Paraguay Business Hub

Paraguay in 2026: Why Macroeconomic Stability Is Becoming an Investment Advantage

For many years, the international investment case for Paraguay was relatively easy to summarize: abundant hydroelectric power, competitive taxation, agricultural strength, low operating costs and privileged access to the Brazilian and Argentine markets through Mercosur.

That description remains broadly valid, but it is no longer sufficient.

The more interesting development taking place in 2026 is that Paraguay is gradually acquiring something more difficult to reproduce: **institutionalized macroeconomic credibility combined with an increasingly diversified productive base**. For investors accustomed to regarding South America as a region where attractive returns must be balanced against recurring monetary, fiscal and political instability, this combination deserves attention.

Paraguay is still a relatively small economy. It faces infrastructure bottlenecks, informality, logistical disadvantages and institutional challenges. It should therefore not be presented as a frictionless investment destination. Yet the direction of travel is noteworthy.

Growth is becoming broader

Paraguay entered 2026 after a particularly strong 2025. The Central Bank currently reports 6% real GDP growth for 2025 and projects approximately **4.5% growth in 2026**. The IMF's June 2026 assessment is only slightly more cautious, forecasting 4.4% growth this year and average medium-term growth of around 3.8%. Banco Central del Paraguay

More important than the headline number is the composition of activity.

The traditional image of Paraguay as overwhelmingly dependent upon soybeans, livestock and the electricity generated by its large binational hydroelectric facilities is becoming dated. Agriculture remains fundamental, but services, manufacturing, construction and domestic investment have acquired greater weight.

The IMF specifically points to strong private consumption and investment as drivers of the current expansion. Paraguay has also been comparatively insulated from international energy shocks because its electricity generation is renewable, while favorable agricultural production has supported the external sector. IMF

This diversification matters to investors. Economies dominated by a narrow range of commodities tend to transmit external price shocks rapidly into public finances, currencies and domestic demand. A broader productive structure does not eliminate volatility, but it can reduce its intensity.

Inflation and monetary credibility

Macroeconomic stability is particularly visible in inflation.

Annual inflation stood at only 1.6% in July 2026, while the Central Bank's current full-year projection is approximately 3.3%. The BCP operates an inflation-targeting framework with a medium-term target of 3.5%, and private-sector expectations surveyed by the institution remain anchored around that level for both 2026 and 2027. Banco Central del Paraguay

For a foreign investor, this is not an abstract monetary achievement. Predictable inflation reduces uncertainty when negotiating wages, leases, long-term supply contracts and financing. It also makes multi-year business planning considerably easier.

Exchange-rate flexibility remains part of the Paraguayan framework, meaning that currency risk does not disappear. But the IMF has expressly highlighted the combination of credible inflation targeting, flexible exchange rates and substantial international reserves as one of the economy's strengths. IMF

The BCP reported international reserves of roughly US$11.5 billion in early August 2026, providing an additional external buffer. Banco Central del Paraguay

Investment grade changes the conversation

One of Paraguay's most important recent achievements has been its progression into investment-grade sovereign territory.

The IMF noted in June that Paraguay had obtained investment-grade status from two major rating agencies and that sovereign spreads had fallen to among the lowest levels in the region. Moody's subsequently reaffirmed Paraguay's Baa3 sovereign rating with a stable outlook in July. IMF

Investment grade does not automatically cause foreign companies to build factories or establish regional headquarters. But it changes the financial environment in which those decisions are taken.

A stronger sovereign credit profile can eventually translate into lower financing costs, a wider institutional investor base and more favorable perceptions of country risk. It is particularly relevant for infrastructure, energy, forestry, industrial and real-estate projects whose economics depend on long investment horizons.

It also differentiates Paraguay within a region where sovereign volatility has frequently complicated private-sector capital allocation.

Foreign direct investment remains underdeveloped — which is part of the opportunity

An important qualification is necessary: Paraguay is not yet receiving foreign direct investment on the scale that its advocates might expect.

The new study presented by the BCP and FLAR in August provides useful perspective. Between 2008 and 2024, Paraguay accumulated approximately **US$10 billion in net direct investment flows**. Non-financial services accounted for the largest portion, particularly commerce, telecommunications and transport, while manufacturing displayed increasing diversification into higher-value activities. Banco Central del Paraguay

REDIEX reports that investors from 68 countries were present by 2024, compared with 39 countries in 2008, and that the accumulated FDI stock quadrupled during that period. MIC

These figures indicate progress, but they also reveal considerable room for expansion.

Paraguay is therefore interesting precisely because the investment story has not yet fully matured. It is neither an undiscovered frontier economy nor a saturated regional investment hub.

A comparatively simple tax environment

Taxation remains one of Paraguay's strongest competitive arguments, although investors should avoid reducing the system to the popular slogan of "10-10-10".

The standard corporate income tax, the ***Impuesto a la Renta Empresarial (IRE)***, is 10%. VAT generally operates at rates of 5% and 10%, depending upon the transaction. Dividend and profit distributions are subject to the IDU, currently 8% for Paraguayan residents and 15% for non-residents. Dnit

International structures must therefore be analyzed individually. Withholding taxes, the residence of shareholders, applicable treaties, the nature of payments abroad and the availability of investment incentives can materially affect the final effective burden.

Nevertheless, relative simplicity and moderate headline rates remain a significant attraction, particularly for entrepreneurs and medium-sized companies accustomed to substantially higher corporate taxation and compliance costs in Europe.

Investment incentives remain substantial

The general tax system is only one layer of Paraguay's investment environment.

Law 60/90 continues to offer fiscal incentives for qualifying domestic and foreign investment projects. The regime may include exemptions from customs duties and VAT on qualifying capital goods. For sufficiently large investments, additional exemptions may apply to specified payments abroad and to certain distributions, subject to statutory conditions. MIC

The regime is particularly relevant for investors establishing productive operations rather than simply incorporating trading entities.

The maquila system is another central component of Paraguay's industrial strategy. Its significance can increasingly be measured in actual production rather than merely legislation.

During the first half of 2026, Paraguayan maquila exports reached approximately **US$717 million**, 25% above the corresponding 2025 period. Auto parts remained the largest category, while clothing, food and beverages, chemicals, pharmaceuticals, plastics, electronics and aluminum were also represented. Around 78% of maquila exports went to Mercosur markets, with Brazil alone accounting for 62%. MIC

The sector employed slightly more than 36,000 people by mid-2026. MIC

A new maquila law adopted in 2025 and regulated in April 2026 has modernized the framework, clarified procedures and strengthened the institutional and control mechanisms applicable to maquila programs. MIC

For investors, the significance is straightforward: Paraguay is increasingly functioning as a **production platform for the wider region**, particularly Brazil.

Exports are moving beyond commodities

Foreign trade data provide another indication of structural change.

Total Paraguayan exports reached US$10.16 billion during the first six months of 2026, up 23.6% year-on-year. Manufactured exports of industrial origin increased 34%, supported by products including auto parts, aluminum manufactures, insecticides and herbicides. MIC

The maquila regime now represents an important part of this industrial export base.

This does not mean Paraguay is abandoning its comparative advantage in agriculture. Quite the opposite: the country can use agricultural efficiency, renewable electricity and relatively moderate costs as inputs into a more sophisticated processing economy.

The strategic question is whether Paraguay exports raw materials or increasingly processes them domestically before export.

That distinction is potentially transformative for employment, productivity and foreign investment.

The EU–Mercosur agreement adds a new dimension

Since 1 May 2026, the Interim Trade Agreement between the European Union and Mercosur has been provisionally applied. Its implementation creates an additional argument for investors looking at Paraguay as an export platform. Mercosur

When fully implemented, the agreement is designed to eliminate tariffs on around 91% of EU exports to Mercosur and 92% of Mercosur exports to the EU. It also contains provisions concerning rules of origin, customs, services, public procurement, intellectual property and sustainable development. EU Trade

For Paraguay this is strategically important because market access has historically been one of the country's structural limitations. The domestic market is small. A successful investment strategy therefore depends heavily on the ability to use Paraguay as a competitive base from which to serve much larger markets.

Mercosur provides access to the regional dimension. The EU agreement potentially expands that logic across the Atlantic.

The risks should not be ignored

No serious assessment of Paraguay should overlook its weaknesses.

The IMF continues to identify **high informality, public financial management, fiscal consolidation, pension sustainability and completion of structural reforms** as important policy challenges. It also points to weather shocks and potential fiscal liabilities as downside risks. IMF

Fiscal accounts require monitoring. The Ministry of Economy reported an accumulated central-government deficit of approximately 1.2% of GDP through June 2026 and an annualized figure of around 2.6%, partly in a context of regularizing outstanding obligations. Public investment, meanwhile, was 22.6% higher than a year earlier. Educación y Formación Profesional

Paraguay is also landlocked. The Paraguay-Paraná waterway gives the country efficient river access to the Atlantic, but logistics remain an essential component of any industrial project. Road quality, distance from ports, customs procedures, location relative to Brazil and the availability of local suppliers can determine whether an apparently attractive cost structure works in practice.

Institutional quality and legal execution must likewise be assessed transaction by transaction. Low taxes cannot compensate for poor due diligence.

What kind of investor is Paraguay best suited to?

The strongest investment case is not necessarily for a company seeking only the lowest nominal tax rate.

Paraguay is particularly interesting for businesses able to combine several of the country's advantages simultaneously: regional market access, competitive taxation, renewable energy, export incentives, lower operating costs and a growing industrial ecosystem.

Manufacturing companies serving Brazil, agro-industrial processors, logistics businesses, forestry and wood-processing projects, business-service exporters, energy-intensive industries and companies seeking a Mercosur production base all deserve closer examination.

The same applies to European mid-market companies. For many of them, Brazil is attractive but operationally complex and expensive. Paraguay can in some circumstances provide an alternative location from which to participate in Brazilian and Mercosur supply chains.

A country moving from "cheap" to "credible"

Perhaps the most important change in Paraguay's investment proposition is conceptual.

For many years, the country was marketed primarily as inexpensive: low taxes, inexpensive electricity, relatively low labor costs and cheap land.

Those factors attract attention, but by themselves they rarely attract the best long-term investment.

What may distinguish Paraguay in the next phase is the combination of **cost competitiveness with macroeconomic credibility**.

A country growing at around 4–5%, with contained inflation, large external reserves, investment-grade sovereign status, expanding manufacturing exports and a relatively straightforward tax framework begins to look different from a simple low-cost jurisdiction. Banco Central del Paraguay

The challenge for Paraguay is now to convert that stability into infrastructure, productivity, formal employment and substantially larger foreign investment flows.

For international investors, the relevant conclusion is not that Paraguay is risk-free. It is that the relationship between risk and opportunity is changing — and increasingly deserves to be examined on its own merits.

Sources: Banco Central del Paraguay; International Monetary Fund; Ministry of Industry and Commerce; REDIEX; DNIT; European Commission. IMF