Offering Memorandum

The Republic of Ecuador

U.S.$650,000,000
9.375% Bonds due 2015

Interest payable June 15 and December 15

Issue Price: 91.692%

The bonds will mature on December 15, 2015. The bonds will bear interest at a rate of 9.375% per year, accruing from December 12, 2005. The first interest payment will be on June 15, 2006.

The bonds will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic and will rank equally with all other existing and future unsubordinated and unsecured public external debt of the Republic. The bonds will be backed by the full faith and credit of the Republic.

The bonds will contain provisions regarding acceleration and future modifications to their terms that differ from those applicable to other outstanding public external indebtedness of the Republic. Under these provisions, which are described beginning on page 90 of this offering memorandum, the Republic may amend the payment provisions of a series of the bonds with the consent of the holders of 75% of the aggregate principal amount of the outstanding bonds of that series.

This offering memorandum includes information regarding (i) the 2006 budget approved by Congress on November 30, 2005 under "Public Sector Debt—Projected Financing and Expenditures" beginning on page 78 and (ii) the political standoff between the Congress and the President of the Republic under "Recent Developments" beginning on page 3. For a discussion of risk factors that you should consider in evaluating an investment in the bonds, see "Risk Factors" beginning on page 7 of this offering memorandum.

Application will be made to list the bonds on the Luxembourg Stock Exchange and to have the bonds admitted to trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. No assurance can be given that the bonds will be approved for listing on the Luxembourg Stock Exchange and trading on the Euro MTF. The bonds are expected to be designated for trading in the PortalSM Market of the National Association of Securities Dealers, Inc. Currently, there is no public market for the bonds.

The bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the securities laws of any other jurisdiction. The bonds will be offered only to qualified institutional buyers in the United States under Rule 144A of the Securities Act and to persons outside the United States under Regulation S of the Securities Act.

The Republic expects that delivery of the bonds will be made to investors in book-entry form through The Depository Trust Company, the Euroclear System and Clearstream Banking, société anonyme on or about December 12, 2005.

Joint Bookrunners

Deutsche Bank Securities **JPMorgan**

December 7, 2005

In making your investment decision, you should rely only on the information contained in this offering memorandum. The Republic and the initial purchasers have not authorized anyone to provide you with any other or different information. If you receive any other information, you should not rely on it.

The Republic and the initial purchasers will offer and sell the bonds only in places where offers and sales are permitted by law.

In order to facilitate the offering of the bonds, the initial purchasers or their affiliates may engage in transactions that stabilize, maintain or affect the price of the bonds. However, there is no obligation on the initial purchasers (or persons acting on their behalf) to undertake stabilization action.

The Republic, having made all reasonable inquiries, confirms that this offering memorandum contains all information that is material in the context of the issue of the bonds, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading, and that there are no other facts the omission of which would make this offering memorandum as a whole or any such information misleading in any material respect.

Ecuador is a foreign sovereign state. Consequently, it may be difficult for you to obtain or realize upon judgments of courts in the United States and other jurisdictions against Ecuador or to attach the assets of Ecuador in aid of the execution of any judgment against Ecuador. See "Risk Factors – Risks Related to the Bonds."

You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date of this offering memorandum.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire revised statutes with the state of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the secretary of state that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the secretary of state has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

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This offering memorandum is a confidential document that we are providing only to prospective purchasers of the bonds. You should read this offering memorandum before making a decision whether to purchase any bonds. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person.

The Republic has prepared this offering memorandum and is solely responsible for its contents. You are responsible for making your own examination of the Republic and your own assessment of the merits and risks of investing in the bonds. By purchasing any bonds, you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum;
- you have had an opportunity to request any additional information that you need; and
- the initial purchasers are not responsible for, and are not making any representation to you concerning, the accuracy or completeness of this offering memorandum.

The Republic is not providing you with any legal, business, tax or other advice in this offering memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase bonds.

You must comply with all laws that apply to you in any place in which you buy, offer or sell any bonds or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase bonds. The Republic and the initial purchasers are not responsible for your compliance with these legal requirements.

We are offering the bonds in reliance on exemptions from the registration requirements of the U.S. Securities Act of 1933, as amended (the "Securities Act"). These exemptions apply to offers and sales of securities that do not involve a public offering. The bonds have not been recommended by any U.S. or non-U.S. securities authorities, and these authorities have not determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The bonds are subject to restrictions on resale and transfer as described under "Transfer Restrictions." By purchasing any bonds, you will be deemed to have represented and agreed to all the provisions contained in that section of this offering memorandum. You may be required to bear the financial risks of investing in the bonds for an indefinite period of time.

ENFORCEMENT OF CIVIL LIABILITIES

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize in the United States or elsewhere upon judgments against the Republic. To the fullest extent permitted by applicable law, the Republic will irrevocably submit to the exclusive jurisdiction of any New York State or U.S. federal court sitting in The City of New York, Borough of Manhattan, and any appellate court thereof, in any suit, action or proceeding arising out of or relating to the bonds or the Republic's failure or alleged failure to perform any obligations under the bonds, and the Republic will irrevocably agree that all claims in respect of any such suit, action or proceeding may be heard and determined in such New York State or U.S. federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any suit, action or proceeding and any objection to any proceeding whether on the grounds of venue, residence or domicile. To the extent that the Republic has or hereafter may acquire any sovereign or other immunity from jurisdiction of such courts with respect to any suit, action or proceeding arising out of or relating to the bonds or the Republic's failure or alleged failure to perform any obligations under the bonds (whether through service of notice or attachment in aid of execution), the Republic has, to the fullest extent permitted under applicable law, including the U.S. Foreign Sovereign Immunities Act of 1976, irrevocably waived such immunity in respect of any such suit, action or proceeding; provided, however, that it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment, and that under the laws of the Republic, the property and revenues of the Republic are exempt from attachment or other form of execution before or after judgment. See "Description of the Bonds—Jurisdiction, Consent to Service, Enforcement of Judgments and Immunities from Attachment."

Notwithstanding the preceding paragraph, the Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under the U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a U.S. court against the Republic unless such court were to determine that the Republic is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. Further, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. Execution upon property of the Republic located in the United States to enforce a U.S. judgment may not be possible except under the limited circumstances specified in the U.S. Foreign Sovereign Immunities Act of 1976.

PRESENTATION OF FINANCIAL AND ECONOMIC INFORMATION

Currency of Presentation and Exchange Rates

Unless otherwise indicated, references to "U.S. dollars," "dollars" and "U.S.$" are to United States dollars, references to "sucres" are to the currency of the Republic which, as a result of the Dollarization Program, was replaced by the U.S. dollar as legal tender in Ecuador and references to "SDRs" are to "special drawing rights," international reserve assets composed of a basket of currencies and created by the IMF in 1969 to supplement the existing official reserves of member countries.

Presentation of Financial and Economic Information

Statistics on various aspects of Ecuador's economy are prepared by different departments of the Government. These statistics may not be as accurate or as reliable as those compiled in more developed countries. In addition, the statistics prepared by some Government departments may not be consistent with similar statistics prepared by other departments, and the presentation of statistical data may vary from period to period due to the application of different methodologies. None of these statistics has been independently verified.

The Republic has presented all annual information in this offering memorandum based upon January 1 to December 31 periods, unless we have indicated otherwise. Totals in some tables in this offering memorandum may differ from the sum of the individual items in those tables due to rounding.

For balance of payments purposes, imports and exports presented in this offering memorandum are calculated based upon statistics reported to the Republic's customs authorities upon entry and departure of goods into and out of Ecuador. Exports are calculated on a free-on-board ("FOB") basis at a given point of departure. Unless otherwise indicated, imports are calculated on a cost, insurance and freight ("CIF") basis at a given point of arrival.

Gross domestic product (which we refer to in this offering memorandum as "GDP") is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures the total value of final production in nominal prices. Real GDP measures the total value of final production in constant prices of a particular year, which allows for comparisons of historical GDP that exclude the effects of inflation. In this offering memorandum, real GDP figures are based on constant 2000 prices, the year used by the *Banco Central del Ecuador* (the "Central Bank of Ecuador" or the "Central Bank") for purposes of maintaining real GDP statistics. GDP growth rates and growth rates for the various sectors of the Ecuadorian economy are based on real figures, unless otherwise indicated.

An inflation rate provides an aggregate measure of the rate of change in the prices of goods and services in the economy. The Republic measures the inflation rate by the percentage change between two periods in the consumer price index (which we refer to in this offering memorandum as the "CPI"), unless otherwise specified. The CPI is based on a basket of goods and services identified by the *Instituto Nacional de Estadística y Censos* (the "National Institute of Statistics") that reflects the pattern of consumption of urban Ecuadorian households. The price for each good or service that makes up the basket of goods and services is weighted according to its relative importance in an average urban household's consumption pattern in order to calculate the CPI. The annual percentage change in the consumer price index is calculated by comparing the index as of a date against the index for the corresponding date in the prior year. The annual average percentage change in the CPI is calculated by comparing the average index for a 12-month period, against the average index for the immediately preceding 12-month period. The Republic also compiles statistics to calculate a producer price index, which is an index that is used by other countries to measure inflation.

The Central Bank reviews the Republic's official financial and economic statistics. Accordingly, certain financial and economic information presented in this offering memorandum may be subsequently adjusted or revised. In particular, certain information and data contained in this offering memorandum for 2000, 2001, 2002, 2003, 2004 and 2005 are subject to routine revisions and possible adjustments by the Central Bank to ensure their accuracy. The Government believes that this review process is substantially similar to the practices of industrialized nations. The Government does not expect revisions of the data contained in this offering memorandum to be material, although it cannot assure you that it will not make material changes.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts, including statements about the Republic's beliefs and expectations. These statements are based on current plans, estimates and projections, so you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. The Republic undertakes no obligation to update any of these statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. The Republic cannot assure you that actual events or results will not differ materially from any forward-looking statements contained in this offering memorandum. In particular, a number of important factors could cause actual results to differ materially from the Republic's expectations. Such factors include, but are not limited to:

- adverse external factors, such as:
  - changes in the international prices of commodities (including oil) and/or international interest rates, which could affect the Republic's fiscal accounts, budgetary expenditures and the current account of the balance of payments;
  - changes in import tariffs and exchange rates, recession or low economic growth affecting the Republic's trading partners, all of which could lower the growth or the level of exports of the Republic, reduce the growth or the level of income from tourism of the Republic, reduce the growth rate or induce a contraction of the Republic's economy and, indirectly, reduce tax revenues and other public sector revenues, adversely affecting the Republic's fiscal accounts;
  - a decrease in remittances from Ecuadorians residing and working abroad;
  - a decline in foreign direct investment, which could adversely affect the Republic's balance of payments and the level of the Central Bank's international reserves;
  - changes in the level of foreign aid or other external support provided by other countries;

- decisions of multilateral institutions, such as the International Monetary Fund, regarding the terms of their financial assistance to the Republic;

- international geo-political tensions and uncertainties;

- adverse domestic factors, such as lower than expected fiscal revenues, which could induce higher domestic interest rates. These factors could lead to lower economic growth, a decline in exports and income from tourism and a decrease in the Central Bank's international reserves;
- expectations about the behavior of the Ecuadorian economy if certain economic policies are implemented;
- continued political instability;
- changes to the Republic's current judicial system;
- policy changes instituted by future administrations in the Republic or mandated by the Ecuadorian Congress; and
- other adverse factors, such as climatic, seismic or political events.

SUMMARY

The following summary highlights information contained in this offering memorandum. The summary is not intended to be complete and does not contain all the information that you should consider before investing in the bonds.

Republic of Ecuador

Ecuador is a developing country of approximately 12 million people located on the northwestern coast of South America. Ecuador borders Peru to the south and east, Colombia to the north and the Pacific Ocean to the west.

Ecuador declared its independence from Spain in 1822 and in 1830, the Republic of Ecuador was established. Between 1925 and 1976, Ecuador was ruled by a succession of civilian and military governments. In 1976, after a military regime assumed power, Ecuador began a transition to the present civilian democratic government.

The Republic of Ecuador is governed by an executive, legislative and judicial branch. The President is the head of the executive branch and is elected by a direct popular vote to a four-year term. The Ecuadorian legislative branch consists of a single-chamber Congress which is currently composed of 100 members, all of whom are elected to represent the provinces. The judicial system is comprised of administrative, trial and appellate courts and a Supreme Court.

Ecuador has significant natural resources and the exportation of petroleum and agricultural products provides significant income for the Ecuadorian economy. In recent years, other sectors of the economy, such as the services sector, have expanded their share of the GDP. In spite of the potential of the Ecuadorian economy, it has been vulnerable to external shocks and natural disasters. During the 1970s, oil exports contributed to economic growth and increased the public revenues. This economic boom was accompanied by the growth of the public sector and an increase in foreign debt. Economic growth slowed during the 1980s, however, as a result of decreases in international petroleum prices and natural disasters such as El Niño. In the early 1990s, the economy improved slightly. However, in 1999, the financial system collapsed, and the government was forced to intervene in the banking sector in order to stabilize it.

Ecuador has a long history of political instability. Political turmoil intensified in 1997 following the overthrow of President Abdalá Bucaram. This period of political instability has continued until today. Nonetheless, the Ecuadorian economy has grown steadily since 2000. In 2004, GDP grew at a rate of 6.95%. Such growth was due in large part to the increase in the production and prices of petroleum. The economy has continued to grow during the first half of 2005.

Selected Economic Information
(in millions of U.S.$, except as otherwise indicated)

	2000	2001	2002	2003	2004	2005[12]
Domestic economy						
GDP (at nominal prices)	15,934	21,024	24,311	27,201	30,282	33,062
Real GDP (in millions of U.S.$, at constant 2000 prices)	15,934	16,749	17,321	17,781	19,016	19,650
Real GDP growth rate[1]	2.8%	5.1%	3.4%	2.7%	6.9%	3.3%
Consumer price index (annual rate of change)	91.0%	22.4%	9.4%	6.1%	2.0%	2.9%[13]
Unemployment rate (as of December of each year)[2]	14.1%	8.1%	7.7%	9.3%	9.9%	—
Balance of payments[3]						
Trade balance	1,399.3	(397.2)	(997.7)	86.5	413.1	247.1
Current account	920.5	(665.3)	(1,398.5)	(340.5)	(154.7)	(101.9)
Capital and financial account	(6,607.4)	968.8	1,176.2	232.9	308.8	739.1
Remittances	1,316.7	1,414.5	1,432.0	1,539.5	1,604.2	838.9
Errors and omissions[4]	(20.4)	(533.6)	94.9	244.0	126.9	(478.3)
Change in Central Bank net international reserves (period end)	307.0	(105.9)	(65.8)	152.4	276.9	148.9
Central Bank net international reserves (period end)	1,179.7	1,073.8	1,008.0	1,160.4	1,437.3	1,586.2
Public sector balance[5]						
Government revenue[6]	3,250	3,854	4,572	4,771	5,179	2,902
As a % of GDP	20.4%	18.3%	18.8%	17.5%	17.1%	8.8%
Government expenditure[7]	3,214	4,068	4,757	5,010	5,498	2,874
As a % of GDP	20.2%	19.4%	19.6%	18.4%	18.2%	8.7%
Government balance	36	(214)	(185)	(239)	(319)	28
As a % of GDP	0.2%	(1.0%)	(0.8%)	(0.9%)	(1.1%)	0.1%
Overall consolidated public sector balance[8]	237.1	13.5	200	453	707	514
As a % of GDP	1.5%	0.1	0.8%	1.7%	2.3%	1.6%
Public sector debt						
Public sector external debt[10]	11,229	11,367	11,377	11,491	11,060	10,387
As a % of GDP	70.5%	54.1%	46.8%	42.2%	36.5%	31.4%
Public sector domestic debt[11]	2,824	2,801	2,771	3,016	3,489	3,932
As a % of GDP	17.7%	13.3%	11.4%	11.1%	11.5%	11.9%
Total public sector debt	14,053	14,168	14,148	14,507	14,549	14,319
As a % of GDP	88.2%	67.4%	58.2%	53.3%	48.0%	43.3%
Public sector external debt service:[9]						
Amortizations	653.2	725.3	777.7	784.7	902.5	523.1
Interest payments	687.4	752.5	627.1	681.2	631.7	328.9
Total external debt service	1,340.6	1,477.8	1,404.8	1,465.9	1,534.2	852.0
As a % of exports of goods and services	27.2%	31.6%	27.9%	23.6%	19.8%	18.4%

(1) Percentage change from previous year.
(2) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work), as a percentage of the total labor force. The methodology used to calculate the unemployment rate and open unemployment rate was changed in February 2003 to include census data from the 2001 census and, as a result, the rates presented for 2003, 2004 and 2005 are not directly comparable to the rates presented for prior periods.
(3) Balance of payments information is preliminary for 2002, 2003 and 2004. For 2005, figures are as of June 30, 2005.
(4) Represents errors and omissions in compiling balance of payment accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.
(5) Public sector balance information for 2005 is as of June 30, 2005.
(6) Includes total revenue and foreign cash or in-kind transfers to support public sector expenditure.
(7) Includes unidentified expenditures that consist of non-cash items, such as food, clothing and other items received by the Government as aid. Also includes expenditures made but not registered in preceding periods.
(8) The consolidated public sector includes the Government, non-financial public sector institutions (such as state-owned enterprises and other decentralized government-owned institutions) and public sector institutions (such as the Central Bank).
(9) Public sector external debt service information for 2005 is as of June 30, 2005.
(10) External debt is defined as all public sector foreign-currency denominated debt, independent of the holder's nationality.
(11) Excludes intra-governmental debt.
(12) Preliminary data.
(13) Data as of June 2005.

Source: Central Bank and the Ministry of Economy and Finance.

RECENT DEVELOPMENTS

Changes to the FEIREP

On July 13, 2005, Congress voted to change the allocation of funds accumulated in the *Fondo de Estabilización, Inversión Social y Productiva y Reducción del Endeudamiento Público* (the "Fund for Social and Production Stabilization and the Reduction of Public Debt" or "FEIREP"). Prior to Congress' action, the majority of the funds in the FEIREP had been allocated to repurchasing internal and external public debt at market values and to principal payments on such debt. The FEIREP was transformed into a new special account called the *Cuenta Especial de Reactivación Productiva y Social, del Desarrollo Científico-Tecnológico y de la Estabilización Fiscal* ("CEREPS"). As of September 30, 2005, there was U.S.$520.4 million in the CEREPS. Under the new law, the Government will have greater flexibility to spend such funds on social programs, and there will be fewer resources available for the reduction of Government debt. For more information on the reforms to the allocation of funds under CEREPS (formerly FEIREP), see "Public Sector Finances —— CEREPS (formerly FEIREP)."

Tax Reforms

On October 12, 2005, the Ecuadorian Congress passed the *Ley de Incentivos Tributarios* (the "Tax Incentives Law") intended to create tax breaks in order to attract new investment, including foreign investment, in the economy. The tax breaks will be available to numerous industries including hydroelectric generation, oil refineries, electronics manufacturing, tourism, agriculture and environmental projects. The minimum investment needed to be eligible to receive the tax breaks would be U.S.$7.5 million in some industries and as low as U.S.$2.5 million in others. Investors will be exempt from paying income taxes for ten to twelve years on their investment, depending upon the region of Ecuador where their investments are located. Investors will also have the ability to import certain goods without paying import duties and may also qualify for exemptions from the value added tax.

Although the Tax Incentives Law was intended to also benefit foreign investors, most new international companies would not receive any benefit since they would still have to pay in their country of origin whatever income taxes they would have paid to Ecuador prior to the enactment of the new law.

The Tax Incentives Law could materially reduce the Government's annual tax revenues, affecting the Government's ability to meet its obligations, including its obligations under the bonds.

Political Developments

The Ecuadorian Constitution may be amended by a 2/3 vote of the Congress, followed by a mandatory one-year waiting period, a subsequent vote by Congress and the approval of the President in order to ratify any proposed Constitutional amendments. Alternatively, the President may call for a public referendum to decide whether a Constitutional assembly should be convened. If such a referendum is approved, the assembly will be convened to consider and vote on any proposed Constitutional reforms. When President Palacio assumed office in April 2005, he promised to consider possible reforms to the Ecuadorian Constitution. In July 2005, President Palacio presented Congress with a list of proposed Constitutional reforms which aimed to reform Ecuador's political structure in order to ameliorate the chronic political instability in the country. Congress did not approve any of the proposed reforms.

In October 2005, President Palacio requested that the *Tribunal Supremo Electoral – TSE* (the "Supreme Electoral Tribunal"), an administrative body responsible for monitoring national elections, conduct a public referendum as to whether a Constitutional assembly should be convened. The President did not seek Congressional approval of his request. The President of the Supreme Electoral Tribunal rejected the President's request on the grounds that it did not meet legal requirements, because he claimed that Congressional approval is required in order to hold such a referendum. At the same time, Congress commenced its own Constitutional reform process which also failed due to a lack of support within the Congress. In November 2005, President Palacio presented Congress with a new proposal which requested that Congress either convene a Constitutional assembly, which would consider reforms to the Constitution based on a specific set of questions or a constituent assembly, which would be empowered to create a new Constitution. On December 1, 2005, Congress rejected both of these approaches. That same day, President Palacio presented a formal request to the Supreme Electoral Tribunal, asking that it call for a public referendum to decide whether a constitutional assembly should be convened. On December 3, 2005, the head of the Supreme Electoral Tribunal resigned in protest of the President's request, which he deemed unconstitutional. On December 7, 2005, the Supreme Electoral Tribunal rejected the President's request. It is unclear what action, if any, the President will take in response to the rejection of his request, or how Congress will react. The ongoing disagreement between the President and the Congress has increased tension between the executive and legislative branches of the Government.

On December 2, 2005, President Palacio fired three of the four members of the joint chiefs of staff of the armed forces in response to an alleged corruption scandal involving thousands of members of the military. On that same day, Congress voted to remove Alejandro Maldonado, the head of the Superintendencia de Bancos, from office in connection with his alleged participation in the same corruption scandal.

Every December, it is customary in Ecuador that the members of the President's cabinet offer their resignations to the President. The President may choose whether to accept or decline such resignations. It is unclear whether the resignations of any of the cabinet members will be accepted by the President during December 2005. The Minister of Finance has not offered her resignation to the President, and she is expected to continue in her current position.

***Proyecto de Ley para la Rehabilitación de la Producción Nacional* (Proposed Law to Improve National Production)**

In November 2004, León Febres-Cordero, Ecuador's ex-President and the current leader of the *Partido Social Cristiano* in the Congress, proposed a law in Congress which would require private banks to allocate at least 75% of their deposits to loans for "productive activities." The law does not specify what would qualify as a "productive activity." The Board of the Central Bank would determine, on a quarterly basis, where to allocate such funds and private banks would be obligated to follow the Central Bank's loan guidelines in this regard. The remainder of the private bank deposits would be deposited with the Central Bank. Because this is a legislative, and not an executive proposal, there is no deadline for its Congressional approval. It is unclear whether the proposed law will be passed by the Congress in its current form and, if it is passed, whether it will be vetoed, entirely or in part, by the President. If the proposed law is passed by the Congress in its current form, it could seriously impair the freedom of private banks to manage their loan risks which, in turn, could lead to financial instability in the banking sector.

Economic Developments

Ecuadorian economic indicators including the non-financial public sector exports, inflation, and GDP improved during the first half of 2005. During this period, the non-financial public sector registered a surplus of U.S.$514 million (1.6% of GDP), compared to a surplus of U.S.$396 million (1.3% of GDP) during the first half of 2004: Revenues totaled U.S.$4.4 billion (13.6% of GDP); tax revenues totaled U.S.$2.2 billion (6.8% of GDP); expenditures totaled U.S.$3.9 billion (11.6% of GDP); petroleum revenues totaled U.S.$1.01 billion (3.2% of GDP); and non-petroleum revenues totaled U.S.$3.3 billion (10.1% of GDP). Non-petroleum income for 2005 is expected to increase more than 10% as compared to 2004.

Exports totaled U.S.$4.6 billion (13.9% of GDP) during the first half of 2005, compared to U.S.$3.7 billion (12.2% of GDP) for the same period in 2004. Petroleum and petrochemical exports increased to U.S.$2.6 billion (7.9% of GDP) during the first half of 2005, from U.S.$1.9 billion (6.4% of GDP) during the same period in 2004. During the first half of 2005, non-petroleum exports rose to U.S.$2.07 billion, compared to U.S.$1.81 billion in the same period of 2004.

Inflation has also experienced an improvement, declining steadily from 91% in 2000 to 2.0% in 2004. At September 30, 2005, the annual inflation rate was 2.9%.

The total expected growth of the Ecuadorian economy for 2005, in real terms, is approximately 3.3%. Real GDP totaled U.S.$9.7 billion during the January-June 2005 period as compared to U.S.$9.4 billion during the same period in 2004.

The Offering

The following summary contains basic information about the bonds and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the bonds, see "Description of the Bonds."

Issuer	The Republic of Ecuador.
Securities Offered	U.S.$650,000,000 principal amount of 9.375% bonds due 2015.
Maturity Date	December 15, 2015.
Interest Rate	9.375% per annum.
Interest Payment Dates	Each June 15 and December 15, commencing on June 15, 2006.
Form and Denominations	The Republic will issue the bonds in the form of global bonds, without coupons, registered in the name of a nominee of DTC, as depositary, for the accounts of its participants (including Clearstream Banking and Euroclear). Bonds in definitive certificated form will not be issued in exchange for the global bonds except under limited circumstances. See "Settlement and Clearance." The Republic will issue the bonds in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. See "Description of the Bonds—General."
Ranking	The bonds will be general, direct, unsubordinated, unsecured and unconditional obligations of the Republic, will rank equally in right of payment among themselves and with all of the Republic's present and future unsecured and unsubordinated external indebtedness and will be backed by the full faith and credit of the Republic. See "Description of the Bonds—General."
Withholding Tax and Additional Amounts	The Republic will make all payments on the bonds without withholding or deducting any Ecuadorian taxes, unless required by law. If Ecuadorian law requires the Republic to withhold or deduct taxes, the Republic will pay bondholders, subject to certain exceptions, additional amounts to provide the equivalent of full payment to bondholders. See "Description of the Bonds—Additional Amounts" and "Taxation."
Covenants	The Republic has agreed to comply with the covenants described under "Description of the Bonds—Certain Covenants."
Events of Default	The bonds will contain events of default, the occurrence of which may result in the acceleration of the Republic's obligations under the bonds prior to maturity. See "Description of the Bonds—Events of Default."

Use of Proceeds	The Republic will use the proceeds (based on the issue price) of approximately U.S.$595,998,000 from the sale of the bonds to pay principal of and other amounts due on internal and external debt servicing. See “Use of Proceeds.”
Transfer Restrictions	The bonds have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See “Transfer Restrictions.”
Listing	Application will be made to list the bonds on the Luxembourg Stock Exchange and to have the bonds admitted to trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. No assurance can be given that the bonds will be approved for listing on the Luxembourg Stock Exchange and trading on the Euro MTF. The bonds are expected to be designated for trading in The PORTAL^{SM} Market.
Absence of a Public Market for the Bonds	The bonds will be a new issue of securities, and there is no established market for the bonds. The Republic and the initial purchasers cannot assure you that a liquid market for the bonds will develop. The initial purchasers have advised the Republic that they currently intend to make a market in the bonds. However, they are not obligated to do so, and any market-making with respect to the bonds may be discontinued without notice.
Trustee, Registrar, Transfer Agent and Principal Paying Agent	JPMorgan Chase Bank, N.A.
Luxembourg Listing Agent, Transfer Agent and Paying Agent	J.P. Morgan Bank Luxembourg S.A.
Governing Law	State of New York.
Further Issues	The Republic may, from time to time, without the consent of the holders of the bonds, create and issue additional bonds having the same terms and conditions as the bonds in all respects (or in all respects except for the amount of the first interest payment and the issue price) so long as the bonds are consolidated and form a single series with the outstanding bonds; provided that such additional bonds do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding bonds have as of the date of the issue of such additional bonds (regardless of whether any holders of such bonds are subject to U.S. federal income taxation).

Risk Factors

Investing in the bonds involves substantial risks. You should carefully consider all the information in this offering memorandum prior to investing in the bonds. In particular, we urge you to consider carefully the factors set forth under “Risk Factors” beginning on page 7 of this offering memorandum.

RISK FACTORS

An investment in the bonds involves risks. You should consider carefully the following factors, as well as all other information in this offering memorandum, before deciding to invest in the bonds.

Risk Factors Related to the Republic

Political Situation

Ecuador is a politically fragile country. There have been seven presidents in Ecuador during the last ten years. Three of those presidents, including the previous president, were deposed; one was in compulsory exile and is currently under house arrest; and the last president is in jail. The Ecuadorian military governed the country from 1971 to 1979, at which time power was ceded peacefully to a democratically-elected government. The military has played an important role in Ecuadorian politics, as evidenced by the involvement of some military officers in a January 21, 2000 aborted coup d'état.

In early 2005, President Lucio Gutiérrez Borbúa's administration faced heavy public criticism as a result of President Gutierrez's decision to call for a special vote of Congress to remove 27 of the 31 justices then serving on Ecuador's Supreme Court. The widespread protests weakened Gutiérrez's government and in April 2005, following large public protests in Quito and elsewhere in the country, President Gutiérrez was forced to resign, and Congress appointed Doctor Alfredo Palacio González, the vice president, as his successor. President Palacio's administration is facing the difficult task of restoring the legitimacy of the national Government, strengthening the institutions of the State and reinstating the respect for constitutional order and the law.

The Ecuadorian Congress is widely regarded as a fractious, ineffective body and successive administrations have often been unable to obtain the legislative support necessary to implement important economic measures. This has impaired the ability of the executive branch to take the steps necessary to avert, and to resolve, the periodic economic crises that have characterized Ecuador's recent history. This situation shows no sign of abating.

At the same time, President Palacio has been mired in a standoff with the Congress as a result of his attempts to reform the Constitution. For more information see "Recent Developments – Political Developments." Congress has rejected President Palacio's various calls for Congress to approve the convening of a constitutional assembly. On December 1, 2005, Congress rejected the President's latest attempt to call for a Constitutional assembly, and the President reacted by formally requesting that the Supreme Electoral Tribunal call a public election to convene such an assembly. The Supreme Electoral Tribunal is expected to respond to the President's request on December 5, 2005. The President's most recent move has been viewed by some members of Congress as illegal and there have been calls for his impeachment from the Congress. It is unclear how this situation will develop, but the political standoff between the Congress and the President seems likely to continue and may escalate.

Oil Dependency

The Ecuadorian economy is highly dependent upon petroleum revenues. Between 2000 and 2004, petroleum and petrochemicals accounted for approximately 45.5% of Ecuador's total export revenues. During the same period, the petroleum and petrochemicals sector accounted for an average of approximately 11.2% of Ecuador's GDP.

The historical volatility in the international price of petroleum has affected the revenues that Ecuador derives from its petroleum exports. There can be no assurance that Government revenues from petroleum exports will not continue to experience significant fluctuations as a result of changes in the international petroleum market. Concerns with respect to the strength of the world economy, terrorism, market volatility and certain geopolitical developments, such as ramifications from the ongoing war in Iraq and political instability in the Middle East may have a potentially adverse affect on the petroleum market as a whole. Any sustained decline in international petroleum prices could adversely affect the Government's fiscal accounts and international reserves, affecting its ability to service its indebtedness including the bonds.

Laws which Adversely Affect Economic Performance

Congress has passed several laws which have increased the Government's budget, altered the established budgetary agenda and resulted in higher deficits. For example, in August 2004, Congress voted to increase the retirement pensions of the affiliates of the *Instituto Ecuatoriano de Seguridad Social* ("IESS"), a public sector entity which provides retirement benefits to a significant proportion of Ecuador's population. This decision caused an unexpected additional increase to the budget of U.S.$28 million per year. In addition, in October 2005, the Congress passed the Tax Incentives Law, which is intended to create tax incentives for investors in the Ecuadorian economy. The Tax Incentives Law could materially reduce the Government's annual tax revenues, affecting the Government's ability to meet its obligations, including its obligations under the bonds.

Many of the laws which have been passed by Congress to increase social spending have wide public appeal, creating an incentive to Congress to continue passing similar measures. These laws may jeopardize Ecuador's ability to meet its financial obligations, including its obligations under the bonds. Although the President has the ability to veto, in whole or in part, resolutions passed by Congress, President Palacio has used his veto power infrequently. There can be no assurance that the Ecuadorian Congress will stop passing such extra-budgetary spending measures, that President Palacio will veto any of the spending or tax reform measures or that such measures will not impair Ecuador's economy or its ability to service its obligations, including the bonds.

In addition, the Congress is currently considering the Proposed Law to Improve National Production. In its current form, this law would require private banks to allocate up to 75% of their deposits to provide loans for "productive activities." The law does not define what would constitute a "productive activity"; the allocation of such loans would be left to the discretion of the Central Bank. The remaining bank deposits would be deposited with the Central Bank. There can be no assurance whether the proposed law will be passed by Congress in its current form, and if it is passed, whether it will be vetoed entirely, or in part, by the President. If enacted as currently contemplated, the proposed law could have a materially adverse effect on the ability of private banks to manage their loan risks, which in turn, could jeopardize the financial health of Ecuador's banking sector.

The Budget

Under Ecuadorian Law, the Ministry of Economy and Finance is responsible for preparing the draft annual budget and submitting it to Congress for its evaluation. Congress must approve or reform the proposed Government annual budget by November 30 of each year. On November 30, 2005, Congress approved the annual budget for 2006. In this budget, Congress diverted approximately U.S.$397 million from the debt service budget to social programs. Under Ecuadorian law, the Ministry of Economy and Finance has the authority to reallocate such funds to the debt service budget during the execution phase of the budget. For more information on the budget for 2006, see "Public Sector Debt – Projected Financing and Expenditures." However, there can be no assurances that the Minister will reallocate such funds back to the debt service budget or that political considerations will not impair her ability to effect such reallocation. If such funds are not reallocated to the debt service budget by the Minister of Finance, or if they are only partially reallocated, Ecuador's ability to service its obligations, including its obligations under the bonds, will be adversely affected.

Reduction of the Contingent Funds of the State

In July 2005, Congress voted to reform the existing *Ley Orgánica de Responsabilidad, Estabilización y Transparencia Fiscal* (the "Law to Promote Responsibility, Stability and Fiscal Transparency") and to use the funds accumulated in the FEIREP for investments aimed at accelerating economic development. The FEIREP was transformed into a new special account called the CEREPS. The new law changed the rules under which funds were previously dispensed from the FEIREP and granted the Government greater flexibility to spend funds from the CEREPS to stimulate economic growth. As a result, funds which were previously available in the FEIREP to reduce Government debt are no longer available because they have been allocated to social programs. This has reduced the Government's ability to meet its obligations, including its obligations under the bonds.

The Electric Sector

In April 1999, the Government, in an effort to attract private investors to the electric generation sector in Ecuador, divided the *Instituto Nacional de Electrificación - INECEL* ("National Electricity Institute"), a public institution, into 19 distribution companies, seven generators and one electric transmission company. Prior to April 1999, INECEL had conducted all of the electricity generation, transmission and distribution activities of Ecuador. INECEL's debt as of April 1999, approximately U.S.$935.4 million, was divided among the various new companies which were legally changed to private entities by the Government.

Historically, the generation sector of INECEL subsidized the higher operating costs of the transmission and distribution sectors. Once INECEL was divided, the distribution and transmission sectors were no longer able to take advantage of the higher profit margins of the generation business in order to cover their own operating deficits. The distribution and transmission companies have also had to service a portion of INECEL's former debt, which was divided among the companies when they were formed in April 1999.

The distribution sector has been particularly affected by the failure of government mandated tariffs to compensate for the real operating costs of delivering energy. It is currently estimated that the electric distribution companies in Ecuador owe approximately U.S.$1.1 billion to electricity generators for purchases of electricity from the wholesale electric market and approximately U.S.$246 million to Petrocomercial for fuel purchases. The distribution companies have also been trying to recover approximately U.S.$722 million owed to them by the Ecuadorian government in connection with tariff deficits that the electric distribution companies have incurred. The accumulated debt of the distribution companies has affected the financial condition of the other agents operating in the electricity sector and has placed the electric sector at risk of bankruptcy. The Ministry of Economy and Finance has proposed a law to Congress which would permit it to reimburse the distribution companies for approximately U.S.$722 million of their costs related to the tariff deficit. The financing of this reimbursement obligation, if it becomes law in the form currently contemplated, would likely consist of debt financing, and would have a material impact on the Republic's debt profile. According to the current draft of the law, expected disbursements of these funds would only begin during the second half of 2006. The majority of the disbursements are anticipated to begin after December 31, 2006. For more information on this proposed law, see "Republic of Ecuador—Constitution, Government and Political Parties—Economic Reforms." There can be no assurance that this proposed law will be enacted, that it will be enacted in its current form, or that if enacted, it will have a sufficient stabilizing effect on the financial condition of the distribution companies. If the distribution companies are unable to materially improve their current financial condition, they run a significant risk of bankruptcy, which would imperil the financial condition and operations of the rest of Ecuador's electric sector.

Judicial System

In December 2004, the majority of the justices on the Ecuadorian Supreme Court were removed from the bench during a special session of Congress called by President Gutiérrez. That move caused widespread political turmoil in Ecuador and led to the eventual overthrow of President Gutiérrez and the removal of the remaining Supreme Court justices on April 16, 2005. For a complete discussion of the events related to the removal of the Supreme Court justices by President Gutiérrez, see "Republic of Ecuador—Constitution, Government and Political Parties—Judicial."

Since April 16, 2005, the government of Ecuador has been without a functioning Supreme Court. A new process for selecting Supreme Court justices was initiated in May and an independent committee, formed under an agreement between the Congress and President Palacio, was given a mandate to select new Supreme Court justices. Pursuant to the new selection process, 150 candidates were deemed by the committee to possess the criteria established by Congress for the position of Supreme Court justice. On November 28, 2005, the committee selected twenty-nine men and two women to the Supreme Court. The new justices are expected to be sworn in on November 30, 2005. There can be no assurances that the new Supreme Court will be viewed as legitimate by the public or that the new justices will not be removed in the future by Congressional or Presidential action. If such an action were to occur, Ecuador may experience further political instability.

Legal Proceedings

The Republic is currently involved in several legal proceedings, mainly related to contracts entered into by Petroecuador (the Republic's state-owned oil company), or its predecessor, with private oil companies. For a description of these legal proceedings and other proceedings against the Republic, see "Legal Proceedings." These legal proceedings could have a material adverse effect on Ecuador's ability to service its foreign indebtedness, including the bonds. In addition, if the foreign oil companies who have invested in Ecuador receive an unfavorable judgment in their proceedings against the Government, future investment in Ecuador by foreign oil companies, or foreign investors in general, may be adversely affected. These legal proceedings could also negatively impact the advancement of Ecuador's free trade agreement negotiations with the United States. Ecuador can offer no assurances as to whether such proceedings will be successfully resolved in its favor and that if such proceedings are resolved in its favor, how that might affect future foreign investment in Ecuador.

Occidental Breach of Contract Claims

Ecuador has been involved in various disputes with the Occidental Exploration and Production Company ("Occidental") in connection with alleged breaches by Occidental of a participation contract entered into between Occidental and Petroecuador in May 1999 for the exploration and exploitation of hydrocarbons in Block 15 in the Oriente region. On November 15, 2005, the Ministry of Energy and Mines delivered a notice to Occidental giving it sixty days to either remedy its alleged breaches under the participation contract or address in writing Ecuador's breach of contract claims. If Occidental fails to respond to the November 15, 2005 notice within the sixty day period, or an understanding is not otherwise reached within this period, forfeiture and termination of the Block 15 participation contract may result. For more information on this claim, see "Legal Proceedings—Occidental—Breach of Contract Claim."

If the participation contract is terminated by Ecuador and Occidental is forced to forfeit its rights thereunder, the potential effect on foreign investment in Ecuador, and particularly on foreign investment in the petroleum sector in Ecuador, could be severe. In addition, relations with the U.S. Government may be adversely affected, which could jeopardize progress towards a free trade agreement with the United States. Any of these possible effects of the termination of the contract with Occidental could have an adverse effect on the Ecuadorian economy and Ecuador's ability to service its obligations, including its obligation under the bonds.

Renegotiation of Petroleum Contracts

Petroecuador has entered into contracts with private companies for the exploration and exploitation of Ecuador's oil fields. In October 2005, Petroecuador's board of directors adopted the recommendation of the General Comptroller of Petroecuador that all such contracts be renegotiated. The contracts in question provide for mutual renegotiation of their terms, in accordance with procedures set forth therein. However, renegotiation of these contracts may be subjected to public pressure for greater concessions from the private oil companies. Renegotiations have begun with twenty-two of the private companies holding participation contracts. For more information on the renegotiation of these contracts see "The Ecuadorian Economy—Principal Sectors of the Economy—Mining (Petroleum and Petrochemicals) —Exploitation. If such renegotiations are contentious, are subjected to public pressure for increased concessions from the private companies involved or are viewed as having an unfavorable outcome for such companies, foreign investment in Ecuador, and particularly foreign investment in the petroleum sector, may be adversely affected.

Economic Volatility

Ecuador has experienced periods of significant economic volatility, most recently during the late 1990s, when a series of economic crisis culminated in a default on its external indebtedness.

During the period from 1997-1999, Ecuador's economy was weakened by a number of external factors including the harmful effects of El Niño on the fishing and agricultural sectors, the sudden drop of the international price of oil, and global economic crises in Asia and the rest of the world. These international problems combined with a number of factors domestically including a strong contraction of Real GDP, an increase in unemployment, a rise in inflation, a voluminous fiscal deficit and the absence of political will to enact necessary economic reforms hastened the impending financial crisis in Ecuador.

The Republic has taken significant steps to strengthen and stabilize its economy since the economic crisis of the late 1990s. However, the Republic cannot offer any assurance that the Ecuadorian economy will grow in the future or that future periods of economic instability will be avoidable. Economic growth depends on a variety of factors, including, among others, international demand for Ecuadorian exports, internal political stability, confidence among Ecuadorian consumers and foreign and domestic investors and their rates of investment in the Republic, the willingness and ability of businesses to engage in new capital spending and the rate of inflation. Some of these factors are outside of the Republic's control. If the Ecuadorian economy contracts, the Republic's revenues may decrease materially, the ability of the Republic to service its public debt, including the bonds, may be adversely affected and the market price of the bonds may be impaired.

Social Cohesion

Ecuadorian society is marked by a strong sectional rivalry between the coastal region (in which Guayaquil is the principal city) and the highlands (where the capital city, Quito, is located). The suspicions and jealousies generated by this rivalry pervade many aspects of Ecuadorian political and economic life. Proposed Government policies or actions that may have a disproportionate effect on one or the other of the two regions, for example, are approached cautiously so as not to aggravate sectional tensions. In some cases, this has hampered the Government's ability to take actions that it otherwise felt to be necessary or appropriate.

In addition, indigenous people comprise approximately 6.8% of Ecuador's population. The indigenous people form a distinct social community and they have not been fully integrated into the fabric of Ecuadorian society. Ecuador's indigenous population occasionally exerts their influence on political affairs through popular demonstrations and boycotts. The visible dissatisfaction of many indigenous peoples with the administration of President Mahuad, for example, contributed to his removal from office in January of 2000. Although the Government of President Palacio is expected to take steps to alleviate some of the chronic problems experienced by the indigenous people, a sense of dissatisfaction on the part of some indigenous people, and resulting social tension, are likely to persist for some time.

Financing

The Republic's future primary fiscal results may be insufficient to meet the Republic's debt service obligations. The Republic may have to rely in part on additional financing from the domestic and international capital markets in order to meet its future debt service obligations. In the future, the Republic may not be able or willing to access the international or domestic capital markets, and the Republic's ability to service its public debt, including the bonds, may be adversely affected.

External Shocks

A significant decline in the economic growth of any of the Republic's major trading partners, especially the United States, the European Union and Colombia, could have a material adverse effect on the Republic's balance of trade and adversely affect the Republic's economic growth. A decline in demand for Ecuadorian imports in these markets could have a material adverse effect on exports and the Republic's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market economy sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, the Republic could be adversely affected by negative economic or financial developments in other emerging market countries. There can be no assurance that events affecting other markets will not have a material adverse effect on the Republic's growth and its ability to service its public debt, including the bonds.

Increase in Interest Rates

If interest rates increase significantly in developed economies, including the United States, the Republic's trading partners could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries. Decreased growth on the part of the Republic's trading partners could have a material adverse effect on the markets for Ecuadorian exports and, in turn, adversely affect the Ecuadorian economy. An increase in interest rates in developed economies would also increase the Republic's debt service requirements with respect to its debt obligations that accrue interest at floating rates, which could adversely affect the ability of the Republic to service its public debt generally, including the bonds.

Risks Related to the Bonds

New Issue of Securities

The offer and sale of the bonds have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction and the bonds are being offered and sold only to qualified institutional buyers within the meaning of Rule 144A under the Securities Act and in offshore transactions to persons other than U.S. persons under Regulation S under the Securities Act. The bonds are subject to the restrictions on transfer described under "Transfer Restrictions." The bonds will constitute a new issue of securities with no established trading market. The Republic has been advised by the initial purchasers that the initial purchasers may make a market in the bonds, but they are not obligated to do so and may discontinue market making at any time without notice. If a trading market does not develop or is not maintained, holders of the bonds may experience difficulty in reselling the bonds or may be unable to sell them at all. Accordingly, there can be no assurance that an active trading market for the bonds will develop or, if a market develops, as to the liquidity of the market.

Potential Purchase by the Bolivarian Republic of Venezuela

The Government of the Bolivarian Republic of Venezuela has expressed a willingness to purchase up to U.S.$200 million of the bonds. The liquidity of any market for the bonds will depend on the number of holders of the bonds, the interest of securities dealers in making a market in the bonds and other factors. There can be no assurance as to the development or liquidity of any market for the bonds, or that the liquidity of any market for the bonds will not be adversely affected if a significant amount of the bonds are held by a single holder, which may be the case with the bonds if the Government of Venezuela purchases a significant amount of the bonds. If an active trading market does not develop, the market price and liquidity of the bonds may be adversely affected. If the bonds are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects and other factors.

In addition, if a significant amount of the bonds are held by a single holder, the other bondholders may not be able to modify the terms of the bonds or they may find it more difficult to resist modifications.

Enforcement of Civil Liabilities; Waiver of Sovereign Immunity

Ecuador is a sovereign state. There is a risk that, notwithstanding the waiver of sovereign immunity by Ecuador in the bonds, a claimant will not be able to enforce a court judgment against certain assets of Ecuador in certain jurisdictions without Ecuador having specifically consented to such enforcement at the time when the enforcement is sought.

It may not be possible to effect service of process against Ecuador in courts outside of Ecuador unless Ecuador has explicitly submitted to the jurisdiction of those courts. Moreover, it may not be possible in the courts of Ecuador to enforce foreign court judgments against Ecuador that are predicated upon the laws of foreign jurisdictions without a re-examination of the merits of such judgment in the Ecuadorian courts. Furthermore, if a foreign judgment were to provide for an enforcement procedure contravening Ecuadorian law requirements, an Ecuadorian court would likely refuse to recognize and enforce the judgment based on the theory that the judgment is contrary to the public order of Ecuador. It may be difficult to enforce in a court in Ecuador any judgment obtained in a court established in a country other than Ecuador, in the absence of a treaty between such country and Ecuador providing for reciprocal enforcement of judgments.

USE OF PROCEEDS

The proceeds (based on the issue price) from the sale of the bonds will be approximately U.S.$595,998,000. Expenses and management and underwriting commissions are not deducted from the proceeds of the sale of the bonds and are paid by the Republic from other sources. The Republic intends to use the proceeds from the sale of the bonds to pay principal of and other amounts due on internal and external debt servicing.

REPUBLIC OF ECUADOR

Area and Population

Ecuador is located on the northwestern coast of South America and covers an area of approximately 99,054 square miles (256,549 square kilometers). Ecuador borders Peru to the south and east, Colombia to the north and the Pacific Ocean to the west.

Ecuador is divided into four geographic regions: the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galápagos island region located in the Pacific approximately 600 miles from the coast. Ecuador is traversed by the equator and lies entirely in the north and south tropical zones. The country's regional climates vary depending on altitude. The climate is tropical in the Pacific coastal plains and Oriente, predominantly temperate in the Sierra and maritime in the Galápagos.

According to the 2001 census conducted by the National Institute of Statistics, Ecuador's population is approximately 12 million. Approximately 49.8% of the population lives in the Pacific coastal plains, 44.9% in the Sierra, 4.5% in the Oriente, 0.2% in the Galápagos and 0.6% in undelineated areas. From 1990 to 2001, Ecuador's population grew at an average annual rate of approximately 2.05%. Estimates indicate that Ecuador's population grew at an approximate average annual rate of 1.4% between 2001 and 2004. Approximately 61% of Ecuador's population is urban. Guayaquil, which is located on the coast, is the largest city, with a population of approximately 2.4 million. Quito, Ecuador's capital and second-largest city, with a population of approximately 1.8 million, is located in the Andean highland region on a plateau 9,350 feet above sea level. Cuenca, which is also in the highlands, is the third-largest city, with a population of 414,632. Spanish is the official language of Ecuador.

Ecuadorian society is marked by a strong sectional rivalry between the coastal region and the highlands. The suspicions and jealousies generated by this rivalry pervade many aspects of Ecuadorian political and economic life. Proposed Government policies or actions that may have a disproportionate effect on one or the other of the two regions, for example, are approached cautiously so as not to aggravate sectional tensions. In some cases, this has hampered the Government's ability to take actions that it otherwise felt to be necessary or appropriate.

Approximately 6.8% of Ecuador's population identifies itself as indigenous. Indigenous people form a distinct social community and they have not been fully integrated into the fabric of Ecuadorian society. Indigenous people occasionally exert their influence on political affairs through popular demonstrations and boycotts. The visible dissatisfaction of many indigenous people with the administration of President Mahuad, for example, contributed to his removal from office in January of 2000. Although the Government of President Palacio is expected to take affirmative steps to alleviate some of the chronic problems experienced by the indigenous people, a sense of dissatisfaction on the part of some indigenous people, and resulting social tension, are likely to persist for some time.

Ecuador is classified by the World Bank as a lower middle-income developing country. The following table sets forth certain comparative information for Ecuador relative to certain other countries.

Selected Comparative Statistics

	Ecuador	Colombia	Bolivia	Peru	Venezuela
Per capita GNP(1)	U.S.$3,440	U.S.$6,150	U.S.$2,390	U.S.$4,880	U.S.$5,220
Life expectancy at birth (in years)(2)	70	72	64	70	74
Adult literacy rate (% of total population)(2)	91%	94.2%	86.5%	87.7%	93%
Infant mortality rate (per 1,000 live births)(2)	25	19	56	30	19
% of population below the poverty line(3)	40.8%(4)	22.6%(5)	34.3%(5)	37.7%(6)	30.6%(4)
Gini index(7)	43.7[4]	57.6[5]	44.7[5]	49.8[6]	49.1[4]

(1) 2002 data. As adjusted to reflect differences in purchasing power.
(2) 2000-2004 data.
(3) The poverty line used in this offering memorandum is defined as a monthly income of U.S.$60 per capita per household (or daily income of U.S.$2 per capita per household), adjusted to reflect differences in purchasing power.
(4) 1998 data.
(5) 1999 data.
(6) 2000 data.
(7) The Gini index measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A value of 0 represents perfect equality, a value of 100 perfect inequality.

Source: World Bank, World Development Indicators 2004.

Constitution, Government and Political Parties

After almost 300 years of colonial rule, Ecuador declared its independence from Spain in 1822 and became a district within the Confederation of Gran Colombia, which also included Colombia, Panama and Venezuela. In 1830, following the withdrawal of Venezuela, Gran Colombia was dissolved and the Republic of Ecuador was established. Between 1830 and 1895, the Ecuadorian political system was dominated by the *Partido Conservador*, whose support was traditionally found in the Sierra, and the *Partido Liberal*, based in the Pacific coastal region.

From 1907 to 1911, Eloy Alfaro, leader of the *Revolución Liberal*, led the country under a liberal constitution. In 1912, Alfaro was assassinated and in 1913, a civil war erupted in Ecuador among the various political factions.

In 1916, a newly elected president brought an end to the civil war. Between 1925 and 1979, Ecuador was ruled by a succession of civilian and military governments. In the period between 1925 and 1949, Ecuador was governed by twenty-two different heads of state. During the early 1930s, three new parties – the Socialist, Communist and Velasquistas (followers of Dr. Velasco Ibarra) – emerged and acquired significant memberships. During the 1950s, the conservative *Partido Social Cristiano* and the populist *Concentración de Fuerza Popular* gained support. In 1972, the military assumed power. In 1976, Ecuador began a transition to the present civilian democratic controlled government. Currently, Ecuador has no active guerrilla movements.

Between 1830 and 1978, seventeen different Constitutions were recognized in Ecuador. In 1978, a new Constitution was adopted by referendum and promulgated in 1979. The new Constitution established a presidential republic providing for three branches of government: the executive, legislative and judicial branches. In 1984, amendments to the Constitution were enacted, which included, among others, the shortening to four years from five years the term for principal officials, including the President.

A constitutional assembly was convened in 1998 with representatives of several political parties. The constitutional assembly promulgated a new Constitution which established the autonomy of the Central Bank, and strengthened the executive branch by eliminating mid-term congressional elections and by restricting Congress's power to challenge and remove cabinet ministers.

Executive

The President is the chief executive and is elected by direct popular vote to a four-year term. The President's duties include the enforcement of the Constitution, the determination of foreign and economic policy and the maintenance of domestic order. The President is also the Commander-in-Chief of the Republic's armed forces, and appoints and leads the Council of Ministers. Under the Constitution, re-election for a consecutive presidential term is not permitted.

Ecuador is a politically fragile country. There have been seven presidents in Ecuador during the last ten years. Three of those presidents, including the previous president, were deposed. One served time in jail after leaving office; one was in compulsory exile and is currently under house arrest; and the last president is in jail. The Ecuadorian military governed the country from 1972 to 1979, at which time power was peacefully ceded to a democratically-elected government.

From 1992 to 1996, Sixto Durán Ballén was the President of Ecuador. After winning the presidential election, Abdalá Bucaram Ortiz took office on August 10, 1996. In 1997, President Abdalá Bucaram Ortiz was removed by act of Congress and Dr. Fabián Alarcón was designated interim president by Congress. Elections for president were held in May 1998. After winning a run off election in July 1998, President Jamil Mahuad took office on August 10, 1998, together with an entirely new Congress.

In January 2000, indigenous people from the Oriente and Sierra regions staged a two-week demonstration in protest of anticipated rate hikes for fuel and electricity. Led by three men, Colonel Lucio Gutiérrez, a civilian, and an indigenous leader, indigenous groups gathered in Quito and subsequently entered the unoccupied Congress building. President Mahuad appeared on national television on the afternoon of January 21, 2000 to announce the seizure of Congress, while reassuring the public that he remained in power. Shortly thereafter, President Mahuad left the Presidential Palace and the building was taken over by the protesters. Members of the military surrounded the major Government buildings, and by that evening, representatives from the three main branches of the military announced that Vice President Gustavo Noboa would replace President Mahuad as the new President of Ecuador. On January 22, 2000, President Noboa assumed the office of President.

Presidential elections were held in October 2002. Retired Col. Lucio Gutiérrez of the *Partido Sociedad Patriótica* took office as President on January 15, 2003, after defeating Álvaro Noboa in the first and second round of the presidential elections by winning 54.79% of the total vote in the last round in November 2002.

In early 2005, President Gutiérrez's administration faced heavy public criticism as a result of his decision to call for a special vote of Congress to remove 27 of the 31 justices then serving on Ecuador's Supreme Court. In April 2005, following large public protests in Quito and elsewhere in the country, President Gutiérrez was forced to resign and Congress appointed Doctor Alfredo Palacio González as his successor. President Palacio is not affiliated with any political party. His administration is facing the difficult task of regaining the legitimacy of the national Government, strengthening the institutions of the State and restoring the respect for constitutional order and the law.

Elections are scheduled to take place in October 2006, and the winner will assume the presidency on January 15, 2007 when President Palacio's term of office expires.

Legislative

The legislative branch consists of a single-chamber Congress. Congress is currently composed of 100 members, all of whom are elected to represent the provinces. The number of representatives for each province is determined on the basis of population. The entire Congress is up for election every four years. In addition to lawmaking, Congress ratifies treaties and appoints certain high ranking government officials.

The following table shows the current composition of Congress:

Party	**Number of Representatives**
Partido Social Cristiano	24
Partido Roldosista Ecuatoriano	12
Izquierda Democrática	15
Partido Renovador Independiente Acción Nacional (P.R.I.A.N.)	9
Pachakutik	10
Partido Sociedad Patriótica	5
Democracia Popular	4
Movimiento Popular Democrático	3
Partido Socialista Frente Amplio	4
Alfarismo Nacional	1
Concentración de Fuerzas Populares	1
Movimiento de Integración Regional Ecuatoriano	1
Independents	11
Total	100

Source: Congress.

Changes in party affiliation by members of Congress are frequent, resulting in the reallocation of congressional seats among parties. The next Congressional elections will occur in October 2006.

Judicial

The judicial system is comprised of administrative, trial and appellate courts and a Supreme Court. The supreme judicial power is vested in the Supreme Court, which has 31 justices divided among ten chambers with three judges each, plus the President of the Supreme Court, who does not join a chamber. In 1998, following amendments to the Constitution, Congress appointed the members of the Supreme Court for life. The Constitution provides that subsequent vacancies are filled by the remaining Supreme Court justices. The Supreme Court appoints judges to the provincial superior courts.

In December 2004, during a special session called by President Gutiérrez, Congress voted to remove and replace 27 of Ecuador's 31 Supreme Court justices. Most of the ousted justices were connected with the *Partido Social Cristiano* and their replacements were connected with the *Partido Sociedad Patriótica*, President Gutiérrez's party, the *Partido Roldosista Ecuatoriano* and the *P.R.I.A.N.* At the time of their removal, Congress indicated that the removal of the justices was taken as a transitional step toward a constitutional reform aimed at removing the power to appoint Supreme Court justices from Congress and giving it to a body of non-partisan civic groups.

The new Supreme Court faced immediate and severe criticism from the public. On April 16, 2005, before providing his resignation, President Gutiérrez removed all of the members of the Supreme Court by decree. President Palacio, who was appointed by Congress on April 20, 2005, began his administration with an entirely vacant Supreme Court.

The Constitution does not establish a specific procedure for nominating new justices to the Supreme Court when all of its seats are vacant. In May 2005, the Congress and President Palacio agreed on legal protocols to define the requirements for prospective members of the court. In addition to Constitutional requirements regarding legal education, professional experience and personal information, applicants were required to submit applications and participate in legal and psychological examinations. The candidates were ranked based on their results. The independent *Comité de Calificación, Designación y Posesión de Magistrados y Conjueces de la Corte Suprema de Justicia* (the "Qualifying and Appointing Committee for the Supreme Court Judges") reviewed the prospective candidates and selected the top ten candidates. The remaining twenty-one positions were chosen by drawing names from the remaining pool of candidates. On November 28, 2005, the Committee named twenty-nine men and two women to the Supreme Court. The new justices are expected to be sworn in on November 30, 2005.

Local Governments

Ecuador is divided administratively into twenty-two provinces of which ten are located in the Sierra, five in the Pacific coastal plains, six in the Oriente and one in the Galápagos. Each province is subdivided into municipalities that are further subdivided into parishes. Provinces are governed by a governor, municipalities by a municipal supervisor and parishes by a parish supervisor. Governors are appointed by and under the authority of the President or the executive branch.

Each of the twenty-two provinces has a popularly-elected provincial council headed by a prefect. A municipal council is responsible for the government of each municipality. All provincial and municipal officials are elected to four-year terms.

Economic Reforms

The government is seeking to reform certain aspects of the Ecuadorian economy. Certain reform measures are being undertaken as legislative proposals which will require Congressional approval. Other reforms may be undertaken by the Executive branch and do not require Congressional review of approval. There can be no assurance that the reforms presented below will be implemented, and if they are implemented, that they will achieve their stated aim.

<u>Credit Bureau Law</u>: In September 2005, Congress passed the *Ley de Burós de Crédito* (the "Credit Bureau Law") in order to improve competition in the country's financial markets by providing lenders with access to potential borrowers' credit histories. In addition, the Central Bank will soon approve a reform to the methodology involved in calculating the *tasa activa referencial*, which is the average weighted weekly rate for loans with a term of 84 to 91 days, and is the rate granted by commercial banks to corporations.

<u>Electric Sector Reforms</u>: Electric distribution companies in Ecuador are owned by the Government and are heavily indebted. It is estimated that these companies owe approximately U.S.$1.1 billion to electricity generators for purchases of electricity from the Wholesale Electric Market and approximately U.S.$246 million to Petrocomercial for fuel purchases. In addition, these companies have been trying to recover approximately U.S.$722 million owed to them by the Ecuadorian government in connection with tariff deficits that the electric distribution companies have incurred. This accumulated debt has placed the electric sector at risk of bankruptcy. The Ministry of Economy and Finance has refused to pay the amounts claimed by the distribution companies unless a law expressly permits such payments. As a result, the Ministry of Economy and Finance has proposed a law which would legalize the existing debtor-creditor relationship between the Ecuadorian government and the electric companies. Under the proposed law, the Government would pay approximately U.S.$722 million to the electricity distribution companies, and the companies would agree, in turn, that such amounts would be used only for capital improvements and the repayment of the debts owed to Petrocomercial and the electricity generators. The current draft of the law provides that the Government will obtain financing for the U.S.$800 million from bond issuances or loans from foreign creditors. The majority of the disbursements under the proposed law are not expected to occur until after December 31, 2006.

<u>Tax Reforms</u>: Proposed tax reforms include provisions to eliminate existing tax shelters, increase the available tax base, codify certain elements of the tax system, and the elimination of certain minor taxes which are an administrative burden to collect and provide minor revenues. These tax reforms are expected to be sent to Congress during the first half of 2006.

<u>Public Corporation Law</u>: The President is planning on presenting a law to Congress during the first half of 2006 which will establish a unified regulatory framework for government owned enterprises.

Restructuring of Petroecuador: The Government is seeking to improve Petroecuador's efficiency by restructuring certain technical and administrative functions in order to ultimately increase Petroecuador's levels of petroleum production. These reforms are expected to be enacted during the first half of 2006.

Reprofiling the internal debt: The Government is planning to cease issuances of short term internal debt during 2006 in favor of long term issuances only.

Improvements in the accounting and budgetary system: A new accounting and budgetary system is currently under development which will improve the management of the Government's financial information. The new system will replace the existing *Sistema de Gestión Financiera del Sector Público – SIGEF* (the "Public Sector Financial Management System") and will cover all institutional and transparency needs of the management of public finances. The new system is expected to be implemented during 2006.

Increasing Competition: The *Consejo Nacional de Competitividad – CNC* (the "National Council for Competition") regulates competition in the marketplace. The CNC is seeking to implement a national strategy to increase competition in the Ecuadorian marketplace. These reforms are expected to be implemented during 2006.

Increasing foreign trade: The following projects are under development: *Perfeccionamiento y Fortalecimiento del Sistema Andino de Franjas de Precio* (the "Perfecting and Strengthening of the Andean System of Tariffs"), a mechanism which stabilizes the price of thirteen basic agricultural products; elimination of import license requirements for certain products and an improvement in electronic conveyance processes; strengthening of the ports and airports; implementation of the CAN– MERCOSUR treaty and a Free Trade Agreement with the United States; definition of the *Ley Orgánica de Aduanas* (the "Customs Law"); strengthening Ecuador's presence in the World Trade Organization; implementation of a system for electronic customs declarations and other electronic processes such as valuation bases; creation and implementation of risk profiles and subsequent controls; verification of origin norms and control of special custom regimes. These projects have been scheduled since 2004, and it is unclear if they will be implemented in 2006.

Development of small and medium-sized businesses: This proposal aims to develop and manage new technologies which will help small and medium-sized businesses. In addition, a Government fund will support new initiatives focusing on management and technological innovations.

Early Retirement Program for Public Sector Employees: The World Bank has agreed to provide Ecuador with financing which will enable the Government to reduce the public sector payroll by providing an early retirement package to certain public sector employees. Although the loan from the World Bank is expected to be finalized by the end of 2005, the early retirement program will not be implemented until the second half of 2006.

Restructuring of the Central Bank of Ecuador: A comprehensive restructuring of the Central Bank's operations is planned in order to improve the Central Bank's administration of financial resources in the public sector and technical support for its economic decisions. The plan is still being prepared and it is anticipated that the restructuring of the Central Bank's operations will occur in 2006.

International and Regional Relations

Ecuador has diplomatic relations with approximately 78 countries and is a member of a number of international organizations. Ecuador is a member of or party to:

- the United Nations ("UN"), as a founding member, including many of its specialized agencies;
- the Organization of American States ("OAS");
- the World Health Organization ("WHO");
- the World Trade Organization ("WTO");

- the International Labour Organization;
- the International Monetary Fund ("IMF");
- the International Bank for Reconstruction and Development or the World Bank;
- the Inter-American Development Bank ("IDB");
- the Andean Community;
- the Andean Development Corporation ("CAF");
- the Latin American Integration Association ("ALADI");
- the Latin American Reserve Fund ("FLAR"); and
- the Free Trade Area of the Americas ("FTAA").

In November 1992, Ecuador resigned its membership and opted for observer status in the Organization of Petroleum Exporting Countries ("OPEC").

Ecuador maintains close ties with most of its neighboring countries and participates in several regional arrangements to promote trade, investment and services. As a member of ALADI, a regional external trade association, Ecuador and the other signatories (Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Paraguay, Peru, Uruguay and Venezuela) have worked to remove regional trade restrictions.

The members of the Andean Community (Ecuador, Bolivia, Colombia, Peru and Venezuela) have worked to reduce or eliminate tariff barriers to trade. In 1992 and 1993, Ecuador entered into bilateral trade agreements with Colombia, Venezuela and Bolivia. Under these agreements, these countries have agreed to levy uniform tariffs on goods from third parties. The Republic expects that legislation will be implemented in 2006 that will unify these tariffs.

In 1994, Ecuador entered into a bilateral trade agreement with Chile liberalizing trade between the two countries. In 1996, Ecuador became a member of the WTO and became subject to the WTO's rules on free trade.

On October 26, 1998, Ecuador and Peru signed a peace agreement. This agreement settled a long-standing territorial dispute which had resulted in hostilities, most recently in January 1995, over territory located in the Oriente region. As a result of this treaty, the two countries have presented joint plans for the development of infrastructure and commerce in the border region.

In 1998, Ecuador and the other members of the Andean community began negotiating the terms of a free trade agreement for the establishment of FTAA. Negotiations have been ongoing since 1998.

On April 5, 2004, Ecuador (as part of the Andean Community) concluded a free trade agreement with Mercosur. Mercosur is a customs union comprised of Argentina, Brazil, Paraguay, Uruguay, Chile and Bolivia which seeks to (i) create a full common market in goods, services and factors of production by eliminating or significantly reducing, in some cases over a period of years, import duties, tariffs and other barriers to trade among members, and (ii) to apply external tariffs for trade with non-members. The Andean Community's adhesion to the agreement, which was originally agreed to in principle at a summit in July 2003, resulted in the creation of a South American free trade area.

Ecuador (as part of the Andean Community) and the European Union are currently engaged in preliminary discussions concerning a possible free trade agreement. While the parties have made progress in several areas, the European Union has conditioned the agreement upon the Andean Community's prior establishment of common external tariffs and the existence of a free trade agreement with the United States. There can be no assurance that an agreement will be reached with the European Union.

Separately, in May 2004, Ecuador, Colombia and Peru began negotiating a free trade agreement with the United States. The most recent round of negotiations took place on November 14, 2005. Several open areas remain including the exclusion of certain agricultural and livestock products from the treaty as well as intellectual property rights over certain pharmaceutical products. The countries have agreed to hold bilateral discussions with the United States. A new round of negotiations between the United States and Ecuador is scheduled to commence in mid-January 2006. There can be no assurance that an agreement will be reached with the United States. In addition, given the varying degrees of progress made during the negotiations by each of Ecuador, Peru and Colombia, there is a possibility that the free trade negotiations will result in multiple bilateral arrangements between the United States and each of the countries, rather than one multilateral agreement among all four countries. If negotiations between Ecuador and the United States fail, and Colombia enters into a separate bilateral trade agreement with the United States, Ecuador could experience a significant decrease in its export revenues from the textile and cut flower markets.

Ecuador is currently a beneficiary of certain preferential tariff benefits provided by the U.S. Government under the Andean Trade Promotion and Drug Eradication Act (the "ATP-DEA"). In exchange for its efforts to combat narcotrafficking in Ecuador, certain Ecuadorian products, such as textiles and tuna, receive preferential tariff treatment from the United States Government.

Ecuador's preferential status under ATP-DEA is set to expire in December 2006 and the U.S. Government has not indicated that it intends to renew Ecuador's status. If Ecuador's benefits under the ATP-DEA expire at the end of 2006, and it has still not concluded a free trade agreement with the United States by that time, Ecuador's export revenues may be adversely affected.

THE ECUADORIAN ECONOMY

Historical Background

Ecuador is a country with rich natural resources and its economy has been historically dominated by the agricultural sector and oriented towards the export of primary products. From the 1950s through the 1980s, the Government was extensively involved in the economy. During this period, the Government expanded long-standing policies with respect to import substitution designed to promote domestic industries and discourage imports. The Government also exerted significant influence over various sectors of the economy through state-owned development banks, exchange and interest rate controls and industry subsidies.

During the 1950s, Ecuador benefited from a significant increase in banana exports as diseases plaguing plantations in Central America turned Ecuador into the primary supplier of the U.S. market. In addition to increased revenues from banana exports, Ecuador benefited from sizable price increases for its commodity exports as a result of the Korean War. The Government applied these increased revenues to finance public infrastructure projects and increase Government jobs and salaries.

Following the banana boom of the 1950s, falling exports prices led to rising unemployment in Ecuador. In spite of these difficulties, during the 1960s, the Ecuadorian economy improved as a result of diversification in the manufacturing sector. During this period, emphasis was placed on meeting domestic demand through the increased production of consumer durable goods.

The discovery of new petroleum fields in the Oriente province transformed Ecuador during the 1970s into a world producer of oil and made oil Ecuador's most important export commodity. The rise in oil exports in the mid-to-late-1970s fueled economic growth and brought sharp increases in Government spending and employment, financed principally by external borrowing and oil revenues. Real GDP increased by an average of 7.7% per year between 1971 and 1977. Between 1974 and 1979, Ecuador's external debt grew from U.S.$380 million to approximately U.S.$3.0 billion. As the economy became increasingly dependent on oil revenues, the Government's participation in the economy also grew.

In the early 1980s, the Ecuadorian economy faltered as the international price of petroleum began a gradual decline, climatic conditions caused by El Niño damaged crops and infrastructure and Ecuador lost some foreign markets for its traditional agricultural products. From 1982 to 1987, Ecuador experienced a slowdown in economic growth, characterized by declining investment rates and increasing inflation, with real GDP growth averaging 0.9% annually and GDP per capita decreasing at an average annual rate of 0.9%. Stabilization plans implemented during this period did not succeed in avoiding a slowdown in economic growth. The collapse of world oil prices in 1986 reduced Ecuador's oil export revenues by 49%.

In March 1987, an earthquake destroyed a large stretch of Ecuador's only oil pipeline together with pumping stations, resulting in an approximate six-month suspension in petroleum production. Confronted with the sudden interruption in the flow of oil revenues and with growing current account and public sector deficits, Ecuador suspended debt service payments to most private creditors (but not to multilateral financial institutions) in early 1987 and adopted measures to limit imports. GDP declined by 2.1% in 1987.

The period from 1988 to 1992 was characterized by increasing oil export prices and reductions in Government spending in real terms. The Ecuadorian economy recovered, growing 8.4% in 1988, 1.0% in 1989, 2.7% in 1990 and 5.2% in 1991. Throughout this period, the Government pursued a gradual stabilization policy. Despite the Government's policies and intervals of relatively strong economic growth, inflation rose sharply, averaging 57.1% annually during the period from 1988 to 1992 and reaching an annual rate of 54.6% in 1992.

During the presidency of Sixto Durán Ballén (1992-1996), the Government adopted a program of economic reforms and introduced measures to reduce the public deficit, control inflation, strengthen the balance of payments and create conditions for sustained growth. Under this economic reform program, inflation decreased from an annual rate of 54.6% in 1992 to 22.9% in 1995. International reserves at the Central Bank increased from U.S.$782 million at December 31, 1992, to U.S.$1.56 billion at December 31, 1995. The consolidated non-financial public sector deficit decreased from 1.2% of GDP in 1992 to 1.0% of GDP in 1995. GDP also grew during this period, increasing by 0.3% in 1993, 4.7% in 1994 and 1.7% in 1995.

Following his election to the Presidency in 1996, President Bucaram announced an economic program requiring the approval of a series of tax increases and other measures by Congress. This economic program, which included drastic reductions in electricity and natural gas subsidies, was not well received by Congress or by the public. Growing popular and congressional discontent, as well as allegations of widespread corruption within the Bucaram administration, ultimately led to the replacement of President Bucaram by congressional representative Fabian Alarcón, in February 1997.

Upon taking office, President Alarcón began to implement an economic program to reduce the fiscal deficit by increasing tax and debt collections and fixing profit margins for petroleum distributors. Despite these measures, the non-financial public sector deficit increased to 2.1% of GDP in 1997 as a result of a decrease in fiscal revenues resulting from significant damage caused by El Niño, the decision not to eliminate costly state subsidies as well as Congress' refusal to increase the value-added tax.

In 1998, President Mahuad's administration inherited fiscal and economic systems seriously weakened by the inability of the former administrations to establish and implement effective economic programs. Upon taking office, President Mahuad presented an economic program aimed at controlling inflation and reducing the fiscal deficit. During 1998, however, Ecuador was confronted by additional economic challenges due to the overall reduction in capital inflows to emerging markets resulting from the devaluation of the Russian ruble and its effects on the international capital markets. Moreover, a significant decrease in petroleum prices, the effects of El Niño on the agricultural and fishing subsectors and the over-valuation of the sucre relative to Ecuador's competing markets further reduced revenues to Ecuador. As a result, average inflation increased to 36.1% in 1998 (from 30.6% in 1997) and the fiscal deficit increased to 5.9% of GDP in 1998 (from 2.1% of GDP in 1997).

The 1999 Economic Crises and Subsequent Reforms

In 1999, in response to the mounting economic difficulties facing Ecuador, President Mahuad's administration took drastic measures. Costly subsidies for liquefied petroleum gas, electricity and diesel fuel were slashed and tax reforms were implemented at the end of 1999, including the reestablishment of the income tax (subsequent political pressure forced the Government to reinstitute the subsidy for liquefied petroleum gas). Despite these measures and other efforts aimed at controlling inflation and reducing the fiscal deficit, GDP decreased more than 6% in 1999, domestic inflation, measured by the CPI, increased 60.7%, unemployment surged, real wages plummeted, the sucre lost approximately 115% of its value against the U.S. dollar, and both poverty and income distribution worsened.

In February 1999, the Central Bank's decision to eliminate the exchange rate band and refrain from further market intervention to support the exchange rate produced additional difficulties for an already weakened banking system and resulted in near hyperinflation. In March 1999, in order to keep financial institutions afloat and in an effort to control inflation, the Government froze virtually all current dollar accounts and approximately half of current sucre accounts in Ecuadorian banks. Throughout 1999, 14 banks were closed or taken over by the Government, representing approximately 65% of banking system deposits. Bank scandals and allegations of corruption exacerbated both economic and political instability. As the Government nationalized part of the banking system, debtors stopped servicing their debts, further weakening the health of banks. The bank recovery plan had a steep fiscal cost: the Government issued U.S.$1.4 billion in bonds to capitalize or provide liquidity to state-owned banks. Finally, in late 1999 and early 2000, Ecuador defaulted on its external indebtedness.

Dollarization Program

In January 2000, following several weeks of severe exchange-rate depreciation, the Government announced that it would dollarize the economy. On March 1, 2000, the Congress approved the *Ley para la Transformación Económica del Ecuador* (the "Law of Economic Transformation" or "LET"), which made the U.S. dollar legal tender in Ecuador. In addition to providing an official basis to dollarize the economy, the LET contained reforms aimed at strengthening fiscal discipline, encouraging flexibility in the labor market, improving banking supervision and establishing rules to encourage direct investment and privatizations.

Complementary Actions

To support the Dollarization Program, Ecuador has taken a number of related actions, including:

- restructuring and strengthening the banking system by:
    - implementing a comprehensive corporate and household debt restructuring program, aimed at restoring the cash-flow of enterprises and asset quality of the banking system;
    - redefining capital requirements to conform to standards established by the Basle accords; and
    - conforming loan classification and provisioning rules to international standards;
- enacting the Fiscal Responsibility, Stabilization and Transparency Law in 2002, which was aimed at reducing public indebtedness and establishing greater transparency in the Government's use of public funds;
- introducing austerity measures that significantly reduced public sector expenditures between 2003 and 2005;
- rescheduling the external debt owed to private and bilateral creditors; and
- establishing a program to restore trade lines and interbank lines to Ecuadorian banks.

Recent Economic Events

2000–2002

The period between 2000 and 2002 was characterized by a gradual economic recovery. GDP expanded at a rate of 2.8% in 2000, 5.1% in 2001 and 3.4% in 2002, and inflation decreased from 91.0% in 2000, to 22.4% in

2001 and 9.4% in 2002. The improvement in the Ecuadorian economy during this period was primarily attributable to:

- the Government's economic and social plan;
- the Dollarization Program;
- increased internal demand;
- an increase in real wages;
- the assistance of multilateral financial institutions;
- a decrease in international interest rates; and
- an increase in remittances from Ecuadorians residing and working abroad.

The Ecuadorian economy improved during this period despite generally decreasing international oil prices (petroleum is Ecuador's largest source of export revenues), and a small decrease in petroleum production. The average export price per barrel of oil decreased from U.S.$24.87 per barrel in 2000 to U.S.$21.82 per barrel in 2002, and petroleum production in Ecuador decreased from 146,209,000 barrels as of December 31, 2000, to 143,759,000 at December 31, 2002.

Ecuador's growing economy also had an impact on the country's trade balance during this period. After recording a current account surplus of U.S.$920.5 million in 2000 (5.8% of 2000 GDP), Ecuador recorded a current account deficit of U.S.$665.3 million in 2001 (-3.2% of 2001 GDP) and U.S.$1.4 billion in 2002 (-5.8% of 2002 GDP). These current account deficits were primarily the result of an increase in domestic consumption, as well as increased demand for consumer goods and a significant increase in the amount of construction materials and supplies that were imported to build the heavy crude pipeline (the "HCP"). For a description of the HCP, see "—Principal Sectors of the Economy— Mining (Petroleum and Petrochemicals)— Transportation."

Events in 2003

Ecuador's economy continued to show signs of recovery in 2003. Ecuador's improved economic performance in 2003 was primarily the result of a favorable external environment, the completion of the HCP and the implementation of the Law to Promote Responsibility, Stabilization and Fiscal Transparency. Operation of the HCP began in September 2003, and increased oil production from 143,759 thousand as of December 31, 2002 to 153,518 thousand as of December 31, 2003. As a result of these factors, overall GDP increased by 2.7% in 2003, even as non-oil GDP growth slowed to below 2%. Inflation continued to decline, falling to 6.1% as compared to 9.4% in 2002.

The current account deficit declined sharply in 2003, reflecting high international oil and commodity prices, a depreciation of the U.S. dollar, and a decrease in imports due to the completion of the construction of the HCP. In 2003, exports grew by 22.7%, while imports increased by 1.6%. In the capital account, foreign direct investment increased to just under 5.7% of GDP, as a result of HCP-related investments. Net capital flows to the public sector, however, remain negative, due primarily to the amortization of debt to official creditors and continued lack of access to international credit markets.

High oil prices and restraint by the Government on non-wage spending helped improve fiscal performance in 2003. The primary surplus of the non-financial public sector increased to 4.7% of GDP in 2003, compared with 4.3% in 2002. The non-oil primary deficit did not change from 2002, but remained at 1.4% of GDP in 2003. Primary expenditure by the Government increased 8.4% in 2003 compared to 2002, reflecting increases in wages. Aided by lending of multilateral financial institutions, the Government was also able to clear external arrears and reduce domestic payments arrears.

Events in 2004

Ecuador's economy showed continued improvement in 2004, as a result of a 33% increase in petroleum production, an increase in international oil prices and the declining value of the U.S. dollar, resulting in the improved competitiveness of Ecuadorian exports. Based on these factors, overall GDP increased 6.95% in 2004, even as non-oil GDP growth remained relatively unchanged at 3.1%. Inflation continued to decline, falling to 1.9% as compared to 6.1% in 2003. Consumer prices, as measured by the CPI, continued to increase, albeit at a reduced rate, primarily as a result of increases in the prices of foodstuffs, clothing, consumer electronics, and certain miscellaneous goods and services.

As of December 31, 2004, Ecuador's total public external debt amounted to U.S.$11.1 billion (equivalent to approximately 36.5% of GDP), which was 3.8% less than the U.S.$11.5 billion balance as of December 31, 2003. The Republic's indebtedness to multilateral institutions remained significant and at December 31, 2004 was U.S.$4.3 billion. In recent years, internal debt has become an important source of financing for the Republic. As of December 31, 2004, the Republic's total internal indebtedness amounted to U.S.$3.5 billion (equivalent to approximately 11.5% of GDP).

The recovery of Ecuador's financial system also began to show signs of acceleration in 2004, as commercial banking deposits increased 25.3% from U.S.$4.3 billion as of December 31, 2003 to U.S.$5.4 billion as of December 31, 2004. During this period, short-term deposits increased by approximately U.S.$487 million. In general, the non-performing portion of the loan portfolios of Ecuador's banks have continued to decrease in size, despite the overall growth in the size of these loan portfolios. The average lending interest rate continued to decline, from 11.2% at December 31, 2003 to 8.0% at December 31, 2004. The decrease in interest rates has had a positive effect on the results of Ecuadorian companies, consumer demand and real estate activities.

Events in 2005

The first half of 2005 was marked by public unrest and large protests against the government of President Gutiérrez. Nonetheless, Ecuador's economy continued to show signs of stability and growth.

The remainder of 2005 is expected to bring moderate economic growth and a stable increase in prices. The total expected growth of the Ecuadorian economy for 2005, in real terms, is approximately 3.3%. The non-financial public sector petroleum revenue in 2005 is projected to be greater than in 2004 due to higher prices for petroleum on the international market. Non-petroleum income is expected to increase more than 10% as compared to 2004. Average inflation for 2005 is expected to be between 3.5% and 3.7%.

The primary surplus during the first half of 2005 reached 2.7% of GDP, as it did during the first half of 2004.

Growth in the service and agricultural sectors, as well as in the fishing and manufacturing industries, is expected in 2005. However, any appreciation in the real exchange rate could adversely impact such growth.

Both short-term deposits and private sector loans have increased in 2005, and the interest rate has decreased. Short-term deposits reached U.S.$2,427.6 million in June 2005, up from U.S.$2,209.4 million in January 2005. The *tasa activa referencial* in September 2005 was 7.77%, down from 9.65% in September 2004 as of the last complete week of each month, respectively.

Government Participation in the Economy and Privatization

Ecuador has a diversified economy in which both the public and private sectors play important roles. The Government has historically exerted extensive control over Ecuador's economic affairs and currently controls certain sectors of the economy, such as nonrenewable natural resources, utilities, defense and strategic industries. Since 1992, the Government has sought to reduce its participation in the economy.

In 1993, the *Ley de Modernización del Estado* (the "State Modernization Law") established a framework for increasing private sector participation in the economy. The State Modernization Law permits private participation in economic sectors previously reserved to the state. The privatization program is administered by the *Consejo Nacional de Modernización del Estado* (the "National Council for the Modernization of the State" or "CONAM"), which reports directly to the President. Ecuador began its privatization program with the sale in 1993 of its majority ownership in the country's largest cement company, *La Compañía de Cemento Nacional*, by its public sector owner, the *Corporación Financiera Nacional* ("National Finance Corporation" or "CFN"). The Government also privatized *Ecuatoriana de Aviación*, the national airline, in August 1996 and sold smaller shareholdings in other enterprises.

In 1995, the Government created the *Fondo de Solidaridad* (the "Solidarity Fund") to administer the proceeds from the privatizations of public sector entities. Proceeds received by the Government from privatizations are required to be contributed to the Solidarity Fund, which must then invest these assets locally or offshore. Income resulting from these investments is required to be earmarked for public health, education, urban development, the environment, housing, rural electrification and cultural promotion.

Congress enacted legislation in August 1995 authorizing the partial privatization of the state-owned telephone company, *Empresa de Telecomunicaciones del Ecuador* ("EMETEL"). The Government selected the International Finance Corporation to advise it in the telecommunications privatization process. Under the privatization plan, two new regional telephone companies, Andinatel and Pacifictel, were established and spun-off from EMETEL.

In September 1996, Congress approved the partial privatization of Ecuador's electricity generation, transmission and distribution facilities, which at the time were operated by INECEL, a state-owned company. The 1996 INECEL Law allows the Government to sell up to 39% of the shares in existing electricity generation, transmission and distribution enterprises to private operators, either domestic or foreign, and up to an additional 10% to electricity sector workers. The remaining shares of each such enterprise would be held by the Solidarity Fund.

During 1997, the Government announced two bidding rounds for the privatization of Andinatel and Pacifictel. These rounds were not concluded, however, because of difficulties encountered with the establishment of Andinatel and Pacifictel. CONAM proposed a reform to the August 1995 legislation to facilitate the privatization process. This reform, however, was not enacted.

Limitations on private sector participation in the electricity and telecommunications sectors were modified by the LET. The 39% participation limit for private investors in the electricity and telecommunications sectors under the 1996 INECEL Law was increased to allow the Solidarity Fund to sell up to 51% of an entity in these sectors. The LET also eliminated the existing restrictions on competition and allowed for free competition for all telecommunications services.

Between 2001 and 2002, the Government attempted to privatize Ecuador's electricity distribution system. This effort failed because of various political and institutional problems. As a result of this process, Ecuador's electricity distribution system is managed by a number of companies of which the Solidarity Fund is the majority shareholder.

Since 1999, the CONELEC, the entity that regulates the electricity sector has, as a matter of policy, required distributors to charge consumers rates that are below such distributor's real generating, transmission and distribution costs. This policy, together with difficulties faced by the electricity sector in collecting amounts owed by consumers, has resulted in the under-capitalization of the electricity sector, losses in the electricity sector and in the increasing debt burden of electricity companies. According to industry estimates, between April 1999 and December 2004, the difference between the rates charged to consumers and the electricity sector's real costs surpassed U.S.$722 million. According to the same estimates, as of December 2004, the electricity sector's indebtedness amounted to approximately U.S.$1.1 billion.

The single largest creditor of the electricity sector is Petroecuador, since it supplies all of the fuel used by the electricity sector. It is estimated that as of December 2004 Petroecuador was owed approximately U.S.$250 million by publicly owned electricity generation companies.

Gross Domestic Product

The Ecuadorian economy experienced positive rates of real GDP growth between 2000 and 2004. In 2002 and 2003, the economy grew by 3.4% and 2.7%, respectively. During 2004, the economy continued to grow, achieving a growth rate of 6.9%. The rate of economic growth slowed to 3.1% during the first half of 2005 due to a decrease in oil production by private oil companies.

The following tables set forth real GDP and expenditures, in dollars, for the periods indicated.

Real GDP and Expenditures
(in millions of U.S.$ based on constant 2000 prices)

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005
Real GDP	15,934	16,749	17,321	17,781	19,016	9,411	9,698
Imports of goods and services	4,939	5,789	6,786	6,844	7,513	3,605	3,844
Total supply of goods and services	20,872	22,539	24,107	24,625	26,530	13,016	13,542
Final consumption:							
Government consumption	1,564	1,571	1,621	1,638	1,684	837	837
Private consumption	10,199	10,754	11,267	11,571	12,146	6,007	6,251
Total final consumption	11,762	12,325	12,888	13,209	13,830	6,845	7,089
Gross fixed capital formation	3,265	3,660	4,302	4,232	4,430	2,149	2,225
Changes in inventory	(60)	725	1,038	1,117	1,282	621	671
Exports of goods and services	5,906	5,828	5,878	6,067	6,988	3,401	3,557
Total final demand	20,872	22,539	24,107	24,625	26,530	13,016	13,542

Source: Central Bank.

Real GDP and Expenditure Growth
(% change from previous comparable period based on constant 2000 prices)

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005
Real GDP	2.8%	5.1%	3.4%	2.7%	6.9%	8.1%	3.1%
Imports of goods and services	15.8	17.2	17.2	0.9	9.8	3.7	6.6
Total supply of goods and services	5.6	8.0	7.0	2.1	7.7	6.9	4.0
Total final consumption	3.9	4.8	4.6	2.5	4.7	4.1	3.6
Government consumption	4.7	0.5	3.2	1.1	2.8	3.1	0.0
Private consumption	3.8	5.4	4.8	2.7	5.0	4.2	4.1
Gross fixed capital formation	12.1	12.1	17.6	(1.6)	4.7	(0.3)	3.5
Exports of goods and services	(1.0)	(1.3)	0.9	3.2	15.2	18.4	4.6
Total final demand	5.6	8.0	7.0	2.1	7.7	6.9	4.0

Source: Central Bank.

Principal Sectors of the Economy

The following tables set forth the composition and rates of growth by economic sector of Ecuador's real GDP for the periods indicated.

Real GDP by Sector
(in millions of U.S.$ based on constant 2000 prices)

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005
Mining(1)	3,430	3,489	3,366	3,585	4,432	2,209	2,221
Transportation, storage and communications	1,720	1,749	1,771	1,794	1,858	743	774
Wholesale and retail commerce	2,483	2,601	2,706	2,751	2,869	1,410	1,486
Manufacturing (excluding oil refineries)	2,170	2,233	2,248	2,318	2,378	1,178	1,233
Construction	1,127	1,172	1,344	1,350	1,385	689	678
Agriculture, livestock, hunting and forestry	1,466	1,471	1,581	1,595	1,596	784	819
Public administration and defense; social security	835	849	877	876	886	440	439
Financial intermediation services	301	415	455	503	555	258	280
Electricity and water	169	177	181	176	179	89	95
Fishing	227	233	247	260	271	132	147
Other services(2)	2,114	2,208	2,203	2,220	2,316	1,353	1,373
Private homes with domestic servants	28	29	30	30	30	15	15
Indirectly measured financial intermediation services	(385)	(513)	(515)	(526)	(605)	(295)	(329)
Manufacturing of refined petroleum products	(1,360)	(1,254)	(1,272)	(1,252)	(1,347)	(663)	(691)
Other elements of GDP	1,608	1,890	2,099	2,101	2,213	1,070	1,159
Total real GDP	15,934	16,749	17,321	17,781	19,016	9,411	9,698

(1) The mining sector includes the petroleum and petrochemicals sub-sector.
(2) Other services include hotels and restaurants, real estate, education, health and social services.
Source: Central Bank.

Real GDP Growth by Sector
(% change from previous comparable period based on constant 2000 prices)

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005
Mining[(1)]	8.0%	1.7%	(3.5)%	6.5%	23.6%	36.7%	0.5%
Transportation, storage and communications	7.7	1.7	1.3	1.3	3.5	3.0	4.2
Wholesale and retail commerce	3.8	4.7	4.0	1.7	4.3	2.2	5.4
Manufacturing (excluding oil refineries)	(6.9)	2.9	0.7	3.1	2.6	2.2	4.7
Construction	18.3	4.0	14.7	0.5	2.6	1.2	(1.6)
Agriculture, livestock, hunting and forestry	4.3	0.4	7.5	0.9	0.1	(1.6)	4.6
Public administration and defense; social security	9.3	1.7	3.3	(0.1)	1.1	0.5	(0.4)
Financial intermediation services	2.2	37.6	9.7	10.5	10.3	12.9	8.5
Electricity and water	2.6	4.6	2.4	(3.0)	2.1	(0.4)	7.3
Fishing	(21.6)	2.8	5.7	5.4	4.2	(0.2)	11.3
Other services[(2)]	3.7	5.0	(0.3)	2.8	4.3	7.0	1.5
Private homes with domestic servants	2.4	2.8	1.7	(0.1)	1.3	1.1	1.7
Indirectly measured financial intermediation services	(1.3)	(33.2)	(0.4)	(2.1)	(15.1)	15.7	(11.7)
Manufacturing of refined petroleum products	(20.1)	7.8	(1.4)	1.5	(7.6)	7.9	(4.4)
Other elements of GDP	3.2	17.5	11.1	0.1	5.3	1.1	8.4
Total real GDP	2.8	5.1	3.4	2.7	6.9	8.1	3.1

(1) The mining sector includes the petroleum and petrochemicals sub-sector.
(2) Other services include hotels and restaurants, real estate, education, health and social services.
Source: Central Bank.

Mining (Petroleum and Petrochemicals)

Petroleum is Ecuador's most important mineral resource and constitutes the country's largest source of export revenues. Exports of petroleum and petrochemicals accounted for 40.8%, 41.9% and 54.6% of total exports in 2002, 2003 and 2004, respectively. The mining sector (including petroleum and petrochemicals) accounted for 19.4% of GDP in 2002, 20.2% in 2003, and 23.3% in 2004 and represented approximately 21.9%, 24.1% and 26% of the non-financial public sector's revenues in each of the respective years. During the first half of 2005, petroleum exports reached U.S.$2,358.6 million, accounting for 51.0% of total exports.

The following table sets forth certain information regarding the mining sector (including petroleum and petrochemicals) for the periods presented.

Petroleum and Petrochemicals
(in thousands of U.S.$, except for percentages)

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005
Petroleum exports	2,144,011	1,722,332	1,839,024	2,372,314	3,898,509	1,802,203	2,358,630
Petrochemical exports	297,795	176,723	215,226	232,286	333,942	146,811	261,930
Total of petroleum and petrochemical exports	2,441,806	1,899,055	2,054,250	2,604,600	4,232,451	1,949,014	2,620,560
Total exports	4,926,627	4,678,437	5,036,121	6,222,693	7,752,892	3,678,319	4,623,953
% petroleum and petrochemical exports /total exports	49.6%	40.6%	40.8%	41.9%	54.6%	53.0%	56.6%
Fuel and lubricant imports	298,204	296,630	284,429	674,158	784,621	393,414	486,077
Total imports	3,721,201	5,362,856	6,431,065	6,567,028	7,872,468	3,578,696	4,673,136
% Fuel and lubricant imports / total imports	8.0%	5.5%	4.4%	10.3%	10.0%	11.0%	10.4%
Non-financial public sector petroleum revenues	1,460,000	1,351,000	1,393,000	1,664,000	2,115,000	931,000	1,010,000
Total non-financial public sector revenues	4,126,000	4,962,000	6,360,000	6,908,000	8,177,000	3,888,000	4,364,000
% Non-financial public sector petroleum revenues /total non-financial public sector revenues	35.4%	27.2%	21.9%	24.1%	25.9%	23.9%	23.1%
Petroleum GDP (at constant 2000 prices)	2,001,206	2,164,327	2,018,737	2,257,405	3,007,011	1,507,592	1,485,894
Non-petroleum GDP (at constant 2000 prices)[1]	13,932,460	14,584,797	15,301,873	15,523,940	16,009,262	7,903,241	8,212,416
Total GDP	15,933,666	16,749,124	17,320,610	17,781,345	19,016,273	9,410,833	9,698,310
% Petroleum GDP / Total GDP	12.6%	12.9%	11.7%	12.7%	15.8%	16.0%	15.3%
Annual change of petroleum GDP (at constant 2000 prices)	0.9%	8.2%	(6.7)%	11.8%	33.2%	56.5%	(1.4)%
Annual change of non-petroleum GDP (at constant 2000 prices)	3.1%	4.7%	4.9%	1.5%	3.1%	2.1%	3.9%
Annual change of total GDP (at constant 2000 prices)	2.8%	5.1%	3.4%	2.7%	6.9%	8.1%	3.1%

(1) Includes tariffs, value-added taxes, indirect taxes on products and net taxes on imports.
Source: Ministry of Economy and Finance, Central Bank.

Ecuador has extensive but underdeveloped mineral resources, which include gold, silver, copper, iron, lead, zinc, uranium, magnesium, phosphates, limestone, kaolin, marble and sulfur.

Ecuador's oil reserves are currently exploited directly by the state-owned oil company, Petroecuador, and through participation or service contracts with other Ecuadorian or foreign corporations. Oil exploitation operations are conducted under the supervision and regulation of the *Ministerio de Energía y Minas* (the "Ministry of Energy and Mines") acting through the General Directorate of Hydrocarbons.

Petroecuador is divided into autonomous divisions, each with its own independent cost accounting and administration. One division, *Petroproducción*, is responsible for drilling, lifting and well management, while the Oil Pipeline Division is responsible for crude oil transport. *Petroindustrial* operates Ecuador's four refineries and *Petrocomercial* is responsible for distributing oil derivative products domestically. The International Trade Division is responsible for crude oil exports.

All revenues generated by Petroecuador are deposited at an account of the Ministry of Economy and Finance at the Central Bank. Petroleum revenues are allocated on a periodic basis to the Government and certain agencies and instrumentalities as set forth in "Public Sector Finances—Distribution of Petroleum Revenues." Prior to such allocation, the Ministry of Economy and Finance deducts the production costs of crude oil and its derivatives, as well as the costs of internal and external commercialization and transportation, and also sets the budget for petroleum related investments. The Ministry of Energy and Mines oversees the operations of Petroecuador and its subsidiaries.

Reserves

The following table sets forth Ecuador's crude oil and natural gas reserves for the periods indicated.

Reserves
(in millions of barrels for crude oil, years for ratios)

	As of December 31,				
	2000	**2001**	**2002**	**2003**	**2004**(1)
Crude oil	4,566.3	4,629.6	5,060.0	4,838.2	4,446.7
Crude oil reserves/production ratio	31.3	31.5	35.4	31.5	N/A

Note: N/A = Not Available
(1) Crude oil reserve information is presented through 2004, the last year for which it is available.
Source: Ministry of Energy and Mines.

Reserve classifications and methodologies used by Petroecuador differ in certain important respects from the reserve classifications and methodologies generally used by companies in the United States. Petroecuador reserve estimates focus on technical information and not on the economic feasibility of recovery, while U.S. estimates of reserves depend heavily on assumptions about the price of oil and the cost of production that determine the economic recovery rate achievable at a particular field. In addition, Petroecuador's reserve estimates have not been prepared or reviewed by an independent petroleum-engineering firm. Moreover, there are numerous uncertainties inherent in estimating quantities of crude oil and natural gas reserves. Accordingly, reserve estimates for Petroecuador included in this offering memorandum could be materially different from reserve estimates prepared in accordance with U.S. standards, or from the quantities of oil and gas that ultimately will be recovered.

Accounting

Accounting, auditing and financial reporting standards of Petroecuador are not comparable to those in the United States. Financial statements of Petroecuador have traditionally been prepared solely to comply with Ecuadorian tax requirements and are done in accordance with Ecuadorian Generally Accepted Accounting Principles (Ecuadorian GAAP), which are significantly different from U.S. GAAP. Because prices for domestic sales of petroleum derivatives have historically been set below international levels, the accounting system used by Petroecuador does not reflect true market valuations or opportunity costs.

Exploitation

Under the Constitution, all subsurface resources are property of the state. The Constitution, however, permits the Government to delegate the development of such resources to the private sector. Historically, foreign companies have played an important role in the development of oil production facilities. In 1982, the Hydrocarbons Law was amended to encourage foreign investment in Ecuador's petroleum sector, permitting Petroecuador to enter into service contracts with private oil companies. In December 1993, the Hydrocarbons Law was again amended to introduce participation contracts and marginal field contracts, and to terminate Petroecuador's monopoly in downstream activities and transfer the responsibility for dispute resolution under the various contracts from the Ministry of Energy and Mines to the Superior Courts of Justice.

Currently, hydrocarbon resources are exploited by the Government, through Petroecuador, which conducts activities directly through *Petroproducción* and also in combination with private sector companies, through either service, participation or marginal field contracts.

Under service contracts, a private company agrees to render to Petroecuador, at the company's own expense, exploration and exploitation services over specific areas. Petroecuador is required to repay amounts invested and costs incurred by the private company, plus a service fee. Additional returns are shared pursuant to formulas stated in each service contract.

Under participation or production-sharing contracts, Petroecuador delegates the exploitation and exploration of hydrocarbons to private companies. These companies explore and develop a designated area, bearing the entire cost and risk of investment. In return, each company receives an agreed percentage of the volume of oil extracted from the field subject to the contract.

Under marginal field contracts, private companies assume the costs and investment risk required to increase the production of existing fields. A "base curve" is established which consists of the projection of future production based on the historical production of each field, assuming that no additional investments are realized. All production under the "base curve" is owned by the Republic, although Petroecuador will recognize the private company's "base curve" production costs. Under the marginal field contracts, the private company must also transfer to Petroecuador a percentage of the production over the "base curve," agreed to in the marginal field contract. Under the Hydrocarbons Law, the Ministry of Energy and Mines may classify as a "marginal field" any field that produces crude oil with a sufficiently low API, that is sufficiently removed from petroleum infrastructure or that accounts for less than 1% of Ecuador's annual crude oil production.

The Government has periodically opened new blocks to exploration and exploitation through bidding rounds in which foreign and domestic corporations are invited to participate by responding to the Government's offer to enter into one or more of the forms of contract described above. Six bidding rounds took place between 1985 and 1990, resulting in the execution of thirteen service contracts for the exploration and exploitation of oil and gas deposits in thirteen blocks of territory: ten in the Oriente and three in the Guayas Province. As of December 31, 2004, twelve of these blocks have been renegotiated as participation contracts. In August 2005, several large and violent protests took place in the Amazon region of Ecuador. Among the protesters' demands were increases in the Government's share of the production from the contracts with private companies and greater investment in public infrastructure by the private oil companies working in the region. Protesters disrupted crude production and vandalized pipelines and pumping stations. In October 2005, Petroecuador's board of directors adopted the General Comptroller's recommendation to renegotiate all of the petroleum contracts according to the processes set forth in these contracts, which provide for mutual renegotiation of the contract terms by the parties thereto under certain circumstances. Petroecuador has started contract renegotiations with twenty-two of the private companies holding participation contracts. Among the changes being sought by Petroecuador is an increase in the 20% share it currently receives in the production of these contracts.

Following the 1993 amendment to the Hydrocarbons Law, two additional bidding rounds took place. Seven participation contracts were awarded in the seventh round, and three participation contracts were awarded in the eighth round.

In 2005, the Ministry of Energy and Mines and Petroecuador concluded the ninth round of bidding contracts, and awarded a new participation contract to Sundown-Clipper, a U.S. based consortium. However, this contract is currently under review after concerns about some of its provisions were voiced by a member of the *Comité Especial de Licitación Petrolera – CEL* (the "Special Committee for Petroleum Bidding"). Under the proposed contract, the Sundown-Clipper consortium would conduct hydrocarbon exploration and exploitation activities in the exploration of two blocks located in the Guayas Province.

Production

Ecuador's oil production increased from 400,000 bpd in 2000 to 526,000 bpd in 2004. This increase primarily reflects the additional transportation capacity resulting from the completion of the HCP, which motivated private companies to increase their production from 62.9 million barrels in 2002, to 79.0 million barrels in 2003 and

120.4 million barrels in 2004. During the first half of 2005, oil production (excluding private companies) was 36.2 million barrels, an increase of 4.0% over the same period in 2004.

Light crude oil constituted 65.5% of Ecuador's total production in 2004. Heavy crude oil accounted for approximately 34.5% of Ecuador's total production in 2004. As a general matter, light crude oil is sold at a premium on the international markets.

In 2004, 47.5% of Petroecuador's crude oil was exported to the United States, 18.6% to Central America and the Caribbean, 18.8% to South America, and 15.7% to Asia. Petroecuador currently exports crude oil of approximately 24° API which is predominantly obtained in the Northeastern Oriente region.

The following table sets forth Petroecuador's production, refinery consumption and exports of oil and related annual growth figures for the periods indicated.

Petroecuador's Production, Consumption Exports, Imports & Domestic Sales of Oil
(thousands of barrels, except percentages)

	2000		2001		2002		2003		2004		2004		2005	
	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth	Jan-June	Six month Growth	Jan-June	Six month Growth
Production	85,047	(5.0)%	82,930	(2.5)%	80,774	(2.6)%	74,514	(7.8)%	71,947	(3.4)%	34,813	(6.8%)	36,196	4.0%
Consumption (refineries)	58,468	—	57,131	(2.3)	55,416	(3.0)	51.500	(7.1)	61,355	19.1	30,993	18.5%	28,266	(8.8%)
Exports:														
Crude Oil	43,085	(23.8)	41,379	(4.0)	43,728	5.7	43,038	(1.6)	50,420	17.2	23,349	16.7%	26,886	15.1%
Derivatives	13,558	16.2	12,393	(8.6)	10,805	(12.8)	11,938	10.5	13,556	3.6	6,421	17.6%	7,584	18.1%
Total exports	56,642	(17.0)	53,772	(5.1)	54,533	1.4	54,976	0.8	63,976	16.4	29,770	16.9%	34,470	15.8%
Imports	9,047	(99.3)	12,556	38.8	14,607	16.3	17,107	17.1	18,235	6.6	7,336	(12.0%)	10,841	47.8%
Domestic sales (derivatives)	47,957	9.4	50,999	6.3	53,407	4.7	52,900	(0.9)	56,740	7.3	27,403	5.2%	29,240	6.7%

Source: Petroecuador and Central Bank

Transportation

Most of Ecuador's crude oil production is transported through the Trans-Ecuadorian Pipeline System (the "SOTE"), which links Lago Agrio in the Oriente to the Balao export terminal on the Pacific coast. Until 2004, a small portion of Ecuador's crude oil production was also transported through the Trans-Andean Pipeline which connected Ecuadorian fields in Lago Agrio to the Colombian export terminal of Orito. The SOTE was built by Texaco, and was transferred to Petroecuador in 1988. The SOTE has a capacity of approximately 390,000 bpd. In 2003, the SOTE transported 120 million barrels, averaging 328,732 bpd, a decrease of 9.3% as compared with 2002. The Trans-Andean Pipeline transported 2.49 million barrels in 2003, at an average of 6,820 bpd, a 9.7% increase as compared with 2002.

In June 2001, the Republic awarded the construction and operation of the HCP to Oleoducto de Crudos Pesados Ecuador S.A., a consortium of oil companies. The HCP was constructed at a cost of U.S.$1.4 billion, all of which was paid for by the consortium. Construction was completed in September 2003, and operations began in that same month. The contract for the operation of the HCP has a twenty-year duration, and terminates in 2023. At the expiration of this period, the HCP will become property of the Republic. The Ministry for Energy and Mines oversaw the construction of the HCP, and oversees its operation. The HCP is made up of two sections, the largest of which was designed to transport a maximum of 517,300 bpd and has a sustainable transportation rate of 450,000 bpd of crude oil of 18° to 24° API.

From September to December 2003, the HCP transported 18.2 million barrels of crude oil. In 2004, the first full-year of operations, the HCP transported 62.37 million barrels, or, an average of 170,888 bpd. As a result, the SOTE transported 118.44 million barrels in 2004, a decrease of 1.3% from 2003. From January to June 2005, the HCP transported 28.1 million barrels of crude oil and the SOTE transported 60.3 million barrels.

Given that Petroecuador has historically used a single pipeline, heavy and light crude oil has historically been mixed, resulting in a mixture of crude oil of approximately 24° API. Since the completion of the HCP, the possibility of transporting light crude oil through the SOTE and heavy crude oil through the HCP has been evaluated. However, Petroecuador has determined that, given the additional rates that would have to be paid to use the HCP, it is more cost effective for Petroecuador to continue to transport all of its crude oil through the SOTE. As a result, Petroecuador continues to mix light and heavy crude oil.

Refining

Petroecuador is the only company currently conducting refining activities in Ecuador. Petroecuador owns four refineries (Esmeraldas, La Libertad, Amazonas and Lago Agrio) with processing capacities of 110,000, 46,000, 20,000, and 1,000 bpd respectively. Petroecuador also owns one associated gas processing plant ("Shushufindi") with a processing capacity of 25 million cubic feet of liquefied petroleum gas.

A portion of the crude oil transported over the SOTE is earmarked directly for exportation while the balance flows into Petroecuador's refineries where it is processed into oil derivative products. The major portion of the oil derivatives produced at Ecuadorian refineries is sold domestically and a small portion is exported. Most of Petroecuador's petroleum derivatives exports are residues from the Libertad and the Esmeraldas refineries. Petroecuador imports derivatives, principally liquefied natural gas, high-octane naphta and diesel. Liquefied natural gas and diesel are also produced domestically, but local production is insufficient to meet domestic demand.

There is no private sector participation in the production of petroleum derivatives. In 2003, the Esmeraldas refinery processed 57% of the Republic's total derivatives production for domestic consumption, the Libertad refinery processed 25% of the Republic's total derivatives production for domestic consumption, and the Amazonas refinery processed 10% of the Republic's total derivatives production for domestic consumption (excluding the liquefied petroleum gas produced at Shushufindi). The Shushufindi Industrial Complex (consisting of the Amazonas refinery and the Shushufindi Gas Plant) processed 5.0 million barrels of crude oil and liquefied petroleum gas. The refineries processed a total of approximately 51.5 million barrels in 2003, compared to 55.4 and 57.1 million barrels in 2002 and 2001, respectively. Domestic consumption of petroleum derivatives during the same period was 52.9, 53.4 and 50.9 million barrels respectively, while petroleum derivatives imports reached 12.6, 14.6 and 17.1 million barrels in 2001, 2002 and 2003, respectively.

In 2004, the Esmeraldas refinery processed 61% of the Republic's total derivatives production for domestic consumption, the Libertad refinery processed 24% of the Republic's total derivatives production for domestic consumption, and the Amazonas refinery processed 6% of the Republic's total derivatives production for domestic consumption (excluding the liquefied petroleum gas produced at Shushufindi). Domestic consumption of petroleum derivatives during the year 2004 was 58.85 million barrels, while petroleum derivatives imports reached 18.2 million barrels.

During the first half of 2005, Republic's total petroleum production reached 96.33 million barrels. Domestic consumption of petroleum derivatives during the same period was 28.3 million barrels. The Esmeraldas refinery processed 58% of the Republic's total derivatives production for domestic consumption, the Libertad refinery processed 23% of the Republic's total derivatives production for domestic consumption, and the Amazonas refinery processed 11% of the Republic's total derivatives production for domestic consumption (excluding the liquefied petroleum gas produced at Shushufindi).

Distribution

In 1993, the Government implemented a free market in domestic fuel distribution which has led to a rapid modernization of distribution facilities. The price at which gasoline may be sold to domestic distributors is fixed by the President in accordance with the Hydrocarbons Law. The price at which Petroecuador sells gasoline to domestic distributors is set according to variables such as domestic demand and its impact on public finances. Until 1998, the

Government had fixed the maximum profit level for distributors at 18%. In 1999, the fixed margin was eliminated. In early 2000, the Government reinstated a 15% fixed margin for regular gasoline and diesel fuels (distributors remained free to set any margin for premium gasoline). Since 2003, the fixed margin has been fixed in cents per gallon. As of December 31, 2004, distributors were permitted to charge a margin of up to U.S.$0.171 per gallon for regular gasoline and U.S.$0.137 per gallon for diesel.

Six multinational petroleum companies, Shell, Repsol, Puma, Mobil, Tripetrol and Texaco, and several local companies have established service stations in Ecuador. Petroecuador also maintains one service station in Quito and 103 associated service stations in other parts of the country.

Agriculture, Livestock, Hunting and Forestry

Before the discovery of petroleum fields in the Oriente provinces in the 1970s, the agriculture, livestock, hunting and forestry sector had traditionally been the largest contributor to Ecuador's GDP. Of Ecuador's total 27.1 million hectares, 7.8 million are devoted to agriculture and livestock. Ecuador's diverse climatic conditions, varying altitudes and rich volcanic soil are well-suited to tropical and subtropical agriculture. Ecuador's primary products from this sector, which are also Ecuador's most significant non-oil export products, are bananas and shrimp. Ecuador also exports significant amounts of coffee, flowers, cacao, tuna and wood.

The agricultural, livestock, hunting and forestry sector grew 4.3%, 0.4%, 7.5% and 0.9% in 2000, 2001, 2002 and 2003, respectively, primarily due to diversification into non-traditional agricultural products such as flowers. In 2004, this sector grew by 0.1% and constituted 8.4% of Ecuador's GDP. During the first half of 2005, this sector grew 4.6%.

Ecuador is the world's leading exporter of bananas. Between 2001 and 2003, the volume of Ecuador's banana and plantain exports increased 28%. In 2004, Ecuador's banana and plantain exports decreased 7%, primarily as a result of lower international prices. In the first half of 2005, banana and plantain exports grew at a rate of 7.9%, as compared to the same period in 2004 reaching U.S.$551 million.

Ecuador also exports significant amounts of cacao. Cacao exports were U.S.$55 million, U.S.$91 million, U.S.$120 million and U.S.$103 million, in 2001, 2002, 2003 and 2004, respectively. In the first half of 2005, cacao exports reached U.S.$57 million, an increase of 6.5% over the same period in 2004.

Non-traditional agricultural products, primarily flowers, have increased substantially since 2000. Total non-traditional exports were U.S.$1.18 billion in 2000, U.S.$1.4 billion in 2001, U.S.$1.5 billion in 2002, U.S.$1.88 billion in 2003 and U.S.$1.8 billion in 2004. Flower exports grew 82% during the 2000-2004 period and during the first half of 2005 reached U.S.$212 million, an increase of 9.4% as compared to the same period in 2004.

Services

For purposes of internal analysis, the Republic aggregates the following sub-sectors of the economy into a single "services" sector: "construction," "electricity and water," "transportation, storage and communications" "wholesale and retail commerce," "public administration and defense; social security," "financial intermediation services," "private homes with domestic servants," and "other services which include hotels and restaurants, real estate, education, health and social services."

The services sector constituted approximately 52.3%, 51.6% and 49.8% of GDP in 2002, 2003 and 2004, respectively. From 2002 to 2004, the "transportation and storage," and the "wholesale and retail commerce" sub-sectors traditionally the largest components of the services sector, contributed an average 25.4% of GDP on an annual basis. The "transportation and storage" sub-sector increased by 3.5% in 2004, primarily as a result of the improvement in the oil sector and overall economic performance. During the first half of 2005, this subsector grew 3.4%, an increase of 4.2% compared to the same period in 2004. The "wholesale and retail commerce" sub-sector grew 4.3% in 2004, primarily as a result of overall improvement in the economy. During the first half of 2005 this subsector grew 1.9%, an increase of 5.4% compared to the same period in 2004.

Manufacturing

Manufacturing, excluding petroleum products, is dominated by consumer products such as food, beverages, textiles and paper, with a concentration on imported intermediate and capital goods. Ecuador's principal manufactured non-petroleum exports are canned seafood, automobile assemblies, processed coffee and cocoa. The manufacturing sector has improved since 2000, when it contracted by 6.9%, primarily as a result of increased investment and increased domestic demand. During 2001, 2002, 2003 and 2004 manufacturing grew 2.9%, 0.7%, 3.1% and 2.6%, respectively. Within the manufacturing sector, growth was substantial in the production of dairy, wheat, and beverages, as well as the processing and conservation of meat, among others. During the first half of 2005, this sector grew 2.8%, an increase of 4.7% compared to the same period in 2004.

Ecuador's membership in international trade organizations and its status as a party to various multilateral agreements has opened new markets for the sale of Ecuadorian goods abroad and challenged domestic manufacturers to operate more competitively. Non-traditional industrialized exports totaled U.S.$1.0 billion, U.S.$1.3 billion and U.S.$1.3 billion in 2002, 2003 and 2004, respectively. During the first half of 2005, those exports rose to U.S.$742 million, representing a 21% increase as compared with the first half of 2004. The manufacturing sector, excluding oil refineries, represented approximately 12.8% of GDP during the period from 2002 to 2004.

Fishing

Ecuador is the largest shrimp producer in the Americas, and the fourth largest producer in the world. Since 1999, global shrimp production has been adversely affected by ichthyophthirius, more commonly known as "white spot disease," a ciliated parasite capable of affecting virtually all fish species. Between 1999 and 2003, white spot disease resulted in the death of a significant number of shrimp, and in a prohibition on the importation of shrimp larvae into Ecuador. Ecuador's shrimp exports, however, remained relatively stable during this time period, and the Republic believes that the disease has been effectively controlled. Shrimp exports amounted to U.S.$330 million in 2004 or 9.4% of total non-petroleum exports, representing a 10.3% increase as compared with 2003. In the first half of 2005, shrimp exports rose to U.S.$219 million, representing a 33.8% increase as compared with the first half of 2004. The fishing sector represented approximately 1.4% of GDP during the period from 2002 to 2004.

Employment and Wages

The LET eliminated the concept of a minimum wage in the public sector and created the new concept of a unified wage (*remuneración unificada*) structure for public sector employees. In accordance with the LET, the *Consejo Nacional de Salarios* (the "National Council on Wages" or "CONADES") sets the minimum wage for workers in the private sector on an annual basis. Since the passage of LET, the monthly minimum wage for a job in the private sector has increased 164.8% (in nominal terms) from U.S.$56.65 at December 31, 2000 to U.S.$150.00 at March 31, 2005. Public sector employee wages are based on the wage scale determined under the 2003 Civil Service and Administrative Career Law.

The methodology used to calculate the national unemployment rate and the underemployment rate was changed in February 2003 to include census data from the 2001 census. As a result, the unemployment and the underemployment rates presented for 2003 and 2004 are not directly comparable to the rates presented for prior periods. The national unemployment and underemployment rates in 2004 were 9.9% and 42.5%, respectively. The national unemployment and underemployment rates as of June 2005 were 10.9% and 48.5%, respectively.

The following table sets forth information regarding the unemployment and underemployment rates and real minimum wages for the periods indicated.

Wages and Unemployment

	2001	2002	2003(1)(2)	2004(2)	June 2005(2)
Unemployment rate (% of economically active population)(3)	8.1%	7.7%	9.3%	9.9%	10.9%
Underemployment rate (% of economically active population)(4)	34.9%	30.7%	45.8%	42.5%	48.5%
Real minimum wage index(5)	92.0	95.8	103.3	106.5	110.3

(1) Due to a change in the methodology used to calculate the unemployment and underemployment rates, statistics for January 2003 are not included in this table.
(2) The methodology used to calculate the national employment rate and unemployment rate was changed in February 2003 to include census data from 2001. As a result, the unemployment and underemployment rates presented for 2003, 2004 and 2005 are not directly comparable to the rates presented for prior periods.
(3) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force. Unemployment statistics are reported by the Central Bank. Statistics reported by the Central Bank are gathered from the urban centers of Quito, Guayaquil, Cuenca and Ambato. Data is as of December of each year for 2001 – 2004. Data for 2005 is as of June 30, 2005.
(4) Refers to individuals who are unable to obtain full-time work, to receive a salary meeting the official minimum wage or to perform activities related to their training.
(5) Unless otherwise stated, data is for December of each year, and includes the private sector minimum wage and complementary remuneration. September 1994 through August 1995 is used as the base period of 100 for this index.

Source: Central Bank. Statistics on the unemployment rate until January 2003 are provided by the *Pontificia Universidad Católica del Ecuador*. Unemployment statistics for the period after January 2003 are provided by the Latin American Faculty of Social Sciences (*La Facultad Latinoamericana de Ciencias Sociales – FLACSO*).

The following table sets forth information concerning the income distribution by quintile of the population for the periods indicated.

Distribution of Income by Population Quintile
(in percentages)

	Poorest 20% of the Population	Second Quintile	Third Quintile	Fourth Quintile	Richest 20% of the Population
1990	4.6%	9.2%	13.7%	20.5%	52.0%
1995	4.1	8.7	13.0	19.2	54.9
2001	1.7	5.9	10.8	17.3	64.3
2002	2.4	7.1	11.9	18.9	59.8
2003	2.0	6.1	12.4	20.2	59.3

Source: Sistema Integrado de Indicadores Sociales del Ecuador (SIISE).

LEGAL PROCEEDINGS

Ecuador is involved in certain litigation, administrative arbitration proceedings described below, the adverse resolution of any of which could have a material adverse affect on Ecuador's ability to service its bonds. Ecuador can offer no assurances as to whether such proceedings will be successfully resolved in its favor.

Occidental and EnCana Value Added Tax Claims

On July 12, 2004, a tribunal of international arbitrators formed under the U.S.—Ecuador Bilateral Investment Treaty issued a decision awarding approximately U.S.$75 million to Occidental as compensation for certain value added tax refunds found to be owed to Occidental in connection with its operation of Block 15 in the Oriente region. Block 15 is one of Ecuador's most productive oil fields. The tribunal found that such refunds were wrongfully withheld by the Government through December 31, 2003, and the tribunal indicated that similar value added tax refunds should be paid going forward.

The Republic has appealed this decision before the Queen's Bench Division of the High Court of Justice in London based on jurisdictional grounds. Hearings on this appeal are scheduled for December 12 through December 16, 2005. The Republic can offer no assurance that the Government will prevail in its appeal. Other companies may bring legal proceedings against Ecuador on similar grounds. Rulings against Ecuador in these proceedings could have a material adverse affect on the Republic's finances and on its ability to service its public debt, including the bonds.

In November 2003, EnCana Corporation ("EnCana") filed a claim before a tribunal of international arbitrators formed under the Canada—Ecuador Bilateral Investment Treaty wherein EnCana claimed that it is owed approximately U.S.$80 million in value added tax refunds in connection with a number of crude oil exploration activities in Ecuador. The parties to the arbitration are awaiting the tribunal's decision. There can be no assurance as to the results of these legal proceedings or as to the timing of when such proceedings may be resolved.

Claims by petroleum companies in connection with value added taxes have also arisen in Ecuadorian courts. In 2001, Occidental, Perenco Ecuador Limited and Vintage Oil Ecuador S.A. brought claims against the Republic of U.S.$21.4 million, U.S.$7.4 million and U.S.$4.4 million, respectively. These claims have not been resolved yet, and it is unclear when resolution may be reached.

Occidental—Breach of Contract Claim

On September 16, 2004, Petroecuador sent Occidental a notice of breach of the participation contract for the exploration and exploitation of hydrocarbons in Block 15 alleging various grounds for forfeiture of the participation contract, including the unauthorized transfer of 40% of Occidental's rights and obligations under the participation contract to the EnCana. Block 15 is one of Ecuador's most productive oil fields. This notice initiated the forfeiture procedure set forth in the *Ley de Hidrocarburos* (the "Hydrocarbons Law") and the participation contract. On September 24, 2004, Occidental responded to the notice, and rejected all of the allegations contained in the notification of breach. On November 15, 2005, the Minister of Mines and Energy delivered a notice to Occidental requiring it to either remedy its alleged breaches under the participation contract or address in writing Ecuador's breach of contract claims. Occidental was given sixty days to respond to the notice. If Occidental fails to respond to the November 15, 2005 notice within the sixty day period, or an understanding is not otherwise reached within this period, forfeiture and termination of the Block 15 participation contract may result. Occidental could challenge such a result under a bilateral investment treaty entered into between the United States and Ecuador in August 1993, which sets forth certain procedures for dealing with investor disputes of this type. There can be no assurance that the potential forfeiture of the Block 15 participation contract will not have an adverse effect on the Republic's crude oil production, the Republic's ability to attract foreign investment and its ability to service the bonds.

Chevron Texaco

During the late 1960's, Texaco, now Chevron Texaco, operated a joint exploration concession with Gulf Oil Company in the Oriente region. In 1972, drilling operations began under the concession. In 1974, Petroecuador's predecessor company, CEPE, acquired 25% of the Texaco/Gulf concession. In 1977, CEPE bought Gulf's remaining interests and became a majority partner in the concession. Texaco remained in the consortium and served as the operator of the concession and the designer and builder of all of the consortium's facilities until 1989.

Chevron Texaco is currently facing claims brought by local residents and indigenous groups in Ecuador relating to environmental contamination alleged to have occurred as a result of the original consortium's activities in the Oriente region. The proceedings in Ecuador are in the discovery phase. Chevron Texaco has initiated arbitration proceedings against Petroecuador seeking to transfer all of these potential liabilities (currently estimated at U.S.$4 billion by the claimants) to Petroecuador, (i) as the successor to Gulf under the original consortium contract and (ii) based on an environmental release entered into by Petroecuador, the Republic and Texaco in 1998. Chevron Texaco has brought its claims against Petroecuador before the American Arbitration Association ("AAA"). The AAA proceeding is currently stayed while Ecuador contests the AAA's jurisdiction to hear Chevron Texaco's claims. In July 2005, a New York Federal Judge ordered a trial to determine whether the arbitration should be stayed indefinitely. There can be no assurance as to the results of these legal proceedings or as to the timing of their possible resolution.

EMELEC

In December 2004, the *Procuraduría General del Estado* (the "Office of the Attorney General") was sent written notice by a shareholder of the Empresa Eléctrica del Ecuador ("EMELEC") of a potential arbitration before the International Centre for the Settlement of Investment Disputes ("ICSID"). In its notice, the shareholder alleged that the Republic expropriated approximately U.S.$1.1 billion in assets owned by EMELEC. An arbitral tribunal has been empaneled and the Office of the Attorney General is currently preparing a defense. There can be no assurance as to the results of these legal proceedings or as to the timing of their possible resolution.

Duke Energy & Electroquil and Partners

Duke Energy & Electroquil and Partners is seeking approximately U.S.$25 million in damages from the Republic in an arbitration before the ICSID. The company is seeking to recover amounts it claims it is owed by Government owned distribution companies for unpaid invoices plus interest. The arbitral tribunal has been empaneled and the Republic's answer to the complaint was delivered on November 21, 2005.

Noble Energy and Machala Power

Noble Energy and Machala Power have initiated arbitration proceedings before the ICSID seeking approximately U.S.$27 million in damages from the Republic. This claim is based on amounts they claim they are owed for unpaid invoices plus interest. The parties are currently empaneling the tribunal.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

General

The balance of payments is used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of two accounts.

- the current account, which comprises:
    - — net exports of goods and services (the difference in values of exports minus imports);
    - — net financial and investment income;
    - — net transfers; and
- the capital and financial account, which is the difference between financial capital inflows and financial capital outflows.

Current Account

One of the most important components of the current account is the trade balance. The five primary factors that drive the trade balance are:

- the relative rate of economic growth of a country as compared to that of its trading partners—generally, if a country's economy grows faster than that of its trading partners, its relative level of consumption of goods and services will tend to rise, and its level of imports will tend to increase more rapidly than its level of exports;

- the relative level of domestic prices against foreign prices, as reflected by the real exchange rate—generally, if a country's domestic prices rise relative to those of its trading partners, there is a tendency for the country's level of exports to decline, and for its level of imports to increase;

- changes in production costs, technology, and worker skills—more efficient production will tend to lower production cost, which in turn will tend to lower prices. As prices fall, there will be a tendency for the country's level of exports to increase;

- changes in consumer tastes, which may affect the demand for a country's goods and services abroad, and the demand for foreign products in the domestic market; and

- sudden increases or decreases in the price for the major exports of a country.

In each of 2001, 2002 and 2003, the current account has been characterized by deficits, which have been substantially offset by capital and financial account surpluses. Ecuador recorded a current account deficit of U.S.$665.3 million in 2001, U.S.$1.4 billion in 2002 and U.S.$340.5 million in 2003, which represented 3.2%, 5.8% and 1.3% of GDP in 2001, 2002 and 2003, respectively. The Republic's current account deficit primarily reflected an increase in domestic consumption, as well as increased demand for imported consumer goods and a significant increase in the amount of construction materials and supplies that were imported to build the HCP. In recent years, the current account deficit has been increasingly offset by remittances from Ecuadorians working abroad. Such remittances increased from approximately U.S.$1.4 billion in 2001 to approximately U.S.$1.5 billion in 2003 and U.S.$1.6 billion in 2004, which is equivalent to 5.3% of GDP.

During 2004, the current account showed a deficit of U.S.$154.7 million (0.5% of the GDP), compared to a deficit of U.S.$340.5 million in 2003. During the first half of 2005, the current account showed a deficit of U.S.$101.9 million. The decrease in the deficit in 2004 and the first half of 2005 as compared to 2004 was primarily attributable to a favorable trade balance as a result of higher oil prices in the international market.

The following tables set forth information regarding the Republic's balance of payments for the periods indicated:

Balance of Payments
(in millions of U.S.$)

	2000	2001	2002(1)	2003(1)	2004(1)	Jan-June 2004(1)	Jan-June 2005(1)
Current account:							
Trade balance:							
Exports (FOB):							
Petroleum and derivatives	2,442.4	1,900.0	2,055.0	2,606.8	4,234.0	1,949.7	2,614.6
Non-petroleum	2,614.3	2,881.5	2,981.1	3,615.9	3,676.5	1,805.6	2,067.1
Total exports(3)	5,056.7	4,781.5	5,198.3	6,380.8	7,910.4	3,755.4	4,681.7
Imports (FOB)(4)	(3,657.4)	(5,178.7)	(6,196.0)	(6,294.4)	(7,497.3)	(3,417.4)	(4,434.5)
Trade balance(2)	1,399.3	(397.2)	(997.7)	86.5	413.1	338.0	247.1
Services:							
Transportation	(148.8)	(309.0)	(431.5)	(391.1)	(492.7)	(217.8)	(299.4)
Travel	103.0	90.0	83.3	52.0	(23.5)	(18.4)	(38.4)
Communications	23.0	76.9	86.7	97.8	93.9	50.8	42.0
Insurance	(31.8)	(64.6)	(130.4)	(114.7)	(134.5)	(74.2)	(74.4)
Government	12.0	23.6	22.2	18.8	(4.2)	(0.7)	12.7
Other	(377.4)	(388.8)	(378.0)	(397.1)	(407.8)	(202.0)	(208.2)
Total services	(420.0)	(571.9)	(747.7)	(734.2)	(968.8)	(462.4)	(565.7)
Investment Income:							
Inflows:							
Public sector interest	44.7	27.2	13.9	11.6	14.3	5.4	11.4

Balance of Payments
(in millions of U.S.$)

	2000	2001	2002[1]	2003[1]	2004[1]	Jan-June 2004[1]	Jan-June 2005[1]
Private sector interest	20.1	14.3	10.1	9.5	12.5	5.6	9.5
Others	5.6	6.1	6.0	6.0	6.0	3.0	3.2
Total inflows	70.5	47.5	29.9	27.1	32.8	14.1	24.2
Outflows:							
Public debt interest	(921.2)	(769.6)	(646.1)	(642.9)	(626.4)	(312.7)	(329.1)
Private debt interest	(274.2)	(273.0)	(379.4)	(475.7)	(533.2)	(284.8)	(253.8)
Others	(285.6)	(339.9)	(309.2)	(373.0)	(365.9)	(150.9)	(243.0)
Total outflows	(1,481.0)	(1,382.5)	(1,334.7)	(1,491.6)	(1,525.4)	(748.5)	(825.9)
Total investment (expense) income, net	(1,410.6)	(1,335.0)	(1,304.8)	(1,464.4)	(1,492.6)	(734.4)	(801.8)
Net transfers:							
Emigrant remittances	1,316.7	1,414.5	1,432.0	1,539.5	1,604.2	778.3	838.9
Other net transfers	35.1	224.3	219.7	232.3	289.4	138.2	179.5
Total net transfers	1,351.8	1,638.8	1,651.7	1,771.7	1,893.6	916.5	1,018.5
Current account balance	920.5	(665.3)	(1,398.5)	(340.5)	(154.7)	57.8	(101.9)
Capital and financial account:							
Inflows:							
Foreign direct investment	720.0	1,329.8	1,275.3	1,554.7	1,160.3	586.7	956.6
Public debt:							
Bonds	0.0	132.7	0.0	0.0	56.1	0.0	46.8
Loans & trade credits	747.1	826.2	569.4	728.6	374.2	143.7	139.7
Total public debt	747.1	958.9	569.4	728.6	430.3	143.7	186.4
Private debt:							
Loans	3,437.5	4,797.7	6,959.7	5,205.3	5,876.8	3,121.3	4,490.0
Import Financing	109.2	170.7	229.3	237.8	342.3	144.7	163.2
Other	0.1	191.8	16.9	26.3	44.5	12.7	10.7
Total inflows	5,013.9	7,448.9	9,050.7	7,752.7	7,854.3	4,009.0	5,807.0
Outflows:							
Public debt:							
Bonds	(5,582.8)	(16.5)	(1.1)	(1.1)	(1.1)	(0.5)	(2.2)
Loans & trade credits	(731.6)	(901.0)	(814.0)	(833.3)	(899.6)	(441.0)	(509.6)
Total public debt	(6,314.3)	(917.5)	(815.0)	(834.4)	(900.7)	(441.6)	(511.8)
Private debt	(3,742.6)	(3,991.0)	(5,103.5)	(5,427.6)	(5,053.4)	(2,831.6)	(3,370.3)
Other	(1,564.3)	(1,571.6)	(1,956.0)	(1,257.8)	(1,591.3)	(891.3)	(1,185.7)
Total outflows	(11,621.2)	(6,480.1)	(7,874.5)	(7,519.8)	(7,545.5)	(4,164.5)	(5,067.8)
Capital and financial account balance	(6,607.4)	968.8	1,176.2	232.9	308.8	(155.5)	739.1
Errors and omissions[5]	(20.4)	(533.6)	94.9	244.0	126.9	153.7	(478.3)
Total balance of payments	(5,707.3)	(230.1)	(127.5)	136.4	281.0	56.0	158.9
Financing:							
International reserves[6]	(307.0)	105.9	65.8	(152.4)	(276.9)	(56.4)	(148.9)
IMF loans	151.2	47.5	0.0	0.0	0.0	0.0	0.0
Exceptional financing, net[7]	5,863.1	76.8	61.7	16.0	(4.1)	0.4	(10.0)
Total financing	5,707.3	230.1	127.5	(136.4)	(281.0)	(56.0)	(158.9)

(1) Preliminary data.
(2) Includes unrecorded trade.
(3) Data includes non-registered exports.
(4) Data includes non-registered imports.
(5) Represents errors and omissions in compiling balance of payment accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.
(6) Includes other public and private transfers.
(7) After April 2000, this amount corresponds to freely disposable international reserves.

Source: Central Bank.

Capital and Financial Account

Ecuador registered capital and financial account surpluses of U.S.$968.8 million, U.S.$1.18 billion, and U.S.$232.9 million in 2001, 2002, and 2003, respectively. These capital account surpluses primarily reflected a significant increase in foreign direct investment in the period between 2001 and 2003, and an increase in public and private indebtedness. A substantial portion of the increase in foreign direct investment was attributable to investment in the HCP. Total foreign direct investment was U.S.$1.33 billion in 2001 (equivalent to 6.3% of GDP), U.S.$1.28 billion in 2002 (equivalent to 5.2% of GDP), U.S.$1.55 billion in 2003 (equivalent to 5.7% of GDP) and U.S.$1.16 billion in 2004 (equivalent to 3.8% of GDP).

During 2004, the capital and financial account registered a surplus of approximately U.S.$308.8 million, compared to a surplus of U.S.$232.9 million for 2003. The increase in the surplus was due to an increase in the external debt held by the private sector. The overall decrease in the capital and financial account surplus during the period from 2003-2004, as compared to 2001-2002, was due primarily to a decrease in foreign direct investment after the completion of the HCP, as well as decreased net public indebtedness.

During the first half of 2005, the capital account registered a surplus of U.S.$739.1 million, as compared to a deficit of U.S.$155.5 million during the same period in 2004 due to an increase in foreign direct investment, which was primarily in the petroleum sector.

Foreign Trade

Merchandise and Services Trade

Ecuador has historically been an exporter of primary goods and an importer of raw materials, capital and intermediate goods and manufactured products. Since 1972, exports of petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. In 2001, 2002, 2003 and 2004, exports of petroleum and petroleum derivatives accounted for approximately 40.6%, 40.8%, 41.9% and 54.6%, respectively, of total exports. Between 2000 and 2004, non-traditional exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased an average of 10.3%.

During the first half of 2005, non-traditional exports rose to U.S.$1.06 billion, compared to U.S.$899 million in the same period of 2004.

In 2001, Ecuador’s total export trade, which had grown steadily during the period between 1998 and 2000, decreased by U.S.$248 million as a result of the decrease in the price of crude oil in the international markets. However, exports recovered during the period between 2002 and 2004, growing 7.6%, 23.6% and 24.6% in 2002, 2003 and 2004, respectively, principally due to a recovery in the international price for crude oil and the higher prices obtained for non-petroleum exports during the 2002 to 2004 period. During the first half of 2005, total exports rose to U.S.$4.62 billion compared to U.S.$3.68 billion during the same period in 2004.

Trade Policy

Ecuador’s trade policy has focused on the integration of the country into the international economy, as well as increasing the access of Ecuadorian goods and services to new markets, and reducing non-tariff barriers to trade.

Until the late 1980s, Ecuador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290%, with up to fourteen different rates.

In the early 1990s, the Government began to significantly liberalize its foreign trade policy. As a result of those reforms, the tariff structure was simplified, and currently consists of a seven-tiered structure (0%, 3%, 5%, 10%, 15%, 20% and 35%), with levels of 5% for most raw materials and capital goods, 10% or 15% for intermediate goods and 20% for most consumer goods. A small number of products, including planting seeds, are subject to a tariff rate of zero, and the 35% tariff is exclusively applied to the automobile industry. Average tariff levels were reduced from 29% in 1989 to 6% in 2004.

The Government has also attempted to reduce many non-tariff barriers to trade. However, prior authorization for importation of all goods is still required before the Central Bank may issue an import license. The Government requires prior authorization for importation of most commodities, seeds, animals, plants (other than wheat), processed, canned and packaged foods and food ingredients and beverages, and the Government has maintained a ban on the import of used motor vehicles, used auto parts and clothing.

The Government has eliminated most export license requirements, and has generally replaced them with reporting requirements aimed at ensuring the collection of data related to foreign trade.

The Government has also sought to support the export and import sectors by implementing a number of tax programs, such as the drawback regimen, which permits exporters to obtain total or partial reimbursement of tariff duties and other taxes established under special laws payable on imports of products to be included in other products intended for export. Similarly, the Government has also implemented a program that has been in effect since January 2004, which reduces transaction costs for importers by electronically reimbursing exporters for certain taxes paid on imports.

Regional Integration and Free Trade

Ecuador has benefited from regional trade initiatives that have opened up the markets of neighboring South American nations and other nations in the region. Increased access to international markets and liberalization of trade barriers are components of Ecuador's plan to increase the international competitiveness of its exports, to improve export revenues and to encourage foreign investment.

In recent years, Ecuador has intensified its efforts to strengthen its trade arrangements with its primary trading partners, including:

- removing regional trade restrictions as a member of ALADI (a regional external trade association that includes Ecuador, Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela);
- reducing or eliminating tariff barriers to trade as a member of the Andean Community;
- entering into bilateral trade agreements with Colombia, Venezuela and Bolivia that are aimed at levying uniform tariffs on goods from third parties;
- entering into bilateral trade agreements with the United States and Chile that liberalized trade with these countries;
- participating in the FTAA negotiations;
- entering into, as part of the Andean Community, a free trade agreement with Mercosur, which resulted in the creation of the South American free trade area;
- negotiating, with Colombia and Peru, a free trade treaty with the United States;
- negotiating, as part of the Andean Community, a free trade agreement with the European Union. See "Republic of Ecuador —International and Regional Relations;" and
- obtaining preferential access to United States markets of certain goods under the ATP-DEA.

The following table sets forth information regarding exports for the periods indicated.

Exports (FOB) [1]
(in millions of U.S.$ and as % of total exports)

	2000		2001		2002		2003		2004[2]		Jan-June 2004[2]		Jan-June 2005[2]	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Crude oil	2,144	43.5%	1,722	36.8%	1,839	36.5%	2,372	38.1%	3,899	50.3%	1,802	49.0%	2,359	51.0%
Bananas and plantains	821	16.7	865	18.5	969	19.3	1,101	17.7	1,024	13.2	510	13.9	551	11.9
Petroleum derivatives	298	6.1	178	3.8	216	4.3	235	3.8	335	4.3	148	4.0	256	5.5
Shrimp	285	5.8	281	6.0	253	5.0	299	4.8	330	4.3	164	4.5	219	4.7
Cocoa and cocoa products	77	1.6	87	1.9	129	2.6	170	2.7	154	2.0	77	2.1	89	1.9
Coffee and coffee products	46	0.9	44	0.9	42	0.8	70	1.1	84	1.1	34	0.9	44	1.0
Tuna and other fish	72	1.5	87	1.9	88	1.8	98	1.6	82	1.1	44	1.2	50	1.1
Other products [3]	1,182	24.0	1,415	30.2	1,500	29.8	1,879	30.2	1,845	23.8	899	24.4	1,057	22.9
Total	4,927	100.0%	4,678	100.0%	5,036	100.0%	6,223	100.0%	7,753	100.0%	3,678	100.0%	4,624	100.0%

(1) Data is for registered exports only, while the balance of payments figures also include non-registered exports, which explains why total exports differ from those in the balance of payments.
(2) Preliminary data.
(3) "Other products" consist of non-traditional primary and manufactured products, including canned seafood, flowers, vehicles, manufactured metals and chemicals.
Source: Central Bank.

The following table sets forth information regarding imports for the periods indicated.

Imports (CIF) [1]
(in millions of U.S.$ and as a % of total imports)

	2000		2001		2002		2003		2004[2]		Jan-June 2004[2]		Jan-June 2005[2]	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Consumer goods	821	22.1%	1,419	26.5%	1,802	28.0%	1,875	28.6%	2,191	27.8%	934	26.1%	1,169	25.0%
Non-durable goods	493	13.3	765	14.3	970	15.1	1,071	16.3	1,268	16.1	546	15.3	671	14.4
Durable goods	328	8.8	654	12.2	832	12.9	804	12.2	924	11.7	389	10.9	498	10.7
Primary materials	1,658	44.6	1,983	37.0	2,320	36.1	2,221	33.8	2,840	36.1	1,320	36.9	1,660	35.5
Agriculture	237	6.4	255	4.8	266	4.1	289	4.4	392	5.0	193	5.4	192	4.1
Industrial	1,330	35.7	1,549	28.9	1,702	26.5	1,746	26.6	2,237	28.4	1,026	28.7	1,313	28.1
Construction materials	91	2.4	180	3.4	352	5.5	187	2.8	210	2.7	101	2.8	155	3.3
Capital goods	942	25.3	1,661	31.0	2,022	31.4	1,795	27.3	2,055	26.1	930	26.0	1,355	29.0
Agriculture	27	0.7	42	0.8	32	0.5	37	0.6	39	0.5	18	0.5	25	0.5
Industrial	564	15.2	940	17.5	1,221	19.0	1,181	18.0	1,350	17.2	593	16.6	875	18.7
Transportation equipment	351	9.4	679	12.7	769	12.0	577	8.8	667	8.5	319	8.9	454	9.7
Fuel and combustibles	298	8.0	297	5.5	284	4.4	674	10.3	785	10.0	393	11.0	486	10.4
Other	2	0.1	3	0.1	2	—	1	—	1.5	—	1	0	4	0.1
Total	3,721	100.0%	5,363	100.0%	6,431	100.0%	6,567	100.0%	7,872	100.0%	3,579	100.0%	4,673	100%

(1) Data is for registered imports only, while the balance of payments figures also include non-registered imports, which explains why total imports differ from those in the balance of payments.
(2) Preliminary data.
Source: Central Bank.

Composition of Free Trade

The Republic's largest trading partners are the United States, the European Union and Colombia. The following table sets forth the country of destination of the Republic's exports:

Exports (FOB)
(in millions of U.S.$ and as a % of total exports)

	2000		2001		2002		2003		2004[(1)]		Jan-June 2004[(1)]		Jan-June 2005[(1)]	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.	%	U.S.	%
Americas														
United States	1,875	38.1%	1,790	38.3%	2,087	41.4%	2,531	40.7%	3,298	42.5%	1,560	42.4%	2,144	46.4%
Colombia	268	5.4	324	6.9	363	7.2	376	6.0	335	4.3	152	4.1	223	4.8
Venezuela	118	2.4	166	3.5	65	1.3	59	1.0	126	1.6	47	1.3	49	1.1
Other countries	1,191	24.2	1,041	22.2	993	19.7	1,438	23.1	2,256	29.1	1,033	28.1	1,311	28.4
Total Americas	3,452	70.1	3,320	71.0	3,507	69.6	4,403	70.8	6,016	77.6	2,792	75.9	3,727	80.6
Europe														
European Union (EU)														
Italy	163	3.3	203	4.3	290	5.8	381	6.1	356	4.6	191	5.2	192	4.2
United Kingdom	33	0.7	37	0.8	52	1.0	63	1.0	76	1.0	39	1.1	35	0.8
Germany	126	2.6	153	3.3	172	3.4	216	3.5	198	2.6	97	2.6	98	2.1
Spain	73	1.5	71	1.5	66	1.3	154	2.5	115	1.5	53	1.4	104	2.2
Other countries	216	4.4	202	4.3	215	4.3	263	4.2	289	3.7	137	3.7	193	4.2
Total EU	611	12.4	666	14.2	795	15.8	1,077	17.3	1,034	13.3	518	14.1	621	13.4
Rest of Europe	158	3.2	179	3.8	243	4.8	294	4.7	298	3.8	134	3.6	185	4.0
Total Europe	768	15.6	845	18.1	1,038	20.6	1,371	22.0	1,332	17.2	652	17.7	806	17.4
Asia														
Taiwan	29	0.6	20	0.4	7	0.1	4	0.1	4	0.1	2	0.1	2	0.1
Japan	131	2.7	123	2.6	98	1.9	89	1.4	79	1.0	40	1.1	37	0.8
Other countries	419	8.5	303	6.5	349	6.9	296	4.8	293	3.8	179	4.9	41	0.9
Total Asia	579	11.8	446	9.5	454	9.0	389	6.3	376	4.8	220	6.0	80	1.7
Africa	2	–	3	0.1	3	0.1	28	0.4	12	0.2	6	0.2	3	0.1
Oceania	21	0.4	21	0.5	17	0.3	14	0.2	16	0.2	8	0.2	7	0.2
Other countries	105	2.1	43	0.9	18	0.4	18	0.3	1	–	1	0.0	0	0.0
Total	4,927	100.0%	4,678	100.0%	5,036	100.0%	6,223	100.0%	7,753	100.0%	3,678	100.0%	4,624	100.0%

(1) Preliminary data.
Source: Central Bank.

The following table sets forth the country of origin of the Republic's imports for the periods presented.

Imports (CIF)
(in millions of U.S.$ and as a % of total exports)

	2000		2001		2002		2003		2004[(1)]		Jan-June 2004[(1)]		Jan-June 2005[(1)]	
	U.S.$	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.**	**%**	**U.S.**	**%**
Americas														
United States	932	25.0%	1,326	24.7%	1,481	23.0%	1,408	21.4%	1,625	20.6%	778	21.7%	918	19.7%
Colombia	500	13.4	770	14.4	902	14.0	938	14.3	1,151	14.6	508	14.2	649	13.9
Venezuela	265	7.1	294	5.5	353	5.5	379	5.8	531	6.7	240	6.7	239	5.1
Other countries	855	23.0	1,234	23.0	1,664	25.9	1,894	28.8	2,269	28.8	1,049	29.3	1,394	29.8
Total Americas	2,552	68.6	3,624	67.6	4,400	68.4	4,619	70.3	5,575	70.8	2,575	72.0	3,200	68.5
Europe														
European Union (EU)														
Italy	54	1.5	110	2.0	143	2.2	112	1.7	97	1.2	45	1.3	53	1.1
United Kingdom	40	1.1	44	0.8	64	1.0	48	0.7	54	0.7	25	0.7	44	1.0
Germany	118	3.2	178	3.3	182	2.8	178	2.7	207	2.6	94	2.6	119	2.5
Spain	59	1.6	101	1.9	138	2.1	139	2.1	123	1.6	59	1.6	72	1.5
Other countries	142	3.8	232	4.3	364	5.7	338	5.2	334	4.2	136	3.8	223	4.8
Total EU	412	11.1	665	12.4	890	13.8	815	12.4	814	10.3	360	10.1	511	10.9
Rest of Europe	133	3.6	150	2.8	123	1.9	116	1.8	221	2.8	108	3.0	106	2.3
Total Europe	545	14.6	815	15.2	1,013	15.7	931	14.2	1,035	13.1	467	13.1	616	13.2
Asia														
Taiwan	43	1.1	63	1.2	66	1.0	74	1.1	67	0.9	30	0.9	48	1.0
Japan	296	8.0	351	6.6	392	6.1	275	4.2	302	3.8	146	4.1	166	3.6
Other countries	206	5.5	421	7.8	509	7.9	640	9.8	860	10.9	340	9.5	603	12.9
Total Asia	545	14.6	835	15.6	967	15.0	989	15.1	1,229	15.6	516	14.4	817	17.5
Africa	42	1.1	38	0.7	14	0.2	8	0.1	4	0.1	2	0.1	34	0.7
Oceania	5	0.1	11	0.2	13	0.2	15	0.2	19	0.2	12	0.3	5	0.1
Other countries	32	0.9	41	0.8	25	0.4	5	0.1	9	0.1	6	0.2	0.2	0.0
Total	3,721	100.0%	5,363	100.0%	6,431	100.0%	6,567	100.0%	7,873	100.0%	3,579	100.0%	4,673	100.0%

(1) Preliminary data.
Source: Central Bank.

Foreign Direct Investment

The Republic's foreign investment policy is governed largely by national implementing legislation for the Andean Community's Decisions 291 of 1991 and 292 of 1993. Generally, foreign investors are accorded the same rights of establishment as Ecuadorian private investors, and may own up to 100% of enterprises in most sectors without prior Government approval and face the same tax regime. There are no controls or limits on transfers of profits or capital.

Certain sectors of Ecuador's economy are reserved to the state. All foreign investment in petroleum exploration and development in Ecuador must be carried our under contracts with Petroecuador. See "The Ecuadorian Economy—Principal Sectors of the Economy—Mining (Petroleum and Petrochemicals)."

Foreign direct investment in 2003 totaled U.S.$1.6 billion, a 22% increase as compared to the level of foreign direct investment in 2002. In 2001, foreign direct investment totaled U.S.$1.3 billion, an 84.7% increase over the level in 2000. In each case, the increase in foreign direct investment was primarily attributable to increased investment in the mining sector generally, and in the construction of the HCP in particular. As of December 31, 2003, 53.3% of Ecuador's total direct foreign investment was in the mining sector.

During 2004, foreign direct investment decreased approximately 25.4%, as compared with 2003. This decline, from U.S.$1.6 billion in 2003 to U.S.$1.2 billion during 2004, was primarily attributable to less foreign direct investment in the mining sector since the completion of the HCP. During the first half of 2005, foreign direct investment increased by 63% over the same period in 2004, this increase was primarily attributable to foreign investment in the petroleum sector.

The following table sets forth information on foreign direct investment by sector for the periods indicated.

Foreign Investment by Sector
(in millions of U.S.$ and as a % of total foreign investment)

	2000		**2001**		**2002**		**2003**		**2004[1]**		**Jan-June 2004[1]**		**Jan-June 2005[1]**	
	U.S.$	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.$**	**%**	**U.S.$**	**%**
Mining[2]	680.4	94.5%	1,119.9	84.2%	1,062.6	83.3%	828.1	53.3%	903.1	77.8%	506.5	86.3%	871.3	91.1%
Services rendered to firms	15.3	2.1	11.7	0.9	63.0	4.9	89.2	5.7	39.7	3.4	14.6	2.5	3.2	0.3
Construction	0	0	55.3	4.2	5.6	0.4	441.7	28.4	31.0	2.7	5.4	0.9	0.1	0.0
Manufacturing	9.6	1.3	59.1	4.4	56.5	4.4	71.0	4.6	36.9	3.2	21.5	3.7	28.7	3.0
Commerce	13.0	1.8	54.0	4.1	45.4	3.6	50.4	3.2	49.7	4.3	24.0	4.1	28.9	3.0
Agriculture, forestry, hunting and fishing	1.3	0.2	18.7	1.4	15.0	1.2	48.4	3.1	41.2	3.6	3.1	0.5	22.3	2.3
Transportation, storage and telecommunications	0.2	0	10.8	0.8	22.1	1.7	24.8	1.6	52.2	4.5	11.6	2.0	1.9	0.2
Social and personal services	0.2	0	0.2	—	3.4	0.3	0.9	0.1	0.5	0.0	0.0	0.0	0.2	0.0
Electricity, natural gas and water	0	0	—	—	1.7	0.1	0.3	0.0	6.0	0.5	0.0	0.0	0	—
Total	720.0	100.0%	1,329.8	100.0%	1,275.3	100.0%	1,554.7	100.0%	1,160.3	100.0%	586.7	100.0%	956.6	100.0%

(1) Preliminary data.
(2) The mining sector includes the petroleum and petrochemicals sub-sectors.
Source: Central Bank.

The following table sets forth information on foreign direct investment by country of origin for the periods indicated.

Foreign Investment by Country of Origin
(in thousands of U.S.$ and as a % of total foreign investment)

	2000		2001		2002[(1)]		2003[(1)]		2004[(1)]		Jan-June 2004[(1)]		Jan-June 2005[(1)]	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Americas	468,014.0	65.0%	1,009,753.8	75.9%	924,449.0	72.5%	1,219,412.6	78.4%	906,033.1	78.1%	439,394.4	74.9%	705,396.5	73.7%
United States	235,284.9	32.7	317,038.8	23.8	391,899.7	30.7	204,326.8	13.1	309,705.4	26.7	163,745.8	27.9	178,889.6	18.7
Andean Community	1,284.0	0.2	1,063.0	0.1	7,616.9	0.6	11,055.8	0.7	12,099.5	1.0	3,526.1	0.6	2,324.8	0.2
Colombia	140.4	0.0	944.0	0.1	5,296.9	0.4	7,696.3	0.5	4,770.2	0.4	3,344.1	0.6	1,165.2	0.1
Bolivia	—	0.0	0.8	0.0	—		253.5	0.0	2.7	0.0	0.7	0.0	16.3	0.0
Peru	1,126.5	0.2	39.3	0.0	327.8	0.0	1,022.7	0.1	504.7	0.0	120.9	0.0	1,124.9	0.1
Venezuela	17.2	0.0	78.8	0.0	1,992.2	0.2	2,083.3	0.1	6,821.9	0.6	60.4	0.0	18.4	0.0
Rest of Americas	231,445.2	32.1	691,652.0	52.0	524,932.5	41.2	1,004,030.0	64.6	584,228.3	50.4	272,122.5	46.4	524,182.1	54.8
Dutch Antilles	9.8	0.0	181.1	0.0	—		748.0	0.0	559	0.0	—	0.0	25.9	0.0
Argentina	24,884.3	3.5	63,697.5	4.8	58,232.1	4.6	20,721.4	1.3	24,759.6	2.1	17,308.4	2.9	15,414.2	1.6
Bahamas	20.9	0.0	31,074.0	2.3	10,980.7	0.9	20,945.8	1.3	9,673.1	0.8	1,249.4	0.2	19,080.9	2.0
Bermudas	2,900.0	0.4	—	0.0	103.9	0.0	—		—	0.0	—	0.0	0.4	0.0
Brazil	10,862.7	1.5	7.5	0.0	1,495.2	0.1	34,295.7	2.2	29,762.7	2.6	20,540.9	3.5	62,671.1	6.6
Canada	170,775.9	23.7	429,799.8	32.3	352,321.3	27.6	328,339.4	21.1	303,268.2	26.1	170,682.0	29.1	327,194.9	34.2
Chile	7,349.3	1.0	21,831.0	1.6	20,133.3	1.6	1,869.8	0.1	57,540.6	5.0	28,377.0	4.8	26,658.1	2.8
Virgin Islands	3,153.7	0.4	3,575.9	0.3	21,642.1	1.7	47,231.7	3.0	56,181.4	4.8	8,974.2	1.5	8,302.8	0.9
Cayman Islands	5.3	0.0	67,346.6	5.1	8,488.4	0.7	457,442.7	29.4	39,316.8	3.4	13,886.6	2.4	8,446.2	0.9
Mexico	2.3	0.0	12.6	0.0	51.5	0.0	5,425.9	0.3	56.4	0.0	26.0	0.0	20.2	0.0
Panama	11,475.9	1.6	73,784.0	5.5	44,057.4	3.5	84,352.9	5.4	61.526.8	5.3	10,411.3	1.8	56,259.7	5.9
Uruguay	2.3	0.0	326.6	0.0	3,582.1	0.3	990.8	0.1	778.2	0.1	3.1	0.0	0.1	0.0
Other Countries	2.9	0.0	15.4	0.0	3,844.5	0.3	1,666.0	0.1	805.5	0.1	663.7	0.1	107.6	0.0
Europe	171,904.9	23.9	235,231.4	17.7	269,339.5	21.1	284,077.3	18.3	189,459.4	16.3	105,682.3	18.0	171,192.4	17.9
Germany	5,421.9	0.8	30,485.1	2.3	14,358.4	1.1	30,673.9	2.0	20,815.5	1.8	12,551.3	2.1	12,137.3	1.3
Belgium and Luxembourg	1,608.9	0.2	7,022.7	0.5	9,125.2	0.7	700.7	0.0	274.7	0.0	9.5	0.0	4,000.6	0.4
Denmark	0.3		—	0.0	44.7	0.0	0.3	0.0	2.5	0.0	2.5	0.0	2.2	0.0
Spain	85,733.5	11.9	85,369.6	6.4	87,427.1	6.9	48,853.7	3.1	48,906.8	4.2	33,579.0	5.7	80,845.6	8.5
France	53.9	0.0	12.1	0.0	1,127.0	0.1	63,302.7	4.1	43,899.4	3.8	27,482.4	4.7	26,306.1	2.7
Holland	10,613.4	1.5	5,358.8	0.4	189.7	0.0	10,049.7	0.6	5,540.7	0.5	7.6	0.0	1,521.4	0.2
Great Britain	1,635.3	0.2	10,072.7	0.8	32,090.1	2.5	14,543.9	0.9	3,366.0	0.3	606.2	0.1	2,134.7	0.2
Italy	66,803.2	9.3	87,173.5	6.6	109,112.2	8.6	54,093.9	3.5	48,861.4	4.2	24,433.1	4.2	44,220.2	4.6
Sweden	8.2	0.0	2.1	0.0	1,849.1	0.1	12.0	0.0	1.3	0.0	1.3	0.0	—	0.0
Switzerland	2.5	0.0	3,946.1	0.3	5,290.9	0.4	53,240.5	3.4	7,108.8	0.6	3.9	0.0	18.0	0.0
Other countries	23.9	0.0	5,788.6	0.4	8,725.0	0.7	8,605.9	0.6	10,682.4	0.9	7,005.6	1.2	6.2	0.0
Japan	541.9	0.1	3,742.8	0.3	3,779.5	0.3	3,872.7	0.2	538.2	0.0	—	0.0	—	0.0
Other countries	79,566.2	11.1	81,093.0	6.1	77,729.4	6.1	47,374.7	3.0	64,262.2	5.5	41,660.7	7.1	80,011.4	8.4
Total	720,027.1	100.0%	1,329,820.9	100.0%	1,275,297.4	100.0%	1,554,737.3	100.0%	1,160,292.9	100.0%	586,737.4	100.0%	956,600.3	100.0%

(1) Preliminary data.
Source: Central Bank.

THE MONETARY SYSTEM

The Central Bank

Prior to 1998, the Central Bank was responsible for implementing financial policies of the Government, and its board was comprised of individuals from the public and private sectors. Beginning in 1998, the Central Bank became an autonomous Government agency that executed the monetary, financial, credit and exchange rate policies formulated by the Board of Directors of the Central Bank. The General Manager of the Central Bank is appointed by its Board of Directors for a four-year term.

By law, the Central Bank functions as the financial agent of the Government. The Central Bank may not extend credit to or issue guarantees in favor of the Government or any public sector entity without the prior consent of the Board of Directors. The Central Bank may only extend credit, on a temporary and secured basis, to an Ecuadorian financial institution to provide for such institution's continued liquidity.

The Central Bank acts as the manager of the public sector's accounts, and provides financial services to all public sector institutions that are required to hold their deposit accounts in the Central Bank. Management of these accounts primarily involves transfer operations between entities, including from the Government to other entities, and transfers to accounts in other banks, both foreign and domestic. The Central Bank is also the manager of Ecuador's banking system. All domestic banks conduct their clearing operations through the Central Bank and hold their liquidity reserves at the Central Bank.

In addition, the Central Bank monitors economic growth and economic trends. To accomplish this task, the Central Bank has developed statistical and research methodologies to conduct analyses and policy recommendations on various economic issues.

The functions of the Central Bank have been sharply reduced as a result of the Dollarization Program. The Central Bank no longer sets monetary policy or exchange rate policy for the Republic and the Ecuadorian economy is now directly affected by U.S. monetary policy, including U.S. interest rate policy. The LET, which made the U.S. dollar legal tender in Ecuador, provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per 1 U.S. dollar. The LET also prohibited the Central Bank from incurring any additional sucre-denominated liabilities, and required that the Central Bank redeem on demand sucre coins and bank notes for U.S. dollars.

The LET established the opening of four operating accounts at the Central Bank. The first account maintains freely disposable international reserves necessary to back any outstanding U.S. dollar backed coins minted in Ecuador. The second account maintains freely disposable international reserves that back the Central Bank's liabilities to Ecuador's private sector. By law, the Central Bank is permitted to operate a banking system liquidity recycling facility. The third account is funded by remaining disposable international reserves, by the placement of U.S. dollar-denominated Central Bank notes in the local market and by repurchase operations. The fourth account covers all of the remaining assets and liabilities of the Central Bank.

The following table sets forth the composition of the Central Bank's balance sheet at December 31, 2004.

Balance Sheet of the Central Bank
(in millions of U.S.$)

	As of December 31, 2004(1)
Account one:	
Assets:	
Freely disposable international reserves (1/3)	58.1
Liabilities:	
Currency in circulation	(58.1)
Account two:	
Assets:	
Freely disposable international reserves (2/3)	332.8
Liabilities:	
Bankers' deposits	(332.8)
Account three:	
Assets:	
Remaining freely disposable international reserves (3/3)	1,046.4
Government notes	556.5
Repurchase agreements	—
Total account three assets	(1,602.9)
Liabilities:	
Public sector deposits (non financial)	(1,505.5)
Obligations to multilateral financial institutions	(54.0)
Central Bank U.S. dollar notes	(31.2)
Non-banking private sector deposits	(12.1)
Total account three liabilities	(1,602.9)
Account four:	
Assets:	
Other foreign assets	593.0
Other domestic assets(2)	1,341.2
Total account four assets	1,934.2
Liabilities:	
Other foreign liabilities	—
Other domestic liabilities	(1,934.1)
Total account four liabilities	(1,934.1)
Total assets	3,927.9
Total liabilities	(3,927.9)

(1) Preliminary data.
(2) Includes U.S.$599.0 million of U.S. dollar notes.
Source: Central Bank.

Freely Disposable International Reserves

As of June 30, 2005, freely disposable international reserves were U.S.$1.59 billion, a 10.4% increase from December 31, 2004. The increase was primarily the result of an increase in petroleum prices on the international market, an improvement in the rate of tax collection, the Government's tighter fiscal policies and a surplus at the IESS.

The following table sets forth the freely disposable international reserves of the Central Bank as of the dates indicated.

Freely Disposable International Reserves
(in millions of U.S.$)

	As of December 31,					As of June 30,
	2000	**2001**	**2002**	**2003**	**2004[(1)]**	**2005[(1)]**
Assets:						
Gold	233	234	293	348	368	369
Cash	115	80	82	94	191	120
Deposits abroad[(2)]	90	146	(19)	(7)	(13)	59
Investments	738	595	632	702	806	984
Special drawing rights[(3)]	0.4	3	2	1	56	30
IMF reserve position	22	22	23	25	27	25
ALADI reserve position	(20)	(5)	(5)	(3)	3	0
Total assets	1,180	1,074	1,008	1,160	1,437	1,586
Liabilities:						
Coins in circulation	35	27	40	50	58	60
Deposits and financial system obligations	226	261	264	271	333	333
Consolidated non-financial public sector deposits[(3)(4)]	405	370	415	643	949	1,159
External liabilities[(5)]	500	396	275	131	54	7
Central Bank stabilization notes, net[(6)]	6	4	6	43	31	15
Private deposits	8	16	9	22	12	12
Total liabilities	1,180	1,074	1,008	1,160	1,437	1,586

(1) Preliminary data.
(2) The corresponding value of the gold swaps is deducted.
(3) A special drawing right is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries.
(4) Net of U.S.$660.6 million, U.S.$618.4 million, U.S.$611.2 million, U.S.$590.9 million, U.S.$556.5 million and U.S.$552.5 million of Government Notes in 2000, 2001, 2002, 2003, 2004 and June 30, 2005, respectively.
(5) Consists of indebtedness owed to the IMF and the FLAR *(Fondo Latinoamericano de Reservas)*.
(6) Net of sale and repurchase agreement operations.
Source: Central Bank.

Inflation

The Republic measures the inflation rate by the percentage change between two periods in the CPI. The CPI is computed by the National Institute of Statistics based on a standard basket of goods and services that reflects the pattern of consumption of urban Ecuadorian households. The price for each good or service that makes up the basket of goods and services is weighted according to its relative importance in an average urban household's consumption pattern in order to calculate the CPI.

Prior to the adoption of the Dollarization Program, Ecuador was plagued by high inflation. From 1994 to 1999, the inflation rate ranged from a low of 22.8% in 1995 to a high of 60.7% in 1999. In 1999 and early 2000, the sharp devaluation of the sucre contributed to an increase in Ecuador's inflation rate, which reached 91.0% in 2000, one of the highest rates in Latin America.

The restrictions imposed by the Dollarization Program brought this to an end. By 2001, the inflation rate had decreased to 22.4%, and it has steadily declined since then. The inflation rate decreased to 9.4% in 2002, 6.1% in 2003 and 2.0% in 2004.

The following table sets forth the rate of inflation in the Republic as measured by the CPI for the periods presented.

Inflation

	% Change in CPI from Previous Year at Period End [(1)]
2000	91.0
2001	22.4
2002	9.4
2003	6.1
2004[(2)]	2.0

(1) Percentage change of consumer prices in urban areas over the twelve months ending December 31 of each year, unless otherwise indicated.
(2) Preliminary data.
Source: National Institute of Statistics.

In 2004, the decrease in the inflation rate resulted primarily from austerity measures adopted by the Government as well as the freezing of prices on goods and services offered by the public sector.

At September 30, 2005, the annual inflation rate reached 2.9%.

Historical Interest Rates and Money Supply

Prior to the enactment of the Dollarization Program, the money supply consisted of bills and coins that were in circulation, or in deposit accounts held by the public at banking institutions. The enactment of the Dollarization Program has made it impossible to accurately measure the amount of currency in circulation, as the Central Bank is no longer the source of such currency.

The following table sets forth information with respect to average interest rates for the periods indicated.

Selected Interest Rates
(in percentages)

	2000	2001	2002	2003	2004[(1)]
Central Bank stabilization notes[(2)]	7.70%	5.05%	4.97%	2.75%	2.15%
Deposit interest rate[(3)]	7.70	5.05	4.97	5.51	3.97
Average lending interest rate[(4)]	14.52	15.10	12.77	11.19	8.03
Interest rate for other operations[(5)]	16.71	17.76	17.78	15.87	12.94

(1) Preliminary data.
(2) Rate on monetary stabilization notes issued during the last week of the period with a term of 84 to 91 days.
(3) Refers to the *tasa pasiva referencial* which is the average weighted weekly nominal rate for all private bank time deposits (i.e. certificates of deposit) with terms of 84 to 91 days.
(4) Refers to the *tasa activa referencial* which is the average weighted weekly rate for loans with a term of 84 to 91 days, granted by commercial banks to corporations.
(5) Average weighted weekly rate for commercial bank loans with a term of 84 to 91 days to the non-corporate sector.
Source: Central Bank.

Average interest rates have declined significantly since 2000. As a result of the decrease in average rates, Ecuadorian businesses have benefited from reduced capital costs, which has helped spur overall economic growth. In addition, the banking system has accumulated significant liquid reserves in foreign assets. Although some of the current foreign interest rates increases may lead to increases in domestic rates, the Republic believes the effect is not likely to be significant, since banking system preferences have shifted from foreign investments to the loan market.

Financial System

Supervision of the Financial System

The financial sector consists of various financial institutions and the securities markets. The Superintendency of Banks regulates financial institutions, and the securities markets are regulated by the *Consejo Nacional de Valores* ("National Securities Commission" or the "CNV"). The *Ley General de Instituciones del Sistema Financiero* of 2004 (the "Financial Institutions Law") regulates all private sector financial institutions, including banks, finance companies, savings and loan cooperatives, leasing companies, credit card issuers, brokerage houses and insurance companies. The Financial Institutions Law regulates public sector and private financial institutions with respect to their solvency, liquidation, financial prudence and other administrative matters.

The Ecuadorian banking system is composed of the Central Bank, private commercial banks and several state development and state-owned banks. As of December 31, 2004, the six largest Ecuadorian private banks together accounted for approximately 70% of total deposits in Ecuador. As of March 31, 2005, Citibank Ecuador S.A. and Lloyds TSB Bank, Ecuador were the only foreign banks operating in Ecuador.

The Financial Institutions Law permits the establishment of universal banks (banks that can offer all banking services) and provides for equal treatment of foreign and domestic financial institutions. Ecuadorian financial institutions may establish foreign offices and invest in foreign financial institutions with the authorization of the Superintendency of Banks. Foreign subsidiaries of Ecuadorian financial institutions must also conform to the guidelines established by the Financial Institutions Law to promote prudent banking and investment policies and ensure financial solvency. Each year, external auditors must provide opinions regarding capital adequacy, concentration of loans, interested debtors and asset risk classifications on both unconsolidated and consolidated bases for all banks. The Republic believes that the Financial Institutions Law is generally consistent with the banking supervision guidelines established by the Basel Committee on Banking Supervision.

The Financial Institutions Law designates the Superintendency of Banks as the principal regulatory authority for Ecuador's financial system. The Superintendency of Banks is concerned primarily with prudential matters, including the capital adequacy, liquidity, earnings, management risks, solvency, and risk asset quality of financial institutions. The Superintendency of Banks is headed by the Superintendent of Banks and a Banking Board. The Banking Board is composed of five members: the Superintendent of Banks, the General Manager of the Central Bank, two members appointed by the President and a final member appointed by the four other members.

Since the crisis of the banking system in the late 1990s during which a number of banks became insolvent, the Superintendency of Banks has worked to improve banking supervision standards. Since 2001, the Superintendency of Banks reformed the regulatory framework for banking supervision. As part of the reforms the Superintendency of Banks implemented measures that included the following:

- a capital adequacy ratio that requires capital and reserves as a percentage of risk-weighted assets to equal at least 9%;
- programs for regulatory on-site audits and periodic reporting requirements that are published in national newspapers intended to ensure that banks comply with regulatory standards;
- uniform accounting risks for the financial system;
- evaluation of market risk based on:
    - liquidity risk, which derives from the incapacity of financial institutions to cover its liabilities and other obligations when due, in both local and foreign currency; and
    - interest rate risk, which refers to the potential losses of net income or in the capital base due to the incapacity of the institution to adjust the return on its productive assets (loan

portfolio and financial investment) with the fluctuations in the cost of its resources produced by changes in interest rates; and

- a detailed method for classifying financial assets in terms of risk.

This method increased the amounts financial institutions are required to reserve in order to mitigate potential losses arising from their loans (which we refer to in this offering memorandum as "loan-loss reserves"). With respect to loan-loss reserves, current regulations impose reserve requirements based on risk categories and type of financial assets. These requirements have been sensed to adjust them to international standards and to increase the average quality of the financial system's loan portfolio.

The following table sets forth the risk categories and loan-loss reserve requirements currently in effect.

Risk Categories and Required Loan-loss Reserves
(in numbers of days past due, except for percentages)

Category	Commercial[(1)]	Consumer[(2)]	Mortgage	Small Business[(2)]	Loan-loss Reserve
A	0-30	0-15	0-90	0-5	1% - 4%
B	31-90	16-45	91-270	6-30	5% - 19%
C	91-180	46-90	271-360	31-60	20% - 49%
D	181-270	91-120	361-720	61-90	50% - 79%
E	>270	>120	>720	>90	80% - 100%

(1) For commercial loans, in addition to the number of days due, five factors are considered for classification among risk categories. These factors are: debtor payment capacity, coverage and propriety of guarantees, risk information from the system (debtor's file), debtor's credit history and market risk and economic environment.
(2) Additional loan loss reserves are required for consumer and small business loans because of the default rate on these loans.
Source: Superintendency of Banks

The following table sets forth information regarding loans of the banking system by risk category as of December 31, 2004 and June 30, 2005.

Classification of Aggregate Assets of the Ecuadorian Private Financial System
(as a % of total loans)

	As of December 31, 2004				
Category	Commercial loans	Consumer loans	Mortgage loans	Small business loans	Total
A	87.25%	92.96%	97.49%	94.01%	90.20%
B	5.55	2.97	1.18	2.39	4.23
C	3.02	1.61	0.22	1.41	2.26
D	2.18	0.51	0.82	0.58	1.51
E	2.01	1.95	0.29	1.61	1.79
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Superintendency of Banks.

The Proposed Law to Improve National Production is currently under consideration by Congress. In its current form, the law would require private banks to allocate at least 75% of their deposits for "productive activities," the definition of which is not specified in the law. The remainder of the private bank deposits would be deposited with the Central Bank. It is unclear whether this proposed law will be enacted, and if enacted, whether it will be in its current form. If the law is enacted in its current form, it could have a material and adverse impact on the ability of the private banks to manage their loan risks.

Classification of Aggregate Assets of the Ecuadorian Private Financial System
(as a % of total loans)

	As of June 30, 2005				
Category	**Commercial loans**	**Consumer loans**	**Mortgage loans**	**Small business loans**	**Total**
A	88.91%	92.82%	97.80%	92.53%	91.16%
B	4.77	3.28	0.96	3.34	3.87
C	2.34	1.67	0.18	1.51	1.88
D	1.68	0.50	0.81	0.82	1.21
E	2.30	1.72	0.26	1.80	1.89
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Superintendency of Banks.

The Agencia de Garantía de Depósitos

The absence of vigorous regulation and effective credit policies produced significant instability in the Ecuadorian financial sector in 1998. Liquidity in the system declined throughout the year, destabilizing several banks. Pressure on the banking system increased further as foreign lenders closed credit lines to Ecuadorian banks. The resulting panic caused a run on deposits at many banks, leading to emergency Government assistance to some of those banks, and the closure of others.

The *Agencia de Garantía de Depósitos* (the "Deposit Guaranty Agency" or the "AGD") was created in December 1998 as part of a banking sector reform introduced to guarantee the deposits of all financial institutions. The AGD is administered by a Board of Directors comprised of the Minister of Finance, a director from the Central Bank, and two delegates appointed by the President. The General Manager of the AGD is a non-voting member who is appointed by the AGD's Board of Directors.

While the AGD is the guarantor of deposits of all financial institutions, currently such guarantee is subject to certain limitations relating to deposit interest rates, loans extended to related parties and non-performing, non-recoverable loans. Since March 2000, as per the LET, the Central Bank sets the guaranteed maximum deposit interest rate. Deposits with interest rates above the *tasa activa referencial,* plus one point, are excluded, in their entirety, from the deposit guarantee.

The following table describes the changes to the role of the AGD as guarantor under the LET.

Prior to LET	After LET
Deposit Guarantees[1]	
Unlimited guarantee for all deposits	• March 2000 - March 2001: unlimited guarantee for all deposits • March 2000 - January 2002: guarantee limited to 50% of total deposits for each depositor of at least U.S.$8,000 • January 2002 - June 2005: guarantee limited to 100% of total deposits plus interest owed until the day of payment. The Board of Directors of the AGD sets the annual guarantee limit in December of each year. The limit is based upon the annual level of GDP per capita. In 2005, the guarantee limit was U.S.$9,300 for each depositor.
Trade Line Guarantees	
Unlimited guarantee for all lenders relating to trade financings	Since March 2000, guarantee of all trade financing eliminated
Unlimited guarantee for all deposits in the offshore subsidiaries of Ecuadorian banks	Since March 2000, guarantee of all deposits in the offshore subsidiaries of Ecuadorian banks eliminated
AGD Financing for Guarantees	
AGD issued bonds to cover guarantees	Since March 2000, AGD financing of guarantees limited to resources available from sales of assets of banks within the AGD and budgetary allocations

(1) AGD deposit guarantees both prior to and following the enactment of the LET are limited to those deposits where the applicable rate is below the established *tasa activa referencial*.
Source: AGD.

AGD Intervention in Financial Institutions

Prior to the creation of the AGD, financial institutions that could not comply with applicable capital requirements were liquidated. Under the December 1998 reforms, financial institutions determined to be insolvent by the Banking Board were transferred to the AGD. Upon evaluation of its viability by the Banking Board, international audit agencies, representations from the IDB, the Superintendency of Banks and the Board of Directors of the AGD, the financial institution entered into either a restructuring process during which the financial institution remained operational or a *saneamiento* or clearing process whereby the financial institution was closed. For institutions that entered this clearing process, the AGD could choose to sell or transfer the institution's assets and liabilities, recapitalize the institution or pay the guaranteed deposits in cash. The AGD chose to pay guaranteed deposits for all financial institutions that had entered into the clearing process.

The AGD has continued to follow the processes established by the December 1998 reforms for institutions that at the time of enactment of the LET were either in a restructuring or clearing process. In March 2000, the Banking Board reviewed financial institutions whose solvency index fell below 9%, and such financial institutions were placed in a regularization program. In connection with the regularization program, the financial institutions were required to create a trust with all shares of the financial institution for the benefit of the AGD. The regularization program required the financial institutions to comply with the regularization program established by the Banking Board in order to recapitalize the institution to the 9% solvency index within 90 days. If the institution failed to reach the 9% solvency index, the trust was terminated and the AGD became the owner of the institution. As per the LET, upon evaluation of the institution by the Banking Board, the Banking Board was required to supervise the institution to ensure that guaranteed deposits were, to the highest possible level, secured by that institution's assets.

During the period from December 1998 to March 2000, the AGD intervened in eighteen financial institutions.

In December 1999, the ownership of Banco del Pacífico, Ecuador's second largest bank, was transferred to the AGD and the Central Bank as shareholders. Since 2001, Banco del Pacífico has been under the administration of the Central Bank, which hired a Spanish management team to run the bank. The Central Bank intends to sell Banco del Pacífico once it is sufficiently profitable. In the period between 2000 and 2004, Banco del Pacífico's financial ratios have substantially improved, and its loan portfolio has grown each year. In 2003 and 2004, Banco del Pacífico returned to profitability. As of June 30, 2005, Banco del Pacífico had net income of U.S.$10.4 million, total assets of U.S.$953.2 million and total liabilities of U.S.$845.8 million.

Freezing of Accounts and Resulting Liquidity Constraints

In March 1999, the effects of the sucre's continuous decline, coupled with the Government's need to keep the remaining financial institutions afloat, forced the Government to temporarily close banks and freeze certain accounts. These frozen accounts represented approximately 41.2% of total deposits in the financial system. The freezing of deposits produced the desired short-term effects of avoiding a run on Ecuadorian banks and slowing the devaluation of the sucre. However, they came at the cost of a significant contraction in liquidity, the loss of confidence and the near total cessation of financial activity.

The following table summarizes the events related to the freezing of deposits.

Date	Action Taken
March 1999	Freezing of[1]: - half of all current dollar and sucre accounts - all time deposit dollar and sucre accounts - half of sucre savings accounts (by value) - all mutual funds.
April 1999	• Unfreezing of all deposits for depositors over 65 years of age or those with a terminal illness. • Unfreezing of foreign depositor accounts and accounts belonging to non-governmental organizations and public institutions. • President sets schedule for unfreezing of accounts.
December 1999	• The Constitutional Tribunal (*"Tribunal Constitucional de la República"*) declares the freezing of accounts unconstitutional.
February 2000	• Resolution signed by the Minister of Economy and Finance, Superintendent of Banks, President of Board of Directors of the Central Bank, General Manager of the AGD and Superintendent of Public and Private Enterprises extending the time period previously set by the President for the return of deposits, thereby locking-up deposits for a prolonged time period. This resolution provided for the payment of a certain portion of deposits in cash with the remainder to be paid in bonds.
March 2000	• Resolution signed by the Minister of Finance, Superintendent of Banks, President of Board of Directors of the Central Bank, General Manager of the AGD and Superintendent of Public and Private Enterprises requiring banks to pay all deposits in cash only. This resolution also required banks to repay mutual fund depositors in cash in proportion to a fund's liquidity.
June 2000	• Resolution of February 2000 setting schedule for unfreezing of accounts declared unconstitutional by the Constitutional Tribunal.

1 Includes local and offshore accounts.

As a result of the difficulties affecting the banking system, external trade credit lines to Ecuadorian banks decreased substantially in this period, which further reduced the liquidity available in the banking system. In order to alleviate this problem, in December 1999, the AGD entered into a three-year restructuring agreement with a group of correspondent banks led by Barclays Plc. to restructure U.S.$63.5 million of trade lines (the "Barclays Program").

The Barclays Program was refinanced in July 2001, when the AGD entered into a U.S.$63.7 million trade maintenance agreement with a group of international banks. On November 7, 2002, the AGD entered into three trade restructuring agreements with the *Fondo Latinoamericano de Reservas* ("FLAR"), the Commodity Credit Corporation ("CCC") and Export Development Canada ("EDC"), totaling U.S.$62.9 million, which were aimed at refinancing the banks in the clearing process. In 2003, the AGD also entered into a payment agreement with the Export-Import Bank of the United States, UBS AG, ABN Amro Bank NV, Bank of America and Citibank, which granted it access to foreign credit for foreign trade purposes.

The Republic believes that these agreements have resulted in the regularization of the AGD's relationship with international banks and with international organizations, and will enable the AGD to regularly access foreign credit in the future. As of June 10, 2005, the AGD is current on all amounts payable under these agreements.

AGD Sources of Liquidity

Prior to the enactment of the LET, financing for the provision of liquidity to capitalize financial institutions or for payment of guaranteed deposits was obtained by the AGD through the use of repurchase agreements. Upon request by the AGD, the Ministry of Economy and Finance issued an aggregate of U.S.$1.4 billion of AGD notes that originally accrued monthly interest at a rate of 12.0% per year and had a maturity of 15 years (the interest rate on the AGD notes was changed to 9.35% in March 2000). These notes were purchased by the Central Bank and the funds from this transaction were provided to the AGD. Upon negotiation of these notes to the Central Bank, AGD notes became obligations of the Ministry of Economy and Finance. The Ministry of Economy and Finance is entitled to receive money from the AGD from the sale of assets of banks in liquidation to satisfy the Ministry of Economy and Finance's obligations with respect to the AGD notes.

Since the fourth quarter of 2002, the AGD's primary source of liquidity has been income generated from its portfolio recovery process (including the sale of assets of liquidated financial institutions). As of October 31, 2004, the AGD injected approximately U.S.$1.7 billion of liquidity into Ecuador's financial institutions, of which U.S.$1.4 billion was funded through the issuance of AGD notes, U.S.$321 million was funded by cash provided by the Ministry of Economics and Finance and U.S.$179.6 million was funded by the AGD's portfolio recovery process. As of June 30, 2005, the AGD had total assets of U.S.$3.3 billion and liabilities of U.S.$3.1 billion.

From January 1, 1999 through February 28, 2005, the AGD's loan portfolio recoveries amounted to U.S.$995.3 million, as is shown in the following table.

Loan Portfolio Resources by Form of Payment[1]
(in U.S.$)

Forms of Payment	1999	2000	2001	2002	2003	2004[2]	2005[2][3]	Total Recoveries
Cash	1,041,720	24,575,941	11,613,094	6,319,698	5,746,300	3,596,184	2,505,752	55,398,689
Clearing with CPGs with CDRs[4]	2,563,487	34,134,206	91,961,450	153,149,174	38,831,438	18,284,294	6,101,251	345,025,300
Other compensations	—	—	—	—	3,254,012	180,386	47,975	0
Givings in Payment	0	23,596	6,224,117	23,812,308	23,351,447	7,689,340	1,577,656	62,678,463
Awards	—	—	—	—	5,261,441	834,982	184,156	6,280,579
Other recoveries[5]	48,497,474	149,908,086	33,835,518	0	0	0	0	232,241,078
Portfolio in possession of third parties [6]	—	—	—	—	24,696,048	4,004,283	2,239,168	30,939,499
Subtotal real recoveries	52,102,681	208,641,829	143,634,179	183,281,180	101,140,687	34,589,469	12,655,958	732,563,609
Transferred Portfolio to CFN	—	—	—	—	87,784,831	247,325	38,224	88,070,379
Portfolio Auctions	—	—	—	—	0	285,000	0	285,000
Subtotal transactions	0	0	0	0	87,784,831	532,325	38,224	88,355,379
Releases of guarantees	—	—	—	—	11,021,150	8,599,792	—	19,620,841
Restructurings	0	—	7,665,041	23,475,509	54,230,626	16,943,214	850,574	103,164,964
Operational regulations	—	—	—	—	22,988,942	25,152,746	3,477,709	51,619,397
Subtotal Recovery Management	—	—	7,665,041	23,475,509	88,240,619	50,695,751	4,328,283	174,405,203
Total Recoveries and Recovery Management	52,102,681	208,641,829	151,299,220	206,756,689	277,166,137	85,817,545	17,022,464	995,324,191

(1) This table does not take into account operating adjustments.
(2) Preliminary data.
(3) Information for 2005 is presented through February 28, 2005, the latest date for which it is available.
(4) CDRs refer to rescheduled certificates of deposits, and CPGs refer to guaranteed liability certificates. A CPG is a document issued by the AGD to guarantee outstanding liabilities.
(5) Includes global historic amounts.
(6) Includes amounts recovered by the Central Bank, CFN and Pichincha Bank.
Source: AGD.

Bank Resources

The following table sets forth information for the private banking system as of the dates indicated.

Private Banking Deposits
(in millions of U.S.$, except for percentages)

As of December 31,	Demand Deposits	Time Deposits	Total Deposits	Annual Growth Rate of Deposits	Growth Rate of Deposits 2000-2004	Growth Rate of Deposits 2000-June 30, 2005
2000	942.8	1,908.3	2,851.1	30%		
2001	1,417.4	1,970.1	3,387.5	19%		
2002	1,764.6	2,333.6	4,098.2	21%		
2003	1,760.4	2,522.8	4,283.2	5%		
2004[1]	2,247.1	3,117.8	5,364.9	25%	88%	
June 2005[1]	2,427.6	3,341.8	5,769.4			102%

(1) Preliminary data.
Source: Central Bank.

Banking deposits constitute the principal source of financing for the banking system. Between 2000 and 2004, total deposits increased 88% from U.S.$2.85 billion to U.S.$5.36 billion. As of June 30, 2005, banking deposits totaled U.S.$5.77 billion. Between December 31, 2000 and June 30, 2005, time deposits increased 75.8% from U.S.$1.90 billion to U.S.$3.34 billion. The lack of availability of financing from time deposits (as compared to demand deposits) made it somewhat difficult for the Republic's commercial banks to lend to borrowers that required medium and long-term financing. This difficulty has been less prevalent since 2002, as time deposits have gradually increased.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. As of December 31, 2004, the balance of foreign liabilities in the banking sector amounted to approximately U.S.$385 million, which was approximately U.S.$85 million more than as of December 31, 2003. Such financing decreased from approximately U.S.$738.8 million in 1999 to 309.2 million in 2002, primarily as a result of Ecuador's economic crisis in 1999.

The following table sets forth the principal sources of financing with respect to total liabilities as of the dates indicated.

Classification of the Main Financing Accounts with Respect to Liabilities
(as % of total liabilities)

As of December 31,	Demand Deposits	Time Deposits	Foreign Financing
2000	17%	35%	7.8%
2001	26	36	5.7
2002	28	37	4.9
2003	24	34	4.1
2004	25	35	4.3
As of June 30, 2005	25	35	4.9

Source: Central Bank.

Ecuador's banks primarily use their resources to extend loans. Between 2000 and 2004, the Ecuadorian banking system's total loan portfolio increased by U.S.$1.6 billion (61.6%), and past due loans decreased U.S.$653 million (70.4%). From December 31, 2004 to June 30, 2005, the total loan portfolio increased by U.S.$528 million (12.2%) and past due loans increased by U.S.$14 million (5.1%).

The following table sets forth certain information about the banking system's loan portfolio as of the date indicated.

Banking System Loan Portfolio Balances
(in millions of U.S.$, except for percentages)

As of December 31,	Current Loans	Past-Due Loans	Total Loan Portfolio	Current Loans as a Percentage of the Total Loan Portfolio	Past-Due Loans as a Percentage of the Total Loan Portfolio
2000	1,745	927	2,671	65%	35%
2001	2,289	355	2,644	87%	13%
2002	2,792	255	3,047	92%	8%
2003	3,130	263	3,393	92%	8%
2004	4,042	274	4,316	94%	6%
As of June 30, 2005	4,556	288	4,844	94%	6%

Source: Central Bank.

As of December 31, 2000, 35% of all loans in the banking system's total loan portfolio were past-due loans. Since 2001, the banking system's delinquency rate has gradually improved, and past-due loans represented 13%, 8%, 8% and 6% of the banking system's total loan portfolio as of December 31, 2001, 2002, 2003 and 2004 respectively. As of June 30, 2005, this percentage has remained at 6%. The improvement in the percentage of past-due loans is primarily the result of assistance provided to the banking system by the Credit Restructuring Unit, an entity which is administered by the Superintendency of Banks. The Credit Restructuring Unit has assisted several financial institutions with the restructuring and refinancing of their loans. As a result, certain loans, which were previously classified as "past-due," have been reclassified as "current."

The following table sets forth information regarding the number of past-due loans in different sectors of the economy as of the dates indicated.

Past Due Loans by Sector of the Economy[1]
(in millions of U.S.$ and as a percentage of past due loans)

	As of December 31,						As of June 30,		As of June 30,	
	2002		2003		2004		2004		2005	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Commercial	178	70%	175	66%	184	67%	172	66%	186	65%
Consumer	57	22	70	27	68	25	67	26	74	26
Real estate	16	6	14	5	12	4	15	6	13	5
Small business	4	2	4	2	10	4	7	3	15	5
Total	255	100%	263	100%	274	100%	260	100%	288	100%

Source: Central Bank.

The following table identifies the number of financial institutions as of the dates indicated.

Number of Financial Institutions

	As of December 31,					As of June 30,
	2000	2001	2002	2003	2004	2005
Commercial banks	22	21	21	21	23	23
Development banks[1]	1	1	1	1	1	1
Mortgage banks[1]	1	1	1	1	1	1
Savings and loan associations	19	14	11	11	11	11
Small lending institutions	7	7	7	6	5	5
Government-owned financial institutions	26	27	27	30	33	33
Foreign banks	2	2	2	2	2	2
Credit card-issuing entities	1	1	1	1	1	1
Total	79	74	71	73	77	77

(1) Government owned financial institutions
Source: Superintendency of Banks.

The following table identifies the loans made to the private sector and the deposits of the private sector as of the dates indicated.

Loans to the Private Sector and Private Sector Deposits
(in millions of U.S.$)

	As of December 31, 2004		As of June 30, 2005	
	Loans	**Deposits**	**Loans**	**Deposits**
Commercial banks	4,141	6,153	4,678	6,620
Development banks[(1)]	406	20	414	21
Mortgage bank[(1)]	34	1	30	3
Financial Institutions	379	251	412	258
Small lending institutions	167	254	165	277
Savings and loan associates	472	458	552	498
Foreign banks	119	201	110	214
Credit card-issuing entities	57	47	55	40
Total	5,775	7,385	6,415	7,932

(1): Government owned financial institutions.
Source: Superintendency of Banks.

The following table sets forth the allocation of principal asset accounts, with respect to total assets of the banking system as of the dates indicated.

Allocation of the Principal Asset Accounts, with respect to Total Assets Of the Banking System
(as a percentage of total assets)

As of December 31,	Portfolio of Current Loans	Investments	Foreign Investments
2000	34%	13%	n.d.
2001	43	14	n.d.
2002	46	14	4%
2003	42	16	9
2004	45	15	9
As of June 30, 2005	48	18	12

Source: Central Bank.

Capital Markets

Ecuador's capital markets have grown in recent years as the financial system has been modernized. Retail trading of debt and equity securities of private Ecuadorian issuers, however, has remained relatively limited. Most of the trading on Ecuador's capital markets involves the purchase and sale of fixed income and government securities. The Ecuadorian capital markets consist of the Quito Stock Exchange and the Guayaquil Stock Exchange, both of which opened in 1969. As of June 30, 2005, the Quito Stock Exchange listed 109 issuers, and the Guayaquil stock exchange listed 109 issuers. Issuers that subscribe to one exchange automatically become listed on the other exchange. In 2004, U.S.$1.7 billion worth of securities were traded on the Quito Stock Exchange and U.S.$1.9 billion worth of securities were traded on the Guayaquil Stock Exchange, a 53.1% and 68.4% increase from 2003, respectively.

The Ecuadorian capital markets are regulated by the *Ley de Mercado de Valores* (the "Capital Markets Law"). Under the Capital Markets Law, the stock exchanges are supervised by the CNV. The CNV is comprised of seven members, four from the public sector and three from the private sector. The CNV is responsible for formulating the general securities policies of the Ecuadorian capital markets and for regulatory oversight of those markets.

PUBLIC SECTOR FINANCES

General

The Non-Financial Public Sector Budget

The Constitution, the Budget Law of 1992 and the Organic Financial Administration and Control Law of 1977 sets forth the public sector's budget process. The Government (including the executive, legislative and judicial branches, special accounts, the Electoral Court and the Constitutional Court), the Social Security Institute, national defense services, local governments and publicly-owned companies (including Banco del Estado) constitute the non-financial public sector. The Central Bank and the state development banks comprise the financial public sector.

Pursuant to the Constitution, the executive branch of the Government is required to prepare an annual budget that is designed to permit the implementation of the Government's social and economic development policies and the provision of public services. The levels of revenue, expenditure and debt are determined on the basis of the Government's macroeconomic projections and targets. The Ministry of Economy and Finance is primarily responsible for the preparation of the public sector's annual budget, based on guidelines issued by various planning agencies and other Ministries.

The Government's annual budget is required to include the revenues and expenditures of the non-financial public sector, excluding autonomous agencies and state-owned companies. The Ministry of Economy and Finance prepares the Government's annual budget, which is forwarded to the President for approval. The President is required to submit the Government's annual budget to Congress by September 1 of each year. Since 1998, the Central Bank no longer participates in the preparation of the Government's annual budget, but instead, independently presents comments to Congress with respect to the submitted budget. The proposed Government annual budget is reviewed by a Congressional Budget Commission whose recommendations are then presented to the full Congress for debate in a plenary session. Congress must approve or reform the proposed Government annual budget by November 30 of each year. In a presidential election year, the Government's annual budget must be presented to the Congress by January 31 and must be approved by February 28. If Congress does not approve or reform the Government's annual budget by the corresponding date, the proposed Government annual budget is automatically adopted.

Congress may not increase the level of expenditures in a proposed Government annual budget without the approval of the Ministry of Economy and Finance and without providing for the corresponding source of revenues. However, only Congress has the power to establish, modify or cancel taxes, charges and certain other sources of public sector revenues. Once approved by Congress, the Government's annual budget is submitted to the President for promulgation as a general appropriations act no later than December 31, or February 28 during a presidential election year.

Subject to legal restrictions for certain institutions, the Budget Law of 1992 and the Organic Financial Administration and Control Law of 1977 give the Ministry of Economy and Finance the power to modify the budget during its execution phase.

By law, the Government's annual budget does not include autonomous entities, such as local governments, or state-owned companies, but for statistical purposes and for purposes of monitoring economic performance, these budgets are considered part of the non-financial public sector.

Provincial and local governments prepare their budgets in accordance with the guidelines prepared by the *Secretaría Nacional de Planificación y Desarrollo* (the "National Secretary of Planning and Development" or "SENPLADES," formerly "ODEPLAN"), but are not bound by these guidelines since the Constitution granted autonomy to local and municipal governments. The mayor or prefect of each of these subdivisions is responsible for drafting the budget and submitting it for approval before the corresponding legislative bodies. The local budgets, upon approval, are made public and are implemented by the respective local governments. Local governments are responsible for sending a copy of their annual budgets to the Ministry of Economy and Finance for reference.

Law to Promote Responsibility, Stabilization and Fiscal Transparency

In 2002, in response to increasing Government expenditures, Congress enacted the Law to Promote Responsibility, Stabilization and Fiscal Transparency, which was aimed at reducing public indebtedness and establishing greater transparency in the Government's use of public funds. During the second half of 2005, the Government, with the support of Congress, decided to increase public investment in social and productive sectors to strengthen economic performance while maintaining a limit on current expenditures. As of July 13, 2005, the Law to Promote Responsibility, Stabilization and Fiscal Transparency was reformed. The following measures are some of the key components of the law and the reformatory law:

– prior to January 31 of the year following its election, each new Government must establish Government expenditure and investment policies, and must establish a four year plan that must be followed by public sector entities;

– prior to January 31 of each year, provincial and local governments must establish government expenditure and investment policies that are based on the Government's four year plan;

– the law established a 3.5% limit in the annual growth, in real terms, of certain current expenditures of the Government. Public Investment and Debt Payments are exempt from this restriction;

– the law requires that the Government's deficit be reduced by 0.20% each year, without taking into account revenues received from oil exports;

– the law requires a 16% reduction in the debt to GDP ratio during an initial four-year period, and reductions in the debt to GDP ratio in similar proportions thereafter, until the debt to GDP ratio reaches 40%;

– the law requires that debts owed by the Government to the IESS must be paid by 2013;

– the law requires that local governments' liabilities to total annual revenues ratio not exceed 100%, and debt service to total revenues ratio not exceed 40%;

– the law requires that resources from the budget surplus and income derived from the HCP be the main source of financing for the CEREPS (formerly FEIREP), and requires that the CEREPS' resources be allocated as described in "— CEREPS (formerly FEIREP)"; and

– the law requires that the annual Government budget include quarterly projections for income and expenses, productive assets, contingent liabilities and fiscal risks, and an estimate of the revenues or deficits of publicly-owned companies, local and provincial governments and other autonomous entities.

Non-Financial Public Sector Accounts

In 2000, the non-financial public sector registered a surplus of U.S.$237 million (equivalent to 1.5% of GDP). The surplus was primarily attributable to an increase in tax revenue, which totaled U.S.$1.70 billion (equivalent to 10.7% GDP) in 2000, as well as an increase in petroleum revenue, which totaled U.S.$1.46 billion, (equivalent to 9.2% of GDP). Total revenues in 2000 totaled U.S.$4.13 billion (25.9% of GDP). Total expenditures for 2000 totaled U.S.$3.9 billion (equivalent to 24.4% of GDP), the largest component of which were interest payments on public debt, which totaled U.S.$1 billion (equivalent to 6.6% of GDP) and capital expenditures and net lending, which totaled U.S.$795 million (equivalent to 5% of GDP). In 2000, the primary balance, which measures the sustainability of the Government's fiscal policy, totaled U.S.$1.29 billion (equivalent to 8.1% of GDP).

In 2001, the non-financial public sector registered a surplus of U.S.$13.5 million (equivalent to 0.1% of GDP), a decrease of 94.3% from 2000. The decrease in the surplus was primarily attributable to an increase in total expenditures, which totaled U.S.$4.94 billion (equivalent to 23.5% of GDP) in 2001, a 27.25% increase from 2000.

The increase in total expenditures and net lending was primarily caused by a significant increase in capital expenditures, which totaled U.S.$1.4 billion (equivalent to 6.7% of GDP) in 2001, almost twice the amount spent in 2000. Current account expenditures also increased significantly, from U.S.$3.1 billion (19.4% of GDP) in 2000 to U.S.$3.5 billion (equivalent to 16.8% of GDP) in 2001, the largest component of which was compensation paid to Government employees. In 2001, such compensation totaled U.S.$1.35 billion (equivalent to 6.5% of GDP). These expenditures more than offset a 20% increase in revenues from U.S.$4.13 billion (equivalent to 25.9% of GDP) in 2000 to U.S.$4.96 billion (equivalent to 23.6% of GDP) in 2001, including non-petroleum revenues, which increased from U.S.$2.6 billion (equivalent to 16.7% of GDP) in 2000 to U.S.$3.6 billion (equivalent to 17.1% of GDP) in 2001. Tax revenues totaled U.S.$2.6 billion (12.4% of GDP). As a result of these factors, the primary balance decreased to U.S.$1.0 billion (equivalent to 4.8% of GDP) in 2001.

In 2002, the non-financial public sector registered a surplus of U.S.$200 million (equivalent to 0.8% of GDP), an increase of 1,381% from 2001. The significant increase in the surplus was primarily attributable to a significant increase in total revenues that more than offset an also significant increase in total expenditures. In 2002, total expenditures totaled U.S.$6.1 billion (equivalent to 25.3% of GDP), the largest components of which were compensation paid to Government employees, which totaled U.S.$2 billion (equivalent to 8.3% of GDP), and interest payments on public debt, which totaled U.S.$842 million (equivalent to 3.5% of GDP). Total revenues totaled U.S.$6.36 billion (equivalent to 26.2% of GDP). In 2002, non-petroleum revenues increased 37.5% as compared to 2001. Tax revenues totaled U.S.$3.04 billion (equivalent to 12.5% of GDP), social security contributions totaled U.S.$766 million (equivalent to 3.2% of GDP), and revenues from other non-financial public sector institutions totaled U.S.$965 million (4.0% of GDP). In 2002, the primary balance was U.S.$1.04 billion (equivalent to 4.3% of GDP).

In 2003, the non-financial public sector registered a surplus of U.S.$453 million (1.7% of GDP), an increase of 126% from 2002. The increase in the surplus was primarily attributable to the austerity measures introduced by the Law to Promote Responsibility, Stabilization and Fiscal Transparency. In 2003, total expenditures totaled U.S.$6.58 billion (24.2% of GDP), of which U.S.$5.12 billion (18.8% of GDP) were current expenditures, and U.S.$1.46 billion (5.4% of GDP) were capital expenditures and net lending. Total revenues totaled U.S.$6.91 billion (25.4% of GDP). In 2003, petroleum revenues increased 19.45%, to U.S.$1.66 billion (6.1% of GDP). Non-petroleum revenues totaled U.S.$5.24 billion (19.2% of GDP) and social security contributions totaled U.S.$0.9 billion (3.3% of GDP). Tax revenues totaled U.S.$3.1 billion (11.6% of GDP). The primary balance in 2003 increased to U.S.$1.27 billion (4.7% of GDP).

In 2004, the non-financial public sector registered a surplus of U.S.$707 million (2.3% of GDP). The increase in the surplus was primarily attributable to a significant increase in total revenues, which more than offset a small increase in total expenditures. Total revenues increased to U.S.$8.18 billion (27% of GDP). In 2004, petroleum revenues increased by 27.1%, to U.S.$2.11 billion (7% of GDP), primarily as a result of increases in the international price of crude oil and the increase in the volume of oil exports resulting from the commencement of operations of the HCP. Non-petroleum revenues totaled U.S.$6.0 billion (20% of GDP), and tax revenues increased to U.S.$3.59 billion (11.9% of GDP). Income from social security contributions increased to U.S.$1.0 billion (3.4% of GDP). In 2004, total expenditures totaled U.S.$7.47 billion (24.7% of GDP), with small increases in compensation paid to Government employees, which increased to U.S.$2.58 billion (8.5% of GDP) and interest accrual on public debt, which decreased to U.S.$797 million (2.6% of GDP). The primary balance in 2004 increased to U.S.$1.5 billion (5% of GDP).

During the first half of 2005, the non-financial public sector registered a surplus of U.S.$514 million (1.6% of GDP). Revenues totaled U.S.$4.36 billion (13.2% of GDP). Tax revenues totaled U.S.$2.2 billion (6.6% of GDP). Expenditures totaled U.S.$3.85 billion (11.6% of GDP). Petroleum revenues totaled U.S.$1.01 billion (3.1% of GDP). Non-petroleum revenues totaled U.S.$3.35 billion (10.1% of GDP).

Although petroleum revenues contributed an important percentage of the total revenues (in average 6.9% of GDP between 2000 and 2004), tax revenues contributed the most significant portion of the total revenues, 10.7% of GDP, 12.4% of GDP, 12.5% of GDP, 11.6% of GDP and 11.9% of GDP for 2000, 2001, 2002, 2003 and 2004, respectively.

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented.

Summary of Consolidated Non-financial Public Sector Revenues and Expenditures (1)
(in millions of U.S.$, and as a % of GDP)

	2000	% of GDP	2001	% of GDP	2002	% of GDP	2003	% of GDP	2004 (2)	% of GDP	Jan-June 2004	% of GDP	Jan-June 2005	% of GDP
Petroleum Revenue:														
Exports	1,287	8.1%	955	4.5%	974	4.0%	1,096	4.0%	1,638	5.4%	658	2.2%	898	2.7%
Domestic sales	173	1.1	396	1.9	419	1.7	568	2.1	478	1.6	273	0.9	112	0.3
Total petroleum revenue	1,460	9.2	1,351	6.4	1,393	5.7	1,664	6.1	2,115	7.0	931	3.1	1,010	3.0
Tax Revenue:														
Income and profits	314	2.0	572	2.7	651	2.7	736	2.7	880	2.9	492	1.6	679	2.1
Value-added tax	893	5.6	1,456	6.9	1,670	6.9	1,737	6.4	1,887	6.2	921	3.0	1,051	3.2
Specific consumption taxes	75	0.5	153	0.7	243	1.0	243	0.9	270	0.9	128	0.4	151	0.5
International trade taxes	234	1.5	373	1.8	434	1.8	396	1.5	470	1.6	195	0.6	266	0.8
Other taxes	186	1.2	44	0.2	50	0.2	52	0.2	88	0.3	44	0.1	32	0.1
Total tax revenue	1,702	10.7	2,598	12.4	3,047	12.5	3,164	11.6	3,595	11.9	1,780	5.9	2,180	6.6
Social security contributions	228	1.4	455	2.2	766	3.2	900	3.3	1,024	3.4	446	1.5	477	1.4
Other	587	3.7	454	2.2	965	4.0	1,091	4.0	1,207	4.0	575	1.9	606	1.8
Public enterprises operating result	150	0.9	105	0.5	189	0.8	91	0.3	236	0.8	156	0.5	91	0.3
Total revenues	4,126	25.9%	4,962	23.6%	6,360	26.2%	6,908	25.4%	8,177	27.0%	3,888	12.8	4,364	13.2
Current expenditure:														
Interest accrual:														
Foreign	853	5.4%	782	3.7%	665	2.7%	634	2.3%	623	2.1%	311	1.0%	327	1.0%
Domestic	199	1.2	217	1.0	177	0.7	185	0.7	174	0.6	99	0.3	59	0.2
Total interest accrual	1,052	6.6	999	4.8	842	3.5	820	3.0	797	2.6	410	1.4	386	1.2
Wages and salaries	761	4.8	1,356	6.5	2,008	8.3	2,288	8.4	2,586	8.5	1,241	4.1	1,357	4.1
Purchases of goods and services	410	2.6	581	2.8	901	3.7	948	3.5	1,032	3.4	469	1.6	517	1.6
Social security benefits	111	0.7	151	0.7	309	1.3	516	1.9	665	2.2	290	1.0	341	1.0
Other	761	4.8	452	2.1	520	2.1	553	2.0	778	2.6	352	1.2	374	1.1
Total current expenditure	3,094	19.4%	3,539	16.8%	4,579	18.8%	5,125	18.8%	5,858	19.3%	2,763	9.1	2,975	9.0
Capital expenditure and net lending:														
Fixed capital formation:														
Central government	425	2.7%	645	3.1%	611	2.5%	660	2.4%	710	2.3%	307	1.0	235	0.7%
Rest of general government	275	1.7	376	1.8	534	2.2	518	1.9	592	2.0%	324	1.1	399	1.2
Public enterprises	83	0.5	144	0.7	234	1.0	253	0.9	299	1.0	98	0.3	198	0.6
Total fixed capital formation:	782	4.9	1,164	5.5	1,378	5.7	1,431	5.3	1,601	5.3	729	2.4	832	2.5
Other capital expenditures	12	0.1	246	1.2	203	0.8	29	0.1	11	0.0	1	0.0	44	0.1
Total capital expenditure and net lending	795	5.0	1,410	6.7	1,581	6.5	1,460	5.4	1,612	5.3	730	2.4	875	2.6
Total expenditure	3,889	24.4%	4,949	23.5%	6,161	25.3%	6,585	24.2%	7,470	24.7%	3,493	11.5%	3,850	11.6%
Adjustment on treasury accounts	—	—	—	—	—	—	(130)	(0.5)	—	—	—	—	—	—
Fiscal Balance, surplus/(deficit)	237.14	1.5%	13.5	0.1%	200	0.8%	453	1.7%	707	2.3%	396	1.3%	514	1.6%
Primary Balance, surplus/(deficit)(3)	1,290	8.1%	1,012	4.8%	1,042	4.3%	1,273	4.7%	1,503	5.0%	806	2.7%	900	2.8%

(1) Revenues are cash, expenditures are accrued.
(2) Preliminary data.
(3) Fiscal Balance plus interest on the public debt.
Source: Ministry of Economy and Finance.

The following table shows the principal categories of Government revenues and expenses for the periods indicated.

Summary of Consolidated Central Government Sector Revenues and Expenditures[(1)]
(in millions of U.S.$, and as a % of GDP)

	2000	% of GDP	2001	% of GDP	2002	% of GDP	2003	% of GDP	2004	% of GDP	Jan-June 2004	% of GDP	Jan-June 2005	% of GDP
Petroleum revenue[(2)]	1,397	8.8%	1,280	6.1%	1,363	5.6%	1,561	5.7%	1,558	5.1%	690	2.3%	741	2.2%
Tax revenue:														
Taxes on income and profits	293	1.8	483	2.3	531	2.2	592	2.2	702	2.3	395	1.3	536	1.6
Taxes on property	11	0.1	23	0.1	49	0.2	52	0.2	56	0.2	28	0.1	31	0.1
Taxes on goods and services:														
Value-added tax	836	5.2	1,340	6.4	1,529	6.3	1,583	5.8	1,720	5.7	840	2.8	958	2.9
Selected excise taxes	75	0.5	137	0.7	221	0.9	181	0.7	202	0.7	99	0.3	107	0.3
Total taxes on goods and services	910	5.7	1,477	7.0	1,750	7.2	1,764	6.5	1,922	6.3	939	3.1	1,065	3.2
Taxes on international trade:														
Import duties	217	1.4	354	1.7	414	1.7	382	1.4	454	1.5	189	0.6	260	0.8
Exit tax	17	0.1	18	0.1	5	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total taxes on international trade	234	1.5	373	1.8	419	1.7	382	1.4	454	1.5	189	0.6	260	0.8
Other taxes	175	1.1	21	0.1	1	0.0	0	0.0	32	0.1	16	0.1	1	0.0
Total tax revenue	1,623	10.2%	2,377	11.3%	2,750	11.3%	2,789	10.3%	3,166	10.5%	1,567	5.2	1,894	5.7
Non-tax revenue	237	1.5%	139	0.7%	338	1.4%	375	1.4%	445	1.5%	203	0.7	152	0.5
Transfers	(7)	0.0	58	0.3%	122	0.5%	45	0.2%	10	0.0	1	0.0	116	0.4
Total revenues	3,250	20.4%	3,854	18.3%	4,572	18.8%	4,771	17.5%	5,179	17.1%	2,460	8.1	2,902	8.8
Current expenditure:														
Wages and salaries	707	4.4%	1,088	5.2%	1,673	6.9%	1,864	6.9%	2,049	6.8%	993	3.3%	1,081	3.3%
Purchase of goods and services	174	1.1	122	0.6	318	1.3	329	1.2	363	1.2	157	0.5	156	0.5
Interest payments	1,009	6.3	938	4.5	823	3.4	827	3.0	814	2.7	416	1.4	408	1.2
of which: on domestic debt	197	1.2	210	1.0	201	0.8	213	0.8	215	0.7	117	0.4	97	0.3
Current transfers	140	0.9	183	0.9	366	1.5	416	1.5	591	2.0	323	1.1	360	1.1
Other current expenditures:														
Solidarity Bond	0	0.0	147	0.7	137	0.6	168	0.6	173	0.6	92	0.3	85	0.3
Other	541	3.4	153	0.7	214	0.9	89	0.3	114	0.4	39	0.1	187	0.6
Total other current expenditures	541	3.4	300	1.4	351	1.4	257	0.9	286	0.9	131	0.4	272	0.8
Total current expenditure	2,572	16.1%	2,630	12.5%	3,531	14.5%	3,693	13.6%	4,103	13.6%	2,020	6.7	2,278	6.9
Capital expenditure:														
Fixed capital expenditure	425	2.7	645	3.1	611	2.5	660	2.4	710	2.3	307	1.0	235	0.7
Capital transfers	218	1.4	562	2.7	618	2.5	642	2.4	658	2.2	319	1.1	355	1.1
Other	0	0.0	86	0.4	74	0.3	15	0.1	27	0.1	15	0.0	6	0.0
Capitalization of liquidity fund	0	0.0	146	0.7	(76)	(0.3)	0	0.0	0	0.0	0	0.0	0	0.0
Total capital expenditure	642	4.0%	1,438	6.8%	1,226	5.0%	1,317	4.8%	1,395	4.6%	640	2.1	596	1.8
Total expenditure	3,214	20.2%	4,068	19.4%	4,757	19.6%	5,010	18.4%	5,498	18.2	2,660	8.8	2,874	8.7
Discrepancy (unrecorded operations)	0	0.0%	0	0.0	0	0.0	(130)	(0.5)%	0	0.0	0	0.0	0	0.0
Overall surplus or deficit	36	0.2%	(214)	(1.0)%	(185)	(0.8)%	(239)	(0.9)%	(319)	(1.1)%	(200)	(0.7)%	28	0.1%

(1) Revenues are cash, expenditures are accrued.
(2) Includes transfers of 10% of FEIREP funds for social expenditures 20% of FEIREP fund for the stabilization of oil revenues.
Source: Ministry of Economy and Finance.

In 2004, the Government registered a fiscal deficit of U.S.$319 million (1.1% of GDP), as compared to a fiscal deficit of U.S.$239 million (0.9% of GDP) in 2003 and a fiscal deficit of U.S.$185 million (0.8% of the GDP) in 2002. The fiscal deficit was primarily the result of increases in wages and salaries in each year between 2002 and 2004, and a large increase in total expenditures from 2000 to 2001 (26.6%) and from 2001 to 2002 (16.9%), while the revenues increased just in 18.6% from 2000 to 2001 and 18.6% from 2001 to 2002. In 2001, the increase in total expenditures was primarily the result of increases in capital expenditure (124%). In 2002, the increase in total expenditures was primarily the result of increases in current expenditure (34.3%).

Government Revenues

The Government derives its revenues primarily from:

- sales of petroleum;
- tax collections;
- import duties; and
- other non-tax revenue (including foreign exchange commission, profits from companies in which the Government has an ownership interest).

In 2000, Government revenues totaled U.S.$3.25 billion (20.4% of GDP), of which U.S.$1.39 billion (8.8% of GDP) corresponds to petroleum revenue, U.S.$1.6 billion (10.2% of GDP) corresponds to tax revenue and U.S.$237 million (1.5% of GDP) corresponds to non-tax revenue.

In 2001, Government revenues increased to U.S.$3.85 billion (18.3% of GDP), of which U.S.$1.28 billion (6.1% of GDP) corresponds to petroleum revenue, U.S.$2.37 billion (11.3% of GDP) corresponds to tax revenue and U.S.$139 million (0.7% of GDP) corresponds to non-tax revenue.

In 2002, total Government revenues increased to U.S.$4.57 billion (18.8% of GDP), of which U.S.$1.36 billion (5.6% of GDP) corresponds to petroleum revenue, U.S.$2.75 billion (11.3% of GDP) corresponds to tax revenue and U.S.$338 million (1.4% of GDP) corresponds to non-tax revenue.

In 2003, total Government revenues increased to U.S.$4.77 billion (17.5% of GDP), of which U.S.$1.56 billion (5.7% of GDP) corresponds to petroleum revenue, U.S.$2.79 billion (10.3% of GDP) corresponds to tax revenue and U.S.$375 million (1.4% of GDP) corresponds to non-tax revenue.

In 2004, total Government revenues increased to U.S.$5.18 billion (17.1% of GDP), of which U.S.$1.55 billion (5.1% of GDP) corresponds to petroleum revenues, U.S.$3.16 billion (10.5% of GDP) corresponds to tax revenue and U.S.$445 million (1.5% of GDP) corresponds to non-tax revenue.

During the first half of 2005, total Government revenues increased to U.S.$2.90 billion (8.8% of GDP), of which U.S.$741 million (2.2% of GDP) corresponds to petroleum revenues, U.S.$1.89 billion (5.7% of GDP) corresponds to tax revenue and U.S.$152 million (0.5% of GDP) corresponds to non-tax revenue.

Government Expenditures

Government expenditures are principally divided into current expenditures and capital expenditures.

The Constitution requires that 15% of current Government revenues (based on the Government’s annual budget) be allocated to provincial and municipal governments as capital expenditures based on the population of such provincial and municipal governments.

Beginning with the 2006 annual budget, the calculation of the transfer of 15% of current Government revenues to municipal and provincial governments will only take into account indirect revenues derived from petroleum exports (i.e., tariffs and taxes) and not the direct revenues derived from those exports.

In 2004, Government expenditures (excluding amortization payments of public debt) were U.S.$5.49 billion (18.2% of GDP), compared to U.S.$5.01 billion (18.4% of GDP) in 2003 and U.S.$4.75 billion (19.6% of GDP) in 2002. In 2000 and 2001 Government expenditures (excluding amortization payments of public debt) were U.S.$3.23 billion (20.2% of GDP) and U.S.$4.07 billion (19.4% of GDP), respectively.

CEREPS (formerly FEIREP)

The Law to Promote Responsibility, Stability and Fiscal Transparency created the FEIREP, a special trust for which the Central Bank of Ecuador serves as trustee. On July 13, 2005, this law was reformed, changing the prior allocation of the resources in the FEIREP, in order to increase public investment in social programs and strengthen the performance of the economy. Prior to the reform of the law, 30% of the funds in the FEIREP were considered revenues of the Government while up to 70% were dedicated to debt repurchases Under the reformed law, FEIREP was transformed into the CEREPS and 65% of the funds in the CEREPS may be considered revenues of the Government.

The following Government revenues are contributed to the CEREPS (formerly FEIREP):

- revenues derived from the exportation of heavy crude oil of less than 23° API;
- 45% of the revenues from the *Fondo de Estabilización Petrolera* (the "FEP");
- interest from investments of any balance in CEREPS; and
- any cash surplus of the Central Government.

35% of the resources in CEREPS will be allocated to the repurchasing of debt or to funding bank loans for "productive activities" (*crédito de reactivación productiva*); 30% of the resources will be allocated to education and health projects; 20% of the resources will be allocated to maintaining petroleum revenues at expected levels and to meeting Government obligations during a national emergency or economic crisis; 5% of the resources will be allocated to road works projects; 5% of the resources will be allocated to research and development; and 5% of the resources will be allocated to environmental sanitation projects. At the end of each year, any unused funds in the CEREPS will be allocated to the Fondo de Ahorro y Contingencía (the "Fund for Savings and Contingencies"), for use in the event of a national emergency or economic crisis.

The following table sets forth certain information about the operations of the CEREPS (formerly FEIREP) for the periods indicated.

Operations of the FEIREP
(in millions of U.S.$)

	2003	2004	Jan-June 2004	Jan-June 2005(1)
Income:				
From heavy crude oil	79	524	224	251
Transfers from FEP	0	35	35	111
Interest and dividends	0	0	0	0
Central Government cash surplus	0	0	0	0
Total Income	79	559	259	362
Allocations:				
Debt buy backs, 70% of revenues	0	381	39	0
Domestic Allocations				
IESS	0	307	0	0
Private institutions	0	74	39	0
External	0	0	0	0
Stabilization financing for Central Government	0	110	41	0
Social spending, 10% of revenues	0	40	20	0
Total allocation	0	531	100	0
Reserve accumulation	79	27	159	362

Source: Ministry of Economy and Finance.
(1) FEIREP became CEREPS on July 14, 2005

Distribution of the Petroleum Revenues

Petroleum revenues from the non-financial public sector are allocated to the Government's annual budget, the FEP, the CEREPS and to other institutions such as the *Junta de Defensa Nacional* (the "Council for National Defense").

On July 30, 1998, Ecuador created the FEP to stabilize the flow of revenues from the sale of oil products and derivatives to the Government. The fund is credited with any funds received in excess of the budgeted revenues of Petroecuador. Budgeted revenues are calculated by applying a reference average export price per barrel of oil which is set by Petroecuador, in coordination with Government beneficiaries of Petroecuador's profits, at the beginning of the fiscal year. Additional revenues associated with an increase in oil prices above the set average export price per barrel are deposited in the oil stabilization fund. To the extent that the export price falls below the reference price, funds are withdrawn from the fund. As of December 31, 2004, the preliminary total for petroleum revenues under the fund was U.S.$355 million.

If, at the end of the fiscal year, the revenues of the FEP and the annual budget are greater than initially forecast, the FEP is liquidated, and the additional revenues are distributed in the following manner:

- 35% is allocated for the construction of the *Troncal Amazónica*, a highway that connects the Oriente region;
- 10% is allocated to local governments of the border provinces;
- 10% is allocated to the national police; and
- 45% is allocated to the CEREPS account.

FEIREP (now known as CEREPS) began functioning in 2003, changing the distribution of the petroleum accounts of the non-financial public sector as follows:

Petroleum Accounts of the Non-Financial Public Sector
(in millions of U.S.$)

	2000	2001	2002	2003	2004	Jan-June 2004	Jan-June 2005
Budgetary activities-income	1,230	1,256	1,247	1,556	1,203	554	606
Oil Estabilization Fund (FEP)	166	24	116	5	355	136	135
Total government	1,397	1,280	1,363	1,561	1,558	690	741
FEIREP activities	0	0	0	79	524	224	251
Residuals	64	71	30	24	33	17	18
Total distributions	1,460	1,351	1,393	1,664	2,115	931	1,010

Source: Ministry of Economy and Finance
Residuals are distributed to the Council for National Defense, public universities, certain municipalities and other instrumentalities.

The following table illustrates the average price of international sales of Ecuadorian petroleum from December 2000 to September 2005.

Average Petroleum Prices
(U.S.$ per barrel)

2000	
December	20.58
2001	
March	18.94
June	20.75
September	19.46
December	14.93
2002	
March	19.32
June	22.29
September	25.47
December	24.97
2003	
March	28.66
June	25.38
September	23.06
December	26.10
2004	
March	26.28
June	29.86
September	32.52
December	25.67
2005	
March	38.89
June	42.26
September	50.37

Source: Central Bank.

The Republic has estimated that an increase of U.S.$1 in the price per barrel of petroleum results in approximately U.S.$37.6 million in additional net revenues for the Government sector. The Republic uses this estimate in calculating the annual budget of the non-financial public sector.

Taxation

National taxes are collected through two governmental agencies: the *Servicio de Rentas Internas* ("SRI") and the *Corporación Aduanera Ecuatoriana* ("CAE"). The Director of the SRI is the president of the CAE.

The following table shows the composition of the Republic's tax revenue during the following periods:

Tax Revenue of the Republic
(as a % of total tax revenue)

	2000	2001	2002	2003	2004	Jan-June 2005
Taxes on income and profits	13.3%	21.3%	21.0%	22.6%	23.9%	30.3%
Taxes on property (veh.)	1.1	1.8	1.5	1.5	1.5	1.5
Value-added tax	45.9	53.1	52.8	52.3	50.2	46.0
Selective excise taxes	4.4	6.5	8.0	8.3	8.4	8.1
Import duties	16.0	14.0	14.2	12.4	13.0	12.0
Exit tax	0.8	0.7	0.2	0.0	0.0	0.0
Other taxes (1)	18.5	2.6	2.3	2.8	3.0	2.2
Total taxes	100%	100%	100%	100%	100%	100%

(1) 2000 figures include a tax on capital circulation that was in effect during that year.
Source: CAE, SRI.

The Government has historically collected taxes in the form of personal and corporate income tax, value-added tax, customs duties, special consumption taxes and certain other taxes. Tax revenues accounted for 60.1%, 58.5% and 61.1% of the Government's total revenue in 2002, 2003 and 2004, respectively. Income tax collections represented 22.2% of total tax revenue in 2004.

With respect to personal income, in 2004, the first U.S.$7,200 of income earned is not taxed. The basic personal income tax rate is 5% for incomes above U.S.$7,200, which increases on a sliding scale up to a maximum 25% rate on incomes of U.S.$57,600 or more.

Corporate income tax is levied at a rate of 25%. This corporate income tax is treated as having been paid by the shareholders with respect to dividends in order to allow them to benefit from tax credits abroad. Profits of financial institutions and oil and gas companies are taxed at a rate of 25%.

A special consumption tax is excised on cigarettes, phone service, alcohol and luxury items.

The value-added tax is a broad-based tax on services and on manufactured, refined and other finished goods, that is levied at a fixed rate of value-added at each stage of the production process. Revenue from the value-added tax is the largest contributor to total tax revenue. Prior to 1999, numerous products and services were exempt from the value-added tax, including among others, medicine and agricultural products. As part of the tax reforms approved by Congress in April 1999, most exemptions from the value-added tax were eliminated. The value-added tax is applied to virtually all local professional services, other than professional services provided by foreign companies (those not domiciled in Ecuador).

Social Security

Social security in Ecuador is administered by the IESS, an autonomous public sector entity that provides coverage for approximately 2.3 million economically active individuals.

Social security benefits are a constitutional right for workers and their families designed to protect the insured in case of illness, maternity, unemployment, disability, old age or death. The social security system also provides financing for workers' housing. Ecuador's social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee's income.

As of December 2003, the IESS had 1,184,485 beneficiaries, of whom 65.7% worked in the private sector and 20.3% worked in the public sector. As of December 31, 2003, persons under the age of 40 represented 54.6% of the beneficiaries. Between 2001 and 2003, the total number of beneficiaries increased at an average annual rate of 2.5%.

In addition to its Constitutional obligations, the Government is required by law to finance 40% of IESS pensions to pensioners who entered the system prior to 2001. The Government has begun to make such payments. Although the Government does not believe that such actuarial deficit will endanger the IESS in the short or medium-term, the Government expects that the deficit will increase if reforms are not made to the system.

Social security contributions by employers and/or employees is either 20.5% or 22.5% of the salary of each employee, depending upon the particular sector in which an employee works or the type of job held. The general insurance coverage in case of disability, old age or death is 6.64% or 8.64% depending upon an employee's job category.

In 2001, the social security law was amended to create a mixed pension system, which contemplated the creation of privately-held pension funds, which would administer a portion of eligible employee's social security contributions. The remainder of the social security contributions would continue to be administered by the IESS. However, these provisions were declared unconstitutional in May 2002. The previous Government attempted to address the concerns about constitutionality that were raised by the previous law in the proposed Structural Economic Reform Law, but this reform was denied.

The following table sets forth information related to revenues to and expenditures of the IESS program:

Social Security System (IESS)[(1)]
(in millions of U.S.$ and % of total GDP)

	2000	% of GDP	2001	% of GDP	2002	% of GDP	2003	% of GDP	2004	% of GDP	Jan-June 2004	% of GDP	Jan-June 2005	% of GDP
Revenues														
Social security contributions	240.6	1.5%	469	2.2%	782	3.2%	916	3.4%	1,038	3.4%	453	1.5%	483	1.5%
Interest and profits	7.8	0.0%	21	0.1%	31	0.1%	47	0.2%	73	0.2%	32	0.1%	57	0.2%
Current transfers from budgetary operations	24.5	0.2%	38	0.2%	156	0.6%	166	0.6%	243	0.8%	126	0.4%	156	0.5%
Others	4.2	0.0%	—	—	12	0.0%	20	0.1%	1	0.0%	1	0.0%	—	0.0%
Total revenues	277.1	1.7%	528	2.5%	981	4.0%	1,149	4.2%	1,355	4.5%	611	2.0%	696	2.1%
Expenditures														
Wages and salaries	37.5	0.2%	50	0.2%	34	0.1%	26	0.1%	34	0.1%	16	0.1%	25	0.1%
Purchases of goods and services	28	0.2%	33	0.2%	38	0.2%	90	0.3%	115	0.4%	50	0.2%	54	0.2%
Current transfers	114.2	0.7%	156	0.7%	313	1.3%	518	1.9%	665	2.2%	290	1.0%	341	1.0%
Net lending	(10)	(0.1)%	(0)	0.0%	159	0.7%	10	0.0%	(18)	(0.1)%	(14)	0.0%	37	0.1%
Others	5	0.0%	13	0.1%	4	0.0%	12	0.0%	—	0.0%	—	0.0%	—	0.0%
Total expenditures	175	1.1%	252	1.2%	548	2.3%	656	2.4%	797	2.6%	343	1.1%	456	1.4%
Surplus/(Deficit)	102	0.6%	276	1.3%	433	1.8%	493	1.8%	557	1.8%	269	0.9%	240	0.8%

(1) Revenues are cash, expenditures are accrued.
Source: Ministry of Economy and Finance.

2005 Budget

On November 29, 2004, Congress passed the General Appropriations Act containing the Government's annual budget for 2005. The 2005 budget was prepared by the Ministry of Economy and Finance on the basis of the assumptions set forth below.

Principal 2005 Budget Assumptions

Gross domestic product	
Nominal GDP (in millions of U.S.$)	31,719
Real GDP growth rate[(1)]	3.3%
Inflation	
Domestic inflation (average over year)	2.8%
Domestic inflation (end of year)	2.5%
Oil export price (U.S.$/barrel)	25.0
Oil export volume (millions of barrels)	141.1

(1) % change from previous year.
The budget for 2006 has been submitted to Congress for approval, which approval is expected by December 31, 2005.
Source: Central Bank and Ministry of Economy and Finance.

Government revenues are expected to reach U.S.$5.42 billion (17.1% of projected GDP), with expenditures totaling U.S.$5.89 billion (18.6% of projected GDP), resulting in a government fiscal deficit of approximately 1.5% of projected GDP. Non-petroleum revenues are projected to account for U.S.$3.85 billion, and petroleum related revenues are projected to reach U.S.$1.56 billion. Projected non-petroleum revenues are derived from projected income taxes (U.S.$661 million), projected value added taxes (U.S.$1.80 billion), projected import tariffs (U.S.$403.0 million), projected non-tax revenues (U.S.$635.5 million) and projected excise tax (U.S.$221 million). Projected petroleum related revenues are derived from projected export income (U.S.$789 million) and other petroleum revenues (U.S.$774 million), according to the budget approved by Congress.

Budgeted expenditures, excluding amortizations of public debt, are expected to reach U.S.$5.89 billion in 2005. Of this, 25.5% (U.S.$1.5 billion) for capital expenditures, 14.5% (U.S.$853 million) for interest payments, 6.6% (U.S.$388 million) for the purchase of goods and services and 16.4% (U.S.$971 million) for other expenditures.

PUBLIC SECTOR DEBT

General

Public sector debt in Ecuador, including the Central Government's internal debt and the external debt of the non-financial and financial public sector, totaled approximately U.S.$14.1 billion as of December 31, 2000, U.S.$14.2 billion as of December 31, 2001, U.S.$14.1 billion as of December 31, 2002, U.S.$14.5 billion as of December 31, 2003, and U.S.$14.5 billion as of December 31, 2004. As of June 30, 2005, public sector debt totaled U.S.$14.4 billion, of which approximately U.S.$3.9 billion, or 26.9% of that debt is internal debt. Approximately U.S.$4.1 billion or 38.7% of Ecuador's external debt is represented by Brady Bonds and Global Bonds. In addition, as of June 30, 2005, approximately U.S.$4.0 billion or 38.0% of Ecuador's external debt is represented by debts owed to multilateral organizations and U.S.$2.2 billion corresponds to Ecuador's bilateral debt with other governments. As of June 30, 2005, Ecuador's total internal and external debt represented 43.6% of GDP.

Internal, External and Total Public Sector Debt
(in millions of U.S.$)

	As of December 31,					As of June 30,
	2000	2001	2002	2003	2004	2005
Public sector internal debt	2,823.9	2,801.4	2,771.4	3,016.2	3,489.0	3,879.1
Public sector internal debt as a percentage of GDP	17.7%	13.3%	11.4%	11.1%	11.5%	11.7%
Public sector external debt	11,228.8	11,366.9	11,377.4	11,491.1	11,060.4	10,537.1
Public sector external debt as a percentage of GDP	70.5%	54.1%	46.8%	42.2%	36.5%	31.9%
Total public sector debt	14,052.7	14,168.3	14,148.8	14,507.3	14,549.4	14,416.2
Total public sector debt as a percentage of GDP	88.2%	67.4%	58.2%	53.3%	48.0%	43.6%

Source: Ministry of Economy and Finance.

Internal Debt

Approximately 75% of Ecuador's internal public indebtedness consists of originally issued dollar-denominated notes (total notes). Internal debt obligations are issued through the Ministry of Economy and Finance. As of June 30, 2005, 32.0% of Ecuador's internal debt is represented by AGD notes, 36.6 % of Ecuador's internal debt is represented by long-term notes, and 5.8% of Ecuador's internal debt is represented by CFN Notes.

In recent years, Ecuador's treasury bonds (*Certificados de Tesorería* or "CETES") have represented an increasingly larger portion of Ecuador's internal debt. CETES represented less than 1% of Ecuador's internal debt at each of December 31, 2000 and December 31, 2001, and approximately 4.4%, 10% and 12 % of Ecuador's internal debt at December 31, 2002, 2003 and 2004, respectively. As of June 30, 2005, CETES represent 22.1% of Ecuador's internal debt. CETES are primarily held by private financial institutions and Government entities.

The following table sets forth information regarding Ecuador's internal debt obligations (excluding arrears).

Public Sector Internal Debt
(in millions of U.S.$)

	As of December 31,										As of June 30,	
	2000		2001		2002		2003		2004		2005	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Notes												
Short-term notes	12.7	0.4	28.2	1.0	41.9	1.5	82.5	2.7	—	—	—	—
Long-term notes	902.7	32.0	703.6	25.1	635.8	22.9	853.9	28.3	1,449.6	41.5	1,420.9	36.6
AGD notes	1,410.2	49.9	1,326.1	47.3	1,241.7	44.8	1,241.7	41.2	1,241.7	35.6	1,241.7	32.0
CFN notes	424.9	15.0	392.4	14.0	373.9	13.5	317.9	10.5	246.8	7.1	225.8	5.8
Filanbanco notes	—	—	282.2	10.1	254.1	9.2	116.0	3.8	45.2	1.3	19.0	0.5
Total notes	2,750.5	97.4	2,732.5	97.5	2,547.4	91.9	2,612.0	86.6	2,983.3	85.5	2,907.4	75.0
CETES	19.1	0.7	—	—	122.5	4.4	301.7	10.0	414.6	11.9	857.0	22.1
Governmental Entities	54.3	1.9	68.9	2.5	101.5	3.7	102.5	3.4	91.1	2.6	114.7	3.0
Total internal debt	2,823.9	100.0	2,801.4	100.0	2,771.4	100.0	3,016.2	100.0	3,489.0	100.0	3,879.1	100.0

Source: Ministry of Economy and Finance.

Medium- and Short-Term Notes

In general, Ecuador's medium- and short-term obligations have been issued to finance development projects and to restructure or provide for revenue shortfalls in the government's budget for a given year. Notes issued for development projects are generally privately held by entities hired to undertake these development projects. Notes issued for budget restructurings are placed on the Quito and Guayaquil stock exchanges and are currently held by both public and private holders.

In October 1999, the Government initiated a refinancing of U.S. dollar-denominated debt excluding such debt instruments held by the Central Bank, financial institutions under the control of the AGD and Ecuadorian municipalities. The AGD notes held by the Central Bank (originally maturing over a 15-year period and carrying an interest rate of 12% per annum) were rescheduled over a 15-year period at a fixed rate of 9.35 %, and from July 2004 at a fixed rate of 3.9%.

Although municipal governments may incur debt through the Ministry of Economy and Finance if they follow certain requirements established by law, as of June 30, 2005, municipal governments have not issued such debt.

External Debt

Ecuador has historically relied on four types of external debt sources: commercial banks, multilateral financial institutions, governments and supplier credits. During the period between 2000 and 2004, external indebtedness averaged approximately U.S.$11.3 billion, as compared to an average of U.S.$13.3 billion during the period between 1997 and 1999. As of June 30, 2005, public sector external debt totaled U.S.$10.54 billion.

The following table sets forth public sector external debt (excluding arrears) for the periods indicated.

Public Sector External Debt
(in millions of U.S.$)

	As of December 31,					As of June 30,
	2000	2001	2002	2003	2004	2005
Public sector external debt	11,228.8	11,366.9	11,377.4	11,491.1	11,060.4	10,537.1

Source: Ministry of Economy and Finance.

Projected Financing and Expenditures

The following table sets forth the Central Government's projected financing sources and expenditures for 2005 and 2006. The information set forth in this table is forward looking information, based upon current plans, estimates, projections and assumptions, and it is subject to inherent uncertainties.

The information presented for 2006 is based on the Government's macroeconomic plans and the proposed annual budget, which was submitted to Congress by the Ministry of Economy and Finance. Congress approved the budget on November 30, 2005, but diverted approximately U.S.$397 million from the debt service budget to poverty reduction programs. The budget is divided into twenty different sectors, including social programs and debt service. Under the Constitution, although Congress has the right to make changes to the general allocation of funds from sector to sector, it does not have the legal authority to decide how those changes should be specifically effected within each sector. As a result, although the approved budget for 2006 provides for the reallocation of approximately U.S.$397 million from the debt service sector, it is unclear whether such funds would be diverted from the payment of scheduled external debt amortizations, prepayments, or other forms of external debt service, or whether such reallocation would affect internal debt service obligations only. Under the Budget Law of 1992 and the Organic Financial Administration and Control Law of 1977, the Minister of Finance has the authority to reallocate funds to the debt service sector during the execution phase of the budget. In addition, the Organic Financial Administration and Control Law requires the Minister of Finance to reallocate funds under the budget, as necessary, in order to pay all of the Republic's debt obligations. However, there can be no assurances that the Minister will reallocate such funds back to the debt service sector or that political considerations will not impair her ability to effect such reallocation.

No assurance can be made that actual financing requirements for both 2005 and 2006 will not be higher than projected, that actual sources of financing made available to the Central Government will not differ materially from those figures presented below or that projected uses of financing (even assuming subsequent reallocation of funds by the Minister of Finance) will be as described below.

Central Government's Projected Financing and Expenditures
(in millions of U.S.$)

	2005	2006
Uses:	**1,970**	**2,194**[3]
External Amortizations	936	941
Internal Amortizations	792	947
Fiscal Deficit	264	340
Others[1]	(22)	(34)
Sources:	**1,970**	**2,194**
External	469	779
Multilaterals	171	340
FLAR	—	—
IDB	98	120
BM	—	100
CAF	73	120
Project related	298	439
Internal	1,501	1,415
Local market bonds	1,455	1,415
CEREPS	356	220
Others[2]	47	0

(1) Includes arrears and buy backs with fiscal resources.

(2) Includes change in deposits.
(3) As noted above, these figures are based on the budget proposed by the Ministry of Finance to Congress. The budget approved by Congress on November 30, 2005 provides approximately U.S.$397 million less for debt service than is set forth in this table.
Source: Ministry of Economy and Finance.

Multilateral Support

IMF Stand-by Agreement

The Republic has signed two letters of intent for stand-by loan agreements with the IMF since 2000. The first, signed on April 4, 2000, was expanded on May 14, 2001 (the "2000 IMF Program"). The latter was signed on February 10, 2003, and ended in March 2004 (the "2003 IMF Program").

The 2000 IMF Program contained a series of objectives contemplating structural reforms related primarily to the financial and fiscal sectors of the Ecuadorian economy. Initially, the 2000 IMF Program lasted for twelve months and contemplated a disbursement of approximately U.S.$300 million (SDR226.75 million). ("SDRs" are "special drawing rights," international reserve assets composed of a basket of currencies and created by the IMF in 1969 to supplement the existing official reserves of member countries). The primary objectives of the 2000 IMF Program were to:

- stabilize the economy after the 1999 economic crisis;
- meet the primary social needs of the country;
- restore and to reestablish the financial system;
- lay a foundation for the recovery of employment and production; and
- lower inflation.

The IMF reviewed these objectives every two months until completion of the 2000 IMF Program in December 2001. The 2000 IMF Program contained several structural benchmarks relating to the banking sector and other fiscal performance review targets. Structural benchmarks under the 2000 IMF Program included the submission to Congress of fast-track legislation to speed up the privatization process, the use of fixed assets to repay Central Bank liquidity loans to the banking sector and the development of a plan to strengthen reliable but undercapitalized banks. In addition, the Government was required to regularly provide the IMF with certain data relating to monetary issues, foreign exchange policy, Government investment and savings, and external and internal indebtedness, so that the IMF could monitor compliance with fiscal performance review targets.

In order to comply with the structural benchmarks and performance review targets associated with the 2000 IMF Program, Congress enacted various measures. The most significant measures enacted in connection with the 2000 IMF Program were:

- the approval in Congress of the LET and
- a number of tax reforms that included an increase in the VAT rate, as well as an increase in the tax base and a reduction in the number of income tax exemptions.

In August 2000, the IMF approved the Republic's request for waivers of its non-observance of certain performance criteria. In the same month, Ecuador also implemented the *Ley para la Promoción de la Inversión y la Participación Ciudadana* (the "Law for the Promotion of Investment and Citizen Participation") as part of the structural reform. The Law for the Promotion of Investment and Citizen Participation sought to improve the LET by increasing private sector participation in some sectors. Measures were also included in the new law that increased labor flexibility.

The negotiations with the IMF were key to securing multilateral financing in August 2000, including the exchange of new 12- and 30-year Global Bonds for the Brady Bonds and previously issued Eurobonds, and the restructuring of Ecuador's debt with the Paris Club in September of 2000.

On May 14, 2001, Ecuador requested that the IMF extend the 2000 IMF Program until December 31, 2001, and also requested that the IMF waive its non-observance of certain performance criteria.

Ecuador adjusted its goals and objectives for 2001 and committed to continuing reforms in the financial sector and providing capital to the banks that had been subject to Government intervention as a result of the 1999 economic crisis. In addition, Congress approved further tax reforms and made other structural reforms. On December 10, 2001, the IMF completed its final review of the 2000 IMF Program and disbursed the remaining balance of approximately U.S.$286 million (SDR226.73 million) payable in connection with the 2000 IMF Program.

After completion of the 2000 IMF Program, the Government requested that the IMF begin a new 13-month stand-by program that was scheduled to last between March 2003 and March 2004. The 2003 IMF Program contemplated a disbursement of approximately U.S.$205 million (SDR151 million). The main objectives of the 2003 IMF Program were to:

- balance public finances;
- improve the administration of Petroecuador;
- make structural reforms to the administration of the electricity and telecommunications sectors;
- complete the liquidation of the banks that had been previously subject to Government intervention as a result of the 1999 banking crises;
- implement reforms aimed at promoting recovery from the banking crisis of 1999;
- approve new tax reforms; and
- study ways to improve the Republic's public pension systems.

The IMF reviewed these objectives in June, September and December of 2003 and again in March of 2004. The IMF made its first disbursement of U.S.$42 million (SDR30.2 million) under the 2003 IMF Program on August 1, 2003.

During the second half of 2003, the Government completed further reforms including passage of the *Ley de Servicio Civil y Carrera Administrativa* (the "Civil Service and Administrative Career Law"), which, among other key reforms, regulates the salaries paid to public employees by applying a single, uniform wage scale and allowed the Government to reduce the amount of overall compensation paid to public employees. The Government, however, was unable to enact other proposed reforms to the administration of the electricity and telecommunications sectors or reforms aimed at promoting recovery from the banking crisis of 1999. Furthermore, the IMF determined that the studies that Ecuador had undertaken relating to the improvement of Petroecuador's management and the public pension systems were insufficient. As a result, the IMF did not make any further disbursements under the 2003 IMF Program.

Intensified Surveillance Program

Since 2004, the Republic has been part of the IMF's intensified surveillance program. The intensified surveillance program is an informal arrangement with the IMF whereby IMF staff members conduct frequent reviews of Ecuadorian macroeconomic programs and policies and prepare quarterly assessments of the Ecuadorian economy for presentation to the World Bank and the IDB.

Unlike a formal IMF program, there is no IMF financing or IMF developed conditionality attached. Instead, Ecuador presents a medium-term economic and fiscal plan developed with the benefit of advice from the IMF's staff. The IMF is asked to provide more frequent monitoring than typical surveillance, and the IMF's board considers staff assessments of the extent to which Ecuador is achieving its own economic and financial goals.

Other Multilateral Financial Institution Support

The Republic has entered into various financing arrangements with the World Bank, the IDB and the CAF to support the Government's fiscal policies. None of the disbursements under these financing arrangements are tied to specific investment programs. Ecuador can offer no assurances that any of the loan disbursements referred to below will be disbursed when scheduled.

On March 10, 2005, the Republic reached an agreement with the World Bank regarding the terms of a U.S.$100 million loan intended to support the Government's reform programs aimed at fiscal consolidation, sustainable debt management and improved economic growth and competitiveness. This loan is currently being restructured with the World Bank. Ecuador expects to reach an agreement with the World Bank in 2006 for the disbursement of an additional U.S.$100 million loan during the first half of 2006. Such loan would be used to support social expenditures.

Ecuador expects to reach an agreement by January 2006 with the IDB for the issuance of a U.S.$100 million loan from the IDB later that month. In addition, the second tranche of an IDB loan agreement reached in 2003 to support Government social services is scheduled to be disbursed by December 2005.

Ecuador received the second and third tranche of a U.S.$120 million loan from the CAF on March 23, 2005. The terms of the loan program were agreed to by Ecuador and the CAF during 2004, and the loan is intended to support the Government's fiscal policies. The initial disbursement under this loan was received by Ecuador in the last quarter of 2004, and Ecuador expects to receive the remaining U.S.$8.5 million disbursement in December 2005.

Ecuador received an additional U.S.$18.2 million from the CAF in August 2005, under a loan program intended to support competition and public works projects.

In August 2005, Ecuador requested a loan of U.S.$400 million from the FLAR to support its balance of payments. In October 2005, the FLAR approved the loan, but required that the board of directors of the Central Bank first approve any disbursements under the loan. At the time FLAR approved the loan, there were four vacancies on the five-person board of directors and therefore the disbursement of the loan stalled.

On November 22, 2005, Congress approved President Palacio's candidates to fill the four remaining vacancies in the board of directors of the Central Bank. Now that Congress has approved all five members of the board of directors, the disbursement of the FLAR loan is expected to occur in December 2005. However, there can be no assurances that this disbursement will proceed as scheduled.

Debt Restructuring

Brady Bonds and Eurobonds

In May 1994, the Government reached an agreement with its commercial bank creditors to restructure Ecuador's medium and long-term commercial bank debt (the "Brady Plan"). The Brady Plan offered creditors the opportunity to exchange existing principal for either of two instruments: (i) 30-year notes of the same face amount (the "Par Notes"), with interest initially fixed at three percent and rising by increments over the first 10 years up to a rate of five percent or (ii) 30-year notes with a face amount equal to 55% of the face value of the debt exchanged (the "Discount Notes") and bearing interest at the London Interbank Offered Rate ("LIBOR") plus 13/16 percent. The principal of Par Notes and Discount Notes was fully collateralized by 30-year U.S. Treasury notes and interest on such Notes was collateralized on a 12-month rolling basis. The Brady Plan also offered creditors the opportunity to exchange accrued and unpaid interest for two instruments: (i) 20-year notes bearing interest at LIBOR plus 13/16 percent (the "PDI Notes") and (ii) 10-year notes bearing interest at LIBOR plus 13/16 percent and representing certain amounts of past due interest, accrued and unpaid, under the Consolidation Agreement (the "IE Notes").

On December 21, 1994, Ecuador issued U.S.$191.0 million of IE Notes. On February 28, 1995, Ecuador issued U.S.$1.9 billion, U.S.$1.4 billion and U.S.$2.4 billion of Par Notes, Discount Notes and PDI Notes, respectively. The Republic also agreed to make certain additional cash payments in respect of past due interest.

On April 25, 1997, Ecuador issued U.S.$350 million of its 11.25% Fixed Rate Eurobonds due 2002 and U.S.$150 million of its Floating Rate Eurobonds due 2004 (together, the "Eurobonds").

In late 1999 and early 2000, Ecuador defaulted on its Par Bonds, Discount Bonds, 11.25% Fixed Rate Eurobonds due 2002, Floating Rate Eurobonds due 2004, IE Notes and PDI Notes (together, the "Old Notes"). In June 2000, Ecuador launched a global exchange offer whereby it offered U.S. dollar denominated Step-Up Global Bonds due 2030 (the "2030 Global Bonds") and 12% U.S. dollar denominated Global Bonds due 2012 (the "2012 Global Bonds" and together with the 2030 Global Bonds, the "Global Bonds") together with a cash payment for any and all of the Old Notes.

The following table sets forth the results of the 2000 exchange offer.

Exchanged Bonds
(in millions of U.S.$)

Type of Bond	Nominal Value	Value of Exchanged Bonds	Value of Unexchanged Bonds
Par Notes	1,655.4	1,598.5	56.9
Discount Notes	1,434.7	1,408.6	26.1
PDI Notes	2,728.3	2,650.2	78.1
IE Notes	124.0	119.8	4.2
Fixed Rate Eurobonds due 2002	350.0	337.0	13.0
Floating Rate Eurobonds due 2004	150.0	143.5	6.5
Total	6,442.4	6,257.6	184.8

Source: Central Bank.

An aggregate of U.S.$3.95 billion of Global Bonds were offered as part of the 2000 exchange offer, of which U.S.$2.7 billion were 2030 Global Bonds and U.S.$1.25 billion were 2012 Global Bonds.

Paris Club

In June 2003, Ecuador agreed with its Paris Club creditors to reschedule U.S.$81 million of bilateral debt. Payments due on official development aid loans were rescheduled over a period of 20 years and those on other credits were rescheduled over a period of eighteen years. As of June 30, 2005, the Republic was in compliance with all of the terms of its Paris Club loans.

In recent years, Ecuador has launched successful debt exchanges in Germany, Spain and Italy and is in the process of negotiating exchanges with France and Norway.

The following tables set forth Ecuador's debt service profile for 2005 to 2015.

Public Sector Debt Service Profile
(in millions of U.S.$)

	2005		2006		2007		2008		2009	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
External Debt Payments[1]										
Multilateral (including the IMF)	652.7	180.3	512.0	206.8	444.4	201.4	385.0	179.3	393.0	156.1
World Bank	76.8	32.3	75.7	39.6	78.7	41.2	74.3	37.8	83.0	33.5
Inter-American Development Bank	148.2	74.6	143.1	85.2	136.8	83.3	124.1	77.9	134.6	72.0
Andean Development Corporation	228.7	66.0	232.8	79.3	204.5	75.9	184.2	63.1	173.0	50.2
IMF	196.5	6.7	57.9	2.0	22.0	0.4	—	—	—	—
Others	2.5	0.7	2.5	0.7	2.4	0.6	2.4	0.5	2.4	0.4
Governments	285.1	91.6	230.2	87.0	189.9	81.1	179.9	72.3	182.1	63.1
Paris Club	116.8	48.9	107.0	50.6	85.7	49.9	70.8	45.3	76.6	41.0
Other loans	168.3	42.7	123.2	36.4	104.2	31.2	109.1	27.0	105.5	22.1
Brady bonds	3.3	6.5	3.2	7.9	3.2	9.0	5.1	8.7	5.1	7.3
Global bonds	—	366.0	125.0	393.0	125.0	405.0	125.0	390.0	125.0	375.0
Commercial banks	56.5	11.0	52.7	10.0	46.5	7.3	34.4	5.0	17.0	3.5
Supplier credits	12.8	2.6	7.4	1.6	6.2	1.1	3.1	0.9	2.6	0.7
Total External Debt	1,010.4	658.0	930.5	706.3	815.2	704.9	732.5	656.2	724.8	605.7
Internal Debt Payments [1]										
Short-term notes	—	—	—	—	—	—	—	—	—	—
Long-term notes	231.6	89.3	400.0	79.8	430.4	50.4	208.7	24.6	121.6	11.6
AGD notes	—	66.2	—	57.0	—	57.0	—	57.0	—	57.0
CFN notes	50.9	12.3	21.5	11.9	37.0	11.6	37.0	9.0	50.0	6.2
Filanbanco notes	26.3	2.8	—	1.1	19.0	1.0	—	—	—	—
Total notes	308.8	170.6	421.5	149.8	486.4	120.0	245.7	90.6	171.6	74.8
Treasury bonds (CETES)	1,659.7	38.5	299.3	18.0	—	—	—	—	—	—
Governmental Entities	54.7	10.2	37	9.9	27.4	7.2	18.8	5.2	16.6	3.5
Total internal debt	2,023.2	219.3	757.8	177.7	513.8	127.2	264.5	95.8	188.2	78.3
Total Public Sector Debt Payments	3,033.6	877.3	1,688.3	884.0	1,329.0	832.1	997.0	752.0	913.0	684.0

(1) Debt projection assumptions: Cash basis. Includes disbursements of loans signed until December 2004. Assumes 6 month LIBOR of 2.5% for 2005 and 3.5% going forward. Assumes no rescheduling of debt of any kind. Assumes no new disbursements from multilateral sources.

Source: Ministry of Economy and Finance.

Public Sector Debt Service Profile
(in millions of U.S.$)

	2010		2011		2012		2013		2014		2015	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
External Debt Payments(1)												
Multilateral (including the IMF)	394.7	137.3	364.2	108.8	323.0	87.3	268.5	69.8	236.7	56.3	165.9	44.9
World Bank	90.9	28.7	85.2	23.7	75.6	19.2	70.5	15.0	60.6	11.2	39.7	8.0
Inter-American Development Bank	134.5	65.7	134.9	59.2	130.3	52.9	125.6	46.8	123.9	40.9	104.0	35.2
Andean Development Corporation	166.9	42.5	142.2	25.6	115.2	15.0	71.3	7.8	51.1	4.1	21.1	1.6
IMF	—	—	—	—	—	—	—	—	—	—	—	—
Others	2.4	0.4	1.9	0.3	1.9	0.2	1.1	0.2	1.1	0.1	1.1	0.1
Governments	141.9	54.5	128.5	47.9	127.1	42.2	123.4	36.0	122.9	30.9	120.1	25.5
Paris Club	48.6	37.1	57.9	34.3	61.7	31.2	65.8	27.7	73.3	24.0	76.2	19.9
Other loans	93.3	17.4	70.6	13.6	65.4	11.0	57.6	8.3	49.6	6.9	43.9	5.6
Brady bonds	5.1	7.9	8.6	7.4	8.6	6.7	8.6	6.0	8.6	5.3	4.3	4.6
Global bonds	125.0	360.0	125.0	345.0	500.0	330.0	81.0	270.0	81.0	261.9	81.0	253.8
Commercial banks	16.5	2.7	13.3	2.0	12.6	1.4	12.2	0.8	6.2	0.4	2.7	0.1
Supplier credits	2.6	0.3	2.6	0.2	1.3	0.1					—	—
Total External Debt	685.8	562.7	642.2	511.3	972.6	467.7	493.7	382.6	455.4	354.8	374.0	328.9
Internal Debt Payments(1)												
Short-term notes	—	—	—	—	—	—	—	—	—	—	—	—
Long-term notes	31.6	5.5	21.5	3.3	12.0	1.9	8.2	1.1	2.2	0.8	0.1	0.3
AGD notes	—	57.0	—	57.0	—	57.0	315.6	57.0	926.1	44.6	—	—
CFN notes	50.5	2.7	—	—	—	—	—	—	—	—	—	—
Filanbanco notes	—	—	—	—	—	—	—	—	—	—	—	—
Total notes	82.1	65.2	21.5	60.3	12.0	58.9	323.8	58.1	928.3	45.4	0.1	0.3
Treasury bonds (CETES)	—	—	—	—	—	—	—	—	—	—	—	—
Governmental Entities	12.8	2.1	11.8	1	4.6	0.1	—	—	—	—	—	—
Total Internal Debt	94.9	67.3	33.3	61.3	16.6	59.0	323.8	58.1	928.3	45.4	0.1	0.3
Total Public Sector Debt Payments	780.7	630.0	675.5	572.6	989.2	526.7	817.5	440.7	1,383.7	400.2	374.1	329.2

(1) Debt projection assumptions: Cash basis. Includes disbursements of loans signed until December 2004. Assumes 6 month LIBOR of 2.5% for 2005 and 3.5% going forward. Assumes no rescheduling of debt of any kind. Assumes no new disbursements from multilateral sources.

Source: Ministry of Economy and Finance.

Total Public Sector Debt by Creditor and Debtor
As of June 30, 2005
(in millions of U.S.$)

	Debt stock	**Arrears**	**Total**
By Creditor			
External Debt			
Multilateral	4,006.8	—	4,006.8
World Bank	832.3	—	832.3
Inter-American Development Bank	1,879.1	—	1,879.1
Andean Development Corporation	1,105.3	—	1,105.3
International Monetary Fund	170.5	—	170.5
Others	19.6	—	19.6
Governments	2,195.9	—	2,195.9
Paris Club	1,078.3	—	1,078.3
Other loans	1,117.6	—	1,117.6
Brady bonds(1)	123.8	—	123.8
Global bonds	3,950.0	—	3,950.0
Commercial banks	227.9	—	227.9
Supplier credits	32.7	—	32.7
Total External Debt	10,537.1	—	10,537.1
Internal Debt			
Short-term notes	—	—	—
Long-term notes	1,420.0	—	1,420.9
AGD notes	1,241.7	—	1,241.7
CFN notes	225.8	—	225.8
Filanbanco notes	19.0	—	19.0
Total notes	2,907.4	—	2,907.4
Treasury bonds (CETES)	857.0	—	857.0
Governmental entities	114.7	—	114.7
Total internal debt	3,879.1	—	3,879.1
Total public sector debt	14,416.2	—	14,416.2
By Debtor			
External Debt			
Central government	9,409.0	—	9,409.1
Regional government	182.0	—	182.0
Petroecuador	146.0	—	146.0
EMETEL	121.1	—	121.1
Financial public sector	222.6	—	222.6
Other public sector	456.3	—	456.3
Total	10,537.1	—	10,537.1

(1) The difference between the amount of Brady Bonds originally issued and the amount currently outstanding represents amortization payments, capitalization of interest and notes repurchased.
Source: Ministry of Economy and Finance

Public Sector External Debt
By Creditor and Currency
As of June 30, 2005
(in millions of U.S.$)

		Debt Stock
World Bank	U.S. dollar	832.3
Inter-American Development Bank (IDB)		1,879.1
	U.S. dollar	1,056.1
	Canadian dollar	17.0
	Euro	57.9
	British pounds	3.1
	Japanese yen	26.0
	Swiss franc	4.1
	IDB currency pool	712.3
	Danish krone	2.2
	Norwegian krone	0.2
	Swedish krona	0.2
Andean Development Corporation	U.S. dollar	1,105.3
IMF	SDR	170.5
Others		19.6
	U.S. dollar	0.1
	SDR	19.5
Governments		2,195.9
	U.S. dollar	1,403.3
	Canadian dollar	13.7
	Chinese yuan	5.2
	Euro	335.9
	British pounds	87.9
	Japanese yen	341.6
	Korean won	8.3
Brady Bonds	U.S. dollar	123.8
Global Bonds.	U.S. dollar	3,950.0
Commercial Banks	U.S. dollar	227.9
Supplier Credits	U.S. dollar	32.7
Total external debt		10,537.1

Source: Ministry of Economy and Finance

Public Sector External Debt by Currency
As of June 30, 2005
(in millions of U.S.$)

	Debt Stock	%
American dollar	8,731.5	82.86%
IDB currency pool	712.3	6.76
Euro	393.8	3.74
Japanese yen	367.6	3.49
IMF SDR	190.0	1.80
British pounds	91.0	0.86
Canadian dollar	30.7	0.29
Korea won	8.3	0.08
Chinese yuan	5.2	0.05
Swiss francs	4.1	0.04
Danish krone	2.2	0.02
Norwegian krone	0.2	0.00
Swedish krona	0.2	0.00
Total	10,537.1	100.00%

Source: Ministry of Economy and Finance

Public Sector External Debt by Creditor

(in millions of U.S.$ and as % of total public sector external debt)

	As of December 31,											
	2000		2001		2002		2003		2004		As of June 30, 2005	
	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%	U.S.$	%
Official creditors:												
Multilateral debt:												
World Bank	862.7	7.7%	915.8	8.1%	853.3	7.5%	909.5	7.9%	853.2	7.7%	832.3	7.9%
Inter-American Development Bank	1,931.9	17.2	1,958.4	17.2	1,985.4	17.5	2,084.2	18.1	1,993.7	18.0	1,879.1	17.8
Andean Development Corporation	878.2	7.8	1,037.6	9.1	1,029.2	9.0	1,110.1	9.7	1,139.4	10.3	1,105.3	10.5
International Monetary Fund	147.2	1.3	189.8	1.7	307.1	2.7	387.0	3.4	289.1	2.6	170.5	1.6
Others	301.7	2.7	170.3	1.5	38.1	0.3	23.0	0.2	22.1	0.2	19.6	0.2
Total multilateral debt	4,121.7	36.7%	4,271.9	37.6%	4,213.1	37.0%	4,513.8	39.3%	4,297.5	38.9%	4,006.8	38.0%
Bilateral debt:[1]												
United States	—	—	175.0	1.5	217.6	1.9	190.8	1.7	162.9	1.5	144.8	1.4%
Japan	—	—	434.7	3.8	465.8	4.1	470.5	4.1	427.9	3.9	372.6	3.5
Italy	—	—	480.6	4.2	472.5	4.2	447.5	3.9	422.5	3.8	390.9	3.7
Spain	—	—	320.6	2.8	334.5	2.9	335.0	2.9	312.1	2.8	299.9	2.8
Brazil	—	—	414.7	3.6	426.7	3.8	380.1	3.3	330.3	3.0	305.1	2.9
Other countries	—	—	802.9	7.1	860.1	7.6	816.9	7.1	769.9	7.0	682.6	6.5
Total official debt	2,713.0	24.2%	2,628.5	23.1%	2,777.2	24.4%	2,640.8	23.0%	2,425.6	21.9%	2,195.9	20.8
Private creditors:												
Banking	286.1	2.5	269.5	2.4	250.3	2.2	221.8	1.9	222.1	2.0	227.9	2.2
Bonds (Brady and Global)	3,966.2	35.3	4,078.8	35.9	4,077.7	35.8	4,076.6	35.5	4,075.9	36.9	4,073.8	38.7
Suppliers	141.8	1.3	118.2	1.0	59.1	0.5	38.1	0.3	39.3	0.4	32.7	0.3
Total private sector debt	4,394.1	39.1	4,466.5	39.3	4,387.1	38.6	4,336.5	37.7	4,337.3	39.2	4,334.4	41.1
Total public sector external debt	11,228.8	100.0%	11,366.9	100.0%	11,377.4	100.0%	11,491.1	100.0%	11,060.4	100.0%	10,537.1	100.0

(1) Bilateral debt levels for the years 2000 are not available.
Source: Ministry of Economy and Finance

DESCRIPTION OF THE BONDS

Ecuador will issue global bonds under a trust indenture between Ecuador and JPMorgan Chase Bank, N.A., as trustee. The following description summarizes the material provisions of the bonds and the indenture. This summary does not contain all of the information that may be important to you as a potential investor in the bonds. You should read the indenture and the forms of bonds before making your investment decision.

General

Basic Terms

The bonds will:

- be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and will be backed by the full faith and credit of Ecuador;
- will rank *pari passu* among themselves and at least *pari passu* in priority of payment with all of Ecuador's present and future unsecured and unsubordinated External Indebtedness, as defined under "—Certain Defined Terms" below;
- be initially issued in an aggregate principal amount of U.S.$650,000,000;
- mature on December 15, 2015;
- be issued in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof;
- be represented by one or more registered bonds in global form, with beneficial interest in the global bonds held in electronic or book-entry form; and
- be available in definitive form only under certain limited circumstances. See "Settlement and Clearance."

Interest

Interest on the bonds will:

- accrue at the rate of 9.375% per annum;
- accrue from the date of issuance or the most recent payment date;
- be payable semi-annually in arrears on June 15 and December 15 of each year, commencing on June 15, 2006;
- be payable to the holders of record on the May 31 and November 30 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Ecuador will make payments of principal of and interest (including additional amounts, if any) on the bonds by wire transfer of immediately available funds to the trustee on the business day prior to each scheduled payment date. The trustee will apply the amounts it receives from Ecuador towards the payment of principal and interest (including additional amounts, if any) then due. While the bonds are held in global form, the trustee will make such payments to the Depository Trust Company ("DTC") or its nominee, as the registered owner of the bonds, by check or wire transfer in immediately available funds. DTC will distribute the funds it receives from the trustee to beneficial holders of the bonds having accounts at DTC, in accordance with DTC's records and operating procedures. To hold a beneficial interest in the bonds you must hold an account at DTC directly or through a financial or other institution that has a direct or indirect account with DTC.

Neither the trustee nor DTC are agents of Ecuador. The trustee is a fiduciary of the holders of the bonds and any monies it receives from Ecuador will, pending payment, be held by it in trust for the exclusive benefit of the holders of the bonds. DTC is a clearing agency whose functions and basic operating procedures are briefly described below under "Settlement and Clearance." The manner in which DTC maintains records of beneficial interest in the bonds and how it distributes payments made by Ecuador on account of such interest are within its sole discretion. None of Ecuador, the trustee or the initial purchasers shall have any responsibility or liability for any aspect of the records of, or payments made by, DTC or its nominee or direct participants, or for any failure on the part of DTC or its direct participants in making payments to holders of the bonds from the funds they receive. Ecuador's obligations to make payments of principal of and interest on the bonds shall be satisfied when such payments are received by the registered holder or holders of the bonds.

If Ecuador issues definitive bonds, the trustee will make payments by check mailed to the holder's registered address or, upon application by the holder of at least $1,000,000 in principal amount of definitive bonds delivered to the trustee not later than the relevant record date, by wire transfer to an account designated by such holder.

If any date for an interest or principal payment on the bonds is a Saturday, Sunday or other day on which commercial banks in New York City are required or authorized by law to be closed, Ecuador will make the payment on the next New York City banking day. No interest on the bonds will accrue as a result of this delay in payment.

If any money that Ecuador pays to the trustee for the purpose of making payments on any bonds is not claimed at the end of two years after the applicable payment was due and payable, then the money will be repaid to Ecuador. The Republic will hold the money in trust for the relevant holders until four years from the date on which the payment first became due. Before any such repayment, the trustee may mail or publish in an authorized newspaper notice that such money remains unclaimed. After any such repayment, holders entitled to receive payment from such monies may look only to Ecuador for such payment, and neither the trustee nor any paying agent will be liable for such payment.

Additional Amounts

Unless otherwise required by law, Ecuador will make all principal and interest payments on the bonds without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, Ecuador will pay the holders of the bonds such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction.

Ecuador will not, however, pay any additional amounts in respect of any tax, assessment or other governmental charge that is imposed due to any of the following:

- the holder or beneficial owner has or had some connection with Ecuador other than merely holding the bond or the receipt of any payment of principal of or interest on that bond; or

- the holder has failed to present its bond for payment within 30 days after the payment first became due or, if the full amount of such payment is not received by the trustee on or prior to such due date, the date on which notice is given to the holder that such payment has been received and is available to the holder; or

- the holder or beneficial owner has failed to comply with any certification or other reporting requirement concerning its nationality, residence, identity or connection with Ecuador or any of its political subdivisions or taxing authorities, and Ecuador or any of its political subdivisions or taxing authorities requires compliance with these reporting requirements as a precondition to exemption from all or any portion of any tax withholding or deduction and has notified the trustee in writing at least 60 days prior to the first scheduled payment date for which compliance will be required; or

- where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- the holder would have been able to avoid the withholding or deduction by presenting the bond to another paying agent in a member state of the European Union.

Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in Ecuador or any of its political subdivisions or taxing authorities in respect of the creation, issue, execution, delivery or registration of the bonds. Ecuador will also indemnify the holder against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies in connection with the enforcement of Ecuador's obligations under the bonds following an event of default.

Repurchase and Redemption

The bonds will not be redeemable before maturity at the option of Ecuador or repayable before maturity at the option of the holder. Nevertheless, Ecuador may at any time repurchase the bonds at any price in the open market or otherwise. Ecuador may hold or resell bonds it purchases or may surrender them to the trustee for cancellation.

Certain Covenants

Ecuador has agreed that as long as any of the bonds remain outstanding or any amount payable by Ecuador under the indenture remains unpaid, Ecuador will:

1. obtain and maintain in full force and effect all Ecuadorian Authorizations, as defined under "—Certain Defined Terms" below, necessary under the laws of Ecuador for the execution and delivery of, and performance by Ecuador under, the bonds and the indenture or for their validity or enforceability, and take all necessary and appropriate governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the bonds and the indenture;

2. ensure that at all times its obligations under the bonds are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador ranking at least pari passu in priority of payment with all of its other present and future unsecured and unsubordinated External Indebtedness, as defined under "—Certain Defined Terms" below;

3. remain a member of the IMF; and

4. not create or suffer to exist, any Lien, as defined under "—Certain Defined Terms" below, upon any of its assets or revenues to secure the payment of any Publicly Issued External Indebtedness of Ecuador unless, when such Lien is created, the obligations of Ecuador under the bonds and the indenture are secured equally and ratably with such Publicly Issued External Indebtedness.

Ecuador may, however, create or permit to subsist:

- any Lien on property to secure Publicly Issued External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures (after giving effect to renewals and refinancings) no more than one year after it was originally incurred;

- any Lien upon property to secure the purchase price of such property or to secure any Publicly Issued External Indebtedness incurred solely for the purpose of financing the acquisition of such property;

- any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law), including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);

- any Lien existing on such property at the time of its acquisition;

- any Lien in existence as of the date of issuance of the bonds;

- any Lien securing Publicly Issued External Indebtedness issued upon surrender or cancellation of the principal amount of any of the Excluded Indebtedness, as defined under "—Certain Defined Terms" below, to the extent the Lien is created to secure the Publicly Issued External Indebtedness;

- any Lien created in connection with any Project Financing, as defined under "—Certain Defined Terms" below, *provided* that the properties to which any such Lien applies are solely with respect to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;

- additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador having, when encumbered, a fair market value not exceeding an aggregate amount equal to U.S.$50,000,000 (or the equivalent in other currencies) to collateralize, or to purchase collateral, guarantees or other credit support in respect of, new borrowings by Ecuador, *provided* that, to the extent that in any calendar year U.S.$50,000,000 (or the equivalent in other currencies) exceeds such aggregate fair market value of the assets, revenues or receivables so encumbered during that year, the aggregate fair market value of assets, revenues and receivables which may be encumbered in subsequent calendar years shall be increased by the amount of such excess; *provided*, however, that the fair market value of the assets, revenues or receivables so encumbered in any calendar year will in no event exceed U.S.$150,000,000 (or the equivalent in other currencies); and

- any renewal or extension of any of the Liens described above; provided, that no renewal or extension of any permitted Lien shall (A) extend to or cover any property other than the property then subject to the Lien being extended or renewed or (B) increase the amount of financing secured by that Lien.

Events of Default

Each of the following is an event of default under the bonds:

1. *Non-Payment*: Ecuador fails, for 30 days after the applicable payment date, to make any payment of principal of or interest on the bonds;

2. *Breach of Other Obligations*: Ecuador fails to perform or comply with any other obligation under the bonds or under the indenture and Ecuador does not or cannot cure that failure within 60 days after it receives written notice from the trustee or holders of 25% of the aggregate principal amount of the bonds then outstanding regarding that default;

3. *Cross Default*:

   - The holders of at least 25% of the aggregate outstanding principal amount of any Publicly Issued External Indebtedness (other than Excluded Indebtedness, as defined under "—Certain Defined Terms" below) having an aggregate principal amount in excess of U.S.$30,000,000, accelerate or declare such Publicly Issued External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such Publicly Issued External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days;

- Ecuador fails to make any payment in respect of Publicly Issued External Indebtedness (other than Excluded Indebtedness, as defined under "—Certain Defined Terms" below) having an aggregate principal amount in excess of US $30,000,000, and this failure continues past any applicable grace period;

4. *Moratorium*: Ecuador or a court of proper jurisdiction declares a moratorium on payments of principal of, or interest on its Publicly Issued External Indebtedness (other than Excluded Indebtedness); or

5. *Validity*: Ecuador contests the validity of the bonds in a formal administrative, legislative or judicial proceeding.

If any of the above events of default occurs and is continuing, the trustee may or, at the written direction of holders of at least 25% of the aggregate principal amount of the then-outstanding bonds will, declare the principal amount of all the bonds to be immediately due and payable by notifying Ecuador in writing. The bonds will become due and payable on the date such written notice is received by or on behalf of Ecuador, unless prior to such date all events of default in respect of all of the bonds have been cured or waived as provided in the bonds or in the indenture.

The trustee shall, on behalf of the holders of all of the bonds, by written notice to Ecuador, rescind and annul such declaration of acceleration and its consequences, if:

- all events of default (other than the non-payment of principal that became due solely as a result of such acceleration) have been cured, waived or remedied; and
- the trustee shall have been reimbursed or otherwise compensated by Ecuador for all documented costs, expenses and liabilities reasonably incurred by the trustee as a result of any such event of default.

In the case of an event of default specified in items (2) and (5) above, the principal of and interest on the bonds may only be declared immediately due and payable if such event is materially prejudicial to the interest of the holders of the bonds. In the event of an acceleration of payment due to an event of default specified in item (3), such acceleration may be automatically rescinded and annulled if the event triggering the event of default is remedied, cured or waived by the holders of the relevant indebtedness within 60 days after such event.

Limitations on Suits by Holders

With the exception of a suit to enforce the absolute right of a holder to receive payment of the principal of and interest on the bonds on the stated maturity date thereof, a holder has no right to bring a suit, action or proceeding with respect to the bonds unless (1) such holder has given written notice to the trustee that a default has occurred and is continuing, (2) holders of at least 25% of the aggregate principal amount of the bonds then outstanding have instructed the trustee to institute an action or proceeding and provided an indemnity satisfactory to the trustee, (3) 60 days have passed since the trustee received the instruction and the trustee has failed to institute an action or proceeding as directed and (4) the trustee has not received an instruction from a majority of the holders in accordance with the indenture than would preclude it from bringing such action or proceeding. Any such action commenced by a holder must be for the equal, ratable and common benefit of all holders of the bonds.

Limitation on Time for Claims

Claims against Ecuador for the payment of principal of or interest on the bonds (including additional amounts, if any) must be made within four years after the date on which such payment first became due, or a shorter period if provided by law.

Meetings

Ecuador or the trustee may at any time call a meeting of holders to be held at the time and place determined by Ecuador or the trustee, respectively. In addition, if the holders of at least 10% of the aggregate principal amount of the then-outstanding bonds request in writing that the trustee call a meeting of the holders of the bonds, specifying in reasonable detail the action proposed to be taken at such meeting, then the trustee will call a meeting of the holders for that purpose. This meeting will be held at the time and place determined by the trustee and will be specified in a notice to the holders given at least twice in accordance with the bonds and the indenture. The first publication of such notice must be given at least 20 days and not more than 180 days prior to the date fixed for the meeting.

At any meeting of holders, other than a meeting to discuss and act upon a Reserved Matter, as defined under "—Certain Defined Terms" below, holders of at least a majority of the aggregate principal amount of the then-outstanding bonds of any series will constitute a quorum. At the reconvening of any meeting, other than a meeting to discuss and act upon a Reserved Matter, that had been adjourned for lack of a quorum, holders representing at least 25% of the aggregate principal amount of the then-outstanding bonds of any series will constitute a quorum for purposes of taking any action set forth in the notice of the original meeting. At any meeting of holders to discuss and act upon a Reserved Matter, holders of at least 75% of the aggregate principal amount of the then-outstanding bonds of any series will constitute a quorum.

In any event, if there is no quorum, the meeting may be adjourned for a period of at least ten days.

Modifications

Any Modification of the indenture or the terms and conditions of the bonds may be made or given pursuant to a written action of the holders of the bonds without the need for a meeting or by vote of the holders of the bonds taken at a meeting of holders, in each case in accordance with the applicable provisions of the indenture or the bonds.

The bonds contain collective action clauses regarding future Modifications, as defined under "—Certain Defined Terms" below, of the terms and conditions of the bonds or the indenture as described below:

In the case of any Modification of the terms and conditions of the bonds or of the indenture which constitutes a Non-Reserved Matter, as defined under "—Certain Defined Terms" below, such Modification may be made with the consent of Ecuador and of holders of at least $66^{2/3}$% in aggregate principal amount of the bonds then outstanding. In the case of any Modification of the terms and conditions of the bonds or of the indenture which constitutes a Reserved Matter, as defined under "—Certain Defined Terms" below, such Modification may be made with the consent of Ecuador and of holders of at least 75% in aggregate principal amount of the bonds then outstanding.

If any Reserved Matter Modification is sought in the context of a simultaneous offer to exchange the debt securities of one or more series for new debt instruments of Ecuador or any other person, Ecuador shall ensure that the relevant provisions of the bonds, as amended by such Modification, are no less favorable to the holders of the bonds than the provisions of the new instrument being offered in the exchange, or if more than one debt instrument is offered, no less favorable than the new debt instrument issued having the largest aggregate principal amount.

Ecuador agrees that it will not issue new bonds or reopen any existing series of bonds with the intention of placing such bonds with holders expected to support any Modification proposed by Ecuador (or that Ecuador plans to propose) for approval pursuant to the Modification provisions of the indenture or of the terms and conditions of the bonds.

Any Modification consented to or approved by the holders of the bonds pursuant to the Modification provisions of the indenture or of the terms and conditions of the bonds will be conclusive and binding on all holders of the bonds, whether or not they have given such consent or were present at a meeting of holders at which such action was taken, and on all future holders of the bonds (whether or not notation of such Modification is made upon the bonds). Any instrument given by or on behalf of any holder of a bond in connection with any consent to or approval of any such Modification will be conclusive and binding on all subsequent holders of such bond.

Before seeking the consent of any holder of a bond to a Reserved Matter Modification, Ecuador shall provide the trustee (for onward distribution to the holders of the bonds) the following information:

- a description of the economic or financial circumstances that, in Ecuador's view, explain the request for the proposed Modification;

- if Ecuador has entered into a standby, extended funds or similar program with the IMF, a copy of that program; and

- a description of Ecuador's proposed treatment of its other major creditor groups (including, where appropriate, Paris Club creditors, other bilateral creditors and internal debt holders) in connection with Ecuador's efforts to address the situation giving rise to the requested Modification.

For purposes of determining whether the required percentage of holders has consented to or voted in favor of any Modification or, in the case of a meeting, whether sufficient holders are present for quorum purposes, any bonds owned or controlled, directly or indirectly, by Ecuador or any Public Sector Instrumentality, as defined under "—Certain Defined Terms" below, shall be disregarded and deemed not to be outstanding. In determining whether the trustee shall be protected in relying upon any Modification, only bonds that the trustee knows to be so owned shall be so disregarded. Upon request of the trustee, and together with any request for any Modification of the indenture by the Republic, Ecuador shall deliver to the trustee a certificate signed by an authorized representative of Ecuador listing all bonds, if any, known by Ecuador to be owned or held by or for the account of Ecuador or any Public Sector Instrumentality.

Ecuador and the trustee may, without the vote or consent of any holder, amend the bonds or the indenture for the purpose of:

- adding to Ecuador's covenants for the benefit of the holders,

- surrendering any of Ecuador's rights or powers,

- securing the bonds pursuant to the requirements of the bonds or otherwise,

- curing any ambiguity, or curing, correcting or supplementing any proven (to the satisfaction of the trustee) error in the terms and conditions of the bonds or in the Indenture,

- making any formal, minor or technical change, or

- amending the terms and conditions of the bonds or the indenture in any manner which Ecuador and the trustee may determine so long as any such change does not and will not adversely affect the interests of any holder of the bonds.

The bonds will clear and settle through DTC and will be issued in global book-entry form and registered in the name of DTC or its nominee. Beneficial interests in the bonds may be held through DTC and its direct and indirect participants. See "Settlement and Clearance" for a description of the procedures applicable to book-entry securities.

Definitive Bonds

Ecuador will issue bonds in definitive (i.e., not in book-entry but physical) form only if:

- the depositary notifies Ecuador that it is unwilling or unable to continue as depositary, is ineligible to act as depositary or, ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended and Ecuador does not appoint a successor depositary or clearing agency within 90 days;

- Ecuador decides that it no longer wishes to have all or part of the bonds represented by global bonds;

- the trustee has instituted or been directed in writing by the requisite holders to institute any judicial proceeding to enforce the rights of the holders under the bonds and has been advised by its legal counsel that it should obtain possession of the bonds for purposes of the proceeding; or

- certain other events provided in the indenture occur.

In the event Ecuador issues bonds in definitive form, the beneficial owners receiving those bonds should review their terms and conditions, and in particular the restrictions on transfers of the bonds, set forth in the bond certificates.

Trustee

The indenture establishes the obligations and duties of the trustee, the right to indemnification of the trustee and the liability and responsibility, including limitations, for actions that the trustee takes. The trustee is entitled to enter into business transactions with Ecuador or any of its affiliates without accounting for any profit resulting from these transactions.

Paying Agents; Transfer Agents; Registrar

The trustee will serve as the paying agent, transfer agent and registrar. The trustee may also appoint, at Ecuador's expense, one or more paying agents for the purpose of facilitating Ecuador's payment of amounts due on the bonds. Ecuador may at any time instruct the trustee to terminate the appointment of any paying agent and itself appoint paying agents. So long as any of the bonds remain outstanding, the trustee shall maintain, at Ecuador's expense (unless the trustee itself acts in such capacity), in the City of New York (1) an office or agency where the bonds may be presented for payment, (2) an office or agency where the bonds may be presented for exchange, transfer and registration of transfer as provided in the indenture and (3) an office or agency where notices and demands in respect of the bonds or the indenture may be served. The trustee shall also maintain a paying agent in a Member State of the European Union that is not obliged to deduct or withhold tax pursuant to European Council Directive 2003/48/EC or any other European Council Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to, conform to such Directive. Ecuador will provide prompt notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with the bonds.

Notices

All notices to the holders of bonds will be published in the *Wall Street Journal* of New York, New York, the *Financial Times* of London, England and, if and so long as the bonds are listed on the Luxembourg Stock Exchange and trade on the Euro MTF market of the Luxembourg Stock Exchange, the *Luxemburger Wort* of Luxembourg. If any of such newspapers shall cease to be published, the trustee or upon consultation with Ecuador, will substitute for it another newspaper customarily published in New York, London or Luxembourg, as the case may be. If, because of temporary suspension of publication or general circulation of any newspaper or for any other reason, it is impossible or, in the opinion of the trustee upon consultation with Ecuador, impracticable to make any publication of any notice in the manner provided above, any other publication or other notice which is approved by the trustee will constitute a sufficient publication of such notice. Notices shall be deemed to have been given on the date of publication or, if published on different dates, on the date of the first such publication. Notices will also be mailed to holders at their registered addresses.

So long as a clearing system, or its nominee, is the registered holder of a global bond, each person owning a beneficial interest in that global bond must rely on the procedures of that clearing system to receive notices in connection with the bonds. Each person owning a beneficial interest in a global bond who is not a direct participant in a clearing system must rely on the procedures of the participant through which the person owns its interest in the global bond to receive notices provided to the clearing system. Ecuador will consider mailed notice to have been given three business days after it has been sent.

Further Issues of Securities

Ecuador may, from time to time, without the consent of the holders of the bonds, create and issue additional bonds with the same terms and conditions as the bonds in all respects (or in all respects except for the amount of the first interest payment and the issue price) so long as the additional bonds are consolidated and form a single series with the outstanding bonds; provided that such additional bonds do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding bonds have as of the date of the issue of such additional bonds (regardless of whether any holders of such bonds are subject to U.S. federal income taxation).

Jurisdiction, Consent to Service, Enforcement of Judgments and Immunities from Attachment

The bonds and the indenture are governed by, and will be interpreted according to, the law of the State of New York.

Actions or proceeding in relation to the bonds (other than actions or proceeding under U.S. federal or state securities laws) may be brought in any court of the United States or of the State of New York sitting in the Borough of Manhattan, the City of New York, and for this purpose Ecuador will submit to the exclusive jurisdiction of such courts and waive, to the fullest extent permitted by law, the defense of an inconvenient forum or any right of jurisdiction in such action or proceeding on account of Ecuador's place of residence or domicile.

Ecuador will appoint the Consul General of Ecuador in New York, which is presently located at 800 Second Avenue, Suite 600, New York, New York 10017, as its agent to receive service of copies of summons and complaints or any other process which may be served in such actions or proceeding. Such process may be served by mailing or delivering a copy of such process to the Republic in care of its process agent at the above address. Alternatively, process may be served by mailing copies of such process to the following address:

República del Ecuador
Ministry of Finance and Public Credit
Av. 10 de Agosto 1661 y Bolivia
Quito, Ecuador
Attention: Undersecretary of Public Credit

with a copy to

Banco Central del Ecuador
Avenida Amazonas N34-451 y Avenida Atahualpa
Quito, Ecuador
Attention: General Manager

To the extent that Ecuador has or may acquire or have attributed to it any immunity under any law (other than Ecuadorian law) from jurisdiction of any court or from any legal process, Ecuador will irrevocably waive that immunity in respect of its obligations under the bonds. To the extent that Ecuador has or may acquire any immunity under the laws of Ecuador (i) from jurisdiction of any court or (ii) from any legal process in Ecuador's courts (other than immunity from attachment prior to judgment and attachment in aid of execution) or (iii) from any legal process in any court other than Ecuador's courts, whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise, Ecuador will irrevocably waive such immunity to the fullest extent permitted by the laws of Ecuador in respect of its obligations under the bonds. Without limiting the generality of the foregoing, Ecuador agrees that these waivers of immunity shall be to the fullest extent permitted under the Foreign Sovereign Immunities Act of 1976 of the United States and are intended to be irrevocable for purposes of such Act. Notwithstanding the foregoing, Ecuador reserves the right to plead sovereign immunity under the Foreign Sovereign Immunities Act of 1976 of the United States with respect to actions brought against it under the United States federal securities laws or any state securities laws, and Ecuador's submission to the jurisdiction of the U.S. federal and New York State courts as provided above, and its appointment of the process agent, does not extend to such actions.

Ecuador will irrevocably waive, to the fullest extent permitted by law, any requirement or provision of law that requires as a condition to the institution, prosecution or completion of any action or proceeding the posting of a bond or other security.

A final judgment in any of the above actions or proceedings will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

Certain Defined Terms

The following are certain definitions used in the bonds:

- "Ecuadorian Authorization" means any approval, authorization, permit, consent, exemption or license or other action of or by, and any notice to or filing with, any governmental authority, agency, regulatory or administrative body of Ecuador or of any Ecuadorian political subdivision.

- "Excluded Indebtedness" means the following series of securities issued by Ecuador:

  (i) Collateralized Par Bonds due 2025;

  (ii) Collateralized Discount Bonds due 2025; and

  (iii) Past Due Interest Bonds due 2015.

- "External Indebtedness" means all Indebtedness (other than the bonds) that is not (i) issued pursuant to agreements or evidenced by instruments that expressly submit the resolution of all disputes to the exclusive jurisdiction of the courts of Ecuador or (ii) issued in payment, exchange, substitution, discharge or replacement of indebtedness payable in Ecuadorian sucres.

- "Indebtedness" means for any person (a) all indebtedness of or guaranteed by such person for or in connection with borrowed money, and (b) all obligations of or guaranteed by such person (other than those specified in clause (a) above) evidenced by debt securities, debentures, notes or other similar instruments.

- "Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or other preferential arrangement having the practical effect of constituting a security interest.

- "Modification" means any modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action provided by the indenture or the terms and conditions of the bonds.

- "Non-Reserved Matter" means any Modification other than a Modification constituting a Reserved Matter.

- "Public Sector Instrumentality" means Banco Central de la República del Ecuador, any department, ministry or agency of the government of Ecuador or any corporation, trust, financial institution or other entity owned or controlled by the government of Ecuador or any of the foregoing. Holders should note that the IESS is not controlled by the government of Ecuador and thus not a Public Sector Instrumentality.

- "Publicly Issued External Indebtedness" means External Indebtedness which (i) is publicly issued or privately placed in the international capital markets, (ii) is in the form of, or represented by, debt securities, notes or other securities or any guaranty thereof and (iii) is, or was intended at the time of issue to be, quoted, listed or ordinarily purchased and sold on any international stock exchange, automated trading system or over-the-counter or other international securities market.

- "Project Financing" means any financing of all or part of the costs of the acquisition, construction or development of any properties in connection with a project if the person or persons providing such financing expressly agree to look to the properties financed and the revenues to be generated by the operation of, or loss of or damage to, such properties as the principal source of repayment for the moneys advanced.

- "Reserved Matter" means any Modification that would:

  A. change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the bonds;

  B. reduce the principal amount of the bonds, the portion of such principal amount which is payable upon acceleration of the maturity of the bonds, the interest rate on the bonds or the premium payable upon redemption of the bonds;

  C. change the coin or currency in which payment of interest, premium or principal in respect of the bonds is payable and the place where such payment must be made;

  D. reduce the proportion of the principal amount of the bonds the vote or consent of the holders of which is necessary to make any Modification to or with respect to the terms and conditions of the debt securities of one or more series or the indenture, or change the definition of "Outstanding" under the bonds;

  E. change Ecuador's obligation to pay additional amounts on the bonds;

  F. change the governing law provision of the bonds;

  G. change the courts to the jurisdiction of which Ecuador has submitted, Ecuador's waiver of immunity, or Ecuador's appointment of the process agent without appointing a substitute process agent in the City of New York, in respect of actions or proceedings brought by any holder based upon the bonds;

  H. change the *pari passu* ranking of the bonds; or

  I. authorize the trustee, on behalf of all holders, to exchange or substitute all their bonds for, or convert all their bonds into, other obligations or securities of Ecuador or any other person.

Registration and Book-Entry System

Ecuador may issue the bonds in whole or in part in the form of one or more global bonds, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of bonds. Ecuador refers to the intangible bonds represented by a global bond as "book-entry" bonds.

Ecuador will deposit any global bond it issues with a clearing system. The global bond will be registered in the name of the clearing system or its nominee or common depositary. Unless a global bond is exchanged for definitive bonds, discussed above under "—Definitive Bonds," it may not be transferred, except among the clearing system, its nominees or common depositaries and their successors. Clearing systems include The Depository Trust Company, or DTC, in the United States and Euroclear and Clearstream in Europe.

Clearing systems process the clearance and settlement of book-entry securities for their direct participants. A "direct participant" is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An "indirect participant" is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant.

Euroclear and Clearstream are connected to each other by a direct link and participate in DTC through their New York depositaries, which act as links between the clearing systems.

Ecuador will treat the registered holder of a global bond as the absolute owner of the bond for all purposes. The legal obligations of Ecuador, the trustee, and any agent run only to the registered owner of a global bond, which will be the relevant clearing system or its nominee or common depositary. For example, once Ecuador arranges for payments to be made to the registered holder, Ecuador will no longer be liable for the amounts so paid on the bond. In addition, if you own a beneficial interest in a global bond, you must rely on the procedures of the institutions through which you hold your interests in the bond (including DTC, Euroclear, Clearstream, and their participants) to exercise any of the rights granted to the holder of the bond. Under existing industry practice, if you desire to take any action that the holder of a bond is entitled to take, then the registered holder would authorize the clearing system participant through which you own your beneficial interest to take the action, and the participant would then either authorize you to take the action or act for you on your instructions.

SETTLEMENT AND CLEARANCE

The following description reflects Ecuador's understanding of the current rules and procedures of DTC, Euroclear and Clearstream. Ecuador has obtained the information in this section from sources it believes to be reliable, including from DTC, Euroclear and Clearstream, but Ecuador takes no responsibility for the accuracy of this information. DTC, Euroclear and Clearstream are under no obligation to perform or continue to perform the procedures described below, and they may modify or discontinue them at any time. Neither Ecuador, nor the trustee, nor any agent will be responsible for DTC's, Euroclear's or Clearstream's performance of their obligations under their rules and procedures. Nor will Ecuador, the trustee, nor any agent be responsible for the performance by direct or indirect participants of their obligations under their rules and procedures.

The Clearing Systems

The Depository Trust Company

DTC is:

- a limited-purpose trust company organized under the New York Banking Law;
- a "banking organization" under the New York Banking Law;
- a member of the United States Federal Reserve System;
- a "clearing corporation" under the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934, as amended.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. DTC's participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

DTC can only act on behalf of its direct participants, who in turn act on behalf of indirect participants and certain banks. In addition, unless a global security is exchanged in whole or in part for a definitive security, it may not be physically transferred, except as a whole among DTC, its nominees and their successors. Therefore, a holder's ability to pledge a beneficial interest in the global security to persons that do not participate in the DTC system and to take other actions may be limited because the holder will not possess a physical certificate that represents the holder's interest.

So long as DTC's nominee is the registered owner of a global bond, that nominee will be considered the sole owner or holder of the bonds represented by that global bond for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global bond:

- will not be entitled to have bonds represented by the global bond registered in their names;
- will not receive or be entitled to receive physical, definitive bonds, except in the limited circumstances described above under "Description of the Bonds—Definitive Bonds"; and
- will not be considered the owners or holders of the bonds under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a global bond must rely on the procedures of DTC to exercise any rights of a holder of bonds under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the bonds).

Payments of principal and interest with respect to the bonds represented by a global bond will be made by the trustee to DTC's nominee as the registered holder of the global bond. Neither the Republic nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global bond, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a global bond will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Euroclear and Clearstream

Euroclear and Clearstream hold securities for their participants and facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in their accounts. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and other organizations. Banks, brokers, dealers and trust companies have indirect access to Euroclear or Clearstream by clearing through or maintaining a custodial relationship with a Euroclear or Clearstream participant.

Initial Settlement

Global Bonds

The bonds will initially be issued in the form of registered bonds in global form, without interest coupons, as follows:

- bonds sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be represented by a global bond (which we refer to in this offering memorandum as the "Rule 144A Global Bond"); and
- bonds sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will be represented by a global bond (which we refer to in this offering memorandum as the "Regulation S Global Bond").

Upon issuance, each of the global bonds will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each global bond will be limited to persons who have accounts with DTC (which we refer to in this offering memorandum as the "DTC participants") or persons who hold interests through DTC participants. The Republic expects that under procedures established by DTC:

- upon deposit of each global bond with DTC's custodian, DTC will credit portions of the principal amount of the global bond to the accounts of the DTC participants designated by the initial purchasers; and

- ownership of beneficial interests in each global bond will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each global bond).

Beneficial interests in the global bonds may not be exchanged for bonds in physical definitive form except in the limited circumstances described above under "Description of the Bonds—Definitive Bonds."

Each global bond and beneficial interests in each global bond will be subject to restrictions on transfer as described under "Transfer Restrictions."

Exchanges between the Global Bonds

Beneficial interests in one global bond may generally be exchanged for interests in another global bond. Depending on whether the transfer is being made during or after the 40-day period commencing on the date of the first issuance of the bonds, and to which global bond the transfer is being made, the trustee may require the seller to provide certain written certifications in the form provided in the indenture.

Any beneficial interest in a global bond that is transferred to a person who takes delivery through another global bond will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other global bond.

Secondary Market Trading

The laws of some states require certain purchasers of securities to take physical delivery of the securities in definitive form. These laws may impair your ability to transfer beneficial interests in the global bond to such purchasers.

Trading Between DTC Purchasers and Sellers

DTC participants will transfer interests in the bonds among themselves in the ordinary way according to DTC rules governing global security issues.

Trading Between Euroclear and/or Clearstream Participants

Participants in Euroclear and Clearstream will transfer interests in the bonds among themselves in the ordinary way according to the rules and operating procedures of Euroclear and Clearstream governing conventional Eurobonds.

Trading Between a DTC Seller and a Euroclear or Clearstream Purchaser

When the bonds are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the purchaser must first send instructions to Euroclear or Clearstream through a participant at least one business day prior to the settlement date. Euroclear or Clearstream will then instruct its depositary to receive the bonds and make payment for them. On the settlement date, the depositary will make payment to the DTC participant's account and the bonds will be credited to the account of Euroclear's or Clearstream's depositary at DTC. Euroclear and Clearstream will credit the bonds, in accordance with their usual procedures, to the participant's account, and the participant will then credit the purchaser's account. These bond credits will appear the next day (European time) after the settlement date. The cash debit from the account of Euroclear or Clearstream will be back-valued to the value date (which will be the preceding day if settlement occurs in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the cash debit will instead be valued at the actual settlement date.

Participants in Euroclear and Clearstream will need to make funds available to Euroclear or Clearstream in order to pay for the bonds by wire transfer on the value date. The most direct way of doing this is to preposition funds (*i.e.*, have funds in place at Euroclear or Clearstream before the value date), either from cash on hand or existing lines of credit. Under this approach, however, participants may take on credit exposure to Euroclear and Clearstream until the bonds are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to a participant, the participant may decide not to preposition funds, but to allow Euroclear or Clearstream to draw on the line of credit to finance settlement for the bonds. Under this procedure, Euroclear or Clearstream would charge the participant overdraft charges for one day, assuming that the overdraft would be cleared when the bonds were credited to the participant's account. However, interest on the bonds would accrue from the value date. Therefore, in these cases the interest income on bonds that the participant earns during that one-day period should reduce or offset the amount of the participant's overdraft charges. This result will depend on the cost of funds to (*i.e.*, the interest rate that Euroclear or Clearstream charges) each participant.

Since the settlement will occur during New York business hours, a DTC participant selling an interest in the bond can use its usual procedures for transferring global securities to the depositaries of Euroclear or Clearstream for the benefit of Euroclear or Clearstream participants. The DTC seller will receive the sale proceeds on the settlement date. Thus, to the DTC seller, a cross-market sale will settle no differently than a trade between two DTC participants.

Trading Between a Euroclear or Clearstream Seller and a DTC Purchaser

Due to time zone differences in their favor, Euroclear and Clearstream participants can use their usual procedures to transfer bonds through their depositaries to a DTC participant. The seller must first send instructions to Euroclear or Clearstream through a participant at least one business day prior to the settlement date. Euroclear or Clearstream will then instruct its depositary to credit the bonds to the DTC participant's account and receive payment. The payment will be credited in the account of the Euroclear or Clearstream participant on the following day, but the receipt of the cash proceeds will be back-valued to the value date (which will be the preceding day if settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the receipt of the cash proceeds will instead be valued at the actual settlement date.

If the Euroclear or Clearstream participant selling the bonds has a line of credit with Euroclear or Clearstream and elects to be in debit for the bonds until it receives the sale proceeds in its account, then the back-valuation may substantially reduce or offset any overdraft charges that the participant incurs over that one-day period.

TRANSFER RESTRICTIONS

The bonds are subject to the following restrictions on transfer. By purchasing bonds, you will be deemed to have made the following acknowledgements, representations to and agreements with the Republic and the initial purchasers:

(1) You acknowledge that:

- the bonds have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the bonds may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that you are not acting on the Republic's behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A) and are purchasing bonds for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the bonds to you in reliance on Rule 144A; or

- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing bonds in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither the Republic nor the initial purchasers nor any person representing the Republic or the initial purchasers has made any representation to you with respect to the Republic or the offering of the bonds, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the bonds. You agree that you have had access to such information concerning the Republic and the bonds as you have deemed necessary in connection with your decision to purchase bonds, including an opportunity to ask questions of and request information from the Republic.

(4) You represent that you are purchasing bonds for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the bonds in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the bonds pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing bonds, and each subsequent holder of the bonds by its acceptance of the bonds will agree, that until the end of the resale restriction period (as defined below), the bonds may be offered, sold or otherwise transferred only:

(a) to the Republic;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the bonds are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales that occur outside the United States within the meaning of Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date of the offering of the bonds until the date that is two years after the later of the closing date and the last date that the Republic or any of its affiliates was the owner of the bonds or any predecessor of the bonds (which we refer to in this offering memorandum as the "resale restriction period"), and will not apply after the resale restriction period ends;

- the Republic and the trustee reserve the right to require, in connection with any offer, sale or other transfer of bonds before the resale restriction period ends under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the trustee; and

- each bond will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON WHOM IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D), OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

You acknowledge that the Republic, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have been made by your purchase of bonds is no longer accurate, you will promptly notify the Republic and the initial purchasers. If you are purchasing any bonds as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

TAXATION

The following discussion provides a general summary of certain Ecuadorian and U.S. federal income tax considerations that may be relevant to you if you purchase, own or sell the bonds. This summary is based on tax laws, regulations, rulings and decisions in effect on the date of this offering memorandum. All of these laws and authorities are subject to change, and any change could be effective retroactively. No assurances can be given that any change in these laws or authorities will not affect the accuracy of the discussion set forth herein. For further information, you should consult your tax advisor to determine the tax consequences relevant to your particular situation. In addition, you may be required to pay stamp taxes and other charges under the laws of the country where you purchase the debt securities.

United States Taxation

Interest and additional amounts (as defined in "Description of the Bonds —Additional Amounts"), if any, on the bonds will not be exempt from United States taxation generally. Except as described in the following four paragraphs, a United States person will be subject to tax on such interest as ordinary income at the time it accrues or is received in accordance with their method of accounting for tax purposes.

The bonds will be subject to the special tax accounting rules for obligations issued with original issue discount ("OID"). The difference between the issue price of the bonds (91.692% of their stated principal amount) and their stated principal amount is the amount of OID on the bonds. Holders of the bonds should be aware that, as described in greater detail below, United States persons generally must include OID in ordinary gross income for United States federal income tax purposes as it accrues, before they receive the cash attributable to that income.

In general, regardless of whether a United States person uses the cash or the accrual method of tax accounting, such person will be required to include in ordinary gross income the sum of the "daily portions" of OID on the bonds for all days during the taxable year that such person has owned the bonds. The daily portions of OID on a bond are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of the bonds, provided that no accrual period is longer than one year and each scheduled payment of principal or interest occurs on either the final day or the first day of an accrual period. The amount of OID on a bond allocable to each accrual period is determined by:

(i) multiplying the "adjusted issue price" (as defined below) of the bonds at the beginning of the accrual period by the "yield to maturity" (as defined below) of such bonds (appropriately adjusted to reflect the length of the accrual period); and

(ii) subtracting from that product the amount of stated interest payable on the bonds that is allocable to that accrual period.

The "adjusted issue price" of a bond at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of interest made with respect to such bond in all prior accrual periods. The "yield to maturity" of a bond is the discount rate (appropriately adjusted to reflect the length of accrual periods) that causes the present value of all payments on the bond to equal the issue price of such bond.

The amount of OID so includible in income will increase the holder's tax basis in the bonds for purposes of determining the amount of any gain or loss recognized upon a sale, exchange, retirement or other disposition of the bonds.

Under United States federal income tax law as currently in effect, holders of bonds that are not United States persons will not be subject to United States federal income taxes, including withholding taxes, on payments of interest (including OID) on the bonds so long as the requirements described in the second succeeding paragraph are satisfied, unless:

(i) the holder is an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, to which the interest is attributable, or

(ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is received by a corporation the principal business of which is trading in stock or securities for its own account, and such corporation is otherwise engaged in the conduct of a trade or business in the United States.

The gain realized on any sale or exchange of the bonds by a holder that is not a United States person will not be subject to United States federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and either (A) such gain or income is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States.

The paying agents will be required to file information returns with the United States Internal Revenue Service with respect to payments made to certain United States persons on the bonds. In addition, certain United States persons may be subject to United States backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the relevant paying agent, and may also be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the bonds. Persons holding bonds who are not United States persons may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup withholding tax.

A bond held by an individual holder who at the time of death is a nonresident alien will not be subject to United States federal estate tax.

As used herein, the term “United States person” means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust’s administration and (ii) one or more United States persons have the authority to control all of the trust’s substantial decisions, and the term “United States” means the United States of America (including the States and the District of Columbia), its possessions, territories and other areas subject to its jurisdiction.

U.S. Internal Revenue Service Circular 230 Notice: To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that (a) any discussion of U.S. federal tax issues contained or referred to in this offering memorandum or any other document referred to herein is not intended or written to be used, and cannot be used, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the U.S. Internal Revenue Code, (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein, and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Ecuadorian Taxation

The following summary of certain Ecuadorian tax matters is based on a review of the *Ley de Régimen Tributario Interno* (which we refer to in this offering memorandum as the “Ecuadorian Tax Code”), as amended. The summary contains a description of Ecuador’s principal tax consequences of the purchase, ownership and disposition of the bonds, but it does not purport to be a comprehensive description of all tax consequences that may be relevant to a decision to purchase the bonds.

This summary is based upon the tax laws of Ecuador, as in effect on the date of this offering memorandum which are subject to change. Prospective purchasers of the bonds (including residents of Ecuador, if any) should consult their tax advisors as to the consequences of the purchase, ownership and disposition of the bonds.

Pursuant to Article 13(3) of the Ecuadorian Tax Code, payments of principal on the bonds to a foreign non-resident holder generally will not be subject to withholding tax or any other kind of withholding in Ecuador, provided that the interest rate for the bonds is less than or equal to the *tasa activa referencial*, fixed each week by the Central Bank, in force on the issuance date. If the interest rate on the bonds is higher than the *tasa activa referencial* on the issuance date, a withholding tax of 25% of the interest income in excess of the *tasa activa referencial* will apply. In the event of any such tax or other withholding, such holder will be entitled to receive additional amounts as and to the extent set forth in the bonds, as described under "Description of the Bonds—Additional Amounts."

Capital gains realized on the sale or other disposition by a foreign non-resident holder of the bonds generally will not be subject to any Ecuadorian taxes, provided that such sale or other disposition occurs outside of Ecuador. The foregoing tax treatment assumes that the bonds will remain in the form of global bonds registered in the name of a nominee of DTC and will not be issued in definitive, certificated form.

A foreign non-resident holder of bonds generally will not be liable for estate, gift, inheritance or similar taxes with respect to such bonds.

PLAN OF DISTRIBUTION

Subject to the terms and conditions in the purchase agreement dated as of the date of this document between the Republic and the initial purchasers, the Republic has agreed to sell to each of the initial purchasers, and each of the initial purchasers has severally agreed to purchase from the Republic, the principal amounts of the bonds set forth opposite the respective initial purchaser's name in the table below.

Initial Purchasers	Principal Amount of Bonds
Deutsche Bank Securities Inc.	U.S.$325,000,000
J.P. Morgan Securities Inc.	325,000,000
Total	U.S.$650,000,000

The obligations of the initial purchasers under the purchase agreement, including their agreement to purchase bonds from the Republic, are several and not joint. The purchase agreement provides that the obligations of the initial purchasers to purchase the bonds included in this offering are subject to approval of legal matters by counsel and other conditions. The initial purchasers are obligated to purchase all of the bonds if they purchase any of them.

The initial purchasers initially propose to offer the bonds for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the initial purchasers may change the offering price and any other selling terms.

In order to facilitate the offering of the bonds, the initial purchasers or their affiliates may engage in transactions that stabilize, maintain or affect the price of the bonds. In particular, the initial purchasers may:

- over-allot in connection with the offering (i.e., apportion to dealers more of the bonds than the initial purchasers have), creating a short position in the bonds for their own accounts,
- bid for and purchase bonds in the open market to cover over-allotments or to stabilize the price of the bonds or
- if the initial purchasers repurchase previously distributed bonds, reclaim selling concessions which they gave to dealers when they sold the bonds.

Any of these activities may stabilize or maintain the market price of the bonds above independent market levels. The initial purchasers are not required to engage in these activities, but, if they do so, they may discontinue them at any time. There is no assurance that the initial purchasers will undertake stabilization action.

Neither the Republic nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the bonds. In addition, neither the Republic nor the initial purchasers make any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

In the purchase agreement, the Republic has agreed that:

- it will not offer or sell any debt securities (other than the bonds) outside the territory of the Republic, for a period of three months after the date of this offering memorandum without the prior consent of the Republic;
- it will indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchasers may be required to make in respect of those liabilities; and
- the bonds have not been registered under the Securities Act or the securities laws of any other place.

In the purchase agreement, each initial purchaser has agreed that:

- the bonds may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and

- during the initial distribution of the bonds, it will offer or sell bonds only to qualified institutional buyers in compliance with Rule 144A and outside the United States in compliance with Regulation S.

The initial purchasers and their affiliates have engaged in and may in the future engage in transactions with and perform services for Ecuador. These transactions and services are carried out in the ordinary course of business.

In addition, until 40 days after the commencement of this offering, an offer or sale of bonds within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

In the purchase agreement, each initial purchaser has also agreed that it has complied and will comply with all applicable provisions of the Financial Services Act of 1986 with respect to anything done by it in relation to the bonds in, from or otherwise involving the United Kingdom.

The Republic and the initial purchasers will offer and sell the bonds in the United States and other jurisdictions only where offers and sales are permitted by law. The distribution of this offering memorandum and the offering of the bonds may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes and investors in the bonds should inform themselves about and observe any of these restrictions. This offering memorandum does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. If you receive this offering memorandum, then you must comply with the applicable laws and regulations of the place where you (a) purchase, offer, sell or deliver the bonds or (b) possess, distribute or publish any offering material relating to the bonds. Your compliance with these laws and regulations will be at your own expense.

The bonds are a new issue of securities, and there is no established trading market for the bonds. The initial purchasers have advised the Republic that they currently intend to make a market in the bonds. However, they are not obligated to do so, and any market-making with respect to the bonds may be discontinued without notice. In addition, the bonds are subject to restrictions on resale and transfer as described under "Transfer Restrictions." Application will be made to list the bonds on the Luxembourg Stock Exchange and to have the bonds admitted to trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. No assurance can be given that the bonds will be approved for listing on the Luxembourg Stock Exchange and trading on the Euro MTF.

LEGAL MATTERS

The validity of the bonds will be passed upon on behalf of the Republic by Dr. José María Borja, Ecuadorian counsel to the Republic, and by Cleary Gottlieb Steen & Hamilton LLP, U.S. counsel to the Republic, and on behalf of the initial purchasers by Sullivan & Cromwell LLP, U.S. counsel to the initial purchasers, and Pérez, Bustamante & Ponce Abogados Cia. Ltda., Ecuadorian counsel to the Initial Purchasers. As to all matters of Ecuadorian law, Cleary Gottlieb Steen & Hamilton LLP may rely on the opinion of Dr. Jose Mario Borja and Sullivan & Cromwell LLP may rely upon the opinion of Pérez, Bustamante & Ponce Abogados Cia. Ltda.

OFFICIAL STATEMENTS

Information in this offering memorandum whose source is identified as a publication of the Republic or one of its agencies or instrumentalities relies on the authority of such publication as a public official document of the Republic.

GENERAL INFORMATION

1. The issuance of the bonds was authorized pursuant to Executive Decree Number 533, effective September 21, 2005.

2. Application will be made to list the bonds on the Luxembourg Stock Exchange and to have the bonds admitted to trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. No assurance can be given that the bonds will be approved for listing on the Luxembourg Stock Exchange and trading on the Euro MTF. Except as otherwise set forth herein, neither the Republic nor any governmental agency of the Republic is involved in any litigation or arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the bonds and which would materially and adversely affect the Republic's ability to meet its obligations under the bonds and the indenture and, so far as the Republic is aware, no such litigation or arbitration or administrative proceedings are pending or threatened.

3. Copies of the following documents shall be available during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the specified offices of the trustee and the paying agents:

    - The indenture (including the forms of the bonds); and

    - English translations of the Executive Decree referred to in paragraph 1 above.

4. Application has been made to have the bonds that are sold outside the United States in reliance on Regulation S under the Securities Act and represented by the Regulation S Global Bond accepted for clearance through Euroclear and Clearstream Banking. The CUSIP numbers for the Regulation S Global Bond and the Rule 144A Global Bond are P8055QDE9 and 27927WAF9, respectively. Application has also been made for the Regulation S Global Bond and the Rule 144A Global Bond to be accepted for clearance through the Euroclear and Clearstream banking clearance systems and the Bonds have been accepted for clearance in such systems. The International Securities Identification Numbers (ISIN) for the Regulation S Global Bond and the Rule 144A Global Bond are USP8055QDE90 and US27927WAF95, respectively.

5. Other than as disclosed in this offering memorandum, there has been no material adverse change in the financial condition of the Republic that is material in the context of the issue of the bonds since June 30, 2005.

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ISSUER

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TRANSFER AGENT AND REGISTRAR

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