MOODY'S INVESTORS SERVICE

ISSUER IN-DEPTH
5 December 2023

Send Your Feedback

RATINGS

Paraguay

	Foreign Currency	Local Currency
Gov. Bond Rating	Ba1/ positive	Ba1/ positive
Country Ceiling	Baa2	Baa1

TABLE OF CONTENTS

Analyst Contacts

Samar Maziad +1.212.553.4534
VP-Senior Analyst
samar.maziad@moodys.com

Dylan Walsh +1.212.553.3583
Associate Analyst
dylan.walsh@moodys.com

Mauro Leos +1.212.553.1947
Associate Managing Director
mauro.leos@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Government of Paraguay - Ba1 positive

Annual credit analysis

OVERVIEW AND OUTLOOK

Paraguay's credit strengths include its low government debt burden in absolute and relative terms despite an increase to 38% of GDP in 2022. The authorities also have a track record of compliance with targets set in the Fiscal Responsibility Law (FRL). In addition, Paraguay records higher GDP growth than its rating peers, with increasing potential for economic diversification.

Paraguay's main credit challenges include weak governance indicators overall compared with those of peers and the economy's relative dependence on the agricultural sector. Moreover, infrastructure constraints continue to weigh on competitiveness. Government revenue intake is also low at around 14% of GDP over the past decade, which is well below Ba- and Baa-rated medians. The government has, however, improved tax administration and boosted revenue collection over the last two to three years and is proposing reforms to the pension system to reduce the deficit of the public pension fund. The government has also committed significant public investment to upgrade Paraguay's road infrastructure.

The positive outlook reflects a track record of solid growth and prudent fiscal policy, demonstrated by debt metrics that compare favorably with those of Baa-rated sovereigns. The outlook also accounts for structural and fiscal reforms that will support institutional strength and governance. We could upgrade the rating if the government approved and implemented structural reforms related to public procurement, civil service and public pension funds, among others. These reforms would enhance the country's institutional and governance framework, improving Paraguay's overall credit strength. Changes to the fiscal rule, which would increase policy predictability in response to shocks, and the materialization of robust investment and foreign direct investment (FDI) inflows would also exert upward rating pressure.

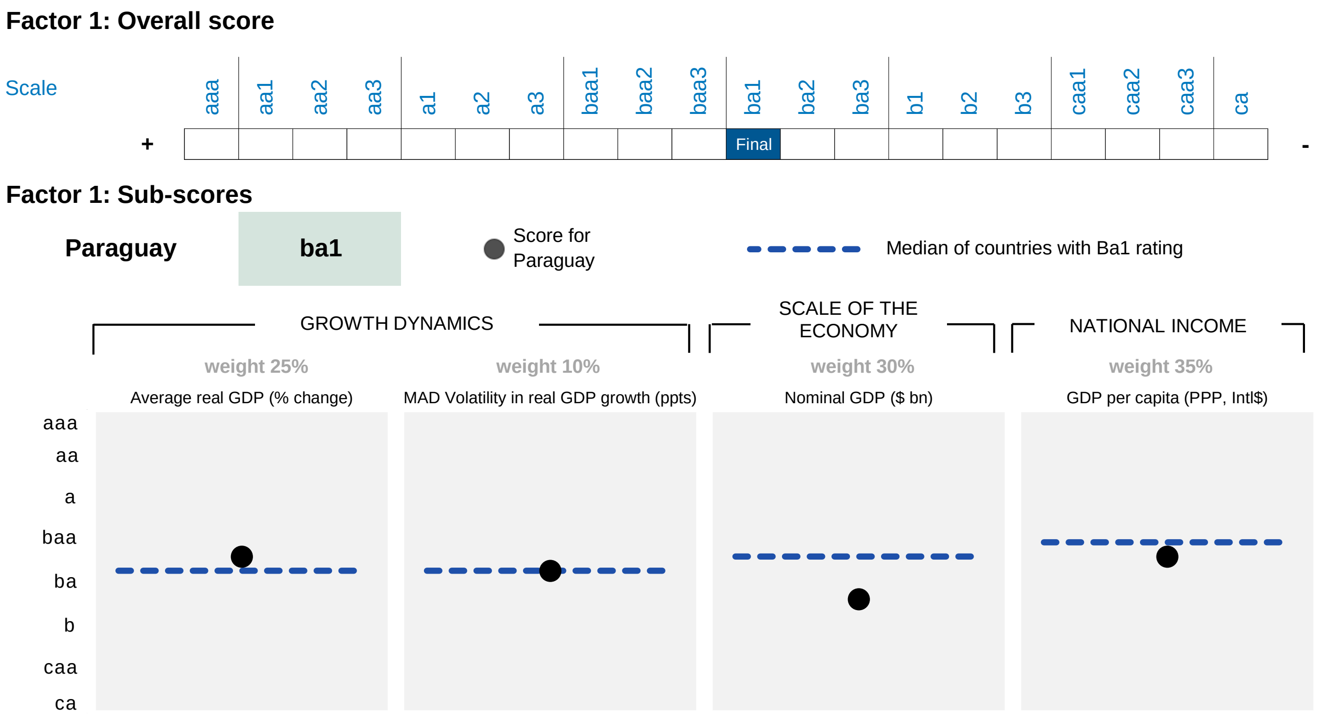
Conversely, we could change the outlook back to stable if implementation of the structural reform agenda does not advance at a steady pace or if economic growth lags our expectations, leading to an increase in the debt burden.

This credit analysis elaborates on Paraguay's credit profile in terms of economic strength, institutions and governance strength, fiscal strength, and susceptibility to event risk, which are the four main analytic factors in our Rating Methodology: Sovereigns.

CREDIT PROFILE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic strength, institutions and governance strength, fiscal strength and susceptibility to event risk. When a direct and imminent threat becomes a constraint, that can only lower the scorecard-indicated outcome. For more information, please see our Rating Methodology: Sovereigns.

Economic strength score: ba1



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Adjustments to the economic strength factor score most often reflect our judgement regarding the economy's flexibility, diversification, productivity and labour supply.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Paraguay's "ba1" score for economic strength reflects the economy's relatively high growth rate and increasing diversification, balanced against its relatively small size and growth volatility because of the high share of agriculture in economic activity (see Exhibit 1). Paraguay has a higher real GDP growth rate and slightly lower volatility in real GDP growth than peers with a "ba1" score for economic strength. Other sovereigns with a similar score for economic strength include Armenia (Ba3 stable) and Morocco (Ba1 stable).

Exhibit 1

Peer comparison table factor 1: Economic strength

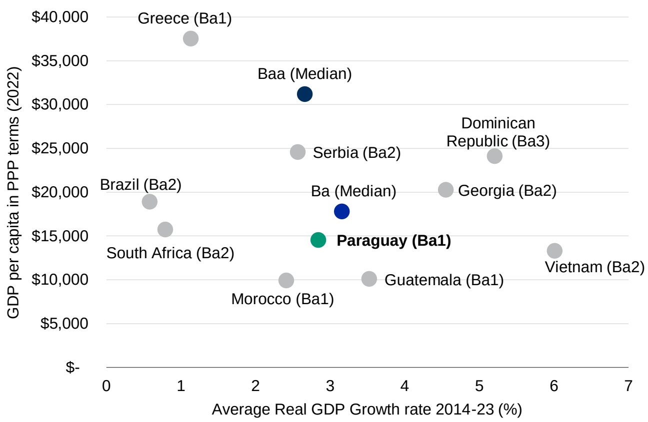
	Paraguay Ba1/POS	ba1 Median	Armenia Ba3/STA	Cote d Ivoire Ba3/POS	Morocco Ba1/STA	Serbia Ba2/STA	Georgia Ba2/NEG	Botswana A3/STA
Final score	ba1		ba1	ba1	ba1	baa3	baa3	ba2
Initial score	ba1		baa3	baa3	ba1	baa1	baa2	ba1
Nominal GDP ($ billion)	41.7	41.7	19.5	70.0	130.9	63.6	24.6	20.4
GDP per capita (PPP, Intl$)	14,534.6	14,534.6	17,794.6	6,485.7	9,899.7	24,564.2	20,243.4	18,322.8
Average real GDP (% change)	2.5	2.5	5.0	6.2	2.5	3.5	5.0	3.6
MAD Volatility in real GDP growth (ppts)	1.4	1.6	2.2	1.2	1.6	1.3	1.3	2.1

Sources: National authorities, IMF and Moody's Investors Service

GDP growth has been strong, but the economy's income levels and size lag those of most peers

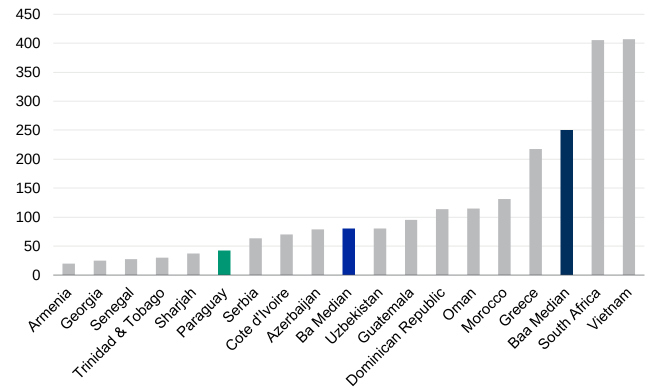
Between 2013 and 2022, Paraguay's GDP grew at an average rate of 3.2% in real terms, about even with the Ba median (3.3%) and above the Baa median (2.7%) over the same period. Per capita income levels, measured in GDP per capita (purchasing power parity [PPP] basis), of $14,535 in 2022 are slightly lower than the median for Ba-rated sovereigns of $17,797 and well below the median for Baa-rated sovereigns of $31,190 (see Exhibit 2). Paraguay's economy is among the smallest in the Ba category, which is a credit weakness (see Exhibit 3). Paraguay's nominal GDP of $42 billion in 2022 is about the same as the median for Latin American sovereigns but is significantly below the $80 billion Ba median and the $250 billion Baa median.

Exhibit 2
Paraguay's economy has grown faster than most of its peers in the previous decade, but income levels remain below the Ba median



Source: Moody's Investors Service

Exhibit 3
Paraguay's GDP is below that of most of its peers
GDP in ($) billions



For illustrative purposes, Brazil (Ba2 stable) with a nominal GDP of $1.9 trillion is excluded from this exhibit. All other Ba-rated sovereigns are included.
Source: Moody's Investors Service

Real GDP is likely to rebound strongly in 2023 and moderate in 2024

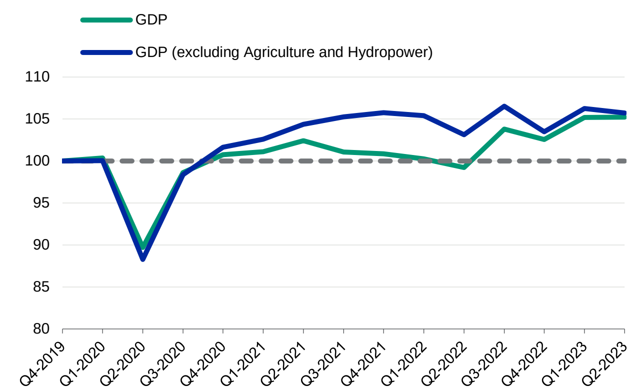
Real GDP grew 5.9% year over year in the second quarter of 2023, supported by a 46.6% growth in the agricultural sector. The positive economic activity in Q2 2023 was also supported by growth in the hydropower sector (19.5%). As of Q2 2023, the gap between Paraguay's total GDP and GDP excluding hydropower and agriculture was less than 1%, compared with nearly 4% in Q2 2022, demonstrating the increase in output from those two sectors after the drought conditions subsided (see Exhibit 4). However, the agriculture sector is yet to reach the 2019 level of economic activity, while hydropower has surpassed that level (see Exhibit 5).

Climate-related shocks and the agriculture sector's significant contribution to output have historically resulted in some economic volatility, while the ongoing positive developments in economic diversification, particularly related to the government's efforts to increase the value-added of agricultural exports and upgrade infrastructure through public investment, indicate a reduction in the volatility of economic output. Sectors that are not directly exposed to climate shocks, such as construction, services and manufacturing, have continued to expand and support economic activity. In Q2 2023, the services sector grew 3.4% year-over-year and the manufacturing sector 2.8%. The dynamism of these sectors has helped sustain the economy since 2019, with the construction, services and manufacturing sectors having grown by 10%, 6% and 6% over that period, respectively.

While the La Niña atmospheric phenomenon caused severe drought, the El Niño weather system is likely to bring more rainfall for Paraguay. Its impact on the economy would result in a potential boost for electricity generation and water supply, and could benefit the agriculture sector. Regarding the former, we do not expect contract negotiations for the operation of the Itaipu hydroelectric dam to create significant risk to the production or sale of energy to Brazil (Ba2 stable) over the near term (next two years). Since the binational contract, which expired in August 2023, was signed 50 years ago, negotiations are likely to focus on the financial aspects of the energy produced by the dam. For 2024, we forecast 3.5% growth as economic activity moderates and potentially benefits from the impact of El Niño on certain sectors of the economy.

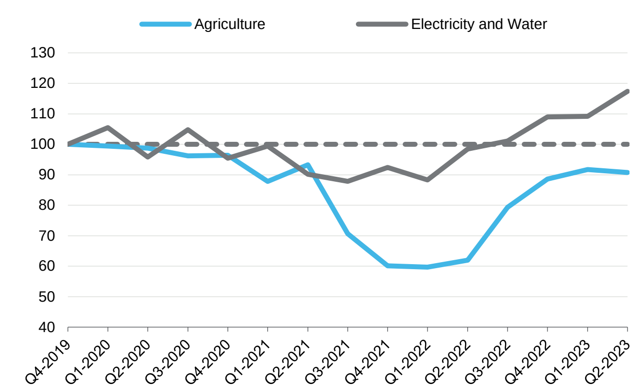
Our baseline scenario includes our expectation that Paraguay's economic performance — 4% on average over 2023-25 — will outpace that of most peers in Latin America (a likely average growth rate of 2.6%), as well as the average growth rates for the Ba median (3.3%) and the Baa median (2.8%).

Exhibit 4
Agriculture and hydropower sectors' output has increased after the drought ...
Real GDP (Q4 2019 = 100)



Sources: Haver Analytics and Moody's Investors Service

Exhibit 5
... although the agriculture sector economic activity is still below its 2019 level
Real GDP (Q4 2019 = 100)



Sources: Haver Analytics and Moody's Investors Service

FDI will support economic diversification

Paraguay's economy has traditionally relied on agricultural production, particularly soy and meat, as well as hydroelectric energy generation from the Itaipú and Yacyretá dams owned jointly with Brazil and Argentina (Ca stable), respectively. Paraguay is the fourth-largest producer of soy globally, with soy and derivative products accounting for 41% of all exports in 2021. Meat accounted for 16% of total exports and energy accounted for 15% of total exports.

Over the last three to five years, public and private-sector initiatives have attempted to increase the primary sector's value-added by increasing exports of processed agriculture rather than raw materials, and further develop light manufacturing. Soy exports have steadily shifted from raw grains toward soy oil and flour. Efforts are also underway to develop agribusiness industries, including organic meats and poultry, aimed at nontraditional export markets in Asia, North Africa and the Middle East.

The government's development strategy is centered on taking advantage of the country's abundant hydroelectric energy, as well as encouraging the development of export-oriented light manufacturing (maquilas). Paraguay invested heavily in the construction of the Itaipú and Yacyretá dams in the 1980s. Paraguay, however, only consumes roughly 20% of Itaipú's energy production and exports the remainder to Brazil. Paraguay's repayment of its debt to Brazil for the construction of Itaipú ended in 2023, and both countries are in the process of negotiating energy tariffs for the post-2023 period, which will likely lead to a reduction in energy tariffs. Paraguay's growth and development needs will likely increase over time, allowing it to increase its use of hydroelectric energy to enhance rural communities' access to electricity and provide affordable energy to new industries, rather than exporting it to Brazil at current rates.

In terms of the maquila sector, Paraguay primarily produces auto parts, plastics and textiles, as part of Brazil's supply chain. This trend of expanding light manufacturing industries and integrating Paraguay into Brazil's supply chain is likely to continue because of Paraguay's low labor and energy costs, and favorable tax environment. Paraguay has historically maintained the lowest tax burden in the region, with a 10% corporate tax rate and a 10% value-added tax (VAT) on most goods and services. The Ministry of Industry and Trade (MIC) reported that five to seven new companies are approved monthly in the maquila sector, which has seen exports increase five-fold during the last decade to over $1 billion in 2022, currently representing 10% of all exports. This administration plans to use its geostrategic position in the region and proximity to Brazil's large cities to continue growing this sector, with a projection of $1.2 billion of exports in 2023. More than 50% of exports from Paraguay's burgeoning maquila sector go to Brazil and about 70% go to Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay).

Over the next three to five years (medium term), FDI investment will sustain Paraguay's growth and support diversification. Paracel, a $4 billion investment for the construction of Paraguay's first pulp mill, is likely to increase FDI flows over the next two to three years and help develop Paraguay's forestry sector. The project will be the largest single private investment project in the country's history and is the product of a joint venture between Grupo Zapag of Paraguay (the largest investor in the project), the Swedish firm Grindus Investments and the Austrian Heinzel Group, which joined as the second-largest investor in July 2022.

Construction of the plant is currently underway in the Concepción region, and is likely to be completed by year-end 2024. Upon completion, the mill will generate 1.5 million tons of cellulose annually, most of which will be destined for international markets. Private sector estimates suggest that this project will increase Paraguay's exports by around 10%-15%. The project will generate 8,000 jobs in temporary construction and 4,000 permanent jobs for the operation of the plant. Government officials and local businesses are optimistic of the project's potential to jump-start investment in the forestry sector in the same way that the first auto part plant opened in 2013 resulted in steady investment in the maquila sector. According to forestry experts, Paraguay's climate allows for much faster growth of eucalyptus trees than in other places (eight years versus 10-11 years), allowing for a faster replenishment of the tree stock needed for the pulp plant. Private sector analysts believe Paraguay has potential for three additional pulp plants. The forestry sector could therefore be an attractive sector for foreign investment and an engine for growth in the coming decade.

The energy sector also has the potential to attract FDI. The government granted Paracel an independent energy production and transportation license, making it the first private company to have these rights. Paracel also plans to produce energy from biomass and feed up to 130 megawatts (MW) in excess energy into the national grid. Other significant foreign investment projects include the Omega Green biodiesel plant, which will generate biofuel of 20,000 barrels per day for airplanes. The plant will be completed by 2025, and its value is estimated at $1 billion. The project will be one of the first biofuel refineries in Latin America and one of the largest in the world. Also, ATOME, a UK-based green hydrogen developer, is investing $550 million in a green fertilizer plant that is likely to begin producing calcium ammonium nitrate (CAN) with the lowest carbon footprint of any fertilizer product on the market by 2026. Paraguay also received an investment of similar size ($500 million) for large-scale production of green hydrogen.

Infrastructure investment is key to raising Paraguay's growth potential

The 2019 World Economic Forum's Global Competitiveness Index ranks Paraguay's infrastructure at 92nd out of 140 countries, an improvement from the 101st in 2018. Paraguay ranked 71st for road connectivity, 94th for efficiency of seaport services, 119th for airport connectivity and 126th for quality of road infrastructure. Although higher than many of its regional peers, Paraguay's investment rate is low on a global comparative basis, at 20% of GDP on average over the past five years. We expect Paraguay's investment rate to rise gradually as both FDI and government public investment increase.

Public investment reached 3% of GDP in 2022-23, and the government is committed to maintaining public investment by leveraging multilateral development bank (MDB) financing and developing public-private partnerships.

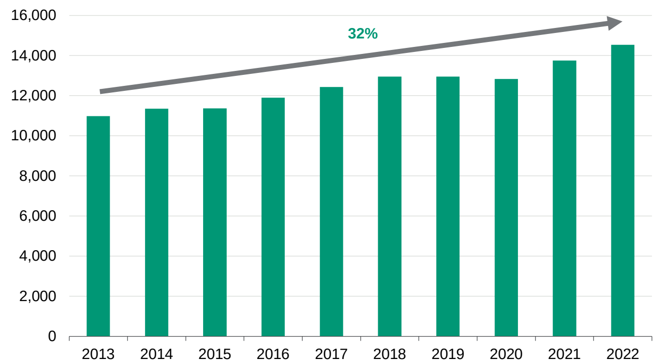
The government has made some progress on the reform agenda presented in the 2014-30 National Development Plan. The growth strategy outlined in the plan emphasizes infrastructure investment, particularly improving transportation and electricity distribution. The authorities identified 12 infrastructure projects requiring $1.8 billion in investment. Among the most significant projects is a 219-kilometer highway expansion of the Corredor Bioceánico, or bioceanic corridor, which will connect Paraguay's eastern border with Brazil to the western border with Argentina. The project will help Paraguay overcome some of the drawbacks of its landlocked status in South America. The authorities have also launched several vital road expansions using the new public-private partnership framework. The work will extend the national highway linking Asunción with major cities, including Ciudad del Este on the border with Brazil, and connect other local capitals. Most of these projects have financing through regional MDBs like the Inter-American Development Bank (IADB, Aaa stable), Corporacion Andina de Fomento (CAF, Aa3 stable) and FONPLATA (A2 stable).

Paraguay's income levels have increased over the past decade, reducing poverty and income inequality

Between 2013 and 2022, Paraguay's per capita GDP in PPP terms increased 32% to $14,535 from $10,980 (see Exhibit 6). Over the same period, per capita income levels rose 34% for the median for Latin American sovereigns, 50% for the Ba median and 55% for the Baa median. Paraguay's per capita income was 83% of the Latin American median in 2022, compared with 84% in 2013, and 82% of the Ba median versus 92% previously. As Paraguay's per capita income levels have increased, poverty and inequality have decreased. The share of people living in poverty fell to 24% in 2022 from 58% in 2002 (see Exhibit 7).

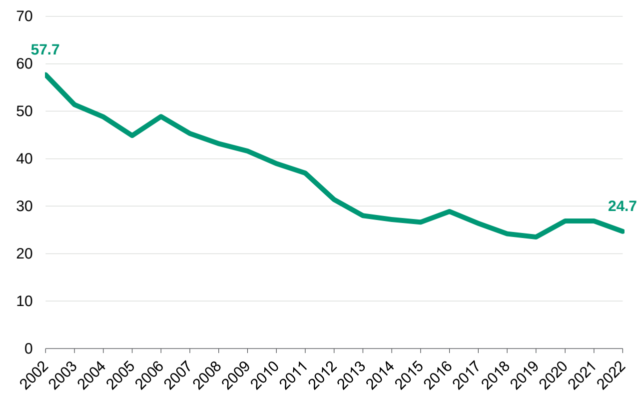
In October 2020, the government presented its first 10-year national poverty reduction plan with the stated goal of improving living standards, economic conditions and social cohesion in communities with a high level of poverty. As part of this plan, the government has developed a national record of socio-demographic data to ensure social services are targeted toward vulnerable communities and understand needs on a regional basis. The government's priority is to provide support to departments where there is a higher incidence of poverty (as a share of total households), as well as those with a greater number of total households experiencing poverty. These are mainly rural departments where agriculture is the main source of economic activity. The policies discussed in the plan range from improved healthcare access and direct monetary transfers to enhancing the productivity of small agricultural enterprises.

Exhibit 6
Per capita income has increased 32% over the past decade
GDP per capita in PPP terms ($)



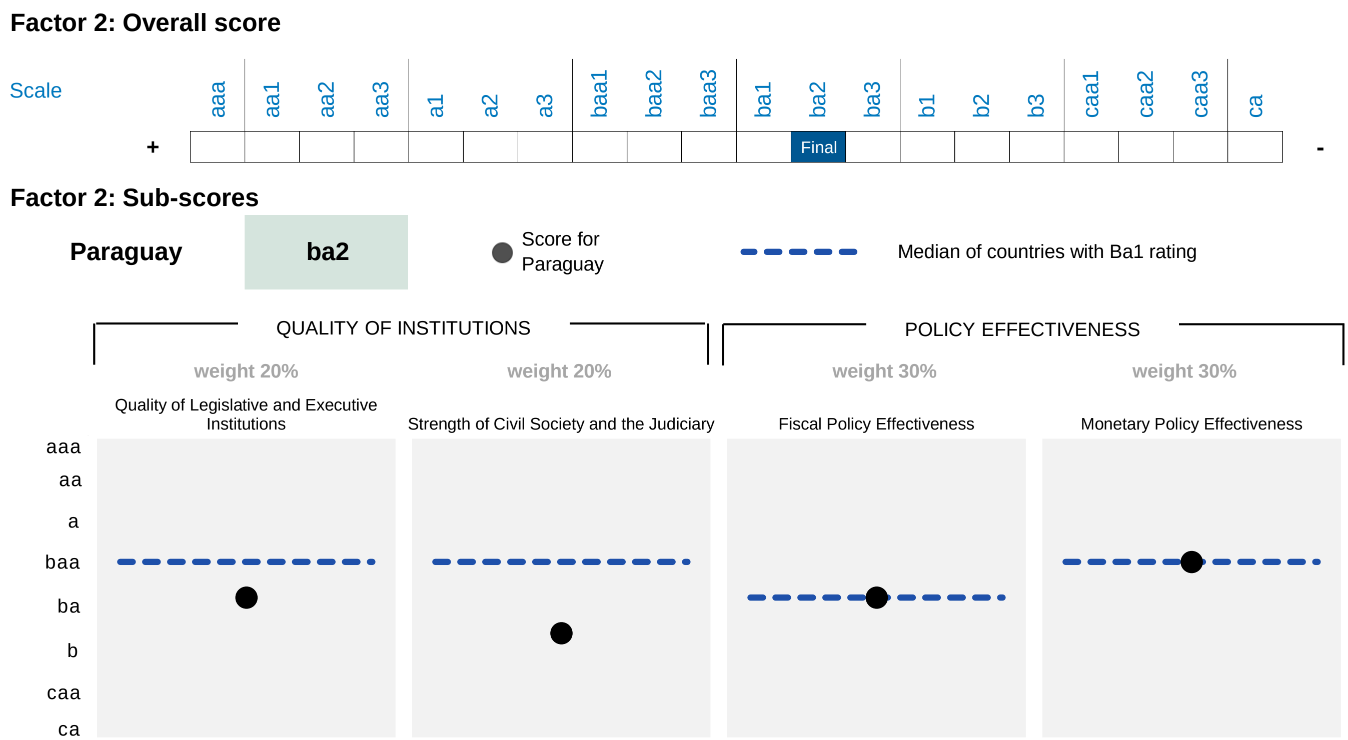
Source: Moody's Investors Service

Exhibit 7
Poverty has decreased by more than 50% since the early 2000s
Poverty head count ratio at national poverty lines (as a percentage of population)



Sources: World Bank and Moody's Investors Service

Institutions and governance strength score: ba2



Institutions and governance strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect is the government's capacity to conduct sound economic policies that foster economic growth and prosperity. Institutions and governance strength is most often adjusted for the track record of default, which can only lower the final score.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Our "ba2" assessment of Paraguay's institutions and governance reflects its low Worldwide Governance Indicator (WGI) scores (including government effectiveness, rule of law and control of corruption) relative to Ba-rated peers, although this is balanced by its comparatively high monetary and fiscal policy effectiveness (see Exhibits 8-10). Other sovereigns with a similar score for institutional strength include Albania (B1 stable) and Senegal (Ba3 stable).

Exhibit 8

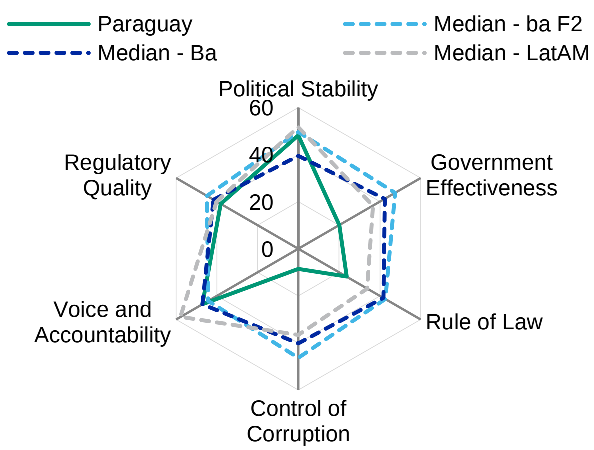
Peer comparison table factor 2: Institutions and governance strength

	Paraguay	ba2 Median	Albania	Cote d Ivoire	Senegal	Trinidad & Tobago	Fiji	Benin
	Ba1/POS		B1/STA	Ba3/POS	Ba3/STA	Ba2/POS	B1/STA	B1/STA
Final score	ba2		ba2	ba2	ba2	ba2	ba1	ba3
Initial score	ba2		ba2	ba1	ba2	ba2	ba1	ba3
Quality of legislative & executive institutions	ba	ba	ba	ba	ba	ba	ba	b
Strength of civil society & judiciary	b	ba	ba	ba	ba	ba	ba	b
Fiscal policy effectiveness	ba	ba	ba	baa	ba	ba	ba	ba
Monetary & macro policy effectiveness	baa	ba	ba	ba	ba	ba	baa	ba
Fiscal balance/GDP (3-year average)	-3.2	-3.0	-3.0	-5.4	-5.5	-1.4	-7.7	-4.5
Average inflation (% change)	4.4	3.1	3.1	2.3	3.1	2.6	2.1	2.5
Volatility of inflation (ppts)	2.2	2.1	1.6	1.6	2.9	2.1	2.2	1.4

Sources: National authorities, IMF and Moody's Investors Service

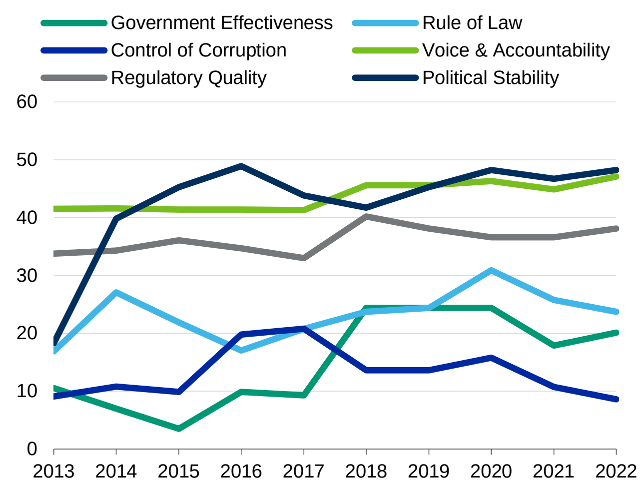
Paraguay's institutional framework has improved in recent years with the passage of a number of laws starting with the FRL, the Law to Modernize the State's Financial Administration and the Public-Private Partnership Law. These reforms have led to an improvement in the business environment and the government's fiscal policy effectiveness.

Exhibit 9
Worldwide Governance Indicators, 2022



Sources: Worldwide Governance Indicators and Moody's Investors Service

Exhibit 10
Paraguay's governance indicator scores have remained relatively stable, except for increases in scores for government effectiveness and political stability



Source: Worldwide Governance Indicators

Paraguay created the Secretariat for Prevention of Money or Asset Laundering to combat money laundering and financing terrorism

The creation of this semi-autonomous government institution, Secretariat for Prevention of Money or Asset Laundering (SEPRELAD), comes in the wake of the recent sanctions by the US Treasury Department's Office of Foreign Assets Control (OFAC) against former president Horacio Cartes and former vice president Hugo Velazquez for corruption. OFAC's allegations included providing financial incentives to government officials and even ties with Hizballah, which the US State Department classifies as a foreign terrorist organization. Along with the economic and fiscal agenda, addressing corruption and strengthening institutions will be a key priority for the Peña administration.

Sound macroeconomic policy framework partially offsets weak governance indicators

The government's track record of sound fiscal management signals a higher degree of government effectiveness than suggested by the country's governance indicators. Efforts to improve transparency and corruption perceptions include public-sector payroll disclosures and greater access to information. The constitutional requirement (Article 104) enacted in 2013 also requires public officials to declare their assets. The government has improved accountability of the public sector by disclosing public officials' wages, and disclosing most of the government's assets and procurement data to the public. For public spending projects, there is an online platform where citizens can track spending and progress of public infrastructure works.

The government passed the FRL in 2013 and its implementation started with the 2015 Budget Law (see Box for more details). According to the FRL, the central government deficit should not exceed 1.5% of GDP except in years of crisis and annual growth in current expenditure should be capped at 4% above inflation. The law also restricts public-sector salary increases and election-related spending, and aims to curtail Congress' ability to increase spending, while simultaneously increasing the line item for "other revenue" without identifying the source of that revenue. This legislation has helped codify a track record of conservative fiscal management that has been part of the credit profile for nearly two decades.

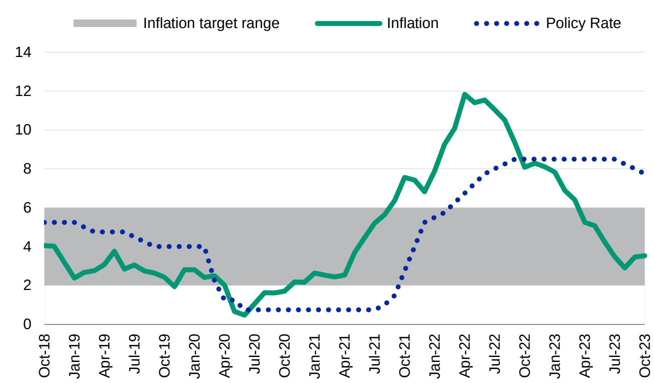
Despite this focus on fiscal prudence, the FRL has created room for an increase in capital spending over time, as demonstrated by the government's commitment to public investment in its post-pandemic economic recovery plan. Striking an effective balance between growth-enhancing investment, financed through external borrowing, and maintaining a low debt burden is key to preserving Paraguay's fiscal strength, which anchors the sovereign credit profile.

Inflation-targeting framework has contained recent inflationary pressures

The Central Bank of Paraguay adopted an inflation-targeting regime in 2011. In December 2014, it reduced its inflation target to 4.5% +/- 2 percentage points (pps), narrowing the previous 5% +/- 2.5 pps range. In February 2017, the target was revised again to 4% +/- 2 pps. Since then, inflation has mostly remained within the target range and inflation volatility has declined following the establishment of the regime (see Exhibit 11). In 2016 and 2018, the authorities approved banking sector reform laws that allow the central bank to introduce macroprudential tools to manage banking sector risk, supporting the country's institutional strength.

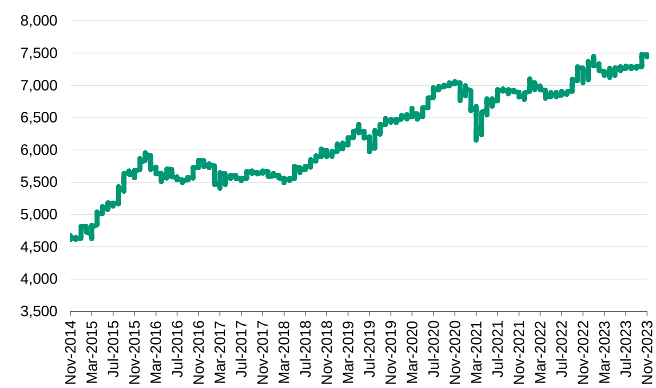
Paraguay has a credible and well-managed free-floating exchange rate that allows it to manage the volatility and external shocks caused by its large agriculture sector. The guarani has been depreciating since early 2018 and, after a brief period of appreciation in early 2020, it depreciated further as a result of the pandemic shock (see Exhibit 12). Although the currency appreciated from January to April 2021 to about 6,200 guarani/$ from 7,000 guarani/$, it has returned to 7,000-7,500 guarani/$ range and has remained stable since.

Exhibit 11
Inflation volatility has decreased, and had been in the target range until the coronavirus shock
(Annual inflation metrics, year-on-year change in percentage terms)



Sources: Central Bank of Paraguay and Moody's Investors Service

Exhibit 12
Guarani has been weakening since early 2018
(Guarani/$)



Sources: Central Bank of Paraguay and Haver Analytics

The Central Bank of Paraguay has begun its easing cycle as inflation situates within target range

On 24 October, the Monetary Policy Committee of the Central Bank of Paraguay voted unanimously to lower its monetary policy rate by 25 basis points to 7.75%, the third consecutive cut in as many meetings. The central bank noted in its decision-making process, that despite increased monthly inflation of 0.5% in October, driven by the increase in certain food prices, inflation is still well-situated year over year at 3.5%. Furthermore, the latest central bank poll of economic participants for October showed inflation expectations for year-end 2023 and the next 12-24 months at 4%, or precisely the center of the central bank's target range of 4% (+/- 2 pps). Depending on the evolution of local and international price conditions, we expect this current trajectory to lead to additional rate cuts in subsequent meetings.

The government has proposed a number of structural reforms to bolster the institutional framework in the aftermath of the pandemic

The government has presented several laws to Congress to address some of Paraguay's key institutional shortcomings. These long-term measures aim to improve the social safety net, incentivize the formalization of the labor force, and contribute to stronger fiscal and macroeconomic policy effectiveness.

» **Civil-service reform** aims to change its promotion structure, regulate and control spending on wages, and implement institutional rearrangements that reduce administrative tasks. There is also a proposal to reorganize the structure of executive power to avoid overlapping functions, facilitate coordination and redirect efforts toward priority areas, to provide better service to citizens. The reorganization includes improving the public procurement process to ensure the state's demand for goods is met in a timely, efficient and transparent manner.

» A series of reforms have been discussed to improve the **pension system**. One of the most developed reforms is the creation of a supervisory body, the Superintendence of Pensions, that would help regulate the eight pension funds for public sector workers as well as the pension scheme for private sector workers (Instituto Provision Social [IPS]). Another priority is reforming the Caja Fiscal, which is one of the largest public sector pension schemes, as it could pose a contingent liability to the government because of insufficient contributions. Overall, the key weaknesses in the current pension scheme relate to the equity of the system. Public pensions are much more generous in terms of the replacement rate and eligibility criteria. While the IPS has a fixed contribution rate[1] and is financially sustainable, it covers less than 20% of private sector workers as most workers are employed informally. Moreover, most workers that have contributed to IPS do not receive a pension when they retire because of the skewed regulatory framework[2] that requires a set number of years of contributions to the pension scheme to be eligible for benefits.

Although these structural reforms have not been approved in Congress, the government has advanced several proposals over the past three years. In June 2021, enhancements to the charter of the government-owned development bank, Agencia Financiera de Desarrollo (AFD, Ba1 positive), were approved. The improved charter has helped modernize AFD's corporate governance structure, and allows it to receive financing without a sovereign guarantee and participate in new public-private partnership projects. In 2022, Congress approved a law allowing government to reduce the costs of its public procurement. The reform aims to improve the quality of public spending by digitalizing the procurement process and implementing standards that will avoid preferential treatment to contractors. The IMF estimates savings of 1.3% of GDP related to improved public sector spending efficiency.

Fiscal strength score: baa2

Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor, the overall score of fiscal strength can be lowered or increased.

Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

We have set Paraguay's fiscal strength at "baa2" to reflect its lower debt burden and debt affordability than that of rating and regional peers. Paraguay's debt structure is favorable and its external maturities are long-term, with significant portion of the debt owed to MDBs, reducing the risks stemming from a high share of foreign-currency debt. We expect the government's deficit to decrease steadily over the coming three to five years, leading to a stabilization in debt levels. Other sovereigns with a similar score for fiscal strength (see Exhibit 13) include Guatemala (Ba1 stable) and Uzbekistan (Ba3 stable).

Exhibit 13

Peer comparison table factor 3: Fiscal strength

	Paraguay Ba1/POS	baa2 Median	Guatemala Ba1/STA	Morocco Ba1/STA	Oman Ba2/POS	Uzbekistan Ba3/STA	Cambodia B2/NEG	Nicaragua B3/STA
Final score	baa2		baa2	baa2	baa2	baa1	baa1	baa3
Initial score	baa2		baa1	baa2	baa2	a2	a3	baa3
Gen. gov. debt (% of GDP)	37.9	49.1	29.0	64.9	40.0	36.9	34.0	44.9
Gen. gov. debt (% of revenue)	269.0	217.8	229.1	250.4	107.7	114.4	154.9	152.2
Gen. gov. interest payments (% of GDP)	1.2	2.3	1.7	2.2	2.4	0.7	0.3	1.3
Gen. gov. int. payments (% of revenue)	8.3	9.0	13.2	8.3	6.6	2.2	1.2	4.5

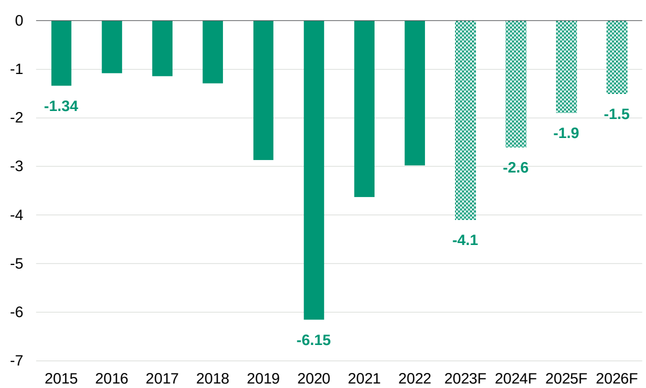
Sources: National authorities, IMF and Moody's Investors Service

The Peña administration outlined a path toward the deficit target of 1.5% of GDP by 2026, including the clearance of arrears of 1% of GDP accumulated by the previous administration

The new fiscal convergence path begins with a fiscal deficit of 4.1% of GDP for 2023 before converging in 2026 to the target deficit of 1.5% of GDP, in line with the FRL. According to the Ministry of Economy and Finance, the arrears are related to pandemic spending, specifically debt with suppliers for the health and public works ministries. To pay these arrears, the Ministry of Economy and Finance plans to issue a $600 million bond that will cover most of the debt in 2023 and then pay off the rest in 2024. Additionally, the decision to count the arrears in the fiscal deficit was made to indicate transparency to investors, a key focus of this incoming administration (see Exhibit 14).

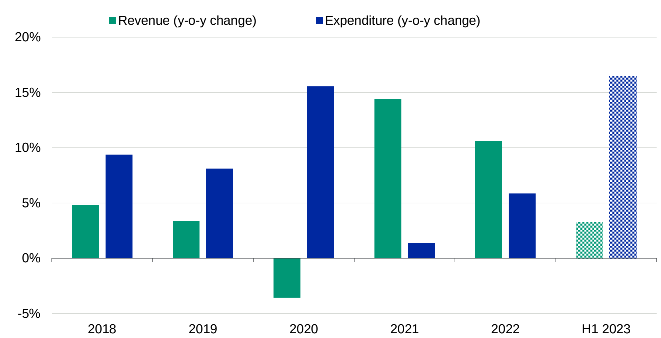
Successive governments and lawmakers have maintained a strong commitment to fiscal discipline, resulting in Paraguay's strengthened fiscal position through several recent economic shocks. Since the FRL came into effect in 2013, Paraguay's deficits were in line with legislation, which requires the central government's fiscal deficit to not exceed 1.5% of GDP in normal years and 3.0% in low-growth years. Adverse economic conditions in 2019 and 2020 meant that Congress permitted a deviation from the 1.5% deficit ceiling, allowing the government to temporarily abandon the deficit target to implement countercyclical fiscal policy.

Exhibit 14
The government's fiscal deficit will likely increase in 2023
General government financial balance, as a percentage of nominal GDP



Source: Moody's Investors Service

Exhibit 15
Expenditure is up 16% in the first half of 2023, but revenue is only up 3%



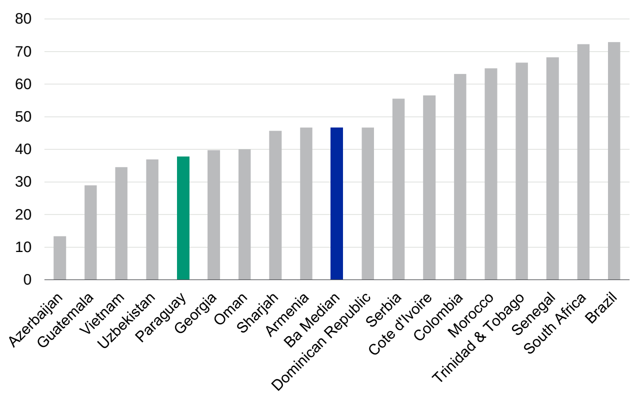
H1 2023 year-over-year change figures are calculated versus H1 2022.
Sources: Haver Analytics and Moody's Investors Service

Debt metrics remain favorable compared with peers despite combined shocks from droughts and the pandemic

Despite below-potential economic growth over the past few years (2020-2022), Paraguay's government has been able to preserve its fiscal strength, which continues to compare favorably with that of both Ba-rated peers and Baa-rated peers. Debt affordability has deteriorated recently but remains stronger than Ba-rated peers.

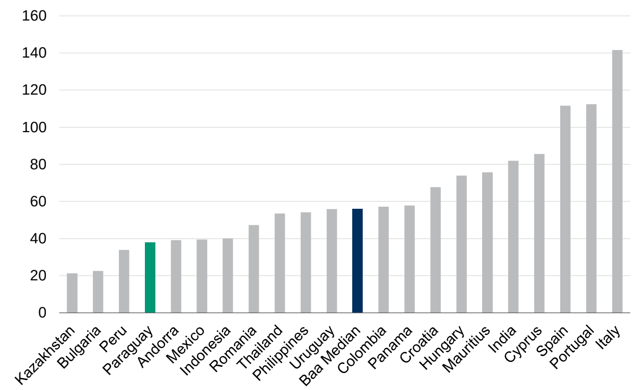
The government's policy responses to the pandemic resulted in an increase in government debt to 35% of GDP in 2020 from 24% in 2019. Although this is a marked rise, it is less significant than both the 13-pp rise in the median for Ba-rated sovereigns (to 59% of GDP in 2020 from 46% in 2019) and the 16-pp increase in the median for Baa-rated sovereigns (to 60% of GDP from 45% of GDP in 2019). Paraguay is in the lowest quintile among Ba-rated sovereigns for the debt-to-GDP ratio, as well as in comparison with Baa-rated sovereigns (see Exhibits 16 and 17). We forecast government debt to reach 40% of GDP in 2023 and stabilize around that level by 2024 (see Exhibit 18), remaining well below the projected medians for Ba-rated peers (54%) and Baa-rated peers (56%). Paraguay's debt-to-revenue ratio of 269% at the end of 2022 is above the Ba and Baa medians of 234% and 216%, respectively (see Exhibit 19).

Exhibit 16
Paraguay's debt-to-GDP ratio is in the bottom quintile of Ba peers
(Debt as a percentage of GDP, 2022)



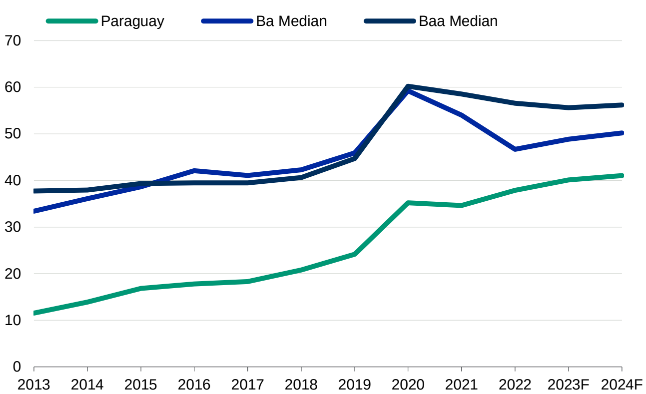
Source: Moody's Investors Service

Exhibit 17
Paraguay's debt-to-GDP ratio would also be in the bottom quintile of Baa peers
(Debt as a percentage of GDP, 2022)



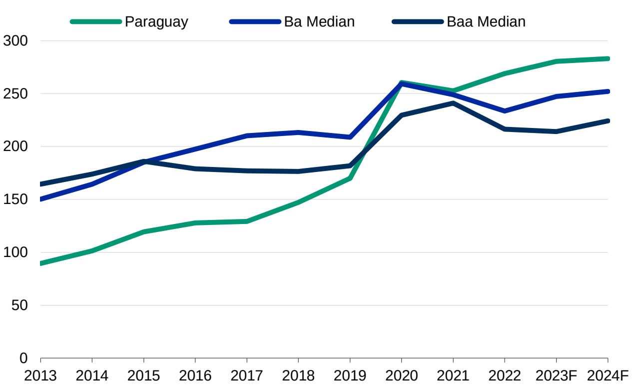
Source: Moody's Investors Service

Exhibit 18
The gap between Paraguay's debt-to-GDP ratio and that of Ba and Baa peers has narrowed
Debt as a percentage of GDP



Source: Moody's Investors Service

Exhibit 19
Debt-to-revenue ratio is above the Ba and Baa medians because of low government revenue
Debt as a percentage of government revenue

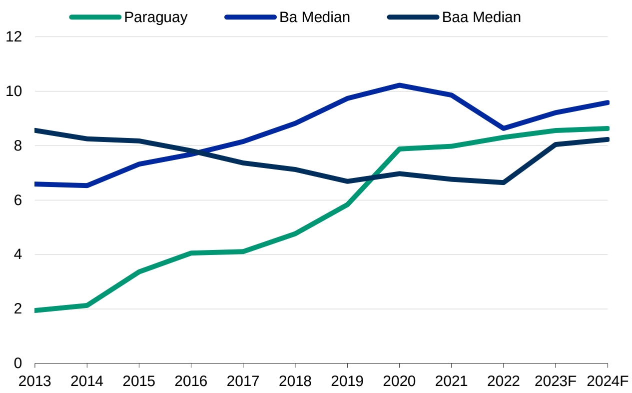


Source: Moody's Investors Service

Although Paraguay's debt stock is much lower than that of its peers, its tax collection is relatively low. On average, Paraguay collected 14% of GDP in revenue between 2010 and 2019, compared with the median for Ba-rated sovereigns of 24% of GDP and the median for Baa-rated sovereigns of 26% of GDP. Given this large discrepancy with peers, efforts to increase government revenue would likely bolster fiscal strength and have positive credit impacts.

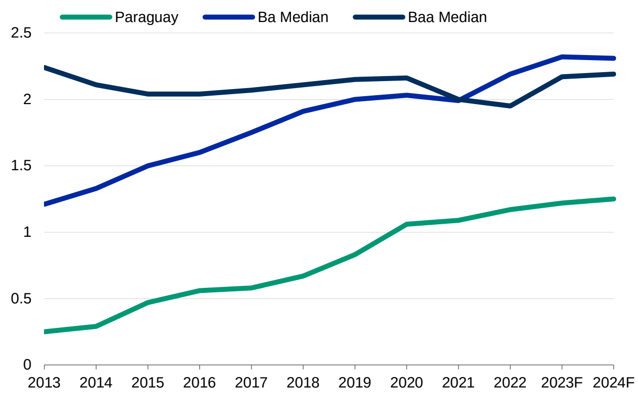
Paraguay's debt affordability, as measured by the ratio of interest payments to revenue, is relatively strong, but has deteriorated over the past decade to 8.3% in 2022 from 1.5% in 2011. In 2022, the Ba-rated median interest payments-to-revenue ratio was 8.6%, higher than that of Paraguay, while the Baa-rated median ratio was 6.6% (see Exhibit 20). However, Paraguay's interest payments in proportion to the size of its overall economy are much lower than those of its peers (see Exhibit 21). Interest payments to GDP were 1.2% in 2022, compared with around 2% for the medians of both the Ba and Baa categories.

Exhibit 20
Debt affordability for Paraguay is better than that of Ba peers despite a recent increase
Interest payment as a percentage of revenue



Source: Moody's Investors Service

Exhibit 21
Interest payments as a share of GDP are significantly below those of peers
Interest payments as a percentage of GDP



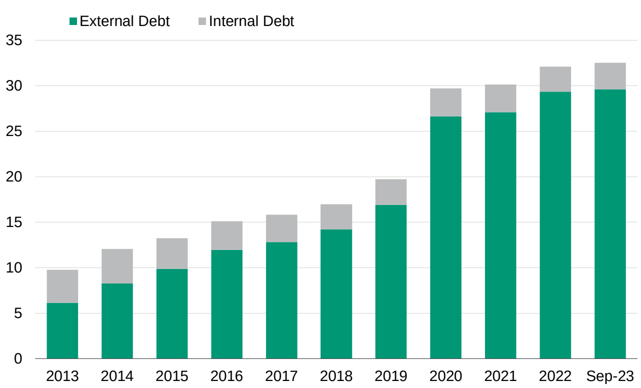
Source: Moody's Investors Service

Paraguay has a high share of foreign-currency debt but more than 40% is from multilateral or bilateral creditors

Paraguay has a relatively high share of foreign-currency government debt, at 92% of total debt as of September 2023 (see Exhibit 22). Although this is a source of vulnerability, there are significant mitigating factors: the large portion of multilateral and bilateral loans with long maturities; and a steady stream of foreign-exchange revenue from electricity exports to Brazil and Argentina, generated by the Itaipú and Yacyretá dams, which create a natural currency hedge. The government is also making efforts to increase the share of local-currency borrowing and develop the domestic bond market.

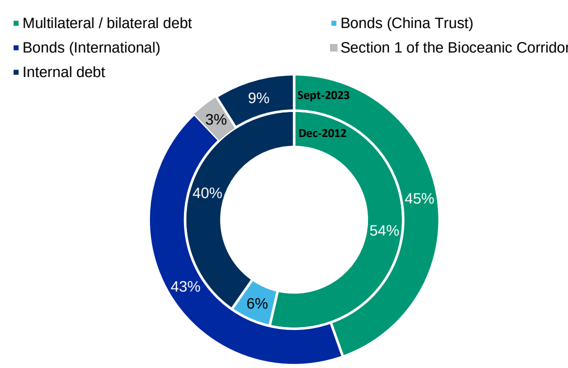
The government has accessed global capital markets multiple times since its first issuance in 2013. The bonds shifted the composition of the government's debt and reduced the share of both multilateral and bilateral debt and domestic debt. As of September 2023, 45% of Paraguay's central government debt was owed to MDBs and bilateral creditors, compared with 54% in 2012 (see Exhibit 23). Paraguay's global bonds have long maturities (10 and 30 years) and favorable interest rates (4%-6% yields). Because of the still-high portion of financing from MDBs, Paraguay's debt remains relatively affordable.

Exhibit 22
Most of Paraguay's central government debt is external
As a percentage of GDP



Sources: Ministerio de Hacienda and Banco Central del Paraguay

Exhibit 23
Paraguay has increased its presence in international capital markets
Central government debt composition (as a percentage of total debt)



Sources: Ministerio de Hacienda and Banco Central del Paraguay

Fiscal Responsibility Law of 2013

In late October 2013, Congress approved Law 5098, the FRL. The law includes the following stipulations:

- The central government's fiscal deficit should not exceed 1.5% of GDP beginning in 2015. There is an exception to this rule to account for any economic shocks or crisis, but the deficit may not exceed 3% of GDP even in response to those exceptions.
- The annual increase in public-sector current primary spending cannot exceed inflation plus 4%.
- Public-sector salaries will not rise except when there is an increase in the minimum wage. The minimum wage can be increased when inflation exceeds 10% year over year. When there is an increase in salaries, the maximum raise should be equivalent to the increase in the minimum wage and be incorporated into the budget for the following year. Currently, the adjustment of the minimum wage depends on the National Minimum Wage Council. The council bases the adjustment on the CPI and reviews that adjustment each year in June.
- Congress may no longer adjust revenue projections in the budget that are submitted by the executive branch.
- During years when there are general elections, the central government's current primary spending from January to July may not exceed 60% of the budget for that year.
- The government will create a multiyear (three-year) budget as a reference to determine the adequate provisioning of revenue and expenditure over the medium term.

Susceptibility to event risk score: a

Factor 4: Overall score

Scale	aaa	aa	a	baa	ba	b	caa	ca	
+			Final						-

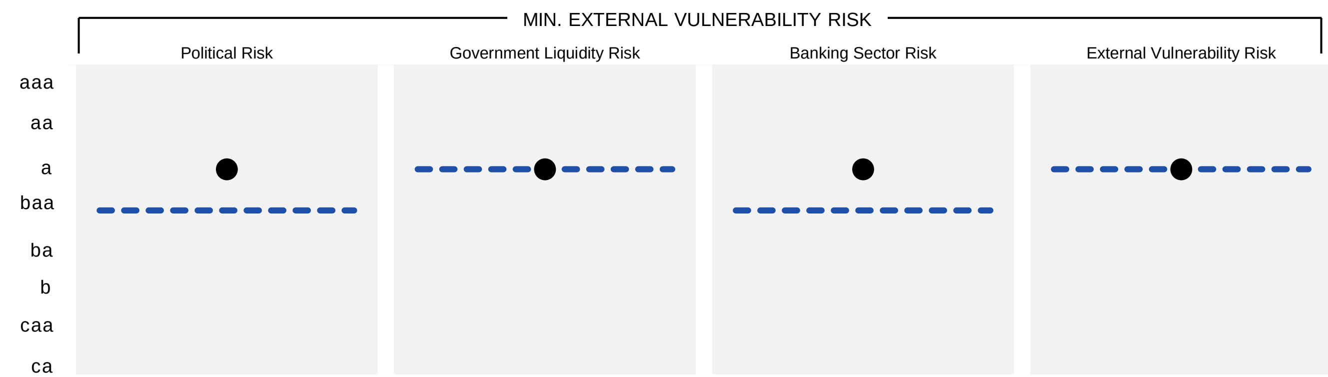
Factor 4: Sub-scores

Paraguay	a

● Score for Paraguay

- - - - Median of countries with Ba1 rating

Overall adjustment to Factor 4 Susceptibility to Event Risk: **0**



Susceptibility to event risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility to event risk is a constraint which can only lower the scorecard-indicated outcome.
Note: the initial factor score is shown in light blue in the scale above. In case the initial and final factor scores are the same, only the final score will appear in the table above.

Paraguay's "a" score for susceptibility to event risk reflects scores of "a" for political risk, "a" for government liquidity risk, "a" for banking sector risk and "a" for external vulnerability risk.

Political risk: a

Exhibit 24

Peer comparison table factor 4a: Political risk

	Paraguay Ba1/POS	a Median	Dominican Republic Ba3/POS	Indonesia Baa2/STA	Mauritius Baa3/STA	Panama Baa3/STA	Iceland A2/POS	Slovenia A3/STA
Final score	a		a	a	a	baa	aa	baa
Voice & accountability, score[1]	0.0	0.6	0.3	0.1	0.6	0.5	1.4	1.0
Political stability, score[1]	0.0	0.9	0.3	-0.4	0.8	0.3	1.3	0.7

[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Sources: National authorities, IMF and Moody's Investors Service

Paraguay's political risk is low because we do not expect political events to significantly weaken credit metrics, lead to substantial changes in economic policies or impair the government's willingness or ability to service debt.

Economic policy is not a source of conflict in Paraguay's political landscape. Both the incumbent Colorado Party and the Concertacion — a coalition of opposition parties of different political backgrounds running under a united ticket — are committed to maintaining Paraguay's conservative fiscal policies, central bank independence and openness to foreign investment.

Santiago Peña of the ruling Colorado Party was sworn in as the new president of Paraguay in August 2023. Since the ruling Colorado Party won majorities in both houses of Congress, President Peña should be able to advance his agenda as long as he smooths divisions within his party. This new administration is committed to policy continuity, and is moving to address institutional and structural challenges while benefiting from IMF's assistance in form of the two-year Policy Coordination Instrument (PCI) that was approved in November 2022. There will be heavy emphasis on passing reforms in the next two years before the municipal elections take place.

On 20 July, the US (Aaa negative) State Department designated former president Horacio Cartes ineligible for entry to the US because of "significant involvement" in acts of corruption while in office. The Paraguayan Chamber of Deputies has begun an impeachment process against Attorney General Sandra Quiñónez for alleged protection of the former president. A bicameral investigative commission on money laundering has also made a formal request to the former president to testify regarding money laundering accusations. Although these events could have political implications, we do not expect direct credit implications as these will not have an immediate impact on the general path of economic policymaking and institutional reform efforts. Moreover, clears measures have been taken to improve rule of law and control of corruption in Paraguay, which are positive for our assessment of institutions and governance strength.

Government liquidity risk: a

Exhibit 25

Peer comparison table factor 4b: Government liquidity risk

	Paraguay Ba1/POS	a Median	Azerbaijan Ba1/STA	Guatemala Ba1/STA	Morocco Ba1/STA	Sharjah Ba1/STA	Peru Baa1/NEG	Cote d Ivoire Ba3/POS
Final score	a		a	a	a	a	aa	baa
Initial score	a		a	a	a	a	aa	baa
Ease of access to funding	a	a	a	a	a	a	aa	baa
Gross borrowing requirements (% of GDP)	5.7	8.0	3.1	5.0	13.5	13.4	3.4	9.3

Sources: National authorities, IMF and Moody's Investors Service

We assess government liquidity risk as limited, at "a," given historically low fiscal deficits and small borrowing requirements. Although external debt makes up a large share of total debt, much of it is from multilateral lenders at concessional rates, thereby limiting external risks. The sovereign has improved its access to global international capital markets since its first external bond issuance in 2013.

Borrowing needs in 2022 represented about 6% of GDP and were financed by a combination of bond issuance on international capital markets, financing from MDBs and issuance in the domestic bond market. Gross borrowing requirements will remain around 5% of GDP in 2023, in line with the higher deficit recently announced for the year. Paraguay's financing needs are less than the median for sovereigns with a government liquidity risk of "a," as well as the Ba median (which is about 7%) and the Baa median of 10%.

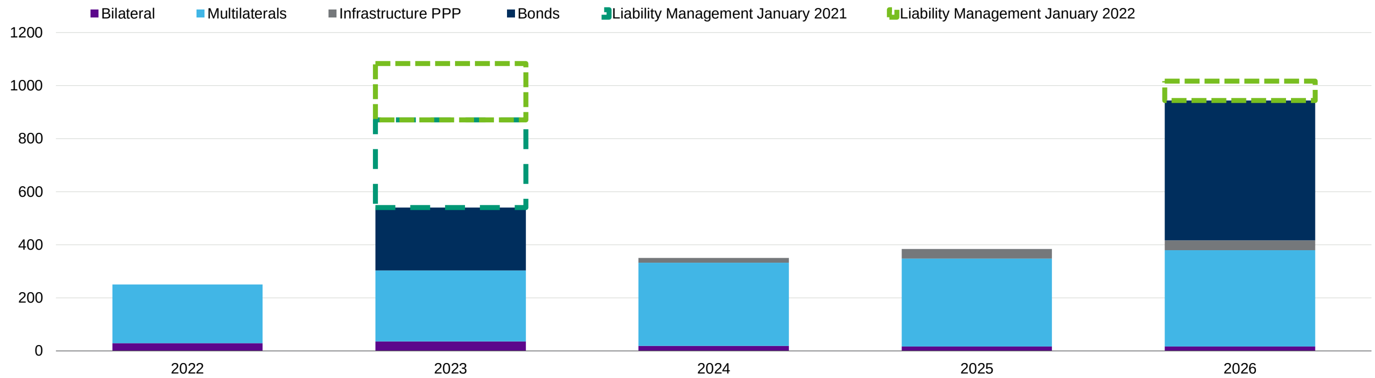
$500 million global bond issuance partly used for liability management operation

On 28 June 2023, Paraguay issued $500 million in global bonds maturing in 2033 at a rate of 5.85%. Proceeds will be used to buy back bonds that come due in 2026 as well as for general government purposes. Paraguay's global sovereign bond program is relatively new; after issuing its first global bond in 2013, the sovereign has issued a total of ten series bonds for about $7.2 billion since. As of September 2023, international bonds accounted for 43% of Paraguay's total government debt. In January 2021, following an issuance of $826 million, the Ministry of Finance conducted a similar bond repurchase of 2023 bonds, reducing the principal amount by $330 million. If we combine both liability management operations, Paraguay has managed to prepay over 70% of the 2023 international bond maturities before they were due. These liability management operations have helped smooth the repayment schedule of Paraguay's external bonds and limit external vulnerabilities (see Exhibit 26).

Exhibit 26

Liability management operations have helped smooth the repayment schedule in the coming years

External bond maturities in $ millions



Sources: Ministerio de Hacienda de Paraguay and Moody's Investors Service

Banking sector risk: a

Exhibit 27

Peer comparison table factor 4c: Banking sector risk

	Paraguay Ba1/POS	a Median	Colombia Baa2/STA	Indonesia Baa2/STA	Panama Baa3/STA	Peru Baa1/NEG	Mexico Baa2/STA	Guatemala Ba1/STA
Final score	a		a	a	a	a	aa	baa
Initial score	a		a	a	a	a	aa	baa
BCA[1]	ba2	baa2	ba1	baa3	ba1	baa2	baa2	ba3
BSCE[2]	ba1-ba2	baa2	ba1-ba2	baa3	baa3	baa3	baa2	ba3-b3
Total domestic bank assets (% of GDP)	63.4	170.6	63.2	57.7	145.9	61.5	42.5	66.1

[1] BCA is an average of Baseline Credit Assessments (BCAs) for rated domestic banks, weighted by bank assets.
[2] Where we have no or small rating coverage in a system, we estimate the risk of Banking Sector Credit Event (BSCE) based on available data for aggregate banking system.
Sources: National authorities, IMF and Moody's Investors Service

Banking sector risk is set at "a," reflecting the sector's relatively small size; the banking sector's assets were equivalent to only 63% of GDP in 2022. The Paraguayan banking sector comprises 13 commercial banks, one government-owned development bank, three branches of international banks and numerous nonbanking institutions (finance companies) regulated by the Central Bank of Paraguay. Banks' lending portfolios are concentrated in loans to the country's large agribusiness sector and small businesses, while non-bank lenders dominate the market for consumer loans.

Favorable growth prospects balance out the risks associated with recent years' extensive regulatory forbearance. Use of central bank forbearance has contained rural loans' delinquencies since Paraguay's drought began in late 2021. A robust recovery in the sector's activity projected for 2023 will benefit loan-quality metrics in the next 12-18 months. We expect consumer credit to continue to push up the level of system's nonperforming loans, which rose to 2.9% in December 2022 from 2.2% a year earlier, as high living and debt-service costs will keep weighing on household budgets, while the quality of loans to wholesale and agribusiness sector will improve gradually. Special provisioning measures[3] ended in December 2022, but the elevated level of loans under such conditions, at 6.8% of gross loans, combined with refinanced and restructured credit accounting for an additional 3% of the total portfolio, compound riskier loans that would be more vulnerable in a downturn. Reserve coverage of 129% of problem loans, along with the collateralization of agricultural lending, serve as buffers against asset risk.

Steady core-deposit system will ease reliance on market-sensitive funding. Credit outgrew deposits over the last two years amid a recovery in household consumption, but we expect banks' loan-to-deposit ratio, at 95% in December 2022, to remain roughly stable in the next 12 months amid Paraguay's contractionary monetary policy. Liquid assets, mainly placed in local government securities and reserves at the central bank, will remain adequate to cover market funding risks in 2023. Foreign-currency deposits accounted for 46% of total deposits in December 2022, but currency mismatches will remain limited given the high volume of system loans to exporters.

Government support is backed by the improving fiscal position of the Paraguayan government. We continue to assume a high probability of government support for deposits and senior debt at Paraguay's largest banks. The government's capacity to support banks benefits from its strong fiscal position.

External vulnerability risk: a

Exhibit 28

Peer comparison table factor 4d: External vulnerability risk

	Paraguay Ba1/POS	a Median	Azerbaijan Ba1/STA	Morocco Ba1/STA	Senegal Ba3/STA	Serbia Ba2/STA	Brazil Ba2/STA	El Salvador Caa3/STA
Final score	a		a	a	a	a	aa	baa
Initial score	a		a	a	a	a	aa	baa
Current account balance (% of GDP)	-7.5	-2.9	29.8	-3.6	-19.9	-7.0	-2.8	-6.6
Net IIP (% of GDP)[1]	-34.6	-34.6	--	-59.8	-83.9	-81.9	-41.5	-49.4
External debt (% of current account receipts)	123.7	94.2	26.6	89.4	265.7	92.5	159.4	111.3
External vulnerability indicator (EVI)[2]	68.6	60.7	47.1	69.9	69.0	50.6	40.4	149.7

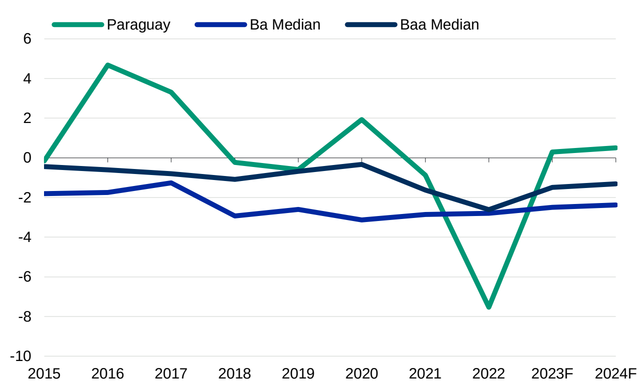
[1] Net international investment position (% of GDP).
[2] (Short-term external debt + currently maturing long-term debt + total nonresident deposits over one year)/official foreign exchange reserves.
Sources: National authorities, IMF and Moody's Investors Service

Paraguay has maintained a more favorable current-account position over the past decade than its Ba and Baa peers (see Exhibit 29). Between 2015 and 2019, Paraguay averaged a current-account surplus of 1.4% of GDP, while the average for the Ba and Baa medians were deficits of 2.1% and 1% of GDP, respectively.

Paraguay's current account balance is heavily influenced by the performance of the agricultural sector. We expect a current account surplus of 0.3% of GDP in 2023, a significant reversal after the drought greatly widened the deficit in 2022 to 7.5%. Moving forward, in 2024, we expect the current account to remain in surplus at 0.5% of GDP in 2024 as exports continue to grow.

Exhibit 29

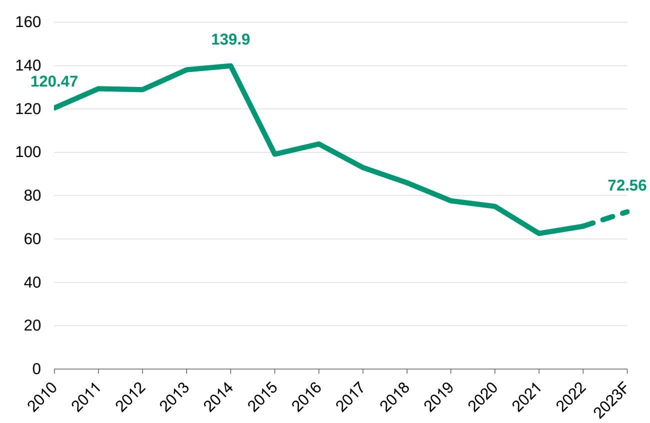
Paraguay's current account balance will turn to surplus in 2023
As a percentage of GDP



Source: Moody's Investors Service

Exhibit 30

External vulnerability has been decreasing gradually
(External Vulnerability Indicator)



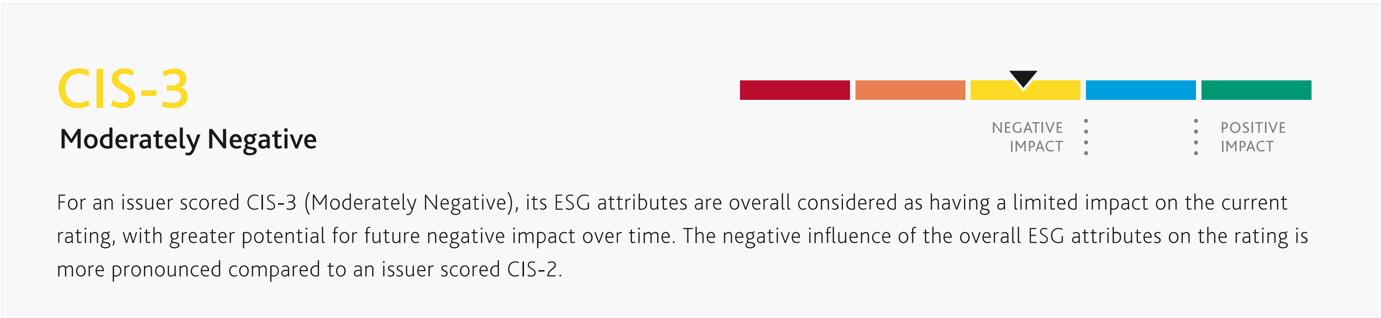
Sources: Moody's Investors Service and Central Bank of Paraguay

Paraguay's External Vulnerability Indicator (EVI), which measures total upcoming external debt payments relative to reserves, was 66% in 2022, down from 140% in 2014 (see Exhibit 30). Vulnerability to external shocks is limited given the country's low debt levels, adequate reserve buffer and a flexible exchange rate. Gross dollar reserves were $9.2 billion as of October 2023, up over 60% from what they were a decade earlier ($5.7 billion in October 2014).

ESG considerations

Paraguay's ESG Credit Impact Score is Moderately Negative CIS-3

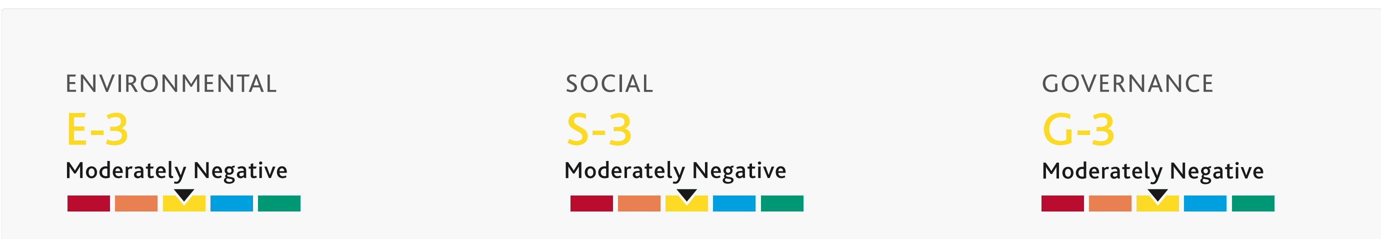
Exhibit 31
ESG Credit Impact Score



Source: Moody's Investors Service

Paraguay's ESG Credit Impact Score is moderately negative (**CIS-3**) reflecting a relatively weak governance profile, despite broadly effective macroeconomic and fiscal policies. Social risks are moderately negative, and exposure to environmental risks is moderately negative, supported by strong resilience due to strong fiscal metrics

Exhibit 32
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

We assess Paraguay's exposure to environmental risks as moderately negative (**E-3** issuer profile score) reflecting the risk of droughts and flooding on agricultural and hydroelectric generation, balanced against Paraguay's position as a producer and exporter of clean energy and limited reliance on hydrocarbon.

Social

Paraguay’s exposure to social risks is moderately negative (**S-3** issuer profile score), balancing positive demographic trends with relatively weak educational outcomes that limit Paraguay’s competitiveness.

Governance

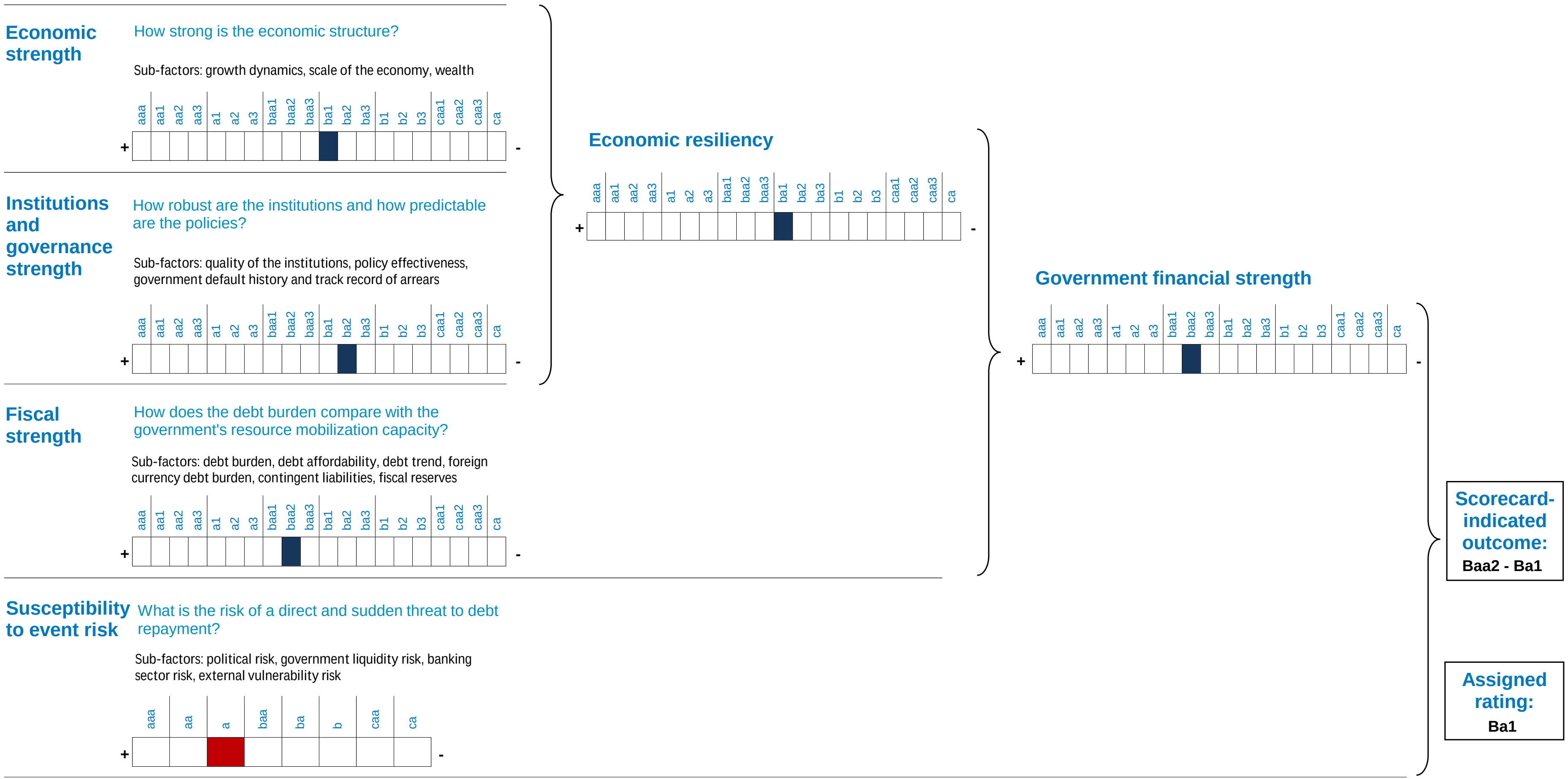
The influence of governance on Paraguay's credit profile is moderately negative (**G-3** issuer profile score) reflecting the impact of relatively weak, but improving governance indicators related to corruption and rule of law. This is balanced against a track record of sound macroeconomic policies and strong fiscal metrics.

All of these considerations are further discussed in the “Credit profile” section above. Our approach to ESG is explained in our report on how the scores depict varied and largely credit-negative impact of ESG factors and our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks Methodology.

Scorecard-indicated outcome

Combining the scores for individual factors provides the scorecard-indicated outcome. While the 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 Rating Methodology: Sovereigns.

Exhibit 33
Sovereign rating metrics: Paraguay



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information of Paraguay with other sovereigns that we rate. It focuses on a comparison with sovereigns within the same scorecard-indicated outcome, and shows the relevant credit metrics and factor scores.

Paraguay's “ba1” economic strength score is slightly below the median score for Ba1 peers, reflecting the relatively high growth rate and balanced against its relatively small size and growth volatility. At “ba2,” its institutions and governance strength assessment is below the peer median score of “baa3.” Paraguay's “baa2” fiscal strength score is in line with the Ba1 peer median score. The country's “a” susceptibility to event risk score is above the Ba1 peer median score of “ba.”

Exhibit 34
Paraguay's key peers

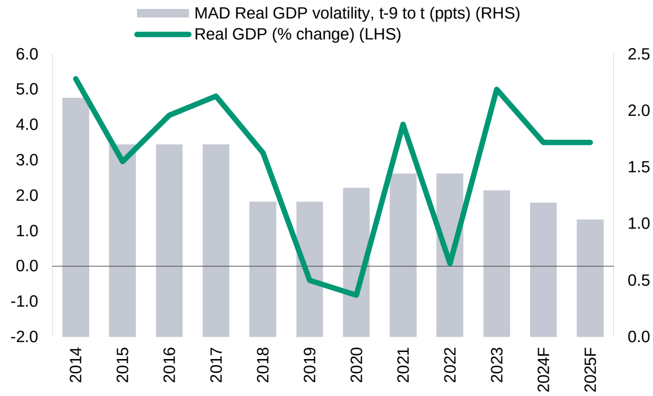
	Year	Paraguay	Guatemala	Serbia	Morocco	Sharjah	Romania	Ba1 Median	Latin America and Caribbean Median
Rating/outlook		Ba1/POS	Ba1/STA	Ba2/STA	Ba1/STA	Ba1/STA	Baa3/STA	Ba1	B1
Scorecard-indicated outcome		Baa2 - Ba1	Ba1 - Ba3	Ba1 - Ba3	Baa2 - Ba1	Baa3 - Ba2	Baa1 - Baa3	Baa3 - Ba2	Ba3 - B2
Factor 1		**ba1**	**baa3**	**baa3**	**ba1**	**baa3**	**a3**	**baa3**	**ba2**
Nominal GDP ($ bn)	2022	41.7	95.0	63.6	130.9	37.3	300.7	86.9	42.9
GDP per capita (PPP, Intl$)	2022	14,535	10,076	24,564	9,900	33,761	38,703	16,167	17,498
Avg. real GDP (% change)	2018 - 2027F	2.5	3.4	3.5	2.5	1.5	3.2	2.3	1.9
MAD Volatility in real GDP growth (ppts)	2013 - 2022	1.4	0.5	1.3	1.6	1.0	1.4	1.3	1.1
Factor 2		**ba2**	**ba3**	**baa3**	**baa2**	**baa2**	**baa3**	**baa3**	**ba2**
Quality of legislative & executive institutions	Latest available	ba	b	baa	baa	baa	ba	baa	ba
Strength of civil society & judiciary	Latest available	b	caa	ba	ba	ba	ba	ba	ba
Fiscal policy effectiveness	Latest available	ba	ba	baa	baa	ba	baa	ba	ba
Monetary & macro policy effectiveness	Latest available	baa	baa	baa	a	aa	baa	baa	ba
Gen. gov. fiscal balance (% of GDP)	2022 - 2024F	-3.2	-2.0	-2.7	-4.8	-6.7	-5.9	-2.6	-2.7
Average inflation (% change)	2018 - 2027F	4.4	4.6	5.2	2.7	1.8	5.0	3.6	4.4
Volatility of inflation (ppts)	2013 - 2022	2.2	1.2	3.5	1.8	2.7	3.6	2.4	2.2
Factor 3		**baa2**	**baa2**	**ba1**	**baa2**	**ba3**	**a3**	**baa2**	**ba2**
Gen. gov. debt (% of GDP)	2022	37.9	29.0	55.6	64.9	45.7	47.2	41.8	61.0
Gen. gov. debt (% of revenue)	2022	269.0	229.1	127.1	250.4	571.2	140.0	259.7	264.5
Gen. gov. interest payments (% of revenue)	2022	8.3	13.2	3.5	8.3	20.6	4.4	8.3	9.1
Gen. gov. interest payments (% of GDP)	2022	1.2	1.7	1.5	2.2	1.6	1.5	1.7	2.1
Factor 4		**a**	**ba**	**ba**	**ba**	**baa**	**ba**	**ba**	**ba**
Political risk	Latest available	**a**	**ba**	**ba**	**baa**	**baa**	**ba**	**baa**	**baa**
Government liquidity risk	Latest available	**a**	**a**	**baa**	**a**	**a**	**a**	**a**	**baa**
Gross borrowing requirements (% of GDP)	2023F	5.7	5.0	11.1	13.5	13.4	15.8	8.2	6.5
Banking sector risk	Latest available	**a**	**baa**	**baa**	**ba**	**a**	**a**	**baa**	**baa**
BSCE[1]	Latest available	ba1-ba2	ba3-b3	ba1-ba2	ba3-b3	baa2	ba1-ba2	ba3-b3	ba3-b3
Total domestic bank assets (% of GDP)	2022	63.4	66.1	79.9	130.3	--	54.1	66.1	69.8
External vulnerability risk	Latest available	**a**	**aa**	**a**	**a**	**aa**	**baa**	**a**	**baa**
Current account balance (% of GDP)	2022	-7.5	1.3	-7.0	-3.6	--	-9.1	-3.6	-4.0
External vulnerability indicator (EVI)	2024F	68.6	28.6	50.6	69.9	--	113.4	57.9	45.2
External debt (% of current account receipts)	2022	123.7	46.3	92.5	89.4	--	106.6	67.9	125.9
Net international investment position (% of GDP)	2022	-34.6	-6.7	-81.9	-59.8	--	-41.0	-47.2	-42.7

[1] BSCE is our estimate of the risk of a Banking Sector Credit Event (BSCE), which we use for sovereigns where we have no or very limited rating coverage of a system. Otherwise, we use the Baseline Credit Assessment (BCA) for rated domestic banks, weighted by bank assets.
Sources: National authorities, IMF and Moody's Investors Service

DATA, CHARTS AND REFERENCES

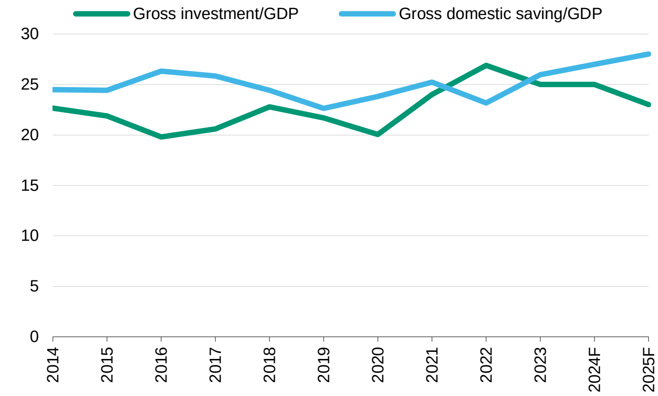
Chart pack: Paraguay

Exhibit 35
Economic growth



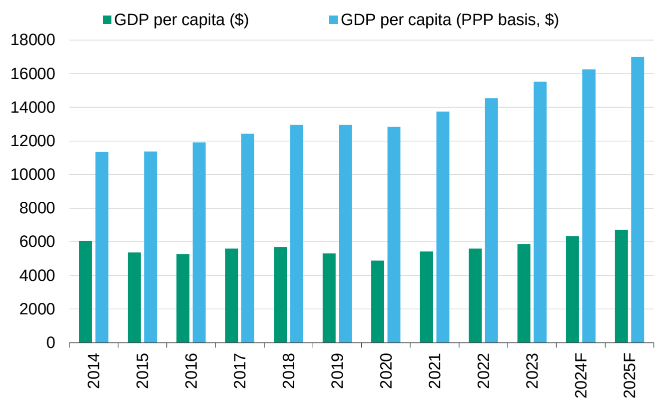
Source: Moody's Investors Service

Exhibit 36
Investment and saving



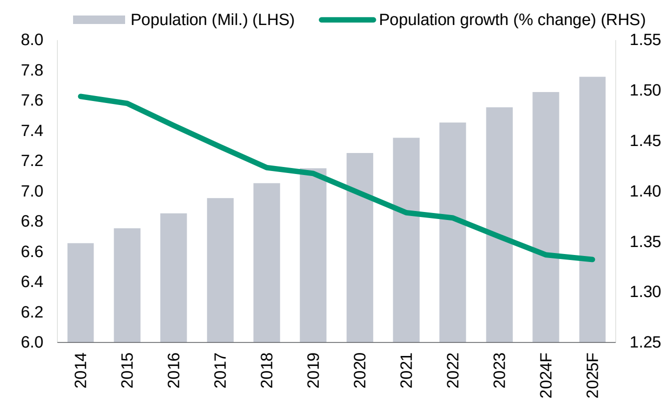
Source: Moody's Investors Service

Exhibit 37
National income



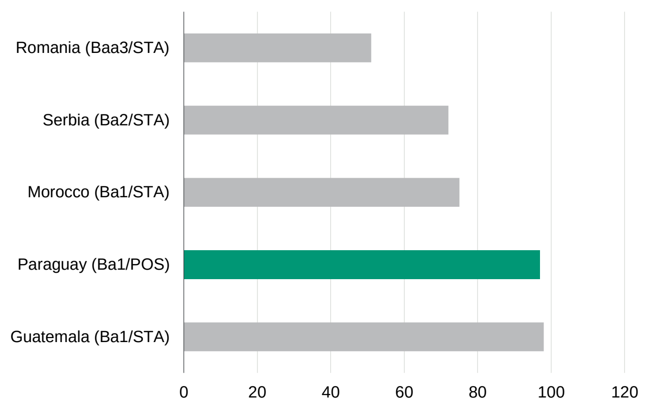
Source: Moody's Investors Service

Exhibit 38
Population



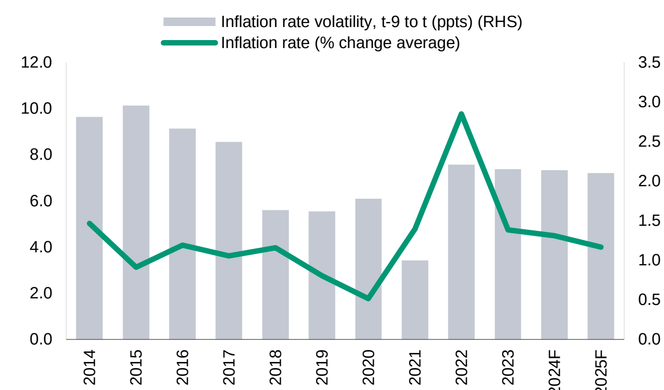
Source: Moody's Investors Service

Exhibit 39
Global Competitiveness Index
Rank [97] out of 141 countries



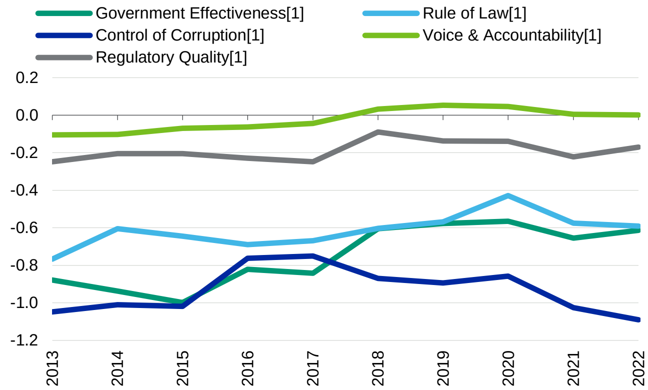
Source: World Economic Forum

Exhibit 40
Inflation and inflation volatility



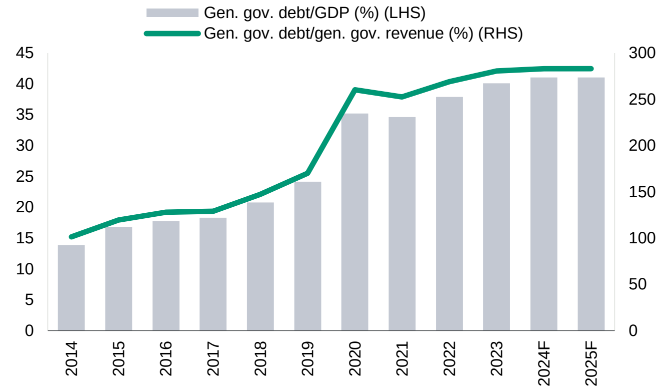
Source: Moody's Investors Service

Exhibit 41
Institutional framework and effectiveness



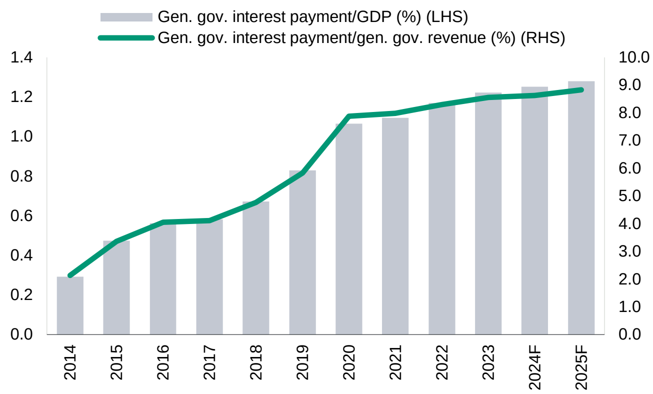
[1] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
Source: Worldwide Governance Indicators

Exhibit 42
Debt burden



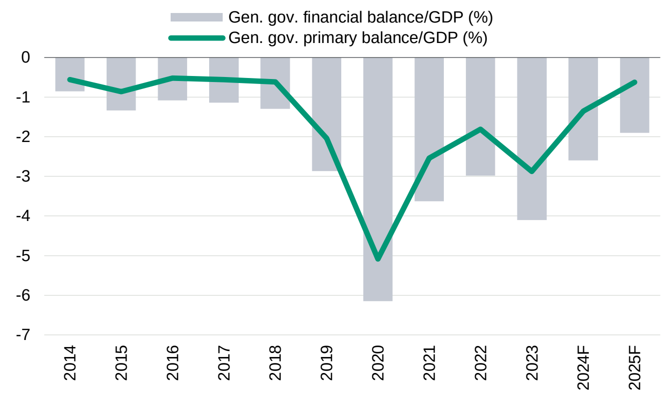
Source: Moody's Investors Service

Exhibit 43
Debt affordability



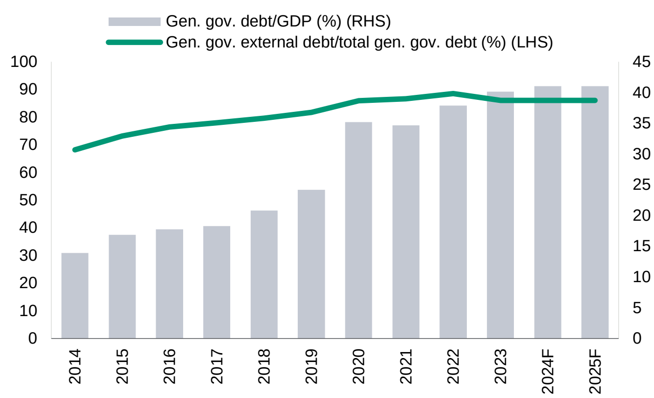
Source: Moody's Investors Service

Exhibit 44
Financial balance



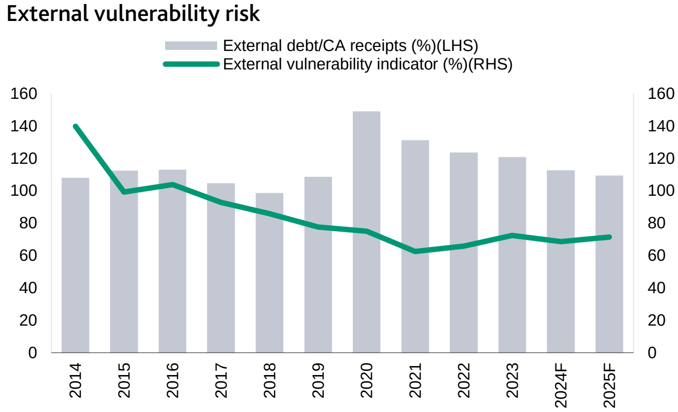
Source: Moody's Investors Service

Exhibit 45
Government liquidity risk



Source: Moody's Investors Service

Exhibit 46
External vulnerability risk



Source: Moody's Investors Service

Rating history

Exhibit 47

Paraguay[1]

Long Term Ratings		Outlook	Review Action		Short Term Ratings		Action Date
Foreign Currency	Local Currency		Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Ba1	Ba1	POS	-	-	-	-	Jul-22
Ba1	Ba1	STA	-	-	-	-	Mar-15
Ba2	Ba2	POS	-	-	-	-	Feb-14
Ba3	Ba3	STA	-	-	-	-	Jan-13
B1	B1	STA	-	-	-	-	Dec-10
B3	B3	RUR	Review for Upgrade	Review for Upgrade	-	-	Jun-10
B3	B3	STA	-	-	-	-	Apr-08
Caa1	Caa1	RUR	Review for Upgrade	Review for Upgrade	-	-	Nov-07
Caa1	Caa1	STA	-	-	-	-	Nov-03
Caa1	Caa1	-	-	-	-	-	Apr-03
B2	B1	-	-	-	-	-	Jul-98

[1] Table excludes rating affirmations and ceilings. Please visit the issuer page for Paraguay for the full rating history.
Source: Moody's Investors Service

Annual statistics

Exhibit 48

Paraguay

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
Economic structure and performance												
Nominal GDP (US$ bil.)	40.4	36.2	36.1	39.0	40.2	37.9	35.4	40.0	41.7	44.4	48.5	52.2
Population (Mil.)	6.7	6.8	6.9	7.0	7.1	7.2	7.3	7.4	7.5	7.6	7.7	7.8
GDP per capita (US$)	6,065	5,360	5,265	5,608	5,703	5,302	4,885	5,433	5,597	5,879	6,338	6,724
GDP per capita (PPP basis, US$)	11,355	11,373	11,907	12,434	12,956	12,952	12,834	13,759	14,535	--	--	--
Nominal GDP (% change, local currency)	8.3	4.6	8.6	7.1	5.2	2.6	1.4	12.8	7.6	10.0	7.5	7.5
Real GDP (% change)	5.3	3.0	4.3	4.8	3.2	-0.4	-0.8	4.0	0.1	5.0	3.5	3.5
Inflation rate (% change average)	5.0	3.1	4.1	3.6	4.0	2.8	1.8	4.8	9.8	4.7	4.5	4.0
Gross investment/GDP	22.7	21.9	19.8	20.6	22.8	21.7	20.0	24.0	26.9	25.0	25.0	23.0
Gross domestic saving/GDP	24.5	24.4	26.3	25.9	24.4	22.6	23.8	25.2	23.2	26.0	27.0	28.0
Nominal exports of G & S (% change, US$ basis)	-4.3	-12.2	6.6	11.0	-0.4	-7.7	-13.9	20.3	1.5	18.1	13.1	8.2
Nominal imports of G & S (% change, US$ basis)	1.3	-14.2	-5.2	16.2	10.4	-5.9	-21.6	31.0	20.0	2.6	12.6	7.3
Openness of the economy[1]	69.1	66.9	67.8	71.1	72.1	71.2	62.8	69.7	73.9	76.2	78.7	78.9
Government Effectiveness[2]	-0.9	-1.0	-0.8	-0.8	-0.6	-0.6	-0.6	-0.7	-0.6	--	--	--
Government finance												
Gen. gov. revenue/GDP[3]	13.7	14.1	13.9	14.2	14.1	14.2	13.5	13.7	14.1	14.3	14.5	14.5
Gen. gov. expenditures/GDP[3]	14.6	15.4	15.0	15.3	15.4	17.1	19.7	17.3	17.1	18.4	17.1	16.4
Gen. gov. financial balance/GDP[3]	-0.8	-1.3	-1.1	-1.1	-1.3	-2.9	-6.1	-3.6	-3.0	-4.1	-2.6	-1.9
Gen. gov. primary balance/GDP[3]	-0.6	-0.9	-0.5	-0.6	-0.6	-2.0	-5.1	-2.5	-1.8	-2.9	-1.3	-0.6
Gen. gov. debt (US$ bil.)[3]	5.4	5.5	6.3	7.2	8.0	8.9	12.2	13.6	15.1	18.1	19.9	21.4
Gen. gov. debt/GDP[3]	13.9	16.8	17.8	18.3	20.8	24.2	35.2	34.6	37.9	40.1	41.0	41.0
Gen. gov. debt/gen. gov. revenue[3]	101.4	119.4	127.9	129.1	147.3	170.0	260.5	252.7	269.0	280.5	283.1	283.1
Gen. gov. interest payments/gen. gov. revenue[3]	2.1	3.4	4.0	4.1	4.8	5.8	7.9	8.0	8.3	8.5	8.6	8.8
Gen. gov. FC & FC-indexed debt/gen. gov. debt[3]	68.2	73.1	76.5	78.0	79.6	81.7	85.9	86.7	88.5	86.0	86.0	86.0
External payments and debt												
Nominal exchange rate (local currency per US$, Dec)	4635.7	5806.9	5766.9	5590.5	5960.5	6453.1	6916.8	6879.1	7331.3	7100.0	7100.0	7100.0
Real eff. exchange rate (% change)	1.9	-2.4	-3.3	-0.6	3.1	-3.0	-1.3	-1.0	1.9	--	--	--
Current account balance (US$ bil.)	-0.3	-0.1	1.7	1.3	-0.1	-0.2	0.7	-0.4	-3.1	0.1	0.2	0.4
Current account balance/GDP	-0.8	-0.1	4.7	3.3	-0.2	-0.6	1.9	-0.9	-7.5	0.3	0.5	0.8
External debt (US$ bil.)	16.6	16.5	16.4	16.6	16.4	16.7	19.4	20.1	19.8	21.4	22.5	23.6
Public external debt/total external debt	26.1	27.8	33.1	37.4	42.8	46.8	57.0	63.3	72.2	72.2	72.2	72.2
Short-term external debt/total external debt	28.9	28.9	28.0	27.9	28.4	28.2	23.8	23.2	24.3	25.5	26.7	27.9
External debt/GDP	41.2	45.6	45.4	42.4	40.7	44.1	54.8	50.2	47.4	48.2	46.4	45.3
External debt/CA receipts[4]	108.2	112.4	113.1	104.7	98.6	108.7	149.2	131.3	123.7	120.9	112.6	109.6
Interest paid on external debt (US$ bil.)	0.3	0.4	0.5	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Amortization paid on external debt (US$ bil.)	2.8	1.6	0.9	1.3	1.7	0.9	0.6	0.7	1.3	1.6	1.1	1.2
Net foreign direct investment/GDP	1.1	0.9	1.3	0.2	0.5	1.4	0.3	0.2	0.5	--	--	--
Net international investment position/GDP	-32.3	-34.7	-32.6	-28.4	-28.8	-30.9	-31.4	-29.9	-34.6	--	--	--
Official forex reserves (US$ bil.)	6.5	5.5	6.4	7.3	7.2	7.1	8.5	9.0	8.9	9.6	10.1	10.6
Net foreign assets of domestic banks (US$ bil.)	-1.2	-1.0	-0.8	-0.8	-1.1	-0.7	0.5	-0.2	-1.0	--	--	--

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
Monetary, external vulnerability and liquidity indicators												
M2 (% change Dec/Dec)	7.8	5.8	8.0	16.4	6.2	7.2	19.1	6.8	3.0	--	--	--
Monetary policy rate (% per annum, Dec 31)[5]	6.8	5.8	5.5	5.3	5.3	4.0	0.8	5.3	8.5	--	--	--
Domestic credit (% change Dec/Dec)	17.4	23.8	0.9	5.2	16.1	13.0	5.1	13.7	14.5	--	--	--
Domestic credit/GDP	31.2	36.9	34.3	33.7	37.2	41.0	42.5	42.8	45.5	--	--	--
M2/official forex reserves (X)	1.2	1.2	1.1	1.1	1.2	1.2	1.1	1.1	1.1	--	--	--
Total external debt/official forex reserves	256.8	301.6	256.7	225.7	228.5	234.8	228.5	223.4	223.3	223.3	223.3	223.3
Debt service ratio[6]	19.9	13.6	9.4	11.2	13.9	9.0	8.5	8.0	11.0	12.0	8.4	8.1
External vulnerability indicator (EVI)[7][8]	139.9	99.2	103.9	92.9	85.9	77.7	75.1	62.6	65.9	72.6	68.6	71.4
Liquidity ratio[9]	138.4	105.7	92.4	66.3	106.7	66.6	42.1	53.9	86.1	--	--	--
Total liabilities due BIS banks/total assets held in BIS banks	123.3	97.5	84.0	84.5	89.5	93.9	43.9	63.0	102.7	--	--	--
"Dollarization" ratio[10]	43.7	48.4	46.7	43.6	43.2	43.9	44.1	44.8	45.1	--	--	--
"Dollarization" vulnerability indicator[11]	78.0	89.6	82.1	74.4	75.5	79.3	67.8	75.5	77.4	--	--	--

[1] Sum of Exports and Imports of Goods and Services/GDP.
[2] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions.
[3] Central Government.
[4] Current Account Receipts.
[5] Deposit rate.
[6] (Interest + Current-Year Repayment of Principal)/Current Account Receipts.
[7] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Foreign Exchange Reserves.
[8] Excludes total nonresident deposits over one year.
[9] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks.
[10] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System.
[11] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks).
Source: Moody's Investors Service

Related websites and information sources

» Sovereign risk group webpage

» Sovereign ratings list

Endnotes

1 25.5% of a worker's salary is contributed to IPS, of which 16.5% is by the employer and 9% is the employee.

2 For a worker to receive retirement benefits through IPS, they have three options: (1) are 55 years of age and have 30 years of contributions to IPS; (2) are 60 years of age and have 25 years of contributions; or (3) are 65 years of age and have 15 years of contribution. As most employment opportunities are in the informal workforce, most workers switch between formal and informal jobs and are therefore rarely able to meet the full contribution requirements to receive benefits.

3 Special provisioning measures allowed banks to restructure loans instead of recognizing them as nonperforming and build provisions accordingly. Provisioning could also be deferred and realized over a 24-month period.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

REPORT NUMBER 1379334

Moody's INVESTORS SERVICE