

Regional Sovereign Ratings Perspectives

The Risk Rating Agencies rule on the issuance of debt instruments and issuers of securities such as countries, corporations, private or public sector entities, among others; to establish ratings with the degree of risk that said instrument represents for the investor and can be investment grade risk ratings or speculation grade risk ratings. In the case of countries, it is called country risk rating or sovereign ratings, this rating has a real economic impact on international financial markets; that is, the closer the sovereign rating is to the investment grade, the attractiveness to invest is higher, the opposite happens with the ratings that are more speculative.

In recent years, the economy in Latin America has suffered several negative shocks. Certainly, the economies have managed to improve their economic, health, social and financial conditions during 2023-2024. However, the context of uncertainty and multiple risks still persists. For the global economy, credit rating agencies have made various rating downgrades and changes in credit perspective to emerging countries.

The Latin American economies with “investment grade” sovereign rating are: Chile, the country with the best sovereign rating, followed by Peru, Uruguay and Mexico. Colombia also has investment grade with Moody’s Investors Service (Moody’s), with Standard and Poor’s (S&P) and concerning Fitch Ratings (Fitch), it is one step away from investment grade.

Table 1: Comparison of sovereign rating of Latin American countries 2023-2024 (as of June 24, 2024)

Interpretation: = It is kept ↓ **The rate was downgraded / Outlook** ↑ **The rate was upgraded/ Outlook**

Country	Rating Agency	jun-23			jun-24		
		Rating	Perspective		Rating	Perspective	
Paraguay	Moody's	Ba1 =	Positive ↑		Ba1 =	Positive ↑	
	Standard & Poor's	BB =	Stable =		BB+ ↑	Stable =	
	Fitch	BB+ =	Stable =		BB+ =	Stable =	
Brazil	Moody's	Ba2 =	Stable =		Ba2 =	Positive ↑	
	Standard & Poor's	BB- =	Stable =		BB ↑	Stable =	
	Fitch	BB- =	Stable =		BB ↑	Stable =	
Peru	Moody's	Baa1 =	Negative ↓		Baa1 =	Negative =	
	Standard & Poor's	BBB =	Negative ↓		BBB- ↓	Stable =	
	Fitch	BBB =	Negative =		BBB =	Negative =	
Chile	Moody's	A2 =	Stable =		A2 =	Stable =	
	Standard & Poor's	A =	Stable =		A =	Negative ↓	
	Fitch	A- =	Stable =		A- =	Stable =	
Bolivia	Moody's	Caa1 =	Negative =		Caa3 ↓	Stable =	
	Standard & Poor's	B- ↓	Negative ↓		CCC+ ↓	Negative =	
	Fitch	B- ↓	Negative ↓		CCC ↓	- =	
Colombia	Moody's	Baa2 =	Stable =		Baa2 =	Stable =	
	Standard & Poor's	BB+ =	Stable =		BB+ =	Negative ↓	
	Fitch	BB+ =	Stable =		BB+ =	Stable =	



Costa Rica	Moody's	B2 =	Stable =	B1 =	Positive ↑
	Standard & Poor's	B+ ↑	Stable =	BB- ↑	Stable =
	Fitch	BB- ↑	Stable =	BB ↑	Stable =
Mexico	Moody's	Baa2 =	Stable =	Baa2 =	Stable =
	Standard & Poor's	BBB =	Stable =	BBB =	Stable =
	Fitch	BBB- =	Stable =	BBB- =	Stable =
Argentina	Moody's	Ca =	Stable =	Ca =	Stable =
	Standard & Poor's	CCC- ↓	Negative -	CCC ↑	Stable ↑
	Fitch	CC ↑	- -	CC =	- -
Uruguay	Moody's	Baa2 =	Positive ↑	Baa1 ↑	Stable =
	Standard & Poor's	BBB+ ↑	Stable =	BBB+ =	Stable =
	Fitch	BBB ↑	Stable =	BBB =	Stable =
Ecuador	Moody's	Caa3 =	Stable =	Caa3 =	Stable =
	Standard & Poor's	B- =	Stable =	B- =	Negative ↓
	Fitch	B- =	Negative -	CCC+ ↓	- -

Source: Moody's, S&P and Fitch.

In May, 2024, the rating agency Moody's has decided to keep Brazil's rating at Ba2, changing the outlook from stable to positive. This is due to a more solid outlook for real GDP growth than in previous periods, due to structural reforms implemented by various administrations, as well as the presence of institutional barriers that reduce uncertainty regarding policy direction.

In September, 2023, the rating agency has kept Chile's credit ratings at A2, confirming the stable outlook, explained by its relatively high balance of fiscal and institutional strength. Likewise, as of June, 2024, Moody's has decided to keep Chile's rating at A2, with a stable outlook, which has been supported by institutional and governance strength, as well as a solid fiscal position.

Concerning Colombia, in January, 2024, S&P has decided to change the outlook from stable to negative, keeping the rating at BB+, due to moderate expectations for economic growth.

For Costa Rica, in November, 2023, Moody's has decided to change the Outlook from stable to positive, as a result of a relatively rich and dynamic economy. On the other hand, S&P and Fitch have decided to increase Costa Rica's rating from B+ to BB- and from BB- to BB, respectively, with stable outlooks.

In its January 2024 report, it has decided to keep Mexico's rating at Baa2 with a stable outlook, as in its May report of this year, Moody's has affirmed Mexico's rating at Baa2, keeping the stable outlook, this reflects the large scale and diversification of the economy and better performance of economic growth.

In December, 2023, the risk rating agency Moody's has confirmed Uruguay's rating at Baa2, improving the outlook from stable to positive. However, in March, 2024, Moody's has decided to increase Uruguay's rating from Baa2 to Baa1, changing to a stable outlook, due to solid institutions that support the implementation of



structural reforms and continued compliance with fiscal and monetary policy, pointing to higher sustained growth rates than in previous periods.

Concerning Paraguay, in November, 2023, the risk rating agency Fitch has decided to keep the country's rating at BB+, with a stable outlook. Likewise, in December, Moody's has also confirmed the Ba1 rating with a positive outlook, and, in February, 2024, S&P has decided to increase the rating from BB to BB+, keeping the stable outlook, which places Paraguay one step away from investment grade with the three risk rating agencies.

S&P, in April, 2024, has decided to lower its sovereign rating on Peru, from BBB to BBB- with a stable outlook, due to political uncertainty, characterized by a poor relationship between the executive and legislative powers.

In November, 2023, S&P has reviewed Bolivia's risk rating at CCC+ from B-, with a negative outlook. The rating indicates S&P's expectation of greater external vulnerability, which could affect the government's ability to service its debt. Likewise, political disagreements, even within the government coalition, have weakened its ability to guarantee external financing and stop the erosion of its external profile. As for Moody's and Fitch, both have decided to lower Bolivia's rating from Caa1 to Caa3 and from B- to CCC, respectively.

Concerning Ecuador, in August, 2023, Fitch has lowered the rating from B- to CCC+ and in January, 2024, S&P has decided to change the outlook from stable to negative.

On the other hand, in March, 2024, S&P has decided to increase Argentina's rating from CCC- to CCC, with a stable outlook.

It is worth pointing out that the perspective on the country rating provides a general view of the situation in the region; very valuable information considered by investors, however, it is important to keep in mind that the country rating is based on the observation and methodology that governs each of the risk rating agencies. In this regard, although each of the qualifications will have an impact on decision-making, investors who participate in operations in the international market or when making capital investments according to their risk aversion, will manage the risk they consider to make the decision to invest in the securities of one country or another.

Paraguay's risk rating in 2023 - 2024

In 2022, the Paraguayan economy was affected by the severe drought recorded throughout the first quarter of the year, which caused losses in agricultural harvests of several products and significantly impacted soybean production. The aforementioned situation led to negative results in the soybean campaign and caused a reduction in the production of electrical energy during the first quarter of the year. However, the country's macroeconomic situation in 2023 has demonstrated positive behavior in terms of growth and greater dynamism observed in the different sectors of the economy.

In this sense, the interannual variation of economic growth in 2023 was 4.7%, explained especially by agriculture and the production of electricity, although industry and services also showed good dynamism in the year. Concerning 2024, GDP growth of 3.8% is expected.



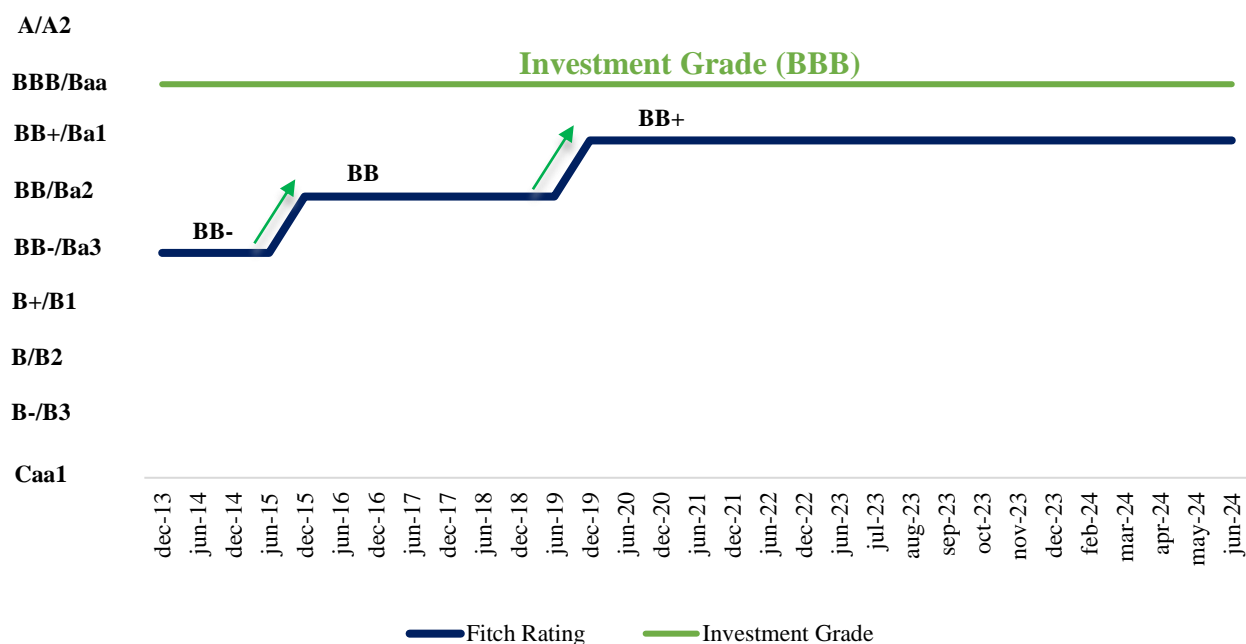
It is worth pointing out that despite the change of government in August, 2023, the commitments made to the International Monetary Fund (IMF) concerning the Policy Coordination Instrument (ICP) were continued in order to ensure macroeconomic stability, promote the growth of the economy and improve social protection.

In this context, it is highlighted that since the second half of 2023, the Government has made great progress in this matter, such as: the creation of the Superintendence of Securities and the Superintendency of Retirement and Pension, the creation of the Ministry of Economy and Finance and the National Tax Revenue Directorate. Likewise, it has achieved relevant milestones, such as: efforts to deepen the local market with greater participation of non-resident investors, processes of de-dollarization of public debt, as well as improvements in collection, among other relevant milestones for the Paraguayan economy.

Fitch, in its annual risk rating review report dated November 1, 2023, has confirmed Paraguay's BB+ rating and stable outlook, in which it emphasizes that Paraguay's rating reflects its track record of prudent macroeconomic policies and consistent, low public debt and robust external liquidity in relation to its peers with the same rating. In it, the increase in foreign investments in recent years, the growth of the maquila sector, progress in structural reforms such as the approval of the PCI technical agreement, among others, stand out.

In addition, it is worth mentioning that it raised Paraguay's Country Ceiling to BBB- (investment grade) from BB+. The increase in Country Ceiling implies that in Paraguay private issuers can go out to the international market and comply with their respective obligations. This is because the risks of exchange controls are mitigated by solid external liquidity, a floating exchange rate, solid macroeconomic policies and institutions, and efforts to diversify the economy and attract Foreign Direct Investment.

Chart 1: Fitch's Sovereign Rating for Paraguay, 2013-2024.

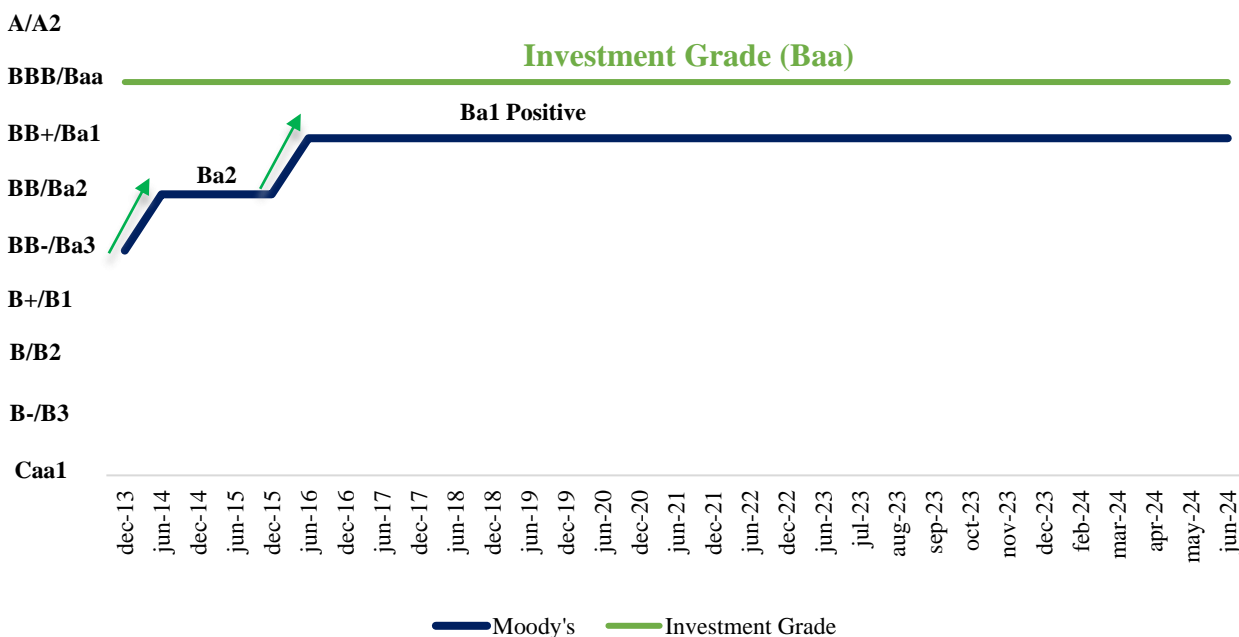


Source: Ministry of Economy and Finance (2024).



Moody's, in its report dated December 5, 2023, has confirmed Paraguay's rating at Ba1 with a positive outlook. Paraguay has recorded higher GDP growth in relation to its rating peers and has growing potential for economic diversification. Furthermore, the aforementioned agency indicates that the positive outlook for Paraguay's rating reflects a history of solid growth and a prudent fiscal policy, highlighting the progress made in terms of structural and fiscal reforms.

Chart 2: Moody's Sovereign Rate for Paraguay, 2011-2024.

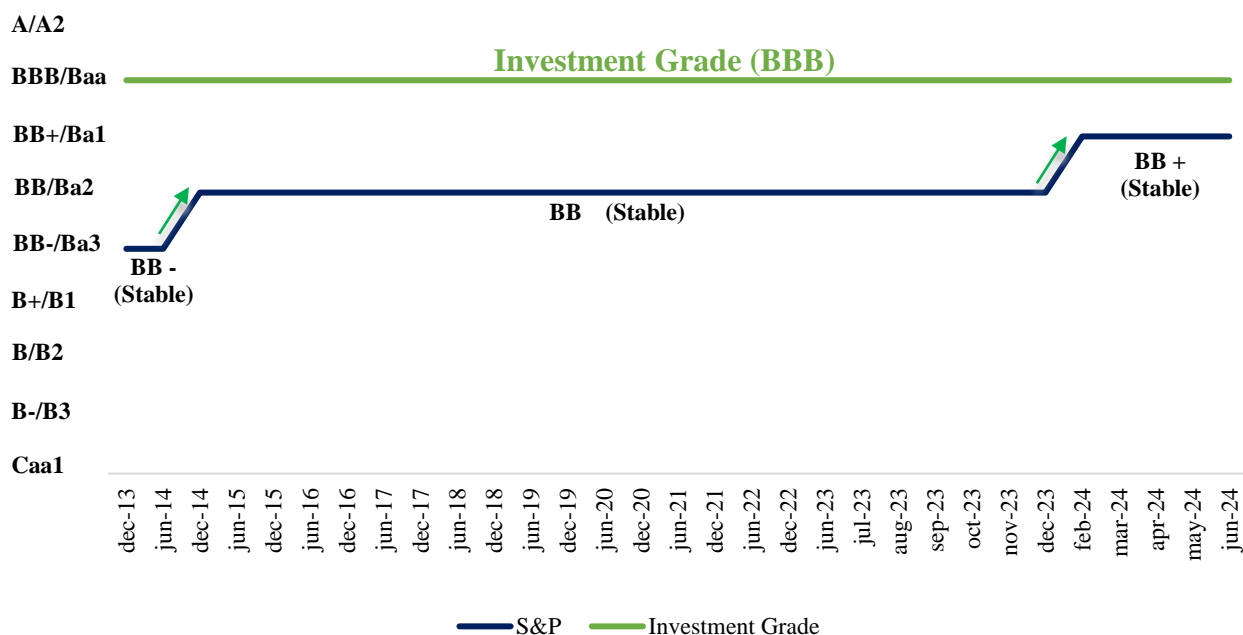


Source: Ministry of Economy and Finance (2024).

Standard & Poor's, in its report dated February 1, 2024, has decided to increase Paraguay's rating from BB to BB+, keeping the stable Outlook. The report from the aforementioned risk rating agency emphasizes that the country's government institutions have gradually matured in recent years, with greater predictability and continuity in Economic Policies through changes in administration; highlights that the approval of the laws that create institutions such as the National Tax Revenue Directorate, the Ministry of Economy and Finance, the Securities Superintendency and the most recent, the Pension Superintendency, are key to guaranteeing the efficient operation of the institutions.



Chart 3: S&P's Sovereign Rating for Paraguay, 2011-2024.



Source: Ministry of Economy and Finance (2024).

Paraguay has managed to keep its country risk rating and Outlook with Fitch and Moody's of BB+ (Stable) and Ba1 (Positive), respectively. Likewise, S&P has recently increased the rating from BB to BB+, keeping the stable outlook. These confirmations occur despite three years of international and national context shaken by external and internal shocks such as the fall in raw material prices, the Covid-19 pandemic, the rise in fuel prices and the drought that affected the country between 2019, 2020 and 2022.

Table 2: Paraguay's Sovereign Rating 2023 - 2024.

Risk Rating Agency	Risk Rating	Perspective	Last Review
Standard & Poor's	BB+	Stable	feb-1-2024
Moody's	Ba1	Positive	dec-5-2023
Fitch Ratings	BB+	Stable	nov-1-2023

Source: Ministry of Economy and Finance (2024).

Sources consulted

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