

Paraguay's Capital-Market Upgrade

Why Investment Grade Matters Beyond Sovereign Bonds

Paraguay's arrival in the investment-grade universe is usually discussed as a sovereign-credit story. That interpretation is too narrow. The more important long-term question is whether stronger sovereign credibility can help create a deeper domestic capital market, reduce dependence on dollar financing and give Paraguayan companies access to longer-term funding. In 2026, several developments suggest that this transition has begun — although the market remains small, concentrated and far from mature.

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When Moody's awarded Paraguay its first investment-grade rating in July 2024, the decision marked the culmination of a long period of macroeconomic institutionalisation. Standard & Poor's followed in December 2025, raising Paraguay to BBB- with a stable outlook. In July 2026 Moody's reaffirmed its Baa3 rating and stable outlook, while Fitch continues to rate the sovereign BB+, one step below investment grade, with a positive outlook.

For international investors, these upgrades obviously affect the pricing and eligibility of Paraguayan government debt. But the more interesting effects may occur elsewhere.

Sovereign credit quality sits at the foundation of a financial system. It influences the risk-free benchmark used to price private debt, the willingness of foreign investors to accept exposure to the local currency, the ability of infrastructure projects to obtain long-term financing and, indirectly, the cost of capital faced by companies throughout the economy.

Paraguay is now attempting to translate sovereign credibility into something more ambitious: **a functioning capital market increasingly capable of financing investment in guaraníes rather than relying overwhelmingly on banks and foreign-currency debt.**

From investment grade to investable local currency

One of the most significant developments has been the internationalisation of Paraguay's domestic currency.

In February 2025, the government issued the equivalent of USD 600 million in guaraní-denominated sovereign bonds with a ten-year maturity. A year later, following Paraguay's second investment-grade rating, the Treasury went considerably further.

On 24 February 2026 it placed **₡6.507 trillion — approximately USD 1 billion — in 12-year guaraní bonds at an 8.5% coupon.** The issue attracted 64 international investors and demand equivalent to approximately 1.5 times the amount offered. At the same time, Paraguay reopened a US-dollar bond maturing in 2055 for another USD 300 million. Following the transaction, the Ministry of Economy and Finance reported that the proportion of total public debt denominated in guaraníes had reached a record 22%.

That percentage remains modest. Paraguay still carries substantial foreign-currency debt. But the direction is important.

Countries whose governments, companies and households earn mainly in domestic currency but borrow heavily in dollars are exposed to a familiar emerging-market problem. When the local currency depreciates, debt burdens rise precisely when economic conditions may already be deteriorating.

Local-currency borrowing transfers exchange-rate risk from the debtor to the investor.

For Paraguay, the ability to persuade international investors to accept that risk for twelve years is therefore more significant than the headline size of the bond issue. It indicates that investors are no longer assessing only Paraguay's willingness and ability to repay. They are also willing to form long-term expectations about the **guaraní itself**.

The sovereign yield curve matters to companies

A government bond market provides more than funding for the state. It creates reference prices.

Suppose a Paraguayan company wants to issue a ten-year bond in guaraníes. Investors cannot price that security intelligently without some idea of the return available on a comparable sovereign instrument.

In simplified terms:

Corporate yield = sovereign benchmark + company credit spread + liquidity premium

The longer and more liquid the government yield curve becomes, the easier it is to price private debt.

Paraguay's domestic Treasury market is increasingly supplying those reference points. In June 2026, for example, the government placed local bonds maturing in 2028, 2030 and 2035 at yields of 7.84%, 8.60% and 9.10%, respectively. Demand reached \$1.205 trillion, of which \$974.35 billion was allocated.

This does not mean Paraguayan companies can suddenly borrow for ten years at similar rates. Corporate credit risk, market liquidity and issuance costs remain relevant. But the existence of a credible sovereign curve makes long-dated private financing easier to structure.

That can matter especially for businesses whose assets have long economic lives: logistics facilities, warehouses, industrial plants, renewable-energy projects, real estate, telecommunications infrastructure and public-private partnerships.

Bank loans remain indispensable, but banks fund themselves with liabilities that are generally shorter-term than the economic life of these assets. Capital markets can complement the banking system by matching long-duration investment with long-duration savings.

Paraguay has also entered the global local-currency index universe

A second structural development is Paraguay's inclusion in J.P. Morgan's Government Bond Index–Emerging Markets, or GBI-EM, for local-currency sovereign debt.

The Central Bank announced in September 2025 that eligible Paraguayan guaraní bonds would enter the index during the first half of 2026, initially representing approximately 0.04% of the benchmark. The decision followed the development of internationally traded guaraní sovereign bonds meeting J.P. Morgan's eligibility requirements.

The initial weight is tiny. That should not obscure the strategic significance.

An international bond market can depend heavily on discretionary investors: asset managers decide whether they want exposure to a country and how much. Index membership adds another category of demand. Funds benchmarked to the index must at least consider Paraguayan securities, while passive funds mechanically replicate the benchmark.

This matters because financial markets often develop incrementally. A country does not move from a small domestic market to deep international liquidity in one step. It first creates instruments, then attracts investors, then establishes price discovery, then develops a secondary market.

The inclusion of guaraní debt in a major emerging-market benchmark helps move Paraguay along that chain.

It can also produce a broader consequence: **foreign investors gradually become accustomed to evaluating Paraguayan currency risk rather than simply Paraguayan dollar-credit risk.**

That distinction is important for the eventual financing of private companies.

The domestic market is already growing — but its structure shows its limitations

Paraguay does not start from zero.

According to Banco Central del Paraguay data, securities-market trading reached approximately **₡60.45 trillion in 2025**, 17.2% more than in 2024 and equivalent to roughly 16.3% of GDP. That compares with ₡37.1 trillion as recently as 2023.

Yet the composition of trading reveals why market depth should not be overstated.

In 2025, around 62.7% of traded volume was denominated in local currency. More importantly, approximately **70% of total trading consisted of repo transactions**, while fixed-income securities accounted for about 28.5%. Equity and derivatives activity remained comparatively marginal.

This is therefore not yet a Latin American version of a large developed securities market.

Turnover can look substantial while genuine long-term secondary-market liquidity remains limited. Repo markets are useful for short-term liquidity management, but they do not necessarily imply an equally deep market for financing new productive investment.

The distinction matters for foreign investors.

A security can be legally tradable without being easily tradable in large size. Bid-ask spreads, market-making capacity, custody systems and the number of active institutional investors all determine whether an investor can exit a position efficiently.

Paraguay's trajectory is positive, but **liquidity risk still deserves explicit treatment in valuation models.**

A new capital-markets law changes the institutional framework

Market development is not occurring only through larger bond issues.

Paraguay enacted **Law No. 7572/2025 on Securities and Products Markets**, replacing a fragmented framework that had previously been distributed among several pieces of legislation.

The law states three core objectives: protecting investors, promoting an equitable, efficient and transparent market and reducing systemic risk. It applies broadly to public offerings, securities trading, intermediation, investment services, publicly offered investment funds and other supervised activities.

The reform is important because small capital markets often face a chicken-and-egg problem.

Investors hesitate because regulation, disclosure and market infrastructure are underdeveloped. Issuers, meanwhile, do not spend money developing sophisticated instruments because the investor base remains small.

A modern regulatory framework cannot solve this problem by itself, but it can reduce one of the barriers.

The Superintendencia de Valores, now within the Central Bank institutional structure, has been developing implementing regulations and moving towards risk-based supervision. The regulator has indicated that subsequent phases of market modernisation are expected to address areas including private funds, crowdfunding, tokenisation, distributed-ledger technology and foreign securities.

For foreign financial institutions, asset managers and fintech businesses, this is an area worth following closely. The opportunity lies not only in buying Paraguayan securities but potentially in participating in the infrastructure through which Paraguayan savings are intermediated.

Transparency and market infrastructure are improving

Less visible reforms may ultimately be just as important.

In December 2025 the Superintendencia de Valores launched a central information system covering investors, issuers, investment funds, financial instruments and both exchange and OTC transactions. It subsequently opened a public data portal providing downloadable information on issuers, funds, securities and trading.

Registration procedures are also being progressively digitalised. In March 2026 the regulator expanded its electronic system to include registrations of book-entry shares, including shares intended for public offering.

These reforms do not generate headlines comparable to investment-grade upgrades, but they reduce transaction costs.

Institutional investors require data. Credit analysts require historical financial statements. Fund managers require comparable information. Regulators require reliable transaction reporting. International investors are far less willing to enter markets where basic data must be collected manually from fragmented sources.

The move towards standardised digital information therefore contributes directly to market investability.

Why this matters for foreign companies operating in Paraguay

The relevance is not restricted to financial investors.

Consider a foreign manufacturer establishing a Paraguayan subsidiary.

Traditionally, its financing options might consist primarily of parent-company funding, international bank debt or borrowing from Paraguayan banks. Each can be perfectly rational, but all have limitations.

Parent-company loans tie up group capital. International loans often introduce foreign-exchange exposure if the Paraguayan subsidiary earns revenues in guaraníes. Local bank loans may be relatively short in maturity or require recurring refinancing.

A deeper domestic bond market introduces another possibility:

raise long-term capital in the same currency in which the business generates cash flow.

That principle can materially improve balance-sheet resilience.

The same applies to real-estate developers, infrastructure concessionaires and utility-type businesses. A project that earns guaraní revenues but carries dollar debt contains a currency mismatch. During a sharp depreciation, the project can remain operationally healthy while becoming financially distressed.

Domestic-currency financing does not remove interest-rate or credit risk, but it can remove that mismatch.

The development of local investment funds could eventually reinforce this process by creating pools of institutional savings looking for longer-term assets.

Investment grade does not eliminate Paraguay's financial constraints

There is nevertheless a danger in treating investment grade as a destination rather than a threshold.

The sovereign rating does not automatically transfer to Paraguayan companies. Nor does it guarantee abundant or cheap private credit.

Paraguay's capital market remains relatively small. Secondary-market liquidity is uneven. Equity financing is underdeveloped. The institutional investor base is less extensive than in larger Latin American economies, and domestic interest rates remain materially higher than those prevailing in developed markets.

Fiscal discipline will also remain important.

The IMF's latest Article IV assessment, published on 28 August 2026, describes Paraguay's macroeconomic fundamentals as strong but projects a fiscal deficit of about **3.5% of GDP in 2026**, partly reflecting the settlement of expenditure arrears accumulated during 2023–2025 and weaker revenues associated with the appreciation of the guaraní. The Fund emphasised the importance of returning to compliance with the Fiscal Responsibility Law.

The Ministry of Economy reported an accumulated central-government deficit of 1.2% of GDP through July and an annualised deficit of 2.6%.

These are manageable numbers, but they matter because the sovereign curve anchors the rest of the financial system. If government borrowing increases persistently, it can raise benchmark yields and compete with companies for domestic savings.

Investment grade therefore needs to be **maintained through policy**, not simply celebrated as an irreversible achievement.

The next stage: from sovereign credibility to private capital formation

Paraguay has spent much of the past two decades building macroeconomic credibility. The next test is whether that credibility can be converted into financial depth.

Several pieces are now appearing simultaneously: two investment-grade sovereign ratings, longer guaraní bond maturities, growing foreign participation, international index inclusion, a new securities-market law, more sophisticated supervision and increasingly accessible market data.

None of those developments alone transforms corporate finance.

Together, however, they create the institutional foundations for something Paraguay has historically lacked: a deeper market capable of connecting domestic and international savings directly with productive private investment.

For foreign investors, the practical implication is broader than deciding whether to buy a Paraguayan government bond.

Companies assessing factories, logistics facilities, agribusiness operations, real estate or infrastructure in Paraguay should begin treating the local capital market as a variable in their financing strategy. Financial institutions should watch the development of funds, securitisation, corporate bonds and new regulated products. Portfolio investors should distinguish sovereign solvency from market liquidity and price each separately.

Paraguay's investment-grade story has therefore entered a second phase.

The first phase was about convincing the world that the Paraguayan state represented a credible borrower.

The second will be more economically important: **building a financial system in which that credibility lowers the cost, lengthens the maturity and improves the currency structure of capital available to the private sector.**

Whether Paraguay succeeds will help determine how much of its next decade of growth is financed merely through more bank credit — and how much through a genuinely deeper capital market.

Sources

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4. **Banco Central del Paraguay / J.P. Morgan index announcement** — inclusion of eligible guaraní sovereign bonds in the GBI-EM.
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