Fitch Affirms Ecuador's FC IDR at 'B-'; Outlook Stable Ratings
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Fitch Ratings-New York-28 October 2011: Fitch Ratings has affirmed the Issuer Default Ratings (IDRs) and Country Ceiling for Ecuador as follows:

--Foreign currency IDR at 'B-';
--Foreign currency short-term IDR at 'B';
--Country ceiling at 'B-'.

The Rating Outlook is maintained at Stable.

The rating applies to Global 2015 uncollateralized foreign currency bonds, and collateralized foreign currency Par and Discount Brady bonds.

Ecuador's ratings balance comparatively stronger fiscal and external solvency indicators against a poor debt service track record, limited financing sources, and high commodity dependence.

The sovereign's recent restricted default and coercive debt exchange in 2008-2009 despite adequate capacity to pay demonstrates a relatively weak willingness to service debt and constitutes a key weakness in Ecuador's credit profile. 'Ecuador's commitment to continue servicing debt has not yet been tested under less favorable external conditions' said Santiago Mosquera, a Director in Fitch's Sovereign Group.

Economic growth has accelerated in Ecuador since the first half of 2010 and could average 6% in 2011. 'Higher international oil prices, and the stabilization in oil output and financing availability have allowed the government to provide a strong fiscal stimulus' added Mosquera.

Fitch considers that Ecuador's growth performance is vulnerable to a decline in international oil prices, since the government has limited counter-cyclical policy options given the country's dollarization regime and limited financing sources.

Fitch notes that the role of the state has continued to increase in recent years. The non-financial public sector expenditure is expected to double from 24.0% of GDP in 2006 to 46.3% in 2012. Capital spending has been increasing recently, and accounts for 25% of the total. Fitch notes that public sector-led infrastructure investments might provide not only a short-term boost to growth, but, if successful, could also reduce energy and transportation costs over the medium term.

China has consolidated as Ecuador's main creditor, having signed agreements worth USD7.25 billion to date since 2009 and currently accounting for 16% of total outstanding debt. Additional financing sources remain constrained, as in Fitch's baseline scenario, further loans from the public Social Security System and from multilaterals would be relatively limited.

According to Fitch, the under-execution of the fiscal program in recent years, increases in non-oil tax collection, and favorable oil prices have kept fiscal deficits under control when compared to the median for the 'B' rating category (sovereigns rated 'B+', 'B' and 'B-). However, higher deficits could be expected especially if large-scale bilateral financing continues.

Public debt, measured both in terms of GDP and revenue, is lower than for peers in the 'B' rating category. Debt maturities and interest payments compare favorably to peers, and are likely to remain relatively manageable in terms of GDP. However, rapid growth in indebtedness has brought nominal debt back to the level observed before the 2008/2009 default.

Relatively high commodity dependence renders Ecuador vulnerable to volatility in international oil prices. Oil exports accounted for 52% of total exports and traditional exports such as shrimp and bananas account for an additional 21%. Moreover, the country is also dependent on the growth performance in the U.S. and EU due to the importance of migrant remittances (4% of GDP). Ecuador's recent record of current account deficits (3.1% of GDP in 2010) highlights the importance of international oil prices and reliable sources of external financing.

Greater evidence and track record of willingness to service debt through political and economic cycles would be positive for Ecuador's ratings. Increased availability of financing sources, sustained high growth performance and reduced external vulnerabilities would also benefit creditworthiness. On the contrary, a greater-than-expected deterioration in fiscal and external accounts, re-emergence of financing constraints and signs of erosion in willingness to service its outstanding debt could undermine the sovereign's ratings.

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Additional information is available at 'www.fitchratings.com'. The ratings above were unsolicited and have been provided by Fitch as a service to investors.

Applicable Criteria and Related Research:
--'Sovereign Rating Methodology' (Aug. 15, 2011).

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