
<td>68</td>
</tr>
<tr>
<td>Goods: exports fob</td>
<td>14,870</td>
<td>19,461</td>
<td>14,412</td>
<td>18,061</td>
<td>23,092</td>
<td>23,911</td>
<td>27,238</td>
</tr>
<tr>
<td>Services balance</td>
<td>-1,371</td>
<td>-1,675</td>
<td>-1,371</td>
<td>-1,593</td>
<td>-2,166</td>
<td>-2,142</td>
<td>-2,306</td>
</tr>
<tr>
<td>Income balance</td>
<td>-1,945</td>
<td>-1,462</td>
<td>-1,384</td>
<td>-1,054</td>
<td>-1,816</td>
<td>-1,978</td>
<td>-2,146</td>
</tr>
<tr>
<td>Current transfers balance</td>
<td>3,184</td>
<td>2,966</td>
<td>2,432</td>
<td>2,310</td>
<td>2,698</td>
<td>2,022</td>
<td>3,301</td>
</tr>
<tr>
<td>Current-account balance</td>
<td>1,690</td>
<td>1,357</td>
<td>-180</td>
<td>-1,917</td>
<td>-1,011</td>
<td>-1,748</td>
<td>-1,103</td>
</tr>
<tr>
<td><strong>External debt (US$ m)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt stock</td>
<td>17,788</td>
<td>17,369</td>
<td>12,930</td>
<td>14,783&lt;sup&gt;b&lt;/sup&gt;</td>
<td>19,598</td>
<td>21,199</td>
<td>22,575</td>
</tr>
<tr>
<td>Debt service paid</td>
<td>3,687</td>
<td>2,713</td>
<td>6,369</td>
<td>3,531&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3,182</td>
<td>4,573</td>
<td>4,871</td>
</tr>
<tr>
<td>Principal repayments</td>
<td>2,362</td>
<td>1,704</td>
<td>5,465</td>
<td>2,909&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,557</td>
<td>3,782</td>
<td>3,971</td>
</tr>
<tr>
<td>Interest</td>
<td>1,325</td>
<td>1,009</td>
<td>903</td>
<td>621&lt;sup&gt;b&lt;/sup&gt;</td>
<td>625</td>
<td>791</td>
<td>901</td>
</tr>
<tr>
<td><strong>International reserves (US$ m)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total international reserves</td>
<td>3,521</td>
<td>4,473</td>
<td>3,792</td>
<td>2,622</td>
<td>3,723</td>
<td>3,589</td>
<td>3,290</td>
</tr>
</tbody>
</table>

<sup>a</sup> Actual.  <sup>b</sup> Economist Intelligence Unit estimates.  <sup>c</sup> Economist Intelligence Unit forecasts.

COUNTRY OVERVIEW

Source: The Economist Intelligence Unit as of February 2012

Citi Transaction Services Latin America & Mexico
COUNTRY OVERVIEW

Source: The Economist Intelligence Unit as of February 2012
D. BANKS IN ECUADOR

In Ecuador, there are numerous banks, among the largest include: Banco del Pichincha, Banco Internacional, Banco de Guayaquil, Prodbanco, and Banco del Austro.

E. CITIBANK IN ECUADOR

Citi has been operating in Ecuador since 1950. Today, Citi Ecuador serves more than 530 corporations and multinational companies, and more than 3,300 Affluent Customer Segments (ACS). Citi Ecuador, a fully owned subsidiary of Citi NY, is a locally incorporated financial institution. Locally, it has the best rating within the country’s banking industry, AAA-.

Citi in Ecuador has 136 employees and 2 branches, plus national coverage through network extension agreements with Servipagos and Banco Procredit. Counting this agreement, Citi Ecuador has more than 80 agencies available.

Citi is the only international bank in Ecuador.

Location of Branches

- Quito
- Guayaquil

Services Offered to Citibank Clients

- Liquidity Management / Domestic & International Account Structures
- Information Management
- Payables Management
- Receivables Management
- FX Management
- Trade Services, Trade Finance
- Regional Implementation
- Customer Service
- CitiDirect
- Local Payment Solutions
- Local Collections Solutions
- International Payment Solutions
A. CLEARINGHOUSE

Ecuadorian clearinghouse is performed in the Central Bank of Ecuador, the regulatory entity in charge of this process.

All check deposits are received at Citi’s cash tellers and our network extension partners of Servipagos and Banco ProCredit. Citi Ecuador then collects checks and takes them to be cleared at the Central Bank. The transit time of checks deposited depends on the type and availability of funds within the drawers account, but it is not likely to exceed three business days after the deposit on Ecuadorian checks (See section C. “funds availability schedule”).

B. FOREIGN CLEARINGHOUSE

Deposits of checks drawn against foreign banks are processed at Cit Ecuador’s cash tellers network. Citi Ecuador sends the U.S.A checks to a clearinghouse located in Citi NY, where the entire process of verifying the checks is performed.

Checks drawn to non USA bank may be cleared. Any other check from a different foreign country than the USA should be processed with a collections process on our Trade department as a documentary collection.

C. FUNDS AVAILABILITY SCHEDULE

<table>
<thead>
<tr>
<th>Check Type</th>
<th>Description</th>
<th>Transit time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same bank (Citi Ecuador)</td>
<td>Check issued with a drawer account held in Citi Ecuador</td>
<td>Same day (Next day if it is deposited in our network extension before 16h00)</td>
</tr>
<tr>
<td>Local Banks</td>
<td>Checks from local bank in Ecuador</td>
<td>2 business days (3 business days when deposited in cities Cuenca, Manta and Ambato)</td>
</tr>
<tr>
<td>Local Banks (Special)</td>
<td>Checks from local banks in Ecuador with special transit time because of their location</td>
<td>7 business days</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>Checks from foreign banks located in the USA</td>
<td>9 business days</td>
</tr>
</tbody>
</table>

Funds availability (or transit time) depends on the type of check issued and time for clearance. The following is a summary of transit times at Citi Ecuador:
A. MARKETS

Spot Market

We are the only bank in Ecuador that offers an electronic platform to manage the FX business for Corporate clients and Financial Institutions. A Live Rates panel offers executable streaming prices for G10 and EM currencies. Moreover, our clients can evaluate how and when to trade into and out of the financial markets with dynamically generated indicative foreign exchange charts and real time news content.

Forward Market

Corporate Clients have been more active in hedging their FX exposure for up to one year. Last year and the first quarter of 2011, the bank was both a leader in market share and in the number of full delivery forward transactions closed.

Exchange Market

Considering the global scope of the company, Citi Ecuador offers the most competitive quotes and the best service in the market. In 2010 and the first quarter of 2011, the bank held the number one position for the volume of hard currencies traded.

B. TAXES

Income Tax

For tax purposes, there is no distinction made between Ecuadorean companies (including subsidiaries of foreign companies) and branches of foreign companies. Both pay the same 23% rate of income tax for 2012 year. The corporate income tax rate is 23% for 2012 and 22% for 2013, This tax rate could decrease in 15% if Net Income is capitalized observed some additional requirement.

Profit Sharing

An additional obligatory 15% set aside for workers’ participation in profits.
Other Taxes

Poner ISD

Overseas Remittance Tax (Impuesto a la salida de divisas)

Transfer and remittance made abroad are subject to Overseas Remittance Tax which tax rate is 5%, with specific rules for concepts and payments.

Double-Tax Treaties

Ecuador has signed tax treaties which provide relief from double taxation for individual or companies with Brazil, Belgium, Chile, France, Germany, Italy, Romania, Spain, Canada, Mexico, Switzerland, and the nations of the Andean Community (Venezuela, Colombia, Perú and Bolivia).
A. IMPORT AND EXPORT REGULATIONS

Ecuadorian law imposes strict limitations concerning temporary import or export from Ecuador on items such as firearms, religious materials, antiquities, medications, electronic equipment, currency, and donated goods.

General Import Regulations and Requirements

Most shipments need an import permit, which requires the importer to register goods prior to shipment with the Central Bank.

When Ecuador joined the World Trade Organization in January 1996, the country bound most of its tariff rates at 30 percent or less. Ecuador’s average applied tariff rate in January 2011 was approximately 12 percent. In addition to import duties, all imports are subject to a 12 percent value-added tax (IVA) and 0.5 percent children’s development fund tax. Ecuador’s pre-shipment customs inspection regime was repealed in 2008, eliminating import inspections by international verification companies.

A wide range of products require compliance with Ecuadorian standards, including vehicles, major appliance, automotive parts, construction materials, apparel, footwear, and others. A complete list is published by the Ecuadorian Standards Institute (INEN), which also provides the standards certificate, INEN-1, required to clear Ecuadorian customs for such products.

The following documentation is required to import products into Ecuador: the commercial invoice, original or copy of the bill of lading or airway bill, insurance policy in accordance with the Insurance Law, the income tax registry number (RUC), a certificate of origin when applicable (to qualify for tariff preferences when available), and the INEN-1 certificate (standards compliance) when applicable. In addition to the aforementioned documents, shipments must include detailed weight information, including individual gross and net weight of each of the products.

General Export Regulations and Requirements

No direct taxes are applied on exports. Exports are exempt from value-added tax. However, they can be subject to a tax of 1.5 percent of their FOB value, in order to finance the Exports and Investment Promotion Corporation (Corporacion de Promocion de Exportaciones e Inversiones—Corpei).

All requirements have been consolidated into a Single Export Document. Exports do not require licenses, but they must be registered for statistical purposes.
B. REGIONAL TRADING ASSOCIATIONS

Ecuador is a member of the Andean Community, ALADI (Latin American Integration Association), and the WTO. It’s also a member of the Andean Community (CAN) Ecuador that have a trade agreement with special benefits (CAN members are Chile, Colombia, Bolivian, Ecuador and Peru). Maintain also a free trade agreement with Mercosur (Brazil, Argentina, Paraguay, and Uruguay) and has a free trade arrangement with Venezuela. Ecuador is also founder of a new integration agreement named ALBA that has payment mechanisms for trade relations using an account currency named SUCRE.

Regulatory Considerations

Ecuador joined the World Trade Organization in January 1996 and lowered most of its tariffs to 30 percent or less, consistent with the standard for the Common External Tariff (CET). In accordance with WTO provisions, over a period of seven years, Ecuador agreed to eliminate price bands on imports of 149 farm products.

C. RESTRICTIONS ON TRADE-RELATED PAYMENTS

Ecuador uses the U.S. dollar as the country's official currency. The dollar replaced the Sucre in 2000. There are no foreign exchange or capital remittance controls as of January 2010. Nevertheless, Ecuador charges a 2 percent TAX on all capital remitted out of the country. Ecuadorian companies importing capital goods or raw materials for production can request a tax drawback from the Ecuadorian Internal Revenue Service (SRI).
A. NEGOTIABLE CERTIFICATES OF DEPOSIT

Citi Ecuador offers USD Certificates of Deposit, which start with a minimum tenor of 30 days. The rates are attractive and one key element that our customers benefit from is the penalty free pre-cancelation of the Certificate. This is not a standard procedure; however, the benefit may apply for partial or total cancelation. Citi Ecuador tries to tailor its services to its clients’ needs and studies the feasibility of this benefit, although not a default one, case by case. Citi considers many different aspects in order to grant it to clients. The minimum requirement to start a Citi CD in Ecuador is U.S. $50,000. The client is required to submit written instruction to Citi Ecuador’s back office in order to proceed with the transaction.

Another option would be the Repos. The minimum face amount of a Repo in Citi Ecuador is U.S. $200,000. Repos are an option that could start as an overnight investment and/or go up to 29 days. There is no need for written instructions and the deals are closed over the phone.

Certificate of Saving in Euros is another option. The minimum placement of a Citi EUR Certificate of savings in Ecuador is EUR 35,000. The client is required to submit written instruction to Citi Ecuador’s back office in order to proceed with transaction. The tenor starts at 30 days.

B. STOCK MARKET

Ecuador has two main Stock exchanges. One located in Guayaquil and one in Quito. At the moment they are independent from each other; however, it is expected that by July 2012 a merge will take place. If the merge, which has been under review, is not fully completed, then at least the development of the same platform should be in place to unify the exchanges.

Individuals, companies, and banks from both public and private sectors can participate on Ecuador’s Stock Market. The government also plays a main role as issuer of different bonds and treasury certificates, which contribute to the movement on the primary and secondary markets.

The evolution and growth of the exchanges has been slow. It was not until this decade that significant volumes started to be traded. The market has been getting more sophisticated, and therefore more knowledgeable about the advantages of the Ecuadorian stock exchanges: “Bolsa de Valores Quito” (BVQ) and the “Bolsa de Valores de Guayaquil” (BVG).

On the exchanges we can find: Stocks, CD’s, Investment Certificates, Repurchase Agreements (Repos), Guaranteed Liabilities Certificates, Commercial Paper, Government Bonds, Treasury Certificates.
A. GENERAL BUSINESS TERMS AND CONDITIONS

**Corporate Finance**

- Structured Bilateral & Syndicated Loans, Financing through Agencies and Infrastructure Financing.
- Mergers and Acquisitions: Citi Ecuador’s experience in the local market, together with Citigroup’s overall global experience in M&A advisory, gives us a deep knowledge in different sectors.

**Cash Management**

- Citi’s services provide our clients security, easy access, and availability.
- CitiDirect, Citibank’s web-based Electronic Banking platform, allows access to report services, international payments solutions, local payments solutions, trade solutions.

**Treasury**

- FX: leader in the local FX market with access to major global currencies.
- Derivatives: multi product unit rates, currencies, commodities, and credit. Citi Ecuador is the only bank in Ecuador offering derivatives.
- Investments: Citi Ecuador offers time deposits.
- Trade Finance
- Citibank offers a full range of traditional Trade Finance & Services products, covering your needs through the largest proprietary network in the world and with the support of a fully capable electronic banking platform.
B. CITIBANK’S ACCOUNTS SERVICES SOLUTION IN ECUADOR

We offer both local accounts in US Dollars and NY accounts for corporate clients.

- **Local accounts (USD)**

  This account will allow clients to concentrate their daily business collections and manage all type of local and international payments.

B. STOCK MARKET

- **NY accounts (USD)**

  This account allows clients to manage their international business, as well as excess liquidity in their local accounts abroad. They can also make investments as Time Deposits and Sweeps.

  Citibank offers the possibility to send payment instructions through CitiDirect, having the possibility to upload instructions directly from its system.

- **Payment types**

  Interbank local transfers, Book to book transfers, electronic check issuance and cash payments.

- **International Payments Solutions**

  - CitiDirect enables our clients to send international payment instructions, uploading them directly from its own system, debiting from its local account in USD or from its DDA in NY.
  - In addition, for international transfers in currencies different from USD, Citi offers the possibility to purchase the currency needed using a multi-currency payments service through CitiDirect, called Worldlink.
D. CITIBANK’S COLLECTIONS SOLUTIONS IN ECUADOR

Citibank offers the possibility to send collection instructions through CitiDirect, in order to consolidate funds in client’s local or NY accounts.

Collection types

- ACH Debit (Interbank local transfers)
- SpeedCollect (identified collection)

E. DELIVERY SYSTEMS AVAILABLE

CitiDirect

Citibank’s web-based Electronic Banking platform, which allows access to report services, international payments solutions, local payments solutions, and trade solutions.
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