

CREDIT OPINION

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Update



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Government of Paraguay – Baa3 stable

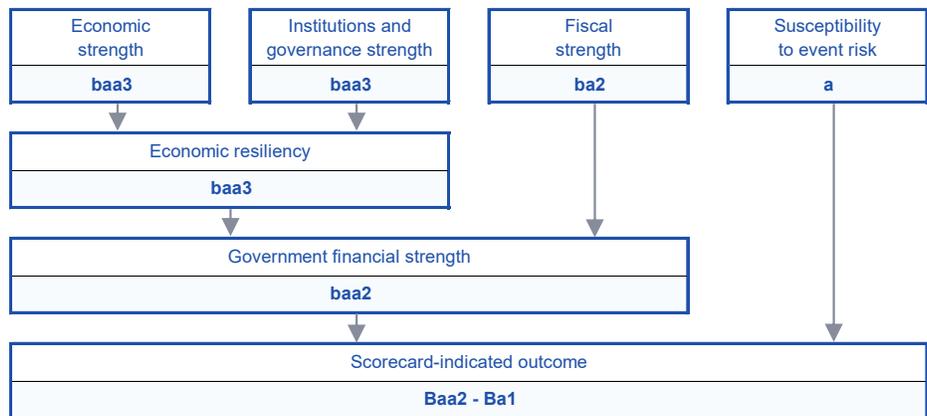
Regular update

Summary

Paraguay's credit quality reflects a low government debt burden in both absolute and relative terms, underpinned by prudent fiscal management. Robust GDP growth and continued efforts to diversify the economy support fiscal resilience and mitigate exposure to external shocks. However, governance indicators remain weak despite gradual improvements. A narrow revenue base limits fiscal flexibility and the economy remains dependent on the agriculture sector, which is vulnerable to climate-related shocks.

Exhibit 1

Paraguay's credit profile is determined by four factors



Source: Moody's Ratings

Credit strengths

- » Low government debt burden in absolute and relative terms
- » Robust GDP growth and ongoing economic diversification
- » Compliance with fiscal targets, supporting a stable debt burden

Credit challenges

- » Large share of agriculture in the economy subject to climate shocks
- » Relatively low, but improving, government revenue collection compared with that of peers
- » Relatively weak governance indicators

Rating outlook

The stable outlook reflects our expectation that economic growth will remain robust, driven by public and private investment in key infrastructure projects that help mitigate risks related to Paraguay's exposure to commodity prices and climate-related shocks. We also expect the government to preserve Paraguay's fiscal strength, while efforts to reduce the share of foreign-currency debt will help reduce exposure to exchange rate risk. Nonetheless, most of the government debt will likely remain in foreign currency for the foreseeable future.

Factors that could lead to an upgrade

We could upgrade Paraguay's sovereign rating if the government's implementation of structural reforms continues to enhance the country's institutional and governance framework, and efforts to raise government revenue and reduce the share of foreign-currency debt are likely to yield significant credit benefits, improving Paraguay's fiscal strength and overall credit quality. Successful efforts to increase private investment in the country's infrastructure and renewable energy sectors and reduce vulnerability to shocks would also contribute to a higher rating.

Factors that could lead to a downgrade

We could downgrade Paraguay's rating if efforts to modernize the economy and increase resilience seem increasingly likely to fall short of our expectations, thereby weighing on economic strength. A prolonged period of weaker private investment or economic growth is likely to change our assessment of Paraguay's credit quality. At the same time, we could downgrade the rating if efforts to maintain and improve the country's fiscal strength prove insufficient, leading to higher debt or a rising interest burden. Stalling on institutional improvements or a derail in the implementation of the structural reform agenda could also add negative pressure to the credit profile.

Key indicators

Exhibit 2

Paraguay	2020	2021	2022	2023	2024	2025F	2026F	2027F
Real GDP (% change)	-0.8	4.0	0.0	5.3	4.7	5.8	4.0	3.5
Inflation rate (% change average)	1.8	4.8	9.8	4.6	3.8	4.0	3.5	3.5
Gen. gov. financial balance/GDP (%) [1]	-6.1	-3.6	-2.9	-4.1	-2.5	-2.0	-1.5	-1.5
Gen. gov. primary balance/GDP (%) [1]	-5.1	-2.5	-1.7	-2.4	-0.6	-0.1	0.3	0.3
Gen. gov. debt/GDP (%) [1]	35.2	34.7	37.8	38.3	41.9	41.4	41.1	40.8
Gen. gov. debt/revenues (%) [1]	260.0	252.7	268.4	274.2	278.2	289.5	283.4	279.5
Gen. gov. interest payment/revenues (%) [1]	7.9	8.0	8.8	11.9	13.0	13.0	12.5	12.6
Current account balance/GDP (%)	2.4	-0.6	-6.5	0.1	-3.4	-2.3	-2.2	-1.7
External debt/CA receipts (%) [2]	149.0	131.3	123.6	108.2	107.1	118.3	104.1	102.3
External vulnerability indicator (EVI) [3] [4]	41.3	31.3	36.0	33.8	36.2	68.8	61.3	68.9

[1] Public sector.

[2] Current account receipts.

[3] (Short-term external debt + currently maturing long-term external debt + total nonresident deposits over one year)/official foreign-exchange reserves.

[4] Excludes total nonresident deposits over one year.

Source: Moody's Ratings

Detailed credit considerations

We set Paraguay's **economic strength** score at "baa3" to reflect strong real GDP growth, along with increased diversification of the economy, balanced against the country's small economy and low wealth levels compared with those of peers.

Paraguay's nominal GDP of around \$45 billion in 2024 and GDP per capita (on a purchasing power parity basis) of \$18,665 in 2024 are both well below the Baa median of \$256 billion and \$35,372, respectively. Between 2010 and 2019, Paraguay's economy expanded at an average annual rate of 4.3% in real terms, above the average growth rate of 3.9% for the Baa median. Paraguay's economy contracted by only 0.8% in 2020, marking the least severe contraction among Latin American economies, and recovered in 2021 with

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about 4% growth. In 2022, Paraguay's economy stagnated, growing 0.0% in real terms as severe drought conditions hampered soy and grain production and the hydropower sector. The economy rebounded in 2023, growing 5.3% and then 4.7% in 2024. We expect continued robust economic growth of about 4.9% over 2025-26.

Although climate-related shocks and the agriculture sector's significant contribution to output have historically resulted in some economic volatility, the ongoing positive developments in economic diversification — particularly associated with the government's efforts to increase the value-added of agricultural exports, expand light manufacturing and upgrade infrastructure through public investment — indicate a reduction in the volatility of economic output.

We set the score for **institutions and governance strength** at "baa3" to reflect Paraguay's improving institutional framework and somewhat weak governance indicators. Our assessment incorporates the Worldwide Governance Indicator scores for Paraguay (specifically, government effectiveness, rule of law and control of corruption), which are consistently at or below the 25th percentile of sovereigns that we rate and are weaker than the median for its Baa-rated peers.

Nevertheless, Paraguay's institutional and policy frameworks have improved with the passage of several laws, including the Fiscal Responsibility Law (FRL), the Law to Modernize the State's Financial Administration, the Public-Private Partnership Law and the recently passed law regarding the superintendency of pensions. Other institutional reforms relate to the public procurement system, civil service and social security system. In addition, the government's track record of sound fiscal management indicates a higher degree of government effectiveness than that suggested by the country's governance indicators alone.

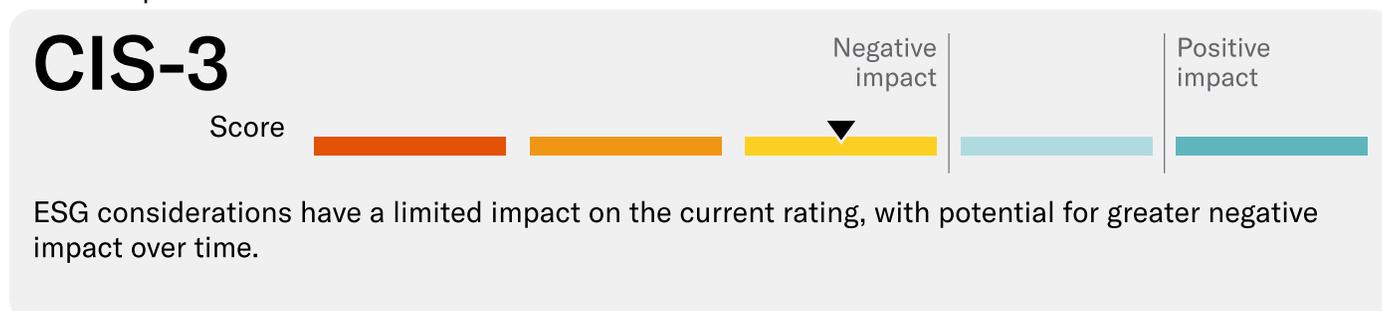
Our assessment of a "ba2" **fiscal strength** score reflects the country's favorable debt metrics compared with those of peers in the Baa category. Debt burden about 42% of GDP in 2024, and we expect it to remain around that level over 2025-26. Paraguay's debt-to-GDP ratio remains below the median of 55% for Baa-rated sovereigns. The country's debt affordability, measured as interest payments/revenue, weakened in 2024, with interest payments at around 13%, up from 11.9% in 2023, and above the median for Baa-rated sovereigns of around 8.7% for 2024.

The **susceptibility to event risk** score is set at "a," driven by our "a" score for political risk, which reflects our expectation that political events will not substantially affect the sovereign's credit metrics, leading to significant changes in economic policies, or impairing the government's willingness or ability to service debt. Our government liquidity risk score of "a" reflects a track record of narrow government deficits and low gross borrowing requirements. The banking sector risk score of "a" reflects the relatively small size of the banking sector, with banking sector assets at around 72% of GDP in 2024, and Paraguayan banks' persistently high liquidity ratios, loan loss reserves and capitalization ratios. Finally, our external vulnerability risk score of "a" reflects Paraguay's low debt burden, adequate reserve buffer and flexible exchange rate. Despite the relatively high financial dollarization in Paraguay, we do not see significant vulnerability to external shocks because of borrowers' natural hedge in foreign-currency earnings.

ESG considerations

Paraguay's ESG credit impact score is CIS-3

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Paraguay's ESG Credit Impact Score (**CIS-3**) reflects effective macroeconomic and fiscal policies, and moderately strong governance profile. Social risks are driven by shortcomings in education and labor productivity and some deficiency in access to basic services. Exposure to environmental risks is driven by climate shocks and reliance on agriculture. Strong fiscal metrics and economic diversification mitigate these risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Paraguay's exposure to environmental risks (**E-3** issuer profile score) reflects the recurrence of droughts and flooding, which impacts the agriculture sector and hydro-electric generation. Paraguay also benefits from its position as a producer and exporter of clean energy with limited reliance on hydrocarbon.

Social

Paraguay's exposure to social risks (**S-3** issuer profile score) reflects positive demographic trends and rising income levels, but relatively weak educational outcomes which weakens economic and labor force competitiveness.

Governance

The influence of governance on Paraguay's credit profile (**G-2** issuer profile score) reflects improving institutional and governance strength, moderate policy effectiveness, political stability, and a track record of sound macroeconomic and fiscal policies.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Recent developments

Strong growth continues in Q3 2025; forecasts revised up on broad-based expansion across sectors

Paraguay's real GDP growth is projected at 5.8% in 2025 and 4% in 2026, supported by robust private consumption, investment and exports. This sustained expansion, alongside large-scale foreign direct investment projects in forestry and manufacturing, will support Paraguay's strong medium-term growth prospects.

Real GDP increased 6.6% year over year in the third quarter of 2025, compared with a 3.6% year-over-year increase in Q3 2024, with gains in services (6.9%), manufacturing (7.4%), electricity and water (8.3%), and agriculture (9.5%). On the demand side, the drivers are private consumption (5.1%), gross fixed capital formation (13.1%) and exports (10.7%). High-frequency indicators confirm the strength: the Monthly Economic Activity Indicator of Paraguay (IMAEP) rose 4.0% in November year over year after strong growth of 6.4% and 7.1% year over year in October and September, respectively. Consumer confidence also climbed to 52.6 in November from 48.3 in October.

The external position is improving as exports rebounded 10.7% year over year in Q3 2025 and imports rose more moderately on investment demand, narrowing the trade deficit to \$1.0 billion from \$1.2 billion a year earlier. We expect the current account deficit to decline to 2.3% of GDP in 2025 and 2.2% in 2026, aided by stronger electricity and soy-complex exports.

Policy rate held at 6% amid easing inflation and anchored expectations

On 22 December 2025, the Monetary Policy Committee of the Central Bank of Paraguay unanimously voted to maintain its monetary policy rate at 6%. The last change in the policy rate occurred in March 2024, when the committee lowered it to 6.00% from 6.25%; since then, the central bank has maintained the rate, marking a prolonged period of hold.

Headline inflation eased to 3.1% year over year in December from 4.1% in November. Notably, food price pressures receded, with beef inflation down to 12.6% year over year in December from 25.3% in September. In the latest central bank poll of economic participants from December, inflation expectations for the next 12 months were unchanged from the prior month at 3.7%, while expectations for the monetary policy horizon (next 24 months) remained aligned with the 3.5% target. The central bank's decision reflects a balancing act: the evidence of broad-based expansion and demand pressures argues for attentiveness to opportunities, but the deceleration in prices and credible anchoring of expectations allow for a pause.

Deficit contained as revenue rises; pension reform in progress

As of year end 2025, the accumulated deficit was 2% of GDP, along with a near-balanced primary budget result of negative 0.1%. Total revenue increased about 4.5%, largely because of higher tax receipts and despite a decline in income from binational transfers. Total expenditure growth has been contained at 3.4%. These results were broadly in line with the 2025 fiscal deficit target of 1.9% of GDP. Ultimately, we expect convergence with the FRL target of a fiscal deficit of 1.5% of GDP by 2026, supported by a combination of continued revenue gains from existing tax administration measures and expenditure restraint on salaries. The authorities continue to make progress on pension reform to buttress the pension system's solvency and support the fiscal consolidation path.

Rating methodology and scorecard factors: Paraguay – Baa3 stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength						
Growth dynamics	Average real GDP growth (%)	2020-2029F	3.3	a3		25%
	MAD Volatility in Real GDP Growth (%)	2015-2024	1.1	baa3		10%
Scale of the economy	Nominal GDP (\$ billion)	2024	44.7	ba3		30%
National income	GDP per capita (PPP, Int\$)	2024	18,664.7	baa2		35%
Adjustment to factor 1	# notches				0	max ±9
Factor 2: Institutions and governance strength						
Quality of institutions	Quality of legislative and executive institutions			ba		20%
	Strength of civil society and the judiciary			ba		20%
Policy effectiveness	Fiscal policy effectiveness			baa		30%
	Monetary and macroeconomic policy effectiveness			baa		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	# notches				0	max ±3
F1 x F2: Economic resiliency						
Factor 3: Fiscal strength						
Debt burden	General government debt/GDP (%)	2024	41.9	a2		25%
	General government debt/revenue (%)	2024	278.2	ba2		25%
Debt affordability	General government interest payments/revenue (%)	2024	13.0	ba1		25%
	General government interest payments/GDP (%)	2024	2.0	a1		25%
Specified adjustments	Total of specified adjustment (# notches)			-3	-3	max ±6
	Debt Trend - Historical Change in Debt Burden	2016-2024	24.1	0	0	
	Debt Trend - Expected Change in Debt Burden	2024-2026F	-0.8	0	0	
	General Government Foreign Currency Debt/ GDP	2024	36.4	-3	-3	
	Other non-financial public sector debt/GDP	2024	4.3	0	0	
	Government Financial Assets including Sovereign Wealth Funds / GDP	2024	2.9	0	0	
	Other adjustment to factor 3	# notches				0
F1 x F2 x F3: Government financial strength						
Factor 4: Susceptibility to event risk						
Political risk	Domestic political risk and geopolitical risk			a	a	Min
				a	a	
Government liquidity risk	Ease of access to funding			a	a	
				a	a	
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk	Risk of banking sector credit event (BSCE)	Latest available	ba1	ba1-ba2		
	Total domestic bank assets/GDP	2024	71.8	<80		
Adjustment to F4 BSR	# notches				0	max ±2
External vulnerability risk	External vulnerability risk			a	a	
				a	a	
Adjustment to F4 EVR	# notches				0	max ±2
Overall adjustment to F4	# notches				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome						
				Baa2 - Ba1	Baa2 - Ba1	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) Initial factor score: scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. **(2) Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. **(3) Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. **(4) There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca **(5) Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

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