Centro de Análisis y Difusión de la Economía Paraguaya

CURRENT AFFAIRS ANALYSIS

ECONOMY AND SOCIETY

N°91

APRIL / MAY 2026

Centro de Análisis y Difusión de la Economía Paraguaya

A non-governmental organization dedicated to re to research, dissemination, and training on economic issues related to Paraguay and the region.

2

POLITICS

PRESIDENTIAL DIPLOMACY OF SANTIAGO PEÑA AT MID TERM

Esteban Caballero

8

SOCIAL

PARAGUAY: INFORMALITY AND DECENT WORK IN 2025

Lucas Boh

14

ECONOMICS

RECENT APPRECIATION OF THE GUARANÍ: LIQUIDITY, INTEREST RATES AND PORTFOLIO RECOMPOSITION

Rodrigo Ibarrola

23

ECONOMICS

TRUMP'S TRADE POLICY: EFFECTS ON THE WORLD AND ON PARAGUAY

Lisa Oviedo

DIRECTOR OF CADEP:

Fernando Masi

EDITORIAL TEAM:

José Carlos Rodríguez, Verónica Serafini, and Fernando Masi.

DESIGN AND LAYOUT

Silvia Ramos and Jesús Barrios Lesme

Economy and Society, is CADEP's free digital publication on current affairs analysis. Articles may be cited provided the source is mentioned.

The analyses and opinions contained therein do not necessarily reflect the institutional position of sole responsibility of their authors

.

INTRODUCTION

ECONOMY AND SOCIETY AIMS TO CONTRIBUTE TO BROADENING THE SPACE FOR DEBATE BY OFFERING ITS READERS AN ANALYSIS OF PARAGUAY'S ECONOMIC PROCESS. PROFESSIONALS COMMITTED TO THE COUNTRY ADDRESS HERE THE CAUSES AND CONSEQUENCES OF EVENTS AND SEEK TO PROMOTE DISCUSSION AMONG THE VARIOUS SOCIAL ACTORS AND ECONOMIC AGENTS.

Readers' responses and suggestions are welcome. With this initiative, CADEP, consistent with its principle of not reflecting sectoral or political interests, hopes to contribute to the public debate with objective analyses that help foster critical thinking and channel citizens' demands.

Asunción, May 2026

PRESIDENTIAL DIPLOMACY OF SANTIAGO PEÑA AT MID TERM

Esteban Caballero

In his inaugural address in August 2023, Santiago Peña announced that foreign policy would be a central priority of his administration and argued that Paraguay should position itself as a geostrategic actor, drawing on its endowments of water, food production and clean energy. He pledged to forge alliances without compromising national sovereignty, to promote trade and investment, and to transform the country into a regional logistics hub through the Bioceanic Corridor, the Paraguay–Paraná waterway and a strengthened Mercosur, while also addressing threats such as drug trafficking through enhanced international cooperation.

Since taking office, Peña has assumed an unusually prominent role in foreign affairs, reflected in a high frequency of international trips. This activism has drawn criticism for his frequent absence from the country, although others argue that such engagement was necessary to reposition Paraguay on the global stage. From this standpoint, the goal of increasing the country's international visibility has largely been achieved and there is now greater recognition of that "island surrounded by land". The key question, however, is at what cost this has been accomplished.

The international context

The president has had to project Paraguay's image in one of the most turbulent periods of recent international politics. He assumed office in the midst of the war between Russia and Ukraine, and shortly thereafter the conflict between Israel and Hamas erupted. In 2024, Donald Trump's return to the presidency of the United States added a further layer of complexity, triggering an abrupt shift in US foreign policy with direct implications for the Western Hemisphere.

Against this backdrop, the Peña administration was required to take positions on clear violations of international law — Russia's aggression, the abduction of Nicolás Maduro in Venezuela, the joint attack by Israel and the United States on Iran — and to confront more complex dilemmas, most notably Israel's actions in Gaza.

The rules based international order has also been undermined by the unilateral tariffs imposed by the United States, which have weakened multilateral institutions and

strained Washington's traditional alliances with Europe, Canada and Mexico. This unilateral turn can be interpreted as a symptom of the erosion of US unipolarity and the rise of China, whose economic and military expansion — particularly in the South China Sea and the Taiwan Strait — is reshaping global power balances.

In this setting, new regional configurations have emerged, such as the one promoted by Israel in the Middle East. The current government, dominated by the most radical strands of Zionism, advances the idea of a "Greater Israel", seeks to normalise relations with Arab countries, contain Iran and weaken Hezbollah and Hamas. The Abraham Accords have become a central reference point in this strategy.

In Latin America, the United States has reaffirmed its view of the hemisphere as a sphere of influence, seeking to limit China's presence and favour right wing governments. This tendency has crystallised in the so called "international of the far right", which brings together anti woke and anti "globalist" actors in fora such as CPAC and Foro Madrid. Asunción has hosted meetings of both spaces, signalling Paraguay's receptiveness to this agenda.

Finally, these geopolitical and ideological trends are embedded in a broader transformation of capitalism and of the productive forces. This process includes the transition towards renewable energies, the advance of automation and robotics, the exploitation of new raw materials and, above all, the spread of artificial intelligence (AI) across multiple domains of work.

The positioning of the Peña administration

In the "peñista" (or "cartista") narrative, the government's foreign policy is justified primarily by the need to attract foreign direct investment (FDI) and open new markets for Paraguayan exports. While these are the declared objectives, pursuing them has required navigating the complex geopolitical and ideological landscape described above. In practice, presidential diplomacy has operated on two levels: one more pragmatic and open, and another clearly defined by political and ideological alignment.

In both cases, the core messages aimed at attracting FDI have been consistent: macroeconomic stability, fiscal discipline, a simple tax system and the availability of clean hydroelectric power. These elements have been reinforced by the attainment of investment grade status from Moody's and Standard & Poor's.

Following this pragmatic and open logic, Peña has deployed an intense presidential diplomacy wherever he identifies economic opportunities. He has prioritised relations with India, Finland, Spain and Japan; has visited the Philippines and the United States; has enthusiastically supported the European Union–Mercosur agreement; signed an agreement with the United Arab Emirates; and promoted the Mercosur–Singapore trade deal.

This axis coexists with a more overtly political one, marked by explicit alignment with Taiwan, Israel and the Trump administration in the United States. Although this second axis is likewise presented as a strategy to attract investment and open markets, it is framed as part of a broader geopolitical and ideological project. Within this framework, Paraguay has supported US military interventions in Venezuela and Iran, has declared itself an unconditional ally of Israel, and has reaffirmed its commitment to Taiwan, in line with the anti China stance associated with the "Trump corollary" to the Monroe Doctrine. The closeness to Washington was symbolically visible at the "Junta de la Paz", where Peña declared: "Thank you, President Trump, for having brought hope over these last 12 months."

The alignment also extends to migration, security and the fight against organised crime. Paraguay has accepted commitments with the United States to operate as a "third country" for processing asylum applications and endorsed a memorandum facilitating the return of inadmissible migrants to their countries of origin "with Paraguayan assistance". In security matters, Peña has designated the Cartel de los Soles, the Comando Vermelho and the PCC as terrorist organisations, reproducing the US narrative on transnational crime and its alleged ties to political power. This classification has concrete effects and potential operational implications. In parallel, Paraguay has signed a Status of Forces Agreement (SOFA) with the United States, which regulates the legal status of foreign troops and, while facilitating military cooperation, typically generates domestic debate due to the immunities granted and the extent of state control.

On the diplomatic front, the government has aligned itself with the United States and Israel by dismissing the genocide case brought by South Africa before the International Court of Justice. This voting pattern reflects Peña's strategy of increasing the influence of a small state through alliances with major powers, even at the cost of reputational damage and estrangement from other regional poles. Paraguay has also once again moved its embassy to Jerusalem, and Israel has reopened its embassy in Paraguay.

The Gaza case constitutes the most critical episode. The sequence of Paraguay's votes at the United Nations — against a humanitarian truce, against a ceasefire and against allowing the Palestinian Authority to address the General Assembly by videolink — marks an unprecedented moral rupture in the country's foreign policy. These decisions contradict the official discourse on rights and freedoms and amount to support for a government that has been accused internationally of genocide, sacrificing basic ethical principles in the name of strategic interests.

Finally, this alignment has also been projected into the economic dimension linked to the artificial intelligence industry. Peña has issued Decrees 5860/26 and 5861/26 to guarantee low electricity tariffs for data centres, seeking to position Paraguay as a regional digital hub. While this strategy may attract energy intensive industries, it raises important questions about its impact on domestic productive development,

employment commitments, future energy availability and broader industrialisation priorities.

The global and the regional

From the outset, Santiago Peña has sought to endow his government with a narrative of grandeur, portraying Paraguay as a “sleeping giant” and even as a “middle power” — an aspiration closer to voluntarism than to the country’s actual capabilities. Patriotic rhetoric can create a favourable climate, but it cannot substitute for a strategy grounded in empirical evidence. The key question is whether this expansive foreign policy has generated tangible benefits.

FDI flows — arguably the most useful indicator — increased from 0.8% of GDP in 2020 to 2.6% in 2023, before falling slightly to 2.5% in 2024, according to World Bank data. Assessing the real impact of presidential diplomacy from this perspective will require examining the data for 2025. What can already be observed, however, is the opening of new markets and a greater volume of business delegations expressing interest in investing in Paraguay.

It is also important to consider that the expansion of Paraguay’s international outreach and its external preferences reflects geopolitical factors rooted in Latin America. Faced with a weakened regionalism, the country has confronted its structural asymmetry vis à vis the United States in the only way that seemed available. As Kenneth Waltz argued, when faced with a clearly superior power, small states tend to align with the dominant bloc. The “American Shield” summit held in Miami in March 2026 illustrated this dynamic. The crucial issue, however, is whether this international activism is compatible with Paraguay’s position in the Southern Cone, particularly given its deep interdependence with Brazil. The latter, for instance, has expressed discomfort with the SOFA and with the designation of the PCC and Comando Vermelho as terrorist organisations, due to the risk of an expanded US military presence in the region.

Moreover, Paraguay’s foreign policy concerns remain anchored in the Plata Basin, where it faces structural constraints that limit its room for manoeuvre. As a landlocked country, Paraguay depends critically on the Paraguay–Paraná waterway, shared with Argentina, Bolivia, Brazil and Uruguay. Although it represents less than 2% of Mercosur’s GDP, Paraguay is the member most dependent on intra bloc trade, which accounts for roughly 60% of its external trade. At the same time, its economic integration with Brazil has deepened, while Brazil itself is strengthening its ties with China, which places Paraguay in a more strained and demanding position and forces a reassessment of the sustainability of its foreign policy choices.

Interdependence with Argentina and Brazil is also central in the cases of Itaipú and Yacyretá. The renegotiation of Annex C of the Itaipú Treaty could prove decisive for Paraguay’s economy, as could the dispute over tolls on the waterway. Other obstacles

persist, such as the lack of agreement on the construction of the Pozo Hondo–Misión La Paz bridge, which is key to the bioceanic corridor. Taken together, this scenario exposes the limits of diplomatic voluntarism and underlines the need to adjust the strategies underpinning the country's geopolitical singularity.

Finally, it is worth examining the extent to which the president's foreign policy, rather than serving as a bridge between national interests and international relations, has been shaped by the interaction between particular interests and the opportunities created by international engagement.

The most emblematic case is that of the sanctions against former president Horacio Cartes. In 2022, during the Biden administration, the US Department of State declared Cartes to be "significantly corrupt" and revoked his visa and that of his family members. In 2023, the Office of Foreign Assets Control of the US Department of the Treasury also accused him of corruption and imposed sanctions on companies linked to the former president. These measures were adopted under the guidelines of the so called Magnitsky Act.

President Peña's early rapprochement with the Republican Party and the Trump administration appears to have had, as an implicit objective, the reversal of those sanctions. Although the issue was never addressed openly, it coincided that, upon completion of Peña's first year in office, in August 2024, Horacio Cartes and his companies were removed from the Treasury Department's sanctions list. The official records do not explain the reasons for lifting the sanctions. In any case, the decision further reinforced Paraguay's alignment with US policy in the Western Hemisphere.

Conclusions

Although President Santiago Peña has promoted a strategic redefinition of Paraguay's international role — seeking to move from a discreet regional presence to a projection as a global geostrategic actor — it remains uncertain whether this strategy will generate substantial long term benefits. The question also remains open as to whether such explicit alignment with the international far right and with US unilateralism truly serves the national interest.

There is growing concern that Paraguay may have overexposed itself. Unqualified support for Israel — even in the context of the humanitarian crisis and genocide allegations in Gaza — and the explicit endorsement of the Trump corollary to the Monroe Doctrine raise doubts about the necessity and prudence of this positioning. Uruguay has not pursued a similar course and is not in a worse situation than Paraguay. Likewise, the prioritisation of security, while presented as a tougher stance against organised crime, raises additional questions. Behind the close cooperation with the United States through the SOFA and the designation of regional cartels as terrorist

organisations, there is a risk that the “terrorist” label could be used for purposes that are more political than strictly related to crime control.

A more prudent approach would be to concentrate on the pragmatic and open track that seeks to diversify trade partners. The government should continue attempting to attract FDI and open markets in countries as diverse as India, the United Arab Emirates, Japan and Finland, while playing an active role in trade negotiations such as the European Union–Mercosur agreement and the treaty with Singapore. Yet it is worth asking how significant this strategy is when tangible outcomes remain relatively modest.

A critical point in the analysis is the potential neglect of the regional agenda in favour of global projection. As a landlocked country, Paraguay faces structural constraints in the Plata Basin that remain unresolved, such as the dispute over tolls on the waterway and the crucial renegotiation of Annex C of Itaipú. It is important to avoid a situation in which, while the executive branch concentrates on high profile international arenas, domestic and regional issues linked to Mercosur continue to show a lack of concrete progress or visible impact.

Lastly, the analysis raises questions about the opacity of the interests underpinning this foreign policy. It remains unclear whether alignment with particular powers and international actors responds strictly to the national interest or whether it is also shaped by specific agendas, such as lifting sanctions on domestic political figures — most notably Horacio Cartes — or favouring business groups linked to President Peña’s inner circle. In short, Peña’s foreign policy appears as a high risk strategy that seeks global relevance but must still demonstrate whether this new “arc of intervention” can translate into structural development gains for the country in a transparent manner.

PARAGUAY: INFORMAL EMPLOYMENT AND DECENT WORK BY 2025

Lucas Boh

Paraguay ranks among the countries in the region with the highest incidence of informal employment (ILO, 2025), which constitutes one of the main challenges to the country's development. Work is the key that unlocks the door to other rights, including social security, but informality prevents a huge number of workers from accessing these rights, making them more vulnerable to poverty, precarious working conditions, and a low overall quality of life. For these reasons, understanding and combating informality is key to building more just societies.

Characteristics of Informality in Paraguay

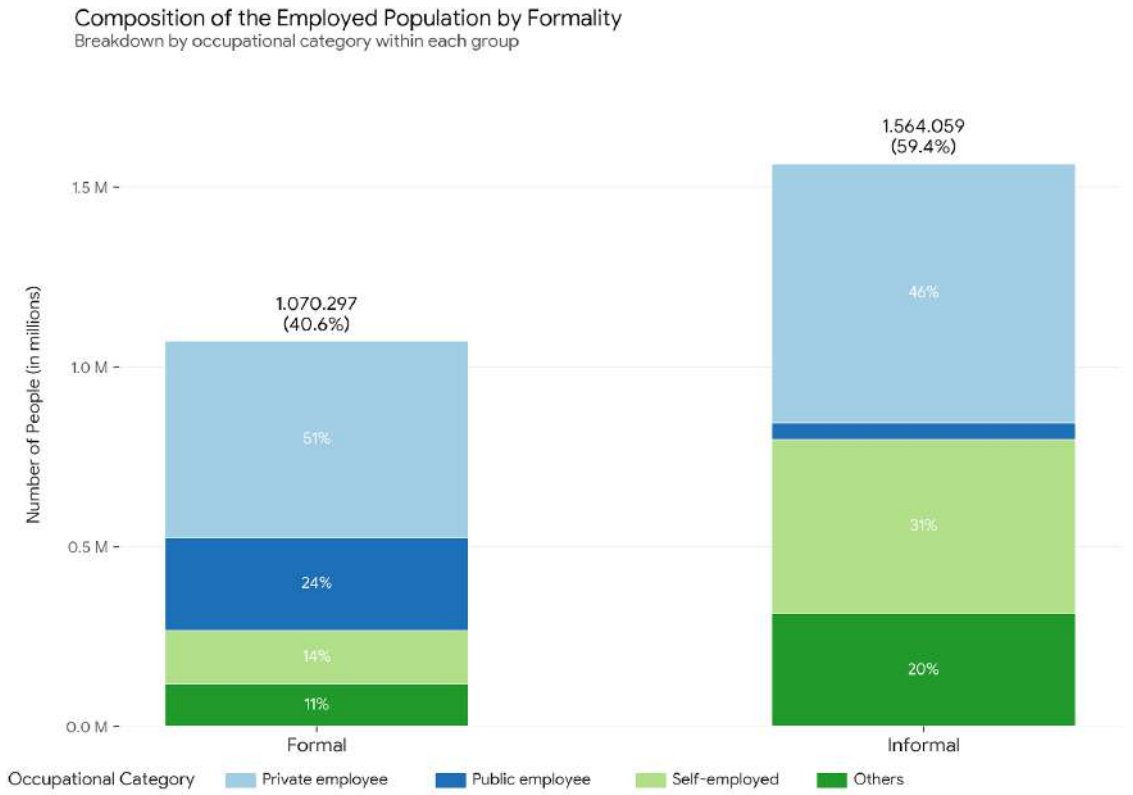
According to the International Labour Organization (ILO, 2015), employment is considered informal when it offers little or no social protection, is not subject to national labor legislation, does not grant rights to certain employment-related benefits, or falls outside the tax system. Informal employment is also characterized by highly precarious conditions and vulnerability to risks that arise throughout the employment cycle.

For this analysis, the methodology of the National Institute of Statistics (INE 2025) was used to classify workers as informal, distinguishing among them between wage earners (55.8% of the employed) and self-employed workers (27.1% of the employed). For wage earners, those who do not make contributions to any pension fund are considered informal. In the case of the self-employed, those not listed in the Single Taxpayer Registry (RUC), a requirement for issuing a legal invoice in the country.

Based on these definitions, the survey reveals that 59.4% of the[1] workforce in Paraguay is informal (Figure 1). Although this represents a 5-point decrease compared to 2024, this rate remains higher than the regional average, which stood at 46.7% in 2025 (ILO, 2025).

[1] In accordance with the INE's methodology, agricultural workers are not included in these figures because they are subject to separate legislation.

Figure 1. Composition of the employed population by formality and broken down by occupational category



Source: Author's own analysis using 2025 INE data.

Informality is particularly high among self-employed workers (76.4%), and, in terms of the gender gap, it remains wider among women—about 4 percentage points higher than among men. Furthermore, people in informal employment tend to earn lower incomes. On average, their hourly income is only half of what a formal worker earns, and a significant number even receive incomes below the monetary poverty line (GS$933,108 per month).

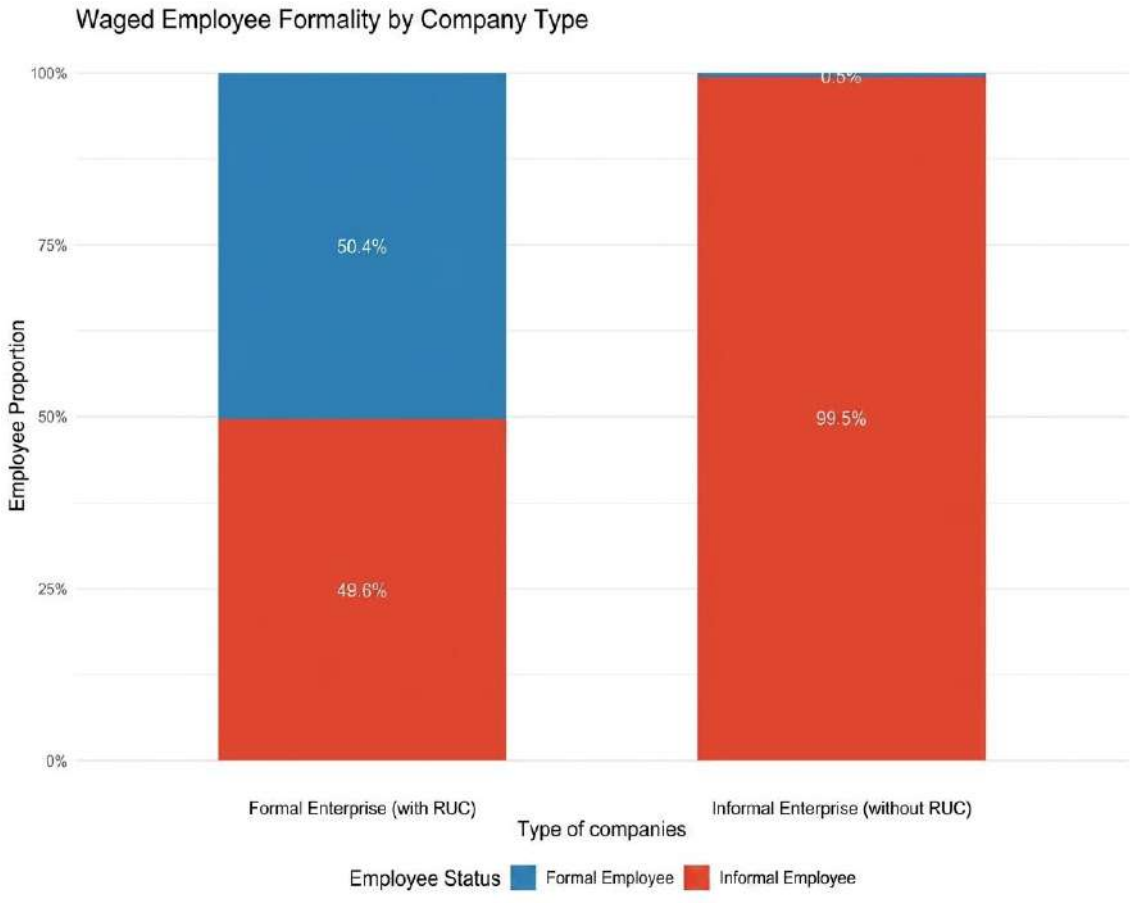
Although the INE uses RUC registration to determine the informality of self-employed workers, it is essential to address this group's access to social security. Although they are protected by law—since they can voluntarily contribute to the social security system administered by the Social Security Institute (IPS)—the data indicate that self-employed workers are particularly unprotected. In fact, fewer than 1% contribute to a pension fund.

Overall, only 27.8% of employed workers contribute to a pension fund. This is a concerning situation, as there is a high probability that unprotected workers will work into old age, and if they are unable to do so, they may fall into poverty due to a lack of retirement income.

It is also important to analyze the relationship between the informality of employment and that of the companies themselves. In Paraguay, informal firms are those not registered in the RUC of the Ministry of Economy and Finance (MEF), which affects the tax burden. Additionally, firms must register with the Ministry of Labor, Employment, and Social Security (MTESS), which is responsible for inspecting working conditions, and with the IPS for employees' social security coverage.

Data from the EPH allow us to identify only tax-related informality through RUC registration. However, despite this limitation, the data show that employing workers "off the books" is a common practice within formal enterprises, as 49.6% of wage earners working in formal businesses do not contribute to social security.

Figure 2. Formality of Wage Earners by Firm Formality.



Source: Author's own analysis using INE 2025 data.

Decent work

Although the INE focuses on social security contributions and RUC registration, data from the EPH allow for the analysis of other important aspects of informality and decent work.

Overtime and minimum wage

The workweek in Paraguay is still 48 hours, as in most countries in the region. However, a large number of people work more than the maximum established by the Constitution. Approximately one in three workers in Paraguay exceeds the 48-hour workweek, with the majority of these (61%) being informal workers.

Data on workers' income levels also reveal that half of the workers who work 48 hours a week or more—some 395,000 people—earn less than the minimum wage (Gs. 2,899,048). This situation is particularly serious, as this wage is, in theory, the minimum compensation a worker needs to live with dignity. The fact that the primary income of such a large percentage of full-time workers falls below the minimum wage reflects the poor living conditions these people face.

Atypical Contracts

One of the key issues related to job quality today is atypical contracts—that is, those that differ from permanent contracts. These atypical employment relationships present several problems for workers: periods of fluctuation between employment and unemployment, limited access to social security and healthcare, instability and low income levels, and inadequate protection against job loss or arbitrary dismissal (Egger, P., & Sengenberger, W., 2001).

Current labor regulations were generally designed for a "typical" worker (one with a permanent, full-time contract with a single employer and relative stability over time), but as the number of workers with atypical contracts increases, it becomes increasingly necessary to amend legislation to prevent the precariousness of jobs (Egger, P., & Sengenberger, W., 2001).

Atypical contracts—or the lack thereof—are also a problem for workers in Paraguay. Thirty-four percent of wage earners have only a verbal contract. Meanwhile, 26% have a temporary contract. Of this group, 87% are in a relationship that can be considered informal, as it involves a contract "without a legal invoice."

Collective Organization

Although trade unions and workers' associations played a fundamental role in creating the legal frameworks of the 1993 Labor Code that redefined the country's labor relations (Bozzolasco, 2020), their situation is currently complicated. The labor movement exhibits high levels of fragmentation and dispersion, as reflected in EPH data, which indicate that only slightly more than 5% of wage earners belong to one of these organizations. This situation weakens their political clout and re e representation (Abramovich, V., & Courtis, C., 1997), limiting workers' effective bargaining power vis-à-vis state authorities and employers.

This phenomenon has a number of negative effects, as social dialogue and collective bargaining are fundamental to achieving decent working conditions, both at the company and national levels (Egger, P., & Sengenberger, W., 2001).

Conclusion

The current situation in Paraguay highlights that informal employment and job insecurity can persist even during periods of economic growth, continuing to cause a range of problems that affect workers, businesses, and the government (ILO, 2015). For workers, informal jobs are often of low quality and generate less income compared to their formal counterparts. Furthermore, they face risks and vulnerability due to a lack of social protection. The absence of a formal contract prevents them from exercising their labor rights, such as regulation of working hours, payment for overtime or night work, the minimum wage, and paid vacation. All of this increases their likelihood of falling into poverty.

For businesses, operating in the informal sector entails facing a series of legal and financial challenges. However, it also creates unfair competition with formal businesses that comply with their obligations, resulting in an unequal business environment.

From the perspective of the state and society as a whole, informality represents lost tax revenue, which in turn hinders the state's ability to ensure fair working conditions and provide quality public services. Furthermore, the lack of social security contributions by informal workers increases pressure on future social spending.

For these reasons, reducing informality and making efforts to ensure decent working conditions should be priorities for improving the population's quality of life and the country's development.

References

Abramovich, V., & Courtis, C. (1997). Possible futures: labor law at the crossroads. Palermo University Law Review, 2(1), 149-176. Buenos Aires, Argentina.

Bozzolasco, I. G. (2013) Repression, Co-optation, and Resistance: The Paraguayan Labor Movement. Book. Interuniversity Program in Political History. Available at: https://historiapolitica.com/datos/biblioteca/dicsind_gonzalezbozzolasco.pdf

Egger, P., & Sengenberger, W. (2001). Issues and policies of decent work. Cinterfor Bulletin: Inter-American Technical Bulletin on Vocational Training, (151), 27-68. La Rioja, Spain.

National Institute of Statistics, INE (2025). Statistical Bulletin "Informal Employment." Available at: https://www.ine.gov.py/noticias/2422/la-ocupacion-informal-fue-de-625-en-el-ano-2024

ILO (2025). Labor Outlook 2025: Latin America and the Caribbean, Geneva: International Labor Office, 2025, © ILO. Available at: https://www.ilo.org/sites/default/files/2025-12/OIT-Informe-PANORAMA-LABORAL-2025.pdf

ILO (2015). Policies for the Formalization of Micro and Small Enterprises in Latin America: Experiences, Progress, and Challenges. Geneva: International Labour Office, 2015, © ILO.

RECENT APPRECIATION OF THE GUARANÍ: LIQUIDITY, INTEREST RATES, AND PORTFOLIO RECOMPOSITION

Rodrigo Ibarrola

The recent strengthening of the guaraní against the dollar has sparked widespread debate. As is often the case with exchange rate movements, it is difficult to attribute them to a single cause. However, monetary, financial, and exchange rate data allow us to identify a sequence of factors that contributed to the appreciation observed between 2025 and 2026.

The evidence suggests that this process resulted from the interaction of several mechanisms: the initial narrowing of the international interest rate differential, foreign exchange intervention by the Central Bank of Paraguay (BCP), monetary absorption via sterilization, the widening of financial spreads favorable to the guaraní, and a gradual portfolio reallocation toward local-currency instruments. This was likely compounded by a larger net inflow of dollars via the financial account.

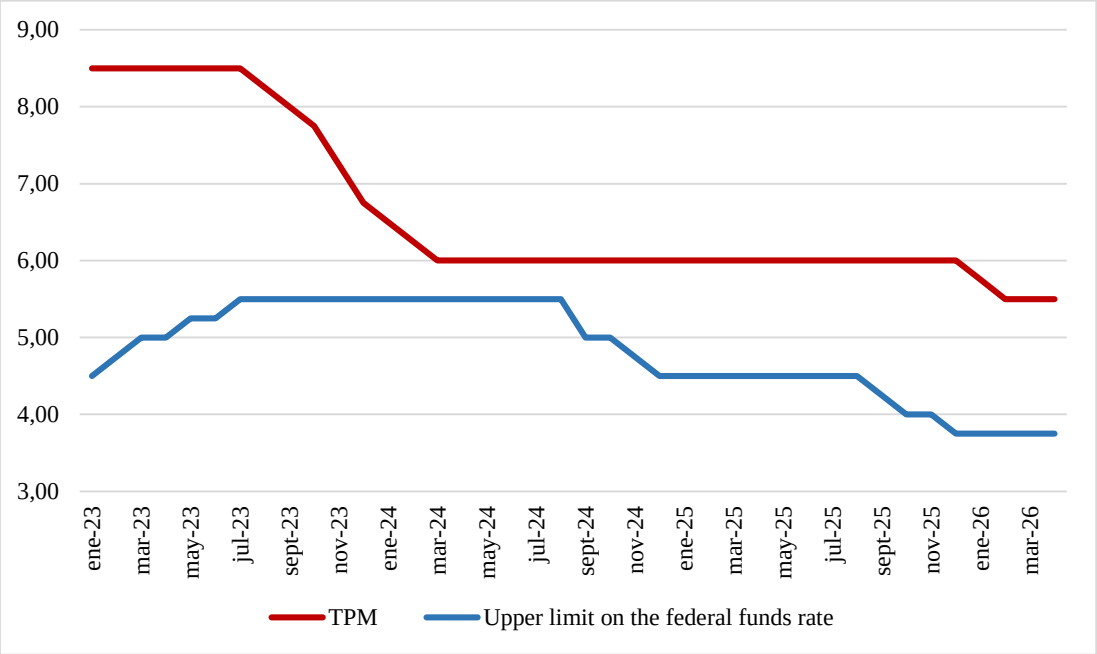
The objective of this analysis is not to establish definitive causal relationships, but rather to describe temporal sequences and macro-financial patterns consistent with the observed evolution of monetary, financial, and exchange rate variables between 2023 and 2026.

From the Interest Rate Differential to the Appreciation of the Guaraní

The starting point can be traced to August 2023, when the BCP began a series of monetary policy rate cuts, while the U.S. Federal Reserve (Fed) reached peak rates and maintained a prolonged plateau of high yields through September 2024.

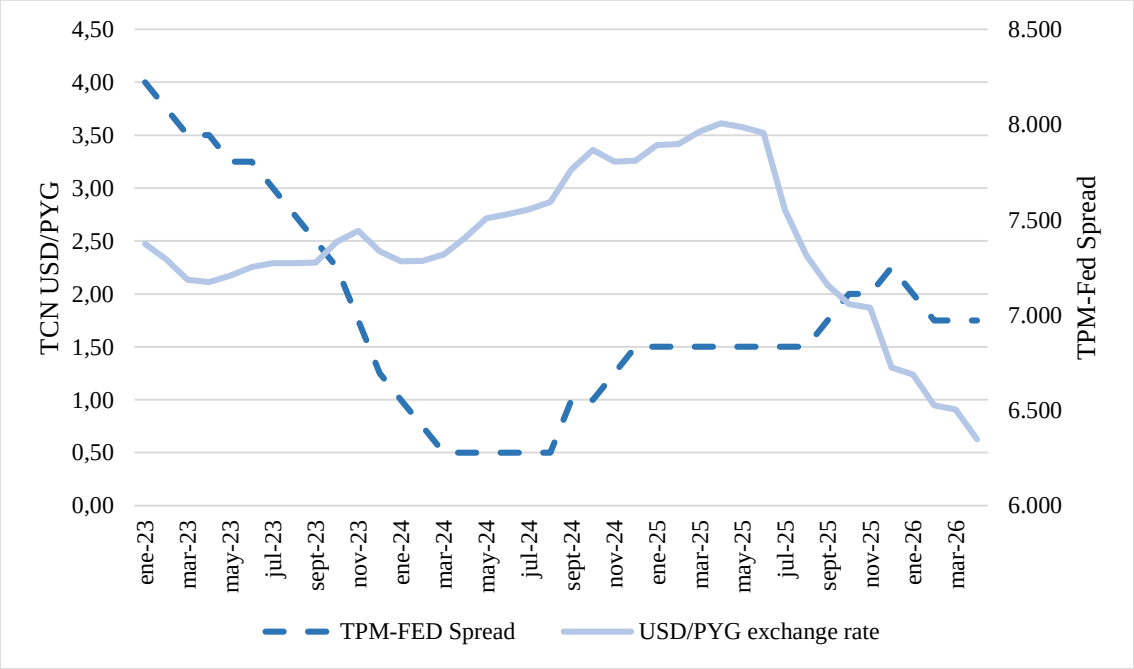
The successive rate cuts in Paraguay significantly narrowed the spread relative to the United States. In this context, the exchange rate responded with a gradual depreciation of the guaraní until it approached ₲8,000 per dollar.

Figure 1. BCP monetary policy rate and upper limit of the Fed's federal funds rate



Source: Author's own calculations using data from the Central Bank of Paraguay and the Federal Reserve Bank of St. Louis.

Figure 2. TPM-FED rate differential and nominal exchange rate (TCN)

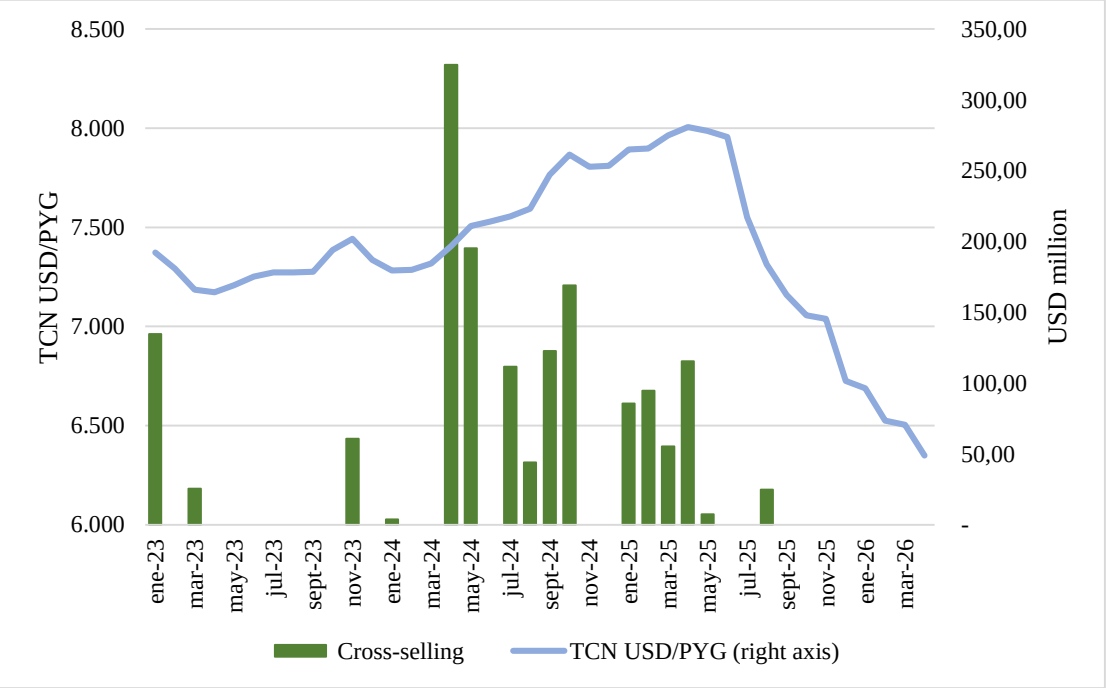


Source: Author's own calculations using data from the Central Bank of Paraguay and the Federal Reserve Bank of St. Louis.

This initial phase appears consistent with the relative decline in the attractiveness of guaraní-denominated instruments and the international strengthening of the dollar, thereby reducing the domestic financial premium.

In response to the persistent depreciation, the BCP actively intervened in the foreign exchange market through supplementary dollar sales. During 2024, nearly US$967 million was injected into the system, seeking to absorb guaraní liquidity and moderate the exchange rate depreciation. However, the initial effect was limited, and the trend persisted for several months.

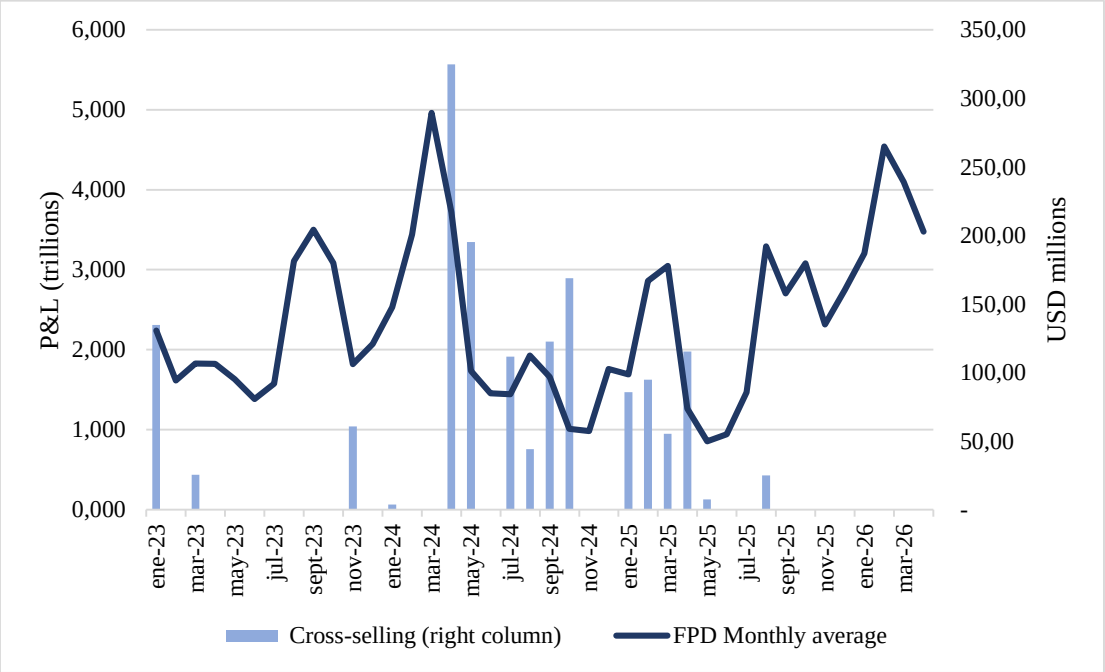
Figure 3. Active Foreign Exchange Intervention and Evolution of the Nominal Exchange Rate



Source: Prepared by the author using data from the Central Bank of Paraguay.

Monetary dynamics began to shift between late 2024 and early 2025. As supplementary sales declined, Permanent Deposit Facilities (FPD) increased, thereby shifting the monetary absorption mechanism from direct foreign exchange intervention toward sterilization via overnight facilities.

Figure 4. Supplementary sales and Permanent Deposit Facility (FPD)



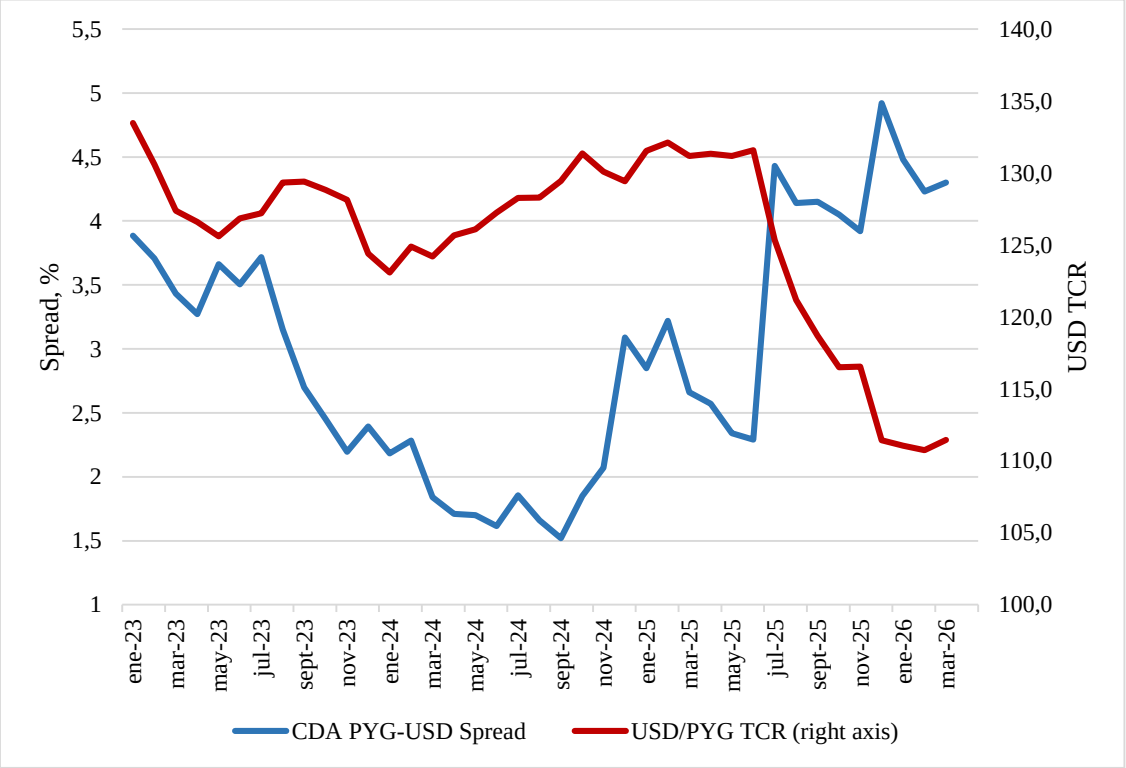
Source: Author's own analysis based on data from the Central Bank of Paraguay.

This shift is significant because part of the liquidity came to be parked in the FPDs, which can respond quickly to changes in interest rate differentials and short-term financial conditions.

Furthermore, starting in September 2024, the Fed began cutting rates, once again widening the spread in favor of the guaraní. This process coincided with reduced local liquidity resulting from the BCP's prior interventions. As a result, effective rates in guaraníes began to rise steadily.

Savings deposit certificates (CDAs) clearly reflect this dynamic. In just a few months, the spread between CDA rates in guaraníes and in dollars nearly doubled. At the same time, the nominal and real exchange rates began to appreciate rapidly, strengthening the incentives to hold financial positions in local currency.

Figure 5. Spread between guaraní and dollar CDA rates and the real exchange rate (RER)



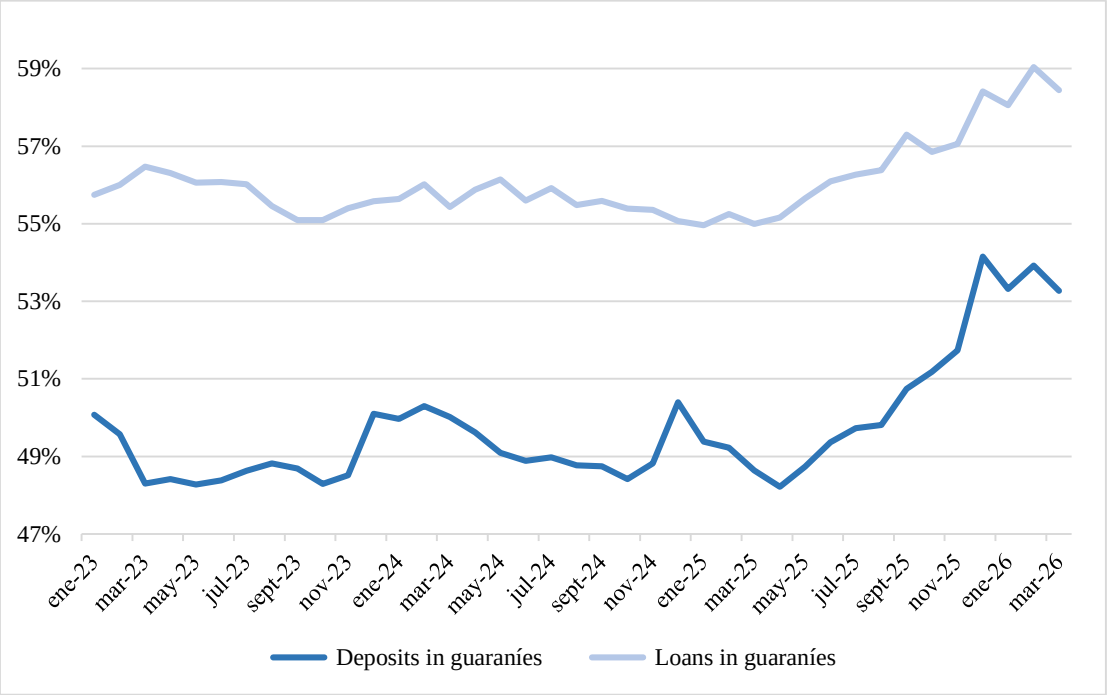
Source: Author's own calculations based on data from the Central Bank of Paraguay.

Gradually, the dominant channel ceased to be the international interest rate differential and became increasingly linked to domestic financial dynamics.

Portfolio Rebalancing and Reversal Risks

Starting in mid-2025, the share of deposits and loans in guaraníes began to increase. The financial system thus began to show signs of partial de-dollarization and portfolio rebalancing toward instruments denominated in the local currency.

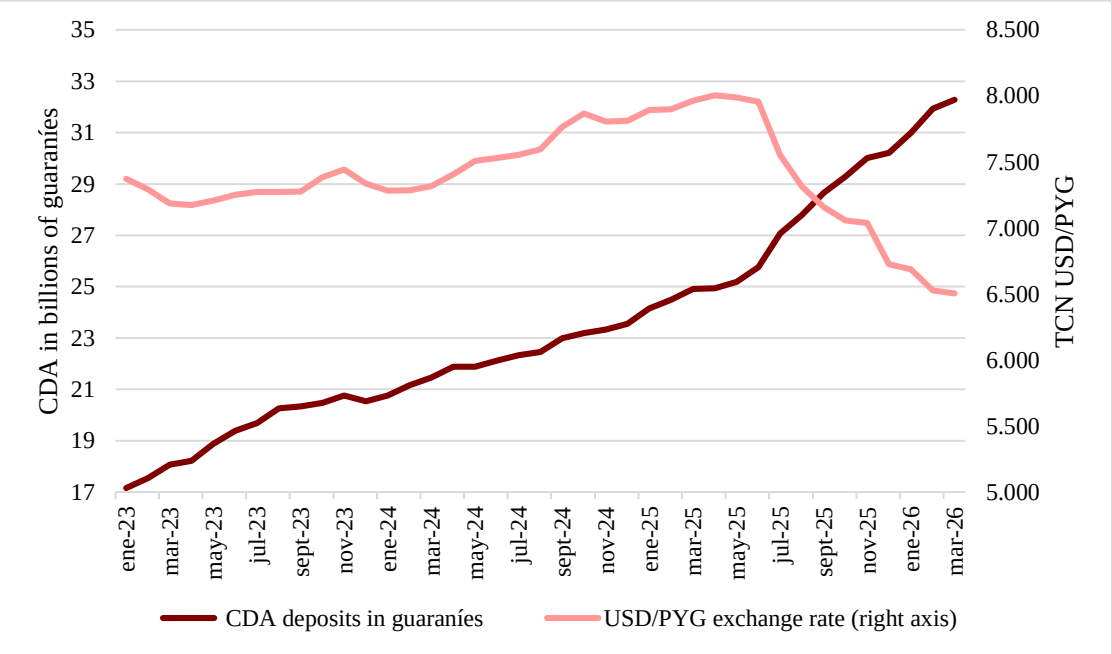
Figure 6. Share of deposits and loans in local currency



Source: Author's own calculations based on data from the Central Bank of Paraguay.

CDAs play a particularly important role in this process due to their sensitivity to changes in liquidity, financial spreads, and short-term expectations. The stock of guaraní-denominated CDAs accelerated as the exchange rate appreciated, reflecting a growing preference for interest-bearing instruments denominated in local currency.

Figure 7. CDA deposits in guaraníes and nominal exchange rate (TCN)



Source: Author's own calculations based on data from the Central Bank of Paraguay.

This dynamic also appears to have been reinforced by the financial account. Since 2022, external liabilities have shown persistently positive balances that were not fully offset by asset outflows. This suggests that the appreciation was not solely driven by increased demand for guaraníes, but also by the inflow of dollars via financing and investment. [1]

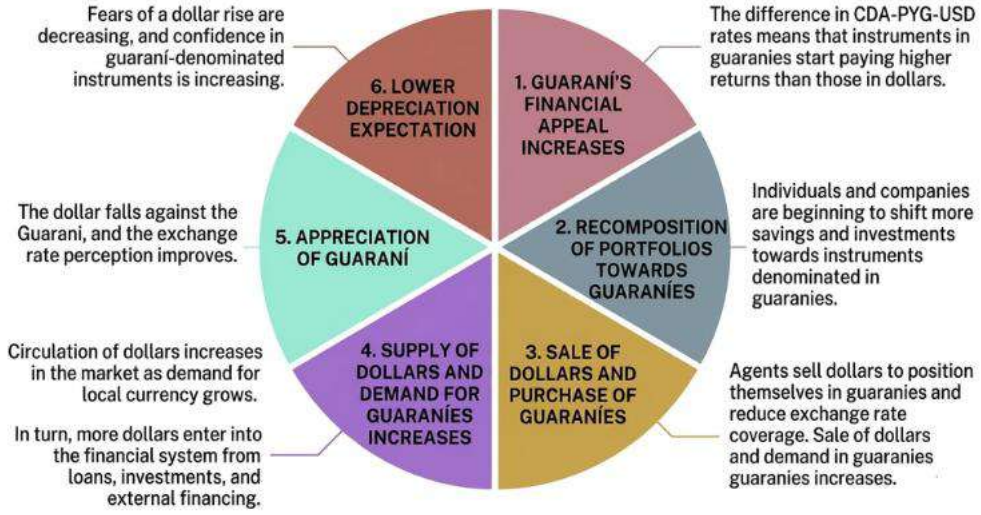
From the initial movement to financial feedback

Taken together, the data suggest the existence of a financial feedback loop—partially independent of the BCP's direct foreign exchange intervention—in which the guaraní's appreciation enhances the relative attractiveness of local-currency instruments, thereby encouraging further portfolio reallocation toward the guaraní, which in turn fuels further appreciation.

If part of the recent appreciation was driven by exceptional financial and monetary factors, a potential reversal of these incentives could generate significant risks. First, if the slowdown in inflation was partially linked to a cheap dollar and tight financial conditions, a reversal could quickly feed through to prices. Second, the same feedback mechanism could operate in reverse, accelerating currency depreciation.

[1] In addition, by Resolution No. 9, Minutes No. 28, dated July 10, 2025, the BCP Board of Directors amended the General Regulations for Operations in the Foreign Exchange Market to allow banks to enter into forward contracts with non-residents through their overseas branches.

Figure 8. Cycle of the financial feedback mechanism



Furthermore, an excessively appreciated exchange rate makes imports cheaper, but it also reduces competitiveness, affects tradable sectors, and undermines incentives for local production. Added to this is the fact that, if the exchange rate becomes increasingly dependent on financial dynamics and short-term capital flows, the economy could face exchange rate behavior that is more sensitive, volatile, and less predictable.

For this reason, various analyses have agreed on the need to maintain prudent intervention aimed at avoiding episodes of overshooting and excessive volatility. In this context, exchange rate analysis can no longer be limited solely to agriculture and foreign trade. Variables such as financial spreads, CDA, bank liquidity, sterilization, and capital flows are becoming increasingly relevant.

Consequently, the recent appreciation of the guaraní may not be entirely structural or permanent, but rather partially driven by exceptional financial conditions, with potential risks in the event of a reversal.

Naturally, this analysis has limitations. Several of the time series used have different frequencies, and high-frequency data on private foreign exchange positions or disaggregated financial flows are not available. Therefore, the relationships presented here should be interpreted as plausible mechanisms and macro-financial consistencies rather than as conclusive causal evidence.

Even so, in this context, the monetary authority's role is key in seeking an exchange rate consistent with economic fundamentals and capable of moderating abrupt appreciation or depreciation movements. Efforts to deepen the local financial market must be accompanied by the development of a more sophisticated set of monetary policy tools capable of neutralizing shocks and efficiently transmitting monetary adjustments.

TRUMP'S TRADE POLICY: IMPACTS ON THE WORLD AND PARAGUAY

Lisa Oviedo[1]

The unilateral measures adopted by the Trump administration in 2025 to reduce the U.S. trade deficit and encourage greater import substitution in the North American market ended up causing trade chaos, redirecting global trade toward Asia, and failing to have the expected effects on U.S. economic growth. Paraguay has not been affected by these measures.

In February 2026, the U.S. Supreme Court limited the president's authority to impose tariffs under the International Emergency Economic Powers Act (IEEPA) of 1977. The court ruled that a trade deficit does not, in and of itself, constitute an "unusual and extraordinary threat," thereby returning to Congress its exclusive authority over tariff policy.

Faced with this situation, President Trump invoked the Trade Act of 1974, which, while allowing for the correction of balance of payments deficits, is limited to 15% for up to 150 days, extendable only with congressional approval.

The aforementioned ruling has contributed to creating even more chaos in domestic and foreign trade, leading importers to seek reimbursement for overpaid tariffs and prompting countries with which the U.S. has concluded negotiations to review their trade agreements [2].

The Impact on the Global Trading System

At the level of international institutions, the trade policy imposed by the U.S. has seriously affected an architecture built with great difficulty and perseverance under the leadership of this country and with the participation of the international community: the Multilateral Trading System (MTS), currently administered by the World Trade Organization (WTO), of which Paraguay was one of the founding members.

[1] Lisa Oviedo holds an M.A. in Economics by the Catholic University of Lovaine, Belgium. She is associate researcher of CADEP.

[2] As of April 2026, the Trump administration was preparing to reimburse the tariffs that had been illegally collected, according to a ruling by the U.S. International Trade Court.

The MTS was the response to the economic chaos generated by the Great Depression and World War II. It allowed trade to flow freely under common rules accepted by all countries of the world, providing a framework of predictability for states and markets. But when President Trump decided to impose tariffs on the entire world according to his own criteria, he effectively dismantled the MTS and created the disorder that currently exists.

As a result, the WTO drastically reduced its trade growth forecasts for 2026, warning that the global economy is in its most fragile phase since the 1960s. The IMF warned of economic fragmentation, as the world is dividing into blocs to circumvent the effects of U.S. tariffs— —with a notable increase in trade diversion, meaning certain countries export to the U.S. via other countries that pay lower tariffs.

Effects of U.S. Policies on the Global Economy.

Globally, Gross Domestic Product (GDP) remains relatively stable, with growth of 3.3% at the end of 2025 and the same projection for 2026[3], close to the 3.2% recorded in 2024[4] , demonstrating the economy's resilience amid uncertainty.

Global trade has exhibited two contrasting effects. 1) Since the U.S. is the world's largest importer[5] , its tariff policy decisions have fueled a sense of unpredictability, undermining regional and multilateral agreements. Countries are seeking solutions within their means by diversifying their sources of raw materials or by trading with China. Argentina, for its part, has signed a trade agreement with the U.S., taking advantage of the gaps in Mercosur as a customs union. 2) Paradoxically, global trade grew by USD 2.5 trillion in 2025, or approximately 7.5%.

This trend, in turn, is explained by two factors: 1) the growth of merchandise trade by 7% (USD 1.8 trillion) and services trade by 8% (USD 700 billion); and 2) the expansion of South-South trade, driven particularly by the developing economies of East Asia and Africa. This trade exceeded the global average, growing by 9%[6].

It is also important to note that Europe and China have seen increases in their exports despite U.S. tariffs, thanks to diversification. In other words, trade has been redirected[7].

Impact of U.S. Tariff Policies on the Domestic Economy.

The trade deficit was the main reason cited by President Trump for adopting the tariff measures on a discretionary basis. However, it closed 2025 with a record deficit of $1.24 billion, representing a 2.7% increase, but lower than the 14.05% increase at the end of 2024.

[3] World Economic Outlook Update. Global Economy. Steady Amid Divergent Forces. January 2026. IMF.
[4] International Monetary Fund (IMF).
[5] UN Conference on Trade and Development. UNCTAD.
[6] Ibid.
[7] According to data from the Brussels-based think tank Bruegel.

As for the manufacturing boom promised by Trump to justify his tariff measures, the data reveal a loss of 59,000 jobs in the sector from the announcement of the tariffs in April 2025[8] to December of the same year. This was because companies absorbed the higher import costs caused by the tariffs, which in turn led to lower profits and reduced hiring. Despite this, annual inflation remained stable at 2.7%[9] .

The results indicate that while the Trump administration achieved higher revenue—equivalent to USD 287 billion in customs duties, taxes, and fees in 2025, a 192% increase over the previous year[10] —this did not translate into greater growth for the U.S. economy. GDP, which grew by 2.8% in 2024, fell to 2% in 2025[11].

U.S. imports from USMCA countries[12] and China.

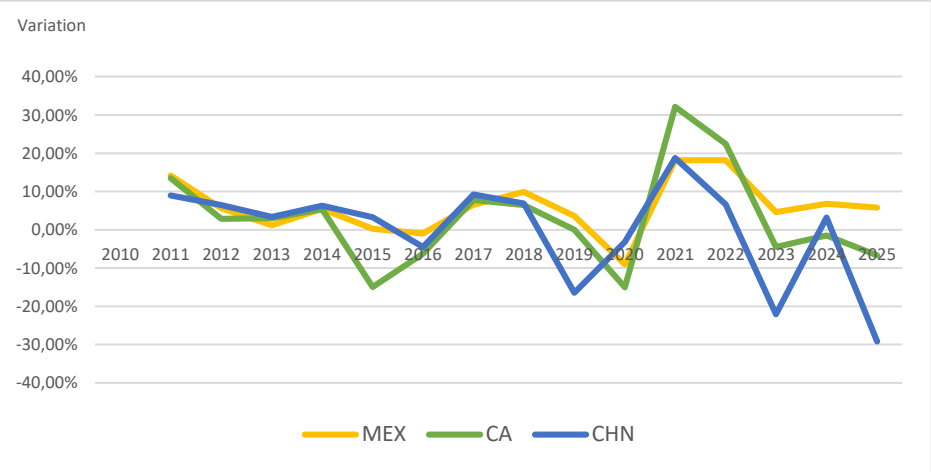
Mexico, Canada, and China have been grouped together primarily because they are the main countries of origin for U.S. imports.

While the tariff measures imposed by Trump, as well as his threats, have been dynamic and fluctuating, the main products affected in the case of Mexico and Canada have been steel and aluminum, subject to a 25% tariff, and in the case of China, tariffs of 100–145% have been announced on various products, such as rare earths and minerals, electric vehicles, or a blanket tariff of 10%, in response to China's export restrictions on its rare earths.

Figure 1 shows that despite the aforementioned tariffs, the U.S. maintains an upward trend in its imports from Mexico, with a 5.75% increase projected for 2025. This fact also demonstrates the great resilience of the Mexican export sector, given that 83% of its exports are destined for the U.S. [13]. Imports from Canada, however, follow an opposite trend even starting in 2022, with a 1.52% decline in 2024 and a more pronounced 6.72% drop in 2025. Meanwhile, Chinese imports have experienced a sharp decline, amounting to 29.18% in 2025.

[8] According to the independent expert group at the ORF America think tank.
[9] U.S. Bureau of Labor Statistics.
[10] According to daily data from the U.S. Treasury and the Federal Reserve Bank of Richmond.
[11] International Monetary Fund (IMF).
[12] Agreement between Mexico, the United States, and Canada, which replaced the North American Free Trade Agreement (NAFTA) in 2020.
[13] Bank of Mexico.

Figure 1. U.S. imports from USMCA countries and China.



Source: Author's own work based on USTC data.

U.S. imports from its main trading partners in the European Union (EU) and the United Kingdom.

Germany is the main country of origin for U.S. imports from the EU. However, these imports fell by 2.64% in 2025. Imports from the United Kingdom, another major U.S. trading partner, also decreased by 4.86% in the same year. On the other hand, imports from France and the Netherlands have increased by 13.59% and 2.30%, respectively. This may be due to orders placed before the tariffs were implemented, as well as the difficulty in replacing products imported from these countries in the short term.

It should be noted that Trump's "reciprocal" tariffs have resulted in general rates of 15–20% for EU countries, while for the United Kingdom, the rate is 10%[14] .

U.S. imports from Mercosur countries.

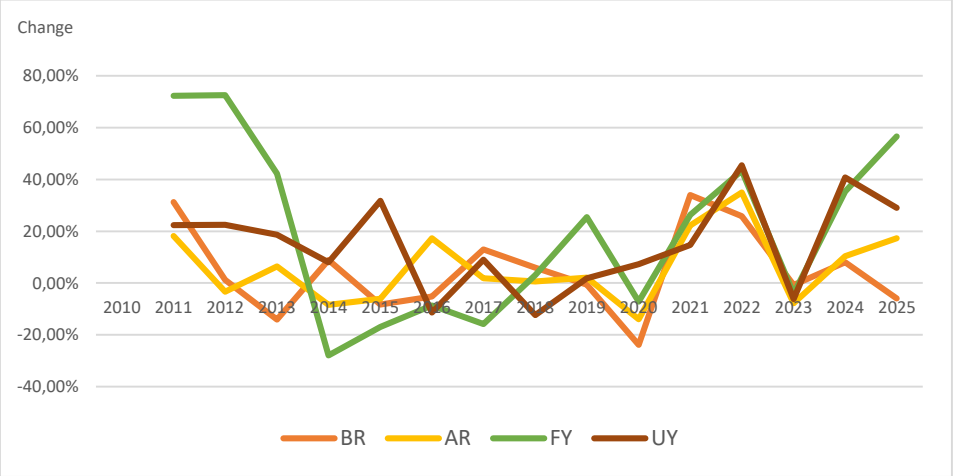
In the case of Mercosur countries, the first point to note is that the U.S. has a trade surplus with all of its member countries, according to USTC data, unlike with countries such as Germany, France, Mexico, Canada, or China, with which it has a marked history of deficits. Another point worth noting is that among Mercosur countries, only imports from Brazil to the U.S. come close to the levels of its most important partners in Europe.

Imports from Paraguay, although they have increased by 56.61%, remain relatively insignificant in total, and imports from Uruguay are nearly three times as high. For the

[14] In the automotive sector, in May 2025 the U.S. and the U.K. agreed to reduce tariffs from 27.5% to 10% for the first 100,000 vehicles per year.

Paraguayan market, however, imports from the U.S. rank third overall, behind only China and Brazil [15] .

Figure 2. U.S. imports from Mercosur countries.



Source: Prepared by the author using data from the USTC.

For Paraguay, the 10% U.S. tariffs have not had a significant impact, as, despite ranking fourth in importance among export destinations, exports to the U.S. have increased for the main products destined for that country, such as beef, which was exported in the amount of USD 304 million in 2025, representing a growth of 111.7% [16] compared to 2024. In exports under the Maquila Regime, the U.S. ranks third among destination countries with a 4.1% share, behind Brazil (63.6%) and Argentina (15.2%), respectively. Overall, exports for the year 2025 closed with an 8.2% increase compared to the previous year.

It is worth noting that, in terms of Paraguay's export destination countries, while Brazil (31%), Argentina (29.6%), and Chile (8.9%) are the top three in terms of share of total exports, the U.S. ranks fourth with a 5.3% share of total exports. On the import side, the U.S. ranks third with 6.2%, behind China (34.8%) and Brazil (22.9%).

Final Considerations.

The tariff measures adopted by the U.S. generally did not yield the results the administration had anticipated when implementing them, neither domestically nor globally, although they have caused significant uncertainty and undermined the multilateral trading system.

[15] Central Bank of Paraguay (BCP).
[16] Ibid.

The behavior of global trade has shown that if an economy isolates itself, trading partners will simply seek out other markets, leading to a diversion of trade or a redirection of markets—especially when there is another major player willing to fill the void left by the U.S., as is the case with China.

U.S. imports from Paraguay, as they do not represent a significant figure for that market, have not been negatively affected; rather, they have seen a significant increase, which is positive for the country in this context, given that for Paraguay, the U.S. ranks fourth as an export destination and third as a source of imports, even though in terms of market share, it lags far behind its main regional partners.

Centro de Análisis y Difusión de la Economía Paraguaya

Piribebuy 1058 entre
Colón y Hernandarias

Tel.: (595-21) 494 140
/ 496 813 / 452 520
cadep@cadep.org.py /
prensa@cadep.org.py
www.cadep.org.py