

Regional Perspective of Sovereign Risk Rating

Risk Rating Agencies determine issuances of debt representative instruments and securities' issuers such as countries, corporations, private or public entities, among others in order to establish risk ratings that such instrument represents for the investor, and they may be risk ratings having investment grade or risk ratings having speculation grade. In view of countries, they are country risk ratings or sovereign ratings. This rating has a real economic impact on international financial markets; that is to say, if the sovereign rating is closer to the investment grade, the attractive to invest is greater. The opposite occurs with more speculative ratings.

During the last years, the Latin American economy has endured various negative shocks. Certainly, economies have managed to improve their economy, sanitary, social and financial conditions during 2023. Nevertheless, there is still an uncertainty context and multiple risks for the global economy. Credit rating agencies have performed several rating reductions and credit perspective changes to emerging countries.

The Latin American economies having "investment sovereign grade" are: Chile, the country having the best sovereign rating, followed by Peru, Mexico and Uruguay. Colombia also has investment grade with Moody's Investors Service (Moody's), not so with Standard and Poor's (S&P) and Fitch Ratings (Fitch).

Table 1: Sovereign rating comparison of Latin American countries 2023-2024 (as of March 13, 2024)

Interpretation: = It is kept ↓ **Perspective has been lowered / The rating** ↑ **Perspective has been increased/ The rating**

Country	Risk Rating Agency	March-23		March-24	
		Rating	Perspective	Rating	Perspective
Paraguay	Moody's	Ba1 =	Positive ↑	Ba1 =	Positive ↑
	Standard & Poor's	BB =	Stable =	BB+ ↑	Stable =
	Fitch	BB+ =	Stable =	BB+ =	Stable =
Brasil	Moody's	Ba2 =	Stable =	Ba2 =	Stable =
	Standard & Poor's	BB- =	Stable =	BB ↑	Stable =
	Fitch	BB- =	Stable =	BB ↑	Stable =
Perú	Moody's	Baa1 =	Negative ↓	Baa1 =	Negative =
	Standard & Poor's	BBB =	Negative ↓	BBB =	Negative =
	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 =	Caa1 =	Negative =
	Standard & Poor's	B ↓	Stable ↑	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 =
México	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- =	Negative =
	Fitch	CCC- ↓	-	CC ↑	-
Uruguay	Moody's	Baa2 =	Positive ↑	Baa2 =	Positive =
	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- =	Stable =	CCC+ ↓	-

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

In September, 2022, Moody's has lowered Chile's rating, from A1 to A2, and reviewed the perspective from negative to stable. The rating reduction was driven by fiscal and economic trends that have weakened gradually but persistently Chile's credit profile. In September, 2023, the risk rating agency, has kept Chile's credit rating by A2 confirming the stable perspective, explained by its balance in view of a fiscal and institutional strength relatively high.

Moody's reviewed Mexico's risk rating in July, 2022, from Baa1 to Baa2, having a stable perspective as a result of economic and fiscal trends. In view of its report of January, 2024, it decided to keep the risk rating.

In December, 2023, Moody's has confirmed Uruguay's risk rating by Baa2, improving the perspective from stable to positive.

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



On the other hand, in November, 2023, S&P has reviewed Bolivia's risk rating from B- to CCC+, having a negative perspective. The risk rating indicates the S&P's expectation of a greater external vulnerability, which may affect the government ability to face its debt service. Likewise, *political disagreements, even within the government's coalition, have weakened its ability to guarantee the external financing and retrain its external profile's erosion.*

It is worth pointing out that the perspective on the country risk rating provides a general view of the regional situation; a valuable information to be considered by the investors; however, it is important to take into account that the country risk rating is based on the observation and methodology that rule each of the risk rating agencies. Thus, although each risk rating shall have an impact in the decision making, the investors that participate in international market operations or when performing capital investments according to their risk consideration, they shall manage the considered risk to make the decision of investing in securities of one country or another.

Paraguay Risk Rating in 2023 – 2024

In 2022, the Paraguayan economy has been affected by the strong drought registered along the first quarter of the year, which produced losses in agricultural crops of various products and significantly impacted soya production. The mentioned situation has come to register negative outcomes in the soya campaign and produced a reduction in the electricity production during the first quarter of the year. However, the macroeconomic situation of the country in 2023 has demonstrated a positive behavior concerning growth and a greater dynamism observed in different sectors.

In this respect, the economic growth perspective for 2023 has kept by 4.5%, especially explained by the agriculture performance and the electricity production, although industry and services have also shown a good dynamism throughout the year. Concerning 2024, a GDP growth of 3.8% is expected.

It is worth pointing out that in 2023, presidential elections took place. Likewise, commitments taken over before the International Monetary Fund (IMF) have continued concerning the Policy Coordination Instrument in order to guarantee the macroeconomic stability, promote the economy growth and improve social protection.

In view of this context, it is worth pointing out that from the second semester of 2023, the Government has achieved great advances in such matter, such as the creation of the Superintendency of Securities and the Superintendency of Pensions, the creation of the Ministry of Economy and Finance and the National Directorate of Tax Income. Likewise, the Government has achieved significant milestones such as the deepening of the local market with a greater participation of non-resident investors, dedollarization processes in the public debt, as well as improvements in tax collection, among other significant milestones for the Paraguayan economy.

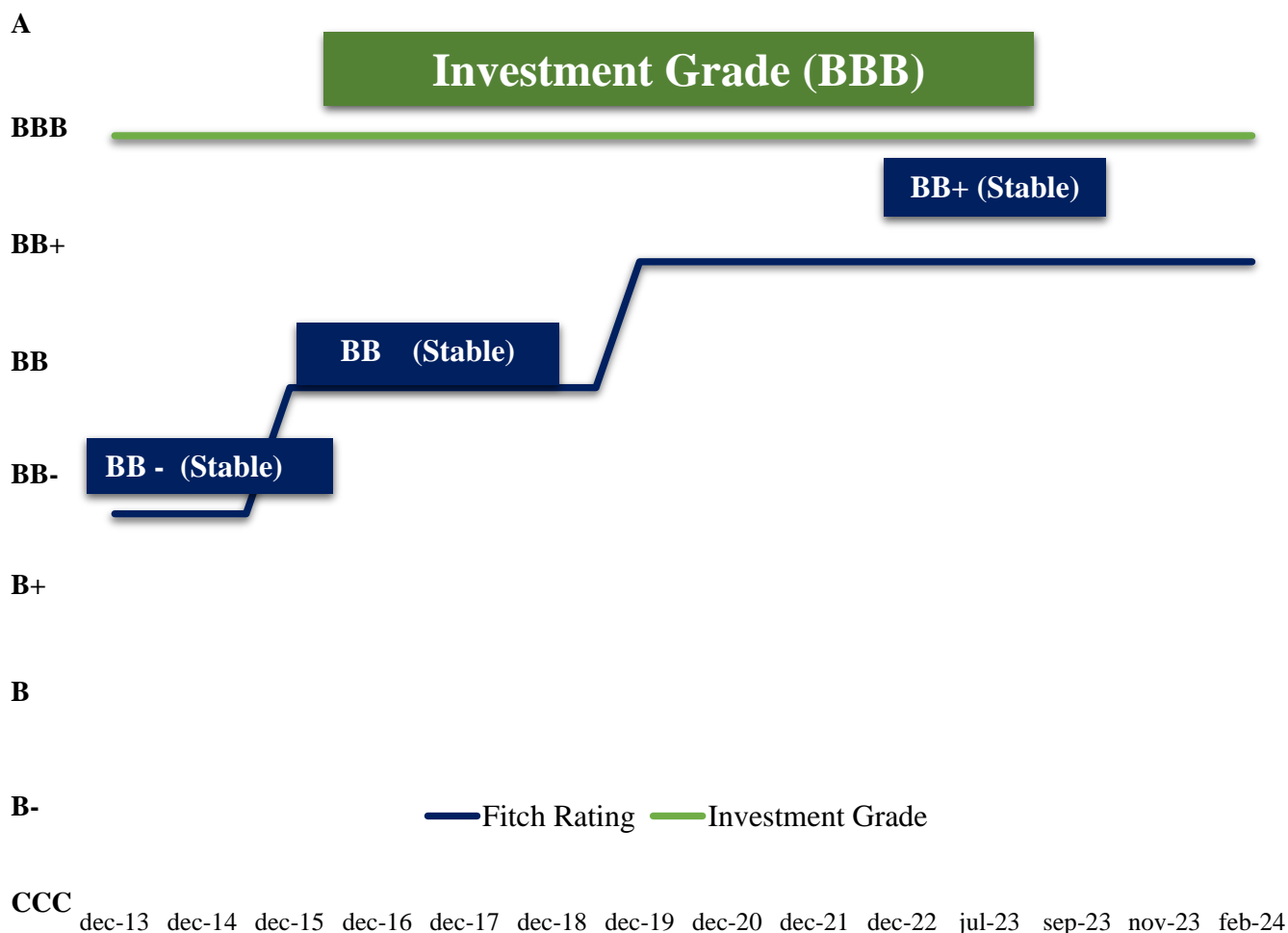
Fitch, in view of its report on annual risk rating review dated November 1, 2023, has confirmed Paraguay's risk rating by BB+ and a stable perspective. In said report, Fitch asserts that Paraguay's risk rating reflects its trajectory of prudent and consistent macroeconomic policies, a low public debt and a robust external liquidity concerning their peers having the same risk rating. Likewise, it is also emphasized the foreign investments



throughout the last years, the maquila sector's growth, the advances in structural reforms such as the approval of the PIC technical agreement, among others.

Besides, it is worth pointing out that, **the Country Ceiling of Paraguay has been increased from BB+ to BBB- (investment grade)**. The Country Ceiling increase implies that in Paraguay, private issuers may go to the international market and fulfill their respective obligations. This is because the exchange control risks are mitigated with a solid external liquidity, a floating exchange rate, solid macroeconomic policies and institutions and efforts in diversifying the economy and attracting Foreign Direct Investment.

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

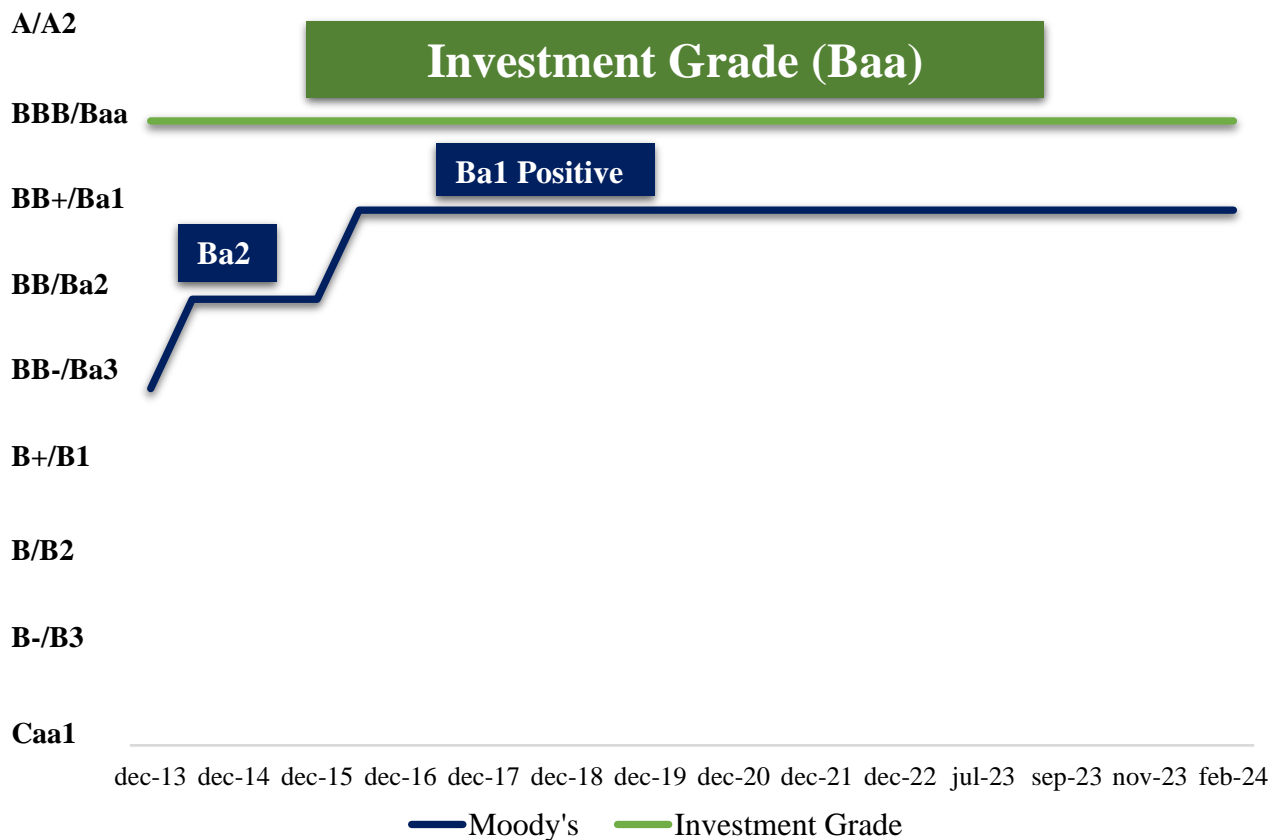


Source: Ministry of Economy and Finance (2024).



Moody's, in view of its report dated December 5, 2023, has confirmed Paraguay's risk rating by Ba1 having a positive perspective. Paraguay has registered a greater GDP' growth concerning their peers having the same risk rating, and it has a growing potential for the economic diversification. Likewise, the mentioned risk rating agency indicates that the positive risk rating perspective of Paraguay, reflects a solid growth trajectory and a prudent fiscal policy, emphasizing the advances achieved concerning structural and fiscal reforms.

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

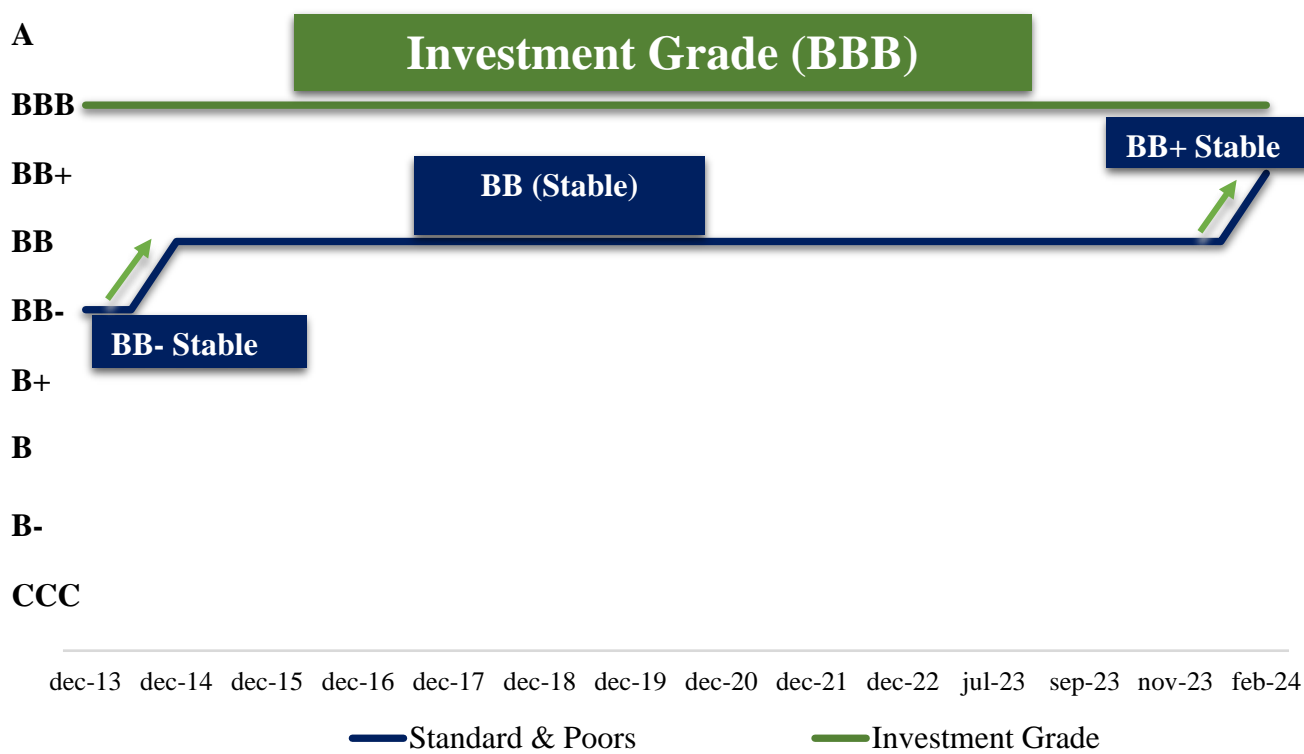


Source: Ministry of Economy and Finance (2024).

Standard & Poor's, in view of its report dated February 1, 2024, has decided to increase Paraguay's risk rating from BB to BB+ keeping the stable perspective. The mentioned risk rating agency's report emphasized that the governmental institutions of the country have gradually matured throughout the last years, having a greater foreseeability and continuity in the Economic Policies through the management's changes. It also points out that the laws' approval that create institutions such as the National Directorate of Tax Income, the Ministry of Economy and Finance, the Superintendency of Securities and the most recent Superintendency of Pensions, are key to guarantee the efficient operation of the institutions.



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



Source: Ministry of Economy and Finance (2024).

Paraguay has managed to keep the country risk rating and the perspectives with Fitch and Moody's from BB+ (Stable) and Ba1 (Positive), respectively. Likewise, S&P has recently increased the risk rating from BB to BB+ keeping the stable perspective. These confirmations are given in spite of three years of an international and national context affected by external and internal shocks such as the price drop of raw material, the pandemic for Covid-19, the price increase of fuels and the drought that affected the country between 2019, 2020 and 2022.

Table 2: Sovereign risk ratings of Paraguay, 2023 – 2024.

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

Source: Ministry of Economy and Finance (2024).



Sources

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