Fitch Sube a B- Calificación de Ecuador

7 de octubre de 2004

Fitch Ratings-New York-October 7, 2004: Fitch Ratings, the international rating agency, has today upgraded Ecuador's long-term foreign currency rating to 'B-' from 'CCC+'. The short-term rating is raised to 'B' from 'C'. The Rating Outlook is Stable. Fitch's rating action reflects improvements in access to financing, spending restraint and export growth. 'Although Ecuador's fiscal and external liquidity remains very tight, access to financing from local sources has improved, in part because of higher oil receipts,' said Morgan C. Harting, sovereign analyst. The social security institute has been a particularly important source for the government's gross domestic issuance of US$1.8 billion through August, covering the bulk of the expected US$2.5 billion in financing needs for the full year. Purchases of $155 million in outstanding domestic debt through September by the FIEREP oil fund has helped make space for local borrowing. Financing needs have also been reduced somewhat because of spending restraint, a development that appeared less likely earlier in the year when arrears were mounting and protesters successfully lobbied for an increase in pension benefits of 0.5% of GDP. Increases in private oil production and higher prices have helped boost export receipts by 23% through August, while imports have grown by 11%, underpinning a shift in the trade balance from a deficit to a surplus. Net external inflows and improvements in domestic confidence, in turn, have helped drive a 12% accumulation of bank deposits through July. More recently, however, a large domestic bank experienced some confidence-related deposit losses, although deposits in the system as a whole have remained stable and no government support has been extended. This incident underscores ongoing risks in the banking system, particularly in the context of dollarization without recourse to a lender of last resort to provide emergency liquidity. While economic growth is projected at between 5% and 6% this year, most of it will be driven by the oil sector and is a one-time boost related to the opening of a new pipeline last year. Outside the oil sector, growth will likely be under 2% for the second year in a row. In order for medium term growth to be sustainable, more progress on reforms in the electricity, oil, banking and telecommunications sectors will be critical to support competitiveness. A decline in inflation to under 3% has helped stabilize the real exchange rate, but this is not a substitute for true improvements to productivity as a driver of growth. Going forward, further improvements to Ecuador's creditworthiness would hinge on improvements in central government finances and structural reforms to support productivity growth. The ratings could come under pressure if central government imbalances widen, if recent banking sector pressures were exacerbated, and if arrears to creditors are generated. Contact: Morgan C. Harting +1-212-908-0820 or Roger M. Scher +1-212-908-0240, New York.