



# PARAGUAY:

## THE PATH TOWARD THE CONSOLIDATION OF INVESTMENT GRADE AND INSTITUTIONAL CREDIBILITY

March 2026



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## ACRONYMS

<b>APP</b>	Public–Private Partnership
<b>IDB</b>	Inter-American Development Bank
<b>CAF</b>	Development Bank of Latin America (CAF – Development Bank of Latin America and the Caribbean)
<b>CGR</b>	Office of the Comptroller General of the Republic
<b>CNA</b>	National Anti-Corruption Council
<b>COVID-19</b>	Coronavirus Disease 2019
<b>DNCP</b>	National Directorate of Public Procurement
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>ENCC</b>	National Anti-Corruption Strategy
<b>ESG</b>	Environmental, Social, and Governance
<b>FATF / GAFI</b>	Financial Action Task Force
<b>FCPA</b>	Foreign Corrupt Practices Act
<b>IMF</b>	International Monetary Fund
<b>GAFI</b>	Financial Action Task Force
<b>MAPA Inversiones o Mapal Inversiones</b>	Public Investment Monitoring Platform (developed with IDB support)
<b>OECD</b>	Organisation for Economic Co-operation and Development (OECD)
<b>OEA</b>	Organization of American States
<b>OEE</b>	State Agencies and Entities
<b>OLACEFS</b>	Latin American and Caribbean Organization of Supreme Audit Institutions
<b>ONU</b>	United Nations
<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>PPP</b>	Public–Private Partnership
<b>S&amp;P</b>	Standard & Poor's
<b>SIAByS</b>	Integrated System for the Administration of Goods and Services
<b>SICP</b>	Public Procurement Information System
<b>TI</b>	Transparency International
<b>WGI</b>	Worldwide Governance Indicators

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# PARAGUAY

**is telling an important story today  
— a story that matters for all  
of Latin America and the Caribbean.**

In recent years, the country has reached a significant milestone: achieving investment grade in its sovereign credit rating. This recognition reflects market confidence in macroeconomic stability and in the credibility of its institutions.

This achievement is not the result of a favorable cycle or a single decision. It is the outcome of decades of reforms and a sustained trajectory of institutional strengthening.

Since the return to democracy, Paraguay has gradually advanced in consolidating its macroeconomic environment, strengthening its institutions, and modernizing public administration. Beginning in the 2000s, key reforms were deepened: stronger fiscal discipline, a more solid financial system, and clearer rules for economic policymaking. Later, the adoption of the inflation-targeting regime and the Fiscal Responsibility Law consolidated a framework of stability that has enabled the country to face external shocks with greater resilience.

The results reflect that effort — results that matter for people's lives. The economy grew a remarkable 6% last year. Unemployment closed the year at 3.6%, and poverty declined to around 20%. These advances show how strong institutions and consistent policies translate into better living conditions.

**The Inter-American Development Bank Group has accompanied this process.** Through financing, technical cooperation, and knowledge generation, we support institutional strengthening, improvements in public management, and the creation of conditions for investment and productive development.

We share a central conviction — a conviction confirmed by Paraguay's recent experience: sustainable development requires creating enabling conditions for private investment — strong institutions, consistent public policies, and clear rules that allow the private sector to grow, innovate, and generate employment.

In that same direction is our support for Paraguay's Country Programme with the Organisation for Economic Co-operation and Development (OECD), which helps align public policies with international standards and deepen institutional reforms.

**Paraguay's recent history offers an opportunity to reflect on this transformation process.** This book examines the path toward consolidating investment grade and the reforms that made this progress possible. Its experience provides valuable lessons for a region that today faces a new global context.

Latin America and the Caribbean — home to more than 650 million people — has a significant opportunity. The reorganization of global value chains, technological advances, and growing demand for critical minerals are reshaping the global economy. Seizing these opportunities requires strong institutions, coherent public policies, and conditions that attract investment, raise productivity, and generate sustainable growth.

Paraguay demonstrates that this path is possible.

Sincerely,

**Ilan Goldfajn**  
President  
**Inter-American Development Bank**



CHAPTER

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RECENT  
INSTITUTIONAL  
REFORMS  
**for the modernization  
of the State**

# RECENT INSTITUTIONAL REFORMS **for the modernization of the State**

*Dr. Carlos Fernández Valdovinos*  
*Minister of Economy and Finances of the Republic of Paraguay*

## **Introduction**

The recent economic history of Paraguay cannot be understood without recognizing the central role of institutional reforms. The consolidation of macroeconomic stability, the professionalization of public administration, and the strengthening of the financial system are the result of a cumulative process spanning more than three decades, marked by advances, corrections, and lessons learned.

Since the beginning of the democratic transition in 1989, the country has faced recurring episodes of instability, largely associated with structural weaknesses such as low tax revenue, macroeconomic volatility, institutional fragility, and an oversized State apparatus with limited management and control capabilities. Over time, however, a fundamental consensus has emerged: economic stability and institutional strength are essential conditions for sustainable development and the well-being of citizens.

Within this framework, the reform agenda pursued in recent years reflects a comprehensive vision of modernizing the State, recognizing that macroeconomic stability, while necessary, is not sufficient on its own. It also requires a State capable of planning, coordinating, and implementing public policies efficiently, transparently, and predictably, as well as a regulatory framework that generates appropriate incentives for investment, innovation, and productive activity.

These transformations, which today constitute milestones in national institutional development, give continuity to a process that began in the 1990s, intensified after the 2003 reforms, and systematically deepened in the last decade. The achievement of investment grade in 2024, reaffirmed in 2025, reflects the international community's confidence in the strength of the country's institutions and the coherence of its economic policy.

This chapter documents the trajectory of recent institutional reforms as part of a sustained process of building a more modern, efficient, and citizen-oriented State. First, it presents the historical background that allows us to understand the origin of the main structural weaknesses and the responses adopted at different times. Then, it analyzes recent reforms from two perspectives: on the one hand, those aimed at strengthening the State's institutional capacity and improving its performance in key areas of governance; and on the other, those aimed at modernizing the regulatory framework for markets, strengthening infrastructure provision, and improving interaction between the public and private sectors. Finally, it outlines the ongoing reform agenda necessary to consolidate the progress achieved and address the remaining development challenge.

## 1.1 Historical background: from instability to institutionalization

### 1.1.1 The 1990s: Initial reforms amid turbulence

The process of democratic opening that began in 1989 marked a fundamental change in Paraguay's institutional life. However, the transition to a modern State faced significant obstacles. The legacy of decades of political centralization and institutional weakness left a rigid State apparatus with low tax collection capacity, limited transparency, and high levels of economic informality.

Throughout the 1990s, these weaknesses manifested themselves in successive financial crises—particularly in 1995, 1997, and 2002—which highlighted the vulnerability of an insufficiently regulated financial system and the absence of effective supervisory mechanisms. These episodes were accompanied by sharp currency depreciations and inflationary spikes, the effects of which fell disproportionately on lower-income households, increasing poverty levels and deepening inequality. On the social and institutional front, the period was marked by growing public distrust and persistent questioning of the State's capacity to guarantee stability and well-being.<sup>1</sup>

Despite this adverse scenario, the 1990s saw strategically important institutional advances. The 1992 National Constitution introduced a paradigm shift by enshrining the independence of the Central Bank of Paraguay (BCP) as a pillar of the macroeconomic governance framework and by creating the General Comptroller of the Republic (CGR) as an external oversight body, strengthening public sector accountability mechanisms. These two elements remain fundamental to the country's institutional architecture.

<sup>1</sup> Central Bank of Paraguay (2025). From the process of strengthening economic institutions to investment grade. The role of the BCP from the perspective of its presidents.



Along the same lines, the promulgation of the Organic Charter of the BCP in 1995<sup>2</sup> regulated its functional, administrative and financial autonomy, establishing the basis for a technical and autonomous management of monetary policy.

In addition, the General Banking Law was approved, which introduced basic regulatory standards for the financial system<sup>3</sup> and the State Financial Administration Law of 1999, aimed at strengthening discipline in budget execution.<sup>4</sup> Finally, in 2000, the first Civil Service Law was passed,<sup>5</sup> with the purpose of initiating a process of professionalization of the civil service.

However, the implementation of this regulatory framework faced significant limitations. Persistent institutional weakness, insufficient effective control mechanisms, and resistance from sectors benefiting from discretionary practices restricted the impact of the reforms. Consequently, the 1990s can be characterized as a period of transition: the foundations of modern institutions were laid, but the country remained exposed to a cycle of economic instability and political fragility that hampered its development.

## 1.1.2 The turning point: the 2003 stand-by agreement

The dawn of the new millennium found Paraguay in a critical situation. The combination of low growth, a persistent fiscal deficit, and a weakened financial system led to a crisis that forced the country to redefine its course. It was in this context that, in 2003, a stand-by agreement was signed with the International Monetary Fund.<sup>6</sup>

Far from being a mere stabilization program, this agreement represented a true turning point in the country's economic history. Under this framework, a set of structural reforms was implemented that significantly modified the institutional structure:

- ◆ The Fund of Deposit Guarantee was created<sup>7</sup> which strengthened confidence in the financial system and provided protection to savers.
- ◆ A reform of the Treasury was undertaken<sup>8</sup> in order to guarantee the sustainability of the pensions of the public sector.

2 Library and Central Archive of the National Congress (1995). Law No. 489/95: Organic Law of the Central Bank of Paraguay.

3 Library and Central Archive of the National Congress (1996). Law No. 861/96: General Law of Banks, Financial Institutions and other Credit Entities.

4 Library and Central Archive of the National Congress (1999). Law No. 1535/99: Financial Administration of the State.

5 Law 1626/2000 of the Public Service.

6 International Monetary Fund (2003).

7 Library and Central Archive of the National Congress (2003). Law No. 2334/2003: Guarantee of deposits and resolution of financial intermediation entities subject to the General Law of Banks, Finance Companies and other Credit Entities.

8 Law No. 2345/2003.

- ◆ A new Public Procurement Law was passed<sup>9</sup> which introduced mechanisms for greater transparency and competence in government contracting.
- ◆ The National Development Bank (BNF) was restructured<sup>10</sup> redefining its role as a development bank.

These measures consolidated fiscal responsibility, introduced higher standards of transparency, and laid the foundation for the macroeconomic stability that characterizes the country to this day. From this point forward, Paraguay began to build a reputation for macroeconomic discipline that allowed it to face external shocks with greater resilience and move toward more sustainable growth.



### 1.1.3 The last decade: robust economic institutions

The period between 2010 and the early 2020s saw the consolidation of fundamental institutional frameworks. In 2011, the Central Bank adopted an inflation-targeting framework, which anchored expectations and aligned monetary policy with international best practices. The Fiscal Responsibility Law was enacted in 2013<sup>11</sup> that established a fiscal anchor to the deficit and the growth of current spending, ensuring the sustainability of public finances. A tax modernization was approved in 2019<sup>12</sup> that created the Corporate Income Tax (IRE) and the Tax on Dividends and Profits (IDU), broadening the tax base and improving the system's fairness. Finally, between 2020 and 2022, the public investment and procurement laws were updated<sup>13</sup> incorporating criteria of efficiency, transparency and accountability.

In parallel, significant progress was made in modernizing the financial system. The consolidation of the Paraguayan Payment System (SIPAP) and the regulation of electronic payment methods strengthened financial inclusion and improved market efficiency. These measures, along with the deepening of the banking and capital markets regulatory framework, contributed to building the resilience of the financial system, as demonstrated by the country's ability to cope with the effects of the pandemic in 2020.

<sup>9</sup> Library and Central Archive of the National Congress (2003). Law No. 2051/2003: Public Procurement.

<sup>10</sup> Paraguay Legislative Information System (n.d.). Law No. 5800/2017: Reform of the Organic Charter of the National Development Bank.

<sup>11</sup> Library and Central Archive of the National Congress (2013). Law No. 5098/2013: Fiscal Responsibility.

<sup>12</sup> Library and Central Archive of the National Congress (2019). Law No. 6380/2019: Modernization and simplification of the National Tax System.

<sup>13</sup> Library and Central Archive of the National Congress (2020). Law No. 6490/2020: Public Investment; Library and Central Archive of the National Congress (2022). Law No. 7021/2022: Public Procurement and Contracting.

Thus, Paraguay entered the 2020s with stronger institutions, a credible monetary policy framework, an operational fiscal rule, and a strengthened financial system. However, challenges remained: modernizing the State apparatus, professionalizing the civil service, and consolidating a public administration that supports the demands of sustainable and inclusive development.

## 1.2 Recent reforms for the modernization of the State

The final stage of the institutional transformation process in Paraguay was characterized by the adoption of a set of laws that redefine the organization and functioning of the State. These reforms are part of a government strategy aimed at consolidating a modern, efficient, and transparent public administration, in line with the commitments made by the country regarding governance, fiscal sustainability, and the quality of public spending.

Within this framework, the recent reforms are analyzed in two sections: the first section, those reforms aimed at strengthening government efficiency and the reliability of the State; and the second section, the reforms aimed at consolidating a higher quality regulatory framework that is clearer, simpler and geared towards productive development.

### 1.2.1 Section I – Efficiency and reliability of the State: institutional modernization and governance

The modernization of the Paraguayan State required more than isolated sectoral reforms. It demanded a profound redefinition of its institutional architecture, capable of organizing responsibilities, strengthening economic leadership, and professionalizing public administration. Within this framework, a series of reforms was implemented aimed at providing the State with greater technical capacity, predictability, and credibility, both in the eyes of the public and the markets.

The creation of the Ministry of Economy and Finance marked the starting point of this process. From there, complementary reforms were designed and implemented in the areas of administrative organization, the civil service, pension oversight, the rule of law for property rights, and strengthening the institutional framework for the provision of essential public services, such as transportation. All these reforms form the basis of a common objective: to build a more efficient, reliable, and results-oriented State.



### 1.2.1.1 Creation of the Ministry of Economy and Finance – Law No. 7158/2023<sup>14</sup>

The creation of the Ministry of Economy and Finance (MEF) is one of the most significant institutional reforms since the return to democracy in 1989. This transformation overcame a historical fragmentation of functions that dispersed strategic responsibilities across multiple agencies, hindered the coordination of public policies, and generated duplication and inefficiencies in government management. The integration of the former Ministry of Finance, the Civil Service Secretary, and the Technical Secretary for Economic and Social Development Planning into a single institution reflects a modern conception of public administration, aimed at strengthening the coherence of decisions, improving implementation capacity, and providing the government with greater agility in the face of economic and social challenges.

The new charter assigns the Ministry of Economy and Finance (MEF) the responsibility of planning, coordinating, and leading the country's sustainable economic development policy. This includes formulating and implementing national economic policy, conducting fiscal policy, regulating the budget process, and managing public debt under criteria of sustainability and transparency. In its role as the leading planning authority, the Ministry establishes strategic guidelines that orient public policies in accordance with the Paraguay 2050 National Development Plan, promoting greater alignment between development priorities and budgetary decisions, and correcting a historical disconnect between planning and implementation.

In the area of human capital management, the Ministry of Economy and Finance (MEF) assumes leadership of the public service, with the responsibility of defining and coordinating cross-cutting policies for the entire civil service. This approach consolidates the principles of merit, equal opportunities, and professionalization as pillars of State performance, and seeks to overcome decades of institutional fragmentation and discretionary management of public sector human resources.

From an economic governance perspective, the creation of the Ministry of Economy and Finance (MEF) strengthens the stability and predictability of the public policy decision-making process. Concentrating strategic functions in a single entity enhances the consistency of economic policy, reduces inter-institutional fragmentation, and generates greater certainty for both public and private economic players.

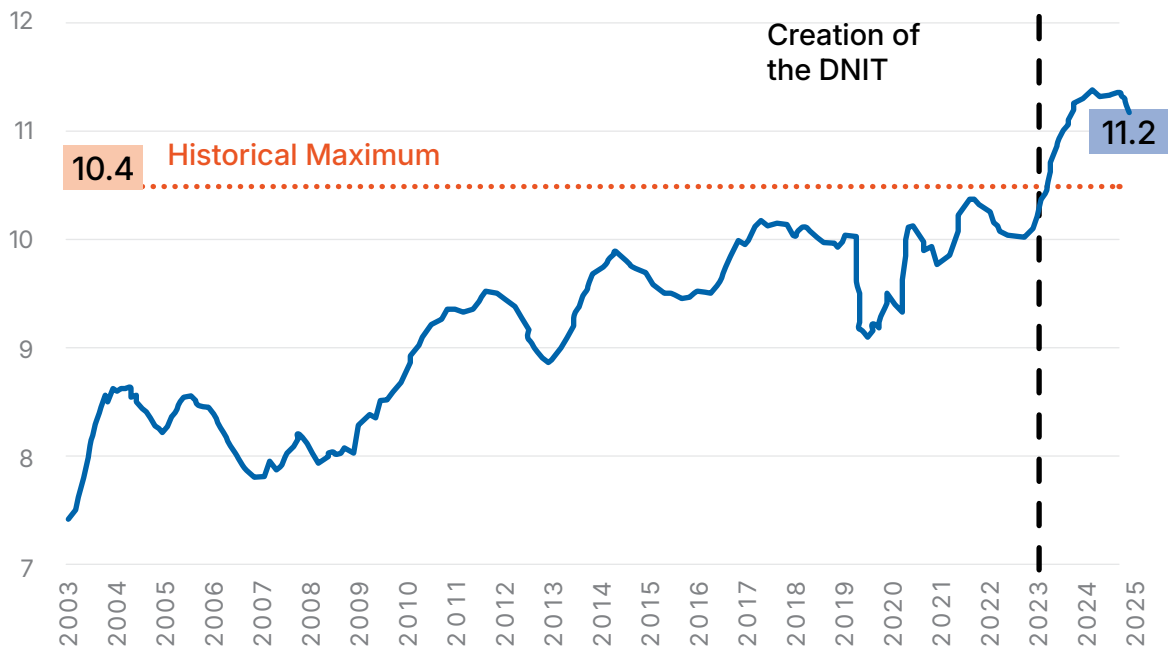
The effects of this reform are reflected in concrete improvements in the State's operational and management capacity. A prime example is the creation of the National Direction of Tax Revenue (DNIT), resulting from the merger of the Undersecretary of State of Tax Revenues and the National Direction of Customs. This reorganization allowed a clearer separation

<sup>14</sup> Library and Central Archive of the National Congress (2023). Law No. 7158/2023: It creates the Ministry of Economy and Finance.

between the definition of economic policy and the operational administration of public revenues, concentrating the latter in a specialized technical body. The unification of procedures, the integration of information systems, and the strengthening of auditing capabilities reduced areas of discretion and substantially improved the traceability of tax and customs operations.

As a result of these advances, tax revenues reached over 11% of GDP for the first time in history (see **chart 1.1**), consolidating a trend of sustained strengthening of the tax burden. This result was achieved without increases in tax rates and reflects a structural improvement in collection efficiency, associated with the institutional consolidation of the DNIT, the integration of systems, the expansion of the taxpayer base, and the strengthening of control and traceability mechanisms.

**CHART 1.1** Annualized Tax Collection (% of GDP)

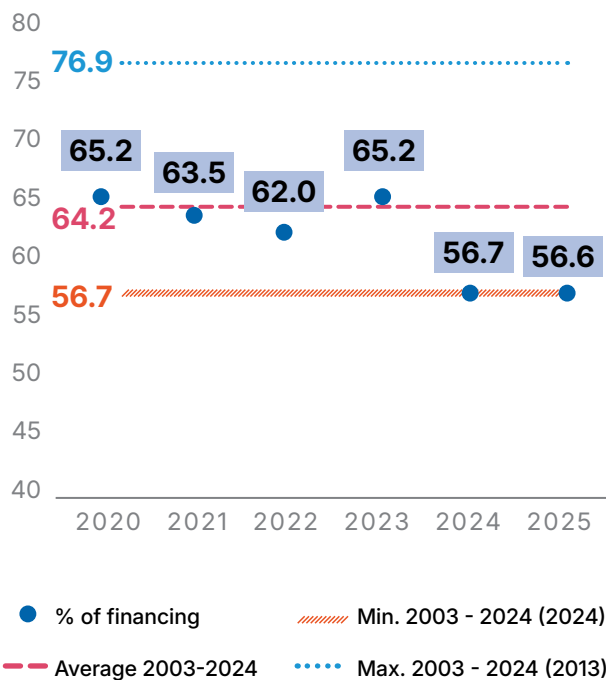


Source: MEF.

Furthermore, administrative efficiency was enhanced through the incorporation of modern management and control tools. The implementation of mandatory electronic invoicing contributed decisively to reducing tax evasion and increasing the transparency of commercial transactions, thus strengthening the formalization of the economy. Complementarily, the strengthening of customs controls, supported by aerial surveillance technologies and integrated management systems, substantially improved the traceability of foreign trade operations. In a country historically affected by informality and underreporting at the border, these advances represent a qualitative leap toward a fairer, more equitable, and sustainable tax system.

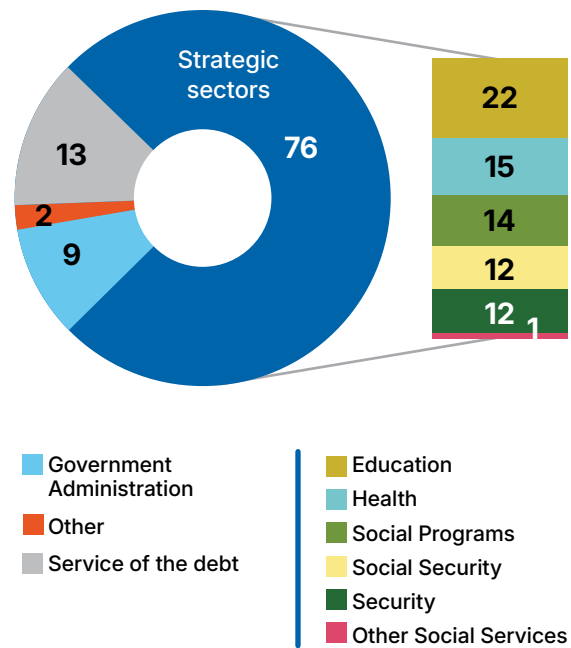
In terms of public spending, the Ministry of Economy and Finance promoted more transparent, organized, and results-oriented management. The integration of planning and budgeting—previously dispersed among different institutions—allowed for a more coherent allocation of resources aligned with the country’s strategic objectives. By centralizing the oversight of the public sector, the Ministry of Economy and Finance made progress in streamlining the public sector payroll, introducing criteria for greater predictability, control, and sustainability in one of the historically most sensitive items of current expenditure (See **chart 1.2**). This improvement in spending is also reflected in the distribution of expenditures by function, where 76% is allocated to strategic sectors such as health, education, social programs, and the armed forces (see **chart 1.3**). The improvement in fiscal and administrative efficiency is thus reflected in concrete results on both the revenue and expenditure sides.

**CHART 1.2** Central Administration salaries financed with tax revenues (%)



Source: MEF.

**CHART 1.3** Total expenditure by function (% of total)



Source: MEF.

This institutional strengthening was the result of a gradual and consistent process of modernizing the tax system and prioritizing spending in strategic sectors with a focus on people, supported by the digitization of processes, the interoperability of databases, and the intensive use of information for management, control, and auditing.

### 1.2.1.2 Administrative Organization of the State – Law No. 7278/2024<sup>15</sup>

This reform represents a decisive step in the country's institutional modernization process. It establishes a general framework aimed at streamlining the administrative structure, clarifying responsibilities, and strengthening inter-institutional coordination, in order to promote more efficient, transparent, and citizen-oriented public management.

The new law is based on three guiding principles: efficiency, transparency, and accountability, which are implemented through various measures aimed at modernizing public administration. First, it introduces criteria for administrative rationality aimed at streamlining the structure of the State, eliminating redundancies, and redefining functions, so that each agency operates within a clear and complementary framework of responsibilities. Second, it promotes administrative simplification and the digitization of processes, recognizing that modernizing the State requires leveraging information technologies to reduce costs, shorten timelines, and make public services more agile and accessible to citizens. Third, it strengthens control, monitoring, and evaluation mechanisms, establishing guidelines that reinforce accountability and contribute to consolidating public trust in institutions.

Prior to this reform, the proliferation of autonomous agencies and the overlapping of responsibilities generated jurisdictional conflicts, operational inefficiencies, and, in many cases, fertile ground for discretion and opacity. In response, the Law on the Administrative Organization of the State establishes an orderly framework of responsibilities, strengthens inter-institutional coordination, and consolidates governance principles geared toward efficiency and transparency.

One immediate effect is its contribution to strengthening private sector confidence. In a context where investment decisions depend on economic incentives and institutional quality, a more predictable, transparent, and efficient State is a strategic asset for attracting capital and consolidating the business climate. It is no coincidence that, following the implementation of these reforms, various rating agencies and multilateral organizations have highlighted Paraguay's institutional strength as one of the factors supporting its investment-grade rating.

The impact of this law goes beyond mere administrative reorganization. By reducing the scope for arbitrary action and strengthening institutional control mechanisms, it contributes to consolidating a more predictable and transparent governance framework, an essential condition for results-oriented public management and for strengthening the legitimacy of the State in the eyes of its citizens.

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<sup>15</sup> Library and Central Archive of the National Congress (2024). Law No. 7278/2024: Regulates the Administrative Organization of the State.



### 1.2.1.3 Public Function and Civil Service – Law No. 7445/2025<sup>16</sup>

The quality of human capital is the main pillar of any modern bureaucracy and an essential condition for the State to provide efficient, high-quality public services to its citizens. Within this framework, the Ministry of Economy and Finance promoted a series of reforms aimed at strengthening public employment management and raising professional standards within the civil service.

One of the most significant transformations in this area is the approval of Law No. 7445/2025 on Public Service and the Civil Service, which comprehensively redefines the regulatory framework for employment in the public sector. This law introduces structural changes aimed at building a professional, meritocratic, and results-oriented civil service, overcoming the limitations of the legislation from the year 2000,<sup>17</sup> whose application had shown significant weaknesses in terms of coherence, effectiveness, and control.

The reform is structured around three fundamental pillars. First, it establishes that the civil service must be governed by the principles of merit, equality, and equity, guaranteeing that entry, promotion, and tenure in the civil service are based on objective, transparent, and verifiable criteria. Second, it incorporates modern performance evaluation standards, complemented by systematic training and continuous professional development programs, with the aim of aligning the development of the State's human capital with the real needs of public administration. Third, it consolidates the professionalization of the civil service as an essential component for improving the quality of public policies, recognizing that no institutional re-form can be sustained over time without competent, committed, and technically prepared public servants.

Beyond its regulatory dimension, this law implies a profound cultural shift in the relationship between the State and its officials. Its objective is to move towards a public administration based on clear rules, measurable performance, and institutional accountability, leaving behind the clientelism and the discretionary practices that have historically eroded public trust. At the same time, the reform aligns Paraguay with international best practices in public management that promote the development of more effective, professional, and results-oriented states.

The approval of the Public Service and Civil Service Law is therefore an essential step in consolidating a more professional, transparent, and efficient state. Its effective implementation represents a medium- and long-term challenge that will require sustained political will, strengthened technical capacities, and a consistent institutional commitment.

<sup>16</sup> Library and Central Archive of the National Congress (2025). Law No. 7445/2025: Public Function and Civil Service.

<sup>17</sup> Official Gazette No. 249 (2000) page 1. Official Registry Section. Law No.: 1.626/2000: On Public Service.

### 1.2.1.4 Creation of the Superintendency of Retirements and Pensions – Law No. 7235/2023<sup>18</sup>

The approval of Law No. 7235/2023, which regulates the State's supervisory role over Retirement and Pension Entities, constitutes one of the most significant institutional reforms for strengthening the country's economic and financial governance. Its gradual implementation is beginning to close a long-identified structural gap: the lack of a comprehensive prudential supervisory framework that guarantees the safe, transparent, and sustainable management of pension resources, with direct implications for the stability of the system and the economy as a whole.

In compliance with the constitutional mandate,<sup>19</sup> the law establishes a regulatory and prudential supervisory framework applicable to the management of the financial and non-financial resources of both public and private pension entities. The central objective of this framework is to safeguard the savings of active members, retirees, and pensioners, ensuring that these funds are managed according to criteria of security, liquidity, and prudent profitability, as essential conditions for the sustainability of the system and the timely payment of current and future benefits.

The institutional cornerstone of the reform is the creation of the Superintendency of Pensions and Retirement, conceived as a specialized technical body with functional and administrative autonomy, responsible for the comprehensive oversight of the National Pension and Retirement System. Its responsibilities encompass technical, actuarial, operational, legal, and financial matters, incorporating modern standards of control, risk management, and transparency. This new framework allows for the establishment of clear rules, effective supervisory processes, and prudential criteria for investment diversification, reducing systemic vulnerabilities and strengthening financial stability.

In addition, the law establishes the Social Security Council as a collegial and deliberative body with diverse composition, comprised of representatives from the State, workers, retirees, and employers. This body introduces a more balanced and inclusive governance framework, aligned with contemporary demands for oversight, social dialogue, and accountability in complex pension systems.

The implementation of the reform progressed sequentially from its enactment, reaching its main institutional milestones in 2025. During this period, the formal integration of the Social Security Council was completed, the corresponding regulations were approved, the roadmap for implementing the new supervisory framework was defined, and a

<sup>18</sup> Library and Central Archive of the National Congress (2023). Law No. 7235/2023: Regulates the Supervisory Role of the State to Retirement and Pension Entities, in compliance with Article 95 of the National Constitution.

<sup>19</sup> Article 95 of the National Constitution: *The mandatory and comprehensive social security system for employed workers and their families shall be established by law. Its extension to all sectors of the population shall be promoted. Social security services may be public, private, or mixed, and in all cases shall be supervised by the State. The financial resources of social insurance shall not be diverted from their specific purposes; they shall be available for this objective, without prejudice to profitable investments that may increase their net worth.*

public merit-based selection process was held to choose the agency's top official. This process, based on technical and professional suitability criteria, culminated in the appointment of the Superintendent, whose duties began in January 2026.

The establishment of the Superintendency marks a new era for the Paraguayan pension system. Ongoing oversight allows for the anticipation of risks, the adoption of preventative measures, and the correction of deviations before they compromise the solvency and liquidity of the entities, thus protecting pension funds and reducing the likelihood of future fiscal contingencies. At the same time, strengthening control mechanisms helps to streamline the system's operations, improve the quality of investments, and ensure that pension resources can contribute to the country's productive development within a prudent framework.

### 1.2.1.5 Creation of the Unified National Registry and Cadaster System and the Unified National Registry (RUN) – Law No. 7424/2025<sup>20</sup>

For decades, the dispersion of responsibilities among different public entities led to overlapping titles, inconsistencies between the physical and legal information of properties, high administrative costs, and a progressive erosion of confidence in the legal security of property. To solve this problem, Law No. 7424/2025 was passed, creating the Unified National Registry and Cadaster System and the Unified National Registry (RUN). This constitutes a structural institutional reform aimed at resolving one of the most persistent weaknesses of the Paraguayan State: the fragmentation of the registry and cadaster system.

The aforementioned law creates the Unified National Registry, conceived as a technical body under the Supreme Court of Justice. The law integrates the functions previously performed by the General Directorate of Public Registries, the National Cadaster Service, and the Department of Surveying and Geodesy, with the aim of centralizing and executing registration procedures more efficiently, particularly those related to real estate.

A central component of the reform is the mandatory implementation of the Unique Cadaster Registry Identification Code, established as the exclusive mechanism for the physical and legal identification of properties throughout the national territory. This instrument allows for the standardization of property names, the centralization of relevant information, and ensures its use in all administrative and judicial procedures related to property ownership. Additionally, the law provides for a new organizational structure for the National Registry of Cadaster and Registry (RUN), aimed at the functional integration of cadaster and registry processes and their management under unified technical and administrative criteria.

The reform also incorporates a clear focus on technological modernization, promoting document digitization, database interoperability, and the use of computerized systems, accompanied by ongoing staff training and greater

<sup>20</sup> Library and Central Archive of the National Congress (2025). Law No. 7424/2025: Creates the National Unified Registry and Cadastral System.



inter-institutional cooperation. This approach recognizes that legal certainty and administrative efficiency depend largely on the quality of information systems and the State's capacity to manage them with technical and transparent criteria.

Prior to its implementation, the Executive Branch and the Supreme Court of Justice promoted a process of institutional adaptation that included the approval of operational regulations and the reorganization of structures and procedures. As a result, the National Unified Registry is currently fully operational.

The impact of this reform is broad and structural. Unifying the land registry and cadaster systems strengthens legal security for property ownership, reduces administrative discretion, and improves the traceability and reliability of public information. At the same time, it increases government efficiency and simplifies procedures for citizens, generating tangible benefits for households, businesses, and investors.

#### **1.2.1.6 Public Transportation System – Law No. 7617/2026<sup>21</sup>**

With the aim of streamlining a sector historically characterized by fragmented management and financing schemes, the Public Transportation System Reform Law was enacted, establishing a new regulatory framework for the organization, regulation, financing, and provision of public passenger transportation services. The law redefines the system's guiding principles and sets clear rules for its planning, operation, and oversight, laying the groundwork for more coherent and predictable management. It also introduces mechanisms for inter-institutional coordination and technical criteria for decision-making related to service structuring, route definition, operating frequency, and the minimum quality standards required of operators.

One of the central components of the reform is the incorporation of a financing model based on verifiable operational and financial information. The regulation establishes clear rules for the allocation of public resources to the transportation system, linking State contributions to compliance with objective service delivery parameters. This approach helps to make the system's costs more transparent and provides greater predictability to the financial commitments associated with public transportation.

In this context, the law provides for the creation of a trust as an instrument for the centralized, efficient, and transparent administration of the system's resources. This mechanism is responsible for managing the financial flows related to the service, including the processing and execution of payments

<sup>21</sup> Official Gazette No. 5 (2026) page 2. Official Registry Section. Law No. 7617/2026: Establishes the authority over land transport and modifies and expands provisions of Law No. 1590/2000 "That Regulates the National Transportation System and Creates the National Direction of Transportation (DINATRAN) and the Metropolitan Secretary of Transportation (SMT)", relating to the metropolitan public passenger transportation services. [https://www.gacetaoficial.gov.py/index/detalle\\_publicacion/94196](https://www.gacetaoficial.gov.py/index/detalle_publicacion/94196)

to providers based on validated operational information. This ensures the traceability of resources and strengthens the financial predictability of the system.

The reform also incorporates provisions aimed at modernizing operational management. It anticipates the use of technological tools for monitoring operations, generating real-time data, and tracking the performance of service providers. These tools strengthen control and evaluation mechanisms while improving the quality of information available for regulatory decision-making.

Furthermore, the law establishes a clearer contractual framework for the relationship between the State and public transport operators, defining rights, obligations, and grounds for non-compliance. It regulates aspects related to service continuity, operating conditions, and oversight mechanisms, with the aim of ensuring regular service that meets established standards.

From a public policy perspective, the reform recognizes public transportation as an essential service and a structural component of urban mobility. In this sense, it lays the groundwork for integrated system planning, aligned with objectives of land-use planning, operational efficiency, and financial sustainability.

## 1.2.2 Section II – Regulatory framework for development, investment and competitiveness

While institutional modernization laid the foundation for a more efficient State internally, the drive for economic development now demands an agile, transparent regulatory framework capable of fostering private investment. The reforms presented below are not isolated measures, but rather components of a comprehensive strategy designed to boost the country's productivity, facilitate business formalization, and adapt the rules of the game to an increasingly digitalized and globalized economy.

This effort encompasses everything from updating financial infrastructure and investment incentives to creating modern mechanisms for infrastructure development and legal certainty. Along these same lines, reform of the Treasury is incorporated as a fundamental pillar, based on the premise that a robust and predictable business climate is only viable if long-term financial sustainability and solvency of public accounts are guaranteed simultaneously.

### 1.2.2.1 Reform of the National Payments System – Law No. 7503/2025<sup>22</sup>

The approval of Law No. 7503/2025, the National Payments System Law, is part of the ongoing process of institutional modernization of the Paraguayan State, aimed at supporting the transformation of an increasingly digital, interconnected, and diverse payments ecosystem in terms of actors and

<sup>22</sup> Library and Central Archive of the National Congress (2025). Law No. 7503/2025: National Payment System.



services. The reform updates and streamlines the existing regulatory framework, adapting it to a constantly evolving technological reality and reaffirming the payments system as an essential public good serving the citizens.

The new law addresses the expansion of electronic payment methods, the incorporation of new participants—including the fintech ecosystem—and the increasing operational complexity of the system. In this context, it expressly reinforces the public and free nature of the Paraguayan Payment System (SIPAP) for simple transfers by citizens, guaranteeing that access to digital payments remains a protected right, regardless of market evolution or the business models of the operators.

One of the central pillars of Law No. 7503/2025 is the strengthening of the role of the Central Bank of Paraguay as the implementing authority of the National Payments System. The law expands its powers to regulate, supervise, order, and, where appropriate, sanction the players participating in the system, establishing clear rules regarding governance, interoperability, security, and interconnection. It also legally recognizes the validity of electronic payment methods, establishes the finality and irrevocability of transactions, and defines a proportionate system of offenses and penalties, contributing to greater predictability and confidence in the system.

The law also incorporates a strategic approach to public infrastructure, reaffirming the role of the State—through the Central Bank of Paraguay—as a provider of critical infrastructure for the proper functioning of the financial system. In particular, it strengthens the Central Bank’s authority to implement and manage electronic payment clearing and settlement systems, as well as securities depository services, ensuring equitable access, reducing transaction costs, and preventing the fragmentation of the system into closed or exclusionary platforms.

### 1.2.2.2 Securities and Products Stock Market – Law No. 7572/2025<sup>23</sup>

For decades, the regulation of the stock market was scattered across seven different legal frameworks. While this fragmentation reflected specific stages of market development, it ultimately led to regulatory inconsistencies, legal gaps, and difficulties in interpretation, as well as limiting the capacity for effective oversight. The overlapping regulations and the lack of a systematic framework affected both market participants and the regulatory authority, highlighting the need for a comprehensive reform to organize, unify, and modernize the applicable legal regime.

In response to this problem, Law No. 7572/2025 was passed, constituting a comprehensive structural reform of the Paraguayan securities market’s regulatory framework. This reform aims to modernize its operation,

<sup>23</sup> Official Gazette No. 265 (2025) page 2. Official Registry Section. Law No. 7572/2025: Securities and Products Market.



strengthen State oversight, and raise standards of transparency and trust. Its approval addresses the need for an updated regulatory regime capable of keeping pace with market evolution, the incorporation of new financial instruments, and the increasing complexity of risks associated with stock market transactions.

Law No. 7572/202 consolidates into a single regulatory framework the provisions relating to the securities market, including financial instruments and products, investment funds, commodity exchanges, securitization, and organizations linked to intermediation, clearing, settlement, trading, and risk rating. This regulatory systematization provides the market with greater coherence and predictability, facilitates the application of the rules, and strengthens the role of the Central Bank of Paraguay, through the Superintendency of Securities, as the supervisory authority.

One of the main contributions of the reform is the adoption of a modern, comprehensive, and preventative supervisory approach, focused on identifying and mitigating systemic and operational risks. Under this framework, the Central Bank of Paraguay defines regulatory policies, grants authorizations, and makes final administrative decisions, while the Superintendency of Securities acts as the implementing body, with broad oversight powers and the authority to adopt preventative measures and order immediate cessation—even before initiating administrative proceedings—when significant risks to the market or investors are identified.

The new law also raises standards of transparency and corporate governance, incorporating stricter requirements for identifying beneficial owners, preventing money laundering and terrorist financing, and establishing a clear system of responsibilities and sanctions. These elements strengthen market integrity and public trust, while aligning Paraguayan regulations with the principles and best practices promoted by the International Organization of Securities Commissions (IOSCO).

From a market development perspective, the reform introduces significant innovations. It modernizes the definition of negotiable securities, enabling the incorporation of assets based on distributed ledger technologies in accordance with regulations issued by the competent authority; it promotes collective investment as a financing mechanism for micro, small, and medium-sized enterprises; it allows cross-listing of foreign securities; and it establishes differentiated regimes for publicly and privately offered equity investment funds, incorporating prudential safeguards against potential risks to the stability of the system.

The impact of Law No. 7572/2025 extends beyond the strictly financial sphere. A better regulated and supervised securities market helps reduce information asymmetries, strengthen investor protection, and diversify the sources of financing for the productive sector, creating a more attractive environment for domestic and foreign investment.



### 1.2.2.3 Update of the law on Micro, Small and Medium Enterprises (MSMEs) – Law No. 7444/2025<sup>24</sup>

Micro, small, and medium-sized enterprises (MSMEs) play a structural role in the national economy, both through their contribution to employment and their territorial presence and capacity to energize the productive network. However, this sector is characterized by high heterogeneity and persistent challenges in terms of formalization, productivity, and growth, which has historically required more coordinated public intervention tailored to its specific circumstances.

In this context, the approval of Law No. 7444/2025 constitutes a relevant institutional reform aimed at strengthening the framework of public policies supporting MSMEs, adapting the State's action to the needs of a diverse sector that is key to the country's economic development.

The new legislation updates and expands the guidelines established by Law No. 4457/2012,<sup>25</sup> which incorporates a more comprehensive approach to business promotion. The reform, instead of fragmented interventions, fosters the development of a coordinated support system that addresses formalization, productive development, and access to opportunities in a coordinated manner. This shift in focus strengthens the State's capacity to provide more consistent, effective, and sustainable responses over time.

Strengthening institutional capacity is one of the main pillars of Law No. 7444/2025. The law assigns the administration of the National Registry of Micro, Small, and Medium Enterprises (RENAMIPYMES) to the Ministry of Industry and Commerce, through the Vice-Ministry of MSMEs, as the official and unified database. This registry is consolidated as a key tool for improving information traceability, organizing the public offering of programs, and facilitating interoperability with other State institutions, such as the National Direction of Tax Revenue, the Ministry of Labor, and the Institute of Social Prevision. The inter-institutional coordination promoted by the law helps reduce fragmentation, simplify processes, and provide a clear and transparent point of access to public services.

The law also incorporates incentives aimed at facilitating formalization and improving the competitiveness of smaller businesses. It establishes mechanisms for administrative simplification, progressive schemes for incorporation into regulatory compliance, and provisions that reduce the costs associated with formalization, especially for microenterprises. This approach is complemented by an emphasis on support and technical assistance, prioritizing training and continuous improvement as tools to promote compliance without creating disproportionate burdens.

<sup>24</sup> Library and Central Archive of the National Congress (2025). Law No. 7444/2025: Amends several articles and expands Law No. 4457/2012 "For micro, small and medium-sized enterprises (MSMEs)".

<sup>25</sup> Official Gazette No. 93 (2012) page 2. Official Registry Section. Law No.: 4457/2012: For Micro, Small and Medium Enterprises (MSMEs).

In terms of productive development, the reform consolidates a comprehensive approach that encompasses market access, financing, digitalization, innovation, and strengthening business capabilities. The regulations promote the participation of MSMEs in public procurement and government programs, and improve the coordination of available financial instruments to facilitate their access. This framework recognizes that formalization is only sustainable when accompanied by improvements in productivity, competitiveness, and business sustainability.

The expected impact of this reform is significant. A simpler, more coherent, and better-structured regulatory framework reduces barriers to entry into the formal system, improves the quality of available information, and strengthens the State's capacity to design evidence-based policies. At the same time, it creates more favorable conditions for MSMEs to access financing, markets, and social protection, contributing to a more dynamic and resilient business sector.

#### **1.2.2.4 Investment Regimes – Law No. 7547/2025<sup>26</sup> Law No. 7548/2025,<sup>27</sup> and Law No. 7546/2025<sup>28</sup>**

Over the past few decades, Paraguay has made significant progress in attracting productive investments, primarily supported by promotional instruments such as Law No. 60/90 on Tax Incentives for Investment and Law No. 1064/97 on the Export Maquiladora Industry. These regimes have become cornerstones of economic development policy, contributing steadily to GDP growth, export dynamism, and the generation of direct and indirect employment.

In particular, Law No. 60/90 has played a central role in attracting capital. During the cumulative period 1989–2025, this instrument channeled investments totaling over USD 11,948.3 million. Over the last decade (2016–2025), the average annual investment was around USD 376.9 million, with a balanced composition of domestic (57%) and foreign (43%) capital, reflecting its capacity to attract both domestic and foreign investment.<sup>29</sup>

For its part, the maquila regime, established by Law No. 1064/97, became one of the most important mechanisms for the productive development and international integration of the Paraguayan economy. With over three decades in effect, this regime attracted both domestic and foreign investment, fostered the creation of quality formal employment, and strengthened the country's export profile. Furthermore, it became a structural public policy, linking local industrial capabilities with regional and global economic integration processes.

<sup>26</sup> Library and Central Archive of the National Congress (2025). Law No. 7547/2025: Maquila Regime.

<sup>27</sup> Library and Central Archive of the National Congress (2025). Law No. 7548/2025: New Tax Incentive Regime for national and foreign investment.

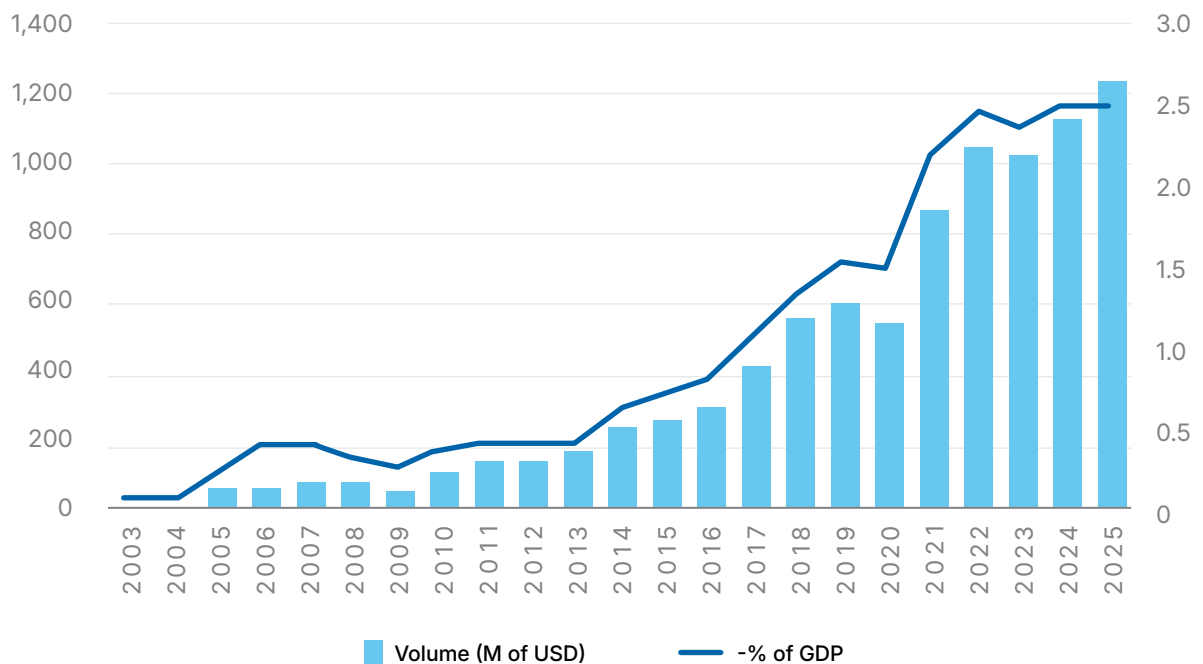
<sup>28</sup> Library and Central Archive of the National Congress (2025). Law No.: 7546/2025: Establishes the National Policy for the production and assembly of electrical, electronic, electromechanical and digital equipment.

<sup>29</sup> Prepared by the author using data from the MIC and BCP.

The evolution of exports under the maquila regime clearly illustrates its economic impact. In 2003, maquila exports reached approximately USD 7.5 million, equivalent to 0.1% of GDP. By the end of 2025, this value had increased to USD 1,236.7 million,<sup>30</sup> representing 2.5% of the national GDP (see **chart 1.4**). Currently, exports under this regime account for 67.5% of the total manufactured goods exported by the country.

Key sectors include the manufacture of auto parts, clothing and textiles, metal products, ethyl alcohol, and processed foods (see **chart 1.5**), sectors that have experienced sustained growth thanks to the incentives and the productive dynamism of the regime. Collectively, the programs approved under this framework have enabled the creation of more than 35,000 direct jobs,<sup>31</sup> with a significant impact on formalizing employment and diversifying the productive base.

**CHART 1.4** Maquila Exports (In millions of USD)

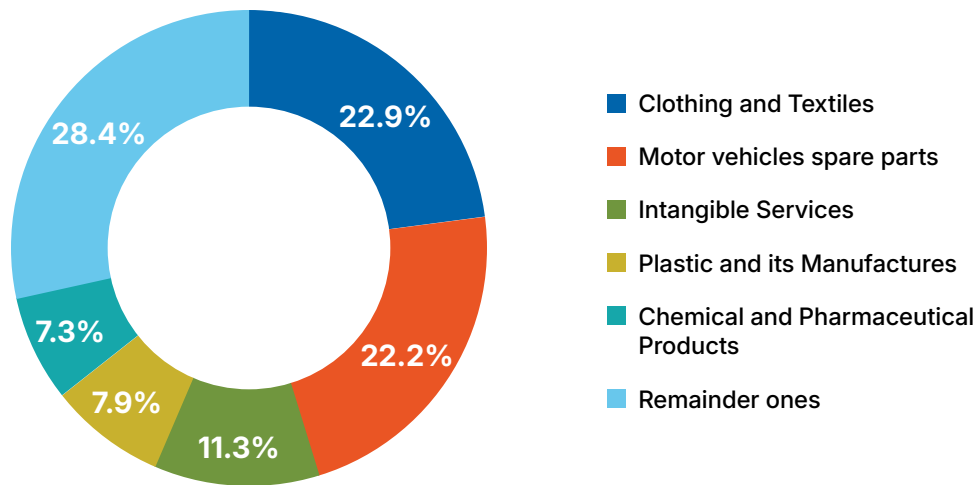


Source: BCP Statistical Annex.

30 Statistical Annex of the BCP. <https://www.bcp.gov.py/>

31 Executive Secretary CNIME – MIC. <https://www.mic.gov.py/wp-content/uploads/2026/01/Informe-MAQUILA-DIC25oficial-13.01.pdf>

**CHART 1.5** Employment linked to the maquiladora industries (December 2025)



Source: Executive Secretary CNIME - MIC.

However, changes in the global environment, increasing technological sophistication, and the diversification of business models made it necessary to update these regulatory frameworks, aimed at improving their operability, expanding their scope, and strengthening their impact, while preserving legal certainty and acquired rights.

Within this context, the Ministry of Economy and Finance, in coordination with the Ministry of Industry and Commerce and the National Direction of Tax Revenue, promoted a set of complementary legal reforms aimed at creating a new regulatory framework for productive growth and the promotion of investments, adapted to the recent transformations of the global economy and the challenges of national development.

Law No. 7547/2025 updates the Maquila Regime, adapting it to new production dynamics and the growing importance of knowledge-intensive services. The main innovation of this reform is the incorporation of service maquila, which expands the regime's scope to include activities such as technology, software development, business services, and contact centers, while maintaining the single tax scheme and enabling mechanisms for partial refunds of VAT tax credits. Furthermore, the law strengthens obligations regarding institutional compliance, local employment, and alignment with development policies; incorporates greater levels of inter-institutional coordination and the digitization of procedures; and guarantees the protection of acquired rights under existing programs through an orderly transition. This adjustment consolidates the regime as a central instrument for export competitiveness, while diversifying the production matrix and expanding its impact in terms of employment and added value.

In addition, Law No. 7548/2025 establishes a new tax incentive regime for domestic and foreign investment, replacing the previous system established in Law No. 60/90 and modernizing economic promotion instruments. The law preserves benefits that have been proven to be effective but introduces innovations aimed at facilitating project execution, optimizing the use of incentives, and attracting investments with greater economic impact. Among the main advancements it is worth to mention the ability to transfer capital assets and tax benefits between approved projects, the expansion of incentives for domestic capital investments, the inclusion of tourism projects, and the use of guarantee trusts as a financial tool. Furthermore, administrative mechanisms are strengthened through the implementation of a single window and expedited procedures, reducing processing times and costs for investors.

This framework is complemented by Law No. 7546/2025, which establishes the National Policy for the Production and Assembly of Electrical, Electronic, Electromechanical, and Digital Equipment. This law incorporates, for the first time, a specific regime aimed at boosting local production and assembly in sectors intensive in technology and skilled labor. Its objective is to strengthen the national production base, attract industrial investment, and develop local technological capabilities by facilitating the incorporation of capital goods and materials through tariff exemptions and differentiated VAT reductions. These benefits, valid for up to twenty years and renewable, are open to both domestic and foreign companies and aim to integrate the country into global value chains, promoting formal employment, technology transfer, and production linkages.

#### **1.2.2.5 Modernization of the Public-Private Partnership Regime – Law No. 7452/2025<sup>32</sup>**

The enactment of Law No. 7452/2025, Modernizing the Public-Private Partnership (PPP) Regime, represents a strategic update to the institutional framework for promoting investment in public infrastructure and the provision of goods and services by the State. Far from altering the fundamental logic of private participation, the reform reorganizes, clarifies, and strengthens institutional processes with the aim of consolidating PPPs as a more effective, predictable, and fully compatible instrument for achieving fiscal sustainability.

One of the central pillars of the new regulations is the strengthening of the role of the Ministry of Economy and Finance in the evaluation, structuring, and monitoring of projects under this framework. Following the reform, the Ministry's opinions become binding on critical aspects of the contract cycle, ensuring that decisions regarding modifications, compensation, or potential terminations fully incorporate the assessment of fiscal risks, contingent liabilities, and their impact on public finances. This design allows greater operational flexibility within the framework, within clear and explicit limits, without compromising fiscal discipline or the convergence objectives established by the Government.

<sup>32</sup> Library and Central Archive of the National Congress (2025). Law No.: 7452/2025: Modernization of the Public Infrastructure Investment Regime and Expansion and Improvement of goods and services under the responsibility of the State.

The law also introduces stricter rules regarding auditing, control, and transparency. It establishes mandatory international audits at key stages of the contract cycle and reinforces the obligations to publish and update relevant information on PPP projects. These provisions strengthen accountability, broaden citizen access to strategic information, and reduce discretionary power in contract management, thus contributing to consolidating the credibility of the system.

The regulations also incorporate adjustments aimed at improving the legal and financial predictability of projects. Clear limits are set on contractual modifications, stricter rules are introduced regarding the suspension and termination of contracts, and the regime of incompatibility is broadened, excluding players sanctioned by multilateral organizations. In the case of private initiatives, balanced incentives are established to promote private sector participation while preserving the public interest and the integrity of competitive processes.

Modernizing the PPP regime is especially relevant in a context where the State must manage its resources prudently, prioritize social spending, and consolidate fiscal sustainability. Within this framework, private participation in infrastructure is becoming an essential complement to expanding investment, improving the quality of public services, and accelerating the execution of strategic projects, without resorting to levels of debt incompatible with macroeconomic stability objectives.

### **1.2.2.6 Modernization of the Regime that Regulates and Promotes the Generation of Electrical Energy from Non-Conventional, Non-Hydraulic Renewable Energy Sources – Law No. 7599/2025<sup>33</sup>**

The Executive Branch enacted Law No. 7599/2025, which modernizes the legal framework applicable to electricity generation from non-conventional, non-hydroelectric renewable energy sources (known as NCRE). The law repeals Law No. 6977/2023 and establishes a new regulatory framework for the development of electricity generation projects based on sources such as solar, wind, biomass, and geothermal energy, incorporating clearer, more stable, and more predictable rules for investment in this strategic sector.

The law aims to promote, regulate, and encourage electricity generation from non-conventional renewable energy sources, expanding private sector participation in an area crucial for national development. To this end, it establishes the appropriate legal framework for structuring private generation projects, self-generation and cogeneration schemes, as well as direct electricity supply arrangements for large consumers. This expands supply options within the electrical system and strengthens the country's energy security.

Within this framework, the regulations establish a comprehensive legal, technical, and commercial regime for the development of renewable energy generation projects, self-generation, and cogeneration, as well as for the



<sup>33</sup> Official Gazette No. 301 (2025) page 2. Official Registry Section. Law No.: 7599/2025: Modernization of the Regime that Regulates and Promotes the Generation of Electrical Energy from Non-Conventional Non-Hydraulic Renewable Energy Sources.

export of electricity. To this end, they enable differentiated contracting methods, including bilateral contracts between producers and large consumers, and public bidding processes for the acquisition of energy from renewable energy generators intended to supply the domestic market.

This approach expands access to the electricity market and promotes contractual arrangements with a clear and predictable allocation of risks. The law strengthens the bankability of projects by extending contractual deadlines in public bidding processes, applying reference prices aligned with the technological characteristics of each energy source, and purchasing all the energy generated. These provisions directly contribute to diversifying the electricity matrix and to strengthening the national energy security.

Furthermore, the law stimulates private investment in the energy sector, promoting projects with the potential to generate production chains, employment, and the transfer of technical skills. By strengthening the sector's institutional framework, the law creates more favorable conditions for long-term investments, which are essential, both for diversifying the energy matrix and for increasing industrial competitiveness.

#### 1.2.2.7 Law of Arbitration – Law No. 7561/2025<sup>34</sup>

The enactment of the new Law of Arbitration represents a significant step in strengthening the investment climate and legal certainty in Paraguay. This reform is the result of a process of institutional maturation in which arbitration has become established as a legitimate and effective mechanism for dispute resolution, particularly in complex contracts and long-term economic relationships. In this process, Law No. 1879/2002 played a significant role, laying the foundation for stable arbitration practice and providing predictability to a key stage in the country's economic development.

However, market evolution, the increasing sophistication of transactions, and the experience gained in applying the existing regime highlighted the need to update the regulatory framework. In practice, certain inconsistencies and legal gaps created areas for divergent interpretation and encouraged unnecessary litigation of matters that fall within the scope of arbitration, affecting the efficiency and very purpose of this mechanism.

The reform directly addresses this critical issue by strengthening the effectiveness of arbitration agreements and preserving the efficiency of the process in its main interactions with the judiciary. The new system reduces uncertainty, more precisely defines judicial powers, and reinforces the principle of minimum intervention, ensuring that disputes can be resolved through specialized procedures, within reasonable timeframes, and with predictable decisions, without undermining fundamental rights.

From an institutional perspective, the new law introduces concrete improvements that strengthen the system's coherence and align the

<sup>34</sup> Official Gazette No. 312 (2025) page 2. Official Registry Section. Law No. 7561/2026: Arbitration [https://www.gacetaoficial.gov.py/index/detalle\\_publicacion/94101](https://www.gacetaoficial.gov.py/index/detalle_publicacion/94101)

Paraguayan arbitration regime with widely recognized international standards. This alignment increases confidence in arbitration as a dispute resolution mechanism and generates positive effects on the business environment by facilitating project structuring, improving the management of contractual risks, and reducing the costs associated with legal uncertainty, which often translate into higher risk premiums or the postponement of investment decisions.

### 1.2.2.8. Fiscal Pension Fund

The reform of the Fiscal Pension Fund of the Public Sector is coherently integrated into the set of institutional reforms aimed at strengthening the sustainability of the State and the consistency of public finances. The public sector pension system plays a central role in social protection; however, its current design presents structural challenges that, if not addressed, tend to generate increasing pressure on fiscal resources in the medium and long term.

The right to retirement for public servants has been recognized since the origins of the national administrative system and was reaffirmed by Law No. 2,345/2003,<sup>35</sup> which established a common framework for the administration of the pension system of the public sector. Subsequently, the incorporation of special regimes introduced regulatory heterogeneities that made the management of the system more complex and show additional challenges in terms of financial equilibrium and predictability.

In recent years, the Fiscal Pension Fund has experienced a sustained increase in its overall deficit, financed through a combination of surpluses from certain contributory programs and transfers from the Treasury. Available actuarial projections indicate that, if current conditions persist, these imbalances are likely to intensify, increasing pressure on public finances and reducing the fiscal margin available to address other government priorities.

The proposed reform of the Fiscal Pension Fund seeks to address these challenges by introducing more uniform, clear, and predictable rules. The initiative aims to streamline access to benefits, align contributions and benefits more equitably, and establish common adjustment mechanisms, incorporating gradual transition schemes and guaranteeing full respect for acquired rights.

From a fiscal perspective, the reform aims to improve the sustainability of the pension system and moderate structural pressures on the Treasury in the medium term. Actuarial estimates show that its implementation would allow a significant reduction in the system's deficit, contributing to strengthening the consistency of the fiscal framework and improving the predictability of public finances.<sup>36</sup>

35 Official Gazette No. 250 (2003) page 1. Official Registry Section. Law No. 2,345/03. On the Reform and Sustainability of the Public Sector Pension Fund. Retirement and Pension System for the Public Sector.

36 Ministry of Economy and Finance (MEF). Reform of the Public Treasury. Government of Paraguay. Available at: <https://www.mef.gov.py/es/reforma-de-la-caja-fiscal>



In this sense, the reform of the Fiscal Pension Fund is part of a series of institutional modernizations that seek to consolidate a more orderly, predictable, and sustainable State, reinforcing the macroeconomic conditions that underpin market confidence and pave the way for consolidating its investment grade rating.

### 1.3 Implications of the reforms: consolidation of the investment grade rating and institutional credibility

The institutional reforms and modernizations discussed in this chapter constitute a central component of the process by which Paraguay achieved its investment grade rating. These advances should not be interpreted as isolated measures or short-term responses; rather, they represent the deepening of a trajectory spanning more than two decades, characterized by the deliberate pursuit of macroeconomic stability, fiscal discipline, institutional strengthening, and predictability in the rules of the game. In this sense, the investment grade achieved is the cumulative expression of a sustained effort, in which the consistency of public policies has been as relevant as the quality of the reforms adopted.

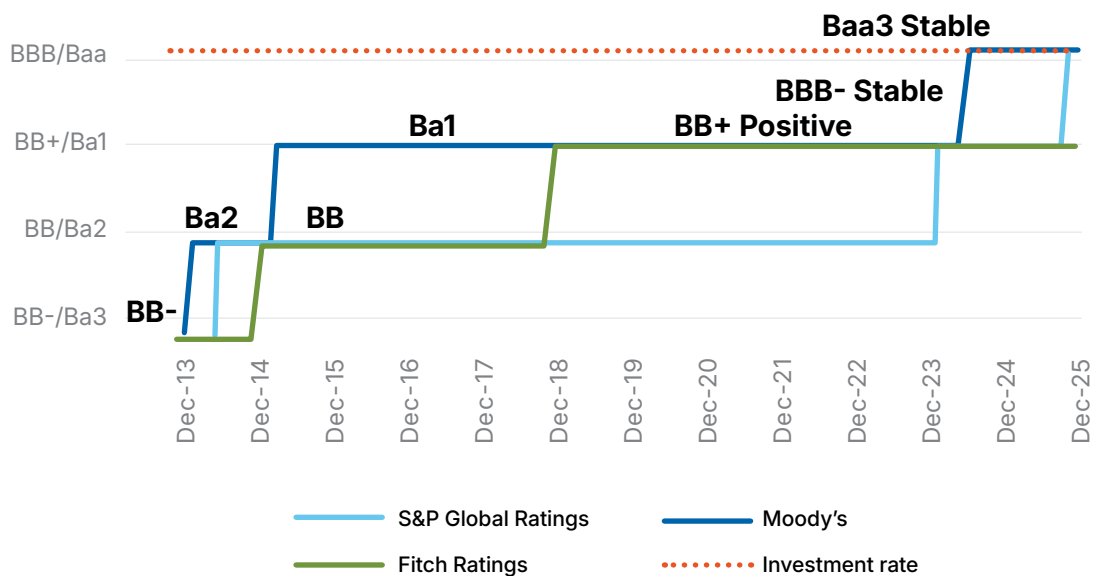
The main international rating agencies have explicitly recognized this process. Moody's maintained Paraguay's sovereign rating at Baa3 (investment grade) with a stable outlook, highlighting sustained economic growth, improved institutional quality, and low external vulnerability. Fitch Ratings raised its outlook from stable to positive (BB+ rating), underscoring the strength of macroeconomic fundamentals, adequate international reserves, low fiscal deficits, gradual reduction of foreign currency debt, and, most important, the existence of a coherent and credible structural reform agenda. Standard & Poor's, also, awarded the country its second-highest investment grade rating, raising it to BBB-, emphasizing the track record of prudent and consistent macroeconomic policies, greater flexibility in the monetary and fiscal frameworks, stabilization of the public debt profile, and the implementation of large-scale investment projects that strengthen economic diversification and the economy's capacity to absorb external shocks (see **chart 1.6**).

These assessments converge on a common diagnosis: Paraguay has successfully built a reputation for stability, predictability, and macroeconomic responsibility, supported by functioning institutions, clear rules, and a proven capacity to implement complex reforms. Recent reforms—in the areas of State organization, financial regulation, infrastructure, markets, and governance—do not, on their own, explain the investment grade rating, but they have provided a crucial institutional boost to strengthen market confidence, improve the country's risk perception, and expand the scope for economic policy maneuverability.

Beyond their immediate impact on the sovereign rating, these reforms have long-term implications. A more efficient state, with greater capacity for coordination, oversight, and planning, strengthens the quality of public spending, improves the investment climate, and contributes to a more productive allocation of resources. A clearer and more modern regulatory framework reduces uncertainty, facilitates private investment, and promotes the deepening of financial markets. Together, these factors expand growth opportunities, foster economic inclusion, and strengthen the country's resilience to adverse scenarios.

Definitely, consolidating the investment grade is not an end point, but rather a strategic asset that must be preserved and strengthened. Its sustainability will depend on the country's ability to maintain coherence between macroeconomic stability and institutional reform, between fiscal discipline and productive development, and between technical credibility and social legitimacy. The transformations analyzed here strengthen this foundation and position Paraguay better to face development challenges, attract long-term investment, and move toward more inclusive, sustainable, and balanced growth.

**CHART 1.6** Evolution of credit rating



Source: MEF.

## Conclusion

Recent institutional reforms are not isolated events or short-term responses. They are the result of a long-term process that began in the 1990s, within the framework of the democratic transition and the pursuit of macroeconomic stability, and which has been progressively and strategically deepened. Each stage—from the first financial and fiscal reforms, through the turning point of 2003 with the stand-by agreement and the subsequent consolidation of a sound macroeconomic framework—contributed lessons and advances that are now reflected in more robust institutions and greater public trust in the State.

On this journey, Paraguay finds itself in a qualitatively different position today. The creation of the Ministry of Economy and Finance unified the leadership of economic, fiscal, and planning policy, strengthening coherence in the management of public finances and in the definition of development priorities. The modernization of the State's administrative organization reduced overlaps, clarified responsibilities, and laid the groundwork for more efficient and transparent management supported by digital processes. Likewise, the new Law of Public Service and Civil Service paved the way for a structural change in public administration, geared toward professionalization, meritocracy, and the sustained improvement of State performance.

These advances reflect a paradigm shift in the conception of the State. The State is no longer understood as a rigid and fragmented structure, but rather as a platform of public services, capable of responding more effectively to social and economic demands. Its legitimacy rests on its capacity to responsibly manage public resources, create conditions for growth, and provide quality services to its citizens.

This process of institutional strengthening and macroeconomic discipline has been recognized by international markets and major credit rating agencies, which have highlighted the consistency of public policies, the predictability of the institutional framework, and the sustained improvement of the country's economic fundamentals. In this sense, achieving investment grade status is a significant milestone, not as an isolated achievement, but as the external validation of a trajectory built over more than two decades. This recognition reinforces the country's credibility, expands access to financing on better terms, and consolidates a more favorable environment for long-term investment.

At the same time, it is necessary to recognize that institutional modernization is a dynamic and ongoing process. The enactment of new laws is a necessary but not sufficient step. Significant challenges remain, including broadening the tax base, reducing informality, deepening the digitalization

of the state, fully implementing the civil service, and strengthening mechanisms for evaluating public policies. The sustainability of the progress achieved—including the investment grade rating—will depend on the ability to maintain coherence between the long-term vision and daily management, as well as between institutional design and its effective implementation.

Looking ahead, recent reforms have positioned the country to better meet the challenges of sustainable development. Macroeconomic stability, access to financing on more favorable terms, and institutional strength are strategic assets that must be preserved and strengthened. Modernizing the State is not an end in itself, but rather a means to promote more inclusive development, expand opportunities, and build a closer and more trusting relationship between the State and its citizens.

In this regard, Paraguay reaffirms its commitment to building a modern, efficient, and transparent state. A State that supports the efforts of its citizens, strengthens trust in institutions, and projects its development on solid foundations, convinced that institutional quality and macroeconomic responsibility are essential pillars for the economic and social progress of the coming decades.

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CHAPTER

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# TRANSFORMATIONS

## **in fiscal and tax management of Paraguay**



# TRANSFORMATIONS in fiscal and tax management of Paraguay

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## Introduction

The transformation in fiscal and tax management of Paraguay is examined through an orderly sequence of reforms implemented over the past two decades. The analysis shows how technical coherence, macroeconomic discipline, and institutional modernization shaped a sustained process that allowed the country to recently achieve investment grade rating status, as well as consolidate its reputation for solvency and fiscal credibility. Through a review of each regulatory milestone—from the Law on Administrative Reorganization and Fiscal Adjustment to the creation of the National Direction of Tax Revenue and Tax Digitization—it is observed that the evolution of Paraguay's fiscal framework constituted an orderly process of institutional strengthening of the State and building trust. In conclusion, it is argued that the resulting fiscal architecture now constitutes a strategic asset for economic and social development, capable of balancing responsibility, equity, and efficiency in public management.

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## 2.1 Paraguay at a turning point

Paraguay recently achieved investment grade rating status, which will undoubtedly have a significant impact on its economic and social development. After more than a decade of macroeconomic stability, with sustained growth and low inflation compared to other countries in the region, the country has the opportunity to make a qualitative leap by improving how it manages its public resources and organizes its tax system. The external and internal context is complex: in a world marked by international competition to attract investment, by citizen pressure for more efficient states, and by increasingly demanding standards of transparency and fiscal responsibility, Paraguay finds itself needing to continue adopting fundamental transformations steadily, but without haste, guided by its National Development Plan 2050.

The implemented reforms—particularly the updating of the State Financial Administration Law, the Fiscal Responsibility Law, and the revision of the tax framework—reorganized fiscal management and improved its quality. Their effect was institutional: clear rules, traceability, and improved execution capacity. In perspective, it was a redesign of the contract between the State and society. In short, Paraguay developed and deepened a trajectory of reforms that strengthened its solvency and built trust.

The international context reinforces this need; multilateral organizations—such as the Inter-American Development Bank (IDB)—foreign investors, and credit rating agencies are paying increasing attention to the quality of fiscal governance. Countries that demonstrate the capacity to plan, execute, and be accountable efficiently gain access to better financing conditions, attract long-term capital, and consolidate their reputation as reliable destinations for doing business. Paraguay has a strategic opportunity here: to consolidate the stability it has achieved, but with more modern institutions that bring it closer to the standards of the Organization for Economic Co-operation and Development (OECD) and further improve its competitive position in the region.

The internal context is also crucial. Paraguayan society demands a more transparent state, capable of transforming taxes into tangible public services: health, education, infrastructure, and security. Public perceptions of fiscal fairness and the efficiency of public spending directly impact democratic legitimacy and social cohesion. If reforms achieve visible results in these areas, not only will trust in institutions improve, but political stability will also be strengthened—an essential condition for any long-term economic and social development strategy.

In the current climate, the economic authorities prioritize tax stability and simplicity, while preserving investment incentives. This means, above all,

adopting a forward-looking vision and charting a roadmap toward a new fiscal pact that balances responsibility, equity, and competitiveness. It means understanding that behind every regulatory change lies a broader objective: to position the country better to face—through a favorable business environment—the challenges of the 21st century, in a global context that offers both volatility and opportunities.

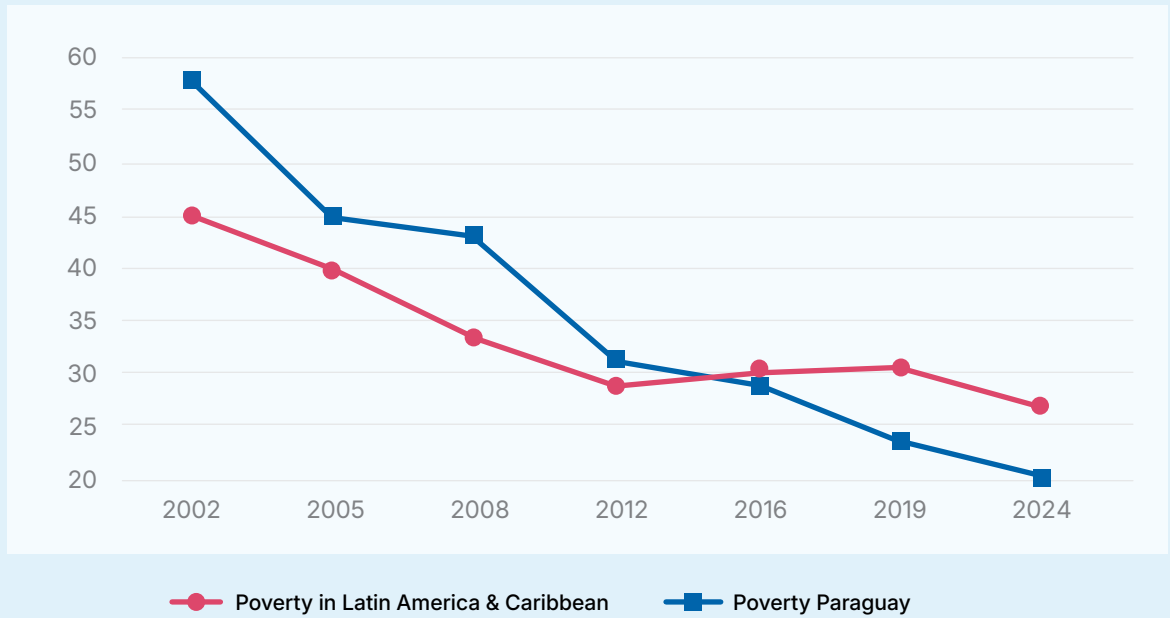
### BOX 2.1 Macroeconomic Overview

Over the past two decades, Paraguay has combined sustained growth with fiscal discipline. Between 2002 and 2024, real GDP growth averaged 3.4% annually, and real GDP per capita growth averaged 2.7%; poverty fell from 58% (2002) to 20.1% (2024). This performance was supported by rules and prudent management: since 2015, a deficit ceiling of 1.5% of GDP and a 4% real limit on current expenditure growth have been in place, allowing the government to absorb shocks with transparent waivers in 2019-2020 and prioritize public investment. The debt-to-GDP ratio increased from 22% (2018) to approximately 36% (2024) due to the countercyclical response, remaining low in regional terms. These fundamentals explain the improved risk perception and access to financing on better terms.

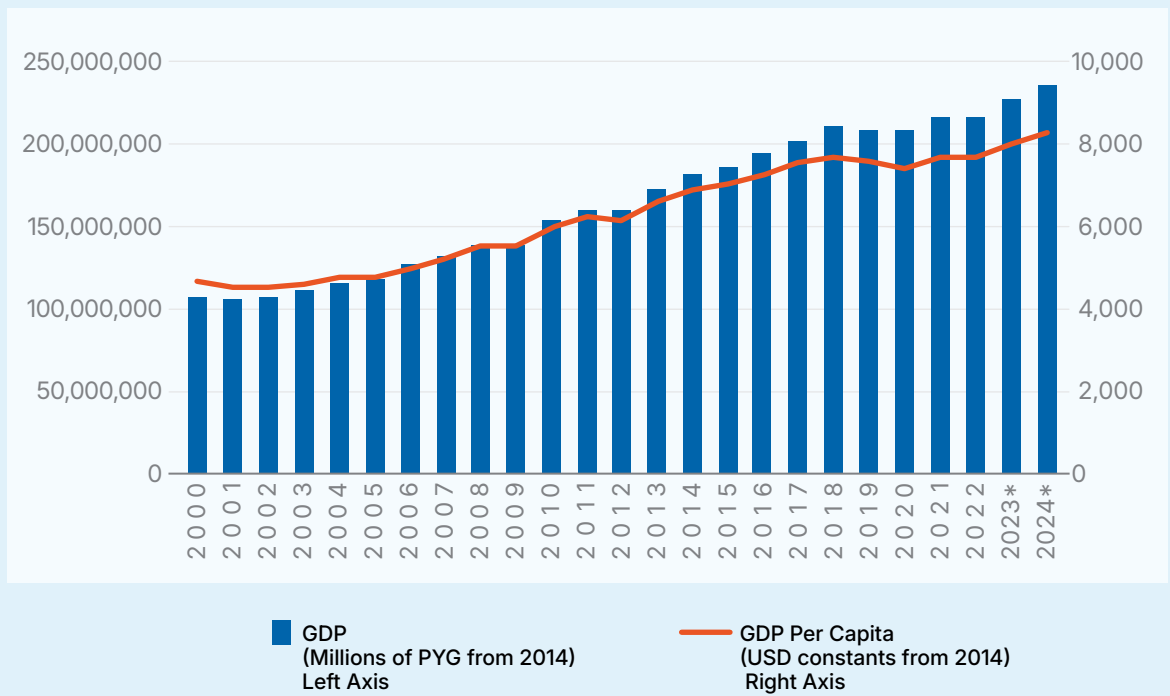
This macroeconomic landscape forms the foundation upon which the analyzed fiscal and tax reforms are built: rules, institutions, and digitalization that strengthen credibility and transform stability into better services and greater productivity. From this anchor, the orderly sequence of reforms and their effects can be examined.

Between 2002 and 2024, these macroeconomic fundamentals translated into social outcomes that exceeded the regional average. During that period, Paraguay's real GDP grew by 3.4% annually, above the 3.1% observed in Latin America and the Caribbean, while real GDP per capita increased by 2.7% annually, reversing the average decline of 0.6% recorded in the previous two decades, according to projections from the International Monetary Fund's (IMF) World Economic Outlook (WEO). Measured in constant 2014 dollars, GDP per capita rose from USD 4,400 to USD 8,200 in 2024. Simultaneously, income poverty fell from 58% to 20.1% of the population, compared to a decrease from 45.2% to 26.8% in the region as a whole, according to the Economic Commission for Latin America and the Caribbean (ECLAC Stats) for the region and the General Directorate of Statistics, Surveys and Censuses of Paraguay (DGEEC) for Paraguay. Meanwhile, inequality—measured by the Gini coefficient—fell to around 21% in Paraguay compared to 16% in Latin America and the Caribbean (ECLAC Stats). Taken together, these indicators show that sustained growth, fiscal discipline, and institutional reforms allowed Paraguay to combine macroeconomic stability with significant improvements in well-being and equity.

**CHART 2.1** Reduction in Poverty in Paraguay vs. LAC  
% of the population



**CHART 2.2** Gross Domestic Product 2000 - 2024



Source: ECLAC for poverty in LAC and DGEEC-Paraguay for poverty in Paraguay.



## 2.2 Fiscal modernization as an engine of economic and social development

The progress of tax reforms in Paraguay must be understood strategically. It is not simply a matter of balancing income and expenses, but of rethinking the role of the State in the economy and in the lives of its citizens. A modern tax framework fulfills three essential functions: (i) it provides macroeconomic stability; (ii) it generates confidence among economic players; and (iii) it ensures that public resources translate into collective well-being, in a system where the tax burden is such that it is compatible with this objective, but also with the growth of the private sector. When these conditions are met, the tax system ceases to be an obstacle and becomes an engine of economic and social development.

The continued implementation of the reforms outlined in the Law of Financial Administration of the State consolidated fundamental advances in fiscal governance. This regulatory framework, designed in a different historical context, had become outdated in the face of current challenges. Today, managing public finances demands mechanisms for greater traceability, multi-year budgets that allow for long-term planning, and control systems capable of ensuring that every Guaraní invested has a measurable and traceable impact on society. The reform aims to create a more efficient state, where strategic planning guides resource allocation and citizens can monitor, in real time, how public funds are being used.

The administration maintains the “10-10-10” tax scheme (Value Added Tax, Personal Income Tax, and Corporate Income Tax rates) as an anchor of simplicity and competitiveness, while improving compliance and the effective tax base. However, the challenge of addressing high levels of informality and low tax pressure persists, as these reduce the State’s capacity to sustainably finance social and infrastructure policies. At the same time, the complexity of some procedures discourages the formalization of small and medium-sized enterprises, which are the backbone of employment in Paraguay.

The tax reforms undertaken since the early 2000s have sought to correct these distortions through: (i) simplifying regulations; (ii) digitizing processes; and (iii) broadening the taxpayer base. This has not necessarily meant increasing the burden on those already compliant, but rather striving to progressively integrate those operating outside the formal system. Comparative international experience shows that formalization not only increases revenue collection but also generates direct benefits for businesses by facilitating their access to credit, government support programs, and international markets.

These transformations take on even greater relevance in a context of regional and global integration. Paraguay competes with its neighbors to attract investment, establish industries, and become a logistics and services hub. To achieve this, it needs to offer investors a stable and predictable business environment. A transparent and efficient fiscal framework sends the right signal: in Paraguay, the rules are clear, the government’s

commitments are sustainable, the tax structure is compatible with private sector growth, and the business climate is supported by institutions that manage simple and digital processes. In times of global volatility, such predictability is one of the most valuable assets a country can offer.

Fiscal modernization, then, is not an end in itself, but a tool to boost economic growth, diversify the productive matrix, and build a more inclusive development model. By strengthening its financial and tax institutions, Paraguay not only reinforces its present, but also secures the foundations for a more competitive and equitable future.

## 2.3 From macro stability to benefits in everyday life

One of the risks of discussing tax reforms is that the debate can get bogged down in technicalities: tax burden percentages, projected deficits, macroeconomic fiscal sustainability, or complex regulatory frameworks that only specialists understand. However, the true measure of the “success” of these transformations lies not only in macroeconomic figures, but also in their ability to improve citizens’ daily lives and provide a more certain environment for businesses.

On the economic front, modernizing the state’s financial administration allows the public budget to move beyond a mere accounting exercise and become a tool for development. Strategic resource allocation ensures that public investment is directed toward long-term priorities: transportation infrastructure that reduces logistics costs, more resilient healthcare systems, schools equipped for the digital economy, and innovation programs that foster local talent. These benefits are tangible and translate into greater competitiveness for businesses and a better quality of life for households.

The tax reform, for its part, has direct impacts on the productive structure. For micro, small, and medium-sized enterprises (MSMEs), tax simplification and the digitization of procedures mean less time spent on bureaucracy and more resources available for investment. Furthermore, progressive formalization opens the door to a virtuous cycle: compliant MSMEs can access bank financing, integrate into international value chains, and participate in public tenders. This multiplies their opportunities for expansion and makes them stronger players within the national economy, as they generate wealth and create jobs.

For foreign investors, predictability is key. A clear, stable, and transparent tax system reduces uncertainty and, consequently, country risk. Multinational companies and investment funds consider this a decisive factor when choosing where to establish operations or allocate capital. Paraguay, with its advantages in natural resources, strategic location in the heart of South America, and a young, growing population, has everything it needs to become an attractive destination. But to realize this opportunity, it needs to offer guarantees that the tax framework will not change abruptly or arbitrarily, and that the government’s commitments will be sustainable over time.



At the social level, the benefits are equally significant. A State that collects taxes more fairly and manages them more efficiently can finance high-quality public policies without resorting excessively to debt. This translates into better-equipped hospitals, more effective social programs, modern infrastructure, and an education system capable of preparing new generations to compete in a globalized world. Ultimately, citizens perceive that their taxes are being transformed into services and opportunities, which strengthens the social contract and reinforces trust in democracy.

Finally, these reforms send a message of institutional modernization that transcends economics. In a context where citizens demand greater transparency and accountability, a state capable of clearly demonstrating how it collects and spends revenue not only improves its efficiency but also regains political legitimacy. This is perhaps the most profound benefit: the building of a renewed bond between the State and society, based on trust and shared responsibility.

## 2.4 Paraguay in the region and the new fiscal pact

Comparative evidence indicates that tax reforms are a tool—not an end in themselves—for reshaping the relationship between the state and society and its international integration. In Latin America, recent experience offers relevant lessons for Paraguay: (i) Uruguay consolidated its reputation and attracted investment through fiscal discipline, prudent debt management, and strengthening of budgetary institutions; (ii) Chile used tax reform as a lever for economic diversification, supported by sovereign wealth funds that mitigated external shocks and preserved confidence; and (iii) Colombia broadened its tax base and increased progressivity to finance social programs and reduce inequality.

Paraguay has the opportunity to continue its reform process by building its own model, based on its own identity. Unlike some of its neighbors, the country is undertaking these reforms from a position of relative macroeconomic stability and with enough leeway to plan for the long term. This advantage is significant: while other countries were forced to reform in the midst of fiscal crises or deep recessions, Paraguay can continue refining its fiscal framework proactively and strategically, preventing urgency from eroding technical quality or political consensus.

The challenge lies in translating that opportunity into concrete results. To achieve this, the success of reforms depends not only on their regulatory design but also on their effective implementation and the State's ability to communicate their benefits to society. Simply put, understanding the benefits of each reform is crucial to its success. In this regard, the public's perception that tax changes translate into tangible improvements in daily life has been, is, and will continue to be key for consolidating political support and ensuring the long-term sustainability of these transformations.



In this sense, the reforms should be understood as the construction of a new fiscal pact. A pact that combines three dimensions:

- ◆ Macroeconomic responsibility, which guarantees stability, solvency and confidence in the State's commitments.
- ◆ Tax equity, which fairly distributes the burden and promotes formalization without stifling private initiative.
- ◆ Institutional efficiency, ensuring that every resource collected translates into quality public goods and services.

This pact not only strengthens the economy, but also the social cohesion and democratic legitimacy. When citizens perceive the system as fair and believe that participation in the formal system translates into opportunities, their sense of belonging and commitment to the country is strengthened.

Definitely, Paraguay is facing a scenario of greater fiscal credibility and more affordable financing, with a positive impact on investment and employment. By moving in this direction, the country is sending a clear signal to the world: Paraguay is ready to compete with modern rules, strong institutions, and an unequivocal commitment to transparency and responsibility.

Taken together, the regulatory framework established a fiscal architecture that now serves as a strategic asset. The following sections will analyze in detail the changes that constitute these regulatory reforms, evaluating their goals, challenges, and impact. At this point, it can be stated that this series of reforms represents much more than a set of laws and regulations: they are the foundation of a social and economic contract that boosts Paraguay toward sustained, competitive, and equitable economic and social development.



## 2.5 Ordered Sequence of Tax Reforms in Paraguay

The following details the main tax reforms in Paraguay (2004-2025), emphasizing: (i) their objective; (ii) the focus of each reform; and (iii) the benefits associated with each. It is worth noting that this orderly sequence of reforms contributed to—among other things—various indicators of “success”: in July 2024, Moody’s awarded Paraguay an “investment grade” rating. Furthermore, in January 2025, S&P improved the outlook for the country’s credit rating from “stable” to “positive.”

In retrospect, the orderly sequence of reforms leading to these achievements can be summarized in the approval of economic norms and regulations that underpin the transformations of Paraguay’s fiscal and

tax management. The pillars of this sustained reform process, prioritized by various administrations based on a shared vision of development, are described below in chronological order:



## 1. LAW No. 2421/2004: On Administrative Reorganization and Fiscal Adjustment

### **Purpose of the reform:**

Law No. 2421/2004 constituted the first fundamental milestone in the transformation of the Paraguayan tax system in the 21st century. This legislation arose as a response to the urgent need to modernize a tax structure that had remained practically unchanged since the enactment of Law No. 125/1991. The central objective of this reform was dual: on the one hand, to reorganize the tax administration to make it more efficient and, on the other hand, to adapt the tax system to the new economic realities of the country and the region.

The reform specifically aimed to create a more equitable tax system, broaden the tax base, and, crucially, introduce the concept of direct income taxation more effectively. Until then, Paraguay relied excessively on indirect taxes, which generated inequities and limited the State's revenue-generating capacity. This law, therefore, represented the explicit recognition that fiscal sustainability required a more diversified and progressive system.

### **Main reforms implemented:**

The core of Law No. 2421/2004 was structured around two fundamental axes: administrative reorganization and the modification of the tax system itself. Regarding the first axis, the law amended Article 237 of Law No. 125/1991, introducing substantial changes to the administrative structure of tax collection. These modifications aimed to professionalize the administration, reduce discretion, and improve oversight mechanisms.

The second, considerably more ambitious, axis involved the modification of multiple articles of Book I, Title 1, Chapter I of Law No. 125/1991, specifically Articles 2, 3, 5, 8, 9, 10, 14, and 20, which regulated "Income from Commercial, Industrial, or Service Activities." These modifications radically transformed the way economic activities were taxed in the country.

Among the most significant changes are: the creation of the Personal Income Tax ("IRP"), which established an 8% tax on income from dependent and independent work that exceeded certain income thresholds; the introduction of the Income Tax on Commercial, Industrial or Service Activities ("IRACIS"), with a rate of 10% on net profits; and the implementation of the Tax on Dividends and Profits ("IDU"), which taxed the distribution of business profits at 5%.

Additionally, the law established more rigorous mechanisms for determining the tax base, incorporated clearer criteria for deducting expenses, and created

**1. LAW No. 2421/2004: On Administrative Reorganization and Fiscal Adjustment**

more effective tax audit procedures. It also introduced harsher penalties for tax non-compliance, seeking to strengthen a culture of tax compliance in a country historically characterized by high levels of tax evasion.

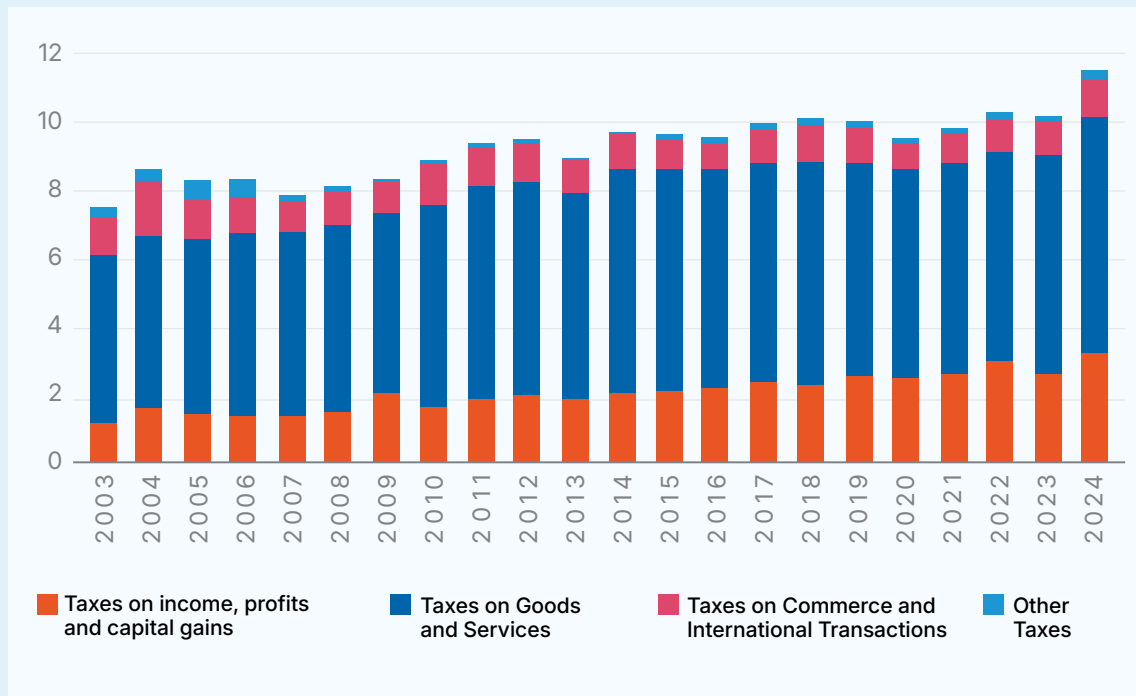
**Benefits associated to the reform:**

The benefits of this reform were numerous and both immediate and structural in scope. First, the introduction of direct income taxes significantly diversified the sources of tax revenue.

This reduced the Paraguayan state’s dependence on consumption taxes, which tend to be regressive and disproportionately affect lower-income sectors. The new tax structure generated greater vertical equity, ensuring that those with greater ability to pay assumed a higher tax burden.

Second, the reform substantially improved tax collection. In the years following its implementation, Paraguay experienced sustained increases in the tax burden, rising from levels close to ~7% of GDP in the early 2000s to approximately 9% of GDP by the end of the decade (MEF, 2025). Although these figures remained low compared to other countries in the region, they represented significant progress for a country with a limited tax tradition.

**CHART 2.3 Paraguay: Tax income 2003 - 2024 (in percentage of the GDP)**



Source: MEF (2025). State of Government Operations - Central Administration.

## 1. LAW No. 2421/2004: On Administrative Reorganization and Fiscal Adjustment

Third, the professionalization of the tax administration led to improvements in collection efficiency. New auditing mechanisms reduced evasion and expanded the number of formal taxpayers. This not only increased tax revenue but also promoted greater formalization of the economy, with positive effects on business competition and access to financing.

From a macroeconomic perspective, the reform contributed to improving the country's fiscal sustainability. By increasing recurring government revenues, it reduced pressure on public debt and generated greater room for public investment. This increased predictability in public finances was positively received by international financial markets and risk rating agencies.

Finally, Law No. 2421/2004 established the conceptual and administrative foundations upon which subsequent tax reforms would be built. By introducing modern principles of direct taxation and creating a more robust administrative structure, this law paved the way for the more profound transformations that would follow in the subsequent decades.



## 2. LAW No. 4673/2012: Amendment to the Income Tax on Personal Services

### **Purpose of the reform:**

Law No. 4673/2012 had as its central objective to improve and expand the Personal Income Tax ("IRP"), originally created by Law No. 2421/2004. This reform arose from the need to correct deficiencies identified during the first years of application of the tax and to adapt the tax to new realities of the Paraguayan labor market.

The Personal Income Tax (IRP), as a tax on income from dependent and independent work, faced significant challenges in its initial implementation. There were regulatory gaps that generated uncertainty, tax-free thresholds that did not adequately reflect taxpayers' ability to pay, and collection mechanisms that required optimization. The 2012 reform sought to address these shortcomings, strengthen tax collection, and, fundamentally, improve equity in the taxation of employment income.

### **Main reforms implemented:**

Law No. 4673/2012 substantially modified and expanded Chapter III "On the Creation of the Personal Service Income Tax" and Article 38 of Law No. 2421/2004. The modifications covered crucial aspects of the tax, including the definition of the taxable events, the determination of the tax base, the applicable rates, and the collection procedures.

Among the most relevant modifications are: the updating of the non-taxation thresholds, which were adjusted to better reflect the country's salary realities and

**2. LAW No. 4673/2012: Amendment to the Income Tax on Personal Services**

avoid taxing low- and middle-income workers; the clarification of which incomes specifically were subject to tax, eliminating ambiguities that facilitated evasion; and the improvement of withholding mechanisms at source, which strengthened the effectiveness of tax collection.

The reform also introduced clearer provisions on allowable deductions, permitting taxpayers to deduct legitimate expenses related to income generation. This improved tax fairness by taking into account individual taxpayer circumstances. Furthermore, more rigorous procedures were established for auditing independent professionals, a segment historically characterized by high levels of non-compliance.

Additionally, the law strengthened the formal obligations of taxpayers and withholding agents, establishing clearer penalties for non-compliance. It also incorporated provisions to facilitate voluntary compliance, including simplifying forms and promoting electronic means for filing and paying taxes.

**Benefits associated with the reform:**

The benefits of Law No. 4673/2012 were significant, particularly in terms of tax equity and formal employment. First, the reform helped increase revenue from the Personal Income Tax (IRP), a tax that, by its nature, has high potential for vertical equity. By improving collection mechanisms and broadening the base of effective taxpayers, it ensured that labor income contributed more significantly to state financing.

Second, the reforms improved the fairness of the tax system. Adjustments to the tax-free thresholds protected lower-income workers, while stronger oversight of higher incomes and self-employed professionals reduced horizontal inequalities. This generated greater social legitimacy for the tax system.

Third, the reform promoted the formalization of employment. By establishing clearer and more efficient withholding tax mechanisms, employers were incentivized to formalize their labor relations. This had positive effects not only on tax revenue but also on workers' social protection and competition among companies.

From an administrative perspective, the improvements introduced reduced compliance costs for both taxpayers and withholding agents. Clearer procedures and the promotion of electronic means facilitated voluntary compliance and freed up tax administration resources to focus on higher value-added activities.

Finally, Law No. 4673/2012 helped consolidate tax culture in Paraguay. By refining a relatively new tax in the country, it strengthened the perception that all economic sectors must contribute to the financing of the State, according to their ability to do so, including labor income, which had historically been under-taxed.



### 3. LAW No. 5061/2013: Modifications to the Agricultural Tax Regime

#### **Purpose of the reform:**

Law No. 5061/2013 had the specific objective of modernizing the tax regime applicable to the agricultural sector, modifying Chapter II “Income from Agricultural Activities” of Law No. 125/1992. This reform was particularly significant in the Paraguayan context, given that the agricultural sector constitutes one of the fundamental pillars of the national economy, representing approximately 20% of GDP and being the main generator of foreign exchange in the country.

The agricultural tax system in force until 2013 had numerous shortcomings. On the one hand, it contained broad exemptions that created inequities and significantly reduced the tax base. On the other hand, the rules for determining the tax base were inadequate to reflect the sector’s true ability to pay, particularly in the context of the technological modernization and expansion of export agriculture that Paraguay had experienced in previous decades.

The reform sought to correct these distortions, expand the contribution of the agricultural sector to state financing and, simultaneously, establish a more equitable tax framework that effectively taxed income generated by larger-scale agricultural activities, without disproportionately affecting small producers.

#### **Main reforms implemented:**

Law No. 5061/2013 comprehensively amended Articles 27 to 37 and Article 39 of Chapter II of Law No. 125/1992, which fully regulated the agricultural income tax regime. These amendments covered fundamental aspects of the tax, including the definition of taxable activities, the determination of the tax base, the applicable rates, and the special regimes for different types of producers.

Among the most significant reforms are: the updating of the thresholds for the application of the Agricultural Income Tax (“IRA”), establishing more realistic limits that would allow differentiation between small subsistence producers and commercial-scale agricultural companies; the modification of the criteria for determining net income, incorporating more precise methods that adequately reflect the profitability of modern agricultural activities; and the establishment of differentiated rates according to the size and type of activity.

The reform also introduced specific provisions for taxing capital gains from the sale of agricultural land, closing a significant loophole that had been exploited to evade taxes. Furthermore, the rules on allowable deductions were updated, recognizing legitimate production expenses while eliminating unjustified deductions that artificially reduced the tax base.

### 3. LAW No. 5061/2013: Modifications to the Agricultural Tax Regime

Additionally, the law established more effective oversight mechanisms for the agricultural sector, including cross-referencing information with export data, cadastral information, and agricultural machinery records. These provisions aimed to reduce tax evasion, which has historically been high in this sector.

#### **Benefits associated with the reform:**

The benefits of Law No. 5061/2013 were significant from both a revenue collection and tax equity perspective. First, the reform helped increase tax revenues from the agricultural sector, one of the most dynamic sectors of the Paraguayan economy. By updating the thresholds and improving the mechanisms for determining the tax base, large agricultural companies were made to contribute more proportionally to their true economic capacity.

Secondly, the reform substantially improved the fairness of the tax system. Historically, the Paraguayan agricultural sector had been under-taxed compared to other economic sectors, generating significant horizontal inequities. The modifications introduced by Law No. 5061/2013 began to correct this imbalance, although without disproportionately affecting small producers, who continued to receive preferential treatment justified by their lower ability to pay.

Third, the reform promoted greater formalization of the agricultural sector. By establishing clearer rules and more effective oversight mechanisms, it incentivized the regularization of activities and the adoption of more rigorous accounting practices. This had positive effects on producers' access to credit and on sectoral competition.

From a fiscal sustainability perspective, the more effective incorporation of the agricultural sector into the tax base diversified the State's sources of income and reduced dependence on other economic sectors.

Additionally, the reform helped improve the international perception of the Paraguayan tax system. The historical under-taxation of the agricultural sector had been criticized by international organizations and had raised doubts about the fairness and adequacy of the tax system. The modifications introduced by Law No. 5061/2013 demonstrated the political will to address this structural deficiency.



## 4. LAW No. 5098/2013: Of Fiscal Responsibility

### **Purpose of the reform:**

Law No. 5098/2013 represented a paradigm shift in the management of Paraguayan public finances by introducing the concept of fiscal responsibility as a guiding principle of economic policy. This legislation emerged in a regional context where multiple Latin American countries had adopted fiscal frameworks to ensure the sustainability of their public finances and generate credibility in international financial markets.

The fundamental objective of this law was to establish general rules of fiscal conduct aimed at guaranteeing the stability and sustainability of public finances in the medium and long term. Paraguay required an institutional framework that would limit discretion in fiscal management, promote budget transparency, and ensure that fiscal policies were consistent with macroeconomic stability and sustainable growth.

### **Main reforms implemented:**

Law No. 5098/2013 established a comprehensive set of fiscal rules regulating various aspects of public finance management. The law stipulated that the central government's fiscal deficit could not exceed 1.5% of GDP in each fiscal year. This rule aimed to ensure that public spending was compatible with the State's structural revenues, preventing accelerated debt accumulation that could lead to fiscal crises. The law included exceptions in cases of economic recession or national emergency, providing some flexibility to the fiscal framework.

The Fiscal Responsibility Law also established a rule for the growth of current spending (a limit of 4% in real terms annually). Regarding debt, no legal limit on the outstanding amount was approved; prudential guidelines and convergence plans are in place to address deviations, with the aim of preserving the State's sustainability and ability to pay.

### **Benefits associated to the reform:**

The benefits of Law No. 5098/2013 were numerous and fundamentally structural in nature. First, the reform generated greater predictability and credibility in Paraguayan fiscal policy. By establishing clear and binding rules, it reduced uncertainty about the future trajectory of public finances, which was positively received by investors and credit rating agencies. This increased credibility translated into lower country risk premiums and better financing conditions for the State.

Second, the fiscal responsibility framework played a decisive role in maintaining Paraguay's macroeconomic stability. Fiscal rules acted as an anchor for economic expectations, facilitating inflation control and exchange rate stability. Fiscal discipline also created greater room for monetary policy, allowing the Central Bank of Paraguay to focus on its price stability objectives without being constrained by fiscal financing needs.

#### 4. LAW No. 5098/2013: Of Fiscal Responsibility

Third, the law significantly improved the transparency of public finances. The obligation to publish detailed fiscal information facilitated informed debate on economic policy and strengthened democratic accountability. This transparency also improved the quality of the budget process by requiring more rigorous medium-term projections and risk analyses.

From a sustainability perspective, Law No. 5098/2013 ensured that Paraguay maintained prudent debt levels. This preserved the State's capacity to respond to adverse economic shocks without compromising its fiscal solvency. During the COVID-19 pandemic, for example, Paraguay was able to implement significant countercyclical fiscal policies precisely because it had maintained low debt levels in previous years, as a result of complying with fiscal responsibility rules.

Finally, Law No. 5098/2013 was a crucial factor in Paraguay obtaining investment grade status. Credit rating agencies particularly valued the existence of a robust institutional framework for fiscal management, considering it a differentiating factor compared to other countries in the region.

The fiscal responsibility demonstrated by Paraguay in the years following the approval of this law was explicitly cited by the rating agencies as a positive factor in their assessments.



#### 5. LAW No. 6380/2019: On Modernization and Simplification of the National Tax System

##### **Purpose of the reform:**

Law No. 6380/2019 represented the most ambitious and comprehensive tax reform in Paraguay's modern history. Approved after intense parliamentary and social debates, this legislation sought to comprehensively modernize the national tax system, simplify it to facilitate voluntary compliance, and, fundamentally, increase the efficiency and equity of the tax regime.

The context that motivated this reform was clear: by 2019, Paraguay maintained one of the lowest tax burdens in Latin America, consistently remaining below 10% of GDP, while the regional average exceeded 22%. This low tax revenue severely limited the State's capacity to finance essential public services, invest in infrastructure, and implement effective social policies. Simultaneously, the existing tax system presented numerous distortions, unjustified exemptions, and complexities that facilitated tax avoidance and evasion.

The law was specifically intended to create a new Corporate Income Tax ("IRE") to replace the previous IRACIS, broaden the tax base, eliminate unjustified tax privileges, and establish a more coherent and predictable regulatory framework for taxpayers and the tax administration.

## 5. LAW No. 6380/2019: On Modernization and Simplification of the National Tax System

### **Main reforms implemented:**

The central element of Law No. 6380/2019 was the creation of the Corporate Income Tax ("IRE"), a tax designed to comprehensively tax all income, profits, or gains from Paraguayan sources derived from economic activities of any kind. Unlike the previous IRACIS, which had multiple limitations and legal loopholes, the IRE adopted a broader and more comprehensive and integral approach.

The IRE established as a taxable generator all income coming from primary, secondary, and tertiary economic activities, explicitly including agricultural, commercial, industrial, and service activities. This broad formulation sought to eliminate the numerous exclusions that characterized the previous system and generated significant inequities, particularly the historical exemption of the agricultural sector in most of its activities.

Additionally, the IRE incorporated as a taxable generator the income generated by assets, rights, and obligations, as well as the acts of disposal thereof and any increase in the taxpayer's net worth. This broad definition made it possible to tax capital gains that previously escaped the tax system, closing significant avenues for tax evasion.

The law explicitly excluded from the Corporate Income Tax (IRE) those incomes already taxed under the Personal Income Tax (IRP), thus avoiding double taxation and maintaining the coherence of the tax system. This exclusion was fundamental to preserving the logic of a dual income tax system: one for a legal person (IRE) and another for a natural person (IRP).

Beyond the creation of the IRE, the reform introduced modifications to multiple aspects of the tax system. The rules for determining the taxable base were updated, clearer rules on the deductibility of expenses were established, anti-evasion mechanisms were strengthened, and auditing and collection procedures were modernized. Specific provisions were also incorporated to regulate transactions with related parties and international transactions, aligning Paraguayan legislation with international transfer pricing standards.

### **Benefits associated to the reform:**

The benefits of Law No. 6380/2019 were significant and multidimensional. First, the reform contributed to increasing tax revenue, although its full implementation faced initial challenges and was subsequently affected by the COVID-19 pandemic. However, the new tax structure created the conditions to significantly expand the Paraguayan State's tax revenues.

Second, the reform improved the horizontal and vertical equity of the tax system. By broadening the tax base and eliminating unjustified exemptions, it ensured that previously privileged economic sectors contributed more proportionally to their capacities.

## 5. LAW No. 6380/2019: On Modernization and Simplification of the National Tax System

Third, regulatory simplification and modernization reduced compliance costs for taxpayers. A clearer and more predictable legal framework facilitated legitimate tax planning for businesses and reduced tax litigation. This created an environment of greater legal certainty, which was positively valued by both domestic and international investors.

From a fiscal sustainability perspective, the reform strengthened the Paraguayan state's capacity to finance its essential functions and make productive public investments. Higher tax revenues allowed for a reduction in reliance on debt and improved fiscal solvency indicators, crucial elements for achieving investment grade status.

Additionally, Law No. 6380/2019 aligned the Paraguayan tax system with international best practices. This regulatory modernization facilitated international cooperation on tax matters, strengthened mechanisms to prevent cross-border tax evasion and avoidance, and improved the country's reputation in international forums. This last aspect was particularly relevant for sovereign risk ratings.

Finally, the reform generated significant indirect effects on economic formalization. By establishing a more equitable and efficient system, it reduced incentives for informality and promoted fairer competition among economic players. This contributed to improving the economy's overall productivity and strengthening the rule of law.



## 6. LAW No. 6490/2020: National Public Investment System

### **Purpose of the reform:**

Law No. 6490/2020 aimed to establish a comprehensive framework to regulate the actions of the National Public Investment System (SNIP), radically transforming how Paraguay planned, evaluated, prioritized, and executed public investment projects. This reform was particularly relevant in the context of previous fiscal transformations, as increases in tax revenue and the fiscal discipline established by the Fiscal Responsibility Law had generated greater fiscal space for public investment, but deficiencies in the quality of capital expenditure persisted.

The fundamental objective of the Law is to ensure that public resources allocated to investment are used efficiently, maximizing their impact on the country's economic and social development. Paraguay faced significant challenges in infrastructure, public services, and human capital that required substantial investment. However, the effectiveness of these investments depends crucially on the projects being technically sound, economically feasible, and socially beneficial.

The law—currently being implemented—aims to establishing rigorous socioeconomic evaluation procedures for projects, clear prioritization mechanisms based on objective criteria, and monitoring and evaluation systems

## 6. LAW No. 6490/2020: National Public Investment System

that allow for learning from experience and continuous improvement of the quality of public investment. It is worth to point out that, unlike other regional initiatives, the law also covers projects developed through Public-Private Partnerships.

### **Main reforms implemented:**

Law No. 6490/2020 established that all public investment projects financed totally or partially with resources from the General Budget of the Nation or that had State guarantees had to be planned, formulated, socioeconomically evaluated, prioritized and executed within the framework of the SNIP.

A central element of the reform is the requirement to conduct rigorous socioeconomic assessments of all investment projects. These assessments must quantify the costs and benefits of the projects, considering not only financial aspects but also economic, social, and environmental impacts.

Additionally, Law No. 6490/2020 established strict monitoring and evaluation requirements during and after project implementation. They were defined result evaluations to measure the achievement of immediate objectives, impact evaluations to quantify medium- and long-term effects, and ex-post evaluations to analyze the overall efficiency of projects once they are completed.

The reform also aimed to strengthen institutional capacities for public investment management. It established that implementing institutions must have specialized technical units for formulation and evaluation of projects.

The law incorporated specific provisions on transparency in public investment. It established obligations to publish detailed information on projects at all stages, including pre-investment studies, socioeconomic assessments, implementation schedules, and ex-post evaluation results.

### **Benefits associated to the reform:**

The benefits of Law No. 6490/2020 are numerous and fundamentally qualitative in nature, related to improving the efficiency of public capital spending. First, the implementation of rigorous socioeconomic assessments in some sectors significantly improved the quality of public investment projects. By requiring all projects to demonstrate their technical and economic viability before being approved, the execution of investments with low social returns or that are technically deficient is reduced. This seeks to maximize the impact of limited public resources.

Second, the prioritization mechanisms established by law will improve the allocation of resources among alternative projects. Instead of decisions based on political criteria or short-term pressures, prioritization will be based on technical analyses of expected social returns, helping to channel resources toward projects with the greatest potential impact on economic and social development.

## 6. LAW No. 6490/2020: National Public Investment System

From a fiscal sustainability perspective, Law No. 6490/2020 ensured that the increases in public investment resulting from higher tax revenues were effectively translated into improvements in infrastructure and services. A robust institutional framework for public investment reduces the risks of wasted resources or the implementation of unsuitable projects that fail to generate the expected benefits.

Additionally, the improved quality and transparency of public investment have enhanced investors' perception of the Paraguayan State's capacity to execute complex projects. This aims to facilitate the attraction of international financing for infrastructure projects and strengthen Public-Private Partnerships.

From an economic development perspective, improving the quality of public investment has multiplier effects on growth. Well-designed investments in transportation, energy, education, and health infrastructure can reduce structural bottlenecks that limit the potential growth of the Paraguayan economy. Reduced logistics costs, expanded public service coverage, and improved human capital will be concrete benefits of better-planned and executed public investments.

Finally, Law No. 6490/2020 contributed to Paraguay's investment grade rating by demonstrating to rating agencies that the country had solid institutional frameworks for managing its public finances. The existence of a rigorous system for evaluating and prioritizing public investments will be a positive factor that reduces the risk of future fiscal deterioration due to unproductive investments. This element complements the progress made in tax collection, fiscal responsibility, and debt management, forming a comprehensive set of reforms that support the achievement of investment grade.



## 7. LAW No. 6638/2020: Modernization of the State's Financial Administration

### **Purpose of the reform:**

Law No. 6638/2020 aims to modernize and expand the provisions of Law No. 5097/2013, which had established the single Treasury account system and the titles of public debt. This reform arose from the need to improve the financial management instruments of the Paraguayan State, particularly regarding the management of public liquidity and sovereign debt.

The context for this reform was particularly relevant. Paraguay had made significant progress in its fiscal management during the 2010s, including reducing public debt, maintaining controlled fiscal deficits, and achieving better

## 7. LAW No. 6638/2020: Modernization of the State's Financial Administration

credit ratings. However, the state's financial administration is still exhibiting shortcomings that limits the efficiency of the use of public resources and generates unnecessary costs.

The reform specifically sought to modernize the management mechanisms of the single Treasury account, to establish clearer provisions for the issuance and administration of titles of public debt, and to create a more robust institutional framework for the comprehensive management of sovereign debt. These objectives were crucial for maintaining fiscal sustainability and improving the State's financing conditions.

### **Main reforms implemented:**

Law No. 6638/2020 modified and expanded Articles 17, 18, and 22 of Law No. 5097/2013, introducing substantial changes to the State's financial management. The amendments covered three main areas: the single Treasury account, titles of public debt, and the comprehensive management of the sovereign debt.

Regarding the single Treasury account, the reform improved the mechanisms for centralizing public resources. More efficient procedures were established for the collection, safekeeping, and allocation of state funds, seeking to optimize liquidity management and reduce financial costs. These provisions allowed a more active management of the Treasury liquidity, generating higher returns on temporarily idle resources.

Regarding the titles of public debt, the law introduced greater flexibility for issuing financing instruments. The regulations on the types of titles that the government could issue were updated, including short-, medium-, and long-term instruments. Streamlined procedures for debt allocation were also established, allowing the Treasury to respond more efficiently to financing needs and changing financial market conditions.

A particularly relevant innovation was the strengthening of the institutional framework for public debt management. The law established complementary legal provisions that clarified the responsibilities of the different institutions involved in debt management, created more effective coordination mechanisms between the Ministry of Finance and the Central Bank of Paraguay, and established more rigorous transparency and reporting requirements for sovereign debt.

The reform also incorporated specific provisions on managing risks associated with public debt, including refinancing, interest rate, and exchange rate risks. Prudential limits were established on the debt composition, seeking to maintain an appropriate maturity profile and a currency structure that shall minimize vulnerability to external shocks.

Additionally, the law modernized auditing and control procedures for the State's financial management. The Office of the General Comptroller of the Republic was empowered to oversee debt operations, and stricter documentation and justification requirements were established for financing decisions.

**7. LAW No. 6638/2020: Modernization of the State's Financial Administration****Benefits associated with the reform:**

The benefits of Law No. 6638/2020 were numerous and primarily technical and financial in nature, although with significant implications for the country's overall fiscal sustainability. First, the modernization of the single Treasury account generated significant operational efficiencies. Optimizing liquidity management allowed for a reduction in government financing costs by minimizing the need for short-term borrowing to cover temporary gaps between revenues and expenditures.

Second, a greater flexibility in the issuance of Titles of public debt significantly improved Paraguay's financing conditions. By gaining more timely access to markets and a wider range of instruments, the Treasury secured more favorable interest rates and was able to develop a more comprehensive sovereign yield curve. This not only directly benefited the government but also contributed to the development of the domestic capital market by providing price benchmarks for private issuers.

Third, the strengthening of the institutional framework for debt management generated greater credibility with international investors and credit rating agencies. The existence of clear procedures, robust risk management mechanisms, and strict transparency requirements was positively valued in sovereign risk assessments. This factor contributed to the improvements in Paraguay's credit ratings that occurred in subsequent years.

From a fiscal sustainability perspective, the reform ensured that Paraguay maintained a manageable debt profile. The risk management provisions and prudential limits on debt composition helped prevent vulnerabilities that could compromise fiscal solvency in the future. This was particularly relevant considering that, although Paraguay's debt levels were low, the country faced structural fiscal challenges related to its limited tax burden.

Additionally, greater transparency in public debt management strengthened democratic accountability. Reporting requirements and the publication of detailed information on borrowing operations facilitated public and parliamentary scrutiny, improving the quality of fiscal governance.

Finally, Law No. 6638/2020 positioned Paraguay as a more sophisticated sovereign issuer in international markets. The modernization of debt management instruments and procedures sent positive signals regarding the Paraguayan State's technical capacity to manage its public finances, favorably differentiating it from other countries in the region with less developed institutional frameworks.



## 8. LAW No. 7143/2023 AND GENERAL RESOLUTION DNIT No. 6/2024: Creation of the National Directorate of Tax Revenue and Tax Digitization

### **Purpose of the reforms:**

Law No. 7143/2023 represented a major institutional transformation by creating the National Direction of Tax Revenue (DNIT) as an independent and autonomous entity, resulting from the merger of the Undersecretary of State of Tax Revenues—then the State Secretary of Tax Revenues from the Ministry of Finance (SET)—and the National Direction of Customs (DNA), integrating tax and customs management with a focus on governance, traceability, and control. While the previous two decades saw advances in tax regulations and significant progress in the customs field, the effectiveness of the system remained limited by administrative capacity constraints in collection and auditing. The reform, therefore, presents the challenge—and the opportunity—of integrating tax and customs management into a single entity, with direct implications for governance, traceability, and control. The fundamental objective was to create a specialized, technically sound, and operationally autonomous institution capable of efficiently managing the national tax system.

To modernize tax administration in line with advancements made in other countries in the region regarding electronic invoicing, Law No. 7795/2017 created the National Electronic Invoicing System (SIFEN). Based on this framework, subsequent regulations—including General Resolution DNIT No. 6/2024—operationalized the adoption of electronic invoicing through the “Ekuatia” platform. This system strengthens the traceability of transactions, reduces tax evasion and compliance costs, and expands control capabilities through real-time validations and cross-checks.

### **Main reforms implemented:**

Law No. 7143/2023 created the National Direction of Tax Revenues as a government legal person with institutional characteristics specifically designed to ensure its effectiveness. The DNIT was established as a self-governing and autonomous body, with its own assets and indefinite duration. This operational autonomy, while maintaining relations with the Executive Branch through the Ministry of Economy and Finance, is a crucial element for professionalizing the tax administration.

The law stipulated that the DNIT would take all the functions related to the administration of internal taxes and customs management, including collection, auditing, determination of tax debts, dispute resolution, application of penalties, and all other activities inherent to the administration of the tax system; in addition to trade facilitation activities inherent to the customs area. This consolidation of functions into a single specialized institution sought to overcome the administrative fragmentation that had characterized the previous system.

One particularly innovative aspect was the special human resources management system established for the DNIT. The law provided for the creation

## 8. LAW No. 7143/2023 AND GENERAL RESOLUTION DNIT No. 6/2024: Creation of the National Directorate of Tax Revenue and Tax Digitization

of a professional tax career path, with merit-based selection mechanisms, competitive compensation schemes, and rigorous performance evaluation procedures. These provisions aim to attract highly qualified professionals and reduce the risks of corruption that had historically plagued the tax administration.

The regulation also established that the DNIT would have budgetary autonomy, financed through the allocation of a percentage of tax revenue. This self-financing mechanism aimed to ensure that the institution had sufficient resources to develop its technical and technological capabilities without depending on budget allocations subject to fiscal constraints or political decisions.

For its part, General Resolution DNIT No. 6/2024 regulated the implementation of the Ekuatia'i system, a comprehensive electronic platform for issuing tax documents. The system was designed as a tool managed by the DNIT to facilitate the generation and issuance of electronic invoices, credit and debit notes, and other relevant tax documents for taxpayers.

Ekuatia'i incorporated advanced real-time validation features, automatic cross-referencing of information between buyers and sellers, and the generation of alerts regarding potential discrepancies. The system was designed to be accessible through multiple channels, including the institutional website, mobile applications, and integration systems for large taxpayers with their own accounting systems.

The resolution established phased implementation schedules, beginning with large taxpayers and gradually extending to smaller businesses. It also included special regimes for small taxpayers and technical support mechanisms to facilitate adoption of the system.

### **Benefits associated with the reforms:**

The benefits of these reforms are broad and encompassed institutional, technological, and revenue-related dimensions. First, the creation of the DNIT as an autonomous institution significantly strengthened the Paraguayan State's capacity to effectively manage its tax system and customs administration. The professionalization of management, the reduction of political interference, and the availability of adequate resources created the conditions for a modern and efficient tax administration.

Second, the new institutional framework improved predictability and consistency in the application of tax rules. A technically sound and operationally autonomous institution was able to implement more uniform audit criteria, reduce discretion in the interpretation of rules, and generate greater legal certainty for taxpayers. This was positively received by investors and compliant taxpayers.

Third, the implementation of the Ekuatia'i system represented a significant leap forward in the fight against tax evasion. Electronic invoicing—which is still being

## 8. LAW No. 7143/2023 AND GENERAL RESOLUTION DNIT No. 6/2024: Creation of the National Directorate of Tax Revenue and Tax Digitization

implemented—aims to eliminate the possibility of issuing false invoices, facilitate the detection of undeclared transactions, and allow for real-time data matching. Studies in other Latin American countries that have implemented similar systems show significant increases in revenue collection, particularly in Value Added Tax (VAT).

From a tax compliance perspective, Ekuatia'i dramatically simplified taxpayers' formal obligations. Process automation reduced compliance costs, particularly for small and medium-sized enterprises that previously faced disproportionate administrative burdens. The availability of intuitive digital tools facilitated voluntary compliance and reduced unintentional errors.

Additionally, tax digitization generates high-quality information that can be used for multiple public policy purposes. The data generated by Ekuatia'i increasingly enables the identification of sectors with high levels of tax non-compliance and facilitates the implementation of more targeted and effective tax enforcement strategies.

From a transparency perspective, both the creation of the DNIT and the implementation of Ekuatia'i improved accountability. The DNIT's autonomy entailed stricter public reporting requirements for its management, while electronic invoicing generated verifiable information on economic transactions, reducing opportunities for corruption and arbitrary action.

Finally, these reforms position Paraguay as a country on the right track for technological modernization in tax and customs administration. The pursuit of adopting cutting-edge digital systems and the creation of a modern institution send positive signals to the international community regarding Paraguay's serious commitment to efficient fiscal management. This factor was considered by rating agencies as strengthening the country's capacity to generate sustainable tax revenues, contributing to the positive assessments that culminated in its investment-grade rating.



## 2.6 Lessons learned

From a historical perspective, the fiscal and tax reforms implemented by Paraguay in recent decades offer a set of relevant lessons for other countries in Latin America and the Caribbean, at both the national and subnational levels. These lessons reflect not only the technical soundness of the decisions, but also the institutional consistency and political capacity to sustain them over time. Below are four key lessons that explain how the country achieved investment grade rating status and consolidated a reputation for macroeconomic discipline and institutional credibility:

### 2.6.1 The regulatory sequence and fiscal rules as anchors of credibility

The Paraguayan process demonstrated that successful fiscal reforms require an orderly, coherent, and sustained regulatory framework. The approval of the Fiscal Responsibility Law (No. 5098/2013) and subsequent reforms regarding public debt, budget, and Treasury management consolidated an architecture of fiscal control and predictability. These rules served as “anchors of confidence” for investors, international organizations, and rating agencies, reducing volatility and reinforcing the perception of macroeconomic stability. The orderly sequence of reforms allowed for the consolidation of fiscal discipline without compromising growth.

### 2.6.2 Institutional operations and digitization strengthen revenue collection capacity

Strengthening the tax administration was crucial for increasing revenue and reducing evasion. The creation of the National Direction of Tax Revenues (DNIT) as an autonomous agency, along with the implementation of the Ekuatia’i electronic invoicing system, represented a significant leap forward in management and oversight. The professionalization of staff, the development of technical career paths, and the use of information technologies constitute a process of continuous improvement that integrates databases, detects inconsistencies, and promotes voluntary compliance. The result—over time—is a more efficient, transparent, and taxpayer-friendly system.

### 2.6.3 The quality of public spending matters as much as the increase in revenues

The Paraguayan experience demonstrates how, in a context of relatively low public revenues—compared to the regional average—maintaining fiscal balance with social stability depends largely not only on how much is spent, but also on how it is spent to deliver quality public goods and services to society. The creation of the National Public Investment System (SNIP) and the introduction of socioeconomic evaluation methodologies for public investment projects aim to advance in this direction by prioritizing high-impact projects. This approach strengthens the relationship between

fiscal discipline and social and productive development, ensuring that every Paraguayan Guaraní invested generates measurable and sustainable benefits for the real economy and society.

### 2.6.4 The IDB's technical support was a multiplier of institutional capacity

The IDB played a crucial role in translating policy decisions into effective reforms. Its technical support provided comparative evidence, international methodologies, and implementation guidance. Rather than replacing national capacities, the IDB's assistance enhanced them: it helped strengthen planning, risk management, and results evaluation, fostering a culture of continuous learning within fiscal and tax institutions. This cooperation was a silent but decisive factor in consolidating the investment grade rating.

## Final Considerations

The experience of Paraguay shows that successful fiscal reforms are not isolated events, but rather processes of continuous institutional building. Achieving investment grade rating represented both “an end point” and—at the same time—“a starting point.” The sustainability of this achievement will depend, among other things, on maintaining a balance between discipline, innovation, and equity in the management of public finances.

The first key element is preserving the coherence of the fiscal framework. Current rules have proven effective in containing spending and ensuring transparency, but their long-term effectiveness will depend on their adaptability. Establishing clear review mechanisms, with technical criteria to allow for flexible targets in the face of external shocks or emergencies, will maintain credibility without sacrificing responsiveness.

The second pillar is institutional and technological consolidation, also focusing on trade facilitation. Modernizing the DNIT and the expansion of the electronic invoicing system must be further developed by investing in technical capabilities, strengthening the tax career path, and ensuring the interoperability of information systems. On the customs front, process integration—risk management, document traceability, and simplified procedures—aims to optimize logistics times and costs, reduce discretion, and increase compliance. Simultaneously, supporting MSMEs in their formalization will be crucial for broadening the tax base without compromising their competitiveness.

The third pillar of continuity is improving the quality of public spending and investment. The implementation of the National Public Investment System (SNIP) must evolve toward a model of continuous evaluation, allowing for learning from results and adjusting priorities based on economic and social impact. This requires strengthening transparency, publishing ex-post evaluations, and linking budget allocations to measurable outcomes. In simple terms, the additional revenue must translate into tangible works, services, and opportunities for economic and social development that are visible to society.

In addition, it is essential to maintain a balance between equity and competitiveness. Broadening the tax base and combating tax evasion must be complemented by a tax system that allows the private sector to develop while simultaneously incentivizing its formalization. Targeted reforms, with temporary incentives and clear anti-avoidance rules, will allow the system to remain progressive without discouraging private investment.

Finally, public communication and political dialogue will remain essential to sustaining reforms and facilitating understanding of their associated benefits. Transparency in the use of resources and the dissemination of results strengthen the legitimacy of fiscal efforts. Maintaining a clear link between tax payments and improvements in infrastructure, education, and/or health helps to consolidate a culture of compliance and shared responsibility.

Furthermore, the technical support of the international financial community—particularly the IDB—will continue to be crucial for the future. Its value lies in transferring knowledge, evaluating progress, and supporting the institutionalization of best practices, always from a national strengthening perspective. Future international cooperation should be directed towards building sustainable capacities and consolidating a fiscally sound, transparent, and efficient State.

In conclusion, Paraguay put in order its fiscal and institutional architecture and, with the creation of the National Directorate of Tax Information (DNIT) and the Ministry of Economy and Finance, reconfigured its organizational structure starting in 2023. Going forward, the emphasis should be on consolidating implementation rather than opening new regulatory fronts: preserving fiscal discipline; professionalizing the civil service; deepening the digitalization and interoperability of tax and customs processes and public administration; and translating macroeconomic stability into visible improvements in services and productivity. Maintaining this coherence between stability and development will allow for a sustained trajectory of inclusive and sustainable progress.

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CHAPTER

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# THE EVOLUTION OF REGULATION in the Paraguayan financial sector

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# THE EVOLUTION OF REGULATION in the Paraguayan financial sector

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## Introduction

The macroeconomic stability is a fundamental condition for sustainable economic growth and improvement of social welfare. In the case of Paraguay, historical analysis of recent decades reveals a process of institutional consolidation in the monetary and financial spheres. This process has allowed the country to overcome persistent structural vulnerabilities, resulting in an environment characterized by disciplined macroeconomic policy, a resilient banking system, and increasing credibility in monetary policy. As a result, Paraguay has positioned itself as a regional benchmark in economic stability and financial governance.

The Central Bank of Paraguay (BCP), established in 1952, has played a central role in the country's macroeconomic consolidation process. From its initial functions—such as issuing currency and supervising the banking system—to its current role as guarantor of price stability and the financial system, the BCP's institutional evolution has been closely linked to the modernization of the State and the implementation of economic reforms in different historical contexts.

Financial regulation in Paraguay should be understood as part of a comprehensive macroeconomic strategy aimed at strengthening predictability and confidence among economic players. Among the most significant milestones are the transition from a monetary aggregates system to an Inflation Target (IT) regime, the creation of a deposit guarantee scheme, the establishment of specialized regulatory agencies, and the consolidation of a modern payments system. These transformations have contributed to stabilizing inflation, strengthening international reserves, and the country's gradual integration into international capital markets.

In this process, the consolidation of the regulatory framework and the credibility of the monetary regime have had a direct impact on the perception of the country's sovereign risk. Credit rating agencies consistently cite the Central Bank's institutional strength—its autonomy, its prudential framework, its capacity to respond to shocks, and the consistency between monetary policy and financial stability—as determinants of macroeconomic resilience.<sup>38</sup> As Paraguay made progress in price stability, it also strengthened the solvency of its financial system and modernized its supervisory and payment architecture, creating conditions for sustained improvements in its credit rating, including the milestones associated with achieving investment grade. These improvements are the result of a consistent institutional trajectory: a credible Central Bank, a more robust financial system, and more predictable rules for saving and investment.

The objective of this chapter is to systematically analyze the institutional evolution of the Central Bank of Paraguay (BCP), with particular emphasis on the interaction between financial regulation, monetary policy, and macroeconomic stability. It argues that, through a series of progressive reforms, the BCP has built a framework of credibility and resilience that positions Paraguay as a regional leader in financial governance.

### 3.1 Background

Between the 1950s and 1980s, the Paraguayan economy reflected the structural weaknesses typical of a small, open country, highly dependent on a limited number of export products and with a small domestic market. Agriculture was the main generator of foreign exchange, with cotton playing a prominent role in the early decades and, later, soybeans, which accentuated productive concentration and exposure to risks arising from external factors.<sup>39</sup> This productive configuration decisively conditioned the country's macroeconomic performance and limited its capacity to absorb adverse shocks.<sup>40</sup>

External shocks—including droughts, agricultural pests, and fluctuations in international commodity prices—translated into significant variations in Gross Domestic Product and the balance of payments, highlighting the high structural vulnerability of the Paraguayan economy. Faced with this context, the Central Bank of Paraguay (BCP) resorted to a set of economic policy instruments aimed at mitigating cyclical imbalances. These included credit controls and sectoral quotas, designed to channel financing toward activities

38 Central Bank of Paraguay. (2025). Paraguay achieves Investment Grade rating with Standard & Poor's and positions itself among the most stable economies in the region. <https://www.bcp.gov.py/web/institucional/w/paraguay-alcanza-el-grado-de-inversion-con-standard-poors-y-se-posiciona-entre-las-economias-mas-estables-de-la-region> and Standard & Poor's Report. <https://www.spglobal.com/ratings/en/regulatory/consolidated-search-landing/searchType/Entity/searchTerm/Paraguay>

39 Hanratty, DM, & Meditz, SW (Eds.). (1988). Paraguay: A Country Study (p. 99). Washington, DC: Library of Congress Publishing Office. Retrieved from <https://countrystudies.us/paraguay/>

40 Fernández Valdovinos, C.G., & Monge Naranjo, A. (2011). Economic Growth in Paraguay. <https://doi.org/10.18235/0008728>



considered priorities; the use of high reserve requirements as a liquidity restriction mechanism; multiple exchange rates and periodic devaluations as an external adjustment tool; and, recurrently, direct financing of the government, a practice that tended to intensify inflationary pressures during periods of public spending expansion.<sup>41</sup>

This intervention scheme highlighted the absence of a credible nominal anchor. In a context characterized by the lack of explicit inflation targets and limited fiscal discipline, economic agents internalized the expectation that inflation and the exchange rate would remain subject to recurring episodes of volatility. Monetary policy lacked a clear frame of reference, and institutional credibility proved insufficient to anchor long-term expectations.

The 1980s revealed the limitations of this economic model more clearly. The international environment was marked by the Latin American debt crisis that began in 1982, a prolonged period of high international interest rates, and a slowdown in global economic activity. Although Paraguay had more moderate levels of external debt compared to other countries in the region, it was not immune to the adverse effects of this situation.<sup>42</sup>

In that context, the national financial system showed significant structural weaknesses. Entities operated with low levels of capitalization, insufficient to absorb losses in adverse scenarios; deposits were highly dollarized, increasing exposure to exchange rate risks; corporate governance was deficient, with transparency problems and potential conflicts of interest; and financial supervision was in its infancy. Regulation focused predominantly on formal compliance with permitted activities, rather than on a comprehensive risk assessment, in contrast to modern risk-based prudential approaches.

As a consequence of this structural fragility, the financial system faced recurring episodes of instability that led to banking crises, significantly eroded public confidence, triggered massive deposit withdrawals, and forced the State to intervene in numerous institutions. These events highlighted the limitations of the existing regulatory and supervisory framework and constituted a turning point in the conduct of national economic policy. Based on these experiences, the conviction grew that macroeconomic and financial stability required the construction of a more robust institutional framework, capable of preventing systemic imbalances, strengthening the resilience of the banking system, and laying the foundations for long-term sustainable growth.<sup>43</sup>

41 Otazu, O. (1991) "The quasi-fiscal deficit in Paraguay: 1982–1989." Fiscal Policy Series 24. Economic Commission for Latin America and the Caribbean, United Nations.

42 Neumeyer, P. (2022). *Discussion of the case of Paraguay*. En T. J. Kehoe y J. P. Nicolini (Eds.), *A monetary and fiscal history of Latin America, 1960–2017* (pp. 391–398). University of Minnesota Press.

43 Vera, R. (2025). The economic crises 1995 to 2002 and the strengthening of financial supervision. From the process of strengthening economic institutions to investment grade. The role of the BCP from the perspective of its presidents. Pages 55–84. Central Bank of Paraguay.



### 3.1.1 The 1992 Constitution and the 1995 Organic Law

The process of political opening that began in 1989, following the fall of the authoritarian regime, marked a turning point in Paraguay's institutional history and paved the way for the gradual modernization of the State. In this new context, economic policy began to be reoriented on a more solid foundation, incorporating principles of fiscal discipline, greater trade openness, and a strategy aimed at attracting investment. The experience accumulated in previous decades had highlighted the costs of a weak institutional framework, and the need to provide the monetary authority with independence and credibility became a central priority of the reform agenda.

The National Constitution enshrined this change by granting the Central Bank of Paraguay (BCP) a clear, specific, and deliberately limited mandate: the preservation of monetary stability. At the same time, it established strict limits on public sector financing, authorizing only short-term, temporary advances and exclusively in situations of national emergency. In this way, the legal foundations were laid to prevent the recurrence of past imbalances and to safeguard monetary policy from short-term fiscal and political pressures.

This new constitutional framework represented a decisive institutional shift. The Central Bank ceased to operate as a recurring source of Treasury financing and began to fulfill its role as a monetary authority with explicit legal backing, protected from interference that could compromise its operational independence. Currency stability began to solidify as a priority public good, and institutional credibility emerged as a fundamental asset for conducting economic policy.

The financial crisis of the mid-1990s tested this new framework and, at the same time, accelerated the need to adapt the regulatory framework. In this context, the Organic Law of the Central Bank of Paraguay (Law No. 489/95) was enacted in 1995, consolidating and deepening the new institutional paradigm. This law translated the constitutional principles into operational provisions and precisely defined the objectives, functions, and limits of the monetary authority.

The Central Bank's fundamental objectives were structured around two complementary pillars. The first was to ensure the stability of the currency's value, understood as preserving the purchasing power of the Paraguayan Guaraní. The second was to promote the efficiency, integrity, and stability of the financial system, ensuring that banks and other credit institutions regulated by the Central Bank of Paraguay (BCP) operate in a solvent and efficient manner, within a climate of trust. Both objectives were conceived as necessary and mutually reinforcing conditions for sustainable economic growth.

The change was, in essence, structural in nature. The central bank left behind a role historically constrained by fiscal needs and the promotion of credit, transforming into an institution with legal autonomy, a defined mandate, and clearly delimited responsibilities. Since then, price stability and the soundness of the financial system have taken center stage in the country's economic architecture, consolidating themselves as indispensable pillars for economic development, macroeconomic predictability, and the long-term confidence of economic players.

## 3.2 Regulatory reforms and consolidation in the 2000s

The 2000s marked a turning point in the evolution of the Paraguayan financial system. Following the banking crises of the 1990s, which revealed institutional weaknesses and a lack of effective resolution mechanisms, the country undertook structural reforms aimed at restoring confidence, strengthening supervision, and harmonizing regulations with international standards.

The Central Bank of Paraguay (BCP), through the Superintendency of Banks (SIB) and supported by new legal provisions, led this regulatory modernization process. Since then, financial policy has adopted a proactive and preventive approach, focused on systemic stability and improving resilience to internal and external shocks.

### 3.2.1 Financial crises and the need for regulation

During the 1990s, Paraguay—like many other Latin American countries—underwent a process of liberalizing its financial system, aimed at promoting intermediation, expanding the supply of credit, and stimulating economic activity. Requirements for entering the system were relaxed, controls on interest rates were eliminated, and a rapid expansion of credit was encouraged. However, this opening was not accompanied by a corresponding strengthening of the regulatory and supervisory framework, leading to the accumulation of significant vulnerabilities in the financial system.<sup>44</sup>

The consequences of this institutional mismatch were not long in coming. Several systemically important financial institutions faced serious solvency problems, leading to bankruptcies and interventions that affected the entire system and generated high fiscal costs. Savers suffered capital losses that eroded public confidence in financial institutions, while the dollarization of deposits intensified as a safeguard against uncertainty, weakening the effectiveness of monetary policy and limiting the Central Bank's ability to influence domestic financial conditions. In the absence of a pre-established

44 Gómez, H. (2025). Financial system reforms and the establishment of a new regulatory framework. From the process of strengthening economic institutions to investment grade. The role of the Central Bank of Paraguay from the perspective of its presidents. Pages 37-51. Central Bank of Paraguay.



regulatory framework, the State was forced to implement ad hoc bailouts, characterized by high discretion and little predictability.<sup>45</sup>

The crises of that period unequivocally highlighted the need for a structured bank resolution system and effective deposit protection mechanisms. Experience has shown that these tools are essential not only for mitigating systemic risk but also for preserving confidence in the financial system and preventing the recurrence of instability episodes that could compromise macroeconomic stability.

Towards the end of the 1990s and the beginning of the 2000s, the Central Bank of Paraguay (BCP) played a more active role in stabilizing the financial system. Interventions in entities with solvency problems were intensified, on-site inspections were strengthened, and progress was made in developing more rigorous supervisory manuals aimed at improving the early detection of risks. However, these actions, while necessary, proved to be insufficient in the absence of a robust legal framework that would provide predictability to bank resolution processes, establish clear rules for State intervention, and limiting political discretion.

The institutional response to these deficiencies materialized with the enactment of Law No. 2334/2003, which laid the foundations for a modern framework for banking regulation and resolution, substantially strengthening the capacity of the State and the Central Bank of Paraguay (BCP) to preserve the stability of the financial system and safeguard the interests of depositors.

### **3.2.2 Law No. 2334/2003: Deposit Guarantee and Bank Resolution**

The enactment of Law No. 2334/2003, "On Deposit Guarantee and Resolution of Financial Intermediation Entities," constituted one of the most significant regulatory reforms in Paraguay's recent history and marked a turning point in the institutional architecture of the financial system. This law arose as a direct response to the lessons learned from the banking crises of previous decades and the need to provide the country with permanent, predictable, and technically sound mechanisms to address situations of financial instability.

Within the framework of structural reforms aimed at strengthening the stability of the system, the law introduced two fundamental pillars. On the one hand, it created the Deposit Guarantee Fund as a protection mechanism for small and medium-sized savers, establishing coverage up to a predefined maximum amount. The central objective of this instrument was to mitigate the risk of total loss of deposits in the event of bank failures and, at the same time, prevent episodes of financial panic and bank runs by offering explicit institutional support that would strengthen public confidence in the system.

<sup>45</sup> Vera, R. (2025). The economic crises 1995 to 2002 and the strengthening of financial supervision. From the process of strengthening economic institutions to investment grade. The role of the BCP from the perspective of its Presidents. Pages 55-84. Central Bank of Paraguay.

On the other hand, the law established a comprehensive regulatory framework for the resolution of financial intermediation entities. Clear and pre-established procedures were defined for the intervention, restructuring, or liquidation of institutions in difficulty, incorporating an orderly sequence of stages encompassing prevention, early intervention, and orderly liquidation. This approach reduced discretion in crisis management, promoting timely and efficient technical responses aligned with the objective of preserving the stability of the financial system as a whole.

The implementation of this new framework had significant positive effects on restoring confidence in the financial system. Depositors began to perceive clear institutional support, which reduced expectations of indiscriminate fiscal bailouts and strengthened market discipline. At the same time, the Central Bank of Paraguay (BCP) acquired appropriate legal tools to act in a technical and orderly manner in the face of insolvency situations, reducing the risk of systemic contagion stemming from the failure of a single institution.

The design of both the Deposit Guarantee Fund and the bank resolution scheme was not carried out in isolation. On the contrary, it drew on regional experiences following the financial crises of the 1990s, particularly from countries like Argentina, Brazil, and Mexico, which had made progress in creating similar mechanisms after facing periods of instability. In this way, Paraguay joined a regional trend of modernizing its financial framework, seeking to converge with international best practices promoted by organizations such as the International Monetary Fund and the World Bank, and laying the foundations for a more robust, resilient, and reliable financial system.

### 3.2.3 Prudential supervision and adoption of international standards

Law No. 861/96, the "General Law of Banks, Financial Institutions, and Other Credit Entities," constituted one of Paraguay's first significant steps in adopting modern prudential standards by establishing a minimum ratio requirement between net worth and total risk-weighted assets and contingent liabilities. This provision was framed within the principles established by Basel I and reflected the early recognition of the importance of capital adequacy as a pillar of the financial system's solvency. However, it was Resolution No. 1, Act 44, of July 21, 2011, that introduced a more precise technical differentiation among the components of net worth, highlighting share capital and the legal reserve as elements of the Main Capital, in line with international best practices.

This regulatory reform represented a gradual and adapted adoption of the Basel standards, incorporating the classification of capital requirements into



different levels—Tier 1 and Tier 2—with the aim of ensuring that financial institutions had a higher-quality capital base capable of absorbing potential losses in adverse scenarios. The regulations were tailored to the realities of the Paraguayan financial system, incorporating additional prudential requirements in certain cases and strengthening the transparency and quality of the information contained in the financial statements.

In parallel, prudential supervision became progressively more rigorous and systematically encompassed the main risks to which financial institutions were exposed. Regarding credit risk, detailed rules were established for classifying loan portfolios by delinquency levels according to days past due and for establishing differentiated provisions, as well as minimum information requirements for credit operations, strengthening the assessment of asset quality. In the area of market risk, guidelines for measuring and managing foreign exchange and interest rate exposures were gradually incorporated. Likewise, regarding operational risk, specific regulations were issued defining the minimum guidelines that institutions had to observe to design, implement, and maintain effective frameworks for managing and controlling this type of risk.

The Superintendency of Banks substantially strengthened its on-site inspection mechanisms and the periodic reporting systems of the entities under its supervision. Standardized formats for the presentation of financial information were implemented, and stricter deadlines were established for correcting irregularities, contributing to more timely, consistent, and evidence-based supervision.

This period was marked by the adoption of other regulatory initiatives that comprehensively strengthened the country's financial architecture. Among these, Law No. 827/96, the "Insurance Law," stands out. This law specifically regulated the insurance sector and created the Superintendency of Insurance within the Central Bank of Paraguay (BCP), expanding the scope of financial supervision. Furthermore, between 2000 and 2009, the Central Bank, in coordination with the Secretary for the Prevention of Money or Assets Laundering, issued a set of regulations aimed at preventing money laundering and the financing of terrorism. These regulations required financial institutions to report suspicious transactions and aligned the national framework with the standards of the Financial Action Task Force (FATF).

Similarly, progress was made in modernizing the payment system through the implementation, between 2007 and 2009, of the first electronic clearing platforms, which were a fundamental precedent for the Paraguayan Payment System (SIPAP), which became operational in 2013. These reforms contributed to improving the efficiency, security, and resilience of the financial infrastructure.

As a result of this sustained process of institutional strengthening, by the end of the 2000s the Paraguayan financial system exhibited significantly higher levels of capitalization, low delinquency rates, and a more robust regulatory and supervisory framework compared to the 1990s. The consolidation of prudential supervision aligned with international standards laid the foundation for the system to face the shocks of subsequent decades with greater resilience, including adverse weather events, health crises, the 2008–2009 global financial crisis, international conflicts, and commodity price crashes, preserving financial stability and contributing to the country's macroeconomic stability.

### 3.2.4 Law No. 6104/2018: Expansion and modification of the Organic Charter of the BCP

The reform introduced by Law No. 6104/2018 constituted a significant milestone in strengthening the institutional framework of the Central Bank of Paraguay, by modifying and expanding key provisions of its Organic Law (Law No. 489/95). This legislation is part of a broader process of modernizing the Central Bank's legal design, aimed at reinforcing the coherence between its constitutional mandate, its operational functions, and its legal and institutional framework.

In particular, the law introduced adjustments to the regulatory treatment of the Central Bank's results, the constitution and use of reserves, and the regime for transfers to the State, clarifying rules that directly affect the management of the institution's balance sheet. These changes contributed to greater predictability and order in the Central Bank's financial and accounting framework, reducing regulatory ambiguities that, in the past, could generate tensions between monetary policy objectives and short-term fiscal considerations.

From an institutional perspective, Law No. 6104/2018 strengthened the legal framework governing the operation of the Central Bank of Paraguay (BCP) by more precisely aligning its organic provisions with the principle of independence enshrined in the National Constitution. While the law does not redefine the Bank's fundamental mandate or introduce a new explicit objective, it does contribute to strengthening the conditions under which the monetary authority can perform its functions in a technically sound and predictable manner, within clear and pre-established rules.

This strengthening of the legal framework is particularly relevant for the credibility of the Inflation Target regime. A regulatory framework that more clearly establishes the rules applicable to the Central Bank's results and reserves reduces institutional uncertainty and helps preserve the focus of monetary policy on its primary objective of price stability. In this sense, the 2018 reform is part of the gradual process of consolidating Paraguay's monetary institutions, complementing other advances in governance, transparency, and accountability.

Taken together, Law No. 6104/2018 should not be interpreted as an isolated reform, but as part of a sequence of legal adjustments aimed at strengthening the institutional architecture of the BCP, reinforcing its credibility, its operational predictability and its capacity to fulfill its mandate in an increasingly complex macroeconomic environment.

### 3.3 Modernizing the financial framework: structural reforms within a context of transformation

The reforms implemented in the recent period represent a new stage in the evolution of the Paraguayan financial system, characterized by a deliberate deepening of the institutional modernization process initiated at the beginning of the 21st century. Unlike previous stages, in which the emphasis was on correcting weaknesses inherited from past crises, this cycle of reforms was geared toward anticipating the challenges of a more complex, digitized financial system integrated into international markets. The central objective was to strengthen the country's macro-financial architecture, providing it with greater coherence, predictability, and adaptability in the face of an increasingly volatile global environment.

Within this context, the Central Bank of Paraguay (BCP) has played a leading role not only as the monetary authority but also as the architect of a modern regulatory framework, consistent with international standards and aligned with best practices in supervision, governance, and financial consumer protection. The reforms of this period reflect a comprehensive vision of financial stability, understood not as a static State but as a dynamic process requiring strong institutions, clear rules, and effective risk prevention and management mechanisms.

Two key pillars structured this transformation process. First, the strengthening of the capital market through the creation of a more robust supervisory authority with greater technical powers, functional independence, and the capacity for international cooperation. Second, a thorough modernization of the payments system in response to the accelerated digitalization of financial services and the incorporation of new players and business models. Both pillars were complemented by a broad set of prudential, operational, and market reforms that strengthened the transmission of monetary policy, systemic stability, and financial inclusion.

Law No. 7162/2023 and Law No. 7503/2025 are the most visible regulatory milestones of this period, but their impact must be interpreted within a broader framework of reforms and guidelines encompassing banking supervision, the money market, the foreign exchange market, financial risk prevention, and financial education and inclusion. Taken together, these transformations consolidated a more resilient, competitive, and integrated financial system and strengthened the Central Bank of Paraguay's capacity to fulfill its mandate in a context of accelerated structural change.



### 3.3.1 Law No. 7162/2023: creation of the Superintendency of Securities

One of the most significant advances in Paraguay's financial architecture in recent years was the enactment of Law No. 7162/2023, which replaced the long-standing National Securities Commission with the Superintendency of Securities, integrated into the Central Bank of Paraguay (BCP) with functional autonomy. This reform marked a turning point in capital market supervision, providing the country with a more robust and modern institutional framework aligned with international standards for financial regulation and supervision.

The National Securities Commission, created in the 1990s, played a significant role in the initial development of the Paraguayan capital market, helping to establish the first operating rules and promote the issuance of securities. However, over time, its structural limitations became evident. Political dependence, a small institutional staff, and insufficient authority to access critical financial information—including restrictions stemming from bank secrecy—limited its capacity to exercise effective and preventative supervision, especially in an increasingly complex and sophisticated financial environment.

The new regulations addressed these limitations by granting the Superintendency of Securities broader powers and modern tools to carry out its functions. In particular, its capacity to access relevant information was strengthened, overcoming restrictions that previously hindered the investigation of violations and criminal acts that could affect transparency and confidence in the stock market. Furthermore, a risk-based supervisory approach was incorporated, focused on the prevention and monitoring of systemic risks, in line with best practices promoted by the International Organization of Securities Commissions.

The law also clarified and strengthened the Superintendency's sanctioning powers, contributing to greater market discipline and a more predictable environment for issuers and investors. Complementarily, a profound technological modernization was promoted through the digitization of authorization, registration, and monitoring processes, which led to increased efficiency, traceability, and transparency in market supervision. A particularly significant milestone was the international integration of the Securities Superintendency through the signing, in May 2024, of the IOSCO Multilateral Memorandum of Understanding, which enables the exchange of information with other financial regulators globally and strengthens cross-border cooperation.<sup>46</sup>

<sup>46</sup> Central Bank of Paraguay. (2024). Agreement between the BCP and IOSCO for the strengthening of the supervision of the stock market in Paraguay. <https://www.bcp.gov.py/web/institucional/w/convenio-entre-el-bcp-y-la-iosco-para-el-fortalecimiento-de-la-supervisión-del-mercado-de-valores-en-paraguay>

Another key aspect of the reform was the standardization of the legal and operational framework of the Securities Superintendency with that of other financial regulators in the country, particularly the Superintendency of Banks. This convergence contributes to more coherent and integrated supervision of the financial system, reducing regulatory arbitrage and strengthening systemic stability.

The expected effect of this reform is a deeper, more dynamic, and more credible development of the Paraguayan stock market. A strengthened regulatory framework aligned with international standards creates favorable conditions for attracting international issuers in Paraguayan Guaraní, expands the participation of institutional investors, and contributes to the incorporation of a broader base of individual investors. At the same time, the new regulation of stock advisory services reinforces the protection of small investors, raises standards of conduct, and strengthens confidence in the market.

Taken together, these advances allow us to project a sustained increase in the depth and liquidity of financial instruments, consolidating the capital market as a complementary source of financing for the productive sector and as a key channel for the transmission of monetary policy. The creation of the Superintendency of Securities thus represents a decisive step in building a modern, resilient financial architecture geared toward Paraguay's long-term development.

### 3.3.2 Law No. 7503/2025: National Payment System

Modernizing payment systems is one of the most visible and transformative pillars of Paraguay's financial infrastructure strengthening process. The launch of the Paraguayan Payment System (SIPAP) in 2013 marked a milestone in this process, substantially transforming how interbank transfers are conducted. Through this platform, the country moved toward a more secure, efficient, and reliable payment system, reducing operational risks and strengthening confidence in the execution of financial transactions.

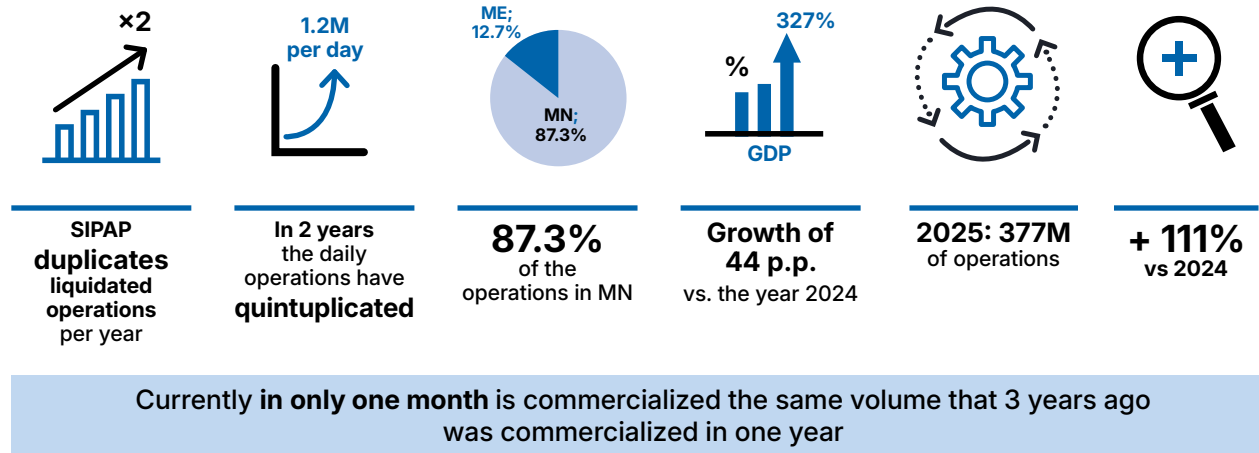
This process deepened in 2022 with the implementation of the Instant Payment System (SPI), which enabled immediate transfers 24 hours a day, seven days a week. The introduction of the SPI not only improved the system's efficiency but also democratized access to payment services, facilitating financial inclusion for broad segments of the population and contributing to the formalization of the economy. The ability to make electronic payments instantly, securely, and at low cost became a key factor in the digitization of everyday transactions and the integration of new users into the financial system (see **figure 3.1**).

Since the enactment of Law No. 4595/12, the Paraguayan payments system has experienced rapid growth, driven by the digitization of financial services and the entry of new participants. This dynamism has generated



significant opportunities for innovation, but it has also posed increasing regulatory challenges. Rapid technological evolution and the emergence of new players—such as Fintech companies, e-wallets, and payment service providers—have progressively exceeded the scope of the existing regulatory framework, which is no longer sufficient to encompass the complexity and diversity of the ecosystem of payments in this digital age.

**FIGURE 3.1** The transformation of the SIPAP



Source: BCP.

In response to this new scenario, the enactment of Law No. 7503/2025, “On the National Payments System,” represented a decisive step toward consolidating a comprehensive and coherent legal framework for the country’s ecosystem of payments. This legislation closed regulatory asymmetries and gaps, establishing clear and uniform rules for all participants in the system, with the Central Bank of Paraguay (BCP) as the competent authority for the regulation, supervision, and operation of the National Payments System.

The law defined the National Payments System as the set of infrastructures, institutions, services, and regulations that enable the transfer of funds, granting the Central Bank explicit powers to establish rules aimed at promoting access, security, transparency, efficiency, interoperability, interconnection, innovation, and competition. It also incorporated a specific regulatory framework for payment service providers and new non-bank business models, providing them with legal certainty and aligning them with prudential standards appropriate to their risk profiles. Additionally, the legislation strengthened the sanctions regime, providing greater clarity and predictability to the processes of supervision and correction of non-compliance, and established specific provisions for the protection of financial consumers, with an emphasis on information security and the protection of personal data. These elements are essential for maintaining public confidence in an environment of increasing digitalization of financial services.

The impact of Law No. 7503/2025 extends across multiple levels. From a financial stability perspective, it helps reduce operational and concentration risks, strengthening the system's resilience. In terms of competition and efficiency, it promotes the participation of more players on a level playing field, incentivizing improvements in service quality and costs. Regarding inclusion and formalization, it facilitates universal access to digital payment methods, expanding the financial system's reach. Finally, from an innovation standpoint, it creates a safe and orderly environment for the adoption of new technologies and business models, ensuring that technological progress goes hand in hand with stability and user protection.

Overall, the evolution of the Paraguayan payments system reflects a strategic vision aimed at building a modern, inclusive and resilient financial infrastructure, capable of supporting the country's economic development and strengthening the effectiveness of monetary policy in a context of digital transformation.

### **3.4.3 Other relevant reforms and guidelines (2019–2025)**

During this period, in addition to the landmark reforms represented by Law No. 7162/2023 and Law No. 7503/2025, the Central Bank of Paraguay (BCP) promoted and coordinated a wide set of regulatory and public policy measures that decisively contributed to the comprehensive strengthening of the financial system. These actions reflected a strategic vision aimed not only at preserving stability but also at modernizing the financial architecture and supporting the structural transformation of the Paraguayan economy.

In the prudential sphere, progress was made in updating the regulations applicable to banks and financial institutions, progressively incorporating Basel III international standards on capital and liquidity. These reforms strengthened the capacity of these entities to absorb losses and manage stress episodes, increasing the system's resilience to adverse shocks. Complementarily, reforms to the anti-money laundering and counter-terrorism financing regime were deepened, in coordination with the Secretary for the Prevention of Money or Asset Laundering, aligning the national framework with the recommendations of the Financial Action Task Force and strengthening the integrity and reputation of the Paraguayan financial system. Furthermore, greater inter-institutional coordination was promoted regarding the regulation and supervision of savings and loans credit unions, even though these entities are not under the direct supervision of the Central Bank of Paraguay (BCP).

In parallel, the Central Bank actively participated in the implementation of the 2019–2025 National Financial Inclusion Plan, which promoted the development of digital financial products, financial education programs, and consumer protection mechanisms. This effort expanded access to financial services, reduced inclusion gaps, and supported the digitalization of the economy, in line with the modernization of the payments system and the regulatory framework.

In the money market, significant regulatory changes were introduced to strengthen the institutional framework and improve the functioning of monetary policy instruments. Governance was consolidated through the creation of the Monetary Policy Committee and the Markets Committee; the operating regulations for the issuance, custody, trading, and payment of government debt securities were updated; and the regulations governing the negotiability of Monetary Regulation Bills in the secondary market were refined. These modifications allowed for more precise regulation of open market operations and the liquidity facilities provided by the Central Bank, expanded investment opportunities, fostered market liquidity and depth, and contributed to the development of a market of government titles in local currency with greater participation, negotiation, and more efficient price formation.

Similarly, progress was made in modernizing the regulatory framework for the foreign exchange market. The Central Bank introduced modifications aimed at expanding the operational capacity of financial institutions and facilitating foreign exchange hedging for resident and non-resident investors. Key measures included increasing the intraday limit on the Net Daily Foreign Exchange Operating Position, relaxing and expanding the limits for forward transactions, and eliminating term restrictions on these contracts. Taken together, these provisions supported the increased dynamism of the market, facilitated capital inflows, and contributed to a more efficient financial system aligned with international standards.

The balance sheet for the 2019–2025 period reveals a virtuous convergence of three fundamental dynamics. First, the Central Bank of Paraguay's timely and proportionate responses to extraordinary shocks mitigated their effects without compromising macroeconomic stability. Second, the adoption of structural legal reforms—particularly Laws No. 7162/2023 and No. 7503/2025—modernized the regulation of the capital market and the payments system. Finally, the consolidation of a robust prudential and governance framework enabled the maintenance of adequate levels of solvency, liquidity, and confidence, even under adverse environments.

The result of this process is a stronger, more inclusive, and more competitive Paraguayan financial system, in which the Central Bank of Paraguay (BCP) not only fulfills its mandate to preserve monetary and financial stability, but also assumes an active role in promoting innovation, inclusion, and the country's integration into international financial markets.

### 3.5 Modern monetary policy: from aggregate control to Inflation Target

The modernization of monetary policy in Paraguay should be understood as a gradual and cumulative process, developed coherently on three interdependent levels. The first is the legal-institutional level, which includes the clear definition of the mandate, the limits on public sector financing, and the architecture of the decision-making process. The second is the



technical-operational level, linked to the development of instruments, the liquidity management framework, the formation of the benchmark interest rate, and the monitoring of the monetary policy transmission mechanism. The third is the discursive-communicative level, which incorporates clear rules, transparency, accountability, and ongoing dialogue with society and the markets. The transition from schemes based on monetary aggregates to the Inflation Target regime reflects the convergence of these three levels into a credible nominal anchor, compatible with an increasingly open, digitized economy integrated into international financial flows.

Until the beginning of the 21st century, monetary policy was primarily conducted by targeting monetary aggregates—such as M1 and M2—using traditional instruments like reserve requirements, rediscounting, and open market operations. This approach rested on the assumption of a relatively stable money demand and a predictable relationship between monetary aggregates, inflation, and economic activity. However, over time, several factors have progressively eroded the effectiveness of this framework. Financial dollarization and greater capital mobility have reduced the Central Bank’s ability to control the money supply relevant to price formation; technological and financial changes, associated with the emergence of new means of payment and the deepening of the banking system, have altered the relationship between monetary aggregates and nominal spending; and greater economic openness has increased the exchange rate’s sensitivity to external shocks, making the pass-through of monetary conditions to inflation more unstable.

Despite institutional advances compared to previous decades, inflation remained high and volatile under the monetary aggregate regime, reflecting the absence of a sufficiently credible nominal anchor. Within this context, the transition to an Inflation Target regime began in 2004, formalized in 2011 as one of the most significant milestones in the country’s monetary history. This change stemmed from the recognition that price stability should have been in a priority and explicit place in the hierarchy of monetary policy objectives.

Under the previous framework, the monetary authority had to simultaneously maintain system liquidity, promote credit, stabilize the exchange rate, and support the balance of payments. The lack of a clear hierarchy among these objectives generated constant tensions, in which short-term considerations competed with price stability, eroding inflationary expectations and hindering medium- and long-term investment planning. The Inflation Target regime brought order to this framework, establishing price stability as the central and explicit objective of monetary policy.

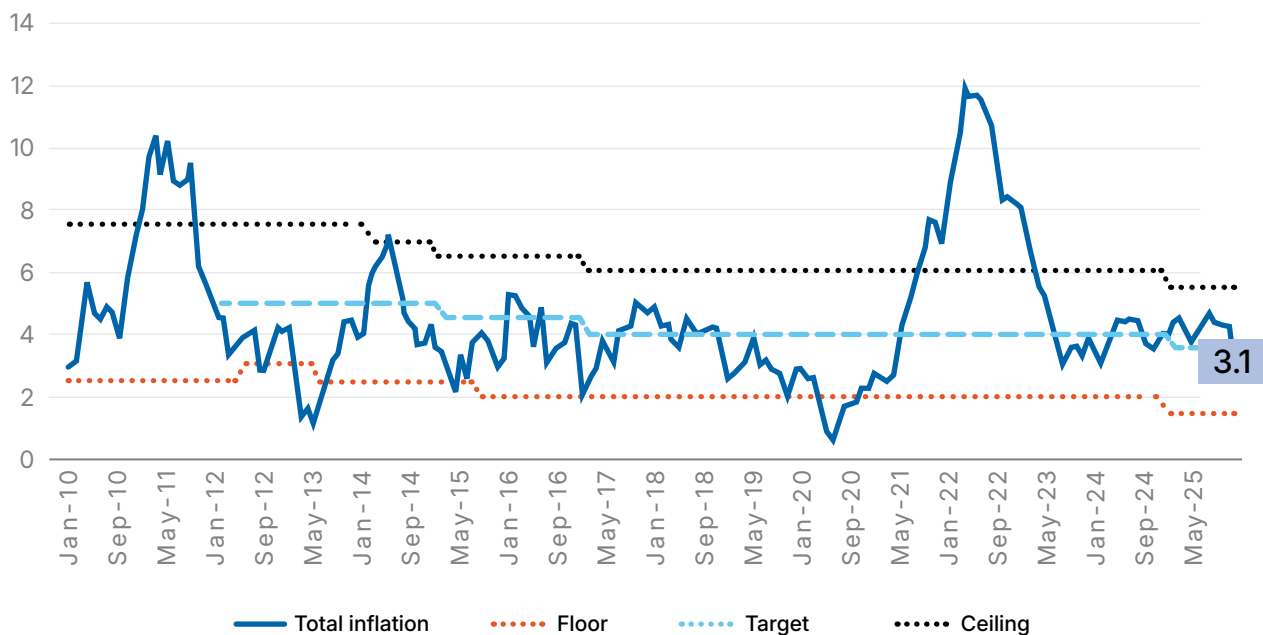
The adoption of the Inflation Target regime in Paraguay was the result of a carefully planned transition. During this process, inflation projection models were developed, systematic monitoring of expectations was strengthened, policy statements, minutes of the Monetary Policy Committee, and Monetary Policy Reports were standardized, and the decision-making process was organized so that the Monetary Policy Rate served as the central signal of the monetary policy stance. This communication framework—comprising

minutes, reports, and statements—became a key element for anchoring expectations and for transparent, technical dialogue with the market and the public.

The trajectory of the inflation target and its tolerance range reflect this gradual consolidation process. In 2011, a target of 5% with a range of  $\pm 2.5$  percentage points were established, formalizing the regime. In 2014, the range was narrowed to  $\pm 2$  percentage points, in 2015 the target was reduced to 4.5%, in 2017 to 4.0%, and in 2024 a target of 3.5% was adopted, in line with regional and international best practices. This trajectory is consistent with the experience of countries such as Chile, Colombia, and Mexico, which progressively reduced their targets to levels close to 3% as the credibility of their monetary regimes was consolidated, reducing exchange rate pass-through and inflationary volatility.

The results support this strategy. Between 2011 and 2014, with a target of 5%, average inflation hovered around 4.2%. With the target reduced to 4.5% in the 2015–2016 period, average inflation fell to 3.5%, and during 2017–2019, with a target of 4%, it remained at that same level. Following the extraordinary shocks of 2020–2022—associated with the pandemic and the global inflation episode—average inflation in 2023–2024 was below 4% (see **chart 3.1**). This pattern demonstrates that more demanding targets translated into better inflation performance, reflecting a regime with increasing credibility, capable of anchoring expectations and reducing inflationary persistence.

**CHART 3.1** Evolution of inflation - Total CPI  
Year-on-year change (%)



Source: BCP.

Anchoring expectations requires, in addition to a clear numerical target, high standards of transparency and solid technical capacity. In recent years, communication tools and modeling and forecasting capabilities have been steadily strengthened, improving the forward-looking interpretation of the economic cycle and the consistency of the signals transmitted through the Monetary Policy Rate. This combination of clear objectives, technical capacity, and transparent communication has been fundamental to consolidating the regime's credibility.

The decision by the Board of Directors of the Central Bank of Paraguay (BCP) to lower the inflation target to 3.5% by December 2024 sends a clear signal of commitment to consolidating a sustained low-inflation environment, favorable for productive investment, employment, and long-term growth. This more demanding target aligns the country with international standards and strengthens nominal predictability, an essential condition for economic development. In this respect, Paraguay is replicating a proven regional pattern: higher initial targets that gradually converge toward levels close to 3%.

### **3.5.1 The operational framework: instruments, liquidity and transmission**

The Monetary Policy Rate (MPR) is the benchmark price through which the Central Bank of Paraguay (BCP) communicates the tone of its monetary policy and guides the financial conditions of the economy. Its effectiveness depends not only on its nominal level but also on the soundness of the operational framework that supports it and the credibility of the regime as a whole. In this sense, the MPR operates effectively when it is embedded in a well-designed liquidity framework, supported by short-term operations, standing facilities, a clearly defined interest rate corridor, and a consistent reserve requirement remuneration scheme, which allow the Central Bank to precisely influence money market rates.

The depth and smooth functioning of the interbank market are central to this framework. An active and liquid interbank market facilitates the transmission of monetary policy signals, allows institutions to manage their liquidity efficiently, and ensures that the benchmark interest rate is quickly reflected in short-term funding conditions. At the same time, clear and predictable signaling, supported by a publicly available schedule of Monetary Policy Committee meetings, regular auctions of Monetary Regulation Bills, and the systematic dissemination of minutes and Monetary Policy Reports, helps reduce uncertainty and align market expectations with the Central Bank's objectives.

Strengthening the communication framework has been a key component in building a more robust and effective chain for transmitting expectations. Institutional credibility influences the expectations channel, reducing the inflationary premium incorporated into pricing decisions and moderating indexation mechanisms. At the same time, the Monetary Policy Rate (MPR) guides the behavior of lending and deposit rates through the interest rate

channel, a process facilitated by the solvency of the financial system and a competitive environment that allows for a faster and more complete transmission of the monetary signal.

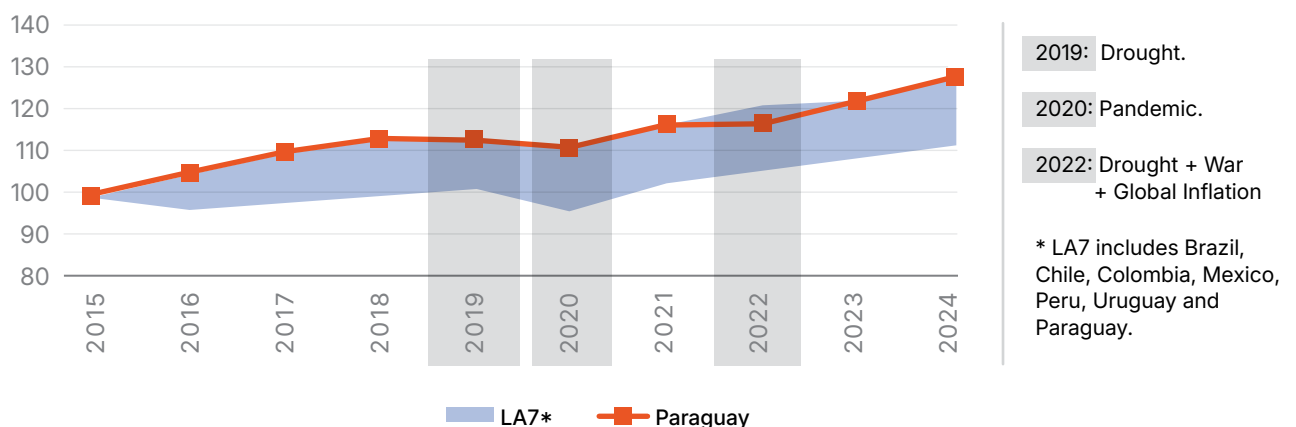
The institutionalization of communication tools such as Monetary Policy Reports, Committee minutes, and official statements has significantly reduced uncertainty regarding the Central Bank’s future decisions. This greater transparency has helped anchor inflation expectations, improve price formation in the economy, and strengthen the effectiveness of monetary policy as a key tool for preserving price stability and sustaining long-term economic growth.

In the foreign exchange market, the Monetary Policy Rate (MPR) coexists with a managed float regime and a precautionary international reserve accumulation strategy, which mitigates episodes of excessive volatility without compromising market functioning. This approach helps smooth the pass-through of exchange rate fluctuations to prices and strengthens the consistency of the monetary regime in a context of high exposure to external shocks. Complementarily, the credit market is strengthened by competition and the capital strength of financial institutions, which facilitates the reflection of monetary policy signals in the conditions for granting credit to households and businesses.

### 3.5.2 Evidence of resilience: response to shocks 2019–2024

The period between 2019 and 2022 placed a particularly demanding test on the monetary policy framework and the strength of the Central Bank of Paraguay’s (BCP) financial system. In a relatively short time, the economy faced a succession of shocks of diverse nature and exceptional magnitude, including adverse weather events in 2019 and 2022, the COVID-19 pandemic during 2020 and 2021, and a marked increase in international prices associated with disruptions in global supply chains and geopolitical conflicts in 2021 and 2022.

**CHART 3.2** Gross Domestic Product in constant terms  
Indices 2015 = 100

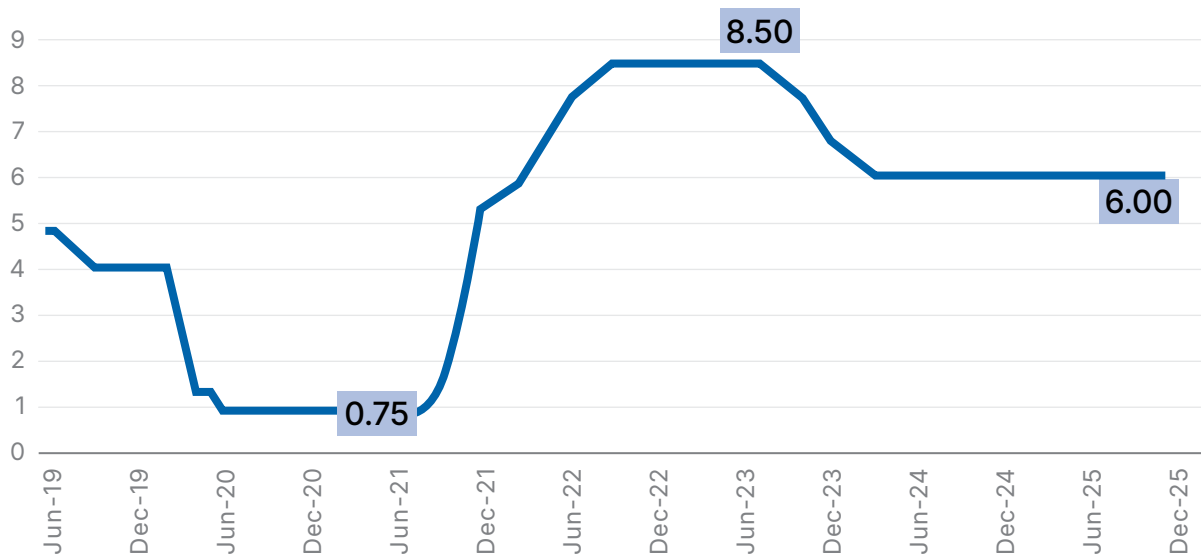


Source: BCP, IMF.

Unlike what happened in previous decades—when shocks of this nature usually led to episodes of macroeconomic instability, financial fragility, and loss of confidence—during this period Paraguay demonstrated a remarkable capacity for resilience (see **chart 3.2**). This performance was made possible by the convergence of three fundamental factors: a credible and flexible monetary policy regime, consolidated under the Inflation Target framework; a robust regulatory and supervisory system, the result of reforms accumulated over two decades; and a high institutional capacity of the BCP to implement timely, innovative, and technically sound measures.

During the most acute phase of the pandemic, monetary policy adopted a clearly expansionary stance. The Monetary Policy Rate was reduced to a historic low of 0.75% in 2020, with the aim of mitigating the contraction in economic activity, sustaining liquidity in the financial system, and preserving the flow of credit to households and businesses (see **chart 3.3**). This decision was accompanied by a set of extraordinary measures to provide liquidity and implement temporary regulatory easing, including adjustments to reserve requirements, the provision of special credit facilities and repurchase agreements, as well as the widespread rescheduling of loans. This entire package was supported by clear and systematic communication, designed to provide certainty in a context of high uncertainty.

**CHART 3.3** Monetary Policy Rate (MPR)  
Percentage (%)



Source: BCP.

For its part, the financial system maintained adequate levels of solvency and liquidity, credit to the productive sector was not interrupted, and the subsequent recovery occurred under more favorable conditions than in economies that adopted more restrictive responses. In 2020, the contraction of Gross Domestic Product was 0.8%, one of the smallest in South America, and the economy resumed a growth path in the following years.

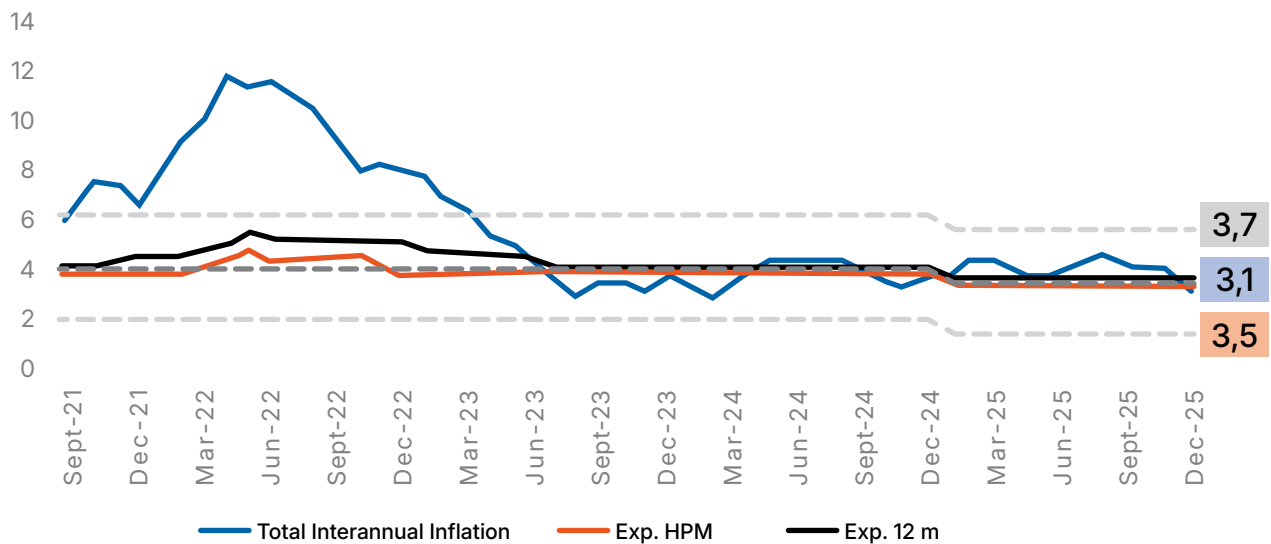
The surge in international inflation during 2021 and 2022, driven by rising food and energy prices following the war between Russia and Ukraine, presented a significant new challenge. Year-on-year inflation exceeded 10%, reaching its highest level in a decade. In response, the Central Bank of Paraguay (BCP) acted swiftly and decisively. The Monetary Policy Rate was gradually raised to 8.5% in 2022, as part of a contractionary cycle aimed at containing inflationary expectations and preventing second-round effects.

This normalization process was carried out while preserving the stability of the financial system and the flow of productive credit, in close coordination with prudential regulation. Transparent communication allowed the public and the market to understand the rationale behind each decision, reinforcing confidence in the institution's ability to manage the disinflation process without generating macroeconomic instability.

The results confirmed the effectiveness of this approach. Inflation converged again towards levels close to the target, reaching 3.7% in 2023, 3.8% in 2024, and 3.1% in 2025, while the economy regained significant momentum, with GDP growth rates of 5.0% in 2023, 4.7% in 2024, and 6.0% in 2025.<sup>47</sup> This combination of disinflation and economic recovery demonstrated the capacity of the monetary policy framework to respond countercyclically and preserve macroeconomic stability in highly complex contexts.

The credibility of the BCP can also be assessed through the degree to which private agents' inflation expectations were anchored, which, even at the most complex time for inflation, remained within the target range at all times (see **chart 3.4**).

**CHART 3.4** Year-on-year inflation and inflation expectations  
Percentage (%)



Source: BCP.

Note: HPM: Monetary Policy horizon.

<sup>47</sup> This corresponds to the projection published in the Monetary Policy Report of December 2025.

In general, the economic and financial conditions—monetary stability, prudential strengthening, and modernization of the financial infrastructure—also translated into a reputational asset that extends beyond the strictly domestic sphere. The BCP’s performance in preserving price stability, responding promptly to extraordinary shocks, and consolidating modern rules for the financial and payments system contributed to reducing risk premiums, broadening the financing horizon, and strengthening the confidence of investors and international agents. Within this framework, the improvements in sovereign ratings and the progress linked to the two investment-grade milestones were supported by a clear institutional signal: Paraguay has a Central Bank capable of maintaining a credible nominal anchor and a financial system that operates with standards increasingly closer to international best practices.

## Final Reflections

The regulatory evolution of the Paraguayan financial system is, from a historical perspective, the expression of a deliberate process of institutional building oriented toward macroeconomic stability and the credibility of public policies. Over decades, and particularly since the beginning of the 21st century, Paraguay has progressed from a framework characterized by structural fragilities, high discretion, and recurrent exposure to crises, toward a more robust and coherent macro-financial architecture aligned with international best practices. From the creation of a deposit guarantee and bank resolution system in 2003 to the enactment of the National Payments System Law in 2025, each reform has responded to the same underlying logic: to strengthen the regulatory and supervisory capacity of the financial system, reduce systemic vulnerabilities, and consolidate an environment of predictability for savings, investment, and long-term growth.

This overview highlights that macroeconomic stability is not the result of a single measure or a favorable cycle, but rather the consequence of clear rules maintained over time and institutions capable of withstanding cyclical pressures. The adoption of the Inflation Target regime, the progressive strengthening of prudential supervision, the modernization of financial markets, and the transformation of the infrastructure of payments are the main components of the same strategy. Taken together, these reforms enabled the Central Bank of Paraguay (BCP) to fulfill its mandate more effectively, anchor inflation expectations, and preserve financial stability even in the context of extraordinary shocks, such as those experienced between 2019 and 2022.

Recent experience also confirms that the combination of monetary discipline, modern prudential regulation, and regulatory innovation constitutes a particularly effective framework for addressing external shocks and sustaining economic growth. During periods of high global uncertainty, the Paraguayan financial system has shown adequate levels of solvency and liquidity, so credit continued to flow to the productive sector, and inflation successfully converged back to levels consistent with the target. These

results not only reflect timely policy decisions but also the accumulated credibility of an institutional framework that has learned from past crises and adapted its tools accordingly.

Within this context, the strengthening of the regulatory framework and monetary policy had a direct impact on the international perception of Paraguay's country risk. The sustained improvements in sovereign credit ratings, as well as Paraguay's achievement of investment-grade milestones, cannot be understood apart from the role played by the Central Bank of Paraguay (BCP). Price stability, consistency between monetary policy and financial stability, autonomy—including financial autonomy—and the capacity to respond to severe shocks are central factors in the assessments of credit rating agencies. Investment grade, more than a one-off recognition, encapsulates an institutional trajectory: that of a country that has built credibility based on clear rules, macroeconomic discipline, and a more robust and predictable financial system.

The Central Bank of Paraguay (BCP) has been a key player in this process. By preserving monetary stability, strengthening the regulation and supervision of the financial system, leading the modernization of markets and payment systems, and maintaining transparent communication with society and the markets, the institution has contributed to reducing risk premiums, expanding financing horizons, and improving the country's integration into international capital markets. This contribution is not limited to the technical sphere: it translates into better conditions for investment, employment, and the well-being of the population.

In short, the Paraguayan experience demonstrates that macro-financial stability is a strategic asset for development. An autonomous, credible, and technically sound Central Bank not only safeguards the value of the currency and the integrity of the financial system; it also creates the conditions for sustainable, inclusive growth that is compatible with international integration. Consolidating the investment grade rating and continuously strengthening the regulatory framework are not the main goals, but rather a platform upon which to deepen reforms, address new challenges, and continue building a more resilient and prosperous Paraguay in the long term.

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# IV

## CHAPTER

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# CLOSING THE INFRASTRUCTURE GAP IN PARAGUAY: **the role of the private sector**

# CLOSING THE INFRASTRUCTURE GAP IN PARAGUAY: **the role of the private sector**<sup>48</sup>

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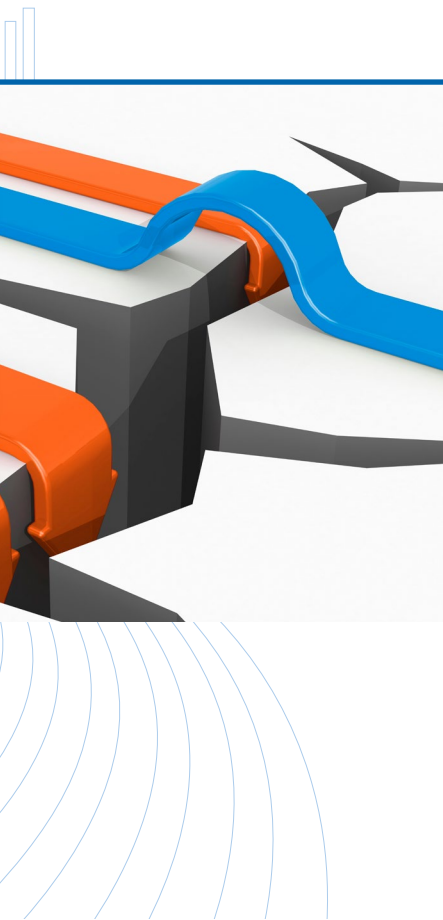
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## Summary

The investment grade rating reflects, among other factors, the existence of a modern and responsible legal framework for private participation in infrastructure. This progress has been a positive signal for the markets and has strengthened the perception of Paraguay as a predictable country open to investment. This achievement constitutes a solid foundation on which to continue building, with a view to consolidating economic and social development. The link between infrastructure and investment grade is ultimately explained by the impact of infrastructure on the economy's aggregate productivity. More and better infrastructure reduces costs, improves competitiveness, and generates efficiency gains that translate into greater growth and less inequality. The next challenge is to move from norm to action: transforming that potential into more concrete projects, reducing the infrastructure gap, and consolidating long-term confidence in the country's capacity to attract and manage private investment sustainably to boost productivity growth.

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## Introduction

Paraguay's attainment of investment grade rating in 2024 constitutes a historic milestone and the result of a sustained process of macroeconomic and institutional consolidation and structural reforms. Among the factors that have contributed to this international recognition, regulatory advances aimed at strengthening the role of the private sector in infrastructure investment have played a relevant, though not exclusive or sufficient, role on their own. This is highlighted by the Moody's rating agency itself, which notes that the improvement in Paraguay's rating reflects a combination of factors, including robust and sustained economic growth, resilience to shocks, and a track record of institutional reforms that have improved its assessment of institutional and governance strength (Moody's Ratings, July 26, 2024).

Credit rating agencies and investors value macroeconomic and fiscal stability, as well as the existence of modern and predictable legal frameworks that allow private investment to be channeled toward strategic sectors. In November 2025, the government enacted the decree regulating Law No. 1618/2000 on Public Works and Services Concessions, taking a key step to promote private participation in the development of infrastructure and public services. Likewise, Law No. 7452/2025, which modernizes the PPP framework previously established by Law 5102/2013, and the implementing decrees have been clear signals of the commitment of Paraguay to international best practices in public-private partnerships (PPPs), transparency, fiscal discipline, and risk management. These advances highlight Paraguay as one of the countries in the region with the best regulatory framework for PPPs (Infrascope 2023/24). Also included are the 2023 Fiscal Convergence Plan, aimed at ensuring the sustainability of public finances; Law 7021/2022, which modernizes the public procurement system to make it more efficient and transparent; and Law 6638/2020, which strengthens and modernizes the public debt market. Together, these measures consolidate Paraguay's macroeconomic credibility and reinforce its capacity to attract private investment.

However, international experience and local evidence show that a robust regulatory framework is a necessary, but not sufficient, condition for mobilizing large-scale private investment. In practice, the implementation of projects under PPP schemes has been limited: only one national PPP is currently operational, with an expansion project initiated in early 2025, and a second highway PPP was awarded in September of the same year. Thus, public debt associated with private investment in infrastructure represents only 2.5% of total public debt (IDB, Country Strategy with Paraguay 2025–2029). In countries where PPPs are more common, this percentage can be 20% or more.

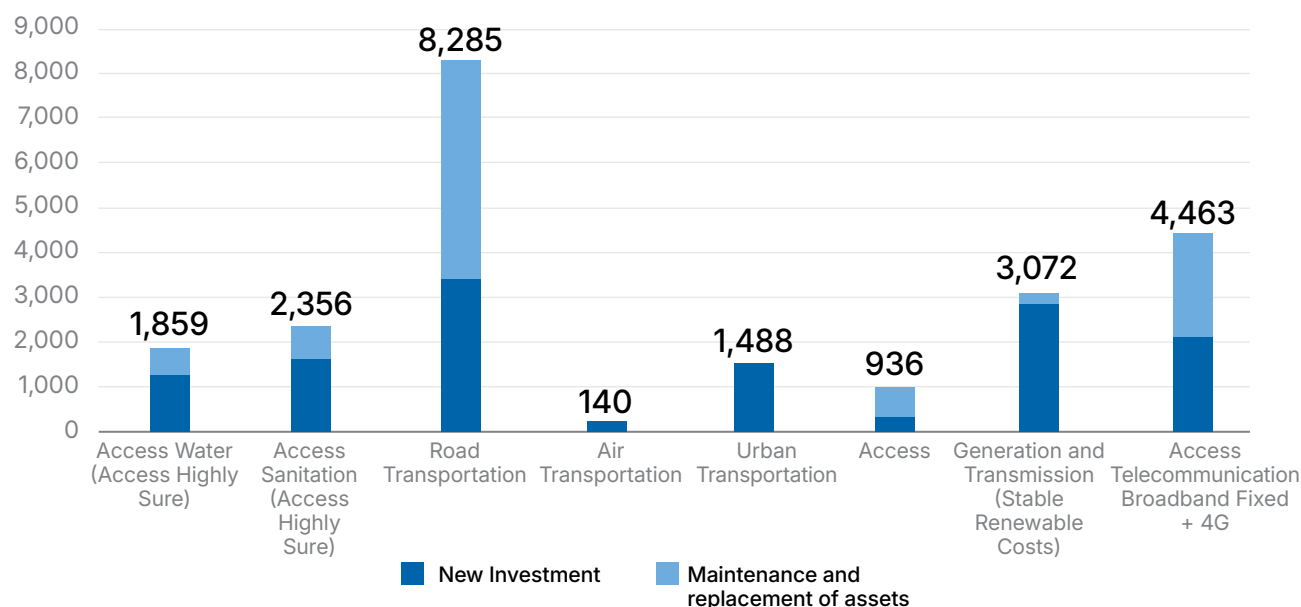
The remaining challenges are mainly to strengthen project structuring capacity, improve inter-institutional coordination, develop financing and risk management mechanisms, and generate a portfolio of bankable projects, including other infrastructure sectors besides roads.

## 4.1 Analysis of investment gaps and observed investment

### a) Infrastructure investment gap

Paraguay has demonstrated a sustained commitment to reducing infrastructure investment gaps, achieving significant progress in several strategic sectors. According to data published in 2020, Paraguay's economic infrastructure investment needs until 2030 to achieve the Sustainable Development Goals (SDGs) were USD 23 billion (Brichetti *et al.* 2021).

**GRAPH 4.1** Total investment needs until 2030 to close the infrastructure gap in Paraguay by sector. (In millions of US dollars)



Source: own elaboration based on Brichetti *et al.* (2021).

Since then, the country has expanded and modernized its road network, strengthened access to electricity, and improved connectivity. The transportation sector, for example, has seen an expansion of its paved road network. Between 2018 and 2023, the country increased its paved road network by 3,000 kilometers, representing a 37% increase over the initial level. This progress places Paraguay on a positive path toward improving internal connectivity and regional integration, in line with international recommendations and the Sustainable Development Goals (SDGs).<sup>49</sup> Institutional strengthening and the modernization of road infrastructure planning and management processes are key steps to consolidating these advances and ensuring the sustainability of investments made. In the airport sector, Paraguay has identified existing gaps. It is estimated that

<sup>49</sup> It is worth observing that, while road network coverage has improved, challenges regarding quality and maintenance persist. The lack of systematic statistics on road condition limits the ability to accurately estimate future investment needs for maintenance and rehabilitation.



approximately USD 70 million is needed for new airport infrastructure, along with an additional investment of around USD 200 million for the modernization of the main inter-national airport in Asunción.

The energy sector is also showing progress. Electricity coverage is virtually universal, with 99.9% urban and 99.7% rural access projected for 2023 (OLADE, 2025). However, challenges remain regarding service quality and efficiency. For example, 75.7% of firms report power outages, and the average number of monthly interruptions increased from 1.7 to 2.2 between 2017 and 2023 (World Bank Enterprise Surveys, 2023). The average time to obtain an electricity connection increased from 13 to 30 days, and the percentage of companies that identify electricity as a significant obstacle to their operations grew from 31% to 46% during the same period (World Bank Enterprise Surveys, 2023). Electrical losses represent almost 28% of the total electricity supply in Paraguay, compared to the average of 13% in Latin America and the Caribbean (OLADE, 2025).<sup>50</sup> The sector's main challenge is therefore qualitative, focused on guaranteeing service continuity, reducing technical and commercial losses, and promoting greater energy efficiency. According to the National Administration of Electricity's (ANDE) Generation Master Plan, electricity demand is projected to grow at an average annual rate of 5.9% until 2030, which will require the installation of approximately 3 GW of additional capacity and mobilize investments estimated between USD 7 billion and 12 billion, depending on the technology used. This estimate includes new hydroelectric projects and the repowering of existing plants.

In the water and sanitation sector, Paraguay has achieved levels approaching universality in basic access, although progress under "safe" standards is more limited. Coverage of safely managed water reached 64.4% in 2024, and in sanitation, basic access increased from 90% in 2018 to 96% in 2024 (WHO, 2024).<sup>51</sup> Furthermore, urban wastewater treatment reaches 52% (WHO, 2025), which shows a gap towards the 100% target set in the SDGs that will require additional investments of USD 196 million (see Brichetti *et al*, 2021).

In telecommunications, Paraguay has closed the mobile coverage gap (3G/4G) and achieved improvements in speed and latency. However, fixed broadband continues to stay behind, with only 12.8 subscribers per 100 inhabitants compared to a target of 29, which represents the OECD median. This presents an opportunity to continue expanding universal access to quality digital services.

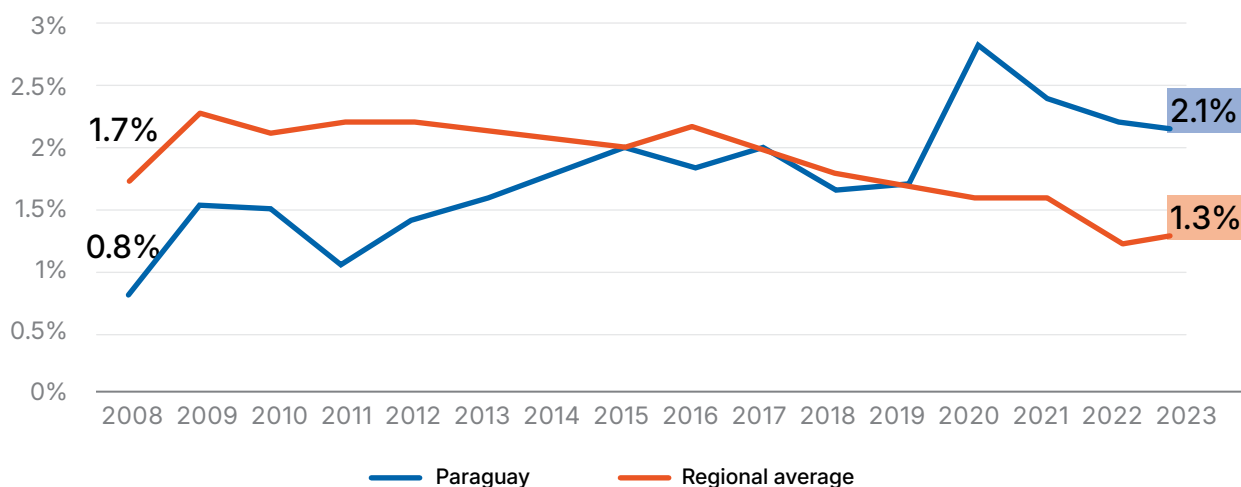
<sup>50</sup> This refers to electrical losses that occur in electricity transmission and distribution systems. These include technical or physical inefficiencies as well as non-technical losses.

<sup>51</sup> Access to safely managed water refers to water from an improved source located on the property, yard, or plot of land, available when needed and free from fecal contamination and priority chemicals (UNICEF). Access to basic sanitation refers to the use of improved facilities not shared with other households that ensure the hygienic separation of human excreta (UNICEF).

## b) Investment observed: government and private

Paraguay has maintained a sustained effort in public investment in infrastructure, even in a context of fiscal constraints stemming from external and health shocks. According to data from INFRALATAM, public investment in infrastructure has averaged around 2% of GDP since 2008, and 2.4% of GDP since 2020. This level of public investment in infrastructure is above the regional average, which is noteworthy considering the macroeconomic prudence that has characterized Paraguayan public finance management.

**CHART 4.2** Public investment in economic infrastructure for all infrastructure sectors (Period 2008-2023. As a percentage of the GDP)



Source: Prepared by the author based on data from Infralatam (2025).

Note: The regional average corresponds to the simple average of the following countries: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Trinidad and Tobago and Uruguay.

This effort has made it possible to sustain the execution of strategic projects in sectors such as transport, energy, water and sanitation, contributing to the improvement of connectivity and the quality of life of the population.

On the private investment side, Paraguay has made significant progress in mobilizing capital towards infrastructure projects that are being supported, in an incipient way, by public-private partnership schemes or similar schemes such as "turnkey".<sup>52</sup> Private sector participation in infrastructure has shown a growing trend in both the number of projects and the volume of committed investment. This dynamism answers to the consolidation of a modern regulatory framework and an improved business climate, as well as the strengthening of sector institutions and the active promotion of innovative financing mechanisms.

<sup>52</sup> Turnkey projects are transactions in which the private sector obtains the necessary financing to construct an infrastructure asset. However, once the project is completed, the fiscal responsibility for that debt is transferred to the public sector. In other words, the private sector initially assumes the debt to carry out the construction, but upon completion of the project, it becomes public debt. For example, for the Bioceanic Highway Corridor, the private sector issued bonds for USD 443 million in 2019 to finance the project, which are recorded as a public debt balance of USD 399 million. It is estimated that the final amount assumed by the public sector will reach USD 732 million.

Using the IJGlobal database,<sup>53</sup> ten infrastructure transactions involving private sector participation were identified since 2018, with a total value exceeding USD 2.6 billion, primarily encompassing highways. These transactions include both projects developed under public-private partnership schemes and entirely private investments. **Table 4.1** reports the main transactions, along with their amounts, sectors, and financial status, distinguishing between those that have already reached financial close and those still in the financing stage—that is, projects that have been awarded or are structured but have not yet finalized their financing.<sup>54</sup>

**TABLE 4.1** Infrastructure Operations in Paraguay with Private Sponsorship, 2019–2025 (Amounts given in millions of dollars)

Year and Operation	Renewable Energy	Transport	Total	Financial Status
<b>2018</b>		<b>50</b>	<b>50</b>	
Route 2 & Route 7- Stretch 0 - Loan Bridge		50	50	With financial closing
<b>2019</b>		<b>658</b>	<b>658</b>	
Route 2 & Route 7- Duplication and Maintenance (149.5Km)		658	658	With financial closing
<b>2021</b>		<b>130</b>	<b>130</b>	
Work Costanera Sur (7.7Km)		130	130	With financial closing
<b>2022</b>		<b>249</b>	<b>249</b>	
Route 2 & Route 7 - Refinancing		219	219	With financial closing
Route 2 & Route 7- Additional Financing		30	30	With financial closing
<b>2023</b>	<b>400</b>		<b>400</b>	
Plant of Green Ammonia Tres Fronteras (75MW)	400		400	W/O financial closing
<b>2024</b>	<b>25</b>		<b>25</b>	
Sustainable Vessel in the Waterway Parana-Paraguay	25		25	W/O financial closing
<b>2025</b>	<b>645</b>	<b>444</b>	<b>1089</b>	
Route 1 - Improv. Stretch Cuatro Mojones-Quindy (108Km)		428	428	W/O financial closing
Plant of Green Hydrogen in Villeta	645		645	W/O financial closing
Waterway Porto Murtinho-Corumbá (600Km)		16	16	W/O financial closing

Source: IJGlobal, 2025.

Note: The two awarded PPP projects correspond to National Routes 2 and 7, and Route 1 (improvement of the Cuatro Mojones–Quiindy section). The transactions of 2018 of the bridge loan and the refinancing of Routes 2 and 7 of 2022 do not constitute additional capital (increased investment) but are financial operations with private resources.

53 IJGlobal is a specialized international database that compiles detailed information on financial transactions for infrastructure and energy projects globally. It includes data on financial closings, investment amounts, sectors, contract types, and stakeholders, making it a key resource for comparative analysis of private investment and public-private partnerships (PPPs) in infrastructure.

54 The financial closing of a transaction does not guarantee that the works are underway.

In terms of PPPs in particular, the fruits of the transformation process began to materialize with the first major PPP project: National Routes 2 and 7, awarded in 2017. This project, with an investment of over USD 680 million—currently in the final structuring stage—is financed by IDB Invest and other multilateral organizations. Within this framework, IDB Invest structured and acquired its first project bond in the US market for USD 219 million, taking the construction risk and mobilizing institutional investment. The combination of guarantee and loan allowed for the immediate use of the bond's resources, positioning Paraguay as an attractive destination for infrastructure investment.<sup>55</sup> More recently, on September 23, 2025, the expansion and improvement of Route PY01 (Cuatro Mojones–Quiindy) was awarded. This project, which emerged from the PPP project prioritization workshops organized by the IDB and the Paraguayan government, represents a total investment of USD 413 million, with a Deferred Investment Payment (DIP) scheme in US dollars, for 15 years, to be paid after the completion of the work, in addition to the Availability Payment (APP), which is paid quarterly from the commissioning of each section until the end of the contract.<sup>56</sup> This payment can be made in Paraguayan Guaraní and up to 50% in US dollars. An additional compensation equivalent to 10% of revenue for toll collection is also included.

## 4.2 Regulatory Advances to Boost the Role of the Private Sector in Infrastructure

Since the mid-2010s, Paraguay has made substantial progress in modernizing its regulatory and institutional framework for promoting private investment in infrastructure, consolidating one of the most robust legal environments in the region for PPPs (see **Box 4.1**).

### BOX 4.1 Public-Private Partnerships in Paraguay: A History of Institutional Building<sup>57</sup>

The history of Public-Private Partnerships (PPPs) in Paraguay is that of a country that committed to building an enabling environment to develop efficient and sustainable infrastructure, seeking to make the best possible use of public resources. At the beginning of the 2010s, Paraguay faced a critical infrastructure gap: poor road quality, deficiencies in energy, water, and sanitation, and weak institutions for planning and executing projects. In this context, Law No. 5102/2013 was enacted, introducing the PPP framework for the first time as a tool to attract private investment in public infrastructure.

55 IDB Invest (2022), *IDB Invest structures its first project bond in the U.S. market to finance Paraguay's first PPP: Routes 2 and 7*, <https://idbinvest.org/es/medios-y-prensa/bid-invest-estructura-su-primer-bono-de-proyecto-en-el-mercado-estadounidense-para>.

56 The project to duplicate the National Highway Route PY01 (Cuatro Mojones–Quiindy) has an estimated investment of USD 413 million, according to the Ministry of Public Works and Communications (MOPC). The value of USD 428 million indicated in Table 4.1 corresponds to the reference amount published during the Public Tender process.

57 This box was written by Ancor Suárez-Alemán, a leading specialist in PPPs at the Inter-American Development Bank.

This law was the first step in a broader reform. In 2014, Decree 1350 regulated its implementation, and legislative adjustments were introduced in 2016. However, it was in 2020, with Decree 4183, that Paraguay took a qualitative leap: structuring processes were redefined, and coordination among key actors such as the Technical Planning Secretariat (STP) and the Ministry of Finance (MH) was strengthened. In parallel, the country consolidated its National Public Investment System (SNIP), creating a one-stop shop, a Project Bank, and official methodologies for socioeconomic evaluation, cost-benefit analysis (CBA), and value for money (VfM).

The institutional framework was strengthened with the creation of the Public-Private Partnership Projects Unit (UPPP) within the Technical Secretary of Planning (STP), and the PPP Department within the General Direction of Public Investment (DGIP) of the Ministry of Finance (MH). These organizations have taken the technical and regulatory roles, ensuring that PPP projects complied with international standards for structuring, evaluation, and fiscal control. In 2023, Law No. 7158 created the Ministry of Economy and Finance (MEF), consolidating existing organizations, including the MH and the STP, and taking over their functions. Law No. 7452 grants all PPP functions to this new ministry.

While Law No. 5102/2013 and its regulations represented progress in institutionalizing the PPP regime in Paraguay, institutional fragmentation, restricted contract terms, limited state participation, and the lack of mandatory audits and robust fiscal control mechanisms, among other issues, motivated the need for an integral reform. In response to that, the country enacted Law 7452 in January 2025, which not only repeals the previous legislation but also modernizes the PPP regime in accordance with international standards.

This new law centralizes functions within the Ministry of Economy and Finance (MEF), extends contract terms, makes state participation more flexible, introduces mandatory international audits, and increases fiscal limits for contingent liabilities. Furthermore, it excludes municipalities as contracting entities, establishes a minimum investment threshold, and expands eligible sectors to include non-hydraulic renewable energy and river transportation.

**TABLE 4.2** Law 5102/2013 vs. Law 7452/2025

	Law 5102/2013	Law 7452/2025
<i>Main objective</i>	Create a legal framework for PPPs	Modernize and simplify the PPP regime
<i>Governing entity</i>	Various institutions (institutional fragmentation)	Ministry of Economy and Finance (centralization)
<i>Maximum contract term</i>	30 years	40 years (includes extensions)
<i>State participation allowed</i>	Up to 10%	Up to 25%, with the possibility of exceptional increase
<i>Tax commitments</i>	Limits: 2% of GDP in contingent payments, 0.4% annually	Limits: 4% of GDP in contingent payments, 0.8% annually

	Law 5102/2013	Law 7452/2025
<i>External audits</i>	Not mandatory	Mandatory after 2 years and at the end of the contract
<i>Private initiative</i>	Permitted	Permitted with right of first refusal in the Public Bid
<i>Contracting Institutions</i>	Includes regional governments and municipalities	Excludes regional governments and municipalities
<i>Minimum investment threshold</i>	Not clearly specified	12,500 minimum wages (~USD 4.4 million), with possibility of reduction
<i>Eligible Sectors</i>	Road infrastructure, transport, health, education	Expanded to include non-hydro renew-able energy, among others

Source: own elaboration, based on UNCTAD (2025).<sup>58</sup>

The starting point was the enactment of Law No. 5102/2013, which established the framework for Public-Private Partnerships in infrastructure and public service projects, incorporating principles of transparency, economic efficiency, social profitability, fiscal responsibility, and environmental sustainability. This law defined PPP contracts, the role of private initiative, and the use of trusts, and established clear procedures for the competitive selection of private participants, risk allocation, and the protection of the interests of the State and users.

Subsequently, Law No. 7452/2025 introduced a comprehensive modernization of the PPP regime, aligning Paraguayan regulations with international best practices and recommendations from multilateral organizations. Among the key advances it is included:

- ◆ Extending the maximum term of PPP contracts to 40 years, allowing greater flexibility for large-scale, long-term projects.
- ◆ The creation of a legal and institutional framework for the efficient and effective implementation of projects throughout their life cycle, with emphasis on fiscal risk management and financial sustainability.
- ◆ The incorporation of advanced methodologies for the identification, allocation and management of risks, which must be developed and adopted by the Ministry of Economy and Finance (MEF), ensuring consistency with international standards.
- ◆ Strengthening the General Directorate of Public Investment (DGIP) as the governing body for PPP policies, programs and projects, with advisory, control and training functions for contracting administrations.
- ◆ The introduction of the “competitive dialogue” mechanism as part of the Public Tender procedures, allowing greater flexibility and quality in the structuring of complex projects.

<sup>58</sup> UNCTAD, “Paraguay Introduces a New PPP Law to Enhance Investment in Infrastructure,” Investment Policy Monitor, 28 de enero de 2025, <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/4937/paraguay-introduces-a-new-ppp-law-to-enhance-investment-in-infrastructure>.

- ◆ The update of the fiscal limits for firm and contingent commitments derived from APP, raising the cap to 4% of GDP for the stock and to 0.8% of GDP for annual flows, with the possibility of exceptional expansion under the authorization of the National Economic Team and the MEF.
- ◆ The requirement for periodic international audits to assess compliance with contractual objectives and the quality of services provided under PPPs.

The Paraguayan regulatory framework also includes incentives and rights for proponents of private initiatives, including reimbursement of studies and bonuses in the evaluation of bids, as well as strengthened transparency and accountability mechanisms, with the obligation to publish relevant information about projects and contracts on official portals.

The enactment of Law No. 7452/2025 and the updating of operational manuals and guides constitute decisive steps toward closing these gaps and boosting private investment in infra-structure. The regulatory framework and its successive reforms position Paraguay as one of the countries with the greatest regulatory and institutional progress in the region, according to the Infrascopes (IDB and Economist Impact, 2024), achieving a score of 86.2/100 in the “Regulations and Institutions” dimension and standing out for the comprehensiveness of its regulations to promote competitive bidding and the sustained political support for Public-Private Partnerships (PPPs).

While Law 7452/2025 represents a significant modernization of the legal framework, it also poses new operational challenges. Among other issues, elements such as the right of first refusal for private initiatives could affect competition if not accompanied by clear safeguards. Therefore, it will be necessary to provide clear regulations on the treatment of these initiatives that promote efficiency and innovation, while guaranteeing transparency and competition.<sup>59</sup> Furthermore, the expansion of prequalification and compliance requirements strengthens institutional control but could also raise barriers to entry for local operators in the future. Although contract termination mechanisms and creditor intervention rights have been improved, greater clarity is still needed regarding their practical application.

In November 2025, Paraguay advanced the modernization of its traditional concessions regime by updating the decree that regulates Law No. 1618/2000, “On Concessions for Public Works and Services.” This reform seeks to revitalize the use of concessions as a tool to attract private investment, enabling entities to receive private initiatives at the prefeasibility or feasibility stages, and incorporating incentives such as bonuses in the evaluation of bids and the right of first refusal. It also provides for the reimbursement of study costs when the proponent is not awarded the concession, raises the technical, economic, and environmental requirements, and requires the submission of financing letters that demonstrate the viability of the projects. Overall, this update complements the modernization of the PPP regime described in **Box 4.1** and strengthens the regulatory framework to promote more and better infrastructure projects.

<sup>59</sup> For more details on best practices in managing private initiatives, see Suárez-Alemán and Domínguez (2024). <https://publications.iadb.org/es/evidencia-regional-en-el-uso-del-mecanismo-de-iniciativas-privadas-para-el-desarrollo-de>.

A key element for strengthening the PPP regime in Paraguay is the design of effective mechanisms for institutional coordination between the Ministry of Finance and project-promoting entities. Greater coordination allows for the alignment of strategic objectives, the optimization of public resource use, and the proper management of risks throughout the project lifecycle. International experience demonstrates that formal coordination mechanisms—such as inter-institutional committees, technical groups, or shared digital platforms—facilitate real-time information exchange, expedite decision-making, and enable the timely identification of bottlenecks that could affect project structuring or execution.

Within the Paraguayan context, strengthening these mechanisms would contribute to better integration between medium- and long-term fiscal planning, led by the Ministry of Economy and Finance (MEF), and the sectoral prioritization of projects by ministries and technical agencies. Furthermore, it would allow for the establishment of common frameworks for fiscal risk assessment, the definition of eligibility criteria, and the monitoring of contractual performance. Effective coordination would also facilitate the adoption of best practices in project selection, document standardization, and integrated risk management, promoting transparency and accountability. In this regard, it is necessary to strengthen the methodologies for determining the optimal contractual modality to implement (PPP or traditional public works) in each case, through the systematization of value-for-money analyses—a challenge shared by much of the region, where few countries systematically calculate it for all projects (OECD, 2025). Finally, moving towards the institutionalization of these mechanisms would strengthen investor confidence by offering a more predictable, professional environment aligned with international standards, essential for attracting private capital and consolidating the PPP regime as a strategic and sustainable public policy. Taken together, these elements suggest that the effective implementation of Law 7452/2025 should be accompanied by a second generation of complementary reforms, regulations, and methodologies, as well as institutional strengthening, so that PPPs continue to consolidate as an efficient, inclusive, and competitive tool for the country's sustainable development.



### 4.3 The Road Ahead

Paraguay has laid a solid foundation in the promotion of private investment in infrastructure, thanks to a modern and constantly updated regulatory framework, specialized institutions, and a reform agenda aligned with international best practices. These advances, initially regulatory and institutional, and subsequently materializing in concrete projects, are framed within a favorable macroeconomic environment. The central challenge for the coming years lies in translating this regulatory and institutional potential into a dynamic portfolio of bankable projects capable of attracting private capital and generating a tangible impact on the country's economic and social development.

First, the modernization of the PPP regime, embodied in Law No. 7452/2025, represents a qualitative leap forward in the regulation and governance

of public-private partnership projects. This law incorporates advanced risk management methodologies, raises transparency and fiscal control standards, and strengthens the leading role of the Ministry of Economy and Finance (MEF) and the General Directorate of Public Investment (DGPI) throughout the project lifecycle. Consolidating these advances will require a sustained effort in technical training, both for contracting entities and the PPP unit, to ensure the correct application of the new procedures and the generation of robust feasibility studies aligned with the principles of value for money and social profitability.

Second, Paraguay must strengthen the operational and technical capacity of its PPP institutions, especially in risk management, ex-post project evaluation, and the integration of environmental and social sustainability criteria in the selection and development of initiatives. Implementing competitive dialogue processes, adopting methodologies for the efficient allocation of risks, and institutionalizing periodic international audits are key steps to improving the quality and competitiveness of projects.

It is essential to link the quantity and quality of projects with the economic regulatory framework responsible for defining tariffs that allow for the recovery of investment, operation, and maintenance costs, while simultaneously incorporating mechanisms to assess users' ability to pay. This implies designing demand-side subsidy schemes focused exclusively on vulnerable groups, guaranteeing equity and financial sustainability. A clear, predictable tariff system subject to well-defined periodic reviews provides certainty for long-term investors and is an essential component for attracting private capital and maintaining the quality of public services.

Furthermore, it is essential to advance the effective coordination between the public investment prioritization process and project selection, avoiding the disconnect that can generate contingent fiscal costs or limit alignment with the country's strategic priorities. This issue becomes even more critical given the limited space for assuming contingent liabilities. The creation of innovative financing mechanisms, such as trust funds and the issuance of thematic bonds, along with the promotion of partnerships with multilateral banks and the local financial sector, will contribute to diversifying funding sources and mitigating the risks associated with exchange rate volatility and the maturity of the capital markets.

Finally, the path ahead requires consolidating a credible and realistic project portfolio, adapted to the fiscal context and the execution capacity of both the public and private sectors. Accelerating project structuring, forming multidisciplinary technical teams, and retaining institutional capacity will be crucial in ensuring continuity and success in attracting private investment to infrastructure. International experience demonstrates that regularity and predictability in project preparation and bidding create favorable conditions for competition and innovation, maximizing the impact of private investment in infrastructure.

A key channel through which more and better infrastructure contributes to Paraguay achieving and maintaining its investment grade rating is productivity gains. Infrastructure not only increases the stock of physical capital, but also, by improving the quality and efficiency of the services

it provides, reduces costs, increases the competitiveness of businesses, and facilitates the integration of the economy into regional and global value chains. Evidence shows that improvements in the efficiency and quality of infrastructure services can have a significant and lasting impact on economic growth. Computable general equilibrium simulations for countries in the region indicate that a permanent 5% increase in the efficiency of infrastructure sectors can raise cumulative GDP growth by up to 3.5 percentage points over a decade, with particularly positive effects on high-productivity sectors such as manufacturing and on reducing income inequality (see Cavallo, Powell, and Serebrisky, 2020).

## Conclusion

The efficient and high-quality infrastructure is a key driver of growth and competitiveness. In this respect, the reform agenda should prioritize not only closing quantitative gaps, but also improving the efficiency of investment, regulation, and service management, so that productivity gains translate into sustainable growth.

In 2024, Paraguay achieved investment grade rating status, reducing its sovereign risk and opening new doors for private infrastructure financing. This achievement reflects a decade of fiscal, institutional, and regulatory reforms, in which the Public-Private Partnership (PPP) regime has played a leading role. The causality is clear: the improved regulatory framework and the successful execution of multilateral-backed PPP projects have contributed to strengthening market confidence and improving the country's credit rating.

The productivity gains generated by more and better infrastructure—both in infrastructure services and in the economic activities that use them—are associated with increased economic growth and improved external competitiveness. Laws and regulatory frameworks help make this contribution a reality. The challenge is to move from legislation to action: increasing the number of concrete projects, closing the remaining infrastructure gap, and consolidating long-term confidence to bolster the country's capacity to attract and manage private investment in infrastructure sustainably.

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# V

## CHAPTER

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# THE PATH toward better institutions in Paraguay

The Social Security Council and the Superintendency of Pensions and Retirement as pillars of governance of the pension system.

# THE PATH toward better institutions in Paraguay

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## Introduction

For decades, the pension system in Paraguay operated without an independent regulatory authority, weakening its capacity to ensure technical, transparent, and effective oversight. This institutional deficiency not only prevented the application of minimum governance and control standards but also allowed retirement and pension entities (EJPs) to operate with-out common guidelines, specialized oversight, and with little accountability. As a result, suboptimal investment decisions were made, unmanaged conflicts of interest arose, and financial risks were taken that compromised the system's sustainability.

This institutional fragility is even more concerning in the current context, marked by demo-graphic transition. While Paraguay still has a window of opportunity associated with the demographic dividend, population projections from the National Institute of Statistics (INE, 2024c) indicate that the proportion of people over 60 years of age will increase from 13% to 22% in the next 25 years, reflecting a sustained process of population aging. This is com-pounded by a continuous increase in life expectancy at birth, projected to reach approximately 79.6 years by 2050, which will amplify the pressures on the actuarial and fiscal sustainability of the system.

Taking advantage of this transition period is key to consolidating pension institutions capable of anticipating the challenges of an aging population. This will allow for a more effective response to growing fiscal pressures

and citizens' demands for transparency, accountability, and responsible management of pension resources. The absence of effective oversight weakens the financial stability of the system and erodes confidence in its ability to guarantee dignified and secure incomes in old age. The approval of Law No. 7235 of 2023, "Regulating the State's Supervisory Role over Retirement and Pension Entities," constitutes a historic milestone in the evolution of the Paraguayan pension system. For the first time, the country has established a modern institutional framework, designed to address the structural challenges that have affected the system's sustainability, transparency, and legitimacy for decades. This reform aligns Paraguay with international standards of regulation and supervision adopted by countries that have successfully consolidated robust and reliable pension systems.

Also, the Law creates two fundamental entities that make up this new architecture: the Social Security Council (CSS), responsible for leading strategic direction and formulating public policies; and the Superintendency of Pensions and Retirement Funds (SP), responsible for exercising specialized technical supervision over Pension Fund Entities (EJP). This institutional framework not only strengthens the governance of the system but also establishes the necessary conditions for prudent management of pension funds, based on principles of security, liquidity, and profitability.

Furthermore, the Law introduces clear rules and technical capabilities that allow for the establishment of common operating standards, strengthen effective oversight, and protect the rights of workers and retirees. Taken together, these reforms address an urgent need: to ensure the financial sustainability of the system and rebuild public trust in its ability to guarantee a decent income in old age.

International experience demonstrates that sustainable pension systems require specialized institutions with technical autonomy and supervisory capacity. Organizations such as the OECD (Organization for Economic Co-operation and Development) and the IOPS (International Organization of Pension Supervisors) have emphasized that the existence of an independent regulator not only improves the efficiency and transparency of the system but also strengthens public trust and legitimacy.

This chapter examines the background and scope of the institutional reform established by Law No. 7235, structuring the analysis into four sections. The first reviews the previous institutional arrangement and the challenges the system faced. The second presents the genesis of the reform and the functions of the Social Security Fund (CSS) and the Pension Fund (SP). The third analyzes the expected effects on pension and fiscal sustainability, public trust, and international credibility. Finally, the fourth section addresses the immediate implementation challenges and highlights the role of the Inter-American Development Bank (IDB) as a strategic partner in this transformation process.



## 5.1 Background of the National Retirement and Pension System (SNJP)

### 5.1.1 Institutional context and system structure

Paraguay's pension system comprises three pillars: a mandatory contributory pillar, a non-contributory pillar, and a voluntary pillar, which together aim to guarantee financial protection for senior citizens in their old age. The non-contributory pillar, financed with public funds, is the primary social protection tool for vulnerable older adults. Its central component is the Senior Citizen Program (PAM), which provides a monthly income equivalent to 25% of the minimum wage to individuals aged 65 and over without a pension or other sources of income, and who are in a situation of socioeconomic vulnerability. At the end of 2023, the program benefited approximately 310,000 people, representing 55% of the population over 65 (INE, 2024a). The average benefit amount reached US\$87 per month, equivalent to 81% of the poverty line for older adults (World Bank & ILO, 2023), solidifying its position as an essential instrument for reducing poverty and strengthening social inclusion in old age.<sup>60</sup>

The contributory component forms the core of the pension system and operates under a defined-benefit pay-as-you-go model. It comprises eight pension fund entities (EJPs), most notably the Institute of Social Prevision (IPS), which covers private-sector workers, and the Fiscal Fund, under the Ministry of Economy and Finance (MEF), which manages public-sector pension plans, including those for teachers, police officers, military personnel, and judicial officials, among others. These two institutions account for approximately 97% of contributors and virtually all of the system's reserves (MTESS, 2024), highlighting their central role within the National Pension System (SNJP). The remainder of the contributory component consists of smaller, sector-specific entities that operate with their own charters and regulations.

A characteristic of the contributory pillar is its high fragmentation, reflected in the coexistence of multiple schemes with different parameters regarding contribution rates, retirement age, eligibility requirements, and benefit calculations. In the case of the IPS (Institute of Social Prevision), eight special schemes operate simultaneously, while the *Caja Fiscal* (Pension Fund Administrator) manages twelve, generating horizontal inequities among members, cross-subsidies between groups, and adding complexity to the system's management. These distortions increase pressure on public finances and jeopardize the sustainability of the National Pension System (IDB, 2023). The voluntary pillar, on the other hand, complements pension coverage through individual capitalization plans managed by private entities, authorized and supervised under Law No. 3472/08. Currently, three entities operate under this system.

<sup>60</sup> Own calculation based on data from the Continuous Permanent Household Survey (EPHC 2023) of the National Institute of Statistics (INE) and the poverty line for older adults in Asunción (PYG 782,242), using an average exchange rate of Gs. 7,200 per US\$.



## 5.1.2 Structural challenges: coverage, equity and sustainability

One of the most persistent challenges facing the Paraguayan pension system is its low contributory coverage. In 2023, only 33.5% of the employed population, equivalent to approximately 986,000 workers out of a total of 2.9 million, contributed to the pension system (MTESS, 2024). This means that, on average, two out of every three workers remain out-side the system and do not accrue the right to a contributory pension in old age. This low contribution density is directly reflected in the fact that only 14% of older adults, approximately one in seven, receive a contributory pension.

In contrast, in Latin America and the Caribbean, on average, about 40% of older adults receive a contributory pension; in Paraguay, this proportion is comparable to that of Guatemala and El Salvador, remaining far from the Southern Cone countries, where average coverage approaches 85%. Even considering both contributory and non-contributory pensions, around 55% of older adults in Paraguay have some type of pension income, meaning that almost half remain unprotected in old age. This overall coverage level remains be-low the regional average of approximately 59% (IDB, 2023).

The second challenge lies in the stark inequalities that characterize access to the pension system and the benefits it offers. Contributory coverage is unevenly distributed, with over 41% of workers in the highest income quintile contributing, while only 3% in the poorest quintile do so (IDB, 2023). Gaps based on educational level are equally pronounced. Those with tertiary education reach contribution rates close to 50%, while among those who have not completed primary education, coverage does not exceed 8%. These disparities demonstrate that the pension system reproduces and amplifies labor market inequalities, where workers with formal and stable jobs, higher incomes, and greater education gain access to benefits, while large segments of the informal workforce remain excluded from the contributory pillar.

In addition to inequalities based on income and education levels, persistent gender gaps persist. Women have lower labor force participation rates (53.3% compared to 78.7% for men) and a higher incidence of informality (68.3% compared to 64.5%), which reduces the density of their contributions and their chances of accessing a contributory pension (INE, 2024a). These inequalities answer to structural conditions in the labor market, such as the gendered division of labor and the disproportionate burden of unpaid care work, thus limiting women's ability to accumulate pension rights on equal terms with men. Consequently, they are more dependent on the PAM (Pension Fund Administrators) and receive lower benefits: in the IPS (Institute of Social Prevision), women's pensions are on average 8.6% lower than men's, and in the *Caja Fiscal* (Pension Fund Administrator), the gap reaches 32% (MTESS, 2024).

The third challenge is given due to the growing financial imbalances facing the system, which jeopardize its medium- and long-term sustainability. This situation is primarily evident in the two largest pension institutions:

IPS and *Caja Fiscal*. IPS has been experiencing an operating deficit since 2020, forcing it to finance pension payments with returns on its re-serves instead of reinvesting them. In 2023, 28% of these returns were allocated to cover pension obligations, a proportion that increased to 48% in 2024, accumulating a shortfall exceeding US\$150 million (IPS, 2024). This deterioration occurred much sooner than anticipated: the 2021 actuarial valuation estimated that the use of reserves for benefit payments would not occur until 2043, an advance of 18 years compared to the baseline scenario (IPS Actuarial Valuation, 2021; IPS, 2024). This early use of returns reduces the fund's accumulation capacity by committing resources that should contribute to its future growth. Thus, the recurring use of returns to finance benefits erodes the future sustainability of the IPS, which concentrates the majority of contributors and the system's reserves. As the IMF (2025) warns, the depletion of reserves increases the vulnerability of the pension system.<sup>61</sup> Once this occurs, any imbalance between income and expenses must be covered with fiscal resources, which implies the materialization of the State's contingent liabilities and greater pressure on public finances.

The situation of the Public Pension Fund is even more critical, as it faces a growing structural deficit that has worsened in recent years. Since 2015, it has registered negative results, accumulating an approximate deficit of US\$1.118 billion by 2024 (MEF, 2024). Between 2023 and 2024, the annual imbalance almost doubled, rising from US\$144 million to US\$281 million, an amount that is entirely covered by transfers from the National Treasury. This makes it a systemic risk to the sustainability of the National Pension System and one of the country's main macro-fiscal vulnerabilities.

This deteriorating trend is also reflected in financial projections, which confirm the magnitude of the fiscal deficit's structural imbalance. According to official estimates, the annual deficit will reach 1.3% of GDP by 2027 (MEF, 2024). In the longer term, actuarial scenarios warn that the imbalance could reach between 2.4% and 3% of GDP between 2050 and 2100, projecting increasing pressures on fiscal sustainability (World Bank, 2023). For its part, the IDB (2022) estimates that the present value of the actuarial deficit is equivalent to 6.1% of GDP by 2030. This situation demonstrates a growing financial imbalance and high-lights the need for an institutional framework capable of preventing and correcting these vulnerabilities.

The challenges facing the Paraguayan pension system cannot be resolved without a robust institutional framework capable of organizing and regulating its operation. Given a landscape marked by low coverage, persistent inequalities, and growing financial strain, it is crucial to have a specialized authority with clear powers, operational independence, and sufficient technical capacity to supervise the EJPs and harmonize prudential rules and management standards. The absence of such an institution has solidified a fragmented and financially vulnerable system. Overcoming these challenges requires moving toward a new pension governance model that ensures discipline, transparency, and long-term sustainability.

<sup>61</sup> Pension systems face three critical periods: (1) a shortfall in contributions compared to benefits; (2) insufficient total income (contributions and investments) to cover benefits; and (3) depletion of reserves. The IPS is approaching the second critical period. As these periods progress, reform options decrease and fiscal costs increase (IOPS, 2018).



### 5.1.3 The root of a vulnerable system: the institutional fragility of the National Retirement and Pension System (SNJP)

The challenges facing the National Pension System (SNJP) have been amplified by long-standing institutional fragility, which has hampered its ability to ensure effective management. For decades, pension funds have operated under self-regulatory schemes, protected by disparate charters and a fragmented regulatory framework, lacking common standards or a specialized authority capable of anticipating risks and guaranteeing compliance with common prudential rules. This lack of robust institutional framework has limited supervision and preventive regulation and prevents the consolidation of a long-term financial discipline. As a result, the system is accumulating increasing imbalances, persistent inequities among members, and a gradual loss of public trust.

Regulatory and oversight functions have historically been dispersed among various agencies lacking full powers and authority to exercise comprehensive supervision. The Office of the General Comptroller of the Republic (CGR), for example, has conducted post-audits of some public pension funds, such as the Municipal Pension Fund and the Institute of Social Prevision (IPS), but lacks the authority to issue prudential regulations or implement preventive measures. Similarly, the Superintendency of Banks only had oversight of the Banking Pension Fund, without a broad mandate over the rest of the pension system. This institutional fragmentation has created significant gaps, as key decisions regarding benefits, investments, and financing have been made without technical checks and balances or a common regulatory framework to ensure discipline, transparency, and sustainability.

The lack of comprehensive oversight is also reflected in the absence of a uniform prudential regulatory framework, which has compromised the financial management of pension funds. The system lacks common rules on investments, portfolio diversification, exposure limits by asset type, and hedging requirements against liquidity or market risks. As a result, the portfolios of the main institutions exhibit high levels of concentration, maturity mis-matches with respect to actuarial obligations, and limited resilience to shocks.

In the case of the IPS (Institute of Social Prevision), over 90% of its reserves are invested in just three types of financial instruments, 62% of which are banking system assets. This exposes its portfolio to concentration risks and sectoral volatility. Furthermore, 67% of these investments have maturities of less than six years, creating a mismatch with long-term pension obligations. Meanwhile, at the *Caja Fiscal* (Pension Fund), 81% of investments are concentrated in short-term bank certificates of deposit and 19% in bonds issued by the Development Finance Agency. This exacerbates concentration risks and reduces the fund's profitability. Consequently, the lack of a prudential investment framework limits the system's ability to preserve the value of its reserves and meet its future obligations.

The absence of prudent regulations also extends to other fundamental areas of governance. The system lacks common guidelines on corporate governance, comprehensive risk management, actuarial reporting, financial and accounting standards, external auditing, and effective accountability mechanisms for members. This lack of common frameworks has led to discretionary decisions with significant fiscal and social consequences. An example of this was the resolutions approved by the IPS (Institute of Social Prevision) in 2020 and 2021, which raised the minimum pension from 33% to 75% of the minimum wage without actuarial or technical justification, generating an estimated financial impact of over US\$217 million in present value. Similarly, the Central Bank's intervention in the Banking Pension Fund in 2024 highlighted the risks of operating without specialized supervision, where the lack of preventive controls allowed solvency and governance problems to accumulate, ultimately necessitating emergency intervention.

The magnitude of these decision-making deficiencies highlights the institutional fragility of the National Pension System (SNJP) and the urgent need for a specialized, independent, and technically sound body. In this context, the creation of the Superintendency of Pensions (SP) marks a turning point in pension governance. By centralizing regulatory and supervisory functions, this new institution seeks to address historical gaps, align the system with international standards, and establish common prudential rules that strengthen the system's transparency, legitimacy, and sustainability. These institutional weaknesses are clearly reflected in Paraguay's ranking in the Mercer and CFA Institute Global Pension Index, whose comparative assessment of the governance and sustainability of pension systems is presented in **Box 5.1**.

### BOX 5.1 Institutional framework of the SNJP in the international context

The Mercer CFA Institute Global Pension Index (MCGPI) annually compares the pension systems of 48 countries, using more than 50 indicators grouped into three dimensions: adequacy (40%), sustainability (35%), and integrity (25%). This index has become a widely used technical benchmark for international organizations to analyze and compare the performance of pension systems globally.

The **integrity** dimension measures the strength of the institutional framework that supports each pension system, considering fundamental aspects such as regulation, supervision, governance, transparency and the protection of the rights of members.

According to a technical simulation prepared by the IDB using the official MCGPI methodology, the Paraguayan pension system is projected to score 39.9 out of 100 on the integrity sub-index by 2025. This score places it well below the global (74.1) and regional (67.6) averages, reflecting significant structural weaknesses in its institutional framework. This result is primarily explained by the absence of a specialized supervisory authority, regulatory fragmentation among pension fund administrators (PFAs), and the lack of uniform accountability mechanisms.

The lowest scores were recorded in the components of regulation and supervision (10/100), governance (6.5/100), member protection (3.6/100), and transparency (0/100), highlighting the urgent need to strengthen the institutional framework of the National Pension System (SNJP).

In contrast, the regional comparison shows that countries with more consolidated institutional and regulatory frameworks achieve significantly higher scores on the integrity sub-index: Uruguay (83.8), Chile (81.9), Mexico (72.5), and Brazil (65.1). On average, the region scores 67.6 points, more than 25 points above the estimated value for Paraguay, highlighting the significant institutional gap the country faces in pension regulation and supervision.

The implementation of the Law regulating the State's supervisory role over pension funds will progressively reduce the identified institutional gaps. According to IDB projections, the strengthening of regulatory and supervisory capacities resulting from the reform would raise Paraguay's integrity score to a level equivalent to the regional average, reflecting a gradual convergence toward international standards of pension governance, supervision, and transparency.

**Methodological Note:** Paraguay is not officially part of the Mercer CFA Institute Global Pension Index (MCGPI). The values presented correspond to a technical simulation prepared by the IDB based on the index methodology and parameters used by Mercer and the CFA Institute. Consequently, the results should be interpreted with caution, as a reference estimate of the level of institutional integrity of the Paraguayan pension system.

## 5.2 A new institutional framework for governance: a turning point

### 5.2.1 Genesis of Law No. 7235/2023

The approval of the Law regulating the State's supervisory role over the EJPs marks a turning point for the Paraguayan pension system by creating an institutional framework for its regulation and supervision. Its purpose is to reaffirm the State's role as the ultimate guarantor of the sustainability of pension funds, in compliance with Article 95 of the National Constitution, which establishes the State's responsibility for social security. Specifically, the law stipulates that the resources of the EJPs must be managed according to criteria of security, liquidity, and profitability, in order to ensure the system's sustainability and effectively protect the rights of members and pensioners.

The need to create a specialized authority for pension regulation and supervision was raised by successive administrations since 2015, but the required legislative approval was not obtained. Finally, in December 2023, the bill achieved parliamentary consensus for its final approval, becoming an expression of the Paraguayan State's sustained commitment to strengthening pension governance.

In recent years, multilateral organizations such as the IDB, the World Bank, the IMF, and the ILO have repeatedly warned about the actuarial, financial, and governance risks stemming from the fragmentation and institutional weakness of the Paraguayan pension system. Their reports have underscored the need to establish a specialized authority to define uniform prudential rules, correct asymmetries between pension schemes, and strengthen the accountability mechanisms of the Paraguayan National Pension System (World Bank & ILO, 2023; IMF, 2024).

The drafting process of the Law was based on prior assessments and was developed through a participatory mechanism focused on protecting workers' resources and ensuring the financial sustainability of the pension funds. The regulatory design incorporated input from labor unions, business organizations, and retirees, which allowed for the consolidation of a consensus around a solid, transparent, and socially legitimate institutional framework, reinforcing public trust in the pension system (MEF, 2023).

With that, the Law regulating the State's supervisory role over EJPs reform addresses the accumulated challenges of the Paraguayan pension system and places the country on a path toward alignment with international standards for pension regulation, supervision, and governance. By closing historical institutional gaps and establishing a comprehensive framework, the reform lays the groundwork for more effectively tackling the system's structural challenges, correcting design flaws, and strengthening the management of the EJPs. All of this results in greater system sustainability and more tangible benefits for members and pensioners.

### 5.2.2 Convergence towards international standards of pension regulation and supervision

International experience demonstrates that strengthening institutions and supervisory capacities is an essential condition for the sustainability of pension systems. Multilateral organizations and specialized literature agree that technical, independent supervision with the authority to enforce discipline in the management of pension schemes is essential to reduce financial and governance risks, as well as to consolidate the trust of members and pensioners (IDB, 2023; ILO, 2023).

Within this context, one of the principles most widely promoted by the IOPS (IOPS, 2018; 2021) is the adoption of risk-based supervision (RBS), now recognized as the international standard in this area. This approach replaces the logic of purely formal or ex-post control with a preventive model, in which supervisory authorities prioritize the early identification of vulnerabilities and the timely adoption of corrective measures. In doing so, the aim is to strengthen the risk management of entities, require action



plans when necessary, and ensure that pension funds maintain resilient management in the face of demographic, economic, and financial changes, contributing to the sustainability of the pension system as a whole.

In addition, the OECD (2022) has emphasized the importance of having uniform prudential frameworks applicable to all pension systems, a fundamental requirement for ensuring the integrity and coherence of the system. These frameworks encompass essential aspects such as investment management, institutional governance, actuarial assessments, financial solvency, and comprehensive risk management. The IMF (2024), for its part, has warned that the absence of robust prudential frameworks compromises the sustainability of pension systems and constitutes a vulnerability factor for the macroeconomic and financial stability of countries.

In addition to these general principles, the evolution of pension regulatory frameworks has also benefited from the experience gained in banking and financial supervision. Principles such as minimum capital requirements, solvency rules, and accounting standards, originally designed for the banking sector, were progressively adapted to the pension sector, recognizing that pension funds manage long-term resources with significant social and fiscal implications (Basel Committee, 2012; OECD, 2016). The adoption of these best practices has enabled pension systems to achieve adequate levels of security, professionalism, and predictability in their management, contributing to the overall strengthening of pension governance, especially in countries that have implemented risk-based supervision schemes.

Paraguay is beginning to translate these principles into concrete institutions. With the Law on Institutional Reform of the National Pension System (SNJP), the country is taking a decisive step toward a prudential supervisory model, while introducing uniform rules that correct decades of regulatory fragmentation and discretionary decision-making by the EJPs. The creation of the Superintendency of Pensions (SP) and the Social Security Fund (CSS) constitute a regulatory innovation and a decisive step toward consolidating a pension system aligned with international standards that have proven effective elsewhere. This transition from a weak and fragmented supervisory framework to a modern institutional architecture reflects the commitment to placing Paraguay on a path of greater legitimacy and sustainability, in line with global best practices in pension regulation and supervision.

**Box 5.2** delves into comparative international experiences. It offers a frame of reference for assessing the scope of the Paraguayan reform and putting its value into perspective within the regional and international context.

## BOX 5.2 Regional benchmarks for pension institutions and supervision

In Latin America and the Caribbean, various pension systems coexist, reflecting heterogeneous institutional trajectories. Beyond these differences, regional experience shows that a growing number of countries have created and strengthened specialized regulatory and supervisory bodies, with varying degrees of autonomy, leading to improved financial discipline and greater social legitimacy for the systems.

- ◆ **Chile:** The Superintendency of Pensions has broad regulatory and sanctioning powers, which has allowed it to effectively implement risk-based supervision. Its role has been central to overseeing the Pension Fund Administrators (AFPs) and supporting structural reforms, including the 2008 reform and the one approved in January 2025 (Law No. 21,735), which expands its responsibilities to supervise new actors, including the Institute of Social Prevision (IPS), in its operational role within the Social Security Pension System (SSP), and the Autonomous Pension Protection Fund (APP) in investment management.
- ◆ **Costa Rica:** The Superintendency of Pensions (SUPEN) supervises both the defined benefit system and individual capitalization funds. Attached to the National Council for the Supervision of the Financial System (CONASSIF), it applies a risk-based supervision model that integrates actuarial evaluation, investment control, and governance. This approach has allowed for the harmonization of prudential rules between pay-as-you-go and individual savings schemes, strengthening the solvency, transparency, and legitimacy of the system.
- ◆ **Honduras:** The National Banking and Insurance Commission (CNBS) exercises financial oversight over public pension institutions, including the Honduran Social Security Institute (IHSS). In 2025, the CNBS issued a new investment regulation establishing prudential limits, diversification criteria, and reporting obligations. Although the framework is still being finalized, these measures represent progress toward technical and risk-based pension supervision.
- ◆ **Mexico:** The National Commission of the Retirement Savings System (CONSAR) supervises Retirement Fund Administrators (AFOREs) under a prudential approach that integrates investment, governance, and risk management. The implementation of the risk-based supervision model has made it possible to assess the exposure, liquidity, and solvency of each AFORE, anticipating vulnerabilities.

- ◆ **Uruguay:** The Central Bank of Uruguay (BCU), through its Superintendency of Financial Services, supervises both the defined-contribution Pension Fund Administrators (AFPs) and the defined-benefit Social Security Bank (BPS), applying uniform prudential criteria that have strengthened the system's solvency and the credibility of its tripartite governance. Law No. 20,130 of 2023 also created the Social Security Regulatory Agency (ARSS), an autonomous, non-state public entity responsible for the regulation, supervision, and control of all pension institutions.

### Relevant lessons for Paraguay

These experiences offer particularly valuable lessons for the institutional strengthening of the Paraguayan pension system:

- ◆ **Autonomy and sanctioning powers:** Institutional autonomy, coupled with effective sanctioning powers, is essential to ensure financial discipline and the integrity of the system.
- ◆ **Technically sound regulators:** A robust regulator with high technical capacity can play a strategic role in reform processes, contributing credibility and social trust.
- ◆ **Unified supervision:** A single supervisor makes it possible to ensure regulatory consistency, reduce institutional fragmentation, and promote homogeneous control standards.
- ◆ **Technical supervision of pay-as-you-go schemes:** Even in defined benefit schemes, actuarial and financial oversight strengthens sustainability and accountability.
- ◆ **Prudential supervision and investments:** The rigorous application of prudential criteria guides investments towards greater diversification, liquidity and financial resilience.
- ◆ **Common standards and social legitimacy:** Integrating the supervision of different regimes under common standards strengthens the fairness, transparency, and legitimacy of the system.
- ◆ **Separation of duties:** Uruguay's experience shows that separating policy, administrative, and oversight functions strengthens transparency and avoids conflicts of interest.
- ◆ **Interinstitutional coordination:** The Costa Rican model demonstrates that coordination among financial supervisors under collegiate frameworks, such as CONASSIF, enhances regulatory coherence and system stability.

### 5.2.3 Functions of the new institutional framework in accordance with Law 7235/2023

The Law regulating the State's supervisory role over pension fund administrators reconfigured the pension governance framework in Paraguay by creating two key bodies to address the system's historical institutional shortcomings: the Social Security Fund (CSS) and the Superintendency of Pensions (SP). Both bodies respond to the need to provide the system with greater technical rigor and regulatory discipline, becoming central pillars of the new institutional framework aimed at strengthening the sustainability of and confidence in the pension system.

The CSS is a pluralistic, collegial body comprised of representatives from the State, workers, employers, and retirees. Its responsibilities include evaluating and proposing legal and regulatory reforms, deliberating pension policy priorities, and forming a shortlist of candidates for the position of Superintendent through a public merit-based competition. This process ensures that the highest regulatory authority has technical independence and institutional backing, while also linking strategic decisions to a pluralistic and transparent deliberation.

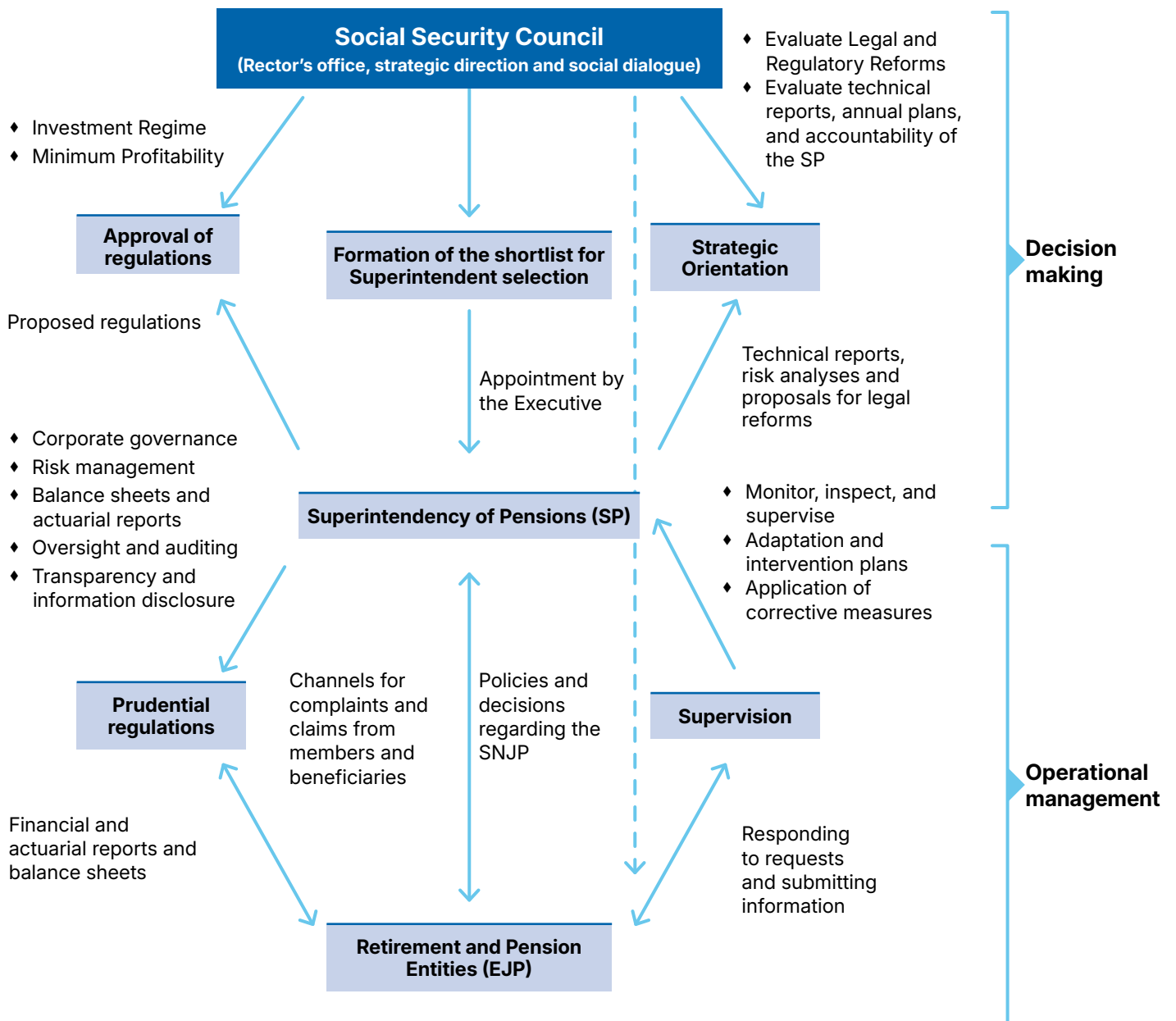
For its part, the SP constitutes the new specialized authority with exclusive responsibility for regulating and overseeing all pension fund administrators (PFAs), centralizing functions that were previously dispersed or lacked a common framework. Its mandate encompasses comprehensive supervision of investment management, control of corporate governance, and evaluation of actuarial processes, as well as the power to issue prudential guidelines applicable to all entities, regardless of size, nature, or legal regime.

Furthermore, the SP has sanctioning and corrective powers that allow it to act preventively against risks that compromise the sustainability of the funds or the rights of members. Thus, the creation of the Superintendency introduces a proactive and risk-based supervisory approach, which surpasses the reactive approach of previous supervision and allows for the requirement of early corrective action plans, strengthens transparency in management, and aligns fund management with standards of security, liquidity, and profitability, thereby reinforcing the sustainability of and confidence in the pension system.

In addition to its investment and risk management functions, the SP (Superintendency of Pensions) is responsible for defining uniform accounting and financial standards, requiring periodic actuarial evaluations, and regulating technical reserves and solvency parameters, ensuring the application of uniform accounting, actuarial, and financial criteria for all entities under its supervision. These functions aim to correct the lack of common rules that historically characterized the National Pension System (SNJP), which was marked by the coexistence of diverse and poorly coordinated criteria among pension funds. With the enactment of this law, Paraguay is moving toward a coherent and homogeneous regulatory framework that introduces greater financial discipline, strengthens accountability mechanisms, and lays the foundation for more effective and transparent supervision.

Within this framework, the innovation of the Paraguayan design lies in the existence of these two institutions and the way they complement each other. The SP (Superintendency of Pensions) is obligated to inform the CSS (Social Security Council) about deficiencies, irregularities, or risks identified in the EJP (Pension Fund Entities), so that the technical findings inform the strategic discussion and social dialogue surrounding the pension system. This relationship links technical supervision with social and institutional legitimacy, ensuring greater coherence between financial sustainability, institutional transparency, and public trust in the pension system.

**FIGURE 5.1** Institutional framework of the SNJP after Law 7235/2023



Source: Own elaboration.

The effectiveness of this new institutional framework will depend, however, on a gradual consolidation process that allows the new authority to fully develop its technical and operational capabilities. Therefore, the Law regulating the State's supervisory role over Private Pension Funds establishes a twenty-four-month transition period, beginning in December 2023, during which the Superintendency of Pensions (SP) must establish its organizational structure, regulate its functions, and strengthen its institutional capacities.

In parallel, it will be necessary to train the pension system providers to facilitate their adaptation to the new prudential framework and the new risk-based supervisory approach, thus preparing for the full implementation of the system. This transitional period is not merely an administrative requirement: it represents a critical stage for consolidating the credibility of the reform, strengthening institutional capacity, and ensuring that the new rules are applied gradually and effectively.

The effective consolidation of the SP will depend on its ability to translate the new legal framework into sound institutional practice. This will require advancing the implementation of risk-based supervision, strengthening the institution's technical capabilities and technological systems, and developing a highly specialized professional body. Only in this way can the reform be fully realized, guaranteeing modern pension supervision geared towards the stability and sustainability of the system.



## 5.3 The institutional framework of the pension system as an anchor of sustainability and legitimacy

### 5.3.1 Transparency and citizen trust

An immediate result of the new institutional framework is the creation of more favorable conditions for the fiscal and actuarial sustainability of the pension system. Comprehensive supervision of pension fund administrators (PFAs) by the SP, based on transparency obligations, makes it possible to contain accumulated deficits that have put pressure on public finances for years (IMF, 2025). The streamlining of these entities, accompanied by uniform rules and greater financial and operational discipline, marks a structural shift from decades of fragmentation and discretion, and reduces the fiscal risks that international organizations had repeatedly identified as a threat to the sustainability of the National Pension System (SNJP) and macro-fiscal stability (IDB, 2023; World Bank & ILO, 2024). This progress lays the foundation for more transparent pension management, strengthening accountability and public trust in the system.

On this basis, the Superintendency of Pensions (SP) plays a central role in consolidating transparency as a pillar of the system's legitimacy and sustainability. The Superintendency has the authority to mandate

the publication of periodic, accessible, and comparable information on the financial and actuarial situation of the entities, in order to reduce information asymmetries and strengthen the capacity of members and pensioners to understand and fully exercise their rights (IDB, 2020; INE, 2025). Paraguayan experience shows that opacity in pension management has historically deepened public distrust, while the institutionalization of transparency practices fosters a more open and responsible relationship between the State and society (ILO, 2022).

Comparative literature agrees that transparency and accountability are essential conditions for the sustainability and legitimacy of pension systems. The OECD has highlighted that systems establishing clear reporting rules and robust disclosure mechanisms generate greater public trust and protection for members, and also limit political discretion in the management of funds (OECD, 2022). For its part, the IOPS emphasizes that risk-based supervision requires robust information systems and accountability mechanisms, without which it is impossible to anticipate financial imbalances or adequately assess risk exposure (IOPS, 2018). At the national level, advances in public finance management, such as the introduction of results-based budgeting, demonstrate that transparency not only improves spending efficiency but also strengthens institutional credibility and trust in the State (ILO and UNICEF, 2022).

But transparency alone is not enough. Recent evidence shows that states strengthen the acceptance of reforms when they appeal to equity frameworks, in which benefits are conceived as fair and universal rights, not as discretionary concessions (Wang, 2025). In this regard, the public sector plays a technical role by standardizing reports and strengthening actuarial control, also contributing to ensuring impartiality and intergenerational accountability in the public justification of its decisions. Its regulatory autonomy reduces the likelihood of improvised adjustments and ensures stable, predictable, and transparent rules that protect both current beneficiaries and future generations. Pension systems that combine sustainability, transparency, and distributive equity are more resilient to political shifts and achieve broader and more lasting public support, as highlighted by the OECD and the ILO (OECD, 2023; ILO, 2023).

Chile's experience offers a relevant reference point for Paraguay. Within the framework of its recent reform, the Undersecretary of Social Security assumed the mandate to clearly communicate the scope and objectives of the changes through national and local campaigns aimed at reducing information asymmetries and strengthening public trust (Undersecretary of Social Security, 2023). This effort responded to assessments that revealed low levels of trust in the AFP (Pension Fund Administrators) system and a limited public understanding of its operation (Ministry of Labor and Social Security, 2023). This experience, like others in the region, demonstrates that transparency is not limited to publishing actuarial reports, but requires sustained strategies for pension education and institutional communication integrated into the design of public policy.

### 5.3.2 Fiscal responsibility, international credibility and investment grade

Strengthening the pension system is also projected as a pillar for macroeconomic stability and the country's international credibility. Reducing contingent liabilities and strengthening fiscal and financial discipline are crucial for preserving macroeconomic stability and maintaining confidence in public finances. In this context, the creation of the SP and the CSS sends a clear signal of the Paraguayan State's commitment to the sustainability of the National Pension System and to consolidating a predictable, long-term fiscal policy, thereby strengthening the confidence of markets and international organizations (IMF, 2025).

A central aspect of this dynamic is its interaction with the Fiscal Responsibility Law (FRL), which defines the limits on the fiscal deficit and the growth of current spending, becoming the country's main instrument of macroeconomic discipline. Pension deficits, identified by international organizations as one of the main risks to the sustainability of public finances, represent growing contingent liabilities (World Bank, 2023). The creation of a specialized regulator, with the capacity to anticipate actuarial imbalances and continuously monitor the management of pension funds, strengthens the State's ability to meet the FRL's targets and reduces the uncertainty associated with pension liabilities. This coordination strengthens the coherence between pension policy and fiscal strategy and anchors the country's macroeconomic sustainability on a more durable institutional foundation (ILO and UNICEF, 2022; IMF, 2024).

Institutional progress in pension and tax matters is also reflected in the assessment of international markets. In July 2024, Moody's awarded Paraguay an investment-grade rating in foreign currency (Baa3), recognizing the strength of its institutions and the macroeconomic stability achieved. More recently, Standard & Poor's confirmed the sovereign rating at BB+, improving the outlook from stable to positive, and Fitch Ratings adopted a similar measure in October 2025, highlighting sustained growth, fiscal consolidation, and reforms that strengthen institutional credibility (Moody's Investors Service, 2024; Standard & Poor's, 2024; Fitch Ratings, 2025). These advances reduce the cost of sovereign financing, improve access to credit, and send a clear signal of confidence to investors and multilateral organizations. In this context, the consolidation of a specialized pension supervisory authority constitutes a strategic pillar to sustain fiscal credibility and preserve the conditions necessary to maintain and expand the investment grade.

Technical evidence shows that sound pension management generates social and economic benefits by contributing to both the growth and stability of financial markets. When funds are managed under robust prudential frameworks with diversified portfolios, exposure limits, and good governance practices, they act as financial stabilizers, strengthen the depth of capital markets, and sustain long-term demand, boosting economic growth (World Bank, 2017; IOPS, 2018; OECD, 2019). In contrast, a lack of pension institutionalization often translates into captive financing

practices of public debt, where portfolios are oriented, either by obligation or by instigation, toward sovereign securities. These decisions, guided by regulatory or political criteria rather than prudential principles, limit diversification, increase risk concentration, and weaken international credibility, compromising fiscal sustainability and the autonomy of the system (World Bank, 2021).

The creation of the SP (Pension Fund) and the integration of pension policy with the framework of fiscal responsibility represent a decisive step forward for Paraguay's macroeconomic discipline. The simultaneous strengthening of pension and fiscal institutions sends an unequivocal signal of commitment to institutional development and to sound economic and social policy. In this way, the sustainability of the system is reaffirmed as an objective that transcends the financial dimension, based on clear, predictable, and respected rules that ensure long-term legitimacy and confidence.

International experience demonstrates that pension sustainability depends less on the type of system and more on the institutional strength that supports it. In Chile, the creation of the Pension Reserve Fund (FRP) in 2006 consolidated a countercyclical savings mechanism to finance future pension obligations, reducing pressure on public spending and reinforcing macroeconomic credibility (Central Bank of Chile, 2021). In Uruguay, a mixed system with a strong pay-as-you-go component strengthened its sustainability through reforms to the defined-benefit system administered by the Social Security Bank (BPS), including the gradual increase in the retirement age and other parametric and governance adjustments, framed within a fiscal rule that incorporates the pension component (World Bank, 2022; Ministry of Economy and Finance of Uruguay, 2023). Both cases confirm that sustainability is consolidated when there are solid, independent, and stable institutional frameworks that coherently link pension and fiscal policies.

### 5.3.3 Social dialogue, governance, and social legitimacy

The advances stemming from the new institutional framework extend beyond the financial sphere. The creation of the CSS represents a milestone in building more inclusive governance, consolidating a pluralistic body for deliberation and social dialogue that institutionalizes the participation of workers, employers, the public sector, and retirees in shaping pension policy. This design strengthens the legitimacy of decisions, reduces social conflict, and provides long-term stability and sustainability to the reforms.

International experience shows that the strongest pension systems rely on mechanisms for structured participation and social dialogue. The Toledo Pact in Spain is a prime example: a State Agreement, in force since 1995, that defines stable principles of sustainability and equity, separates technical and electoral timelines, and channels reforms through consensus between Parliament and social partners (Congress of Representatives, 1995; OECD, 2020). This model provides certainty for adjustments, strengthens social trust, and protects the system from short-term fluctuations, offering valuable lessons that Paraguay can adapt through its Social Security System (CSS).



In Latin America, progress is being made toward more participatory and transparent pension governance. In Chile, the recent reform incorporated an explicit mandate for public communication under the responsibility of the Undersecretary of Social Security, with national and local campaigns aimed at reducing information asymmetries and strengthening public trust (Undersecretary of Social Security, 2023). This approach is complemented by the Pension System Users' Commission, a permanent consultative and monitoring body that reinforces the participation of members in the evaluation of the system (Ministry of Labor and Social Security, 2023). Together, these measures broaden the base of legitimacy and consolidate a more open and inclusive pension governance by linking technical decisions with stable participatory mechanisms.

Similarly, Uruguay implemented a pension reform process characterized by social dialogue and a transparent communication strategy, led by the Commission of Experts on Social Security (CESS). This process unfolded through working groups with unions, employers, academia, and civil society, fostering consensus and strengthening the reform's democratic legitimacy. Transparency was ensured through the publication of technical reports, open sessions, and accessible explanatory materials for the public, consolidating a model of informed participation and social deliberation (Espacio Público, 2023).

In the Paraguayan case, the creation of the Social Security Fund (CSS) opens the opportunity to institutionalize a more inclusive, transparent, and participatory pension governance system. The challenge, in addition to bringing together stakeholders, requires clear operating rules, sufficient information, and effective accountability mechanisms that transform the CSS into a space for coordination between the technical oversight of the Public Sector and social dialogue. In this way, decisions with financial and actuarial impact can be based on informed deliberation and supported by pluralistic and legitimate backing (IDB, 2020; OECD, 2022).

To fully realize its potential, the CSS can consolidate its role as a deliberative and strategic guidance body through three complementary fronts. First, policy coordination, aimed at anticipating tensions and building consensus around sensitive reforms. Second, strengthening social control and legitimacy through informed deliberation by workers and employers on the Superintendency's decisions, thereby reinforcing accountability. And third, state coordination, which links the pension agenda with fiscal, labor, and social protection policies, in order to strengthen the system's coherence and institutional impact (ECLAC, 2020).

This approach generates a multiplier effect on the Paraguayan state's institutional architecture by strengthening transparency, accountability, and coordination within the pension system. By institutionalizing modern practices of pluralistic governance, Paraguay aligns itself with international

experiences where social security has become a pillar of cohesion and stability. The creation and strengthening of the Social Security Fund (CSS) expand opportunities for participation and deliberation, while anchoring pension decisions in broad and sustainable social consensus, thus reinforcing the system's legitimacy, trust, and long-term sustainability.

## Conclusions and future perspectives: the IDB as a strategic partner

The creation of the Superintendency of Pensions (SP) and the Social Security System Council (CSS) mark an institutional milestone in the Paraguayan pension system. These bodies strengthen the regulatory framework and establish a governance architecture capable of providing stability, predictability, and strategic direction. More than just the enactment of a law, this represents the beginning of a structural process that integrates sustainability, social legitimacy, and intergenerational equity, creating the necessary conditions to sustainably address the system's structural challenges, expand coverage, reduce inequalities, correct fragmentation, and reinforce fiscal and actuarial sustainability.

An effective pension system rests on the balanced interaction of four fundamental elements. Sustainability guarantees the fulfillment of commitments over time through clear rules, risk-based management, adequate technical reserves, and financial discipline. Legitimacy strengthens public trust through transparency, accountability, and social participation. Equity ensures intergenerational and inter-sectoral fairness by expanding coverage, correcting unjustified privileges, and promoting the portability of rights. Finally, institutional strength provides autonomy, continuity, and regulatory stability, supported by professional technical capabilities and homogeneous and coherent prudential frameworks. Each of these pillars is essential in itself, but the strength of the system arises from their articulation and overall coherence.

Paraguay is moving towards an institutional architecture that coherently integrates sustainability, legitimacy, equity, and institutional strength. On the technical front, the Superintendency of Pensions (SP) must consolidate its role as a comprehensive supervisor, applying risk-based supervisory methodologies, uniform prudential standards, and robust actuarial and investment capabilities, along with interoperable platforms for single reporting and continuous monitoring of the systemic risk of the National Pension System (SNJP). In terms of governance, the CSS must consolidate itself as a pluralistic and effective forum for agreements, with clear procedures for deliberating, prioritizing, and communicating sensitive decisions, thus guaranteeing legitimacy and institutional transparency.

In this process, the IDB has consolidated its position as a strategic partner of the Paraguayan State, combining financing, operational assistance, and technical expertise with a long-term vision. Since 2011, the Bank has continuously supported the strengthening of the pension system, assisting in the creation of the Superintendency of Pensions (SP), the development of standardized prudent frameworks, and the design of an institutional framework aimed at guaranteeing the system's sustainability, equity, and transparency. This support is aligned with the IDB's Country Strategy 2025–2029, which prioritizes pension sustainability within the Human Paraguay pillar and integrates the pension agenda with the Fiscal Responsibility Law.

The creation of the Social Security Fund (CSS) and the Superintendency of Pensions (SP) represents a turning point in the institutional strengthening of the Paraguayan pension system. This reform establishes a governance architecture geared towards sustainability, equity, and social legitimacy, and lays the groundwork for expanding coverage, improving accountability, and preserving fiscal stability. With technical support from the Inter-American Development Bank (IDB) and its alignment with macroeconomic policy, Paraguay is consolidating a state policy that promotes transparency, risk-based supervision, and consistent prudential frameworks, ensuring the coherence and sustainability of the pension reform within a comprehensive vision of institutional modernization.

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# VI

## CHAPTER

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# PUBLIC POLICIES on transparency and investment grade

# PUBLIC POLICIES on transparency and investment grade

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## Summary

This chapter analyzes how Paraguay achieved Moody's investment-grade rating in 2024, through a sustained process of reforms aimed at strengthening transparency, integrity, and institutional quality. Academic evidence has shown that transparency and integrity are fundamental elements for attracting investment, improving the business climate, and consolidating macroeconomic stability. Various studies—from North to Acemoğlu and Robinson—indicate that institutional capacity reduces discretion, improves resource allocation, and strengthens the confidence of citizens and investors.

The text describes how the major credit rating agencies—Moody's, S&P, and Fitch—incorporate governance factors into their sovereign assessment methodologies. These include corruption control, government effectiveness, fiscal transparency, regulatory credibility, and the state's capacity to implement policies consistently. Within this framework, the Worldwide Governance Indicators (WGI) serve as fundamental inputs, particularly regarding corruption control, the rule of law, voice and accountability, and government effectiveness.

Within this context, the case of Paraguay is illustrative. For more than a decade, the country implemented a cross-cutting reform agenda that encompassed access to public information, modernization of government procurement and contracting, strengthening of the civil service, consolidation of public spending monitoring systems, improvements in integrity controls and prevention of conflicts of interest, and greater transparency in budget execution. These reforms were conceived as gradual processes, with continuity across different administrations, and aligned with international integrity standards (OAS, OECD, UN, FATF).

Among the most relevant measures are: the Law on Access to Public Information; the modernization of the public procurement system and the adoption of mandatory electronic bidding documents; the creation of the Contract Monitoring System; the implementation of citizen-led budgeting; the deployment of platforms such as MapalInversiones for public monitoring of budget execution; and the development of early warning systems based on official data to identify fraud risks in procurement. These are complemented by the new public ethics regime, the administrative reorganization of the State, and the professionalization of the civil service through competitive examinations and merit-based contracts.

Paraguay carried out this process through an effort that spanned several administrations. On several occasions, it strategically relied on the Inter-American Development Bank (IDB), which, along with other multilateral organizations such as the World Bank, the IMF, and CAF, played a central role as the country's technical partner. Through programmatic operations and specialized assistance, the IDB supported the preparation of reforms, the development of technical studies, regulatory design, and the evaluation of policy impacts aligned with internationally recognized standards of transparency and integrity.

Moody's decision is largely based on the coherence and continuity of these reforms. Its reports between 2020 and 2024 highlight improvements in fiscal governance, administrative modernization, civil service effectiveness, and greater transparency in public procurement. Beyond the regulatory framework, the agency emphasizes the importance of the effective implementation of these measures and their translation into sustainable institutional practices.

Paraguay's achievement of investment grade in 2024 should not be viewed merely as a milestone. It is the culmination of a medium- and long-term process of institutional consolidation, which also requires ongoing sustainability. Continued implementation of integrity policies, regular performance evaluations, and the constant strengthening of state capacities are essential to maintaining investor confidence and ensuring the country's economic stability.

In July 2024, Moody's awarded Paraguay an investment grade rating. In its statement, Moody's affirmed, "Paraguay's rating reflects a combination of factors... and a track record of institutional reforms that have improved our assessment of institutional strength and governance." The statement further specified that these reforms had promoted transparency and modernized public finances.

Achieving investment grade means a country gains access to global credit markets on more favorable and advantageous terms. Reaching this level is not a matter of chance or a one-off event. Rather, as we explain in this chapter, it is the result of a deliberate and persistent process, maintained through changes in administration, of identifying and implementing public policies aimed at increasing transparency and integrity and fostering greater trust.



In this chapter, we analyze the types of reforms Paraguay adopted in recent years that culminated in this result. First, we briefly describe the development of the ideas linking institutional quality, transparency, and integrity to investment. Then, we explain how credit rating agencies consider institutional, transparency, and integrity issues in their ratings. Third, we identify a series of reforms that Paraguay implemented in recent years that contributed to this result. Fourth, we describe how successive Paraguayan authorities selected strategic partners—the Inter-American Development Bank (IDB) and other donors—for the identification, design, implementation, and measurement of the results of these reforms. Fifth, we describe Moody's communications over a period of several years prior to the decision to grant investment grade, allowing us to trace a parallel trajectory between the reforms adopted by Paraguay and the rating agency's assessments. Finally, we describe what other actions can be taken to sustain this result and remain competitive globally.

## 6.1 Corruption, trust and investment

Nations succeed when they create institutional conditions that foster trust between society at large and the private sector, as well as in the government. According to the IDB study, *Trust: The Key to Social Cohesion and Growth in Latin America and the Caribbean (2022)*, “Trust affects not only how businesses are organized, but also how societies are structured. Low trust weakens social cohesion, contributing to high levels of informality and the reluctance of individuals and businesses to obey laws, pay taxes, and comply with regulations”. Corruption, opacity, and a lack of integrity generate distrust and discourage long-term investment. On the other hand, as this same study shows, greater trust leads to better opportunities for economic development.

### But what builds trust?

According to Darren Acemoğlu (2001), countries with stronger public institutions use physical and human capital more efficiently and achieve higher incomes and greater macroeconomic stability. Rodrik *et al* (2002) categorically states that the quality of institutions is the most relevant factor in explaining the development of countries.

One of the first to explain the relationship between the quality of institutions and development was Douglas North (1990), who argued how institutions could prevent illicit behavior and build trust. Building on these ideas, a significant body of theoretical analyses, empirical studies, and a range of indicators have emerged, demonstrating how the rules of law, the quality of institutions, transparency, and integrity foster greater public trust and a better business climate.

However, this was not always the case. Until the late 1980s, corruption was considered by many to be an unavoidable problem, especially in the



realm of international business. Archibald C. Kotchian (1976) exposed how companies paid bribes abroad to obtain contracts and displace other competitors in business.<sup>62</sup> His “memoirs” led to a strong reaction in his country, the United States of America, and the adoption of the Foreign Corrupt Practices Act (FCPA), the law that sanctions the payment of bribes in foreign countries.

Scholars like Huntington (1968) argued that corruption was a cultural problem and explained its benefits. According to them, bribery could help solve problems: it greased the wheels of business where obstacles arose.

This complacent attitude towards corruption was drastically reversed from the 1990s onwards, thanks to a series of factors that we explain below, since they help to understand the case of Paraguay and its access to investment grade.

**The first change was in the academic field.** A turning point occurred in the debate that continues to this day. Thanks to the work and studies of authors such as North (1990), Shleifer & Vishny (1993), and a long list of others, the stance on corruption, and especially on corruption and development, changed. Contrary to Huntington’s suggestion, the academic consensus was that the negative effects of corruption outweighed its benefits. This new approach placed the issue of institutions at the forefront of the discussion, emphasizing that their quality is instrumental in fostering trust among citizens and investors.

Paolo Mauro (1995, 1996) helped identify how corruption negatively affects private investment, and therefore economic growth. Mauro contributed to expanding the analysis of the problem by using indices with data on risks in international economic transactions, which included corruption and bureaucracy among their variables.<sup>63</sup> Mauro’s conclusion is that there is a negative relationship between corruption and investment, as well as between corruption and growth (2019).<sup>64</sup>

Sumanjeet (2015) explained how the transparency of institutions is the basis for economic development as well as an instrument to prevent corruption.

Perhaps the most important academic contribution in this area is that of Daron Acemoglu and James Robinson, who were awarded the Nobel Prize in 2024 for their analysis of the relationship between institutions and why countries develop or fail. For these authors, the design of institutions can foster inclusion and therefore development, or it can result in capture by

62 “My experience in international sales taught me that if I wanted our product to have a chance of winning on its own merits, we had to follow the existing system. If we wanted our product to have a chance, we understood that we had to pay, or commit to paying, substantial sums of money, in addition to the legal commissions stipulated in the contract”.

63 Specifically, the two relevant variables are “Bureaucracy and Red Tape” and “Corruption.” The first refers to the degree to which the regulatory environment presents obstacles to business, and the second to the degree to which business transactions are exposed to corruption or questionable payments.

64 “If Bangladesh could improve the integrity and efficiency of its bureaucracy to the level of Uruguay, its investment rating would improve by almost five percentage points and its GDP would grow at a rate of more than half a percentage point”.

elites, in which case countries fail. Capture, as explained by Kaufmann (2012), Carpenter & Moss (2014), Barrett (2023), and many others, occurs through various means, but primarily through corruption.

**The second significant change** was related to the gradual international regulation favoring transparency and integrity. In 1996, the Organization of American States (OAS) approved the Inter-American Convention against Corruption. The following year, the Organization for Economic Co-operation and Development (OECD) approved the Convention on Fighting Bribery of Foreign Public Officials in International Business Transactions, which largely reflects the principles of the FCPA. In 2001, the United Nations adopted the Convention against Corruption. Paraguay is a signatory to both the OAS Convention and the United Nations Convention.

Alongside these international instruments, a complementary system of transparency and integrity was developed through international *soft law* rules. These include the Open Government Partnership rules, the rules of the International Organization of Supreme Audit Institutions (OLACEFs), and the Extractive Industries Transparency Initiative (EITI).

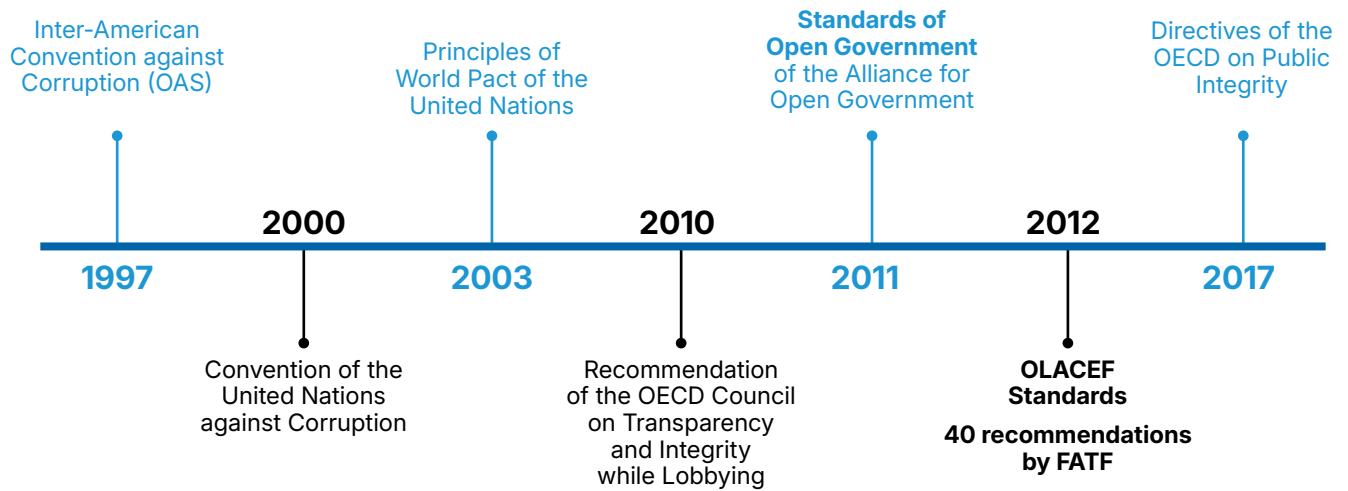
Both the aforementioned treaties and several soft law standards are relevant to the case of Paraguay for the following reasons. First, as we will see later, they help identify what **measures the country should take regarding transparency and integrity in line with these international commitments.** These measures not only cover criminal matters but also focus on a series of preventative policies that are important for building greater trust.<sup>65</sup> Among other things, these international agreements promote access to information, control of state resources, transparency in public procurement, the strengthening of oversight bodies, the regulation of public officials' ethics, and the establishment of a meritocratic civil service system. As Casas and Zamora (2018) argue, "these global efforts... have created a favorable momentum for the dissemination of new public policies and other anti-corruption measures. All of this has strengthened the regulatory framework for accountability and integrity throughout the region."

This change is relevant because Paraguay, like most countries in Latin America and the Caribbean, has ratified several of these international instruments and used them as a guide for the transparency and integrity reforms described in this chapter.

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<sup>65</sup> In the case of the United Nations Convention against Corruption, these measures are included in Chapter II, which is entitled "Preventive Measures." In the case of the Inter-American Convention against Corruption of the OAS, see Article III, Preventive Measures.

**FIGURE 6.1** Timeline of International Standards



Source: Author's own elaboration.

**The third significant change** relates to the **effort to measure levels of transparency, control of corruption, and trust. This effort has focused on measuring those attributes** of institutions, laws, regulations, and other policies that demonstrate they function adequately as facilitators of transparency, integrity, and control. Indeed, for more than two decades, international organizations, civil society organizations, and think tanks have been working to produce indicators to measure these factors (hereafter, transparency indicators).

## 6.2 Indicators of Transparency

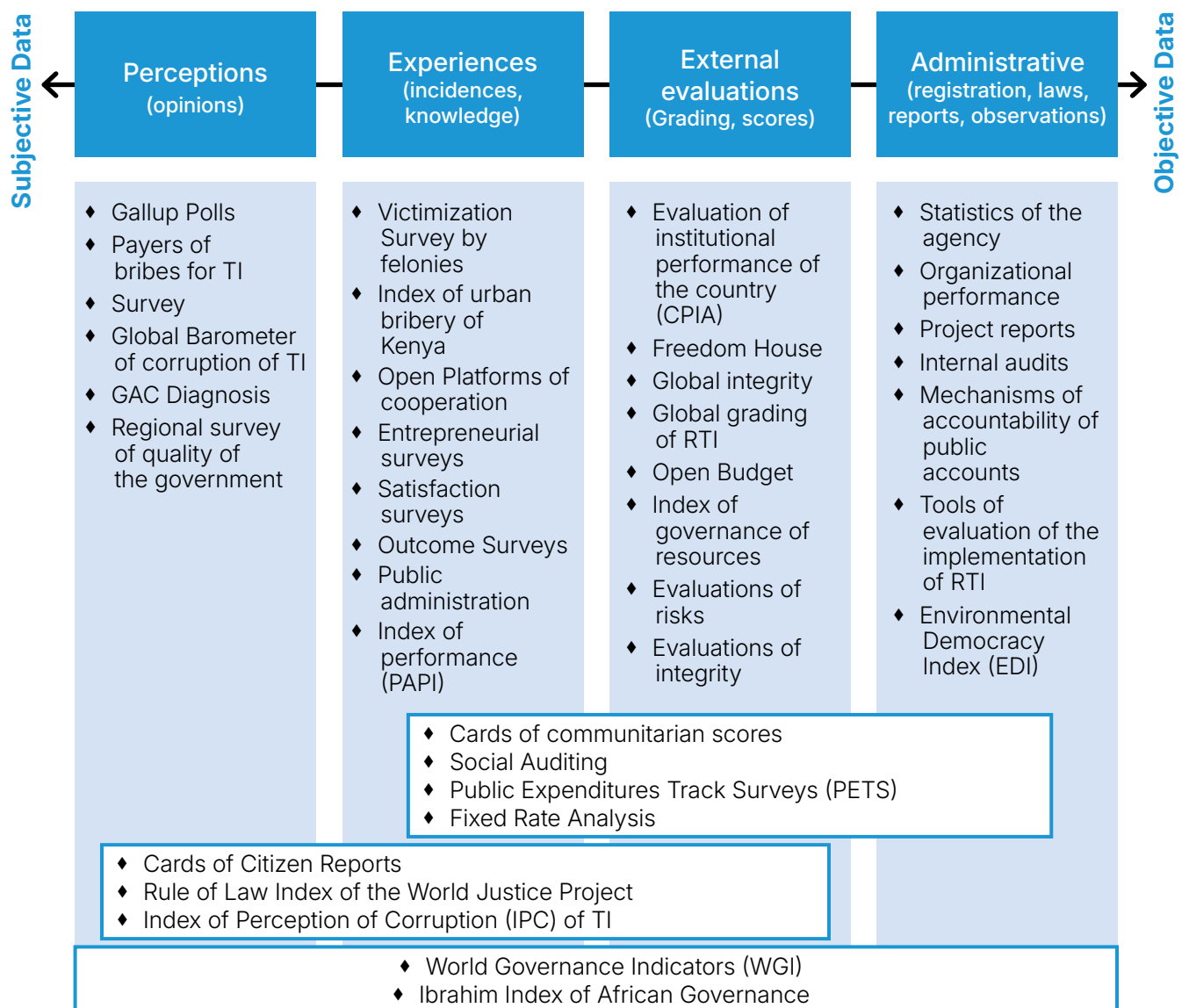
There is a wide variety of indicators, serving diverse purposes and employing varied methodologies. The topics they cover include: the rule of law, open government, transparency, public integrity, the capacity of anti-corruption agencies, the state's ability to manage and control financial administration, and other issues related to this agenda.

The types of data that feed these indicators are also diverse: perceptions, direct and indirect experiences, and administrative data. Examples of indicators based on perceptions of corruption include the Transparency Index developed by Transparency International and the Latinobarometer study on public opinion regarding corruption, trust, victimization by crime, and related issues. At the other end of the spectrum are indicators such as those of the Public Expenditure and Financial Accountability (PEFA), which measures the management of public finances based on a series of objective indicators organized into seven pillars, including transparency of public finances. This pillar measures whether "Information on Public Financial

Management is complete, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all public revenues and expenditures (including intergovernmental transfers), publication of information on performance in service delivery, and easy access to fiscal and budget documentation." (PEFA, 2019)

As Trapnell (2018) points out, the methodologies used are also varied: general surveys of experts, case studies, and others. As can be seen in **Figure 6.2**, it is a complex map that offers multiple types of indicators.

**FIGURE 6.2** Methodologies used for transparency indicators



Source: Adaptation based on Trapnell (2018).

Several authors agree that measuring corruption is a challenge. Among other reasons, this is because it involves illegal practices carried out secretly and with the aim of avoiding evidence. Conversely, they agree that it is easier to measure responses to corruption, such as access to information that promotes transparency, the existence of effective audit and control mechanisms, the level of information on public spending, or access to the asset declarations of public officials (Trapnell, 2015). This approach, which aims to measure policies that promote transparency, integrity, and the control of corruption, in its most developed versions, includes not only identifying the rules and procedures that promote transparency or accountability, but also measuring their effectiveness, results, and impacts. Using the language of the Financial Action Task Force (FATF) methodology, it is necessary to measure not only technical compliance, but also effectiveness.

The quality of existing indicators varies and depends on factors such as the methodology used, the consistency of the data, the availability of homogeneous data series over time, and other factors. The OECD was one of the first international organizations to identify the potential of using governance indicators to measure the progress of integrity reforms and their relationship to investment: "For investors, as the OECD Committee on Industry and Trade points out, the quality of governance has become the most important factor in determining investment in emerging markets and developing economies" (OECD, 2006).

Of all the existing indicators, the so-called Worldwide Governance Indicators (WGI) are of particular interest in the case of Paraguay, since they are the indicators that risk rating agencies incorporate into their methodologies to determine the sovereign risk rating.

The Worldwide Governance Indicators (WGI) were developed by the World Bank under the leadership of Daniel Kaufmann. The WGI are composite indicators, meaning they use different types of data: they combine opinion surveys with expert opinions. The data come from more than 30 different sources and cover more than 200 countries, with information dating back to the mid-1990s (Kaufmann, 2010).

They are organized into six categories: (i) voice and accountability, (ii) political stability and absence of violence/terrorism, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption. Over time, their methodology has been refined, expanding the number of countries measured.

## Definitions

- i) Voice and accountability.** It captures perceptions about the degree to which citizens of a country can participate in electing their government, as well as freedom of expression, freedom of association, and the existence of a free media. This table lists the individual variables from each data source used to construct this measure.
- ii) Political stability and absence of violence/terrorism.** Measures the perceptions of the probability of political instability and/or politically motivated violence, including terrorism. This table lists the individual variables from each data source used to construct this measure in the Global Governance Indicators.
- iii) Government effectiveness.** It captures perceptions on the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to these policies.
- iv) Regulatory Quality.** It captures perceptions of the government's ability to formulate and implement sound policies and regulations that enable and promote private sector development.
- v) Rule of Law.** It captures perceptions of the degree to which agents have confidence in and abide by society's norms, and in particular the quality of the enforcement of contracts, property rights, the police and courts, as well as the probability of crime and violence.
- vi) Control of corruption.** It captures perceptions about the extent to which public power is exercised for private benefit, including both minor and major forms of corruption, as well as the "capture" of the state by elites and private interests.

Source: World Bank, *World Governance Indicators*, full information available on the page: <https://www.worldbank.org/en/publication/worldwide-governance-indicators>.

Ciocchini *et al.* (2003) was among the first scholars to formulate the question of the relationship between corruption indicators and the cost of borrowing for countries. More specifically, they analyzed the relationship between corruption indicators and the probability of a default. Their main finding is that global investors seek greater protection when doing business with countries that have low integrity indicators, and therefore, "countries perceived as having higher levels of corruption must pay a higher risk premium when issuing bonds." Their conclusion is that the level of corruption plays a significant role in determining risk, beyond the effects it may have on other aspects of the economy.<sup>66</sup>

Depken *et al.* (2006) analyzed the relationship between corruption and creditworthiness. First, they argue that corruption has the effect of displacing productive investment and innovation into the informal sector, and therefore outside the tax system that allows the state to collect revenue

<sup>66</sup> The second, equally important conclusion of these authors is that corruption impacts economic growth. The effect is not limited to an increased premium for the public sector. It also affects the borrowing costs for firms and the private sector.

to meet its obligations. This step, they point out, places a portion of the economy outside the tax system, the collection of which is necessary for debt repayment: “This implies that if sovereign debt is repaid with revenue from the formal sector, then the capacity to repay sovereign debt decreases with increasing corruption.”

This leads to the conclusion that public corruption reduces creditworthiness. These authors’ estimates indicate that “an increase of one standard deviation in corruption causes a drop in credit rating of almost a full category, on average. A rough calculation suggests that a decrease of one standard deviation in corruption can save a country approximately \$10,100 for every million US dollars of annual debt.”

Along the same lines, Connolly (2007) calculated, using panel data for 52 countries between 1993 and 2002, that a decline in the Transparency International Corruption Perceptions Index rating led to negative ratings of sovereign bonds (downgrade effect). Cooray *et al.* (2017) analyzed the relationship between corruption indicators (both those from Transparency International and the WGI) and public debt for 126 countries. They concluded that corruption increases public debt and pushes economic actors into the informal sector, reducing tax revenue.

Roncalli *et al.* (2021) analyzed how risk agencies consider environmental, social, and governance (ESG) indicators. These authors examined 267 indicators covering the three pillars of ESG. Their findings indicate that governance indicators carry significant weight. For example, indicators related to the transparency of fiscal information—including public accounts, official statistics, and audits—are viewed positively by investors and therefore carry a lower risk premium. According to these authors, the same is true for the government’s ability to ensure adequate provision of public services (effectiveness) and maintain sound public finances. Conversely, a lack of predictability in the passage of laws, inconsistencies in the regulatory framework, and similar governance problems create opportunities for corruption and are therefore penalized by investors.

Panizza (2017) states that “there is a strong correlation between sovereign ratings and each of the three commonly used corruption indicators.<sup>67</sup> While causality cannot be proven, the analysis shows that this correlation is robust when controlling for debt and external sustainability, macroeconomic stability, and the overall level of development. However, there are similar underlying factors driving measures of corruption, bureaucratic quality, investor protection, the rule of law, government effectiveness, and the strength of accountability mechanisms.”

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67 Panizza refers to the indicators of the International Country Risk Guide (ICRG), World Governance Indicators (WGI) and Transparency International. (YOU). See Panizza, 2017.

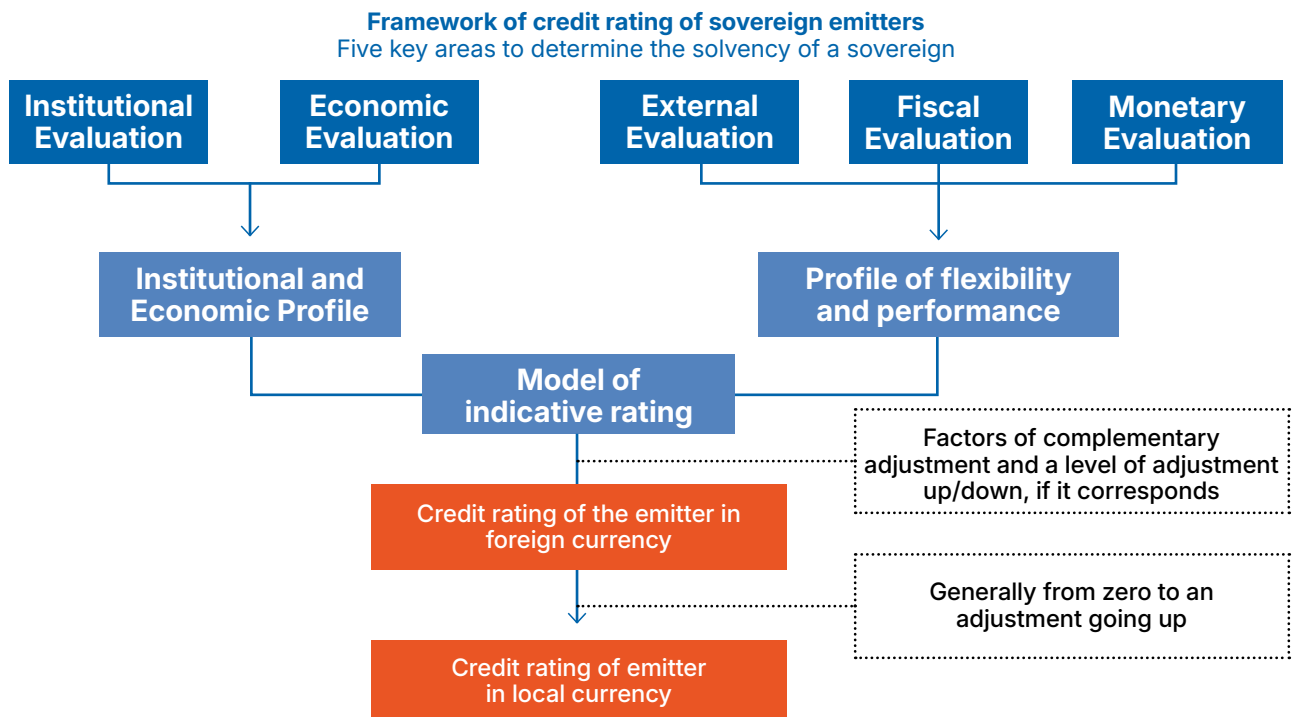
## 6.3 The methodology of risk rating agencies and transparency indicators

The three main credit rating agencies are Standards & Poor's (S&P), Fitch, and Moody's. Each of them has its own methodology for determining sovereign risk.

With the nuances inherent in their respective methodologies, **all three agencies agree that institutional issues affect sovereign risk ratings.** The first relevant point, then, is that their methodologies, despite their differences, incorporate significant considerations regarding the quality of institutions, governance, institutional capacity, transparency, integrity, and control of corruption.

For S&P, institutional assessment is one of the five pillars of its sovereign risk analysis methodology. According to its methodology, "Institutional assessment reflects our perspective on how a government's institutions and policymaking affect a sovereign country's credit fundamentals by ensuring sustainable public finances, promoting balanced economic growth, and responding to economic or political crises. It also reflects our perspective on the transparency and accountability of data, processes, and institutions..."

**FIGURE 6.3** Credit rating framework



Source: Translation of S&P Global Ratings 2017.

**The institutional evaluation includes:**

- ◆ The effectiveness, stability, and predictability of its public policy process and political institutions, and
- ◆ The transparency and accountability of its institutions, data and processes, and the coverage and reliability of its statistical information.

**Regarding this last point, S&P specifically analyzes:**

- ◆ The existence of checks and balances between institutions
- ◆ The perception of the level of corruption in a country, which is strongly correlated with the accountability of its institutions
- ◆ The application of contracts in a neutral manner<sup>68</sup> (unbiased) and respect for the rule of law, which directly correlates with respect for the interests of creditors and investors, and
- ◆ The independence of statistical agencies, the media, and the history of review and adjustment of statistical information, as measures of transparency and trust in this information.

Fitch's methodology is based on four structural pillars, one of which analyzes the "structural characteristics of the economy that make it more or less vulnerable to shocks, including risks posed by the financial sector, political risk and governance factors":

### Analytical pillars of Fitch's methodology

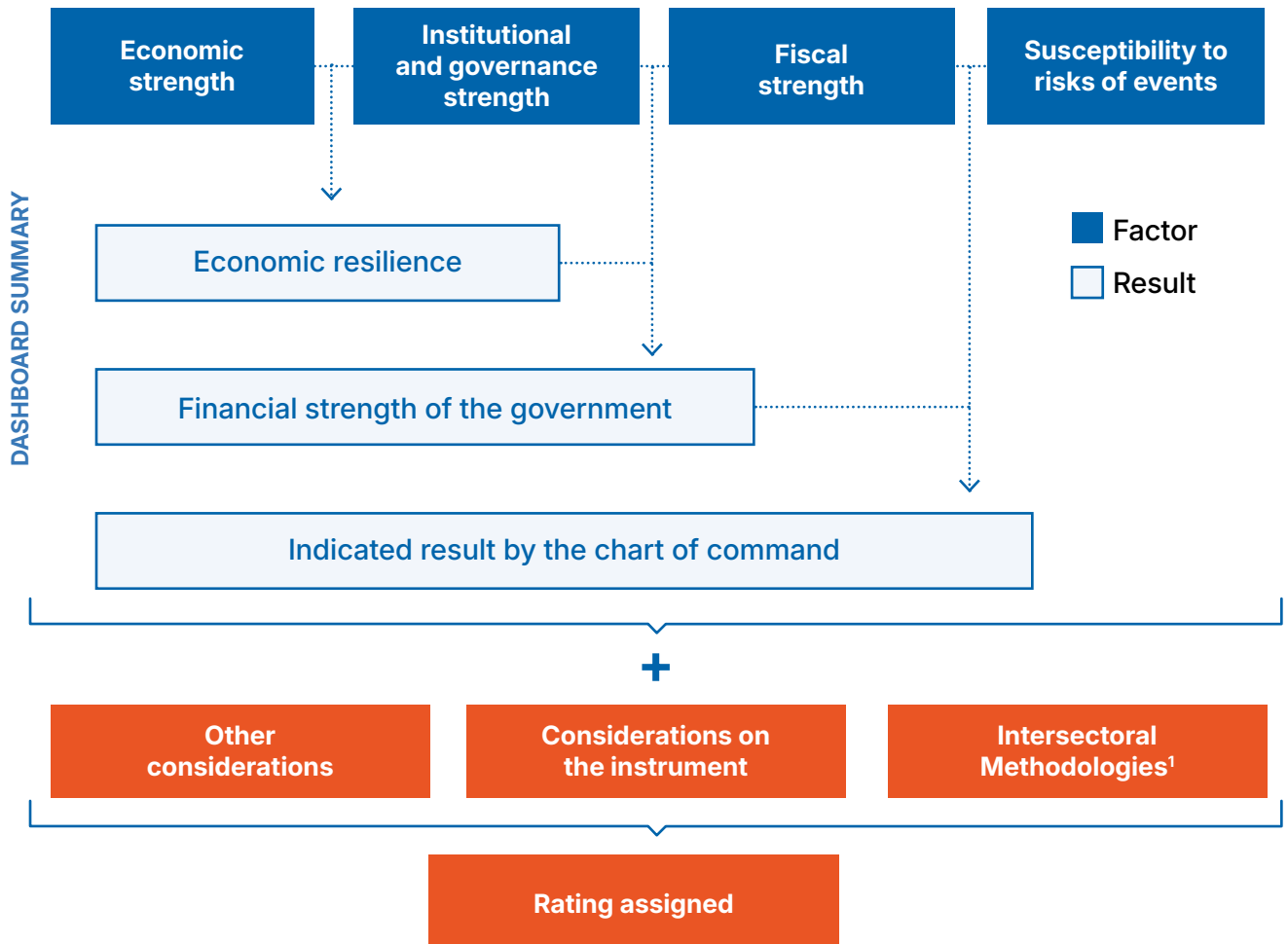
Fitch's approach to sovereign rating analysis is an assessment of the following four analytical pillars, which inform the sovereign's creditworthiness:

- ◆ Structural features of the economy that make it more or less vulnerable to shocks, including risks posed by the financial sector, political risk, and governance factors.
- ◆ Macroeconomic performance, policies and outlook, including growth prospects, economic stability and policy coherence and credibility.
- ◆ Public finances, including budget balances, the structure and sustainability of public debt and fiscal financing, and the probability of contingent liabilities crystallizing.
- ◆ External finances, including the sustainability of current account balances and capital flows, external liquidity, and the level and structure of external debt (public and private).

<sup>68</sup> This point largely coincides with the definition of the rule of law (Rule of Law) used by the International Monetary Fund (IMF): "Rule of Law—The focus would be on those aspects of the rule of law that relate to the protection of property and contractual rights, including the predictability and timeliness of the enforcement of those rights." IMF Policy Paper Review of 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement, 2018.

Moody's methodology, on its side, also incorporates a pillar on institutional strength and governance, defining it as follows: "Governance relates to the framework and processes through which decisions are made and corresponding actions are carried out. Governance is directly integrated into the 'Strength of Institutions and Governance' factor and can influence a sovereign's economic and fiscal strength and susceptibility to event risk.

**FIGURE 6.4** Methodological framework



<sup>1</sup> Some of the methodological considerations described in one or more cross-sector rating methodologies may be relevant to the ratings in this sector. A link to the list of our sector-specific and cross-sector methodologies can be found in the "Moody's Related Publications" section.

Source: Own translation based on Moody's Investors Service.

For example, strong governance mitigates susceptibility to event risk. It also contributes to greater growth potential and fiscal strength. As described in this agency's methodology, the cross-sectoral ESG approach, the assessment of institutional strength, and governance determine a sovereign issuer's governance profile score.

## Moody's Methodology

Moody's considers two specific sub-factors in the area of institutional strength and governance. The first refers to the quality of the legislature and the executive branch. The second refers to the strength of civil society and the judiciary.

The quality of the executive and legislative branches is best defined by the following parameters:

- i.** The development and adoption of rules happen within a well-developed constitutional framework that is transparent and predictable.
- ii.** The data sets are timely, stable, and comprehensive, and cover all levels of government (central, regional, local, and social security).
- iii.** Politically independent public agencies, such as fiscal councils, have significant influence on the policy-making process.

In turn, the strength of civil society and the judiciary responds to the following parameters, always taking its maximum possible expression according to the (agency's) methodology:

- i.** The WGI indicator for "voice and accountability", "rule of law" and "control of corruption" has a rating of more than 1.5.
- ii.** Law enforcement is highly predictable and consistent, including when it affects the government.
- iii.** An effective balance of power and separation of powers between the branches of government is consistently and reliably maintained, and judicial independence is upheld and respected.
- iv.** There are few cases of corruption that negatively impact the sovereign's credit profile.
- v.** Judicial processes, compliance with contracts, and the timely resolution of legal cases.
- vi.** Civil society institutions constantly act as an effective check on the exercise of governmental power.

The second point to consider is which indicators are used in the methodologies of credit rating agencies regarding institutional performance. Not all of them incorporate the data from the WGIs analyzed in the previous section.

Following Panizza (2017) "The methodology used by Standard & Poor's is largely qualitative. ... but the methodology does not specify a precise quantitative mapping between any specific corruption indicator and the final score of the institutional evaluation."

Moody's uses the WGI Indicators' control of corruption indicator as part of its institutional strength rating factor. Fitch also includes control of corruption in its institutional assessment... Fitch applies a quantitative mapping between the WGI and the overall structural pillar score.

Despite these differences, as Panizza (2017, 2019) argues, there is sufficient evidence that the main governance indicators, and especially those of corruption, "are closely correlated with sovereign ratings."<sup>69</sup>

## 6.4 Reforms in Paraguay on transparency and integrity



Transparency and integrity reforms in Paraguay have some positive characteristics. The first is that they are not sporadic or recent responses. In general, it is possible to identify a medium- and long-term trajectory (see **table 6.1**), sustained over time and across different administrations. The second is that in most cases they are incremental, even if the increase is not always significant, is not perfectly aligned with the technical requirements of the respective international standard, or even shows some regression.<sup>70</sup> Third, a significant portion of the transparency and integrity reforms of the last decade are preventive in nature and are aligned with the provisions of the international treaties and standards mentioned previously. Finally, to develop, implement, and measure the impact of several of these reforms, Paraguay strategically sought the support of multilateral organizations, especially the Inter-American Development Bank (IDB), as well as the World Bank, the International Monetary Fund (IMF), and the Andean Development Corporation (CAF), to access comparative experiences and technical assistance aligned with transparency and integrity policies.

This is not the first time Paraguay has adopted a reform strategy with these characteristics. In fact, the country carried out a similar reform process regarding financial and fiscal transparency, aligned with the implementation of the Financial Action Task Force (FATF) Standards.<sup>71</sup> The latest set of reforms, with a similar approach to the one described here, allowed Paraguay to successfully pass the mutual evaluation of its compliance with these Standards. This suggests that the country understands the value of aligning its reforms with international standards.<sup>72</sup>

Without constituting a complete analysis of all the transparency and integrity reforms adopted by Paraguay, we list those that are most significant and

69 Panizza also provides a correct description of the main technical aspects of the methodologies used by the three rating agencies, including quantitative and qualitative elements where applicable. These issues are not specifically addressed in this chapter.

70 The recent approval of Law 7395/2025 on the Protection of Personal Data has been pointed out by some as a potential risk of limiting access to information. This law fills a legal void in the country, which had yet to regulate this matter.

71 For an explanation of these reforms and the recent results achieved by Paraguay, see IDB Support for the Prevention and Combat of Money Laundering and Terrorist Financing in Latin America and the Caribbean - The Case of Paraguay by Roberto de Michele and Maria Cecilia Álvarez Bollea, in Central Bank of Paraguay, Paraguay Commitment to Effectiveness: Current Aspects of the Anti-Money Laundering and Counter-Terrorist Financing System, Asunción, March, 2021.

72 GAFILAT approves mutual evaluation of Paraguay, Central Bank of Paraguay, News, July 28, 2022.

aligned with the governance parameters taken into account by risk rating agencies and the main transparency and integrity indicators discussed in this chapter.

**TABLE 6.1** Main reforms on transparency and accountability in Paraguay

Thematic Category	Main Reforms and Instruments	Expected Institutional Results
<b>1. Transparency, access to information and accountability</b>	<ul style="list-style-type: none"> <li>◆ Law on Access to Public Information (5282/2014)</li> <li>◆ Citizen Accountability Manual (Decree 2991/2019)</li> <li>◆ Citizen Budget (since 2020)</li> <li>◆ COVID-19 Transparency Portal (Law 6524/2020)</li> <li>◆ MapalInversiones Platform</li> </ul>	<ul style="list-style-type: none"> <li>◆ Greater citizen access to fiscal information</li> <li>◆ Improved traceability of public spending</li> <li>◆ Strengthening of social and journalistic oversight</li> <li>◆ Reduction of information asymmetries</li> </ul>
<b>2. Public integrity, ethics and corruption prevention</b>	<ul style="list-style-type: none"> <li>◆ Conflict of Interest Law (7089/2023)</li> <li>◆ Amendments to Law 7236/2024</li> <li>◆ Law 7389/2024 (National Integrity and Transparency Regime)</li> <li>◆ Creation of the CNA</li> <li>◆ Strengthening of the role of the CGR</li> <li>◆ Regulations on asset declarations and the “revolving door”</li> </ul>	<ul style="list-style-type: none"> <li>◆ More robust preventative framework</li> <li>◆ Less administrative discretion</li> <li>◆ Better controls over assets and conduct</li> <li>◆ Greater regulatory consistency in public integrity</li> </ul>
<b>3. Modernization of the public procurement system</b>	<ul style="list-style-type: none"> <li>◆ Public Procurement and Supply Law (7021/2022)</li> <li>◆ Regulatory Decree 9823/2023</li> <li>◆ Mandatory Electronic Tender Documents (4118/2019 and 1116/2025)</li> <li>◆ SICP System</li> <li>◆ Expansion of the State’s Virtual Store</li> <li>◆ Early Warning System (Machine Learning)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Greater competition and efficiency in procurement</li> <li>◆ Reduced risk of corruption</li> <li>◆ Digitization of processes</li> <li>◆ Complete traceability of the procurement cycle</li> </ul>
<b>4. Fiscal management, financial administration and expenditure control</b>	<ul style="list-style-type: none"> <li>◆ Fiscal Responsibility Law</li> <li>◆ Financial Modernization of the State</li> <li>◆ Transparency in COVID-19 Implementation</li> <li>◆ Taxation–Customs Integration</li> <li>◆ Digital Spending Monitoring Tools</li> </ul>	<ul style="list-style-type: none"> <li>◆ Strengthening fiscal discipline</li> <li>◆ Improved revenue collection and control</li> <li>◆ More reliable information for authorities and investors</li> </ul>
<b>5. Civil service reform and professionalization of the State</b>	<ul style="list-style-type: none"> <li>◆ Public Service and Civil Service Law (7445/2025)</li> <li>◆ System of public managers through competitive examinations</li> <li>◆ Access to public employment by merit</li> <li>◆ Certification of State purchasers (71%)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Reduced political discretion in appointments</li> <li>◆ Greater stability and professionalization of the civil service</li> <li>◆ Improved capacity to implement public policies</li> </ul>

Thematic Category	Main Reforms and Instruments	Expected Institutional Results
<b>6. State organization and institutional strengthening</b>	<ul style="list-style-type: none"> <li>◆ Law on the Administrative Organization of the State (7278/2024)</li> <li>◆ Tools to regulate the creation of structures and positions</li> <li>◆ Institutional reorientation towards mission mandates</li> </ul>	<ul style="list-style-type: none"> <li>◆ Optimization of the size and structure of the Executive Branch</li> <li>◆ Greater organizational coherence</li> <li>◆ Reduction of redundancies and unnecessary administrative structures</li> </ul>
<b>7. Public innovation and strategic use of digital technologies</b>	<ul style="list-style-type: none"> <li>◆ Investment Map (investment visualization)</li> <li>◆ Early warning system in public procurement</li> <li>◆ Data analysis policies at DNCP</li> <li>◆ Digitization of the procurement cycle</li> </ul>	<ul style="list-style-type: none"> <li>◆ Greater operational efficiency</li> <li>◆ Real-time access to public information</li> <li>◆ Early detection of anomalies</li> <li>◆ Analytical capabilities based on official data</li> </ul>

Many of these policies and reforms were included in programs financed by the IDB and supported through complementary technical assistance that collaborated either in the preparation of the reforms, with technical studies or with the impact evaluation of them.

In 2017, Paraguay launched the program “Productive Paraguay: Transparency and Financing” in which it stated that “Transparency and institutional quality are key to the adequate provision of public services and constitute a fundamental part of establishing a business climate that encourages investment and supports the development of the private sector.”

Some of the measures implemented with the support of this program included (i) the adoption of a monitoring tool for the implementation of Law 5282/14 on “Free Access to Public Information and Government Transparency”; and (ii) the submission to Congress of a bill to eliminate bearer shares. Demonstrating how to combine transparency and long-term financing, the program also included the review and updating of the insolvency regime, with particular attention to creditors’ rights.<sup>73</sup>

Between 2019 and 2021, Paraguay decided to move forward with a new programmatic series called Support for the Transparency Agenda.<sup>74</sup> The objective of this series of reforms was to contribute to greater transparency in Paraguay through improvements in: (i) the effectiveness of access to public information; (ii) the efficiency of public resource management; and (iii) the effectiveness of financial supervision.

The focus of the reforms went to the core of what interests us in this chapter: the strengthening of institutional capacity in the use of public resources and in particular with regulations related to public procurement and the use of digital technologies to increase transparency in the use of resources.

Among other reforms supported by the program, Paraguay adopted Decree 2991/2019, which includes the Citizen Accountability Manual. This also involved the implementation of electronic bidding documents for the acquisition of goods, in accordance with DNCP Resolution No. 4118/2019,

<sup>73</sup> These transparency and integrity reforms were supported by the Inter-American Development Bank through the Productive Paraguay Program: Transparency and Financing, PR-L1144.

<sup>74</sup> See “Program to Support the Transparency Agenda in Paraguay I,” PR-L 1161.

in at least 25% of the ministries under the Executive Branch. Furthermore, it included the implementation of the SICP Contract Tracking System, in accordance with DNCP Resolution No. 1700/2019, in at least 50% of State agencies and entities. The information required by this Manual is updated annually and can be accessed through the Ministry of Finance's Open Data Portal: <https://www.mef.gov.py/es/rendicion-de-cuentas-2024>.

Public procurement reforms received continued support from the Inter-American Development Bank (IDB) through the State Transformation Support Program (2022-2024), with steady and rapid progress over time, even through changes in government. Months after the Public Procurement and Supply Law was adopted, the Presidency of the Republic issued its regulations through Decree No. 9823/2023. This decree confirms the main operational aspects of Law 7021/2022, and in particular the responsibility of the National Direction of Public Procurement (DNCP) as the governing body of the system. It is important to note that regulations in this area are constantly evolving. This evolution is evident, among other aspects, in the use of technology to increase transparency and efficiency in public procurement.

One example is the resolutions related to the electronic bidding documents, which were periodically reviewed. The latest update was the adoption of DNCP Resolution No. 1116/2025. This Resolution, which also regulates Law 7021/22, maintains the mandatory use of standard bidding documents in electronic format by State agencies and entities, publicly traded companies with majority State ownership, and municipalities.

Paraguay went beyond the original design of the program it prepared with the IDB, implementing measures that were partly driven by the COVID-19 pandemic. First, the implementation of the Citizen's Budget starting in the 2020 fiscal year through the publication of a link on the Ministry of Finance's website. Second, the adoption of a Policy for the Analysis and Intelligent Use of Data in public procurement by the National Direction of Public Procurement (DNCP).

A key decision by Paraguay was the inclusion of a chapter on transparency and accountability in Law No. 6524/2020, which declares a State of emergency throughout the territory of the Republic of Paraguay due to the pandemic declared by the World Health Organization caused by Covid-19 or Coronavirus, and establishes administrative, fiscal, and financial measures.

Chapter IV of this Law established a set of transparency measures, including the creation of an online portal with information on the budget execution of state-owned enterprises during the emergency period. This latter measure is related to a transparency and integrity initiative implemented by Paraguay that was a pioneer in the region: the georeferenced platform Mapainversiones.<sup>75</sup>

<sup>75</sup> For more information about this platform, how to access it, impact studies, and models in different countries, see <https://www.iadb.org/es/quienes-somos/topicos/modernizacion-del-estado/mapainversiones>. See also Kahn, T., Baron, A., and Vieyra, J.C. Digital Technologies for Transparency in Public Investment, IDB Discussion Paper No. IDB-DP-634.

## MapalInversiones

MapalInversiones is an interactive digital platform developed by the Inter-American Development Bank that promotes transparency in public spending, investments, and procurement. The platforms are operated by the countries themselves.

Through an ecosystem of digital solutions—including platforms with interactive visualizations, dynamic maps, data repositories, citizen participation tools, AI-powered chatbots, and red flag systems—MapalInversiones transforms large volumes of information on budgets, investments, and public procurement into clear and accessible data. This information is collected and processed with two central objectives: to strengthen accountability to citizens and to support public officials in making more informed, evidence-based decisions.

The platforms are a powerful accountability tool. They allow anyone to know which entity receives public funds, how much it receives, for what purpose, and where within the country. They also offer the ability to explore data by entity, project, or location, download complete datasets, integrate them into their own applications, and even contribute to open source by developing new solutions. In this way, journalists, researchers, activists, public officials, and ordinary citizens can monitor, audit, and actively participate in overseeing public spending.

The arrival of COVID-19 marked a turning point in the region and opened a new chapter for MapalInversiones. In Paraguay, following the enactment of the Health Emergency Law in March 2020, the platform was expanded to show the execution of emergency funds. Comprehensive data from ministries and secretariats was integrated, with visualizations of subsidies, contracts, and expenditures, allowing citizens to exercise direct, real-time control over the use of resources.

A relevant issue that connects the transparency agenda with the efficient use of State resources is the early fraud warning system. Several authors (Fazekas 2021, Open Contracting Partnership 2015, Decarolis 2019) have identified the importance of using technology to prevent irregularities in public procurement. With support from the IDB, Paraguay developed and implemented a red flag solution for public procurement. This system has several aspects that distinguish it from other fraud alert systems. It operates using official data and allows for the ex-ante detection of irregularities through the application of rule-based algorithms and machine learning. Therefore, the main feature of this tool is that it helps public officials detect potential anomalies and act in real time before an irregular event occurs.<sup>76</sup>

Almost simultaneously with the completion of the transparency program series, Paraguay, with IDB support, began developing another program series focused on Support for State Transformation (with operations approved in 2022 and 2023). The overall development objective of the program is to improve the effectiveness of the public sector by: (i) increasing the efficiency of public management; (ii) increasing the effectiveness of

<sup>76</sup> For a description of this application, see Michele, R and Vieyra S., From Fishing to Capture: How to Develop Actionable Red Flags in Public Procurement to Prevent and Control Corruption. IDB, Technical Note No. IDB-TN-2598.

public management; and (iii) improving the integrity and transparency of public management.

This programmatic series consolidated support for a series of reforms, this time placing more emphasis on those more traditional issues of public management, including the issues of State organization (Law No. 7.278 Regulating the Administrative Organization of the State of May 2024), the civil service (Law No. 7.445 On Public Function and Civil Service of January 2025), and public procurement and supply management (Law No. 7.021 On Supply and Public Procurement of December 2022).

The transparency and integrity agenda, as has been explained many times, is cross-cutting to public procurement. It is in this area that significant volumes of budget execution occur. In Paraguay, public procurement represents more than 60% of public spending and is directly associated with improved use of public resources and, therefore, with fiscal sustainability, as measured by governance indicators and rating agencies.<sup>77</sup>

In organizational structures, the law regulates the creation of new structures, providing the Ministry of Economy and Finance with tools to more objectively control the creation of organizational structures and high-level hierarchical positions in institutions, prioritizing structures that respond to the mandate of the institutions and reducing administrative structures, thus promoting a more efficient size of the Executive Branch in the medium and long term and a less discretionary use of structures.

Substantial progress was also made in public procurement and in the application of the Public Supply and Contracting Law.

This law defines the guiding principles of the system as fiscal responsibility, economy, effectiveness and efficiency, equality and free competition, impartiality, integrity and good faith, transparency and publicity, and probity and ethics, among others.<sup>78</sup> It also includes innovative aspects, such as the issue of beneficial owners, which is critical not only for tax reasons, but also to ensure that the owners of bidding firms do not have conflicts of interest or are subject to more serious restrictions, such as those involving people linked to organized crime.<sup>79</sup> The Law also contains a special chapter on the prevention of conflicts of interest in order to guarantee the impartiality of the procurement process.

In the area of public procurement, progress was also made in the certification and training of 71% of State buyers, a significant expansion was recorded in the number of goods available in the DNCP virtual store (from 390 in 2020 to 856 in 2022) and the percentage of competitive processes with more than one bidder went from 58% in 2020 to 74% in 2022.

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<sup>77</sup> See Lafuente, M. Doing more with less: How to improve the efficiency of human resource spending in the public sector? In Naranjo Bautista *et al*, Strengthening the capacities of the State for a strategic, meritocratic and inclusive management of the civil service in Latin America and the Caribbean. IDB, 2024. Lafuente highlights the relationship between these civil service policies and fiscal stability, again related to the issues that risk rating agencies take into account.

<sup>78</sup> In the area of public procurement, Paraguay also had support from the World Bank through the "First Economic Management Program", which among other components included complementary measures, emphasizing the fiscal savings that these reforms bring.

<sup>79</sup> See Global Forum on Transparency and Exchange of Information for Tax Purposes: Building Effective Beneficial Ownership Frameworks, A Joint Manual of the Global Forum and the IDB, 2022.

Regarding supplies, the implementation of a pilot program for the Integrated System for the Administration of Goods and Services (SIAByS) has begun. This system will allow for the visualization of the entry of assets into the State's patrimony from the moment of receipt, automate inventories in real time, and provide advance knowledge of the commitments required to pay suppliers.

The programmatic series for State transformation also introduced two central themes for the transparency and integrity agenda. On the one hand, the adoption of a new public ethics regime, through the approval of the Law Establishing the Regime for the Prevention, Correction, and Sanction of Conflicts of Interest in Public Service (Law No. 7,089 of 2023), and on the other hand, the implementation of a digital application under the DNCP system to detect early warnings of fraud in public procurement.

Let's look first at the reforms related to public ethics.

Paraguay had a set of provisions related to public integrity of varying degrees and with different implementing bodies. Furthermore, the Constitution of the Republic establishes that the main functions of administrative oversight are the responsibility of the General Comptroller of the Republic (CGR), including the submission of asset declarations by public officials.

Given this background, the recent reforms related to the regulation of public ethics were defined in two phases. In November 2023, Law 7089 was passed. Two concrete results of this law were, first, to organize a set of regulations that were previously scattered or secondary, thus achieving greater regulatory coherence. Second, it introduced innovative measures for Paraguay regarding public integrity, especially concerning conflicts of interest, including those known as "revolving door" conflicts.<sup>80</sup> Accountability and the system of sworn statements by public officials. This law also made progress in the area of inter-institutional coordination and the confirmation of the General Comptroller's Office as the central body for implementing public integrity measures.

A second law, Law No. 7236/2024<sup>81</sup> modified some aspects of Law No. 7089/2023 regarding the regulation of conflicts of interest, relativizing the scope, although it maintained the institutional definition of the CGR as the implementing body.

The third step in public integrity is Law 7389/2024, which establishes the National Regime of Integrity, Transparency and Prevention of Corruption of the Republic of Paraguay, approved in December 2024.

80 "Revolving door" conflict of interest regulations refers to situations involving background information (investments, previous employment, etc.) before assuming public office and any future employment after leaving public service. These regulations are also known as ex-ante and ex-post conflict of interest regulations and are increasingly common in advanced comparative law.

81 The full name is "Law That Modifies Several Articles of the Law No. 7089/2023 'That Establishes the Regime for the Prevention, Correction and Sanction of Conflicts of Interest in the Public Function' and Repeals Articles 24, 25, 26 and 38." Among the aspects that were modified are the elimination of post-employment conflict of interest rules (known as revolving door rules), the possibility of signing integrity agreements, and other remedies that made the reformed Law an instrument more in line with best practices and international standards.



This law confirms the primary responsibility of the Comptroller General's Office (CGR) as the state's governing body for promoting and implementing integrity policies across all three branches of government. It places the enforcement of integrity policies for public officials under the CGR's responsibility, beginning with the regulation of conflicts of interest and the filing of asset declarations.<sup>82</sup> It also regulates access to information, in addition to its own responsibilities as the state's supreme audit institution. The new law also organizes procedures related to complaints of misconduct by public officials, introduces collaboration with the private sector and civil society, and defines the creation and coordination of transparency and anti-corruption units within public institutions.

The law also creates the National Anti-Corruption Council (CNA), which will be composed of representatives from all three branches of government: a representative from the Supreme Court of Justice, a representative from each chamber of the National Congress, the Civil Cabinet of the Presidency of the Republic, the Public Prosecutor's Office, and the Comptroller General's Office. In other words, it establishes a mechanism for public integrity that involves all branches of government.

Shortly after taking office, President Peña Nieto commissioned the development of an anti-corruption strategy. In November 2023, the government released the National Strategy to Combat Corruption (ENCC). This document recognizes the importance of coordinated and collaborative work among the branches of government, so that the proposals "permeate the various State entities involved in the ENCC, as well as the subnational level, particularly in the provision of public services where citizens perceive not only inefficiency but also corruption."

The strategy also acknowledges that current efforts build upon those of previous governments. Specifically, the National Strategy for Transparency and Integrity (ENCC) recognizes the incremental and sequential nature of transparency and integrity reforms "aimed at improving the performance of the State and public policies: Results and impacts are strengthened and consolidated to the extent that the strategy, on the one hand, connects with structural processes in which the country has made progress and, on the other hand, with the implementation of performance criteria that show that policies are implemented, function, and are recognized for their relevance, quality, and effectiveness by social actors and the private sector, the final beneficiaries of the effort."

In summary, **Table 6.1** presents a thematic systematization of the main transparency, integrity, and State modernization reforms implemented in Paraguay over the last decade. Its objective is to offer a structured overview of the areas of intervention, the legal and operational instruments adopted, and the institutional outcomes these measures aim to generate. The classification allows for the identification of patterns of continuity, gradual

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82 Regarding the relationship between public integrity policies and trust, see De Michele, R. "Trust in the State and the Integrity of Public Officials," in *Better Governments for Better Lives: Strengthening State Capacities for Strategic, Meritocratic and Inclusive Management of the Civil Service in Latin America and the Caribbean*, Chapter 6. Regarding the use of digital systems to submit asset declarations, see also *E-filing Asset Declarations: Benefits and Challenges*, World Bank, 2019.

implementation, and alignment with international standards, as well as a concise understanding of how these reforms contributed to strengthening public governance and improving the country's standing in international markets and with credit rating agencies.

This point is important, as we will see below, for the analysis that rating agencies make about the continuity and sustainability of the reforms.

## 6.5 Investment grade: transparency and integrity reforms and Moody's decision

Moody's awarding Paraguay an investment grade rating is far from being an isolated event; it is the result of a sequence of analyses and decisions that highlighted aspects of governance, transparency, and integrity.

In June 2020, Moody's, in its Rating Action document, noted that "Moody's assessment reflects Paraguay's World Governance Indicator scores, weighted by the effectiveness of macroeconomic policies. The approval of several laws, including the Fiscal Responsibility Law, the Law for the Modernization of State Financial Administration, and the Public-Private Partnerships Law, as well as new proposals to improve the effectiveness of economic policy, indicate an improvement in the regulatory framework."<sup>83</sup>

In July 2022, the agency changed the rating from stable to positive. At this milestone, the recognition of the transparency and integrity reforms is more explicit. This document provides a clearer understanding of the reforms identified in the preceding section and their significance for the sovereign risk rating.

"The government has submitted several bills to Congress to address the country's institutional shortcomings. The proposals include structural reforms to the civil service, the social security system, the public procurement system, and a strengthened fiscal responsibility law... The proposed civil service reform seeks to regulate and control public sector payroll spending and improve its overall efficiency... The new public procurement law would help reduce the costs of government purchases of goods and services, while increasing the efficiency and transparency of the process."<sup>84</sup>

Simultaneously with issuing this rating, the agency released what is known as a Credit Opinion. In it, the agency anticipates that "The rating would improve if structural reforms related to public administration, the public pension fund, and public procurement were approved and implemented. These reforms would strengthen the country's institutional and governance framework, thereby improving Paraguay's overall credit profile."<sup>85</sup>

83 Rating Action: Moody's affirms Paraguay's Ba1 ratings; maintains a stable outlook, 26 June, 2020.

84 Rating Action: Rating Action: Moody's affirms Paraguay's Ba1 ratings; changes outlook to positive from stable, 22 July 2022.

85 Credit Opinion, Moody's Investors Service, 22 July 2022.



In its annual report, Moody's analyzes Paraguay's economic challenges and reiterates that—despite governance challenges—recent reforms demonstrate efforts to strengthen institutional capacities: “The civil service reform seeks to modify its promotion structure, regulate and control salary expenditures, and implement institutional restructurings that reduce administrative tasks. It also aims to reorganize the executive branch structure to avoid duplication of functions, facilitate coordination, and redirect efforts toward priority areas, in order to provide better service to citizens. The reorganization includes improving the public procurement process to ensure that the state's demand for goods is met in a timely, efficient, and transparent manner.”<sup>86</sup>

The next relevant document is the Credit Opinion from February 2024. There, the firm indicates that, while some governance indicators do not show the desired progress, “In recent years, the government has also submitted bills to Congress to address some of Paraguay's major institutional weaknesses. The structural reform proposals relate to the public procurement system, the civil service, the social security system, and further improvements to the fixed-income system. Furthermore, the government's track record of sound fiscal management indicates a higher degree of government effectiveness than the country's governance indicators alone would suggest.”

Finally, in July 2024, Moody's awarded Paraguay an investment-grade rating and stated: “Successive governments have prioritized institutional reforms to strengthen the effectiveness of fiscal policy, public institutions, and the control of corruption. A track record of implementing institutional reforms, coupled with Paraguay's sound monetary and fiscal policy frameworks, supports our assessment of improved institutions and strong governance.”<sup>87</sup>

Upon closer examination of this document, we see that the agency reports the following: “To achieve greater efficiency in the planning and implementation of public policies, the government approved a new public procurement law; it also established a unified agency that combines the national tax administration and customs to strengthen and optimize revenue collection and management. The merger and other administrative changes have facilitated information sharing and strengthened the effectiveness and efficiency of public policy implementation. Additional efforts are underway to improve the structure of the public administration and civil service, as well as the management of social programs. These measures will contribute to improving government effectiveness and controlling corruption in the provision of public services.”<sup>88</sup>

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<sup>86</sup> Paraguay, Annual Issuer Analysis, Moody's, December 5, 2023.

<sup>87</sup> In October 2025, Fitch Ratings issued a rating action, classifying Paraguay's outlook from “stable” to “positive.” This generally favorable opinion points to governance indicators as an area for improvement, as these face greater challenges compared to other macroeconomic indicators.

<sup>88</sup> Rating Action: Rating Action: Moody's Ratings upgrades Paraguay's ratings to Baa3, changes outlook to stable from positive, July 24, 2024.



## 6.6 Transparency and Integrity Reforms: A Dynamic Agenda

In this chapter, we have outlined the relationship between institutional quality, transparency, integrity, and economic development. We reviewed the main indicators that measure these issues and analyzed how credit rating agencies incorporate these reforms and their respective indicators into their sovereign risk assessments. We reviewed the main institutional reforms for transparency and integrity adopted by Paraguay, which are associated with Moody's statement recognizing that "these reforms have promoted transparency and modernization of public finances" and which is part of the investment-grade rating. We also noted how this rating agency closely monitors the evolution not only of the main governance indicators, but also specific reforms related to transparency and integrity in public administration. The documents analyzed make it clear that the type of reforms is relevant, but so is the distinction between intentions and reality. Moody's has explicitly considered not only the process of drafting and submitting legal reforms but also their approval and implementation.

If we may use a metaphor to explain this process, when a country achieves investment grade, it's similar to being promoted to the first division in football. As everyone knows, that status is achieved through hard work and perseverance and is not guaranteed in any league. Few clubs have escaped relegation, and those that have remained in the first division can move up and down the table and even be relegated again.

With this we want to remind everyone that in matters of transparency and integrity it is necessary to constantly measure the degree of impact of policies, review them and adjust them according to the risks and challenges that are identified.

This approach to the issue will ensure that the achievement, for the benefit of Paraguay's economy, is always guided by the spirit of improvement and advancement.

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