



REPUBLIC OF ECUADOR

Ecuador: macroeconomic overview

October, 2009



Real Sector

- GDP***
- Inflation***
- Unemployment***

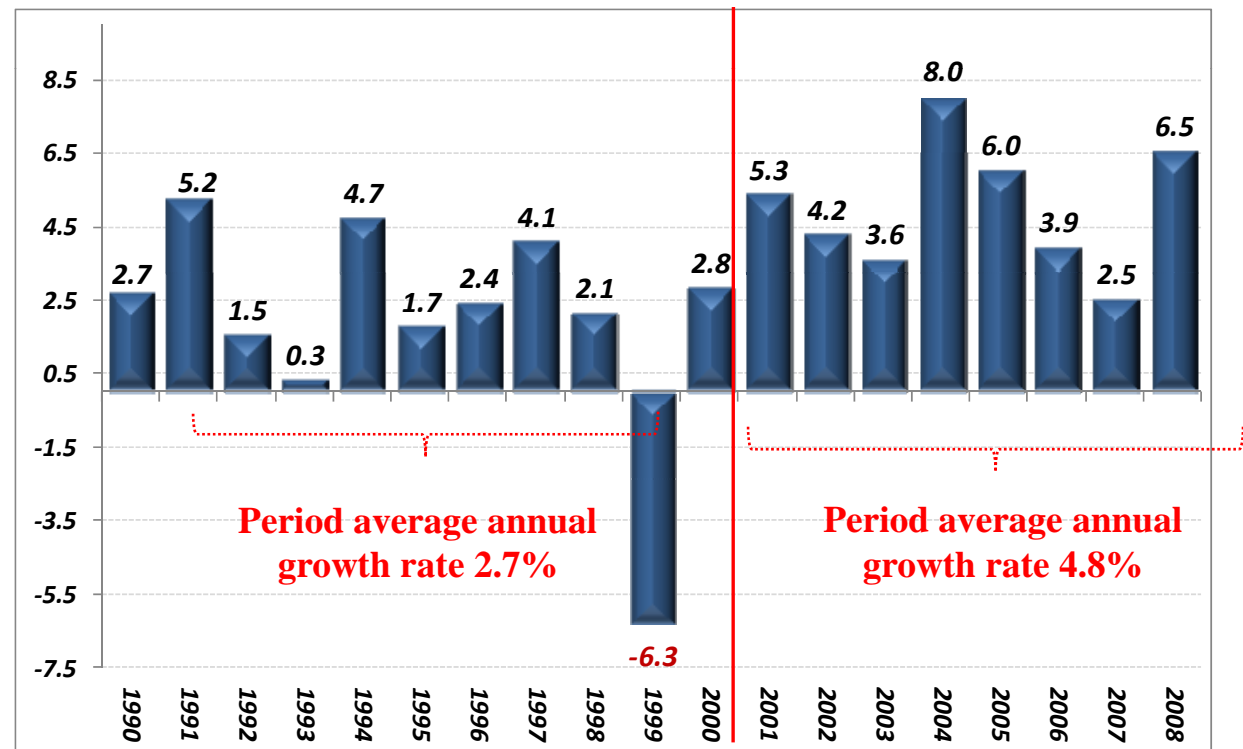


On January 2000, Ecuador adopted a **dollarized** monetary regime. Economic activity registered sustained average annual real growth rate of 4.8% during the 2000-2008 period. During 2008, GDP grew 6.5% on annual terms.

During the 2000-2008 growth was related to:

- i) 10.8% average annual growth rate on Gross fixed capital formation (GFKF), in part due to public investment.
- ii) 5.6% average annual growth rate on Private consumption.
- iii) 5.1% average annual growth rate on Exports

Gross Domestic Product Annual growth rate %

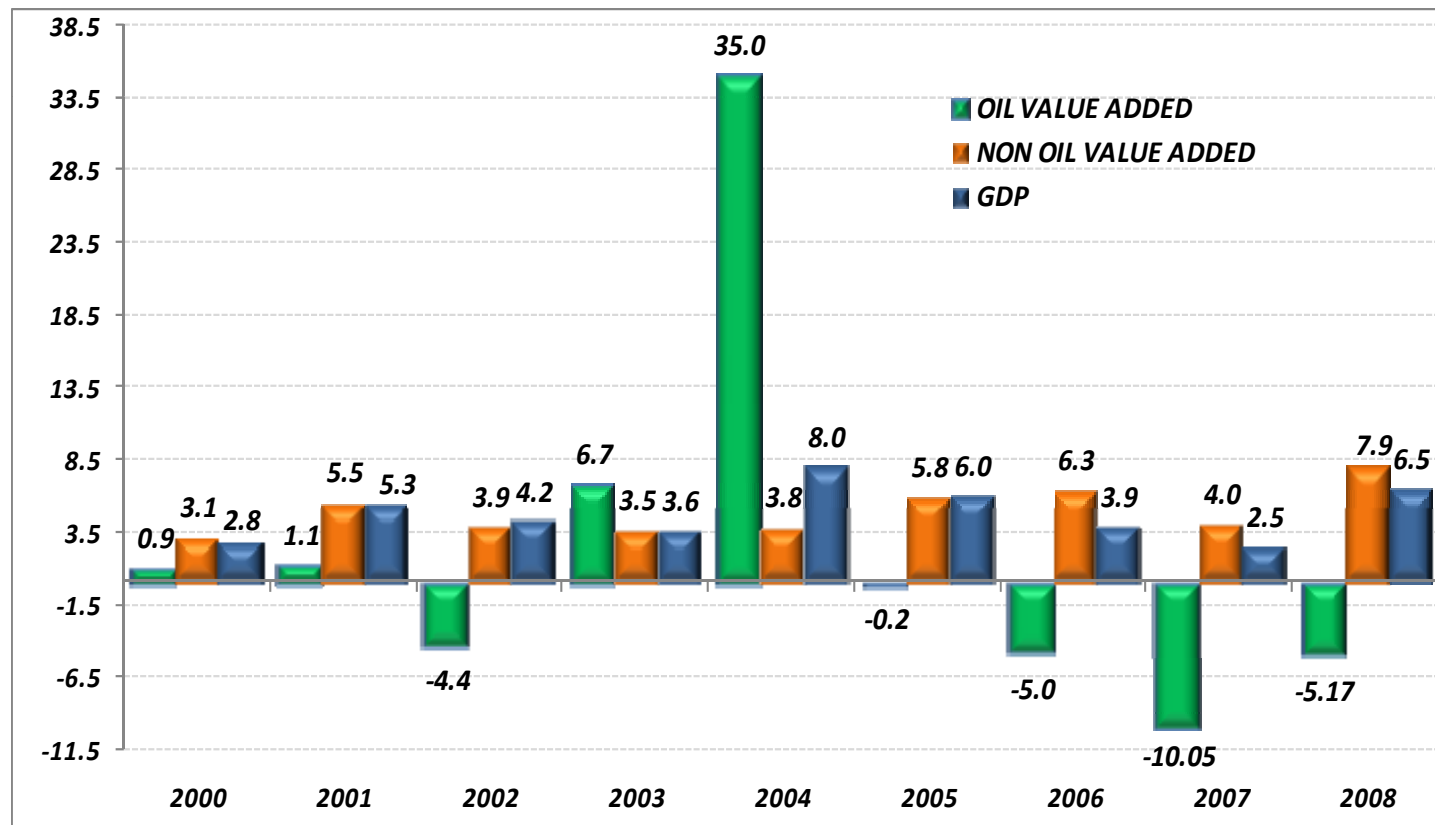


Source: Central Bank of Ecuador



During the 2000-2008 period, **oil GDP** registered average annual real growth rate of 2.1%. The increase on 2004 oil production is related to private production increases result of the construction of the OCP pipeline. From 2005, oil GDP falls due to insufficient public and private investment.

Oil and Non-Oil Value Added *
Annual growth rate

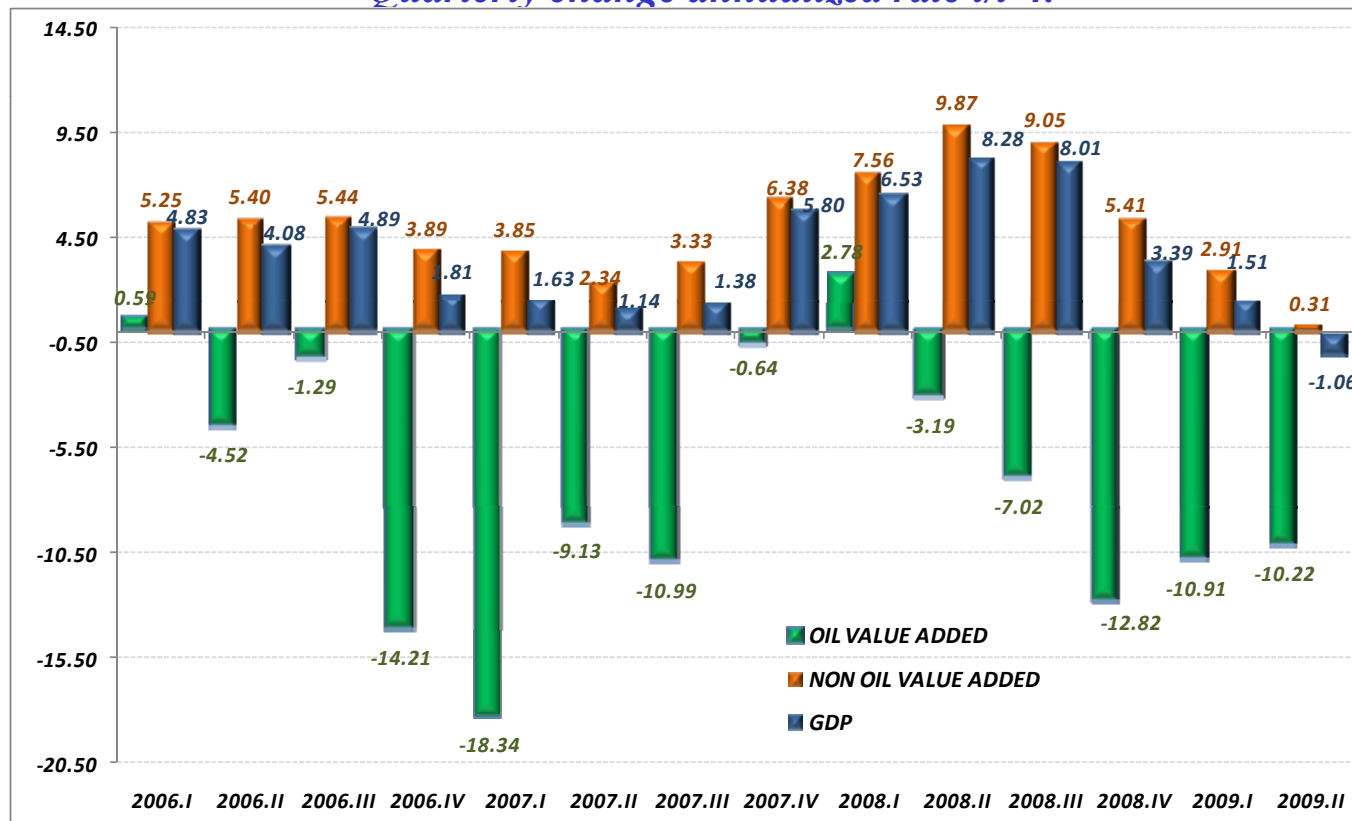


Source: Central Bank of Ecuador



As a result of the world crisis, during the **Second Quarter 2009 GDP** registered a reduction of 1.06% over the same period of the previous year. Oil Value Added shows a decrease of 10.22% on annual terms (q/q-4) due to a significant reduction on the production of private companies.

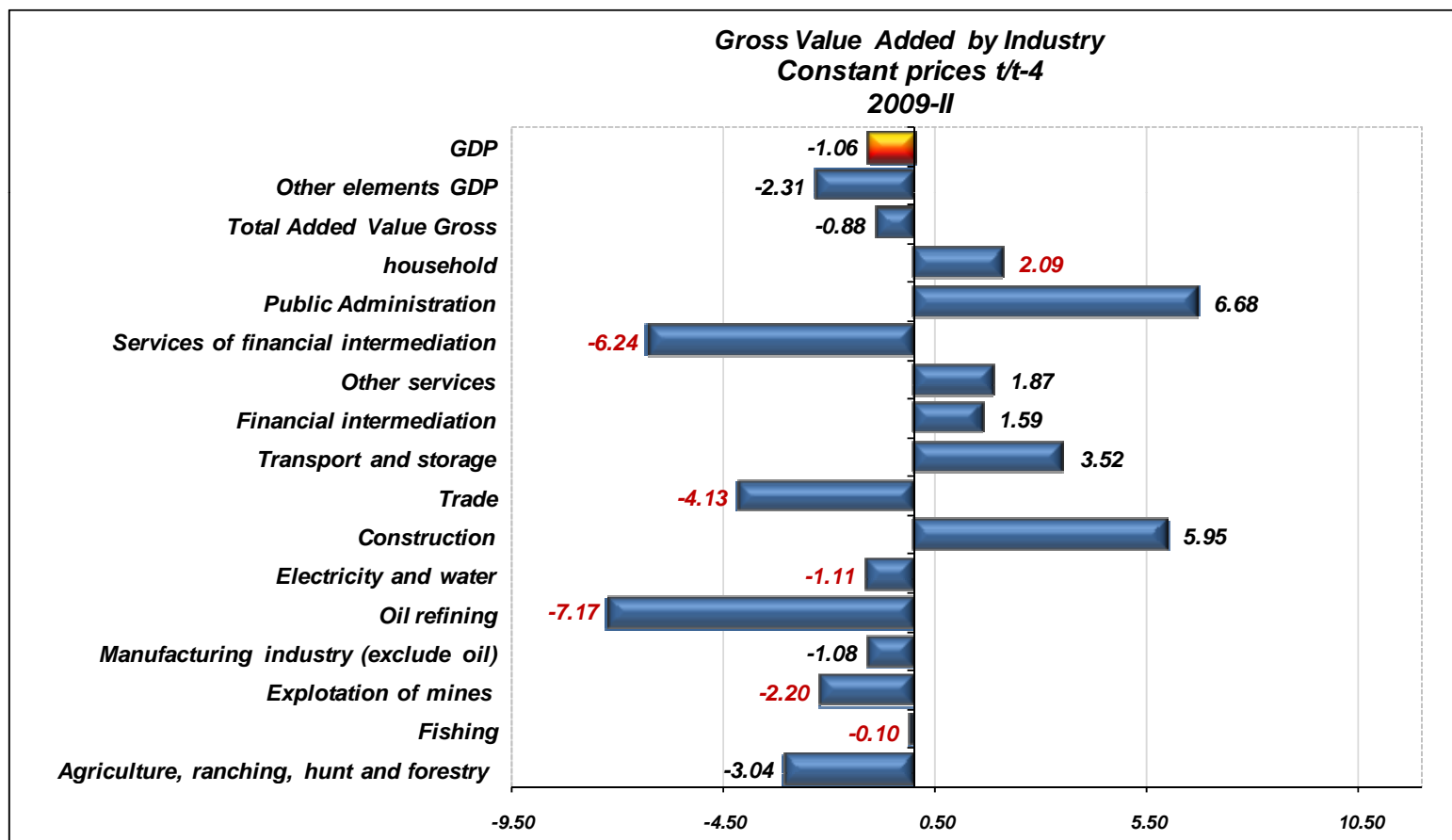
Oil and Non Oil Value Added*
Quarterly change annualized rate t/t-4.



Source: Central Bank of Ecuador



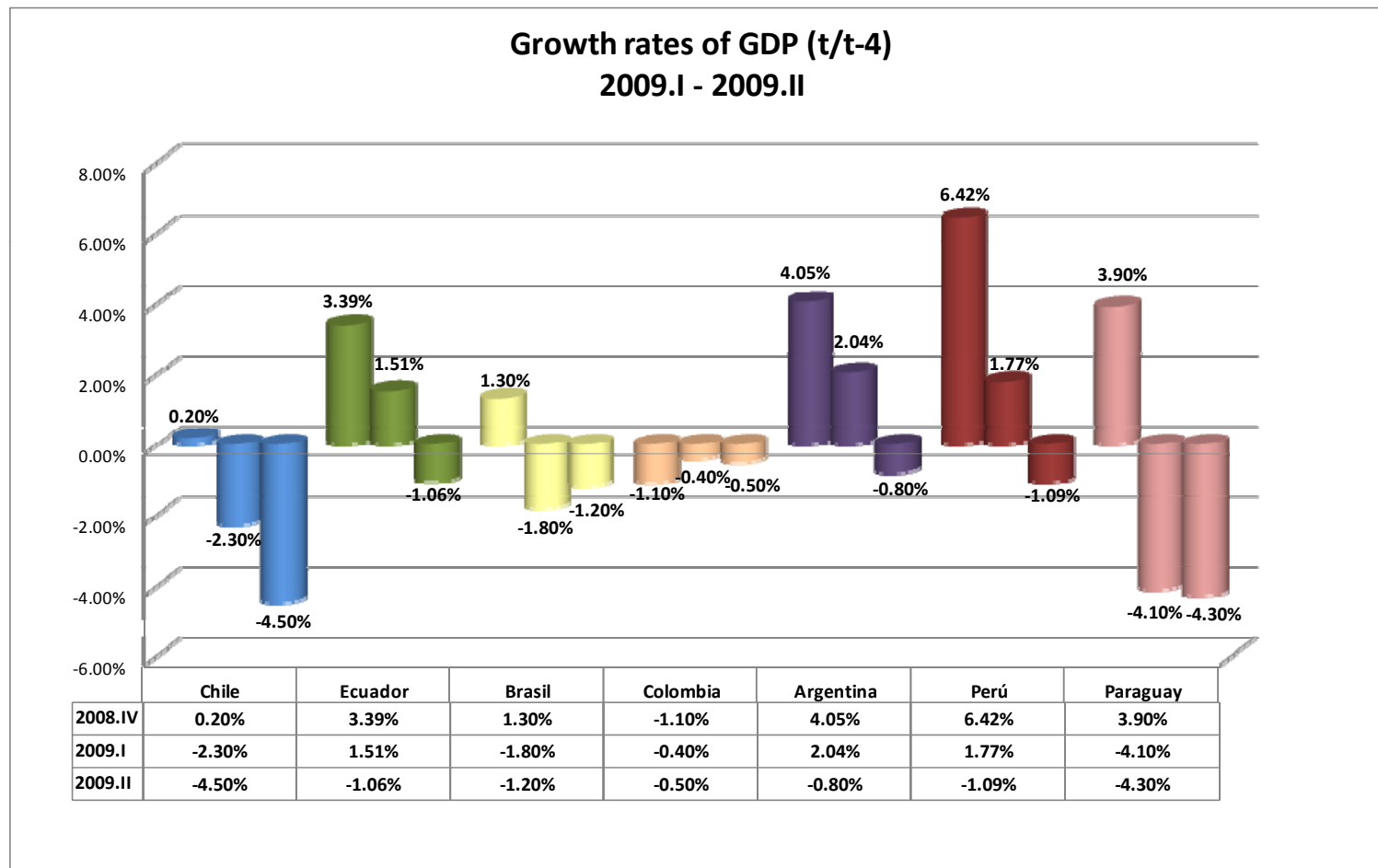
On the other hand Non-oil Value Added shows an annual growth of 0.31% (q/q-4) due to better results on the construction industry and the public administration. Industries such as trade, agriculture and oil refining registered decreases of 4.13%, 3.04% and 7.17% respectively.



Source: Central Bank of Ecuador



It is interesting to note that compared to other economies of the region, economic activity in Ecuador managed to grow during the last quarter of 2008 and first quarter 2009.

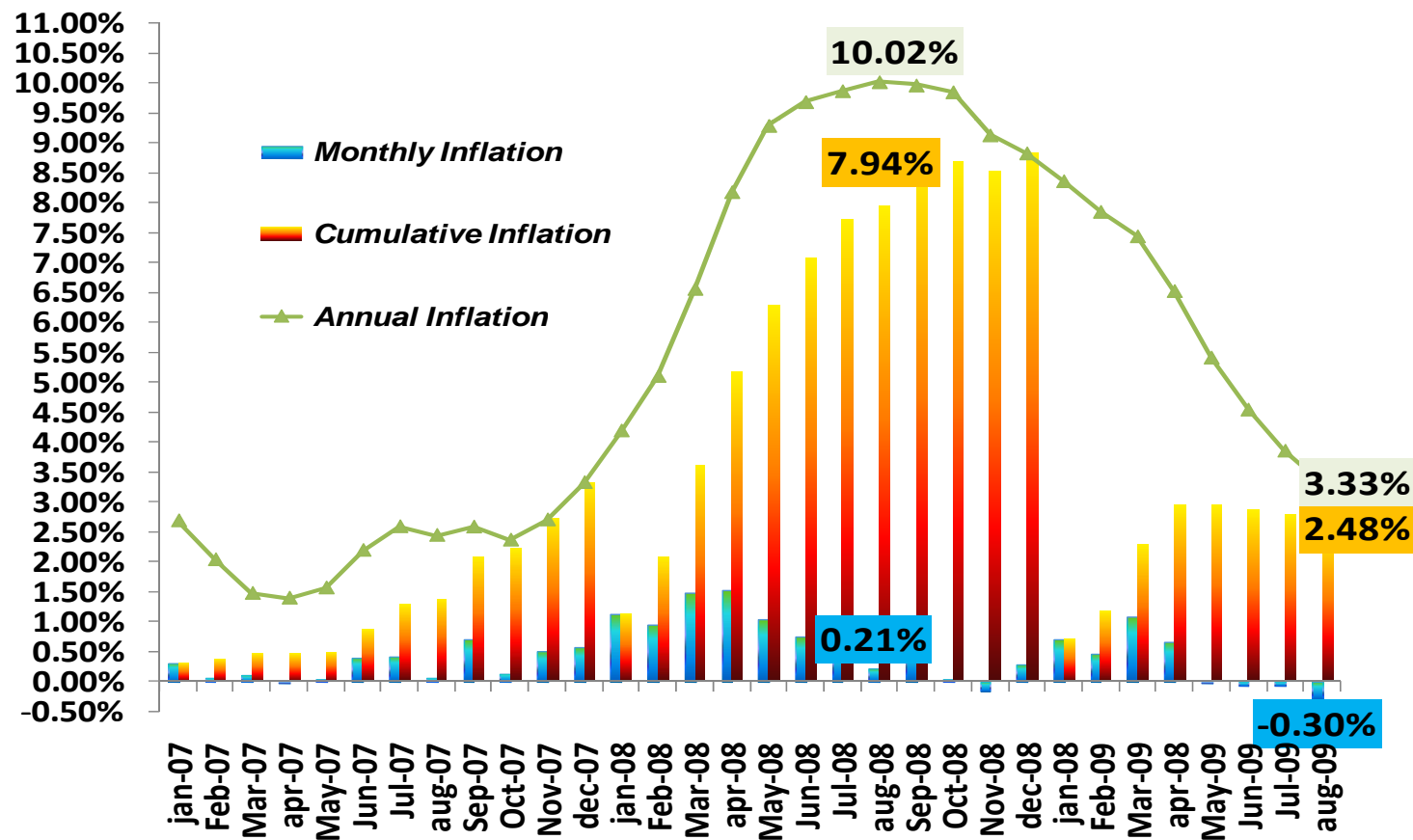


Sources : Central Banks of respective countries.



On August of the present year, CPI registered a monthly decrease of -0.3% for the fourth consecutive month, due in part to lower prices on agricultural products as a result of favorable market supply. Annual inflation shows a deceleration, reaching only 3.3% on August, lower than the 10.8% registered on August 2008.

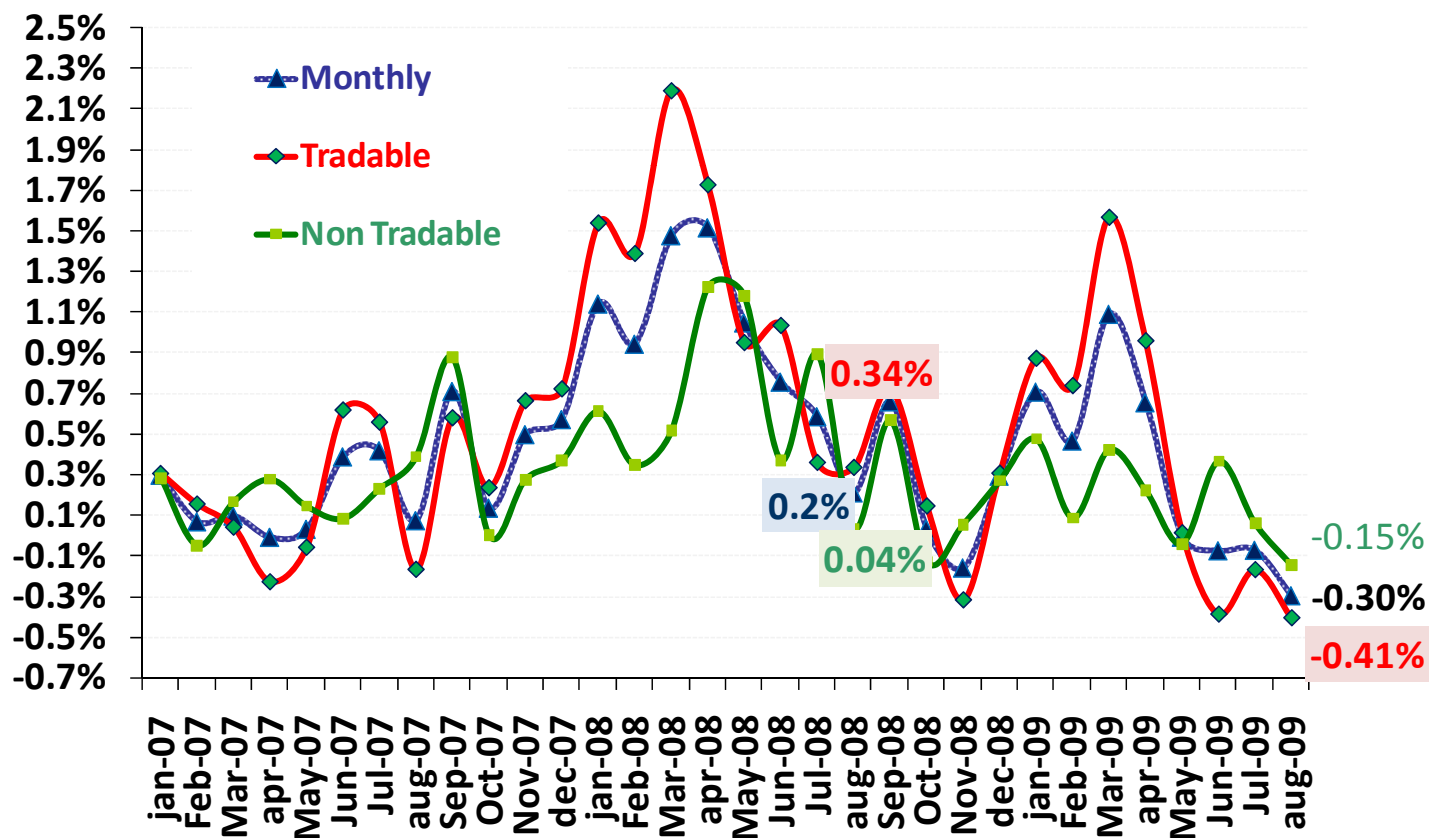
Annual, Monthly and Cumulative Inflation





Tradable goods show a monthly decrease on its CPI of -0.41% (lower prices of agricultural and industrial products), while non-tradable goods show a monthly decrease on its CPI of -0.15%.

Inflation of Tradable and Non-Tradable Goods

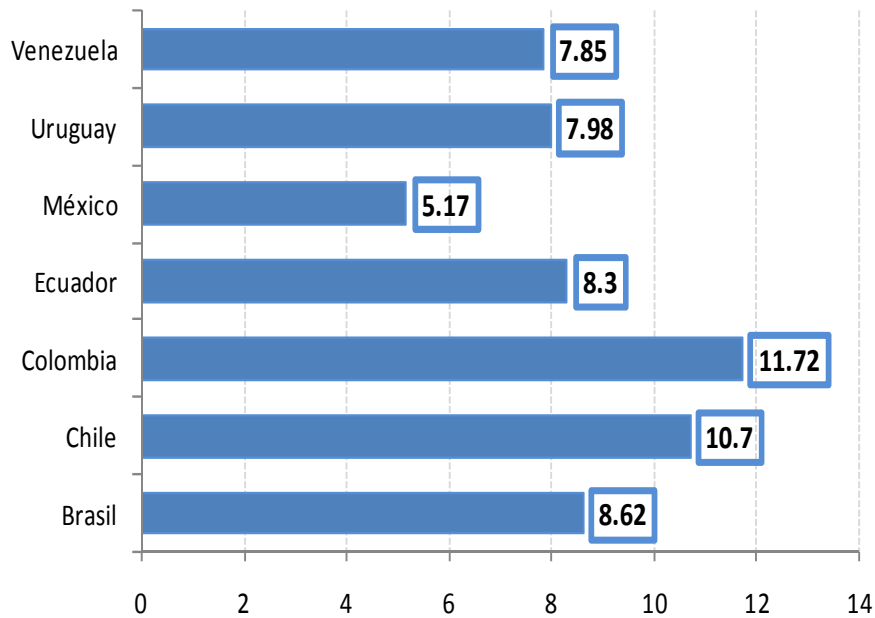


Sources : INEC y BCE

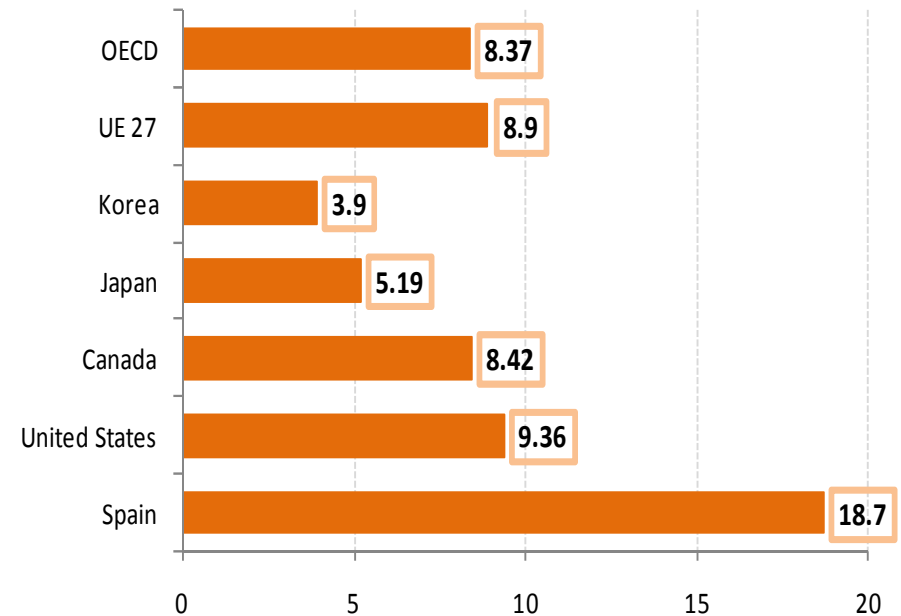


Despite of the world economic and financial crisis, unemployment rate during the second quarter of 2009 was still on the one digit range

Latin America unemployment – II Quarter 2009



Advanced Economies– II Quarter 2009



Sources : Central Banks, Statistics Institutes, Eurostat, OECD, OIT



External Sector

- Balance of Payments***
- Current Account***
- Trade Overview***



External sector has been affected the most by the world crisis, registering a current account deficit of USD 817 million during the first quarter of the year while during the same period of 2008 Ecuador registered a USD 1289 million surplus.

Most affected areas were exports (43.3% annual decrease) – basically oil exports with 65.9% annual decrease and remittances with a 27% annual decrease.

Balance of Payments (USD Millions)

	2008	2008.I	2009.I	% of change
1 CURRENT ACCOUNT BALANCE	1,174.7	1,288.7	-817.0	
<i>Goods</i>	1,371.3	1,207.5	-734.8	
Trade account (registered trade)	909.9	1,087.5	-805.5	
Exports	18,510.6	4,622.7	2,622.5	-43.3%
Crude oil and derivatives	11,672.8	2,964.2	1,011.9	-65.9%
others	6,837.8	1,658.5	1,610.7	-2.9%
Imports	-17,600.7	-3,535.2	-3,428.1	-3.0%
Consumption	-4,037.4	-823.7	-772.6	-6.2%
others	-13,563.3	-2,711.5	-2,655.5	-2.1%
Non Registered Trade and Others	461.5	120.0	70.7	-41.1%
<i>Non factor services</i>	-1,587.1	-340.6	-323.2	-5.1%
Credits	1,369.6	319.9	323.1	1.0%
Debits	-2,956.7	-660.5	-646.3	-2.1%
<i>Factor Services</i>	-1,598.2	-395.5	-310.9	-21.4%
Credits	187.0	64.1	13.0	-79.8%
Debits	-1,785.2	-459.6	-323.9	-29.5%
<i>Transfers</i>	2,988.6	817.3	551.9	-32.5%
o/w remittances	2,821.6	759.6	554.5	-27.0%
2 CAPITAL AND FINANCIAL ACCOUNT	-339.5	-628.1	-571.0	-9.1%
Capital Account	32.9	4.8	4.9	2.5%
Financial Account	-372.4	-632.9	-575.8	-9.0%
Foreing Direct Investment	993.2	426.1	116.1	-72.7%
Inversión de cartera (neto)	213.1	102.2	-188.1	-70%
Other Investment (1)	-1,578.8	-1,161.2	-503.9	
3 ERRORS AND OMISSIONS	112.9	15.5	53.7	
GLOBAL BALANCE OF PAYMENTS (1+2+3)	948.1	676.1	-1,334.2	
FINANCING	-948.1	-676.1	1,334.2	
Net Foreing Assets in Central Bank (2)	-952.2	-622.7	1,229.0	
Exceptional Financing (3)	4.1	-53.4	105.2	

Notes:

1/ It refers to the movement of public and private debt

2/ It refers to the change in Free Disposable Reserve

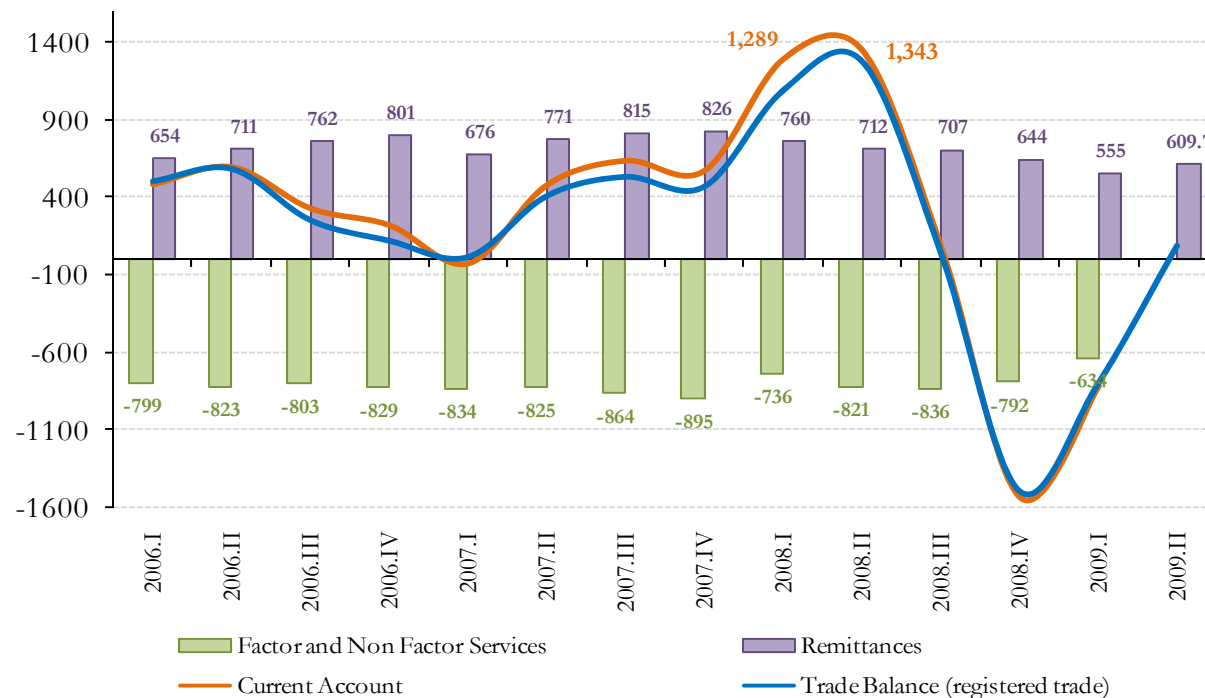
(-) means increase

3/ Include debt forgiveness, arrears y arrears payments



Current account evolution starts to deteriorate on the last quarter of 2008. Trade balance went from registering surpluses during the first semester of 2008 to sharp deficit on the last quarter of 2008 and the first quarter 2009. Nevertheless, during the second quarter of the present year, both current account and trade balance show a slight recovery.

Current Account and its Components
Millions of USD



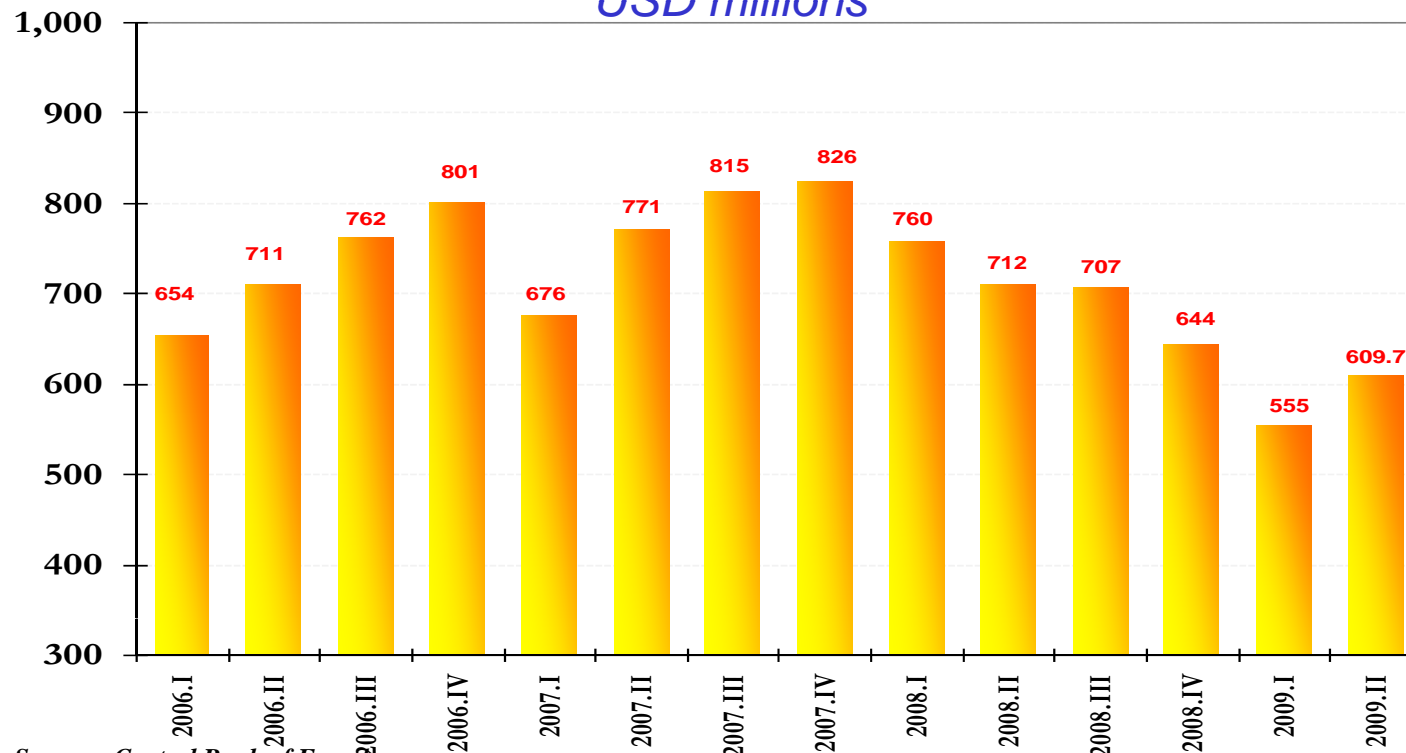
Source : Central Bank of Ecuador



The world crisis on developed countries that have a significant percent of ecuadorian workers, such as Spain and United States, severely affected remittances since the second semester of 2008. On march 2009, remittances reached only USD 555 million, the lowest ammount registered during the last three years (equivalent to an annual decrease of 27%). However, it is important to note that during the second quarter of 2009, remittances show a slight recovery when reaching USD 610 million.

Recieved Remittances

USD millions

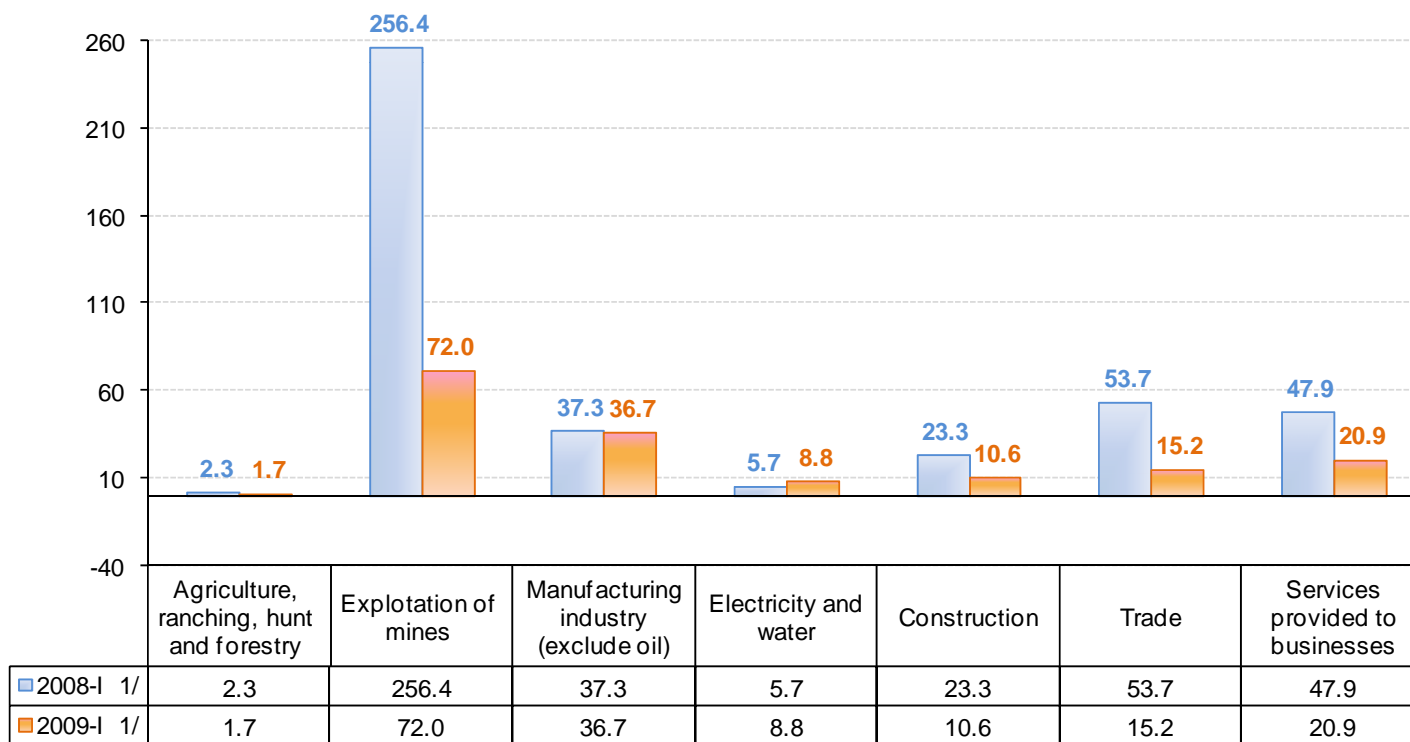


Source : Central Bank of Ecuador



Foreign Direct Investment reached USD 116 million during the first quarter of 2009, registering a decrease of USD 310 million compared to the previous year, mostly as a result of lower investment in the oil sector.

Foreign Direct Investment USD millions

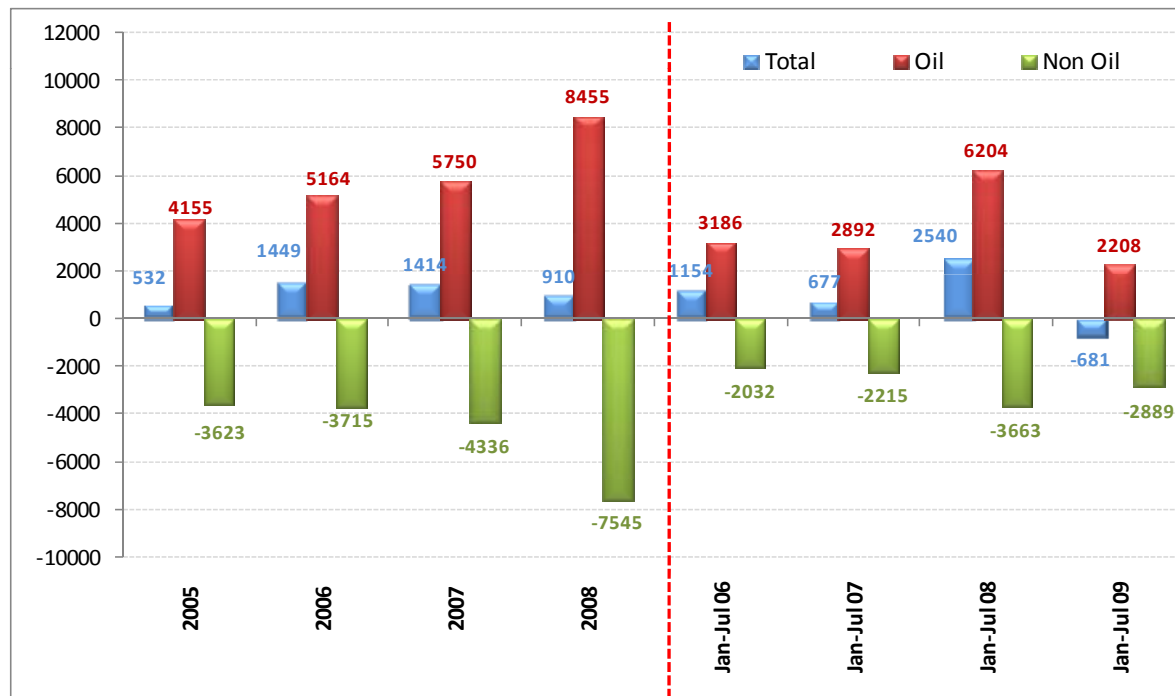


Source : Central Bank of Ecuador



Unlike previous years, as of July 2009, total trade balance registered a deficit of USD 681 million, associated mainly to a lower surplus on the oil trade balance due to lower oil prices (55.9% annual decrease) as well as lower exports volume (8% annual decrease)

Trade Balance USD Millions



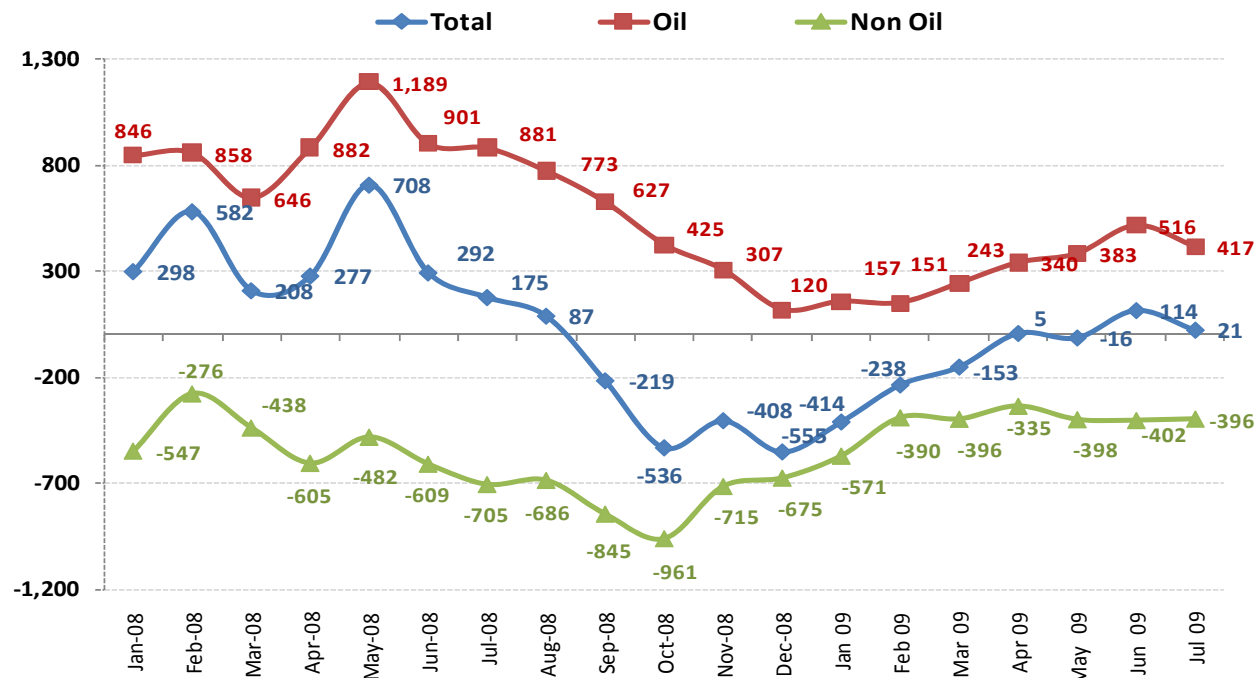
Deficit on non-oil trade balance is lower in USD 775 million to the deficit registered during 2008 as a result of a contraction on consumption and raw materials imports.

Source : Central Bank of Ecuador



Despite of the crisis, total trade balance finally shows some signs of recovery during the last months, mainly as a result of lower oil and non-oil imports as well as higher oil export prices

Monthly Trade Balance
Jan 2008 – Jul 2009
USD Millions



Source : Central Bank of Ecuador



During the first seven months of 2009, oil exports reached USD 3330 million, compared to USD 7958 million during the same period of 2008, equivalent to a 58.2% decrease. However, during the last months levels have started to recover.

Oil Exports

January - July

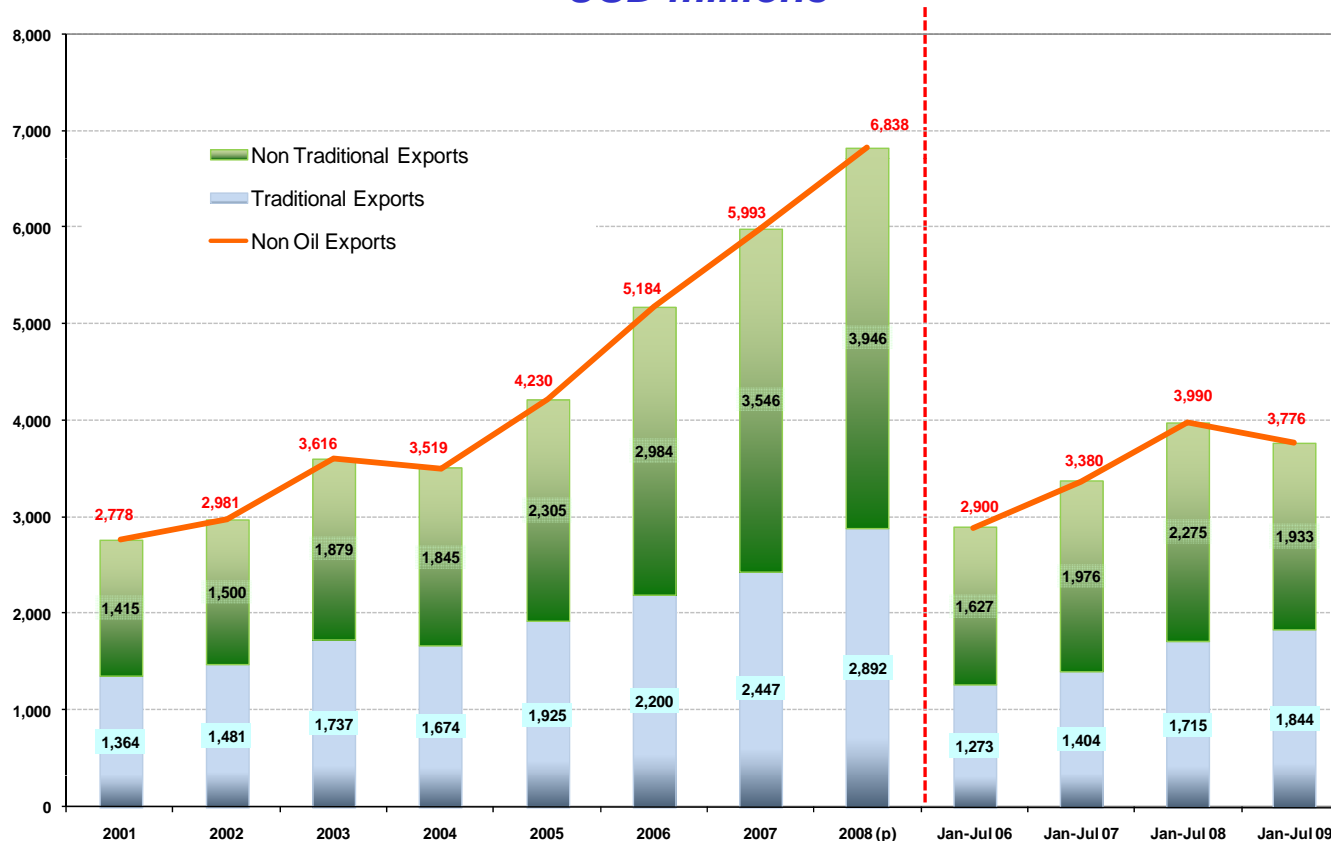
OIL EXPORTS				Growth rates	
	2007	2008	2009	Jan-Jul 08	Jan-Jul 09
Value (USD millions)	4,213	7,958	3,330	88.9%	-58.2%
Volume (millions of barrels)	81.2	84.2	77.6	3.7%	-7.8%
Unit value (USD/barrel)	51.9	94.5	42.9	82.1%	-54.6%
A. Oil Crude					
Value (USD millions)	3,778	7,298	2,959	93.2%	-59.5%
Volume (millions of barrels)	72.4	75.9	69.8	4.8%	-8.0%
Unit value (USD/barrel)	52.2	96.1	42.4	84.3%	-55.9%
B. Derivados de Petróleo					
Value (USD millions)	435	660	371	51.5%	-43.7%
Volume (millions of barrels)	8.8	8.3	7.8	-5.3%	-6.2%
Unit value (USD/barrel)	49.6	79.4	47.6	60.0%	-40.0%

Source : Central Bank of Ecuador



Eventhough non-oil exports continue to fall due to less dynamic behavior of non traditional exports (5.4% reduction on annual terms during the first seven months), during the last months of the year traditional exports show some signs of recovery.

Non-Oil Exports USD millions

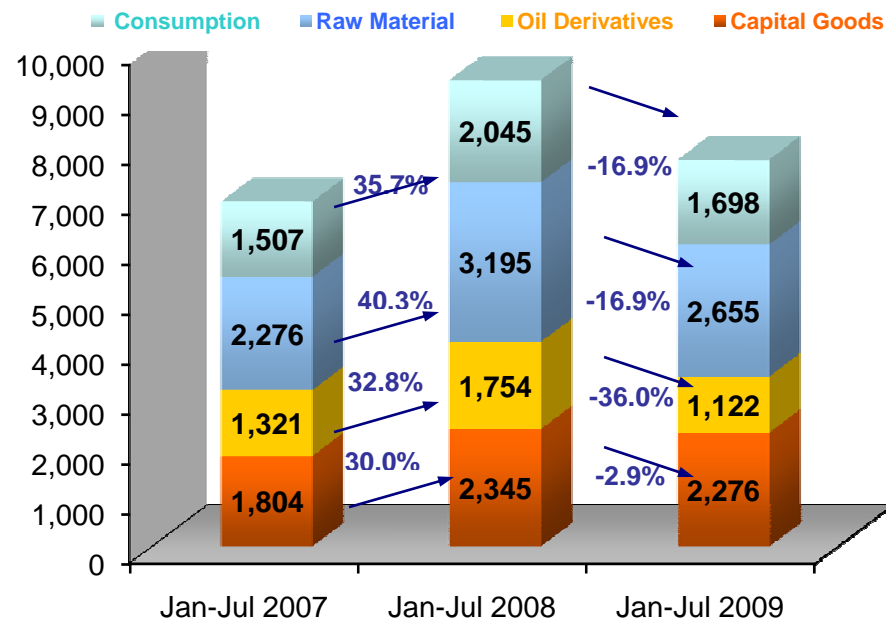


Source : Central Bank of Ecuador



During the period January-July, total imports reached USD 7771 million, of which non-oil imports are USD 5710 million, 12.9% less than the same period of 2008. During the period, there is a sharp generalized reduction on imports : i) non durable consumption (-16.4%) ; ii) durable consumption (-17.8%); raw materials (-16.9%); and capital goods (-2.9%)

Total Imports FOB USD millions



Source : Central Bank of Ecuador



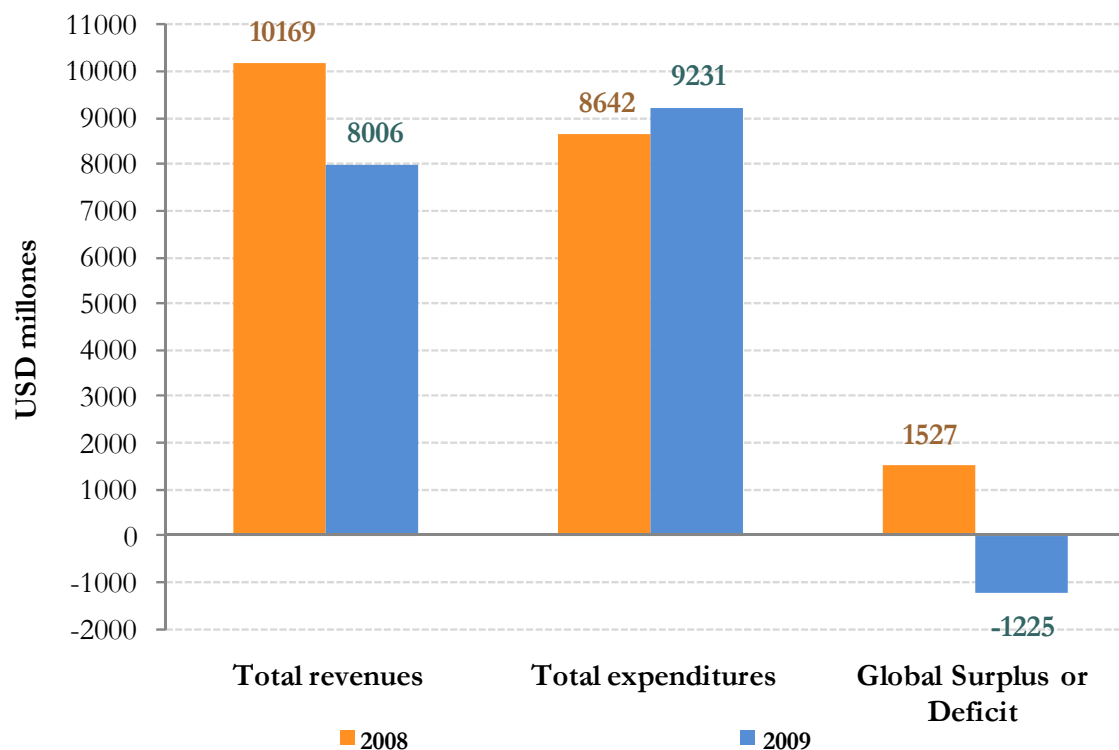
FISCAL SECTOR

- *Non Financial Public Sector (NFPS)*
- *Central Government (CG)*
- *Financing of the Central Government*



During the first semester of 2009 and as a result of the drop on international oil prices, the Non Financial Public Sector (NFPS) revenues fell by 21.3% and expenditures grew by 6.8% on annual terms. Global result is a deficit of 2.4% of GDP, compared to global surplus of 2.8% of GDP registered during the same period of 2008.

Operations of the NFPS January – June (prov.)



Source: Ministry of Finance and NFPS Institutions



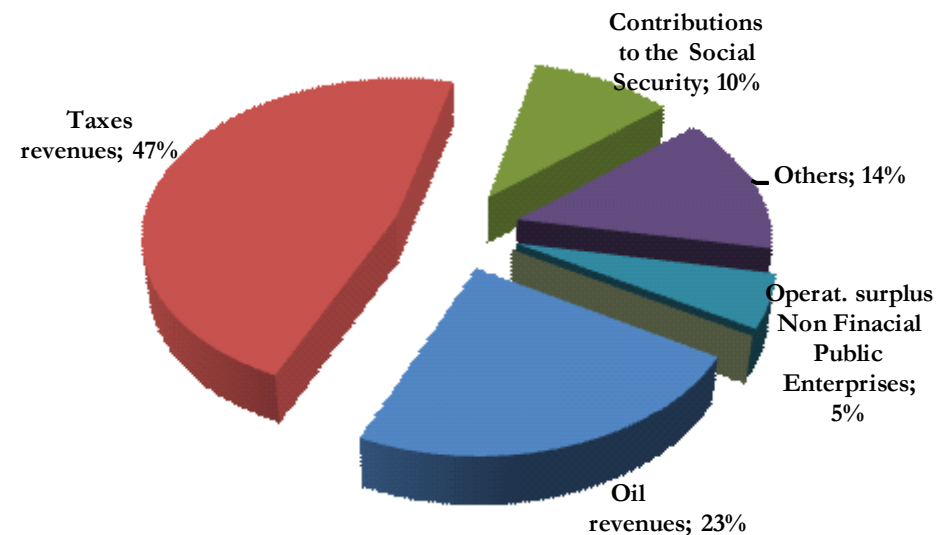
Revenues of the NFPS January-June (prov)

Revenues during the first semester of 2009 have been mainly affected by:

- i) Fall of 59.9% on oil revenues
- ii) Fall of 7.6% of Social Security Contributions
- iii) Increase of 14.7% of tax revenues
- iv) Increase on 108.5% on Operational Surplus of the Public Companies

	USD millions		Variation	
	2008	2009	Absolute	Relative
Total revenues	10169	8006	-2163	-21.3
Oil revenues	4654	1868	-2786	-59.9
Non Oil revenues	5307	5703	396	7.5
Taxes revenues	3276	3759	483	14.7
Contributions to the Social Security	888	820	-67	-7.6
Others	1143	1124	-19	-1.6
Operat. surplus Non Financial Public Enterprises	208	435	226	108.5

Source: Ministry of Finance and NFPS Institutions



47% of the NFPS revenues come from Tax Revenues and 23% from Oil Revenues.



Expenditures of the NFPS * January-June (prov)

Expenditures during the first semester of 2009 have been mainly affected by:

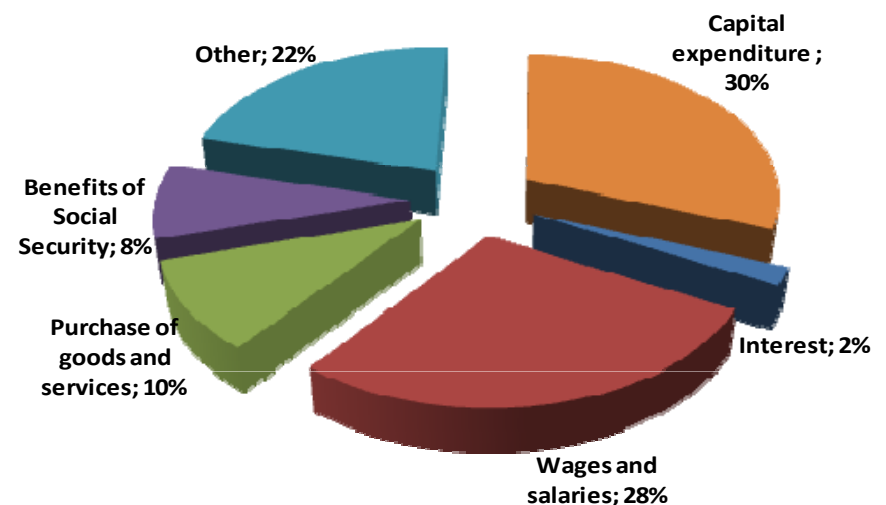
- i) Increase of 5.8% on total current expenditures
- ii) Increase of 9.1% on capital expenditures
- iii) Fall of 53% on interest payments due to lower debt levels (global bonds)

70% of the NFPS expenditures are current expenditures while 30% are capital and investment expenditures

(*) Expenditures are on a accrual basis.

	USD millions		Variation	
	2008	2009	Absolute	Relative
Total expenditures	8642	9231	588	6.8
Current expenditure	6098	6454	356	5.8
Interest	391	184	-207	-53.0
Wages and salaries	2074	2595	521	25.1
Purchase of goods and services	814	931	118	14.5
Benefits of Social Security	556	758	202	36.4
Other	2265	1986	-278	-12.3
Capital expenditure and net loan	2544	2777	233	9.1
Global Surplus or Deficit	1527	-1225	-2752	-180.2

Source: Ministry of Finance and NFPS Institutions





The deficit of the NFSP during the first semester 2009 is financed basically by a reduction on deposits of the nonfinancial sector and in a less extend by new disbursements.

Financing of the NFSP

USD millions

	January-june	
	2008	2009 (prov)
Overall Balance	1,527	-1,225
a. Surplus (-) or Deficit (+) (d+e) *	-1,527	1,225
b. Amortization	687.3	929.4
Domestic	10	0
External	678	929
c. Disbursements	136	165
Domestic	5	0
Foreign	130	165
Projects financing	130	165
Multilaterals	0	0
d. Total financing (c-b)	-552	-764
e. Other financing sources (1+2+3+4)	-975	1,989
1. Deposits variation of NFPS in Central Bank	-2,776	1,236
2. Deposits variation of NPFS in Finacial Institutions.	-69	68
3. Assets variation: FEIREP CEREPS y FAC	1,183	119
4. Arrears variation	687	566
o/w Domestic	756	431
External	-69.3	135

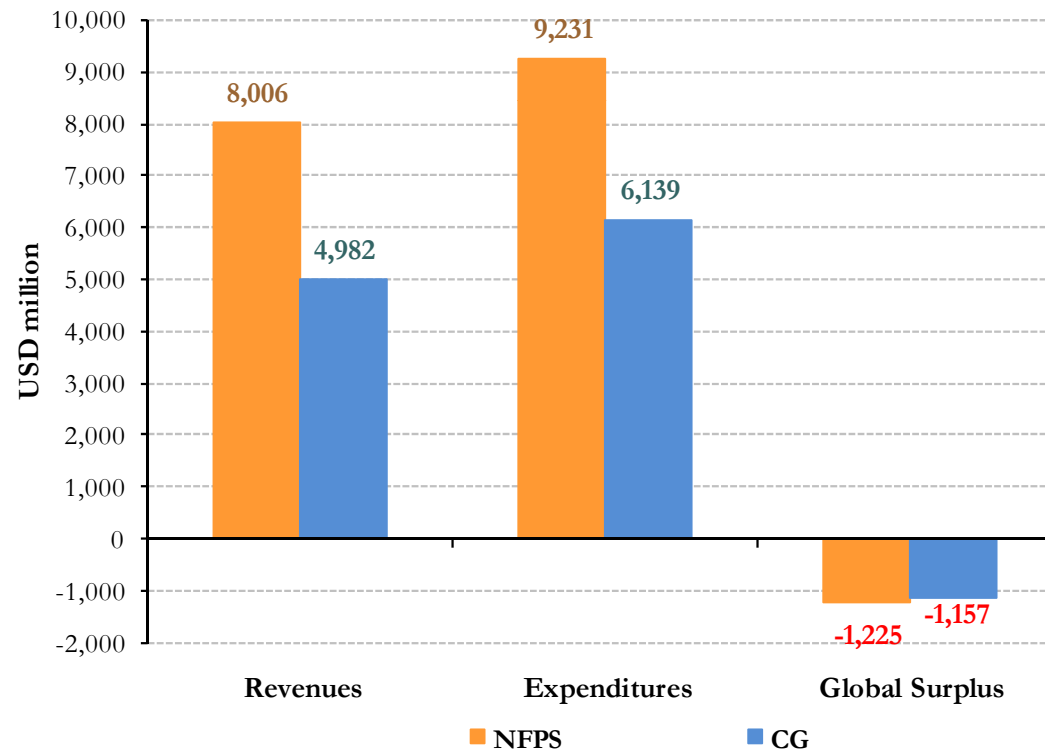
*/ negative sign means surplus

Source: Ministry of Finance and NFPS Institutions



During the first semester of 2009 the Central Government revenues, the NFPS most significant government level, reached 9.7% of GDP, while the expenditures 11.9% of GDP. As a result, the Central Government registered a deficit of 2.3% of GDP in contrast with the 1.1% of GDP surplus registered during the same period of 2008.

Operations of the NFPS and the Central Government January-June 2009



Source: Ministry of Finance

**Central Government Revenues**

January–June (prov.)

	USD millions		Variation	
	2008	2009	Absolute	Relative
Total revenues	6,473	4,982	-1,492	-23.0
Petroleum revenues	2,569	724	-1,846	-71.8
Nonoil income	3,475	3,996	521	15.0
Taxes revenues	3,161	3,646	485	15.4
Nontax	315	350	35	11.2
Transfers	429	262	-166	-38.8

Source: Ministry of Finance

The decrease on the Central Government revenues during this first six months of 2009 (23% annual terms) is a result of the significant drop in oil prices and oil revenues.

On the other hand, despite de world crisis, tax revenues grew by 15,4% as a result of i) important economic activity during the previous year ii) 2008 Tax Reform iii) Increased efficiency in tax collection.

It si important to note that legal changes made on 2008 eliminated oil funds and since april 2008 all oil revenues go directly into the Central Governemnt Budget.



Total expenditures increased by 4.9% due to an increase of 9.4% on current expenditures. Capital expenditures, that by law must be financed by oil revenues, decreased in 2.9%. As a result there is a deficit of USD 1157 million in contrast with the USD 620 million surplus of the previous period.

Central Government Expenditures
January – June (prov.)

	USD million		Variation	
	2008	2009	Absolute	Relative
Total expenditures	5,853	6,139	286	4.9
Currents	3,712	4,059	347	9.4
Wages and salaries	1,664	2,135	471	28.3
Current transfers	870	824	-46	-5.3
Good and services	248	363	115	46.4
Other current expenditures	505	497	-8	-1.6
Interests	425	240	-185	-43.5
Capital	2,142	2,080	-61	-2.9
<u>Global Deficit (-) or Surplus (+) CG</u>	620	-1,157	-1,777	-286.7

Source: Ministry of Finance



MONETARY AND FINANCIAL SECTOR

- *Main Balance Accounts of the Central Bank of Ecuador*
- *Deposits and Loans*
- *Nonperforming loan ratio*
- *Lending rates.*



Main Balance Accounts of the Central Bank

USD millions

Between December 2008 and September 30 2009, the Net Foreign Assets of Central Bank increased by USD 152 million due mainly to: i) Disbursements of FLAR (Latin American Reserve Fund) of USD 480 million, Petrochina of USD 1000 million ii) Allocation of SDR's equivalent to USD 352 million.

This positive inflows were reduced by the lower deposits of IESS-Ecuadorian Social Security Institute and a decrease of bank requirement, due to the change on the reserve requirement from 4% to 2% of total deposits of the Financial Institutions.

	BALANCE		Absolute
	31-Dec-2008	30-Sep-09	Annual Change 30 Sep.09/31 Dec.08
	(a)	(b)	(c)=(b)-(a)
Net Foreign Assets of Central Bank	4,473	4,625	152
DEPOSITS OF THE SPNF (1+2)	3,720	4,381	662
1. Central government (a+b)	1,095	2,260	1,165
a) Cuenta Única	385	1,668	1,283
b) Other Accounts of Central Government	710	592	-118
2. Other Institutions of the SPNF	2,624	2,121	-503
IESS	1,538	1,229	-309
Petroecuador	320	267	-53
Provinces	229	157	-73
Municipalities	349	289	-60
Other	189	179	-9
RESERVES OF FINANCIAL SYSTEM	1,224	806	-417
Private banks includes BNF	1,110	691	-418
Other financial institutions	114	115	1

Source: Central Bank of Ecuador



Up to August, 2009, **deposits** of the private banking and **total credit** showed a contraction of 2.2% and 8.1%, respectively compared to December 2008.

The current **loan portfolio** decreased by 9.2% while **nonperforming loans** increased by 36.9%, 22.7 percentage points higher than the rate obtained during the same period last year. The **nonperforming loan ratio** was 3.6% on August 2009, revealing a deterioration of the portfolio of the private banking system during this year.

Deposits and Loans of Private Banking USD millions

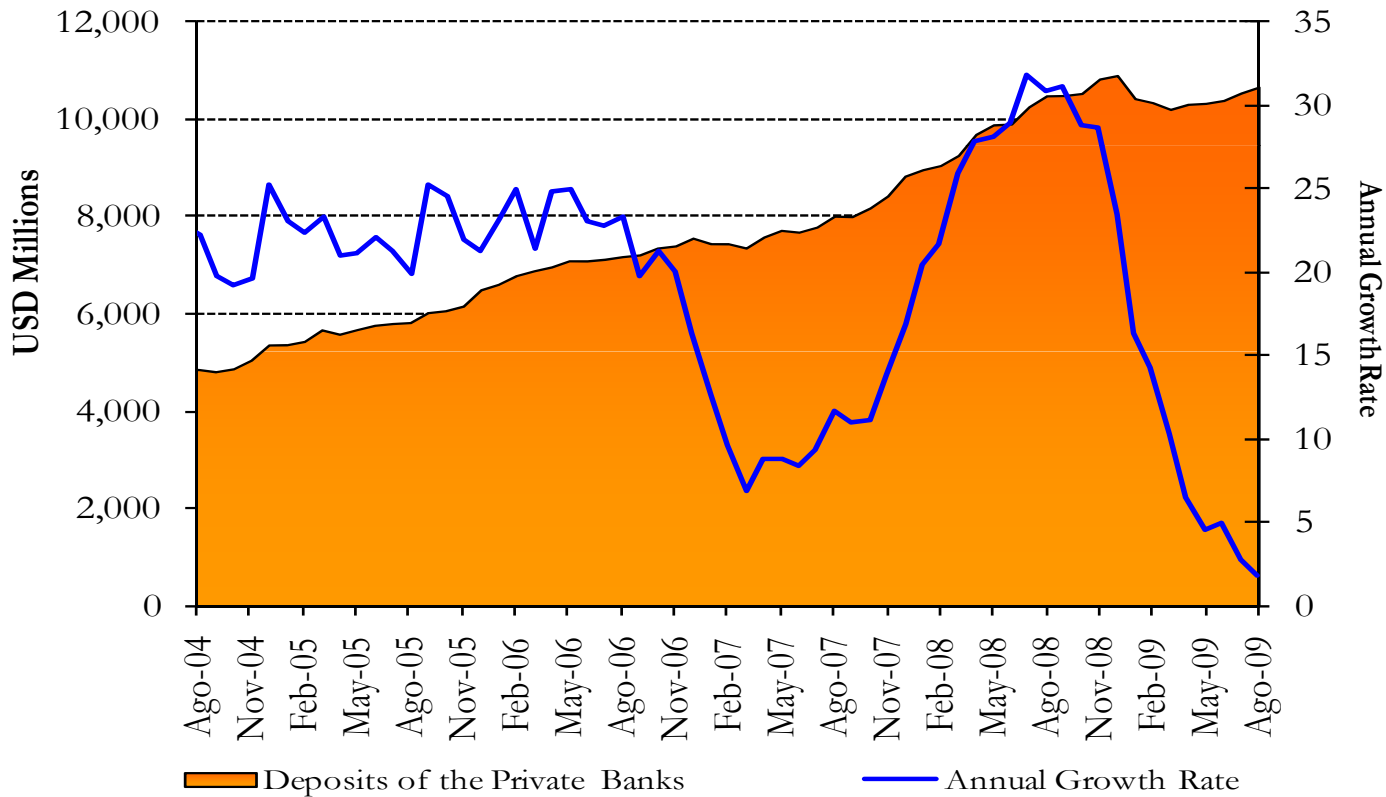
	Dec-07	Aug-08	Dec-08	Aug 09	Annual Changes			
					Absolut		Relative	
	(a)	(b)	(c)	(d)	(e)= (b)-(a)	(f)= (d)-(c)	Aug.08/ Dec 07	Aug.09/ Dec 08
Deposits	8,840	10,489	10,907	10,670	1,649	-237	18.7%	-2.2%
Sight Deposits	3,612	4,361	4,660	4,269	749	-392	20.7%	-8.4%
Time Deposits	5,228	6,128	6,247	6,401	900	154	17.2%	2.5%
Total Loans	7,599	8,871	9,654	8,875	1,271	-779	16.7%	-8.1%
Loan Portfolios	7,383	8,624	9,422	8,558	1,241	-864	16.8%	-9.2%
nonperforming loans	216	247	232	318	31	86	14.2%	36.9%
nonperforming loan ratio	2.8%	2.8%	2.4%	3.6%				

Source: Bank Superintendency and Central Bank of Ecuador



Regarding to evolution of annual growth rates of deposits, they show a declining trend during 2009, reflecting the contraction of income to the economy. However the nominal level of deposits is increasing since February 2009.

Private Banks Deposits

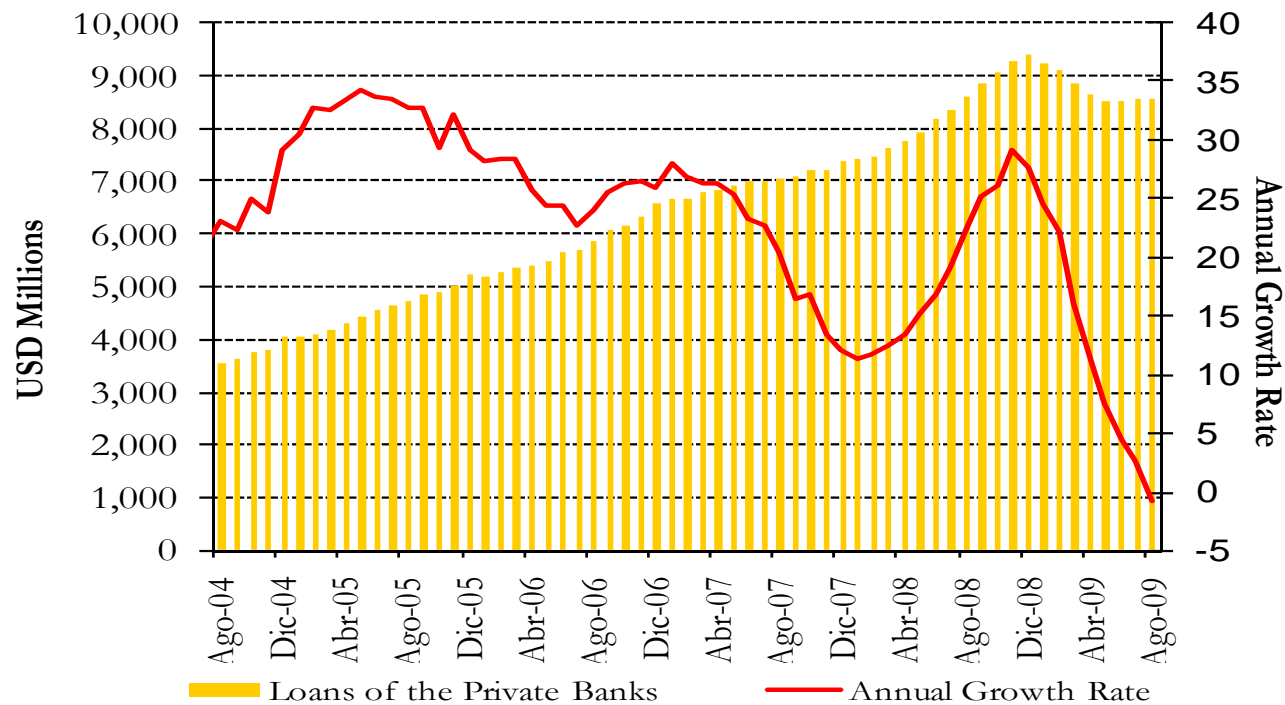


Source: Bank Superintendency and Central Bank of Ecuador



..... less deposits influenced on lower dynamism of loans, reflecting the preference of private banks for liquidity. On August 2009 the loan portfolio of the banking system presents a negative annual growth rate of 0.8%.

Loan Portfolio of the Banking System



Source: Bank Superintendency and Central Bank of Ecuador

Between January-August 2009, the balance of loan portfolio declines in USD 864 millon (9.2%) compared to december 2008.



On the other hand, up to august 2009, **deposits of Other Financial Institutions (*)** showed a slight increase of USD 81 millon (4.40%) compared to december 2008

Deposits and Loans of Other Financial Institutions **USD Millions**

					<i>Annual Changes</i>			
	Dec-07	Aug-08	Dec-08	Aug-09	Absolute		Relative	
	(a)	(b)	(c)	(d)	(e)= (b)-(a)	(f)= (d)-(c)	Aug08/ Dec 07	Aug.09/ Dec 08
Deposits	1,601	1,872	1,854	1,935	270	81	16.9%	4.4%
Total Loans	2,058	2,357	2,439	2,369	299	-71	14.5%	-2.9%
Loan Portfolios	1,948	2,232	2,312	2,202	284	-109	14.6%	-4.7%
nonperforming loans	110	125	128	166	15	39	13.5%	30.3%
nonperforming loan ratio	5.4%	5.3%	5.2%	7.0%				

Source: Bank Superintendency and Central Bank of Ecuador

Nevertheless, the **total portfolio** of OFI, decreased by 2.9% (USD 71 million) compared to December 2008.

The **nonperforming loans** on December 2008-August 2009, presented an increase of about 17 percentage points compared to the same period, thus the **nonperforming loans ratio** rose from 5.2% on December 2008 to 7.0% on August 2009.

(*) Include *Mutuas, Cooperatives, Private Financial Institutions and Credit Cards.*



Credit volume of Private Banks

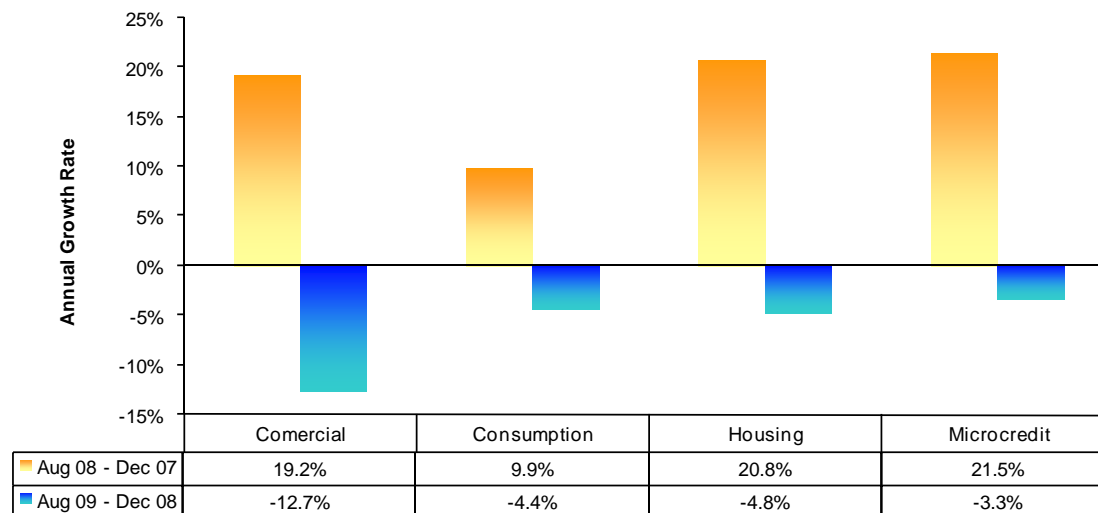
	<i>USD Millions</i>		<i>Annual Changes</i>	
	<i>Ene.-Jul.</i>	<i>Ene.-Jul.</i>	<i>Absolute</i>	<i>Relative</i>
	<i>2008</i>	<i>2009</i>		
Commercial	5,279	5,240	-39	-0.7%
Consumption	872	655	-216	-24.8%
Microcredit	552	469	-83	-15.1%
Housing	299	208	-92	-30.6%
Total	7,002	6,572	-430	-6.1%

The credit volume decreases in all sectors, mainly in consumption and housing.

Source: Bank Superintendency and Central Bank of Ecuador

The annual growth of loan portfolio in the commercial sector, consumption, housing and microcredit is negative.

Loan portfolios by sector: Private Bank

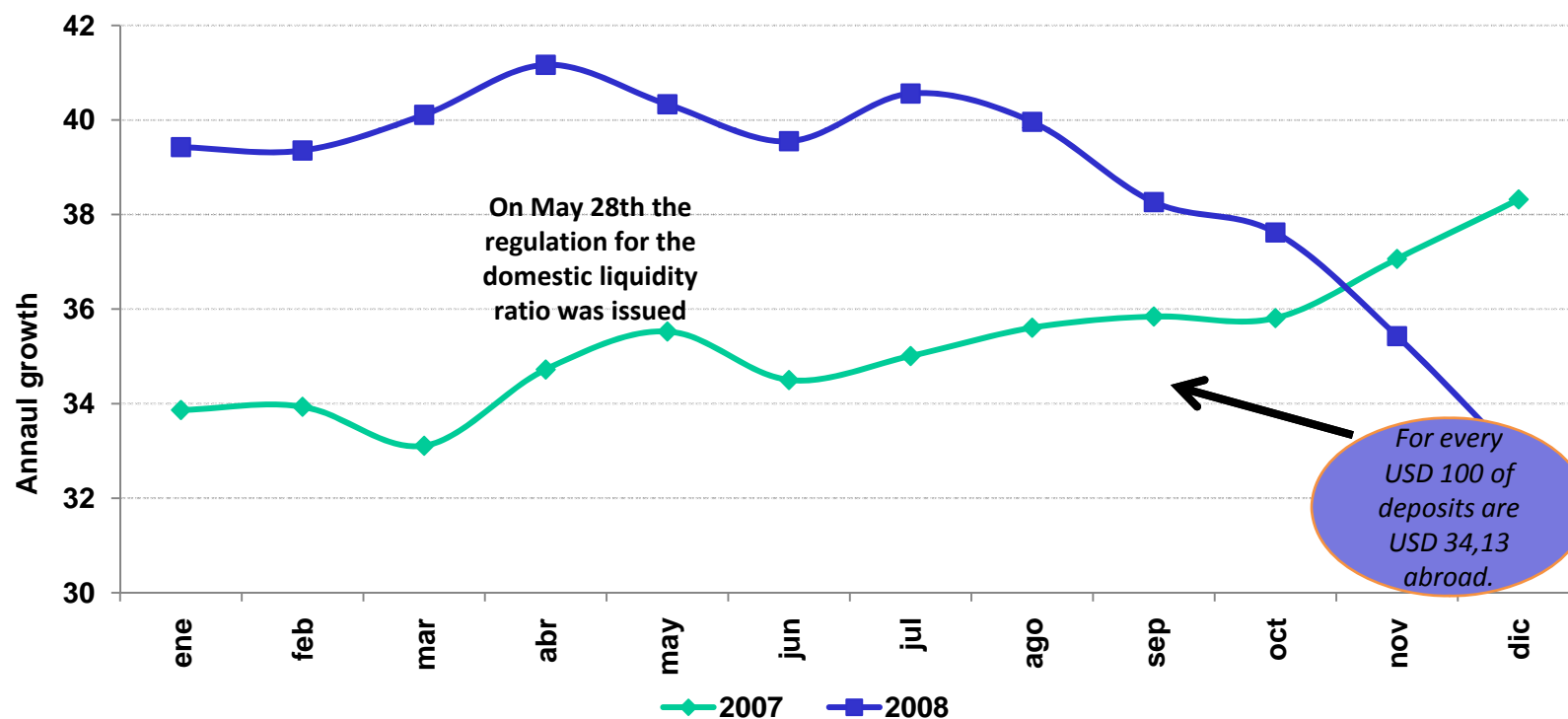


Source: Bank Superintendency and Central Bank of Ecuador



From May 28, that the regulation for the domestic liquidity ratio was issued, it is observed a significant decline on foreing assests of financial institutions.

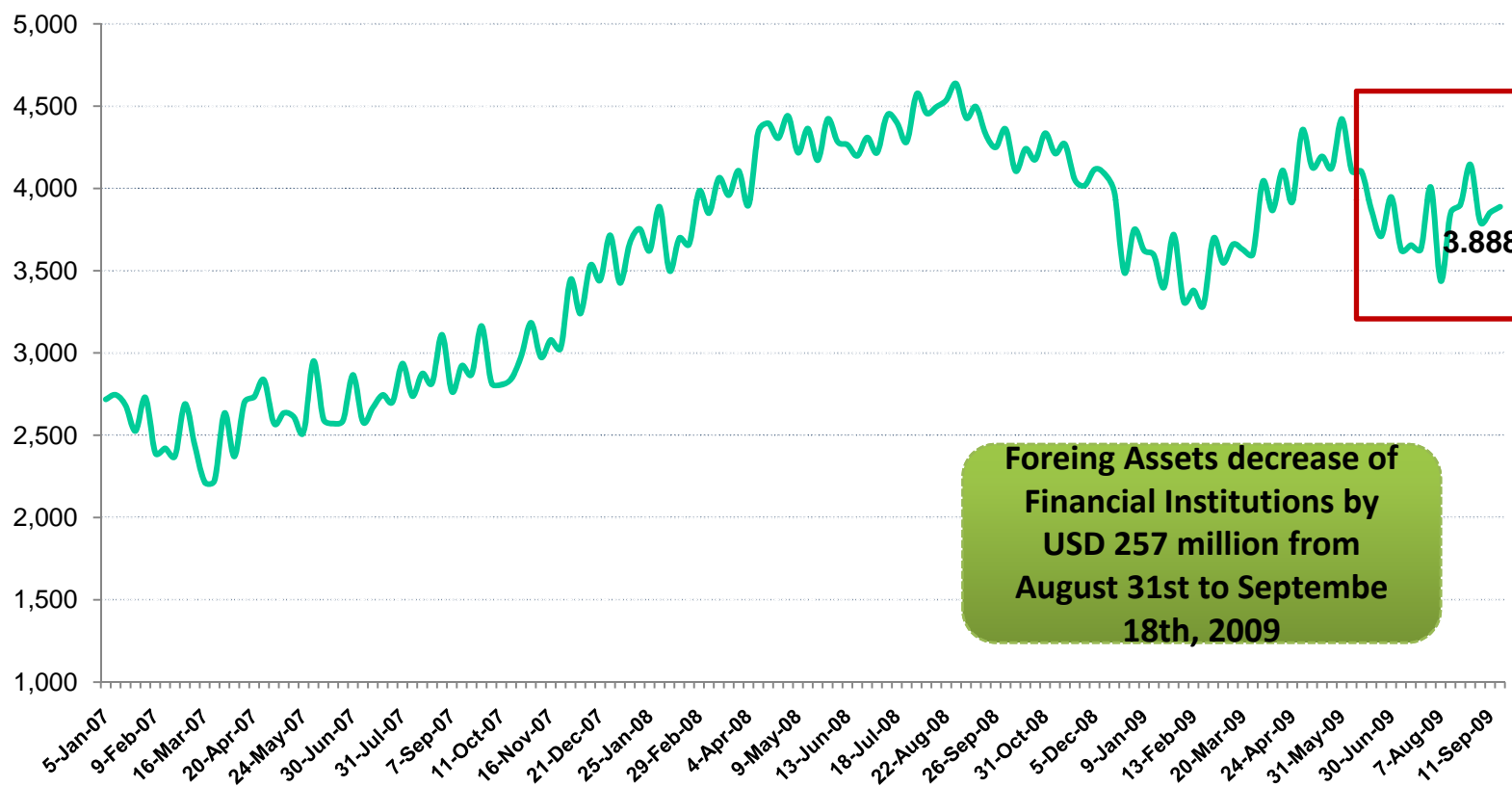
Foreing Assets over Deposits



Source: Bank Superintendency and Central Bank of Ecuador



Foreing Assets of Private Banks (Deposits +Investments)

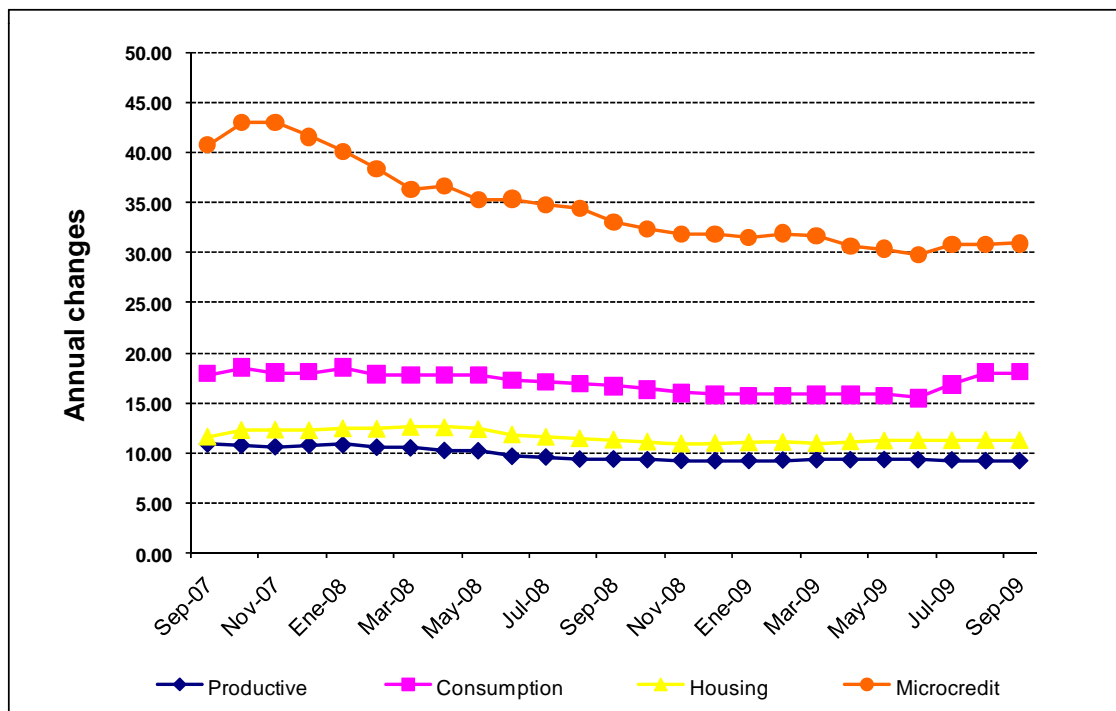


Source: Bank Superintendency and Central Bank of Ecuador



According to National Government’s policy of assigning resources to the productive sector, the referential interest rates by type of credit decreased gradually, especially microcredit sector. Nevertheless, during the period January-August 2009, rates tended to stabilize, however, from July the interest rate for consumption sector showed an increase.

Lending rates by type of Loan Annual Growth



Sector	Sep-07	Sep-09	Variation
Productive	10.8	9.2	-1.7
Consumption	17.8	18.0	0.1
Housing	11.5	11.2	-0.3
Microcredit	40.7	30.8	-9.9

Fuente: BCE