MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms Paraguay's Baa3 ratings, maintains stable outlook

17 Jul 2026

New York, July 17, 2026 -- Moody's Ratings (Moody's) has today affirmed the Government of Paraguay's (Paraguay) Baa3 long-term local- and foreign-currency issuer and senior unsecured bond ratings. The outlook is stable. We have also affirmed the Baa3 senior secured notes rating of Bioceanico Sovereign Certificate Limited (Bioceanico), a government-related entity and maintained the stable outlook. The principal remaining credit risk related to Bioceanico arises from the credit quality of the Government of Paraguay, that is ultimately responsible for making the payments on the notes that the entity acquired.

The affirmation of Paraguay's Baa3 ratings reflects its solid trend growth supported by sizeable capital investment, a relatively low and stable government debt burden, and ongoing adherence to a medium-term fiscal responsibility framework. Credible monetary policy with an established track record of maintaining price and external stability adds further support to the credit profile, along with a track record of political stability. As a result, overall susceptibility to event risks is low. These strengths are balanced against a narrow government revenue base that limits fiscal flexibility and weighs on debt affordability, despite a relatively low debt burden. Meanwhile, a high share of foreign-currency denominated debt increases exposure to exchange-rate shocks. Institutional strength remains below that of Baa-rated peers, and the economy's reliance on agriculture and hydroelectric generation exposes growth to climate-related volatility.

The stable outlook reflects our assessment that risks are balanced. Increasing economic diversification beyond agriculture, ongoing capital investment, and effective fiscal and monetary policymaking offer resilience to potential shocks, although downside risks remain, including those related to reliance on agriculture and hydroelectric generation. On the upside, improvement in the strength of institutions, particularly related to anti-corruption and the rule of law could be more significant than we currently expect.

Paraguay's local-currency and foreign-currency country ceilings remain unchanged. The local-currency country ceiling is positioned at A2, four notches above the sovereign rating, reflecting the economy's robust growth, sound macroeconomic fundamentals, resiliency to shocks, limited government intervention in the economy, political stability, and improving institutional framework. The foreign-currency country ceiling is positioned one notch below the local-currency ceiling at A3, reflecting moderate external indebtedness, an open capital account and floating exchange rate, along with moderate policy effectiveness which together reduce convertibility risks.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF THE Baa3 RATINGS

STRONG GROWTH, INCREASING DIVERSIFICATION AND LOW SUSCEPTIBILITY TO EVENT RISK SUPPORT CREDIT RESILIENCE

Paraguay's growth performance remains a core support to the rating. Real GDP grew by 6.6% in 2025 and has averaged 3.2% per year over the past decade. We expect growth of around 4.5% in 2026 before moderating toward 3.5% in 2027 as the economy converges to its medium-term potential.

We expect continued public infrastructure investment, including the near-complete Bioceanic Corridor linking Paraguay to Atlantic and Pacific ports, together with large private sector project investments like

Paracel and Atome, to support higher-value-added activity, greater economic diversification, and gradual income convergence. After a decade of strong growth, GDP per capita on a purchasing-power-parity basis has increased to about $21,931 in 2025 from $13,912 in 2016, and is now effectively in line with the Latin America and Caribbean median of $22,543, but still below that of Baa3-rated peers at $33,491. Nonetheless, the economy's scale remains modest with nominal GDP of $49.7 billion in 2025, exposing it to recurrent climate shocks that affect both agricultural output and hydroelectric generation.

Paraguay's growth dynamic is further supported by monetary policy that has an established track record of effectively maintaining price stability and anchoring inflation expectations through its inflation targeting regime. This, along with a flexible exchange rate and prudent fiscal policymaking, underpins the country's macroeconomic stability. The sovereign credit profile is also supported by an overall low susceptibility to event risk, which reflects a stable political environment that fosters relatively low domestic and geopolitical risk, low external vulnerabilities, and limited government liquidity and banking sector risk.

LOW DEBT BURDEN AND FISCAL DISCIPLINE BALANCE A NARROW REVENUE BASE AND HIGH FOREIGN-CURRENCY DENOMINATED DEBT

Paraguay's relatively low and stable government debt burden is a key credit strength. Under our baseline scenario, we expect the fiscal deficit to remain around 2% of GDP through 2028, before narrowing toward the government's medium-term target of 1.5% of GDP. This scenario is consistent with Paraguay's debt burden remaining broadly stable at around 40% of GDP. General government debt stood at around 42% of GDP in 2025, well below the Baa3-rated median of around 59%.

Despite a relatively low debt burden, Paraguay's fiscal strength is constrained by a narrow revenue base with government revenue of just 14.3% of GDP in 2025. A narrow revenue base limits fiscal flexibility and contributes to weaker debt affordability metrics. Paraguay's interest-to-revenue ratio at 13.1% in 2025, is above the Baa3-rated median of 11.8%. Meanwhile, a high share of foreign-currency debt - over 80% of total debt in 2025 - leaves the fiscal position exposed to exchange-rate movements.

INSTITUTIONAL REFORMS ARE ADVANCING, BUT PUBLIC FINANCIAL MANAGEMENT WEAKNESSES PERSIST

Institutional strength remains weaker than that of similarly rated peers and continues to constrain the rating. While reforms are gradually improving policy effectiveness, institutional capacity limitations and implementation challenges persist, as highlighted by the recently announced fiscal arrears.

Although the recognition of fiscal arrears in early 2026, totaling around 2.1% of GDP, underscores institutional weaknesses in public financial management, we expect that the government will fully clear domestic arrears as planned by 2028 and that it will prevent the re-emergence of future arrears by improving the alignment between the annual government budget and cash-flow planning, while also strengthening expenditure oversight and controls.

Nevertheless, Paraguay's institutional and policy frameworks have improved in recent years 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, the creation of the Superintendency of Pensions and Retirement Funds, and the 2026 Caja Fiscal pension reform.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our assessment that risks to the Baa3 rating are balanced. As public and private investment continue to deepen and broaden economic activity, economic diversification beyond agriculture, along with effective fiscal and monetary policymaking, will offer resilience to future shocks. Nonetheless, downside risks remain including reliance on agriculture and hydroelectric generation that expose the economy to climate risks.

We expect the strengthening of institutions and governance, particularly related to anti-corruption and the rule of law, to be gradual over the outlook horizon, resulting in more limited improvements in institutional effectiveness and a continuing lag in governance indicators relative to other Baa-rated sovereigns.

However, on the upside, improvement in the strength of institutions, particularly related to anti-corruption and the rule of law, could be more significant than we currently expect.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CONSIDERATIONS

Paraguay's ESG Credit Impact Score of 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.

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

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

Paraguay's G-2 governance issuer profile score reflects a demonstrated track record of monetary, macroeconomic and fiscal policy effectiveness that is supported by a stable political environment. The country's institutional strength is more moderate, reflecting generally weaker control of corruption and rule of law indicators than similarly rated peers.

GDP per capita (PPP basis, US$): 21,930 (2025) (also known as Per Capita Income)

Real GDP growth (% change): 6.6% (2025) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 3.1% (2025)

Gen. Gov. Financial Balance/GDP: -1.7% (2025) (also known as Fiscal Balance)

Current Account Balance/GDP: -2.5% (2025) (also known as External Balance)

External debt/GDP: 51.8% (2025)

Economic resiliency: baa3

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 14 July 2026 a rating committee was called to discuss the rating of the Paraguay, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We could upgrade Paraguay's rating if sustained reforms materially strengthen the country's institutions and governance framework. A durable increase in government revenue and a reduction in foreign-currency debt that improves debt affordability and fiscal flexibility would also support an upgrade. Higher private investment that raises long-term growth potential and reduces the economy's vulnerability to shocks would further strengthen the credit profile.

We could downgrade Paraguay's rating if a prolonged weakening in private investment and economic growth reduced the economy's resilience. A sustained deterioration in fiscal performance that increases government debt or weakens debt affordability, including through a renewed accumulation of government arrears, would also exert downward pressure. Weaker institutional effectiveness, including stalled reforms or persistent deficiencies in public financial management, could also lead to a downgrade.

The principal methodology used in these ratings was Sovereigns published in May 2026 and available at https://ratings.moodys.com/rmc-documents/466021. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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