S&P Global
Ratings

Research

Republic of Paraguay Upgraded To 'BBB-/A-3' On Policy Effectiveness And Stronger Economic Resilience; Outlook Stable

December 17, 2025

Primary Contact

Carolina Caballero
Buenos Aires
carolina.caballero
@spglobal.com

Secondary Contact

Joydeep Mukherji
New York
1-212-438-7351
joydeep.mukherji
@spglobal.com

Overview

- The track record of macroeconomic stability and pro-market policies has strengthened Paraguay's economic resilience and prospects for more consistent growth.
- Economic buoyancy will help achieve the government's conservative deficit targets and rebuild fiscal buffers.
- The rapid convergence of inflation expectations toward the central bank's recently reduced target highlights its growing credibility that, coupled with the expansion of domestic credit, will benefit the country's monetary flexibility.
- We raised our sovereign credit ratings on Paraguay to 'BBB-/A-3' from 'BB+/B'. We also revised upward the transfer and convertibility (T&C) assessment to 'BBB+' from 'BBB-'.
- The stable outlook incorporates our expectations of prudent fiscal policies that, coupled with economic growth, will gradually strengthen Paraguay's fiscal buffers.

Rating Action

SAO PAULO (S&P Global Ratings) Dec. 17, 2025--S&P Global Ratings raised the long-term foreign and local currency sovereign credit ratings on Paraguay to 'BBB-' from 'BB+'. The outlook is stable. At the same time, we raised our short-term foreign and local currency sovereign credit ratings to 'A-3' from 'B'. We also revised upward the T&C assessment to 'BBB+' from 'BBB-'.

Outlook

The stable outlook incorporates our view that strong private-sector investment will sustain economic dynamism for the next two years, which will continue to diversify Paraguay's economic base. Solid growth should support fiscal consolidation and help rebuild fiscal buffers, which took a hit from the pandemic and climate-related shocks. The outlook also incorporates our expectation that Paraguay will run moderate current account deficits (CADs) in the next two years, which should be gradually reversed once the import pressure eases after the completion of several large-scale investments.

Downside scenario

We could lower the ratings in the next 12-18 months if the sovereign's fiscal and external profile weakens. Large and consistent CADs that are not compensated by additional foreign direct investment (FDI), but stem from external debt or reduction of external assets would raise Paraguay's narrow net external debt and its vulnerability to unexpected shocks.

Upside scenario

We could upgrade Paraguay in the next two years if continued reforms lead to per capita economic growth that's higher than that of peers with similar level of development. Attracting greater investment and diversifying the economy would reduce Paraguay's vulnerability to volatile terms of trade and strengthen its external profile. At the same time, continued efforts to reduce the sovereign's exposure to foreign-currency debt would improve public finances and the debt profile.

Rationale

The upgrade reflects Paraguay's recent history of sound economic policies, which have led to strong economic growth, and monetary and fiscal flexibility. Political consensus on these policies and on the importance of private investment for Paraguay's economic development has resulted in effective governance, as seen in recent resilience to significant external challenges. Stable policies are increasing investor confidence, and substantial FDI should improve the country's medium-term economic outlook, diversify the economy, and broaden the export base, further bolstering resilience to external shocks. Strong growth, alongside Paraguay's commitment to maintaining low fiscal deficits, will stabilize the general government (GG) debt following the increase during the pandemic. In our view, the recovery of fiscal buffers, combined with the central bank's increasing policy credibility, will enhance policy flexibility.

Institutional and economic profile: Growth prospects remain solid and should support government capacity to deliver on its reform agenda.

- We have revised upward our GDP growth forecast to 5.4% for this year, as strong domestic demand more than compensates for weaknesses in the export sector.
- Robust investment should sustain economic dynamism during the forecast period, and we project GDP will expand by 4% in 2026 and 2027.
- Fiscal prudence has been an anchor to macroeconomic stability; however, institutions are still evolving, and the implementation of the government's large reform agenda could face challenges.

Strong private investment and consumption should power growth at around 4% in the next two years, following an average of 3.9% for 2022-2025, making Paraguay one of the most dynamic economies in Latin America. We expect GDP per capita to rise to $9,000 in 2027, from less than $7,000 in 2024. Paraguay's economic potential stems from its vast natural resources and abundant clean energy. While FDI has remained below the levels of Latin American peers during the past decade, investment appetite has been growing in recent years, encouraged by Paraguay's track record of stable macroeconomic conditions and business-friendly policies.

We project investment to grow 17% in 2025 and reach 27% of GDP in 2026-2028, compared with the average of 24% of GDP in 2022-2024, thanks to a pipeline of projects in maquiladoras, construction, forestry, energy, and services sectors. Growth forecasts remain subject to weather conditions and swings in commodity prices, as agriculture and hydroelectric energy remain key economic pillars. Nevertheless, services and manufacturing sectors have grown as a share of GDP, as domestic demand has strengthened.

At the same time, Paraguay has continued to diversify its economic ties, reducing its vulnerabilities to the poor economic performance of its neighbors. The correlation of Paraguay's economic cycles with that of Brazil and Argentina has declined, as has the volatility of its GDP growth. Moreover, its GDP growth could exceed our forecasts, depending on the pace of implementation of large-scale projects like the construction of a large pulp mill, which we have only partially incorporated in our forecasts. The development of the Paracel pulp mill alone is slated to generate investment equivalent to 9% of GDP in 2026-2028, bolstering economic growth, diversification, and exports, and supporting investor confidence for additional large-scale projects.

Extending growth momentum over the medium to long term hinges on progress in the reform agenda. During the past decade, the government has made progress in improving the country's transportation and logistics infrastructure, coupled with reforms to bolster credibility of economic institutions. However, the shallow domestic capital market, still evolving sector regulations, and large informal economy could slow projects' completion.

The long-governing Colorado party's strong presence in Congress ensures political and policy stability. Congress has had a constructive working relation with President Santiago Peña, who has pursued an aggressive reform agenda to modernize governance, improve social programs, and attract private investment since he took office in 2023. The government created a supervisory and regulatory system for public-sector pensions, strengthened the revenue collection agency, and widened the scope of the Ministry of Economy to boost its effectiveness. The introduction of a wide range of reforms is likely to gradually improve administrative capacity and governance over the coming years.

Flexibility and performance profile: Consistent growth will help rebuild fiscal buffers, while monetary flexibility continues to strengthen.

- The government's conservative fiscal strategy will reduce GG deficits to the 1.5% target by 2026 and 2027, and net debt burden will fall to 25% of GDP by 2028, although debt metrics remain vulnerable to exchange-rate movements.
- Higher imports stemming from higher foreign and domestic investment will result in modest CADs through 2027, but external debt burden should remain stable.
- The domestic financial system has been growing, and efforts to deepen Paraguay's capital markets would strengthen monetary policy flexibility.

Strong domestic demand will increase import demand and keep CAD at around 3% of GDP for the next two-three years, similar to the 2023-2025 levels. However, CAD is likely to be financed mostly by FDI, which we expect to grow to 2% of GDP, still below that of other Latin American countries, but a significant increase from recent levels. Narrow net external debt should remain stable at around 45% of GDP in the next two years. Current and future investment will focus on export-oriented sectors, including pulp and paper, ammonia, agro-industry, and manufacturing, which should foster favorable export prospects and reduce import pressure over the medium term.

As a small, open economy, Paraguay remains vulnerable to external volatility. While the agricultural sector's success during the past decade has reduced reliance on energy exports, the country still depends significantly on commodity exports. Nearly one quarter of exports is linked to the soy production chain, and fluctuations in commodity prices and weather conditions have historically affected current account receipts (CARs) as a percentage of GDP.

Paraguay's flexible exchange rate has helped absorb external shocks and to gradually strengthen the country's economic resilience. International reserves currently represent 22% of GDP, and the central bank occasionally intervenes in the foreign exchange market to reduce volatility without targeting a specific exchange rate. Monetary policy effectiveness has strengthened in the past decade. The central bank officially adopted an inflation-targeting regime in 2011 and has progressively lowered its target from 5% plus or minus 2.5%, to 3.5% plus or minus 2% at the end of 2024. Both inflation and inflation expectations have responded accordingly, indicating improved effectiveness. While the recent appreciation of the guarani may have contributed to this convergence, the impact of the high exchange-rate volatility on domestic prices in the past has lessened.

Paraguay is likely to progress over the coming years in establishing the legal and regulatory framework for deeper financial markets, thereby improving the effectiveness of monetary policy and facilitating greater reliance on domestic currency debt sold to domestic investors. Domestic credit penetration has been accelerating during the past decade, likely rising to 56% of GDP by 2026 from 46% in 2019, while asset quality metrics have remained stable. Domestic capital markets are shallower than those of Brazil or Colombia. However, the recently approved legislation like the creation of the superintendency of public-sector pensions should enhance the domestic financial market.

The government's commitment to maintaining fiscal deficits in line with its fiscal rule should gradual decrease the government debt. We project 2026 to be the first year of compliance with the long-term deficit target of 1.5% of GDP, after the government used some fiscal space in previous years to mitigate the economic impact of the pandemic and drought. Strong economic growth will support fiscal consolidation, but steps taken to improve tax compliance have also increased revenues, nearly doubling the number of taxpayers. We expect the tax-to-GDP ratio to rise to 11.8% in the next two years from 10% in 2023. Greater formalization of the economy through increased private investment should reinforce this trend, although increases may be more modest.

Political commitment to keeping government spending low will likely result in stable GG spending (as a share of GDP). However, Paraguay faces medium-term pressure to spend more on the public-sector pension system, “Caja Fiscal,” deficit in which could grow from 0.5% of GDP to 1.5% in the next three years. The administration is working on pension reform to address this pressure. Furthermore, economic development will require more spending on infrastructure. Paraguay's revised public-private partnership law may encourage private-sector investment in infrastructure and alleviate some of this spending pressure, but recent experience in the country and the region shows that implementation may be difficult.

The average annual increase in net GG debt is likely to be 2.5% of GDP between 2026 and 2028, slightly exceeding fiscal deficit. This is because over 80% of the government's debt is in U.S. dollars, which increases the debt due to any depreciation of the Paraguayan currency. The administration aims to gradually diversify the currency composition of new borrowings. Given the still limited scale of domestic markets, we expect Paraguay to supplement small local market issuances with cross-border guarani-denominated bonds, as it has done in the past two years. Nevertheless, exchange-rate dynamics have helped reduce debt this year, and net debt will likely decrease to 23% of GDP by year-end from 26% in 2024. We anticipate debt will then stabilize at around 25% of GDP, a level below most Latin American countries but higher than before the pandemic.

Paraguay--Selected Indicators

	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Economic indicators (%)										
Nominal GDP (tril. PYG)	236.7	239.9	270.5	292.2	314.4	338.2	370.8	399.9	430.4	461.1
Nominal GDP (bil. $)	37.9	35.4	39.9	41.8	43.1	44.7	49.1	55.4	57.6	59.6
GDP per capita (000s $)	6.2	5.7	6.4	6.7	6.8	7.0	7.7	8.6	8.9	9.1
Real GDP growth	(0.4)	(0.8)	4.0	(0.0)	5.3	4.7	5.4	4.0	4.0	3.5
Real GDP per capita growth	(1.4)	(1.8)	3.2	(0.6)	4.6	3.9	4.7	3.3	3.3	2.9
Real investment growth	(6.1)	5.3	18.3	(1.8)	(2.8)	9.6	17.0	13.0	7.0	(4.0)
Investment/GDP	21.7	20.0	24.0	27.8	20.3	23.1	25.3	27.2	28.6	27.3
Savings/GDP	21.2	22.0	23.0	20.8	20.0	19.8	21.3	24.2	26.2	26.2
Exports/GDP	36.1	33.3	35.5	34.4	42.3	37.7	36.5	36.3	35.9	35.7
Real exports growth	(3.4)	(9.0)	2.0	(1.1)	31.2	(1.5)	2.0	3.5	3.0	2.7
Unemployment rate	5.7	7.2	6.8	5.8	5.2	4.6	5.7	5.7	5.7	5.7
External indicators (%)										
Current account balance/GDP	(0.5)	1.9	(1.0)	(7.0)	(0.2)	(3.3)	(4.0)	(3.0)	(2.4)	(1.1)
Current account balance/CARs	(1.3)	5.3	(2.6)	(18.5)	(0.5)	(7.9)	(9.7)	(7.4)	(5.9)	(2.7)
CARs/GDP	40.2	36.9	39.0	37.7	45.9	42.4	41.3	40.8	40.4	40.1
Trade balance/GDP	0.6	3.5	1.6	(4.4)	1.8	(2.2)	(3.4)	(2.8)	(2.0)	(0.8)
Net FDI/GDP	0.6	0.7	0.5	1.9	0.8	0.8	1.5	2.0	2.3	0.9
Net portfolio equity inflow/GDP	1.4	6.1	0.3	0.2	0.5	1.9	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	81.3	75.5	74.8	86.4	80.6	85.7	91.9	92.1	92.3	88.4
Narrow net external debt/CARs	12.3	19.9	26.8	41.8	38.1	51.4	50.4	46.8	45.4	44.2
Narrow net external debt/CAPs	12.1	21.0	26.2	35.3	37.9	47.6	46.0	43.5	42.9	43.0
Net external liabilities/CARs	72.2	80.0	72.2	86.7	72.6	85.3	89.5	88.0	91.1	89.2
Net external liabilities/CAPs	71.2	84.4	70.3	73.1	72.2	79.1	81.6	82.0	86.1	86.8
Short-term external debt by remaining maturity/CARs	16.6	19.2	13.8	13.7	14.6	16.8	20.2	20.9	21.5	18.4
Usable reserves/CAPs (months)	5.3	6.4	6.5	5.4	5.1	5.1	4.5	4.4	4.3	4.3

Paraguay--Selected Indicators

Usable reserves (Mil. $)	6,648.9	8,667.7	8,364.5	8,469.4	8,629.8	8,373.5	8,864.6	8,864.6	8,864.6	8,864.6
Fiscal indicators (general government %)										
Balance/GDP	(2.5)	(5.7)	(3.4)	(2.7)	(3.8)	(2.1)	(1.9)	(1.5)	(1.5)	(1.7)
Change in net debt/GDP	3.0	8.0	3.2	5.8	2.4	4.9	(0.9)	2.4	2.4	2.6
Primary balance/GDP	(1.7)	(4.7)	(2.3)	(1.4)	(2.2)	(0.2)	0.1	0.3	0.3	0.1
Revenue/GDP	17.7	16.9	17.1	17.6	17.7	18.7	18.3	18.8	18.8	18.9
Expenditures/GDP	20.2	22.6	20.5	20.2	21.5	20.9	20.2	20.3	20.3	20.6
Interest/revenues	4.7	6.3	6.4	7.0	9.4	10.5	10.8	9.4	9.4	9.3
Debt/GDP	19.2	29.3	29.4	32.4	32.9	36.4	32.3	32.4	32.5	32.9
Debt/revenues	108.4	173.3	172.4	184.2	186.4	194.1	176.4	172.0	172.6	173.6
Net debt/GDP	8.2	16.1	17.5	22.0	22.8	26.1	22.9	23.6	24.3	25.3
Liquid assets/GDP	11.0	13.2	11.9	10.4	10.1	10.3	9.4	8.7	8.1	7.6
Monetary indicators (%)										
CPI growth	2.8	1.7	4.8	9.8	4.7	3.8	4.0	3.7	3.5	3.5
GDP deflator growth	3.1	2.2	8.4	8.0	2.2	2.8	4.0	3.7	3.5	3.5
Exchange rate, year-end (PYG/$)	6,453.1	6,916.8	6,879.1	7,331.3	7,273.6	7,827.8	7,100.0	7,348.5	7,605.7	7,871.9
Banks' claims on resident non-gov't sector growth	9.6	8.1	10.6	11.6	9.6	17.3	12.0	10.0	10.0	9.0
Banks' claims on resident non-gov't sector/GDP	45.9	48.9	47.9	49.5	50.4	55.0	56.2	57.3	58.6	59.6
Foreign currency share of claims by banks on residents	39.5	36.5	36.3	39.4	39.8	40.7	39	39	39	39.00
Foreign currency share of residents' bank deposits	42.6	43.8	44.1	44.1	44.3	44.2	44.23	44.23	44.23	44.23
Real effective exchange rate growth	(3.0)	(1.3)	(1.0)	1.9	(3.0)	0.4	0	0	0	0

Sources: National Central Bank, National Statistical Institute (Economic Indicators), International Monetary Fund, National Central Bank, National Ministry of Finance (External Indicators), International Monetary Fund, National Central Bank, National Ministry of Finance (Fiscal Indicators), and International Monetary Fund, National Central Bank (Monetary Indicators).

Adjustments: General government revenues adjusted by including incomes from National Central Bank. General government expenditures adjusted by including expenditures from National Central Bank. General government debt adjusted by including debt of National Central Bank. General government liquid financial assets adjusted by including assets of National Central Bank.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. PYG--Paraguayan guarani. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Country--Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	4	Long-standing commitment to macroeconomic stability and fiscal prudency, which have been key at promoting balanced growth. We perceive higher level of policy predictability. Checks and balances have been gradually improving. Political tensions are less likely than before to constrain overall policy implementation and effectiveness.
Economic assessment	4	Based on GDP per capita ($) as per Selected Indicators in Table 1.
External assessment	3	Based on narrow net external debt and gross external financing needs/(CAR +useable reserves) as per Selected Indicators in Table 1. The country is exposed to significant volatility in terms of trade, due to its dependence on agricultural exports.
Fiscal assessment: flexibility and performance	2	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	3	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1. Over 50% of gross government debt is denominated in foreign currency. Nonresidents are estimated to hold over 60% of government commercial debt.
Monetary assessment	3	The Guaraní exchange rate regime is floating and the central bank intervenes only occasionally in foreign exchange markets. The central bank has operational independence and uses market-based instruments monetary instruments. CPI as per Selected Indicators in Table 1. The central bank has the ability to act as lender of last resort for the financial system. Depository corporation claims on residents in local currency and nonsovereign local currency bond market capitalization combined amount likely to reach 50% of GDP in the next years.
Indicative rating	bbb-	
Notches of supplemental adjustments and flexibility	0	
Final rating	BBB-	
Foreign currency	BBB-	
Notches of uplift		Default risks do not apply differently to foreign and local currency debt
Local currency	BBB-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see "Related Criteria"). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Rating Component Scores above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see "Related Criteria").

Ratings List

Ratings List		
Upgraded; Outlook Action		
	To	**From**
Paraguay		
Sovereign Credit Rating	BBB-/Stable/A-3	BB+/Positive/B
Upgraded		
	To	**From**
Paraguay		
Transfer & Convertibility Assessment	BBB+	BBB-
Senior Unsecured	BBB-	BB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.