FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Paraguay's Outlook to Positive; Affirms at 'BB+'

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Fitch Ratings - New York - 06 Oct 2025: Fitch Ratings has affirmed Paraguay's Long-Term Foreign Currency Issuer Default Rating (IDR) at' BB+' and revised the Rating Outlook to Positive from Stable.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Positive Outlook: The Outlook revision to Positive reflects Paraguay's strong growth performance and prospects due to a robust investment pipeline, low fiscal deficits, an expected decline in the public debt burden, and structural increases to the still low revenue base. It also reflects an active economic reform agenda and gradual reduction of the high foreign currency share of government debt.

Paraguay's ratings reflect its history of generally prudent and consistent macroeconomic policies, low government debt compared to similarly rated peers, and robust external liquidity. Its ratings are constrained by weak governance indicators, a low revenue base, a shallow local capital market that narrows fiscal financing flexibility, and vulnerability to adverse climactic shocks (albeit increasingly mitigated by greater economic diversification).

Robust Growth: We forecast growth of 4.8% in 2025, the third consecutive year with growth rates above private sector estimates of potential (3.5%-3.8%), up from 4.2% in 2024. Consumption and investment have been important growth drivers, amidst subdued government spending from ongoing fiscal consolidation and net export contraction. Growth in 1H25 was 5.9% in both quarters. This was driven by services, manufacturing and construction despite a decline in agricultural output, reflecting Paraguay's greater economic diversification away from traditional sectors. We forecast growth of 4.3% in 2026 and 4% in 2027; however, the advancement of large-scale investment projects is an upside to our forecasts.

Large Investment Pipeline: Large-scale investment projects (totaling 16% of projected 2025 GDP) across various sectors have the potential to boost Paraguay's medium-term growth prospects. The Paracel pulp mill project (estimated value of USD3.8 billion, 8% of GDP) has been on the horizon for several years but has faced delays in securing full financing. Once greenlighted, the construction phase is expected to take two years, boosting investment during that period, with a significant increase in exports expected once operational. Other large projects, such as the ATOME fertilizer plant (2.2% of GDP), are moving forward, with one company recently signing a 10-year purchase agreement for fertilizer from the plant.

Stable Inflation: Inflation has remained low and broadly stable, averaging 4.1% through September. Headline inflation has picked up over the last few months (to 4.3% in September, above the central bank's 3.5% inflation target). However, this has been impacted by seasonal climatic factors affecting food prices and high meat prices. FX appreciation this year should support disinflation towards the target this year. Inflation expectations at 24 months are anchored at the central bank's 3.5% target. The monetary policy rate has remained at 6% since March 2024.

Return to Fiscal Rule Compliance: We expect the government to remain on track on its fiscal consolidation plan. The plan envisions a 1.9% of GDP deficit this year and a return to the 1.5% of GDP deficit limit next year, as outlined in the recently proposed 2026 budget. Tax revenue growth this year has been more in line with nominal GDP growth than last year (10% through August), while other revenues from the hydro dams have fallen, and primary spending growth is contained (6%). The rolling 12-month deficit was 2.5% of GDP as of August, but should fall as high spending growth from 2024 rolls off. The 2026 budget projects increased spending and even higher revenues to meet the 1.5% deficit limit. However, Fitch expects further capex compression may be required to achieve this target.

Sustaining low fiscal deficits in accordance with the fiscal rule will require an offsetting fiscal effort in the coming years to account for the rising deficit of the public sector pension system (caja fiscal). A new government actuarial study projects this deficit to rise from 0.5% of GDP to 1.5% by 2028. The fiscal impact of any reform will likely be gradual, so further fiscal effort may be necessary.

Gradual Debt Decline: Lower deficits in combination with a stronger exchange rate this year means government debt likely peaked at 37.8% of GDP in 2024. We forecast debt falling to 35% in 2025 with a gradual reduction over the medium term to 34% in 2027.

Gradually Falling Foreign Currency Debt Share: For a second year, Paraguay issued global guarani bonds (USD600 million in February, extending the curve to 10 years with a 8.5% coupon). As a result, the foreign currency government debt share fell to 84.2% as of August, from 90% at end 2023. Additionally, recent capital markets reforms now give non-resident investors direct access to the local market. The June government domestic bond auction (USD80 million equivalent) was the first to attract direct non-resident participation (about half).

Active Reform Agenda: The government is actively pursuing reform efforts to modernize the state, improve the business environment and promote economic growth, investment and productivity. The Peña administration has approved more than 20 reforms in its first two years.

The administration recently presented a package of 10 additional reforms, including new tax incentives to attract foreign investment, a revision of the maquila sector tax regime to include services, and a law to establish tax incentives for production and assembly of electronic equipment. Congress has already approved some of these measures. Reform of the 'caja fiscal' remains on the government's agenda and will likely require more political capital than previous reforms, given the required parametric changes to public sector retirement ages.

Wider Current Account Deficits: The current account deficit widened to 3.9% in 2024, from 0.4% a year prior, due to weaker soy prices (despite high production) and lower hydroelectricity exports, combined with strong import demand both for consumer and capital goods. We forecast a slightly wider CAD in 2025, as drought conditions in some areas will likely lower production and strong economic growth along with FX appreciation will support import demand. Construction of the Paracel pulp mill remains delayed, but once green-lighted, Fitch expects moderately wide CADs to persist during the construction phase.

Strong External Buffers: External liquidity buffers remain strong, with international reserves covering 5.8 months of current external payments in 2024, above the 'BB' median of 4.8 months. Reserves are up through September 2025, reaching USD10.3 billion from USD9.9 billion at end 2024, as higher gold prices and sovereign external borrowing have offset USD sales due to FX intervention.

ESG - Governance: Paraguay's scores for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Paraguay has a medium WBGI ranking at the 36th percentile, reflecting a recent track record of peaceful political transitions, a moderate level of rights for participation in the political process, weak institutional capacity, weak rule of law, and a high level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Public Finances: Rising public debt to GDP due to a failure to sustain low fiscal deficits or address structural spending pressures on public finances.

Macro: Lack of progress on large-scale investment projects that reduces prospects for a sustainable improvement in growth and/or materialization of a shock, such as an adverse weather event, that negatively impacts growth, fiscal and external metrics.

Structural: Reduced confidence in the ability to advance the structural reform agenda.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Macro: Greater confidence in higher growth in the context of macroeconomic stability and progress on large-scale investment projects, that promotes economic diversification and increases prospects for GDP per capita convergence with higher rated sovereigns.

Public Finances: Improvement in fiscal flexibility through reducing the public debt/GDP ratio, expanding the revenue base, and addressing the public sector pension deficit, as well as improvement in the currency composition of government debt.

Structural: Evidence of a sustained improvement in governance including combatting corruption and strengthening public institutions.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Paraguay a score equivalent to a rating of 'BB' on the Long-Term Foreign Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output by +1 notch from the SRM score to arrive at the final LT FC IDR of 'BB+' by applying its QO, relative to SRM data and output, as follows:

Macro: +1 notch, to reflect Paraguay's track record of prudent and consistent macroeconomic policies, including a floating FX regime and inflation targeting, that have helped manage shocks from recurring droughts and are not fully captured by the low governance scores feeding into the SRM score.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

DEBT INSTRUMENTS: KEY RATING DRIVERS

Senior Unsecured Debt Equalized: The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDR is 'BB-' and above. No Recovery Ratings are assigned at this rating level. See Rating Actions below for the full set of instrument ratings.

COUNTRY CEILING

The Country Ceiling for Paraguay is 'BBB-', 1 notch above the LT FC IDR. This reflects strong constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +1 notch above the IDR. Fitch's rating committee did not apply a qualitative adjustment to the model result.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for Paraguay.

ESG CONSIDERATIONS

Paraguay has an ESG Relevance Score of '5' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Paraguay has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Paraguay has an ESG Relevance Score of '5' for Rule of Law, Institutional and Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Paraguay has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Paraguay has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Paraguay has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Paraguay has an ESG Relevance Score of '4'[+] for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Paraguay, as for all sovereigns. Given that Paraguay has record of 20 years without a restructuring of public debt, which is captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visitwww.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Paraguay	LT IDR BB+ Rating Outlook Positive Affirmed	BB+ Rating Outlook Stable
	ST IDR B Affirmed	B
	LC LT IDR BB+ Rating Outlook Positive Affirmed	BB+ Rating Outlook Stable
	LC ST IDR B Affirmed	B

	Country Ceiling	BBB-	Affirmed	BBB-
senior unsecured	LT	BB+	Affirmed	BB+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceiling Criteria (pub. 24 Jul 2023)

Sovereign Rating Criteria (pub. 15 Sep 2025) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Climate Risk Model, v1,0,0 (1)

Sovereign Rating Model, v3.14.4 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Paraguay	EU Endorsed, UK Endorsed

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