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Bond rally lures Ecuador to market

The government of Daniel Noboa seeks to take advantage of the falling risk premium for its debt, as maturities loom

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Ecuador is set to test foreign appetite for its bonds with its first offering in the international market since 2019, on the back of a rally in emerging market debt and investor confidence in the government’s handling of the economy.

The government of Daniel Noboa launched a tender offer on Friday to buy back two series of sovereign bonds, conditional upon a sale of new notes, the details of which have yet to be disclosed.

The proposed issuance comes amid increased investor appetite for Ecuador’s bonds following Noboa’s re-election last April — and stronger demand for emerging-market debt more broadly — that’s making it cheaper for the sovereign to tap markets.

Matthew Graves, portfolio manager for emerging market debt at PPM America, said the country appears to be “one of the bigger beneficiaries” of the rally in EM sovereign bonds, despite the defeat of the government’s proposals for constitutional reform in a referendum last November.

“In a different external environment, the government’s electoral defeat in November, and a weaker-than-expected fiscal result for 2025, may have put the country’s bonds under pressure. But that hasn’t been the case,” Graves said in emailed comments. “Ecuador’s bond curve has been pretty firmly anchored around 8-9% yields, implying confidence in the Noboa government’s ability to navigate the road ahead, particularly with the benefit of ongoing IMF assistance.”

Under Noboa, Ecuador has embarked on economic reforms and won the support of multilateral lenders, led by the IMF, which approved a \$4 billion loan program in 2024 and extended it by an additional \$1 billion last July.

‘GOOD TIMING’

The finance ministry touted this month that its sovereign risk, or the premium that investors charge to hold its debt instead of US Treasuries, had dropped to some 460 points as of January 5 — the lowest level in eight years and down by over 1440 points since before Noboa’s re-election.

“It is positive to see that the government is taking advantage of market conditions,” said Santiago Mosquera, the Ecuador-based head of research at Analytica Investments and a former analyst at Fitch Ratings. “It shows some fiscal responsibility and good timing in terms of debt management.”

That is because while Ecuador’s debt-to-GDP ratio of roughly 50% is manageable, it faces a “very demanding” debt maturity profile this year, Mosquera said. Liability management operations should help alleviate its near-term interest payments and bond amortizations, he said.

Such operations also get ahead of a key source of risk for Ecuador: an emerging drought. It raises the risk that its hydropower-heavy electric grid may face rations in the weeks ahead, Mosquera said, weighing on the country’s economic recovery.

Blackouts in 2024 led to a 2% contraction in GDP, though the IMF anticipated growth to snap back by 3.4% as 2025 came to a close.

“Although things have improved in general, there are still some sources of concerns that could affect market perceptions in the next couple of months,” Mosquera said.

In last Friday’s bond buyback announcement, Ecuador said it is offering to repurchase a portion of the \$9.54 billion outstanding on two series of international bonds maturing in 2030 and 2035. It is offering \$1,000 and \$900 respectively for every note that’s tendered by January 23.

Bank of America and Citigroup are dealer managers on the buyback.