

# Fitch to Rate Ecuador's 10-Year Global Bond 'B-'; Outlook Negative

7 de diciembre de 2005

Fitch Ratings-Chicago-06 December 2005: Fitch Ratings has assigned a prospective 'B-' rating to Ecuador's 10-year U.S. dollar-denominated bonds, expected to be issued this week. Ecuador's sovereign ratings reflect its low public and external liquidity and its political instability. The Rating Outlook is Negative. Fitch revised Ecuador's Rating Outlook to Negative in August 2005 because of increased political risk and related fiscal pressures. According to Morgan C. Harting, Senior Director and lead sovereign analyst for Ecuador, 'If Ecuador is successful in placing US\$500 million-US\$750 million bonds, this would help fund the central government's estimated US\$2.1 billion in amortizations and US\$570 million budget deficit in 2006. Repayments to private creditors ramp up from 18% of the total in 2005 to about 40% in 2006, so it is important that Ecuador return to capital markets in order to refinance these obligations.' Although tapping market funding would be an important advance in Ecuador's financing requirements, public and external liquidity will remain tight. International reserves and bank external assets at year-end are estimated at just 54% of 2006 external debt service plus short-term external debt, making Ecuador's external liquidity among the lowest in the 'B' category and leaving it vulnerable to external shocks. This measure is particularly weak given that resident foreign currency deposits support a significant portion of bank external assets but are not factored into the ratio as a potential claim on international reserves and bank foreign assets. Fiscal financing requirements estimated at 8% of GDP next year are lower than 'B' peers but are still substantial in light of Ecuador's limited access to funding. Ongoing political instability makes it difficult to project fiscal performance and the direction of policy. Tensions are currently high in light of the current conflict between the executive branch and Congress over the president's call for a referendum to authorize a constituent assembly that could erode Congress' power. This week the president also dismissed top-ranking military leadership and announced he will replace a number of key cabinet positions. According to Harting, 'Any of these events could point toward a loosening of the fiscal stance in order to bolster the president's position, potentially threatening the government's ability to meet debt service obligations.' Contacts: Morgan C. Harting, CFA +1-212-908-0820 or Roger M. Scher +1-212-908-0240, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, '[www.fitchratings.com](http://www.fitchratings.com)'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.