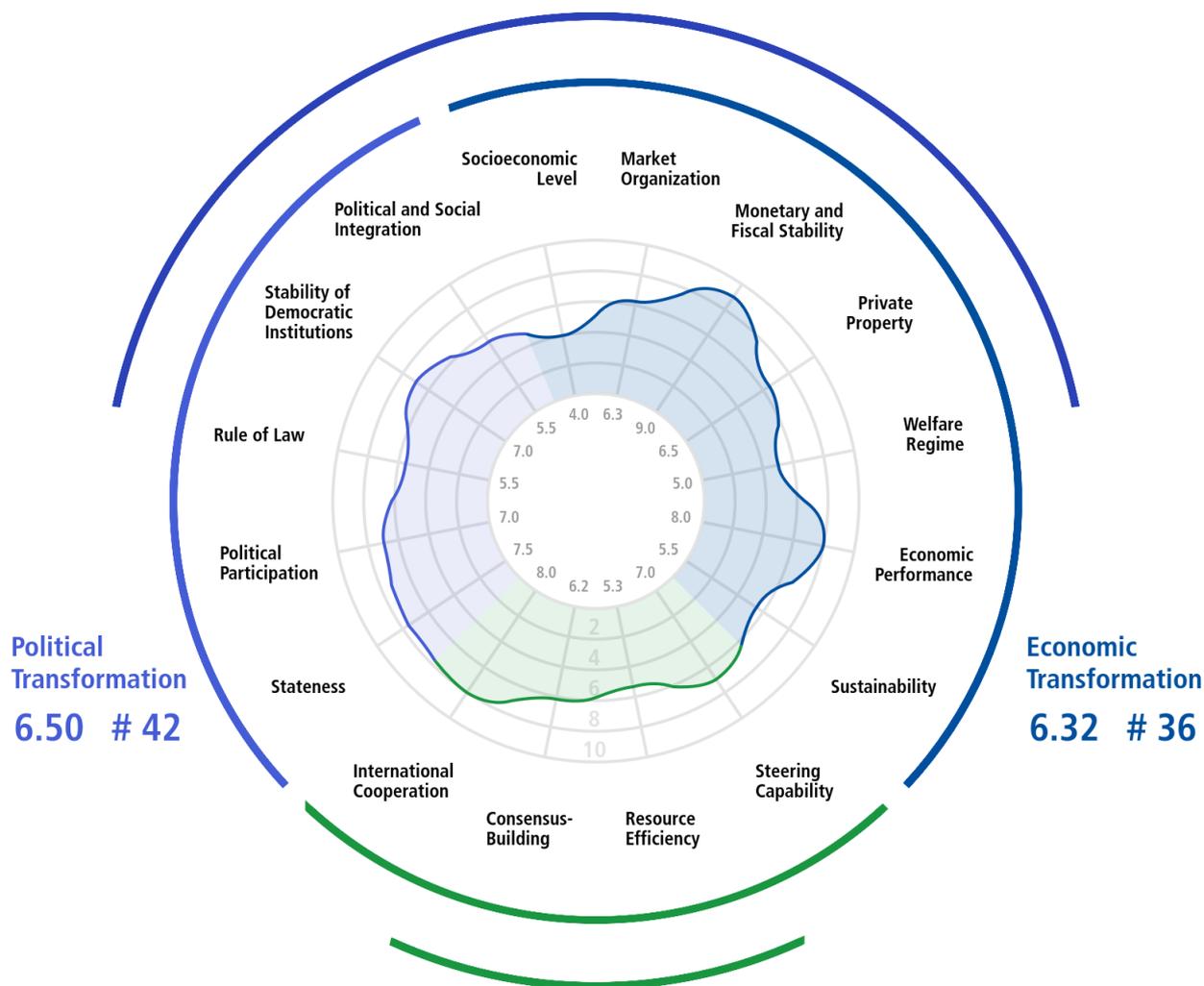


# Paraguay

## Status Index

**6.41 # 35**

on 1-10 scale out of 137



**Political Transformation**  
**6.50 # 42**

**Economic Transformation**  
**6.32 # 36**

## Governance Index

**5.91 # 27**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Sebastian Plate**

Phone +49 5241 81 81263  
[sebastian.plate@bertelsmann-stiftung.de](mailto:sebastian.plate@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>6.9</b>	HDI	<b>0.756</b>	GDP p.c., PPP \$	<b>18524</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.2</b>	HDI rank of 193	<b>99</b>	Gini Index	<b>44.2</b>
Life expectancy	years	<b>73.8</b>	UN Education Index	<b>0.686</b>	Poverty <sup>3</sup>	% <b>5.6</b>
Urban population	%	<b>63.5</b>	Gender inequality <sup>2</sup>	<b>0.412</b>	Aid per capita \$	<b>32.7</b>

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

In April 2023, the Colorado Party won the presidential election, with Santiago Peña Palacios assuming office in August of that year. At just 44, he was Paraguay's youngest president. A Columbia University-educated economist, he had previously served as economy minister under Horacio Cartes and joined the Colorado Party in 2016. Peña won with 42.7% of the vote. His main opponent, Efraín Alegre of the Liberal Party (PLRA), secured 27.5% as the candidate of a broad coalition. The surprise third-place finisher, populist outsider Paraguayo Cubas, won 22.9% of the vote with a largely social media-driven campaign. Cubas, a former senator expelled in 2019, saw four legislators from his party align with the incoming Colorado government before Peña's inauguration.

While support for the opposition PLRA collapsed, the Colorado Party maintained its vote share from the previous two elections. It secured majorities both in Congress and in departmental governments, leaving the opposition weakened and fragmented. President Peña is backed by the party's majority faction and by former President Horacio Cartes, who faces U.S. sanctions for corruption. However, the sanctions did not harm the party's support; instead, they fueled nationalist sentiment.

The Colorado Party's overarching power also affects the judiciary; this, along with the ongoing weakening of checks and balances, poses a danger of abuse of power and an erosion of democratic institutions. Events such as the February 2024 expulsion via simple majority vote of an opposition senator for administrative misconduct, as well as the November 2024 promulgation of a new law that critics say could be misused for state control and intimidation of NGOs, can be interpreted as early signs of democratic backsliding.

Levels of support for democracy are comparatively low among Paraguayan citizens (in the Latin American context). Compared with the rest of Latin America, the country has a relatively high percentage of individuals receptive to an authoritarian government and to limiting democratic rights and checks and balances.

On the economic side, GDP grew by 4.7% in 2023 and 4.2% in 2024, significantly outpacing the Latin American and South American averages. The economy is expected to continue growing at a similar rate in 2025. During the reporting period, Paraguay maintained a track record of prudent macroeconomic policy based on sound fiscal rules; inflation targeting; and moderate, sustainable public debt. This is reflected in positive assessments by international rating agencies and financial organizations. Annual inflation fell to a rate of 3.7% during 2023 and remained below the 4% target set by the central bank for most of the year. At the end of 2024, the fiscal deficit reached 2.6% of GDP, and the government aims to comply with the fiscal deficit ceiling of 1.5% of GDP by 2026.

The economic model remains primarily based on agricultural exports and energy generated by large hydroelectric power plants. The Peña government is striving to modernize the state and improve administrative efficiency, which could lead to tensions with the Colorado Party's clientelistic power structure. Redistribution policies are not a priority, but the government has expanded existing social programs and launched new ones.

## History and Characteristics of Transformation

Paraguay's democratic transition began in 1989 after 35 years of dictatorship under General Alfredo Stroessner. The transition was marked by significant continuity among political elites and the bureaucratic establishment, including the public administration, the military and the judiciary, all of which were closely tied to the governing Colorado Party. The subsequent governments were characterized by political instability and continued military influence. In 1996, the commander in chief of the armed forces, General Lino Oviedo, attempted a coup but failed. On March 28, 1999, President Raúl Cubas Grau resigned as a consequence of his alleged involvement in the murder of Vice President Luis María Argaña. Luis Ángel González Macchi, the head of the Chamber of Senators, completed the remaining presidential term (1999 – 2003).

In August 2003, Nicanor Duarte Frutos of the Colorado Party took office, but his reform efforts faded as intraparty power struggles took priority. In April 2008, opposition candidate and former bishop Fernando Lugo ended 61 years of Colorado Party rule but lacked a congressional majority, leading to legislative gridlock. His support further weakened after a deadly land dispute in Canindeyú. In June 2012, Congress removed Lugo from office, and Vice President Federico Franco completed the remainder of the term.

The Colorado Party returned to power in 2013 with the electoral victory of President Horacio Cartes (2013 – 2018), who lost political capital after attempting to amend the constitution to allow re-election, which sparked mass protests. His rival within the party, Mario Abdo Benítez, won the 2018 election but faced opposition in the Senate and internal divisions. The two main factions of the Colorado Party competed in the intraparty elections in December 2022. The faction led by former President Cartes emerged victorious, securing the party's presidential nomination for the April 2023 elections and dominating the election for the party's leader. In January 2023, Cartes became president of the Colorado Party.

Since the overthrow of the Stroessner regime in 1989, Paraguay has stabilized its democratic system, but serious shortcomings persist. Progress has been made in strengthening the electoral regime and neutralizing the military's veto power, but the rule of law remains weak and there has been little progress in fighting corruption. International organized crime groups linked to drug-trafficking pose a serious threat to the country's institutions. Paraguay demonstrates that traditional clientelist parties can make a significant contribution to stabilizing an electoral democracy and mobilizing voters in the long term, but do not necessarily deepen democracy, combat corruption or reduce social inequality.

Regarding economic transformation, Paraguay has largely maintained its free-market model based on agricultural production and exports, hydroelectric power plants (and the export of electricity to Argentina and Brazil), and a still substantial informal sector, with few mechanisms in place to ensure greater equality. Apart from the Lugo episode, Colorado governments have been in office for the entire period since democratization, and almost all have followed a similar line: seeking to maintain macroeconomic stability, retain low tax rates (especially for agribusiness), and finance infrastructure projects and the budget deficit with sovereign bonds.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

In principle, the state maintains a monopoly on the use of force nationwide. However, the state's presence is weaker particularly in border areas and the northeastern Chaco region. Large areas of the country are sparsely populated, and there are few border or airspace controls.

In the tri-border area near Ciudad del Este, where Paraguay, Argentina and Brazil meet, and in the department of Amambay around its capital, Pedro Juan Caballero, state institutions have failed to curb arms smuggling, drug-trafficking and illegal immigration.

The First Capital Command (Primeiro Comando da Capital, PCC), Brazil's largest and best-organized criminal organization, is actively involved in controlling drug-trafficking routes between Brazil, Bolivia and Paraguay. It competes with the Comando Vermelho (CV) and local criminal groups for control. Drug traffickers exploit the country's porous borders, clandestine airstrips, lack of airspace control, extensive internal waterways, and under-resourced and often corrupt law-enforcement and judicial officials in order to transport cocaine primarily to Brazil. These traffickers then use Brazilian, Argentine and Uruguayan ports to transport cocaine to Europe.

Since its founding in 2008, the Paraguayan People's Army (EPP), a Marxist-Leninist guerrilla group, has carried out attacks primarily in rural areas. The group has targeted military and police outposts and patrols, private security guards and ranchers. It has also kidnapped landowners to secure ransom funds and carried out attacks using explosives. The EPP has shrunk in recent years, and some of its leaders have been killed. However, it remains active, with a small number of militants (probably fewer than 20) and an unknown number of sympathizers.

Question  
Score

Monopoly on the  
use of force

7

'06 '26 10

7 6 7

1

Mestizos and citizens of mixed racial backgrounds make up 95% of the population. The constitution recognizes Paraguay as a multicultural, bilingual country with Guaraní and Spanish as the official languages.

In theory, all citizens enjoy citizenship rights. In practice, however, the government often neglects the rights of Indigenous groups. This neglect is due in part to the small size of Indigenous groups. According to the most recent census in 2022, there were approximately 140,000 Indigenous people in the country, making up 2.3% of the population. These individuals reside in 557 communities and belong to 19 distinct ethnicities and five linguistic groups. In addition, the government's neglect stems from the poor organization of Indigenous groups.

There is a significant population of Brazilians in the border area and, more recently, in the Chaco region; they are known as the Brasiguayos, many of whom have a long history in Paraguay. Most of these foreigners own large parcels of arable land used for soybean production, which adds a unique dimension to Paraguay's land conflict.

In summary, the nation-state enjoys broad acceptance, except for occasional conflicts stemming from social exclusion. Access to citizenship and naturalization is not withheld from specific groups.

According to the constitution, which states that there is no official state religion, church and state are separate. The constitution declares that the relationship between the state and the Roman Catholic Church is based on independence, cooperation and autonomy (Article 24). As a pressure group, however, the Catholic Church has considerable influence over certain subjects addressed in bills before Congress, such as abortion, divorce and same-sex marriage. The Catholic Church has consistently voiced concerns about corruption, social inequality and poverty as well as the justice system in Paraguay.

The law requires all religious and philosophical groups to register with the Vice Ministry of Worship (VWM) and submit annual reports identifying the organization's key leadership and functions. According to the VWM, at the end of 2023, 670 religious groups (approximately 90% of all religious groups) had registered with the government.

According to Latinobarómetro data for 2024, 72% of respondents identified as Catholic and 7% as Protestant. This contrasts with official data, which indicates that 88% of the population is Roman Catholic, with another 9.6% belonging to evangelical Protestant denominations. An estimated 46,000 people, concentrated in remote areas of central Chaco and some eastern regions, are members of the Mennonite Church. There are about 10,000 Muslims, most of whom live in Ciudad del Este, and about 1,000 Jews, most of whom live in Asunción.

#### State identity

9



1

#### No interference of religious dogmas

8



1

The state maintains basic infrastructure across most of the country. However, significant efficiency and management problems hinder the implementation of public policies. Due to low tax rates, the Paraguayan state lacks sufficient tax revenue to expand health and education coverage. New infrastructure projects depend on public sector borrowing, close cooperation with private companies (public-private partnerships), or both. The functioning of the state is impaired by corruption and the political colonization of the administration. Moreover, the public administration is inefficient and overstaffed in some areas, while understaffed in others (such as health and education). Courts and law-enforcement institutions are heavily compromised by structural corruption.

Furthermore, the state's presence in the San Pedro, Amambay and Chaco regions is limited. The administration of basic infrastructure such as roads, water services, education and health care generally functions, but is flawed in some rural areas. The health infrastructure is not adequately prepared for major epidemics and pandemics, as the COVID-19 pandemic has shown.

In 2023, according to the National Statistics Institute (INE), 94% of the urban population and 89% of the rural population had access to improved water. About 97% of the urban population and 81% of the rural population were connected to improved sanitation systems (INE). In 2023, 100% of the urban population and 99.7% of the rural population had access to electricity (INE). However, electricity cuts are frequent, even in urban areas.

## 2 | Political Participation

The general elections on April 30, 2023, which were won by the Colorado Party, were conducted properly, and no party was excluded or discriminated against. For the first time in a general election, an electronic system including voting machines was implemented. The elections were monitored by several election observation missions, most notably from the European Union (EU) and the Organization of American States (OAS). The Supreme Electoral Court denied electoral observation accreditation to two national non-governmental organizations.

On Election Day, EU and OAS observers reported cases in which assisted voting took place in violation of legal provisions, as well as instances of vote-buying and violations of the secrecy of the vote. However, electoral observation missions did not record complaints of systematic manipulation of any relevant aspect of the electoral process. Fundamental freedoms were generally respected, and candidates were able to campaign without restrictions.

Political parties had access to all stages of the electoral process and were able to present concerns to election authorities. According to the EU observation mission, the central election administration demonstrated professionalism and transparency in

Basic  
administration

6

'06 '26 10

6

1

Free and fair  
elections

8

'06 '26 10

8 8

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administering the election. The actions of the Supreme Electoral Court were deemed technically efficient and politically balanced. Nonetheless, the defeated populist candidate, Paraguayo Cubas, called for protests outside the Supreme Electoral Court, accusing it of fraud. He was subsequently placed under house arrest for inciting hatred and disturbing the peace.

In the Latinobarómetro 2024 survey, only 25% of Paraguayan respondents (Latin American average: 34%) said they had a lot or some trust in the electoral institution, and 84% said they believed elections in Paraguay were fraudulent (Latin American average: 61%). A similar distrust of elections has been evident in Latin American Public Opinion Project (LAPOP) surveys. According to the organization’s 2023 data, only half of Paraguayans (51%) believed that votes were counted correctly “sometimes,” and about a quarter said that this “never” (25%) or “always” (23%) happens. On the issue of vote secrecy, only a quarter said they believed politicians could “never” identify who was being voted for. This percentage marked an increase compared with the 2021 survey. The vast majority said they assumed that politicians could “always” (34%) or “sometimes” (39%) identify voters.

Patronage and political dependencies – particularly in the civil service – influence the election process. A state subsidy for campaigns is provided by law, but it is disbursed only after elections, upon submission of campaign financial statements and based on the number of votes obtained in legislative and departmental elections. The limited campaign finance oversight mechanisms give candidates with significant economic resources an advantage. While the financing of elections and parties is regulated and controlled by law, electoral authorities lack the administrative capacity to monitor or verify the information parties provide.

Democratically elected representatives have the power to govern, and the influence of veto powers, especially the military, has declined. The military is clearly subordinate to civilian control. Even so, because of landowners’ economic influence and power to mobilize, plans to pursue land reform and increase taxes on agricultural exports have been repeatedly blocked before they could be seriously debated in Congress. Economic growth in Paraguay is largely based on agribusiness. Many politicians are themselves cattle ranchers and landowners. Others have intertwined interests with landowners and receive significant financial support from them for their political campaigns. The top individual income and corporate tax rates are 10% – clear evidence of the veto power of economic pressure groups. Drug-trafficking and organized crime have gained influence and permeated political institutions, affecting the scope of action for democratically elected representatives, especially at the local level. At the national level, the influence of former President Cartes, whose wealth is attributed to illegal business activities and who has been labeled as corrupt by the U.S. government and banned from entering the country, is viewed critically. He endorsed and supported President Peña as the Colorado Party’s candidate.

Effective power to govern

7



1

The constitution guarantees the freedoms of association and assembly. Independent political and civil society groups are generally permitted to form.

However, legal and bureaucratic barriers hinder union organizing because of a high minimum membership requirement. Private sector employers oppose the formation of unions, and laws prohibiting discrimination against unions are not consistently enforced. The International Trade Union Confederation Global Rights Index 2024 ranks Paraguay as a country with regular violations of internationally recognized labor rights by governments and employers. Labor law fails to promote trade union activity. The unionization rate in the formal labor force is low (though higher in the public sector). Farmers have organized primarily around the issue of land ownership. The Federación Nacional Campesina (FNC) is the main organization in this regard.

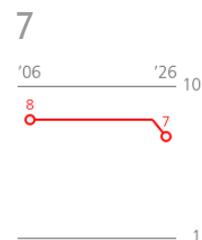
On August 7, 2024, Congress established the Joint Investigation Commission to investigate punishable acts of money-laundering against the state's assets, smuggling and other related crimes. This bicameral commission consisted entirely of parliamentary representatives affiliated with former President Cartes' faction. It harassed NGOs – particularly those working to strengthen democracy, protect civil rights and promote social services – and requested detailed information about their activities.

In November 2024, President Peña signed a law on “Control, Transparency and Accountability of Non-Profit Organizations,” which had been under discussion in Congress since December 2023. The new law will increase bureaucratic control and financial oversight of NGOs operating in Paraguay. NGOs must provide authorities with information about their personnel. The governing party defends the law, arguing that the sector has been under-regulated and needs greater transparency. Critics have dubbed it an anti-NGO law and view it as part of a broader negative campaign being conducted against NGOs.

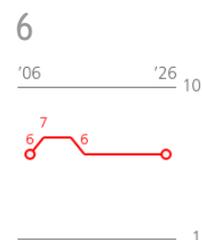
The freedom of opinion and of the press are constitutionally guaranteed, and citizens generally can express their opinions freely. The government does not restrict or disrupt access to the internet or censor online content. In Reporters Without Borders's 2024 World Press Freedom Index, Paraguay was ranked 115th out of 180 countries (down from 103rd in 2023).

According to the 2024 Latinobarómetro survey, the media enjoy a relatively high level of trust. Respondents indicated that they had a lot or some trust in television (48%), radio (52%), print media (42%) and social networks (38%). The media sector in Paraguay is pluralistic, encompassing both private and public radio and television broadcasters. However, media pluralism is threatened by ownership concentration and the influence that political parties and economic interest groups exert over the media. The National Telecommunications Commission (CONATEL), which is responsible for granting and denying broadcasting licenses, lacks autonomy.

#### Association / assembly rights



#### Freedom of expression



There are no legal limits on media concentration, which has increased in recent years. The market is dominated by four major media companies, one of which is directly linked to former President Cartes. Coverage of the 2023 election was biased toward both sides (the Colorado Party and the Concertation), depending on the outlet. The leading newspapers are ABC Color, La Nación and Última Hora. Online media platforms have become more popular recently, and a high percentage of Paraguayans use social media, particularly Facebook and Twitter, to obtain political information. Community-based media outlets face challenges in maintaining their viability.

In 2014, a freedom of information law was introduced, requiring public institutions – including Congress – to disclose information such as details on salaries and contracts. Investigative journalists have used this law to uncover networks of corruption. However, many journalists work under precarious employment and contract conditions. Journalists critical of politicians occasionally face physical threats. Reporters and community radio stations have faced intimidation, especially when they focus on corruption or organized crime in remote border areas.

In February 2023, a journalist was murdered in Pedro Juan Caballero, near the Brazilian border. Although no journalists were murdered in 2024, threats and intimidation still affected reporting and can lead to self-censorship.

### 3 | Rule of Law

Paraguay's constitution enshrines the separation of powers and mutual checks and balances. These checks and balances work particularly well when the president lacks a majority in Congress. The Supreme Court can act independently, even though judges are selected based on political criteria and quotas. Judges' careers depend on the political will of legislators who sit on the Jury of Prosecution (Jurado de Enjuiciamiento). This relationship can influence court rulings. Newly elected presidents have frequently sought to change the Supreme Court's composition, and Congress has threatened to impeach Supreme Court judges.

By regional standards, the Paraguayan president is not politically strong. An absolute legislative majority may override a presidential veto. In ministerial nominations and budgetary matters, the president must consider congressional majorities (and intraparty factions). Congress may freely amend the national budget without formally estimating state income and revenue.

A united ruling party with a congressional majority can weaken the separation of powers, however. The expulsion of National Encounter Party (PEN) Senator Kattya González on February 14, 2024, sets a troubling precedent. González received the fourth-highest vote total in the 2023 elections and was among the most vocal critics of corruption and nepotism within the Colorado Party. She was removed by a vote of 23 of 45 senators, despite regulations requiring 30 votes. The judiciary cleared her,

Separation of powers

7



1

and a lawsuit before the Supreme Court as of the time of writing was challenging the decision. Her expulsion appears to be an attempt to silence dissent and undermine free expression.

The judiciary is both the subject of and an actor in recurrent power struggles at the margins of the rule of law. In some cases, these struggles are enabled by ambiguities in the constitution. Undue external influence, including from economic groups and drug-trafficking money, compromises the judiciary's independence. Interested parties, including the government and members of parliament, seek to influence investigations and pressure judges and prosecutors. According to measures such as the World Justice Project's (WJP) Rule of Law Index, Paraguay ranks low globally with regard to judicial effectiveness and professional standards.

Judicial disciplinary reviews are often politicized. Significant political interference occurs within the Judicial Council of the Magistrature, which evaluates nominations for judges and handles impeachment proceedings. The council includes representatives from the Supreme Court, the executive, the legislature, the legal profession and academia. When a Supreme Court seat is vacant, the council proposes three candidates to the Senate, which selects one with the president's approval. Five new Supreme Court judges were appointed during Abdo's presidency (2018 – 2023). The majority of judges are considered sympathetic to the Colorado Party.

International pressure has influenced Paraguay's anti-corruption efforts. The U.S. government-imposed sanctions on former President Horacio Cartes for alleged corruption, with the partial aim of encouraging domestic reforms. In September 2024, the prosecutor's office charged Asunción Mayor Óscar Rodríguez and 21 others with breach of trust and criminal association over the alleged misuse of emergency COVID-19 funds earmarked for cleaning supplies and materials in 2020.

Despite this, systemic issues remain. High impunity rates for government officials involved in corruption have been reported, and investigations and indictments often progress slowly and are sometimes dismissed. In December 2024, President Santiago Peña enacted Law 7389/2024, establishing a national framework for integrity and anti-corruption. However, it remains to be seen how effective this legislation will be with regard to holding public officeholders accountable.

Surveys show that more than three-quarters of Paraguayans believe most politicians are corrupt, and a significant share of the population reports having experienced bribery. Levels of trust in anti-corruption institutions remain very low, with only about 22% of respondents saying they believe prosecutors or courts will act against corruption. International indices reflect similar concerns, ranking Paraguay poorly both in the area of anti-corruption capacity and rule of law.

Independent judiciary

5

'06 '26 10

5

1

Prosecution of office abuse

4

'06 '26 10

4

2

1

Civil liberties are generally secure, but there are instances of arbitrary arrest and detention. There were no reports of political prisoners or detainees being held during the review period. The human rights ombudsman generally operates independently, and the Ministry of Public Defense (the Attorney General’s Office) maintains a Special Human Rights Unit that investigates allegations of human rights abuse. According to a report submitted to the United Nations, the Ministry of Public Defense received 251 allegations of torture and ill-treatment during 2018 – 2023. Between January 1 and September 25, 2023, the Special Human Rights Unit opened investigations into 134 allegations of torture and other human rights abuses. By year’s end, there had been no convictions.

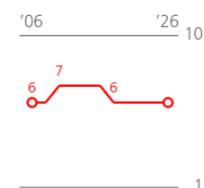
Human rights organizations reported an increase in attacks and intimidation by conservative political activists, who accused human rights defenders of polarizing and ideologizing the population and destroying “traditional family values” by employing “leftist” and “globalized” rhetoric. There have also been cases of human rights violations related to land disputes between small farmers, Indigenous people and large landowners. Human rights defenders working to promote the rights of small farmers have been harassed and threatened.

The constitution provides for the right to a fair and public trial. Citizens are equal before the law and have equal access to justice, yet politically connected or wealthy defendants can easily secure release on bail and other concessions, such as house arrest. Defendants have the right to a trial without undue delay, but proceedings are often lengthy. As of October 2023, 71% of prisoners were awaiting trial or sentencing. Harsh, sometimes life-threatening conditions in the country’s overcrowded prisons have repeatedly drawn criticism. Criminal organizations have gained an exponentially increasing degree of control over penitentiary administration.

No laws explicitly prohibit discrimination against LGBTQ+ individuals in employment, housing, access to education or health care. Such discrimination, including social discrimination, is commonplace. There is no comprehensive anti-discrimination law. A specific law targets workplace discrimination based on race, skin color, sex, age, religion, political opinion, disability, HIV-positive status or social origin. However, this law is rarely enforced.

## Civil rights

6



#### 4 | Stability of Democratic Institutions

Democratic institutions fulfill their functions, but frictions can arise in the interplay between the president and the legislature. Paraguay's Congress has broad authority. The Paraguayan president has fewer constitutional powers than most presidents in Latin America. Governance and lawmaking are complicated because the governing party and the most important opposition party are both composed of competing factions. These divisions lead to cross-party alliances, shifting voting coalitions and political blockades, which can subject political decision-making to short-term strategic calculations, making long-term planning difficult. Since the 2023 elections, the Colorado Party, to which the president belongs, has had a majority in both houses of Congress, which thus far has remained fairly united. In addition, this bloc often receives support from small parties and individual deputies.

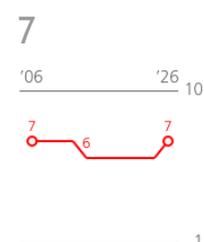
Traditional political parties dominate Congress. Votes on bills, whether introduced by the executive or drafted in Congress, often reflect the influence of political clientelism, political factionalism or money received by legislators from large economic interest groups. Friction also arises from attempts to influence the judiciary, particularly the composition of the Supreme Court.

No important actors or veto players question the legitimacy of democratic institutions, which are accepted by relevant political actors. However, political elites often disregard democratic norms, trying to change the rules or weaken their opponents when they control political institutions. Surveys indicate a shallow public commitment to democratic institutions. This opens the door for populists to fuel mistrust in political institutions (e.g., regarding election results and electoral authorities), as the 2023 elections demonstrated.

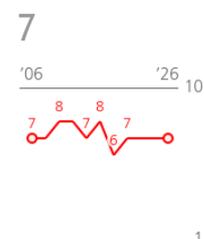
#### 5 | Political and Social Integration

Two traditional parties dominate the Paraguayan party system – the Colorado Party and the Liberal Party (PLRA), the major opposition party. Both parties have operated for almost 140 years. In the House of Representatives, 60 of 80 seats are held by the Colorado Party or the Alliance led by the Liberal Party, while in the Senate, the two blocs control 35 of 45 seats. The remaining seats are divided between five parties in the Senate and 10 parties in the House of Representatives. However, the Colorado Party holds structural dominance, as was reinforced in the last elections when the party won the presidential elections, a majority in both houses of Congress and almost all departmental governments. The Colorado Party can lose the presidential election only when confronted with a united countercoalition and significant abstention within its own camp.

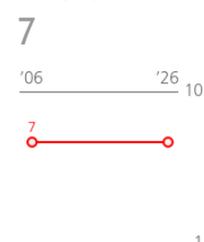
Performance of democratic institutions



Commitment to democratic institutions



Party system



Of the eight general elections held in Paraguay since 1989, the Colorado Party has won seven times. During its time in power, it has established a tightly knit patronage network. The same is true for the Liberal Party, particularly in its strongholds at the municipal and departmental levels. However, party discipline is low, and the parties are composed of factions. Internal party factions and competing internal elections provide outlets for potential internal conflicts, facilitate the replacement of leadership and channel dissatisfaction within established parties.

Both traditional parties have a broad social base. According to recent data from Latinobarómetro (2024), 41% of the Paraguayan population identifies with a political party. This underscores the strength of clientelist networks. In the December 2022 primaries for the 2023 elections, the Colorado Party had 2.6 million registered members, 1.2 million of whom voted in the primary. The Liberal Party had 1.5 million members, with 430,000 participating in the selection of its Senate candidates. Smaller parties typically have fewer than 3,000 members. Direct elections for party leaders and candidates mobilize supporters in both major parties. Overall, 1.6 million voters from the two main parties participated, while 590,000 voted in the Concertation for a New Paraguay alliance primaries, which was backed by a Liberal Party faction.

Because of patronage networks, the parties function only partially as instruments for articulating and aggregating social interests. Political polarization in the party system is relatively low because of the dominance of the two traditional parties and the weakness of the left. However, the candidate of a populist movement with an anti-systemic discourse attracted 23% of the vote in the 2023 presidential election, indicating that a considerable proportion of voters do not feel sufficiently represented by the two traditional parties.

A new electoral system was introduced in the 2023 general elections. The 2019 reform (Law 6318/2019) established an open-list proportional system, allowing voters to select individual candidates from party lists. The reform aimed to give voters the option to support less corrupt, less clientelist candidates within traditional parties, while creating more space for smaller parties. However, the results suggest the preferential vote reinforced existing party structures, particularly benefiting the Colorado Party. Voters could now reject certain politicians without abandoning their parties, instead favoring specific candidates within them. Intraparty competition further personalized campaigns and led to the decline of party platforms and manifestos. The new system also facilitates greater electoral influence by business interests and may increase the sway of organized crime through the ability to offer targeted candidate support. Additionally, it risks undermining the quota system for women candidates.

The system of social interest groups is weak, politically fragmented and dominated by a small number of issues. Although there are many small-scale organizations at the community level (such as neighborhood organizations), they are poorly interconnected, and few ties exist between them and nationwide associations, limiting their ability to articulate common interests. There is no link to political parties through collateral organizations, although one of the umbrella labor groups has a relationship with the Colorado Party.

The labor movement is weak and fragmented. The rate of unionization was approximately 6% in 2019; it is significantly higher in the public sector and substantially lower in the private sector. There are several competing trade union federations, with some more active than others. On the economic side, the Federation of Production, Industry and Commerce (FEPRINCO) serves as an umbrella organization. Manufacturers are organized under the Unión Industrial Paraguaya (UIP). Strong organizations represent the interests of rural landowners, including cattle ranchers and soybean producers.

Peasants in Paraguay have a long history of mobilizing for land and other rural issues, such as debt relief. They are organized in the Federación Nacional Campesina (FNC) and the Coordinadora Nacional Intersectorial (CNI). Yet these organizations often lack adequate channels to articulate and advance their demands within political institutions. This reflects the enduring reach of traditional political parties in Paraguay's countryside, which, to some degree, can neutralize peasants' demands and shape voting behavior.

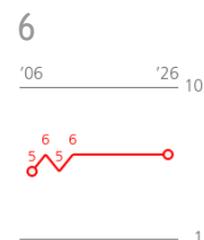
The Articulación Nacional Indígena por una Vida Digna (ANIVID), established in 2020, comprises Indigenous organizations, communities, clans and individuals that share the goal of defending their lands, territories, rights and culture.

Finally, organizations of secondary school and university students have mobilized in recent years to defend their sectoral interests and protest corruption.

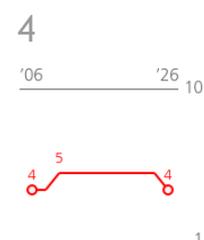
Levels of support for democracy have traditionally been low among Paraguayan citizens. In the 2024 Latinobarómetro survey, only 43% of respondents (2023: 40%) agreed that democracy was preferable to any other form of government (Latin American average: 52%). In the same survey, 26% agreed that, in some circumstances, an authoritarian government might be preferable to a democratic one. The same percentage agreed that "people like me" did not care whether there was a democratic or a nondemocratic regime in place. Only 24% (compared with the Latin American average of 33%) said they were satisfied with the way democracy operated in Paraguay.

Compared with the rest of Latin America, the country has a relatively high share of citizens receptive to authoritarian government. The share of survey respondents indicating that they would support a military coup in response to high crime rates rose

#### Interest groups



#### Approval of democracy



to 45% in 2023 (Latin American average: 40%). In addition, 36% of respondents said they would accept a military coup to combat high corruption. Moreover, 34% and 29%, respectively, said they would support presidential coups that shut down the Supreme Court or the legislature (LAPOP).

In 2024, 50% agreed that it was acceptable for the president to bypass laws, parliament or institutions in order to solve problems. In addition, 45% agreed with the statement that elections and parliament could be abolished in order to let experts make decisions on behalf of the people. In this respect, it is not surprising that in 2024, 70% of survey respondents said they would not mind if a nondemocratic government came to power, provided that it solved problems (Latinobarómetro). This was the highest such value among Latin American countries (Latin American average 53%).

Levels of trust in political institutions such as the president, Congress and the judiciary, were low in 2024, with respective shares of 33%, 23% and 28% expressing such trust. Levels of trust in political parties were even lower, at 14%. Only 39% agreed that there could be no democracy without parties (the Latin American average is 50%).

At first glance, the coexistence of low levels of citizen confidence in democracy and in political parties with a relatively high degree of party loyalty in elections appears contradictory, as a large majority of voters continue to vote for the traditional parties. However, party loyalty can be partly explained by the continued existence of patronage networks.

Autonomous organizations in civil society are uneven. Groups face various socioeconomic barriers, and civic culture is generally weak. It remains unclear whether citizens engage in independent or clientelistic organizations. At the community level, many small-scale groups exist, with more than two-thirds of Paraguayans participating. However, these organizations typically focus on immediate needs, such as road construction or water supply improvements. Civic engagement is marked by a divide between localized solidarity and broader efforts for the common good. Trust levels are low – according to the 2024 Latinobarómetro survey, only 12% of Paraguayans (up from 9% in 2020) trust their fellow citizens, which is below the Latin American average of 15%.

Social capital

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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In Paraguay, 23% of the population lives in poverty. A majority of the economically active population works in the informal sector and earns around or below the minimum wage, making them vulnerable to falling below the poverty line. The country ranked 102nd out of 192 in the 2023 – 2024 Human Development Index (HDI), with a score of 0.731, lower than in 2020 (0.742) and below the global average (0.739) and the regional average (0.763), although still classified as having high human development. When adjusted for inequality, the HDI drops to 0.582.

Paraguay ranked 106th out of 170 on the 2022 Gender Inequality Index, with a score of 0.429. Social exclusion remains deeply ingrained. Income inequality has improved slightly; the Gini coefficient was 0.451 in 2022, down from 0.457 before the pandemic (2019).

Before the pandemic, strong economic growth cut poverty rates in half during the 2002 – 2019 period, but progress stalled. The poverty rate spiked to 22.3% in 2020 before declining again. In 2023, estimates of this rate ranged from 19.6% (ECLAC) to 22.7% (INE), with estimates of extreme poverty ranging from 7.3% (ECLAC) to 4.9% (INE). The poverty rate in rural areas remains higher than that in urban areas.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	39950.9	41952.9	43118.1	<b>44458.1</b>
GDP growth	%	4.0	0.2	5.0	<b>4.2</b>
Inflation (CPI)	%	4.8	9.8	4.6	<b>3.8</b>
Unemployment	%	7.3	6.8	5.8	<b>6.1</b>
Foreign direct investment	% of GDP	0.9	1.8	1.3	<b>0.9</b>
Export growth	%	2.1	-1.1	35.0	<b>-2.0</b>
Import growth	%	21.8	9.4	9.4	<b>4.2</b>
Current account balance	\$ M	-429.5	-2948.4	-176.6	<b>-1742.3</b>

Question  
Score

Socioeconomic  
barriers

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Economic indicators		2021	2022	2023	2024
Public debt	% of GDP	37.5	40.5	41.1	<b>44.8</b>
External debt	\$ M	22200.9	24783.7	26135.4	-
Total debt service	\$ M	1251.7	2132.3	1810.9	-
Net lending/borrowing	% of GDP	-3.4	-2.6	-3.8	-
Tax revenue	% of GDP	9.8	10.3	10.1	-
Government consumption	% of GDP	12.0	11.9	12.1	<b>12.6</b>
Public education spending	% of GDP	3.4	3.4	3.4	-
Public health spending	% of GDP	4.5	4.1	-	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	0.9	0.8	0.9	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market-based competition operates within a weak institutional framework. Free-market competition and the protection of property rights are constrained by persistent corruption and political influence within government administration and the judiciary. Regulatory agencies' supervisory functions over the telecommunications and energy sectors, potable water and the environment suffer from inefficiency and a lack of transparency.

Foreign direct investment inflows in Paraguay amounted to 0.8% of GDP in 2023 (according to the IMF), a relatively low level by Latin American standards. Foreign investors are guaranteed equal treatment and benefit from low taxes and favorable regulations on profit remittances. There are no restrictions on the repatriation of capital and profits or on the conversion or transfer of foreign currency. The law guarantees equal treatment of foreign investors and the right to real property.

The informal sector is significant, comprising 62.1% of workers ages 15 and older in non-agricultural jobs in 2023, compared with 64.1% in 2017 (INE). The Ministry of Industry and Commerce (MIC) estimates that 98% of the country's business sector is made up of micro or small enterprises, which provide work for 73% of the country's employed population. In 2023, 366,977 formal micro, small and medium-sized



enterprises were in operation, according to the MIC registry, with microenterprises accounting for 88% of the sector's total. The number of informal MSM enterprises was 705,521.

The informal sector encompasses lawful but unregistered activities; cross-border smuggling; the illegal production and sale of narcotics; and the sale of pirated music, stolen automobiles and weapons. In 2023, the underground economy accounted for 47.1% of GDP, according to the research and consultancy organization PRO Desarrollo.

Formation of monopolies is generally prohibited by Article 107 of the national constitution. An antitrust law – the Law on the Defense of Competition – has been enacted. Introduced in June 2013, the policy targets anti-competitive agreements, abuses of dominant market positions and predatory pricing. In 2015, the Comisión Nacional de la Competencia (CONACOM) was established as the body responsible for overseeing competition policy. CONACOM represents the country in the International Competition Network. Yet CONACOM is not truly an independent authority, as the executive appoints its members and business associations may participate in the selection process.

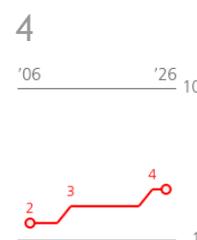
However, the state tolerates concentrated market power in the media sector, the banking system, and the gas station and supermarket sectors, and it maintains monopolies of its own in certain sectors. These sectors include electricity, overseen by the Administración Nacional de Electricidad (ANDE), and telecommunications, where the Corporación Paraguaya de Comunicaciones holds a monopoly on fixed-line voice services such as local telephony, international long-distance telephony and VoIP. By contrast, there has been effective competition in the mobile telephony market since 1998. Additionally, the internet market is open to competition.

Paraguay has long had a highly open economy. In the 2024 Index of Economic Freedom (as well as in the 2023 edition), Paraguay received a relatively high score of 77.2 out of 100 in the category of trade freedom. Tariffs are kept low, and non-tariff barriers, as well as other hindrances to trade, are minimal compared with those in neighboring countries, particularly in the Mercosur area.

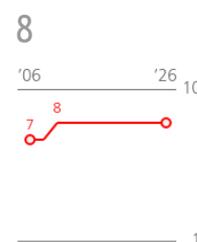
According to the World Bank, exports amounted to 35% of GDP in 2024. Exports are dominated by a small number of products, including soybeans and soybean oil, electricity and meat. Paraguay prioritizes agricultural trade reform negotiations and is a member of both the Cairns Group and the G-20.

The country's membership in Mercosur has led to trade liberalization with Argentina, Uruguay and Brazil. Paraguay still maintains a national list of exceptions to the Mercosur Common External Tariff (CET). In 2024, these exceptions accounted for 33.2% of tariff lines. However, most of these tariff lines (84%) were subject to tariffs below the CET.

#### Competition policy



#### Liberalization of foreign trade



Paraguayan exports are not subject to export duties. All tariff lines are bound at rates of 10% to 35%. In 2024, the simple average applied most-favored-nation (MFN) tariff was 7.2% (2023: 8.6%). The average MFN tariff is 8.9% for agricultural products and 7% for non-agricultural products. Of all tariff lines, 38% are duty-free, 85.3% are subject to a tariff not exceeding 15% and only 0.85% carry a tariff of more than 20%.

Paraguay is a founding member of the WTO. By 2024, the country had implemented 97.5% of the commitments under the Agreement on Trade Facilitation (TFA), including the establishment of a single window for foreign trade procedures, creation of an authorized economic operator (AEO) program, and the implementation of a national network of food testing laboratories and electronic phytosanitary (ePhyto) certificates with some trading partners.

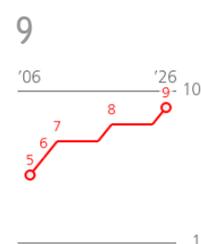
According to the IMF, the banking sector is well supervised and has strong capitalization and profitability. Following several banking crises in the 1990s and early 2000s, the legal and regulatory framework for banking supervision has undergone significant improvements, becoming more risk-based and increasingly aligned with international standards. The Superintendency of Banks (SIB) within the central bank (Banco Central del Paraguay, BCP) is responsible for supervising the financial sector. However, the IMF recommends enhancing and broadening financial oversight for the country's insurance and cooperative sectors and incorporating a risk-based approach.

Public financial institutions such as the National Development Bank (BNF), the Development Financial Agency (AFD) and the central bank have been strengthened.

Paraguay has a relatively small capital market. As of March 2024, the Asunción Stock Exchange had 163 companies. The banking system is generally well capitalized and profitable. In October 2024, it had a non-performing loan (NPL) ratio of 2.4% (compared to 3.5% in October 2023). In 2023, Paraguay's banking system comprised 18 major banks, with approximately \$28.9 billion in assets and \$20.1 billion in deposits. As of 2022, the capital-to-assets ratio was 8.9%. Stress tests by the central bank indicate the banking system would remain solvent in the face of low-probability extreme shocks.

The banking sector is highly concentrated, with four banks holding 60% of deposits. Non-bank lending institutions are relatively small but important for poorer households and small businesses. Cooperative assets account for about 10% of bank assets, while credit houses (cajas de crédito) control about 3%. Long-term financing for capital investment projects is scarce. Most lending facilities are short term. A significant share of Paraguayans lack access to banking services. Many rely on alternative methods such as e-wallets to save and transfer money. Paraguay has a financial inclusion strategy. By 2021, the share of adults with an account at a formal financial institution had risen to 55%, and in 2023, almost 28% of adults had access to credit in the formal financial system.

#### Banking system



The 2022 evaluation by the Financial Action Task Force of Latin America (GAFILAT) deemed Paraguay's legal framework to be adequate for combating money-laundering, but flagged low rates of investigation, prosecution and conviction, despite significant threats. The 2023 U.S. Narcotics Control Strategy Report acknowledges efforts to align laws targeting money-laundering and potential terrorist financing (AML/CFT) with international standards, as well as to enhance interagency coordination. However, convictions remain rare due to political and judicial corruption. Particularly in Ciudad del Este, criminal groups exploit informal economies and weak border controls to conduct trade-based money-laundering, with cryptocurrency increasingly facilitating illicit transactions. While the central bank can sanction noncompliant financial institutions, enforcement remains weak overall.

## 8 | Monetary and fiscal stability

Controlling inflation and maintaining an appropriate foreign-exchange policy are stated objectives of the government's economic policy. The central bank (Banco Central del Paraguay, BCP) coordinates monetary policy. The BCP's independence from political pressure has strengthened over time, making it relatively autonomous in its decisions.

Inflation rates have remained moderate to low since 2012. At the end of 2020, the inflation rate was 2.2%, followed by substantial increases during the pandemic to 6.8% in 2021 and 8.1% in 2022. Responding to these price increases, the central bank raised its benchmark interest rate. Annual inflation then fell to a rate of 3.7% in 2023 and remained near this level thereafter (as of December 2024, it was 3.8%). Since mid-2023 (except between April and September 2024), it has remained below the 4% target set by the central bank. Through the end of 2024, the central bank kept its benchmark interest rate at 6% (down from 8.5% in mid-2023) but reduced the inflation target in December from 4% to 3.5%, maintaining a tolerance range of  $\pm 2$  percentage points.

Paraguay has a floating exchange rate. Because of close ties to Argentina and Brazil – its two major counterparts in Mercosur – the Paraguayan currency, the guaraní, is influenced by economic developments and exchange rates against the U.S. dollar in these neighboring countries. In 2023, the guaraní remained relatively stable in nominal terms, but the real effective exchange rate (REER) appreciated by 3.5%, a trend that continued in 2024 (3.5% in April 2024).

### Monetary stability



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Paraguay has a track record of prudent macroeconomic policy based on sound fiscal rules, inflation targeting, moderate and sustainable public debt, and a flexible exchange rate regime. The 2013 Fiscal Responsibility Law (FRL) established a budget deficit limit of 1.5% of GDP. However, the government may invoke an emergency escape clause in the event of a decline in economic activity, allowing the deficit ceiling to increase to as much as 3% of GDP during times of crisis.

Overall, taxation is low, with a personal income tax ranging from 8% to 10% and a corporate (business income) tax of 10%. The value-added tax is 10% (5% for basic items in the food basket).

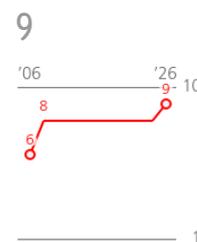
In August 2023, outgoing President Abdo enacted a law establishing the National Directorate of Tax Revenues (DNIT), an autonomous body within the executive branch that consolidates the functions of the former Vice-Ministry of Taxation and the National Customs Directorate. According to DNIT estimates, the overall tax evasion rate is 26%. However, tax revenue increased significantly in 2024 compared with 2023, reaching 11.5% of GDP in August 2024.

As a result of the government's efforts to mitigate the impact of the pandemic, the fiscal deficit reached 6.1% of GDP in 2020, but fell back to 3.6% of GDP in 2021 and 2.9% in 2022. The fiscal deficit widened to 4.1% of GDP in 2023, primarily due to the recognition of debts to construction companies and pharmaceutical suppliers incurred during the COVID-19 pandemic. Additionally, new borrowing and high financing costs led to an increase in interest payments. At the end of 2024, the fiscal deficit reached 2.6% of GDP, which was in line with what was authorized in the National General Budget and the fiscal convergence plan. The government aims to comply with the fiscal deficit ceiling of 1.5% of GDP by 2026.

Since 2013, Paraguay has relied on external borrowing, including through the issuance of sovereign bonds. It released bonds worth \$500 million in 2023. Foreign currency-denominated debt accounts for 90% of the total public debt. Official multi- and bilateral lending accounts for 45%, while eurobonds, regularly issued in international markets, make up 35%. In 2024, Paraguay issued \$500 million in PYG-denominated eurobonds (seven-year maturity, 7.9% rate) and \$500 million in U.S. dollar-denominated bonds. Since 2013, total issuances have reached about \$8 billion. At the end of 2023, total public debt was equivalent to 38.5% of GDP (compared to 35.8% in 2022). Paraguay's public debt is assessed as sustainable by the IMF.

Paraguay was among the top scorers in the 2024 USAID Debt Transparency Monitor. International credit rating agencies rate Paraguay's creditworthiness positively. In February 2024, Standard & Poor's raised Paraguay's sovereign credit rating to BB+ from BB, matching Fitch's rating (confirmed in October 2024). In January 2025, Standard & Poor's revised the outlook to positive from stable. In July 2024, Moody's upgraded Paraguay's credit rating to Baa3 with a stable outlook.

#### Fiscal stability



## 9 | Private Property

On the Heritage Foundation’s Index of Economic Freedom, Paraguay’s score for the protection of property rights decreased slightly from 46.8 in 2023 to 45 in 2024. That score remains relatively low on a scale with a maximum of 100. Nevertheless, the country’s index values have improved significantly since 2016, when they stood at 30.0.

Property rights and the regulation of property acquisition are generally well defined, but problems arise in their implementation under the rule of law, primarily because of inefficiency and corruption in the judicial system.

Protecting intellectual property (IP) is a major problem. For more than 20 years, the United States’ “Notorious Markets for Counterfeiting and Piracy Report” has cited Ciudad del Este as a regional hub for the manufacture, assembly and distribution of counterfeit and pirated products in the Brazil-Argentina-Paraguay tri-border area and beyond, with the range of such goods including apparel, footwear, electronics, pharmaceuticals and automotive equipment. The 2024 report remains skeptical about improvements reported since 2023 by the National Directorate of Intellectual Property (DINAPI).

The International Property Rights Index 2024 ranks Paraguay at 93rd place globally (out of 125 countries) in the category of intellectual property (IP) rights, and 15th in Latin America (20 countries). The U.S. Trade Representative’s 2024 annual review of intellectual property protection and enforcement among U.S. trading partners worldwide keeps Paraguay on its Watch List, citing the scale of IP enforcement challenges, particularly the need for effective and consistent prosecutions and judicial actions.

A lack of consistent property surveys and registries complicates land title acquisition. The creation of the Unified National Registry (RUN) in January 2025 to unify the land titling process could lead to long-term improvements.

Although progress has been made in the cadastral system since 2016, land titles in the agricultural sector frequently remain ill-defined, resulting in insecure property rights and contracts. In particular, the property interests of Indigenous communities are inadequately protected, leading to the displacement of many such people from their ancestral lands.

A latent, sometimes violent conflict exists among various interests in the country. Large agricultural corporations (some of them foreign-owned) seek to consolidate and expand holdings, while the landless and small farmers pursue agrarian reform and land redistribution. Obtaining the necessary documents for land titles takes considerable time, which can exacerbate conflicts over property rights.

Property rights

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Private business activities are the backbone of Paraguay's economy, with no restrictions on repatriation of capital and profits. Private entities are free to establish, acquire and dispose of business interests. In 2024, the Index of Economic Freedom ranked Paraguay's as moderately free with respect to business freedom, with a score of 69 out of 100, compared with 69.5 in 2021.

In certain sectors, such as telecommunications, petroleum distribution, cement, electric power generation and water services, state-owned enterprises compete with private companies or even hold a monopoly. Privatization programs halted during President Duarte's administration (2003 – 2008). These programs were highly unpopular due to major irregularities, a lack of transparency and corruption.

The Cartes government (2013 – 2018) passed new laws allowing more private sector activity in cooperation with the public sector in the form of public-private partnerships (PPPs), with the aim of facilitating and encouraging infrastructure investment. His successors, Presidents Abdo and Peña, have continued this policy.

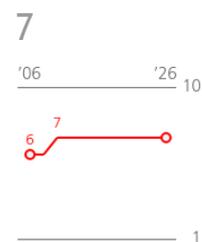
## 10 | Welfare Regime

In 2023, central government public social spending amounted to 10% of GDP (CEPALSTAT). Paraguay's social protection system comprises a contributory social security program, voluntary private schemes (such as mutual funds or cooperatives) and social assistance programs. The contributory social security system covers only formal sector employees and has low overall pension coverage – only 23.4% of employed individuals contributed in 2022. Rural participation rates are even lower, at around 10%.

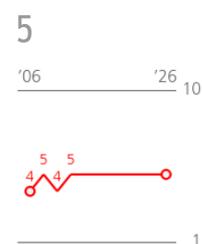
The average life expectancy in Paraguay is relatively high at 74 years (71 for men and 77 for women). The pension system is organized on a pay-as-you-go basis and covers all formal workers in the economy who have completed the required years of contributions. Employees must contribute 9% of their monthly income and employers 14%. The contributory scheme has two main subsystems: the pension system for private sector workers, managed by the Instituto de Previsión Social (IPS), and the Caja Fiscal, which manages the scheme for public sector employees. The public sector pension system accumulated a \$726 million deficit during 2019 – 2023, which had to be covered by tax revenues.

The benefits offered by the contributory system are typically generous. The replacement rate may reach 100% when an individual has contributed for at least 25 years and retires at age 60. However, in 2022 only 14.8% of people ages 65 and older received a retirement or contributory pension. In 2010, the Adultos Mayores program was established to provide support to older adults (65 and older) living in extreme poverty. As of 2024, the program had 323,618 beneficiaries, representing 68% of the population ages 65 and older.

### Private enterprise



### Social safety nets



In October 2024, the government promulgated a law (approved by Congress in September) establishing a universal pension for senior citizens. Under the new law, adults 65 and older who do not contribute to social security and do not receive a salary in the public or private sector will be eligible for a monthly pension of at least 25% of the current minimum wage. The law also establishes the same pension for adults with severe disabilities (from age 60) and for Indigenous community members (from age 55).

Regarding social assistance, President Peña continued the Tekoporã conditional cash transfer program, which was launched in 2005 and benefited 200,000 families at the end of 2024. Tekoporã's main objective is to ensure that children from vulnerable families have access to education and health services as part of a strategy to break the cycle of intergenerational poverty.

In 2024 (starting in August), the government introduced the Zero Hunger (hambre cero) program, which centralizes funds and partially reallocates them by deducting from other projects. The program prioritizes children and adolescents in compulsory education (kindergarten and basic school up to ninth grade). It will be financed with 80% of the compensation paid by Brazil for surplus Paraguayan energy purchased from the Itaipú Binacional power plant. The program excludes the Central Department, whose governor is a prominent leader of the opposition Liberal Party.

Paraguay's health system is fragmented and uncoordinated, with varying financing, regulation, enrollment and service delivery models. Coverage is uneven across regions. The Ministry of Public Health and the Institute of Social Welfare (IPS) are the country's main health institutions. In 2022, more than 70% of Paraguayans (86% in rural areas) lacked health insurance and relied on the Ministry of Public Health for coverage. Meanwhile, 19.6% were insured through IPS, and only 5.9% had private coverage. By 2023, three in 10 people lacked access to medical care when sick or injured. Public funds also subsidize private health insurance for certain public servants. In 2021, public health spending amounted to 4.5% of GDP and 18% of total public spending.

Although Paraguay's constitution formally prohibits discrimination, the absence of a corresponding executive law leaves the principle without legal force or enforcement mechanisms. As a result, protections against gender-based discrimination remain largely symbolic, and women continue to face notable economic and political disadvantages.

In 2024, the World Economic Forum's Global Gender Gap Index ranked Paraguay at 81st place (2023: 91st) with a score of 0.707 (1 = parity). The Gender Inequality Index (UNDP) ranked Paraguay at 106th out of 193 countries, with a score of 0.429 (as of 2022). Women in Paraguay remain disproportionately affected by economic hardship compared to men, with data reflecting a persistent gap in poverty rates. The labor force participation rate among women (for individuals ages 15 and older) was

Equal opportunity

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59.5% in 2023, compared to 82.4% for men (World Bank). The unemployment rate in 2023 was 7.3% for women and 4.8% for men. In 2023, 28.5% of women (and 11.5% of men) had no income of their own. As of 2022, the literacy rate (among individuals aged 15 to 24) was 98.9% for men and 99.3% for women. The percentage of the population with at least some secondary education is 75.4% for women and 71.1% for men, according to CEPALSTAT. Overall, no significant progress has been made on gender equality in the past two years.

The Electoral Code imposes a quota for women in elected positions within political parties of at least 20%. However, the Supreme Electoral Court does not have the power to oversee compliance with this requirement. The major parties have adopted statutory reforms stipulating parity (PRLA) or 30% (Colorado Party) participation by women in electoral positions. The representation of women in Congress increased after the 2023 general election, with 18 of the 80 Chamber of Deputies seats (22.5%; 2018: 15%) and 11 of the 45 Senate seats (24.4%; 2018: 18%) now held by women.

Two of the 17 governors elected in 2023 were women (compared with none in 2018), but only 13.3% of candidates were women. Moreover, 26.5% (2018: 19.9%) of departmental assembly members elected in 2023 were women (compared with 35% of candidates). Only one of the nine justices on the Supreme Court is a woman (as of 2024). The three justices of the Supreme Electoral Court are men. However, 10 of 17 judges in the electoral courts (Juzgado Electoral) were women, and five of the 10 electoral tribunals (Tribunal Electoral) were presided over by women.

The Indigenous population is denied equal opportunities for development, mainly through neglect. Poverty rates are significantly higher in these communities than in the rest of the population. There are no reserved legislative seats for Indigenous people. Unlike the 2018 elections, no Indigenous political movement was registered for the 2023 elections. According to information provided to the OAS electoral observation mission, there were approximately 40 candidacies by Indigenous people out of 9,902.

## 11 | Economic Performance

According to data from the U.N. Economic Commission for Latin America and the Caribbean (ECLAC), Paraguay's GDP grew by 4.7% in 2023 (3.5% on a per capita basis) and 4.2% in 2024, significantly above the Latin American and South American averages. It is expected to grow at a similar rate in 2025. Growth was driven by the recovery in agricultural activity and electric power generation, which had suffered during the 2021 – 2022 drought. The main risk to the growth projection is that the arrival of La Niña conditions in the 2024 – 25 agricultural cycle could lead to rainfall deficits.

Output strength

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In May 2024, Paraguay reached an agreement with Brazil to renegotiate electricity tariffs at the Itaipú hydroelectric power plant. The two countries share the plant, and tariffs will rise by 15.4% for three years. The new tariffs will generate nearly \$650 million in annual proceeds, most of which is expected to go toward increased social spending and investments outside the central government budget.

The recovery of merchandise trade, particularly soybean exports, turned the current account balance from a deficit amounting to 4.6% of GDP in 2022 to a 1.9% surplus in 2023. However, in 2024, declines in soybean prices (due to global oversupply and lower demand) and electricity exports (due to lower water levels) widened the external current account deficit.

In the quarterly FGV Economic Climate Index (ECI) assessing 10 Latin American economies, Paraguay was ranked first in 2023 and in the first and second quarters of 2024. In 2023, there was a reduction of almost \$400 million in net foreign direct investment flows. Total flows were the equivalent of 0.8% of GDP, compared with 1.7% in 2022. FDI is expected to increase in the years 2024 – 2026 due to significant private investment from Paracel (paper pulp from eucalyptus forestry) and Omega Green (biofuels).

Inflation rates rose significantly after the pandemic, decreased in 2023 and stabilized through 2024. Urban unemployment rates fell, while the overall unemployment rate rose slightly. Real wages and the minimum salary, both of which had been falling since 2021, began to recover in 2023.

## 12 | Sustainability

The new administration under President Peña has shown greater interest than its predecessors in the issues of environmental protection and sustainable development. It remains to be seen how the various initiatives will be implemented. In the past, enforcement of environmental standards has been weak.

In 2023, Paraguay secured funding from the IMF's Resilience and Sustainability Facility (RSF) to reduce climate vulnerability and promote sustainable growth. As part of this cooperation, the government launched several initiatives, including a National Program for Energy Efficiency Labeling, the integration of climate considerations into public investment planning, and the release of a green taxonomy – developed with the central bank – to define environmentally sustainable activities and assets.

In September 2024, President Peña signed a decree approving Paraguay's new Energy Policy through 2050. The policy outlines more than 300 objectives, organized in three phases: short term (until 2028), medium term (until 2035) and long term (until 2050). Key goals include strengthening the country's energy matrix, ensuring

Environmental  
policy

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energy security, promoting renewable energy production, reducing reliance on hydrocarbons and expanding the use of electricity. In December 2024, Paraguay also launched a National Strategy for Green Hydrogen to capitalize on its abundant renewable energy resources.

In November 2024, the Inter-American Development Bank (IDB) approved a \$154 million loan and a \$7.7 million grant through its CLIMA program for a Comprehensive Sanitation Plan in the Lake Ypacaraí watershed. The plan focuses on expanding rural sanitation infrastructure, restoring degraded ecosystems, and enhancing water and sanitation governance. It aims to enhance the Ministry of Public Works and Communications' capacity for watershed management as well as for climate- and biodiversity-focused monitoring and investment.

While Paraguay has a clear legal framework (as part of the National Development Plan) intended to safeguard its natural biodiversity, its economic development model relies on the overexploitation of natural resources. Land taxes are negligible, and the agricultural sector receives preferential treatment with respect to income and value-added taxes. Cattle ranching and commercial agriculture are major drivers of deforestation, which has accelerated because of the boom in soybean production. In 2021, oil crops accounted for 64% of Paraguay's harvested area (CEPALSTAT).

Because of large binational hydropower plants, Paraguay's CO<sub>2</sub> emissions are relatively low. By the end of 2021, Paraguay was one of six countries worldwide that relied exclusively on renewable electricity, according to the REN21 network. In terms of energy consumption, electricity accounted for 22% (2021: 18%), biomass for 38% (2021: 41%) and petroleum derivatives for 40% (2021: 41%), according to the National Energy Balance 2023. In recent years, devastating wildfires have broken out across Paraguay (especially in 2019, 2020 and 2021 – 2022).

In the 2024 Latinobarómetro survey, 65% of Paraguayan respondents said they supported efforts to combat climate change, regardless of possible negative consequences for economic growth.

Inadequate education policies have left Paraguay's education and training systems at a substandard level of performance. Although the literacy rate among people aged 15 to 24 was 99.1% in 2022, significant functional illiteracy persists in the country.

The net enrollment rate was 92.4% at the primary education level and 79.5% at the secondary level in 2023. According to the 2022 census, 97 out of every 100 children between the ages of six and 14 attended a formal educational institution. The percentages in the 15 – 19, 20 – 24 and 25 – 29 age groups were 76.3%, 31.9% and 14.1%, respectively. However, striking disparities in enrollment rates are evident, particularly between urban and rural areas. The discrepancy in tertiary education is especially noticeable. Among 15-year-olds, those in urban areas study an average of 2.7 years longer than those in rural areas. On average, individuals in Paraguay receive 9.9 years of schooling (as of 2023), but this average is 10.8 years in urban areas and 8.1 years in rural areas (INE).

Education policy /  
R&D

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The educational system still has significant deficiencies despite rising school enrollment rates. These issues often stem from improper staffing caused by politicization of the system and clientelistic networks. However, challenges are sometimes as basic as providing food and school supplies for young pupils. Progress in higher education has been skewed toward wealthier students. Paraguayan students have low scores in international comparisons, such as the OECD's Programme for International Student Assessment (PISA) tests. Paraguay's results on the 2022 PISA study yielded the second-lowest score (360) among participating Latin American countries.

By quantitative measures, investment in education and training and in research and development remains relatively low. Public spending on education accounted for 22% of government spending and 3.4% of GDP in 2023 (UNESCO). These figures are among the lowest in Latin America. Meanwhile, R&D spending remained negligible at 0.14% of GDP in 2021. The number of researchers in the R&D sector amounted to 142 per 1 million people in 2021 (World Bank). In the 2024 Global Innovation Index, Paraguay was ranked 93rd of 133 countries (91st in 2022 and 97th in 2020) and 12th in the Latin American and the Caribbean (LAC) region. In the specific subcategory of education, the country ranked 116th, while in R&D it ranked 100th.

## Governance

### I. Level of Difficulty

Structural constraints on governance are substantial. Paraguay is landlocked, and its geography is challenging. The Chaco region is arid and sparsely populated. These characteristics make building and maintaining road infrastructure expensive, and complicate integration with other countries. Paraguay has one of the lowest road densities in Latin America. Its transportation costs for foreign trade are higher than the average for other Latin American countries. Shipping can be affected by low water levels in the Paraguay-Parana river system. In addition, Paraguay lacks air connectivity, making international and even regional travel challenging.

Paraguay is vulnerable to climate change. Because agricultural products are its main exports, the economy suffers during adverse climate events such as droughts and floods (often caused by the El Niño phenomenon). In recent years (as in 2022), conditions of drought and low rainfall have occurred. Rising average temperatures pose a threat that will intensify over time, affecting agricultural yields and public health.

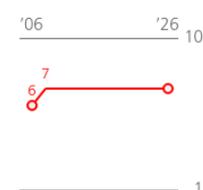
The country is unable to combat poverty systematically on its own. Future development must contend with high and persistent levels of social inequality; the lack of an educated labor force, which translates into relatively low levels of human capital; labor market inefficiencies; widespread corruption in politics, society and the private economic sector; and deficiencies in infrastructure. Low water levels caused by droughts affect electricity generation by the Itaipú and Yacyretá hydropower plants.

The democratization process in Paraguay began more than 35 years ago, in February 1989, following a long period of authoritarian rule. It unfolded in an environment characterized by a shallow civil society, a weak political opposition, and broad continuity among elites in politics and officialdom. Politics has relied on patronage networks that have essentially subverted civil society, resulting in a weak and limited culture of civic participation in public life.

The NGO sector in Paraguay relies heavily on support from international donors. A network of small civil society organizations exists and can be used to drive mobilization in times of crisis. However, on a day-to-day basis, there is little connection between these under-resourced organizations and broader social

Structural  
constraints

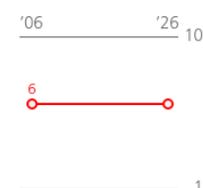
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Civil society  
traditions

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movements. One exception is Paraguay's robust human rights movement. For instance, the Paraguayan Human Rights Coordinator (Coordinadora de Derechos Humanos del Paraguay, Codehupy) comprises 39 organizations and networks. Levels of interpersonal trust are very low, reflecting the country's overall low social capital.

The country's high degree of ethnic homogeneity is an advantage for the Paraguayan government. There are no religious differences that could be viewed as a source of conflict. Most political parties, including the Colorado Party and the Liberal Party, do not emphasize social cleavages between the poor and the wealthy. However, the conflict between landowners and organized landless small-scale farmers in rural areas has intensified over the past decade. For years, the policy of expanding agricultural land has been an important contributor to the country's GDP growth. Today, almost no arable land remains in eastern Paraguay, and the agricultural frontier is shifting to the Chaco.

Drug-trafficking has intensified, with gangs infiltrating much of the northern part of the country's eastern region and collaborating closely with Brazilian counterparts. This area also hosts the small EPP guerrilla group, which has some rural support but does not threaten the Paraguayan state or political stability. International drug-trafficking organizations pose a greater challenge, as they have sought to infiltrate state structures and influence politics. The resulting insecurity and violence, including kidnappings and assaults, are driven by criminal activity rather than ethnic or regional factors.

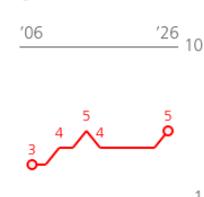
## II. Governance Performance

### 14 | Steering Capability

When President Santiago Peña's government took office in 2023, it advanced institutional reforms and restructured the government, including with the creation of a Ministry of Economy and Finance. This new ministry replaces the former Ministry of Finance, expands its functions and absorbs the Technical Secretariat for Economic and Social Development Planning (STP), which previously evaluated the implementation and results of the National Development Plan (PND 2030). Responsibility for this task now falls to the Vice-Ministry of Economy and Planning, specifically to its General Directorate of Planning, which oversees three departments: Strategic Plans and Programs, Sustainable Development, and Institutional Management.

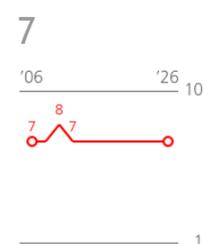
Although the PND 2030 (including updates) is still valid, planning is based on sectoral strategic plans developed by the ministries. A new National Development Plan 2050 was being developed during the review period, with plans to present it in

### Conflict intensity



### Question Score

#### Prioritization



2025. In his first presidential report (Informe Presidencial) to Congress in July 2024, President Peña outlined the following pillars of his government: security and defense, economic growth, quality education, a healthy Paraguay, and a social Paraguay for all.

In its first 18 months, President Peña's administration was relatively successful in pursuing its priorities. However, many laws are still being implemented, so their impact can be assessed only to a limited extent.

Regarding its economic objectives, the government was largely successful. GDP grew by 4.7% in 2023 and 4.2% in 2024 – significantly above the Latin American and South American averages – and is expected to grow at a similar rate in 2025. The government reduced inflation and is on track to bring the budget deficit back to the level set by the Fiscal Responsibility Law (1.5% of GDP). Fiscal and monetary stability has been achieved, as reflected in Paraguay's classification by international rating agencies.

Even before Santiago Peña's August 2023 inauguration, the National Directorate of Tax Revenues (Dirección Nacional de Ingresos Tributarios, DNIT) had been created by law as a key element in ongoing institutional reforms and government administration. The DNIT is an autonomous institution under the executive branch; its national director is appointed and removed by the president of the republic on the recommendation of the minister of economy and finance. In addition, the same law established the Higher Institute of Tax Studies (Instituto Superior de Estudios Fiscales) to train its officials and other interested parties. Tax revenues increased significantly in 2024 compared with 2023.

In September 2024, the government adopted a Strategic Plan of Security for Development 2024 – 2028 (Plan Estratégico de Seguridad para el Desarrollo) and announced an increase in police spending. Paraguay's crime rate is still relatively low compared with other Latin American countries, with a homicide rate of 6.2 per 100,000 people in 2023. The threat from the EPP guerrillas has decreased, and the government is striving to improve state control and overall security in prisons. Despite some successful raids and arrests, the fight against organized crime and illegal drug-trafficking remains a major challenge.

Several social policy projects were implemented during the review period. In December 2023, President Peña signed the Retirement and Pension Superintendency Law, which was approved in record time (perhaps with a view to ongoing negotiations with the IMF). The law fulfills a constitutional mandate obligating the state to control and supervise pension funds. However, because of a lack of implementing regulations, the failed election of all members of a supervisory body (Social Security Council) and the pending appointment of a superintendent, the superintendency was not yet operational at the end of 2024. Other social policy measures included the Zero Hunger (hambre cero) program for children and adolescents, which launched in August 2024, and the introduction of a universal pension for senior citizens in Paraguay.

Implementation

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Other laws passed during the period aim to modernize the state and enhance its efficiency. For example, in January 2025, a new law for the civil service (currently comprising 207,000 functionaries) took effect, seeking to modernize it, make recruitment more merit-based, reduce the number of political appointments and combat nepotism.

International cooperation with organizations such as the World Bank, the IMF and the Inter-American Development Bank (IDB) is an established tradition in Paraguay, and has supported reform efforts across governments. To a certain extent, it has also facilitated learning from past experiences through knowledge exchange. Methods of policy evaluation have improved, particularly with regard to impact evaluation. Local and external consulting firms conduct these evaluations via bids submitted through international cooperative initiatives, including some from academic institutions. Academic experts and institutions, along with NGOs, also participate in the design of policies in various public ministries or agencies.

The temporary suspension of the Fiscal Responsibility Act (FRL) and the gradual return to its requirements illustrate the state's flexibility and political learning.

## 15 | Resource Efficiency

Over the past decade, the public sector has become increasingly professionalized. New employees are selected more carefully than before, and in many cases they are evaluated according to professional rules. However, public sector reforms face obstacles because of the high degree of politicization in the public administration. Political loyalty remains a key factor in recruiting administrative staff, particularly at the municipal level.

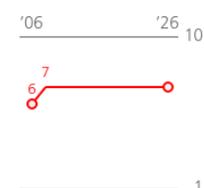
While the Peña government is advancing state reforms and improving efficiency, including in the areas of tax collection, modernizing the public sector remains a challenge. Issues include weak administrative coordination and a shortage of qualified professionals in many ministries. These issues affect project planning, risk assessment, execution and oversight. They also affect private infrastructure investments and regulatory capacity. To address these gaps, the government encourages unsolicited public-private partnership (PPP) proposals, leveraging private sector expertise and funding.

The Office of the Comptroller General is responsible for overseeing the economic and financial activities of the state, its departments and its municipalities. It has functional and administrative autonomy. The Comptroller's Office estimates that 90% of public institutions have deficiencies in their oversight systems.

Paraguay has a track record of prudent macroeconomic policy based on sound fiscal rules and moderate, sustainable public debt. At the end of 2024, the fiscal deficit reached 2.6% of GDP, in line with what was authorized in the National General Budget and the fiscal convergence plan. The government is on track to meet the budget deficit ceiling of 1.5% of GDP by 2026.

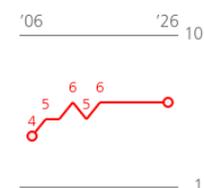
### Policy learning

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### Efficient use of assets

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Despite attempts to reform the public administration, bureaucratic inefficiencies hinder the effectiveness and coherence of policy coordination and stem from a lack of qualified technical personnel in many ministries. Historically, government departments, ministries and public agencies have acted independently and without coordinating their policies. This situation reflects not only inefficiencies in the public sector but, more importantly, the manipulation of policies by entrenched interests in favor of political and economic groups and personal interests. The government has been more successful in coordinating its various social programs. As cross-cutting issues, environmental protection and sustainability receive insufficient consideration in government activities due to a lack of coordination and prioritization.

Contradictions among government goals hamper the coherence of government policy. The most significant example is the contradiction between low taxes, a policy presented as a comparative advantage for Paraguay, and the need for higher revenue as a condition for increased social spending. In addition, poor interinstitutional coordination hinders the implementation of government goals.

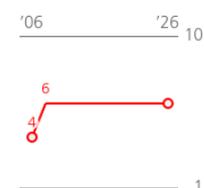
While the fight against corruption may not be the Paraguayan government's top priority, growing external pressure – from media investigations, international financial organizations and particularly the United States – has pushed anti-corruption efforts further up the agenda. In response, Paraguay has gradually expanded and strengthened its institutional tools to curb and control corruption. A key legal instrument is the 2014 Freedom of Information Law, which requires public institutions to disclose details such as staff lists, salaries and audit reports. However, enforcement remains weak, as many public offices still withhold information under the pretext of confidentiality.

The 2023 Capacity to Combat Corruption (CCC) Index by the Americas Society/Council of the Americas (AS/COA) ranked Paraguay 11th out of 15 Latin American countries – an improvement from 12th in 2021. The country has steadily increased its score since 2020, particularly in the area of legal capacity, in part due to stronger international cooperation in the area of law enforcement. Similarly, a 2022 evaluation by the Financial Action Task Force of Latin America (GAFILAT) found that Paraguay's legal framework is generally adequate to combat money-laundering. However, implementation remains a weak point: The number of investigations, prosecutions and convictions is still low given the scale of criminal threats in the country.

While some integrity mechanisms in Paraguay function effectively, others are hindered by insufficient funding and a lack of institutional independence. Oversight efforts are further weakened by fragmentation and poor coordination among key agencies, including the General Audit Office (Contraloría General) and the Anti-Money-Laundering State Secretariat (SEPRELAD). This hampers information sharing and overall enforcement. As of August 2024, SEPRELAD had received 14,331 reports of suspicious transactions, approaching the 17,095 reported in 2023 and significantly higher than the 11,095 in 2022.

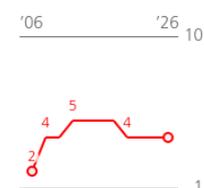
#### Policy coordination

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#### Anti-corruption policy

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Experts agree that one of the main obstacles to combating corruption is the weakness of the judicial system, which often fails to hold offenders accountable. This problem extends to the financing of political campaigns. Although candidates are legally required to record and disclose campaign income and expenses and parties must submit detailed financial reports to the Supreme Electoral Tribunal (TSJE) – including information on donor identities – genuine oversight is limited. The TSJE is responsible for publishing this information and enforcing rules prohibiting anonymous donations, excessively large contributions, (exceeding approximately \$130,000 annually) and donations from individuals convicted of serious crimes such as drug or human trafficking, arms smuggling or contraband. However, due to staffing and resource constraints, the TSJE lacks the capacity to properly audit the accounts of political parties.

According to the 2024 Latinobarómetro survey, only 34% of Paraguayan respondents (the Latin American average was 37%) believed that progress had been made in reducing corruption in state institutions in the past two years. Moreover, 41% said they had personally encountered acts of corruption over the past 12 months.

One major obstacle to combating corruption is the questionable commitment to this goal among political actors, particularly within the Colorado Party. Early in his presidency, Peña announced plans to dissolve the National Anti-Corruption Secretariat (SENAC), citing inefficiency and the need to optimize resources, though the move has yet to be carried out. In December 2024, the government announced it would suspend cooperation with the U.S. Drug Enforcement Administration (DEA) but later reversed the decision.

That same month, President Peña signed the “National Regime of Integrity, Transparency, and Prevention of Corruption” into law. This legislation abolished SENAC, transferred its functions to the Office of the Comptroller General (CGR) and established a National Anti-corruption Council with representation from all three branches of government. However, in the 2025 budget, lawmakers ensured that both parliament and the judiciary were exempt from general transparency rules (via the “Law Godoy”), which are designed to prevent corruption and nepotism in the civil service.

## 16 | Consensus-Building

Paraguay's main political actors agree on the goal of a market-based democracy, but there is little pressure for reforms to deepen democracy because such steps would threaten the vested interests of political and economic elites. Formal democratic institutions are subverted by informal and clientelistic practices. There is a lack of mechanisms for consensus-building – for example, between business owners and unions or between landowners and landless peasants. Political and economic actors primarily advocate democracy through formal means. However, most of them do not believe in or understand democracy as a means to improve the population's well-being or to guarantee a socially inclusive and equitable market economy. Moreover, most political actors show little tolerance for political views different from their own, which predominantly reflect a conservative agenda.

While the market economy as such is not called into question, there is an undercurrent of tension and contestation over Paraguay's growth strategy. The government and the ruling party support the current economic model, emphasizing stability, private investment and export growth. Left-leaning parties and social actors such as the Federación Nacional Campesina are critical of the concentration of land and wealth and advocate stronger state involvement in social and environmental issues. Moreover, a significant portion of the economy remains informal. The tax base as a percentage of GDP is the smallest in Latin America. Paraguay's ratio of tax revenue to GDP is half the average for OECD countries. The current government is modernizing the state apparatus and making it more efficient, which could strengthen the market economy. However, there is a considerable way to go before an inclusive market economy can be said to be in place.

Although democratically elected and legitimized, Paraguay's government is not a reformer in the sense used by the BTI. For instance, it does not promote further democratization or seek to eliminate informal rules that would affect its power base.

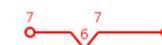
The military, as the classic veto power in Latin American history, respects the government's democratic legitimacy and is not an independent political actor. There is limited risk that social conflicts could spiral out of control and pressure political institutions. The same holds for conflicts over the rules of the political game (especially presidential re-election).

Anti-democratic actors are not openly visible, but historically embedded systems of clientelism and patronage, which are essentially anti-democratic, are primarily associated with the traditional political parties, the Colorado Party and the Liberal Party. Although neither main political party opposes democratic norms, the clientelistic practices of these organizations partly hamper democratic reforms. In particular, Paraguayan observers perceive former President Cartes' influence over the Colorado Party (and political institutions) as being detrimental to democracy.

### Consensus on goals

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### Anti-democratic actors

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Newcomers to the political landscape, including populist parties, have not improved the quality of democracy. Public discontent with how democracy functions in Paraguay, combined with the relatively high share of the population that is open to an authoritarian regime (or at least not opposed to it), could facilitate the rise of populist and anti-democratic politicians.

Non-political, anti-democratic actors such as drug cartels, particularly Brazilian cartels, negatively influence politics and are increasingly infiltrating political institutions.

Although the government has managed to prevent political cleavages from escalating into open conflicts, it has not bridged existing divisions. Political cleavages do not primarily occur along ethnic, class, regional or religious lines. One significant cleavage is between the traditional parties (Colorado Party and the PLRA) on the one hand and the progressive parties (which performed poorly in the last elections) on the other. Another division concerns the Indigenous population, which is relatively small and lacks organizational resources to contest the status quo. A third major cleavage, which has intensified over the past decade, centers on the conflict over available arable land. In 2021, penalties for land occupation were increased (Law No. 6830), and the courts made it easier to evict people from occupied land. Security forces have intensified their actions against land occupations. Government policymakers have not shown a willingness to explore a comprehensive solution to the land conflict that would also consider the Indigenous population's demands.

Over the past two decades, civil society organizations and NGOs have gained greater leverage in public decision-making. However, substantial progress, especially on social issues, has not occurred because the vested interests of powerful economic groups have significantly more policymaking influence than do civil society organizations, particularly in Congress. Formally, civic organizations have been participating increasingly actively in public hearings in Congress, but they have had little influence on final votes.

Political parties and their clientelistic networks remain relatively strong in Paraguay, limiting space for civil society actors. However, the executive branch has given civil society organizations more space overall if they support its political agenda. In general, political decision-making takes place in a highly top-down manner under President Peña, which limits the influence of research centers, civil society organizations and NGOs. It can be argued that the influence of civil society is most pronounced in agenda-setting, while it has less influence in policy formulation, decision-making and policy implementation. Civil society also monitors social, political and human rights programs, for example, through the annual reports released by the Paraguayan Human Rights Coordinator (Codehupy), an NGO. Still, the extent to which this influences government policy is questionable.

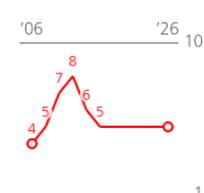
Cleavage /  
conflict  
management

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Public  
consultation

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Some policymakers acknowledge the need to address historical injustices but face challenges in promoting reconciliation. At times, statements from the Colorado Party and government officials, including the president, have sought to portray the Stroessner dictatorship in a positive light or downplay its human rights violations. Public policies on the issue of historical memory are lacking.

In September 2023, Congress approved a law to compensate 1,417 former conscripts involved in the 1989 coup that ousted Stroessner. The state officially recognizes that 20 soldiers were killed in the conflict.

Paraguay has no amnesty law preventing prosecution of human rights violations, and legal proceedings have been slow and inadequate. More than 35 years after the end of the dictatorship, only two of eight cases involving torture and forced disappearances have resulted in final sentences. In February 2024, a former torturer was sentenced to 30 years in prison for a crime committed in 1976. Limited resources have also slowed forensic searches for the remains of the disappeared.

Some victims of the dictatorship have received compensation, but payments have been relatively low. Many have waited years for funds that have technically already been awarded. Outstanding compensation debts total \$29.5 million for 2,266 direct victims and 1,312 heirs, with some claims dating back to 2012. In 2023, 208 direct victims and 11 heirs received a total of PYG 24.63 billion (approximately \$3.3 million). Since payments began in 2004, the program has disbursed more than \$139 million to 10,536 beneficiaries.

In compliance with international rulings, the Paraguayan state held two public apology ceremonies in 2024 referencing torture and assassinations carried out by state agents in 1990 and 2003.

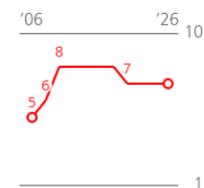
## 17 | International Cooperation

Paraguay has a long history of international cooperation. Over the past three decades, the country has implemented several national development plans. The current plan, PND 2030, which was approved in 2014 and later updated, is based on three pillars: poverty reduction and social development, inclusive economic growth, and Paraguay's integration into the global economy. Adoption of this plan has enhanced donor coordination and improved the effectiveness of international cooperation. A new plan, Plan Nacional de Desarrollo 2050, is currently in development.

The Peña administration (2023 – 2028) works closely with multilateral donors and financial institutions, including the IMF, the Inter-American Development Bank (IDB), the World Bank and the Development Bank of Latin America and the Caribbean (CAF), to align international assistance with domestic reforms. As of 2024, the World Bank is funding five investment projects in Paraguay with a

### Reconciliation

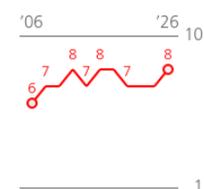
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### Effective use of support

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collective price tag of \$545 million. In 2023, Paraguay secured financial commitments from the IMF's Resilience and Sustainability Facility (RSF), which offers resources with longer maturities and favorable terms, for projects reducing climate vulnerability and promoting sustainable growth. The IMF also approved a two-year (2023 – 2024) Policy Coordination Instrument (PCI) to support structural reforms. In November 2024, the IDB approved a \$154 million loan and a \$7.7 million grant under the IDB CLIMA program for the Comprehensive Sanitation Plan for the Lake Ypacaraí Watershed.

Beyond financial support, Paraguay collaborates with development agencies from the United States (USAID), Spain (AECID), Japan (JICA) and Taiwan (ICDF). The USAID Paraguay Strategy (2020 – 2025) focuses on strengthening the rule of law, combating corruption, formalizing the economy and improving civil society oversight. The EU's Multiannual Indicative Programme for Paraguay (2021 – 2027) allocates €51 million for the 2021 – 2024 period, with a focus on promoting a green and resilient economy and reducing inequalities.

President Peña is a credible and reliable partner. The U.S. and Paraguayan governments have worked closely on anti-narcotics, anti-money-laundering and anti-smuggling efforts. However, disagreements persist, for instance due to U.S. sanctions against former President Cartes and Paraguay's late-2024 announcement – later reversed – that it would end its anti-drug agency's cooperation with the U.S. Drug Enforcement Administration.

Paraguay is closely aligned with the United States on foreign policy and is also a close ally of Israel. In December 2024, the country's embassy in Israel was moved again to Jerusalem (as it had been at the end of Cartes' presidency, a decision his successor reversed).

Paraguay is the only South American government that still maintains full diplomatic relations with Taiwan. Both governments lifted the reciprocal visa requirement at the end of 2024. Not all political parties want to maintain special relations with Taiwan. Efraín Alegre, the candidate of the opposition coalition (Concertación Nacional), proposed that Paraguay establish diplomatic relations with China. Although representatives of agricultural producers (meat and soybeans) support closer relations with China, an important export market, President Peña, who visited Taiwan before taking office and attended the inauguration of Taiwanese President William Lai in May 2024, continues to support Taiwan.

Paraguay's economic development is generally viewed positively, as reflected in the country's credit ratings and foreign investment flows. Since 2019, the governments have successfully issued sovereign bonds.

Credibility

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Paraguay maintains positive relations with all its neighbors. Argentina and Brazil are its most significant partners, and the Paraguayan economy is closely tied to their economies, especially in the energy sector. However, the Itaipú and Yacyretá hydroelectric plants are both a source of cooperation and conflict between Paraguay and its neighbors over the issues of electricity distribution and benefits. Paraguayan security forces regularly work with their counterparts in Argentina and Brazil to combat drug-trafficking and other illegal activities in the border regions.

Paraguay is one of the founding members of the Southern Cone Common Market (Mercosur), which includes Argentina, Bolivia, Brazil and Uruguay. Paraguay has not questioned Mercosur, even when other member governments have criticized the agreement or threatened to leave. The Mercosur Court of Arbitration is headquartered in Asunción. Paraguay also supports signing the EU-Mercosur agreement.

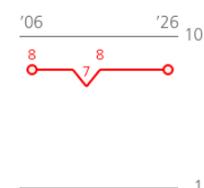
Paraguay has held observer status in the Pacific Alliance since 2013. In 2011, its legislature ratified the 2008 founding treaty of the Union of South American Nations (UNASUR). However, after suspending its membership in April 2018, Paraguay formally withdrew in March 2019, along with six other countries – Argentina, Brazil, Chile, Colombia, Ecuador and Peru – to co-found the now-defunct Forum for the Progress and Development of South America (PROSUR).

Paraguay aligned with other Latin American nations in the now-disbanded Lima Group, which sought to promote democratization in Venezuela. It also remains a member of the Community of Latin American and Caribbean States (CELAC), which was founded in 2011 and reactivated in 2020. Paraguay is active in the Organization of American States (OAS) and has nominated its foreign minister as a candidate for the group's 2025 secretary-general election.

The Venezuelan government severed diplomatic relations with Paraguay in January 2025 because Paraguay recognized and supported opposition politician González Urrutia as the winner of the 2024 presidential election.

## Regional cooperation

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## Strategic Outlook

In April 2023, the Colorado Party again won the presidential election, and President Santiago Peña Palacios took office in August 2023. The party also won majorities in both houses of Congress and in the governments of the departments (and their assemblies). The opposition is weakened and fragmented (in part due to defections). The majority faction of the Colorado Party, along with the former president and current party chairman, Horacio Cartes, supports President Peña.

The dominant influence of the Colorado Party – including its impact on the judiciary combined with weakened checks and balances – poses a risk of abuse of power and an erosion of democratic institutions. The expulsion of opposition Sen. Katty González in February 2024 sets a dangerous precedent. The same applies to the law on “Control, Transparency, and Accountability of Non-Profit Organizations,” which critics say could lead to state control and intimidation of NGOs.

Signs of public discontent are evident. Despite its dominance in government and Congress, the Colorado Party received well below 50% of the popular vote. The 23% electoral support for a populist candidate indicates that a significant segment of the electorate is dissatisfied with traditional political practices. Moreover, a relatively high percentage of citizens is receptive to the idea of an authoritarian government and of limiting democratic rights and checks and balances.

Democratic correctives have only a limited effect because of the existing structural power imbalance. The opposition can win only if it forms a united front, and if internal conflicts and divisions weaken the Colorado Party. As a result, President Peña seeks to maintain party unity while dividing the opposition through strategies such as co-optation and selective confrontation. Nonetheless, intraparty conflicts could intensify in the run-up to the 2028 presidential election. Moreover, if the Colorado Party once again puts the issue of lifting the ban on presidential re-election on the political agenda, as it has in the past, this could fuel cooperation among opposition parties and lead to broad street mobilization.

So far, President Peña has continued the policies of his predecessors. Fiscal and monetary stability are given high priority and appear secure in the medium term. This facilitates cooperation with international donors and development banks as well as borrowing on the capital market. Loans are being used to expand infrastructure, among other things, with an increased focus on public-private partnerships. According to international financial organizations and rating agencies, the country’s economic policy appears sustainable in the medium term, as there is no risk of over-indebtedness or difficulties in servicing the debt. In the foreign policy realm, the government seeks close alignment with the United States. The Peña government wants to maintain diplomatic relations with Taiwan and sees itself as a close ally of Israel.

The country's economic foundations remain based on agricultural and energy exports. The challenge is to broaden the economy. In some regions, arable land expansion is reaching its limits, and the effects of climate change, droughts and low water levels are affecting economic growth. The government seeks to mitigate the consequences of climate change for the economy and the population, and is turning to international cooperation to do so.

Efforts are underway to modernize the state and make the administration more efficient. This could lead to tensions with the Colorado Party's clientelistic power structure. In social policy, social redistribution is not being pursued and income taxes remain very low, while social programs have been expanded and new programs have been launched.

The reforms that have been initiated should be consistently pursued and implemented, and democratic checks and balances should be respected.