LISTING PARTICULARS DOCUMENT
dated August 23, 2000

THE REPUBLIC OF ECUADOR

US$2,700,000,000 US Dollar Denominated Step-Up Global Bonds due 2030 (the "2030 Bonds")

US$1,250,000,000 12% US Dollar Denominated Global Bonds due 2012 (the "2012 Bonds") (collectively, the "Global Bonds")

The Global Bonds are direct, unconditional and unsecured obligations of Ecuador, issued in registered form, without interest coupons, in the nominal amounts listed above. The Global Bonds are being offered outside the United States to holders of the Existing Bonds in reliance on Regulation S under the United States Securities Act of 1933, as amended (the *"Securities Act"*), and the Global Bonds are also being offered to Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) in a concurrent offering in the United States to holders of the Existing Bonds.

The following are, collectively, the "Existing Bonds":	ISIN and Common Code Numbers:	Original Principal Amount Outstanding on July 27, 2000	Principal Amount Tendered	Remaining Principal Amount Outstanding
Collateralized Par Bonds due 2025	XS0055572084; 005557208	U.S.$1,655,395,000	U.S.$1,590,943,000	U.S.$64,452,000
Collateralized Discount Bonds due 2025	XS0055571789; 005557178	U.S.$1,434,671,000	U.S.$1,401,379,000	U.S.$33,292,000
Past Due Interest Bonds due 2015	XS0055571433 and XS0055571193; 005557143 and 005557119	U.S.$2,308,344,000	U.S.$2,209,011,000	U.S.$99,333,000
IE Bonds due 2004	XS0054918353 and XS0054730980; 005491835 and 005473098	U.S.$190,744,000	U.S.$181,409,000	U.S.$9,335,000
11.25 per cent Fixed Rate Eurobonds due 2002	USP8055QAA06 and US27927WAA09; 007562128 and 008305676	U.S.$350,000,000	U.S.$322,259,000	U.S.$27,741,000
Floating Rate Eurobonds due 2004	USP8055QAB88 and US27927WAB81; 007562144 and 008305650	U.S.$150,000,000	U.S.$143,280,000	U.S.$6,720,000

The Global Bonds have been accepted for clearance through Euroclear and Clearstream and were deposited with Citibank, N.A. as common depositary for Euroclear, Clearstream and DTC on the date hereof.

Application has been made to list the Global Bonds on the Luxembourg Stock Exchange. Application has also been made for publication of quotations for the Restricted Bonds in the Private Offerings, Resale and Trading through Automated Linkages Market (*"PORTAL"*), a subsidiary of The Nasdaq Stock Market, Inc., and for designation of the Restricted Bonds as "PORTAL Securities."

See "Investment Considerations" for a discussion of certain important matters that should be considered by holders of Existing Bonds before deciding to participate in the Exchange Offer.

Global Coordinator

Salomon Smith Barney

Joint Dealer Managers

Salomon Smith Barney **J.P. Morgan & Co.**

Ecuador has taken all reasonable care to ensure that all information contained in this Listing Particulars Document is true and accurate in all material respects and that this Listing Particulars Document does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements herein not misleading.

The Trustee, the Dealer Managers, the Exchange Agent, the Paying Agents, the Listing Agent, the Luxembourg Exchange Agent, the Registrar, and the Transfer Agents referred to herein make no representations whatsoever regarding this Listing Particulars Document or the Global Bonds. The responsibility for the accuracy and completeness of this Listing Particulars Document rests solely with the Issuer.

No person is authorized to give any information or to make any representation not contained in this Listing Particulars Document and, if given or made, such other information or representation must not be relied upon as having been authorized by or on behalf of the Issuer. Holders of Existing Bonds should rely only on the information provided in this Listing Particulars Document. The delivery of this Listing Particulars Document does not imply that information contained herein is correct as of any time subsequent to the respective dates as of which information is given herein. Statistical information included herein is the latest official data available on the date of this Listing Particulars Document.

The distribution of this Listing Particulars Document and the offering of the Global Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Listing Particulars Document comes should inform themselves about and observe any such restrictions. This Listing Particulars Document does not constitute an offer of, or a solicitation by or on behalf of, the Issuer to exchange the Global Bonds for any of the Existing Bonds in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. See Annex D, "Jurisdictional Restrictions," for restrictions applicable in certain jurisdictions.

No action has been or will be taken by the Issuer that would permit a public offering of the Global Bonds or the circulation or distribution of this Listing Particulars Document in any country or jurisdiction where action for that purpose may be required.

THE GLOBAL BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR THE ADEQUACY OF THIS LISTING PARTICULARS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE GLOBAL BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OR ELSEWHERE. GLOBAL BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THIS LISTING PARTICULARS DOCUMENT HAS BEEN PREPARED BY THE ISSUER SOLELY FOR USE IN CONNECTION WITH THE OFFER OF THE GLOBAL BONDS OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS PURSUANT TO REGULATION S, FOR THE OFFER OF THE GLOBAL BONDS WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A AND FOR THE LISTING OF THE GLOBAL BONDS ON THE LUXEMBOURG STOCK EXCHANGE. HOLDERS OF EXISTING BONDS ARE HEREBY NOTIFIED THAT THE ISSUER, THE DEALER MANAGERS AND THE EXCHANGE AGENT MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS OF THE GLOBAL BONDS AND DISTRIBUTION OF THIS LISTING PARTICULARS DOCUMENT SEE "TRANSFER RESTRICTIONS."

In this Listing Particulars Document, references to "US dollars," "$" and "US$" are to the lawful currency of the United States of America. References to "sucres" are to the currency of Ecuador that is largely being replaced by the US dollar as a consequence of the Dollarization Program. For a description of the Dollarization Program, see "The Ecuadorian Economy—Dollarization Program." The fiscal year in Ecuador runs from January through December.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Listing Particulars Document constitute forward-looking statements. Statements that are not historical facts, including statements about Ecuador's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. No undue reliance should therefore be placed on these forward-looking statements. Forward-looking statements speak only as of the date they are made, and the Issuer undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Issuer cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Forward-looking statements include, but are not limited to:

- plans with respect to the implementation of the Dollarization Program and economic policy generally;
- expectations about the behavior of the Ecuadorian economy if certain economic policies are implemented;
- the outlook for inflation, interest rates and fiscal accounts; and
- Ecuador's prospects for achieving comprehensive debt relief from its creditors.

In addition to the factors described in this Listing Particulars Document, the following factors, among others, could cause future results to differ materially from those expressed in any forward-looking statements:

- adverse external factors, such as higher interest rates, could increase Ecuador's debt service requirements, and low commodity prices, recession or low growth in Ecuador's trading partners could decrease Ecuador's export earnings, negatively affect the current account deficit and balance of payments or result in recession or low growth in Ecuador;
- decisions of international financial institutions, such as the International Monetary Fund, regarding the terms of their financial assistance to Ecuador;
- adverse domestic factors, such as low investment rates, high domestic inflation, financial system instability, political uncertainty, social unrest, and adverse weather or seismic conditions, any of which could lead to lower growth in Ecuador or an increase in the burden of servicing Ecuador's debt obligations; and
- policy changes instituted by future administrations in Ecuador or mandated by the Ecuadorian Congress.

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GLOSSARY

Additional Amounts	The amounts the Issuer will pay to holders of Existing Bonds in the event the Issuer is required to deduct or withhold taxes, duties, assessments, imposts or other governmental charges by Ecuador from payments of principal or interest by the Issuer on the Global Bonds.
AGD	Deposit Guarantee Agency *(Agencia de Garantia de Depósitos).*
Amended Existing Bonds	The Existing Bonds as amended pursuant to the Exchange Offer.
Announcement Date	The date on which Ecuador announces the results of the Exchange Offer and whether it will proceed to a closing of the Exchange Offer.
Bondholders	Holders of the Existing Bonds who have tendered their Existing Bonds for 2030 Bonds and/or 2012 Bonds pursuant to this Exchange.
Brady Bonds	The Par Bonds, Discount Bonds, PDI Bonds and IE Bonds, collectively.
Business Day	A day which is not a Saturday or Sunday and on which banks are not required or authorized by law to close in New York City.
Cash in Lieu Rate	The rate that will be determined by the Dealer Managers, in their sole discretion, to reflect the fair value of the 2012 Bonds or the 2030 Bonds, as the case may be, as of the Expiration Date for the purpose of paying fractional amounts of 2012 Bonds or 2030 Bonds, as the case may be. Such Cash in Lieu Rates will be made available promptly after the Expiration Date.
Cash Value	A payment equal to the present value of the principal obligation of the Par Bonds and the Discount Bonds.
Central Bank	Banco Central del Ecuador.
CAF	The Andean Development Corporation.
Clearstream	Clearstream Banking, *société anonyme.*
Closing Date	The Closing Date is August 23, 2000.
Collateral Agent	The Federal Reserve Bank of New York, as Collateral Agent for the Par Bonds and the Discount Bonds.
Comprehensive Debt Management Program	Ecuador's program to deal with its debt burden as described in "— The Ecuadorian Economy—Comprehensive Debt Management Program."

Current IE Factor	0.65, which is a ratio equal to the principal balance currently not yet due and payable on the IE Bonds divided by the original principal amount of such IE Bonds; such ratio being used in the trading of IE Bonds to reconcile the original principal amount with the current balance of principal not yet due and payable.
Current PDI Factor	1.18192, which is a ratio equal to the total principal balance currently due on the PDI Bonds (which includes capitalized interest through February 28, 2000) divided by the original principal amount of such PDI Bonds; such ratio being used in the trading of PDI Bonds to reconcile the original principal amount with the current principal balance.
Dealer Managers	Salomon Smith Barney Inc. and JP Morgan & Co.
December IE Factor	0.75, which is a ratio equal to the principal balance that was not yet due and payable prior to December 21, 1999, but after June 21, 1999, on the IE Bonds divided by the original principal amount of such IE Bonds.
Dollarization Program	Ecuador's program, announced on January 9, 2000, to adopt the US dollar as the lawful currency of Ecuador.
DTC	The Depository Trust Company.
Ecuador	The Republic of Ecuador.
Eurobonds	The Fixed Rate Eurobonds and the Floating Rate Eurobonds.
Eurobond Trustee	Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association, in its capacity as trustee for the Eurobonds.
Euroclear	The Euroclear System.
Exchange	The exchange of Existing Bonds for Global Bonds and cash payments as described in the Offering Circular dated July 27, 2000.
Exchange Agent	Citibank, N.A.
Exchange Amendments	Amendments to the Existing Bonds made pursuant to the Exchange Offer.
Exchange Offer	An offer by Ecuador to effectuate the Exchange, pursuant to the terms in the Offering Circular dated July 27, 2000..
Existing Bonds	US$1,655,395,000 Collateralized Par Bonds due 2025, US$1,434,671,000 Collateralized Discount Bonds due 2025, US$2,308,344,000 Past Due Interest Bonds due 2015, US$190,744,000 IE Bonds due 2004, US$350,000,000 11.25 per cent Fixed Rate Eurobonds due 2002 and US$150,000,000 Floating Rate Eurobonds due 2004.
Expiration Date	August 9, 2000, or such later date as Ecuador may announce for the expiration of the Exchange Offer.

Fiscal Agent	The Chase Manhattan Bank, N.A., in its capacity as Fiscal Agent for the Par Bonds, the Discount Bonds, the PDI Bonds and the IE Bonds.
Global Bonds	The 2030 Bonds and 2012 Bonds.
Government	The Government of Ecuador.
Holder	A beneficial owner of an Existing Bond.
IDB	Inter-American Development Bank.
IMF	International Monetary Fund.
The IMF Program	The 12-month Standby Agreement entered into by Ecuador and the IMF on April 19, 2000 (see Annex A).
Indentures	Collectively, the Indenture for the 2030 Bonds and the Indenture for the 2012 Bonds.
Issuer	The Republic of Ecuador.
June IE Factor	0.70, which is a ratio equal to the principal balance that was not yet due and payable prior to June 21, 2000, but after December 21, 1999, on the IE Bonds divided by the original principal amount of such IE Bonds.
LET	Law of Economic Transformation (*Ley para la Transformación Ecónomica del Ecuador*).
Letter of Transmittal	A letter of transmittal in the form set out in the accompanying documents by which a Holder of Existing Bonds accepts the Exchange Offer.
LIBOR	London Interbank Offered Rate.
Luxembourg Exchange Agent	Banque Internationale à Luxembourg S.A.
Non-U.S. Person	Any person other than a U.S. Person.
ODEPLAN	National Development Council (*Consejo Nacional de Desarollo, formerly CONADE*).
OLADE	Latin American Energy Organization (*Organización Latinoamericana de Energia*).
OPEC	Organization of the Petroleum Exporting Countries.
Paying Agent	Citibank, N.A., in its capacity as Paying Agent for the Global Bonds.
PORTAL	Private Offerings, Resale and Trading through Automated Linkages Market, a subsidiary of The Nasdaq Stock Market, Inc.
Portal Securities	Securities for which quotations are published in PORTAL.

Principal Reinstatement Date	The date on which additional 2030 Bonds will be issued to holders of those instruments should a payment default occur thereunder (within the first 10 years) and remain unremedied for 12 months.
Qualified Institutional Buyer (or QIB)	A qualified institutional buyer as defined in Rule 144A under the Securities Act.
Registrar	Citibank, N.A., in its capacity as the Registrar for the Global Bonds.
Restricted Bonds	Global Bonds that are offered in the United States to Qualified Institutional Buyers.
SEC	The United States Securities and Exchange Commission.
Securities Act	United States Securities Act of 1933, as amended.
SOTE	Trans Ecuadorean Pipeline System (*Systema del Oleoducto Trans-Ecuatoriano*).
Sucres	The currency of Ecuador that is largely being replaced by the US dollar as a consequence of the Dollarization Program.
Tender (or Tendered)	A valid acceptance of the Exchange Offer by a Holder of Existing Bonds.
Transfer Agent	Citibank, N.A., in its capacity as the Transfer Agent for the Global Bonds.
Trustee	U.S. Bank National Association.
2012 Bonds	US Dollar Denominated 12% Global Bonds due 2012.
2030 Bonds	US Dollar Denominated Step-Up Global Bonds due 2030.
US Dollar, $, or US$	The lawful currency of the United States of America.
U.S. Person	(i) Any natural person resident in the United States; (ii) any partnership or corporation organized or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a U.S. Person; (iv) any trust of which any trustee is a U.S. Person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and (viii) any partnership or corporation if (A) organized or incorporated under the laws of any foreign jurisdiction and (B) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts; provided, however, that the following shall not be deemed to be a U.S. Person:

(1) any discretionary account or similar account (other than an estate or trust) held for the benefit or account of a Non-U.S. Person by a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States;

(2) any estate of which any professional fiduciary acting as an executor or administrator is a U.S. Person if (i) an executor or administrator of the estate who is not a U.S. Person has sole or shared investment discretion with respect to the assets of the estate and (ii) the estate is governed by foreign law;

(3) any trust of which any professional fiduciary acting as a trustee is a U.S. Person if (i) a trustee who is not a U.S. Person has sole or shared investment discretion with respect to the trust assets and (ii) no beneficiary of the trust (and no settlor if the trust is revocable) is a U.S. Person;

(4) an employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of such country;

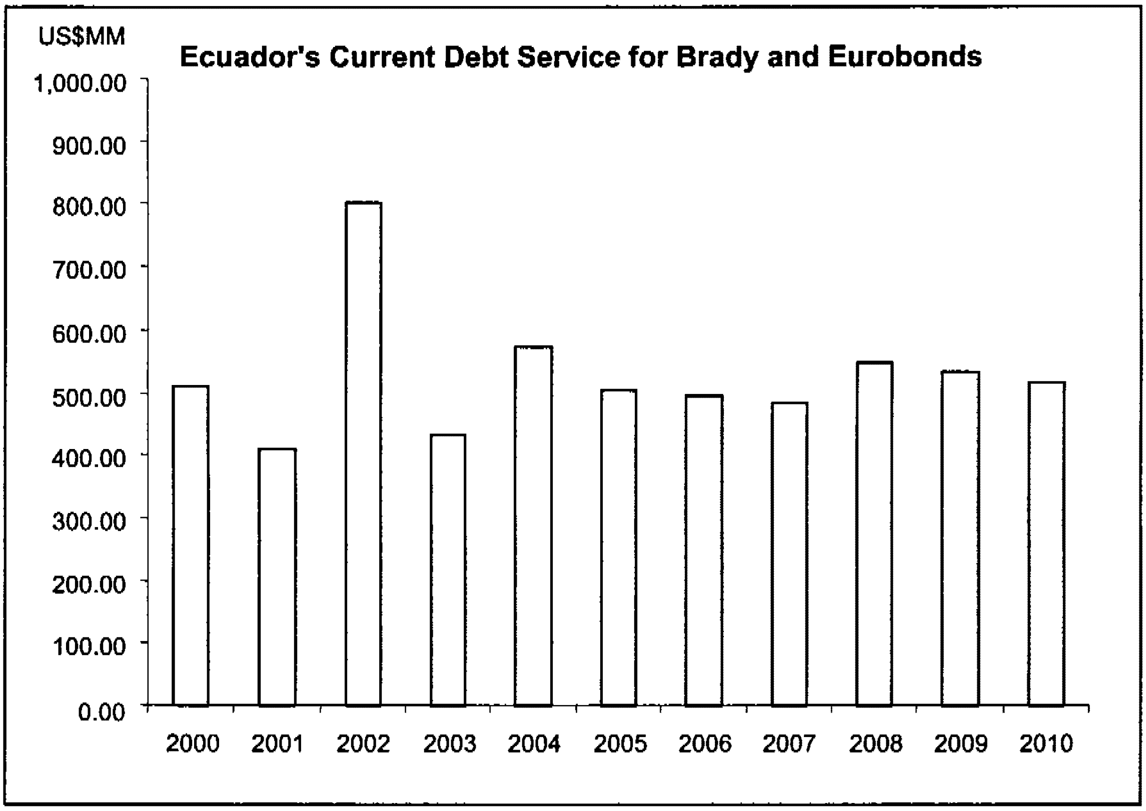
(5) any branch or agency of a U.S. Person located outside the United States if such agency or branch (i) operates for valid business reasons, (ii) is engaged in the banking or insurance business and (iii) is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located; and

(6) the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organizations, their agencies, affiliates and pension plans.

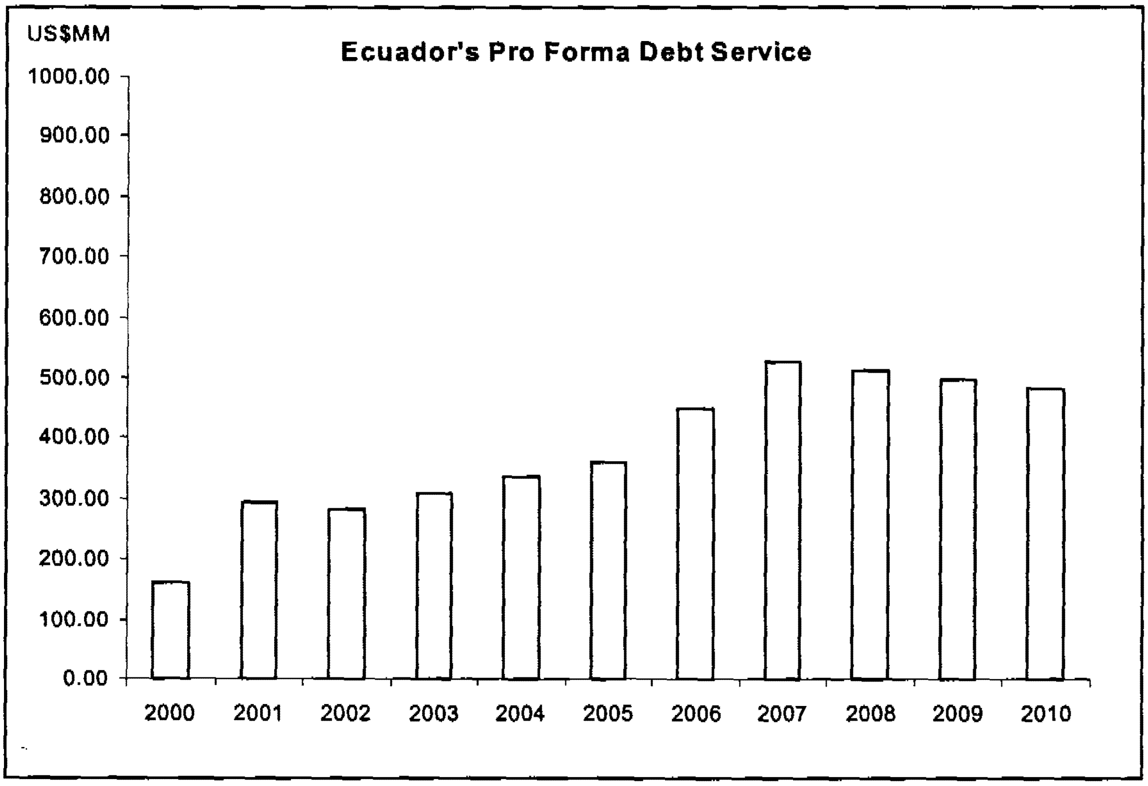
United States	The United States of America, including its territories and possessions, any state of the United States and the District of Columbia.
Unrestricted Bonds	Global Bonds that are offered outside the United States pursuant to Regulation S under the Securities Act.

AFFECTED DEBT PROFILE

The following chart shows Ecuador's current debt service profile for its Brady and Eurobond debt according to original contractual terms over the next 10 years (debt service for 2000 includes US$118 million of past due interest and principal payments from the second half of 1999).



The following chart shows Ecuador's pro forma debt service profile for this debt stock over the same period after giving effect to the anticipated benefits of the transaction described herein (and assuming full participation by Holders in the Exchange Offer described herein and full allocation of 2012 Bonds).



SUMMARY OF EXISTING BONDS

The aggregate outstanding principal balance of all Existing Bonds is approximately $6,461,402,000.

The following is a summary of the terms of the Par Bonds:

Principal Amount Currently Outstanding:	US$1,655,395,000.
Interest Rate:	4% per annum until February 2001; steps up to 5% per annum thereafter.
Interest Payments:	Semiannually, on May 28 and November 28.
Principal Payments:	Payable at maturity.
Final Maturity:	February 28, 2025.
Common Code:	005557208
ISIN:	XS0055572084
Default Status:	Missed November 28, 1999 and May 28, 2000 interest payments.

The following is a summary of the terms of the Discount Bonds:

Principal Amount Currently Outstanding:	US$1,434,671,000.
Interest Rate:	Six-month LIBOR plus 13/16% per annum.
Interest Payments:	Semiannually, on February 28 and August 28.
Principal Payments:	Payable at maturity.
Final Maturity:	February 28, 2025.
Common Code:	005557178
ISIN:	XS0055571789
Default Status:	Missed August 28, 1999 interest payment (subsequently paid from the interest collateral for the Discount Bonds) and February 28, 2000 interest payment.

The following is a summary of the terms of the PDI Bonds:

Original Principal Amount Currently Outstanding:	US$2,308,344,000.
Principal Balance Currently Outstanding:	US$2,728,277,940.48
Interest Rate:	Six-month LIBOR plus 13/16% per annum.
Interest Payments:	Semiannually, on February 28 and August 28.
Principal Payments:	Payable prior to and at maturity pursuant to its terms.
Final Maturity:	February 27, 2015.
Common Code:	005557143 and 005557119
ISIN:	XS0055571433 and XS0055571193
Default Status:	Missed February 28, 2000 interest payment.

The following is a summary of the terms of the IE Bonds:

Original Principal Amount Currently Outstanding:	US$190,744,000.
Principal Balance Currently Outstanding:	US$143,058,000.
Interest Rate:	Six-month LIBOR plus 13/16% per annum.
Interest Payments:	Semiannually, on June 21 and December 21.
Principal Payments:	Payable prior to and at maturity pursuant to its terms.
Final Maturity:	December 21, 2004.
Common Code:	005491835 and 005473098
ISIN:	XS0054918353 and XS0054730980
Default Status:	Missed December 21, 1999 and June 21, 2000 interest and principal payments.

The following is a summary of the terms of the Fixed Rate Eurobonds:

Principal Amount Currently Outstanding:	US$350,000,000.
Interest Rate:	11.25% per annum.
Interest Payments:	Semiannually, on April 25 and October 25.
Principal Payments:	Payable at maturity.
Final Maturity:	April 25, 2002.
Common Code:	007562128 and 008305676
ISIN:	USP8055QAA06 and US27927WAA09
CUSIP:	27927W-AA-O
Default Status:	Missed October 25, 1999 and April 25, 2000 interest payments.

The following is a summary of the terms of the Floating Rate Eurobonds:

Principal Amount Currently Outstanding:	US$150,000,000.
Interest Rate:	Six-month LIBOR plus 0.475% per annum.
Interest Payments:	Semiannually, on April 25 and October 25.
Principal Payments:	Payable at maturity.
Final Maturity:	April 25, 2004.
Common Code:	007562144 and 008305650
ISIN:	USP8055QAB88 and US27927WAB81
CUSIP:	27927W-AB-8
Default Status:	Missed October 25, 1999 and April 25, 2000 interest payments.

SUMMARY OF 2030 BONDS

Issuer:	The Republic of Ecuador
Authorized Amount:	US$3,750,000,000
Issued Amount	US$2,700,000,000
Issue Date:	August 23, 2000; interest shall accrue commencing on such date
CUSIP:	27927WAD4
ISIN:	US27927WAD48 (Restricted Global Bonds), XS0115743519 (Unrestricted Global Bonds)
Common Code:	11574386 (Restricted Global Bonds), 011574351 (Unrestricted Global Bonds)
Maturity Date:	August 15, 2030

Step-Up Coupons:

For Interest Accruing from (and including) to (but excluding)	Interest Rate (per annum)
Closing Date to August 15, 2001	4.00%
August 15, 2001 to August 15, 2002	5.00%
August 15, 2002 to August 15, 2003	6.00%
August 15, 2003 to August 15, 2004	7.00%
August 15, 2004 to August 15, 2005	8.00%
August 15, 2005 to August 15, 2006	9.00%
August 15, 2006 to maturity	10.00%

Coupon Payment Dates: Every August 15th and February 15th, starting on February 15, 2001 and ending on, and including, the Maturity Date.

Mandatory Debt Management: Ecuador must undertake arrangements (*e.g.*, debt buy-backs or debt conversions) that would have the effect of retiring not less than 3% of the original principal amount of the 2030 Bonds in each of the last seventeen years that the 2030 Bonds will be outstanding. Accordingly, the aggregate outstanding principal amount of the 2030 Bonds (when expressed as a percentage of the original principal amount of the 2030 Bonds) must not be more than:

Date	Outstanding Principal
August 15, 2013	97%
August 15, 2014	94%
August 15, 2015	91%
August 15, 2016	88%
August 15, 2017	85%
August 15, 2018	82%
August 15, 2019	79%
August 15, 2020	76%
August 15, 2021	73%
August 15, 2022	70%
August 15, 2023	67%
August 15, 2024	64%
August 15, 2025	61%
August 15, 2026	58%

August 15, 2027	55%
August 15, 2028	52%
August 15, 2029	49%

Failure to meet this test on any such date would result in an obligation on the part of Ecuador to make a partial redemption of the 2030 Bonds, at par, on the next Interest Payment Date in a principal amount equal to the shortfall.

Redemption: Ecuador may redeem 2030 Bonds, in whole or in part, at par on any Interest Payment Date. Partial redemptions shall be mandatory under the circumstances referred to in "Mandatory Debt Management" above.

Repurchase: Ecuador may at any time purchase or acquire any of the 2030 Bonds in any manner and at any price in the open market or in privately negotiated transactions.

Principal Reinstatement: If an interest payment default occurs under the 2030 Bonds on or prior to the tenth anniversary of the Issue Date, and such default remains unremedied on the date falling 12 months after it occurs (the "*Principal Reinstatement Date*"), each holder of 2030 Bonds at that time shall be credited with additional 2030 Bonds on the Principal Reinstatement Date in an amount determined as follows:

If the Principal Reinstatement Date Occurs	The Aggregate Amount of Each Holder's 2030 Bonds Is Increased by a Factor of
On or before (and including) the fourth anniversary of the Issue Date	1.3
From (but excluding) the fourth anniversary of the Issue Date to (but including) the seventh anniversary of the Issue Date	1.2
From (but excluding) the seventh anniversary of the Issue Date to (but including) the eleventh anniversary of the Issue Date	1.1

Such Principal Reinstatement may occur only once.

Business Days: New York

Documentation: Trust Indenture

Governing Law: New York law

Day Count: 12-30 day months

Trustee: U.S. Bank National Association

Additional Information:

- 2030 Bonds issued following a Principal Reinstatement, as defined in the Terms and Conditions of 2030 Bonds, will be fungible with other 2030 Bonds.
- Ecuador shall give prompt notice to the Luxembourg Stock Exchange of the aggregate principal amount of 2030 Bonds outstanding following each

Redemption Date.

- Ecuador shall give the Luxembourg Stock Exchange notice of any default in the payment of any principal of, or interest (including Additional Amounts) on, the 2030 Bonds.

SUMMARY OF 2012 BONDS

Issuer:	The Republic of Ecuador
Authorized Amount:	US$1,250,000,000
Issued Amount:	US$1,250,000,000
Issue Date:	August 23, 2000
CUSIP:	27927WAE2
ISIN:	US27927WAE21 (Restricted Global Bonds), XS0115748401 (Unrestricted Global Bonds)
Common Code:	011574408 (Restricted Global Bonds), 011574840 (Unrestricted Global Bonds)
Maturity Date:	November 15, 2012
Coupon:	12.00% per annum, commencing on the Issue Date
Coupon Payment Dates:	Every May 15th and November 15th, starting on May 15, 2001 and ending on, and including, the Maturity Date. The first Interest Period will therefore be approximately nine months commencing on the Closing Date.

Mandatory Debt Management:

Ecuador must undertake arrangements (*e.g.*, debt buy-backs or debt conversions) that would have the effect of retiring not less than 10% of the original principal amount of the 2012 Bonds in each of the last six years that the 2012 Bonds will be outstanding. Accordingly, as of each date shown below, the aggregate outstanding principal amount of the 2012 Bonds (when expressed as a percentage of the original principal amount of the 2012 Bonds) must not be more than:

Date	Outstanding Principal
November 15, 2006	90%
November 15, 2007	80%
November 15, 2008	70%
November 15, 2009	60%
November 15, 2010	50%
November 15, 2011	40%

Failure to meet this test on any such date would result in an obligation on the part of Ecuador to make a partial redemption of the 2012 Bonds, at par, on the next Interest Payment Date in a principal amount equal to the shortfall.

Redemption:	Ecuador may redeem 2012 Bonds, in whole or in part, at par on any Interest Payment Date. Partial redemptions shall be mandatory under the circumstances referred to in "Mandatory Debt Management" above.
Repurchase:	Ecuador may at any time purchase or acquire any of the 2012 Bonds in any manner and at any price in the open market or in privately negotiated transactions.
Business Days:	New York

Documentation:	Trust Indenture
Governing Law:	New York law
Day Count:	12-30 day months
Trustee:	U.S. Bank National Association
Additional Information:	• Ecuador shall give prompt notice to the Luxembourg Stock Exchange of the aggregate principal amount of 2012 Bonds outstanding following each Redemption Date. • Ecuador shall give the Luxembourg Stock Exchange notice of any default in the payment of any principal of, or interest (including Additional Amounts) on, the 2012 Bonds.

RECENT EVENTS TIMELINE

Date	Event
February 28, 1995	Ecuador closes Brady debt restructuring
June, 1996	Abdalá Bucaram is elected President
February 6, 1997	President Bucaram is declared unfit to govern and flees Ecuador
February 8, 1997	Vice President Rosalia Arteaga becomes transitory acting President
February 11, 1997	Ms. Arteaga resigns and Dr. Fabián Alarcón becomes interim President
April 23, 1997	Ecuador issues $500 million of Eurobonds
1997 through 1999	El Niño weather phenomenon damages coastal infrastructure and agriculture
August 10, 1998	Jamil Mahuad is elected President
December 1, 1998	AGD is established and begins to assume control of insolvent banks
March 1998	Bank deposits are frozen
August 28, 1999	Ecuador defaults on Discount Bonds
October 1, 1999	Discount Bonds are accelerated
October 25, 1999	Ecuador defaults on Eurobonds
November 28, 1999	Ecuador defaults on Par Bonds
December 21, 1999	Ecuador defaults on IE Bonds
January 9, 2000	President Mahuad announces Dollarization Program
January 21, 2000	President Mahuad is deposed; an aborted coup d'état follows
January 22, 2000	Vice President Gustavo Noboa takes over as President and is sworn into office; confirms plans to proceed with Dollarization Program
February 28, 2000	Ecuador defaults on PDI Bonds
March 13, 2000	Congress enacts legislation supporting Dollarization Program
March 20, 2000	Unfreezing of bank deposits begins
April 19, 2000	IMF Board approves Standby Agreement for Ecuador
May 25, 2000	Domestic energy price increases implemented

INVESTMENT CONSIDERATIONS

An investment in the Global Bonds involves a high degree of risk. Investors are urged to read carefully the entirety of this Listing Particulars Document and to note, in particular, the following considerations.

Investment Considerations Relating to Ecuador

Ecuador is in the middle of one of the most turbulent periods in its history. Years of political instability, economic mismanagement, ineffective governance, lack of fiscal discipline and social discord brought Ecuador close to political and economic collapse in early 2000.

Political Situation

Ecuador is a politically fragile country. There have been six presidents in Ecuador in the last five years. Two of those presidents were deposed; another served time in jail after leaving office; and one is in compulsory exile. The current President of Ecuador, Gustavo Noboa, took office on January 22, 2000, following the unseating of his predecessor, Jamil Mahuad, by a popular uprising accompanied by a brief, but aborted, coup d'état by elements of the Ecuadorian military and indigenous peoples.

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 continued, however, to play an important behind-the-scenes role in Ecuadorian politics and, as evidenced by the involvement of some military officers in the January 21, 2000 aborted coup d'état, segments of the military do not always remain behind the scenes.

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.

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, so-called "indigenous peoples" comprise approximately 17% of Ecuador's population. These peoples form a distinct social community and they have not been fully integrated into the fabric of Ecuadorian society. Indigenous peoples occasionally exert 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 this year. The administration of President Noboa is taking affirmative steps to alleviate some of the chronic problems experienced by the indigenous peoples. Nevertheless, a sense of dissatisfaction on the part of some indigenous peoples, and resulting social tension, are likely to persist for some time.

Dollarization

Although the possibility of dollarizing Ecuador's economy had been discussed for several years, President Mahuad's decision in January 2000 to dollarize was taken just prior to his deposition and while he was under intense political pressure. President Noboa's administration has persevered in the Dollarization Program despite its unpopularity with certain segments of Ecuador's population.

Dollarization strictly limits the Government's ability to finance future budget deficits by printing local currency and it calls for a degree of fiscal discipline that far exceeds the discipline shown by any Ecuadorian administration in recent times. In addition, as a result of dollarization, the Ecuadorian economy will be directly affected by United States monetary policy, including interest rate policy.

Until the Ecuadorian public sees and accepts the full benefits of dollarization, there can be no assurance that politicians may not be tempted to dilute or to discard entirely the Dollarization Program. Were this to happen, it could result in serious economic turmoil in Ecuador and could threaten normal debt servicing of the Global Bonds.

Domestic Banking Crisis

Most of Ecuador's domestic banking system collapsed in 1999. Approximately 70% of the assets of the banking system are now in Government hands. The Government, through the AGD, has incurred approximately US$2.6 billion of liabilities in connection with the bailout of the domestic banking system.

This collapse exacerbated Ecuador's economic crisis in several ways. It generally eroded confidence in the country's financial system, thus fueling capital flight and putting greater pressure on the sucre. Between 1996 and June 2000, the Central Bank extended up to US$172.9 million in liquidity facilities to distressed banks, only a portion of which is likely to be recovered. Finally, the AGD has issued (through June 1, 2000) approximately US$1.4 billion of US dollar-denominated bonds in an effort to recapitalize the banking system and honor deposit guarantees.

The root cause of the collapse of the banking system was the inadequate, and sometimes corrupt, supervision, management and regulation of banks in Ecuador. Efforts have recently been made to improve the quality of bank supervision and management, but a number of the banks still in private hands are weak and events may force the Government to take over some of those remaining banks. Were this to occur, the amount of outstanding liabilities relating to the bailout of the financial sector could increase and the domestic financial system would experience continued instability.

Internal Debt

Following completion of Ecuador's Brady restructuring in 1995, the Republic of Ecuador raised only US$500 million from the international bond markets through a Eurobond offering that closed in 1997. Starting in 1996, however, successive administrations began to borrow heavily in the domestic market through short-term (one year or less) US dollar-denominated debt instruments issued by the Ministry of Finance. The proceeds of these borrowings were primarily used to cover budget deficits in those years. As of June 1, 2000, approximately US$1.58 billion of this internal debt remains outstanding (exclusive of the bonds issued by the AGD).

The Government believes that about 8% of this debt is in the hands of the non-financial public sector and another 38.6% is in the hands of banks in Ecuador. A limited restructuring affecting approximately US$346 million of the internal debt was implemented in 1999, but the Government believes that any compulsory restructuring of this debt held by municipalities would only cause those municipalities to seek counterbalancing subsidies from the central Government, and any such restructuring of the debt held by local banks could risk pushing more of the remaining banks into the hands of the AGD. There are no plans for a wider restructuring of the internal debt.

In addition, there are currently US$1.4 billion of AGD bonds outstanding (representing full faith and credit obligations of Ecuador), with the possibility of more to come if additional banks fail and are taken over by the Government. Approximately US$1.2 billion of these AGD bonds have been discounted with the Central Bank. The Government expects that this $1.2 billion of AGD bonds held by the Central Bank (originally maturing over a 15-year period and carrying an interest rate of 12% per annum) will be rescheduled over a 30-year period at a fixed rate of 7%.

The fast build-up of internal dollar debt and the serious difficulties that the Government has encountered in its efforts to reschedule that debt have seriously aggravated Ecuador's debt servicing difficulties and may continue to do so in the future.

IMF Program

The Board of the IMF approved a standby program for Ecuador on April 19, 2000. This program has a one-year duration. Approval of the IMF program will allow Ecuador to obtain new financing from the IDB, the World Bank and the CAF, as well as receive disbursements from the IMF. The total amount of these commitments (through December 31, 2000) and disbursements from multilateral sources (through June 30, 2000) exceeded US$719 million and US$193.3 million, respectively.

Further disbursements under the IMF Program will require Ecuador to meet certain performance criteria (see Annex A hereto). The most significant performance criterion is a reduction in the domestic subsidies for gasoline and petroleum products. These subsidies for petroleum products (other than natural gas) were reduced on May 25, 2000, although not in the manner set out in the IMF Program. Certain groups in the country have objected strongly to the resulting rise in domestic prices for petroleum products. In the past, the Government has tried to raise these prices and been forced to retract the raises following public protests by citizen groups.

If Ecuador does not meet the performance criteria set out in the IMF standby program (and such criteria are not amended or waived by the IMF), the Government may not be able to obtain further disbursements from the IMF under the IMF Program. This may also interfere with the Government's ability to obtain financing from other multilateral financial institutions and consummate bilateral agreements rescheduling Paris Club debt. This could seriously impair the Government's ability to complete implementation of the Dollarization Program and could adversely affect the Government's ability to service the Global Bonds.

As described in the fourth paragraph of the letter from the IMF that accompanies this Listing Particulars Document, the management of the IMF has said that it is prepared to recommend to the IMF Executive Board that the first review under the IMF Program (reflecting performance criteria applicable to end-June 2000) be completed, and that the second tranche of IMF funds be disbursed to Ecuador, if certain issues referred to in that paragraph are addressed in a manner satisfactory to the IMF. Legislation dealing with these issues is currently pending in the Ecuadorian Congress. There can be no assurance that Congress will enact this legislation in a manner consistent with the measures that the IMF has recommended or that the IMF management will not condition its favorable recommendation to the IMF Executive Board regarding the disbursement of the second tranche of funds on other matters not mentioned in the IMF letter accompanying this Listing Particulars Document.

Debt Management Record

Ecuador has been in payment default under its external debt obligations for most of its history. Ecuador suspended payments on its commercial bank debt in 1987, and this default lasted until the closing of the country's Brady debt restructuring program in early 1995. Ecuador has also built up arrears to Paris Club creditors; the total amount of these arrears, through June 30, 2000, exceeded US$590 million.

The debt restructuring described in this Listing Particulars Document, when taken together with the program of economic reforms being implemented by the Noboa administration and the other elements of the Comprehensive Debt Management Program, will, Ecuador believes, produce a manageable debt service profile over the medium to long-term. This judgment, however, is based on projections about Ecuador's economy and the behavior of international markets generally. It also assumes that major external shocks to the economy (such as those that could result from a sharp and prolonged decline in the value of oil exports or damage caused by serious meteorologic or seismic disturbances) do not occur, and it presupposes a continuity of economic policies by future administrations. There can be no assurance that these assumptions or projections will be accurate. Should these assumptions or projections prove to be inaccurate, Ecuador may face difficulty in meeting its debt service obligations under the Global Bonds.

Turmoil in Andean Region

Other countries in the Andean Region (Bolivia, Colombia, Peru and Venezuela) have experienced social and political unrest in recent years and these difficulties could spill over into Ecuador. Guerilla forces from

Colombia funded by narcotic traffickers, for example, have recently clashed with units of the Ecuadorian armed forces along Ecuador's border with Colombia.

Investment Considerations Relating to the Exchange Offer

Official Statistics

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. Holders of Existing Bonds should be aware that none of these statistics has been independently verified.

Possible Cancellation of Exchange Offer

Under the terms of the Exchange Offer, Ecuador is not obligated to complete the Exchange if less than 85% in aggregate outstanding principal amount of the Existing Bonds is tendered in the Exchange Offer or if completion of the Exchange will not result in the rescission of acceleration of any Existing Bond that may previously have been accelerated. There can be no assurance that such conditions will be met or that all the other conditions precedent to the completion of the Exchange Offer will be satisfied or waived. Even if the Exchange Offer is completed, there can be no assurance that it will be completed on the schedule described herein. Accordingly, Holders participating in the Exchange Offer may have to wait longer than expected to receive their Global Bonds or cash payments, during which time those Holders will not be able to effect transfers of their Existing Bonds tendered in the Exchange.

Risks Associated With Non-Participation in Exchange Offer

If the Exchange Offer is completed, the Holders of Existing Bonds who either fail to, or elect not to participate in the Exchange will continue to hold their Existing Bonds, as such Existing Bonds will have been amended by the Exchange Amendments. As a result, Holders who continue to retain Existing Bonds after the Exchange will no longer be entitled to the benefits of certain of the restrictive covenants and other provisions contained in the terms of the Existing Bonds as currently in effect. Those restrictive covenants and other provisions will be eliminated or modified by the Exchange Amendments and this could adversely affect the secondary market trading price of the remaining Existing Bonds. A default on the Existing Bonds or an acceleration of any of the Existing Bonds following completion of the Exchange will not result in a cross-default on (or become the basis for a cross-acceleration of) the Global Bonds. In addition, as a result of the Exchange Amendments, Ecuador will not be required to deliver any Brady Bonds that it acquires in the Exchange to the Fiscal Agent for cancellation. If Ecuador elects to retain these Bonds, or transfers them to a related party, the remaining Brady Bonds of any particular type may not, in aggregate, be sufficient to take actions such as accelerating those Bonds.

As a result of the Exchange Amendments, the Existing Bonds may no longer be listed on the Luxembourg Stock Exchange or any other stock exchange. Non-participating Holders of Existing Bonds may therefore face a significant reduction in liquidity in the trading markets for those Existing Bonds and an associated risk of price volatility.

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 Global Bonds, a claimant will not be able to enforce a court judgment against certain assets of Ecuador in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) 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. Courts in Ecuador will not enforce any judgment obtained in a court established in a country other than Ecuador unless a treaty between such country and Ecuador providing for reciprocal enforcement of judgments is in effect and then only in accordance with the terms of such treaty.

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 Galápagos.

Ecuador's population is approximately 12.4 million. Approximately 50% of the population lives in the Pacific coastal plains, 46% in the Sierra, 3.8% in the Oriente and 0.1% in the Galápagos. From 1990 to 1998, Ecuador's population grew at an average annual rate of approximately 2.2%. Nearly 63% of Ecuador's population is urban. Guayaquil, which is located on the coast, is the largest city, with a population of approximately 2.1 million. Quito, Ecuador's capital and second-largest city, with a population of approximately 1.9 million, is located in the Andean highland region on a plateau 9,540 feet above sea level. Cuenca, which is also in the highlands, is the third-largest city, with a population of 420,000. Spanish is the official language of Ecuador. Approximately 90% of Ecuador's population is Roman Catholic.

Ecuador is generally classified as a middle-income developing country. The following table sets forth comparative GNP figures and other select comparative statistics.

Selected Comparative Statistics

	Ecuador	Bolivia	Colombia	Mexico	Peru	Venezuela
Per capita GNP (1997) (1)	US$ 4,820	US$3,000	US$ 6,720	US$ 8,120	US$ 4,390	US$ 8,530
Per capita debt ratio	1,258	619	803	N/A	1,470	1,336
Life expectancy (in years) (1998)	70	62	70	72	69	73
Adult literacy rate(1997)	90%	83%	91%	90%	89%	91%
Infant mortality (as % of live births) (1998) (2)	3.2%	6.0%	2.3%	3.0%	4.0%	2.1%

(1) Adjusted for purchasing power parity.
(2) Per 1000 live births.
Source: The World Bank.

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 ("*Conservative Party*"), whose support was traditionally found in the Sierra, and the Partido Liberal ("*Liberal Party*"), based in the Pacific coastal region.

Between 1925 and 1979, Ecuador was ruled by a succession of civilian and military governments. In the period between 1925 to 1949, Ecuador was governed by 22 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 ("*Social Christian Party*") and the populist Concentración de Fuerza Popular ("*Popular Force Concentration*") gained support. In 1976, after a military regime assumed power, Ecuador began a transition to the present civilian democratic controlled government. Currently, Ecuador has no active guerrilla movements.

Between 1830 and 1978, 16 different Constitutions were recognized in Ecuador. In 1978, a new Constitution was adopted by referendum and promulgated in 1979 (the *"1979 Constitution"*). The 1979 Constitution established a presidential republic providing for three branches of government: the executive, legislative and judicial branches. In 1984, amendments to the 1979 Constitution were enacted, which included, among others, the shortening to four years from five years the term for principal officials, including the President.

A National Assembly was convened in January 1998 with 70 representatives of the several political parties. During its existence, the National Assembly reviewed Ecuador's legal framework in order to improve its governance and stability. Among the reforms enacted by the National Assembly to the 1979 Constitution was the establishment of the autonomy of the Central Bank. See "Monetary System—The Central Bank of Ecuador."

Executive

Under the 1979 Constitution, 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 policy and the maintenance of domestic order. The President also appoints and leads the Council of Ministers. Re-election for a consecutive presidential term is not permitted.

In 1997, President Bucaram 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.

On January 21, 2000 President Mahuad was deposed and, after a brief but aborted coup d'état, his Vice President, Gustavo Noboa, assumed the office of President. In January 2000, indigenous peoples from the Amazon and Sierra regions staged a two week strike in protest of anticipated rate hikes for fuel and electricity. Led by a member of the Ecuadorian military, a civilian, and an indigenous leader, indigenous groups gathered in Quito and subsequently entered the unoccupied Congress building. President Mahuad appeared on the national television channel on the afternoon of January 21 to announce the seizure of Congress, while reassuring the public that he remained in power. Shortly thereafter, the President left the Presidential Palace and it 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 they had chosen Vice President Gustavo Noboa to replace Jamil Mahuad as President. Many of the indigenous protesters occupying the Presidential Palace opposed the appointment of Noboa and refused to leave the Palace. The military forcibly dispersed those who remained in the Presidential Palace resulting in a number of casualties among the protesters.

Among the political reforms implemented by President Jamil Mahuad during 1999 was the reorganization of the administrative subdivisions into six areas: Economy, Production, Human Development, Defense, Government and External Relations, each to be headed by a Supreme Minister. In general, these six administrative subdivisions will combine, and in some cases eliminate, certain of the previously defined subdivisions including, among others, Energy, Agriculture, Industry and Tourism, Education and Health.

Legislative

The legislative branch consists of a single-chamber Congress. Congress is currently composed of 123 representatives of which 20 are elected in a nationwide vote for four-year terms and the remainder are elected in provincial ballots to serve two-year terms. The number of representatives for each province is determined on the basis of population. The following table shows the composition of Congress following the 1998 elections:

Party	Number of Representatives
Social Christian Party	28
Roldosista Ecuadorian Party	23
Christian Democratic Party (DP)	33
Pachakutik-New Country Movement	8
Social Democratic Party (ID)	17
Independents	2
Alfarista Radical Front	6
PSE	1
Conservative Party	2
Popular Democratic Movement	2
Popular Force Concentration	1
Total	123

The next Congressional elections will occur in August 2000.

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 30 justices divided among ten chambers with three judges each. Congress appoints the members of the Supreme Court for life. Additional members to fill vacancies are named to the Supreme Court by the remaining members.

Local Governments

Ecuador is divided administratively into 22 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 which are further subdivided into parishes. Provinces are governed by a governor, municipalities by a municipal supervisor and parishes by a parish supervisor. These officials are all appointed by and under the authority of the President or the executive branch.

Each of the 22 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 a four-year term.

On May 21, 2000, municipal government elections were held throughout Ecuador. These elections were closely watched as a barometer of public support for the dollarization process and the related policies of the current administration. Viewed in this light, the results of the municipal elections revealed widespread uncertainty about, or opposition to, dollarization. In the capital city of Quito, for example, Mr. Paco Moncayo, an outspoken critic of dollarization, was elected mayor. The outcome of these municipal elections may make it more difficult for the Noboa administration to push through its program of economic reforms.

International and Regional Relations

Ecuador has diplomatic relations with approximately 70 countries and is a member of 94 international organizations. Ecuador is a member or party to:

- the United Nations, as a founding member, including many of its specialized agencies;
- the Organization of American States;
- the World Health Organization;

- the World Trade Organization or WTO;
- the International Labor Organization;
- the International Monetary Fund or IMF;
- the International Bank for Reconstruction and Development or the World Bank;
- the Inter-American Development Bank or IDB;
- the Andean Community;
- the Andean Development Corporation or CAF;
- the Latin American Integration Association or ALADI;
- the Latin American Reserve Fund; and
- Americas Free Commerce Area (ALCA).

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, 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.

In 1994, Ecuador entered into a bilateral trade agreement with Chile liberalizing trade between the two countries. As a result of this agreement, trade between Ecuador and Chile increased by approximately 40% in 1994.

In 1996, Ecuador became a member of the WTO and become subject to the WTO's rules on free trade. As a member of the WTO, Ecuador expects to gain additional access to international markets for its exports.

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 Amazon 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 and have announced that a trade liberalization agreement will be signed in the near future.

In 1998, Ecuador and the other members of the Andean community began negotiating the terms of a free trade agreement for the establishment of America's Free Trade Zone (ALCA) in 2005. Ecuador has also taken steps to increase trade with Cuba (a new member of ALADI), Brazil and with three Central American countries: El Salvador, Guatemala and Honduras.

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 United States 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 order to address these difficulties, during the 1960s the Ecuadorian economy began experiencing an acceleration and diversification of activity 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 of Ecuador 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 more than 10% per year between 1970 and 1977. Between 1974 and 1979, Ecuador's external debt grew from US$410 million to approximately US$3.5 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 0.7% annually and GDP per capita decreasing at an average annual rate of 0.3%. 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 6.0% 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 10.5% in 1988, 0.3% in 1989, 3.0% in 1990 and 5.0% 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 59.7% annually during the period from 1988 to 1992 and reaching an annual rate of 60.2% in December 1992.

Following the election of Sixto Durán Ballén as President in 1992, the Government adopted a program of economic reforms, defining the principal instruments of its monetary and fiscal policies and introducing measures to reduce the public deficit, control inflation, strengthen the balance of payments and create conditions for sustained growth. Under this program of economic reforms, inflation decreased from an annual rate of 60.2% in 1992, to

31.0% in 1993 and 25.4% in 1994. International reserves at the Central Bank increased from a low of US$224 million in August 1992, to US$1.3 billion in December 1993 and to US$1.7 billion in December 1994. The consolidated non-financial public sector deficit decreased from 1.2% of GDP in 1992 to 0.1% of GDP in 1993 and 0.2% of GDP in 1994. GDP grew by 2.0% in 1993 and 4.3% in 1994.

In 1995, despite the constraints imposed on the Ecuadorian economy stemming from the border hostilities with Peru, the annual rate of inflation decreased to 22.8% and GDP grew by 2.3%, attributable principally to growth in the oil and agricultural sectors. Growth in exports of approximately 15.0%, resulting primarily from increased exports of oil, banana, shrimp and non-traditional exports, produced a trade balance surplus of US$354 million in 1995. The consolidated non-financial public sector deficit reached 1.3% of GDP in 1995.

The consolidated non-financial public sector deficit increased from 1.3% of GDP in 1995 to 3.0% of GDP in 1996 due to the failure to reduce subsidies as well as significant increases in public sector wages. Following the change in Government in August 1996, President Bucaram announced an economic program requiring the approval of a series of tax increases and other measures by Congress. This package of economic measures, which included drastic reductions in electricity and natural gas subsidies, was not well received by the Congress nor by public opinion. Growing popular and Congressional discontent, as well as allegations of widespread corruption within the Bucaram administration, ultimately led to the replacement of Mr. Bucaram by Mr. 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, a decrease in fiscal revenues resulting from significant damage caused by El Niño, President Alarcón's decision not to eliminate costly state subsidies and Congress' refusal to increase the value-added tax resulted in an increase in the consolidated non-financial public sector deficit to 2.4% of GDP in 1997.

Recent Economic Events and Policies

Many of the proximate causes of Ecuador's current economic crisis were external: damage caused by the El Niño weather phenomenon; very low prices for oil exports during the first half of 1999; and instability in the international capital markets caused by the 1997-98 Asian debt crisis, the Russian moratorium of August 1998 and the Brazilian devaluation in January 1999. The underlying causes of the crisis, however, were a chronic mismanagement of the economy, an inability on the part of prior administrations to take (or to stick to) politically unpopular measures such as taxation and the elimination of subsidies, ineffective bank supervisory policies that resulted in a near-total collapse of the domestic banking system, excessive reliance on foreign currency borrowings from sources within and without Ecuador, and corrupt and inefficient management of the country's oil revenues.

Events in 1998

In August 1998, President Jamil Mahuad's administration inherited a fiscal and economic system seriously weakened by the inability of the former administrations to establish and implement effective economic programs. Upon taking office, President Mahuad presented an economic plan with the principal objectives of 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, 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 2.6 of GDP in 1997).

Ecuador has historically been an exporter of primary goods and an importer of capital and intermediate goods and manufactured products. Since 1972, exports of oil and oil derivatives have comprised the majority of Ecuadorian export products. From 1994 to 1996, non-traditional exports which include, among others, flowers, vehicles and seafood, increased by 65.5%. In 1997, exports of oil and oil derivatives accounted for approximately 30% of total exports. In 1998, however, Ecuador's export trade, which had grown steadily until 1997, deteriorated rapidly as a result of El Niño and lack of investment in the petroleum sector. Agricultural and petroleum products available for export declined when the recession the Asian markets suppressed demand for most non-oil commodities. Exports of non-traditional products increased to 26.2% of total exports from 27.1% in 1997. The total value of exports decreased 20% in 1998 to US$4.2 billion. Contributing to this decrease was a 41% decrease in exports of petroleum and petroleum products equalling US$635 million, a 19% decrease in exports of bananas (Ecuador's primary agricultural export) resulting from the effects of tariffs and quotas imposed by the EU banana import system, and a 3.4% decrease in non-traditional exports. In 1998, exports of petroleum products decreased to 22% of total exports and, for the first time in over 25 years, bananas displaced petroleum as Ecuador's largest export.

Events in 1999

After recording a current account deficit in 1998 of US$2.2 billion, Ecuador recorded a current account surplus in 1999 of US$955 million (representing 6.9% of GDP). This significant surplus was the result of a positive merchandise trade balance of US$1.7 billion (equivalent to 12.1% of GDP) that was produced by a 46.4% contraction of imports arising from the real depreciation of the sucre and the depressed aggregate demand. The services component of the balance of payments also recorded a negative balance of approximately US$1.8 billion in 1999 which was associated with the payment of public and private interest obligations and foreign investment profits.

In early 1999, in response to the mounting economic difficulties facing Ecuador, the Government was forced to take drastic measures. Costly subsidies for natural gas, electricity and diesel fuel were eliminated and tax reforms were implemented at the end of 1999. 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 was forced to freeze virtually all current dollar accounts and approximately half of current sucre accounts in Ecuadorian banks. In connection with efforts to rehabilitate the financial sector, international accounting firms were hired in May 1999 to perform external audits of the banking sector. See "Financial System—Banking System."

During 1999, domestic inflation, measured by the consumer price index, increased to 60.7%. This increase resulted primarily from the monetary policy implemented by the Government in an effort to rescue the financial system. During 1999, the cost of gasoline and energy increased by 85.4%, principally due to the elimination of subsidies. Transportation costs (public and private) increased by 62% in 1999.

One key factor in last year's economic collapse was the deep banking crisis and deposit freeze. In March 1999, deposits were frozen in order to protect the banking system against speculative attacks and bank runs. Throughout the year, 14 banks were closed or taken over by the Government, representing approximately 65% of banking system deposits. Bank scandals and allegations of corruption exacerbated the instability of the political and economic environment. 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 US$1.4 billion in bonds to capitalize or provide liquidity to state-owned banks.

Prior to 1999, the foreign exchange policy attempted to achieve the objective of controlling the exchange rate. Early in 1999, Ecuador abandoned the exchange rate band system causing disruption in an already fragile market.

Prior to December 1999, the Central Bank, in order to provide liquidity to banks in a *saneamiento* or "clearing" process, engaged in repurchase operations with AGD bonds issued by the Ministry of Finance. See "Financial System—Banking System." The Central Bank attempted to contain monetary emission through open-market operations with short-term Central Bank bonds ("*Bonos de Estabilizacion Monetaria*" or "*BEMs*") carrying higher effective interest rates which pushed up market interest rates. An unsustainable monetary cycle began to take place. During November 1999, effective interest rates on BEMs surpassed 500% per annum. The Government, in order to meet the interest payments on the BEMs, began to issue more sucres. The money creation growth rate reached 152% by the end of 1999. Producer price inflation reached a level of 187% in 1999 while consumer price inflation rate lagged behind at a rate of 61%, as a result of the depressed aggregate demand.

In July 1999, President Mahuad faced a series of social protests as a consequence of the increase of gasoline prices. In order to put an end to the social unrest, President Mahuad made a series of concessions to the protestors. Among the concessions made by President Mahuad was the rolling back of fuel prices to June 30, 1999 levels with a freeze on fuel price increases until June 2000.

Other structural reform programs relating to taxes were proposed to Congress by President Mahuad. On September 1, 1999, the administration of President Mahuad presented Congress with its tax-reform bill and budget proposals for 2000. In April 1999, in an unlikely alliance with the Mahuad administration, left-wing legislators approved new taxes, which included the reestablishment of the income tax. See "Public Sector Finances—Taxation."

In November 1999, Congress approved a significant tax reform package. This package included an increase from 10% to 12% in the value-added tax, a decrease in the capital circulation tax from 1.0% to 0.8% and an increase from 15% to 25% in the basic personal income tax rate. In addition, in March 2000, when the Law of Economic Transformation (see "*Law of Economic Transformation*") officially put in place the regulatory scheme for the Dollarization Program, the "credit tax" was decreased from 2.5% to 1% for all credit operations.

The IMF Program

On April 19, 2000, the IMF and Ecuador agreed to a 12-month standby program. This program involved an initial US$120 million disbursement to Ecuador to provide necessary liquidity to the financial sector for the implementation of the Dollarization Program.

The IMF Program contains structural benchmarks relating to the banking sector and fiscal performance review targets. These benchmarks and targets are reviewed by the IMF every two months beginning in June 2000. Structural benchmarks under the IMF Program include 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, the development of a plan to strengthen reliable but undercapitalized banks (providing for a three-year period to complete the capitalization process) and the enactment of legislation to amend current provisions (or stimulate the development of alternative mechanisms) to allow banks under restructuring to continue operating even if they fail to meet the Government's capital requirements. In addition, the Government is required regularly to provide the IMF with certain data relating to monetary issues, foreign exchange, central Government investment and savings, and external and internal debt to monitor compliance with fiscal performance review targets. If Ecuador does not meet the targets or undertake actions to comply with the benchmarks set out in the IMF Program, the IMF may terminate the Program.

Certain structural benchmarks and performance review targets associated with the IMF Program will require new legislation. The Government can give no assurance that any elements that require such Congressional approval will in fact be enacted. In the past, the Government has been unable to mobilize the Congressional support necessary to enact controversial legislation. Moreover, there is no assurance that measures enacted by Congress will not be changed in the future.

For further details on the IMF Program, see "Annex A: The IMF Program."

Dollarization Program

Ecuador's decision to dollarize its economy will produce a dramatic change in how the country manages its fiscal affairs in the future. It is expected that dollarization will bring many benefits: lower inflation, elimination of exchange rate risk, reversal of capital flight, and more disciplined economic policies. At least in the early years, however, dollarization will compel Ecuador to embrace a degree of fiscal discipline that will be both unfamiliar and uncomfortable. The Government will no longer be able to cover its budget deficits by printing money and effectively financing itself through inflation. In addition, the Government's financial affairs and its management of the economy will be much more transparent, both to Ecuadorians and to foreign investors.

Legal Basis

The principal legal basis for dollarization is the *Ley para la Transformación Ecónomica del Ecuador* (the "*Law of Economic Transformation*" or "*LET*") which was enacted by Congress on March 1, 2000. In addition to providing an official basis to dollarize the economy, the LET contains reforms designed to strengthen fiscal discipline, encourage flexibility in the labor market, improve banking supervision and establish attractive rules to encourage direct investment and privatizations.

The Ecuadorian Constitution prohibits the outright elimination of the sucre. Accordingly, although the US dollar will be the sole monetary instrument and unit of account and the main currency for transaction purposes in Ecuador, the sucre will remain as a fractional currency. All sucres in circulation, however, will be backed by US dollars in a separate Central Bank account. See "Dollarization Program—Role of the Central Bank."

Pursuant to the Dollarization Program, the sucre money supply is being converted into dollars at a set conversion rate of 25,000 sucres per US dollar. From January 1, 2000 to June 30, 2000, approximately US$470 million had been used by the Central Bank to purchase and retire sucres at this exchange rate.

In contrast with a currency board system (in which two currencies co-exist with different interest rates and a potential risk of devaluation remains), the Dollarization Program in Ecuador is designed to achieve a true dollarization of the economy. All money supply aggregates, except for the small fraction of coins denominated in sucres, will be dollarized. Financial institutions, accounting practices, tax filings, contracts, wages and salaries all are to be denominated exclusively in dollars.

The LET contains special "anti-devaluation" measures designed to discourage parties from speculating against the sucre. Among these are a legal prohibition on charging interest rates on sucre obligations (thus encouraging all financing arrangements to be denominated in dollars). In addition, the LET imposes a statutory requirement that any contract calling for a payment in sucres may be settled, at the option of the payor, either by the delivery of dollars (at a fixed exchange rate of Su.25,000 per 1 US dollar) or sucres. If the payor elects to settle the contract in sucres, however, the original sucre amount due to the payee at maturity (as specified in the contract) will automatically be restated so that the new amount will, when converted into dollars at then-prevailing exchange rates as set by law, be sufficient for the payee to purchase the same number of US dollars that the payee could have purchased with the original sucre amount assuming an exchange rate of 25,000 to 1. The effect of these measures is to ensure that neither party to a contract will benefit from a subsequent devaluation of the sucre. It is expected that these measures will discourage attempts to speculate against the sucre.

Role of the Central Bank

The dollarization legislation makes the US dollar legal currency in Ecuador and provides for the Central Bank to exchange, on demand, sucres at a rate of 25,000 per 1 US dollar. The law provides for the Central Bank to issue a limited number of sucre coins. Such coins shall remain in circulation to facilitate small transactions but the LET requires that they be fully backed by US dollars. The dollarization law establishes the opening of four operating accounts at the Central Bank. The first account must maintain freely disposable international reserves necessary to back the sucre currency outstanding. The second account must also maintain freely disposable international reserves that back up the Central Bank's liabilities with Ecuador's private sector. The Central Bank is allowed to operate a banking system liquidity recycling facility (account three), partly funded by remaining disposable international reserves and partly by the placement of US dollar-denominated Central Bank bonds in the local market. The final account covers all of the remaining assets and liabilities of the Central Bank.

Pursuant to the LET, the Central Bank has ceased the creation of sucre-denominated liabilities, and stands ready to redeem on demand sucre coins and bank notes for US dollars. Ecuador expects the dollarization process to be complete within the next 12 months.

Central Bank of Ecuador Balance Sheet After Dollarization	
Assets	**Liabilities**
Account one	
Freely disposable international reserves	Currency in circulation
Account two	
Freely disposable international reserves	Bankers' deposits Central Bank sucre stabilization bonds
Account three	
Remaining freely disposable international reserves	Obligations to official international financial institutions (inc. IMF)
Government bonds	Central Bank US dollar bonds
Repurchase agreements	Public sector deposits (non-financial)
Account four	
Other foreign assets	Other foreign liabilities
Other domestic assets	Other domestic liabilities

The Central Bank will continue to monitor its holdings of remaining net disposable international reserves, consistent with the accumulation of US$160 million over a one-year period beginning at the end of January 2000 and ending at the end of December 2000, necessary to assist in the development of a liquidity support facility for troubled banks. The LET imposes a ceiling on domestic interest rates, calculated as the sum of LIBOR, plus an operating margin for the banks up to 4%, plus a margin for country risk. The margin for country risk will be determined by the Central Bank and will be set at a flexible rate to ensure the correct functioning of the banking system. In addition, a regulation is expected to be issued by the Superintendency of Banks requiring banks to commence an increasing scale provisioning for loan operations carrying interest rates in excess of 18% a year.

Ecuador's decision to dollarize the economy has imposed a strict limitation on the Central Bank's ability to provide liquidity assistance to the banking system at a time when liquidity is the main short-term risk. In order to ensure the banks' access to liquidity facilities under the dollarization scheme, the Government is developing a mechanism to recycle liquidity within the banking system, mainly through the sale of US dollar-denominated bonds by the Central Bank combined with repurchase operations, together with a liquidity support facility designed to give the Central Bank the resources to provide liquidity assistance. The Central Bank's possible sources for liquidity include: (i) the international reserves held in excess of those needed to cover the monetary base, (ii) the transfer of public entities' financial assets held abroad to the Central Bank; (iii) external borrowing; and (iv) local market placements of US dollar-denominated bonds. Access to the liquidity support scheme by commercial banks will only be given in exchange for appropriate collateral.

As part of the Dollarization Program, the Central Bank will auction US dollar-denominated instruments at increasingly longer maturities to fund repurchase operations with commercial banks of up to 90 days maturity. Interest rates on these repurchase operations are set to reflect market conditions and to discourage the use of this facility as a "first resort."

Complementary Actions

To support the dollarization process, Ecuador expects to take a number of related actions. Among these are:

- a reform of the privatization program that calls for the privatization of the electricity sector by December 2000. Privatization of the telecommunications sector will require additional legislation, but is also scheduled to occur over the next 12 months. See "Government Participation in the Economy and Privatization";

- the introduction of austerity measures that will reduce public sector expenditures by 30% (in dollar terms) in 2000;

- a rescheduling of external debt owed to private and bilateral creditors; and

- a program to restore trade lines and interbank lines to Ecuadorian banks.

Financial Sector Restructuring

The Government is committed to pursuing a strategy to restructure and reform the banking system that will provide support for economic recovery and a basis for sound macroeconomic management at the lowest fiscal cost. This strategy has been designed in collaboration with the IMF, the World Bank, the IDB, and the CAF.

In connection with the IMF Program, the Government has agreed to take additional measures to strengthen the banking system in several key areas: (i) legislation will be enacted allowing banks to operate temporarily with capital below the 9% minimum requirement, provided they have time-bound rehabilitation and recapitalization plans approved by the Superintendency of Banks; (ii) a comprehensive corporate and household debt restructuring program was introduced in April 2000, aimed at restoring the cash-flow of enterprises and asset quality of the banking system; (iii) capital requirements will be redefined to conform to Basle standards by December 2001; (iv) loan classification and provisioning rules will be brought up to international standards, and schedules to comply with provisioning requirements will be established; and (v) minimum bank capital will be increased to US$2.5 million from US$1.0 million by end-June 2001.

Measures will also be taken to strengthen the AGD, including steps to facilitate the prompt disposal of assets of closed banks.

Comprehensive Debt Management Program

The Noboa administration is pursuing a comprehensive program to deal with Ecuador's debt burden (the "*Comprehensive Debt Management Program*"). This program has the following principal elements:

- obtaining new financing from international financial institutions such as the IMF, the World Bank, the IDB and the CAF;

- restructuring, to the extent practicable, the Government's internal debt obligations;

- restructuring, to the extent practicable, payments on debts owed to Paris Club creditors falling due during the period of the IMF Program;

- restructuring Brady and Eurobond indebtedness through the transaction described in this Listing Particulars Document; and

- restoring trade and interbank lines to Ecuadorian banks.

The objectives of this program are:

- lengthening the average maturity of public debt;
- maximizing the net present value savings resulting from any debt restructuring;
- reducing the fiscal pressures caused by Ecuador's current debt profile; and
- improving Ecuador's cash flow profile.

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, a State Modernization Law established a framework for increasing private sector participation in the economy. This law permits private participation in economic sectors previously reserved to the state. The privatization program is administered by the National Council for the Modernization of the State ("*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 National Finance Corporation (*"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 Solidarity Fund for Human Development (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, 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, 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. The Government expected to receive bids from a number of prequalified foreign telecommunications operators (or consortia, each containing at least one such operator) for the purchase of 35% of the shares of each new company. An additional 10% of each new company was to be made available for purchase by its employees, and the remaining 55% (or more, depending on the number of shares purchased by employees) would be held by the Government through the Solidarity Fund. The operation of each regional company would be transferred to the winning private sector operator through a 15-year concession, with exclusive rights to provide non-cellular telephone service in the related region granted to the concessionaire for the first five years. The private operators would be required to make capital investments to modernize and expand the telephone system in accordance with predefined targets. 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.

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 allowed 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. The Government is considering various alternatives relating to the privatization of the electricity sector, with a view to reducing Ecuador's reliance on the Paute hydroelectric plant, which accounts for the generation of approximately 65% of Ecuador's electricity.

In early 1999, INECEL was eliminated and the electricity sector was divided into three subsectors: generation, transmission and distribution. The generation subsector consists of six companies that generate electricity and includes the Paute plant. The transmission subsector consists of only one company, Transelectric, that transmits the electricity produced by generation companies at high voltage. The distribution subsector consists of 19 companies that purchase electricity from generation companies to sell to regulated and unregulated customers. In 1999, the Government hired an advisor to assist with the privatization process of the generation, transmission and distribution subsectors. The Government believes that the privatization of the electricity sector will begin in the first quarter of 2001.

CONAM has initiated reforms to the Hydrocarbon Law to allow Petroecuador to enter into joint venture agreements with private investors. CONAM is also assisting Petroecuador and the Ministry of Mines and Energy in the expansion of the SOTE pipeline, construction of a new heavy crude pipeline, 9th and 10th exploration rounds, and concessions to be granted for the Esmeraldas and Peninsular refineries. The reform of the Hydrocarbon Law will reserve Petroecuador's responsibility for the granting and administration of exploration and exploitation oil concession agreements. There are currently no plans to privatize any of Petroecuador's assets.

Limitations on private sector participation in the energy and telecommunications sectors were also modified by the LET. The 39% participation limit for private investors in the energy and telecommunications sector 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.

Ecuador expects to grant up to three PCS mobile telephony licenses as concessions by the end of 2001. Andinatel and Pacifictel are each expected to receive a PCS license. Currently, any qualified person or corporation can request a mobile concession from the Government. There is no legal constraint on the number of concessions for PCS licenses that can be granted by the Government.

CONAM plans to initiate an extensive concession program in other sectors. The program will include granting private investors concessions for certain operations of ports including the ports of Esmeraldas and Guayaquil, the Quito and Guayaquil airports and the national postal service.

Gross Domestic Product

The following tables set forth GDP and expenditures, in constant sucres, for the periods indicated.

GDP and Expenditures
(millions of constant 1975 sucres)

	1995	1996	1997	1998	1999
GDP	Su. 215,074	Su. 219,335	Su. 226,749	Su. 227,678	Su. 211,130
Imports of goods and services	50,417	47,436	51,619	54,483	33,251
Total supply of goods and services	Su. 265,491	Su. 266,771	Su. 278,368	Su. 282,161	Su. 244,381
Total final consumption	158,520	160,992	164,282	167,258	149,826
Total gross fixed capital formation	31,617	32,173	33,456	35,578	22,956
Changes in inventory	1,725	(2,684)	1,065	2,280	(5,130)
Exports of goods and services	73,629	76,290	79,565	77,045	76,045
Total final demand	Su. 265,491	Su. 266,771	Su. 278,368	Su. 282,161	Su. 244,381

Source: Central Bank.

GDP and Expenditure Growth
(% change from previous year based on constant 1975 prices)

	1995	1996	1997	1998	1999
GDP	2.3%	2.0%	3.4%	0.4%	(7.3)%
Imports of goods and services	9.8	(5.9)	8.8	5.5	(38.9)
Total supply of goods and services	3.7	0.5	4.3	1.4	(13.4)
Total final consumption	2.2	1.6	2.0	1.8	(9.7)
Total gross fixed capital formation	5.3	1.8	4.0	6.3	(35.5)
Exports of goods and services	5.0	3.6	4.3	(3.2)	(1.3)
Total final demand	3.7%	0.5%	4.3%	1.4%	(13.4)%

Source: Central Bank.

Following positive real GDP growth of 3.4% in 1997, the Ecuadorian economy experienced a deceleration in 1998. Overall GDP growth for 1998 was 0.4%. In 1999, a sharp deceleration in the economy led to a (7.3%) contraction. This contraction in GDP can be primarily attributed to several factors including a fall in the level of internal demand (resulting from a decrease in real salaries and the freezing of deposits), a decrease in the level of internal credit activity in general, low world petroleum prices and the damage caused to principal export crops and coastal infrastructure by El Niño. The IMF and the Central Bank believe that GDP growth for 2000 could range between 0% and 1.3%.

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
(millions of constant 1975 sucres and as % of total GDP)

	1995		1996		1997		1998		1999	
Agriculture, livestock, fishing and forestry	Su.37,033	17.2%	Su.38,334	17.5%	Su.39,887	17.6%	Su.39,342	17.3%	Su.38,828	18.4%
Mining and petroleum	31,348	14.6	30,756	14.0	31,824	14.0	30,788	13.5	30,893	14.6
Manufacturing	32,794	15.2	33,885	15.4	35,082	15.5	35,239	15.5	32,698	15.5
Electricity, gas and water	2,956	1.4	3,038	1.4	3,110	1.4	3,176	1.4	3,325	1.6
Construction	5,225	2.4	5,356	2.4	5,505	2.4	5,837	2.6	5,371	2.5
Commerce, hotels and restaurants	31,679	14.7	33,067	15.1	34,147	15.1	34,459	15.1	30,304	14.4
Transportation and communication	19,313	9.0	19,909	9.1	20,677	9.1	21,003	9.2	19,149	9.1
Financial, corporate and real estate services (1)	16,349	7.6	16,660	7.6	16,969	7.5	17,568	7.7	17,822	8.4
Government, social and domestic services	28,262	13.1	28,410	13.0	28,781	12.7	29,113	12.8	24,745	11.7
Other elements (2)	10,115	4.7	9,920	4.5	10,767	4.7	11,153	4.9	7,995	3.8
Total GDP	Su.215,074	100.0%	Su.219,335	100.0%	Su.226,749	100.0%	Su.227,678	100.0%	Su.211,130	100.0%

(1) Includes banking services.
(2) Includes value-added taxes.
Source: Central Bank.

Real GDP Growth by Sector
(% change from previous year, based on constant 1975 sucres)

	1995	1996	1997	1998	1999
Agriculture, livestock, fishing and forestry	3.2%	3.5%	4.1%	(1.4)%	(1.3)%
Mining and petroleum	3.8	(1.9)	3.5	(3.3)	0.3
Manufacturing	2.2	3.3	3.5	0.4	(7.2)
Electricity, gas and water	(3.7)	2.8	2.4	2.1	4.7
Construction	(1.4)	2.5	2.8	6.0	(8.0)
Commerce, hotels and restaurants	2.2	4.4	3.3	1.0	(12.1)
Transportation and communication	3.0	3.1	3.9	2.0	(8.8)
Financial, corporate and real estate services (1)	1.6	1.9	1.9	3.5	1.4
Government, social and domestic services	1.0	0.5	1.3	1.0	(15.0)
Other (2)	3.4	(1.9)	8.5	3.6	(28.3)
Total GDP	2.3%	2.0%	3.4%	0.4%	(7.3)%

(1) Includes banking services.
(2) Includes value-added taxes.
Source: Central Bank.

Agriculture, Livestock, Fishing and Forestry

The agriculture, livestock, fishing and forestry sector has traditionally been the largest contributor to GDP. Of Ecuador's total 27.1 million hectares, 7.7 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.

From 1994 to 1997, the agricultural, livestock, fishing and forestry sector grew steadily at an average annual rate of 3.7%, primarily due to diversification into non-traditional agricultural products such as flowers. In 1997, this sector constituted 17.6% of Ecuador's GDP. In 1998, the agricultural, livestock, fishing and forestry sector contracted 1.4% as compared with 1997 as a result of El Niño's effects. In 1999, as the effect of El Niño subsided, contraction in this sector decreased to 1.3%.

Ecuador is the world's leading exporter of bananas. After a brief decrease in banana exports during 1992 and 1993 stemming from a disease that affected the banana crop and the introduction of a restrictive banana import quota by the European Union (EU) in 1993, banana exports increased steadily until 1997. In 1996 and 1997, banana exports reached US$973 million (5% of GDP) and US$1.3 billion (6.7% of GDP), respectively. Between 1997 and 1998, El Niño produced excessive rainfall which resulted in a reduction in banana production. In 1998, banana exports totaled US$1.1 billion (5.4% of GDP) representing an 11% decrease from the previous year. In 1998, after a WTO dispute panel decision against the EU banana quota, the EU withdrew its banana import system which had favored fruit from former colonies in the Caribbean and Africa and suggested that historical banana export quotas be taken into account by importing countries in order to determine their respective import quotas. As a result of this decision, banana export quotas will be based on historical export figures. During the first quarter of 1999, banana exports decreased by 14% as compared with the first quarter of 1998. This was primarily due to a 6.4% decrease in the international prices for bananas and a reduction in banana production resulting from the effects of El Niño.

Ecuador is the largest shrimp producer in the Americas and ranks fourth in the world after China, Indonesia and Thailand. In 1997, shrimp exports increased 3.9% as compared with 1996, reaching US$886 million. Exports of shrimp reached US$72.3 million in 1998 or 20.8% of total exports, representing a decrease of 1.5% as compared with 1997. In 1999, shrimp production in Ecuador as well as throughout Latin America was affected by the "white spot" disease. The death of significant numbers of shrimp from this disease as well as the resulting prohibition of the importation of shrimp larvae resulted in an overall reduction of approximately 30% in shrimp production as compared with 1998.

Ecuador also exports significant amounts of coffee and coffee products. Exports of coffee and coffee products reached a record high of US$414 million in 1994. This was primarily due to an increase in international prices of coffee caused by the temporarily successful quotas imposed by the Association of Coffee Producers (formed by Latin American coffee exporters) as well as adverse climatic conditions in one of Ecuador's major competitors. The global coffee recession which began in 1996 has caused a decrease in coffee and coffee product export earnings. Coffee and coffee product exports have continued to decrease to US$160 million, US$122 million, US$105 and US$78 million in 1996, 1997, 1998 and 1999, respectively.

Non-traditional agricultural products, primarily flowers and tuna, have increased substantially since 1993. Flower exports grew from US$105 million in 1996 to US$131 million in 1997. In 1998, flower exports reached US$162 million, representing a 19% increase as compared with 1997. Flower exports in 1999 increased to a high of US$180 million. Exports of tuna and other fish reached US$85 million and US$99 million in 1996 and 1997, respectively. In 1998 and 1999, tuna and other fish exports decreased to US$82.5 million and US$69.4 million, respectively, due to a reduction in production stemming from the effects of El Niño.

Petroleum, Petrochemicals and Mining

Petroleum is Ecuador's most important mineral resource and constitutes the country's largest source of export revenues, accounting for 30% and 22% of merchandise exports in 1997 and 1998, respectively. Petroleum and its derivatives accounted for 6.4% of GDP in 1997 and 4.6% in 1998 and contributed approximately 35% and 28% of the central Government's revenues, respectively. In 1999, petroleum accounted for 29% of merchandise exports. Petroleum and its derivatives accounted for 18% of GDP and contributed approximately 37% of central Government revenues in 1999.

Ecuador has extensive, but underdeveloped mineral resources which include gold, silver, copper, iron, lead, zinc, uranium, magnesium, phosphates, limestone, kaolin, marble and sulfur. In 1998 and 1999, the non-hydrocarbon mining industry contributed less than 1% of GDP, respectively.

Ecuador's oil reserves are currently exploited directly by the state-owned oil company, Petroecuador, and through association, production-sharing or service contracts with other Ecuadorian or foreign corporations. Oil exploitation operations are under the supervision and regulation of 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. Petroproducción is responsible for drilling, lifting and well management, and the Oil Pipeline Division is responsible for crude oil transport. Petroindustrial operates Ecuador's four refineries. Another division, Petrocomercial, is responsible for distributing oil derivative products domestically and the International Trade Division for crude oil exports.

Reserves. The following table sets forth Ecuador's oil reserves for the periods indicated.

Reserves
(billions of barrels, except ratios)

	December 31,				
	1995	1996	1997	1998	1999
Crude oil	3.4	3.4	3.6	3.8	4.2
Natural gas (1)	1.1	1.1	1.1	1.1	1.1
Crude oil reserves/production ratio (years)	24.1	24.2	25.4	27.7	28.6

(1) Proven undeveloped reserves of free gas, Gulf of Guayaquil.
Source: Organización Latinoamericana de Energía (*"OLADE"*) and Petroecuador.

Reserve classifications and methodologies used by Petroecuador differ in certain important respects from the reserve classifications and methodologies generally used by North American companies. Petroecuador reserve estimates focus on technical information and not on the economic feasibility of recovery, while North American 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. There are numerous uncertainties inherent in estimating quantities of crude oil and natural gas reserves. Accordingly, reserve estimates for Petroecuador included in this Listing Particulars Document could be materially different from reserve estimates prepared in accordance with North American standards, or from the quantities of oil and gas that ultimately will be recovered.

Petroecuador Revenues. Petroecuador derives revenues from the export of light and heavy crude oil and the domestic sale of oil derivative products. Payments for oil exports in foreign currency (primarily US dollars) are deposited in an account at the Central Bank. On a periodic basis the Central Bank makes distributions to the Government and certain of its agencies and instrumentalities. These distributions totaled Su.2,619 billion in 1994, Su.3,392 billion in 1995, Su.5,018 billion in 1996, Su.5,058 billion in 1997 and Su.4,932 billion in 1998. Revenues generated by domestic sales, net of operating costs, are transferred by Petroecuador to a central account of the Government.

In 1999, Petroecuador revenues were US$346 million compared with US$484 million and US$627 million in 1998 and 1997, respectively. Crude oil production by Petroecuador reached 90.3 million barrels in 1999, representing an 11.1 million barrel decrease from 1998 resulting from financial constraints faced by Petroecuador. Production by private sector companies, which operate under contractual arrangements with the Ecuadorian

Government, increased by 10.3 million barrels in 1998 to 46 million barrels in 1999. Total crude oil production reached 136.3 million barrels in 1999, representing a decrease of 0.8 million barrels from the previous year.

Accounting, auditing and financial reporting standards of Petroecuador are not comparable to those in North America. 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 both North American GAAP and International 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.

The accounting systems of Petroecuador process information from 174 cost centers corresponding to an equal number of operative units. This information is compiled monthly, with year-end consolidation and audit by the State Controllers Office.

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 production-sharing contracts, 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, association or participation or production-sharing 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. If exploitation is successful, Petroecuador is required to repay amounts invested and costs incurred by the private company. Additional returns are shared pursuant to formulas stated in each service contract.

Under association contracts, Petroecuador contributes its rights over areas, oil fields and hydrocarbons and the associated company agrees to make certain investments and to carry out additional services, such as compensation projects for communities and the payment of royalties, in exchange for a right to a certain percentage of production from successful wells. The Government retains the right to repurchase the associated company's rights under the 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.

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 13 service contracts for the exploration and exploitation of oil and gas deposits in 13 blocks of territory: ten in the Oriente and three in the Guayas Province. Currently, seven of the contracts, which correspond to blocks that revealed commercially viable reserves, are still in force while the other six were terminated due to lack of commercial interest. Occidental, Oryx, Tripetrol, Elf, Braspetro, City, YPF, and Espol have already started production in certain respective blocks, while Oryx, Tripetrol, Elf, EDC, ARCO, AMOCO, Triton, City, Ramrot and CGC are in the exploration stage in other blocks.

In 1997, ARCO Oriente Inc. ("*ARCO*") was authorized to initiate the exploitation of up to 31,000 barrels per day of crude oil with an average grade of 21° API. As of June 30, 1999, Tripetrol, YPF, Santa Fe, Occidental and Elf have transformed their service contracts to participation contracts and Oryx is currently in the process of switching. The other companies are currently renegotiating their contracts. Petroecuador does not anticipate any new service contracts will be entered into in the future.

Following the 1993 amendment to the Hydrocarbons Law, the seventh and eighth bidding rounds took place. Production-sharing contracts were awarded in the seventh round to Santa Fe, Triton, Tripetrol, Oryx, City-Ramrod, Amoco and Energy Development Corporation. In the eighth round, contracts were awarded to CGC-San Jorge, ARCO and Pérez Company.

CONAM and Petroecuador are currently working on initiating two new bidding rounds. The first round would include certain areas of the Oriente region that are not being currently explored, and the second round would include an unexplored southeastern portion of the country. No specific dates have been set for these two new rounds.

Production. Ecuador's oil production increased from 384,000 barrels per day in 1996 to 390,000 barrels per day in 1999. This increase in production was achieved primarily through the exploitation of new oil fields by Petroecuador and private companies, including Oryx, Tripetrol, Occidental, Elf and YPF (formerly Maxus). In 1998, however, a lack of investment in petroleum transportation (pipelines) stemming from the economic crisis resulted in a decrease of approximately 3.3% in petroleum production and a 5.7% decrease in exports.

Light crude oil (defined as oil as having a grade higher than 24° API) with an average grade of 26° API constitutes 60% of Ecuador's total reserves. Heavy crude oil (defined as oil having a grade lower than 24° API) with an average grade of 18° API accounts for approximately 40% of total reserves. The Government currently expects new oil fields in Inshpingo and Tambococha-Tiputini to begin production by the year 2000, increasing the production of heavy crude oil.

In 1998, Ecuadorian crude oil was exported to the United States and Canada (40.7%), Central America and the Caribbean (20.7%), South America (23.6%) and Asia (15%). In 1999, crude oil was exported to the United States and Canada (31.3)%, Central America and the Caribbean (20.7)%, South America (22.3)% and Asia (25.7)%. Ecuador currently exports crude oil of approximately 24.5° API which is mainly obtained in the Northeastern Amazon region. Heavy crude oil is currently being blended with generally more profitable light crude oil to permit transportation. See "—Transportation."

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 of Oil
(thousands of barrels, except percentages)

	1995		1996		1997		1998		1999	
	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth	Amount	Annual Growth
Production	113,640	—	112,006	(1.4)%	106,701	(4.7)%	101,401	(5.0)%	90,312	(10.9)%
Consumption (refineries)	47,791	—	56,660	18.6%	47,951	(15.4)%	52,320	9.1%	48,353	(7.6)%
Exports	91,403	—	80,714	(11.7)	76,784	(4.9)%	69,029	(10.1)%	56,847	(17.6)%
Domestic sales (derivatives)	42,796	—	46,694	9.1%	49,225	5.4%	49,026	(0.4)%	43,823	(10.6)%

Source: Unidad de Planificación Corporativa.

Transportation. Most of Ecuador's oil 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. A smaller portion is transported through a connection from Lago Agrio to San Miguel and the Colombian export terminal of Orito through Colombia's Trans-Andean Pipeline (the "*Trans-Andean Pipeline*"). The SOTE was built by Texaco and was transferred to Petroecuador at the expiration of the contract in 1988. The original capacity of the SOTE was 250,000 barrels per day which was subsequently increased to approximately 330,000 barrels per day. In 1998, the SOTE transported 114 million barrels, averaging 335,000 barrels per day, a decrease of 1.17% as compared with

1997. The Trans-Andean Pipeline transported 13.6 million barrels in 1998, at an average of 37,000 barrels per day, a 12% decrease as compared with 1997 resulting from damage caused by Colombian guerilla movements to the portion of the pipeline that traverses Colombia. In 1999, the SOTE transported 117 million barrels, while the Trans-Andean Pipeline transported 12.6 million barrels, representing a decrease of 0.8% and 8.0% from 1998, respectively.

On May 29, 2000, oil transportation on the SOTE was interrupted when heavy rains caused landslides that damaged the pipeline. The SOTE was repaired by June 4, 2000. Due to the damage sustained by the SOTE during this period, Petroecuador's oil production decreased by 1.5 million barrels. Exports, however, were not affected as they were derived from crude oil inventory.

A portion of the crude oil transported over the SOTE is earmarked directly for export while the balance flows into Petroecuador's Esmeraldas refinery where it is processed into oil derivative products. Crude oil from the Oriente transported over the Trans-Andean Pipeline, along with crude oil produced from wells located on the Coast, flows into Petroecuador's Libertad refinery 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.

Ecuador recently completed a project to increase the capacity of the SOTE to 420,000 barrels per day of 28° API crude oil. The SOTE is currently transporting 385,000 barrels per day of 24.5° API. This project was completed with the collaboration of two private companies, ARCO and Repsol-YPF.

The Government has initiated a project to construct a new pipeline which will transport heavy crude oil. The Government is highly committed to this project and is currently studying four proposals, including a proposal from a group of private sector companies which currently have agreements with Petroecuador for the exploitation of heavy crude oil. The current project description does not provide for any financing from the Government. The Government expects to award a 25 year concession contract for the construction of this pipeline by December 2000. Construction of the pipeline is expected to take approximately 18 months with an estimated cost of US$700 million. The pipeline tariff is anticipated to be US$1.60 per crude oil barrel transported. Petroecuador will have a 50% royalty participation in the last ten years of the concession. At the end of the concession period, the pipeline and associated exploitation rights will revert to Ecuador.

Refining. Refining activities are currently conducted only by Petroecuador. Petroecuador owns four refineries (Esmeraldas, La Libertad, Amazonas and Lago Agrio) with an aggregate processing capacity of 177,000 barrels per day and one associated gas processing plant ("*Shushufindi*") that produces 6,800 million cubic feet of liquefied petroleum gas per month.

In 1998, the Esmeraldas refinery processed 60%, the Libertad refinery processed 28%, and the Amazonas refinery processed 12%, respectively, of the national total. The refineries processed a total of approximately 50.8 million barrels in 1998, compared to 52.7 and 46.1 million barrels in 1996 and 1997, respectively.

In January 1995, the Government awarded a two-year contract to a Spanish consortium to increase the Esmeraldas refinery's refining capacity by 20,000 barrels per day. In 1997 and 1998, as a result of improvements made under this contract, the capacity of the Esmeraldas refinery was increased from 90,000 barrels per day to 110,000 barrels per day. In addition, the retrofit of the Esmeraldas refinery is expected to allow for the refining of crude oil of lower API.

Total refinery production in 1999 reached 380,000 bpd of which 130,000 bpd were produced in combination with private sector companies and 250,000 bpd were produced by Petroecuador. One hundred thousand barrels per day were exported directly by the private sector companies while the remaining 280,000 bpd were allocated as follows: 160,000 bpd were processed by the local refinery system and 120,000 bpd were exported directly by Petroecuador.

In 1999, the Esmeraldas refinery processed 76,830 bpd of 24° API crude oil, representing a slight decrease as compared to the previous year. The Libertad refinery processed 39,375 bpd of 28° API crude oil, while the Shushufindi Industrial Complex (consisting of the Amazonas refinery and the Shushufindi Gas Plant) processed

15,138 barrels per day of crude and liquefied petroleum gas. The total refined production for 1999 was 132,474 bpd, representing a 7.6% decrease as compared with 1998, of which 120,000 bpd were exported.

Distribution. In 1993, the Government introduced 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 Ministry of Finance. The price at which Petroecuador sells gasoline to domestic distributors is set according to a formula based on international prices for crude oil and exchange rates through an executive decree signed by the President. Until 1998, the Government had fixed the maximum profit level for distributors at 18%. In 1999, this fixed margin was eliminated allowing the market to determine profit levels, which can reach 24% in a competitive market. In early 2000, the Government reinstated a 25% fixed margin for premium gasoline and diesel fuels. This fixed margin for premium gasoline was subsequently eliminated. Three multinational petroleum companies, Shell, Mobil and Texaco, and several local concession companies have established service stations. Petroecuador also maintains a service station in Quito that is used to supply gasoline to Quito during strikes or fuel shortages.

Manufacturing

Manufacturing, excluding petroleum products, is dominated by consumer products such as foods, tobacco, 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. Manufacturing in the 1990s has been marked by steady growth, averaging a 2.8% annual increase from 1994 through 1998, as a result of expanded production of traditional and non-traditional goods intended for export and the establishment of free trade zones and export-oriented exchange rate policies. In 1998, the manufacturing sector increased 0.4% as compared with 1997. The manufacturing sector contracted by 7.2% in 1999 as compared with 1998 as a result of decreased demand stemming from the economic crisis.

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. Manufactured exports (excluding oil products) totaled US$764 million, US$808 million and US$831 million in 1997, 1998 and 1999, respectively. The manufacturing sector contributed approximately 15% of GDP in 1997, 1998 and 1999.

Services

The services sector of the economy accounted for 44.4%, 44.9% and 44% of GDP in 1997, 1998 and 1999, respectively. In 1998, the commerce, hotels and restaurants subsector, traditionally the largest component of the services sector, contributed 15.1% of GDP, representing an increase of 1.0% as compared with 1997. The government, social and domestic services subsector and the transportation and communication subsector increased 1.0% and 2.0%, respectively, in 1998. These increases were, however, lower than the 2% growth rate of the population indicating a decrease in production in relative terms.

In 1999, the commerce, hotels and restaurants subsector contributed 14% of GDP, representing a 12.1% decrease as compared with 1998. In 1999, the government, social and domestic services subsector contracted 15% as a result of the economic crisis. The transportation and communications subsector also contracted 8.8% during the same period.

Following steady annual growth averaging 1.8% from 1995 to 1997, high interest rates and increased lending activities in 1998 resulted in a 4.0% growth of the financial services subsector. This rapid growth was quickly followed by a drastic reduction in the first quarter of 1999 as a significant number of loans that had been extended to the agricultural sector during 1997 became non-performing. Further liquidity problems arising from a lack of effective credit policies in Ecuadorian banks led to a serious deterioration of the banking system. In the first quarter of 1999, the financial services sector stagnated, experiencing minimal growth of 0.4%. This subsector experienced an overall 1.0% increase in 1999.

As a result of projects to reconstruct damage caused by El Niño, the construction subsector increased 6.0% in 1998 as compared to 1997. In 1999, however, as a result of the economic crisis this subsector contracted 8.0%.

Employment and Wages

Minimum wages are set for each economic sector by a commission composed of representatives of business, labor unions from respective sectors and the Government. Real minimum wages fell between 1986 and 1992, but have gradually recovered since then. From July 1998 to July 1999, minimum wages have increased by approximately 50%. In the second half of 2000, the Government further increased the minimum wage by approximately US$30, setting the average public sector wage at US$117 per month.

National unemployment increased from 11.8% as of December 31, 1998 to 15.7% as of April 30, 2000, primarily due to a 0.4% reduction in the growth of production in 1998. Underemployment decreased from 51.8% in 1998 to 41.8% as of April 30, 2000. Underemployed individuals are defined as those 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.

In order to reduce unemployment and underemployment, the Government proposes to reduce wage restrictions, including inflation-indexation, to provide greater flexibility in the labor market. The Government also seeks to reduce public sector employment by moving workers to the private sector.

The following table sets forth information regarding the unemployment rate and real minimum wages for the periods indicated:

Wages and Unemployment

	1995	1996	1997	1998	1999
Unemployment rate (% of economically active population) (1)	7.7%	10.4%	9.2%	11.8%	15.1%
Real minimum wage index (2)	101.6	109.7	107.2	101.5	78.7

(1) Unemployment statistics are reported by the Ministry of Labor. Statistics reported by the Ministry of Labor are gathered from the urban centers of Quito, Guayaguil, Cuenca and Ambato.
(2) Figures are for December of each year and include 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: National Statistics Institute and Catholic University

FOREIGN TRADE AND BALANCE OF PAYMENTS

Balance of Payments

After recording a current account surplus of US$111 million in 1996, Ecuador recorded a current account deficit in 1997 and 1998 of US$714 million and US$2.2 billion, respectively. The current account deficit in 1998 represented 11.0% of GDP, the largest deficit experienced by Ecuador in the last decade. This significant deficit was primarily the result of a negative merchandise trade balance of US$995 million (equivalent to 5.0% of GDP) which was produced by a 20% contraction in exports due to the collapse of world petroleum prices, a reduction in primary export products caused by El Niño and a 10.2% expansion in imports arising from El Niño related shortages. The services component of the current account also recorded a negative balance of approximately US$2.0 billion in 1998, which was associated with the payment of public and private interest obligations and foreign investment profits. In 1999, the current account recorded a US$955 million surplus. This surplus was due to a reduction in imports resulting from the extreme devaluation of the sucre and the economic crisis faced by Ecuador.

Ecuador's balance of payments registered a capital account surplus of US$1.8 billion in 1998 due to an increase of US$136 million in direct foreign investment and the incurrence of US$417 million in foreign debt. In 1998, there was a reduction in international reserves of US$395 million, representing 2.0% of GDP. In 1998, the current account deficit was financed through the use of international reserves, as well as direct foreign investment (US$831 million) representing 4.2% of GDP, net external public debt, including refinancings (US$527 million) representing 2.7% of GDP, arrears (US$198 million) representing 1% of GDP and net private capital (US$317 million) representing 1.6% of GDP. In 1999, the balance of payments registered a negative capital account balance of US$1.4 billion. This deficit resulted from the dramatic decrease in imports due to the devaluation of the sucre and the overall contraction of the economy resulting from the economic crisis. Total foreign investment reached US$636 million in 1999, representing a 23% decrease from 1998.

Balance of Payments
(millions of US$)

	1995	1996	1997	1998	1999
Current account:					
Merchandise Trade					
Exports (FOB)					
Petroleum and derivatives	US$1,560	US$1,776	US$1,558	US$923	US$1,480
Non-petroleum	2,851	3,124	3,706	3,280	2,971
Total Exports	4,411	4,900	5,264	4,203	4,451
Imports (FOB)	(4,057)	(3,680)	(4,666)	(5,198)	(2,786)
Merchandise Trade balance	354	1,220	598	(995)	1,665
Services					
Rendered	936	931	928	890	861
Received	(2,256)	(2,330)	(2,631)	(2,840)	(2,672)
Services balance	(1,320)	(1,399)	(1,703)	(1,950)	(1,811)
Net transfers	231	290	391	776	1,101
Total Current Account	(735)	111	(714)	(2,169)	955
Capital account:					
Direct foreign investment	470	491	695	831	636
Foreign debt	1,565	971	858	1,275	(215)
Arrears	(110)	66	(13)	40	171
Other capital (1) (2)	(1,345)	(1,366)	(565)	(373)	(1,968)
Total Capital Account	580	163	976	1,774	(1,377)
Change in international reserves (3)	US$155	US$(274)	US$(262)	US$395	US$422

(1) Includes errors and omissions.
(2) Includes expenses incurred in connection with refinancings (principally purchases in 1995 of United States Government securities as Brady Plan collateral), including refinancings of indebtedness then in arrears and other capital outflows.
(3) Negative amounts represent increases in Central Bank international reserves.
Source: Central Bank.

Foreign Trade

Merchandise and Services Trade

Ecuador has historically been an exporter of primary goods and an importer of capital and intermediate goods and manufactured products. Since 1972, exports of petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. From 1994 to 1996, non-traditional exports which include, among others, flowers, vehicles and seafood increased by 65.5%. In 1997, 1998 and 1999, exports of petroleum and petroleum derivatives accounted for approximately 30%, 29%, and 33% respectively of total exports.

In 1998, Ecuador's export trade, which had grown steadily until 1997, deteriorated rapidly as a result of El Niño and lack of investment in the petroleum sector. Agricultural and petroleum products available for export declined when the recession in the Asian markets suppressed demand for most non-oil commodities. Exports of non-traditional products decreased to 26.2% of total exports. The total value of exports decreased by 20.2% in 1998 to US$4.2 billion. Contributing to this decrease was a 41% decrease in exports of petroleum and petroleum products, a 19% decrease in exports of bananas, Ecuador's primary agricultural export, and a 3.4% decrease in non-traditional exports. In 1998, exports of petroleum products decreased by 22% of total exports and, for the first time in over 25 years, bananas displaced petroleum as Ecuador's largest export. In 1999, the total exports increased by 6% to US$4.5 billion due to a 4% increase in exports of petroleum and petroleum derivatives. Petroleum reassumed its position as Ecuador's primary export in 1999.

Trade Policy

Ecuador's foreign trade policy is aimed at the integration of Ecuador into the global economy and the creation of commercial opportunities for Ecuadorian goods and services abroad. This policy combines unilateral trade measures with bilateral, regional and multilateral negotiations, including the reduction of trade barriers, increased transparency and the establishment of dispute settlement mechanisms.

In October 1992, Ecuador entered into bilateral free trade agreements with Colombia and Bolivia, which were extended in February 1993 to include Venezuela. In 1993, the Government eliminated licensing requirements for agricultural imports and limited trade restrictions to those countries based upon health, security and environmental concerns. With the exception of automobiles (which are subject to import duties of 35%), Ecuador's import duties currently range between zero and 20% of value. The average nominal import duty is approximately 11% of value. In March 1998, a new import duty was approved within WTO tariff levels ranging from 0% to 35%.

In June 1997, Ecuador enacted the External Trade and Investment Law (LEXI) to regulate and promote external trade and direct foreign investment. In accordance with this law, an External Trade and Investment Council (COMEXI) and an Export and Investment Promotion Corporation (CORPEI) were created to monitor the promotion of trade and investment.

In July 1998, Ecuador enacted a law allowing for the issuance of private sector contracts for the execution of certain functions of the customs department. In addition, the law created the Ecuador Corporation of Customs which was given responsibility for the creation and execution of Ecuador's customs policy.

In October 1998, Ecuador signed an historic border treaty with Peru. As a result of this treaty, which seeks to develop trade ties between Ecuador and Peru, the two countries have presented joint plans for the development of infrastructure and commerce in the border region and have announced that a trade liberalization agreement will be signed in the near future. In 1999, exports to Peru totaled US$1.8 billion, representing 4% of total exports for the year.

The United States is Ecuador's most important trading partner, accounting for 38.3% and 30.4% of Ecuador's exports and imports, respectively, during 1999. In 1999, exports to countries comprising ALADI represented 18.6% of total Ecuadorian exports. Other significant Ecuadorian trading partners include Colombia and Italy, representing 5.1% and 4.6% respectively, of total exports in 1999, as well as Peru, Chile and Germany.

The following tables set forth information regarding exports for the periods indicated.

Exports (FOB)
(millions of US$)

	1995	1996	1997	1998	1999
Crude oil	US$1,395.5	US$1,520.8	US$1,411.6	US$789.0	US$1,312.3
Petroleum derivatives (1)	165.0	255.3	145.7	134.0	167.4
Bananas and plantains (2)	856.6	973.0	1,327.2	1,070.1	954.4
Coffee and coffee products	243.9	159.5	121.5	105.1	78.1
Shrimp	673.5	631.5	886.0	872.3	607.1
Cocoa and cocoa products	133.0	163.6	131.8	47.1	106.4
Tuna and other fish	89.0	84.8	98.8	82.5	69.4
Other products (3)	854.7	1,111.6	1,141.8	1,102.9	1156.0
Total	US$4,411.2	US$4,900.1	US$5,264.4	US$4,203.0	US$4,451.1

(1) Figures for 1996 include exports by the private sector.
(2) As of 1995, figures include those from the Programa Nacional del Banano and Central Bank.
(3) "Other products" consist of non-traditional primary and manufactured products, including canned seafoods, flowers, vehicles, manufactured metals and chemicals.
Source: Central Bank.

Geographical Distribution of Merchandise Trade
(millions of US$)

	Exports (FOB)					Imports (CIF)					
	1995	1996	1997	1998	1999	1994	1995	1996	1997	1998	1999
Americas											
United States	1,768.7	1,859.0	2,032.1	1,637.2	1,708.1	964.2	1,301.7	1,222.4	1,516.4	1,680.4	918.5
Colombia	253.3	302.0	355.5	282.6	227.2	293.9	393.1	416.0	511.1	592.2	363.4
Chile	196.9	220.7	238.6	139.8	195.1	66.7	111.7	145.0	164.7	201.4	122.5
Venezuela	34.1	72.5	51.5	59.3	66.5	161.8	268.7	188.2	338.4	269.4	193.2
Other countries	629.9	710.8	750.5	656.3	7,386.0	634.9	667.5	695.6	812.3	982.5	525.9
Total Americas	2,882.9	3,165.0	3,428.2	2,775.2	2,937.5	2,121.5	2,742.7	2,667.2	3,342.9	3,725.9	2,123.5
Europe											
European Union (EU)											
Italy	173.6	195.7	273.4	257.2	208.1	136.8	103.2	107.1	133.2	175.3	56.0
Germany	167.6	176.3	206.6	130.0	124.3	215.6	191.1	162.4	200.2	228.4	126.0
Spain	150.1	133.2	129.4	140.1	122.4	82.7	93.0	189.8	172.4	112.3	76.5
United Kingdom	95.7	125.1	96.1	60.7	55.9	35.0	51.7	49.0	57.9	63.9	30.2
Other EU	257.2	312.9	311.6	284.4	307.0	108.1	199.0	191.3	242.9	240.3	138.4
Total EU	844.2	943.2	1,017.1	872.4	817.9	578.2	638.0	699.6	806.6	820.2	427.1
Rest of Europe	141.3	146.9	204.1	159.2	113.3	47.7	98.5	52.9	77.6	97.9	65.1
European Free Trade Association	9.0	7.2	7.6	3.1	2.5	68.8	43.3	41.7	40.6	38.7	36.0
Total Europe	994.9	1,097.2	1,228.8	1,034.7	933.7	694.8	779.8	794.2	924.8	956.8	528.2
Asia											
China(Taiwan)	15.8	22.2	45.4	34.7	35.6	58.4	61.9	38.4	54.4	51.6	31.5
Japan	118.4	138.8	150.0	124.4	112.1	511.4	329.2	203.4	290.2	481.3	142.0
Other Asia	370.4	442.4	379.3	185.5	344.3	184.0	195.3	171.3	227.8	270.6	155.7
Total Asia	504.6	603.3	574.7	344.6	492.1	753.7	586.4	413.2	572.4	803.5	329.2
Africa	8.7	9.6	1.7	2.3	3.1	22.4	31.9	9.9	78.5	56.0	25.6
Other countries	20.5	22.5	31.0	46.3	84.7	29.6	11.8	47.3	36.3	33.6	10.8
Total	4,411.2	4,900.1	5,264.4	4,203.0	4,451.1	3,622.0	4,152.6	3,931.7	4,954.8	5,575.7	3,017.3

Source: Central Bank.

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

Imports of Goods by Use or Economic Activity (1)
Millions of US$ (CIF)

	1994	1995	1996	1997	1998	1999*
Total Imports	**3,622.0**	**4,152.6**	**3,931.7**	**4,594.8**	**5,575.7**	**3,017.3**
Consumption Goods	809.9	823.2	856.6	1,039.7	1,170.8	621.2
Non-durable	345.3	441.7	501.9	611.6	713.5	444.6
Durable	464.6	381.5	354.7	428.1	457.3	176.5
Fuel & Lubricants	103.8	240.9	162.4	437.4	325.6	243.8
Raw Materials	1,317.7	1,709.2	1,758.7	1,996.3	2,205.0	1,335.5
Agriculture	130.5	196.2	243.7	279.7	272.6	200.2
Industrial	1,086.4	1,387.5	1,350.8	1,535.9	1,736.0	1,047.1
Construction	100.8	125.5	164.1	180.8	196.4	88.1
Capital Goods	1,390.1	1,378.2	1,153.0	1,480.5	1,873.5	815.1
Agriculture	35.1	45.8	37.3	47.9	56.1	18.9
Industrial	651.2	752.1	738.0	968.5	1,163.4	549.1
Transportation Equipment	703.8	580.3	377.7	464.1	653.9	247.0
Others	0.5	1.2	1.1	0.9	0.8	1.7

(*) Provisional figures
(1) Excludes adjustments of Balance of Payments
Source: Central Bank

Direct Foreign Investment

In January 1993, in an attempt to spur direct foreign investment, the Government eliminated the 49% ceiling on foreign ownership of banks and insurance companies, removed all restrictions on the repatriation of profits by foreign investors and greatly simplified registration procedures. As a result, foreign investors generally receive national treatment.

Direct foreign investment in Ecuador increased sharply from US$469 million in 1993 to a high of US$831 million in 1998 with such investment largely concentrated in the petroleum sector. Total direct foreign investment in Ecuador declined significantly in 1999 to US$636 million, primarily due to the elimination of the exchange rate band which created volatility in the foreign exchange rate. Foreign direct investment in the petroleum sector accounted for 96.7% of total direct foreign investment in 1999.

MONETARY SYSTEM

The Central Bank of Ecuador

Prior to 1998, the Central Bank was responsible for implementing financial policies of the Government and its board was comprised of members from the public and private sectors. Starting 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 and is charged with the responsibility of maintaining monetary stability. 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 functions of the Central Bank have been sharply reduced as a result of the Dollarization Program (see "Dollarization Program—Role of the Central Bank").

Foreign Exchange and International Reserves

Historical Exchange Rate Policy and Foreign Exchange Rates

Prior to the introduction of the Dollarization Program, the Board of Directors of the Central Bank issued and administered regulations with respect to the exchange market. Prior to 1992, Ecuador maintained an exchange rate policy that managed the exchange rate through occasional devaluations. In 1992, the Government commenced a transition to a system that allowed the exchange rate to float freely within a managed band. In 1994, the Government adopted an exchange band system, the Central Bank began applying uniform exchange rates for all transactions and the monetary board announced its commitment to abide by the principles of full currency convertibility and equal access to the exchange market for all private agents.

Prior to February 1999, the Central Bank addressed instability in the economy and potential capital flight through the controlled devaluation of the sucre, the use of international reserves to support the sucre and adjustments to domestic interest rates. Under the exchange band mechanism, the Central Bank would set a reference exchange band for the sucre/US dollar exchange rate, establishing a floor and a ceiling for the exchange rate. Until March 1997, the Central Bank would intervene in the market if the free market exchange rate moved near the top or bottom of the band, seeking to avoid a readjustment of the band. In March 1997, the Central Bank devaluated the exchange rate band by 3.8%. The annual rate of depreciation of the midpoint of the exchange rate band increased from 21% to 25% in March 1997.

In response to events in 1998, the Central Bank shifted the exchange band on two occasions. In March 1998, the band was displaced 7.5% following a 7.6% fall of the sucre relative to the US dollar. In September 1998, the band was again increased 15% in response to the sharp deterioration of the current account.

In addition to a loss of over 54% of the sucre's nominal value in 1998, the currency came under further pressure in January 1999 as demand for dollars increased when certain financial intermediaries attempted to avoid the new 1% tax on financial transactions by transferring funds to foreign banks. In January 1999, the devaluation of the Brazilian real and uncertainty over the budget negotiations in Congress contributed to a further 6.3% nominal devaluation of the sucre. In response to this additional pressure on the exchange rate, the Central Bank increased overnight interest rates to 104% and sold US$159 million of reserves to maintain the sucre's exchange rate.

Faced with persistent pressure on the sucre, the Central Bank decided in February 1999 to refrain from further market intervention in support of the exchange rate. Instead, the exchange band was abandoned and the currency was allowed to float freely. The exchange rate, which stood at Su.6,825 per US$1.00 on December 31, 1998, increased sharply to just under Su.9,000 per US$1.00 before recovering to Su.7,950 per US$1.00 at the close of the first day of its free trading. Following the float of the sucre, the sucre continued to weaken at an average monthly rate of 7.6% until March 1999. As of May 31,1999, the sucre had temporarily recovered slightly, due in part to a freeze on bank deposits, to a rate of Su. 9,377 per US$1.00. As of March 31, 2000, the sucre had dropped to a low of Su.24,997 per US$1.00.

The following table sets forth certain information concerning the sucre-to-dollar commercial exchange rate for the periods indicated.

Exchange Rates(1)
(sucres per US$)

	Period End		Average for the Period	
	Buy	**Sell**	**Buy**	**Sell**
1994	2,277.17	2,279.69	2,195.77	2,197.78
1995	2,924.50	2,926.05	2,563.94	2,566.00
1996	3,631.74	3,633.85	3,189.51	3,191.34
1997	4,432.79	4,437.44	3,997.70	3,998.96
1998	6,761.24	6,770.42	5,438.19	5,442.80
1999	19,525.89	19,917.14	11,767.80	11,838.76

(1) Exchange rates for transactions in the commercial market involving purchase of dollars as reported by Central Bank.
Source: Central Bank.

International Reserves

In September 1992, the Central Bank adopted an exchange rate with continued flotation as its nominal anchor. As a result of the exchange rate stability produced by this mechanism, foreign capital entering Ecuador increased, resulting in a US$1 billion increase in international reserves in December 1993. In December 1994, the Central Bank instituted the exchange band system as its nominal anchor. Under the exchange band system, the Central Bank would intervene if the free market exchange rate moved near the top or the bottom of the band.

As a result of these interventions by the Central Bank in the foreign exchange market, international reserves fell from US$1.9 billion at the start of 1998 to US$1.7 billion by December 31, 1998. By April 30, 1999, international reserves were at US$2 billion. The reserves decreased to US$1.3 billion by the end of October 1999. However, by March 31, 2000 gross international revenues had fallen to US$1.07 billion as a result of the purchase of sucres pursuant to the Dollarization Program.

The following table sets forth the net international reserves of the Central Bank and the number of months of imports of goods and service coverage for the periods indicated.

Net International Monetary Reserves of the Central Bank(1)

	Reserves (millions of US$)	Coverage of imports of Goods and Services (months)
1994	1,712	4
1995	1,557	3
1996	1,831	4
1997	2,093	4
1998	1,698	3
1999	1,276	2
2000(2)	1,070	3

(1) Figures are for end-of-period, unless otherwise indicated.
(2) As of March 31, 2000.
Source: Central Bank.

The following table provides a break-down of the net international monetary reserves of the Central Bank.

Net International Monetary Reserves of Central Bank
As of March 31, 2000
- in millions of US$ -

Total Assets	1,145	
Monetary Gold	115	
SDR & Andean Pesos	12	1/
Reserve Position at IMF	23	
Currency Position	778	2/
CCR ALADI	8	3/
Other assets	209	
Total Liabilities	75	
Banks & Other financial institutions	56	
CCR ALADI	17	
Use of IMF credit	0	
Other liabilities	2	
Net Reserves	**1,070**	

1/ Special Drawing Rights.
2/ Broken down as follows: US$ 83%; Japanese Yen 8%; Euros 9%.
3/ Latin American Integration Association's Reciprocal Credits Agreement.
Source: Central Bank

Inflation

After reaching 54.6% in 1992, inflation decreased to 45% in 1993 and to 25.4% in 1994, primarily as a result of the adoption of the exchange band system. In 1997, inflation rose to 30.7% because of uncertainty with respect to the sustainability of the exchange band.

During 1998, domestic inflation, measured by the consumer price index, increased by 43.4%. This increase resulted primarily from the devaluation of the sucre and the elimination of certain gasoline, electricity and gasoline subsidies (designed to bring these prices closer to international levels). During 1998, the cost of gasoline and energy increased by 85.4%, and transportation (public and private) costs increased by 62%.

In 1998, the devaluation of the sucre reached an average annual rate of 36.2%. In October 1998, as a result of devaluations in neighboring countries, particularly Colombia, stemming from the Russian crisis, the sucre began losing value at a rate higher than that of inflation, resulting in a 0.2% increase in the real exchange rate for 1998. During 1999, the sucre's devaluation continued at a rapid pace, reaching an annualized rate of 108.5% by June 1999. The sharp devaluation of the sucre contributed to an increase in Ecuador's inflation rate which reached 60.7% in 1999, the highest in Latin America.

	Inflation Percent Change in Consumer Price Index from Previous Year at Period End (1)
1994	25.4%
1995	22.8
1996	25.5
1997	30.7
1998	43.4
1999	60.7
2000(2)	96.9

(1) Percentage change of consumer prices in urban areas over the twelve months ending December 31 of each year, unless otherwise indicated.

(2) As of March 31, 2000.

Source: National Institute of Statistics.

Notwithstanding the introduction of the Dollarization Program, the Government believes that inflation will continue through December 2000, eventually settling to a level equal to inflation in the United States. The Government expects annual inflation for 2000 to be between 94% and 100%.

Historical Interest Rates and Money Supply

During the mid-1980s, Ecuador moved away from fixed interest rates and subsidized credit. Interest rates were allowed to float according to market conditions as a means of reversing capital flight. In January 1993, the Central Bank adopted a system of benchmark interest rates based on market conditions in order to improve the transparency of the financial markets.

During 1996, money supply, as measured by M1, grew by 35.4%, while M1 plus quasi-money, as defined by M2, increased by 43.8%. These rates of growth reflected increased economic stability in comparison with the period of hostilities with Peru during 1995. The interbank lending rate decreased significantly from 80.0% in 1995 to 27.0% in 1996.

In 1997, M1 and M2 also grew, although at a lower rate than in 1996, by 29.7% and 34.0%, respectively. The interbank lending rate increased slightly from 27.0% in 1996 to 30.0% in 1997.

In 1998, the monetary issue and the monetary base increased by 44.2% and 41.2%, respectively, as compared with 25.2% and 31.6% in 1997, respectively. This increase in liquidity of the system resulted from the Central Bank's grant of credit to the banking sector and also from short-term liquidity resulting from repo operations conducted by the Central Bank. The excessive liquidity of the local currency and demands by foreign banks for cash collateral for commercial operations created downward pressure on the exchange rate. In response to this volatility, the Central Bank used significant amounts of reserves to support the currency. In October 1998, the average interbank lending rate reached a peak of 83%, up from 30% at the beginning of the year.

In January 1999, the Central Bank increased the interbank lending rate to 104% in response to the effects of the devaluation of the Brazilian real and a stalemate in Congress over the 1999 budget proposals. To avoid sacrificing further reserves, the Central Bank increased interest rates in February 1999 to stabilize the sucre. The abandonment of the exchange rate band in February 1999 and the freeze of certain deposit accounts in domestic financial institutions resulted in a decline in the interbank lending rate to 58% as of end-May 1999.

By June 30, 1999, the monetary issue and the monetary base had increased by 119.1% and 81.6%, respectively, as a result of a 69% increase in assets other than international reserves and public and private credit in the second quarter of 1999. The monetary aggregates M1 and M2 also increased by 63.8% and 71.7%, respectively, as a result of an annualized increase of 100% in currency circulation in the first semester of 1999. The monetary aggregate M2 frozen accounts, representing 7% of the total, remained almost unchanged. The interbank lending rate increased to 63.0% from 48.6% in 1998.

For the quarter ending March 30, 2000, as a result of the implementation of the Dollarization Program, the monetary issue increased slightly by 0.5% and the monetary base decreased by 1.6%. This decrease in the monetary base resulted from capital flight. The monetary aggregates M1 and M2 increased by 25.5% and 5.9%, respectively, as a result of the return of unaccounted for liquidity to the financial system.

The following tables set forth certain information with respect to average interest rates and the principal monetary indicators for the periods indicated.

Select Interest Rates

	1996	1997	1998	1999	2000(1)
Central Bank stabilization bonds(2)	24.71%	27.86%	54.22%	91.16%	9.8%
Bank deposits(3)	33.68	31.53	49.45	47.71	11.62
Corporate loans(4)	45.96	39.02	60.53	74.97	28.04
Overnight Interbank rate	27.00	30.00	48.63	152.40	5.77

(1) January-March.
(2) Rate on monetary stabilization bonds issued during the last week of the period with a term of 84 to 91 days.
(3) Rate on bank deposits during the last week of the period with a term of 84 to 91 days.
(4) Rate on loans by the banking system to corporate customers issued during the last week of the period with a term of 84 to 91 days.
Source: Central Bank.

Principal Monetary Indicators
(billions of sucres except for percentages)

	1996		1997		1998		1999		2000(1)(6)	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
Monetary issue	Su.2,321.7	44.3%	Su.2,906.5	25.2%	Su.4,192.1	44.2%	10,568.1	152.8%	10,624.1	0.5%
Monetary base(2)	3,062.4	27.0	4,029.4	31.6	5,689.4	41.2	13,410.2	225.7	19,680.0	(46.8)
M1(3)	4,647.5	35.4	6,030.0	29.7	8,130.3	34.8	15,331.0	88.6%		
Quasi-money(4)	13,435.5	47.0	18,394.5	36.9	26,731.8	45.3	36,234.8	35.5	56,598.0	56.2
M2(5)	18,083.0	43.8	24,424.4	34.0	34,862.1	42.7	73,427.3	110.6		

(1) Preliminary.
(2) Accounts in foreign currency valued at official market rates.
(3) Defined as money in circulation plus monetary deposits.
(4) Defined as saving deposits plus time deposits.
(5) Defined as M1 plus quasi-money.
(6) As of March 31, 2000.
Source: Central Bank.

Financial System

General

The financial sector consists of various financial institutions and the securities markets. Financial institutions are regulated by the Superintendency of Banks and the securities markets are regulated by the National Securities Council. The Financial Institutions Law (the "*Financial Institutions Law*") of 1994 regulates all private sector financial institutions, including banks, finance companies and savings and loan cooperatives. Other private sector institutions regulated by the Financial Institutions Law include leasing companies, credit card issuers, brokerage houses and insurance companies. Public sector financial institutions are regulated by the Financial Institutions Law solely with respect to solvency, liquidation and financial prudence matters.

The Ecuadorian banking system is composed of the Central Bank, private commercial banks (including local branches or affiliates of several foreign banks) and several state development and state-owned banks. In 1995, the Ecuadorian financial system underwent a process of consolidation in which activities were concentrated in a relatively small number of banks. The four largest Ecuadorian private commercial banks together accounted for approximately 51.9 percent of total deposits in Ecuador as of December 31, 1996.

The Financial Institutions Law permits the establishment of universal banks and provides for equal treatment of foreign and domestic financial institutions. Ecuadorian financial institutions may open 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.

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, 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 monetary board and a final member appointed by the four other members.

If withdrawals threaten the liquidity of a private bank, the monetary board may authorize liquidity loans (for a term not to exceed 90 days and renewable only once) for an amount that may not exceed the amount of technical capital.

Banking System

The absence of vigorous regulation and effective credit policies produced significant instability in the Ecuadorian financial sector in 1998. Liquidity in the system fell throughout the year, destabilizing several banks. In addition, external credit lines to Ecuadorian banks decreased 11.0% between December 1998 and March 1999. As of September 1998, as a protection against liquidity problems, foreign banks have required Ecuadorian banks to maintain cash deposits to fund commercial operations at these foreign institutions, further reducing liquidity in the financial sector.

Destabilization was pervasive in the banking sector in 1998. In September 1998, Banco de Prestamos, a medium-sized institution, closed after failing to secure additional liquidity loans from the Central Bank. Pressure on the banking system increased further as foreign lenders closed credit lines to Ecuadorian banks. Resulting panic caused a run on deposits at Banco del Pacifico, but the institution was kept afloat by bank authorities and Government action. However, emergency liquidity loans from the Government were not able to keep Filanbanco, the largest bank in Ecuador (in terms of assets), solvent and it was transferred to the newly created AGD.

The AGD was created in December 1998 as part of a banking sector reform introduced in the fourth quarter of 1998 to guarantee the deposits of all financial institutions. The AGD is administered by a Board of Directors comprised of a director from the Central Bank, the Minister of Finance, the Superintendent of Banks and a delegate appointed by the President. The General Manager of the AGD is a non-voting member who is appointed by the Board of Directors.

While the AGD is the guarantor of deposits of all financial institutions, such guarantee is subject to certain limitations relating to deposit interest rates, loans extended to related parties and non-performing, non-recoverable loans. Until March 2000, guaranteed deposits were limited to those deposits where the applicable interest rate was no more than 3% above the average interest rate applied to deposits by banks. As of March 2000, as per the LET, the guaranteed maximum deposit interest rate is set by the President. Deposits with interest rates above this rate are excluded, in their entirety, from the deposit guarantee. Loans extended to shareholders of financial institutions whose participation is greater than 1% of the outstanding equity in an institution are not eligible for the deposit guarantee. Non-performing, non-recoverable loans, which are also excluded from the guarantee, are defined as those loans that can not be recovered in 90 days. Deposits which are subject to any right of set-off by the financial institution are also excluded from the 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 2001 - March 2003: guarantee limited to 50% of total deposits for each depositor up to US$8,000 • March 2003 - March 2004: guarantee limited to 25% of total deposits for each depositor up to US$8,000 • March 2004 onward: guarantee limited to US$8,000 for each depositor
Trade Line Guarantees	
Unlimited guarantee for all lenders relating to trade financings	As of March 2000, guarantee of all trade financing eliminated
AGD Financing for Guarantees	
AGD issued bonds to cover guarantees	As of 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 reference interest rate.

Prior to the creation of the AGD, financial institutions that could not comply with capital requirements within 90 days for deficiencies of less than 50% of total assets, or within 30 days for deficiencies greater than 50% of total assets, were subsequently liquidated. Under the December 1998 reform, financial institutions determined to be insolvent by the Banking Board were transferred to the AGD. Upon evaluation of its viability by the Banking Board, 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. As of March 2000, the AGD had chosen to pay guaranteed deposits for all financial institutions which had entered into the clearing process.

Under the LET, the AGD will continue to follow the processes established by the December 1998 reform for institutions that at the time of enactment were either in a restructuring or clearing process. Starting March 2000, financial institutions whose solvency index falls below 9% are reviewed by the Banking Board and the institution enters a regularization program. In connection with the regularization program, the financial institution is required to create a trust with all shares of the financial institution for the benefit of the AGD. The regularization program requires the financial institution to comply with the regularization program established by the Banking Board in order to recapitalize the institution to the 9% solvency index within 60 days. If the institution fails to reach the 9% solvency index, the trust is terminated and the AGD becomes the owner of the institution. Upon evaluation of the institution by the Banking Board, as per the LET, the Board is required to manage the institution to ensure that deposits are, to the highest possible level, secured by that institution's assets.

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 Finance issued AGD bonds that accrued monthly simple interest at a rate of 12.5% per year and had a maturity of 15 years. These bonds were purchased by the Central Bank and the funds from this transaction were provided to the AGD. Upon negotiation of these bonds to the Central Bank, AGD bonds became obligations of the Ministry of Finance. The Ministry of Finance is entitled to receive money from the AGD from the sale of assets of banks in liquidation to satisfy the Ministry of Finance's obligations with respect to the AGD bonds. As a result of the enactment of the LET, the Ministry of Finance will be entitled to receive such monies from institutions that as of March 2000 had entered a restructuring or clearing process. The LET does not expressly prohibit the further issuance of AGD bonds.

Between January 1999 and March 1999, the Central Bank injected liquidity into five small banks: Tunguragua, Finagro, Financorp, Azuay and Occidente. Nevertheless, these efforts failed and these institutions as well as three other financial institutions, Amerca, Finannova and Mutualista Previsión y Seguridad, were transferred to the AGD in January 1999. As of December 1999, the AGD paid all guaranteed deposits for Tunguragua, Finagro, Financorp, Azuay, Occidente, Finannova and Mutualista Previsión y Seguridad.

Despite significant financial support from the Government during this period, the Ecuadorian banking system remained fragile and illiquid. Capital flight resulting from ongoing economic uncertainty made it difficult for several institutions to gain access to the interbank market. In February 1999, liquid banks stopped lending to the weaker banks, channeling excess liquidity into one-day Central Bank paper bearing interest rates of over 110%.

In February 1999, the Board of Directors of the Central Bank resigned to protest the freezing of the bank deposits by the Ministry of Finance. The Directors had asked the President and the Minister of Finance to close a number of banks that were not economically viable, instead of freezing their deposits. Due to internal political disputes, new nominations to the Board were not submitted immediately. As a result, the Central Bank, Ecuador's monetary authority, was left without leadership until June 1999.

In March 1999, Banco del Progreso, the second largest bank in Ecuador, closed and entered into a restructuring program under the management of the Superintendency of Banks. Under this unique restructuring program, Banco del Progreso was given a fixed period of time within which to reach a minimum capital level set by the Superintendency of Banks. In the event Banco del Progreso was unable to reach this minimum level, it would be transferred to the AGD. In May 1999, Bancomex was closed and entered into a similar restructuring program which expired on July 12, 1999, but was subsequently extended until July 30, 1999. After failing to reach a minimum capital level on July 13, 1999, Banco del Progreso was transferred to the AGD and entered into a clearing process.

The AGD continued to operate Filanbanco through various injections of liquidity derived from the negotiation of AGD bonds. In May 1999, liquidity problems prompted the Colombian banking authorities to intervene in the operation of two banks in Colombia owned by Ecuador's Banco del Pacifico and Banco Popular. This intervention led concerned depositors in Ecuador to make significant withdrawals from Banco del Pacifico in Ecuador. In response to the resulting liquidity problem, the Superintendency of Banks named a temporary manager to assist in the financial operations of Banco del Pacifico.

On May 6, 1999, the AGD entered into agreements with four international audit agencies to commence independent audits of the banking system in Ecuador with the objective of reforming the structure of the banking system. In September 1999, prior to the release of the recommendations of the independent auditors, President Jamil Mahuad presented a package of banking sector reforms to Congress for approval. This package included a limitation on the maximum issuable amount of AGD bonds. Congress approved a significantly modified package but rejected the establishment of a limit on AGD bonds. As a result, President Mahuad vetoed the proposed legislation. According to Ecuadorian law, a similar reform may not be presented to Congress again until one year following the veto.

On July 30, 1999, the Superintendent of Banks, as head of the AGD, announced the restructuring of the banking system based upon the results presented by the independent auditors. The AGD audit revealed 19 banks that were considered viable and in compliance with the Government's capital requirements. Banco del Pacifico, Banco Popular, Banco de la Previsora and Banco Cofiec were found to be viable, but did not meet the capital requirements and would therefore receive Government rescue loans. Consequently, these four banks were granted subordinated loans totaling US$148 million by Filanbanco to restore these banks to minimum solvency levels. In order to provide these subordinated loans, the AGD injected additional capital into Filanbanco. Even though Solbanco, Banunion and Banco de Credito were declared insolvent and the Superintendent of Banks declared that they would be consolidated with Banco Continental (owned by the Central Bank), these banks ultimately entered into a clearing process. Bancomex subsequently entered into a clearing process also.

Banks not included in the audit lists were Banco Continental and Filanbanco, both of which had already been absorbed and recapitalized by the Government in 1995 and 1998, respectively. Banco de Prestamos was also excluded since its liquidation began prior to the creation of the AGD and accordingly its deposits could not be guaranteed.

In August 1999, Congress enacted a law allowing Banco de Prestamos to enter into a clearing process but prohibiting the use of public funds to cover deposit guarantees. In November 1999, however, Congress enacted another law allowing the use of public funds to cover deposit guarantees for Banco de Prestamos. An audit of the four international banks operating in the country (Lloyds, Citibank, ABN AMRO and ING Barings) showed that these institutions were in financial compliance with capital requirements.

In September 1999, Banco Popular, the country's fourth largest bank, entered a clearing process in the wake of a massive run on deposits that followed the filing of a petition by the Colombian government in a United States Federal Court in Miami against Banco Popular, affiliated companies and its owner. The lawsuit accused certain individuals of misappropriating funds from Banco Andino de Colombia, a Banco Popular affiliate, which was closed in May when it failed to find the necessary cash to meet a government-imposed capital increase. In connection with the lawsuit, assets of Banco Popular were frozen, constraining Banco Popular's liquidity. A last minute liquidity line from the Central Bank was insufficient to keep the bank afloat. Ultimately, many of Banco Popular's assets were sold and the bank is currently in a clearing process. In the same month Banco Previsora, without entering a clearing process within the AGD, was merged with Filanbanco.

In December 1999, the ownership of Banco del Pacifico was transferred to the AGD. In June 2000, the AGD recapitalized Banco del Pacifico. The state-owned Filanbanco bank is in a process of merging with Banco Previsora. This merger is expected to be completed by September 2000.

In summary, the authorities have intervened in 20 financial institutions; 13 of these institutions have been unable to reopen their doors. As of September 30, 1999, there were 27 banks operating within the financial sector as compared with 41 banks in September 1998. The Government estimates that as of May 31, 2000, approximately 70% of the banking system had been nationalized.

In March 1999, the effects of the sucre's continuous decline, coupled with the Government's need to keep remaining financial institutions afloat, forced the Government to close banks for one week. Although these financial institutions subsequently re-opened, the Government froze certain accounts.

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

Date	Action Taken
March 1999	• Freezing of: - 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 qualifying for harsh status (depositors over 65 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 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 national prosecutor (*"Fiscal de la Nación"*).

As of June 30, 1999, these frozen accounts represented 33.3% 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 and the near total cessation of financial activity.

The difficulties affecting the banking system are reflected in the statistical results for 1998 and the first semester of 1999. In the first semester of 1999, while total new loans increased on average 47.6%, as compared to 56.4% in 1998, non performing loans increased on average 252% as compared with 43.2% in 1998. The average annual growth of total deposits decreased from 34.9% in 1998 to 10.1% (excluding frozen accounts) during the first semester of 1999. In addition, external trade credit lines to Ecuadorian banks decreased 56.4% in 1998 and 111.2% for the first semester of 1999.

As part of its overall program to restructure the banking sector, the Government intends to persuade lenders to restore credit lines to pre-September 1998 levels. Nevertheless, the current fiscal situation in Ecuador, most significantly the recent default on external bonds, may make it difficult to achieve this. The Government believes that failure to restore external credit lines to Ecuadorian banks will further aggravate the banking crisis. In December 1999, a three-year restructuring agreement was signed with a group of correspondent banks lead by Barclays Plc. to restructure US$63.4 million of trade lines.

The Superintendency of Banks and the AGD have been working with the IMF and have reached a consensus agreement with respect to the disposal and management of the institutions in the clearing process that have been closed or are in liquidation. In connection with a loan from the World Bank, the AGD is expecting to hire an advisor/administrator to conduct a valuation of assets to be sold and to administer the subsequent sale of these assets. Monies received from such liquidations will be used to reduce outstanding exposures of the Government from issuance of AGD bonds. As of May 31, 2000, US$1.4 billion of AGD bonds had been issued by the Ministry of Finance. The Government does not believe that sales of assets by the AGD will be sufficient to satisfy the obligations on outstanding AGD bonds. Therefore, AGD bonds will generate a significant fiscal deficit for the Government.

As of July 31, 2000, the AGD had US$850 million remaining in outstanding liabilities in connection with guaranteed deposits. The Government has not yet determined how these obligations will be financed.

Because there is limited liquidity left in the domestic market, further recapitalization of the banking sector will depend on the Government's ability to obtain alternative funding sources. The Government believes that if these sources are not obtained there may be other bank failures in the near future. The IMF Program has provided additional funds for the capitalization and administration of the banking sector. While the IMF Program does not contemplate a limit on the aggregate Governmental support for the banking sector, monies received from that Program will not be sufficient to provide stability in the banking sector. The Government believes that adherence to the IMF Program will result in the availability of much needed additional multilateral funds to support the banking sector.

Capital Markets

The Ecuadorian equity and bond markets have developed substantially since the introduction of the Capital Markets Law in May 1993. The Capital Markets Law transformed stock exchanges from for-profit private corporations into non-profit private corporations, the profits of which must be reinvested in the exchanges, thereby strengthening the institutions. The law also established the National Securities Council to regulate the exchanges. This Council, which is part of the Superintendency of Companies, is comprised of seven members, four from the public sector and three from the private sector. The Council is responsible for formulating the general securities policies of the Ecuadorian securities markets and for regulatory oversight of these markets.

The Capital Markets Law abolished all discriminatory taxes on foreign investment and also created tax incentives aimed at fostering growth in the equity market. The Capital Markets Law also allows debt-for-equity swaps in most sectors of the economy. Total equity trading volume was US$4.5 billion in 1996, US$4.9 billion in 1997 and US$4.3 billion in 1998. In 1999, total equity trading volume increased to US$8.8 as a result of the freezing of accounts in March 1999 (which tended to direct investments into the equity markets). Financial institutions in Ecuador hold a significant share of the equity in the Ecuadorian capital markets.

PUBLIC SECTOR FINANCES

General

Prior to 1998, Ecuador's fiscal policy was broadly defined in connection with structural reforms to control the function and size of the Government. Among the objectives of this fiscal policy were the promotion of efficiency, decentralization and simplification of the public sector as well as the privatization of state-owned enterprises. To this effect, various reforms were passed to increase private sector participation in the economy, to revise the tax system and to ensure the efficient execution of the public sector budget.

In 1998, the financial crisis in emerging markets and the fall in petroleum prices contributed to a significant decrease in revenues for Ecuador as compared with earlier periods. In addition, during 1999, the domestic financial crisis contributed to an increase in the fiscal deficit. As a result, Ecuador's fiscal policy has since been defined by the primary goal of reducing the fiscal deficit.

The Non-Financial Public Sector Budget

The public sector's budget process is prescribed by the Constitution, the Budget Law of 1992 and the Organic Financial Administration and Control Law of 1977. The central 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 which 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 Finance is primarily responsible for the preparation of the public sector's annual budget, based on guidelines issued by various planning agencies.

The central Government budget is required to include the revenues and expenditures of the public non-financial sector, excluding autonomous agencies and state-owned companies. The Ministry of Finance prepares the central Government budget, which is forwarded to the President for approval. The President is required to submit the central Government's budget to Congress by September 1 of each year. Beginning in 1998, as a consequence of the autonomy of the Central Bank, the Central Bank no longer participates in the preparation of the budget, but instead, independently presents comments to Congress with respect to the budget submitted. The proposed central Government 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 budget by November 30 of each year. In a Presidential election year, the central Government 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 Budget by the corresponding date, the proposed central Government budget automatically enters into force.

Congress may not increase the level of expenditures in a proposed budget without the approval of the Ministry of 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 central Government budget is submitted to the President for promulgation as a general appropriations act by no later than December 31 or February 28 during a Presidential election year.

Provincial and local governments prepare their budgets in accordance with the guidelines prepared by Consejo Nacional de Desarollo (*"ODEPLAN,"* formerly *"CONADE"*) and must submit their budgets no later than September 30 to ODEPLAN for approval. Only those budgets that have been approved by ODEPLAN may be implemented by the executives of provincial and local governments.

Provincial and local governments receive funding in the form of direct and targeted grants from the national Government. The Constitution mandates that the central Government allocate 15% of total public sector budget revenues to provincial and local governments. In addition, provinces have certain independent taxing powers and may impose property and other ad valorem taxes. Counties receive funds from both the national and provincial governments and by using their limited powers to raise funds through concessions, such as toll highways. Parishes do not have independent taxing powers. In 1998 and 1999, total expenditures by provincial, county and other local governmental entities amounted to Su.2,031.8 billion and Su.2,372.1 billion, respectively.

Public Sector Accounts

During the period from 1992 through 1997, Ecuador experienced modest consolidated non-financial public sector deficits and surpluses (including Central Bank net income). In 1996, the consolidated non-financial public sector incurred a deficit of approximately 3.0% of GDP, attributable primarily to increased debt service and an increased level of capital expenditures. In 1997, the consolidated non-financial public sector deficit decreased to 2.4% of GDP, principally due to a contraction in public sector expenses and a reduction of personnel. In 1998, the deficit of the consolidated non-financial public sector reached 5.9%, attributable primarily to lower petroleum revenues and increased debt service.

In August 1998, President Mahuad's administration inherited a fiscal deficit equal to approximately 5.2% of GDP. To address the increasing deficit, the administration took some measures to adjust the Ecuadorian economy, including the elimination of subsidies for electricity and natural gas. With the establishment of a poverty bond to compensate the poor for the elimination of these subsidies, the net impact of these subsidy eliminations resulted in an increase in fiscal funds equal to 1.4% of GDP. The income tax was also replaced with a 1% tax on financial transactions, which for the first four months of 1999 resulted in a US$190 million increase in Government revenues, representing approximately 1.4% of GDP.

The consolidated non-financial public sector deficit decreased to 7% of GDP in 1999, primarily as a result of the significant decrease of prices for oil exports during the first half of 1999, the costs associated with the domestic financial crisis and the collapse of monetary indicators.

The following table shows actual revenues and expenditures for the consolidated non-financial public sector for the periods indicated.

Summary of Consolidated Non-financial Public Sector Revenues and Expenditures(1)
(billions of sucres and % of total GDP)

	1996	% of GDP	1997	% of GDP	1998	% of GDP	Prelim. 1999	% of GDP	Budget 2000	% of GDP(4)
Revenues										
Petroleum revenues	Su.5,001.7	8.2%	Su.5,058.2	6.4%	Su.4,932.3	4.7%	Su.12,178.7	7.5%	35,289.5	10.7%
Non-petroleum revenues	8,280.1	13.6	12,481.8	15.8	16,801.6	15.9	27,038.1	16.6	49,972.5	15.2
Public enterprises operating result	1,507.4	2.5	1,234.1	1.6	98.4	0.1	1,540.1	0.9	3,062.4	0.9
Total revenues	14,789.2	24.4	18,774.1	23.8	21,832.1	20.6	40,756.9	25.1	88,324.4	26.8
Expenditures										
Current expenditures	11,984.1	19.7	15,812.0	20.0	21,691.3	20.5	38,558.4	23.8	75,330.2	22.8
Capital expenditures	4,601.7	7.6	4,978.2	6.3	6,304.1	6.0	11,154.9	6.9	22,014.4	6.7
Total Expenditures	16,585.8	27.3	20,790.1	26.3	27,995.4	26.4	49,713.3	30.7	97,344.6	29.5
(Deficit)/Surplus	(1,796.6)	(3.0)	(2,016.0)	(2.6)	(6,163.2)	(5.8)	(8,956.4)	(5.6)	(9,020.1)	(2.7)
(Deficit)/Surplus with reduction of personnel(2)	(1,890.2)	(3.1)	(2,016.0)	(2.6)	(6,616.2)	(6.2)	(9,240.4)	(5.8)	(9,270.1)	(2.8)
(Deficit)/Surplus with reduction of personnel and transfer from/(to) Central Bank	(1,797.6)	(3.0)	(1,930.6)	(2.4)	(6,288.1)	(5.9)	(11,186.5)	(7.0)	(8,755.1)	(2.7)
Primary (deficit)/surplus(3)	844.1	1.4%	1,945.8	2.5%	(831.3)	(0.8)%	6,833.7	4.2%	18,688.1	5.7%

(1) Figures for each year include payments and receipts made in that year but incurred in prior years.
(2) Reductions of personnel affect the (deficit)/surplus beginning in 1994.
(3) Primary (deficit)/surplus is the consolidated non-financial public sector (deficit)/surplus without taking into account interest payments or interest income.
(4) Calculated based on GDP of US$13,190 million (Su.329,750 millions).
Source: Ministry of Finance.

Government Revenues

In 1997, 1998 and 1999, central Government revenues accounted for 19.1%, 17.4% and 19.1% of GDP, respectively. Budgeted projections for 2000 estimate that the central Government revenues will account for 26.8% of GDP.

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

Central Government Revenues
(billions of sucres and % of total revenues)

	1996		1997		1998		1999		Budgeted 2000	
Tax Revenue										
Income tax(1)	Su. 1,085.5	10.6%	Su. 1,596.0	11.6%	Su. 1,911.7	11.0%	Su. 5,098.0	16.5%	Su.10,170.9	14.2%
Value-added tax	2,010.3	19.6	3,103.9	22.6	4,490.7	25.8	6355.9	20.5%	16,250.0	22.7
Customs tax	775.6	7.5	1,803.5	12.2	3,199.7	18.4	4,115.8	13.3%	7,647.4	10.7
Tax on special consumption	307.9	3.0	589.9	4.3	671.4	3.9	785.5	2.5%	1,397.0	2.0
Other indirect taxes	288.7	2.7	552.3	4.0	519.0	3.0	744.4	2.4%	240.1	0.3
Total tax revenues	4,468.0	43.6	7,514.1	54.7	10,792.5	61.9	17,099.6	55.2%	35,705.4	50.0
Non-tax revenue(2)	1,065.3	10.4	1,416.9	10.3	1,845.2	10.6	2,344.1	7.6%	2,657.4	3.7
Petroleum Revenue										
Exports	2,683.1	27.0	2,236.2	16.3	1,211.6	6.7	8,013.6	25.9%	28,181.4	39.4
Domestic sale of derivatives	2,017.5	18.9	2,566.6	18.7	3,584.3	20.6	3,525.1	11.4%	4,910.0	6.9
Total	4,700.6	45.9	4,802.8	35.0	4,795.8	27.5	11,538.7	37.2%	33,091.0	46.3
Total revenues	Su.10,233.9	100.0%	Su.13,733.8	100.0%	Su.17,433.5	100.0%	Su.30,982.4	100.0%	71,453.8	100.0%
Revenues (as a percentage of GDP)	16.9%		19.1%		17.4%		19.1%		21.7%	

(1) Includes the capital circulation tax.
(2) Non-tax revenues consist primarily of operating surpluses of autonomous entities and state-owed enterprises.
Source: Ministry of Finance.

Taxation

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 54.7%, 61.9% and 55.2% of the central Government's total revenue in 1997, 1998 and 1999, respectively. Income tax collections represented 11% of total tax revenue in 1998.

In February 1999, the personal and corporate income tax was replaced by a 1% capital circulation tax. In April 1999, Ecuador's Congress approved a tax reform bill reinstating the income tax system, effective as of May 1, 1999, and maintaining the capital circulation tax. The capital circulation tax was scheduled to be eliminated after December 31, 1999. Withholding taxes on remittances abroad, in force under the former tax law, were also reinstated ranging from 26.4% to 33%.

With respect to personal income, the first US$3,200 of income earned is not taxed. The basic personal income tax rate is 5% for incomes above US$3,200 and thereafter increases on a sliding scale up to a maximum 25% rate on incomes of US$11,200 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, alcohol, carbonated beverages and imported luxury vehicles.

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 will be applied to virtually all local professional services, other than professional services provided by foreign companies (non-domiciled in Ecuador).

On November 18, 1999, the Congress approved a package of significant tax reforms. As part of this package, the value-added tax was increased from 10% to 12% and certain exemptions, such as paper and books, were eliminated. The capital circulation tax, which was previously scheduled to be eliminated after December 31, 1999, was maintained, but reduced from 1.0% to 0.8%. The maximum basic personal income tax rate was increased from 15% to 25%. The Government believes that this reform package should result in a revenue increase of approximately US$450 million for 2000.

Distributions of Petroecuador

Petroleum is Ecuador's most important mineral resource and constitutes the country's largest source of export revenues, accounting for 22% and 33% of merchandise exports in 1998 and 1999, respectively. Petroleum and its derivatives accounted for 7.5% of GDP in 1999 and contributed approximately 37.2% of the central Government's revenues, respectively.

The Government receives revenue from the operations of Petroecuador in several ways. In general, approximately 90% of Petroecuador's operating income is required to be remitted to the Government. Petroecuador generates crude oil export revenues primarily in US dollars, which are deposited in an account at the Central Bank. On a periodic basis, the Central Bank makes distributions of such amounts to the Government and certain of its agencies and instrumentalities. In addition, Petroecuador receives revenues for domestic sales of oil derivatives, principally in sucres, a portion of which is allocated to cover Petroecuador's costs and operating expenses and the balance of which is transferred by law, in the form of taxes, royalties and other special allocations, to the central Government, where it is distributed to various governmental organizations including the Central Bank and Banco del Estado and allocated to fund the fiscal budget. In 1997, 1998 and 1999, distributions from Petroecuador to the non-financial public sector totaled US$1,434 million, US$828 million and US$1,073 million, respectively.

On July 30, 1998, Ecuador created an oil stabilization fund to stabilize the flow of revenues from the sale of oil products and derivatives to the Government. The fund is credited with any monies 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, 1999, the fund balance was US$142 million.

Petroleum Revenues

Petroleum revenue, which is derived from exports of crude oil and the sale of oil derivatives primarily in the domestic market, accounted for 37.2% of total central Government revenues in 1999, when the average export price for oil was US$12.23 per barrel. Although the deterioration of Ecuador's fiscal situation is attributable to a variety of factors, the sharp drop in petroleum prices through the first half of 1999 alone is responsible for the significant decrease in revenues. The fall of the median export price of Ecuadorian crude in 1998 to US$6.95 per barrel caused Ecuador to suffer a loss of inflows of approximately US$634.3 million or 3.22% of GDP in 1998 in comparison with 1997. Although oil prices recovered in the latter half of 1999, the Government did not recognize a significant increase in petroleum revenues because revenue associated with the increase in prices above the set average export price per barrel were deposited in the oil stabilization fund.

The following table illustrates the price of international sales of Ecuadorian petroleum from December 1996 to May 2000.

	Petroleum Prices (US$ per barrel)
1996	
December	20.45
1997	
March	14.04
June	14.68
September	14.38
December	13.59
1998	
March	9.47
June	8.32
September	10.19
December	6.95
1999	
March	10.40
June	14.00
September	19.64
October	18.94
November	21.62
December	22.29
2000	
January	22.84
February	24.26
March	24.88
April	21.79
May	24.27

Source: Central Bank.

Government Expenditures

The central Government expenditures (excluding amortization payments on public debt) constitute the majority of public sector expenditures, representing 68.9%, 79.6% and 70.1% of the non-financial public sector expenditures and 18.2%, 21.1% and 17.7% of GDP in 1997, 1998 and 1999, respectively. Budgeted central Government expenditures for 2000 represent 73.6% of budgeted non-financial public sector expenditures and 21.7% of GDP.

In March 1997, Congress approved a law requiring 15% of budgeted central Government expenditures to be allotted to municipalities. This rate was required to be applied at 3% in 1997, increasing 3% annually until reaching 15% in 2000.

The following table shows the principal categories of central Government expenditures for the periods indicated.

Central Government Expenditures
(billions of sucres and % of total expenditures)

	1995		1996		1997		1998		1999		Budgeted 2000	
General services	Su. 2,743.0	25.1%	Su. 3,427.9	27.3%	Su. 4,662.6	22.7%	Su. 6,921.5	25.0%	Su. 9,516.8	20.2%	Su.21,764.2	22.4%
Education	1,434.4	13.1	1,933.9	15.4	2,243.7	11.0	3,513.1	12.6	4,374.8	9.3	5,825.4	6.0
Welfare and employment	197.6	1.8	393.5	3.1	321.2	1.6	454.8	1.6	907.9	1.9	2,195.3	2.3
Health	497.1	4.6	627.5	5.0	762.5	3.7	1,051.3	3.8	1,482.5	3.1	1,894.7	2.0
Agriculture	404.6	3.7	639.0	5.1	777.5	3.8	1,100.8	3.9	1,931.1	4.1	2,561.3	2.6
Natural resources	41.2	0.4	46.6	0.4	318.8	1.6	1,061.4	3.8	456.7	1.0	416.1	0.4
Industry and commerce	14.9	0.1	18.5	0.1	24.6	0.1	28.8	0.1	59.5	0.1	141.4	0.1
Tourism	3.7	0.0	3.8	0.0	4.1	0.0	3.1	0.0	28.3	0.0	38.2	0.0
Communications	482.2	4.4	649.7	5.7	799.5	3.9	1,576.6	5.6	1,434.5	3.0	3,999.8	4.1
Housing	171.6	1.6	114.4	1.0	202.4	1.0	349.1	1.3	426.1	0.9	733.0	0.8
Total interest payments on public debt	2,065.7	18.9	627.0	5.0	3,143.5	15.3	3,807.7	13.6	11,523.9	24.5	27,299.6	28.2
Other	393.4	3.6	384.5	3.1	1,059.0	5.2	2,410.9	8.6	2,717.6	5.8	4,797.0	0.5
Total	8,450.0	77.3	8,866.3	70.4	14,319.0	70.0	22,279.0	80.0	34,860.0	74.0	71,666.0	74.0
(As % of GDP)	18.4%		14.7%		18.2%		21.1%		17.7%			21.7%
Total principal payments on public debt	2,474.5	23.0	3,710.6	30.0	6,181.7	30.0	5,638.1	20.2	12,212	26.0	25,069.0	26.0
Total Central Government expenditures	Su.10,924.5	100.0%	Su.12,576.9	100.0%	Su.20,501.1	100.0%	Su.27,917.2	100.0%	Su.47,071.8	100.0%	Su.96,735.3	100.0%

Source: Ministry of Finance.

Social Security

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 worker housing. Ecuador's social security system is financed by contributions from the Government, employers and employees, with the level of employee contribution based on income. Social security is administered by the Instituto Ecuatoriano de Seguridad Social ("*IESS*"), an autonomous public sector entity.

In addition to its Constitutional obligations, the Government has committed to finance 40% of IESS pensions. To date, the Government has not made such payments, and the Government's debt to the IESS system is estimated to be US$550 million. IESS currently carries significant deficits, with old age, disability and death pensions running an annual deficit of approximately US$100 million, and the health benefits system running an annual deficit of approximately US$200 million. The Government expects that such deficits will increase if no reforms are made in the system. As a result of these deficits, the social security system currently has substantial unfunded liabilities.

In 1998, Ecuador initiated the use of consulting firms to propose and advance projects related to the operation of the social security system.

2000 Budget

On November 30, 1999, Congress passed the General Appropriations Act containing the central Government budget for 2000. The 2000 budget was prepared by the Ministry of Finance on the basis of the assumptions set forth below:

Principal 2000 Budget Assumptions

Gross domestic product	
Nominal GDP (in millions of dollars)	8,833
Real GDP Growth	2.5% - 3.0%
Inflation	
Domestic inflation (average over year)	34% - 38%
Domestic inflation (end of year)	20% - 25%
Interest rates	
Average interest rate (Central Bank stabilization bonds)	43%
Oil export price (US$/barrel)	14.7
Oil export volume (millions of barrels)	141

Source: Central Bank and Ministry of Finance.

Revenues of the central Government are expected to reach US$2.9 billion (21.7% of GDP) with expenditures valued at US$3.9 billion (29.5% of GDP) in 2000, resulting in a Central Government fiscal deficit of 7.8% of GDP. Non-petroleum revenues account for US$1.5 billion, with petroleum comprising the remainder of projected revenues. Revenue from petroleum is derived from projected exports (US$1.1 billion) and internal sales (US$196.4 million). Non-petroleum revenues are derived from the income tax and capital circulation tax (US$256.3 million and US$150.5 million, respectively), special consumption tax (US$55.9 million), the value added tax (US$650.0 million), import tariffs (US$305.9 million) and other tariffs, fines and interests totaling (US$9.6 million). These revenue levels reflect the reintroduction of the income tax as well as projected revenue from the November 1999 tax reform package.

Budgeted expenditures, excluding amortizations, are expected to reach US$3.9 billion in 2000. Of this, 28.2% (US$1.1 billion) were allotted for interest payments which are further subdivided into internal payments (20%), payments to the finance system (19%), payments to multilateral/bilateral institutions (27%), Brady bonds (20%), Paris Club (8%) and Eurobond and other bond holders (6%). Four percent of expenses will be directed to the Solidarity Fund, 9% to municipalities, 3% to fiscal investments, 1.4% to the social security system and 12.1% to other goods and services.

PUBLIC SECTOR DEBT

General

Public sector debt in Ecuador (excluding arrears), including the internal and external debt of the non-financial and financial public sector, totaled approximately US$15.4 billion in 1998, US$16.4 billion in 1999 and US$16.2 billion as of March 31, 2000. Of this March 31, 2000 amount, approximately US$3.0 billion was internal debt (including AGD bonds). Approximately US$6.5 billion (49.0%) of Ecuador's external debt is represented by Brady bonds and Eurobonds, US$3.9 billion (29.6%) by debts owed to multilateral organizations and US$2.4 billion (18.1%) by Paris Club and other bilateral financings. As of March 31, 2000, Ecuador's total internal and external indebtedness represented 123% of GDP.

Internal public indebtedness consists primarily of originally issued dollar-denominated bonds (45.2%) and AGD bonds (47.8%).

The following tables summarize Ecuador's public sector debt as of March 31, 2000.

Total Public Sector Debt by Creditor and Debtor
As of March 31, 2000
(in millions of US$)

	Debt Stock(1)	Arrears(5)	Total
BY CREDITOR:			
External Debt			
Multilaterals	US$ 3,921.0	US$ 12.1	US$ 3,933.1
Governments	2,408.0	275.0	2,683.0
Brady bonds(2)	5,961.4	184.3	6,145.7
Eurobonds	500.0	28.0	528.0
Commercial banks	306.4	8.0	314.4
Supplier credits	158.0	0.0	158.0
Total external debt	13,254.8	507.4	13,762.2
Internal Debt(3)			
Dollar-denominated bonds	1,333.9	0.0	1,333.9
UVC bonds	16.7	0.0	16.7
Sucre-denominated bonds	109.2	0.2	109.4
Treasury certificates (sucre-denominated)	81.5	0.0	81.5
Total internal debt (without AGD)	1,541.3	0.2	1,541.5
AGD	1,410.2	36.2	1,446.4
Total internal debt (including AGD)	2,951.5	36.4	2,987.9
Total public debt (without AGD)	14,796.1	507.6	15,303.7
Total public debt (with AGD)	16,206.3	543.8	16,750.1
BY DEBTOR(4):			
External Debt			
Central government	10,749.1	446.0	11,195.0
Regional governments	68.7	0.0	68.7
INECEL	0.0	0.0	0.0
Petroecuador	296.7	5.7	302.4
EMETEL	183.0	4.9	187.9
Financial public sector	1,051.8	3.2	1,055.0
Other public sector	905.6	47.5	953.1
Total	US$ 13,254.8	US$ 507.3	US$ 13,762.2
External debt service/ exports			66%
External public debt/GDP(%)			101%

(1) Includes arrears to that date.
(2) The difference between the amount of Brady Bonds originally issued and the amount currently outstanding represents amortization payments, capitalization of interest and bonds repurchased.
(3) Excludes remaining unfinanced outstanding liabilities of the AGD in connection with guaranteed deposits.
(4) Includes accrued interest and Central Bank debt.
(5) Includes interest plus past due interest.
Source: Ministry of Finance

Internal Debt

Ecuador's internal debt consists primarily of dollar-denominated and originally sucre-denominated bonds which after dollarization are all payable in US dollars. Internal debt obligations are issued through the Ministry of Finance.

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

Stock of Public Sector Internal Debt (in millions of US$)

	1996	1997	1998	1999	As of March 31, 2000
US$ denominated bonds(1)	529.8	627.8	1,406.9	1,363.9	1,333.9
AGD bonds	—	—	401.0	1,410.2	1,410.2
UVC bonds	9.7	7.9	10.0	23.0	16.7
Treasury certificates	131.0	16.0	66.0	93.0	81.5
Sucre-denominated bonds	717.0	572.0	426.0	167.0	109.2
Total	1,387.5	1,223.7	2,309.9	3,057.1	2,951.5

(1) Includes CFN bonds.
Source: Ministry of Finance.

Medium- and Short-Term Bonds

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 central Government's budget for a given year. Bonds issued for development projects are generally privately held by entities hired to undertake these development projects. Bonds issued for budget restructurings are placed on the *Bolsa de Valores* or the stock exchange and are currently held by both public and private holders, of which the majority of holders are banks.

In October 1999, the Government initiated a refinancing of US dollar-denominated debt excluding such debt instruments held by the Central Bank, financial institutions under the control of the AGD and Ecuadorian municipalities. Initially, approximately $346 million of such debt falling due between October 28, 1999 and December 31, 2000 was rescheduled over a 7-year period with 2 years of grace at an interest rate of 3-month LIBOR plus 2%. The Government expects an additional US$1.2 billion of AGD bonds held by the Central Bank (originally maturing over a 15-year period and carrying on interest rate of 12% per annum) will be rescheduled over a 30-year period at a fixed rate of 7%.

External Debt

Ecuador has historically relied on four types of external debt sources: commercial banks, multilateral financial institutions, governments and supplier credits. As a result of the economic and financial crisis in 1999 and Ecuador's inability to secure foreign credit due to its default on the Brady Bonds and Eurobonds, external public indebtedness (excluding interest arrears) was US$13.3 billion or 100.5% of GDP as of March 31, 2000 from US$13.4 billion or 97.1% of GDP in 1999 and US$13.1 or 66.2% of GDP in 1998. During the period between 1999 and 2000, GDP decreased from US$13.8 billion to US$13.2 billion.

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

Stock of Public Sector External Debt
(in millions of US$)

	1997	1998	1999	As of March 31, 2000
Public sector external debt stock	12,495.1	13,061.9	13,372.4	13,254.8

Source: Ministry of Finance.

Debt Restructuring

Brady Plan

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 bonds of the same face amount (the *"Par Bonds"*), 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 bonds with a face amount equal to 55% of the face value of the debt exchanged (the *"Discount Bonds"*) and bearing interest at the London Interbank Offered Rate (*"LIBOR"*) plus 13/16 percent. The principal of Par Bonds and Discount Bonds was fully collateralized by 30-year US Treasury bonds and interest on such Bonds 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 bonds bearing interest at LIBOR plus 13/16 percent (the *"PDI Bonds"*) and (ii) 10-year bonds 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 Bonds"*).

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

The following table sets forth the Brady Bonds issued by Ecuador.

Bonds Issued Under 1994 Financing Plan(1)
(in millions of US$)

Type of Bond	Outstanding Balance as of February 28, 1995(2)		Outstanding Balance as of March 31, 2000	
Par Bonds	US$	1,913.9	US$	1,655.4
Discount Bonds		1,434.7		1,434.7
PDI Bonds		2,417.1		2,728.3
IE Bonds		191.0		143.1
Total bonds	US$	5,956.7	US$	5,961.4

(1) The difference between the amounts originally issued and amounts currently outstanding represent repurchases in the market, amortization payments and capitalization of interest.
(2) The IE Bonds were issued on December 21, 1994, while the remaining bonds were issued on February 28, 1995.
Source: Central Bank.

Paris Club

In June 1994, Ecuador agreed with its Paris Club creditors to reschedule US$352 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 15 years. As of March 31, 2000, Paris Club loans were in arrears in the amount of US$158.9 million in interest and approximately US$401.9 million in principal payments.

Ecuador commenced its latest round of discussions with its Paris Club creditors on May 18, 2000. These discussions are expected to resume in September or October 2000. Ecuador's immediate objective with respect to its Paris Club debt is to achieve a long-term rescheduling of amounts (including arrears) falling due during the period of the IMF Program. This arrangement may require Ecuador to make cash payments to Paris Club creditors during this period in light of the cash payments that are proposed to be made to private sector creditors pursuant to this Exchange Offer. Ecuador's medium-term projections suggest that a further restructuring of Paris Club debt will be necessary when the current IMF Program expires. Ecuador expects to seek in those subsequent negotiations both a reduction in the stock of its Paris Club debt as well as a further long-term rescheduling of maturities. Ecuador's ability to achieve these objectives will be significantly influenced by Ecuador's performance under the current IMF Program (and any successor program), as well as by any adjustments that may be made over the coming year to Paris Club conventions regarding debt reduction for middle-income countries.

The following table and graph provide Ecuador's debt service profile for 2000 to 2006 including Brady and Eurobond debt according to original contractual terms.

Public Sector Debt Service Profile
(in millions of US$)

	2000		2001		2002		2003		2004		2005	
External Debt Payments(1)	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Multilaterals (including the IMF)	US$474.7	US$275.4	US$693.5	US$284.2	US$555.1	US$242.4	US$403.5	US$208.0	US$380.2	US$160.6	US$350.9	US$153.6
Governments	173.2	98.2	148.1	97.1	144.1	89.6	184.5	81.6	184.8	71.0	188.4	60.0
Brady Bonds	19.1	275.7	19.1	330.6	31.8	373.9	31.8	375.9	31.8	374.8	140.7	373.8
Eurobonds	0.0	54.8	0.0	55.5	350.0	35.8	0.0	16.1	150.0	8.1	0.0	0.0
Commercial banks	55.2	22.0	50.0	10.5	41.6	15.0	35.7	11.9	32.1	9.5	28.5	7.1
Supplier credits	29.1	13.0	27.0	12.3	23.2	10.0	23.2	18.0	23.2	5.9	18.6	3.9
Total External Debt	751.3	739.2	937.7	790.2	1,145.8	766.8	678.7	701.4	802.1	629.8	727.1	598.4
Internal Debt Payments(2)												
Dollar-denominated bonds	167.6	94.4	232.8	71.2	155.0	53.1	150.7	39.0	107.5	27.3	92.2	19.0
Long-term	85.0	80.2	232.8	71.2	155.0	53.1	150.7	39.0	107.5	27.3	92.2	19.0
Short-term	82.6	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UVC bonds long and short term	5.0	1.3	5.3	1.0	2.6	0.6	2.6	0.4	1.9	0.1	0.0	0.04
AGD Bonds	0.0	147.0	0.0	132.0	0.0	132.0	0.0	132.0	0.0	132.0	0.0	132.0
CFN Bonds	0.0	0.0	0.0	0.0	24.0	29.0	24.0	24.0	24.0	19.0	24.0	15.0
Sucre-denominated bonds	23.1	12.0	7.4	2.5	6.4	1.8	5.8	1.2	3.3	0.8	2.0	0.5
Long-term	10.2	8.3	7.4	2.5	6.4	1.8	5.8	1.2	3.3	0.8	2.0	0.5
Short-term	12.9	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Internal Debt	195.7	254.7	245.5	206.7	188.0	216.5	183.1	196.6	136.7	179.2	118.2	166.5
Total Public Sector Debt Payments	947.0	993.9	1,183.2	996.9	1,333.8	983.3	861.8	898.0	938.8	809.0	845.3	764.9

(1) External debt projection assumptions:
— includes new disbursements until March 2000 only.
—assumes 6 month LIBOR of 6% for 2000 and 6.5% going forward.
—assumes no rescheduling of Paris Club Debt, Brady Bonds and Eurobonds.
—assumes no new disbursements from multilateral sources.

(2) AGD Bonds assumed interest rate: 12% until January 10, 2000 and 9.35% going forward.
CFN Bonds assumed interest rate: 7% throughout period.

Source: Ministry of Finance

FORM AND TRANSFER OF GLOBAL BONDS

Form of Global Bonds

All Global Bonds will be in definitive registered form, without interest coupons attached. Each series of Global Bonds offered and sold outside the United States in reliance on Regulation S will be represented by interests in one or more permanent global bonds in definitive fully registered form, without interest coupons attached (the "*Unrestricted Global Bonds*") which will be deposited on or before the Closing Date with Citibank, N.A. as common depositary for, and registered in the name of Citivic Nominees Limited, as nominee for such common depositary in respect of, interests held through the facilities of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, and Clearstream. A beneficial interest in an Unrestricted Global Bond may at all times be held only through Euroclear and Clearstream.

Each series of Global Bonds offered and sold to Qualified Institutional Buyers within the meaning of Rule 144A under the Securities Act ("*QIBs*") will be represented by interests in one or more permanent global bonds in definitive fully registered form, without interest coupons attached (the "*Restricted Global Bonds*") which will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("*DTC*"), and which will be deposited on or before the Closing Date with Citibank, N.A. as custodian (the "*Custodian*") for DTC. The Restricted Global Bonds will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Restricted Global Bond set forth below.

The Unrestricted Global Bonds and the Restricted Global Bonds of each series will have separate CUSIP and ISIN numbers and separate Common Codes.

All Global Bonds will initially be in the form of Unrestricted Global Bonds and/or Restricted Global Bonds.

As set forth in Section 2.4 of the Indentures:

(a) The Bonds will be issued in fully registered form, substantially in the form of Exhibit A hereto (the "**Definitive Registered Bonds**") or Exhibit C hereto (the "**Registered Global Bonds**"). Definitive Registered Bonds may be issued with a Securities Legend ("**Restricted Definitive Registered Bonds**") or without a Securities Legend ("**Unrestricted Definitive Registered Bonds**"). Registered Global Bonds may be issued with a Securities Legend ("**Restricted Registered Global Bonds**") or without a Securities Legend ("**Unrestricted Registered Global Bonds**"). Restricted Definitive Registered Bonds and Restricted Registered Global Bonds are referred to herein as "**Restricted Bonds**". Unrestricted Definitive Registered Bonds and Unrestricted Registered Global Bonds are referred to herein as "**Unrestricted Bonds**". The Bonds will initially be issued in the form of (i) one or more Unrestricted Registered Global Bonds representing the Bonds exchanged by the Republic for certain of its existing debt instruments in offshore transactions (within the meaning of Regulation S under the Securities Act) in reliance on Regulation S under the Securities Act and (ii) one or more Restricted Registered Global Bonds representing the Bonds exchanged by the Republic for certain of its existing debt instruments with qualified institutional buyers (within the meaning of Rule 144A under the Securities Act). The Bonds shall contain or incorporate by reference the respective terms and conditions (the "**Terms**"), substantially as set forth in Exhibit B hereto. The authorized denominations of the Bonds shall be as provided in the Terms. The Bonds shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plans as the officers of the Republic executing the same may determine with the approval of the Trustee.

Any of the Bonds may be issued with appropriate insertions, omissions, substitutions and variations, and may have imprinted or otherwise reproduced thereon such legend or legends, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto, or with the rules of any securities market in which the Bonds are admitted to trading, or to conform to general usage.

(b) Each Bond shall be dated the date of its authentication.

(c) Each Registered Global Bond shall be authenticated by the Trustee. Upon authentication, the Trustee shall (i) deposit the Unrestricted Registered Global Bonds with Citibank, N.A., as Common Depository for and registered in the name of, Citivic as nominee for such Common Depositary in respect of interests held through Euroclear or Clearstream, and (ii) deposit the Restricted Registered Global Bonds with Citibank, N.A. as Custodian for and registered in the name of Cede. So long as Euroclear, Clearstream or its nominee is the registered owner of the Unrestricted Registered Global Bonds and DTC or its nominee is the registered owner of the Restricted Registered Global Bonds, they will be considered the sole owner or holder of the Bonds represented thereby for all purposes hereunder and under each Registered Global Bond. None of the Republic, the Trustee nor any Agent will have any responsibility or liability for any aspect of the records relating to or payments made by Euroclear, Clearstream or DTC on account of beneficial interests in any Registered Global Bond. Each Restricted Registered Global Bond shall bear a legend substantially to the following effect:

> "Unless this Restricted Registered Global Bond is presented by an authorized representative of The Depository Trust Company ("**DTC**"), to the Republic or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. ("**CEDE**") or in such other name as is requested by an authorized representative of DTC (and any payment is made to CEDE or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, CEDE, has an interest herein."

Restricted Registered Global Bonds may be deposited with such other Depositary as the Republic may from time to time designate, and shall bear such legend as may be appropriate. Each Depositary designated pursuant to this Section must, at the time of its designation and at all times while it serves as Depositary, be a clearing agency registered under the United States Securities Exchange Act of 1934, as amended, and any other applicable statute or regulation.

(d) If at any time the Depositary for the Bonds represented by a Restricted Registered Global Bond notifies the Republic that it is unwilling or unable to continue as Depositary for such Registered Global Bond or if at any time the Depositary for such Restricted Registered Global Bond ceases to be a "**clearing agency**" registered under the Exchange Act or if at any time the Depositary for such Restricted Registered Global Bond shall no longer be eligible to act as such under this Section 2.4, the Republic shall appoint a successor Depositary with respect to such Restricted Registered Global Bond. If a successor Depositary for such Restricted Registered Global Bond is not appointed by the Republic within 90 days after the Republic receives such notice or becomes aware of such ineligibility, the Republic's election pursuant to this Section 2.4 that such Bonds be represented by a Restricted Registered Global Bond shall no longer be effective and the Republic will execute, and the Trustee, upon receipt of an Officer's Certificate of the Republic for the authentication and delivery of Restricted Definitive Registered Bonds, and upon receipt of an adequate supply of Restricted Definitive Registered Bonds, will authenticate and the Paying Agent shall deliver, without charge, Restricted Definitive Registered Bonds in any authorized denominations in an aggregate principal amount equal to the full principal amount of such Restricted Definitive Registered Global Bond.

If the Trustee has instituted or has been directed in writing by the requisite Bondholders to institute any judicial proceeding in a court to enforce the rights of the Bondholders under the Bonds, and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Bonds, the Trustee may in its sole discretion determine that the Bonds represented by the Restricted Registered Global Bonds shall no longer be represented by such Restricted Registered Global Bonds and shall instead be represented by Restricted Definitive Registered Bonds. Additionally, the Republic, at its option, may determine to terminate the book-entry system through DTC and make Restricted Definitive Registered Bonds available to Bondholders or their nominees. In either such event, the Republic hereby agrees to execute and the Trustee, upon receipt from the Republic of an adequate supply of Restricted Definitive Registered Bonds, will authenticate and deliver, in exchange for such Restricted Registered Global Bonds, Restricted Definitive Registered Bonds (and if the Trustee has in its possession Restricted Definitive Registered Bonds previously executed by the Republic, the Trustee will authenticate and deliver such Bonds), in authorized denominations, in an aggregate principal amount equal to the principal amount of such Restricted Registered Global Bonds.

(e) Restricted Definitive Registered Bonds will only be issued in exchange for interests in a Restricted Registered Global Bond pursuant to Section 2.4(d) hereof.

(f) Registration of title to Bonds initially represented by the Unrestricted Registered Global Bond in a name other than the nominee of the Common Depository for Euroclear and Clearstream will not be permitted unless (i) Euroclear or Clearstream is closed for business for a continuous period (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) following a failure to pay principal in respect of any Bond at maturity or upon acceleration of any Bond, the Trustee has received a request from the registered holder of the Unrestricted Registered Global Bond requesting the exchange of the Unrestricted Registered Global Bond for Unrestricted Definitive Registered Bonds. The exchange of Unrestricted Registered Global Bonds for Unrestricted Definitive Registered Bonds shall be made pursuant to paragraph 9(b) of the Terms.

As set forth in Section 2.5 of the Indentures:

(a) The Republic will keep books for the exchange and registration of Bonds at the office of the Registrar. The Registrar will keep a record of all Bonds (the "Register") at said office. The Registrar will show the amount of the Bonds, the date of issue, all subsequent transfers and changes of ownership in respect thereof and the names, tax identifying numbers and addresses of the holders of the Bonds. The Registrar will also maintain a record (the "Record") which will include notations as to whether the Bonds have been paid or cancelled, and, in the case of mutilated, destroyed, stolen or lost Bonds, whether such Bonds have been replaced. In the case of the replacement of any of the Bonds, the Record will include notations of the Bond so replaced, and the Bond issued in replacement thereof. In the case of the cancellation of any of the Bonds, the Record will include notations of the Bond so cancelled and the date on which such Bond was cancelled. The Registrar shall at all reasonable times during office hours upon prior written request make the Register and the Record available to the Republic or any person authorized by the Republic in writing for inspection and for the taking of copies thereof or extracts therefrom, and at the expense of the Republic the Registrar shall deliver to such persons all lists of holders of Bonds, their addresses and amounts of such holdings as they may request in writing.

The Register and the Record shall be in written form in the English language.

(b) Notwithstanding anything to the contrary stated herein or in the Bonds, Unrestricted Bonds are exchangeable only for, and may be transferred only in the form of, Unrestricted Bonds and Restricted Bonds are exchangeable only for, and may be transferred only in the form of, Restricted Bonds; *provided, however*, that upon the written request of a holder of an Unrestricted Bond, such Unrestricted Bond may be transferred in the form of a Restricted Bond; *provided that* if the requested transfer is being made on or prior to the 40th day after the later of the commencement of the offering or the Closing Date thereof, the transfer is made by a transferor who has advised the Republic and the Registrar in writing that the transfer is being made in compliance with the provisions of Rule 144A under the Securities Act and upon presentation to the Republic and the Registrar by the transferor of a certificate substantially in the form of Exhibit D hereto; and *provided further, however*, that a Restricted Bond may be transferred in the form of an Unrestricted Bond if the requested transfer is being made by a transferor who has advised the

Republic and the Registrar in writing that the transfer is being made in compliance with the provisions of Regulation S under the Securities Act and upon presentation to the Republic and the Registrar by the transferor of a certificate substantially in the form of Exhibit D hereto.

(c) Subject to the requirements of Section 2.5(b) and paragraph 8(e) of the Terms, the holder of any Definitive Registered Bond may transfer the same in whole or in part (in an amount equal to the authorized denomination or any integral multiple thereof) by surrendering such Bond at the office of the Registrar or at the office of any paying agent, together with an executed instrument of assignment and transfer substantially in the form of [Exhibit F] to this Indenture, *provided, however*, that unless determined otherwise by the Republic in accordance with applicable law as notified to the Registrar in writing, the Registrar shall register the transfer of a Restricted Definitive Registered Bond after receipt of (a) a transfer certificate, substantially in the form of Exhibit D hereto, signed by the transferor indicating that such transfer is being made pursuant to, and in compliance with, Regulation S; or (b) a transfer certificate, substantially in the form of Exhibit D hereto, signed by the transferor indicating that such transfer is being made in compliance with the provisions of Rule 144A under the Securities Act. In exchange for any Definitive Registered Bond properly presented for transfer and upon the prior written notice of the Registrar, the Trustee shall promptly authenticate and deliver at such Corporate Trust Office or at the office of such paying agent, as the case may be, to the transferee or send by first class mail (at the risk of the transferee) to such address as the transferee (or its custodian) may request in writing, a Definitive Registered Bond or Bonds, as the case may require, for like aggregate principal amount and of such authorized denomination or denominations as may be requested in writing. The presentation for transfer of any Definitive Registered Bond shall not be valid unless made at the office of the Registrar or at the office of a paying agent by the registered holder in person, or by a duly authorized attorney-in-fact. The Republic shall ensure that the Trustee shall be provided with an adequate supply of Definitive Registered Bonds for authentication and delivery pursuant to the terms of this Section 2.5(c).

(d) Subject to the requirements of Section 2.5(b) and paragraph 8(e) of the Terms, at the option of the holder, a Definitive Registered Bond or Bonds may at any time be presented for exchange into an equal aggregate principal amount of Definitive Registered Bonds in different authorized denominations, but only at the office of the Registrar or at the office of a paying agent (other than the Trustee) together with a written request for the exchange. Subject to this Section 2.5(d) and paragraph 8(e) of the Terms, whenever one or more Definitive Registered Bonds shall be surrendered at said office of the Registrar or said office of a paying agent for exchange for a Definitive Registered Bond or Bonds, the Trustee shall promptly authenticate and deliver a Definitive Registered Bond or Bonds for a like aggregate principal amount and of such authorized denomination or denominations as may be requested in writing. The Republic shall ensure that the Trustee shall be provided with an adequate supply of Definitive Registered Bonds for authentication and delivery pursuant to the terms of this Section 2.5(d).

Transfer, registration and exchange shall be permitted as provided in this Section 2.5 without any charge except for the expenses of delivery (if any) not made by regular mail and the payment of a sum sufficient to cover any stamp duty, tax or governmental charge or insurance charge that may be imposed in relation thereto. Registration of the transfer of a Bond by the Trustee shall be deemed to be the acknowledgment of such transfer on behalf of the Republic.

DTC, Euroclear and Clearstream Arrangements

So long as DTC or its nominee or Euroclear, Clearstream or the nominee of their common depositary is the registered holder of a Restricted or Unrestricted Global Bond, DTC, Euroclear or Clearstream, or such nominee, as the case may be, will be considered the sole owner or holder of the Restricted or Unrestricted Global Bonds for the purposes of the Indentures. Payments of principal, interest and Additional Amounts, if any, in respect of a Global Bond will be made to DTC, Euroclear, Clearstream or such nominee, as the case may be, as the registered holder thereof. None of Ecuador, the Dealer Managers, the Exchange Agent, the Luxembourg Exchange Agent or any affiliate of any of them or any person by whom any of them is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Restricted or Unrestricted Global Bond or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Holders of book-entry interests in Restricted Global Bonds held through DTC will receive from the Paying Agent through DTC, to the extent received by DTC from the Paying Agent, all distributions of principal and interest made with respect to book-entry interests in the Restricted Global Bonds. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Distributions of principal and interest with respect to book-entry interests in Unrestricted Global Bonds held through Euroclear or Clearstream will be credited, to the extent received by Euroclear or Clearstream from the Paying Agent, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Interest on the Global Bonds (other than interest on redemption) will be paid to the holder shown on the register maintained by the Registrar on the tenth Business Day before the due date for such payment so long as the Global Bonds are represented by a Restricted or Unrestricted Global Bond, (the "*Record Date*"). Trading of Global Bonds will therefore be net of accrued interest from the relevant Record Date to the relevant interest payment date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Restricted or Unrestricted Global Bond to such persons may be limited. Because DTC, Euroclear and Clearstream can only act on behalf of direct and indirect participants, the ability of a person having an interest in a Restricted or Unrestricted Global Bond to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Restricted or Unrestricted Global Bonds through DTC, Euroclear and Clearstream will be reflected in the book-entry accounts of each institution. The Registrar will adjust the amounts of Global Bonds on the Register as necessary for the accounts of (a) Cede & Co. and (b) Citivic Nominees Limited to reflect the amounts of Global Bonds held through DTC, Euroclear and Clearstream, respectively. Beneficial ownership in Restricted or Unrestricted Global Bonds will be held through financial institutions as direct and indirect participants in DTC, Euroclear and Clearstream.

Interests in the Restricted or Unrestricted Global Bonds will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream Accountholders. Secondary market sales of book-entry interests in Unrestricted Global Bonds held through Euroclear or Clearstream to purchasers of book-entry interests in Unrestricted Global Bonds through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in Restricted Global Bonds between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream Purchaser. When book-entry interests in Restricted Global Bonds are to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global Bond to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in an Unrestricted Global Bond (subject to such certification procedures as are provided in the Indentures), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder. On the settlement date, the Custodian will instruct the Registrar to (a) decrease the amount of Global Bonds registered in the name of Cede & Co. and evidenced by such Restricted Global Bond and (b) increase the amount of Global Bonds registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by such Unrestricted Global Bond. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream Seller and DTC Purchaser. When book-entry interests in the Unrestricted Global Bonds are to be transferred from the account of a Euroclear or Clearstream accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Bond (subject to such certification procedures as are provided in the Indentures), the Euroclear or Clearstream participant must send to Euroclear or Clearstream delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interests in the Unrestricted Global Bonds free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Global Bonds registered in the name of the nominee of the common depositary for Euroclear and Clearstream and evidenced by an Unrestricted Global Bond and (ii) increase the amount of Global Bonds registered in the name of Cede & Co. and evidenced by such Restricted Global Bond.

The record date for the payment of interest, discussed above, may be relevant to the trading of Global Bonds by a purchaser or seller holding Global Bonds through DTC, on the one hand, and a seller or purchaser holding Global Bonds through Euroclear or Clearstream, on the other.

For a further description of restrictions on the transfer of Global Bonds, see "Transfer Restrictions."

DTC has advised Ecuador that it will take any action permitted to be taken by a holder of Global Bonds only at the direction of one or more participants in whose account with DTC interests in Restricted Global Bonds are credited and only in respect of such portion of the aggregate principal amount of the relevant Global Bonds as to which such participant or participants has or have given such direction.

DTC has advised Ecuador as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Euroclear has advised Ecuador as follows: Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear (the "*Euroclear Operator*") holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries.

The Euroclear Operator provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations.

Non-participants of Euroclear may hold and transfer book-entry interests in securities through accounts with a direct participant of Euroclear or any other securities intermediary that holds a book-entry interest in the securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

Clearstream has advised Ecuador as follows: Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in any of thirty-six currencies, including dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in over thirty countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, which supervises Luxembourg banks. Clearstream's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream's U.S. customers are limited to securities brokers and dealers, and banks. Currently, Clearstream has approximately 2,000 customers located in over eighty countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream. Clearstream has established an electronic bridge with Morgan Guaranty Trust Company of New York as the operator of the Euroclear System in Brussels to facilitate settlement of trades between Clearstream and Euroclear.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream to facilitate transfers of beneficial interests in the Restricted and Unrestricted Global Bonds among participants and accountholders of DTC, Euroclear and Clearstream, none of DTC, Euroclear or Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither Ecuador nor any agent, nor any person by whom any of them is controlled for purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or the sufficiency for any purpose of the arrangements described above.

CERTAIN TAX MATTERS

All payments by Ecuador in respect of the Global Bonds shall be made free and clear and without withholding or deduction for any and all present or future taxes, duties, assessments, imposts or other governmental charges imposed or levied by or on behalf of Ecuador or any political subdivision or taxing authority thereof or therein having power to tax, unless the Issuer is compelled by law to deduct or withhold such taxes, duties, assessments, imposts or other governmental charges. In such event, the Issuer shall pay such additional amounts ("*Additional Amounts*") as may be necessary to ensure that the amount received by the holders of Global Bonds after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Global Bonds in the absence of such withholding or deduction, *provided, however*, that no such Additional Amounts shall be payable:

(i) in respect of any Global Bond held by or on behalf of a holder or a beneficial owner of a Global Bond who is liable for such taxes, duties, assessments, imposts or other governmental charges by reason of such holder or beneficial owner having any present or former connection with the Issuer other than merely by the holding of such Global Bond or by receipt of interest, principal or any payments in respect thereof; or

(ii) in respect of any Global Bond presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

As used herein, "Relevant Date" in respect of any Global Bond means the date on which payment in respect thereof first becomes due or (if the full amount of the money payable has not been received by the Trustee for the Global Bonds on or prior to such due date) the date on which notice is duly given to the holders of Global Bonds that such moneys have been so received and are available for payment. Any reference to "principal" and "interest" in this section shall be deemed to include any Additional Amounts which may be payable under the Global Bonds.

Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in Ecuador or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Global Bonds or any other document or instrument referred to therein. Ecuador will also indemnify the holders of Global Bonds from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Ecuador under the Global Bonds or any other document or instrument referred to therein following the occurrence of any Event of Default (as defined in the Global Bonds).

TRANSFER RESTRICTIONS

The Global Bonds may be offered, resold, pledged or otherwise transferred by a holder thereof only to the following persons and only in the following manner:

(a) to a person that the holder reasonably believes is a Qualified Institutional Buyer, in a transaction meeting the requirements of Rule 144A under the Securities Act in which case the transferee may take delivery only in the form of a beneficial interest in the Restricted Global Bond; or

(b) outside the United States to a person that is not a "U.S. Person" as defined in Regulation S under the Securities Act in a transaction meeting the requirements of Rule 903 or Rule 904 under the Securities Act, in which case the transferee may take delivery only in the form of a beneficial interest in the Unrestricted Global Bond; and

in each case, in compliance with any securities, blue sky or other laws of any applicable jurisdiction.

GENERAL INFORMATION

1. The Global Bonds have been accepted for clearance through Euroclear and Clearstream (see "Summary of 2030 Bonds" and "Summary of 2012 Bonds" for the Common Code number, the International Securities Identification Number and the CUSIP number of each of the Global Bonds.

2. The issue and sale of the Global Bonds has been authorized by Decree No. 618 dated July 26, 2000 of the President of Ecuador.

3. Ecuador has applied to list the Global Bonds on the Luxembourg Stock Exchange in accordance with the rules of the Luxembourg Stock Exchange. Ecuador has appointed a Luxembourg Exchange Agent in connection with the Exchange Offer. Copies of the following documents will, so long as any Global Bonds are listed on the Luxembourg Stock Exchange, be available for inspection during usual business hours at the specified office of Banque Internationale à Luxembourg S.A. in Luxembourg:

- copies of the Indentures for the 2012 Bonds and the 2030 Bonds; and
- the Ecuadorian authorizations for the issuance of the Global Bonds.

In addition, so long as the Global Bonds are outstanding or listed on the Luxembourg Stock Exchange, copies of any economic report prepared by Ecuador (as and when available) will be available in English at the offices of the listing agent in Luxembourg during normal business hours on any weekday.

4. No Luxembourg paying and transfer agent has been appointed by Ecuador with respect to the Global Bonds. If Global Bonds in definitive form were to be issued in the limited circumstances described therein, Ecuador has agreed to appoint such agent in Luxembourg at which agent's office such definitive Global Bonds could be presented for payment and/or transfer. Pending such appointment, Banque Internationale à Luxembourg, the Luxembourg listing agent for the Global Bonds, will act as intermediary in Luxembourg between holders of the Global Bonds and Ecuador.

5. In compliance with Article 3, Point A/II/2 from Chapter VI of the RI of the Luxembourg Stock Exchange, the Global Bonds must be freely transferable, and no transaction that will be effected at the Luxembourg Stock Exchange may be cancelled.

Annex A

THE IMF PROGRAM

April 4, 2000

Mr. Stanley Fischer

Acting Managing Director
International Monetary Fund

Washington, D.C. 20431

Dear Mr. Fischer:

1. The attached policy memorandum describes the economic policies and objectives of the Government of Ecuador for the year 2000, in support of which the government requests from the Fund a 12-month Stand-By Arrangement in an amount equivalent to SDR 226.75 million (about US$300 million). The government believes that these policies will stabilize the present difficult economic situation, address priority social needs, restore the banking system to good health, lay the basis for a sustained recovery in output and employment, and put inflation firmly on a downward trend.

2. During the period of the arrangement, the authorities of Ecuador will maintain close relations with the Fund, and will consult on the adoption of policy measures that may be needed. The program incorporates four reviews during 2000, to be completed by June, August, October, and December, respectively, and one review in 2001 to be completed by February.

/s/

Jorge Guzmán
Minister of Finance
and Public Credit

/s/

Modesto Correa
President of the Board
Central Bank of Ecuador

Mr. Stanley Fischer
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Memorandum of Economic Policies of the

Government of Ecuador for 2000

I. BACKGROUND

1. When the administration of President Noboa took office on January 22, 2000, it inherited a desperate economic situation. A combination of external shocks in 1997–99 (the *El Niño* weather phenomenon, the sharp drop in world oil prices, and a turbulent international financial situation) and policy weaknesses had resulted in a sharp contraction of real GDP; rising unemployment; accelerating inflation; a large fiscal deficit and mounting public sector payments arrears; and a banking system deep in crisis.

2. To restore confidence in economic management, stem the decline in economic activity, and lay the basis for renewed economic growth, the new government is undertaking an ambitious program of economic reform. The legal basis for many of the reforms is the *Ley Fundamental para la Transformación Económica del Ecuador* (the "economic transformation law") which was approved by congress on March 1, 2000. This legislation paves the way for the official dollarization of the economy announced on January 9, 2000, a more flexible labor market, a strengthened framework for addressing the problems of the financial sector, and should facilitate increased private foreign and domestic investment in key sectors of the economy. The government also expects that it will send a strong positive signal to the official international community, and to private investors, and thereby will help mobilize financial support for the economic and structural reform process.

II. RECENT DEVELOPMENTS

1. After stagnating in 1998, the economy moved into a deep recession in 1999 as a result of a rapidly developing banking crisis and associated credit crunch, a squeeze on real incomes from real exchange rate depreciation, large net private capital outflows, and low export prices of crude oil for much of the year. In 1999 real GDP fell by about 8 percent, reflecting a sharp decline in investment and private consumption. Unemployment nearly doubled to 16 percent in the 12 months to December 1999. Twelve-month inflation in consumer prices accelerated from 43 percent at end-1998 to 91 percent in February 2000; and in producer prices it rose from 35 percent to 301 percent. The *sucre* depreciated by almost 200 percent in 1999, and by a further 25 percent in the first week of January 2000.

2. The public finances have been in a poor state for several years but deteriorated sharply in 1998 as the result of the collapse of oil export prices, a decline in petroleum production because of cutbacks in maintenance, and increased expenditures, mainly on wages. At the same time, they were affected adversely by the failure of some of the private electricity distribution companies to remain current on payments for energy supplied by the state Electricity Company (INECEL). In response to a sharply widening nonfinancial public sector (NFPS) deficit, in September 1998 the government eliminated most of the subsidy on the prices of cooking gas and electricity (estimated at about 1½ percent of GDP at the time), and increased the prices of diesel and gasoline by 40 percent and 12 percent, respectively, and indexed their prices to the U.S. dollar exchange rate. To protect the poorest segments of the population, the social safety net was strengthened and targeted more effectively. The government increased the minimum wage by about 12 percent, and introduced a cash subsidy — *bono solidario* — targeted to the poorest 1.3 million households. In spite of the revenue measures, the combined public sector deficit widened to 5.9 percent of GDP in 1998 (from 2½ percent of GDP in 1997).

3. In 1999 several attempts were made to reduce the public sector deficit. In February, the temporary import tariff surcharge of 2–5 percentage points, which had lapsed in December 1998, was reintroduced with surcharges of up to 10 percentage points. In March, domestic fuel prices were increased by a further 23–27 percent. In April the congress approved a fiscal package that included the reinstatement of the income tax that had been suspended on January 1, 1999, the broadening of the base of the value-added tax, the elimination of some import tariff exemptions, a tax on luxury vehicles, a one-time tax on corporate net worth, and additional powers for the internal revenue service to enforce tax compliance.

4. To strengthen the social safety net further, the cash benefit of the *bono solidario* was increased by 50 percent in April 1999, and in May 1999 recipients were exempted from recently introduced health service charges. The measures were reinforced by tight control over expenditures, particularly on wages, and the beneficial effects on revenues of higher world oil prices in the second half of the year. However, following increased social unrest, in July the government froze the refinery price of gasoline until June 2000 at the level set in March 1999, and the existing freeze on the price of cooking gas was extended until the same date. In the context of the increase in world oil prices, higher inflation and the depreciation of the *sucre*, large subsidies on domestic fuel prices re-emerged. Furthermore, interest payments increased significantly, reflecting the impact of exchange rate depreciation (most public debt is U.S. dollar-denominated), and the carrying cost of government bonds issued in connection with the banking crisis (see below). In addition, there were quasi-fiscal losses of 1.2 percent of GDP from monetary policy operations. As a result, although the NFPS deficit narrowed somewhat, and a primary surplus of about 4 percent of GDP was recorded, the combined public sector deficit widened further to 7.2 percent of GDP.

5. In October 1999 the government submitted a tax package to the congress aimed at reducing the combined fiscal deficit to around 2½ percent of GDP in 2000. However, the package finally approved fell far short of what the government had sought. An increase in the value-added tax of 2 percentage points (to 12 percent), and in the maximum marginal rate of tax on personal income and corporate profits of 10 percentage points (to 25 percent), was largely offset by a reduction in the financial transactions tax from 1.0 percent to 0.8 percent, making the financial transactions tax an advance on the personal income tax, and the abolition of taxes on luxury vehicles and the net worth of corporations. In addition, to strengthen expenditure control, the government had sought a substantial reduction in tax revenue earmarking. However, the congress assigned the revenue from the increase in the value-added tax to the municipalities and earmarked about 40 percent of the revenue from the financial sector transactions tax for increased expenditures on infrastructure.

6. Total public debt rose sharply from 64 percent of GDP in 1997 to 118 percent of GDP in 1999, reflecting the combination of weak public finances that have given rise to large-scale net borrowing, public sector bonds issued in support of the banking system, and the effects of economic contraction and the large real exchange rate depreciation in 1998–99. In August 1999 the government temporarily interrupted debt service payments on Brady bonds and Euro bonds pending an orderly resolution of negotiations with external private creditors in a manner that would help attain a more sustainable debt and debt service position consistent with medium-term external viability. In addition, about US$500 million of short-term domestic government bonds were restructured to longer maturities at a reduced rate of interest.

7. The worsened macroeconomic conditions accentuated the problems in the banking system stemming from connected lending practices, the growth of foreign currency credit to borrowers that do not generate earnings in foreign currency, and lax oversight, particularly of offshore operations. The introduction of the 1 percent tax on financial transactions on January 1, 1999 added to the banks' difficulties by encouraging substantial financial disintermediation. In December 1998 the government created a deposit insurance agency (AGD) with a broad mandate to restructure the banking system, and announced that it would guarantee all onshore and offshore deposits and external credit lines of the banking system. In April 1999 international auditing firms were hired to conduct special audits of all banks aimed at distinguishing between viable and nonviable banks. The results of the audits were delivered to each bank and the board of the AGD in June 1999; banks with negative net worth were put under the control of the AGD, and four capital-deficient banks were recapitalized with subordinated loans from a state-owned bank. So far, 14 financial institutions (including the two largest banks), accounting for about 65 percent of the system's onshore assets, have been intervened or closed by the AGD, with the owners losing their equity.

8. A run on deposits led to a bank holiday during March 8–12, 1999, and to the freezing of demand and savings deposits for six months and time deposits for one year. In August the government began to liberalize US$465 million of demand and savings deposits; by January 2000 all such deposits had been liberalized, with a substantial part of the U.S. dollar deposits appearing to have gone into capital flight. In October 1999 three of the four banks that had been recapitalized were intervened by the AGD, or merged with state banks, following a continued deterioration in their operations. By January 2000, nonperforming loans had reached 43 percent of the total loan portfolio compared to 9 percent at end-1998, and banks' external credit lines had fallen by half to US$918 million.

9. The banking crisis undermined monetary policy in 1998–99. The government has issued US$1.4 billion of bonds for the AGD to recapitalize troubled banks, pay out on deposit guarantees of failed banks, and to cover withdrawals of balances by external creditors. About US$1.2 billion of these bonds have been rediscounted at, or sold to, the central bank. With the central bank unable to sterilize all the resulting increase in liquidity, the 12-month growth of the monetary base accelerated from 41 percent at end-1998 to about 136 percent by end-1999. Initially, the liquidity injections were largely sterilized by losses of international reserves; however, in the face of sustained exchange rate pressure and dwindling international reserves, the central bank floated the *sucre* in February 1999. Exchange rate pressures intensified in November 1999, interbank interest rates rose from 60 percent to about 150 percent, and the central bank increased the reserve requirement on *sucre* deposits. However, market pressures did not ease until the announcement on January 9, 2000 of the intention to dollarize. Since then, the exchange rate has remained stable; interest rates have declined to around15–18 percent; the monetary base has increased only marginally; and the banking system has experienced net deposit inflows.

10. The sharp decline in domestic demand and higher oil prices contributed to a shift in the external current account from a deficit of US$2.2 billion (11 percent of GDP) in 1998 to a surplus of about US$840 million (6.2 percent of GDP) in 1999. In U.S. dollar terms, imports fell by 50 percent, while oil exports increased by 47½ percent. In spite of the large real exchange rate depreciation in 1999 (81 percent against the U.S. dollar and 36 percent on an effective basis), non-oil exports fell by 15 percent, reflecting the crisis in the corporate sector (particularly the lack of working capital) and weak demand in other Andean Community countries. The large current account surplus and a decline in net international reserves of about US$423 million (to US$1.2 billion) helped finance private capital outflows of about US$2.6 billion (19 percent of GDP). External payments arrears reached US$925 million at end-1999 (of which about 75 percent was to Paris Club creditors).

III. THE GOVERMENT'S MACROECONOMIC PROGRAM FOR 2000

1. The proposed macroeconomic framework for 2000 assumes zero growth of GDP; some further contraction is likely in the early part of the year but there should be a modest recovery in the second half of the year (Box 1). This recovery would be generated by a return of confidence and improved access to working capital as the bank restructuring takes hold and banks' external credit lines are reconstituted. As price and wage relativities adjust to the sharp exchange rate depreciation prior to dollarization, inflation in consumer prices is likely to be significant initially. The magnitude of this initial inflation is uncertain, but developments in the first two months of 2000 make it unlikely that the 12-month rate would be below 55–60 percent by the end of the year. The external current account surplus is projected to narrow in 2000, mainly reflecting a sharp recovery in imports (including for the construction of the new oil pipeline), and a modest recovery in exports stemming from higher world oil prices and increased competitiveness from the real depreciation of the *sucre*. Complete dollarization would imply the allocation of international reserves of about US$800 million to provide full backing for the monetary base and central bank stabilization bonds outstanding (as would be required by the dollarization legislation). After adjusting for this coverage, the program would target an increase in the net free disposable international reserves of the central bank of US$160 million during end-January to end-December 2000 to assist in the development of a liquidity support facility for troubled banks.

Box 1. Ecuador: Macroeconomic Framework, 2000			
	IH	IIH	Total
	(Annual percentage change)		
Real GDP	-3.3 to -2.7	3.5 to 4.0	0 to 1
Consumer price inflation			
Average	71 to 76	68 to 73	70 to 75
End-of-period	66 to 71	55 to 60	55 to 60
	(In millions of U.S. dollars)		
External current account balance	821	-523	298
In percent of GDP			2.7
Change in net free disposable international reserves	410	49	459

2. The macroeconomic framework is supported by a bank restructuring strategy aimed at restoring soundness to individual financial institutions and confidence to the banking system, thus reestablishing the basis for sustained economic growth. The strategy sets out the legal and operational framework for bank restructuring; calls for specific measures to strengthen the solvency of banks based on international best practices; facilitates the effective restructuring of private sector debt; gradually unfreezes deposits and develops supporting measures to strengthen banks' liquidity management; establishes specific measures for resolving closed banks; and includes measures to strengthen prudential regulation, supervision, and transparency.

3. The performance criteria and indicative targets of the economic program supported by the Fund are set out in a separate technical memorandum.

IV. FISCAL POLICY AND SOCIAL SAFETY NET

1. The program will aim at a reduction in the nonfinancial public sector deficit from 6 percent of GDP in 1999 to 3.9 percent of GDP in 2000, consistent with an increase in the primary balance of the NFPS from 4.1 percent of GDP to 6.6 percent of GDP in the same period. The combined public sector deficit would be reduced from 7.2 percent of GDP in 1999 to 3.2 percent of GDP in 2000, reflecting a quasi-fiscal surplus of the central bank stemming mainly from interest receipts on its large holdings of AGD bonds. This adjustment would seek to balance several considerations: (i) the need to adapt the public finances to the realities of a dollarized regime, taking account of the likely amount of available domestic and external financing for the public sector; (ii) the need to move toward medium-term fiscal viability and (iii) limiting, to the extent possible, the fiscal contraction in an economy where demand is already weak.

2. Fiscal adjustment is to be achieved through a combination of: (i) higher petroleum revenues; (ii) a significant reduction in domestic fuel price subsidies; (iii) extending the temporary import tariff surcharge through end-2000; (iv) improvements in tax administration; and (v) continued tight control over expenditures, including on the wage bill. The adjustment would seek to safeguard resources for social programs, finish the repair of damage caused by *El Niño*, and reduce the central government domestic payments arrears.

3. Oil export prices in the program are assumed, conservatively, to average US$20 a barrel for Ecuador's export mix. Oil production is estimated to increase by about 4 percent this year (after a fall of about 1 percent in 1999) mainly because of the increased capacity of the existing pipeline (an increase of 60,000 barrels daily by end-2000, or 18.7 percent) due to begin in March 2000.

4. The revenue lost from the freeze of gasoline prices, and the costly general subsidies for cooking gas and electricity prices (the benefits of which mainly accrue to middle and upper income quartiles of the population and to the industrial sector), are major barriers to the government implementing effectively its social programs. To generate the necessary fiscal resources, the prices of these products will be moved broadly to international levels over the next two years. The first increase in prices will take place at end-June 2000 and will be of 60

percent in the case of domestic fuels and 40 percent in the case of cooking gas (GLP). A second increase will be implemented in October 2000, and will be of 60 percent for 92-octane gasoline, 40 percent for GLP, and 30 percent for diesel fuel and 82-octane gasoline. Further increases will be phased-in during 2001 at amounts to be determined during the third review of the program. To protect the most vulnerable social groups from the worst effects of the price increases, there will be accompanying increases of 50 percent in the cash transfer to the poor (*bono solidario*), phased in over the same period as the above price increases.

5. While the government had hoped to eliminate the temporary import tariff surcharge at the end of 1999, the revenues from this measure will be needed in 2000 to facilitate the reduction in the financial sector transaction tax (of 0.2 percentage points to 0.8 percent), and to compensate for revenue losses from the phasing out of temporary taxes on luxury vehicles and capital assets, and the amendment to the tax legislation introduced by congress which made the financial transactions tax an advance on the personal income tax. It is the government's intention to eliminate the surcharge at end-2000.

6. The revenue measures will be accompanied by further improvements in tax administration, including by: strengthening the internal revenue service through increased staffing; greater financial autonomy; improved coordination between tax collection agencies; and strengthened tax enforcement of public enterprises and the largest contributors.

7. Public expenditure under the program will give priority to addressing the needs of the poorest segments of the population, protecting them from the worst effects of the adjustment process and improving their human capital and earning capacity over the medium term. Key elements of the government's social program include: (i) improved targeting of the *bono solidario,* including to those living in remote regions, with additional cash transfers for families whose children have good school attendance records; (ii) the provision of nutritional and medical support for young children and pregnant women; and (iii) the development of a fund to accelerate the social and economic development of indigenous communities, with financial assistance from the Inter-American Development Bank (IDB). To support our social programs, the IDB also has indicated that it will speed up disbursements from existing lending programs focused on poor families and communities.

8. The repair of the damage caused by *El Niño* could contribute to poverty reduction to the extent that these projects are labor-intensive and/or restore access to vital services and markets. To accelerate damage repair, the government is working to improve coordination between the ministry of public works and COPEFEN (a government agency charged with rebuilding the coastal region) and to streamline control procedures so as to facilitate disbursements of emergency loans from multilateral agencies.

9. To help secure the needed fiscal adjustment, the increase in public sector wages in 2000 will be limited to 20 percent in January 2000 for selected groups, 10 percent across-the-board in April, and 20 percent each in July and October to certain groups. As a result, the wage bill of the NFPS is projected to decline by 1.1 percentage points of GDP in 2000 to 6.2 percent of GDP.

10. In the ongoing process of fiscal decentralization, the government will put in place mechanisms aimed at transferring expenditure responsibilities *pari passu* with the constitutionally mandated transfer of central government revenues to the municipalities, and measures to strengthen the institutional capacity of the municipal authorities. Thus, revenues will be transferred only when municipal governments have proven themselves competent to assume additional spending responsibilities. For 2000 the government has reached agreement with the municipal governments that the transfer of budgetary revenues in 2000 will be kept at the rate of 9 percent of total revenues that was transferred in 1999. On November 15, 1999 the authorities issued a regulation closing a potential tax loophole ensuring that there would be no reimbursement of payments under the financial transactions tax for those earning below the personal income tax threshold.

11. The budget for 2001, and a comprehensive tax reform package, which are to be submitted to Congress in September 2000, will aim at consolidating the improvement in the public finances, and achieving a more efficient tax structure. Measures that will be submitted to congress include: (i) a significant reduction in tax revenue earmarking from the present level of about 60 percent of total revenue; (ii) an increase in the rate and coverage of the value-added tax, and a reduction in exemption threshold for personal income tax, to facilitate the abolition of the import tariff surcharge and a further reduction in the financial transactions tax; (iii) the

elimination of many nuisance taxes; and (iv) the introduction of a consumption tax on domestic fuel to facilitate the liberalization of domestic oil prices. This latter measure would be complemented by legislation to be sent to congress in 2000 aimed at opening up the production, distribution, and retailing of domestic fuels to competition.

12. Every effort will be made by the government to collect overdue claims on private electricity distribution companies, to ensure that they remain current on payments, and to recover overdue claims of public enterprises. During the program period, electricity tariffs will be adjusted to reflect opportunity costs to allow the electricity companies to remain current on payments to suppliers, and prepare the sector for increased private sector participation.

13. The government will monitor closely the investment plans of the nonfinancial public enterprises and the rest of the general government, and ensure that pricing policies are consistent with achieving an operating surplus in the nonfinancial public enterprise sector of about 1 percent of GDP in 2000. Given the difficult macroeconomic situation and its impact on budget revenues, fiscal developments will be kept under constant surveillance and reassessed at the time of each program review. Should there be strong indications of a revenue shortfall prior to the first review, the government will adopt the additional measures deemed necessary to ensure the achievement of the fiscal objectives of the program. If there are higher than programmed fiscal revenues in the first half of 2000, they will be devoted entirely to lowering the fiscal deficit given the financing needs of the program. This strategy will be reassessed during the second review of the program to examine the scope for devoting some portion of such an increase to spending on social programs and infrastructure.

V. MONETARY AND EXCHANGE RATE POLICY

1. The dollarization legislation makes the U.S. dollar legal tender and provides for the central bank to exchange on demand *sucres* at a rate of 25,000 per U.S. dollar. The law provides for a limited issue of *sucre* coins to remain in circulation to facilitate small transactions and requires that they be fully backed at all times by U.S. dollars. It mandates four operating accounts at the central bank (Box 2) in which there is to be full backing with freely disposable international reserves of *sucre* currency outstanding (account one), bankers deposits at the central bank, and *sucre*-denominated central bank stabilization bonds (account two). The central bank would be allowed to operate a banking system liquidity recycling facility, partly funded by remaining disposable international reserves, and the placement of U.S. dollar-denominated central bank bonds in the local market (account three). The final account would cover all remaining assets and liabilities of the central bank.

2. Upon approval of the economic transformation law, the central bank has ceased the creation of sucre-denominated liabilities, and it stands ready to redeem sucre coins and banknotes for U.S. dollars on demand; it is envisaged that dollarization will be largely complete within 12 months.

Box 2. Central Bank of Ecuador Balance Sheet **After Dollarization**	
Account one	
Free disposable international reserves	Currency in circulation
Account two	
Free disposable international reserves	Bankers' deposits
	Central bank *sucre* stabilization bonds
Account three	
Remaining free disposable international reserves	Obligations to official international financial institutions (including IMF)
Government bonds	Central bank U.S. dollar-denominated instrument
Repurchase agreements	Public sector deposits
Account four	
Other foreign assets	Other foreign liabilities
Other domestic assets	Other domestic liabilities

3. In the conduct of monetary policy, the central bank will monitor its holdings of remaining net disposable international reserves, consistent with an accumulation of US$160 million over the period end-January to end-December 2000, to assist in the development of a liquidity support facility for troubled banks (see below). The economic transformation law imposes a ceiling on domestic interest rates, calculated as the sum of LIBOR, plus an operating margin for the banks of up to 4 percent, plus a margin for country risk. The margin for country risk will be determined by the central bank and will be set flexibly to ensure the orderly functioning of the banking system. In addition, a regulation is to be issued by the Superintendency of Banks requiring provisioning on an increasing scale for loan operations carrying interest rates in excess of 18 percent a year.

4. The decision to dollarize the economy has imposed a strict limitation on the scope for central bank liquidity assistance to the banking system at a time when liquidity is the main short-term vulnerability. To ensure that banks have access to liquidity facilities under dollarization, the authorities are: (i) developing a mechanism to recycling liquidity within the banking system, mainly in the form of sales of U.S. dollar-denominated bonds by the central bank combined with repurchase operations; and (ii) establishing a liquidity support facility to supplement the resources of the central bank available for providing liquidity assistance. The possible sources of liquidity include: (i) the central bank's free disposable international reserves in excess of those needed to cover the monetary base and the existing stock of stabilization bonds; (ii) the reallocation of public entities' financial assets held abroad to the central bank; (iii) external borrowing; and (iv) foreign exchange that could be raised in the local market by placements of central bank U.S. dollar-denominated bonds. Access to the liquidity support scheme will only be in exchange for appropriate collateral.

5. Although at present the bulk of central bank *sucre*-denominated stabilization bonds are of a one-week maturity, the central bank will aim to auction U.S. dollar-denominated instruments at increasingly longer maturities to fund repurchase operations with commercial banks of up to 90 days maturity. Interest rates on repurchase operations will be set to reflect market conditions and to discourage the use of this facility as a "first resort".

6. The liquidity recycling facility will be in place by mid-March 2000 and the support facility by end-April. Under this scheme, about US$250 million of time deposits will be made available in cash, the bulk of which will be freed in the March–July period. The remaining time deposits are to be exchanged for bank bonds of between two, three, and five years maturity, at annual interest rates of 7 percent (two- and three-year bonds) and 7½ percent (five-year bonds), with the exact maturity depending upon the size of deposit and type of depositor. In addition, the AGD has resumed the pay-out of the guarantee of deposits on closed banks, in a combination of cash (for which a budgetary allocation has been made) and government bonds.

VI. FINANCIAL SECTOR RESTRUCTURING

1. The government is committed to pursuing a strategy to restructure and reform the banking system that will provide support for economic recovery and a basis for sound macroeconomic management at the least fiscal cost. The strategy has been designed in collaboration with the Fund, World Bank, the IDB, and the Andean Development Corporation (CAF). The key measures and timetable for this strategy are set out in the Annex to this memorandum.

2. During the program period, the government will take additional measures to strengthen the banking system in several key areas: (i) legislation will be enacted allowing banks to operate temporarily with capital below the 9 percent minimum requirement, provided they have time-bound rehabilitation and recapitalization plans approved by the Superintendency of Banks; (ii) a comprehensive corporate and household debt restructuring program will be introduced by end-April, aimed at restoring the cash-flow of enterprises and asset quality of the banking system; (iii) capital requirements would be redefined to conform to Basle standards by December 2001; (iv) loan classification and provisioning rules will be brought up to international standards, and schedules to comply with provisioning requirements would be established; (v) minimum bank capital will be increased to US$2.5 million by end-June 2001; (vi) to maximize reliance on private sector financing, a program for providing public capital (through public purchase of shares in viable private banks) proportionally to private capital contributions will be considered; and (vii) nonviable banks will be closed as soon as possible.

3. Measures also will be taken to strengthen the AGD, including to facilitate the prompt disposal of assets of closed banks: (i) a time-bound program is to be established for the disposal of assets acquired in the resolution process, including an asset management strategy covering institutional arrangements, information and transparency, and private sector outsourcing; (ii) asset and bank management and control capabilities will be strengthened with the help of technical assistance from multilateral organizations; and (iii) viable but undercapitalized AGD banks will be recapitalized with government bonds and will establish business plans for strengthening their management, including results-linked management contracts, restoring profitability through cutting operating costs and other means, improving the recovery of weak assets, and privatization.

4. The public finances also will be better protected by phasing out the full coverage of the deposit guarantee, in favor of a limited coverage, and the deposits of closed banks will be transferred to remaining open banks rather than being paid-out in cash.

5. The Superintendency of Banks is committed to ensuring strict compliance with banking regulations, in accordance with best international practices. Penalties and disciplinary measures are to be reviewed and applied on a systematic and nondiscretionary basis. Reporting requirements will be enforced, including for offshore banks. A strengthening program for the Superintendency of Banks will be developed which will include: (i) improved *extra-situ* supervision, including identification of "at risk" banks to be placed under intensive monitoring; (ii) reorganization of the organizational structure so as to ensure adequate regional and departmental coordination; (iii) a training program for supervisory staff with special emphasis in risk analysis and *in-situ* banking supervision; (iv) a review of staffing needs and allocation to improve efficiency of supervision; (v) the introduction of a ladder of phased and intensified supervisory action for noncompliance with regulatory norms; (vi) bilateral agreements with relevant foreign supervisors to share supervisory information; and (vii) testing and adapting to the Ecuadoran norms and legislation the existing manuals for consolidated supervision and on-site inspection. An assessment of compliance with Basle core principles will be undertaken and an action plan will be formulated to correct observed deficiencies.

6. Steps also will be taken to improve the accountability of banks to their creditors by improving transparency. Banks will be required to publish selected financial indicators on a quarterly basis; accounting standards for financial institutions will be amended to bring them into line with best international practice; and independent audits of the special-purpose public banks will be initiated.

7. The ultimate fiscal cost of the banking crisis cannot be estimated with any precision at this stage. As noted in paragraph 11, bonds issued by the government on behalf of the AGD in 1998–99 amounted to US$1.4 billion. The fiscal program assumes a further US$300 million will be issued in 2000 to capitalize banks, and a budgetary transfer to the AGD of about US$155 million to pay-out in cash-guaranteed deposits of closed banks. A further US$811 million of bonds will be issued to pay-out guaranteed deposits in closed banks, part of which will be offset by asset recovery. A minimum net fiscal cost at this point would appear to be about US$2.7 billion (24 percent of 2000 GDP) in bond issues and cash transactions to pay-out the deposit guarantee, and an annual interest carrying cost of about US$260 million (2.4 percent of GDP).

VII. CORPORATE AND HOUSEHOLD DEBT RESTRUCTURING

1. The efficiency and speed with which corporate and household debt is restructured will be a crucial determinant of how quickly the banking system and the economy recover. The government is working with the multilateral institutions to develop a comprehensive program that: (i) restructures corporate and household sector debt; and (ii) provides working capital to companies.

2. The debt restructuring strategy will include a systemic compulsory approach to the restructuring of debts of US$50,000 or less, which accounts for about 12 percent of banking system loans and 95 percent of bank debtors. There will be a tailored approach to the restructuring of large debtors, and the judicial framework will be streamlined to facilitate corporate debt workouts. The program will be based upon the principles of fiscal neutrality and the voluntary participation of creditors and debtors. Only the debt of viable enterprises will be restructured, and there will be no net commitment of funds of the public sector or of multilateral institutions.

VIII. FINANCING OF THE PROGRAM

1. Taking account of already committed net external financing, the need to clear official external payments arrears, the need for additional reserves to build up the bank liquidity support facility, there could be an external financing gap of about US$1.5 billion (13.7 percent of GDP) in 2000. To meet this gap, the government is to seek exceptional financial support, from the official international community and an orderly resolution with private external creditors to achieve a more sustainable debt and debt service position.

2. Projected new lending from multilateral institutions includes an additional program of US$600 million over the next 12 months from the World Bank, the IDB, and the Andean Development Corporation (CAF) to support bank recapitalization and improvements in the bank supervisory and regulatory structure, or other quick-disbursing assistance.

3. The government is to seek a full rescheduling of arrears and of principal and interest falling due to Paris Club creditors on pre-cut off date debt of about US$600 million and a deferral of late interest and arrears and maturities due on the last rescheduling in 2000.

4. Discussions are ongoing with foreign banks with a view to securing commitments to stabilizing and reconstituting their exposure under interbank and trade-related credit lines, and eliminating arrears on such lines of intervened banks guaranteed by the AGD through the issue of internationally tradable bonds. In addition, negotiations are underway with key private sector creditors aimed at restoring medium-term fiscal and external sustainability, and securing net new medium-term financing in 2000. As part of these negotiations, the government is establishing a collaborative framework for negotiations with creditors with the objective of reaching an agreement on an exchange offer for Brady and Euro bonds which, if successful, would generate a combination of initial cash flow relief and medium-term debt-service reduction. We understand that the management of the IMF would need to be assured that the Ecuadoran authorities are continuing to make cooperative efforts to reach agreement with their creditors to secure such financing before it would recommend that the arrangement is brought to the Executive Board of the Fund for approval. As noted in paragraph 8 above, the government also has restructured domestic debt.

5. For purposes of achieving the target for net new medium-term financing from private sources, the government understands that the following would not be counted: (i) borrowings secured on future multilateral borrowing, or financed by AGD bonds, central bank bonds, or export receivables, except to the extent that it was agreed with the staff of the Fund that the borrowings were of a size and on terms consistent with medium-term balance of payments viability; (ii) debt collateralized through the pledge of foreign assets; and (iii) mobilization of new money from the domestic subsidiaries of foreign commercial banks.

IX. OTHER STRUCTURAL POLICIES

1. The approval of the *Ley Fundamental para la Transformación Económica del Ecuador* paves the way for reforms aimed at boosting productivity, raising potential output, and strengthening the regulatory framework for sectors to be privatized. The labor market would be made more flexible, and unemployment reduced, by permitting employment on temporary contracts. In the oil sector, the law would allow private companies to build and operate pipelines, and facilitate the construction of a new oil pipeline planned to start this year, which is expected to facilitate an increase oil exports from about 90 million barrels a year at present to 190 million barrels a year in 2002. Investment for the pipeline is estimated to be about US$600 million and would be financed mainly through foreign direct investment. In the electricity sector, the law would permit the privatization of the six state electricity generation companies and 18 electricity distribution companies; the government already has retained the services of an international investment bank and the IFC to advise on these privatizations. In the telecommunications sector, the law will facilitate the privatization of the two state companies with majority private sector participation. Net revenue from the privatization program during 2000 is tentatively estimated at US$300 million. Ecuador's constitution provides for the proceeds from privatization to be managed by the social solidarity fund and invested in high quality assets; the investment income is to be used to increase social expenditures.

2. Concessions to the private sector for the provision of other services currently supplied by the state will be expanded. The municipa`l government of Guayaquil will invite bids for the supply of sewage and water services by July 2000; bids have been invited for the operation of the seaports of Guayaquil and Esmeraldas; and bids will be invited for the state oil refineries during 2000.

3. There is substantial scope for reducing public sector employment in the medium term. In September 1998 the government introduced a program aimed at reducing central government employment by 26,000 during 1998–2002; the net reduction in employment to date has been about 8,500 which has been achieved mainly by voluntary separations. To accelerate the program, the government is seeking assistance from multilateral organizations to finance severance payments, retraining programs, and assistance with the creation of small businesses for employees that leave the public sector.

4. The government is undertaking a comprehensive pension reform, and is committed to allowing private sector participation in the provision of pensions as soon as the health of the financial system has been restored. Legislation has been sent to congress to reform the pay-as-you-go state pension system, and establish an unemployment insurance scheme. The government will ensure that the reforms are consistent with strengthening the public finances in the near and medium term. Steps also are being taken to ensure that the cross subsidies between the old age and health insurance schemes of the social security institute are more transparent, and the accounting of both insurance schemes is being separated.

X. GOVERNANCE

1. The government fully recognizes that economic and social progress requires improved governance, a key element of which is the development of an effective and impartial judicial system. The lack of confidence in the impartiality and efficiency of the judicial system is a major impediment to attracting talented people to undertaking public service, as well as being detrimental to foreign and domestic investment. Accordingly, the government is working with the supreme court to reform the country's judicial system to ensure rapid and impartial decisions based on accepted international standards and principles and Ecuadoran law.

XI. STATISTICS

1. Ecuador provides the core minimum data to the Fund on a regular basis, has subscribed to the Special Data Dissemination Standard, and posts its metadata on the IMF's Dissemination Standards Bulletin Board. The government recognizes that further efforts are needed to address deficiencies in the macroeconomic database, particularly in the national accounts, balance of payments, government finance statistics, and banking statistics, which are contaminated by the presence of offshore operations. The government is working to address these problems, including with assistance from the Fund. Ecuador has recently received technical assistance from the Fund to assist in the design of a producer price index, and in improving the quality and timeliness of the national accounts statistics.

ATTACHMENTS

<u>I. ECUADOR: FINANCIAL SECTOR REFORMS</u>[1]
<u>II. ECUADOR: TECHNICAL MEMORANDUM OF UNDERSTANDING</u>

[1] Not included in this Listing Particulars Document.

Ecuador-Technical Memorandum of Understanding

April 4, 2000

1. This technical memorandum of understanding (TMU) sets out the specific performance criteria (PC), indicative targets (ITs), structural benchmarks, and prior actions that will be applied under the arrangement for Ecuador. It details some specific daily, weekly, and monthly data that the authorities will provide to the staff of the Fund. In addition, the TMU provides the technical details that underlay the government's plans for 2000 as discussed in the government's memorandum of economic policies (MEP).

I. Phasing of Purchases and Reviews

2. After approval of the 12-month Stand-By Arrangement, which will make available to Ecuador a first purchase of SDR 85.0 million, it is envisaged that Ecuador will complete four reviews during calendar 2000 and one review in 2001. The amounts and sources, dates of review, conditions for completion of the review, and timing of the setting of PC's, are shown in Table 1 It is envisaged that the 2000 Article IV consultation will be concluded at the time of the first review.

II. Quantitative Targets

A. Fiscal Targets

Box 1. Ecuador: Performance Criteria for the Nonfinancial and Combined Public Sector Deficits 1/		
(In millions of U.S. dollars)		
	Subceiling on Nonfinancial Public Sector 2/	Ceiling on the Combined Public Sector 2/
Cumulative public sector borrowing requirement 1/		
January 1–March 31 (indicative target)	259	262
January 1–April 30 (performance criterion)	310	317
January 1–May 31(indicative target)	326	326
January 1–June 30 (performance criterion)	337	323
January 1–August 31 (performance criterion)	462	426
January 1–October 31 (indicative target) 3/	424	368
January 1–December 31(indicative target) 4/	431	355
1/ Public sector as defined below.		
2/ Maximum cumulative deficit.		
3/ Performance criterion to be set at the time of the second review under the arrangement.		
4/ Performance criterion to be set at the time of the third review under the arrangement.		

3. There is a ceiling on the combined public sector deficit and a subceiling in the nonfinancial public sector (NFPS) deficit. The public sector deficits will be measured by their net borrowing requirements and the combined public sector deficit is defined as the sum of the net cumulative borrowing requirements of the NFPS and the operating cash result of the Central Bank of Ecuador (CBE). Revenues are measured on a cash basis, while expenditures are on an accrual basis, in particular interest is on a due basis. The NFPS comprises: (i) the central government (CG), including budgetary operations and the sectional development fund (FODESEC); (ii) the rest of the general government, including the Ecuadoran Social Security Institute (IESS), the Development Bank of Ecuador (BEDE), the port authorities, public universities and technical schools, municipal and provincial governments, *otras residuales* (which comprise the national defense council and military enterprises), and the Social Solidarity Fund (SSF) as described in paragraph 6; and (iii) public enterprises, including the oil company (Petroecuador), the railroad company (ENFE), the maritime oil transportation

company (FLOPEC), the national airline (TAME), and other minor operations. The borrowing requirement of the CG is to be increased by the interest accrued on bonds issued to the deposit insurance agency (AGD) as described in paragraph 5, and on all other government bonds issued for the recapitalization of the banking system. The interest on the different types of bonds issued to unfreeze time deposits, in closed banks under AGD control, starting in March 2000 will carry an interest of 7.0-7.5 percent with a quarterly coupon and is included in the interest bill of the CG. In addition, a transfer of US$158 million to the AGD is also included in the CG expenditures to pay the deposit guarantee in cash.

4. The net borrowing requirements of all the NFPS entities are measured in U.S. dollars as the sum of the net change in: (i) the indebtedness of the NFPS to the domestic banking system, net of deposits and excluding Ecuadoran Brady bonds and other government bonds initially sold abroad; (ii) the domestic public debt of the NFPS (including securities issues by any of its entities) held by the non-banking private sector; (iii) the floating debt of the NFPS including the non-interest domestic arrears of the CG as defined in paragraph 9; (iv) the financial assets held abroad by NFPS entities; and (v) the total external debt of the NFPS. Disbursements and debt service charges in other currencies will be converted into U.S. dollars according to paragraph 63. The domestic banking system comprises the central bank, commercial banks, the National Development Bank, and any other financial institution holding deposits from or claims against the NFPS.

5. For the purpose of the program, and regardless of the terms with respect to grace periods on interest, bonds issued to the AGD for the recapitalization of banks will accrue monthly simple interest at a rate of 12 percent per annum or the coupon interest rate, whichever is the highest, from the effective date of issuance.

6. The interest debt settlements between the public enterprises being prepared for privatization (including PACIFICTEL, ANDINATEL, and the successor of INECEL) and the CG will be counted as current revenue of the CG. Privatization and concession receipts will be deposited in the account of the SSF in the CBE, and for the purpose of the program will not be considered revenue of the government; its operations are consolidated with the accounts of the CG. Privatization receipts will not be counted as revenue of the SSF but concessions receipts will be to the extent that they do not exceed the annuity component.

Box 2. Ecuador: Performance Criterion for Total Central Government Expenditure 1/

	Ceiling 2/ (In millions of US$)
Cumulative total central government expenditure 1/	
January 1-March 31 (indicative target)	751.3
January 1-April 30 (performance criterion)	994.8
January 1-May 31 (indicative target)	1,217.50
January 1-June 30 (performance criterion)	1,417.40
January 1-August 31 (performance criterion)	1,964.40
January 1-October 31 (indicative target) 3/	2,385.20
January 1-December 31 (indicative target) 4/	2,857.20
1/ Central government as defined in paragraph 3.	
2/ Maximum cumulative expenditure of the CG.	
3/ Performance criterion to be set at the time of the second program review.	
4/ Performance criterion to be set at the time of the third program review.	

7. Expenditure of the CG includes the interest accrued on bonds issued to the AGD for the recapitalization of banks and for the payment of the deposit guarantee in AGD closed banks in bonds as described in paragraph 5.

Adjuster for an increase in total revenue of the central government

8. For the test dates of October and December 2000, consideration will be given at the time of the second and third review, respectively, to the possibility of increasing the ceilings for the cumulative central government spending in the event that total revenue of the CG exceeds on a cumulative basis US$1,176 millions by June 30, and US$1,637 millions by August 31, respectively.

Box 3. Ecuador: Performance Criterion for the Net Change of Non-interest Domestic Arrears of the Central Government 1/	
	Floor 2/
	(In millions of U.S. dollars)
Stock as of January 1, 2000	91.0
Cumulative net reduction in CG non-interest domestic arrears	
January 1-March 31 (indicative target)	0.0
January 1-April 30 (performance criterion)	0.0
January 1-May 31 (indicative target)	1.0
January 1-June 30 (performance criterion)	2.0
January 1-August 31 (performance criterion)	3.0
January 1-October 31 (indicative target) 3/	4.5
January 1-December 31 (indicative target) 4/	6.0
Stock as of December 31, 2000	85.0
1/ CG as defined in paragraph 3 and non-interest domestic arrears as defined below.	
2/ Minimum cumulative clearance of central government domestic arrears.	
3/ Performance criterion to be set at the time of the second program review.	
4/ Performance criterion to be set at the time of the third program review.	

9. Non-interest domestic arrears of the CG are defined as the difference between orders of payments submitted (*valores determinados*) by the budget directorate (*Secretaría de Presupuesto*) to the treasury (*Tesorería de La Nación*) and the payments issued (*valores emitidos*) by the treasury to the central bank to credit the public entities' accounts. Financial expenditures (*gastos financieros*) are excluded from this definition.

Box 4. Ecuador: Performance Criteria on Medium- and Long-term External Debt Disbursements to the Nonfinancial Public Sector 1/2/		
	Ceilings (In millions of US$)	
	Maturity of Over Maturity of One to One Year	Maturity of Over Maturity of One to Five Years
Maximum increase from December 31, 1999 until:		
March 31 (indicative target)	240	30
April 30 (performance criterion)	290	40
May 31 (indicative target)	400	45
June 30 (performance criterion)	510	60
August 31 (performance criterion)	610	70
October 31(indicative target) 3/	700	90
December 31 (indicative target) 4/	850	100
1/ Including the central government, rest of general government, and nonfinancial public enterprises, as previously defined.		
2/ Excludes concessional debt, defined as debt that contains a grant element of 35 percent or more on the basis of currency-specific discount rates based on OECD commercial interest reference rates.		
3/ Performance criterion to be set at the time of the second program review.		
4/ Performance criterion to be set at the time of the third program review.		

10. The above limits apply to all public- and publicly-guaranteed external debt. Limits on new debt do not apply to: (i) loan disbursements to restructure, refinance, or prepay existing debts that do not result in an increase in outstanding external debt; (ii) any government loans or guarantees issued associated with the restructuring of banks intervened or under AGD administration, including the refinancing of arrears on external trade and interbank lines, or for the funding of government participation in the recapitalization of private banks and the restructuring of their loan portfolio; (iii) proceeds of a forward sale of oil exports not exceeding US$400 million with at least one-year maturity; and (iv) short-term financing contracted for the purpose of bridging the period between the day of an eventual payment of Brady and Euro bond holders under the process of restructuring and the day of implementation of the restructuring, at which time the government will repay the bridge loan. The above figures include disbursements from emergency credit lines from the World Bank, the Inter-American Development Bank (IDB), and the Andean Development Corporation (CAF), which will be used exclusively for the purposes listed below, and will be made to the extent needed for those purposes only. In the event that disbursements for balance of payments support from bilateral sources were to materialize, the above ceilings will be adjusted upwards for their full amount.

Box 5. Ecuador: Performance Criterion on New Short-term External Debt of the Nonfinancial Public Sector
The government will not contract, guarantee, or collateralize any new debt of maturity of less than one year. The ceiling applies to the nonfinancial public sector, as defined above. Excluded from it are guarantees associated with the financial sector restructuring, normal import-related credits, and eventual bridge financing that might be needed in the restructuring of Brady and Euro bonds.

11. The government announced on January 9, 2000, the adoption of dollarization whereby the U.S. dollar becomes legal tender and the CBE ceases issuing domestic currency other than *sucre* coins in exchange for existing *sucre* coins and bank notes or for U.S. dollars. The *Ley Fundamental para la Transformación Económica del Ecuador*, approved on March 9, 2000 mandates the full backing with freely disposable international reserves-FDIR, of the following *sucre*-denominated CBE liabilities: currency in circulation and in bank's vaults-C; banker's deposits at the central bank-BD; and central bank sucre-denominated stabilization bonds-BEMs.

12. The law defines FDIR as the difference between the following foreign assets and reserve liabilities, and is allocated to three accounting systems, $FDIR_1$, $FDIR_2$, and $FDIR_3$ (see below). The eligible assets are:

   a. monetary gold held in custody or deposited abroad earning an interest and nonmonetary gold valued at current world market prices. Gold swaps are netted out. The CBE valued its monetary gold holdings at US$400 per troy ounce while the international market price was US$283.2 as of January 31, 2000;

   b. deposits in foreign bank and other financial intermediaries, and checks and transfers not yet deposited or in transit drawn against these financial institutions. Deposits in the subsidiaries of Ecuadoran banks abroad are excluded. Overdrafts and deposits held as collateral of the State's foreign liabilities, including for Brady bonds, are excluded. The deposits included are those that are highly liquid, including sight, overnight, call and term deposits with a maturity of no more than 90 days;

   c. freely convertible foreign bills and coins held by the CBE or in transit to the country;

   d. investments in time deposits and fixed income instruments that are easily disposable at low risk in secondary markets. It comprises mostly sovereign debt instruments. Those held as Brady collateral are excluded;

   e. holdings of SDRs;

   f. the reserve position at the IMF; and

   g. the net position with ALADI, a multilateral clearing mechanism of Latin American countries to settle trade operations and transfer of funds. Settlement is done every four months;

   h. the reserve liabilities included are gold swap operations, and foreign loans with a maturity of up to one year.

13. After December 31, 1999, any contingent liabilities incurred by CBE during the program period to nonresidents (including foreign branches or subsidiaries of Ecuadoran institutions), or the resident private sector, would be netted from FDIR.

14. The legislation partitions the CBE balance sheet into four systems:

   - an exchange system where C, is to be fully backed by $FDIR_1$ at all times;

   - a financial reserves system where BD and BEMs, are to be fully backed by $FDIR_2$ at all times;

   - an operations system where the liabilities include public sector deposits (GD), private sector deposits (PD), medium- and long-term foreign debt of the CBE (FD), and U.S. dollar-denominated CBE instruments ($CBEBs), and on the assets side, the remainder of the freely disposable international reserves, $FDIR_3$, repo operations with financial institutions (RP), and holdings of government bonds as balancing item (GB_3); and

   - other operations of the CBE system which captures the rest of the accounts, including the remaining stock of government bonds (GB_4), other foreign assets (OFA) and liabilities (OFL), and other domestic assets (ODA) and liabilities (ODL).

1. Outstanding purchases from the Fund will be recorded in the operations system accounts of the BCE.

2. The program sets a performance criteria on the path for net "excess" FDIR of the CBE, which is defined as: the sum of foreign assets ,a)-g) in paragraph 12; minus foreign liabilities, h) in paragraph 12, and outstanding purchases from the Fund; and minus the following CBE sucre denominated liabilities, C, BD, and BEMs.

Box 6. Ecuador: Performance Criteria and Indicative Targets on Net Excess FDIR 1/ Floor 1/ (In millions of U.S. dollars)	
Outstanding stock as of:	
January 31 (actual)	44.6
April 30 (performance criteria)	186.8
May 31 (indicative targets)	126.4
June 30 (performance criteria)	155.3
August 31 (indicative target) 2/	100.8
October 31 (indicative targets) 3/	154.3
December 31 (indicative target) 4/	204.8
1/ Indicates the minimum level of net "excess" FDIR in the CBE (i.e., larger numbers are above the floor).	
2/ Performance criterion will be set at the time of the second program review.	
3/ Performance criterion will be set at the time of the third program review.	
4/ Performance criterion will be set at the time of the fourth program review.	

Adjuster for higher-than-programmed assistance to banks

3. The floor on net "excess" FDIR could be lowered by up to a half the amounts indicated in Box 6 to provide further liquidity assistance to banks through repurchase operations, if needed.

Adjuster for foreign loan disbursements shortfall

4. The floor on net "excess" FDIR will be lowered (increased) on any test date, and on that test date only, by the shortfall (excess) in disbursements on policy-based loans from multilateral or regional development institutions, relative to the cumulative program baseline as specified below, to the extent that delays in disbursements do not reflect failure to meet loan conditionality as reported by the creditor institutions. In the event that bilateral creditors were to provide balance of payments support loans (not currently envisioned) the floor on "excess" reserves will be adjusted upwards by the amount of disbursement.

Adjuster for debt relief on CBE external debt

5. The path for net "excess" FDIR assumes the repayment of US$96 million to the FLAR in 2000. Any relief obtained in these repayments will result in an increase in the floor of net "excess" FDIR from the corresponding test date onwards. Furthermore, new foreign loan disbursements to the BCE from this or other sources, but excluding from the Fund, will result in a matching upward adjustment to the net "excess" FDIR floor.

Box 7. Ecuador: Policy-Based Loans from Multilateral and Regional Development Banks	
Cumulative baseline levels	(In millions of U.S. dollars)
March 31	80
April 30	140
May-31	140
June 30	270
August 31	290
October 31	290
December 31	435

Adjuster for the accumulation of new external payments arrears

6. Prior to reaching a rescheduling agreement with Paris Club creditors shortly after the Executive Board approval of the request for a Stand-by Arrangement, accumulation of arrears on debts that are not expected to be refinanced by Paris Club creditors would result in an upward adjustment of the net "excess" FDIR target, the same as for new arrears to other creditors. Subsequently, there will be no accumulation of external payments arrears. Any cash savings in excess of the amounts assumed under the program resulting from the restructuring and/or deferral of Brady and Euro bonds payments will result in a full upward adjustment of the net "excess" FDIR target.

Monitoring the relation between net "excess" FDIR and U.S. dollar-denominated central bank paper

7. The CBE will operate a liquidity recycling facility with repurchase operations for up to 90-days. A key source of funding will be the placement of dollar-denominated central bank paper ($CBEBs), which initially could have a much shorter maturity than the repos and thus will represent a significant rollover risk. The liquidity needs of the banking system are likely to rise in the near term as the cash unfreezing of time deposits gets underway in mid-March. Taking these elements into consideration, the authorities intend to keep, at least for the next few months, the monthly average of the ratio of the net "excess" FDIR to $CBEBs at around 50 percent or higher, which would increase the attractiveness of this paper. As experience with this instrument increases, and its maturity lengthens, the backing could be gradually diminished.

Management of the nonfinancial public sector deposits at the CBE

8. The NFPS will manage its deposits at the CBE to the extent possible in a manner that supports the implementation of the dollarization process and the CBE's plans to provide liquidity assistance to banks. In this endeavor, it will aim to keep the level of its deposits above the indicative targets presented in Box 8. If the NFPS deposits fall below the indicated levels, the authorities will consult with the Fund staff on possible policy actions.

Box 8. Ecuador: Indicative Target for the Nonfinancial Public Sector Deposits at the Central Bank	
	Floor
	(In millions of U.S. dollars)
April 30	334
May-31	359
June 30	416
August 31	411
October 31	440
December 31	487

9. In the event that developments warranted consideration of a change in current reserve requirements, the authorities will consult with the Fund staff before making any such change.

III. Prior Actions, Deposit Guarantee, and Unfreezing of Time Deposits

A. Prior Actions

10. Congressional approval of an amendment to "*Ley Fundamental para la Transformación Económica del Ecuador*" in a manner satisfactory to the International Financial Institutions supporting the restructuring of the banking system.

11. Issue a Presidential Decree acceptable to the IFIs, regulating the restructuring of large (i.e., above US$50,000) household and corporate debt to banks based on the principle of voluntary participation of creditors and debtors, and where only debt of viable enterprises will be restructured; there will be no support or subsidies from the government or the IFIs.

12. The CBE will develop a mechanism for recycling liquidity in the banking system involving the issuance of U.S. dollar-denominated instruments and temporary lending operations to banks through a repurchase facility (items VI. a, b, and c in the Financial Sector Reforms Matrix (FSRM) attached to the MEP).

B. Indicative Timetable and Modalities for Unfreezing Time Deposits and

Payment of the Deposit Guarantee in Closed Banks

13. The unfreezing of time deposits will proceed according to the agreed schedule set out in Table 2 and the payment of the deposit guarantee in AGD closed banks will proceed according to Table 3. The unfreezing of time deposits and the payment of the deposit guarantee with bonds will proceed according to the maturity of deposits. Any changes to this timetable will be made in consultation with the Fund staff.

IV. Structural Benchmarks and Performance Criteria

14. Throughout the program period, there will be no accumulation of external payments arrears to all creditors except on Brady and Euro bonds until a comprehensive restructuring agreement is reached with these creditors, and on reschedulable debt to Paris Club creditors until an agreement is reached with them shortly after the Executive Board meeting of the Fund approves Ecuador's request for an SBA. For purposes of the performance criteria amounts subject to rescheduling will not be considered arrears (PC).

A. For Completion of the First Review (No Later than June 15, 2000)

15. The CBE will develop and introduce a liquidity support facility to provide additional liquidity to banks under uniform and transparent rules by April 30, 2000 (item VI.d in the FSRM attached to the MEP, SB).

16. Develop regulations for the resolution of AGD closed banks, with shareholders losing their investment and voting rights and managers becoming legally accountable by April 30, 2000 (item VII.a in the FSRM; SB).

17. Establish a time-bound program for the disposal of assets acquired by the AGD in the resolution process, which will include an asset management strategy covering institutional arrangements, information and transparency, and private sector outsourcing by April 30, 2000 (item VII. b. in the FSRM; SB).

18. The government will negotiate fast disbursing funds for the liquidity support facility by April 30, 2000 (item VI. e. of the FSRM; SB).

B. For Completion of the Second Review (No Later than August 15, 2000)

19. Start the implementation of the revised requirements for loan classification, loss provisioning, and interest suspension to conform with best international practices by June 30, 2000 (item III.a in the FSRM; PC).

20. Implement the revised loan classification and loss provision requirements of restructured loans by June 30, 2000 (item III. b. in the FSRM; PC).

21. Establish a general framework to deal with banks whose capital fall below the minimum CAR of 9 percent, but remains above 1.8 percent, including time-bound and contractually binding memoranda of understating based on uniform criteria for their strengthening by June 30, 2000 (item III. F in the FSRM; PC)

22. Introduce and regulate a system of prompt corrective action when banks fall below their regulatory minimum CAR, including mandatory intervention in cases where a bank's CAR falls below 1.8 percent or fails to meet its recapitalization plans by June 30, 2000 (item III. E. in the FSRM; SB).

23. Secure commitments with foreign banks to stabilize and reconstitute their interbank and trade-related credit lines to AGD open banks by May 31, 2000 (item VI. f. in the FSRM; SB).

24. The AGD will start the disposal of assets of closed banks and will announce a timetable for the liquidation of remaining assets by May 31, 2000 (item VII. c. in FSRM; SB).

25. On July 1, 2000, the government will increase the refinery prices of high- and low-octane gasoline and diesel by 60 percent, and of cooking gas by 40 percent (PC).

C. For Completion of the Third Review (No Later than October 15, 2000)

26. Viable but undercapitalized AGD banks will be recapitalized with government bonds and will establish business plans for strengthening their management, restoring profitability, and improving the recovery of weak assets by September 30, 2000 (item III. H in the FSRM; PC)

27. On October 1, 2000, relative to the June 2000 refinery prices, the government will increase the refinery prices of high-octane gasoline by 60 percent, of low-octane gasoline and diesel by 30 percent, and of cooking gas by 40 percent (PC).

28. The Banking Board will approve a timetable for increasing the minimum capital of banks by July 30, 2000 (item VIII. a. in FSRM; SB).

29. The Banking Board will issue regulations leading to a gradual elimination of offshore banking operations conducted within the country and in countries which do not meet international supervisory standards by June 30, 2000 (item VIII. B. in FSRM; SB).

D. For Completion of the Fourth Review (No Later than December 15, 2000)

30. The central government's revenue projections to be included in the budget proposal for 2001 to be submitted to congress in September 2000 will provide for the elimination of the import tariff surcharge as of January 1, 2001 (SB).

31. The tax reform to be submitted by the government to congress in September will include an increase in the rate and a broadening of the base of the VAT, a reduction in the personal exemption under the income tax, a significant reduction in tax revenue earmarking from the present level of 60 percent, and the introduction of a consumption tax on domestic petroleum derivatives (SB).

E. For Completion of the Fifth Review (No Later than February 15, 2001)

32. Start with the implementation of the redefined rules for the composition of bank's capital in accordance with Basle standards by December 31, 2000 (item III. D. in the FSRM; PC).

33. Undertake intensified on-site examination of banks, focusing on the loan portfolio of large and weak commercial banks representing at least 50 percent of the banking system assets by December 31, 2000 (item III. C in FSRM; SB).

34. The Banking Board will amend the accounting standards for financial institutions to bring them into conformity with GAAP, including with respect to proper asset valuation and accounting of restructured loans by December 31, 2000 (item VIII. C. in FSRM; SB).

V. Disclosure of Specific Information

35. The authorities will provide regularly to Fund staff and the necessary information to monitor the program in an adequate form, in particular as it refers to the following specific daily, weekly, and monthly data with a delay not exceeding the lag indicated in parenthesis. The lag is measured from the last working day in the period covered in the reported data. Whenever possible, the information will be sent by electronic mail; otherwise, by facsimile. In both cases, a copy will be provided to the Fund Resident Representative.

A. Monetary and Foreign Exchange Data

36. Weekly. Individual bank data of onshore deposits, separating between free and frozen, external credit lines, and other assets and liabilities (one week).

37. Monthly. Individual bank data of offshore deposits, separating between free and frozen, external credit lines, and other assets and liabilities (two months).

38. Monthly. The outstanding stock and uses (capitalization/payment of guarantees) of AGD bonds. The information will include also the date of issuance, holder, and financial terms and conditions (one week).

39. Daily. The stock of currency issue, broad money, and foreign currency deposits. Broad money is defined as M_1 plus savings deposits and time deposits, and other private sector holdings of bank financial instruments (two days).

40. Daily. A detailed central bank balance sheet (Form 10R), which will include the following memorandum items: (i) a detailed breakdown of central bank credit to the banking system by bank (Article 24 and Article 25, and other loans, of which nonperforming loans); (ii) central bank purchase of AGD bonds by bank with a brief explanation of how this was registered in the central bank accounts and whether provisions for unpaid past accrued interest were made; (iii) central bank purchase of goods and portfolio in repayment of loans by bank, indicating whether a repurchase agreement has been obtained; and (iv) repurchase agreements (repos), and other open market injections of liquidity (one week).

41. Weekly. The stock and composition of external payments arrears (one week).

42. Monthly. Detailed accounts of the central bank, the consolidated private commercial banks, and Banco Nacional de Fomento (BNF) (four weeks).

B. Fiscal Data

43. Weekly. A summary investment and savings account of the central government (two weeks). A full version of these account on a monthly basis (three weeks).

44. Monthly. The different components of the nonfinancial public sector borrowing requirements: (i) external financing; (ii) domestic bond financing, including maturity and effective yield of new placements; (iii) deposits at the CBE and banking system; and (iv) domestic arrears (i.e., floating debt) (six weeks).

45. Monthly. A summary of the domestic debt amortization, disbursements, and interest payments by type of instrument and currency. In addition, the previous information will be disaggregated by creditor type (i.e., public institutions, and private sector) (three weeks).

C. External Sector Data

46. Monthly. Information on the terms and conditions of new external credit facilities being considered by the MOF and CBE (one week).

47. Monthly. Provision of regular revisions to the two months ahead disbursements projections from all external credit lines to the public sector (two weeks).

48. Weekly. Provision of scheduled amortization payments on external credit lines of domestic and foreign banks operating in Ecuador, falling due in one, two, three, and four weeks; two, three, and six months; and one year and beyond (one week).

VI. Baselines and Conversion Rates Used for Selected Variables

49. SDR-denominated accounts will be converted into U.S. dollar at US$1.384 per SDR. Disbursements and debt-service payments falling due on foreign debt not denominated in U.S. dollars will be converted to U.S. dollars at the international market exchange rates.

Table 1. Ecuador: Purchases and Reviews, 1999-2000			
Amounts (Millions SDRs)	**Date of Review (earliest possible dates)**	**Conditions**	**Performance Criteria To be Set**
85.0	April [19], 2000	Board approval	Fiscal and external PCs for the first three reviews; monetary PC for the first two reviews.
28.3	May 31, 2000	Completion of first review, and observance of end-April 2000 performance criteria.	
28.3	July 31, 2000	Completion of second review, and observance of end-June 2000 performance criteria.	Fiscal and external PCs for the fourth review; monetary PC for the third review.
28.3	September 30, 2000	Completion of third review, and observance of end-August 2000 performance criteria.	Fiscal and external PCs for the fifth review; monetary PC for the fourth review.
28.3	November 30, 2000	Completion of fourth review, and observance of end-October 2000 performance criteria.	Monetary PC for the fifth review.
28.3	January 31, 2001	Completion of fifth review, and observance of end-December 2000 performance criteria.	

TERMS AND CONDITIONS OF THE 2030 BONDS

The following (subject to completion and amendment) is the text of the Terms and Conditions of the US$2,700,000,000 nominal amount of 2030 Bonds which will appear on the reverse of each of the Definitive Registered Bonds.

1 General

(a) This Bond is one of a duly authorized issue of debt securities of the Republic of Ecuador ("**Ecuador**" or the "**Republic**"), designated as its US Dollar Denominated Step-Up Global Bonds Due 2030 (the "**Bonds**"), limited to the aggregate principal amount of US$3,750,000,000 (except as otherwise provided below) and issued or to be issued pursuant to an Indenture (the "**Indenture**") dated as of August 23, 2000 among Ecuador, U.S. Bank National Association, as trustee (the "**Trustee**"), and Citibank, N.A., as Paying Agent, Transfer Agent and Registrar. The holders of the Bonds will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Indenture. A copy of the Indenture is on file and may be inspected at the corporate trust office of the Trustee in the City of New York.

(b) The Bonds were authorized and issued under Decree No. 618 dated July 26, 2000 of the President of Ecuador.

(c) The Bonds are unconditional general obligations of Ecuador for the payment and performance of which the full faith and credit of Ecuador has been pledged and will rank *pari passu* among themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated External Indebtedness (as defined in paragraph 6 hereof) of Ecuador.

(d) The Bonds are in fully registered form, without coupons. Bonds may be issued in definitive form with the Securities Legend set forth as an exhibit to the Indenture ("**Restricted Registered Definitive Bonds**") or without such Securities Legend ("**Unrestricted Registered Definitive Bonds**", together with Restricted Registered Definitive Bonds, "**Definitive Registered Bonds**"), or may be represented by one or more registered global bonds ("**Registered Global Bonds**") held by or on behalf of the Depository (as defined in the Indenture). Definitive Registered Bonds will be available only in the limited circumstances set forth in the Indenture. The Bonds, and transfers thereof, shall be registered as provided in Section 2.5 of the Indenture. Any person in whose name a Bond shall be registered may (to the fullest extent permitted by applicable law) be treated at all times, by all persons and for all purposes as the absolute owner of such Bond regardless of any notice of ownership, theft or loss or of any writing thereon.

(e) The Bonds will be issued in integral multiples of US$1,000.

2 Payments and Paying Agents

(a) Principal of the Bonds will be payable against surrender of such Bonds at the corporate trust office of the Trustee in the City of New York or, subject to applicable laws and regulations, at the office outside of the United States of a paying agent, including the Luxembourg paying and transfer agent, by US dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in the City of New York.

(b) Payment of interest (including Additional Amounts, as defined below) on the Bonds will be made to the persons in whose name such Bonds are registered at the end of the fifteenth day preceding the date on which interest is to be paid (the "**Record Date**"), whether or not such day is a Business Day (as defined below), notwithstanding the cancellation of such Bonds upon any transfer or exchange thereof subsequent to the Record Date and prior to such Interest Payment Date; *provided*, that if and to the extent Ecuador shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names such Bonds are registered at the end of a subsequent record date established by Ecuador by notice given by mail by or on behalf of Ecuador to the holders of the Bonds not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest. Payment of interest on Definitive Registered Bonds will be made (i) by a US dollar check drawn on a bank in the City of New York mailed to the holder at such holder's registered address or (ii) upon application by the holder of at least US$1,000,000 in principal amount of Definitive Registered Bonds to the Trustee not later than the relevant Record Date, by wire transfer in immediately available funds to a U.S. dollar account maintained by the holder with a bank in the City of New York. Payments on the Registered Global Bonds will be made (i) by a US dollar check drawn on a bank in the City of New York delivered to the Depository at its registered address or (ii) by wire transfer in immediately available funds to a US dollar account maintained by the Depository with a bank in the City of New York. "**Business Day**" shall mean any day except a Saturday, Sunday or other day on which commercial banks in the City of New York (or in the city where the relevant paying or transfer agent is located) are required or authorized by law to close.

(c) In any case where the date of payment of the principal of, or interest (including Additional Amounts) on, the Bonds shall not be a Business Day, then payment of principal or interest (including Additional Amounts) need not be made on such date at the relevant place of payment but may be made on the next succeeding Business Day. Any payment made on a date other than the date on which such payment is due as set forth in the preceding sentence shall have the same force and effect as if made on the date on which such payment is due, and no interest shall accrue as a result of this delay in payment.

(d) Interest in respect of any period of less than one year shall be calculated on the basis of a 360-day year of twelve 30-day months. Interest shall accrue from the Issue Date.

(e) All monies paid by or on behalf of Ecuador to the Trustee or to any paying agent for payment of the principal of, or interest (including Additional Amounts) on, any Bond and not applied but remaining unclaimed for two years after the date upon which such amount shall have become due and payable shall be repaid to or for the account of Ecuador by the Trustee or such paying agent, the receipt of such repayment to be confirmed promptly in writing by or on behalf of Ecuador, and, to the extent permitted by law, the holder of such Bond shall thereafter look only to Ecuador for payment which such holder may be entitled to collect, and all liability of the Trustee or such paying agent with respect to such monies shall thereupon cease.

(f) Should Ecuador at any time default in the payment of any principal of, or interest (including Additional Amounts) on, the Bonds, Ecuador will (i) pay interest on the amount in default (to the extent permitted by law in the case of interest on interest) for each day it remains unpaid (from and including the original due date to but excluding the date of payment) at the rate of one percent per annum above the Rate of Interest (as defined in paragraph 4 below) in effect during the period(s) such amount remains unpaid, together with Additional Amounts, if applicable and (ii) notify the Luxembourg Stock Exchange of such default and send a copy of such notice to the Bondholders as provided in paragraph 13 below.

(g) If any amount of interest falling due under the Bonds on or prior to the tenth anniversary of the Issue Date is not paid on its scheduled due date, and such default is not cured on or before the Interest Payment Date falling 12 months after the original due date for such amount (such Interest Payment Date being referred to herein as the "**Principal Reinstatement Date**"), Ecuador shall issue to each holder of Bonds on the Principal Reinstatement Date an amount of additional Bonds (for each such holder, a "**Principal Reinstatement**") determined as follows:

If the Principal Reinstatement Date Occurs	The Principal Amount of Additional Bonds To Be Issued To Each Holder (expressed as a percentage of Bonds registered in the name of such holder on the Principal Reinstatement Date) is
Prior to (and including) the fourth anniversary of the Issue Date	30%
From (but excluding) the fourth anniversary of the Issue Date to (but including) the seventh anniversary of the Issue Date	20%
From (but excluding) the seventh anniversary of the Issue Date to (but including) the eleventh anniversary of the Issue Date	10%

If a Principal Reinstatement occurs, Ecuador shall (i) file a supplement with the Luxembourg Stock Exchange indicating the principal amount of Bonds issued in connection therewith, and the total principal amount of Bonds outstanding following such Principal Reinstatement and (ii) provide notice to the Bondholders pursuant to paragraph 13 below. Bonds issued following a Principal Reinstatement will be fungible with other Bonds. The Indenture contains instructions to the Trustee to credit these additional Bonds to the account of each registered holder of Bonds as of the Principal Reinstatement Date. Only one Principal Reinstatement Date may occur under the Bonds.

3 **Payment of Principal**

Payment of the aggregate outstanding principal amount hereof shall be made on August 15, 2030.

4 **Rate of Interest**

The Bonds shall bear interest at a Rate of Interest (as defined below) determined on the basis of the provisions set forth below. Interest shall be payable in arrears on each August 15 and February 15 of each year (each an "**Interest Payment Date**"), commencing on February 15, 2001.

The rate of interest payable from time to time in respect of the outstanding principal of this Bond which is not overdue (the "**Rate of Interest**") is the following:

For Interest Accruing from (and including) to (but excluding)	Rate of Interest (per annum)
Closing Date to August 15, 2001	4.00%
August 15, 2001 to August 15, 2002	5.00%
August 15, 2002 to August 15, 2003	6.00%
August 15, 2003 to August 15, 2004	7.00%
August 15, 2004 to August 15, 2005	8.00%
August 15, 2005 to August 15, 2006	9.00%
August 15, 2006 to maturity	10.00%

5 **Taxation**

(a) All payments by Ecuador in respect of the Bonds shall be made free and clear and without withholding or deduction for any and all present or future taxes, duties, assessments, imposts or other governmental charges, imposed or levied by or on behalf of Ecuador or any political subdivision or taxing authority thereof or therein having power to tax, unless Ecuador is compelled by law to deduct or withhold such taxes, duties, assessments, imposts or other governmental charges. In such event, Ecuador shall pay such additional amounts (**"Additional Amounts"**) as may be necessary to ensure that the amounts received by the Bondholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts shall be payable:

(i) in respect of any Bond held by or on behalf of a holder or a beneficial owner of a Bond who is liable for such taxes, duties, assessments, imposts or other governmental charges by reason of such holder or beneficial owner having any present or former connection with Ecuador other than merely by the holding of such Bond or by receipt of income, principal or any payments in respect thereof; or

(ii) in respect of any Bond presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

As used in this paragraph 5(a), **"Relevant Date"** in respect of any Bond means the date on which payment in respect thereof first becomes due or (if the full amount of the money payable has not been received by the Trustee on or prior to such due date) the date on which notice is duly given to the Bondholders in the manner described in paragraph 13 below that such moneys have been so received and are available for payment. Any reference to **"principal"** and **"interest"** in this paragraph 5(a) shall be deemed to include any Additional Amounts which may be payable hereunder.

(b) Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in Ecuador or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Bonds or any other document or instrument referred to therein. Ecuador will also indemnify the Bondholders from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Ecuador under the Bonds or any other document or instrument referred to therein following the occurrence of any Event of Default (as defined below).

6 Certain Covenants of Ecuador

So long as any Bond shall remain outstanding or any amount payable by Ecuador under the Indenture shall remain unpaid, Ecuador agrees as follows:

(a) Ecuador shall duly obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution, delivery and performance by Ecuador of the Bonds and the Indenture or for the validity or enforceability thereof, and duly take all necessary and appropriate governmental and administrative action in Ecuador in order for Ecuador to be able to make all payments to be made by Ecuador under the Bonds and the Indenture.

(b) Ecuador shall ensure that at all times its obligations hereunder constitute unconditional general obligations of Ecuador ranking at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated External Indebtedness of Ecuador.

(c) Ecuador shall maintain at all times its membership in the International Monetary Fund (the **"IMF"**) and the International Bank for Reconstruction and Development and continue to be eligible to use the general resources of the IMF.

(d) Ecuador shall use its best efforts to list and thereafter to maintain the listing of the Bonds on the Luxembourg Stock Exchange.

(e) Ecuador shall not create or suffer to exist, or permit the Central Bank of Ecuador (the "**Central Bank**") to create or suffer to exist, any Lien upon any of its present or future assets or revenues (including, without limitation, International Monetary Assets) to secure or otherwise provide for the payment of any Publicly Issued External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of Ecuador under the Bonds and the Indenture are secured equally and ratably with such Publicly Issued External Indebtedness. The following Liens are excluded from the operation of the foregoing provision: (i) any Lien upon property to secure the purchase price of such property or any Publicly Issued External Indebtedness incurred solely for the purpose of financing the acquisition of the property to be subject to such Lien; (ii) any Lien existing on such property at the time of its acquisition which secures any Publicly Issued External Indebtedness; (iii) any Lien in existence as of July 26, 2000; (iv) any Lien securing Publicly Issued External Indebtedness issued upon surrender or cancellation of the principal amount of any Indebtedness outstanding as of July 26, 2000, to the extent such Lien is created to secure such Publicly Issued External Indebtedness; (v) any Lien securing or providing for the payment of Publicly Issued External Indebtedness incurred in connection with any Project Financing, *provided* that the properties to which any such Lien applies are (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; (vi) additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador or the Central Bank having, when encumbered, a fair market value not exceeding an aggregate amount equal to US$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 or the Central Bank, *provided* that to the extent US$50,000,000 (or the equivalent) exceeds such aggregate fair market value of such assets, revenues or receivables so encumbered in such calendar year, the aggregate fair market value of such assets, revenues and receivables permitted to be encumbered hereby in subsequent calendar years shall be increased by such excess amount; *provided, however,* that in no event shall the fair market value of such assets, revenues or receivables so encumbered in any calendar year exceed an aggregate amount equal to US$150,000,000 (or the equivalent); and (vii) any renewal or extension of any such Liens described in clauses (i) through (vi) above; *provided further, however,* that with respect to clause (vii) above, no renewal or extension of any Lien permitted thereunder shall extend to or cover any property other than the property theretofore subject to the Lien being extended or renewed.

"**External Indebtedness**" means all Indebtedness payable (whether or not at the option of the holder thereof) in a currency other than Ecuadorian sucres.

"**Indebtedness**" means for any Person (a) all indebtedness of such Person for or in connection with borrowed money, or the deferred purchase price of property or services (including, but not limited to, reimbursement obligations of such Person under or in respect of letters of credit or bankers' acceptances and obligations of such Person to repay deposits with or advances to such Person); (b) all obligations of such Person (other than those specified in clause (a) above) evidenced by bonds, debentures, notes or other similar instruments; and (c) all direct or indirect guarantees of such Person in respect of, and all obligations (contingent or otherwise) of such Person to purchase or otherwise acquire or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of any other Person specified in clause (a) or (b) above.

"**International Monetary Assets**" means all (i) gold and other bullion, (ii) Special Drawing Rights, (iii) Reserve Positions in the IMF and (iv) Foreign Exchange which is owned or held by the Central Bank, Ecuador or any monetary authority of Ecuador. For purposes of this definition, the terms "**Special Drawing Rights**", "**Reserve Positions in the IMF**" and "**Foreign Exchange**" have, as to the types of assets included, the meaning given to them in the IMF's monthly publication entitled "**International Financial Statistics**", or such other meanings as shall be adopted by the IMF from time to time.

"**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.

"**Project Financing**" means any financing (but not a refinancing) 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 and have been provided with a feasibility study prepared by competent independent experts on the basis of which it was reasonable to conclude that such project would generate sufficient income in currencies other than sucres to repay substantially all of the principal of and interest on all Publicly Issued External Indebtedness incurred in connection with such project.

"**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, bonds, notes or other securities or any guaranty thereof and (iii) is, or may 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.

7 Events of Default

If one or more of the following events (**"Events of Default"**) shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary, by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) with respect to the Bonds:

(a) interest or Additional Amounts on any of such Bonds are not paid when due and payable, and such default continues for a period of at least 30 days; or

(b) Ecuador fails to pay the principal amount of any of such Bonds when due and payable, and such failure continues for a period of at least 15 days; or

(c) Ecuador defaults in the performance of any other obligation contained in the Bonds or in the Indenture and such default shall continue for a period of at least 90 days after written notice thereof shall have been given to Ecuador by the Trustee or the holders of at least 25 percent in aggregate principal amount of such Bonds then outstanding; or

(d) the holders of 25 percent or more in aggregate outstanding principal amount of any Publicly Issued External Indebtedness (other than Excluded Indebtedness, as defined below) of Ecuador having an aggregate principal amount in excess of US$50,000,000, as a result of any failure to pay the principal of, or interest on, such Publicly Issued External Indebtedness, accelerate such Publicly Issued External Indebtedness or declare such Publicly Issued External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof and such acceleration, declaration or prepayment shall not have been annulled or rescinded within 30 days thereof; or

(e) Ecuador declares a moratorium with respect to the payment of principal of, or interest on, Publicly Issued External Indebtedness (other than Excluded Indebtedness, as defined below); or

(f) the validity of such Bonds or the Indenture shall be contested in a formal administrative, legislative or judicial proceeding by Ecuador

then in each and every case, the Trustee at its discretion may (but is not required to), or at the written direction or request of the holders of not less than 25 percent in aggregate principal amount of the Bonds then outstanding shall, by notice in writing to Ecuador, declare the principal amount of all the Bonds to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable upon the date that such written notice is received by or on behalf of Ecuador, unless prior to such date all Events of Default in respect of all the Bonds shall have been cured; *provided* that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any sale of property under any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, Ecuador shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest and principal upon all Bonds which shall have become due otherwise than solely by acceleration (with interest on overdue installments of interest, to the extent permitted by law, and on such principal of each such Bond at the rate of interest specified herein, to the date of such payment or deposit) and such amount as shall be sufficient to cover compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other expenses and liabilities reasonably incurred, and all advances made for expenses and legal fees incurred by the Trustee and each predecessor Trustee, and if any and all Events of Default hereunder, other than the nonpayment of the principal of the Bonds which shall have become due solely by acceleration, shall have been cured, waived or otherwise remedied as provided herein, then, and in every such case, the holders of 50% in aggregate principal amount of the Bonds then outstanding, by written notice to Ecuador and to the Trustee, may, on behalf of all the relevant Bondholders, waive all defaults and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. Actions by Bondholders pursuant to this paragraph 7 need not be taken at a meeting pursuant to the following paragraph 8 provisions regarding Bondholders meetings.

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

(i) Collateralized Par Bonds due 2025;

(ii) Collateralized Discount Bonds due 2025;

(iii) Past Due Interest Bonds due 2015;

(iv) Interest Equalization Bonds due 2004;

(v) US$350,000,000 11.25 per cent Eurobonds due 2002; and

(vi) US$150,000,000 Floating Rate Eurobonds due 2004.

8 Modifications and Amendments; Bondholders' Meetings

(a) Modification and amendments to the Indenture (whether by execution of a supplemental indenture or otherwise, as provided in the Indenture) may be made with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding (or, in each case, of such lesser percentage as may act at a meeting of holders of such Bonds). Modifications and amendments to the provisions of the Bonds may be made, and future compliance therewith or past default by Ecuador may be waived, with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding (or of such lesser percentage as may act at a meeting of Bondholders); *provided* that no such modification or amendment may, without the consent of the holder of each such Bond affected thereby, (i) change the stated maturity of the principal of or interest on any such Bond; (ii) reduce the principal amount of or interest on any such Bond or change the obligation of Ecuador to pay Additional Amounts; (iii) change the currency of payment of principal or interest (including Additional Amounts) on any such Bond; or (iv) reduce the above-stated percentage of aggregate principal amount of Bonds outstanding necessary to modify or amend the Indenture or the provisions of the Bonds or reduce the quorum requirements or the percentages of votes required for the adoption of any action at a Bondholders' meeting pertaining to such Bonds.

(b) Ecuador may at any time call a meeting of the Bondholders, such meeting to be held at such time and at such place as Ecuador shall determine, for the purpose of approving a modification or amendment to, or obtaining a waiver of, any provision of the Indenture or of the relevant Bonds. Notice of any such meeting of Bondholders, setting forth the time and place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given at least twice in accordance with paragraph 13 hereof, the first publication to be not less than 20 days and no more than 180 days prior to the date fixed for the meeting.

(c) Holders entitled to vote a majority in aggregate principal amount of the Bonds at the time outstanding shall constitute a quorum at a meeting convened for the purpose referred to above. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than 10 days; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days. Notice of reconvening of any such meeting need be given only once but must be given not less than five days prior to the date on which the meeting is scheduled to be reconvened. Subject to the foregoing, at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25 percent in aggregate principal amount of the relevant Bonds at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting.

(d) At a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid, any resolution to modify or amend, or to waive compliance with, any of the provisions referred to above shall be effectively passed and decided if approved by the holders entitled to vote the lesser of (i) a majority in aggregate principal amount of Bonds then outstanding with respect to which a meeting has been convened and (ii) 75 percent in aggregate principal amount of the relevant Bonds represented and voting at the meeting.

(e) Any modifications, amendments or waivers effected pursuant to this paragraph 8 and Article 10 of the Indenture shall be conclusive and binding upon all holders of Bonds, whether or not they have given such consent or were present at any meeting, and on all future holders of Bonds, whether or not notation of such modifications, amendments or waivers is made upon such Bonds.

9 Replacement, Exchange and Transfer of Bonds

(a) Upon the terms and subject to the conditions set forth in the Indenture and herein, in case any Bond shall become mutilated, defaced or be apparently destroyed, lost or stolen, Ecuador in its discretion may execute, and upon the written request of Ecuador, the Trustee shall authenticate and deliver, a new Bond bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced Bond, or in lieu of and in substitution for the apparently destroyed, lost or stolen Bond. In every case, the applicant for a substitute Bond shall furnish to Ecuador and to the Trustee such security or indemnity as may be required by each of them to indemnify, defend and to save each of them and any agent of Ecuador or the Trustee harmless and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such Bond and of the ownership thereof. Upon the issuance of any substitute Bond, the holder of such Bond, if so requested by Ecuador, will pay a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected with the preparation and issuance of the substitute Bond.

(b) Upon the terms and subject to the conditions set forth in the Indenture, and subject to paragraph 8(e), a Definitive Registered Bond or Bonds may be exchanged for an equal aggregate principal amount of Definitive Registered Bonds in different authorized denominations, and a beneficial interest in a Registered Global Bond may be exchanged for Definitive Registered Bonds in authorized denominations or for a beneficial interest in another Registered Global Bond by the holder or holders surrendering the Bond or Bonds for exchange at the Corporate Trust Office of the Trustee in the City of New York or at the office of a transfer agent, together with a written request for the exchange. Definitive Registered Bonds will only be issued in exchange for interests in a Registered Global Bond pursuant to Section 2.4(d) of the Indenture and, if so issued, must be exchanged for the entirety of interests in the Registered Global Bonds. The exchange of the Bonds will be made by the Trustee in the City of New York.

(c) Upon the terms and subject to the conditions set forth in the Indenture, and subject to paragraph 8(e), a Definitive Registered Bond may be transferred in whole or in a smaller authorized denomination by the holder or holders surrendering the Definitive Registered Bond for transfer at the corporate trust office of the Trustee in the City of New York or at the office of a paying agent accompanied by an executed instrument of assignment and transfer substantially as set forth in [Exhibit F] to the Indenture. The form of such instrument shall be available at Banque Internationale à Luxembourg S.A. (the **"Luxembourg Listing Agent"**) at 69, Route d'Esch L-2953 Luxembourg, Attention of New Issues—Transaction Execution Group. The registration of transfer of the Bonds will be made by the Trustee in the City of New York.

(d) The costs and expenses of effecting any exchange, transfer or registration of transfer pursuant to the foregoing provisions will be borne by Ecuador, except for the expenses of delivery (if any) not made by regular mail and the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge or insurance charge that may be imposed in relation thereto, which shall be borne by the holder of the Bond.

(e) The Trustee may decline to accept any request for an exchange or registration of transfer of any Bond during the period of 15 days preceding the due date for any payment of principal of or interest on the Bonds.

10 Trustee

For a description of the duties and the immunities and rights of the Trustee under the Indenture, reference is made to the Indenture, and the obligations of the Trustee to the holder hereof are subject to such immunities and rights.

11 Paying Agents; Transfer Agents; Registrar

Ecuador has initially appointed the paying agents, transfer agent and registrar. Ecuador may at any time appoint additional or other paying agents, transfer agents, calculation agent and registrars and terminate the appointment thereof; *provided* that while the Bonds are outstanding Ecuador will maintain (i) a principal paying agent in a Western European or United States city and (ii) a Registrar in the City of New York. In addition, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, Ecuador will maintain a paying agent and transfer agent in Luxembourg. Notice of any such termination or appointment and of any change in the office through which any paying agent, transfer agent, calculation agent or registrar will act will be promptly given in the manner described in paragraph 13 hereof.

12 Enforcement

Except as provided in Section 4.6 of the Indenture, no holder of any Bond shall have any right by virtue of or by availing itself of any provision of the Indenture or these Terms to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the Bonds or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (a) such holder previously shall have given to the Trustee written notice of a default and of the continuance thereof with respect to the Bonds, (b) the holders of not less than 25 percent in aggregate principal amount of such Bonds then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby and (c) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to the Indenture.

13 Notices

All notices to the Bondholders will be published (a) in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (b) so long as the Bonds are listed on the Luxembourg Stock Exchange, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if in any such case this is not practicable, in one other leading English language daily newspaper with general circulation in Europe. Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of Bonds at their registered addresses. Notice sent by registered or certified mail, postage prepaid, shall be deemed to have been given, made or served three Business Days after it has been sent.

14 Further Issues of Bonds

Ecuador may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures having the same terms and conditions as the Bonds in all respects (or in all respects except for the payment of interest on them scheduled and paid prior to such time), so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds and debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as Ecuador may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Indenture or any indenture supplemental to it shall, and any other notes, bonds or debentures may (with the consent of the Trustee), be constituted by an indenture supplemental to the Indenture. The Indenture contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

15 Purchase of Bonds by Ecuador

Ecuador may at any time purchase or acquire any of the Bonds in any manner and at any price in the open market or in privately negotiated transactions. All Bonds which are purchased or acquired by or on behalf of Ecuador may, at its discretion, be held, resold or surrendered to the Trustee for cancellation; *provided, however*, that unless delivered to the Trustee for cancellation, such Bonds will be treated as outstanding for purposes of the Mandatory Debt Management targets set out in paragraph 16 below.

16 Mandatory Debt Management

If, on any of the dates shown below (each a "**Target Date**"), the aggregate Outstanding Amount of the Bonds (as defined below) exceeds the amount of Original Principal (as defined below) shown opposite such Target Date (for each such Target Date, the "**Maximum Amount**") then Ecuador shall, on the next Interest Payment Date following such Target Date, make a partial redemption of the Bonds in a principal amount equal to the difference between the Outstanding Amount of the Bonds on the Target Date (as notified to Ecuador by the Trustee) and the Maximum Amount for that Target Date:

Target Date	Maximum Amount of Original Principal
August 15, 2013	97%
August 15, 2014	94%
August 15, 2015	91%
August 15, 2016	88%
August 15, 2017	85%
August 15, 2018	82%
August 15, 2019	79%
August 15, 2020	76%
August 15, 2021	73%
August 15, 2022	70%

Target Date	Maximum Amount of Original Principal
August 15, 2023	67%
August 15, 2024	64%
August 15, 2025	61%
August 15, 2026	58%
August 15, 2027	55%
August 15, 2028	52%
August 15, 2029	49%

For purposes of this paragraph, "**Outstanding Amount**" means the aggregate principal amount of the Bonds outstanding on any Target Date as shown on the records of the Trustee less (i) the amount of any further issue of Bonds (as permitted by paragraph 14 above) that have been consolidated with the Bonds, and (ii) the amount of any additional Bonds that may have been issued as a result of a Principal Reinstatement as described in paragraph 2(g) above; and "**Original Principal**" means the principal amount of the Bonds outstanding on the date that is 60 days after original issuance (as determined by the Trustee). Not less than 30 days following each Target Date, the Trustee will notify Ecuador of the principal amount of the Bonds outstanding on that date and of the amount, if any, of the partial redemption due on the next Interest Payment Date as required by this Section.

17 Redemption

(a) Ecuador may redeem the Bonds, in whole or in part, on any Interest Payment Date (each a "**Redemption Date**") by giving the Trustee not less than 45 nor more than 60 days prior written notice of such Redemption Date and the principal amount of Bonds to be redeemed on such date. The Trustee shall promptly notify the Bondholders thereof in compliance with paragraph 13 above. Ecuador shall notify the Luxembourg Stock Exchange of the aggregate principal amount of the Bonds remaining outstanding after such redemption.

(b) In the event of a failure by the Issuer to comply with any of the Mandatory Debt Management targets of paragraph 16 above, the Issuer shall make a mandatory partial redemption of the Bonds on the date, and in the amount, called for by that paragraph.

(c) All redemptions shall be at par, together with accrued interest to the Redemption Date.

(d) If not all outstanding Bonds are being redeemed, the Trustee shall select the Bonds to be redeemed by lot or in another fair and reasonable manner chosen at the discretion of the Trustee. In the event of a partial redemption by lot, the Trustee shall select the Bonds to be redeemed not less than 30 days prior to the Redemption Date and shall give notice thereof to the Issuer and the affected Bondholders.

18 Authentication

This Bond shall not become valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee or its agent.

19 Governing Law

(a) This Bond and the Indenture shall be construed in accordance with and governed by the law of the State of New York.

(b) Ecuador hereby irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Bonds and Ecuador hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New

York state or United States federal court. Ecuador hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of the place of residence or domicile of Ecuador. Ecuador hereby confirms and agrees that, pursuant to appointment by the Attorney General of Ecuador, the person for the time being and from time to time acting as or discharging the function of the Consul General of Ecuador in New York (the "**Process Agent**"), with an office on the date hereof at 800 Second Avenue, 5th Floor, New York, New York 10017, United States, shall be irrevocably appointed as its agent to receive on behalf of itself and its property service of copies of the summons and complaint and any other process which may be served in any such action or proceeding brought in such New York state or United States federal court sitting in the City of New York. Such service may be made by mailing or delivering a copy of such process to Ecuador in care of the Process Agent at the address specified above for the Process Agent, and Ecuador hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. As an alternative method of service, Ecuador also irrevocably consents to the service of any and all process in any such action or proceeding in such New York state or United States federal court sitting in the City of New York by the mailing of copies of such process to itself at its address specified in Section 9.4 of the Indenture. A final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(c) Nothing in this paragraph 19 shall affect the right of any Bondholder to serve legal process in any other manner permitted by law or affect the right of any Bondholder to bring any action or proceeding against Ecuador or its property in the courts of other jurisdictions.

(d) To the extent that Ecuador has or hereafter may acquire or have attributed to it any immunity under any law (other than the laws of Ecuador) from jurisdiction of any court or from legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Ecuador hereby irrevocably waives such immunity in respect of its obligations under the Bonds. To the extent that Ecuador has or hereafter may have any immunity under the laws of Ecuador (i) from jurisdiction of any court or (ii) from any legal process in the courts of Ecuador (other than immunity from attachment prior to judgment and attachment in aid of execution) whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise, with respect to itself or its property, Ecuador hereby irrevocably waives 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 the waivers set forth in this paragraph 19(d) 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.

(e) Ecuador hereby irrevocably waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the Bonds, the posting of any bond or the furnishing, directly or indirectly, of any other security.

20 Indemnification for Foreign Exchange Rate Fluctuations

To the extent permitted by applicable law, the obligation of Ecuador to any Bondholder hereunder shall, notwithstanding any judgment in a currency (the "**Judgment Currency**") other than U.S. dollars (the "**Agreement Currency**"), be discharged only to the extent that on the Business Day following receipt by such Bondholder of any amount in the Judgment Currency, such Bondholder may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency (or, if it is not practicable to make that purchase on that day, on the first Business Day on which it is practicable to do so). If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such bondholder in the Agreement Currency, Ecuador agrees, as a separate and independent obligation and notwithstanding such judgment, to pay the difference, and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such Bondholder, such Bondholder agrees to pay to or for the account of Ecuador such excess, *provided* that such Bondholder shall not have any obligation to pay any such excess as long as a default by Ecuador in its obligations hereunder has occurred and is continuing, in which case such excess may be applied by such Bondholder to such obligations.

21 Warranty of Ecuador

Subject to paragraph 18, Ecuador hereby certifies and warrants that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of this Bond and to constitute the same legal, valid and binding obligations of Ecuador enforceable in accordance with their terms, have been done and performed and have happened in due and strict compliance with all applicable laws.

22 Descriptive Headings

The descriptive headings appearing in these Terms are for convenience of reference only and shall not alter, limit or define the provisions hereof.

TERMS AND CONDITIONS OF THE 2012 BONDS

The following (subject to completion and amendment) is the text of the Terms and Conditions of the US$1,250,000,000 nominal amount of 2012 Bonds which will appear on the reverse of each of the Definitive Registered Bonds.

1 General

(a) This Bond is one of a duly authorized issue of debt securities of the Republic of Ecuador ("**Ecuador**" or the "**Republic**"), designated as its US Dollar Denominated 12% Global Bonds Due 2012 (the "**Bonds**"), limited to the aggregate principal amount of US$1,250,000,000 (except as otherwise provided below) and issued or to be issued pursuant to an Indenture (the "**Indenture**") dated as of August 23, 2000 among Ecuador, U.S. Bank National Association, as trustee (the "**Trustee**"), Citibank, N.A., as Paying Agent, Transfer Agent and Registrar. The holders of the Bonds will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Indenture. A copy of the Indenture is on file and may be inspected at the corporate trust office of the Trustee in the City of New York.

(b) The Bonds were authorized and issued under Decree No. 618 dated July 26, 2000 of the President of Ecuador.

(c) The Bonds are unconditional general obligations of Ecuador for the payment and performance of which the full faith and credit of Ecuador has been pledged and will rank *pari passu* among themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated External Indebtedness (as defined in paragraph 6 hereof) of Ecuador.

(d) The Bonds are in fully registered form, without coupons. Bonds may be issued in definitive form with the Securities Legend set forth as an exhibit to the Indenture ("**Restricted Registered Definitive Bonds**") or without such Securities Legend ("**Unrestricted Registered Definitive Bonds**", together with Restricted Registered Definitive Bonds, "**Definitive Registered Bonds**"), or may be represented by one or more registered global bonds ("**Registered Global Bonds**") held by or on behalf of the Depository (as defined in the Indenture). Definitive Registered Bonds will be available only in the limited circumstances set forth in the Indenture. The Bonds, and transfers thereof, shall be registered as provided in Section 2.5 of the Indenture. Any person in whose name a Bond shall be registered may (to the fullest extent permitted by applicable law) be treated at all times, by all persons and for all purposes as the absolute owner of such Bond regardless of any notice of ownership, theft or loss or of any writing thereon.

(e) The Bonds will be issued in integral multiples of US$1,000.

2 Payments and Paying Agents

(a) Principal of the Bonds will be payable against surrender of such Bonds at the corporate trust office of the Trustee in the City of New York or, subject to applicable laws and regulations, at the office outside of the United States of a paying agent, including the Luxembourg paying and transfer agent, by US dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in the City of New York.

(b) Payment of interest (including Additional Amounts, as defined below) on the Bonds will be made to the persons in whose name such Bonds are registered at the end of the fifteenth day preceding the date on which interest is to be paid (the "**Record Date**"), whether or not such day is a Business Day (as defined below), notwithstanding the cancellation of such Bonds upon any transfer or exchange thereof subsequent to the Record Date and prior to such Interest Payment Date; *provided*, that if and to the extent Ecuador shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names such Bonds are registered at the end of a subsequent record date established by Ecuador by notice given by mail by or on behalf of Ecuador to the holders of the Bonds not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest. Payment of interest on Definitive Registered Bonds will be made (i) by a US dollar check drawn on a bank in the City of New York mailed to the holder at such holder's registered address or (ii) upon application by the holder of at least US$1,000,000 in principal amount of Definitive Registered Bonds to the Trustee not later than the relevant Record Date, by wire transfer in immediately available funds to a US dollar account maintained by the holder with a bank in the City of New York. Payments on the Registered Global Bonds will be made (i) by a US dollar check drawn on a bank in the City of New York delivered to the Depository at its registered address or (ii) by wire transfer in immediately available funds to a U.S. dollar account maintained by the Depository with a bank in the City of New York. "**Business Day**" shall mean any day except a Saturday, Sunday or other day on which commercial banks in the City of New York (or in the city where the relevant paying or transfer agent is located) are required or authorized by law to close.

(c) In any case where the date of payment of the principal of, or interest (including Additional Amounts) on, the Bonds shall not be a Business Day, then payment of principal or interest (including Additional Amounts) need not be made on such date at the relevant place of payment but may be made on the next succeeding Business Day. Any payment made on a date other than the date on which such payment is due as set forth in the preceding sentence shall have the same force and effect as if made on the date on which such payment is due, and no interest shall accrue as a result of this delay in payment.

(d) Interest in respect of any period of less than one year shall be calculated on the basis of a 360-day year of twelve 30-day months. Interest shall accrue from the Issue Date.

(e) All monies paid by or on behalf of Ecuador to the Trustee or to any paying agent for payment of the principal of, or interest (including Additional Amounts) on, any Bond and not applied but remaining unclaimed for two years after the date upon which such amount shall have become due and payable shall be repaid to or for the account of Ecuador by the Trustee or such paying agent, the receipt of such repayment to be confirmed promptly in writing by or on behalf of Ecuador, and, to the extent permitted by law, the holder of such Bond shall thereafter look only to Ecuador for payment which such holder may be entitled to collect, and all liability of the Trustee or such paying agent with respect to such monies shall thereupon cease.

(f) Should Ecuador at any time default in the payment of any principal of, or interest (including Additional Amounts) on, the Bonds, Ecuador will (i) pay interest on the amount in default (to the extent permitted by law in the case of interest on interest) for each day it remains unpaid (from and including the original due date to but excluding the date of payment) at the rate of one percent per annum above the Rate of Interest (as defined in paragraph 4 below) in effect during the period(s) such amount remains unpaid, together with Additional Amounts, if applicable and (ii) notify the Luxembourg Stock Exchange of such default and send a copy of such notice to the Bondholders as provided in paragraph 13 below.

3 Payment of Principal

Payment of the aggregate outstanding principal amount hereof shall be made on November 15, 2012.

4 Rate of Interest

The Bonds shall bear interest at a Rate of Interest (as defined below) determined on the basis of the provisions set forth below. Interest shall be payable in arrears on each May 15 and November 15 of each year (each an "**Interest Payment Date**"), commencing on May 15, 2001. The Bonds shall bear interest on the outstanding principal amount at a rate per annum equal to 12% (the "**Rate of Interest**").

5 Taxation

(a) All payments by Ecuador in respect of the Bonds shall be made free and clear and without withholding or deduction for any and all present or future taxes, duties, assessments, imposts or other governmental charges, imposed or levied by or on behalf of Ecuador or any political subdivision or taxing authority thereof or therein having power to tax, unless Ecuador is compelled by law to deduct or withhold such taxes, duties, assessments, imposts or other governmental charges. In such event, Ecuador shall pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the amounts received by the Bondholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts shall be payable:

(i) in respect of any Bond held by or on behalf of a holder or a beneficial owner of a Bond who is liable for such taxes, duties, assessments, imposts or other governmental charges by reason of such holder or beneficial owner having any present or former connection with Ecuador other than merely by the holding of such Bond or by receipt of income, principal or any payments in respect thereof; or

(ii) in respect of any Bond presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

As used in this paragraph 5(a), "**Relevant Date**" in respect of any Bond means the date on which payment in respect thereof first becomes due or (if the full amount of the money payable has not been received by the Trustee on or prior to such due date) the date on which notice is duly given to the Bondholders in the manner described in paragraph 13 below that such moneys have been so received and are available for payment. Any reference to "**principal**" and "**interest**" in this paragraph 5(a) shall be deemed to include any Additional Amounts which may be payable hereunder.

(b) Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in Ecuador or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Bonds or any other document or instrument referred to therein. Ecuador will also indemnify the Bondholders from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of Ecuador under the Bonds or any other document or instrument referred to therein following the occurrence of any Event of Default (as defined below).

6 Certain Covenants of Ecuador

So long as any Bond shall remain outstanding or any amount payable by Ecuador under the Indenture shall remain unpaid, Ecuador agrees as follows:

(a) Ecuador shall duly obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution, delivery and performance by Ecuador of the Bonds and the Indenture or for the validity or enforceability thereof, and duly take all necessary and appropriate governmental and administrative action in Ecuador in order for Ecuador to be able to make all payments to be made by Ecuador under the Bonds and the Indenture.

(b) Ecuador shall ensure that at all times its obligations hereunder constitute unconditional general obligations of Ecuador ranking at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated External Indebtedness of Ecuador.

(c) Ecuador shall maintain at all times its membership in the International Monetary Fund (the "**IMF**") and the International Bank for Reconstruction and Development and continue to be eligible to use the general resources of the IMF.

(d) The Republic shall use its best efforts to list and thereafter to maintain the listing of the Bonds on the Luxembourg Stock Exchange.

(e) Ecuador shall not create or suffer to exist, or permit the Central Bank of Ecuador (the "**Central Bank**") to create or suffer to exist, any Lien upon any of its present or future assets or revenues (including, without limitation, International Monetary Assets) to secure or otherwise provide for the payment of any Publicly Issued External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of Ecuador under the Bonds and the Indenture are secured equally and ratably with such Publicly Issued External Indebtedness. The following Liens are excluded from the operation of the foregoing provision: (i) any Lien upon property to secure the purchase price of such property or any Publicly Issued External Indebtedness incurred solely for the purpose of financing the acquisition of the property to be subject to such Lien; (ii) any Lien existing on such property at the time of its acquisition which secures any Publicly Issued External Indebtedness; (iii) any Lien in existence as of July 26, 2000; (iv) any Lien securing Publicly Issued External Indebtedness issued upon surrender or cancellation of the principal amount of any Indebtedness outstanding as of July 26, 2000, to the extent such Lien is created to secure such Publicly Issued External Indebtedness; (v) any Lien securing or providing for the payment of Publicly Issued External Indebtedness incurred in connection with any Project Financing, *provided* that the properties to which any such Lien applies are (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; (vi) additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador or the Central Bank having, when encumbered, a fair market value not exceeding an aggregate amount equal to US$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 or the Central Bank, *provided that* to the extent US$50,000,000 (or the equivalent) exceeds such aggregate fair market value of such assets, revenues or receivables so encumbered in such calendar year, the aggregate fair market value of such assets, revenues and receivables permitted to be encumbered hereby in subsequent calendar years shall be increased by such excess amount; *provided, however*, that in no event shall the fair market value of such assets, revenues or receivables so encumbered in any calendar year exceed an aggregate amount equal to US$150,000,000 (or the equivalent); and (vii) any renewal or extension of any such Liens described in clauses (i) through (vi) above; *provided further*, however, that with respect to clause (vii) above, no renewal or extension of any Lien permitted thereunder shall extend to or cover any property other than the property theretofore subject to the Lien being extended or renewed.

"**External Indebtedness**" means all Indebtedness payable (whether or not at the option of the holder thereof) in a currency other than Ecuadorian sucres.

"**Indebtedness**" means for any Person (a) all indebtedness of such Person for or in connection with borrowed money, or the deferred purchase price of property or services (including, but not limited to, reimbursement obligations of such Person under or in respect of letters of credit or bankers' acceptances and obligations of such Person to repay deposits with or advances to such Person); (b) all obligations of such Person (other than those specified in clause (a) above) evidenced by bonds, debentures, notes or other similar instruments; and (c) all direct or indirect guarantees of such Person in respect of, and all obligations (contingent or otherwise) of such Person to purchase or otherwise acquire or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of any other Person specified in clause (a) or (b) above,

"**International Monetary Assets**" means all (i) gold and other bullion, (ii) Special Drawing Rights, (iii) Reserve Positions in the IMF and (iv) Foreign Exchange which is owned or held by the Central Bank, Ecuador or any monetary authority of Ecuador. For purposes of this definition, the terms "**Special Drawing Rights**", "**Reserve Positions in the IMF**" and "**Foreign Exchange**" have, as to the types of assets included, the meaning given to them in the IMF's monthly publication entitled "**International Financial Statistics**", or such other meanings as shall be adopted by the IMF from time to time.

"**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.

"**Project Financing**" means any financing (but not a refinancing) 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 and have been provided with a feasibility study prepared by competent independent experts on the basis of which it was reasonable to conclude that such project would generate sufficient income in currencies other than sucres to repay substantially all of the principal of and interest on all Publicly Issued External Indebtedness incurred in connection with such project.

"**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, bonds, notes or other securities or any guaranty thereof and (iii) is, or may 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.

7 Events of Default

If one or more of the following events ("**Events of Default**") shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary, by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) with respect to the Bonds:

(a) interest or Additional Amounts on any of such Bonds are not paid when due and payable, and such default continues for a period of at least 30 days; or

(b) Ecuador fails to pay the principal amount of any of such Bonds when due and payable, and such failure continues for a period of at least 15 days; or

(c) Ecuador defaults in the performance of any other obligation contained in the Bonds or in the Indenture and such default shall continue for a period of at least 90 days after written notice thereof shall have been given to Ecuador by the Trustee or the holders of at least 25 percent in aggregate principal amount of such Bonds then outstanding; or

(d) the holders of 25 percent or more in aggregate outstanding principal amount of any Publicly Issued External Indebtedness (other than Excluded Indebtedness, as defined below) of Ecuador having an aggregate principal amount in excess of US$50,000,000, as a result of any failure to pay the principal of, or interest on, such Publicly Issued External Indebtedness, accelerate such Publicly Issued External Indebtedness or declare such Publicly Issued External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof and such acceleration, declaration or prepayment shall not have been annulled or rescinded within 30 days thereof; or

(e) Ecuador declares a moratorium with respect to the payment of principal of, or interest on, Publicly Issued External Indebtedness (other than Excluded Indebtedness, as defined below); or

(f) the validity of such Bonds or the Indenture shall be contested in a formal administrative, legislative or judicial proceeding by Ecuador

then in each and every case, the Trustee at its discretion may (but is not required to), or at the written direction or request of the holders of not less than 25 percent in aggregate principal amount of the Bonds then outstanding shall, by notice in writing to Ecuador, declare the principal amount of all the Bonds to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable upon the date that such written notice is received by or on behalf of Ecuador, unless prior to such date all Events of Default in respect of all the Bonds shall have been cured; *provided* that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any sale of property under any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, Ecuador shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest and principal upon all Bonds which shall have become due otherwise than solely by acceleration (with interest on overdue installments of interest, to the extent permitted by law, and on such principal of each such Bond at the rate of interest specified herein, to the date of such payment or deposit) and such amount as shall be sufficient to cover compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made for expenses and legal fees incurred by the Trustee and each predecessor Trustee, and if any and all Events of Default hereunder, other than the nonpayment of the principal of the Bonds which shall have become due solely by acceleration, shall have been cured, waived or otherwise remedied as provided herein, then, and in every such case, the holders of 50% in aggregate principal amount of the Bonds then outstanding, by written notice to Ecuador and to the Trustee, may, on behalf of all the relevant Bondholders, waive all defaults and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. Actions by Bondholders pursuant to this paragraph 7 need not be taken at a meeting pursuant to the following paragraph 8 provisions regarding Bondholders meetings.

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

(i) Collateralized Par Bonds due 2025;

(ii) Collateralized Discount Bonds due 2025;

(iii) Past Due Interest Bonds due 2015;

(iv) Interest Equalization Bonds due 2004;

(v) US$350,000,000 11.25 per cent Eurobonds due 2002; and

(vi) US$150,000,000 Floating Rate Eurobonds due 2004.

8 Modifications and Amendments; Bondholders' Meetings

(a) Modification and amendments to the Indenture (whether by execution of a supplemental indenture or otherwise, as provided in the Indenture) may be made with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding (or, in each case, of such lesser percentage as may act at a meeting of holders of such Bonds). Modifications and amendments to the provisions of the Bonds may be made, and future compliance therewith or past default by Ecuador may be waived, with the consent of the holders of at least a majority in aggregate principal amount of the Bonds at the time outstanding (or of such lesser percentage as may act at a meeting of Bondholders); *provided* that no such modification or amendment may, without the consent of the holder of each such Bond affected thereby, (i) change the stated maturity of the principal of or interest on any such Bond; (ii) reduce the principal amount of or interest on any such Bond or change the obligation of Ecuador to pay Additional Amounts; (iii) change the currency of payment of principal or interest (including Additional Amounts) on any such Bond; or (iv) reduce the above-stated percentage of aggregate principal amount of Bonds outstanding necessary to modify or amend the Indenture or the provisions of the Bonds or reduce the quorum requirements or the percentages of votes required for the adoption of any action at a Bondholders' meeting pertaining to such Bonds.

(b) Ecuador may at any time call a meeting of the Bondholders, such meeting to be held at such time and at such place as Ecuador shall determine, for the purpose of approving a modification or amendment to, or obtaining a waiver of, any provision of the Indenture or of the relevant Bonds. Notice of any such meeting of Bondholders, setting forth the time and place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given at least twice in accordance with paragraph 13 hereof, the first publication to be not less than 20 days and no more than 180 days prior to the date fixed for the meeting.

(c) Holders entitled to vote a majority in aggregate principal amount of the Bonds at the time outstanding shall constitute a quorum at a meeting convened for the purpose referred to above. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than 10 days; in the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 days. Notice of reconvening of any such meeting need be given only once but must be given not less than five days prior to the date on which the meeting is scheduled to be reconvened. Subject to the foregoing, at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 25 percent in aggregate principal amount of the relevant Bonds at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting.

(d) At a meeting or an adjourned meeting duly convened and at which a quorum is present as aforesaid, any resolution to modify or amend, or to waive compliance with, any of the provisions referred to above shall be effectively passed and decided if approved by the holders entitled to vote the lesser of (i) a majority in aggregate principal amount of Bonds then outstanding with respect to which a meeting has been convened and (ii) 75 percent in aggregate principal amount of the relevant Bonds represented and voting at the meeting.

(e) Any modifications, amendments or waivers effected pursuant to this paragraph 8 and Article 10 of the Indenture shall be conclusive and binding upon all holders of Bonds, whether or not they have given such consent or were present at any meeting, and on all future holders of Bonds, whether or not notation of such modifications, amendments or waivers is made upon such Bonds.

9 Replacement, Exchange and Transfer of Bonds

(a) Upon the terms and subject to the conditions set forth in the Indenture and herein, in case any Bond shall become mutilated, defaced or be apparently destroyed, lost or stolen, Ecuador in its discretion may execute, and upon the written request of Ecuador, the Trustee shall authenticate and deliver, a new Bond bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced Bond, or in lieu of and in substitution for the apparently destroyed, lost or stolen Bond. In every case, the applicant for a substitute Bond shall furnish to Ecuador and to the Trustee such security or indemnity as may be required by each of them to indemnify, defend and to save each of them and any agent of Ecuador or the Trustee harmless and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such Bond and of the ownership thereof. Upon the issuance of any substitute Bond, the holder of such Bond, if so requested by Ecuador, will pay a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected with the preparation and issuance of the substitute Bond.

(b) Upon the terms and subject to the conditions set forth in the Indenture, and subject to paragraph 8(e), a Definitive Registered Bond or Bonds may be exchanged for an equal aggregate principal amount of Definitive Registered Bonds in different authorized denominations, and a beneficial interest in a Registered Global Bond may be exchanged for Definitive Registered Bonds in authorized denominations or for a beneficial interest in another Registered Global Bond by the holder or holders surrendering the Bond or Bonds for exchange at the Corporate Trust Office of the Trustee in the City of New York or at the office of a transfer agent, together with a written request for the exchange. Definitive Registered Bonds will only be issued in exchange for interests in a Registered Global Bond pursuant to Section 2.4(d) of the Indenture and, if so issued, must be exchanged for the entirety of interests in the Registered Global Bond. The exchange of the Bonds will be made by the Trustee in the City of New York.

(c) Upon the terms and subject to the conditions set forth in the Indenture, and subject to paragraph 8(e), a Definitive Registered Bond may be transferred in whole or in a smaller authorized denomination by the holder or holders surrendering the Definitive Registered Bond for transfer at the corporate trust office of the Trustee in the City of New York or at the office of a paying agent accompanied by an executed instrument of assignment and transfer substantially as set forth in [Exhibit F] to the Indenture. The form of such instrument shall be available at Banque Internationale à Luxembourg S.A. (the **"Luxembourg Listing Agent"**) at 69, Route d'Esch L-2953 Luxembourg, Attention of New Issues—Transaction Execution Group. The registration of transfer of the Bonds will be made by the Trustee in the City of New York.

(d) The costs and expenses of effecting any exchange, transfer or registration of transfer pursuant to the foregoing provisions will be borne by Ecuador, except for the expenses of delivery (if any) not made by regular mail and the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge or insurance charge that may be imposed in relation thereto, which shall be borne by the holder of the Bond.

(e) The Trustee may decline to accept any request for an exchange or registration of transfer of any Bond during the period of 15 days preceding the due date for any payment of principal of or interest on the Bonds.

10 Trustee

For a description of the duties and the immunities and rights of the Trustee under the Indenture, reference is made to the Indenture, and the obligations of the Trustee to the holder hereof are subject to such immunities and rights.

11 Paying Agents; Transfer Agents; Registrar

Ecuador has initially appointed the paying agents, transfer agent and registrar. Ecuador may at any time appoint additional or other paying agents, transfer agents, calculation agent and registrars and terminate the appointment thereof; *provided* that while the Bonds are outstanding Ecuador will maintain (i) a principal paying agent in a Western European or United States city and (ii) a Registrar in the City of New York. In addition, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, Ecuador will maintain a paying agent and transfer agent in Luxembourg. Notice of any such termination or appointment and of any change in the office through which any paying agent, transfer agent, calculation agent or registrar will act will be promptly given in the manner described in paragraph 13 hereof.

12 Enforcement

Except as provided in Section 4.6 of the Indenture, no holder of any Bond shall have any right by virtue of or by availing itself of any provision of the Indenture or these Terms to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the Bonds or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless (a) such holder previously shall have given to the Trustee written notice of a default and of the continuance thereof with respect to the Bonds, (b) the holders of not less than 25 percent in aggregate principal amount of such Bonds then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby and (c) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to the Indenture.

13 Notices

All notices to the Bondholders will be published (a) in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (b) so long as the Bonds are listed on the Luxembourg Stock Exchange, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if in any such case this is not practicable, in one other leading English language daily newspaper with general circulation in Europe. Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of Bonds at their registered addresses. Notice sent by registered or certified mail, postage prepaid, shall be deemed to have been given, made or served three Business Days after it has been sent.

14 Further Issues of Bonds

Ecuador may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures having the same terms and conditions as the Bonds in all respects (or in all respects except for the payment of interest on them scheduled and paid prior to such time), so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds and debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as Ecuador may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Indenture or any indenture supplemental to it shall, and any other notes, bonds or debentures may (with the consent of the Trustee), be constituted by an indenture supplemental to the Indenture. The Indenture contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

15 Purchase of Bonds by Ecuador

Ecuador may at any time purchase or acquire any of the Bonds in any manner and at any price in the open market or in privately negotiated transactions. All Bonds which are purchased or acquired by or on behalf of Ecuador may, at its discretion, be held, resold or surrendered to the Trustee for cancellation, *provided, however*, that unless delivered to the Trustee for cancellation, such Bonds will be treated as outstanding for purposes of the Mandatory Debt Management targets in paragraph 16 below.

16 Mandatory Debt Management

If, on any of the dates shown below (each a "**Target Date**"), the aggregate Outstanding Amount of the Bonds (as defined below) exceeds the amount of Original Principal (as defined below) shown opposite such Target Date (for each such Target Date, the "**Maximum Amount**") then Ecuador shall, on the next Interest Payment Date following such Target Date, make a partial redemption of the Bonds in a principal amount equal to the difference between the Outstanding Amount of the Bonds on the Target Date (as notified to Ecuador by the Trustee) and the Maximum Amount for that Target Date:

Target Date	Maximum Amount of Original Principal

Target Date	Maximum Amount of Original Principal
November 15, 2006	90%
November 15, 2007	80%
November 15, 2008	70%
November 15, 2009	60%
November 15, 2010	50%
November 15, 2011	40%

For purposes of this Section, "**Outstanding Amount**" means the aggregate principal amount of the Bonds outstanding on any Target Date as shown on the records of the Trustee less the amount of any further issue of Bonds (as permitted by paragraph 14 above) that have been consolidated with the Bonds; and "**Original Principal**" means the principal amount of the Bonds outstanding on the date that is 60 days after original issuance (as determined by the Trustee). Not less than 30 days following each Target Date, the Trustee will notify Ecuador of the principal amount of the Bonds outstanding on that date and of the amount, if any, of the partial redemption due on the next Interest Payment Date as required by this Section.

17 Redemption

(a) Ecuador may redeem the Bonds, in whole or in part, on any Interest Payment Date (each a "**Redemption Date**") by giving the Trustee not less than 45 nor more than 60 days prior written notice of such Redemption Date and the principal amount of Bonds to be redeemed on such date. The Trustee shall promptly notify the Bondholders thereof in compliance with paragraph 13 above. Ecuador shall notify the Luxembourg Stock Exchange of the aggregate principal amount of the Bonds remaining outstanding after such redemption.

(b) In the event of a failure by the Issuer to comply with any of the Mandatory Debt Management targets of paragraph 16 above, the Issuer shall make a mandatory partial redemption of the Bonds on the date, and in the amount, called for by that paragraph.

(c) All redemptions shall be at par, together with accrued interest to the Redemption Date.

(d) If not all outstanding Bonds are being redeemed, the Trustee shall select the Bonds to be redeemed by lot or in another fair and reasonable manner chosen at the discretion of the Trustee. In the event of a partial redemption by lot, the Trustee shall select the Bonds to be redeemed not less than 30 days prior to the Redemption Date and shall give notice thereof to the Issuer and the affected Bondholders.

18 Authentication

This Bond shall not become valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee or its agent.

19 Governing Law

(a) This Bond and the Indenture shall be construed in accordance with and governed by the law of the State of New York.

(b) Ecuador hereby irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Bonds and Ecuador hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Ecuador hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of the place of residence or domicile of Ecuador. Ecuador hereby confirms and agrees that, pursuant to appointment by the Attorney General of Ecuador, the person for the time being and from time to time acting as or discharging the function of the Consul General of Ecuador in New York (the "**Process Agent**"), with an office on the date hereof at 800 Second Avenue, 5th Floor, New York, New York 10017, United States, shall be irrevocably appointed as its agent to receive on behalf of itself and its property service of copies of the summons and complaint and any other process which may be served in any such action or proceeding brought in such New York state or United States federal court sitting in the City of New York. Such service may be made by mailing or delivering a copy of such process to Ecuador in care of the Process Agent at the address specified above for the Process Agent, and Ecuador hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. As an alternative method of service, Ecuador also irrevocably consents to the service of any and all process in any such action or proceeding in such New York state or United States federal court sitting in the City of New York by the mailing of copies of such process to itself at its address specified in Section 9.4 of the Indenture. A final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(c) Nothing in this paragraph 19 shall affect the right of any Bondholder to serve legal process in any other manner permitted by law or affect the right of any Bondholder to bring any action or proceeding against Ecuador or its property in the courts of other jurisdictions.

(d) To the extent that Ecuador has or hereafter may acquire or have attributed to it any immunity under any law (other than the laws of Ecuador) from jurisdiction of any court or from legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Ecuador hereby irrevocably waives such immunity in respect of its obligations under the Bonds. To the extent that Ecuador has or hereafter may have any immunity under the laws of Ecuador (i) from jurisdiction of any court or (ii) from any legal process in the courts of Ecuador (other than immunity from attachment prior to judgment and attachment in aid of execution) whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise, with respect to itself or its property, Ecuador hereby irrevocably waives 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 the waivers set forth in this paragraph 19(d) 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.

(e) Ecuador hereby irrevocably waives, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the Bonds, the posting of any bond or the furnishing, directly or indirectly, of any other security.

20 Indemnification for Foreign Exchange Rate Fluctuations

To the extent permitted by applicable law, the obligation of Ecuador to any Bondholder hereunder shall, notwithstanding any judgment in a currency (the "**Judgment Currency**") other than U.S. dollars (the "**Agreement Currency**"), be discharged only to the extent that on the Business Day following receipt by such Bondholder of any amount in the Judgment Currency, such Bondholder may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency (or, if it is not practicable to make that purchase on that day, on the first Business Day on which it is practicable to do so). If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such bondholder in the Agreement Currency, Ecuador agrees, as a separate and independent obligation and notwithstanding such judgment, to pay the difference, and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such Bondholder, such Bondholder agrees to pay to or for the account of Ecuador such excess, *provided* that such Bondholder shall not have any obligation to pay any such excess as long as a default by Ecuador in its obligations hereunder has occurred and is continuing, in which case such excess may be applied by such Bondholder to such obligations.

21 Warranty of Ecuador

Subject to paragraph 18, Ecuador hereby certifies and warrants that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of this Bond and to constitute the same legal, valid and binding obligations of Ecuador enforceable in accordance with their terms, have been done and performed and have happened in due and strict compliance with all applicable laws.

22 Descriptive Headings

The descriptive headings appearing in these Terms are for convenience of reference only and shall not alter, limit or define the provisions hereof.

JURISDICTIONAL RESTRICTIONS

The distribution of this Listing Particulars Document, as well as any documents relating to the Exchange Offer described in the Offering Circular dated July 27, 2000 and the transactions contemplated by such documents may be restricted by law in certain jurisdictions. Persons into whose possession such documents come are required by Ecuador to inform themselves of and to observe any of these restrictions.

- Such documents do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which an offer or solicitation is not authorized or in which the person making an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make an offer or solicitation.

- In any jurisdiction in which the Exchange Offer was required to be made by a licensed broker or dealer and in which any Dealer Manager or any affiliate thereof is so licensed, it shall be deemed to have been made by that Dealer Manager or its respective affiliate on behalf of Ecuador.

Bahamas

For assistance in connection with the Exchange Offer, a Holder of Existing Bonds may contact the Global Coordinator at 212-723-6106. If a Holder of Existing Bonds has any questions about this Exchange Offer and/or doubts about its terms and conditions, such Holder should consult with its stockbroker, bank manager, counsel and attorney, accountant or other financial adviser. None of Ecuador or the Dealer Managers has expressed any opinion as to whether the terms of the Exchange Offer are fair.

A Holder of Existing Bonds should be aware that

- Ecuador can give no assurance regarding the liquidity of the trading market for the Global Bonds,

- the price at which the Global Bonds may trade in the secondary market is uncertain, and

- the price of the Global Bonds, as well as the value of such Holder's overall investment, may go down as well as up.

If a Holder of Existing Bonds is a Bahamian resident, it is subject to Bahamian Exchange Control Regulations.

Belgium

The Exchange Offer has not been notified to or approved by the *Commission bancaire et financière/Commissie voor het Bank-en Financiewezen*. Accordingly,

- the Global Bonds may not be offered or sold, and

- documents relating to the Exchange Offer may not be distributed, directly or indirectly, to any person in Belgium other than the following, acting for their own account:

  - the Belgian State, the Regions and Communities (*Communautés/Gemeenschappen*);

  - the European Central Bank;

  - the National Bank of Belgium;

- the *Fonds des Rentes/Rentenfonds*;
- the *Fonds de protection des dépôts et des instruments financiers/Beschermingsfonds voor deposito's en financiële instrumenten*;
- the *Caisse de Dépôts et Consignations/Deposito-en Consignatiekas*;
- authorized, licensed or registered credit institutions;
- securities firms and portfolio managers;
- collective investment institutions;
- insurance and reinsurance companies and pension funds;
- holding companies;
- licensed Belgian coordination centers; and
- Belgian or foreign companies listed on a Belgian or a foreign regulated exchange with a consolidated net worth in excess of Euro 25 million, within the meaning of Article 3.2 of the Royal Decree of July 7, 1999.

Brazil

The Global Bonds may not be offered or sold to the public in Brazil. Accordingly, this Listing Particulars Document has not been submitted to the *Comissao de Valores Mobiliarios* for approval. Documents relating to the Exchange Offer as well as the information contained therein, may not be supplied to the public, as a public offering in Brazil or be used in connection with any offer for subscription or sale of Global Bonds to the public in Brazil.

Canada

Provinces

The Global Bonds may only be offered to investors located in the provinces of Ontario and Quebec.

Resale Restrictions

The distribution of the Global Bonds in Canada will be made only on a private placement basis and will be exempt from the requirement that Ecuador prepare and file a prospectus with the relevant Canadian securities regulatory authorities. Accordingly, any resale of the Global Bonds must be made in accordance with applicable securities laws which may require resales to be made in accordance with exemptions from registration and prospectus requirements. Purchasers are advised to seek legal advice prior to any resale of the Global Bonds.

Representations of Purchasers

Each Canadian investor who purchases Global Bonds will be deemed to have represented to Ecuador and any Dealer Manager who offers Global Bonds to such purchaser that

- the offer and sale of the Global Bonds was made exclusively through the Offering Circular and was not made through an advertisement of the Global Bonds in any printed media of general and regular paid circulation, radio, television or any other form of advertising;
- such purchaser has reviewed the terms referred to above under "Resale Restrictions";

- where required by law, such purchaser is purchasing as principal and not as agent;

- such purchaser or any ultimate purchaser for which such purchaser is acting as agent is not an individual and is entitled under applicable Canadian securities laws to purchase such Global Bonds without the benefit of a prospectus qualified under such securities laws;

- in the case of a purchaser located in Ontario, such purchaser is a person to which a dealer registered as an international dealer in Ontario may offer or sell Global Bonds; and

- in the case of a purchaser located in Quebec, such purchaser is a "sophisticated purchaser" within the meaning of the Securities Act (Quebec).

Language Of Documents

Each Canadian investor, by submitting a tender, acknowledges that it is such investor's express wish that all documents evidencing or relating in any way to the sale of the Global Bonds be drawn up in the English language only. *Chaque investisseur Canadien en soumettant une offre, reconnaît que c'est à sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des Obligations Globales soient rédigés en anglais seulement.*

France

The Global Bonds may not be offered or sold to the public in France. Accordingly, this Listing Particulars Document has not been submitted to the *Commission des Operations de Bourse* for approval. Any documents relating to the Exchange Offer as well as the information contained in the Listing Particulars Document may not be used in connection with any offer for subscription or sale of Global Bonds to the public in France.

Germany

No Sales Prospectus has been published according to the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*). Accordingly, the Exchange Offer is only made to persons who purchase and sell securities (as principal or agent) as part of their profession or business. Recipients of this Listing Particulars Document agree that they have not and will not pass on the Listing Particulars Document to persons in Germany except to persons who purchase and sell securities (as principal or agent) as part of their profession or business.

Hong Kong

With respect to persons in Hong Kong, the Exchange Offer is only made to and is only capable of acceptance by persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

The Dealer Managers and Ecuador have agreed that they have not issued and will not issue any invitation or advertisement relating to the Global Bonds in Hong Kong (unless permitted to do so by the securities laws of Hong Kong), other than with respect to Global Bonds which are intended to be disposed of

- to persons outside Hong Kong or

- only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Italy

The public will not be solicited in connection with the Exchange Offer, and none of the Dealer Managers will offer, sell or deliver any Global Bonds in Italy or distribute copies of this Listing Particulars Document or any offering documents relating to the Global Bonds in Italy, unless such activities

- are carried out by or through intermediaries authorized to perform investment services in Italy,
- either do not qualify as solicitation of investment or qualify as a solicitation exempted from the requirement of a prospectus, and
- are carried out in compliance with applicable banking regulations, including any relevant limitations which the Bank of Italy may impose upon the offer or sale of bonds in Italy.

Japan

The Global Bonds have not been and will not be registered under the Securities and Exchange Law of Japan. The Global Bonds (or any beneficial interest therein) may not be transferred by any holder thereof in Japan to any other person unless such Global Bonds (or such beneficial interest) and all other Global Bonds (or beneficial interests therein) acquired by such holder are transferred in one lot

- to a single person, or
- to a non-resident of Japan (as defined in the Foreign Exchange and Foreign Trade Law of Japan).

Mexico

The Global Bonds have not been registered with the National Register of Securities and Intermediaries maintained by the Mexican National Banking and Securities Commission and may not be offered or sold publicly in Mexico. Documents relating to the Exchange Offer may not be publicly distributed in Mexico.

The Netherlands

The Global Bonds may not be offered, sold, transferred or delivered in or from The Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to

- banks,
- pension funds,
- insurance companies,
- securities firms,
- investment institutions,
- central governments,
- large international and supranational institutions and other comparable entities, including, among others, treasuries and finance companies of large enterprises, which trade or invest in securities in the conduct of a profession or trade.

Individuals or legal entities who or which do not trade or invest in securities in the conduct of their profession or trade may not participate in the Exchange Offer, and this Listing Particulars Document may not be considered an offer or the prospect of an offer to sell or exchange Global Bonds.

Panama

The Global Bonds have not been and will not be registered with the National Securities Commission of the Republic of Panama under Decree Law N°1 of July 8, 1999 (the "*Panamanian Securities Law*") and may not be publicly offered or sold within Panama, except in certain limited transactions exempt from the registration requirements of the Panamanian Securities Law.

Portugal

This Listing Particulars Document has not been registered with the Portuguese Stock Exchange Commission and, therefore, the Global Bonds may not be offered or sold publicly in Portugal. In addition, this Listing Particulars Document may not be publicly distributed in Portugal.

Republic of Korea

None of the Global Bonds may be offered, sold or delivered, directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in the Republic of Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

For a period of one year from the issue date of the Global Bonds, no holder of the Global Bonds who is in Korea or is resident of Korea may transfer the Global Bonds in Korea or to any resident of Korea unless such transfer involves all of the Global Bonds held by it. In addition, no offer to exchange the Existing Bonds for the Global Bonds may be made, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

Spain

The Exchange Offer has not been registered with the National Securities Market Commission and, therefore, no Global Bonds may be offered, sold or delivered, nor any offer in respect of Existing Bonds made, nor may any prospectus or any other offering or publicity material relating to the Exchange Offer or the Global Bonds be distributed, in the Kingdom of Spain by Ecuador, the Dealer Managers or any other person on their behalf.

Switzerland

The Exchange Offer is made in Switzerland on the basis of a private placement, not as a public offering, and the Global Bonds will not be listed on the SWX Swiss Exchange. The Exchange Offer materials do not, therefore, constitute a prospectus in the sense of Art. 1156 of the Swiss Federal Code of Obligations or Arts. 32 ss. of the Listing Rules of the Swiss Exchange.

The United Arab Emirates

The Exchange Offer materials are not intended to constitute an offer, sale or delivery of Global Bonds under the laws of the United Arab Emirates. The Global Bonds have not been and will not be registered under U.A.E. Central Bank Circular 22/99, Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Securities and Commodities Exchange, or with the U.A.E. Central Bank, the Dubai Financial Market or with any other U.A.E. exchanges.

The United Kingdom

The applicable provisions of the Financial Services Act 1986 must be complied with in respect of anything done in relation to the Exchange Offer in, from or otherwise involving the United Kingdom.

ISSUER

The Republic of Ecuador
Ministerio de Finanzas y Crédito Público
10 de Agosto 1661 y Jorge Washington
Quito

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